



# **ROYAL MALAYSIAN CUSTOMS**

## **GOODS AND SERVICES TAX**

### **GUIDE ON DIRECT SELLING**

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## INTRODUCTION

1. This industry guide is prepared to assist businesses in understanding matters with regards to GST treatment on direct selling.

### Overview of Goods and Services Tax (GST)

2. Goods and Services Tax (GST) is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except those specifically exempted. GST is also charged on importation of goods and services into Malaysia.

3. Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, only the value added at each stage is taxed thus avoiding double taxation.

4. In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as a “registered person”. A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

## GST TREATMENT FOR THE INDUSTRY

5. Direct selling is a method of marketing and retailing **exclusive products** (personal property) from Direct Selling Company (DSC) direct to consumers through distributors or stockists. It includes sales made through party plans, one-on-one demonstrations and other personal contact arrangements. The distributor initiates contract with the potential customer instead of waiting for the customer to come to a store or place of business. It does not rely on product advertisement, fixed retail outlets or direct mail.

6. Since direct selling is part of retail activities, this guide should be read together with ***Retailing Guide***, ***GST General Guide*** and ***Guide on Tax Invoice and Records Keeping***.

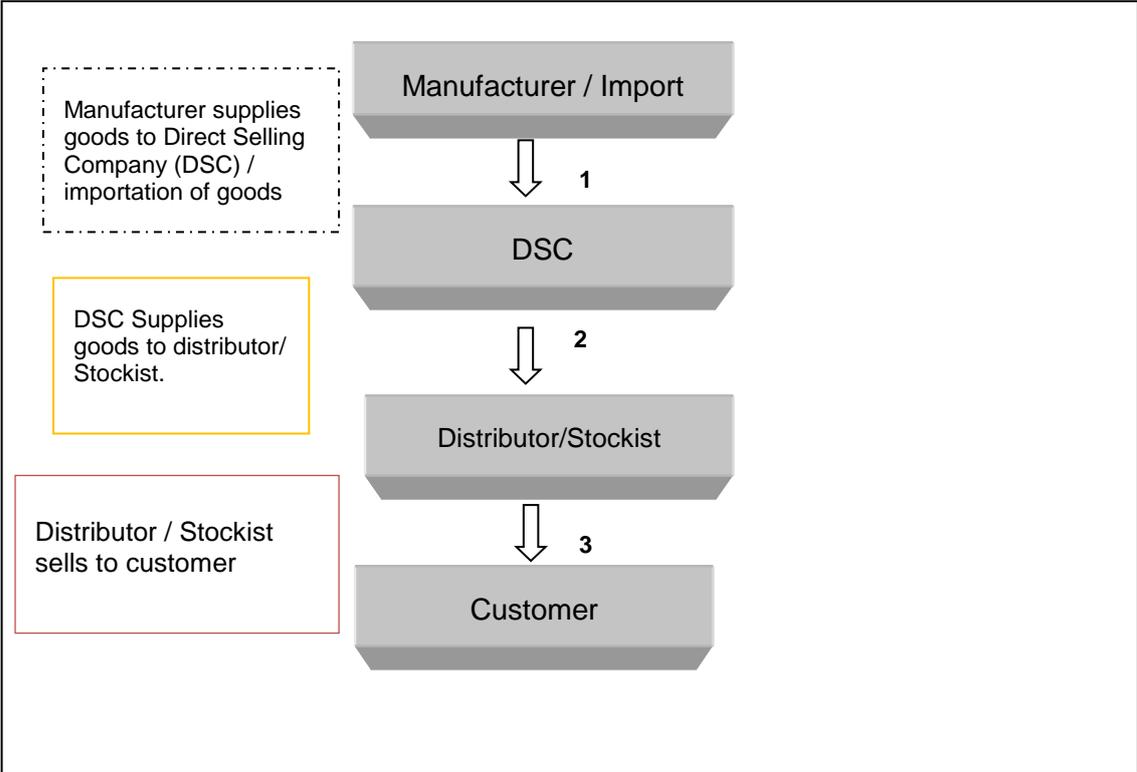
7. GST will be charged on all taxable supplies of goods made by a GST registered DSC, distributor or stockist. The GST charged is called an output tax. The DSC, distributor or stockist who are not registered persons cannot charge GST for their supplies to their customers and they are not allow to claim input tax if incurred on purchases from a GST-registered supplier.

