



Indirect Tax: Key Development and compliance focus

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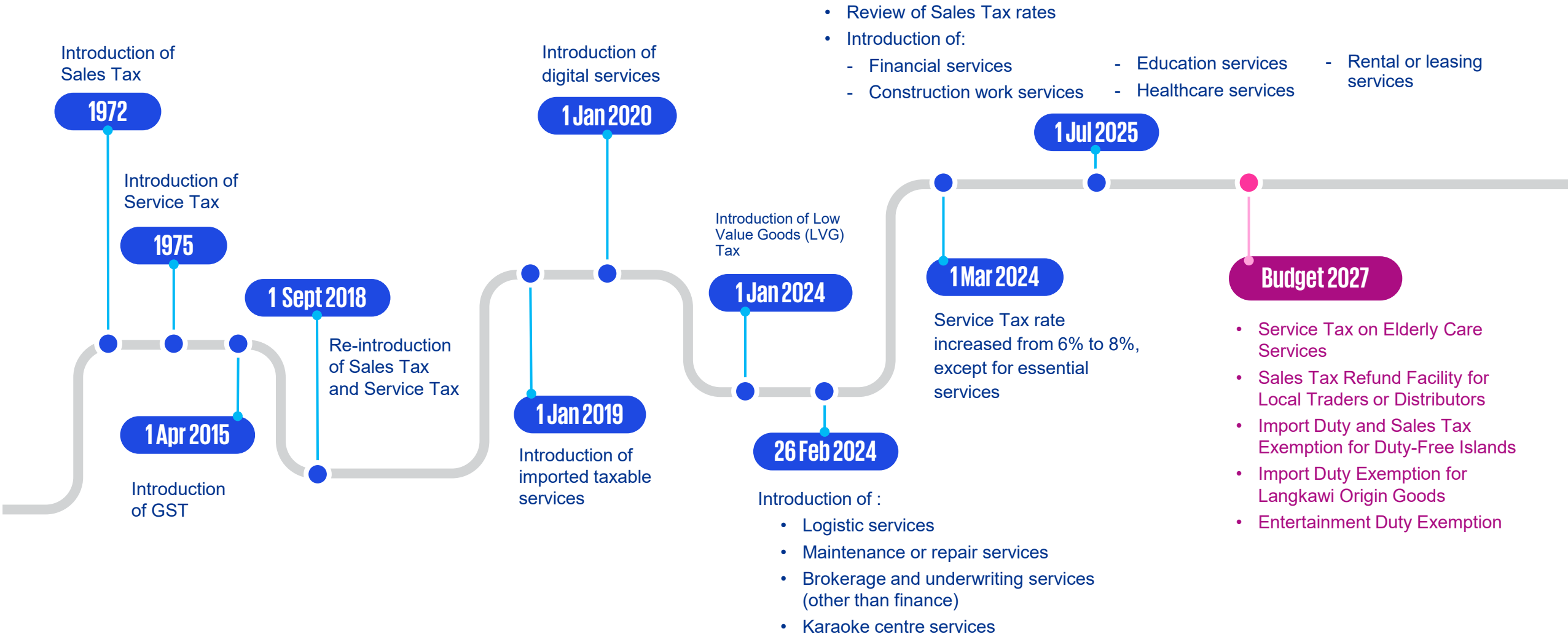
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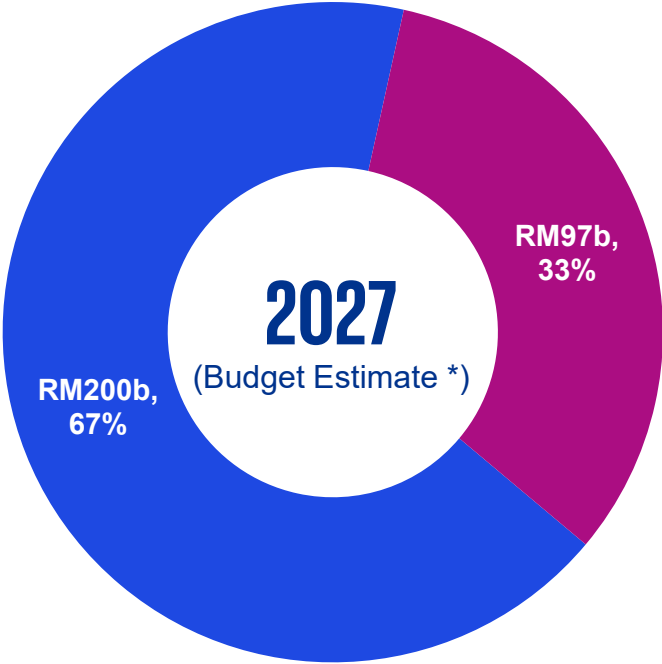
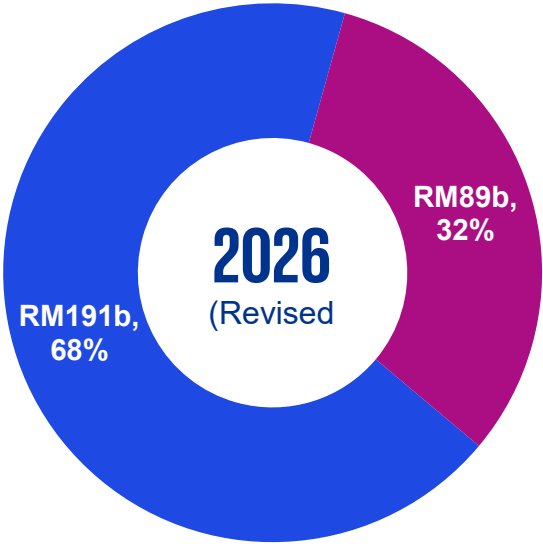
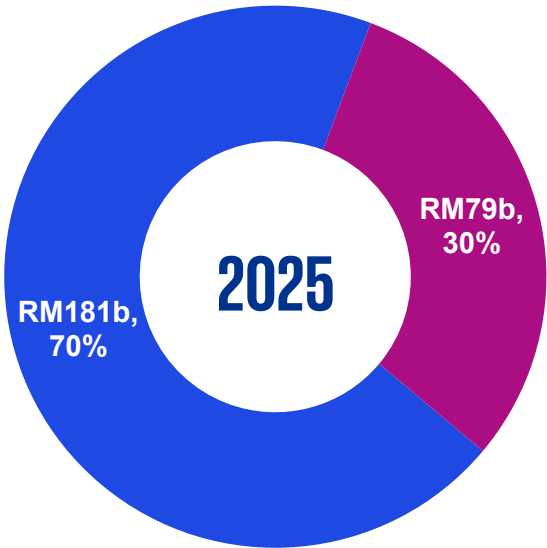
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Timeline of Sales Tax and Service Tax



