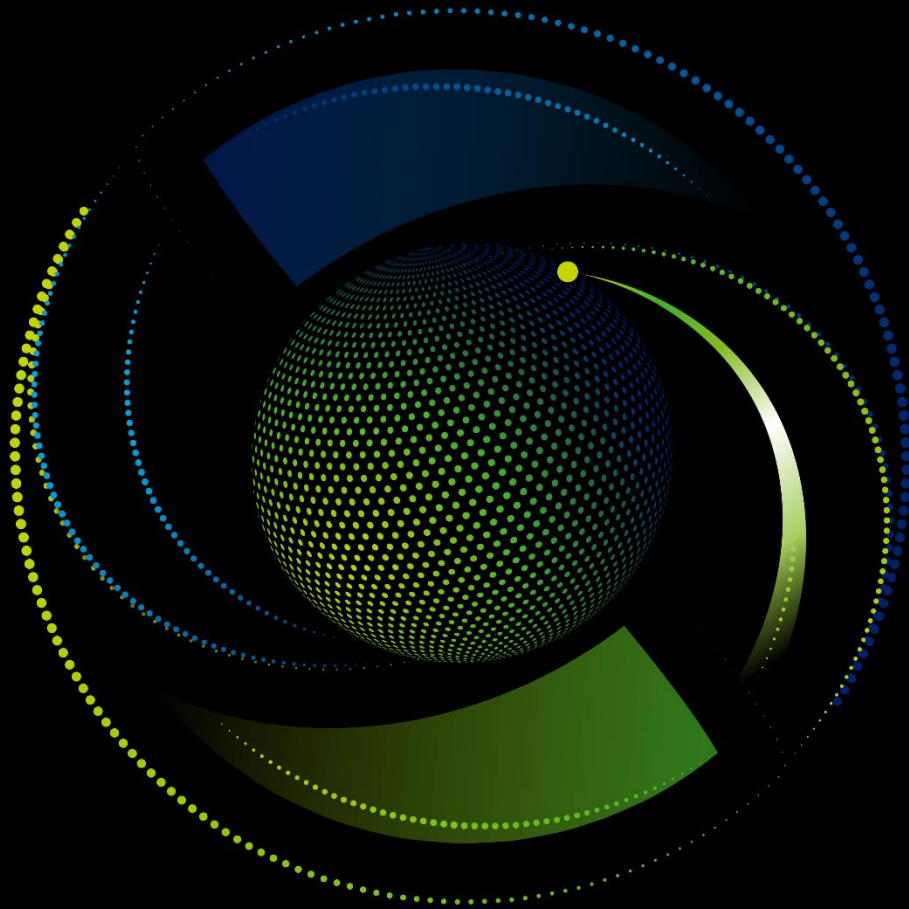


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Indirect Tax Chat

Keeping you updated on the latest news in the Indirect Tax world

February 2024



Issue 02.2024

Quick links: [Contact us - Our Indirect Tax team](#)

Key takeaways:

1. [Guide on the Transition of Service Tax Rate Change from 6% to 8%](#)
2. [Guide on transitional rules for the change in service tax rate to 8% on digital service provided by foreign registered person](#)
3. [Guide on Logistic Services](#)

Greetings from Deloitte Malaysia's Indirect Tax team

Greetings readers, and welcome to the February 2024 edition of our Indirect Tax Chat.

The legislation underpinning several of the previously announced, and some unannounced changes to the service tax were released in the past week. The legislation covers the service tax rate change and also the expansion of taxable services. The former takes effect on 1 March 2024, whilst the latter on 26 February 2024. We have included links to the relevant legislative amendments further below:

- [Service Tax \(Amendment\) Regulations 2024](#)
- [Service Tax \(Rate of Tax\) \(Amendment\) Order 2024](#)
- [Service Tax \(Rate of Digital Services Tax\) \(Amendment\) Order 2024](#)



We recently conducted a joint webinar with the Royal Malaysian Customs Department (“RMCD”), with Puan Roszita binti Dim (Deputy Director, International Taxation Branch) sharing her insights on the upcoming changes.

