GOODS AND SERVICES TAX

GST GUIDE FOR INPUT TAX CREDIT

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INTRODUCTION

1. This industry guide is prepared to assist you in understanding goods and services tax and its implications on the recovery of input tax.

GENERAL OPERATIONS OF GOODS AND SERVICES TAX (GST)

2. GST, which is also known as value added tax in other countries is a tax on final consumption of goods and services. Unlike the present sales tax system, which is a single stage tax, the GST is a multi stage tax. 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, it is ultimately passed to the final consumer. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

3. A person who is registered under the Malaysian GST is required to charge GST on his output of taxable supply of goods and services made to his customers. He is allowed to claim as credit on any GST incurred on his purchases that are inputs to his business. His customers, if he is also in a business of making taxable supply of goods and services, in turn is allowed to claim a credit on GST paid on his input. Thus, double taxation will be avoided and only the value added at each stage is taxed.

GENERAL OVERVIEW

Input Tax

4. Input tax is the GST incurred on any purchase or acquisition of goods and services by a taxable person for the purpose of making a taxable supply in the course or furtherance of business. These purchases or acquisitions would include:

(a) goods or services purchased or acquired locally;

Example 1:

Goods purchased locally would include a company buying raw materials, components and parts, trading stocks and packaging materials from a GST registered person where the registered person would charge GST on the goods purchased.

Example 2:

Services acquired for the purpose of business would include rental, leasing of equipments, maintenance services and accounting and auditing services.

(b) imported goods;

Example:

Imported goods would include machineries imported from Japan, raw materials from Hong Kong and clothes from China.

Example:

Goods removed from warehouses licensed under section 65 of the Customs Act, 1967.

(c) imported services;

Example:

Imported services would include consultancy services supplied from a consultant based in Australia and rights and licenses provided by a company based in the United States to a recipient in Malaysia.

Flat Rate Addition

5. Input tax will include any flat rate addition which an approved person under a flat rate scheme would include in the consideration for any taxable supply of goods made by him in a prescribed activity under the scheme.
For more information, please refer to the *Guide on Agriculture.*

ENTITLEMENT TO CLAIM INPUT TAX

6. A person is entitled to claim input tax if he is making a taxable supply and satisfies the following criteria:

(a) input tax has been incurred;
(b) input tax is allowable;
(c) he is a taxable person, i.e. a person who is or is liable to be registered;
(d) goods or services acquired in the course or furtherance of business; and
(e) goods or services made in Malaysia or any supply made outside Malaysia which would be a taxable supply if made in Malaysia.

Example 1:

Shoez Sdn. Bhd. is a GST registered shoe manufacturer and purchased leather from Kulit Sdn. Bhd, a registered person worth RM50,000 and incurred GST at RM2,000. Shoez Sdn. Bhd. is entitled to claim input tax of RM2,000 on the purchase of leather.

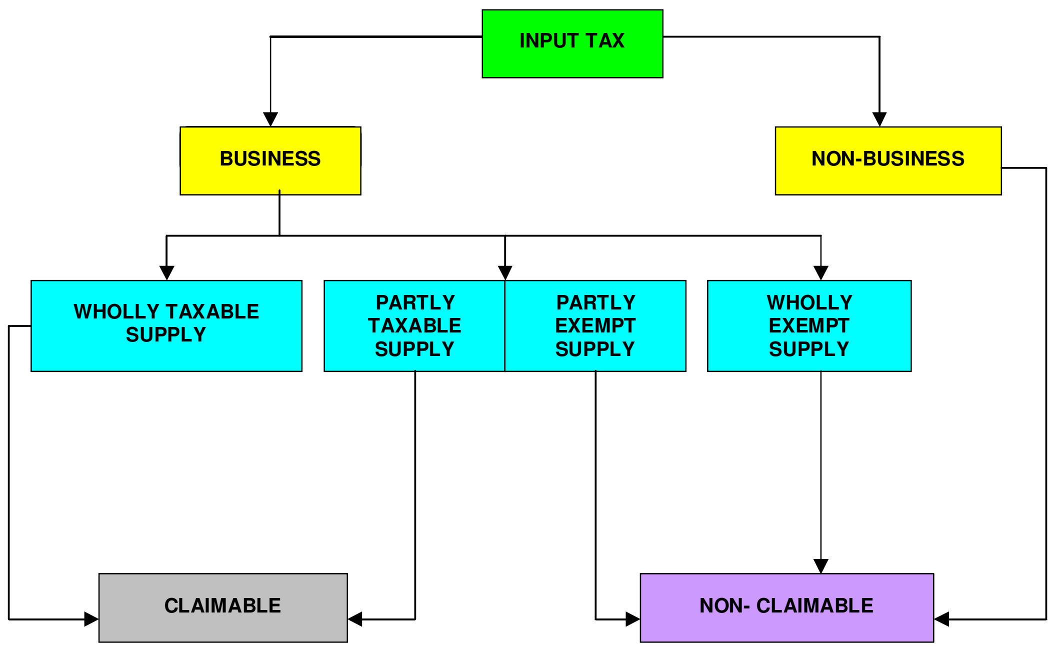
Example 2:

Eyra Sdn. Bhd., a GST registered marketing company purchased rolled plastics from Nina Enterprise, a non-registered person for RM1,000. Eyra Sdn. Bhd. is not entitled to claim input tax since he has not incurred any input tax when he purchased the rolled plastics.

ALLOWABLE INPUT TAX

7. Business versus Non-Business Use

Input tax incurred can be claimed if the goods or services are acquired for business purposes. Often there will be situations where suppliers acquire goods and services which may be used for both business and non-business purposes.



(a) **Used Wholly for Business**

When goods and services are acquired for business purposes, the registered person is eligible to claim input tax on the GST that has been incurred.

Example:

A bedding manufacturer who is a GST registered person bought beds and oil paintings worth RM5,000 for use in the showroom of the plant. He is eligible to claim input tax of RM200 (RM5,000 x 4%) since the beds and oil paintings are used for business purposes.

(b) **Used Wholly for Non-Business Purposes**

However, if a mixed supplier acquires the goods and services for non-business purposes the registered person is not eligible to claim input tax. Any disposal of such assets for a consideration is a supply and subject to GST. In this case, there is a change of use and the registered person is allowed to claim input tax.

Example 1:

A GST registered sole proprietor has a cleaning service business. He purchases ten vacuum cleaners for business purposes. If he intends to use one of the vacuum cleaners for home use at the time of purchase, the input tax on the vacuum cleaner used for home purposes is not eligible for input tax claim. He is eligible to claim input tax on the remaining nine vacuum cleaners.

Example 2:

EZie & Co., a GST registered accounting firm bought a yacht for its director's use during weekends. Even though EZie & Co. has incurred input tax for the purchase of the yacht, it is not used in the course or furtherance of its business. Therefore, EZie & Co. is not eligible to claim input tax on the purchase of the yacht.

Supplies Eligible for Input Tax

8. Generally, a taxable person is eligible to claim input tax which is attributable to the making of the following supplies:

(i) taxable supplies;

(ii) inputs used for making taxable supplies outside Malaysia which would be taxable supplies if made in Malaysia;

(iii) any other supplies as may be prescribed.

(i) **Supplies Used for Making Taxable Supplies**

Taxable supplies would include standard-rated and zero-rated supplies.

Example 1:

A GST registered retailer can claim GST incurred on its trading stocks which are taxable supplies such as biscuits, chocolates, soft drinks, instant noodles and nuggets.

Example 2:

ZaaZ Sdn. Bhd., a GST registered company, imports 10 buggies from Germany to be supplied to Seremban International Golf Club. GST incurred on the importation of the buggies is claimable since Zaaz Sdn. Bhd. being a GST registered company is making standard rated supplies.

Example 3:

A GST registered rice mill incurs GST on the purchase of plastic packaging materials, sealing machine, printing machine and printing ink. The rice mill is eligible to claim input tax on the GST incurred as it is making zero rated supplies.

There are taxable supplies which would be disregarded for GST purpose. Examples of disregarded supplies are:

(a) supplies made between members of a GST group;

(b) supplies of goods made in a warehouse under warehousing scheme before the goods are removed from the warehouse;

(c) supplies between venture operator and the venturers; and

(d) supplies by the approved toll manufacturers to the overseas principal.

Any GST incurred on purchases used to make the above disregarded supplies can be claimed as input tax.

Example:

A GST registered cigarette manufacturer makes a supply of cigarettes to its marketing arm. Both companies are under a group registration. Since both are under group registration, the supply from the manufacturer to the marketing arm is disregarded and no GST imposed. Any GST incurred by the cigarette manufacturer can be claimed as input tax.

Taxable supply would also include a supply made to a class of person who are given relief from paying GST. Any GST incurred on such supplies is claimable as input tax.

Example*:*

Government schools are given relief from paying GST on the purchase of text books. Even though the bookshop does not charge GST on the supply, any GST incurred by the bookshop is claimable.

(ii) **Inputs used for making supplies made outside Malaysia which would be taxable supplies if made in Malaysia.**

Input tax incurred can be claimed in respect of the supplies made outside Malaysia which would be taxable supplies if made in Malaysia.

Example:

MNC (M) Sdn. Bhd., a GST registered International Procurement Center, undertakes procurement and sale of raw materials, components and finished products for its group of related companies and unrelated companies in Malaysia and abroad. MNC (M) Sdn. Bhd. fulfils an order from a customer in China by instructing MNC's *supplier in Indonesia to ship the goods directly to China. Even though that supply is made outside Malaysia but if it is made in Malaysia it would be a taxable supply. Since MNC (M) Sdn. Bhd. is based in Malaysia and incurs GST on its operational expenses such as rental and utilities, MNC is entitled to claim input tax that has been incurred on that supply.*

(iii) **Inputs used for making supplies made in certain prescribed circumstances**

Generally, supplies made by financial institutions e.g. the provision of loans or financing is an exempt supply and input tax is not claimable. However, banks and other financial institutions which provide loans or financing to businesses are allowed to use Fixed Input Tax Recovery (FITR) method to claim the GST incurred on their business input.

FITR is a method where a financial institution such as:

(a) commercial bank;

(b) investment bank;

(c) Islamic bank;

(d) development financial institutions and any other approved institution established under any Act of Parliament or State Ordinance is entitled to recover input tax based on a specific rate in percentage determined by the Minister. The fixed rate is subject to a review and different persons maybe assigned a different fixed rate as determined by the Minister.

