



ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

**GUIDE
ON
FUND MANAGEMENT**

Publication

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INTRODUCTION

1. This Industry Guide is prepared to assist you in understanding the Goods and Services Tax and its implication on the fund management industry.

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.

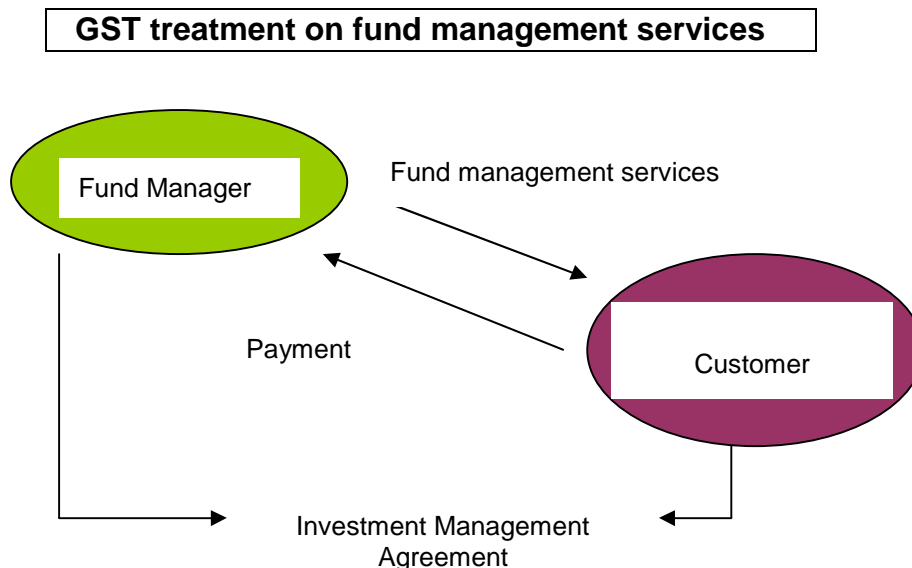
GENERAL OPERATIONS OF THE INDUSTRY

5. Fund management services are provided by fund managers who are companies licensed by the Securities Commission (SC) which provide investment management services or an individual, who directs the ‘fund management’ decisions which includes research, investment advice, ensuring compliance with regulatory requirements as well as preparation of reports for their clients. Fund managers manage portfolio or funds of clients according to set mandates (agreement) or trust deeds of that fund.

GST TREATMENT ON FUND MANAGEMENT SERVICES

Management of the Fund

6. When a fund manager provides fund management services to a person, the fund manager will charge management fee for the services provided. The management fee is subject to GST at a standard rate.



Buying and selling of securities

7. Based on the investment management agreement between the fund manager and his customers, the fund manager acts as an agent on behalf of his customers when dealing in financial transactions. When the fund manager sells securities for his customer the supply is made by the customer and not made by the fund manager. This supply is an exempt supply. However, if there are fees and charges involved in the transaction such as brokerage and clearing fees, they will be subject to GST at a standard rate. Dividends and other income distributions do not attract any GST.

Non-Collective Investment Scheme

8. Non-collective investment schemes are provident and pension funds which are managed by both statutory bodies and the private sector.

Statutory Bodies Managed Funds

9. The Employees Provident Fund (EPF), Pension Trust Fund, Social Security Organization (SOCSO), Armed Forces Fund (Lembaga Tabung Angkatan Tentera),

Malaysian Estates Staff Provident Funds, Teachers Provident Funds are examples of statutory bodies managed provident and pension funds governed by their own Act which specify their trustees for the funds. Its primary aim is to provide a measure of security for old age retirement to its members.

10. Any contribution made to the pension, provident or social security fund by any person is not a supply of goods or a supply of services and is not subject to GST.

11. In order to supplement benefits to its members, the assets of the funds are invested to maximize returns on investment. The funds engage fund managers to manage the investment of the funds. Investment of the funds to maximize returns on investment is an exempt supply and not subject to GST. The fund managers charge a management fee for the services rendered. The management fee incurred is subject to GST at a standard rate.

12. Any savings withdrawal by members, dependants or nominees is also not subject to GST. The fund normally engages a trustee to safeguard the interest of the members. If the trustee is a registered person and charges trustee fees to the fund, it will be subject to GST at a standard rate.

13. Any investment activity such as selling of securities is exempt from GST. However, consultancy, management or intermediary services are subject to GST at a standard rate. Being an exempt supplier, the fund is not entitled to claim the GST incurred on the inputs.

Private Sector Managed Funds

14. Like statutory managed funds, contributions are paid into a pension fund constituted and administered under irrevocable trust. Such funds are managed by companies. The assets of the fund are invested or otherwise employed by the trustees for the benefit of the fund (and ultimately the beneficiaries) and members' benefits are paid out of the fund as a whole. The GST treatment for private sector managed funds is similar to the GST treatment for statutory bodies managed funds.