Federal Government Revenue – Direct & Indirect Taxes

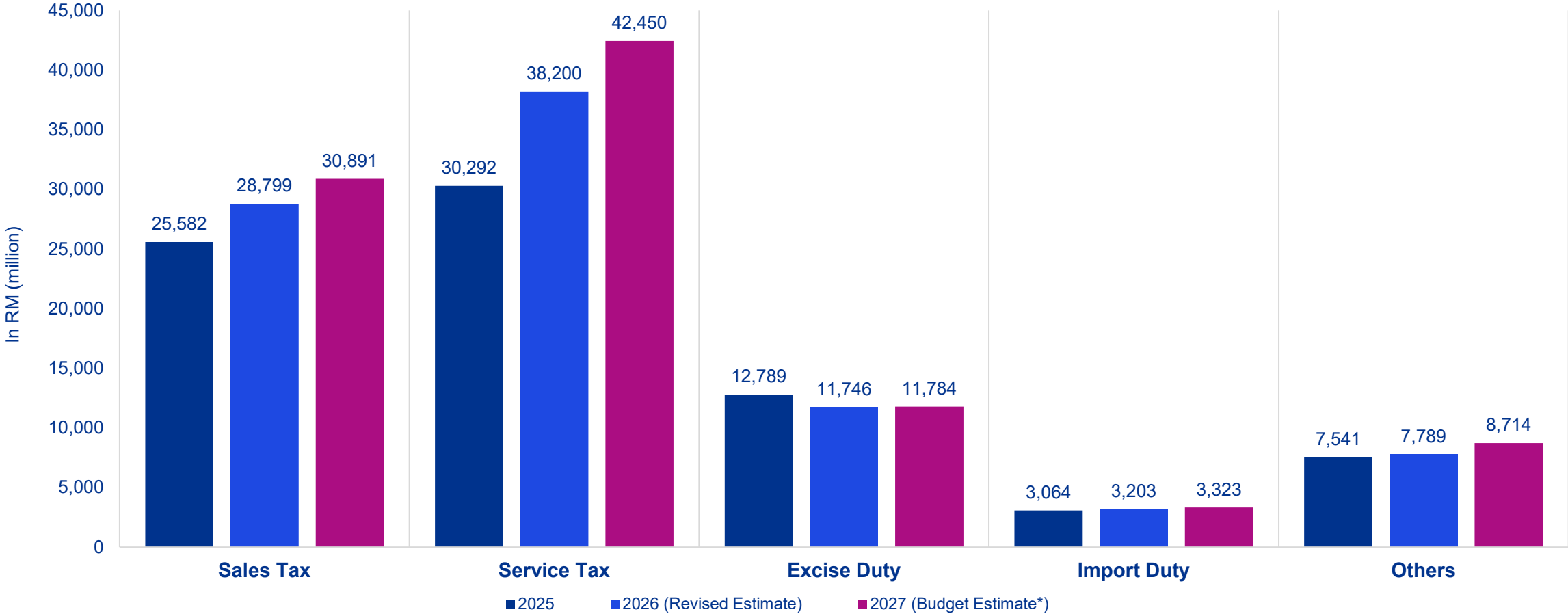


● Direct Tax ● Indirect Tax

Source: 2027 Fiscal Outlook and Federal Government Revenue Estimates

* Excluding Budget 2027 measure

Revenue Breakdown for Indirect Tax



Source: Ministry of Finance, 2027 Fiscal Outlook and Federal Government Revenue Estimates

* Excluding Budget 2027 measure

HASIL KERAJAAN PERSEKUTUAN 2027 2027 FEDERAL GOVERNMENT REVENUE

RM

JUMLAH HASIL KERAJAAN PERSEKUTUAN

380,816,996,000

Sebelum mengambil kira langkah belanjawan yang dicadangkan dalam Belanjawan 2027

TOTAL FEDERAL GOVERNMENT REVENUE

Before taking into account budget measures proposed in the Budget 2027

LANGKAH BELANJAWAN:

BUDGET MEASURES:

60000	HASIL CUKAI TAX REVENUE	
61000	CUKAI LANGSUNG DIRECT TAX	(2,960,380,000)
61100	Cukai Pendapatan Income Tax	(2,815,440,000)
61900	Cukai Langsung yang Lain Other Direct Tax	(144,940,000)
62000	CUKAI TIDAK LANGSUNG INDIRECT TAX	(9,260,000)
62600	Cukai Perkhidmatan Service Tax	(9,260,000)
90000	HASIL DARIPADA WILAYAH PERSEKUTUAN REVENUE FROM FEDERAL TERRITORIES	
91000	HASIL CUKAI DARIPADA WILAYAH PERSEKUTUAN TAX REVENUE FROM FEDERAL TERRITORIES	(2,130,000)
91200	Cukai Tidak Langsung Indirect Tax	(2,130,000)
	Pengurangan Hasil Bersih Net Revenue Loss	(2,971,770,000)
	JUMLAH HASIL KERAJAAN PERSEKUTUAN	377,845,226,000
	Selepas mengambil kira langkah belanjawan yang dicadangkan dalam Belanjawan 2027	
	TOTAL FEDERAL GOVERNMENT REVENUE	
	After taking into account budget measures proposed in the Budget 2027	

