



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE ON FREIGHT TRANSPORTATION

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INTRODUCTION

1. This Industry Guide is prepared to assist you in understanding matters with regards to Goods and Services Tax (GST) treatment on freight transportation.

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 chargeable on the 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 2014 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. Thus, this mechanism would avoid double taxation and only the value added at each stage is taxed.

GENERAL OPERATIONS OF THE INDUSTRY

Overview of freight transportation

5. Freight transportation is a supply of services for the carriage or movement of goods by sea and inland waterways, rail, road or air. The goods are carried or moved using various means of transport such as ships, trains, trucks or aircraft.

Example 1:

MASkargo provides freight transportation when it carries live trees from Malaysia to be transplanted at a place in the Middle East.

Example 2:

Postal and courier companies are providing freight transportation when they carry and deliver mail or documents to customers all over the world.

Example 3:

A ship owner allows VLiner Sdn. Bhd. to use his entire ship to carry bulk cargo. The ship owner is not making a supply of freight transportation. He is providing a supply of chartering services to VLiner Sdn. Bhd.

Example 4:

Azizah Sdn. Bhd. who is the charterer of the ship then contracts with his customer to carry chemicals from Port Klang to Busan Port, South Korea. Azizah Sdn. Bhd. is making a supply of freight transportation to his customer.

Example 5:

Transnasional Express provides passenger transportation from Butterworth to Kuala Lumpur daily through its Express Bus service. It also provides freight transportation through Transnasional Courier carried on Express Bus service.

- *Transnasional Express is supplying both freight and passenger transportation.*

Example 6:

A customer orders pizza for home delivery. The restaurant charge RM5 for the delivery.

- *The delivery services are only incidental to the supply of pizza and it is not considered as freight transportation.*

6. For the purposes of GST, freight transportation does not include ancillary services such as loading, unloading and handling. Please refer to glossary for list of handling services.

GST TREATMENT FOR FREIGHT TRANSPORTATION

7. The GST treatment on freight transportation depends on the type of freight transportation i.e. whether it is a domestic freight transportation or international freight transportation.

Domestic freight transportation

8. Domestic freight transportation is the service of transporting goods from a place in Malaysia to another place in Malaysia. Both the point of origin and the point of destination are places in Malaysia.

9. Domestic freight transportation is a taxable supply of services and is subject to GST at the standard rate.

Example 7:

Faizul Sdn. Bhd. sends auto spare parts by an express bus from Putrajaya Sentral to its subsidiary company in Alor Star.

- Express buses provide passenger transportation. However in this example, the carriage of auto spare parts by the express bus company is a supply of freight transportation.

Example 8:

Mr Ameer was transferred from Putrajaya to Kuching. He obtained the services of EasyMove Sdn. Bhd. to move his household items by lorries from his house to KLIA airport where the items were air freighted to Kuching by MASkargo. Mr Ameer's car was transported from Port Klang to Port of Kuching by the ship MV Alamanda and it makes a stop in Port of Singapore to drop off another customer's goods.

- *The services provided to Mr Ameer by EasyMove Sdn. Bhd., MASkargo and MV Alamanda is domestic freight transportation.*

Example 9:

In relation to the above example, Mr Ameer carried one bag of clothes which was allowed as hand carried while a box of reference books was packed and entered as check-in baggage.

- *The carriage of the hand luggage and reference books is not considered as freight transportation but forms part of passenger transportation.*

Example 10:

HPY Sdn. Bhd. sends vegetables and fresh fruits by truck from a farm in Miri to a wholesaler in Limbang. The journey from Miri to Limbang goes through territories of Brunei.

- *Transportation was provided partly outside Malaysia but both the origin and destination are in Malaysia. Therefore, it is domestic freight transportation.*

Example 11:

ExpressCargo Sdn. Bhd. sends machinery from Kuantan to Labuan on behalf of Aneem Sdn Bhd. Since there is no direct ship from Kuantan Port to Labuan, ExpressCargo Sdn. Bhd. send the goods from Kuantan to Singapore by truck and then from Singapore to Labuan by ship.

- *Even though there are two international transportation leg, it is still considered as domestic freight transportation because both the origin and destination are in Malaysia. Thus ExpressCargo Sdn. Bhd. shall charge Aneem Sdn Bhd GST at standard rate for the services provided.*

Example 12:

An undertaker company engages KLM Sdn. Bhd. for hearse carriage services from its funeral parlor in Ipoh to the burial grounds in Nilai.

- *KLM Sdn. Bhd. is treated as providing domestic freight transportation to the undertaker company.*
- *However if the undertaker himself supplies the transport, it is then part of the funeral services provided and is not treated as a separate service.*

International freight transportation

10. International freight transportation means:

- (a) the transport of goods from a place outside Malaysia to another place outside Malaysia;
- (b) the transport of goods from the last exit point in Malaysia to any place in other country; or
- (c) the transport of goods from a place outside Malaysia to the first entry point in Malaysia.

