ROYAL MALAYSIAN CUSTOMS

MALAYSIA
GOODS AND SERVICES TAX (GST) GUIDE

PARTIAL EXEMPTION, APPORTIONMENT & ANNUAL ADJUSTMENT

(DRAFT)

PARTIAL EXEMPTION, APPORTIONMENT

AND ANNUAL ADJUSTMENT

<u>**Contents**</u> <u>**Page**</u>

PARTIAL EXEMPTION, APPORTIONMENT AND ANNUAL ADJUSTMENT

1. INTRODUCTION

This guide explains how partial exemption, apportionment and annual adjustment are made in respect of residual input tax which is attributable to both taxable and exempt supplies. The rules on partial exemption, apportionment and annual adjustment are provided under Goods and Services Tax (GST) legislation.

Under the Malaysian GST provisions, a taxable person is eligible to claim input tax incurred by him for making taxable supplies in the course or furtherance of his business except for those which the input tax are blocked under the GST legislation. On the other hand, when a taxable person does not make wholly taxable supplies (subject to the *de minimis* limit), he can only claim a proportionate amount of input tax incurred by him using the turnover method or an approved partial exemption method. The input tax claimed is provisional and need to be adjusted annually or at the end of a longer period. This is to give a fairer and more reasonable apportionment as the amount deducted in some periods may be unfairly affected due to various reasons including seasonal variations.

2. CLAIMING OF INPUT TAX AND PARTIAL EXEMPTION

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.

A taxable person is eligible to claim the full amount of input tax as his input tax credit if the input tax incurred by him is exclusively attributable to taxable supplies made by him, except for those which the input tax credit are blocked under the GST legislation. Input tax which can be recovered by a taxable person is referred to as “taxable input” while taxable supplies means supplies which GST is charged at standard rate or zero-rate.

On the other hand, a person is not entitled to claim input tax incurred on his acquisitions if the input tax is exclusively attributable to his exempt supplies. Input tax which is attributable to exempt supply and not recoverable as tax credit is referred to as “exempt input tax”. Exempt supplies are those supplies listed under the GST (Exempt Supplies) Order 20XX.

The process of identifying the input tax used exclusively in making taxable and exempt supplies is known as direct attribution and is provided under the GST legislation.

In the case of a mixed supplier, he would have incurred residual input tax in the course or furtherance of his business. Residual input tax means an input tax which is neither directly attributable to taxable supplies nor exempt supplies, but is related to both the supplies. Some examples of residual input tax are general overheads such as utilities charges, professional fees / charges and rental. Only the proportion of residual input that is attributable to taxable supplies is recoverable by a mixed supplier. The standard method for the residual input tax claim is the turnover method and is explained in para 3. This method is provided under the GST General Regulations.

Before a mixed supplier applies the rule of partial exemption, he needs to exclude the amount of GST incurred for non-business use, for example goods put to private use. (*For further information on input tax claim, please refer to the guide on Input Tax.*)

3. APPORTIONMENT

When a mixed supplier incurs residual input tax, he cannot claim the full amount of the residual input tax that he incurred, unless his amount of exempt supply is within the limit specified under the *de minimis* rule. (See Para 5 below on the application of *de minimis* rule). He must apportion the residual input tax incurred in the course or furtherance of his business based on the standard method or special methods of apportionment as explained below.

3.1 Methods of apportionment

Methods of apportionment can be broadly classified into two categories as follows:-

(a) Standard method of apportionment

This is the default method applicable to all mixed suppliers unless the Director General of Customs specifically directs or allows otherwise. Under this method, the percentage of recoverable residual input tax for a taxable period is basically obtained by dividing the value of taxable supply with the total value of all supplies made in the taxable period which is expressed in the following formula:

$$r = \frac{t}{s} \times 100\%$$

where,

“r” is the recoverable percentage of residual input tax;

“t” is the total value (exclusive of GST) of taxable supplies (including supplies made outside Malaysia which would be taxable if made in Malaysia, deemed taxable and disregarded supplies) made in the taxable period; and “s” is the total value of all supplies made in the taxable period.

