



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-01
 Title: Strategic: Budgeting and Resource Requirement for GST Implementation

GST Implication: **Background**

1. The introduction of the GST will require PDCC to allocate necessary budget and resources to meet the cost to implement GST.

GST Implication

2. The initial cost outlay in getting ready for the GST will be material. This will involve amongst others incurring costs for upgrading IT systems, changes to stationary to comply with GST requirements, training of staff, software upgrades, etc. These will be one-off expenditure.

3. As a consequence, these costs and the timing of their acquisition would need to be considered in any budgeting / cost assessment process.

4. The introduction of the GST will also necessitate a review of the current allocation of resources with a view to determining whether further resources should be allocated to meet the additional demands of the GST.

5. As such, PDCC will require resources to undertake the following:

- GST technical reference providing technical support to the Finance Team and other departments on the GST treatment of new transactions and new product lines
- Act as a contact point for Customs enquiries
- Undertake internal GST audit / reviews of systems and processes to ensure compliance
- Process and maintain invoices to substantiate input tax claims
- Prepare, complete and submit the monthly GST return including reviewing, verifying and reconciling all data captured.

Work Plan: Recommendations

1. Plan and document a budget to fund the necessary expenditure.
2. Devise a plan outlining the timing of the changes (and expenditure) required.
3. Communicate changes to employees.
4. Review and assess the resource requirements for GST.
5. Management to determine the resource needed to ensure your GST requirement is met.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-02
 Title: Strategic: CAPEX

GST Implication: **Background**

1. PDCC may be planning to make significant capital expenditures near the GST appointed date.

GST Implication

2. Where capital goods are currently not subject to sales tax, purchasing such goods before the GST appointed date will have potential tax savings to PDCC.

3. Alternatively, for capital goods that are currently subject to sales tax (10%) or have embedded sales tax element, it may be more economical to purchase these goods post-GST (6%). PDCC would be able to claim some input tax credit on the GST charged.

4. Therefore, PDCC should consider accelerating or delaying its capital expenditures based upon the tax implications. It should be noted that GST should only be a factor, and not driver of purchasing decisions.

Work Plan: Recommendations

1. Identify capital expenditures to be made close to GST appointed date.
2. Analyse potential tax savings and cash flow benefit for purchasing the goods before (sales tax regime) or after implementation of GST. Consider:
 - a. Goods that are not subject to sales tax or Company enjoys sales tax exemption on such goods.
 - b. GST rate higher/lower than the current sales tax rate, input tax mechanism.
3. Consider accelerating or delaying capital expenditure based upon the above tax implications.
4. Negotiate with the suppliers/vendors on the change in the timing of these capital expenditures.
5. Obtain management sign-off on decision to accelerate or delay purchases.
6. Update the purchase policy on the change in the timing of capital expenditures.
7. Communicate the updated policy on acquisitions to the relevant staff in the Company.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-03
 Title: Strategic: Preferred vendor management

GST Implication: **Background**

1. Malaysian businesses will only be required to register for GST if their annual turnover exceeds RM500,000. All other businesses, have the option to register, but can also opt to remain outside of the Malaysian GST system.
2. As a result, it is likely that not all of PDCC's existing suppliers and vendors will be registered for GST. This will mean that there will be some vendors / suppliers who issue tax invoices with GST, whilst others do not, even though both may be providing the same type of good or service.

GST Implication

3. GST registered businesses can claim input tax and issue GST tax invoices and thus:

- Potentially have a lower cost base because they are able to claim input tax and hence offer PDCC lower prices.
- Will be able to issue PDCC with GST invoices that will allow PDCC to claim an input tax credit.

4. A preferred vendor program involves establishing a policy to acquire goods and services from suppliers who are registered for GST to access the above benefits.

5. For example, PDCC may consider instructing any current vendor, to voluntarily register for GST in order for PDCC to derive the above benefits.

Work Plan:

Recommendations

1. Analyse the existing suppliers / vendors if they are potential GST registrant.
2. Determine if management would establish policy on preferred vendor program or continue engaging non-registered vendors.
3. Option 1: If management decides to implement the programme, communicate policy to vendors and develop procedures to track GST status of vendors.
4. Option 2 : If management decides to continue with current practices and engage non-registered vendors, ensure the GST status of the vendor and the transactions (i.e. with GST vs without GST) are tracked separately.
5. Update the changes to processes and systems to enable tracking of vendors and their transactions.
6. Educate staff on the updated processes and systems changes.
7. If necessary, educate vendors on GST.
8. Communicate with vendors on the Company's policy on preferred vendor scheme.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-04
 Title: Strategic: Price Rebalancing

GST Implication: **Background**

1. The introduction of GST, along with the repeal of sales tax and service tax, could have implications on PDCC's costs and pricing.

GST Implication

2. Post GST appointed date, any price to be published or quoted for any supply of goods or services shall include the GST chargeable on the supply.

3. If a company wishes to publish or quote its prices exclusive of GST, a written application need to be made to Customs for approval. Where an approval has been granted, the company shall publish or quote his prices exclusive of GST with the words "Price payable is exclusive of GST".

4. The Price Control and Anti-Profiteering Act 2011 has been introduced, in part, in anticipation of the implementation of GST. The Act makes it illegal for businesses to profit, either directly or indirectly from the introduction of the tax.

5. Because certain goods purchased by PDCC are currently subject to sales tax at 10%, it is likely that some of these goods will become cheaper after the implementation of GST. If PDCC does not pass the cost saving on to its customers, it may be liable to prosecution under the Act.

6. PDCC should retain documentation to show that its prices are justifiable in order to satisfy the Price Control and Anti-Profiteering Act 2011.

Work Plan: Recommendations

1. Determine transactions in which the implementation of GST will result in material savings / increase in costs.
2. Ensure that pricing decisions based on these transactions are justifiable by PDCC.
3. Ensure documents are retained in order to justify pricing decisions.
4. Identify related documents to be updated/amended to quote price with GST inclusive.
5. Determine and implement process and system changes required.
6. Educate employees in process and system changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-06
 Title: Compliance: Record keeping requirements for GST purposes

GST Implication: **Background**

1. PDCC may keep / manage / maintain records on PDCC's transactions in either soft or hard copies.

GST Implication

2. The GST legislation requires that every taxable person and certain non-taxable person to keep full and true records of all transactions which affect or may affect his liability to tax.

3. These records should be kept in Malaysia except as otherwise approved by the Director General and shall be in the national or English language, and should be preserved for a period of seven years from the latest date to which the records relate.

4. The "certain non-taxable person" mentioned above are as follows:

- any person who has ceased to be a taxable person and has made/may make bad debt relief claim;
- imported services supplied to the recipient, who is a non-taxable person, for the purposes of business;
- goods of a taxable person are sold by a non-taxable person to recover any debt owed by the taxable person;
- supply by the auctioneer, who is a non-taxable person in his own name on behalf of the principal/owner of the goods who is a taxable person; and
- a non-taxable person in Malaysia, who receives goods (in the course or furtherance of business) from an approved toll manufacturer.

5. The proper retention of such documents are essential as evidence of PDCC's GST liabilities and entitlements.

6. For instance, in the event of a Customs audit, if PDCC is unable to substantiate a claim for input tax credits with the relevant documentation, there is a risk those input tax credits would be denied and penalties would be imposed for submitting an incorrect GST return.

7. The registered person must keep the original documentation which is normally kept in paper (hard copy) format. However, where the record is in an electronically readable form, the record shall be kept in such manner as to enable the record to be readily accessible and convertible into writing.

8. When the record is originally in a manual form and is subsequently converted into an electronic record, the record shall be retained in its original form prior to the conversion. Such records shall be admissible as evidence in any proceedings. For example, records kept in a computer using magnetic tape or disc, should be readily converted into a satisfactory legible form and available to Customs on request to allow its officers to check registered person's operation and the information stored through the person in charge of the computer or its software.

