

SERVICE TAX 2018

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This information is intended to provide a general understanding of the relevant treatment under service tax 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, RMCD will not be responsible for any mistakes and inaccuracies that may be contained, or any financial loss or other misrepresentation 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. Service Tax is a consumption tax administered by the Royal Malaysian Customs Department under the Service Tax Act 2018 (STA 2018) and its subsidiary legislation effective from 1 September 2018.

2. Service tax shall be charged and levied on:

   i) Any taxable service provided in Malaysia by a registered person in carrying on his business; or

   ii) Any imported taxable services (effective 1 January 2019).

3. Taxable services refer to the list of services prescribed in the First Schedule, Service Tax Regulations 2018 (STR 2018).

4. Any person who provides taxable services exceeding the prescribed total value of taxable services is required to register under the STA 2018. A registered person must charge service tax on taxable services provided to their customers.

5. This guide is provided to assist the industry in understanding the service tax treatment of management services.

IMPLICATION AND SCOPE OF TAX

6. Any person who provides management services is subject to service tax under Item 9, column (1), Group G, First Schedule, STR 2018, effective 1 September 2018.

7. Amendments have been made to further clarify the activities under the category of management services, effective from 1 January 2019. These amendments do not affect the liability of service providers to comply with all legal provisions under the STA 2018, which is effective from 1 September 2018.

8. Management services cover the arrangement and coordination of any activities in providing services to customers and these services are not categorised under any

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specific taxable services (i.e. prescribed services). These activities may consist of organising, supervising, monitoring, planning, controlling or directing various resources such as human, financial, technological, physical and others.

9. A written contractual agreement stating the provision of management services between a person and their client will be an indication of 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 these services can also be considered as management services if the services fall within the scope of management as stated in paragraph 8.

CHANGES OF SERVICE TAX RATES

10. In accordance with subsection 10(2) of the STA 2018, the Minister of Finance has determined that the service tax rate has increased from 6% to 8% effective 1 March 2024 on all taxable services except services specified in the First Schedule and Second Schedule, Service Tax (Rate of Tax) Order 2018.

11. The provision of management services is subject to service tax at a rate of eight per cent (8%) effective 1 March 2024.

12. For further information regarding the transition treatment of service tax rate changes, please refer to ***Panduan Peralihan Perubahan Kadar Cukai Perkhidmatan***.

TAXABLE SERVICES

13. The following management services are taxable services under item (i), column (2), Group G, First Schedule, STR 2018 and subject to service tax are: -

(a) Project management services, full or part of the project;

Any person who carries out the management of a project in full or part of the project and may involve third parties in implementing the project.

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Example 1

ABC Sdn Bhd was awarded a contract to build a shopping complex by Kaya Berhad. To ensure the project runs as planned, subsequently Kaya Berhad has appointed Khan Sdn Bhd to monitor the project. Khan Sdn Bhd charges project management fees to Kaya Berhad which are subject to service tax.

(b) Tourism management services;

Tourism management services are no longer subject to service tax effective on 1 September 2019.

(c) Logistics management services;

Logistics management services have been revised as taxable services under Group J, First Schedule, STR 2018 effective 26 February 2024. Please refer to ***Panduan Logistik*** for further explanation.

(d) Maintenance management services;

Maintenance management services have been revised to item (n), column (2), Group G, First Schedule, STR 2018 effective 26 February 2024. Please refer to ***Panduan Penyenggaraan atau Pembaikan*** for further explanation.

(e) Warehousing management services;

Warehousing management services have been revised to logistics services under Group J, First Schedule, STR 2018 effective 26 February 2024. For further explanation, please refer to ***Panduan Logistik***.

(f) Collection and debt management services;

A company that provides collection and debt management services *on* behalf of

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creditors. The company will usually be given a commission when the debtor pays the debt for the company's efforts in obtaining the debt.

Example 2

Zero Debt Sdn Bhd (ZDSB) provides collection and debt management services to ensure that bank borrowers pay their debts. All debts collected will be made to ZDSB and subsequently ZDSB will make payments to the bank. The bank will pay 10% commission to ZDSB on each debt repayment cleared. The services provided by ZDSB to the bank are subject to service tax.

