IMPLEMENTATION OF GOODS AND SERVICES TAX (GST) IN MALAYSIA

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AGENDA

SECTION 1	• Introduction
SECTION 2	• Overview of GST
SECTION 3	• GST impact to all of us
SECTION 4	• How Censof can help you?

EXCERPT OF BUDGET 2014

- VAT/GST now exists in 156 countries;
- 6 countries are considering implementation
- GST is 3rd after personal income tax and social security contribution as a source of revenue

- Over 20 years, share of GST rose from 11% to close to 19% on average

WHAT IS THE RATE?

GST Rate in ASEAN countries

Country	Implemented in Year	Current GST Rate
Indonesia	1984	10%
Thailand	1992	7%
Singapore	1993	7%
Philippines	1998	12%
Cambodia	1999	10%
Vietnam	1999	10%
Laos	2009	10%
Malaysia	2015	6%

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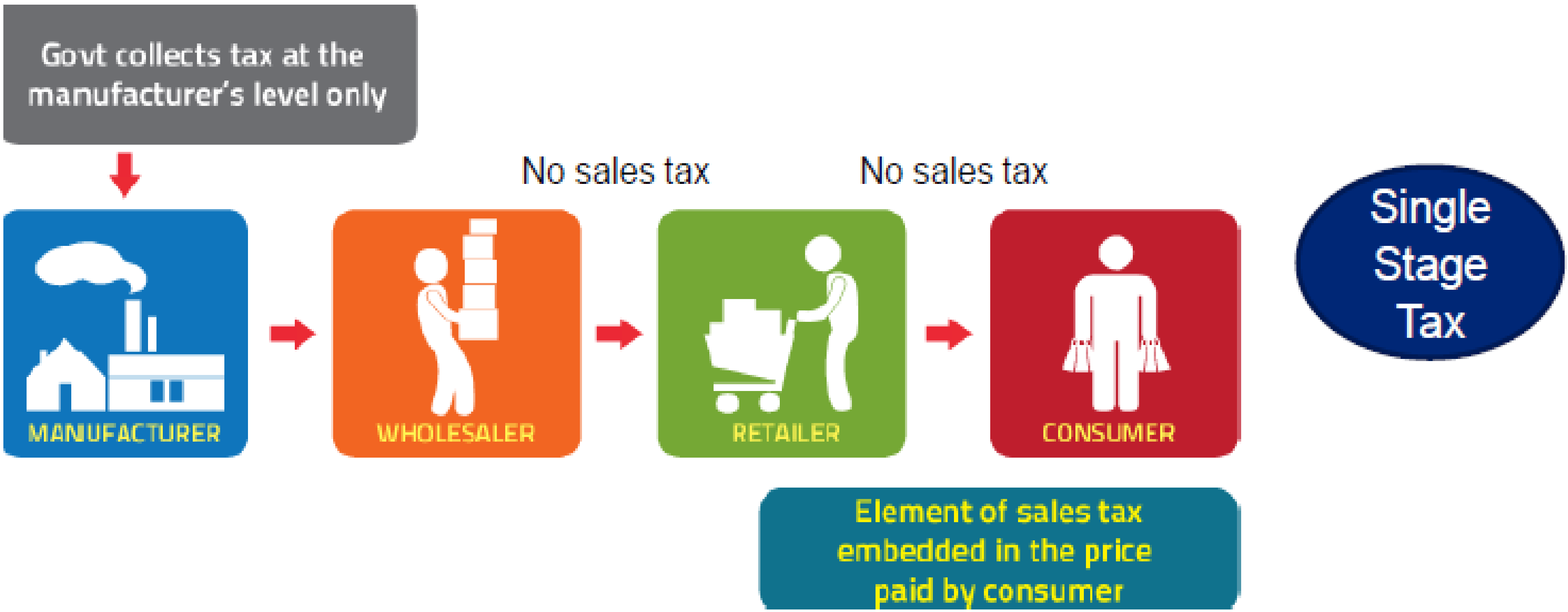
Sales Tax Treatment



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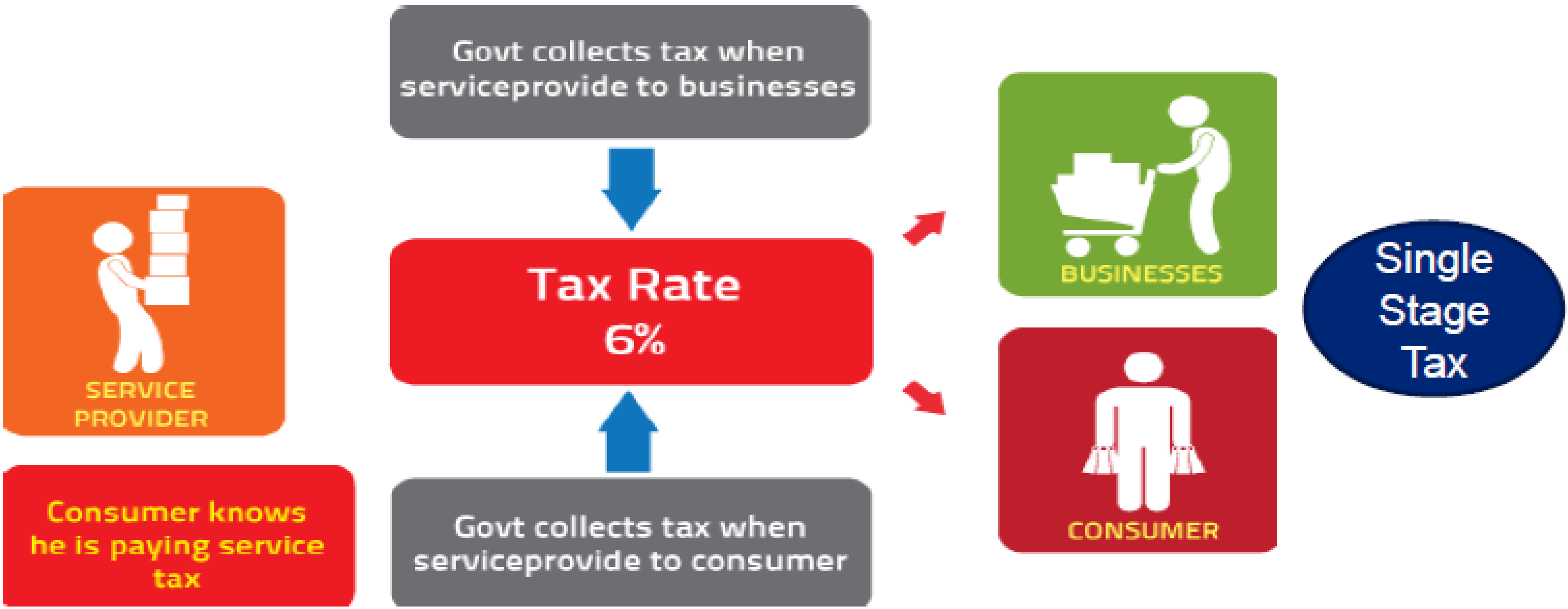
Service Tax Treatment



