GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-01

Title: Strategic: Budgeting and Resource Requirement for GST Implementation

GST Implication:

Background

1. The introduction of the GST will require you 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, you 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.

Flow Chart:

Work Plan:

Recommendations

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

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-02

Title: Strategic: CAPEX

GST Implication:

Background

1. SU 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 SU.

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

4. Therefore, SU 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.

Flow Chart:

Work Plan:

<u>Recommendations</u>

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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-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 your 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.

3. SU has a number of suppliers / vendors that provides goods and services who may potentially be non-GST-registered.

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 you lower prices.
- Will be able to issue you with GST invoices that will allow you 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, SU may consider instructing any current vendor, to voluntarily register for GST in order for you to derive the above benefits.

Flow Chart:

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 suppliers / vendors on GST and propose that they voluntarily register for GST.
8. Communicate with vendors on the Company's policy on preferred vendor scheme.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-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 SU's costs and pricing.

GST Impact

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

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

Flow Chart:

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 made on these transactions are justifiable by SU.
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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-05

Title: Compliance: Tax coding for GST

GST Implication:

Background

1. In order to accurately report its output tax, claim its input tax or track information for reporting requirements, SU must 'tax code' all of its revenue and expense items. Some examples of GL codes that may have transactions with different GST treatment are as follows:
- General expenses - includes ad-hoc expenses or small purchases
- Travelling expenses - toll claims and certain public transportation (e.g. city taxi cab) are exempt, while local air travel and certain other public transportation (e.g. any airport taxi) are standard rated

GST Implication

2. 'Tax coding' is a vital step in the GST 'readiness' process whereby a designated GST treatment (e.g. standard rated, zero rated, exempt, out-of-scope) is applied to a transaction, so that SU's systems can automatically recognise whether output tax is collected or input tax can be claimed or the information tracked for reporting requirements.

3. There are three common approaches to tax coding:
- Account (GST code assigned to each GL account code);
- Customer (GST code assigned to each vendor / customer);
- Transaction (GST code assigned to each individual transaction recorded in system)

<u>Account Approach</u>

4. SU may opt for an account approach. This may require more GL codes if SU's current list of GL codes do not accommodate the separation of different GST treatment (i.e. currently a single GL code may record revenue streams with multiple transactions with different GST treatment).

5. If SU elect to use the account approach, transactions in these accounts will need to be separated to reflect their respective GST treatment leading to the need for more account codes. Some examples of GL codes that may have transactions with different GST treatment are as follows:
- Travelling expenses - toll claims and certain public transportation (e.g. taxi fares) are exempt, while local air travel and certain other transportation (e.g. any airport bus) are standard rated
- Sundry income/expenses
- Entertainment expenses - incurred for employees and clients (claimable), non-employees (blocked from claim)

<u>Customer Approach</u>

6. A customer approach may be difficult to maintain given that multiple customers /

vendors will have multiple transactions with different GST treatments. In a situation where customer numbers are voluminous this approach would be impractical as each customer account would need to be segregated by the different GST treatment of transactions undertaken.

Transaction Approach

7. A transaction approach will require specific identification of the GST treatment attached to each transaction. This will likely be done at the transaction processing system requiring more involvement by the individual(s) processing the transaction to ensure each transaction is coded correctly. This can be achieved by the creation of an automated process and checklists in the system or through the use of manual processes and checklists contained in a policy manual.

Flow Chart:

Work Plan:

Recommendations

1. Assess and determine most appropriate approach to tax coding (i.e. account, customer or transaction approach).
2. Develop policy for the periodic review of selected tax coding approach.
3. Seek management guidance on any new items arises from the selected tax coding approach (i.e. new GL code).
4. Establish an audit and review policy to review and update GST coding for existing and new items (i.e. account, customer or transaction).
5. Determine changes to processes and systems to accommodate the new GST coding for new items.
6. Implement changes to processes and systems.
7. Educate staff on the updated processes and systems changes.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-06

Title: Compliance: Record keeping requirements for GST purposes

GST Implication:

Background

1. SU may keep / manage / maintain records on your 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 your GST liabilities and entitlements.

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

Flow Chart:

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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-07

Title: Compliance: Issuance of Tax Invoices

GST Implication:

Background

1. SU currently issue invoices for the services rendered and normally it is being issued immediately / monthly.

2. SU also issues debit notes / credit notes to their customer for the expenses paid on behalf or advances payment.

3. SU received income from car park which receipt are being issued to customers upon their request.

GST Implications

4. Once registered for GST, SU is required to issue a valid tax invoice when SU make any taxable supply of goods or services in the course of its business. The tax invoice must contain the prescribed particulars in respect of the supply as required by the GST law.

5. SU is not required to issue tax invoices when it makes the following:

- zero-rated supply;
- deemed supply of imported services; or
- a supply made without consideration on which tax is charged (e.g. free good over the Gift Rule threshold of RM 500 per person per year).

