



Indirect Tax: Connecting the Dots

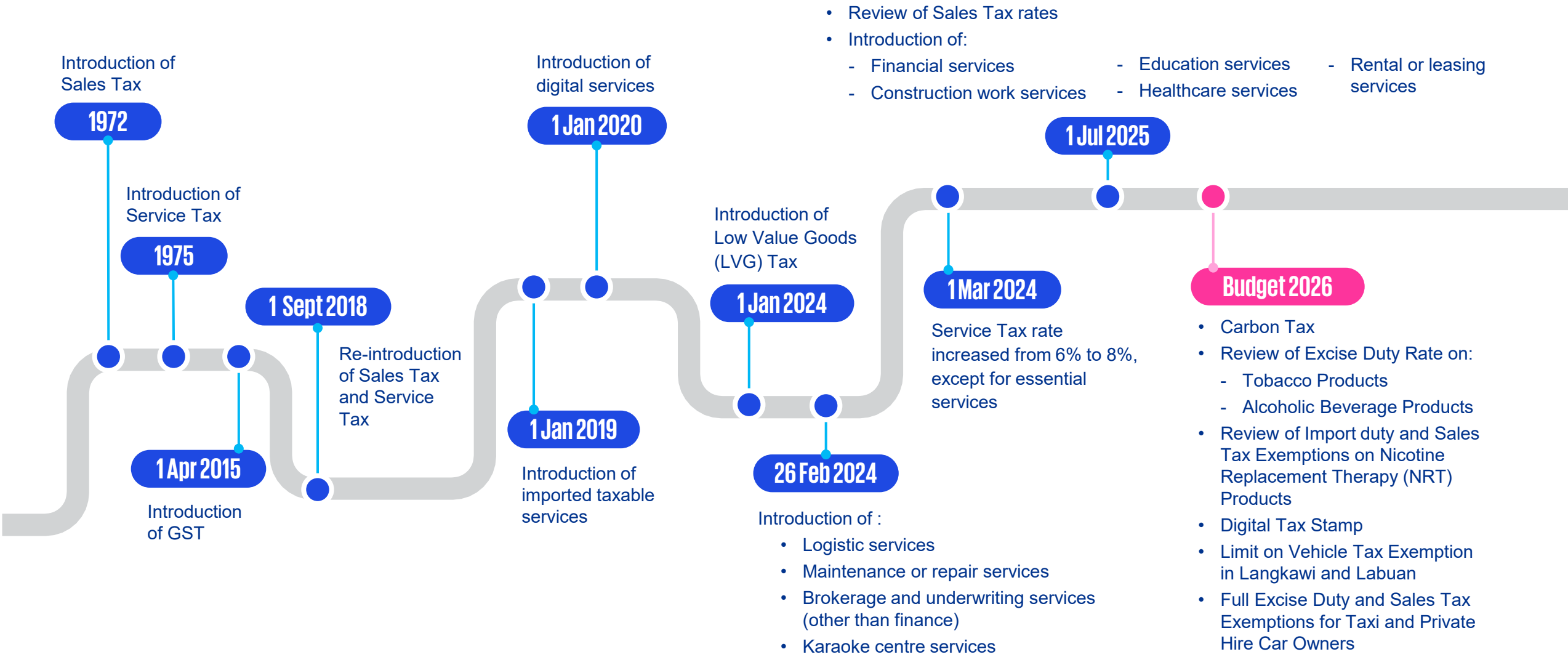
Ng Sue Lynn

Partner, Head of Indirect Tax | KPMG in Malaysia

