



Indirect Tax – Catching up with recent developments

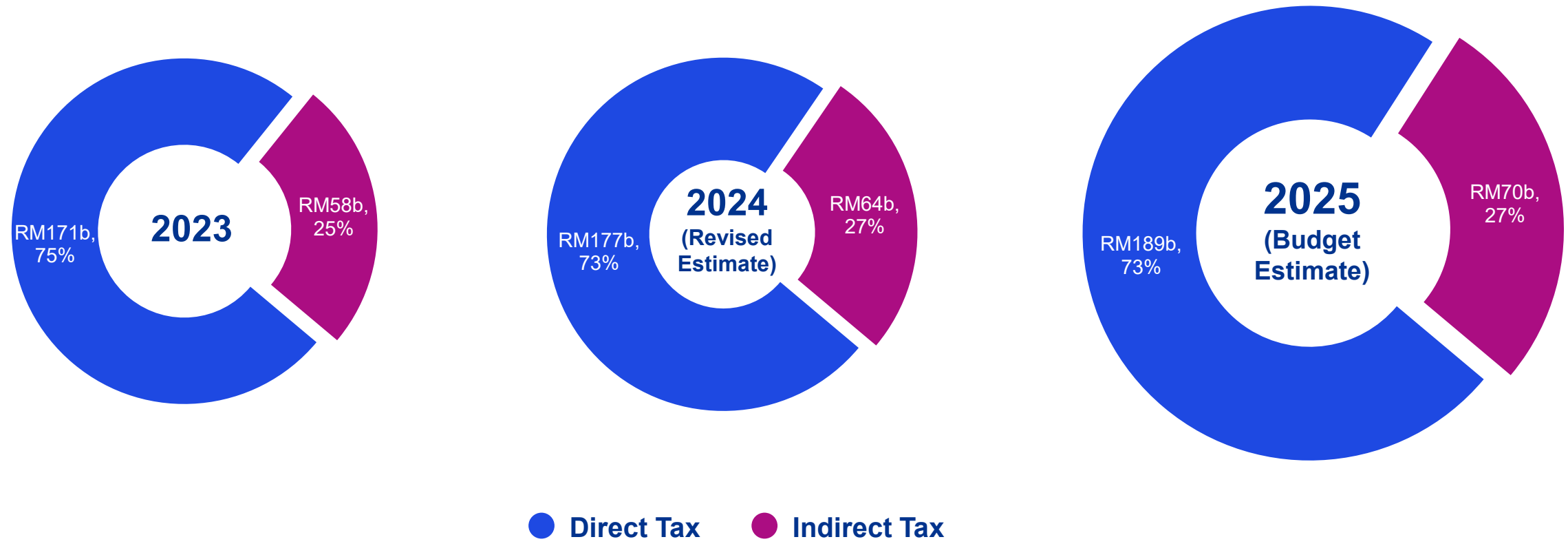
Juriah Noor bin Juhari

Deputy Director, Royal Malaysian Customs Department

Ng Sue Lynn

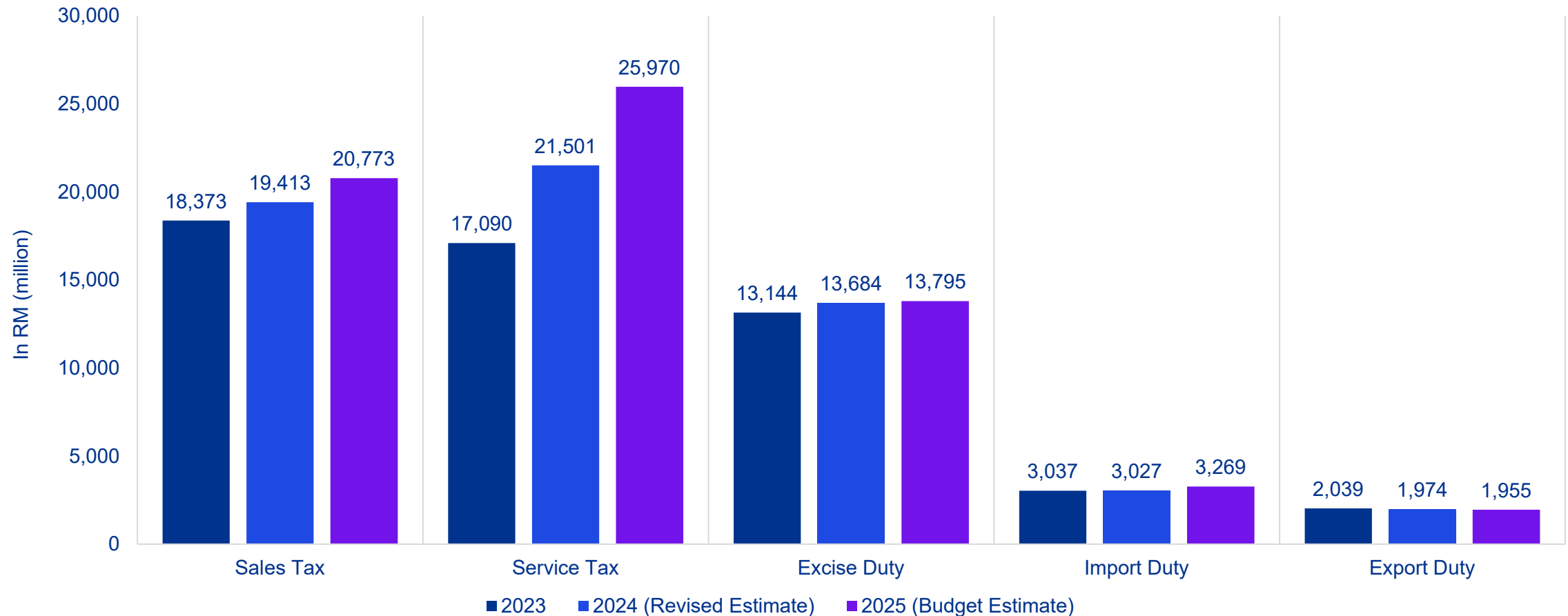
Head of Indirect Tax, KPMG in Malaysia

Federal Government Revenue – Direct & Indirect Taxes



Source: 2025 Fiscal Outlook and Federal Government Revenue Estimates

Revenue Breakdown for Indirect Tax



Source: Ministry of Finance, 2025 Fiscal Outlook and Federal Government Revenue Estimates

Note: Not including other indirect taxes



© 2024 KPMG Tax Services Sdn. Bhd., a company incorporated under Malaysian law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

2025 Budget – Indirect Tax Perspective

1

Review of Sales Tax Rates

2

Expansion of the Scope of Service Tax

3

Review of Excise Duty Rate on Sugar Sweetened Beverage

4

Sales Tax Exemption on Mastectomy Bra for Breast Cancer Patients

5

Introduction to Carbon Tax

6

Crude Palm Oil (“CPO”) Windfall Profit Levy

7

Review of Export Duty Exemption on CPO

8

Forest City as a Duty Free Island



Review of Sales Tax Rates

Current

Sales Tax imposed on goods manufactured in Malaysia as well as on imported goods at the prescribed rates of :

0% **5%** **10%**

Basic food items are generally exempted from Sales Tax



Proposed

Basic food items will continue to be exempted from Sales Tax.

Proposed increase in Sales Tax on **non-essential items** such as imported premium goods (e.g. Avocado and Salmon).

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

What is non-essential items?

What is premium goods?

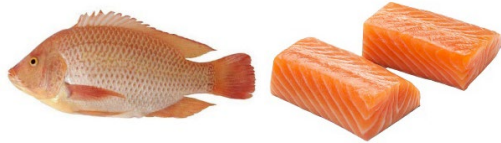
Is it only limited to imported goods?

Transitional rules?





Essential or non-essential?



**Red Tilapia
Or
Salmon**



**Rice
Or
Sushi Rice**



**Mangosteen
Or
Avocado**



**Kangkung
Or
Asparagus**



Expansion of the Scope of Service Tax

Current

8% Service Tax rate on most taxable services.

