



# **ROYAL MALAYSIAN CUSTOMS**

## **GOODS AND SERVICES TAX**

### **GUIDE ON MANUFACTURING**

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## **INTRODUCTION**

1. This industry guide is prepared to assist businesses in understanding matters with regards to GST treatment on Manufacturing.

### **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**

5. GST covers all supply chain in the economy such as manufacturing, distribution and retailing. Almost all supplies in the manufacturing sector is subjected to GST including sale of finished goods, stocks, capital assets and services rendered to other establishments.

6. A manufacturer, who is a taxable person, is required to charge GST on taxable supplies that are standard-rated when they are sold to buyers. On the other hand, he is allowed to claim as input tax credit on any GST incurred on his purchases which are input to his business. Buyers who are GST registered persons are allowed to set off GST incurred on their acquisition against their output tax.

7. GST charged to customers is termed as “Output Tax” and those incurred by the manufacturer on his business purchases and overheads is termed as “Input Tax”. Output tax will be offset by input tax and if output tax is more than input tax, the net tax is payable to the Royal Malaysian Customs (RMC). However, if input tax credit exceeds output tax payable the RMC will refund back the surplus input tax credit to the manufacturer.

8. To make the export sector in Malaysia more competitive, all exports are zero-rated, meaning exporters do not collect output tax on their supplies. Manufacturers who are export-oriented would be eligible for Approved Trader Scheme (ATS). Under this scheme, the manufacturers could suspend GST payment on imported goods, thus alleviating their cash flow problem on importation.

## **GENERAL PRINCIPLES OF GST FOR MANUFACTURERS**

9. All manufacturers who make taxable supplies of goods or services in Malaysia with an annual turnover that exceed the GST threshold would become taxable persons and are liable to be registered as registered persons under the GST Act 20XX. However, for those manufacturers whose annual turnover do not exceed the prescribed threshold, they can still apply for voluntary registration.

10. In determining the annual turnover it must include the total value of all taxable supplies of goods and services excluding the sale of capital assets, supplies made within Designated Area (Labuan, Langkawi or Tioman), and imported services. Taxable supplies only refer to standard-rated and zero-rated supplies made in the course or furtherance of business. Exempt supplies made or made by manufacturer should not be included in the computation of his annual turnover. ***For further details, please refer to GST Guide on Registration Guide.***

11. As a registered person, a manufacturer is therefore responsible for accounting output tax on his taxable supplies, and on the other hand, is eligible to claim input tax credit on expenses which he has incurred in the course or in the furtherance of his business.

## **GST TREATMENT FOR THE INDUSTRY**

### Manufacturing Inputs

12. Basically, manufacturing involves acquisition of goods and services for making final products or any other manufacturing activities including performing of services to the principal, for example in the toll manufacturing contract. All these business purchases from local sources or overseas will incur GST which is referred to as input tax. Under the normal rules of GST, inputs for a manufacturer would basically be subjected to GST at 6%, except for those classified as exempt or zero-rated supplies. Inputs normally acquired by a manufacturer can be categorized as follows:

**(a) Capital assets**

These are goods that can be capitalized for accounting purposes and in accordance with generally accepted accounting practices. Capital assets would include:

- (i) Land and building (e.g. office and factory).
- (ii) Plant and machineries
- (iii) Tools and equipment, including office equipment.

**(b) Raw materials and components**

These are goods that are directly used for the manufacturing of finished goods.

**(c) Services, utilities and other charges**

Services are supplies other than goods, such as maintenance works on plant and machineries, workmanship charges on sub-contracting works and professional advice and consultancy. Other charges include telephone, rental and transportation charges. However, supply of utilities such as water and electricity is a supply of goods.

13. All GST incurred, irrespective of locally purchases or imported goods, would be allowed for input tax credit as long it is used for the business purpose except for supplies that fall under the blocked input tax which is stipulated under the GST

Regulations 20XX. The manufacturer can offset this input tax credit against any output tax related to his taxable supplies which he is liable to pay to the Director General of Customs.

