Complete Corporate Services Pte Ltd

CCS NEWSLETTER

May 2020

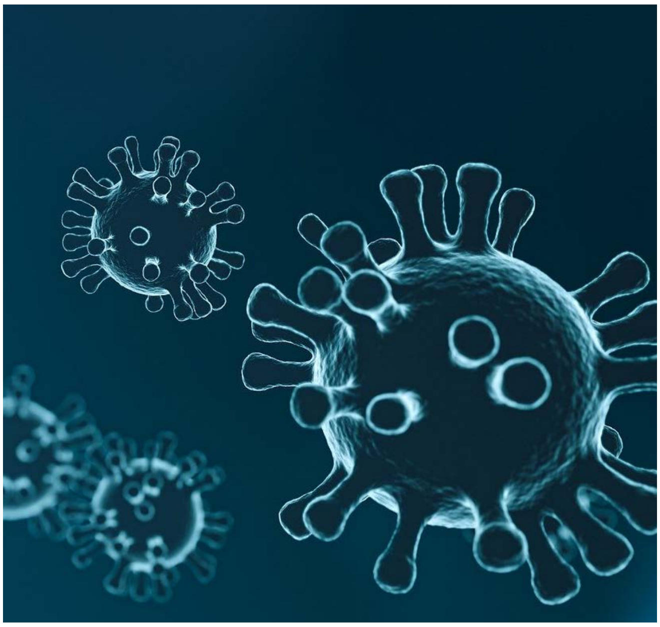
TOP BUSINESS CONSIDERATIONS EMERGING FROM COVID-19

Key issues precipitated by COVID-19 and top-of-the-agenda matters for business leaders during this critical period and thereafter

The emergence of COVID-19 has provided an awakening call for much of the business world. With nearly 3 billion people around the globe under COVID-19 lockdowns, many businesses in the world are experiencing unprecedented business challenges.

As governments around the globe enforce economic activity lock-downs to stop the spread of the virus, some countries may potentially face "off-the cliff" GDP declines which can have detrimental consequences for businesses. Businesses must also deal with enforced working from home practices and unprecedented supply chain disruptions, both of which can be challenging for the unprepared.

In this article, we share some thoughts on the key issues precipitated by COVID-19 and matters that should be on the agenda of key business leaders, both during this critical period, as well as after.



FISCAL PREPAREDNESS AND FINANCIAL HEALTH ASSESSMENT

The onset of COVID-19 has highlighted the lack of fiscal preparedness by some small businesses, some of which, reportedly, have adequate cash resources to survive only a matter of days.

With businesses no longer being able to carry on as usual, the ability of businesses to sustain fixed costs such as employee salaries, rental and loan interest costs can become a matter of financial survival. Without adequate forethought and planning including scenario analyses and rigorous cash flow planning, the availability of sufficient liquidity during this period can become the determinant of financial survival. COVID-19 has brought to the fore the role of rigorous and regular financial health and liquidity assessments in every business and company.

BUSINESS CONTINUITY PLANNING (BCP)

COVID-19 has demonstrated the need for businesses to proactively plan for business continuity to ensure enterprise adaptability against all kinds of occurrences including low-probability "black swan" events like COVID-19. As working from home and telecommuting becomes the new normal, enterprises that are not prepared for this new mode of business will face greater adaptation challenges as the crisis unfolds.

Technology is a vital enabler but not a panacea, as a good BCP should also address business issues such as maintaining customer confidence, dealing with employee anxiety and ensuring continued business productivity. Supply chain disruption is another key topic on the BCP agenda in the COVID-19 context, and well-prepared businesses should be able to look to force majeure and other contractual clauses that were crafted to defend against such unpredictable occurrences. In today's uncertain business environment, a comprehensive BCP should be on the Board agenda of every business.

CYBERSECURITY

The rapid ascent of technology in adapting to the coronavirus threat has also led to an escalation of the importance of cybersecurity. Already, phishing scammers have tried to capitalise on the COVID-19 theme to lure unsuspecting targets for their own ends. With escalation of work-from-home practices, the opportunity for cyber criminals to target remote workers is also on the rise.

Against this backdrop, cybersecurity is another topic that we believe should be on the minds of business leaders, and strong cybersecurity controls will be at the forefront of every organisation's defence against cyber threats. Cybersecurity concepts such as second factor authentication, virtual private networks, anti-phishing, anti-malware, penetration testing, and real-time threat identification have progressed beyond mere "cyber-speak" that traditionally only dwell in the domain of cyber professionals, to be board room agenda items that business leaders need to be aware.

FINANCIAL REPORTING CONSIDERATIONS

Last but not least, COVID-19 has important implications on financial reporting. For December 2019 year end clients, the general consensus has been that COVID-19 is a non-adjusting subsequent event which only necessitates disclosure where the effects are material, but as we move into 2020, companies will have to move beyond subsequent events disclosure and start dealing with the implications.

