



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

**GUIDE
ON
FREE INDUSTRIAL ZONE
&
LICENSED MANUFACTURING
WAREHOUSE**

Publication

Date Published: 5 January 2016.

Copyright Notice

Copyright 2015 Royal Malaysian Customs Department.

All rights reserved. Subject to the Copyright Act, 1987 (Malaysia).

The Guide may be withdrawn, either wholly or in part, by publication of a new guide. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form, including on-site for commercial purposes without written permission from the Royal Malaysian Customs Department (RMCD). In reproducing or quoting the contents, acknowledgment of source is required.

Disclaimer

This information is intended to provide a general understanding of the relevant treatment under Goods and Services Tax and aims to provide a better general understanding of taxpayers' tax obligations. It is not intended to comprehensively address all possible tax issues that may arise. While RMCD has taken the initiative to ensure that all information contained in this Guide is correct, the RMCD will not be responsible for any mistakes and inaccuracies that may be contained, or any financial loss or other incurred by individuals using the information from this Guide. All information is current at the time of preparation and is subject to change when necessary.

CONTENTS

INTRODUCTION.....	1
Overview of Goods and Services Tax (GST).....	1
GENERAL OPERATIONS OF FREE ZONE AND LICENSED MANUFACTURING WAREHOUSE	1
Free Zone for Industrial Activities (FIZ).....	2
Licensed Manufacturing Warehouse (LMW).....	2
GST TREATMENT FOR FIZ AND LMW.....	2
Importation or Acquisition of Goods or Services by a Company Operating in a FIZ or having LMW Status	2
Supply of Goods or Services by a Company Operating in a FIZ or having LMW Status	3
ACCOUNTING FOR OUTPUT TAX AND CUSTOMS DUTY	5
SUBCONTRACT WORK	7
Approved Toll Manufacturer Scheme (ATMS)	9
FREQUENTLY ASKED QUESTIONS	10
INQUIRY	16
FURTHER ASSISTANCE AND INFORMATION ON GST	16

INTRODUCTION

1. This industry guide is prepared to assist businesses in understanding matters with regard to GST treatment on Free Zone for Industrial Activities (FIZ) and Licensed Manufacturing Warehouse (LMW).

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 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. 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 FREE ZONE AND LICENSED MANUFACTURING WAREHOUSE

5. A free zone is a designated, secured area in which commercial and industrial activities are carried out and gazetted by the Minister of Finance as stated under section 3(1) Free Zone Act 1990. There are two types of free zone that is the free zone for industrial activities (FIZ) and free zone for commercial activities (FCZ). Customs control at the free zone is at the minimum and basically only at the exit point. Free Zone Authority is appointed by the Minister under Section 3(2) Free Zones Act 1990 to administer, maintain and operate the zone.

Free Zone for Industrial Activities (FIZ)

6. In accordance with section 10(1) Free Zones Act 1990, the Minister allows manufacturing activities specified under Second Schedule Free Zone Act 1990 to be carried out in FIZ. Manufacturing activities approved by Minister under Section 2 of such act includes any activity as determined by the DG to be manufacturing activity.

7. FIZ is a place where most of the manufacturing activities carried out are for export purpose. It is a facility meant for export-orientated companies. Besides that, FIZ can also carry out other activities such as evaluation, testing of goods, research, designing etc.

8. This guide only covers GST treatment relating to industrial activities in a FIZ. For further information relating to GST treatment in Free Zone for Commercial Activities (FCZ), please refer to Guide on Free Commercial Zone.

Licensed Manufacturing Warehouse (LMW)

9. Licensed Manufacturing Warehouse (LMW) is a premise licensed under section 65 and 65A of the Customs Act 1967 and is a facility provided for export orientated industries. It is documentarily controlled by Royal Malaysian Customs and is subjected to all customs laws and regulations.

GST TREATMENT FOR FIZ AND LMW

10. For the purpose of GST, FIZ and LMW are regarded as part of Principal Customs Area (PCA). A company operating in a FIZ or having LMW status is treated as any company carrying out a business in Malaysia where normal rules of GST apply. However a few FIZs are located at ports such as at Port Klang Free Zone in Selangor, Tanjung Pelepas Free Zone and Pasir Gudang Free Zone in Johor where the GST treatment is similar to the tax treatment for FCZ.

Importation or Acquisition of Goods or Services by a Company Operating in a FIZ or having LMW Status

11. Importation of goods or services by a company operating in a FIZ or having LMW status is subject to GST. However, they are eligible to apply for Approved Trader

Scheme (ATS) to suspend the payment of GST on imported goods at the time of importation. For further details, please refer to the Guide on Approved Trader Scheme (ATS).

