



# **ROYAL MALAYSIAN CUSTOMS**

## **GOODS AND SERVICES TAX**

**GUIDE  
ON  
FREE INDUSTRIAL ZONE  
AND  
LICENSED MANUFACTURING  
WAREHOUSE**

## CONTENTS

<b>INTRODUCTION.....</b>	<b>1</b>
Overview of Goods and Services Tax (GST).....	1
<b>GENERAL OPERATIONS OF FREE INDUSTRIAL ZONE AND LICENSED MANUFACTURING WAREHOUSE.....</b>	<b>1</b>
<b>GST TREATMENT FOR THE INDUSTRY.....</b>	<b>2</b>
GST implication on goods acquired by a person operating in a FIZ or having LMW status.....	2
GST implication on goods supplied from a person operating in a FIZ or having LMW status.....	2
GST implication on services acquired by a person operating in a FIZ or having LMW status.....	3
<b>ACCOUNTING FOR OUTPUT TAX AND CUSTOMS DUTY .....</b>	<b>3</b>
<b>SUBCONTRACT WORK .....</b>	<b>5</b>
<b>FREQUENTLY ASKED QUESTIONS .....</b>	<b>6</b>
<b>FEEDBACK AND COMMENTS.....</b>	<b>10</b>
<b>FURTHER ASSISTANCE AND INFORMATION .....</b>	<b>11</b>

## **INTRODUCTION**

1. This industry guide is prepared to assist businesses in understanding matters with regards to GST treatment on Free Industrial Zone and Licensed Manufacturing Warehouse.

### **Overview of Goods and Services Tax (GST)**

2. Goods and Services Tax (GST) is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except those specifically exempted. GST is also charged on importation of goods and services into Malaysia.

3. Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, only the value added at each stage is taxed thus avoiding double taxation.

4. In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as a “registered person”. A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

### **GENERAL OPERATIONS OF FREE INDUSTRIAL ZONE AND LICENSED MANUFACTURING WAREHOUSE**

5. A free zone is a designated, secured area in which commercial and industrial activities are carried out and gazetted by the minister of finance as stated under the section 3(1) Free Zone Act 1990. There are two types of free zone that is the free industrial zone (FIZ) and free commercial zone (FCZ). Free Zone Authority is appointed by the minister under section 3(2) of the Free Zone Act 1990 to manage the zone. Customs control at the free zone is at the minimum and basically only at the gate point.

6. FIZ is a place where most of the manufacturing activities carried out are for export purpose. It is a facility meant for export-orientated companies. Besides that, FIZ can also carry out other activities such as evaluation, testing of goods, research, designing etc.

7. Licensed manufacturing warehouse (LMW) is a premise licensed under section 65A of the Customs Act 1967 and is directly control by Royal Malaysian Customs. It is control by way of documentation and subject to all customs rules and regulations. Licensed manufacturing warehouse is a facility provided for export oriented companies too.

8. This guide only covers GST treatment on any person operating in a FIZ or having LMW status. **For Free Commercial Zone, please refer to the guide on FCZ.**

## **GST TREATMENT FOR THE INDUSTRY**

### **GST implication on goods acquired by a person operating in a FIZ or having LMW status.**

9. Under GST system, a person operating in a FIZ or having LMW status is treated as any person carrying out a business in Malaysia where normal rules of GST apply. This means that acquisition of goods locally or imported by the person operating in a FIZ or having LMW status is subject to GST. However, the person operating in a FIZ or having LMW status is eligible to apply for Approved Trader Scheme (ATS) to allow the Director General to suspend the payment of GST on imported goods at the time of importation. **For further details, please refer to the guide on Approved Trader Scheme (ATS).**

### **GST implication on goods supplied from a person operating in a FIZ or having LMW status**

10. All goods that are supplied from a person operating in a FIZ or having LMW status to overseas are zero-rated. Documentary proof of export must be preserved for auditing purposes. However, supplies made from a person operating in a FIZ to any person operating in a FIZ are standard rated. Similar treatment applies to

supplies made by a person having LMW status to another person who is also having an LMW status or a person operating in a FIZ to any person having LMW status and vice versa.

