



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE ON APPROVED JEWELLER SCHEME

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INTRODUCTION

1. This industry guide is prepared to assist businesses in understanding matters with regards to GST treatment on Approved Jeweller Scheme (AJS).

Overview of Goods and Services Tax (GST)

2. 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.

3. 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, only the value added at each stage is taxed thus avoiding double taxation.

4. In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as a “registered person”. A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

GENERAL OPERATIONS OF THE INDUSTRY

Approved Jeweller Scheme

5. The manufacturing of jewellery from precious metals requires substantially high input cost on raw materials, but sales of jewellery are generally slow moving. This results 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.

6. 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.

7. Under the GST Act, tax charged on supply of precious metals made by a taxable person (supplier) to a jewellery manufacturer (approved jeweller) 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 is not obliged to pay the tax to the supplier but shall account for payment of GST on the supply.

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

9. Jewellery is not defined under the GST Regulations. 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.

Definition of “prescribed precious metals”

10. 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.

When to account for output tax

11. The time of supply for an approved jeweller is the earlier of the following:

- (i) when he receives the related invoice, or
- (ii) when he makes payment to the supplier.

Example 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 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.*

Value of prescribed precious metals for charging output tax

12. Under AJS, the approved jeweller will account for output tax on prescribed precious metals that he acquires locally. The value should be taken as GST-exclusive.

Example 3

- (i) *Price of goods charged* - RM100, 000.00
- (ii) *Prevailing GST rate* - 6%
- (iii) *Output tax chargeable* - $RM100, 000.00 \times \%$
= **RM6, 000.00**

HOW TO ACCOUNT FOR OUTPUT TAX

13. Under this scheme the approved jeweller is required to account for output tax on prescribed precious metals that he acquires locally. He then nets off the output tax payable with the corresponding deemed input tax credit on the acquisition of the precious metal in the course or furtherance of his business. In this manner, the approved jeweller does not have to pay GST upfront on such acquisition.

Example 4:

Assuming an approved jeweler received two supplies of prescribed precious metals in a month from a local supplier as follows:

<u>Date of invoice</u>	<u>Value of transactions</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 RM15,000.00 i.e. 6% of RM 300,000.00)

Accounting in the GST return 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>	RM15,000.00
<u>Less:</u>	
* Input tax Credit - Precious Metals received	RM15,000.00
Tax payable	(0.00)

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

GST TREATMENT FOR THE INDUSTRY

Conditions for the AJS

14. Like any other special schemes, there are conditions imposed under the AJS which an approved jeweller must strictly adhere to and the conditions are:

- (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 is thus subject to GST. For example, AJS approval cannot be used on any acquisition of precious metals for investment purpose.

- (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. All imports and exports must be declared under the approved jeweller's name. However, authorised forwarding agents duly appointed can sign the import / export forms on the approved jeweller behalf, but the approved jeweller still 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.

- (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) Furnishing of security

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 as the Director General (DG) may deem fit to impose

