



**SERVICE TAX 2018**

**GUIDE ON:**

**CONSTRUCTION WORK SERVICES**

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## INTRODUCTION

1. Service tax is a consumption tax administered by the Royal Malaysian Customs Department under the Service Tax Act 2018 (STA 2018) and its subsidiary legislation, which came into effect on 1 September 2018.
2. Service tax shall be charged and levied on:
  - (i) Any taxable service provided in Malaysia by a registered person in the course of carrying on his business; or
  - (ii) Any imported taxable service (effective from 1 January 2019)
3. Taxable services refer to the list of services specified in the First Schedule of the Service Tax Regulations 2018 (STR 2018).
4. A person who provides taxable services exceeding a specified threshold is required to be registered under the Services Tax Act 2018. A registered person is required to charge service tax on his taxable services provided to his customers.
5. The guide is prepared to assist businesses in understanding the service tax treatment on construction work services.

## DEFINITION

6. The definitions of the following words have the meanings as stated in this guide unless otherwise specified:
  - (i) "**residential building**" in relation to construction work services, means a building that is wholly designed and constructed for human habitation, but does not include any building constructed on land designated or approved for mixed development.
  - (ii) "**construction works**" means the construction, extension, installation, repair, renewal, removal, renovation, alteration, dismantling, or demolition,

includes maintenance facility in the construction works period—

- (a) any building, erection, edifice, structure, wall, fence or chimney, whether constructed wholly or partly above or below ground level;
- (b) any road, harbour works, railway, cableway, canal or aerodrome;
- (c) any drainage, irrigation or river control works;
- (d) any electrical, mechanical, water, gas, petrochemical or telecommunication works; or
- (e) any bridge, viaduct, dam, reservoir, earthworks, pipeline, sewer, aqueduct, culvert, drive, shaft, tunnel or reclamation works,

and includes any works which form an important and integral part of or are preparatory to or temporary for the works described in paragraphs (a) to (e), but shall not include facility management services provided following the completion of the construction works period.

- (iii) “**construction contracts**” means the contracts for the performance of construction services specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and include main and ancillary contracts including but not limited to mechanical engineering, electrical engineering, public utilities projects, project design and consultancy, architectural designing and infrastructural contracts [*Public Ruling No.2/2009, Inland Revenue Board Malaysia*].
- (iv) “**contractor**” means a person who carries out or completes or undertakes to carry out or complete any construction works [Section 2, Akta Lembaga Pembangunan Industri Pembinaan Malaysia 1994].
- (v) “**construction contractor**” means a company, an individual, a partnership, a co-operative society, a body of persons, who or which engages in or carries on or undertakes or causes to be undertaken construction contracts.
- (vi) “**public facility**” means a building or facility used communally, including lobbies, corridors, roads, elevators, staircases, parking areas, playgrounds,

swimming pools, recreational facilities, and other public amenities.

- (vii) “**designated areas**” (DA) means Labuan, Langkawi, Tioman, Pangkor and Pulau 1 [Section 2, Service Tax Act 2018].
- (viii) “**special area**” (SA) means any free zone under section 3, Free Zones Act 1990, licensed warehouse under section 65 of the Customs Act 1967, licensed manufacturing warehouse under section 65A, joint development area (JDA), and Petroleum Supply Base (Section 77B, CA 1967).
- (ix) “**property developer**” means a company, individual, partnership, cooperative organization, or group of persons engaged in, carrying out, undertaking, or causing property development to be undertaken.
- (x) “**subcontractor**” means a contractor appointed by the main contractor to carry out part of the main contractor’s work. Subcontractors are typically engaged to perform tasks such as plumbing, electrical work, painting, masonry, and similar trades.
- (xi) “**retention sum**” refers to a portion of money withheld or not fully paid by the client or project owner to the contractor or party involved in a contract throughout the construction period as a guarantee to ensure that the work performed meets the contract specifications. This retention payment will only be released to the contractor after the specified liability period has ended.

## GENERAL OPERATIONS OF THE INDUSTRY

### Overview of Construction Work Services

7. In general, the main players involved in the construction industry are:

a) **Developer or Property Owner**

Acquiring property for development and appointing contractors to construct buildings or structures on that property.

b) **Main contractor**

The main contractor or any person acting on behalf of the developer or property owner is appointed by the property developer to carry out the construction project and assumes full responsibility for completing the construction project.

c) **Subcontractor**

A contractor appointed by the main contractor to carry out a portion of the main contractor's work.

d) **Professional**

Professional services such as engineers, surveyors, interior designers, mechanical and electrical (M&E) engineers, architects, or others who provide services to developers or main contractors. These professional services are subject to service tax as provided under the First Schedule of the Service Tax Regulations 2018.

8. Construction work services include the construction, extension, installation, repair, renovation, relocation, modification, alteration, refurbishment, or demolition, including facility management during the construction period, of any built structure such as houses, offices, hotels, roads, bridges, jetties, airports, and etc.

9. As a principle, construction work services involve the following types of work:
- i) **Construction work** refers to the process of planning, building, and completing a built structure from start to finish, involving various phases of work to ensure that the structure is built to be strong, safe, functional, and meets the needs of users.
  - ii) **Civil engineering work** in construction involves the design, construction, and maintenance of physical infrastructure. The main components of civil engineering in construction are as follows:
    - (a) Structural Design
    - (b) Site Management and Construction Supervision
    - (c) Road Construction and Transportation Infrastructure
    - (d) Drainage Systems and Water Management
    - (e) Building Foundations and Site Preparation
    - (f) Geotechnical Engineering
    - (g) Environmental Safety and Sustainability
    - (h) Cost Control and Budgeting
    - (i) Infrastructure Maintenance and Management

*Note: This list is not limited to the civil engineering works mentioned above.*
  - iii) **Mechanical and Electrical (M&E)** works in construction involve activities related to the design, installation, maintenance, and management of systems that support the operation of a building. The mechanical component refers to the construction of systems related to the internal environment of a building, such as the installation or construction of air-conditioning systems, ventilation systems, piping systems, wastewater disposal systems, fire protection systems, and etc. Meanwhile, the electrical component refers to the construction of power supply systems and energy usage within a building, such as electrical wiring systems, lighting systems, lightning protection systems, electrical safety systems, and etc.

- iv) **Facility management** for construction work refers to the process of planning, maintaining, and managing building assets and facilities during the construction period, and is considered part of the construction work. After the construction period, it shall be subject to Maintenance Services under Group G, First Schedule, Service Tax Regulations 2018.

## **SERVICE TAX TREATMENT**

10. All service provider of any construction work is subject to service tax.
11. For the service provider of residential and commercial building construction work services, the imposition of service tax is as follows:
- i) Construction work on commercial buildings and public facilities related to the commercial buildings involved are subject to service tax.
  - ii) Construction work of residential building—
    - a) Which is specifically approved by the Local Authority for the construction of residential buildings only, service tax is not levied on the construction work of the residential building including construction work on public facilities related to the residential building;
    - b) For construction work on residential buildings in mixed development (development of commercial buildings mixed with residential buildings), service tax is only levied on construction work for commercial buildings and public facilities related to the commercial building. Meanwhile, construction work on the residential part of the building and public facilities of the residential building are exempt from service tax subject to the conditions set by the Minister of Finance.

## **Taxable Person**

12. A taxable person is defined as a registered person or a person who is liable to be registered under Section 12 of the Service Tax Act 2018.

13. Any person who provides construction work services and whose service value exceeds the prescribed taxable service threshold amount of RM1.5 million (the threshold value) is considered a taxable person in accordance with the provisions under column (1), Group L, First Schedule, Service Tax Regulations (Amendment) 2025.

## **Threshold Value and Rate of Service Tax**

14. The prescribed threshold value or taxable service value is more than RM1,500,000 within a twelve (12) month period, covering the total value of any construction work services provided, excluding construction work for residential buildings and public facilities related to those residential buildings.

### ***Example 1***

*On 16 July 2025, Contractor A was awarded a contract to construct a shopping complex in Shah Alam, Selangor, with a contract value of RM2.5 billion. Effective from 1 July 2025, construction work services became taxable services. Contractor A determined that the value of the services provided amounted to RM1 billion, while the value of construction materials amounted to RM1.5 billion. Therefore, Contractor A is a taxable person and is required to register as a registered person under Group L, First Schedule, STR 2018.*

### ***Example 2***

*Contractor B is a subcontractor appointed by the main contractor to carry out pipe installation works valued at RM2,100,000. The value of the taxable services relating to the pipe installation works amounts to RM300,000, while*

*the value of goods or materials amounts to RM1,800,000. Contractor B has no other contracts besides this contract. Therefore, Contractor B does not meet the RM1.5 million thresholds. Consequently, Contractor B is not liable to register and is not considered as a taxable person.*

### **Example 3**

*Contractor C is a subcontractor appointed by the main contractor to provide engineering and mechanical work services valued at RM1,600,000. Contractor C is unable to separate the value of the goods from the value of the engineering and mechanical work services. Therefore, Contractor C has reached the threshold value of RM1.5 million and is a taxable person who is liable to be registered.*

15. For the purpose of registration relating to the provision of construction work services, the calculation of the threshold value shall take into account only on the elements of taxable service. The taxable service elements are as follows:

- (i) the total value of construction work services for non-residential or commercial buildings;
- (ii) the total value of construction work services for mixed developments (residential and non-residential buildings); or
- (iii) both element (i) and (ii); and
- (iv) any other value related to construction work services (if applicable).

16. If the value of goods and the value of services in construction work cannot be separated, the entire construction work is taken into account for calculating the threshold value.

### **Example 4**

*AB Building Sdn Bhd (AB) is a construction contractor company and received several construction contracts on 01 July 2025 as follows:*

- i. *Contract for reconstruction work of a shop building in Puchong, Selangor, valued at RM550,000; and*
- ii. *Contract for the construction of 15 low-cost residential buildings in Kuantan, Pahang, valued at RM1,000,000.*

*The total value of construction work services subject to service tax is RM550,000, while the construction work for residential buildings valued at RM1,000,000 is not subject to service tax. Therefore, AB is not required to register under the Service Tax Act 2018 as it does not meet the threshold value of RM1,500,000.*

### **Example 5**

*ABC Sdn Bhd is the main contractor appointed to construct a shop. The total contract value amounts to RM3,000,000 with the following details:*

- *Construction work services: RM2,000,000*
- *Value of building materials (cement, bricks, pipes, etc.): RM1,000,000*

*Accordingly, the threshold value for construction work services is RM2,000,000, and ABC Sdn Bhd is liable to apply for registration as provided under section 12 of the Service Tax Act 2018.*

### **Example 6**

*ABC Sdn Bhd is the main contractor appointed to construct a bridge. The total contract value is RM1,550,000. The contract value is on a lump-sum basis and the value of goods and construction services cannot be segregated. Accordingly, the threshold value for construction work services amounts to RM1,550,000, and ABC Sdn Bhd is liable to apply for registration as provided under section 12 of the Service Tax Act 2018.*

17. The method of calculating the threshold value for registration purposes must take into account the entire value of services on taxable services and services that are granted tax exemption.

### **Example 7**

*Company ABC Sdn Bhd is the main contractor that has signed a contract for a construction project with the government worth RM 5 million, and at the same time has signed a contract with the private sector worth RM 1 million. Construction work services provided to the government and private sectors are taxable services and shall be subject to service tax. However, construction work services provided to the government are exempt from the imposition or payment of service tax.*

*Therefore, for the purpose of calculating the threshold value, the total contract value (government and private) worth RM 6 million (RM5 million + RM1 million) shall be taken into account for registration purposes. Company ABC Sdn Bhd shall be liable to apply for registration as provided under section 12, Service Tax Act 2018.*

18. The rate of service tax for construction work services is subject to six percent (6%) as prescribed under the Service Tax (Tax Rate)(Amendment) Order 2025.

### **Taxable Services Under Construction Work Services**

19. Construction work services subject to service tax include construction works and projects such as the following:

- (i) bridges and jetties
- (ii) roads and highways
- (iii) tunnel
- (iv) sewage
- (v) buildings (mixed-use buildings, offices, hotels and resorts, hospitals, school, factories, and others)
- (vi) dam

- (vii) *oilrig*
- (viii) *airport*
- (ix) *train*
- (x) *port*
- (xi) solar, hydroelectric, power generation
- (xii) telecommunications

*Note: The above list is not exhaustive.*

20. Construction work services typically involve various phases of work from the start to the completion of construction to ensure that the building is built to be strong, safe, functional, and meets the needs of users. These construction phases include the following process of work:

- (i) Preliminary Works
- (ii) Substructure Works
- (iii) Superstructure Works
- (iv) Mechanical & Electrical – (M&E)
- (v) Finishing Works
- (vi) External & Landscaping Works
- (vii) Inspection, Testing, and Commissioning
- (viii) Handover
- (ix) Occupancy

21. Facility or infrastructure maintenance services carried out during the construction period, including maintenance of the construction site as stipulated in the construction contract, is part of construction work services and are subject to service tax under the

category of construction work services

22. For the purpose of calculating service tax, where a contractor issues an invoice that segregates the supply of goods and services—whether in the same invoice or in separate invoices—service tax shall be imposed on the value of construction services only. The value of building materials is not subject to service tax.

