



SALES TAX 2018

**GUIDE ON:
AUTOMOTIVE INDUSTRY**

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This information is intended to provide a general understanding of the relevant treatment under Sales Tax Legislations and aims to provide a better general understanding of taxpayers' tax obligations. It is not intended to comprehensively address all possible tax issues that may arise. While RMCD has taken the initiative to ensure that all information contained in this Guide is correct, the RMCD will not be responsible for any mistakes and inaccuracies that may be contained, or any financial loss or other incurred by individuals using the information from this Guide. All information is current at the time of preparation and is subject to change when necessary.

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INTRODUCTION

1. Effective from 1 September 2018, Sales Tax Act 2018 and the Service Tax Act 2018 together with its respective subsidiary legislations are introduced to replace the Goods and Service (GST) Act 2014.

2. This guide is prepared to assist registered manufacturers and importers in the automotive industry, in understanding matters pertaining to sales tax treatment on the activities of manufacturing, importation and transportation of motor vehicles, sales value and import value, in accordance with the policies and legislations related to sales tax.

SALES TAX CONCEPT

3. Sales tax administered in Malaysia is a single stage tax imposed on:

- (i) Taxable goods manufactured in Malaysia by any registered manufacturer, at the time the goods are sold, disposed of other than by sales or used other than as a material in the manufacture of goods.
- (ii) Imported goods when the goods are declared and duty/ tax paid at the time of customs clearance.

MANUFACTURING

4. As provided in Section 3 of the Sales Tax Act 2018, principles related to the definition of manufacturing are:

- (i) Manufacturing is the process of changing the organic or inorganic materials manually or mechanically, into a new product by changing the size, shape, composition, properties or quality of the material;

- (ii) Installation of tools and components into machines or equipment, such as the assembly of Completely Knocked Down (CKD) packs into Completely Built Up (CBU) motor vehicle or installation of air-condition unit into motor vehicle.

5. In the automotive industry, most of the franchise AP holder sent the CKD pack to a contract manufacturer (subcontractor) for the components and parts to be assembled or completed as a finished CBU motor vehicle. Contract manufacturer (CM) whose sales value in the period of 12 months, exceeds the threshold of RM500,000 is liable to be registered as a registered manufacturer.

AUTOMOTIVE INDUSTRY IN MALAYSIA

6. Automotive industry in Malaysia is divided into two segments of importation:

- (i) Importation of CKD pack by the franchise AP holder and sent to its own plant or to a CM's plant for the components and parts to be assembled and completed as a CBU motor vehicle.
- (ii) Importation of new and used CBU motor vehicle by franchise AP holders, open AP holders or other individuals eligible to import a CBU motor vehicle.

7. For the CKD pack sent to be assembled, the completed or finished CBU motor vehicle will subsequently be returned to the franchise AP holder or sent to a dealer appointed by the franchise AP holder, after the vehicle has been registered in the RMCD *e-excise system* and sales tax paid.

A. ASSEMBLING OF CKD PACKS TO BE MANUFACTURED AS A CBU MOTOR VEHICLE

8. The process of manufacturing starts from the CKD packs of motor vehicles being sent by the franchise AP holder to its own plant or the contract manufacturer's plant to be assembled.

9. CKD pack is normally supplied in conditons as below:

- (i) All materials are supplied loosely to go through final welding and final assembly processes; and/or
- (ii) Raw body shell, all other parts and components are supplied loose and not assembled at the time of importation.



10. Manufacturing process of assembling a CKD pack starts in the assembly workshop and going through other work processes, to be assembled as a CBU motor vehicle as below:



Process to join all the CKD components in the welding workshop



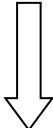
Painting the major body components in the paint workshop



Process to install other components



Final process to install other major components



Assembled CBU motor vehicle



11. The CM will then subsequently deliver the CBU motor vehicle to the franchise AP holder or distributor / dealer appointed by the franchise AP holder, after the vehicle has been registered in the RMCD *e-excise system* and sales tax paid.

