



ROYAL MALAYSIAN CUSTOMS

MALAYSIA GOODS AND SERVICES TAX (GST) GUIDE

MANUFACTURING SECTOR (DRAFT)



MALAYSIA GST GUIDE MANUFACTURING SECTOR

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MANUFACTURING SECTOR

1. INTRODUCTION

1.1. This Industry Guide is prepared to assist you in understanding the Goods and Services Tax and its implications on the manufacturing industry.

1.2. Overview of Goods and Services Tax (GST)

Goods and Services Tax (GST) is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except those specifically exempted. GST is also charged on importation of goods and services into Malaysia.

Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, it is ultimately passed on to the final consumer. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as “registered person”. A registered person is required to charge output tax on his taxable supply of goods and services made to his customers. He is allowed to claim input tax on any GST incurred on his purchases which are inputs to his business. Thus, this mechanism would avoid double taxation and only the value added at each stage is taxed.

2. BACKGROUND

GST covers all supply chain in the economy such as manufacturing, distribution and retailing. Almost all supplies in the manufacturing sector is subjected to GST including sale of finished goods, stocks, capital assets and services rendered to other establishments.

A manufacturer, who is a taxable person, is required to charge GST on taxable supplies that are standard-rated when they are sold to buyers. On the other hand, he is allowed to claim as input tax on any GST incurred on his purchases which are input to his business. Buyers who are GST registered persons are allowed to set off GST incurred on their acquisition against their output tax.

GST charged to customers is termed as “Output Tax” and those incurred by the manufacturer on his business purchases and overheads is termed as “Input Tax”. Output tax will be offset by input tax and if output tax is more than input tax, the net tax is payable to the Royal Malaysian Customs (RMC).



However, if input tax exceeds output tax payable, the RMC will refund back the surplus input tax to the manufacturer.

To make the export sector in Malaysia more competitive, all exports are zero-rated, meaning exporters do not collect output tax on their supplies. All major re-exporters will have positive input tax refund as they have very little collection of output tax to help them offset against input tax on their acquisitions including imports. Manufacturers who are export-oriented would be eligible for Approved Trader Scheme (ATS). Under this scheme, the manufacturers could suspend GST payment on imported goods, thus alleviating their cash flow problem on importation.

3. GENERAL PRINCIPLES OF GST FOR MANUFACTURERS

All manufacturers who make taxable supplies of goods or services in Malaysia with an annual turnover that exceeds the GST threshold would become a taxable person and are liable to register as a registered person under the GST Act 20XX.

As a registered person, a manufacturer is therefore responsible for accounting output tax on his taxable supplies, and on the other hand, is eligible to claim input tax on expenses which he has incurred for the furtherance of his business.

For the purpose of GST, the activities carried out by a manufacturer can be categorized as Inputs and Outputs.

3.1. Are all manufacturers liable to be registered as GST registered person?

Only those manufacturers who make taxable supplies and have annual turnover that exceeds the prescribed threshold for GST registration are liable to be registered as registered person. However, for those manufacturers whose annual turnover does not exceed the prescribed threshold, they can still apply for voluntary registration.

3.2 What are the supplies that must be computed in my annual turnover when determining my liability to register for GST?

The annual turnover must include the total value of all taxable supplies of goods and services, made by you excluding the sale of capital assets, supplies made within Designated Area (Labuan, Langkawi or Tioman), supplies made within a warehousing scheme and imported services. Taxable supplies only refer to standard-rated and zero-rated supplies,



made in the course or furtherance of a business. Exempt supplies made or made by you should not be included in the computation of your annual turnover.

3.3. If my company has a few subsidiaries, do I have to register all my companies separately or as a group?

You may register all the subsidiaries as a group or each company may apply to be registered separately. **(For further detail, please refer to Registration Guide)**

4. INPUTS

Manufacturing involves acquisition of goods and services for making final products or any other manufacturing activities. All these business purchases will incur GST which is referred to as input tax. Under the normal rules of GST, inputs for a manufacturer would basically be subjected to GST, except for those classified as exempt or zero-rated supplies. Inputs normally acquired by a manufacturer can be categorized as follows:

(a) Capital assets

These are goods that can be capitalized for accounting purposes and in accordance with generally accepted accounting practices. Capital assets would include the following:

- (i) Land and building (e.g. office and factory).
- (ii) Plant and machineries
- (iii) Tools and equipments, including office equipments.