Collective Investment Scheme

15. Collective investment schemes includes, among others, Unit Trust Fund, Real Estate Investment Trust (REITs) and Wholesale Fund.

Unit Trust Fund

16. Unit Trust Fund allows investors with similar investment objectives to pool their funds to be invested in a diversified portfolio of equities, fixed income securities or other investments managed by professional fund managers constituted under a deed. The fund, being a person under GST, is making exempt supplies so it is not required to be registered. Any input tax incurred by the fund such as management fees, trustee fees and other administrative charges are not claimable.

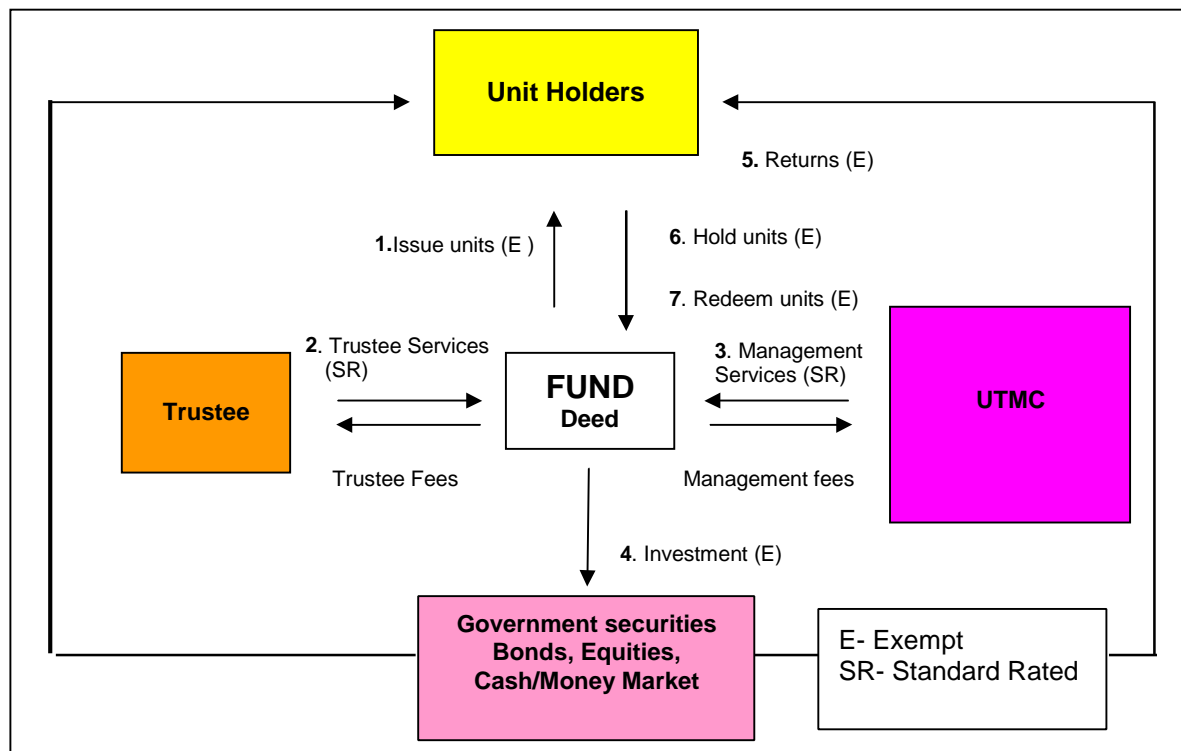
17. The Unit Trust Management Company (UTMC) is a fund manager appointed by the fund to manage and invest the pooled funds. The investment activity such as the selling of securities is an exempt supply.

18. The UTMC may appoint an authorized agent, whether tied agents or institutional unit trust advisor (IUTA) to distribute the units of the unit trust fund. Being agents, they earned commissions for the sale of units and these sales commissions are subject to GST at a standard rate. The distribution of units may also be made to the public through unit trust consultants or advisers. Unit trust consultants or advisers earned commissions for the sale of units which are subject to GST at a standard rate. There are also fees and expenses involved in managing the funds. Fees and expenses charged to the fund are subject to GST at a standard rate.

19. The unit holder can buy and sell units through the UTMC or authorized agents. The issuance of units by the UTMC is an exempt supply. The selling or redemption of the units is an exempt supply and therefore is not subject to GST. Any fee based charges related to buying of the units such as sales or service charge is subject to GST at a standard rate. Besides sales or service charge the unit holder may also switch or transfer units. UTMC will charge a switching or transfer fee to the unit holder which will be subject to GST at a standard rate.

20. The custodian for all the assets of the fund is the trustee who is entrusted to safeguard the interests of the unit holders and to exercise all due care and vigilance in accordance with the provision of the trust deed, Securities Commission Act, 1993 and its guidelines. Trustee services charged to the fund are subject to GST at a standard rate.

