SiATP
Singapore Institute of ACCREDITED TAX PROFESSIONALS

Tax Excellence Decoded

Malaysia GST ready

Managing GST and IT risks
6 March 2015, Friday

Participants gained deeper insight on possible errors and compliance issues with the implementation of Malaysia GST with Accredited Tax Advisor (Income Tax & GST) Dr Robin Chia.

Malaysia replaced its Sales and Services Tax with Goods and Services Tax (GST) on 1 April 2015 In the run-up to the implementation of GST in Malaysia, the Singapore Institute of Accredited Tax Professionals (SIATP) organised a *Tax Excellence Decoded* session on the finer points to note as companies geared up for a smooth transition.

Facilitated by Accredited Tax Advisor (Income Tax & GST) Dr Robin Chia, CEO, Robin Chia & Co, the lively session covered the practical aspects of Malaysia GST as Dr Chia discussed how the implementation of GST would re-engineer the entire business process.

He also explained the importance of a good GST accounting system and highlighted notable differences between Singapore and Malaysia GST.

Registration of GST

Since 1 April 2015, a 6% GST is imposed on supplies of goods and services in Malaysia. The GST is administered by the Royal Malaysian Customs (Malaysia Customs) and levied by persons registered under the GST Act 2014 (that is, GST-registered persons).

A company that makes taxable supplies (that is, business transactions which are subject to GST) in Malaysia and has taxable turnover of more than RM500,000 within a period of 12 months is required to register for Malaysia GST. If the taxable turnover does not exceed RM500,000, the company may choose to register for GST voluntarily if it wishes to claim GST (input tax) incurred on its purchases.

A company that is liable to register for Malaysia GST but fails to do so may be liable to pay a late registration penalty of RM15,000.

In a common scenario where a Malaysia company acts as the agent to a Singapore company to import goods into Malaysia, the agent will have to register for GST if its turnover [i.e. the commission charges and value of taxable supplies made in its own name (excluding value of supplies arranged for the Singapore company not made in the Malaysia agent's name)] exceeds RM500,000. If the Singapore company provides taxable supplies of more than RM500,000, it will have to register for GST in Malaysia and appoint a GST agent to submit the GST return on its behalf.

A business re-engineering process

It is a common misconception that GST implementation will affect only the finance department, after all, GST is a transaction-based tax and as long as finance is meticulous in entering each transaction into the accounting software, nothing should go wrong. In reality, the implementation of GST has a much wider implication on businesses and is really a business re-engineering process affecting the entire business operation.

For example, gifts to employees (such as long-service awards) are subject to GST in Malaysia unless they are specifically listed in the employment contracts or human resource (HR) policies. The implementation of GST may mean, to the HR department, the need to review such contracts or policies. In addition, the Information Technology (IT) department will also need to review the existing systems in view of the new GST compliance requirements. Over at the procurement department, suppliers who are GST-registered should be highlighted to Finance for the purpose of claiming input GST.

The implementation of GST will require the marketing department to review the business's pricing strategies in view of the higher costs to customers. It also creates the need for the finance department to update cash-flow forecasts to take into account the effects of input and output GST.

Intricacies of Malaysia GST

It is important for businesses to pay attention to the intricacies of Malaysia GST as they may have an impact on the businesses' positions or obligations.

At the point of GST registration, if a company reflects that it has more than one type of business activities, it will have an additional requirement to segregate its revenue and expenses to each business activity in all its GST returns. Companies may want to take a closer look at its GST registration form before ticking the boxes.

Malaysia Customs has advised that it will conduct advisory audit in the initial two years following the implementation of GST in Malaysia. The aim for such advisory audit is to support companies in GST compliance and guide them on any GST queries. However, it is still unclear at this stage if Malaysia Customs will limit its role to be advisory in nature (and hence will not penalise companies for any GST errors discovered).

Companies doing business in Malaysia should be aware of the GST Relief Order. It pertains to the supplies of goods which (would normally be but) are not subject to GST because such goods are supplied to particular organisations (largely government organisations, hospitals, schools and charities) that are specifically determined by the Malaysian government. Companies dealing with such organisations may want to find out more about the GST Relief Order, and be aware of the consequential compliance requirements, such as the need to use a different tax invoice.

Goods and services supplied in "designated areas" (that is, Tioman, Labuan and Langkawi including all adjacent islands lying nearer to Langkawi Island than to the mainland) are considered to be supplied outside of Malaysia and hence are not considered a supply for Malaysia GST purposes, although the Malaysia Minister of Finance has the power to impose GST for the goods and services supplied in such designated areas. Businesses may refer to the Designated Area Order for more information on GST in these designated areas.

A good GST accounting system

In order to apply for or submit renewals for the GST schemes such as the Approved Trader Scheme in Malaysia, it is a requirement for the applicant to maintain a "good GST accounting system".

Malaysia Customs provides guidance on what constitutes a "good GST accounting system", which includes requirements such as the need for the system to be kept in accordance with the principles of Standard Accounting Practices adopted in Malaysia, and the need for a good audit trail. GST tax codes are required to be assigned to accounting transactions in Malaysia.

