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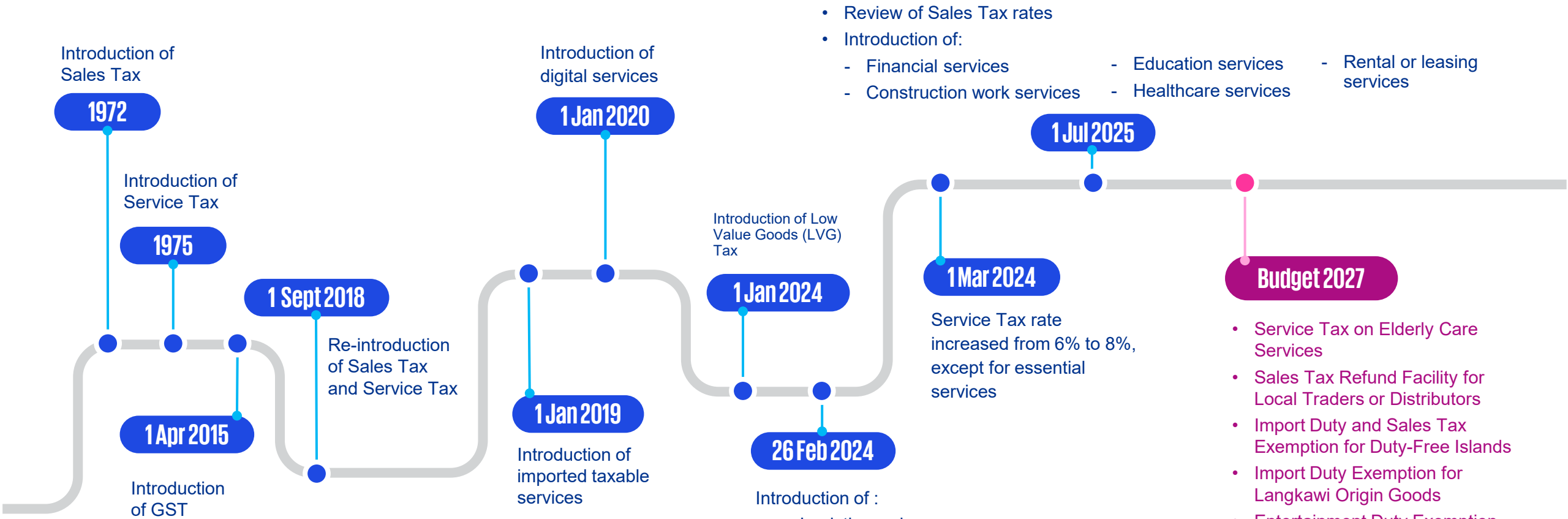
Indirect Tax: Key Development and compliance focus



Eleanor Lim Qiqi
Tax Manager | KPMG in Malaysia

Tax and Business Summit 2026 | 11 November 2026

Timeline of Sales Tax and Service Tax



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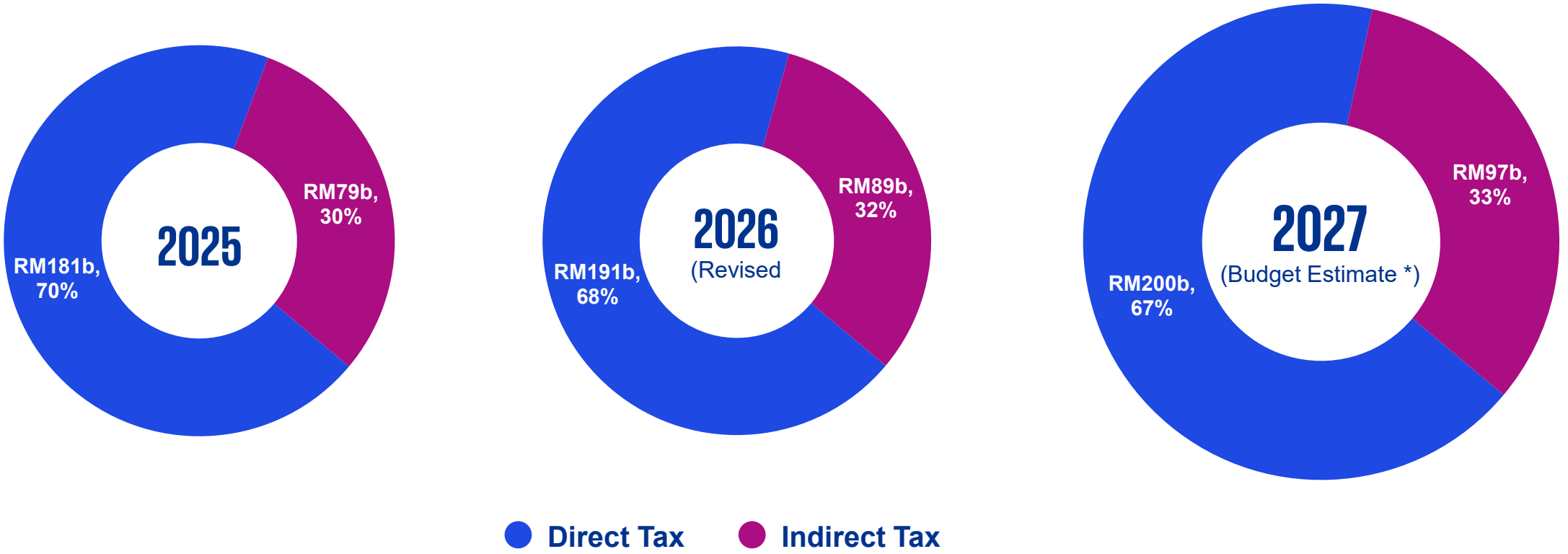
Federal Government Revenue – Direct & Indirect Taxes



