



## Indirect Tax Alert

### Expansion of Sales Tax and Service Tax effective 1 July 2025

Dear valued client,

Further to the media release by the Ministry of Finance (“MoF”) on [9 June 2025](#) and [11 June 2025](#) we are pleased to share some further comments on the five (5) pieces of subsidiary legislation released.

Meanwhile, Sales Tax and Service Tax guides have also been released by the Royal Malaysian Customs Department (“RMCD”) covering the Transitional Rules for the Change in Sales Tax Rate, Rental or Leasing, Construction Services, Financial Services, Education Services, Healthcare Services and Beauty Services which can be accessed through the list of industry guides [here](#) on the MySST portal.

## 1. Expansion of Sales Tax

The rates of sales tax remain as before i.e. default standard rate of 10% for all goods (taxable goods), unless the goods are prescribed as exempt (0%) or subjected to a lower 5% rate or specific rates (generally for petroleum products).

The legislative changes essentially reduce the number of tariff lines or codes of goods that are exempt, and thereby increasing the number tariff lines of taxable goods that would be subject to either the 5% rate or the default 10% rate.

To give a sense of the scale of the changes, it is understood that, broadly:

- a. the tariff lines of goods exempt from sales tax have been reduced to around 1,700 tariff lines (from around 5,000 tariff lines previously); and
- b. consequently, the above differential figure of around 3,300 tariff lines of previously exempted goods have been shifted to mainly the 5% category (around 3,000 tariff lines) or the 10% category (around 300 tariff lines).

Whilst the Government has strived to maintain essential goods to be non-taxable (exempt), it cannot be denied that there is a net significant expansion of sales tax to cover a broad range of goods, including industrial goods like certain machinery.

## 2. Expansion of Service Tax

New taxable services have been introduced, which entailed extensive amendments to the Service Tax Regulations 2018 ("STR") including the First Schedule ("1<sup>st</sup> Schedule") of the STR, the Service Tax (Rate of Tax) (Amendment) Order 2025 and Service Tax (Persons Exempted from Payment of Tax) (Amendment) Order 2025 – the latter mainly to grant business-to-business ("B2B") exemption, subject to conditions.

As summary of key changes is provided below:-

New taxable Services	Category under 1 <sup>st</sup> Schedule, STR	Registration threshold (MYR)	Tax rate	Qualifying for:	
				B2B exemption	Intra-group relief
i. Rental or leasing services of tangible assets <sup>1</sup>	Group K	500,000	8%	Yes	No
ii. Construction works services <sup>2</sup>	Group L	1.5 million	6%	Yes	No
iii. Financial services <sup>3</sup>	Group H	500,000 <sup>4</sup>	8% <sup>4</sup>	Yes <sup>5</sup>	No

New taxable Services	Category under 1 <sup>st</sup> Schedule, STR	Registration threshold (MYR)	Tax rate	Qualifying for:	
				B2B exemption	B2B exemption
iv. Private healthcare and private allied health services <sup>6</sup>	Group I (items 14-16)	1.5 million	6%	No	No
v. Private education services <sup>7</sup>	Group M (items 1-3)	Nil	6%	No	No
vi. All services provided by wellness centres <sup>8</sup>	Group C (item 2)	500,000	8%	No	No

**Key points to note:**

**1. Rental or leasing services**

<sup>1</sup> Includes any other services which form part of such services, but excludes rental or leasing of:

- a. housing accommodation;
- b. reading materials;
- c. tangible assets outside Malaysia;
- d. tangible assets through a financial lease.

**2. Construction works services**

<sup>2</sup> Excludes the construction of a residential building and public facility related to the residential building.

**3. Financial services**

<sup>3</sup> Intended for generally fee-based financial services, as provided by persons who are either regulated or non-regulated by financial services authorities.

<sup>4</sup> Not applicable to credit card or charge card, which are not subject to any registration threshold, and already (pre-1 July 2025) subject to specific rate of RM25 per card per year.

<sup>5</sup> The B2B exemption in relation to Group H is only for service recipients regulated by Labuan Financial Services Authority (LFSA).

#### **4. Private healthcare and private allied health services**

<sup>6</sup> Separate items 14-16, Group I, 1<sup>st</sup> Schedule, STR, covering:

- a. Private healthcare services provided by any registered private healthcare facility, excluding certain private healthcare facilities operated by certain registered universities or university colleges.
- b. Private allied health services; and
- c. Private traditional and complimentary medicine (“TCM”) services (formerly under Group C, 1<sup>st</sup> Schedule, STR).

(Note: Service tax exemption has been gazetted for above services provided to Malaysian citizens. Hence, effectively, the service tax on private healthcare, private allied health, and private TCM services would be charged to non-citizens only).

#### **5. Private education services**

<sup>7</sup> Separate items 1-3, Group M, 1<sup>st</sup> Schedule, STR, covering:

- a. Private education services (from pre-school to post-secondary i.e. pre-university) for fee > MYR60,000 per student per academic year, as provided by any registered private educational institution, excluding any special school or language centre;
- b. Services to non-citizens that relate to education, as provided by any registered private higher educational institutions;
- c. Services to non-citizens that relate to education, as provided by any registered language centre.

(Note: Service tax exemption has been gazetted for private education services in a., above, as provided to registered persons with disabilities a.k.a. “OKU” [*Orang Kurang Upaya*].)

#### **6. All services provided by wellness centres**

<sup>8</sup> Excludes private healthcare services, private TCM services and services related to private allied health, as provided by taxable persons specified in items 14-16, Group I, 1<sup>st</sup> Schedule, STR.

## **What businesses should do?**

Matters to be considered by businesses include:

- Classification of goods/classification of services (whether taxable), taking into account any relevant administrative RMCD guide(s).
- If taxable:
  - i. Determining whether the local production process of goods is “manufacturing” for sales tax registration or “manufacturing” that is exempted from registration.
  - ii. Assessing and implementing sales tax/service tax compliance issues and processes in relation to registration, valuation, filing of returns/declarations, invoicing requirements etc.
  - iii. Optimising sales tax/service tax efficiency by leveraging on sales tax/service tax facilities, like C1 sales tax exemption, B2B service tax exemption, service tax group relief, etc.
- Potential cost increase for imported taxable goods/imported taxable services.
- Impact on pricing and margins.

## **How can Deloitte help?**

Deloitte stands ready to assist you in understanding the impact of these changes to your business, including review of tax treatment, seeking written confirmations/rulings from MoF/RMCD, and implementation assistance on sales tax/service tax compliance matters.

## 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 to any of our leaders below:

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