OPENING ADDRESS BY MR PETER ONG, CHAIRMAN, ENTERPRISE SINGAPORE AT THE DIGITAL ECONOMY AND INDIRECT TAX CONFERENCE ON TUESDAY, 30 OCTOBER 2018 AT 9.05AM AT SHERATON TOWERS

Mr Ng Wai Choong, Commissioner and Chief Executive Officer of Inland Revenue Authority of Singapore,
Mrs Eng-Tay Geok Lee, Chief Executive Officer of the Tax Academy,
Distinguished Guests,
Ladies and Gentlemen,

1. Good morning. It is my pleasure to join you at the Tax Academy's conference on Digital Economy and Indirect Tax.

The digital economy is evolving and creating new opportunities for businesses

2. Digitalisation has changed the way people interact with each other. It has also transformed the way businesses trade and transact, creating new opportunities and improving capabilities.

3. First, from an operational perspective, new technologies enable businesses to operate more efficiently. This could help the company enhance productivity, and in turn, create more meaningful jobs for workers. For example, retailers are now leveraging data and Artificial Intelligence (AI) to serve their customer preferences in a more targeted and effective manner.

4. Second, from a strategic perspective, digitalisation has led to the emergence of new business models and opportunities. Through digital platforms, suppliers and consumers are brought closer together, transcending geographical boundaries and removing the need for a physical presence. Digital marketplaces and fintech are good examples of this. For instance, populations who live in rural areas without easy access to banking services can now enjoy the benefits of digital banking services, via a digital business and banking platform with smart cards. Financial services companies can potentially offer affordable financial services to the many unbanked globally.

5. It is a similar situation in Singapore. Businesses here are transforming with digitalisation. Companies that base their business models on digitalisation have emerged. Examples include digital marketplaces like Carousell and Qoo10, and ride-sharing platforms such as Grab.

6. More traditional sectors such as trading are also evolving. Digitalisation has given rise to borderless trade flows, which is transforming the supply chain landscape. Logistics companies can now leverage the growing digital trade opportunities to offer global supply chain services. For example, Singapore Exchange, Global eTrade Services and China-based Zall Group recently set up the Commodities Intelligence Centre, a commodity e-trading platform to facilitate online B2B trading. Local logistics companies PIL Logistics, Warehouse Logistics Net Asia and YCH Group have partnered this platform to provide their integrated supply chain solutions such as shipping, freight-forwarding, and warehousing to support the trade flows. Such new initiatives enable them to capture business value from global trade flows.

Forward-looking policies and positions on tax required to facilitate the growth of the digital economy

7. While the digital economy has brought about new opportunities for businesses, it has also led to new tax complexities and considerations.

8. In the era before digitalisation, it was hard to imagine how businesses could conduct economic activities without establishing some form of physical presence, be it an office, a factory or a retail outlet. Today, trading without a local presence is increasingly prevalent. A shoe retailer in Singapore can sell shoes over its e-commerce store to a consumer in South Korea. A Singapore consumer can purchase K-pop songs through the mobile phone. With digitalisation, value is now created in one jurisdiction, with consumption taking place in another.

9. With changes brought about by digitalisation, it is important that tax rules continue to be guided by sound concepts and robust principles. We believe that income and consumption taxes both have their places in a robust and resilient taxation system. Each tax has its legitimate base and this distinction remains relevant even as our economies transform.

Corporate Income Tax

10. Let me first share views on Corporate Income Tax. The underlying concept is that business profits should be taxed based on where the economic value-creating activities are performed. In the globalised digital economy, businesses can earn profits from a country without a local presence. This has led some countries to question if existing tax rules that rely on physical presence to determine taxing rights are still adequate.

11. In the case of digitalisation, users now provide their data online, which is highly sought and used by the digital platform owner. Is this data provision a value driver? Let me illustrate with an online advertising example. A US-based social media platform uses insights gained from its European users to display targeted advertisements and earn advertising revenue in Europe. Under present rules, the US-based social media platform would not be subject to corporate income tax in Europe on the advertising revenue. In the international tax community, some take the view that data contributed by users of digital platforms gives rise to value creation in the user’s jurisdiction. And that accords a taxing right to the user’s jurisdiction. Hence, the US-based social media platform should pay corporate income tax in Europe.

At the same time, there are some who take a different view. The collection of the data is enabled through the digital platform created by the US-based company. Without the creation of the digital platform, no data can be collected, and thus no revenue generated. Since the value is created in the US by the social media company, taxing rights on the advertising revenue should stay within the US. This is the outcome under the current system.

