



April 2014 Issue

GSTflash

In conjunction with our inaugural UHY GST Seminar to be held on 16 April 2014, this month's issue touches on topics which will be discussed during the event, namely:

1. The Need to Replace the Current Consumption Tax System
2. Blocked Input Tax – An Understanding
3. Special Schemes – Approved Trader Scheme (ATM) and Approved Toll Manufacturer Scheme (ATMS)
4. GST Audit

THE NEED TO REPLACE THE CURRENT CONSUMPTION TAX SYSTEM

Sales tax is imposed and collected at the manufacturing level, whereas service tax is imposed when a service is performed. Sales and service tax (SST) has a pyramiding effect, referring to the situation where the identical goods and services are taxed multiple times as they move along several transaction stages.

As a result, costs of business are increased as these indirect taxes are required to be built into profit margin calculations in order to be recovered. Table 1 below categorizes the SST implied to the different classes of goods and services:

Classes of goods and services	Sales Tax	Service Tax
Selected goods manufactured locally and imported	5%	-
All other goods not specifically exempted	10%	-
Specific items	Specific	-
Prescribed services	-	6%
Prescribed specific services	-	Specific

Goods and services tax (GST), on the other hand, is charged on any taxable supply of goods and services including importations. Despite being charged through the entire supply chain, only the value added at each stage is taxed, thus eliminating the compounding effect caused by SST. This is a much more efficient and effective tax system as it enables every consumption stage to claim GST incurred on costs instead of having to be absorbed by businesses as part of their costs.



NON-ALLOWABLE INPUT TAX (BLOCKED INPUT TAX)

As a GST-registered person, despite being entitled to claim GST on costs attributable to taxable supplies, you are disallowed from claiming GST on expenses that are usually incurred for personal purposes. Known as blocked input tax, this type of non-claimable GST applies to the following items:

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Blocked
Input Tax
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Items	Description
Passenger motor cars including hiring of car	A motor car of a kind normally used on public roads which is constructed for the carriage of not more than nine passengers inclusive of the driver and the unladen weight of which does not exceed three thousand kilograms.
Family benefits	Any benefits (including hospitality of any kind) provided by the taxable person for the benefit of any person who is the wife, husband, child or relative of any person employed by the taxable person.
Club subscription fee	Any joining fee, subscription fee, membership fee, or other consideration charged by any club, association, society or organization established principally for recreational or sporting purposes.
Medical and personal accident insurance premiums	Any input tax attributable to the premium paid on medical and personal accident insurance is disallowed.
Medical expenses	Any medical expenses (e.g. medicine) in connection with the provision of medical treatment to any person employed by a taxable person.
Entertainment expenses for family members and potential clients	If the entertainment expenses are for employees and existing clients then the input tax is allowable.



Special Schemes

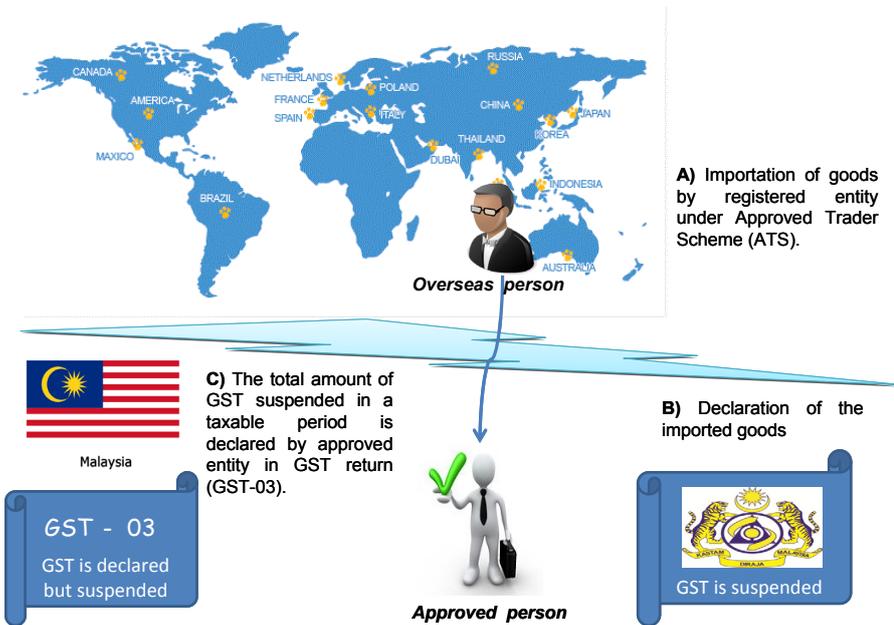


Diagram 1: Transaction flow for ATS

“ Approved Trader Scheme ”

APPROVED TRADER SCHEME (ATS)

Generally all goods imported by manufacturers are subject to GST. However, the ATS provides a special relief exclusively for eligible manufacturers to suspend the GST upon importation.

