Goods And Services Tax (GST)

Second Session

SME CORPORATION MALAYSIA

Agenda

1. GST TREATMENT ON SUPPLIES MADE BY SMEs
2. SPECIAL SCHEMES/TRANSACTIONS
3. INPUT TAX CREDITS (ITC) MECHANISM
4. TRANSITIONAL PERIOD

GST TREATMENT ON SUPPLIES MADE BY SMEs

GST Treatment on Supplies Made by SMEs

GST charged on

- taxable supply of goods and services made by a taxable person in the course or furtherance of business in Malaysia
- Imported goods
- imported services
  - ✓ reverse charge mechanism
    - ➢ recipient of services treated to have made the supply to himself and by himself
    - ➢ accounts for output tax and claims input tax

Imported Services

Type of Person	Tax Status	Documentation
Taxable supplier	Full ITC	GST03
Mixed supplier	Apportionment of ITC	GST03
Non Registered Person -Exempt Supplier -Below threshold	Incurred GST	GST05
Individual / Non Business	No GST	No
Recipient in Designated Area (DA)	No GST	No

GST Treatment on Supplies Made by SMEs

Taxable supplies include:

- Sale of goods and provision of services
- Disposal of business assets
- Application of business assets for non-business purposes
- Business gifts exceeding RM500 given to the same customer in the same year
- Goods which are business assets on hand at deregistration

SPECIAL SCHEMES/ TRANSACTIONS

Approved Trader Scheme (ATS)

GST Treatment on Approved Trader Scheme (ATS)

- **Generally all goods imported by manufacturers are subject to GST**
- **Under ATS**
  - ✓ **ATS participants are allowed to suspend GST on the importation of goods**
  - ✓ **GST due on all goods imported in a particular month would be accounted for in that month (the month where importations take place)**

Approved Trader Scheme (ATS)

Persons eligible for ATS

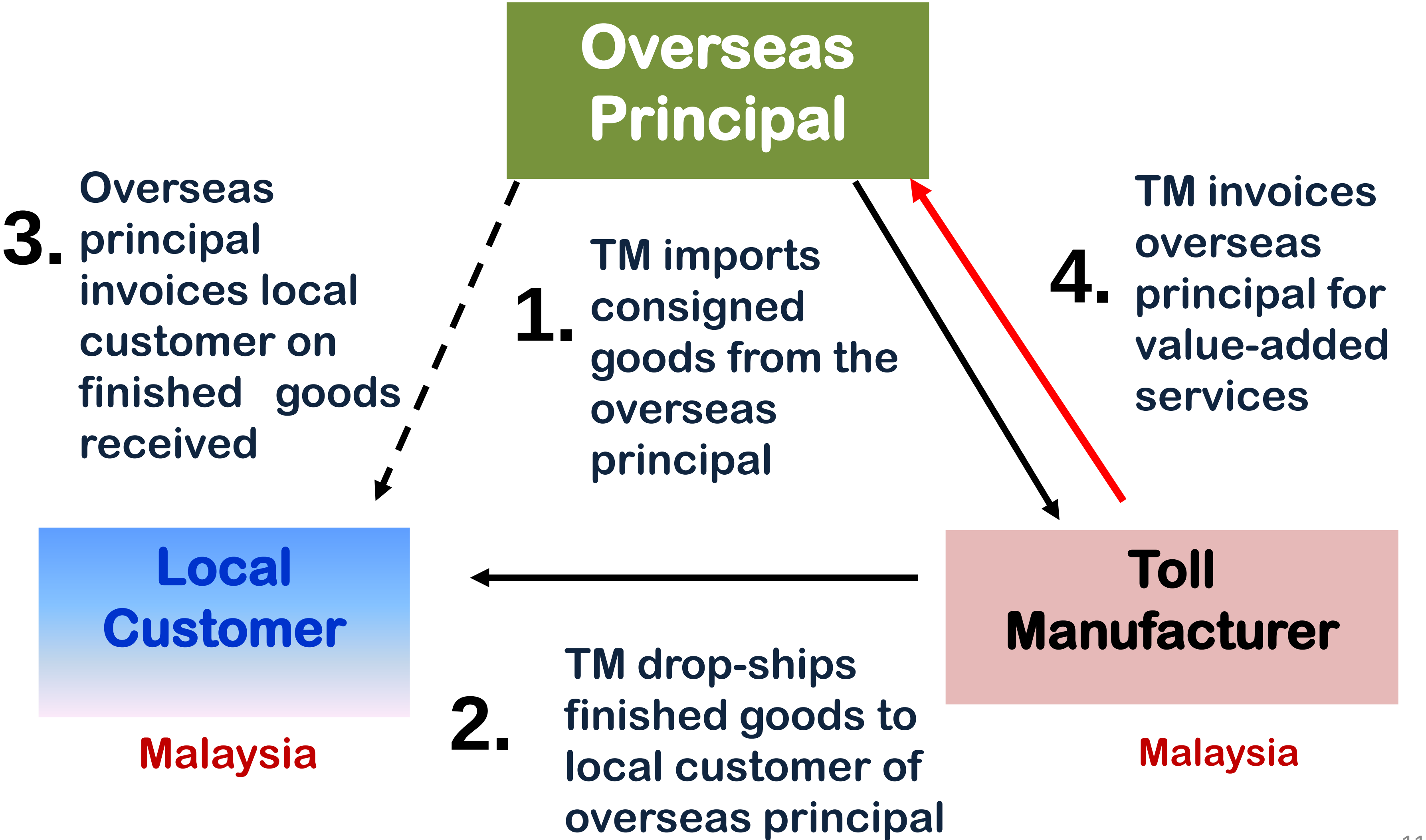
- Companies located within FIZ
- LMW
- IPC/RDC
- Toll manufacturers under ATMS
- Jewellery manufacturers under AJS
- Companies with turnover above RM25 million and at least 80% of their supplies made are zero-rated
- Any other person as approved by the Minister