23. The determination of the value of building materials shall be based on the actual value of such materials (at cost without any mark-up) and must be supported by relevant documents, such as supplier invoices, contract documents, and other related records.

24. Where the invoice is issued on a lump-sum basis and the value of the supply of building materials and construction services is not segregated, service tax shall be imposed on the entire value of the invoice.

### **Construction Services for Mixed Development**

25. Construction services for mixed development refer to construction works involving a combination of residential buildings, non-residential buildings, including public facilities.

26. Construction work services for residential buildings and public facilities approved by the local authority as part of a mixed development project constitute taxable services.

27. Notwithstanding the above, construction work services relating to mixed development projects are granted an exemption from the payment of service tax on buildings and public facilities related to such residential buildings, subject to the following conditions:

- (a) Verification by a surveyor, architect, or any qualified person authorized under the relevant written law currently in force to determine the following components:

- (i) residential buildings;
  - (ii) non-residential buildings;
  - (iii) public facilities related to residential buildings;
  - (iv) public facilities related to non-residential buildings; and
  - (v) public facilities related to residential and non-residential buildings that are shared.
- (b) The apportionment to determine the portion referred to in item (a)(v) shall be made using the following apportionment method:

$$\frac{\text{Non-Residential Built-Up Area} \times 100}{\text{Total Built-Up Area}} \\ (\text{Residential} + \text{Non-Residential})$$

- (c) The construction service contract between the developer or property owner and the construction contractor must be made in writing, signed, and duly stamped with stamp duty by the Inland Revenue Board of Malaysia (LHDN).
- (d) The contract referred to in item (c) must clearly state that the construction is a mixed development project (comprising residential and non-residential buildings) and must include clauses relating to the scope of work, responsibilities, types of residential building construction, technical specifications, and pricing.
- (e) The developer or property owner must submit the following documents to the main contractor:
- (i) pre-computation plan (pre-comp plan); or
  - (ii) approved planning permission letter issued by the local authority;

- (f) The developer or property owner and the main contractor must comply with any general directive issued by the Director General of Customs.

28. The apportionment method for mixed development (residential and non-residential buildings) is calculated as illustrated below:

**Example 8 : Apportionment Method for Mixed Developments**

<b>Contract Value</b>	=	30,000,000
<b>Value of building materials</b>	=	19,000,000
<b>Value of construction work services</b>	=	11,000,000
<b>The Built-Up area</b>	=	650,000 sq ft
<b>Non-residential Built-Up Area</b>	=	150,000 sq ft
<b>Shared (Mixed-use) Area</b>	=	50,000 sq ft
<b>Residential Area</b>	=	450,000 sq ft

<b>Non-Residential Built-Up Area</b>	100
<hr/>	X
<b>Total Built-Up Area</b>	

<u>150,000</u>	X	100	= 23.08% X 11,000,000
650,000			= 2,538,800 X 6% = 152,328
			<b>Service Tax = RM152,328.00 (Taxable)</b>

<b>Residential Built-Up Area</b>	X	100
<hr/>		
<b>Total Built-Up Area</b>		

<u>450,000</u>	X	100	= 69.23% X 11,000,000
650,000			= 7,615,300 X 6% = 456,918
			Service tax = RM456,918 (Exempted)

<b>Shared (Mixed-Use) Area</b>	X	100
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**Total Built-Up Area**

$$\frac{50,000}{650,000} \times 100 = 7.69\% \times 11,000,000$$

$$= 845,900 \times 6\% = 50,754$$

Service Tax = RM 50,754 (Partly taxable and partly exempt)

**Apportionment of Shared Area Based on Residential and Non-Residential Ratios**

**Non-Residential Portion  
of Shared Area**

$$\frac{(50K/650K) + (150K/650K)}{(600K / 650K)} \times 100 = \frac{7.69\% \times 23.08\%}{92.31\%} \times RM11,000,000$$

$$= RM211,497.91 \times 6\%$$

**Service Tax = RM12,690 (Taxable)**

**Residential Portion of  
Shared Area**

$$\frac{(50K/650K) + (450K/650K)}{(600K / 650K)} \times 100 = \frac{7.69\% \times 69.23\%}{92.31\%} \times RM11,000,000$$

$$= RM634,402.09 \times 6\%$$

Service Tax = RM38,064 (Exempt)

**Total Service Tax Payable = RM152,328 + RM 12,690**

**= RM165,018**

Based on **Example 8**, the contract value is RM30,000,000. Of this amount, the value of construction work services subject to service tax is RM11,000,000. Out of the total built-up area of 650,000 square feet, the non-residential area comprises 150,000 square feet (23.08%), which corresponds to RM2,538,800, with a service tax of 6% amounting to RM152,328.

The residential area comprises 450,000 square feet (69.23%), corresponding to RM7,615,300 of the service value, and this portion is exempt from service tax.

For the shared (mixed-use) area of 50,000 square feet (7.69%), the value of services amounts to RM845,900. This area must be apportioned between the non-residential and residential components. The non-residential portion amounts to RM211,497.91 and is subject to service tax at 6% amounting to RM12,690, whereas the residential portion amounts to RM634,402.09 and is exempt.

Accordingly, the total service tax payable is RM165,018 (RM152,328 + RM12,690), representing the tax charged on the non-residential component and the portion of the shared area attributable to the non-residential use.

### **Example 9**

*ADZ Development Berhad has appointed PQR Building Sdn Bhd through a construction contract to construct a 25-storey building in Kota Emaseri comprising 15 residential floors and 10 floors designated for offices and commercial lots.*

*Construction works relating to the 15 residential floors, including public facilities associated with those residential units, are exempt from service tax. Conversely, the construction works relating to the 10 floors designated for offices and commercial lots are subject to service tax at the rate of 6%.*

*In addition, public facilities shared between both residential and non-residential components including landscaping, piling works, and other related facilities must be apportioned in accordance with the prescribed formula. Service tax shall be imposed on the portion attributable to the non-residential component.*

## **Construction Services for Residential Buildings**

29. Construction services for residential buildings and related public facilities approved by the local authorities solely as residential buildings are not subject to

service tax.

### **Example 10**

*XYZ Construction Sdn Bhd (XYZ) has been awarded a contract to construct a residential building project in Bidor, Perak. As part of the construction of the residential building, XYZ is required to build public facilities such as roads, playgrounds, and recreational amenities within the residential area as stipulated in the construction contract and planning permission letter. The construction services for the residential building, including the construction of related public facilities provided by XYZ, are not subject to service tax.*

### **Example 11**

*Mr. AS has appointed AB Construction Enterprise to renovate the interior design and electrical wiring of his residential house. These renovation services fall under residential construction services that are not subject to service tax.*

### **Example 12**

*A residential homeowner located within a designated mixed development area has appointed a contractor to carry out interior design renovations and electrical wiring modifications in their home. These renovation works constitutes a taxable service, however they are exempted from service tax.*

## **Tax Treatment on Engineering, Procurement, Construction, and Commissioning (EPCC) Contracts for the Construction of Ships or Platforms**

30. Any contractor involved in the construction of ships or platforms under an Engineering, Procurement, Construction, and Commissioning (EPCC) contract is allowed to self-determine whether the activity should be categorised as a manufacturing activity or construction work, subject to the following conditions:

- (i) If the company regards the EPCC project as “construction work services such

as the construction of ships or platforms,” then it shall be categorised as a construction work services project (EPCC / design & build) and may enjoy the B2B exemption facility, if eligible; or

- (ii) If the company classifies the EPCC project as a manufacturing activity, that is, as the “manufacturing of ships or platforms,” then the project shall be treated as a sale of goods and shall be subject to sales tax, and will not be eligible for the B2B exemption facility under construction work services.

### **Example 13**

*On 1 August 2025, PT Sdn Bhd was awarded an EPCC contract worth RM200 million by a petroleum company to carry out an offshore oil platform construction project. The company classified the contract as a construction work services project (design & build). Effective 1 July 2025, construction work services are taxable services under Group L, First Schedule, Service Tax Regulations 2018. Therefore, this contract is subject to service tax at a rate of 6%.*

### **Example 14**

*On 15 September 2025, SH Engineering Bhd was awarded a contract worth RM150 million to carry out an EPCC project for the construction of a cargo ship. The company classified the project as ship manufacturing/production. Therefore, the contract is categorised as a sale of goods and is subject to sales tax at the prescribed rate, and it is not subject to service tax. Consequently, any B2B exemption under construction work services is not applicable.*

## **Taxable Services for Registered Manufacturers Carrying Out Installation Work**

31. Any sales tax-registered manufacturer carrying out manufacturing of goods together with installation work shall be subject to the following service tax treatment:

- (i) For installation contracts that separate the goods and services components (installation work), service tax shall only be imposed on the installation work portion. The registered manufacturer is required to be registered for service tax under the First Schedule, Group L, Service Tax Regulations 2018 (Amendment 2025) and charge service tax at a rate of 6% to the customer for the installation work services.

### **Example 15**

#### ***Itemized Invoice by a Registered Manufacturer***

*ABC Sdn Bhd is a registered manufacturer that supplies lifts and provides installation services for these lifts in an office building. ABC Sdn Bhd has separated the goods and installation service components as follows:*

*Invoice:*

- *Lift: RM180,000*
- *Installation charge: RM20,000*

*Therefore, service tax at 6% is imposed only on the installation charge (RM20,000).*

- (ii) For contracts related to installation work that do not separate the goods and service components (installation work):
- a. If the service provider is a registered manufacturer, the installation work is considered part of the goods price. Therefore, sales tax is imposed on the entire contract value (lump sum).

### **Example 16**

#### ***Lump Sum Invoice by a Registered Manufacturer***

*DEF Sdn Bhd is a sales tax-registered manufacturer that supplies and installs large water tanks and issues a single lump sum invoice to the*

*customer amounting to RM120,000. Therefore, the supply and installation of the water tank is subject to sales tax based on the total value of RM120,000, and no service tax is imposed.*

b. If the party supplying and performing the installation work is not a registered manufacturer, the goods price shall be considered as part of the installation work. Therefore, service tax must be imposed on the total contract value.

#### **Example 17**

##### ***Lump Sum Invoice by a Non-Registered Manufacturer***

*GHI Services Sdn Bhd (not a registered manufacturer) purchases air-conditioning equipment from another factory and carries out installation work in a commercial building owned by a customer. The company issues a single lump sum invoice of RM150,000 (goods + installation charge). Therefore, service tax at 6% is imposed on the total value of RM150,000.*

### **Service Tax Treatment on Repair and Maintenance Services During Construction**

32. The service tax treatment for repair and maintenance work during construction is subject to service tax at a rate of 6% under construction work services (Group L) or at a rate of 8% under repair and maintenance services (Group G) as follows:

- (i) If the maintenance or repair services are not included within the scope of the construction contract and there is a separate contract specifying the maintenance or repair services, the work shall be categorised as repair or maintenance services under Group G (Professional) and subject to service tax at a rate of 8%; or
  
- (ii) If the repair or maintenance work is carried out during or within the construction

period under the same contract, the maintenance or repair service is part of the construction work and subject to service tax at a rate of 6%.

- (iii) If maintenance or repair services are carried out during the construction period but the maintenance contract is a new contract and separate from the original construction contract, then the work is categorised as maintenance or repair services under Group G (Professional) at a rate of 8%;

### **Example 18**

#### ***Repair Work as Part of a Construction Contract***

*Company A is constructing a non-residential building. During the construction, damage occurs to the concrete structure, and Company A is required to repair it. Since the repair work is found to be within the scope of the original contract, this repair work is considered construction work services under Group L.*

### **Example 19**

#### ***Repair Work Carried Out by a Different Contractor***

*Company T has appointed Company A to carry out construction work services for a factory. The factory has been completed and it was found that there was damage that needed to be repaired because the damage was still within the defects liability period (DLP). However, during the DLP period, Company A failed to carry out the responsibility to carry out the defect repair work. Therefore, Company T appointed Company E to carry out the repair work.*

*The repair work carried out by Company E is a repair work that is subject to group G (Professional) and should be subject to service tax at the rate of 8% because the contract between Company T and Company E is separate and unrelated to the contract between Company T and Company A.*

### **Example 20**

#### ***Maintenance Work During Construction by the Original Contractor***

*LAN Company has appointed AHM Company to carry out water supply pipe*

*construction services in an industrial area. After the construction work was completed, it was found that there was damage that needed to be repaired and AHM Company carried out the repair work within the defects liability period (DLP). The repair work is a repair work categorized under Group L (Construction Work) and shall be subject to service tax at the rate of 6% because the repair work carried out during the construction period is part of the scope of work of the original construction contract.*

## **EXEMPTION FROM SERVICE TAX PAYMENT**

### **Construction Work Services for Residential Buildings and Related Public Facilities in Mixed Development Projects**

33. Service tax exemption is granted for the construction of residential buildings and related public facilities within a mixed development project. The commercial components remain subject to service tax, and the determination of the construction work value for the related public facilities is made using the apportionment method. Please refer to Example 8, paragraph 28.

