ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE
ON
CAPITAL GOODS ADJUSTMENT

Publication

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INTRODUCTION

1. This Industry Guide is prepared to assist you in understanding the implication of Goods and Services Tax in relation to Capital Goods Adjustment (CGA).

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 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.

GST TREATMENT ON CAPITAL GOODS

5. Capital goods are normally defined as any goods which are capitalized for accounting purposes and in accordance with Generally Accepted Accounting Principles (GAAP) and written off over several years. The GST treatment on capital goods in Malaysia is as follows:

(a) A supply of capital goods is standard-rated.

(b) Input tax can be claimed in full on all capital goods that are used to make wholly taxable supplies.

(c) If capital goods are used solely for exempt-supply, no input tax can be claimed.

(d) Where capital goods are used for making both taxable and exempt supplies, input tax would need to be apportioned according to its proportional taxable use.

(e) Intangible assets such as trademark and goodwill are taxable supplies.

WHAT IS CAPITAL GOODS ADJUSTMENT (CGA)

6. CGA is the adjustments that need to be made to the initial amount of input tax claimed, during a specified period if there is a change in the proportion of taxable use of the capital goods.

7. The objective of CGA is to provide a fair and reasonable attribution of input tax to taxable supplies because capital goods can be used in the business over a period of years and taxable supplies may also vary over the years.

SCOPE OF CAPITAL GOODS ADJUSTMENT

Scope and Definition

8. For the purpose of this guide, any capital goods that come within the scope of the CGA would be referred to as a "capital asset". Under the GST provisions, the definition of capital asset includes:

(a) All goods that can be capitalized under the accepted accounting principles;

(b) Any capital goods used by a person in the course or furtherance of a business;

(c) Any capital goods not solely for the purposes of selling;

(d) Any capital goods valued at RM100,000 or more per "unit" exclusive of GST; and

(e) Any capital goods which do not fall under disallowed goods by the Director General for capital goods adjustment purpose.

9. For the purpose of determining the value threshold of RM100,000 per unit, the word "unit" follows the ordinary meaning of unit. In certain cases, a capital asset may consist of several separate components. It is considered as a single unit if the separate components function as a unit. In other words, they cannot not function separately on their own.

10. Examples 1 and 2 illustrate situations when separate components are treated as a single unit or separate units and whether or not the unit has exceeded the value threshold of RM100,000.

Example 1:

A desktop computer consisting of:-

NO.	***DESCRIPTIONS***	***RM***
1.	*One central processing unit*	*95,000*
2.	*One monitor*	*5,500*
3.	*Pair of speaker*	*1,500*
4.	*Other accessories*	*500*
	TOTAL	***102,500***

The desktop computer costing a total of RM102,500 would qualify as a single capital asset even though each individual component does not exceed RM100,000.00 because they are acquired to function as a single unit.

Example 2:

NO.	***DESCRIPTIONS***	***RM***
1.	*20 units of laptop at RM6,000 each*	*120,000*
	TOTAL	***120,000***

Under this example, the 20 units of laptop, even though with a total value exceeding RM100,000, do not form a capital asset under the CGA as they are purchased to be used separately and independent of each *other. The value of each unit is RM6,000 which is less than the threshold of RM100,000.*

Types of Capital Goods

11. Under the CGA, capital assets include those which are acquired, imported, self-supplied, manufactured, produced, constructed, altered, extended, refurbished or fitted out. Some examples of capital assets are as follows:

(a) Land;

(b) Building or part of a building that is completed and ready for occupation;

(c) Goods and services acquired in connection with the construction and alteration of a building including any extension of a building or part of a building;

(d) Civil engineering works that include roads, bridges, drainage and installation of pipes for connection to the main services;

(e) Plants, equipment, computers (excluding computer's software) or machines;

(f) Commercial vehicles such as lorries and buses;

(g) Goods and services acquired in connection with the construction, manufacture or assembling of a plant, equipment, computer, machine, vehicle or any other capital assets;

(h) Capital expenditure, for example refurbishment, renovation and repair works, that are carried out to increase the value of the asset and capitalized for accounting purposes.

12. However for certain type of capital assets, registered person is not allowed to use capital goods adjustment although it has fulfilled all the above criteria. The types of capital assets are:

(a) Complete network system;

(b) Computer software; and

(c) Leased goods.

(d) Intangible asset; trademark and goodwill.

VALUE OF CAPITAL GOODS

13. Generally, for the purpose of ascertaining whether a capital asset meets the threshold value under the CGA, the value of a capital asset is the GST- exclusive value of the supply and this value includes any excise duty paid. In the case of imported goods, the value will be the sum of the GST- exclusive value of the goods and include the amount of import and excise duties, if any, paid on the goods.

14. Specifically, the value of a capital asset depends on the manner the owner acquires or produces the capital asset. The following situations illustrate how the value of a capital asset is calculated.

Where A Capital Asset Is Imported By or Supplied To the Owner

Land or building that is supplied to an owner

15. In the case of land or building that is supplied to the owner, the value of the capital asset includes the value of the land and/or building that is supplied and capitalized but excludes any associated cost such as legal cost and estate agency fees.

Equipment, machinery or vehicle that is supplied to an owner

16. The value of the capital asset is the value of the equipment, machinery or vehicle supplied to the owner and it includes the delivery and installation costs if they are not separately supplied and charged. If they are separately supplied and charged, they will be considered as separate items. If the goods are imported, the value of the capital asset is the value determined for payment of import duty, plus any import or excise duty paid.

Where a capital asset is built, manufactured, produced, constructed, altered, extended, refurbished or fitted out by the owner.

A building constructed by the owner

17. The value of a building constructed by the owner includes the following:

(a) value of the land that is capitalized;

(b) the cost of goods and services incurred on the construction of the building, for example;

(c) goods affixed to the building including materials used in the construction;

(d) services provided by architect, surveyor, engineer, contractor and any other professional, consultant or person, for the construction;

(e) fitting out;

(f) landscaping; and

(g) any other cost that might be allowed by Customs.

Alteration and extension of a capital goods

18. The value of an alteration and extension of a capital asset includes the value of all goods and services supplied in connection with the alteration or extension.