Even for December 2019 year end clients, the assessment of going concern arising from COVID-19 events will be impacted, as this extends beyond the reporting date of 31 December 2019, up to the date on which the financial report is issued. Post-December 2019, fair value measurement and asset impairment analysis will be challenging amidst the current business uncertainties.

The International Accounting Standards Board has also recently issued guidance on the assessment of expected credit loss (ECL) debt provisions against the backdrop of COVID-19, highlighting that ECL assessment is forward-looking but not mechanistic. Therefore, it should consider forecast conditions such as COVID-19 as well as the government support measures being undertaken. However, the extension of payment holidays should not mechanistically result in an assessment that credit risk has increased significantly.

Finally, the accounting for government support measures may require an assessment of whether the relief is classified as income tax, government grant, or in some cases business and rental rebates, which may not always be clear-cut.

COVID-19 is no doubt an unwelcome and unprecedented "black swan" event for many businesses. Yet the challenges and lessons that COVID-19 brings along can be an invaluable opportunity for businesses to "introspect", re-invent, and emerge stronger from the crisis. Any resulting business downtime can also be constructively deployed to re-focus the business and re-skill employees.

In this process, professional support from experienced and trusted consultants can be invaluable. Please feel free to contact us for any questions and support.

Our best wishes for everyone to stay safe, well and strong during this uncertain period.

NEO KENG JIN

neo-kj@moorestephens.com.sg

FINANCIAL REPORTING IMPLICATIONS OF COVID-19

Virtually all economic and financial markets have been impacted by the COVID-19 pandemic that erupted since January 2020. As global governments take measures to stem its spread by imposing economic lockdowns, countries are experiencing increasing unemployment, broad declines in aggregate consumer demand, soaring inventory levels, and reductions in production.

To mitigate the economic fallout, many governments have also taken various measures including providing various forms of grants and short-term economic aid, permitting short-term relief from various forms of contractual obligations including rental and loan obligations, as well as short-term relief from insolvency. All of the above measures will have impact on financial reporting under the International Financial Reporting Standards[1]. This article discusses certain key accounting and financial reporting considerations related to conditions that may result from the COVID-19 pandemic as well as various industry-specific considerations.

FORECASTING CHALLENGES

The use of cash flow forecasts is pervasive in financial reporting, in matters such as impairment assessment, valuation of unquoted assets, and the assessment of the recoverability of deferred tax benefits. The pandemic has created unique challenges in this respect. It has resulted in a very wide range of possible outcomes, arising from uncertainties such as those concerning the ultimate trajectory of the pandemic, uncertain regulatory responses to pandemic developments, the extent to which the financial markets will react to the economic fallout, and the time that the economy will require to recover. These macroeconomic uncertainties must be translated into specific financial implications on future cash flows based on each entity's unique circumstances. Although it presents genuine challenges, nevertheless, companies remain obligated to provide their best supportable estimates, with appropriate documentation, and prepare robust disclosures of their assessments, assumptions, sensitivities, and other required matters. In some cases, such best estimates may have permanent repercussions on the strength of a company's financials, such as in the case of goodwill which, once impaired, cannot be written back in the future even when the situation improves.

FINANCIAL ASSETS

The recent severe volatility in the financial markets arising from the pandemic will impact the fair value of many financial assets and liabilities. The recent decline of West Texas Intermediate crude futures below zero is a case in point. Nevertheless, where the market for a financial instrument remains active, the market price at the balance sheet date is still required to be regarded as the best indicator of fair value for financial reporting purposes.

Expected credit loss ("ECL") assessments of debt assets will become more challenging. Other than debtor credit issues arising from the global economic fallout from the pandemic, consideration must also be given to regulatory directives in certain jurisdictions which directly limit creditors' ability to take action to recover debt, e.g. by falling back on collateral. In March 2020, IASB issued guidance material[2] on measuring ECL under COVID-19, which emphasised that ECL computation is not mechanistic. For example, the extension of payment holidays to all borrowers in a particular class of financial instrument should not automatically result in a significant increase in credit risk for all of those instruments.

With the operational disruption arising from the pandemic, there may be significant delays and disruption in the fulfilment of contracts, and in some cases the contracts may be terminated. Where such contracts are subject to hedge accounting, the hedges may become ineffective, require rebalancing (for hedges that are accounted for under IFRS 9 ***Financial Instruments***[3]), or in some cases where the hedge designation is directly linked to the transaction timing, the hedges may no longer be valid. Entities will have to

1 Although this article makes reference to International Financial Reporting Standards ("IFRS"), the matters discussed apply equally to financial statements prepared under the two accounting frameworks most commonly used in Singapore, which are the Singapore Financial Reporting Standards (International) ["SFRS(I)"], as well as Financial Reporting Standards ("FRS").