6% Service Tax rate on essential services such as food and beverages.

Effective 26 February 2024, Service Tax expanded to include :



Logistics



Brokerage



Maintenance or repair



Karaoke

Proposed

Expansion of Service Tax on commercial service transactions between businesses e.g. fee based financial services

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

What is to be expanded?

Existing or New Group?

Any exemptions (e.g. B2B and intra-group relief)?

Transitional rules?



Review of Excise Duty Rate on Sugar Sweetened Beverages

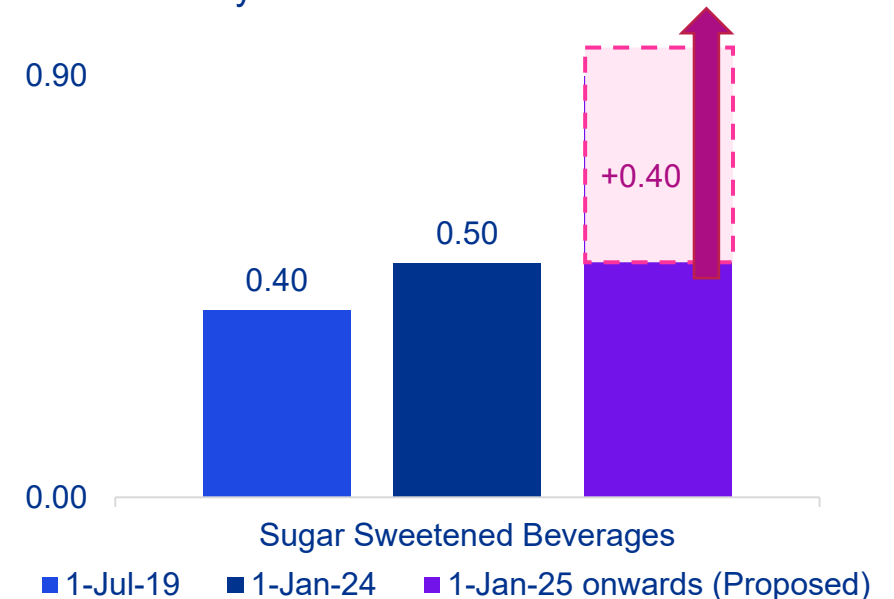
Current

Below are the types of SSB that are subject to Excise Duty:

Tariff Code	Type 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	RM0.50 per litre
	Flavoured milk-based beverages containing lactose	>7g/100ml	RM0.50 per litre
20.09	Fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter	>12g/100ml	RM0.50 per litre

Proposed

Excise Duty increased in phases at **RM0.40 per litre** from 1 January 2025 onwards.



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

Sales Tax Exemption on Mastectomy Bra for Breast Cancer Patients

In line with the value of compassion and to ease the burden of breast cancer patients, it is proposed that Sales Tax exemption be given for mastectomy bra.

Product	Tariff Code	Current		Proposed
		Import Duty	Sales Tax	Sales Tax
Mastectomy bra (made from cotton)	6212.10.1100	0%	10%	0%
Mastectomy bra (made from other textile materials)	6212.10.9100	0%	10%	0%

It is proposed that the above is applicable for applications received by the Ministry of Finance from **1 November 2024** until **31 December 2027**.





Introduction of Carbon Tax



- To achieve carbon neutrality by 2050
- Carbon Tax on the **iron and steel industry** as well as **energy industry** by 2026.



Iron and Steel Industry



Energy Industry

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?