Capital goods that is refurbished or fitted out

19. The value of a capital asset that is refurbished or fitted out includes the value of all goods and services supplied in connection to the refurbishment or fit out.

Equipment, machinery or vehicle manufactured, produced or constructed by the owner

20. The value of the capital asset would be the value of the goods and services supplied to the owner for the manufacturing, production or construction of the equipment, machinery or vehicle.

ISSUES ON THE VALUE OF THE CAPITAL GOODS

Asset which is appropriated for use by the owner as a capital asset

21. The value of an asset appropriated for use as a capital asset is the total GST-exclusive cost incurred by owner as explained in paragraphs 15 to 20, as the case may be.

Part of a building which is used for business purposes

22. The value of the building has to be apportioned between business and non-business use, and the value of the capital asset will only include the value that is attributed to business purposes only. You are not entitled to claim input tax on the whole value of the building.

The value of a capital goods is uncertain

23. Uncertainties might arise as to the cost of capital goods involved, for example a building might be constructed over a long period of time. You might not know whether the cost of the construction would exceed the threshold. In such a case, you have to make an estimate of the value.

24. If your estimate exceeds the threshold, then such capital goods become a capital asset. If it is discovered later that it does not actually exceed the threshold, you are required to continue to account the item as CGA and make the necessary adjustments to reverse the position.

25. Supporting documents for your estimation must be kept in case~~s~~ of customs audit.

The cost of goods that are not affixed to the building cannot be separated from those goods which are affixed to the building

26. In such instances, you may include the total cost of the goods irrespective whether the cost is affixed or not to the cost of those goods that are affixed to the building.

Treatment of land acquired first and building constructed later

27. Both the building and land are regarded as a single item and the combined value of both the land and building will be used for the purpose of determining the threshold value under the CGA.

Refurbishment done in phases

28. If each phase is a separate refurbishment then they should be treated as separate items. Separate refurbishment can be ascertained as follows:

(a) Each phase is covered by a separate contract.

(b) It is in a single contract but the contract contains clauses that allow for separate options for each phase.

(c) Each phase is completed before the next phase begins.

Subsequent refurbishments

29. Subsequent refurbishments to a building may be made before the 10-year period for adjustment expires. Under this situation, you have to treat the original refurbishment as being written off if the earlier refurbishment is replaced. Otherwise, you have to continue making adjustment on the earlier refurbishment until the stipulated adjustment period expires.

PERSONS WHO HAVE TO MAKE CAPITAL GOODS ADJUSTMENTS

30. A GST registered person who is a mixed supplier is required to account tax in accordance with the CGA if;

(a) he acquires, imports, manufactures, produces, constructs, or appropriates for use a capital asset;

(b) the capital asset is used for making both taxable and exempt supplies; and

(c) the proportion of taxable use of the capital asset changes over time.

WHEN CGA IS NOT APPLICABLE

31. The CGA does not apply in the following cases:

(a) When a registered person makes wholly taxable supply;

(b) When a registered person is eligible for claiming input tax using fixed input tax recovery method (e.g. commercial bank);

(c) When a mixed supplier acquires a capital asset to be used solely for making taxable supplies;

(d) When a mixed supplier acquires a capital asset to be used solely for making exempt supplies;

(e) When an asset is acquired or imported solely for resale;

(f) Asset acquired is used for non-business purposes;

(g) Asset acquired is excluded from input tax credit, for example passenger cars;

(h) When the value of a capital asset acquired is less than RM100,000 excluding tax; or

(i) Asset acquired is subject to exempt supply.

TAX YEAR

32. Tax year refers to the period in which a registered person remains registered and is also applicable in relation to a mixed-supplier's adjustment period and intervals. A tax year in its ordinary meaning will constitute a 12 calendar month period. However, in certain circumstances, the first and final tax year may consist a period of less or more than 12 calendar months as explained below.

First Tax Year

33. The first tax year will begin from the first day when a person becomes a registered person or the date he should be registered and shall end on the day before his next tax year commences. For the convenience of preparing the person's financial statements, a registered person's tax year may correspond with his financial year. However, the first tax year must not be for a period of less than 6 months or more than 18 months. Hence, the first tax year may vary from 6 months to a maximum of 18 months to fit with his financial year.

Example 3:

Tax year consisting of 12 months

ABC Sdn. Bhd. whose financial year ends on 31 December, is registered for GST on 1 January 2016. The first tax year for ABC Sdn. Bhd. will commence from 1 January 2016 and ends on 31 December 2016, which is for a period of 12 months.

Example 4:

Tax year less than 12 months

If ABC Sdn. Bhd. is registered on 1 April 2016, the first tax year for ABC Sdn. Bhd. will only commence from 1 April 2016 and ends on 31 December 2016, which is for a period of 9 months.

Example 5:

Tax year exceeding 12 months

On the other hand, if ABC Sdn. Bhd. is registered on 10 July 2016, its first tax year will commence from 10 July 2016 and only ends on 31 December 2017 i.e. stretching into its next financial year and covering a period of almost 18 months. Its first tax year cannot commence from 10 July 2016 and ends on 31 December 2016 because that period is less than 6 months.

Subsequent Tax Year

34. The tax year following the first tax year is referred to as the subsequent tax year and will commence on the day immediately after the last day of the first tax year for a period of 12 calendar months and ends on the last day of the 12th calendar month which corresponds to the last day of the registered person’s financial year. The following subsequent tax years will similarly consist of 12 calendar months.

Example 6:

If the first tax year for ABC Sdn. Bhd. ends on 31 December 2016, then its first subsequent tax year would be from 1 January 2017 to 31

December 2017. ABC Sdn. Bhd. next subsequent tax year will begin on 1 January 2018 and ends on 31 December 2018.

Final Tax Year

35. Final tax year refers to the tax year in which a person ceases to be a registered person, either because he ceases to make taxable supplies or his GST registration is cancelled or revoked by Customs. The final tax year ends on the day in which the cessation, cancellation or revocation takes effect and it may cover a period of less than 12 calendar months.

Example 7:

Assuming that ABC Sdn. Bhd. ceases to be a registered person on 10 May 2016, the final tax year for ABC Sdn. Bhd. will be from 1 January 2016 to 10 May 2016. In this instance, ABC Sdn. Bhd. final tax year only covers a period of less than 5 months.

