ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE
ON
MANUFACTURING

Publication

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CONTENTS

INTRODUCTION

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

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.

GENERAL OPERATIONS OF MANUFACTURING INDUSTRY

5. GST covers all supply chain in the economy such as manufacturing, distribution and retailing. Almost all supplies in the manufacturing sector is subjected to GST including sale of finished goods, stocks, capital assets and services rendered to other establishments.

6. A manufacturer, who is a taxable person, is required to charge GST on taxable supplies made by him when they are sold to buyers. On the other hand, the manufacturer is also allowed to claim input tax credit on any purchases made for the purpose of his business. Buyers who are also GST registered persons, are allowed to set off GST incurred on their acquisition against their output tax.

7. GST charged to customers is termed as “Output Tax” and those incurred by the manufacturer on his business purchases and overheads is termed as “Input Tax”. Output tax will be offset by input tax and if output tax is more than input tax, the net tax is payable to the Royal Malaysian Customs Department (RMCD). However, if input tax credit exceeds output tax payable, RMCD will refund the surplus input tax credit to the manufacturer.

8. To make the export sector in Malaysia more competitive, all exports are zero-rated, meaning exporters do not collect output tax on their supplies. Manufacturers who are export-oriented would be eligible for Approved Trader Scheme (ATS). Under this scheme, the manufacturers could suspend GST payment on imported goods, thus alleviating their cash flow problem on importation.

GENERAL PRINCIPLES OF GST FOR MANUFACTURERS

9. Manufacturers who make taxable supplies of goods or services in Malaysia with annual turnover that exceed the GST threshold would become taxable persons and are liable to be registered under the GST Act 2014. However, if their annual turnover is lower than the prescribed threshold, the manufacturers can still choose to apply for voluntary registration.

10. In determining the annual turnover of a company, total value of all taxable supplies of goods and services must be included, with exception to sale of capital assets, supplies made within designated areas (Labuan, Langkawi or Tioman), and imported services. Taxable supplies refer to standard-rated and zero-rated supplies only which are made in the course or furtherance of business. Exempt supplies should not be included in the computation of annual turnover. For further details, please refer to the Guide on Registration.

GST TREATMENT FOR MANUFACTURING INDUSTRY

Manufacturing Input

11. Basically, manufacturing involves acquisition of goods and services for producing final products of their own or performing value-added services onto semi-

finished goods belonging to a principal, like for example in the toll manufacturing contract. Acquisitions made by all manufacturers for the above mentioned business purposes, either sourced locally or imported will trigger GST which is referred as input tax. Most of the input required in manufacturing processes are standard rated and can be categorized as follows:

(a) Capital assets

These are goods that can be capitalized for accounting purposes and in accordance with generally accepted accounting practices. Capital assets would include:

(i) Land and building (e.g. office and factory);

(ii) Plant and machineries;

(iii) Tools and equipment, including office equipment.

(b) Raw materials and components

These are goods that are directly used for the manufacturing of finished goods.

(c) Services, utilities and other charges

Services are supplies other than goods, such as maintenance works on plant and machineries, workmanship charges on sub-contracting works and professional advice and consultancy. Other charges include telephone, rental and transportation charges. However, supply of utilities such as water and electricity is a supply of goods.

12. GST incurred on local or imported goods purchased for the furtherance of business can be allowed for input tax claim as long as those goods do not fall under the list of blocked input tax items as stipulated in Regulation 36 of the GST Regulations 2014.

13. In the event a manufacturer makes both taxable and non-taxable (i.e. exempt) supplies, he has to do apportionment and claim input tax only on the portion of input attributable to taxable supplies. However, if the amount of input tax incurred on making exempt supplies is still within the De Minimis limit (value of exempt supplies does not

exceed RM5,000 per month and 5% of total value of supplies made in that period), then he is allowed to claim the full amount of input tax as though he is making wholly taxable supplies. For further details, please refer to the **Guide on Input Tax Credit**.

Manufacturing Output

14. Generally all supplies made in the manufacturing industry are either standard-rated or zero-rated. If the manufacturer is a taxable person, he is liable to collect GST on all taxable supplies (except for zero-rated supplies) that he makes to his local customers.