11. All goods supplied locally by a person operating in FIZ or having LMW status to another person who is not operating in FIZ or not having LMW status are also subject to GST. However, the value of the goods must be the aggregate of the following amounts as provided under section 16 of the GST Act; 20XX

- (a) the value of goods for the purpose of customs duty
- (b) the amount of customs duty paid or is to be paid, and
- (c) the amount of excise duty paid or is to be paid

#### **GST implication on services acquired by a person operating in a FIZ or having LMW status**

12. Under GST system supply of services acquired by a person operating in a FIZ or having an LMW status is standard rated.

#### **ACCOUNTING FOR OUTPUT TAX AND CUSTOMS DUTY**

13. Under GST law, taxable goods supplied by a person operating in a FIZ or a person licensed under section 65A of Customs Act 1967 to any person who is not operating in a FIZ or to any person who is not licensed under section 65A of Customs Act 1967, must be valued as imported goods (as determined under section 16 of the GST Act). Any goods brought in for home consumption must be declared in the prescribed form (customs no. 1) for the purpose of payment of customs duty. For the payment of GST such supply of goods is treated as a normal supply whereby the registered person who is operating in FIZ must issue a tax invoice to account for output tax. The value for GST purposes must include any customs duty or excise duty paid or to be paid, if any. The registered person has to aggregate and account for GST in the GST return according to his taxable period.

**Example 1:**

**Table 1: Import duty on local sales accounted in a Customs No. 1 form**

Item	Description of goods	Unit	Value (RM)	Import Duty (RM)
1.	Shirts	300 pcs	7,500.00	1,500.00
	<b>Duty Payable</b>			1,500.00

(Assuming 20% import duty)

**Table 2: GST on local sales (a simple illustration)**

<b>TAX INVOICE</b>				
From: SS SmartSdn.Bhd., Jalan SS 2/2, Petaling Jaya, Selangor				
To: JBS Sdn Bhd., No.7, Jalan SS 7/7, Petaling Jaya, Selangor		Invoice No.: 007 GST No. : 00077-07 Invoice date: 8.8.20XX		
Item	Description Of Supply	Quantity	Unit Price (RM)	Total (RM)
1	Shirts	300 pcs	30.00	9,000.00
	GST on value + Import Duty @ 6% on RM9,000.00			540.00
<b>TOTAL AMOUNT PAYABLE</b>				<b>9,540.00</b>

**\*Note: GST on local supplies to be accounted in the GST return for the relevant taxable period.**

## SUBCONTRACT WORK

14. Subcontract work comprises of the following:

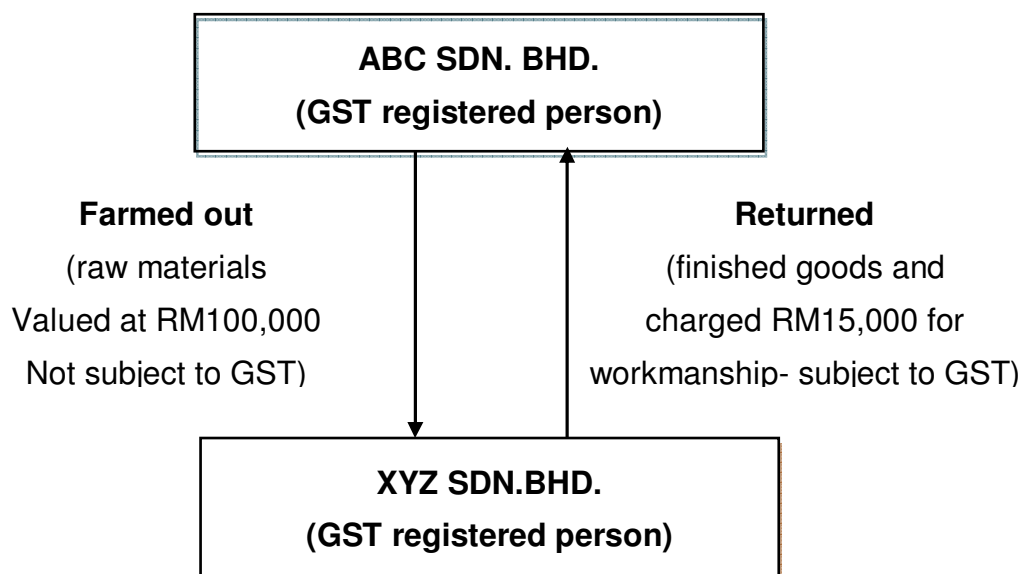
- (a) Farming in – goods are sent to the FIZ company or LWW company do the subcontract work for other companies, whether from overseas or locally.
- (b) Farming out – goods are sent by the FIZ or LMW company to other companies, whether from overseas or locally to do the subcontract work.

