

## Goods & Services Tax (GST) implementation in Malaysia effective April 1<sup>st</sup>, 2015

Effective April 1<sup>st</sup>, 2015, Malaysia will implement the Good & Services Tax (GST), similar to the GST or Value Added Tax (VAT) system already implemented in many other countries. The GST will replace the existing Sales Tax and Service Tax system.

Malaysia's GST introduction will make it the eighth country participant in the Association of Southeast Asian Nations (ASEAN) to implement the value-added tax structure – only Myanmar and Brunei remain as member countries that have not done so. Indonesia was the first ASEAN nation to introduce GST, doing so in 1984, and its initial 10% rate has remained in place until today. Thailand followed suit in 1992, with a starting rate of 10%, which has since been reduced to 7%. Singapore began its GST scheme a year later, with an initial rate of 3% (now 7%). The Philippines currently has the highest GST rate of all ASEAN members, at 12%. In all, 160 countries around the globe have implemented a GST (known as VAT, in some of those countries).

The GST is a broad-based consumption tax imposed on all goods and services produced in a country, including imports. It is based on a tax-on-value-add concept which avoids duplication of taxes. This is in contrast to the Sales and Service Tax in Malaysia which is just added at one stage. The GST also avoids the cascade effect of sales by taxing only the value added at each stage of production. Most goods and services supplied to and in Malaysia will be taxed at 6%, unless an exemption is granted under the relevant GST legislations. GST-registered companies can generally claim back any GST paid, as input tax credit to offset against GST collected from customers as detailed further below.

GST will be introduced in Malaysia at four different rates:

**Standard Rate** is charged on any taxable supply of goods and services by businesses in Malaysia. GST is also charged on importation of goods and services. GST is applied at the standard rate of 6% unless there is a provision that states that it can be treated differently. There are some reliefs and exemptions for certain specific goods and services, and for small businesses. Businesses with taxable turnover under the prescribed threshold of 500,000 Malaysian Ringgits (MYR or RM) are not required to register for GST. The prescribed threshold of RM 500,000 will ensure small businesses are not placed at a disadvantage by bearing the costs of GST registration, which includes the start-up and compliance cost.

**Zero Rated** - This is a taxable supply, meaning when you sell you do not charge VAT because the rate is 0%. But GST incurred by the business can be recovered. If you make wholly zero-rated supplies, then it is likely that you will be in a refund position with Malaysian Customs.

**Exempt** - This supply means no GST is charged on the supply. This does not mean that you are GST-free. It also means that there is no entitlement to recover GST. If you make wholly exempt supplies, then you will not be able to register for GST. Therefore GST would become an added cost to the business. Examples include private healthcare, private education and certain financial services.

**Out of Scope** - These supplies are outside the GST system. Therefore no GST is payable or recoverable. Examples include transfer of going concerns and supplies made by the Malaysian Government, such as issuance of passports and licenses, except some supplies of services prescribed by the Minister of Finance.

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Types of Supply	Output Tax	Input Tax
Standard Rated	6%	Claimable
Zero Rated	0%	Claimable
Exempt	No GST charged	Non-Claimable

International import or export freight charges are free of GST, but other local handling and transportation services may be taxable, depending on criteria set by Malaysian Customs.

Services Supplied	Zero Rated
Freight Transportation	<ul style="list-style-type: none"> <li>a. All International Transportation</li> <li>b. Local Transportation services which are part of international journeys provided that they are from the same supplier</li> </ul>
Ancillary Transportation Services	Ancillary transport services to: <ul style="list-style-type: none"> <li>a. any goods in port if it is provided by port operator</li> <li>b. imported and exported goods by the same supplier for the international transport services</li> </ul>
Storage Services	Storage services are zero rate to any goods which are carried, or to be carried, in a ship in a port area if supplied by the port operator

As with all such similar endeavors, it is foreseen that there will be some initial transitional complications as the Malaysian Government and companies cope with the compliance of the new GST system implementation. As risk mitigation, for export shipments into Malaysia, all KWE overseas offices will be taking measures to minimize delays by working with all parties involved to ensure commercial documentation and other information is forwarded to our offices in Malaysia in a timely manner.

For further details of the GST legislation and implementation, please visit the official Malaysian Customs GST website, <http://gst.customs.gov.my>

*Please contact your local KWE branch if you have further inquiries.*

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