



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE ON MONEY SERVICES BUSINESS

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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 the money services business which comprises of the money changing business, remittances business and the wholesale currency business.

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, it is ultimately passed on to the final consumer. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

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 input tax credit on any GST incurred (input tax) on his purchases 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. The money services business industry comprises the money changing, remittance and wholesale currency businesses under the Money Services Business Act 2011. Generally, money changing, remittances and wholesale currency are exempt supplies. Licensed money changer, non-bank remittance provider and the currency wholesaler under the MSB Act 2011 are referred to as MSB licensee and hence will be referred to as such in this guide.

6. Being exempt suppliers, MSB licensees are not required to be registered for GST. However, the fees and charges for services that the MSB licensees render to

their customers is a taxable supply subject to GST at a standard rate. In the event, such fees and charges exceeds the prescribed threshold, the MSB licensee must register for GST and impose tax on the services rendered. On the other hand, if the annual turnover from such services rendered does not exceed the prescribed threshold, the MSB licensee does not have to register for GST and is not required to charge GST on such supplies.

GST TREATMENT ON MONEY CHANGING BUSINESS

7. The exempt supplies made by the MSB licensee are generally:
 - (a) the business of entering into an exchange transaction at a rate of exchange;
 - (b) the business of buying or selling travellers' cheques, on behalf of an issuer of traveller's cheques, at a rate of exchange;
8. Any services provided by the MSB licensee relating to the money changing business for a fee is a standard rated supply.

GST TREATMENT ON REMITTANCE BUSINESS

9. The transferring of funds may be made within or outside Malaysia by a MSB licensee under the Money Service Business Act 2011 on behalf of his customer in or outside Malaysia, to a beneficiary person in or outside Malaysia. Given the probable transactions between them, the GST treatment is as follows:
 - (a) A licensee under the Money Services Business Act 2011 (remittance service provider) who belongs in Malaysia making a supply of money on behalf of an originator in Malaysia to a beneficiary outside Malaysia is a not a supply by the licensee.
 - (b) A licensee under the Money Services Business Act 2011 (remittance service provider) who belongs in Malaysia making a supply of money to a beneficiary (inward remittance) in Malaysia is a not a supply by the licensee.
 - (c) A licensee under the Money Services Business Act 2011 (remittance service provider) who belongs in Malaysia deposits money received from

an originator in Malaysia in a licensed bank is an exempt supply as there is interest accruing as the consideration.

- (d) Outward remittance transactions from a licensee under the Money Services Business Act 2011 (remittance service provider) who belongs in Malaysia on behalf of an originator in Malaysia to a beneficiary via a correspondent agent outside Malaysia is a standard rated supply and the transfer fee is subject to GST.
- (e) Inward remittance transactions received by a licensee under the Money Services Business Act 2011 (remittance service provider) who belongs in Malaysia from an originator via a correspondent agent outside Malaysia to a beneficiary in Malaysia is a zero rated supply and the commission or charges are subject to GST at zero rate.
- (f) Global hubbing services for international remittances provided by a licensee under the Money Services Business Act 2011 (remittance service provider) who belongs in Malaysia for a correspondent agent outside Malaysia to another correspondent agent outside Malaysia is a zero rated supply.

GST TREATMENT ON WHOLESALE CURRENCY BUSINESS

10. Currency wholesalers are in the business of importing and exporting foreign currencies besides domestic buying and selling of foreign currencies.

11. The GST implications are as follows:

- (a) The buying and selling of currency with a MSB licensee, licensed banks and licensed Islamic banks or any person in Malaysia is an exempt supply.
- (b) The importing or exporting of currency notes from / to a person outside Malaysia is a supply that does not fall within the scope of GST.
- (c) Service rendered by the MSB licensee to his customers where a fee is charged is a taxable supply subject to GST at a standard rated.

SERVICES ACQUIRED BY MSB LICENSEE

12. Professional services acquired by a MSB licensee e.g. auditor services, consultancy services, accounting services, and a company secretarial services is a standard rated supply. Hence, the MSB licensee incurs input tax on such a supply.

