



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-01
 Title: Strategic: Registration for GST

GST Implication:

Background

1. PIHH receives grant from the Penang State Government via Penang Development Corporation (the holding corporation) for the purpose of promoting and developing halal industry in Penang.
2. PIHH also receives income from halal industry related events held within and outside Malaysia, of which the annual taxable turnover does not exceed RM500,000.

GST Implication

3. The grant received may be treated as consideration for services supplied by PIHH for GST purposes. However, supply made to State Government may be given relief from GST under the GST (Relief) Order. As of-to-date, the GST (Relief) Order has not been issued yet.

4. If the grant received from the State Government is included as part of taxable income, PIHH will be required to register for GST as the total taxable supplies will exceed the prescribed threshold of RM500,000.

5. However, if the total taxable supplies (if the grant received from State Government is not regarded as taxable supplies) is less than RM500,000, PIHH is not required to be registered but PIHH can still apply for voluntary registration, if it desire. Once PIHH voluntarily register, PIHH shall need to be registered for a minimum of 2 years.

6. PIHH can be registered provided PIHH can satisfy the Director General that it is committed to doing business by submitting the following documents:-

- details of business arrangements (business plans, plants, location);
- copies of contract for establishment of premises such as rental of premises / construction of pipelines/ purchase of equipment;
- details of any patents;
- details of business purchases; or
- other documentary evidence.

7. Once registered, PIHH must account for GST whenever PIHH makes taxable supplies. When PIHH acquires inputs from a GST registered person, PIHH will be charged GST on the purchases and such GST is claimable if it is incurred for making taxable supplies.

8. No output tax / input tax is chargeable/ claimable if PIHH does not register under GST.

9. In view of the above, apart from the initial cost outlay in getting ready for GST, consideration of whether or not to be registered would also need to take into account PIHH's resources to support the recurring process of GST compliance (refer issue log on Budgeting and Resource Requirement for GST Implementation).

Work Plan:

Recommendations

1. Monitor the issuance of GST Relief Order by Customs
2. Seek Customs confirmation on the GST treatment for the grant income.
3. Conduct cost-benefit analysis on whether it is feasible to register under GST (if

does not exceed the threshold)



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-02
 Title: Strategic: Budgeting and Resource Requirement for GST Implementation

GST Implication: **Background**

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



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-03
 Title: Strategic: CAPEX

GST Implication: **Background**

1. PIHH 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 PIHH.

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%). In addition to the lower rate of tax, PIHH would also be able to claim some input tax credit on the GST charged.

4. Therefore, PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-04
 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 PIHH'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 PIHH lower prices.
 - Will be able to issue PIHH with GST invoices that will allow PIHH 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, PIHH may consider instructing any current vendor, to voluntarily register for GST in order for PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PIHH may keep / manage / maintain records on its 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:
 - a. any person who has ceased to be a taxable person and has made/may make bad debt relief claim;
 - b. imported services supplied to the recipient, who is a non-taxable person, for the purposes of business;
 - c. goods of a taxable person are sold by a non-taxable person to recover any debt owed by the taxable person;
 - d. 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
 - e. 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 PIHH's GST liabilities and entitlements.
6. For instance, in the event of a Customs audit, if PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

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

GST Implication: **Background**

1. PIHH holds annual events such as Penang International Halal Expo and Conference (PIHEC), which are open to general public.
2. Participation fees and booth fees are collected and recorded as 'revenue' in the accounts.
3. PIHH may issue invoices for the abovementioned fee charged to event participants, SMEs and large corporations.

GST Implication

4. Once registered for GST, PIHH is required to issue a valid tax invoice when PIHH makes any taxable supply of goods or services in the course of PIHH's business. The tax invoice must contain the prescribed particulars in respect of the supply as required by the GST legislation (refer below). It must be issued within 21 days after the time when the supply has taken place.

5. A pro forma invoice is not regarded as a tax invoice.

6. Under the GST legislation, PIHH is prohibited from issuing a tax invoice on any supply of imported services (which would be treated as if supplied by PIHH 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)

7. Although exempt and zero rated supplies do not require tax invoice to be issued, for administrative ease PIHH 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.

8. 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

9. 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 PIHH 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' (PIHH's liability to account for output tax).

Tax Invoices expressed in a foreign currency

10. Where amounts on a tax invoice are expressed in a foreign currency (other than Malaysian currency), PIHH must convert the amount to Malaysian currency ("Ringgit"). The conversion into Ringgit must be at the selling rate of exchange prevailing in Malaysia at the time of supply.

11. In the case of importation, the importer can use the exchange rates published by Customs which are updated every week.

