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## INSIGHT: Singapore—New Guidance on GST Treatment of Digital Payment Tokens



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Cryptocurrency was again thrown into the limelight recently when Facebook announced that it proposed to issue its own digital currency. The strong reactions to this announcement from bank regulators and politicians underscore the concerns of many that the existing regulations are not adequate to deal with the multi-faceted ramifications of digital currency.

However, the fact remains that digital currency has accelerated into a global movement and the number of cryptocurrency funds have surged over the past few years to feed the growing investor interest in cryptocurrencies as an asset class. In addition, the blockchain technology behind cryptocurrencies is driving leading-edge innovation in other industries such as health, logistics, shipping and real estate.

Hence Singapore (among a few other countries) is nurturing a digital currency friendly ecosystem not only to position itself as a global fintech hub, but also to harness the potential of the technology behind cryptocurrencies. Part of this process is to provide tax certainty, which in itself is a challenging task because the tax authorities have to ensure digital transactions are taxed so as to achieve a level playing field with traditional business but at the same time without making the rules too onerous and stifling innovation.

In this regard, Singapore's Goods and Services Tax (GST) regulations have been refined to take into account global developments in digital currency. This ar-

ticile explores the historical development of the GST treatment in Singapore relating to cryptocurrency.

### GST in Singapore

The Singapore tax authority is one of the few in the world to have prescriptive guidelines on the GST treatment relating to cryptocurrency. Before diving into the guidelines proper, below, it will be useful to lay out a few basic concepts that will be referenced later in the article.

All supplies of goods and services made by a GST-registered person are subject to GST unless they are:

- an out-of-scope supply; or
- a supply that is exempted from GST ("exempt supply").

"Out-of-scope supplies" refers to supplies that fall outside the charging section of the GST Act. It also includes supplies that are deemed neither a supply of goods nor a supply of services under the GST legislation.

The *Fourth Schedule* to the GST Act provides a list of supplies which are mainly financial services that are exempt from GST.

The value of out-of-scope and exempt supplies is not considered in determining the annual taxable turnover for the purposes of determining the liability to register for GST. The annual taxable turnover threshold for mandatory GST registration is SG\$1 million (\$734,000).

The standard GST rate is currently 7%. Certain supplies can be zero-rated, which means GST is chargeable at 0%. A taxable supply refers to a supply that is either subject to GST at the standard rate or is zero-rated.

When a sale or transfer of a digital currency occurs, the issue is whether GST is applicable on that transac-

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tion if the supplier is GST registered, and if the supplier is not GST registered, whether the value of the transaction should be considered in determining the requirement to compulsorily register for GST.

To address these issues, the starting point is to ascertain the following:

- is the sale or transfer of a digital token a taxable supply?
- if yes, is it a supply of goods or is it a supply of services?

## Current Position on Virtual Currencies

In 2014, the Inland Revenue Authority of Singapore (IRAS) posted on their [website](#) that the supply of virtual currencies will be treated as a taxable supply of services.

While the term “virtual currencies” was not explicitly defined by the IRAS, the understanding is that all types of cryptocurrencies and digital tokens will be treated the same for GST purposes. In the same update by the IRAS on their website, it was clarified that virtual currencies will not be considered as “money” for GST purposes.

This means that, unless a transaction qualifies as zero-rated, GST at 7% will be applicable on the supply of virtual currencies made by a GST-registered person. It should be noted that this GST treatment was aimed primarily at virtual currencies that are used as a medium of exchange, since digital tokens that qualify as equity or debt securities (e.g. a security token) may be exempt from GST under the Fourth Schedule to the GST Act.

The practical issue with this tax treatment is that transactions in virtual currencies which function as a medium of exchange could give rise to “double taxation” for a consumer who is not able to claim the input GST; i.e., GST will be incurred twice by the same person—when he purchases the virtual currency from a GST-registered person and again when the virtual currency is used to purchase goods or services from a GST-registered person. It could also give rise to a cascading effect where the digital tokens change hands frequently.

## New Guidelines on GST Treatment of Digital Payment Tokens

The IRAS issued an [e-Tax Guide](#) titled “GST: Digital Payment Tokens” on November 19, 2019 (the “tax guide”) to update its position regarding the treatment of digital payment tokens.