B. IMPORT AND EXPORT OF CBU MOTOR VEHICLE

Import

12. Importation of CBU motor vehicle by a company or other person is allowed if the company / other person complies with the conditions and procedures in the application for Import License (AP) to import motor vehicles, set by Ministry of International Trade and Industry (MITI). Persons approved for AP are as follows:

- (i) Companies that hold existing allocation of Approved Permit (AP) for (CBU) motor vehicles.
- (ii) Franchise holder of CBU motor vehicle.
- (iii) Vehicle Importation (others):
 - (a) Classic cars with car age of more than 25 years;
 - (b) Vintage cars with car age of more than 50 years;
 - (c) Motor vehicles of temporary/permanent imports for the purpose of research and development (R&D);
 - (d) Motor vehicles of temporary imports for the purpose of exhibition, race, expedition and other temporary events; and
 - (e) Motor vehicles for ministries, government departments, statutory bodies and NGOs usage.

13. Any direct importation of CBU motor vehicle is to be declared in the Customs Form No. 1 (K1) and duty / tax to be paid at the time of customs clearance.

14. Any importation of CBU motor vehicle which is transported directly into Designated Area (DA) (except Tioman) or Licensed Warehouse (LW) is not subject to sales tax and to be declared in the Customs Form No.8 (K8).

15. Any importation of CBU motor vehicle which is transported into Tioman, is to be declared in the Customs Form No.1 (K1) upon importation and is subject to sales tax.

Export

16. Motor vehicles transported and exported to a place outside Malaysia by a registered manufacturer, are exempted from payment of sales tax base on item 56 Schedule A of the Sales Tax (Person Exempted from Payment of Tax) Order 2018 provided that the exportation is declared in the Customs Form No. 2 (K2).

RAW MATERIALS, COMPONENTS AND COMPLETELY KNOCKED DOWN (CKD) PACK USED IN MANUFACTURING OF MOTOR VEHICLE

Raw Materials and Components

17. Manufacturing of motor vehicles require a wide variety of raw materials such as iron, aluminum and glass to be used in the production of motor vehicle components and petroleum products used to make plastics components. Most of these components will be used in the assembling of motor vehicles. Beyond the big basic building blocks such as engines and transmissions, there are the interior parts such as instrument panels, seats and HVAC systems, along with all the necessary wiring to tie them together.



Parts and components of a motor vehicle which will be manufactured and assembled as a completely built up motor vehicle

Completely Knocked Down Pack

18. CKD pack of a motor vehicle is where the parts, engine, electronics and other major components are imported by a franchise AP holder from the origin country of the supplier. The CKD pack will then be sent to its own plant or to a contract manufacturer to assemble the components and parts together, be manufactured as a CBU motor vehicle in the country of the franchise AP holder.



CKD for Automobile

19. CKD packs for certain categories of motor vehicle imported by any person, are exempted from tax which is provided under the Sales Tax (Goods Exempted from Tax) Order 2018.

EXEMPTION FACILITIES IN THE AUTOMOTIVE INDUSTRY

20. Registered manufacturers are eligible to enjoy various exemptions given provided that the exemption is claimed by the person entitled for the claim or the goods are exempted from tax in the exemption order as below:

- (i) Sales Tax (Goods Exempted from Tax) Order 2018.
- (ii) Sales Tax (Person Exempted from Payment of Tax) Order 2018

21. Sales tax exemption is given for raw materials, components and packaging materials used directly in the manufacturing process of goods manufactured, from the initial stage of manufacturing until the finished products is finally packaged and ready for sale and also for export.

22. Raw materials, components and packaging materials excluding petroleum, imported or purchased from any registered manufacturer or LMW or Licensed Warehouse (LW), by any registered manufacturer in PCA, are subject to sales tax unless an exemption is claimed by the registered manufacturer under item 1 Schedule C of the Sales Tax (Person Exempted from Payment of Tax) Order 2018.

23. The exemption stated in the paragraphs above can be claimed provided that:

- (i) Raw materials, components and packaging materials shall be used solely in the manufacturing of finished goods manufactured by the registered manufacturer.

- (ii) A registered manufacturer has to pay sales tax on the raw materials, components and packaging materials that could not be accounted for.