Work Plan: Recommendations

- Develop procedures for retention of GST records for the required period.
- Determine and review current record retention procedures/policy.

3. Communicate to the relevant employees on the retention policy and procedures.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-07
 Title: Compliance: Issuance of Tax Invoices

GST Implication: **Background**

1. PDCC currently makes a number of supplies for which no invoices are issued, such as:-
 - Rental of commercial property
 - Sales of scrap

GST Implication

2. Once registered for GST, PDCC is required to issue a valid tax invoice when PDCC makes any taxable supply of goods or services in the course of PDCC's business. The tax invoice must contain the prescribed particulars in respect of the supply as required by the GST law (refer below).
3. A pro forma invoice is not regarded as a tax invoice.
4. Under the GST legislation, PDCC is prohibited from issuing a tax invoice on any supply of imported services (which would be treated as if supplied by PDCC to itself) and is also not required to issue a tax invoice when it makes the following supplies:
 - exempt supply
 - zero rated supply
 - supply made without consideration on which tax is chargeable (e.g. free goods over the Gift Rule threshold of RM500 per person per year)
5. Although exempt and zero rated supplies do not require tax invoice to be issued, for administrative ease PDCC may choose to issue tax invoices for all its transactions with customers but correctly code the transactions in the tax invoice issued as standard rated, exempt or zero rated.
6. As for supply made without consideration which tax is chargeable, please refer to issue log on "Goods provided for free".

Contents of valid tax invoice

7. The tax invoice should contain the following particulars:
 - the words "tax invoice" in a prominent place;
 - an invoice serial number;
 - date of issue of the invoice;
 - name, address and GST identification number of the supplier;
 - the name and address of the recipient to whom the goods and services are supplied;
 - description of, and the quantity / extent of, the goods or services supplied;
 - any discount offered; and
 - the amount payable (excluding GST), the rate of GST, the total GST chargeable shown as a separate amount and the total amount payable, including the GST.

Statements, special forms or endorsements may be allowed to be used as invoices for GST purposes, provided the necessary information as required for a valid tax invoice are contained in those documents. Conversely, if PDCC wishes for a particular document not to be considered as such, it would be best practice to state such on the invoice. This is significant because the issuance of a tax invoice triggers

the 'time of supply' (PDCC's liability to account for output tax).

8. If a mistake is made on an invoice, PDCC should treat the invoice as cancelled and clearly mark the tax invoice "cancelled".

Work Plan:

Recommendations

1. Identify invoice type (i.e. statements, cover notes etc) documents that are currently issued to customers.
2. Management to decide on:
 - Whether billing / invoicing should be standardised to meet the prescribed requirement for valid tax invoice.
 - Whether to modify current documentation to meet requirements of tax invoice, or develop a new tax invoice.
3. IT to review and document invoicing module modifications to comply with the tax invoicing requirements under the GST.
4. Design and implement the necessary modifications to the current invoices / documentation.
5. Identify instances where PDCC cannot meet GST tax invoice requirements (i.e. where PDCC does not know the details of the recipient).
6. Ensure a process or system is in place to enable the issuance of tax invoice.
7. Determine processes and systems changes to enable the issuance of a tax invoice.
8. Implement processes and systems changes.
9. Educate staff on processes and systems changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-08
 Title: Compliance: GST Adjustments to Tax Invoices with Credit and Debit Notes

GST Implication: **Background**

1. PDCC issues credit/debit note solely for adjustments of transactions made with customers. For example:-
 - Credit note issued to customers for adjustment of price of services supplied by PDCC.
 - Debit note issued to customers for undercharged services.
2. In some instances, credit notes/debit notes may be issued by PDCC not for adjusting the price of transactions or not to cancel transactions, for example:
 - Debit note for the price of scrap sold by PDCC to scrap dealers once the value is ascertained.
 - Debit note for consultancy services rendered to related company.

GST Implication

3. Under GST, PDCC is required to issue a tax invoice in respect of all taxable supplies. A credit and debit note can only be issued where it relates to a reduction or increase in a previous taxable supply (applicable to transactions in item 1 above) for which a tax invoice has been issued.
4. Where PDCC issues debit notes for supplies relating to item 2 above, these transactions will now require the issuance of a tax invoice (refer to issue log on "Issuance of Tax Invoice").
5. Where PDCC makes an adjustment to a taxable supply subsequent to the issuance of a tax invoice, a GST adjustment needs to be made through the issuance of a GST debit or credit note.
6. The adjustment may involve a change in consideration (due to cancellation of the supply, early payment discount or refund). The GST adjustment is reported in the GST return in the period in which the credit / debit note was issued.
7. The issuance of a credit/debit note must contain particulars to be prescribed in the GST Regulations, before it can be considered as a valid debit/credit note. Based on the draft GST General Guide, the particulars to be contained in the credit/debit note are the following:
 - the words "credit note" or "debit note" in a prominent place;
 - the serial number and date of issue;
 - name, address and GST identification number of the supplier;
 - the name and address of the person to whom the goods or services are supplied;
 - the reason for its issue;
 - a description which identifies the supply of goods or services;
 - the quantity and amount for each supply;
 - the total amount excluding tax;
 - the rate and amount of tax; and
 - the number and date of the original tax invoice.
8. Where PDCC is the recipient of a taxable supply which is subject to an adjustment by its vendor, PDCC must receive a debit note/credit note from the vendor and make

an adjustment of the input tax in its GST return for the taxable period in which PDCC receives the credit/debit note.

9. PDCC should revisit its practice of issuing credit/debit notes for transactions not involving cancellation of supply or change in consideration of supply as mentioned in item 2 above.

Work Plan:

Recommendations

1. Identify all transactions which presently uses a debit/credit note and segregate those that will require the issuance of a GST credit/debit note post GST.
2. Develop a policy that requires if any adjustment to the original tax invoice, a credit/debit note is generated.
3. Ensure a process or system is in place to assure a credit/debit note issued/received comply with GST requirements.
4. Determine the processes and systems changes.
5. Implement processes and systems changes.
6. Educate staff on the processes and systems changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-09
 Title: Compliance: Time of Supply

GST Implication: **Background**

1. Currently, PDCC has the following arrangements with clients/ tenants:
 - i. Supply of consultancy services
 - PDCC generally issues invoices after services are performed
 - PDCC may collect / receive interim payments from certain customers before services are performed.
 - ii. Rental of commercial property
 - Tenants will make payment to PDCC based on the agreed payment schedule in the tenancy agreement.

GST Implication

2. For GST purposes, GST must be accounted for in the tax period in which the earlier of the following events takes place:
 - the date when goods are removed or made available or when the services are performed (the basic tax point);
 - the date when a tax invoice is issued; or
 - the date when payment is received.
3. The GST legislation provides a concession to the above when a tax invoice is issued within 21 days from the basic tax point, the date of invoice is taken as the time of supply for GST purposes.
4. If the tax invoice fails to be issued within 21 days, the GST liability is brought back to the basic tax point, which would result in a cash flow loss to PDCC and a potential penalty for an incorrect GST return.
5. In respect to item 1 (i), when a service is provided continuously (e.g. consultancy services), it can be difficult to determine when the service is actually performed. In the circumstance where a supply is provided 'continuously', the GST legislation allow for the GST to be accounted for on each progressive / periodic invoice or payment. This will mean that there will be no requirement to identify the date of service.
6. For cases where deposit forms part of the consideration for the supply, such payments fall within the scope of GST and tax must be accounted for on receipt of the deposit (if it is received before the issuance of the tax invoice) (refer to issue log on "Advance and Deposit Receipts).
7. For retention of any part of a consideration by your customer pending full and satisfactory performance of the contract, or any part of it, by PDCC, the time of such supply is the earliest of the payment is received or tax invoice is issued by PDCC.
8. Currently, PDCC does not issue any documents for supplies relating to item 1 (ii) above. The transaction will now require the issuance of a tax invoice (refer to issue log on "Issuance of Tax Invoice").
9. PDCC needs to ensure that process and procedures are in place to identify every payments received since advance payment or prepayment received may have GST's time of supply implications.