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WHAT IS GST?

- GST is not a new tax
- GST replaces sales tax and services tax
- GST is also known as Value Added Tax (VAT) in many other countries
- Multi stage broad-based consumption tax
- All supply goods and services in the course or furtherance of business in Malaysia are taxable (6% or 0%) unless exempt by law
- Importation of goods and services from outside Malaysia are also subject to tax

	Purchase Price (RM)	Sales Price (RM)	Net GST Payable (RM)
Manufacturer	100	200	
- GST paid at 6%	6		
- GST collected at 6%		12	6
Wholesaler	200	400	
- GST paid at 6%	12		
- GST collected at 6%		24	12
Retailer	400	800	
- GST paid at 6%	24		
- GST collected at 6%		48	24
Cost to the Consumer		848	48

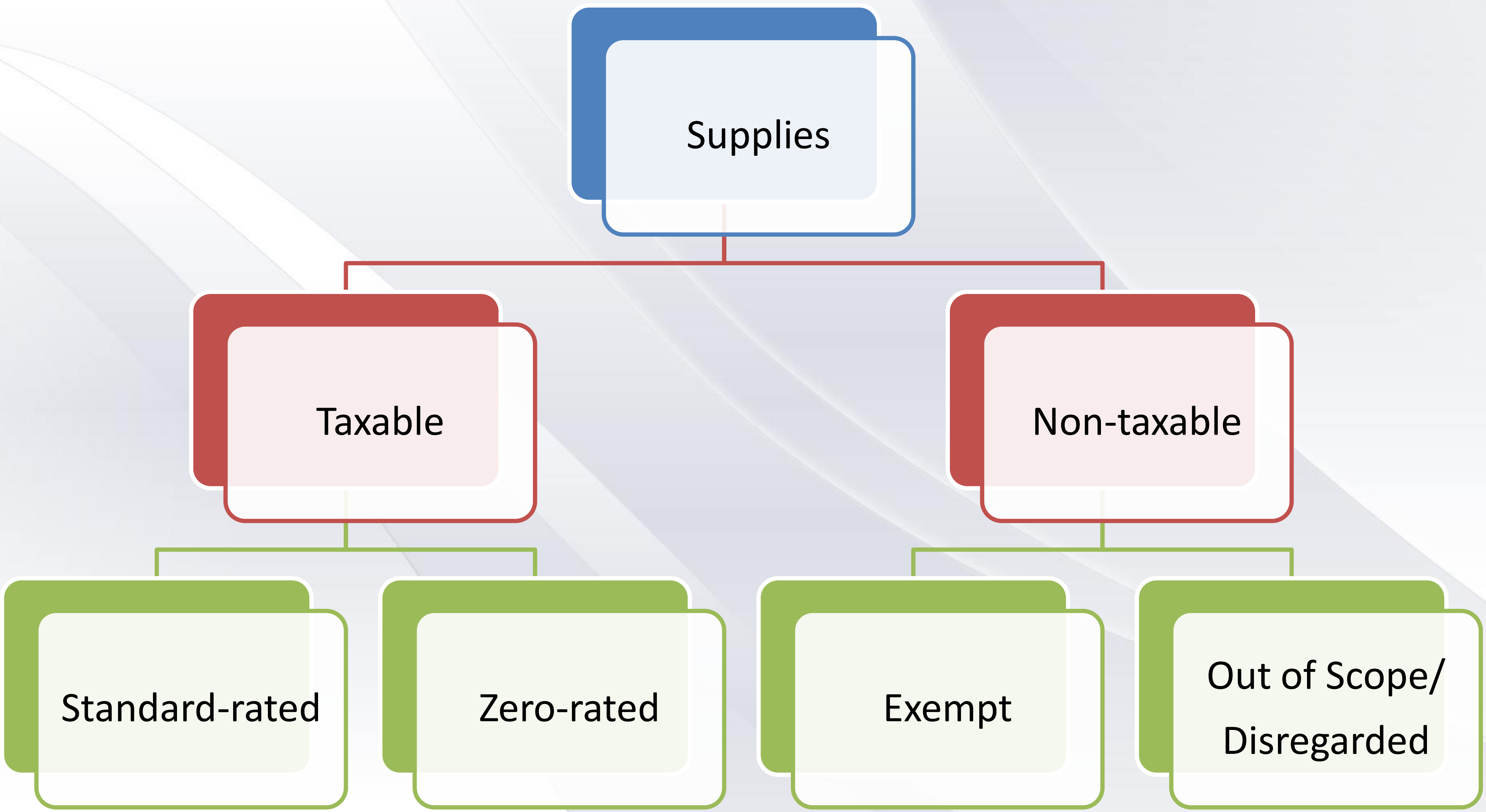
Current Sales & Service Tax	GST
Narrow tax base	Broad tax base
Cascading & compounding tax	Eliminated
No complete relief for export	Exports are zero-rated and eligible to claim input tax
Transfer pricing & vertical integration	Tax at multi stages addresses the issue of transfer pricing and vertical integration
Classification issues	Minor classification issues
Sales tax productivity has been declining for the last 7 years	Tax productivity expected to increase under GST