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

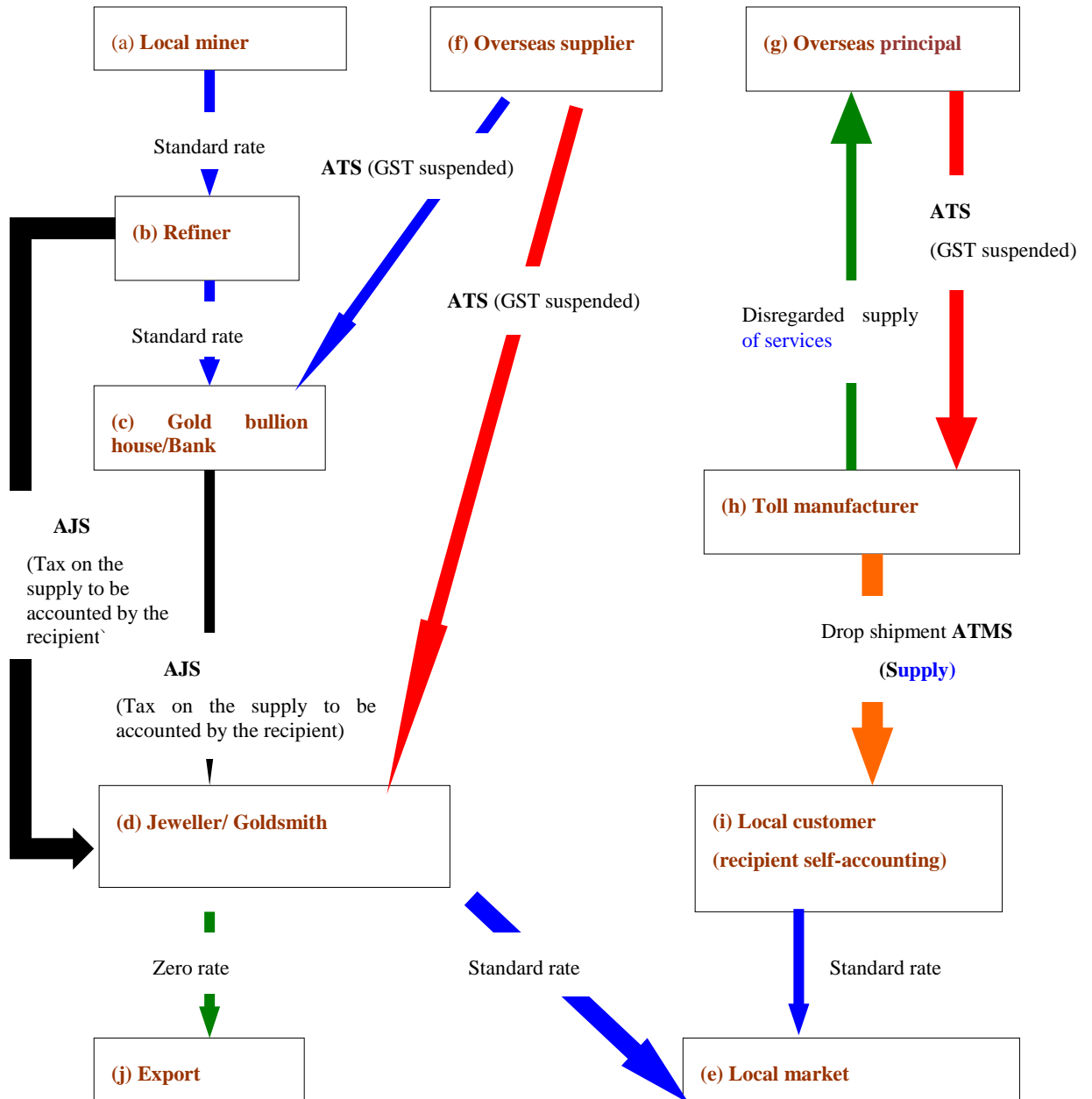
ELIGIBLE PERSONS FOR THE AJS

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

GST IMPLICATIONS IN THE JEWELLERY INDUSTRY

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

Figure 1: GST implications on the supply and delivery of precious metals and jewellery



17. 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 explained 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 a gold bullion house or bank would have to account for output tax on such acquisition. Local supply of jewellery by the approved jeweller is standard-rated. If the approved jeweller farms-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
- (e) A supply of jewellery made by an approved jeweller 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, any bullion house or bank who has ATS status can suspend the payment of GST on the importation of precious metals. Similar treatment applies to any approved jeweller who imports prescribed precious metals for manufacturing jewellery.
- (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 principal 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 principal, such delivery is not a supply. When the toll manufacturer delivers (drop-ships) jewellery to a

local customer of the overseas principal, such delivery is a supply which made by the overseas principal under ATMS. ***For further details please refer to guide on ATMS.***

- (i) When the local customer of the overseas principal receives jewellery from the toll manufacturer under the AJS, the local customer needs only to do “recipient self-accounting” when he receives 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.

ACQUISITION OF PRESCRIBED PRECIOUS METALS FROM AN APPROVED JEWELLER

18. Normally, an approved jeweller would acquire the prescribed precious metals from bullion houses or banks. However, he is allowed to acquire the prescribed precious metals from another approved jeweller under AJS. This means that his supplier who is also an approved jeweller is required to charge tax on the supply made to the approved jeweler but is not liable to account for the output tax. The recipient of the prescribed precious metals has to account for output tax on the purchase of the prescribed precious metals.- The transaction is illustrated in example below.