8. The GST registered DSC, distributor or stockist are liable to account all the input tax claimable and output tax payable for a particular taxable period in a GST return. If the aggregate of output tax is greater than the aggregate of input tax in a taxable period, the net tax is payable to the Customs. If the aggregate of input tax is greater than the aggregate of output tax, then the difference will be refunded to DSC, distributor or stockist.

9. Normal GST rules apply to direct selling. If a manufacturer is a registered person, he will charge GST on the supply made to a DSC. The registered DSC will also charge GST on the supply of goods to the distributor or stockist. Similar treatment applies to the distributor or stockist when he supplies goods to his customers.

10. GST is charged on the transaction value of the supply made to a customer. If the supply is made using the recommended retail price (RRP), GST is charged on RRP. However, if the distributor/ stockist sells the supply at the price other than RRP, GST is charged on the transacted price and the transaction must be at arm's length.

Figure 1: Illustration of DSC



**Table 1: GST Treatment on Supplies of Goods in Direct Selling**

Event	Description of event	Treatment
1	<p>Manufacturer supply goods to the DSC.</p> <p><b>Example :</b> Name of product : Outdoor Cooler 8.7 Liter Quantity : 1000 pieces Value : RM64.00 per piece</p>	<p>Manufacturer charge and account GST on the supply of the goods to the DSC.</p> <p>Value of goods RM64,000.00 GST 6% RM 3,840.00 Total RM67,840.00</p> <p>GST to be accounted as output tax : RM3,840.00</p>
2	<p>DSC supply goods to the distributor/ stockist.</p> <p><b>Example :</b> Name of product : Outdoor Cooler 8.7 Liter Quantity : 500 pieces Value: RM76.80/pc (20% mark-up)</p>	<p>DSC charge and account GST on the supply of the goods to the distributor/stockist</p> <p>Value of goods RM38,400.00 GST 6% RM 2,304.00 <b>Total RM40,704.00</b></p>
3	<p>a) Distributor/stockist supply goods to the customer using Catalogue price.</p> <p><b>Example 1 :</b> Name of product : Outdoor Cooler 8.7 Liter Quantity : 2 pieces Price : RM93.60 per piece <b>(GST inclusive)-(Catalog price – RRP)</b> Total price of goods RM187.20</p> <p>b) Distributor/stockist supply goods to the customer using price other than catalogue price.</p> <p><b>Example 2 :</b> Name of product : Outdoor Cooler 8.7 Liter Quantity : 1 piece Price : RM83.20 per piece <b>(GST inclusive)</b></p>	<p>Distributor/stockist charge and account GST on the supply of the goods to the customers</p> <p>GST to be accounted as output tax : RM187.20 x 6/106 =RM10.59</p> <p>Distributor/stockist charge and account GST on the supply of the goods to the customers</p> <p>GST to be accounted as output tax : RM83.20 x 6/106 =RM4.70</p>

## FEES

11. DSC usually charges a start-up fee which primarily covers training material, sales aid or demonstration kits. This fee is subject to GST at a standard rate.

## BONUS POINT, COUPON AND REDEMPTION

12. Bonus point given to a distributor, stockist or a member of DSC redeemable for goods is not subject to GST. The bonus point is treated as a supply of rights given free for redemption in the future.

13. Redemption points or coupons given to a member of DSC when he purchases goods is also not subject to GST.

### **Example 1:**

*NOWAY offers its members redemption points and coupons for the purchase of its products. For every RM50.00 purchase of goods in single receipt, a member will be entitled to one redemption point (RP) or for every RM30.00 purchase of goods; he will be entitled to one redemption coupon (RC). These points and coupons can be used to redeem goods listed in the DSC's catalogue as follows:*

<i>Product:</i>	<i>Spin-Dry Mop</i>
<i>Retail price:</i>	<i>RM130.00 (GST inclusive)</i>
<i>Or</i>	<i>3 RP + RM69.90</i>
<i>Or</i>	<i>20 RC + RM35.90</i>
<i>Or</i>	<i>FREE with 60 RC</i>

*The distributor or stockist charges and accounts GST on the retail price.*

*GST to be accounted as output tax is  $RM130.00 \times (6/106) = RM7.35$*

14. GST is chargeable on the retail price of RM130.00 when the member redeems the goods partly in money and partly with RP or RC.

