CHAPTER 1

ACCOUNTING FOR GST

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1.1 GST from an Accounting Perspective

GST is an indirect, broad based consumption tax. It is levied on the supply of goods, services or activities and it is based on consumption whereby the tax is ultimately borne by consumers or end users. GST is never a business cost as it is not borne by the business operators. See Appendix 1 of this book for an overview of Malaysia's GST regime.

It should be borne in mind that a GST-registered person is acting as a collecting agent for the Government. Therefore, the GST collected or paid should not be reflected as income or expenditure in the company's account. Nevertheless, the GST-registered person is required to maintain a GST account. A GST account may be regarded as an account in which output tax is collected on behalf of the Government, while any input tax incurred by the company can be claimed back from the Government. It is vital that appropriate GST accounts be debited or credited for each GST transaction.

1.2 Impact of GST on Accounting Operations

To a large extent, the introduction of GST does impact the accounting and finance department. Changes will need to be made in the operations as well as the way the accounting and finance department closes its accounts:

- **Firstly, the closing of accounts**
  In the current regime, companies close their accounts on a yearly basis. After the accounts have been closed, there will still be some time for auditing and to make adjustments. However, under the GST regime, companies are required to close their accounts either on a quarterly or monthly basis.

  Once a company has submitted its GST return (Form GST-03), the accounts will close. All RMC-accredited accounting software will block any further entry of data into the accounts after the submission date a particular taxable period. Therefore, the company should get its accounting right the first time, especially when comes to the generation and submission of Form GST-03.

- **Secondly, GST-compliant accounting software**
  Under the current practice, if a company is selected for tax audit, the Inland Revenue Board (IRB) will issue a letter requesting for proof of specific information and transactions. All such documented proof shall be submitted to the IRB in scanned or hard copies. Under GST, however, the Royal Malaysian Customs (RMC) will request for the GST Audit File (GAF). The RMC will first analyse the GAF file and subsequently request for any documents, if necessary. In this respect, companies are

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recommended to use accounting software that is accredited by the RMC as "GST-compliant". This is because such GST-compliant accounting software will ensure the generation of GAFs and feature certain important GST treatments (i.e. bad debts relief) that are vital for proper GST accounting (and auditing). Inevitably, there will be companies, especially multinational companies (MNCs), which will use their regional accounting software, resulting in issues with the generation of GAFs and variations in the GST treatments available in such software. Companies are recommended to customise their GST accounting software to produce such information during GST audits.

Companies should take note of the following:

(a) If a company uses accredited accounting software that can generate GAFs but does not submit its accounts in GAF format, the company commits an offence under the GST Act.

(b) If a company (e.g. MNCs or companies using MSC software) uses an accounting software that is unable to generate GAFs, it is not an offence so long as the accounting software is able to provide all the accounting documents by the specified due date (similar to tax audit).

(c) It is not an offence if a company does not use any of the RMC-accredited accounting software so long as it is able to provide all the information required.

- **Thirdly, double entries in accounting**
  It has been said that in GST accounting, double entries have evolved into "triple" entries. See Chapter 3 "Accounting Entries – Income and Deemed Supplies". This is due to the introduction of output tax and input tax. In addition, the accountant needs to include tax codes into the transaction. See Chapter 2 for the detailed tax codes.

  Pursuant to s 36 of the *Goods and Services Tax Act 2014* (GST Act), every taxable person shall keep full and true records written up to date of all transactions which affect his liability to tax, including the following records:

  (a) All records of goods and services supplied by or to that taxable person including tax invoices, invoices, receipts, debit note, credit note and export declaration forms

  (b) All records of importation of goods

  (c) All other records as the Director General may determine.

Under the current practice, most importation and exportation documents (i.e. Form K1 and Form K2) are kept by the forwarding agent. However, under GST, the accounting and finance department is required to keep all the aforesaid documents in their records.

- **Fourthly, issuance of tax invoice**
  The accounting and finance department and also sales department must make some major changes to the invoices they issue. The invoices issued are no longer titled "invoice" but are now titled "tax invoice", in which specific particulars must be included. See Chapter 9 "Documentation and Record Keeping".

  Companies dealing with mixed supplies (i.e. standard-rated and zero-rated supplies) must list out the different types of supply in its tax invoice. However, tax invoice is not required to be issued when only making exempt supplies or zero-rated supplies or supply without consideration.
- **Lastly, the timing of invoice**
  Under the GST regime, companies have to monitor the time of supply. Companies are required to comply with the 21 days' rule and other special rules. See Chapter 3 "Accounting Entries – Income and Deemed Supplies".

1.3 Impact of GST on Price, Cost and Revenue

Is GST a cost to the business? The general perception by businesses is that the introduction of GST will increase the price of the goods and services in the market by 6%. How true this is depends on the following:

- If the company is GST-registered, GST is not a cost to the company. The reason is because whatever input tax incurred by the company can be claimed back by offsetting the output tax.
- If the company is not GST-registered, GST is a cost to the company because the company cannot claim back the input tax that it has incurred. Such absorption of GST will be reflected in an increase in the price of products or services. Nevertheless, the company must still monitor its selling prices in order to remain competitive in the market.

With the coming into force of the GST, the *Sales Tax Act 1972* and the *Service Tax Act 1975* are repealed. The implication is that goods that have sales tax of 10%, 20% and 40% (or any percentage higher than GST's 6%) should see some cost saving in their goods. On the other hand, goods with 5% sales tax will now carry a 6% GST. However, as discussed earlier, although there is an increase of 1% tax, the GST is not a cost to the company since the company can claim back the input tax credit.

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The real impact of the GST is cash flow, which varies according to industries. For example:

(a) *A manufacturer with 90% credit sales*
Assuming that most of this company's customers are given a 90-day credit term, the cash flow impact will be huge because when the company bills the customer (via tax invoice), the company has to pay the output tax before it can collect any money.

(b) *A retailer (e.g supermarket) that has 100% cash or credit card sales*
Companies in such an industry will have a huge cash flow advantage. This is because such companies would have claimed all the input tax credit by the time their suppliers bill them and they would have collected all the money upfront prior to submission of GST.

1.4 Overview of Accounting Entries

With GST being a transaction-based tax system, how different are the accounting entries in the GST regime? Let us look at a basic transaction – sales and purchase. Sales and purchase are double entries in the current regime but under GST, these transactions have evolved into triple entries. Examples of the entries are as follows:

1.4.1 Revenue

Revenue for sale of standard-rated items (SR)
Dr Accounts Receivable
Cr Output tax
Cr Revenue

Revenue for sale of zero-rated items [ZRE (export) and ZRL (local)]
Dr Accounts Receivable
Cr Revenue

Revenue for sale of exempt items (ES)
Dr Accounts Receivable
Cr Revenue

1.4.2 Expenses

Expenses (with GST)
Dr Expense
Dr Input tax credit
Cr Bank/Creditor

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Expenses (without GST) (NR GP OP ZP EP)
Dr Expense
Cr Bank/Creditor

1.4.3 Assets

Assets (with GST)
Dr Non-current assets
Dr Input tax credit
Cr Bank/Creditors

Assets (without GST)
Dr Non-current assets
Cr Bank/Creditors

Assets – disposal
Dr Bank / Receivable
Cr Output tax
Cr Disposal account (sales module recommended)

1.4.4 Closing Entries

Below are the outcomes at the submission of the GST-03 return:

(a) Total Output Tax (5b) – Total Input Tax (6b) = GST Payable
If the output tax is greater than the input tax, it would result in a GST payable status. The amount will be reflected in column 7 of the GST-03 return.

(b) Total Input Tax (6b) – Total Output Tax (5a) = GST Refundable
If the input tax is greater than the output tax, it would result in a GST refundable status. The amount will be reflected in column 8 of the GST-03 return.

1.4.5 Accounting Entries Not Affected by GST

Nevertheless, there are business transactions that are not directly affected by GST, e.g.:

- remuneration/salary
- EPF, SOCSO and PCB payments
- depreciation
- staff allowances
- impairment of assets
- accrual of expenses.

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1.5 Example

Example 1

The following transactions relate to XYZ Sdn Bhd, a GST-registered company, at its first taxable period (1 April to 30 April 2015). All prices are inclusive of GST.

- 10 April: Sale of goods – RM106,000
- 12 April: Purchase of raw material – RM42,400
- 15 April: Acquisition of production equipment – RM212,000
- 25 April: Disposal of office equipment for RM1,060 (originally acquired for RM4,000 and to-date accumulated depreciation RM2,500)
- 30 April: Management fee (income) – RM21,200

What are the GST implications?

Answer 1:

10 April 2015

				Tax Code
Dr	Trade Receivable	106,000		
Cr	Sales		100,000	SR
Cr	Output Tax		6,000	SR

12 April 2015

Dr	Purchase	40,000		TX
Dr	Input Tax Credit	2,400		TX
Cr	Trade Payable		42,400	

15 April 2015

Dr	Property, Plant and Equipment	200,000		TX
Dr	Input Tax Credit	12,000		TX
Cr	Other Payable		212,000	

25 April 2015

Dr	Other Receivable	1,060*		
Cr	Disposal of PPE		1,000*	SR
Cr	Output Tax		60*	SR

* The company shall issue tax invoice upon trading in this old asset.

