



**SERVICE TAX 2018**

**GUIDE ON:**

**FINANCIAL SERVICES**

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## INTRODUCTION

1. Service Tax is a consumption tax governed by the Service Tax Act 2018 and its subsidiary legislation. The effective date of the Service Tax Act 2018 is 1<sup>st</sup> September 2018.
2. Service tax is imposed on prescribed services, which are known as “taxable services”.
3. A person who provides taxable services exceeding a specified threshold is required to be registered under the Services Tax Act 2018 and is known as a “registered person”. A registered person is required to charge service tax on his taxable services provided to his customers.
4. This guide is prepared to assist you in understanding the service tax treatment on the financial services provided by the financial service provider.

## TERMINOLOGY

5. The terms defined in this guide shall have the meanings assigned to them, unless expressly stated otherwise in this guide.

### 5.1 “Financial services” means;

- a) any services related to activity or business regulated under the following legislations:
  - i) Financial Services Act 2013 [Act 758];
  - ii) Islamic Financial Services Act 2013 [Act 759];
  - iii) Capital Market and Services Act 2007 [Act 671];
  - iv) Labuan Financial Services and Securities Act 2010 [Act 704];
  - v) Labuan Islamic Financial Services and Securities Act 2010 [Act 705]; or
  - vi) Development Financial Institutions Act 2002 [Act 618]

- b) Similar services but not regulated under the act specified in paragraph 5.1(a) and these services include;
  - i) financial leasing;
  - ii) factoring;
  - iii) trade financing;
  - iv) credit facility; or
  - v) shariah compliant financing.

However, this service does not include the following services:

- i) foreign currency exchange;
- ii) remittance; or
- iii) distribution of insurance and takaful products / services (i.e. insurance or takaful agent)

5.2 **“Regulated financial services provider”** means any person who provides financial services regulated by Bank Negara Malaysia, Securities Commission Malaysia or Labuan Financial Securities Authority.

5.3 **“Registered financial services provider”** means any person who is registered under Group H, First Schedule, Service Tax Regulations 2018 and Service Tax Act 2018.

## **EFFECTIVE DATE**

6. The imposition of service tax on financial services will be made in two phases, beginning 1<sup>st</sup> July 2025.

6.1 First phase - Effective 1<sup>st</sup> July 2025, certain financial services that are charged for fees or commission, are subjected to service tax. Such services are listed in Appendix A.

6.2 Second phase – Effective 1<sup>st</sup> September 2025, financial services that are charged for fees or commission which are not listed in Appendix A will be subjected to service tax.

## IMPLICATIONS ON THE CURRENT SERVICE TAX TREATMENT

7. Prior to the implementation of the service tax scope expansion policy (i.e. before 1<sup>st</sup> July 2025), several financial services were already subject to service tax. These services are:
- a) Insurance and takaful
  - b) Credit or charge card
  - c) Financial management
  - d) Financial consultancy
  - e) Brokerage and underwriting
  - f) Digital financial

In general, the tax treatment of these services remains unchanged, except for certain specified services. Details of these specified services are provided in the exemptions section of this guide.

8. Description of Group H, First Schedule, Service Tax Regulations 2018, has been changed from credit and charge card services to financial services.
9. The financial services listed under new Group H, First Schedule, Service Tax Regulations 2018, are as follows:
- a) credit line facility or shariah compliance financing services through the activation of a primary credit card, primary charge card, supplementary credit card or supplementary charge card;
  - b) insurance or takaful services for protection against any risk;
  - c) financial services charged for fee, commission or similar payment; and
  - d) certain services provided by the non-regulated financial services provider, which are charged for a fee, commission or similar payment.
10. The tax treatment on credit or charge cards, insurance and takaful including exemptions remain unchanged. However, re-insurance and re-takaful will now be subjected to tax.
11. Financial-related management, consultancy, brokerage, underwriting, and digital services have been transferred to item 3, Group H, First Schedule, Service Tax

Regulations 2018 and will therefore be included in the financial services.

12. Brokerage fees charged by brokers for brokerage services related to the trading of shares listed on Bursa Malaysia will continue to be exempted under the service tax expansion policy.
13. The existing exemption for financial-related digital services in Group G, First Schedule, Service Tax Regulations 2018, has been repealed and replaced with an exemption under group H, First Schedule, Service Tax Regulations 2018. However, the exemption for fees or commissions charged on local commodity trading platforms used exclusively for Islamic financial transactions remains unchanged.
14. Financial services providers who provide non-financial services categorized under Group G, First Schedule, Service Tax Regulations 2018, can still benefit from the group exemption (i.e. group relief).

**Example 1:**

*Bank XY is a financial services provider registered for service tax. In addition to its financial services, Bank XY also manages a sports complex and charges other companies, including those within the same group, for the use of the complex's facilities. Both types of services are subject to tax. Financial management services fall under Group H, First Schedule, Service Tax Regulations 2018, while non-financial management services are categorized under Group G, First Schedule, Service Tax Regulations 2018. Services classified under Group G, First Schedule, Service Tax Regulations 2018, are eligible for group exemption (i.e. group relief), whereas services under Group H, First Schedule, Service Tax Regulations 2018, qualify for exemption only under Group H, First Schedule, Service Tax Regulations 2018 (i.e. B2B exemption).*

**TAXABLE PERSON**

15. Any regulated financial services provider who provides financial services charged for fees, commissions, or any other similar payment.

16. Any non-regulated financial services provider who provides similar financial services charged for fees, commissions, or any other similar payment. The services include financial leasing, factoring, trade financing, credit facility and shariah compliant financing.

## **THRESHOLD**

17. The total value of taxable financial services for the purpose of registration of any taxable person is RM500,000 as prescribed by the Minister in the Service Tax Regulation 2018.
18. The threshold requirement is not applicable to the provision of credit line facility or shariah compliance financing services through the activation of a primary credit card, primary charge card, supplementary credit card or supplementary charge card.

## **RATE OF SERVICE TAX**

19. The provision of taxable services specified in column (2), except for item 1, Group H, First Schedule, Service Tax Regulations 2018 by the taxable person is subject to service tax at 8%.
20. For the provision of credit line facility or shariah compliance financing services through the activation of a primary credit card, primary charge card, supplementary credit card or supplementary charge card, the rate of tax is RM25.00 for each card, on the date the card is activated and every twelve months thereafter or part thereof after the card is activated.

