

What's New: Sales Tax and Service Tax (Updated)

29 February 2024

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1. SERVICE TAX - TRANSITION FROM 6% TO 8%

1.1. Change of Tax Rate Overview

Effective 1 March 2024, service tax rate shall be increased to 8% on all taxable services except for the following taxable services which shall be levied at 6% as provided in the Service Tax (Rate of Tax) (Amendment) Order 2024 which was gazetted on 26 February 2024:

- ▶ Group B: Food and beverage;
- ▶ Group I: Telecommunication services;
- ▶ Group I: Vehicle parking space services; and
- ▶ Group J: Logistic services (New group introduced to include existing and new taxable services).

Note: For credit card and charge card, service tax shall remain at RM25 per annum.

In view of the above, provision of all taxable services (subject to the above exclusion) on or after 1 March 2024 would subject to 8% service tax and the following saving provisions under paragraph 3 of the Service Tax (Rate of Tax) (Amendment) Order 2024 would be applicable:

| No | Provision of Taxable Services | Service Tax Rate Applicable |
|----|---|--|
| a | Before and after 1 March 2024 | Apportionment method (i.e. 6% for services provided before the effective date & 8% for services rendered on or after 1 March 2024) |
| b | On or after 1 March 2024 with payment received before 1 March 2024* | 6% |

To address the transitional issues regarding the provision of taxable services by a registered person, you may refer to the service tax implications highlighted by the Royal Malaysian Customs Department ("RMCD") in the Guide on Transitional Rules as at 26 February 2024 ("the Guide on Transitional Rules"), below:

| No | Provision of Taxable Services | Payment Receipt | Service Tax Rate Applicable |
|----|-------------------------------|---------------------------------------|--|
| 1 | In full before 1 March 2024 | Full payment before 1 March 2024 | 6% |
| | | Full payment on/after 1 March 2024 | 6% |
| | | Partial payment before 1 March 2024 | 6% |
| | | Partial payment on/after 1 March 2024 | |
| 2 | In full on/after 1 March 2024 | Full payment before 1 March 2024 | 6% |
| | | Full payment on/after 1 March 2024 | 8% |
| | | Partial payment before 1 March 2024 | 6% |
| | | Partial payment on/after 1 March 2024 | 8% |
| 3 | Spanning 1 March 2024 | Full payment before 1 March 2024 | 6% |
| | | Full payment after 1 March 2024 | <ul style="list-style-type: none"> • Services before 1 March 2024 - 6% • Services on/after 1 March 2024 - 8% |
| | | Partial payment before 1 March 2024 | 6% |
| | | Partial payment on/after 1 March 2024 | <ul style="list-style-type: none"> • Services before 1 March 2024 - 6% • Services on/after 1 March 2024 - 8% |

*The above service tax implications shall be applicable to both service tax accounting methods (i.e. payment receipt and invoice basis).

1.2. Imported Taxable Services (“ITS”)

Generally, the determination of service tax rate for ITS shall depend on date of acquisition of the ITS i.e whether the services acquired before or after the effective date.

Notwithstanding the above, pursuant to Paragraph 3(e) of the Service Tax (Rate of Tax) (Amendment) Order 2024, if payment for the ITS is due before 1 March 2024 for services to be provided on/after the effective date, service tax shall be self accounted by the recipient at the rate of 6%.

Based on the Guide on Transitional Rules, we set out below the service tax treatment for ITS under the following transitional scenarios:

| No | ITS Acquired | ITS Due and Payable | Service Tax Rate Applicable |
|----|-------------------------------|-------------------------------------|--|
| 1 | In full before 1 March 2024 | Before 1 March 2024 | 6% |
| | | On/after 1 March 2024 | |
| 2 | In full on/after 1 March 2024 | Fully due before 1 March 2024 | 6% |
| | | Fully due on/after 1 March 2024 | 8% |
| | | Partially due before 1 March 2024 | 6% |
| | | Partially due on/after 1 March 2024 | 8% |
| 3 | Spanning 1 March 2024 | Fully due before 1 March 2024 | 6% |
| | | Fully due on/after 1 March 2024 | <ul style="list-style-type: none"> Services before 1 March 2024 - 6% Services on / after 1 March 2024 - 8% |
| | | Partially due before 1 March 2024 | 6% |
| | | Partially due on/after 1 March 2024 | <ul style="list-style-type: none"> Services before 1 March 2024 - 6% Services on / after 1 March 2024 - 8% |

1.3. Betting & Gaming Services

Service tax shall be accounted for by the registered person based on the rate applicable at the time service tax becomes due and payable to the RMCD.