If a financial institution is allowed to recover input tax using the FITR method, the amount of the input tax allowable is in accordance with the following formula:

A x B

where: A is the total input tax incurred in the taxable period and

B is the fixed rate.

The total input tax incurred in the taxable period includes:

(a) input tax in relation to exempt supplies i.e. loans provided to businesses and individuals;

(b) input tax in relation to standard rated and zero rated supplies;

(c) input tax in relation to other exempt supplies e.g. investment activities.

For Islamic banks and other financial institutions making financial supplies in accordance with the principles of Shariah, the input tax incurred on the purchase or acquisition of assets directly attributable to a supply of financing in compliance with the principles of Shariah is fully claimable.

Example 1:

In January 2012, a GST registered commercial bank incurs GST on the following:

(a) input tax in relation to exempt supplies (provision of loans to businesses) - RM28,000

(b) input tax in relation to standard rated supplies (fee based services) - RM12,000

(c) input tax on investment activities - RM10,000

The bank is allowed to use the FITR method to claim GST incurred on his business inputs at the assumed rate of 70% in the year 2012.

Input Tax Claimable

= Input Tax incurred in the taxable period x FITR rate

= (RM28,000 + RM12,000+ RM10,000) x 70%

= RM35,000

Example 2:

In the taxable period of January 2012, ABC Islamic Bank incurred GST on the following:

(a) input tax incurred on the acquisition of commodities for the purpose of Shariah financing - RM15,000

(b) input tax on standard rated supplies(fee based services) - RM 25,000

(c) input tax on investment activities - RM10,000

For the year 2012, an Islamic bank is allowed to use a fixed rate at 70% for the purpose of claiming input tax.

Input Tax Claimable

= Input Tax incurred in the taxable period x FITR rate

= (RM25,000 + RM10,000) x 70%

= RM24,500

For the taxable period of January 2012, the Islamic bank is allowed to claim input tax amounting to:

RM24,500 + RM15,000 = RM39,500

Non-Claimable Input Tax

9. Generally, a taxable person is entitled to claim GST on inputs attributable in making taxable supplies. The following persons are not entitled to claim input tax.

(a) a non-registered person making taxable supplies

Example:

Norene who operates a burger stall in Taman Tasik Jaya. purchased 10 packets of chicken sausages from FAZ Sdn. Bhd. at RM52 inclusive of RM2 GST. Since Norene is a non-registered person, she cannot claim RM2 as her input tax.

(b) a person making an exempt supply;

Example:

SBN Transit, a public transport company purchases 10 new buses for its new route. Being an exempt supplier, SBN Transit cannot claim GST on the purchase of the 10 new buses.

(c) a person making an out of scope supply

An out of scope supply is a supply which is outside the scope of the GST Act. Out of scope supplies are not subject to GST.

Example:

Issuance of licenses and collection of assessment tax by local authorities are out of scope supplies. NLI Municipal Council cannot claim GST on purchases of computers used for such purposes.

Blocked input tax

10. Input tax incurred by a taxable person in respect of the following supplies shall be excluded from any credit under GST:-

(a) the supply or importation of a passenger motor car;
"passenger motor car" means a motor car of a kind normally used on public roads which is constructed or adapted for the carriage of not more than nine passengers inclusive of the driver and the unladen weight of which does not exceed three thousand kilograms but does not include:

(i) any public service vehicle licensed under Suruhanjaya Pengangkutan Awam Darat Act 2010, Commercial Vehicles Licencing Board Act or tourism vehicle licensed under Tourism Vehicle Licensing Act 1999;

(ii) a motor car supplied to or imported by a taxable person for the purposes of being let on hire or sold by that taxable person who is a dealer of motor cars licensed under the Second-Hand Dealers Act 1946;

(iii) an approved vehicle used for driving instructional purposes by a driving school or driving institute permitted under Motor Vehicles (Driving Schools) Rules, 1992;

(iv) a motor car which forms part of the stock in trade of a motor manufacturer or a motor dealer; and

(v) any motor car which is used exclusively for the purposes of business as may by approved by the Director General subject to the following conditions:

- the motor car is registered in the name of the company;
- the motor car is not let on hire;
- there is no intention to make the motor car available for private use;
- the motor car is kept at business premises, used for business trips and must not be taken home overnight by any employee; and
- the motor car has the business's name

Example 1:

Hawani Sdn. Bhd. bought a Toyota Camry at RM180,000 for its director's use and paid GST amounting to RM7,200. Since input tax for passenger motor cars is blocked, Hawani Sdn. Bhd. is not eligible to claim RM7,200 as input tax on the purchase of the passenger motor car.

Example 2:

A company buys cars for its employees to provide technical assistance in cases of telecommunication breakdown and fulfills the conditions required for *business purposes. The GST paid on the purchase of the cars can be claimed as input tax.*

Example 3:

CR7 Sdn. Bhd. is a motor car dealer. The company imports and also purchased motor cars from local manufacturers. Any GST incurred in the acquisition of the cars for stock in trade is claimable.

(b) the hiring of a passenger motor car;

***Example**:*

Norman Sdn. Bhd. hires a car for the director's use instead of purchasing it. The GST paid on the hiring charge or lease cannot be claimed as input tax.

(c) club subscription fee;

Club subscription fee means any joining fee, subscription fee, membership fee, transfer fee or other consideration charged by any club, association, society or organization established principally for recreational or sporting purposes or by the transferor of the membership of such club, association, society or organization.

***Example**:*

Petro Engineering Sdn. Bhd., a GST registered consultant, incurs GST on golf membership fee for its general manager and senior executive. The GST paid on the membership fee is not allowed to be claimed as input tax.

(d) medical and personal accident insurance premium or takaful contribution;

Medical and personal accident insurance premium or takaful contribution means any payment or contribution towards any of the following insurance contracts or takaful certificates: -

(i) a contract/certificate for the provision of insurance or takaful for indemnifying the taxable person against the cost of medical treatment to any person;

(ii) a contract/certificate for the provision of insurance or takaful against the cost of medical treatment in which the insured or participant is any person employed by the taxable person;

(iii) a contract/certificate for the provision of insurance or takaful against any personal accident in which the insured or participant is any person employed by the taxable person.

Example:

Excel Sdn. Bhd., a GST registered company purchases a medical insurance for Ahmad, an employee and paid premium yearly. The insurance company charges Excel Sdn. Bhd. GST on the premium. The GST incurred on the premium is not claimable.

(e) medical expenses;

Medical expenses mean any medical expenses in connection with the provision of medical treatment to any person employed by a taxable person.

Example:

While working, Ali, a director of Salam Sdn. Bhd. had a stroke and was paralysed. He was recommended a double fowler bed by the physician. Salam Sdn. Bhd. bought the double fowler bed for him and was charged

GST on the purchase of the bed. The GST paid on the bed is not claimable as input tax.

(f) family benefits;

Family benefits means any benefits (including hospitality of any kind) provided by the taxable person for the benefit of any person who is the wife, husband, child or relative of any person employed by the taxable person.

Example:

Fahmi, an employee of Setia Sdn. Bhd. is eligible for a 3 day paid holiday in a year. He spends his holidays in Langkawi with his wife and children. GST paid on the holiday package is not claimable as input tax.

(g) entertainment expenses to a person other than employees or existing customers except entertainment expenses incurred by a person who is in the business of providing entertainment.

“entertainment expense” includes—

(a) the provision of any food, drink, recreation or hospitality of any kind, or

(b) the provision of accommodation or travel associated with the provision of food, drink or recreation

by a person or an employee of his to anyone in connection with a trade or business carried on by that person.

“employee”, in relation to an employment, means:

(a) the servant, where the relationship of master and servant subsists;

(b) where the relationship of master and servant does not subsist, the holder of the appointment or office which constitutes the employment.

"recreation or hospitality" would include:

(a) a trip to a theme park or a recreation centre;

(b) a stay at a holiday resort;

(c) tickets to a show or theatre; and

(d) entry to sporting activities/events

Entertainment expenses to family members and potential clients (not existing clients) are disallowed.

Example 1:

Salem, an executive with BBB Sdn. Bhd., a GST registered trading company, entertains his potential clients at a coffee house in a hotel for lunch in order to promote the company's new product. BBB Sdn. Bhd. is not entitled to claim input tax on the GST paid for the lunch.

Example 2:

A manager from Carrington Hotel which is GST registered, entertains his potential clients for lunch at the coffee house. As Carrington Hotel is also in the business of providing entertainment, the GST incurred in entertaining the potential clients is claimable as input tax.

Example 3:

Turk Sdn. Bhd. organised an annual dinner at a hotel in Port Dickson for employees and a few potential clients. Awards in the form of watches will be given away to excellent employees based on their performance. Spouses of the excellent employees are also invited for the dinner. Turk Sdn. Bhd. is allowed to claim GST on the whole package as input tax since the intention of the annual dinner is for employees. If the watches given as *gifts to the employees are more than RM500, Turk Sdn. Bhd. has to account for GST.*

Incidental exempt financial supplies

11. Incidental exempt financial supply is a supply of financial services made by a registered person who is not in the business of making the financial services. However, such person can treat input tax attributable to the exempt financial supplies as input tax attributable to taxable supplies. This means that the registered person is entitled to claim any input tax that is attributable to the making of the following exempt financial supplies:-

(a) the deposit of money;

The deposit of money is the act of putting money in any financial institution.

Example:
Evra Sdn. Bhd., a GST registered restaurant purchased a security box for the accounts clerk to deposit daily earnings of the company in a bank. The GST incurred for the purchase of the security box can be claimed as input tax.

(b) the exchange of currency, whether effected by the exchange of currency, bank notes or coin, by crediting or debiting accounts or otherwise.

The exchange of currency is an act of exchanging Malaysian Ringgit with other foreign currencies or other foreign currencies with another foreign currency.

Example:

Wayne Sdn. Bhd. engages a security company to escort his accounts clerk to exchange Malaysian Ringgit for foreign currencies at ABC Bank. The security company *charges Wayne Sdn. Bhd. GST for the services. The GST incurred can be claimed as input tax.*

(c) the holding of bonds, debentures, notes or other similar instruments representing or evidencing indebtedness;

A bondholder who holds the bonds until maturity will receive coupons paid by the bond issuer according to the terms of the contract.

Example:

Rio Sdn Bhd, a plantation company, purchases bonds of ABC Co. and holds the bonds until maturity. Any input tax incurred in purchasing the bonds is claimable.