Imposition and Scope of Goods and Services Tax – Sec. 9

- Supply of goods or services, where it is a taxable supply;
- Made in Malaysia;
- For consideration;
- By taxable person;
- In the course of business; and
- Importation of goods into Malaysia

IMPOSITION AND SCOPE OF TAX

Type of supplies



All supplies fall within 4 categories:

- **Standard rated** → **Taxable Supplies**
- **Zero rated** → **Taxable Supplies**

(Standard rated and zero rated: Input tax recoverable)

- **Exempt** → **No GST** (Input tax not recoverable)
- **Out-of-scope** → **No GST**

TYPES OF SUPPLIES

Type of supplies	Examples
Standard rated	Local supply of goods and services
Zero rated	• Agriculture products [paddy and vegetables], foodstuff [rice, sugar, plain flour, cooking oil], livestock supplies [live animals and unprocessed (fresh and frozen), meat of cattle, buffaloes, goat, sheep and swine, poultry [live and unprocessed (fresh and frozen) meat of chicken and duck], egg (fresh and salted) and fish • Supply of the first 200 units of electricity per month to domestic users • Supply of the first 35 cubic meters of water per month to domestic users • Export of goods • International services

TYPES OF SUPPLIES

Type of supplies	Examples
Exempt	• mass domestic public transport (LRT, KTM, ERL, Monorail, express bus, taxi, etc) • toll highway • sales / lease / rental of residential land / property • land for agricultural purposes and land for general use (government building and burial ground) • private healthcare and education • certain financial services (eg loan)
Out of scope	• supplies not made in Malaysia • supplies which is made by a person who is not registered • sales between warehouses

SERVICES PERFORMED BY THE AGENCY

Any services performed by Government Agency

- Out of scope supplies
- Services performed by Government Agency under Clause 65 Draft GST Bill states the following:-

  - to provide the non-applicability of the proposed Act to the Federal and State Governments; and to local authorities and statutory bodies in respect of their regulatory and enforcement functions to be treated as **Out-of-scope**.

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Conditions governing input tax claim:

- The claimant must be registered for GST
- Goods and services are acquired for the purpose of making taxable supplies
- Must have a valid tax invoice issued in the name of claimant
- Goods and services acquired are not subject to any input tax restriction
- Tax invoices, simplified tax invoices or customs import documentations must be made available to support any claim for input tax credit
- A taxable person who fails to pay his supplier within 6 months from the date of the supply shall account for an amount equal to the input tax claimed as his output tax

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Taxable Supply – Sec. 2

- A supply of goods or services, other than an exempt supply but includes a zero-rated supply

Zero-rated Supply – Sec.17 (1)

A zero-rated supply is:

- Any supply of goods or services determined to be zero-rated supply by the Minister; and
- Any supply of goods if the goods are exported
- Treated as taxable, at zero percent

Exempt Supply – Sec.18 (1) & (2)

- A supply of any goods or services which shall not be subject to the imposition of tax.
- The Minister may determine any supply of goods or services in Malaysia to be an exempt supply

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Place of Supply – Sec.12 (2)

Supply of any **goods**:

- Removal from a place in Malaysia to another place in Malaysia – supplied in Malaysia
- Exports
- Removal from a place outside Malaysia to another place outside Malaysia – supplied outside Malaysia

Place of Supply – Sec. 12 (4)

Supply of **services** shall be deemed as made:

- in Malaysia if the **supplier** belongs in Malaysia; and
- in another country, if the supplier belongs in the other country.

Place of Supply – Sec. 14 (1)

The supplier of services shall be treated as belonging in Malaysia if:

- business establishment or fixed establishment in Malaysia;
- his usual place of residence is in Malaysia; or
- his establishment which is most directly concerned with the supply is in that country

For Consideration – Sec.4(1)

- Supply must be for consideration
- Can be in cash or others

Taxable Person – Sec. 2

- Any person who is or is liable to be registered under this Act
- Making taxable supplies and achieve prescribed annual turnover threshold

Business – Sec. 3

- Includes any trade, commerce, profession, vocation or any other similar activity whether or not it is for a pecuniary profit
- The provision of the facilities or benefits to the members or parcel proprietors by clubs, associations, societies, management corporations, joint management bodies or organization as well as admission to any premise for a consideration is treated as carrying on a business
- Anything that is done in connection with the termination or with an intention to terminate the business is deemed as done the course or furtherance of that business
- Where any person accepts an office or services supplied by the owner of the office, in carrying trade, commerce, profession, vocation or any other similar activity, the supplies will be treated as supplies made in the course or furtherance of that activity

Importation – Sec. 9(1)(b)

- GST is applicable on import of goods

Time of Supply – Sec. 11(2) & (3)

