



ROYAL MALAYSIAN CUSTOMS

MALAYSIA GOODS AND SERVICES TAX (GST) GUIDE APPROVED JEWELLER SCHEME (DRAFT)



DRAFT

**MALAYSIA GST GUIDE
APPROVED JEWELLER SCHEME**

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1. INTRODUCTION

1.1. This Industry Guide is prepared to assist you in understanding the Goods and Services Tax and its implications on Approved Jeweller Scheme (AJS).

1.2. Overview of Goods and Services Tax (GST)

Goods and Services Tax (GST) is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except those specifically exempted. GST is also charged on importation of goods and services into Malaysia.

Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, it is ultimately passed on to the final consumer. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements

In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as “registered person”. A registered person is required to charge output tax on his taxable supply of goods and services made to his customers. He is allowed to claim input tax credit on any GST incurred on his purchases which are inputs to his business. Thus, this mechanism would avoid double taxation and only the value added at each stage is taxed.

2. OVERVIEW OF APPROVED JEWELLER SCHEME

The manufacturing of jewellery from precious metals requires substantially high input cost on raw materials, but sales of jewellery are generally slow moving. This resulted in manufacturers of jewellery having to bear high input tax upfront while the speed of output tax collection from their sales are not in tandem with their input tax payments. As a consequence of this, the jewellery manufacturers would be burdened with cash flow problems as the rate of their output tax collection would not be able to correspond with that of their input tax liabilities.

The AJS is introduced under the GST Act 20XX to help jewellery manufacturers, including toll manufacturers, overcome cash flow problem created by huge input tax payments coupled with slow or no output tax collections.

Under the GST Act, tax on any supply of precious metals to a jewellery manufacturer (approved person) under the AJS will become the liability of the manufacturer and not the supplier. Hence, the supplier does not have to account for output tax on such supply. On the other hand, the approved person shall account for payment of GST on the supply by way of “recipient self-accounting”.

Under the concept of “**recipient self-accounting**”, the approved jeweller will account for output tax on prescribed precious metals that he acquired locally as though he had himself supplied the goods in Malaysia in the furtherance of a business (that is manufacturing of jewellery). He then nets off the output tax



payable with the corresponding deemed input tax credits. In this manner, the approved jeweller does not have to pay GST upfront on such acquisition.

When such prescribed precious metals are subsequently manufactured into finished goods and supplied as jewellery to the local market, the approved jeweller would only then has to account for output tax. If such finished goods are exported, they are to be zero-rated.

The definition of prescribed precious metals as defined under the GST Regulations refers to:

- (i) Gold which contains at least 99.5% in purity;
- (ii) Silver which contains at least 99.9% in purity; and
- (iii) Platinum which contains 99% in purity.

Jewellery is not defined under the regulation. However, it includes ornaments such as bracelets, necklaces, rings, bangles or earrings, made of precious metals, set or mounted with gems or imitation gems that have high economic or commercial value.

2.1. As an approved jeweller, when should I do “recipient self-accounting” on precious metals that I acquired?

You have to account for output tax when you received the related invoice from your supplier or when you made a payment to the supplier, whichever is the earlier. Please see examples below.

Example No. 1

- (i) Date invoice received - 05.3.20XX
- (ii) Date payment made - 28.4.20XX
- (iii) The output tax must be accounted in the **March 20XX** GST return.

Example No. 2

- (i) Date invoice received - 10.6.20XX
- (ii) Date payment made - 12.5.20XX
- (iii) The output tax must be accounted in the **May 20XX** GST return.

2.2. Should the value for output tax be taken as inclusive or exclusive of GST on precious metals that I acquired?

Under the concept of “**recipient self-accounting**”, the approved jeweller will account for output tax on prescribed precious metals that he acquired locally as though he had himself supplied the goods in Malaysia in the



furtherance of a business. Hence, the value should be taken as GST-exclusive. Therefore, you can account the output tax by multiplying the price the supplier invoiced you with the prevailing GST rate. Please see Example No. 3 below.