15. Taxable supplies of goods may not necessarily be restricted to the sale of manufactured goods only. It includes:-

(a) Disposal of business assets;

(b) Application of business assets for non-business purposes;

(c) Business gifts exceeding RM500 given to the same customer in the same year;

(d) Goods which are business assets on hand at deregistration;

(e) Employee benefits given to employees.

16. As registered persons, manufacturers are liable to account for output tax on all taxable supplies. The tax must be accounted and paid on each particular taxable period to the Director General of Customs. The tax is allowed to be offset with any input tax credit and the registered person is only required to pay the difference if the difference is positive. If the input tax is more than the output tax payable, the Director General of Customs will refund the net difference to him.

17. Under the normal rules of GST, a GST registered person is required to issue tax invoice for every taxable supply he makes. A tax invoice must be issued within twenty-one (21) days from the time of supply which would create the tax liability to the manufacturer. The tax liability is based on the general time of supply rules. For goods, the basic tax point is:

(a) When the goods are sent to the customer; or

(b) When the goods are made available to the customer.

18. However, the basic tax point is not applicable in the following two situations which are to be treated as the actual tax point:

(a) The manufacturer has issued a tax invoice before basic tax point; or

(b) When payment is received before the basic tax point;

whichever is earlier.

19. GST needs to be accounted in the tax return for the period covering the corresponding tax point.

Example 1:

Company A delivered goods to Company B on 18.7.2015. If Company B did not make any payment prior to the delivery of the goods and Company A only issued a tax invoice on 2.8.2015, then the actual tax point is 2.8.2015. This is in accordance to the 21-days rule. Therefore, Company A will have to account for tax in the taxable period of August 2015. (Assuming Company A is on monthly taxable period).

Example 2:

Based on the same example as above, assume Company B did not make any payment prior to the delivery of the goods on 18.7.2015 and Company A issued a tax invoice only on 20.8.2015. In this case, the amount of GST due will fall back to the basic tax point on 18.7.2015 because company A issued the invoice only after 21 days from the basic tax point. Therefore, Company A will have to account for tax in the taxable period of July 2015.

CONSIGNMENT SALES

20. Under the consignment sales, supply of goods, sales, return or similar terms indicate that no supply takes place when the manufacturer (consignor) only delivers the goods to the consignee whereas the ownership of the goods still remains with the consignor. Supply is determined to have been made only at the time the consigned

goods are adopted by the consignee. Adoption means the consignee indicates a wish to keep the goods. Until the consignee does so, he has an unqualified right to return the consigned goods at any time, unless the consignor has specified a time limit.

21. The time of supply for the consignment sales is exceptional from the general rules of the time of supply in paragraph 17. The basic tax point is:-

(a) based on the expiry date specified by the consignor (not more than 12 months from the delivery date);

(b) when the consignee adopts the goods before the specified time limit expires; or

(c) on the expiry of 12 months from the date which the goods were sent to the consignee, if no time limit is specified.

22. If the consignor receives a statement of sales, this will normally indicates that the goods have been adopted. Applying the time of supply rule, if a tax invoice is issued within 21-days from the date of the sales statement or at the expiry of 12 months period from the date the goods were sent, the actual time of supply would be the date of the tax invoice.

Example 3:

Company A, a manufacturer, delivered 1000 sets of shirts to a supermarket in Malaysia on 1st January 2016. The goods were sent on consignment basis after the supermarket owner agreed on the price offered by the manufacturer. On 5th July 2016, Company A was informed that 200 sets of shirts had been sold. Company A issued a tax invoice to the supermarket on 20th July 2016 and received payment on 30th September 2016.

Basic tax point for the goods sold is 5th July 2016, i.e. the point when the sale become certain. However, since the tax invoice was issued within twenty-one (21) days from the basic tax point, it overrides the basic tax point. So, the actual time of supply is on 20th July 2016. Therefore, Company A must account for GST in the taxable period of July 2016.

(Assuming Company A is on monthly taxable period). If the supermarket is a registered person, it can claim input tax credit on the purchases.

Example 4:

*Based on the same **Example 3** above, let's say the balance of 800 sets of shirts were not sold and returned to Company A on 31st December 2016. In this case, GST on the 800 sets of shirts is not due because there is no transfer of ownership from the consignor to the consignee. So, Company A does not have to account for GST on the 800 sets of unsold shirts since they were returned before expiry of 12 months from the date it was first consigned*.