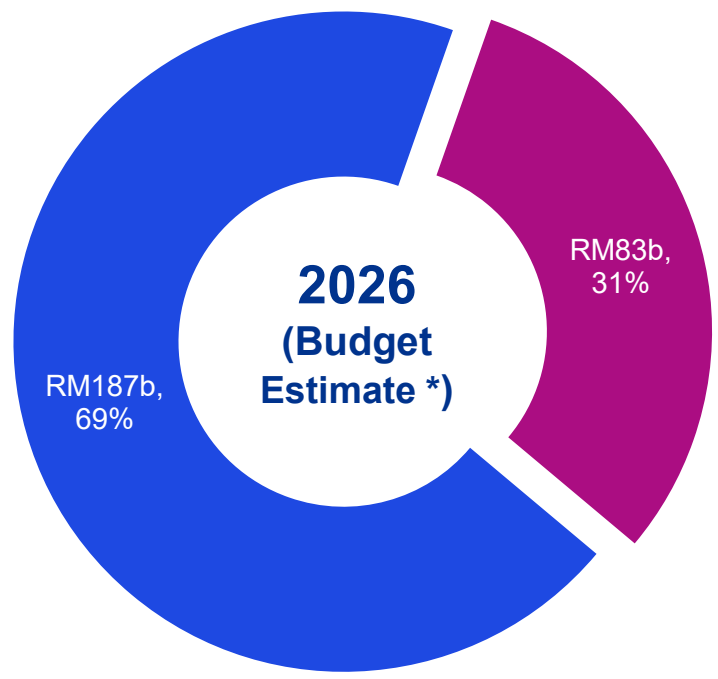
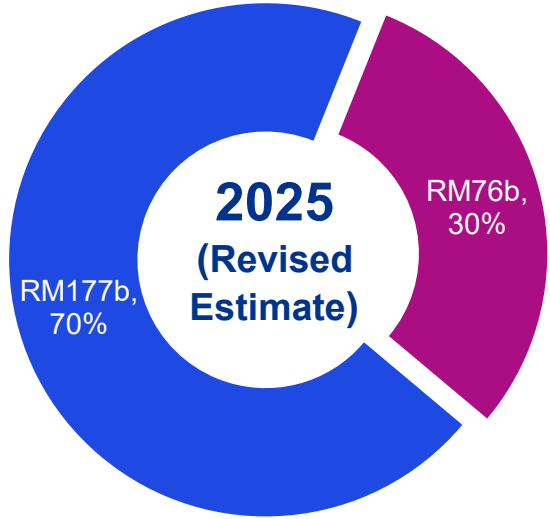
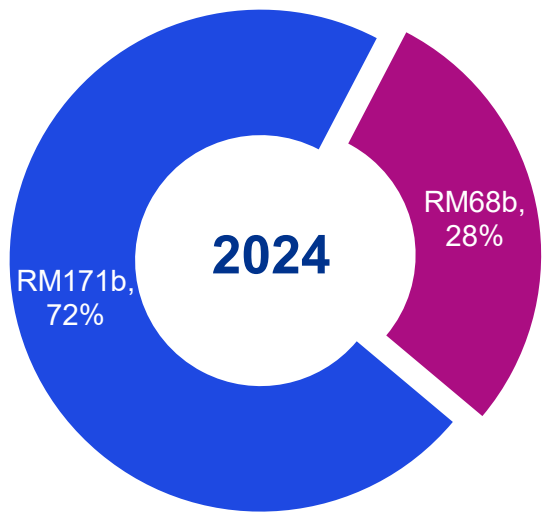
Tax Summit 2025 – Kota Kinabalu | 4 November 2025