12. Importation of goods and services by a company operating in a FIZ is subject to GST. For the **importation of goods**, GST will be triggered at the time of importation. However, the GST is suspended if the company operating in a FIZ is approved under ATS.

13. However, **importation of goods** by a company operating in a **FIZ at ports/airports** is **relieved from payment of GST** by Minister under section 56(3)(a) GST Act 2014 effective on 15 July 2015 (refer **Relief by Minister 2/2015**). Thus, the company is not required to have ATS to suspend the payment of GST on imported goods at the time of importation. Consequently, the **supply or removal of goods** from this FIZ at ports/airports to principal customs area (PCA) is subject to **GST on importation**. For this purpose, an importer is allowed to suspend the GST on import if he is approved under the ATS.

14. Any importation of services by a company operating in FIZ or having LMW status is subject to GST and is deemed to be a supply made to and by the company. Thus, if the company is a taxable person who makes wholly taxable supply, the company is able to net off the equivalent GST liability as its deemed input tax. However, if the company is a mixed supplier, the company can only claim the input tax which is attributable for its taxable supplies.

15. Any acquisition of goods or services by a company operating in a FIZ or having LMW status from a company in PCA is a taxable supply and subject to GST at standard rate.

Supply of Goods or Services by a Company Operating in a FIZ or having LMW Status

16. **Supply of goods** between;

- (a) companies operating in the same FIZ either at port or not;

- (b) a company operating in a FIZ at port to a company doing commercial activities operating in the same free zone;
- (c) a company operating in a FIZ either at port or not, to a company operating in another FIZ either at port or not;
- (d) a company operating in a FIZ either at port or not to a company having LMW status and vice versa; or
- (e) a company having LMW status to another company having LMW status,

is a taxable supply but is **relieved from charging** GST by Minister under section 56 (3)(b) GST Act 2014 (refer Relief by Minister 2/2015). However, any supply of services between these parties is a taxable supply and subject to GST.

17. Customs import/export declaration form is required to be declared when the goods is removed from a company operating in FIZ or having LMW status to another party. In this case, even though the importer is liable to declare the goods as importation, the importer has no liability to pay the GST on importation because the supply made by the supplier is considered as a local supply. Thus, GST will be charged in the tax invoice issued by the supplier and the document will be used for the declaration of imported goods.

18. All supply of goods from a company operating in a FIZ or having LMW status to overseas buyer are taxable supply and subject to GST at zero rate as long as the goods are physically exported. Documentary proof of physical export such as customs export declaration form e.g. Customs No.2 form, Customs No.8 form, shipping documents and other related documents must be preserved for auditing purposes. Similar treatment applies to supply of goods to designated area e.g. Langkawi, Tioman and Labuan except for supply of goods as prescribed in the GST (Imposition of Tax for Supplies in respect of Designated Areas) Order 2014.

19. All supply of goods by a company operating in FIZ or having LMW status to another company in PCA who is not operating in FIZ or not having LMW status are subject to GST. GST is chargeable in the tax invoice and pursuant to **Paragraph 7 Third Schedule GST Act 2014**, the value of the goods must be the aggregate of the following amounts as provided under **section 16** of the same Act:

- (a) the value of goods for the purpose of customs duty;
- (b) the amount of customs duty paid or is to be paid, and
- (c) the amount of excise duty paid or is to be paid.

20. Generally all **supply of services** is standard rated except for some services supplied in the FIZ located at ports/airport which are listed under the Goods and Services Tax (Zero-Rated Supplies) Order 2014. Such supply of services is zero rated.

21. Customs import declaration form is required to be declared when the goods is **removed** from a company operating in FIZ or having LMW status to a company in PCA. Only customs duties, if any must be paid at the point of importation in Customs No.1 or Customs No.9 form respectively.

22. Any removal of **locally manufactured goods** from **FIZ at port/airport** to a company in PCA is subject to GST on importation **similar to the treatment provided to FCZ**. Thus, GST shall be payable together with customs duty, if any, in customs import declaration form at the point of importation. Approved Trader Scheme (ATS) **is not applicable** to suspend payment of GST on this importation as ATS is only applicable for imported goods.

23. GST on importation of goods from a **FIZ at port/airport** to a warehouse under section 70 of the GST Act 2014 is also suspended.

ACCOUNTING FOR OUTPUT TAX AND CUSTOMS DUTY

24. Pursuant to **Paragraph 7 Third Schedule GST Act 2014**, with regard to the value of the supply of taxable goods by a company operating in a FIZ or having LMW status to any company who is not operating in a FIZ or who is not having LMW status, the value of the goods must be the aggregate amount which includes any customs duty or excise duty paid or to be paid, if any as provided under section 16 of GST Act 2014.

