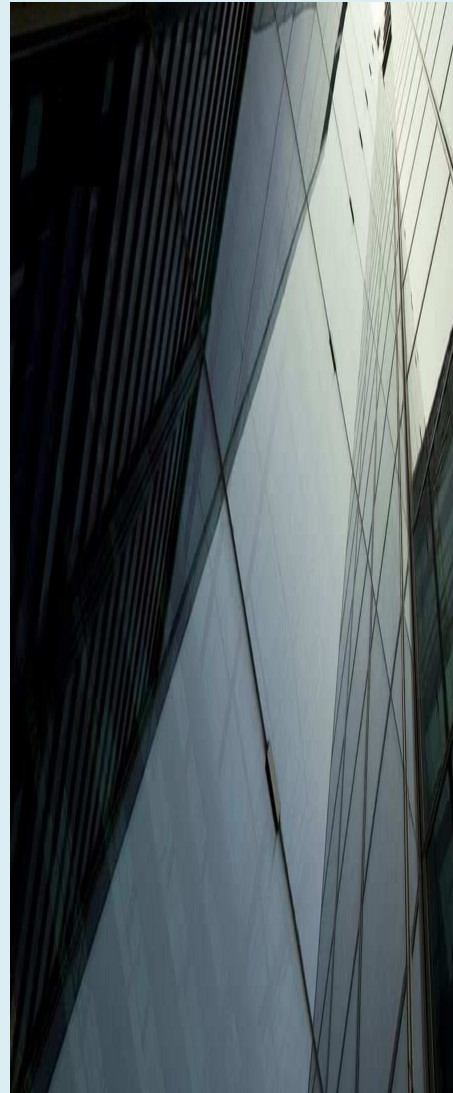


GST

Starter Guide



Disclaimer:

This guide does not detail down all the elements of GST system. Information written in this booklet reflects what the authors viewed as relevant to general, majority, but not all, corporate environment of users. There may have been updates not incorporated in this booklet when it is authored. Alan Yoon Associates welcomes comments towards improvement of this booklet.

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About Us

Alan Yoon Associates, an independent Chartered Accountants firm in Malaysia has been providing Assurance, Accounting, Tax and a whole range of other related Financial Services since 1998. Currently Alan Yoon Associates has fourteen branches in Malaysia and a correspondence centre in China.

Alan Yoon Associates' Advisory Board is made up of eminent individuals with significant contributions to Corporate Governance, Accounting, Risk Management and Finance. Chairing the Board is Professor Dr Annuar Nassir, the former Dean of the Faculty of Economics and Management, Universiti Putra Malaysia, as well as the director of an Investment Bank in Malaysia.

The Managing Partner is Dr Yoon Chung Sin, Alan. Dr Yoon worked many years in a public listed company focusing on accounting, financial and treasury issues before being an accountant in public practice. Dr Yoon is a Fellow Member of the Association of Chartered Certified Accountants and the Chartered Institute of Management Accountants for more than a decade. Dr Yoon also holds academic post-graduate qualifications namely a Master of Business Administration awarded by the University of Bath, United Kingdom and a Doctor of Philosophy in Finance from Universiti Putra Malaysia.

Alan Yoon Associates employs professionals as well as article students of the professional bodies of accountants who specialize in each area of its services. To ensure that the employees keep up with the training guidelines followed by the ACCA as well as the other professional bodies, at the onset of employment, each newly recruited staff undergoes an "Induction Program" which basically covers Work Culture, Code of Conduct, Accounting and Auditing Standards Brief. There are also "Refresher Courses" and "Work Related Training" in our Employees Career Development Path to fill any need-gaps. Since 1998, Alan Yoon Associates has been a Silver Status ACCA Approved Trainee Development Employer.

A diverse array of talent has passed through the employment and training of Alan Yoon Associates over the years. Alan Yoon Associates maintains an active alumni network, keeping them apprised of the firm's development. These ex-employees serve as a frequent source of referral business and provide other professional services to us as well as to our clients. Presently, our ex-colleague, Mr Ng Boon Meng is the coordinator of the Alan Yoon Associates Alumni.