Source: 2027 Fiscal Outlook and Federal Government Revenue Estimates

* Excluding Budget 2027 measure

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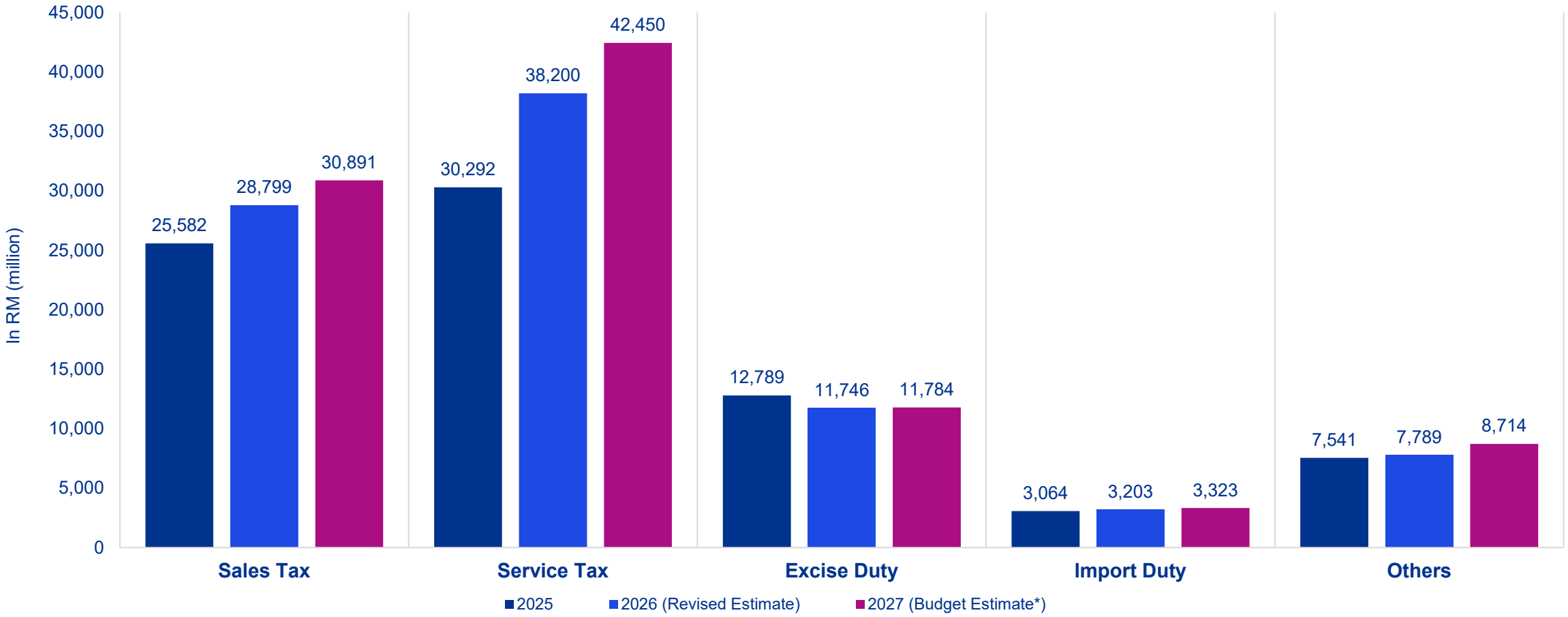
Revenue Breakdown for Indirect Tax



Source: Ministry of Finance, 2027 Fiscal Outlook and Federal Government Revenue Estimates

* Excluding Budget 2027 measure

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2027 Federal Government Revenue

HASIL KERAJAAN PERSEKUTUAN 2027
2027 FEDERAL GOVERNMENT REVENUE

		RM
JUMLAH HASIL KERAJAAN PERSEKUTUAN Sebelum mengambil kira langkah belanjawan yang dicadangkan dalam Belanjawan 2027 ***TOTAL FEDERAL GOVERNMENT REVENUE*** *Before taking into account budget measures proposed in the Budget 2027*		**380,816,996,000**
LANGKAH BELANJAWAN: *BUDGET MEASURES:*		
60000	HASIL CUKAI *TAX REVENUE*	
61000	**CUKAI LANGSUNG** ***DIRECT TAX***	**(2,960,380,000)**
61100	Cukai Pendapatan *Income Tax*	(2,815,440,000)
61900	Cukai Langsung yang Lain *Other Direct Tax*	(144,940,000)
62000	**CUKAI TIDAK LANGSUNG** ***INDIRECT TAX***	**(9,260,000)**
62600	Cukai Perkhidmatan *Service Tax*	(9,260,000)
90000	HASIL DARIPADA WILAYAH PERSEKUTUAN *REVENUE FROM FEDERAL TERRITORIES*	
91000	**HASIL CUKAI DARIPADA WILAYAH PERSEKUTUAN** ***TAX REVENUE FROM FEDERAL TERRITORIES***	**(2,130,000)**
91200	Cukai Tidak Langsung *Indirect Tax*	(2,130,000)
Pengurangan Hasil Bersih *Net Revenue Loss*		**(2,971,770,000)**
JUMLAH HASIL KERAJAAN PERSEKUTUAN Selepas mengambil kira langkah belanjawan yang dicadangkan dalam Belanjawan 2027 ***TOTAL FEDERAL GOVERNMENT REVENUE*** *After taking into account budget measures proposed in the Budget 2027*		**377,845,226,000**

