



# **ROYAL MALAYSIAN CUSTOMS**

## **GOODS AND SERVICES TAX**

### **GUIDE ON PAYMENT BASIS**

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## **INTRODUCTION**

1. This guide provides details on the treatment of accounting basis under the Goods and Services Tax (GST). It is recommended that you read the GST General Guide before reading this guide as this guide requires a fair understanding of the general concept of GST.

### **General Overview**

2. GST is charged on a taxable supply of goods or services made by a taxable person in the course or furtherance of business in Malaysia. A taxable supply is a supply on which GST is chargeable at a standard rate of 6% or at zero. Besides this, there are supplies which are termed exempt supplies. An exempt supply is a supply on which GST is not chargeable.

3. Businesses which make taxable supplies of goods or services exceeding the prescribed threshold is required to be registered under GST and to charge GST on their supplies unless the supplies are given relief from the payment of GST. GST chargeable on the taxable supplies is called the output tax of a business. In making taxable supplies, businesses incur and pay GST on supplies acquired by him. GST paid or payable on the supplies acquired is called the input tax.

4. At the end of the taxable period assigned to such businesses, the input tax is offset against the output tax and the businesses account for the difference and pay tax to the government for that taxable period if the output tax exceeds the input tax. A refund of the input tax is paid to businesses where the input tax credit is greater than the output tax. Input tax credit is not allowable for making exempt supplies.

## **ACCOUNTING BASIS**

5. Every taxable person has to account GST based on time of supply under section -- of GST Act 201X on either the:

- (a) date of tax invoice,
- (b) date of delivery,

- (c) date of good make available, or
- (d) date of services are performed,

whichever is applicable.

For further details, please refer to *GST Guide on Supply*.

6. For the purpose of accounting for GST, a registered person may choose to use either the:

- (a) invoice basis, or
- (b) payment basis.

7. Upon registration, a registered person shall use invoice basis to account for GST. However, if they have difficulties to carry on their business using invoice basis, they may apply to use payment basis.

### **Invoice basis**

8. Generally, any taxable person who are using invoice basis must account for GST according to section ----- of GST Act 201X, when invoice has been issued or in certain cases they must account GST when goods have been delivered or made available or when the services have been performed or payment has been received. (For further information, please refer to the *GST Guide on Supply*)

9. Basically, the taxable person using invoice basis;

- (a) shall account for GST on any invoices that have been issued, even though payment has not been received from the customers.
- (b) Is eligible to claim credit for input tax on any invoices that have been received even though there is no payment made.

10. The advantage of the invoice basis is that, if you are the buyer, you are eligible for input tax credit on the purchase even before you make any payment to your vendors. Conversely, if you are the supplier the disadvantage is that you must account for output tax before you receive any payment from your customers.

## Payment Basis

11. The payment method of accounting records revenue when payment from customers is received, and records expenses when payment is made. Using this method you must account for GST for all transaction in the taxable period in which you make or receive payment.

12. Basically, the taxable person using payment basis will need to;-

- pay GST (output tax) on his sales when his customers make payment,
- claim GST (input tax) on his purchases when he has made payment to his suppliers.

13. The payment basis is seen to be suitable for small businesses in the services sector of industries or for those who are using cash basis in their accounting system.

### **Example 1:**

*Restaurant Aliis registered for GST on 1 January 2016. He applied for payment basis due to the nature of his business which heavily depends on cash transactions and has been approved to use payment basis on 1 April 2016.*

*For taxable period April – June 2016, summary of his transactions are shown in the table below:*

<b>Month</b>	<b>Total Amount of Invoice Issues</b>	<b>Total Amount of Payment Received</b>
April 2016	RM40,000	RM35,000
May 2016	RM45,000	RM40,000
June 2016	0	RM25,000
<b>TOTAL</b>	<b>RM105,000</b>	<b>RM100,000</b>

*On 15 June 2015 he received payment of RM 25,000 from Abu Sdn. Bhd. for the supply of catering services. However, invoice for the catering services is*

*issued on 15 July 2015 because Abu Sdn. Bhd. wanted to claim credit for input tax.*

*Restaurant Ali shall account for output tax on total cash received in the April – June taxable period return (i.e. RM75,000 + RM 25,000 = RM100,000).*

*The amount of GST in the return is proportional to the actual payment made or received during that period.*

*If payment received is RM10,000 then Restaurant Ali have to account for output tax of RM85,000 (RM75,000 + RM10,000).*

### **Approval to Account GST On a Payment Basis**

14. Any registered person who has fulfilled the conditions for payment basis, is eligible to apply for payment basis by stating in the form specified. Approval shall commence from the date specified in the approval letter and valid for 3 years.

15. The registered person has to apply for renewal 3 months before expiry date.

16. If renewal application has not been approved, the registered person is required to account for GST on the invoice basis commencing on first day immediately after expiry date.

