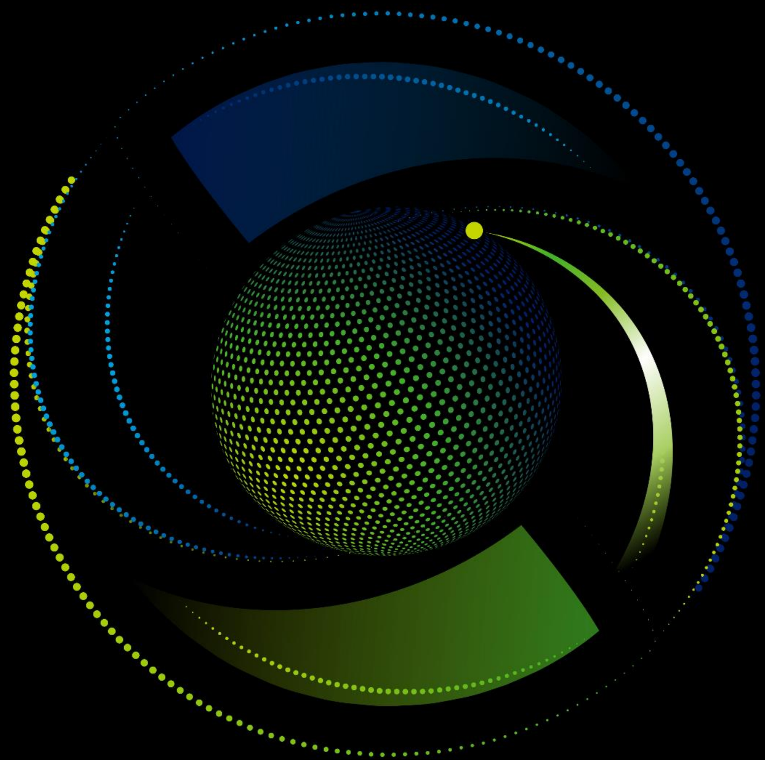
Deloitte.



Trusted. Transformational. Together.

Indirect Tax Chat

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

October 2024

MAKING AN IMPACT THAT MATTERS since 1845

ITR ASIA-PACIFIC TAX AWARDS 2024

Malaysia Tax Advisory Firm of the Year

Malaysia Indirect Tax Advisory Firm of the Year

Issue 10.2024

Quick links: *Contact us – Our Indirect Tax team*

Key takeaways:

1. *Public Ruling on Sales Tax Exemption on Manufacturing Aids and Cleanroom Equipment*
2. *E-Invoicing Initiative: Updates and Implications for Customs Compliance*

Greetings from Deloitte Malaysia's Indirect Tax team

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

The Malaysian Budget for 2025 was presented by the Malaysian Finance Minister, YAB Dato' Seri Anwar bin Ibrahim, in Parliament on Friday, 18 October 2024. A summary of the proposed indirect tax changes is included in our Budget Snapshot, which can be accessed here.

For the full year of 2024, indirect tax collection by the Royal Malaysian Customs Department ("RMCD") stood at RM63.9 billion, which is RM6.1 billion more than its 2023 collection of RM57.8 billion. For the year 2025, indirect tax collection is estimated to increase by 9.8% to RM 70.2 billion, in tandem with the full implementation of the new service tax rate. Sales tax and service tax ("SST") are projected to increase to RM20.8 billion and RM26 billion respectively. Meanwhile, in line with the expected pick-up in motor vehicle production in 2025, excise duties collection is projected to increase to RM13.8 billion. The Budget 2025 figures can be accessed here.

In this month's edition, we will discuss the public ruling on sales tax exemption on manufacturing aids and cleanroom equipment, as well as e-invoicing initiatives including the updates and implications for customs compliance.

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

- The proposed introduction of carbon tax in 2026 on the steel, iron, and energy industries addresses environmental concerns and support long-term economic goals. Deloitte Malaysia's country tax leader Sim Kwang Gek welcomed the initiative but called for clarification on dividend exemptions and suggested allocating funds to help small and medium enterprises ("SMEs") transition to green investments. For more information, please click here.

