



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

**GUIDE
ON
ADVERTISING SERVICES**

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INTRODUCTION

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

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.

ADVERTISING SERVICES

5. This Guide provides guidance on the GST treatment on advertising services provided by media owners, production houses and advertising agencies including media agencies, creative agencies and full range advertising agencies. Advertising services are provided in many forms. The common forms of advertising are media sales, media planning, creative and production sales and brand PR and event organizing.

6. The following are examples of advertising services:
- (a) An advertising performance or product endorsement by a personality supplied directly to the person whose products are advertised.

Example :

The football team wearing the jersey with sponsors name.
 - (b) The display of a sponsor's name, or product, by a sponsored person or team in return for "sponsorship" payments.
 - (c) Supplies of services that are the "means of advertising". This covers services used in connection with specific advertising, promotion or sponsorship. An example is the supply of a master advertising film, tape, record, poster, picture or photograph, or an advertisement printing block (from which copies are made).
 - (d) The devising and undertaking of a promotional campaign by an advertising agency to launch a client's new product, even where this includes trade events or promotion booth for the public in general.
 - (e) Web site advertising. If the web site can be accessed to all, the GST treatment is zero rated. But, if it is restricted only to a certain members or viewers in Malaysia, GST will be charged at the standard rated.
7. The suppliers of the advertising services are mainly as below:
- (a) Media Owner
 - (b) Creative Production
 - (c) Media Planner

8. The advertising services are provided in many forms and the common form of advertising services are:

- (a) Media sales.
- (b) Media planning.
- (c) Creative and production sales.
- (d) Brand PR and Event Organizing.

9. Media owners refer to owners of the respective media which include the following :

- (a) Television.
- (b) Newspaper.
- (c) Magazine.
- (d) Radio.
- (e) Outdoor advertising (e.g. billboards).
- (f) Online advertising (e.g. phone and internet).

Media Sales

10. The term media sales under advertising services refer to :

- (a) The advertising space for hardcopy print and outdoor advertisements in newspapers and magazines or on billboards;
- (b) The advertising time for broadcasting in television and radio;
and

- (c) The advertising space for online advertising in phone and internet.

In such cases, the primary supplier involved in media sales is the media owner who will sell advertising space, airtime and web media space for the placement of advertisement.

11. Media sales involving the circulation of the advertisement is treated as a supply of services. The services are performed through the media on which the advertisement is placed and are only completed only when the advertising media is circulated and such advertisement reaches out to the viewers or readers. For this, the services is connected with the advertising media in circulation and the mode of circulation can be either in physical or in digital form. As for example, the form of physical form may include placement of advertisement in hardcopy print such as in the newspaper, magazine or billboard and the advertisement through digital form may include the advertisement through internet, radio or television.

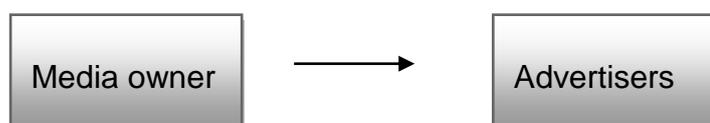
12. There are 2 common scenarios of the supply chain for media sales:

- (a) the sale from media owner directly to the advertisers.
- (b) the sale from media owner to the intermediary supplier who will make an onward supply to the advertisers.

13. The first scenario is where the media owner sells directly to the advertiser. **Diagram I** below is an illustration of such scenario:

- (a) The sale from media owner directly to the advertisers.

DIAGRAM I



In general, the value of supply of media sales is the amount billed to their client. Normally, the media owner will bill the advertiser the rates. The value of supply for media sales made by media owner is the gross selling price (e.g RM XX) he charges to the advertiser including all costs incurred in typesetting, formatting, printing and necessary technology to have the advertisement fitted into the time and space supplied, and transmission by any medium of communication to the reader or viewers.

Another scenario is the sale from media owner to the intermediary suppliers as illustrated in **Diagram II** below.

- (b) The sale from media owner to the intermediary supplier who will make an onward supply to the advertisers.