Approved Trader Scheme (ATS)

Approval subject to the following criteria:

- **Participant must make wholly taxable supply**
- **Goods imported in the furtherance of a business**
- **Must submit monthly GST return**
- **Must have good accounting system**

Approved Toll Manufacturer Scheme (ATMS) - Basic Scenario of ATMS



Approved Toll Manufacturer Scheme (ATMS)

GST Treatment

- **Supply of value added activities made by toll manufacturer (TM) to overseas principal (processing charges/toll) to be disregarded**
- **Delivery of processed goods by TM on behalf of his overseas principal**
  - ✓ **to a local customer (registered person & non-registered person) will be accounted by way of "Recipient Accounting"**
    - ➢ **Registered person – GST return (GST-03)**
    - ➢ **Non Registered person – form GST-05**
- **Local supplies delivered to the toll manufacturer under the account of overseas principal is zero rate**

Approved Toll Manufacturer Scheme (ATMS)

Persons eligible for ATMS

- Any toll manufacturer with contracts worth RM2 million or more (value added activities) per annum
- 80% of the processed goods must be exported

Value Added Activities

- related to manufacturing, treatment, processing, finishing, assembling, and other manufacturing-related works on consigned goods

Approved Jeweller Scheme

Persons eligible to apply for AJS

- **Jewellery manufacturers**

GST Treatment under AJS

- **Supply of prescribed precious metals made by a gold bullion house or bank to a jeweller is disregarded supply**
    - ✓ **tax will be accounted by way of "Recipient Accounting" in the GST return (GST-03)**

Approved Jeweller Scheme

Approval subjected to the following criteria:

- **Precious metals acquired must be for manufacturing jewellery in the furtherance of a business**
- **Acquisition of precious metals must be made in the name of the AJS participants**
- **Must submit GST return on monthly basis**
- **Must have good accounting system**

Warehousing Scheme (WS)

- **GST on goods deposited into the warehouse to be suspended**
- **GST on goods moved from one warehouse to another warehouse to be suspended**
- **Supplies within a warehouse to be disregarded**
- **Last supply subject to GST**
- **Goods released to local market subject to GST at standard rate**
- **Goods released to overseas market to be zero rate**
- **All goods and services consumed in warehouse to be standard rate**

Treatment on Second-hand Goods

Proposed GST Treatment on Second-hand Goods

- **Second-hand goods acquired from one taxable person to another taxable person**
  - ✓ **treated as normal GST transaction**
    - ➢ **Account output tax based on full value of the second hand goods and claim input tax**
- **Second-hand goods acquired from non-taxable person or individual**
  - ✓ **use margin scheme and input tax paid on the goods cannot be claimed**
    - ➢ **Margin Scheme = (selling price – purchase price) x tax fraction**

Margin Scheme

Goods eligible for the scheme

- **Second-hand motor vehicles**
- **Second-hand real properties**

Examples:

- ➢ **Used car dealer applies margin scheme when he purchases a motor vehicle from an exempt person e.g. individual**
- ➢ **Used car dealer cannot apply margin scheme when he purchases motor vehicle from a taxable person who charges tax to the used car dealer.**

Margin Scheme Illustration

Selling Price	RM50,000.00 (inclusive of GST)
Cost Price	RM45,000.00
Gross Margin	RM(50,000.00 – 45,000.00) =RM5,000.00
GST	4/104 x RM5,000.00 = RM192.31 (not to be shown on invoice)
Value of the car	Selling price less GST = RM(50,000 – 192.31) = RM4807.69
Output tax	RM192.31
Input tax	RM0.00 (no input tax claimable as No tax invoice was issued by the seller,)
Net GST	RM192.31

Tourist Refund Scheme (TRS)

A scheme whereby tourist can claim GST refund paid on certain goods purchased from Approved TRS Outlets /Stores

- **Applicable only to air mode travellers**

Who is eligible for TRS

- **Foreign/ outbound tourist**
- **Diplomats (after completion of their service)**

Tourist Refund Scheme (TRS)