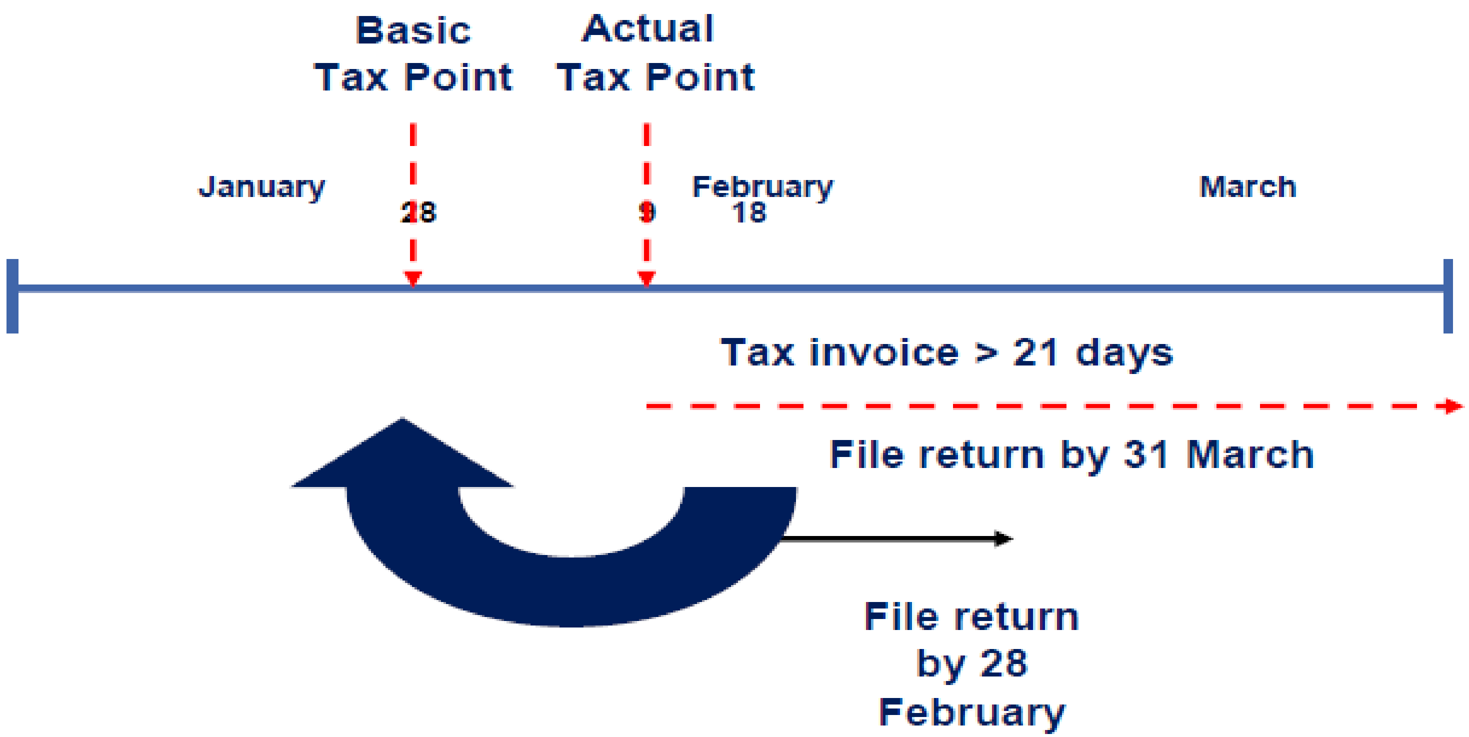
- The time of supply of goods shall be:
  - at the time of removal of the goods;
  - at the time when the goods are made available to the person;
  - at the time when it becomes certain that the taxable supply has taken place; or
  - twelve months after the removal

Note: The time of supply of **services** shall be at the time when the services are performed

Time of Supply – Sec.11(4) & (5)

- The supply be treated as taking place:
  - at the time the invoice is issued; or
  - the payment is received.
- Time of invoice, where tax invoice raised within 21 days

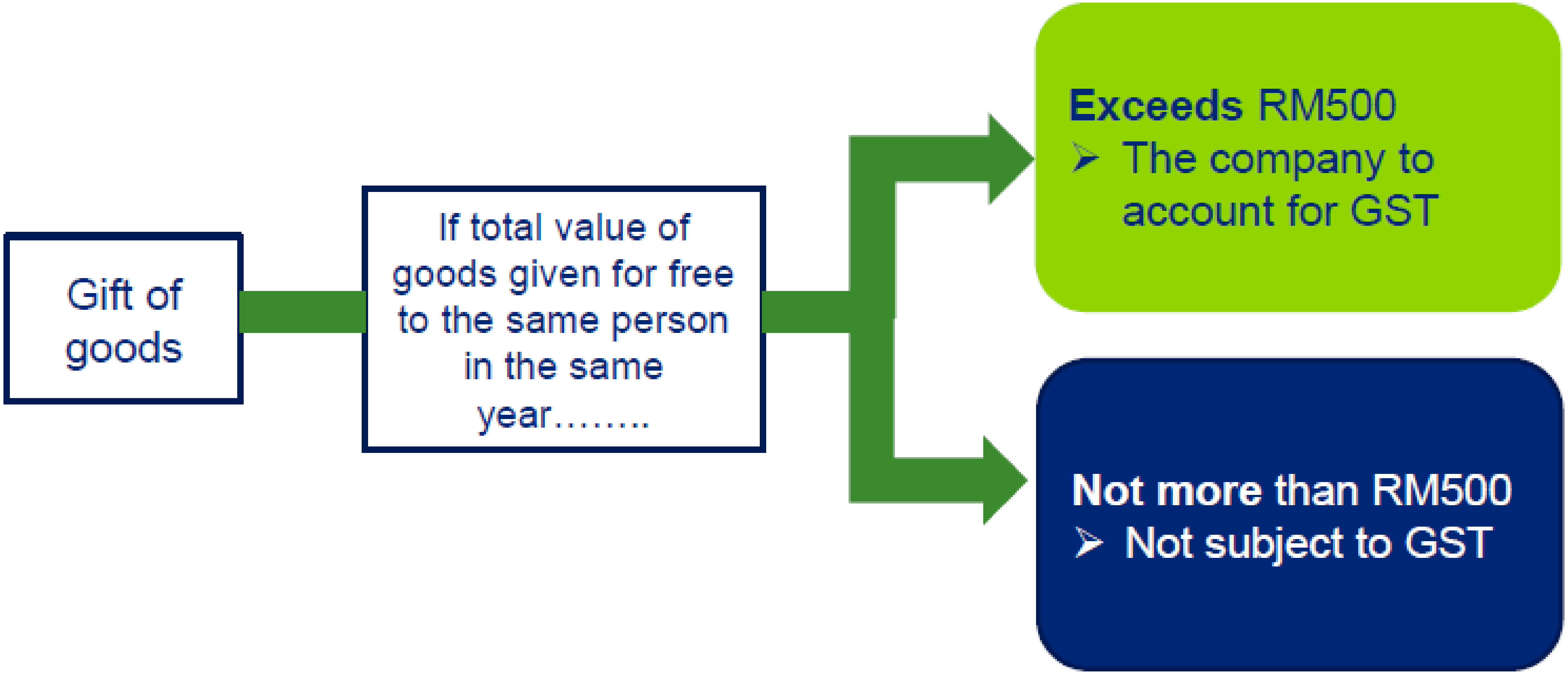
Time of Supply (21 day rule)



