



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE ON AIRLINE INDUSTRY

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INTRODUCTION

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

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

5. This guide explains the provision of GST treatment relating to the airline industry and supplies made to aircraft and services rendered in the airport area including aerodrome.

6. An airline is defined as an undertaking which provides services for the carriage by air of passengers or cargo. The undertaking can be a sole proprietor, partnership, corporate body or any other entity, but is not necessarily confined to a single entity. An airline will need to operate at least one aircraft which it may own, lease or hire for this purpose.

7. On top of that there are various entities involved in the airline industry including government body.

GST TREATMENT FOR THE INDUSTRY

Supply of Aircrafts

8. For the purpose of this guide, an aircraft means any aircraft which is not used nor intended to be used for recreation or pleasure.

9. Aircraft *includes*

- (a) Aeroplanes (civil or military), and
- (b) helicopters

but *excludes*

- (a) gliders,
- (b) simulators,
- (c) hot air balloons, and
- (d) satellites.

10. The supply of aircrafts includes the sale, import or acquisition, and charter including hire and lease of such aircrafts.

11. The supply of aircrafts is standard-rated.

12. Importers of aircrafts may be eligible for the Approved Trader Scheme (ATS). Please refer to the Guide on ATS for further information.

13. Charter can be used to describe:

- (a) the lease of an aircraft, which is a hire with or without pilot or crew,
- (b) freight transport services,
- (c) passenger transport services, or
- (d) some other services

14. Charter or hire of an aircraft without pilot or crew is often referred to as dry charter whereby the customer takes possession and has the exclusive use of the aircraft. The GST treatment is the same whether or not there is a formal charter or hire contract in place and is treated as the supply of a means of transport. Charter or hire of an aircraft is subject to GST at standard rate.

15. Charter or hire of an aircraft with pilot or crew is referred to as a wet charter, charter party or time charter whereby normally the customer exercises direction over the operation and movement of the aircraft but the owner provides the crew. Eventually this kind of charter or hire becomes freight transport services or passenger transport services or some other services. Please refer to the relevant guides for more information.

Example 1:

When an aircraft is leased from a registered person, the lease payment is subject to GST at standard rate.

Example 2:

On the other hand, if the aircraft is leased from a foreign party, GST will then be charged on the importation of the leased aircraft into Malaysia at the when the aircraft is imported.

Example 3:

An aircraft is chartered with pilot and crew by a football association to carry football players for matches overseas. Such charter is considered a supply of international passenger transport service, and therefore subject to GST at zero rate.

Air Navigation Services for Aircraft

16. Air navigation services include the provision of aeronautical information, air traffic control and flight information in relation to the movement of aircrafts to, from and within Malaysia.

17. Supply of air navigation services is provided by the Department of Civil Aviation (DCA) while the Royal Malaysian Air Force (RMAF) performs the air navigation services for military aircrafts at the military bases.

18. Services performed by government agencies such as DCA and RMAF to any aircraft, whether local or foreign, are out of the scope of GST, and therefore GST is not chargeable.

Aircraft Handling Services

19. Aircraft handling services include:

- (a) landing,
- (b) parking,
- (c) hangar services,
- (d) apron services, and
- (e) security and fire services

20. Handling services supplied in relation to aircraft are chargeable at zero rate.

Aircraft Management Services

21. Aircraft management services are normally part of a management agreement with an aircraft owner or aircraft operator. Services of an aircraft manager usually include the supervision of the maintenance, survey and repair of an aircraft, arranging of insurance in connection with an aircraft, handling insurance claims, engagement and provision of crews, among others.

22. Aircraft management services are chargeable at zero rate provided the services are rendered in relation to the operation of an aircraft.

Aircraft Brokers

23. Aircraft brokers make arrangements for the supply of space in an aircraft. Brokerage and agency services supplied in relation to an aircraft are zero-rated.

Other Related Services to Aircraft

24. There are other related services provided to an aircraft such as:

- (a) registration services provided by DCA,
- (b) air worthiness certification provided by DCA,
- (c) surveying and classification services, and
- (d) repair, maintenance and installation services

25. Registration services and air worthiness certification provided by DCA to aircrafts are out of the scope of GST, and therefore GST is not chargeable.

26. Classification services in relation to registration purposes and surveying services in relation to issuance of certificate of airworthiness are subject to zero rate. However, if these services are provided by DCA, they are then out of the scope of GST.

Repair and Maintenance of Aircrafts and Installation of Parts.

27. Repair and maintenance services includes :

- (a) restoring the aircraft or aircraft parts to a serviceable condition,
- (b) modification, overhaul, improvement and upgrading works to improve the reliability of the aircraft or aircraft parts but does not alter the nature and form of the original aircraft or aircraft parts,
- (c) evaluation and recertification to assess whether the aircraft or aircraft parts are repairable or airworthy, and
- (d) testing of parts and components, cleaning and fumigation.

28. The supply of repair and maintenance services to aircrafts is zero rated.

29. The supply of aircraft parts including installation services supplied thereof is zero-rated subject to the following conditions:

- (a) the parts are installed or incorporated in the propulsion, navigation or communications systems, or the general structure of the aircraft (they

must be unique and have no alternative uses apart from being used on an aircraft), and

- (b) the aircraft parts must be new or serviceable to be airworthy.

