



SERVICE TAX GUIDE

GUIDE ON MANAGEMENT SERVICES

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INTRODUCTION

1. Service Tax is a consumption tax administered under 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 levied on the prescribed service i.e. "taxable service".
3. A person who provides taxable services in excess of the prescribed threshold value is required to be registered under the Service Tax Act 2018 and is known as a "registered person".
4. The provision of management services is provided under Item 9, Group G, First Schedule, Service Tax Regulations 2018.
5. This guide takes into account amendments and further information regarding management services in accordance with the Service Tax (Amendment) Regulation (No. 3) 2018 PU (A) 398 effective 1 January 2019 and the Service Tax (Amendment) Regulation 2019 PU (A) 232 effective power September 1, 2019.
6. This guide is provided to assist businesses in understanding matters related to service tax treatment on management services.

GENERAL INDUSTRY OPERATION

Scope of Management Services

7. The service tax enforcement date for management services is 1 September 2018.
8. Any person providing management services is subject to service tax under Item 9, column (1), Group G, First Schedule, Service Tax Regulations 2018.
9. Amendments have also been made to further clarify the activities in the category of management services and the amendments are effective from 1 January 2019. This amendment does not have any effect on the service provider's liability to comply with all legal provisions under the Service Tax Act 2018 effective from 1 September 2018.

10. Management services include the arrangement and coordination of any activity in providing services to customers and these services are not categorized under any specific taxable services (i.e. prescribed services). These activities consist of organizing, supervising, monitoring, planning, controlling and directing various resources such as human resources, finance, technology, physical and others.

11. A written contract agreement stating the provision of management services between a person and his client will be an indication to determine whether the services provided by that person can be classified as management services or not. However, in cases where there is no contractual agreement, the provision of this service can also be considered as a management service if the service is included under the definition in paragraph 10.

IMPOSITION OF TAX

Taxable management services

12. Any person providing management services is subject to service tax. Taxable management services include;

- a) Project management services, in whole or in part, of the project;

Companies that carry out the management of a project in whole or in part and may involve third parties in implementing the project.

Example 1

ABC Sdn Bhd being awarded a contract for the construction of a shopping complex from Kaya Berhad. To ensure that the project runs as planned, Kaya Berhad has appointed Khan Sdn Bhd to monitor the project. Khan Sdn Bhd will charge project management charges to Kaya Berhad which is subject to service tax.

Example 2

JM Sdn Bhd being awarded a contract from V Berhad to build a shopping complex. To ensure the project runs as planned, V Berhad appoints SG Sdn Bhd to monitor the project. The project management service provided by SG Sdn Bhd to V Berhad is subject to service tax.

Example 3

Company A appoints Company B for a construction project. Company B then appointed a consortium to carry out the construction project. Company B is providing construction services to Company A and it is not subject to service tax. While the consortium that provides construction services is also not a taxable service.

- b) Tourism management services;
Tourism management services are no longer subject to service tax effective 1 September 2019.

- c) Logistics management services;
Please refer to the *Panduan Perkhidmatan Penghantar Fret*.
Logistics management services are no longer subject to service tax effective 1 September 2019.

- d) Maintenance management services;
Maintenance management services which subject to service tax are management services on customers' goods, buildings or land.

Example 4

Mega Shopping Complex is owned by Kayaraya Sdn Bhd. Kayaraya Sdn Bhd appointed Building Maintenance Sdn Bhd as the joint management body (JMB) or management corporation (MC) to manage the maintenance services of the shopping center. Building maintenance management

services provided by Building Maintenance Sdn Bhd to Kayaraya Sdn Bhd are subject to service tax.

Example 5

Kayaraya Sdn Bhd, the owner of Vaganza Complex, leases shop lots to tenants and maintains the complex itself. Kayaraya Sdn Bhd only charged rental on the shop lots and does not charge any maintenance services. The rental charge is not subject to service tax.

Example 5A

Natasha Sdn. Bhd. the owners of the Tinkerbell Complex rent out the store lots by charging rent. Natasha Sdn. Bhd. also imposes a separate maintenance management charge on services performed in the common area. Such rental charges and maintenance management services are not subject to service tax.