Figure 1: How a Unit Trust Fund works



21. Besides conventional funds, the UTMC also manages Syariah funds which are a group of specialized collective investment funds managed in accordance to Syariah principles. The fund manager may invest in listed securities, unlisted securities, foreign securities, other collective investment schemes, future contracts and liquid assets provided the above are approved by its Syariah committee or Securities Commission's Syariah Advisory Council.

22. Syariah based unit trust is treated similar to conventional unit trust to ensure tax neutrality except for the advisory services as mandated in SC guidelines. The Syariah advisory service is subject to GST at a standard rate.

23. In Islamic unit trusts, the legal relationship between the fund manager and the investors can be that of:

- (a) Agency (wakalah);
- (b) Commission (ju'alah); or
- (c) Joint-venture partnership (mudharabah)

24. Whatever the relationship is, the supplies made between the relevant persons and the GST treatment can be summarized in the table below.

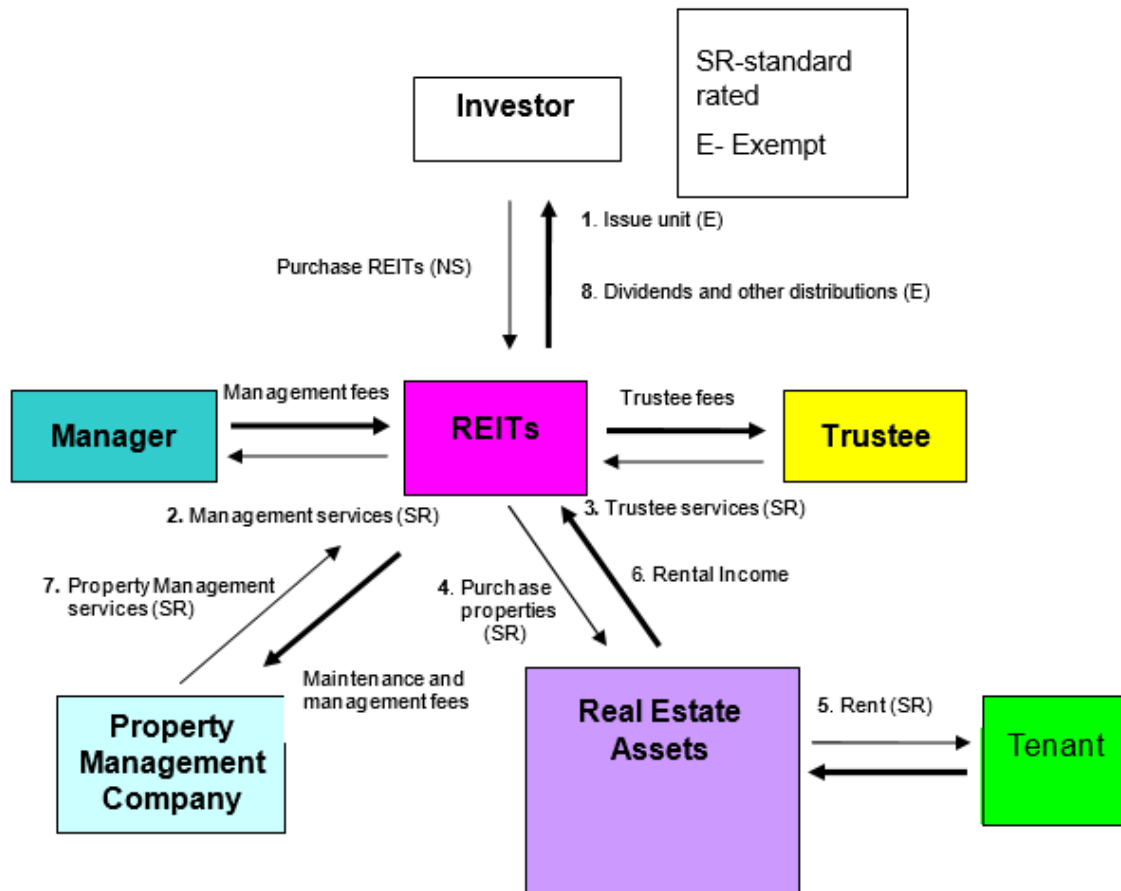
| SUPPLY | GST TREATMENT |
|---|----------------------|
| Agency services (wakalah) or fee based services provided by fund managers | Standard rate |
| Supply of funds (money) from the unit holder to fund manager | Not a supply |
| Investment activities by fund manager on behalf of unit holder | Exempt |
| Shared profit arising from investment by fund manager to unit holder | Exempt |
| Syariah advisory services by Syariah Advisory Council | Standard rate |

Real Estate Investment Trusts (REITs)

25. A real estate investment trust (REIT) is also a collective investment scheme where funds from investors are pooled and invested in a portfolio of real estate assets or real estate related assets and authorized investments. These real estate's generate income from rent collected from tenants. After taking into account expenses, this income is distributed to investors as dividends at regular intervals. REITs are traded in Bursa Malaysia so it gives investors returns through capital appreciation from price changes just like any listed company's shares. Since REITs activities involve the making of standard rated and exempt supplies then the fund is liable to be registered under GST. Any input tax incurred by the fund such as management fees, property management fees, lease management fees and trustee fees are to be apportioned using partial exemption rules. For further details, please refer to the Guide on Partial Exemption.