17. If no renewal application is received by RMCD 3 months before the expiry date, the registered person shall account and pay tax on the invoice basis on the first day immediately after expiry date.

### **Eligibility of Payment Basis**

18. A registered person who is approved by the Director General of Customs (DG) is eligible to account for tax on a payment basis depending on the nature of business and nature of accounting as follows:

(a) **Natures of business:**

(i) **Turnover**

The taxable turnover during the next tax year is not more than RM1 million. The registered person has to inform RMCD at the

end of any month, when total value of all his taxable supplies in that month and the eleven months immediately preceding the month during approval period has exceeded RM1 million. The DG may revoke the approval if registered person failed to notify within the specified period.

(ii) **Commercial practice - cash transactions.**

When the 80% or more transaction / sales are made in cash, then the payment basis may be applicable.

(iii) **Value and volume of the supplies transaction.**

A business may make sales on a payment basis, for example where supplies are of a high volume but of low value. On the other hand, a business engaged in selling a lower volume of higher value supplies is most likely to be making credit sales, and thus it would be less appropriate to account on a payment basis.

**Example 2:**

*Amin Sdn. Bhd. is carrying on a business of mini market. The supplies are groceries, plastic cups, plates, spoons, margarine containers, ice cream, cookies and etc. There is a high volume of these goods supplied and the value of the supplies is low. The payment basis may be an appropriate accounting method.*

(iv) **Depending on capital and circulating consumables.**

**Example 3:**

*Din Workshop Sdn. Bhd. carries on business and maintains a large stock of spare parts for sale and also provides a motor vehicle repair and maintenance service where parts are drawn from the stock of spare parts. As Din Workshop relies on circulating capital and consumables to produce supplies, the payment basis would not be the more appropriate method of accounting.*



(v) **Reliance on capital items.**

The reliance placed by a business on the use of capital items, such as plant and machinery, in making supplies is relevant. The greater the reliance, the greater the likelihood that it would not be appropriate to use the payment basis of accounting.

**Example 4:**

*Ali Hire Sdn. Bhd. has a huge range of tools, equipment and trucks for tradesmen, contractors and others to hire. Supplies by him consist entirely of hiring of these capital items. Here it would not be appropriate to use the payment basis of accounting, as Ali Hire Sdn. Bhd. relies heavily upon capital items to provide supplies.*

(vi) **Credit policy and debt recovery policy.**

If an entity has formal procedures for extending credit and collecting debts, the payment basis is not likely to be the more appropriate accounting method. Generally the payment basis would be more appropriate in circumstances where an entity does not usually provide credit, and the likelihood of debt recovery is low.

**Example 5:**

*Adam conducts his own dental practice. Adam employs another qualified dentist, Ahmad, two full time dental assistants and one full time receptionist/secretary. While Adam requests patients to pay at the time of each consultation, he regularly allows credit to patients and sends reminders of the amount outstanding where necessary. After a debt has been outstanding for six months Adam places the debt with a debt collection agency. As there are formal procedures for extending credit and collecting debts, it would not be appropriate for Adam to account on the payment basis.*

(vii) **Size of enterprise.**

When considering the size of the enterprise we will take into consideration the following factors:

- a. whether the enterprise has a large number of employees.
- b. whether the enterprise has large overheads.
- c. whether the enterprise possesses a large amount of trading stock.

The bigger the number of employees, the amount of the overheads and trading stock, the greater would be the complexity of the business structure indicating that the payment basis may not be appropriate.

**Example 6:**

*Swan restaurant Sdn. Bhd. is a family operated business and is located in a popular tourist area. The only employees are family members. Considering that the overheads are unlikely to be high, and there is minimal trading stock, the payment basis of accounting may be appropriate.*

(viii) **Timing.**

Business records its transaction on a cash basis in their accounting system and would have administrative difficulties in switching to, and using, the invoice basis and not because of timing disadvantage under an invoice basis.

**Example 7:**

*Ahmad Sdn. Bhd. applies to account for GST on a payment basis. Its main argument is that the business will suffer a significant timing disadvantage if forced to account on a invoice basis. This is due to the business debtors paying on 90 days credit terms whilst the business creditors have to be paid within 30 days. RMCD*

*will not consider this situation as an appropriate justification to allow Ahmad Sdn. Bhd. to use payment basis for GST purpose.*

*The payments basis would be the most appropriate one to use, taking into account the nature, value and volume of taxable supplies and the accounting system used.*

(b) **Nature of Accounting**

There are a variety of methods for revenue recognition depending on accounting point of view. The nature of business and each method indicate their own recognition of revenue.

The following features of an accounting system will be examined in determining its relevance to the use of the payment basis of accounting for GST:

(i) Books of account.

