



ROYAL MALAYSIAN CUSTOMS

**MALAYSIA
GOODS AND SERVICES TAX
(GST) GUIDE
APPROVED TOLL
MANUFACTURER SCHEME
(DRAFT)**



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APPROVED TOLL MANUFACTURER SCHEME (ATMS)

1. INTRODUCTION

1.1. This Industry Guide is prepared to assist you in understanding the Goods and Services Tax and its implications on Approved Toll manufacturer Scheme (ATMS).

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 credit 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. OVERVIEW OF APPROVED TOLL MANUFACTURER SCHEME

Approved Toll Manufacturer Scheme (ATMS) is a scheme which allows any taxable person approved (toll manufacturer) to disregard any value added activity (contract services) on the goods belonging to a person who does not belong in Malaysia (overseas principal). Examples of value added activity may include treatment or processing of goods.

There is no GST liability when the treated or processed goods are sent back by the toll manufacturer to the overseas principal. However, there is a GST liability on the supply of contract services which is disregarded under this scheme.

Any delivery of the treated or processed goods by the toll manufacturer to a local customer of an overseas principal is actually a supply made by the overseas principal. Complications would arise when a local delivery made by the toll manufacturer because the supply is actually made by the overseas principal and not the toll manufacturer. In this situation, the overseas principal who is not belonging in Malaysia is supposed to be liable to charge GST on the supplies made. However difficulty in taxing an overseas person



would complicate GST implementation. To overcome this difficulty, 'recipient accounting system' is introduced under the ATMS.

A toll manufacturer registered under the ATMS need not bear GST on the local supply made by overseas principal to the local customer. Under the concept of **"recipient self-accounting"**, the local customer will account for output tax on the supply made by overseas principal as if he had himself supplied the goods in Malaysia in the furtherance of a business. He then nets off the output tax payable with the corresponding deemed input tax credits. In this manner, the local customer does not have to pay GST upfront on such receipt of goods from the toll manufacturer.

Any charges on value-added activities carried out on consigned goods by a toll manufacturer for his overseas principal will be disregarded supplies under section 73(1) of the GST Act 20xx and no GST is chargeable.

2.1. What types of value-added activities is allowed under this scheme?

All type of value-added activities that cover any treatment, processing, finishing, assembling, and other manufacturing-related works on consigned goods of the overseas principal.

2.2. When I deliver the finished goods back to my overseas principal, do I have to charge him any output tax on the value-added activities which I performed?

Any value-added activities, including workmanship, carried out by you for your overseas principal are disregarded for the purposes of GST. Thus, you do not have to charge any output tax on such activities.

2.3 If all the finished goods under toll manufacturing agreement need to be exported to overseas principal without involving drop shipment in Malaysia, can I apply for the ATMS?

All companies involved in toll manufacturing in Malaysia may apply for the ATMS subject to the eligibility as stated in paragraph 3 even though there would be no drop shipment in Malaysia.

2.4 As an approved toll manufacturer do I have to pay GST on goods consigned or imported by me?

Approved toll manufacturers are automatically eligible to apply for the Approved Trader Scheme (ATS). Under ATS, GST on importation of goods is suspended. However, the suspended GST needs to be declared in the GST return for the taxable period in which the importation took place.



3. ELIGIBLE PERSONS FOR THE ATMS

Who are eligible to apply for the ATMS?

The following persons are eligible to apply for the ATMS subject to approval given by the Director General.

Any toll manufacturer who has contract(s) with overseas principal(s) to carry out valued-added activities worth RM2 million or more (excluding the cost of raw materials supplied or belonging to the overseas principal) per annum.

4. CONDITIONS FOR APPROVED TOLL MANUFACTURERS

Like any other special schemes, there are conditions imposed under an approved toll manufacturer which must strictly be adhered to. The conditions imposed under the ATMS include the following:

(a) Carrying out value-added activities for an overseas principal

You can apply for the ATMS if you are a toll manufacturer doing value-added activities on consigned goods for an overseas principal. You can also apply for ATMS if you are contracted to do such activities but have not started. However, you must provide proof on such activities, for example a contract with your overseas principal, when applying for ATMS status.