Our Logo

Since the inception of our Firm, we have adopted **AYA**, which is abbreviated from the Firm's name *Alan Yoon Associates*. The "Mistral" font has been at all times used for the display of our Firm's name. The unchanging bold **AYA** alphabets uphold the image of timeless consistency, stability and solidarity. The white color of the **AYA** alphabets reflects integrity and moral purity in the Firm's team of professionals. The royal blue backdrop depicts the Firm's distinct edging visionary characters associating with blue oceanic strategies, far reaching scope of services, and capabilities requiring in-depth knowledge.



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I. INTRODUCTION TO GST

What is GST?

GST stands for *Goods & Services Tax*. It is a form of consumption tax charged on every business transaction stage up to the retail stage of distribution. Due of the fact that only the value adding fraction of its selling price is taxed as GST incurred on inputs(purchases/expenses) is allowed to be offset against output tax, it is also known as Value Added Tax or VAT.

In what ways businesses are affected by GST?

Upon the implementation of GST, businesses main role will be to uderstand the GST system and report taxes correctly. Business' staff must be made sure to have up-to-date understandings and have access to proper consultation towards GST.

How can I be sure I am prepared for GST?

For a business to be ready to adapt to the implementation of GST, it needs to be at least able to perform the basics as the followings:

- Compute input and output GST amounts
- Issue GST invoice
- Documentations
- Prepare GST returns

When is GST needs to be charged?

GST is charged on any taxable supply of goods and services made by a taxable person in the course of furtherance of business in Malaysia, and, imported goods.

What happens to the current tax system?

Current tax systems (a.k.a. Sales Tax and Service Tax) will be replaced by GST. There will be one single rate applied on both goods and services instead of multiple rates (5%, 6% and 10%).

Who is the main authority dealing with GST?

The main authority dealing with GST is the Royal Malaysian Customs or Kastam Diraja Malaysia.

II. TYPE OF SUPPLIES

What is a supply?

To supply is to furnish, serve, provide something or to abstain from something. Most of the time, a transaction is a supply if someone does something or agrees to do something in return for a consideration, where a supplier and a receiver is involved.

Is consideration only happens in form of monies?

No. Consideration can be in the form of monies, but not limited to it. Other considerations examples can be assets, satisfaction of debt etc.

How many types of supplies are there?

There are four type of supplies, namely: (i) Standard Rated Supplies (ii) Zero Rated Supplies (iii) Exempt Supplies and (iv) Out of Scope Supplies.

What are the differences between the supplies?

Different supplies have difference way of treatment and chargeability. A simple summary is as tabulated below:

		Taxable?	GST Rate	Eligibility to claim input tax?	
(i)	Standard Rated	Yes	6%	Yes	*Out of scope Supplies refers to supplies not under the scope of GST. (Refer: Introduction - When GST needs to be charged?)
(ii)	Zero Rated	Yes	0%	Yes	
(iii)	Exempt	No	NA	No	
(iv)	Out of Scope*	No	NA	No	

How can I know my products/services belongs to which category of supplies? What should I refer to?

The categorizing of supplies may differ from time to time. To know latest changes on:

- | | | |
|-----------------------------|---|-----------------|
| ▪ GST Rules and regulations | → | The GST Bill |
| ▪ Type of supplies? | → | Gazettes |
| ▪ Special schemes? | → | The GST Bill |
| ▪ Latest news on rates? | → | National Budget |

III. INPUT AND OUTPUT TAXES

How GST Works?

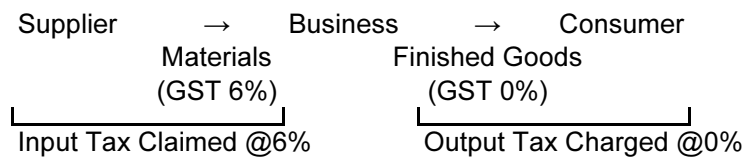
As a value added tax, GST charges only apply to the value added during each stage of transaction. The system consist of mainly of two components:

- Input Taxes - to be offset / reduce output taxes
- Output Taxes - to be charged and paid

Thus, the net tax charged is the net of output tax minus input tax and to be remitted to the authorities by the seller(collector).

Is it possible for a business to claim more input tax than charging output tax?

Yes. If the business produces zero rated goods or its purchases were more than its sales. A supplier of zero rated goods will charge consumer a GST at 0% but the supplier can claim input taxes incurred. Illustrated as below:



How do a person/business know how much input taxes can be claimed?