Whether the business using manual accounting records and the manner in which they are kept for the day to day operations of the business as according to the appropriate accounting basis.

***Example 8:***

*A restaurant which does not have a complete accounting system and merely records daily transactions as a total and account GST based on that total without any details recording of every and each transaction.*

(ii) Appropriateness of the accounting method used.

In accordance with the accepted accounting principles, the method to recognise revenue are Point of Sale, Completed Contracts, Percentage of Completion and Instalment contract (Credit Sales Agreement). In order to use payment basis, it will depend on the method the business applies for their transactions.

(iii) Its ability to readily provide lists of creditors and debtors.

This requirement is necessary for audit purpose and to make any adjustments due to change of accounting basis.

### **Person Who Is Eligible For Payment Basis**

19. There are restrictions on who may use the payment basis. The restricted types of taxable persons that can be allowed to use the payment basis are:

- (a) A public body who is registered under GST, for example a local authority.
- (b) A Restaurant Operator.
- (c) A Mini Market Operator.
- (d) Any person carrying on a business which the Director General of RMCD has determined is able to account for GST on a payment basis.

### **Conditions for Payment Basis**

20. Any person eligible to apply for payment basis is subject to the following conditions, that is he:

- (a) is registered person under Section ----, GST Act 201X.
- (b) has made all returns which he is required to make under the Act and has paid to the Director General all such sums shown as due on those returns and on any assessment made under section ---- of the Act.
- (c) has not in the three years preceding the date of his application for approval:
  - (i) been convicted of any offence under the Act, the RMCD Act 1967 or Excise Act 1976
  - (ii) accepted any offer of compound under section ---- of the Act, under the RMCD Act 1967 or Excise Act 1976; or
  - (iii) had his approval revoked under subsection ---- of the Act.

## Non application for payment basis

21. Even though you have been approved to account GST using the payment basis accounting, you are eligible to claim input tax credit using invoice basis and you also shall account for output tax using the invoice basis under circumstances as below:

(a) Supply of goods or services under:

(i) **Lease agreement.**

This is simply the hire of goods at a (usually low) monthly fee. You will never own the item, but must keep up the payments for the term of the contract to avoid having the goods repossessed and being sued for the outstanding debt.

### **Example 9:**

*Ali Sdn. Bhd. and Ahmad Sdn. Bhd. are GST registered person. Both of them has been approved to use payment basis to account for GST. On 1 May 2016, they enter into a lease agreement, where Ali Sdn. Bhd. agree to lease a machine to Ahmad Sdn. Bhd. for 2 years, and Ahmad Sdn. Bhd. will need to make monthly payment to Ali Sdn. Bhd. Under this circumstance, Ali Sdn. Bhd. shall account for output tax using invoice basis for the supply of leased machine. Ahmad Sdn. Bhd. are eligible to claim input tax credit using invoice basis for the leased machine.*

(ii) **hire purchase agreement**

Under this arrangement, you will pay monthly instalments to hire the item, but will not legally own it until the final instalment has been paid. This type of agreement may also give you the option to buy with a lump sum at the end of the period.

(iii) **credit sale agreements. (Finance options for the purchase of goods and services)**

This is the most common type of financing option when purchasing high-priced goods and services such as electronic goods, or home improvements. It is basically a loan to cover the purchase price of the item, with the loan paid back in equal monthly instalments over several months or even years. The consumer (the 'debtor') may pay a large initial deposit (such as with the purchase of a car), or not pay anything at all for the first year or two. Either way, you will legally own the goods as soon as the credit sale agreement is made, even if you have paid nothing at all.

If a registered person has been approved to use payment basis and make supply of goods or services under lease, hire purchase or credit sales agreement, they will also be subject to invoice basis.

- (b) where a tax invoice is issued and full payment of the amount shown on the invoice is not due for the period in excess of six months from the date of the issue of the invoice.

**Example 10:**

*DEF Mini Market Sdn. Bhd. accounts GST on a quarterly taxable period and has been approved to account GST on payment basis, issued an invoice to Ahmad Enterprise on supply of 10 units of rice cookers for RM3,000 and GST (6%) RM180 on 1 Jan 2016. Ahmad Enterprise has not made any payment on the invoice until 30 June 2016. DEF shall account the invoice amount and pay the GST involved in for the April - June taxable period.*

- (c) tax invoice is issued in advance of the delivery or making available of the goods or the performance of the services as the case may be.

