



GST Issue

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

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

GST Implication: **Background**

1. The introduction of the GST will require PDCN 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, PDCN 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 PDCN's GST requirement is met.



GST Issue

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

Issue No: GST PDCN-02
 Title: Statagic: CAPEX

GST Implication: **Background**

1. PDCN 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 PDCN.

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%). PDCN would be able to claim some input tax credit on the GST charged.

4. Therefore, PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-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 PDCN'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 PDCN lower prices.
 - Will be able to issue PDCN with GST invoices that will allow PDCN 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, PDCN may consider instructing any current vendor, to voluntarily register for GST in order for PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-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 PDCN 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 PDCN does not pass the cost saving on to its customers, it may be liable to prosecution under the Act.

6. PDCN 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 PDCN.
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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PDCN may keep / manage / maintain records on PDCN'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 PDCN's GST liabilities and entitlements.

6. For instance, in the event of a Customs audit, if PDCN 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

1. Develop procedures for retention of GST records for the required period.

2. 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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PDCN currently issues progress claims / letter of claim for all its supplies, i.e. construction work. No debit note / credit note is used for billing purposes.
2. PDCN has not issued invoice for rental of commercial property, quarry operation and tender fees received.

GST Implication

3. Once registered for GST, PDCN is required to issue a valid tax invoice when PDCN makes any taxable supply of goods or services in the course of PDCN's business. The tax invoice must contain the prescribed particulars in respect of the supply as required by the GST law (refer below).
4. A pro forma invoice / progress claim is not regarded as a tax invoice.
5. Under the GST legislation, PDCN is prohibited from issuing a tax invoice on any supply of imported services (which would be treated as if supplied by PDCN 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)
6. Although exempt and zero rated supplies do not require tax invoice to be issued, for administrative ease PDCN 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.
7. 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

8. 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 PDCN 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' (PDCN's liability to account for output tax).

9. If a mistake is made on an invoice, PDCN 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 PDCN cannot meet GST tax invoice requirements (i.e. where PDCN 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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

- PDCN may issue 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 PDCN.
 - Debit note issued to customers for undercharged services.
- In some instances, credit notes/debit notes may be issued by PDCN not for adjusting the price of transactions or not to cancel transactions, for example:
 - Debit note for the price of scrap sold by PDCN to scrap dealers once the value is ascertained.
 - Debit note for services rendered to related company.

GST Implication

3. Under GST, PDCN 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 which is applicable to transactions in item 1 above.

4. Where PDCN 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 PDCN 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 PDCN is the recipient of a taxable supply which is subject to an adjustment

by its vendor, PDCN 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 PDCN receives the credit/debit note.

9. PDCN 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 notes 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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. Currently, PDCN issues progress claims / letter of claim to its customers upon completion of work done.
2. PDCN does not receive advances/ deposits from its customers.

GST Implication

General Rule

3. 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 a tax invoice is issued;
 - the date when payment (wholly in money) is received; or
 - the date when certificate of work done is issued, if no tax invoice has been issued within 21 days after the certificate of work done is issued.
4. If the tax invoice fails to be issued within 21 days, the GST liability is brought back to the date when certificate of work done is issued, which would result in a cash flow loss to PDCN and a potential penalty for an incorrect GST return.
5. 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)
6. For retention of any part of a consideration by PDCN's customer pending full and satisfactory performance of the contract, or any part of it, by PDCN, the time of such supply is the earliest of the payment is received or tax invoice is issued by PDCN.
7. PDCN 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.

Special Rule for Construction Industry

8. PDCN needs to account for GST based on 2 different situation:-
 - (i) Where construction work does not involve the issuance of a certificate of work done (interim certificate), PDCN has to account for GST at the earlier of the following:-
 - when tax invoice is issued; or
 - when payment is received.
 - (ii) Where construction work involves the issuance of a certificate of work done, you have to account for GST at the earlier of the following:-
 - when tax invoice is issued;
 - when payment is received; or
 - when the certificate of work done is issued, if no tax invoice has been issued

within 21 days after the certificate of work done is issued.

9. If PDCN has supplies under progressive payment contracts, GST has to be accounted for after the end of each successive payment schedule and after PDCN received the interim certificate from architect, engineer or surveyor who values the amount of construction work done. PDCN has to account for GST at the earlier of the following:

- when a tax invoice is issued;
- when a payment is received; or
- when the interim certificate is issued, if no tax invoice has been issued within 21 days after the interim certificate is issued.

10. PDCN 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. Establish policies and processes to account for GST correctly throughout the duration of a project.
3. Communicate policies and processes to the relevant staff.



