

**GST Customs Malaysia**

# **GST Malaysia**

**Goods and Services Tax**

**ONLINE GST COURSE**  
**CLICK HERE**

Online GST Course 1  
**What is GST**

[www.gstmalaysia.org](http://www.gstmalaysia.org)

Online GST Course 2  
**Accounting for GST**

Kursus GST Online  
**Apakah GST**

**START NOW**



## **Basic Understanding of GST**

### **Frequently Asked Questions**

For more information, go to

[www.gstmalaysia.org](http://www.gstmalaysia.org)

## Basic Understanding of GST – Frequently Asked Questions

### **What is GST?**

GST is a consumption tax based on the value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services.

### **Is GST a new consumption tax?**

GST will replace the present consumption tax comprising the sales tax and the service tax (SST). The difference between GST and the present consumption tax is in terms of its scope of charge which is more comprehensive, inclusive of the manufacturing and distribution stages as well as providing a tax credit claim for GST paid on business inputs. When compared with the present consumption tax system, the sales tax is imposed only at the manufacturing stage that is at the time when the goods are manufactured or when the goods are imported. On the other hand, service tax is imposed on specific services at the time when the services are provided to the consumer.

### **Why the sales tax and service tax (SST) need to be replaced with GST?**

GST is a more comprehensive, effective, transparent, and business friendly tax system. GST can overcome the various weaknesses inherent in the present consumption tax system. The inherent weaknesses under the present tax system are the cascading tax, double tax and pyramiding tax, tax erosion and leakages through transfer pricing and other means. Besides that, GST is expected to increase tax compliance and is easier to administer in view of its self policing method. Besides that, the businesses are required only to submit simplified tax returns based on prescribed formats. All records and documents relating to the relevant transaction are required to be kept in the business premises for audit by the GST auditor.

### **Why does the government want to implement GST?**

The GST implementation is part of the government's tax reform programme to enhance the capability, effectiveness and transparency of tax administration and management.

### **What is the rate of GST that will be imposed?**

At the moment, the government has not fixed the GST rate to be imposed in Malaysia. Nevertheless, the social and pricing impact studies conducted by the Ministry of Finance indicated that the suitable GST rate is in the range of 4%.

### **Why the government proposes a GST rate which is lower than the current tax rate?**

The purpose of the government in proposing the GST at a lower rate is to neutralize GST impact on the rakyat and consumers so as not to unduly burden the rakyat especially the lower income group. By imposing GST at a lower rate, it is expected that the consumers will benefit from the price reduction in most of the goods and services.

### **Is it true that those earning below RM3,000 per month who are not liable to pay income tax will now have to pay tax under GST?**

This perception is not correct as the scope of charge for both types of tax is vastly different. The scope of charge for income tax is based on income received by an individual whilst the imposition of GST is based on the consumption of goods and services. Presently, those not liable to income tax still pay sales tax and service tax on goods and services that they consume. The issue is, most consumers are not aware that the tax element has been embedded in the price of goods and services sold by the retailers. As a matter of fact, the imposition of GST will not make any difference to the tax burden of those earning below RM3,000 monthly as they would have paid tax on the consumption of those goods and services.

### **When will the government implement GST?**

The Government has not decided on the implementation date of GST in Malaysia. Presently, the Government is actively involved in carrying out awareness programme regarding the concept and mechanism of GST. If GST is to be implemented, the Government will provide sufficient time for businesses and industries to be GST ready i.e. between 18 to 24 months.

### **How does GST work?**

GST is charged and collected on all taxable goods and services produced in the country including imports. Only businesses registered under GST can charge and collect GST. GST collected on output must be

remitted to the government. However, businesses are allowed to claim the input tax credit through the following mechanism and method:-

- i. GST collected on output (output tax) is deducted against the GST paid on input (input tax).
- ii. If there is excess, the amount shall be remitted to the government within the stipulated period.
- iii. If there is deficit, businesses can claim for refund from the government.

#### **What is input tax, output tax and input tax credit?**

Input tax is the GST charged on the purchase of goods and services used in the business activity. Output tax on the other hand, is GST charged and collected on sales/supplies of goods and services. Input tax credit means tax input claimable by businesses registered under GST.