(d) the transfer of ownership of securities or derivatives relating to securities;

The transfer of ownership of securities means the trading of shares in the secondary market where the consideration is the spread or capital appreciation.

Example:

Fabio Sdn. Bhd., a construction company, sells 20 lots of Setia Jaya Bhd. shares through a remisier and was charged GST on the commission. Fabio Sdn. Bhd. can claim the GST paid on commission as its input tax.

(e) the provision by a taxable person of any loan, advance, credit or other similar facility to his employee or between connected persons (any officer or director of one another's business, partners or a person who directly or indirectly owns, controls or holds five percent or more of the outstanding voting stock or shares of both of them);

Example:

A manufacturing company makes incidental financial services by giving inter company loan to its subsidiaries. The company incurred GST on the legal agreements and other expenses related to the loans. Although these financial services are regarded as exempt supplies, the company is allowed to claim the GST incurred on legal services and other expenses as input tax.

(f) the holding or redemption of any unit or other similar instruments under a trust fund;

The holding or redemption of any unit or other similar instruments under a trust fund means the unit holder holds the units and earns dividend and upon redemption earns spread.

Example:

Kim Sdn. Bhd., a GST registered beauty consultant, purchases 10,000 units of Public Mutual unit trust fund at RM 1.20 per unit. After three years she sells the units at RM1.35 and earns a spread of RM0.15. Any input tax incurred in the purchase and redemption of the units is claimable as input tax.

(g) the hedging of any interest rate risk, currency risk, utility price risk, freight price risk or commodity price risk.

Example:

Mask Bhd, an air transportation company, purchases futures contract to hedge against price fluctuations in oil which is a major business expense of the company. Input tax incurred in purchasing the futures contract is claimable.

12. The recovery of input tax is not applicable to suppliers (financial institutions) that carry on businesses of making exempt financial services. This group of suppliers would include:-

(a) a bank or any other financial institution required to be licensed under the Banking and Financial Institutions Act,1989, Offshore Banking Act 1990 (Act 443) and Islamic Banking Act, 1983(Act 276);

(b) any development financial institution as prescribed under the Development Financial Institutions Act, 2002 or any Act of Parliament;

Examples of Development Financial Institutions are Lembaga Tabung Haji prescribed under Akta Tabung Haji, 1995, Bank Simpanan Nasional prescribed under Akta Bank Simpanan Nasional, 1994 and Bank Kerjasama Rakyat Malaysia prescribed under Akta Bank Kerjasama Rakyat Malaysia Berhad, 1978

(c) a moneylender required to be licensed under the Moneylenders Act, 1951;

(d) a person licensed under the Money Services Business Act, 2011(Act 731);

(e) a person required to be licensed under the Insurance Act, 1996, Takaful Act, 1984 or Offshore Insurance Act 1990 excluding insurance broker, insurance agent, insurance adjuster or financial insurance adjuster;

(f) a holder of a Capital Markets Services License or a holder of a Capital Markets Services Representative's License dealing in securities or derivatives under the Capital Markets and Services Act, 2007;

(g) a pawnbroker required to be licensed under the Pawnbrokers Act, 1972 or a pawnbroker implementing the Islamic pawn broking business in compliance with Shariah principles;

(h) a person who supplies goods and provides finance under an agreement which expressly stipulates that the property will pass at some time in the future;

(i) a credit card, charge card or debit card company;

(j) any unit trust or investment trust excluding Real Estate Investment Trust.

Example:

Ashley Mutual Fund deposits its daily earnings in a bank and incurred GST on security charges by Halim Security. The GST on security charges is not claimable because Ashley Mutual Fund falls under the category of financial institutions which is not allowed to claim input tax on incidental exempt supplies. However, if a plantation company deposits money in a bank, the GST incurred on security charges can be claimed as input tax since the plantation company is not in the business of making the financial services.

De minimis rule

13. Certain taxable persons may be making negligible exempt supplies and it would be inconvenient and impractical for such persons to apportion their input tax. The *de minimis* rule is introduced to alleviate such problem by allowing a taxable person to treat his exempt input tax as input tax attributable to taxable supplies if the total value of his exempt supplies excluding incidental exempt financial supplies does not exceed:

(a) an average of RM5,000 per month, and

(b) an amount equal to 5% of the total value of all taxable and exempt supplies made in that period.

Example 1:

A GST registered garment manufacturer makes taxable supplies worth RM150,000 for a taxable period. It also provides bus transportation services to its workers and charges a minimal fee. The value of exempt supplies is RM4,000.

(i) Proportion of exempt supplies to total supplies is calculated as follows:

$$\frac{RM4{,}000}{RM150{,}000 + RM4{,}000} \times 100\ \% = 2.59\%$$

(ii) The garment manufacturer is entitled to claim input tax since the value of exempt supplies is less than RM5,000 per month and does not exceed 5% of the total value of all supplies.

Example 2:

RVP Sdn. Bhd., a GST registered manufacturer makes the following supplies in a month:-

Taxable supplies – RM70,000

Exempt supplies - RM4,800

(i) Percentage of exempt supplies for the month is,

$$\frac{4{,}800}{70{,}000+ 4{,}800} \text{ X } 100\% = 6.42\%$$

(ii) The company has only satisfies the first condition but not the second condition as its total exempt supplies for the period has exceeded the 5%. Thus, the company cannot treat the input tax incurred on the RM4,800 exempt supplies as taxable input.

If he does not fulfill the *de minimis* rule, he is required to use partial exemption to apportion the residual input tax incurred.

Partial exemption

14. A person who makes both taxable and exempt supplies is known as partly exempt supplier or a "mixed supplier". The term "partial exemption" is used to describe the situation of a mixed supplier who has to apportion the amount of residual input claim in respect of taxable and exempt supplies using a partial exemption method.

Residual input tax is incurred when input tax is not directly attributed to either taxable or exempt supplies. Examples of residual input tax include input tax on rental, utilities, stationery, computer and maintenance services. The amount of residual input tax that can be claimed is only the proportion that is attributable to taxable supply. This proportion is determined according to the ratio of the taxable supply to the total supplies made by the taxable person. Total supplies excludes any disposal of assets, supplies made by the taxable person to himself, imported services and incidental exempt financial supplies.

However, a mixed supplier can claim the full amount of the residual input tax incurred if the amount of exempt supply fulfilled the *de minimis* rule. Otherwise, he is required to apportion the residual input tax incurred accordingly.

Example:

Suria Sdn Bhd, an insurance company sells life and general insurance. In carrying out its business, the company incurs GST on electricity amounting to RM1,000. The general insurance premium collected is RM65,000 whilst life insurance RM35,000. The input tax (residual input tax) that can be claimed is:

$$\frac{RM65,000}{RM65,000 + RM35,000} \times 100\% = 65\%$$

RM1,000 x 65% = RM650

Applying the *de minimis* rule in a tax year or longer period

15. When a taxable person makes an annual adjustment, he has to review the application of the *de minimis* rule over the tax year or longer period. As the *de minimis* rule qualifications is based on monthly average, the taxable person has to include all exempt supplies made in the tax year or longer period to work out the monthly average. If he is below the *de minimis* limits, he can treat all his exempt input for the tax year or longer period as taxable input even though in certain taxable period he may not have qualified. On the other hand, if he fails the *de minimis* limits for the tax year or longer period, he has to account and pay all his exempt input tax for the tax year or longer period including those which have qualified as taxable input in certain taxable periods.

For more information, please refer to the *Guide on Partial Exemption.*

Capital Goods Adjustment

16. Capital goods for GST purpose are normally defined as any goods which are capitalized for accounting purposes and in accordance with generally accepted accounting practice. Intangible asset such as goodwill is not a capital asset.

Generally, a taxable person is eligible to claim input tax credit on all taxable supply of goods including capital goods acquired in the course or furtherance of his business. Input tax can be claimed in full if the taxable person is making wholly taxable supplies. However, if the taxable person is a mixed supplier, he can only claim the input tax which is attributable to his taxable supplies. The initial input tax claim is only provisional.

Adjustment is necessary if there is a change in the proportion of taxable use for the remaining life of the assets. The adjustment must be made over a specific period under the Capital Goods Adjustment (CGA). Capital goods will be referred to as capital items and it covers capital item with value of not less than RM100,000 (excluding GST) per unit.

An adjustment period refers to a fixed period of time consisting of intervals during which the proportional taxable usage of a capital item is re-evaluated. For land and building, the adjustment period consist of ten intervals and for other capital items the adjustment period will only consist of five intervals.

The adjustments on a capital item would only be made in the subsequent intervals, starting with the second interval, whenever there is a proportional change in its taxable use in relation to the first interval. The formula for calculating the amount of adjustment on a capital item in subsequent intervals is as follows*:*

$$\textbf{Amount of adjustment} = \frac{\textbf{Total input tax incurred x}}{\textbf{Number of intervals}}\ \textbf{Adjustment \%}$$

Example:

ABC Sdn. Bhd., a mixed supplier, was registered under the GST Act 20XX on 1 Jan 2012 and his first tax year ends on 31 December 2012. The company acquired a new computer for RM 1,040,000 inclusive GST 4% (RM 1,000,000 + RM 40,000 GST) on 10 Jan 2012. The annual proportional taxable use (or annual residual input tax recovery rate) of the computer is as follows:-

First interval	*:*	*60 %*
Second interval	*:*	*70 %*
Third interval	*:*	*55 %*
Fourth interval	*:*	*45 %*
Fifth (final) interval	*:*	*40 %*

In determining the proportion for the first interval, the partial exemption method is used.

The 4 subsequent intervals applicable to the computer are as follows:-

Second interval	:	*1 Jan 2013 – 31 Dec 2013*
Third interval	:	*1 Jan 2014 – 31 Dec 2014*
Fourth interval	:	*1 Jan 2015 – 31 Dec 2015*
Fifth interval	:	*1 Jan 2016 – 31 Dec 2016*

The amount of input tax that can be claimed for the first interval is RM24,000 and the amount of adjustment made under the scheme in the subsequent intervals is shown in the table below;

Interval (year)	****% of taxable use***	***Adjustment %***	***Computation***	***CGA Adjustment (RM)***
1 (2012)	*60 %*	*-*	*ITC = RM40,000 x60% = RM24,000*	*-*
2 (2013)	*70 %*	*70 % - 60 %*	$\frac{40,000}{5}$ *X 10 %*	*800*
3 (2014)	*55 %*	*55 % - 60 %*	$\frac{40,000}{5}$ *X (-5 %)*	*(400)*
4 (2015)	*45 %*	*45 % - 60 %*	$\frac{40,000}{5}$ *X (-15 %)*	*(1,200)*
5 (2016)	*40 %*	*40 % - 60 %*	$\frac{40,000}{5}$ *X (-20 %)*	*(1,600)*

Note:

For the second interval the company can claim additional input tax of RM800.