However, if Natasha Sdn. Bhd. provide maintenance management services in the area leased by the tenant, the maintenance management services provided are a taxable service and subject to service tax.

Example 6

Up Sky Sdn Bhd (US) supplies lifts to its customers and US signs a separate contract to provide the elevator maintenance services for a period of 2 years. US has assigned his staff to monitor and provide periodic inspections to ensure the elevator is in good condition. The service provided by US is a maintenance management and subject to service tax.

Example 7

Repair Aircon Sdn Bhd (RA) provides air conditioning maintenance services to:

a) Customer A;

- b) Customer B; and
- c) Customer C.

Customer A requests RA for maintenance and repair only when necessary. This service is a corrective maintenance service that is not subject to service tax.

Customer B has a separate maintenance contract with RA to monitor and maintain the air conditioner periodically. These monitoring and maintenance services are subject to service tax under maintenance management services.

Customer C has a contract with RA to monitor, maintain and replace air conditioning equipment / components on the premises. RA will make periodic inspections and replace spare parts when necessary. Services provided by RA are subject to service tax under maintenance management services. Spare parts charges are not subject to service tax. However, if services and spare parts charges are not itemized in the invoice, the total value is subject to service tax.

Example 8

Hoo Factory does its own preventive maintenance as recommended by the manufacturer of air conditioners. This is to ensure that the device operates without any performance downturn. However, at the same time, Hoo Factory appointed RA to provide air conditioning maintenance services. Hoo Factory will request AA to maintain air conditioning in his premise when necessary. The maintenance services provided by RA are not subject to service tax because the monitoring of air conditioners is not done by RA but it is done by the owner (Hoo Factory) himself.

Example 9

IT Kencana Sdn Bhd being awarded an information technology system maintenance contract from Labuci Sdn Bhd. This maintenance contract includes work related to the maintenance of software and hardware of the

information technology system of Labuci Sdn Bhd. This contract is a contract subject to service tax under maintenance management services. If there is maintenance work on the software only, it is subject to service tax under the information technology services taxable services. Whereas if there is repair work that is only done on the hardware, it is not a taxable service under the information technology service and is not subject to service tax. However, if Labuci grants a 2-year preventive maintenance contract to IT Kencana, maintenance management services by IT Kencana for software and hardware are subject to service tax under maintenance management services.

e) Warehousing management services;

Services provided by warehouse companies that manage warehousing activities such as loading and unloading goods, storage of goods, repackaging, security control, transportation of his customers' goods and others. Please refer to the *Panduan Perkhidmatan Pengurusan Penggudangan* for more information.

f) Debt collection management services;

Companies that provide collection and debt management services on behalf of creditors. The company will usually be given a commission when the debtor pays the debt for the company's efforts in getting the debt.

Example 10

Zero Debt Sdn Bhd (ZDSB) provides debt collection management services to ensure that bank borrowers pay their debts. All debts collected by ZDSB will then be transferred to the bank. The Bank will pay a 10% commission to ZDSB on each debt collected. The services provided by ZDSB to the bank are subject to service tax.

Example 11

Debt Reminder (DR) is appointed by the Telecommunication Company to urge customers to pay outstanding bills. DR contacted the customer by telephone and sent a notice of arrears to the customers of the Telecommunication Company. Services by DR to Telecommunication Company are not subject to service tax as persuasive services are not taxable services.

g) Parking management services;

A company that manages parking space from the parking owner.

Example 12

KLDD is a large shopping complex in Kuala Lumpur. Due to the large number of customers and the large parking lot at the complex, KLDD has appointed Parking United Sdn Bhd to manage the parking lot. In return, Parking United will receive 20% of the revenue earned. The services provided by Parking United to KLDD are subject to service tax.

Example 13

The local authority (PBT) has a parking lot and appoints Laling Sdn Bhd to manage the parking lot. The receipt issued is in the name of PBT. In return, Laling will receive 20% of the income earned. Services provided by Laling to local authorities are subject to service tax under management services.

h) Sports facilities management services;

The company appointed to manage sports facilities such as sports complexes, stadiums, courts, sports equipment and others.