Conditions

- **The tourist is neither a citizen nor a permanent resident of Malaysia holding a valid international passport**
- **The tourist have not at any time being employed in Malaysia**
- **The tourist is not a member of the cabin or flight crew of the aircraft on which he is departing out of Malaysia**
- **Tourist has to spend a total of RM300 (GST inclusive) or more from the same Approved TRS outlets**
- **Goods are brought out from Malaysia within 3 months from the date purchased**
- **Goods must be taken out on the same flight with the tourist**

Tourist Refund Scheme (TRS)

Goods Not Eligible For Refund Under TRS

- **Wine, spirits, beer and malt liquor**
- **Tobacco and tobacco product**
- **Jewellery, precious metal and gems stone**
- **Goods which are wholly or partially consumed in Malaysia**
- **Goods which are prohibited from export under any written law; and**
- **Goods which are not taken out as an accompanied or unaccompanied luggage.**

Flat Rate Scheme (FRS)

A scheme for farmers who are not GST registered person to recover GST on their inputs

- **Requirements:**
  - ✓ **Farmers to charge Flat Rate Addition on supplies made to GST registered person**
  - ✓ **Farmers not allowed to claim ITC**
  - ✓ **Farmers need not:**
    - ➢ **submit return**
    - ➢ **remit Flat Rate Addition collected to Customs**
  - ✓ **GST registered buyers can claim ITC based on Flat Rate Addition incurred**

Designated Area (DA)

Designated area refers to Free Ports (Langkawi, Labuan and Tioman)

Supply	GST Treatment
DA to DA : Goods and services	***Disregarded**
within the DA: Goods and services	***Disregarded**
World to DA: Goods Services	***No GST** **No GST**
DA to World: Goods and services	**Zero Rated**

* **Except for petroleum and other goods as prescribed by the Minister of Finance**

Designated Area (DA)

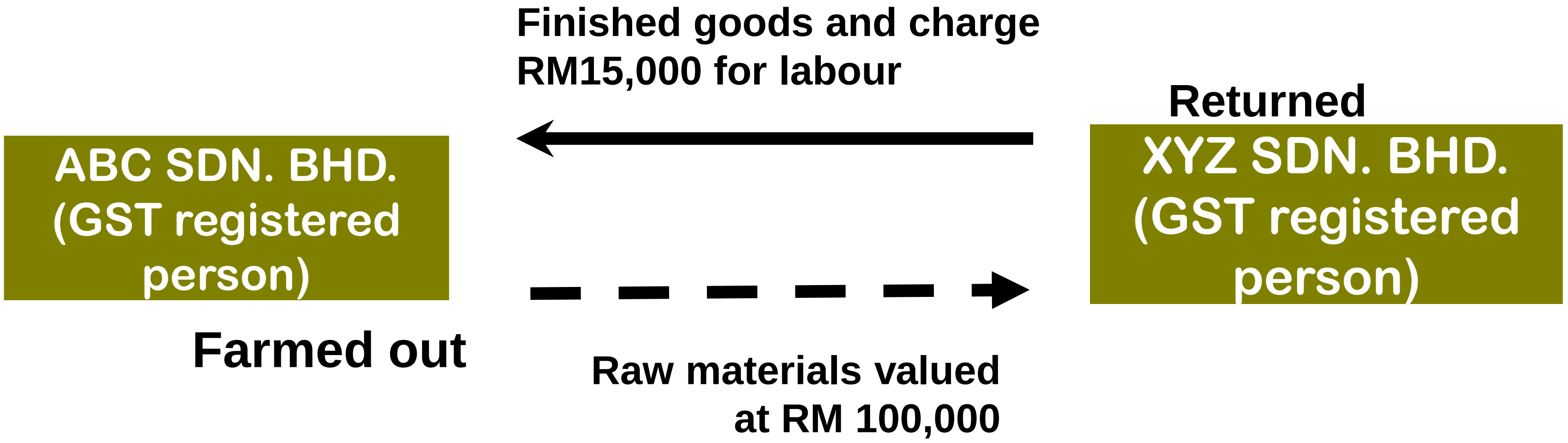
Supply	GST Treatment
PCA to DA: Goods Services	 *Zero-rated Standard rated
DA to PCA: Goods Services	 Standard rated Standard rated