Timeline of Sales Tax and Service Tax



Federal Government Revenue – Direct & Indirect Taxes

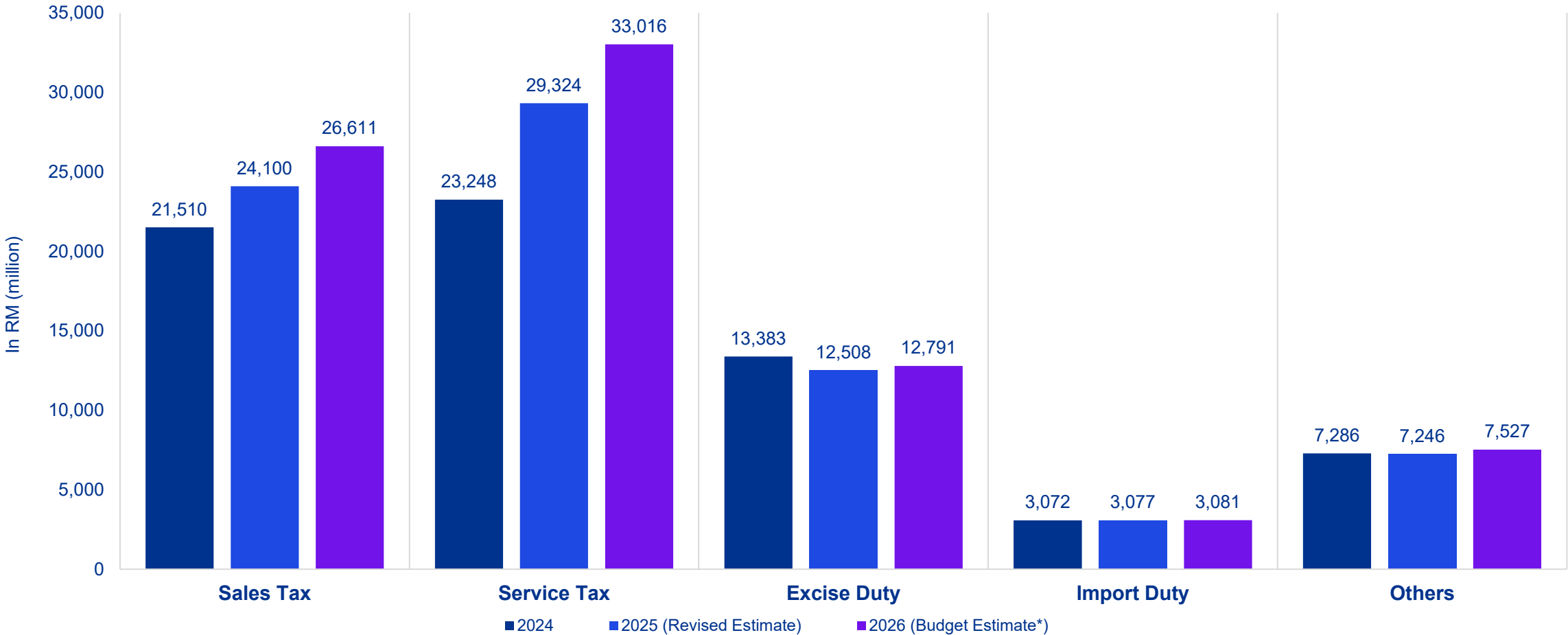


● Direct Tax ● Indirect Tax

Source: 2026 Fiscal Outlook and Federal Government Revenue Estimates

* Excluding Budget 2026 measure

Revenue Breakdown for Indirect Tax



Source: Ministry of Finance, 2026 Fiscal Outlook and Federal Government Revenue Estimates

* Excluding Budget 2026 measure

2026 Federal Government Revenue

HASIL KERAJAAN PERSEKUTUAN 2026 2026 FEDERAL GOVERNMENT REVENUE		
		RM
JUMLAH HASIL KERAJAAN PERSEKUTUAN Sebelum diambil kira perubahan cukai yang dicadangkan dalam Belanjawan 2026 TOTAL FEDERAL GOVERNMENT REVENUE <i>Before taking into account tax changes proposed in the 2026 Budget</i>		343,123,918,000
LANGKAH PERCUKAIAN: TAX MEASURES:		
60000	HASIL CUKAI TAX REVENUE	
61000	CUKAI LANGSUNG DIRECT TAX	(1,156,220,000)
61100	Cukai Pendapatan Income Tax	(1,189,370,000)
61900	Cukai Langsung yang lain Other Direct Tax	33,150,000
62000	CUKAI TIDAK LANGSUNG INDIRECT TAX	364,580,000
62200	Duti Import Import Duty	(3,150,000)
62300	Duti Eksais Terhadap Barangan Tempatan Excise Duty on Local Products	188,670,000
62400-62500	Cukai Jualan Sales Tax	11,710,000
62800	Duti Eksais Terhadap Barangan Import Excise Duty on Imported Products	167,350,000
	Pengurangan Hasil Bersih Net Revenue Loss	(791,640,000)
JUMLAH HASIL KERAJAAN PERSEKUTUAN Selepas diambil kira perubahan cukai yang dicadangkan dalam Belanjawan 2026 TOTAL FEDERAL GOVERNMENT REVENUE <i>After taking into account tax changes proposed in the 2026 Budget</i>		342,332,278,000

