

# Implementation of Malaysia GST - Is Your Business GST Ready?

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On 25 October 2013, Malaysia's Minister of Finance announced the implementation of the Goods and Services Tax (GST), set to begin 1st April, 2015 with a tax rate of 6%. This introduction of GST represents a total reform of the country's current single-stage consumption tax system.

## GST – The Replacement Tax

CURRENT TAX REGIME		GST TAX REGIME
Sales Tax	Service Tax	
<ul style="list-style-type: none"> <li>Single stage tax at manufacturer's</li> </ul>	<ul style="list-style-type: none"> <li>Single stage tax on prescribed services</li> </ul>	<ul style="list-style-type: none"> <li>Multi-stage &amp; broad based consumption tax</li> </ul>
<ul style="list-style-type: none"> <li>No input tax credit</li> </ul>	<ul style="list-style-type: none"> <li>No input tax credit</li> </ul>	<ul style="list-style-type: none"> <li>Recoverable input tax credit</li> </ul>
<ul style="list-style-type: none"> <li>Ad Valorem (5% - 10%) &amp; specific rates (dependent on products)</li> </ul>	<ul style="list-style-type: none"> <li>6%</li> <li>No tax on imported services</li> </ul>	<ul style="list-style-type: none"> <li>6% (unless exempt or zero-rated)</li> <li>Tax on imported services</li> </ul>

## What is GST?

GST which is also known as VAT or the value added tax in many countries, is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

## What does GST apply to?

GST is charged on any taxable supply of goods and services made in the furtherance of any business by a GST registered person in Malaysia. It is also charged on the importation of goods and services into Malaysia.

As a broad-based tax, GST will be applied at the standard rate (6%) by default unless a provision states that a supply can be treated differently. This approach means there is no list of what is treated as standard-rated (unlike in the current system). Instead, the GST allows for some limited reliefs and

exemptions for certain specific goods and services to be zero-rated, exempt or out-of-scope of GST as follows:

- Examples of zero-rated supplies - certain agricultural products, foodstuffs, water supplied to domestic consumers, exports of goods and international services
- Examples of exempt supplies - domestic public transport, residential property, private health care and private education, and certain financial services
- Examples of out-of-scope activities - a transfer of a business as a going concern and government services

### **Who needs to charge GST?**

Not all businesses will be required to charge GST, as some small businesses will be excluded from the obligation to register. The turnover threshold for GST registration is RM500,000. A business will also be obliged to register at any time if this registration threshold is expected to be breached. Therefore, for large companies, GST registration will likely be required from the start of operations.

### **How will implementation of GST affect your business?**

GST is not just a tax matter, it is a business issue. When GST is introduced, sectors of the economy which are currently not covered under the Sales and Service Tax may be affected by GST. Furthermore, the complex nature of the different types of supplies and its treatment may make it more cumbersome for some businesses.

The implementation of GST would impact your pricing strategy, contractual obligations (especially long term), operational processes including accounting, finance, procurement and IT; and certainly tax compliance. Hence, departments including Accounting, IT, Marketing, Legal, Procurement, Human Resources, Administration and Tax will certainly be affected. Getting GST wrong may result in penalties.

### **Key Facts about Malaysia GST**

- The GST Rate will be 6% from 1st April 2015.
- It is mandatory for companies with an annual turnover of >RM500K to register for GST.
- Companies with an annual turnover of < RM500k have the option to voluntarily register for GST. Some business will find this beneficial if they deal primarily with GST registered businesses
- Voluntary Registration starts 1st June 2014.
- Companies with an annual turnover of > RM5 million have to file monthly GST returns.
- Companies with an annual turnover of < RM5 million have to file quarterly GST returns.
- Filing incorrect GST return will result in a penalty of RM50, 000 and/or imprisonment for a term not exceeding 3 years.

## How can we help you to be GST ready?

We assist both local and international clients to manage their compliance with all aspects of the GST tax system in relation to doing businesses in Malaysia. Our GST services include attending to routine compliance matters to complex transactions arrangements. These services include:

- GST planning and consultancy
- Defining GST implication on supply chain / transaction flows
- Formulating GST implementation road map
- GST procedures manual / checklists
- Customised in-house training
- GST accounting system integration
- Application for GST registration
- Preparation of GST returns
- Annual GST health check / compliance check

## Contact us

**Boardroom Business Solution Sdn Bhd**  
1202, Level 12, Uptown 1, No.1 Jalan SS 21/58,  
Damansara Uptown, 47400 Petaling Jaya, Selangor.  
T: +60-3-7661 8588  
F: +60-3-7661 8577

### **Chester Leong**

Head of Tax Services

T: +65 6230 9680 / +60-3-7661 8588

E: [chester.leong@boardroomlimited.com](mailto:chester.leong@boardroomlimited.com)

### **Crystyl Lim**

GST Tax Manager

T: +60-3-7661 8509

E: [crystyl.lim@boardroomlimited.com](mailto:crystyl.lim@boardroomlimited.com)

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Our smart business solution suite comprises the following services:

- Taxation
- Accounting & Finance
- Business Advisory
- Corporate Secretarial
- Human Resource & Payroll
- Internal Audit & Risk Management
- Share Registry Services

## **Cautionary Note**

This summary of Goods and Services Tax update has been prepared to keep you informed of recent developments in the tax environment in Malaysia.

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