Dr	Accumulated Depreciation	2,500		
Dr	Disposal of PPE	1,500		
Cr	Property, Plant and Equipment		4,000	
Dr	Loss on Disposal	500		
Cr	Disposal of PPE		500	

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30 April 2015

Dr	Other Receivable	21,200		
Cr	Management Fee Income		20,000	SR
Cr	Output Tax	1,200		SR

GST-03 Return

5a – Total SR Supply	–	RM 121,000
5b – Total Output Tax	–	RM 7,260
6a – Total SR and Flat Rate Purchase	–	RM 240,000
6b – Total Input Tax Credit	–	RM 14,400
8 – Total GST Refundable (5b – 6b) (7,260 – 14,400)	–	RM 7,140
16 – Total Capital Acquired	–	RM200,000

At the end of the taxable period, XYZ Sdn Bhd can claim back RM7,140 from the RMC. The amount will be refunded to the Company within 14 days (submission via online) or 28 days (manual submission).

There are two approaches in posting the above accounting entries:

Approach 1

30 April 2015

Dr	Output Tax	7,260	
Dr	GST Refundable	7,140	
Cr	Input Tax Credit		14,400

14 May 2015 (when RMC refunds the amount to the company)

Dr	Bank		7,140
Cr	GST Refundable		7,140

Approach 2

The company is required to create a header and sub-header accounts as follows –

Header Account: GST Payable

→ Sub Account: Output Tax	RM 7,260
→ Sub Account: Input Tax Credit	(RM14,400)

14 May 2015 (when RMC refunds the amount to the company)

Dr	Bank		7,140
Dr	Output Tax	7,260	
Cr	Input Tax Credit		14,400

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Example 2

The following transactions relate to XYZ Sdn Bhd, a GST-registered company, for its first taxable period (1 April to 30 April 2015). All prices are inclusive of GST.

- 10 April: Sale of goods – RM106,000
- 12 April: Purchase of raw material – RM42,400
- 25 April: Disposal of office equipment for RM1,060 (originally acquired for RM4,000 and to-date accumulated depreciation RM2,500)
- 30 April: Management fee (income) – RM21,200

What are the GST implications?

Answer 2:

10 April 2015

				Tax Code
Dr	Trade Receivable	106,000		
Cr	Sales		100,000	SR
Cr	Output Tax		6,000	SR

12 April 2015

Dr	Purchase	40,000		TX
Dr	Input Tax Credit	2,400		TX
Cr	Trade Payable		42,400	

25 April 2015

Dr	Other Receivable	1,060*		
Cr	Disposal of PPE		1,000*	SR
Cr	Output Tax		60*	SR

* The company shall issue tax invoice upon trading in this old asset.

Dr	Accumulated Depreciation	2,500	
Dr	Disposal of PPE	1,500	
Cr	Property, Plant and Equipment		4,000
Dr	Loss on Disposal	500	
Cr	Disposal of PPE		500

30 April 2015

Dr	Other Receivable	21,200		
Cr	Management Fee Income		20,000	SR
Cr	Output Tax		1,200	SR

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CHAPTER 2

UNDERSTANDING THE GST RETURN AND RECOMMENDED TAX CODES

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rstanding the GST Return

JABATAN KASTAM DIRAJA MALAYSIA
ROYAL MALAYSIAN CUSTOMS DEPARTMENT

GST - 03

PENYATA CUKAI BARANG DAN PERKHIDMATAN
GOODS AND SERVICES TAX RETURN

Important Notes)

orang ini dengan menaip menggunakan **HURUF BESAR**.
*i using **BLOCK LETTERS**.*
u Panduan Mengisi Borang Cukai Barang dan Perkhidmatan (CBP).
o Goods and Services Tax (GST) Forms Guide.
g bertanda (*) adalah wajib diisi.
**) is a mandatory field.*
(X) dalam petak yang berkenaan.
X) accordingly.
ngikrar nilai sifar, sila isi angka "0".
zero amount, please fill in "0".
Pusat Panggilan Kastam di talian 1-300-88-8500 / 03-78067200 atau emel ccc@customs.gov.my untuk
njut.
t Customs Call Center at 1-300-88-8500 / 03-78067200 or email ccc@customs.gov.my for further enquiry.

BAHAGIAN A : BUTIRAN ORANG BERDAFTAR
PART A : DETAILS OF REGISTERED PERSON

BAHAGIAN B : BUTIRAN PENYATA
PART B : DETAILS OF RETURN

Tarikh Mula *Start Date* — HH (DD) - BB (MM) - TTTT (YYYY)

Tarikh Akhir *End Date* — HH (DD) - BB (MM) - TTTT (YYYY)

n Penyata dan Bayaran *
t Due Date * — HH (DD) - BB (MM) - TTTT (YYYY)

Amaun *(Amount)*

mbekalan Berkadar Standard *
Standard Rated Supply * — RM

No. CBP *
GST No. *

6) Cukai Input / Input Tax — Amaun *(Amount)*

a) Jumlah Nilai Perolehan Berkadar Standard dan Berkadar Rata *
Total Value of Standard Rate and Flat Rate Acquisitions * — RM

b) Jumlah Cukai Input (Termasuk Nilai Cukai ke atas Pelepasan Hutang Lapuk dan Pelarasan lain) *
Total Input Tax (Inclusive of Tax Value on Bad Debt Relief & other Adjustments) * — RM

7) Amaun CBP Kena Dibayar (Butiran 5b - Butiran 6b) *
GST Amount Payable (Item 5b - Item 6b) * — RM

ATAU / *OR*

8) Amaun CBP Boleh Dituntut (Butiran 6b - Butiran 5b) *
GST Amount Claimable (Item 6b - Item 5b) * — RM

9) Adakah anda memilih untuk membawa ke hadapan pembayaran balik CBP?
Do you choose to carry forward refund for GST? — Ya *Yes* / Tidak *No*

BAHAGIAN C : MAKLUMAT TAMBAHAN
PART C : ADDITIONAL INFORMATION

Amaun *(Amount)*

10) Jumlah Nilai Pembekalan Tempatan Berkadar Sifar *
Total Value of Local Zero-Rated Supplies * — RM

11) Jumlah Nilai Pembekalan Eksport *
Total Value of Export Supplies * — RM

12) Jumlah Nilai Pembekalan Dikecualikan *
Total Value of Exempt Supplies * — RM

13) Jumlah Nilai Pembekalan Diberi Pelepasan CBP *
Total Value of Supplies Granted GST Relief * — RM

14) Jumlah Nilai Pengimportan Barang Dibawah Skim Pedagang Diluluskan *
Total Value of Goods Imported Under Approved Trader Scheme * — RM

15) Jumlah Nilai CBP Import Digantung dibawah butiran 14 *
Total Value of GST Suspended under item 14 * — RM

16) Jumlah Nilai Perolehan Harta Modal *
Total Value of Capital Goods Acquired * — RM

17) Jumlah Nilai Pelepasan Hutang Lapuk Termasuk Cukai *
Total Value of Bad Debt Relief Inclusive Tax * — RM

18) Jumlah Nilai Hutang Lapuk Dibayar Balik Termasuk Cukai *
Total Value of Bad Debt Recovered Inclusive Tax * — RM

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No. CBP *
GST No.*

:ai Output mengikut Kod Industri Utama
of Output Tax in accordance with the Major Industries Code

(MSIC Code)	Nilai Cukai Output (Value of Output Tax)	Peratusan (Percentage)
	RM	%
	RM	%
	RM	%
	RM	%
	RM	%
-lain rs	RM	%
LAH AL	RM	100%

BAHAGIAN D : AKUAN
PART D : DECLARATION

aku bahawa maklumat dinyatakan dalam borang ini adalah benar, betul dan lengkap.
e information stated in this form are true, correct and complete.

ri Kuasa *
d Person *

lan

Baru (New) *

Lama (Old)

Wajib untuk warga negara asing (Mandatory for foreign citizen)

HH (DD) - BB (MM) - TTTT (YYYY)

UNTUK KEGUNAAN PEJABAT (*FOR OFFICE USE ONLY*)

a *
*

HH (DD) - BB (MM) - TTTT (YYYY)

Tarikh Cop Pos *
Postmark Date *

HH (DD) - BB (MM) - TTTT (YYYY)

Cell	Explanatory Notes	Related Tax Code
Amendment Box	Indicate "X" in the box if submitting a return amendment.	
1 GST No.	GST number – as stated in the approval letter of application for GST registration.	
2 Name of Business	Registered name of the company or business.	
3 Taxable Period	Taxable period related to the return. For example, • Monthly taxable period – Start date: 01/06/2015 End date: 30/06/2015 • Quarterly taxable period – Start date: 01/06/2015 End date: 31/08/2015.	
4 Return and Payment Due Date	This is the last date for the submission of the return and payment is the last day of the following the month according to item 3 above, i.e. following from the above example: • Monthly taxable period: 31/07/2015 • Quarterly taxable period: 30/09/2015.	
5 Output Tax (a) Total Value of Standard Rated Supply	(a) State the actual total value of standard-rated supply (excluding the GST amount). Only supplies where 6% GST is charged or is accounted for by the business (including deemed supply) is to be stated here. There is no need to declare taxable supplies in which GST is not charged, e.g. suspended tax payments, supplies given relief from charging GST, etc.	SR, DS
(b) Total Output Tax (Inclusive of Tax Value on Bad Debt Recovered & other Adjustments	(b) The actual total output tax for supply made including deemed supply, bad debt recovered and other adjustments. Examples of adjustments include: • Adjustment in relation to change of accounting basis. • Adjustment in relation to change in use (of goods or services)	SR, DS, AJS

