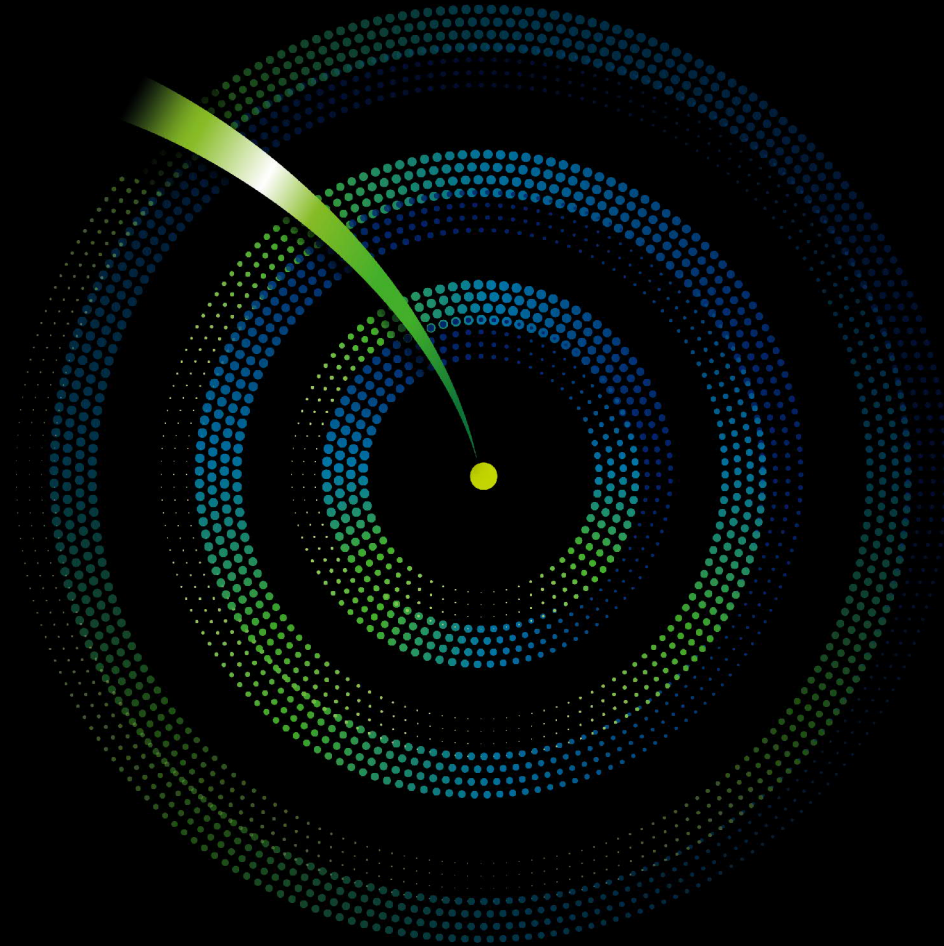


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Nicholas Lee and Julian Ong | 22 March 2023



# The critical numbers

## Federal Government Indirect Tax Revenue

Tax	2021	2022	2023
Sales tax	13,598,380,734	16,256,423,583	17,160,000,000
Service tax	12,017,669,545	15,111,717,670	16,180,000,000
Import duties	2,644,759,544	3,191,911,907	3,168,000,000
Export duties	2,057,063,357	2,621,849,779	1,534,000,000
Excise duties	10,240,566,430	12,555,720,708	12,425,000,000
Tourism tax	1,171,943	1,026,423	200,000,000
Levies	2,056,859,150	3,218,848,941	1,333,000,000
Other indirect tax	971,133,396	2,331,490,170	2,130,000,000
Total indirect tax	43,587,604,099	55,288,989,181	54,130,000,000

# Overview of Indirect Tax Proposals in Budget 2023



## Overview

- No reintroduction of GST
- Introduction of luxury goods tax (Effective date to be announced)
- Launch of Special Voluntary Disclosure Program 2.0 (From 1 June 2023)
- Extension of import duty, excise duty and sales tax exemption in relation to Electric Vehicles (To 31 December 2025 for Imported Completely Built-Up EV (CBU), 31 December 2027 for Completely Knocked-Down EV (CKD))
- Imposition of excise duty on products containing nicotine (effective date to be announced)
- Import duty and sales tax exemption :
  - ✓ for nicotine replacement therapy products (application received from 1 April 2023)
  - ✓ on studio and filming production equipment (application received from 1 April 2023)
- Excise duty and sales tax exemption for disposal of individually owned taxis and hired cars (from 1 March 2023)

# Goods and Services Tax

- At present, the Government is not planning to implement GST.
- Decision takes into account the current backdrop of low wages, rising cost of living and inflationary pressures.
- This will be reviewed at a more appropriate time.



# Luxury Goods Tax

## What we know

- The Government propose to introduce luxury goods tax (“LGT”) with a minimum value.
- The LGT would depend on the type of luxury goods (e.g. luxury branded watches, branded fashion goods, expensive cars, private jets, jewellery etc.).
- A form of progressive tax on high value goods which aims to widen the tax base by primarily targeting high-income earners.
- Countries such as China, Taiwan, Indonesia, South Korea, Norway, Italy and Chile have implemented some form of tax on high value goods.
- LGT is proposed to commence in 2023, although no specific implementation date was mentioned.