10. PDCC will be required to monitor the trigger points for time of supply (above) and ensure GST is accounted for in the correct taxable period.

Work Plan:

Recommendations

1. Put in place processes and systems to monitor the trigger points for time of supply and ensure GST is accounted for appropriately.
2. Review listing of all services provided by PDCC and identify those that qualify as continuous services.
3. Establish policy and processes to account for GST correctly on continuous services.
4. Determine capability of current process and system to issue tax invoice for all taxable supplies within 21 days from the date the goods are removed / services are performed.
5. If the 21 days rule cannot be complied with, reach agreement with customs authorities on alternative approach or concessionary treatment for longer time frame on the requirement to issue tax invoice or use of alternative documents (e.g. bank statement as a tax invoice).
6. Communicate policies and processes to the relevant staff.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-10
Title: Compliance: Sale of Tender Documents

GST Implication: Background

1. PDCC may select and appoint outsourced contractors through an open tender, where PDCC prepares and sells the tender documents to prospective vendors.
2. Presently PDCC charges plan and documentation fees.

GST Impact

3. The sale of tender documents by PDCC is a supply for GST purposes and will be subject to GST.
4. Once GST commences, PDCC will be required to charge GST on the value of the tender documents and issue a tax invoice.
5. Any input tax incurred in producing the tender documents will be claimable.
6. For contract deposits, the deposit is taxable only in the period where it is applied as consideration by PDCC. For the sale of the contract documents the deposit would become taxable in the period it is used to offset against future payments.
7. However, if the deposit is a security deposit to ensure that the tenderer proceeds with the contract or to ensure that the successful tenderer carries out obligations detailed in the contract, GST will **not** be chargeable.

Work Plan: Recommendations

1. Establish systems and processes to ensure that the price of the tender document is inclusive of GST and that tax invoices are issued.
2. Establish systems and processes to ensure that the correct GST treatment applies to security deposits.
3. Establish processes to track tax invoices generated from the sale of tender document
4. Communicate and educate staff on process and system changes



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-11
 Title: Compliance: Advance and Deposit Receipts

GST Implication: **Background**

1. PDCC collects down payments / deposits which forms part of the consideration from customers.

GST Implication

2. Generally, deposits that are refundable or non-refundable or in the form of security given in respect of any supply of goods and services will not attract GST if it does not form part of payment for the supply.

3. If deposit payment will be offset against the purchase price of the supply, such payments fall within the scope of GST and tax must be accounted on the receipt of the deposit.

4. Other types of deposit:

- i. A security deposit is not a consideration for a supply and not subject to GST as it is refundable.
- ii. A forfeiture deposit is not a consideration for a supply because it constitutes a compensation payment for damages due to non-performance of the contract.

5. A GST liability can arise when a payment is received, even where the good or service has not yet been delivered or performed. GST will need to be accounted for on any advance or prepayments for a supply in the month in which the payment is received.

6. The only occasion when the receipt of a payment would not trigger GST is where that payment received is not treated as payment for any goods or services supplied by PDCC (e.g. security deposit). GST on the deposit payment will be ignored and will only become payable once the deposit is applied as consideration for the supply (e.g. applied against lease rental or property purchase price). Returned or forfeited deposits are not payments for a supply and are not subject to GST.

7. PDCC's requirement for PDCC's vendors (e.g. PDCC's solicitors) to deposit certain amount of funds in PDCC will not attract GST.

8. It is important that PDCC makes the distinction between security deposits and advance payments that PDCC receives. A security deposit can only be a payment made to 'secure performance'.

Work Plan:

Recommendations

Advance payment received by PDCC

1. Identify any advance payment / pre-payment / mobilisation fees / other transactions or payments of similar nature received by PDCC.
2. Review these transactions to identify the characteristic of the supply either it is a deposit or advance payment under the GST law.
3. Establish a policy or guideline for determining the nature of the payment received i.e. as deposit or as advance payment.
4. Ensure that a process or system is in place that identify an amount received/paid

is either a deposit or advanced payment.

5. Ensure that a process or system is in place that identify when deposits are forfeited or when it is applied as consideration.
6. Ensure system/processes are in place to track and account GST in the period where the above payment has been received (although tax invoice has not been issued, or goods has not been supplied/services performed).
7. Implement the processes and systems changes.
8. Educate employees on the processes and systems changes.

*Note:

- A receipt of a payment which is merely "security deposit" would not trigger GST output tax liability.
- However, when the deposit is applied as consideration for a supply, GST applies (consider time of supply rule).

Advance payment made by PDCC

1. Identify any advanced payment / pre-payment / mobilisation fees / other transactions or payments of similar nature made by PDCC.
2. Review these transactions to identify the characteristic of the supply either it is a deposit or advanced payment under the GST law.
3. Consider establishing policy/negotiate with supplier to issue tax invoice upfront to enable PDCC to claim input tax credit as soon as possible.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-13
 Title: Compliance: De minimis and Incidental Financial Supplies

GST Implication: **Background**

1. PDCC makes the following exempt supplies in its business:
 - Interest income from bank deposits;
 - Investment income from unit trusts;
 - Interest from loans to employees.

GST Implication

2. For GST purposes the above supplies are treated as exempt. The implication is that input tax incurred in making these exempt supplies would not be claimable.

3. The GST Guide however provides a concession whereby prescribed "incidental exempt supplies" are treated as taxable supplies; the implication being that all input tax incurred would be claimable (without the need for tracking and / or apportionment). The list of prescribed "incidental exempt supplies" are as follows:-

- the deposit of money;
- the exchange of currency;
- the provision of any loan, advance or credit to your employees;
- the provision of any loan, advance or credit between related parties;
- the holding of bonds, debentures, notes or other similar instruments representing or evidencing indebtedness, whether secured or otherwise;
- the transfer of ownership of securities;
- the holding or transfer of ownership of any unit or other similar instruments under a trust fund; and
- the hedging of any interest rate risk, currency risk, utility price risk, freight price risk or commodity price risk.

4. If PDCC provides exempt supplies other than the above prescribed "incidental exempt supplies", the GST Guide further provides for a concession where the total value of your exempt supplies does not exceed;

- an average of RM5000 per month; and
- an amount equal to 5% of the total value of all taxable and exempt supplies made in that period.

If these restrictions are satisfied, PDCC will be eligible to claim all input tax incurred on your exempt supplies and avoid apportionment and tracking of input tax (refer to issues log on "Apportionment of 'Indirect Costs' for Recovery of Input Tax").

Work Plan:

Recommendations

1. Review and document all exempt supplies made by PDCC.
2. Determine and confirm the incidental financial supplies provided.
3. Ensure that the input tax attributable to the above incidental financial supplies are being tax coded properly as fully claimable.
4. Determine if the de minimis criteria will be met for non-prescribed "incidental exempt supplies".
5. If the de minimis criteria will be met, determine and implement steps to monitor the criteria moving forwards.
6. If the de minimis criteria is or will be breached, PDCC needs to determine on appropriate formula to apportion its input tax.
7. Identify the process and system changes to monitor the input tax claim.

8. Educate staff on the processes and systems.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-14
 Title: Compliance: Apportionment of 'Indirect Costs' for Recovery of Input Tax

GST Implication: **Background**

1. PDCC may breach the *de minimis* threshold and will be considered as making taxable (standard rated and zero rated) and exempt supplies (refer to issue log on "De Minimis and Incidental Financial Supplies").
2. PDCC will incur expenses which can neither be attributed directly to either taxable or exempt activity. This may include input tax incurred on telephone, lighting, heating, repair and maintenance costs which cannot be directly allocated to any particular business activity.