For more information, please refer to the *Guide on Capital Goods Adjustment.*

Deemed input tax relating to cash payment made in a promotional scheme

17. To promote products in the market, manufacturers or retailers normally issue ‘money off’ coupons or discount vouchers to the public offering a reduction in the price of a future purchase. Besides ‘money off coupons’

manufacturers also provide other promotional schemes such as 'cash back' or a payment made by a manufacturer directly, or through a recovery agency, to the customer of a wholesaler or retailer. In a promotional scheme, a registered person is deemed to have incurred input tax equal to the tax fraction of the cash payment made when he makes cash payment under the following conditions:

(a) a reimbursement for a reduction in the consideration of a taxable supply of goods made to any person after a customer redeems a coupon, voucher or similar document which entitles him to a discount; or

Example:

BeautyCare (M) Sdn. Bhd., a GST registered person, manufactures skincare products and issues money off coupon worth RM20.00 for the purchase of its moisturizer. A customer purchased the moisturizer at RM120.00 (inclusive of GST) from a retailer, Welson Sdn. Bhd and redeems the coupon. He only pays RM100.00 for the product. BeautyCare (M) Sdn. Bhd. will reimburse Welson Sdn. Bhd. with cash payment of RM20.00 when he present the coupon to BeautyCare(M) Sdn. Bhd.

Deemed input tax incurred by BeautyCare (M) Sdn. Bhd on cash payment made is:

$$\frac{\text{GST rate}}{100 + \text{GST rate}} \times \text{cash payment}$$

$$\frac{4\%}{100\% + 4\%} \times \text{RM20.00} = \text{RM0.77}$$

(b) a customer claims a rebate after he has acquired the registered person's taxable supply of goods.

Example:

Electron Sdn. Bhd., a GST registered electronic appliances manufacturer issues cash back vouchers worth RM50 for any purchase of its washing machine. A customer purchased the washing machine from a retailer for RM1,000 and received a cash back voucher worth RM50. Later he redeems the cash back voucher directly from Electron Sdn. Bhd.

Deemed input tax incurred by Electron Sdn. Bhd on cashpayment made is:

$$\frac{\text{GST rate}}{100 + \text{GST rate}} \times \text{cash payment}$$

$$\frac{4\%}{100\% + 4\%} \times RM50 = RM1.92$$

In claiming the deemed input tax, the registered person has to keep:

(a) a record of that claim consisting of information showing:

(i) the date and amount of cash payment made;

(ii) the name and address of the person who received the cash payment;

(iii) the personal identification number if the person who received the cash payment is not a registered person or the identification number if he is a registered person; and

(b) a copy of the proof of purchase.

If the person who has received the cash payment is a registered person, he has to take necessary action in the taxable period in which the payment is received:

(a) In the case where he has not claimed the input tax , to reduce his input tax claim equal to the tax fraction of such cash payment; or

(b) In the case where he has claimed the input tax, he has to account and pay an amount equal to the tax fraction of such payment.

Deemed input tax relating to insurance or takaful cash payments

18. The cash payment by the insurer in respect of an insurance or takaful settlement claim does not represent a supply by the insurer. Hence, indemnity payments or settlements are not subject to GST. However, the insurer is entitled to a credit of input tax deemed incurred known as "deemed input tax credit" where the cash payment is made pursuant to an insurance policy or takaful contract that is subject to GST at standard rate on condition:

(a) the insured is not registered for GST at the effective date of the insurance policy or takaful contract;

Example:

Lynn Sdn. Bhd., a non-registered person, bought a motor insurance policy with Zee Insurance to cover the windscreen of the company car. The effective date of the insurance policy is 1 August 2011. Lyna, an executive of Lynn Sdn. Bhd. met with an accident and was paid cash amounting to RM2,500 by the insurer to replace the windscreen on 25 April 2012. The insurer can claim input tax deemed incurred on cash payments made to Lynn Sdn. Bhd. (assuming GST implementation date is 1 January 2011).

(b) the cash payment is made pursuant to an insurance policy or takaful contract to an insured who is a GST registered sole proprietor and he uses the insurance policy or takaful contract other than for business purposes.

Example:

En. Razib, a GST registered restaurant operator purchases a fire insurance policy for his house in Jalan Senawang, Seremban. Since the insurance coverage is not for the purpose of any business carried on by him, the insurer can claim deemed input tax incurred on any cash payments made out to him in respect of a loss pursuant to his fire insurance policy.

(c) the cash payment is made pursuant to an insurance policy or takaful contract where the input tax is excluded from any credit such as medical insurance policy or personal accident insurance policy and the insured is a registered person.

Example:

Pretty Sdn. Bhd. purchases a medical insurance for Ahmad, his employee, and paid premium yearly. Maxim Insurance charges Pretty Sdn. Bhd. GST on the premium but Pretty Sdn. Bhd. cannot claim input tax since it is blocked. Unfortunately, Ahmad was hospitalized due to high fever and Maxim Insurance made cash payments to Pretty Sdn. Bhd. on the hospital charges. Maxim Insurance is entitled to claim deemed input tax on the cash payment made to Pretty Sdn. Bhd.

Deemed input tax on cash payment is computed as follows:

$$\frac{\text{GST rate}}{100 + \text{GST rate}} \times \text{cash payment}$$

In claiming the deemed input tax, the insurer has to keep records of the claim consisting of information showing that:

(a) the period of insurance cover under the contract of insurance commenced on or after the appointed date;

(b) the premium payable under the contract of insurance was subject to the rate of tax in force:

(c) the cash payment was made by him upon the occurrence of an insured event;

(d) the payment was obligatory under the contract of insurance; and

(e) the person who entered into the contract for insurance with him was a person:

   (i) who is not a registered person;

   (ii) who is a sole proprietor, registered person and purchased the insurance cover for any purpose other than a purpose in the course or furtherance of his business; or

   (iii) who is a registered person, bought an insurance policy where the input tax is excluded from any credit such as medical insurance or personal accident insurance.

Input tax claim on community project supplied by a registered business

19. A supply of goods or services without consideration for a community project may be treated as a supply made in the course or furtherance of the business. Any asset acquired which is taxable may be treated as attributable to the business's taxable supply and any input tax incurred for any supply made for a community project by the business is claimable.

Example:

Meranti Sdn.Bhd. is a GST registered company whose main business is making taxable supply of logs in Sarawak. The company is supplying health facility to a community surrounding the logging area, focusing on the community's better health. Meranti Sdn. Bhd. supplies the medical services without consideration and acquires the asset for the medical facility in order to provide such facility to the community. Any input tax incurred by Meranti Sdn. Bhd. in making the supply is claimable.

Input tax claim on tripartite arrangement

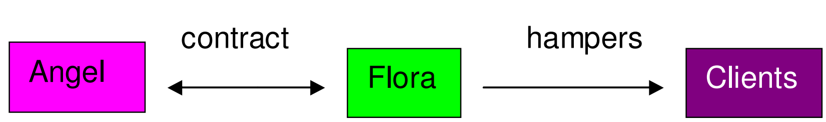
20. When a taxable person makes taxable supplies of goods or services to a recipient who is a registered person, the recipient is able to claim input tax for an acquisition he makes in the course of his business. However, in a tripartite arrangement, the recipient is not the person who makes the payment for the supply.

For a supply made to a third party, there must be a binding agreement or a link between the supplier and the person who makes payment for the supply. Any agreement which does not bind the parties does not amount to a supply unless there is a supply of goods or services between the parties. The person who has an agreement with a supplier for a supply is the recipient of that supply (even if that supply is provided to a third party). The documentation (terms of the contract) is the logical starting point in determining the supplies that have been made.

In this regard, the person who makes payment will be entitled to claim input tax on the acquisition of the goods since it is a taxable supply made by the supplier to the person who makes the payment of the supply.

Example 1:

Angel Sdn. Bhd. contracts with Flora Hypermarket to provide hampers worth RM10,000 to its business clients during Chinese New Year.

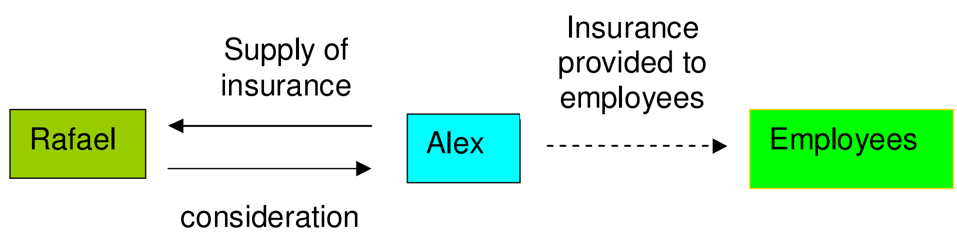


When Angel has a binding contract with Flora to supply hampers to the clients, there is a taxable supply made by the hypermarket to Angel. Angel Sdn. Bhd. is entitled to claim input tax worth RM400.

Example 2:

Alex Insurance, a GST registered insurance company, enters into an agreement with Rafael & Co., a GST registered consultancy firm, under which Alex Insurance agrees to provide medical insurance to the employees of the consultancy firm and Rafael & Co. agrees to pay for the premium. The obligations under the agreement between Alex Insurance and Rafael & Co. are binding.

The recipient of Alex Insurance's supply of insurance is consultant Rafael & Co. Alex Insurance's supply is made to Rafael & Co. and provided to the employees.



MANNER TO CLAIM INPUT TAX

21. GST cannot be claimed on goods and services which are not used for business purposes (e.g. for private use). Where goods are used partly for business and partly for non-business purposes, the GST incurred is normally apportioned. In order to claim input tax, a registered person must hold proper documents.

Documents Needed in Claiming Input Tax

22. Input tax incurred can be claimed if the recipient is a registered person. The recipient must hold a tax invoice in respect of a supply of goods or services. There are two types of tax invoices i.e. simplified tax invoice and full tax invoice. A simplified tax invoice is only valid for claiming of input tax if the consideration for the standard rated supply does not exceed RM500 (GST RM…….). If the consideration is more than RM500, the recipient must hold a full tax invoice.