Notes:

- GST returns filed monthly (Turnover > RM 5 m)
- Delivery / Performance on 28 January (Basic Tax Point)
- Issuance of Tax Invoice within 21 days (Actual Tax point)
- No payment received

GIFT RULE



Note:
GST incurred in the acquisition of the gift above is claimable

- Only registered person can charge and collect GST and entitled to claim input tax credit (ITC) on business inputs
- Liability to register

  Any person who makes or intend to make taxable supply of goods or services in Malaysia

  For furtherance of business

  Above the prescribed threshold which is based on total value of the taxable supplies for a 12 months period – historical method or future method

Taxable Period	Conditions
3 Months	Annual turnover < RM 5 Million
1 Month	Annual turnover > RM 5 Million Export-based trader
6 Months	Special cases

Payments & filing of GST returns must be submitted not later than the last working day of the month following the end of the taxable period. Mandatory even if nil tax position.

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GENERAL GST IMPACT ON ECONOMY

Impact of tax change on cost and prices

- Some goods and services will increase in price
- Some goods and services will decrease in price
- Overall CPI will remain unchanged
- BUT – most business, tax costs will come down

GST IMPACT ACROSS ALL BUSINESSES

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System changes for GST compliance

End of sales tax exemption
Preferential GST Vendors
– maximise ITC

Pricing Modelling
Structure of offers/financing

Impact on cashflow
Identification of transaction & GST liability
Registration & compliance
Cancellation of licenses

Education & Communication

GST impact on corporate plans
Classification of issues and & treatment with tax review panel
Trade facilitation arrangements

GST impact on contracts

Effect on demand
Pricing Strategies
Impact on current pipeline and inventory

KEY FOCUS FOR SUCCESSFUL GST IMPLEMENTATION

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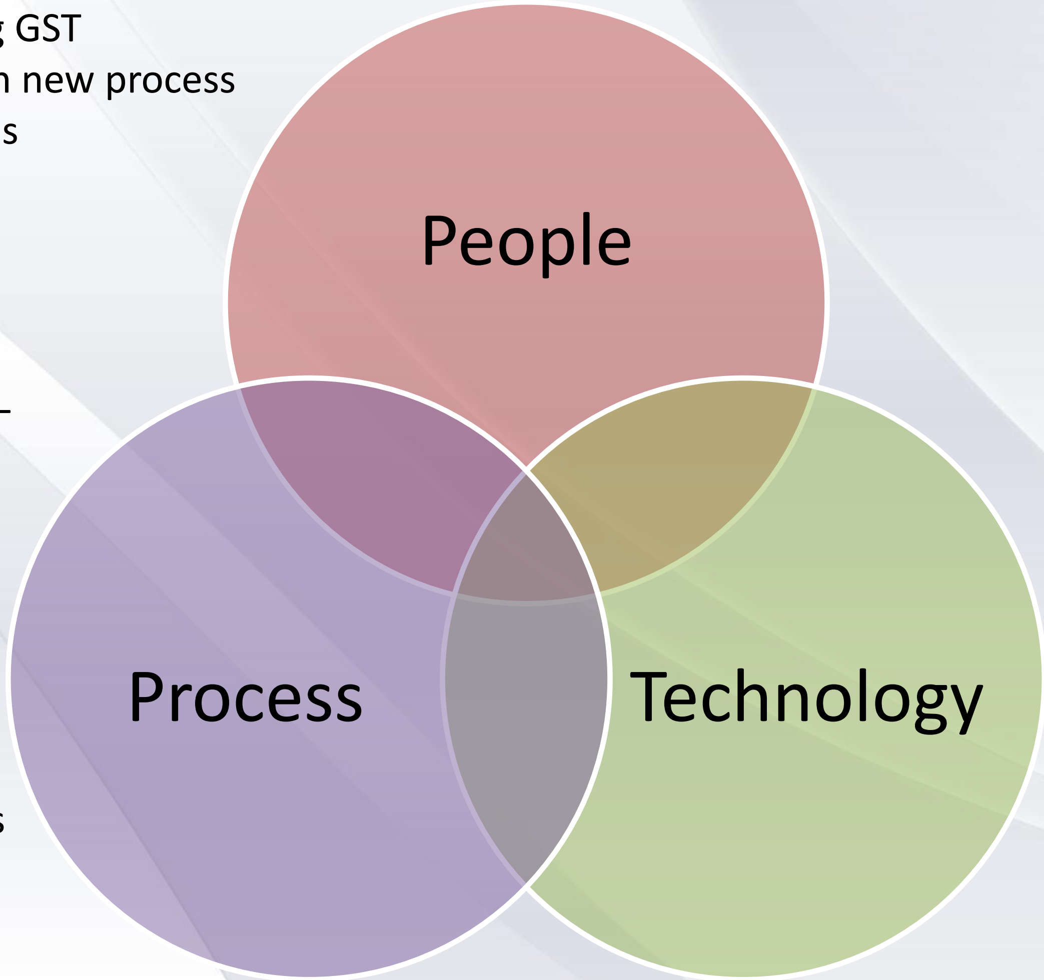
- Education & training of personnel on GST
- Staffing for the upcoming GST
- Communication plan with new process and procedures, policies