DIAGRAM II



Under this scenario, the intermediary suppliers such as advertising agencies, media agency or creative advertising agency will make an onward supply to the advertisers and play the roles as a principal for the transaction on media sales.

14. Business practice allows the media owner to give a discount from the gross selling price when the media owner makes media sales to a media/advertiser agency. Since that, the value of supply for the media sales is at the discounted price (e.g 10%) from the gross selling price (i.e RM XX). Therefore the value of supply for media sales is at the discounted price (i.e

RM XX – 10%) and is the amount payable by the agency. The media/advertising agency is making another supply of media sales when such agency bills the advertiser to recover the cost of such media sales (i.e RM XX) and the value of this supply is the gross selling price.

15. The media sales supply chain allows more than one agency involved where the discount is then shared by more parties. Each agency acts a principal for the media sales transactions and has to account GST on his selling price charged the client. The sale from media owner to the media/advertising agencies such as media agencies, creative advertising agencies or full range advertising agencies who will make an onward supply to the advertisers. Hence, the media/advertising agency may act on behalf of his client as a principal for such transaction on media sales.

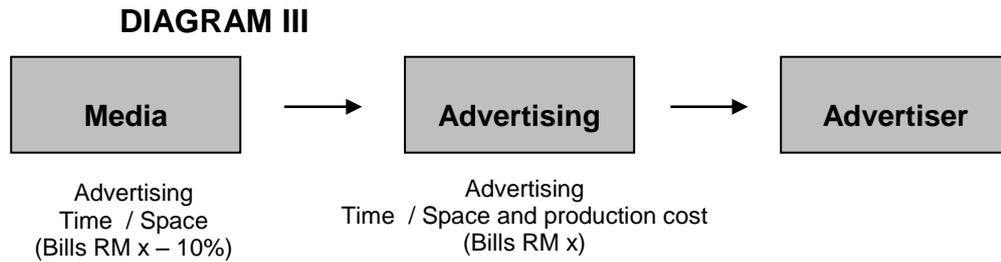
16. There are 2 common scenarios for media sales supply chain:-

- (a) Advertising agency acting as a principal.
- (b) Advertising agency acting as an agent

17. These 2 common scenarios provide different treatments when the advertising agency be appointed to act on behalf of advertiser (principal) compared with if he is acting as an agent. The illustration below shows the different effect when the advertising agency acts as a principal or as an agent:-

- (a) Advertising agency acting as principal

Normally a media owner will bill the advertiser at a gross selling price if the advertiser advertises their product directly to media owner without appointing an advertising agency. However, a discounted price will be given by the media owner to advertising agency if such advertising agency be appointed by the advertiser to act on his behalf. The structure of billing is illustrated in **Diagram III** below :



If the advertising agency acts as principal, the media owner will bill to the advertising agency the supply of advertising time and space (RM XX - 10%) and the advertising agency will claim the GST charged as input tax credit. The agency will bill the advertiser RM XX.

For the media owner, GST will be charged on the discounted price. If the bill after discount is RM90,000, GST to be charged on RM 90,000. In this case, the advertising agency will charge GST based on the gross selling price of RM100,000.

(b) Advertising agency acting as an agent (**Diagram IV**)