# Luxury Goods Tax

Questions to ask and what remains to be seen

- What will the definition of “luxury goods” be?
- What is the threshold to be classified as a luxury good?
- Will LGT be implemented through an expansion of the Sales Tax Act 2018 or as a separate Act of Parliament?
- Who will be responsible to charge and collect LGT (e.g. retailers of LGT)?
- What will be the tax rate of LGT?
- When is the point of charging and collecting LGT?
- Will there be any tax exemptions for LGT?



## Special Voluntary Disclosure Program 2.0

- The Royal Malaysian Customs Department (RMCD) will run another voluntary disclosure program, which will include a 100% penalty waiver for voluntary disclosures.
- Starting from 1 June 2023 to 31 May 2024.
- SVDP 1.0 ran from 1 January 2022 to 30 September 2022, to declare and make good outstanding indirect taxes owing from past periods up to 31 October 2021.
- SVDP 2.0 possibly to cover taxable periods from November 2021 onwards.
- No details on whether there would be any tax remission offered (between 5% to 30% under SVDP 1.0) or compounds imposed (RM500 or RM1,000 under SVDP 1.0).



# Extension of Import Duty, Excise Duty and Sales Tax Exemption in relation to Electric Vehicles

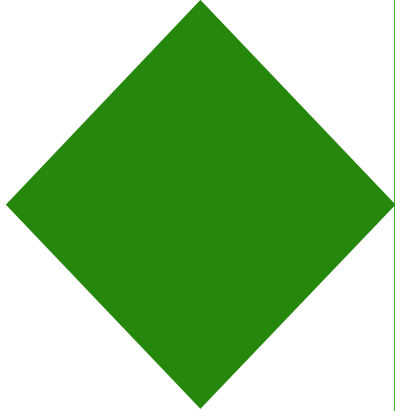


Current and proposed exemption for imported Completely Built-Up (CBU) and Completely Knocked-Down (CKD) components and locally assembled Electric Vehicles (EV) are as follow:

Type of incentive	Current incentive period	Proposed extended incentive period
Full import duty exemption on components for locally assembled EV	1 January 2022 – 31 December 2025	31 December 2027
Full excise duty and sales tax exemption on CKD EV		
Full import duty and excise duty exemption on imported CBU EV	1 January 2022 – 31 December 2023	31 December 2025

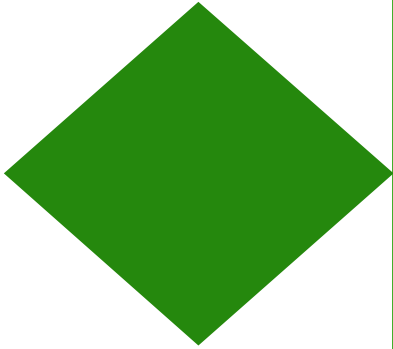


## Other Indirect Tax Proposals in Budget 2023



- Imposition of excise duty on liquid or gel products containing nicotine used in electronic cigarettes or vape (effective date to be announced)
- Import duty and sales tax exemption for:
  - ✓ nicotine replacement therapy products – nicotine gum and nicotine patch (application received from 1 April 2023 – 31 March 2026)
  - ✓ studio and filming production equipment (application received from 1 April 2023 – 31 March 2026)
- Excise duty and sales tax exemption for disposal of individually owned taxis and hired cars (from 1 March 2023)

## OTHER INDIRECT TAXES (Upcoming)



- Sales tax on low value goods (was supposed to be effective on 1 April 2023 , latest has been postponed to a date to be determined later)
- Tourism tax on digital platform service providers (effective 1 January 2023)
- Service tax on goods delivery services (currently postponed until further notice)
- Sugar tax: Excise duty on pre-mixed preparations product (currently postponed until further notice)

# Recent updates

Recent updates, common issues and pitfalls raised in Customs audits

## Updates

- As details on SVDP 2.0 remain scarce, voluntary disclosure procedures and the outcome remain different according to the relevant State Customs' practice.
- Refund application procedures remain different according to State Customs' practice. Some states require written confirmation from the Sales/Service Tax Policy Division if the matter is technical.
- Verification audits (which may escalate to full audits) conducted on newly registered (for sales tax/service tax) companies.

## Common issues

- Ambiguity of service tax rules persists as no significant updates to guides e.g. management, IT services, reimbursement/disbursement.
- No clarity whether reimbursement/disbursement rules apply on imported services (for service tax).
- Sales tax policy conditions which may not align with provisions of the sales tax rules e.g. exports involving dropshipping.

# Recent updates

Recent updates, common issues and pitfalls raised in Customs audits

## Common issues (cont'd)

- Scope of sales/service tax exemptions not sufficient to prevent cascading.
- Old Customs policy/administration not keeping up with current business trends.
- Inconsistency between rules and Customs practices on certain technical/administrative matters persists e.g. goods sold by a LMW to a local company, but goods are not shipped into the principal customs area (whether this should be treated as local sales or not).

## Pitfalls

- Failure to account for service tax on imported taxable services remain a common issue.
- Failure to comply with import duty/sales tax exemption conditions.
- Utilising incorrect exemptions for acquisitions.
- Relying on verbal advice only (no written support).
- Relying on Customs' confirmation provided based on inaccurate/incomplete background.



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