



**SERVICE TAX 2018**

**GUIDE ON :  
CHARGE CARD & CHARGE CARD**

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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 1 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 the provision of credit and charge card services.

## **IMPOSITION AND SCOPE OF TAX**

5. Effective 1 September 2018, under Group H, First Schedule of the Service Tax Regulations 2018, the provision of credit and charge card services under prescribed circumstances are subject to service tax.

## **DEFINITION OF CREDIT CARD AND CHARGE CARD**

5. A credit card is a retail payment instrument which indicates a line of credit or financing provided by the issuer to the cardholder where any amount of credit used by the cardholder has not been fully settled on or before a set date and the unpaid amount may be subject to interest, profit charge or other charges.
6. A charge card is a retail payment instrument that indicates the credit line provided by the issuer to the cardholder where the amount of credit used by the cardholder must be settled completely on or before a set date without any credit extension.
7. Group H, First Schedule of the Service Tax Regulations 2018 covers the

provision of credit card or charge card services by any person who is regulated by Bank Negara Malaysia through the issuance of a credit card or a charge card. Credit cards also include co-branded credit cards and corporate cards. A co-branded credit card is a card issued jointly by a credit card issuer with a merchant. The merchant usually offers additional benefits to cardholders such as discounts on certain items and rewards for each purchase. Examples of co-branded credit cards include *AirAsia-Citibank Visa*, *CIMB-Tesco MasterCard* and *PETRONAS-Maybank Visa*.

8. The scope of tax does not include:

- (i) Debit card;
- (ii) Fuel card;
- (iii) Charge card in a private community;
- (iv) Loyalty card; and
- (v) Electronic money

9. A debit card is a type of retail payment instrument where the balance in the savings or current account in the banking institutions will be reduced immediately according to the amount of transactions generated. An example of a debit card is *CIMB Debit MasterCard*.

10. A fuel card is a charge card issued by an oil company e.g. Petronas or Shell to the Government of Malaysia or any person to purchase petrol or diesel for the use of a vehicle owned or used by the Government of Malaysia or such person. Examples of fuel cards are Shell Card issued by Shell and SmartPay issued by Petronas.

11. A charge card in a private community is a card that can be used as a payment instrument only within the premises of a workplace, an education institution or a golf or sports club by its workforce, students or members. An example of the charge card in a private community is Sunway Pals card issued by Sunway College to its students for purchases in the premises of the educational institution.

12. The loyalty card is any instrument that allows cardholders to get discounts or reward points that can be used for the purchase of goods or services. Examples of loyalty cards are *BonusLink*, *Real Rewards*, *Enrich*, *Petronas Mesra* and *Smiles Esso Mobil*.

13. Electronic money is any instrument either visible or invisible, which:

- (i) Stores funds electronically in exchange with funds paid to producers; and
- (ii) Can be used as a means to make payments to any person.

*An example is Touch n 'Go.*

### **Taxable Service**

14. Service tax shall be imposed on the provision of credit card or charge card services through the issuance of a principal credit card, principal charge card, supplementary credit card or supplementary charge card.

### **Rate of Service Tax**

15. The rate of service tax to be imposed is RM 25 per card per year or part thereof for the issuance or renewal of a principal or supplementary credit card or charge card.

### **Imposition of Service Tax**

16. Service tax shall be imposed on the date of issuance or renewal of the credit card or charge card or on every twelve months after the date the card is issued or renewed. There are three methods for the imposition of service tax:

- (i) New card issued with a validity period for 1 year  
Service tax shall be imposed on the date the card is issued

#### ***Example 1***

*A credit card is issued on 10 January 2019. The credit card issuer shall impose service tax in the monthly statement covering 10 January 2019.*

- (ii) New card issued with a validity period for several years  
Service tax shall be imposed on the date the card is issued and every 12 months after the due date.