34. This service tax exemption is eligible for any developer / landowner acting as the developer, provided that the conditions stated in paragraph 27 are met.

35. Regarding the conditions stated in paragraph 27, the service tax exemption is only applicable to construction work services provided by the construction contractor. Professional or consultancy services are not eligible for this exemption.

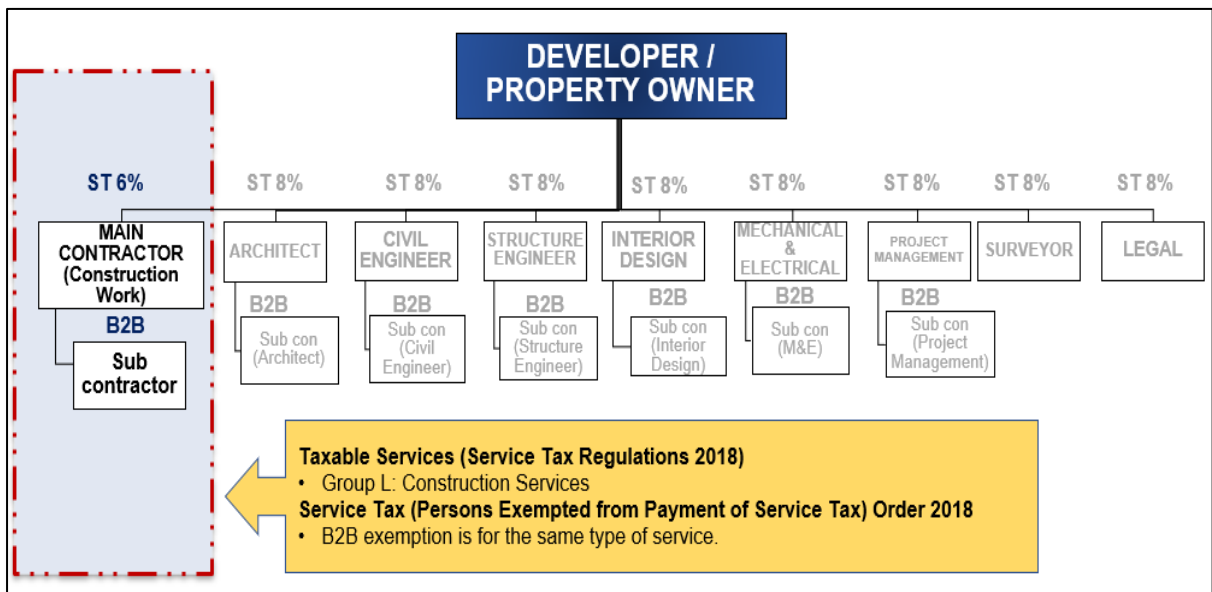
### **Business-to-Business (B2B) Services**

36. In accordance with the provisions stated in item 9 of the Service Tax (Persons Exempted from Payment of Tax) (Amendment) Order 2025, exemption from the payment of service tax for business-to-business (B2B) services is eligible to be granted if the following prescribed conditions are met:

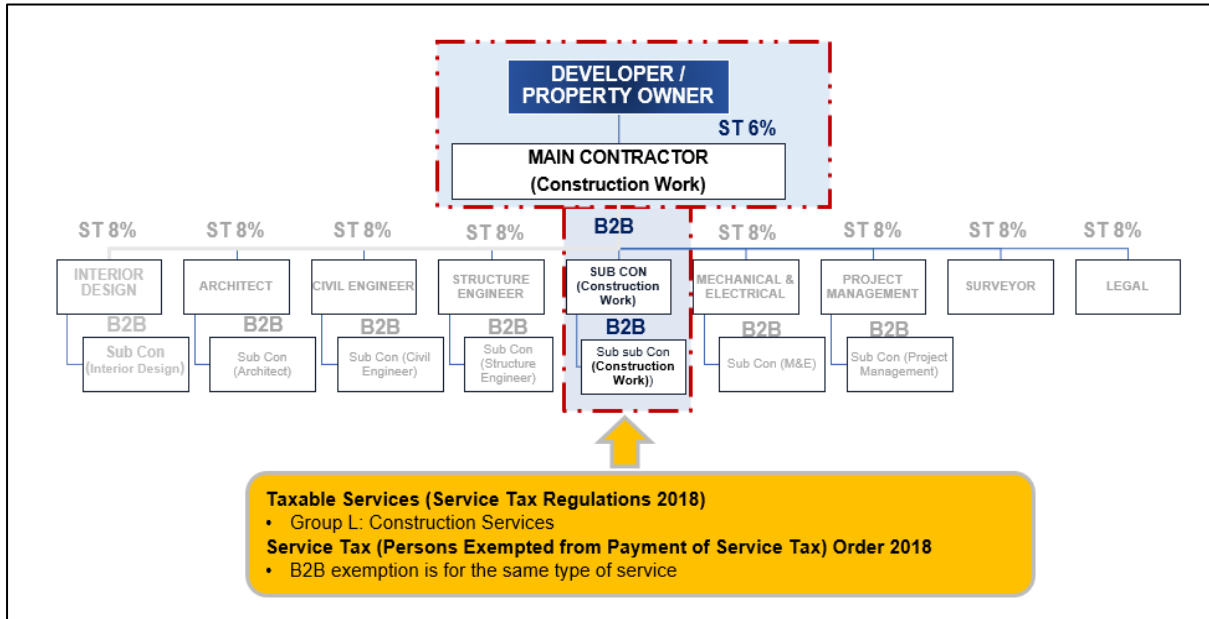
- (i) both the provider and recipient of the construction services are registered persons;
- (ii) the construction services are provided to a registered person;
- (iii) both the provider and recipient of the construction services provide the same construction services as specified in the taxable services under Group L, First Schedule, Service Tax Regulations 2018; and
- (iv) the exempted construction services are not for own consumption.

37. This exemption from service tax payment is specifically granted to recipients of construction services obtained from providers of construction services within the same category under Group L, First Schedule, Service Tax Regulations 2018, as illustrated in the following diagrams of Model 1 - Traditional Contract Method and Model 2 - Design and Build Contract Method:

**Model 1: Traditional Contract Method**



**Model 2 : Design and Build Contract Method**



38. Under the traditional contract method and the design-and-build contract method, the developer or property owner appoints a main contractor (a registered person) to provide construction work services. The main contractor then appoints subcontractors (registered persons) to perform a portion of the construction work. Therefore, the construction work services provided by the subcontractor to the main contractor are eligible for exemption from the imposition of service tax in accordance with Item 9 of the Service Tax (Persons Exempted from Payment of Tax) Order 2018 (Amendment 2025).

**Example 21**

*SS Project Builder Sdn Bhd (SPB) is a contractor providing construction services and is also a registered person under Group L, First Schedule, PCP 2018. SPB was appointed as a subcontractor by the main contractor, AB Construction Berhad (ABC), which is also a contractor providing construction services and a registered person under Group L, First Schedule, Service Tax Regulations 2018. Both companies are responsible for constructing commercial lots in Bandar Baru Bangi, Selangor. The construction services provided by*

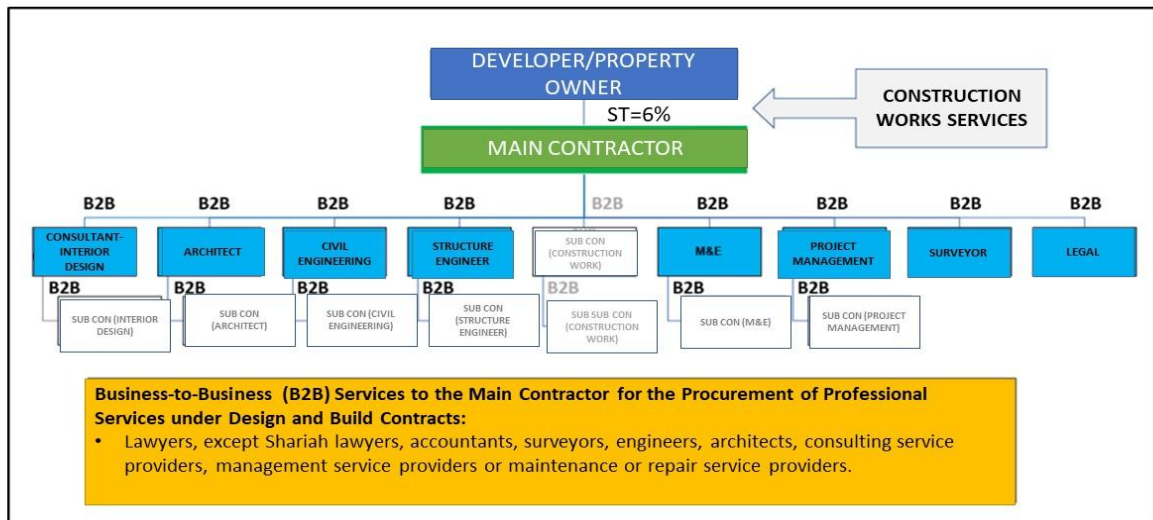
*SPB to ABC are eligible for exemption from service tax. ABC shall charge service tax to the developer.*

### **Business-to-Business (B2B) Services to the Main Contractor for the Procurement of Professional Services under Design and Build Contracts**

39. Effective 1 July 2025, in line with the provisions of Service Tax Policy No. 3/2025 (Amendment No. 3), a service tax exemption (Business-to-Business (B2B)) has been granted to main contractors from paying service tax for the procurement of certain professional services under design and build contracts.

40. This service tax exemption is limited to professional services directly related to the construction project only. The main contractor is exempted from paying service tax for professional services procured from persons registered under Group G, as follows (Refer to Figure 1: Service Tax Exemption under Design & Build Model):

- (i) Lawyers, except Shariah lawyers;
- (ii) Accountants;
- (iii) Surveyors;
- (iv) Engineers;
- (v) Architects;
- (vi) Consulting service providers;
- (vii) Management service providers; or
- (viii) Maintenance or repair service providers.



**Figure 1: Service Tax Exemption under the Design & Build Model**

41. The main contractor is eligible for the service tax exemption if the following conditions are met:

- (i) The main contractor must be a registered service tax person;
- (ii) The consultants listed under items 1, 3, 4, 5, 6, 7, 9, or 13 in column (1), Group G, First Schedule, Service Tax Regulations 2018, must be registered for service tax;
- (iii) The consultancy services provided by the consultant (professional services) eligible for this exemption are the taxable services listed in items (a), (c), (d), (e), (f), (g), (i), or (n) in column (2), Group G, First Schedule, Service Tax Regulations 2018;
- (iv) The main contractor has obtained copies of the planning permission letter, letter of offer, contract, acceptance letter, and other relevant documents for the design and build construction from the developer;
- (v) The reference number of the planning permission letter and design and build contract offer must be stated on the invoice;

- (vi) The exemption is only valid for the approval period of the planning permission referred to in paragraph (iv);
- (vii) The exemption is only granted for construction projects based on the design and build model;
- (viii) The main contractor must charge service tax to the developer or property owner on construction work services based on the total contract value at the prescribed tax rate;
- (ix) The exemption may be applied directly under self-compliance; and
- (x) The main contractor must comply with any General Rulings issued by the Director General.

### **Construction Work Services to the Federal and State Governments**

42. Construction work services provided to the Federal Government and State Governments are taxable services but are granted an exemption from service tax payment. Therefore, any person providing construction work services to the Federal and State Governments is not required to charge service tax, but must account for the value of the construction work as an exempt service in column (2), Item 18(c), SST-02 Statement.

43. Although construction work services to the Federal and State Governments are exempt from service tax payment, the value of the construction work involved must still be taken into account as taxable service value for the purpose of threshold determination for registration.

44. For the purpose of service tax exemption, the Federal and State Governments referred to are based on Section 3 of the Interpretation Acts 1948 & 1967 [Act 388]. This includes:

- (i) Ministries

- (ii) Departments under the Federal or State Government (e.g., Public Works Department (JKR), Department of Irrigation and Drainage (JPS), Immigration Department, Royal Malaysian Customs Department (JKDM))
- (iii) Police or Armed Forces

45. Meanwhile, there are government agencies that carry out specific government, administrative, regulatory, commercial, or social functions, known as statutory bodies, which are bodies established by federal or state law (act, ordinance, or enactment). A statutory body is a separate legal entity from the federal or state government, even though it performs public functions. Therefore, any construction work services provided to any statutory body are subject to service tax.

46. Examples of federal government statutory bodies include the Employees Provident Fund (EPF), SOCSO (PERKESO), Majlis Amanah Rakyat (MARA), Inland Revenue Board (LHDN), Tabung Haji, and others. Examples of state government statutory bodies include Perbadanan Kemajuan Negeri Selangor (PKNS), Perbadanan Putrajaya, Penang Development Corporation (PDC), Johor Corporations, Sabah Land Development Board (SLDB), Kuching Port Authority (Sarawak), public universities (UIAM, UM, UKM, USM, UiTM, UPM & others) and others.

