# SERVICE TAX POLICY NO. 2/2025 (Amendment No. 5)

**THE MINISTER OF FINANCE,** pursuant to paragraph 34(3)(a) and 34(4) of the Service Tax Act 2018, exempts the payment of and imposes service tax for –

**RENTAL OR LEASING SERVICES**
Group K, First Schedule
Service Tax Regulations 2018

| NO. | EXEMPTION | CONDITIONS |
|---|---|---|
| 1. | The Federal Government and State Governments are exempted from charging and paying service tax on rental or leasing services. | This exemption takes effect from **1 July 2025**. |
| 2. | Local authorities (PBT) are exempted from charging and paying service tax on rental or leasing services from **1 July 2025 until 30 September 2025**. | This exemption takes effect from **1 July 2025**. |
| 3. | Non-reviewable contracts are exempted from the payment of service tax for the period **1 July 2025 to 30 June 2026**. | (a) The service provider is a registered person under service tax;<br><br>(b) The contract does not contain any price review clause or any value adjustment mechanism;<br><br>(c) The contract was made in writing, signed, and stamped by the Inland Revenue Board of Malaysia (LHDN) on or before **9 June 2025**;<br><br>(d) The contract clearly states:<br><br>(i) the type of services provided;<br>(ii) a fixed contract value;<br>(iii) the contract period; and<br><br>(e) The contract remains in force after 1 July 2025.<br><br>This exemption takes effect from **1 July 2025.** |

| NO. | EXEMPTION | CONDITIONS |
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| 4. | Tenants with Micro, Small, and Medium Enterprise (MSME) status are exempted from paying service tax on the acquisition of rental or leasing services. | (a) The tenants must register and declare their MSME status through the **MyPMK** system developed by the Royal Malaysian Customs Department (RMCD);<br><br>(b) Exemption eligibility is based on the annual sales value declared by the MSME to Inland Revenue Board of Malaysia (IRBM) for the latest year of assessment as follows:<br><br>i) Annual sales value of **less than RM1 million** is eligible for service tax exemption starting **1 July 2025**;<br><br>ii) Annual sales value **exceeding RM1 million and less than RM1.5 million** is eligible for service tax exemption starting **1 January 2026**;<br><br>(c) MSMEs registered in the MyPMK system up to **31 December 2026** are eligible to enjoy the service tax exemption on rental or leasing services starting from 1 July 2025 or 1 January 2026 based on their respective annual sales value thresholds.<br><br>(d) For the purpose of renewing this exemption eligibility status, MSMEs must update their annual sales value every year through the MyPMK system not later than the last day of the following month in which the latest annual tax assessment return is submitted to IRBM, subject to the following:<br><br>i) MSMEs must have a paid-up ordinary share capital not exceeding RM2.5 million;<br><br>ii) For MSMEs established by a company within the same group of companies, the shareholding of the company owning the MSME must not exceed 20%; |

| NO. | EXEMPTION | CONDITIONS |
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| | | (e) The tenant shall be responsible for any information declared to RMCD;<br><br>(f) If the declaration made by the MSME is found to be false, RMCD may recover the service tax that was not eligible for exemption under the provisions of section 34(5) of the Service Tax Act 2018; and<br><br>(g) Other conditions specified by the Director General of Customs, Deputy Director General of Customs, or Assistant Director General of Customs (Internal Tax) for the purpose of operational efficiency and control. |
| 5. | An exemption from paying tax is granted to companies within a group that receive rental or leasing services from any other company in the same group (group relief), whether inside or outside Malaysia, until amendments to the subsidiary legislation are gazetted. | Refer to **APPENDIX A.**<br><br>This exemption takes effect from **1 July 2025**. |
| 6. | Rental or leasing services of aircraft and sea vessels are exempted from service tax. | (a) All aircraft excluding drones.<br><br>(b) Vessels include any ship navigating or moving on or under water, but excluding floating storage units (FSU) and similar structures.<br><br>This exemption takes effect from **1 July 2025.** |
| 7. | The business-to-business (B2B) exemption facility on rental or leasing services for the period from 1 July 2025 to 31 August 2025 is granted to rental or leasing service providers who newly reach the registration threshold in July 2025 and have | (a) A refund claim on service tax that has been declared and paid in the SST-02 return are permitted and must be submitted on or before **30 November 2025**; and |