62000	**CUKAI TIDAK LANGSUNG** ***INDIRECT TAX***	**(9,260,000)**
62600	Cukai Perkhidmatan *Service Tax*	(9,260,000)
90000	HASIL DARIPADA WILAYAH PERSEKUTUAN *REVENUE FROM FEDERAL TERRITORIES*	
91000	**HASIL CUKAI DARIPADA WILAYAH PERSEKUTUAN** ***TAX REVENUE FROM FEDERAL TERRITORIES***	**(2,130,000)**
91200	Cukai Tidak Langsung *Indirect Tax*	(2,130,000)
Pengurangan Hasil Bersih *Net Revenue Loss*		**(2,971,770,000)**

Source: Ministry of Finance, 2027 Fiscal Outlook and Federal Government Revenue Estimates

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2027 Budget – Indirect Tax Perspective

1. Reduced Service Tax Rate and Exemption on Elderly Care Services
2. Sales Tax Refund Facility for Local Traders or Distributors on Supplies to Manufacturers
3. Review of Import Duty and Sales Tax Exemption Treatment for Goods Transported Out of Duty-Free Islands
4. Review of Import Duty Exemption for Langkawi Origin Goods
5. Entertainment Duty Exemption in the Federal Territories
6. Entertainment Duty Exemption for Activities and Events Held at Stadium Merdeka and Stadium Negara

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Reduced Service Tax Rate and Exemption on Elderly Care Services

Current

The provision of elderly care services is taxable under

Group C – Wellness Centre

First Schedule of the Service Tax Regulations 2018

Service Tax rate applicable is

8%

Prescribed registration threshold is

RM500,000

Proposed

The provision of elderly care services to be moved to

Group I – Other Service Providers

First Schedule of the Service Tax Regulations 2018

Service Tax rate reduced to

6%

Service Tax exemption to be given to registered centres charging **annual care fees** up to

RM96,000 per person*

*subject to meeting conditions

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Sales Tax Refund Facility for Local Traders or Distributors on Supplies to Manufacturers

Current

Manufacturers enjoy Sales Tax exemption on



qualifying **machinery, spare parts and equipment** under Item 55, Schedule A; and



on **approved inputs** used in the manufacture of **pharmaceutical products, animal feed, fertilizers and pesticides** specified under Schedule B

of the Sales Tax (Persons Exempted from Payment of Tax) Order 2018

Prescribed conditions:

- imported directly by manufacturer from abroad; or
- purchased directly from a local registered manufacturer

No Sales Tax exemption to manufacturers for the procurement of machinery, spare parts and equipment and inputs from local traders or distributors

Proposed

Local traders or distributors to be allowed to claim a Sales Tax refund on



qualifying **machinery, spare parts and equipment** under Item 55, Schedule A; and



on approved inputs used in the manufacture of **pharmaceutical products, animal feed, fertilizers and pesticides** specified under Schedule B

of the Sales Tax (Persons Exempted from Payment of Tax) Order 2018, supplied to manufacturers

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Sales Tax Refund Facility for Local Traders or Distributors on Supplies to Manufacturers

Current

Overseas vendor / local Sales Tax registered manufacturer

1 Sales Tax exempted upon importation / purchase by manufacturer

2 Machinery, spare parts and equipment

Manufacturer endorsed by MIDA

Item 55, Schedule A

2 Manufacturing inputs

Manufacturer of pharmaceutical products, animal feed, fertilisers and pesticides

Schedule B

This is proposed to be effective from 1 January 2027

Proposed

1 Sales Tax paid by trader on importation / purchase from registered manufacturer

Overseas vendor / local Sales Tax registered manufacturer

2 Trader is allowed to claim refund on Sales Tax paid

Trader

3 Machinery, spare parts and equipment

Manufacturer endorsed by MIDA

Item 55, Schedule A

3 Manufacturing inputs

Manufacturer of pharmaceutical products, animal feed, fertilisers and pesticides

Schedule B

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Review of Import Duty and Sales Tax Exemption Treatment for Goods Transported Out of Duty-Free Islands

Current

Import Duty and Sales Tax Exemption is available for visitors and tourists subject to goods value / quantity limit and duration of visit to the duty-free islands as follows:

