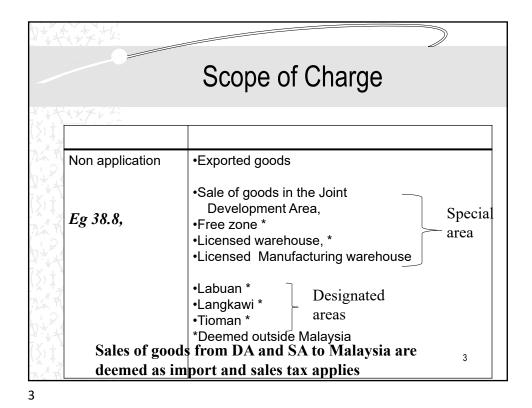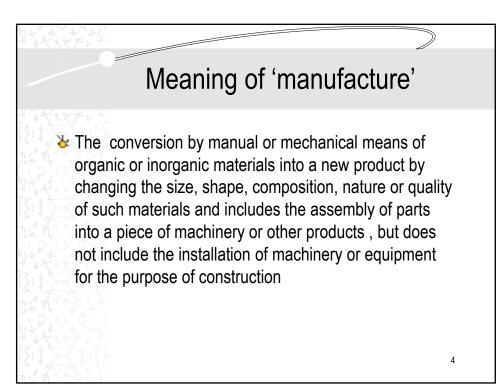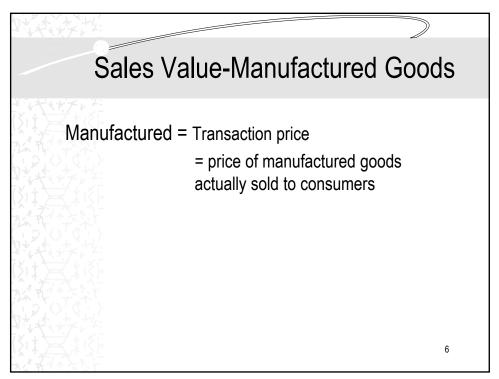# Sales Tax

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Scope of Charge

Taxable on	(i) Registered Manufacturer upon sale, use or disposal of taxable goods in Malaysia (ii) Importer of taxable goods
Taxable goods	Goods of a class or kind not for the time being exempted from sales tax specified under Sch A of the Sales Tax (Goods Exempted from Tax) Order 2018

Scope of Charge

Non application *Eg 38.8,*	•Exported goods •Sale of goods in the Joint Development Area, •Free zone * •Licensed warehouse, * •Licensed Manufacturing warehouse } Special area •Labuan * •Langkawi * } Designated areas •Tioman * *Deemed outside Malaysia

Sales of goods from DA and SA to Malaysia are deemed as import and sales tax applies

3

Meaning of 'manufacture'

☙ The conversion by manual or mechanical means of organic or inorganic materials into a new product by changing the size, shape, composition, nature or quality of such materials and includes the assembly of parts into a piece of machinery or other products , but does not include the installation of machinery or equipment for the purpose of construction

4

Single Stage Sales Tax

- imposed normally at the output level when the goods are disposed
- Levied only <u>once</u> on the <u>consumer</u> upon
  - ✓ acquiring manufactured products from registered manufacturer
  - ✓ By Customs upon importing the goods

Collecting Agent: Registered Manufacturer/importer

No sales tax is to be collected by any trading company

5

Sales Value-Manufactured Goods

Manufactured = Transaction price

= price of manufactured goods actually sold to consumers

6

Sales Value-Manufactured Goods

Related Party transaction/manufactured goods for own use, gifts or donation

Basis = Market Value

= value fetched for same goods sold in the

ordinary course of business to non-related party

)

Sales Value-Manufactured Goods

Methods used

 If transaction price cannot be determined

(b) computed value of manufactured goods;

(c) deducted value of manufactured goods

Example 38.1

Sales Value- Imported Goods

Aggregate of

> Value of the goods for customs duty purposes

$+$

> Amount of customs duty & excise duty (if any) payable on such goods

Example 38.2

9

Sales Value – Sub-contract Manufacturing

- Additional processing
- = amount charged by sub contractor for work performed by him; subject to DG's approval