ADJUSTMENT PERIOD

36. An adjustment period refers to a fixed period of time, consisting of intervals, during which the proportional taxable usage of a capital asset is re-evaluated.

37. For land and building, the adjustment period consists of 10 intervals (inclusive of both the first and final intervals) and for any other capital asset, the adjustment period would only consist of 5 intervals.

38. Under the CGA, intervals in which re-evaluation and adjustments are required to be made can be categorized as first, subsequent and final intervals.

First Interval

39. First interval for a capital asset will commence from:

(a) the date of its acquisition, importation or supply if the capital asset is imported, acquired or supplied;

(b) the date the owner first **uses** the item where the capital asset is manufactured, produced, constructed, altered, extended, refurbished, fitted out or appropriated for use. ("**Use**" includes any use in the business. For buildings, "**use**" is usually the granting of a lease or physical occupation. "**First use**" will be the first time that any part of a constructed, altered, extended, refurbished or fitted out building is used);

(c) the date of registration where the owner is not a registered person when the capital asset was first used, or

(d) the date when the owner should be registered where the owner is not a registered person when the capital asset was first used (i.e. in the case of late registration).

and ends on the last day of the tax year that coincides or corresponds with the first interval.

Example 8:

The tax year for ABC Sdn. Bhd. is from 1 January 2016 to 31 December 2016. The company acquired a computer on 27 August 2016. Thus, the first interval for the computer is from 27 August 2016 to 31 December 2016.

40. If a capital asset is acquired during the first tax year of a registered person, the first interval for the capital asset may vary from one day to a maximum of 18 months depending on the date the capital asset is acquired or used, as the case may be.

Example 9:

The financial year for XYZ Sdn. Bhd. ends on 31 December 2016. XYZ Sdn. Bhd. became a registered person on 1 August 2016. Assuming XYZ Sdn. Bhd. acquires a lorry for RM120,000.00 on 1 July 2016, the first interval for this capital asset will commence from 1 August 2016 and ends on 31 December 2017 (the last day of his first tax year) covering a period of almost 17 months.

Example 10:

If XYZ Sdn. Bhd. purchases the lorry on 31 December 2017, the first interval for the lorry will cover a period of one day i.e. commences and ends 31 December 2017

Example 11:

Partly Exempt Sdn. Bhd. with its current tax year commencing on 1 January 2016 and ending on 31 December 2016, built a new office building costing RM1.5 million plus GST. The building is completed and ready for occupation on 1 March 2018. However, Partly Exempt Sdn. Bhd. moves in to the new building on 15 August 2018. Thus, the first interval for the building is from 15 August 2018 to 31 December 2018.

Example 12:

Mixed-Co Sdn. Bhd, a mixed supplier, is registered for GST on 1 January 2016 and his first tax year ends on 31 December 2016. Prior to GST registration, Mixed-Co Sdn. Bhd acquires a machine for RM350,000 to produce mixed supplies on 30th June 2015. Therefore, the first interval for the machine is from 1st January 2016 to 31st December 2016.

Subsequent Intervals

41. The intervals following the first interval are known as subsequent intervals. A subsequent interval for a capital asset will be the corresponding whole tax year if the capital asset is not disposed of during the year. Based on example 10, the subsequent intervals for the machine acquired by Mixed-Co Sdn. Bhd. will be as follows:

Subsequent Interval	Period
Second	1 January 2017 to 31 December 2017
Third	1 January 2018 to 31 December 2018
Fourth	1 January 2019 to 31 December 2019
Fifth (Final)	1 January 2020 to 31 December 2020

Final Interval

42. For land and buildings, the final interval is the tenth interval and for other capital assets, it is the 5th interval.

43. The adjustment period for assets acquired in different tax year will fall under different tax years. See Example 13 below.

Example 13:

XYZ Sdn. Bhd. acquires assets (not being land or building) on different dates. The tax years (ending on 31st December) for these assets are as follows:

Items acquired	***Date of acquisition***	***Tax Year***
Asset A	*12/01/2016*	*2016*
Asset B	*30/12/2016*	*2016*
Asset C	*20/06/2017*	*2017*
Asset D	*23/09/2017*	*2017*
Asset E	*12/11/2018*	*2018*
Asset F	*30/12/2018*	*2018*

The adjustment period for the assets acquired in the different tax years will be as follows:

Tax Year	***Adjustment Period***		
	Asset A and B	***Asset C and D***	***Assets E and F***
2016	*1st interval*	-	-
2017	*2nd interval*	*1st interval*	-
2018	*3rd interval*	*2nd interval*	*1st interval*
2019	*4th interval*	*3rd interval*	*2nd interval*
2020	*5th interval*	*4th interval*	*3rd interval*
2021	-	*5th interval*	*4th interval*

2022	-	-	*5th interval*

WORKING OUT ADJUSTMENTS

44. In subsequent intervals and the final interval, adjustments are made to the initial input tax claim when the proportional use of the item to make taxable supplies fluctuates from interval to interval. If the proportional taxable use decreases in subsequent intervals or the final interval as compared to the first interval, a certain percentage of input tax initially claimed has to be paid back to RMCD. On the other hand, if the taxable use of the capital asset increases, a further amount of input tax can be claimed on the capital asset.

45. No adjustment under the CGA is required to be made in the first interval. Similarly, no further adjustment is required to be made on a capital asset after the adjustment on the final interval is made.

Input Tax Incurred In the First Interval

46. A mixed supplier is not entitled to claim the full amount of residual input tax incurred by him because part of the residual input tax is attributed to exempt supplies made by him. He is required to apportion the residual input tax which he has incurred. The amount of residual input tax which he can provisionally claim is based on his proportional taxable supplies for that taxable period.

47. Similarly, when a registered person acquires and uses a capital asset to provide both taxable and exempt supplies, he can only provisionally claim the proportional residual input tax incurred on the item in the relevant taxable period. However, if the mixed supplier acquires and uses a capital asset only to provide taxable supply, he is eligible to claim full ITC on the input tax incurred.