62000	CUKAI TIDAK LANGSUNG INDIRECT TAX	364,580,000
62200	Duti Import Import Duty	(3,150,000)
62300	Duti Eksais Terhadap Barangan Tempatan Excise Duty on Local Products	188,670,000
62400-62500	Cukai Jualan Sales Tax	11,710,000
62800	Duti Eksais Terhadap Barangan Import Excise Duty on Imported Products	167,350,000
	Pengurangan Hasil Bersih Net Revenue Loss	(791,640,000)

Source: Ministry of Finance, 2026 Fiscal Outlook and Federal Government Revenue Estimates

2026 Budget – Indirect Tax Perspective

1

Carbon Tax

2

Excise Duty Rate On :

- Cigarettes
- Cigars, Cheroots and Cigarillos
- Heated Tobacco Products

3

Excise Duty Rate on Alcoholic Beverages

4

Import Duty and Sales Tax Exemption on Nicotine Replacement Therapy (“NRT”) Products

5

Digital Tax Stamp

6

Limit on Vehicle Tax Exemption in Langkawi and Labuan

7

Full Excise Duty and Sales Tax Exemptions for Taxi and Private Hire Car Owners

Carbon Tax

To achieve carbon neutrality by 2050

Carbon Tax 2026

Iron, Steel and Energy Sectors

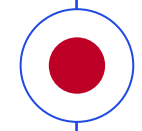
Frameworks:

National Carbon Market Policy (Dasar Pasaran Karbon Kebangsaan)	National Climate Change Bill (Rang Undang-Undang Perubahan Iklim Negara)
• Mechanism of Carbon Tax? • Impact on prices? • Interaction with CBAM? • How do other countries compare? • Carbon Trading: Taxable or tax deductible? Is it a goods or services? Is it subject to Sales Tax or Service Tax?	

Carbon Tax in other countries



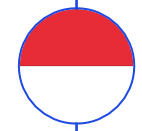
2019 – 2023: SGD5/tCO₂e
2024 – 2025: SGD25/tCO₂e
2026 – 2027: SGD45/tCO₂e
By 2030: SGD50 – SGD80/tCO₂e



JPY 289 (USD 1.89)/tCO₂e
(fixed rate since 2012)



200 Baht (USD6.14)/tCO₂e



Postponed introduction of carbon tax

Excise Duty Rate

Current

Cigarettes

Tariff Code	Import Duty	Sales Tax	Excise Duty
2402.20.2000	RM0.20/ stick	10%	RM0.40/ stick
2402.20.9000			
2402.90.2000			



Proposed

Excise Duty
RM0.40 + RM0.02/ stick (RM0.40 per 20 sticks pack)

Cigars, Cheroots and Cigarillos

Tariff Code	Import Duty	Sales Tax	Excise Duty
2402.10.0000	RM200 / KG	10%	RM400 / KG
2402.90.1000			



Excise Duty
RM400 + RM40 / KG

Proposed Effective Date :
In phases from 1 November 2025

Excise Duty Rate

Current

Heated Tobacco Products

Tariff Code	Import Duty	Sales Tax	Excise Duty
2404.11.0000	5% + RM50/ KG	10%	RM778/ KG of tobacco content



Proposed



Excise Duty
(RM778 + RM20)/ KG of tobacco content

The above is proposed to be effective from 1 November 2025.