GST Issue

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

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

GST Implication: Background

1. PDCN selects and appoints outsourced contractors through an open tender, where PDCN may prepare and sell the tender documents to prospective vendors.
2. Presently PDCN charges tender fees.

GST Impact

3. The sale of tender documents by PDCN is a supply for GST purposes and will be subject to GST.
4. Once GST commences, PDCN 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 PDCN. 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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PDCN may collect 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 PDCN (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. PDCN's requirement for PDCN's vendors (e.g. PDCN's solicitors) to deposit certain amount of funds in PDCN will not attract GST.

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

Work Plan: Recommendations

Advance payment received by PDCN

1. Identify any advance payment / pre-payment / mobilisation fees / other transactions or payments of similar nature received by PDCN.
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 PDCN

1. Identify any advanced payment / pre-payment / mobilisation fees / other transactions or payments of similar nature made by PDCN.
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 PDCN to claim input tax credit as soon as possible.



GST Issue

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

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

GST Implication: **Background**

- PDCN may make the following supplies in its business:
 - Interest income from bank deposits
 - Interest income in respect of late payments from customers

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 PDCN 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, PDCN 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

- Review and document all exempt supplies made by PDCN.
- Determine and confirm the incidental financial supplies provided.
- Ensure that the input tax attributable to the above incidental financial supplies are being tax coded properly as fully claimable.
- Determine if the de minimis criteria will be met for non-prescribed "incidental exempt supplies".
- If the de minimis criteria will be met, determine and implement steps to monitor the criteria moving forwards.
- If the de minimis criteria is or will be breached, PDCN 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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PDCN 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. PDCN 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. PDCN can fully recover input tax on those expenses incurred directly for 'taxable' supplies. On the other hand, PDCN 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, PDCN 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', PDCN 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 PDCN's 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 PDCN 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 PDCN.

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 PDCN.
3. Develop and assess alternate apportionment methodologies that will be suitable for PDCN, where necessary.
4. If PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-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 PDCN
 - 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 Nusabina Sdn Bhd to enable PDCN to claim the input tax credit. For example any tax invoice issued in the name of eg: "Nusabina" or "PDCN" cannot be used to make an input tax claim by PDCN.
 - 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 PDCN 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 PDCN to claim the full input tax credit incurred. Under GST Guide, the maximum amount of input tax credit that PDCN can claim on a single simplified tax invoice is restricted to RM30. Therefore, when PDCN'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 PDCN in order for PDCN to claim the full input tax credit.
5. It should also be noted that PDCN 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 PDCN has still not made payment to PDCN's supplier, PDCN must repay any input tax credit PDCN has claimed with respect to this invoice. In the event of settlement of the debt, PDCN may then reclaim the ITC.
6. However, do note that a pro forma invoice is not regarded as a tax invoice. PDCN can only claim input tax on local acquisitions in PDCN's GST return if PDCN has a valid tax invoice.
7. In respect of importation of goods, PDCN must hold a valid Customs importation document Customs No.1. In respect of clearance of goods from bonded warehouses, PDCN must hold Customs No.1 or No.9.
8. For importation of services, PDCN is required to hold a document such as the foreign supplier's invoice to show that PDCN 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 PDCN'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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PDCN incurs expenses for purchase of construction materials and development cost which would be recorded in the Balance Sheet. Such expenses will be recognised to Profit and Loss account based on the percentage of completion method.
2. PDCN also accrues expenses in relation to telephone charges, audit fees, legal fees, professional fees, secretarial fees and etc.

GST Implication

3. 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.
4. PDCN 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.
5. For subsequent reclassification of Balance Sheet items to Profit & Loss account (when consumed/ used/ expensed off), PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-17
Title: Compliance: Insurance compensation

GST Implication: Background

1. PDCN receives income from Takaful operator, which is recognised as "Other profit received" in its accounts.

GST Implication

2. Insurance settlement claim received from insurance companies does not represent a supply by the insurer/takaful operator nor does it represent consideration for a supply made by the insured. Hence, indemnity payments or settlements are not subject to GST.

Work Plan: Recommendations

1. Review all insurance policies held by PDCN.
2. Consider assigning an appropriate GL code into the general ledger for the insurance compensation received.



GST Issue

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

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

GST Implication: **Background**

1. PDCN in the course of its business may incur entertainment expenses for the following:
 - Meal and refreshment (including canteen subsidies) for employees, customers, vendors, service providers and etc.
 - Food and refreshments for staff and their families during Family Day.
 - Annual dinner for staff.
 - Team building for staff.
2. These expenses may have been grouped together under "entertainment" account.

