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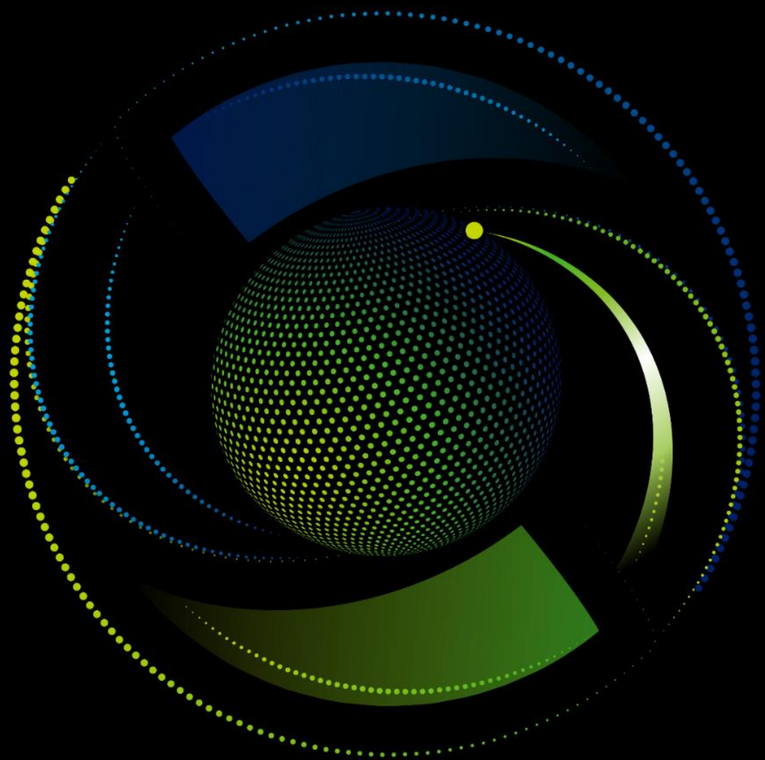

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Indirect Tax Chat

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

March 2025

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Issue 03.2025

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Key takeaways:

1. *Customs Duties (Goods under the Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China) Order*

2. *Navigating carbon tax & CBAM – What it means to businesses in Malaysia*

Greetings from Deloitte Malaysia's Indirect Tax team

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

We are delighted to inform you that we will be organising a webinar, "*Latest developments in SST*" on 15 April 2025. This session will cover developments on the various regulatory requirements, in the scope of Sales Tax and Service Tax ("SST"). Join the complimentary webinar by registering here.

In this edition, we will discuss the Customs Duties (Goods Under the Framework Agreement on Comprehensive Economic Co-Operation Between ASEAN And China) Order 2024, as well as on the Carbon Tax and Carbon Border Adjustment Mechanism ("CBAM").

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

- A "thoughtful approach" to tax policy is essential to maintaining the country's economic stability and growth, says the Malaysian Employers Federation ("MEF"). According to MEF president Datuk Dr Syed Hussain Syed Husman, complex SST procedures add another layer of difficulty for businesses, necessitating updates in technology and compliance measures, which further strain resources. Any expansion could potentially burden Micro, Small and Medium Enterprises ("MSMEs") further and escalate operational costs, impacting their competitiveness. Meanwhile, Associated Chinese Chambers of Commerce and Industry of Malaysia's Treasurer-General Datuk Koong Lin Loong said an expansion would resemble GST in taxable scopes but lacks the input tax refund mechanism, potentially burdening consumers as businesses pass on costs to maintain profits. For more information, please click here.

- The expansion of the SST can generate the necessary revenue to raise national coffers, says Finance Minister II Datuk Seri Amir Hamzah Azizan. Reintroducing the previous Goods and Services Tax (GST) system would require a transition period of up to two years for new industries that were created during the SST implementation. The SST has also been around for over four decades and is a much more familiar system for local businesses, says Datuk Seri Amir Hamzah Azizan. For more information, please click here.

To our Muslim readers celebrating, we wish you *Selamat Hari Raya*, and to everyone else, a happy holiday.

Best regards,
Tan Eng Yew
Indirect Tax Leader
Deloitte Malaysia

1. Customs Duties (Goods under the Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China) Order 2024

The Customs Duties (Goods under the Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China) Order 2024 ("ACFTA Order 2024") came into operation on 1 January 2025, as outlined here.

This ACFTA Order 2024 has been updated to reflect the national tariff codes under Customs Duties Order 2022 ("CDO 2022") in accordance with the Harmonised System (HS) adopted by the World Customs Organisation.

This ACFTA Order 2024 supersedes the Customs Duties (Goods under the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China) Order 2019 ("ACFTA Order 2019"), which went into operation on 1 August 2019.

Similarly with ACFTA Order 2019, the ACFTA Order 2024 provides the framework for preferential import duties for goods traded under ASEAN-China Free Trade Area ("ACFTA"), subject to specific rules and procedures.