#### **What are standard rated, zero rated and exempt supplies?**

Standard rated supplies are taxable supplies of goods and services which are subject to the standard rate. Zero rated supplies are taxable supplies which are subject to a zero rate, that is not liable to GST at the output or input stage. Exempt supplies are non taxable supplies which are not subject to GST at the output stage that is, when supplied to the consumer. However, the GST paid on input by the businesses cannot be claimed as tax credit.

#### **Who will collect GST and remit to the government?**

GST can only be collected by persons who are registered under GST and the tax shall be remitted to the government within the stipulated period.

#### **How will the government ensure that the business will remit the right amount of tax collected to the government?**

To ensure that businesses remit the right amount of tax, the government will conduct an early detection program through desk audit and transaction audit on the tax returns submitted by businesses for every taxable period. The GST audit team will conduct field audit on records and accounts of businesses to ensure there is no tax manipulation by businesses. Besides that, the GST risk assessment system, a computerized checking system, will trigger alerts relating to high risk cases.

#### **Will the GST rate be increased in the near future like what has been done by the Singapore government?**

The main objective of the government is to ensure the smooth and efficient implementation of the GST. The government has no plans to increase the GST rate like what has been done by the Singapore government. The government is concerned and always take into consideration the interest and welfare of the rakyat before making any policy changes. It is important to note that even though the sales tax was implemented since 1972, the rate has been increased only once in 1983, whilst the rate of service tax has never been increased since its introduction in 1975.

#### **Are all goods and services subject to GST?**

In principle, GST is imposed on all goods and services produced in the country including imports. However, certain basic foodstuff likes rice, sugar, flour, cooking oil, vegetable, fish and meat, eggs and essential services such as health and private education, public transportation, residential property and agricultural land are not subject to GST. Such exemption is to ensure that the lower income group is not burdened by GST.

#### **Will GST lead to inflation?**

The Ministry of Finance has conducted price impact studies to see the effect of GST implementation on 729 types of consumer goods and services from 95 industries. These studies showed that based on the GST rate of 4%, the Consumer Price Index is expected to decrease by 0.10%.

#### **What benefits do businesses get from GST?**

In principle, the GST is not a cost to business as the GST paid on the business inputs can be claimed as tax credit. As such, it is estimated that the cost of doing business will decrease by an amount of RM4.3 billion inclusive of a saving of RM1.4 billion by exporters on their business inputs. The reduction in the business costs will make the local products and services more competitive in the domestic and international markets. In addition, the GST is expected to improve tax compliance and is easier to administer due to its self-policing feature. With GST, bureaucracy in the government's delivery system will be significantly reduced.

#### **What benefits will the rakyat get?**

Based on a GST rate of 4%, it is expected that there will be a price reduction between 0.08% to 2.71% in respect of eight components of goods and services. With this price reduction, the yat will benefit from the cheaper goods and services such as clothing and footwear, basic food, communication, furnishings, hardware and maintenance, transport, housing, water, electricity, gas and fuel. The tax burden borne by the rakyat and consumers is expected to be lower compared with that under the present tax system. This is due to the reason that various basic needs such as rice, sugar, flour, cooking oil, vegetables, fish, meat, eggs, and essential services such as public transport, private education and health, residential properties and agricultural land are not subject to GST.

#### **Do all businesses need to be registered under GST?**

Only businesses with annual sales turnover of RM500,000 and above are liable to be registered under GST. Businesses having an annual sales turnover of less than this amount are not liable to be registered under the GST. However, such businesses can apply for voluntary registration.

**ONLINE GST COURSE**  
**CLICK HERE**

Online GST Course 1  
**What is GST**

[www.gstmalaysia.org](http://www.gstmalaysia.org)

Online GST Course 2  
**Accounting for GST**

Kursus GST Online  
**Apakah GST**

**START NOW**

#### **Why is the threshold fixed at RM500, 000?**

The annual threshold is fixed at RM500,000 to ensure that the small businesses are GST-free and are not required to bear the costs of registration (start-up cost and compliance cost) under the GST. Based on studies, it is estimated that about 78% of the total business establishments will not fall within the GST system. As such the consumers has the choice of making their purchases of basic needs from the businesses which do not charge the GST. Indirectly, the consumers especially the rakyat residing in the rural areas will not be burdened by the GST.