(b) Value of service chargeable on value-added activities

The total service chargeable for value-added activities for your overseas principal(s) must aggregate to at least RM2 millions per annum, excluding the cost of any raw materials supplied by you in the course of carrying out the value-added activities.

(c) At least 80% of finished goods must be exported

At least 80% (in term of value or quantity) of the finished goods after undergoing value-added activities must be exported by the toll manufacturer. [Export of goods means sending goods out of Malaysia and its territorial waters, but does not include goods in transit. For the purpose of GST, “export” and “in-transit” have the same meaning as defined under section 2 of the Custom Act 1967. (See Example No. 1 below)]

Example No. 1

- (i) Total value of finished goods (after performing value-added activities) is RM30 million per annum.



- (ii) At least RM24 million out of RM30 million of total finished goods (i.e. $80\% \times \text{RM30 million} = \text{RM 24 million}$) must be exported.
- (iii) The balance of finished goods amounting to RM6 million can be drop-shipped to local customer of the overseas principal.
- (d) An approved toll manufacturer must be a GST registered person;

Any person applying for ATMS status must be a GST registered person.
- (e) All parties in the supply chain must together apply for ATMS status;

Toll manufacturer and local customer(s) of overseas principal must together apply for the ATMS.
- (f) Monthly taxable period;

An approved toll manufacturer must be accounting for GST on monthly basis.
- (g) Electronic submission of GST return;

An approved toll manufacturer must submit their monthly GST returns through electronic filing (e-filing).
- (h) Maintaining of good accounting and inventory records;

A toll manufacturer under the ATMS must at all time maintain and preserve good accounting and inventory records with respect to raw materials received, stored and manufactured as well as finished goods delivered and exported. The local customer under the ATMS must similarly maintain and preserve good accounting and inventory records at all time with respect to finished goods received and supplied, both locally and overseas.

Please refer to paragraph 10.3. below for further details on “good accounting”.
- (i) Maintaining of good compliance record with the RMC;

All approved toll manufacturers must always maintain a good record of compliance on any matter with the RMC.
- (j) Furnishing of security to the Director General (DG) of RMC; and

Under certain circumstances, an approved toll manufacturer may be required by the DG to furnish security to protect revenue. The security can be in the form of a bank guarantee or bond or both.



(k) Other Conditions;

The DG may impose additional or revise any condition(s) from time to time as he deems fit. The conditions set here do not preclude or override any other conditions imposed on you and all the parties in the chain of value-added tax activities. The DG also reserved the rights to reject any application, to review or revoke any approval granted at any time without prior notice to protect revenue.

4.1. Can any export made by the local customer be taken into account for the purpose of calculating the 80% export rule as stated in Para 4(c) above?

No, for the purpose of calculating the 80% rule, only consigned goods exported by the toll manufacturer are taken into account.

5. TREATMENT ON GOODS AND SERVICES LOCALLY SOURCED UNDER ATMS

5.1 I am a toll manufacturer under the ATMS and if I urgently need to purchase locally some raw materials and components to perform value-added activities, do I still have to pay GST on such purchases?

Yes, you have to pay GST on the locally acquired raw materials and components but you can claim such GST payment as your input tax credits.

5.2 If overseas principal bears the cost of raw materials purchased locally and consigned the goods to the toll manufacturer for value-added activities, is there any element of GST on the goods received by the local manufacturer?

Local acquisitions of raw materials and components by overseas principal are zero-rated under item XX of the Goods and Services Tax (Zero Rate Supplies) Order 20XX provided they are delivered to the approved toll manufacturer. Under the ATMS, the local supplier will zero rate the acquisition made by the overseas principal.

5.3 Refer to question 5.2, is there any GST implication if services acquired by approved toll manufacturer is contracted to and paid by the overseas principal?

If toll manufacturer paid the services rendered by the local supplier, then he can claim the GST incurred as his input tax credit. If the overseas principal bear the cost of the services rendered, the supplies made to the overseas principal under the ATMS cannot be zero-rated.



Zero-rating of supplies contracted to overseas principal cover raw materials and components only.