2027 Federal Government Revenue

62000	CUKAI TIDAK LANGSUNG INDIRECT TAX	(9,260,000)
62600	Cukai Perkhidmatan Service Tax	(9,260,000)
90000	HASIL DARIPADA WILAYAH PERSEKUTUAN REVENUE FROM FEDERAL TERRITORIES	
91000	HASIL CUKAI DARIPADA WILAYAH PERSEKUTUAN TAX REVENUE FROM FEDERAL TERRITORIES	(2,130,000)
91200	Cukai Tidak Langsung Indirect Tax	(2,130,000)
	Pengurangan Hasil Bersih Net Revenue Loss	(2,971,770,000)

Source: Ministry of Finance, 2027 Fiscal Outlook and Federal Government Revenue Estimates

2027 Budget – Indirect Tax Perspective

1

Reduced Service Tax Rate and Exemption on Elderly Care Services

2

Sales Tax Refund Facility for Local Traders or Distributors on Supplies to Manufacturers

3

Review of Import Duty and Sales Tax Exemption Treatment for Goods Transported Out of Duty-Free Islands

4

Review of Import Duty Exemption for Langkawi Origin Goods

5

Entertainment Duty Exemption in the Federal Territories

6

Entertainment Duty Exemption for Activities and Events Held at Stadium Merdeka and Stadium Negara

Reduced Service Tax Rate and Exemption on Elderly Care Services

Current

The provision of elderly care services is taxable under

Group C – Wellness Centre

First Schedule of the Service Tax Regulations 2018

Service Tax rate applicable is

8%

Prescribed registration threshold is

RM500,000

Proposed

The provision of elderly care services to be moved to

Group I – Other Service Providers

First Schedule of the Service Tax Regulations 2018

Service Tax rate reduced to

6%

Service Tax exemption to be given to registered centres charging annual care fees up to

RM96,000 per person*

*subject to meeting conditions

The above is proposed to be effective from 1 January 2027

Sales Tax Refund Facility for Local Traders or Distributors on Supplies to Manufacturers

Current

Manufacturers enjoy Sales Tax exemption on



qualifying **machinery, spare parts and equipment** under Item 55, Schedule A; and



on **approved inputs** used in the manufacture of **pharmaceutical products, animal feed, fertilizers and pesticides** specified under Schedule B

of the Sales Tax (Persons Exempted from Payment of Tax) Order 2018

Prescribed conditions:

- imported directly by manufacturer from abroad; or
- purchased directly from a local registered manufacturer

No Sales Tax exemption to manufacturers for the procurement of machinery, spare parts and equipment and inputs from local traders or distributors

Proposed

Local traders or distributors to be allowed to claim a Sales Tax refund on



qualifying **machinery, spare parts and equipment** under Item 55, Schedule A; and



on approved inputs used in the manufacture of **pharmaceutical products, animal feed, fertilizers and pesticides** specified under Schedule B

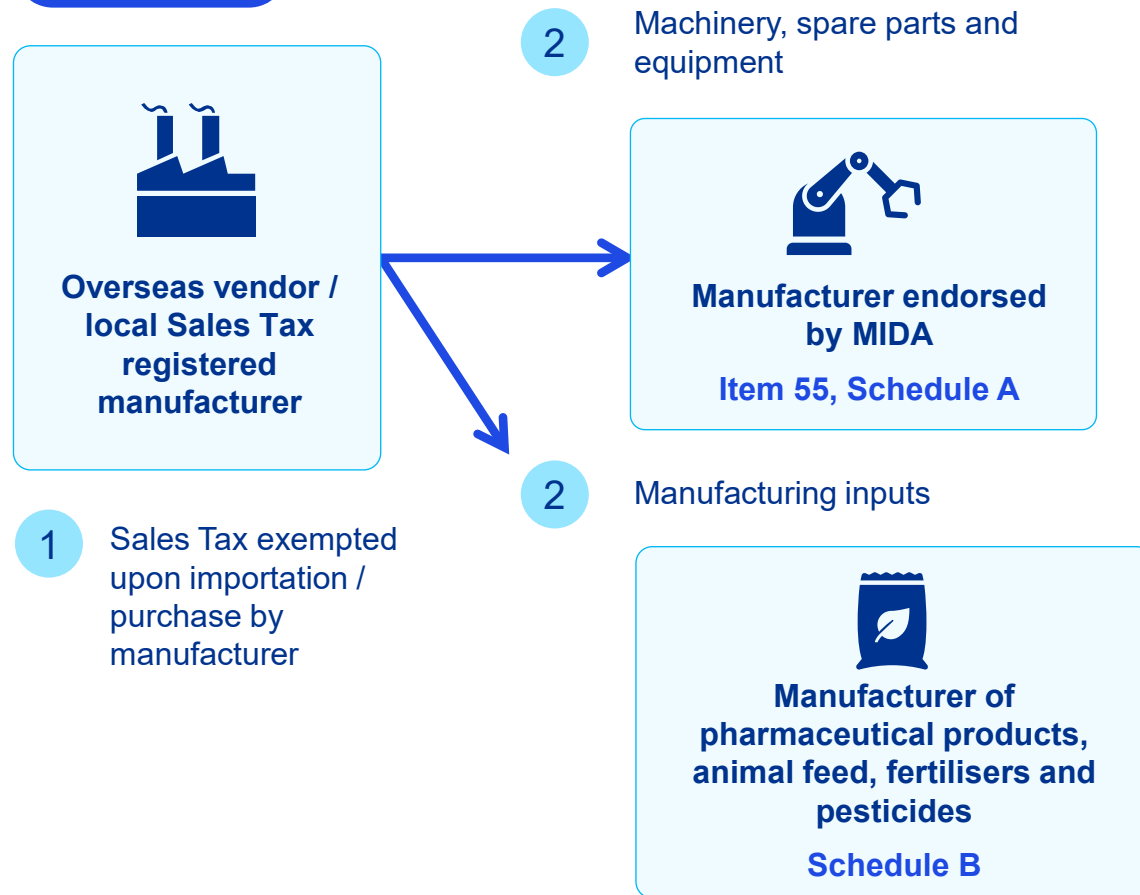
of the Sales Tax (Persons Exempted from Payment of Tax) Order 2018, supplied to manufacturers