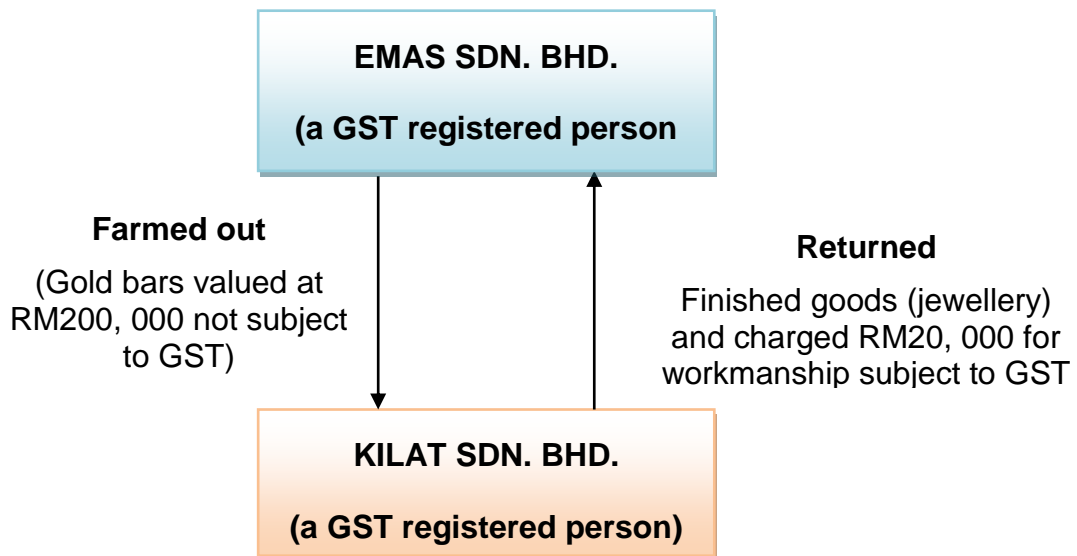
Figure 2 : Acquisition Of Prescribed Precious Metals From n Approved Jeweller



- (i) A Sdn. Bhd. supplied prescribed precious metals worth RM300,000.00 to B Sdn Bhd .
- (ii) A Sdn. Bhd.has to issue a tax invoice and charge GST but does not have to account for output tax on the supply.
- (iii) B Sdn. Bhd. has to account for output tax RM15,000.00 (5% X RM300,000.00)

FARMING OUT TO SUB-CONTRACTORS BY APPROVED JEWELLERS

19. 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 below:



- (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, he will have to issue a tax invoice and charge output tax RM1,000.00 [RM20,000.00 x 6% (GST)] on the workmanship fees.*
- (viii) *Emas Sdn. Bhd. can claim the GST (RM1,000.00) charged by Kilat Sdn. Bhd. as his input tax credit.*

TOLL MANUFACTURER FOR OVERSEAS PRINCIPAL

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

21. A toll manufacturer would receive gold bars from their overseas principals and under the ATS, the payment of GST is allowed to be suspended. On the other hand, if his principal source the gold bars locally e.g. bank or gold bullion house, then the acquisition would be subject to GST at zero rate. The gold bars must be solely used in the manufacturing of jewellery.

22. In certain cases, a toll manufacturer may drop-ship certain portion of his finished goods (jewellery) to the local customer(s) of his overseas principal. 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 principal 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 has supplied the goods. ***For further details please refer to guide on ATMS.***

TRADE- IN JEWELLERIES

23. Under the normal rule of GST, trade in would involve two supplies. If both traders are GST registered persons, their supplies are subject to GST. However, if one trader is a registered person under GST while the other is not, then only the supply made by the registered person is subject to GST. In such a case, if the trade in involves jewellery, that is new jewellery and old jewellery, then a special rule applies. Under this rule, GST should be charged as follows:

- (a) GST is charged on the difference of new jewellery and old jewellery, if the value of new jewellery is more than the value of old jewellery

Example 5

Value of new jewellery = RM5,000.00

Value of old jewellery = RM3,000.00

GST @ 6% payable = 6% X (RM5,000 – RM3,000)
= RM120.00

- (b) GST is charged on the workmanship if the value of new jewellery is less than the value of old jewellery,

Example 6

Value of new jewellery = RM3,000.00

Value of old jewellery = RM5,000.00

Workmanship = RM 300.00

GST @ 6% payable = 6% X RM300.00
= RM18.00

RESPONSIBILITIES AND LIABILITIES OF AN APPROVED JEWELLER

24. An approved jeweller is responsible for anything which is related to his business such as accounting for output tax, keeping records, submission of return etc. Other responsibilities include the following:

- (a) Must maintain good compliance on any business dealing with the RMC at all times. If approved jeweller contravenes any law administered by the RMC, his AJS status will be suspended or revoked. Any breach of conditions amounts to an offence which is punishable under the GST law;
- (b) If at any time the approved jeweller discovers any discrepancies in his stock of precious metals or jewellery, he must immediately notify the RMC;

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

RECORD KEEPING

25. 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. ***For further details of the documents or records that need to be kept under GST, please refer to the Guide on Tax Invoice and Record Keeping.***

FREQUENTLY ASKED QUESTIONS

GST on importation

Q1: I am an approved jeweller and if I import precious metals, do I have to pay GST upfront on the importations?