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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PDCN may provide a number of benefits to employees. PDCN may incur input tax on some of these goods or services provided to PDCN's staff. Among the benefits that may be provided by PDCN are:

- Goods intended for use during work e.g. uniforms and safety shoes/ helmet provided to staff;
- Medical services.

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, PDCN 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. PDCN 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 PDCN requires all goods given to employee to be returned to PDCN 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.
- PDCN 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 PDCN on the cessation of employment).
- Revised contract of employment to include such benefits where necessary.

8. Otherwise, PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-22

Title: Compliance: Goods provided for free

GST Implication: **Background**

1. PDCN gives hampers during festive seasons to staff.

GST Implication

2. 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.

3. 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.

4. The GST amount would not be recovered by PDCN from the recipient of these goods. PDCN 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.

5. 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 PDCN does not account for GST unnecessarily. This would be an additional administrative cost to PDCN.

6. 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 PDCN to develop a system where PDCN can closely monitor and track the free goods provided.

7. On the contrary, PDCN may choose not to track, but instead account GST for all goods given out for free. However this would mean an opportunity lost for PDCN to benefit from the exceptions provided under this rule.

8. As 'goods provided for free' are currently not captured as 'revenue' items, PDCN 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.

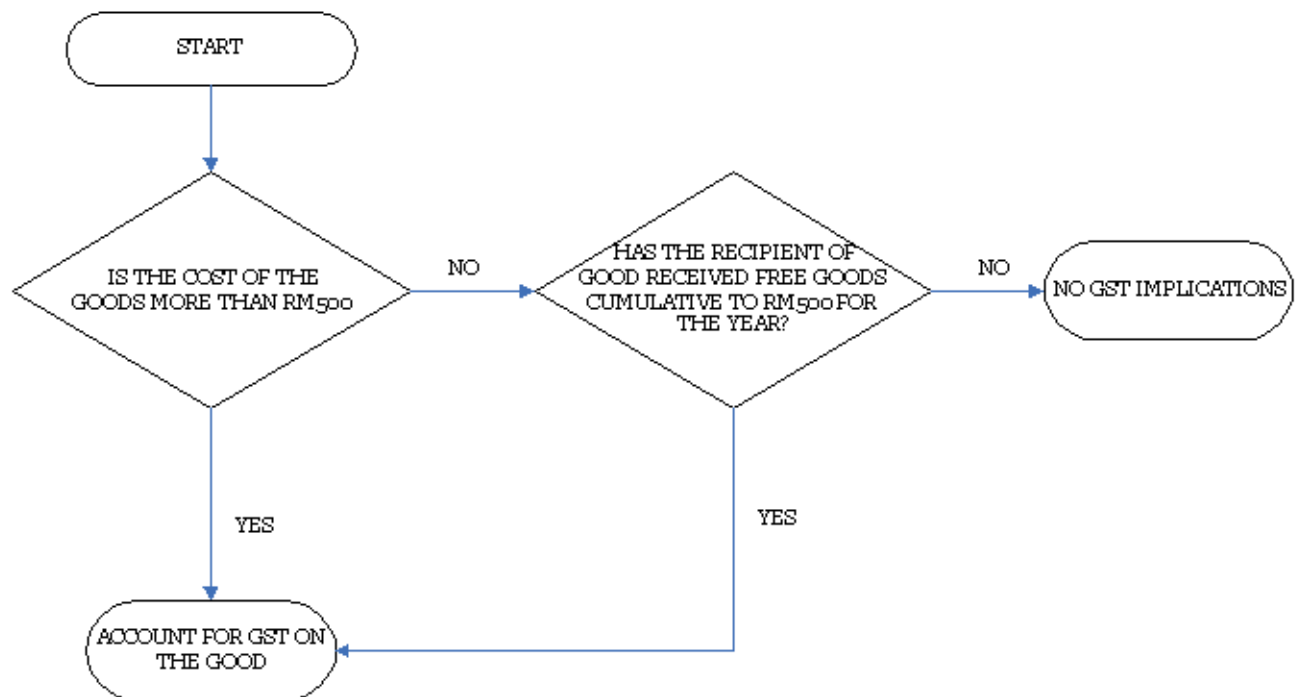
9. Gifts of services or any 'intangible' items are not subject to the Gift rule. Further, monetary vouchers are also not subject to GST.

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

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

12. 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 PDCN 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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. In the course of providing services, PDCN may incur various costs, or make payments to third parties, of which PDCN subsequently invoices and recovers from PDCN'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 PDCN 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 PDCN on behalf of customers. These expenses are the liability of the customer and relate to a supply by a third party to PDCN's customer, (and not to PDCN), for example legal fees. In this instance, no GST should be charged by PDCN upon recovery from the customer.