For example, if the draw to be made on / after 1 March 2024, service tax shall be due and payable at the rate of 8% whilst if the draw was made before the effective date, 6% service tax would be applicable.



1.4. Service Tax on Digital Services (“SToDS”)

The increase of service tax rate to 8% with effect on 1 March 2024 would also affect the provision of digital services by a foreign registered person (“FRP”) to the consumers in Malaysia as provided in the Service Tax (Rate of Digital Services Tax) (Amendment) Order 2024 which was gazetted on 26 February 2024.

With reference to the saving provision under paragraph 3 of the Service Tax (Rate of Digital Services Tax) (Amendment) Order 2024 and the Guide on Transitional Rules for Change in Service Tax Rate to 8% on Digital Services Provided by FRP as at 14 February 2024 (“the Guide on Transitional Rules for SToDS”) published by the RMCD, please find outlined below the transitional rules effecting SToDS:

| No | Provision of Digital Services | Service Tax Treatment |
|----|--------------------------------|---|
| 1 | In full before 1 March 2024 | 6% |
| 2 | In full on/after 1 March 2024* | 8% |
| 3 | Spanning 1 March 2024 | Apportionment method (i.e. 6% for services provided before the effective date & 8% for services rendered on/after 1 March 2024) |

* As for payment received before 1 March 2024 for digital services provided on/after 1 March 2024, service tax shall remain at the rate of 6% for both service tax accounting methods (i.e. payment receipt or invoice basis).

1.5. Transitional Service Tax Declaration

For a taxable period that involves dual tax rates (i.e. 6% and 8%) due to transitional rules, the RMCD has confirmed that the SST-02 Form would be updated to allow taxpayers to declare both service tax rates.

1.6. Issuance of Debit Note

Based on the Guide on Transitional Rules, for services spanning 1 March 2024 where payment has been received for a portion of the value of taxable services, service tax registrant shall issue a debit note to the customer as an adjustment of the 2% tax rate increase for the remaining payment received after 1 March 2024. This debit note should be accounted for in the SST-02 statement at the time the debit note is issued.



2. EXPANSION OF SERVICE TAX SCOPE

2.1. Taxable Person and Taxable Services Scope Expansion

Based on the Prime Minister's announcement in the Malaysian 2024 Budget and the amendments to the Service Tax Regulations 2018, the expansion to the scope of taxable person and services commencing 1 March 2024 is summarised as follows:

| No | Group | Provisions Subject to Change | Details of Current Provision | Amendment | Commentary |
|----|--|---------------------------------|--|--|--|
| 1 | A - Accommodation | Item (c) in Column 2 of Group A | (c) Provision of other services within the accommodation premises. | (c) Provision of other services within the area or place of business under the control of service provider. | Services provided by the accommodation operator outside the accommodation premise will be taxable (e.g. recreation activities, rental of camping area, glamping, hall located outside hotel and etc.). |
| 2 | B - Food and Beverage (F&B) | Item (c) in Column 2 of Group B | (c) Provision of other services other than services of rental of space within the establishment. | (c) Provision of other services , other than services of rental of space, within the area or place of business under the control of service provider. | Services provided by the F&B operator outside the restaurant/cafe will be taxable (e.g. food bazaar, night market operated by F&B operator, recreational activities and etc.). |
| 3 | C - Night-Clubs, Dance Halls, Cabarets, Karaoke Centre, Health and Wellness Centres, Massage Parlours, Public Houses and Beer Houses | Column 1 of Group C | ** | 1. (e) Any karaoke Centre. | Any karaoke centre operator will be considered a taxable person and any services provided by the operator as per column (2) of Group C would be subject to service tax. |
| 4 | C - Night-Clubs, Dance Halls, Cabarets, Karaoke Centre, Health and Wellness Centres, Massage Parlours, Public Houses and Beer Houses | Item (a) in Column 2 of Group B | (a) Provision of all services within the establishment. | (a) Provision of all type of services. | Services provided by registered person under Group C will be taxable. |
| 5 | E - Golf club and gold driving range | Item (d) (vi) in column (2) | Provision or sales of - (d) (vi) alcoholic and non-alcoholic beverages. | Provision or sales of - (d) (vi) food , alcoholic and non-alcoholic beverages. | This expansion is to expand the current provision for selling of food by the operator to be subjected to service tax even though the club house is not operating restaurant, bar, snack bar, canteen, coffee house nor preparation of foods. |