(g) Car park management services;

A company which manages parking space that belongs to another entity and receives fees, commissions from the revenue earned or receives a fixed monthly commission from the car park owner.

Example 3

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

Example 4

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

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(h) Sports facilities management services;

A party appointed to manage sports facilities such as sports complexes, stadiums, competition arenas, sports equipment or others belonging to their clients.

Example 5

Sport Centre Sdn Bhd has been appointed to manage the Government-owned stadium. Sport Centre Sdn Bhd will charge the Government for the service in managing the stadium. The services provided by Sport Centre Sdn Bhd to the Government are subject to service tax under management services.

(i) Secretarial management services

Secretarial management services include activities such as managing company incorporation, business registration, establishment and formation of private limited companies, updating director information, lodgement of financial statements or other secretarial services.

Example 6

Secretarial Co Sdn Bhd provides management services including accounting, secretarial and others to clients. The management services provided by Secretarial Co Sdn Bhd are taxable services and are subject to service tax.

(j) any management services other than those specified in (a) until (i) made on behalf of another person.

Example 7

Power Sdn Bhd appointed Training Management (TM) to manage training

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programs for their staff. TM will charge training management fees to Power Sdn Bhd. The training management charges are subject to service tax under management services.

Example 8

Event Manager Sdn Bhd was appointed by Company A to manage an event at a hotel. Event Manager Sdn Bhd managed several services from several parties including the hotel for hall rental and food and beverage provision, Entertainment Co for entertainment, Sound Effect Co to ensure all sound systems are in good condition, and the artists who will perform. In this situation, Event Manager Sdn Bhd has carried out management services and is subject to service tax.

Example 9

Z Sdn Bhd is an artist management company and charges a management fee of 40% on the income received by the artist. The management fee charged is subject to service tax because Z Sdn Bhd provides management services.

Example 10

A Property Sdn Bhd was appointed by the Joint Management Body (JMB) of D Pangsapuri to manage the strata status residential building. A Property Sdn Bhd placed 4 of its employees at the JMB office. Apart from the management charges, A Property Sdn Bhd also claimed back its employees' salaries from JMB D Pangsapuri. The management charges and employee salary claims are subject to service tax under management services.

NON-TAXABLE MANAGEMENT SERVICES

14. The following management services are non-taxable services and are not subject to service tax.:

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(a) the management services in connection with land or building for residential use provided by any developer, joint management body, management corporation or residential association;

(b) the management services provided by any person, Government agency, local authority or statutory body for the purposes of religious, welfare, bereavement, burial, cemeteries, cremation, sewerage, water supply, health, public transport or tourism services;

(c) management services in connection with goods or land situated outside Malaysia or other matters outside Malaysia.

15. Financial management services provided by any person regulated by the Central Bank of Malaysia, the Securities Commission Malaysia or the Labuan Financial Services Authority have been transferred from item (i), column (2), Group G, First Schedule, STR 2018 to sub-item 3 (a), Group H, First Schedule, STR 2018 effective 1 July 2025. For further explanation, please refer to the Guide on Financial Services.

GROUP RELIEF

16. Management services under item (i), column (2), Group G provided by a company in a group of companies to any company within the same group of companies shall not be a taxable service if they comply with the conditions specified under paragraphs 3 to 9, First Schedule, STR 2018. This service tax treatment is referred to as group relief.

17. The determination as a company in a group of companies is based on paragraphs 4 to 7, First Schedule, STR 2018 as follows:

Paragraph	Paragraph description
4	For the purpose of paragraph 3, two or more companies are eligible to be treated as companies within a group of companies if one company controls each of the other companies.