In the tax guide, acknowledging that subjecting digital tokens that function or are used as a medium of exchange to GST may give rise to “double taxation,” the IRAS made the following changes that will come into effect from January 1, 2020:

- The supply of digital payment tokens as consideration in a transaction, other than for a supply of money or digital tokens, will no longer be treated as a supply of goods or services.
- The exchange of digital payment tokens for fiat currency or other digital payment tokens, and the provision of any loan, advance or credit of digital payment tokens will be treated as an exempt supply.

These changes will align the GST treatment of digital payment tokens with fiat currency, mitigating the problem of buyers of digital payment tokens suffering GST twice.

The implications of this change are:

- A GST-registered person need not account for GST on a sale of digital payment tokens as well as when it uses digital payment tokens to purchase goods or services with effect from January 1, 2020. For a non-GST-registered person, the value of such transactions will not be taken into account for determining the liability for GST registration.

- A GST-registered business that is currently transacting in Singapore dollars only may face restrictions on claiming input GST (i.e. the GST paid on purchases of goods and services) if it plans to accept digital payment tokens. This is because any gain or loss from the conversion of the digital payment tokens into fiat currencies or other digital payment tokens will be treated as an exempt supply, and input tax attributable to exempt supplies is disallowed unless the de minimis rule is satisfied. Due to the highly volatile nature of the price of cryptocurrencies, the volatility may result in substantial exempt supplies breaching the de minimis rule.

**What is a Digital Payment Token?** A digital payment token is defined in the tax guide as one that has digital representation of value that has all of the following characteristics:

- (a) it is expressed as a unit;
- (b) it is designed to be fungible. This means that the digital payment token must be designed to be used interchangeably as consideration;
- (c) it is not denominated in any currency and not pegged to any currency (e.g. stablecoins);
- (d) it can be transferred, stored or traded electronically;
- (e) it is, or is intended to be, a medium of exchange accepted by the public, without any substantial restrictions on its uses as consideration;
- (f) it is not money or anything which, if supplied would be an exempt supply under Part I of Fourth Schedule to the GST Act (for example, a digital token that qualifies as an equity or a debt security); and
- (g) it is not anything that gives an entitlement to receive or to direct the supply of goods or services from a specific person or persons and ceases to function as a medium of exchange after the entitlement has been used.

The tax guide mentions that Bitcoin, Ethereum, Litecoin, Dash, Monero, Ripple and Zcash are all examples of digital payment tokens.

Although tokens that are pegged to or backed by any fiat currency will not qualify as digital payment tokens, supplies of such tokens can be GST exempt under paragraph 1(j) of Part I of the Fourth Schedule to the GST Act.

The tax guide stipulates that digital tokens issued via an initial coin offering (ICO) to fund the development of certain products, services or infrastructure that will eventually give access to products and services on the funded ecosystem to the holders of the tokens, can qualify as digital payment tokens if they have all the characteristics of digital payment tokens.

Tokens that are used to redeem specified goods or services and cease to be a medium of exchange after the redemption will not satisfy condition (g). Such tokens

will be considered as being similar in character to vouchers and therefore the existing GST treatment for vouchers will apply to such tokens.

## Application of Rules for Virtual Currencies/Digital Payment Tokens

How the new rules shall apply in practice is discussed below under different scenarios. As explained earlier, the existing GST treatment refers to virtual currencies while the new GST treatment in the tax guide makes reference to digital payment tokens.

### Making Payments Using Virtual Currencies/Digital Payment Tokens

#### Current treatment

When a business buys goods or services using virtual currencies, the transaction will be considered as a barter trade. In a barter trade, two supplies are made: one by the supplier who supplies the goods and services, and another for the supply of virtual currencies by the business who pays the supplier using virtual currencies.

GST should be accounted for on each supply (i.e. the supply of goods or services and the supply of virtual currencies) if the respective supplier is GST registered.

*GST treatment with effect from January 1, 2020*

The use of digital payment tokens as payment for anything other than for fiat currency or other digital payment tokens shall be disregarded as a supply for GST purposes. This means that no GST needs to be accounted for if digital payment tokens are used to pay for goods and services.