## DISCOUNTS

15. Sometimes, a distributor / stockist may offer discount to his customers to promote his goods. In this case, GST should be charged on the value of the discounted price.

16. Three types of discounts allowed in the DSC are:

(a) **Price Discount**

**Example 2:**

*A distributor/stockist sells food supplement at a price of RM106 (GST Inclusive) and offers a discount of 10%. The output tax is calculated as follows:*

<i>Price</i>	<i>:</i>	<i>RM106.00</i>
<i>Discount 10%</i>	<i>:</i>	<i>(RM 10.60)</i>
<i>Price after discount</i>	<i>:</i>	<i>RM 95.40</i>
<i>6% GST RM 95.40 x 6/106</i>	<i>:</i>	<i>RM5.40</i>

(b) **Discount involving purchase with purchase**

**Example 3:**

*With every purchase of Sharkly brand of products worth RM280, the customer is eligible to buy multivitamins at a special price of RM31.80 (GST Inclusive). The RRP is RM47.70.*

<i>Price of multivitamins</i>	<i>:</i>	<i>RM31.80</i>
<i>6% GST RM31.80 x 6/106</i>	<i>:</i>	<i>RM1.80</i>

*The distributor/stockist has to account RM1.80 as his output tax.*

(c) **Promotion discount**

*This refers to special discounts on goods that are sold for a certain period e.g. during the festive season sales .If the DSC offers festive season sales up to 30% discounts on certain goods, GST will be charged on the discounted value.*

**Example 4:**

*During Ramadhan season, a DSC offers Ramadhan sets which comprise modular bowl, water dispenser, and floral plates at the price of RM139.30 after a 30% discount from the retail price RM199.00 (GST inclusive)*

<i>Price</i>	<i>:</i>	<i>RM199.00</i>
<i>Discount 30%</i>	<i>:</i>	<i>(<u>RM 59.70</u>)</i>
<i>Price after discount</i>	<i>:</i>	<i>RM 139.30</i>
<i>6% GST RM139.30 x 6/106</i>	<i>:</i>	<i>RM 7.88</i>

*The distributor / stockist has to account RM7.88 as his output tax.*

## **RECOGNITION FOR ACHIEVEMENT**

17. The DSC recognition for achievement is awards i.e. travelling package, dream car or other special gifts are subject to GST at a standard rate.

18. Where an award is in the form of goods and the cost of the goods is more than RM500.00 given to the same person in the same year, the DSC must account for GST on such goods. However, the DSC is entitled to claim input tax incurred on the purchase of the goods.

**Example 5:**

*During an annual dinner the DSC awards a holiday package and a home theater system to Ali who has achieved Senior Executive Sales Leader status. The Pulau Redang Holiday Package is worth RM5000.00 and the LED 55" Smart TV cost RM7000.00.(GST Inclusive)*

*GST treatment as follows:*

- (a) For the Pulau Redang Holiday package, the DSC does not have to account for GST as it is a supply of service given for no consideration.*
- (b) However, the DSC has to account for GST for the supply of the LED 55" Smart TV*

$$\text{GST @6\% } RM7,000 \times 6/106 = RM396.22$$

DSC is entitled to claim input tax incurred on the purchase of the holiday package and LED 55" Smart TV.

## **SAMPLES**

19. The supply of samples are not subject to GST if the following conditions are met:

- (a) the samples must be stamped with the words "**Sample only. Not for sale**";
- (b) the samples must be easily distinguishable from the commercial products;
- (c) neither the supplier nor the retailer charges GST on samples; and
- (d) the samples are given away as a promotional item.

## **TIE-IN GOODS**

20. If a customer purchases tie-in goods, the value of the tie-in goods is treated as being included in the price of the principal goods supplied. The chargeability of GST on the principal goods depends on the taxable status of the principal goods. If the principal goods are zero rated goods, no GST is chargeable on principle goods. However, if the principal goods are standard rated goods, GST is charged at a standard rate.