### **Provision of Services to Local Authorities (PBT)**

47. Local Authorities (PBT) that received construction work services from any construction contractor are exempted from paying service tax for the period from 1st July 2025 to 30th September 2025. Accordingly, any service provider regarding construction work services to the PBT during that period must not charge the service tax and shall report the value of the service as an exempt service in column (2), Item 18(c) in the SST-02 Return.

48. Therefore, from 1st October 2025, the service tax exemption to PBT will no longer be in effect, and all providers of construction work services by persons registered to PBT must charge service tax on the construction work services provided.

49. The value of construction work services provided to local authorities that are exempt from service tax, namely during the period 1st July 2025 to 30th September 2025, must be taken into account in calculating the value of taxable services in determining the threshold value for registration purposes.

### **Non-Reviewable Contract**

50. For construction work contracts that are non-reviewable contract, service tax exemption is granted for one (1) year, starting from 1st July 2025 to 30th June 2027. This exemption shall be subject to the conditions set in accordance with the powers under section 34(3)(a) of the Service Tax Act 2018.

51. Furthermore, for any services provided from 1st July 2027 under any construction work contract of non-reviewable contract, such services shall be subject to service tax.

52. Construction work contracts that do not have any opportunity to review are eligible for service tax exemption for the period from 1st July 2025 to 30 June 2027 if they meet the prescribed conditions as follows:

- (a) The service provider is a person registered for service tax;
- (b) The contract does not contain a price review clause or value adjustment mechanism;
- (c) The contract is made in writing, signed before 1 July 2025, and duly stamped with stamp duty by the Inland Revenue Board of Malaysia (LHDN) before 31 December 2025;
- (d) The contract clearly states:
  - i) the type of service provided;
  - ii) the fixed contract value;
  - iii) the duration of the contract; and
- (e) The contract is still in force after 1st July 2025.

53. If this contract includes a Variation Order (VO), the service tax exemption is applicable until 30th June 2026 if:

- (a) the variation does not change the overall contract value; and
- (b) the variation has been incorporated into the contract through a written document signed before 1 July 2025 and duly stamped with stamp duty by LHDN before 31 December 2025.

### **Example 22**

*Developer XYZ and Contractor KLM signed a construction service contract dated 1 June 2023 and stamped by the IRB on 1 July 2023. The contract did not have a price review clause and the contract value was fixed. A Variation Order (VO) was issued for the addition of technical features that did not increase the value of the project. The VO document was signed and stamped by the IRB on 1 February 2025. After the assessment was made, this VO was approved as a technical Variation Order without a change in value. Since items 4, (f)(i) and (ii) of Service Tax Policy No. 3/2025 (Amendment No. 3) are complied with, hence the service tax exemption can be enjoyed until 30 June 2027. The VO documents and all related documents must be kept as an evidence of compliance.*

### **Example 23**

Construction company AA entered into a contract for the construction of an office building on 1 January 2025 with a contract value of RM2,000,000. The contract is a non-reviewable contract. On 15 August 2025, the client issued a Variation Order (VO) to change the type of floor finishing material from brand X to brand Y, without any change to the original contract value. Accordingly, the VO qualifies for service tax exemption.

Based on the same contract, on 20 October 2025, the client issued another

Variation Order (VO) for additional works involving the installation of a security system that was not included in the original contract scope. The additional value of the works amounted to RM550,000, resulting in a change to the original contract value. Therefore, this VO is subject to service tax at the rate of 6%.

54. If this contract has an Extension of Time (EOT), service tax exemption is eligible until 30th June 2027 if:

- (a) the EOT is based on the original contract which meets the conditions in paragraphs (52) (a) to (d);
- (b) the original contract value remains unchanged;;
- (c) the original contract expires before 1st July 2025; and
- (d) the EOT document is signed before 1 July 2025 and duly stamped with stamp duty by LHDN before 31 December 2025.

#### **Example 24**

*A construction contract between BZK Company and its contractor company was signed and stamped by the IRB on 1 May 2024. This contract is a contract that has no opportunity to be reviewed. The original contract expiration date is on 31 May 2025. However, an Extension of Time (EOT) document, which is an additional 90 days from the original date, was granted and stamped by the IRB on 15 April 2025. The EOT did not involve additional costs.*

*After an assessment was made, it was found that this EOT only extended the construction period without adding any additional costs and the EOT was stamped by the IRB before the original contract expired or on 31 December 2025.*

*The EOT contract is eligible for service tax exemption under item 3, Service Tax Policy No. 3/2025 (Amendment No. 3). The company involved must ensure*

*that all EOT approval documents are kept as records.*

### **Construction Works For Places Of Worship and Related Public Facilities**

55. Under Item 7 of Service Tax Policy No. 3/2025 (Amendment No. 3), The Minister of Finance, pursuant to paragraph 34(3)(a) of the Service Tax Act 2018 exempts the payment of service tax with effect from 01 July 2025 for the construction of buildings used solely for religious worship and public facilities solely related to worship buildings.

56. An exemption from payment of service tax for the construction of buildings and related public facilities used solely for religious worship is subject to the following conditions:

(a) The service provider of construction work services is a service tax registered person under Group L;

(b) The construction contract shall clearly state that the construction is a project for the construction of a building for religious worship, including public facilities related to such religious building;

(c) The implementation of this exemption shall be determined based on the construction contract, the approved planning permission (development order) issued by the Local Authority (PBT), the Pre-Com Plan, and/or any other relevant documents relating to the construction project of the building for religious worship.

(d) The construction of any non-residential building for commercial purposes (for example, shop lots) within the same area as an existing religious worship building shall not be eligible for exemption under this provision.

(e) Any building for religious worship that is developed together with a commercial building, whether within the same building or within the same site, shall not be eligible for exemption under this provision. However, the

administrator of such religious worship building may make a separate application for service tax exemption on the constructions works of the religious worship building to the Tax Division, Ministry of Finance; and

(f) Any other additional operational conditions as may be determined or imposed by the Director General of Customs through Public Rulings or Guidelines.

### **Example 25**

*ABC Sdn. Bhd. is a registered person under Group L has been appointed to construct a mosque, including its main prayer hall, ablution facilities, toilets, and a religious learning room (not for commercial) by the mosque administrator. The construction contract clearly states that the project is solely for religious worship purposes, and the approved planning permission from the Local Authority confirms the same. Therefore, the mosque administrator is exempted from payment of service tax to ABC Sdn. Bhd..*

57. The service tax exemption under Item 7, of STP No. 3/2025 (Amendment No.3) is strictly confined to construction works that are clearly and exclusively intended for religious worship purposes. The presence of commercial elements, unclear documentation, or mixed-use developments may disqualify the project from exemption or require separate approval from the Ministry of Finance.

### **Example 26**

*DEF Construction Sdn. Bhd. was awarded a contract to construct a temple for worship purposes. Besides constructing a temple, DEF Construction Sdn. Bhd is also required to construct 10 units of shop lots intended for rental income. Although the temple itself is used for religious worship, both the temple and the shop lots are constructed as part of a single development project.*

*As the development includes commercial buildings, the construction works do not qualify for exemption as stated under Item 7, STP 3/2025 (Amendment No.3) and service tax is chargeable on the whole construction services.*

### **Example 27**

*A church is constructed within a development site that also includes a separately planned multi-purpose hall. The multi-purpose hall can be used for religious purposes, public community service, solemnization / wedding ceremony etc. The construction contract and plans clearly distinguish between the church building and the multi-purpose hall.*

*As the development includes commercial buildings, the construction works do not qualify for exemption as stated under Item 7, STP 3/2025 (Amendment No.3) and service tax is chargeable on the whole construction services.*

*However, the church administrator may submit an application for exemption to the Tax Division, Ministry of Finance and the application must be supported by the relevant construction documents such as approval letter from the relevant local authority, an approved planning permission, building plan, construction contract etc to apply for an exemption for payment of service tax on such construction works.*

*In this situation, the exemption is subject to the approval of The Ministry of Finance's assessment.*

### **Renovation Works of Non-Residential Buildings Converted into Places of Worship.**

58. Under Item 8 of Service Tax Policy No. 3/2025 (Amendment No. 3), the service tax exemption from payment is granted on the renovation works carried out on existing non-residential buildings that are converted into buildings used for religious worship. This exemption is specifically intended to facilitate the conversion of completed non-residential premises such as shops, offices, warehouses, or halls into places of worship is subject to the conditions as below:

- (a) The provider of construction work services is a service tax registered person under Group L;
- (b) The contract documents or any other documents related to the construction works shall clearly state that the construction works are renovation works carried out on any non-residential building for the purpose of conversion into a building for religious worship.
- (c) For completed non-residential premises/buildings (whether or not a Certificate of Completion and Compliance (CCC) has been issued) where service tax had previously been imposed on the construction works, and which are subsequently converted for use as a place of worship, such conversion shall not qualify for any refund of service tax;
- (d) Renovation works carried out on completed (existing) non-residential buildings that are renovated and converted into spaces / places of worship are eligible for service tax exemption;
- (e) Construction works involving the extension or addition of spaces / places of worship to the existing structure of a non-residential building are eligible for service tax exemption; and
- (f) Any other additional operational conditions as may be determined or imposed by the Director General of Customs through Public Rulings or Guideline.

### **Example 28**

*GHI Construction Sdn. Bhd. is a registered person under Group L, was appointed as a contractor to convert an existing shop lot into a religious prayer hall. The renovation works include internal layout changes, prayer area preparation, and*

*basic facilities for worshippers. Such renovation works are exempted from payment of service tax under item 8, STP 3/2025 (Amendment No.3).*

### **Example 29**

*JKL Bina Sdn. Bhd. is a registered person under Group L are instructed to renovate a part of warehouse into a prayer room. The construction contract is clearly documented as renovation works for religious prayer room purposes. The renovation works related to the worship space are eligible for service tax exemption, subject to compliance with all conditions under item 8, STP 3/2025 (Amendment No.3).*

59. The service tax exemption under Item 8, STP No. 3/2025 (Amendment No.3) applies only to renovation works carried out on existing completed non-residential buildings converted into religious worship buildings. The completed non-residential buildings whether or not CCC has been issued where service tax has previously been paid on the construction works, no refunds are allowed.

### **Example 30**

*An office building was fully constructed in 20 January 2026, and service tax was imposed and paid on the construction works for the period of work done between September 2025 to January 2026. After the completion of the office building in 2026, the building owner decides to renovate the premises and convert it into a church. The renovation works for the conversion may qualify for service tax exemption. However, the service tax paid on the office building does not qualify for any refund.*

## **Responsibilities of Registered Persons**

60. Any service tax registered person shall issue an invoice and charge service tax to his customers as provided under section 21 of the Service Tax Act 2018. In

accordance with Regulation 10(1A) of the Service Tax Regulations 2018, regarding the content of the invoice, any person who is eligible for exemption from paying service tax, such registered person shall:

(a) Issue an invoice with the following additional details:

- (i) customer name and address;
- (ii) customer service tax registration number; and
- (iii) amount of service tax exempted:

(b) Declare the total value of services exempt from service tax in column 18(c), SST-02 Return. Please refer to the Guide to Filling in SST-02 Return (Manually /Amendment) at <https://mysst.customs.gov.my>

## **TRANSITION PERIOD**

### **Impact of Service Tax Changes**

61. The determination of service tax for construction work services during the service tax transition shall be based on Regulation 3A, Service Tax Regulations 2018.

62. Construction work services that are fully completed before the effective date of taxable services are not subject to service tax.

63. Construction work services that are fully implemented after the effective date of service tax are subject to service tax.

64. For construction work services that commence before the effective date and extend beyond the effective date of the construction work services, service tax shall be levied based on apportionment as follows:

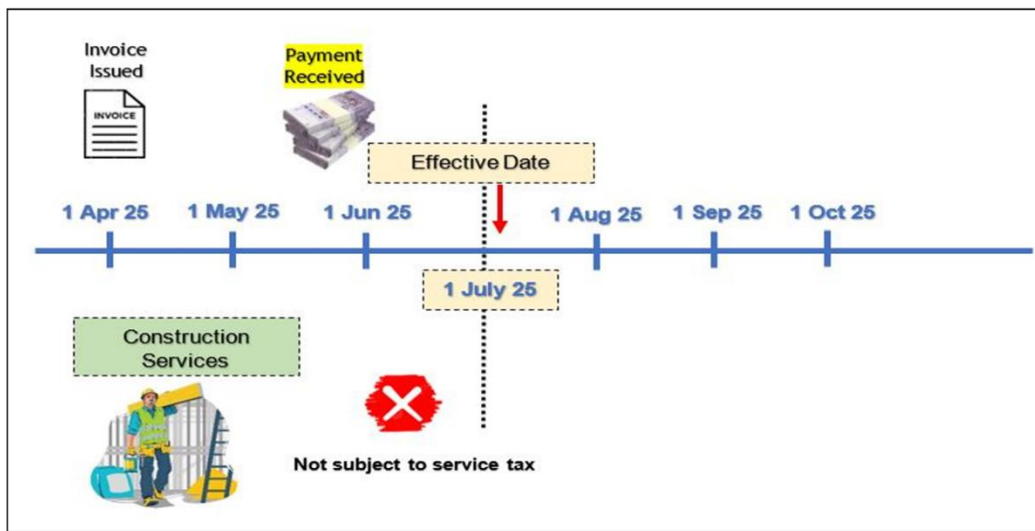
- (i) construction work services provided before the effective date are not subject to service tax.