(b) Raw materials and components

These are goods that are directly used for the manufacturing of finished goods.

(c) Services, utilities and other charges

Services are supplies other than goods, such as maintenance works on plant and machineries, workmanship charges on sub-contracting works and professional advice and consultancy. Other charges include telephone, rental and transportation charges, and utilities such as water and electricity.

4.1. Can a GST-registered manufacturer treat all the GST paid for his business acquisitions or purchases as his input tax?

All GST incurred by the manufacturer can be treated as his input tax, if he incurs the GST for his business purpose. The manufacturer can offset this



input tax against any output tax that he is liable to pay to the Director General of Customs (DG). (See Question No. 5 below for output tax liability)

4.2. Is GST imposed on raw materials and components used in the manufacture of goods that are meant for export?

Yes, you will have to pay GST on all raw materials acquired by you from any GST-registered suppliers. If you choose to import the raw materials, GST is payable at the time of importation. However, if you are a GST registered person, you would be able to claim input tax on all input tax incurred by you. The goods subsequently exported by you will be zero-rated.

4.3 I am a manufacturing company which categorizes as export oriented incurred a substantive GST on imported goods. Is there any facility to me not to pay GST upfront?

The mechanism of the GST, whatever GST incurred on your acquisition whether locally sourced or imported are subject to GST and allowed for input tax claim. However, some export oriented companies which hold status as Free Industrial Zone and Licensed Manufacturing Warehouse (LMW) are eligible to suspend the payment of GST on all your importation at the time of importation under the Approved Trader Scheme (ATS). **(For further detail, please refer to Approved Traders Scheme guide).**

4.4 Can I claim GST paid on administrative expenses?

All administrative expenses incurred in making taxable supplies are entitled to input tax claim whether directly or indirectly used in the manufacturing process. The input tax can be claimed in full by offsetting it against your output tax in your GST return.

If you are making both taxable and exempt supplies, you only can claim input tax which is attributable to taxable supplies. However, if the input tax on all expenses incurred in making exempt supplies is below the current de minimis limit (value of exempt supplies does not exceed RM5,000.00 per month and 5% of total value of supplies made in that period), you can still claim your input tax as though you make wholly taxable supplies. **(For further detail, please refer to Guide on Input tax)**

4.5 How about GST incurred on capital items, for example a computer system or an office building? Can I claim them as my input tax?

As a GST registered person, you can claim the GST incurred on capital items that were to be used in your business to make taxable supplies. The



input tax is claimable in the taxable period in which the capital items are acquired.

4.6 Are there any purchases in which input tax is not claimable?

Basically, input tax is claimable on all purchases, except for the following:

- a) on goods and services not used for your business.
- b) on goods (other than those on hand at the time of registration) and services obtained before GST registration.
- c) all supplies that fall under disallowance of input tax as stated under Regulation 27. Example of such supplies include passenger cars.

4.7 If capital assets are used for making exempt supply, can I claim input tax in full?

No, input tax claim on exempt supplies is not allowed.

4.8 If capital assets are used for making mixed supply, can I claim input tax in full?

If you are making mixed supplies (taxable and exempt supplies) you will have to apportion the input tax based on the proportion of taxable supplies made. Besides that, if the assets are used for making mixed supplies and the value of the assets is more than RM100, 000.00 (excluding tax), the GST incurred on the cost of the capital goods may be subject to adjustments under the Capital Goods Adjustment. Adjustments become necessary where there is a change in the proportional taxable use of the capital goods. **(For further details, please refer to Guide on Capital Goods Adjustment).**

4.9 If for some reasons, like defective or inferior goods, I have to return some of the goods to my supplier, can I claim the GST paid on the returned goods?

When you returned the goods, your supplier should refund you the payment for the goods and the GST you paid by way of a credit note. If you have already claimed the input tax on the returned goods, then you will have to reduce the said input tax in the taxable period in which you received the credit note.

4.10 I am GST-registered manufacturer and acquire certain services from overseas. What is my GST liability?

When you acquire the services from overseas, you are treated as making the supply. Therefore, you need to account for tax on such services acquired. However, if you are making wholly taxable supplies, there will be



no net GST implication because the amount of output tax required to be accounted would be the same as the amount of input tax you claim. But, if you are making both taxable and exempt supplies you have to account for output tax in full but you can only claim your input tax proportionally, by using the reversed charge mechanism. **(For further details please refer to guide on Imported Services).**

4.11 Can I claim input tax on the whole value (purchase price) of the machinery acquired under a hire purchase agreement?