Example No. 3

(i)	Price of goods charged	-	RM100, 000.00
(ii)	Prevailing GST rate	-	4%
(iii)	Output tax chargeable	-	RM100, 000.00 x 4%
		=	<u>RM4, 000.00</u>

2.3. Under the AJS, how do I carry out “recipient self-accounting”?

Under the concept of recipient self-accounting, the recipient shall account for the tax as if he had himself supplied and acquired the precious metals. Please see Example No. 4 for the accounting of output tax and input tax:

Example No. 4

Assuming you received two supplies of prescribed precious metals a month from a local supplier as follows:

<u>Date of invoice</u>	<u>Value of transaction</u>
05.10.20XX	RM100, 000.00
10.10.20XX	<u>RM 200,000.00</u>
Total	RM 300,000.00

(Total output tax is RM12, 000.00 i.e. 4% of RM 300,000.00)

Accounting in GST return by way of “recipient self-accounting” should reflect as follows:

GST return for the period 1.10.20XX to 31.10.20XX

Output/Input Tax Particulars	RM
*Output tax	
- <i>Precious Metals supplied</i>	RM12,000.00
<u>Less:</u>	
*Input tax Credit	
- <i>Precious Metals received</i>	RM12,000.00
Tax payable	(0.00)

(* Assuming there are no other output tax due or input tax claims made in the same tax return)

2.4. I am an approved jeweller and if I import precious metals, do I have to pay GST upfront on the importations?



As an approved jeweller, you are automatically eligible to apply for the Approved Trader Scheme (ATS). Under ATS, GST on importation of goods is suspended. However, the suspended GST needs to be declared in the GST return for the taxable period in which the importation took place.

3. CONDITIONS FOR THE AJS

Like any other special schemes, there are conditions imposed under the AJS in which an approved jeweller must strictly adhere to. The conditions imposed under the AJS include the following:

- (a) An approved jeweller must be a GST registered person;

The AJS is only open to GST registered persons. Non registered persons are not eligible to apply for this scheme.

- (b) Monthly taxable period;

An approved jeweller must account for GST on a monthly basis.

- (c) Precious metals acquired must be for manufacturing jewellery in the furtherance of a business;

Any acquisition of precious metals under the AJS must be solely and specifically for the purpose of manufacturing jewellery in the furtherance of a business carried on by the approved jeweller. Any acquisition of precious metals other than for the purpose of manufacturing jewellery does not come under the scope of AJS, and thus subject to GST.

- (d) Acquisition of precious metals must be made in the name of the approved jeweller;

Acquisitions of precious metals, either from overseas or locally, to manufacture jewellery must be in the name of the approved jeweller. If the precious metals are imported, the approved jeweller must be registered with the RMC as an importer. All imports and exports must be declared under the approved jeweller's name. However, authorized forwarding agents duly appointed can sign the import / export forms on the approved jeweller behalf, but the approved jeweller remain liable for any tax and duties due or payable on the imports.

- (e) Maintaining of a good accounting system;



An approved jeweller must practice and maintain a good accounting system on his business transactions. Please refer to Paragraph 9 below for further details.

- (f) Good compliance record with the RMC;

An applicant must have good compliance record on any business dealing with the RMC, including matters that relate to GST. Good compliance record must always be maintained by the approved jeweller.

- (g) Security to be furnished;

Under certain circumstances, an approved jeweller may be required by the Director General (DG) to furnish security, in the form of bank guarantee or bond or both to protect revenue.

- (h) Other conditions.

The DG may impose additional or revise any condition(s) from time to time as he deems fit. The conditions set here do not preclude or override any other conditions imposed on you under any other schemes in which you might have participated. The DG also reserved the rights to reject any application, to review or revoke any approval granted to you at any time without prior notice to protect revenue.