(ii) construction work services provided on/after the effective date are subject to service tax.

65. The division of construction works before and after the effective date shall be certified by any architect, surveyor or any certified person authorized under the written law for the time being in force for the determination of such division.

66. Any payment received before the effective date of imposition of tax on construction work services provided on/after the effective date, such payment is not subject to service tax.

67. Construction work services, issuance of invoices and payments fully completed before the effective date are not subject to service tax. (Refer to Figure 2)



**Figure 2**

68. If construction work services are provided and invoices are issued before the effective date, the payment received after the effective date are not subject to service tax. (Refer to Figure 3)

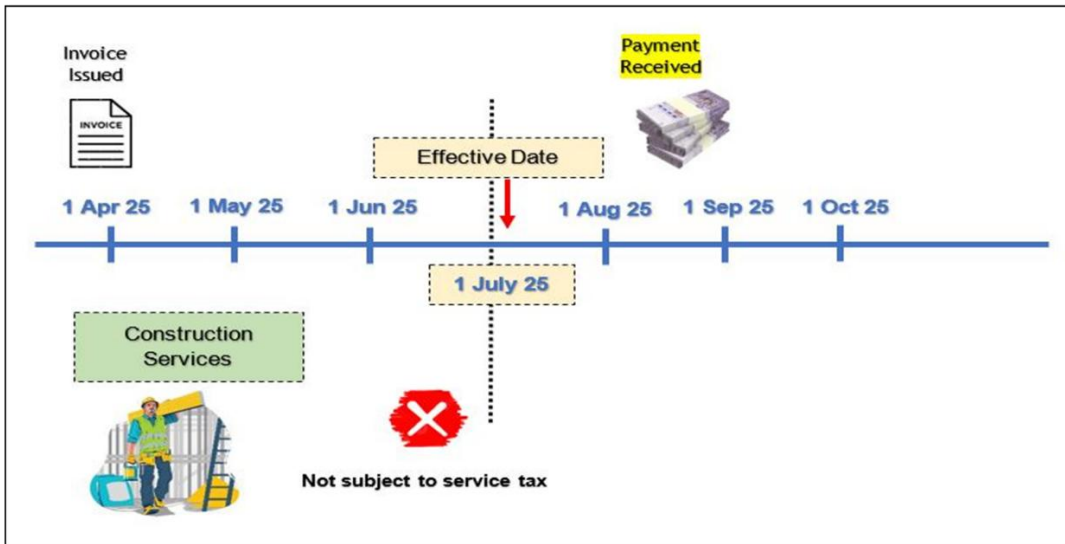


Figure 3

69. If construction work services are provided before the effective date and invoices are issued after the effective date, payments made after the effective date are not subject to service tax. (Refer to Figure 4)

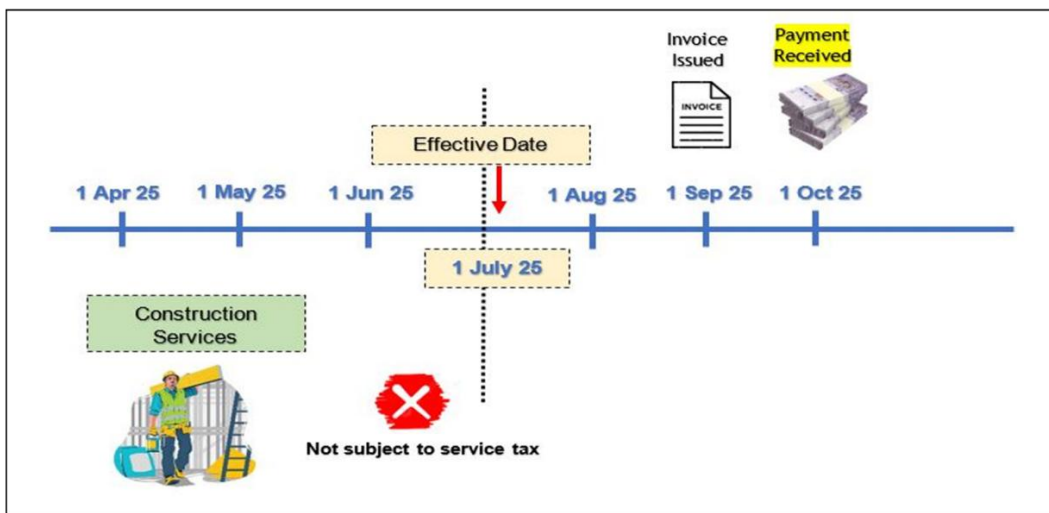


Figure 4

70. If construction work services are provided after the effective date and the invoices are issued before the effective date, payments made before the effective date are not subject to service tax. (Refer to Figure 5).

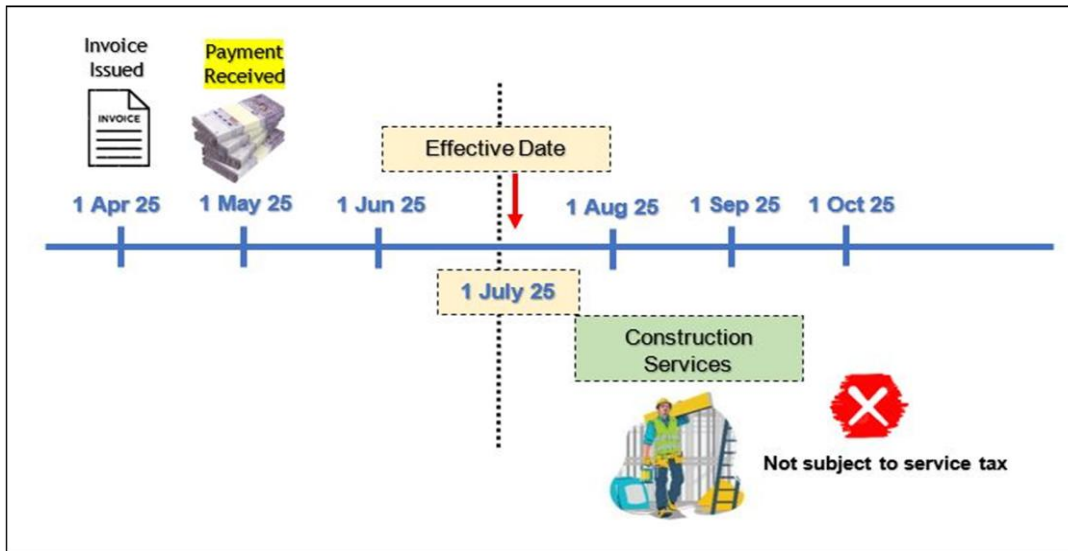


Figure 5

71. If construction work services are provided and payments are received after the effective date, invoices issued before the effective date are subject to service tax. (Refer to Figure 6)

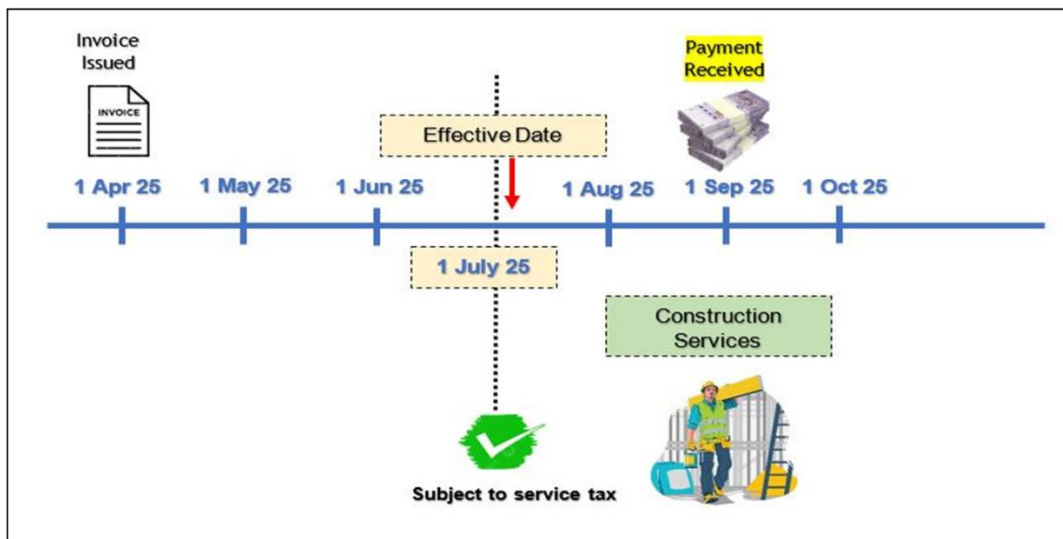


Figure 6

72. Construction work services, invoices and payments received in full after the effective date shall be subject to service tax. (Refer to Figure 7)

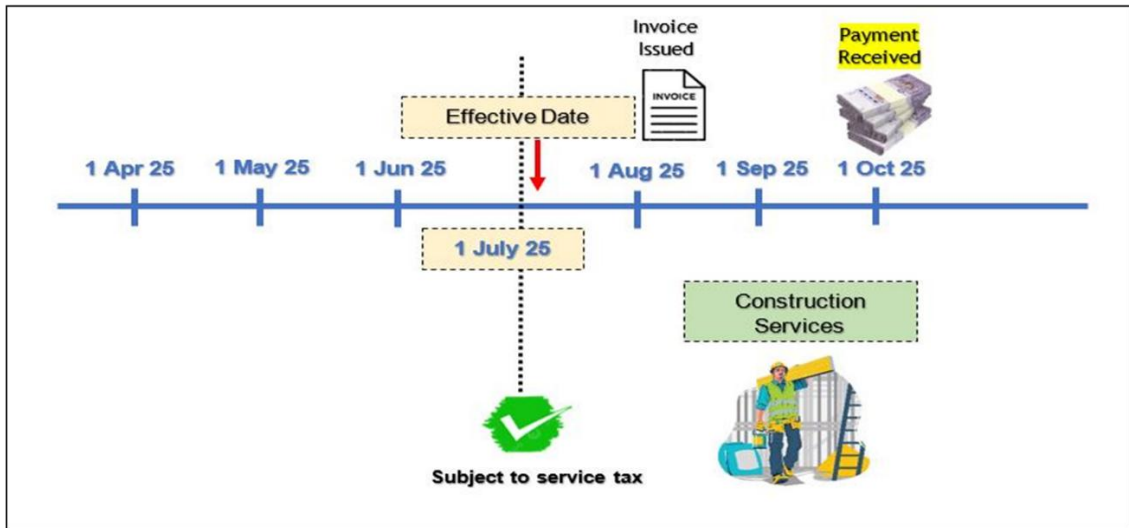


Figure 7

73. For the provision of construction work services which commence before the effective date and extend beyond the effective date, service tax shall be levied on the portion of the service for the period after the effective date. (Refer to Figure 8).

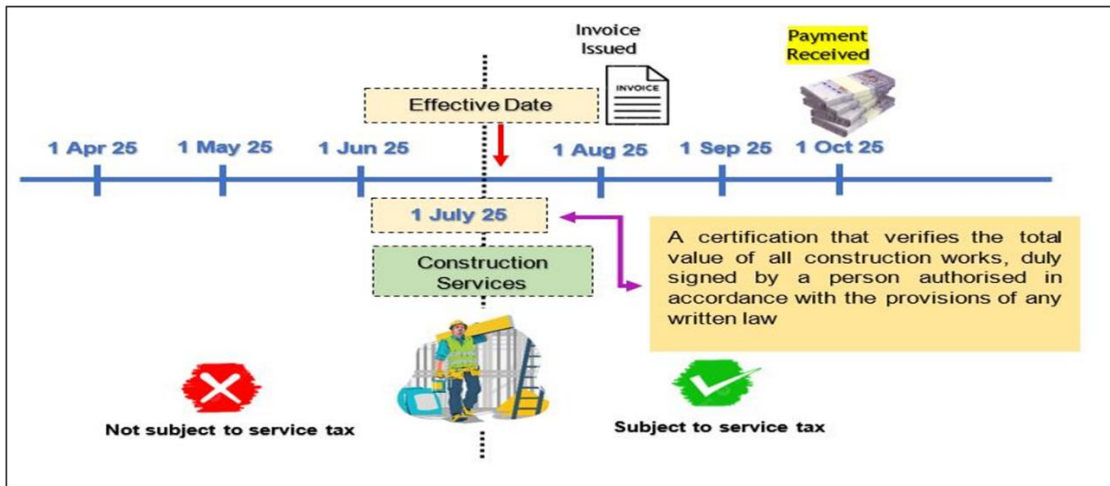


Figure 8

74. However, any payment received before the effective date of taxable services for construction work in relation to any services provided on/after the effective date of taxable services, such payment is not subject to service tax.