25. Removal of goods from a company operating in a FIZ or having LMW status to any company in PCA must be declared in the customs import declaration form. Customs duties if any is payable in this customs import declaration form.

26. Such supply of goods is treated as a local supply whereby the registered person who is operating in FIZ or having LMW status must issue a tax invoice to the recipient and account for output tax in the GST return according to his taxable period.

Example 1:

Import duty on local sales accounted in a Customs No. 1 form

Item	Description of goods	Unit	Value (RM)	Import Duty (RM)
1.	Shirts	300 pcs	7,500.00	1,500.00
	Duty Payable			1,500.00

(Assuming 20% import duty)

GST on local sales (a simple illustration)

TAX INVOICE				
From: SS SmartSdn.Bhd., Jalan SS 2/2, Petaling Jaya, Selangor				
To: JBS Sdn Bhd., No.7, Jalan SS 7/7, Petaling Jaya, Selangor		Invoice No.: 007 GST No. : 00077-07 Invoice date: 8.8.2014		
Item	Description Of Supply	Quantity	Unit Price (RM)	Total (RM)
1	Shirts GST on value + Import Duty @ 6% on RM9,000.00	300 pcs	30.00	9,000.00 540.00
TOTAL AMOUNT PAYABLE				9,540.00

****Note: GST on local supplies to be accounted in the GST return for the relevant taxable period.***

SUBCONTRACT WORK

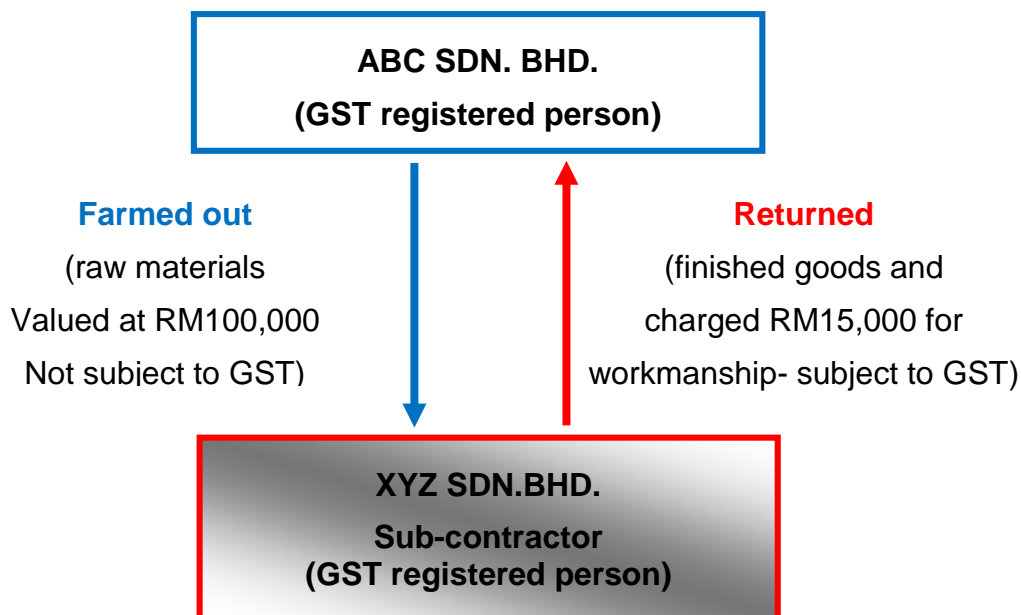
27. Subcontract work comprises of the following:

- (a) Farming in – goods are sent to a company operating in FIZ company or having LWW status for subcontract work by other companies, whether overseas or local.
- (b) Farming out – goods are sent by a company operating in FIZ or having LMW status to other companies, whether overseas or local for subcontract work.

28. When goods are sent for subcontract work, the ownership of the goods still remains with the supplier. No supply has taken place. Hence, no GST is chargeable when the goods are sent for subcontract work.

29. In farming out, the subcontractor will charge the registered person who operates in a FIZ or having LMW status for the supply of services provided by the subcontractor. This supply of services is a taxable supply and subject to GST. The GST incurred can be treated as input tax by the registered person who operates in a FIZ or having LMW status. Please refer to Diagram 1 below.