24. Some raw materials / components are **not eligible for sales tax exemption**, such as:

- (i) Fuel oil
- (ii) Materials for machinery and factory cleaning purposes
- (iii) Wearing apparel for workers
- (iv) Furniture / office equipments
- (v) Building materials
- (vi) Foodstuffs and drinks

25. The exemption of sales tax on goods imported or manufactured in Malaysia may be claimed under Schedule A of the Sales Tax (Goods Exempted from Payment of Tax) Order 2018 as set out in paragraph 2 and 3 of the same Order.

26. Schedule A of the Sales Tax (Person Exempted from Payment of Tax) Order 2018 involves the exemption from payment of tax which is granted to a specific person.

27. Schedule B of the Sales Tax (Person Exempted from Payment of Tax) Order 2018 involves the exemption from payment of tax granted to any manufacturer based on goods manufactured by him.

28. Schedule C of the Sales Tax (Person Exempted from Payment of Tax) Order 2018 involves the exemption from payment of tax granted to any registered manufacturer or any person acting on behalf of registered manufacturer.

- ***Please refer to the Sales Tax Orders and the Guide on Facilities and Exemption of Sales Tax as published in the Customs Portal, for further information on details of the exemptions.***

SALES TAX (DETERMINATION OF SALES VALUE OF TAXABLE GOODS)

29. The following terminologies refer to these meanings in matters related to the determination of sales value of taxable goods, unless the contrary intention appears:

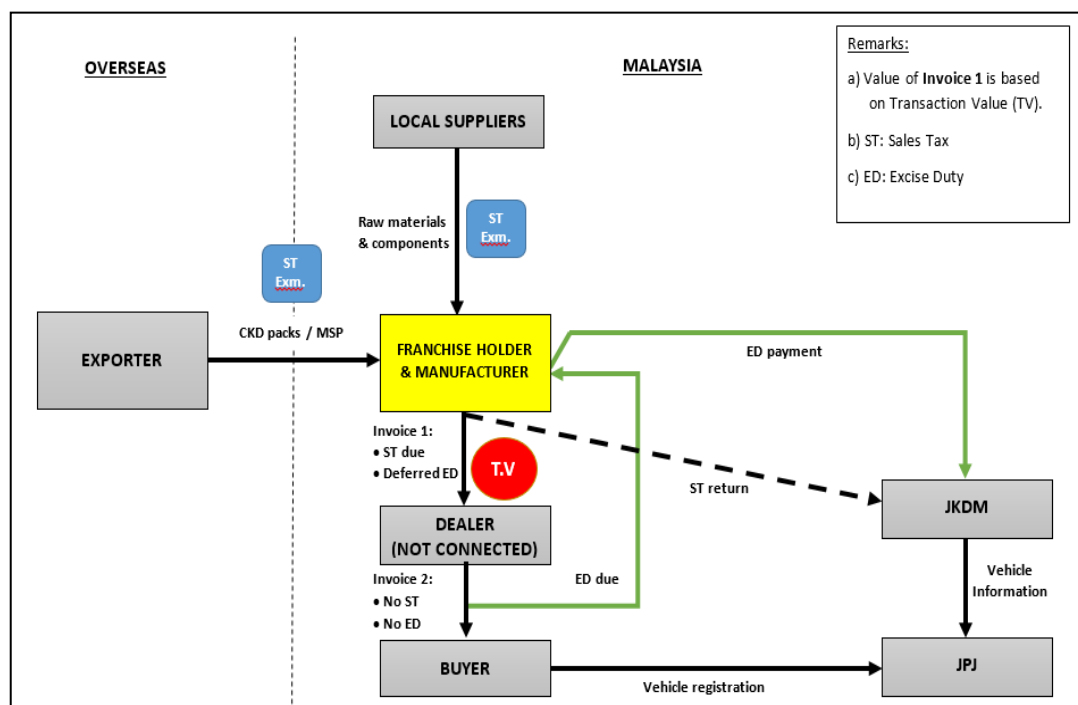
- (i) “Sale value” means the value of the goods determined according to Regulation 4 to Regulation 8 of Sales Tax (Determination of Sale Value of Taxable Goods) Regulations 2018, including any amount of excise duty, other duties and other taxes, if any, actually paid or to be paid on such goods and assists.
- (ii) “Computed Value (CV)” means the value determined under Regulation 7 of Sales Tax (Determination of Sale Value of Taxable Goods) Regulations 2018.
- (iii) “Connected person” means as per determined in Sales Tax (Determination of Sale Value of Taxable Goods) Regulations 2018.