75. In relation to construction work services extending beyond the effective date,

the value of all work and materials permanently incorporated or installed on the construction site or civil engineering works shall be determined at the point of commencement of the effective date of the construction work services becoming taxable services.

76. For the purpose of determining the value of the construction work, the registered person shall, when required by the service tax officer, provide a certificate document confirming the value of all work and materials permanently incorporated or installed on the construction site or civil engineering work signed by any architect, surveyor or any authorized person as provided under any written law for the time being in force.

### **Treatment Regarding the Retention Sum**

77. In most construction contracts, there is a provision that allows for the withholding of a portion of the amount due to the contractor. This amount is known as 'retention sum'. Retention sum refers to a portion of the progress payment that is not paid to the contractor until certain conditions set out in the contract are met, or until any identified defects in the work have been fully rectified.

78. Construction contracts provide that the contractor may submit a claim for progress payments in accordance with the progress of the work carried out. Payment to the contractor is usually made after the relevant part of the work has been satisfactorily completed and certified by the relevant authorized party. Construction contracts also allow the developer or owner to withhold a certain percentage of each progress payment as retention sum pending satisfactory completion of the entire contract. This retention sum is a certain amount withheld at each stage of the progress payment, and will only be released to the contractor after the developer or owner is satisfied with the results of the work carried out, i.e. after the construction project is fully completed or after the expiry of the specified liability period.

79. Any payment or retention sum withheld on works that have been certified as completed is considered as partial payment not yet received or payment not fully

received, as the amount is part of the contract price that has not yet been received by the contractor for the completed works. Therefore, service tax should be charged and accounted for based on the value of the services charged.

### **Example 31**

*CBA Contractor has submitted a claim for construction services that have been completed and certified by the architect for RM100,000. However, CBA Contractor has only received RM90,000. Therefore, CBA Contractor is required to account for and pay 6% service tax (RM5,400) in accordance with the prescribed taxable period. Service tax on the remaining payment of RM10,000 shall be accounted for and paid at the time the payment is received or paid on the day following the end of the 12-month period from the date the construction services were provided (if payment has not yet been received), whichever is earlier.*

80. If any payment or part payment not received including retention sum on work completed and still not received by the contractor / subcontractor within 12 months from the date of rendering of construction work services, service tax will become due and payable on the day after the expiry of the 12 month period, even if the customer has not yet paid it to the contractor. This is in accordance with the provisions under subsection 11(2) of the Service Tax Act 2018.

81. For the purpose of retention sum, the date on which construction work services are deemed to have been rendered is as stated in the date the interim certificate is issued (if the project requires an interim certificate), or on the date the work is certified complete by the relevant party (if no interim certificate is issued).

### **Example 32**

*On 30 November 2025, Contractor A company handed over the work to Developer B for the purpose of claiming progress payment for the first phase of the construction project worth RM100,000.00. If the agreed retention sum payment is 10% of the value of the claim, then the payment that Contractor A*

*will receive from Developer B is RM90,000.00 only. The retention sum of RM10,000.00 will be held by Developer B until the end of the liability period.*

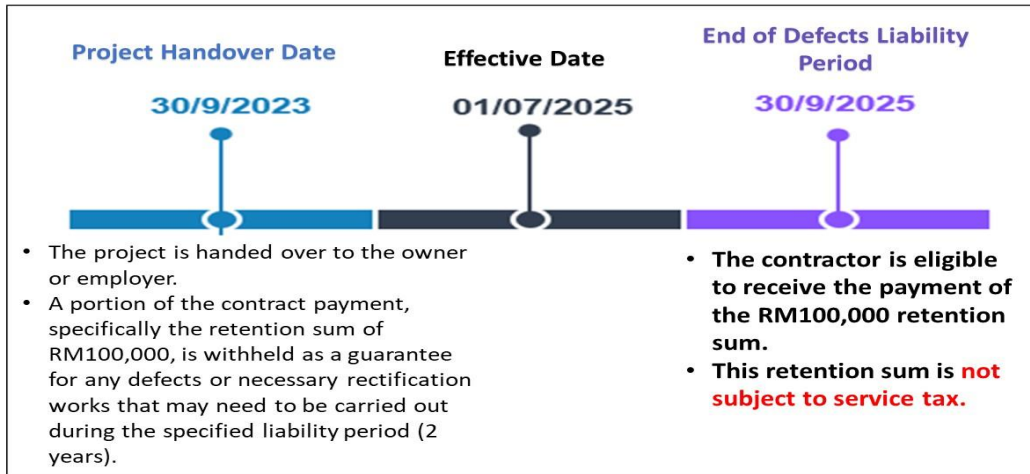
*If Contractor A does not receive all or part of the payment within twelve (12) months from the date of handover of the work, then the service tax will become due and payable on the day following the 12-month period. It is the responsibility of Contractor A to account for and pay tax on the retention sum to Customs.*

82. For construction projects where progress claims are made in stages throughout the construction period or only claimed after the work is fully completed, but there is no element of retention sum and the retention sum is replaced by a deposit (bond) or bank guarantee, then the deposit or bank guarantee is not subject to service tax. Registered persons (contractors or subcontractors) are required to charge service tax on the value of construction work services that have been performed.

### **Example 33**

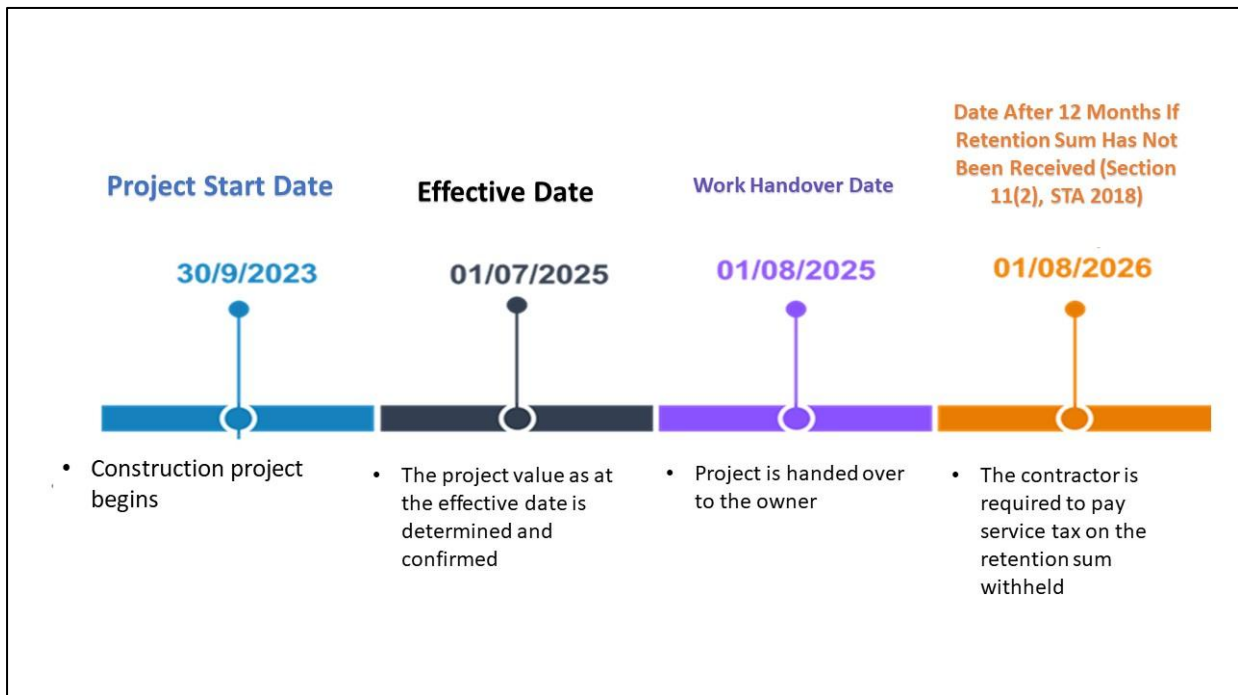
*Contractor company A issues an invoice to Developer B for the purpose of claiming progress payment for the first phase worth RM100,000.00. The agreed deposit (bond) payment is 10% of the value of the claim, so the payment that Contractor A will receive from Developer B is RM100,000.00. Contractor A only needs to charge service tax of 6% on RM100,000.00, which is RM6,000.00. Meanwhile, the deposit (bond) is not subject to service tax during the final claim that will be made after the expiry of the liability period.*

83. For services during the transition period, which refers to construction contracts that have been signed and project handovers made before the effective date, but the liability period specified extends beyond the effective date, then the withholding money is not subject to service tax. (Refer to Figure 9)



**Figure 9**

84. For the implementation of construction projects signed before the effective date and beyond the effective date, service tax shall be levied on the payment of retention sum relating to construction work services after the effective date based on Regulation 3A, Service Tax Regulations 2018. (Refer to Figure 10)



**Figure 10**

## Liquidated and Ascertained Damages (LAD)

85. Liquidated and Ascertained Damages (LAD) means a fine or compensation imposed on a contractor or supplier who fails to fulfill a contractual obligation as stated in the contract. Among the failures to fulfill a contractual obligation that can be imposed by LAD are as follows:

- (a) delay in completing the project not in accordance with the schedule as specified in the contract; or
- (b) delay in supply, failure to supply, or the quality of the services supplied not in accordance with the specifications in the contract.

86. Failure to complete construction work within the specified period will result in the contractor being liable to pay certain damages to the client for the period of work that has not yet been completed.

87. Any compensation for poor quality work, delay penalties, certain damages, etc. caused by delay in completing a construction project are not subjected to service tax. Such payment is made by agreement between the parties involved to compensate one party for the inconvenience, loss or damage suffered.

88. Liquidated an Ascertained Damages (LAD) is not subject to service tax.

### Example 34

*Company A signs a contract with Company B to complete a building within 6 months. In the contract, it is stated that if there is a delay, Company A must pay RM10,000 per day as liquidated damages. If there is a delay of 10 days, then Company A must pay RM100,000 to Company B. This delay penalty is not subject to service tax.*

## **SERVICE TAX TREATMENT ON CONSTRUCTION WORK SERVICES IN SPECIAL AREAS AND DESIGNATED AREAS**

89. For the purpose of service tax, construction services provided within Special Areas and Designated Areas are subject to service tax treatment as stipulated in Part VIII and Part IX of the Service Tax Act 2018. The tax treatment for Special Areas (“SA”) or Designated Areas (“DA”) is based on the principal place of business of the company.

90. The principal place of business (PPoB) refers to a primary location, namely the headquarters, which functions as the center for administration, direction, control, and coordination of a company’s business activities. The headquarters serve as the nerve center of the company, housing senior management, accounting, control, and coordination of the company’s daily operations. Fundamentally, the PPoB refers to the company’s headquarters.

91. Construction services provided within a Special Area by a company registered with its principal place of business in Malaysia are subject to service tax.

### **Example 35**

#### *Construction services provided within a Special Area*

*DEF Construction, a company registered with its principal place of business in Kuala Lumpur, has been awarded a contract worth RM 5 million for the construction of an additional cargo building at KLIA located within the Special Area. Construction services carried out within the Special Area are subject to service tax in accordance with the provisions of section 55, ACP 2018.*

92. Construction services provided within a Designated Area by a company registered with its principal place of business in the Designated Area are not subject to service tax.

### **Example 36**

Construction services provided within a Designated Area

*AB Construction Sdn Bhd, a company registered with its principal place of business in Langkawi Island, has been awarded a contract worth RM 1.5 million for the construction of an additional building for a shopping complex in Padang Mat Sirat, Langkawi Island. Construction services provided in the Designated Area by a company registered with its principal place of business in the Designated Area are not subject to service tax in accordance with the provisions of section 48, ACP 2018.*

93. Construction services provided within a Designated Area by a company registered with its principal place of business in Malaysia are subject to service tax.

**Example 37**

Construction services provided within a Designated Area

*DE Construction Sdn Bhd, a company registered with its principal place of business in Penang, has been awarded a contract worth RM 1.6 million for the construction of an additional building for a shopping complex in Padang Mat Sirat, Langkawi Island. The construction services provided in the Designated Area by the company registered with its principal place of business in Penang are subject to service tax in accordance with the provisions of section 50, ACP 2018.*

**INVOICE ISSUANCE**

94. Every registered person is required to issue an invoice containing the details specified in Regulation 10, Service Tax Regulations 2018, to the customer in respect of the transaction, within one year from the date the taxable service is provided or any

extension period approved by the Director General under the provision of section 21(1) of ACP 2018.

95. A registered person may apply in writing to the Director General to omit any details from the invoice that are not required to be stated.