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

<u>Content of a valid tax invoice</u>

7. The tax invoice should contain the following particulars:
- the words "tax invoice";
- an invoice serial number;
- date of issue of the invoice;
- name, address and GST identification number of SU;
- the name and address of the recipient to whom the goods and services are supplied;
- description of (including the type of supply) and the quantity / extent of the goods or services supplied;
- any discount offered;
- the amount payable (excluding GST) for each supply;
- the total amount payable (excluding GST and including GST); and
- GST rate and total GST chargeable.

Statements, special forms, receipts or endorsements could be allowed to be used as invoices for GST purposes, provided the necessary information as required for a valid tax invoice is in those documents. Conversely, if you wish 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' (SU's liability to account for output tax).

Tax invoices expressed in a foreign currency

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

Mixed supply invoices

9. Where SU issue an invoice containing both standard rated (subject to GST) and exempt or zero rated supplies, SU must state separately on the invoice the gross total amount payable in respect of each supply and the corresponding GST rates.

10. If a mistake is made on an invoice, SU should treat the invoice as cancelled and clearly mark the tax invoice "cancelled". A corresponding Credit Note should be issued to cancel the invoice (Please refer to issue log "Compliance: GST Adjustments to Tax Invoices with Credit & Debit Notes").

Flow Chart:

Work Plan:

Recommendation

1. Identify type of documents (i.e. statements, memo, debit note etc) that are issued to clients/customers/related companies.
2. Management to decide on:
- Whether present documents 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.
6. Identify instances where SU cannot meet GST tax invoice requirements (e.g. where you do not know all the invoicing details at the time of supply or until a later date).
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 the processes and systems changes.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-08

Title: Compliance: GST Adjustments to Tax Invoices with Credit and Debit Notes

GST Implication:

Background

1. SU may issues credit/debit note for any adjustments of transactions made with customers. For example:-
   - Credit note issued to customers for set-off the amount payable.

2. In some instances, credit notes/debit notes are issued by SU not for adjusting the price of transactions or not to cancel transactions, for example:
   - Debit note to customers for payment on behalf / advance payment.

GST Implications

1. Under GST, a credit / debit note can only be issued where it relates to a subsequent change (reduction or increase) in the value of a taxable supply for which a tax invoice has been issued.

2. Where SU presently issue debit note for supplies made, post GST, these transactions will require the issuance of a tax invoice (refer to issue log on "Issuance of Tax Invoice").

3. Where SU issue a credit / debit note for a change in the value of a taxable supply, the GST adjustment is to be reported in the GST return in the period in which the credit / debit note is issued.

4. The issuance of a credit / debit note must contain prescribed particulars before it can be considered as a valid GST credit / debit note. It must contain the following information:

- the words "credit note" or "debit note" in a prominent place;
- the serial number and date of issue;
- the 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 reasons for its issue;
- the 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.

5. Where SU is the recipient of a credit / debit note in respect of a taxable supply, SU must also make the GST adjustment in its GST return in the period in which it received the credit / debit note.

6. SU should revisit its present practice of issuing credit / debit note for transactions not involving cancellation of supply or change in consideration of supply already made.

Flow Chart:

Work Plan:

Recommendation

Credit and debit notes issued by SU

1. Identify all transactions which presently uses a credit / debit note and segregate those that will require the issuance of a GST credit / debit note post GST.
2. Develop a policy that requires a credit / debit note to be generated if adjustment is required to the original tax invoice.
3. Ensure GST credit / debit note issued meet the prescribed particulars.
4. Seek management guidance on discontinuing the current practice of issuing debit notes.
5. Determine the processes and systems changes required.
6. Implement processes and systems changes.
7. Educate staff on the processes and systems changes

Credit and debit notes received by SU

1. Identify all transactions which SU will potentially receive a credit/debit notes.
2. Develop a policy that requires a credit / debit note is received if any adjustment is made by supplier (GST registered).
3. Determine the processes and systems changes required.
4. Implement processes and systems changes.
5. Educate staff on the processes and systems changes.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

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

GST Implication:

Background

1. Currently, SU provide the following services to its related companies and other third parties which will be billed monthly or as and when it is incurred:-
- Management services.
- Gardening services.
- Car park.

GST Implication

2. For GST purposes, GST must be accounted for in the tax period in which the earlier of the following events takes place:
- the date when goods are removed or made available or when the services are performed (the basic tax point);
- the date when a tax invoice is issued; or
- the date when payment is received.

3. The GST legislation provides a concession to the above when a tax invoice is issued within 21 days from the basic tax point, the date of invoice is taken as the time of supply for GST purposes.

4. If the tax invoice fails to be issued within 21 days, the GST liability is brought back to the basic tax point, which would result in a cash flow loss to SU and a potential penalty for an incorrect GST return.

5. When a service is provided continuously (e.g. management services), it can be difficult to determine when the service is actually performed. In the circumstance where a supply is provided 'continuously', the GST legislation allow for the GST to be accounted for on each progressive / periodic invoice or payment. This will mean that there will be no requirement to identify the date of service.

6. For cases where deposit forms part of the consideration for the supply, such payments fall within the scope of GST and tax must be accounted for on receipt of the deposit (if it is received before the issuance of the tax invoice) (refer to issue log on "Advance and Deposit Receipts).