30. Sales value of locally manufactured motor vehicles shall be determined based on Sales Tax (Determination of Sales Value of Taxable Goods) Regulations 2018. Sales value shall be determined in three (3) different models as below:

(i) **MODEL 1:**

FRANCHISE AP HOLDER AND MANUFACTURER (TAXABLE PERSON) IS THE SAME ENTITY, MOTOR VEHICLE SOLD TO NOT CONNECTED PERSON (Transaction Value)

The sale value of the taxable goods being valued shall be determined based on the transaction value of the taxable goods being valued as the primary basis in the determination of sale value, that is the price for which the taxable goods being valued are actually sold when sold by the registered manufacturer to a not connected purchaser.

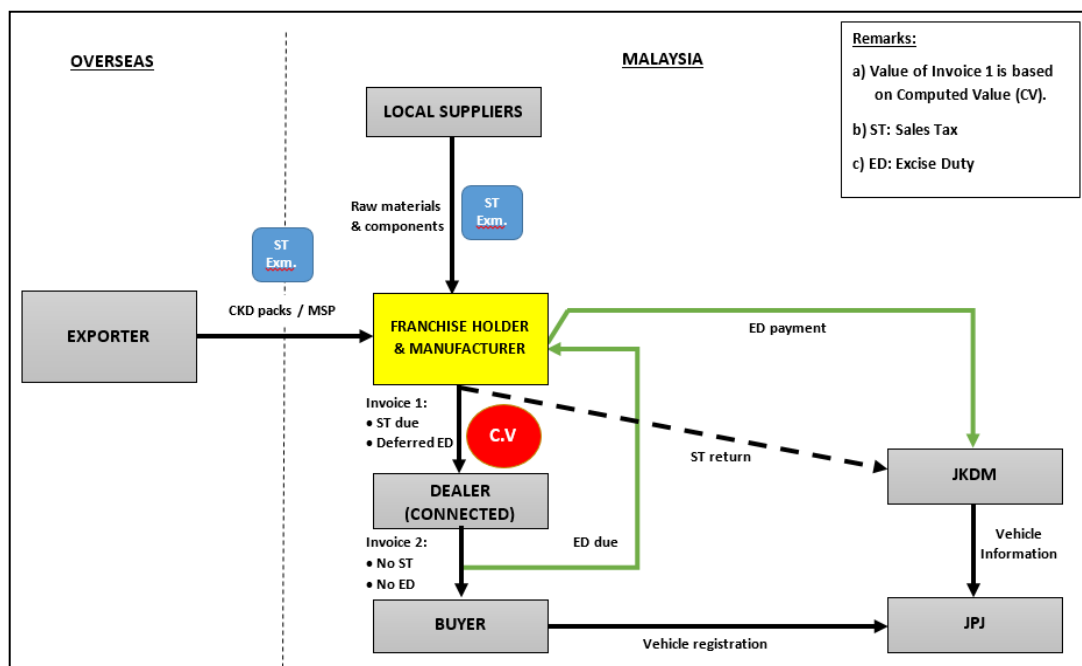


- **MSP** : Multi-Sourcing Parts - components which are not imported together with CKD pack but purchased from several different suppliers (overseas or local supplier) by the automotive manufacturer.
- **ED** : Excise duty
- **ST** : Sales Tax
- **T.V** : Transaction value

(ii) **MODEL 2:**

FRANCHISE AP HOLDER & MANUFACTURER (TAXABLE PERSON) IS THE SAME ENTITY, MOTOR VEHICLE SOLD TO CONNECTED PERSON (Computed value)

When the purchaser and the registered manufacturer are connected at the time the taxable goods being valued are sold, the sale value shall be determined using the computed value method.