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Paragraph	Paragraph description
5	For the purpose of paragraph 4, a company shall be taken to control another company if— (a) the first mentioned company holds— (i)directly; (ii) indirectly through subsidiaries; or (iii) together directly or indirectly through subsidiaries, more than fifty percent of the issued share capital of the second mentioned company; or (b) the first mentioned company holds— (i) directly; (ii) indirectly through subsidiaries; or (iii) together directly or indirectly from subsidiaries, from twenty percent to fifty percent of the issued share capital of the second mentioned company and the first mentioned company has exercisable power to appoint or remove all or a majority of directors in the board of directors in the second mentioned company.
6	For the purpose of paragraph 5, shares shall be treated as not held if the shares are held— (a) through nominees; (b) in a fiduciary capacity; or (c) by virtue of provisions of debenture holding, trust deeds for securing debentures or money lending activities.
7	Where a company is controlled by virtue of paragraphs 5(a) and (b) by two or more companies, such company (second mentioned company) shall be taken to be controlled by the first mentioned company which has the exercisable power to appoint or remove all or a majority of directors in the board of directors in the second mentioned company.

18. Management service provider that qualifies as a company in a group of

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companies and are eligible to use group relief are not required to register as service tax registered person.

Example 11

Q Bhd provides secretarial management services to related companies only. Company information and the value of services provided for the year 2021 are as follows:

Company name	***Percentage of shareholding***	***Power to appoint/dismiss the all or a majority of directors in the board of directors***	***Value of services provided (RM)***
A Sdn Bhd	*100%*	*Yes*	*300,000.00*
B Sdn Bhd	*40%*	*Yes*	*250,000.00*
Total			*550,000.00*

The relationship between Q Bhd and A Sdn Bhd and Q Bhd and B Sdn Bhd are companies in the same group of companies. Management services provided by Q Bhd to A Sdn Bhd and B Sdn Bhd are eligible for group relief and are not subject to service tax.

19. If a management service provider intends to provide management services to clients outside the group (third parties) other than services to group members, the service provider is liable to register under section 12, STA 2018. For the determination of the value of services, the same total value of taxable services to group members and third parties shall be applied.

Example 12

Z Sdn Bhd provides management services to group members within the same group of companies. Starting Jan 2021, Z Sdn Bhd intends to provide services to third parties. Based on the historical method, the value of management services from January 2021 to May 2021 is as follows:

Customer category	***Value of Services Provided (RM)***
A Sdn Bhd (group member)	*RM200,000.00*
BY Sdn Bhd (group member)	*RM200,000.00*

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Customer category	***Value of Services Provided (RM)***
Customer C (third party)	*RM80,000.00*
Customer G (third party)	*RM50,000.00*
Total	*RM530,000.00*

Z Sdn Bhd is liable to register for service tax in May 2021 because the value of management services provided has exceeded RM500,000.00. Application for service tax registration must be made no later than the last day of June 2021.

20. For the period 1 September 2018 to 31 December 2019, if management services are provided to any person outside the group of companies, consequently the management services provided to any company outside the group (third party) or within the group of companies shall be taxable services and subject to service tax.

21. However, effective from 1 January 2020, the group relief facility is still eligible even if the same taxable services are provided to a third party provided that the total value of taxable services to third parties within a period of twelve (12) months does not exceed an amount equivalent to five percent (5%) of the total value of the same services provided. The calculation of the 5% service value is based on the future method, *i.e.* current month and the eleven months immediately succeeding that month. If the value of taxable services to third parties exceeds 5% of the total value of the services, then the service provider must charge service tax to any member of the same group.

Example 13

Referring to example 11 above, from 1 January 2022, Q Bhd extends its management services to clients outside the group of companies. The value of services to group members and clients outside the group for the financial year ended 31 December 2022 is as follows:

Customer category	***Value of Services Provided (RM)***	***Percentage of taxable services***
Company A (group member)	*RM300,000.00*	*750K/780K: 96.15%*
Company B (group member)	*RM450,000.00*	

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Customer category	***Value of Services Provided (RM)***	***Percentage of taxable services***
Customer C (third party)	*RM10,000.00*	*30K/780K:* ***3.85%***
Customer G (third party)	*RM20,000.00*	
Total	*RM780,000.00*	*100%*

Q Bhd is registered for service tax and has charged service tax to third parties. For services to group members, namely Company A and Company B, no service tax is charged by Q Bhd because based on the estimated taxable services for the year 2022, the total value of taxable services to third parties up to December 2022 will not exceed 5% of the total taxable services.