Goods Category	Goods Value Limit	Duration of Visit
Langkawi, Tioman, Pangkor and Labuan		
1. New apparels	3 pairs	48 Hours (Langkawi and Tioman)
2. New footwear	1 pair	
3. Food preparation items	RM150	
4. New portable electrical or battery-operated appliances for personal care and hygiene	1 unit	
5. All other goods, except alcoholic beverages, tyres and tubes, motor vehicles, and smoking products	RM1,000	24 Hours (Pangkor and Labuan)

Proposed

Purchase limit for goods eligible for Import Duty and Sales Tax Exemption by visitors and tourists on duty-free islands (excluding Tioman, Pangkor and Pulau 1, Forest City) is proposed to be **revised** as follows:

Goods Category	Goods Value Limit	Duration of Visit
Langkawi and Labuan		
All goods (new), **except**: 1. Tyres and tubes 2. Alcoholic beverages 3. Cigarettes 4. Tobacco products 5. Smoking pipes 6. Electronic cigarettes and vapes, including liquids or gels	RM10,000	48 Hours

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Review of Import Duty Exemption for Langkawi Origin Goods (1/2)

Current

The list of goods eligible for import duty exemption on products manufactured in Langkawi are as follows:

Goods Category

1. Sea cucumber extract
2. Whetstones
3. Fruits
4. Anchovies
5. Copra
6. Wood charcoal
7. Mangrove wood
8. Sawn rubberwood
9. Coconuts
10. Handicraft
11. Honey
12. Marble
13. Sea cucumber herbal paste
14. Sea cucumber herbal pills
15. Anchovy based products
16. Dried stingray products
17. Vegetables
18. Coffee powder
19. Cement
20. Sugar cane
21. Eggs
22. Bird's eggs
23. Poultry



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Review of Import Duty Exemption for Langkawi Origin Goods (2/2)

Proposed

The list of goods eligible for import duty exemption on products manufactured in Langkawi is proposed to be revised and expanded as follows:

Goods Category	List of Goods
Agriculture and Agro-food 	1. Bird's eggs 2. Coconuts 3. Fruits 4. Sugarcanes 5. Vegetables 6. Poultry 7. Virgin coconut oil
Food and Beverage Products 	1. Coffee products 2. Mineral water 3. Pineapple tarts 4. Coconut cookies 5. Chocolate made in Langkawi 6. Curry puff 7. Chips 8. Buffalo milk ice cream 9. Retort products

Goods Category	List of Goods
Fisheries and Marine Products 	1. Anchovies 2. Anchovy based products 3. Dried stingray products 4. Downstream sea cucumber products
Minerals and Ornament	1. Handicraft products 2. Crystal products 3. Tiffin carrier
Consumer Goods and Home Appliances	1. Homemade soap 2. Virgin coconut oil soap 3. Whetstones
Forestry and Construction	1. Wood charcoal 2. Cement 3. Marble

The above is proposed to be effective from 1 January 2027

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Entertainment Duty Exemption in the Federal Territories

Current

Entertainment Duty exemption is given to the following selected categories of entertainment held in the Federal Territories for the period from **1 January 2024 to 31 December 2028**:

Categories of Entertainment	Entertainment Duty Rates After Exemption
1. Stage performances by international artists / light shows / circuses	**10%**
2. Film screenings (cinemas) / theatres	
3. Exhibitions / zoos / aquariums	
4. Sports events / e-sports / bowling / snooker / pool / billiards / karaoke	
5. Theme parks / family recreation centres / indoor amusement centres / simulators	**5%**
6. Stage performances by local artists	**0%**

Proposed

Entertainment Duty exemption for the aforementioned categories of entertainment held in the Federal Territories is proposed to be

extended until 31 December 2030

This is proposed to be applicable to applications received by the Ministry of Finance until 31 December 2030.

Tickets for local film screenings at cinemas and local theatre performances held in the Federal Territories are eligible for

100% Entertainment Duty exemption

This is proposed to be applicable for applications received by the Ministry of Finance from **1 January 2027 until 31 December 2030**.

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Entertainment Duty Exemption for Activities and Events Held at Stadium Merdeka and Stadium Negara

Current

Entertainment Duty exemption is given on admission fees for activities and events held at selected facilities in the Federal Territory to encourage the organisation of arts and cultural events, entertainment and sports activities. List of approved facilities are as follows:

Approved Facilities
1. Bukit Jalil National Sports Complex • TM National Stadium • Unifi Arena • National Hockey Stadium
2. Juara Stadium (Bukit Kiara Sports Complex)
3. Istana Budaya
4. National Art Gallery
5. Dewan Filharmonik PETRONAS

Proposed

To optimise the use of conserved historical heritage sites, it is proposed that Entertainment Duty exemption also be given on arts and cultural events, entertainment and sports activities to be held at:

Stadium Merdeka & Stadium Negara

This would also complement efforts to revitalise these heritage venues and broaden their use for arts, cultural, entertainment and sporting activities.

