



# 2024 Budget - Indirect Tax Perspective

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KPMG in Malaysia



# Overview and Commentary



**Ng Sue Lynn**

Partner

Head of Indirect Tax

suelynnng@kpmg.com.my

## Key Message

The 2024 Budget measures for indirect tax appear to be focused on revenue growth as can be seen from the proposed increase in Service Tax rate, expansion of taxable services, introduction of the High Value Goods Tax as well as review of the Excise Duty on sugar sweetened beverages and chewing tobacco.

This reflects the increasing importance of indirect tax in contributing towards the nation's coffers. Businesses should keep abreast of the latest developments, as it is anticipated that the Government will continue to progressively introduce more reforms.

## Increase in Service Tax Rate



As announced in the 2024 Budget, the Government intends to implement tax reform measures with the objective to increase the Government's revenue but at the same time, not to burden the majority of the population.

One of the tax reform measures proposed in the 2024 Budget is that the Service Tax rate will be increased to 8% from the current 6% on all taxable services except the taxable services under the following groups in the First Schedule of the Service Tax Regulations 2018, in which the existing Service Tax rate of 6% will remain:

- i. Group B: Food and beverage;
- ii. Group I: Telecommunication services;
- iii. Group I: Vehicle parking space services; and
- iv. Group I: Logistic services (proposed new taxable service)

This proposal could be a preferred avenue at present for the Government to increase its revenue base instead of (re) introducing new taxes, as the legislations are already in place and businesses are familiar with Service Tax. However, the transitional provisions on the change in the Service Tax rate would need to be considered, as this may give rise to challenges for businesses from an operational perspective. Currently, it should be noted that the Service Tax legislations do not specifically cater for the change in Service Tax rate. As Service Tax is generally due at the time when payment is received, the transitional provisions would be crucial in ensuring a seamless transition and also provide clarity for businesses.

It is imperative for businesses to keep abreast on the details to be made available prior to making system changes and business (including pricing) decisions.

The above is proposed to be effective **1 March 2024**.

## Expansion of Taxable Services



Another tax reform proposal announced during the 2024 Budget is the expansion of the scope of Service Tax, which will be widened to include karaoke centre services, delivery services, brokerage and underwriting services as well as logistic services.

The Service Tax Regulations 2018 currently provides that certain services, which are proposed to be included in the scope for Service Tax, are already subject to Service Tax at 6%.

Services	First Schedule of the Service Tax Regulations 2018	Current Service Tax Rate	Proposed Group in the First Schedule of the Service Tax Regulations 2018	Proposed Service Tax Rate
Karaoke centre services	N/A	-	Group C	8%
Delivery services	N/A [It was proposed during the 2022 Budget that courier service is expanded to include goods delivery services, excluding delivery services for food and beverages and logistic services. However, this proposal was postponed to a date to be determined]	-	Group I	8%
Brokerage and underwriting services	Group I [Note that the brokerage and underwriting services are limited to financial services]	6%	Group I [It is proposed that this will be extended to cover <u>non-financial services</u> such as brokerage for ship and aircraft space, commodity and real estate]	8%
Logistics services	N/A [Note that logistics management service was removed from the list of taxable services effective 1 September 2019]	-	Group I	6%



It is proposed that the registration threshold for the new taxable services be set at RM500,000. Businesses should assess the services rendered to determine if this new proposal will impact the liability to register for Service Tax. Businesses that are affected by this proposal should also take note of the transitional provisions for the above expanded taxable services.

The above is proposed to be effective **1 March 2024**.

## High Value Goods Tax

During the re-tabled 2023 Budget, it was announced that the Luxury Goods Tax will be introduced in year 2023. However, no details were made available subsequent to that.

Now in the 2024 Budget, it is proposed that a **new legislation** will be enacted to implement the High Value Goods Tax (HVGT). The rate of HVGT is proposed to range from 5% to 10%, imposed on certain high value items such as jewellery and watches, depending on the specific threshold.

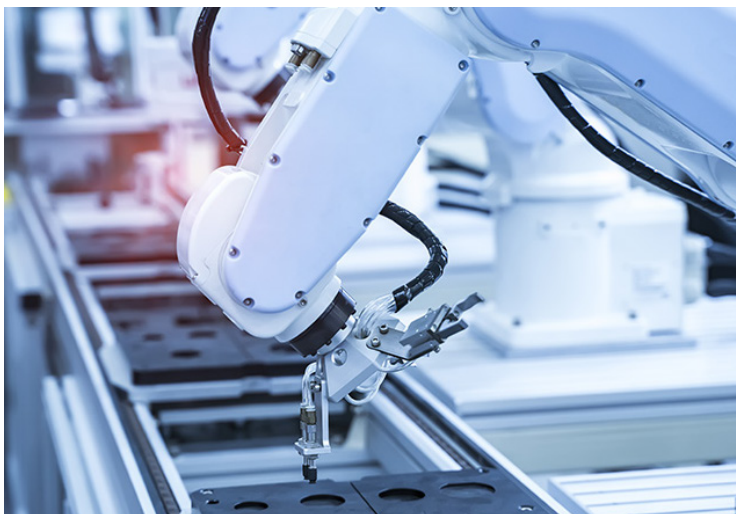
No further details are available yet with regards to the mechanics and also the date of implementation.