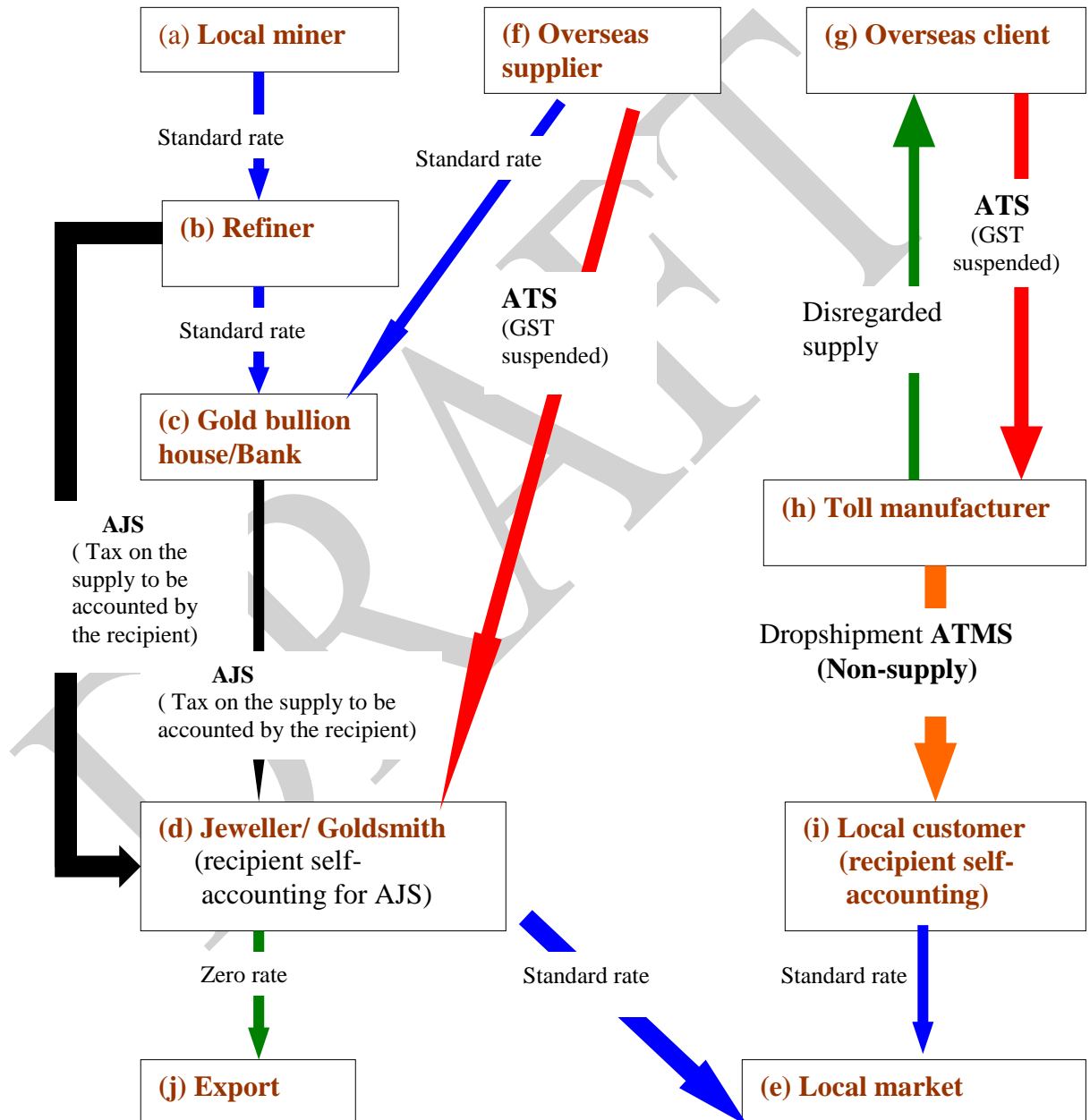
4. ELIGIBLE PERSONS FOR THE AJS

Only jewellery manufacturers who are taxable persons are eligible to apply for AJS subject to approval given by the DG.