Under hire purchase agreement, goods are paid by way of installments to the vendor or a finance company that provides loan for the purchase. You can claim input tax based on the whole value of purchase price. However if the interest charged is separately identified or shown and disclosed to you, the interest charge under the hire purchase agreement will not be subjected to GST(exempt supply). Otherwise, the total price subject to GST and you will be charged by the vendor or the finance company the whole value of the machine including the interest element.

4.12 What is the GST implication on property or machinery that I acquire under lease?

GST liabilities on leasing depend on the type of lease whether it is operating lease or financial lease. Under the financial lease where the lease allows for an option to purchase or transfer of asset at the end of the lease, then the leasing company or the financial institution will impose GST on the whole value of the property or machinery similar to the treatment under the hire purchase agreement in paragraph 4.11. If it is an operating lease, you will be imposed GST on the value of each lease payment. If the interest charge is disclosed or separately shown under the leasing agreement, the interest element would not be subjected GST.

4.13 If at the end of the financial lease, I decide not to exercise the option to buy a machine, must I still have to pay GST on the whole value of the machine?

It does not matter whether you exercise the option to purchase or not. As long as the leasing agreement includes a clause for an option to buy the leased item, it is considered as a supply of goods and the whole value of the item is subject to GST.

4.14 I am a plastic article manufacturer. Normally, I acquire a machine from a machine manufacturer by advance payment similar to progress payment until the machine is ready for collection. How do I claim input tax?



Your machine supplier would charge output tax on the value for each payment he received. The machine manufacturer would account for GST to the Director General at the earlier of the following event:

- i) when you make payment to him; or
- ii) when a tax invoice is issued to you.

You can claim input tax according to your taxable period, based on the tax invoices that you received.

4.15 Normally in the manufacturing industry, we do not make cash payment for our purchase of raw materials. We are usually given credit terms by our suppliers. So would I be able to claim the input tax before I make the payments to my supplier?

Yes, provided you hold the tax invoices from your supplier.

4.16 For importation of goods, how is the value computed for GST payment?

At the point of importation, value for GST purpose is based on transaction value including insurance and freight, plus all duties payable and other incidental charges as shown in the example below:

Transaction value	:	RM50, 000.00
Insurance and freight	:	RM 2, 000.00
Import duty	:	*RM 5,200.00

Value of import:		RM57, 200.00

GST payable = RM57, 200.00 x 4% = **RM2288.00**
(*Assuming Import Duty 10%)

4.17 My overseas suppliers would bill me for my imports in foreign currencies. Can I declare the value of my imports in foreign currencies?

Your supplier may bill you in foreign currencies, but for GST purposes, the value of imports must be converted into Ringgit Malaysia (RM) using the exchange rates published by the Royal Malaysian Customs.

4.18 Is there any reprieve of GST for goods brought into a Free Commercial Zone?

GST is temporarily suspended until the goods are removed from the Free Commercial Zone (FCZ) for home consumption.



4.19 Since I am re-exporting my finished goods which are zero-rated, can I be exempted from paying GST when I import the raw materials?

We have a suspension scheme for export-oriented companies known as the Approved Trader Scheme (ATS). You may apply to join the ATS, subject to conditions imposed under the said scheme. **(For further detail, please refer to Guide on “Approved Trader Scheme”)**

4.20 What is the GST treatment on imported trade samples?

Trade samples will be given GST relief under the Goods and Services Tax (Relief) Order 20XX at the point of importation. You must comply with the conditions that the trade samples are not to be sold, consumed, put to normal use or in any way put for hire or reward while in Malaysia.

4.21 I send my semi-finished goods to my sub-contractors, who are located overseas, for value-added activities. When my sub-contractors send back the value-added goods to me, do I have to pay GST?

When you send the semi-finished goods to your sub-contractors overseas, you should treat the goods as your exports and zero-rate the supplies. When the goods are subsequently brought back into Malaysia from your overseas sub-contractors, you are entitled to get relief from payment of GST. However, GST is chargeable on the parts or components added on the processed goods. If you are a registered person, you can claim the GST paid on the finished goods as your input tax. Any value added services performed on that goods does not attract customs duty or GST.

4.22 If I export my product to overseas, can I claim input tax on zero-rated supplies?

Zero-rated supplies are taxed at zero percentage, for example goods exported to overseas. For zero-rated supplies, taxable person is eligible to claim input tax on his business inputs in making taxable supplies.