Example 5:

If the unsold goods in Example 4 were not returned to Company A on 1st January 2017, then Company A has to account for GST due on the 800 sets of shirts in January 2017 since the 12 months period had lapsed. Therefore, the tax point will be on 1st January 2017. Company A has to account for GST based on the selling price in the GST return for January 2017.

EXPORTS

23. All supplies of goods exported from Malaysia and international services are zero-rated. This means that the exporter does not charge GST on his exports but he is able to claim input tax credits on GST incurred as his inputs. However, the exporter must keep documentary evidence as proof of exports such as the export declaration forms, invoices and packing list.

24. A manufacturer is not entitled to zero-rate the supplies made to his overseas buyers, if the goods are not exported out from Malaysia but delivered locally. This could happen in the case of goods exported under the name of logistic company or drop-shipped to the local customers of the overseas buyers. These supplies would be subjected to GST at standard-rated.

Example 6:

ABC Co. is a contract manufacturer who produces computer drives to his overseas buyer, XYZ Ltd located in Japan. Upon instruction from XYZ Ltd., ABC Co. manufactured 1000 units of computer drives and exported it to Japan. Therefore, ABC Co. is entitled to zero rate the supply as the goods were physically removed to a place outside Malaysia.

Example 7:

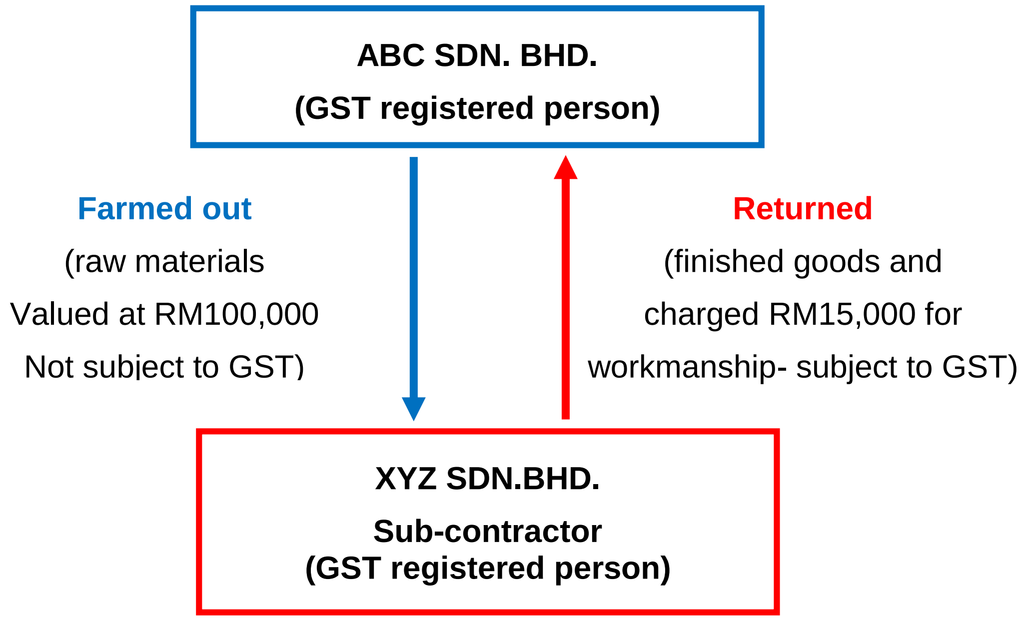
Based on the above example, if the overseas buyer requested ABC Co. to send only 800 units of the goods to Japan and deliver the balance (200 units) to his local customer in Malaysia, the 800 units of goods exported only will be entitled to be zero rated whereas the balance of 200 units would become a standard rated supply.

FARMING IN/OUT (SUB-CONTRACT WORK)

25. Subcontractors normally do work that are given by another company known as a principal. The principal supplies materials to the subcontractor for further work to be done. In this matter, there is no taxable supply made by the principal because there is no transfer of ownership of the goods to the subcontractor. Therefore, GST is not applicable.

26. Farming out does not transfer the ownership of goods to the subcontractor. As such, it is not a supply of goods and the principal does not have to account for GST output tax on the raw materials. However, if the subcontractor is a GST registered person, he has to account for GST output tax on the value of services supplied to the principal. Please refer to Diagram 1 below.