Excise Duty Rate

Current

Alcoholic Beverages

Tariff Code	Product Description	Excise Duty (RM) (per 100% vol. per liter)
22.03	Beer	175.00
2204.10.000	Sparkling wine	450.00
2204.21, 2204.22, 2204.29, 2204.30, 22.05, 2208.20, 2208.30, 2208.40.0000, 2208.50.0000, 2208.60.0000	Other wine, grape must, other grape must, vermouth, brandy, whiskies, rum, gin and geneva, vodka	150.00
2206.00.1000, 2206.00.2000, 2206.00.4100, 2206.00.4900, 2206.00.6000, 2206.00.9100, 2208.70.1000, 2208.70.9000, 2208.90.5000, 2208.90.6000, 2208.90.9100, 2208.90.9900	Cider and perry, sake, shandy, wine (vegetable & fruit juice), other rice wine, liqueurs and cordials, arrack or pineapple spirit	60.00
2208.90.1000, 2208.90.2000, 2208.90.3000, 2208.90.4000	Samsu (including medicated samsu)	60.00
2206.00.3100, 2206.00.3900, 2206.00.5000, 2206.00.9900, 2208.90.7000, 2208.90.8000	Coconut palm toddy, mead, bitters	40.00
2207.10.0000	Undenatured ethyl alcohol	22.50 and 15%
2207.20	Ethyl alcohol and other spirits	1.10 and 15%

Proposed

Excise Duty

Increase by 10%



The above is proposed to be effective from 1 November 2025.

Import Duty and Sales Tax Exemption on NRT Products

Current

Tariff Code	Product	Import Duty	Sales Tax
2404.91.1000	Nicotine Gum	15%	5%
2404.92.1000	Nicotine Patch	0%	10%
2404.91.9000	Nicotine Mist	15%	5%
2404.91.9000	Nicotine Lozenges	0%	10%

Nicotine gum and **nicotine patch** are exempted from Import Duty and Sales Tax from 1 April 2023 to 31 March 2026

Proposed

Extension

- Import duty and Sales Tax exemption on nicotine gum and nicotine patch until **31 December 2027**

Expansion

- Expansion of scope for exempted NRT products to include **nicotine mist** and **nicotine lozenges** from **11 October 2025 to 31 December 2027**

Applicable for applications received by the Ministry of Finance ("MOF") from **11 October 2025 to 31 December 2027**.

Digital Tax Stamp

- The Malaysian Government is committed to good governance and accountability, with enforcement agencies [including the Royal Malaysian Customs Department (“RMCD”)] managing to seize assets and collected penalties amounting to approximately,

RM15.5 billion

- To promote better governance and enforcement, it is proposed that the RMCD will introduce a digital tax stamp with :



Enhanced security features to curb counterfeits



Manage leakages at the country’s entry point through a Centralised Screening Complex CCTV



Limit on Vehicle Tax Exemption in Langkawi and Labuan

Current

- **Duty** and **Sales Tax** exemptions are available on locally assembled and imported motor vehicles in Langkawi and Labuan, subject to meeting conditions

Goods Exempted*	Conditions*
One motor vehicle of any description or one motor cycle, registered in and transported from Labuan or Langkawi and subsequently returned to Labuan or Langkawi	iv. That the motor vehicle / motor cycle may remain in the principal customs area for a period not exceeding ninety days in any one year



* Extracted from Customs Duties (Exemption) Order 2017

Proposed

- Tax exemption on motor vehicles in **Langkawi** and **Labuan** be limited to those valued not exceeding

RM300,000
(effective 1 January 2026)

- The RM300,000 ceiling price is aimed to :



prevent tax leakage on the purchase of luxury vehicles; and



allow vehicles below the threshold to continue enjoying the tax exemption

Excise Duty and Sales Tax Exemptions for Taxi and Private Hire Car Owners

Proposed

100% Exemption Excise Duty and Sales Tax

- For the purchase of **new** national vehicles, PROTON and PERODUA models, by **taxi** owners and **private hire car** owners.