- As of 31 August 2024, the RMCD collected RM41.68 billion in revenue, surpassing last year's RM36.13 billion. Director-General Datuk Anis Rizana Mohd Zainudin attributed this success to strategic reforms, expressing confidence in meeting the RM56 billion annual target. The RMCD resolved 5,196 cases, seizing goods worth RM1.25 billion, and implemented 100 percent inspections of import and export containers alongside new technologies like AI-powered scanning machines. For more information, please click here.

- Prime Minister Datuk Seri Anwar Ibrahim stated that the Goods and Services Tax ("GST") will only be reintroduced once Malaysia's monthly minimum wage reaches RM3,000 to RM4,000. This aims to ensure the tax is applied fairly without disproportionately affecting lower-income groups. He emphasised the importance of economic growth and reforms, including addressing corruption, before bringing back the GST. For more information, please click here.

To all our readers celebrating, we wish you a joyful and Happy Deepavali /Diwali.

Best regards,
Tan Eng Yew
Indirect Tax Leader

1. Public Ruling on Sales Tax Exemption on Manufacturing Aids and Cleanroom Equipment

Further to the issuance of Sales Tax (Persons Exempted from Payment of Tax) (Amendment) (No. 3) Order 2023 ("the Order"), that expanded the scope of sales tax exempted goods under Schedule B and Schedule C of the sales tax exemptions by including "manufacturing aids and cleanroom equipment" as part of the exempted goods, the RMCD has released Sales Tax Public Ruling No. 2/2024 ("Principal Public Ruling") on 29 December 2023 and two subsequent amendments to the Principal Public Ruling (i.e. Sales Tax Public Ruling No. 2/2024 (Amendment) 2024 dated 24 April 2024, and Sales Tax Public Ruling No. 2/2024 (Amendment) (No. 2) 2024) dated 20 September 2024).

These Public Rulings are meant to provide taxpayers with further clarification on the sales tax exemption policy regarding the manufacturing aids and cleanroom equipment, and are only available in national language.

The salient points covered under the abovementioned Public Rulings are as follow:

Sales Tax Public Ruling No. 2/2024 dated 29 December 2024

1. This Principal Public Ruling came into effect on 1 January 2024.

2. Manufacturing aids and cleanroom are defined as:
    - Manufacturing aids refers to goods that are used in the manufacturing process to accelerate, improve, complement, or complete the production process of finished goods, but these manufacturing aids will not be incorporated into the finished goods i.e., will not form part of the finished goods.

    - Cleanroom is a controlled facility in a factory where pollutants such as dust, aerosol particles, airborne microbes, and chemical vapors are reduced to a minimum level.

3. Manufacturing aids that are granted exemption must be used in the manufacturing process of finished goods only and the following criteria must be satisfied:
    a) Used directly in the manufacturing process:
        i. Have physical contact with the finished goods that are to be manufactured; and
        ii. Does not form part of the finished goods.

    b) Not used directly in the manufacturing process:
        i. Have no physical contact with the finished goods;
        ii. Does not form part of the finished goods; and
        iii. Become an important element in the manufacturing process of finished goods.

4. Items that are not eligible to be categorised as manufacturing aids include stationaries and apparels, fuel used in the manufacture of finished goods, items used for maintenance and upkeep purposes, goods used for construction of factory including those that are part of the factory structure, and machinery, equipment and spare parts that have been granted sales tax exemption under item 55, Schedule A of the Order.

5. Cleanroom equipment exempted from sales tax is equipment that is used directly in the cleanroom that is characterised by electrostatic discharge (“ESD”) for the purpose of manufacturing finished goods.

6. Cleanroom equipment which is not eligible to be exempted from sales tax includes stationaries and consumable items, and are not goods or equipment for cleanroom construction except for the filter systems and cleanroom furniture that have ESD characteristics.