2 "IFRS 9 and COVID-19" issued by IASB on 27 March 2020

3 Also applicable to SFRS(I) 9 *Financial Instruments* and FRS 109 *Financial Instruments*

carefully assess their hedge relationships to ensure that the hedges remain effective, and make appropriate accounting adjustments for terminated and modified hedges.

SUBSEQUENT EVENTS

As COVID-19 progresses, entities need to consider the various stages of development in the pandemic, assess whether each development has occurred pre- or post-balance sheet date, and whether any adjustments or disclosures are required as a result of such developments. IAS 10 ***Events after the Reporting Period*** [4] differentiates between adjusting events, which occur prior to the balance sheet date and impact the financial numbers, versus non-adjusting events, which occurred after the balance sheet date and do not impact the financial numbers although disclosures may be required.

In March 2020, the Institute of Singapore Chartered Accountants ("ISCA") issued its view in Financial Reporting Bulletin ("FRB") 2 ***Accounting implications arising from COVID-19 for entities with 31 December 2019 financial reporting date, that the COVID-19 outbreak is a non-adjusting event for entities with a 31 December 2019 balance sheet date***. However, as entities progress into 2020, that assessment is likely to change as entities start reporting on post-31 December 2019 financial year ends.

Even as entities move into 2020, careful assessment is still needed to ensure that developments qualify as "adjusting events" before any adjustments are made. For example, although the World Health Organisation has escalated the global risk from COVID-19 to "High" in late January 2020, global equity prices generally started to collapse only in about mid-February 2020, while in Singapore, sweeping travel restrictions (other than from China) only started in March 2020 and circuit breaker measures only started in early April 2020. Legislation requiring forbearance on rental and loan defaults, which may have significant direct financial reporting implications for lenders and landlords, were also passed only in early April 2020 in Singapore, while in other countries similar legislation may have been passed at different times (e.g. late March 2020 in UK). The fluid timetable under which the pandemic and its consequent regulatory directives unfold in each country means that entities need to remain vigilant about the nature and timing of events that have material financial impact. Judgement and care are also required in establishing cause and effect relationships between each development and its financial impact.

LEASE CONCESSIONS

As a result of reduced business volume arising from the pandemic and the follow-on regulatory directives, certain lessors of commercial and industrial establishments have been approached by tenants for lease concessions.

Generally, where such concessions are considered to be beyond the contractual terms of the original lease agreement, IFRS 16 ***Leases*** requires the concessions to be accounted as lease modifications which requires, inter alia, assessing whether a new contract has arisen and/or re-measurement of the lease asset and liability. However, if the lease concession was already offered within the legal framework of the original lease agreement, for example by triggering pre-existing force majeure or disaster clauses, then the concession will not be regarded as a lease modification.

Under existing IFRS 16 requirements, entities will need to perform legal analysis to determine whether lease concessions qualify as lease modifications, which will require an analysis of each lease contract and whether the contractual clauses therein afford the concessions arising from the pandemic. This can be potentially costly given the vast number of leases potentially affected by the pandemic. However, on 17 April 2020, the International Accounting Standards Board ("IASB") has proposed to provide practical relief by providing lessees with an option to account for COVID-19-related lease concessions as if they were not lease modifications. When the proposal is finalized, lessees will be exempted from the potentially-costly exercise to assess whether the lease concessions constitute lease modifications.

In some jurisdictions, certain lease concessions during the pandemic period may have been received from the local government directly or indirectly, in which case the lessee should further consider whether these fall within the ambit of IAS 20 ***Government Grants*** [6]. In Singapore, the government has provided property tax rebates to owners of qualifying non-residential properties from 1 January 2020 to 31 December 2020. Where any portion of such properties have been leased out, the owner is legally obligated to transfer the rebate to the lessee. In April 2020, ISCA issued "FRB 5 COVID-19 Government Relief Measures: Accounting for Singapore property tax rebate from the perspective of the landlord and the tenant", setting out its view that such rebates, provided by a lessor to a lessee, fall within the ambit of IAS 20. However, FRB 5 only applies to lease concessions arising from the mandatory pass-on of property tax rebates by the lessor; any further concessions will have to analyzed separately taking into account the requirements of IFRS 16.

4 Also applicable to SFRS(I) 1-10 *Events after the Reporting Period* and FRS 10 *Events after the Reporting Period*

5 Also applicable to SFRS(I) 16 *Leases* and FRS 116 *Leases*

6 Also applicable to SFRS(I) 1-20 *Government Grants* and FRS 20 *Government Grants*

GOING CONCERN

Entities are required to assess the entity's ability to continue as a going concern for the next 12 months after the date on which the financial statements are issued, taking into account all available information at the issuance date of the financial statements. When assessing the entity's ability to continue as a going concern, the potential implications of COVID-19 and the consequent regulatory directives will have to be considered. Operational disruption, reduction in revenue arising from lower demand, as well as regulatory prohibition on taking action against debt, tenancy and other contractual defaults, are just some of the factors that may impact going concern. These must be weighed against government support measures, including legislation in certain countries that make it more difficult for creditors to initiate insolvency actions resulting from the pandemic. However, in such circumstances, affected entities need to carefully assess the ability to remain solvent and satisfactorily resolve any credit issues beyond the forbearance period. We expect that generally, the going concern basis of preparation will continue to be used unless the entity either intends to liquidate or cease trading, or it has become clear that the entity has no realistic alternative other than to do so. However, comprehensive disclosures in financial statements should be made when substantial doubt exists about an entity's ability to continue as a going concern, even when there are plans to resolve such doubt.