#### **How to determine whether the threshold of RM500,000 has been reached?**

The calculation of the threshold shall be determined based on the following method:

Method 1 Calculation based on the sales records for the preceding 12 months.

Method 2 Calculation based on the estimated sales for the next 12 months.

#### **If the threshold has not reached RM500,000, is it possible to register for GST?**

Businesses which have not reached the threshold can voluntarily apply to be registered under the GST. However, once registered, the businesses must remain in the system for at least 2 years.

#### **Can registration be done online?**

The government encourages online GST registration. However, manual registration is also available.

#### **How to apply for GST registration?**

Online application can be made by accessing the form from the GST website. For manual application, the application form can be obtained from any Customs Office or downloaded from the GST website.

#### **Where and when application for GST registration can be made?**

Businesses which have reached the RM500,000 threshold shall apply for registration within 28 days from the end of the month in which the threshold is reached. Applications for manual registration shall be submitted to any nearest Customs Office. Online applications can be submitted direct to the One Stop Processing Centre. Online applications can also be made by using the computer and internet facilities provided at all GST offices nationwide.

#### **Is there a registration charge for GST registration?**

There is no charge for the GST registration processing.

#### **Are exports of goods and services subject to GST?**

Exports of goods and services are not subject to GST (subject to tax at zero-rate) to ensure that exports are more competitive in the international market.

#### **Are farmers required to register under the GST?**

The scope of charge of GST extends to all sectors of the economy including the agricultural activities. As such, farmers are also required to be registered under the GST subject to the threshold that has been stipulated. However, where the agricultural products are goods not subject to GST (subject to tax at zero-rate), the farmers can request to be exempted from registration.

#### **Are fishermen required to be registered under the GST?**

The scope of charge of GST extends to all sectors of the economy including the fisheries activities. As such, fishermen are also required to be registered under the GST subject to the threshold that has been stipulated. However, where the fisheries products are goods not subject to GST (subject to tax at zero-rate), the fishermen can request to be exempted from registration.

#### **How is the government going to control prices?**

The government will take stern measures to ensure that the businesses do not take advantage of the GST implementation to increase prices of goods to make excessive profits. Measures to be taken by the government include introducing the Anti Profiteering Act, intensifying enforcement action through the National Pricing Council, distribution of Shoppers' Guide, as well as making the hypermarkets act as price setters. Heavier fines and penalties will be imposed to make sure that the businesses comply with the rules and procedures formulated. These measures are aimed at changing the profit-centred attitude and unethical practices of the businesses.

#### **Are the NGOs subject to GST ?**

The NGOs will be subject to the GST if they are involved directly in any business activity of making taxable supplies.

#### **Are charities subject to GST?**

Charitable institutions such as the institutions of disabled persons, orphanages and home for the senior citizens will not be subject to the GST where the services provided are solely for the members of the institutes only and there is no payment in return. Where the activities conducted by the charitable institutions are profit motivated, such institutions shall have to register under the GST.

#### **Is it true that GST will generate an additional revenue of RM 1.0 billion compared with the existing sales tax and service tax?**

The main aim of the government in introducing the GST is to make the tax system more effective, efficient, transparent and business friendly. Basically, the imposition of the GST at the rate of 4% will not bring about increase in revenue of RM1.0 billion. The increase in revenue will be realized by having an effective and efficient GST system where there is increase in tax compliance and the resurfacing of businesses from the informal sector. Apart from this, the government will also institute various fiscal measures to increase the national revenue.

#### **What are the measures undertaken by the government to assist the SMEs during the GST implementation?**

The government will ensure that the implementation of the GST will not result in negative impact on the development of SMEs. In its effort to assist the SMEs, the government will conduct comprehensive training and education programmes for all SMEs nationwide. This programme will be conducted jointly by the Ministry of Finance and SME Corp. The government is also planning to provide GST accounting software packages in CD form to SMEs that do not have their own accounting systems.