## **TAXABLE SERVICES**

21. Any financial services that are charged for fees, commissions, or similar payments related to activity or business regulated by the following legislation:
  - a) Financial Services Act 2013 [Act 758];



- b) Islamic Financial Services Act 2013 [Act 759];
  - c) Capital Market and Services Act 2007 [Act 671];
  - d) Labuan Financial Services and Securities Act 2010 [Act 704];
  - e) Labuan Islamic Financial Services and Securities Act 2010 [Act 705]; or
  - f) Development Financial Institutions Act 2002 [Act 618]
22. Financial services that are provided by financial services provider regulated under Financial Service Act 2013, Islamic Financial Service Act 2013, Labuan Securities and Financial Services Act 2010, Labuan Islamic Securities and Financial Services Act 2010 and Development Financial Institutions Act 2002 includes the following services:
- a) Credit facility;
  - b) Insurance and takaful;
  - c) Payment system;
  - d) Shariah Advisory;
  - e) Financial advisory;
  - f) Digital financial;
  - g) Islamic trusts and foundations.
23. Financial services that provided by financial services provider regulated under Capital Market and Services Act 2007 includes the following services:
- a) Investment advice;
  - b) Fund management;
  - c) Financial planning;
  - d) Clearing for securities or derivatives;
  - e) Corporate Finance;
  - f) Debt Capital market;
  - g) Underwriting.
24. Taxable services also include similar financial services provided by non-regulated service providers. These services include:
- a) Factoring;
  - b) Financial leasing;
  - c) Trade financing;
  - d) Credit facility; or

- e) Shariah compliant financing

**Example 2:**

*JP Leasing Sdn. Bhd (lessor), a licensed leasing company in Malaysia entered into a lease agreement with TFK Manufacturing Sdn. Bhd. (lessee). Lease agreement details are as follows:*

- *Lease Type is Financial Lease. Assets Leased are 5 units of Computer Numerical Control Machines.*
- *Lease Term: 7 years (84 months). Lease Start Date is July 1, 2025 and Lease End Date is June 30, 2032*
- *Residual Value (at end of lease): RM 100,000 (This is the expected value of the machinery at the end of the lease term, which the lessee can pay to own the machinery outright.)*

*This agreement is subject to the following fees and charges:*

- *Monthly Lease Payment: RM 15,000. This payment includes the cost of financing the machinery, depreciation, and related charges.*
- *Lease Setup Fee is RM 2,000, one-time fee to cover the costs of processing and setting up the lease agreement and stamp duty is RM 300.*
- *Interest rate is 5% per annum and total financing charges are RM 50,000.*
- *Late Payment Fee is RM 100, if the lessee does not make the lease payment within 7 days of the due date. and early termination fee is RM 5,000, if the lessee decides to terminate the lease early, a penalty will be charged to compensate the lessor for lost revenues.*

In this example, the fee subject to service tax under financial services is only the lease setup fee of RM2,000. Although JP Leasing Sdn. Bhd. is not regulated by Bank Negara Malaysia, it provides leasing services. Therefore, JP Leasing Sdn. Bhd. must register for service tax if its total lease setup fees exceed RM500,000 per year

**Example 3:**

*Aly wants to buy a smartphone via online for RM 1,200. The online store offers a Buy Now Pay Later (BNPL) service through a service provider, GRC Pay Later. The terms of the BNPL are as follows:*

- *Instalments: 3 equal payments over 3 months.*
- *Interest Rate: 1.5%*
- *Administrative Fees is RM10*
- *Late Payment Fee: RM 15*

In this example, the only fee subject to service tax under Group H is the administrative fee of RM10. Although GRC Pay Later is not regulated by Bank Negara Malaysia, it provides credit facility services. Therefore, GRC Pay Later must register for service tax if its total administrative fees exceed RM500,000 per year. If no administrative fees are charged, GRC Pay Later will not be required to register for service tax.

25. However, certain services are not included as taxable services if provided by non-regulated service providers. The services are as follows:
- a) foreign currency exchange;
  - b) remittance; or
  - c) distribution of insurance and takaful products/services (i.e. insurance or takaful agent)

## **IMPORTED SERVICES**

26. Imported taxable financial services refer to financial services provided by a service provider located outside Malaysia or by a business that operates outside Malaysia (i.e foreign service provider). These services are provided to a recipient who is located in Malaysia, including in Special Areas (SA) and Designated Areas (DA).
27. A service provider is treated as located abroad when his principal place of business is outside of Malaysia. In contrast, a recipient of services is treated as being in Malaysia if their principal place of business is situated in Malaysia.
28. A foreign service provider that provides services to a recipient in Malaysia is not required to charge service tax. Instead, the responsibility for the tax is shifted to the recipient in Malaysia.

29. The recipient in Malaysia, regardless of whether they are not registered, is obligated to account for and pay service tax on the imported taxable services if:
- a) the services are used for the purpose of any business carried on by him, or
  - b) the services are taxable services when they are made in Malaysia.
30. The recipient of imported taxable services is required to account and pay for service tax, at the earlier of:
- a) the date of payment made by the recipient, or
  - b) the date of invoice received by the recipient from the foreign service provider.
31. An invoice from the foreign service provider can be considered as received by the recipient on the date the invoice is recorded in the company's accounting system.
32. The value of imported services by the recipient who is not connected to the supplier of such services shall be taken to be such amount as is equal to: -
- a) The actual premiums paid or takaful contributions paid for the insurance or takaful, or
  - b) The actual value of imported taxable services, other than imported insurance or takaful services.
33. In the case of the recipient who is connected to the supplier of such services, the value of imported services shall be the value of the imported taxable services which would have been acquired in the ordinary course of business by the person who is not connected with the person who is outside Malaysia.
34. Financial services acquired from abroad (i.e. imported services) by registered financial service providers are eligible for the tax exemption. Details of the exemption are provided in the exemptions section of this guide.
35. For further explanation, please refer to the Service Tax Guide on Imported Services.