26. The structure of REITs and the GST treatment are given in Figure 2 below.

Figure 2: REITs and GST Treatment



27. The REIT issues units from which it collects funds from investors which are pooled and invested in a portfolio of real estate assets or real estate related assets and authorized investments. The issuance of REIT units to investors is an exempt supply and therefore is not subject to GST.

Wholesale Fund

28. It is a unit trust fund, the units of which are issued, offered for subscription or purchase, or for which invitations to subscribe for or purchase the units have been made, exclusively to sophisticated investors.

Management company or fund manager

29. The fund manager is responsible for the management and administration of the REITs in accordance with the objectives and investment strategies of the REIT. For

the services supplied, he charges a management fee which is subject to GST at a standard rate.

Property Manager

30. The fund manager appoints a property manager to manage the real estate held by the REIT. This appointment is approved by the trustee. Services provided by the property manager are property management services, lease management services and marketing services.

Property management services

31. These services include liaising with tenants to approve and coordinate tenants' fitting-out requirements, reviewing tenants' proposed design, assisting tenants' with their tenancy design, supervising fitting outworks, effecting routing maintenance, ensuring compliance with building and safety regulations and arranging for adequate insurance. These services are subject to GST at a standard rate.

Lease management services

32. These services include preparation of tenancy agreements, administration of rental collection, initiating lease renewals and negotiating of terms. The supply of lease management services and rental are subject to GST at a standard rate.

Marketing services

33. These services include marketing the real property to potential tenants. Marketing services are subject to GST at a standard rate.

Trustee

34. The trustee is a trust company registered under the Trust Companies Act, 1949 and must be independent from the management company. The trustee is appointed under the deed to safeguard the interests of the investors and to act as the custodian for all the assets of the REIT. For GST purposes, the trustee services are subject to GST at a standard rate.

The Investors

35. An investor is entitled to receive income distribution from the REITs invested. The income distribution in the form of dividend is exempt and not subject to GST.

When the REIT units are traded in Bursa Malaysia, the selling of the REIT units is also an exempt supply and is not subject to GST. However, any brokerage commission or clearing fee on the buying and selling of the REITs is subject to GST at a standard rate. The investor is not entitled to claim the GST incurred on the buying and selling of the REITs since it is an exempt supply.

Islamic Real Estate Investment Trusts (I-REITs)

36. I-REIT operates in a similar way as a conventional REIT except that the tenants who operate the real property must engage in permissible activities according to the Syariah principles. Non-permissible activities include financial services based on riba (interest), gambling, manufacture or sale of non-halal products, conventional insurance, entertainment activities that are non-permissible according to Syariah principles, manufacture or sale of tobacco-based products, stock broking or share trading in Syariah non-compliant securities, hotels and resorts. For GST purposes, the tax treatment on I-REITs is the same as conventional REITs.

37. In performing its permissible activities, the I-REITs gets syariah advisory services from the Syariah committee. The syariah advisory services supplied are subject to GST at a standard rate.

38. I-REIT is required to use the takaful scheme to insure its real estate. If the takaful schemes are unable to provide the insurance coverage, then the I-REIT is permitted to use the conventional insurance schemes. General takaful or general insurance are subject to GST at a standard rate.

OTHER INTERMEDIARIES

Financial Planner

39. A financial planner typically prepares financial plans for his or her clients. The scope of services offered by financial planners is very wide. Some financial planners assess every aspect of a client's financial life, including savings, investments, insurance, taxes, retirement and estate planning. They develop detailed strategy or financial plan for meeting their client's financial goals. Generally, financial charges vary widely, some charge a fixed fee while others are paid by commissions. Irrespective of the manner in which the financial charges are imposed, the services supplied by the financial planner are subject to GST at a standard rate.

FREQUENTLY ASKED QUESTIONS

Fund Management

Q1. I manage client's funds to invest in fixed income portfolios. I charge an annual management fee to my clients for the investment of securities. Should I charge GST on the annual management fees?