* Except for petroleum and other goods as prescribed by the Minister of Finance

OTHER RELATED ISSUES

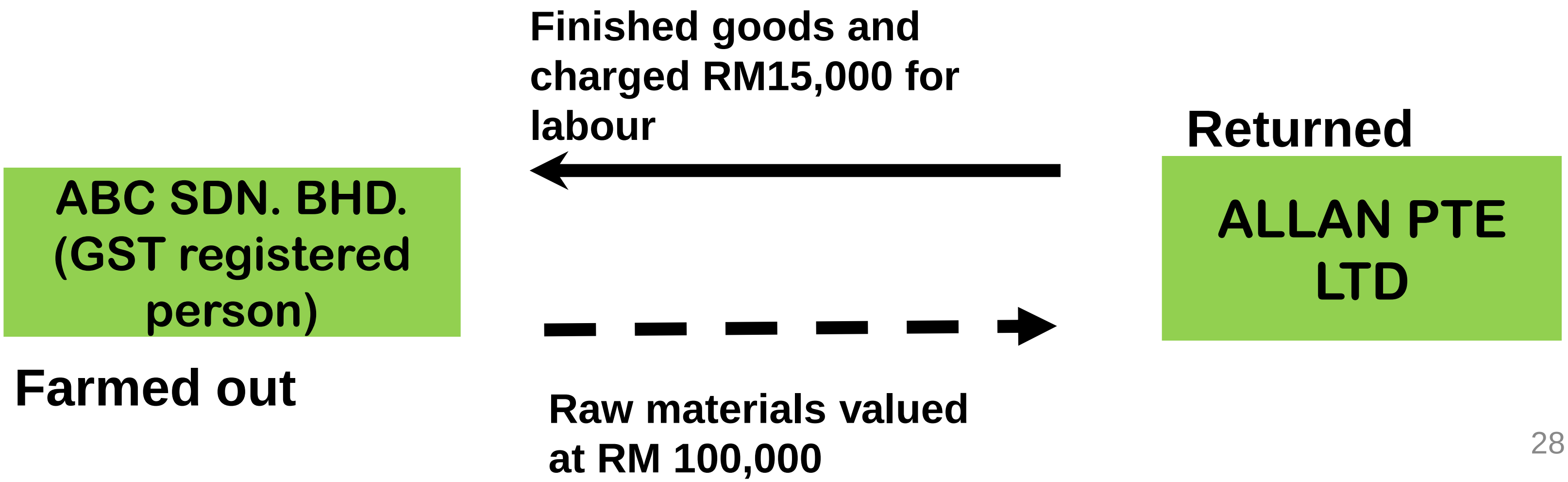
Farming Out Within Malaysia

- **no transfer of ownership of goods.**
  - ✓ **it is not a supply of goods**
- **sub-contractor to account for GST on value of services supplied**



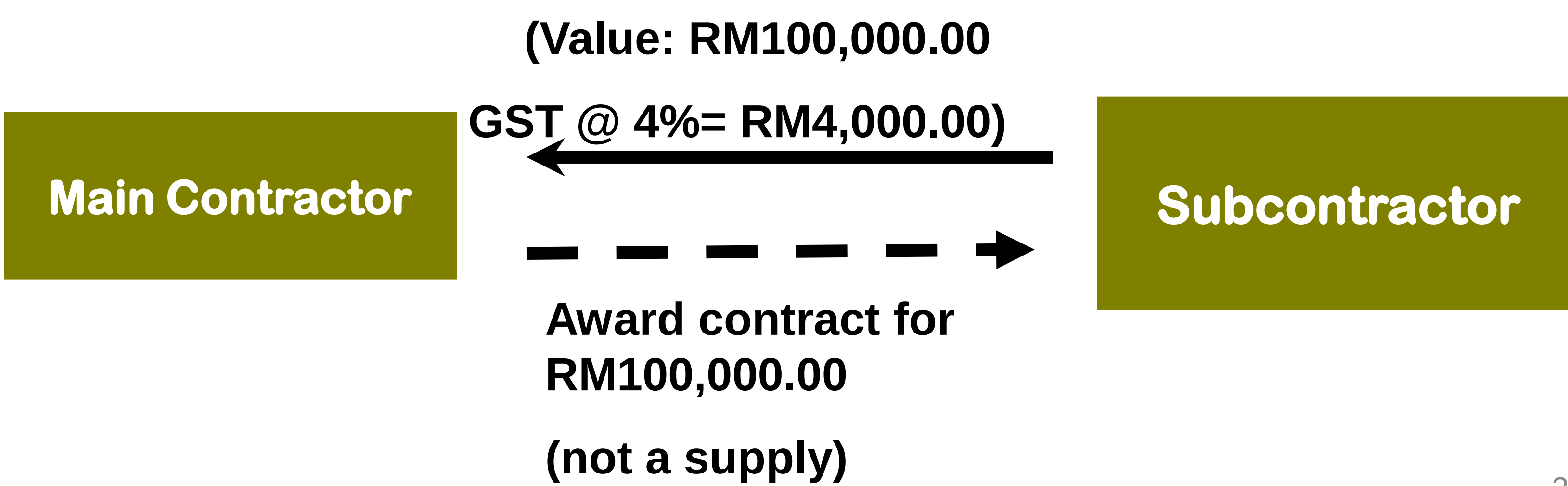
Farming out Outside Malaysia

- No GST on goods returned
- If new parts are added GST will be imposed (similar to item 51 of the Customs Duties (Exemption Order)
- Recipient to account GST on the supply of imported services



Subcontract work in Construction service

- construction service subject to GST
- subcontractor to account for GST on the value of all works and materials supplies to the main contractor.



