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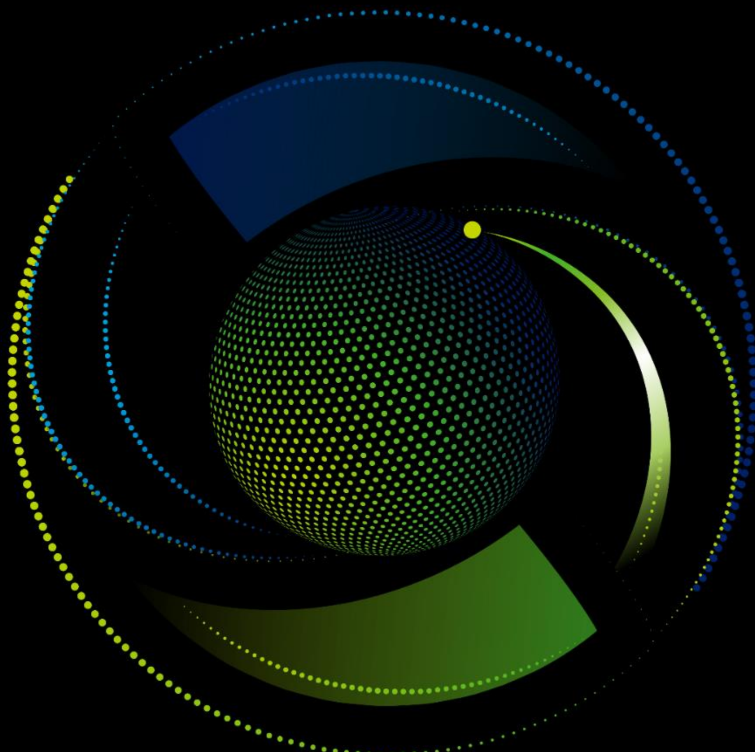

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Indirect Tax Chat

Keeping you updated on the latest news in the Indirect Tax world

August 2025

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Issue 08.2025

Quick links: *Contact us – Our Indirect Tax team*

Key takeaways:

1. *Updates to the Guidelines on Management Services*
2. *Updates to Service Tax Policy*

Greetings from Deloitte Malaysia's Indirect Tax team

Greetings readers, and welcome to the August 2025 edition of our Indirect Tax Chat.

Following the recent expansion of the Sales Tax and Service Tax ("SST"), we would like to draw your attention to a significant development in international trade. On 31 July 2025, the the United States ("U.S.") White House issued an Executive Order ("the Order") revising the Reciprocal Tariff on Malaysian goods to 19% (from 24%), with similar rates applied to Thailand, Indonesia, the Philippines and Cambodia, while Vietnam, Brunei, Laos, Myanmar and Singapore face different rates. The Order also introduced stricter measures against transshipped goods, which may attract a 40% tariff plus fines, effective 7 August 2025 with limited transition relief. In parallel, U.S. Customs and Border Protection is expected to intensify origin checks, while Ministry of Investment, Trade and Industry ("MITI") has tightened issuance of Certificates of Origin to combat transshipment risks. Malaysian exporters are urged to assess the tariff impact, review supply chain and pricing strategies, and explore exemptions or restructuring options to remain competitive in this volatile trade environment. You may refer to our Special Alert here for our insights and commentary on these latest developments.

In this edition, we will discuss the updated Guide on Management Services, as well as Service Tax Policy that has been amended recently.

Additionally, here are some recent news that may interest you:

- According to The Star, the government has introduced targeted SST exemptions for construction projects, including residential buildings and public facilities, while essential materials like cement, gravel and sand remain zero-rated, says Deputy Works Minister Datuk Seri Ahmad Maslan. For more information, please click here.

- Meanwhile The Edge reported that Malaysia's real estate market faces weaker rental growth, reduced demand and slower investments after the expanded SST effective July 1, 2025, which imposed 8% tax on commercial leasing and 6% on construction services. For more information, please click here.

In the spirit of Merdeka, we wish everyone a joyous celebration and continued success. Stay tuned for more updates in our upcoming editions.

Best regards,
Tan Eng Yew
Indirect Tax Leader
Deloitte Malaysia

1. Updates to the Guidelines on Management Services

The Royal Malaysian Customs Department ("RMCD") has released an updated version of the Guide on Management Services ("the Guide"), dated 18 July 2025, which supersedes the previous edition issued on 4 August 2021. This Guide is only available in the Malay language.