A1. Annual management fees are subject to GST at a standard rate. For further details on fund management transactions please refer to the table below:

| No. | Transactions | GST Treatment |
|-----|---|---|
| 1. | Local Fund Manager managing Domestic Stocks (Malaysian stocks) | Standard rate |
| 2. | Local Fund Manager managing International Stocks | Imported services |
| 3. | Foreign fund (locally incorporated) managing Domestic Stocks (Malaysian stocks) | Standard rate |
| 4. | Foreign fund (locally incorporated) managing International stocks | Imported services |
| 5. | Custodian fee (locally incorporated) (managing international stocks) | Standard rate |
| 6. | Foreign custodian (managing international stocks) | Imported services |
| 7. | Amortisation of financial asset | Exempt (if the consideration is in the form of a spread/interest) |
| 8. | Bank Charges. Capital Injection to our custodian is transfer via local bank and this will involve bank charges. Are the bank charges subject to GST? If yes, is it treated as imported or local service? | Standard rate |
| 9. | Purchase of stocks will include the following elements: i) principal– purchase cost (this element is not treated as income) | Out of scope |
| | ii) Interest (this element is not treated as income) | Exempt |

| | | |
|-----|--|---|
| | iii) Dividend (this element is not treated as income) | Out of scope |
| | iv) Capital gain (this element is not treated as income) | Exempt |
| 10. | Accretion of financial asset | Exempt (if the consideration is in the form of a spread/interest) |
| 11. | Interest on advances to subsidiary: i) Subsidiary is situated outside Malaysia ii) Local subsidiary | Zero rate Exempt |
| 12. | "Realised forex gain and loss i) Forex gain/loss on global stock transaction." ii) Forex gain/loss on domestic stock traded in foreign currency. | Out of scope Exempt for forex gain |
| 13. | Capital gain on equity, fixed income & alternative investment. Does this include domestic companies only or it also includes international transactions? | Domestic Transactions: Exempt International transactions: Out of scope |
| 14. | Participation Fees | Standard rate |
| 15. | Prepayment Premium/ Redemption premium | Out of scope |
| 16. | Cancellation Fees (penalty) | Out of scope |

Q2. For the investment of securities with a high return as agreed in the investment management agreement with the clients, a performance fee is paid to the fund manager. Is performance fee subject to GST?

A2. Performance fee is subject to GST at a standard rate.

Q3. I did not provide custodian services for the funds managed. Instead, I outsource the custodian services. However, the outsourced custodian services are charged to the client. Do I have to charge GST on the outsourced custodian fees?

A3. Outsourced custodian services charged to your client is subject to GST at a standard rate but you can claim GST incurred on the outsourced custodian fee.

Q4. For managing portfolio investments I have to pay brokerage commissions to the brokers I trade with. What is the GST treatment on brokerage commissions?

A4. Brokerage commissions are services supplied to your clients and are subject to GST at a standard rate. You can collect from your clients the brokerage commissions and the GST incurred as reimbursements.

Q5. Other than investment management services, I provide advisory and consultancy services to clients with regards to the formation of trust, pension, education and retirement funds. Are consultancy and advisory services subject to GST?

A5. Advisory and consultancy services are subject to GST at a standard rate.

Q6. I am a licensed fund manager and appoint a foreign fund manager to manage a fund's foreign investment portfolio. What is the GST treatment on foreign fund managers?

A6. Foreign investment portfolio performed by foreign fund managers appointed by local fund managers is an imported service to the local fund manager and therefore the local fund manager has to account for GST.

Q7. I am a fund manager working in a unit trust management company. I perform investment portfolio functions for the unit trust fund. Do I have to be registered under GST?

A7. Since you are a fund manager working in a unit trust management company you and the unit trust management company are considered as one entity and therefore you are not required to be registered. However, your company is required to be registered under GST if its annual taxable turnover has exceeded RM500,000. If the unit trust management company appoints an external fund manager, then the company and external fund manager have to be registered if their taxable turnover exceeds RM500,000.

Q8. A fund manager of a wholesale fund offers a rebate to selected or eligible investors should such investors met certain requirements determined by the fund manager. Is the rebate subject to GST?

A8. The rebate given by the fund manager to the investors who have successfully complied with their requirements is seen as an incentive for the investors to increase their investments in the fund. Hence the rebate, which is the consideration for a supply by the investors to the fund manager, is subject to GST.

Income Distribution

Q9. A Fund's income distribution to unit holders comprises of dividends that the fund earns from its investment holdings, interest/profit income (Islamic Funds) it receives from its money market and bond investments, and capital gains realized from the sale of its investment holdings. Capital gains are realized whenever the fund sells securities for higher prices than it had paid to them. These dividends, interest income and capital gains are distributed to unit holders as income distribution. What is the GST treatment on income distribution?

A9. Income distribution is not subject to GST.

Q10. REITs income distribution to unit holders comprise of dividends or distribution and capital gains generated from the rental income plus any capital appreciation that comes from holding the real estate assets over the period. Are dividends, interest income and capital gains subject to GST?

A10. Dividends, interest income and capital gains are not subject to GST.

Q11. In managing the funds in Malaysia I earned interest and dividend on behalf of my clients. What is the treatment of interest and dividend income for GST purposes?

A11. Interest and dividend income are exempt and not subject to GST.

Q12. Income distribution can be distributed in the form of unit splits and reinvestment of distribution to the unit holders. What is the GST treatment on unit splits and reinvestment of distribution?

