



**SERVICE TAX 2018**

**GUIDE ON :  
INFORMATION TECHNOLOGY  
SERVICES**

**Published by :**

**Royal Malaysian Customs Department  
Internal Tax Division  
Putrajaya**

**13 December 2018**

## **Publication**

Date: 13 December 2018.

*The Guide on Information Technology Services at 9 November 2018 is withdrawn and replaced by the Guide on Information Technology Services revised as at 13 December 2018.*

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## INTRODUCTION

1. Service Tax is a consumption tax governed by the Service Tax Act 2018 and its subsidiary legislation. The effective date of the Service Tax Act 2018 is 1st September 2018.
2. Service tax is imposed on prescribed services called “taxable services”.
3. A person who provides taxable services exceeding a specified threshold is required to be registered under the Services Tax Act 2018 and is known as a “registered person” who is required to charge service tax on his taxable services made to his customers.
4. The Guide is prepared to assist you in understanding the service tax treatment on information technology services.

## IMPOSITION AND SCOPE OF TAX

5. Effective 1st September 2018, under Group G, Item 8, First Schedule of the Service Tax Regulations 2018, the provision of information technology services are subject to service tax.

## TERMINOLOGY

6. The following words have these meanings in this guide unless the contrary intention appears:
  - (i) “**Designated Areas**” (DA) means Labuan, Langkawi and Tioman. (*Section 47, Service Tax Act 2018*);
  - (ii) “**Special Areas**” (SA) means any free zone, licenced warehouse and licenced manufacturing warehouse and Joint Development Area (*Section 52, Service Tax Act 2018*).

## **GENERAL OPERATIONS OF THE INDUSTRY**

### **Overview of Information Technology Services**

7. Information technology is the use of any computers, storage, networking and other physical devices, infrastructure and processes to create, process, store, secure and exchange all forms of electronic data.

8. Information technology services (ITS) are services that generally involves the provision of IT systems. ITS include services associated with the following terms:

- (i) Computing services
- (ii) Coding & programming
- (iii) Application development
- (iv) Software development
- (v) System integration
- (vi) Web development
- (vii) Platforms
- (viii) Networks integration
- (ix) Data processing, administration
- (x) Artificial Intelligence
- (xi) Internet of Things

### **CHARGING SERVICE TAX**

9. Service tax shall be charged on the ITS at the rate of 6%. In the case of provision of services for information technology, the value of the taxable service for the charging of service tax is the actual value of services charged to his clients.

10. Service tax on the provision of service shall be charged at the point of services rendered.

## **SERVICE TAX TREATMENT FOR INFORMATION TECHNOLOGY SERVICES (ITS)**

11. Provision of all types of ITS are prescribed taxable services excluding:
- (i) The provision or sales of goods in connection with the provision of the ITS;
  - (ii) Provision of ITS in connection with:
    - (a) Goods or land situated outside Malaysia; or
    - (b) Matters other than matters relating to (a) outside Malaysia.

### **Example 1**

*Company A's main business is selling of personal computer (PC) and off the shelf software. The selling of PC and a package of software is not subject to service tax.*

### **Example 2**

*ABC Sdn Bhd has a contract with XY Sdn Bhd to provide maintenance of software for a server located outside Malaysia (goods outside Malaysia). The service is done remotely from Malaysia provided by ABC Sdn. Bhd, is not subject to service tax.*

### **Example 3**

*DEF Sdn Bhd has a contract with Singapore Cycling Club to develop navigation applications for cyclist to cycle along the routes all over Singapore. The service provided by DEF Sdn. Bhd is not subject to service tax.*

### **Example 4**

*XYZ Sdn. Bhd. developed system for banking transaction for a private bank in Thailand. The service provided are not subjected to service tax because it is in relation to matters outside Malaysia.*

12. Service provider who provides ITS can be any individual, company, statutory bodies or government agencies where the place of business is in Malaysia.