5. OUTPUTS

5.1. Are all supplies made in the manufacturing industry subjected to GST?



Generally, all supplies made in the manufacturing industry are either standard-rated or zero-rated. If the manufacturer is a taxable person, he is liable to collect GST on all taxable supplies (except for zero-rated supplies) he makes to his local customers.

5.2 What is a taxable supply in the manufacturing sector?

A taxable supply of goods may not necessarily be restricted to your sale of manufactured goods only. It includes:-

- Disposal of business assets.
- Application of business assets for non-business purposes.
- Business gifts exceeding RM500.00 given to the same customer in the same year.
- Goods which are business assets on hand at deregistration.
- Fringe benefit given to employees.

5.3. As a GST registered person how do I account for GST charged on my supplies?

The GST which you accounted for when you make a supply is referred to as output tax. As a GST registered person, you are liable to account for output tax on all supplies you make. After the end of each of your taxable period, you must account and pay the output tax to the Director General of Customs. However, you may offset your output tax against any input tax allowable that you are claiming and only pay the difference. If your input tax is more than your output tax payable, the Director General of Customs will refund the net difference to you.

5.4 When I make a sale, must I issue a tax invoice to my customer and when should I issue the invoice?

Under the normal rules of GST, you as a GST registered person are required to issue a tax invoice for every taxable supply you make. Under the provisions of the GST Act 20XX you may issue an invoice within 21 days from the time the goods are delivered or made available.

5.5 If I make zero-rated supplies, am I still required to issue a tax invoice?

You are not required to issue any tax invoice if the supply you make is zero-rated. Likewise, no tax invoice is required if you make an exempt supply.

5.6 How do I account GST on my sale?



Tax liability in GST is based on the time of supply. For goods, basic tax point is:

- a) When the goods are sent to your customer;
- b) When the goods are made available to your customer such as premises that was built on the site;

But the basic tax point would not be applicable in the following 3 events which would be treated as the actual tax point:

- a) You issue a tax invoice before basic tax point
- b) You issue a tax invoice before the expiry of 21 days after the basic tax point.
- c) When payment is received before the basic tax point

The actual tax point would be the earlier of the above events.

You have to account your GST in your GST return for the period covering that tax point.

Example 1

Company A delivered goods to Company B on 18.7.2012. If Company B did not make any payment prior to the delivery of the goods and Company A only issued a tax invoice on 2.8.2012, then the actual tax point is 2.8.2012. This is because the 21-day rule overrides the basic tax point. Company A will have to account for tax in the taxable period of August 2012. (Assuming Company A is on monthly taxable period).

Example 2

In the above example, If Company B did not make any payment prior to the delivery of the goods on 18.7.2012 and Company A only issued an invoice on 20.8.2012, GST due will fall back to the basic tax point on 18.7.2012. This is because company A only issued the invoice after 21 days from the basic tax point. Therefore, Company A will have to account for tax in the taxable period of July 2012.

5.7 In the case of goods being returned by my customers, can I claim the GST paid?

Yes, you can claim the GST paid on the goods returned by issuing a credit note to your customers where this document must be issued within 21 days from the date the occurrence of the event. You need to make adjustments to your accounts and declare it in your return in the taxable period when you issued the credit note.



5.8 I had wrongly undercharged the price of goods sold. How do I account for GST on the supply?

You need to issue a debit note and make adjustments to your account and declare it in your return in the taxable period when you issued the debit note.

5.9 If I give a trade discount to my customers, can I only charge GST on the discounted price?

Yes, GST should be computed on the discounted price.

5.10 When a certain quantity of goods are given free as incentive for bulk buying, for example for every 20 units of a product purchased at a price of RM5, 000.00 I offered my customer 2 units free, must I also account GST on the 2 units given free?

GST will only be based on RM5,000.00 since the 2 units given free is considered as a discount.

5.11 Every year I will give certain quantity of my manufacturing products as a business gift to my customers. Do I have to account GST on the gifts?

In principle, gifts to your customers are deemed to be taxable supplies because it is made in the course or furtherance of your business. However under the GST law, a gift is not a supply and no GST due, if the cost of gift is worth less than RM500.00 and given to the same customer in the same year. You will be allowed to claim input tax incurred.

5.12 I plan to hold promotions to improve the sale of my products by giving away goods through a retailer. Do I have to account for output tax on the products that are given free within the promotion period?