Diagram 1: Illustration of Farming Out



Accounting for GST will be as follows:

(a) ABC Sdn Bhd is not required to issue a tax invoice to XYZ Sdn Bhd because sending the goods to XYZ Sdn Bhd is not a supply and no GST is chargeable. ABC Sdn Bhd is only required to cover the movement of the goods by issuing a delivery order (DO).

(b) XYZ Sdn. Bhd. has to issue a tax invoice to ABC Sdn Bhd, when the finished goods are returned to ABC Sdn Bhd after the sub-contract work, and to account for output tax of RM900 (RM15,000 x 6%) on the workmanship charges.

(c) ABC Sdn Bhd can claim the RM900 (GST) paid to XYZ Sdn. Bhd. as his input tax credit.

(d) If XYZ Sdn Bhd is not a GST registered person, no GST is due on the workmanship charges.

Toll Manufacturing Activities

27. Under this activity, the local manufacturer is engaged by the overseas principal who does not belong in Malaysia to perform value added activity on consigned goods provided by the principal. The processed goods will be exported to the overseas

principal and based on instruction, some portions of the processed goods would be delivered by the manufacturer to the local customers of the overseas principal. The delivery of processed goods by the toll manufacturer is actually a supply made by the overseas principal which is the liability of the principal.

28. Under Approved Toll Manufacturer’s Scheme (ATMS) liability of the overseas principal on the processed goods would shift to his local customer under the recipient self-accounting mechanism. Thus, the local customer regardless whether he is a registered person or not, has to account and pay for the tax as if he had supplied and acquired the goods.

29. Under ATMS, value added activities (contract services) carried out by the toll manufacturer is disregarded. This means GST will not be charged on the services rendered to the overseas principal.

30. A toll manufacturer is eligible to apply for ATMS if he satisfies the Director General that:

(a) the value of supplies comprising the treatment or processing of goods for and to a person who does not belong in Malaysia, i.e. value of contract services is RM2 million or more (excluding the cost of raw materials supplied or belonging to the overseas principal) per annum; AND

(b) he must export at least 80% of the processed goods.

For further details, please refer to Guide on Approved Toll Manufacturer Scheme.

FREQUENTLY ASKED QUESTIONS

Registration

Q1. Are all manufacturers liable to be registered as GST registered persons?

A1. Only those manufacturers whose total taxable turnover in the twelve months period exceeds the prescribed threshold of RM500,000 are liable to be registered under GST. However, a manufacturer may still apply for voluntary registration if his taxable supplies is below the prescribed threshold. For further details, please refer to the **Guide on Registration**.

Q2. If my company has a few subsidiaries, do I have to register all my companies separately or as a group?

A2. Subsidiaries whose total taxable turnover in the twelve months period have exceeded the prescribed threshold, are liable to register individually for GST. If all these GST registered subsidiaries comply with the requirements under group registration, then you may apply to be registered as a group. For further details, please refer to the **Guide on Registration**.

Inputs

Q3. Can a GST-registered manufacturer treat all the GST paid for his business acquisitions or purchases as his input tax credit?

A3. All GST incurred by the manufacturer for the furtherance of his business only can be claimed as his input tax. The manufacturer can offset this input tax against any output tax that he is liable to pay to the Director General of Customs (DG).

Q4. Are raw materials and components used in manufacturing goods meant for export subject to GST?

A4. Yes, you will have to pay GST on all raw materials acquired by you from any GST-registered suppliers. If you choose to import the raw materials, GST is payable at the time of importation. However, if you are a GST registered person, you would be able to claim the tax paid on the purchases as your input tax credit. The finished goods which are subsequently exported by you is allowed to be zero-rated.

Q5. I am an export oriented manufacturer and incurred substantive GST on imported goods. Is there any facility for me to be exempted from paying GST upfront?

A5. Under the mechanism of GST, whatever GST incurred on your acquisitions whether locally sourced or imported subjects to GST and allowed for input tax claim. However, some export oriented companies, or companies operating in the Free Industrial Zone (FIZ) or with Licensed Manufacturing Warehouse (LMW) status, are eligible to apply for the Approved Trader Scheme (ATS) to be allowed to suspend the payment of GST on imported goods at the point of importation. In order to be approved as an ATS Participant under this special scheme, you are required to comply with the prescribed conditions. For further details, please refer to **Guide on Approved Traders Scheme (ATS)**.

