

# Tax Whiz

Tax highlights from your advisers

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## Contents

Introduction of Approved Major Exporter Scheme (“AMES”)	2
Widening the Applicability of Group Relief for Service Tax	3
Service Tax Exemption on Training and Coaching Services for Disabled Persons	3
Excise Duty Exemption on Purchase of Tourism Vehicles	4
Customs Duties Deferred Payment Facility	4
Review of Export Duty Rate on Crude Palm Oil (“CPO”)	5
Exemption of Entertainments Duty for Stage Performance	6

# Introduction of Approved Major Exporter Scheme ("AMES")

In order to maintain the competitiveness of export-oriented companies in Malaysia, it is proposed that an AMES be introduced under the Sales Tax Act 2018.

Currently, there are facilities for

1. **any person** who imports or purchases taxable goods, and subsequently exports the taxable goods purchased to overseas, under the drawback facility; and
2. **manufacturer of exempted goods for export** who imports or purchases taxable raw materials, components and packaging materials (excluding petroleum) from a registered manufacturer for use in the manufacture of exempted goods for export, under Item 4, Schedule B, Sales Tax (Persons Exempted from Payment of Tax) Order 2018.

To enjoy the above facilities, the trader and manufacturer of exempted goods for export must comply with conditions imposed by the Royal Malaysian Customs Department ("RMCD"), which can be challenging, at times.

Under the proposed AMES, trader and manufacturer of exempted goods who export not less than 80% of their annual sales, are eligible to apply for the AMES. The benefits of the AMES are that the approved trader and manufacturer of exempted goods:

- a) are eligible for full sales tax exemption on the importation and purchase of goods or raw materials, components and packaging materials.
- b) are not required to determine the quantity of goods to be exported at the time of importation or purchase of goods.
- c) are required to pay Sales Tax only for the portion of trading goods or manufactured exempted goods that are not exported or sold in the local market, based on a prescribed formula, that is yet to be released.
- d) are required to pay Sales Tax only for the waste or refuse of raw materials, components and packaging materials used for the manufacturing of exempted goods that are disposed or sold in the local market.

Detailed conditions for the AMES have yet to be disclosed.

Based on the proposal, it appears that the approved trader and manufacturer of exempted goods are expected to self-monitor the sale or disposal of taxable goods purchased and account the Sales Tax accordingly. To ensure compliance with the proposed conditions, the approved trader and manufacturer of exempted goods should ensure there are mechanism in place to monitor and track the movement of goods, volume of waste or refuse of raw materials, components and packaging materials used for the manufacturing, etc.

The above is proposed to be effective 1 July 2020.

# Widening the Applicability of Group Relief for Service Tax

The Government has proposed to introduce a *de minimis* threshold in ascertaining whether the group relief provision for Service Tax (for taxable services under Group G of the Service Tax Regulations 2018, except for employment and security services) can still be applicable to service providers, despite the same taxable service being provided to a third party outside of the group.

The threshold is proposed to be not exceeding 5% of the total value of the services provided by the service provider within a 12 months period. Service providers who have minimal value of contracts with third party (i.e. not exceeding 5% of its total value of services) can now enjoy the group relief Service Tax exemption, without jeopardizing the services provided within its group of companies.

However, it remains to be seen how the 5% threshold of total value of services is computed as the exact mechanism is not available yet.

It is not stated whether such threshold would be extended to cover situations concerning imported taxable services, given that the existing conditions for group relief are the same for both situations (i.e. domestic and imported taxable service).

The above is proposed to be effective 1 January 2020.

# Service Tax Exemption on Training and Coaching Services for Disabled Persons

The 2020 Budget includes numerous initiatives to further support people with disabilities. It is proposed that Service Tax exemption be given on training and coaching services to disabled persons with hearing, visual, physical, speech, mental and learning disabilities. To qualify for this exemption, the services must be provided by training and coaching centres:

- registered with Ministry of Health Malaysia or Department of Social Welfare; or
- endorsed by any national association for disabled persons registered with Registrar of Societies Malaysia.