14. Furthermore, if the manufacturer are making both taxable and exempt supplies, he is entitled to claim input tax which is attributable to taxable supplies only. However, if input tax incurred in making exempt supplies is below the current de minimus limit (value of exempt supplies does not exceed RM5,000.00 per month and 5% of total value of supplies made in that period), then he still eligible to claim the input tax as though he is making wholly taxable supplies. ***For further details, please refer to the GST Guide on Input Tax Credit.***

#### Manufacturing Output

15. Generally all supplies made in the manufacturing industry are either standard-rated or zero-rated. If the manufacturer is a taxable person, he is liable to collect GST on all taxable supplies (except for zero-rated supplies) that he makes to his local customers.

16. A taxable supply of goods may not necessarily be restricted to the sale of manufactured goods only. It includes:-

- (a) Disposal of business assets.
- (b) Application of business assets for non-business purposes.
- (c) Business gifts exceeding RM500.00 given to the same customer in the same year.
- (d) Goods which are business assets on hand at deregistration.
- (e) Employee benefits given to employees.

17. As a registered person, manufacturers are liable to account for output tax on all taxable supplies. The tax needs to be accounted and paid on each particular taxable period to the Director General of Customs. The tax is allowed to be offset with any input tax credit and the registered person is only required to pay the

difference if the difference is positive. If the input tax is more than the output tax payable, the Director General of Customs will refund the net difference to him.

18. Under the normal rules of GST, a GST registered person is required to issue a tax invoice for every taxable supply he makes. A tax invoice must be issued within 21 days from the time of supply which would create the tax liability to the manufacturer. The tax liability is based on the general time of supply rules:

For goods, the basic tax point is:

- (a) When the goods are sent to the customer;
- (b) When the goods are made available to the customer.

However, the basic tax point would not be applicable in the following two situations which are actually treated as the actual tax point:

- (a) The manufacturer has issued a tax invoice before basic tax point; or
- (b) When payment is received before the basic tax point;

Where the actual tax point is whichever is earlier.

19. The GST needs to be accounted in the GST return for the period covering that tax point.

**Example 1:**

*Company A delivered goods to Company B on 18.7.20XX. If Company B did not make any payment prior to the delivery of the goods and Company A only issued a tax invoice on 2.8.20XX, then the actual tax point is 2.8.20XX. This is because the 21-day rule overrides the basic tax point. Company A will have to account for tax in the taxable period of August 20XX. (Assuming Company A is on monthly taxable period).*

**Example 2:**

*In the above example, if Company B did not make any payment prior to the delivery of the goods on 18.7.20XX and Company A only issued a tax invoice on 20.8.20XX, GST due will fall back to the basic tax point on 18.7.20XX. This is because company A only issued the invoice after 21 days from the basic*

*tax point. Therefore, Company A will have to account for tax in the taxable period of July 20XX.*

## **CONSIGNMENT SALE**

20. In the case of supply of goods is on a sale or return or similar terms, there is no supply yet when a manufacturer who is consignor sent the goods to the consignee because the consignor still owns the goods until such time as the goods are adopted by the consignee. Adoption means the consignee indicates a wish to keep the goods. Until the consignee does so, he has an unqualified right to return the consigned goods at any time, unless the consignor has specified a time limit.

21. The time of supply for the consignment sale is exceptional from the general rules of the time of supply in paragraph 18. The basic tax point is based on:-

- (a) at the expiry date specified by the consignor (not more than 12 months from the delivery date);
- (b) when the consignee adopts the goods before the specified time limit expires; or
- (c) 12 months from the date at which the goods were sent to the consignee, if no time limit is specified.

If the consignor receives a statement of sales, this will normally indicate that the goods have been adopted. Applying the 21 days rules, if a tax invoice was issued within that period of the date of consignor receives the statement of sales or after twelve months the goods were sent, then the time of supply is the date of the tax invoice.