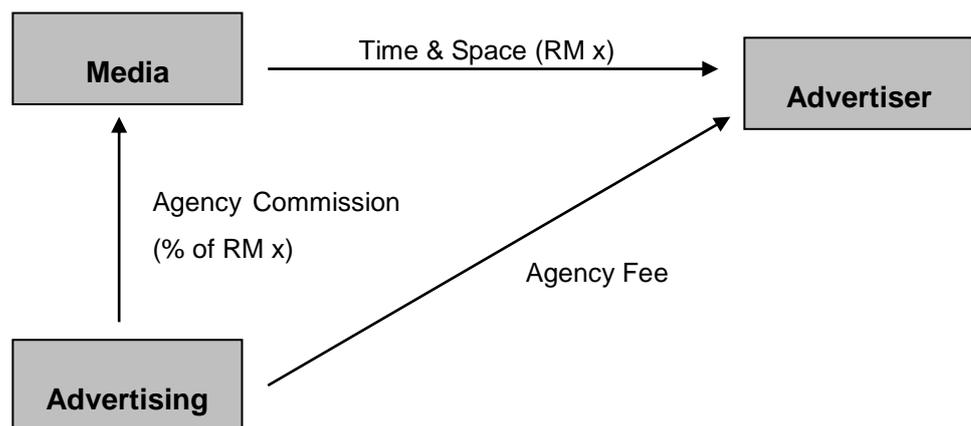


DIAGRAM IV

However, if the advertising agency acts as an agent for the media owner, the media owner will make a supply of media

space or airtime directly and bill the advertiser directly for such supply of advertising time and space equivalent to gross media selling price, RM XX. The advertising agency will collect agency fee from the advertiser for providing agency services. The advertiser may claim input taxes charged by both the agency and media owner.

18. In general, if the advertising services are done by local media owner or local advertising agencies, the supply of services shall be treated as made in Malaysia. If the supplier of the services belongs in Malaysia that is, he has a business establishment in Malaysia or his place of residence is in Malaysia, such provider of the advertising service is required to be registered if his sales turnover exceeds the prescribed threshold.

19. However, to determine whether the supply of media sales is the according to the place of circulation. This treatment may cover all suppliers who bill for media sales.

Example :

A property developer who busy advertising media space or airtime from media owner / media agency and makes onward supplies of those advertising media sales to their customers.

The place of circulation will determine whether such supply of media sales is treated as standard rated or zero rated. The GST treatment on media sales is as follows:-

- (a) if the circulation of the media advertisement is in Malaysia, such supply is standard rated.
- (b) if the circulation of the media sales is outside Malaysia, the supply zero rated.

**SUMMARY OF THE PROVIDERS OF ADVERTISING SERVICES
CAN BE SUMMARISED AS BELOW :**

Advertising Services Supplied To the Advertiser Client

Forms of Advertising Services	Situations	Advertiser Client is:	
		Local Advertiser	Overseas Advertiser
1) Media Sales For Advertising	Local Circulation	Standard-rated Supply	Standard-rated Supply
	Overseas Circulation	Zero-rated Supply	Zero-rated Supply
	Local + Overseas Circulation		
	Circulated outside Malaysia	Zero-rated Supply	Zero-rated Supply
	Less than 51% circulated outside Malaysia but excludes DA	Standard-rated Supply	Zero-rated Supply
2) Media Planning		Standard-rated supply	Standard-rated Supply
3) Creative & Production		Standard-rated Supply	Zero-rated Supply
4) PR & Creative Planning		Standard-rated Supply	Zero-rated Supply

Advertising Services Supplied To The Advertising Agency

Forms of Advertising Services	Situations	Contract with	
		Local Advertising Agency	Overseas Advertising Agency
1) Media Sales For Advertising	Local Circulation	Standard-rated Supply	Standard-rated Supply
	Overseas Circulation	Zero-rated Supply	Zero-rated Supply
	Local + Overseas Circulation		
	Circulated outside Malaysia but	Zero-rated Supply	Zero-rated Supply
	Circulated outside Malaysia but excludes DA	Standard-rated Supply	Standard-rated Supply
2) Media Planning		Standard-rated supply	Zero-rated Supply (if contract does not specify recipient; or recipients specified in the contract are not local persons)
3) Creative & Production		Standard-rated Supply	Zero-rated Supply
4) PR & Creative Planning		Standard-rated Supply	Zero-rated Supply

FREQUENTLY ASKED QUESTIONS

Registration

Q1: Who is liable to be registered?

A1: All media owners or advertising agencies or production houses, whether they are companies, partnerships or self-employed individuals are liable to register if their annual turnover involving taxable supplies exceeds the threshold in the past 12 months or within the future 12 months.

Q2: If my annual turnover of taxable supplies does not exceed the threshold, can I apply to be registered?

A2: You may apply for voluntary registration, but once registered you must remain registered for a minimum period of two years.

