



# **ROYAL MALAYSIAN CUSTOMS**

## **GOODS AND SERVICES TAX**

### **GUIDE ON CO-OPERATIVES**

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## **INTRODUCTION**

1. This guide is to assist you in understanding the GST treatment on the supply of goods or services made by co-operatives.

### **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 listed in the Goods and Services Tax (Exempt Supply) Order 2014. GST is also charged on the 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 2014 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.

## **BACKGROUND ON COOPERATIVE**

5. Co-operative is an autonomous association of persons united to meet their common economic, social and cultural aspiration through a jointly owned and democratically enterprise, registered under the Cooperative Societies Act 1993. It covers many sectors including primary industries, manufacturing, construction, housing, consumer, land development, transportation, finance/credit or banking, agriculture and services.

### **The role of Malaysian Cooperative Commission (MCC)**



6. The Malaysian Cooperative Commission is a statutory body which carries out the regulatory and enforcement function on all cooperatives in Malaysia based on the Cooperative Societies Act 1993. Their role and function are as follows -

- (a) registering and cancelling the registration of cooperatives and ensuring that cooperatives function in accordance with the provisions of the Cooperatives Societies Act 1993.
- (b) encourages and promotes the establishment and development of cooperatives in all sectors of economy and assists in enhancing cooperatives efficiency.
- (c) advice the minister on any matters relating to cooperatives.

### **The role of ANGKASA**

7. The National Co-operative Organization of Malaysia (ANGKASA) is recognized by the government as the body representing the Malaysian Co-operative movement in the national and international level. It strives to protect the interests of the cooperative movement in this country. However, it is not involved in regulatory and enforcement in relation to cooperative.

### **GST TREATMENT ON CO-OPERATIVES' ACTIVITIES**

8. Generally, the supply of goods and services by co-operatives are taxable supplies at standard rate. However, GST treatment for co-operative activities may vary depending on the type of co-operative. The following are examples of GST treatment on the supplies of co-operative activities-

<b>No.</b>	<b>Activity</b>	<b>Type of supply</b>
1.	Credit & Finance	Exempt
2.	Retailing	Taxable at standard or zero rate
3.	Public Transportation	Exempt
4.	Manufacturing	Taxable at standard rate

5.	Education registered under Education Act 1996	Exempt
6.	Property Development	Exempt for residential, taxable at standard rate for commercial building

*For further information on the treatment on the various industries, please refer to the relevant GST industry guides.*

## FREQUENTLY ASKED QUESTIONS

### **Q1. Is registration for GST compulsory for all co-operatives?**

A1. All co-operatives who make taxable supplies of goods or services in Malaysia where the taxable turnover exceed the prescribed threshold (RM500,000) in the past 12 months, or expected to exceed the prescribed threshold within the next 12 months are mandatorily required to register for GST. A co-operative may choose to register voluntarily even if it has not reached the prescribed threshold. Once registered voluntarily, the co-operative has to stay in the system at least for two years before it can apply for deregistration.

For further details, please refer to the GST Guide on Registration.

### **Q2. How do I calculate threshold?**

A2. To calculate threshold, businesses must include taxable supplies such as;

- (a) standard rated supplies (goods and services taxed at 6%)
- (b) zero rated supplies (goods and services taxed at zero %)
- (c) deemed supplies such as use of business goods for private use;

but do not include:

- (i) exempt supplies e.g. public transport and tolled highway,
- (ii) out of scope supplies e.g. supplies made by Government or by any local authority or statutory body in performing its regulatory and enforcement function such as issuing of business license, approval to put up advertisements,
- (iii) imported services,



- (iv) sale of capital assets,
- (v) supply of goods and services in designated area which is Langkawi, Tioman and Labuan.

**Q3. How do I know that I am making a taxable supply for the co-operative?**

A3. Any goods or services which are not in the GST (Exempt Supply) Order 2014 are taxable supplies which can be at the standard rate of 6% or at zero rate. There are also goods given relief from the payment of GST under the GST (Relief) Order 2014 but these goods are also taxable supplies.