- Levied on facilities that directly emit $\geq 25,000$ tonne carbon dioxide emission (tCO₂e) of greenhouse gas (GHG) emissions annually
- Covers six GHGs, namely carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. From 2024 onwards, to include nitrogen trifluoride emissions
- Covers 80% of total GHG emissions from about 50 facilities in the manufacturing, power, waste, and water sectors



Postponed introduction of carbon tax indefinitely



JPY 289 (USD 2.04)/tCO₂e (fixed rate since 2012)



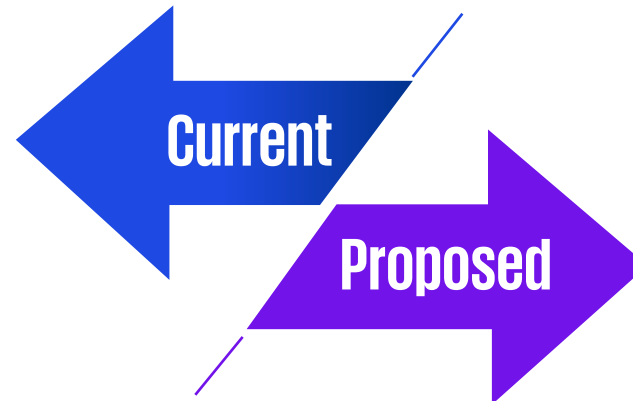
Planning to introduce carbon tax on energy, transport and industrial sectors to achieve carbon neutrality by 2050 and net zero greenhouse gas emissions by 2065



Crude Palm Oil ("CPO") Windfall Profit Levy

Currently, the windfall profit levy is imposed at the following rates :

	Rate	Current
Peninsular Malaysia	3%	CPO Price > RM3,000 per MT
Sabah & Sarawak	3%	CPO Price > RM3,500 per MT



The below is the proposed increase rates in windfall profit levy threshold:

	Rate	Proposed
Peninsular Malaysia	3%	CPO Price > RM3,150 per MT
Sabah & Sarawak	3%	CPO Price > RM3,650 per MT

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



Review of Export Duty Exemption on CPO

The export duty rates for CPO were last revised on 1 January 2020 through a partial exemption. To ensure the supply of CPO in the domestic market, it is proposed that the export duty rates after taking into account the partial exemption be revised as follows :

CPO Market Price (RM/MT)	Current Rate	Proposed
≤ 3,600		No changes
3,601 – 3,750	8.0%	8.5%
3,751 – 3,900	8.0%	9.0%
3,901 – 4,050	8.0%	9.5%
> 4,050	8.0%	10.0%

The above is proposed to be effective from 1 November 2024.

Forest City as a Duty Free Island



The signing of the Johor-Singapore Special Economic Zone Memorandum of Understanding (“JSSEZ”) in January 2024 marks a major achievement of economic cooperation between Malaysia and Singapore.



In tandem, the Government has approved Forest City as a Duty Free Island to support tourism and local economic activities.



A Duty Free Island would typically be accorded special indirect tax incentives and exemptions. Recently, [Pulau 1 Forest City](#) has been gazetted as a designated area for Sales Tax and Service Tax.



Businesses looking to undertake operations in Forest City should take note of this development as it could impact the way businesses are conducted as well as competitiveness.



Customs Compliance Verification Audit Programme (“AViP”)



What is AViP?

The Compliance Management Division of the Royal Malaysian Customs Department (“RMCD”) officially launched the Compliance Verification Audit Programme or Audit Verifikasi Pematuhan (“AViP”).

It covers all areas of indirect taxes, duties, levies under the purview of RMCD such as Sales Tax, Service Tax, Service Tax on Digital Services, Customs Duties, Excise Duties and Tourism Tax.

Objectives



To improve tax compliance

Achieved based on increasing tax awareness, education and facilitation



Voluntary compliance

To encourage compliance amongst taxpayers



Voluntary Disclosure (VD)

To allow taxpayers to voluntarily disclose any non-compliance through self-assessment



AViP Mechanism





AViP Incentives

01

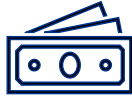


Penalty Remission (Blanket Approval)

- Borang Remisi Penalti Audit Verifikasi Pematuhan (AViP) – BRP 1
- Self-monitoring payment and submit to the auditor
- Please see adjacent table for full breakdown of the incentives offered

02

Instalment Plan (Bill of Demand)