6. TREATMENT ON GOODS IMPORTED UNDER ATMS

A toll manufacturer even though is an approved person under ATMS still has to pay import duties and GST on goods that are imported at the time of importation. This includes the goods consigned and sent by his overseas principal for the manufacturing process to be performed in Malaysia. However, an approved toll manufacturer is eligible to apply for the Approved Trader Scheme (ATS). Once the approved toll manufacturer also becomes an approved person under ATS, the GST on any consigned goods imported is suspended. **(For further details, please refer to guide on ATS).**

6.1. Are all goods imported under the ATS including components and raw materials allowed to be suspended from payment of GST on importation?

Yes, GST on all goods imported under the ATS can be suspended. However, the goods must be used to make only wholly taxable supplies.

6.2. I am a toll manufacturer registered under the ATMS. If my overseas principal delivers to me some machinery for temporary use, do I have to pay GST on such delivery?

It depends on whether the machinery is brought in as temporary import or normal import. If they are brought in as temporary import, GST is exempted under the GST Relief Order 20XX, subject to conditions imposed. On the other hand, if it is declared as a normal import, GST is payable on the machinery at the time of import, unless GST is suspended under ATS.

6.3. My overseas principal consigns to me raw materials and ownership of the raw materials remains with him. How do I as the toll manufacturer declare to the RMC the value on such raw materials?

You or your agent must declare the goods imported in the prescribed declaration form (Customs No.1). You must obtain the information (value) from your overseas principal to make such declaration. However, the Customs assessment officer has the power to reassess the value of the goods for customs purposes.



7. FARMING OUT TO SUB-CONTRACTORS BY AN APPROVED TOLL MANUFACTURER

In some instances, a toll manufacturer may need to outsource certain manufacturing or value added activities or processes on the consigned goods to other parties. The following questions would explain the GST implications on such farming out of works to sub-contractors.

7.1 I am a toll manufacturer with ATMS status and have to farm out part of my works to a sub-contractor. Do I have to account output tax on raw materials delivered to him?

Farming out does not transfer the ownership of the goods to the sub-contractor. As such, it is not a supply of goods and you do not have to account for output tax on the raw materials. On the other hand, if the sub-contractor is a GST registered person, he has to account for output tax on the value of the service supplied to you. However, you can claim the GST paid as your input tax credits.

8. DELIVERY OF VALUE-ADDED GOODS TO OVERSEAS PRINCIPAL

Under the ATMS, all finished goods or value-added goods are substantially exported to the overseas principal in his country of origin or to any other countries as may be instructed by the overseas principal.

8.1 Are consigned goods subject to GST on export?

Since the goods belongs to the overseas principal there is no supply made by you. However, you have acted on behalf of the overseas principal as an agent. Therefore, you are deemed to have made the supply and entitled to zero rate the supply.

8.2 Can my overseas principal instruct his freight-forwarder in Malaysia to export goods on his (overseas principal) behalf?

Yes, your overseas principal can appoint his freight forwarder to export goods on his behalf but the prescribed form (Customs No. 2) must indicate you as the exporter. You can also appoint a registered forwarding agent to declare on your behalf in the prescribed form but you remain liable and accountable as the principal.

8.3 As a toll manufacturer under the ATMS, what is the GST treatment on finished goods delivered to free ports such as Labuan and Langkawi?

Under the GST Act, Free Ports are classified as Designated Area (DA). Goods supplied to DA from Malaysia will be zero-rated. Hence,



a toll manufacturer under the ATMS can zero-rate the finished goods supplied to DA.

9. SUPPLY OF VALUE-ADDED GOODS TO THE LOCAL CUSTOMER OF OVERSEAS PRINCIPAL UNDER THE ATMS

Certain portion (not more than 20% in term of value or quantity) of value-added goods consigned under the ATMS might be drop-shipped in Malaysia to some local customers of the overseas principal. However, the local customer is liable to account for GST under the 'recipient self-accounting' whether the local customer is GST registered or not.

9.1. I am a toll manufacturer under the ATMS. Do I have to account GST on finished goods delivered to a local customer of my overseas principal?

If the local customer is registered together with you under the ATMS, your need not impose GST on such deliveries. The local customer will account the GST payable as his output tax and at the same time, claim the deemed output tax as his input tax credit.

9.2. As a local customer under the ATMS, on what value should I account for output tax ("recipient self-accounting") on goods received from the toll manufacturer?