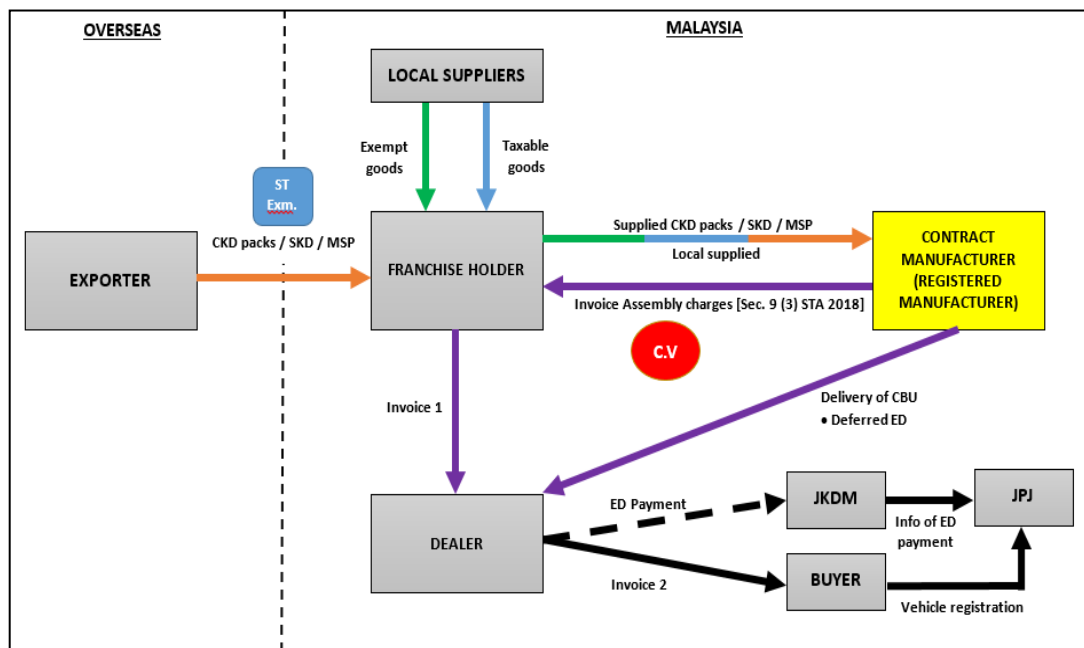


- MSP : Multi-Sourcing Parts (components which is not imported together with CKD pack) but purchased differently from several suppliers (overseas or local supplier) by the automotive manufacturer.
- ED : Excise duty
- ST : Sales Tax
- C.V : Computed value

(i) **MODEL 3:**

CONTRACT MANUFACTURER APPOINTED BY FRANCHISE AP HOLDER (CONNECTED / NOT CONNECTED) (Computed value)

The registered manufacturer manufactured taxable goods being valued which belongs to a person under an agreement entered into with such person that the taxable goods being valued. After being manufactured, the goods shall be returned back or sent to another person upon his instruction, then the sale value shall be determined under the computed method.



- MSP : Multi-Sourcing Parts (components which is not imported together with CKD pack) but purchased differently from several suppliers (overseas or local supplier) by the automotive manufacturer.
- ED : Excise duty
- ST : Sales Tax
- C.V : Computed value

Determination of Locally Manufactured CBU Motor Vehicle Value Based on Computed Value (CV) Method

31. For situation stated in model 2 and 3, the sale value shall be determined by computed value method as stated in the format below:

COMPUTED VALUE				
ELEMENTS COST			SALE VALUE (MODEL 2)	SALE VALUE (MODEL 3)
1	COMPLETELY KNOCKED DOWN (CKD) PACK :			
	1.1	CIF COST FOR CKD Pack (Landed Cost)	√	√
2	MULTI SOURCING PARTS (MSP):			
	2.1	MSP (Landed Cost)	√	√
	2.2	Duties	√	√
	2.3	Total Cost of MSP (2.1 + 2.2)	√	√
3	OTHER COMPONENTS :			
	3.1	Locally Procured	√	√
	3.2	Import	√	√
	3.3	Duties	√	√
	3.4	Total Cost of Other Components (3.1 + 3.2 + 3.3)	√	√
4	GOVERNMENT APPROVED STANDARD ACCESSORIES (GASA) (if not included in 1, 2 or 3)			√
5	ASSEMBLING COST:			
	5.1	Assembling Cost/Charge	√	√
	5.2	Depreciation on Jig & Tools	√	√
	5.3	Total Assembling Cost (5.1 + 5.2)	√	√
6	ADMINISTRATION AND MARKETING EXPENSES : (Franchise Holder)			
	6.1	Administration Expenses	√	√
	6.2	Marketing Expenses	√	√
	6.3	Warranty	√	√
	6.4	Total of Administration and Marketing Expenses (6.1 + 6.2 + 6.3)	√	√
7	Others Manufacturing Cost :			
	7.1	Port / Handling Charges	√	√
	7.2	Transport Charges to Plant	√	√
	7.3	Total of Others Manufacturing Cost (7.1 + 7.2)	√	√
8	General Expenses :			
	8.1	Royalti / License Fees	√	√
	8.2	Others Expenses	√	√
	8.3	Total General Expenses (8.1 + 8.2)	√	√

COMPUTED VALUE					
ELEMENTS COST				SALE VALUE (MODEL 2)	SALE VALUE (MODEL 3)
9	Profit :				
	9.1	Profit (Franchise Holder)		√	√
10	Cost of Goods Manufactured : (1.1 + 2.3 + 3.4 + 4 + 5.3 + 6.4 + 7.3 + 8.3 + 9.1)				
Adjustment (if applicable)					
11	INDUSTRIAL LINKAGE PROGRAMME (ILP) :				
	11.1	ILP approved under Sec.35, Sales Tax Act 2018 (MoF reference :)		Reduction granted if approved by the MoF	Reduction granted if approved by the MoF
12	EXCISE DUTY PAID / TO BE PAID :			√	√
13	OPTIONAL ACCESSORIES :			If applicable	If applicable
14	COST, CHARGES, TRANSPORT AND STORAGE EXPENDITURE AFTER LEAVING FACTORY:			If applicable	If applicable
15	OTHER EXPENSES :			P	If applicable
16	NET VALUE FOR CHARGING SALES TAX [(10 – 11.1) + 12 + 13 + 14 + 15]			√	√
17	SALES TAX:				
	17.1	Sales Tax Rate	: 10 %		
	17.2	Sales Tax (16*17.1)	: RM	√	√

32. The franchise AP holder and contract manufacturer are both responsible to provide the information for the computation of the sales value. Those information taken into consideration in computing the sale value shall be made available for audit purposes.

33. The format as prescribe in paragraph is also applicable for the determination of computed value for commercial vehicles.

Calculation of Duty / Tax on Imported CBU Motor Vehicle

34. For taxable goods imported into Malaysia, the value of taxable goods is the sum of the following amount:

- (i) The value of the taxable goods for the purpose of customs duties payment;
- (ii) The amount of customs duties, if any, paid or payable on the taxable goods;
and
- (iii) The amount of excise duty, if any, paid or payable on the taxable goods.

Examples

A. Importation of CBU Motor Vehicle (Import Duty, Excise Duty and Sales Tax paid or to be paid)

Customs Value of goods	-	RM30,000.00
Import Duty @30%	=	<u>RM 9,000.00</u>
Customs Value + Import duty	-	RM39,000.00
Excise Duty @65%	=	<u>RM25,350.00</u>
Customs Value + Import Duty + Excise Duty	-	RM64,350.00
Sales Tax @10%	=	<u>RM 6,435.00</u>

B. Importation of CBU Motor Vehicle, Transported to Licensed Warehouse (Import Duty, Excise Duty and Sales Tax to be paid at the time when there is a buyer and motor vehicle transported out of the warehouse)

At the time of importation:

Customs Value of goods	-	RM30,000.00
Import Duty @30%	=	<u>RM 0.00</u>
Customs Value + Import Duty	-	RM30,000.00
Excise Duty @65%	=	<u>RM 0.00</u>
Customs Value + Import Duty + Excise Duty	-	RM30,000.00
Sales Tax @10%	=	<u>RM 0.00</u>