Cargo Handling

30. Cargo handling includes the loading, unloading, handling and storage of aircraft cargo. Such services are normally provided by a forwarding agent and are subject to GST at standard rate. However, if these services are provided by an airport operator in an airport, it will then be zero-rated.

31. Storage services of aircraft cargo in an airport is zero-rated when supplied in connection with a specific movement of cargo that have been or are to be carried in an aircraft, for instance their storage overnight before being loaded or after being unloaded. This includes cold storage.

32. Examples of cargo handling services are:

- (a) cargo security services,
- (b) container handling,
- (c) loading and unloading,
- (d) transfer handling,
- (e) preparing or amending air waybills,
- (f) preparing or amending customs entries,
- (g) presenting goods for customs examination,
- (h) sorting, opening for inspection, repairing and making good, weighing, and tarring, taping and sealing, erasing and re-marking, labelling and re-numbering, tallying, checking, sampling, measuring or gauging of goods,
- (i) surveying of cargo (including damaged cargo)
- (j) special cargo handling, or
- (k) handling services for live animals.

33. Cargo handling services supplied in relation to international movement cargo (import and export cargo including transshipment) is zero-rated.

34. On the other hand, cargo handling services is subject to GST at standard rate if it is supplied in relation to domestic movement cargo.

Example 1:

The loading, unloading and handling of goods for shipment from KLIA to Kota Kinabalu is subject to standard rate. The service provider (GST-registered) has to charge GST to the owner or consignor of the goods.

Example 2:

ABC Transport Company is contracted by a local manufacturer to transport its goods from its factory in Shah Alam to London via KLIA. This transport company provides all the necessary cargo handling services for both the domestic as well as the international legs of the shipment of the goods. Such services supplied by the same supplier qualify for zero-rated treatment of GST.

Other Services

35. There are other services which are related to the airline industry such as :

- (a) supply of aircraft stores,
- (b) catering services,
- (c) rental of commercial lots,
- (d) aviation training services,
- (e) airport security,
- (f) airport parking, and
- (g) advertisements.

36. Aircraft stores are duty free goods for sale to passengers on international flights. Such goods are subject to GST at zero rate. However, duty free goods are not made available to aircrafts operating solely on domestic flights within Malaysia.

37. Goods which are classified as stores are as follows:
- (a) Consumable goods, for example:
 - (i) In-flight catering (food and drink including alcoholic drinks such as spirits, wine and beer),
 - (ii) tobacco products,
 - (iii) reasonable quantities of controlled drugs as medical supplies for use on a flight, and
 - (iv) fuel, lubricants and cleaning materials.
 - (b) Non-consumable goods, for example:
 - (i) cabin supplies, and
 - (ii) parts and equipments for fitting into the aircraft (including equipments such as video recorders, solely for the benefit of passengers on board an aircraft)
38. Catering services provided for domestic flights is subject to GST at standard rate, and zero-rated for international flights.
39. Rental charges of commercial lots in airport terminal building are subject to GST at standard rate.

Example:

XYZ Telecommunications has rented a commercial lot in the airport terminal building to market its products. The terminal operator (GST-registered) has to charge GST on the rental charges.

40. Aviation training services provided by DCA is out of the scope of GST, and therefore GST is not chargeable.
41. Provision of security services at an airport is subject to GST at standard rate.
42. Parking charges for cars, taxis and busses around the airport area are subject to GST at standard rate.

43. Provision of advertising space at an airport terminal by an airport operator is subject to GST at standard rate.

44. The GST treatment for fuel supplied for domestic flights is standard-rated. If the fuel is supplied to aircrafts for international flights, it will then qualify for zero-rated treatment.

FREQUENTLY ASKED QUESTIONS

Q1: What is the GST treatment for the supply of air containers?

A1: GST is chargeable at zero rate.

Q2: What if the air containers are leased?

A2: The lease of air containers is also zero-rated.

Q3: Does repair and maintenance service of air containers qualify for zero-rated treatment?

A3: No. It is subject to GST at standard rate.

Q4: What is the GST treatment for passenger service charge?

A4: Passenger service charge imposed by an airport operator is subject to GST at standard rate irrespective of whether it is for domestic or international travels.

Q5: Does cargo handling services include clearance of goods from customs control?

A5: Yes. A GST-registered forwarding agent will charge owners of the goods GST at standard rate for services supplied in clearing the goods from customs control.

Q6: What if the clearance of goods from customs control is done by an airport operator?

A6: An airport operator normally does not handle the clearance of goods. However, if the airport operator clears goods on behalf of the owner / consignee of goods, the handling service will then qualify for zero-rated treatment.

Q7: Fumigation is a process which is required to be done on most cargos before exportation or after importation. What is the GST treatment for fumigation?

A7: Fumigation service is subject to zero rate since it is supplied in relation to international movement cargos.

Q8: What is the GST treatment for aviation training services provided by entities other than DCA?

A8: Aviation training services provided by entities other than DCA is subject to GST at standard rate.

FEEDBACK OR COMMENTS

45. 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 INFORMATION

46. Further information can be obtained from:

- (a) GST Website : *www.gst.customs.gov.my*
- (b) Customs Call Centre :
 - Tel : 03- 7806 7200/ 1-300-888-500
 - Fax : 03- 7806 7599
 - E-mail : *ccc@customs.gov.my*