**Q4. Are transactions in real estate co-operative subject to GST?**

A4. No, not all real estate transactions are subject to GST. The sale and lease of residential properties (building approved exclusively for residential purposes) are exempt and no GST will be charged.

Transactions involving other types of properties that do not fall within the definition of residential properties (that is commercial properties) will be taxable, such as hotel, shop house, chalet, boarding house etc.

**Q5. Supplies of residential properties are exempt from GST. Does it mean that all works relating to the construction of residential properties by cooperative are also exempt from GST?**

A5. No, all construction services are subject to GST. Although the sale or lease of residential properties are exempt from GST, any construction services or any acquisition of goods done in relation to residential properties are subject to GST. For further details, please refer to GST Guide on Construction Industry.

**Q6. Co-operatives are also involved in the agricultural sector. Are they also required to be registered for GST?**

A6. GST covers all supplies of goods and services rendered in Malaysia in the course or furtherance of business except for the supplies under the GST (Exempt Supply) Order 2014. Products of the agricultural sector are mainly taxable supplies whether at zero rate (examples: fruits and vegetables) or at standard rate (example: processed food). The co-operative has to register if the taxable supplies of the activities exceeds the prescribed threshold of RM500,000 within twelve months (past or future).



**Q7. The co-operative is operating a petrol service station, a super market and a mini market. What is the GST treatment on these activities?**

A7. All activities carried out by the co-operative above are subject to GST at standard rate. The co-operative need to be registered as a GST registered person if the taxable supplies of the activities exceed the prescribed threshold of RM500,000 within twelve months (past or future). Once registered, the co-operative is eligible to claim whatever GST paid on its acquisitions in order to run such businesses.

**Q8. A Co-operative sells goods to its members on hire purchase and credit sale where the price is payable by monthly installments. How to account for GST on these transactions?**

A8. There are two types of supplies for hire purchase; that is the supply of goods and the supply of services (hire purchase). The supply of goods is subject to GST which is imposed on the full sales value at the time when the sales take place. There is no GST on the interest charges on the hire purchase. The monthly installment is not subject to GST.

**Q9. In hire purchase arrangements, goods are usually repossessed and resold if the buyer does not keep up with the payments to the co-operative. Do I have to charge GST when the goods are resold?**

A9. If the buyer is a GST registered person, the goods repossessed and resold are subject to GST (tax inclusive). GST must be accounted for when the goods are sold after repossession based on the value of the good sold. No GST is chargeable if the buyer is a not a registered person.

**Q10. A Co-operative gives out loans to its members. Is the facility subject to GST?**

A10. No, it is not subject to GST. Loan is an exempt supply.

**Q11. A Co-operative charges processing fee when a loan application is approved. Is the processing fee subject to GST?**

A11. All fee based services such as loans processing fee and loan management fee are subject to GST at the standard rate. The installment payments and the interest collected on the loan is not subject to GST.

**Q12. What is the GST treatment on the dividend and bonus given to the members of the co-operative?**

A12. If the dividend and bonus given to members of the co-operative is as a result of shares held by the members in the co-operative, they are treated as not a supply. If they are given due to some profits made by the co-operative on sales made, the dividend and bonus are regarded as exempt supply. They are not subject to GST.

**Q13. Co-operative offers 'Ar-Rahnu' facility to its members, that is pledging the gold articles as a security to pay the loan at the end of the agreed redemption period. What is the GST treatment on Ar-Rahnu facility?**

A13. The provision of loan under Ar-Rahnu to the co-operative's members is an exempt supply and the supply of the gold articles as a security is considered as not a supply. Both supplies are not subject to GST. For further information, please refer to the GST Guide on Pawnbroking.

