

## In this Issue

- Proposed Sales Tax Implementation Model
- Proposed Service Tax Implementation Model

Royal Malaysian Customs Department ["RMCD"] has on 19<sup>th</sup> July 2018 released the model and Frequently Asked Questions ["FAQ"] pertaining to the proposed sales and service tax ["SST"] to provide clarification and guidance to the public in order to ensure a smooth implementation of the SST comes 1<sup>st</sup> September 2018. It is expected that the relevant draft laws, regulations and orders pertaining to the SST will be released very soon. This Tax Flash is intended to update you on the proposed SST implementation model subsequent to the release of the above mentioned documents by RMCD.

### Proposed Sales Tax Implementation Model

The Proposed Sales Tax Act 2018 and the related Sales Tax Regulations and Orders will soon be enacted. The salient points for the proposed sales tax regime to be implemented effective 1<sup>st</sup> September 2018 are summarised below:-

- Scope of Charge
  - Sales tax is a single-stage tax which will be charged and levied on:-
    - taxable goods manufactured in Malaysia by a taxable person and sold, used or disposed of by him; and
    - taxable goods imported into Malaysia.

## Hyperlinks

- [Moore Stephens Malaysia](#)
- [Moore Stephens International](#)
- [Workshop on 25<sup>th</sup> July 2018 – GST After 1 June 2018 and SST : Transitional Issues and What You Need to Do?](#)

## Contact details

Advent MS Tax Consultants Sdn Bhd [703669-U]  
Unit 3.3A, 3rd Floor, Surian Tower  
No. 1 Jalan PJU 7/3, Mutiara Damansara  
47810 Petaling Jaya, Selangor, Malaysia

T +603 7728 1800  
F +603 7728 9800  
E [tax@moorestephens.com.my](mailto:tax@moorestephens.com.my)  
[www.moorestephens.com.my](http://www.moorestephens.com.my)



## Hyperlinks

- Definition of “Manufacturing”
  - Conversion of materials by manual or mechanical means into a new product by changing the size, shape, composition, nature or quality of such materials, including the assembly of parts into a piece of machinery or other products.
  - Any installation of machinery or equipment for the purpose of construction will not be regarded as manufacturing for sales tax purposes.
- Taxable Goods
  - Goods that are not listed in the proposed Sales Tax (Goods Exempted from Sales Tax) Order 2018 will be subject to sales tax.
- Taxable Person
  - A taxable person is a person who manufactures taxable goods.
- Sales Tax Registration Threshold
  - A taxable person is required/liable to be registered when his sales value of taxable goods exceeds RM500,000 [“Prescribed Threshold”] for a period of 12 months.
- Determination of Sales Value of Taxable Goods for Registration Purpose

Method	Description
Historical method	Total value of taxable goods of any month plus Total value of taxable goods for the 11 months immediately preceding that month
Future method	Total value of taxable goods of any month plus Total value of taxable goods for the 11 months immediately succeeding that month

- Rates of Tax
  - The proposed rates are as follows:-

Category of Taxable Goods	Rate of Tax
Taxable goods other than petroleum	5% or 10%
Petroleum	Specific rate to be determined

- Registration
  - Mandatory registration is required to be made before 1<sup>st</sup> September 2018 using MySST system if the total value of taxable goods exceeds the Prescribed Threshold, determined based on the historical method or future method.
  - Voluntary registration may be applied by a person who manufactures taxable goods but the sales value of the taxable goods is below the Prescribed Threshold, determined based on the historical method or future method.

## Hyperlinks

- Manufacturers who are Goods and Services Tax ["GST"] registrants which have been identified and fulfilled the pre-requisite criteria will be registered automatically as Registered Manufacturer.
- GST registrants who fulfill the pre-requisite criteria but are not registered automatically by 1<sup>st</sup> September 2018 are required to apply for registration latest by 30<sup>th</sup> September 2018.
- Accounting Basis
  - Sales tax will be accounted for based on accrual basis, at the time when the goods are sold, disposed of or first used.
- Furnishing of Sales Tax Returns
  - Registered manufacturers are required to furnish Sales Tax Return ["SST-01"] for a taxable period (which consists of two calendar months) not later than the last day of the following month after the end of the taxable period to which the return relates.
- Payment of Sales Tax
  - Payment of sales tax has to be made not later than the last day on which the registered manufacturer is required to furnish the SST-01 return notwithstanding that the customer may not have paid for the goods as sales tax is accounted for based on accrual basis.
  - Payment of sales tax can be made via the following channels:-
    - Electronically; or
    - Cheque or bank draft at SST Processing Centre.
- Penalty for Late Payment of Sales Tax