Expansion of Scope for Service Tax

Expansion of Scope for Service Tax

Taxable Services Effective 1 July 2025			Service Tax Rate
Healthcare 	Education 	Construction work 	6%
Finance 	Rental or leasing 		8%

Group K : Rental or Leasing Services

Key Details	Information
Taxable person	Any person who provides rental or leasing services
Taxable services	Provision of all types of rental or leasing of tangible asset services including any other services which form part of the rental or leasing services <u>excluding</u> : i. housing accommodation ii. reading materials iii. tangible assets located outside Malaysia or iv. through financial lease
Service Tax Rate	8%
Registration threshold	RM1,000,000 in a 12-month period
Some Available Exemptions (not exhaustive)	• B2B exemption • Federal Governments and State Governments • Local Authorities (<i>until 30 September 2025</i>) • Tenants who are Small & Micro Enterprises (SMEs) with annual sales of not exceeding RM1,000,000 • Rental or leasing services under non-reviewable contracts are exempted from payment of Service Tax for 1-year period from 1 July 2025, subject to meeting conditions • Group relief

Group L : Construction Work Services

Key Details	Information
Taxable person	Any person who provides construction works services
Taxable services	Provision of any construction works services <u>excluding</u> : - the construction of a residential building; and - public facility related to the residential building
Service Tax Rate	6%
Registration threshold	RM1,500,000 in a 12-month period
Some Available Exemptions (not exhaustive)	- B2B exemption - Federal Governments and State Governments - Local Authorities (until 30 September 2025) - Construction works under non-reviewable contracts are exempted from payment of Service Tax for 1-year period from 1 July 2025, subject to meeting conditions

Group H: Financial Services

Key Details	Information
Phases	1 July 2025 (Specific financial services that are charged for fees or commission as listed in Appendix A of the Service Tax Policy 1/2025) 1 October 2025 (Other financial services that are charged for fees or commission not listed in Appendix A of the Service Tax Policy 1/2025)
Taxable Person	The provision of any financial services by regulated and non-regulated persons
Taxable Services/ Registration threshold	- Item 1: Credit or charge cards – No threshold - Item 2: Insurance or takaful services – RM1,000,000 in a 12-month period - Item 3: Financial services (by regulated person) – RM1,000,000 in a 12-month period - Item 4: Financial services (by non-regulated person) – RM1,000,000 in a 12-month period
Service Tax Rate	- RM25 (credit card and charge cards) 8%
Some Available Exemptions (not exhaustive)	- B2B exemption by any person regulated by the Labuan Financial Services Authority - Federal Government, State Government and Local Authorities - B2B exemption for taxable financial services - Financial services under non-reviewable contracts are exempted from payment of Service Tax for 1-year period from 1 July 2025, subject to meeting conditions - Ministerial exemptions

Service Tax Policies 2025 – Recent Amendments

Service Tax Policy	Service Tax Exemption	Effective Date
 1 (Financial Services)	- Exemption from payment of service tax on management services for fixed price funds under Amanah Saham Nasional Berhad (ASNB) [previously was Permodalan Nasional Berhad (PNB)] - Exemption from payment of Service Tax on the acquisition of re-insurance services or re-takaful services by insurance companies or takaful companies [new]	17 October 2025
 2 (Rental or Leasing Services)	- Group relief - cover imported taxable services - Conditions for group relief have also been updated - Business-to-business (B2B) exemption facility on rental or leasing services for the period from 1 July 2025 to 31 August 2025 is granted to rental or leasing service providers who newly reach the registration threshold in July 2025 and have applied for Service Tax registration on or before 31 August 2025 [new]	1 July 2025

Service Tax Policies 2025 – Recent Amendments

Service Tax Policy	Service Tax Exemption	Effective Date
 3 (Construction Works Services)	- Non-reviewable contracts – The contract* is made in writing, signed before 1 July 2025, and duly stamped with stamp duty by the Inland Revenue Board of Malaysia (LHDN) before 31 December 2025 * including any variation order/ extension of time - Service Tax exemption on the construction of residential buildings and public facilities related to those residential buildings built within a mixed development project [new] Non-Residential Built-Up Area Total Built-Up Area (Non-Residential + Residential) X 100 - B2B exemption facility on consultancy services under a design and build construction contract [new] - B2B exemption facility on construction work for the period from 1 July 2025 to 31 August 2025 is granted to construction work service providers who newly reach the registration threshold in July 2025 and have applied for Service Tax registration on or before 31 August 2025 [new]	1 July 2025