Q6. Can I claim GST paid on administrative expenses?

A6. All administrative expenses incurred in making taxable supplies are entitled to input tax claim whether it is directly or indirectly used in the manufacturing process. The input tax can be claimed in full by offsetting it against your output tax in your GST return.

Q7. How about GST incurred on capital items, for example a computer system or an office building? Can I claim them as my input tax credit?

A7. As a GST registered person, you can claim the GST incurred on capital items that are used in your business to make taxable supplies. The input tax is claimable in the taxable period in which the capital items are acquired.

Q8. Are there any purchases in which input tax is not claimable?

A8. Basically, input tax is claimable on all purchases, except for the following:

(a) on goods and services which are not used for your business;

(b) on goods (other than those in hand at the time of registration) and services obtained before GST registration; or

(c) any supplies for which the input tax is blocked as stipulated in the GST Regulations 2014 e.g. passenger cars.

Q9. If capital assets are used for making exempt supply, can I claim for full input tax credit?

A9. Input tax claim on acquisitions of goods (including capital assets) and services for making exempt supplies are not allowed.

Q10. If capital assets are used for making mixed supply, can I claim for full input tax credit?

A10. If you are making mixed supplies (taxable and exempt supplies) you will have to apportion the input tax based on the proportion of taxable supplies made. If the value of the capital assets, is more than RM100,000 (excluding tax), the GST incurred on the cost of the capital goods may be subjected to adjustments under the Capital Goods Adjustment. Adjustment becomes necessary when there is a change in the proportional taxable use of the capital goods. For further details, please refer to **Guide on Capital Goods Adjustment**.

Q11. If I have to return some defected or inferior goods to my supplier, can I claim the GST paid on the returned goods?

A11. When you return the goods, your supplier should refund you the payment for the goods and the GST paid by way of a credit note. If you have already claimed the input tax credit on the returned goods, then you will have to reduce the said input tax in the taxable period in which you receive the credit note.

Q12. I am a GST-registered manufacturer and acquire certain services from overseas. What is my GST liability?

A12. When you acquire services from overseas, you are treated as making-supplies of imported services. Therefore, you need to account for tax on such services whereby the time of supply would be when the supply is paid or invoice received whichever is the earlier by you.

However, if you are a GST registered person, the amount of output tax that has to be accounted on the imported services is allowed to be net off with the deemed input tax of the same amount by way of reverse charge mechanism. But if you are mixed supplier and acquire the imported services for making both the taxable and exempt supplies, you have to account the output tax in full but net off only the proportion that is attributable to making the taxable supplies.

Q13. Can I claim for input tax on the whole value (purchase price) of the machinery acquired under a hire-purchase agreement?

A13. Under a hire-purchase agreement, goods purchased are paid by way of instalments to the vendor or finance company who provide the loan. Anyhow, input tax can be claimed based on the whole value of purchase price. However, if the interest charged is separately identified/ shown or disclosed to you, the interest charged under the hire-purchase agreement will not be subjected to GST as it relates to exempt supply.

Q14. What is the GST implication on property or machinery that I acquire under lease?

A14. GST liabilities on leasing would depend on the type of lease whether it is an operating lease or financial lease. Under the financial lease, where the lease allows for an option to purchase or transfer of asset at the end of the lease, the leasing company or the financial institution will impose GST on the whole value of the property or machinery similar to the treatment under the hire-purchase agreement in A13 above. If it is an operating lease, GST will be imposed on the value of each lease payment. If the interest charged is disclosed or separately shown under the leasing agreement, the interest element would not be subjected to GST.

Q15. If at the end of the financial lease, I decide not to exercise the option to buy the machine, must I still have to pay GST on the whole value of the machine?

A15. It doesn’t matter whether you exercise the option to purchase or not. As long as the leasing agreement includes a clause for an option to buy the leased item, it is considered as a supply of goods and the whole value of the item is subjected to GST.

Q16. I am a manufacturer of plastic products. Normally, I acquire a machine from a machine manufacturer by advance payment similar to progress payment until the machine is ready for collection. How do I claim the input tax credit?