23. A full tax invoice must be issued under the name of the registered person to be eligible for input tax credit. A tax invoice issued under the name of any person other than the registered person will not be eligible for input tax credit. The GST amount should be shown on the tax invoice; otherwise the registered person is not allowed to claim input tax using the tax invoice.

Example:

Mr. Hwang, a manager with Kaya Sdn. Bhd, entertains his clients for dinner at a restaurant to promote the company's new product. In claiming input tax, the bill/invoice should be in the name of Kaya Sdn. Bhd. and not under Mr. Hwang's personal name.

24. In respect of importation of goods, the importer must hold a valid Customs importation document Customs No.1. In respect of clearance of goods from bonded warehouses, the importer must hold Customs No.1 or No.9.

25. For importation of services, the recipient is required to hold a document such as the foreign supplier's invoice to show that he is entitled to claim input tax.

26. For deemed input tax claim relating to cash payment, the insurer is required to hold a document such as discharge voucher, payment advice or merely a letter of acknowledgement accompanied with a cheque payment.

For more information, please refer to the *Guide on tax invoice and record keeping.*

27. In the case of taxable supply of goods made by an approved person under the Flat Rate Scheme, the recipient is required to hold an invoice to be issued by the approved person. The invoice should contain particulars as follows:-

(a) invoice serial number;

(b) the name, address and identification number of the approved person;

(c) the date of issuance of the invoice;

(d) the name, address and GST identification number of the registered person to whom the goods are supplied;

(e) a description of the goods supplied; and

(f) the total amount payable excluding flat rate addition, the rate of flat rate addition and the total amount of flat rate addition to be shown separately.

Return

28. Claim for input tax can be made in the return GST-03 for the taxable period in which the supply or importation takes place.

ACCOUNTING FOR TAX

Accounting Basis

29. Under GST, there are two types of accounting basis which are invoice basis and payment basis. Generally, a registered person is required to account for GST based on invoice basis. However, he may apply to the Director General for approval of payment basis.

Invoice Basis

(a) In general, a registered person is required to account for GST based on invoice basis. Under the invoice basis, he is eligible to claim input tax on the date of tax invoice issued even though he has not made any payment in respect of the supply acquired.

Example:

Antonio Enterprise, a GST registered bookstore who submits GST return on a monthly taxable period received a supply of books on 31 May 2009 amounting to RM100,000. The bookstore received an invoice dated 6 June 2009 and made payment on 10 July 2009. The bookstore may claim input tax in a taxable period covering 6 June 2009 although he has not made any payment.

Payment Basis

(b) A registered person who has been approved to account for GST based on payment basis is eligible to claim input tax when he has made payment for the supply acquired.

Example:

Restoran Sedap, a GST registered restaurant has been approved to use payment basis on 1 May 2011. The restaurant purchased a new refrigerator on 30 August 2011 amounting to RM3,000 and received an invoice dated 8 September 2011. Payment was made on 4 October 2011. He is eligible to claim input tax in a taxable period covering 4 October 2011 although he received the invoice earlier.

Offsetting Input Tax against Output Tax

30. Input tax can be claimed by offsetting against the output tax. The registered person can claim his input tax without matching his purchases with the supplies made.

Example:

Tudung Cantik Sdn. Bhd., a GST registered manufacturer, manufactures scarves and sells them to a wholesaler, Warni Sdn. Bhd. for RM20,000 on 12 June 2012. The manufacturer acquired raw materials amounting to RM12,480 (inclusive of GST RM480) on 6 June 2012. In the GST return for June 2012, the manufacturer has to account and pay GST on the following:

Output tax : RM20,000 x 4% = RM800

Input tax : RM480

Amount payable to Customs in June GST return

= RM800 – RM480

= RM320

Period to Claim Input Tax

31. If input tax is not claimed in the taxable period in which he is supposed to claim, then such input tax can be claimed within six years after the date of the supply to or importation by the taxable person.

Example:

A registered person incurs GST on his telephone charges amounting to RM200 through an invoice dated 15 December 2009. He is entitled to claim the input tax in his return for the taxable period ending 31 December 2009. However, he fails to claim the input tax. He can claim the input tax in the subsequent tax return until the taxable period ending 31 December 2015. After 31 December 2015 he cannot claim the input tax anymore.

Refund of Input Tax

32. A refund will be made to the claimant if the amount of input tax is more than the amount of output tax.

Example:

The amount of input tax in a taxable period is RM50,000 and the output tax is RM30,000. The Director General will refund the balance of RM20,000 to the registered person.

(a) **Time When Refund is made**

A registered person can claim the input tax in the GST return furnished to Customs. If the amount of input tax exceeds the amount of output tax, the balance will be refunded. The refund of input tax will be made within 14 working days after the return to which the refund relates is received for online submission and 28 working days after the return to which the refund relates is received for manual submission.

Example:

A registered person furnished a GST return electronically on 10 January 2013 (Thursday) and is entitled for a refund amounting to RM10,000. The latest date to refund will be made before 31 January 2013 (excluding non-working days and public holiday).

However, the Director General may withhold the payment of refund if:-

(i) the registered person fails to submit any previous return;

(ii) the registered person fails to furnish information; or

(iii) there is a reasonable ground that the refund is not due to the registered person

(b) **Late Registration**

A taxable person has to pay the net tax and penalty to Customs if output tax exceeds the input tax. However, if input tax exceeds output tax, a refund will be made to him.

(c) **Refund to be carried forward**

A taxable person may apply in writing to carry forward any refund of input tax to any subsequent taxable period. In addition, the Director General may direct any refund of input tax to be held over to subsequent taxable period.

(d) **Offsetting Unpaid Tax against Refund of Input Tax**

Any refund of input tax credit may be offset against unpaid GST, excise duty, import and export duties.

Example:

A registered person has a refund amount of RM5,000 due to him. However, he owes GST amounting to RM2,000 and excise duty RM1,500. The refund amount of RM5,000 will be offset against the debt of RM3,500. As a result, the registered person is entitled to a refund of RM1,500.

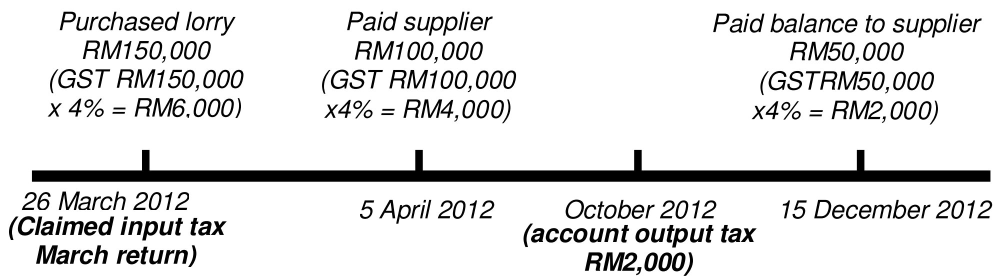
REPAYMENT OF INPUT TAX WHERE CONSIDERATION IS NOT PAID

Failure to Pay GST within Six Months from the Date of Supply

33. Where a registered person fails to pay the consideration for the supply of any goods or services made by his supplier within six months from the date of supply and he has claimed input tax on that supply, the taxable person is required to pay back the input tax by accounting an amount equal to the input tax as his output tax. He is required to account the output tax in the taxable period covering the month after the six month period.

Example:

Evans Sdn. Bhd accounts for tax on a monthly basis and purchases a lorry on 26 March 2012 (invoice issued on the same date) amounting to RM150,000 to be used in transporting goods for his customers. However, the company claims input tax of RM6,000 (RM150,000 x 4%) in the taxable period covering March 2012. The company paid RM104,000 (inclusive of GST RM4,000) to the lorry supplier on 5 April 2012. The balance of RM50,000 will be paid on 15 December 2012. The company is required to account and pay RM2,000 (RM50,000 x 4%) as output tax in the taxable period covering October 2012 (6 months after the date of supply).



Claim Back GST if Subsequently Pays Supplier

34. A registered person who has claimed input tax but failed to pay the supplier within six months from the date of supply has to pay back the input tax as his output tax. Subsequently, he paid his supplier the consideration for the supply of the goods or services and is now entitled to claim back the said output tax as input tax for the taxable period in which he made his payment.

Example:

Evans Sdn. Bhd. has accounted and paid an output tax of RM2,000 in the October's return as a result of his failure to pay to his supplier. The company settled the balance of RM50,000 to the supplier on 15 December 2012. Since he has now paid his supplier, he is entitled to claim the GST paid as his input tax in the taxable period covering December 2012.

Bad Debt relief

35. Bad debt is amounts owed that cannot be collected and all reasonable efforts to collect it have been done. A person is entitled for a bad debt relief subject to the following conditions:

(a) GST is already paid;

(b) the person has not received any payment or part payment 6 months from date of supply or debtor has become insolvent (bankrupt, wound up or receivership) before the six months has elapsed; and

(c) sufficient efforts have been made to recover the debt.

36. If the person has not received any payment in respect of the taxable supply, he can make a deduction or claim for the whole of the tax paid. However, if he has received part of the payment he can deduct or claim an amount calculated according to the formula:

$$\frac{A1}{B} \times C$$

where A1 is the payment not received in respect of the taxable supply;

B is the consideration for the taxable supply; and

C is the tax due and payable on the taxable supply.

37. In the event where a bad debt relief has been made by the Director General and subsequently payment has been received by the person, he has to repay to the Director General an amount calculated according to the formula:

$$\frac{A2}{B} \times C$$

Where A2 is the payment received in respect of the taxable supply;

B is the consideration for the taxable supply; and

C is the tax due and payable on the taxable supply.

