



**SERVICE TAX 2018**

# **GUIDE ON : DOMESTIC FLIGHT**

**Published by :**

**Royal Malaysian Customs Department  
Internal Tax Division  
Putrajaya**

**21 August 2018**

## **Publication**

Date: 21 August 2018.

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## **INTRODUCTION**

1. Service Tax is a consumption tax governed by the Service Tax Act 2018 and its subsidiary legislation. The effective date of the Service Tax Act 2018 is 1 September 2018.
2. Service tax is imposed on prescribed services called “taxable services”.
3. A person who provides taxable services exceeding a specified threshold is required to be registered under the Services Tax Act 2018 and is known as a “registered person” who is required to charge service tax on his taxable services made to his customers.
4. The Guide is prepared to assist you in understanding the service tax treatment on domestic flight

## **IMPOSITION AND SCOPE OF TAX (DOMESTIC FLIGHT)**

5. Effective 1 September 2018, under Group I, Item 11, First Schedule of the Service Tax Regulations 2018, the provision of domestic flight under prescribed circumstances is subject to service tax.

## **GENERAL OPERATIONS OF THE INDUSTRY**

### **Overview Of Aviation Industry**

6. Aviation service includes the following services:
  - (i) The carriage of passengers, mail or cargo for hire or reward by air or by the use of any aircraft between two or more places, of which at least one place is in Malaysia;
  - (ii) The provision in Malaysia of any ground handling services;

- (iii) The operation of an aerodrome in Malaysia for the take-off and landing of any aircraft engaged in the carriage of passengers, mail or cargo for hire or reward.

7. Air transport service is defined as a commercial air service that is operated for the purpose of transporting persons, personal belongings, baggage, goods or cargo in an aircraft between two points. Air transport services will need to operate at least one aircraft which it may own, lease or hire for this purpose.

8. Service tax is applicable only with regards to domestic passenger air transport services (hereinafter to be called taxable domestic flight).

9. There are various entities involved in the aviation industry including government agencies/ bodies such as MAVCOM and CAAM (Civil Aviation Authority of Malaysia).

## **CHARGING SERVICE TAX**

10. The rate of service tax shall be charged at the rate of 6%. In the case of provision of domestic flight which is a prescribed service provided by an air passenger transportation provider who is a registered person, the value of taxable service for the charging of service tax is the actual price minus the passenger service charge (PSC) and MAVCOM fee.

11. Service tax on domestic flight ticket will be charged at the point of sales of the ticket. For any purchases on board, service tax will be charged on board.

## **SERVICE TAX TREATMENT**

### **International Flight**

12. Passenger of international flights are provision of passenger air transport service:

- (i) From a place outside Malaysia and to a place outside Malaysia;
- (ii) From a place within Malaysia to a place outside Malaysia;
- (iii) From a place outside Malaysia to a place within Malaysia;

13. The provision of passenger international passenger flight services are not subject to service tax. Ancillary services relating to international flights are also not subject to service tax.

**Example 1**

*A passenger purchased a flight ticket from Air Asia (AA) Berhad for route from KLIA to London. The flight ticket is not subject to service tax because it is an international flight.*

**Example 2**

*A passenger purchased a flight ticket from AA Berhad for route from KLIA to Paris. During the flight, the passenger purchased meal on board and wifi-on-board. The flight ticket is not subject to service tax because it is an international flight as well as other ancillary services paid (meal-on-board and wifi-on-board) by the passenger.*

**Domestic Flight**

14. The provision of passenger of domestic flight is subject to service tax excluding:

- (i) Rural Air Services;
- (ii) flights within Sabah by operator licensed under Section 35 of Malaysian Aviation Commission Act 2015; and
- (iii) flights within Sarawak by operator licensed under Section 35 of Malaysian Aviation Commission Act 2015;

**15. Flights between Sabah and Sarawak will be subjected to service tax.**

16. For the purpose of service tax, domestic flight refers to a flight which departs and arrives in Malaysia and is granted Air Service License under Section 35 of Malaysian Aviation Commission Act 2015 ("scheduled flights"), or Air Service Permit under Section 36 of Malaysia Aviation Commission Act 2015 ("non-scheduled flights").

Airlines shall charge service tax at 6% to the customers for domestic flight.

17. Scheduled flights refer to air services that are carried out on scheduled basis by airlines for the uplift of passengers, cargo or mail for hire and reward. Airlines of Malaysia would need to acquire an Air Service License (ASL) (under Section 35 of Malaysian Aviation Act 2015) and an Air Operator's Certificate (AOC) before they are allowed to operate scheduled air services.

18. Non-scheduled flights refer to air services carried out on a non-scheduled basis by airlines for the uplift of passengers, cargo and mail through charter services for hire and reward.

