

GOODS AND SERVICES TAX (GST): IMPLICATIONS TO THE MALAYSIAN OIL PALM INDUSTRY

N. Balu

**(Director of Economics & Industry Development Division)
Malaysian Palm Oil Board (MPOB)**



**Pullman Kuala Lumpur City Centre
(17 January 2016)**



OUTLINE OF PRESENTATION



1. Introduction



2. Malaysian GST Model



3. GST Mechanism for the Malaysian Oil Palm Industry



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5. Latest Updates on GST for the M'sian Oil Palm Industry



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INTRODUCTION

- Goods and Services Tax (GST) is a consumption tax imposed on value-added activities at all levels of the distribution network of all goods and services - Value Added Tax (VAT).
- Malaysian GST was proposed to replace Sales Tax (5%, 10% & specific according to products) & Services Tax (6%) - effective from 1st April 2015.
- **GST is to be charged on goods & services supplied within the country or imported into the country.**
- GST collected by Malaysian Government = **RM27.01 billion in 2015 & RM39.00 billion in 2016** (Source: RMCD).

INTRODUCTION

- 170 countries in the world had implemented GST/VAT
- GST/VAT implementation in ASEAN countries:

Country	Year of Implementation	Current Rate (%)	Thresholds Level		
			Own Currency	USD	RM*
Indonesia	1984	10	Rupiah 600 mil	65,000	260,000
Thailand	1992	7	Baht 1.8 mil	59,000	236,000
Singapore	1993	7	SGD 1 mil	782,000	3,128,000
Philippines	1998	12	Peso 1.5 mil	34,000	136,800
Cambodia	1999	10	125 mil	30,000	120,000
Vietnam	1999	10	Dong 0	0	0
Laos	2009	10	Lao Kip 400 mil	49,000	196,000
Malaysia	2015	6	RM500,000	125,000	500,000

Source: Royal Malaysian Customs Department ; * = US\$1 equivalent to RM4.00



Malaysian GST Model

- A registered person under GST is entitled to claim input tax if he/she is making a taxable supply & satisfies the following criteria:
 - input tax has been incurred
 - input tax is allowable
 - he/she is a taxable person
 - goods/services acquired in the course or furtherance of business
 - goods or services made in Malaysia
- Input tax mechanism:
 - tax paid on inputs to be offset against the output tax in the relevant taxable period
 - subject to a time limit of 6 years from the date of supply
 - refund to be offset against other unpaid GST
- Net GST to be refunded within:
 - 14 working days for online submission
 - 28 working days for manual submission

Malaysian GST Model

- **Taxable Period**

The taxable period will be determined at the time when the GST registration is approved:

- **Quarterly Basis (3 months)** - for businesses with annual turnover not exceeding RM5 million
- **Monthly Basis (1 month)** - for businesses with annual turnover exceeding RM5 million

- **GST Mechanism**

Types of Supply	Output Tax	Input Tax
1. Standard-rated	6% GST	Claimable
2. Zero-rated	0% GST	Claimable
3. Exempted	No GST Charged	Not Claimable

- ✓ Registration is **mandatory** for businesses with turnover that has exceeded the prescribed threshold of **RM500,000**.
- ✓ Businesses **below threshold** may apply for **voluntary registration**.



GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

- The **Malaysian OP industry** is a **taxable supply** under GST rules & regulations.
- Each sector in the Malaysian OP industry **has to be registered under the GST** if their annual sales **turnover** has exceeded the prescribed threshold level (**>RM500,000**).
- Only a **registered person** can **charge & collect GST** on the taxable supplies of goods & services effectively on 1st April 2015. **GST is charged on the value or selling price** of the products.
- **26 sectors** identified in the Malaysian OP industry with total number of MPOB's licensees in 2016 = **12,939 producers** (excluding independent smallholders = **234,707**).

GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

- All sectors in the OP industry are standard-rated supply (6% GST), except for the sectors that are producing cooking oil to sell in the domestic market users (<25kg) & for OP export products (0% GST).
- The amount of GST incurred on input (input tax) can be offset by the amount of GST charged (output tax) by the registrant producers;
 - If the amount of output tax is more than the input tax in the relevant taxable period, the difference shall be remitted to the RMCD.
 - If the input tax is more than the output tax, the difference will be refunded by the RMCD.
 - The payment will be made by the RMCD within 14 working days for online submission and within 28 working days for manual submission.

GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

GST Treatment for OP Smallholders

- Annual sales less than the threshold level of RM500,000 - majority of the OP smallholders is not mandated to register under the GST.
- This sector can apply for the Flat Rate Scheme (FRS) under GST rules & regulations if their annual sales recorded >RM50,000 (effective 1st Jan 2016).
- Approved smallholders will receive a FRS number (example: FRS0123456789) when their application gets approved from the Director-General of RMCD.
- This FRS allows smallholders to get a prescribed flat rate addition of 2% from the GST registered person who are buying their FFB. However, the approved smallholders cannot claim back the GST paid for their input.

GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

GST Treatment for OP Smallholders

- Smallholders can keep the FRS of 2% and there is no need to return to RMCD.
- Smallholders who have been approved under the FRS will be automatically disqualified from the scheme after their annual sales turnover exceeds the threshold level of RM500,000.
- Besides that, smallholders under this scheme are subjected to the following conditions:
 - i. he/she is a person who is not registered under the GST.
 - ii. he/she carries out business related to approved activities.
 - iii. at least 80% of the total supply of goods in a year involving one or more of the approved activities
 - iv. he/she is a member of the Association/body regulated by authorities/agencies for FRS (18 agencies).



GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

GST Treatment for OP Smallholders

- ❖ Associations/bodies regulated for FRS:

No.	Authorities
1.	Department of Agriculture
2.	Department of Fisheries
3.	Department of Veterinary Services
4.	Fisheries Development Authority of Malaysia
5.	Malaysian Palm Oil Board (MPOB)
6.	Malaysian Rubber Board
7.	Malaysian Cocoa Board
8.	Malaysian Pepper Board
9.	National Kenaf and Tobacco Board
10.	Farmers' Organization Authority

No.	Authorities
11.	Kemubu Agriculture Development Authority
12.	Muda Agriculture Development Authority
13.	Malaysian Pineapple Industry Board
14.	Department of Agriculture Sarawak
15.	Sabah Rubber Industry Board
16.	Ministry of Agriculture and Food Industry State of Sabah
17.	FELCRA
18.	FELDA

GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

GST Mechanism for PO Mills

- All products produced by the mills are categorized as a **standard-rated supply (6% GST)** – when selling in the domestic market.

No.	Products	GST Mechanism
1.	Crude Palm Oil	6%
2.	Palm Kernel	6%
3.	Palm Shell	6%
4.	Sludge Oil	6%
5.	Mesocarp Fibre	6%
6.	Empty Bunches	6%
7.	Empty Bunch Fibre	6%
8.	Processed Empty Bunch Fibre	6%
9.	Decanter Cake	6%
10.	Bio Solids (from Effluent)	6%
11.	Bunch Ash	6%
12.	Scrap Iron	6%

GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

GST Mechanism for PO Refineries



Zero-rated supply (0% GST)

- i. Cooking oil product for domestic market users (<25kg)
- ii. Export products

(Cannot charge 6% GST but all GST paid on input is claimable to RMCD)



Standard-rated supply (6% GST)

