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MALAYSIA NEWS FLASH

THINKING GLOBALLY

Issue:

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Latest News on Law, Tax and Business in Malaysia

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Service Tax Updates

UPDATES ON DIGITAL SERVICE TAX AND SERVICE TAX ON IMPORTED SERVICES

Digital Service Tax came into effect in Malaysia on 1 January 2020. The imposition of the Digital Service Tax was to ensure fair treatment of local service providers and to level the playing field for both, domestic and foreign service providers providing taxable services to businesses and consumers in Malaysia.

At the same time, in order to avoid double taxation and the cascading effect of the imposition of the Digital Service Tax, the Malaysian Government has introduced several Service Tax Policies to deal with such matters.

SERVICE TAX POLICY NO. 1/2020 – EXPANSION OF SCOPE OF TAXABLE SERVICES

The scope of taxable professional services has been expanded to include:

- Distribution and reselling of information technology services on behalf of any person;
- Provision of electronic media that allow for the suppliers to provide supplies to customers;
- Provision of digital services including transaction for the provision of digital services on behalf of any person.

In addition, the scope of telecommunication and advertising services has been expanded to include the provision of digital services and digital advertising services respectively.

Any person providing any of the above-mentioned services is required to register for Service Tax by 29 February 2020 and to start charging service tax from 1 March 2020.

In determining the total value of taxable services and whether Service Tax registration is required, the historical method, i.e. value of services in the current month plus eleven preceding months shall be applied.

SERVICE TAX POLICY NO. 2/2020 – SERVICE TAX EXEMPTION ON IMPORTED TAXABLE SERVICE

Exemption of Service Tax is granted to persons providing taxable professional services (Group G; excluding employment services and security services) and taxable advertising services (Group I), subject to the following criteria:

- Must be a **registered person** under Service Tax Act 2018;
- Provides **same services** as imported taxable services;
- Imported services must be for **furtherance of business** and not for own use; and
- Has **paid amount payable** for imported services.

Imported digital services acquired from foreign registered persons are not entitled for the exemption under this mechanism.

SERVICE TAX POLICY NO. 3/2020 – REFUND BY OFFSETTING METHOD ON SERVICE TAX ON IMPORTED DIGITAL SERVICE

A local service provider who has paid Service Tax to a Foreign Service Provider (“FSP”) on imported digital services is allowed to claim a refund by offsetting Service Tax payable in the SST-02 form, subject to the following conditions:

- Taxable service provider must be a **registered person** under Service Tax Act 2018;
- Provides the **same digital service** as the imported digital service;
- Imported digital service must be for the **furtherance of business** and not for own use;
- Imported digital service must be **provided by an FSP**; and
- Service Tax **has been paid** to FSP.

In short, only a reseller of digital services is eligible to claim this refund by way of offsetting. No refund is allowed for Service Tax accounted for import of services.

SERVICE TAX POLICY NO. 4/2020 – ONLINE DISTANCE LEARNING SERVICES

Online distance learning services provided by local and foreign service providers for educational purposes at preschool, primary, secondary and tertiary level, are not subject to Service Tax. The said services should be recognized/accredited by the relevant authority.

SERVICE TAX POLICY NO. 5/2020 – ONLINE NEWSPAPER, JOURNALS AND PERIODICALS

E-newspapers published at regular intervals; and online journals and periodicals issued weekly, fort-

nightly, monthly, quarterly or half-yearly, are not subject to Service Tax.

Credit note has to be issued for the above-mentioned services provided by local service providers on or after 1 January 2020 where Service Tax has been charged. No refund is allowed for Service Tax paid.

SERVICE TAX POLICY NO. 6/2020 – TRAINING AND COACHING SERVICES FOR DISABLED PERSON

Training or coaching services provided to a person who holds a valid Kad OKU issued under the Persons with Disabilities Act 2008 are not subject to Service Tax.

GROUP RELIEF ON INTERCOMPANY SERVICES

Prior to the change of law, the taxable services under Group G (excluding employment agency and private agency) that are provided within a group of companies, shall not be subject to service tax. However, if a company also provides the same services to a third party outside the group, then services provided to both, intragroup and third party will be subject to service tax.

Effective 1 January 2020, under an amendment to the Service Tax Regulations, any person who provides same services to both, intragroup and third party shall not be subject to service tax, provided that the total value of taxable services supplied to third party in that month and eleven months immediately succeeding that month does not exceed 5 percent of the total value of taxable services to both intragroup and third party.

We hope that this comprehensive review has provided you with a more thorough insight on what is to come, and its implications on you and your business in Malaysia.

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