

Malaysia: Budget 2019 Indirect Tax Updates

On 2 November 2018, the Malaysia Minister of Finance tabled the 2019 National Budget.

The key indirect tax proposals are as follows:

Excise duty on sweetened beverages

Currently, there is no excise duty levied on sweetened beverages. However, it has been proposed by the Malaysia Government that beginning on 1 April 2019, excise duty will be introduced on sweetened beverages that are being manufactured in the form of ready to drink. The excise duty rate of MYR 0.40 per litre will be charged on the following sweetened beverages.

Category 1: Beverages including carbonated drinks containing added sugar or other sweetening matter, or flavoured and other non-alcoholic beverages under tariff heading 22.02, which contains sugar exceeding 5 grams per 100 ml.

Category 2: Fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter under the tariff heading 20.09 that contain sugar exceeding 12 grams per 100 ml.

It is anticipated that the cost of producing and importing sweetened beverages exceeding the sugar threshold will go up. The implementation of excise duty on sweetened beverages in next April also makes Malaysia the fourth country in Southeast Asia after Brunei, Thailand and Philippines to do so.

Manufacturers and importers of sweetened beverages should assess the sugar contents of their beverages and closely monitor the impact of the excise duty on their affected products and taking appropriate actions such as lobbying as necessary. Currently, there is no guideline issued on how the excise duty will be assessed and collected. It is anticipated that more details on the registration and excise licensing requirements will be followed.

Service tax on imported services

Currently, there is no service tax levied on prescribed services supplied by foreign service providers. However, it has been proposed by the Malaysia Government that service tax will be imposed on the taxable services supplied by both local and foreign service providers.

A new provision will be introduced in the Service Tax Act 2018 to enable the recipients of the imported services to account, declare and pay the service tax to Malaysia Customs.

The imposition of service tax on imported services will be carried out in two phases.

Phase 1: Services imported by business (B2B) to be implemented from 1 January 2019

Phase 2: Services imported by consumers (B2C) to be implemented from 1 January 2020

On 19 November 2018, a number of new amendments to the Service Tax Act 2018 have been introduced in the Finance Bill 2018 in regards to the importation of prescribed services by businesses (B2B). The key amendments are as follows:-

1. imported taxable service means any taxable service acquired by any person in Malaysia from any person who is outside Malaysia;
2. service tax shall be charged and levied on any taxable service provided in Malaysia by a registered person in carrying on his business or any imported taxable service; and
3. in the case of imported taxable service, the value of such imported taxable service shall be as prescribed by the Malaysia Minister of Finance.

Online services imported by consumers (“Digital Tax”)

It has been proposed that foreign service providers providing online services to Malaysia consumers will be required to register for service tax with Malaysia Customs and charge service tax.

During the National budget speech delivery, the Finance Minister gave examples of taxable online services which include but are not limited to downloaded software, music, video or digital advertising. It is expected a more detailed list will be published prior to the implementation date by 1 January 2020.

Reduction of import duty rate on bicycles

Currently, the importation of bicycles (other than racing bicycles and bicycles designed to be ridden by children) falling under the HS tariff code 8712.00.30 00 are subject to import duty at the rate of 25%.

Effective from 1 January 2019, import duty rate is proposed to reduce from 25% to 15% on such bicycles.

Let's talk

If you would like further advice or a deeper discussion of how this issue might affect your business, please contact:

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