5. When PDCN 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 PDCN'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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. Currently PDCN makes a number of inter-company supplies / charges within PDC Group and its related entities. Examples include:
 - Construction 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, PDCN and the 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 Nusabina Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PDCN 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 PDCN 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:

- (a) they are officers or directors of one another's business;
- (b) they are legally recognized partners in business;
- (c) 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;
- (d) one of them directly or indirectly controls the other;
- (e) both of them are directly or indirectly controlled by a third person;
- (f) together they directly or indirectly control a third person; or
- (g) 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:

- a. the market value of identical goods / services
- b. the market value of a similar good / services
- c. 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 PDCN does not sell, then its value would be the actual cost incurred by PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-26
Title: Compliance: Forfeiture / Cancellation Fees / Penalties received and paid

GST Implication: **Background**

1. PDCN as a main contractor for construction project may engage another party for completion of certain services (i.e. subcontractor). In this instance, PDCN may receive forfeiture or cancellation fees when the subcontractors does not perform as per agreed contract.
2. Under certain contractual arrangements, PDCN may received certain fees for releasing the subcontractor from their obligations.
3. PDCN may also receives late payment charges or service charge on dishonoured cheque.
4. Other than the above amount received, on the same token, PDCN may also pay Liquidated and Ascertained Damages (LAD) to its customers for delays in completion of construction project.

GST Impact

5. The GST treatment of forfeiture, cancellation or penalty fees and charges imposed are as follows:

- If the fee and charge is in the nature of a financing payment (e.g. late payment charges), it is treated as a financial supply (Exempt Supply);
- If the fee and charge is in the nature of a damages, compensation, fee for non-compliance payment, it is not consideration for a supply (Out of Scope Supply);
- If the fee and charge relates to payment for a good or service (as an additional consideration of the agreement or arrangement), then it will take on the GST treatment of that earlier supply.

6. You will need to determine the true character of each forfeiture, cancellation or penalty fee or charges imposed with regards to the terms of each agreement and other relevant facts to determine whether these charges are compensatory in nature. In doubt, please have the GST treatment confirmed with the Customs authorities.

Work Plan:

Recommendations

1. List down all receipts which are penalties in nature (e.g. including but not limited to forfeiture, cancellation fees, liquidated damages, replacements charges).
2. Review the terms of each receipt and determine is it:
 - a. Interest;
 - b. Payment for goods or services; or
 - c. If neither of the above are true, then the receipt is a 'bona-fide penalty'.

(1) Type of Receipt	(2) Nature of Receipt *Explained as below table	(3) GST Treatment
Forfeiture		
Cancellation fees		
Liquidated damages		
Replacements charges		
Any other not stated		

3. Where your determination is unclear / potentially contentious, document your treatment and confirm with Customs if required.

4. Apply the tax coding treatment below:

Nature of receipt	Tax Code
Interest payment	Exempt
Payment for goods or services	Follow the treatment of the underlying supply
Bona-fide penalty	Out of Scope

5. Create a policy on penalties receipts treatment.

6. Ensure this policy has processes to review forfeiture / cancellation fees and penalties received.

7. Ensure tax coding for LAD payment is made appropriately.

8. Implement the process and system changes.

9. Educate employees on the processes and system changes (if any).



GST Issue

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

Issue No: GST PDCN-27
 Title: Compliance: Out of Court Settlements

GST Implication: **Background**

1. PDCN may have legal disputes with their customers. These legal disputes may be due to:

- Non-payment; or
- Breach in the terms of the contract.

2. Settlement for these legal disputes may be via out of court or court order.

3. PDCN may also need to pay certain costs incurred by the other party if PDCN is unsuccessful in its suit. These costs may include legal fees, court costs and etc.

GST impact

4. Where the dispute involves non-payment for taxable supplies provided, settlement received will be treated as a consideration for that taxable supply made which shall attract GST. PDCN shall need to ensure whether the settlement agreement is GST inclusive or exclusive.

5. Where the settlement results from a breach of contract or a claim for damages, the settlement is compensatory in nature and is generally not subject to GST.

6. In relation to the costs paid to the successful party (item 3), there is no supply for this consideration from the successful party to PDCN. These are compensation for losses incurred in the dispute and shall be out-of-scope.

7. If there are any dispute arising before the GST effective date but subsequently resolved via court order or out of court settlement after the GST effective date, no GST shall be payable since it relates to an earlier supply before the GST effective date.