In addition to the service tax changes, there was also critical information released by the Inland Revenue Board of Malaysia (“IRBM”) in relation to the implementation of e-invoicing. In particular, updated e-invoice guidelines and the much anticipated “software development kit” were released.

In this month’s chat, we will be discussing the service tax guide on the transition from 6% to 8% rate, the guide on transitional rules for the change in service tax rate to 8% on digital services provided by foreign registered persons, and the guide on logistics services.

Additionally, here are some recent news that may interest you:

- The Malaysia Budget & Business Hotel Association’s (MyBHA) National President, Ganesh Michiel, said that hotel prices are expected to increase by up to 50% due to the cascading effects of the new service tax rate on the industry’s entire supply chain. For more information, please click [here](#).
- Google Workspace users in Malaysia recently received emails notifying of an increase in service tax rates from 6% to 8%, effective March 2024. This shift will impact users’ monthly payments and similar adjustments in service tax rates for other online services and gaming platforms are anticipated. For more information, please click [here](#).
- The Federation of Malaysian Manufacturers (FMM) President, Tan Sri Soh Thian Lai, expressed concern about the proposed logistics services to be subject to service tax. He emphasised the potential burdens on the entire logistics supply chain, affecting manufacturing operations and trade. For more information, please click [here](#).

We hope that you continue to stay safe and well.

Best regards,

Tan Eng Yew

Indirect Tax Leader

1. Guide on the Transition of Service Tax Rate Change from 6% to 8%

On 26 February 2024, the RMCD issued the [Guide on the Transition of Service Tax Rate Change](#), which is available in the national language only. As such, the guide can only be accessed via the national language (Malay version) of the MySST portal.

The salient points covered under the guide are highlighted below:

A. Changes to Service Tax Rate and Expansion of the Scope of Service Tax

- The service tax rate will be increased from 6% to 8% on all taxable services under the First Schedule [Regulation 3] to the Service Tax Regulations 2018 (“STR 2018”) starting 1 March 2024, except for the following taxable services which will remain taxed at 6%:

Types of taxable service	Category under First Schedule to the STR 2018
Food and beverage	Group B
Telecommunication	Item 2, Group I
Parking operator	Item 4, Group I

- The following services will be included as taxable services, with the respective rate:

Types of services	Service tax rate	Effective date	Service tax rate	Effective Date	Category under First Schedule to the STR 2018
Karaoke center	6%	26 February 2024	8%	1 March 2024	Group C
Repair and/or maintenance services	6%	26 February 2024	8%	1 March 2024	Item 13, Group G
Brokerage and underwriting services (excluding financial services)	6%	26 February 2024	8%	1 March 2024	Item 12, Group I
Logistic services	6%	26 February 2024	No changes		Group J

B. Overview of the Service Tax Rate Change

Provision of taxable service:		Service tax rate:
i. Before 1 March 2024		6%
ii. Entirely on or after 1 March 2024		8%
iii. Spans across periods both before and after 1 March 2024		Apportion The proportion of the service provided before 1 March 2024 is subject to 6%, while service provided after 1 March 2024 is subject to 8%.
Note: If payment is received before 1 March 2024, to the extent the payment relates to services performed after 1 March, the service tax rate remains at 6%, regardless of the service date.		
Acquisition of imported taxable service:		Service tax rate:
i. Before 1 March 2024		6%
ii. Entirely on or after 1 March 2024		8%
iii. Spans across periods both before and after 1 March 2024		Apportion The proportion of the service acquired before 1 March 2024 is subject to 6%, while service acquired after 1 March 2024 is subject to 8%.