Please refer to our Thought Leadership on “High Value Goods Tax – The New Branded Tax” ([here](#)) where we share our thoughts on how the anticipated new legislation could fit into the current landscape.



## Import Duty and Sales Tax Exemptions on Manufacturing Aids

Currently, manufacturers are not entitled to Import Duty and Sales Tax exemptions on the importation and local purchase of manufacturing aids under the Customs Act 1967 and Sales Tax Act 2018.



To enhance the competitiveness of the manufacturing sector, it is proposed that Import Duty and Sales Tax exemptions be given to eligible manufacturers on the importation and local purchase of manufacturing aids, depending on the types of industry and category of goods.

This is a welcomed incentive to manufacturers as the manufacturing aids are also an important element in their manufacturing activities.

The above is proposed to be effective **1 January 2024**.

## Review of Excise Duty Rate on Sugar Sweetened Beverages

Since 1 July 2019, Excise Duty at the rate of RM0.40 per litre was imposed on beverages with sugar content that exceeds specific threshold, as below:

Tariff Code	Types of Beverages	Sugar Content Threshold	Excise Duty Rate
22.02	Beverages including carbonated drink containing added sugar or other sweetening matter or flavoured and other non-alcoholic beverages	>5g/100ml	RM0.40 per litre
	Flavoured milk-based beverages containing lactose	>7g/100ml	RM0.40 per litre
20.09	Fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter	>12g/100ml	RM0.40 per litre

It is proposed that the Excise Duty rate for the above beverages be increased to **RM0.50 per litre** with effect from **1 January 2024**.

## Imposition of Excise Duty on Chewing Tobacco

At present, chewing tobacco is not subject to Excise Duty whereas snuff tobacco is subject to Excise Duty at the rate of 5% + RM27/kg, as follows:

Types of Duty / Tax	Chewing Tobacco	Snuff Tobacco
Import Duty	5% + RM50/kg	5% + RM40/kg
Excise Duty	Not applicable	5% + RM27/kg
Sales Tax	10%	10%

It is proposed that Excise Duty at a rate of **5% + RM27/kg** be imposed on **chewing tobacco** with effect from **1 January 2024**.

## Entertainments Duty Exemption for Federal Territories

Currently, Entertainments Duty at the rate of 25% is imposed on admission fees to various entertainment places or events.

In an effort to support the development of the creative industry in the country, foster cultural unity and strengthen family ties, it is proposed that exemption of the current Entertainments Duty rate be given to selected types of entertainments held in the Federal Territories (i.e. Kuala Lumpur, Putrajaya and Labuan), summarised as follows:

No	Types of Entertainments	Entertainments Duty Rate	
		Current	After Exemption
1	Stage performances by international artist / light show / circus	25%	10%
2	Film screening (cinema) / theatre		
3	Exhibition / zoo / aquarium		
4	Sports event / e-sports / bowling / snooker / pool / billiard / karaoke		
5	Theme park / family recreation centre / indoor games centre / simulator		
6	Stage performances by local artist		
			0%



This is a welcomed boost to the entertainment industry which has taken a hit especially during the Covid-19 pandemic. With this proposal, it is hoped that this will bring a positive effect to our local arts and culture scene while nurturing social development and community relationships.

It is proposed that the above is applicable for applications received by the Ministry of Finance from **1 January 2024 to 31 December 2028**.



## Others

### (a) Returning Expert Programme



At present, the Returning Expert Programme under the Talent Corporation Malaysia Berhad offers Import Duty and Excise Duty exemptions for the purchase of a Completely Built-Up (CBU) vehicle or Excise Duty exemption for the purchase of a Completely Knocked-Down (CKD) vehicle, subject to an exemption amount of up to RM100,000. This exemption is for applications received by the Talent Corporation Malaysia Berhad from 1 January 2021 until 31 December 2023.

To further encourage global talent circulation and attract professional Malaysian diaspora to return, it is proposed that exemption on Excise Duty be given for the purchase of a CKD vehicle, subject to an exemption amount of up to RM100,000. This exemption would be applicable for applications received by the Talent Corporation Malaysia Berhad from **1 January 2024 until 31 December 2027**.