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	Explanatory Notes	Related Tax Code
e of Granted f	State the actual total value of supplies granted GST relief, as per the GST (Relief) Order 2014 and any related amendments; and the Minister's Reliefs, which can found in the RMC website. E.g: Company ABC supplies approved medical equipment to Hospital XYZ. Hospital XZY *must* show Company ABC the Relief Order certificate. Company ABC will then not charge Hospital XYZ the GST on the supply of the medical equipment. Company ABC declares the value of the medical equipment in item 13 of its GST-03 return.	RS
e of ported proved heme	State the actual total value of goods imported under the Approved Trader Scheme. This refers to goods imported under the Approved Trader Scheme and Approved Toll Manufacturer Scheme, where GST is suspended when goods are imported into Malaysia.	IS
e of GST d under	State the actual total value of GST on imports suspended under item 14. The values declared in this cell should correspond to the tax base amount declared in Cell 14.	IS
e of oods	State the actual total value of capital goods acquired for the taxable period. Examples include the purchase of lorry and office building. However, the value should not include the acquisition of capital assets under the category of blocked input tax (e.g. purchase of passenger motor car). The acquisition value of capital assets should be line with the interpretation of accounting principles.	TX, TX-RE
e of Relief Tax	State the actual value of bad debt relief (excluding the GST amount).	AJP
e of Bad vered	State the actual value of bad debt recovered (excluding the GST amount).	AJS

Cell	Explanatory Notes	Related Tax Code
19 Breakdown Value of Output Tax in accordance with the Major Industries Code	For the Major Industries Code, refer to Malaysia Standard Industrial Classification (MSIC) at http://www.statistics.gov.my. State the value of Output Tax for each Major Industry. The total percentage must equal 100%. For online submission of the GST-03 return, this is a mandatory field to be completed.	
20 Name of Authorised Person	This is the name of the authorised person as per the GST registration, as stated in the national registration identity card (NRIC).	
21 Identity Card No.	State the new and old (if applicable) NRIC number (for Malaysian citizen).	
22 Passport No.	If the authorised person is not a Malaysian citizen, it is mandatory that he/she fills in the passport number.	
23 Nationality	State the nationality of the authorised person, e.g. Malaysian.	
24 Date	State the date (Day/Month/Year) on which the said return is signed.	
25 Signature	Valid signature	

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Generally, a company's output tax is higher than the input tax (5b – 6b). In most cases, the reason for input tax being higher than output tax may be attributed to low sales or the acquisition of an asset (Cell 16).

Companies that make wholly zero-rated supplies or that have a high percentage of zero-rated supplies, i.e. export supplies and local zero-rated supplies (Cells 10 and 11), will have claimable status for most of the taxable period. This is because there is no output tax charge when a sale is concluded, while the input tax credit for all its expenses are claimable.

2.2 Recommended Tax Codes

The correct tax code must be used when invoices are raised and when each transaction is recorded. The tax codes listed in 2.2.1 and 2.2.2 are recommended

2.2.1 GST Codes for Purchases

	Tax Codes	GST	Explanation
1	TX	6%	**Purchase with GST incurred at 6% and directly attributable to taxable supplies.** This refers to goods or services purchased from GST-registered suppliers where 6% GST is incurred.
2	IM	6%	**Import of goods with GST incurred.** All goods imported into Malaysia are subjected to duties or/and GST. GST is calculated based on the value which includes cost, insurance, freight and customs duty payable (if any). This applies both to trading goods and capital assets. Customs declaration form K1 is required to support the importation and claiming of input tax credit.
3	IS	0%	**Imports under special scheme with no GST incurred.** This refers to goods imported under the Approved Trader Scheme (ATS) where GST is suspended when the trader imports the non-dutiable goods into Malaysia.
4	BL	6%	**Purchase with GST incurred but not claimable.** This refers to GST incurred by the business but the GST-registered trader is disallowed to claim input tax incurred (blocked input tax, e.g. entertainment of potential clients). Please refer to Chapter 4 for detailed information.
5	NR	0%	**Purchase from non GST-registered supplier with no GST incurred.** This refers to goods and services purchased from a non GST-registered supplier who is not allowed to charge and collect GST.
6	ZP	0%	**Purchase from GST-registered supplier with no GST incurred.** This refers to goods or services from a GST-registered supplier where GST is charged at 0%. E.g.: food stuff like eggs, fruits, vegetables and transportation of goods that qualify as international services. See the GST (Zero-rated Supply) Order 2014 for more details.
7	EP	0%	**Purchase exempted from GST.** This refers to purchases in relation to residential properties or certain financial services where the supply does not fall within the ambit of GST and no GST is charged. E.g.: purchase of residential property or financial services. See GST (Exempt Supply) Order 2014 for more details.

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	Tax Codes	GST	Explanation
8	OP	0%	**Purchase of transactions that are out of the scope of GST.** This refers to purchase of goods from overseas and the goods did not come into Malaysia; purchase of business transferred as going concern; and purchase of goods from overseas where overseas GST/VAT is imposed but not claimable in Malaysia. See 3.1.1.3.
9	GP	0%	**Purchase transactions which are disregarded under GST legislation.** This refers to purchases within GST group registration and purchases made under the Warehousing Scheme. See tax code: GS for more examples.
10	AJP	6%	**Any adjustment made to input tax.** This refers to adjustments of input tax such as bad debt relief and other input tax adjustments.
11	TX-E43	6%	**Purchase with GST incurred directly attributable to incidental exempt supplies.** This refers to transactions involving payment of input tax that is directly attributable to the making of incidental exempt supplies such as interest income from deposits placed with a financial institution in Malaysia; realised foreign exchange gains or losses; first issue of bonds; brokerage fees; first issue of shares through an initial public offering; interest received from loans provided to employees; factoring receivables; and money received from unit holders for units received by a unit trust, etc.
12	TX-N43	6%	**Purchase with GST incurred directly attributable to non-incidental exempt supplies.** This is only applicable to mix suppliers (i.e. standard and exempt supplier). Examples of mix suppliers are residential and commercial property developer and public transportation company (e.g. Rapid KL). E.g.: Rapid KL's main source of income is the supply of bus tickets (exempt supply). It also has other income such as advertising income, which is standard-rated (6%).The paper purchased for bus tickets (exempt supply) uses the tax code TX-N43 while the paint used for advertising (standard-rated) is TX. The bus which is used for both exempt- and standard-rated supplies uses the tax code TX-RE, which is explained below.

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3.11.1.2 Related party transactions

At present, a group of companies will share the same office premise or utilise the same warehouse. The said office premise or warehouse may be parked under one company and the rest of the group of companies will enjoy the facilities at no cost. For example:

Companies A, B and C make up a group of companies (A, B and C). The warehouse is owned by Company A, and Companies B and C keep all their goods in the warehouse owned by A.

It is unclear whether under the GST regime, this facility/service will be deemed as a supply. If the answer is "yes", Company A shall account for output tax but input tax credit will not be claimable by Companies B and C. A more proactive approach is to charge rental and issue a tax invoice.

However, there is an exception to this if the group of companies are registered under group registration. In this case, the facility/service should not be deemed as a supply.

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CHAPTER 4

ACCOUNTING ENTRIES – EXPENSES AND ASSETS

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4.1 General Rules

A person who is registered under the Malaysian GST is required to charge GST on the output of his taxable supplies of goods and services to his customers. At the same time, he is allowed to claim as credit on any GST incurred on his purchases that are inputs to his business.

His customers in turn, if they are also in the business of making taxable supplies of goods and services, are allowed to claim a credit on GST paid on their input. Therefore, double taxation is avoided and only the value added at each stage is taxed.

Generally, a taxable person (claimant) is eligible to claim input tax that is attributable to the making of the following supplies:

(a) taxable supplies;

(b) inputs used for making taxable supplies outside Malaysia which would be taxable supplies if made in Malaysia;

(c) any other supplies as may be prescribed by the Director General.

The claimant is eligible to claim the input tax credit on the date of tax invoice (and not before). For example, if the tax invoice is dated 1 May 2015, the claimant may claim the input tax within six years from 1 May 2015 but he cannot claim the input tax prior to 1 May 2015, i.e. in his April GST return.

4.1.1 Criteria to Claim GST Input Tax Credits

In order for a company to claim GST input tax credit, the company must have incurred GST on the acquisition (local supply) or importation of the goods or services. The company must take note that the purchase is not an out-of-scope acquisition or acquisition from a non-registered person (where no GST is charged).

Secondly, the company must be a taxable person. "Taxable person" means a GST-registered person in which the taxable supply exceeds RM500,000.

Thirdly, the acquisition of goods and services must be attributable to taxable supplies that are standard-rated supplies or zero-rated supplies.

Fourthly, the goods or services must not be subject to input tax restriction such as passenger motor vehicle, family benefits and club subscriptions. For details, see 4.4.

Lastly, the claimant must hold a valid tax invoice in respect of a supply, valid Customs importation documents, Customs No. 1 form (K1) in respect of importation of goods and other relevant documentary evidence.

4.1.1.1 Documentary evidence

Unlike income tax, GST has more stringent requirements regarding the completeness of documentary evidence for each transaction. The documents needed in order for the company to claim input tax credit are as follows:

A. Domestic acquisition:

- A valid tax invoice that is under the claimant's name
- Simplified tax invoice – note that the maximum input tax credit is RM30 per invoice
- Other documents as the Director General may direct, e.g. claiming input tax for blocked items (subject to application and approval from the RMC).

B. Foreign acquisition:

- Importation of goods – Form K1
- Imported services – proof of payment. Pursuant to s 13 of the GST Act, the time of supply of imported services shall, to the extent covered by any payment by the recipient, be treated to have been made when the supplies are paid for.

So long as the claimant has all the documentary evidence in place, even if no payment has been made, the claim for input tax can be made in the return for the taxable period in which the acquisition or importation takes place by offsetting the input tax against the output tax.

A refund will be made to the claimant if the amount of input tax is more than the amount of output tax.

