

Malaysia's Latest Indirect Tax Updates

Updates on Rental & Leasing and Sales Tax Drawback

22 May 2026

Recently, the Malaysian Government implemented several key indirect tax reforms to formalise existing policies, provide greater clarity, reinforce compliance, and support businesses in navigating global uncertainty. These updates affect multiple sectors and carry significant implications for businesses.

Our latest **Indirect Tax Updates** cover **two key areas**:

1. **Service Tax Guide on Rental or Leasing Services** dated 14 May 2026
2. **Public Ruling No. 2/2026 - Meaning of the Word "Used" under Subregulation 17 (1)(g), Sales Tax Regulations 2018**

1. Service Tax Guide on Rental or Leasing Services dated 14 May 2026

The Royal Malaysian Customs Department (RMCD) issued the [Service Tax Guide on Rental or Leasing Services](#) (Rental or Leasing Guide) dated 14 May 2026, on the MySST Portal on 14 May 2026. This supersedes the previous guide dated 9 June 2025.

The salient updates in the Rental or Leasing Guide are as follows:

No	Description	Details
1.	Overview	<ul style="list-style-type: none"> ▶ Incorporates policies and exemptions stipulated by RMCD under Service Tax Policy No. 2/2025 (STP No. 2/2025). ▶ Provides more practical examples impacting the industry.
2.	Imposition and Scope of Tax	Service tax rates for rental or leasing services are as follows: <ul style="list-style-type: none"> ▶ 1 July 2025 - 31 December 2025: 8% ▶ Effective 1 January 2026: 6%
3.	Threshold Value for Taxable Services	Increase in threshold value from RM500,000 to RM1,000,000.



No	Description	Details
4.	Exemption From Payment of Service Tax Under Subsection 34(3)(a) and 34(4) Service Tax Act 2018 (cont'd)	<ul style="list-style-type: none"> ▶ The following service tax exemptions were included, in line with STP No. 2/2025: <ul style="list-style-type: none"> ○ Rental or leasing services to Federal Government and State Government ○ Rental or leasing services to Local Government (from 1 July 2025 to 30 September 2025) ○ New small and micro enterprises under MyPMK (effective 1 January 2026) ○ Intragroup relief ○ Rental or leasing services of aircraft and ships ▶ Clarification that the service tax exemption for non-reviewable contracts is valid from 1 July 2025 to 30 June 2026, subject to conditions. ▶ Increase in the revenue threshold for the service tax exemption for small and micro enterprises under MyPMK from RM500,000 to RM1,500,000.
5.	Registration and Responsibilities of Registered Persons	<ul style="list-style-type: none"> ▶ Clarification that existing registered persons providing passenger vehicle rental services under Item 7, Group I, First Schedule of the Service Tax Regulations 2018 are required to update their registration details to include the new taxable service under Group K, where they also provide rental or leasing services. ▶ Similarly, any person already registered under Groups A to E, First Schedule to the Service Tax Regulations 2018 who provides rental or leasing services is not required to apply for a new registration, but is only required to update its existing registration details to include such services and continue charging service tax on the rental or leasing services provided. ▶ As for existing registered persons under groups other than Groups A to E, First Schedule to the Service Tax Regulations 2018, they are required to determine whether the value of their rental or leasing services has exceeded or will exceed the prescribed threshold before updating their existing registration details.