### (b) Tightening of Smuggling Control Measures for Cigarettes and Alcoholic Beverages

Beginning 1 January 2024, the Government will implement the following measures:

- Transshipment activities for alcoholic beverages will be restricted to certain ports only.
- The Bukit Kayu Hitam Immigration, Customs, Quarantine and Security Complex will be used as the sole exit point for the northern region.
- Importation of cigarettes for domestic market must be carried out on a full container load (FCL).



# Authors



**Ng Sue Lynn**  
Partner  
Head of Indirect Tax  
[suelynng@kpmg.com.my](mailto:suelynng@kpmg.com.my)



**Dany Oon**  
Executive Director  
Indirect Tax  
[danyoon@kpmg.com.my](mailto:danyoon@kpmg.com.my)



**Huang Shi Yang**  
Director  
Indirect Tax  
[shiyanghuang@kpmg.com.my](mailto:shiyanghuang@kpmg.com.my)



**Cheah Wai Ling**  
Director  
Indirect Tax  
[wcheah@kpmg.com.my](mailto:wcheah@kpmg.com.my)



**Lim Poh Ling**  
Director  
Indirect Tax  
[plim@kpmg.com.my](mailto:plim@kpmg.com.my)



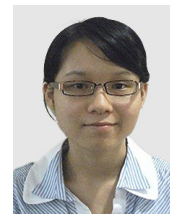
**Yap Choon Ling**  
Director  
Indirect Tax  
[choonlingyap@kpmg.com.my](mailto:choonlingyap@kpmg.com.my)



**Christine Tan**  
Associate Director  
Indirect Tax  
[zeeweitan@kpmg.com.my](mailto:zeeweitan@kpmg.com.my)



**Liew Li Lih**  
Associate Director  
Indirect Tax  
[lilihiew@kpmg.com.my](mailto:lilihiew@kpmg.com.my)



**Eve Low**  
Tax Manager  
Indirect Tax  
[evelow@kpmg.com.my](mailto:evelow@kpmg.com.my)



# Contact Us

## Petaling Jaya Office

### Soh Lian Seng

Partner –  
Head of Tax and Tax Dispute Resolution  
lsoh@kpmg.com.my  
+603 7721 7019

### Tai Lai Kok

Partner – Head of Corporate Tax  
ltai1@kpmg.com.my  
+603 7721 7020

### Bob Kee

Partner – Head of Transfer Pricing  
bkee@kpmg.com.my  
+603 7721 7029

### Long Yen Ping

Partner –  
Head of Global Mobility Services  
yenpinglong@kpmg.com.my  
+603 7721 7018

### Ng Sue Lynn

Partner – Head of Indirect Tax  
suelynng@kpmg.com.my  
+603 7721 7271

## Outstation Offices

### Penang Office

#### Evelyn Lee

Partner – Penang Tax  
evewflee@kpmg.com.my  
+603 7721 2399

### Kota Kinabalu Office

#### Titus Tseu

Executive Director – Kota Kinabalu Tax  
titustseu@kpmg.com.my  
+603 7721 2822

### Ipoh Office

#### Crystal Chuah Yoke Chin

Associate Director – Ipoh Tax  
ycchuah@kpmg.com.my  
+603 7721 2714

### Kuching & Miri Offices

#### Regina Lau

Partner – Kuching Tax  
reglau@kpmg.com.my  
+603 7721 2188

### Johor Office

#### Ng Fie Lih

Partner – Johor Tax  
fng@kpmg.com.my  
+603 7721 2514

# KPMG Offices

## **Petaling Jaya**

Level 10, KPMG Tower,  
8, First Avenue, Bandar Utama,  
47800 Petaling Jaya, Selangor  
Tel: +603 7721 3388  
Fax: +603 7721 3399  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Penang**

Level 18, Hunza Tower,  
163E, Jalan Kelawei,  
10250 Penang  
Tel: +604 238 2288  
Fax: +604 238 2222  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Kuching**

Level 2, Lee Onn Building,  
Jalan Lapangan Terbang,  
93250 Kuching, Sarawak  
Tel: +6082 268 308  
Fax: +6082 530 669  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Miri**

1st Floor, Lot 2045,  
Jalan MS 1/2,  
Marina Square, Marina Parkcity,  
98000 Miri, Sarawak  
Tel: +6085 321 912  
Fax: +6085 321 962  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Kota Kinabalu**

Lot 3A.01 Level 3A,  
Plaza Shell,  
29, Jalan Tunku Abdul Rahman,  
88000 Kota Kinabalu, Sabah  
Tel: +6088 363 020  
Fax: +6088 363 022  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Johor**

Level 3, CIMB Leadership Academy,  
No. 3, Jalan Medini Utara 1,  
Medini Iskandar,  
79200 Iskandar Puteri, Johor  
Tel: +607 266 2213  
Fax: +607 266 2214  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Ipoh**

Level 17, Ipoh Tower,  
Jalan Dato' Seri Ahmad Said,  
30450 Ipoh, Perak  
Tel: +603 7721 3388  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

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