**Q14. ACE Co-operative supplies the hiring of lorries to its members to transport their agricultural products. Is it subject to GST?**

A14. The hiring of lorry for transporting the agricultural products is a taxable supply of service and is subject to GST. ACE Co-operative has to charge and collect GST from its members on the hiring of the lorry if the co-operative is a GST registered person.

**Q15. A co-operative runs a pre-school education and child care centre business. Is the co-operative required to be registered under GST?**

A15. A pre-school education has to be registered under the Education Act 1996 while the child care centre has to be registered under the Child Care Centre Act 1984. The educational services provided by the pre-school education and the child care centre registered under the relevant Acts are exempt supplies under the GST (Exempt Supply) Order 2014. The operators are not required to be registered for GST unless the operator is a mixed supplier who supplies both taxable and exempt supplies for example providing pre school (exempt supply) and transport of goods or trading (taxable supply).

**Q16. ANGKASA manages the salary deduction service with the employer through the deduction from the member's salary and forward the deduction to the co-operative. ANGKASA charges a fee for providing such services. Is the fee subject to GST?**

A16. Yes, the fee is subject to GST at standard rate, since the fee charged is in return (consideration) for the services given by the ANGKASA.

**Q17. ANGKASA provides advice, services, guidance and practical training to members on how to further improve their performance. All these services provided are free-of-charge to all members of co-operatives. Is ANGKASA required to account GST on these services?**

A17. The free-of-charge services provided by ANGKASA to the co-operative members are not subject to GST because there is no consideration in return.

**Q18. A co-operative organizes conferences, seminars and training and charge participation fees. In organizing these events, the co-operative also incurred expenses on local speakers, space rentals and food catering. Is the fee subject to GST and can the co-operative claim ITC on these expenses?**

A18. If the co-operative is a GST registered person, the co-operative must charge GST on the participation fee. As for the expenses incurred in organizing the seminar, the co-operative is eligible to claim input tax credit (ITC) provided that the tax invoices are issued under the co-operative's name.

**Q19. A co-operative pays fees to Suruhanjaya Koperasi Malaysia (SKM) as an auditing fee yearly. The auditing is carried out by SKM. Is the fee subject to GST?**

A19. The fees is not subject to GST because it is a part of regulatory and enforcement from SKM under the Co-operative Act 1993.

**Q20. A co-operative bank appointed an audit firm (third party) to carry out yearly auditing on their accounts as required by SKM in relation to SKM's regulatory and enforcement (R&E) function. Should GST be charged on the fees paid by the co-operative bank to the audit firm?**

A20. Fees are subject to GST because the auditing is done by a third party.



**Q21. Based on the above scenario, can the co-operative bank claim input tax credit (ITC) on fee paid to the audit firm?**

A21. The co-operative bank is entitled to claim input tax if it is a GST registered person. For further information on ITC, please refer to the GST Guide on Input Tax Credit.

**Q22. Ali pays RM500.00 monthly as a deduction from his salary for co-operative loan and RM50.00 for co-operative membership fees. Is the transaction subject to GST?**

A22. Co-operative loan is an exempt supply as listed under the GST (Exempt Supply) Order 2014. Ali does not need to pay GST on the loan. As for the membership fees, if in return for being a member, the co-operative gives its members only newsletters or journals related to its aims and objectives, these are regarded as non supplies. Hence the membership fee is not subject to GST.

## FEEDBACK AND COMMENTS

9. Any feedback or comments will be greatly appreciated. Please email your feedback or comments to either Puan Jamilah binti Rauf (jamilah.rauf@customs.gov.my) or Encik Mohd. Zaidilharis bin Mohamad Yusuf (zaidil.yusuf@customs.gov.my).

## FURTHER ASSISTANCE AND INFORMATION

10. Further information can be obtained from:

- (a) GST Website: [www.gst.customs.gov.my](http://www.gst.customs.gov.my)
- (b) GST Hotline: 03-88822111
- (c) Customs Call Centre:
  - Tel : 03-78067200 / 1-300-888-500
  - Fax : 03-78067599
  - E-mail : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)