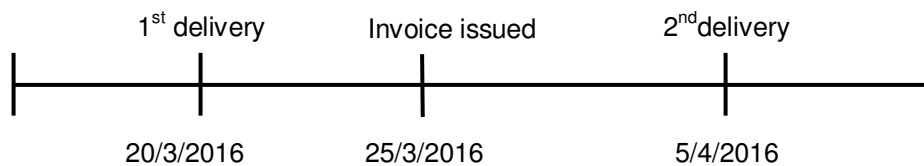
**Example 11:**

*DEF Mini Market Sdn. Bhd. account GST on a quarterly taxable period and has been approved to account GST on payment basis, issued an invoice to Ahmad Enterprise on supply of 5 units sandwich makers for RM2,000 and GST (6%) RM120 on*

*15 March 2016. However the goods were delivered and payment made on 10 April 2016. DEF shall account the invoice amount and pay the GST involved in the Jan - Mac taxable period.*

- (d) In certain circumstances, a registered person needs to account for GST using both method (i.e. payment and invoice basis) on the same invoice if involving delivery or making available of the goods or services before and after the issuance of the invoice. If part of the invoice relates solely to the delivery or making available of the goods or services before the issuance of the invoice, the registered person shall account GST for that portion on the payment basis. If part of the invoice relates solely to the delivery or making available of the goods or services after the issuance of the invoice, registered person shall account for GST that portion on the invoice basis.

**Example 12:**



*DEF Mini Market Sdn. Bhd. is a registered person under GST and is subject to quarterly taxable period. DEF, who has been approved to account for GST on payment basis, issued an invoice to Ahmad Restaurant on the supply of 35 boxes (5kg) of Milo (RM20 each) for RM700 and GST (6%) RM42 on 25 March 2016. Before issuing the invoice DEF has already made a delivery of 15 boxes of Milo to Ahmad Restaurant on 20 March 2016 and payment also has been made on the same day for 15 boxes of Milo. The second delivery of 20 boxes of Milo was made on 5 April 2016 and payment for the outstanding balance has been made on the same day. In the Jan - March 2016 taxable period, DEF has to account and pay GST **RM42.00** for this transaction.*

	1 <sup>st</sup> delivery 20/3/2016	2 <sup>nd</sup> delivery 5/4/2016
Accounting basis	Payment	Invoice
Taxable period	Jan - March	Jan - March
GST @ 6% (RM42)	6% x (15 boxes x RM20) = RM18	6% x (20 boxes x RM20) = RM24

From on the above example, DEF needs to account for GST on second delivery of the goods in the Jan - March based on the invoice basis (i.e. invoice date), even though goods has been delivered and payment has been received on 5 April 2016.

## REVOCATION THE PAYMENT BASIS ACCOUNTING

22. RMCD may, by notice in writing, revoke an approval of the Payment Basis if the approved person has;

- (a) changed his nature of business.
- (b) applied to account for GST under invoice basis
- (c) claimed input tax by using invoice basis; or
- (d) provided any false, misleading or inaccurate declaration or information in his application for approval to use payment basis.

23. RMCD may also revoke the approval to use payment basis if RMCD discovers that the approved person has conducted any action that may affect the revenue collection to the Government (i.e. fraud, tax evasion and etc.).

## Responsibilities of the registered person if his approval has been revoked

24. Once your approval has been revoked, you must:



- (i) account for all of the outstanding GST in the period which you had been approved to account for payment basis until the date the revocation takes effects.
- (ii) You have to submit your tax due and payable according to the payment basis until the revocation date and account for invoice basis after the date of revocation, in the first return after the change takes effect.
- (iii) You have to make adjustment of tax for the change in accounting basis as a result of the revocation on the effective date and the amount can be determined using the formula in Para 34.

## **CHANGING YOUR ACCOUNTING BASIS**

25. You can apply in writing to the RMCD at any time to change your GST accounting basis. RMCD will notify you of whether they have approved your application and, if it is approved, of when you can change to the new accounting basis. In some circumstances you may be required to change your accounting basis. This will be the case if you have been using the payments basis and your annual turnover increases to more than RM1 million (unless the increase was caused by selling or replacing any plant or asset, or caused by reducing the scale of your taxable activity). If this occurs then you must inform RMCD in writing within 30 days and you will be required to change to the invoice basis.

26. If you change your accounting basis, RMCD will inform you of adjustments that you will need to make in your final GST return that uses the old basis. If you effect a change in your accounting basis, there will be some supplies or creditable acquisitions that will be attributed twice (where you start to account on a payment basis), and other supplies and creditable acquisitions that will not be attributed at all (where you cease to account on a payment basis).

27. You have to make a calculation of the adjustments for the outstanding debtors and creditors. You must record these adjustments and keep this document for audit purpose before including these in the corresponding adjustment on your GST return.

