



## Indirect Tax Alert

### Increase in Service Tax rate from 6% to 8%

Dear valued client,

#### **Service Tax update: Changes effective from 1 March 2024**

The Draft Guide on the Transition of Service Tax Rate Change [released](#) by the Royal Malaysian Customs Department (“RMCD”) on 7 February 2024 outlines the details on the upcoming changes in the Service Tax regime. Please note that the guide is currently under review by the Ministry of Finance until the relevant legislation is gazetted.

Please be informed that the guide is not applicable to digital services provided by registered foreign service providers, where a separate guide will be issued by the RMCD.

#### A. Changes to the Service Tax rate

The service tax rate will be increased from 6% to 8% on all taxable services starting 1 March 2024. However, the following services will still be taxed at 6%:

Services to be taxed at 6%	Category under First Schedule to the Service Tax Regulations 2018
i. Food and beverage	Group B
ii. Telecommunication services	Group I
iii. Vehicle parking services	Group I
iv. Logistic services (new)	Group J

#### B. Expansion of the Scope of Service Tax to new services

New Services	Category under First Schedule to the Service Tax Regulations 2018
i. Karaoke center services	Group C
ii. Repair and maintenance services	Group G (item 13)
iii. Brokerage and underwriting services (excluding financial services)	Group I (item 12)
iv. Logistic services	Group J

Note: *Repair and maintenance services* were not mentioned in the Budget 2024 proposals that were presented on 13 October 2023.

#### C. Application of the Service Tax rate

- 1) Determination of the service tax rate on the provision of taxable service:
  - a) If a service is provided **before 1 March 2024**, the applicable service tax rate is **6%**.
  - b) If a service is provided entirely **on or after 1 March 2024**, the applicable service tax rate is **8%**.
  - c) If a service **spans across periods both before and after 1 March 2024**, the **apportionment method** is applied. The proportion of the service provided before 1 March 2024 is subject to 6%, while service provided after 1 March 2024 is subject to 8%.

Note: If payment is received before 1 March 2024, to the extent the payment relates to services performed after 1 March, the service tax rate remains at 6%, regardless of the service date.

2) Determination of service tax rate on the **acquisition of imported taxable service**:

- a) If the acquisition of an imported service is completed **before 1 March 2024**, the applicable service tax rate is **6%**.
- b) If a service is acquired entirely on or after **1 March 2024**, the applicable service tax rate is **8%**.
- c) If the acquisition of an imported service **spans across periods both before and after 1 March 2024**, the **apportionment method** is applied. The proportion of the service acquired before 1 March 2024 is subject to 6%, while service acquired after 1 March 2024 is subject to 8%.

Note: For imported services, if payment is made or invoice is received (whichever is earlier) before 1 March 2024, but pertains to services acquired after 1 March 2024, service tax is to be accounted for at the rate of 6%.

We will provide a detailed analysis in our Indirect Tax Chat this month.

**How can Deloitte help?**

Deloitte stands ready to assist you in understanding the impact of these changes on your business and determining the correct service tax applicable to your business.

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## Contacts

If you would like to have further discussions on any of the above, please reach out to your usual Deloitte indirect tax contact or any of our leaders below:

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Alternatively, please reach out to anyone from the team [here](#).



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