There is no need for a business to compute how much input taxes is claimable as the amount is explicitly mentioned in tax invoices. Any purchases on inputs will be accompanied by a tax invoice which details down the total tax being charged to the business and in turn to be claimed as input tax. Total input taxes of a period can be simply known by summing up all tax invoices of purchases. All claimable input taxes must come with a tax invoice.

What happens when a business does not/neglect to claim input taxes?

Input taxes are used to offset output taxes. When a business failed to claim input taxes, it ends up losing the opportunity to reduce its remittance to the authority. The claim is lost/beared by the business.

For example:

Players	Supplier	→	<i>Business*</i>	→	Consumer
Price	(Inputs)		RM10		RM15 (Outputs)
GST @6%			RM0.60		RM0.90

However, if the business does not claim input taxes, it would be a higher value at RM0.90 instead of RM0.90 - RM0.60 = RM0.30 (to be remitted to authorities).

III. INPUT AND OUTPUT TAXES (cont'd)

What are output taxes?

Output taxes are charged when a taxable person made taxable supplies. These are the taxes needed to be accounted by the taxable person and settled after his/her taxable period concluded. (Refer VI. Timing for further discussion)

Who can charge output taxes?

Only a person registered under the GST system, who made taxable supplies can charge GST.

How much output tax to charge/account?

Output tax can be charged via two methods. Tax Fraction method where GST is already included in the total price of goods or Direct method where GST is excluded in the total price of goods and accounted separately.

Method 1 (Tax Fraction Method):

For eg. A sells goods to B and receives RM 1,060

Value of supply (VOS) = consideration - GST portion

Assuming GST @6%, Tax Fraction = Rate / (100 + Rate) = 6 / 106 = 3/53

Thus,

$$\begin{aligned} \text{VOS} &= \text{consideration} - \text{GST portion} \\ &= \text{RM } 1,060 - (3/53 \times \text{RM } 1,060) \\ &= \text{RM } 1,060 - \text{RM } 60 \\ &= \text{RM } 1,000 \end{aligned}$$

$$\begin{aligned} \text{GST} &= \text{Consideration} \times \text{Tax Rate} \\ &= \text{RM } 1,000 \times 6\% \\ &= \text{RM } 60 \end{aligned}$$

Method 2 (Direct Method):

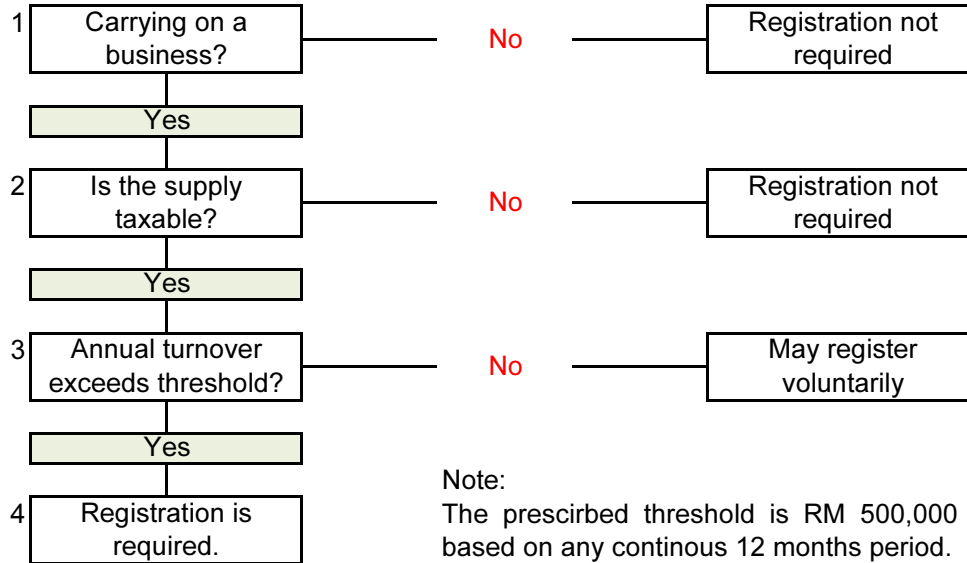
For eg. A sells goods to B and priced at RM 1,000

$$\begin{aligned} \text{GST} &= \text{Consideration} \times \text{Tax Rate} \\ &= \text{RM } 1,000 \times 6\% \\ &= \text{RM } 60 \end{aligned}$$

IV. GST REGISTRATION

Who is required to register and who may register?