Since your overseas supplier is not a local GST registered person the price of goods he charged you is GST-exclusive. Therefore, you can account the output tax by multiplying the price he charged you with the prevailing GST rate. Please see example below.

Example No. 2

(i)	Price of goods charged	-	RM100, 000.00
(ii)	Prevailing GST rate	-	4%
(iii)	Output tax chargeable	-	RM100, 000.00 x 4%
		=	<u>RM4, 000.00</u>

9.3 As a local customer under the ATMS, how do I carry out "recipient self-accounting"?

Under the concept of recipient self-accounting, the recipient shall account for the tax as if he had himself supplied and acquired the goods. Please see Example No. 3 for the accounting of output tax and input tax:

**Example No. 3**

XYZ Sdn. Bhd. is a local customer of an overseas company receives goods from ABC Sdn. Bhd. (toll manufacturer). ABC Sdn. Bhd. issues a delivery order for each consignment of goods send to XYZ Sdn. Bhd. The overseas company will invoice XYZ Sdn. Bhd. on such deliveries.

<u>Date of invoice</u>	<u>Value of transaction</u>
5.10.20XX	RM10, 000.00
10.10.20XX	RM 20,000.00
Total	RM 30,000.00

(Total output tax is RM1, 200.00 i.e. 4% of RM30, 000.00)

Accounting in GST return by way of “recipient self-accounting” should reflect as follows:

GST return for the period 1.10.20XX to 31.10.20XX

Output/Input Tax Particulars	RM
*Output tax	
- <i>Finished goods supplied</i>	RM1,200.00
<u>Less:</u>	
*Input tax Credit	
- <i>Finished goods received</i>	RM1,200.00
Tax payable	(0.00)

(* Assuming there are no other output tax due or input tax claims made in the same tax return)

9.4. As a local customer under the ATMS when should I perform “recipient self-accounting”?

You have to account for output tax when you received the related invoice from your overseas supplier or when you made a payment to the overseas supplier, whichever is the earlier. Please see Example No. 4 and 5 below.

Example No. 4

- (i) Date invoice received - 20.3.XX
- (ii) Date payment made - 02.2.XX
- (iii) The output tax must be accounted in the **February 20XX** GST return.

**Example No. 5**

- (i) Date invoice received - 10.3.XX
- (ii) Date payment made - 12.4.XX
- (iii) The output tax must be accounted in the **March 20XX** GST return.

9.5 What is the GST implication if the local customer of my overseas principal is not GST registered?

You can deliver the processed goods although the local customer is not registered for GST but he is liable to account and pay GST on the goods received. He has to account and pay the tax via prescribed form within 30 days from the end of the month based on invoice received or payment made to overseas principal, whichever is earlier.

9.6 Who would be held liable if the local customer of my overseas principal failed to account for output tax on goods delivered to him (the local customer)?

Once the goods are received by the local customer, it is the responsibility of the local customer to account for any output tax due. If the local customer failed to account for any output tax due, the local customer would be liable for any such overdue GST.

9.7 I am a local customer with ATMS status. What is the GST implication on finished goods that I received from the toll manufacturer and subsequently supplied to both the local and export markets?

If the goods are locally supplied, you have to account for output tax and issue tax invoice to your buyers on such local supplies. On the other hand, you can zero-rate the supplies if you export the goods.

Example No. 6

- (i) XYZ Sdn. Bhd., a local customer, made the following transactions:

<u>Date</u>	<u>Destination</u>	<u>Transaction</u>
05.11.20XX	Local market	RM2, 000.00
10.11.20XX	Overseas	RM8, 000.00

XYZ Sdn. Bhd. has to account for output tax of RM80.00 (4% from RM2, 000.00) on the local sale. Output tax for the supply made to overseas customer is nil (zero-rated).



(ii) Accounting in GST return (simple illustration)

GST return for the period 1.11.20XX to 30.11.20XX

Output/Input Tax Particulars	RM
*Output tax	
- finished goods sold locally	RM80.00
- Export	0.00
<u>Less:</u>	
*Input tax Credit	RM0.00
Tax payable	RM80.00

(* Assuming there are no other output tax due or input tax claims made in the same tax return)

10. RECORD KEEPING AND ACCOUNTING REQUIREMENTS**10.1 Who are responsible to keep record?**

Both the toll manufacturer and the local customer of the overseas principal who are registered under the ATMS must maintain up-to-date accounts and records at all times.