A16. Your machine supplier would charge output tax on the value of each payment he receives. He then accounts for GST to the Director General at the earlier of the following event:

(a) When you make payment to him; or

(b) When a tax invoice is issued to you.

You can claim input tax according to your taxable period, based on the tax invoices that you receive.

Q17. Normally in the manufacturing industry, we do not make cash payment for our purchase of raw materials. This is because, we are usually given credit terms by our suppliers. So, would I be able to claim the input tax before I make the payment to my supplier?

A17. Yes, provided you have the tax invoices from your supplier.

Q18. For importation of goods, how is the value computed for GST payment?

A18. At the point of importation, value for GST purpose is based on the transaction value including insurance and freight, plus all duties payable and other incidental charges as shown in the example below:

Transaction value	RM50,000
Insurance and freight	RM2,000
Import duty *(Assuming Import Duty 10%)*	RM5,200
Value of import:	RM57,200

GST payable (RM57,200 x 6%) = **RM3,432**

Q19. My overseas suppliers would bill me for my imports in foreign currencies. Can I declare the value of my imports in foreign currencies?

A19. Your supplier may bill you in foreign currencies, but for GST purposes, the value of imports must be converted into Ringgit Malaysia (RM) using the exchange rate approved on weekly basis by the Royal Malaysian Customs. Such exchange rate can be accessed from the Customs Portal.

Q20. Is there any reprieve of GST for goods imported into a Free Commercial Zone?

A20. No GST is charged on goods imported into Free Commercial Zone (FCZ) for trading or commercial activities. However, the goods will be subjected to GST when it is removed from the FCZ for home consumption.

Q21. Since I am exporting my finished goods which are zero-rated, can I be exempted from paying GST when I import the raw materials?

A21. We have a special scheme for export-oriented companies known as the Approved Trader Scheme (ATS). You may apply for the ATS, subject to conditions imposed under the scheme. For further details, please refer to **Guide on Approved Trader Scheme**.

Q22. What is the GST treatment on imported production samples?

A22. Production samples is given relief from paying GST under item 18 GST Relief Order 2014 at the point of importation. You must comply with the conditions; that the production samples are not to be sold, consumed, put to normal use or in any way put for hire or reward while in Malaysia.

Q23. I send my goods to my supplier located overseas for reprocessing. When my supplier send back the value-added goods to me, do I have to pay GST?

A23. When you send the goods to your supplier overseas, you should treat the goods as your exports and zero-rate the supplies. When the goods are subsequently brought back into Malaysia from your overseas supplier, you are entitled to get relief from payment of GST under item 16A GST (Relief) Order 2014. However, GST is chargeable on the parts or components added on the processed goods. If you are a GST registered person, you can claim the GST paid as your input tax credit. Any value added services performed on that goods is not subjected to customs duty or GST.

Q24. If I export my product to overseas, can I claim for input tax credit on zero-rated supplies?

A24. Zero-rated supplies are taxable supplies subject to GST at zero percentage. A taxable person is eligible to claim input tax credit on his business inputs in making taxable supplies.

Outputs

Q25. In the case of goods being returned by my customers, can I claim the GST paid?

A25. Yes, you can claim the GST paid on the goods returned by issuing a credit note to your customers. If you have already submitted your return related to this supply to the DG, then you need to make adjustments to your accounts and declare it in your return, in the taxable period in which you issued the credit note.

Q26. I had wrongly undercharged the price of goods sold. How do I account for GST on the supply?

A26. If you have already submitted your return related to this supply to the DG, you need to issue a debit note and make adjustments to your account and declare it in your return in the taxable period when you issued the debit note.

Q27. If I give a trade discount to my customers, can I only charge GST on the discounted price?

A27. Yes, GST should be imposed on the discounted price.

Q28. When a certain quantity of goods are given free as incentive for bulk buying, for example for every 20 units of a product purchased at a price of RM5,000 I offer my customer 2 units free, must I also account GST on the 2 units given free?

A28. GST will be based on the RM5,000 only and the 2 units given free can be treated as discounts, if you can provide sufficient documents to prove this type of transactions/offers.

Q29. Every year I will give certain quantity of my manufacturing products as business gifts to my customers. Do I have to account for GST on the gifts?