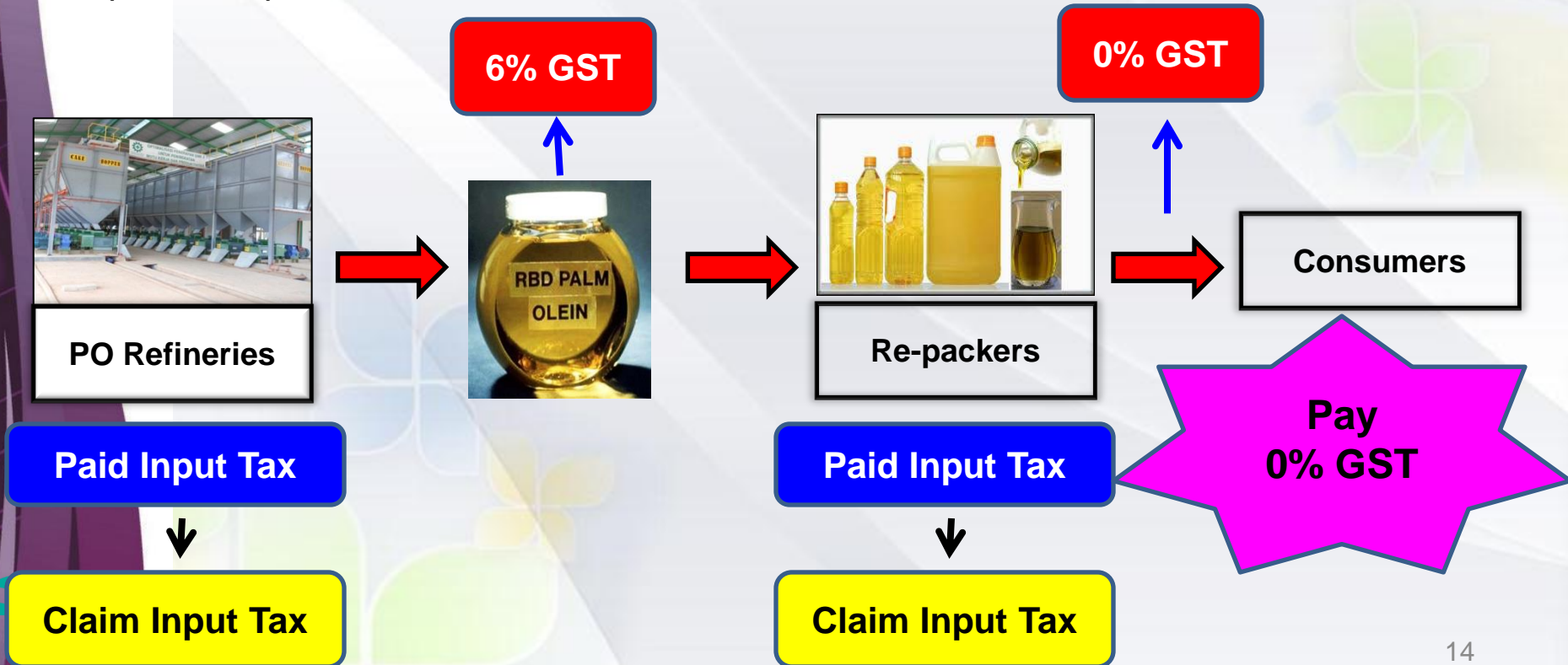
- For domestic market users:
 - i. RBD Palm Oil
 - ii. RBD Palm Olein
 - iii. RBD Palm Stearin
 - iv. Other PO products

MoF & RMCD classified String Contract under Exempted Supply effective 10th Mar 2016 followed by Circle, Washout & Document By-Pass activities on 20th Dec 2016

GST MECHANISM FOR THE MALAYSIAN OIL PALM INDUSTRY

GST Mechanism for Re-packers of Cooking Oil

- Purchase RBD Palm Olein from the refinery in bulk & refilled in < 25kg package.
- Palm based cooking oil is zero-rated supply (0% GST)
- Re-packers cannot charge 6% GST to end users, but are entitled to claim back all GST paid on inputs used for furtherance of business.