However, it must be noted that certain value of business supplies is excluded from the standard method so as not to significantly distort the result of the calculation. Those values of supplies that are excluded from the standard method are:-

i. value of any supply of capital goods;
ii. value of any self-supply (supply which the taxable person makes to himself);
iii. any sum receivable in respect of incidental exempt services made by the taxable person for example deposit of money, exchange of foreign currencies and the provision of loan or credit by a taxable person to his employees;
iv. any sum receivable in respect of a transfer of a business as a going concern;
v. value of imported services.

To exclude the above values from the standard method, the formula for calculating the amount of recoverable percentage of residual input tax shown above has to be adjusted as follows:

$$a = \frac{t - o}{s - o} \times 100\%$$

where,

“a” is the recoverable percentage of residual input tax,

“t” is the total value (exclusive of GST) of taxable supplies made in the taxable period,

“o” is the total value (exclusive of GST) of all excluded supplies, and

‘s” is the total value of all supplies made in the taxable period.

The amount of residual input tax that can be claimed in a taxable period is then calculated by multiplying the recoverable percentage of residual input tax with the residual input tax incurred for that particular taxable period. The ratio of claimable input tax is expressed in percentage and rounded up to the nearest whole number. See Example No. 1 below:

Example No. 1

Mix Co. Sdn. Bhd., whose current tax year ends on 31st December 2010, has in his taxable period of May 2010, made some mixed supplies and at the same time incurred residual input tax as follows:

		RM
s	Value of all supplies	240,000.00
t	Value of all taxable supplies, exclusive of tax	200,000.00
o	Value of a capital goods disposed off, exclusive of tax	50,000.00
o	Value of self supplies, exclusive of tax	20,000.00
e	Value of exempt supplies	40,000.00
	Residual input tax incurred	10,000.00

Mix Co. Sdn. Bhd. residual input tax recovery percentage for the taxable period of May 2010 is calculated as follows:

$$\frac{200{,}000 - 50{,}000 - 20{,}000}{240{,}000 - 50{,}000 - 20{,}000} \times 100\% = \underline{76.47\%}$$

The amount of residual input tax that Mix Co. Sdn. Bhd. can claim is
Residual input tax recovery % x Residual input tax Incurred

or 76% X RM10,000.00 = **RM7,600.00**

Mix Co. Sdn. Bhd. can only claim RM7,600.00 out of the RM10,000.00 of residual input tax incurred by him in that taxable period.

(b) Other methods of apportionment

The Director General of Customs may approve or direct a taxable person to use a method other than the standard method of apportionment. While approval to use the standard method of apportionment is not required under the law, prior approval must first be obtained by a taxable person from the Director General of Customs to use a method other than the standard method of apportionment.

In certain cases, the Director General of Customs may direct a taxable person to use a specific method of apportionment if he is of the opinion the standard method of apportionment does not provide the taxable person a fair and equitable recovery of residual input tax.

Alternatively, a taxable person may apply to the Director General to use an alternative method if it considers that the standard method does not provide a fair and reasonable result. Other methods of apportionment may include the following and devised to suit the needs of a particular business:-

i. the number of taxable transactions made;

ii. quantities of output;
iii. floor space occupied by staff involved exclusively in taxable supplies;
iv. time spent exclusively on taxable supplies;
v. input cost;
vi. taxable input tax divided by total input tax;

Any proposal by the taxable person must first be approved by the Director General of Customs in writing before the taxable person can use it on his business. In certain cases, the Director General may make counter proposal for alterations or modifications to be made to the proposal submitted by a taxable person.

Any other alternative method of apportionment approved or directed shall also exclude the value of any supplies, as stated in Para 3(a) (i) to (v) above, when calculating the proportion of input used or to be used

3.2 Application for an approval

A taxable person is required to make a written application to any GST office and submit a detailed proposal on the alternative method he wishes to adopt. The taxable person must be able to convince the Director General of Customs that the alternative method he proposed is more fair and equitable for his business as compared to the standard method of apportionment. He must provide in his proposal details like the type of business and supplies he is making or is going to made and indicate the date he requires the proposed method to take effect. The taxable person should illustrate how his proposed method will work in practice using his actual business data.

3.3 Effective date of an approval or direction

An approval for or direction to change the method of apportionment shall take effect from the date specified by the Director General of Customs in the written approval or direction. Generally, the effective date of the new apportionment method cannot be backdated. It would normally start on the taxable period commencing on or after the date specified in the notice. This is to ensure fairness to a taxable person and allows him sufficient time to make preparation to change his method.