Warranty

- **Manufacturer's warranty normally includes:**
  - ✓ **the charge for after–sale services and repairs**
  - ✓ **any replacement of spare-parts free of charge during the warranty period**
- **Services and replacement of parts free of charge, not subject to GST**

Employees Benefit

- **Employees benefit include any right, privilege, service or facility provided free of charge to employees**
- **All goods provided free not subject to GST except goods with value > RM500 (gift rule)**
  - ✓ **ITC claimable**
- **Services supplied free**
  - ✓ **no GST**

Other GST treatment

Discount

- GST computed on discounted price
- Sales to connected person based on open market value and not on discounted price

Gift

- Gift of goods not more than RM500 to the same person in the same year not subject to GST

Tie-in gifts

- **Tie-in gifts are not subject to GST**
- **Examples:**
  - ✓ **detergent and plate come in a package sold at one price**
  - ✓ **toothbrush and toothpaste come in a package sold at one price**

Trade-in goods

- **Consideration made partly in kind (trade–in goods) and partly in money**
- **GST to be accounted based on aggregate of**
  - ✓ **open market value of goods in kind and**
  - ✓ **amount of consideration in money**

Example:

Selling price of product A		**RM2,600**
Value	**- open market value of goods in kind**	**RM1,000**
	- in money	**RM1,600**
Total Value		**RM 2,600**
GST @ 4% = (1/26 x RM2,600)		**RM100**

Consignment Goods

Good sold under the sale or return terms

- **Time of supply**
  - ✓ **when it becomes certain that a supply has taken place**
  - ✓ **12 months after the removal of the goods, whichever is the earlier**

Sample

- **Imported trade sample given relief under GST Relief Order**
- **Trade samples given for promotion not subject to GST on conditions**
  - ✓ **packed differently and labelled ‘sample’ or ‘not for sale’**
  - ✓ **samples not packed differently is subject to business gift rules of RM500**

Loan of stock and equipment

Raw materials on loan

- it is a supply
  - ✓ subject to GST

Equipments on loan

- it is not a supply
  - ✓ not subject to GST

Disbursements

- **Payments made on behalf of clients not subject to GST**

  e.g. court fees, land registry fees, airline tickets for clients

- **Payments on expenses incurred by supplier such as hotel expenses, photostat, travelling costs and telephone bills are not regarded as disbursements and subject to GST**

ACCOUNTING FOR GST & INPUT TAX CREDIT (ITC) MECHANISM

Input Tax Credit (ITC)

ITC Mechanism

- **Tax paid on inputs to be offset against the output tax in the relevant taxable period**
- **subject to a time limit of 6 years from the date of return required to be made**
- **Apportionment rules to apply for a mixed supply**
- **Refund to be offset against other unpaid GST, customs and excise duties**
- **Net tax to be refunded within**
  - ✓ **14 working days for on-line submission**
  - ✓ **28 working days for manual submission**

Input Tax Credit (ITC)