A29. In principle, supply of goods without consideration (gifts) to your customers are deemed to be taxable supplies because it is made in the course or furtherance of your business. However, if the cost of gift given to the same customer in the same year worth not more than RM500, it is not regarded as a supply. In such a case, you do not have to account for output tax even though you are allowed to claim input tax incurred.

Q30. I plan to hold promotions to improve the sale of my products by giving away goods through a retailer. Do I have to account for output tax on the products that are given free within the promotional period?

A30. It depends on how you offer the product for the promotion. If the promotion is such as ‘buy 1 free 1’ or ‘buy a sofa and free foot stool’, it is considered as one supply. Usually, the total amount paid by the buyer will cover all the goods offered. Therefore, you do not have to account for output tax on the goods given free because it is considered as a discount.

Q31. I am a GST registered person and process toasted groundnuts for sale to the local market on credit term. Expiry date for my goods is 6 months and many of my retailers would return the expired goods to me and I will refund their money accordingly. Can I claim the GST that is refunded to my customers?

A31. Yes, you are eligible to claim the GST paid on returned goods through adjustment in the period where you issue the credit note.

Q32. Is GST chargeable on after-sales services provided to customers for goods sold under warranty?

A32. When goods are sold under warranty, the assumption is that the price, which is inclusive of GST, usually includes the charge for the after-sales services and repairs during the warranty period. Any replacement of spare-parts free of charge during the warranty period will not be subjected to GST as long as such replacement is mentioned in the warranty.

Q33. Do I have to pay GST on goods (sold under warranty) that are temporarily imported into Malaysia from my overseas customers for repairs?

A33. Goods temporarily imported into Malaysia for repairs and subsequently re-exported, qualifies for relief from paying GST at the point of importation under item 15 GST (Relief) Order 2014. For further details, please refer to the **Guide on Import**.

Q34. What is the value for charging GST if the selling price of my manufactured products includes transport charges and insurance coverage on the goods?

A34. The value for GST purposes includes your transportation charges and insurance coverage fees. If you are merely arranging the transport and the transport fee is directly charged to your customer, then your customer will have to pay GST on the transport charges to the transport company.

Q35. Are sales of capital items subjected to GST?

A35. Sales of capital items, except for Transfer of Business as a Going Concern (TOGC), are regarded as making taxable supplies. Therefore, sales of capital items are also subjected to GST at standard rate.

Exports

Q36. My local customer ordered some goods from me but he requested me to send the said goods to his overseas customer. Do I have to charge GST when I issue invoice to my local customer?

A36. If you **physically export** the goods on behalf of your local customer and customs export declaration form indicates your customer as **exporter of record**, your customer can zero rate the export. However, your supply of goods to your customer is a taxable supply and subject to GST at standard rate.

On the other hand, if customs export declaration form indicates you as the exporter of record, in accordance with **Item 2 DG's Decision 4/2015**, both you and your customer are able to zero rate both supply of goods respectively if;

(a) The supply is related to goods other than wine, spirit, beer, intoxicating liquor, malt liquor, tobacco and tobacco products;

(b) You export the goods within 60 days or any extended period as approved by the Director General (DG) from the time of supply;

(c) You have possession of the goods to be exported or control over the export arrangement; and

(d) You and your customer documentations fulfill all the conditions stated in Item 2 DG's Decision 4/2015.

Q37. I built a machine for an overseas client. The sales invoice was issued to him, but at his request I supplied the machine to his local customer. Can I zero-rate the sale of the machine?

A37. No, you cannot zero-rate the sale of the machine. Although the sale was made to a foreign person, the machine was not physically exported. Thus, you will need to charge GST on the sale even though you bill your overseas client.

Q38. I made a sale of goods to an overseas client. Upon his request, the goods were delivered to a local forwarding agent, who arranges them to be exported to my overseas client. Do I have to charge GST to my overseas client?

A38. If the supplier **physically export** the goods (through his overseas buyer's appointed freight forwarder) and customs export declaration form indicates the supplier as **exporter of record**, the taxable supply of goods subject to GST at zero rate. However, the supply of goods does not qualify for zero rate if the supplier does not have control over the export arrangement.

Q39. My local customer claims that the goods he purchased from me will be exported and requested me to zero-rate the goods. Can I zero rate the goods sold to my local customer?

