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Issue 16 - 2025 | 10 June 2025

Expansion of scope of Sales Tax and Service Tax effective from 1 July 2025

The Ministry of Finance issued a press release dated 9 June 2025 informing that the effective date for the expansion of scope of sales tax and service tax ("SST") as announced in the Budget 2025 speech is **1 July 2025**. The release also highlighted that companies that proactively comply with SST requirements would not be subject to prosecution or penalties until December 31, 2025.The following amendment orders and regulations relating to sales tax and service tax were issued on 9 June 2025 and will be effective from 1 July 2025:

1. Sales Tax (Rate of Sales Tax) Order 2025
2. Sales Tax (Goods Exempted from Sales Tax) Order 2025
3. Service Tax (Amendment) Regulations 2025
4. Service Tax (Rate of Tax) (Amendment) Order 2025
5. Service Tax (Persons Exempted from Payment of Tax) (Amendment) Order 2025

We summarise below the expanded sales tax and service tax scope and their implications for your attention:

Expansion of Sales Tax scope

The Sales Tax (Goods Exempted from Sales Tax) Order 2025 was issued to update the list of goods exempted from sales tax. Among the goods taken out from the list of goods exempted from sales tax to be taxed at the following rates are:

- <u>Sales tax at 5%</u>
  - Category 1: Premium fishes
  - Category 2: Certain fruits (e.g. bananas, grapes, guavas, mangoes and avocados)
  - Category 3: Basic food needs (e.g. cereals, cooking oil, table salt) and reading materials
  - Category 4: Raw materials to be mainly used by other sales tax registered manufacturers (e.g. palm oil, timber and rubber)
  - Category 5: Raw materials to be used in the preparation of medications (e.g. antibiotics)
  - Category 6: Materials used in construction industry (e.g. quicklime and bitumen)
  - Category 7: Waste and scrap of base metals (e.g. iron or steel, aluminium, copper)
  - Category 8: Machinery except for medical devices, agricultural, and poultry farming
  - Category 9: Vehicles (aircrafts and vessels except those that are used to transport only passengers)

- <u>Sales tax at 10%</u>
  - Tungsten waste and scraps
  - Vessels that are used to transport only passengers

Expansion of Service Tax scope

The following services will be treated as taxable services with effect from 1 July 2025:

(i) <u>Rental or leasing services (Group K) at 8%</u>
Provision of all types of rental or leasing of tangible asset services including any other services which form part of the rental or leasing services except the provision of services—

- for rental or leasing of housing accommodation;
- for rental or leasing of reading materials;
- for rental or leasing of tangible assets located outside Malaysia; or
- for leasing of tangible asset through a financial lease

Business-to- business ("B2B") exemption is available for sublease or sublet, subject to meeting conditions.

Exemption is also available for lessees or tenants who are Micro, Small, and Medium Enterprises ("MSME") with annual turnover that is less than RM500,000.

(ii) <u>Construction services (Group L) at 6%</u>

- Construction works services such as building, road works, railway infrastructure, EPCC and more will be taxable under Group L of the Service Tax Regulations 2018.

- Construction of residential buildings and public facilities related to residential projects are not subject to service tax. However, residential buildings and associated public facilities that are part of a mixed development project (approved by local authorities) will be taxable.

- Any person providing taxable construction works services will be required to register for service tax if the annual turnover exceeds RM1.5 million.

- B2B exemptions are available, ensuring businesses providing same taxable services can benefit. Additionally, non-reviewable contracts will receive a 12-month exemption from the effective date (i.e. 1 July 2025).

- No intra-group relief available for Group L.

(iii) <u>Financial services (Group H) at 8%</u>

- Group H has been expanded to include fee or commission based financial services in addition to the existing credit and charge card services.

- The fee or commission based financial services will be taxed at 8% while the credit and charge card services remain to be taxed at RM25 per year on each principal card or supplementary card.

- The taxable fee or commission based financial services include banking and insurance services provided by both financial regulated persons and non-financial regulated persons.

- Persons providing taxable financial services must register for service tax if their annual turnover surpasses RM500,000, with the exception for credit and charge cards, which require no minimum threshold.

- Group H offers no intra-group relief, and a B2B exemption is exclusively available to only recipients of financial services regulated by the Labuan Financial Services Authority. The scope of B2B exemption appears to be inconsistent with the media release.

- In addition to newly taxable financial services, significant changes include the taxation of fund management and re-insurance/re-takaful services, which were previously exempt.

- It was communicated that the implementation for Group H would be in two phases; however, the law does not reflect this plan.

(iv) <u>Private healthcare services (Group I) at 6%</u>

- Healthcare services to non-Malaysian citizens will be subject to service tax at 6%.

- The following services will be taxable under items 14 – 16, Group I, First Schedule of the Service Tax Regulations 2018:

- Provision of healthcare services by a private healthcare facility registered or licensed under the Private Healthcare Facilities and Services Act 1998 excluding any university or university colleges or the following private healthcare facilities - University Malaya Specialist Centre; Universiti Kebangsaan Malaysia Specialist Centre; Universiti Teknologi MARA Medical Specialist Centre; and International Islamic University Malaysia Medical Specialist Centre.

- Provision of private traditional and complementary medicine services

- Provision of private allied health services such as audiology, dietitic, physiotherapy, clinical psychology and others.

- Services to Malaysian citizens are also considered taxable services but Malaysians are exempt from payment of service tax on these services.

- Any person providing the taxable services will be required to register for service tax if the annual turnover exceeds RM1.5 million.

(v) Education services (Group M) at 6%
The following education services will be subject to service tax at 6% and has no registration threshold for this group of taxable services:

(a) Private education services (from pre-school to pre-tertiary) which charge fees exceeding RM60,000 per student for each academic year;

(b) Tertiary education services provided to non-citizen students; and

(c) Education services provided by language centres to non-citizen students.

(vi) Beauty services (Group C) at 8%

- All types of services provided by any person operating a wellness centre will be subject to 8% service tax.

- “Wellness centre" means any premises which provides the following services:
  - any treatment on any part of the body using any substance or equipment including aromatherapy, acupuncture, reflexology or cupping;
  - any care or treatment for postnatal mother and infant; or
  - wellness care for the elderly.

- The scope of service tax for wellness centres has been expanded by including beauty treatment services involving beauty center premises (e.g. facial treatment, hair treatment, spa, manicure, pedicure, slimming treatment etc.).

- Any person providing the taxable services will be required to register for service tax if the annual turnover exceeds RM500,000.

PwC’s Comment

Is your business registered for sales tax or service tax? With the expansion in scope, you may now be required to register! Don't miss the deadline—apply for registration with the Royal Malaysian Customs Department (RMCD) by 31 August 2025, if you've exceeded the threshold. Act now to stay compliant.

In taking stock of the impact of the expansion of SST, a holistic assessment, including interaction with corporate income tax, should be considered.

Have questions?

Let’s connect

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