C. Determination of Service Tax Rate during the Transition Period for Provision of Taxable Service

The guide provides guidance in determining the applicable service tax rate for scenarios where taxable services are provided before, on or after, and spanning before and after 1 March 2024.

i. Provision of taxable service before 1 March 2024

Taxable service provided		Invoice issued		Payment received		Service tax rate
Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	
✓		✓		✓		6%
		✓			✓	
		✓	✓	✓	✓	

ii. Provision of taxable service entirely on or after 1 March 2024

Taxable service provided		Invoice issued		Payment received		Service tax rate
Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	
	✓	✓		✓		6%
	✓	✓			✓	8%
	RM 10,000	RM 10,000		RM 4,000	RM 6,000	6% x RM 4,000 8% x RM 6,000

iii. Provision of taxable service spanning across periods both before and after 1 March 2024

Taxable service provided		Invoice issued		Payment received		Service tax rate
Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	
RM 2,000	RM 10,000	RM 12,000		RM 12,000		6% x RM 12,000
RM 2,000	RM 10,000	RM 12,000			RM 12,000	6% x RM 2,000 8% x RM 10,000
RM 6,000	RM 30,000	RM 36,000		RM 18,000	RM 18,000	6% x RM 18,000 8% x RM 18,000
RM 6,000	RM 30,000	RM 36,000			RM 36,000	6% x RM 6,000 8% x RM 30,000

D. Determination of Service Tax Rate during the Transition Period for Taxable Betting and Gambling Services

For betting and gambling services, any payment received by the service provider, whether in the form of money, chips, vouchers, or other forms, including free chips or vouchers, for taxable betting and gambling services provided on or after 1st March 2024, shall be subject to service tax at the prevailing service tax rate at the time when the service tax becomes due and payable.

E. Determination of Service Tax Rate during the Transition Period for Imported Taxable Services

The guide provides guidance in determining the applicable service tax rate for scenarios where imported taxable services are acquired before, on or after, and spanning before and after 1 March 2024.

i. Acquisition of imported taxable service before 1 March 2024

Imported taxable service acquired		Invoice received		Payment made		Service tax rate
Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	
✓		✓		✓		6%
		✓			✓	
			✓		✓	

ii. Acquisition of imported taxable service entirely on or after 1 March 2024

Imported taxable service acquired		Invoice received		Payment made		Service tax rate
Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	
	✓	✓		✓		6%
		✓			✓	
			✓	✓		
			✓		✓	8%
	RM 10,000		RM 10,000	RM 4,000	RM 6,000	6% x RM 4,000
						8% x RM 6,000
	RM 10,000	RM 2,000	RM 8,000	RM 2,000	RM 8,000	6% x RM 2,000
						8% x RM 8,000

iii. Acquisition of imported taxable service spanning across periods both before and after 1 March 2024

Imported taxable service acquired		Invoice received		Payment made		Service tax rate
Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	Before 1 March 2024	On/after 1 March 2024	
RM 2,000	RM 10,000	RM 12,000		RM 6,000	RM 6,000	6% x RM 12,000
RM 2,000	RM 10,000	RM 4,000	RM 8,000	RM 4,000	RM 8,000	6% x RM 4,000 8% x RM 8,000

F. Issuance of Debit Note

With reference to FAQ 4 in the guide, if a remaining payment is received after the effective date of 1 March 2024, but the invoice is issued before 1 March 2024 with a 6% service tax rate, a debit note should be issued to the customer as an adjustment for the 2% increase for the remaining payment received after 1 March 2024. This debit note should be accounted for in the SST-02 return at the time the debit note is issued.

Deloitte's comments

Businesses are to update changes in the service tax rate in their system and conduct a comprehensive review to ensure accurate compliance with the Service Tax Law. Businesses are advised to ensure that the correct service tax rate is elected during the preparation of SST-02 return during the transition period.

The guide provides clarity on the timing for issuance of debit note in relation to the 2% tax rate increase for invoices issued prior to 1 March 2024. However, there is an uncertainty on which value that businesses would need to declare in the SST-02 return (i.e., either the base value, incremental service tax value, or both). We also note that the effective date for the new taxable services stated in the guide are not in accordance with the STR 2018.

There are also uncertainties on how the MySST system will accommodate the increase in service tax rate. We hope that RMCD will provide clarification on this matter.