### ***Example 3:***

*Company A is a manufacturer who delivered 1000 sets of shirt to a supermarket in Malaysia on 1<sup>st</sup> January 2016. The goods were delivered on consignment after the supermarket owner agreed on the price offered by the manufacturer. On 5<sup>th</sup> July 2016, Company A was informed that 200 sets of shirt had been sold. Company A issued a tax invoice to the supermarket on 20<sup>th</sup> July 2016 and received payment on 30<sup>th</sup> September 2016.*

*Basic tax point for goods sold will be on 5<sup>th</sup> July 2016, i.e. the point when the sale become certain. However since the tax invoice was issued within 21 days from the basic tax point, it overrides the basic tax point. So, the time of supply is on 20<sup>th</sup> July 2016. Company A must account GST in the taxable period of July 2016. (Assuming Company A is on monthly taxable period).*

*If the supermarket is a registered person, it can claim input tax credit on the purchases.*

**Example 4:**

*Continuing from Example No. 1 above, let say, a balance of 800 sets of shirt were not sold and returned to Company A on 31<sup>st</sup> December 2016. In this case, GST on the 800 sets of shirt is not due because there is no transfer of ownership. Company A does not have to account for GST on the 800 sets of shirt that was not sold since they were returned before expiry of 12 months from the date it was first consigned.*

**Example 5:**

*If the unsold goods in example 4 above were not returned to Company A on 1<sup>st</sup> January 2017, Company A has to account for GST due on the 800 sets of shirt in January 2017 since 12 months had lapsed from the date it was first consigned. Therefore, the tax point is on 1<sup>st</sup> January 2017. Company A has to account GST based on the selling price in the GST return for January 2017.*

## **EXPORTS**

22. All supplies of goods exported from Malaysia and international services are zero-rated. This means that the exporter does not charge GST on his exports but he is able to claim input tax credits on GST incurred in his inputs. However, the exporter must keep documentary evidence as proof of exports such as the export declaration forms, invoices and packing list .

23. A manufacturer is not entitled to zero rate the supplies made to his overseas buyers, if the goods are not exported out from Malaysia but delivered locally. This could happen in the case of goods exported under the name of logistic company or

to be drop-shipped to the local customers of overseas buyers. The supplies would be subjected to GST at standard-rated.

**Example 1:**

*ABC Co. is a contract manufacturer who is producing computer drive to his overseas buyer, XYZ Ltd in Japan. Once manufactured, the ownership of the total 1,000 unit of computer drive is transferred to the XYZ Ltd and the goods are exported to Japan. ABC Co. is entitled to zero rate the supplies because the goods are exported out.*

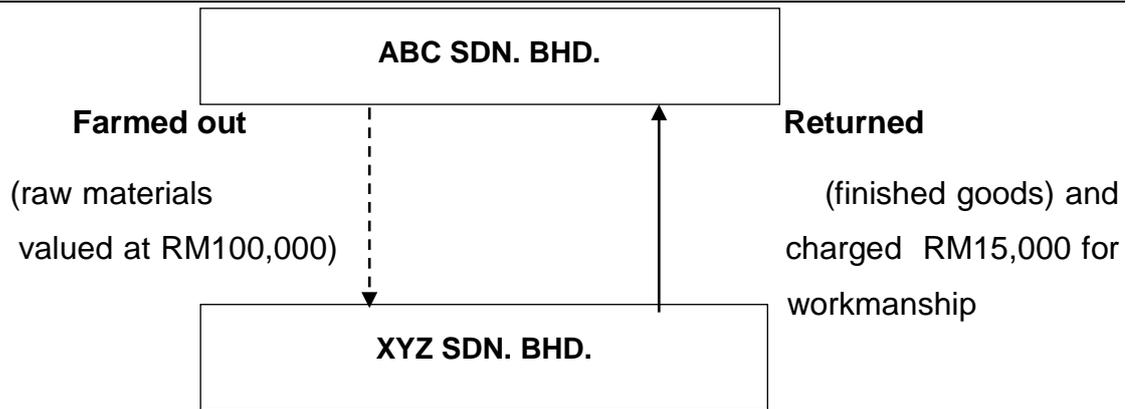
**Example 2:**

*Based on the example 1, the overseas buyers request ABC Co. to send only 800 unit of the goods to Japan and the balance (200 unit) deliver to his local customer in Malaysia. In this case, the supply of 800 unit is entitled to be zero-rated and the 200 unit would be subjected to GST at standard rate.*

**FARMING IN/OUT (SUB-CONTRACT WORK)**

24. Subcontractors normally do work that are given by another company known as a principal. The principal supplies materials to a subcontractor for further work to be done. In this matter, there is no taxable supply from the principal because there is no transfer of ownership of the goods to the subcontractor. Therefore, GST is not applicable.