CONCLUSION

The COVID-19 pandemic is a "black swan" event that will have many economic and financial implications, with follow-on implications for the financial reporting of many entities. It is not the objective of this article to highlight all such implications. For example, this article has not discussed the impact on revenue reporting arising from contractual disruption, the assessment of onerous contracts arising from compulsory contractual forbearance, impact on consolidation of structured entities arising from the activation of force majeure change-of-control clauses, accounting for pandemic-related government aid (e.g. period over which aid is to be recognised), among others. This article only aims to illustrate the ubiquitous and wide-ranging financial reporting implications that may arise from COVID-19, with an emphasis on those topics that have been the focus of regulators' and standard setters' discussions.

In dealing with the financial reporting impact of COVID-19, entities need to deal with the wide range of uncertain outcomes, and also consider that assumptions made under normal economic conditions may no longer apply. When in doubt, please reach out to your financial reporting advisors.

WONG KOON MIN

wongkoonmin@moorestephens.com.sg

CONTRACTUAL AND LEGAL PROTECTION UNDER COVID-19

As COVID-19 escalates across the globe, governments have scrambled to institute emergency economic measures to safeguard businesses and livelihoods. This includes usual measures within the budgetary arsenal including tax relief, grants, and government loans. However, one of the less usual measures introduced in this economic crisis, are regulatory measures to provide relief from legal and contractual obligations. This article considers the potential impact of these measures.

Although this article focuses on the Singapore context, such measures have also been introduced in other countries. For example, the Australian Federal Government has passed temporary legislative amendments to provide relief to directors from risk of personal liability for insolvent trading, by allowing businesses to operate during a temporary six-month period without having to enter voluntary administration or liquidation. Hong Kong is also reportedly planning to introduce a corporate rescue package at the next legislative session, introducing procedures similar to Chapter 11 in the US, as well as a six-month moratorium for debtors from hostile creditor actions such as winding-up or liquidation, to prevent an implosion in corporate failures resulting from both the earlier anti-government protests as well as the current coronavirus outbreak.

Further out, the German government has introduced similar measures including suspending insolvency filings, subject to exceptions, until 30 September 2020, relieving managing directors from liability for payments made in the ordinary course of business after the company is insolvent, and prohibiting hostile creditor actions during a 3-month transition period. Similarly, the UK government has temporarily suspended the wrongful trading regime since 1 March 2020, and is in the midst of considering further legislation.

TEMPORARY RELIEF FROM SOME LEGAL OBLIGATIONS UNDER THE COVID-19 (TEMPORARY MEASURES) BILL

In Singapore, the COVID-19 (Temporary Measures) Bill was passed on 7 April 2020 to offer temporary reliefs to address the impact of COVID-19 pandemic to businesses and individuals who are unable to fulfil their contractual obligations as well as additional temporary measures relating to bankruptcy and solvency, which was dubbed as a "legal circuit breaker" by Singapore Law and Home Affairs Minister Mr. K Shanmugam.

TEMPORARY RELIEF IN RELATION TO CONTRACTUAL OBLIGATIONS

The temporary relief offered under the Bill covers contractual obligations that are to be performed on or after 1 February 2020, for contracts that were entered into or renewed before 25 March 2020. Under the temporary relief, a contracting party will be prohibited from taking certain legal actions which includes amongst others, court and insolvency proceedings, against a non-performing party covering the following types of contracts:

a. Leases or licenses for non-residential immovable property;

b. Construction contract or supply contract;

c. Contracts for the provision of goods and services for events;

d. Certain contracts for goods or services for visitors to Singapore, domestics tourists or outbound tourists, or promotion of tourism; and

e. Certain loan facilities granted by a bank or a finance company to SMEs.

The relevant temporary relief will be in place for a prescribed period, i.e. six months from the commencement of the Act at first instance and may be subsequently extended for up to a year. In addition, assessors will be appointed by the Minister for Law to resolve disputes arising from the application of the Act.

TEMPORARY RELIEF IN RELATION TO BANKRUPTCY AND INSOLVENCY

The Bill also introduces temporary relief relating to bankruptcy and insolvency as follows:

a. Increasing the minimum debt amount eligible for the Debt Repayment Scheme administered by the Official Assignee under the Bankruptcy Act from S$100,000 to S$250,000.

b. Increasing the monetary threshold for individual bankruptcy from S$15,000 to S$60,000;

c. Increasing the monetary threshold for business insolvency from S$10,000 to S$100,000; and

d. Lengthening the statutory period to respond to creditors' demands from 21 days to 6 months.