7. For retention of any part of a consideration by your customer pending full and satisfactory performance of the contract, or any part of it, by SU, the time of such supply is the earliest of the payment is received or tax invoice is issued by SU.

8. SU need 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.

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

Flow Chart:

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. Determine capability of current process and system to issue tax invoice for all taxable supplies within 21 days from the date the goods are removed / services are performed.
3. If the 21 days rule cannot be complied with, reach agreement with customs authorities on alternative approach or concessionary treatment for longer time frame on the requirement to issue tax invoice or use of alternative documents (e.g. bank statement as a tax invoice).
4. Communicate policies and processes to the relevant staff.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-10

Title: Compliance: Advance and Deposit Receipts

GST Implication:

Background

1. Under certain circumstances, SU will assist their customer in collecting rental from their tenant and subsequently remit the rental to their customer. In return of this services, SU will charges their customers a service fee. Since SU has collected the rental on behalf, SU would normally set off the amount collected with the service fee before remitting the net to their customer. In this instance, SU will be considered as having received payment in advance before the issuance of invoice when it remit the net amount to the customer.

GST Implications

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 deposits falls 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 you (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. Your requirement for your vendors (e.g. your solicitors) to deposit certain amount of funds in SU will not attract GST.

8. It is important that SU make the distinction between security deposits and advance payments that you receive. A security deposit can only be a payment made to 'secure performance'.

Flow Chart:

Work Plan: Recommendations

Advance payment received by SU

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

1. Identify any advanced payment / pre-payment / mobilisation fees / other transactions or payments of similar nature made by SU.
2. Review these transactions to identify the characteristic of the supply either it is a deposit or advanced payment under the GST legislation.
3. Ensure that a process or system is in place that identify the payment made is either a deposit or advanced payment.
4. Ensure that a process or system is in place that identify when deposits are forfeited or when it is applied as consideration.
5. Consider establishing policy/negotiate with supplier to issue tax invoice upfront to enable SU to claim input tax credit as soon as possible.
6. Ensure system/processes are in place to track and claim input tax credit as soon as a tax invoice is received.
7. Implement the processes and systems changes.
8. Educate employees on the processes and systems changes.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-11

Title: Compliance: Sundry income and Miscellaneous Expenditure

GST Implication:

Background

1. SU currently may logs certain income and expenses into miscellaneous income and expenses accounts.

2. These accounts are meant to capture non recurrent or ad hoc income or expenses during the year.

GST Implication

3. The use of 'general' or 'catch-all' general ledger codes will not be appropriate for GST purposes, as the GST treatment of the transactions recorded could vary. It is important that transactions are appropriately captured and recorded to ensure that GST is correctly accounted for.

4. SU will need to ensure that the transactions recorded in its "general" or "catch-all" general ledger codes be tax coded through the transaction method so that the appropriate GST treatment of each transaction is correctly accounted for. It would therefore be beneficial to minimise the number of transactions that are recorded in the "general" or "catch-all" general ledger codes

Flow Chart:

Work Plan:

Recommendations

1. Identify the type of income and expenses that are posted into these sundry and general expenses accounts.
2. Ascertain the GST treatment on each type of income and expenses identified.
3. Identify the process and system change required to account for GST appropriately.
4. Implement the process and system changes.
5. Communicate the updated process and system changes to the relevant employees.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-12

Title: Compliance: De minimis and Incidental Financial Supplies

GST Implication:

Background

1. SU make the following supplies in its business:
- Interest income from bank deposits; and
- Interest income from Al-Mudharabah.

GST Implications

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 SU 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 RM5,000 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, SU 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")

Flow Chart:

Work Plan:

<u>Recommendations</u>

1. Review and document all exempt supplies made by SU.
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, SU 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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-13

Title: Compliance: Apportionment of 'Indirect Costs' for Recovery of Input Tax

GST Implication:

Background

1. SU 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. SU 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 Implications

3. SU can fully recover input tax on those expenses incurred directly for 'taxable' supplies.On the other hand, SU 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, SU 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:

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

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', SU are 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 SU 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 SU 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 SU.

Flow Chart:

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

Issue No: GST SU-14

Title: Compliance: Documentation to Claim Input Tax Credit

GST Implication:

Background

1. With the implementation of GST, the tax charged by local vendors and GST paid to Customs on imported goods via the customs import declaration form, 'K1', will become an additional expense to SU, unless SU is able to claim an input tax credit ("ITC"). GST is also payable on imported services.

2. Currently, there may be occasions where SU does not receive any invoice for services rendered by its related companies.

3. There may also be services rendered by SU's related companies for which invoices are issued.

4. There may also be occasions also where costs are incurred and invoiced under the name of the employees instead of SU (e.g. purchase of flight tickets online or premises where SU doesn't have a corporate account).

GST Implications

5. GST incurred on local acquisition 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 you; and
- Not blocked from input tax claim.

Without a valid tax invoice, input tax is not claimable.

6. The criteria for a valid tax invoice includes:

- The invoice must be issued in the full name of "PDC Setia Urus Sdn Bhd" to enable SU to claim the ITC. For example any tax invoice issued in the name of "SU" or "PDC" cannot be used to make an input tax claim by SU.