15. When goods are sent for subcontract work, the ownership of the goods still remains with the supplier. No supply has taken place. Hence, no GST is chargeable when the goods are sent for subcontract work.

16. In the case of farming out, when the goods are delivered back to the registered person who operates in a FIZ or LMW, the sub-contractor will normally charge such person for the work done. GST is due on the services provided by the sub-contractor. The GST incurred on this workmanship charge can be treated as input tax.

### **Example 2**

**Figure 1: Illustration Of Farming Out**



**Accounting for GST will be as follows:**

- (a) ABC Sdn. Bhd. is not required to issue a tax invoice to XYZ SDN BHD because sending the goods to XYZ SDN BHD is not regarded as a supply and no GST is chargeable. ABC Sdn.Bhd is only required to cover the movement of the goods by issuing a Delivery Order (D.O).
- (b) XYZ Sdn. Bhd. has to issue a tax invoice to ABC Sdn. Bhd., when the finished goods are returned to ABC Sdn. Bhd. after sub-contract work, and to account for output tax of RM900.00 (RM15,000.00 x 6%) on the workmanship charge.
- (c) ABC Sdn. Bhd. can claim the RM900.00 (GST) paid to XYZ Sdn. Bhd. as his input tax credit.
- (d) If XYZ Sdn. Bhd. is not a GST registered person, no GST is due on the workmanship charges.

17. Under the Approved Toll Manufacturer Scheme (ATMS), a sub-contract work is performed in Malaysia where goods for subcontract work are sent by a foreigner being referred to as an overseas principal. The sub-contractor (toll manufacturer) will do the sub-contract work and this subcontract work is a disregarded supply under ATMS. When the toll manufacturer delivers part of finished goods to a local customer of the overseas principal, that local customer who receives the finished goods has to do 'recipient self-accounting'. This means that the GST on the local delivery will be treated as output tax and at the same time the same tax can be claimed as input tax credit. However, any local sales made by the local customer would attract GST. **For further details, please refer to ATMS guide.**

**FREQUENTLY ASKED QUESTIONS**

**Q1: As a person operating in a FIZ, do I have to pay GST upon importation?**

A1: Under the normal GST rules, all importation of goods is subject to GST. However, you are eligible to apply for ATS to allow the payment of GST on imported goods to be suspended at the time of importation.



**Q2: Can GST charged on local purchases made by a company having LMW status be suspended?**

A2: GST charged on local purchases made by a company having LMW status cannot be suspended. GST on the acquisitions has to be paid but it can be claimed as input tax credit. Similar treatment applies to local purchases made by companies operating in a FIZ.

**Q3: Is GST chargeable on the acquisition made by a person operating in a FIZ from another person who is also operating in the FIZ?**

A3: Acquisition made by a person operating in a FIZ from another person who is also operating in the FIZ or from a person licensed under section 65A of the Customs Act 1967 is standard rated.

**Q4: What is the GST treatment on goods that I export on behalf of my local customer?**

A4: If you export the goods on behalf of your local customer, you can only zero rate the export if export documents indicate that you are the exporter. However, if the export documents indicate that your customer as the exporter, only your customer can zero rate the export.

**Q5: If I am operating in a FIZ, do I have to charge GST on a supply made to a company operating in a free commercial zone (FCZ)?**

A5: Any supply made from a person operating in a FIZ to a person operating in a FCZ is standard rated.

**Q6: I am a registered person having LMW status. What is the treatment of GST if I make a supply to a company located in a designated area?**

A6: A supply of goods from a company operating in a FIZ to a company located in a Designated Area (DA) is zero rated. However, supply of services from Malaysia to DA is standard rated unless it is performed in DA (disregarded supply).

**Q7: What is the GST treatment on product samples from a person operating in a FIZ?**

A7: Industrial and trade samples that are in a form not ordinarily available for sale to public are not treated as supply. Therefore no GST is chargeable on such samples given by a person operating in a FIZ.

**Q8: What is the GST implication on services imported by a company operating in FIZ?**

A8: Any services imported by a company operating in FIZ is deemed to be a supply made to and by the company. Thus, it is subject to GST. If the company is a taxable person who makes wholly taxable supply he can net off the equivalent GST liability as his deemed input tax. However, if the taxable person is a mixed supplier, he can only claim the input tax which is attributable for his taxable supplies.

