



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE ON APPROVED TRADER SCHEME

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INTRODUCTION

1. This industry guide is prepared to assist businesses in understanding matters with regards to GST treatment on Approved Trader Scheme (ATS).

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.

GENERAL OPERATIONS OF THE INDUSTRY

Approved Trader Scheme

5 Basically, all exports are zero-rated, meaning exporters do not collect output tax on their supplies. All major re-exporters will have positive input tax refund as they do not have collection or have only minimum collection of output tax to help them offset against the GST paid on their imports. This would create a cash flow problem for them because they would have to pay GST upfront. Hence, a suspended GST under the Approved Trader Scheme (ATS) was introduced to alleviate the cash flow problem faced by importers who mainly re-export their supplies.

6. Any taxable person registered under the ATS (refer as “**ATS participant**” after this) will be allowed to suspend GST payable on imported goods at the point of importation. The GST due on all goods imported in a particular taxable period would be summed up and accounted for in the taxable period where the importation takes place in a specific column in GST return. ATS participant must be on a monthly taxable period.

7. Suspension of GST only applies to goods that are imported and not for locally acquired supplies. Normally, an ATS participant would be able to acquire supplies from the local market on credit term. On the other hand, he may be able to collect output tax on supplies made to the local market to offset his input tax payments.

PARTIES QUALIFYING FOR ATS CONSIDERATION

8. The following taxable persons who registered under the act are eligible to apply for ATS subject to approval given by RMC.

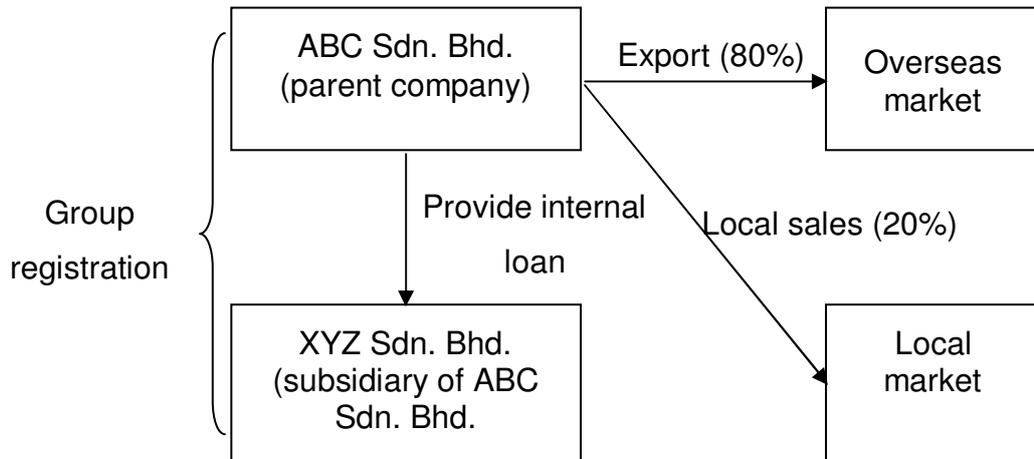
- (a) All companies located within the Free Industrial Zones (FIZ) as defined under the Free Zone Act 1990 and gazetted under Schedule 2 of the Free Zones Regulations 1991.
- (b) All Licensed Manufacturing Warehouse (LMW) operators licensed under Section 65/65A of the Customs Act 1967.
- (c) International Procurement Centres (IPCs) and Regional Distribution Centres (RDCs) approved by the Malaysian Industrial Development Authority (MIDA).
- (d) Toll manufacturers registered under the Approved Toll Manufacturer Scheme (ATMS).
- (e) Jewellery manufacturers registered under the Approved Jeweller Scheme.
- (f) Companies with turnovers above RM25 million and more than 80% of their supplies made are zero-rated.
- (g) Any other person as approved by the Minister.

CONDITIONS FOR ATS PARTICIPANTS

9. Like any other special schemes, there are conditions imposed under the ATS in which an ATS applicant must strictly adhere to. The conditions imposed under the ATS include the following:

- (a) An ATS participant must account for tax on a monthly taxable period;
An ATS participant must only file monthly GST returns. Any registrant who files other than monthly GST returns are not eligible for ATS.
- (b) Electronic submission of GST return;
An ATS participant must submit his monthly GST returns through electronic filing (E-filing).
- (c) Goods imported in the furtherance of a business;
Goods imported under the ATS must be for the furtherance of business carried on by the ATS participant, which is for the purpose of making taxable supplies. Goods imported for personal use of staff, including directors, are not allowed.
- (d) Import and export of goods must be declared in the ATS participant's name;
All imports and exports must be declared in the name of the ATS participant. However, authorized forwarding agents duly appointed can sign the import / export forms on behalf of the ATS participant, but the ATS participant remain liable for any tax and duties due or accountable by him.
- (e) An ATS participant must make wholly taxable supplies;
A registered person who makes exempt supplies or partial-exempt supplies does not qualify for the ATS unless the exempt supplies are incidental to his main business or the exempt supplies fall within the de minimis limit. (See **Example 1** below).