The above is proposed to be effective from 1 January 2027

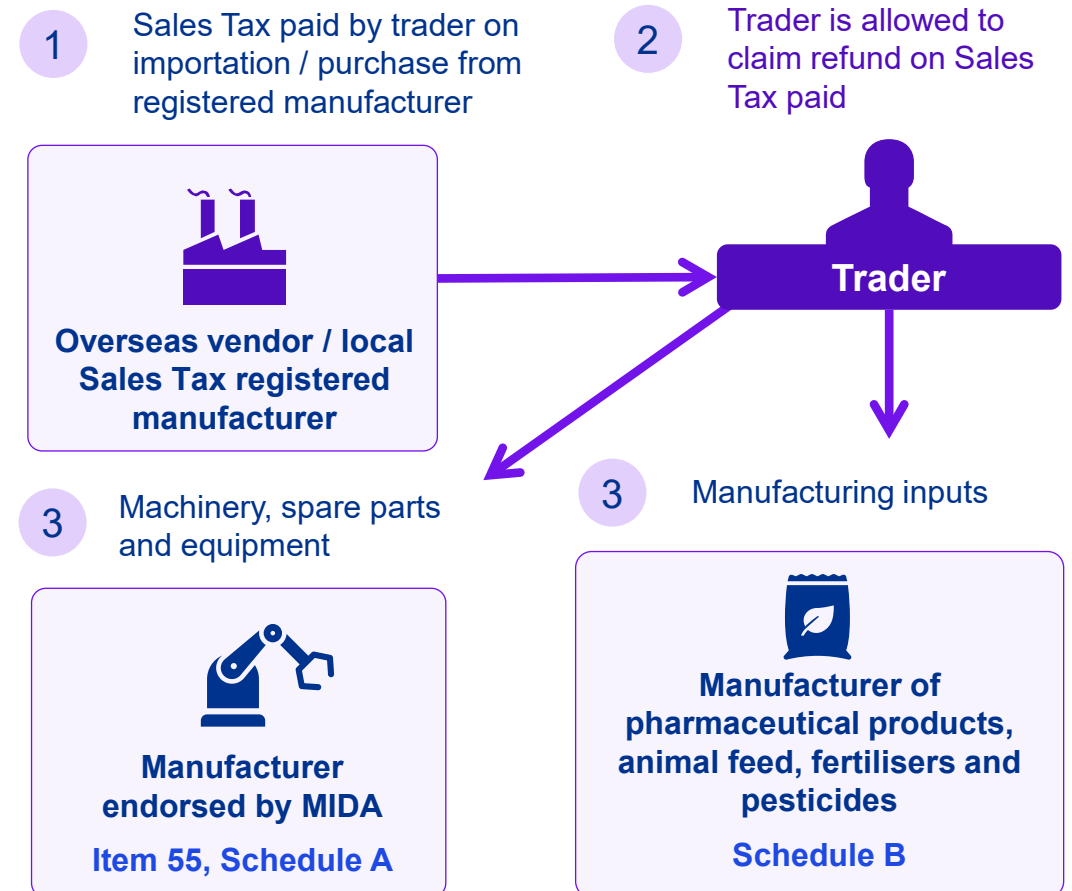
Sales Tax Refund Facility for Local Traders or Distributors on Supplies to Manufacturers

This is proposed to be effective from 1 January 2027

Current



Proposed



Review of Import Duty and Sales Tax Exemption Treatment for Goods Transported Out of Duty-Free Islands

Current

Import Duty and Sales Tax Exemption is available for visitors and tourists subject to goods value / quantity limit and duration of visit to the duty-free islands as follows:

Goods Category	Goods Value Limit	Duration of Visit
Langkawi, Tioman, Pangkor and Labuan		
1. New apparels	3 pairs	48 Hours (Langkawi and Tioman)
2. New footwear	1 pair	
3. Food preparation items	RM150	
4. New portable electrical or battery-operated appliances for personal care and hygiene	1 unit	
5. All other goods, except alcoholic beverages, tyres and tubes, motor vehicles, and smoking products	RM1,000	24 Hours (Pangkor and Labuan)

Proposed

Purchase limit for goods eligible for Import Duty and Sales Tax Exemption by visitors and tourists on duty-free islands (excluding Tioman, Pangkor and Pulau 1, Forest City) is proposed to be **revised** as follows:

Goods Category	Goods Value Limit	Duration of Visit
Langkawi and Labuan		
All goods (new), except: 1. Tyres and tubes 2. Alcoholic beverages 3. Cigarettes 4. Tobacco products 5. Smoking pipes 6. Electronic cigarettes and vapes, including liquids or gels	RM10,000	48 Hours

The above is proposed to be effective from 1 January 2027

Review of Import Duty Exemption for Langkawi Origin Goods (1/2)

Current

The list of goods eligible for import duty exemption on products manufactured in Langkawi are as follows:

Goods Category

1. Sea cucumber extract	13. Sea cucumber herbal paste
2. Whetstones	14. Sea cucumber herbal pills
3. Fruits	15. Anchovy based products
4. Anchovies	16. Dried stingray products
5. Copra	17. Vegetables
6. Wood charcoal	18. Coffee powder
7. Mangrove wood	19. Cement
8. Sawn rubberwood	20. Sugar cane
9. Coconuts	21. Eggs
10. Handicraft	22. Bird's eggs
11. Honey	23. Poultry
12. Marble	