Brought to you by:



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2. Guide on Transitional Rules for the Change in Service Tax Rate to 8% on Digital Service Provided by Foreign Registered Person

On 14 February 2024, the RMCD uploaded the guide on transitional rules for the change in service tax rate to 8% on digital service provided by foreign registered person (“the guide”), which is accessible [here](#).

The salient details of the guide are as follows:

- i. The service tax rate for digital service provided by foreign registered person (“FRP”) increased from 6% to 8%, effective 1 March 2024 (“the effective date”).
- ii. Service tax on digital service is due at the time when payment for digital service is received by the FRP. Only if approval is granted, service tax is due at the time the invoice is issued by the FRP.
- iii. Generally, the rate of service tax to be imposed by FRP during the transition period would depend on when the digital service is provided and when payment is received from the customer. The following transitional rules are applicable to the implementation of tax change for digital services provided by FRP:
 - a. Where the digital service is provided before the effective date and the service tax for the related digital service is due before the effective date, 6% service tax would be applicable.
 - b. Where the digital service is provided on or after the effective date and the service tax for the related digital service is due on or after the effective date, 8% service tax would be applicable.
 - c. Where the digital service is provided before the effective date and is spanning on or after the effective date, FRP is to apportion accordingly:
 - i. for the proportion of digital services attributed to the period before the effective date, service tax shall be charged at 6%; and
 - ii. for the proportion of digital services attributed to the period on or after the effective date, service tax shall be charged at 8%.
 - d. If services are provided on or after the effective date where full payment has been made before the effective date, 6% service tax would be applicable.
- iv. FAQ no. 2 & 3 outlined that regardless of the service tax accounting basis adopted by FRP (i.e., default payment basis or invoice basis), ultimately, the service tax rate to be imposed by FRP would depend on the payment receipt date. This means that the 6% service tax would still be applicable if the payment is received before the effective date for the services rendered after the effective date and vice versa.
- v. FAQ no. 4 states that for the provision of services spanning after the effective date (e.g., software subscription from 1 January 2024 to 31 December 2025), with the payment term is on a monthly basis, if payment is received before the effective date that relates to the proportion of digital service provided on or after the effective date, 6% service tax would apply. However, if the payment is received after the effective date, 8% service tax would be applicable.

- vi. FAQ no. 5 states that FRP is to charge service tax at 6%, provided that full payment is received before the effective date (e.g., 29 February 2024), even if the provision of services (e.g., software subscription) takes place after the effective date (from 1 March 2024 to 28 February 2025).

Deloitte's comments

Although this guide did not shed light on the document to be issued to reflect the changes in the service tax rate, the service tax legislation provides that the foreign service provider is allowed to issue a debit note to adjust the invoice to reflect a change in the service tax rate. From a compliance perspective, businesses are to consider conducting a thorough review to ensure the correct service tax rate is elected during the preparation of DST-02 return during this transition period.

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3. Guide on Logistics Services

The RMCD has recently released the [Guide on Logistics Services](#) dated 26 February 2024 in the national language (Malay version). Please note that this guideline replaces the Courier Service Guide dated 21 August 2019 and the Warehousing Management Guide dated 6 October 2020 and is intended to be read in conjunction with the Guide on Customs Agent Services dated 9 August 2022.

We will discuss the salient details below.

Overview of Logistic Services

Any person who provides logistics services, delivery, distribution, or transportation services of goods, documents, or packages, including delivery, using the E-Commerce platforms on behalf of any person, courier services, and customs agent is categorised as a taxable person under Group J, First Schedule of the STR 2018 and subject to service tax with effect from 26 February 2024.

Taxable Services

The guide provides details on a list of services along with illustrated examples that would fall under the scope of taxable logistics services of Group J. The list of services is as follows:

(a) Logistics management

- Logistics management service defined as a logistics service provider that organizes and manages the entire process of delivering goods on behalf of others.

(b) Port and airport management

- Port and airport management services involve loading, unloading, cargo handling or storage services by the operator of a port or airport.

(c) Warehousing or warehousing management

- Warehousing management services refers to the services provided by the warehouse operator covering the arrangement and coordination of any activity provided to the client.