Based on the total value of actual taxable services up to 31 December 2022, the total value of taxable services provided to third parties is 3.85% and does not exceed the 5% value set for group relief eligibility. Therefore, Q Bhd is eligible to use group relief for services provided to group members.

Example 14

For the financial year 2023, the value of management services provided by Q Bhd to group members and third parties is as follows:

Customer category	***Value of Services Provided (RM)***	***Percentage of taxable services***
Company A (group member)	*RM400,000.00*	*850K/1.1million: 77.30%*
Company B (group member)	*RM450,000.00*	
Customer (third party)	*RM250,000.00*	*250K/1.1 million:* ***22.7%***
Total	*RM1,100,000.00*	*100%*

For services to group members, namely Company A and Company B, no service tax is charged by Q Bhd because based on the estimated taxable services for 2023, the total value of taxable services to customers outside the group until December 2023 will not exceed 5% of the total taxable

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services.

Based on the total value of actual taxable services up to 31 December 2023, the total value of taxable services provided to third parties is 22.7% and exceeds the 5% value specified for group relief eligibility. Therefore, Q Bhd must make an adjustment by accounting for service tax for services provided to its group members.

22. Registered person who provide taxable services to group members and third parties must continue to remain registered even if the value of taxable services to third parties is less than five percent (5%) of the total value of services.

23. For further information on group relief, please refer to Service Tax Policy No. 8/2020.

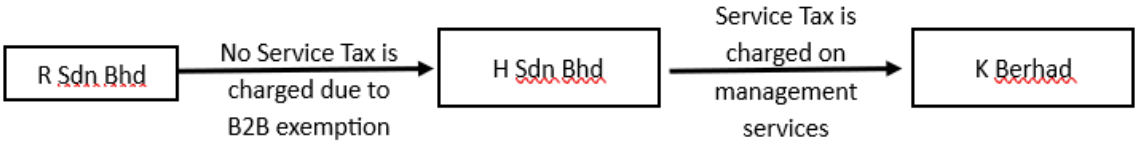
EXEMPTION FROM PAYMENT OF SERVICE TAX [BUSINESS TO BUSINESS EXEMPTION (B2B EXEMPTION)]

24. Effective 1 January 2019, service recipients under Group G [excluding Item 10 (person providing employment services) and Item 11 (person who are private agencies licensed under the Private Agencies Act 1971)], are granted exemption from paying service tax subject to the following conditions as specified under Item 1, Schedule, Service Tax (Persons Exempted from Payment of Tax) Order 2018: -

i) The exempted services are services under Group G [except under item j (employment services) and k (guards or protection services for safety or security)];
ii) The service provider and recipient of services under this exemption are registered persons;
iii) Taxable services exempted are the same services provided by a person who is exempted from payment of tax.
iv) Taxable services exempted are not for the personal use of the person who is exempted from payment of tax.

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Example 15



H Sdn Bhd received a contract to manage a data centre in Cyberjaya from K Berhad. Given its manpower constraints, H Sdn Bhd appointed R Sdn Bhd to manage the data centre on its behalf. H Sdn Bhd and R Sdn Bhd are service tax registered persons under management services. R Sdn Bhd will issue an invoice to H Sdn Bhd every month and H Sdn Bhd will then charge K Berhad for the management charges.

Since the services provided by R Sdn Bhd to H Sdn Bhd meet the conditions under Item 1, Schedule, Service Tax (Persons Exempt from Paying Tax) Order 2018, H Sdn Bhd is exempt from paying service tax to R Sdn Bhd and R Sdn Bhd does not need to charge service tax to H Sdn Bhd. For the invoice issued by H Sdn Bhd to K Berhad, the management services provided are subject to service tax.

RESPONSIBILITIES OF PERSONS REGISTERED UNDER BUSINESS-TO-BUSINESS EXEMPTION (B2B EXEMPTION)]

25. Any registered person who has provided taxable services to any person who is eligible for B2B exemption, is required to perform the following actions:

25.1 Issue the invoice with following additional details:

i. Name and address of the customer;

ii. Customer's service tax registration number; and

iii. The value of taxable services exempted.