48. Provisional residual input tax claim is based on the residual input tax recovery rate of the related taxable period. The provisional residual input tax

$$\boxed{\mathbf{r = [(t - o) / (s - o)] \times 100\%}}$$

recovery rate for each taxable period can be derived by using the following formula:

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
o	is the total value (exclusive of GST) of all excluded supplies
s	is the total value (exclusive of GST) of taxable (including supplies made outside Malaysia which would be taxable if made in Malaysia, deemed taxable and disregarded supplies) and exempt supplies made in the taxable period

(**Note:** The above formula is based on the value of supplies made which is the standard method used to apportion the residual input tax. If the person wishes to use other methods to apportion the residual input tax, he is required to get approval from customs. For further details please refer to GST Guide on Partial Exemption)

49. The amount of initial residual input tax that can be proportionally claimed is calculated by multiplying the residual input tax recovery rate of a taxable period with the residual input tax incurred in the same taxable period.

50. At the end of a tax year, a mixed supplier is required to make an annual adjustment on the provisional input tax initially claimed by him. The annual adjustment can be worked out by using the same formula as stated in paragraph 48.

51. The total annual value of all relevant supplies made is applied to the formula to obtain the annual residual input tax recovery rate. By multiplying the annual residual input tax recovery rate with the total annual value of residual input tax incurred, a mixed supplier would be able to obtain his “adjusted annual amount of residual input tax claimable”.

52. The adjusted annual amount of residual input tax claimable in the first interval will be the base percentage for adjustments to be made to the related capital asset

for the subsequent intervals. For further details on apportionment, please refer to GST Guide on Partial Exemption.

53. If there are multiple capital assets acquired in the same tax year but on different dates and all the items have the same number of intervals, all the items can be summed up as a group having the same adjustment period. On the other hand, the capital assets, with different number of intervals even though they are purchased within the same tax year, cannot be summed up as a group for the purpose of working out capital adjustment under the CGA.

Example 14:

The tax year for Half-Exempt Sdn. Bhd. ends on 31 December 2016 and during the year, the company makes the following acquisition of capital assets which has a 60% annual residual input tax recovery rate.

Date of acquisition	***Items acquired***	***Value of acquisition (RM)***	***GST (6%) paid (RM)***
12/01/2016	*Computer*	*3,000,000*	*180,000*
30/12/2016	*Air conditioner*	*200,000*	*12,000*
Total		*3,200,000*	*192,000*

(a) Total residual input tax involved in the relevant tax year is RM192,000.

(b) The total amount of input tax that can be claimed on the 2 items acquired for the first interval is RM115,200 (60% x RM192,000).

54. When a capital asset is disposed of in the first interval, it is disregarded as a capital asset and no adjustment under the CGA is required to be made. Only the annual adjustment on the initial provisional input tax claim is required to be made.

Example 15:

Mixed-Co Sdn. Bhd, a mixed supplier, is registered for GST and its first tax year ends on 31 December 2016. Mixed-Co Sdn. Bhd acquires a *machine for RM350,000 to make mixed supplies on 1 February 2016. However, due to certain reasons, the machine is sold on 1 August 2016. After the end of the first tax year, Mixed-Co Sdn. Bhd. is only required to make annual adjustment on that machine (i.e. based on the annual partial exemption ratio). Mixed-Co Sdn. Bhd is not required to make further adjustment under CGA on the machine.*

Input Tax Incurred Before First Interval

55. If a mixed supplier incurs input tax on a capital asset before its first interval, he is required to calculate the average percentage by using the following formula:

$$\frac{\textbf{Total input tax claimed (including 1}^{\textbf{st}}\textbf{ interval)}}{\textbf{Total input tax incurred (including 1}^{\textbf{st}}\textbf{ interval)}} \textbf{ X 100\%}$$

56. The average percentage obtained from the above formula will be used as the base percentage for calculating the adjustment in subsequent intervals.

Example 16:

Syarikat Campuran, a mixed supplier, builds a new office building and occupies it on 1 April 2016. The company's tax year ends on 30 September. In the process of building the new office building, Syarikat Campuran has incurred as well as claimed input tax on the building as follows:

(a) RM80,000 in its tax year ending 30 September 2015 with input tax claimable percentage of 50%; and

(b) RM120,000 in its tax year ending 30 September 2016 with input tax claimable percentage of 70%.

The first interval for the office building begins on 1 April 2016 and ends on 30 September 2016. The average percentage, to be used as the base percentage for calculating the adjustment in subsequent intervals, is:

$$\frac{\text{(RM80,000 X 50\%) + (RM120,000 X 70\%)}}{\text{(RM80,000 + RM120,000)}} \text{ X 100\% = 62\%}$$

Input Tax Incurred After First Interval

57. A mixed supplier can incur additional input tax on a capital asset after the first interval. This situation can happen in construction projects and refurbishments where the work is carried out over a period of time and also where a contract includes a retention clause. If additional input tax occurs in the first interval of the capital asset, partial exemption rule and capital goods adjustment continue to apply accordingly.

58. If he incurs additional input tax in the second interval, the additional input tax will not form part of the Capital Goods Adjustment in second interval but will be adjusted from the third interval onwards.

59. There are two options to deal with additional input tax incurred on a capital asset after the first interval. The two options are:

(a) combined adjustments; and

(b) parallel adjustments.

Combined adjustments

60. This approach involves the rolling together of the adjustment calculations for the remaining intervals. Each time an additional input tax is incurred, the base percentage should be re-evaluated and used to measure against for future intervals. The base percentage can be calculated by determining what percentage of input tax has been reclaimed over the expired intervals, using the formula as in the following example;

Example 17:

Syarikat Campuran, a mixed supplier, is registered for GST and has a monthly taxable period. His first tax year ends on 31 December 2016. Syarikat Campuran has a new office building and occupies it on 1 June 2016. The company has incurred additional input tax in the first, second and third intervals on the building as follows:

Interval	***Input Tax Incurred (RM)***	***PE%***	***Input Tax Claimed (RM)***
1	*100,000.00*	*70.55%*	*70,550.00*
2	*40,000.00*	*60.73%*	*24,292.00*
3	*60,000.00*	*50.42%*	*30,252.00*
4	*0.00*	*68.34%*	*0.00*
5	*0.00*	*68.54%*	*0.00*
6	*0.00*	*63.78%*	*0.00*
7	*0.00*	*61.92%*	*0.00*
8	*0.00*	*70.24%*	*0.00*
9	*0.00*	*57.98%*	*0.00*
10	*0.00*	*60.18%*	*0.00*
Total	***200,000.00***		***124,000.00***