- The invoice contains all the prescribed information required for a tax invoice.

7. For purchases of not more than RM500 in a single invoice, a simplified tax invoice would be sufficient for SU to claim an ITC whereby the name of SU is not required on the simplified tax invoice.

8. For purchases exceeding RM500 in a single invoice, a simplified tax invoice would not be sufficient for SU to claim the full ITC. Under the GST Guide, the maximum amount of ITC that SU can claim on a simplified tax invoice is restricted to RM30. Therefore, when SU'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 "PDC Setia Urus Sdn Bhd" in order for SU to claim the full ITC.

9. You are not required to make payment before claiming an ITC; possessing a valid tax invoice is sufficient evidence for making a ITC claim. However, if after 6 months of the invoice being issued and SU still have not made payment to its supplier, SU must repay any ITC it has claimed with respect to the invoice. In the event of settlement of the debt, you may then reclaim the ITC.

10. However, do note that a pro forma invoice is not regarded as a valid tax invoice. SU can only claim ITC on local acquisitions if SU has a valid tax invoice.

11. In respect of importation of goods, SU must hold a valid Customs declaration form K1. In respect of clearance of goods from bonded warehouses, SU must hold Customs declaration form K1 or K9.

12. For importation of services, SU is required to hold a document such as the foreign supplier’s invoice to show that SU is entitled to ITC.

Flow Chart:

Work Plan:

Recommendation

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 SU's full name.
3. Update current process to ensure that a tax invoice is issued by GST-registered vendor for any purchases.
4. Implement procedures and processes to ensure ITC are only claimed on valid tax invoices for local purchases of supplies or Customs 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 K1 forms (for imports).
6. Ensure a policy and processes are in place to review tax invoice received from vendors are accurate and issued on timely basis or value in Customs K1 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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-15

Title: Compliance: Accounting recognition vs GST recognition for input tax claim

GST Implication:

Background

1. SU may accrue expenses in relation to legal fees, electricity, water charges and etc.

GST Implication

1. The accounting recognition of costs or early payment of expenses does not lead to a claim of input tax if there is no tax invoice available.

2. SU will need to ensure that input tax is only recognised when a tax invoice is received. Hence, for costs / expenses that have been incurred but invoices not yet received, SU may want to expedite the receipt of tax invoice from these suppliers.

3. For subsequent reversal of Balance Sheet items to Profit and Loss Statement (when consumed / used), SU must ensure there is no double claiming of input tax.

Flow Chart:

Work Plan:

<u>Recommendations</u>

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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-16

Title: Compliance: Blocked Input Tax

GST Implication:

Background

1. SU may incur GST on the following expenses:
- Insurance premium for medical and personal accident;
- Medical expenses [medical fees paid to clinics and hospitals for dental expenses, staff health screening expenses, hospitalisation expenses (in-patient), medical clinic expenses (out-patient)] for both the staffs and their immediate family;
- Benefits provided to family members of staffs;
- Entertainment expenses such as for employees, existing & potential customers, vendors, auditors; and
- Purchase of motor vehicles for use as company car.

GST Implication

1. GST incurred on certain prescribed supplies will be blocked from any input tax credit (referred to as 'blocked input tax'). This includes the following:-

a) Club subscription fees - Refers to any club, association, society or organization established principally for recreational or sporting purposes. The fees are any joining fee, subscription fee, membership fee, transfer fee or other consideration charged.

b) Medical and personal accident insurance premium - Includes any payment or contribution made by SU towards an insurance contract indemnifying the company against the cost of medical treatment or personal accident of the employees.

c) Medical expenses - Employee medical expenses that incur GST cannot be recovered by SU including any medical, dental, optical, pharmaceutical expenses.

d) Family benefits - Includes payments made in providing benefits (including hospitality of any kind) to wives, husbands, children or relatives of SU employees.

e) Entertainment expenses - GST incurred on entertainment expenditure will only be recoverable to the extent that it relates to employees or existing customers of SU. Any GST incurred on entertainment expenses relating to family members, business partners, potential client and general public would not be recoverable. Input tax would also be denied for former employees, job applicants and shareholders. (Please refer to issue log Compliance: Entertainment Expenditures)

"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, recreation or hospitality 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.

f) Supply, importation or hire, of a passenger motor car - Only GST incurred on passenger motor car used exclusively for business purposes would be eligible to claim input tax credit; subject to having meet certain conditions. Please refer to issue log "Compliance: Company Cars".

g) Supply of goods or services relating to repair, maintenance and refurbishment of a passenger motor car - refer to the GST implication as outlined in item (f) above.

2. Consequently, these expenses will increase your cost of doing business. In the event that these goods are "re-supplied" to a third party, there will be no requirement to account for output tax on the subsequent "re-supply" of the goods. However, the GST position regarding the "re-supply" of blocked services (e.g. cross charge of blocked entertainment expenses to a subsidiary) (if any) would require clarification from the Customs.