25. Farming out does not transfer the ownership of the goods to the subcontractor. As such, it is not a supply of goods and the principal does not have to account for GST output tax on the raw materials. However, if the subcontractor is a GST registered person, he has to account for GST output tax on the value of the service supplies to the principal. (See example below)



**Accounting for GST will be as follows:**

- ABC Sdn.Bhd. (registered person) will issue a normal delivery order or consignment note to XYZ Sdn.Bhd.(registered person) and no GST is chargeable.
- XYZ Sdn.Bhd. will issue a tax invoice to ABC Sdn.Bhd. when the finished goods are returned to ABC Sdn.Bhd and XYZ Sdn.Bhd. has to account for output tax of RM900( $RM15,000 \times 6\%$ ) on the labour charge.
- ABC Sdn.Bhd. can claim the RM900.00 (GST) paid to XYZ Sdn.Bhd. as his input tax credit.
- If XYZ Sdn.Bhd. is not a GST registered person, no GST is due on the labour charge.

**Toll manufacturing activities**

26. Under this activity, the local manufacturer was engaged by the overseas principal who does not belong in Malaysia to perform value added activity on consigned goods provided by the principal. The processed goods will be exported back to the overseas principal and based on instruction, some portions of the processed goods would be delivered by the manufacturer to the local customers of the overseas principal. The delivery of processed goods by the toll manufacturer is actually a supply made by the overseas principal which would be the liability of the principal.

27 Through the Approved Toll Manufacturer Scheme (ATMS) which is introduced under GST, the liability of the principal on the processed goods would shift to the

local customer of the overseas principal under the recipient accounting mechanism. Thus, the local customer whether or not he is registered person has to account and pay for the tax as if he had himself supplied and acquired the goods.

28. Under ATMS, value added activities (contract services) carried out by the toll manufacturer is to be disregarded which means that there would be no GST charged on such services rendered to the overseas principal. A toll manufacturer is eligible to apply for ATMS if he satisfies the Director General that:

(a) the value of supplies comprising the treatment or processing of goods for and to a person who does not belong in Malaysia, i.e. value of contract services is RM2 million or more (excluding the cost of raw materials supplied or belonging to the overseas principal) per annum; AND

(b) he must export at least 80% of the processed goods.

**For further details, please refer to *Guide on Approved Toll Manufacturer Scheme*)**

## FREQUENTLY ASKED QUESTIONS

### Registration

**Q1: Are all manufacturers liable to be registered as GST registered persons?**

A1: Only those manufacturers who make taxable supplies and have annual turnover that exceeds the prescribed threshold for GST registration are liable to be registered as registered persons. However, for those manufacturers whose annual turnover does not exceed the prescribed threshold, they can still apply for voluntary registration.

**Q2: If my company has a few subsidiaries, do I have to register all my companies separately or as a group?**

A2: You may register all the subsidiaries as a group or each company may apply to be registered separately. (***For further details, please refer to Registration Guide***)

## Inputs

**Q3: Can a GST-registered manufacturer treat all the GST paid for his business acquisitions or purchases as his input tax credit?**

A3: All GST incurred by the manufacturer can be treated as his input tax credit, if he incurs the GST for his business purpose. The manufacturer can offset this input tax credit against any output tax that he is liable to pay to the Director General of Customs (DG).

**Q4: Is GST imposed on raw materials and components used in the manufacture of goods that are meant for export?**

A4: Yes, you will have to pay GST on all raw materials acquired by you from any GST-registered suppliers. If you choose to import the raw materials, GST is payable at the time of importation. However, if you are a GST registered person, you would be able to claim input tax credit on all input tax incurred by you. The goods subsequently exported by you will be zero-rated.