<b>Period of Default from Payment Due Date</b>	<b>Rate of Penalty</b>
≤ 30 days	10% on unpaid sales tax
> 30 days but ≤ 60 days	25% on unpaid sales tax
> 60 days	40% on unpaid sales tax

- Bad Debts Relief
  - Registered manufacturers (including persons who have ceased to be registered manufacturers) may claim bad debts relief within six years from the date the taxable goods are sold.
  - The bad debts relief to be claimed will be ascertained based on a prescribed formula and it is subject to conditions prescribed by the Director General of Royal Malaysian Customs ["DG"].
- Bad Debts Recovery
  - Registered manufacturers (including persons who have ceased to be registered manufacturers) who have claimed bad debts relief and received the sales tax refund are required to repay the sales tax to the DG when the bad debts are subsequently recovered from the debtor.

## Hyperlinks

- Special Treatment
  - Designated areas ["DA"]
    - DA refer to Labuan, Langkawi and Tioman.
    - The proposed Sales Tax Act 2018 does not apply to DA except for the following:-
      - i. Manufacturing activities in DA
        - Manufacturing in relation to petroleum products will be subject to sales tax.
      - ii. Importation into DA:-
        - The following goods imported into DA will be subject to sales tax:-

DA	Description
Labuan	Petroleum
Langkawi	Marble, petroleum and anchovies
Tioman	Petroleum and motor vehicles

- Special Areas ["SA"]
  - SA refer to Free Zone, Licensed Warehouse, Licensed Manufacturing Warehouse and Joint Development Area ["JDA"].
  - The proposed Sales Tax Act 2018 does not apply to SA.
  - Goods imported into SA will not be subject to sales tax except for goods in Free Zone which may be subject to sales tax based on the proposed Special Area Order.
- Removal of Goods
  - The following sales tax treatment would apply for removal of goods to or from DA / SA:-

Removal of Goods	Sales Tax Treatment
From Principal Customs Area ["PCA"] to DA / SA	Deemed export and no sales tax
From DA / SA to PCA	Deemed import and subject to sales tax
From DA / SA to another DA / SA	No sales tax

- Special Exemption
  - Exemptions from sales tax are available in respect of the following goods and persons:-
    - Goods
      - Goods listed in the proposed Sales Tax (Goods Exempted from Sales Tax) Order 2018 such as live animals, unprocessed food, vegetables, medicines, machinery, chemicals, etc.
    - Persons
      - The following persons are exempted from sales tax based on the proposed Sales Tax (Person Exempted from Sales Tax) Order 2018:-
        - Ruler of States, Federal or State Government Department, Local Authority, Inland Clearance Depot and Duty Free Shop.

➤ Proposed Goods Exempted from Sales Tax

## Hyperlinks

- Manufacturer of specific non-taxable goods – exemption of tax on the acquisition of raw materials, components and packaging materials to be used in the manufacturing activities.
- Registered Manufacturer – exemption of tax on the acquisition of raw materials, components and packaging materials to be used in the manufacturing of taxable goods.
- Exemption from registration is applicable in respect of the following manufacturing activities:-
  - Incorporation of goods into building.
  - Tailoring.
  - Vanishing table top.

### Proposed Service Tax Implementation Model

The proposed Service Tax Act 2018 and the related Service Tax Regulations and Orders will soon be enacted. The salient points for the proposed service tax regime to be implemented effective 1<sup>st</sup> September 2018 are summarised below:-

- Scope of Charge
  - Service tax will be charged and levied on:-
    - any taxable services;
    - made in the course or furtherance of any business;
    - by a taxable person; and
    - in Malaysia.
  - Service tax is not chargeable on imported and exported services.
- Examples of Taxable Services
  - Hotel (including lodging house, service apartment, homestay, Inn, rest house and boarding house)
  - Insurance and takaful
  - Service of food and beverage preparation (including restaurant, cafe, catering, take-away, food truck, retail outlet, hawkers)
  - Club (including night club, private club, golf club and golf driving range)
  - Gaming (including casino, game of chance, sweepstakes, gaming machines, lottery and betting)
  - Telecommunication
  - Pay-TV
  - Forwarding agents
  - Legal
  - Accounting
  - Surveying
  - Architectural
  - Valuer
  - Engineering
  - Consultancy
  - Employment agency
  - Security