(d) Freight forwarding

- Freight forwarding services involve the provision of cargo arrangement and management services on behalf of shipping or flight companies. Freight forwarding services involve coordinating the entire process including the delivery of goods. Freight forwarders act as intermediaries between customers and other logistics service providers by managing various matters such as pricing, routes, and travel times.

(e) Shipping services

- Shipping services is the movement of vessels that carry container loads or cargo from one port to another port within Malaysian waters or outside of Malaysia.

(f) Flight services

- Flight services include loading, unloading of cargo, handling or storage services of goods by service providers.

(g) Cold chain facility

- Cold chain logistics services involve the transportation and storage of temperature-sensitive products through thermal and cold packaging methods.

(h) Delivery, distribution or transportation services of goods, documents or packages including delivery using the E-Commerce platforms on behalf of any person.

(i) Customs agent services for the release of goods from Customs control.

Exclusion of services

The guide also mentions that the following services under logistic services are excluded from service tax:

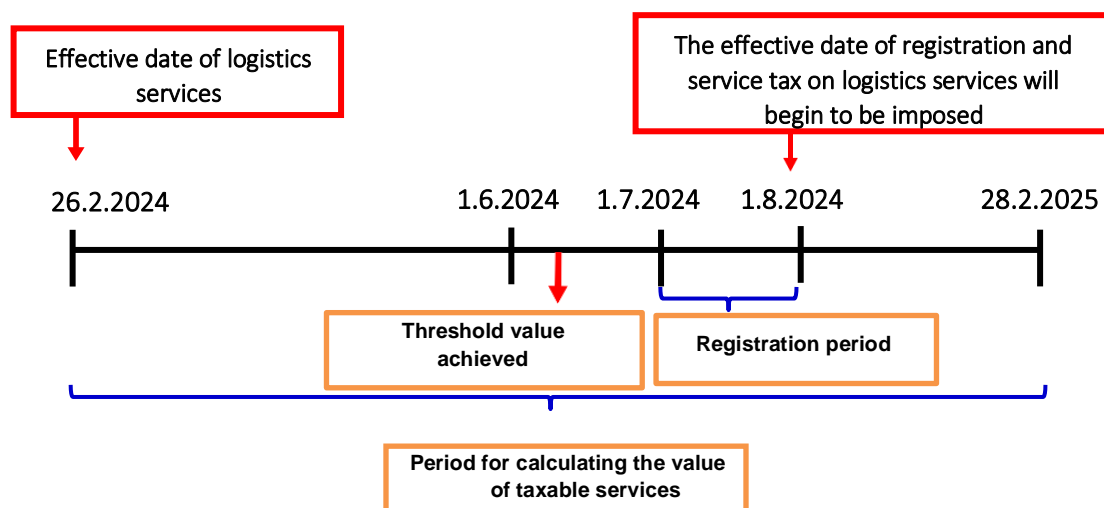
- 1) Delivery, distribution, or transportation services of goods, including courier services of documents, parcels, or items:
 - (a) from a place outside Malaysia to another place outside Malaysia;
 - (b) from a final exit point in Malaysia to a place outside Malaysia;
 - (c) from a place outside Malaysia to the first point of entry in Malaysia; or;
 - (d) arriving at customs port or airport in Malaysia for the purpose of transshipment or unloading:
 - (i) from one aircraft or vessel to another aircraft or vessel; or;
 - (ii) from one aircraft or vessel to a Customs warehouse or licensed warehouse or warehouse or other place approved by the Director General until the goods are loaded onto a vessel or aircraft for export from Malaysia.
- 2) Delivery of food or beverages provided by a food or beverage provider, including usage of the E-Commerce platforms, on behalf of any person.
- 3) Ancillary services that are not related to the transportation and delivery of goods under the port and airport management services:
 - (a) Addition of raw materials or stocks (ship stores)
 - (b) Supply of ship's spare parts (ship spares)
 - (c) Ship-to-ship transfer services
 - (d) Medical services
 - (e) Other services unrelated to the transport and delivery of goods