Using the combined adjustment, the capital goods adjustments to be made are as follows:

Interval	***CGA baseline***	***Input Tax to be adjusted***	***Capital Goods Adjustment***	
			%	***Amount***
1	*70.55%*	*-*	*0%*	*-*
2	*70.55%*	*100,000.00*	*(9.82%)*	*(982.00)*
3	*67.74%*	*140,000.00*	*(17.32%)*	*(2,425.40)*
4	*62.55%*	*200,000.00*	*5.79%*	*1,158.60*
5	*62.55%*	*200,000.00*	*5.99%*	*1,198.60*
6	*62.55%*	*200,000.00*	*1.23%*	*246.60*
7	*62.55%*	*200,000.00*	*(0.63%)*	*(125.40)*
8	*62.55%*	*200,000.00*	*7.69%*	*1,538.60*
9	*62.55%*	*200,000.00*	*(4.57%)*	*(913.40)*

10	*62.55%*	*200,000.00*	*(2.37%)*	*(473.40)*
Total				***(777.20)***

(a) *For the first interval adjustment:*

(i) *Adjustment under CGA is not required.*

(ii) *However, the registered person is required to make an annual adjustment under partial exemption rules.*

(iii) *Therefore, the eligible annual input tax recovery amount will be:*

70.55% x RM100,000 = RM70,550

(iv) *This amount should be adjusted in the relevant taxable period in the first tax year based on the partial exemption rules.*

(b) *For the second interval adjustment:*

(i) *The CGA base percentage for the second interval is 70.55% (annual partial exemption percentage for the first interval) and input tax amount that is required to be adjusted is RM100,000.*

(ii) *Adjustment percentage for the second adjustment is:*

Current Annual Partial Exemption % − CGA base %

60.73% − 70.55% = (9.82%)

(iii) *Therefore, capital asset adjustment at the end of second interval will be:*

$$\frac{\text{Total input tax}}{\text{Number of intervals}} \text{ X adjustment percentage}$$

$$\frac{\text{RM100,000}}{10} \text{ X (9.82\%) = (RM982)}$$

(c) *For the third interval adjustment*

(i) At the end of the second interval the registered person has claimed input tax as follows:

$$\frac{\textit{Input tax claimed}}{\textit{Input tax incurred}} \; X\ 100\%$$

$$\frac{(RM70{,}550 + RM24{,}292)}{(RM100{,}000 + RM40{,}000)} \; X\ 100\% = 67.74\%$$

(ii) This percentage becomes the CGA base percentage for the third interval.

(iii) The amount of input tax that is required to be adjusted is the total input tax incurred for the previous intervals (first interval and second interval) i.e. RM100,000 + RM40,000 = RM140,000.

(iv) Adjustment percentage for the third interval adjustment is:
Current Annual Partial Exemption % − CGA base %
50.42% − 67.74% = (17.32%)

(v) Therefore, capital asset adjustment at the end of second interval will be

$$\frac{\textit{Total input tax}}{\textit{Number of intervals}} \; X \textit{ adjustment percentage}$$

$$\frac{RM140{,}000}{10} \; X\ (17.32\%) = (RM2{,}425)$$

(d) For the fourth interval adjustment,

(i) At the end of third interval, the registered person has claimed:

$$\frac{\textit{Input tax claimed}}{\textit{Input tax incurred}} \; X\ 100\% = \textit{ average claimable percentage}$$

$$\frac{(RM70{,}550 + RM24{,}292 + RM30{,}252)}{(RM100{,}000 + RM40{,}000 + RM60{,}000)} \; X\ 100\% = 62.55\%$$

(ii) *This becomes the Capital Goods Adjustment base percentage for the fourth interval.*

(iii) *The amount of input tax that is required to be adjusted is the total input tax incurred for the previous intervals (first interval, second interval and third interval) i.e. RM100,000 + RM40,000 + RM60,000 = RM200,000*

(iv) *Adjustment percentage for the fourth interval adjustment is;*

Current Annual Partial Exemption % − CGA base %.

68.34% − 62.55% = 5.79%

(v) *Therefore, capital asset adjustment at the end of fourth interval*
will be:

$$\frac{\textit{Total input tax}}{\textit{Number of intervals}} \textit{ X adjustment percentage}$$

(e) *For the fifth and the subsequent interval adjustments*

$$\frac{\textit{RM200,000}}{\textit{10}} \textit{ X 5.79\% = RM1,159}$$

(i) *Capital Goods Adjustment base percentage is 62.55%*

(ii) *The amount of input tax that is required to be adjusted is the total input tax incurred for the previous intervals i.e. RM200,000*

(iii) *Adjustment percentage and capital asset adjustment for fifth and the subsequent intervals will be derived by using the same formula as explained above.*

61. This method produces a net adjustment figure of RM777 due to Customs over the 10-year adjustment period. If this amount is deducted from the initial input tax claim of RM124,000, the actual amount of input tax claimed is RM123,223 which is 61.61% of total input tax incurred i.e. RM200,000.

Parallel adjustments

62. This approach involves the carrying out of separate but simultaneous adjustments for the remaining intervals of the capital goods adjustment period.

63. Using the same data as in Example 17 but using the parallel approach, the table below shows the adjustments which are required to be made by the taxable person.