## **SERVICE TAX TREATMENT IN A DESIGNATED AREAS (DA) OR A SPECIAL AREAS (SA)**

36. Services provided within or between Designated Areas or Special Areas are not subject to service tax, except for services specified in the Service Tax Order (Imposition of Tax for Taxable Services in Respect of Designated Areas and Special Areas) Order 2018.
37. Financial service provider shall be treated as providing any financial services within or between the DA or SA if fulfilled the following conditions: –
  - a) The principal place of business (PPOB) of financial services provider is in the SA or DA; and
  - b) The principal place of business or place of residence of its client is in the SA or DA.
38. The determination of the principal place of business is based on the following criteria:
  - a) The primary location where the essential decisions concerning the general management of a company are adopted and where the functions of its central administration are carried out;
  - b) Registered office, central administration, directors meet, and the place, the general policy of that company is being determined; and
  - c) The place of residence of the main directors, general meetings are held, and administrative and business documents are kept.
39. For an individual, the place of residence refers to the location where they usually reside.
40. A registered business address or office cannot solely determine the principal place of business unless it meets the criteria set out in the above paragraph.
41. Under normal circumstances, the principal place of business is the location where the headquarters or head office of a company is situated.

42. If a financial services provider has its headquarters in either the SA or DA and operates additional locations, such as branches, in different locations in Malaysia, the headquarters shall be considered the main business establishment. This will determine the principal place of business for the services offered by the financial services provider.

**Example 4:**

*ZAN Bank (Labuan) Ltd provides loans to businesses in Labuan and charges processing fees. Both parties have their principal place of business (PPOB) in Labuan. The fees charged by ZAN Bank (Labuan) Ltd are not subject to service tax as the services are provided within Labuan.*

43. In Labuan, a financial service provider (FSP) shall be considered to have its principal place of business in Labuan if it is regulated by the Labuan Financial Services Authority.

**Example 5:**

*Wei Bank Bhd operates from its headquarters in Kuala Lumpur and has two branches in Labuan namely, Wei Bank Bhd Labuan Branch and Wei Bank Offshore. The latter is regulated by the Labuan Financial Services Authority (LFSA). Both branches provide financial services to person or companies based in Labuan (i.e headquarters in Labuan).*

The financial services offered by Wei Bank Bhd's Labuan branch are subject to service tax, as these services are considered to be provided from Malaysia to Labuan. Conversely, the financial services offered by Wei Bank Offshore. are not subject to tax, since they are deemed as being provided within Labuan.

44. Any financial services provided by a financial services provider with its principal place of business in Malaysia (other than DA or SA) to either a DA or a SA, are subject to service tax.

**Example 6:**

*BHB Bank operates in Malaysia with its head office located in Kuala Lumpur and a branch in Labuan. The Labuan branch offers loans to Labuan residents and charges a processing fee for these services. Since the principal place of business*

*(i.e. head office) of BHB Bank is in Malaysia (other than DA or SA), this processing fee is subject to service tax.*

45. Any financial services provided to Malaysia (other than DA or SA) by a financial service provider with its principal place of business in a DA or SA are also subject to service tax. The financial service provider is required to register for service tax if the total value of taxable services within a 12-months period exceeds the prescribed threshold, regardless of whether the business establishment is located in a DA or SA.

**Example 7:**

*Sine Bank (Labuan Ltd), provides loans to a business in Kota Kinabalu, Sabah and charges processing fees. This fee is subject to service tax because the services are provided from DA to Malaysia.*

46. Financial services provided by a financial service provider that has its principal place of business in a DA or SA to a client in a foreign country are not subject to service tax if such services are related to goods, land or matters outside Malaysia.

**Example 8:**

*ACBC Bank (Labuan) Ltd provides investment advisory services to an overseas client, Shift Pvt Ltd. The fee charged for these services is not subject to service tax, as it is related to the matters outside Malaysia.*

47. Services provided by a financial service provider from overseas (i.e. imported services) to businesses in DA or SA are subject to service tax. However, financial service providers in Labuan, whether registered for service tax or not, are exempted from payment of service tax on imported services. Details of this exemption are provided in the exemptions section of this guide

## **FINANCIAL SERVICES OR CHARGES THAT ARE NOT SUBJECT TO SERVICES TAX**

48. Certain charges or returns related to financial services are not subject to tax. These charges may be incurred alongside fees or commissions that are taxable for the

same financial services.

49. The financial charges or returns that are not subject to service tax are as follows:

- a) Interest or profit charged under conventional or Islamic financial services.

**Example 9:**

*A bank grants a home loan to a customer and charges setup fee and interest on the loan. While the setup fee is subject to service tax, the interest charged is not subject to service tax.*

**Example 10:**

*An Islamic bank provides a financing facility to a customer for the purchase of a vehicle. The bank charges a profit rate on the financing amount as agreed in the contract. While the bank may charge a processing fee that is subject to service tax, the profit earned on the financing is not subject to service tax.*

- b) Return in the form of a spread. It refers to the difference between the buying and selling price in any trading of financial products. This spread represents the profit earned by the financial service provider.

**Example 11:**

*A bank buys USD at RM4.50 and sells it at RM4.55, earning a RM0.05 spread per USD. The RM0.05 spread is not subject to service tax.*

- c) Punitive charges, which are fees or penalties imposed as a punishment for violating rules, breaching contracts, or failing to meet certain obligations. They are meant to discourage undesirable behaviour rather than to compensate for a service. The example of punitive charges are:
  - i) late payment charges on loans;
  - ii) charges for early withdrawal of fixed deposits;
  - iii) compensation charge for dishonoured cheque;
  - iv) overdraft excess fee; and
  - v) cancellation fees for terminating a contract before its expiry.



**Example 12:**

*Mr. Hazlee issues a cheque for RM5,000 to pay for his car loan. However, due to insufficient funds in his account, the cheque bounces (is dishonoured). The bank imposes a compensation charge of RM50 for processing the dishonoured cheque. The RM50 compensation charge is not subject to service tax because it is a penalty fee, not a service fee.*

**Example 13:**

*A bank charges a customer RM50 for exceeding their overdraft limit. Since this is a punitive charge, it is not subject to service tax.*

50. In other circumstances, the financial service provider is not required to charge service tax on fees, commissions, or similar payments for the provision of specific financial services to the service recipient. The specific financial services excluded from service tax are as follows:
- a) Any basic banking services that incur fees or commission related to the operation of savings accounts, current accounts or similar accounts such as e-wallet. The basic banking services include the following services:
    - i) Deposit, withdrawal, payment or fund transfer;
    - ii) Issuance of debit card;
    - iii) Basic transaction over the counter;
    - iv) Basic transaction using Automatic Teller Machine (ATM); or
    - v) Printing of account statements.