A12. Unit splits and reinvestment of distribution are considered exempt supplies and therefore are not subject to GST.

Q13. Is foreign sourced income such as dividend and interest gains arising from realization of investment outside Malaysia by a foreign fund manager subject to GST?

A13. Foreign sourced income such as dividend and interest gains arising from realization of investment outside Malaysia are considered as out of scope supplies and is not subject to GST.

Distribution of units

Q14. Sale and purchase of units in a unit trust can be made through tied agents, institutional unit trust agents (IUTA) or brokers for Exchange Traded Funds (ETF). What is the GST implication when you sell units in the unit trust?

A14. GST is not chargeable when you sell units in the unit trust since it is an exempt supply.

Q15. A service or sales charge is a front-end fee charged by the manager when an investor purchases units of a fund. Is service or sales charge subject to GST?

A15. Service or sales charge is subject to GST at a standard rate.

Example 1:

| | RM |
|--|-------------|
| NAV per 1,000 units at the end of the business day | 838.90 |
| Add: Service or sales charge (6% x RM838.90) | 50.33 |
| Add: GST (6% x RM50.33) | 3.02 |
| Selling price per unit | 892.25 |

Q16. Only participating dealers are allowed to request the manager to create and/or redeem units in the ETF. Participating Dealers will incur processing and administration fees charged by the manager and/or trustee for the creation and redemption of units. What is the GST

treatment on the processing and administration fees charged by the manager?

A16. The processing fee charged by the manager and the administration fee charged by the trustee for the creation or redemption of ETF units is subject to GST at a standard rate. Besides processing and administration fees, there are also fees charged by Bursa Depository on each account allotted with new units and each account debited with redeemed units. This fee charged by Bursa Depository is also subject to GST at a standard rate.

Selling and Buying of Units

Q17. ETF units are traded on Bursa Malaysia and investors are charged with brokerage, stamp duty and clearing fees from trading with Bursa Securities. Are brokerage, stamp duty and clearing fees subject to GST?

A17. Since ETF units are traded on Bursa Malaysia, the trading of ETF units is an exempt supply and therefore is not subject to GST. The brokerage and clearing fees are subject to GST at a standard rate but stamp duty does not attract any GST as it is a disbursement.

Q18. The spread between the selling and buying prices of unit trust is used to pay agents to market and distribute units and to defray the operating expenses of the unit trust management companies. What is the GST treatment on the spread?

A18. The spread between the selling and buying prices of unit trust is exempt and therefore not subject to GST.

Q19. Are the gains or proceeds received from redemption of unit trust by an investment holding company (IHC) treated as an exempt supply?

A19. Unit trust gains in the form of a spread is a result of the difference in value between the redemption and placement of the unit trust. The spread is the consideration for the making of an exempt supply and is not subject to GST. If an IHC engages in such activity it is treated as an exempt supply and paragraph 40(2)(g) of the GST Regulations 2014 does not apply to the IHC.

Transfer and Switching of Units

Q20. A unit holder may fully or partially transfer his units in a fund to another unit holder. A transfer fee will be charged for each transaction. What is the GST treatment on the transfer fee?

A20. The transfer fee charged for the transfer of units is subject to GST at a standard rate.

Q21. A unit holder may move his investments between various funds in response to changing financial goals or market conditions. A switching fee is charged to the unit holder when he switches his units between funds. What is the GST treatment on switching fee?

A21. Switching fee is subject to GST at a standard rate.

Q22. An exit fee which is only applicable for bond funds is a back end fee that is incurred when a unit holder redeems or switches his units on or before the specified investment period. Does the manager have to account for GST on the exit fee?

A22. The manager has to charge GST on the exit fee at a standard rate.

Commissions, Expenses and Charges

Q23. Pursuant to the Initial Public Offering the managing underwriter and underwriters have agreed to undertake the issued units to be issued at a commission payable by the fund. Is underwriting commission subject to GST?

A23. Underwriting commission payable by the fund is subject to GST at a standard rate.

Q24. What is the GST treatment on commission I receive from insurance companies?

A24. You are required to charge GST on the commission received irrespective of whether the insurance product is general insurance or life insurance.

Q25. Listing expenses such as professional fees, regulatory fees, advertisement and printing expenses, brokerage and commissions and

contingencies expenses are incurred by the fund pursuant to the retail offering. Are listing expenses borne by the REITs fund subject to GST?

A25. Listing expenses borne by the REITs fund are subject to GST at a standard rate.

Q26. Administrative charges such as courier or telegraphic transfer charges will be imposed by the manager for remittance of repurchase proceeds or money refunded during a cooling-off right. Is the manager liable to charge GST on the administrative charges?

A26. Administrative charges are taxable supplies and therefore subject to GST at a standard rate.

Input Tax Credit

Q27. If I decide to deregister from GST, am I eligible to claim for input tax on the supplies I receive before deregistration?