**Example 3**

*A passenger purchased a flight ticket from MAL Berhad for route from KLIA to Kota Bharu. The flight is **subject to service tax at the rate of 6%** because it is a domestic flight.*

**Example 4**

*A passenger chartered a flight from Travira Air Sdn Bhd for route from KLIA to Kota Bharu. The flight is **subject to service tax at the rate of 6%** because it is a domestic flight.*

**Example 5**

*A passenger purchased a flight ticket from MAL Berhad for route from Kuching to Miri. The flight ticket is **not subject to service tax**.*

**Example 6**

*A passenger purchased a flight ticket from MAL Berhad for route from Kota Kinabalu to Sandakan. The flight ticket is **not subject to service tax**.*

**Example 7**

*An oil rig worker used a helicopter service from Miri to oil rig located in South China Sea (within Malaysia). The helicopter service is **subject to service tax** because the operator is not licensed under Section 35*

of Malaysian Aviation Commission Act 2015.

**Example 8**

*A passenger purchased a flight ticket from MAL Berhad for route from Kota Kinabalu to Kuching. The flight ticket is **subject to service tax**.*

**Rural Air Services (RAS)**

19. RAS flights under the RAS agreement are not subject to service tax even though it is they are domestic flights. Under the service tax, RAS flight is not a prescribed service. RAS flights are defined as flights conducted for travels within the interior of Sabah and Sarawak. MASwings was appointed by the Malaysian Government to undertake this task in October 2007 via the signing of the RAS Agreement. Currently, MASwings operates 49 RAS routes.

**Example 9**

*A passenger purchased a flight ticket from MASwings (Economy Class) for route from Bario, Sarawak to Ba'kelalan, Sarawak. The flight ticket is **not subject to service tax** even though it is a domestic flight because it is an RAS flight.*

**Example 10**

*A passenger purchased a flight ticket from MASwings (Business Class) for route from Bario, Sarawak to Ba'kelalan, Sarawak. The flight ticket is **not subject to service tax** even though it is a domestic flight because it is an RAS flight.*

**Example 11**

*A passenger purchased a flight ticket from MASwings for route from Kuching, Sarawak to Kota Kinabalu, Sabah. The flight ticket is **subject to service tax** because despite it is a domestic flight, it is not a RAS flight (not a RAS routes).*

**Example 12**

*A passenger purchased a flight ticket from AAX Airline for route from Bario, Sarawak to Ba'kelalan, Sarawak. The flight ticket is **subject to service tax** because AAX Airline was not appointed by the Malaysian Government to undertake the RAS task via the signing of the RAS Agreement.*

20. A connecting flight is when passengers are required to change from one plane or airline to another at an intermediate point (called connecting point) on way to their destinations. For the purpose of service tax, the whole leg from originating to destination point will be treated as a single flight.

**Example 13**

*A passenger purchased a flight ticket from Kota Kinabalu to Pulau Pinang with a connecting flight at KLIA. The flight ticket for the flight from Kota Kinabalu to Pulau Pinang is **subject to service tax** because it is a domestic flight.*

**Example 14**

*A passenger purchased a flight ticket from KLIA to Sandakan with a connecting flight at Kota Kinabalu. The flight ticket for the flight from KLIA to Sandakan is **subject to service tax** for the whole leg.*

21. There are situation where passengers purchase tickets for a combination route (domestic non-RAS and RAS route) with a connecting flight. Passengers may need to purchase one ticket for both routes.

**Example 15**

*A passenger purchased a ticket for a flight from Kuching to Kudat with a connecting flight at Kota Kinabalu. The whole leg is **subject to service tax** because it is a combination of a domestic flight (Kuching to Kota Kinabalu) and a RAS flight (Kota Kinabalu to Kudat).*

**Example 16**

*A passenger purchased only one flight ticket from KLIA to Bario, Sarawak with a connecting flight at Kuching, Sarawak. The flight ticket for the flight from KLIA to Bario is **subject to service tax** because it is a combination of domestic flight and RAS flight. A flight ticket combination of a domestic flight (KLIA to Kuching) and RAS route (Kuching to Bario).*

22. A passenger may purchased a ticket with a connecting flight where both flights is excluded from service tax.

**Example 17**

*A passenger purchased a ticket for a flight from Kuching to Ba'kelalan with a connecting flight at Miri. The whole leg is **not subject to service tax**.*

23. A flight with the combination of international and RAS routes is not subject to service tax.

**Example 18**

*A passenger purchased a flight ticket from Bario, Sarawak to Singapore with a connecting flight at Kuching. The flight ticket for the flight from Bario to Singapore is **not subject to service tax** because it is considered as an international flight.*

**Ancillary Services**

24. Ancillary services relating to the domestic flights will be subjected to service tax. Ancillary services include charges for:

- (i) Excess baggage;
- (ii) Seat selection;
- (iii) Lounge access;
- (iv) Meals on board;
- (v) Fuel surcharge;

- (vi) Basinet;
- (vii) Wifi-on-board;
- (viii) Class upgrade;
- (ix) Insurance;
- (x) Other charges / fee i.e change of name, reissue ticket, reroute, cancelation, refund and no show.