Threshold value of taxable services

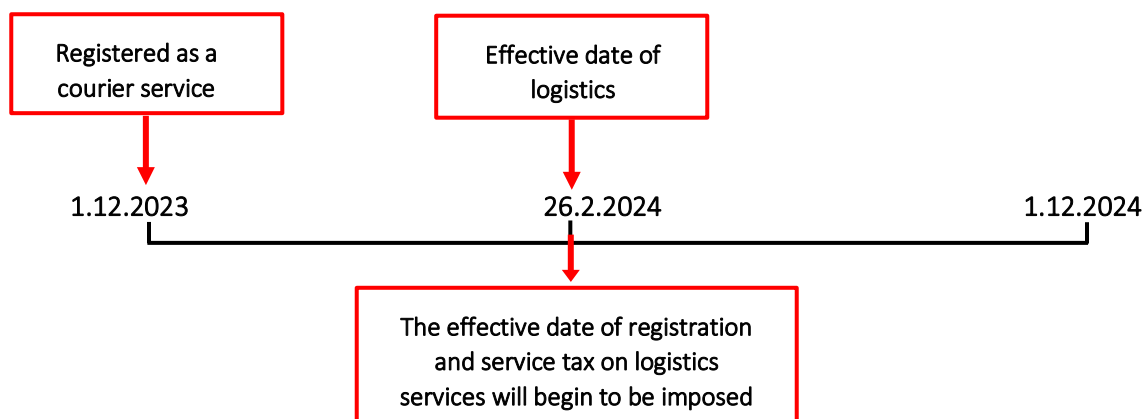
The threshold value for the purpose of mandatory registration under logistics services is RM500,000 for a total period of 12 month, not including customs agent services which have no value threshold.

Registration

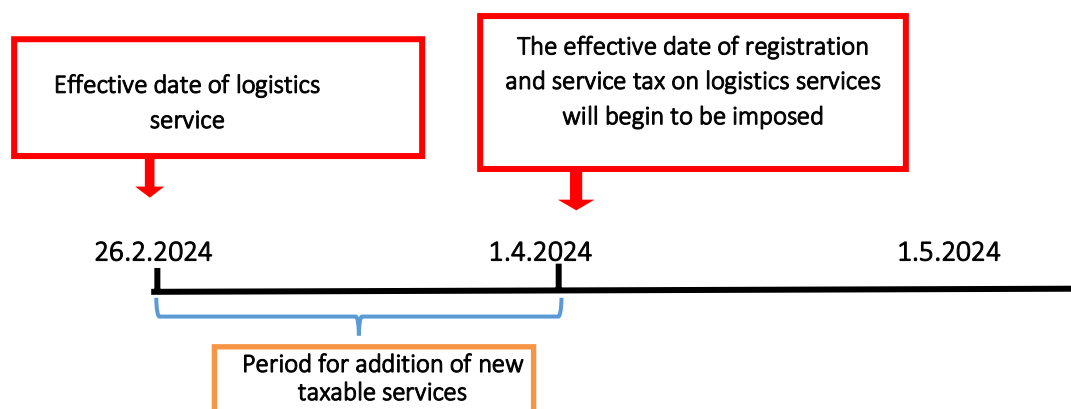
For registration purposes, any person who provides logistics services must calculate the total value of the service taxable given in the current and eleven preceding months. If the total value of the taxable service exceeds RM500,000, the application for registration of the taxable service must be requested no later than the last day of the following month.



Any person who provides logistics services and has become a registered person as a courier service provider, warehousing management, and customs agent before 26 February 2024, do not need to make a new registration. The registered person shall charge service tax on the logistic services effective from 26 February 2024.



Aside from a courier service provider, any individual or entity who is a registered person, warehousing management, and customs agent before 26 February 2024, and who provides logistics services where the value of taxable services for February 2024 and the subsequent eleven months are expected to exceed the set threshold value, must insert a new service (i.e. logistics services) in the MySST portal for the purpose of filing the SST-02 returns on 1 March 2024. Service tax on logistics services shall be charged from 1 April 2024.