Example 1: Exempt supply incidental to main business.



Certain exempt supplies such as provision of any loans, advance or credit between connected persons, deposit of money, issuance of debt security, etc, are treated as taxable supplies if the person makes no other exempt supplies. (For further details, see incidental supplies).

In the case of the de minimis limit rule, if the total value of all exempt supplies made by a mixed supplier does not exceed on the average of RM5,000.00 per month and an amount equal to 6% of the total value of all taxable supplies and exempt supplies in that particular month, such exempt supplies would be deemed as taxable supplies. Thus, if the exempt supplies made by a mixed supplier fall within the de minimis limit, the mixed supplier will be regarded as making wholly taxable supplies and may be granted the ATS status. A mixed supplier who falls out of the de minimis limit does not qualify for the ATS.

- (f) Zero-rated supplies must account for 80% or more of the total supplies;
- An ATS participant must make at least 80% of zero-rated supplies, whether exported or supplies made to the local market, calculated on a yearly basis. International services which are prescribed as zero-rated supplies can be taken into account when computing the 80% zero-rated supplies rule (See **Example 2** below).

Example 2:

- (i) *Total value of taxable supplies for the period 1.1.XX to 31.12.XX is RM30 million.*
- (ii) *Taxable services exported to overseas customers, for example fees for providing training, is RM1 million.*
- (iii) *Goods exported overseas amounts to RM23 million.*
- (iv) *At least **RM24 million** out of RM30 million of the total taxable supplies (i.e. 80% x RM30 million = RM24 million) made by the ATS participant in the same taxable year must be zero-rated supplies.*
- (v) *In this example, the 80% zero-rated supplies rule is fulfilled as the total zero-rated supplies made is RM24 million (i.e. RM1 million of exported services plus RM23 million of exported goods).*

[Export of goods means sending goods out of the Federation of Malaysia and its territorial waters, but does not include goods in transit. For the purpose of GST, “export” and “in-transit” has the same meaning as defined under section 2 of the Customs Act 1967.]

- (g) An ATS participant must have good accounting system;

Good accounting expected of an ATS participant is explained in **paragraph 16** below.

- (h) Good compliance record as a GST payer;

An ATS participant must always submit his GST returns and made tax payments within the stipulated period.

- (i) Clean record with the RMC;

An ATS participant must have a good compliance record on any business dealing with the RMC. A registrant blacklisted under any laws administered by the RMC would not be considered for ATS status.

- (j) Security to be furnished;

Under certain circumstances, an ATS participant may be required by the Director General (DG) of the RMC to furnish security, in the form of bank guarantee or bond or both, to protect revenue.

(k) Other conditions.

The DG of the RMC may impose additional or revise any condition(s) from time to time as he deems fit. The conditions set here do not preclude or override any other conditions imposed on an ATS participant under LMW, FIZ, RDC and IPC scheme respectively. The DG of the RMC also reserved the rights to reject any application, to review or revoke any approval granted to an ATS participant at any time without prior notice to protect revenue.

IMPORTATION OF GOODS UNDER ATS

10. Generally all goods imported would be subjected to GST. Under ATS, participants are allowed to suspend the payment of GST on the importation of goods. In this case, an importer only needs to declare the goods at the place of import before it is taken out from customs control.

11. The amount of GST suspension for all goods imported in a particular month need to be declared by the importer under this scheme by declaring the amount in specific column in the GST return for that month (the month where importations take place). The return needs to be furnished not later than the last day of the subsequent month (Please see **Example 3** below).

Example 3:

ABC is a manufacturing company which approved under ATS. In the month of January he has imported raw materials with the amount CIF RM100,000. The total amount of GST suspended is RM6,000. (RM100,000 X 6%). As an approved person under ATS, ABC needs to declare the amount of GST suspended i.e. RM6,000 in his GST return for the month of January.