12. What I have described is an on-going international debate for which no consensus has been reached as yet. Broadly, there are three different groups of countries with different views. Some countries like Singapore do not see the need for any significant reform currently, especially with recent enhancements to address Base Erosion and Profit Shifting, also known as the BEPS action plans. Another group of countries is calling for changes targeted only at certain highly-digitalised business models, such as social networking services. Yet another group advocates that any reform of international tax rules should be across the board and not only limited to highly-digitalised businesses. It should also include traditional brick-and-mortar businesses that are digitalising their operations.

13. With no international consensus, some jurisdictions are introducing unilateral tax measures. In Asia, India has introduced an Equalisation Levy on payments to non-residents providing online advertisements, digital advertising space and related services. Meanwhile, in Europe, the European Commission proposed a Digital Service Tax on revenue derived from online advertising, sales of collected user data and digital intermediary activities.

14. The tax challenges in the digital economy is being discussed at the OECD's Taskforce on the Digital Economy, or TFDE in short. Singapore actively follows the developments in this space and participates in discussions to help design international tax rules that are robust and fair. As we keep pace with international tax developments, it is our firm belief that any changes to tax rules should not stifle innovation and business growth. Also, it is important that international tax rules maintain the level playing field for large and small economies.

Indirect Tax

15. Next, let me discuss Value Added Tax (VAT), or Goods and Services Tax (GST) as we call it in Singapore. Decades ago, e-commerce was at a nascent stage. Coupled with the complexity of administering foreign vendors, GST was often not levied on imported services and low-value goods. Circumstances have changed. Fuelled by digitalisation, the volume of cross-border trade and digital transactions has grown tremendously. Many jurisdictions began adjusting their GST system to ensure the collection of tax on these transactions.

16. Like other jurisdictions, Singapore has taken steps to adjust our GST system. In February this year, Singapore announced that GST will apply to imported services from 1 January 2020. Two regimes will be introduced.

a) One, a reverse charge regime for B2B supplies of imported services, such as consultancy and marketing services;

b) Two, an overseas vendor registration regime for B2C supplies of imported digital services, such as video and music streaming services.

17. There are two main reasons for the change. First, to ensure that our GST system remains resilient and keeps up with times. Otherwise, the present non-taxation of imported services will continue to expand with the digital economy. Second, the change is to ensure parity in the GST treatment for all services consumed in Singapore, whether they are procured locally or overseas. The implementation details are currently being worked out.

18. Besides imported services, the surge in e-commerce volume also propelled a growing trend towards taxing low-value imports. There are a few possible collection mechanisms, with varying impact on the compliance costs for businesses, feasibility of implementation and effectiveness in collection. In Singapore, GST is currently not levied on air imports under S$400 to facilitate customs clearance and operations. Even as Singapore studies the international development in this area, I would like to emphasise that Singapore remains committed to a broad-based and simple GST system. To maintain our competitiveness as an e-commerce hub, Singapore will, where possible, ensure consistency in rules with other jurisdictions. This will help businesses, that have had experience in meeting similar GST obligations in other jurisdictions, to cope with any changes in Singapore.

<u>Technology plays a role to help jurisdictions deal with tax implications</u>

19. While digitalisation has brought about new tax issues and challenges, technology can also be a solution to help with these implications. It can certainly enable more efficient tax collection and fraud detection. For example, ERP solutions such as accounting software allow companies to file their transactions seamlessly. In Singapore, IRAS recognises the importance of accounting software that can help businesses comply with tax regulations. IRAS is collaborating with software developers to integrate tax requirements into the accounting system.

20. Technology has also enabled IRAS to reach out to businesses more effectively. Businesses can access IRAS's myTax Portal to file and pay their taxes. Recently, IRAS developed a digital startup kit for new companies. We know that startups are usually overwhelmed by the amount of information they need to go through when setting up their business. The digital kit allows newly-formed companies to receive customised and bite-sized tax information and alerts, as and when they need it.

21. In future, emerging technologies such as block-chain and AI will also enable more efficiency in tax collection and better delivery of services to taxpayers.

Conclusion

22. Singapore will continue to engage in and help shape the international discussions on the taxation of the digital economy. At the same time, we will ensure that our tax system remains growth-oriented and simple, while maintaining a level-playing field for both overseas and local businesses.

23. While there are new tax challenges to be addressed, technologies and digitalisation have brought about new opportunities. Enterprise Singapore will continue helping businesses to innovate and grow, even as the country keeps pace with international tax developments.

24. On this note, I would like to wish all participants a fruitful conference ahead. For those who travelled to Singapore specially for this event, have an enjoyable stay here. Thank you.

(approx. 1835 words: ~ 14 min)