Prerequisite for ITC Claim

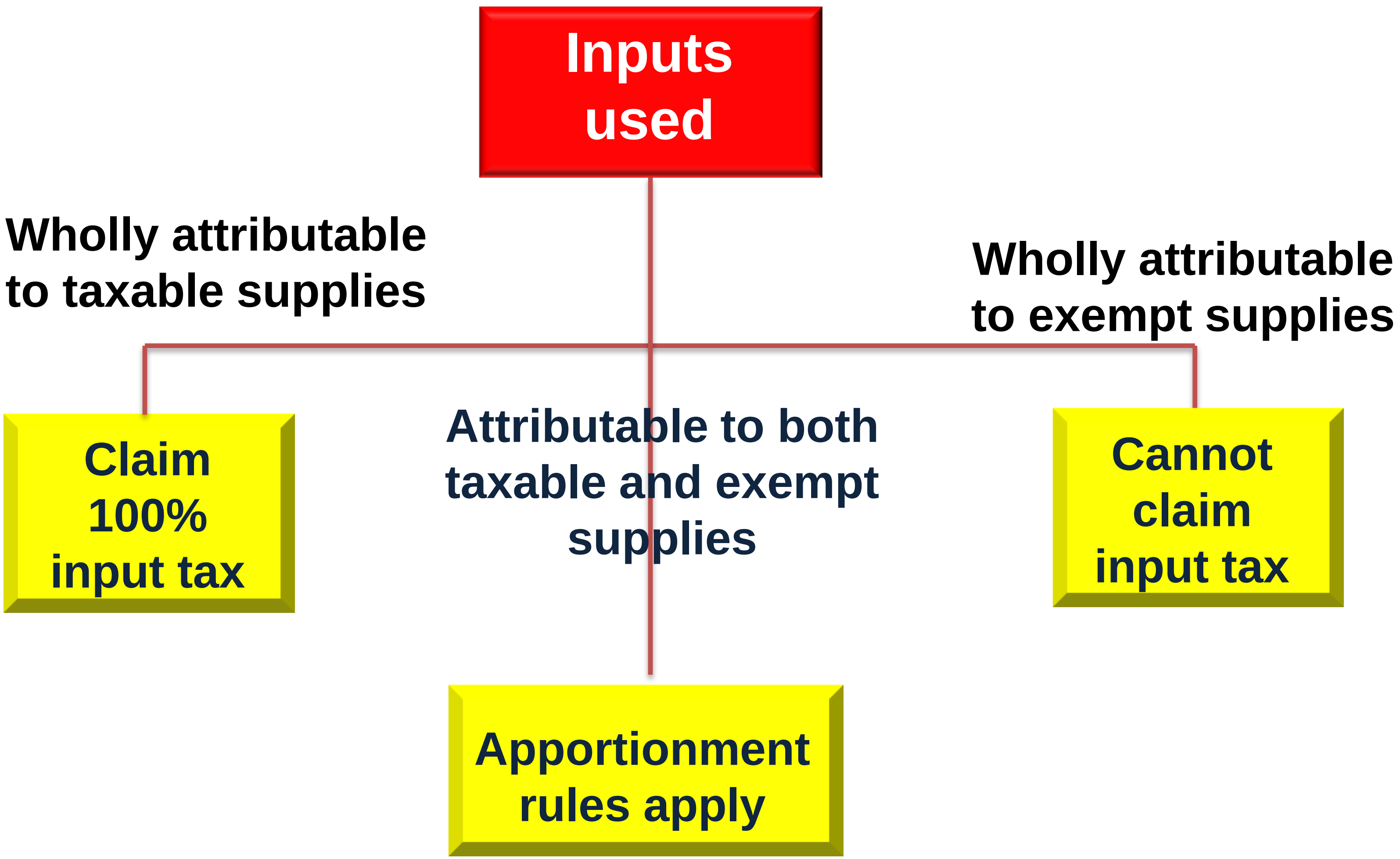
- **Claimant must be a taxable person**
- **Must have a valid tax invoice**
- **Invoice issued under the name of the claimant**
- **Goods and services acquired are not subject to any input tax restriction e.g. motorcars**
- **Goods and services are acquired for the purpose of making taxable supply**

Blocked Input Tax

- **Cannot claim input tax even though GST is chargeable**
- **Blocked supplies:**
  - ✓ **passenger motor cars including hiring of car**
  - ✓ **family benefits**
  - ✓ **club subscription fee**
  - ✓ **medical and personal accident insurance**
  - ✓ **medical expenses**
  - ✓ **entertainment expenses except employees and clients**

Note: No GST will be imposed on subsequent supply of the above item

Input Tax Credit



Apportionment

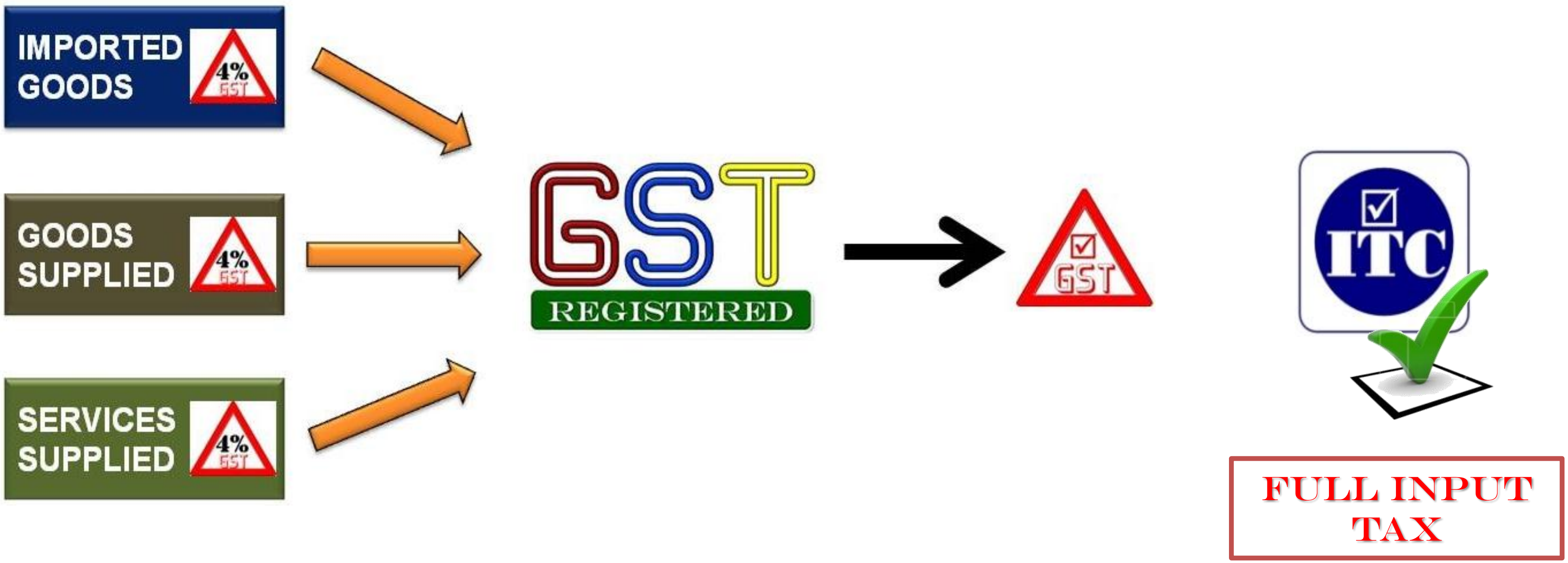
Mechanism for ITC Apportionment

- **Turnover-based method as a standard method for apportioning any residual input**