**Q5: I am a manufacturing company which categorizes as export oriented incurred a substantive GST on imported goods. Is there any facility to me not to pay GST upfront?**

A5: The mechanism of the GST, whatever GST incurred on your acquisition whether locally source or imported is subject to GST and allowed for input tax claim. However, some export oriented companies which hold status as Free Industrial Zone and Licensed Manufacturing Warehouse (LMW) are eligible to suspend the payment of GST on all their importation of goods at the time of importation under the Approved Trader Scheme (ATS). ***For further details, please refer to Approved Traders Scheme (ATS)***

**Q6: Can I claim GST paid on administrative expenses?**

A6: All administrative expenses incurred in making taxable supplies are entitled to input tax claim whether directly or indirectly used in the manufacturing process. The input tax can be claimed in full by offsetting it against your output tax in your GST return.

**Q7: How about GST incurred on capital items, for example a computer system or an office building? Can I claim them as my input tax credit?**

A7: As a GST registered person, you can claim the GST incurred on capital items that were to be used in your business to make taxable supplies. The input tax is claimable in the taxable period in which the capital items are acquired.

**Q8: Are there any purchases in which input tax is not claimable?**

A8: Basically, input tax is claimable on all purchases, except for the following:

- (a) on goods and services which are not used for your business.
- (b) on goods (other than those on hand at the time of registration) and services obtained before GST registration.
- (c) all supplies that fall under the blocked input tax which is stipulated under the GST Regulations 20XX. Examples of such supplies include passenger cars.

**Q9: If capital assets are used for making exempt supply, can I claim full input tax credit?**

A9: No, input tax claim on exempt supplies is not allowed.

**Q10: If capital assets are used for making mixed supply, can I claim full input tax credit?**

A10: If you are making mixed supplies (taxable and exempt supplies) you will have to apportion the input tax based on the proportion of taxable supplies made. Besides that, if the assets are used for making mixed supplies and the value of the assets is more than RM100, 000.00 (excluding tax), the GST incurred on the cost of the capital goods may be subject to adjustments under the Capital Goods Adjustment. Adjustment becomes necessary when there is a change in the proportional taxable use of the capital goods. **(For further details, please refer to Guide on Capital Goods Adjustment)**

**Q11: If for some reasons, like defective or inferior goods, I have to return some of the goods to my supplier, can I claim the GST paid on the returned goods?**

A11: When you returned the goods, your supplier should refund you the payment for the goods and the GST you paid by way of a credit note. If you have already claimed the input tax credit on the returned goods, then you will have to reduce the said input tax in the taxable period in which you received the credit note.

**Q12: I am a GST-registered manufacturer and acquire certain services from overseas. What is my GST liability?**

A12: When you acquire the services from overseas, you are treated as making the supply of imported services. Therefore, you need to account for tax on such services acquired where the time of supply is when the supply is paid by you. However, if you are making wholly taxable supplies, there will be no net GST implication because the amount of output tax that need to be accounted would be the same as the amount of input tax that you claim. But, if you are making both taxable and exempt supplies you have to account for output tax in full but you can only claim your input tax proportionally.

**Q13: Can I claim input tax on the whole value (purchase price) of the machinery acquired under a hire purchase agreement?**

A13: Under hire purchase agreement, goods are paid by way of installments to the vendor or a finance company that provides loan for the purchase. You can claim input tax based on the whole value of purchase price. However if the interest charged is separately identified or shown and disclosed to you, the interest charge under the hire purchase agreement will not be subjected to GST as it relates to exempt supply.

**Q14: What is the GST implication on property or machinery that I acquire under lease?**

A14: GST liabilities on leasing would depend on the type of lease whether it is operating lease or financial lease. Under the financial lease where the lease allows for an option to purchase or transfer of asset at the end of the lease, then the leasing company or the financial institution will impose GST on the whole value of the property or machinery similar to the treatment under the hire purchase agreement in answer for question Q13 above. If it is an operating lease, GST will be imposed on the value of each lease payment. If the interest charge is disclosed or separately shown under the leasing agreement, the interest element would not be subjected GST.