A27. Yes, you can claim for input tax on goods and services supplied to you while you were registered provided that:

- (a) you have not claimed the input tax; and
- (b) the claim is made within six years from the date of supply or importation or one year from the date of deregistration, whichever is the earlier.

You cannot claim GST paid on the supplies you have purchased after deregistration.

Q28. As a result of deregistration, I incur expenses such as legal charges and accounting charges. Can I claim input tax on the services supplied to me?

A28. You can claim input tax on services supplied to you provided that the services are related to the deregistration process and subject to the time limit of claiming input tax.

Q29. As a financial planner, I sometimes entertain my customers. Can I claim GST incurred on the entertainment expenses?

A29. You are entitled to claim the GST incurred on the entertainment expenses to existing customers and the tax invoice is in the name of the business.

Q30. The REIT will bear property operating expenses including auditors' fees and expenses, fees for the valuation of any investment, taxation, advisers' fees and the costs incurred for the modification of the deed of the fund. These expenses are subject to GST. Can the REIT claim the GST as input tax credit?

A30. The REIT is entitled to claim the input tax incurred on the expenses if the expenses are incurred for making taxable supplies such as rental or sale of commercial buildings, shop lots, factories and industrial buildings.

Agents

Q31. A portion of the service or sales charge collected by the fund manager is paid out as sales commission to selling agents. What is the GST treatment?

A31. As service or sales charge is a taxable supply, it is subject to GST at a standard rate. However, you can claim GST incurred on the commission paid to the tied agents as input tax.

Q32. UTMC may sell stationeries and other articles (e.g. umbrella) to agents for distribution to unit holders as free gifts. What is the GST treatment of selling stationeries and other articles to agents?

A32. The selling of stationeries and other articles to agents for distribution to unit holders as free gifts is subject to GST at a standard rate.

Q33. All tied agents would be paid on a quarterly basis a fee at a specified rate based on net asset value of units held by the relevant unit holder out of the annual management fee. Is the fee subject to GST?

A33. Any fees paid to tied agents for personal servicing of unit holder is considered as commission paid to agents and is therefore subject to GST at a standard rate. You cannot claim the GST incurred on such fee as it is used for making an exempt supply.

Financial Planner

Q34. I am a Financial Planner. Am I required to be registered for GST?

A34. As your supplies consist mainly of taxable supplies i.e. advisory and commission, you are required to register if your annual taxable turnover has exceeded the threshold. If you have not exceeded the threshold, you may want to register voluntarily.

Q35. Besides financial planning service, I provide advisory and custodial services for which I charged some fee. What is the GST treatment?

A35. Advisory and custodial services are subject to GST at a standard rate.

Q36. Besides financial planning, I am authorized to perform collection service on the income earned by my client from his portfolio of investments. I do not charge the collection service as it is part of the contract. What is the GST treatment?

A36. Since you do not charge any fee on your collection service and it is an integral part of the contract, you are not required to charge GST on the collection service supplied.

Q37. I provide some financial planning service to a client who planned to invest his pension in a unit trust fund. After some discussions, my customer changes his mind and I do not charge him. What is the GST treatment?

A37. Since you are giving a free service, there is no GST on your supply.

Q38. My customer requires me to arrange for him to buy a financial product, i.e. unit trust from a unit trust company. Am I subject to GST?

A38. If you charge a fee for arranging your customer to buy unit trust, then your fee is subject to GST at a standard rate. However, if you do not charge your customer any fee, you are not required to charge GST on the arrangement services.

Provident and Pension Funds

Q39. An insurance company sets up and maintains a provident fund for his employees. The fund consists of contributions from the employees as

well as employer. The objective of the fund is to provide financial assistance to the employees when they encounter any form of calamity. Is this form of coverage considered as insurance or takaful business or provident fund and what is the GST treatment on this financial service?

A39. This form of coverage does not fall within the scope of insurance or takaful business but it is actually a provident fund set up by the company for the benefit of the employees upon retirement. Managing the fund by the insurance company is not a supply if the insurance company does not charge a fee for managing the fund. Therefore, there is no GST involved. However, if the insurance company charges a fee for managing the fund, it is subject to GST at a standard rate.

Q40. Are the protection schemes provided by SOCSO like the employment injury insurance scheme and the invalidity pension scheme under the mandatory workmen compensation subject to GST?

A40. Such protection schemes given are not considered as insurance or takaful business. SOCSO is regulated under the Employees' Social Security Act, 1969 and it is a statutory body managed fund. Therefore, contributions or deductions made from the employees' income for the schemes and the claims made are not subject to GST.

Free Life Insurance

Q41. Free Group Term Life with Total and Permanent Disability plus Group Personal Accident Insurance is provided by the manager for unit holders for a specified minimum investment in unit trust. Is the manager liable to charge GST on the free life insurance?

