GST Customs Malaysia

GST Malaysia

Goods and Services Tax

What is GST

How Does GST Work

For more information, go to

www.gstmalaysia.org

Understanding GST

GST shall be levied and charged on the taxable supply of goods and services made in the course or furtherance of business in Malaysia by a taxable person. GST is also charged on the importation of goods and services.
A taxable supply is a supply which is standard rated or zero rated. Exempt and out of scope supplies are not taxable supplies. GST is to be levied and charged at the proposed rate of 4% on the value of the supply.
GST can only be levied and charged if the business is registered under GST. A business is not liable to be registered if its annual turnover of taxable supplies does not reach the prescribed threshold. Therefore, such businesses cannot charge and collect GST on the supply of goods and services made to their customers. Nevertheless, businesses can apply to be registered voluntarily.
Almost all countries collect income tax, which is a percentage of what you earn as an individual. Another way the government gets revenue is by collecting tax from business operations, like sales tax and duties on items that are bought or sold.
We need to pay tax so that the government can operate. GST is one method of collecting taxes which works better than others.

GST is not new

The concept behind GST was invented by a French tax official in the 1950s. In some countries it is known as VAT, or Value-Added Tax. Today, more than 160 nations, including the European Union and Asian countries such as Sri Lanka, Singapore and China practice this form of taxation. Roughly 90 percent of the world's population live in countries with VAT or GST.
Here are some of the tax rates of countries around the world who have implemented GST or VAT.

Year	Country	Rate
1980	China	17.0%
1985	Indonesia	10.0%
1985	New Zealand	12.5%
1991	Thailand	7.0%
1994	Singapore	5.0%
1994	United Kingdom	17.5%
1996	Thailand	10.0%
2000	Australia	10.0%
2005	India	12.5%

Malaysian Tax History

In Malaysia, our tax system involves several different indirect taxes:

- ## Import duty
  - On goods brought into the country
- ## Export duty
  - On goods produced for sale outside the country
- ## Government Sales Tax
  - On a wide range of goods at the point of import or at the manufacturer's level, with four tax rates at 5%, 10%, 20% and 25%
- ## Service Tax
  - On services provided by restaurants, hotels, telecommunications services, professional services by architects, engineers, lawyers etc.
- ## Excise Duty
  - On luxury and 'sin' products such as automobiles, liquor, beer and tobacco products

The proposed GST will replace the Government Sales Tax and the Service Tax.

Consumption Tax Before GST

a) SALES TAX

Sales Tax was introduced on the 29th February 1972 as a single stage consumption tax, levied, charged and paid on goods manufactured in Malaysia and imported.

Currently, the rates of sales tax are as follows:-

- Reduced rate of 5% for non-essential foodstuff and building materials
- A general rate of 10%
- Specific rates for petroleum products

  Licensing

  Manufacturers of taxable goods whose annual sales turnover exceed RM100,000 is required to be licensed under sales tax act. Those with annual sales turnover does not exceed RM100,000 are required to apply for a certificate of exemption from licensing.

  Scope of Tax

  Sales tax is levied on locally manufactured goods at the time the goods are sold or otherwise disposed of by the manufacturer. It is called a single stage tax because sales tax is to be charged once only, either at the input or at the output stage.
  - List of goods subject to sales tax at 10%
  - List of goods subject to sales tax at 5%

b) SERVICE TAX

Service tax was introduced on the 1st March 1975 as a single stage consumption tax, levied, charged and paid on specific services provided by a taxable person in Malaysia.

Currently, the rates of service tax are as follows:-

- Flat rate of 5%;
- Specific rates for credit card - RM50.00 (effective from 1st January 2010)

Why GST

GST is proposed to replace the current consumption tax i.e. the sales tax and service tax (SST). The introduction of GST is part of the Government's tax reform programmed to enhance the efficiency and effectiveness of the existing taxation system.

GST is proven to be a better tax system as it is more effective, efficient, transparent and business friendly and could spur economic growth as well as increase competitiveness in the global market.