This will result in a saving of 6% since any Service Tax incurred currently is a cost.

We expect more details on the conditions to be met in order to enjoy this exemption, once it is legislated.

The above is proposed to be effective 1 January 2020.

# Excise Duty Exemption on Purchase of Tourism Vehicles

Amongst several other incentives aiming to boost Visit Malaysia Year 2020 (“VMY2020”), it has been proposed that licensed tour operators be given Excise Duty exemption of 50% on the purchase of new, locally assembled vehicles used as “tourism vehicles”. The current rates of Excise Duty range from 75% to 105% depending on engine capacity in general.

Compared to the existing incentive formulated in September 2006 that is restricted to locally assembled four wheels drive (4WD) vehicles only, the proposed incentive appears to cover a wider range of locally assembled new vehicles as long as they are used as “tourism vehicles”.

However, before placing any purchase order with motor vehicle dealers, licensed tour operators should contact the Ministry of Finance (“MoF”) for further details and ensure that the necessary applications are submitted to MoF within the period announced, that is, from 1 January 2020 to 31 December 2021.

## Customs Duties Deferred Payment Facility

To improve Malaysia’s competitiveness amongst the trading nations, it was proposed that the RMCD introduce a “deferred payment facility” aiming to expedite clearance process to better facilitate cross borders’ transactions with benefits of significantly reduced time and cost.

However, no further details and specific timeline have been mentioned. It is also not certain whether this initiative will include all forms of customs tariffs payments such as Import and Export Duties, Excise Duty, and Sales Tax. At present, a small number of Malaysian companies operating under the Authorized Economic Operator (“AEO”) program do benefit from duties payment deferral to a small degree, through simplified clearance and consolidated duties payment procedures.

It is worth noting that in many other nations, various forms of duty payment deferral programs had long been established under the “clear-first, pay later” principle that also eliminates the need for a cashier at every Customs office, in line with the Revised Kyoto Convention (“RKC”) and the International Chamber of Commerce (“ICC”) Guidelines that characterise modern Customs Administrations.

Pending further details to be made available, if implemented effectively, this would be a step towards the right direction for Malaysia.

# Review of Export Duty Rate on Crude Palm Oil ("CPO")

In line with the Government's effort to boost the local palm oil industry, the current Export Duty rate structure is proposed to be reviewed.

After taking into consideration of partial Export Duty exemption, there will be a proposed reduction of 0.5% and 1.5% in the export duty rate on CPO.

Based on FOB market price, the Export Duty rate will be reduced by 0.5% for CPO prices exceeding RM2,400 per tonne and 1.5% for CPO prices from RM2,250 to RM2,400 per tonne as follows:-

CPO Market Price (FOB RM/tonne)	Current Export Duty Rate (%)	Proposed Export Duty Rate (%)	Change (%)
<2,250	NIL	NIL	0
2,250 – 2,400	4.5	3.0	-1.5
2,401 – 2,550	5.0	4.5	-0.5
2,551 – 2,700	5.5	5.0	-0.5
2,701 – 2,850	6.0	5.5	-0.5
2,851 – 3,000	6.5	6.0	-0.5
3,001 – 3,150	7.0	6.5	-0.5
3,151 – 3,300	7.5	7.0	-0.5
3,301 – 3,450	8.0	7.5	-0.5
>3,450	8.5	8.0	-0.5

The above is proposed to be effective 1 January 2020.

# Exemption of Entertainments Duty for Stage Performance

Subject to approval by the relevant local authorities, it is proposed that full Entertainments Duty exemption be given on admission tickets for stage performances (by local and international artistes) held at any venue in:

- a) The Federal Territory of Kuala Lumpur
- b) Labuan
- c) Putrajaya

Stage performances include concerts, singing, music, dances and theatres including cultural and artistic performance.

The above is proposed to be effective from 1 January 2020 to 31 December 2020.

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