



Tax Whiz

Tax highlights from your advisers

DRAFT Guide on Transitional Rules - Change in Service Tax Rate

Based on the Royal Malaysian Customs
Department ("RMCD")'s Draft Guide
dated 7 February 2024

KPMG in Malaysia

8 February 2024

RMCD's Draft Guide on Transitional Rules – Change in Service Tax Rate



The RMCD has issued a draft Guide on Transitional Rules as at 7 February 2024 (“the draft Guide”) for the change in Service Tax rate from 6% to 8% – only available in Malay language. **Please note that the draft Guide is still under review by the Ministry of Finance hence subject to changes, until the relevant legislation is gazetted.**

Please note that the draft Guide does not apply to a foreign registered person who provides digital services, a separate guide will be issued on this matter.

Below are the salient points set out in the draft Guide:

Transitional Rules

- Effective date of Service Tax rate at 8%: 1 March 2024
- The following taxable services remain taxable at 6%:
 - a) Food and beverages
 - b) Telecommunication services
 - c) Parking
 - d) Logistics (newly proposed taxable services)
- Provision of taxable services, regardless of the basis adopted to account for Service Tax (whether payment or invoice basis) – Rule of thumb:
 1. The applicable Service Tax rate to be based on the date the taxable services are performed i.e. 6% before 1 March 2024 and 8% post 1 March 2024.
 2. For taxable services spanning 1 March 2024, apportionment to be made accordingly.
 3. Exceptional rule for payment received before 1 March 2024 in relation to taxable services to be provided post 1 March 2024, Service Tax remains at 6%.

- In cases where an invoice with Service Tax at 6% has been issued (payment has not been received) for taxable services provided post 1 March 2024, the taxpayer is required to issue a debit note to account for the additional 2% Service Tax.
- Acquisition of imported taxable services – Rule of thumb:
 1. The applicable Service Tax rate to be based on the date when the imported taxable services are received i.e. 6% before 1 March 2024 and 8% post 1 March 2024.
 2. For imported taxable services spanning 1 March 2024, apportionment to be made accordingly.
 3. Exceptional rule for Service Tax due before 1 March 2024 (i.e. invoice received or payment made before 1 March 2024, whichever earlier) in relation to imported taxable services to be received post 1 March 2024, Service Tax remains at 6%.
- For the avoidance of doubt, the 6 months facilities earlier proposed by RMCD and shared during the handholding session on 22 January 2024 (our Tax Whiz [here](#) refers) is no longer in place, based on the draft Guide.

Please see the illustrations below for further understanding.

Provision of taxable services

Before 1 March 2024			Post 1 March 2024			Service Tax to be accounted (RM)
Taxable services provided	Invoice issued (RM)	Payment received (RM)	Taxable services provided	Invoice issued (RM)	Payment received (RM)	
10,000	10,000	10,000	-	-	-	6% x 10,000
10,000	10,000	-	-	-	10,000	6% x 10,000
10,000	6,000	6,000	-	4,000	4,000	6% x 10,000
-	10,000	10,000	10,000	-	-	6% x 10,000
-	10,000	-	10,000	-	10,000	8% x 10,000
-	10,000	4,000	10,000	-	6,000	6% x 4,000 8% x 6,000
Taxable services spanning 1 March 2024 (apportionment)						
2,000	10,000	10,000	8,000	-	-	6% x 10,000
2,000	10,000	4,000	8,000	-	6,000	6% x 4,000 8% x 6,000
2,000	10,000	-	8,000	-	10,000	6% x 2,000 8% x 8,000

Notes:

- The table above is irrespective of Service Tax accounting basis i.e. applicable to both payment and invoice basis.
- Scenarios set out above are based on full value of taxable service at RM10,000.

Acquisition of imported taxable services

*Service Tax due (earlier of invoice received or payment made)

Before 1 March 2024			Post 1 March 2024			Service Tax to be self-accounted (RM)
Imported taxable services received	Invoice received (RM)	Payment made (RM)	Imported taxable services received	Invoice received (RM)	Payment made (RM)	
10,000	10,000*	10,000	-	-	-	6% x 10,000
10,000	10,000*	-	-	-	10,000	6% x 10,000
10,000	-	-	-	10,000*	10,000	6% x 10,000
-	10,000*	10,000	10,000	-	-	6% x 10,000
-	10,000*	-	10,000	-	10,000	6% x 10,000
-	-	10,000*	10,000	10,000	-	6% x 10,000
-	-	-	10,000	10,000*	10,000	8% x 10,000
-	-	4,000*	10,000	10,000	6,000*	6% x 4,000 8% x 6,000
-	2,000*	2,000	10,000	8,000*	8,000	6% x 2,000 8% x 8,000
Imported taxable services spanning 1 March 2024 (apportionment)						
2,000	10,000*	10,000	8,000	-	-	6% x 10,000
2,000	2,000*	2,000	8,000	8,000*	8,000	6% x 2,000 8% x 8,000

Notes:

Scenarios set out above are based on full value of imported taxable service at RM10,000.

Expansion of Scope of Taxable Service

Other than the transitional rules, the draft Guide also mentioned on the proposed new taxable services.

Amongst others, one of the notable expansion is the **provision of maintenance and/or repair services to be subject to Service Tax at 8%**, to be categorized under Group G, item 13.

The other proposed additional taxable services mentioned in the draft Guide are widely known, i.e.:

- Group C Karaoke centre, Service Tax at 8%
- Group I Brokerage and underwriting services other than financial services, Service Tax at 8%
- Group J Logistics services, Service Tax at 6%

Our Observations

With the above development, quick and effective action plan must be put in place for a smooth transition. Business should start considering the following:

Transition from 6% to 8%

- For taxable services spanning 1 March 2024, can the value of the taxable service be apportioned? What is the basis of apportionment?
- Would there be any challenges to issue documentation for Service Tax adjustment purposes (e.g. is the system able to issue a debit note with Service Tax at 2%, whether the debit note would result in any accounting records complication, etc.)
- Effective communication with suppliers and customers so that there are no 'disagreement' in the applicable Service Tax rate.

Proposed new taxable services

- Does the company provide any maintenance and/or repair services (not classified under maintenance management services)?
- As it stands, there is no further details/ guidelines on the proposed new taxable services. In view of the fast approaching timeline (proposed to be 1 March 2024), businesses need to closely monitor the development or to proactively engage with the Authority/ KPMG for discussion.

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