Recent updates on sales tax exemptions and the increase of excise duty rates in Malaysia

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Sales tax exemption for manufacturing aids and cleanroom equipment

On 29 December 2023, the Ministry of Finance (MoF) gazetted the Sales Tax (Persons Exempted From Payment Of Tax) (Amendment) (No. 3) Order 2023. The Order came into effect on 1 January 2024.

In line with Malaysia's 2024 Budget announcement, any person or manufacturer who qualifies for the sales tax exemption on manufacturing aids and cleanroom equipment can apply for such exemption. The list of manufacturing aids and cleanroom equipment which qualify for the exemption can be found in Appendix 1 and 2 of the Public Ruling No. 2/2024.

To supplement the MoF's policy, the Royal Malaysian Customs Department (RMCD) defines the terms as below:

- **"Manufacturing aids"** refers to goods used in the manufacturing process to accelerate, improve, complement or complete the manufacturing process of finished goods, but do not become part of the finished goods.
- **"Cleanroom"** refers to a facility in a regulated factory where pollutants such as dust, aerosol particles, airborne microbes, and chemical vapours are reduced to a minimum level.

The terms definition are specified in the Guide on Sales Tax Exemption under Schedule C, Sales Tax (Persons Exempted from Payment of Tax) Order 2018 dated 29 December 2023.

Our take: The sales tax exemption on manufacturing aids and cleanroom equipment aims to enhance the competitiveness of Malaysia's manufacturing sector. It is important for eligible manufacturers to ensure that they understand the procedures to claim for sales tax exemption. This may include preparing sufficient documentation and communicating with the authorities on your intent to claim for such sales tax exemptions.

Application to extend the re-export timeframe for sales tax exemptions

On 1 November 2023, the Royal Malaysian Customs Department (RMCD) published an announcement to extend the standard export timeframe for goods imported for re-export under a sales tax exemption scheme as per the Sales Tax Act 2018 and Sales Tax (Persons Exempted From Payment Of Tax) Order 2018 ("the Order"). This announcement allows traders to comply with sales tax exemptions requirements even when the goods cannot be re-exported within the initially agreed timeframe.

Malaysian companies can now apply for a timeframe extension from RMCD to export goods imported for re-export under a sales tax exemption scheme. An extension of the export timeframe can be made if such goods cannot be exported within the standard timeframe (i.e., three months). The application must be submitted before the end of the export date. Note that goods are also considered to be exported from Malaysia if they are transported from a principal customs area (PCA) to any special areas such as free zones, licensed warehouses, licensed manufacturing warehouses or designated areas such as duty free islands of Labuan, Langkawi, Tioman and Pangkor.

Any Malaysian company seeking an extension of the export timeframe must submit an application before the goods' export date or date of transport into a special area/designated area. Key documents must also be submitted to the Facility Control Division/Branch, State Inland Tax at the zone/state. Key documents may include an application letter consisting of description of goods, quantity, customs declaration forms, sales tax exemption certificate number, preparing justifications as well as import documentation.

Aside from goods imported for re-export, other sales taxable goods intended for export can also apply for an extension.

Our take: Submission for an extension requires the company to prepare supporting documents and may take time especially in cases where there are a significant number of goods involved. Therefore, it is important for companies to plan in advance to apply for the re-export timeframe extension to ensure that they are still eligible for the sales tax exemption.

Increase of excise duty rate on sugar sweetened beverages and imposition of excise duty on chewing and sucking tobacco and premix preparations

The Ministry of Finance (MoF) updated the excise duties for sugar sweetened beverages, and introduced excise duties on chewing and sucking tobacco and premix preparations.

These updates were gazetted through several amendment Orders, including the Excise Duties (Amendment) (No.3) Order 2023, Excise Duties (Amendment) Order 2024, Excise Duties (Exemption) (Amendment) Order 2024, Excise Duties (Payment of Premix Preparation) Order 2024 and Excise (Exemption from Licensing) (Amendment) Order 2024. We've summarised the key changes below:

- **Sugar sweetened beverages:** The excise duty on sugar sweetened beverages under HS heading 20.09 and 22.02 is increased from RM0.40 per litre to RM0.50 per litre. This came into effect on 1 January 2024.

- **Chewing and sucking tobacco:** Chewing and sucking tobacco under tariff code 2403.99.50 00 will also be subject to an excise duty of RM27.00 and 5% per kilogram. Previously such chewing and sucking tobacco products were not subject to excise duty. This came into effect on 1 January 2024.

- **Premix preparation:** Effective from 1 March 2024, premix preparations will be subject to an excise duty of RM0.47 per 100 grams. This duty will be levied on goods falling under Chapter 18 (Cocoa and cocoa preparations), Chapter 19 (Preparations of cereals, flours, starch or milk; pastrycooks' products), and Chapter 21 (Miscellaneous edible preparations). The imposition of excise duty on premix preparations was first announced during Budget 2022 and is an expansion of the excise duty on ready-to-drink sugar sweetened beverages. Note that certain goods are exempt from excise duty including:
    - follow-up formula for infants and children aged 6 months to 9 years,
    - flavoured milk powders with a total sugar content of 46.7 grams per 100 grams or less, and
    - certain food preparations falling under subheadings 1806.90.90 00, 1901.90.39 00, 1901.90.49 00, and 1901.90.99 00.

These amendments were previously gazetted but were postponed by the Royal Malaysian Customs Department (RMCD) in September 2022.

Let's talk

If you would like further advice in relation to the topic above or a deeper discussion of how this issue might affect your business, please contact:

Paul Sumner
Partner
Email: paul.sumner@pwc.com

Chandrasegaran Perumal
Director
Email: chandrasegaran.perumal@pwc.com

Lilian Lee
Manager
Email: lilian.mh.lee@pwc.com