IMPLICATIONS

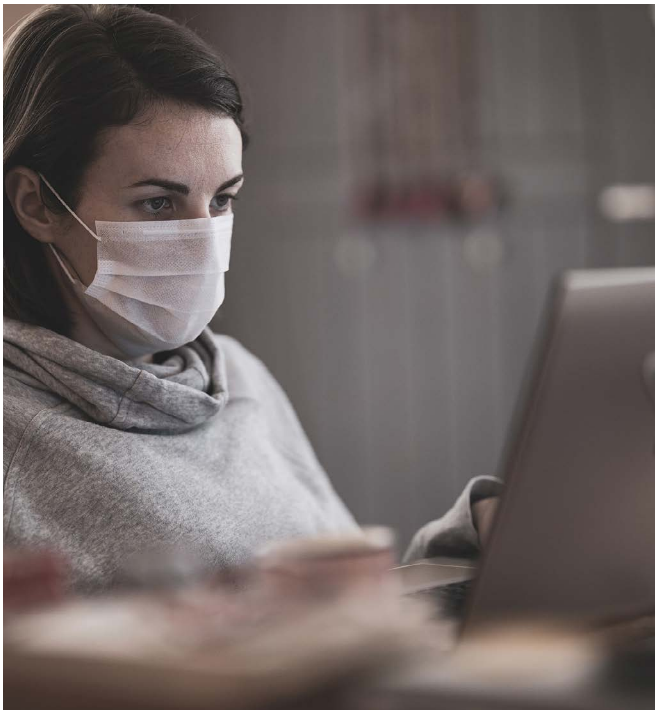
These measures will grant individuals and businesses in financial distress a longer grace period to meet their obligations before facing legal actions under the relevant statutory provisions. Additionally, the directors of a company will be temporarily relieved from their obligations to prevent their companies trading while insolvent so long as the debts are incurred in the company's ordinary course of business which will be essential for company's survival during this very difficult period. Notwithstanding that, the directors remain criminally liable if the debts are incurred fraudulently.

However, the above measures are not a panacea for businesses and careful consideration is required in taking advantage of the relief. The measures are unprecedented and there can arguably be many gray areas in the application of the above regulations, for example, what happens after the relief period and how liability will be attributed to actions before, during and after the relief period.

The measures also impact financial reporting, for example:

- the assessment of going concern and whether it should take into account the effect of the measures;
- the assessment of expected credit loss (ECL) e.g. whether taking advantage of debt repayment holidays is still considered an indicator of "default" and how ECL is impacted when the law prohibits recovery of collateral;
- timing of recognition of revenue where the revenue contract is suspended as a result of the above regulations;
- the assessment of onerous contracts, e.g. landlords who are obligated to adhere to rental contracts where they are legally prohibited from evicting non-paying tenants.

The legislative amendments will also impact valuations, adding on to business uncertainties that already abound with the development of the pandemic. In March 2020, the International Valuation Standards Council issued guidance and advice in the form of a guidance letter "Dealing with valuation uncertainty at times of market unrest".



CONCLUSION

The legislation amendments to provide temporary relief from contractual obligations during COVID 19, will doubtlessly be a welcome and timely reprieve for many business owners. It is a bold and decisive action by governments, that is necessary to safeguard the economy, businesses, and livelihoods. However, it sends businesses into novel territory, where care must be taken at every turn to avoid unexpected fallout. Qualified professional business advisors at Complete Corporate Services Pte Ltd can provide a valuable source of insights to ensure that all issues have been properly identified and considered.

BERNARD JUAY

bernardjuay@complete-corp.com.sg

UNITY, RESILIENCE AND SOLIDARITY BUDGET 2020 – CHANGES PROPOSED TO HELP BUSINESSES COMBAT COVID-19

The Singapore Budget 2020 (also known as the Unity Budget) presented on 18 February 2020 was centered on ensuring sufficient targeted support measures for businesses that are negatively impacted by the COVID-19 outbreak. Given the uncertainties in the global economy and cognizant of the impact of COVID-19 to businesses in 2020, the Singapore Government had initiated various tax changes aimed at helping businesses cope with the immediate challenges in cash flows.