No	Description	Details
6.	Frequently Asked Questions (cont'd)	<ul style="list-style-type: none"> ▶ Clarification that the service tax rate is dependent on when the service is rendered. ▶ Clarification that the service tax exemption under the MyPMK certificate applies only to business use and not to personal use. ▶ Clarification that co-location services, including waste disposal, remote hands services, cross-connects, portal access, and electricity recharge, constitute rental or leasing services. ▶ Clarification regarding the treatment of utilities (i.e., water and electricity) in relation to rented or leased commercial property: <ul style="list-style-type: none"> a) If utility bill(s) is registered in the tenant's name, such supply does not form part of the rental or leasing service as it is provided directly to the tenant. b) If utility bill(s) remains registered in the landlord's name but is paid by the tenant on the landlord's behalf, such supply does not form part of the rental or leasing service, as there is no recharge or resupply element by the landlord. c) If utilities are borne by the landlord and the cost is subsequently apportioned to each tenant based on meter readings or usage (regardless of markup), such supply forms part of the rental or leasing service, as it constitutes part of the rental or leasing service provided by the landlord to the tenant. d) If utilities form part of the rental or lease, the supply is treated as a composite supply and forms part of the rental or leasing service. e) In the event of any additional utility charges (due to overconsumption), this constitutes part of the rental or leasing service provided by the landlord to the tenant.

Commentary

- ▶ The issuance of the Rental or Leasing Guide is a necessary and timely update, as the previous guide was issued in time for the imposition of service tax on rental or leasing services under the SST scope expansion on 1 July 2025.
- ▶ After collating feedback on implementation challenges faced by the impacted stakeholders, RMCD has enhanced this updated guide by highlighting practical compliance and administrative requirements, in line with the policy refinements introduced through STP No. 2/2025.
- ▶ In addressing utility charges for rented or leased commercial property, RMCD has introduced concepts such as composite supply, which were previously prevalent under the Goods and Services Tax regime. Under this updated Guide, RMCD has clarified that utility charges form part of the rental or leasing services of commercial property where the landlord initially incurs the utility costs and subsequently recharges such costs to the respective tenant(s) based on meter readings or actual usage, regardless of whether any markup is imposed. Accordingly, such recharges would be subject to service tax as part of the rental or leasing services.
- ▶ In this regard, this position appears to depart from the spirit and intent of the Service Tax Regulations 2018, under which electricity is generally not intended to be taxed for commercial business use, particularly given the cascading effect of SST, in line with the broader policy objective of alleviating costs to businesses. Furthermore, the [Service Tax Guide on Transmission and Distribution of Electricity Services](#) (Electricity Services Guide) dated 16 April 2026 clarified that only a person providing transmission and distribution of utilities, in the context of electricity services, is regarded as a taxable person. The Electricity Services Guide further supports the general understanding that the imposition of service tax on electricity-related services is intended to apply principally to domestic consumers in respect of residential properties.
- ▶ Furthermore, this updated guide does not clarify that the rental of tangible assets located beyond 12 nautical miles is regarded as taking place outside Malaysia and is therefore exempt from service tax pursuant to [Service Tax Policy No. 8/2025](#).
- ▶ Arising from this updated guide, impacted stakeholders should proactively revisit their internal policies, operational processes, and system capabilities to ensure accurate identification and application of service tax based on the nature of their rental or leasing services.