GST Implication

3. PDCC can fully recover input tax on those expenses incurred directly for 'taxable' supplies. On the other hand, PDCC cannot claim input tax on those expenses incurred directly for "exempt" supplies.
4. All other GST incurred (referred to as 'GST residual input tax') which neither relates directly to any taxable or exempt supplies must be apportioned in order to determine what amount is recoverable for GST purposes.
5. Based on GST Guide, PDCC must apportion the residual input tax incurred in the course or furtherance of his business based on the standard method of apportionment.
6. Standard method of apportionment is applicable to all mixed suppliers unless the Director General of Customs specifically directs or allows otherwise. Under this method, the percentage of recoverable residual input tax for a taxable period is basically obtained by dividing the value of taxable supply (including supplies outside Malaysia which would be taxable supplies if made in Malaysia) with the total value of all supplies (including supplies outside Malaysia which would be taxable supplies if made in Malaysia) made in the taxable period which is expressed in the following formula:

$$\text{ITC claim on residual} = \frac{\text{Total value of taxable supplies}}{\text{Total value of all supplies (taxable \& exempt)}} \times \text{GST incurred on residual inputs}$$

7. This 'standard method' looks at the proportion of total taxable supplies made in a GST tax period compared to the total supplies made in the same period. This proportion is applied to the total quantum of GST residual input tax to arrive at the recoverable amount each month. As this input tax claim is 'provisional', PDCC is required to make an annual adjustment on all the provisional residual input tax recovered during the tax year in question by re-evaluating the extent of taxable use of PDCC business inputs.

8. Customs will allow other apportionment methodologies ('special methods') to be used, provided that prior approval is sought and obtained from Customs. Thus, there is an opportunity for PDCC to consider and develop alternate methodologies that produce a more favourable recovery of input tax. Alternate methods that should be considered include those of direct and indirect estimation, and may include methods that are currently used by PDCC.

Work Plan:

Recommendations

1. Determine if management would prefer to use 'standard method' or any other 'special methods'.
2. Review apportionment methodology prescribed by Customs and determine if it is suitable for GST apportionment on 'indirect cost' made by PDCC.
3. Develop and assess alternate apportionment methodologies that will be suitable for PDCC, where necessary.
4. If PDCC chooses to opt for alternate apportionment methodologies, obtain approval from Customs on the proposed new method.
5. Update processes and systems to enable apportionment on a monthly basis and for annual adjustment.
6. Educate staff on the updated processes and systems.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-15

Title: Compliance: Documentation to Claim Input Tax Credit

GST Implication: **GST Implication**

1. GST incurred on local acquisition of supplies of goods and services can be claimed as input tax provided that the claimant is in possession of a valid tax invoice, and the input tax to be claimed is:
 - In respect of a taxable supply (i.e. a standard rated or zero rated supply) made by PDCC
 - Not blocked from input tax claim
2. The criteria for a valid tax invoice includes:
 - The invoice must be issued in the full name of PDC Consultancy Sdn Bhd to enable PDCC to claim the input tax credit. For example any tax invoice issued in the name of eg: "PDCC" or "PDC Consultancy" cannot be used to make an input tax claim by PDCC.
 - The invoice contains all the prescribed information required for a tax invoice.
3. For purchases not more than RM500 in a single invoice, a simplified tax invoice whereby the name of PDCC is not required on the tax invoice would be sufficient to claim input tax credit.
4. For purchases exceed RM500 in a single receipt, a simplified invoice would not be sufficient for PDCC to claim the full input tax credit incurred. Under GST Guide, the maximum amount of input tax credit that PDCC can claim on a single simplified tax invoice is restricted to RM30. Therefore, when PDCC's staff make any purchases exceeding RM500 for business purpose, they must request a full tax invoice from the supplier in the full name of PDCC in order for PDCC to claim the full input tax credit.
5. It should also be noted that PDCC is not required to make payment before claiming an ITC; possessing a valid tax invoice is sufficient evidence for making a claim. However, if after 6 months of the invoice being issued PDCC has still not made payment to PDCC's supplier, PDCC must repay any input tax credit PDCC has claimed with respect to this invoice. In the event of settlement of the debt, PDCC may then reclaim the ITC.
6. However, do note that a pro forma invoice is not regarded as a tax invoice. PDCC can only claim input tax on local acquisitions in PDCC's GST return if PDCC has a valid tax invoice.
7. In respect of importation of goods, PDCC must hold a valid Customs importation Customs No.1. In respect of clearance of goods from bonded warehouses, PDCC must hold Custom No.1 or No.9.
8. For importation of services, PDCC is required to hold a document such as the foreign supplier's invoice to show that PDCC is entitled to claim input tax.

Work Plan: Recommendations

1. Develop new policy and guidelines for purchases to have valid tax invoices from GST registered person.
2. Establish new policy where tax invoice for purchases must be issued in PDCC's name.
3. Update current process to ensure that a tax invoice is issued by GST-registered vendors for any purchases.

4. Implement procedures and processes to ensure input tax credits are only claimed on valid tax invoices for local purchases of supplies or customs import declaration forms, K1, for imported goods.
5. Determine the processes and systems changes to monitor ITC claimed based on vendor's tax invoices or Customs No. 1 form (for imports).
6. Ensure policy and processes are in place to review tax invoice received from vendors are accurate and issued on timely basis or value in Customs No. 1 forms are declared accurately.
7. Implement processes and systems changes.
8. Educate staff and vendors on the processes and systems changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-16
Title: Compliance: Accounting recognition vs GST recognition for input tax claim

GST Implication: **Background**
 1. PDCC accrues expenses in relation to daily business activities, such as telephone charges, audit fees, legal fees, professional fees, rental fees and etc.

GST Implication

2. The accounting recognition of purchases does not lead to a claim of input tax if there is no tax invoice when the supply of goods or services are received.
3. PDCC must hold a tax invoice in respect of any supply of goods or services (refer issue log on "Documentation to Claim Input Tax Credit") to claim back the input tax.
4. For subsequent reclassification of Balance Sheet items to Profit & Loss account (when consumed or used), PDCC must ensure there is no double claiming of input tax.

Work Plan: Recommendations

1. Identify affected transactions.
2. Implement procedures and processes to ensure input tax credits are only claimed on valid tax invoices.
3. Determine the processes and systems changes to monitor ITC claimed at the availability of tax invoice.
4. Review reversal of accrued expense to ensure correct claim of ITC.
5. Implement processes and systems changes.
6. Educate staff and vendors on the processes and systems changes



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-17

Title: Compliance: Imported services (reverse charge)