Flow Chart:

Work Plan:

Recommendations

1. Identify all potential blocked input tax expenditure items.
2. Assess the financial impact of the expenses on the company's bottom line and whether any changes in policies required.
3. Seek management guidance on implementing a policy on procuring blocked input tax items.
4. Develop a process to segregate between employee or existing customer, and other entertainment expenses.
5. Use appropriate GL codes for the varying type of entertainment expenses incurred for employees, clients and others. This will ensure that SU accurately determine the amount of input tax claimable.
6. Determine the processes and systems changes required to adhere to the new policy.
7. Implement processes and systems changes.
8. Educate staff on the processes and systems changes.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-17

Title: Compliance: Entertainment expenditures

GST Implication:

Background

1. SU in the course of its business incurs entertainment expenses for the following:
- Meal and refreshment for employees, existing & potential customers, vendors, service provider and etc.
- Food and refreshments for staff and their families during Family Day.
- Annual dinner for staff.
- Company trip for staff.

GST Implication

2. 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.

3. "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.

4. 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.

Flow Chart:

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 SU.
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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-18

Title: Compliance: Employee Benefits

GST Implication:

Background

1. SU provide a number of benefits to employees. SU incur input tax on some of these goods or services provided to SU staff. Among the benefits provided by SU are:
- Hand phone for management staff.
- Gifts for certain celebration (i.e. birthday, wedding)

GST Implication

2. For GST purposes, employee benefits refers to any goods or services provided free to employees. These goods and services acquired and given free as employee benefits are considered as used “for the purpose of business” for which the input tax incurred are claimable.

3. In general, SU is required to account for output tax on all goods given free 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 to connected person who is not entitled to claim input tax credit, there is no requirement to account for output tax because it is not regarded as a supply.

5. "Gift rule" is the supply of goods for free (to an employee or a third party) where the cost of the goods given (to the same person in the same year) is not more than RM500. SU 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 exceeded, SU must account for GST on the 'open market value' of that good and any subsequent goods given free to that employee over the remaining 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 to perform their work or employment (i.e. business purposes only) 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 SU requires all goods given to employee to be returned to SU 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.
- SU 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 SU on the

cessation of employment).
- Revised contract of employment to include such benefits where necessary.

8. Otherwise, SU 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.

Flow Chart:

Work Plan:

Recommendations

1. Identify and determine the category of goods or services that are provided to employees
2. Identify items covered under your 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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-19

Title: Compliance: Reimbursement vs disbursement

GST Implication:

Background

1. In the course of SU's daily business activities, SU may incur various costs, or make payments to third parties, of which SU subsequently invoice and recover from SU's customers. For example:-
- Payment on behalf by SU to their customers in relation of management expenses.

GST Impact

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 the vendor 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 its customers.

4. **"Disbursements"** are expenses paid by the vendor on behalf of its customers. These expenses are the liability of the customer in the first instance and relate to a supply made by a third party to the customer, (and not to the vendor), for example the payment of customs duties by a freight forwarder vendor on behalf of his customers. In this instance, no GST should be charged by the vendor upon recovering the cost from the customer.

5. Hence, when SU incur expenses [e.g printing costs / telephone charges (Reimbursement) or make payment on behalf of customer / related company (Disbursement)] in the course of its business which SU subsequently invoice and recover from customers, the invoice should separately identify which expenses are "reimbursement" and which are "disbursement" and apply the correct GST treatment.

Flow Chart:

Work Plan:

<u>Recommendations</u>

1. Review current practice of invoicing the recovery of payments made on behalf of customers or third parties.
2. List down the items of recoveries invoiced to customers or third parties in the course of SU'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. Update tax coding status for each disbursement or reimbursement.
7. Determine system change requirements to ensure:
   a. Itemised recovery amounts appear on the tax invoice
   b. Each item recovered is correctly treated as either disbursement or reimbursement, and GST calculated accordingly, where appropriate.

8. Create a policy on disbursement and reimbursement.
9. Educate employees on updated policy changes and changes to processing.

pwc **GST Issue**

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-20

Title: Compliance: Goods provided for free

GST Implication:

Background

1. SU may gives free gifts to staff in the following event such as:
- door gifts, lucky draw gifts for SU's annual dinner.
- door gifts, lucky draw gifts to staff and their family during Family Day.
- farewell gifts to resigned or retired staff.
- birthday gifts to staff.

GST Implication

2. The current GST Guide proposes that where goods are given away without consideration, GST is accountable on the goods (as a deemed supply) on its 'open market value' ("OMV").

3. However, the transfer or disposal of a business assets 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 and the total cost to the business is not more than RM500 ("Gift rule"); or
- a gift of an industrial or commercial sample to an actual or potential customer in a form not ordinarily available for sale to the public.

4. The GST amount will not be recovered from the recipient of the goods but SU will have to account for 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 SU do not account for GST unnecessarily. This would be an additional administrative cost to SU.