INPUT TAX IN RELATION TO REGISTRATION

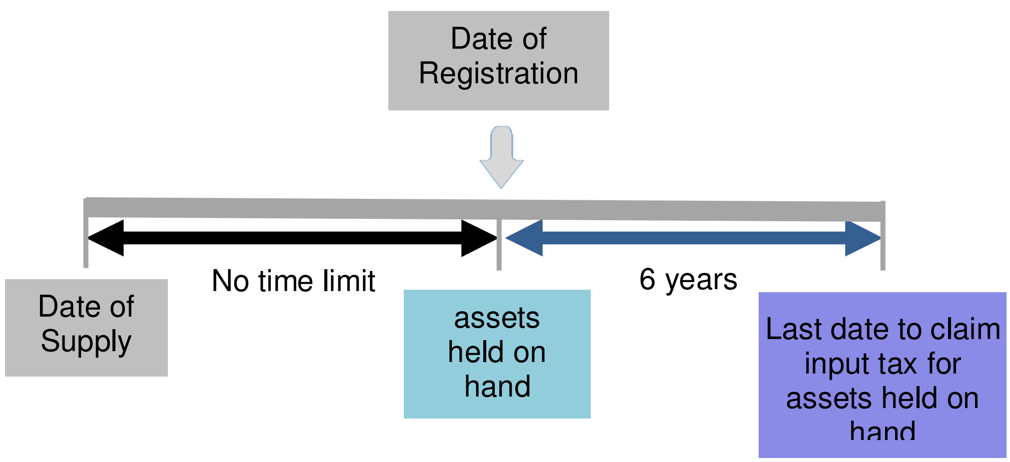
Pre-incorporation

38. GST incurred on pre-incorporation services such as secretarial, legal and administrative services are not eligible for input tax credit because they are services incurred before incorporation.

Pre-Registration

39. GST incurred on services acquired before registration (both voluntary and mandatory registration including late registration) is not eligible for input tax credit. However, in the case of goods including capital goods, the registered person is entitled to claim input tax on the goods he holds at the time of registration.

40. Input tax on any asset held on hand can be claimed on the book value within 6 years from the date of registration irrespective of when the asset is acquired. In the case of land and building, input tax claim is on the open market value of the assets or book value whichever is the lower.

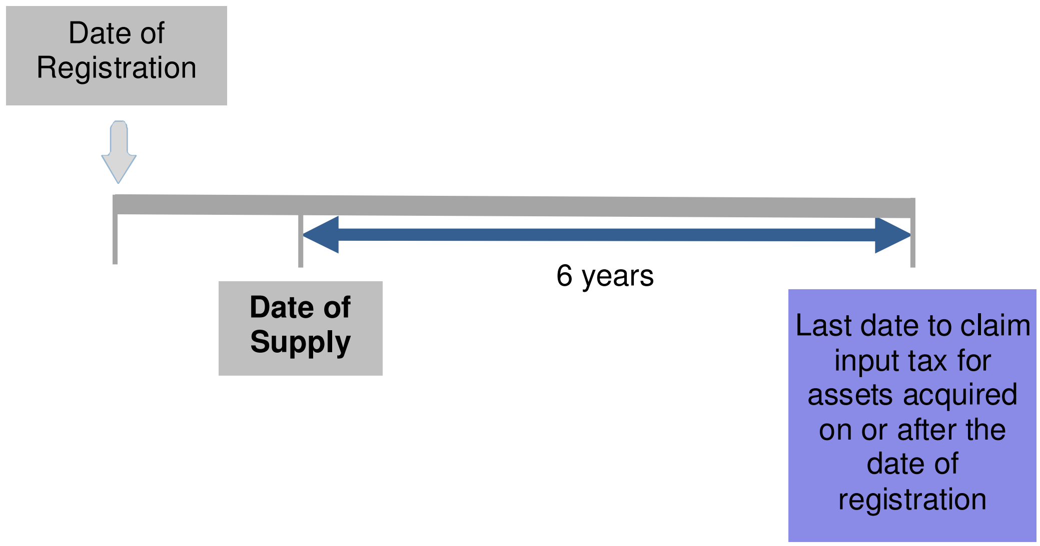


Example:

A GST registered manufacturing company purchased machinery valued at RM5,000,000 in June 2006 and pays GST amounting to RM200,000. The company is registered in April 2013. At the time of registration, the book value of the machinery is RM500,000. The manufacturing company being a wholly taxable supplier is eligible to claim input tax on the remaining RM500,000 (i.e.RM500,000 x 4% = RM20,000).

Normal Registration

41. For assets acquired after the date of registration, input tax claim is on the value of the goods at the time of supply. Input tax is claimable 6 years after the date of supply.



In the event a taxable person fails to claim input tax at the time of registration, he is entitled to claim input tax on the book value of the goods 6 years after the date of the supply.

Late Registration

42. Where a person registers on a date later than the date he becomes liable to be registered, he is entitled to claim input tax incurred on:

(i) goods held on hand at the time he is liable to be registered; and

(ii) goods or services used in making taxable supplies during the period he became liable to be registered.

Example:

An individual is liable to be registered on 1 January 2014. However, he comes forward to be registered on 1 April 2014.

a) *At the time he is liable to be registered he holds stocks with input tax valued at RM30,000 and capital goods whose residual value is RM1,500,000.*

b) *He has incurred input tax amounting to RM10,000 for supplies made during the period of late registration.*

During the late registration period he makes taxable supplies amounting to RM1,450,000.

Input tax :RM10,000 + RM30,000 + RM60,000 (RM1,500,000 x 4%)

= RM100,000

For the late registration period his return will cover:

Amount of tax payable: RM1,450,000 x 4 % = RM58,000

Late registration period: 1.1.2014 – 31.3.2014 (90 days)

Amount of penalty payable: RM750

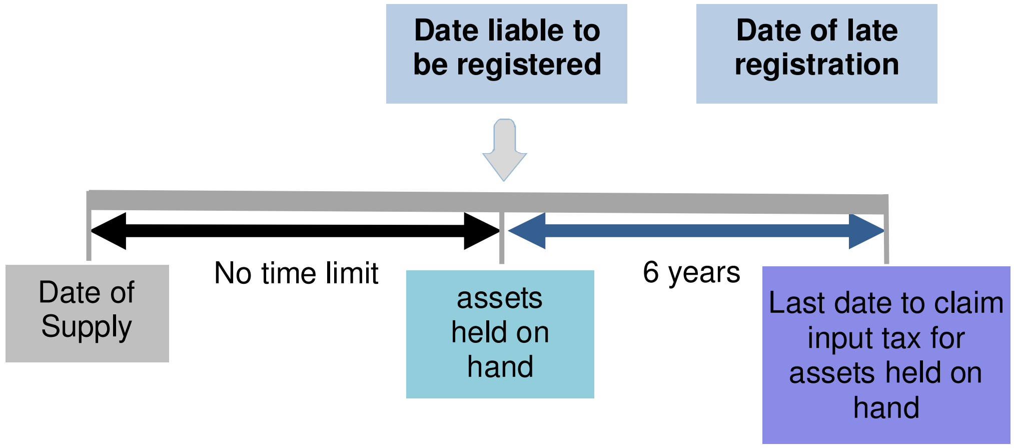
Total amount payable: RM58,000 + RM750 = RM58,750

In this case, input tax exceeds output tax. He is entitled to a refund of RM41,250 (RM100,000 – RM58,750)

Besides the return for the last registration period, he has to submit another return for the current taxable period i.e. April return.

(iii) **Acquisition of assets**

For assets acquired before the date he is liable to be registered, he is eligible to claim input tax on the book value of the assets irrespective of when the asset is acquired. For land and building, input tax claim is on the open market value of the assets or book value whichever is the lower.



However, if he is registered later than the six year period, he is not eligible to claim the input tax acquired before the date he is liable to be registered

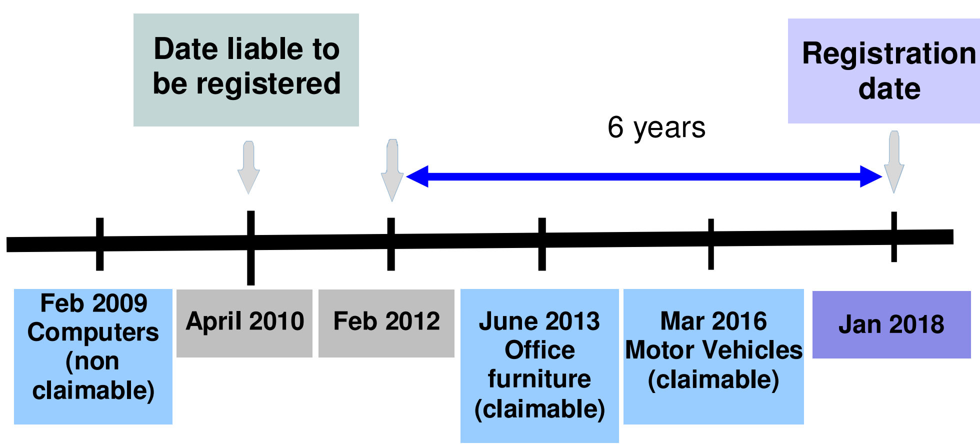
Example:

AMM Sdn. Bhd. has reached the threshold of RM500,000 and liable to be registered in April 2010. However, he comes forward to register in January 2018. Goods acquired by the company are as follows:

February 2009 ----- Computers --- RM250,000

June 2013 ---- Office furniture --- RM150,000

March 2016 ----- Motor vehicles ---- RM200,000



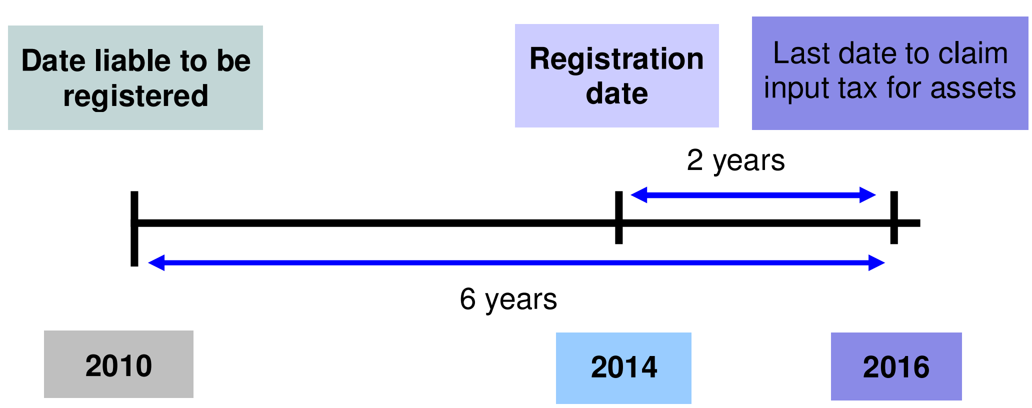
AMM Sdn. Bhd. is entitled to claim input tax on assets acquired in June 2013 and March 2016. Assets acquired in February 2009 are not claimable.