Taxable Supplies and Accounting For GST

Q3: What types of advertising services are subject to GST?

A3: The provision of advertising services is a standard rated supply. Thus, all advertising services are subject to GST. Such advertising services includes :-

- (a) airtime advertisement through radios and television.
- (b) the right to place advertisement on a billboard.
- (c) advertising time or space in any publication and newsprint.
- (d) promotional activities such as an entry in a telephone enquiry directory and advertising space in any electronic location.

Meanwhile, for the creative agencies that supply creative artwork services, such supply is a standard rated supply.

Q4: What constitutes my taxable turnover?

A4: Your taxable turnover includes commissions, other fee based charges received from your clients. For media owner, it includes advertising sales and sales through newspapers, magazines, bulletins, billboards, TV, radio, mobile phone or internet (digital form).

Q5: As an advertising agency acting as a principal, how do I account for GST?

A5: GST constitutes on the selling price, including the cost of advertising space or time.

Example :

ABC Sdn Bhd engaged local advertising agency, Syarikat Pengiklanan XYZ to act on his behalf as a principal to advertise their products in the local newspaper. The Syarikat Pengiklanan XYZ values his work as follows :

Cost of advertising time or space : RM 8,000

Advertising fee : RM 3,000

The amount of GST chargeable to ABC Sdn Bhd by Syarikat Pengiklanan XYZ is RM660 (RM11,000 X 6%), which is the output tax to Syarikat Pengiklanan XYZ.

The amount of GST chargeable by local newspaper (media owner) is RM480 (8,000 X 6%), which is Syarikat Pengiklanan XYZ input tax.

Time of Supply

Q6: When do I have to account for GST?

A6: You have to account for GST at the earliest of the following :

- (a) when the advertising service is performed,
- (b) when payment is received, or
- (c) when the tax invoice is issued.

Q7: When is the basic tax point for “Media Owner” and “Creative and Production Services”?

A7: The basic tax point for advertising services providers are as follows :

- (a) Media Owner

When the circulation takes place i.e. when it is viewed or broadcasted.

- (b) Creative and Production Services

When the creative work and artwork is created and accepted.

Place of Supply

Q8: Hotel Sri Malaysia places a booking with a media owner to air an advertisement in Malaysia on its worldwide hotel chain. Is the sale of airtime subject to GST?

A8: The sale of airtime is subject to GST at standard rate as the circulation of the broadcasting is in Malaysia.

Q9: I am an advertising agency registered in Malaysia and I provide advertising services in Malaysia. Do I have to account for GST?

A9: Yes, all advertising services provided and circulated in Malaysia, are subjected to GST at standard rate regardless whether the supply is made to a local or an overseas customer. For television and radio broadcasting, advertisement placed on television and radio channels in Malaysia are considered to be made in Malaysia and it is a standard rated supply. This is because these television and radio channels are aired or consumed mainly in Malaysia. For media sales advertising through mobile phones, the place of subscription of the telephone line is used as a proxy to determine the place of circulation. If an advertisement is sent to subscribers of local telephones, the circulation is in Malaysia and such supply is standard rated. However, if the circulation of media advertisement is outside Malaysia, the supply is zero- rated.

Q10: If I am an advertising agency registered in Langkawi and provide billboard advertising in Langkawi, do I have to account for GST?

A10: No, advertising services provided inside these islands (Langkawi, Tioman and Labuan) are not subject to GST. These islands are called designated areas. Services supplied inside the designated area are treated as not chargeable to tax. Even though these supplies are treated as not chargeable to tax, the advertiser can claim input tax incurred in providing advertisement services in the designated area.

Q11: If I am an advertising agency registered in Langkawi and provide media sales advertisement in Langkawi, do I have to account for GST?

A11: No, advertising services provided inside these islands (Langkawi, Tioman and Labuan) are not subject to GST. These islands are called designated areas. Services supplies inside the designated area are treated as not chargeable to tax. Even though these supplies are

treated as not chargeable to tax, the advertiser can claim input tax incurred in providing advertisement services in the designated area.