*Note: The list above is not exhaustive.*

25. Sales of goods such as merchandise, souvenir, and perfume in domestic flight are not subject to service tax (because these are not prescribed goods subject to service tax) except for food/beverage.

**Example 19**

*A passenger enroute in a flight from KLIA to Kota Kinabalu purchased an airline towel on the flight. He also purchased a meal on board the flight. The purchase of the merchandise is **not subject to service tax** while the meal is subject to service tax.*

**Example 20**

*A passenger purchased a flight ticket from Malaysian Airline enroute a flight from Pulau Pinang to London with a connecting flight at KLIA. The passenger then purchased a meal on board during the flight. The provision of the meal is subject **to service tax** because it is a connecting flight at KLIA (domestic).*

**Penalty**

26. A penalty charged to a passenger by a service provider is not subject to service tax. For cancelation of ticket or no show, airlines may opt to refund to the customer parts of the payment received for the tickets. Part of the payment where the airline take is considered as penalty.

**Example 21**

*A passenger was fined RM2,500 by MAL Berhad for smoking in the plane lavatory during a flight from KLIA to Langkawi. The penalty (fine) is **not***

***subject to service tax.***

**Example 22**

*A passenger purchased a domestic flight ticket from AA for route from KLIA to Langkawi. However, the passenger failed to show up. The passenger claim a full refund from Air Asia. Air Asia will only refund 80% of the ticket price to the passenger. The balance of 20% will be charged by Air Asia as penalty. The 20% penalty are **not subject to service tax.***

**Chartering**

27. Apart from providing the usual passenger flight transportation where customer buys tickets, airline may provide chartering services whether a dry charter or wet charter. However **only wet charter will be subjected to service tax.** A dry charter is when a charter of an aircraft is without crew. A wet charter is when a charter of an aircraft is with the crew.

28. The charter of an aircraft must relate to the whole aircraft. The two parties may also agree that their contract (charter party) provides that the hiring of the aircraft is with or without crew.

**Other Services by Airlines**

29. Freight transportation - Airline may also provide cargo or freight transportation services. Freight transportation is not subject to service tax whether it is domestic or international flight. For courier services please refer Guide on Courier Services.

30. Intragroup Shared Services - It is common for an airline company having intragroup shared services such as engineering services and accounting services. Airline companies are very dependent for these intragroup services. The intragroup shared services are not subject to service tax under the following conditions:

- (i) The shared services only provided to companies within the group; and
- (ii) The holding company holds more than 50% shares of the companies in the group.

31. If a company within a group is providing its services to companies outside the group (intergroup services), then all prescribed services provided by the company will be subjected to service tax including the shared services provided within the group (intragroup services).

32. **Private Jet** - The provision of private jet (unscheduled flight) for domestic flight is subject to service tax. Other ancillary services such as meals on board, baggage and others are also subject to service tax. However, if the provision of private jet services are inclusive of ground handling such as transportation from airport to hotel, these ground handling services are not subject to service tax if the fee are itemized in the invoice.

33. **Voucher** – There are times where airlines provide compensation to its customer in term of voucher for flight delay or cancelation. The provision of the voucher by the airlines is not subject to service tax. However, depending on the service provider i.e hotel, restaurant, upon redemption of the voucher, service tax may be incurred.

34. **Loyalty Programme** – Most airline operators have their own loyalty programme such as Enriched, Malindo Miles, BIG Points and others. Passengers will collect points from the loyalty programme where they can redeem flight ticket, enter lounges, accommodations, goodies, merchandise and others by utilizing the points. However, depending on the service provider i.e hotel, restaurant, upon redemption of the points, service tax may incurred.

35. **Free Services by airlines** – airline may offer free services such as free ticket to its customer. The provision of free services is subject to service tax. The airlines need to account the service tax for the free services.

### **Same Supplier (Foreign or Local airlines)**

36. Provision of the following flight services is a domestic flight:

- (i) from a place in Malaysia to the last exit point in Malaysia; or
- (ii) from the first entry point in Malaysia to another place in Malaysia

37. However if the above flight is part of an international flight where a customer only purchased one ticket for the whole leg, then the provision of the domestic leg is not subject to service tax.