GST is capable of generating a more stable source of revenue to the nation because it is less susceptible to economic fluctuations.

It is important to replace the existing SST in order to eliminate its inherent weaknesses such as cascading and compounding effects, transfer pricing and value shifting, no complete relief on goods exported, discourage vertical integration, administrative bureaucratic red tape, classification issues and etc.

Various benefits that GST can offer to Malaysian consumers and businesses are:

- ## Improved Standard of Living

  The revenue from GST could be used for development purposes for social infrastructure like health facilities and institutions, educational infrastructures and public facilities to further improve the standard of living.

- ## Lower Cost of Doing Business

  Under the current system, some businesses pay multiple taxes and higher levels of tax-on-tax (cascading tax). With GST, businesses can benefit from recovering input tax, thus reducing cost of doing business.

- ## Nation-Building

  GST is a better and more efficient method of revenue collection for the government. More funds can be channeled into nation-building projects for progress towards achieving a high income nation.

- ## Fairness and Equality

  With the GST, taxes are levied fairly among all the businesses involved, whether they are in the manufacturing, wholesaling, retailing or service sectors.

- ## Enhanced Delivery System

  GST will be administrated in a fully computerized environment, therefore speeding up the delivery, especially for refund claims. This makes it faster, more efficient and reliable.

- ## Increase Global Competitiveness

  Prices of Malaysian exports will become more competitive on the global stage as no GST is imposed on exported goods and services, while GST incurred on inputs can be recovered along the supplies chain. This will strengthen our export industry, helping the country progress even further.

- ## Enhanced Compliance

  The current SST has many inherent weaknesses making administration difficult. GST system has in-built mechanism to make the tax administration self-policing and therefore will enhance compliance.

- ## Reduces Red Tape

Under the present SST, businesses must apply for approval to get tax-free materials and also for special exemption for capital goods. Under GST, this system is abolished as businesses can offset the GST on inputs in their returns.

- ## Fair Pricing to Consumers

GST eliminates double taxation under SST. Consumers will pay fairer prices for most goods and services compared to SST.

- ## Greater Transparency

Unlike the present sales tax, consumers would benefit under GST as they will know exactly whether the goods they consume are subject to tax and the amount they pay for.

Scope and Charge

GST shall be levied and charged on the taxable supply of goods and services made in the course or furtherance of business in Malaysia by a taxable person. GST is also charged on the importation of goods and services.

A taxable supply is a supply which is standard rated or zero rated. Exempt and out of scope supplies are not taxable supplies.

GST is to be levied and charged at the proposed rate of 4% on the value of the supply.

GST can only be levied and charged if the business is registered under GST. A business is not liable to be registered if its annual turnover of taxable supplies does not reach the prescribed threshold. Therefore, such businesses cannot charge and collect GST on the supply of goods and services made to their customers. Nevertheless, businesses can apply to be registered voluntarily.

GST Treatment on Government Services

Supplies made by the Government are generally treated as out of scope supplies. No GST will be imposed on the supply made by the Federal Government and State Government such as healthcare services provided by hospital and clinic, education services by primary and secondary school including tertiary education, issuance of passport by the Immigration Department, issuance of licences and permits by the Road Transport Department and etc.

Rationale:-

- To meet social obligations and economic objective of the Government.
- To maintain status quo on the provision of Government services.

Government supplies subject to GST

Specific supplies such as water supply by the State Government and advertising services by RTM will be subjected to GST due to the commercial nature of these services.

Supplies by Statutory Bodies and Local Authorities

Supplies made by Statutory Bodies and Local Authorities will be subject to GST except supply in respect of its regulatory and enforcement functions such as issuing licenses and permits and etc.

How Does GST Work

Businesses making taxable supplies have to be registered under GST if their annual sales turnover has exceeded the prescribed threshold. Only a registered person can charge and collect GST on the taxable supplies of goods and services made by him. GST is charged on the value or selling price of the products. The amount of GST incurred on input (input tax) can be deducted from the amount of GST charged (output tax) by the registered person.