The above is proposed to be effective from 1 January 2027

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Key Issues from Recent SST Developments



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Disbursement vs Reimbursement



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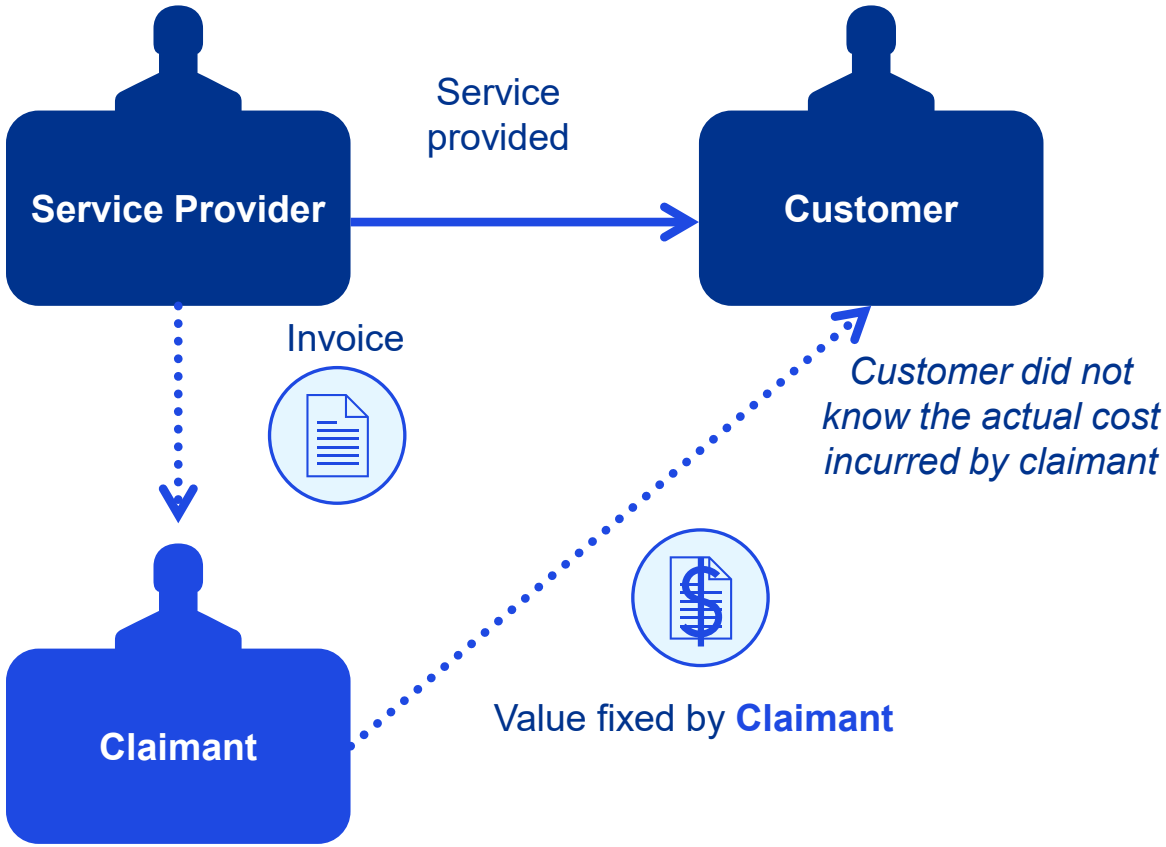
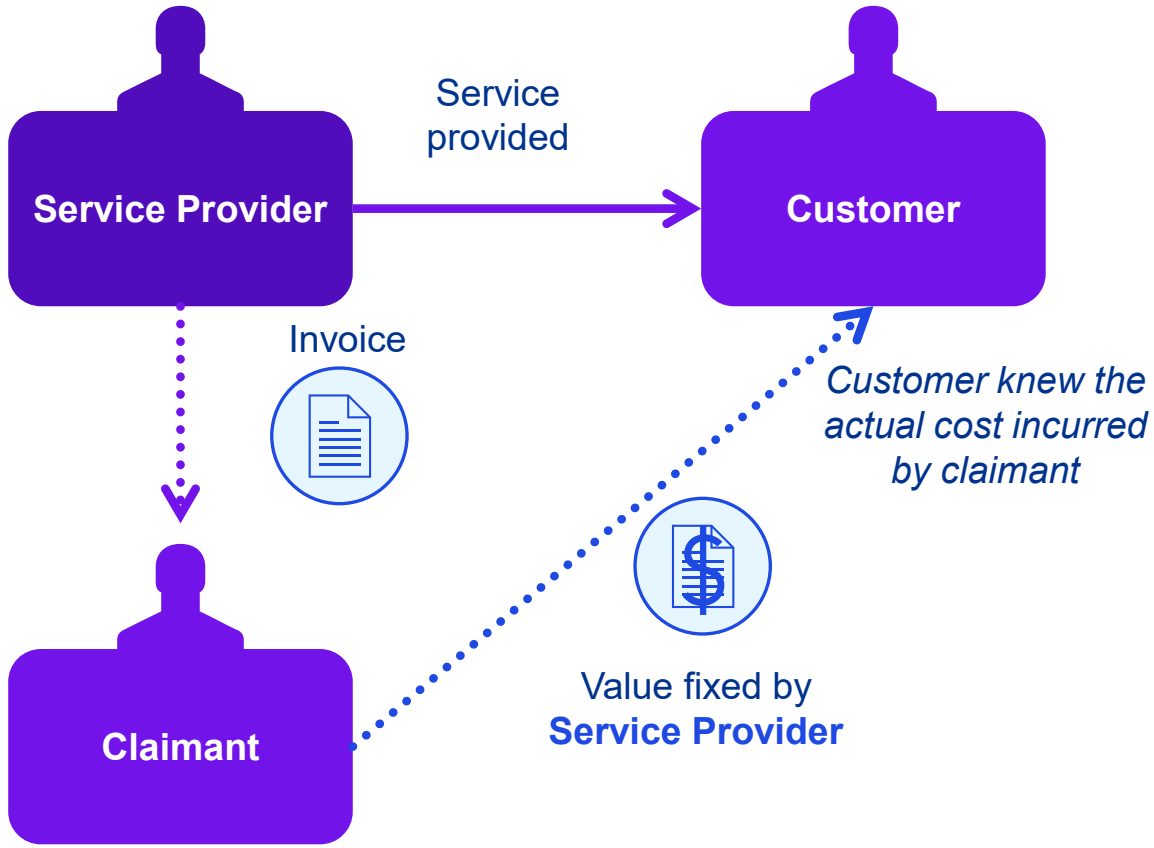
Disbursement vs Reimbursement