## Hyperlinks

- Management services
- Parking
- Motor vehicle service or repair
- Courier
- Hire and drive car
- Advertising
- Domestic flight (except for Rural Air Services)
- Credit or charge card
- IT services
- Electricity (consumption by end-consumers will only be subject to service tax for consumption exceeding 600kWh)
- Taxable Person
  - A taxable person is a person who provides taxable services.
- Service Tax Registration Threshold
  - A taxable person is required/liable to be registered when the value of taxable services exceeds RM500,000 ["Prescribed Threshold"] for a period of 12 months.
- Determination of Value of Taxable Services for Registration Purpose

Method	Description
Historical method	Total value of taxable services of any month plus Total value of taxable services for the 11 months immediately preceding that month
Future method	Total value of taxable services of any month plus Total value of taxable services for the 11 months immediately succeeding that month

- Rates of Tax
  - The proposed rates are as follows:-

Category of Taxable Services	Rate of Tax
Taxable services other than provision of credit card or charge card services	6%
Provision of credit card or charge card services	RM25

- Registration
  - Mandatory registration is required to be made before 1<sup>st</sup> September 2018 using MySST system if the total value of taxable services exceeds the Prescribed Threshold, determined based on the historical method or future method.
  - Voluntary registration may be applied by a person who provides taxable services but the value of the taxable services is below the Prescribed Threshold, determined based on the historical method or future method.
  - Taxable persons who are GST registrants and fulfilled the pre-requisite criteria will be registered automatically as registered persons.

## Hyperlinks

- GST registrants who fulfill the pre-requisite criteria but are not registered automatically by 1<sup>st</sup> September 2018 are required to apply for registration latest by 30<sup>th</sup> September 2018.
- **Furnishing of Service Tax Returns**
  - Taxable persons are required to furnish Service Tax Return ["SST-01"] for a taxable period (which consists of two calendar months) not later than the last day of the following month after the end of the taxable period to which the return relates.
- **Accounting Basis**
  - Service tax is accounted for based on payment basis.
- **Payment of Service Tax**
  - Service tax is only accounted for (in the relevant taxable period) to the DG when payment for the service tax is received by the registered person. The registered person is required to pay to the DG the amount of the service tax collected in respect of the taxable period to which the return relates not later than the last day on which the registered person is required to furnish the return.
  - Notwithstanding the above, where payment (whether wholly or partly) for the service tax is not received by the registered person within a period of twelve (12) months from the date of issue of the invoice for the services provided, then the service tax shall be due in the taxable period immediately following that period of twelve (12) months.
- **Penalty for Late Payment of Service Tax**

<b>Period of Default from Payment Due Date</b>	<b>Rate of Penalty</b>
≤ 30 days	10% on unpaid service tax
> 30 days but ≤ 60 days	25% on unpaid service tax
> 60 days	40% on unpaid service tax

- **Bad Debts Relief**
  - Registered persons (including persons who have ceased to be registered) may claim bad debts relief within six years from the date the service tax is paid.
  - The bad debts relief to be claimed will be ascertained based on a prescribed formula and it is subject to conditions prescribed by the DG.
- **Bad Debts Recovery**
  - Registered persons (including persons who have ceased to be registered) who have claimed bad debts relief and received the service tax refund are required to repay the service tax to the DG when the bad debts are subsequently recovered from the debtor.

## Hyperlinks

- Special Treatment
  - Services provided between and within DA will not be subject to service tax except for certain services prescribed by Minister. The same treatment applies to services provided between and within SA.
  - The following service tax treatment would apply for provision of services to or from DA / SA:-

<b>Provision of Taxable Services</b>	<b>Service Tax Treatment</b>
PCA to DA / SA	Subject to service tax except for certain services prescribed by Minister.
From DA / SA to PCA	Subject to service tax
From DA / SA to another DA / SA	No service tax
From PCA (other than SA) to Free Zone or Licensed Manufacturing Warehouse	Subject to service tax
From PCA (other than SA) to JDA	Not subject to service tax

This publication is provided gratuitously and without liability. It is intended as a general guide only and the application of its contents to specific situations will depend on the particular circumstances involved. Readers should seek appropriate professional advice regarding any particular problems that they encounter, and this tax update should not be relied on as a substitute for advice. Accordingly, Advent MS Tax Consultants Sdn Bhd assumes no responsibility for any errors or omissions it may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it. Should further information, clarification or advice be required on any of the contents stated herein, please feel free to contact our tax team.