A1: As an approved jeweller, you are automatically eligible to apply for the Approved Trader Scheme (ATS). Under ATS, the payment of 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. If you do not have an ATS approval, you have to pay GST upfront

at the point of importation but the GST paid is claimable as your input tax credit.

Q2: I operate a gold bullion house and import precious metals from overseas. Can I apply for ATS status to suspend the payment of GST on such importations?

A2: 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. If you are not in the ATS, your importation of precious metals will be standard-rated.

Q3: 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?

A3: Any local supplies of precious metals to a person who is not an approved jeweller is subject to GST.

Q4: How do I distinguish whether a buyer is an approved jeweller?

A4: 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.

Q5: As a banker, how should I issue a tax invoice to an approved jeweller and non-approved jeweller?

A5: For a non-approved jeweller, a tax invoice issued must show particulars as stated in the GST regulations. Tax must be charged and shown separately. Similarly for a banker or bullion house, a tax invoice issued to an approved jeweler must show particulars stated in the GST regulations. 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". Please refer to Appendix 1.

Q6: I am an approved jeweller. Must I show proof on my AJS status each time I purchase gold bars from the bank?

A6: Yes, otherwise the bank will charge you GST on the supply of precious metals and you have to pay the GST to the bank.

Q7: 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?

A7: 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.

Q8: As an approved jeweller, am I allowed to purchase without payment of GST on acquisition of gemstones which are also of high value?

A8: No, acquisition of gemstones does not come under the AJS. As such you are not allowed to purchase without the payment of GST on acquisition of gemstones.

Q9: I am a jeweller and sometimes I purchase trade-in jewellery from my retail customers. Do I have to pay GST on such purchases?

A9: If your retail customers are GST registered persons, they will charge you GST on your purchases. If they are not registered, then the acquisition is not subject to GST.

Q10: 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?

A10: Such sales are still considered as taxable supplies, even though the jewellery is second-hand jewellery, and you have to account for output tax.

GST implications on toll manufacturing activities for overseas principals.

Q11: I am a toll manufacturer with AJS status. Do I have to pay GST on gold bars which I received from my overseas principal?

A11: 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.

Q12: If I import gold bars on behalf of my overseas principal, who should declare these gold bars?

A12: 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.

Q13: If my overseas principal I acquire precious metals locally to manufacture jewellery for my overseas principal, should I pay GST on the precious metals?

A13: If you have AJS status, you have to account the payment of GST on such acquisitions. When you export the finished goods (jewellery) to your overseas principal, you can zero-rate the export.

Q14: When I deliver the finished goods (jewellery) to my overseas principal, do I have to charge him any output tax on the value-added activities which I performed?

A14: If you have ATMS status, any value-added activities, including workmanship, carried out by you for your overseas principal are to be disregarded. However, you have to charge GST on such supply if you are a registered person but with no ATMS.

Q15: Who would be liable if the local customer of my overseas principal failed to do “recipient self-accounting” under ATMS on deliveries made to him or account for output tax on local supplies he made?

A15: 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.

Q16: 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?

A16: 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.

Q17: What are the records that need to be maintained?

A17: All original documents and records related to the supplies, receipts and acquisitions of raw materials and finished goods supplied under the AJS.

Q18: What does a “good accounting system” mean under the AJS?

A18: 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.

Q19: 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?

A19: 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.

Q20: What would happen to goods on hand if my AJS status is revoked?

A20: As an approved person under AJS, you still have to account for tax charged on the acquisition of prescribed precious metals by the supplier which you have not accounted for. Any purchase of prescribed precious metals after the date of revocation will subject to GST and you, as a registered person, are allowed to claim the GST incurred as your input tax credit. You may be penalised for any failure to comply with the conditions or the requirement of the law.

Q21: When I transfer my business as a going concern can I also transfer my AJS status to the buyer?

A21: 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.

Q22: Do I still have to account for GST on precious metals that are lost or found missing?

A22: 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.

Q23: What is the duration of an AJS approval and when should I renew it?

A23: 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 within two months before the expiry of each approval period.

FEEDBACK AND COMMENTS

24. Any feedback or comments will be greatly appreciated. Please email your feedbacks or comments to either Mohd Hisham B. Mohd Nor (m_hisham.nor@customs.gov.my) or Aminul Izmeer B. Mohd Sohaimi (izmeer.msohaimi@customs.gov.my).

FURTHER ASSISTANCE AND INFORMATION

25. Further information can be obtained from:

- (a) GST Website : www.gst.customs.gov.my
- (b) GST Hotline : 03-88822111
- (c) Customs Call Centre :
 - Tel : 03- 7806 7200/ 1-300-888-500
 - Fax : 03- 7806 7599
 - E-mail : ccc@customs.gov.my