Exemption from paying service tax

Registered persons who provide logistics services are eligible for service tax exemption if **all** the below conditions are met:

- The exempted taxable services are provided by registered persons;
- The recipient of the services are registered persons;
- The taxable service exempted is the same service provided by the person exempted from payment of tax; and
- The exempted taxable services acquired by the service recipient is not for personal use.

Transitional issues

Courier services, warehousing management, and customs agent are part of the logistics service, which are taxable from 1 September 2018. For other logistics services, it would be a taxable service with effect from 26 February 2024.

The transitional rules are the same as covered under paragraph 3A, STR 2018 if there is a change in any taxable service as specified in the First Schedule of the STR. There are specific scenarios of concern in the guide, as depicted below:

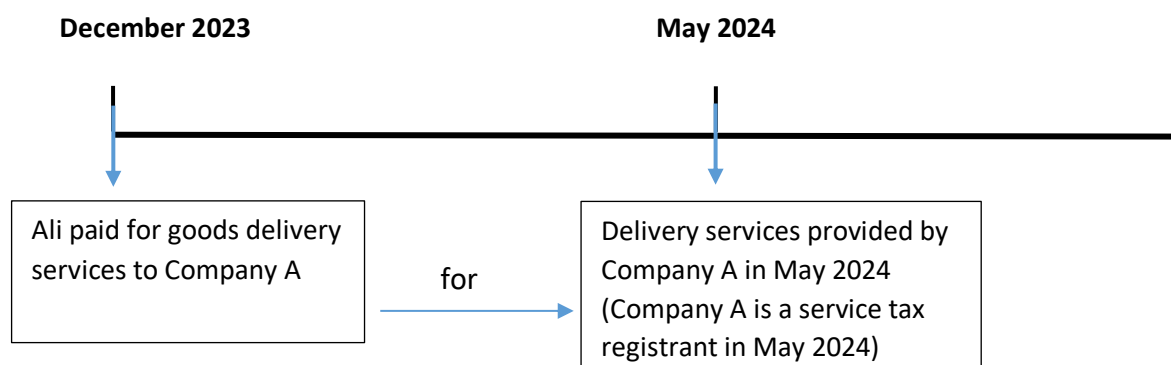
Illustration 1



Note: Payment is only made after the services are provided

It is worth highlighting that there is some discrepancy in the example provided in the guide regarding the scenario above i.e., Example 39 whereby, it is stated that goods delivery service from the period of October 2023 to February 2024 is not considered a taxable service meanwhile the delivery service for the period from March 2024 until end of contract is a taxable service. This inconsistency could possibly be due to an error, given that the draft guide dated 7 February 2024 previously indicated the effective date of service tax on logistics services as 1 March 2024.

Illustration 2



- As payment is made before 26 February 2024, the goods delivery services provided are not subject to service tax.

Deloitte's comments

In contrary to the announcement of the Malaysia 2024 Budget and the Draft Guide on Logistics Services dated 7 February 2024, the effective date for the imposition of service tax on logistic services mentioned in the Guide on Logistics Services dated 26 February 2024 is indicated as 26 February 2024. We also observe that the amendments in the Service Tax (Imposition of Tax for Taxable Service in respect of Designated Areas and Special Areas) Order 2018, gazetted on 26 February 2024, include the treatment of service tax for logistics services effective 1 March 2024. However, in STR 2018, the effective date for treating logistic services as taxable service is 26 February 2024.

Based on the definitions and examples provided in the guide, it is imperative for businesses to familiarise themselves with the scope of the tax during this transitional phase and devise strategies to effectively address the forthcoming changes, such as initiating communications with relevant stakeholders. While there are existing provisions in the law which tackle the transitional aspects, businesses would need to pay careful attention to understand on how these provisions come into play, particularly in view of the potential concessions introduced in the guide.

Despite these efforts, certain areas would still lack clarity, underscoring the importance of engaging with authorities and documenting findings as part of risk mitigation strategies.

Brought to you by:



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