3.4 Effect of an approval or direction to use an alternative method

When an approval or direction is given to a taxable person to use an alternative method, he must continue to use the method as approved or directed. The taxable person is not allowed to revert to his previous method of apportionment unless he is given approval or direction by the Director General of Customs to make a reversal.

3.5 When input tax is claimable

Input tax, whether directly or indirectly, attributable to inputs that are used, or to be used, for making taxable supplies can be recovered by a taxable person as a credit in the tax return for the taxable period in which the tax was charged to him.

3.6 FAQ

i. **Can a taxable person who has submitted a proposal for an alternative method of apportionment reject the counter proposal made by the Director General of Customs?**

Yes, but when the taxable person rejects the counter proposal, then he must continue to use his existing method of apportionment. However, he may also make further reasonable proposal to the Director General of Customs for his consideration.

ii. **Is prior approval required if a taxable person using an alternative method wishes to revert to the standard method of apportionment for his business?**

Yes, he must obtain prior written approval before he can revert to the standard method even though the standard method is the specified default method for any mixed supplier.

iii. **What are the contents that must be included in a proposal to use an alternative method?**

Generally, a proposal for an alternative method must be reflective and specifically relevant to the taxable person's business. It must also be practical, easy to verify and able to clearly determine the attribution of input tax to the supplies made by the taxable person. The apportionment to be made based on the proposed method must be fair and equitable.

4. ANNUAL ADJUSTMENT (LONGER PERIOD ADJUSTMENT)

A recovery of residual input tax in a taxable period, whether based on the standard method or any alternative method as explained above, is only provisional. The proportion of residual input tax recovered in a taxable period may not be reflective or fairly attributed to the taxable supplies made by a taxable person. This could be due to significant fluctuations or high volatility in supplies or tax incurred from a taxable period to another taxable period. Beside that, the short time frame within a taxable period, which in some cases is only one calendar month, may not be able to produce a fair attribution. To overcome this shortcoming, a mixed supplier is required to make an annual adjustment, which is also referred to as "longer period adjustment", on all the provisional residual input tax that he had recovered during the tax year or longer period in question by re-evaluating the extent of taxable use of his business input. (A tax year or a longer period is explained in para 4.1 and 4.2 below.)

The purpose of working out of an annual adjustment is to ascertain whether there is an overall over-deduction or under-deduction of residual input tax provisionally deducted over the whole tax year or longer period. The annual adjustment is carried out at the end of each tax year or a longer period, as the case may be.

4.1 Tax year

Tax years refer to the period in which a registrant remains registered under the GST legislation and is used in relation to adjustment of residual input tax. A tax year in its ordinary meaning would constitute 12 calendar months. The tax year is normally the longer period applicable to a mixed supplier for the purposes of working out adjustments. However, the GST provisions also provide for the first and final tax years to be a period consisting other than 12 calendar months under certain circumstances as further explained below.

4.1.1 First Tax Year

The first tax year would begin from the first day a person became a registrant and shall end on the day before his next tax year commences. For the convenience of registrants, in term of preparing financial statements, the GST provisions allow for a registrant's tax year to correspond with his financial year. However, the GST provisions also stipulated that the tax year of a registrant must be for a period of not less two taxable period but subject to a minimum of six months. Hence, the first tax year of a new registrant may vary from six months to a maximum of 18 months.

Example No. 2

Tax year consisting of 12 months.

ABC Sdn. Bhd., whose financial year ends on 31st December 2014, was registered as a registrant on 1st January 2014. The first tax year for ABC Sdn. Bhd. would commence from **1st January 2014** and end on **31st December 2014**, which is for a period of 12 months.

Tax year less than 12 months.

If ABC Sdn. Bhd. was registered on 1st April 2014, the first tax year for ABC Sdn. Bhd. would only commence from **<u>1st April 2014</u>** and end on **<u>31st December 2014</u>**, which is for a period of 9 months.

Tax year exceeding 12 months.

On the other hand, if ABC Sdn. Bhd. was registered on 1st October 2014, which is less than six months away from the last day of his corresponding financial year, then its first tax year would commence from **<u>1st Octobet 2014</u>** and only ends on **<u>31st December 2015</u>**, stretching into its next financial year and covering a period of almost 15 months.