4.1.1.2 Exception to documentary evidence

There are exceptions whereby even though the tax invoice is not under the claimant's name, the claimant can still claim input tax.

If the employee incurs expenses such as those related to business travel, the company (the claimant) can claim input tax if the invoice is issued in the employee's name provided that it uses the following format:

Mr A
c/o XYZ Sdn. Bhd.

Where XYZ Sdn. Bhd. is the name of the employee's company, or the claimant.

A claimant (the company) may also use the mobile phone invoice billed to his employees for claiming input tax as long as the expenses are reimbursed and

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accounted for as business expenses. See Director-General's Decision 2/2014, item 2 at the RMC website.

4.1.2 Accounting Rules to Recognise Expenses

Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific item of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combine recognition of expenses and expenses that result directly and jointly from the same transactions or other events; for example, the various components of expense making up the cost of goods sold are recognised at the same time as the income derived from the sale of the goods.

However, in practice, there are often issues whereby the accountant has problems in recognising the expense, mostly on the timing. In this respect, we shall analyse expense recognition as governed by the *Income Tax Act 1967* (ITA).

Under the ITA, the expense recognition and eligibility to deduct against the taxable income are:

- **Fulfilling s 33, ITA**

  "... the adjusted income of a person from a source for the basis period for a year of assessment shall be an amount ascertained by deducting from the gross income of that person from that source for that period all outgoings and expenses wholly and exclusively incurred *(not provision, but the legal obligation and liability to pay)* during that period by that person in the production of gross income from that source *(separate according to different source of income)* ..."[1].

  Nevertheless, the expenses incurred allowed under s 33 shall not be prohibited by s 39, ITA ("Deductions not allowed"). Examples of the expenses disallowed under s 39 are entertainment expenses incurred to potential customers, private expenses, leave passage, withholding tax, etc.

- **Fulfilling s 34, ITA**

  "In ascertaining the adjusted income of a person from a business for the basis period for a year of assessment, deductions shall be made from the gross income from the business for that period. ..."

  Examples of such expenses are bad and doubtful debts, employee's EPF contribution, social and community expenditure, etc.

1 CCH notes are in italics.

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In conclusion, under the ITA, the deductible outgoing expenses must be wholly and exclusively incurred during that period by that person in the production of gross income. Having said this, the timing for the deductibility of the expense is when the expense is incurred.

4.1.2.1 Practical issues

(a) In current practice, when a supplier has delayed in issuing an invoice, a customer might request the supplier to reissue the invoice or to backdate the invoice date. However, under the GST regime, such practice of issuing backdated invoices or reissuing invoices is discouraged. Moreover, all GST-accredited software will not permit further entries to be made once the GST return has been generated.

    In regards to the aforesaid transaction, the accountant would have created an accrual entry for those invoices which are not received – but such accrual entries are disallowed under the ITA and no input tax is claimable as there is no possession of a valid tax invoice.

(b) The same case applies to prepayments – If the claimant has made a prepayment to a supplier, such advance payments are not allowed under the ITA. However, under the GST regime, if the supplier has issued a tax invoice, the claimant can claim the input tax credit even though the expense is incurred for a different taxable period.

(c) Concerning staff claims, in current practice, most salespersons or directors when they have incurred certain expenses will compile all these expenses/invoices and forward them to the accountant for claims (regardless of the bill amount). Under the GST regime, such claim methods would be tedious to the accountant because in addition to having to identify the type of expenses, the accountant also has to check if it is a simplified tax invoice or full tax invoice as well as the tax code (ie TX, NR, ZP and BL) applicable.

    This being the case, salespersons and directors must be notified to be mindful of the invoice amount as well as the GST applicable to it, if any. Should the input tax credit exceed RM30 for a simplified tax invoice, the staff must request for the full tax invoice. In addition, he must check if the supplier is GST-registered and whether the expense incurred is claimable.

    Furthermore, the management of the company should enforce the use of claim forms and modify the claim form to include information fields such as type of expenses; person(s) entertained (for entertainment claims); relationship with the person(s) entertained; place of consumption; tax code; amount before GST, the actual GST amount and the amount after GST; etc to ease the accounting work and refine internal controls.

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(d) Question 6 of the Frequently Asked Questions of the RMC's Guide on Employee Benefits asked whether input tax is claimable if the tax invoice is addressed to the employee. The RMC's answer is that GST is claimable if the supply of goods and services are acquired in the course of his official duty or acting on behalf of the taxable person (the company).

However, in reference to 4.1.1.2 (discussed above), Item 2 of the Director General's Decision 2/2014[2] states that invoices under an employee's name cannot be used for claiming input tax, except for mobile phone bill expenses for business purposes.

It is unclear whether the guidance provided in the Guide or the Director General's Decision will prevail.

4.1.3 Accounting Rules to Recognise Assets

Under MFRS 116 Property, Plant and Equipment, any property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having the item during a particular period for purposes other than to produce inventories during that period.

According to Sch 3, para 2(1), ITA:

> "... qualifying plant expenditure is capital expenditure incurred on the provision of machinery or plant used for the purposes of a business ..."

In the definition of "qualifying plant expenditure" above, "the provision of machinery or plant" excludes GST. For example, if the company has incurred a machinery cost of RM106,000 (where RM6,000 is the GST), only RM100,000 can be recognised as the cost of the asset. The RM6,000 amount cannot be included.

2 For Director General's Decisions, see the RMC's website at www.customs.gov.my.

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However, pursuant to the GST Act, there is no need to distinguish between revenue expenditure and capital expenditure. However, such expenditure incurred on any asset shall be disclosed under Cell 16 of the GST-03 return. If the asset expenditure is:

- local acquisition – the company may claim the input tax based on the valid tax invoice under cell 6(b) of the GST-03 return.
- overseas acquisition – the company may claim the input tax under cell 6(b) of the GST-03 return but must possess relevant documentary evidence such as the overseas invoice and Form K1.

4.1.4 Transactions Affecting Assets – Specific Issues

(a) **Hire purchase**

Hire purchase is the method of acquiring an asset on credit by way of periodic payments or instalments whereby the seller of the asset is known as the "dealer" and the purchaser is known as the "hirer". Supplies made through hire purchase agreements typically involve a financial institution. From a legal context, ownership of the hire purchased asset does not pass to the hirer at the time of the hire purchase agreement or upon delivery of the asset until the hirer has exercised the option to purchase or has fully settled the price agreed upon in the hire purchase agreement.

However, for GST purposes, the hirer can claim input tax credit on the tax charged by the dealer when the asset is acquired through the hire purchase agreement. There is no GST on the hire purchase instalments to financial institutions as it relates to a financial supply, which is exempt from GST. The same applies to any late payment interest or penalty imposed by the financial institutions.

(b) **Leasing**

- *Finance lease*

  The lessee makes periodic payments or instalments to the lessor over a specific period of time and at the end of the lease term, the lessee will obtain the ownership of the asset.

  In such an arrangement, the company can claim full input tax credit upon acquisition of the asset.

- *Operating lease*

  Generally, the operating lease agreement is subject to a GST charge imposed on each successive lease payment under a lease agreement that extends over a number of taxable periods. Each payment is treated as though the lessee is making a separate purchase for each taxable period.

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This arrangement is similar to a rental agreement whereby the lessor issues a tax invoice every month or every quarter (period as specified in the arrangement with the lessee). The lessee will return the asset to the lessor at the end of the lease period without any further obligation.

(c) **Cross border leasing**

If the asset is from an overseas supplier, upon importation of the asset, the company must determine whether it is a finance lease or an operating lease. For operating leases, the company must account for GST based on the reverse charge mechanism and withholding tax may apply on such lease rentals.

- *Finance lease*

  If the lessee leases an asset from a foreign lessor and the asset is to be used in Malaysia under a finance lease arrangement, such leases are regarded as an importation of goods into Malaysia. The lessee has to make an import declaration and pay GST on importation of the goods.

  The company shall claim input tax upon importation using Form K1.

  If the goods are further leased by him to another lessee (onward supply) in Malaysia, he has to charge GST on this onward supply.

- *Operating lease*

  If the lessee leases an asset from a foreign lessor and the asset is to be used in Malaysia under an operating lease arrangement, such leases are regarded as an importation of goods into Malaysia. The lessee has to make an import declaration and pay GST on importation of the goods.

  The lease payments to the overseas supplier is not subject to GST and the company shall claim input tax upon importation using Form K1.

  If the operating lease agreement has a term of five years and, upon expiry of five years, the company decides to extend the lease for another two years, it may be subject to the reverse charge mechanism.

(d) **Disposal and write off of asset and special rule for subsequent disposal of "blocked item"**

- Generally, the transfer of or disposal of asset is a supply of goods. The transfer or disposal can be made to any person and it may or may not involve a consideration. If the company has decided to dispose the asset and write off the asset from the book, the company is required to account for GST on the market value of such assets or scrap.

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In most cases, the asset or scrap has no value, and therefore, GST is not chargeable. The company will write off the asset by posting accounting entries.

The same applies to the disposal or write off of scrap. All relevant documents in respect of the write off must be recorded in the asset/stock/scrap written off form.

- Under the ITA, whenever a company transfers an asset to a related company, control transfer may apply whereby no balancing charge or balancing allowance shall be applied to such transfers of assets. However, under the GST Act, such a transfer is deemed as a sales transaction whereby a tax invoice shall be issued to the related company. If the company and its related companies opted for a group registration, no tax invoice needs to be issued.