96. The issuance of invoices electronically, e-invoices, or in printed paper form is allowed.

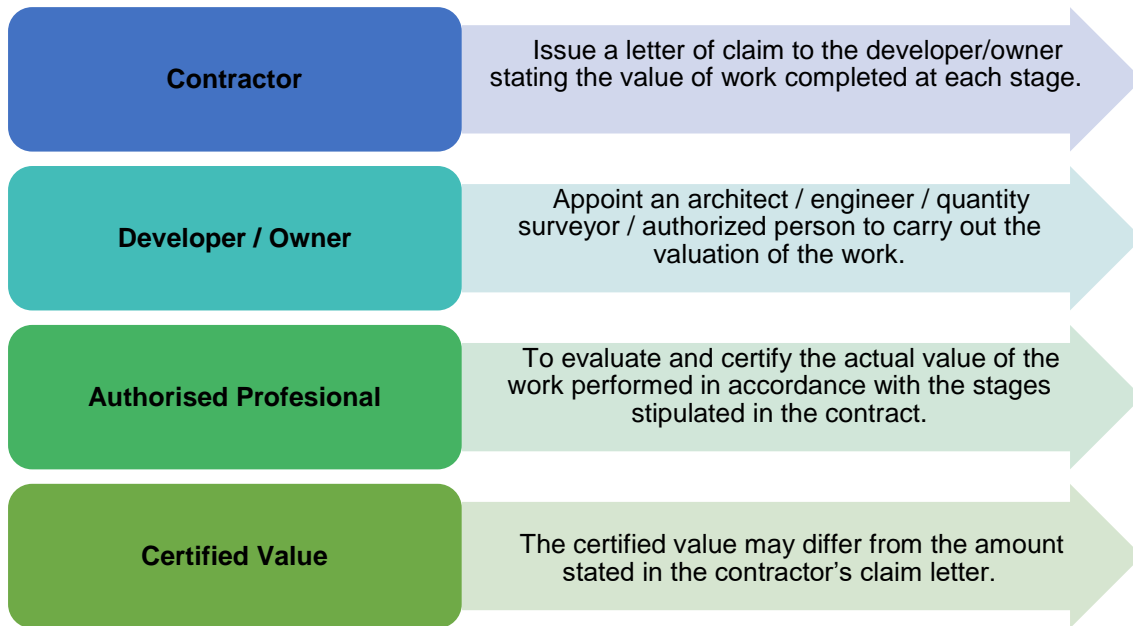
### **Methods of Management and Issuance of Invoice**

97. The management and issuance of invoices in construction projects involve several key steps. First, the initial contract between the project owner and the contractor sets out the terms for invoicing and payment. Payments are made based on the progress of work achieved, where the contractor submits a claim letter to the project owner according to the schedule specified in the contract. Upon receiving the claim letter, the project owner appoints their representative to assess the value of the completed work.

98. Payment will be made according to the certified value of the work, while a portion of the payment amount will be withheld (retention sum) as a guarantee for the contractor's responsibility to the project owner and will be paid upon full completion of the project with all work certified to meet the specified contract requirements.

99. After project completion, the final invoice is issued for the final payment claim, including the retention sum.

100. The business flow and invoice issuance under construction service activities are illustrated as shown below:



101. The contractor will submit a payment claim letter to the developer or owner, stating the value of work completed for each stage of construction. The client will then appoint either an architect, engineer, or an authorized person to carry out an assessment and certify the actual value of the work performed. The value certified by the authorized person may differ from the amount stated in the payment claim submitted by the contractor.

102. For the purpose of service tax assessment, a registered person providing construction work services shall issue an invoice to the developer or property owner based on the actual value of the construction work services which has been verified according to the progress of the work that has been completed.

## **SERVICE TAX DUE**

103. The service tax charged to the customer becomes due and must be declared and paid to the Royal Malaysian Customs Department when payment is received from the customer, in accordance with Section 11(1) of the Service Tax Act 2018.

### **Example 38**

*LTM Construction Sdn Bhd (LTM) is a construction contractor company that obtained the main contract from ASM Properties Berhad (ASM) to build a sports complex in Putrajaya valued at RM5 million. LTM, being a registered person for service tax, provided construction work services for the sports complex. LTM issued a progress billing invoice to ASM on 1 October 2025 amounting to RM200,000. ASM made the payment on 2 December 2025. LTM must declare and pay the service tax on the payment received on 2 December 2025 on or before 31 January 2026 (for the taxable period of November–December).*

104. However, under Section 11(2) of the Service Tax Act 2018, if no payment is received within twelve (12) months from the date the construction work service is provided, it becomes the responsibility of the registered person to account for and make payment to the Royal Malaysian Customs Department on the value of the unpaid amount on the day after the end of the 12-month period.

105. In addition, the registered person may apply in writing to the Director General of Customs for approval to use the invoice basis in determining the tax point for the taxable services provided, in accordance with the provision under Section 11(1A) of the Service Tax Act 2018.

106. A registered person who is approved to use the invoice basis must account for service tax consistently based on the invoice basis only.

107. For imported taxable services, the service tax becomes due at the time payment is made or the invoice is received for the service, whichever is earlier.

### **Example 39**

*Company A received an invoice from a foreign service provider on 1 September 2025 for services that were received on 1 August 2025. On 30 October 2025, Company A made payment to the foreign service provider.*

Therefore, the invoice date of 1 September 2025 is deemed as the tax due date.

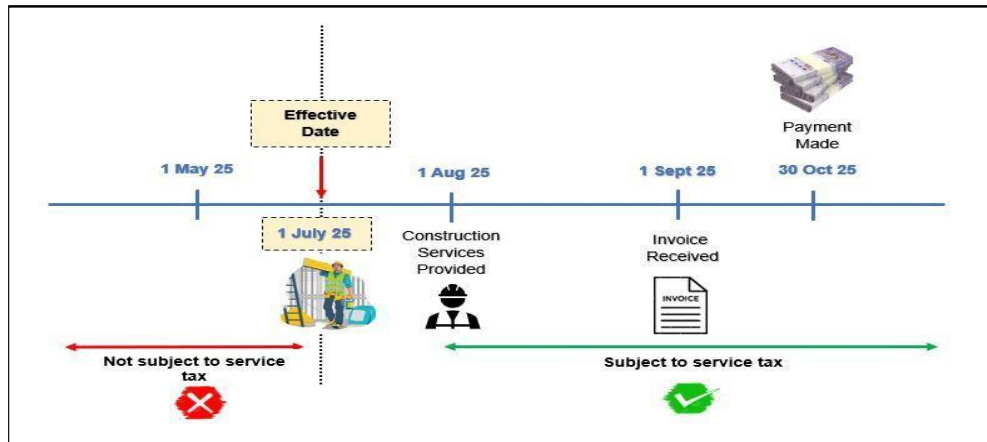


Figure 11

#### Example 40

SKV Company acquired taxable services from a foreign service provider on 1 August 2025. On 1 September 2025, SKV Company made the payment to the foreign service provider, and the invoice from the foreign service provider was received on 30 October 2025. Therefore, the date of payment made by SKV Company, which is 1 September 2025, is considered the date that tax becomes due.

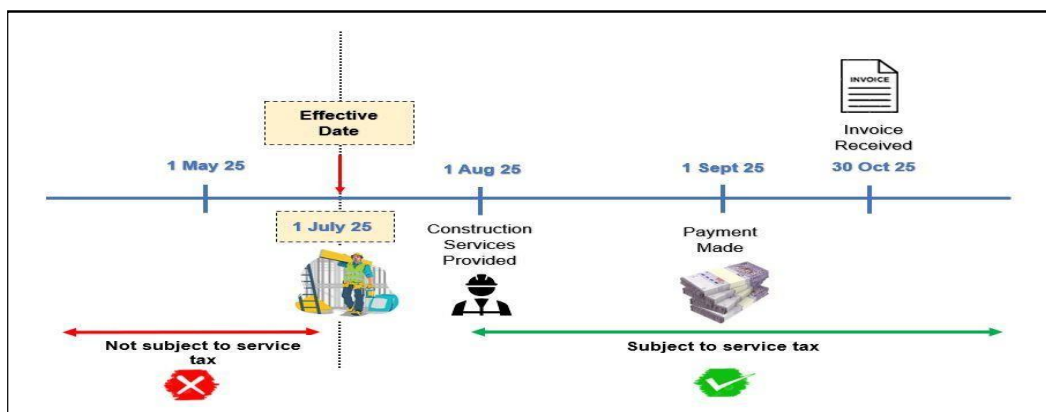


Figure 12

## REGISTRATION AND RESPONSIBILITIES OF REGISTERED PERSONS

108. Construction work service providers who have reached the prescribed taxable service value are liable to register under Section 12 of the Service Tax Act 2018. Therefore, construction work service providers who are liable to register must apply for registration as stipulated under Section 13 of the Service Tax Act 2018.

109. For existing registered persons who provide taxable services and are registered under any other group, they must update their taxable service information by adding construction work services in the MySST system and thereafter charge service tax on construction work services starting from the effective date of this new service.

110. A registered person is responsible for:

- (i) Charging service tax on taxable services;
- (ii) Issuing invoices or receipts as prescribed under the Service Tax Act 2018 to customers for any transactions related to the provision of taxable services;
- (iii) Submitting the SST-02 service tax return electronically and paying the service tax before the prescribed taxable period due date; and
- (iv) Keep proper records relating to service tax transactions for 7 years from the date the record is issued

111. For more information regarding the responsibilities of a registered person, please refer to the **General Service Tax Guide**.

## FREQUENTLY ASKED QUESTIONS (FAQs)

1. **Q : How to become a registered person?**

A : Anyone who provides construction work services, excluding residential building construction and public areas related to that residential building, and where the value of the service exceeds the threshold value of RM1,500,000, must apply for registration online via the link: [www.mysst.customs.gov.my](http://www.mysst.customs.gov.my).

2. **Q : How to submit the return and make tax payment?**

A : A registered person must submit the SST-02 service tax return through the electronic service (MySST), by post, or courier service to the Customs Processing Centre in Kelana Jaya. Payment methods include electronic banking, cheque, or bank draft. For payments using cheques or bank drafts, they must be sent by post or courier service to the Customs Processing Centre in Kelana Jaya. For more detailed, please refer to Ketetapan Umum Bil. 1/2025 – Borang, Penyata, Cara Permohonan dan kaedah bayaran di bawah Akta Cukai Perlancongan 2017, Akta Cukai Jualan 2018 dan Akta Cukai Perkhidmatan 2018.

3. **Q : Is a registered person required to issue an invoice for construction work services provided?**

A : Yes. A registered person must issue an invoice for all construction work services performed. Please refer to the General Guide for further details.

4. **Q : My company has become a registered person under Group L effective 1 September 2025. However, the value of my company's services in September 2025 and October 2025 did not reach the threshold value of RM1.5 million. Do I need to charge service tax**

**even though within this period such services has not reach the threshold?**

A : The company must charge service tax in invoices in September 2025 and October 2025 because it has become effective as a person registered under Group L, First Schedule of PCP 2018. The threshold value serves to determine whether a business needs to be registered under the STA 2018 or not.

5. **Q : What services are not subject to service tax under construction work services?**

A : Construction services for residential buildings and public facilities related to residential buildings are not subject to service tax. However, construction services for residential buildings within mixed developments are considered taxable services but are granted an exemption from service tax payment.

6. **Q : Who is exempted from paying service tax under construction work services?**

A : Those who are exempted from paying service tax under construction work services are the Federal Government and the State Governments. Meanwhile, Local Authorities (PBT) are exempted from paying service tax for the period from 1 July 2025 to 30 September 2025.

7. **Q : I have received a contract from a Government-Linked Company (GLC) to construct an office building. In addition, I have also obtained a construction contract from a statutory body to build commercial lots. Are construction works for GLC and statutory body projects subject to service tax ?.**

A : For the purpose of service tax, a GLC or statutory body is not considered the Federal or State Government. Therefore, construction services for commercial projects of GLCs and statutory bodies are

subject to service tax, and your company must charge service tax on the construction services provided.

8. **Q : What is the service tax rate applicable to construction services?**

A : Construction services are subject to service tax at a rate of 6%.

9. **Q : How is the value of construction services determined?**

A : The value of construction services is determined based on the actual value of the construction services provided. If the invoice issued to the customer separates the goods and services components, service tax is only imposed on the construction service component.

However, if the invoice is issued as a lump sum without separating the goods and services components, the entire invoice amount is subject to service tax.

10. **Q : What will happen if I issue an invoice that does not separate construction materials and construction services?**

A : Service tax is imposed on the total value of the construction services, including materials, if the invoice issued to the customer does not separate the goods and services components.

Example:

ASM Sdn Bhd awarded a contract to LTM Construction Sdn Bhd to construct a commercial building. Under the contract agreement, the value of the construction services, including materials and labor, is RM6,000,000. An invoice was issued for the full contract value without separating the construction materials and services. Therefore, the total service tax charged is RM360,000 (RM6,000,000 × 6%).

