SST IMPLEMENTATION BRIEFING SESSION

PROPOSED SALES TAX IMPLEMENTATION MODEL

Royal Malaysian Customs Department
CONTENT OF BRIEFING

- Proposed Legislation
- Scope And Charge
- Sales Tax Mechanism
- Interpretation Of Manufacture
- Taxable Person
- Taxable Goods
- Rate Of Tax
- Sales Tax Valuation
- Taxable Services

- Registration
- Returns / Payment
- Exemption & Facilities
- Special Rules
- Accounting
- Miscellaneous
Proposed Sales Tax Legislation

Act
- Sales Tax Act 2018

Regulations
- Sales Tax Regulations 2018
- Sales Tax (Customs Ruling) Regulations 2018
- Sales Tax (Rules of Valuation) Regulations 2018
- Sales Tax (Compounding of Offences) Regulations 2018

Order
- Sales Tax (Amount Of Sale Value Of Taxable Goods Manufactured) Order 2018
- Sales Tax (Rates Of Tax) 2018
- Sales Tax (Goods Exempted From Sales Tax) Order 2018
- Sales Tax (Person Exempted From Sales Tax) Order 2018
- Sales Tax (Exemption From Registration) Order 2018
- Sales Tax (Imposition of Tax In Respect Of Designated Areas) Order 2018
- Sales Tax (Imposition Of Tax In Respect Of Special Areas) Order 2018
- Sales Tax (Appointment of Date of Coming Into Operation) Order 2018
SCOPE AND CHARGE

Sales tax is a tax charged and levied –

- on taxable goods manufactured in Malaysia by a taxable person and sold, used or disposed by him;
- on taxable goods imported into Malaysia.

Sales tax is not charged on:
- goods listed under Proposed Sales Tax (Goods Exempted From Sales Tax) Order;
  - certain manufacturing activities are exempted by Minister of Finance through Proposed Sales Tax (Exemption From Registration) Order.

*Note: Malaysia excludes designated area and special area*
HOW SALES TAX WORKS?

Manufacturer → Wholesaler → Retailer → Consumer

Govt collects tax at the manufacturer’s level only

Element of sales tax embedded in the price paid by consumer
Manufacture defines as a *conversion of materials by manual or mechanical means into a new product by changing the size, shape, composition, nature or quality of such materials* and includes the assembly of parts into a piece of machinery or other products. However, manufacture does not include the installation of machinery or equipment for the purpose of construction.

In relation to petroleum, any process of separation, purification, conversion, refining and blending.
Taxable person is a person who manufactures taxable goods and is:

- liable to be registered;
  • reached sales threshold
    ➢ Manufacturer - RM 500,000.00
    ➢ Sub-contractor – RM 500,000.00

- registered under Sales Tax Legislation.
  • mandatorily registered
  • voluntarily registered
Goods which are not exempted by Minister of Finance through Proposed Sales Tax Exemption Order will be charged sales tax at various rates prescribed.

Sales tax is an *ad valorem* tax and different rates apply (Proposed 5% and 10%) based on group of taxable goods as indicated in the provision.

Sales tax for petroleum is charged on a *specific* rate which is different from other taxable goods.
SALES TAX VALUATION

Sales value of locally manufactured goods will be determined based on Proposed Sales Tax (Rules of Valuation) Regulations 2018.

Sales value of taxable good imported into Malaysia represent the sum of the followings:

- The customs value;
- The amount of customs duty paid or to be paid;
- The amount of excise duty paid or to be paid.
SALES TAX REGISTRATION

Liability To Register

• Taxable goods manufacturers are required / liable to be registered when;
  
  – SALES VALUE OF TAXABLE GOODS has exceeded RM500,000 for 12 months period;

• Manufacturers who carry out sub-contract work on taxable goods where the VALUE of work performed exceeds RM500,000 for 12 months period.
  
  – Taxable goods belong to:
    ❖ Registered manufacturer, non registered manufacturer and manufacturer in special area (FIZ and LMW).