Review of Import Duty Exemption for Langkawi Origin Goods (2/2)

Proposed

The list of goods eligible for import duty exemption on products manufactured in Langkawi is proposed to be revised and expanded as follows:

Goods Category	List of Goods	Goods Category	List of Goods
Agriculture and Agro-food 	- Bird's eggs - Coconuts - Fruits - Sugarcanes - Vegetables - Poultry - Virgin coconut oil	Fisheries and Marine Products 	- Anchovies - Anchovy based products - Dried stingray products - Downstream sea cucumber products
Food and Beverage Products 	- Coffee products - Mineral water - Pineapple tarts - Coconut cookies - Chocolate made in Langkawi - Curry puff - Chips - Buffalo milk ice cream - Retort products	Minerals and Ornament 	- Handicraft products - Crystal products - Tiffin carrier
		Consumer Goods and Home Appliances 	- Homemade soap - Virgin coconut oil soap - Whetstones
		Forestry and Construction 	- Wood charcoal - Cement - Marble

The above is proposed to be effective from 1 January 2027

Entertainment Duty Exemption in the Federal Territories

Current

Entertainment Duty exemption is given to the following selected categories of entertainment held in the Federal Territories for the period from **1 January 2024 to 31 December 2028**:

Categories of Entertainment	Entertainment Duty Rates After Exemption
1. Stage performances by international artists / light shows / circuses	10%
2. Film screenings (cinemas) / theatres	
3. Exhibitions / zoos / aquariums	
4. Sports events / e-sports / bowling / snooker / pool / billiards / karaoke	
5. Theme parks / family recreation centres / indoor amusement centres / simulators	5%
6. Stage performances by local artists	0%

Proposed

Entertainment Duty exemption for the aforementioned categories of entertainment held in the Federal Territories is proposed to be

**extended until
31 December 2030**

This is proposed to be applicable to applications received by the Ministry of Finance until 31 December 2030.

Tickets for local film screenings at cinemas and local theatre performances held in the Federal Territories are eligible for

100% Entertainment Duty exemption

This is proposed to be applicable for applications received by the Ministry of Finance from **1 January 2027 until 31 December 2030**.

Entertainment Duty Exemption for Activities and Events Held at Stadium Merdeka and Stadium Negara

Current

Entertainment Duty exemption is given on admission fees for activities and events held at selected facilities in the Federal Territory to encourage the organisation of arts and cultural events, entertainment and sports activities. List of approved facilities are as follows:

Approved Facilities	
1.	Bukit Jalil National Sports Complex • TM National Stadium • Unifi Arena • National Hockey Stadium
2.	Juara Stadium (Bukit Kiara Sports Complex)
3.	Istana Budaya
4.	National Art Gallery
5.	Dewan Filharmonik PETRONAS

Proposed

To optimise the use of conserved historical heritage sites, it is proposed that Entertainment Duty exemption also be given on arts and cultural events, entertainment and sports activities to be held at:

Stadium Merdeka & Stadium Negara

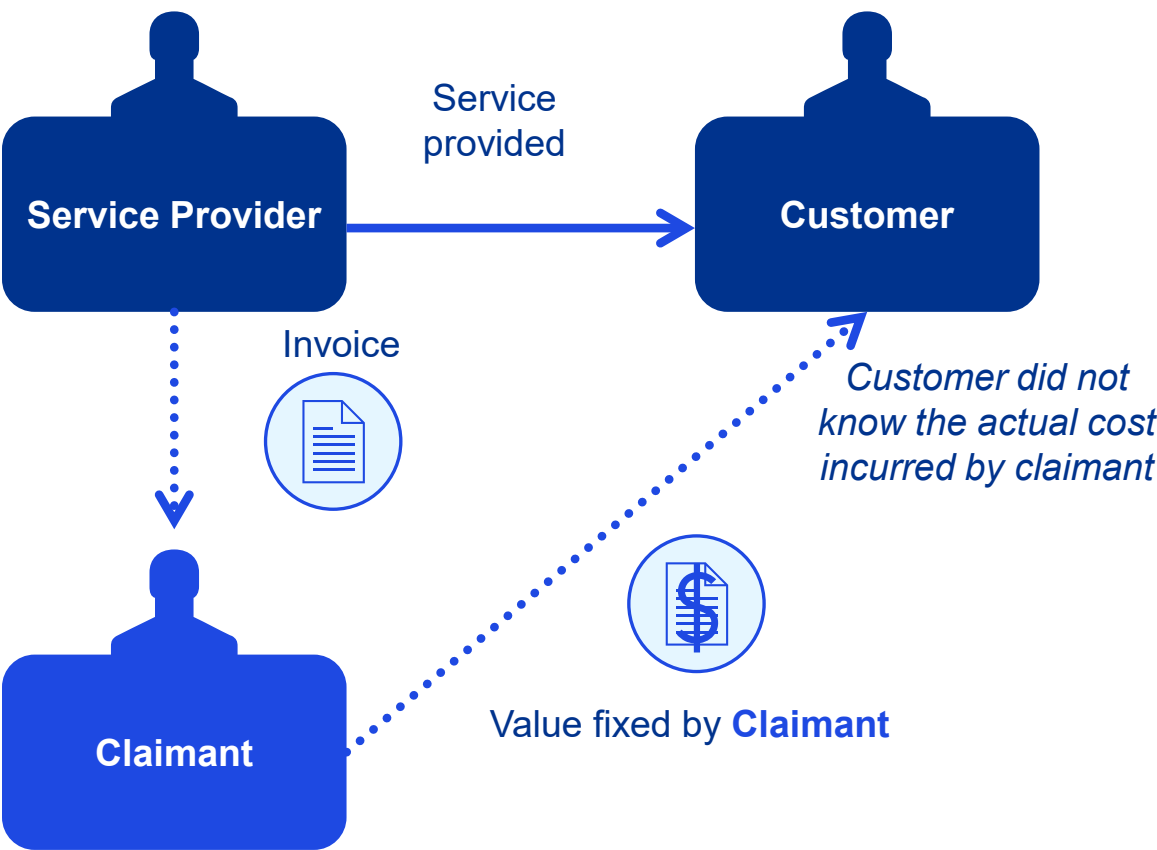
This would also complement efforts to revitalise these heritage venues and broaden their use for arts, cultural, entertainment and sporting activities.

