



# Tax Whiz

Tax highlights from your advisers

**Service Tax Guide on Goods  
Delivery Services (Draft as at 9  
January 2023)**

KPMG in Malaysia

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12 January 2023



# Draft Service Tax Guide on Goods Delivery Services



Presently, only licensed courier service providers for documents or parcels not exceeding 30kg each are liable to be registered and charge Service Tax. It was proposed during the 2022 Budget announcement that the scope be expanded to include goods delivery services regardless of the status of the service providers (whether licensed or not), but exclude delivery services for food or beverages as well as logistic services. This proposal which was initially scheduled to be effective 1 July 2022, was postponed to 1 January 2023 and now to a later date to be announced.

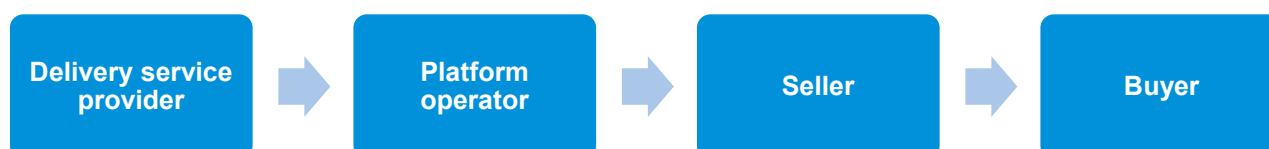
Pending the release of the relevant amendment legislations and announcement on the effective date, the Royal Malaysian Customs Department (“RMCD”) has issued the Draft Guide on Goods Delivery Services (available in Malay language only). Please note that the guide is in draft form and may be subject to changes/ updates.

Set out below are some clarifications provided in the Draft Guide (as at 9 January 2023): -

<b>Goods delivery services</b>	Include courier services of documents, parcels or goods (within Malaysia), including via e-commerce platform, as well as on behalf of any person.
<b>Exclusion</b>	<p><b>i. Delivery of food or beverages</b> i.e. the physical movement of food or beverages from the place of preparation or served by the food or beverages provider to customers at another location.</p> <p><b>ii. Logistics services</b> i.e. services that involve the arrangement of the entire process of storage of goods, preparation of goods, delivery of goods and movement of goods to the recipient.</p>
<b>Courier services</b>	Postal services provided in an expedited manner with track and trace services.

The Draft Guide further provides examples to illustrate Service Tax implications on various delivery arrangements, amongst others: -

- The provision of flowers delivery service by a florist is a taxable service.
- Under conventional delivery services, the delivery service provider charges Service Tax on the delivery of goods to the seller and the seller subsequently charges Service Tax on the delivery service to the buyer.
- Where the goods are sold via an online platform and the delivery service is sourced from another delivery service provider, Service Tax is chargeable at each level of the supply chain (as illustrated via the arrows in the diagram below): -



- The delivery of food from a food or beverages establishment is not subject to Service Tax.
- However, where the food or beverages are ordered from a convenient store, the delivery service is subject to Service Tax.
- The provision of logistic services that covers delivery, loading/ unloading, handling, pick and pack as well as security control of goods is not subject to Service Tax. On the other hand, the delivery of goods on its own (in the absence of other comprehensive services to be considered logistic service) is subject to Service Tax.
- Where there are no delivery charges or it is provided for free subject to meeting conditions (e.g. minimum spend), there would not be Service Tax on the goods delivery services.

## Our observations

Unless the B2B exemption is also expanded to cover the provision of goods delivery services under Group I, there will be a “tax on tax” to the buyer on delivery charges where Service Tax is charged by the seller and delivery provider (as well as platform operator in some cases). Hence, businesses should start thinking about how this will impact their business operations as well as pricing structure.

For registered delivery service providers, their system must be configured to identify delivery of food from food or beverages establishments as opposed to other places such as convenient store to charge Service Tax correctly. There are also other practical issues to consider, for instance, whether the delivery of frozen or raw food (not ready to serve) from a food or beverages establishment can qualify for the exclusion hence not subject to Service Tax.

Also important to look out for is whether the limit of documents or parcels not exceeding 30kg for existing courier delivery services will no longer be available.

Furthermore, with the introduction of Sales Tax on Low Value Goods (“LVG”) effective 1 April 2023, the interaction between these 2 taxes (i.e. Sales Tax and Service Tax) on sale and delivery of goods would need to be coordinated.

## Getting ready

In view of the above, businesses who provides delivery services should commence appraisal on whether such services may potentially fall within the ambit of Service Tax and consider the liability to register or to update their registration status (to include the new taxable service).

Especially for businesses who are not yet a Service Tax registrant, there are obligations such as the issuance of Service Tax compliant invoice, filing of Service Tax Returns and payment of tax etc to comply.

Besides, the transitional provisions generally provides that Service Tax is chargeable only on the proportion of service which is attributed to the period after the effective date. Hence, it is crucial to look into delivery services that are contracted for over a period and spanning the effective date, to determine whether it should be subject to Service Tax and where the contract price is fixed who should bear the 6% Service Tax.

Given that the Draft Guide also mentions that there would not be Service Tax where there is no delivery charges or it is provided for free subject to meeting conditions (e.g. minimum spend), businesses may also want to relook at their pricing structure.

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