| No | Group | Provisions Subject to Change | Details of Current Provision | Amendment | Commentary |
|----|--|--|--|--|--|
| 6 | G - Professionals or skills | Amendment to Heading | Professional | Professional and skills | The amendment to the headings is in line with the expansion of scope in Group G. |
| 7 | G - Consultancy, training or coaching (item 7) | Item (g)(ii) in Column 2 of Group G | (c) Exclusion of provision of consultancy, training or coaching services in connection with - (A) Goods or land situated outside Malaysia; or (B) Other than matters relating to matters specified in (A) outside Malaysia. | (c) Exclusion of provision of consultancy services in connection with - (A) Goods or land situated outside Malaysia; or (B) Other than matters relating to matters specified in (A) outside Malaysia. | Exclusion to be treated as non-taxable services would no longer be applicable for training or coaching services. |
| 8 | G - Management services (item 9) | Item (i)(iv), and item (i)(v) in Column 2 of Group G | (i) Provision of any of following management services: (iv) Maintenance management services; (v) Warehousing management services. | Maintenance management services will be deleted and included as additional Item 13 of Column 1 of Group G - Maintenance or repair services. Warehousing management services will be deleted and included under new Group J - Logistics. | Moving forward, service tax declaration must be made separately following the respective type of taxable services. |
| | | Item (i)(xiii) in Column 2 | (xiii) Management services provided by Government agency, local authority or statutory body for the purpose of religious, welfare, bereavement, burial cemeteries, cremation, sewerage, water supply, health, transport, tourism or logistic services. | (xiii) Management services provided by Government agency, local authority or statutory body for the purpose of religious, welfare, bereavement, burial cemeteries, cremation, sewerage, water supply, health, public transport or tourism. | It appears that as logistic services are now included as part of the prescribed taxable services, the exclusion list as non-taxable services for management for the purpose of transport or logistic services has been deleted. Instead, public transport is included as non-taxable service. |



| No | Group | Provisions Subject to Change | Details of Current Provision | Amendment | Commentary |
|----|---|--|---|---|--|
| 9 | G - Maintenance or repair service (Item 13) | ** | ** | <p><u>Column 1 (Taxable Person)</u></p> <p>Item 13 - Any person providing maintenance and repair services.</p> <p><u>Column 2 (Taxable Services)</u></p> <p>Item n - Provision of any maintenance or repair services including maintenance management, corrective maintenance, preventive maintenance, calibration, adjustment, recondition, reconfigure or overhaul except—</p> <p>(i) maintenance management services related to land or building for the use of residential provided by any developer, joint management body, management corporation or residential association; or</p> <p>(ii) repair services on the residential building.</p> | <p>New taxable service was added under Group G.</p> <p>In view of the expansion of scope of taxable person and taxable services, all of the following provision of maintenance or repair services would be subject to service tax:</p> <p>(i) Maintenance management;</p> <p>(ii) Corrective maintenance;</p> <p>(iii) Preventive maintenance;</p> <p>(iv) Calibration;</p> <p>(v) Adjustment;</p> <p>(vi) Recondition; or</p> <p>(vii) Reconfigure or overhaul.</p> |
| 10 | I - Telecommunication | Item (a) in Column 2 under item 2 of Group I | (a) Provision of telecommunication services and other services in connection with the telecommunication services. | (a) Provision of telecommunication services and other services including digital services in connection with the telecommunication services. | Based on the current services offered by telco service providers, the update to item (a) would include digital services provided by telco service providers. |
| 11 | I - Customs agent | Item 3 of Group I | Provision of services for clearing of goods from customs control. | Customs agent services will be deleted under Group I and included under new Group J - Logistics. | Moving forward, service tax declaration for customs agents must be made separately following the respective group of taxable services. |
| 12 | I - Courier services | Item 6 of Group I | Provision of courier delivery services for documents or parcels not exceeding 30 kilograms each. | <p>Courier services will be deleted and included under new Group J - Logistics.</p> <p>At the same time, the courier delivery for documents or parcels exceeding 30 kilograms each would now be included as part of taxable services.</p> | <p>Moving forward, service tax declaration for courier services must be made separately following the respective group of taxable services.</p> <p>Courier service providers also need to take note on the expansion of taxable services to include documents or parcels exceeding 30 kilograms.</p> |