Service Tax Policies 2025 – Recent Amendments

Service Tax Policy	Service Tax Exemption	Effective Date
 4 (Education Services)	- Children and dependents of foreign diplomats are exempted from paying Service Tax on educational services <i>[new]</i> - Education fees or service charges that are fully sponsored by educational institutions, higher learning institutions, companies, foundations, or other organizations are exempted from Service Tax <i>[new]</i>	1 July 2025

Service Tax Policy No. 5/2025 (Amendment No. 2) dated 23 October 2025

Private Healthcare Services – Available Exemptions (Effective 1 July 2025)



Consultation fees charged by professional doctors at registered private healthcare facilities, practitioners of traditional and complementary private medical practices, and private allied health services
(Any Service Tax already collected are to be remitted to Customs)* **NEW**



Providers of health screening management services for non-citizen workers such as FOMEMA

Health screening services for non-citizen workers provided by private healthcare facilities through health screening management service providers such as FOMEMA (Any Service Tax already collected are to be remitted to Customs) **NEW**



Private healthcare service providers registered or licensed under Act 586 (whether registered or not under the Service Tax Act 2018) who also provide **other services under Group A and Group B** of the First Schedule, Service Tax Regulations 2018, other than healthcare services [1 Sep 2018 – 30 Jun 2025] **NEW**



Private healthcare service providers registered or licensed under Act 586 (whether registered or not under the Service Tax Act 2018) who also provide **other services as listed in the First Schedule, Service Tax Regulations 2018**, other than healthcare services [1 Sep 2018 – 30 Jun 2025] **NEW**



All foreign diplomats or international organizations and their dependents upon verification by the Ministry of Foreign Affairs* **NEW**

* Subject to meeting prescribed conditions

Service Tax Policy No. 6/2025 – (1/2) dated 23 October 2025

NEW

Private Healthcare Services – Service Tax Treatment (Effective 1 July 2025)

Subject	Service Tax Treatment
 Private hospitals that obtain healthcare services from third parties (other private healthcare facilities or other private allied health facilities)	a) <u>No B2B exemption</u> granted for other healthcare services within the same group of services b) Scenario 1 - Non-citizen walks in: i. Non-citizen patient referred from private healthcare facility A to B. ii. Non-citizen patient walks in to private healthcare facility B iii. Private healthcare facility A invoices non-citizen patient treated at private healthcare facility B iv. Private healthcare facility B invoices private healthcare facility A for treatment on non-citizen patient – subject to <u>Service Tax</u> c) Scenario 2 - Non-citizen does not walk in : i. Non-citizen patient's blood and urine samples sent to private healthcare facility B from A for testing. ii. Private healthcare facility A invoices non-citizen patient for testing done at private healthcare facility B iii. Private healthcare facility B invoices private healthcare facility A for testing non-citizen patient's blood and urine samples – <u>not</u> subject to Service Tax

Service Tax Policy No. 6/2025 – (2/2) dated 23 October 2025

NEW

Private Healthcare Services – Service Tax Treatment (Effective 1 July 2025)

Subject		Service Tax Treatment
	Medical aid	Subject to <u>Service Tax</u>
	Non-citizen patients who have Malaysian spouses and are employed by the government, where payment for treatment is made through a Government Guarantee Letter (GL).	Subject to <u>Service Tax</u> – Borne by non-citizen patient upon discharge
	Private hospitals (including private healthcare facilities, private traditional and complementary medicine practitioners, and private allied health facilities) providing ancillary services (other than healthcare treatment) to non-citizen patients, such as luggage storage.	Subject to <u>Service Tax</u>
	Private healthcare facilities (including private traditional and complementary medicine facilities, and private allied health facilities) that provide rental services of medical machines or equipment for the purpose of delivering healthcare treatment to non-citizen patients.	Subject to <u>Service Tax</u> under healthcare (6%)