A GST-registered supplier of goods and services who receives digital payment tokens as payment will need to account for output tax on the value of the supply of goods or services as per the current GST treatment.

### Selling Virtual Currencies/Digital Payment Tokens as a Principal

#### Current treatment

A GST-registered intermediary that sells virtual currencies as a principal will have to charge GST on the sale of the virtual currencies, unless the sale qualifies as international services whereby GST is charged at 0%.

A supply of services to overseas persons that meets the following conditions will qualify as international services:

- it is supplied under a contract with a person who belongs in a country outside Singapore;
- it directly benefits a person who belongs in a country outside Singapore and who is outside Singapore at the time the services are performed; and
- it is not supplied directly in connection with land or goods in Singapore.

*GST treatment with effect from January 1, 2020*

The supply of digital payment tokens in exchange for fiat currency or other types of digital payment tokens will be treated as an exempt supply or a zero-rated supply if the conditions for zero-rating (as stated above) are met. The GST treatment for the supply of virtual currencies that do not qualify as digital payment tokens remains the same. The tax guide provides a list of indi-

cators to determine if a person is acting as an agent or as a principal.

### Selling Virtual Currencies/Digital Payment Tokens as an Agent

#### Current treatment

If a GST-registered business acts as an agent for another party to facilitate the sale of virtual currencies, it will need to charge GST on the commission fees or margin that it receives, unless the services are considered as international services and hence zero-rated.

*GST treatment with effect from January 1, 2020*

There is no change in the GST treatment. The tax guide provides a list of indicators to determine if a person is acting as an agent or as a principal.

### Initial Coin Offering

#### Current treatment

When a GST-registered business in Singapore issues digital tokens/virtual currencies to the public in exchange for fiat currency or cryptocurrencies such as Bitcoin, it must account for GST on the supply of the digital tokens/virtual currencies unless the supply is zero-rated or it is an exempt supply (i.e. it falls under the prescribed list of exempt financial services under the Fourth Schedule of the GST Act).

*GST treatment with effect from January 1, 2020*

The proceeds received from an ICO can be treated as exempt supplies if the digital tokens/cryptocurrencies issued via the ICO qualify as digital payment tokens. The GST treatment for the supply of virtual currencies that do not qualify as digital payment tokens remains the same.

### Making Loans of Digital Payment Tokens

#### Current treatment

As mentioned in the tax guide, the provision of any loan, advance or credit of tokens that qualify as digital payment tokens will be subject to GST unless the supply can be zero-rated.

*GST treatment with effect from January 1, 2020*

The provision of any loan, advance or credit of digital payment tokens is an exempt supply or a zero-rated supply if the conditions for zero-rating (as stated above) are met.

## Concluding Comments

The new GST rules are good news for issuers of digital payment tokens via a token offering and are likely to make Singapore more attractive for blockchain innovation.

However, the new GST treatment does not mean all cryptos transactions are GST exempt in Singapore. One must still assess if the digital tokens that one is dealing with are digital payment tokens before it is possible to apply the new GST treatment. Therefore, it is important for would-be issuers to ensure that the tokens they are issuing qualify as digital payment tokens.

While GST need not be accounted on digital payment tokens, it does not mean that there are no income tax implications on the sale or transfer of digital payment tokens. For example, while an issuer of digital payment tokens need not charge GST on the sale of the tokens,

the proceeds from the sale may be subject to income tax.

As the existing GST rules are still applicable to all tokens, including digital payment tokens, from now until January 1, 2020, it is important for businesses dealing in digital tokens to take steps to comply with the current GST rules, if they have not already done so.

With the new rules, digital tokens/cryptocurrencies can be classified into three groups:

- qualifying as digital payment tokens as defined by the IRAS;
- not qualifying as digital payment tokens and falling under the prescribed list of exempt supplies under the GST Act; and
- not falling within the first two categories.

The GST treatment can then be applied according to this classification.

The effective date of the new GST rules coinciding with the effective date for the overseas vendor registration scheme ensures that no unnecessary hurdles are placed to limit the progress Singapore has made in the past few years as a blockchain and cryptocurrency innovation hub.

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