### **Will sales tax and service tax still be enforced with the implementation of GST?**

The implementation of GST will replace the present Sales Tax and Service Tax. As such, both type of taxes will be abolished on the date of the implementation of GST.

### **What are the measures undertaken by the government to ensure a smooth GST implementation?**

The government will give the businesses ample time to be ready for GST implementation. GST awareness and education programmes will be conducted on an on-going basis until the GST is implemented. In its effort to disseminate GST information to the general public, the government has set up a Customs call centre which will be operational at Kelana Jaya, Selangor. In addition, various industry guides will be issued as guidance to the industries relating to the GST treatment and procedures pertaining to specific industries. The Customs Department will conduct visits to business premises to provide assistance and advisory services to ensure that businesses fully understand the GST rules and procedure. The government will also ensure that the GST computerization system is fully operational before the GST implementation. The test run for the pilot project relating to the early registration process will be conducted six months before the GST implementation date.

### **Is the government machinery ready to implement GST?**

The government is ready to implement GST at any time. Presently the related government machinery such as the Ministry of Finance, the Customs Department, the Ministry of Domestic Trade, Co-operatives and Consumerism has taken steps to prepare the requirements for the GST implementation comprising the legislation, computer system development, logistics and infrastructure preparation, training and publicity including reorganisation.

### **Who will administer the GST?**

The government has decided that the Royal Malaysian Customs Department (RMC) manages and administers the GST to be implemented in Malaysia.

### **What are the measures to be taken by the government to deal with issues of non-compliance and fraud?**

To deal with the issues relating to non-compliance and fraud, various approaches will be used by the government as follows: Risk assessment programme to identify types of businesses and persons with high tendency to commit non-compliance and fraud which includes programmes for the strict enforcement of the law through the imposition of heavy fines and penalties; Comprehensive audit programmes to audit business records and accounts; and Enhancement of the knowledge and expertise of the officers of the Customs Department in specific skills such as accounting, finance and law as well as equipping them with advanced audit techniques and methodology including the usage of forensic accounting and intelligence. Besides this, it is also pertinent to engage in information sharing with other enforcement agencies. With the approaches and methods stated above, it is anticipated that non-compliance and fraud activities will be reduced significantly.

### **When do I need to register?**

We will decide on the date when the Bill passes through Parliament. We anticipate opening registration as early as June 2006. Log on to this website or look out for announcements in the newspapers.

### **I have a small retail shop. I don't keep many records. How will I cope with GST?**

GST is not such a big change to your usual way of running your business. We have a section on Accounting for GST which should be able to help you with the new format. Additionally, do use our many channels to forward any specific questions to us, via email, call center or online chat with Taxpert.

### **I work on a freelance basis. Do I need to register for GST?**

Yes, you need to register if your annual turnover is above the threshold.

### **I don't think I can be ready for the GST implementation date. Will I be penalized if I cannot arrange my accounts in time?**

We are optimistic that all businesses will be GST-ready by the time GST is launched. To achieve this, KDRM is providing you with many links and resources to understand GST and seek assistance. Explore our Resources section to see what they are.

### **The goods I sell are all exempted. Can I still register voluntarily to claim GST credit?**

Yes, you may register voluntarily. To understand the advantages and obligations, read the Voluntary Registration section.

### What happens to my GST account if my supplier goes bankrupt and cannot pay me?

In this situation, you would have been left with a bad debt. The GST portion of the bad debt will be refunded subject to these conditions:

- The tax is already paid
- The whole or any part of the consideration for the supply has been written off as bad debt
- The claimant has not received any payment one year after the GST is paid
- KDRM is satisfied that all reasonable efforts have been made by the claimant to recover the debt.

The refund is done through an adjustment to the input tax in any taxable period. Any payment recovered after the adjustment shall be deemed as a taxable supply and shall account as an output tax.

**ONLINE GST COURSE**  
**CLICK HERE**

Online GST Course 1  
**What is GST**

[www.gstmalaysia.org](http://www.gstmalaysia.org)

Online GST Course 2  
**Accounting for GST**

Kursus GST Online  
**Apakah GST**

**START NOW**

## [Online GST Courses](#)

For more information, go to

[www.gstmalaysia.org](http://www.gstmalaysia.org)