5. GST IMPLICATIONS IN THE JEWELLERY INDUSTRY

GST implications on the supply and delivery of precious metals and jewellery in the jewellery industry can be illustrated in the diagram below:





GST implication on each supply or delivery of precious metals and jewellery made from one level of supplier to another as illustrated in the above diagram is further explain as below:

- (a) A supply of gold dust or raw precious materials made by a local miner to a refiner is standard-rated (that is GST chargeable at the prevailing prescribed rate).
- (b) A supply of precious metals made by a refiner to a gold bullion house or bank is standard-rated.
- (c) Tax on a supply of prescribed precious metals made by a gold bullion house or bank to a jewellery manufacturer is to be accounted by the recipient and not by the supplier.
- (d) The approved jeweller who acquired prescribed precious metals from the gold bullion house or bank would have to do “**recipient self-accounting**” on such acquisition. Local supply of jewellery by the approved jeweller is standard-rated. If the approved jeweller farm-out his manufacturing activities to a toll manufacturer or sub-contractor, such farming out is not a supply. Any value-added activities, including workmanship, supplied by the sub-contractor is standard-rated. (Please refer to Para 7 below for further details).
- (e) A supply of jewellery made by an approved jeweler to the local market is standard-rated.
- (f) Any importation of precious metals, including gold bars, by a bullion house or bank to be supplied to the jewellery industry is standard-rated. The bullion house or bank has to pay GST on the precious metals at the time of importation. However, an approved jeweller manufacturer who has ATS status can suspend the payment of GST on the importation of precious metals.
- (g) A toll manufacturer who is also an approved jeweller can suspend the payment of GST on importation of precious metals consigned by his overseas client to him under the ATS. (An approved jeweller is eligible to apply for ATS status.)
- (h) When a toll manufacturer with AJS status exports finished goods (jewellery) back to his overseas client, such delivery is a disregarded supply. When the toll manufacturer delivers (drop-ships) jewellery to a local customer of the overseas client, such a delivery is not a supply if the local customer is also registered under ATMS.
- (i) When the local customer of the overseas client received jewellery from the toll manufacturer under the AJS, the local customer only needs to do “recipient self-accounting” when he received the related invoice from his overseas supplier or when he makes a payment to



the supplier, whichever is the earlier, on such a delivery. If the local customer is not a registered person, he has to account and pay the tax in the prescribed form not later than the last day of the subsequent month from the month in which the supply is treated as taken place. Any supply of jewellery made by the local customer of an overseas supplier to the local market is standard-rated.

- (j) Any export of jewellery made by the jewellery manufacturer to overseas markets is zero-rated.

5.1. I operate a gold bullion house and import precious metals from overseas. Can I apply for ATS status to suspend payment of GST on such importations?

The ATS is meant for major re-exporter. If you fulfill all the criteria imposed under the ATS, you can apply to be in the scheme. Unless you are in the ATS, your importation of precious metals will be standard-rated.

5.2. I operate a gold bullion house and supply precious metals to local jewellery manufacturers. Do I need to charge GST if a buyer is not an approved jeweller?

Any local supplies of precious metals to a person who is not an approved jeweller is subject to GST.

5.3. How do I distinguish whether a buyer is an approved jeweller?

An approved jeweller would possess a valid AJS approval issued by the Royal Malaysian Customs. The approved jeweller would have to show proof when purchasing precious metals to qualify for exemption of GST on the purchase. If you have any doubt, you can always check with our website or contact our department to verify the authenticity of the approval.

5.4. As a banker, how should I issue a tax invoice to an approved jeweller and non-approved jeweller?

For a non-approved jeweller, a tax invoice issued must show particulars as stated under regulation 21. Tax must be charged and shown separately. However, for an approved jeweller, a tax invoice issued must show particulars stated under regulation 21 except the rate of tax and the total tax chargeable. The tax invoice to an approved jeweller must also contain the following statement, **“The buyer as stated in this invoice shall account for the output tax on the supply to the Director General in accordance with section 74 of the Goods and Services tax Act 20XX”**.

5.5. I am an approved jeweller. Must I show proof on my AJS status each time I purchase gold bars from the bank?



Yes, otherwise the bank will charge you GST on the supply of precious metals.

5.6. As an approved jeweller, am I also allowed to purchase without payment of GST on acquisition of materials other than precious metals, like chemicals and casting powder?

No, the AJS status would allow you to purchase without payment of GST on the acquisition of prescribed precious metals only but not on any other materials.