**Example 14:**

*Sarah withdraws RM1,000 from her savings account at an ATM machine. The bank charges her RM1.00 as a withdrawal fee for using an ATM from a different bank. The RM1.00 withdrawal fee is not subject to service tax because it is considered as a basic banking service.*

**Example 15:**

A customer uses online banking to pay their monthly utility bills. The bank charges a transaction fee of RM2 for each utility bill payment made through the online platform. Since this service relates to the operation of the customer's current account, the fee charged is considered part of basic banking services and is not subject to service tax.

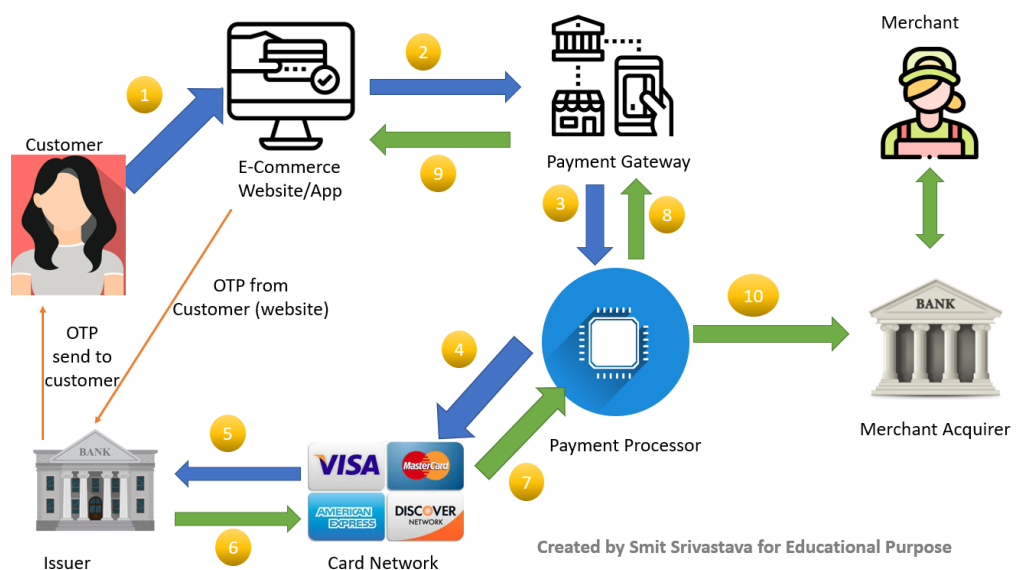
#### Example 16:

Jay has transfers RM100 from his e-wallet account to another person's e-wallet. The e-wallet provider charges a transfer fee of RM1 for this service. Since this fee is related to the operation of the e-wallet account, it is considered as a basic banking services, and the fee charged is not subject to service tax.

#### Example 17:

Fara deposits RM10,000 into her investment account with her financial institution. The institution charges a processing fee of RM10 for managing the deposit. Since this fee is related to investment purposes rather than everyday banking transactions, it is not considered a basic banking service. Therefore, the processing fee may be subject to service tax.

#### Example 18:



### **Online payment process flow:**

- i. **Customer initiates purchase:** The customer selects an item on the merchant's website and proceeds to checkout.
- ii. **Customer provides payment details:** The customer enters their credit/debit card information, address, etc.
- iii. **Merchant submits transaction to payment gateway:** The merchant's website sends the payment details to the payment gateway.
- iv. **Payment gateway processes the transaction:** The payment gateway verifies the card information, securely transmits it to the acquiring bank.
- v. **Acquiring bank requests authorization:** The acquiring bank sends the transaction details to the issuing bank and card networks to verify the transaction and get authorization.
- vi. **Issuing bank authorizes the transaction:** The issuing bank checks the cardholder's balance and credit limit and authorizes the payment if it's valid.
- vii. **Acquiring bank receives authorization:** The issuing bank sends an authorization response to the acquiring bank.
- viii. **Payment gateway receives authorization and confirms:** The payment gateway receives the authorization response from the acquiring bank and informs the merchant of the transaction outcome.
- ix. **Merchant confirms payment and fulfills order:** The merchant receives confirmation of payment and fulfills the customer's order.
- x. **Settlement:** The acquiring bank settles the funds with the merchant, and the merchant pays the payment gateway.

### **Fees or Charges Incurred:**

- i. **Merchant to Payment Gateway:**

**Payment Gateway Fee:** The merchant pays a fee to the payment gateway for processing the transaction (usually a fixed amount and a percentage of the transaction).

- ii. **Payment Gateway to Acquiring Bank:**

*Sometimes the payment gateway charges a fee or shares part of the fee collected with the acquiring bank.*

**i. Acquiring Bank:**

**Merchant Discount Rate (MDR):** *The acquiring bank charges the merchant a percentage of the transaction amount (MDR fee) for handling the payment.*

**ii. Issuing Bank:**

**Interchange Fee:** *The issuing bank charges a fee (interchange fee) for authorizing and handling the cardholder's payment.*

**iii. Customer:**

*Occasionally, the customer might be charged a **service fee** by their bank or payment provider for international transactions or specific payment types (less common).*

Since these fees and charges relate to payment and deposit services connected to savings and current accounts, they are considered basic banking services and are therefore excluded from service tax.

- b) Provision of financial services in connection with goods, land or matters outside Malaysia, but excluding outward remittance services where charges are imposed on customers located in Malaysia.