"ASEAN Member States" refers to the 10 countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. "China" refers to the People's Republic of China.

For information, the ACFTA Order 2024 contains the following:

- ACFTA import duty

    - The First Schedule and the Third Schedule specifies that goods originating from China or ASEAN Member States are subject to import duty rates as specified in the Second Schedule. The First Schedule further provides the rules of origin criteria under ACFTA.

    - The import duty rate listed in column (5) of the Second Schedule for a specific type of goods only applies to those originated from China or ASEAN Member States, instead of the full import duty under the CDO 2022. This rate is applicable only in respect of goods of the class which are shown to the satisfaction of the Director General.

    - Goods imported for non-commercial use (except motor vehicles, alcoholic beverages, tobacco, etc.) are subject to a flat rate of 30% ad valorem customs duty.

    - For goods subject to the rate "N.O." in the Second Schedule, the full import duty rate specified in the First Schedule of the CDO 2022 will apply.

- Customs duty
    - Goods are subject to export duty as specified in the First Schedule of the CDO 2022.
    - Goods subjected to tariff rate quota as specified in First Schedule of CDO 2022, where import duty is levied based on the rate specified in Appendix B of CDO 2022, subject to quota determined by the relevant agency.

Deloitte's comments
Previously since CDO 2022 came into operation, businesses utilising the ACFTA had to continue referring to the ACFTA Order 2017 which uses the tariff codes and descriptions under Customs Duties Order 2017.

Moving forward, import and export declarations relating to ACFTA are required to be made in accordance with the CDO 2022. Businesses should also refer to this ACFTA Order 2024 to leverage the benefits of these preferential rates, the rules of origin and the specific customs procedures. This will help ensure smooth trade operations and minimise the risk of disputes over the origin of goods.

Brought to you by:

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2. Navigating carbon tax & CBAM – What it means for businesses in Malaysia

As the country prepares for its own carbon tax by 2026, businesses must understand the potential risks and opportunities these regulations present. We have summarised our thoughts on the potential impact of carbon taxation and the European Union's Carbon Border Adjustment Mechanism (CBAM) on Malaysia's industrial landscape. For other crucial points pertaining to CBAM, we've covered this in previous edition of Indirect Tax Alert here.

Understanding carbon tax in the region

Currently, among the ten ASEAN member states, only Singapore and Indonesia have established carbon pricing mechanisms. Singapore implemented a carbon tax in 2019, while Indonesia has an Emission Trading System (ETS) in place for carbon dioxide (CO_2) emissions since 2023.

The greenhouse gas emissions that are under the carbon tax purview in Singapore are carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3). Whether Malaysia adopts the same mechanisms, that remains to be seen.

Following Singapore and Indonesia, Malaysia is now set to introduce carbon tax for select industries by 2026, though the framework is still under discussion. This move is in alignment with global sustainability efforts, but has raised concerns over economic competitiveness. While the nature, extent, and the affected industries on account of the carbon tax levy is yet to be made known, it is likely that the industries under the radar of CBAM could potentially fall under the purview of carbon tax levy:

- Iron & steel
- Aluminium
- Cement
- Fertiliser
- Electricity

Potential impact of carbon tax in Malaysia

1. **Higher business costs**
   The industries mentioned above contribute significantly to the country's GDP. Implementing a carbon tax could potentially increase operational costs, making Malaysia a less attractive destination for foreign direct investment (FDI), particularly in manufacturing and heavy industries.

2. **Reduced regional competitiveness**
   Considering that most ASEAN nations have not yet imposed a carbon tax, Malaysia's potential move to implement taxation ahead of its regional peers may lead to higher production costs for businesses, potentially shifting investments to neighbouring countries with lower environmental levies.

3. **Readiness challenges**
   Businesses will need time to upgrade technology, improve emissions tracking, and develop offset strategies. A sudden tax introduction may strain companies that are not yet prepared. A phased approach, with government support for decarbonisation, could provide a more sustainable transition.

How can Deloitte help

While further details regarding carbon tax is still awaited, Deloitte could help the CBAM impacted businesses by focusing on:

1. **Readiness –** Identifying affected products, collecting emissions data, and engaging stakeholders.

2. **Financial Impact Assessment** – Analysing export data, estimating CBAM costs, and identifying exemptions.

3. **Execution & Reporting –** Ensuring accurate emissions reporting, developing compliance templates, and assisting with CBAM submissions.

The way forward for Malaysia

With global carbon regulations evolving, Malaysia must strike a balance between sustainability and economic growth. Policymakers should engage industry stakeholders to design a carbon tax framework that supports business competitiveness while achieving climate goals. Simultaneously, businesses must proactively adapt by investing in energy-efficient processes and preparing for CBAM compliance.

The transition to a low-carbon economy is inevitable, but with strategic planning, phased implementation, and industry collaboration, affected businesses in Malaysia can turn these challenges into opportunities for long-term growth and sustainability.

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We invite you to explore other tax-related information at:

http://www2.deloitte.com/my/en/services/tax.html

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