This revision reflects regulatory and operational changes in the treatment of management services, with the aim of providing clarity, aligning with recent legislative amendments, and offering improved guidance for businesses operating within the scope of taxable management services, in light of the expanded scope of service tax.

The following highlights the key updates to the Guide:

Service tax rate adjustment

Effective 1 March 2024, the service tax rate was increased from 6% to 8%. This new rate applies to most taxable services, including management services.

The guide refers users to the *Panduan Peralihan Perubahan Kadar Cukai Perkhidmatan* (Transition Guide for Changes in Service Tax Rates) for transitional treatment.

Taxable management services

The latest 2025 Guide introduces a more structured and detailed approach to the classification of taxable management services. Compared to the 2021 version, the updated guide provides a more structured approach to classifying taxable management services, with refined examples that clarify the scope of services subject to service tax.

- **Clarification of taxable services**

Key categories such as project management, debt collection, parking management, sports facility management, secretarial services, and training or event management continue to be recognised as taxable management services under the 2025 guide. The examples illustrating these services have been retained from the previous edition, with no significant changes or expansions in scope. While some services have been reclassified under different groups, the descriptions remain largely consistent with earlier guidance.

Additionally, the 2025 Guide provides further clarification by explicitly listing artist management services as taxable. For instance, when a management company earns a commission from an artist's earnings, that commission is subject to service tax. While this example helps illustrate the application of service tax, it does not represent a new expansion of scope, as such services were already covered under the broader category of management services.

Certain examples from the previous version have been removed, particularly where the services no longer meet the conditions or scope defined under management services, e.g. due to the introduction of new service tax groups under the service tax expanded scope effective 1 July 2025. This refinement ensures that only services which fall squarely within the updated definition of management services are included, while others have been reclassified or addressed under separate, dedicated guides.

- **Introduction of new taxable services category**

Effective 26 February 2024, certain services previously grouped under management services (or not explicitly taxed) have now been introduced as taxable under new categories in the First Schedule of the Service Tax Regulations 2018. These changes are as follows:

  - Logistics management services: Previously not subject to service tax, these services are now categorised as taxable services under Group J (Logistics Services) and subject to service tax.
  - Warehousing management services: These services have been categorised under Group J, aligning them with logistics-related taxable services.
  - Maintenance management services: These services have been reassigned as a new taxable item under Item (n), Group G (Professionals or Skills).

These services are no longer covered under the management services guide and are now addressed in separate and dedicated guides.

<u>Reclassification of financial management services as taxable</u>

Financial management services provided by any person regulated by Bank Negara Malaysia, Securities Commission Malaysia, or the Labuan Financial Services Authority have undergone a reclassification.

Effective 1 July 2025, these services are no longer subject to service tax under Group G, Item (i) of the First Schedule to the Service Tax Regulations 2018. Instead, they have been relocated to sub-item 3(a) in Group H. This reclassification does not change the taxability of the services, but rather reflects an update in how they are categorised under the regulations.

Group relief

The updated guide also introduces a new section on Group Relief, which provides detailed guidance on the exemption of service tax for management services rendered within a group of companies. This section outlines the qualifying criteria for group relief, including shareholding thresholds and control requirements, and provides illustrative examples with financial breakdowns to aid interpretation. The inclusion of this section marks a significant enhancement from the 2021 guide, which only briefly referenced intra-group exemptions without elaborating on the mechanics or compliance obligations.

- **Eligibility criteria**

Group Relief applies to certain types of management services listed under Item (i), column (2), Group G of the First Schedule to the Service Tax Regulations 2018 (the specific service types eligible for this relief are outlined in paragraphs 3 and 3A of the same Schedule). To qualify, the service provider and recipient must be part of the same group of companies, and the following conditions must be satisfied:

  - Control relationship where one company must control the other(s) in the group. Control is defined as:
    - Holding more than 50% of the paid-up capital directly or indirectly; or
    - Holding between 20% and 50% of the paid-up capital and possessing executive authority to appoint or remove the majority of the board of directors.
  - Exclusion of nominee or fiduciary holdings: Shares held through nominees or in fiduciary capacity are excluded from control calculations.
  - Multiple controllers: If a company is controlled by multiple entities, the one with executive authority overboard appointments is deemed the controller.

- **5% rule (*de minimis rule*)**

Prior to 1 January 2020, group relief was not applicable if management services were provided to any party outside the group of companies. In such cases, all management services, whether provided to third parties or to group members, were considered taxable and subject to service tax.

