

Getting Ready for the Service Tax Rate Increase: What You Need to Know

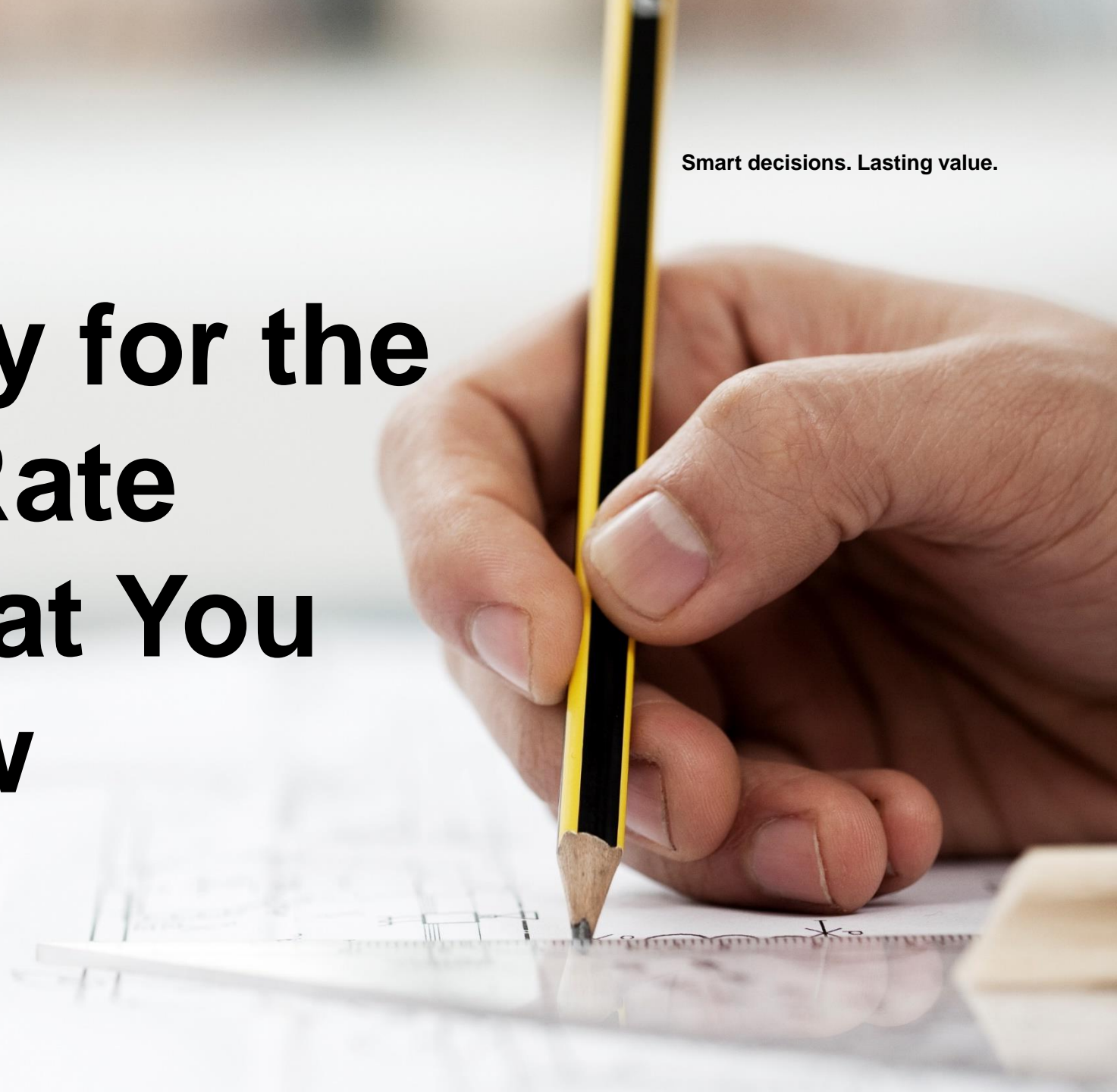


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Introduction



Since the implementation of the Service Tax on 1 September 2018, the Service Tax rate has been set at 6%, except for credit cards and charge cards which are subject to a fixed fee of RM25 per card.

In the 2024 budget announcement on 13 October 2023, a proposal was made to increase the Service Tax rate to 8%, while certain types of taxable services were intended to maintain at their existing rate.

Effective Date for Service Tax Rate Increase

According to announcements from the Royal Malaysian Customs Department (“RMCD”) and information shared during a webinar conducted by the RMCD on 15 February 2024, the effective date for this Service Tax increase is set for 1 March 2024.

During the webinar, RMCD emphasised that the relevant legislation is currently undergoing a final review and approval process by the Minister of Finance.

Updates on Service Tax Rates

The Service Tax rates for most taxable services will be increased from 6% to 8%.