A good accounting system for Malaysia GST purposes should also cater to various types of invoices such as the full tax invoice, simplified tax invoice, self-billed invoice, normal invoice and special invoice. Full tax invoice is used when a company charges GST. Simplified tax invoice may be used (upon approval by Malaysia Customs) for cash sales below RM500. Self-billed invoice is used when the supplier is unable to determine the value of the supply (common for industries such as the palm oil industry). The normal invoice is used for transactions where GST is not charged (e.g. for a tax exempt transaction). Special transitional invoice is used during the transitional period (when a company receives part payment or issues invoices before 1 April 2015, but the goods are delivered or services are provided after 1 April 2015). The prescribed requirements of the disclosure of information of a tax invoice are stated in Section 33 of the GST Act.

It is important to note that while Malaysia Customs encourages companies to enhance their GST accounting systems to be able to generate GST Audit File (GAF) reports, GAF is currently not a compulsory requirement in Malaysia.

Notable differences between Singapore and Malaysia GST

- **Indirect export of goods**

A company can zero-rate its supply of goods (that is, charge GST at 0%) in Singapore if at the point of supply, the company is certain that the goods supplied will be or has been exported. In a scenario where the company is given orders by its local customer to export the goods, the company may zero-rate the supply of goods in Singapore. In the same scenario in Malaysia however, the company will have to pay 6% Malaysia GST as Malaysia does not recognise indirect export of goods.

- **Time of supply: 21-day rule**

Malaysia adopts a 21-day rule in determining the time of supply. In general, the time of supply occurs when the goods are delivered or made available to the customer, or when the services are rendered to the customer. This is known as the basic tax point.

If a supplier issues a tax invoice or receives any payment before the basic tax point, the time of supply for the amount invoiced or payment received will be the date of the invoice issued or the amount of payment received, whichever is earlier.

If the supplier does not receive any payment but issues a tax invoice within 21 days from the basic tax point, the time of supply will be the date of issue of the invoice. However, if a tax invoice is not issued within 21 days, then the time of supply will revert to the basic tax point. Should the basic tax point and the tax invoice date fall into different GST reporting periods, there is a risk that the company may have understated its GST output tax in the earlier period.

It is interesting to note that Singapore has abolished its 14-day rule (which is similar to Malaysia's 21-day rule) in 2011, although the basic tax point is still applicable in some exceptional cases.

- **Reverse charge mechanism**

While Singapore's reverse charge (or commonly known as import of services) mechanism is dormant, Malaysia will be implementing its reverse charge mechanism for GST. A supplier who does not belong in Malaysia and supplies services to a customer in Malaysia does not have to charge GST. However, the customer who receives the services for the purpose of any business carried on by him is required to account for GST by the reverse charge mechanism. In effect, a Malaysian customer who is a GST-registered person will have to account for the GST based on the Self Recipient Accounting Basis, while a Malaysian customer who is not a GST-registered person will have to pay an additional 6% of GST to Malaysia Customs.

- **GST filing**

In Malaysia, businesses with annual taxable turnover below RM5m are required to submit quarterly GST returns, while businesses with annual taxable turnover over RM5m are required to submit monthly GST returns. This is unlike in Singapore where all businesses are required to file GST returns quarterly (unless in exceptional cases where the businesses write in to Inland Revenue Authority of Singapore to request for a change in filing frequency (e.g. change to monthly or half-yearly).

Filing monthly (instead of quarterly) GST returns may be beneficial to businesses from a cashflow perspective (as businesses will able to claim back their input taxes on an earlier date), but is likely to put more time pressure on businesses to meet the more frequent filing requirements.

- **GST error form**

Companies in Singapore may file an error form (i.e. GST F7) to correct errors. Malaysia does not have a similar GST error form. As such, companies will have to write in to inform Malaysia Customs of the GST errors or adjust the errors in their next GST returns.

GST in Malaysia is a reality. Businesses would be wise to take note of the finer points mentioned in this early stage of implementation. While your organisation may have been filing GST in Singapore for the last 20 years, it is important to note the many differences between the Singapore and Malaysia GST systems. If you have not been following the developments in Malaysia, it would be wise to get some professional help; get it right the first time.

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About SIATP's Technical Discussions

SIATP's technical discussions have continually been very well received by accredited tax professionals. Unlike the run-of-mill Continuing Professional Educational courses which typically cover tax fundamentals, SIATP's interactive technical discussions are designed to cover tax issues that do not have clear-cut solutions or situations that may have different interpretations. Over time, these discussions contribute in boosting the overall tax standards in Singapore.

About Dr Robin Chia

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Donning numerous professional hats, Robin possesses vast experience in dealing with the tax authorities over GST issues, rulings, audit and investigations on behalf of his clients. He also acts as an adviser of an IT and Business Consultancy Company specialising in ERP and Computerized Accounting System and pioneered in reforming the GST Ready Accounting System which is approved by Royal Customs Malaysia.

A frequent guest speaker for government and professional bodies within South East Asia, Robin has also done extensive research on Accounting and Auditing Standards, GST, Risk Management and Internal Audit, Corporate Fraud and Forensic Accounting. Robin has also undertaken numerous GST Implementations for large and small enterprises.