It depends on how you offered the product for the promotion. If promotion such as 'buy 1 free 1' or 'buy a sofa and free foot stool', it is considered as one supply, normally total amount paid by the buyer will usually cover all the goods offered. Therefore, you do not have to account output tax on the goods given free because it is considered as a discount.

5.13 I am a GST registered person and process toasted groundnuts for sale to the local market on credit term. Expiry date for my goods is 6 months and many of my retailers would return to me the expired goods and I will refund back their money accordingly. Can I claim back the GST refunded to my customers?



Yes, you are eligible to claim the GST paid on returned goods through adjustment in the period when you issued the credit note. However, the credit note must be issued within 21 days from the time of the event.

5.14 How do I account for GST on goods send on consignment?

When you supply goods on consignment, they are not sold and you still own them until such time as they are adopted by your customer. Adoption means the customer indicates a wish to keep them. Until your customer do so, he or she has an unqualified right to return the consigned goods at any time, unless you have specified a time limit.

The basic tax point is,

- (a) at the expiry date specified by you (not more than 12 months from the delivery date);
- (b) when your customer adopts the goods before the specified time limit expires; or
- (c) 12 months from the date at which the goods were sent to your customer, if no time limit is specified.

If you receive a payment, this will normally indicate that the goods have been adopted. It is your responsibility to make sure that your customer notify you promptly when they have adopted the goods. The actual tax point would arise when a tax invoice is issued, or payment received from your customer whichever is the earlier.

Example 1

Company A is a manufacturer who delivered 1000 sets of shirt to a supermarket in Malaysia on 1st January 2012. The goods were delivered on consignment after the supermarket owner agreed on the price offered by the manufacturer. On 5th July 2012, Company A was informed that 200 sets of shirt had been sold. Company A issued a tax invoice to the supermarket on 20th July 2012 and received payment on 30th September 2012.

Basic tax point for goods sold will be on 5th July 2012, i.e. the point when the sale become certain. However since the tax invoice was issued within 21 days from the basic tax point, it overrides the basic tax point. So, the time of supply is on 20th July 2012. Company A must account GST in the taxable period of July 2012. If the supermarket is a registered person, it can claim input tax on the purchases.



Example 2

Continuing from Example No. 1 above, let say, a balance of 800 sets of shirt was not sold and returned to Company A on 31st December 2012. In this case, GST on the 800 sets of shirt is not due because there is no transfer of ownership. Company A does not have to account for GST on the 800 sets of shirt that was not sold since they were return before expiry of 12 months from the date it was first consigned.

Example 3

If the unsold goods in the above example were not returned back to Company A on 1st January 2013, Company A has to account for GST due on the 800 sets of shirt in January 2013 since 12 months had lapsed from the date it was first consigned. Therefore, the tax point is on 1st January 2013. Company A has to account GST based on the selling price in the GST return for January 2013.

5.15 Is GST chargeable on after-sales services provided to customers for goods sold under warranty?

When goods are sold under warranty, the assumption is that the price, which is inclusive of GST, usually includes the charge for the after-sales services and repairs during the warranty period. Any replacement of spare-parts free of charge during the warranty period will not attract GST.

5.16 How about extended warranty on goods sold (under warranty)?

Under GST era, extended warranty is subject to GST. However, during the transitional period, if you have paid the extended warranty before GST era (when you purchase the goods), but the extended warranty covers the period in GST era, then the extended warranty is not subject to GST.

5.17 Do I have to pay GST on goods (sold under warranty) that are temporarily imported into Malaysia from my overseas customers for repairs?

When these goods are temporarily imported into Malaysia for repairs before they are re-exported, you can apply for temporary import tax relief with the RMC where GST can be temporarily suspended at the point of importation. **(For further detail, refer to Guide on Importation)**

5.18 What is the tax value if the selling price of my manufactured products includes transport charges and insurance coverage on the goods?



The value for GST purposes includes your transportation charges and insurance coverage fees. If you are merely arranging the transport and the transport fee directly charged to your customer then your customer will have to pay GST on the transport charges to the transport company.

5.19 Are sales of capital items subject to GST?

Sales of capital items, except for Transfer of Business as a Going Concern (TOGC), are regarded as **making** taxable supplies. Therefore, sales of capital items are also liable to GST.

6. EXPORTS

All supplies of goods exported from Malaysia and international services are zero-rated. This means that the exporter does not charge GST on his exports but he is able to claim input tax on GST incurred in his inputs.