- Business process flows – Physical Flows and Document Flows – to understand the place and time of supply, rules and managing cash flow
- Supply chain analysis of suppliers and customers – to draw out a communication plan with suppliers and customers during the transition period

- IT system configuration and modification takes time
- Understand and consider if the current IT system caters for GST
- To understand and identify the ‘As It” and ‘To Be’ in order to be GST compliant

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GST READY


Censof is
GST
Ready
Accounting
Software
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GST TABULATION

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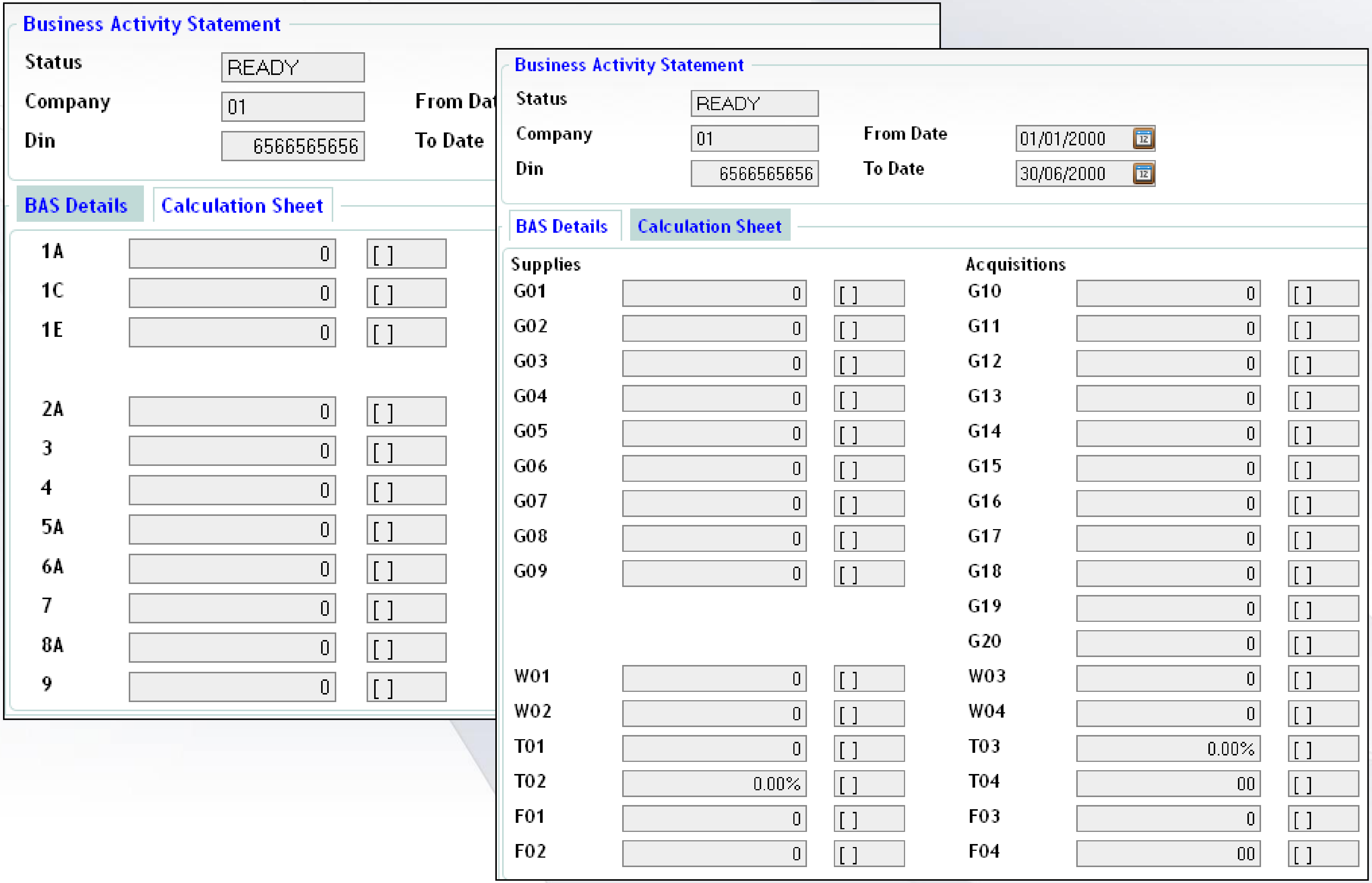