Example 14

Sport Center Sdn Bhd has been appointed to manage the Government-owned stadium. Sport Center will charge a service charge to the Government for the management of the stadium. Services provided by Sport Center to the Government are subject to service tax under management services.

- i) Secretarial management services

Example 15

Secretarial Co Sdn Bhd provides management services including accounting, secretarial and others to customers. The company is carrying out secretarial management services and it is subject to the service tax.

- j) any management services other than those specified in (a) to (i) made on behalf of others.

Example 16

Power Sdn Bhd (PSB) appointed Training Management Sdn Bhd (TM) to manage training programs for his staff. TM will manage the training program and appoint Lia Training Centre to provide training services to PSB. TM will charge training management charges to PSB. The training management charges are subject to service tax.

Example 17

Event Manager Sdn Bhd has been requested by a company to manage an event at a hotel. Event Manager Sdn Bhd manages several services from several parties including hotels for hall rental and food and beverage preparation, Entertainment Co for entertainment, Sound Effect Co to ensure all hearing aids are in good condition, and artists will perform. In this

situation Event Manager Sdn Bhd has conducted management services and is subject to service tax.

Example 18

Shipper Management Sdn Bhd has been appointed to manage a private luxury ship that will dock in Malaysian waters. Shipper Management Sdn Bhd will charge service charges on port management, logistics management, catering management and etc to ship owners. This service charge is not subject to service tax because the transport management service is a non-taxable service.

Example 19

Local authorities (PBT) appointed WES Company to manage waste collection and disposal activities in their area. WES Company has appointed several waste collection and disposal companies to carry out garbage collection and disposal services in the area. Waste collection and disposal services by these companies are not subject to service tax. WES Company services to PBT is not a taxable services and it is not subject to service tax.

Non Taxable Management Services

13. The following management services are not subject to the service tax:
- a) The management services in connection with land or building for residential use provided by the developer, joint management body, management corporation or residential association;
 - b) Management services provided by any person licensed or registered with the Securities Commission Malaysia to carry out controlled activities of fund management under the Capital Markets and Services Act 2007 [Act 671];
 - c) Management services provided by any person, government agency, local authority or statutory body for the purpose of, religious services, welfare,

- funeral, cemetery, cremation, sewerage, water supply, health, transportation, tourism or logistics;
- d) Management services in connection with goods or land located outside Malaysia or other matters outside Malaysia; and
 - e) Provision of management services to companies in the same group of company (please refer to Paragraphs 1-8, First Schedule of Service Tax Regulations 2018).

EXEMPTION FROM PAYMENT OF SERVICE TAX [BUSINESS TO BUSINESS (B2B EXEMPTION)]

14. Effective 1 January 2019, service providers under Group G (excluding Items 10 and 11), are exempted from paying service tax if they provide the same services to their customers. This exemption subject to the following conditions as stated under Item 1, Schedule, Service Tax Order (People Exempt From Paying Tax) 2018:

- 14.1. Excluded services are services under Group G (except under items j and k);
- 14.2. The service providers under this exemption are registered persons;
- 14.3. Exempt taxable services are the same services provided by people who are exempt from paying taxes.

Example 20

Pengurusan Bersama Altar Sdn Bhd (PBA) charges facility management services to tenants and shop owners in the Wisma Altar building. The PBA will impose a service tax on its customers. In providing this service, PBA has appointed another company namely Tengah Sdn Bhd (Tengah) to provide this facility management service at Wisma Altar. All facility management services at Wisma Altar are actually provided by Tengah companies. The Central Company does not have to impose a service tax

on the PBA because the PBA provides the same services as the Central Company.

RESPONSIBILITY OF REGISTERED PERSONS UNDER B2B EXEMPTION

15. Any person registered under the category of inter-business exemption who has provided taxable services to any person eligible for exemption is required to do the following:

15.1. Issue an invoice with additional details as follows:

- i. Customer name and address;
- ii. Customer service tax registration number;
- iii. Excluded taxable service value

15.2. Declaration of the value of excluded taxable services: Pledge the value of the exempt taxable service under item 18 (c) in form SST-02.