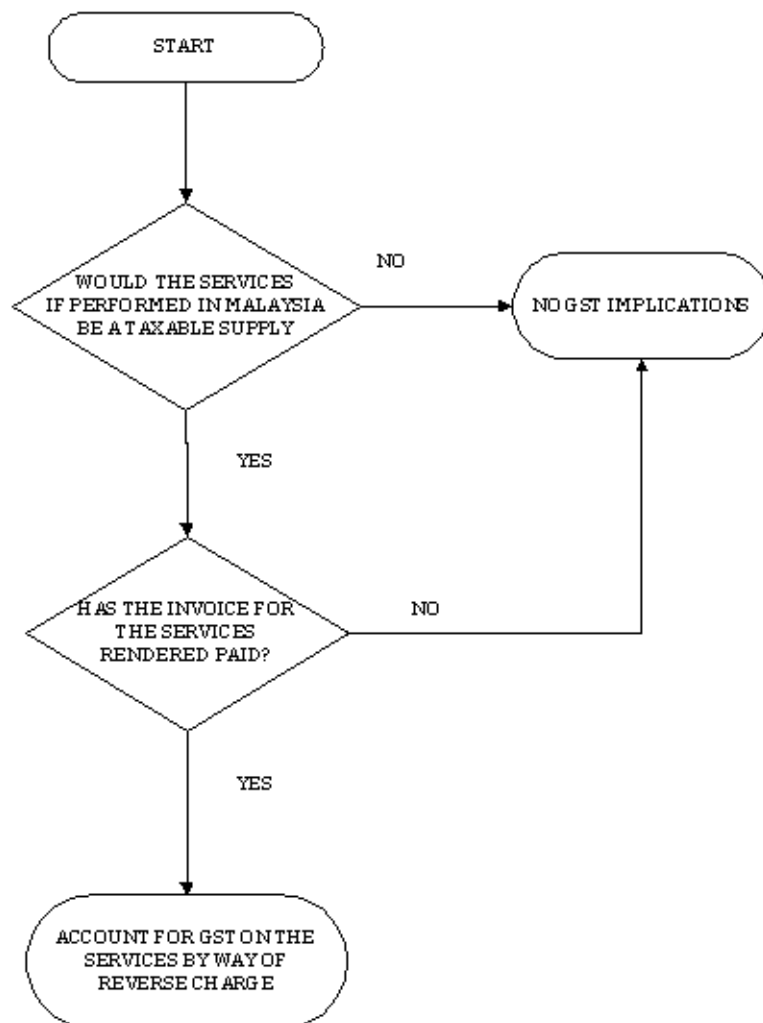
GST Implication: **Background**

1. PDCC currently does not incur expenses for services provided by overseas vendors.
2. However, PDCC foresees engaging services of professionals from Hong Kong in the future.

GST Implication

3. PDCC is required to account for GST upon payment for imported services (i.e. services acquired from non-resident suppliers which would have been subject to GST if supplied in Malaysia) which are **consumed in Malaysia**. "Consumed in Malaysia" means any service which is used, utilised, or enjoyed in Malaysia.
4. In the case of imported services, the GST liability shifts from the overseas supplier to PDCC. PDCC is treated as if PDCC is making and receiving the supply. Since PDCC is treated as making a supply, PDCC is required to account GST on supply of imported services as an output tax.
5. If the imported services are used for making taxable supplies, PDCC is entitled to claim the GST incurred as input tax. If the supply is used for making exempt supplies, PDCC is not entitled to claim the GST as input tax. If the imported services are used for making both taxable and exempt supplies, then PDCC has to apportion the GST incurred and claim the proportion of GST on imported services used for making taxable supplies.
6. PDCC has to declare both output tax due and input tax claimed in its GST return for the month where the payment for the supply of imported services was made.
7. PDCC does not need to issue any tax invoice on the imported service received.
8. For input tax claim, PDCC is required to hold document such as the foreign supplier's invoice to show that he is entitled to claim input tax.
9. Based on the GST Guide, the value of the supply of imported services shall be taken to be such amount as is equal to:-
 - a. in the case of the recipient who is not connected to the supplier of such services, whatever consideration paid by the recipient; or
 - b. in the case of the recipient who is connected to the supplier of such services, the open market value.

GST ON IMPORTED SERVICES



Workstream:

Immediate Action:

Reason:

Work Plan:

Recommendations

1. Determine processes and systems changes required to account for reverse charge on payment of taxable imported services.
2. Establish and test process changes to identify overseas vendors providing taxable imported services and non-taxable (exempt/out-of-scope) imported services.
3. Ensure a process or a system is in place to account for reverse charge on relevant payments to overseas entities.
4. Review and update current practices
5. Implement the processes and systems changes
6. Educate staff on the processes and systems changes.

Status of Issue: Open



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-19
 Title: Compliance: Entertainment expenditures

GST Implication: **Background**

1. PDCC in the course of its business incurs entertainment expenses for the following:
 - Meal and refreshment (including canteen subsidies) for employees, existing & potential customers, vendors, service provider and etc;
 - Food and refreshments for staff and their families during Family Day;
 - Annual dinner attended by staff, their families and authorities.
2. Presently these expenses are logged into "Entertainment (Staff)" and "Entertainment (Client)" accounts respectively.

GST Implication

3. Based on GST Guideline, no input tax claim is allowed for any entertainment expenses to a person other than employees or existing customers (i.e. potential customers, suppliers, vendors and third party). Input tax for entertainment to employee and existing customer is recoverable.
4. "Entertainment expense" includes —
 - a. the provision of any food, drink, recreation or hospitality of any kind, or
 - b. the provision of accommodation or travel associated with the provision of food, drink or recreation

by a person or an employee of his to anyone in connection with a trade or business carried on by that person.

"recreation or hospitality" would include:

 - a. a trip to a theme park or a recreation centre;
 - b. a stay at a holiday resort;
 - c. tickets to a show or theatre; and
 - d. entry to sporting activities/events.
5. Policy and procedures will need to be established to ensure that only input tax on entertainment to employees and existing customers are claimed. With GST implementation, the classification of entertainment expenses needs to be looked into to ensure that only the correct input tax is claimed.

Work Plan: Recommendations

1. Monitor for any changes in rules regarding the GST definition of entertainment expenditure.
2. Develop process for identifying entertainment expenditure
3. Implement policy and process that for all expenditure claims to be supported by information setting out the people entertained and their relationship with PDCC.
4. Determine processes and systems changes required to report and capture claimable and non-claimable (blocked) entertainment expenditure.
5. Implement processes and systems changes.
6. Educate staff on processes and systems change.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-20
 Title: Compliance: Employee Benefits Provided by PDCC

GST Implication: **Background**

1. PDCC provides a number of benefits to staff. PDCC might incur input tax on some of these goods or services provided to PDCC's staff. Among the benefits provided by PDCC are:

- Goods intended for use during work e.g. uniforms provided to staff;
- Subsidy of interest on loans provided to staff;
- Free handphone to staff;
- Medical services;
- Medical and personal accident insurance.

GST Implication

2. Employee benefits refers to any goods or services provided free to employees. These goods and services acquired and given as employee benefits are considered as used "for the purpose of business" for which the input tax incurred are claimable.

3. In general, PDCC is required to account for output tax on goods given as employee benefits except for the following items:

- i. Goods given free to employees as stated in the contract of employment.
- ii. Exempt or zero rated supply.
- iii. Supply of goods under gift rule.

4. In the case of free services provided to employee except connected person, there is no liabilities to account for output tax because it is not regarded as a supply.

5. PDCC must account for GST on free goods given to employee if the cost of those goods exceed RM500 per person per year. Once the 'RM500' threshold is met, you must account for GST on the 'open market value' of that good and any subsequent goods given free to that person over the course of the year. The GST amount must be accounted for and paid in the corresponding GST return for the month in which the free goods was given. (Refer to issue log on "Goods provided for free")

6. Goods, tools and equipment issued to employees which are to be returned is not considered a supply and no output tax need to be accounted.

7. The requirement to account for output tax on free goods given to employees may be avoided if :

- The HR policy of PDCC requires all goods given to employee to be returned to PDCC at the end of the employees' service; the goods would arguably not be considered gifts and hence no output tax is to be accounted when issued to the staff.
- PDCC imposes a charge (consideration) for all goods given away in a year to staff (e.g. the salary deduction for the current year's goods that are not returned to PDCC on the cessation of employment).
- Revised contract of employment to include such benefits where necessary.

8. Otherwise, PDCC would need to maintain a tracking system recording all goods:

- on which it was entitled to input tax credit on purchase;
- subsequently issued to staff;
- returnable or non-returnable at the end of the staff service; and

- that are allowed to be permanently retained by staff even though initially issued to staff on returnable basis.