Some of the tax changes initiated in the Unity Budget to help businesses combat COVID-19 include:-

1. 25% corporate income tax rebate ("CITR") for Year of Assessment ("YA") 2020, capped at S$15,000, for all companies.
2. Property tax rebate ("PTR") for the period from 1 January 2020 to 31 December 2020:
   a. 30% PTR for accommodation and function room components of licensed hotels and serviced apartments and Meetings, Incentive, Conferences and Exhibitions ("MICE") space components of prescribed MICE venues;
   b. 15% PTR for other qualifying commercial properties such as premises of an international airport, international cruise or regional ferry terminal, retail and F&B shops and premises of tourist attractions; and
   c. 10% PTR for Marina Bay Sands and Resorts World Sentosa.
3. Automatic extension of interest-free instalments of 2 months for tax payment on Estimated Chargeable Income filed for qualifying companies up to a maximum of 12 months instalment.
4. Carry-back of unutilized capital allowances ("CA") and trade losses in YA 2020 up to 3 immediate preceding YAs, instead of only the immediate preceding YA, even before the actual filing of the tax returns for YA 2020.
5. Option to accelerate CA claim on the acquisition of qualifying plant and machinery in YA 2021 over 2 years as follows, instead of over the working life or over 3 years under Section 19 and 19A of the Singapore Income Tax Act:
   a. 75% of the costs incurred to be written-off in YA 2021; and
   b. 25% of the remaining costs incurred to be written-off in YA 2022.
6. Option to accelerate Section 14Q deduction on qualifying renovation and refurbishment ("R&R") costs incurred in YA 2021 in one YA (i.e. 100% deduction in YA 2021), instead of over 3 years.

The corporate income tax changes such as the 25% CITR and additional 2 months of instalment payment for estimated taxes would no doubt benefit tax-paying companies as these changes would help ease their short-term cash flow issues to a certain extent with the reduction in tax payable and quantum payable in each month.

The PTR introduced would also provide some relief in year 2020 for companies in the relevant sectors affected by disruptions caused by the COVID-19 situation as the cash refunds from the rebate can be used by such businesses for their operating expenses.

Moreover, the option to accelerate CA claims from 33% to 75% and the Section 14Q deduction for R&R costs from 33% to 100% in YA 2021 will boost the confidence of taxpayers to proceed with their initial plans for additional investments and renovations instead of holding back on their spending in such trying times, which could create a further drag on the potentially sluggish economy.

Singapore Budget 2020 has also not forgotten companies that are suffering losses and hence, are not in a tax-paying position. The option to carry back their losses in YA 2020 up to 3 preceding YAs, resulting in a maximum potential cash tax refund of S$17,000, would definitely be welcomed by businesses with losses in year 2019.

Despite the various measures introduced in Singapore Budget 2020 to help businesses combat COVID-19, the worsening of the situation into a global pandemic and deterioration of the economy has resulted in the Singapore Government acting swiftly by announcing the Resilience Budget 2020 in less than six weeks after the Singapore Budget 2020 announcement.

Aware of the immediate cash flow challenges for businesses, Resilience Budget 2020 was less about tax changes but more of ensuring that cash can be put back into the hands of businesses. Therefore, measures such as the following were introduced by the Singapore Government on 26 March 2020:

1. Deferment of corporate income tax payments by 3 months.
2. Bringing forward of the wage credit scheme disbursement to end-June 2020.
3. Enhancement of the Jobs Support Scheme ("JSS"), whereby up to 75% cash grant of the first S$4,600 of monthly wages of each local employee in severely affected sectors are given for 9 months till end of 2020.
4. Enhanced PTR of up to 100% for qualifying commercial properties (e.g. those in the tourism sector).
5. Up to 2 months rental waivers for eligible commercial and other non-residential tenants of government-owned or managed non-residential facilities.
6. Enhancement of the maximum support level under the Enterprise Development Grant ("EDG") to 80% or 90% (case-by-case basis).
7. Enhancement of the maximum support level to 80% for the Productivity Solutions Grant ("PSG"), with scope widened for PSG to cover technology solutions for safe distancing and business continuity measures.
8. Maximum support level for various grants in the tourism industry has also been increased by 10%.

However, as the COVID-19 situation continues to worsen since then, the Singapore Government decided to release the Solidarity Budget 2020 on 6 April 2020, in less than two weeks after the announcement of the Resilience Budget 2020. The measures enhanced in the Solidarity Budget 2020 were meant to help businesses and individuals cope with the 'circuit breaker' period, with the following enhancements made for businesses:

1. JSS payout of 75% on the first S$4,600 of gross monthly wages for every local employee in April 2020, with the first JSS payout brought forward to April 2020 instead of May 2020.
2. Waiver of monthly foreign worker levy ("FWL") due in April 2020, with FWL rebate of S$750 (based on previous levies paid in 2020) for each work permit or S Pass holder.
3. Proposed new legislation which imposes obligation on property owners to pass to their tenants the full amount of PTR received attributable to the tenanted property.
4. Increased rental waivers for industrial, office and agricultural tenants of Government agencies to one month.
5. Government's co-share of the risk on the loans with Participating Financial Institutions increased to 90% for the Enterprise Financing Scheme SME Working Capital Loan and Trade Loan and the Temporary Bridging Loan Programme.