10.2 What are the records that need to be maintained?

All original documents and records related to the supplies, receipts and acquisitions of raw materials and finished goods consigned under the ATMS must be kept and preserved by the respective parties under the scheme.

10.3 What does a “good accounting system” mean under the ATMS?

A good accounting system means maintaining of proper accounts and inventory records for tracking and accounting of raw materials that were acquired or consigned under the ATMS. It also includes proper accounting on work-in-progress, stocks on hand and finished goods disposed off to both the local and overseas markets. All accounting records must be supported by related original documents and must be kept in accordance with the Principles of Standard Accounting Practices adopted in Malaysia. A good accounting system required of each respective party under the ATMS will be spelt out in the conditions upon approval and must adhere to at all time.

11. RESPONSIBILITIES OF AN APPROVED TOLL MANUFACTURER**11.1. When I transfer my business as a going concern can I also transfer my ATMS status to the buyer?**



Approval granted under the ATMS is not transferable. Transferee who is eligible for ATMS status and wish to enjoy ATMS treatment should apply for ATMS status before the transfer is made. **(See the guide on Transfer Of Going Concern)**

11.2. What is the duration of an ATMS approval and when it should be renewed?

Approval for ATMS status is on a two-yearly basis or for a shorter period, as the case may be, and any application for renewal must be made two months before the last day of each approval period.

11.3. What would happen to goods on hand if I ceased to be an approved toll manufacturer under ATMS?

If you are no longer a registered person under GST, you have to account for output tax on all capital assets or goods on hands.

11.4. What are the other responsibilities expected of me under the ATMS?

- a) Good compliance on any dealings with the RMC must be maintained at all time. If you flout any law administered by the RMC your ATMS status will be suspended or revoked. Any breach of conditions or any law administered by the RMC amounts to an offence which are punishable under the GST law;
- b) All deliveries and supplies of consigned goods, including raw materials, made under the ATMS must be properly and sufficiently supported by relevant documents and records. All such documents and records must be made available upon request by GST officer for inspection;
- c) You must immediately inform the Director General if there are any discrepancy on the consigned goods and account for GST on such discrepancy. Any discrepancy is deemed to be a local supply and GST is to be accounted for by the approved toll manufacturer who is responsible for such discrepancy. The GST payable will be based on the open market value of the value-added (finished) goods under consignment and must be accounted for in the taxable period in which the discrepancy is discovered;
- d) You should immediately notify the RMC on any change in particulars submitted to RMC under ATMS.



12. FURTHER INFORMATION FOR AN APPROVED TOLL MANUFACTURER

As an approved toll manufacturer must I need to know more about other aspects of GST?

The following guides may be of help to you:

- (a) Registration
- (b) Agent
- (c) Approved Trader Scheme
- (d) Manufacturing

13. HOW TO APPLY FOR ATMS

An applicant must submit the following documents on application:

- (a) GST-Adm 1 form duly completed and signed.
- (b) A copy of contract(s) signed by your company and overseas principal;
- (c) A copy of contract or authorized letter by your overseas principal to the local customer(s);
- (d) A copy of Mykad / passport of authorized applicant(s) who signed on behalf;
- (e) Latest annual audited financial statement;

Completed application form and all supporting documents must be submitted together, either by hand or through registered post, to the GST Head Office at:

Royal Malaysian Customs
GST Head Office
No. 22, Jalan 6/3
Kelana Jaya
47301 Petaling Jaya

13.1. Time of application for the ATMS?

A toll manufacturer and the local customer(s) of his overseas principal may apply for the ATMS when they are able to fulfill the conditions that are stipulated under the scheme.

13.2. Obtaining of application form for ATMS?

Application form can be downloaded from RMC website at <http://www.customs.gov.my>. For further clarification, call toll free line No. 1800 XX XXXX.



13.3 Notification on the outcome of application?

A duly completed application would be processed within a month from the date of its submission and the applicant would be notified accordingly. An incomplete application would either be rejected or its outcome delayed.

14. 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>.