The above is proposed to be effective from 1 January 2027

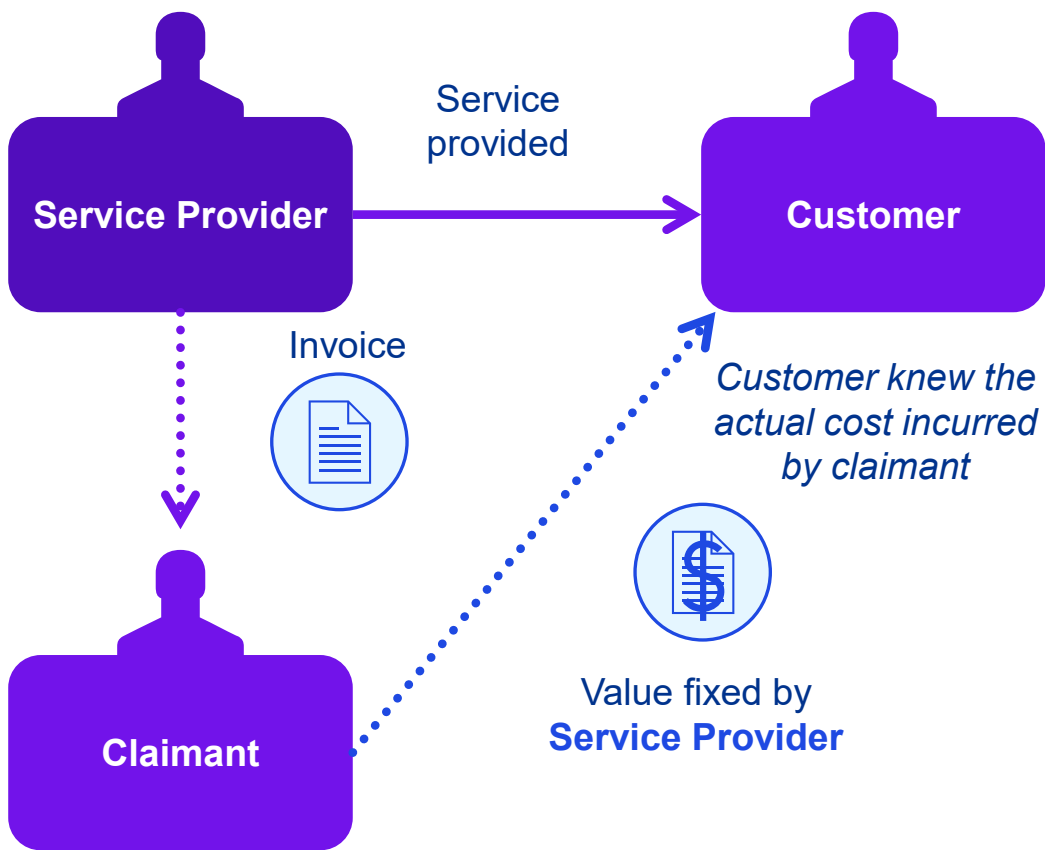
Disbursement vs Reimbursement

Disbursement vs Reimbursement

Claimant treated as Principal



Claimant treated as Agent



Logistic Services

Logistic Services

Common Issues

1

Imported Taxable
Services

3

Disbursement vs
Reimbursement

B2B exemption

2

Special Area /
Designated Area

4



Employment Services

Employment Services

Public Ruling No. 5/2026 dated 12 August 2026 (only available in Malay language) sets out the following conditions that need to be met in order to be considered as secondment of employees for Service Tax purposes:



Employment Secondment Contract

Between original employer and seconded company



Employee is temporarily transferred

To perform and complete duties elsewhere for a certain period of time and thereafter, returns to same employer to continue employment



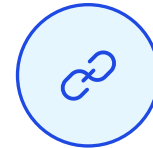
During the secondment period

- The employee solely works for the seconded company
- The seconded company has total control over the employee
- The remuneration and any other allowances (at cost) will be paid by the seconded company either directly or indirectly and no other additional charges will be imposed



Employer's business activity

Other than the provision of employment services



Remain employed with the original employer

The continuity of the employment remains continuous and unbroken



Secondment period

Less than SIX (6) months within the year of secondment and does not extend into the following year

Employment Services

Pass-through expenses for employment services which are **not subject to Service Tax** refer to expenses allowed to be claimed back from the customer at cost value without any mark-up and are limited to the following expenses only:



Emoluments



Work Permit



Worker's Levy



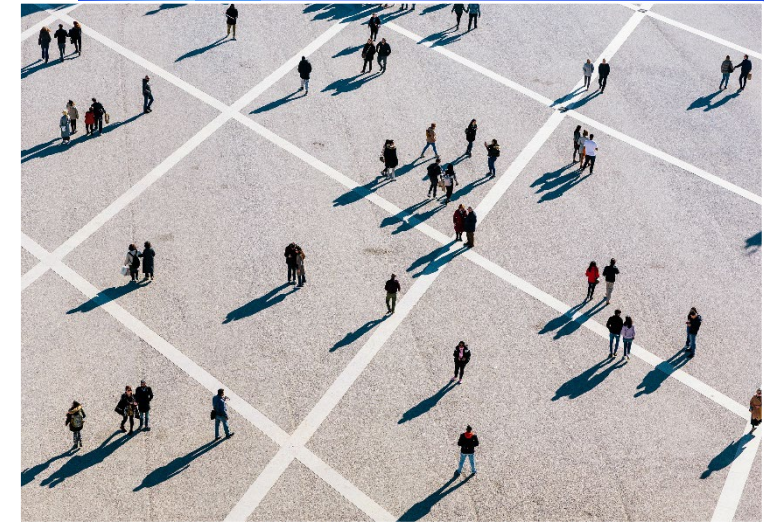
Insurance Fee



Fare to Malaysia



Mandatory Medical
Examination for Workers



Customs Guide on Employment Services (as at 14 May 2024)

