



# **ROYAL CUSTOMS DEPARTMENT**

## **GOODS AND SERVICES TAX**

### **GUIDE ON DEVELOPMENT FINANCIAL INSTITUTION**

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## **INTRODUCTION**

1. This Industry Guide is prepared to assist you in understanding the Goods and Services Tax and its implications on banking services offered by Development Financial Institutions (DFI).

### **GENERAL OPERATION 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.

### **OVERVIEW – GENERAL OPERATIONS OF THE INDUSTRY**

5. The Development Financial Institutions (DFIs) in Malaysia are specialised financial institutions established by the Government with specific mandate to

develop and promote key sectors that are considered of strategic importance to the overall socio-economic development objectives of the country.

6. In Malaysia there are six DFIs under the purview of Bank Negara Malaysia through the enactment of the Development Financial Institutions Act (“DFIA”) 2002. Besides that, there are other DFIs funded by the government which have their own specific mandates. **(Please refer to the list of DFI’s as in Appendix 1.)**

### **GST TREATMENT BY SUPPLY TYPES**

7. DFIs normally make three types of supplies namely exempt, standard rated and zero rated supplies.

**(a) Exempt supply**

In normal practices, DFIs provide loans, extend credits or accept deposits and offer other similar facilities, therefore earning interest or spread as a consideration. These types of services are treated as exempt supplies under GST.

**(b) Standard Rated Supply**

A supply is standard rated if there is a basic charge or a fixed fee being imposed on the supply. Fee based services are standard rated supplies. Examples of fee based services are:-

- loan processing
- standing instruction services
- rental services
- counting services for coins and currency deposit
- prepaid and reload service
- maintenance services in relation to buying and selling of shares

- supply of automatic teller machine (ATM) cards and saving account books
- safe keeping or custodial services, will writing services
- intermediary services in which fees or commissions are being charged. (e.g. services consisting of arranging, broking, underwriting and advising on any of the financial services)

However, certain fees or charges will not be subject to GST. There are fees and charges being imposed to compensate for loss, damages or to penalise the customer for not meeting certain requirements or conditions. Such penalty or fine will not be subject to GST and these penalty charges would include:

- late payment charges
- commitment fee (for unutilized portion of overdraft)
- compensation charge for dishonored cheque
- overdraft excess fee.

**(c) Zero Rated Supply**

Services rendered by DFIs for customers abroad will be zero-rated if at the time the services are rendered, the customers are outside Malaysia. Similarly, any service rendered in connection with land and goods situated outside Malaysia is also zero rated.

**Imported Services**

8. Where services are received (imported) from abroad, such services are subject to GST at a standard rate if the supplies are taxable supplies when they

are made in Malaysia. In such cases, reverse charge mechanism applies as if the importer (e.g. financial institution) had supplied those services to himself. The recipient must account for the GST incurred on the taxable services. However, he is entitled to claim GST incurred on the inputs.

### **GST TREATMENT ON DFI**

9. Being specialised in financial institutions, DFIs e.g. Bank Simpanan Nasional, Bank Kerjasama Rakyat Malaysia, Agro Bank provide banking services similar to those activities provided by a commercial bank such as operation of savings, deposit and current accounts, provision of loans and trade financing. The GST treatment on the provision of financial services is provided in the Commercial Banking and Islamic Banking guide. *For more information please refer to the Guide on Commercial Banks and Islamic Banks.*

10. Besides retail banking, DFIs e.g. MIDF provides banking activities similar to an investment bank such as margin financing, corporate banking and wealth management. For more information on the GST treatment, please refer to the Guide on Investment Banks.

11. Tekun Nasional, Perbadanan Usahawan Nasional Berhad (PUNB) and Amanah Ikhtiar Malaysia are examples of DFIs that are funded by the government. Basically, their main activity is the provision of loan to entrepreneur either short term or long term. The provision of loan is an exempt supply but the fee based services are subject to GST at a standard rate.