Note: Registered Person will be known as Registered Manufacturers.
SALES TAX REGISTRATION
Others Registration

- Voluntary registration
  - Taxable goods – below threshold.
  - Persons who are exempted from registration.
SALES TAX REGISTRATION

Determination of Turnover

• Manufacturers should calculate the sales value of taxable goods for a period of 12 months using the following methods:

  i. **Historical Method**;

     The total value of taxable goods in that month and the 11 months immediately preceding the month;

  ii. **Future Method**;

     The total value of taxable goods in that month and the 11 months immediately succeeding the month.
SALES TAX REGISTRATION

Exemption from Registration

• Manufacturer of non taxable goods*.

• Manufacturer below threshold.

• Sub-contractor manufacturer below threshold.

• Manufacturing activities that have been exempted from registration. E.g.:
  - Tailoring
  - Installation incorporation of goods into building
  - Jeweller, optician

* Not eligible for voluntary registration
SALES TAX REGISTRATION

Transitional Registration

- Manufacturer who is liable to be registered is required to register before 1\textsuperscript{st} September 2018.
  - Registration commencement date will be on 1\textsuperscript{st} September 2018.

- **Automatic Registration**
  - Manufacturers who are GST Registered Persons which have been identified and fulfilled the required criteria will be registered automatically as Registered Manufacturer under Sales Tax.
  - Registered Manufacturer need to charge tax beginning 1\textsuperscript{st} September 2018.

- **Persons Not Registered Automatically**
  - GST registered person who fulfilled the required criteria to be registered but were not registered by 1\textsuperscript{st} September 2018 need to apply for registration within 30 days from the commencement date.
RETURN

- Registered manufacturer has to declare SST return every two months according to the taxable period.

- SST return has to be submitted not later than the last day of the following month after the taxable period ended.

- SST Return has to be submitted regardless of whether there is any tax to be paid or not.

- SST Return has to be submitted electronically or by post to SST Processing Centre.
PAYMENT

- Payment of SST has to be made
  - Electronically; or
  - By cheque, bank draft and posted to SST Processing Centre.

- Late payment penalty on the amount of sales tax not paid
  - 10% - first 30 days period.
  - 15% - second 30 days period
  - 15% - third 30 days period

Note:
Maximum penalty 40% after 90 days
EXEMPTION AND FACILITIES

Exemption from Sales Tax:

- **Goods** – Proposed Sales Tax (Goods Exempted From Sales Tax) Order 2018
  - E.g. Live animals, unprocessed food, vegetables, medicines, machinery, chemicals, etc. ([List of Proposed Goods Exempted From Sales Tax](#))

- **Person** – Proposed Sales Tax (Person Exempted From Sales Tax) Order 2018
  - Schedule A: class of person, e.g. Ruler of States, Federal or State Government Department, Local Authority, Inland Clearance Depot, Duty Free Shop
  - Schedule B: Manufacturer of specific non taxable goods – exemption of tax on the acquisition of raw materials, components, packaging to be used in manufacturing activities
  - Schedule C: Registered Manufacturer – exemption of tax on the acquisition of raw materials, components, packaging to be used in manufacturing of taxable goods (replacing CJ5, CJ5A, CJ5B)

Exemption from Registration:

- Manufacturing activities exempted from registration regardless of turnover
  - E.g. Tailor, Jeweler, Optician, engraving, vanishing table top, etc.
## SPECIAL RULES
### Treatment in Designated Area (DA)

<table>
<thead>
<tr>
<th>Designated Area (not deemed outside Malaysia)</th>
<th>Labuan, Langkawi and Tioman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing activities in DA</td>
<td>Proposed Sales Tax Act does not apply to DA except for petroleum</td>
</tr>
</tbody>
</table>
| Importation into DA (world to DA)           | Exemption from Sales Tax except:  
- Langkawi: Importation of marble, petroleum and anchovies  
- Tioman: Importation of petroleum and motor vehicles  
- Labuan: Importation of petroleum |
| Removal of Goods                            | - From PCA to DA – deemed export, no sales tax  
- From DA to PCA – deemed import, subject to sales tax  
- To/from DA to DA – no sales tax  
- To/from DA to SA* – no sales tax |

* Special Area = Free Zone, Licensed Warehouse, Licensed Manufacturing Warehouse and Joint Development Area (JDA)  
** Treatment for services will be discussed in Service Tax briefing
**SPECIAL RULES**

