



# Tax Whiz

Tax highlights from your advisers

**Guide on Transitional Rules for  
Change in Service Tax Rate to 8%  
on Digital Service Provided by  
Foreign Registered Person (“FRP”)**

Based on the Royal Malaysian Customs  
Department (“RMCD”)’s Guide dated 14  
February 2024

KPMG in Malaysia

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19 February 2024

# Guide on Transitional Rules for Change in Service Tax Rate to 8% on Digital Service Provided by FRP



The RMCD has issued a Guide on Transitional Rules for Change in Service Tax Rate to 8% on Digital Service Provided by FRP as at 14 February 2024 (“the Guide”) for the change in Service Tax rate from 6% to 8%. **Please note that the relevant legislation has yet to be gazetted and the information contained therein may be subject to changes.**

Below are the salient points set out in the Guide:

- With effect from 1 March 2024, the digital services provided by FRP will be subject to Service Tax at 8%.
- Transitional rule – Rule of thumb:
  1. The applicable Service Tax rate to be based on the date the digital services are provided, 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 digital services to be provided post 1 March 2024, Service Tax remains at 6%. This is applicable to both the accounting basis, i.e. payment basis or invoice basis.

Based on the Guide, it does suggest that the transitional rule is irrespective of the Service Tax accounting basis.

- The transitional rule for FRP is similar to the rules for a local taxable service (please click [here](#) for our Tax Whiz on the rules for a local taxable service).

Please see the scenarios below for further understanding.

Before 1 March 2024			Post 1 March 2024			Service Tax to be accounted (RM)
Digital services provided	Invoice issued (RM)	Payment received (RM)	Digital 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
<b>Digital services spanning 1 March 2024 (apportionment)</b>						
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 digital services at RM10,000.

## Our Observations

- As it stands, the Guide is silent on the documentation, e.g. for invoices issued with Service Tax at 6%, what document should be issued for the additional 2% Service Tax. Based on the draft guideline issued by RMCD for the local registered person, a debit note with Service Tax at 2% should be issued for the adjustment. Accordingly, it would be reasonable to assume that the same approach can be adopted in cases of FRP.
- It is not uncommon that the digital services provided spans across a period (e.g. periodic subscription). FRP should start looking into these transactions (i.e. digital services spanning 1 March 2024) and ascertain the basis of apportionment.
- Based on the Guide, it does suggest that for payment received before 1 March 2024, the Service Tax would remain at 6% (even though the digital services are to be provided post 1 March 2024). On this note, would it create a “payment rush” among the customers? Would the FRP be able to process and capture the payment accurately/ completely for Service Tax reporting purposes, particularly if they have opted to account on invoice basis?

# Contact us

## Petaling Jaya Office

### Soh Lian Seng

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

### Long Yen Ping

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

### Tai Lai Kok

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

### Ng Sue Lynn

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

### Bob Kee

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

## Outstation Offices

### Penang Office

#### Evelyn Lee

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

### Kuching & Miri Offices

#### Regina Lau

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

### Kota Kinabalu Office

#### Titus Tseu

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

### Johor Bahru Office

#### Ng Fie Lih

Executive Director – Johor Bahru Tax  
flng@kpmg.com.my  
+603 7721 2514

### Ipoh Office

#### Crystal Chuah Yoke Chin

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

# 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)

## **Kota Kinabalu**

Lot 3A.01 Level 3A,  
Plaza Shell,  
29, Jalan Tunku Abdul Rahman,  
88000 Kota Kinabalu, Sabah  
Tel: +603 7721 3388  
Fax: +6088 363 022  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Penang**

Level 18, Hunza Tower,  
163E, Jalan Kelawei,  
10250 Penang  
Tel: +603 7721 3388  
Fax: +604 238 2299  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Johor Bahru**

Level 3, CIMB Leadership Academy,  
No. 3, Jalan Medini Utara 1,  
Medini Iskandar,  
79200 Iskandar Puteri, Johor  
Tel: +603 7721 3388  
Fax: +607 266 2214  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Kuching**

Level 2, Lee Onn Building,  
Jalan Lapangan Terbang,  
93250 Kuching, Sarawak  
Tel: +603 7721 3388  
Fax: +6082 530 669  
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)

## **Miri**

1st Floor, Lot 2045,  
Jalan MS 1/2,  
Marina Square, Marina Parkcity,  
98000 Miri, Sarawak  
Tel: +603 7721 3388  
Fax: +6085 321 962  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

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