- In the case of disposal of a "blocked item" (e.g. motor car), in view of the fact that when the company acquires the motor car, no input tax credit has been claimed (blocked input tax), therefore no GST shall be chargeable upon supply of such motor cars, i.e. it is considered an out-of-scope supply. This is pursuant to Sch 2 of the GST Act, which provides:

  > "**Supplies excluded from any credit**
  >
  > 4. Where the whole or any part of tax charged on any supply or importation of goods is excluded from any credit under subsection 38(12), the subsequent supply of the same goods shall be treated as neither a supply of goods or a supply of services."

- If the asset or goods are written off as a gift to the employee or any person, such gifts shall be subject to the gift rule of RM500.

Chapter 4

Example 1

WCA PLT acquired a lorry on 1 January 2015. On 1 January 2019, the company decided to sell the lorry. What is the GST implication?

Answer 1:

When the company acquired the lorry, no GST is charged and no input tax credit has been incurred. In view of the fact that the sale of the lorry does not comply with Sch 2 of the GST Act, when the company decided to sell the lorry on 1 January 2019, GST shall be chargeable.

subject to GST 6% and the price payable is exclusive of GST" and the supply is made –

(a) only to another registered person; or

(b) during the transitional period for only 14 days i.e. 1 April 2015 to 15 April 2015. This facility is given to enable businesses to complete the process of price labeling/tagging to include GST.

Example 5

In June 2014, A signed a contract with B to lease an asset that it owns for a period of 48 months, commencing 1 July 2014 for a fee of RM50,000 per month. The contract is silent on the GST and there is no opportunity for A to review the consideration.

Questions

1. What is the lease income for B for the month April 2015?
2. What is the lease expense for A for the month April 2015?
3. Does the contract qualify as a non-reviewable contract?

Answer 1:

Lease income for B – April 2015			Tax Code
[Sales module]			
Dr Accounts Receivable - A	50,000		
Cr Lease Income		47,170	SR
Cr Output tax		2,830	SR

Answer 2:

Lease expense for A – April 2015			Tax Code
[Purchase module]			
Dr Lease Expense	47,170		SR
Dr Input tax	2,830		SR
Cr Accounts Payable		50,000	

Answer 3: The contract is signed in June 2014, hence it does not fulfil the requirement that "the contract must have been irrevocably in place and agreed by all parties to it not less than two (2) years before 1 April 2015".

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CHAPTER 7

ISSUES FACING MIXED SUPPLIERS

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7.1 GST Rules for Mixed Suppliers

7.1.1 Residual Input Tax

A mixed supplier is a taxable person who makes both taxable supplies and exempt supplies. Therefore, for any acquisition, a mixed supplier needs to carefully consider whether the acquisition is for the intention of making taxable supplies, exempt supplies or both.

As a result, the input tax incurred in a taxable period needs to be apportioned into three parts:

- Those attributable to taxable supply (both standard-rated and zero-rated). For these, the full input tax can be claimed as normal.
- Those attributable to exempt supply and activities other than the making of taxable supplies. For these, the taxable person will not be able to claim any input tax and must absorb them as normal costs.
- Those that relate to acquisitions that are not attributable to either of the above. These are called residual input tax and must be apportioned accordingly.

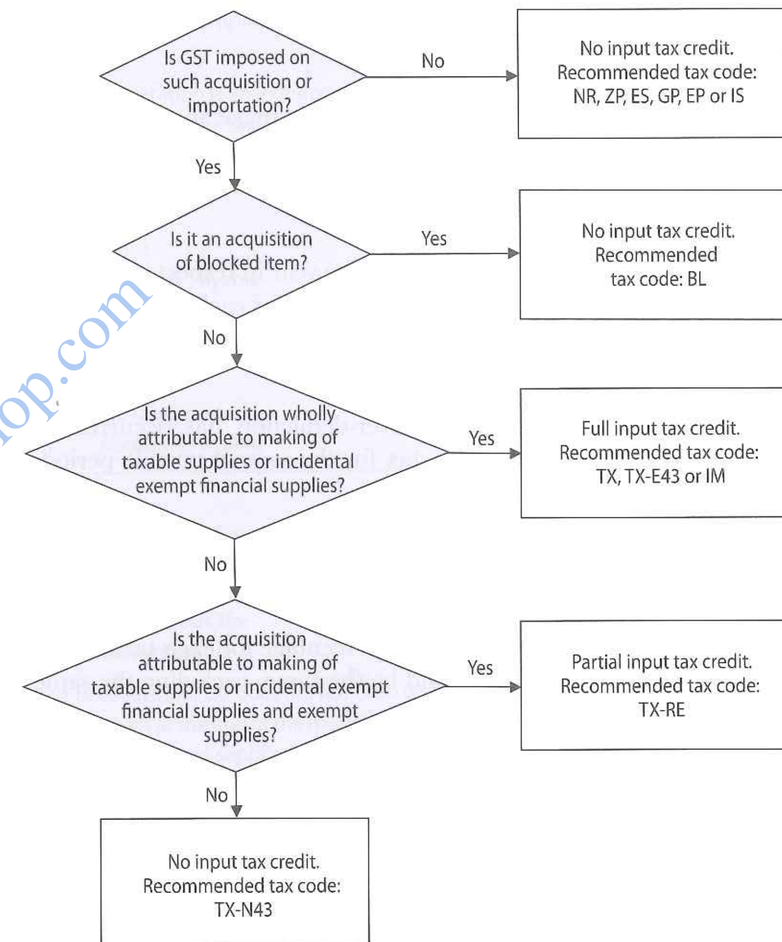
As mentioned above, residual input tax means an input tax which is neither directly attributable to taxable supplies nor exempt supplies, but is related to the both supplies. Examples would include input tax on items such as rental, maintenance services, and computer systems upgrades. In such cases, only a proportion of the residual input tax can be claimed. As such, the residual input tax will not flow into the GST-03 form, but must be calculated at the end of the period.

The proportion is usually determined using the ratio of taxable supply in the taxable period to the total of both taxable and exempt supplies in the same period. The following items should be excluded from the computation:

- The value of supplies that are capital assets of the company.
- The value of any deemed supply made under the Approved Toll Manufacturer Scheme.
- The value of incidental exempt financial supplies.
- The value of the supply of land to a public body for general use.
- The value of imported services supply.

An alternative method may be used subject to approval by the Director General. A taxable person may apply for an alternative method but must be able to justify that the proposed method is fairer and more equitable for his business than the standard method.

The following flowchart helps to determine when an acquisition might involve both taxable supplies and exempt supplies, which prompts the use of the GST Code TX-RE. (This Code relates to residual purchases attributable to taxable and exempt supplies.



7.1.2 The De Minimis Rule

The de minimis rule aims to make it easier for a taxable person with a negligible amount of exempt supplies. Under this rule, a taxable person can treat his exempt input tax as input tax attributable to taxable supplies if the total value of his exempt supplies excluding incidental exempt financial supplies does not exceed:

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(a) an average of RM5,000 per month; and

(b) an amount equal to 5% of the total value of all taxable and exempt supplies made in that period.

Both conditions need to be fulfilled for a taxable person to apply the de minimis rule.

7.1.3 Annual Adjustment

Mixed suppliers who incur residual input tax must make an annual adjustment, also known as the longer period adjustment, at the end of each tax year (typically 12 calendar months).

The annual adjustment is done by comparing:

(a) the sum of tax credits claimed during the year in respect of residual input tax multiplied by the recoverable percentage for each taxable period; and

(b) the sum of residual input tax incurred during the year multiplied by the recoverable percentage for the year.

Where (a) exceeds (b), it means an over-deduction has occurred and the difference must be treated as output tax for the second taxable period in the following tax year.

Where (b) exceeds (a), it means an under-deduction has occurred the difference is treated as input tax credit for the second taxable period in the following tax year.

The formula to calculate the recoverable percentage for each taxable period in (a) and for the whole year in (b) should be the same, excluding the same items mentioned in 7.1.1.

7.2 Accounting Implications

Example 1

Kancil Ekspres Sdn Bhd is in the business of providing public transportation as well as advertising services. It allows businesses to advertise on its buses. The company has purchased paper rolls attributable to its public transportation business and posters attributable to its advertising business.

Questions

(a) What types of supplies are these and what tax codes should Kancil Ekspres Sdn Bhd use when the company enters its purchases?

(b) Kancil Ekspress Sdn Bhd incurred a cost of RM1,060 (inclusive of GST) on electricity usage for the month of February that is attributable to both its transportation and advertising businesses. What are the GST implications?

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(c) Assuming the advertising business contributes 42% of the revenue and the total residual input tax credit (RIT) for the month is RM14,000. What is the GST implication?

(d) At the end of the year, the company is required to make a long period adjustment. What is the GST implication?

Answer 1(a):
Public transportation is an exempt supply while the advertisements are standard-rated supplies. Therefore, the tax codes and accounting entries are:

Expenses attributable to exempt supply (paper rolls)

		Tax Code
Dr	Expense	TX-N43
Cr	Accounts Payable	

Expenses attributable to standard-rated supply (posters)

		Tax Code
Dr	Expense	TX
Dr	Input Tax Credit	TX
Cr	Accounts Payable	

Answer 1(b):

				Tax Code
Dr	Electricity Expense / Accrual		1,000	TX-RE
Dr	Residual Input Tax	60		TX-RE
Cr	Other Payable		1,060	

The residual input tax does not flow into GST-03. The input tax credit will only be taken into account at the end of the month once the appropriate percentage attributable to the standard-rated supplies can be apportioned. Kindly refer Question 1(c).

Answer 1(c):
At the end of the month, the RIT is RM14,000. The recoverable proportion is RM5,880 (RM14,000 x 42%). Therefore:

				Tax Code
Dr	Input Tax Credit	5,880		AJP
Cr	RIT		5,880	AJP

The recoverable proportion is reversed and recognised as part of the input tax credit.