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

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

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

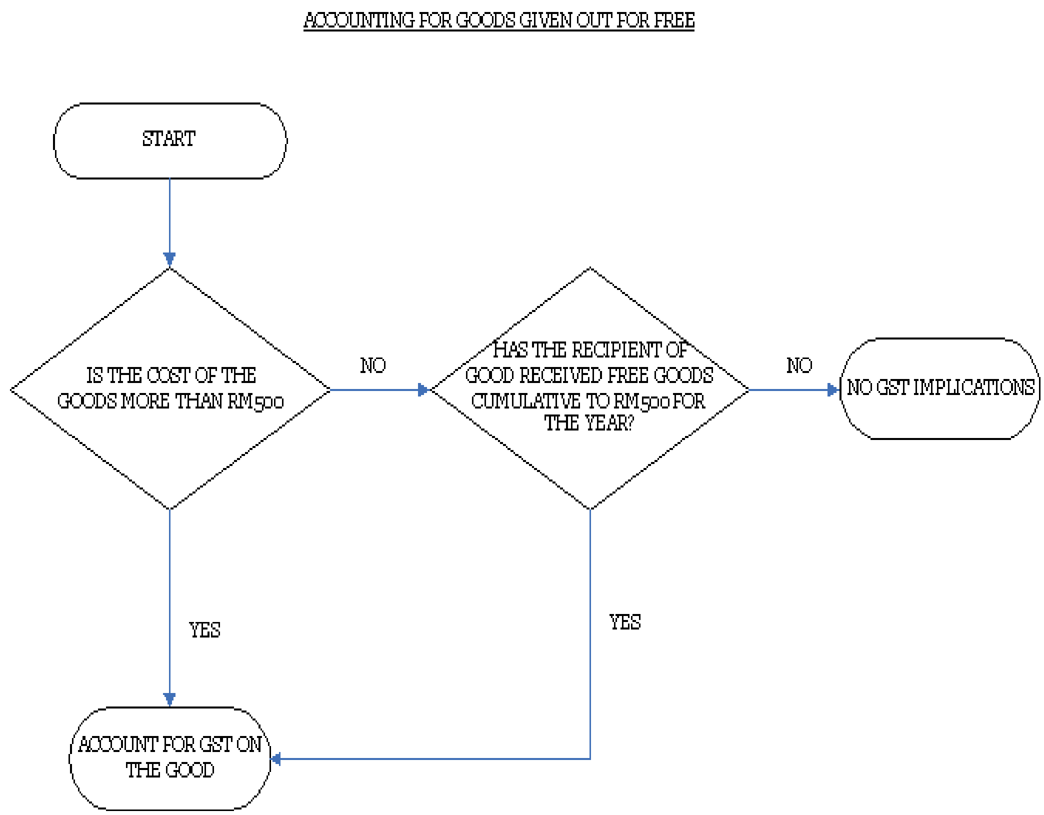
9. Gifts of services or any 'intangible' items are not subject to the Gift rule. Further, monetary vouchers are also not subject to GST.

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

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

12. Except for connected person, no GST needs to be accounted for services provided for free e.g. free delivery of goods.

Flow Chart:



Work Plan:

<u>Recommendations</u>

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 SU 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.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-21

Title: Compliance: Reimbursement of staff expenses/claims

GST Implication:

Background

1. SU's staff incur a number of expenses such as entertainment, petrol and parking, in the course of their employment and performance of services, of which SU will subsequently reimburses its staff for these expenses.

GST Implication

2. SU can claim input tax on reimbursement of expenses incurred by staff for business purposes provided that SU keep all the documentation for the input tax claim (refer issue log on Compliance: Documentation to Claim Input Tax Credit).

3. The staff would need to ensure that the tax invoices are collected and submitted to SU when making the claim for reimbursement.

4. For a reimbursement with value of goods or services more than RM500, the staff would need to ensure that full tax invoice is obtained and it is in the full name of SU. This will allow SU to claim the full input tax credit. If the full tax invoice is under the staff name, or any other name (other than SU), SU shall not be able to claim back the input tax credit incurred.

