

REGULATORY UPDATE ON GST TREATMENT OF DIGITAL PAYMENT TOKENS

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Introduction

In our earlier CNPupdate article published on 27 September 2018, we discussed the tax implications in relation to Initial Coin Offerings (“**ICOs**”). This article is the first article of a two-part series that provides an update on the latest tax guidelines issued by the Inland Revenue Authority of Singapore (“**IRAS**”), namely, the e-Tax Guide on the Goods and Services Tax treatment of digital Payment Tokens published on 19 November 2019 (the “**GST Guide**”) and the e-tax guide in relation to the income tax treatment of digital tokens published on 17 April 2020. This first article will summarise the main points in the GST Guide.

Goods and Services Tax (“GST”) treatment of digital payment tokens

The GST Guide, published on 19 November 2019, sets out recent changes on the GST tax treatment of digital payment tokens (“**Payment Tokens**”). It should be noted that the said changes apply only to Payment Tokens and not to Utility Tokens or Security Tokens. The general principle espoused in the GST Guide is that with effect from 1 January 2020, supplies of digital payment tokens will no longer be subject to GST. This means that digital token issuers who offer digital payment tokens in exchange for fiat currency or other digital payment tokens during an Initial Coin Offering will be regarded as an exempt supply and therefore exempt from GST.

Utility tokens

Utility Tokens do not fall within the definition of “digital payment tokens” as per the GST Guide as Utility

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Tokens give an entitlement to “receive or to direct the supply of goods and services from a specific person or persons and ceases to function as a medium of exchange after the entitlement has been used” (this is contrary to the characteristics defined under the GST Guide’s definition of Payment Tokens). As such, Utility Tokens will be regulated as vouchers under the existing GST regime for vouchers.

Security tokens

Security Tokens that represent equity in a company or a debt instrument are regulated as such and are, therefore, exempted from GST under Part I of the Fourth Schedule to the GST Act. A Security Token therefore, does not fall within the GST Guide’s definition of a Payment Token.

Payment tokens

Briefly, IRAS acknowledged that subjecting certain classes of digital tokens to GST may give rise to “double taxation” if they are used as a medium of exchange. The GST Guide defines “digital payment tokens” as: “a digital token that has the following characteristics: (a) it is expressed as a unit; (b) it is designed to be fungible; (c) it is not denominated in any currency, and is not pegged by its issuer to any currency; (d) it can be transferred, stored or traded electronically; and (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.”.

With effect from 1 January 2020:

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

What these changes aim to do is to align the GST treatment of Payment Tokens with that of fiat currency, therefore mitigating any issues of double taxation.

Conclusion

The new GST treatment of Payment Tokens by IRAS appears to be a step towards accepting that Payment Tokens may function as money. The changes will give a boost to businesses that intend to deal in or offer Payment Tokens, therefore strengthening Singapore’s reputation as a centre for digital innovation. For more information on the changes and IRAS’ guidelines on digital tokens, you may access the GST Guide at the following link:

(https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/e-Tax%20Guide_GST_Digital%20Payment%20Tokens.pdf.)

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