28. The table below explains what you need to do after you change from one GST accounting basis to another.

If you changed from...	then you
Payment to invoice	<p>Must pay the difference if GST on debtors is higher than GST on creditors. Include the amount in the total adjustments in item 7(b) on your GST03 return.</p> <p>Will get a credit if GST on creditors is higher than GST on debtors. Include the amount in the total credit adjustments in item 8(b) on your GST03 return.</p>
Invoice to payment	<p>Must pay the difference if GST on creditors is higher than GST on debtors. Include the amount in the total adjustments in item 7(b) on your GST03 return.</p> <p>Will get a credit if GST on debtors is higher than GST on creditors. Include the amount in the total credit adjustments in item 8(b) on your GST03 return.</p>

### **Adjustment for Change in Accounting Basis**

29. If there is a change in accounting basis from invoice basis to payment basis or otherwise and approved by the Director General of RMCD, an adjustment must be made. Basically, on a payment basis, GST will be calculated when the supply have been paid by the customer / buyer, while on invoice basis, GST should be accounted for when the invoice is issued. The time to recognize when supply is earned and when tax due and payable is the major difference between these two basic accounting.

30. Approved person shall be required to provide the following:-

- (a) List of creditors for the acquisition showing the amount payable on the last day of the taxable period in which the approval exchange takes effect.
- (b) List of debtors for the taxable supply showing the amount receivable on the last day of the taxable period in which the approval of accounting basis changes takes effect. Calculating the tax payable or refundable input tax and make adjustments in the first return for the taxable period after the effective date (i.e. after change of accounting basis takes effect).

### **Change of Accounting Basis from Invoice Basis to Payment Basis**

31. In making the transition from reporting your GST figures on an invoice basis to a payment basis, care needs to be taken that some figures are not reported twice in the transition GST period. This is because when reporting in the previous GST period to when the change is made, all recorded sales and purchase invoices would have been reported on the GST return regardless of whether or not they had been paid. The danger is that the invoices that were not paid in the prior GST period may be re-counted on a future GST return when they are paid after the transition date.

### **How do I complete my GST Return correctly after converting to a Payment Basis?**

32. In order to avoid double counting, the GST return will need to be filled out and checked manually for a period of time.

- (a) Print off a **GST** return for the first GST period after converting to the payment basis. Make sure that the correct date range is chosen. For example, if you are converting from invoice to payment reporting on 1 July 2016, and you report GST quarterly, you would chose the return for the September 2016 quarter. This return will show all of the amounts paid against sales and purchases invoices as well as the GST collected and paid during the GST taxable period.
- (b) Print off the List of Receivables and List of Payables reports, filtered for the last day of the month that was the last month where you reported

your GST on an invoice basis. In the example above, you would filter the reports on 30 June 2016. These returns will show all outstanding sales and purchases as at that date, in other words sales and purchases that had not been paid at that point in time.

- (c) Compare the GST return with the List of Receivables and List of Payables reports. Identify any sales or purchases that were outstanding as at the transition date against which payments have been made in the first GST period after the transition to payment reporting. These payments will show in the GST return. Cross off these payments and the associated GST collected and paid on the GST return, because they have already been reported in a previous period. Any amounts that are left on this return will then need to be transferred (or adjusted) to the GST being reported on a payment basis.

This process will need to be repeated in future periods until all outstanding invoices as at the transition date have been paid or otherwise written off.

33. Output tax adjustments should be done by registered persons in the first GST03 return after the effective date of the change in accounting basis from invoice basis to payment basis are:

Adjustment = A - B

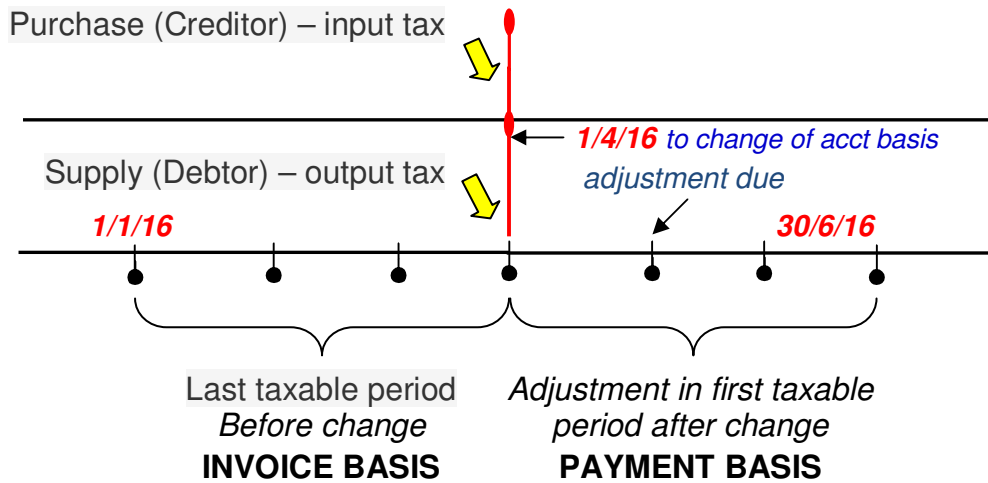
A - the aggregate amount of input tax that can be claimed from the total credit purchase (amount due/payable) as in the creditors list on the last day of the taxable period on invoice basis.