5.7. As an approved jeweller, am I allowed to purchase without payment of GST on acquisition of gemstones which are also of high value?

No, acquisition of gemstones does not come under the AJS scheme. As such you are not allowed to purchase without the payment of GST on acquisition of gemstones.

5.8. I am a jeweller and sometimes I purchase trade-in jewellery from my retail customers. Do I have to pay GST on such purchases?

If your retail customers are GST registered persons, they will charge you GST on your purchases.

5.9. I am a jewellery retailer and I sometimes acquire trade-in second-hand jewellery from walk-in customers. If I resell this jewellery without re-manufacturing it, do I have to account for GST on such sales?

Such sales are still considered as taxable supplies, even though the jewellery is second-hand jewellery, and you have to account for output tax.

5.10. I am registered under the AJS. Can I supply precious metals to other approved jewellers without accounting for output tax?

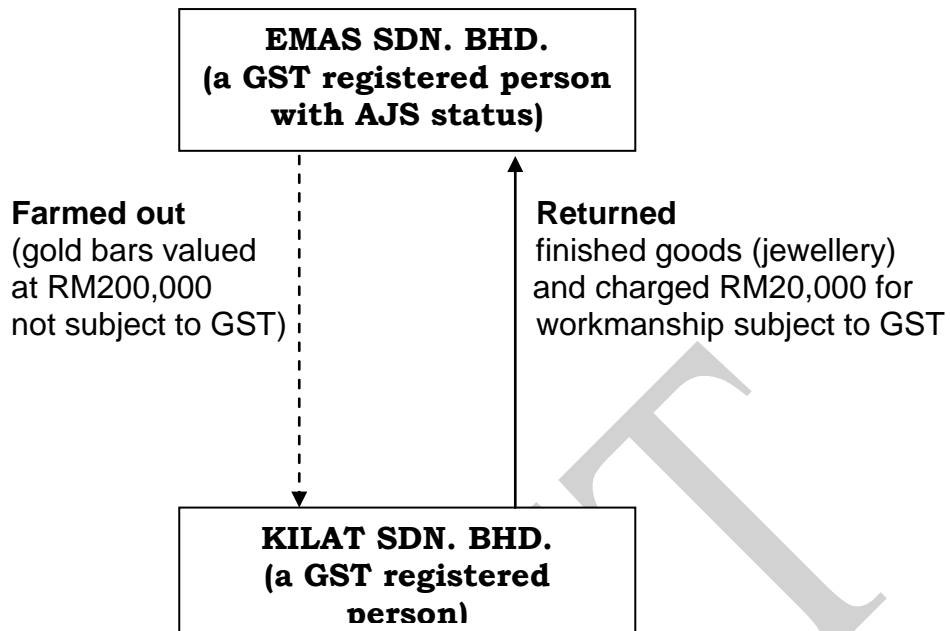
No, you have to account for output tax on supplies of precious metals made to another approved jeweller as any precious metals acquired by you under the AJS is only meant for your own manufacturing of jewellery only.

6. FARMING OUT TO SUB-CONTRACTORS BY APPROVED JEWELLERS

Sometimes jewellery manufacturers farm out their manufacturing works to sub-contractors or toll manufacturers. This farming out process does not involve the transfer of ownership on the precious metals to the sub-contractors. The sub-contractors would provide workmanship and some other value-added activities or raw materials in the manufacturing of jewellery. Implication of GST on farming out of manufacturing works is illustrated in Example No. 5 below.



Example No. 5



- (i) Kilat Sdn. Bhd. is a sub-contractor of Emas Sdn. Bhd.
- (ii) Emas Sdn. Bhd. will deliver gold bars, costing RM200,000.00 to Kilat Sdn. Bhd. to manufacture jewellery.
- (iii) Emas Sdn. Bhd. does not have to charge output tax on the delivery of the gold bars to Kilat Sdn. Bhd. as there is no transfer of ownership.
- (iv) Emas Sdn. Bhd. will only issue a delivery note or consignment note to Kilat Sdn. Bhd.
- (v) Kilat Sdn. Bhd. will return the finished goods (jewellery) to Emas Sdn. Bhd. after the manufacturing process.
- (vi) Kilat Sdn. Bhd. charged Emas Sdn. Bhd. RM20,000.00 for workmanship fees on the manufacturing of jewellery.
- (vii) As Kilat Sdn. Bhd. is a GST registered person, it will have to issue a tax invoice and charge output tax RM800.00 [RM20,000.00 x 4% (GST)] on the workmanship fees.
- (viii) Emas Sdn. Bhd. can claim the GST (RM800.00) charged by Kilat Sdn. Bhd. as its input tax credit.