### ***Example 6:***

*For every purchase of Rice Dispenser (10.5kg) which has a retail value of RM288.00 (GST inclusive), a customer is entitled to a free strainer worth RM35.00. The distributor/stockist has to account RM16.30 (RM288.00 x 6/106=RM16.30) as his output tax. However, the distributor/stockist is entitled to claim input tax incurred on the rice dispenser and the strainer.*

## **BUY-BACK POLICY**

21. In a buy-back policy, a DSC purchases unsold goods or products including promotional materials, sales aids and sales kits from their distributor / stockist before

they cease to be their distributor/stockist .These goods or products will subsequently be sold to another appointed distributor/ stockist. For this exercise, the DSC charges a handling fee of 10% of the net purchase price.

22. For GST purposes, the chargeability of GST on the buy-back policy depends on the status of the distributor / stockist. If the distributor/ stockist is a registered person, he is required to charge GST on the supply of goods or products made to the DSC. If the distributor / stockist is not a registered person, the supply of goods or product made to the DSC is not subject to GST. On the other hand, the DSC is required to charge GST on his handling fee. Both DSC and distributor/stockist are entitled to claim input tax on the acquisitions made (if they are registered persons).

**Example 7:**

*Citing poor sales, a registered stockist decides to cease being a distributor and sells his unsold goods back to the DSC as follows:*

(i). 20 cans bathroom freshener (RM8.00/can)	=RM160.00
(ii). 10 bottles easy iron spray (RM5.50/bottle)	=RM 55.00
(iii). 20 bottles glass cleaner (RM5.20/bottle)	=RM104.00
(iv). 20 bottles multi-purpose cleaner (RM8.40/bottle)	<u>=RM168.00</u>
<i>Sub Total price</i>	<i>=RM 487.00</i>
<i>GST 6%</i>	<i>=RM 29.22</i>
<i>Total value</i>	<b><i>=RM516.22</i></b>

*If the Stockist is a registered person:*

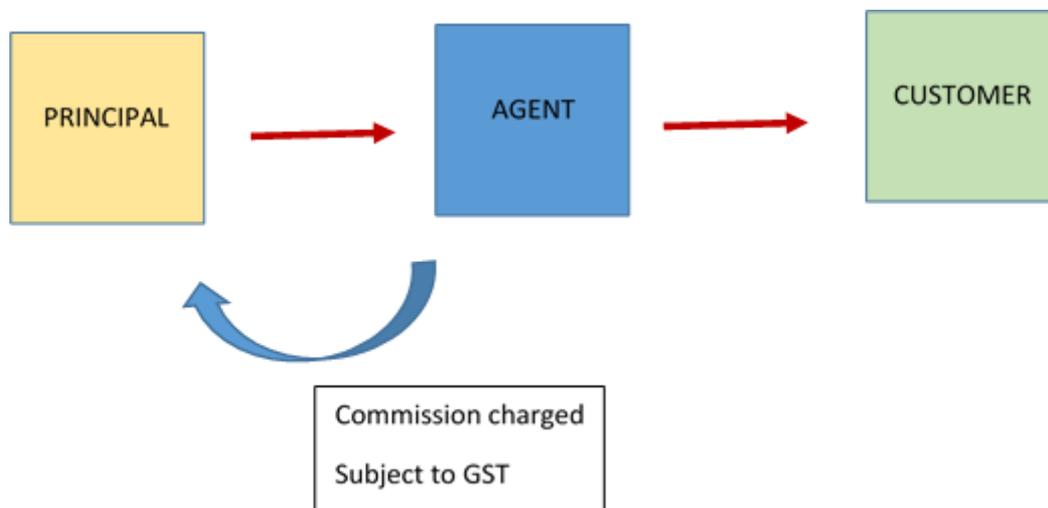
*The stockist is required to issue a tax invoice for an amount of RM516.22 The DSC is required to issue tax invoice for an amount of RM51.62 to the stockist for his handling fee as follows:*

<i>Handling fee</i>	<i>:</i>	<i>RM48.70</i>
<i>GST 6%</i>	<i>:</i>	<i>RM2.92</i>
<i>Total</i>	<i>:</i>	<i>RM51.62</i>

## COMMISSION AGENT

23. In direct selling sector, an agent who acts as an intermediary authorized by a DSC or stockist is usually referred as a commission agent **or an independent sales agent**. The agent usually provides services to his principal (DSC) to sell goods on behalf of DSC. The agent will receive commission as his consideration for providing services to his principal and if the agent is registered under GST, that commission is subject to GST. This scenario may be illustrated as follows:

**Figure 2 : An Agent acts as an undisclosed agent or a commissionaire or an independent sales agent**



## REGISTRATION

24. DSC, distributor or stockist is required to be registered for GST if their annual sales turnover of taxable supplies exceeds the prescribed threshold.

