GST Chat

Keeping you up to date on the latest news in the Indirect Tax world

June 2018

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Key takeaways:

Filing your GST Returns for the taxable periods from June to August 2018

Greetings from Deloitte Malaysia's Indirect Tax team

Dear readers, welcome to the June edition of GST Chat.

At the start of 1 June 2018, we saw the reduction of the standard rate of GST from 6% to 0%. The first step towards the eventual abolishment of GST is expected to be by end of August 2018.

Separate to this, Malaysia Prime Minister Tun Dr. Mahathir Mohamad has announced that the Sales Tax and Service Tax ("SST") will be reintroduced from 1 September 2018. As of now, there is no real information available on the scope and application of the new SST, other than that it would be broader than the previous version and would likely incorporate some of the efficiencies from the GST.

The first sitting of the Malaysian Parliament is scheduled for 16 July 2018 and we expect to see a bill introduced soon after covering the reintroduction of the SST and the abolishment of the GST. Whilst we are hopeful for more details on the new regime being released in the next few weeks, in the worst-case scenario, businesses may only have 6 weeks to get ready. However, we would recommend that you start making preparations in anticipation for this change to your best extent.

In the interim period between the GST rate adjustment and the introduction of the SST, there is an effective consumption 'tax holiday' for the next few months. The Government hopes that this will increase sales in the retail sector and boost the economy. In line with this belief, they have broadened the scope of the rules dealing with anti-profiteering to cover the sale of all goods and services. With these changes, we have already seen some audit activity and have received indications that this will be a key focus of the authorities in the coming months. You can find more details in our alert here.

Finally, the Government and the authorities are likely to release more information next month of the GST 'Final Audit' program which would cover the audits of most, if not all, GST registrants as part of the closure of GST. We would advise businesses to be prepared and ensure that adequate steps are taken prior to any audit by the Royal Malaysian Customs Department ("RMCD").

Other news that may interest you:

- 82% of Malaysian consumers are optimistic about the country's economic outlook and perceive the recent government initiatives, such as the reduction of GST to 0% as being good for consumers, according to a survey conducted by Nielsen Malaysia. Based on the RM42 billion GST revenue collected in 2017, Malaysians have paid about RM3.5 billion on average for the consumption tax monthly. Now that SST will only be introduced on 1

September 2018, it is expected that Malaysian consumers have an extra RM3.5 billion to spend per month from June to August 2018.

- RHB Research stated that although the new rate of SST has not been announced, there is indication that it may follow the old rate of 10%. It is anticipated that the new SST will be a hybrid version with certain elements borrowed from GST being planned by the Government to allow some form of tax claims by businesses to increase efficiency and to lower the cost of doing business.

Please do not hesitate to contact us if you have any queries, comments or require our assistance on any GST matters or the transition to SST. Please click here for our service offerings on the transition from GST to SST and for our assistance on the new Anti-Profiteering Regulations please click here. You may also click here for our alert on the recent updates from the RMCD.

Kind regards,

Tan Eng Yew
Indirect Tax Country Leader

Filing your GST Returns for the taxable periods from June to August 2018

Following the announcement on the change of GST rate to 0%, there has been a lot of discussion on how businesses ought to be completing their GST return for the taxable periods from 1 June 2018 to 31 August 2018. With all the uncertainty surrounding what should be done, we have prepared some tips and pointers below on what you can consider in filing your GST Return during this transitional period from GST to SST.

General pointers on GST Returns filed for taxable periods beginning 1 June 2018

Reporting of supplies made and accounting output tax

Effective 1 June 2018, the GST rate for standard-rated supplies has been amended to 0%. Businesses should take into consideration the transitional provision, more specifically Section 66 of the GST Act 2014, where the previous standard rate of 6% is to be charged based on the higher of value of payment received or services performed before the effective date 1 June 2018. Section 66 also overrides Section 11 of the GST Act, which states that the date of the tax invoice does not determine which GST rate to be charged. Ultimately, this means that not all tax invoices issued by businesses after 1 June 2018 onwards will be at 0%.

Further, although the standard rate is now changed to 0%, GST registrants are required to declare the value of standard-rated supplies made at 0% in field 5 (a) of the GST Return.

Reporting of standard-rated acquisition and claiming of input tax

As the standard rate of GST being reduced to 0% on 1 June 2018, GST registrants may find themselves acquiring standard-rated supplies at 0%. Based on the latest FAQ, the RMCD has clarified that the value of 0% standard-rated acquisitions will need to be reported under field 6 (a) in the GST Return.

As the value of standard-rated acquisition is required to be declared, GST registrants would need to consider whether they need to track and declare other acquisition which include:

a) Tax invoices received which are invalid;
b) GST incurred for acquisitions which the business decides not to claim;
c) Blocked input tax items;
d) Acquisitions which are previously categorised as zero-rated supply (e.g., importation of medicines, purchases of books); or
e) Acquisitions which are previously given GST relief.

We are of the view that since there are no clear guidelines from the RMCD, businesses should continue to maintain their current processes and track these acquisitions in order to avoid the fluctuation of the standard-rated acquisitions in the GST Return. As for the transactions mentioned in d) and e) above, businesses will need to declare them under field 6 (a) of the GST Return since the GST Zero Rated Order 2014 and GST Relief Order 2014 are no longer valid.