**Example 19:**

*ARL Bank Malaysia provides a mortgage loan of RM5 million to Dato Lim to purchase a piece of land in Singapore. The bank charges a loan processing fee of RM5,000. The loan processing fee is not subject to service tax because it relates to the land situated outside Malaysia.*

**Example 20:**

*Eksim Bank Malaysia Bhd offers trade financing services to Knot Trading Sdn Bhd, a Malaysian importer, to assist in the purchase of electronic components from GHI Electronics Ltd. in Japan. To ensure a secure transaction, Eksim Bank Malaysia Bhd issues a Letter of Credit*

*(LC) on behalf of Knot Trading Sdn Bhd, guaranteeing payment to GHI Electronics Ltd. upon the shipment of goods and the submission of required documents.*

*In addition to this, the bank facilitates foreign exchange conversion to help Knot Trading Sdn Bhd manage risks associated with currency fluctuations when making payments in Japanese Yen. To further support the transaction, Eksim Bank Malaysia Bhd arranges trade credit insurance and documentary collection services, ensuring that payment is released only after verifying the shipment documents.*

*For these services, Eksim Bank Malaysia Bhd charges a trade financing fee of RM8,000. Since these financing services are related to the importation of goods from abroad, the fee is excluded from service tax as it connected with goods outside Malaysia.*

**Example 21:**

*Ahmad decides to send money to his daughter, Nora, who is pursuing her postgraduate studies in the UK. He approaches P&G Bank Berhad and requests an outward remittance to his daughter's bank account in the UK. After verifying the necessary documents and ensuring compliance with regulatory guidelines, the bank processes Ahmad's request. Within a few days, Nora receives the funds in her UK bank account. For this service, the bank charges a processing fee of RM25 for the international transfer. Although the financial service relates to funds received outside Malaysia, the fee charged by the bank is subject to service tax because the service is provided in Malaysia.*

- c) Any financial services directly related to goods that are exported out of Malaysia. The financial services provided must be directly related to the goods delivered from the last exit point in Malaysia to any destination outside Malaysia.

**Example 22:**

*A company in Malaysia arranges for the export of electronic goods to a buyer in Singapore. The financial institution provides financing services*

*specifically to support the shipment of these goods from the port in Malaysia to Singapore. The bank charges a service fee of RM1,000 for this export-related financing. Since the financial services are directly related to goods exported out of Malaysia, the fees charged are excluded from service tax.*

- d) Brokerage or underwriting services related to medical insurance or medical takaful covered by an individual.

**Example 23:**

*Joey wants to purchase a medical insurance policy for himself. He engages an insurance broker who helps him compare and choose the best medical insurance plan from various insurers. The broker facilitates the application process and negotiates terms with the insurance company. Since the brokerage service relates to medical insurance for an individual, it is not subject to service tax under the current tax treatment.*

- e) Brokerage or underwriting services related to life insurance or family takaful covered by an individual;

**Example 24:**

*Siti wants to secure financial protection for her family in case of unforeseen events. She decides to purchase a life insurance policy for herself. Siti consults an insurance broker who helps her compare different life insurance policies and find the most suitable coverage. The broker assists in policy selection, application processing, and risk assessment before finalizing the insurance. An underwriter from the insurance company evaluates Siti's health and financial background to determine the insurance premium and coverage eligibility. Since the brokerage or underwriting service is related to a life insurance policy for an individual, it is not subject to service tax under the current tax treatment.*

**Example 25:**

*A Malaysian company, Zig Sdn. Bhd., purchases a group life insurance*

*policy for its employees as part of its employee benefits package. The company engages an insurance broker to find the best group life insurance coverage. The underwriter assesses the risk for the entire group before finalizing the policy terms. Since this is a corporate insurance policy and not an individual policy, the brokerage or underwriting service is subject to service tax.*

- f) Fees related to Credit line facility services or shariah compliant financing through the activation of a primary credit card, primary charge card, additional credit card or additional charge card.

**Example 26:**

*Lisa holds a credit card issued by ACBC Bank. As part of the card agreement, ACBC Bank charges Lisa an annual fee of RM100 for the use and maintenance of the credit card account. This fee is billed to Lisa once every year regardless of her spending activity. The annual fee, being related to the credit card facility, is not subject to service tax.*

- g) Financial services provided to the Federal Government or State Government. This exclusion does not apply to statutory body

**Example 27:**

*A Malaysian bank arranges a RM500 million loan for the Federal Government to fund a new highway project. The bank charges a loan processing fee of RM50,000. The RM50,000 loan processing fee is not subject to service tax because the service is provided to the Government*

## **EXEMPTION FROM PAYMENT OF SERVICE TAX**

- 51. The Minister grants exemption from service tax payment to specific persons on taxable financial services received by them. Consequently, service providers are not required to charge service tax when providing financial services to these exempted persons.
- 52. To qualify for the exemption, exempted persons must comply with the conditions

prescribed by the Minister. If any of these conditions are not met, the exempted person is required to repay the service tax on the date the non-compliance occurs.

53. Prior to the expansion of the scope, the following persons were exempted from paying service tax on the specific services listed below:

- a) Any person, on brokerage fees charged by a broker related to the trading of shares listed on Bursa Malaysia

**Example 28:**

*Lim wants to buy 1,000 shares of a company listed on Bursa Malaysia. He contacts his broker, Tulips Securities, to execute the trade on his behalf. Tulips Securities charges Lim a brokerage fee of RM50 for providing the brokerage service related to this transaction.*

Since this brokerage fee is related to trading shares listed on Bursa Malaysia, Lim is exempted from paying service tax on the brokerage fee according to the exemption rules.

- b) Financial service providers, on fees or commissions charged by Bursa Malaysia for using the local commodity trading platform (Bursa Suq Al-Sila') when these fees are incurred for the purpose of providing Islamic financial services

**Example 29:**

*An Islamic bank wants to provide Murabaha financing to its customers by purchasing commodities through Bursa Suq Al-Sila'. The bank buys commodities on the platform, then sells them to clients at a marked-up price, with deferred payment terms. For the transaction, the Islamic bank pays Bursa Suq Al-Sila' a total of **RM 10,000** in various fees charged.*

Since the fees charged by Bursa are directly related to the provision of Islamic financial services by the Islamic Bank, these fees are exempted from service tax.

54. In conjunction with the expansion of the scope of service tax, the following persons were exempted from paying service tax on the specific services listed below:



- a) Financial service providers in Labuan, whether registered or not, are exempted from service tax on the acquisition of taxable financial services, subject to the following conditions:
- i) The exempted person is regulated by the Labuan Financial Services Authority;
  - ii) The financial services are provided by registered financial service providers or by persons located outside Malaysia (i.e., imported services); and
  - iii) The financial services acquired are used by the exempted person to provide other financial services regulated under Labuan Financial Services and Securities Act 2010 [Act 704] or Labuan Islamic Financial Services and Securities Act 2010 [Act 705].