If the amount of output tax is more than the input tax in the relevant taxable period, the difference shall be remitted to the Government. However, if the input tax is more than the output tax, the difference will be refunded by the Government.

What you need to do

GST requires businesses who have exceeded the prescribed threshold to register and to keep records of input and output tax. Businesses report their liability in a specific period called taxable period.
Explore the following sections to understand your responsibilities and obligations as a registrant under GST.

- Registering your Business
- Issuing Tax Invoices
- Accounting for GST
- Filing Tax Returns
- Input Tax Credit Mechanism
- Claiming GST Refunds
- Paying GST
- Offences
- Review and Appeals

1. Registering your Business

The first step to being GST-ready is to register for a GST identification number. You need to check whether you are required to register or whether you want to register voluntarily. Persons having businesses with annual sales turnover exceeding RM500,000 are liable to be registered under GST. Persons include an individual, sole proprietor, partnership, company, trust, estate, society, union, club, association or any other organization including a government department or a local authority which is involved in the business of making taxable supplies in Malaysia.

The annual sales turnover can be determined based on either:

- The total value of taxable supplies of the current month and the previous 11 months, or
- The total value of taxable supplies of the current month and the next 11 months.

You also need to decide on the type of registration best for your business:

- Voluntary Registration
- Group Registration.
- Divisional/Branch Registration

Deregistration

You must apply for deregistration of your business within 30 days from the date of the following circumstances when:

- Your business has ceased; or
- No longer fulfill the requirements of registration.

Voluntary Registration

Any person making a taxable supply and having an annual sales turnover RM500,000 and below is not required to be registered. However, you may voluntarily apply for registration. Voluntary registration is allowable but must remain in the system for at least 2 years.
Once registered, you are required to charge and collect GST on the taxable supplies and at the same time are entitled to claim input tax credit and eligible to enjoy all facilities provided under the law.

Group Registration

Group registration is a facility that allows several companies to group and centralize their administration for the GST accounting purpose. Each company must be registered individually before they can be grouped as a single registered person and each company must be making wholly taxable supply.
Requirements for group registration :

- Companies are eligible for group registration if one company controls another company. One company is taken to control another company if the first mentioned company holds directly, indirectly through subsidiaries or together directly or indirectly through subsidiaries more than 50% of the issued share capital of the second mentioned company.
- One of the members has to be nominated by the group as the representative member of the group.
- Any taxable supply made by or to a member of the group shall be treated as a supply by or to the representative member.
- Supplies between group members would be disregarded as a supply.
- Each member of the group is required to keep proper records as they are jointly and severally liable.

Divisional/Branch Registration

A taxable person who is carrying on its business in several divisions or branches upon request and subject to stipulated terms and conditions can be registered in the names of those divisions/branches. This is a facility for any taxable person with a number of self accounting units to register each unit separately for GST.
Each division/branch will be given a separate GST identification number and make its own returns. However, the taxable person remains accountable for all GST liability of all divisions/branches.

2. Issuing Tax Invoices

When you charge GST, you need to issue a tax invoice showing the amount of GST and the price of the supplies separately. The tax invoice has to be issued within 21 days after the time of the supply.
Particulars to be shown in the tax invoice:

- The words 'tax invoice' in a prominent place;
- The invoice serial number;
- The date of issuance of the invoice;
- The name (or trade name), address and GST identification number of the supplier;
- The name and address of the recipient of the supply;
- A description of the goods and/or services supplied;
- The quantity or volume of the goods and/or services supplied, for example, litres of petrol, kilos of meat or hours of labour;
- Any discount offered;
- The total amount payable excluding tax, the rate of tax and the total tax chargeable shown as a separate amount;
- The total amount payable including the total tax chargeable.
- The Director General of Customs may upon request allow the tax invoice to be varied from the above whether in term of particulars in the tax invoice or issuance of other type of tax invoice e.g. simplified tax invoice.