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Answer 1(d):
The company must make a longer period adjustment in the first taxable period of the subsequent year. This longer period adjustment may result in different implications on both the input tax credit and output tax payable as shown below (assuming that the company's year-end is 31 December 2016):

Resulting implication on output tax (assuming the amount is RM10,000) as at 31 December 2016

1 January 2017			**Tax Code**
Dr RIT	10,000		AJS
Cr Output Tax		10,000	AJS

Most of the advanced accounting software do not maintain a separate RIT account, rather the RIT amount are add to the respective assets or expenses account. Once the adjustment is processed (on IRR), the software will auto journal the entries.

7.3 Changes to the Asset's "Cost Base"

In certain situations, an asset's "cost base" may change due to either a capital goods adjustment (CGA) or due to a change of use.

7.3.1 Capital Goods Adjustment (CGA)

CGA will apply when a capital asset is acquired by a mixed supplier to make both taxable supplies as well as exempt supplies. The objective of CGA is to prevent tax advantages being obtained by manipulating the time at which capital expenditure is incurred.

Capital assets for this purpose refers to all goods that can be capitalised under accepted accounting principles where the value of the capital asset is not less than RM100,000 per unit exclusive of tax.

CGA does not apply to the acquisition of services. It will also not apply on costs that are capitalised in the accounts and treated as assets such as network systems, trademarks and goodwill.

A proportion of the input tax attributable to the acquisition will be claimed as a credit in the usual way for the taxable period in which the acquisition is made.

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At the end of the tax year, the input tax on the acquisition also forms part of the residual input tax subject to the longer period adjustment. The CGA will then apply in respect of the acquisition during the following tax years.

CGAs are made over 10 successive intervals (tax years) for land and buildings. For all other capital assets, CGAs are made over five successive intervals.

To avoid an overlap with the annual adjustment, CGA does not apply for the first interval, but on the following intervals after. The following table illustrates how the first interval for a capital asset is determined:

Scenario:	The first interval is based on:
The capital asset is imported by or supplied to a GST registered person	The tax year in which the asset is imported by or supplied to the GST registered person
The owner, who is GST registered, appropriates an asset to use as a capital asset	The tax year in which he first uses the asset
The owner manufactures, assembles, produces or constructs the capital asset	The tax year in which the owner first uses the asset
The owner is not a taxable person when he first uses an asset as a capital asset, but he subsequently becomes a registered person	The tax year from which his GST registration is effective

The CGA for the following intervals is based on the following formula:

The CGA baseline* proportion is subtracted from the proportion of recoverable residual input tax for the relevant tax interval. The balance is then multiplied by the input tax incurred on the capital item. The product is then divided by the number of intervals (which is either 5 or 10).

*The CGA baseline is usually the proportion of recoverable input tax for the first interval).

A positive result means that it should be treated as input tax credit for the second taxable period of the tax year. A negative result means that it should be treated as an output tax for the second taxable period of the tax year.

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Example 2

Kancil Ekspres Sdn Bhd is in the business of providing public transportation as well as advertising services. It purchased a commercial bus in 2016 for a sum of RM200,000 with input tax credit of RM12,000. What are the GST accounting implications?

Answer 2:

Interval (Year)	% of taxable use (IRR)	CGA rate %	Computation	CGA amount
1 (2016)	50%			
2 (2017)	60%	60% – 50% = 10%	12,000/5 * 10%	240
3 (2018)	40%	40% – 50% = (10%)	12,000/5 * (10%)	(240)
4 (2019)	50%	50% – 50% = 0%	–	–
5 (2020)	50%	50% – 50% = 0%	–	–

Year 2016

				Tax Code
Dr	Commercial Bus	200,000		TX-RE
Dr	RIT	12,000		TX-RE
Cr	Account Payable 212,000			

Based on IRR of 50%:

Dr	Input Tax	6,000		AJP
Cr	RIT		6,000	AJP

Year 2017

Dr	Input Tax	240		AJP
Cr	RIT		240	AJP

Year 2018

Dr	RIT	240		AJS
Cr	Output Tax		240	AJS

As mentioned in paragraph 7.2 above, most advanced accounting software do not maintain a separate RIT account. Intead, the RIT amounts are added to the respective assets or expenses account. Once the adjustment is processed (on IRR), the software will auto-journal the entries.

7.3.2 Change of Use

In layman's terms, change of use occurs whenever a good or service which was originally intended to be used for a certain purpose over a period of time is then used for a different purpose. The change of use in this context relates to instances where there is a change that involves both taxable supply and exempt supply.

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The following are the possible scenarios which constitute a change of use and the adjustment required:

Scenario	Original Use	New use	Action required
1	Taxable supply	Exempt supply	The full amount of the input tax claimed previously is charged back through output tax.
2	Taxable supply	Exempt + taxable supply	Output tax is charged back based on the proportion that is used for exempt supply (See 7.1).
3	Exempt + taxable supply	Taxable supply	The remaining amount is claimed through input tax credit.
4	Exempt + taxable supply	Exempt + taxable supply, but in different proportions then originally intended	If the proportion of taxable supplies to exempt supplies is reduced, then the difference is charged back through output tax. If the proportion is increased, then the difference is claimed through input tax credit.
5	Exempt + taxable supply	Exempt supply	The full amount of the input tax claimed previously is charged back through output tax.
6	Exempt supply	Exempt + taxable supply	The proportion that is used for taxable supply is claimed through input tax credit.
7	Exempt supply	Taxable supply	The full amount is claimed through input tax credit.

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These adjustments will only apply if the change of usage occurs before the intention at the time of acquisition is fulfilled. Furthermore, the change of usage must occur within **six years** from the first day of the taxable period in which the goods or service was acquired and was attributed to taxable and/or exempt supplies.

Accounting entry for over-deduction of input tax

		Tax Code
Dr	GST Control account *	AJS
Cr	Output Tax	AJS

Accounting entry for short claim of input tax

		Tax Code
Dr	Input Tax	AJP
Cr	GST Control account *	AJP

* Any balance in the GST Control account will be transferred to the profit and loss account.

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CHAPTER 8

FINANCIAL STATEMENTS AND RELATED AREAS

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8.1 Components of Financial Statements

A complete set of financial statements consists of:

(a) A statement of financial position as at the end of the period

(b) A statement of comprehensive income for the period

(c) A statement of changes in equity for the period

(d) A statement of cash flows for the period

(e) Notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may, however, use titles for their statements other than those stated above.

8.2 Impact of GST on Financial Statements

(a) **Statement of Financial Position (SOFP)**
The financial statement which has the most impact is the SOFP, also known as the Balance Sheet. Most of the crucial accounts appear in the SOFP.

As GST is not a real cost to the business (i.e. if GST is charged, it is claimable), it is therefore reflected only in the balance sheet that will be presented in the SOFP. GST will, however, affect the company's cash flow because the company would have to pay the output tax upfront before it receives payment from its customers.

When a company starts reporting on GST, the SOFP will generally include a presentation of the following accounts:

- Output tax (CL)
- Input tax credit (CA)
- GST bad debt accounts
- GST suspense accounts.

If the company is registered for GST within a group of companies whereby there is consolidated financial statements, the companies will have to consolidate all their input taxes and output taxes.

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(b) **Statement of Comprehensive Income (SOCI)**
In view of the fact that GST is not a business or a real cost to the company, the impact to the SOCI is minimal. The transactions which will impact the SOCI are as follows:

- Irrecoverable input taxes (see 4.4.1).
- Output tax accounted on deemed supply, i.e. output tax that has to be accounted for when a gift to a single person has exceeded RM500 in a year. The output tax shall be an expense to the relevant expense account.
- Output tax accounted on contracted sales. Where an appropriate GST clause is not included and the company has to bear the GST, it shall be an expense to the company.
- Penalties. Penalties incurred in a GST audit and late payment penalty, etc., will be an expense to the company (if any).
- Economics theory. Price elasticity and price sensitivity arising from customer demand is crucial. Whether the company will have to absorb the GST when determining the price is an important criteria in decision-making. The company should also ensure that any price adjustment (i.e. price increase) instituted does not infringe the anti-profiteering Act.

(c) **Cash Flow Statement (CFS)**
GST can substantially affect the CFS because it affects the company's cash flow, i.e. the company is required to pay the output tax upfront before the customer pays the company. Conversely, the company can claim back the input tax credit even though it has not paid the supplier.

Cash flows from operating activities can be presented using either of the following two methods:

- **Direct method** – each major class of gross cash receipts and gross cash payments is disclosed separately, such as cash receipts from the sale of goods or services; cash payments to suppliers and cash payments to and on behalf of employees.

  If the direct method is adopted, the following approaches shall apply:

  (a) the company shall include cash flows associated with GST as separate line items;

  (b) the company shall include cash flows associated with GST in the payments to suppliers and receipts from customers.

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- **Indirect method** – profit or loss is adjusted for items relating to investing and financing activities and for the effects of non-cash transactions, such as changes in inventories and operating receivables and payables; depreciation and amortisation, movements in provisions; and unrealised foreign currency gain and losses.

  If the indirect method is followed, GST will be included in the increase or decrease in accounts payable.

The indirect method is more commonly used than the direct method.

The MFRS does not provide guidance covering the impact of GST on the cash flow statement. The approach adopted will vary, depending on whether the entity follows the direct or indirect method in preparing its statement of cash flows.

8.3 Consolidation

Where GST is concerned, the approach to consolidation depends on whether the companies within the group are registered separately for GST, or are registered collectively as a group. If the companies are registered separately, then the GST refundable amount should not be netted off against the GST payable amount. However, if the companies are registered as a group, then this can be done.