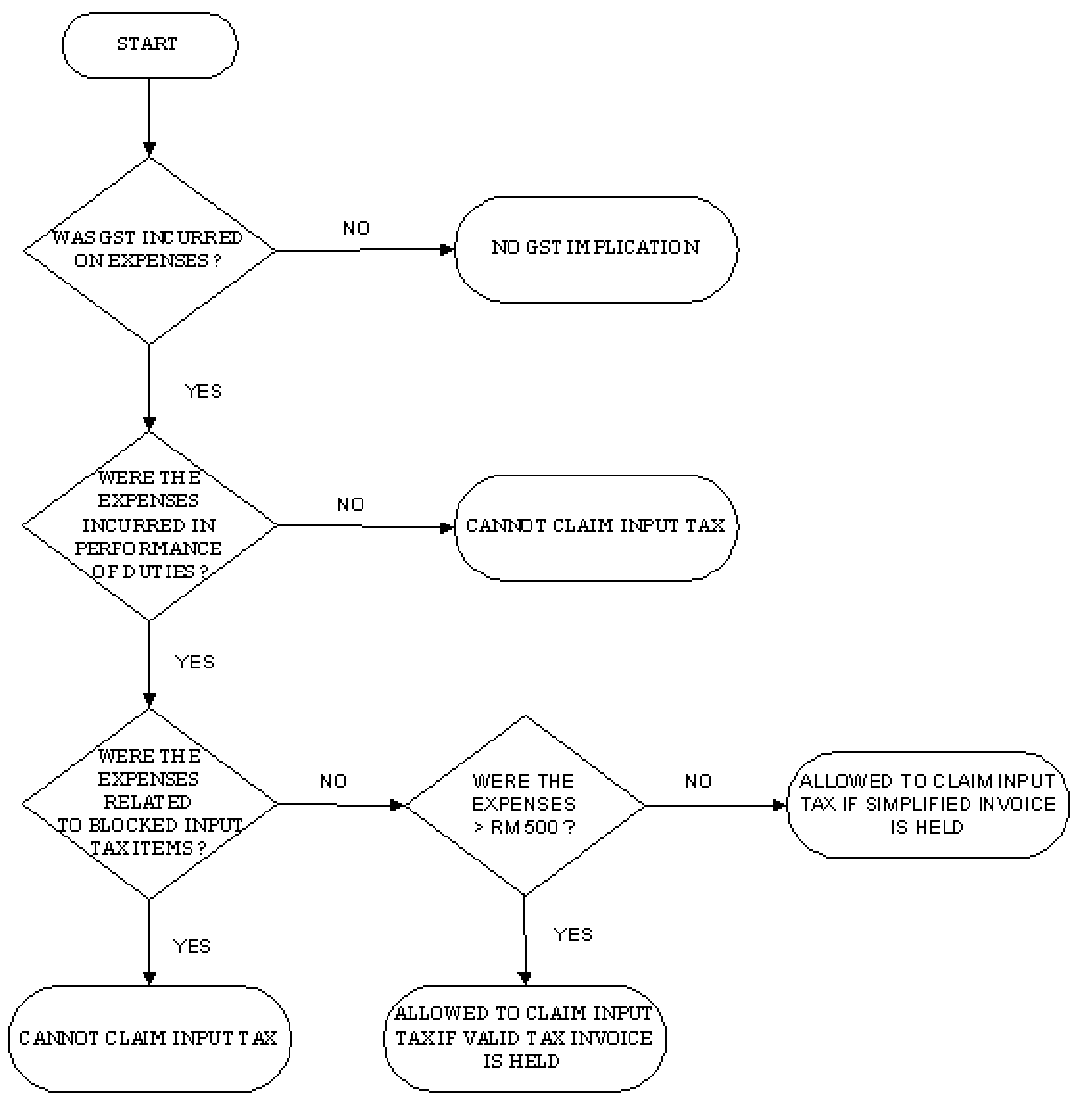
5. For reimbursement with value of goods or services less than RM500, a simplified tax invoice would be sufficient whereby SU's name will not be recorded on the simplified tax invoice. However, under GST Guide, the maximum amount of input tax credit that SU can claim on a single simplified tax invoice is restricted to RM30.

6. However, there are also some employment related expenses for which input tax cannot be claimed even if a valid tax invoice is held under SU's name (refer to issue log on Compliance: Blocked Input Tax).

7. You will need to review and establish systems and processes to deal with reimbursement claims to ensure that input tax claims are maximised and that blocked input tax is not claimed.

Flow Chart:

REIMBURSEMENT OF STAFF EXPENSES / STAFF CLAIMS



Work Plan:

Recommendations

1. Identify all types of reimbursement claims made by staff of SU.
2. Categorise reimbursement claims as business expenses or private expenses.
3. Review the current policy on staff claims and documentation required and assess the changes required to ensure GST compliance.
4. Review and establish systems and processes to deal with reimbursement claims to ensure that input tax claims are maximised and that blocked input tax is not claimed.
5. Develop new claims and policy guidelines in accordance to the GST law.
6. Ensure record keeping requirements are adequate for GST purposes.
7. Update current processes and systems to reflect the GST treatment.
8. Educate staff on the processes and systems changes.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-22

Title: Compliance: Inter-company Supplies and Cross Charges to Related Entities

GST Implication:

Background

1. Currently SU make a number of inter-company supplies / charges within PDC Group and its related entities.

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, SU and PDC Group may consider restructuring your procurement / third party arrangements, such that external suppliers directly invoice the relevant entity that is the recipient of the supply (rather than cross-charging to the relevant entity which will involve GST being charged on any irrecoverable GST).

5. GST regulations require the issuance of a tax invoice on all inter-company supplies/charges instead of a credit/debit note (refer to issue log on Issuance of Tax Invoices).

Flow Chart:

Work Plan:

<u>Recommendations</u>

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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-23

Title: Compliance: Open Market Value ("OMV")

GST Implication:

Background

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

2. SU also provide free goods (refer issue log on Goods provided for free).

GST Implication

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

4. 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.

5. 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.

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

Flow Chart:

Work Plan:

<u>Recommendation</u>

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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-24

Title: Compliance: Disposal of fixed assets

GST Implication:

Background

1. SU dispose of assets such as:-
  - Computer and software.
  - Office equipment.
  - Furniture and fittings.
  - Motor vehicles and etc.

GST Implication

2. Where SU dispose 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. SU 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, SU may want to consider assigning a GL code specific to the disposal of assets which will allow SU 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 SU on the open market value.