**Example 23**

*Customer purchased only one ticket from Emirates Airline enroute from Dubai to Pulau Pinang with connecting flight at KLIA. Emirates Airline will only provide flight from Dubai to KLIA whilst the domestic flight will be provided by local airline operator. The domestic leg are **not subject to service tax** because the supply is consider as being supplied by the same foreign airline.*

**Example 24**

*A customer purchased a flight ticket from Malaysia Airline enroute from Paris to KLIA and another ticket from Malaysia Airline enroute from KLIA to Kota Kinabalu. The provision of passenger flight transportation from Paris to KLIA are **not subject to service tax** because it is an international flight. However, the flight from KLIA to Kota Kinabalu will be subjected to service tax because it is a domestic flight even though it is supply by the same supplier.*

**Services Related To Domestic Flight**

38. Passenger Service Charge (PSC) is a charge by the Airport Operator. Though PSC are being charged in relation to domestic flight, PSC is not subject to service tax. MAVCOM fee which is being charged by MAVCOM to airlines is also not subject to service tax.

39. In order for airlines to operate, they lease planes from another airline. The leasing of airplane by airline is not subject to service tax.

## RESPONSIBILITY OF REGISTERED PERSON

40. A service provider reaching prescribed threshold of taxable services provided is required to be registered. Please refer Service Tax Registration Guide at [www.customs.gov.my](http://www.customs.gov.my).

41. A registered person is responsible to:

- (i) Charge service tax on taxable services,
- (ii) Issue an invoice and receipt to the customers in respect of any transaction relating to the provision of taxable services,
- (iii) Submit service tax return SST-02 electronically and pay service tax before due date,
- (iv) Keep proper records

For further information with regards to the responsibilities of a registered person, please refer to *General Guide* and relevant *Specific Guides*.

## FREQUENTLY ASK QUESTIONS (FAQs)

**1. Q : How to be registered?**

A : Taxable person who provides prescribed taxable services and having turnover more than RM500,000 is required to apply for registration via online by submitting SST-01 form to MySST system - <https://mysst.customs.gov.my/>

**2. Q : How to submit return and make payment?**

A : A registered person need to submit service tax return SST-02 and make payment via electronic (MySST) or by post to SST Processing Centre in Kelana Jaya. The payment methods are either cheque or bank draft. For more information refer to Return and Payment Guide.

3. **Q : Do registered person need to issue an invoice?**  
A : Every transaction by a registered person must be issued with an invoice. However, the registered person can apply to use other documents to replace the invoice and but subject to approval by the Director General. For more information, please refer General Guide.
4. **Q : Do international flight involving code sharing subject to service tax? For example, tickets purchased from Emirates Airline for Dubai route to Penang. Emirates Airline only provides flights from Dubai to KLIA. The next flight from KLIA to Penang will be supplied by domestic airlines such as Malaysia Airlines Berhad.**  
A : No, international flights involving code sharing are not subject to service tax. It is consider as an international flight despite involving domestic routes. This flight is deemed supplied for international route based on code sharing, booking number and tickets purchased. The same treatment applies if tickets are purchased from Malaysia Airlines Berhad for the above mentioned routes.
5. **Q : What is the tax treatment for domestic flights related to passengers using a helicopter?**  
A : The domestic flights for passengers using a helicopter is subject to service tax.
6. **Q : What is the tax treatment for air passenger service for purpose of leisure (sight-seeing)?**  
A : The provision of air passenger services (domestic only) for leisure (sight-seeing) is subject to service tax.
7. **Q : What is the tax treatment for the provision of private jet (unscheduled flight) for domestic flight?**

- A : Yes, the provision of private jet (unscheduled flight) for domestic flight is subject to service tax.
8. Q : **An airline makes a refund to a customer for no show for a domestic flight. The refund amount is inclusive of service tax where the airline has declared and paid to RMCD. Is the airline eligible for a refund from RMCD?**
- A : The airline is eligible for a refund from RMCD (need to apply from RMCD) on condition that the airline can prove that the amount claimed will be refunded to the customer. The airline uses the contra mechanism in SST-02 for the refund eligible.
9. Q : **A passenger purchased a domestic flight ticket from KLIA to Kota Kinabalu. The passenger travel with his pet placed as cargo. Is the fee charged by the airline for the pet subject to service tax?**
- A : Traveling pets as cargo is not subject to service tax regardless it is a domestic flights or international flights because it is considered as transportation of goods.
10. Q : **Do flight tickets purchased by the Government of Malaysia subject to service tax?**
- A : Yes, it is subject to service tax. There is no exemption given to the government on purchase of flight ticket.

## **INQUIRY**

For any inquiries for this guide please contact:

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No. 22, Persiaran Perdana, Presint 3,  
62100 Putrajaya.

## **FURTHER ASSISTANCE AND INFORMATION ON SST**

Further information on can be obtained from:

- (i) SST website : <https://mysst.customs.gov.my>
- (ii) Customs Call Center:
  - Tel : 03-7806 7200 / 1-300-888-500
  - Fax : 03-7806 7599
  - Email: [ccc@customs.gov.my](mailto:ccc@customs.gov.my)