Interval	Input tax incurred	PE %	Input tax reclaimed	Adj of Interval 1		Adj of Interval 2		Adj of Interval 3		Total
				%	Amount	%	Amount	%	Amount	
1	100,000.00	70.55%	70,000.00	0.00%	-	0.00%		0%		
2	40,000.00	60.73%	24,000.00	-9.82%	(982.00)	0.00%		0%		(982.00)
3	60,000.00	50.42%	30,000.00	-20.13%	(2,013.00)	-10.31%	(412.40)	0%		(2,425.40)
4	-	68.34%	-	-2.21%	(221.00)	7.61%	304.40	17.92%	1,075.20	1,158.60
5	-	68.54%	-	-2.01%	(201.00)	7.81%	312.40	18.12%	1,087.20	1,198.60
6	-	63.78%	-	-6.77%	(677.00)	3.05%	122.00	13.36%	801.60	246.60
7	-	61.92%	-	-8.63%	(863.00)	1.19%	47.60	11.50%	690.00	(125.40)
8	-	70.24%	-	-0.31%	(31.00)	9.51%	380.40	19.82%	1,189.20	1,538.60
9	-	57.98%	-	-12.57%	(1,257.00)	-2.75%	(110.00)	7.56%	453.60	(913.40)
10	-	60.18%	-	-10.37%	(1,037.00)	-0.55%	(22.00)	9.76%	585.60	(473.40)
TOTAL	**200,000.00**		**124,000.00**		**(7,282.00)**		**(982.00)**		**5,882.40**	**(777.20)**

64. This method produces a net adjustment figure of RM777.20 which is due to Customs over the 10-year adjustment period. If this amount is deducted from the initial input tax claim of RM124,000, the actual amount of input tax claimed is RM123,222.80 which is 61.61% of total input tax incurred i.e. RM200,000.

Adjustment in subsequent intervals

65. Adjustments on a capital asset 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 asset in subsequent intervals is as follows:

$$\frac{\textit{Total input tax}}{\textit{Number of intervals}} \textit{ X adjustment percentage}$$

66. Adjustment percentage is a percentage of taxable use for any particular interval less percentage of taxable use in the first interval.

Example 18:

ABC Sdn. Bhd., a mixed supplier, is registered for GST on 1 January 2016 and his first tax year ends on 31 December 2016. The company acquires a new computer for RM1 million plus RM60,000 (6% GST) on 10 January 2016. The annual proportional taxable use of the computer for each interval is as follows:-

First interval	*60.56%*
Second interval	*70.32%*
Third interval	*55.93%*
Fourth interval	*45.16%*
Fifth (final) interval	*40.94%*

The intervals applicable to the computer are as follows:-

First interval	*10 January 2016 – 31 December 2016*
Second interval	*1 January 2017 – 31 December 2017*
Third interval	*1 January 2018 – 31 December 2018*
Fourth interval	*1 January 2019 – 31 December 2019*
Fifth interval	*1 January 2020 – 31 December 2020*

The amount of input tax that can be claimed for the first interval is RM36,336.00 and the amount of adjustment to be made under the CGA in the subsequent intervals is shown in the table below:

Interval (year)	***% of taxable use***	***CGA rate %***	***Adjustment Computation***	***CGA Amount (RM)***
1 (2016)	*60.56%*	*-*	*RM60,000 X 60.56%*	*-*

2 (2017)	*70.32%*	*70.32% – 60.56% = 9.76%*	$\frac{RM60,000}{5}$ *X 9.76%*	*1,171.12*
3 (2018)	*55.93%*	*55.93% – 60.56% = (4.63%)*	$\frac{RM60,000}{5}$ *X (4.63%)*	*(555.60)*
4 (2019)	*45.16%*	*45.16% – 60.56% = (15.40%)*	$\frac{RM60,000}{5}$ *X (15.40%)*	*(1,848.00)*
5 (2020)	*40.94%*	*40.94% – 60.56% = (19.62%)*	$\frac{RM60,000}{5}$ *X (19.62%)*	*(2,354.40)*

Note:

(i) For the second interval, the company can claim an additional input tax of RM1,171.12.

(ii) For the third to fifth intervals, the company has to repay a portion of the input tax which has been claimed earlier, totaling RM4,758.00 (RM555.60 + RM1,848.00 + RM2,354.40).

Adjustment in the year of disposal

67. When a capital asset is disposed of before the end of its adjustment period, the mixed supplier has to make a final adjustment for the remaining period, that is from the date of disposal until the end of the adjustment period. No further adjustment is necessary after the final adjustment has been made. If the disposal is a taxable supply, the mixed supplier is able to claim additional input tax for any remaining complete intervals. The final adjustment in the year of disposal is shown in Example 19 below:

Example 19:

Using the same data as in Example 18 and assuming that ABC Sdn. Bhd. has sold its computer on 1 January 2019. The sale of computer is a taxable supply. The adjustments which the company has to make are as shown in the table below.

Interval (year)	*% of taxable use*	*CGA rate %*	*Adjustment Computation*	*CGA Amount (RM)*
1 (2016)	*60.56%*	*-*	*RM60,000 X 60.56%*	*-*
2 (2017)	*70.32%*	*70.32% – 60.56% = 9.76%*	$\frac{RM60,000}{5}$ *X 9.76%*	*1,171.12*
3 (2018)	*55.93%*	*55.93% – 60.56% = (4.63%)*	$\frac{RM60,000}{5}$ *X (4.63%)*	*(555.60)*
4 (2019)	*100%*	*100% – 60.56% = 39.44%*	$\frac{RM60,000}{5}$ *X 39.44% X 2*	*9,465.60*
5 (2020)	*100%*	*100% – 60.56% = 39.44%*		*-*

Note:

(i) When ABC Sdn. Bhd. sold the computer on 1 January 2019, there are 2 complete intervals (2019 and 2020) remaining before the adjustment period ends. Therefore, ABC Sdn. Bhd. can claim an additional input tax RM9,465.60 (RM4,732.80 + RM4,732.80) for the two remaining complete intervals as the company is deemed to be making a wholly (100%) taxable supply for the two remaining intervals.

(ii) However, the company has to charge output tax on the sale of the computer based on the consideration received.

(iii) The adjustment for the fifth interval is carried at the end of the fourth interval as the final adjustment.

68. If a capital asset is disposed of on the first day of an interval, the mixed supplier can treat that interval where the disposal takes place as a remaining complete interval. On the other hand, if the disposal date of a capital asset is other than the first day of the interval, the annual residual input tax recovery rate for the interval in which the sale took place is calculated by using the following formula;

$$\frac{(a \times r) + (b \times 100\%)}{y}$$

where,

a	is the total number of days from the first day of the interval to the day before the date of disposal;
r	is the percentage of taxable use applicable to *a;*
b	is the total number of days from the date of disposal to the last day of the interval; and
y	is the total number of days in the interval

Example 20:

Using the same data as in Example 18 and assuming ABC Sdn. Bhd. sells its computer on 13 June 2019 instead of on 1 January 2019, the adjustment the company has to make for the fourth interval is as shown in the table below.