Q12: What is the GST treatment for providing media sales for advertisement circulated both in Malaysia and overseas by the advertising agency registered in Malaysia?

A12: Generally, if the supplies involve both standard rated and zero rated supplies, such supply is considered to be substantially circulated overseas if at least 51% of the circulation of the same media advertisement through physical or digital media is circulated overseas. This 51% rule circulation is applied not only to the publication of the same version or edition for distribution to areas or countries overseas with different languages or modification but also include the same advertisement aired in Malaysia and oversea.

Q13: What is the GST implications if I, being an advertising agency registered in Malaysia, provide media planning services of arranging for foreign client to advertise their product to overseas?

A13: The provision of services to foreign client for arranging advertising services overseas is a zero-rated supply.

Q14: What happen if a local company advertises its products directly in an overseas newspaper without using advertising agency?

A14: It is considered as out of the scope of GST.

Q15: An overseas advertising agency has a contract with the local client to advertise their product in a local media television station in Malaysia. That overseas advertising agency appoints a local advertising agency in Malaysia to arrange all the advertising work,

advertise the product and then bill local client directly. How should GST be accounted?

A15: The media owner must account for GST at standard rate for the advertising space provided to local advertising agency and the local advertising agency must account for GST for the production work provided to local client. However the commission charged to the overseas advertising agency by the local advertising agency is not subject to GST because the supply of services by the local to the overseas agency is zero rated.

Q16: An overseas restaurant owner places an advertisement in local television station to promote their restaurants outside Malaysia. Is the supply of advertising space in the local television station subject to GST?

A16: Yes, the media owner must account for GST because the provision of advertising space in Malaysia is a standard rated supply even though it is related to land and building outside Malaysia.

Q17: XYZ is a multinational company with branches in Asia and its headquarters in Malaysia. The multinational company appoints a Malaysian advertising agency to do media planning services and to arrange advertisements in Hong Kong, Indonesia and Japan. The Malaysian advertising agency later appointed advertising agencies in Hong Kong, Indonesia and Japan to arrange the advertisements in those countries. Is the Malaysia's advertising agency subject to GST when it invoices XYZ Company for the services rendered?

A17: The provision of media planning services by the Malaysian advertising agency to XYZ is subject to GST because the services are provided to

XYZ in Malaysia. The Malaysian advertising agency has to charge and account GST on his supply at standard rated. However the supply of advertising in Hong Kong and Indonesia are not subject to the Malaysian GST because the services are provided outside Malaysia and are considered as a zero rated supply.

Q18: What is the GST treatment for media planning services provider, registered in Malaysia, who provides services to the overseas holding company's client?

A18: If the media planning provider has a contract with the overseas holding company to do media planning to its group of companies (to provide services such as market studies, choosing advertising media, time and frequency of advertising; etc), the contracting party is the immediate recipient who will directly benefit from your services. Hence media planning provider can zero rate the services.

Q19: An overseas agency, SH Agencies has a contract with a Malaysian client. SH Agencies engages a local agency KS Media to buy advertising space in Malaysia and bill directly to the Malaysian client. What is the GST treatment with regards to this arrangement?

A19: KS Media will zero rate the service fee charged to SH Agencies for media planning. Any services provided by the Malaysian media owner to broadcast the advertisement in Malaysian is standard rated.

Q20: JL Creative Works does creative and production work for a Malaysian client, who uses the production work for use in advertising overseas such as in his overseas website, or for filming work overseas. What is the GST treatment for this?

A20: The creative and production work is standard rated because it is provided to the client in Malaysia, even though the advertising work will be used overseas.

Q21: JL Creative Works a creative agency is appointed by ABC Sdn. Bhd as the sole agency to provide creative works for all its advertising campaigns in ASEAN countries. Most of the productions are carried in Thailand. Is GST chargeable on the creative and production costs?

A21: The services are provided contractually to ABC Sdn. Bhd. i.e a company in Malaysia. Creative works are not directly in connection with advertising media in circulation. Even though the result of the creative work (the production) may take place in Thailand (outside Malaysia), this supply does not qualify for zero rating. GST is chargeable on the creative and production costs at standard rate.

