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Understand Sales Tax in 15 minutes

Salient Features of Sales Tax

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Salient Features of Sales Tax

1. What is sales tax

A single stage tax levied

- a. on taxable goods manufactured in Malaysia by a taxable person and sold by him (including used or disposed off); and
- b. on taxable goods imported into Malaysia.

The principal legislation governing sales tax is the *Sales Tax Act 2018* (the Act). And the Royal Malaysia Custom Department (RMCD) is responsible for administrating this tax system.

Sales tax shall be charged at 5%, 10% or other specific rate on all taxable goods. Generally, all goods are taxable unless they are specifically exempted by the Minister.

2. Sales tax registration

Every taxable person is liable to be registered when the turnover (sales) of taxable goods of the current month and the previous 11 months exceeds the prescribed threshold of RM500,000. Once registration has been approved, the person shall be called a registered manufacturer.

3. Exemption from registration

- Manufacturer of non-taxable goods
- Manufacturer of taxable good below the threshold
- Manufacturing activities that have been exempted from registration. E.g. tailoring, installation of goods into building, jeweller and optician.

4. Proposed exempted goods

0% on basic foodstuff (meat, seafood, vegetables, fruits, rice, flour, salt, sugar, cooking oil, etc), books, jewellery, fertilizers, rubber, wood, cameras, mattress, lamps, hand tools, sports equipment, certain building materials, etc. Please refer to the exemption order for more details.

5. Definition of manufacturing

- I. A conversion of material by manual or mechanical means into a new product by changing the size, shape, composition, nature or quality of such materials and includes assembly of parts into a piece of machinery or other products. However, manufacturing does not include installation of machinery or equipment for the purpose of construction.
- II. In relation to petroleum, any process of separation, purification, conversion, refining and blending.

Diagram: How does the sales tax work?



6. Taxable period

Similar to Service Tax, the standard taxable period is on Bi-monthly basis, i.e. a period of 2 months ending on the last day of any month of a calendar year.

7. Sales Tax Return

The return shall be submitted not later than the last day of the following month after the taxable period has ended. E.g., the return for taxable period "Jan-Feb" is due for submission by 31 March. The submission could be made electronically or by post to the SST processing centre.

8. Payment of sales tax (accrual basis)

Sales tax is accounted for in the taxable period when the goods are sold, disposed of or first used.

9. Refund of sales tax in relation to bad debt

- Registered persons may obtain refund of sales tax paid for invoices that have become bad debt (uncollectible). RMCD will require conditions to be met before any refund is made. For example, applicant is required to show prove that reasonable effort has been taken to recover the sales tax.
- If subsequent to the refund of sales tax, the invoice is paid by the customer (bad debt recovered) – the registered person must repay the sales tax to the RMCD.

10. Sales tax facilities

It is proposed certain facilities be made available to registered manufacturers to procure sales tax free raw materials through ring system, refund system, vendor system, credit system and farming in/out system. Details to be made available later.

11. Late payment of sales tax

First 30 days period	10% of unpaid sales tax
Second 30 days period	15% of unpaid sales tax
Third 30 days period	15% of unpaid sales tax
After 90 days	40% of unpaid sales tax

12. Invoices

Every registered person must issue an invoice containing prescribed particulars to the customer in respect of the transaction. Invoices must be prepared in Bahasa Malaysia or English. A sample of invoice could be found at the end of this document.

13. Record keeping

All records pertaining to the transactions must be retained in Malaysia for at least 7 years. The records must be in either Bahasa Malaysia or English. All the original documents in printed format must be retained even if they have been converted into electronic form.

Clients are advised to review and formulate policies and procedures to ensure full compliance with the new requirements of Sales Tax Act 2018 and Service Tax Act 2018, and to benefit from the provisions of the new acts. For more detailed advice, please contact our team.

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