In our view, the Resilience and Solidarity Budgets has complemented the Unity Budget by putting in bolder measures to help businesses deal with the immediate challenges of cash flows problems and ensure that they can sustain their current operations and workforce. Taking into consideration how the COVID-19 crisis unfolded since the start of 2020, the Ministry of Finance has to be commended for the various targeted support measures introduced in the Unity, Resilience and Solidarity Budgets to deal with the fast-evolving situation.

LIM PENG HUAT

phlim@complete-corp.com.sg

REVERSE CHARGE AND OVERSEAS VENDOR REGIMES - NEW GOODS AND SERVICES TAX RULES IN 2020 THAT COMPANIES NEED TO BE AWARE OF

Goods and Services Tax ("GST") on imported services

With effect from 1 January 2020, GST will be applied to tax imported services via the following regimes:

a. Reverse Charge regime for Business-to-Business ("B2B") supplies of imported services; and

a. Overseas Vendor Registration regime for Business-to-Consumer ("B2C") supplies of imported digital services.

Reverse Charge ("RC") regime

RC AND AFFECTED BUSINESSES

The RC regime would affect you if:

- You are GST-registered and are not entitled to full input tax credit;
- You belong to a GST group that is not entitled to full input tax credit;
- You are GST-registered in Singapore and elect to apply RC; or
- You are not GST-registered but will not be entitled to full input tax credit even if you were GST-registered.

Businesses that make exempt supplies (e.g. developers of residential properties) or carry out non-business activities (e.g. charities) will not be entitled to full input tax credit (if they are GST-registered in Singapore). Such businesses (GST-registered or not) will be affected by the RC regime (referred to as "RC Businesses").

Examples of common RC Businesses include:

- Taxable businesses that make substantial exempt supplies such as interest from inter-company loans;
- Partially exempt businesses such as developers of mixed-use properties, banks and other financial institutions;
- Fully taxable businesses that do not make any exempt supplies but are GST group registered with partially exempt members;
- Charities and voluntary welfare organisations that receive outright grants, donations and sponsorships and provide free / subsidised services; or
- Investment-holding companies that derive dividend income.

RC - ACCOUNTING FOR GST ON IMPORTED SERVICES FOR GST-REGISTERED BUSINESSES

With effect from 1 January 2020, GST-registered RC Businesses will be required to:

- Account for GST on all services procured from overseas suppliers (i.e. imported services) as if it is the supplier, except for certain services which are excluded from RC; and
- Claim the corresponding GST as input tax at the same time, subject to the normal input tax recovery rules. As RC Businesses makes exempt supplies or carries on non-business activities, a part of the GST would be irrecoverable (i.e. input tax will not be fully claimable).

Example:

In 2020, GST-registered ABC Pte Ltd (an RC business) procures professional services amounting to S$1,000 from an overseas supplier without any Singapore GST charged. Under the RC regime, ABC Pte Ltd is required to account for GST on the professional services at the prevailing Singapore GST rate as if it is the supplier. Concurrently, ABC Pte Ltd will be entitled to recover the GST accounted for if it satisfies the general input tax conditions.

In the GST F5 return:

Standard rated supplies:	S$1,000
Accounted output tax:	S$70 [S$1,000 X 7% (i.e. the prevailing Singapore GST rate)]
Taxable purchases:	S$1,000
Input tax claimable:	S$56 [S$70 X 80% (assuming ABC Pte Ltd has an input tax recovery rate of 80%)]

Before 1 January 2020, GST-registered RC Businesses were not required to track their imported services for GST purposes. With effect from 1 January 2020, GST-registered RC Businesses will need to make changes to their accounting systems and / or business processes to identify, capture and report imported services in their GST returns. The failure to comply may result in the imposition of penalties.

RC - GST REGISTRATION REQUIREMENTS FOR NON-GST REGISTERED RC BUSINESSES

With effect from 1 January 2020, if the total value of your imported services exceeds S$1 million in a 12-month period (under either the retrospective or prospective basis), you will become liable for GST-registration in Singapore.

Once registered for GST, you will be required to account for GST on both your taxable supplies and your imported services which are subject to RC.

SCOPE OF IMPORTED SERVICES THAT FALL WITHIN THE SCOPE OF RC

RC Businesses must account for GST on all imported services other than:

- Services that fall within the description of exempt supplies under the Fourth Schedule to the GST Act;
- Services that qualify for zero-rating under section 21(3) of the GST Act had the services been made to them by a taxable person belonging in Singapore;
- Services provided by the government of a jurisdiction outside Singapore, if the services are of a nature that fall within the description of non-taxable government supplies under the Schedule to the GST (Non-Taxable Government Supplies) Order of the GST Act; and
- Services that are directly attributable to taxable supplies (this exclusion is only applicable to RC Businesses that are not prescribed a fixed input tax recovery rate or on special input tax recovery formula to be applied on all input tax claims).