13. ITS provider within DA or within SA is not subject to service tax if the service provider's principal place of business is in DA or in SA.
14. Foreign ITS company with no establishment in Malaysia that provides services to client in Malaysia is not subject to service tax.
15. ITS which is subject to service tax includes:
  - (i) Development or provision of software;
  - (ii) Development or provision of computer system (excluding hardware);
  - (iii) Installation of system (excluding hardware) or software;

**Example 5**

*Company A buy a system from Company B (owner and developer of the system). Then Co. A appointed Company C for installation of the system. The service provided by Company C is a taxable services under ITS.*

**Example 6**

*Company X buy Microsoft Office software together with the installation from Company Z (reseller). The selling of the software and installation services by Company Z is not a taxable services because the selling of the software and installation comes in one package of sale.*

- (iv) Software maintenance of IT equipment;
- (v) Creation and maintenance of webpage, websites, web portal and online platforms;
- (vi) Updating to new version, upgrading or modification of data, system or software;

**Example 7**

*Company A is a software developer. From time to time, the*

*company will provide software upgrading for its customer. The fee charged for the upgrading is subject to service tax.*

**Example 8**

*Company B is reseller of Antivirus software. The company does not provide any value added service to the software and merely a trading situation. The fee charged by Company B is not subject to service tax.*

- (vii) Provision of cloud services;
- (viii) Manage services in data centre services excluding rental of rack space and hardware;
- (ix) Subscription of data (for example media streaming services)

**Example 9**

*OnlineMuvi Sdn Bhd is providing online movie services through monthly subscription. Customers need to subscribe and by using the internet network customers will be able to watch their favourite movies. The services provided by OnlineMuvi Sdn Bhd is a taxable service.*

- (x) Security of data, system or software;
- (xi) Administrative fee for data, system or software;

**Example 10**

*Company A appoints Company B to develop a platform for customers to get data or information. Customers will get the data through the platform that Company B provided. Company B will charge the customers for using and getting the data. The service provided by Company B to the customers is an IT-enabled service which is considered as a taxable service whereas the data provided by Company A to Company B is not a taxable service.*



- (xii) Advisory or consultation for data, system or software (it is considered as consultancy services);
- (xiii) Advisory or consultation for system development (it is considered as consultancy services);
- (xiv) Management on IT (it is considered as management services).

16. ITS which is not subject to service tax includes:

- (i) Charge on storage or co-location of hardware or server;
- (ii) Physical security of hardware or server;

**Example 11**

*Company A engaged Company B to provide personal security (security guard) to guard the hardware and server storage. The security guard service is not a taxable service under ITS. However, Company B may charge service tax to Company A under item 11 Group G of the Service Tax Regulations 2018.*

- (iii) Sale and renewal of licence for data, system and software (by retailer or distributor of software)

**Example 12**

*Company A is a software reseller. His customer needs to renew the software every 12 months. The renewal of the software is not considered as IT services i.e customer will be given a key to activate the renewal of software. The fee charged on the renewal of software is not subject to service tax.*

**Example 13**

*Company A provides a license of an anti-virus software to Company B (the anti-virus software belongs to an overseas provider). Company A is considered as a retailer by providing the software to Company B. Thus, it is not subject to service tax.*

- (iv) Leasing or rental of computer, hardware and server;
- (v) Installation of computer, hardware or server;
- (vi) Training;

**Example 14**

*Tech Train Sdn Bhd is a training center providing IT related training to the public. A customer may choose which software they want to learn i.e Microsoft Excel. The training provided by Tech Train Sdn Bhd is not considered as taxable services as Tech Train Sdn Bhd is a training service provider and not an IT service provider.*

**Example 15**

*Company A has a contract with Company B for providing a software or system together with training. Company B will then sell the software or system together with training to Company C. Since Company B is only a reseller for the software or system, the selling of software or system together with the training by Company B will not be considered as taxable services.*

*However the selling of software or system and training provided by Company A to Company B is a taxable service.*

**Example 16**

*Company A has a contract with Company B for developing a software or system with training. Company A will provide the training. The training services provided by Company A to Company B is a taxable service under ITS.*

- (vii) Software embedded in hardware;

**Example 17**

*All smartphone comes with operating system (software). The*

*purchase of the smartphone is a purchase of goods. Whenever a customer sent their smartphone for repair on the operating system (software), this will not be considered as taxable services because the operating system is embedded in the smartphone.*