IMPORTED SERVICES

12. Since all ATS participants are taxable persons and making wholly taxable supplies, GST on imported services can be net off with the deemed input tax credit. **(Please see Guide on Imported Services).**

TREATMENT ON GOODS LOCALLY SOURCED BY ATS PARTICIPANTS

13. Any goods sourced locally do not come within the scope of ATS whereby the normal rules of GST would apply. This means that GST has to be paid upfront and claim as input tax credit. Similar treatment applies even if goods or raw materials purchased from another ATS participant such as a company operating in a free industrial zone. However, if an ATS participant purchased good from a bonded warehouse, payment of GST on the imported goods is suspended.

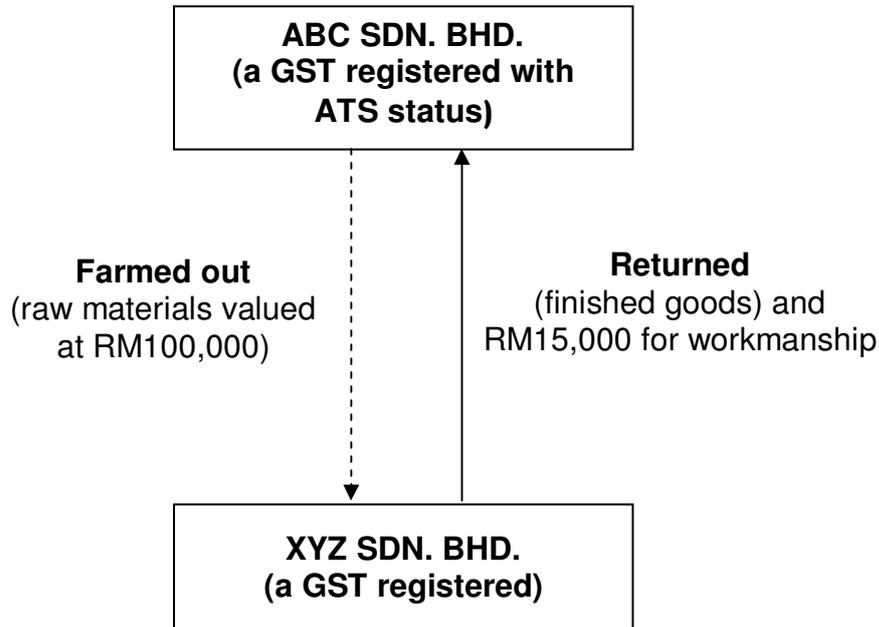
SUPPLY OF GOODS TO THE LOCAL MARKET BY ATS PARTICIPANTS

14 Any goods, whether in the form of raw materials or finished goods, supplied or disposed of in any manner to the local market are taxable supplies. An ATS participant must account for GST on local supplies made by issuing tax invoices.

FARMING OUT TO SUB-CONTRACTORS BY ATS PARTICIPANTS

15. Farming out does not transfer the ownership of the goods to the sub-contractor. As such, it is not a supply of goods and an ATS participant does not have to account for GST output tax on the raw materials. However, if the sub-contractor is a GST registered person, he has to account for GST output tax on the value of service supplied to the ATS participant (Please see **Example 4** below).

Example 4:



Accounting for GST will be as follows:

- (i) *ABC Sdn. Bhd. will issue a normal invoice or delivery order to XYZ Sdn. Bhd. and no GST is chargeable.*
- (ii) *XYZ Sdn. Bhd. will issue a tax invoice to ABC Sdn. Bhd. when the finished goods are returned to ABC Sdn. Bhd., and XYZ Sdn. Bhd. has to account for output tax of RM900 ($RM15,000 \times 6\%$) on the workmanship charge.*
- (iii) *ABC Sdn. Bhd. can claim the RM900 (GST) paid to XYZ Sdn. Bhd. as his input tax credit.*
- (iv) *If XYZ Sdn. Bhd. is not a GST registered, no GST is due on the workmanship charged.*

GOOD ACCOUNTING SYSTEM

16. An ATS participant has to maintain a good accounting system which includes the following requirements:

- (a) **At the time of application**

- (i) Accounting records must be kept in accordance with the principles of Standard Accounting Practices adopted in Malaysia. There must be sufficient original documents and proper records of the value of imports, exports and local sales kept for at least the 2 immediate past financial years from the date of application. (See **Example 5** below). Exemption to this condition may be given to newly set up companies at the discretion of the DG before approval. But, for new businesses a projection on the supplies for the next 24 months from the date of application must be given and the basis for the projection is clearly stated;

Example 5:

- *Financial year ending 31st March 2016*
- *Date of application is on 20th February 2016*
- *The 2 relevant periods of records kept would be financial years ending **31st March 2014** and **31st March 2015***

- (ii) There must be a good audit trail on the accounts prepared by the applicant. The DG may examine the accounts before an approval is granted under the ATS.