Q22: What is the GST treatment on advertisements on in international flight through magazines and media?

A22: Such advertisements are zero rated if they are provided to be circulated outside Malaysia.

Advertising to Charities

Q23: What happen if the advertising agency is acting as a principal and provide advertising services to approved charities?

A23: When a charity uses an advertising agency to supply advertisement services, the GST liability is decided whether the advertising agency is a principal or an agent. If the advertising agency acts as a principal, the supply of advertising time or space (for example television or radio) and production work without any charge to the approved charity will be

be subject to the GST(Relief from Tax) Order. However the supply of advertising time or space by media owner to the advertising agency will be standard rated.

Q24: What happen if the advertising agency is acting as an agent and provided advertising services to charities?

A24: When an advertising agency acts as an agent, the agency fees charged to the media owner is subjected to GST. However, the media owner (for example television or radio) has to issue the bill directly to charity to be eligible for the GST relief treatment.

Q25: Does advertising on a charity's web-site qualify for GST relief?

A25: No, the charity has to account for GST.

Q26: In relation with question above, how does the charity account for GST if there is no monetary consideration?

A26: You must account for GST based on open market value.

Sponsorship

Q27: What happen if a company gives monetary sponsorships and in return the provider of the media owner provides advertising in his own web-site? Is he subject to GST?

A27: The supply in the form of monetary sponsorship is not subject to GST. But if in return the provider of the media owner provide advertising for the supply, you must account for GST based on the open market value. In case the open market value cannot be ascertained, the media owner has to account GST based on the money the media owner receives.

Example:

ABC company sponsors YY (charities bodies) RM5,000 for a concert at KS Cafe organised by YY and in return, YY provides the sponsor a free page to advertise the sponsor's name or products in the YY's web-site, YY have to account for GST based on open market value of the free page. Assume the open market value to advertise in the web site is RM500 for a page. So you have to account GST RM28.30 (RM500 x 3/53).

Q28: If I waive the pitch fee upon securing a contract, can I recover the GST portion?

A28: Pitch fee in advertising is the fee secured when an advertising agency aims to win the right to creatively represent a product or service by providing a potential client with a marketing campaign and strategy. A pitch fee in the advertising industry is also known as speculative work and will falls into one of two categories. An agency either makes a pitch to win an entirely new client or to win a new piece of business from an existing client

Normally, there are two ways a pitch can be initiated. Often a business invites a number of ad agencies to create and pitch their best creative ideas and commonly known as request for proposal" (RFP)". A pitch can also be agency-initiated where the agency itself creates a campaign for a product or service and pitches it to the prospective client with the aim of winning the client away from another agency.

If such fee be waived, as the advertising agency, you can recover the GST paid by making adjustment in your GST returns after issuing a credit note to your client.

Licenses

Q29: Advertising agency or individual pay to the Land Office a fee for temporary occupation of land to be allowed to place billboard advertisement? Is this fee subject to GST?

A29: No, this Temporary Occupation License fee is imposed by the Land Office is outside the scope of GST.

Q30: Advertising agency or individual pay a fee to local authority to get a permit for billboard advertising. Is this fee subject to GST?

A30: The fees for this permit imposed by local authority is not subject to GST because it is imposed for regulatory and enforcement purpose.

Complimentary Copies.

Q31: Are complimentary copies of magazines given to readers, other persons or potential clients subject to GST?

A31: Such complimentary copies are regarded as business gifts are not subject to GST. However, it is restricted to a value of RM500 per person per year.

Q32: If media owners give complimentary copies of current issues on latest technology on computer to an advertiser who places an advertisement in that issue, do they have to account for GST?

A32: No, it is not subject to GST because it is part of the advertisement package supplied.

FEEDBACK OR COMMENTS

20. Any feedback or comments will be greatly appreciated. Please email your feedback 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 INFORMATION AND ASSISTANCE

21. Further information can be obtained from:

- (a) GST Website : 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*