The following illustration provides an idea for businesses for a self check:



Note:
The prescribed threshold is RM 500,000 calculated based on any continuous 12 months period. Not

What are the benefits of registering voluntarily?

Registering voluntarily allows business to claim input taxes incurred which otherwise not claimable.

What is the latest date to register?

GST will be implemented at 1st April 2015. However, the GST system requires business which exceeded the prescribed threshold to register for GST before 1st January 2015. Thus, for businesses which fall under compulsory category, the latest date to register for GST is: 31st

How to register?

Registration can be done in both ways, either manually through printed forms or online. Forms and electronic registrations are available via the official custom website. Registration starts October 2014.

When to register?

It is highly recommended that businesses are ready for GST before registration. Upon registration, businesses will start complying and filing returns of GST. Without prior preparation, mistakes on returns will be costly and rectification will be troublesome. *(Refer I. Introduction for a readiness checklist.)*

V. SETTING UP TAX INVOICES & NOTES

What is a Tax Invoice?

A tax invoice is a document containing certain information about the supply that has been made. Similiar to a commercial invoice, it however, details additional information such as details of registered person and supply, GST rate and the amount of GST paypable.

What makes tax invoices important in the GST system?

Tax invoices are primary evidence to support input tax claims. It determines when a business can claim its input taxes and when to claim. For an issuer, a tax invoice sent determine which supplies made should be included in a particular taxable period (simply, when it is filed to the authority).

When tax invoices should be issued?

Tax invoices must be issued within 21 days from the time of supply either in printed or electronical form.

Can a normal commercial invoice been used to claim input taxes?

No. Input taxes cannot be claimed using normal commercial invoices.

What should be present in a tax invoice?

A full tax invoice must include the followings but not exhaustive:

- (a) the word "Tax Invoice";
- (b) serial number;
- (c) date of issue;
- (d) name, address and GST identification number of supplier;
- (e) customer's name and address;
- (f) description that are sufficient to identify and distinguish the goods or services supplied;
- (g) any discounts offered;
- (h) total amount changed excluding GST in Ringgit;
- (i) rate of GST applied;
- (j) total amount payable including GST in Ringgit

What about credit notes and debit notes?

A credit note or debit note is issued when the amount previously invoiced is changed or cancelled. They must be issued within 21 days after such changes take place. They allow any trader to make necessary adjustments to GST charged.

V. SETTING UP TAX INVOICES & NOTES (cont'd)

What should be present in a credit or debit note?

Similliar to a tax invoice, the particulars need to be present are as follows:

- (a) the word "Debit Note" or "Credit Note";
- (b) serial number;
- (c) date of issue;
- (d) name, address and GST identification number of supplier;
- (e) customer's name and address;
- (f) reason for the issue
- (g) descriptions that are sufficient to identify and distinguish the goods or services supplied;
- (h) total amount changed excluding GST in Ringgit;
- (i) rate of GST applied;
- (j) total amount changed including GST in Ringgit

What happens when a credit or debit note is issued?

Example for Debit Notes Adjustment:

Goods worth RM100 supplied by A to B, and additional services was supplied to B worth RM10. A debit note is issued.

Computations of GST effects:

Documents (Sent)	A as seller:	
Tax Invoice	Output Tax	RM 100 *6% = RM 6
Debit Note	Output Tax	RM 10 *6% = RM 0.60
	Actual GST remittance RM 6 +RM 0.60 = RM 6.60	
Documents (Received)	B as buyer:	
Tax Invoice	Input Tax	RM 100 *6% = RM6
Debit Note	Input Tax	RM 10 *6% = RM0.60
	Actual GST claimed : RM6 +RM0.60 = RM6.60	

Helpful Tips:

Depending of the timing of the documents issued, the adjustments may or may not fall under the same periods for GST returns. (Refer to VII. Timing for more details)

V. SETTING UP TAX INVOICES & NOTES (cont'd)

An example of Tax Invoice:

(d)	Kilang Bantal Sdn Bhd Lot 123, Jalan Katil, 43210, Klang, Selangor (GST ID : 1000200/2010) Tel : 03-33344575	Tax Invoice No: 1001122	→ (b)																																														
TAX INVOICE																																																	
(e)	Customer: Kedai Katil Ali Sdn Bhd No 3, Jalan Gajah Baru, 12300 Ipoh	Date: 12 Jun 2010	→ (c)																																														
(f)	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 5%;"> </th> <th style="width: 40%;">Description</th> <th style="width: 10%;">QTY</th> <th style="width: 15%;">UNIT PRICE (RM)</th> <th style="width: 30%;">TOTAL (RM)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Pillow Size S 1-55</td> <td>10</td> <td>12.00</td> <td>120.00</td> </tr> <tr> <td>2</td> <td>Pillow Size M 345-A</td> <td>5</td> <td>14.00</td> <td>70.00</td> </tr> <tr> <td>3</td> <td>Pillow Size B 445-7A</td> <td>2</td> <td>15.00</td> <td>30.00</td> </tr> <tr> <td colspan="4"></td> <td>220.00</td> </tr> <tr> <td colspan="4">Discount @10%</td> <td>(22.00)</td> </tr> <tr> <td colspan="4"></td> <td>198.00</td> </tr> <tr> <td colspan="4">GST @ 6%</td> <td>11.88</td> </tr> <tr> <td colspan="4">Total Sales</td> <td>209.88</td> </tr> </tbody> </table>				Description	QTY	UNIT PRICE (RM)	TOTAL (RM)	1	Pillow Size S 1-55	10	12.00	120.00	2	Pillow Size M 345-A	5	14.00	70.00	3	Pillow Size B 445-7A	2	15.00	30.00					220.00	Discount @10%				(22.00)					198.00	GST @ 6%				11.88	Total Sales				209.88	→ (g) → (h) → (i) → (j)
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Annotations:

- (a) the word "Tax Invoice";
- (b) serial number;
- (c) date of issue;
- (d) name, address and GST identification number of supplier;
- (e) customer's name and address;
- (f) descriptions that are sufficient to identify and distinguish the goods or services supplied;
- (g) any discounts offered;
- (h) total amount charged excluding GST in Ringgit;
- (i) rate of GST applied;
- (j) total amount payable including GST in Ringgit

VI. TIMINGS

When does a transaction should be accounted for payment?

There are two accounting basis for GST, namely, payment and invoice basis. Payment basis refers GST is accounted when payment is received, while invoice basis means the accounting of GST happens once a tax invoice is issued.

What are the advantages and disadvantages between the two accounting basis?

As tabulated:

	Invoice Basis	Payment Basis
Advantages	<p>Able to claim Input Tax before payment is made to supplier.</p> <p>Easy to account for sales and purchases transactions.</p>	<p>Ideal for businesses dealing solely on cash basis.</p> <p>Facilitate cashflows.</p> <p>Allows long term credits given to customers.</p>
Disadvantages	<p>Have to account for output tax before payment is received from customers.</p> <p>Cashflow problems may occur.</p>	<p>Can only claim input taxes when payment is made to suppliers.</p> <p>More troublesome to track payments compared to Invoice basis. <i>(Refer part VIII)</i></p>

What are taxable periods?

Taxable periods are regular interval period where a taxable person accounts and pays GST to the government.

What are the choices of taxable periods available for filing?

The default taxable periods are quarterly filings. However, depending on business' annual turnover and business conditions, taxable period may differ - it may be monthly, half yearly or at the director general's discretion:

- Below 5 million - Quarterly
- Above 5 million - Monthly
- Others - Half Yearly (Small Business and seasonal sales)

VI. TIMINGS (cont'd)

The filing frequency of the various taxable periods are as below:

Filing Frequencies	Taxable Periods		
Quarterly	Jan - Mar	Apr - Jun	Jul - Sept
	Oct - Dec		
	Feb - Apr	May - Jul	Aug - Oct
	Nov - Jan		
	Mar - May	Jun - Aug	Sept - Nov
	Dec - Feb		
Monthly	Monthly		
Half-Yearly	Jan - Jun	July - Dec	
	Feb - July	Aug - Jan	
	Mar - Aug	Sept - Feb	
	Apr - Sept	Oct - Mar	
	May - Oct	Sept - Apr	
	Jun - Nov	Dec - May	

Can a business change its taxable period in the future?