Reporting of reverse charge

In the latest FAQ released by the RMCD, the RMCD has adopted the position that for any invoice received from 1 June 2018 onwards, the recipient should determine the value of services up to 31 May 2018 and reverse charge will need to be accounted for at the rate of 6%.

We are of the view that this position taken by the RMCD is not consistent with the time of supply rules that apply to imported services in Section 13 of the GST Act 2014. Section 66 of the GST Act 2014 which deals with the change in rate only ignores the time of supply rules applying to local supplies under Section 11 and not imported services under Section 13 of the GST Act 2014. However, the RMCD appears to view otherwise and so businesses should take note of the prevailing RMCD's view and then decide on the most appropriate approach to take for their reporting purposes.

Moving forward, even though the GST treatment on the importation services is at 0%, imported services are still required to be declared in field 5 (a) and 6 (a) of the GST Return as it is a standard-rated acquisition at 0%.

Reporting of supplies in designated areas and free zones

In the latest FAQ, the RMCD has updated their view and consider supplies made in designated areas and within free zones to be not chargeable to GST (i.e., disregarded supplies) and would need to be reported in field 15 of the GST Return.

Reporting of supplies under special schemes

The RMCD has clarified that GST registrants who are under special schemes that are due to expire will not have their special schemes renewed and any new application from 1 June 2018 will not be processed.

Registrants who are impacted and are no longer covered by the special scheme would need to report those supplies as 0% standard-rated supplies under field 5 (a) or 6 (a) of the GST Return accordingly.

Reporting of non-standard-rated supplies, e.g., zero-rated/exempt/export/relief supplies

The GST Relief Supply Order 2014 and the GST Zero Rated Supply Order 2014 has been revoked effective 1 June 2018. In light of that, supplies which previously qualified as zero-rated or relieved under the relevant Order would now be subject to GST at standard rate of 0%. These supplies would be reported in field 5 (a) of the GST Return.

The GST Exempt Supply Order 2014 has not been revoked and as such, all exempt supplies including the incidental financial supplies values must continue to be declared in field 12 of the GST Return.

The GST treatment for exported goods under Section 17 of the GST Act 2014 and the GST relief under Section 56 of the GST Act 2014 remain unchanged, hence such supplies should continue to be declared in field 11 of the GST Return.

Reporting of "other" supplies

The declaration of the total value of other supplies in field 15 of the GST Return is still required as no changes have been made to the relevant laws that require the reporting of these values.

Other matters relating to GST declaration

a) GST documentation requirement

It should be note that the GST legislation is still in place and as a result, the requirement for documentation compliance is still in force. GST registrants are still required to issue valid tax invoices in respect of standard-rated supplies made. Having taken into consideration the time of supply mentioned above, tax invoices issued after 1 June 2018 should now incorporate standard-rated GST at 0% (including supplies that were previously zero-rated or subject to relief).

Similarly, any adjustments of taxable supplies would also need to be adjusted through the issuance of a valid credit note or debit note in accordance with the GST Regulations 2014. Where the documentation relates to the adjustment of supplies transitioning the GST rate of 6% to 0%, GST registrants will have to exercise care in apportioning the supplies between the two applicable rates.

For instance, if there are reduction in supplies made prior to 1 June 2018 such as for goods returned, a credit note is to be issued to adjust the supplies that were charged with GST at 6%. If the reduction relates to supplies spanning 1 June 2018, such credit notes would need to distinguish clearly between the proportions of the supplies that are subject to the standard rate at 6% and the standard rate at 0%. This is in line with the requirement of the GST legislation that requires the rate and amount of tax to be shown on the credit note.

b) Declaration in GST return for negative values

Where there are adjustments of supplies through issuance of credit notes to customers or reductions of acquisitions from credit notes received from suppliers which may have resulted in a negative value in field 5 (b) and 6 (b) of the GST Return, businesses are required to reflect the values in the appropriate corresponding field. The RMCD has clarified that negative values in field 5 (b) shall be adjusted using the "AJP" code and reflected in field 6 (b) of the GST Return. On the other hand, the negative values in field 6 (b) shall be adjusted using the "AJS" code and reflected in field 5 (b) of the GST Return.

c) Bad debt relief

The RMCD has mentioned in the latest FAQ released that the claiming of bad debt relief will be subject to the original conditions prescribed in the GST law to make such claims. In light of that, GST registrants are still required to meet all the requirements in accordance with the GST legislations. If the GST registrant is to make a bad debt relief claim, the declaration in fields 17 and 18 of the GST Return is still applicable.

In instances where bad debt relief has been claimed before 1 June 2018 and payment was received after 1 June 2018, the RMCD has prescribed that the adjustment of the bad debt relief should follow the GST rate of the original relief claimed which is at 6%.

Where payment has not been made to the supplier after the lapse of the 6-month time period, businesses are required to repay any input tax credit claimed previously on these acquisitions. Where a reversal of input tax credit has been made by the GST registrant and payment to the supplier is only made post-1 September 2018, the GST registrant may not be able to claim the input tax credit subsequently when the new tax regime is in place.

d) Partial exemption and capital goods adjustment

As the GST Act and Regulations are still in force, a mixed supplier would still need to comply with the annual adjustment and capital goods adjustment requirement. This is particularly applicable to those businesses where the adjustments is done between June 2018 to August 2018, where the businesses are required to make the necessary adjustments and declaration in filing their GST Return.

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