Work Plan:

Recommendations

1. Identify and determine the category of goods or services that are provided to employees
2. Identify items covered under employee benefits and its respective GST treatment.
3. Identify items that are subjected to deemed output tax.
4. Seek clarification from Customs on any ambiguity in GST treatment.
5. Update HR policy, guidelines, processes and systems changes for GST compliance on free goods to employees
6. Educate staff on the updated policy, processes and systems changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-22

Title: Compliance: Goods provided for free

GST Implication: **Background**

1. PDCC may give hampers, free gifts to existing & potential customers, vendors, suppliers and etc.
2. PDCC may also give free gifts to staff such as:
 - door gifts, lucky draw gifts for PDCC's annual dinner;
 - door gifts, lucky draw gifts to staff and their family during Family Day;
 - free t-shirts, hampers and trophies for inter-departments sports tournaments;
 - farewell gifts to resigned or retired staff.

GST Implication

3. The current GST Guide proposes that where goods are given away without consideration, GST is accounted on the goods as a deemed supply on 'open market value' ("OMV") of the goods.
4. However, the transfer or disposal of business assets by the person carrying on the business is not a supply of goods if it is made as:
 - a gift in the course or furtherance of the business to the same person in the same year where the total cost to the donor is not more than RM500; or
 - a gift to an actual or potential customer of the business, of an industrial or commercial sample in a form not ordinarily available for sale to the public.

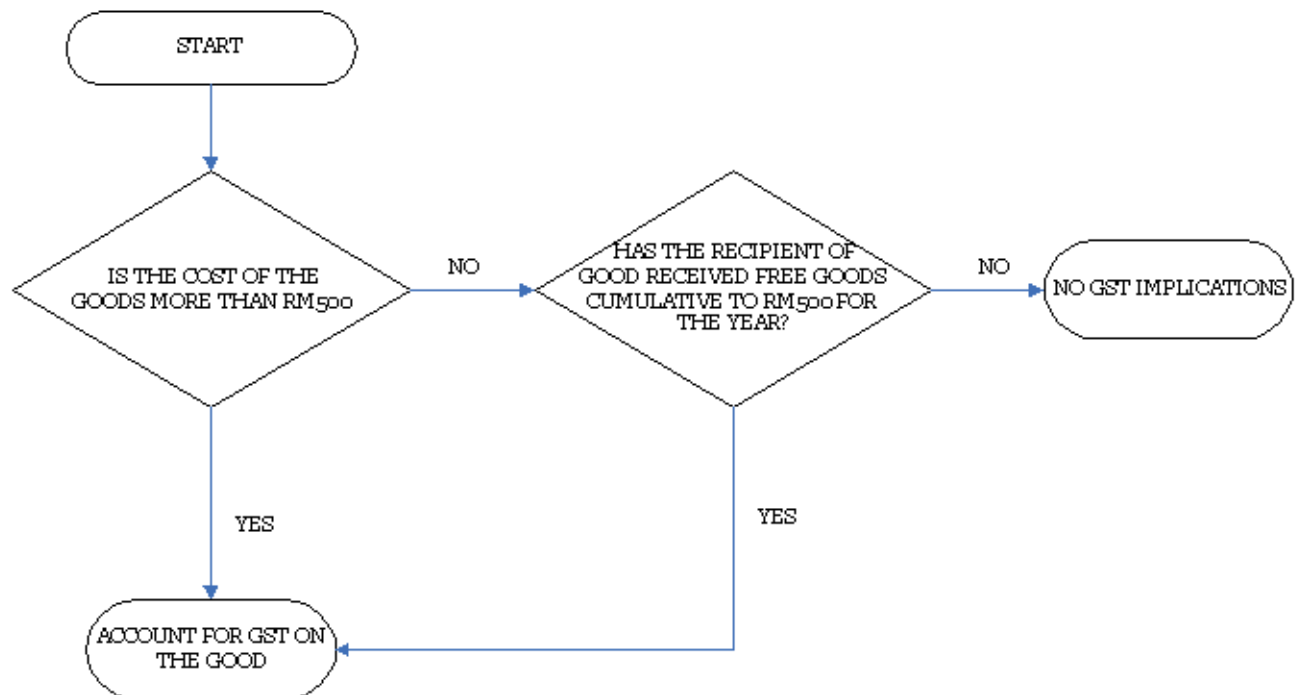
The maximum limit of gift is set at RM500 to the same person in the same year. Therefore, a gift for business purposes where the total cost to the donor is not more than RM500 is not a supply for GST purposes.
5. The GST amount would not be recovered by PDCC from the recipient of these goods. PDCC would have to bear the costs of the GST and pay the deemed output tax in the GST return for the month in which the goods are provided to the recipient.
6. In order to comply with the 'RM500 per person per year' rule, there will need to be a tracking mechanism in place. This will ensure PDCC does not account for GST unnecessarily. This would be an additional administrative cost to PDCC.
7. The annual limit will mean that it is possible to meet the RM500 threshold by giving a series of small gifts (e.g. RM100 first month, RM200 second month and RM300 third month) over the course of a year to a single person. This will require PDCC to develop a system where PDCC can closely monitor and track the free goods provided.
8. On the contrary, PDCC may choose not to track, but instead account GST for all goods given out for free. However this would mean an opportunity lost for PDCC to benefit from the exceptions provided under this rule.
9. As 'goods provided for free' are currently not captured as 'revenue' items, PDCC will also need to develop a separate process whereby the GST on these deemed supplies are captured in the GST return for the month in which the goods are given away.
10. Gifts of services or any 'intangible' items are not subject to the Gift rule. Further, monetary vouchers are also not subject to GST.
11. As for sample given out for free, there is no limitation on the value or the quantity of the gift of an industrial or commercial sample to actual or potential customer. However, the sample must not be in the form of goods the business normally sells to the public.

12. PDCC would still be entitled to recover full input tax credits on the purchases of goods provided for free.

13. Where goods are received for free (i.e. free goods received from suppliers) and subsequently give-away, PDCC does not need to account for output tax or claim for the input tax credit for the free goods.

14. No GST needs to be accounted for on services provided for free e.g. free delivery of goods.

ACCOUNTING FOR GOODS GIVEN OUT FOR FREE



Workstream:

Immediate Action:

Reason:

Work Plan:

Recommendations

1. Review and assess marketing strategies from different channels where goods are given away free.
2. Segregate and record free gifts given from own stock and those received from suppliers.
3. Awareness of deemed supplies when formulating marketing strategies in the future.
4. Management to make strategic decision on whether goods will continue to be given free, the value of such gifts and whether PDCC will attempt to track free goods.
5. Consider proper controls for goods given out for free - map process flow of goods given away free to ensure GST is captured.
6. Education and communication to relevant staff.

Status of Issue:

Open



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-23
 Title: Compliance: Reimbursement vs Disbursement

GST Implication: **Background**

1. In the course of providing services, PDCC may incur various costs, or make payments to third parties, of which PDCC subsequently invoices and recovers from PDCC's customers. For example:-

- Brokerage fee
- Legal fee
- Out of pocket expenses such as courier cost, printing cost, telephone charges, etc.

GST Implication

2. The GST treatment on the recovery of costs depends on whether the expenses are reimbursement or disbursement in nature.

3. **"Reimbursements"** are recoveries of expenses incurred by PDCC in the course of providing the services (e.g. printing cost, telephone charges) and are on charged to customers. GST should be charged on those expenses upon invoicing the customers.

4. **"Disbursements"** are expenses paid by PDCC on behalf of customers. These expenses are the liability of the customer and relate to a supply by a third party to PDCC's customer, (and not to PDCC), for example legal fees. In this instance, no GST should be charged by PDCC upon recovery from the customer.

5. When PDCC invoices its customer, the invoice should separately identify which expenses are "reimbursement" and which are "disbursement" and correctly identify the GST treatment on the invoice.