A41. Life insurance is an exempt supply and is not subject to GST while total and permanent disability and group personal accident insurance is a taxable supply which is subject to GST at a standard rate. Since the insurance is given free, it is not a supply and therefore is not subject to GST. However, if the manager purchases the total and permanent disability and group personal accident insurance and incurs GST on it, he cannot claim the GST incurred as he is making an exempt supply.

Cooling-off rights

Q42. Cooling-off right is the right of a first time investor to obtain a refund of his investment in a fund provided it is exercised within the cooling off period. The refund must not be less than the sum of the Net Asset Value on the day the units were first purchased. This refund includes the GST paid on service or sales charge. Can I recover GST paid if the service or sales charge is refunded to the investor during a cooling off rights?

A42. You may make the necessary adjustment to recover the GST paid as input tax when you refund the service or sales charge together with the GST to the investor.

Treatment of Offshore Unit Trust Scheme

Q43. What is the GST treatment of off shore unit trust scheme?

A43. There is no GST on the issuance and redemption of units in offshore unit trust. Unit trust issued to investors in Malaysia but outside Labuan, Langkawi or Tioman is exempt and therefore there is no GST on it.

Self-Invoicing Provision

Q44. Normally, UTMC will issue a statement to investors and charge GST on the sales or service charge. Commissions to agents will be paid out of the sales or service charge. My company has appointed 100 tied agents for the distribution of units in the unit trust. For each tied agent, I will issue a self-billed invoice stating the commissions to be received by each tied agent. How do I know that the agents have reached the threshold in order to charge GST on the statement?

A44. Before a self-billed invoice is approved, all tied agents including new tied agents must inform you about their GST status. If the tied agent is registered for GST, you are required to charge GST on the commissions received by him. If he is not registered, then there is no GST on commission. In addition, you can check whether the agents are GST registered persons through the GST portal.

Mixture of Taxable Supply and Exempt Supply

Q45. As a result of my advice, my customer purchases a life insurance product from an insurance company. What is the GST treatment?

A45. If your advice directly results in your customer purchasing a life insurance product and there is no separate charge for the advice given, you are not required to charge GST on the advice supplied as there is no consideration for the advice supplied. Since life insurance is an exempt supply, the purchase of life insurance is not subject to GST.

Q46. What is the GST treatment if I supply financial advice and life insurance product separately?

A46. If your financial advice and life insurance product are supplied separately, the advice is subject to GST at a standard rate while the life insurance product is not subject to GST as the life insurance product is an exempt supply.

Subscription, Examination and Professional Fees

Q47. Is there GST on professional membership subscription fees, e.g. Certified Financial Planners (CFP), MIA, CIMA, etc.?

A47. If the cost of the supply made by the professional organization to each of its member in a year does not exceed RM100 (one hundred ringgit Malaysia), then the membership subscription fee is not subject to GST.

Q48. Is there GST on professional examination fees?

A48. Any form of examination fee by any professional bodies is subject to GST at a standard rate.

Q49. I conduct professional course on Financial Planning and other related courses related to it. Like other professional courses conducted by some government or private agencies, I charge a fee for the training courses. Is professional training fee subject to GST?

A49. Professional training fee is subject to GST at a standard rate.

Additional Charges

Q50. I recover from my client expenses in excess of the amount I paid the third party. Do I have to charge GST on the excess amount?

A50. If you recover from your client an amount *in excess* of the amount you paid to the third party, GST should be collected on the excess taxable supply only.

Q51. Is there GST on any additional services charges related to the original supply?

A51. If the additional services are taxable supplies, you are required to charge GST on the additional service charge.

Additional service charge

| | |
|---|---------------|
| Original service charge: | RM100.00 |
| Additional charge for administrative service: | RM20.00 |
| Total charges: | RM120.00 |
| *GST @ 6%: | RM7.20 |

Q52. What is the GST treatment if the additional amount is an interest charge I paid on behalf of my client?

A52. If the additional amount recovered is an interest charged for the loan you arrange for your client, there is no GST due because it is an exempt supply.

Excess on Exempt Supply

| | |
|--------------------------------------|----------|
| Actual Interest amount due: | RM100.00 |
| Excess amount collected on interest: | RM 50.00 |
| Total charges: | RM150.00 |

AMENDMENTS

| NO | DATE | HEADING / SUB-HEADING/ PARAGRAPH | DESCRIPTION |
|-----------|-------------|---|--------------------|
| 1. | 19/12/2017 | FAQ No.18 | Updated |
| 2. | 20/12/2017 | Para 27 | New updated |
| 3. | 20/12/2017 | FAQ No.8 | New updated |

INQUIRY

1. For any inquiries for this guide please contact:

Sector IV

GST Division

Royal Malaysian Customs Department

Level 3 – 7, Block A, Menara Tulus,

No. 22, Persiaran Perdana, Presint 3,

62100 Putrajaya.

Email: gstsector4@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