Under ATS:

- Participants are permitted to suspend GST on the importation of goods.
- GST imposed on all goods imported in a specific month would be accounted for in that month (the month where importations take place).
- The amount of GST suspended is required to be declared in the GST return for that particular period.

APPROVED TOLL MANUFACTURER SCHEME (ATMS)

Toll manufacturing is an activity where a local company processes semi-completed goods on behalf of another company.

- An approved Toll Manufacturer are permitted to disregard the supply of goods (processed goods) and the supply of services for and to his overseas principal for GST purpose.
- Any domestic person who receives the processed goods from the TM shall account and pay tax as if he had himself supply the goods and acquired the goods in the course of furtherance his business.

*Recipient accounting:

- If the recipient is a registrant, he requires accounting for GST in his return.
- If the recipient is a non registrant, he requires accounting for GST in a special form

“ Approved Toll Manufacturer Scheme ”

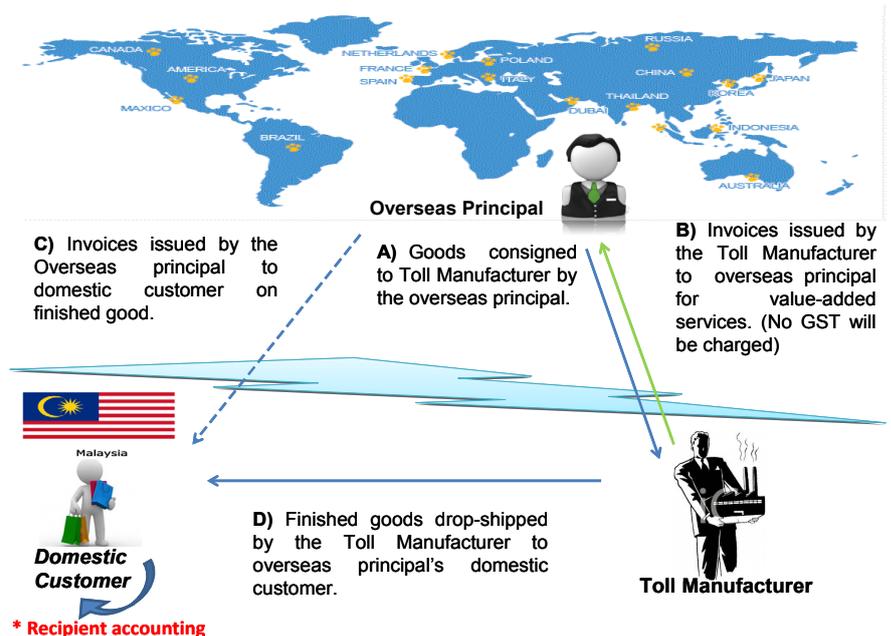


Diagram 2: Transaction flow for ATMS

“ GST Audit: Feeling Nervous? ”

COMMON SYMPTOMS THAT ATTRACT GST AUDIT

The thought of a GST audit would alarm most people.

Unfortunately, it could happen and businesses should be prepared. The Royal Malaysian Customs Department (RMCD) conducts GST audits to ensure businesses fulfill their legal obligations and operate appropriately within the system. These audits may be conducted by phone and/ or visit from the RMCD to check the integrity of information lodged.

Some of the areas that may attract RMCD's attention include:

- Failure to lodge GST forms for long periods of time
- Record keeping issues
- Incorrect reporting on GST lodgments
- Over-claiming GST on purchases or under-reporting GST on income
- Large GST refunds
- Export of goods
- Property transactions
- Supplies of a going concern
- Businesses where GST management practices have failed to keep pace with their growth
- Businesses that report GST amounts that vary substantially to similar businesses in similar industries

BE PREPARED AND DEAL WITH A TAX AUDIT

Firstly, ensure you have a proper, up-to-date and accurate record keeping system aided by a GST-compliant accounting software to substantiate your business' transactions.

The following are reports, documents and information essential for a GST audit:

- Detailed GST Reports reflecting the invoices, purchases, GST collected and GST paid, as well as transactions that do not attract GST.
- Copies of all receipts and tax invoices, bank statements, purchase/order notes and cash register receipts.
- Financial statements (Profit & Loss, Balance Sheet and Trial Balance) for the period.
- A backup of your accounting data to that date or lock the period to avoid changes.

Ensure records are kept in Malaysia unless otherwise approved by the Director General, produced in the national or English language and kept for seven (7) years from the last GST return you lodged.

While record keeping may seem like another compliance burden for you to bear, most of the records suggested here will help you manage your business far more efficiently and effectively.



“ Be Prepared ”

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