6.1. My local customer ordered some goods from me but he requested me to send the said goods to his overseas customer. Do I have to charge GST when I invoice my local customer?

If you export the goods yourself you can zero rate that supply even if you bill your local customer.

6.2. I have made a machine for an overseas client. The sale invoice was issued to him, but at his request I supplied the machine to his local customer. Can I zero-rate the sale of the machine?

No, you cannot zero-rate the sale of the machine. Although the sale was made to a foreign person, the machine was not exported since it had remained in Malaysia. Thus, you will need to charge GST on the sale even though you bill your overseas client.

6.3. I made a sale of goods to an overseas client. Upon his request, the goods were delivered to a local forwarding agent, who arranges them to be exported to my overseas client. Do I have to charge GST to my overseas client?

No GST is charged to your overseas client, if the export is done in your name. The sale of goods can be zero-rated if it is exported by you. However, you need to keep proof of export such as Custom No.2 (Export declaration) address as consignee, bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents.



- 6.4 My local customer claim the goods he purchased from me will be exported and requested me to zero-rate the goods. Can I zero rate the goods sold to my local customer?**

You should treat the supply as a local sale and you have to charge GST. Your customer can zero-rate his supply to foreign customer if he exports the goods.

- 6.5 What is the treatment for goods temporary exported for repair and subsequently re-imported?**

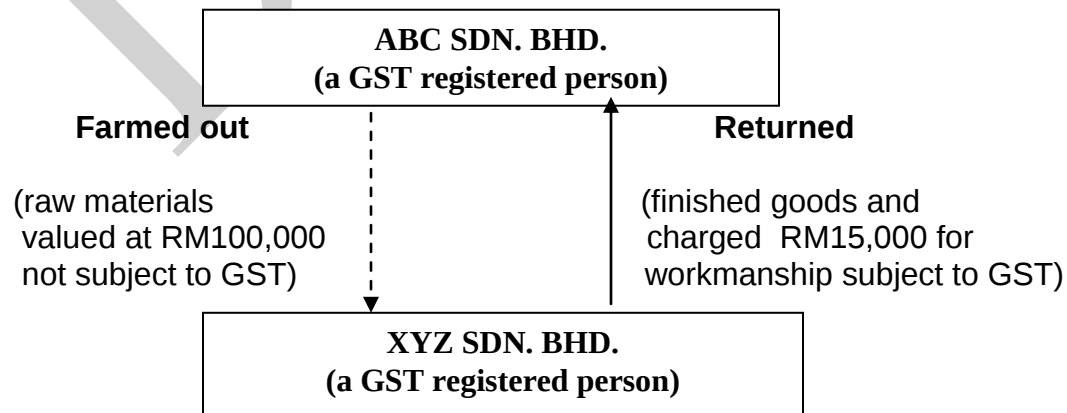
Goods exported temporary for repair and subsequently imported will be given relief. However, any replacement of parts and components added on the goods are subject to GST at the time of importation. **(Please refer to Goods and Services Tax (Relief) Order 20XX)**

7. FARMING IN/OUT (SUB-CONTRACTING WORKS)

Subcontractors normally do work that are given by another company known as a principal. The principal supplies materials to a subcontractor for further work to be done. In this matter, there is no taxable supply from the principal because there is no transfer of ownership of the goods to the subcontractor. Therefore, GST is not applicable.

- 7.1 If I farm out part of my works to sub-contractor, do I have to account for GST output tax on raw materials supplied?**

Farming out does not transfer the ownership of the goods to the subcontractor. As such, it is not a supply of goods and you do not have to account for GST output tax on the raw materials. However, if the subcontractor is a GST registered person, he has to account for GST output tax on the value of the service supplies to you. (See example below)



**Accounting for GST will be as follows:**

- (a) ABC Sdn.Bhd. will issue a normal delivery order or consignment note to XYZ Sdn.Bhd. and no GST is chargeable.
- (b) XYZ Sdn.Bhd. will issue a tax invoice to ABC Sdn.Bhd. when the finished goods are returned to ABC Sdn.Bhd., and XYZ Sdn.Bhd. has to account for output tax of RM600.00($RM15,000.00 \times 4\%$) on the labour charges.
- (c) ABC Sdn.Bhd. can claim the RM600.00(GST) paid to XYZ Sdn.Bhd. as his input tax.
- (d) If XYZ Sdn.Bhd. is not a GST registered person, no GST is due on the labour charges.