**Example 30:**

*BHB Labuan Ltd engages an investment bank in Kuala Lumpur to provide financial advisory and risk management services. These services assist BHB Labuan Ltd in managing its financial products offered its client.*

Since BHB Labuan Ltd uses the financial services acquired from the investment bank to provide onward financial services, the fees paid to the investment bank are exempted from service tax.

**Example 31:**

*A foreign financial advisory firm provides risk assessment and financial consultancy services to ABC Capital Ltd, a company located in Labuan, and charges an advisory fee. ABC Capital Ltd then utilizes these imported services to support financial advisory services provided to another Labuan-based company.*

Therefore, ABC Capital Ltd is exempted from accounting for service tax on the imported services acquired from the foreign firm.

- b) Financial services providers who act as a broker, on the clearance fees and trading fees charged by Bursa Malaysia in relation to transactions involving listed share;

**Example 32:**

*A client of Mawar Investment Bank placed a trade to buy 10,000 shares of Xypor Berhad on Bursa Malaysia. When executing the trade, Mawar Investment Bank is charged the following services by Bursa Malaysia:*

*Trading Fee: RM50. Clearing Fee: RM30. Total Charges: RM80*

Bursa Malaysia's trading fee and clearing fee related to listed shares are exempt from Service Tax.

- c) Issuer or listed company in the ACE Market, on the perusal fee and processing fee charged by Bursa Malaysia;

**Example 33:**

*Yoyo Services Bhd is applying to Bursa Malaysia to list its shares on the ACE Market. As part of the application process, Bursa Malaysia charges a perusal fee to review all the submitted documents, such as the company's prospectus, financial statements, and compliance paperwork. For this type of listing application, the perusal fee might be RM20,000. This fee is exempt from service tax.*

- d) Any person, on the wakalah fee associated with Islamic financial services and this fee shall be an integral part of the Islamic financial services provided by financial services provider to the recipient and cannot be offered separately or optionally.

**Example 34:**

*Abu applies for Islamic home financing with AON Islamic Bank under a Murabahah contract. As part of the agreement, AON Islamic Bank charges a wakalah fee for acting as an agent to manage the purchase and sale of the property on Abu's behalf.*

*Fee Details are as follow:*

- *The wakalah fee is set at **1.5%** of the total financing amount.*
- *The total financing amount is **RM500,000**.*
- *Therefore, the wakalah fee charged is:*  

$$RM500,000 \times 1.5\% = \mathbf{RM7,500}$$

This wakalah fee of RM7,500 is exempt from service tax

- e) Registered financial services providers (including those in SA or DA) on the acquisition of taxable financial services, if they satisfy the following conditions:
- The financial services are provided by another registered financial service provider or by a person outside of Malaysia (i.e. imported services); and
  - The financial services must be acquired for the purpose of providing the following services:
    - taxable financial services,
    - financial services in connection with goods, land or matters situated outside Malaysia, or
    - financial services directly related to goods that are exported out of Malaysia.

### **Example 35:**

*JKL Insurance Berhad sells a motor insurance policy to Maju Sdn Bhd for a premium of RM50,000, plus an additional 8% service tax, through PQR Bank Berhad, its bancassurance partner. PQR Bank Berhad, charges a commission of RM5,000 to JKL Insurance Berhad.*

*In addition, JKL Insurance Berhad cedes 30% of the aforementioned motor insurance premium (i.e., RM15,000) to UVW Reinsurance Berhad for risk diversification purposes.*

Since the motor insurance policy provided by JKL Insurance Berhad to Maju Sdn Bhd is a taxable financial service, both the bancassurance commission of RM5,000 charged by PQR Bank

Berhad and the reinsurance premium of RM15,000 charged by UVW Reinsurance Berhad qualify for service tax exemption. Therefore, these registered financial providers are not required to charge service tax on the taxable services provided to JKL Insurance Berhad.

**Example 36:**

*A Malaysian asset management firm (a registered person) contracts an overseas financial advisory firm (a foreign service provider) to provide investment research and strategy recommendations. The Malaysian firm uses this research to manage its clients' investment portfolios, an activity considered taxable financial services. Since the imported service supports the provision of taxable financial services, it qualifies for an exemption from service tax.*

**Example 37:**

*XYZ Asset Management Sdn Bhd contracts BAM Holding Bhd to provide specialized financial advisory services at a fee of RM100,000. The advisory service includes market analysis, risk assessment, and portfolio structuring advice. XYZ Asset Management then uses this advisory service to offer onward financial services to its clients investing in commercial real estate in the United Kingdom.*

Since the advisory services provided by BAM Holding Bhd are used by XYZ Asset Management in delivering financial services related to goods situated outside Malaysia, the fee charged by BAM Holding Bhd is exempt from service tax

55. However, the exemption mentioned in paragraph 55(e) does not apply to registered financial services provider who uses the acquired financial services to provide the following services or impose the following charges:

- a) brokerage services related to the trading of share listed on Bursa Malaysia;

- b) clearance and trading fee related to the trading of share listed on Bursa Malaysia; or
- c) perusal fee and processing fee for the ACE Market in Bursa Malaysia.

**Example 38:**

*XYZ Securities Sdn Bhd acquires investment advice from Dynamica Sdn Bhd for a fee of RM80,000. XYZ Securities uses this information to assist its clients in making informed investment decisions and to support its brokerage services for shares listed on Bursa.*

The investment advisory services provided by Dynamica Sdn Bhd are subject to service tax, as they are used by XYZ Securities Sdn Bhd to provide onward financial services that do not qualify for the B2B exemption.