Work Plan: Recommendations

1. Review current practice of invoicing the recovery of payments made on behalf of third parties.
2. List down the items of recoveries invoiced to customers in the course of PDCC's daily business.
3. For each items of recoveries, confirm whether it is:
 - a. an expense paid on behalf of the customers (e.g. where you act as agent); or
 - b. an expense which is your legal liability.
4. Where there is ambiguity in performing (3) above, review the contract / agreement (or legal obligations to make the payment) between the parties for clarity:
 - a. Seek legal advice where appropriate.
5. Confirm disbursement or reimbursement status of each expense.
6. Management to review and sign off the above.
7. Update tax coding status for each expense.
8. Determine system change requirements to ensure:
 - a. Itemized recovery amounts appear on the tax invoice
 - b. Each is correctly treated as either disbursement or reimbursement, and GST calculated accordingly, where appropriate.
9. Create a policy on disbursement and reimbursement.
10. Educate employees on updated policy changes and changes to processing.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-24
Title: Compliance: Inter-Company Supplies and Cross Charges to Related Entities

GST Implication: **Background**

1. Currently PDCC makes a number of inter-company supplies / charges within PDC Group and its related entities. Examples include:
 - Consultancy services
2. These transactions between the various PDC Group and related entities are currently recorded through invoices and credit/debit notes.

GST Implication

3. Each GST registered entity within a corporate group is treated as a separate taxable person. Each entity must account for GST on its own supplies and acquisitions, including cross charges and shared services charges, that are made between corporate group members. They will also be required to issue tax invoices for each of these inter-company supplies unless the various entities opt to Group for GST purposes.
4. To reduce the cost of irrecoverable input tax, PDCC and PDC Group may consider restructuring your procurement / third party arrangements, such that external suppliers directly invoice the relevant entity that is the recipient of the supply (rather than cross-charging to the relevant entity which will involve GST being charged on any irrecoverable GST).
5. GST regulations require the issuance of a tax invoice on all inter-company supplies/charges instead of a credit/debit note (refer to issue log on Issuance of Tax Invoices).

Work Plan:

Recommendations

1. Identify and review all impacted inter-company / related party transactions / charges.
2. Confirm GST implications and documentation changes to comply with tax invoice requirements.
3. Establish procedures to determine open market value, if applicable, of these supplies.
4. Establish procedures for proper GST accounting and issuance of compliant GST documentation for all inter-company / related party transactions / charges.
5. Update procedure manuals with new inter-company processes.
6. Educate staff on relevant changes to processing of inter-company transactions.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-25
 Title: Compliance: Open Market Value ("OMV")

GST Implication: **Background**

1. PDCC makes inter-company supplies (refer issue log on Inter-company Supplies and Cross Charges to Related Entities).

GST Implication

2. For supplies (goods & services) made to connected persons (e.g. related company) and goods PDCC gives away for free, GST must be accounted for on the Open Market Value (OMV) of these goods / services.

3. Persons shall be deemed to be connected if:

- they are officers or directors of one another's business;
- they are legally recognized partners in business;
- any one person directly or indirectly owns, controls, or holds five per cent or more of the outstanding voting stock or shares of both of them;
- one of them directly or indirectly controls the other;
- both of them are directly or indirectly controlled by a third person;
- together they directly or indirectly control a third person; or
- they are members of the same family.

4. The OMV of any supply of goods or services must be established using the following rules based on the hierarchical order:

- the market value of identical goods / services
- the market value of a similar good / services
- where the OMV of any supply of goods /services cannot be determined under (a) or (b), the OMV shall be determined using the reasonable means and on the basis of data available in Malaysia which provides a sufficiently objective approximation of the consideration in money which could be obtained for the supply of those goods / services.

5. If the good / service is something which normally PDCC does not sell, then its value would be the actual cost incurred by PDCC in providing the item.

Work Plan:

Recommendation

1. Identify supply of goods provided for no consideration to all parties.
2. Identify supply of goods provided for no consideration to related parties.
3. Identify supply of services provided for consideration / for no consideration to related parties.
4. Establish the OMV of the goods and services based on the methods documented above.
5. Seek clarification from Customs on OMV issues faced.
6. Ensure a process or system is in place to determine the OMV.
7. Educate staff on the process and system changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-26
 Title: Compliance: Disposal / write off of fixed assets

GST Implication: **Background**

1. PDCC disposes of / writes off assets such as:-
 - Communication equipment;
 - Office furniture;
 - Office equipment;
 - Motor vehicles and etc.

GST Implication

2. Where PDCC disposes assets for a consideration, GST is accounted on the sale proceeds received (not on the written down value) and a tax invoice must be issued to the purchaser. The exception is where the assets are destroyed and written off or the assets are 'blocked input tax items' (refer to issue log on "Blocked input tax").

3. PDCC will be required to identify and track the proceeds received, account for GST and issue tax invoice for the disposal of assets.

4. Moving forward, PDCC may want to consider assigning a GL code specific to the disposal of assets which will allow PDCC to identify /distinguish between the assets which are:

- written off / destroyed
- disposed to third parties
- disposed to related parties*
- blocked input tax

*For goods / equipment / assets disposed to related parties, GST would be accounted for by PDCC on the open market value.

Work Plan: Recommendations

1. Review and document current processes for accounting for disposals.
2. Identify the assets which are disposed by PDCC and determine if the tracking process in place is sufficient for GST purposes.
3. Implement policy and process for accounting for GST on disposal and issuance of tax invoice.
4. Implement system changes required to account for GST on disposal and generate tax invoice.
5. Communication to relevant employees on the updated process and system changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-27
 Title: Compliance: Company cars

GST Implication: **Background**

1. PDCC currently has company cars used by staff for business travelling purposes.

GST Implication

(A) Recovery of Input Tax

2. Generally, the GST Guide provides that the GST incurred in the purchase of passenger motor cars is a blocked input tax item.

3. However, for motor cars which are used exclusively for business purposes, the input tax incurred on the purchase of such motor cars will be claimable, subject to the following conditions:

- the motor car is registered in the name of the company;
- the motor car is not let on hire;
- there is no intention to make the motor car available for private use;
- the motor car is kept at business premises, used for business trips and must not be taken home overnight by any employee; and
- the motor car has the business' name.

4. The above can potentially be applied on the company cars for use by staff for business travelling purposes only. However, PDCC may need to take the necessary steps to meet the above conditions such as placing company name on the cars, updating/documenting company policy on the usage of such company cars, etc.

5. Company cars provided to company directors/senior management staff as part of their employment benefit are unlikely to be considered as "used exclusively for business purposes" as the cars can be used for private purposes (e.g. taken home, personal travel). Thus input tax on the purchase of such motor cars will be blocked.

(B) Disposal of Company Cars

6. The supply of a blocked input tax item is not subject to GST. Therefore, if the claim of input tax incurred on the company cars was blocked, no GST will apply on the subsequent sale of the car.

7. However, if input tax credit has been claimed or is claimable, GST is chargeable upon the sale of the cars.

Work Plan: **Recommendations**

1. Identify company cars that are used exclusively for business purposes.
2. Make necessary changes to comply with the given criteria for company car.
3. To ensure that any new acquisition of company cars should be in compliant with the criteria for company cars.
4. Update the current policy on the use of company cars to ensure it is GST compliant.
5. Make necessary changes to the computer system to capture the expenses for company cars and claim input tax correctly.
6. Implement policy, processes and systems changes.
7. Educate staff on the updated company car policy, processes and systems

changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-29
Title: Compliance: Payments to Federal & State Governments, Statutory Bodies and Local Authorities

GST Implication: **Background**

1. PDCC makes a number of payments to various Federal & State government agencies as well as statutory bodies and local authorities such as the following:
 - Filing fees to SSM (companies commission) for lodgement of statutory forms
 - Quit rent and assessment

GST Implication

2. Supplies made by Federal and State Government are disregarded for GST purposes i.e. they will not be subject to GST. This means payments made to Federal and State Governments will not contain any claimable input tax for PDCC.

3. In respect of statutory bodies and local authorities, only supplies they make as part of their regulatory and enforcement functions will be disregarded for GST purposes. All other supplies made outside their regulatory and enforcement functions will be subject to GST.