On the other hand, assets which are acquired after the date in which he is liable to be registered, input tax claim is only on the value of the assets at the time of supply. Input tax is claimable 6 years after the date he is liable to be registered.

If a taxable person fails to claim input tax at the time he is registered, he is entitled to claim input tax 6 years from the date he is liable to be registered.

Example:

ABC Sdn. Bhd. is liable to be registered in 2010 but comes forward to register in 2014. For assets purchased after he is liable to be registered, he can claim input tax 6 years after the date he is liable to be registered. ABC Sdn. Bhd. can claim input tax on the goods purchased from 2010 through 2016. Since he is registered in 2014 and fails to claim input tax on the registration date, he has 2 more years to claim input tax i.e. from 2014 through 2016.



Deregistration

43. Once a registration has been cancelled, the person cannot claim input tax on supplies acquired on or after the date of deregistration. However, he has to account for tax on stocks and capital goods held on hand as output tax if input tax has been claimed for such goods. For a mixed supplier where the business asset is used to make an exempt supply and he ceases business, he is not required to account for GST. He only accounts for GST if the input tax on the asset is allowed. Similarly, if he purchases goods from a non taxable person and he ceases business, he is also not required to account for GST.

44. If a person fails to claim any input tax other than the input tax mentioned in post deregistration, he is still eligible to claim such input tax after he has been deregistered provided that the claim is made within one year from the date of deregistration or within a period of six years from the date of supply whichever is the earlier. He has to account in the original return in which he fails to claim the input tax.

> ***Example:***
> *Cole company applies for deregistration on 31 July 2010. In the last taxable period the company has made taxable supplies amounting to RM65,000, holds stocks on hand RM 50,000, book value of capital goods RM750,000 and incurs input tax RM32,000.*
> *After deregistration he has to account net tax to Customs as follows:*
> *Output tax = (RM50,000 + RM750,000 +RM65,000) x 4%*
> *= RM34,600*
> *Input tax :RM32,000*
> *Net tax to be paid: RM34,600 – RM32,000 = RM2,600*
> *Any input tax incurred after 31 July 2010 is not eligible to be claimed.*

Post Deregistration

45. A person who has been but is no longer a registered person is eligible to claim input tax on services related to the deregistration process such as

audit and secretarial fees. Any post deregistration claim must be made by using JKED 2.

Example:

Cole company applies for deregistration on 31 July 2010. On 15 August 2010 Cole company incurs GST amounting to RM5,000 which relates to audit and secretarial fees. The amount of RM5,000 is eligible to be claimed as input tax even though Cole company is not a registered person at the time when Cole company receives tax invoice from the accounting and secretarial company.

INPUT TAX IN RELATION TO SPECIAL TRANSACTIONS AND SPECIAL SCHEMES

Transfer of Going Concern

46. The transfer of business as a going concern from one taxable person to another person is not treated as a supply for GST purposes subject to conditions stipulated in the Second Schedule of the GST Act 20XX. Hence, there is no input tax to be claimed by the transferee. However, any GST incurred by both transferor and transferee which is incidental to the transfer of going concern such as legal and accounting fees in carrying out the transfer is eligible for input tax credit.

47. Where assets of a business has been transferred as a going concern and there is a reduction of taxable use, the transferee is required to account the input tax claimed by the transferor as output tax to reflect the reduction in taxable use. The output tax is required to be declared in the GST return for the taxable period in which the reduction in taxable use occurs. This requirement will also apply to situation where the taxable person forms intention to reduce the taxable use of the business assets. At the same time, this requirement will not be applicable to capital goods with values more than RM100,000 since capital goods adjustment will be applicable to such items.

Joint Venture

48. In a joint venture, supplies can be acquired by a venture operator or venturers. Where a venture operator acquires any supply for the purpose of the joint venture, he is eligible to claim input tax on the supply. In the case where a venturer acquires any supply in respect of the joint venture, he is also eligible to claim input tax on the supply.

Example:

Indah Carigali who is a venture operator incurs GST amounting to RM2,000,000 on the purchase of an oil rig. At the same time, Kerang Pte. Ltd. who is a venturer purchases hydraulic pump and incurs GST amounting to RM20,000. Both Indah Carigali and Kerang Pte. Ltd. can claim input tax credit of RM2,000,000 and RM20,000 respectively. Since Kerang Pte. Ltd. has already claimed input tax credit of RM20,000, Indah Carigali cannot claim the input tax that has been claimed by Kerang Pte. Ltd.

Flat Rate Scheme

49. Under the Flat Rate Scheme, an approved person who carries out prescribed activities may charge flat rate addition to a registered person. A registered person may claim the flat rate addition on the taxable supply of goods acquired by him.

Example:

A tobacco grower who is an approved person under a Flat Rate Scheme supplies tobacco to Cigaretto Sdn. Bhd. worth RM6,000. He issues an invoice and charged a fixed flat rate addition (1%) on the supply of tobacco to the company for a total amount of RM6,060. The company who is registered person can claim input tax credit based on flat rate addition amounting to RM60.

Capital market

50. Under equity market, a stock broker and remisiers are treated as a single entity and similarly, a futures broker and futures broker representatives are also treated as a single entity under futures market. Any input tax incurred by remisiers or futures broker‘s representative for the purpose of business such as telecommunication services has to be claimed by the stock broker or futures broker, as the case may be, since the registration is in the name of the stock broker or futures broker. The remisier or futures broker’s representative cannot claim the input tax incurred by him. In addition, the stock broker or futures broker may claim any input tax incurred by him for the purpose of the business.

Example:

A stock broker incurs GST totaling RM150,000 for administrative expenses and brokerage commission in carrying on stock broking business. The stock broker has 50 remisiers under his charge. In carrying on brokerage services, a remisier incurs GST on telecommunication services, parking charges and internet services totaling RM150. The stock broker may claim GST amounting to RM150,000 for the administrative expenses. In addition, he can also claim RM150 on behalf of the remisier which he subsequently refunds to the remisier. Since the stock broker has claimed the RM150 on behalf of the remisier, the remisier cannot claim the RM150.

INPUT TAX IN RELATION TO OWN USE

51. In carrying on a business, some supplies are being used internally by staff or directors of a business while some supplies are subsequently used internally for making integrated supplies. Integrated supply is a supply by the same person which becomes an input to make another supply. The entitlement to claim input tax on supplies utilized for own use depends on whether it is used for business or private purpose.

Supply Used by Directors or Staff

52. Some business assets are used for business purposes as well as private use. If a business asset is used for business purposes, a registered person is allowed to claim input tax on the business asset. However, the registered person is required to account for GST on the usage of the business asset for private use.

Example:

Renta Kanopi Sdn. Bhd., a GST registered company purchased canopies and tents at RM45,000 and claimed input tax amounting to RM1,800. The company is in a business of renting Arabian/Gazebo canopies for events and functions at RM250/ canopy per day. A senior manager used 10 of the company's canopies at his son's wedding for 2 days. However, the company is required to account GST on the private use of the canopies i.e. 4% x RM5,000 (RM250x10x2) = RM200.

Integrated Supply Used for Making Taxable Supply

53. A taxable person makes a product which is then used for making another taxable supply. Where a taxable person uses a product to make another taxable supply, he is allowed to claim any input tax on supplies used in making the integrated supply product.

Example:

Alee Sdn. Bhd., a manufacturing company bought resins worth RM20,000 and paid GST amounting to RM800 for the production of plastic bottles. The plastic bottles are used as containers for mineral water. The company can claim input tax on plastic resins used for making plastic bottles (integrated product) amounting to RM800 which are used as containers for mineral water.

Integrated Products Used for Making Exempt Supply

54. Some businesses may use an integrated product for making an exempt supply. In such a case, the taxable person is not allowed to claim any input tax on supplies used for making the integrated product.

Example:

A housing developer makes drain culvert which are being used to construct a residential house. The input tax on cement and sand is not allowed to be claimed because residential house is an exempt supply.

INPUT TAX IN RELATION TO CHANGE OF USE

55. Generally, input tax is claimable when a taxable person intends to use inputs to make a taxable supply. A change of use occurs when a taxable person uses or intends to use the goods or services in:

(a) making exempt supplies or both taxable and exempt supplies instead of taxable supplies;

(b) making exempt supplies, instead of both taxable and exempt supplies; or

(c) continuing to make both taxable and exempt supplies, but reducing the proportion of taxable supplies to exempt supplies.

56. However, input tax is not claimable when a taxable person intends to use inputs to make an exempt supply. A change of use also occurs when a taxable person uses or intends to use the goods or services in:

(a) making taxable supplies or both taxable and exempt supplies instead of exempt supplies;

(b) making taxable supplies, instead of both taxable and exempt supplies; or

(c) continuing to make both taxable and exempt supplies, but increasing the proportion of taxable supplies to exempt supplies.

57. When there is a change of use, the taxable person shall make an adjustment to the input tax that has been claimed earlier. A change of use will lead to over deduction or short claim of input tax. In the case of capital items with value more than RM100,000, capital goods adjustment is to be used. In cases where the value of the capital items is less than RM100,000, partial exemption has to be used.

58. Over deduction will occur when the percentage of usage for taxable supply has decreased. On the other hand, short claim refers to situation where the percentage of usage for taxable supplies has increased.

Over-deduction

59. Where a registered person has over-deducted input tax as a result of change of use of goods or services acquired, he is required to make an adjustment of the over-deducted input tax as output tax in the tax return for the taxable period in which the change of use takes place and shall repay the tax accordingly.

Example 1:

In January 2011, INSURCO Sdn. Bhd., a GST registered insurance company purchases 3 photostat machines amounting to RM15,000 and incurred GST RM600 to be used in providing general insurance. At the time of purchase, INSURCO claims 100% of the input tax of RM 600. At the end of the year, INSURCO has used the photostat machines to provide life insurance. The company has to payback the over claimed GST of RM600 as his output tax in his tax return in which the change of use occurs.

Example 2:

In January 2011, INSURCO Sdn. Bhd., a GST registered insurance company purchases 3 photostat machines amounting to RM15,000 *and incurred GST RM600 to be used in providing general and life insurance. At the time of purchase, the company claims 70% of the input tax of RM 420. At the end of the year, INSURCO has used the photostat machines to provide only life insurance. INSURCO has to payback the over claimed of GST RM420 as his output tax in his tax return in which the change of use occurs.*

Example 3:

In January 2011, INSURCO Sdn. Bhd., a GST registered insurance company purchases 3 photostat machines amounting to RM15,000 and incurred GST at RM600 to be used in providing general and life insurance. At the time of purchase, INSURCO claims 70% of the input tax at RM 420. However, the actual usage of providing general insurance is 60% i.e. RM360. INSURCO is required to pay 10% (RM60) as his output tax in his tax return in which the change of use occurs.

