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March 2014 Issue

GSTflash

BEING A MIXED SUPPLIER IN THE GST WORLD

A mixed supplier is a business that makes more than one type of supply, in which the GST treatment will depend on the type of supplies made(1). Particulars of each type of supply such as item details, GST rates and amounts applicable are required to be displayed in the tax invoice issued.

A simple example of a mixed supplier would be a residential property developer selling units of condominium furnished with air-conditioners and a refrigerator. These different components of the supply can be separately available and have different GST treatment as follow:

Unit	Exempt (No GST)
Air-Conditioners	Standard-rated (6%)
Refrigerator	Standard-rated (6%)

It is therefore crucial for a mixed supplier to ensure GST treatment of its types of supply is accurate to avoid incorrect reporting and payment of GST.

(1) Types of supply & GST rates:	
Standard-rated supplies	6%
Zero-rated supplies	0%
Exempt supplies	GST not applicable

EXAMPLES OF ZERO-RATED ITEMS

- Agricultural products
- Beef, mutton, swine
- Seafood
- Rice, sugar, salt, flour, cooking oil
- Selected poultry and eggs
- Water for domestic use
- Electricity (first 200 units)
- Exported goods and services

EXAMPLES OF EXEMPT ITEMS

- Public transportation
- Tolled highway or bridge
- Land for residential, agriculture or general use
- Funeral packages
- Private healthcare and education
- Selected financial services
- Childcare services
- Selected accommodation

HOW DOES BEING A MIXED SUPPLIER IMPACT A BUSINESS' ELIGIBILITY TO CLAIM INPUT TAX?

A GST-registered business which has only has one type of supply is eligible to claim input tax (i.e. GST) incurred on expenses relating to the supply of goods or services it makes. In simple situations:

- Input tax on expenses attributable to standard-rated and zero-rated supplies can be fully claimed; and
- Input tax on expenses attributable to exempt supplies cannot be claimed.

The concept above is not entirely applicable for mixed suppliers. A mixed supplier would usually incur input tax on expenses that are attributable to both standard/zero-rated and exempt supplies. This type of input tax is classified as "Residual Input Tax" and is usually incurred on general overhead expenses such as utilities, professional fees and rental. When the situation involving residual input tax arises, mixed suppliers are only eligible to claim the portion attributable to standard/zero-rated supplies only.

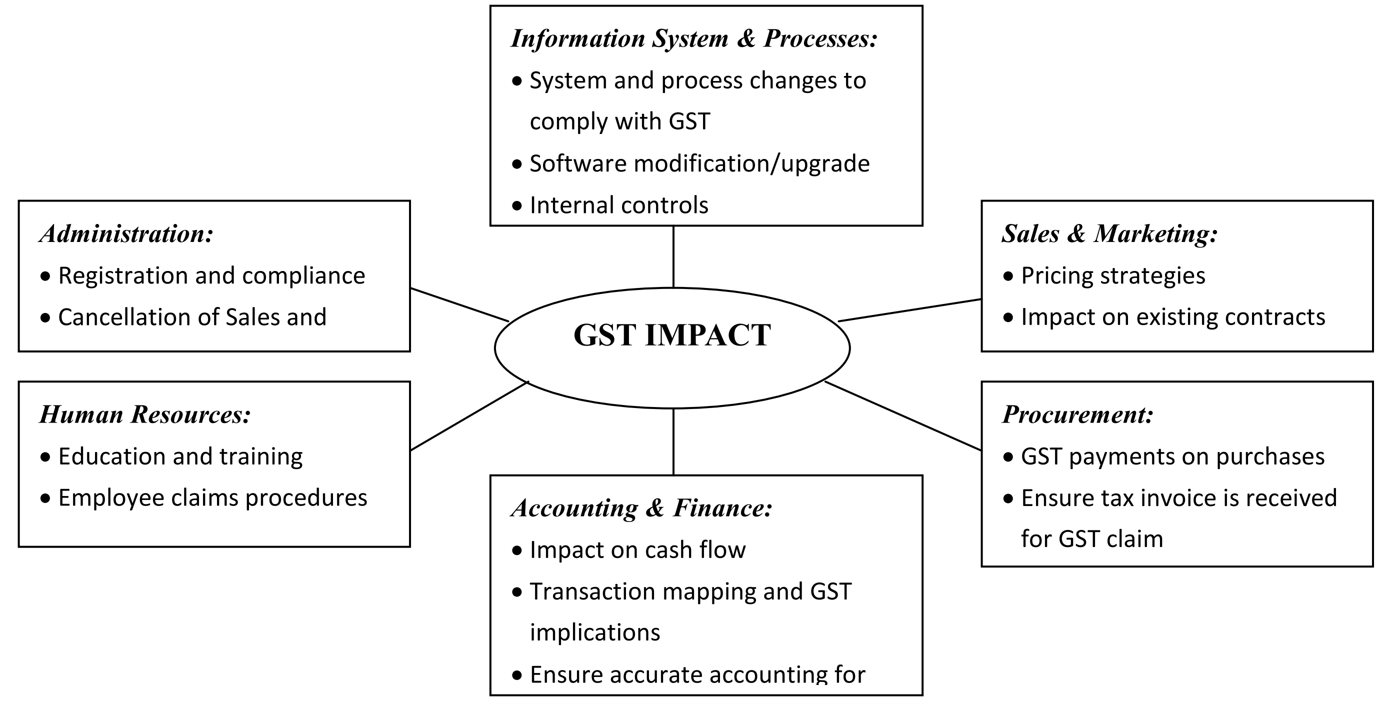
IMPACTS OF GST

UPDATES ON GST REGISTRATION MATTERS BY ROYAL MALAYSIAN CUSTOMS DEPARTMENT (RMCD)

– Mandatory registrants must complete registration by 31 December 2014. Penalties are applicable to late registrations.