  $$\frac{\text{Total value of taxable supplies}}{\text{Total value of all supplies}} \times \text{GST incurred on residual inputs}$$

- **the proportion to reflect the use to which the inputs are put**
- **reflect the range of the taxable person's activities**
- **adjustment made annually based on the change of the use of the asset**

ITC attributable to Taxable Supplies



Input Tax attributable to taxable supplies	Taxable Supplies	Exempted Supplies	ITC Claimable	Total Input Tax claimable
RM120	RM10000	0	100%	RM120

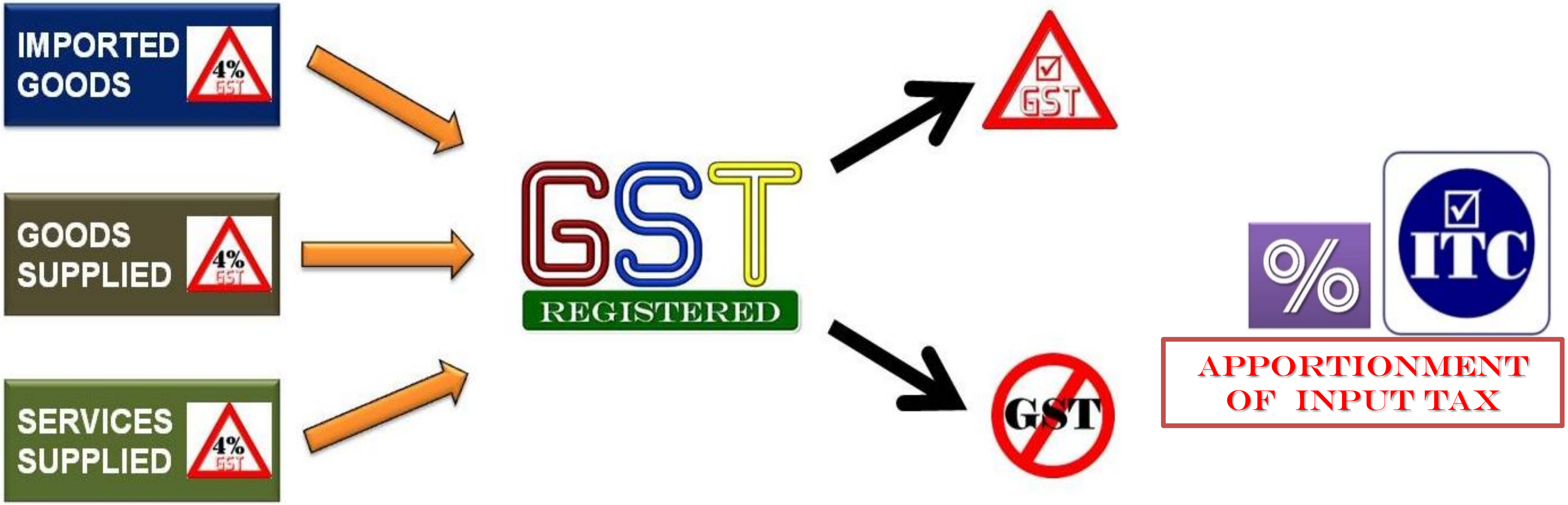
ITC attributable to Exempt Supplies

CANNOT CLAIM INPUT TAX

Input Tax attributable to exempt supplies	Taxable Supplies	Exempted Supplies	ITC Claimable	Total Input Tax Claimable
RM120	0	RM10,000	0%	0

ITC attributable to Mixed Supplies

Claim on Residual Input Tax



Residual Input Tax	Taxable Supplies	Exempted Supplies	ITC Claimable	Total Input Tax Claimable
RM120	RM10,000	RM5,000	67%	RM80.00

De Minimis Rule

Applicable if registered person has exempt supply

De Minimis Limit

- **Exempt input tax can be recovered in full if the total value of exempt supply is less than a prescribed amount**
- **Prescribed amount of *de minimis* limit**
  - ✓ **total value of the exempt supplies does not exceed**
    - ➢ **an average of RM5,000 per month and**
    - ➢ **not exceeding 5% of the total value of total supplies (all taxable and exempt supplies) made in that period**
- **Example**
  - ✓ **Factory provides transport (workers bus) to his workers for a charge**

De Minimis Limit

Example 1 :

A manufacturing company provides bus transportation to its workers and charges them.