REGULATED FEES UNDER MONEY SERVICES BUSINESS ACT 2011

13. The payment of fees required under the Money Service Business Act 2011 on the MSB licensee as stated in the Second Schedule of the Money Service Business (Licensing) Regulations 2012 is an out of scope supply by the regulator and not subject to GST.

MONEY SERVICES BUSINESS AGENT

14. MSB agent's commission is the consideration for a taxable supply made by the agent and is subject to GST at a standard rate. Hence, if the agent is a registered person, he is required to issue a tax invoice for his supply.

INPUT TAX CREDIT (ITC)

15. Since a licensee under the Money Services Business Act 2011 is making both taxable supply and exempt supply, he is entitled to claim input tax incurred on input that are directly attributable to taxable supply. For the inputs that cannot be attributable to a taxable supply i.e. 'residual inputs' such as utilities, insurance premium, office stationary, etc., he can claim input taxes based on the apportionment rules. Please refer to the General Guide on Input Tax Credit.

FREQUENTLY ASKED QUESTIONS

Invoicing

Q1. Regulation 5 of the Money Services Business (Duties of Licensees) Regulations 2012 requires MSB licensee to issue a receipt to his customers with prescribed particulars contained in it when conducting MSB. Can I as a registered GST MSB licensee use this receipt which I issue as a tax invoice for my taxable services to my customers?

A1. You are recommended to examine whether the existing receipt is able to accommodate the particulars required of a tax invoice as provided under regulation 22 of the GST Regulations 2014. If you are able to adhere to those requirements, you may use such receipts as a tax invoice. If otherwise, you may make an application to the Director General to consider for such a facility.

Input Tax Credit (ITC)

Q2. In carrying out my money services business, I incur GST on expense such as rental charges, telephone, electricity, furniture and fitting, accounting services, insurance and security services, can I claim input tax on GST paid on such expenses?

A2. Yes, you are entitled to claim the input taxes incurred on such expenses as you are making taxable supplies.

Q3. As a MSB licensee, I paid GST for expenses that I had made. Sometimes I suffer losses on buying and selling foreign currency because of fluctuating exchange rates. Is there any scheme under GST which allows me to recover such losses?

A3. No, there is no such scheme under GST which allows you to recover your losses.

Service charges

Q4. In carrying out our money services business, we charge service charge on the sale of currency to cover transportation and security costs incurred during delivery to our customer. Are the charges subject to

GST?

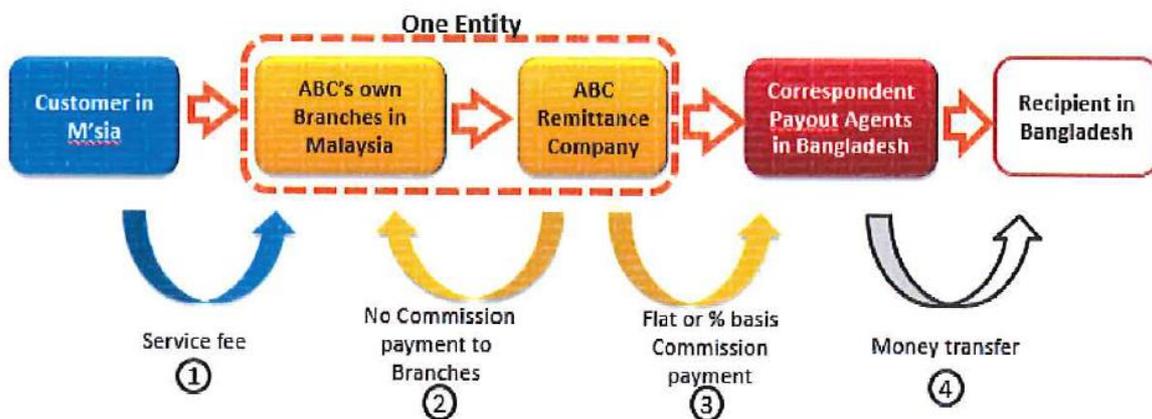
A4. Yes, service charge is subject to GST at a standard rate.