## **PROCEDURE FOR SERVICE TAX EXEMPTION**

- 57. As an exempted person, certain service recipients are required to provide the registered financial services provider with an undertaking letter stating that they qualify for exemption from the payment of service tax on the taxable financial services provided to them.
- 58. The undertaking letter may be issued to the registered financial services provider once, prior to the acquisition of taxable financial services. The content of the undertaking letter is provided in **Appendix B**.
- 59. The undertaking letter issued by the exempted person must be retained by the registered financial services provider and made available for inspection upon request by the Director General.
- 60. The exempted persons required to issue an undertaking letter to the registered financial services providers are as follows:
  - a) Financial service providers using the local commodity trading platform (Bursa Suq Al-Sila') for the purpose of providing Islamic financial services;

- b) Any financial services providers regulated by the Labuan Financial Services Authority, upon acquiring taxable financial services used in providing onward financial services regulated under Labuan Financial Services and Securities Act 2010 or Labuan Islamic Financial Services and Securities Act 2010;
- c) Registered financial services providers (including those in SA or DA), upon the acquisition of taxable financial services used in providing:
  - i) taxable financial services, other than
    - A. brokerage services related to the trading of share listed on Bursa Malaysia;
    - B. clearance fee and trading fee related to the trading of share listed on Bursa Malaysia; or
    - C. perusal fee and processing fee for the ACE Market in Bursa Malaysia.
  - ii) financial services in connection with goods, land or matters situated outside Malaysia, or
  - iii) financial services directly related to goods that are exported out of Malaysia.

61. If exempted persons fail to provide an undertaking letter, the financial services provider is required to charge service tax on the provision of taxable financial services. However, if the provider is aware that the person qualifies for the exemption, service tax need not be charged.

62. When providing taxable financial services to an exempted person, the registered financial services provider is not required to charge service tax. However, an invoice must still be issued to the exempted person. Failure to issue an invoice is an offence.

63. An invoice issued on the provision of taxable services should contain the following particulars:

- a) An invoice serial number;
- b) The date of issuance of the invoice;

- c) Name, address and service tax registration number of the registered provider;
- d) A description sufficient to identify the taxable services provided;
- e) Any discount offered;
- f) Total amount payable excluding tax, the rate of tax and the total tax chargeable to be shown separately;
- g) Total amount payable inclusive of the total tax chargeable; and
- h) any amount expressed in a currency other than Ringgit, shall also be expressed in Ringgit at the selling exchange rate prevailing in Malaysia at the time when the taxable service is provided.

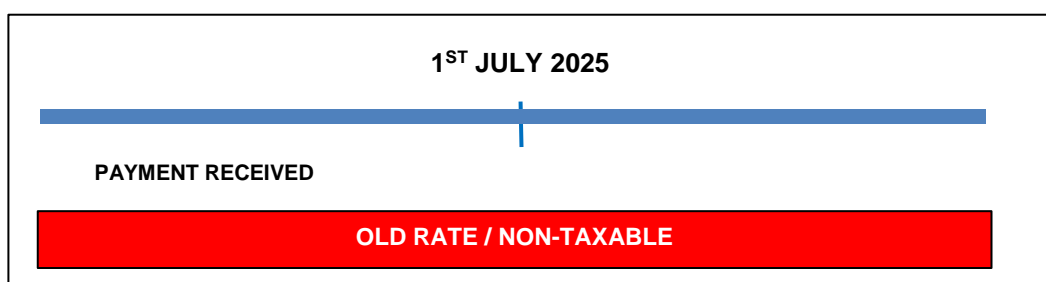
64. In addition to all particulars described in paragraph 63, an invoice issued to an exempted person shall include the following particulars:

- a) Name and address of the service recipient;
- b) Service tax registration number for the service recipient (if applicable); and
- c) The total amount of service tax exempted to the service recipient;

## **SERVICE TAX TREATMENT DURING TRANSITIONAL PERIOD**

65. As a general rule, any financial services provided before the effective date and spanning after that date, the service tax shall be charged at a new rate for the portion of financial services that corresponds to the period after the effective date.

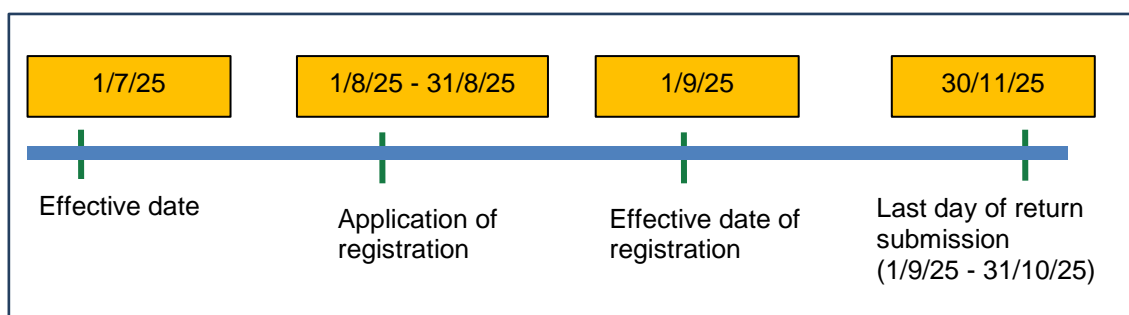
66. If financial services are provided before the effective date and spanning after that date, and payment is received before the effective date, regardless of whether an invoice is issued, the service tax on that payment will either be charged at the previous rate or excluded from tax, depending on the applicable circumstances.



67. For imported services, service tax will be payable if the importation of financial services occurs on or after the effective date. The imported taxable financial services are subject to service tax if the earlier of the following dates is incurred on or after the effective date:
- a) the date of payment made by the recipient, or
  - b) the date of invoice received by the recipient from the foreign service provider.

## REGISTRATION AND RETURN SUBMISSION

68. Financial services that are exempted from payment of tax are treated as taxable services provided by financial services providers. Therefore, if financial services providers provide taxable services including those exempted from tax payment, they are liable to register if the annual value of such services exceeds RM500,000. All qualified financial service providers must register after 1<sup>st</sup> July 2025. For further details, kindly refer to the SST Guide on Registration.



69. Existing registered service providers are required to update their registration details in the MySST portal by adding the new service type (Financial Services) in their registration info and begin charging service tax on taxable financial services provided from the effective date.
70. The total value of tax payable, as well as the total value of exempted taxable services provided in each taxable period, must be declared in the tax return accordingly.



71. A registered person must submit a service tax return using SST-02 Form according to the prescribed taxable period. The return must be submitted no later than the last day of the month following the end of the taxable period.

## **FREQUENTLY ASKED QUESTIONS (FAQs)**

**1. Q: Who is required to register for Financial Services Tax?**

**A:** Any financial service provider whose taxable services exceed the RM500,000 threshold must register under the Service Tax Act 2018.