C. At the time the motor vehicle is transported out of the warehouse (new CBU motor vehicle):

Customs Value of goods	-	RM30,000.00
Import Duty @30%	=	<u>RM 9,000.00</u>
Customs Value + Import Duty	-	RM29,250.00
Excise Duty @65%	=	<u>RM25,350.00</u>
Customs Value + Import Duty + Excise Duty	-	RM64,350.00
Sales Tax @10%	=	<u>RM 6,435.00</u>

D. At the time the motor vehicle is transported out of the warehouse (used motor vehicle) :

Customs Value of goods	-	RM30,000.00
Less : Depreciation @ 25%	-	RM22,500.00
Import Duty @30%	=	<u>RM 6,750.00</u>
Customs Value + Import Duty	-	RM29,250.00
Excise Duty @65%	=	<u>RM19,012.50</u>
Customs Value + Import Duty + Excise Duty	-	RM48,262.50
Sales Tax @10%	=	<u>RM 4,826.25</u>

- ***Please refer to the General Guide as published in the MySST Portal for further information on other Sales Tax Matters.***

FREQUENTLY ASKED QUESTIONS (FAQs)

1. Q : How is the sales tax chargeable on the CKD Pack imported by a Franchise Holder and subsequently delivered to the contract manufacturer's (registered manufacturer) assembly plant to be manufactured / assembled as a CBU motor vehicle.

A : All of the CKD pack are exempted. However for the parts/components which are not exempted, the importer is entitled to claim exemption from paying sales tax subject to DG approval with the condition that all the exempted parts/components shall be used directly in manufacturing the motor vehicle by the contract manufacturer (registered manufacturer). Sales tax is chargeable on the finish product that is built-up motor vehicle.

2. Q : Is the sale value on locally assembled commercial vehicles issued by RMCD before 1 April 2015 still valid after 1 September 2018?

A : No. All the sale value on the commercial vehicles issued by RMCD before 1 April 2015 had been revoked.

3. Q : Who is liable to declare and submit sales tax returns to RMCD?

A : The registered manufacturer who is the manufacturer/assembler of taxable goods.

4. Q : What sales value of the CBU motor vehicle shall a registered manufacturer declare if the registered manufacturer only issue invoice on labor charge to assemble the CKD Pack delivered by a franchise AP holder?

A : Under such circumstances, there is no sales involve in this transaction and computed value valuation method should be applied to determine sales value of the motor vehicle for sales tax payment purposes.

5. **Q : How does a registered manufacturer declare the value if the registered manufacturer charge only on the assembly cost on the CKD Pack delivered by a franchise AP Holder?**

A : Under such circumstances, there is no sale involve in this transaction and computed value shall apply. The Franchise AP Holder having all the records and cost of goods manufactured, shall compute the value of the goods using the computed method in accordance with the Sales Tax (Determination of Sale Value of Taxable Goods) Regulations 2018. The value computed by the Franchise AP Holder will be used by the registered manufacturer for the purpose of charging sales tax.

6. **Q : How often is the computed value to be reviewed?**

A : The computed value shall be reviewed when any of the components in the computation of the computed value changes or there is change in price list.

7. **Q : Adnosh Assembly Sdn Bhd has removed the car to its not connected authorized dealer on 30 August 2018. However, Adnosh Assembly Sdn Bhd only issued the invoice to the dealer on 3 September 2018 and subsequently received the full payment on 4 September 2018. What is the tax treatment?**

A : Adnosh Assembly Sdn Bhd shall charge GST at standard rate of 0% on the value of goods which was removed on 30 August 2018.

8. **Q :** **Wolve Auto Sdn Bhd (WASB) is a truck manufacturer and has issued an invoice to Wolve Distribution Sdn Bhd (WDSB), both WASB & WDSB are connected, on 22 August 2018 and received full payment on 25 August 2018. However, the truck was only removed to WDSB on 4 September 2018. What is the tax treatment?**

A : Wolve Auto Sdn Bhd shall be charged sales tax at 10% on the computed value of the goods which was removed on 4 September 2018.

INQUIRIES

For any inquiries for this guide please contact:

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ASSISTANCE AND INFORMATION ON SST

Further information on SST 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