2. Public Ruling No. 2/2026 - Meaning of the Word “Used” under Subregulation 17 (1)(g), Sales Tax Regulations 2018

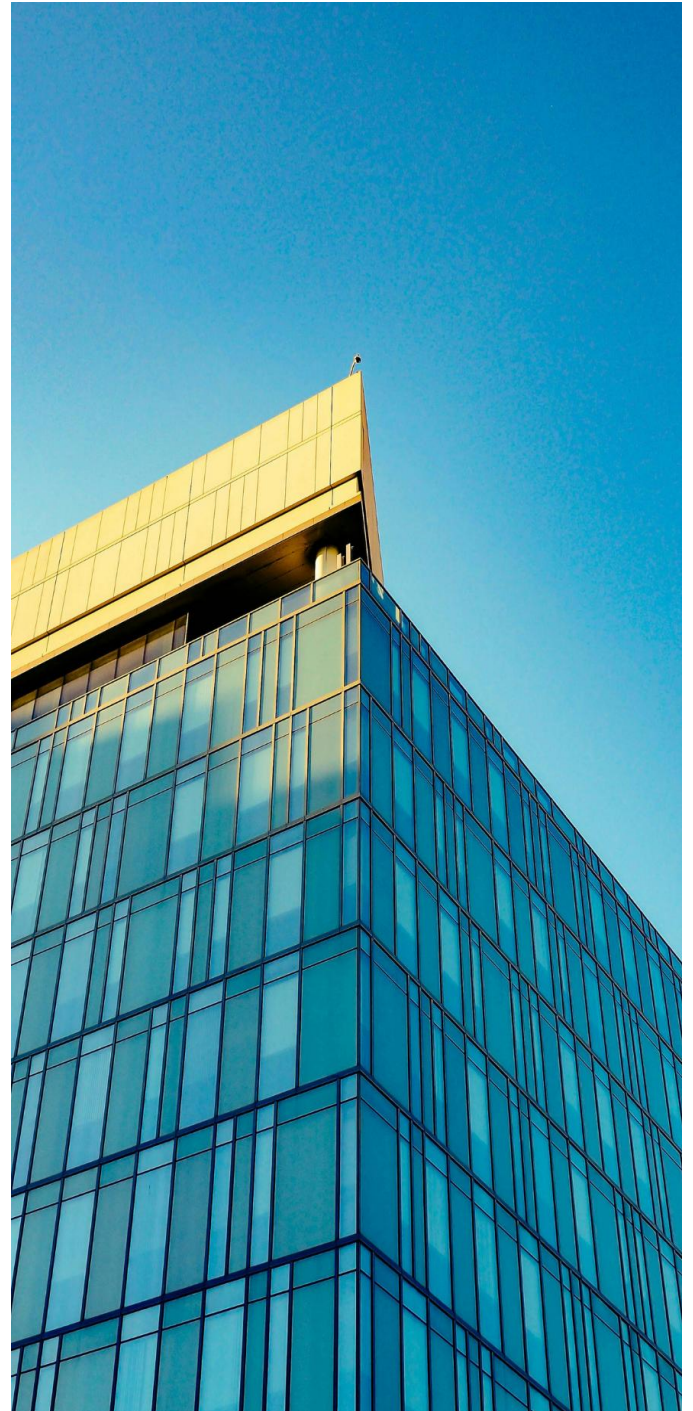
RMCD issued the Public Ruling No. 2/2026 dated 18 May 2026, on the MySST Portal on 19 May 2026.

This public ruling aims to clarify the meaning of the word “used” as stated in sub regulation 17(1)(g) of the Sales Tax Regulations 2018, which constitutes one of the conditions for claiming sales tax drawback pursuant to section 40 of the Sales Tax Act 2018. In this regard, sales tax drawback may be allowed where the taxable goods have not been used after importation or purchase.

Under the Public Ruling, RMCD clarified that the meaning of the word “used” refers to any activity carried out on taxable goods, including the value-added process or manufacturing process. However, this does not include labelling, packaging or re-packaging, as such activities do not result in any value add to the taxable goods.

Commentary

- ▶ The issuance of this Public Ruling provides greater clarity on the meaning of the word “used” in the context of the conditions for claiming sales tax drawback under regulation 17 of the Sales Tax Regulations 2018.
- ▶ Impacted businesses should take note of this clarification and ensure continued compliance with the prescribed conditions for claiming sales tax drawback.



Our Recommendations:



Review Conditions of the Legislation and Guidelines:

Carefully review the conditions outlined in the relevant legislation and guidelines to ensure full compliance before implementing any policies.



Maintain Proper Records:

Ensure all relevant documents are available to support the relevant SST positions taken.

Keep all relevant documents organised and accessible to substantiate the exemption claimed by the business in the event of an RMCD audit.



Seek Professional Advice:

When in doubt, you may consult your usual indirect tax contact at BDO to assist with compliance and mitigate potential risks.



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