| No | Group | Provision Subject to Changes | Details of Current Provision | Amendment | Commentary |
|----|--|-----------------------------------|--|---|--|
| 13 | I - Brokerage or underwriting | Column 2 under item 12 of Group I | The provision of services relating to financial services for the use or provision of brokering and underwriting. | <p>Provision of brokering or underwriting services except the provision of the following services:</p> <ol style="list-style-type: none"> a) brokering or underwriting services related to medical insurance or medical takaful borne by an individual; b) brokering or underwriting services related to life insurance policies or family takaful certificates borne by an individual; or c) brokering or underwriting services related to goods, land or any other matters outside Malaysia. | With this update, brokerage and underwriting services for non-financial services such as brokerage for ship and aircraft space, commodity and real estate would be taxable services. |
| 14 | J - Logistics Threshold: RM500,000 (except for customs agent - Nil) | ** | ** | <p><u>Column 1 (Taxable Person)</u></p> <ol style="list-style-type: none"> 1. Any person providing- <ol style="list-style-type: none"> (a) logistic services including all or part of the supply chain of logistic management services, warehousing or warehousing management services, freight forwarding services, port or airport services, shipping services, aviation services or cold chain facilities services; (b) delivery, distribution or transportation of goods services; (c) delivery, distribution or transportation of goods, documents or packages services through the E-Commerce platform including on behalf of any person; or (d) Courier services licensed under section 10 of the Postal Services Act 2012 [Act 741]. 2. Any person who is approved to act as a customs agent under subsection 90(2) of the Customs Act 1967. | <p>In addition to the expansion of scope and introduction of Group J, the service tax business-to-business (B2B) exemption was also updated via the addition of item 5 in the Schedule of the Service Tax (Persons Exempted from Payment of Tax) Order 2018 ("the Order").</p> <p>Under the Order, the taxable persons providing taxable services in Column 2 of Group J will be exempted from payment of tax provided that the following conditions are fulfilled:</p> <ol style="list-style-type: none"> (a) The taxable person is a registered person; (b) The taxable service is provided by a registered person who is a taxable person specified in column (1) Group J; (c) The taxable service is the same taxable service provided by the taxable person; and (d) The taxable service is not for personal consumption by the taxable person. |

| No | Group | Provision Subject to Changes | Details of Current Provision | Amendment | Commentary |
|----|--|------------------------------|------------------------------|---|------------|
| 14 | J - Logistics Threshold: RM500,000 (except for customs agent - Nil) (Cont'd) | ** | ** | <p><u>Column 2 (Taxable Services)</u></p> <p>1. (a) Provision of all logistics services except delivery distribution or transportation of goods including courier services of documents, packages or goods:</p> <ul style="list-style-type: none"> i. From a place outside Malaysia to a place outside Malaysia; ii. From the last point of exit within Malaysia to a place outside Malaysia; iii. From a place outside Malaysia to the first point of entry within Malaysia; iv. Which arrives at the Malaysian customs port or airport for the purposes of transfer or unloading from an aircraft or vessel to another aircraft or vessel until the goods are transported in the aircraft or vessel and transported out of Malaysia; or v. Which arrives at the Malaysian customs port or airport for the purposes of transfer or unloading from an aircraft or vessel to a customs warehouse, or a licensed warehouse, or a warehouse or other places approved by the Director General until the goods are transported in the aircraft or vessel and transported out of Malaysia. <p>(b) Provision of all delivery, distribution or transportation of goods services including courier services of documents, packages or goods except delivery of food and beverages provided by a taxable person specified in column (1) of Group B; or</p> <p>(c) Provision of all delivery, distribution or transportation of goods services including courier services of documents, packages or goods through the E-Commerce platform including on behalf of any person except delivery of food and beverages provided by a taxable person specified in column (1) of Group B.</p> <p>2. Provision of services for the release of goods from customs control.</p> | |