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25.2 Declaration of the value of taxable services exempted:

25.2.1 Declare the value of the exempted taxable services in column 18 (c) in the SST-02 form.

DETERMINATION OF VALUE SUBJECT TO SERVICE TAX

26. The value subject to service tax for management services is the actual value of the services provided according to Section 9, STA 2018.

SERVICE TAX DUE

27. Service tax must be accounted for by registered persons to RMCD:

(a) At the time when payment is received; or

(b) On the day following that period of twelve months from the date the taxable services were provided if no payment has been received.

28. Registered persons may apply in writing to the Director General subject to any conditions deemed fit by the Director General to change the basis of service tax accounted at the time invoice is issued.

REGISTRATION AND RESPONSIBILITIES OF REGISTERED PERSON

29. Service providers who reach the taxable service value specified for taxable services are liable to register under the STA 2018.

30. For existing registered persons regulated by the Central Bank of Malaysia, the Securities Commission Malaysia or the Labuan Financial Services Authority and providing financial management services relating to financial services specified in item 3 (a), Group H, First Schedule, STR 2018 are liable to update their registration information by adding a new taxable service registration, namely item 3, Group H, in accordance with the amendment to the First Schedule, STR 2018 effective 1 July 2025.

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31. The registered person is responsible to:

a) charge service tax on taxable services;

b) issue invoices and receipts to customers regarding any transactions related to the provision of taxable services;

c) submit the SST-02 service tax return electronically and pay the service tax before the due date; and

d) keep proper record related to service tax transactions.

For more information on registration and responsibilities of registered persons, please refer ***Panduan Umum Cukai Perkhidmatan*****.**

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FREQUENTLY ASKED QUESTIONS

1. **S** : **The company charges management fee together with expenses claims for services obtained from the suppliers that are part of management services provided. Is the company required to charge service tax on the management charges and expense claims?**

   J : The company is required to charge service tax on the actual value of services provided to customers, which is management fee including with expenses claimed from the customers.

2. **S** : **My company has signed a building maintenance management agreement with a commercial building joint management body to provide building maintenance, security and cleaning services. Do I need to charge service tax on building maintenance management services to my customers?**

   J : Yes, commercial building maintenance management services are management services and are subject to service tax effective 1 September 2018. This maintenance management service has been revised to item (n), Group G effective 26 February 2024.

3. **S** : **MZB Sdn Bhd (MZB) is appointed by a bank to manage debt collection from credit card customers. MZB charged a fee to the private bank for the service rendered. Is the fee charged by MZB for the debt collection management service is subject to service tax?**

   J : Yes, the management fee charged by MZB Sdn Bhd for debt collection management services to banks are subject to service tax.

4. **S** : **I am a registered person who provides warehousing management services such as maintenance, warehousing, storage, packaging services as well as warehouse rental services to Fairus Sdn Bhd.**

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Are warehousing management fee and warehouse rental subject to service tax?

J : Fee charged on warehousing management services are subject to service tax, including warehouse rental charges if the services are provided as a package. Effective 26 February 2024, this warehousing management service has been revised as a taxable logistics service under Group J.

5. **S** : **My company registered under event management service appointed by a local film company to manage the promotion of the film to the public. Are promotional management charges billed to film companies subject to service tax?**

J : Promotion management charges billed to film company for film promotion management services are subject to service tax under management services.

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INQUIRY

Please contact the following office if there is any question relating to this guide:

Internal Tax Division (SST)
Service Tax Policy Branch
Royal Malaysian Customs Department
Level 6, Tower A, Suasana PjH,
Jalan Tun Abdul Razak, Presint 2
62100 Putrajaya.

FURTHER ASSISTANCE AND INFORMATION RELATED TO SST

Further information can be obtained from:

i. MySST website: https://mysst.customs.gov.my

ii. Customs Call Center:

- Hotline : 1-300-888-500
- Phone : 03-8882 2100/ 2300/ 2500
- Email : ccc@customs.gov.my

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