Interval (year)	***% of taxable use***	***CGA rate %***	***Adjustment Computation***	***CGA Amount (RM)***
1 (2016)	*60.56%*	-	*RM60,000 X 60.56%*	-
2 (2017)	*70.32%*	*70.32% – 60.56% = 9.76%*	$\frac{RM60,000}{5}$ *X 9.76%*	*1,171.12*
3 (2018)	*55.93%*	*55.93% – 60.56% = (4.63%)*	$\frac{RM60,000}{5}$ *X (4.63%)*	*(555.60)*
4 (2019)	*45.78% (12/6/19)* *100% (31/12/19)*	*75.85% – 60.56% = 15.29%*	$\frac{RM60,000}{5}$ *X 15.29%*	*1,834.80*
5 (2020)	*100%*	*100% – 60.56% = 39.44%*	$\frac{RM60,000}{5}$ *X 39.44%*	*4,732.80*

Note:

Disposal date is not on the first day of the fourth interval and therefore the fourth interval is not considered a remaining complete interval.

**Calculation:*

Taxable use from 1 January 2019 to 12 June 2019 (163 days)	*- 45.78%*
Taxable use from 13 June 2019 to 31 December 2019 (203 days)	*- 100%*

$$\frac{(163 \text{ days X } 45.78\%) + (203 \text{ days X } 100\%)}{366 \text{ days}} = 75.85\%$$

(i) *Annual residual input tax recovery rate:*

(ii) *Additional input tax claimable for the fourth interval is;*

$$\frac{RM60{,}000}{5} \text{ X } (75.85\% - 60.56\%) = RM1{,}834.80$$

ABC Sdn. Bhd. has one remaining interval left that is the fifth interval (2020). The company is regarded as having utilized the capital asset for making wholly (100%) taxable supplies for the fifth interval. Hence, the company can claim additional input tax of RM4,732.80 for the final interval as shown above.

It means, ABC Sdn Bhd can claim RM6,567.60 (RM1,834.80 + RM4,732.80) as input tax in the fourth interval.

69. Capital assets acquired in different tax years cannot be summed up together to make adjustment because the adjustment periods for capital assets acquired in different tax years will end on different periods. Likewise, input tax adjustment on capital assets which fall in the same adjustment period but disposed of in different intervals, or in the same interval but on different dates, cannot be summed up for making adjustment.

Example 21:

Two capital assets, Asset A and Asset B, are acquired in the same interval but they are disposed of at different intervals.

(i) *XYZ Sdn. Bhd. tax year ends on 31 December. Partial exemption (PE) ratio for the year of acquisition for the assets is 55.58%. The date of acquisition, value and GST paid on the assets as follows:*

Date of acquisition	***Items acquired***	***Value of acquisition (RM)***	***GST (6%) paid (RM)***
12 November 2016	*Asset A*	*800,000*	*48,000*
30 December 2016	*Asset B*	*600,000*	*36,000*

(ii) *Total GST incurred in the first interval for both assets is RM84,000. The initial amount of input tax that can be claimed is RM46,687.20 (55.58% X RM84,000).*

(iii) *XYZ Sdn. Bhd. disposes off Asset A on 30 June 2018 and Asset B on 21 March 2019 as taxable supplies.*

(iv) *The adjustments made under the CGA for the two assets in their adjustment periods are shown in the table below:*

Interval (year)	***PE ratio %***	***CGA rate %***	***Adjustment Computation***	***Adjustment (RM)***
1 (2016)	*55.58%*	–	*RM84,000 X 55.58% = = RM46,687.20*	–
2 (2017)	*45.62%*	*45.62% – 55.58% = (9.96%)*	$\frac{RM84,000}{5}$ *X (9.96%)*	*(1,673.28)*
3 (2018)	*Asset B 40.62%*	*40.62% – 55.58% = (15.06%)*	$\frac{RM36,000}{5}$ *X (15.06%)*	*(1,084.32)*

	**Asset A* *up to 29/6/18 40.45%* *30/6/18 to 31/12/18* *100%*	**70.63% – 55.58% = 15.05%*	$\frac{RM48,000}{5}$ *X 15.05%*	*1,444.80*
4 (2019)	***Asset B* *up to 20/3/16 60.41%* *21/3/16 to 31/12/16* *100%*	***91.35% – 55.58% = 35.77%*	$\frac{RM36,000}{5}$ *X 35.77%*	*2,575.20*
	Asset A *100%*	*100% – 55.58% = 44.42%*	$\frac{RM48,000}{5}$ *X 44.42% X 2*	*8,528.64*
5 (2020)	*Asset B* *100%*	*100% – 55.58% = 44.42%*	$\frac{RM36,000}{5}$ *X 44.42%*	*3,198.24*
	Asset A	–	–	–

Calculation:

****Asset A***

(i) The taxable use (i.e. P/E ratio) of Asset A from 1 January 2018 to 29 June 2018 (180 days) is 40.45%.

(ii) The taxable use (i.e. P/E ratio) of Asset A from 30 June 2018 to 31 December 2018 (185 days) is deemed to be 100%.

(iii) Annual residual input tax recovery rate:

$$\frac{(180 \text{ days X } 40.45\%) + (185 \text{ days X } 100\%)}{365 \text{ days}} = {}^{*}70.63\%$$

*****Asset B***

(i) The taxable use 9 (i.e. P/E ratio) of Asset B from 1 January 2019 to 20 March 2019 (80 days) is 60.41%.

(ii) The taxable use (i.e. P/E ratio) of Asset B from 21 March 2019 to 31 December 2019 (286 days) is deemed to be 100%.

(iii) Annual residual input tax recovery rate:

$$\frac{(80 \text{ days} \times 60.41\%) + (286 \text{ days} \times 100\%)}{366 \text{ days}} = {}^{**}91.35\%$$

FREQUENTLY ASKED QUESTIONS

Working Out Capital Goods Adjustment

Q1. Initially I acquired a machine solely for the purpose of making taxable supply. I have recovered fully the input tax incurred. Later I used the machine for both taxable and exempt supplies. Do I have to make an adjustment under the Capital Goods Adjustment?

A1. If you begin to use the item for making exempt and taxable supplies, you have to make adjustments under the CGA if it falls within the adjustment period.