Activity	Taxable	Exempt	%
Value (RM)	150,000	4,000	2.6

Full recovery of input tax allowed

De Minimis Limit

Example 2 :

A manufacturing company provides bus transportation to its workers and charges them.

Activity	Taxable	Exempt	%
Value (RM)	**500,000**	**10,000**	**2.0**

Full recovery of input tax are not allowed, have to apply apportionment rule on ITC

Residual Input Tax	Taxable Supplies	Exempted Supplies	ITC Claimable	Total Input Tax
RM500	RM500,000	RM10,000	98%	RM490.00

Input Tax Credit

Incidental Financial Supplies

- **To regard these exempt supplies as taxable supplies for those who are not in the business of making financial supply (e.g. banks, insurance companies)**
  - ✓ **deposit of money**
  - ✓ **exchange of currency**
  - ✓ **holding or transfer of equity or debt security, unit trust**
  - ✓ **provision of loan, advance or credit to the employees or connected person**
  - ✓ **hedging activities**
  - ✓ **assignment of trade receivables**

Transitional period

Transitional period

GST Treatment of Stocks on Hand

- **Special refund to be given to stocks on hand subject to conditions**
  - ✓ claimant is a GST registered person
  - ✓ claimant on the appointed date holds the goods for the purpose of making a taxable supply
  - ✓ goods subject to sales tax and the sales tax has been charged or paid
  - ✓ invoice or customs import form is available
- **Actual amount of sales tax to be refunded**
  - ✓ if the amount of sales tax paid was shown clearly on the invoice or import documents

Transitional period

- **20% method**
  - ✓ **if the amount of sales tax paid is not shown in the purchase invoice, the special refund would be given as follows**
    - ➢ **actual purchase price x 20% x sales tax rate**
- **Special refund to be given in eight equal installments over a period of two years**

Transitional period

Special refund is not allowed on

- Capital goods
- Goods which have been used partially or incorporated into some other goods
- Goods which are eligible for drawback under the Sales Tax Act 1972
- Non-trading stocks including raw materials and components, fuel, lubricating oil, detergents and chemicals and consumables (stationery)

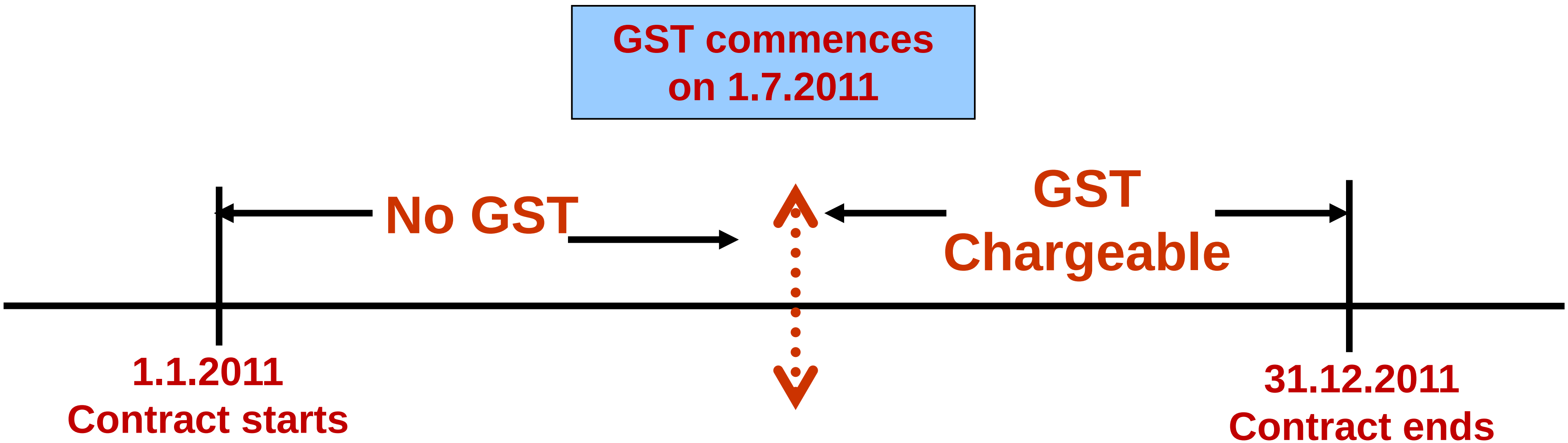
Sales Tax to be paid back

- Raw material / components acquired free from sales tax by sales tax licensees who are not GST registered person

Transitional period

Continuous and uniform supply of services

Where the supply of services spans before and after GST, to charge GST on the consideration on/after GST implementation date



Value of taxable supply : RM 3,000 (exclude GST)
Consideration : RM3000/12 x 6months = RM1,500
GST : 1500 X 4% = RM 60.00

End of Presentation

Tax Review Panel
Ministry of Finance

Q&A