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| | applied for service tax registration on or before 31 August 2025. | (b) The claim must be made by the rental or lease service provider after refunding the collected service tax amount to the recipient of the rental or lease service.<br><br>This exemption takes effect from **1 July 2025.** |
| 8. | A service tax exemption of 2% on the service tax rate for rental or leasing services is granted until amendments to the subsidiary legislation are gazetted.<br><br>***Note:***<br>*With the gazetting of subsidiary legislation via P.U. (A) 125, namely the Service Tax (Rate of Tax) (Amendment) Order 2026 on 13 March 2026, this 2% service tax exemption on the rental or leasing service tax rate is revoked. Effective 1 January 2026, the service tax rate on rental or leasing services is 6%.* | This exemption takes effect from **1 January 2026**.<br><br>Please refer to **APPENDIX B** for the refund mechanism of the 2% exemption on the service tax rate for rental or lease services. |
| 9. | Tenants with Micro, Small, and Medium Enterprise (MSME) status who have newly established a business are exempted from paying service tax on the acquisition of rental or leasing services.<br><br>Newly established MSME businesses are eligible to enjoy service tax exemption treatment on rental and leasing services. | This exemption is for a period of **1 year** starting from the date of registration of the MSME with the Companies Commission of Malaysia (SSM) or similar agencies in Sabah and Sarawak, subject to the following conditions:<br><br>(a) MSMEs must have a paid-up ordinary share capital not exceeding RM2.5 million;<br><br>(b) For MSMEs established by a company within the same group of companies, the shareholding of the company owning the MSME must not exceed 20%;<br><br>(c) The tenant must register and declare their MSME status through the MyPMK system developed by the Royal Malaysian Customs Department |

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| | | (RMCD);<br><br>(d) The newly established MSME businesses must submit an income tax return to IRBM to qualify for service tax exemption on rental or lease services after the existing one (1) year period expires; and<br><br>(e) Update IRBM income declaration information in the MyPMK system in the year following the SSM registration date.<br><br>This exemption takes effect from **1 January 2026**. |

**APPENDIX A**
STP No. 2/2025 (Amendment No. 5)

**Conditions for Group Relief Granted to Companies Within a Group That Receive Rental or Leasing Services From Any Other Company Within the Same Group, Whether Inside or Outside Malaysia**

1. If a company in a group of companies provides any rental or leasing services in column (2) in Group K to any company in the same group of companies, such services are exempt from payment of service tax.

2. A company shall be deemed to control another company if—

    (i) the first mentioned company holds—

    (a) directly;

    (b) indirectly through subsidiaries; or

    (c) together directly or indirectly through subsidiaries,

    more than fifty percent of the paid-up capital issued by the second-mentioned company; or

    (ii) the first mentioned company holds—

    (a) directly;

    (b) indirectly through subsidiaries; or

    (c) together directly or indirectly through 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.

3. Shares shall be treated as not held if the shares are held—

    (i) through nominees;

(ii) in a fiduciary capacity; or

(iii) by virtue of provisions of debenture holding, trust deeds for securing debentures or money lending activities.

4. Where a company is controlled by pursuant to paragraphs 2(i) and (ii) 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.

5. If a company in a group of companies acquires rental or leasing services from any company other than foreign registered person within the same group of companies outside Malaysia, such service are exempted from payment of service tax.

6. If a company provides rental or leasing services to any person outside the group of companies, the same taxable services provided to any company outside or within the group of companies shall be a taxable service.

7. Notwithstanding paragraph 6, if a company provides rental or leasing services to another person outside the group of companies, the same taxable service provided to any company within the group of companies shall be exempted from payment of service tax, provided that the total value of taxable services to another person outside the group of companies in that month and the eleven months immediately succeeding that month does not exceed an amount equal to five per cent of the total value of taxable services.

**APPENDIX B**
STP No. 2/2025 (Amendment No. 5)

**POLICY DETERMINATION FOR REFUND APPLICATION FOR THE 2% SERVICE TAX RATE EXEMPTION ON RENTAL OR LEASE SERVICES**

1. Effective **1 January 2026**, the Minister of Finance has fixed the service tax rate on rental or leasing services at **6%.**

2. Therefore, service providers who have overpaid service tax to JKDM are allowed to apply for a refund claim in accordance with subsection 38(1)(b) of the Service Tax Act 2018 (STA 2018) by submitting the following documents to the controlling station:

    a) official application letter;
    b) RMCD Form No. 2;
    c) SST listing for the relevant taxable period;
    d) a copy of the rental agreement or related document proving that the rental or lease service occurred on or after **1 January 2026**;
    e) an invoice issued by the service provider to the service recipient, including the total amount of service tax payable by the service recipient;
    f) proof of tax refund to the customer or tenant (e.g., proof of payment documents, credit notes, and other relevant documents); and
    g) other business documents that can prove that the service recipient has overpaid service tax (if necessary).

**Notice:**

Service Tax Policy No. 2, Service Tax Policy No. 2 (Amendment No. 1), Service Tax Policy No. 2 (Amendment No. 2), Service Tax Policy No. 2 (Amendment No. 3), and Service Tax Policy No. 2 (Amendment No. 4) are revoked and replaced with **Service Tax Policy No. 2 (Amendment No. 5)**.

**Disclaimer:**

This issued service tax policy is subject to any amendments should there be any changes to the relevant policy.

**INTERNAL TAX DIVISION HEADQUARTERS**
**ROYAL MALAYSIAN CUSTOMS DEPARTMENT**