**Q15: If at the end of the financial lease, I decide not to exercise the option to buy a machine, must I still have to pay GST on the whole value of the machine?**

A15: It doesn't matter whether you exercise the option to purchase or not. As long as the leasing agreement includes a clause for an option to buy the leased item, it is considered as a supply of goods and the whole value of the item is subject to GST.

**Q16: I am a plastic article manufacturer. Normally, I acquire a machine from a machine manufacturer by advance payment similar to progress payment until the machine is ready for collection. How do I claim input tax credit?**

A16: Your machine supplier would charge output tax on the value for each payment he received. The machine manufacturer would account for GST to the Director General at the earlier of the following event:

When you make payment to him; or

When a tax invoice is issued to you.

You can claim input tax according to your taxable period, based on the tax invoices that you received.

**Q17: Normally in the manufacturing industry, we do not make cash payment for our purchase of raw materials. We are usually given credit terms by our suppliers. So would I be able to claim the input tax before I make the payment to my supplier?**

A17: Yes, provided you hold the tax invoices from your supplier.

**Q18: For importation of goods, how is the value computed for GST payment?**

A18: At the point of importation, value for GST purpose is based on transaction value including insurance and freight, plus all duties payable and other incidental charges as shown in the example below:

Transaction value	:	RM50, 000.00
Insurance and freight	:	RM 2, 000.00
Import duty	:	*RM 5,200.00
-----		
Value of import:		RM57, 200.00

GST payable = RM57, 200.00 x 6% = RM3,432.00

(\*Assuming Import Duty 10%)

**Q19: My overseas suppliers would bill me for my imports in foreign currencies. Can I declare the value of my imports in foreign currencies?**

A19: Your supplier may bill you in foreign currencies, but for GST purposes, the value of imports must be converted into Ringgit Malaysia (RM) using the exchange rate published by the Royal Malaysian Customs.

**Q20: Is there any reprieve of GST for goods imported into a Free Commercial Zone?**

A20: No GST is charged on goods imported into Free Commercial Zone (FCZ). However, the goods will be subjected to GST when it is removed from the FCZ for home consumption.

**Q21: Since I am re-exporting my finished goods which are zero-rated, can I be exempted from paying GST when I import the raw materials?**

A21: We have a suspension scheme for export-oriented companies known as the Approved Trader Scheme (ATS). You may apply to join the ATS, subject to conditions imposed under the said scheme. **(For further details, please refer to Guide on “Approved Trader Scheme”)**

**Q22: What is the GST treatment on imported trade samples?**

A22: Trade samples will be given GST relief under the GST Relief Order 20XX at the point of importation. You must comply with the conditions that the trade samples are not to be sold, consumed, put to normal use or in any way put for hire or reward while in Malaysia.

**Q23: I send my semi-finished goods to my sub-contractors, who are located overseas, for value-added activities. When my sub-contractors send back the value-added goods to me, do I have to pay GST?**

A23: When you send the semi-finished goods to your sub-contractors overseas, you should treat the goods as your exports and zero-rate the supplies. When the goods are subsequently brought back into Malaysia from your overseas sub-contractors, you are entitled to get relief from payment of GST. However, GST is chargeable on the parts or components added on the processed goods. If you are a registered person, you can claim the GST paid on the finished goods as your input tax credit. Any value added services performed on that goods does not attract customs duty or GST.

**Q24: If I export my product to overseas, can I claim input tax credit on zero-rated supplies?**

A24: Zero-rated supplies are taxed at zero percentage, for example goods exported to overseas. For zero-rated supplies, a taxable person is eligible to claim input tax credit on his business inputs in making taxable supplies.

## Outputs

**Q25: In the case of goods being returned by my customers, can I claim the GST paid?**

A25: Yes, you can claim the GST paid on the goods returned by issuing a credit note to your customers. You need to make adjustments to your accounts and declare it in your return in the taxable period in which you issued the credit note.

**Q26: I had wrongly undercharged the price of goods sold. How do I account for GST on the supply?**

A26: You need to issue a debit note and make adjustments to your account and declare it in your return in the taxable period when you issued the debit note.