B - the aggregate amount of output tax to be paid from the total supply made (amount due/receivable) as in the list of debtors on the last day of the taxable period on invoice basis.

**Example 13:**

*XZ Sdn. Bhd. has been accounting for tax payable on invoice basis and approved to change to payment basis with effect from 1 April 2016. Last taxable period before the exchange date is 1 January 2016 to 31 March 2016.*

Date of Change in Accounting Basis



Suppose XZ given approval to change the accounting basis from invoice basis to payment basis effective on 1 April 2016. XZ had an amount due on purchase of raw materials that have not been paid to creditors of RM59,000 on 31 March 2016. At the same time he had debtors that have not settled debts amounting to RM25,000.

List of creditors at 31 March 2016 are as follows:-

<b>Creditors</b>	<b>RM</b>
MN Sdn. Bhd.	10,000.00
ABC Sdn. Bhd.	22,000.00
UK Sdn. Bhd.	13,000.00
NZ Sdn. Bhd.	14,000.00
<b>Total (inclusive GST)</b>	<b>59,000.00</b>

aggregate input tax = RM3,339.62 (A)

List of debtors on 31 March 2016 are as follows:-

<b>Debtors</b>	<b>RM</b>
Amin Sdn. Bhd.	11,000.00
USJ Sdn. Bhd.	8,000.00
EJA Sdn. Bhd.	2,000.00

to calculate input/output at 6%

<i>USA Co. Bhd.</i>	<i>4,000.00</i>	
<b>Total (Inclusive GST)</b>	<b>25,000.00</b>	<i>aggregate output tax = RM1,415.09 (B)</i>

$$\begin{aligned}
 \text{Adjustment of tax payable} &= A - B \\
 &= \text{input} - \text{output} \\
 &= \text{RM3,339.62} - \text{RM1,415.09} \\
 &= \text{RM1,954.53}
 \end{aligned}$$

*NOTE: The adjustment value (A - B) above shall be account in the first taxable period after the operative date of the change in accounting basis (payment basis). If XZ received a payment of RM40,000 on the supply in same taxable period, and pay the cost of raw materials in the same taxable period RM30,000, assuming there is no other adjustments involved, the tax payable are:-*

$$\begin{aligned}
 \text{Tax Payable} &= (\text{output} - \text{input}) \times 6/106 + \text{Adjustment} \\
 &= (\text{RM40,000} - \text{RM30,000}) \times 6/106 + \text{RM1,954.53} \\
 &= \text{RM566.04} + \text{RM1,954.53} \\
 &= \text{RM2,520.57 (Calculate on 6\%)}
 \end{aligned}$$

### **Change of Accounting Basis from Payment Basis to Invoice Basis**

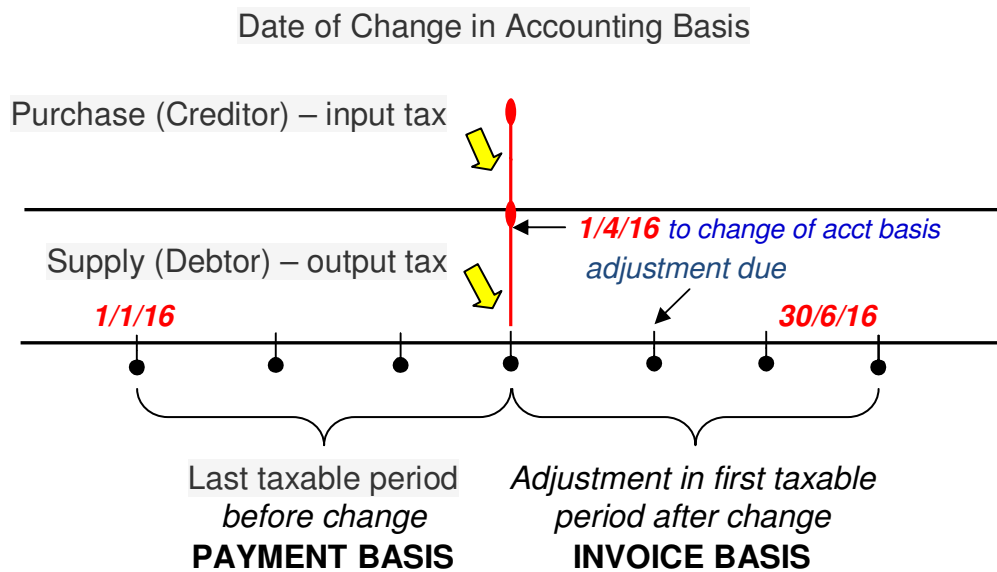
34. If making the transition from reporting your GST figures on a payment basis to an invoices basis, care needs to be taken that some figures are not left out on the GST. Returns that are prepared after the transition date. This is because when reporting in the GST periods prior to the transition, supplies, acquisitions, output tax and input tax was only reported when payments were received and made in cash during those periods. The danger is that invoices that were not paid during the cash reporting period may not be included on future invoice based GST Returns when they are paid after the transition date.