OUTPUT FROM SYSTEM

** SOLUTIONS SYS ** Tue Aug 24 2010 12:

- BAS TRANSACTION REPORT -

COMPANY	DIN	FROM	TO
20	630000001	01/01/2009	31/01/2009

BASCODE	SRC	TYPE	BATCHID	CODE	ITEMREF	DATE	YEAR	PERIOD	NET	GST	USER
G07											
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-339506.17	-33950.62	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	***********	***********	
	FA	JNL	00006244	1-30-00-3700	GL-00006244	31/01/2009	2009	7	-0.18	-0.02	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-2750000.00	-275000.00	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-0.17	-0.02	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-5.28	-0.53	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-1.04	-0.10	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-2.23	-0.22	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-0.52	-0.05	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-1.15	-0.12	
	FA	JNL	00006244	1-30-00-3700	GL-00006244	31/01/2009	2009	7	-1.22	-0.12	
	FA	JNL	00006243	1-20-00-3700	GL-00006243	31/01/2009	2009	7	-4.13	-0.41	
	FA	JNL	00006244	1-30-00-3700	GL-00006244	31/01/2009	2009	7	-0.55	-0.06	
	FA	JNL	00006244	1-30-00-3700	GL-00006244	31/01/2009	2009	7	-2.34	-0.23	
	FA	JNL	00006244	1-30-00-3700	GL-00006244	31/01/2009	2009	7	-1.10	-0.11	
	FA	JNL	00006244	1-30-00-3700	GL-00006244	31/01/2009	2009	7	-10.55	-1.06	
							TOTAL	(G07)	***********	***********	
							GROSS	(G07)		***********	

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Key	Value	Description
UTVATNAME	GST	Display GST throughout system
UTVATPERCENT	4	Calculate GST at rate specified
UTVATSTARTDATE	dd/mm/yyyy	Start date for GST computation
APSUPPVATNOTREG	S04	Reason code for GST non-registered supplier
APSUPPVATREG	S00	Reason code for GST registered supplier
ARCUSTVATREG	C00	Reason code for GST registered customer

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SET UP – GST ACCOUNT IN AP COMPANY AND AR COMPANY

Company

Company	L0	Multi-Company Alloc	
Name	LONDON	Process Type	Normal
GL Distribution Mode	Invoice Line	AP Period Set	STD
GL Integration Mode	Full	Current AP Year	2010
GL Account Code Mask	?-??-??-?-???-??????	Current AP Period	6

GL Accounts

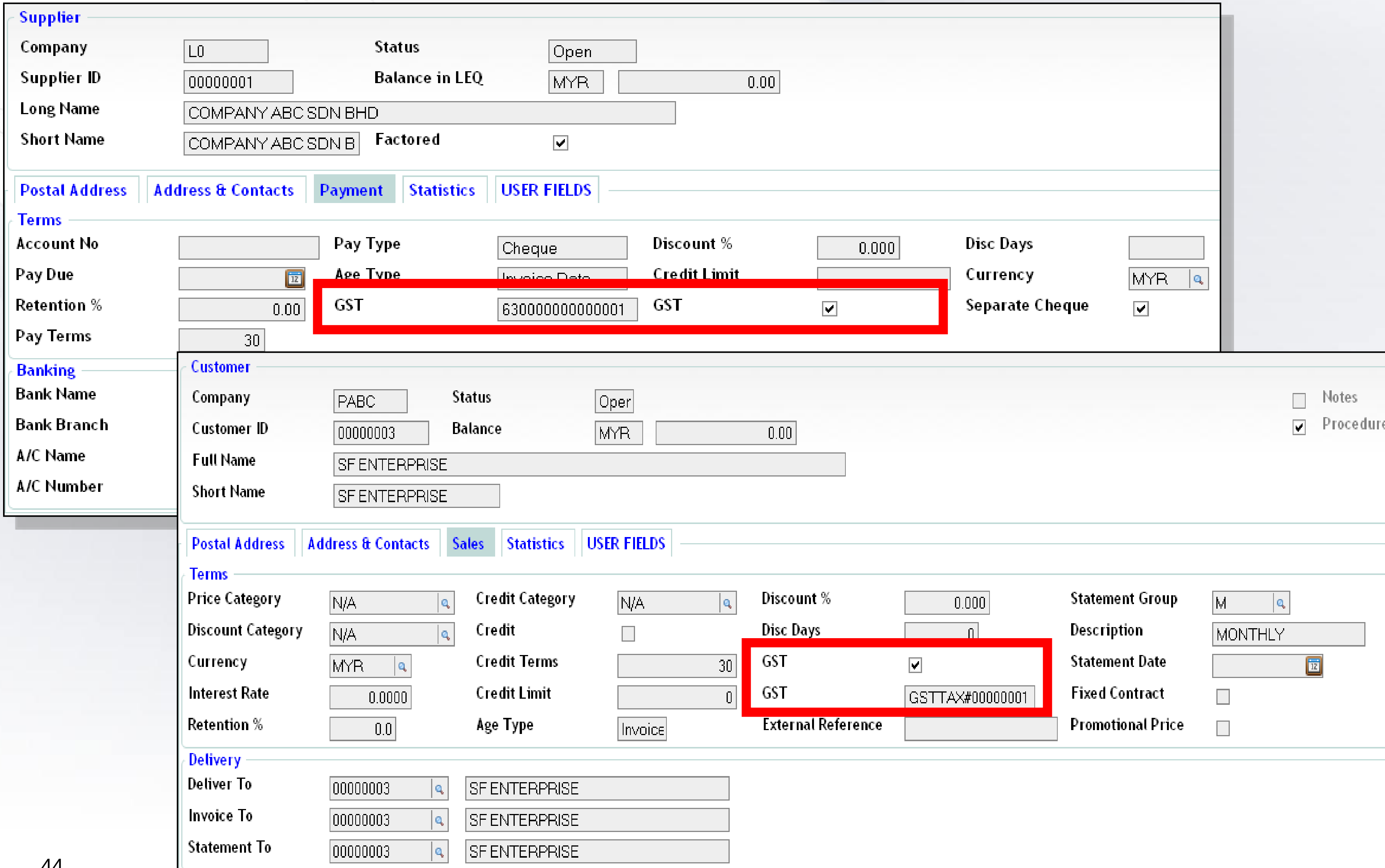
Default Expense	M-L0-00-0-000-B91999	Belanja lain
AP Control	M-L0-00-0-000-L13101	Pemiutang Pelbagai
AP Adjustments	M-L0-00-0-000-L13101	Pemiutang Pelbagai
AP GST	M-L0-00-0-000-L13101	Pemiutang Pelbagai
Due To Treasury	M-L0-00-0-000-L13101	Pemiutang Pelbagai
Due From Unit	M-L0-00-0-000-L13101	Pemiutang Pelbagai