Short Claimed

60. Where a registered person has short claimed input tax as a result of change of use of goods or services acquired, he is required to make an adjustment of the short claimed input tax as input tax in the tax return for the taxable period in which the change of use takes place.

***Example 1*:**

In January 2011, INSURCO Sdn. Bhd., a GST registered insurance company purchases 3 photostat machines amounting to RM15,000 and incurred GST at RM600 to be used in providing life insurance. At the time of purchase, INSURCO did not claim input tax of RM600. At the end of the year, INSURCO has used the photostat machines to provide general insurance. INSURCO can claim the short claim of GST RM600 as his input tax in his tax return in which the change of use occurs.

Example 2:

In January 2011, INSURCO Sdn. Bhd., a GST registered insurance company purchases 3 photostat machines amounting to RM15,000 and incurred GST at RM600 to be used in providing general and life insurance. At the time of purchase, INSURCO claims 70% of the input tax at RM 420. However, the actual usage of providing general insurance is 80% i.e. RM480. The company is eligible to claim 10% (GST RM60) as his input tax in his tax return in which the change of use occurs.

INPUT TAX IN RELATION TO ACCOUNTING BASIS

Change of Accounting Basis

61. Where a change in the accounting basis i.e. from an invoice basis to payment basis or vice versa has been approved by the Director General, a registered person is required to:

(a) calculate the tax payable or refundable;

(b) make the necessary adjustment to tax by including the tax payable or refundable; and

(c) notify the Director General in the first return in which the change of accounting basis occurs.

62. The calculation requires that a list of creditors and a list of debtors to be prepared which identifies the amount due by and to the registered person as at the last day of the taxable period before the change takes place. Adjustments to output tax and input tax are then calculated with reference to those lists.

Example:

A retailer, Schaltz Sdn. Bhd. accounts for tax using the invoice basis. He has been approved to use payment basis beginning 1 July 2011.

As at June 30 2011, the total amount owing to creditors is RM50,000 inclusive of GST and the total amount due from debtors is RM250,000 inclusive of GST. The list of creditors and debtors as at 30 June 2011 is as follows:

	CREDITORS		***DEBTORS***	
No.	***Name***	***Amount (RM)***	***Name***	***Amount (RM)***
1.	*Lisa Sdn Bhd.*	*6,240*	*Yus Sdn Bhd*	*50,000*
2.	*Hani Sdn Bhd*	*15,000*	*Faz Sdn Bhd*	*70,000*
3.	*Suri Sdn. Bhd*	*9,000*	*Zie Sdn Bhd*	*70,000*
4.	*Sari Sdn Bhd*	*8,000*	*Rie Sdn Bhd*	*40,000*
5.	*Kari Sdn Bhd*	*12,000*	*Tin Sdn Bhd*	*20,000*
	TOTAL	***50,000***	***TOTAL***	***250,000***

Tax refundable to the registered person is RM7,692.30 calculated as follows:

Creditors – Debtors

RM50,000 – RM250,000 = (RM200,000)

(RM200,000) x 4/104 = (RM7692.30)

The amount of RM7,692.30 will be declared as input tax in the first return after payment basis takes place.

In the case when Schaltz Sdn. Bhd. has been approved to change his accounting basis from payment to invoice basis he has to make an adjustment as follows:

Debtors – Creditors

RM250,000 – RM50,000 = RM200,000

RM200,000 x 4/104 = RM7,692.30

Schaltz Sdn. Bhd has to account for output tax of RM7,692.30 in the first return after invoice basis takes place.

FREQUENTLY ASKED QUESTIONS

63. Entitlement to input tax

Q1: I am a retailer and a GST registered person. I invest my excess money in properties and unit trust. I incur GST on these investments. Am I entitled to claim input tax?

A1: Yes, you are entitled to claim input tax since the investment in unit trust is an incidental exempt financial supply and as a retailer you are not in the business of providing financial services. In the case of properties, input tax incurred in the investment is claimable if there is a direct and immediate link between the acquisition and the taxable supply.

Q2. I am a GST registered subcontractor dealing in painting of furniture. Besides the furniture to be painted, the company also supplies me with the material such as paint, thinner for the paint and chemical. I carry out my business from a rented premise. Am I entitled to claim input tax?

A2: You are entitled to claim input tax on the rental payment and other input tax incurred.

Q3: I am a GST registered biscuit manufacturing company. In carrying out my business, I purchase 20 digital weighing machines at RM100,000 (exclusive of GST RM4,000) for my packaging department. After 5 years, I sold 10 of the machines to a sole proprietor who is not a registered person. What is the GST treatment?

A3: Since you are a taxable person and the machines are used in the course or furtherance of business you are entitled to claim the input tax incurred on the machines. When you sell the machines you have to charge GST since it is a supply of goods. The sole proprietor, being a non registered person is not entitled to claim input tax even though he has incurred the input tax.

Q4: **ABC Sdn. Bhd., a GST registered person operates a pension fund. Besides renting out of office buildings, ABC invests the funds in the capital markets in order to pay high dividends to the contributors**. ABC **engages an external fund manager to invest the funds and was charged a management fee for the investment services rendered by the external fund manager. Is ABC entitled to claim the GST paid on the management fees charged by the external fund manager?**

A4: ABC is not entitled to claim input tax on the management fees charged by the fund manager since investment of the funds in the capital markets is an exempt supply.

64. Allowable input tax

Q1: I am a coin collector. I paid GST on the coins that I purchased. Can I claim the GST paid?

A1: You cannot claim the GST paid on the coins that you purchased since coins collection is a hobby and not business. You can claim the GST on the coins if you are in the business of trading coins.

Q2: I am a GST registered consultancy company and bought a set of antique furniture from Italy to be used in the business lounge amounting to RM100,000 and GST RM4,000 in July 2011. Can I claim the input tax?

A2: You can claim the input tax of RM4,000 in the taxable period you purchase the furniture.

Q3. I bought painting for my office in which I had claimed the input tax incurred on the painting. After 6 months, I decided to remove the painting and put it in my house. Do I have to pay back the input tax which I have claimed earlier for the painting?

A3: When you remove the painting for personal use at home you have to account for output tax.

Q4: I am a GST registered retailer and purchase 100 cans sardines valued at RM600, of which 95 cans are subsequently sold and 5 cans are used for private consumption. How much input tax can I claim?

A4: You can only claim the input tax on 95 cans. Assuming the GST rate of 4%, the company can claim RM22.80 (RM600 x 4% x 95/100).

Q5: I am a GST registered person running a hotel business. Occasionally, I provide complimentary rooms to persons such as travel agents or travel writers. Can I claim input tax on the complimentary room?

A5: Complimentary room is not subject to GST. However, input tax incurred on the complimentary room is claimable since it is for the furtherance of business.

Q6: I am a soap manufacturing company and registered under the GST Act. There are 75 employees in the company including the administrative staff. Every month I issue gifts of soap worth RM30 to every employee. Can I claim input tax incurred on the gifts of soap?

A6: Gifts of goods to the same person in the same year where the total cost is not more than RM500 is not a supply. Hence, the gifts of soap to the employees worth RM360 per year are not a supply and therefore not subject to GST. Input tax incurred on the soaps is claimable.

65. Blocked input tax

Q1. I am a GST registered company and bought a car for my director's use. I did not claim the input tax on purchase of passenger motor car because it is blocked. Every 4 months

I incur GST on the maintenance services of the car. Can I claim the GST paid on maintenance services of the car?

A1: You can claim the GST paid on the maintenance services of the car.

Q2: I am a GST registered company. I arrange a golf tournament for my clients on the second anniversary of the company's establishment. Can I claim input tax on the green fees and meals for the clients?

A2: You can only claim input tax incurred on golf tournament held for existing clients. However, input tax incurred on entertainment for family members and potential clients is blocked.

Q3: I am a car importer and a GST registered person. On importation of the cars, I paid import duty, excise duty and GST. Can I claim the GST paid on the importation of the cars?

A3: You can claim input tax on the cars that you import because the imported cars are part of your trading stock.

Q4: I am a sole proprietor and a GST registered person. In doing my business I hire a car for delivering the goods to my clients. Can I claim the GST paid on the hired car?

A4: You can claim the GST paid on the hired car for business purposes subject to the Director General's approval.

Q5: I am a company limited by shares. Every year I hold an Annual General Meeting where shareholders will attend and exercise their voting rights. Normally lunch will be provided. Am I entitled to claim input tax on entertainment expenses provided to shareholders?

A5: **Y**ou are entitled to claim input tax on the entertainment expenses provided to shareholders since it is for the furtherance of business.

66. Incidental exempt financial supplies

Q1: I am a GST registered telecommunication company. In order to raise capital, the company issues sukuk. In issuing the sukuk, the company incurs input tax on management services. Can I claim GST incurred on the management services?

A1: Since you are a telecommunication company and the issuance of sukuk is incidental to your business, you are allowed to claim the GST incurred on management services relating to the issuance of sukuk.

67. Manner to claim Input tax

Q1: In the taxable period of September 2012, I lost all my purchase invoices due to flash flood. Am I still entitled to claim input tax for that taxable period?

A1: If you can get certified copies of the invoices from your supplier you may claim input tax for the taxable period of September 2012. If you fail to claim in the taxable period of September 2012, you can still claim the input tax within six years from the date of the supply.

68. Input tax in relation to registration

Q1: I am a transport company and on 1 January 2009 I purchased a lorry for RM250,000 of which I have paid GST RM 10,000. I became a registered person on 1 June 2010. The book value of the lorry on 1 June 2010 is RM200,000. Can I claim the GST paid on the lorry?

A1: You cannot claim the whole amount of GST paid on the lorry since you are only registered for GST on 1 June 2010. However, you can claim a portion of GST paid based on the book value i.e. RM7692.30 (1/26 x RM200,000).

FURTHER ASSISTANCE AND INFORMATION

69. For further assistance and information, please contact our officer at any of our GST office or Customs Call Centre at 603-78067200 or 1-300-88-8500. You may also e-mail us at gst@customs.gov.my.

Royal Malaysian Customs Department
Ministry of Finance
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