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Tax highlights from your advisers

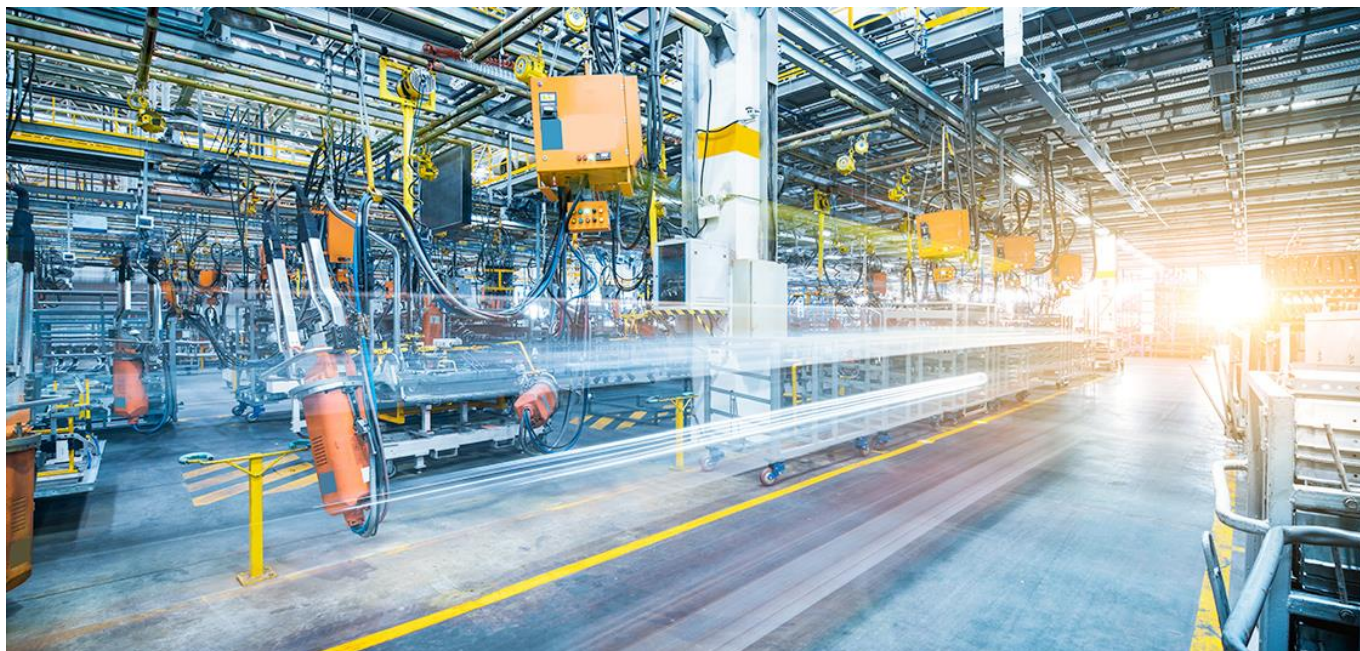
Sales Tax Exemption for Manufacturing Aids and Cleanroom Equipment

Public Ruling and Guides as at
29 December 2023

KPMG in Malaysia

4 January 2024

Sales Tax Exemption for Manufacturing Aids and Cleanroom Equipment



Following the gazette of the Sales Tax (Persons Exempted from Payment of Tax) (Amendment) (No 3) Order 2023 effective **1 January 2024**, the Royal Malaysian Customs Department (“Customs”) has issued the following Public Ruling and guides:

1. Public Ruling 2/2024 dated 29 December 2023 [available in Malay language only]
2. Guide on Sales Tax Exemption under Schedule B, Sales Tax (Persons Exempted from Payment of Tax) Order 2018 dated 29 December 2023 [available in Malay language only]
3. Guide on Sales Tax Exemption under Schedule C, Sales Tax (Persons Exempted from Payment of Tax) Order 2018 dated 29 December 2023

Set out below are some of the salient points:

a) Manufacturing aids

Manufacturing aids refers to goods used in the manufacturing process to accelerate, improve, complement or complete the manufacturing process of finished goods, but do not become part of the finished goods.