(b) During The Validity Period of the ATS Approval

- (i) You must maintain proper records on the value of imports, exports and local sales as well as an inventory of raw materials, quantities of work-in-progress and total supplies made at all time. All documents related to imports, exports, production of goods and local sales, like import and export forms, invoices, delivery orders, credit and debit notes and receipts must be kept and properly filed by you for a period of not less than 7 years as provided for under the GST law;
- (ii) You must submit annual statement on the value of imports, exports and local sales to the RMC;
- (iii) There must be good audit trail and the external auditor is able to issue a positive assurance report on the annual accounts and

that all trading figures declared are fair and accurate. The external auditor report and opinion must be unqualified; and

- (iv) You must produce statements of account, reports and any other related documents upon request from RMC.

RESPONSIBILITIES OF AN ATS PARTICIPANT

17. The responsibility of ATS participants are as follows:

- (a) You must have good compliance record on any business dealing with the RMC. Good compliance must be maintained at all time. If you flout any law administered by the RMC you risk being disqualified from the ATS. Any breach of conditions or any law administered by the RMC amounts to an offence which are punishable under the respective laws;
- (b) You must maintain a good accounting system;
- (c) You must not be making exempt supplies unless the exempt supplies are **incidental to your main business** or within the de minimis rule
- (d) If your goods are cleared by authorized agent(s), all import and export forms must still be signed by you;
- (e) You cannot use your ATS status to import goods on behalf of other importers.
- (f) You are responsible and accountable for GST suspended on the goods imported by you, including those cleared for you by your forwarding agent(s);
- (g) You must issue authorized letter to forwarding agent(s) appointed by you and keep a record of them; and
- (h) You should immediately notify the RMC on any change in particulars submitted to RMC under the ATS.

FREQUENTLY ASKED QUESTION

Supply of goods to the local market by ATS participants

Q1: If I supply raw materials or finished goods to another ATS participant, do I still have to account for GST output tax?

A1: Yes, a supply made to another ATS participant, irrespective whether the buyer is an operator in a free industrial zone, IPC or RDC operator is a taxable supply. You have to account for GST output tax chargeable on the supply by issuing a tax invoice.

Q2: I am an operator in a free industrial zone under the ATS and if I loan some raw materials to another operator in the free industrial zone for his urgent use, do I have to account for GST output tax?

A2: Yes, because the raw materials which the other operator **in a free industrial zone** replaces you later on would not be the same as the raw materials you loan to him now. As such, it is a taxable supply. This same rule is applicable to all ATS participants.

Q3: If I am a member under group registration, do I need to apply for separate ATS approval for each constituent member?

A3: Yes, each constituent member has to apply for ATS separately and it must fulfill the required conditions.

Q4: If I supply goods to a group member, do I have to account for GST output tax on the supplies?

A4: No, supply made between members registered as a group under the GST is disregarded. **For further details, please refer *Guide on Registration*.**

Responsibilities of an ATS participant

Q5: When I ceased to be a GST registrant or as an ATS participant, do I have to account for output tax on capital assets/stocks on hand?

A5: In both the above instances all goods imported, including capital assets and stocks, on hand at the effective date are deemed to be taxable supplies and you must account for output tax on the goods.

Q6: Can I transfer my ATS status to another person if I decide to dispose of my business to him?

A6: Approval granted under the ATS is not transferable in any manner. The buyer must apply for his own ATS status if he can fulfill all the conditions stipulated under the ATS.

Q7: What is the duration of an ATS approval and when should I renew it?

A7: Approval for ATS status is on a two-yearly basis or for a shorter period, as the case may be, and any application for renewal must be made two months before the last day of each approval period.

Q8: What would happen to goods on hand if my ATS status is revoked?

A8: If you are still registered for GST, normal rule would apply to your goods on hand, i.e. account for output tax if supply takes place.

FEEDBACK AND COMMENTS

18. 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

19. Further information can be obtained from:

- (a) GST Website : www.gst.customs.gov.my
- (b) GST Hotline : 03-88822111
- (c) Customs Call Centre :
 - Tel : 03-78067200/ 1-300-888-500
 - Fax : 03-7806 599
 - E-mail : ccc@customs.gov.my