**Q27: If I give a trade discount to my customers, can I only charge GST on the discounted price?**

A27: Yes, GST should be computed on the discounted price.

**Q28: When a certain quantity of goods are given free as incentive for bulk buying, for example for every 20 units of a product purchased at a price of RM5, 000.00 I offered my customer 2 units free, must I also account GST on the 2 units given free?**

A28: GST will only be based on RM5, 000.00 since the 2 units given free is considered as a discount.

**Q29: Every year I will give certain quantity of my manufacturing products as a business gift to my customers. Do I have to account GST on the gifts?**

A29: In principle, gifts to your customers are deemed to be taxable supplies because it is made in the course or furtherance of your business. However under the GST law, a gift is not a supply and no GST due, if the cost of gift is worth not more than RM500.00 and given to the same customer in the same year. In such a case, you do not have to account for output tax. You are allowed to claim input tax incurred.

**Q30: I plan to hold promotions to improve the sale of my products by giving away goods through a retailer. Do I have to account for output tax on the products that are given free within the promotional period?**

A30: It depends on how you offered the product for the promotion. If the promotion is such as 'buy 1 free 1' or 'buy a sofa and free foot stool', it is considered as one supply, normally total amount paid by the buyer will usually cover all the goods offered. Therefore, you do not have to account output tax on the goods given free because it is considered as a discount.

**Q31: I am a GST registered person and process toasted groundnuts for sale to the local market on credit term. Expiry date for my goods is 6 months and many of my retailers would return to me the expired goods and I will refund their money accordingly. Can I claim the GST that refunded to my customers?**

A31: Yes, you are eligible to claim the GST paid on returned goods through adjustment in the period where you issued the credit note.

**Q32: Is GST chargeable on after-sales services provided to customers for goods sold under warranty?**

A32: When goods are sold under warranty, the assumption is that the price, which is inclusive of GST, usually includes the charge for the after-sales services and repairs during the warranty period. Any replacement of spare-parts free of charge during the warranty period will not attract GST.

**Q33: Do I have to pay GST on goods (sold under warranty) that are temporarily imported into Malaysia from my overseas customers for repairs?**

A33: When these goods are temporarily imported into Malaysia for repairs before they are re-exported, you can apply for temporary import tax relief with the RMC where GST can be temporarily suspended at the point of importation. **(For further detail, refer to Guide on Import)**

**Q34: What is the value for charging GST if the selling price of my manufactured products includes transport charges and insurance coverage on the goods?**

A34: The value for GST purposes includes your transportation charges and insurance coverage fees. If you are merely arranging the transport and the transport fee directly charged to your customer then your customer will have to pay GST on the transport charges to the transport company.

**Q35: Are sales of capital items subjected to GST?**

A35: Sales of capital items, except for Transfer of Business as a Going Concern (TOGC), are regarded as **making** taxable supplies. Therefore, sales of capital items are also subjected to GST at standard rate.

Exports

**Q36: My local customer ordered some goods from me but he requested me to send the said goods to his overseas customer. Do I have to charge GST when I invoice my local customer?**

A36: If you export the goods yourself you can zero rate that supply even though you have billed your local customer.

**Q37: I built a machine for an overseas client. The sale invoice was issued to him, but at his request I supplied the machine to his local customer. Can I zero-rate the sale of the machine?**

A37: No, you cannot zero-rate the sale of the machine. Although the sale was made to a foreign person, the machine was not exported since it still remained in Malaysia. Thus, you will need to charge GST on the sale even though you bill your overseas client.

**Q38: I made a sale of goods to an overseas client. Upon his request, the goods were delivered to a local forwarding agent, who arranges them to be exported to my overseas client. Do I have to charge GST to my overseas client?**

**A38:** No GST is charged to your overseas client, if the export is done in your name. In other words, the sale of goods can be zero-rated if it is exported by you. However, you need to keep proof of export such as Custom No.2 (Export declaration) address of consignee, bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents.

**Q39: My local customer claim the goods he purchased from me will be exported and requested me to zero-rate the goods. Can I zero rate the goods sold to my local customer?**

**A39:** You should treat the supply as a local sale and you have to charge GST. Your customer can zero-rate his supply to his foreign customer if he exports the goods.