25. If their annual sales turnover of taxable supplies does not exceed the prescribed threshold, they are not required to be registered. However, they can register voluntarily on condition that once registered, they have to remain in the system for at least two years.

26. For GST purposes, the annual sales turnover of taxable supplies includes all sales of taxable goods (zero rated or standard rated goods), commissions, rental, etc.

**Example 8:**

*Assuming the prescribed threshold is RM500,000*

*Ahmad, a DSC distributor makes the following taxable supply of goods and services:*

	<u><b>Annual turnover</b></u>
(a) Zero rated supplies	RM200, 000.00
(b) Standard rated supplies	RM500, 000.00
(c) Commissions	RM 16,000.00
(d) Rental	RM 60,000.00
<b>Total annual turnover</b>	<b>RM776, 000.00</b>

*Since Ahmad's annual sales turnover has exceeded RM500,000 he must register for the GST.*

27. If a person is already registered for GST and subsequently becomes a distributor to supplement his income as a part time business, he is not required to apply for a separate GST registration for his DSC. He can use his existing GST registration number to charge GST for all the taxable supplies he makes in his DSC even though the annual sales turnover of taxable supplies in his DSC is below the prescribed threshold.

## **RECORD KEEPING**

28. All DSCs, distributors /stockists have to keep full and true records of all supplies made and acquisitions. The required records are:

- (a) Business activity records such as invoices, debit notes, credit notes, payment vouchers, cheque butts, cash register rolls and receipts.
- (b) Accounting records such as Profit and Loss account, balance sheet, trial balance and other financial statements.
- (c) Taxation Records such as customs declaration forms (Custom Form No 1, Customs Form No 2), GST-03, etc.
- (d) Electronic record and related records such as GAF (GST Audit File), accounting software data/records, accounting software manual and chart of accounts.
- (e) All other supporting records which relates to GST such as contracts

and price quotations.

## TAXABLE PERIOD

27. The taxable period will be allocated at the time registration is approved as follows:

(a) **Quarterly basis:**

For DSC/distributor/stockist with annual sales turnover of not more than RM5 million;

(b) **Monthly basis:**

For DSC/distributor/stockist with annual sales turnover of RM5 million and more.

28. The DSC/distributor/stockist is required to submit GST return and make payment not later than the last day of the month following the end of the taxable period.

## INPUT TAX CREDIT

29. Any GST incurred on any promotional item or equipment (brochure, product sample, delivery bag and testing equipment) may be claimed as input tax provided that these items are used in the course or furtherance of the business in making taxable supplies.

**Example 9:**

*If a registered DSC holds an annual dinner for his distributors, any GST incurred in organizing the function can be claimed as input tax. However, if the distributor's spouse attends the dinner, the GST incurred on the distributor's spouse portion cannot be claimed as input tax.*

## FREQUENTLY ASKED QUESTIONS

**Q1: What is the GST treatment on the supply of sales aid kit to distributors?**

A1: The DSC is required to charge GST on the supply of sales aid kit to any distributor / stockist.

**Q2: Can a distributor /stockist issue a tax invoice using DSC's name?**

A2: Issuing tax invoices under the principal's name is allowed subject to approval by the Director General of Customs. However, their name must also be included in the tax invoice.

**Q3: Does the DSC account GST charged by a distributor when the distributor makes a supply to the customer?**

A3: No, the distributor has to account GST for the supply he makes.

## **FEEDBACK AND COMMENTS**

30. Any feedback or comments will be greatly appreciated. Please email your feedback or comments to either Mohd Hisham bin Mohd Nor ([m\\_hisham.nor@customs.gov.my](mailto:m_hisham.nor@customs.gov.my)) or Aminul Izmeer bin Mohd Sohaimi ([izmeer.msohaimi@customs.gov.my](mailto:izmeer.msohaimi@customs.gov.my))

## **FURTHER ASSISTANCE AND INFORMATION**

31. 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
- (b) Customs Call Centre :
  - Tel : 03- 7806 7200/ 1-300-888-500
  - Fax : 03- 7806 7599
  - E-mail : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)