Claimant treated as Principal



Claimant treated as Agent



Customs Guide on Disbursement & Reimbursement (as at 15 September 2020)

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Disbursement vs Reimbursement

Polling Question

Company F provides consultancy services to Company X. Apart from the consultancy fees, Company F will also recover legal fees (at cost) incurred from a Legal Firm. Company F will attach the invoice from the Legal Firm, when invoicing to Company X. This can be illustrated as below:

Question 1: Which amount should Company F subject to Service Tax in its invoice to Company X?

Answer:

A. RM45,000

B. RM10,000

C. RM55,000

Invoice

	RM
Consultancy fees	45,000
Legal fees (recovery)	10,000
Total	55,000

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Disbursement vs Reimbursement

Polling Question

Company A provides rental services to Tenant B. Apart from the rental fees, Company A will invoice to Tenant B, utilities and fit out works. This can be illustrated as below:

Invoice

	RM
Rental fees	45,000
Utilities	10,000
Fit out works	3,000
Total	58,000

Question 2: Are the utilities and fit out works subject to Service Tax?

Answer:

A. Yes
B. No
C. Depends

Question 3: If yes, under which category?

Answer:

A. Group K - Rental
B. Group G – Management
C. Others
D. Not applicable as not taxable

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Employment Services



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Employment Services

Public Ruling No. 5/2026 dated 12 August 2026 (only available in Malay language) sets out the following conditions that need to be met in order to be considered as secondment of employees for Service Tax purposes:

Employment Secondment Contract

Between original employer and seconded company

Employer's business activity

Other than the provision of employment services

Employee is temporarily transferred

To perform and complete duties elsewhere for a certain period of time and thereafter, returns to same employer to continue employment

Remain employed with the original employer

The continuity of the employment remains continuous and unbroken

During the secondment period

- The employee solely works for the seconded company
- The seconded company has total control over the employee
- The remuneration and any other allowances (at cost) will be paid by the seconded company either directly or indirectly and no other additional charges will be imposed

Secondment period

Less than SIX (6) months within the year of secondment and does not extend into the following year

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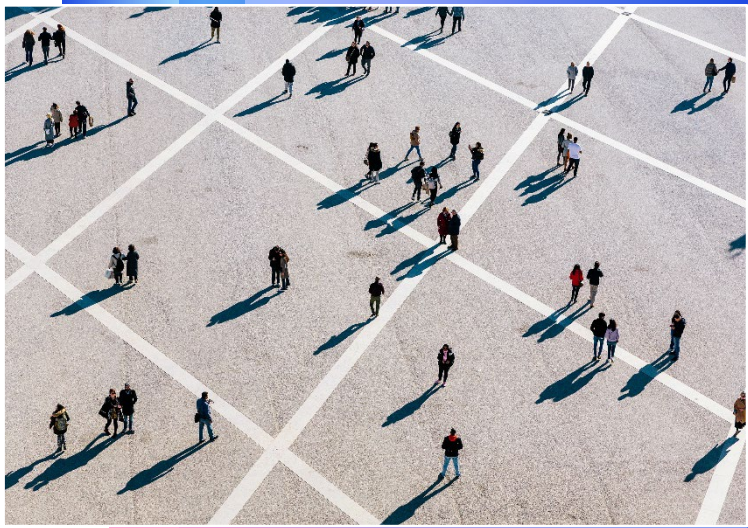
Employment Services

Pass-through expenses for employment services which are **not subject to Service Tax** refer to expenses allowed to be claimed back from the customer at cost value without any mark-up and are limited to the following expenses only:

- Emoluments
- Work Permit
- Worker's Levy
- Insurance Fee
- Fare to Malaysia
- Mandatory Medical Examination for Workers



Customs Guide on Employment Services (as at 14 May 2024)

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Employment Services

Polling Question

Company X seconds its employee, Ahmad, to Company Y for 9 months. Company X will recover the salary, EPF, SOCSO, and staff allowance from Company Y, at cost (i.e. without mark-up).

Invoice

	RM
Salary	20,000
Employer's EPF	3,000
SOCSO	105
Staff allowance	1,500
Total	**24,605**

Question 4: Is the recovery of salary, EPF, SOCSO and staff allowance from Company Y, without mark-up, subject to Service Tax?