Flow Chart:

Work Plan:

Recommendations

1. Review and document current processes for accounting for disposals.
2. Identify the assets which are disposed by you 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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-25

Title: Compliance: Company cars

GST Implication:

Background

1. SU have company cars use by staff for business travelling and these cars have to be parked at the Company's premises at the end of each working days.

GST Implication

(A) Recovery of Input Tax

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

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

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

4. The above can potentially be applied on the company cars for use by staff for business travelling purposes only. However, SU 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.

Flow Chart:

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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-26

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

GST Implication:

Background

1. SU make 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
- EPF and SOCSO
- Quit rent and assessment

GST Implication

2. All 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 SU.

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 SU's responsibility.

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

Flow Chart:

Work Plan:

Recommendations

1. Compile a listing of all payments made to Federal and State Governments, local authorities and statutory bodies.
2. Establish a process to ensure you do not claim input tax on payments to Federal and State governments.
3. Review and confirm with relevant authorities prior to GST implementation whether GST would apply on the relevant payment.
4. Implement process to confirm whether GST applies on a payment to Federal and State Governments, local authorities and statutory bodies prior to making payment.
5. Determine the processes and systems changes to track GST treatment of payment to Federal and State Governments, local authorities and statutory bodies.
6. Implement processes and systems changes.
7. Educate staff on the processes and systems changes.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-27

Title: Compliance: GST Relief for Bad Debts

GST Implication:

Background

1. SU may have receivable or payable which are more than 180 days.

GST Implication

2. Where SU have accounted for output tax and have not received payment 6 months from the date of the supply, SU 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.

3. 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.

4. SU 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 you have 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 SU for bad debt relief.

5. SU would also be able to claim the bad debt relief earlier than 6 months should the debtor becomes insolvent during the 6 months period.

6. The bad debt relief can be claimed although the debt has not been recognised in SU's account as "bad debt" or provided for as "provision of doubtful debt" for accounting purposes.

7. 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 SU to Customs.

8. SU needs to manage its payables that exceeds 180 days from the date of the invoice. SU 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.

Flow Chart:

Work Plan:

Recommendations

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

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-28

Title: Transitional: Cancellation of Your Service Tax License

GST Implication:

Background

1. SU is currently licensed for the provision of taxable services under the service tax regime.

GST impact

2. The GST will replace the present service tax regime. Part of this transitional change, will require SU to cancel SU's service tax licence and register for GST. SU will be required to furnish to the Director General a service tax return for the "last taxable period" ["Last taxable period" refers to the period of 2 calendar months or part of it ending on 1 April 2015] not later than 28 days after 1 April 2015 even though payments have yet to be received, or longer period subject to approval by the Director General.

3. That is, any service tax due or liability incurred must be collected, refunded, remitted or enforced as if the service tax had not been repealed (even though payments of service tax from SU's customers may not have yet been received).

4. SU's service tax return should also record the amount of any service tax, not received within a period of 12 calendar months preceding the last taxable period.

5. If the amount of service tax due is substantial, this would result in material cash flow impact to SU. There is provision in the GST guide that SU may be eligible to claim bad debt relief for services performed before the GST appointed date provided that SU is able to support that all service tax has been paid and effort has been made to collect the debts.

6. However, it is critical for SU to internally minimise the amount owed by debtors as at cut-off date to avoid any disruptions in cash flow. A cut-off date exercise could be performed to ascertain the service tax payable and additional cash required (if any) so that SU could have sufficient time to manage cash flow funding the service tax, before a refund is received.

Flow Chart:

Work Plan:

Recommendations

1. Review the transitional provisions for treatment on service tax on bad debts and consider how this would impact SU.
2. Minimise the amount owing by debtors as at cut-off-date
3. Perform a cut-off to ascertain the service tax payable as at that date
4. Determine the need for additional cash to pay for service tax due on cut-off date
5. Determine the service tax bad debts position and monitor rule on the period allowed to claim refund of service tax

6. Allocate resources to undertake checks and monitor the bad debts.

GST Issue

Group:	PDC Subsidiaries
Sub Group:	
Entity:	PDC Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-29

Title: Transitional: Inclusion of GST clause in all contracts

GST Implication:

Background

1. SU do not as yet have GST specific clauses in all of your 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 you enter 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 you 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 SU makes taxable supplies.

Flow Chart:

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 SU 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 Setia Urus Sdn Bhd
Business Unit:	

Issue No: GST SU-30

Title: Transitional : Contracts spanning GST start date

GST Implication:

Background

1. SU may continue to provide taxable supplies on which no service tax is 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 SU enters a reviewable contract beginning before the GST appointed date for provision of taxable supplies ending post GST, SU would need to account for GST on the relevant portion post GST appointed date (at the relevant GST rate).

4. Specifically, SU will need to consider about supplies that are not subject to service tax and span across the GST appointed date as SU will have to impose GST on the portion of supplies rendered on or after the GST appointed date.

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

6. SU must identify your 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 your current IT system(s) needs to be assessed to determine whether it can cater for both service tax and GST, calculation and invoicing.

Flow Chart:

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.