## How do I complete my GST Return correctly after converting to an Invoices Basis?

35. In order to avoid not reporting all the necessary figures, the GST Return will need to be filled out and checked manually for the first GST period after the transition.

- (a) Print off the List of Receivables and List of Payables reports, filtered for the last day of the month that was the last month that you reported your GST on a payment basis. These reports will show any outstanding invoices at the point of conversion.
- (b) Because none of these invoices will have been included on prior GST returns, they will need to be added on to the first GST that is completed on an invoices basis. This will entail including the acquisitions, supplies, and their associated GST collected and paid amounts.

### Example 14:



Suppose XZ has been given approval to change the accounting basis from payment basis to invoice basis effective on 1 April 2016. XZ had an amount due on purchase of raw materials that have not been paid to creditors of RM59,000 on 31 March 2016. At the same time he had debtors that have not settled debts amounting to RM25,000.

List of creditors at 31 March 2016 are as follows: -

<b>Creditors</b>	<b>RM</b>	
MN Sdn. Bhd.	10,000.00	
ABC Sdn. Bhd.	22,000.00	
UK Sdn. Bhd.	13,000.00	
NZ Sdn. Bhd.	14,000.00	
<b>Total</b>	<b>59,000.00</b>	aggregate input tax = RM3,339.62 (A)

List of debtors on 31 March 2016 are as follows: -

<b>Debtors</b>	<b>RM</b>	
Amin Sdn. Bhd.	11,000.00	
USJ Sdn. Bhd.	8,000.00	
EJA Sdn. Bhd.	2,000.00	
USA Co. Bhd.	4,000.00	
<b>Total</b>	<b>25,000.00</b>	aggregate output tax = RM1,415.09 (B)

$$\begin{aligned}
 \text{Tax Adjustment Refundable} &= \mathbf{B - A} \\
 &= \text{output} - \text{input} \\
 &= \text{RM1,415.09} - \text{RM3,339.62} \\
 &= (\text{RM1,954.53})
 \end{aligned}$$

NOTE: The adjustment value (B – A) above shall be account in the first taxable period after the operative date of the change in accounting basis (payment basis). If XZ receive a payment of RM40,000 on the supply in same taxable period, and pay the cost of raw materials in the same taxable period RM30,000.00, assuming there is no other adjustments involved, the tax payable are: -

$$\begin{aligned}
 \text{Tax Payable} &= (\text{output} - \text{input}) \times 6/106 + \text{Adjustment} \\
 &= (\text{RM40,000} - \text{RM30,000}) \times 6/106 + (\text{RM1,954.53}) \\
 &= \text{RM566.04} - \text{RM1,954.53}
 \end{aligned}$$



= (RM1,388.49)

*As the amount of tax payable is negative, XZ can claim refund RM1,954.53.*

## **ADDITIONAL RECORD KEEPING FOR THE PAYMENT BASIS ACCOUNTING**

36. Changing to payment accounting does not mean you can just keep a record of your payment position - you must also keep track of debtors and creditors, so you know the real position with regard to what you owe and are owed. You need this information for adjustment purposes. In addition to keeping all required GST records and accounts for standard GST accounting, you must also use the following procedures for sales and purchases.

### **Tax Invoices**

37. If you receive payment from your customer you must, if asked, endorse the customer's copy of your sales invoice with the amount and date paid. If you are making payment to your supplier for the settlement of an invoice, you must keep a copy of the purchase invoice endorsed with the amount and date paid.

### **Payment records**

38. Your records must clearly cross-refer payments received or made by you to the corresponding sales or purchase invoices. You must also make sure that you cross-refer these payments and receipts to evidence such as bank statements, cheque stubs and paying-in slips.

### **List of Debtors and Creditors**

39. In both accounting basis it is important for the taxable person to maintain proper records for Accounts Receivables and Payables. It will be the responsibility of the person approved to maintain a proper and complete record. When there is any change in accounting basis, this documents is very important for the process of making adjustment as a result of any changes or when required for audit purposes.

## **THE ADVANTAGES AND DISADVANTAGES OF THE PAYMENT BASIS ACCOUNTING**

### **Benefits of payment basis accounting**

40. Using payment basis accounting may help your payment flow, especially if your customers are slow in making payments. You do not need to pay GST until you have received payment from your customers. So if a customer never pay you, you donot have to pay GST on that bad debt as long as you continue to use the Payment Basis Accounting.