**Q40: What is the treatment for goods temporary exported for repair and subsequently re-imported?**

**A40:** Goods exported temporarily for repair and subsequently imported will be given relief. However, any replacement of parts and components added on the goods are subject to GST at the time of importation. **(Please refer to GST (Relief) Order 20XX)**

Farming In/Out (Sub-Contract Works)

**Q41: If I am a manufacturer doing sub-contract work, can I claim input tax incurred for my purchases?**

**A41:** Yes, you are allowed to claim input tax on GST paid on your purchases even though you are not producing your own goods. As long as you are a registered person making taxable supplies like providing workmanship and some value added work, you can claim input tax incurred on your purchases. You must keep original tax invoices from your suppliers to support your claim for input tax credit.

**Q42: How is the GST treatment if I as a sub-contractor engaged in contract manufacturing with overseas principals for local delivery and export purpose?**

A42: There is a scheme known as “Approved Toll Manufacturer Scheme (ATMS)” to relieve local toll manufacturers who engaged in substantial business with overseas principals. Under this scheme you as a toll manufacturer are eligible to suspend the payment of GST on imported goods which were supplied by your overseas principal, subject to certain conditions to be fulfilled under the Approved Traders Scheme (ATS).

**Q43: I did not meet the requirement under the ATMS where the percentage of drop-shipment is more than 20%, what is the GST implication on the processed goods which I delivered locally?**

A43: In the case where you are not eligible to apply for ATMS, the processed goods delivered locally is treated as a supply and hence is subjected to GST. It is because the possession of goods is transferred (under an agreement for the sale of the goods) from the toll manufacturer to the local customer.

Other related matters

**Q44: If I loan some materials to another manufacturer for his urgent use, do I have to account for GST output tax?**

A44: Yes, It is a supply because the business asset is transferred to another manufacturer.

**Q45: If I loan a machine to another manufacturer for his use, do I have to account for GST output tax?**

A45: Yes, GST is due because it is treated as a supply of services even though the loan is not for a consideration. You have to account for GST based on the open market value of such supply of services.

**Q46: My goods were lost in the course of delivery to my customer. Do I have to account the GST?**

A46: This depends on the contract between you and your customer. If the contract makes either party liable (the sale has taken place), then you must account for GST even if the goods are lost on delivery. However, if you wish to cancel

the sale you may do so and if invoice has been issued then you must issue a credit note to contra the GST payable. On the other hand, if the contract does not make either party liable, then there is no GST liability on the loss of the goods on the delivery.

**Q47: What happen if my customers fail to make payment on goods previously supplied where output tax has been accounted?**

A47: You can claim bad debt relief for your debts or any doubtful debts on the whole or any part of the GST output tax paid in respect of taxable supplies subject to the following conditions:-

- (a) you have already accounted for and paid the tax on the supply,
- (b) you have not received any payment or part payment six months from the time of supply or the debtor has become insolvent before the period of six months has lapsed, and
- (c) you have taken sufficient efforts to recover the debt.

**Q48: What is the GST treatment on disposal of manufacturing waste?**

A48: If the waste is destroyed, no GST is due as there is no supply made. However, if you decide to sell the waste, GST must be imposed on such sales.

**Q49: I receive my goods in carton boxes and wooden pallets. These packaging materials will be taken by appointed person who cleans the unloading area. What is the GST treatment?**

A49: Since the packaging materials are not recorded as your assets, you need not account for GST.

**FEEDBACK AND COMMENTS**

29. Any feedback or comments will be greatly appreciated. Please email your feedbacks or comments to either MohdHisham B. MohdNor

(*m\_hisham.nor@customs.gov.my*) or Aminullzmeer B. MohdSohaimi  
(*izmeer.msohaimi@customs.gov.my*).

## **FURTHER ASSISTANCE AND INFORMATION**

30. Further information can be obtained from:

- (a) GST Website : [www.gst.customs.gov.my](http://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](mailto:ccc@customs.gov.my)