4.1.2 Subsequent Tax Year

The tax year following the first tax year is referred to as the subsequent tax year and would commence on the day immediately after the last day of the first tax year for a period of 12 calendar months and end on the last day of the twelfth calendar month (also the last day of the registrant's financial year). Each following subsequent tax year would similarly consist of 12 calendar months and correspond with the registrant's respective financial year. See example No. 3 below.

<u>Example No. 3</u>

If the first tax year for ABC Sdn. Bhd. ends on 31st December 2014, then its first subsequent tax year would be from **<u>1st January 2015 to 31st December 2015</u>**. ABC Sdn. Bhd. next subsequent tax year would begin on **<u>1st January and end on 31st December 2016</u>**.

4.1.3 Final Tax Year

Final tax year refers to the tax year in which a person ceases to be a registrant, either because he ceases to make taxable supplies or his GST registration is cancelled or revoked by the Royal Malaysian Customs (RMC). The final tax year would end on the day in which the cessation, cancellation or revocation take effect and it may only cover a period of less than 12 calendar months.

<u>Example No. 4</u>

Continuing from Example No. 3 above and assuming ABC Sdn. Bhd. ceased to be a registrant on 10th May 2014, the final tax year for ABC Sdn. Bhd. would be from **<u>1st January 2014 to 10th May 2014</u>**. In this instance, ABC Sdn. Bhd. final tax year only covers a period of less than 5 months.

4.2 Longer period

Normally, a longer period is also the tax year applicable to a mixed supplier for the purpose of calculating adjustment. Sometimes, the longer period is also referred to as the “partial exemption year or period”. The first longer period of a taxable person starts from the first day of a taxable period in which the taxable person incurs exempt input tax and ends on the last day of that tax year. However, if the first partial exemption period falls on the last taxable period of the tax year, no longer period is used to work out adjustment for that tax year.

In some cases, the first longer period of a mixed supplier may not necessary consist a period of 12 calendar months or correspond with his tax year. For an existing registrant, his first longer period may be less than a year. In the case of a new registrant who is also a mixed supplier, his first longer period may be less or even more than a period of 12 months depending on the length of his first tax year. There are also other instances where a longer period applicable to a mixed supplier does not consist 12 calendar months, such as follows:

(i) Late registration

In the case of a late registration where a taxable person is registered retrospectively, his first longer period may be more than 12 months and he is required to divide the longer period into first and subsequent tax years for the purpose of making adjustments and recovery of residual input tax.

(ii) Deregistration of a mixed supplier

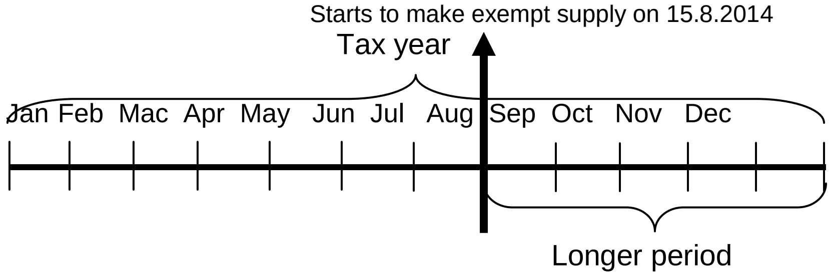
The final adjustment period or longer period of a deregistered mixed supplier starts from the first day of his previous tax year and ends on the effective date of his deregistration.

Examples of first longer period are illustrated in Example No. 5 below:-

<u>Example No. 5</u>

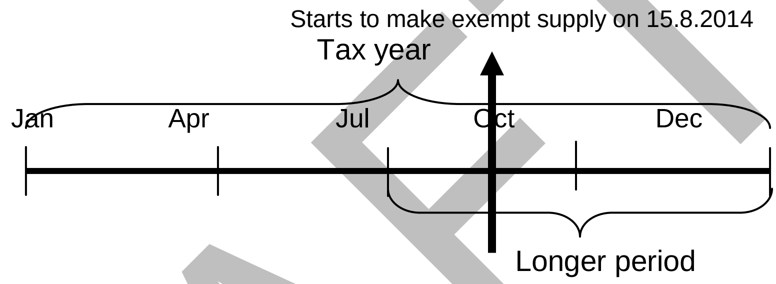
(i) Monthly taxable period

Assuming a taxable person’s tax year runs from 1st January 2014 to 31st December 2014 and he starts to make exempt supply on 15.8.2014, his first longer period would runs from 1st August to 31st December 2014