– Online registration is targeted to commence on 1 May 2014 to ease the queue for registration before 31 December 2014 and implementation date of 1 April 2015.

GST IMPACT ON BUSINESS PROCESSES



TOPIC OF INTEREST – IMPACTS OF A NON-RESIDENT ENTITY'S GST REGISTRATION STATUS

If you are a local retailer importing goods from an overseas supplier who is a non-resident entity, your accounting for output tax (GST on supplies) can be affected by the registration status of that non-resident entity. The key factor determining your overseas supplier's liability to register for GST is meeting of the annual taxable turnover threshold. Essentially, if the annual taxable turnover:

- Exceeds RM500,000 – Liable to register and this can be done via a local agent[2].
- Is below RM500,000 – Not required to be registered but can voluntarily register.

Table 1 to the right summarizes the impacts on a local retailer when importing goods from a non-resident entity:

Non-resident Entity	Impact on Local Retailer
Registered for GST	Pay input tax on importation prior to goods being released by RMCD. Input tax is claimable if registered for GST.
Not registered for GST	Responsible to account for output tax in place of non-resident entity and remit to RMCD. Input tax of same amount is claim-able if registered for GST, resulting in a net zero effect.

Table 1: Impacts on a local retailer when importing goods from a non-resident entity.

[2] ***A local agent appointed by a non-resident entity will in turn be responsible for all GST liabilities***

"Understanding Bad Debt Relief"

WHAT SHOULD YOU KNOW ABOUT BAD DEBT RELIEF?

Bad Debt Relief – A relief provided via application by the Royal Malaysian Customs Department (RMCD) to allow businesses to claim back GST declared and paid on income not collectable. To be eligible for the relief, the following conditions are to be met:

- A period of six months from date of sale had lapsed.
- Debtor has become insolvent after date of sale.
- Reasonable efforts have been taken to recover the debt.
- Entitlement for the debt had not been sold to a third party (i.e. factoring of debt).

Important – The key factor for eligibility to utilize this relief is having sufficient documentary proof that efforts were made to recover the debt. It is not necessary to write off the debt from your accounting records.

If you claim bad debt relief, it is imperative that your purchaser is notified, as he/she will be required to repay the GST incurred back to the RMCD.

"Bad Debt Relief"

RECORDS REQUIREMENTS

The documentary evidence crucial in substantiating your bad debt relief claim includes:

- Tax invoice detailing purchaser's information and details of the income transaction including the GST amount.
- Proof that GST was accounted and paid for.
- Debtors' aging list showing payment not collected within six months from date of sale.
- Insolvency records (if debtor was confirmed to be insolvent).
- Documents recording attempts to recover the outstanding debt.

DOES THIS DIFFER FROM THE CURRENT SALES AND SERVICES TAX REGULATIONS?

Under the sales and service tax (SST) regulations, a licensee is also eligible to claim a refund of sales tax or service tax on income not recoverable. To be eligible, requirements set under the SST regulations are similar to those in the GST regime, only differentiated by the requirement for the debt to be written off as bad for SST claim.

The RMCD has retained this relief despite the Sales Tax Act 1972 and Service Tax Act 1975 being repealed upon GST implementation on 1 April 2015. This relief is also extended to apply irrespective of whether a business registers for GST or not.

USEFUL TIP:
GST AND UNRELIABLE CUSTOMERS

Some businesses tend to a have higher level of bad debts than the others. If this is a problem you face, you may find it easier to account for GST on a payment or cash basis[3]. By electing this option, you would not have to set aside cash which you have not collected for remission of GST to the RMCD.

Eligibility to account GST on payment basis is subject to approval by the RMCD upon meeting relevant requirements.

[3] ***Payment basis – GST is accounted on relevant transactions in the period in which an entity receives or makes payment.***

"Understanding Bad Debt Relief"

WHAT TO LOOK OUT FOR AFTER CLAIMING BAD DEBT RELIEF?

Whilst the bad debt relief provides you with the opportunity to claim back GST paid on uncollected income, there may be situations where you eventually get paid after you have claimed the relief. When such situation arises, the RMCD requires you to make adjustments to take into account that GST amount again.

Diagram 1 below differentiates the adjustments required by a supplier and a purchaser respectively:

GST SEMINAR

Highlights

- GST and overall impact on businesses and livelihood
- Transitional rules, special refunds and bad debts relief
- Impact from Sales & Service Tax
- Special scheme for specific industries
- Input tax credit
- GST impact for property developers and construction industry

Date 16 April 2014

Venue The Gardens Ballroom Lvl 5 Gardens Hotel & Residences Mid Valley City Kuala Lumpur

Time 9.30am to 5.30pm

Supplier's Adjustment

Chronology of events:

1. **Claimed bad debt relief for amounts not received.**
2. **Recovered amounts owed after claiming bad debt relief.**

When you receive payment from your customer after bad debt relief has been claimed, you are required to reverse the relief claim and repay the GST amount to the RMCD.

This above also applies to entities de-registered for GST purposes.

WHICH ARE YOU?

Purchaser's Adjustment

Chronology of events:

1. **Repaid GST incurred to RMCD due to non-payment of amounts owed to supplier.**
2. **Subsequently repaid amounts owed to supplier.**

As payment was subsequently made to your supplier, you will then be entitled to claim the GST incurred from the RMCD once more.

Diagram 1: Adjustments required by the supplier and purchaser when payment for a transaction is subsequently made after claiming of bad debt relief.

"Are you GST Ready?"

To register and enquire, please
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