Diagram 1: Illustration of Farming Out



Accounting for GST will be as follows:

- (a) ABC Sdn Bhd is not required to issue a tax invoice to XYZ Sdn Bhd because sending the goods to XYZ Sdn Bhd is not a supply and no GST is chargeable. ABC Sdn Bhd is only required to cover the movement of the goods by issuing a delivery order (DO).
- (b) XYZ Sdn. Bhd. has to issue a tax invoice to ABC Sdn Bhd, when the finished goods are returned to ABC Sdn Bhd after the sub-contract work, and to account for output tax of RM900 ($RM15,000 \times 6\%$) on the workmanship charges.
- (c) ABC Sdn Bhd can claim the RM900 (GST) paid to XYZ Sdn. Bhd. as his input tax credit.
- (d) If XYZ Sdn Bhd is not a GST registered person, no GST is due on the workmanship charges.

Approved Toll Manufacturer Scheme (ATMS)

30. Under the Approved Toll Manufacturer Scheme (ATMS), a subcontract work is performed in Malaysia where goods relating to subcontract work are sent by an overseas principal. The subcontractor (toll manufacturer) will do the subcontract work and this supply of services by toll manufacturer is a disregarded supply under ATMS in accordance with Section 72 GST Act 2014.

31. Finished goods is to be exported to either overseas principal or its overseas customer as instructed by overseas principal. In some instances where toll manufacturer is instructed to deliver finished goods to a local customer of the overseas principal, this local customer who receives the finished goods has to account for GST by way of “recipient accounting”.

32. GST on this local delivery will be treated as output tax by the local customer and at the same time the GST paid can be claimed as input tax credit if he is a registered person. For further details, please refer to Guide on Approved Toll Manufacturer Scheme (ATMS).

FREQUENTLY ASKED QUESTIONS

Importation or Acquisition of Goods and Services by a Company Operating in a FIZ or Having LMW Status

Q1. Does a company operating in a FIZ have to pay GST upon importation of goods?

A1. Importation of goods by a company operating in a FIZ is subject to GST. However, the company may apply for Approved Trader Scheme (ATS) to suspend the payment of GST on imported goods at the time of importation. However, importation of goods by a company operating in a FIZ at ports/airports is relieved from payment of GST by Minister under section 56(3)(a) GST Act 2014.

Q2. Can GST charged on local purchases made by a company having LMW status be suspended?

A2. GST charged on local purchases made by a company having LMW status cannot be suspended. GST on the acquisitions has to be paid but it can be claimed as input tax credit. Similar treatment applies to local purchases made by companies operating in a FIZ.

Q3. Is GST chargeable on the acquisition made by a company operating in a FIZ from another company who is also operating in a FIZ?

A3. Supply of goods by a company operating in a FIZ to another company who is also operating in a FIZ is a taxable supply but the company is **granted relief from charging** GST by Minister under section 56(3)(b) GST Act 2014 in **Relief by Minister 2/2015**.

Q4. What is the GST implication on services imported by a company operating in FIZ?

A4. Any services imported by a company operating in FIZ is deemed to be a supply made to and by the company. Thus, it is subject to GST. If the company is a taxable person who makes wholly taxable supply he is able to net off the

equivalent GST liability as his deemed input tax. However, if the taxable person is a mixed supplier, he can only claim the input tax which is attributable for his taxable supplies.

Supply of Goods or Services by a Company Operating in a FIZ or having LMW Status

Q5. What is the GST treatment on goods that I export on behalf of my local customer?

A5. If you **physically export** the goods on behalf of your local customer and customs export declaration form indicates your customer as **exporter of record**, your customer can zero rate the export. However, your supply of goods to your customer is a taxable supply and subject to GST at standard rate.

On the other hand, if customs export declaration form indicates you as the exporter of record, in accordance with **Item 2 DG's Decision 4/2015**, both you and your customer are able to zero rate both supply of goods respectively if;

- (a) The supply is related to goods other than wine, spirit, beer, intoxicating liquor, malt liquor, tobacco and tobacco products;
- (b) You export the goods within 60 days or any extended period as approved by the Director General (DG) from the time of supply;
- (c) You have possession of the goods to be exported or control over the export arrangement; and
- (d) You and your customer documentations fulfill all the conditions stated in Item 2 DG's Decision 4/2015.

Q6. Is a company operating in a FIZ have to charge GST on a supply made to a company operating in a free zone for commercial activities (FCZ)?

A6. Supply of goods from a company operating in a FIZ to a person operating in a FCZ is standard rated. However if both of these companies operate in the same free zone such as in Port Klang Free Zone, Pasir Gudang Free Zone or Tanjung

Pelepas Free Zone, the supply of goods **is granted relief from charging GST** by Minister in **Relief by Minister 2/2015**.

Q7. What is the treatment of GST if a company having LMW status makes a supply to a company located in a designated area?