7. TOLL MANUFACTURER FOR OVERSEAS CLIENT

There are some local toll manufacturers who manufacture jewellery for overseas clients. The toll manufacturer would be paid fees for workmanship or any other valued-added activities by his overseas client.

A toll manufacturer would either receive gold bars from their overseas clients or source the gold bars on behalf of the overseas client and manufactured them into jewellery before re-exporting them. In the latter case, the overseas client would reimburse the toll manufacturer for the gold bars used in the manufacturing of jewellery based on the prevailing market price of gold.

In certain cases, a toll manufacturer may drop-ship certain portion of his finished goods (jewellery) to the local customer(s) of his overseas client. The toll manufacturer would have difficulties accounting for output tax on such drop-shipments as the payment for such drop-shipments is billed directly by the overseas client to the local customer(s). To overcome this difficulty, Approved Toll Manufacturer Scheme (ATMS) is introduced. Under this scheme, the toll manufacturer does not have to account for output tax on such drop-shipments. However, the local customer is required to do “recipient self-accounting” as though he himself have supplied the goods. **For further details please refer to guide on ATMS.**

The following questions and answers would clarify the GST implications on contract manufacturing activities for overseas clients.

7.1. I am a toll manufacturer with AJS status. Do I have to pay GST on gold bars which I received from my overseas client?

You can suspend the payment of GST at the time of importation if you have acquired an ATS status. Otherwise, you will have to pay GST upfront on such importation of gold bars.

7.2. If I import gold bars on behalf of my overseas client, who should declare these gold bars?

You should declare the importation of these gold bars under your name and be accountable for the importation. However, you can still suspend payment of GST on such imports under the ATS.

7.3. If I acquire precious metals locally to manufacture jewellery for my overseas client, should I pay GST on the precious metals?

If you have AJS status, you have to account the payment of GST on such acquisitions by doing “recipient self-accounting”. When you export the finished goods (jewellery) to your overseas client, you can zero-rate the export.



7.4. When I deliver the finished goods (jewellery) to my overseas client, do I have to charge him any output tax on the value-added activities which I performed?

If you have ATMS status, any value-added activities, including workmanship, carried out by you for your overseas client are to be disregarded.

7.5. Who would be liable if the local customer of my overseas client failed to do “recipient self-accounting” under ATMS on deliveries made to him or account for output tax on local supplies he made?

If the goods are already received by the local customer, the liability to account for tax on such goods lies with him. If he failed to do “recipient self-accounting” or account output tax on any supply made by him, the local customer would be held liable and accountable for any tax that are payable or due.

7.6. I am a local customer for an overseas supplier. When do I have to do “recipient self-accounting” on the finished goods that I received from the toll manufacturer?

You have to do “recipient self-accounting” when you make payment to your supplier or when your supplier issued you an invoice for the consigned goods, whichever is the earlier.

8. RECORD KEEPING AND ACCOUNTING REQUIREMENTS

Approved jewellers who are registered under the AJS must maintain and keep full and true records up-to-date at all times for seven years from the latest date to which the record relates.

8.1. What are the records that need to be maintained?

All original documents and records related to the supplies, receipts and acquisitions of raw materials and finished goods supplied under the AJS.

8.2. What does a “good accounting system” mean under the AJS?

A good accounting system means maintaining of proper accounts and inventory records for tracking and accounting of raw materials that were acquired under the AJS. It also includes proper accounting on work-in-progress, stocks on hand and finished goods disposed off to both the local and overseas markets. All accounting records must be supported by related original documents and must be kept in accordance with the Principles of Standard Accounting Practices adopted in Malaysia. A good accounting system required of the approved person will be spelt out in the conditions upon approval and must adhere to at all time.