- Borang Ansuran Bil Tuntutan AViP – BAPT
- Submit to Unit Akaun Belum Terima (ABT) Zon/ Negeri

Category	Amount Paid	Tax Payment Period	Penalty Remission
1	Fully Paid 	<ul style="list-style-type: none"> • Payment made ≤ 6 months • From the date of amendment of any return / supplementary return 	100%
2	Fully Paid 	<ul style="list-style-type: none"> • Payment made > 6 months but ≤ 12 months • From the date of amendment of any return / supplementary return 	50%
3	Fully Paid 	<ul style="list-style-type: none"> • Payment made > 12 months • From the date of amendment of any return / supplementary return 	NIL



Common Indirect Tax Risk Areas

Key Issues

- 
 Additional taxes or duties due to Transfer Pricing adjustments
- 
 Non-compliance with tax / duty exemption conditions
- 
 Omission to charge / account for taxes
- 
 Under-reporting of duties and taxes
- 
 Incorrect valuation / classification of goods
- 
 Late registration for SST and late payment of taxes







Examples – Sales Tax/ LMW/ Customs

- Year end TP adjustment which may affect value of taxable goods manufactured
- Sales Tax valuation on related party transaction – based on Computed Value Method? Includes “Royalty”, “Assist” and “Marketing” costs?
- Compliance with conditions for Sales Tax exemption – any exemption applied for exempted goods or waste/ scrap?
- Registered manufacturer forgot to charge Sales Tax on taxable goods due to error in customer location
- Correct HS Code adopted?
- Applied the wrong exemption e.g. C1/ C3 instead of B4?
- Applied exemption on non-qualifying goods or before exemption period?
- Failure to meet LMW/ ATIGA conditions?



Common Indirect Tax Risk Areas

Key Issues

- 
 Additional taxes or duties due to Transfer Pricing adjustments
- 
 Non-compliance with tax / duty exemption conditions
- 
 Omission to charge / account for taxes
- 
 Under-reporting of duties and taxes
- 
 Incorrect valuation / classification of goods
- 
 Late registration for SST and late payment of taxes

Examples – Service Tax

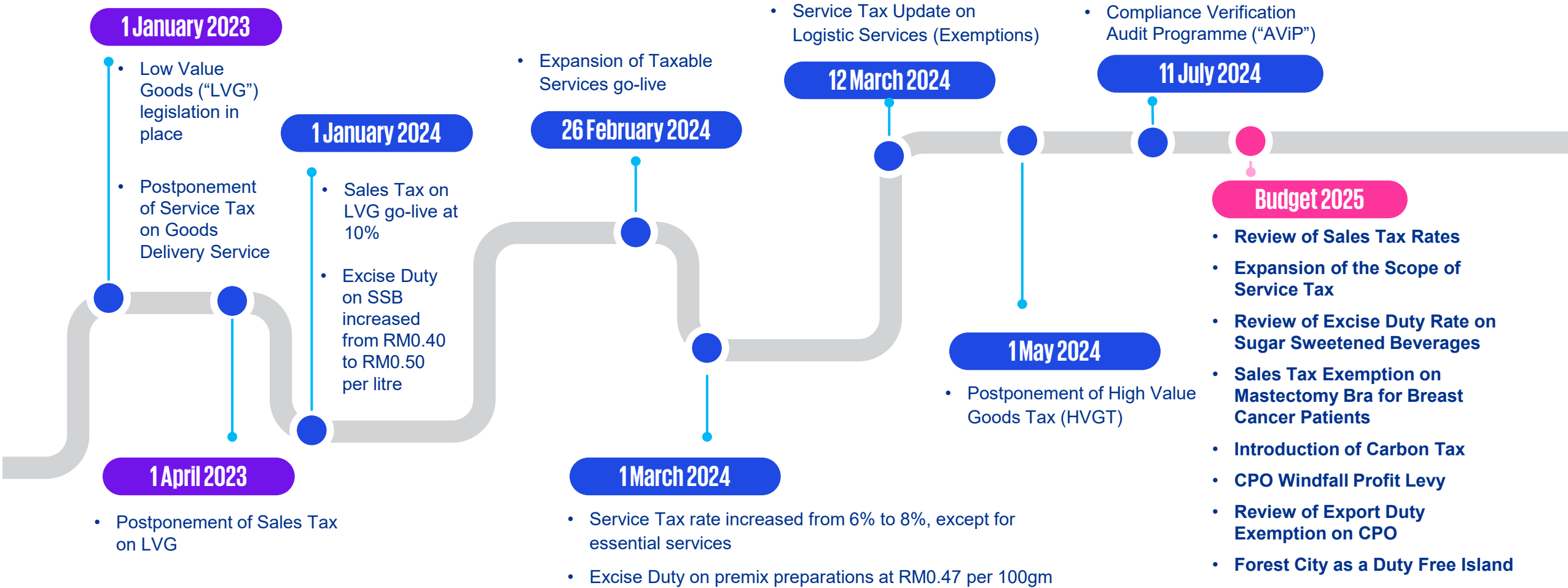
- Forgot to account for imported taxable services at the earlier of invoice received or payment made
- Forgot to charge and levy Service Tax on taxable services?
- Provision of taxable services to related companies which do not qualify for intragroup exclusion (e.g. employment, advertising services, maintenance or repair)?
- Error in applying the B2B exemption?
- Missed out on declaring a payment received?
- Forgot to monitor the 12-months deemed paid rule?
- Is the 'exported services' subject to Service Tax?