7. The lists of manufacturing aids and cleanroom equipment determined by the DG are appended in Appendix 1 and Appendix 2 respectively. For manufacturing aids and cleanroom equipment that are not listed in the Appendix 1 and Appendix 2, taxpayer is required to obtain written approval from the DG prior to applying for a sales tax exemption.

Sales Tax Public Ruling No. 2/2024 (Amendment) 2024 dated 24 April 2024

1. This amendment to the Principal Public Ruling has come into effect on 24 April 2024.

2. 5 new items have been added as approved manufacturing aids to the Appendix 1 of the Public Ruling, i.e., Perforated Kraft Paper, Food Grade Kf-100 White Mineral Oil, Plate Mounting Tape, Poly Tetrafluoroetilena, and Paperband.

Sales Tax Public Ruling No. 2/2024 (Amendment) (No. 2) 2024 dated 20 September 2024

1. This amendment to the Principal Public Ruling has come into effect on 20 September 2024.

2. The scope of approved manufacturing aids under Appendix 1 of the Principal Public Ruling have been further expanded to include 4 new items namely Blister Pack, Forming Fabrics, Press Felts, and Dryer Fabrics.

Deloitte’s comments

To enjoy the sales tax exemption under Schedule B or Schedule C of Sales Tax (Persons Exempted From Payment of Tax) Order 2018, taxpayers must ensure that the “manufacturing aids” and / or “cleanroom equipment” they intend to import / purchase meet the definition and criteria as per the Principal Public Ruling and most importantly, items are listed in the Appendix 1 and / or Appendix 2.

In the event the items intended to be imported/purchased under the abovementioned sales tax exemptions are not listed in Appendix 1 and / or Appendix 2, taxpayers should seek clarification / confirmation from the RMCD or make an application to the DG to include such item in Appendix 1 / Appendix 2, before applying for sales tax exemption. Non-compliance of the above can often lead to costly back taxes and the risk of exemption facilities being revoked.

Brought to you by:

Leong Wan Chi
Senior Manager
Kuala Lumpur

Ng Ka Heng
Senior Associate
Kuala Lumpur

[Back to top](#)

2. E-Invoicing Initiative: Updates and Implications for Customs Compliance

The Inland Revenue Board's ("IRB") e-invoicing initiative also encompasses certain aspects relevant to the administration of customs matters by the RMCD.

From a RMCD standpoint, it is essential to incorporate the applicable sales and service tax in e-invoices issued for sale transactions as well as in self-billed e-invoices that are issued for imported goods and services. Each self-billed e-invoice must reflect the relevant sales or service tax, and for imported goods, the data field Reference Number of Customs Form No. 1, 9, must be included in the data sent to the IRB for validation.

Updates

For the import of goods, a self-billed e-invoice must typically be issued no later than the end of the month following the month in which customs clearance is obtained. Recent updates in the General FAQ (1 October 2024) provide clarity on the issuance of self-billed e-invoices for imports involving multiple shipments under the same invoice:

a) **Foreign supplier's invoice is issued before the first import shipment clearance is obtained**:
The self-billed e-invoice can be issued for the total amount upon customs clearance of the first shipment, citing the K1 form reference number for the first shipment.

b) **Foreign supplier's invoice is issued after the first import shipment clearance is obtained**:
A self-billed e-invoice must be issued for each import shipment, reflecting the amount declared to the RMCD and the relevant K1 form reference number. A final self-billed e-invoice is required upon receiving the foreign supplier's invoice before the next shipment clearance. No additional self-billed e-invoices are required for subsequent shipments under the same invoice.

c) **Foreign supplier's invoice is issued after the final import shipment**:
Self-billed e-invoices must be issued for each shipment based on the amounts declared to the RMCD and include the corresponding K1 form reference number. If discrepancies exist between the foreign supplier's invoice and the self-billed e-invoices, a final invoice must be issued by the end of the month following the foreign supplier's invoice.