i-Company Alloc	
eriod Set	STD
ent AR Year	2010
ent AR Period	6

GL Accounts

Default Revenue	M-L0-00-0-000-H91999	Pendapatan Lain
AR Control	M-L0-00-0-000-A15101	Pelbagai Penghutang
AR Adjustments	M-L0-00-0-000-A15101	Pelbagai Penghutang
AR GST	M-L0-00-0-000-A15101	Pelbagai Penghutang
AR Discount	M-L0-00-0-000-A15101	Pelbagai Penghutang
AR Deposit	M-L0-00-0-000-A15101	Pelbagai Penghutang

SETUP – AP SUPPLIER AND AR CUSTOMER



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REASONS CODE TO BE APPLIED IN MALAYSIA

GST Tax Code for Purchases			GST Tax Code for Supplies	
Tax Code	**Tax Rate**		**Tax Code**	**Tax Rate**
TX6	6%		SR	6%
IM	6%		ZR	0%
IS	0%		ES43	0%
BL	6%		ESN43	0%
NR	0%		DS	6%
ZP	0%		OS	0%
EP	0%		ES	0%
OP	0%		RS	0%
TX-E43	6%		GS	0%
TX-N43	6%		AS	6%
TX-RE	6%			
GP	0%			
AP	6%			

REASONS CODE APPLIED IN AUSTRALIA

Key	Description
C00	GST Customer - charge GST
C01	Export customer - No GST
C02	GST free customer
C03	GST Input Tax Customer

Key	Description
S00	GST Registered Supplier
S01	Import Supplier - No GST
S02	GST Free Supplier - No GST
S03	GST Input Tax Supplier - No GST
S04	Not GST Registered Supplier - No ABN
S05	Import Supplier - GST paid to Customs

Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

Objective

Step 1 is crucial to the business in ascertaining GST impact on the supplies as well as acquisitions in relation to their daily operations. This assessment seeks to determine the following :

- Types of supplies made i.e. taxable, exempt, out-of-scope, etc.
- Types of acquisitions incurred in carrying out their business and to ascertain if input tax credits are claimable
- Cash flow impact on business
- Impact on pricing of goods and services under GST regime
- Transitional issues that require concessionary treatment from Government

GST IMPLEMENTATION SERVICES

Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

Process

- To provide a comprehensive questionnaire for completion by your organisation for the purpose of obtaining proper understanding of transactions
- To collate relevant information & documentation on business transactions
- To identify GST impact on business operations

Deliverables

GST Assessment Report which would highlight the following :

- GST treatment on the supplies made by the business
- Input tax claim and the impact on the business if input tax not claimable
- Impact on cashflow / pricing of goods and services
- Transitional issues / Recommendations on concessionary GST treatments for lobbying to the Government

Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

<u>i. GST Project Team Set-up</u>

- To advise on the composition of members in both GST Steering & Working Committee
- To assist in establishing project reporting structure, timelines & duties of working group
- To assist working group in initiating GST project roll-out by conducting GST briefing to all relevant personnel

Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

ii. Business Transaction Analysis

- To provide relevant GST tools to enable working group to carry out transaction mapping of all income & expense transactions of the entity
- To provide relevant GST tools to enable working group to carry out review of all relevant contracts which will expire after GST is in force
- To obtain complete listing of employee benefits from the HR or other relevant departments
- To assign GST treatment and tax codes to each transaction arising from the transaction mapping process
- To highlight transitional issues arising from contractual obligations & recommend possible resolutions

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Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

ii. Business Transaction Analysis (cont'd)

- To suggest insertion of proper GST clauses into future contractual commitments
- To consolidate all information obtained through transaction mapping process and produce a GST implementation plan for execution in Step 3 of the project

Deliverables

GST implementation plan including transaction summary schedules with GST treatment and tax codes

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Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

i. IT Systems Modification

- To provide transaction summary schedules to IT consultant, programmers or in-house IT department as the platform to develop GST logic which will enable the IT system to account for GST
- To hold regular meetings with IT consultant, programmers or in-house IT department and provide GST technical inputs necessary in developing the systems logic
- To review output of systems tests and trial runs to gauge the level of output accuracy

Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

ii. Documentation Modification

- To obtain all relevant documentation – invoices, purchase orders, tender document, etc. to gauge the level of compliance with the requirements under GST legislation

iii. Resolution of Operational Issues

- To assist in formalising a memorandum to the Taxation Review Panel / Ministry of Finance lobbying for favourable resolutions on issues which have adverse GST impact on the business

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Step 1	Step 2	Step 3	Step 4
GST Functional & Operational Impact Assessment	Formation of GST Implementation Plan	Transition to GST-ready Status	Post – GST Review

iv. Review of Costing Methodology

- To assist in reviewing the current costing methodology and the entire supply chain with a view to identifying areas affected by GST
- To assist in educating / communicating to suppliers / vendors on implications of GST on costing and pricing of their goods & services moving forward
- To highlight the requirements under the relevant anti-profiteering and price

Deliverables

A GST Compliant Entity

Issues to consider in GST implementation:

- Taxability of supplies made
- Types of acquisition and the eligibility for input tax credit
- Impact of HR benefits provided to employee
- Contract
- Systems and documentation issues

THANK YOU