12. If a mistake is made on an invoice, PIHH 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: (i) Whether billing / invoicing should be standardised to meet the prescribed requirement for valid tax invoice; (ii) 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 PIHH cannot meet GST tax invoice requirements (i.e. where PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-09
 Title: Compliance: Advance and Deposit Receipts

GST Implication: **Background**

1. There are instances where PIHH collects down payments / deposits / booking fee which forms part of the consideration from event participants, SMEs and large corporations.

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 such as the rental deposit (exception is where invoice is issued within 21 days of payment).

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

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

Work Plan:

Recommendations

Advance payment received by PIHH

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

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



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-11
 Title: Compliance: De minimis and Incidental Financial Supplies

GST Implication: Background

1. PIHH may make the following supplies in its business:
 - Interest income from bank deposits
 - The provision of advances to staff

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 PIHH 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, PIHH 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 PIHH.
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, PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-12
 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 PIHH
 - 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 PIHH Development Sdn Bhd to enable PIHH to claim the input tax credit. For example any tax invoice issued in the name of eg: "PIHH" or "PIHH Development" cannot be used to make an input tax claim by PIHH.
 - 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 PIHH 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 PIHH to claim the full input tax credit incurred. Under GST Guide, the maximum amount of input tax credit that PIHH can claim on a single simplified tax invoice is restricted to RM30. Therefore, when PIHH'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 PIHH in order for PIHH to claim the full input tax credit.
5. It should also be noted that PIHH 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 PIHH has still not made payment to PIHH's supplier, PIHH must repay any input tax credit PIHH has claimed with respect to this invoice. In the event of settlement of the debt, PIHH may then reclaim the ITC.
6. However, do note that a pro forma invoice is not regarded as a tax invoice. PIHH can only claim input tax on local acquisitions in PIHH's GST return if PIHH has a valid tax invoice.
7. In respect of importation of goods, PIHH must hold a valid Customs importation Customs No.1. In respect of clearance of goods from bonded warehouses, PIHH must hold Custom No.1 or No.9.
8. For importation of services, PIHH is required to hold a document such as the foreign supplier's invoice to show that PIHH 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 PIHH'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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-13
Title: Compliance: Accounting recognition vs GST recognition for input tax claim

GST Implication: **Background**
 1. PIHH accrues expenses in relation to telephone charges, accounting fee, audit fee, professional fee, secretarial fee 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. PIHH 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), PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-14
 Title: Compliance: GST on importation of goods

GST Implication: **Background**

1. PIHH may import goods or acquire fixed assets from overseas.

GST Implication

2. Under GST, the importation of goods into Malaysia will generally be subject to 6% GST which is payable upon clearance of those goods from Customs.

3. The GST paid upon importation is recoverable as an input tax credit provided that PIHH holds the valid customs / import documentation and it must be made out in PIHH's name (K1 or K8).

4. Upon arrival in Malaysia, all goods need to be declared by the owner or his agent in the prescribed form. Imported goods can only be released from Customs control after the duty and/or tax paid in full except as otherwise allowed by the Director General. In the case of goods imported by road, such declaration shall be made at the place of import.

5. Place of import is the legal landing place or the place permitted by the proper officer of customs irrespective of whether it is imported to Malaysia by sea, air or land.

6. GST on imported goods will be collected together with other customs duties, if any, at the point of entry. The tax and duties, if any, shall be paid to Customs within 14 days of such declaration before the goods are released from Customs control.

7. Importer or owner of the imported goods is liable to pay GST and customs duty, if any, at the time of importation or at the time when the goods are released for home consumption. However, if the importer or owner of the imported goods appoints an agent who is a taxable person to act on his behalf, and the owner is not a taxable person, then the goods is deemed to be imported by the agent. In such a case, the agent is liable for GST and customs duty, if any, on the imported goods.

8. For GST purpose, the value for imported goods will be aggregate of the following:-

- (a) Value determined for customs purposes;

Value of the goods or transaction value, which is generally shown on the invoice, plus adjustments to be included such as freight, insurance, packing, commission and brokerage, assist, royalty, proceeds and other charges and expenses associated with the transportation of goods until the goods have arrived in the country of importation but not costs incurred after importation.

- (b) Customs duty paid or to be paid, if any; and

- (c) Excise duty paid or to be paid, if any.

9. In respect of goods that PIHH imports under GST regime, PIHH would be entitled to recover an input tax credit where previously there was no refund of sales tax. This represents a tax cost saving to PIHH, and a process should be put in place to ensure

that the relevant documentation is held to support the input tax credit claims.

10. Management should also review capital expenditure purchases to take advantage of any sales tax savings from delaying the importation of equipment till after the GST appointed date.

Work Plan:

Recommendations

1. Identify all payments made to non-residents for imported good.
2. Ensure all relevant documents on imported goods are in the name of PIHH and properly retained to support input tax credit claim.
3. Identify and implement system and procedures to ensure input tax credit is claimed in the same month of importation.
4. Communicate and educate relevant staff on the process and system changes.