DETERMINATION OF THE VALUE OF SERVICE TAX

16. The value to be taxed on management services is the actual value of the services provided as follows:

16.1. If management services are provided by the service provider, the total amount of services invoiced to the customer is the value of the service.

16.2. If the management service is handled by a third party, management charges, value-added (mark-up) or profit margin are subject to service tax if the company can "itemised" the actual value of the types of services in the invoice and include an invoice from the supplier for information to the customer.

- 16.3. For companies that fail to comply with paragraph 16.2 or carry out services on a 'package' basis, then the total amount of services including services provided by third parties should be subject to service tax.

SERVICE TAX ACCOUNTING FOR MANAGEMENT SERVICES

17. Service tax must be accounted for by registered person to RMCD:
- a) At the time the payment is received; or
 - b) The next day after a period of 12 months from the date the management service is provided if no payment is received.
18. However, any person authorized by the director general to use an accrual basis, service tax shall be accounted for at the time the invoice is issued.

REGISTRATION AND RESPONSIBILITY OF REGISTERED PERSONS

19. Management service providers who have a total turnover for a period of 12 months in excess of the threshold value set for taxable services must be registered under the Service Tax Act 2018.
20. Registered persons are responsible for:
- a) impose a service tax on taxable services;
 - b) issue an invoice within one (1) year from the date of service rendered;
 - c) submit the SST-02 service tax return electronically and pay the service tax before the maturity date; and
 - d) keep proper records.

For more information on registration, please refer to the General Guide.

FREQUENTLY ASKED QUESTIONS (FAQs)

1.	Q	:	The company charges a management service charge includes all expenses from the customer with an added value (mark-up) on the amount paid to the third party. Does the company have to impose a service tax on the difference in amount?
	A	:	The company has to charge service tax on all costs incurred by the company in providing services. However, if the company is able to "itemised" the actual service value of the amount of payment to the third party in the invoice and include an invoice from the supplier for the information to the customer, only the additional value (mark up) is subject to service tax.
2.	Q	:	My company has signed a building maintenance management agreement with a private company to provide building maintenance, security and cleaning services. Do I have to impose a service tax on building maintenance management services on my clients?
	A	:	Yes, commercial building maintenance management services are management services and are subject to service tax. However, if the same service is provided on a residential building, the service is not subject to service tax.
3.	Q	:	MZB Sdn Bhd (MZB) has been appointed by a private bank to manage and collect outstanding debts by credit card customers. MZB charges a fee to a private bank for the services provided. Are the fees charged by MZB for the service subject to service tax?
	A	:	Yes, the management charges imposed by MZB Sdn Bhd on managing and collecting debts for the bank are subject to service tax.

4.	Q	: I am a registered person who provides warehousing management services such as maintenance, warehousing, storage, packaging services and warehouse rental services to Fairus Sdn Bhd. Are warehouse management and rental management charges subject to service tax?
	A	: Charges imposed on warehouse management services are subject to service tax, including warehouse rental charges if services are provided as a package. However, if the customer only obtains warehousing services, warehouse rental charges are not subject to service tax.
5.	Q	: My company has been registered under the event management service appointed by a local film company to manage the promotion of the latest film products to the public. My company also provides equipment for rent such as tents / stalls and PA system including event hosts and a group of well-known artists to enliven the atmosphere of promotional ceremonies at the request of the film company. Are the charges billed to the film company for the provision of such services subject to service tax?
	A	: Event management fees are subject to service tax, while actual rental charges levied on tents, PA systems, emcee and artists are not subject to service tax if detailed in the invoice and include the original invoice from the supplier. However, if the service is provided in a 'package' then the amount charged at once in the invoice 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://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

SUMMARY OF DOCUMENT CHANGE

Version 1 – 14 January 2021

Para	Changes
Example 5	To rephrase Example 5.
Example 5A	To add new Example 5A.
