



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

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
Digital 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 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?

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