Example 1

The Agro group of companies consists of 3 companies – A, B and C. You are the accountant for the Agro group and you are required to present the consolidated financial statements to the Board of Directors. You have thought of two ways to present the consolidated SOFP, but you are unsure which method is more appropriate.

	Company A	Company B	Company C	Consolidated Account	
				Approach A?	Approach B?
Current Asset – GST refundable			RM30,000	RM30,000	–
Current Liability – GST payable	RM20,000	RM50,000		RM70,000	RM40,000

Answer 1:

Approach A is acceptable if the companies are not under group registration. If the companies are under group registration, then Approach B is more appropriate.

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8.4 Impact of GST on Management Accounting and Internal Control

Companies are advised to:

(a) Get it right the first time. Most of the accredited accounting software are able to generate the GST-03 return, with the company's operational staff inputting the accounting entries. Human error is, therefore, a likely possibility. Unlike income tax where the company has at least six months to adjust and check its accounts prior to submission of income tax return, GST has only one month before the submission.

Therefore, personnel from the tactical and strategic level must be able to review all the transactions prior to the submission of the Form GST-03. The best practice is to have a rigid/standardised system in place and ensure there is continuous training.

(b) Have sufficient manpower to close accounts by the deadline (normally by the 10th of the month).

(c) Seek an expert's review.

(d) Ensure the accounting system is appropriate and proper (standardised).

There will be some changes to the company's process flow and internal controls. For example, companies should:

- Only release payment with GST once a valid tax invoice is received. This includes rental and advance payments.
- Ensure invoices are issued to customers within 21 days.
- Companies need to ensure that the delivery documents are in order prior to invoicing.
- Ensure suppliers' tax invoices are received by the finance department in a timely manner and ensure the right information is included therein.
- Monitor the assets register. Management must ensure that all missing assets and inventories are noted, and the reason and documentation are in place. If goods are held or are for private use, such usage shall be deemed as supply of service. This is pursuant to Sch 1, para 5(3) of the GST Act, which provides:

  > "Whereby or under the direction of a person carrying on a business, goods held or used for the purposes of the business are put to any private use or are used, or made available to any person for use, for any purpose other than purpose of the business, whether or not for a consideration, the usage or making available of goods is supply of services".

Chapter 8

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8.5 Impact of GST on Demand

The demand for goods and services may vary before and after 1 April 2015. Therefore, a company must be prepared to face different circumstances and varying demand. For example, demand may increase after 1 April 2015, or it may increase before the appointed date (AD), or there could even be no impact.

The company must also ensure it has strategies in place to stabilise demand during the transitional period, i.e. pricing strategy and marketing strategy.

8.6 Impact of GST on Pricing

The implementation of GST will impact the company's pricing decisions. As discussed in Chapter 6, the company may benefit from sales tax savings if the sales tax on its goods is above 6% (i.e. 10% or 20%). However, if the company has goods which the sales tax at present is 5%, the price of the goods shall increase by 1%.

However, companies must be mindful of the Price Control and Anti-Profiteering (Mechanism to Determine Unreasonably High Profit) (Net Profit Margin) Regulations 2014. According to the legislation, there should be no increment in the net profit margin of any goods or services during the following periods:

- from 2 January 2015 to 31 March 2015; and
- from 1 April 2015 to 30 June 2016.

Having said this, the company may have incurred compliance costs to implement GST and acquire accounting software such that its net profit margin is affected. In this instance, the company may consider adjusting its product pricing to incorporate such expenses into the price. However, the company will need to justify these adjustments to the RMC should there be any investigation.

The company should also assess any price sensitivity arising from customer demand. Survey and research must be conducted to assess the impact on sales demand and revenue if the selling price were to be increased by 5%.

The implementation of GST will have some impact on the entire Malaysian market. Research indicates that many countries that have implemented GST experienced higher sales in revenue before AD of GST implementation, and lower sales for half a year after the AD. Nevertheless, the company should assess whether it would be a viable decision to boost its sales during this transitional period and hence increase its marketing expenditure to promote its products.

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8.7 Budgeting and Cash Forecast

Companies should assess their respective industries and norms to determine how the introduction of GST will affect their business, especially in regard to their working capital requirements, i.e. cash flow. For example, a company in which most of its sales is on credit must be prepared to pay output tax upfront. On the other hand, supermarkets, in which customer transactions are on a cash basis, will have a huge cash flow advantage. The reason is that the supermarket will have collected all the output taxes as well as claimed all the input tax upfront.

Companies that are not GST-registered must monitor their revenue for a period of 12 months. The determination of revenue is based on either the historical method or the future method. The historical method is based on the value of the taxable supplies in any month plus the value of the taxable supplies for the 11 months immediately before that month. Once the company revenue exceeds RM500,000 for the said 12 months, the company must register for GST within 28 days from the end of the last month (using the historical method) or current month (future method).

3. Where the record is in an electronically readable form, the record shall be kept in such manner as to enable the record to be readily accessible and convertible into writing (softcopy which are readily printable).
4. Where the record is originally in a manual form and is subsequently converted into an electronic form, the record shall be retained in its original form prior to the conversion.
5. A copy of the record shall be admissible in evidence in any proceedings to the same extent as the record itself.
6. Section 36 of the GST Act shall apply to any person, including a non-taxable person, under s 13(3), s 58, s 65(4)(b), s 65(5) and s 72(5).
7. Any person who contravenes s 36 of the GST Act commits an offence and shall, on conviction, be liable to a fine not exceeding RM50,000 or to imprisonment for a term not exceeding three years or to both.

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CHAPTER 10

IMPACT OF GST ON INCOME TAX, IMPORT DUTY, RPGT AND STAMP DUTY

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10.1 Malaysian Tax Revenue

Tax revenue is the income earned by the government through taxes levied on the incomes and wealth accumulation of individuals and corporations, on the goods and services produced, and on export and import activities.

The main sources of Malaysian tax revenue are:

(a) Direct Tax – Income Tax

(b) Petroleum Income Tax

(c) Real Property Gain Tax

(d) Stamp Duty

(e) Sales and Services Tax

(f) Import Duty

(g) Export Duty

(h) Excise Duty

Currently, the bulk of tax revenue earned by the Malaysian Government is from direct taxes, e.g. corporate and personal income tax. With the introduction of the GST, the existing mix in tax revenue is expected to change.

10.2 Direct Tax – Income Tax

In Malaysia, income taxation is governed by the *Income Tax Act 1967* (ITA). The scope of taxation is based on s 3 of the ITA, which states:

> "Subject to and in accordance with this Act, a tax to be known as income tax shall be charged for each year of assessment upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia."

The ITA does not clearly define the definition of income but merely categorises the classes of income in s 4 of the ITA as follows:

> "Subject to this Act, the income upon which tax is chargeable under this Act is income in respect of—
>
> (a) gains or profits from a business, for whatever period of time carried on;
>
> (b) gains or profits from an employment;
>
> (c) dividends, interest or discounts;

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> (d) rents, royalties or premiums;
>
> (e) pensions, annuities or other periodical payments not falling under any of the foregoing paragraphs;
>
> (f) gains or profits not falling under any of the foregoing paragraphs."

Section 4, therefore, encompasses both personal and corporate taxation.

Technically, the implementation of GST has not had an effect on the ITA. Nevertheless, to alleviate the effect of GST implementation in Malaysia, the individual and corporate income tax rates has been reduced and a change has been made in the tax structure to increase the number of chargeable income bands (see 10.2.1).

10.2.1 Individual Tax Rate

As of YA 2014, the income tax for resident individuals is calculated based on scale rates ranging from 0% to 26% with the maximum rate of 26% being applicable to the chargeable income band of RM100,000 and above.

For YA 2015, the tax rates and tax structure have been amended to the following:

Chargeable Income (RM)	Tax Rates (%)
1 – 5,000	0
5,001 – 20,000	1
20,001 – 35,000	5
35,001 – 50,000	10
50,001 – 70,000	16
70,001 – 100,000	21
100,001 – 250,000	24
250,001 – 400,000	24.5
Above 400,000	25

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As proposed in the Budget 2016, from YA 2016, the tax rates and tax structure are amended to the following:

Chargeable Income (RM)	Existing Rates (%)	Proposed Rates (%)	Increase (%)
1 – 5,000	0	0	–
5,001 – 20,000	1	1	–
20,001 – 35,000	5	5	–
35,001 – 50,000	10	10	–
50,001 – 70,000	16	16	–
70,001 – 100,000	21	21	–
100,001 – 250,000	24	24	–
250,001 – 400,000	24.5	24.5	–
400,001-600,000	25	25	–
600,001 – 1,000,000	25	26	1
Above 1,000,000	25	28	3

For non-resident individual taxpayers, it has been proposed in the Budget 2016 to increase the tax rate by 3% from 25% to 28%.

In addition to this, to ease the burden of Malaysian residents, there is an increase in the following reliefs:

(a) relief for medical expenses incurred for serious diseases

(b) relief for disable child

(c) relief for purchase of basic supporting equipment for the disabled

(d) increase in spouse relief (proposed in Budget 2016)

(e) increase in relief for child below 18 years of age (proposed in Budget 2016)

(f) increase in relief for child 18 years of age and above and studying at tertiary level (proposed in Budget 2016)

(g) increase in relief for tertiary education (proposed in Budget 2016)

(h) relief for parental care (proposed in Budget 2016)

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10.2.2 Corporate Tax Rate

Corporate tax rate used to be 40% prior to YA 1988. Since then, we have been seeing only gradual reductions – there has never been an increase. Further, a separate set of tax rates for small and medium enterprises (SMEs) was first introduced in 2003.