### **Fixed Input Tax Recovery (FITR)**

12. Generally, claiming of input tax credit by a mixed supplier may be in the following manner:-

- (a) Claiming full input tax credit if the input is wholly attributable to a taxable supply;
  - (b) Cannot claim input tax credit if the input is wholly attributable to an exempt supply; or
  - (c) Apportioning input tax by using the turnover method if the input (residual input) cannot be wholly attributable to either taxable or exempt supplies.
13. Supplies made by financial institutions e.g. the provision of loans/financing is an exempt supply and input tax is not claimable. However, banks and other financial institutions which provide loans or financing to businesses are allowed to use Fixed Input Tax Recovery (FITR) method to claim the GST incurred on their business input.
14. FITR is a method where a financial institution such as:
- (a) commercial bank;
  - (b) investment bank;
  - (c) Islamic bank;
  - (d) development financial institutions and any other approved institution established under any Act of Parliament or State Ordinance is entitled to recover input tax based on a specific rate in percentage determined by the Minister.
15. The fixed rate is subject to a review and different persons may be assigned a different fixed rate as determined by the Minister.

16. If a financial institution is allowed to recover input tax using the FITR method, the amount of the input tax allowable is in accordance with the following formula:

$$A \times B$$

where: A is the total input tax incurred in the taxable period  
and B is the fixed rate.

The total input tax incurred in the taxable period includes:

- (a) input tax in relation to exempt supplies i.e. loans provided to businesses and individuals;
- (b) input tax in relation to standard rated and zero rated supplies;
- (c) input tax in relation to other exempt supplies e.g. investment activities.

17. For Islamic banks and other financial institutions making financial supplies in accordance with the principles of Syariah, the input tax incurred on supplies relating to Syariah financing is fully claimable. *For more information, please refer to Guide on Input Tax Credit.*

**Example 1:**

*In January 2016, a GST registered DFI incurs GST on the following:*

- (a) *input tax in relation to exempt supplies(provision of loans to businesses) - RM36,000*
- (b) *input tax in relation to standard rated supplies( fee based services) - RM18,000*
- (c) *input tax on investment activities - RM12,000*

*The DFI is allowed to use the fixed input tax recovery method to claim GST incurred on his business inputs at the assumed rate determined of 70% in the year 2016.*

$$\text{Input Tax Claimable} = \text{Input Tax incurred in the taxable period} \times \text{FITR rate}$$

$$\begin{aligned} &= (RM36,000 + RM18,000 + RM12,000) \times 70\% \\ &= RM46,200 \end{aligned}$$

**Example 2:**

*In the taxable period of January 2016, the above DFI incurred GST on the following:*

- (a) input tax in relation to exempt supplies (provision of financing to businesses in accordance with Syariah principles) - RM15,000*
- (b) input tax on standard rated supplies (fee based services) - RM 36,000*
- (c) input tax on investment activities - RM12,000*

*For the year 2016, the DFI is allowed to use a fixed rate determined assuming at 70% for the purpose of claiming input tax.*

$$\begin{aligned} \text{Input Tax Claimable} &= \text{Input Tax incurred in the taxable period} \times \\ &\quad \text{FITR} \\ &\quad \text{rate} \\ &= (RM36,000 + RM12,000) \times 70\% \\ &= RM33,600 \end{aligned}$$

*For the taxable period of January 2016, the DFI is allowed to claim input tax amounting to:*

$$RM33,600 + RM15,000 = RM48,600$$

## **FREQUENTLY ASKED QUESTIONS**

### **GST Registration**

**Q1: Tekun Nasional provides financing and support services to small entrepreneurs as mandated by the government. Is Tekun Nasional required to be registered under GST?**

A1: In order to be registered under GST a person should make taxable supplies that exceeding the prescribed threshold of RM 500,000. Since the entrepreneurship development and support services are fee based services, Tekun Nasional must be registered its business under GST once the turnover has exceeded RM 500,000. However Tekun Nasional can also register his business voluntarily under GST if the turnover is below the threshold.

### **Supplies made by Development Financial Institutions**

**Q2: What is the GST treatment for the funding to Malaysian entrepreneurs for the purpose of setting up or expanding Malaysian restaurants overseas?**

A2: The provision of financing and the processing fee imposed to the overseas customer is treated as a zero-rated supply.