The manufacturing aids given exemption must be used in the manufacturing process only and must have the following features:

- Directly used in the manufacturing process (there must be physical contact with the finished goods manufactured and does not form part of the finished goods)
- Not directly used in the manufacturing process (there is no physical contact with the finished goods, does not form part of the finished goods but is an important element in the manufacturing process of the finished goods)

a) Manufacturing aids (cont'd)

The Manufacturing aids as determined by the Director General of Customs is listed in **Appendix 1 of the Public Ruling 2/2024**. Where the Manufacturing aids are not listed in Appendix 1 of the Public Ruling 2/2024, the manufacturer must obtain an approval from the Director General of Customs before applying for a Sales Tax exemption certificate. The application form is available [here](#).

b) Cleanroom equipment

Cleanroom is a facility in a regulated factory where pollutants such as dust, aerosol particles, airborne microbes, and chemical vapors are reduced to a minimum level.

The Cleanroom equipment given exemption are equipment used directly in the cleanroom and the equipment involves workers safety cleanroom which has the features of electrostatic discharge (ESD) for the purpose of manufacturing finished goods.

The Cleanroom equipment as determined by the Director General of Customs is listed in **Appendix 2 of the Public Ruling 2/2024**. Where the Cleanroom equipment are not listed in Appendix 2 of the Public Ruling 2/2024, the manufacturer must obtain an approval from the Director General of Customs before applying for a Sales Tax exemption certificate. The application form is available [here](#).

c) Responsibilities of a person granted the Sales Tax exemption

A person granted the Sales Tax exemption needs to complete the following:

Report	Items	Responsibility	Reporting Period
Schedule B			
Laporan CJ(P) Jadual B-01	1, 2, 3 and 4	Manufacturer	Every 3 months from the effective date of the exemption certificate
Laporan CJ(P) Jadual B-02	4	Manufacturer	Every 3 months from the effective date of the exemption certificate
Schedule C			
Laporan CJ(P) Jadual C-01	1, 2, 3 and 4	Registered Manufacturer	Every 3 months from the effective date of the exemption certificate
Laporan CJ(P) Jadual C-02	3 and 4	Person acting on behalf of Registered Manufacturer	Every 3 months from the effective date of the exemption certificate until all goods purchased on behalf are sent to the concerned registered manufacturer
Laporan CJ(P) Jadual C-03	5	Registered Manufacturer who sends his goods to be completed by a subcontractor	Every 3 months from the date of the exemption certificate

The above reports do not need to be submitted to Customs but a copy needs to be maintained and kept by the company. The company needs to furnish the reports at any time when requested by Customs.

d) Export, transport or return of the goods exempted under Schedule C

Any goods exempted from Sales Tax under Schedule C (items 1, 2, 3 and 4) which are not used in the manufacturing by the registered manufacturer or not delivered to the registered manufacturer by the person acting on his behalf, may be exported, transported or returned to the supplier for the following reasons:

- i. Damaged
- ii. Destroyed due to the unavoidable accident; or
- iii. Does not meet the specified quality

No Sales Tax shall be due under the circumstances stated above. The applicant must notify in writing to the Internal Tax Division (CDN) of the controlling station by submitting the following documents:

- i. Company's official letter;
- ii. List of goods to be exported, transported or returned must contain description and quantity of goods; and
- iii. Supporting document such as customs declaration form (K1/ K9 form), invoices, credit notes or quality control report.

Based on the Sales Tax (Persons Exempted from Payment of Tax) (Amendment) (No 3) Order 2023, the approval is at the discretion of the Director General.

e) Fire, natural disaster, theft and loss

Any person who has been granted Sales Tax exemption under Schedule B or Schedule C must notify in writing any case of fire, natural disaster, theft and loss involving the finished goods manufactured and goods purchased, imported or transported under exemption not later than **14 days** from the date of the incident to the Internal Tax Division (CDN) of the controlling station. The submission must include, amongst others, the investigation report from the Fire and Rescue Department; police report or report from the insurance company.

With the above development effective **1 January 2024**, manufacturers should start looking through its list of purchases to identify goods that can qualify for the Sales Tax exemption, and apply for the exemption. For goods that are not listed in Appendix 1 or Appendix 2 of the Public Ruling 2/2024, manufacturers should evaluate and consider whether an application should be made to the Director General of Customs. Manufacturers are also reminded to keep and maintain the relevant contemporaneous reports as non-compliance would cause the exemption to be revoked.

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