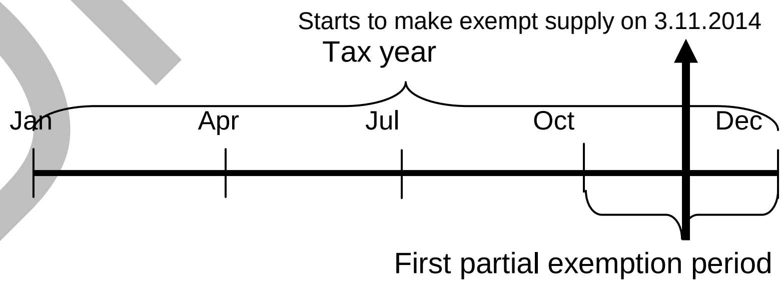
(ii) Quarterly taxable period

Assuming a taxable person's tax year runs from 1st January 2014 to 31st December 2014 and he starts to make exempt supply on 15.8.2014, his first longer period would runs from 1st July to 31st December 2014.



(iii) Partial exemption period falls on the final taxable period

Assuming a taxable person's tax year runs from 1st January 2014 to 31st December 2014 and he is allotted quarterly taxable period. He starts to make exempt supply on 3.11.2014. His first partial exemption period would runs from 1st October to 31st December 2014 and no longer period is applicable to him.



4.3 Making adjustments

Annual adjustment is carried out by re-attributing the provisional input tax claimed in each taxable periods using the overall trading figures of the relevant tax year or longer period under review, either based on the standard or alternative methods. Basically, the formula for deriving the annual residual input tax recovery rate is the same for calculating provisional residual input tax recovery rate for a taxable period. The only difference is the trading figures used for calculating the annual residual input tax recovery rate is based on the total value of the whole tax year or longer period instead of a taxable period. See Example No. 6 below.

<u>Example No. 6</u>

The table shows the supply made and the residual input tax claimed quarterly by MIK Sdn Bhd who is a mixed supplier.

Quarter	Q1	Q2	Q3	Q4	Yearly total
Taxable supplies	50,000	300,000	100,000	600,000	1,050,000
Exempt supplies	500,000	800,000	3,000,000	400,000	4,700,000
Total supplies	550,000	1,100,000	3,100,000	1,000,000	5,750,000
% of Taxable	9.1%	27.3%	3.2%	60%	18.3%
Residual input tax	100,000	150,000	50,000	250,000	550,000
Claimable residual	9,100	40,950	1,600	150,000	100,650 201,650

Note: Conditions for the Deminimis rule is not satisfied in any of the taxable period.

The annual adjustment that need to be made by MIK Sdn Bhd is as follows:-

i) Total residual input tax claimed in 4 quarters:
RM9,100 + RM40,950 + RM1,600 + RM150,000 = RM201,650

ii) Total residual input tax claimable for the whole year = RM100,650

iii) Annual adjustment:
RM201,650 – RM100,650 = RM101,000.

* The longer period adjustment reveals that the registrant has over claimed the residual input tax and need to include the amount of RM101,000 as his output tax in the first taxable period following the end of the longer period.

4.4 Change of apportionment method

When a taxable person is given approval or direction to change his method of apportionment during a tax year or longer period, he is required to take into account both methods adopted by him during the year or period when he makes his annual adjustment. The computation of the annual residual input tax recovery rate involving a change in method of apportionment is similar to that illustrated in Example No. 6 above. See Example No. 7 below. The annual residual input tax recovery rate can be work out using the following formula:-

$$\frac{(a \times r^a) + (b \times r^b)}{y}$$

where,

a is the total number of days in the interval applicable to the method of apportionment before the change in method takes place;

r^a is the percentage (%) of attributable taxable use applicable to *a;*

b is the total number of days in the interval applicable to the alternative method of apportionment;

r^b is the percentage (%) of attributable taxable use applicable to *b;* and

y is the total number of days in the interval *a* and interval *b*

Example No. 7

Company Mix Sdn. Bhd., who is on quarterly taxable period, was allowed to change its apportionment method from the standard method to transaction-based method with effect from the second quarter its tax year (2014). Assuming the company attributed percentage of taxable supplies for the tax year is as follows:-