Q2. Is the De Minimis Rule also applicable under the scheme?

A2. The De Minimis Rule is taken into account when determining the claimable percentage of input tax in an interval. Further explanation on De Minimis limit is provided in the Guide on Partial Exemption.

Q3. I am a registered person and acquire a machine for RM500,000 to make 55% standard-rated supply and 45% zero-rated supply. Do I need to do capital adjustment on the machine?

A3. No, because you are actually making wholly taxable supplies as zero-rated supplies are also taxable supplies.

Q4. I am a mixed supplier and acquire a machine for RM1.5 million to make 50% standard-rated supplies and 50% exempt-supplies for a period of 7 years. Do I need to do capital adjustment on the machine?

A4. You may make initial input tax claim amounting to 50% and in the subsequent years if the proportional taxable use of the machine does not change, no adjustment is necessary. However, you are required to make capital goods adjustment when there is a change in proportional taxable use of the machine.

Q5. Is there any restriction on the amount of tax claimable from the disposal of a taxable capital asset?

A5. No, on condition the disposal value of the taxable capital asset is based on actual consideration. However, if it is disposed of to a connected person who is not entitled to claim input tax, the value must be based on open market value.

Accounting for Adjustments

Q6. When do I have to account for adjustments?

A6. The GST amount on capital goods adjustment must be declared in your GST return in the second taxable period immediately after the end of each relevant interval.

Example 22:

If your second interval ends on 31 December 2016 and assuming that you are on a quarterly taxable period you will have to include the amount of adjustment in the tax return for the quarter from April to June 2017. The same requirement applies to all subsequent intervals.

Example 23:

If your second interval ends on 31 December 2016 and assuming that you are on a monthly taxable period, you will have to make the adjustment and include the amount of adjustment in the tax return for the taxable period of February 2017. The same requirement applies to all subsequent intervals.

For capital goods disposed of before the adjustment period ends, a final adjustment has to be made and the GST amount on the final adjustment must be declared in your GST return for the second taxable period immediately after the end of the interval or tax year (if applicable) where the disposal took place.

Example 24:

Assuming that your first interval for a machine, acquired by you, ends on 31 December 2016 and you dispose it off on 20 April 2017. You will have to make a final disposal adjustment inclusive of the remaining 3 intervals in your GST return for the period of February 2018, that is required to be submitted to the Customs before or on 31 March 2018 (if registered person is subject to monthly taxable period).

When you are deregistered as a registered person, a final adjustment also has to be made and the relevant GST amount must be declared in your GST return for the taxable period ending on the effective date of deregistration.

Example 25:

Assuming that you are deregistered on 16 July 2016, you would have to make a final adjustment on all your capital goods which came under the scheme and declare the total amount in the GST return for July 2016.

Other Related Matters On Capital Goods Adjustment

Q7. I am a mixed supplier and I purchased a machine worth RM200,000 solely for the purpose of reselling. Does the Capital Goods Adjustment apply to this machine?

A7. Since you have not capitalized the asset and it is not used for making both taxable and exempt supplies, no Capital Goods Adjustment is necessary.

Q8. If my machine were temporary put off for 2 months for maintenance work, what would be the treatment like on its capital adjustment?

A8. Capital asset temporary put off or not in use is still considered as if it were in normal use.

Q9. What would happen if a capital asset is lost, stolen or destroyed?

A9. The item is deemed to be disposed of on the date the loss was discovered or destruction occurred. You will have to make a final adjustment for that particular interval where the loss was discovered or destruction occurred, but adjustment for any remaining intervals is not required.

Q10. If capital assets are disposed of as a going concern, is it necessary to continue making adjustment on the items?

A10. The new owner must continue to work out adjustments on the remaining intervals without any break. The seller must furnish the necessary details to the buyer to enable him (the buyer) to work out adjustments on the remaining intervals.

Q11. What are the responsibilities and liabilities of a seller and buyer in respect of adjustment to a capital asset sold?

A11. The seller has to make a disposal adjustment and account for output tax on the disposal. On the other hand, the buyer, if he also uses the capital asset for making mixed supplies, would claim initial input tax based on the partial exemption rule and make adjustment on the capital asset over the next four (other than land and building) or nine (land and building) subsequent intervals (including the final interval).

Q12. Can I use the purchase price of a capital asset acquired prior to me becoming a registered person as a basis for making initial input tax claim and subsequent adjustments?

A12. No, the book value of a capital asset on the date the owner becomes a registered person will be the basis for calculating input tax and adjustments.

Example 26:

ABC Sdn. Bhd., a mixed supplier, bought equipment on 3 July 2016 for RM200,000 and the company only becomes a registered person on 1 February 2018. On the day, the company becomes a registered person, the book value of the equipment has depreciated to RM120,000. Hence, the value to be used for calculating input tax and adjustments on the equipment is RM120,000.

Q13. Must I keep records on my capital goods adjustments for Customs auditor to verify?

A13. Yes, you must keep all your proper records and book-keeping on capital adjustments you have made for a period of 7 years from the date of the last adjustment made on a capital asset. In addition to records as specified under section 36 of the GST Act 2014, other records that need to be kept by you should include the following:

(a) Date of acquisition.

(b) Description of each capital asset.

(c) Value of the capital asset.

(d) Amount of input tax incurred on the capital asset.

(e) Amount of input tax claimed on each capital asset.

(f) The start and end date of each interval.

(g) Date when adjustments are made.

(h) The date and value of disposal if capital asset were disposed off.

(i) If a capital asset is lost or stolen, the date such capital asset were lost or stolen and proof of the lost, such as a police report.

INQUIRY

1. For any inquiries for this guide please contact :

Sector VII
GST Division
Royal Malaysian Customs Department
Level 3 – 7, Block A, Menara Tulus,
No. 22, Persiaran Perdana, Presint 3,
62100 Putrajaya.

Email: gstsector7@customs.gov.my

FURTHER ASSISTANCE AND INFORMATION ON GST

2. Further information on GST can be obtained from :

(a) GST website : www.gst.customs.gov.my

(b) Customs Call Center :

- Tel : 03-7806 7200 / 1-300-888-500
- Fax : 03-7806 7599
- Email : ccc@customs.gov.my