Treatment in Special Area (SA)

<table>
<thead>
<tr>
<th>Special Area</th>
<th>Free Zone, Licensed Warehouse, Licensed Manufacturing Warehouse and Joint Development Area (JDA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing activities in SA</td>
<td>Proposed Sales Tax Act does not apply to SA</td>
</tr>
<tr>
<td>Importation into SA (world to SA)</td>
<td>Generally not subject to Sales Tax except for goods in the free zone which may be subjected to Sales Tax provided in the Proposed Special Area Order</td>
</tr>
</tbody>
</table>
| Removal of Goods | - From PCA to SA – deemed export, no sales tax  
- From SA to PCA – deemed import, subject to sales tax  
- To/from SA to SA – no sales tax  
- To/from SA to DA – no sales tax |

**Treatment for services will be discussed in Service Tax briefing**
ACCOUNTING

Issuance of Invoices
- Mandatory for registered manufacturer who sells taxable goods.
- Hard copy or electronically
- Containing prescribed particulars
- Bahasa Melayu or English

Credit Notes and Debit Notes
- registered manufacturer is allowed to issue
- shall make an adjustment in his return
- shall contain the prescribed particulars
ACCOUNTING BASIS AND TAXABLE PERIOD

**Accounting Basis**
- Sales Tax
  - Accrual basis
- Sales Tax required to be accounted:
  - At the time when the goods are sold, disposed or first used

**Taxable Period**
- Bimonthly basis (every 2 months)
- Specific basis

<table>
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<tr>
<th>Filing Frequency</th>
<th>Taxable Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Taxable Period - Bimonthly</td>
<td>Sept –Oct 2018</td>
</tr>
<tr>
<td>Subsequent Taxable Period</td>
<td>Nov-Dec, Jan-Feb, Mar-Apr, May-Jun, Jul-Aug, Sep-Oct, ......</td>
</tr>
<tr>
<td>Specific Basis</td>
<td>subject to an approval from the Director General</td>
</tr>
</tbody>
</table>
BAD DEBTS

Bad Debts Claim
- Can be claimed by a registered manufacturer or a person who ceased to be registered manufacturer.
- Shall claim within 6 years from the date the taxable goods is sold.
- Subject to conditions & satisfaction of the DG.
- May claim according to the formula.

Bad Debts Recovery
- Has claimed and received the sales tax refund.
- Payment received from the debtor after bad debts claimed.
- Repay to DG in his return.
- Repay according to the formula.
Records keeping:

- 7 years
- Bahasa Melayu or English
- To be kept in Malaysia, except permitted by DG to kept outside Malaysia
- Can be kept in soft or hard copy
Miscellaneous

Other general provisions provided in the Proposed Sales Tax Act:

- remission
- refund of overpaid tax
- drawback
- penalty for late payment of tax
- other penalty for offences
Proposed Remission of Tax

- **Minister may remit**
  - The whole or any part of sale tax due and payable
- **Director General may remit**
  - The whole or any part of
    - Surcharge
    - Penalty
    - Fee
  - Other money payable under the Act
Proposed Drawback & Refund facilities

- **Drawback:**
  - Full amount of sales tax paid in respect of taxable goods subsequently exported
  - Subject to conditions imposed
  - Application made via prescribed form

- **Refund**
  - Overpaid or Erroneously paid tax
  - Subject to conditions imposed
  - Application made via prescribed form
Proposed Penalty for Late Payment

- **Late Payment Penalty**
  - Maximum of 40%
Proposed Penalty on offences

- **Evasion of Sales Tax**
  - 1\(^{st}\) offence – either or both
    - ✓ Fine
      - Minimum 10X Sales Tax amount
      - Maximum 20X Sales Tax amount
    - ✓ **Imprisonment not exceeding 5 years**
  
  - 2\(^{nd}\) offence – either or both
    - ✓ Fine
      - Minimum 20X Sales Tax amount
      - Maximum 40X Sales Tax amount
    - ✓ **Imprisonment not exceeding 7 years**

- Compound by Customs – not exceeding 50% of maximum fine
Thank you!

Do you have any question