Taxable period	1st quarter (*a*)	2nd quarter to 4th quarter (*b*)
Method used	Standard method	Transaction method
% of taxable supplies	50%	70%

Computation of the annual residual input tax recovery rate:

Taxable use from 1.1.14 to 31.3.14 (91 days) - 50%

Taxable use from 1.4.14 to 31.12.14 (275 days) - 70%

Annual residual input tax recovery rate:

$$\frac{(91 \text{ days X } 50\%) + (275 \text{ days X } 70\%)}{366 \text{ days}}$$

$= \underline{65\%}$

4.5 Input tax on goods and services apportioned in a tax year but used in subsequent tax years or longer periods

Input tax apportioned on goods and services acquired in a tax year might not fairly represent its taxable use in a subsequent tax year or longer period. When this arises, the Director General may serve a notice on a taxable person to recalculate the extent of the taxable use of his goods and services in the subsequent tax year or longer period and account for the tax over-deducted (the difference between the attributions made).

4.6 Adjustment on change of intention to use

As explained earlier, a taxable person can deduct his claimable input tax in the taxable period where the tax is charged to him and the portion claimed is based on the use or intended use of the input. However, there are instances where an intention formed by a taxable person at the time of making a provisional apportionment was later changed. A change of intention could be due to various reasons such as change in business pattern, market condition or speculative nature of a supply. Such a change of intention, if happens within six years from the first day of the taxable period where the attribution was made or determined, is subject to adjustment for "over-deduction" or "short claimed" as follows:-

(i) When a taxable person has attributed goods or services,

(a) for making wholly taxable supplies, but instead used the goods or services for making both taxable and exempt supplies;

(b) for making both taxable and exempt supplies, but used the goods or services for making wholly exempt supplies; or

(c) for making both taxable and exempt supplies, but reduced the proportion of making taxable supplies to exempt supplies;

the "over-deduction" provision would apply to him where he is required to calculate the difference in tax claimed triggered by the change of use, with the same apportionment method where the original attribution was made, and account the amount of tax that was over-deducted by him in the tax return for the taxable period in which the change of use occurs.

(ii) On the other hand, where a taxable person has attributed goods or services,

(a) for making wholly exempt supplies, but later used the goods or services for making wholly taxable supply or both taxable and exempt supplies;

(b) for making both taxable and exempt supplies, but used the goods or services for making wholly taxable supplies; or

(c) for making both taxable and exempt supplies, but reduced the proportion of making exempt supplies to taxable supplies;

the "short claimed" provision would apply where he can calculate the difference in tax claimed caused by the change of use, with the same apportionment method where the original attribution was made, and recover as tax credit the amount of tax that was under-deducted or short claimed by him in the tax return for the taxable period in which the change of use occurs.

In the case of a transfer of a business as a going concern, if the transferee reduces the proportion of taxable supply of the business transferred within a period of six years from the date of the transfer, the transferee is liable to account for tax attributable to the reduction and pays back the tax to the RMC.

4.7 Accounting and declaring of adjustment

After an annual adjustment is made, a taxable person is required to declare any over-deduction or under-deduction of residual input tax in a tax return for the taxable period next following the longer period or tax year under review, whichever is applicable. Based on Example No. 6 above, Mix Co. Sdn. Bhd. has to declare output tax of RM 101,000.00 in its tax return for the taxable period of January-March 2015.

Any over-deduction of input tax would be payable by the taxable person to the RMC while any short-claim can be recovered by him as his additional input tax. The Director General may, in certain cases, allow another document to be used for declaring any over-deduction or short-claim of input tax.

4.8 FAQ

i. When a change in law effects a change in the intended use of an input, does the "over-deduction" or "short claimed" provisions apply?

No, for the purpose of apportionment, the nature of any supply at the time the input tax was first attributed would be not be affected by a change in law later on. Consequently, the liability of the taxable person would not be affected. Thus, the "over-deduction" or "short claimed" provisions would not be applicable.

ii. When a taxable person has made an apportionment, but the input was not put to use as supplies could not be made due to unforeseen circumstances, should the taxable person pays back the input tax that he has recovered?