10

Transaction = 'Sale'

- Manufacturer acquired tax free raw materials **otherwise than** to use it in the manufacturing process(eg self use, destroy, give away, donate or suppy FOC)
- Disposed of taxable goods otherwise than by sale eg exchange/barter, disposal of goods with a right of purchase
- Goods sold on HP/instalment
- Goods on hire for rent
- Goods disposed on 'sale or return' basis & disposer retains an interest
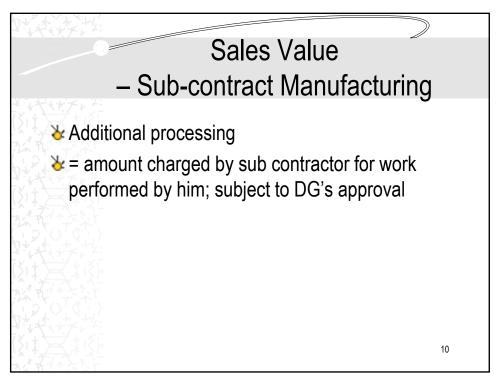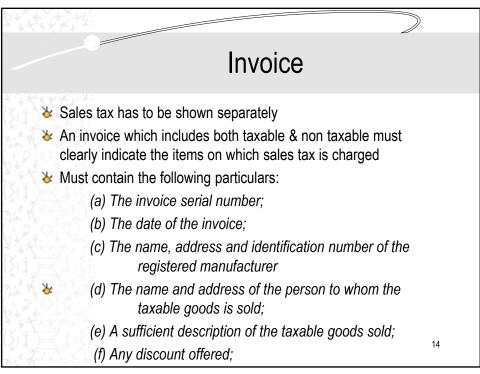
11

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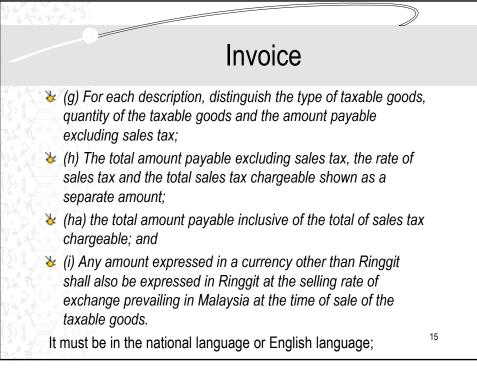## Rates of tax

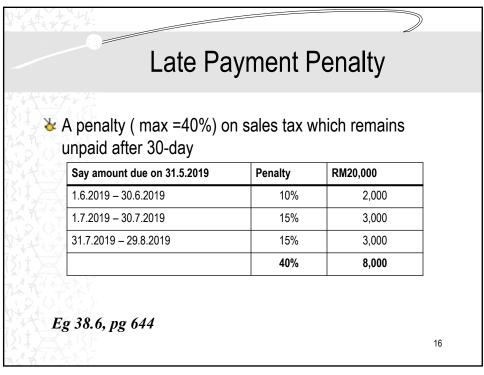|	
Schedule A, Sales Tax(Goods exempted from Tax)Order 2018	0%
1st Sch, Sales Tax (Rates of Tax) Order 2018	5%
Other goods	10%

Computation of sales tax = sales tax x sales value

Eg 38.3,

12

12

Payment of sales tax

- Due at the time when **invoice is issued or goods imported**
- Payable within one month from the expiration of taxable period

	Due date of payment of sales tax
January - February	31 March
March- April	31 May
May - June	31 July
July - August	30 September
September - October	30 November
November - December	31 January

Eg 38.4, 38.5.pg 643

13

Invoice

- Sales tax has to be shown separately
- An invoice which includes both taxable & non taxable must clearly indicate the items on which sales tax is charged
- Must contain the following particulars:

    (a) The invoice serial number;

    (b) The date of the invoice;

    (c) The name, address and identification number of the registered manufacturer

- *(d) The name and address of the person to whom the taxable goods is sold;*

    (e) A sufficient description of the taxable goods sold;