Work Plan: Recommendations

1. Identify, monitor and track transactions that are presently in dispute for their out-of-court settlement or court orders.
2. Determine the GST treatment for each of these transactions.
3. Seek clarification from Customs for GST treatments that are ambiguous.
4. Update current processes and systems to track the GST treatments.
5. Implement processes and systems changes.
6. Educate staff on the updated processes and systems changes.



GST Issue

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

Issue No: GST PDCN-28
 Title: Compliance: Disposal of fixed assets

GST Implication: **Background**

1. PDCN may dispose or write off assets such as:-
 - Plant and machinery;
 - Office equipment;
 - Furniture and fittings;
 - Motor vehicles and etc.

GST Implication

2. Where PDCN 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. PDCN 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, PDCN may want to consider assigning a GL code specific to the disposal of assets which will allow PDCN 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 PDCN 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 PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-29
 Title: Compliance: GST on Lost/ Destroyed/ Stolen/ Obsolete Stock

GST Implication: **Background**

1. During a 'stock take', PDCN may discover some shortfall in its stocks (Stocks would include all construction materials that PDCN captures as part of development cost). The stock shortfall may be due to the goods being lost/destroyed/stolen.
2. There may be instances where rejected/obsolete stock are destroyed or disposed of by PDCN without consideration.

GST Implication

3. No GST would be chargeable on lost/destroyed/stolen stock as no supply has been made. However, there should be sufficient documentary evidence to support that the stock was lost/destroyed/stolen before a sale had taken place.
4. Failing which, the Customs authorities could impose GST on the stock that cannot be accounted for as lost/destroyed/stolen.
5. There are currently no guidelines as to the level of "sufficient" documentation required for this purpose. However, these may include insurance claims, police report, survey report, or destruction approval forms.
6. PDCN should ensure robust stock control processes that can support the tracking and movement of all goods. Stock control processes should also ensure that the appropriate level of authority verifies and signs off the stock takes or stock destruction. In the event of an audit, Customs would need to be satisfied that goods have not been given away without consideration.

Work Plan: Recommendations

1. Ensure internal controls over all business assets are in place and sufficient to be GST compliant.
2. Review existing stock control systems and processes and maintain best practices.
3. Record Keeping - Consider keeping hard copies of stock take reports, destruction reports and other relevant records for Customs audit.
4. Educate employees on changes and requirements under GST.



GST Issue

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

Issue No: GST PDCN-30
 Title: Compliance: Company cars

GST Implication: **Background**

1. PDCN has company cars and site vehicles used by staff solely 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's name.

4. The above can potentially be applied on the company cars for use by staff for business travelling purposes only. However, PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-32

Title: Compliance: Payments to Federal & State Governments, Statutory Bodies and Local Authorities

GST Implication: **Background**

1. PDCN 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
- Levy and stamping fees for project
- Quit rent and assessment
- EPF, SOCSO, PCB in respect of staff's salary

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 PDCN.

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 PDCN's responsibility.

5. PDCN only needs to ensure that any input tax being charged by such bodies are properly recorded and PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-33
 Title: Compliance: GST Relief for Bad Debts

GST Implication: **Background**

1. PDCN may have outstanding invoices more than six months. Post GST, PDCN must account for GST upon issuance of tax invoice even if payment has not been received from PDCN's customer.

2. PDCN also may have payable which are more than 180 days.

GST Implication

3. Where PDCN has accounted for output tax and has not received payment 6 months from the date of the supply, PDCN 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. PDCN 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 PDCN 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 PDCN 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 PDCN to Customs.

7. PDCN needs to manage its payables that exceeds 180 days from the date of the invoice. PDCN 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 PDCN holds:
 - i. a copy of the original GST invoice relating to the supply; and
 - ii. a record, showing the GST has been accounted for by PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-34
 Title: Transitional: Inclusion of GST clause in all contracts

GST Implication: **Background**

1. PDCN does not as yet have GST specific clauses in all of PDCN's contracts.

GST Implication

2. 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.

3. If PDCN 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 PDCN 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 PDCN 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 PDCN 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 Nusabina Sdn Bhd
Business Unit:	

Issue No: GST PDCN-35
 Title: Transitional: Contracts spanning GST start date

GST Implication: **Background**

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

4. Calculation of GST on the value of construction work for project straddling two periods is as follows:-

(i) For projects above RM1,000,000 and which requires the issuance of certificate of work done - A recognised person such as engineer and architect has to verify the value and amount of work performed for the period prior to commencement of GST.

(ii) For projects below RM1,000,000 and which do not require issuance of certificate of work done - PDCN have to apportion the value of work done before and after the commencement of GST.

5. In summary, PDCN 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 services on or after the GST appointed date.

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

7. PDCN must identify PDCN'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 PDCN'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.