**** Expansion of scope of new taxable person and taxable services based on the amendment of the Service Tax Regulations 2018 via Service Tax (Amendment) Regulations 2018 gazetted on 23 February 2024.**

3. SALES TAX ON LOW VALUE GOODS (“LVG”)

3.1. Implementation of Sales Tax on LVG in Malaysia

In Budget 2022, sales tax on LVG was originally proposed to commence from 1 January 2023. However, the implementation date was postponed to 1 April 2023, and subsequently deferred to a date to be determined.

On 3 November 2023, the RMCD announced that the sales tax on LVG will commence on 1 January 2024. The RMCD has also published the guidelines and frequently asked questions on the implementation of the sales tax on LVG in its website. The Sales Tax (Amendment) Act 2022: Appointment of Effective Date for Charging and Levying of Sales Tax on Low Value Goods was gazetted on 8 December 2024 which confirms 1 January 2024 as the effective date for the charging and levying of sales tax on low value goods.

A summary of the key features of sales tax on LVG are as follows:

| | |
|--|--|
| Scope of LVG | All goods with a sales value of RM500 or less, brought from outside Malaysia into Malaysia via land, sea or air. Exclusion : cigarettes; tobacco products; intoxicating liquors; smoking pipes (including pipe bowls); electronic cigarettes and similar personal electric vaporizing devices; and preparation of a kind used for smoking through electronic cigarette and electric vaporizing device, in forms of liquid or gel, whether or not containing nicotine. |
| Meaning of Seller | "Seller" means a person, whether inside or outside Malaysia, who: i. Sells LVG on an online platform; or ii. Operates an online marketplace for the sale and purchase of LVG. |
| Rate of Tax | 10% |
| Sale Value of LVG Subject to Sales Tax | The sales tax is charged on the sale value of LVG not including any tax, duty, fee or other charges such as transportation, insurance or other costs. |
| Registration Threshold | Total sales value of LVG exceeding RM500,000 within 12 months and seller may apply for registration via https://lvgcore.customs.gov.my/register . |
| Submission of Return by Registered Sellers (RS) | Sales tax on LVG return (i.e. LVG-02 Form) shall be submitted by RS every three months via https://lvgcore.customs.gov.my/Login . |
| Customs Importation Mechanism | <ul style="list-style-type: none"> During the importation of LVG, the LVG Registration Number information must be provided by the importer/customs agent in the import declaration (e.g. Customs Form No.1 (K1), electronic pre-alert system (e-PAM) or consignment note (CN22/CN23)). Any supporting documents must also be provided upon request by the proper officer of customs. No sales tax shall be levied on the LVG if it is proven to the proper officer of sales tax that the sales tax has been charged by the registered seller and has been paid on the low value goods. |
| Transitional Provisions | LVG purchased prior to the effective date, whether delivered to Malaysia before or after the effective date, is not subject to sales tax. Otherwise, Sales Tax should be applicable to LVG. |

4. SERVICE TAX POLICIES AND FAQ

4.1. Recent Publications on Service Tax Updates

You may refer to the Service Tax Policies issued by the RMCD and Frequently Asked Questions below for businesses to comply the latest service tax developments:

| No | Publications | Matters Covered | Date of Publication | Reference |
|----|--|---|---------------------|---|
| 1 | Service Tax Policy 1/2024 | Determination of Imposition Date of Service Tax on New Taxable Services | 28 February 2024 | STP 1/2024 |
| 2 | Service Tax Policy 2/2024 | Service Tax Treatment on Traditional & Complementary Medicine (TCM) Services | 28 February 2024 | STP 2/2024 |
| 3 | Service Tax Policy 3/2024 | Determination of Service Tax Rate for Provision of Multiple Taxable Services by the Same Service Provider | 28 February 2024 | STP 3/2024 |
| 4 | Frequently Asked Questions (FAQ) issued by Ministry of Finance (MOF) | Expansion on Scope of Taxable Services and Change of Service Tax Rate | 28 February 2024 | Soalan-Lazim-FAQ-Cukai-Perkhidmatan |

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