    (f) Any discount offered;

14

Invoice

- *(g) For each description, distinguish the type of taxable goods, quantity of the taxable goods and the amount payable excluding sales tax;*
- *(h) The total amount payable excluding sales tax, the rate of sales tax and the total sales tax chargeable shown as a separate amount;*
- *(ha) the total amount payable inclusive of the total of sales tax chargeable; and*
- *(i) Any amount expressed in a currency other than Ringgit shall also be expressed in Ringgit at the selling rate of exchange prevailing in Malaysia at the time of sale of the taxable goods.*
- It must be in the national language or English language;

15

Late Payment Penalty

- A penalty (max =40%) on sales tax which remains unpaid after 30-day

Say amount due on 31.5.2019	Penalty	RM20,000
1.6.2019 – 30.6.2019	10%	2,000
1.7.2019 – 30.7.2019	15%	3,000
31.7.2019 – 29.8.2019	15%	3,000
	40%	**8,000**

Eg 38.6, pg 644

16

Credit Note

☙ Sales tax payable can be reduced if

(i) Good are **returned** by the purchaser

  ✓ wrong quantity

  ✓ Poor/defective quality

  ✓ Uncontracted goods

(ii) Goods haven't been subsequently sold or disposed of

(iii) Credit note has been issued

17

17

Credit Note

(iv) **common** discount have been given in
   respect of goods sold

Deduction of ST is to be given for

(i) the taxable period in which the credit note is issued

(ii) C/f any excess for deduction in the following taxable period until the whole balance being fully deducted , so long as the business carried on

  ✓ No refund of sales tax c/f would be allowed if the taxable persons ceases to carry on business

18

18

Debit Note

A registered manufacturer who sells taxable goods shall issue a debit note if there is an additional amount of sales tax payable, after the sales tax return (Form SST-02) for the taxable period has been furnished to the Director General, due to any price adjustment.

19

Credit & Debit Note

(i) The words "credit note" or "debit note" in a prominent place;

(ii) The serial number;

(iii) The date of issuance;

(iv) The name, address and identification number of the registered manufacturer;

(v) The name and address of the person to whom the taxable goods is sold;

Eg 38.7, pg 645

(vi) The reason for the issuance;

(vii) The description, quantity and amount of taxable goods for which the credit note or debit note is given;

(viii) The total amount excluding sales tax;

(ix) The rate and amount of sales tax; and

(x) The number and date of the issuance of the original invoice

20

Licensing

- ST license is **required** for every manufacturer of taxable goods once the annual sales value of the taxable manufactured goods in Msia exceeds the threshold of RM500,000,computed based on the revolving 12 months basis:

    (a) previous 11 months + current month

    (b) current month + future 11 months

- Must register not later than the last day of the following month

- *Example 1:*

    Liable to be registered on 15 December 2018.

    Apply for registration within the period 1 January to 31 January 2019.

- The effective date for sales tax collection would be the first day 21 of the following month in which the registration was made

Licensing

- For sub-contract manufacturer, the threshold is determined based on the wage value of work performed on the manufacturing of taxable goods.

- A person who is exempted from registration is *not required* to apply for certificate of exemption from RMC (Refer Appendix 38.1, pg 659)

Cessation of Liability to Be Register

Must notify DG if

- He ceases to carry on the business of manufacturing taxable goods; or
- His total sale value of taxable goods in that month and the eleven months immediately succeeding that month does not exceed RM500,000.

*If **no notification** is made by a registered manufacturer, the DG may cancel the registration from the date the registered manufacturer ceases to manufacture taxable goods or ceases to be liable for registration, or from any later date determined by the Director General.*

23

23

Exported goods – exempted from sales tax

- **All Goods exported from Malaysia by RM**
  - customs export declaration & sales invoice are required
- **Goods exported purchased from a RM**
  - approval from DG is required before purchase is made
  - acquired goods from RM & export the goods <= 6 months from the date of purchase

24

24

Refund of Sales Tax or Penalty

🐝 **A claim can be made if sales tax/penalty**

(a) has been overpaid;or

(b) has been erroneously paid;