Miscellaneous

Q5. What is the GST implication on the supplies made by the remittance provider in Malaysia and correspondent agents in Bangladesh based on diagram 1 below?

Diagram 1: Illustration of the outward remittance transactions

1. Transactions from ABC Branches



A5. Based on the diagram above, GST implications are as follows:

- (a) The service fee from customer in Malaysia to ABC's own branches in Malaysia is subject to GST at a standard rate;
- (b) ABC remittance company does not pay commission payment to its own branches in Malaysia. Hence, there is no supply;
- (c) The commission payment from ABC remittance company to correspondent payout agents in Bangladesh is an imported service. Thus, it is subject to GST at a standard rate; and
- (d) The money transfer from correspondent payout agents in Bangladesh to recipient in Bangladesh is not a supply.

Q6. If headquarter of a company is situated in Kuala Lumpur while its

branches are situated in designated areas (Langkawi, Labuan or Tioman), are outward remittance services provided by these branches subject to GST?

A6. Yes, it is subject to GST at a standard rate.

Q7. If headquarter of a company is situated in designated areas (Langkawi, Labuan or Tioman) while its branches are situated in Kuala Lumpur. Are outward remittance services provided by the headquarter subject to GST?

A7. Yes, it is subject to GST at a standard rate.

Q8. Is an exchange gain generated due to the difference between collected amount from sender and settlement amount to disbursement agents is out of scope?

A8. No, foreign exchange gain is an exempt supply. (Item 5, Second Schedule, GST (Exempt Supply) Order 2014).

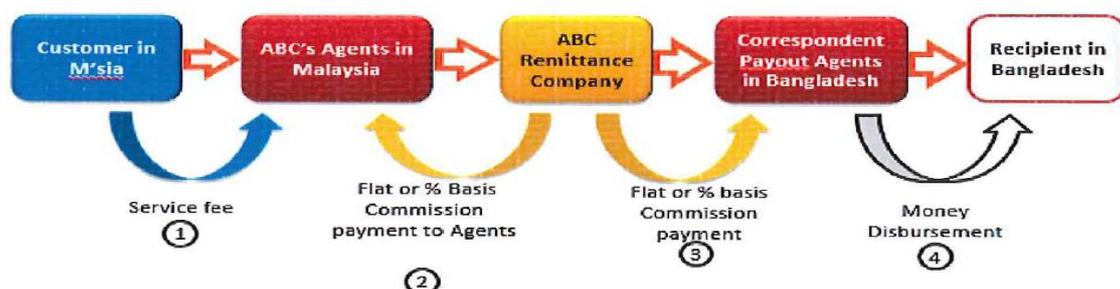
Q9. If the correspondent pay out agent is a Malaysian company instead of a foreign company what is the treatment of GST?

A9. Local supply is subject to GST at a standard rate.

Q10. Q10: What is the GST implication on the supplies made by the remittance provider in Malaysia and correspondent agents in Bangladesh based on diagram 2 below?

Diagram 2: Illustration of the outward remittance transactions

2. Transactions from ABC Agents in MALAYSIA (OUTWARD)



A10. Based on the diagram above, GST implications are as follows:

- (a) Service fee from customer in Malaysia to ABC's agents in Malaysia is subject to GST at a standard rate;
- (b) Commission payment from ABC remittance company to ABC's agents in Malaysia is subject to GST at a standard rate;
- (c) Commission payment from ABC remittance company to correspondent payout agents in Bangladesh is an imported service. Thus, it is subject to GST at a standard rate; and
- (d) Money transfer from correspondent payout agents in Bangladesh to recipient in Bangladesh is not a supply.

Q11. If headquarter of a company is situated in Kuala Lumpur while its Malaysian agents are in designated areas (Langkawi, Labuan or Tioman). Are outward remittance services provided by these agents subject to GST?

A11. Yes, it is subject to GST at a standard rate.

Q12. If headquarter of a company is situated in designated areas (Langkawi, Labuan or Tioman) while its Malaysian agents are in Kuala Lumpur or Penang. Are outward remittance services provided by the headquarter subject to GST?

A12. Yes, it is subject to GST at a standard rate.