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-15

Title: Compliance: Imported services (reverse charge)

GST Implication: **Background**

1. The Company currently incurs the following expenses for services provided by overseas vendors:

- advertisement fee paid to foreign publications e.g. Japan Times, Oxford Today for purpose of promoting halal industry in Penang
- honorarium (including air fares, food and lodging expenses) paid to overseas speakers for attending conferences in Penang
- participation fee and booth rental fee for attending overseas exhibition

GST Implication

2. PIHH 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.

3. In the case of imported services, the GST liability shifts from the overseas supplier to PIHH. PIHH is treated as if PIHH is making and receiving the supply. Since PIHH is treated as making a supply, PIHH is required to account GST on supply of imported services as an output tax.

4. If the imported services are used for making taxable supplies, PIHH is entitled to claim the GST incurred as input tax. If the supply is used for making exempt supplies, PIHH is not entitled to claim the GST as input tax. If the imported services are used for making both taxable and exempt supplies, then PIHH has to apportion the GST incurred and claim the proportion of GST on imported services used for making taxable supplies.

5. PIHH 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.

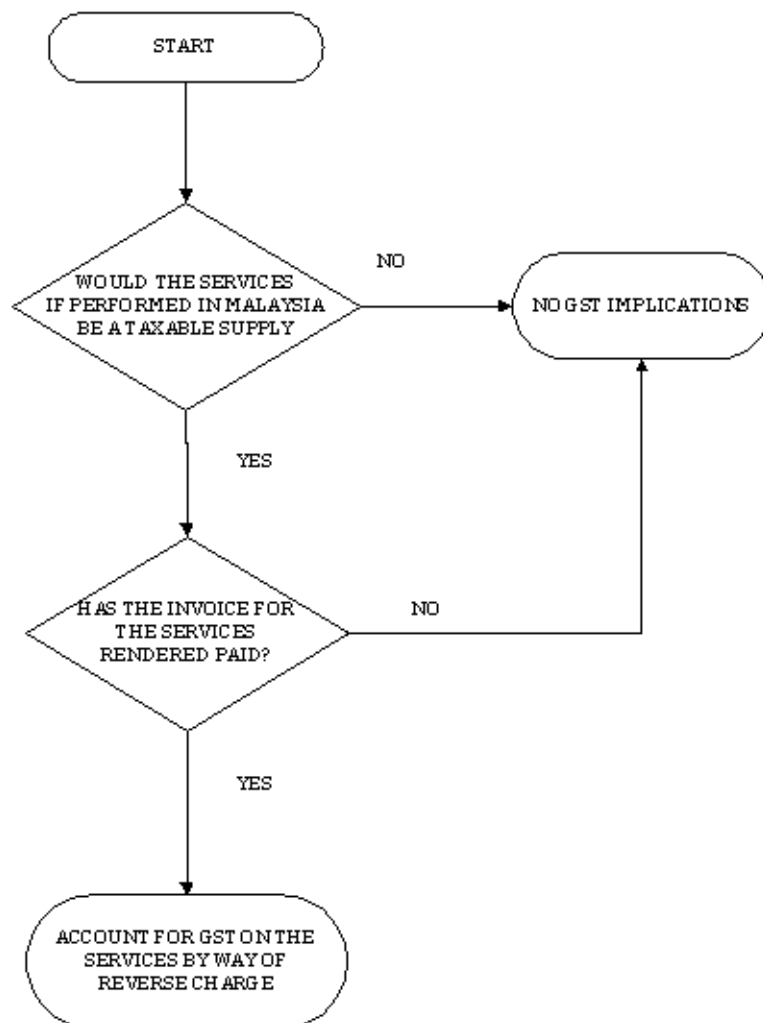
6. PIHH does not need to issue any tax invoice on the imported service received.

7. For input tax claim, PIHH is required to hold document such as the foreign supplier's invoice to show that he is entitled to claim input tax.

8. 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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-17
 Title: Compliance: Entertainment expenditures

GST Implication: **Background**

- PIHH in the course of its business incurs entertainment expense for the following:
 - Air fares, accommodation and meals for speakers / guest artistes attending conferences / concerts in Penang
 - Food and refreshments for staff during festive seasons
 - Annual trip for staff
- These expenses may have been logged into 'Food & refreshment' and 'Artist performance' account.

GST Implication

- 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.
- "Entertainment expense" includes —
 - the provision of any food, drink, recreation or hospitality of any kind, or
 - 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 trip to a theme park or a recreation centre;
 - a stay at a holiday resort;
 - tickets to a show or theatre; and
 - entry to sporting activities/events.
- 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

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



GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-18
 Title: Compliance: Employee Benefits Provided by PIHH

GST Implication: **Background**

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

- Goods intended for use during work e.g. uniforms to staff;
- Advances to staff;
- Leave passage.