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Simplified Tax Invoice

An invoice that does not contain all the particulars as required in the standard tax invoice and subject to the approval of the Director General. Simplified tax invoice can be used by the GST registrant to claim ITC provided the value of the invoice (inclusive GST) does not exceed RM500.
DG may allow the simplified tax invoice to be issued containing:

- The name (or trade name), address and GST identification number of the supplier;
- The date of issuance of the invoice;
- The invoice serial number;
- A description of the goods and/or services supplied;
- The total amount payable including the total tax chargeable; and
- For each rate of tax chargeable, the gross amount payable including tax and the tax rate applicable

3. Accounting for GST

Basically, all taxable persons will be required to account for GST based on accrual (invoice) basis of accounting i.e. all output tax and input tax are to be accounted and claimed based on the time when the invoice was issued or received.
However, certain categories of taxable persons may be allowed to use the payment (cash) basis of accounting. This facility may be given to businesses who carry out their activities solely on a cash payment basis.
All business and accounting records relating to GST transactions are to be kept in Bahasa Melayu or English for a period of seven (7) years.

4. Filing GST Returns

GST returns must be submitted to the GST office not later than the last day of the following month after the end of the taxable period.
Taxable period is a regular interval period where a taxable person is liable to account and pay to the government his GST liability. The standard taxable period is on quarterly basis.
However, a registrant may apply to be placed in other taxable period (monthly or 6 monthly) subject to specific conditions as follows:

Categories	Periods	Conditions
Standard Taxable Period	Three months	○ Applicable to all taxable turnover not exceeding RM5 m
Non-standard Taxable Period	One month	○ Applicable to taxable persons with annual taxable turn million ○ applicable to other taxable persons on request and sub
	Six months	○ Special cases

5. Input Tax Credit Mechanism

Businesses have to charge and collect GST on all taxable goods and services supplied to the consumers.
Only businesses registered under GST can charge and collect GST.
Businesses are allowed to claim whatever amount of GST paid on the business inputs by offsetting against the output tax.

- The excess amount of output tax shall be remitted to the government within the stipulated period.
- In the case where the amount of input tax cannot be fully recovered, businesses can make a claim for refund from the government.

  Note:

- Maximum time period to claim the input tax is 6 years from the date of supply.
- Input tax credit cannot be claimed on blocked input such as GST paid on passenger motor car, club subscription fee, medical and personal accident insurance premium, medical expenses, family benefits, entertainment expenses except for employees and etc.
- Apportionment rules have to be applied when the taxable person makes a mixed supply.

6. Claiming GST Refund

Any refund of tax may be offset against other unpaid GST, customs and excise duties. Refund will be made to the claimant within 14 working days if the claim is submitted online or 28 working days if the claim is submitted manually.

7. Paying GST

If your output tax exceeds the input tax, the difference shall be remitted to the Government together with the GST returns not later than the last day of the following month after the end of taxable period.
Online payments through:

- Banks (to be appointed).
- Internet facilities.
- Manual payment:
  - Payment via cheque/bank draft/money order must be made payable to 'Ketua Pengarah Kastam' and mail to:

    Ketua Pengarah Kastam
    Jabatan Kastam Diraja Malaysia
    Kompleks Kastam Kelana Jaya
    No.22 Jalan SS6/3
    Kelana Jaya 47301
    Petaling Jaya, Selangor

  - Or
  - Pay at any nearest GST office counter from 8.00 am - 5.00 pm.

8. Offences

Penalties may be imposed if the following offences are committed:

- Any deficiency on the net tax payable.

- No GST return is made.
- A GST return is submitted without payment or a lesser payment;
- Any refund paid to which there is no proper entitlement.
- Failure to register.

9. Review and Appeals

Any person who is aggrieved by the decision of the officer of GST may apply for a review and revision to the DG within 30 days from the date of notification. Alternatively, such person shall make an appeal to the Tribunal within 30 days from the date of the decision.
The appeal case can be represented by the taxpayer himself or by any person whom he may appoint. The hearing shall be conducted in a private proceeding unless both parties agree to an open court.