Effective 1 January 2020, group relief remains applicable even when services are provided to third parties, provided:

  - The value of taxable services to third parties does not exceed 5% of the total value of the same services within a 12-month future-method (i.e. current month plus eleven months ahead).

If the total value exceeds 5%:

- The company must account for service tax on services provided to group members.
- Adjustments must be made in the SST-02 return accordingly.

- **Tax implications**

  - A company providing management services exclusively within its group is not required to register for service tax.
  - If the company also provides services to third parties, it must register and account for service tax on all services, including those provided to group members, unless the value of third-party services does not exceed 5% of the total taxable services.

- **Illustrative examples**

The guide also includes illustrative examples to support the application of Group Relief, demonstrating how group relationships are determined, how service values are calculated, and how the 5% rule affects tax treatment and registration obligations.

The guide refers users to the Service Tax Policy No. 8/2020 for further details on group relief.

Business-to-business (B2B) exemption

The Guide provides further clarifications in this B2B exemption, stating that both the service provider and recipient must be registered persons under the Service Tax Act 2018, and that the exempted services must be of the same nature as those provided by the exempt recipient.

To illustrate this, the Guide includes a new example involving a data centre management contract between H Sdn Bhd and R Sdn Bhd. In this scenario, H Sdn Bhd provides data centre management services to R Sdn Bhd. Since R Sdn Bhd is also a registered person and provides the same data centre management services to its own clients, the service provided by H Sdn Bhd qualifies for the B2B exemption. This example helps show that the exemption applies when both companies are doing the same kind of service (in this case, under management services) and are both registered for service tax.

Frequently Asked Questions (FAQ)

This section in the Guide remains largely unchanged. It continues to provide clarification on the treatment of bundled services and itemized invoicing, particularly in scenarios involving third-party costs and mark-ups. Additionally, the Guide includes a revised example involving event management services, which now reference Group K for equipment rental services. These rentals are recognized as taxable under a separate category effective 1 July 2025.

Deloitte's comments

The updated Guide on Management Services issued by RMCD includes some improvements in structure and layout, and it clarifies a few areas that were previously unclear. However, many parts of the Guide remain unchanged, and some areas still lack detailed guidance.

For example, the Guide does not provide new definitions or significantly expand the scope of taxable services. It mainly repeats existing examples, adds a few clarifications (such as artist management), and reclassifies certain services like logistics and maintenance into separate categories (in line with the updates in the law). The sections on Group Relief and B2B exemptions are helpful but do not provide detailed examples or cover more complex business arrangements.

This is especially relevant for businesses that offer services combining different types (like management, logistics, or rental) because the Guide doesn't clearly explain how to handle these mixed or bundled services. In such cases, companies may still need to get advice or make their own assessment to be sure about the correct service tax treatment.

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2. Updates to Service Tax Policy

The RMCD has released an amended version of the Service Tax Policy ("STP") for Financial Services, Rental or Leasing, Private Healthcare and Private Education.

Removal of exemption across STPs 1/2025, 2/2025, 4/2025, 5/2025

In the STPs 1/2025, 2/2025, 4/2025, 5/2025 dated 29 June 2025, there is an exemption from being subject to compound, prosecution and penalty until 31 December 2025 for late registration, late submission of returns, late payment, incorrect declaration (under-declaration and underpayment) and any errors related to invoices, credit notes or debit notes.

However, the exemption is removed across the board, reflected in the following STPs:-

- STP 1/2025 (Amendment No.1);
- STP 2/2025 (Amendment No.1) ;
- STP 4/2025 (Amendment No.1); and
- STP 5/2025 (Amendment No.1).

Although the exemption is no longer reflected in the STPs, we understand that such amendment by the RMCD is purely administrative. The exemption remains in place until 31 December 2025, which is in line with the announcement by the Ministry of Finance whereby the Government will provide a grace period until December 2025 and not impose any penalties on companies that genuinely have made the effort to comply with the newly revised service tax.

Service Tax Policy 1/2025 (Amendment No.1) – Financial services

Service tax exemption on taxable financial services
Blanket exemption on all financial services in Group H of First Schedule to the STR 2018 is applied in the first phase, excluding the list of financial services covered in Appendix A of STP 1/2025 (Amendment No.1) which is taxable from 1 July 2025. Previously, only Items 3 and 4 of Group H in the First Schedule of the STR 2018 were exempted from Service Tax.