**Q3: Agro Bank gives souvenir items such as coin box, pencil box, cap, etc. as free gifts to new depositors for opening a savings account. Are these free gifts subject to GST?**

A3: Free gift items are subject to GST at a standard rate. However, under business gift rule, the banks are not required to account for

output tax on the gifts (goods) to depositors provided the cost of the gift does not exceed RM500.00.

**Q4: Bank XYZ provides Premium Savings Certificate (PSC) scheme whereby lucky draw prizes such as luxurious cars, travel package, camera, PSC certificate and cash will be given away to customers. Are these free prizes subject to GST?**

A4: Such goods or services given away in the form of luxurious car, travel package and camera as prizes to PSC winners are taxable supply and subject to GST at standard rate. However, the PSC certificate and cash are not subject to GST.

**Q5. Credit Guarantee Corporation provides a guarantee scheme to SMEs who have been awarded with the government or government linked agency's contract. What is the GST treatment on the guarantee scheme?**

A5. The guarantee scheme is not subject to GST but the fee imposed for the issuance of the guarantee is subject to GST at a standard rate.

**Q6. Are advisory or consultancy services provided by the Malaysian Industrial Development Finance Berhad (MIDF) subject to GST?**

A6. Advisory or consultancy services are taxable supplies and subject to GST at a standard rate. If the service is provided free it is not a supply and not subject to GST.

**Q7. Perbadanan Usahawan Nasional Berhad (PUNB) provides courses for SMEs and charges a minimal fee. Is the fee subject to GST?**

- A7. The fee charged is subject to GST at a standard rate provided PUNB is registered under GST.

#### **Acquisitions made by Development Financial Institutions**

**Q8. Are grants received by Development Financial Institutions subject to GST?**

- A8. Grant is a not a supply and not subject to GST.

#### **Accounting for tax**

**Q9. MARA provides seminars or workshops for entrepreneurs and individuals undertaking its financing scheme or the general public for a fee. Entrepreneurs and individuals pay at the lower rate than the general public. How do I account for GST?**

- A9. If discounts are given to entrepreneurs and individuals undertaking its financing scheme, GST is accounted on the discounted fee.

**Q10. Can MARA claim input tax incurred in respect of medical and hospitalisation benefits of its employees?**

- A10. MARA is not entitled to claim the input tax on medical and hospitalisation expenses since these are blocked inputs.

**Q11. Can MARA claim the input tax incurred in relation to entertainment expenses to existing clients?**

- A11. MARA is allowed to claim the input tax incurred since business entertainment expenses to existing clients are claimable.

## **FEEDBACK AND COMMENTS**

19. Any feedbacks 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](mailto:m_hisham.nor@customs.gov.my)) or Aminul Izmeer B. Mohd Sohaimi ([izmeer.msohaimi@customs.gov.my](mailto:izmeer.msohaimi@customs.gov.my)).

## **FURTHER ASSISTANCE AND INFORMATION**

20. 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
- (b) 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)

**Appendix 1**

**List of Development Financial Institutions (DFI's)**

**A. Under purview of Bank Negara Malaysia**

(governed by the Development Financial Institutions Act 2002)

1. Bank Simpanan Nasional
2. Bank Pertanian Malaysia Berhad (Agro Bank)
3. Bank Pembangunan Malaysia Berhad
4. Bank Kerjasama Rakyat Malaysia Berhad
5. Export-Import Bank of Malaysia Berhad (EXIM Bank)
6. Bank Perusahaan Kecil Dan Sederhana Malaysia Berhad (SME Bank)

**Other DFI's**

7. Malaysia Building Society Berhad (MBSB)
8. Malaysian Industrial Development Finance Berhad
9. Sabah Credit Corporation
10. Sabah Development Bank Berhad
11. Borneo Development Corporation (Sarawak).Sdn. Bhd.
12. Borneo Development Corporation (Sabah) Sdn. Bhd.
13. Perbadanan Usahawan Nasional Berhad
14. Perbadanan Nasional Berhad
15. Credit Guarantee Corporation Malaysia Berhad (CGC)
16. Lembaga Tabung Haji
17. Tekun Nasional
18. Amanah Ikhtiar Malaysia
19. Majlis Amanah Rakyat