Survey on the Impact of GST Implementation on the Cash Flow of the Oil Palm Industry Players (Upstream, Mid-Stream & Downstream)



1. Category of Respondents

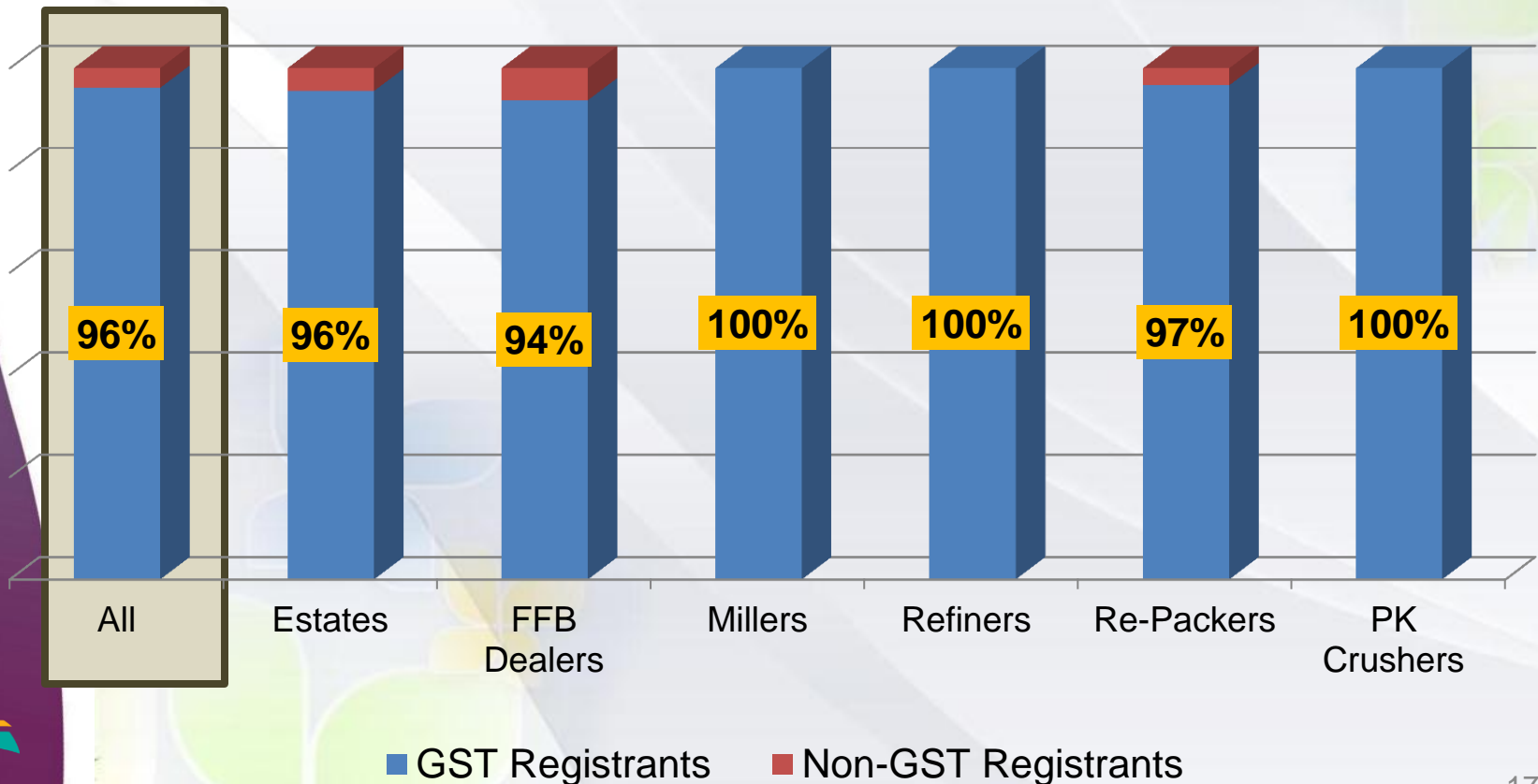
- Online survey has been carried out between 21 Nov – 16 Dec 2016 to randomly select palm oil industry players for survey
- No. of respondents were based on category as follows:

Category	No. of Respondents	%
Oil Palm Estates	91	43.5
FFB Dealers	47	22.5
Palm Oil Millers	30	14.4
Palm Oil Refiners	6	2.9
Re-Packer of Cooking Oil	30	14.4
Palm Kernel Crushers	5	2.4
Total	209	100.0