Q13. Are outward remittance services provided by the agents subject to GST?

A13. Yes, it is subject to GST at a standard rate.

Q14. The prescribed threshold amount to register for GST is based on services fees charged only or total value of the principle remittance amount and service fee?

A14. Services fees charged only.

Q15. For the ABC's agent in Malaysia, does the prescribed threshold for

registration of GST, include service fees received from customers as well as commission received from ABC?

A15. Yes.

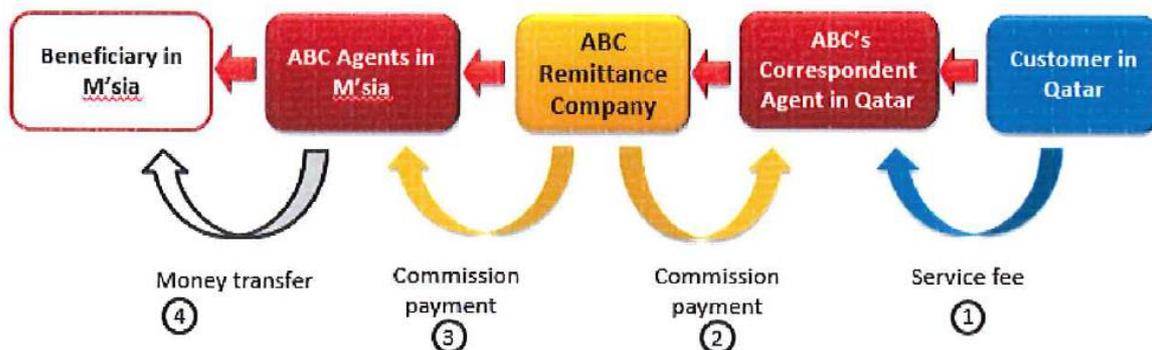
Q16. For commission payment to Malaysian agents, the foreign exchange gain portion is not subject to GST?

A16. No, foreign exchange gain is an exempt supply. (Item 5, Second Schedule, GST (Exempt Supply) Order 2014).

Q17. What is the GST implication on the supplies made based on diagram 3 below?

Diagram 3: Illustration of the inward remittance transactions

3. Transactions to Malaysia ABC Agents (INWARD)



A17. Based on the diagram above, GST implications are as follows:

- Money transfer from customer in Qatar to ABC's correspondent agent in Qatar is out of scope;
- Commission payment from ABC remittance company to ABC's correspondent agent in Qatar is zero rate. (Item 25, Second Schedule, GST (Zero-Rated Supply) Order 2014);
- Commission payment from ABC remittance company to ABC's agents in Malaysia is subject to GST at zero rate. (Item 25, Second Schedule, GST (Zero-Rated Supply) Order 2014); and

- (d) Money transfer from ABC's agents in Malaysia to beneficiary in Malaysia is not a supply.

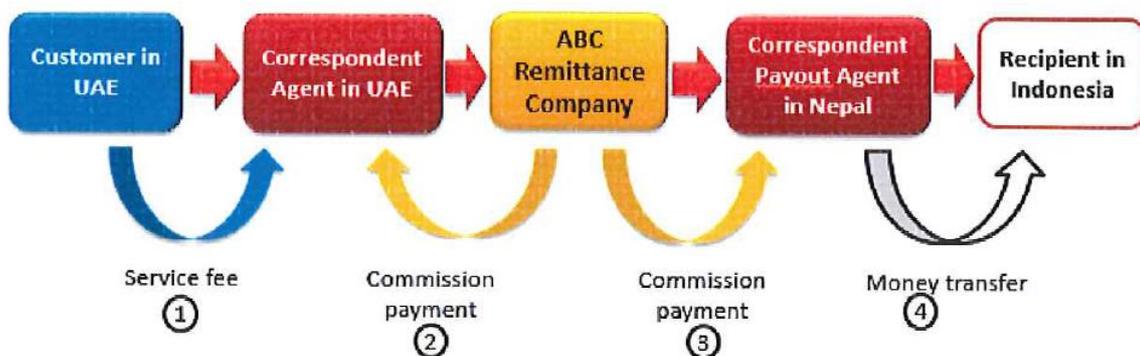
Q18. If an agent in Malaysia is GST registered person, commission payment to the agent will be subject to standard rate GST or 0% GST?