Answer:

A. Yes

B. No

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Public Ruling 3/2026 – Exchange Rate



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Public Ruling 3/2026 – Exchange Rate

Public Ruling No. 3/2026 dated 28 July 2026 (only available in Malay language), sets out the following:

- Where a Service Tax registered person or a Sales Tax registered manufacturer issues an invoice and the total amount of the service or sale stated in the invoice is denominated in a currency other than Ringgit Malaysia, the registered Service Tax person or registered manufacturer shall **state the total amount of the service or sale in Ringgit Malaysia** based on the **selling exchange rate**.
- The foreign currency selling exchange rate adopted in Malaysia by a Service Tax registered person or a Sales Tax registered manufacturer shall be based on any exchange rate published by the following bodies:
  i. Bank Negara Malaysia (BNM);
  ii. Any commercial bank in Malaysia or any other bank registered with BNM;
  iii. International news agencies, such as Bloomberg, Reuters, and Oanda; or
  iv. Foreign central banks, such as the European Central Bank and the Federal Reserve Bank of New York.
- The foreign currency selling exchange rate referred to above, shall be applied **consistently for business reporting and accounting purposes for a minimum period of one year** from the end date of the accounting period.
- Any application to use a foreign currency selling exchange rate other than those specified in above shall be submitted in writing to the Service Tax Policy Branch or the Sales Tax Policy Branch, Royal Malaysian Customs Department Headquarters, for the approval of the Director General of Customs.

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Exchange Rate

Polling Question

Company ABC acquires taxable services from an overseas vendor and has to self-account for imported taxable services. The invoice was dated 19 October 2026, posted in the books on 25 October 2026 and payment was made on 26 November 2026.

Question 5: Which exchange rate date should Company ABC adopt when reporting the imported taxable services to Customs?

Answer:

A. 19 October 2026

B. 25 October 2026

C. 26 November 2026

D. 31 October 2026

E. 30 November 2026

F. Any of the above as long as adopted consistently

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Service Tax Return (SST-02 Return)



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Field 18

Previously – Fields 18(c) and (d)

BAHAGIAN D : JUALAN / PERKHIDMATAN YANG DIKECUALIKAN CUKAI / PERKHIDMATAN TIDAK BERCUKAI
PART D : SALES / SERVICES EXEMPTED FROM TAX / NON-TAXABLE SERVICE

18) Jualan Barang-Barang Bercukai / Perkhidmatan Bercukai.* *Sales of Taxable Goods/ Taxable Services.**		
a) Eksport / Kawasan Khas / Kawasan Ditetapkan.* *Export / Special Area / Designated Area.**	RM	0.00
b) Jualan Tempatan Kepada Orang di bawah Perintah Cukai Jualan (Orang Yang Dikecualikan Daripada Pembayaran Cukai Jualan) 2018: *Local sales exempted to person under the Sales Tax (Person Exempted From Payment of Sales Tax) Order 2018:*		
1) Jadual A (Kumpulan Orang).* *Schedule A (Class of Person).**	RM	0.00
2) Jadual B (Pengilang Spesifik Barang Tidak Bercukai).* *Schedule B (Manufacturer of specific non taxable goods).**	RM	0.00
3) Jadual C (Pengilang Berdaftar).* *Schedule C (Registered Manufacturer).**		
i) Butiran 1 dan 2 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Yang Dikecualikan Cukai Jualan).* *Item 1 and 2 (Purchase / Importation of Raw Materials / Components / Packaging Materials Exempted From Sales Tax).**	RM	0.00
ii) Butiran 3 dan 4 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Bagi Pihak Pengilang Berdaftar Yang Dikecualikan Cukai Jualan).* *Item 3 and 4 (Purchase / Importation of Raw Materials / Components / Packaging Materials on behalf of Registered Manufacturer Exempted From Sales Tax).**	RM	0.00
iii) Butiran 5 (Nilai Kerja Dilakukan Yang Dikecualikan Cukai Jualan).* *Item 5 (Value of Work Performed Exempted from Sales Tax).**	RM	0.00
c) Nilai Perkhidmatan Bercukai Yang Dikecualikan.* *Value of Exempted Taxable Services.**		
1) Perkhidmatan orang berdaftar kepada orang berdaftar (B2B).* *Provision of registered person to registered person* (B2B).*	RM	0.00
2) Pelepasan dalam kumpulan syarikat.* *Group relief.**	RM	0.00
3) Lain-lain pengecualian.* *Other exemption.**	RM	0.00
d) Jumlah Nilai Perkhidmatan Tidak Bercukai.* *Total Value of Non-Taxable Services.**	RM	0.00
e) Jumlah Nilai Jualan Yang Dikecualikan di Bawah Subseksyen 35(3) dan / atau Seksyen 61A Akta Cukai Jualan 2018.* *Total Value of Sales Exempted Under Subsection 35(3) and / or Section 61A Sales Tax Act 2018.**	RM	0.00

Updated – Field 18(c)

BAHAGIAN D : JUALAN / PERKHIDMATAN YANG DIKECUALIKAN CUKAI / PERKHIDMATAN TIDAK BERCUKAI
PART D : SALES / SERVICES EXEMPTED FROM TAX / NON-TAXABLE SERVICE