At present, the tax rates are as follows:

(a) for resident company with paid up capital of RM2.5 million and below at the beginning of the basis period (which fulfils the definition of SME) and limited liability partnership:

- On first RM500,000 chargeable income – 20%
- On subsequent chargeable income – 25%

(b) for resident company with paid up capital above RM2.5 million at the beginning of the basis period – 25%

(c) for non-resident company/branch – 25%.

However, effective YA 2016, the tax rates are as follows:

(a) resident company with paid up capital of RM2.5 million and below at the beginning of the basis period (which fulfils the definition of SME) and limited liability partnership:

- On first RM500,000 chargeable income – 19%
- On subsequent chargeable income – 24%.

(b) resident company with paid up capital above RM2.5 million at the beginning of the basis period – 24%.

(c) non-resident company / branch – 24%.

In addition to this, certain tax deductions such as the following have been introduced with the implementation of GST:

(a) deduction in training expenses related to GST implementation;

(b) tax deduction for secretarial and tax filing fees; and

(c) extension of accelerated capital allowance on information technology and communication equipment.

10.3 Petroleum Income Tax

The *Petroleum Income Tax 1967* (PITA) imposes petroleum income tax for each year of assessment on petroleum operations. Section 3 of the PITA provides:

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"Subject to and in accordance with this Act, a tax to be known as petroleum income tax shall be charged for each year of assessment on the income of every chargeable person, being income derived by such chargeable person from petroleum operations".

The "chargeable person" may be, namely:

(a) Petroleum Nasional Berhad;

(b) Malaysia-Thailand Joint Authority; or

(c) Any other person carrying on petroleum operations under a petroleum agreement with (a) or (b).

10.4 Real Property Gains Tax (RPGT)

The implementation of GST in Malaysia has had no apparent change in RPGT. Pursuant to s 3 of the *Real Property Gains Tax 1976* (RPGT Act):

"Taxation of chargeable gains

3(1) A tax, to be called real property gains tax, shall be charged in accordance with this Act in respect of chargeable gain accruing on the disposal of any real property (hereinafter referred to as 'chargeable asset').

3(2) Subject to this Act, the tax shall be charged on every ringgit of the total amount of chargeable gains accruing to a chargeable person in a year of assessment in respect of each category of disposal of chargeable assets specified in Schedule 5."

10.4.1 Disposal Price

As reference to Sch 2 para 5(1) of the RPGT Act:

"Disposal price

5(1) Subject to subparagraph (2), the disposal price of an asset is the amount or value of the consideration in money or money's worth for the disposal of the asset less –

(a) the amount of any expenditure wholly and exclusively incurred on the asset at any time after its acquisition by or on behalf of the disposer for the purpose of enhancing or preserving the value of the asset, being expenditure reflected in the state or nature of the asset at the time of the disposal;

(b) the amount of any expenditure wholly and exclusively incurred at any time after his acquisition of the asset by the disposer in establishing, preserving or defending his title to, or to a right over, the asset; and

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(c) the incidental costs to the disposer of making the disposal."

As mentioned above, the disposal price as defined in the RPGT Act is the amount or value of consideration. At present there is no clear guidance and the RPGT Act does not mention whether the consideration includes or excludes GST. However, the Budget 2016 has proposed via Finance Bill 2015 an amendment to Sch 2 para 6(1)(e). In the proposed amendment, GST expenditure is part of incidental cost if disposer is not liable to be registered or if he is registered and is not entitled to credit that amount as input tax. This proposal is to come into effect from YA 2015.

10.4.2 Acquisition Price

Pursuant to Sch 2 para 4 of RPGT Act:

"... the acquisition price of an asset is the amount or value of the consideration in money or money's worth given by or on behalf of the owner wholly and exclusively for the acquisition of the asset ..."

See 10.4.1 for proposal in the Budget 2016 in relation to the incidental cost of acquisition or disposal of an asset.

10.4.3 Why Retain RPGT after GST Implementation

An important reason for the Government to continue imposing RPGT even after GST is implemented is to curb property speculation, and in so doing attempt to prevent the formation of real estate bubbles.

As we know, GST is imposed on businesses while RPGT is imposed on both businesses and individuals. The continual imposition of RPTGT will, therefore, ensure steady revenue to the country and achieve economic growth.

The term "business" is defined differently in the GST Act and ITA, i.e. business test versus badges of trade. "Business" does not only refer to the companies registered to Companies Commission but also includes activities which are earnestly and excessively pursued.

From time to time, the Government may increase or decrease the RPGT rate to align with the needs of the Malaysian market, i.e. RPGT is reduced to encourage investments. This was seen during the period of 1 April 2007 to 31 December 2009, where property transactions during this period were exempted from RPGT to spur investments. Thereafter, RPGT was increased slightly annually as follows:

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(a) **Disposal by a company – Rate of RPGT**

	1 Apr 2007 – 31 Dec 2009	w.e.f. 1 Jan 2010	w.e.f. 1 Jan 2012	w.e.f. 1 Jan 2013	w.e.f. 1 Jan 2014
Date of Disposal	%	%	%	%	%
Disposal within 2 years after the date of acquisition	Nil	5	10	15	30
Disposal in the 3rd year after the date of acquisition	Nil	5	5	10	30
Disposal in the 4th year after the date of acquisition	Nil	5	5	10	20
Disposal in the 5th year after the date of acquisition	Nil	5	5	10	15
Disposal in the 6th year after the date of acquisition	Nil	Nil	Nil	Nil	5

(b) **Disposal by an individual who is a Malaysian citizen or permanent resident – Rate of RPGT**

	1 Apr 2007 – 31 Dec 2009	w.e.f. 1 Jan 2010	w.e.f. 1 Jan 2012	w.e.f. 1 Jan 2013	w.e.f. 1 Jan 2014
Date of Disposal	%	%	%	%	%
Disposal within 2 years after the date of acquisition	Nil	5	10	15	30

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	1 Apr 2007 – 31 Dec 2009	w.e.f. 1 Jan 2010	w.e.f. 1 Jan 2012	w.e.f. 1 Jan 2013	w.e.f. 1 Jan 2014
Date of Disposal	%	%	%	%	%
Disposal in the 3rd year after the date of acquisition	Nil	5	5	10	30
Disposal in the 4th year after the date of acquisition	Nil	5	5	10	20
Disposal in the 5th year after the date of acquisition	Nil	5	5	10	15
Disposal in the 6th year after the date of acquisition	Nil	Nil	Nil	Nil	Nil

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(c) **Disposal by an individual who is not a citizen or permanent resident – Rate of RPGT**

	1 Apr 2007 – 31 Dec 2009	w.e.f. 1 Jan 2010	w.e.f. 1 Jan 2012	w.e.f. 1 Jan 2013	w.e.f. 1 Jan 2014
Date of Disposal	%	%	%	%	%
Disposal within 2 years after the date of acquisition	N/A	5	10	15	30
Disposal in the 5th year after the date of acquisition	Nil	5	5	10	30

	1 Apr 2007 – 31 Dec 2009	w.e.f. 1 Jan 2010	w.e.f. 1 Jan 2012	w.e.f. 1 Jan 2013	w.e.f. 1 Jan 2014
Date of Disposal	%	%	%	%	%
Disposal in the 6th year after the date of acquisition	Nil	Nil	Nil	Nil	5

10.4.4 Incidental Costs and Market Value

Incidental costs

Pursuant to Sch 2 para 6 of the RPGT Act:

> "... the incidental costs of the acquisition or disposal of an asset shall consist of expenditure wholly and exclusively incurred by the disposer for the purposes of the acquisition or (as the case may be) the disposal ..."

To a GST-registered person, GST is claimable as input tax credit but to a non-GST registered person, it is a cost. The Budget 2016 via the *Finance Bill 2015* has proposed that Sch 2 para 6(1)(e) be amended. With the amendment, GST expenditure is part of incidental cost if the disposer is not liable to be registered or if he is registered and is not entitled to credit that amount as input tax. This proposed amendment is to come into effect from YA 2015.

Market value

Sch 2 para 11(1) of the RPGT Act provides:

> "... the market value of an asset, which is acquired or disposed of is the price which it would fetch if it were sold in a transaction between independent persons dealing at arm's length at the time of the acquisition of disposal."

GST has an impact on determining property market value. The market value may vary depending whether the seller is GST-registered. For example, to a non GST-registered seller, a commercial property worth RM1 million has a market value of RM1 million. However, to a GST-registered seller, the price is RM1.06 million.

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10.4.5 Definition of Business

Under the ITA, badges of trade[1] are used as the criteria to determine whether trade of a property fulfils the definition of business. Badges of trade comprise of the following:

(a) Subject matter – whether it is income generating or it is for personal enjoyment to the owner

(b) Period of ownership

(c) Formation of company

(d) Frequency of transactions

(e) Circumstances responsible to realisation

(f) Intention

(g) Methods employed in disposing a property

(h) Sub-division of land or property

(i) Financing arrangement

(j) Accounting evidence (non-current asset or current asset).

On the other hand, under the GST regime, the business test is applied to determine whether such activity falls under the definition of businesswith the following questions being considered:

(a) Is the activity a serious undertaking or work earnestly pursued?

(b) Is the activity actively pursued with reasonable or recognisable continuity?

(c) Is the activity conducted in a regular manner and on sound and recognised business principles (business-like in nature)?

(d) Is the activity concerned with the making of supplies for a consideration?

(e) Is the activity concerned with the making of supplies of a kind commonly made by commercial organisations?

1 "Badges of trade" refer to a collection of principles established by case law that determine whether a person is trading. If he is, he is taxed under different rules from non-traders.

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