2. Status on GST Registration

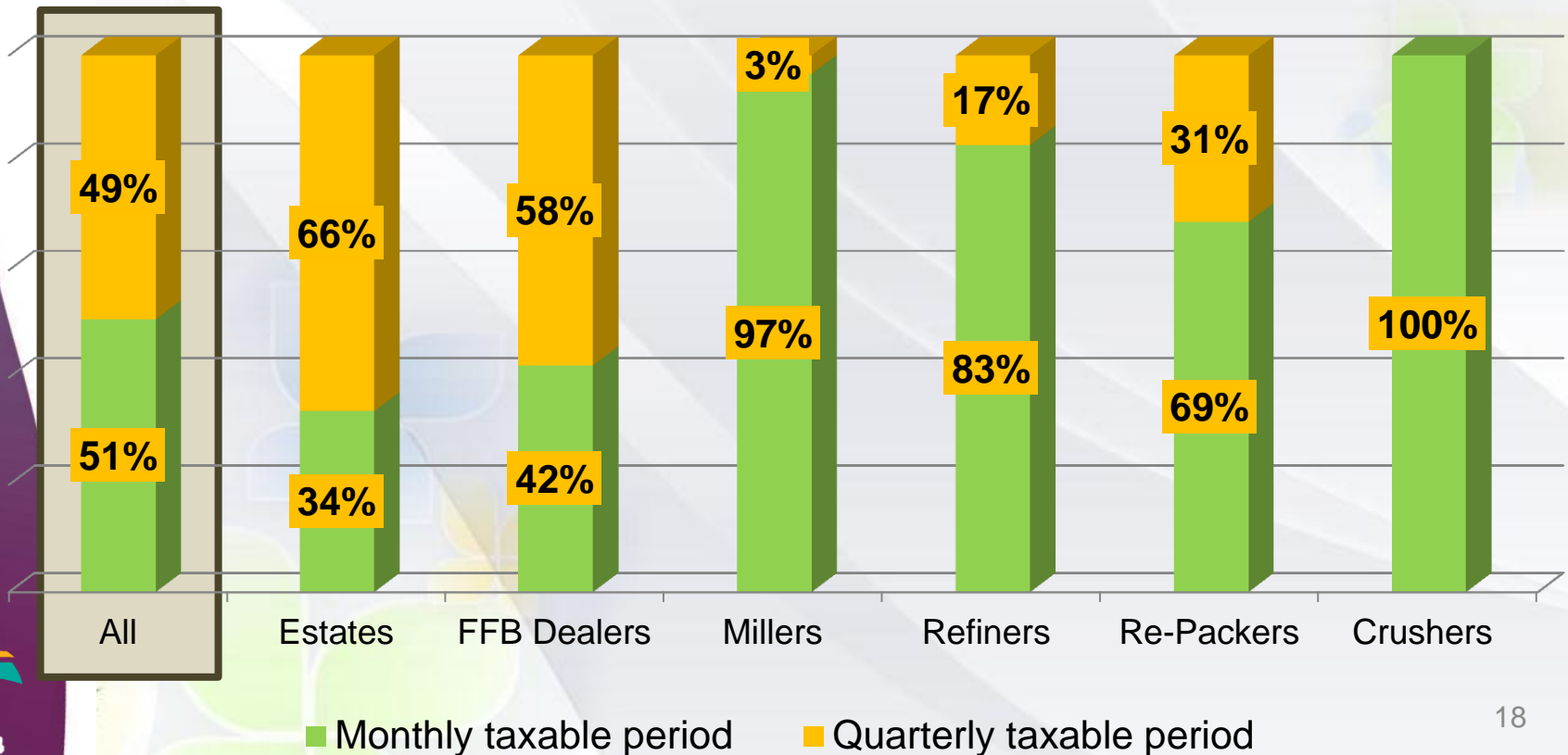
- 96% of total respondents are GST registrants, with Millers, Refiners & Kernel Crushers being 100% GST Registrants (annual sales above RM500k)