11. International freight transportation is subject to GST at zero rate under item 4, Second Schedule, Goods and Services Tax (Zero-Rated Supply) Order 2014.

12. For the purposes of item 4, Second Schedule, Goods and Services Tax (Zero-Rated Supply) Order 2014, international freight transportation refers to a carrier such as airline or shipping line and includes the following:

- (a) Shipping agent acting in his own name
- (b) Freight forwarder contract with a carrier
- (c) Non-vessel operating common carrier (NVOCC)
- (d) Courier service provider

Example 13:

ABX Co. manufactures ceramic vases and exports them to Europe via Port Klang. ABX Co. appoint DEF Freight Forwarders to handle the shipping. DEF Freight Forwarders purchase freight slot from shipping line.

- *DEF freight forwarders is treated as making an international freight transportation.*

Example 14:

JKL Sdn. Bhd. in Kuala Lumpur imports silk cloth from Singapore. JKL Sdn. Bhd. appoints DEF Freight Forwarders to handle the delivery by lorry to JKL Sdn. Bhd. warehouse in Rawang.

- *The journey from Singapore to Rawang, Selangor is international freight transportation.*

13. A transportation service provided by Malaysian service provider that originates and ends outside Malaysia is considered international freight transportation, even if the goods passed through Malaysia.

Example 15:

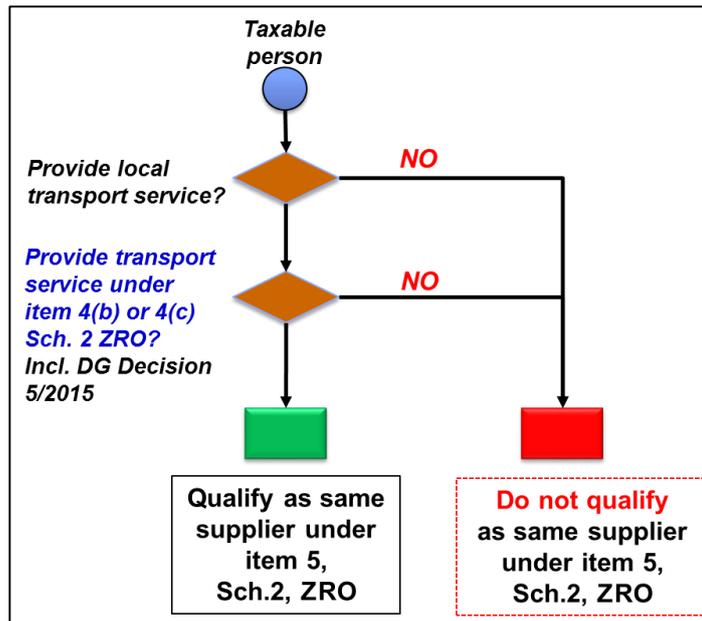
Under a special arrangement, XYZ Sdn. Bhd. carries fresh fish and other perishables by refrigerated container truck from Bangkok to Singapore using the PLUS highway.

- *XYZ Sdn. Bhd. is supplying international freight transportation.*

Supply of transport by the same supplier

14. Transportation of goods from a place in Malaysia to the last exit point in Malaysia or from the first entry point in Malaysia to another place in Malaysia is a domestic freight transportation. However if this services is provided by the same supplier who also provides the international freight transportation, then the whole services is zero-rated under item 5, Second Schedule, Goods and Services Tax (Zero-Rated Supply) Order 2014.

Diagram 1: Qualify as a same supplier.



Example 16:

ABX Co. manufactures computer in Seremban and export them to Europe. ABX Co. engages KeyPoint Forwarders to ship the computers. KeyPoint Forwarders transport the computers from Seremban warehouse to Port Klang by lorry. KeyPoint Forwarders has contracted BeeLine Shipping to transport the computers from Port Klang to Europe.

- *The supply of freight transportation by KeyPoint Forwarders from Seremban to Europe is zero rated because KeyPoint Forwarders qualifies as same supplier under item 5, Second Schedule, Goods and Services Tax (Zero-Rated Supply) Order 2014.*

Example 17:

Coral Hotel engages MASkargo to handle the importation of the furniture up to Coral hotel's premise. MASkargo declares import duties and GST and delivers the furniture to Coral Hotel using truck. MASkargo has contracted S&Z Transport to send the furniture to Coral Hotel.