### **Disadvantages of payment basis accounting**

41. Depending on your own nature of business and nature of accounting circumstances, there may be some disadvantages to using payment basis accounting:

- (a) You cannot reclaim GST on your purchases until you have paid your suppliers. This can be a disadvantage if you buy most of your goods and services on credit.
- (b) If you regularly reclaim more GST than you pay, you will usually receive your repayment later under payment basis accounting than under standard GST accounting, unless you pay for everything at the time of purchase.
- (c) If you start using payment basis accounting when you start trading, you will not be able to reclaim GST on most start up expenditure, such as initial stock, tools or machinery, until you have actually paid for those items.
- (d) If you leave the Payment Basis Accounting you will have to account for all outstanding GST due.

## **FREQUENTLY ASKED QUESTIONS**

### **Q1. How to apply for payment basis?**

- A1. Registered person has to apply for approval to account for payment basis in Application Form GST01. DG will issue approval in writing stating all requirements as according to the payment basis conditions.

Once approved, you can start to use payment basis accounting and continue to do so for a period of 3 years or until your GST taxable turnover reaches RM1 million.

**Q2. How to account GST?**

- A2. There are two main methods you can prepare your GST returns based on and these are:

(a) **Payments basis** - This is when you prepare your GST return based on all the income you have received and expenses that you have paid for the GST taxable period. This is the easiest method to use for calculating GST returns. Provided you are 'approved person' in accordance with subsection ---- of the GST Act 201X.

(b) **Invoice basis** - This is when you prepare your GST return based on all the income you have received and expenses that you have paid for the GST period PLUS how much your debtors (customers) owe you at the end of the GST period LESS how much your credit owed you at the beginning of the GST period. The same applies for creditors (suppliers) including who you owed at the end of the GST period less who you owed at the start of the GST period. This is the most complex method to use for preparing your GST returns and it is compulsory to use this method if your turnover is over RM1 million per year.

**Q3. What will cause revocation of approval to account on payment basis?**

- A3. RMCD may by notice, revoke your approval from using the Payment Basis Accounting for a number of reasons including:

(a) There is a change in the nature of business.

(b) You notify in writing to leave the Payment Basis Accounting at the end of any GST accounting period. You can rejoin at the beginning of any GST accounting period, provided you meet the criteria at that point in time.

- (c) If approved person not claiming input tax using payment basis.
- (d) If there is any inaccurate information in application for approval.
- (e) You must notify RMCD if your GST taxable turnover is over RM1 million a year and after revocation in writing by RMCD you should account for GST using invoice basis.
- (f) In the event of any offense such as :
  - if you calculate your GST incorrectly
  - if you are convicted of a GST offence
  - if you are assessed for a penalty for GST evasion
- (g) In the event of death, liquidation, bankruptcy, cessation of business, cessation to be registered and etc.
- (h) Transferred business as a going concern and Subsection ---- of the Act does not apply (not becoming a registered person as a result of transfer).

**Q4. What you have to do when your approval has been revoked?**

A4. Once approval has been revoked, you have to:

- (a) account for all of the outstanding GST in the period which you had been approved to account for payment basis till the date the revocation take effects.
- (b) You have to submit your tax due and payable according to the payment basis until the revocation date and account for invoice basis after the date of revocation, in the first return after the change takes effect.
- (c) You have to make adjustment of tax for the change in accounting basis as a result of the revocation on the effective date and the amount can be determined using the formula in Para 35.

**Q5. What is the treatment (payment basis) for taxable supply that has not been received any payment more than six months?**

- A5. If the taxable person has issued tax invoice and has not received any payment or part of payment in respect to taxable supply, six months from the date of supply:
- (a) the taxable person has to account and pay the respected amount to RMCD in the taxable period after that six months has elapsed.
  - (b) He is eligible to claim a relief for bad debt by declaring the correct amount in the appropriate box in the GST03 return depending on the specified conditions.

## **FEEDBACK AND COMMENTS**

42. Any feedback or comments will be greatly appreciated. Please email your feedback or comments to either Mohd Hisham B. Mohd Nor (m\_hisham.nor@customs.gov.my) or Aminul Izmeer B. Mohd Sohaimi (izmeer.msohaimi@customs.gov.my).

## **FURTHER ASSISTANCE AND INFORMATION**

43. Further information can be obtained from:
- (a) GST Website : [www.gst.customs.gov.my](http://www.gst.customs.gov.my)
  - (b) GST Hotline : 03-88822111
  - (c) Customs Call Centre :
    - Tel : 03-78067200/ 1-300-888-500
    - Fax : 03-78067599
    - E-mail : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)