**Example 2**

*A new credit card is issued on 8 March 2019 and the validity period is for five years. The credit card issuer shall charge the service tax on every monthly statement covering 8 March 2019, 8 March 2020, 8 March 2021, 8 March 2022 and 8 March 2023.*

- (iii) Cards issued before 1 September 2018 and valid for several years  
Service tax shall be imposed on the date of renewal and every 12 months after the renewal date.

**Example 3**

*A new credit card is issued on 18 May 2018 with a validity period for five years. The issuer of the credit card shall impose a service tax in every monthly statement covering 18 May 2019, 18 May 2020, 18 May 2021 and 18 May 2020.*

17. Service tax is to be imposed even though no annual membership fee is charged.

18. In the case of lost, damaged, stolen, cloned or suspected cloning, no service tax will be imposed on the new card issued to replace the lost, damaged, stolen card, cloned or suspected clone cards on condition that the starting and expiry date of the card remain unchanged. Service tax is also not imposed if the credit limit for a conventional card is increased as no new card is issued.

19. For cards issued under *Syariah* principles, service tax shall be imposed on the date the new card is issued if the expiry date of the new card is not the same as the expiry date of the old card. If the expiry date of the new card is the same as the expiry date of the old card, the service tax shall be charged on the date the card is renewed.

**Example 4: Different Expiry Date**

*AM card-i has been renewed for a period of five years from 1 May 2019 to 30 April 2024. Service tax is charged on 1 May 2019. On 25 October 2019, card holders and card issuers signed an agreement to increase the credit limit. A new card is issued on November 1, 2019 due to a change in credit limit. The validity period for the new card will be from 1 November 2019 to 31 October 2024. The AM Card-i card issuer must charge service tax in every monthly statement covering 1 November 2019, 1 November 2020, 1 November 2021, 1 November 2022 and 1 November 2023 even though service tax is imposed on May 1, 2019.*

**Example 5: Same Expiry Date**

*Using the same information as Example 4 but the validity period for the new card is from 1 November 2019 to 30 April 2024. The AM card-i card issuer shall charge the service tax in every monthly statement covering 1 May 2019 (service tax has been paid for the old card), 1 May 2020, 1 May 2021, 1 May 2022 and 1 May 2023.*

20. The principle of the imposition of service tax in paragraph 17 also applies to cases when cards are upgraded and downgraded and generic cards are converted to co-branded cards or vice versa.

21. In cases where a corporate card is converts to a personal card or otherwise, service tax shall be imposed on the issuance date of the new card even if the expiry date of the new card is equal to the expiry date of the old card.

**Example 6**

*On 1 March 2019, service tax is charged on a corporate card. On 25 June 2019, the corporate cardholder resigned and applied for the corporate card to be converted into a personal card. A new card was issued on 1 July 2019 due to a change of status. The validity period for the new card will be from 1 July 2019 to 30 June 2024. The card issuer shall charge service tax in every monthly statement covering 1 July 2019, 1 July 2020, 1 July 2021, 1 July 2022 and 1 July 2023 although **the** service tax was imposed on March 1, 2019.*

22. In cases of old card being reused or reinstated, service tax shall be imposed on the date the new card is issued.

**Example 7**

*On 25 May 2019, a cardholder cancels his credit card for a period of five years from 1 June 2018 to 31 May 2023. The service tax is due on 1 June 2019. On 18 August 2019, the cardholder changes his mind and decides to use the old credit card. The new credit card is issued on 25 August 2019. The validity period for the new card is from 25 August 2019 to 24 August 2024. The issuer of the card must charge service tax in every monthly statement covering 25 August 2019, 25 August 2020, 25 August 2021, 25 August 2022 and 25 August 2024. The credit card issuer does not need to charge service tax on 1 June 2019.*

23. Service tax is imposed even though the credit card or charge card is used in Langkawi, Labuan, Tioman, Setulang Laut or Pengkalan Kubor. Service tax should also be charged on credit card or charge card issued by a card issuer's branch located in Langkawi, Labuan or Tioman if the head office of the card issuer is located in Malaysia.