A18. The commission payment to an agent in Malaysia is subject to GST at 0%.

Q19. What is the GST implication on the supplies made based on diagram 4 below?

Diagram 4: Illustration of the global hubbing services

4. International Transaction

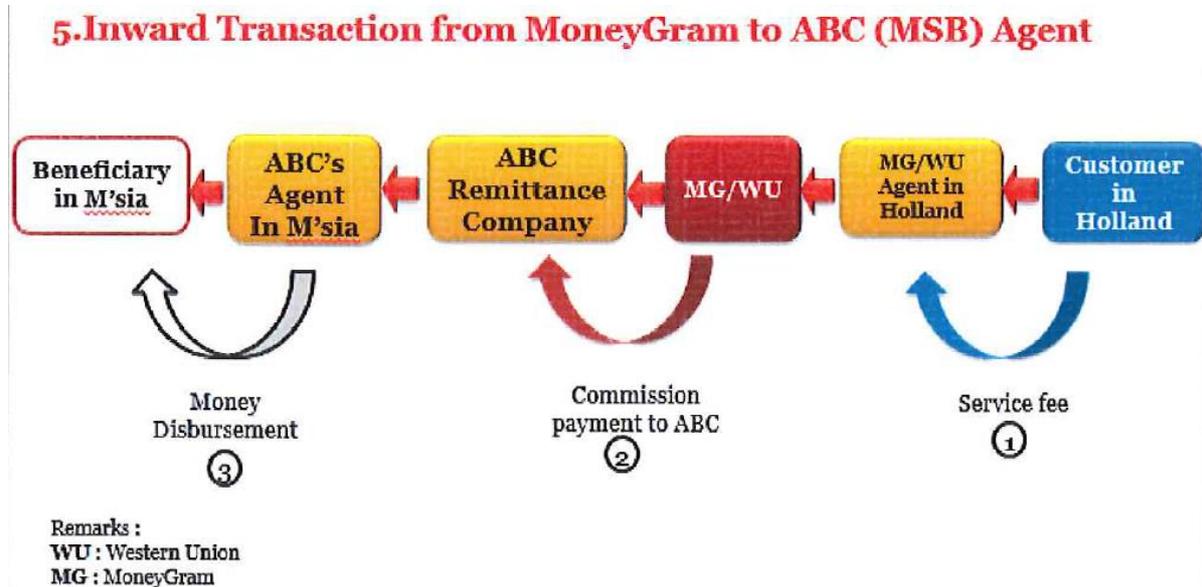


A19. Based on the diagram above, GST implications are as follows:

- Service fee from customer in UAE to correspondent agents in UAE is out of scope;
- Commission payment from ABC remittance company to correspondent agents in UAE is subject to GST at zero rate. (Item 26, Second Schedule, GST (Zero-Rated Supply) Order 2014);
- Commission payment from ABC remittance company to correspondent agents in Nepal is subject to GST at zero rate. (Item 26, Second Schedule, GST (Zero-Rated Supply) Order 2014); and
- Money transfer from correspondent agents in Nepal to recipient in Indonesia is not a supply.

Q20. What is the GST implication on the supplies made based on diagram 5 below?

Diagram 5: Illustration of the inward remittance transactions



A20. Based on the diagram above, GST implications are as follows:

- Service fee from customer in Holland to MG/WU agents in Holland is out of scope;
- Commission payment from MG/WU to ABC remittance company is subject to GST at zero rate. (Item 26, Second Schedule, GST (Zero-Rated Supply) Order 2014);
- Commission payment from ABC remittance company to ABC's agents in Malaysia is subject to GST at a standard rate; and
- Money disbursement from ABC's agents in Malaysia to beneficiary in Malaysia is not a supply.

INQUIRY

1. For any inquiries for this guide please contact :

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No. 22, Persiaran Perdana, Presint 3,

62100 Putrajaya.

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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