As long as the input is not put to use, no payback is required. However, if there is a change in its subsequent use, then the provision of "over-deduction" or "under claimed" would be applied to it, as the case may be. But, if the change happens before the end of a tax year or longer period, the annual adjustment would take care of the change.

iii. In the case of transfer of a business as a going concern made by a mix supplier, is the apportionment and adjustment provision applicable?

Any input tax incurred on expenses that relate to the transfer of a mixed supplies business is treated as residual input tax and has to be apportioned accordingly by both the transferor and transferee respectively.

5. *DE MINIMIS* RULE

Certain taxable person may be making negligible exempt supply or incidental exempt supply and it would be inconvenience 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 taxable input tax if the total value of his exempt supplies does not exceed,

(i) an average of RM5,000.00 per month; and

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

To qualify for the *de mininis* rule, both the above conditions must be met. See Example No. 8 and No.9 below.

Example No. 8

The supplies made by Minor Exempt Sdn. Bhd. in a month are as follows:-

- Taxable supply - RM50,000.00
- Exempt supply - RM4,500.00

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

$$\frac{4{,}500.00}{50{,}000.00 + 4{,}500.00} \times 100\% = 8.26\%$$

(ii) The company has only satisfies the first condition but not the second condition as its total exempt supply for the period has exceeded the 5%. Thus, the company cannot treat the input tax incurred on the RM4,500.00 exempt supply as taxable input.

Example 9

AHA Sdn Bhd is subject to monthly taxable period. Below are supplies made by AHA Sdn Bhd for taxable period January 20XX. Residual input tax is RM10,000.

Value of taxable supply	= RM 200,000
Value of exempt supply	= RM 4,000

De Minimis Test

i) Value of exempt supply does not exceed RM5,000

ii) Proportion of exempt supply to total supply less than 5%.

The calculation is as follows:

$$\boxed{\frac{4000}{204000} \times 100\% = 1.96\%}$$

Since both conditions are met under the De Minimis test AHA Sdn Bhd can claim all the residual input tax of RM10,000 without apportioning according to the supply.

5.1 Application of incidental exempt supplies to the *de minimis* rule

While a taxable person can treat all incidental exempt supplies as attributable to taxable supplies, a mixed supplier when applying the *de minimis* rule to ascertain whether his exempt supply is below the *de minimis* limits must include all incidental exempt supplies as his exempt supplies. Such incidental exempt supplies include the following:-

i. the deposit of money;

ii. the exchange of currency other than the supply of a bank note or coin as a collector's item, investment article or item of numismatic interest;

iii. the holding of bonds, debentures, notes or other similar instruments representing or evidencing indebtness, whether secured or otherwise;

iv. the transfer of ownership of securities;

v. the provision by a registered person of any loan, advance or credit to his employee or between connected persons;

vi. the assignment of or the provision of credit for any trade receivable;

vii. the holding or transfer of ownership of any unit or other similar instruments representing or evidencing investment under a trust fund; or

viii. the hedging of any interest rate risk, currency risk, utility price risk, freight price risk or commodity price risk.

(For further details, please refer to the General Guide on Input Tax.)

5.2 Applying the de minimis rule in a taxable period

When a taxable person accounts his output tax for a taxable period, he shall apply the *de minimis* rule for each taxable period based on monthly average to determine whether his exempt supply exceeds the prescribed limits.

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

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 had 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 period.

6. APPLICATION OF PARTIAL EXEMPTION TO CAPITAL GOODS ADJUSTMENT

An annual adjustment made at the end of a tax year or longer period also provides the same percentage of taxable use to a capital item for the interval which corresponds with the tax year or longer period. For further details, please refer to guide on Capital Goods Adjustment.

7. KEEPING OF RECORDS

A taxable person is required to preserve all the records pertaining to the apportionments and adjustments that he has made for a period of 7 years from the last date to which such apportionment and adjustment relates, in line with the requirement specified under GST Legislation.

8. FURTHER INFORMATION

If you require further information or clarification on the Partial Exemption, Apportionment and Annual Adjustment guide, you can contact our officer at any of our GST office or call toll free line No. 1800 XX XXXX.