18) Jualan Barang-Barang Bercukai / Perkhidmatan Bercukai.* *Sales of Taxable Goods/ Taxable Services.**		
a) Eksport / Kawasan Khas / Kawasan Ditetapkan.* *Export / Special Area / Designated Area.**	RM	0.00
b) Jualan Tempatan Kepada Orang di bawah Perintah Cukai Jualan (Orang Yang Dikecualikan Daripada Pembayaran Cukai Jualan) 2018: *Local sales exempted to person under the Sales Tax (Person Exempted From Payment of Sales Tax) Order 2018:*		
1) Jadual A (Kumpulan Orang).* *Schedule A (Class of Person).**	RM	0.00
2) Jadual B (Pengilang Spesifik Barang Tidak Bercukai).* *Schedule B (Manufacturer of specific non taxable goods).**	RM	0.00
3) Jadual C (Pengilang Berdaftar).* *Schedule C (Registered Manufacturer).**		
i) Butiran 1 dan 2 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Yang Dikecualikan Cukai Jualan).* *Item 1 and 2 (Purchase / Importation of Raw Materials / Components / Packaging Materials Exempted From Sales Tax).**	RM	0.00
ii) Butiran 3 dan 4 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Bagi Pihak Pengilang Berdaftar Yang Dikecualikan Cukai Jualan).* *Item 3 and 4 (Purchase / Importation of Raw Materials / Components / Packaging Materials on behalf of Registered Manufacturer Exempted From Sales Tax).**	RM	0.00
iii) Butiran 5 (Nilai Kerja Dilakukan Yang Dikecualikan Cukai Jualan).* *Item 5 (Value of Work Performed Exempted from Sales Tax).**	RM	0.00
c) Nilai Perkhidmatan Bercukai Yang Dikecualikan / Perkhidmatan Tidak Bercukai.* *Value of Exempted Taxable Services / Non-Taxable Services.**		
1) Perkhidmatan orang berdaftar kepada orang berdaftar (B2B).* *Services provided by a registered person to another registered person* (B2B).*	RM	0.00
2) Pelepasan dalam kumpulan syarikat.* *Group relief.**	RM	0.00
3) Lain-lain pengecualian.* *Other exemption.**	RM	0.00
4) Lain-Lain Perkhidmatan Tidak Bercukai.* *Other Non-Taxable Services.**	RM	0.00
d) Jumlah Nilai Jualan Yang Dikecualikan di Bawah Subseksyen 35(3) dan / atau Seksyen 61A Akta Cukai Jualan 2018.* *Total Value of Sales Exempted Under Subsection 35(3) and / or Section 61A Sales Tax Act 2018.**	RM	0.00

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Common Indirect Tax Risk areas



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Common indirect tax audit areas conducted by Customs

Sales Tax and Service Tax (“SST”)

Registration



Service Tax

E.g. exemptions, classification, valuation

Sales Tax

E.g. exemptions, classification, valuation

Customs Duties

E.g. post importation, valuation

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Audit process

Field audits

Issuance of letter or notification requesting for documents to taxpayers

Submission of documents to Customs

Customs request for additional documents / review documents

Round table discussions

Issuance of audit findings letter / Bill of Demand (BOD) to taxpayers

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General pitfalls during audit process

1 Documentation Gaps

Incomplete or missing supporting documents

2 Delayed Submission of Information

Fail to provide information on time

3 Over-Submission of Information

Provide more information / documents beyond what is requested

4 Insufficient preparation for Field Audit

Not enough preparation or coordination within the company

5 Unclear Explanations to Customs Officer

Unable to provide clear justification

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Common Indirect Tax Risk Areas

Key Issues

- Additional taxes or duties due to Transfer Pricing adjustments
- Non-compliance with tax / duty exemption conditions
- Omission to charge / account for taxes
- Under-reporting of duties and taxes
- Incorrect valuation / classification of goods
- Late registration for SST and late payment of taxes

Examples – Sales Tax/ LMW/ Customs
• Year end TP adjustment which may affect value of taxable goods manufactured
• Sales Tax valuation on related party transaction – based on Computed Value Method? Includes “Royalty”, “Assist” and “Marketing” costs?
• Compliance with conditions for Sales Tax exemption – any exemption applied for exempted goods or waste/ scrap?
• Registered manufacturer forgot to charge Sales Tax on taxable goods due to error in customer location
• Correct HS Code adopted?
• Applied the wrong exemption e.g. C1/ C3 instead of B4?
• Applied exemption on non-qualifying goods or before exemption period?
• Failure to meet LMW/ ATIGA conditions?

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Common Indirect Tax Risk Areas

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Examples – Service Tax

- Forgot to account for imported taxable services at the earlier of invoice received or payment made
- Forgot to charge and levy Service Tax on taxable services?
- Provision of taxable services to related companies which do not qualify for intragroup exclusion (e.g. employment, advertising services, maintenance or repair)?
- Error in applying the B2B exemption?
- Missed out on declaring a payment received?
- Forgot to monitor the 12-months deemed paid rule?
- Is the ‘exported services’ subject to Service Tax?

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