**Q9: Is there any GST implication on services supplied within a FIZ?**

A9: All services supplied and consumed within a FIZ, for example rental for forklift, storage charges, workmanship, rental of premise, packing and re-labelling charges are standard-rated. So, the provider of such services must account for output tax, if he is registered under GST. Similar treatment applies to any company with LMW status.

**Q10: Is there any GST liability on supply of services between FIZs?**

A10: Services supplied between companies operating in a FIZ or companies with LMW status is standard rated.

**Q11: If the goods do not attract import duty do I still need to declare the local supply in customs no.1 form?**

A11: All local supplies made must be declared in Customs no.1 form irrespective of whether such supplies are dutiable or not.

**Delivery of goods to a local customer**

**Q12: What is the GST treatment if I act as a toll manufacturer for overseas principal and I am instructed to send the goods to a local customer of the overseas principal?**

A12: A registered person operating in a FIZ can also act as a sub-contractor for an overseas principal. GST on any importation of goods from the overseas

principal to a registered person is subject to GST. However, the registered person is eligible to apply for ATS to get the suspension of the payment of GST. The registered person is not required to charge GST on the local delivery of finished goods to the local customer of his overseas principal if he is an approved person under 'Approved Toll Manufacturer Scheme' (ATMS).

**Q13: What if the local customer is not GST registered under the above situation?**

Q13: You can only sell to the local customer if he has an approval from the Director General to receive the goods. You do not have to charge GST on the delivery. The local customer needs to account for the output tax, even if he is not a registered person under GST, based on the value of the invoice received from the overseas principal within 30 days from the date the supply is treated as taking place. The tax must be accounted in a prescribed form (GST-04).

**GST treatment on goods lost/ damaged/ destroyed/ rejected**

**Q14: What is the treatment if my goods are lost, stolen or destroyed while the goods are being transported under customs control?**

A14: When the goods are lost, stolen or destroyed while being transported under customs control, you must account for tax. However, you can apply for remission of GST to the DG.

**Q15: Can I suspend the payment of GST on goods lost or destroyed until I receive the outcome of my application for tax remission?**

A15: No, for the sake of revenue protection you have to account immediately for GST on any goods lost, damaged or destroyed, despite the fact you have made an application for remission.

**Q16: What must I do if the goods are lost, destroyed or stolen during delivery of my supply?**

A16: If goods are lost, stolen or destroyed during delivery, GST is only due if a supply has taken place or if contract between the parties makes either party responsible for the tax.

**Q17: What is the GST treatment on the manufacturing waste if it is destroyed or sold by me as a registered person with LMW status?**

A17: If the manufacturing waste is destroyed, no GST is due as such waste is not regarded as business assets hence no supply is deemed to have taken place. However, if you decide to sell you manufacturing waste, GST must be imposed on such sales.

#### **Other related matters**

**Q18: If I loan some raw materials to another registered person who is not operating in a FIZ or does not have LMW status for his urgent use and later he replaces those raw materials with his own raw materials sourced elsewhere, do I have to account for output tax?**

A18: Yes, it is deemed to be a supply because the raw materials which are part of the business asset is transferred to the other registered person.

**Q19: If I loan mould to another registered person who is not operating in a FIZ or does not have LMW status for his use, do I have to account for output tax?**

A19: Yes, because a deemed supply of services had taken place even though you do not charge on the loan (free of charge).

**Q20: What is GST treatment on goods returned from overseas customer for repair?**

A20: You may claim relief from GST on returned goods from overseas customer under item XX of the Goods and Services Tax (Relief) Order 20XX.

#### **FEEDBACK AND COMMENTS**

18. Any feedback or comments will be greatly appreciated. Please email your feedback or comments to either Mohd Hisham B. Mohd Nor (m\_hisham.nor@customs.gov.my) or Aminul Izmeer B. Mohd Sohaimi (izmeer.msohaimi@customs.gov.my).

## **FURTHER ASSISTANCE AND INFORMATION**

19. Further information can be obtained from:

- (a) GST Website: [www.gst.customs.gov.my](http://www.gst.customs.gov.my)
- (b) GST Hotline: 03-88822111
- (c) Customs Call Centre:
  - Tel : 03-78067200/ 1-300-888-500
  - Fax : 03-78067599
  - E-mail : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)