A7. **Supply of goods** from a company having LMW status to a company located in a designated area (DA) is a taxable supply and subject to GST at zero rate. However, **supply of services** which is also a taxable supply is subject to GST at standard rate.

Q8. What is the GST treatment on product samples from a person operating in a FIZ?

A8. Industrial and trade samples that are **in a form not ordinarily available for sale to the public** are not treated as supply. Therefore no GST is chargeable on such samples given by a person operating in a FIZ.

Q9. Is there any GST implication on services supplied within a FIZ?

A9. All supply of services supplied and consumed within a FIZ, for example rental for forklift, storage charges, workmanship, rental of premise, packing and re-labelling charges are standard-rated. So, the provider of such services must account for output tax, if he is registered under GST.

Q10. Is there any GST liability on supply of services between FIZs?

A10. Supply of services between companies operating in a FIZ is a taxable supply and subject to GST at standard rate.

Q11. If the goods do not attract any import duty, does a local supply by a company operating in a FIZ still need to be declared in Customs No.1 form?

A11. All local supplies made by a company operating in a FIZ must be declared in Customs No.1 form irrespective of whether such supplies are dutiable or not. However, no GST is due in this Customs No.1 form as GST for local supply will be charged in the tax invoice.

Delivery of goods to a local customer of overseas principal

Q12. What is the GST treatment if a company in a FIZ as a toll manufacturer for overseas principal is instructed to send the finish goods to a local customer of the overseas principal?

A12. A registered company operating in a FIZ can also act as a subcontractor for an overseas principal. Any importation of goods from the overseas principal to a registered person is subject to GST. However, the company is eligible to apply for ATS to suspend the payment of GST. The company is not making any taxable supply when he delivers the finished goods to the local customer of his overseas principal. However, if the company is an approved person under 'Approved Toll Manufacturer Scheme' (ATMS) the local customer of his overseas principal is required to account for GST by way of "recipient accounting" on the delivery of finished goods.

Q13. What if the local customer of overseas principal under ATMS in the above situation is not GST registered person?

A13. The local customer needs to account for the output tax, even if he is not a registered person under GST. He has to account based on the value of the invoice received or payment made to the overseas principal (whichever is earlier) not later than the last day of the subsequent month in which the supply from the overseas principal is treated as taking place. The tax must be accounted in a prescribed form (GST-04).

GST treatment on goods lost/ damaged/ destroyed/ rejected

Q14. What is the treatment if goods are lost, stolen or destroyed while the goods are being transported under customs control?

A14. When the goods are lost, stolen or destroyed while being transported under customs control, the company must account for tax. However, the company can apply for remission of GST to the DG.

Q15. Can the company suspends the payment of GST on goods lost or destroyed until it receives the outcome of its application for tax remission?

A15. No, the company has to account immediately for GST on any goods lost, damaged or destroyed, despite the fact it has made an application for remission.

Q16. What if the goods are lost, destroyed or stolen during delivery?

A16. GST is only due if a supply has taken place or if the contract between these parties makes either party responsible for the tax. Therefore, accounting for GST on goods that are lost, stolen or destroyed during delivery will depend on whether supply has taken place or not.

Q17. What is the GST treatment on the manufacturing waste if it is destroyed or sold by a registered person with LMW status?

A17. If the manufacturing waste is destroyed, no GST is due as such waste is not regarded as business assets hence no supply is deemed to have taken place. However, if the manufacturing waste is sold, GST must be imposed on such sales.

Other related matters

Q18. If a company operating in a FIZ or have LMW status loans some raw materials to another company and later this company replaces those raw materials with its own raw materials sourced elsewhere, does the company operating in a FIZ or have LMW status has to account for output tax?

A18. Yes, it is deemed to be a supply because the raw materials which are part of the company operating in a FIZ or have LMW status business asset are transferred to another company even though later this company replaces those raw materials with its own raw materials.

Q19. If the company operating in a FIZ or have LMW status loans a mould to another company for its use, does the company operating in a FIZ or have LMW status has account for output tax?

A19. Yes, because it is deemed as supply of services even though the loan is not for a consideration (free of charge). The company has to account for GST based on the open market value of such supply of services.

Q20. What is GST treatment on goods returned from overseas customer for repair?

A20. You are relieved from payment of GST on importation relating to returned goods from overseas customer under item 16 of the Goods and Services Tax (Relief) Order 2014.

INQUIRY

1. For any inquiries for this guide please contact:

Sector II

GST Division

Royal Malaysian Customs Department

Level 3 – 7, Block A, Menara Tulus,

No. 22, Persiaran Perdana, Presint 3,

62100 Putrajaya.

Email: gstsector2@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
- E-mail : ccc@customs.gov.my