A39. You should treat this supply as a local sale and you have to charge GST at standard rate. Your customer can zero-rate his supply to his foreign customer when he physically exports the goods.

Q40. What is the treatment for goods temporary exported for repair and subsequently re-imported?

A40. Goods exported temporarily for repair and subsequently re-imported will be given relief at the point of importation under item 16A GST (Relief) Order 2014. However, any replacement of parts and components added on the goods are subject to GST at the time of importation. Please refer to the GST (Relief) Order 2014 for further details.

Farming In/Out (Sub-Contract Works)

Q41. If I am a manufacturer doing sub-contract work, can I claim input tax incurred on my purchases?

A41. Yes, you are allowed to claim input tax on GST paid on your purchases even though you are not producing your own goods. As long as you are a registered person making taxable supplies like providing workmanship and some value added work, you can claim input tax incurred on your purchases. You must keep the original tax invoices from your suppliers to support your claim for input tax credit.

Q42. How is the GST treatment if, I, as a sub-contractor engaged in contract manufacturing with overseas principals for local delivery and export purpose?

A42. In this case, you may apply for the special schemes known as Approved Toll Manufacturer Scheme (ATMS) and Approved Traders Scheme (ATS) whereby an ATMS participant will be able to use the ATS to suspend the payment of GST on imported goods consigned to him by the overseas principal. Adding on, GST on services performed to the overseas principal is disregarded under ATMS.

Subsequently, finished goods will be exported to the overseas principal and if there is a delivery of the finished goods to the local customer of overseas principal, GST on such goods will be accounted by the local customer himself by way of recipient accounting.

Q43. I did not meet the requirement set under the ATMS whereby the percentage of drop-shipment is more than 20%. What is the GST implication on the processed goods which I deliver locally?

A43. In the case where you are not eligible to apply for the ATMS, the processed goods delivered locally is a taxable supply. If the supply is more than RM500,000 per year, the overseas principal has to register under GST through a local agent appointed by him. If the processed goods delivered locally is less than RM500,000 then it is an out of scope supply made by that overseas principal who is not a GST registered person. However the services done by you for processing the goods consigned by the overseas principal subject to GST in both scenario.

Other related matters

Q44. If I loan some materials to another manufacturer for his urgent use, do I have to account for GST output tax?

A44. Yes, it is deemed to be a supply because the raw materials which are part of the company business asset are transferred to another company even though later this company replaces those raw materials with its own raw materials.

Q45. If I loan a machine to another manufacturer for his use, do I have to account for GST output tax?

A45. Yes, GST is due because it is treated as a supply of services even though the loan is not for a consideration. You have to account for GST based on the open market value of such supply of services.

Q46. My goods were lost in the course of delivery to my customer. Do I have to account for GST?

A46. If goods are lost, stolen or destroyed during delivery, GST is still accountable by the supplier unless the contract between the parties makes either party responsible for the tax. If the supplier accounted for the tax, he may then apply for remission with sufficient evidence.

Q47. What happens if my customers failed to make payment on goods previously supplied where output tax had been accounted?

A47. You can claim bad debt relief for your debts or any doubtful debts on the whole or any part of the GST output tax paid in respect of taxable supplies subject to the following conditions:-

(a) you have already accounted for and paid the tax on the supply,

(b) you have not received any payment or part payment six months from the time of supply or the debtor has become insolvent before the period of six months has lapsed, and

(c) you have taken sufficient efforts to recover the debt.

Q48. What is the GST treatment on disposal of manufacturing waste?

A48. If the manufacturing waste is destroyed, no GST is due as such waste is not regarded as business assets hence no supply is deemed to have taken place. However, if the manufacturing waste is sold, GST must be imposed on such sales.

Q49. I receive my goods in carton boxes and wooden pallets. These packaging materials will be taken by appointed person who cleans the unloading area. What is the GST treatment?

A49. Since the packaging materials are not recorded as your assets, you need not account for GST.

INQUIRY

1. For any inquiries for this guide please contact:

Sector II

GST Division

Royal Malaysian Customs Department

Level 3 – 7, Block A, Menara Tulus,

No. 22, Persiaran Perdana, Presint 3,

62100 Putrajaya.

Email: gstsector2@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
   - E-mail : ccc@customs.gov.my