## **REGISTRATION AND RESPONSIBILITIES OF A REGISTERED PERSON**

24. A service provider reaching prescribed threshold of taxable services is required to be registered. For further guidance and details on registration including an auto-registration exercise, please refer to the Service Tax Registration Guide.

25. A registered person is responsible to:

- (i) Charge service tax on 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,
- (iv) Keep proper records.

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

### **Payment of Service Tax**

26. Service tax shall be due at the time the payment is received. If the whole or any part of the payment is not received from the cardholder within a period of twelve calendar months from the date of the monthly statement, the service tax shall be due on the day following the twelve calendar month. Any service tax due shall be paid not later than the last day of the following month after the taxable period ends.

#### ***Example 8: Minimum Amount Paid Fully***

*A cardholder's credit card has been renewed on 8 August 2019. In the month of August 2019, the cardholder had spent RM1,500. The minimum amount payable is RM 100 (RM75 + RM25) where RM25 is the service tax payable. On 23 September 2019, the cardholder pays RM100. If the card issuer's taxable period from September to October 2019, the card issuer shall account for the service tax of RM25 in the taxable period. Service tax for the taxable period of September to October 2019 shall be payable by November 30, 2019.*

#### ***Example 9: Minimum Amount Partially Paid***

*Using the same information as in example 9, the cardholder only pays RM50 on 23 September 2019. In this case, if the card issuer's taxable period **from** September to October, the card issuer must account for service tax of RM25 in the taxable period. Service tax for the taxable period of September to October 2019 shall be payable by 30 November 2019.*

#### ***Example 10: Minimum Amount Paid but Insufficient to Pay Tax***

*Using the same information as in Example 8, the cardholder only pays RM20 on 23 September 2019. In the following month, the card issuer must claim a service tax balance of RM5 to the minimum amount in the cardholder's monthly statement. The cardholder pays the remaining RM5 on 2 November 2019. If the card issuer's taxable period from September to October, the card issuer must account for service tax of RM20 in the current taxable period. The balance of*

*RM5 shall be accounted for in the taxable period of November to December 2019. Service tax for the taxable period of September to October 2019 shall be paid not later than 30 November 2019 whilst service tax for the taxable period of November to December 2019 shall be paid by 31 January 2020.*

**Example 11: Unpaid Amount**

*Using the same information as in Example 8, the cardholder does not make any payment. The monthly statement showing payable service tax is issued on 5 September 2019. In this regard, the card issuer shall account for the service tax of RM25 in the taxable period of September to October 2020 of twelve months from the date of the monthly statement. Service tax for the taxable period of September to October 2020 shall be payable by November 30, 2020.*

**Penalty for Late Payment**

27. Where any tax due and payable is not paid wholly or partly by the credit card or charge card issuer after the last day on which it is due and payable and no prosecution is instituted, the credit card or charge card issuer shall pay a penalty:-

- (i) For the first thirty days period, that the tax is not paid wholly or partly after the expiry of the period, a penalty of ten percent of the amount of tax remain unpaid;
- (ii) for the second thirty days period that the tax is not paid wholly or partly after the expiry of the period, an additional penalty of fifteen percent of the amount of tax remain unpaid;
- (iii) For the third thirty days period that the tax is not paid wholly or partly after the expiry of the period, an additional penalty of fifteen percent of the amount of tax remain unpaid.

**CONTRA SYSTEM FOR CANCELLATION OF CARDS AFTER RENEWAL**

28. In the case of a cancelled and unused card after the renewal date, service tax is not required to be charged and accounted for if the service tax has not been paid. If

service tax has been paid after the renewal date, the card issuer is entitled to deduct the service tax paid from the tax return provided that the approval of the tax deduction has been approved.

## **INQUIRY**

For any inquiries for this guide please contact:

Internal Tax Division  
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://mysst.customs.gov.my>
- (ii) Customs Call Center:
  - Tel : 03-7806 7200 / 1-300-888-500
  - Fax : 03-7806 7599
  - Email: [ccc@customs.gov.my](mailto:ccc@customs.gov.my)