Depending on the circumstances and business needs, the registered person can request for a change in taxable periods or even interval, subject to the consideration of the Director General.

When must a business file and settle the tax?

Businesses must file and settle relevant taxes within one calendar month after its taxable period.

For eg. Taxable period is January to March (assuming filing frequency is quarterly) the last day to file will be 30th April.

VII. ACCOUNTING AND BOOK KEEPING

Disclaimer:

This section gives practical examples and suggestions on how a business should record GST transactions in its respective books. This example may or may not suit the accounting environment and the need of all businesses. There is no dictated rules on how a business should account for GST in its book-keeping efforts.

How do businesses record these transactions in its books?

GST unpaid represents a liability of the entity towards the government and vice versa. It sits in the balance sheet until it is settled.

An illustrative example:

Goods valued at RM 100.00 were sold, GST @6% = RM 6.00, customer banked in RM 106.00

Dr Bank	106.00		
		(Assets)	
Cr Sales	100.00		(Income)
Cr GST account	6.00		(Liability to the govt)

Bought raw materials worth RM 80.00, GST @6% = RM4.80, paid RM 84.80

Dr Purchases	80.00		
		(Expenses)	
Dr GST account	4.80		(Liability to the govt)
Cr Bank		84.80	(Assets)

At the filing period, remit accounted GST to the authorities

Dr GST account	1.20		
		(Liability to the govt)	
Cr Bank		1.20	(Assets)

How does a GST account looks like in the book?

Dr	GST Account	Cr
Input Tax	4.80	Output Tax
Bank	1.20	6.00
	6.00	6.00

If a business adopts Invoice basis, the GST account is zeroised when payments is remitted to the authority. However, should the business adopts Payment basis, the timing of claim and accounting for output taxes may differ according to the timing of payment made/received.

VIII. PENALTIES

How are late payment penalties calculated?

The amount of penalty is determined by the amount of tax paid times the rate of penalty. To find the penalty amount, both elements must be determined, first.

- Step 1: Determine when last day tax is due
- Step 2: Determine when the tax is paid
- Step 3: Compute numbers of days late
- Step 4: Determine penalty rate
- Step 5: Compute penalty by solving $\text{Rate}\% \times \text{Tax Paid}$

The rates of penalty for late payment of tax is tabulated as follows:

No. of Days Late	Rate of Penalty	Cummulative Penalty Rate
1-30 days	5 %	5 %
31-60 days	5 %	10 %
61-90 days	3 %	13 %
91-120 days	3 %	16 %
121-150 days	3 %	19 %
151-180 days	3 %	22 %
>181 days	3 %	25 %

An example:

AAA Sdn Bhd failed to pay its Jun - Aug taxable period tax of RM 26,000. AAA Sdn Bhd only paid tax on 5 Nov. What is the penalty imposed?

Answer: Since tax is paid on 5 Nov, 36 days later than the due date of 30 Sept, 10% penalty is imposed. Thus: $\text{RM } 26,000 \times 10\% = \text{RM } 2,600$.

IX. USEFUL LINKS AND REFERENCES

This sections provides links to useful websites and references:

Custom's GST Portal:

<http://gst.customs.gov.my/en/Pages/default.aspx>

Custom's official page:

<http://www.customs.gov.my/>

Alan Yoon Associates's website:

<http://www.alanyoonassociates.com/>

Alan Yoon Associates Seminars Updates:

<http://ayaseminars.com/>

GST Bill in PDF:

http://gst.customs.gov.my/en/rg/SiteAssets/gst_bill/GST%20Bill%202014.pdf

GST Guide by Customs:

http://gst.customs.gov.my/en/rg/SiteAssets/general_guides/Revised/General%20Guide%20-revised%20as%20at%2027%20October%202013.pdf

GST Public Rulings:

http://gst.customs.gov.my/en/ib/Pages/ib_pr.aspx

All GST Forms:

http://gst.customs.gov.my/en/rg/Pages/rg_fm.aspx

Frequently Asked Questions:

http://gst.customs.gov.my/en/rg/Pages/rg_gen.aspx

Custom Offices Contacts

http://gst.customs.gov.my/en/cu/Pages/cu_ofc.aspx

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For a complete list of our offices other than GST support branches, please visit:

<http://www.alanyoonassociates.com/contact/index.html>



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