In summary, Appendix A covers the following categories of financial services: -

1) Conventional and Islamic banking or similar services;
2) Investment banking or similar services;
3) BURSA Malaysia services;
4) Other services (any service that was subject to service tax before 1 July 2025).
   *Item 4 is inserted pursuant to STP 1/2025 (Amendment No.1)

Exemption for non-reviewable contracts

The STP 1/2025 (Amendment No.1) has updated several conditions as follows:

- The wording "non-variable" was struck off from the condition of "fixed contract value". It now reads as "the fixed (unchanged) contract value".
- An additional requirement has been inserted whereby the exemption is applicable if the service is not subject to service tax prior to 1 July 2025.

Exemption for acquisition of financial services

For both acquisition of financial services from a service tax registered person and person outside Malaysia (imported services), the STP 1/2025 (Amendment No.1) has updated several conditions as follows:

- The recipient of the service is the registered person specified in column (1), Group H, in the First Schedule to the STR 2018;
- Outward remittance services is removed from the exemption scope of financial services relating to goods, land or matters outside Malaysia.
- The exemption does not apply if the acquired services are used for the provision of the following services: -
  - Brokerage services that are exempt from payment of service tax, relating to stock trading as specified in STP 3/2021; and
  - Services that exempted from payment of tax provided by Bursa Malaysia as outlined in item 7 of this STP.

Exemption from payment of service tax on fees charged by BURSA Malaysia

The STP 1/2025 (Amendment No.1) provides for certain fees charged by BURSA Malaysia that are exempted from payment of service tax as follows: -

- Clearing or trading fee charged to brokers in relation to trading of shares listed on Bursa Malaysia; or
- Perusal and processing fee on regulatory services charged to issuers and listed companies, for:
  - Application to be listed on ACE / LEAP markets;
  - Application for bonus and rights issue for MAIN, ACE and LEAP markets; or
  - Perusal of Circulars for the MAIN and ACE markets.

Exemption from payment of service tax on fees charged for Islamic financial services in accordance with shariah principles

The STP 1/2025 (Amendment No.1) has updated this exemption to include all types of Islamic financial services provided in accordance with shariah principles.

The conditions for the exemption are as follows: -

- Islamic financial service provider is a service tax registered person;
- The financial service;
  - is Syariah-compliant;
  - is an Islamic financial service supporting other Islamic financial services that are primary Islamic financial services; and
  - is an integral part of the structure of the primary Islamic financial service for the purpose of compliance with shariah principles;
- The fees charged for the Islamic financial services are not comparable to the services offered conventionally; and
- The fees are payments for Islamic Financial Services and are not charged separately from the main Islamic Financial Service Structure.

<u>Exemption from payment of service tax on management services for fixed price funds under Permodalan Nasional Berhad (PNB)</u>

The STP 1/2025 (Amendment No.1) has added this exemption on management services for fixed price funds under PNB including:

- Amanah Saham Bumiputera (ASB); or
- Amanah Saham Malaysia (ASM).

<u>Exemption from payment of service tax for fee-based financial services on transactions relating to federal or state government-issued securities</u>

The STP 1/2025 (Amendment No.1) has added this exemption which is subject to the following conditions: -

- Financial service provider is a service tax registered person or from outside Malaysia
- Fees charged for financial services on securities are directly related to:
  - Purchase, sale and transfer;
  - Custody;
  - Clearing;
  - Settlement; or
  - Administration of transactions.
- Financial services are not advisory or consultancy services;
- Securities issued conventionally or syariah-compliant, which evidence indebtedness, namely:
  - Bonds or *Sukuk*;
  - Debentures; or
  - Notes or other instruments.

Service Tax Policy 2/2025 (Amendment No.1) – Rental or leasing services

Exemption for rental or leasing of aircraft and ships from service tax

Effective 4 July 2025, rental or leasing services of aircraft and ships are exempted from service tax. However, drones and floating platforms are excluded from the scope of exemption.

Exemption for non-reviewable contracts

The STP 2/2025 (Amendment No.1) has updated the below condition as follows:

- The wording "non-variable" was struck off from the condition of "fixed contract value". It now reads as "a fixed contract value".

Deloitte comments:

These latest amendments to the above STPs provide for certain additional conditions or clarifications to what was introduced earlier in the STP.

As the matters continue to develop with the service tax expansions, there are expected to be on-going updates and clarification statements issued by the relevant authorities. It is critical that businesses stay alert and keep abreast with the latest service tax developments to ensure that the correct service tax treatments are being applied; and the applicable service tax exemption conditions are being complied with, to ensure compliance with the service tax legislations.

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