Exceptions to Service Tax Rate Change:

- **Food and beverages** in Group B will remain at 6%.
- **Parking** services in Group I will remain at 6%.
- **Telecommunication** services in Group I will remain at 6%.
- New taxable **logistics** services in Group J will be subject to 6% Service Tax rate.
- **Credit card and charge card** in Group H will remain at a fixed fee of RM25 per card.

Summary Table of Service Tax Rates

Group	Taxable Services	Service Tax Rate
Group A	Accommodation	8%
Group B	Food and beverages	6%
Group C	Night clubs, dance halls, cabarets, health and wellness centres, massage parlours, public houses and beer houses, karaoke centres	8%
Group D	Private club	8%
Group E	Golf club and golf driving range	8%
Group F	Betting and gaming	8%
Group G	Professionals or skills	8%
Group H	Credit card and charge card	RM25 per card
Group I	Others	8%, except for parking and telecommunication services remained at 6%
Group J	Logistic and courier services, customs agent	6%

Updates on Service Tax Rates

In a recent RMCD webinar, it was explained that the Service Tax rates are determined based on the nature of taxable services rather than the registration groups.

For example, a hotel registered under Group A (i.e. accommodation) provides both accommodation and food services. In this case, the Service Tax on food and beverage should be subject to a 6% Service Tax, while the hotel room charges should be subject to an 8% Service Tax.

Likewise, if a restaurant registered under Group B (i.e. food and beverage) provides both food and beverages along with management service, it should charge an 8% Service Tax for the provision of management services, despite being registered under Group B.

In light of the above, businesses are advised to accurately apply Service Tax rates, particularly when providing taxable services with different Service Tax rates.



Transitional Provisions

To ease the transition, the RMCD has provided specific rules for taxable services provided before and after 1 March 2024.

1

Taxable Services

(except for Betting and Gaming Services)

Taxable services provided before 1 March 2024:

- If services are provided before 1 March 2024, the services will be subject to the existing 6% Service Tax rate. Importantly, regardless of when the invoice is issued or payment is received, it will not affect the 6% rate, as long as the services are provided before 1 March 2024.

Taxable services provided on or after 1 March 2024:

- Taxable services provided on or after 1 March 2024 will be subject to an increased 8% Service Tax rate.

Taxable services spanning 1 March 2024:

- For services that span across 1 March 2024, the portion of services provided on or after 1 March 2024 will be subject to the new 8% Service Tax rate.
- However, if you have received advance **payments before 1 March 2024** for services to be provided on or after 1 March 2024, those payments will remain at the existing 6% rate.

Transitional Provisions

For Provision of Taxable Services (except for Betting & Gaming Services)

Before 1 March 2024			On or after 1 March 2024			Service Tax rate
Service provided	Invoice issued	Payment received	Service provided	Invoice issued	Payment received	
X	X	X				6%
X	X				X	6%
X		X		X		6%
X				X	X	6%
		X	X	X		6%
	X	X	X			6%
			X	X	X	8%
	X		X		X	8%

Transitional Provisions

To ease the transition, the RMCD has provided specific rules for taxable services provided before and after 1 March 2024.

2

Betting and Gaming Services

Payments Received for Betting and Gaming Services

Any payments received by service providers for betting and gaming services provided on or after 1 March 2024 will be subject to applicable rate when the Service Tax becomes due and payable.

The Service Tax due and payable for betting and gaming services varies depending on the nature of the service, as outlined below:

- For number forecasting, lottery, and games of chance, Service Tax is due at the time when numbers are drawn;
- For sweepstakes, Service Tax is due at the time when the race takes place;
- For gaming machines, Service Tax is due at the time when the collection is removed from gaming machines or the transaction is recorded by the machine; and
- For casino gaming, Service Tax is due on the last day of the taxable period in which the taxable service takes place.

Transitional Provisions

To ease the transition, the RMCD has provided specific rules for taxable services provided before and after 1 March 2024.

3

Imported Taxable Services

Imported taxable services acquired before 1 March 2024:

- Imported taxable services acquired before 1 March 2024 will be subject to the existing 6% Service Tax rate.

Imported taxable services acquired on or after 1 March 2024:

- Imported taxable services acquired on or after 1 March 2024 will be subject to an increased 8% Service Tax rate.

Imported taxable services spanning 1 March 2024:

- For services that span across 1 March 2024, the portion of services acquired on or after 1 March 2024 will be subject to the new 8% Service Tax rate.
- However, if an invoice is received from the foreign service provider or payment is made to the foreign service provider before 1 March 2024 for services acquired on or after 1 March 2024, those transactions will remain at the existing 6% rate. The draft guideline specifies that the date of invoice receipt should refer to the date recorded in your accounting.

Transitional Provisions

For Imported Taxable Services

Before 1 March 2024			On or after 1 March 2024			Service Tax rate
Service acquired	Invoice received	Payment made	Service acquired	Invoice received	Payment made	
X	X	X				6%
X	X				X	6%
X		X		X		6%
X				X	X	6%
	X		X		X	6%
		X	X	X		6%
	X	X	X			6%
			X	X	X	8%

Conclusion

It is crucial for businesses affected by these changes to promptly update their systems and pricing. Those providing taxable services with different Service Tax rates or spanning the effective date should ensure the accurate application of the appropriate Service Tax rates.