Service Tax Policy No. 7/2025 dated 24 October 2025

NEW

Construction Work Services – Service Tax Treatment (Effective 1 July 2025)

Subject	Service Tax Treatment
 Engineering, Procurement, Construction And Commissioning (EPCC) Contracts For The Construction Of Ships Or Platforms	Option to determine the meaning of shipbuilding (construction or manufacturing) subject to the below conditions: a) If Service Tax (i.e. construction) - categorized as a construction project (EPCC / design & build) and is eligible for B2B exemption for professional services b) If Sales Tax (i.e. manufacturing) - categorized as a sale of goods, and <u>no Service Tax</u> will be imposed <u>but</u> will not be eligible for B2B exemption for professional services (traditional construction model approach)
 Registered Sales Tax Manufacturers Undertaking Contracts Related to Installation Works	For installation-related contracts that have: a) Itemised billing – Service Tax is charged only on the installation work b) Non-itemised billing – i. If Sales Tax registered – installation work is treated as part of the value of goods supplied, hence <u>Sales Tax is applicable on the whole contract value</u> ii. If not Sales Tax registered – value of goods supplied is treated as part of the installation work, hence <u>Service Tax is applicable on the whole contract value</u>
 Invoices Related to the Supply of Construction Materials / Goods and Construction Work Services	Where the value of construction materials / goods supplied and construction work services are: a) Separate invoices / itemised billing – Service Tax is applicable <u>only on the installation work</u> b) Non-separated invoices / non-itemised billing – Service Tax is applicable on the <u>total value of the invoice</u>.

Sales Tax Policies 2025

Sales Tax Policy No.	Sales Tax Exemption	Effective Date	Refund Application Procedure
1	 Motorcycles	1 July 2025	Not stated
2	 Importation of soya beans	1 July 2025	• Subject to meeting prescribed conditions • Submit form JKDM No. 2 to the Technical Services Division of the applicant's controlling station. • By 30 November 2025
3	 Raw Materials  Manufacturing Aid  Cleanroom Equipment  Components  Packing and packaging materials		
4	Under Item 55, Schedule A, Sales Tax (Persons Exempted From Payment of Tax) Order 2018  Machinery  Equipment  Spare Parts		



Audit Verifikasi Pematuhan ("AViP")

AViP Mechanism

Sales Tax, Service Tax, Service Tax on Digital Services, Customs Duties, Excise Duties and Tourism Tax



New audit direction for RMCD



Comprehensive audit to ensure audit quality



To prevent tax leakage



Risk Management

Verification and profiling



Increase Efficiency

Minimise checking



Audit Finding - Compliance

Where taxpayer is in compliance, RMCD will issue *Sijil Audit Verifikasi Pematuhan*



Audit Finding – Non-compliance

Where taxpayer is not in compliance, RMCD to conduct a round table discussion and a Voluntary Disclosure agreement form will be issued



Supplementary Return / SST Return

In the forms, SST 02, TTx 02, DST 02 and DL 02



Post Clearance Audit

Taxpayers self-calculate their under paid duties / taxes for a period of up to 6 years and subsequently voluntarily discloses them

Field Audit

Where taxpayers fail to fulfil the terms & conditions, RMCD will conduct a field audit



Taxpayer

Taxpayers selected or subject to audit by RMCD can request to participate in AViP. Taxpayers not under audit but have underpayment of taxes, duties and/ or levies can also approach RMCD to request to participate in the AViP.

RMCD will issue an eligibility letter (Surat Layak VD), Borang Remisi Penalti AViP (BRP) and Borang Ansuran Bil Tuntutan AViP (BABT)

Incentives : Penalty Remission

Category	Amount Paid	Tax Payment Period	Penalty Remission
1	Fully Paid 	• Payment made within 6 months • From the date of amendment of any return / supplementary return	100%
2	Fully Paid 	• Payment made after 6 months but not more than 12 months • From the date of amendment of any return / supplementary return	50%
3	Fully Paid 	• Payment made after 12 months • From the date of amendment of any return / supplementary return	NIL





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