© is entitled for refund as he sold the goods (of which sales tax has been paid) to a person who has certificate of exemption

(d) Is entitled for refund as remission has been granted by MOF

Must claim within 1 year from the above

25

Drawback on ST paid for goods which are subsequently exported

🐝 Application must be made <= 3 months after the date of export

🐝 A notice to claim shall be endorsed on the export declaration form

🐝 Goods must be exported <= 6 months after the date of ST paid (importation) or the date of invoice (local purchase)

🐝 Must not been used after importation or payment of ST

🐝 Goods must not be relanded or detrained at any place in Malaysia *Eg 38.9, pg 648*

26

Facilities to Registered Manufacturer to acquire raw materials /sub-contracting/packaging materials free of ST

Exemption system (Certificate of exemption) **Refer 19.1.1 to 19.1.3.2 Pg 649 -650**	❑ Allows the applicant to: (i) import; or (ii) Acquire Raw materials, components & packaging materials free from ST ❑ Qualified person under Sch A, B & C (pg 649-650) must apply for certificate of exemption	(i) Use of agent to import/acquire taxable goods on behalf of RM free of ST (ii) Subcontract the manufacture of taxable goods to another RM & acquire back such goods free of ST

27

Facilities to licensed Manufacturer to acquire raw materials /sub-contracting/packaging materials free of ST

Refund system **Eg 38.10, pg 650**	RM/importer makes sale to the holder COE of which he already paid the sales tax	• Refund must be made within one year after the sale • Separate application shall be made for each claim of refund

Credit system (Sales tax deduction)
 	
Eg 38.11, pg 651
	• Available to RM who is not able to use the facility of Exemption /refund systems due to
	  - small quantities acquired;
	  - too much admin work
	• Approval will be given automatically
		Allows a deduction of sales tax paid
		
		| category
			Sales tax deduction

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5%	2%(*)
10%	4%(*)	 (*) total value of the goods

28

14

Irrecoverable Bad debts

☙ Allow a taxable person to claim a refund of ST paid on:

(a) Doubtful debts provided in the accounts;or

(b) Bad debts written off->*trade debtor would be treated as 'insolvent', RM is required to justify the insolvency of trade debtor(pg 652)*

All reasonable efforts must have been made by the RM

29

Irrecoverable Bad debts

customers	(i) Has been adjudged bankrupt	•Whole/any part provided in the accounts as doubtful debts or written off as bad debts
	(ii) Has been placed under receivership	
	(iii) Has voluntarily wound up or ordered by court to wind up	•Where only part of bad debts turn bad
Eg 38.12, pg 653	(iv) Filed a claim against him in court by the taxable person to recover the debt	$= \text{sales tax paid} - A/B \times C$
	(v) Has been filed for bankruptcy by the taxable person	A=payment received B=sales value + ST paid C= ST payable
	(vi) Has not paid for the whole or any part of the payment after 6 months from the date of such sales tax was paid (min =8ths from a sale before a claim can be made)	• refund must be made within 6 years from the date of ST paid

Credit System for Sales Tax Deduction

31

Credit System for Sales Tax Deduction

Sales Tax Act 2018 and Sales Tax Regulations 2018 (Salient provisions)	
	❖
	❖
	❖

Bad debts recovered after ST refunded

Shall repay DG in his return in the taxable period he receives such payment according to

$$A/B \times C$$

A= payment received i.r.o sale of such taxable goods
B= Sales value of such taxable goods + ST payable
C= ST payable on such goods

Eg 38.13, pg 653

33

33

Offences and penalties

Refer pg 653 to 658

34

34

Recovery of ST /penalty erroneous refunded

- DG can demand from taxable person <= 6 years from the sales tax/penalty is payable

35

Artificial separation

- RMC has the discretion to consolidate 2 or more businesses which are set up separately with the sole intention to avoid registration.
- Separate businesses which are found closely bound to one another through:
  (a) financial link
  (b) economical link
  (c) organizational link

Can be treated as 'single taxable person' and directed by RMC for sales tax registration

36