**2. Q: Are all financial services and charges are subject to service tax?**

**A:** No, some financial services and charges are excluded from service tax, including:

- a. Interest or spread-based charges (e.g., loan interest)
- b. Late payment penalties
- c. Compensation for dishonoured cheques
- d. Overdraft excess fees
- e. Financial services related to exports

**3. Q: What is the difference between Group H and Group G under Service Tax Regulations 2018?**

**A:** Group H covers financial services such as banking, insurance, and investments, whereas Group G covers non-financial services such as management and consultancy.

**4. Q: Are services provided to the government is a taxable services?**

**A:** No, financial services provided to the Federal Government or State Government are excluded from service tax.

**5. Q: A Malaysian company hires a foreign financial advisor to manage its investments. Are these imported financial services subject to tax?**

**A:** Since financial advisory services are taxable in Malaysia, the company must self-account for the service tax on the services received.

**6. Q: A Malaysian company provides reinsurance services to overseas customers and charges a fee for these services. Is the company required to consider this fee when determining the threshold computation?**

**A:** This service is included in the exclusion from service tax (i.e. financial services related to goods, land or matters outside Malaysia). Therefore, the value of these services is not included in the threshold calculation. All services listed in the exclusions cannot be included in the threshold calculation.

- 7. Q: A management company registered under Group G of the Service Tax Act 2018 provides management services to another company registered under Group H of the same Act. Does the service qualify for group relief?**

**A:** No, the service provided does not qualify for group relief.

- 8. Q: A company registered under Group H of the Service Tax Act is providing financial services to another company within the same group of companies, which is also registered under Group H of the same Act. Does the service provided qualify for group relief?**

**A:** No, the service provided does not qualify for group relief. However, the companies may be eligible for the B2B exemption if all the conditions are fulfilled.

## **INQUIRY**

For any inquiries for this guide please contact:

Internal Tax Division

Royal Malaysian Customs Department

Tingkat 5&6, Tower A, Suasana PjH,

Jalan Tun Abdul Razak, Presint 2,

62100 Putrajaya

## **FURTHER ASSISTANCE AND INFORMATION ON SST**

Further information on SST can be obtained from:

- a) SST website : [www.sst.customs.gov.my](http://www.sst.customs.gov.my)
- b) Customs Call Center:
  - i. Telephone number : 03-7806 7200 / 1-300-888-500
  - ii. Fax number : 03-7806 7599
  - iii. E-mail : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)

## APPENDIX A

### LIST OF FINANCIAL SERVICES SUBJECT TO SERVICE TAX STARTING JULY 1, 2025

#### Conventional and Islamic Banking Services (including Development Financial Institutions)

##### Types of Services

1. Treasury Services
  - 1.1 Credit Facility
    - 1.1.1 Facility Fee for Arranging and Marking Limit
2. Corporate Banking Advisory Services
  - 2.1 Global Markets and Corporate Banking Advisory Services
    - 2.1.1 Structuring of securities fee
    - 2.1.2 Processing fee
    - 2.1.3 Participation in deals fee
    - 2.1.4 Pass-through deal fee (with markup)
    - 2.1.5 Upfront fee
    - 2.1.6 Administrative charges
    - 2.1.7 Letter of Undertaking/Support/Credit Advice charges
    - 2.1.8 Annual review of facilities fee
    - 2.1.9 Restructuring/rescheduling fee
    - 2.1.10 Extension fee

## Investment Banking Service

### Types of Services

1. Debt Markets
  - 1.1 Arranger/Facility Agent Services
    - 1.1.1 Arranger Fee
    - 1.1.2 Facility Agent Service Fee
    - 1.1.3 Agency Fee
    - 1.1.4 Administrative charges
2. Equity Markets
  - 2.1 Services in Relation to IPO/ Offer for Sale/ Divestments/ Placements/ Special Issues/ Related Issues/ Merger & Acquisitions/ Takeovers/ Restructuring/ Capital Reduction/ Share Split/ Share Consolidation/ Bonus Issues/ ESOS/ Share Grant/ other similar products as follows:
    - 2.1.1 Structuring of securities fee
    - 2.1.2 Introductory Fee for Introducing Clients
    - 2.1.3 Success Fee for Successful Deal
    - 2.1.4 Performance Fee for Successful Deal
    - 2.1.5 Incentive Fee - Discretionary Amount by Issuer

## BURSA Malaysia Services

### Types of Services

1. Initial Listing Fees charged to issuers
2. Annual Listing Fees charged to issuers
3. Additional Listing Fees charged to issuers
4. Member services and connectivity fees

**CONTENT OF UNDERTAKING LETTER**

**1. Date:**

The date when the letter is issued.

**2. Details of the Service Recipient:**

- a) Business name;
- b) Business Trading Name (if any);
- c) Business address;
- d) Company registration number;
- e) Service Tax Registration number (if any);
- f) Email address; and
- g) Contact Number.

**3. Details of the Service Provider:**

- a) Business name;
- b) Business trading name (if any);
- c) Business address;
- d) Service Tax Registration number (if any);

**4. Subject / Title:**

Clear statement such as “Undertaking for Exemption from Service Tax.”

**5. List of Exempted Services:**

List of financial services acquired which are exempted from payment of service tax



**6. Declaration of Exemption Status**

- a) A statement confirming that the service recipient qualifies as an exempted person under Section 34, Service Tax Acts 2018, and

**7. Purpose of the Undertaking**

Explanation that the letter is to declare exemption status for the purpose of applying the service tax exemption on financial services provided.

**8. Commitment to Inform Changes**

A promise to notify the service provider promptly if there is any change in the exemption status.

**9. Acknowledgment of the Service Provider's Right**

Statement that the provider can retain this letter for record-keeping and inspection by authorities.

**10. Disclaimer:**

This undertaking is provided solely for the purpose of claiming exemption from service tax on financial services and is based on the information and documents currently available to the undersigned. The undersigned acknowledges that any false or misleading information provided may result in legal consequences, including penalties or revocation of the exemption. The service provider is entitled to rely on this undertaking but shall not be held liable for any loss, damage, or tax liability arising from changes in laws or the exempted person's status.

**11. Signature and Date**

Signature of the authorized person issuing the letter, along with name, designation, and date.