9. RESPONSIBILITIES AND LIABILITIES OF AN APPROVED JEWELLER

9.1. When I ceased to be a GST registered person or as an approved jeweller, do I have to account for output tax on precious metals on hand?

If you are no longer a registered person under GST, you have to account for output tax on all capital assets and goods on hands.

9.2. What would happen to goods on hand if my AJS status is revoked?

You still have to do “recipient self-accounting” on the goods on hand for which you have not accounted for. However, you may be penalised for any failure to comply with the conditions or the requirement of the law.

9.3. When I transfer my business as a going concern can I also transfer my AJS status to the buyer?

Approval granted under the AJS is not transferable. Transferee who is eligible for AJS status and wish to enjoy AJS treatment should apply for AJS status before the transfer is made.

9.4. Do I still have to account for GST on precious metals that are lost or found missing?

For any precious metals supplied under AJS that cannot be reconciled with the quantity supplied and the balance at hand, you have to account for output tax on such discrepancies.

9.5. What is the duration of an AJS approval and when should I renew it?

Approval for AJS status is on a two-yearly renewal basis or for a shorter period, as the case may be, and any application for renewal must be made one month before the expiry of each approval period.

9.6. What are the other responsibilities expected of me under the AJS?

Your other responsibilities as an approved jeweller include the following:

- (a) You must maintain good compliance on any business dealing with the RMC at all time. If you flout any law administered by the RMC your AJS status will be suspended or revoked. Any breach of conditions or any law administered by the RMC amounts to an offence which are punishable under the GST law;
- (b) If at any time you discover any discrepancies in your stock of precious metals or jewellery, you must immediately notify the RMC.



- (c) You cannot use your ATS status to import goods on behalf of other importers.
- (d) You are responsible and accountable for GST on the goods acquired locally or imported by you, including those cleared for you by your forwarding agent(s);
- (e) If your goods are cleared by authorized agent(s), all import and export forms must still be signed by you;
- (f) You must issue authorized letter to forwarding agent(s) appointed by you and keep a record of them; and
- (g) You should immediately notify the RMC on any change in particulars submitted to RMC under the AJS or ATS.

10. FURTHER INFORMATION FOR AN APPROVED JEWELLER

As an approved jeweller must I need to know more about other aspects of GST?

The following guides may be of interest to you:

- (a) Registration
- (b) Approved Trader Scheme
- (c) Approved Toll manufacturer Scheme
- (d) Transfer of business as a going concern
- (e) Agent

11. APPLYING FOR AJS STATUS

11.1. How to apply for an AJS status?

An applicant must submit the following documents on application:

- (a) GST-Adm 1 and its relevant forms (GST-Adm1A and GST-Adm1D) duly completed and signed.
- (b) A copy of Mykad/passport of authorized applicants who signed on behalf.
- (c) A toll manufacturer for overseas clients must attach a copy of contract(s) with the overseas client.
- (d) The annual audited financial statement for the financial year preceding the date of your application. For businesses that are newly set up, submit a projected turnover for the next 12 months from the date of submitting this application.



11.2. How to obtain an application form for the AJS?

Application form can be downloaded from RMC website at <http://www.customs.gov.my>. For further clarification, call toll free line No. 1800 XX XXXX.

11.3. How to submit the application form for the AJS?

Completed application form and all supporting documents must be submitted together, either by hand or through registered post, to the GST Head Office at:

Royal Malaysian Customs
GST Head Office
No. 22, Jalan 6/3
Kelana Jaya
47301 Petaling Jaya

11.4. Notification on the outcome of application?

A duly completed application would be processed within a month from the date of its submission and the applicant would be notified accordingly. An incomplete application would either be rejected or its outcome delayed.

12. FURTHER INFORMATION

If you require any further information regarding GST, please contact our officer at any of our GST office or call toll free line No. 1800 XX XXXX. You can also visit our website at <http://www.customs.gov.my>.