



WTS Update for the Digital Economy

Changes to GST Treatment of Supplies of Online Media Space in Singapore

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1. GENERAL

Currently, the supply of media space for web advertising over the Internet (including advertising spaces on websites or mobile applications) by a taxable person is a zero-rated supply for goods and services tax ("GST") purposes, if the Comptroller is satisfied that the advertisement is intended to be substantially promulgated outside Singapore. With effect from 1 January 2022, the basis for zero-rating will be changed to one based on the belonging statuses of the contractual customer and the direct beneficiary of the supply instead.

2. CHANGE IN BASIS FOR DETERMINING WHETHER A SUPPLY OF MEDIA SALES IS ZERO-RATED

At present, the GST treatment of online media space supplies depends on whether access to the website or webpage is restricted to Singapore viewers. If access is restricted to Singapore viewers or browsers only (e.g. where advertisements are displayed on websites, webpages or mobile applications that restrict access to viewers with Singapore IP addresses only), the supply will be a standard-rated supply (i.e. tax rate of 7%). Conversely, if no access restrictions are imposed on the viewership of the advertisement, the supply of advertising space can be zero-rated. In other words, zero-rating treatment under current rules depends on the place of circulation of the advertisement.

However, as developments in digital technologies change the way that online media sales are supplied, it has become increasingly difficult for suppliers of digital media sales to determine the place of circulation of the advertisements. Thus, the Minister for Finance has in Singapore Budget 2021 announced a change in the basis for zero-rating of supplies of online advertising space, such that it will depend on the belonging statuses of the contractual customer and the direct beneficiary of the service, rather than the place of circulation of the advertisements. A supply of online advertising space made on or after 1 January 2022 will be zero-rated only if:

- a. the contractual customer belongs outside Singapore; and
- b. the person directly benefiting from the service either belongs outside Singapore or is a GST-registered person in Singapore.

It is likely—though not certain at this point in time—that the Comptroller of GST will adopt the same interpreta-

tion in regard to what constitutes "directly benefit" as its existing practice as set out in the IRAS e-Tax Guide entitled GST: Clarification on "Directly in Connection with" and "Directly Benefit" (Fourth Edition). If so, the Comptroller of GST will, for the most part, examine the terms of the contract to see if the recipients of the services are stipulated to the exclusion of other persons. In the absence of such provision or where the facts suggest that there are persons other than the contractual recipients who "directly benefit" from the supply, the Comptroller of GST will examine the flow of services or benefits to determine whether the recipient is a direct beneficiary. In this regard:

- a. the recipients of spin-off benefits are not direct beneficiaries;
- b. the contractual customer need not necessarily be the same person receiving the services and if there is accountability to a person (other than the contracting party) for the service deliverables, that person is likely to be a direct beneficiary of the services;
- c. the extent or magnitude of consumption by a recipient is not conclusive as to whether a recipient is a direct beneficiary though if the services relate to a specific transaction carried out or to be carried out by a person, that person is likely to be a direct beneficiary of the services; and
- d. a recipient directly benefits from a supply if the services flow in a manner with no impediments, i.e. no onward supply.

3. OVERSEAS SUPPLIERS

Conversely, the supply of online advertising space made on or after 1 January 2022 will be standard-rated if:

- a. the contractual customer belongs in Singapore; or
- b. the person directly benefiting from the service belongs in Singapore.

This will be the case even if the supplier does not belong in Singapore. Where such supplies are Business-to-Business (B2B) supplies, the GST-registered recipient in Singapore must account for GST under the reverse charge regime.

Where such supplies are Business-to-Consumer (B2C) (i.e., to a non-GST registered person in Singapore), the overseas supplier may be required to register for GST under the overseas vendor registration regime if the

registration threshold is met, and if so, must account for GST on such supplies¹.

4. CONCLUSION

The change in the basis of determining zero-rating of supplies of online media space demonstrates a recognition by the government of the growing difficulties in identifying the place of circulation of online advertisements in an increasingly digitalized world, and the need for a different operational approach in ensuring the adherence to the destination principle in the imposition of GST on supplies of online media space. Businesses, especially those that actively engage in online advertising, should review their online advertising arrangements, including legal documentation, in light of these new changes.

*Please do contact us
if you need any further assistance on this topic:*

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¹ For more details on the reverse charge and overseas vendor registration regime, please see:
<https://www.iras.gov.sg/irashome/GST/GST-registered-businesses/GST-and-Digital-Economy/GST-on-Imported-Services/>

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