Public Ruling 3/2026 – Exchange Rate

Public Ruling 3/2026 – Exchange Rate

Public Ruling No. 3/2026 dated 28 July 2026 (only available in Malay language), sets out the following:

- Where a Service Tax registered person or a Sales Tax registered manufacturer issues an invoice and the total amount of the service or sale stated in the invoice is denominated in a currency other than Ringgit Malaysia, the registered Service Tax person or registered manufacturer shall **state the total amount of the service or sale in Ringgit Malaysia** based on the **selling exchange rate**.
- The foreign currency selling exchange rate adopted in Malaysia by a Service Tax registered person or a Sales Tax registered manufacturer shall be based on any exchange rate published by the following bodies:
 - i. Bank Negara Malaysia (BNM);
 - ii. Any commercial bank in Malaysia or any other bank registered with BNM;
 - iii. International news agencies, such as Bloomberg, Reuters, and Oanda; or
 - iv. Foreign central banks, such as the European Central Bank and the Federal Reserve Bank of New York.
- The foreign currency selling exchange rate referred to above, shall be applied **consistently for business reporting and accounting purposes for a minimum period of one year** from the end date of the accounting period.
- Any application to use a foreign currency selling exchange rate other than those specified in above shall be submitted in writing to the Service Tax Policy Branch or the Sales Tax Policy Branch, Royal Malaysian Customs Department Headquarters, for the approval of the Director General of Customs.

Service Tax Return (SST-02 Return)

Field 18

Previously – Fields 18(c) and (d)

BAHAGIAN D : JUALAN / PERKHIDMATAN YANG DIKECUALIKAN CUKAI / PERKHIDMATAN TIDAK BERCUKAI PART D : SALES / SERVICES EXEMPTED FROM TAX / NON-TAXABLE SERVICE	
18) Jualan Barang-Barang Bercukai / Perkhidmatan Bercukai.* Sales of Taxable Goods/ Taxable Services.*	
a) Eksport / Kawasan Khas / Kawasan Ditetapkan.* Export / Special Area / Designated Area.*	RM 0.00
b) Jualan Tempatan Kepada Orang di bawah Perintah Cukai Jualan (Orang Yang Dikecualikan Daripada Pembayaran Cukai Jualan) 2018: Local sales exempted to person under the Sales Tax (Person Exempted From Payment of Sales Tax) Order 2018:	
1) Jadual A (Kumpulan Orang).* Schedule A (Class of Person).*	RM 0.00
2) Jadual B (Pengilang Spesifik Barang Tidak Bercukai).* Schedule B (Manufacturer of specific non taxable goods).*	RM 0.00
3) Jadual C (Pengilang Berdaftar).* Schedule C (Registered Manufacturer).*	
i) Butiran 1 dan 2 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Yang Dikecualikan Cukai Jualan).* Item 1 and 2 (Purchase / Importation of Raw Materials / Components / Packaging Materials Exempted From Sales Tax).*	RM 0.00
ii) Butiran 3 dan 4 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Bagi Pihak Pengilang Berdaftar Yang Dikecualikan Cukai Jualan).* Item 3 and 4 (Purchase / Importation of Raw Materials / Components / Packaging Materials on behalf of Registered Manufacturer Exempted From Sales Tax).*	RM 0.00
iii) Butiran 5 (Nilai Kerja Dilakukan Yang Dikecualikan Cukai Jualan).* Item 5 (Value of Work Performed Exempted from Sales Tax).*	RM 0.00
c) Nilai Perkhidmatan Bercukai Yang Dikecualikan.* Value of Exempted Taxable Services.*	
1) Perkhidmatan orang berdaftar kepada orang berdaftar (B2B).* Provision of registered person to registered person (B2B).*	RM 0.00
2) Pelepasan dalam kumpulan syarikat.* Group relief.*	RM 0.00
3) Lain-lain pengecualian.* Other exemption.*	RM 0.00
d) Jumlah Nilai Perkhidmatan Tidak Bercukai.* Total Value of Non-Taxable Services.*	RM 0.00
e) Jumlah Nilai Jualan Yang Dikecualikan di Bawah Subseksyen 35(3) dan / atau Seksyen 61A Akta Cukai Jualan 2018.* Total Value of Sales Exempted Under Subsection 35(3) and / or Section 61A Sales Tax Act 2018.*	RM 0.00

Updated – Field 18(c)