Recent developments





Key Timeline of Sales Tax and Service Tax since 2023





Improvement in Service Tax Treatment on Logistic Services

Service Tax Policy 4/2024 (including Amendment No 1) (Effective from 1 March 2024)

The scope of B2B exemption for Group J: Logistic Services is extended to include the provision of services under the same item. The same item refers to the division of service providers as listed below:

Item	Services
1(a)	Logistic services including all or part of the supply chain of logistics management services, port and airport management, warehousing or warehousing management, freight forwarding, shipping, aviation or cold chain facilities, delivery or distribution services or the transportation of goods;
1(c)	Delivery or distribution services or transportation of goods, documents or packages using E-Commerce platforms including on behalf of any person
1(d)	Courier services licensed under section 10, Postal Services Act 2012
2	Persons acting as agents under subsection 90(2) Customs Act 1967

Improvement in Service Tax Treatment on Logistic Services

Service Tax Policy 4/2024 (including Amendment No 1)

All logistic services under Group J: Logistic Services provided within and between SA/ DA or between SA and DA or vice versa are not subject to Service Tax* except for Customs agent services.

However, any person whose principal place of business is located in Malaysia and provides logistic services in a DA or SA or any person whose principal place of business is located in a DA or SA and provides logistic services to customers whose principal place of business is in Malaysia are subject to Service Tax.

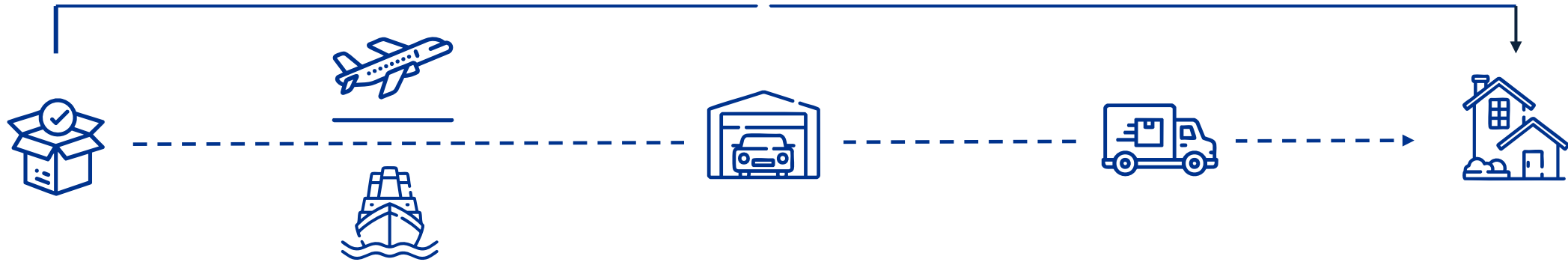
Customs agent services provided within and between SA/ DA or between SA and DA or vice versa remain subject to Service Tax.