Although the relevant legislation has yet to be officially gazetted, businesses should start preparing for these changes since it is less than a month for the necessary adjustments. Stay updated on the final approval from the Ministry of Finance to ensure compliance with the latest changes.

We understand that adapting to Service Tax rate changes can be challenging. We are here to support you through this transition. If you have any questions or need further clarification, feel free to reach out to us.

Contact Us



Norhayati Ruslan
Senior Manager, Tax
norhayati.ruslan@crowe.my



Chong Mun Yew
Executive Director, Tax
munyew.chong@crowe.my



Fam Fui Chien
Senior Manager, Tax
fuichien.fam@crowe.my



Our Offices (West Malaysia)

Kuala Lumpur

Level 16, Tower C,
Megan Avenue II,
12 Jalan Yap Kwan Seng,
50450 Kuala Lumpur,
Malaysia

+603 2788 9999 Main

Contact: Poon Yew Hoe
Email: yewhoe.poon@crowe.my

Klang

Suite 50-3, Setia Avenue,
No. 2, Jalan Setia Prima SU13/S,
Setia Alam, Seksyen U13,
40170 Shah Alam,
Selangor, Malaysia

+603 3343 0730 Main

Contact: Michael Ong
Email: michael.ong@crowe.my

Penang

Level 6, Wisma Penang Garden,
42 Jalan Sultan Ahmad Shah,
10050 Penang, Malaysia

+604 227 7061 Main
+604 227 8011 Fax

Contact: Eddy Chan
Email: eddywaihun.chan@crowe.my

Johor Bahru

E-2-3 Pusat Komersial Bayu Tasek,
Persiaran Southkey 1,
Kota Southkey, 80150 Johor Bahru,
Johor, Malaysia

+607 288 6627 Main
+607 338 4627 Fax

Contact: Patrick Wong
Email: patrick.wong@crowe.my

Melaka

52 Jalan Kota Laksamana 2/15,
Taman Kota Laksamana, Seksyen 2,
75200 Melaka, Malaysia

+606 282 5995 Main
+606 283 6449 Fax

Contact: Patrick Wong
Email: patrick.wong@crowe.my

Muar

8, Jalan Pesta 1/1,
Taman Tun Dr. Ismail 1,
Jalan Bakri, 84000 Muar,
Johor, Malaysia

+606 952 4328 Main
+606 952 7328 Fax

Contact: Ng Kim Kiat
Email: kimkiat.ng@crowe.my

Ipoh

59C, Hala Pusat Perdagangan
Canning 1,
Pusat Perdagangan Canning II,
30350 Ipoh,
Perak, Malaysia

+605 237 8800 Main

Contact: Choong Kok Keong
Email: kokkeong.choong@crowe.my



Our Offices (East Malaysia)

Kuching

2nd Floor, C378, Block C,
iCom Square,
Jalan Pending,
93450 Kuching, Sarawak, Malaysia

+6082 552 688 Main
+6082 266 987 Fax

Contact: Kenny Chong
Email: kenny.chong@crowe.my

Bintulu

1st floor, Lot 4542-4543,
Jalan Abang Galau Shophouse,
Kampung Masjid, 97000
Bintulu, Sarawak, Malaysia

+6086 333 328 Main
+6086 334 802 Fax

Contact: Lau Hin Siang
Email: hinsiang.lau@crowe.my

Miri

Lot 2395, Block 4,
Bulatan Business Park,
Jalan Bulatan Park,
98000 Miri, Sarawak, Malaysia

+6085 658 835 Main
+6085 655 001 Fax

Contact: Matthew Wong
Email: matthew.wong@crowe.my

Sibu

1st & 2nd Floor, No. 1 Lorong
Pahlawan 7A2, Jalan Pahlawan,
96000 Sibu, Sarawak, Malaysia

+6084 211 777 Main
+6084 216 622 Fax

Contact: Morris Hii
Email: morris.hii@crowe.my

Sabah

Damai Plaza 3, 3rd Floor, C11,
Jalan Damai 88300, P.O. Box
11003,
88811 Kota Kinabalu, Sabah,
Malaysia

+6088 233 733 Main
+6088 238 955 Fax

Contact: Michael Tong
Email: michael.tong@crowe.my

Labuan

Office Suite 1662,
Level 16(A), Main Office Tower,
Financial Park Complex Labuan,
Jalan Merdeka,
87000 Labuan, Malaysia

+6087 584 798 Main

Contact: Lean Wei Ee
Email: weiee.lean@crowe.my



Contact us

Crowe Malaysia PLT
Level 16, Tower C
Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur
Malaysia

Tel: +603 2788 9999

www.crowe.my

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