Another update relates to which reference form should be included in the self-billed e-invoice, which we have summarised below:

Scenario	Reference form requirement
Goods from foreign supplier, delivered from bonded warehouse/Free Zone to PCA	Customs Form No. 1 or No. 9.
Buyer #1 (bonded warehouse) buys from foreign supplier and sells to Buyer #2	Self-billed e-invoice for goods purchased: "Reference Number of Customs Form No. 1, 9, etc." is optional (e.g., Customs Form No. 8). E-invoice for sale to Malaysian Buyer #2: reference number field is optional.

Scenario	Reference form requirement
Buyer #1 buys from foreign supplier stored in bonded warehouse/Free Zone, sells to Buyer #2	Self-billed e-invoice for goods purchased: "Reference Number of Customs Form No. 1, 9, etc." is optional (e.g., Customs Form No. 8). E-invoice for sale to Malaysian Buyer #2: reference number field is optional.
Goods drop shipped from foreign supplier directly to Buyers #2, #3, #4	Self-billed e-invoice for goods purchased: "Reference Number of Customs Form No. 1, 9, etc." is optional. E-invoice for sale to Malaysian Buyers #2, #3, and #4: reference number field is optional.

Implications

E-invoicing requirements are not expected to impact current Customs compliance and reporting requirements. However, as the e-invoicing initiative develops, it could lead at some stage to additional Customs compliance or reporting requirements built around e-invoicing. In addition, the data available in e-invoices could also be a valuable source of information for future RMCD audits and verification procedures, for example in verifying that companies are remitting sales and service tax accurately.

What is evident is that companies must be vigilant about the data being collected through e-invoicing, as it may be utilised for cross checking audits conducted by the IRB. By staying proactive and compliant, businesses can navigate this evolving landscape effectively.

Brought to you by:

Larry James Sta Maria
Director
Kuala Lumpur

Lekhashinii Nadarajan
Assistant Manager
Kuala Lumpur

We invite you to explore other tax-related information at:
http://www2.deloitte.com/my/en/services/tax.html

To subscribe to our newsletter, please click here.

Back to top

Contact us – Our Indirect Tax Team

Tan Eng Yew
Partner
etan@deloitte.com
+603 7610 8870

Senthuran Elalingam
Partner
selalingam@deloitte.com
+603 7610 8879

Chandran TS Ramasamy
Director
ctsramasamy@deloitte.com
+603 7610 8873

Larry James Sta Maria
Director
lstamaria@deloitte.com
+603 7610 8636

Nicholas Lee
Director
nichlee@deloitte.com
+603 7610 8361

Chin Choon Siong
Director
cschin@deloitte.com
+603 7610 8487

Bonny Teo Wei Teik
Senior Manager
wteo@deloitte.com
+603 9767 5223

Irene Lee
Senior Manager
irelee@deloitte.com
+603 7610 8825

Wendy Chin
Senior Manager
wechin@deloitte.com
+603 7610 8163

Eliza Azreen Kamaruddin
Senior Manager
eazreen@deloitte.com
+603 7610 7271

Contact us – Our Indirect Tax Team

Leong Wan Chi
Senior Manager
wanleong@deloitte.com
+603 7610 8549

Naresh Srinivasan
Senior Manager
narsrinivasan@deloitte.com
+603 7650 6459

Phan Horng Kit
Senior Manager
hophan@deloitte.com
+603 7610 8908

Nikki Suah Yi Ning
Senior Manager
nsuah@deloitte.com
+60 3 7610 7642

Syifa Yin Izhar
Senior Manager
syizhar@deloitte.com
+603 7610 7512

Name	E-mail address	Telephone
Ashokkumar Hothiyakumar Manager	ahothiyakumar@deloitte.com	+603 7610 9238
Vanessa Chua Assistant Manager	szchua@deloitte.com	+603 7610 7960
Lekhashinii Nadarajan Assistant Manager	lnadarajan@deloitte.com	+603 9764 8567

Other offices

Name	E-mail address	Telephone
Susie Tan Johor Bahru and Melaka	susietan@deloitte.com	+607 268 0851
Ng Lan Kheng Penang	lkng@deloitte.com	+604 218 9268

Back to top