4. It will be the responsibility of the relevant statutory body and local authority to identify which of its supplies are provided in a 'regulatory function' and disregarded for GST purposes and which are 'commercial' in nature and subject to GST. This is not PDCC's responsibility.

5. PDCC only needs to ensure that any input tax being charged by such bodies are properly recorded and PDCC is able claim back the input tax credit.

Work Plan: Recommendations

1. Identify and list all payments made to local authorities and statutory bodies.
2. Implement process to confirm whether GST applies on a payment to local authorities and statutory bodies prior to making payment.
3. Determine the processes and systems changes to track the charges (taxable or non-taxable) imposed by Government.
4. Implement processes and systems changes.
5. Educate staff on the processes and systems changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-30
 Title: Compliance: GST/ VAT incurred overseas

GST Implication: **Background**

1. PDCC may incur GST/ VAT overseas, for example:-

- Fees paid for services performed outside Malaysia by overseas professionals which are subjected to GST / VAT overseas.
- Expenses incurred for attendance at seminar/courses/any business related activities overseas by staff (e.g. accommodation, transportation, food & beverages)

GST Implication

2. When PDCC incurs foreign GST/VAT, PDCC cannot claim an input tax credit in the Malaysian GST return; only Malaysian input tax (GST) charged on taxable supplies made in Malaysia is claimable.

3. Where an overseas party invoices PDCC for supplies consumed in their country, any foreign GST/ VAT incurred on these supplies cannot be claimed as an input tax credit in Malaysia.

4. Should PDCC wish to claim a refund of the foreign GST/ VAT, PDCC may need to write and appeal to the overseas tax authority on which PDCC incurred the GST/VAT, however any refund will be subject to the provisions of the respective countries' GST/VAT laws.

Work Plan: Recommendations

1. List all expenses whereby GST/VAT is incurred overseas.
2. Determine if management would claim refunds for foreign GST/VAT.
3. Develop new policy for claiming GST/VAT for expenses incurred overseas that cannot be claimed as input tax credit.
4. Develop process to claim GST/VAT overseas from overseas tax authority, where relevant.
5. Determine the changes to processes and systems to account accurately the GST incurred overseas.
6. Implement changes to processes and systems.
7. Educate staff on the updated processes and systems changes..



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-31
 Title: Compliance: GST Relief for Bad Debts

GST Implication: **Background**

1. PDCC may have outstanding debts on services previously supplied. Post GST, PDCC must account for GST upon issuance of tax invoice even if payment has not been received from PDCC's customer.
2. PDCC also may have payables more than 180 days.

GST Implication

3. Where PDCC have accounted for output tax and have not received payment 6 months from the date of the supply, PDCC may claim bad debt relief on the GST paid by way of a credit through the GST return, provided "sufficient efforts" have been made to recover the debt.
4. Customs have indicated that sufficient efforts can be in the form of reminder letter/notice to customer or any documentary proof to show that some efforts have been made to recover the debt.
5. PDCC is also required to keep additional records to support bad debt relief claims such as:
 - other documentary evidence showing the time, nature, purchaser's details and the consideration of the supply;
 - records or any other documents showing that PDCC has accounted for and paid the tax;
 - records or any other documents, for example debtor's aging list showing that the consideration has not been received after 6 months from the date of supply and accounted as bad debt in the taxable person's accounts;
 - records or any other documents showing that sufficient efforts have been taken by the registered person to recover the debt, e.g. sufficient efforts mean:
 - (i) letter from company's solicitor or legal action taken against the debtor,
 - (ii) engagement and actions from credit agency,
 - (iii) bad debt has been written off,
 - (iv) reminders and repeated letters of demand from company and etc.

It is not compulsory to fulfil all the conditions above. However, merely sending letters of demand to debtors may not be treated as sufficient efforts to recover the debt. Thus, Customs may not qualify PDCC for bad debt relief.

6. In the event, all or part of the outstanding debt is recovered, a further adjustment will be required in the subsequent GST return to repay the GST recouped by PDCC to Customs.

7. PDCC needs to manage its payables that exceeds 180 days from the date of the invoice. PDCC must reverse any input tax credit claimed on these purchases when the amount payable exceeds 180 days from the date of the invoice and then reclaim the input tax credit after the amount payable has been settled.

Work Plan:

Recommendations

1. Ensure a process or system is in place to identify and record bad debt claims/payable overdue for 6 months or more.

2. Ensure a process or system is in place to manage the claiming and accounting of GST and GST return adjustments.
3. Ensure processes are established whereby in submitting a claim for GST relief you hold:
 - i. a copy of the original GST invoice relating to the supply; and
 - ii. a record, showing the GST has been accounted for by you on that particular supply.
4. Recording of sufficient efforts.
5. Update processes and systems to manage bad debts.
6. Educate staff on the updated processes and systems changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-33
 Title: Transitional: Inclusion of GST clause in all contracts

GST Implication: **Background**

1. PDCC currently possesses service tax license, which allows PDCC to charge 6% service tax for its consultancy services.
2. However, PDCC does not as yet have GST specific clauses in the tenancy agreements for the rental income PDCC receives.

GST Implication

3. The GST legislation provides that consideration paid or payable (i.e. the price) for a supply is taken to include GST. This means that GST is assumed to be included in the consideration paid / payable under a contract or agreement unless the terms provide otherwise.
4. If PDCC enters into a contract where the negotiated price has not taken GST into account, and there is no provision in the contract to allow for the price to be increased to account for GST, then PDCC may have to absorb the cost of the GST. Therefore, it is critical to include a clear GST clause in any contract entered into, in which PDCC make taxable supplies.

Work Plan:

Recommendations

1. Seek legal opinion on a GST clause for inclusion in all contracts.
2. Ensure GST clause is inserted in all new agreements entered into moving forward.
3. Populate all contracts into the contracts register and determine those (if any) which have a GST specific clause.
4. Allocate a resource / team to manage preparation and completion of contracts register.
5. Sign-off by appointed person that ALL contracts have been reviewed and captured in the contracts register.
6. List out in the contracts register all supply contracts made by PDCC and identify all reviewable & non-reviewable contracts.
7. Develop a GST clause to be included in contracts and other transaction documents.
8. Ensure that a GST clause is on all new contracts/transaction forms and any contract being renewed or re-negotiated.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Consultancy Sdn Bhd
Business Unit:	

Issue No: GST PDCC-34
 Title: Transitional : Contracts spanning GST start date

GST Implication: **Background**

1. PDCC may continue to provide taxable supplies, on which no service tax has been charged before.

GST Implication

2. Under the GST, where any supply is made under an agreement for a period (or progressively over a period) and that period begins before the GST appointed date and ends after the GST appointed date, the supply will be taken to be made continuously and uniformly throughout the transitional period.

3. If PDCC enters a reviewable contract beginning before the GST appointed date for provision of taxable supplies ending post GST, PDCC would need to account for GST on the relevant portion post GST appointed date (at the relevant GST rate).

4. Specifically, PDCC will need to consider for supplies that are not subject to service tax and span across the GST appointed date, impose GST on the portion of supplies after the GST appointed date.

5. It is also important for PDCC to manage PDCC's customers' expectation with regards to the imposition of GST.

6. PDCC must identify PDCC's supplies which may span the GST appointed date and confirm the appropriate tax treatment (both service tax and GST) for such supplies. The capability of PDCC's current IT system(s) needs to be assessed to determine whether it can cater for both service tax and GST, calculation and invoicing.

Work Plan: Recommendations

1. Identify the time of billing for supplies that will span the GST start date.
2. Ascertain the appropriate treatment (service tax / GST) for the relevant supplies.
3. Seek management decision on which approach to the supplies that span the GST start date.
4. Develop a communication plan for staff/consumer on services that span GST start date.
5. Communicate changes to staff/consumer/agent (6 months before GST start date)
6. Determine and implement processes and systems changes.
7. Educate employees on the processes and systems changes.