7.2. If I am a manufacturer doing sub-contracting, can I claim input tax for my purchases?

Yes, you are allowed to claim input tax on GST paid on your purchases even though you are not producing your own goods. As long as you are a registered person making taxable supplies like providing workmanship and some value added works, you can claim input tax on your purchases. You must keep original tax invoices from your suppliers to support your claim for input tax.

7.3 How is the GST treatment if I as a sub-contractor engaged in contract manufacturing with overseas principals for local delivery and export purpose?

There is a scheme called “Approved Toll Manufacturer Scheme (ATMS)” to relieve local toll manufacturers who engaged in substantial business with overseas principals. Under this scheme you as a toll manufacturer are eligible to suspend the payment of GST on imported goods which were supplied by your overseas principal, subject to certain conditions to be fulfilled under the Approved Traders Scheme (ATS).

Processed goods that are delivered to local customer of the overseas principal need not be accounted for GST by the toll manufacturer. If the local customer is GST registered person, he is liable to account for the output tax by way of ‘self-recipient accounting’. It is just an accounting entry in the GST return where the output tax will be net off with the correspondence input tax based on the invoice received from the overseas principal. On the other hand, if the local customer is not a GST registered person, he has to account and pay the output tax on the processed goods received in a prescribed form.

You and all other parties of this value added activities have to apply for Approved Toll Manufacturer Scheme (ATMS) subject to prior approval



from RMC. (For further detail, please refer to Approved Toll Manufacturer Scheme Guide)

8. RESPONSIBILITIES

8.1. As a manufacturer, what are my responsibilities as a GST registered person?

Your responsibilities include the following:

- a) you have to account for output tax on any taxable supplies made to the local market.
- b) you have to issue tax invoice for any transaction on standard-rated supplies.
- c) any input tax claim made by you must be true and correct.
- d) you are required to submit GST return, whether electronically or manually, using GST-03 form to the RMC not later than the last day of the calendar month following the end of each taxable period.
- e) you must keep full and true records or documents and made available at any time to be audited by any proper officer of GST. The records must be preserved for a period of seven years.
- f) you will have to furnish a general bond or bank guarantee, when directed by the Director General, to cover any GST deferred/suspended (if there is any).

9. OTHER RELATED MATTERS

9.1. If I loan some raw materials to another manufacturer for his urgent use, do I have to account for GST output tax even if the other manufacturer replaces the raw materials that I loaned to him?

Yes, it is a supply because the business asset is transferred to another manufacturer and consumed by him. The raw materials returned to you is different from the raw materials that you loaned to him.

9.2 If I loan a machine (my business asset) to another manufacturer for his use, do I have to account for GST output tax?

Any usage of business asset by another person, whether or not for a consideration, is regarded as a supply of services. Therefore, you have to account for output tax on the usage of the asset based on open market value.



9.3 My goods were lost in the course of delivery to my customer. Do I have to account for GST?

This depends on the contract between you and your customer. If the contract makes either party liable (the sale has taken place), then you must account for GST even if the goods are lost on delivery. However, if you wish to cancel the sale you may do so and if invoice has been issued then you must issue a credit note to contra the GST payable. On the other hand, if the contract does not make either party liable, then there is no GST liability on the loss of the goods on the delivery.

9.4 What happen if my customers fail to make payment on goods previously supplied where output tax has been accounted?

You can claim relief for your debts or any doubtful debts on the whole or any part of the GST output tax paid in respect of taxable supplies subject to the following conditions:-

- i) you have already accounted for and paid the tax on the supply,
- ii) you have not received any payment or part payment six months from the time of supply or the debtor has become insolvent before the period of six months has lapsed, and
- iii) you have taken sufficient efforts to recover the debt.

9.5 What is the GST treatment on disposal of manufacturing waste?

If the waste is destroyed, no GST is due as there is no supply made. However, if you decide to sell the waste, GST must be imposed on such sales.

9.6 I receive my goods in carton boxes and wooden pallets. These packaging materials will be taken by appointed person who cleans the unloading area. What is the GST treatment?

Since the packaging materials are not recorded as your assets, you need not account for GST.

10. FURTHER INFORMATION

If you require any further information regarding GST, please contact our officer at any of our GST office or call toll free line No. 1800 XX XXXX. You can also visit our website at <http://www.customs.gov.my>.