Improvement in Service Tax Treatment on Logistic Services

Service Tax Policy 4/2024 (including Amendment No 1)



Door-to-door delivery services for goods involving:

- Provision of delivery services from a place outside Malaysia to a place within Malaysia or vice versa without going through a third party, that is provided by the delivery service provider to the customer. The delivery service provider is also allowed to engage the services of third parties in providing the delivery services
- Provisions of delivery services by the same service provider to the recipient;
- Movement using the same airway bill/ bill of lading /consignment note/ delivery order to the recipient; and
- Use of the same invoice for delivery charges from the service provider to the recipient (single billing invoice)

are exempted from Service Tax pursuant to Section 34(3)(a) and 34(4) of the Service Tax Act 2018.

Improvement in Service Tax Treatment on Logistic Services

Service Tax Policy 4/2024 (including Amendment No 1)

- Logistics services related to transit activities i.e. goods that arrive from a place outside Malaysia to Malaysia without break bulk and then to another place outside Malaysia through land/ sea/ air transport modes are exempted from Service Tax pursuant to Section 34(3)(a) and 34(4) of the Service Tax Act 2018 (*must involve international route*)
- Exemption from paying Service Tax is granted on ocean freight service charges for all goods transported by sea* limited to the following journeys/ destinations:-
 - Peninsular Malaysia to Sabah/ Sarawak/ Labuan;
 - Sabah/ Sarawak/ Labuan to Peninsular Malaysia; and
 - Travel between Sabah, Sarawak and Labuan.

** excluding the transportation of goods using river routes within Sabah and Sarawak*



Source: Guide on Logistic Services (as at 5 April 2024)

Improvement in Service Tax Treatment on Logistic Services

Service Tax Policy 4/2024 (including Amendment No 1)

For retrospective transactions in relation to this policy improvement, Service Tax exemptions are approved as follows:

- i. Recipients of logistic services are exempted from paying Service Tax based on Section 34(3)(a), Service Tax Act 2018, effective from 1 March 2024 and logistic service providers are exempted from imposing Service Tax based on Section 34(4), Service Tax Act 2018 effective from 1 March 2024;
- ii. Any Service Tax collected from customers from 1 March 2024 to 31 March 2024 must be remitted to RMCD based on Section 26, Service Tax Act 2018; and
- iii. No Service Tax refunds shall be approved for any party that has paid Service Tax on any logistic services for the period from 1 March 2024 to 31 March 2024.





Service Tax Treatment on Maintenance Services Relating to Residential Houses

Service Tax Policy 5/2024 (Effective from 1 March 2024)

Exclusions	<ol style="list-style-type: none"> 1) Maintenance management services relating to land or buildings for residential used provided by any developer, joint management body, management corporation or residential association; or 2) Repair services for residential buildings
Service Tax Treatment for Maintenance Services for Residential Houses	<ol style="list-style-type: none"> 1) Maintenance services (including repair) of goods or equipment (moveable items) in the residential house are subject to Service Tax 2) Maintenance services (including repair) of goods or equipment which is installed directly to the residential house structure (fixed to the structure of the building) provided directly to the owner or residents of residential house are not subject to Service Tax 3) Sinking fund related to residential houses imposed by developer, joint management body or management corporation is not subject to Service Tax
Service Tax Treatment for Warranty	<ol style="list-style-type: none"> 1) The warranty given for free when purchasing the product is not subject to Service Tax; and 2) Warranty extension with additional payment is subject to Service Tax

KPMG





Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



kpmg.com.my/TaxBusinessSummit

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

© 2024 KPMG Tax Services Sdn. Bhd., a company incorporated under Malaysian law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Document Classification: KPMG Public