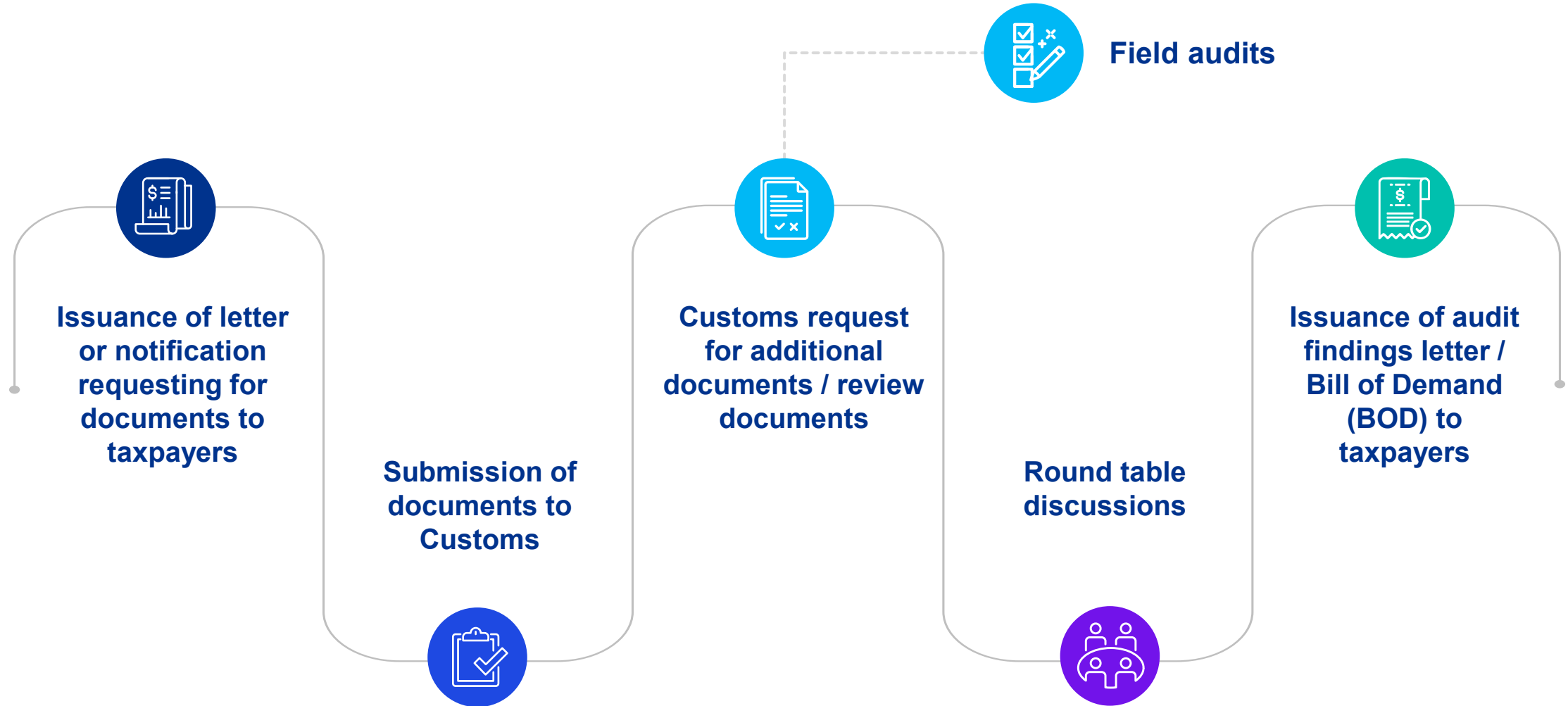
BAHAGIAN D : JUALAN / PERKHIDMATAN YANG DIKECUALIKAN CUKAI / PERKHIDMATAN TIDAK BERCUKAI PART D : SALES / SERVICES EXEMPTED FROM TAX / NON-TAXABLE SERVICE	
18) Jualan Barang-Barang Bercukai / Perkhidmatan Bercukai.* Sales of Taxable Goods/ Taxable Services.*	
a) Eksport / Kawasan Khas / Kawasan Ditetapkan.* Export / Special Area / Designated Area.*	RM 0.00
b) Jualan Tempatan Kepada Orang di bawah Perintah Cukai Jualan (Orang Yang Dikecualikan Daripada Pembayaran Cukai Jualan) 2018: Local sales exempted to person under the Sales Tax (Person Exempted From Payment of Sales Tax) Order 2018:	
1) Jadual A (Kumpulan Orang).* Schedule A (Class of Person).*	RM 0.00
2) Jadual B (Pengilang Spesifik Barang Tidak Bercukai).* Schedule B (Manufacturer of specific non taxable goods).*	RM 0.00
3) Jadual C (Pengilang Berdaftar).* Schedule C (Registered Manufacturer).*	
i) Butiran 1 dan 2 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Yang Dikecualikan Cukai Jualan).* Item 1 and 2 (Purchase / Importation of Raw Materials / Components / Packaging Materials Exempted From Sales Tax).*	RM 0.00
ii) Butiran 3 dan 4 (Pembelian / Pengimportan Bahan Mentah / Komponen / Bahan Pembungkusan Bagi Pihak Pengilang Berdaftar Yang Dikecualikan Cukai Jualan).* Item 3 and 4 (Purchase / Importation of Raw Materials / Components / Packaging Materials on behalf of Registered Manufacturer Exempted From Sales Tax).*	RM 0.00
iii) Butiran 5 (Nilai Kerja Dilakukan Yang Dikecualikan Cukai Jualan).* Item 5 (Value of Work Performed Exempted from Sales Tax).*	RM 0.00
c) Nilai Perkhidmatan Bercukai Yang Dikecualikan / Perkhidmatan Tidak Bercukai.* Value of Exempted Taxable Services / Non-Taxable Services.*	
1) Perkhidmatan orang berdaftar kepada orang berdaftar (B2B).* Services provided by a registered person to another registered person (B2B).*	RM 0.00
2) Pelepasan dalam kumpulan syarikat.* Group relief.*	RM 0.00
3) Lain-lain pengecualian.* Other exemption.*	RM 0.00
4) Lain-Lain Perkhidmatan Tidak Bercukai.* Other Non-Taxable Services.*	RM 0.00
d) Jumlah Nilai Jualan Yang Dikecualikan di Bawah Subseksyen 35(3) dan / atau Seksyen 61A Akta Cukai Jualan 2018.* Total Value of Sales Exempted Under Subsection 35(3) and / or Section 61A Sales Tax Act 2018.*	RM 0.00

Common Indirect Tax Risk areas

Common indirect tax audit areas conducted by Customs



Audit process



General pitfalls during audit process

1

Documentation Gaps

Incomplete or missing supporting documents

2

Delayed Submission of Information

Fail to provide information on time

3

Over-Submission of Information

Provide more information / documents beyond what is requested

4

Insufficient preparation for Field Audit

Not enough preparation or coordination within the company

5

Unclear Explanations to Customs Officer

Unable to provide clear justification



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