- *The supply of freight transportation by MASkargo to Coral Hotel is zero-rated because it is provided by same supplier.*
- *The supply by S&Z Transport to MASkargo is subject to GST at standard rate because it is a domestic transportation.*

Example 18:

DP Sdn. Bhd. is entrusted to procure, import, store and manage the delivery of various spare parts for an automotive manufacturer AM Bhd. The spare parts are imported by ship but stored in DP Sdn. Bhd.'s warehouse in Port Klang before sending to the automotive plant. DP Sdn. Bhd. appointed Kenline Shipping Agency to provide transportation services.

- *The supply of sea freight transportation for the spare parts from overseas to DP Sdn. Bhd. warehouse by Kenline is zero-rated.*
- *If the spare parts were to be sent directly upon importation to Melaka on AM's request, then the supply of freight transportation by Kenline from overseas to Melaka is zero-rated, as the same supplier.*
- *However if DP Sdn. Bhd., later was required to send a quantity of the spare parts stored in Port Klang to a branch of AM Bhd in Melaka, then the supply of domestic freight transportation by Kenline from DP Sdn. Bhd.'s warehouse to Melaka is standard rated.*

Example 19:

Relating to the example above, DP Sdn. Bhd. is also required to arrange for the export to United Kingdom of cars manufactured by AM Bhd's plant in Pekan. For export, DP Sdn. Bhd. contracts with Kenline Shipping Agency to provide freight transportation. Kenline appoints local haulier to deliver the cars from the plant in Pekan to Kuantan Port. From Kuantan Port, the feeder ship carry the cars to

Port of Tanjung Pelepas and then it is transferred to a ship operated by Kenline for international voyage to United Kingdom.

- *The supply of freight transportation from Pekan to United Kingdom provided by Kenline to DP Sdn Bhd. is zero rated, as a same supplier.*
- *Transport services provided by the haulier and the feeder ship to Kenline is standard rated.*
- *The supply of export arrangement services by DP Sdn. Bhd. to AM Bhd is standard rated.*

Ancillary services

15. Ancillary and related transport services are treated separately to the supply of freight transportation. Where a supply of freight transportation is zero-rated, it does not necessarily means that any ancillary or related transport services with respect to that supply would also be zero-rated.

16. Care must be taken not to immediately assume that any incidental or ancillary services provided to or supplied in relation to a supply of freight transportation is to be part of that freight transport.

17. The GST liability on the supply of ancillary services depends on to whom and where the services are supplied or performed.

18. Loading, unloading, handling services or storage of goods carried or to be carried in a ship or aircraft, by port operator, airport operator or person authorized by Minister responsible for transport is zero-rated under subitem 3(1), Second Schedule, Goods and Services Tax (Zero-Rated Supply) Order 2014.

19. Loading, unloading and handling services in relation of transportation of goods by the same supplier as part of the international freight transportation is zero-rated under item 5, Second Schedule, Goods and Services Tax (Zero-Rated Supply) Order 2014.

20. However, storage and warehousing services even it is provided by the same supplier, is standard rated supply.

Example 20:

Goods transported by XT Sdn. Bhd. for export are unloaded and deposited in a private warehouse located near the port before being loaded into the ship.

- *The whole services is standard rated even it is ancillary services to international freight.*

Example 21:

An exporter engages a forwarding agent to arrange for his goods to be delivered to the port for export. The forwarding agent provides the transportation, loading of goods and customs clearance.

- *The services by the forwarding agent to the exporter are only for domestic transportation and ancillary services. The service is not considered as international freight transportation even though the goods is for export. Therefore the services are standard rated.*

Example 22:

Referring to the above example, the forwarding agent later has expanded his business in providing logistics management. He owns and operates a fleet of lorries and contract with a shipping line for international freight transportation services to clients.

- *The forwarder is now a person providing domestic and international freight transportation as a same supplier. Therefore ancillary services in relation to the goods also qualifies for zero-rated under item 5, Second Schedule, Goods and Services Tax (Zero-Rated Supply) Order 2014.*

Freight transportation services in designated area (DA)

21. In general freight transportation services in designated areas (DA) is not subject to GST. However freight transportation between DA or from Malaysia to DA or vice versa is subject to GST at standard rate. The following is the summary of treatment for freight transportation services in DA:

Supplier belongs	Type of Services	GST Treatment
Malaysia* / DA	Services from Malaysia* to DA or vice versa	Standard rate <i>Sec. 156(b) (GST Act 2014)</i>
DA	Services in DA (exclude cost recovery)	No tax chargeable <i>Sec. 155 (GST Act 2014)</i>
Malaysia*	Services in DA	Standard rate <i>Sec. 156(b) (GST Act 2014)</i>
Malaysia* / DA	Services between DA	Standard rate <i>GST (imposition of tax for supplies in respect of DA) Order 2014</i>
Malaysia* / DA	Services from DA to world or vice versa	Zero rate <i>GST(ZR supply) Order 2014 Sec. 156(c) (GST Act 2014)</i>
Malaysia* excludes the designated areas Designated area means Labuan, Langkawi or Tioman		

FREQUENTLY ASKED QUESTIONS

Q1. Is there special treatment for goods transported by ferry?