17. There will be situations where a contract may include the provision of hardware, software, maintenance and training as a package. Service tax treatment with regards to this scenario is as below:

**Example 18**

*Company A enters into a long-term contract with a customer for the provision of 100 personal computers (PC) including installation, software, maintaining (hardware & software) and training. The contract will be considered as a provision of goods and not subject to service tax.*

**Example 19**

*Company A enters a contract with a customer for the provision of computer system comprising the provision of hardware (inclusive of software), maintenance and training. The contract will be considered as a provision of service and subject to service tax.*

**Example 20**

*In relation to examples above, any maintenance services provided after the termination/ cease of contract, service tax will be imposed.*

**RESPONSIBILITY OF REGISTERED PERSON**

18. An ITS service provider whose total turnover for the period of 12 months exceeds the prescribed threshold of taxable services is required to be registered under the Service Tax Act 2018. For further guidance and details on registration including an auto-registration, please refer to the *Guide on Service Tax Registration*.

19. A registered person is responsible to :
- (i) Charge service tax on his taxable services,
  - (ii) Issue invoices and receipts with specific particulars,
  - (iii) Submit service tax return sst-02 electronically and pay service tax before due date, and
  - (iv) Keep proper records with regards to his business.

For further information with regards to the responsibilities of a registered person, please refer to the *General Guide on Service Tax* and relevant Specific Guide.

## **FREQUENTLY ASKED QUESTIONS (FAQs)**

1. Q : **How to be a registered person?**

A : ITS provider who provides prescribed taxable services and having sales value more than RM500,000 have to apply for registration via online by submitting SST-01 form to MySST system. However, if the sales value of ITS is not exceeding RM500,000 but the total sales value of other services under Group G, First Schedule of the Service Tax Regulations 2018 is exceeding RM500,000, ITS provider is liable to register.

2. Q : **How to submit service tax return and make payment?**

A : A registered person needs to submit service tax return SST-02 Form and make payment via electronic (MySST) or by post to Customs Processing Centre in Kelana Jaya. The payment methods are either cheque or bank draft. For more information refer to *Return and Payment Guide*.

3. Q : **Does a registered person need to issue an invoice?**

A : Every transaction by a registered person must be issued with an invoice. However, the registered person can apply to use other documents to replace the invoice and but subject to approval by the Director General. For more information, please refer *General Guide*.

4. Q : **For the calculation of threshold, are all IT and IT related services subject to service tax?**  
A : For the calculation of threshold, only prescribed services under IT services will be subjected to service tax.
5. Q : **Is the webpage vendor services subject to service tax?**  
A : The ITS from the vendor to client is subject to service tax.
6. Q : **Is the maintenance of server subject to service tax?**  
A : The maintenance of server (hardware) is not subject to service tax. However the maintenance of software or operating system in the server is subject to service tax.
7. Q : **A registered ITS company in Pahang has a branch in Labuan (DA) and providing ITS within Labuan. Is the ITS subject to service tax?**  
A : The branch in Labuan (DA) which provide ITS within Labuan is not subject to service tax provided that the invoice issued by the branch (DA).
8. Q : **A registered ITS company in Johor Bahru providing ITS within Langkawi. Is the service subject to service tax?**  
A : ITS within Langkawi (DA) is subject to service tax.

## **INQUIRY**

For any inquiries for this guide please contact:

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Royal Malaysian Customs Department  
Level 3 - 7, Block A, Menara Tulus,  
No. 22, Persiaran Perdana, Presint 3,  
62100 Putrajaya.

## **FURTHER ASSISTANCE AND INFORMATION ON SST**

Further information on can be obtained from:

- (i) SST website : <https://customs.gov.my>
- (ii) Customs Call Centre:
  - Tel : 03-7806 7200 / 1-300-888-500
  - Fax : 03-7806 7599
  - Email: [ccc@customs.gov.my](mailto:ccc@customs.gov.my)

## SUMMARY OF DOCUMENT CHANGE

Version 4 – 13 December 2018

Para	Changes
Para 15 (iv)	By inserting the words “ <i>software</i> ” before the words “maintenance “.
FAQ 6	By inserting new sentence “ <i>However maintenance of software or operating system in the server is subject to service tax.</i> ”