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

8. Otherwise, PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-20

Title: Compliance: Goods provided for free

GST Implication: **Background**

1. PIHH may giveaway souvenirs / door gifts to event participants.

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 PIHH from the recipient of these goods. PIHH 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 PIHH does not account for GST unnecessarily. This would be an additional administrative cost to PIHH.

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

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

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

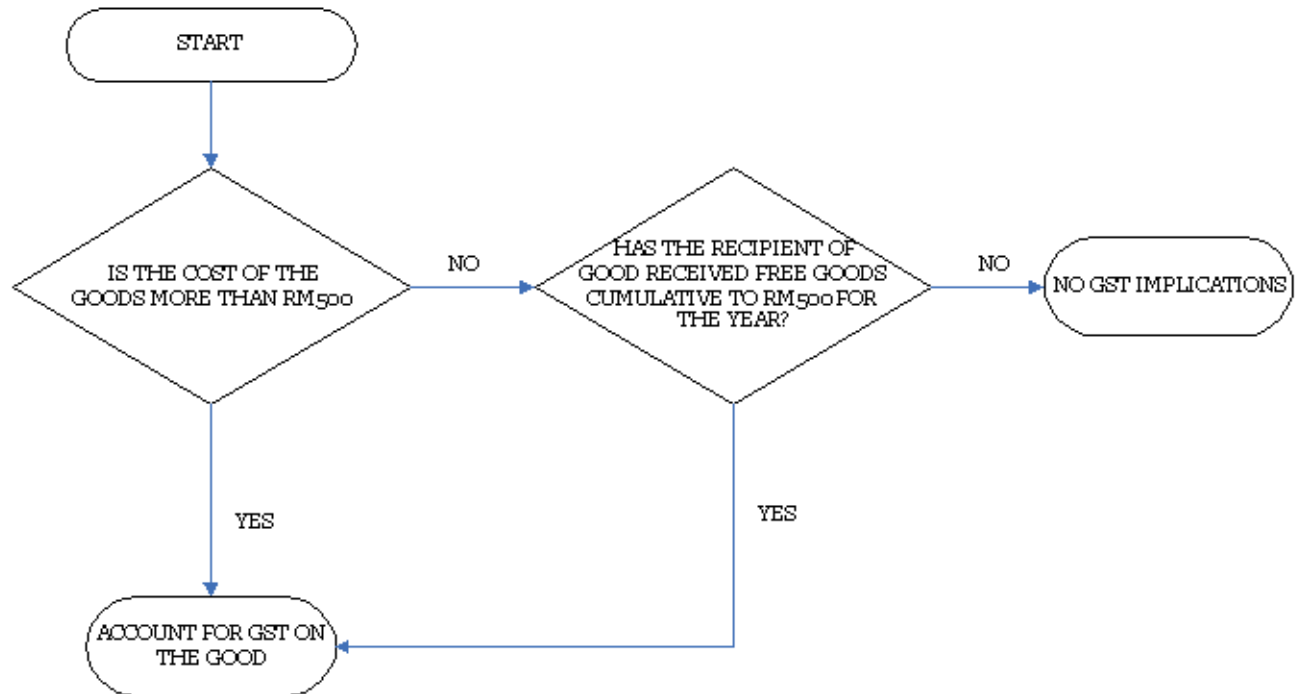
11. PIHH would still be entitled to recover full input tax credits on the purchases of the goods provided for free.

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

goods.

13. 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 PIHH 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:	PIHH Development Sdn Bhd
Business Unit:	

Issue No: GST PIHH-22
 Title: Compliance: Disposal of fixed assets

GST Implication: **Background**

1. PIHH may dispose off / write off assets such as:-
 - Computers and software;
 - Furniture and fittings;
 - Office equipment.

GST Implication

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

Issue No: GST PIHH-24
Title: Compliance: Payments to Federal & State Governments, Statutory Bodies and Local Authorities

GST Implication: **Background**

1. PIHH 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
 - Stamp duty
 - 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 PIHH.

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 PIHH's responsibility.

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

Issue No: GST PIHH-25
 Title: Compliance: GST/VAT incurred overseas

GST Implication: **Background**

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

- Expenses incurred by staff for attendance at seminars/ courses/ exhibitions/ any business related activities overseas (e.g. accommodation, transportation, food & beverages)
- Advertisement fee paid to foreign publications for promoting halal industry in Penang which are subjected to GST/VAT overseas.

GST Implication

2. When PIHH incurs foreign GST/VAT, PIHH 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 PIHH 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 PIHH wish to claim a refund of the foreign GST/ VAT, PIHH may need to write and appeal to the overseas tax authority on which PIHH 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..