A1. The transport of goods including unaccompanied vehicles transported by ferries is standard rated. However for vehicle accompanied by a fare paying passenger who drives the vehicle, the transport service is treated as passenger transportation.

Example 23:

Pn Lina owns a sundry shop in Lumut, Perak. She sends goods by ferry to Pulau Pangkor. The transport of the goods is standard rated.

Q2. What is the GST implication on goods sent by post?

A2. Domestic postal services are subject to GST at standard rate. Documents and goods sent from overseas by courier service to any place in Malaysia and vice versa is zero-rated. Please refer to GST Guide on Postal and Courier Services for more details.

Q3. Is there special treatment for freight transportation provided with regards to designated area (DA)?

A3. GST treatment on transportation of goods in relation to designated area as follows:

- No GST chargeable on any freight transportation provided within DA.
- Freight transportation between DA is subject to GST at standard rate.
- Freight transportation from DA to any place in Malaysia or vice versa are standard rate.
- Freight transportation from DA to any place in overseas or vice versa are zero-rated.

Example 24:

FP Sdn. Bhd. operates lorry transport in Langkawi Island. The company also provides transportation of goods by barge from Kuah jetty to Kuala Kedah jetty. It also charters a private plane to occasionally send goods to Tioman.

- *FP Sdn. Bhd. will not charge GST on supply of freight transportation by lorry within Langkawi Island.*
- *FP Sdn. Bhd. will charge GST at standard rate on supply of freight transportation by barge.*
- *The transport of goods by plane to Tioman is standard rated.*

Q4. Is there special treatment for freight transportation provided with regards to Free Commercial Zone (FCZ)?

A4. Supply of freight transportation within or between Free Commercial Zone (FCZ) is subject to GST at a standard rate.

Q5. What about freight transportation provided with regards to businesses operating in a Free Industrial Zone?

A5. Freight transportation provided within or between businesses in a Free Industrial Zone (FIZ) is standard rated. Domestic freight transportation services are also standard rated if supplied to Licensed Manufacturing Warehouses.

Q6. What is the GST treatment for the services of arranging freight transportation?

A6. The services of arranging the transport of goods is standard rated whether or not the freight transportation is domestic or international.

Example 25:

An exporter engages freelancer to arrange for his goods to be exported. The freelancer arranges with forwarding agent for shipping, loading of goods and customs clearance.

- *The arranging services by the freelancer for the exporter is standard rated.*

Q7. What is GST treatment if I export my goods from Butterworth to Hatyai by rail?

A7. The movement of goods from Butterworth to Padang Besar is domestic freight transportation, while from Padang Besar to Hatyai is international freight transportation. However, in this situation the whole freight transportation can be zero-rated if the freight transportation is provided by the same supplier.

Q8. What is GST treatment with regards to input incurred?

A8. Generally, GST on standard rated supplies of goods or services forming business inputs to a registered person making taxable (standard rated and zero-rated) supplies, including disregarded supplies are allowed to offset against the output tax payable. Ancillary services and related transport services would be inputs for a supplier of freight transportation and the GST incurred would be allowable for input tax credits. Valid GST invoices including receipts which are accepted as simplified GST invoices must be available before input tax credits can be claimed. Please refer to GST General Guide and GST Guide on Input Tax Credit for further guidance on the eligibility and the apportioning of input tax credits.

INQUIRY

1. For any inquiries for this guide please contact :

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62100 Putrajaya.

Email : gstsector5@customs.gov.my

FURTHER ASSISTANCE AND INFORMATION ON GST

2. Further information on GST can be obtained from :

(a) GST website : www.gst.customs.gov.my

(b) Customs Call Center :

- Tel : 03-7806 7200 / 1-300-888-500
- Fax : 03-7806 7599
- Email : ccc@customs.gov.my

GLOSSARY

Handling services includes:

- (a) stevedoring and portorage;
- (b) loading, unloading, reloading, stowing, securing and shifting cargo for the use of cranes and weighting machines;
- (c) sorting, opening for inspection, repairing, weighing and tarring, taping and sealing, erasing and re-marking, labelling and renumbering, tallying, checking, sampling, measuring or gauging of goods;
- (d) survey of cargo (including damaged cargo);
- (e) cargo security services;
- (f) presenting goods for customs declaration;
- (g) preparing or amending customs declaration;
- (h) preparing or amending bills of lading, airway bills, and certificates of shipment.