Examples include:

- Legal and professional service fees incurred to comply with foreign regulations and / or to conduct due diligence pertaining to transferred or new loans;
- Purchase of market data, online data information, access to website, industry reports (e.g. bond pricing, credit rating) for bank's operations; or
- Expenses incurred by an overseas representative office of a Singapore entity.

Overseas Vendor Registration ("OVR") regime [1]

With effect from 1 January 2020, under the OVR regime, overseas digital services suppliers must register for GST in Singapore (if certain criteria are met) and charge GST to non-GST-registered customers in Singapore.

REGISTRATION REQUIREMENTS

Overseas digital service suppliers must register for GST in Singapore and charge GST from 1 January 2020 if both the following criteria are met:

- The value of its annual global turnover exceeds S$1 million; and
- The value of its digital services supplied to non-GST registered customers in Singapore exceeds or is expected to exceed S$100,000 for a 12-month period (under either the retrospective or prospective basis).

DEFINITION OF DIGITAL SERVICES

Digital services are defined as services that are supplied over the internet or an electronic network that require minimal or no human intervention and are impossible without the use of information technology.

Examples include:

- Downloadable digital content such as mobile apps, e-books and movies;
- Subscription-based media such as news, magazines, streaming of TV shows and music and online gaming;
- Software programs such as photoshop tools, anti-virus software and office suites; or
- Electronic data management such as website hosting and cloud storage services.

IMPACT OF OVR REGIME ON GST REGISTERED BUSINESSES IN SINGAPORE

GST-registered businesses who procure digital services from overseas suppliers whom are GST-registered in Singapore under the OVR regime are responsible for providing their GST registration numbers to overseas suppliers so that the overseas suppliers do not charge GST to such GST-registered businesses.

By default, overseas suppliers will treat their services as being supplied to non-GST registered customers.

For GST incorrectly charged on supplies to GST-registered customers, the GST-registered customers should seek a refund from the overseas suppliers instead of claiming the GST charged as input tax in the GST F5 returns.

1 For further information on Singapore's OVR regime that is relevant for overseas digital services suppliers, please refer to the following link – https://complete-corp.com.sg/wp-content/uploads/2017/02/CCS_OVM_D2_V3.pdf

IMPACT OF OVR REGIME ON GST-REGISTERED RC BUSINESSES IN SINGAPORE

The GST-registered RC business needs to take note of the following:

- Ensure that no GST is charged by the overseas suppliers on the imported digital services;
- If the imported digital services fall within the scope of imported services, the RC business must account for GST on the value of the imported digital services and will be entitled to recover the GST accounted for if it satisfies the general input tax conditions.

Assessment of whether the RC or OVR regime is applicable to your business

The rules surrounding the RC and OVR regimes are not straightforward. If you need further assistance to assess whether the RC or OVR regime is applicable to your business, please reach out to us for a discussion.

LAW PEI SERH

lawpeiserh@complete-corp.com.sg

Contact Information

If you would like further information on any item within this publication, or information on our services please contact:

Lim Peng Huat - Director & Head,
Taxation Services
T +65 6329 2741
phlim@complete-corp.com.sg

Yong Jiahao - Director,
Taxation Services
T +65 6329 2759
yongjiahao@complete-corp.com.sg

Law Pei Serh - Associate Director,
Taxation Services
T +65 6329 2726
lawpeiserh@complete-corp.com.sg

Chintan Shah - Senior Manager,
Taxation Services - Transfer Pricing
T +65 6329 2718
chintanshah@complete-corp.com.sg

Laura Goh - Manager,
Taxation Services
T +65 6329 2742
lauragoh@complete-corp.com.sg

Koh Boon Ping - Manager,
Taxation Services
T +65 6329 2743
kohboonping@complete-corp.com.sg

Seetoh Mei Fong - Manager,
Taxation Services
T +65 6329 2748
seetohmeifong@complete-corp.com.sg

Vivian Chan - Manager,
Taxation Services
T +65 6329 2746
vivianchan@complete-corp.com.sg

Shirley Lim - Director & Head,
Corporate Secretarial &
Electronic Polling Services
T +65 6329 2731
shirleylim@complete-corp.com.sg

Elaine Chian - Manager,
Corporate Secretarial Services
T +65 6329 2744
elainechian@complete-corp.com.sg

Helen Tong - Manager,
Corporate Secretarial Services
T +65 6329 2737
helentong@complete-corp.com.sg

Bernard Juay - Director & Head,
Business Advisory
T +65 6329 2760
bernardjuay@complete-corp.com.sg

Janice Ng - Senior Manager,
Business Advisory
T +65 6329 2751
janiceng@complete-corp.com.sg

Agnes Sim - Manager,
Business Advisory
T +65 6329 2750
agnes_sim@complete-corp.com.sg

CCS
Complete Corporate Services Pte Ltd

10 Anson Road #29-07, International Plaza, Singapore 079903
T +65 6226 2555 F +65 6221 9265
www.complete-corp.com.sg