11. **Q : If I purchase the raw materials myself and hire a contractor to construct a commercial building, does the value of the construction service include the raw materials?**

A : The value of construction services subject to service tax is based solely on the construction service fees.

12. **Q : When should I account for service tax?**

A : You are required to account for service tax on construction services at the time payment is received for taxable services provided by a registered person to the customer. However, if you have been approved by the Director General of Customs to use invoices as the accounting basis, you must account for the service tax on the date the invoice is issued.

13. **Q : When should I submit the service tax return and make payment to Customs?**

A : Service tax returns and payments must be submitted to Customs every two months according to the prescribed taxable period.

14. **Q : I am a contractor providing full construction services for residential buildings. Do I need to register?**

A : No, you do not need to register because construction services for solely residential buildings are not taxable. However, you must register if the construction services for residential buildings are part of a mixed development project (residential and non-residential) and the value of the services exceeds the prescribed threshold (Exceeded RM1.5M).

15. **Q : Are construction services that receive B2B exemptions and exemptions for services provided to the Federal Government, State Governments, or Local Authorities taken into account when calculating the threshold for construction services?**

A : Yes. Construction services that receive exemptions are still considered taxable services, and these exemptions must be taken into account when calculating the threshold for registration purposes. The value of these exempted taxable services must also be declared in box 18(c) of the SST-02 return by all registered persons.

16. **Q : I am a contractor in Kuala Lumpur and provide construction services to build commercial buildings in Designated Areas (Langkawi, Tioman, Pangkor, or Labuan) and Special Areas (Free Zones, Licensed Warehouses, Licensed Manufacturing Warehouses, Joint Development Areas, and Petroleum Bases). Am I required to charge service tax?**

A : Yes, you are required to charge service tax on these construction services. The provision of construction services in Designated Areas (DA) — Langkawi, Tioman, Pangkor, Labuan, or Pulau 1 — and Special Areas (Free Zones, Licensed Warehouses, Licensed Manufacturing Warehouses, Joint Development Areas, and Petroleum Bases) by any contractor whose principal place of business is in Malaysia is subject to service tax.

17. **Q : Are contractors located in Designated Areas and Special Areas who provide construction services in Malaysia required to register and charge service tax to their customers?**

A : Yes, any contractor whose principal place of business is in a Designated Area or Special Area and who provides construction services in Malaysia is required to register under Section 12 of the Service Tax Act 2018 if the taxable services provided exceed the prescribed threshold. Once the contractor is registered, they must charge and account for service tax on construction services provided to their customers in Malaysia.

18. **Q : When and how should I account for service tax for a progressive payment contract that involves the issuance of certificates related to work performed?**

A : Service tax for construction services under a progressive payment scheme, which involves issuing certificates for work performed, must be charged and accounted for at the time the payment is received. If payment is not received within 12 months from the date the service was provided, the service tax becomes due and must be paid on the day following the end of the 12 month period.

19. **Q : A construction contract allows customers, such as developers or individuals, to withhold a percentage from each progressive payment until the entire contract is satisfactorily completed. Is this retention or withheld money subject to service tax?**

A : Yes, retention sum is subject to service tax. Therefore, the contractor must charge service tax on the withheld payment. If the retention sum is not received within 12 months from the date the service was provided, the registered person must account for and pay the service tax on the day following the end of the 12 month period.

20. **Q : I have accounted for and paid service tax to RMCD on the retention sum based on the invoice issued in accordance with the certificate of work done. Do I need to charge service tax again when I claim the retention sum after the period ends?**

A : Any service tax that has been accounted for and paid on the retention sum according to the invoice issued, service tax does not need to be charged again when the retention sum is released.

21. **Q : What is the service tax treatment for compensation and out-of-court settlements?**

A : Compensation and out-of-court settlements paid due to breach of warranty or delays in completing a contract, which are of a punitive or damages nature, are not considered taxable services. Therefore, service tax is not imposed on such compensation or settlements.

However, if any claim is related to charges for construction services, it shall be subject to service tax.

22. **Q : Is compensation imposed for delays in completing work subject to service tax?**

A : No, compensation imposed due to delays in completing a construction project is not subject to service tax.

23. **Q : What is the service tax treatment for progressive payments under any construction contract entered into before the effective date?**

A : Service tax must be imposed on construction services provided on or after the effective date. The value of construction work carried out before the effective date is not subject to service tax.

24. **Q : What is the service tax treatment for retention sum related to construction services spanning two periods, before and after the effective date?**

A : The portion of retention sum under a construction contract relating to construction services provided before the effective date is not subject to service tax. However, if the provision of construction services extends beyond the effective date, service tax must be imposed on the portion of the retention payment related to construction services provided after the effective date, in accordance with Regulation 3A of the Service Tax Regulations 2018.

25. **Q : Engineering, Procurement, Construction, and Commissioning (EPCC) projects are a procurement model used in large and**

**complex projects such as industrial plant construction, power stations, and other public infrastructure, where the main contractor is responsible for all aspects (design, procurement, construction, and testing) and delivers the completed project to the project owner. Are EPCC projects subject to service tax under construction services?**

A : Yes, EPCC projects are considered construction services and are subject to service tax under Group L, First Schedule, Service Tax Regulations 2018 – Construction Services.

For EPCC projects based on design-and-build contracts, service tax exemptions are granted to certain subcontractors and consultants if all the conditions for the exemption are met. Please refer to item 5 of Service Tax Policy No. 3/2025 (Amendment No. 3) for further details.

26. **Q : What is the tax treatment for a registered manufacturer (RM) in relation to taxable construction materials (subject to sales tax) if the same manufacturer also acts as a subcontractor in a construction project (supply and installation)? Is the manufacturer considered to be providing construction services (subject to service tax) or selling goods (subject to sales tax)?**

A : Any registered manufacturer who engages in manufacturing activities and also performs installation work directly to the end user shall have the entire activity subject to sales tax at the prescribed rate.

If the registered manufacturer sells the construction materials only to a subcontractor, then the goods shall be subject to sales tax at the prescribed rate.

Any registered manufacturer who carries out manufacturing activities and includes installation work directly to the end user, and is able to separately itemize the price of the goods and the value of the installation

service in the invoice issued to the customer, shall have the goods subject to sales tax while the installation service shall be subject to service tax

**27. Q : What is meant by a “construction contract without the opportunity for review?”**

A : A “construction contract without the opportunity for review” refers to any written contract or agreement that does not contain provisions for a general review of the supply of services for a specified period until an opportunity for review arises. For further information, please refer to item 3, Service Tax Policy No. 3/2025 (Amendment No. 3).

**28. Q : Company B offers the sale of air conditioning products along with installation services in commercial buildings. The pricing details stated in the invoice have separated the cost of the air conditioners from the installation services. What is the tax treatment for the services provided?**

A : A service tax of 6% will be imposed only on the installation services

## **INQUIRY**

For any inquiries related to this guide, please contact:

### **Internal Tax Division**

Cawangan Khas

Royal Malaysian Customs

Department Level 6, Tower A,

Suasana PjH

Jalan Tun Abdul Razak, Presint 2

62100 Putrajaya.

## **FURTHER ASSISTANCE AND INFORMATION RELATED TO SST**

Further information can be obtained from:

- (i) SST Website: <https://mysst.customs.gov.my>
  
- (ii) Customs Call Center:
  - Hotline : 1 300 88 8500
  
  - Tel : 03-8882 2100/ 2300/ 2500
  
  - Email : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)

### Amendments List

No.	Guide dated 9 Jun 2025	Guide dated xx Februari 2026
1	TERMINOLOGY	“TERMINOLOGY” is replaced with “DEFINITIONS”.
2	SERVICE TAX TREATMENT	“SERVICE TAX TREATMENT” is replaced with “IMPOSITION OF SERVICE TAX”
3	Paragraphs 6 ,10,11 & 13	Editorial amendments to Paragraphs 6, 10, 11 & 13.
4	Examples 1 and 2	Updates made to Examples 1 and 2.
5	-	Insertion of a new example – Example 3.
6	-	Insertion of a new paragraph – Paragraph 15.
7	Example 3	Renumbering of Example 3 to Example 4.
8	-	Insertion of new examples – Examples 5 & 6.
9	Paragraphs 15 to 19	Renumbering of Paragraphs 15 to 19 as Paragraphs 16 to 20.
10	-	Re-structuring of sentences in Paragraph 20.
11	-	Insertion of new paragraphs – Paragraphs 21 to 23.
12	Paragraph 20	Renumbering of Paragraph 20 as Paragraph 24.
13	-	Re-structuring of sentences in Paragraph 24.
14	Paragraph 21	Renumbering of Paragraph 21 as Paragraph 25.

15	-	Re-structuring of sentences in Paragraph 25.
16	Paragraph 22	Renumbering of Paragraph 22 as Paragraph 26.
17	-	Re-structuring of sentences in Paragraph 26.
18	-	Insertion of a new paragraph – Paragraph 27.
19	-	Insertion of a new example – Example 7.
20	Example 4	Renumbering of Example 4 as Example 8.
21	-	Re-structuring of sentences in Example 8.
22	Paragraph 23	Renumbering of Paragraph 23 as Paragraph 28.
23	Examples 5, 6 and 7	Renumbering of Examples 5, 6 and 7 as Examples 9, 10 and 11.
24	-	Insertion of new paragraphs – Paragraphs 29 to 34.
25	-	Insertion of new examples – Examples 12 to 19.
26	Paragraphs 24, 25 and 26	Renumbering of Paragraphs 24, 25 and 26 as Paragraphs 35, 36 and 37.
27	Example 8	Renumbering of Example 8 as Example 20.
28	Paragraphs 27 and 28	Paragraphs 27 and 28 are deleted.
29	-	Insertion of new paragraphs – Paragraphs 38, 39 and 40.

30	-	Insertion of a new figure – Figure 1.
31	Paragraphs 29 and 30	Renumbering of Paragraphs 29 and 30 as Paragraphs 41 and 42.
32	-	Re-structuring of sentences in Paragraphs 41 and 42
33	-	Insertion of new paragraphs – Paragraphs 42 to 59.
34	-	Insertion of new examples – Examples 21 to 29.
35	Paragraphs 31, 32, 33 and 34	Renumbering of Paragraphs 31 to 34 as Paragraphs 60 to 63.
36	-	Insertion of a new paragraph – Paragraph 64.
37	Paragraphs 35 to 47	Renumbering of Paragraphs 35 to 47 as Paragraphs 66 to 77.
38	Figures 1 to 7	Renumbering of Figures 1 to 7 as Figures 2 to 8.
39	Paragraph 48	Paragraph 48 is deleted and replaced with new paragraphs – Paragraphs 78 to 81.
40	-	Insertion of new examples – Examples 30 to 32.
41	Paragraphs 49 and 50	Renumbering of Paragraphs 49 and 50 as Paragraphs 82 and 83.
42	Figures 8 and 9	Renumbering of Figures 8 and 9 as Figures 9 and 10.
43	Paragraphs 51 and 52	Deleted.
44	Paragraphs 53, 54, 55 and 56	Renumbering of Paragraphs 53 to 56 as Paragraphs 84 to 87.

45	Example 9	Renumbering of Example 9 as Example 33.
46	Paragraph 57	Deleted.
47	Paragraphs 58 to 70	Renumbering of Paragraphs 58 to 70 as Paragraphs 88 to 100.
48	Examples 10 to 12	Renumbering of Examples 10 to 12 as Examples 34 to 36.
49	METHODS OF INVOICE MANAGEMENT AND ISSUANCE	“METHODS OF INVOICE MANAGEMENT AND ISSUANCE” is replaced with “METHODS OF MANAGEMENT AND ISSUANCE OF INVOICE”
50	-	Insertion of new paragraphs – Paragraphs 101 and 102.
51	Paragraphs 71 to 79	Renumbering of Paragraphs 71 to 79 as Paragraphs 103 to 111.
52	Examples 13 to 15	Renumbering of Examples 13 to 15 as Examples 37 to 39.
53	Figures 10 and 11	Renumbering of Figures 10 and 11 as Figures 11 and 12.
54	Questions 5 and 6	Answers updated.
55	-	Insertion of a new question and answer – Question 7.
56	Questions 6 and 7	Renumbering of Questions 6 and 7 as Questions 8 and 9.
57	Question 8	Renumbering of Question 9 as Question 10 and re-structuring of the question and answer.

58	Question 9	Renumbering of Question 9 as Question 11 and re-structuring of the question and answer.
59	Questions 10 and 11	Renumbering of Questions 10 and 11 as Questions 12 and 13.
60	Questions 12 and 13	Renumbering of Questions 12 and 13 as Questions 14 and 15 and updating of answers.
61	Questions 14 and 15	Renumbering of Questions 14 and 15 as Questions 16 and 17.
62	Questions 16 to 22	Renumbering of Questions 16 to 22 as Questions 18 to 25 and updating of answers.
63	-	Insertion of new questions and answers – Questions 4, 20, 26 to 28