3. GST Taxable Period

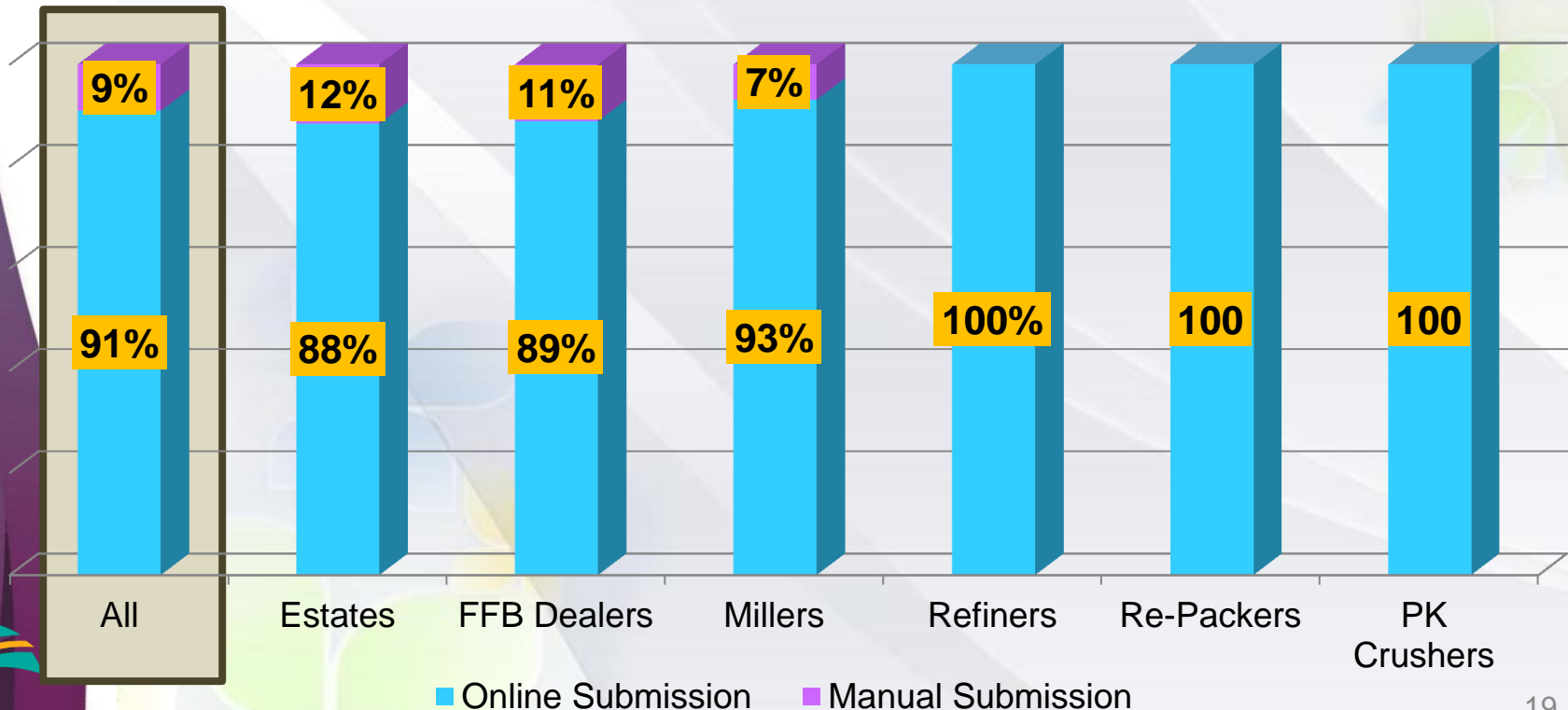
- 51% of total respondents submitted GST statement on the basis of monthly taxable period, with the majority of them being PK crushers, millers and refiners (having annual sales of above RM5 mill).
- 49% total respondents submitted GST statement on the basis of quarterly taxable period.





4. Submitting GST Form to RMCD

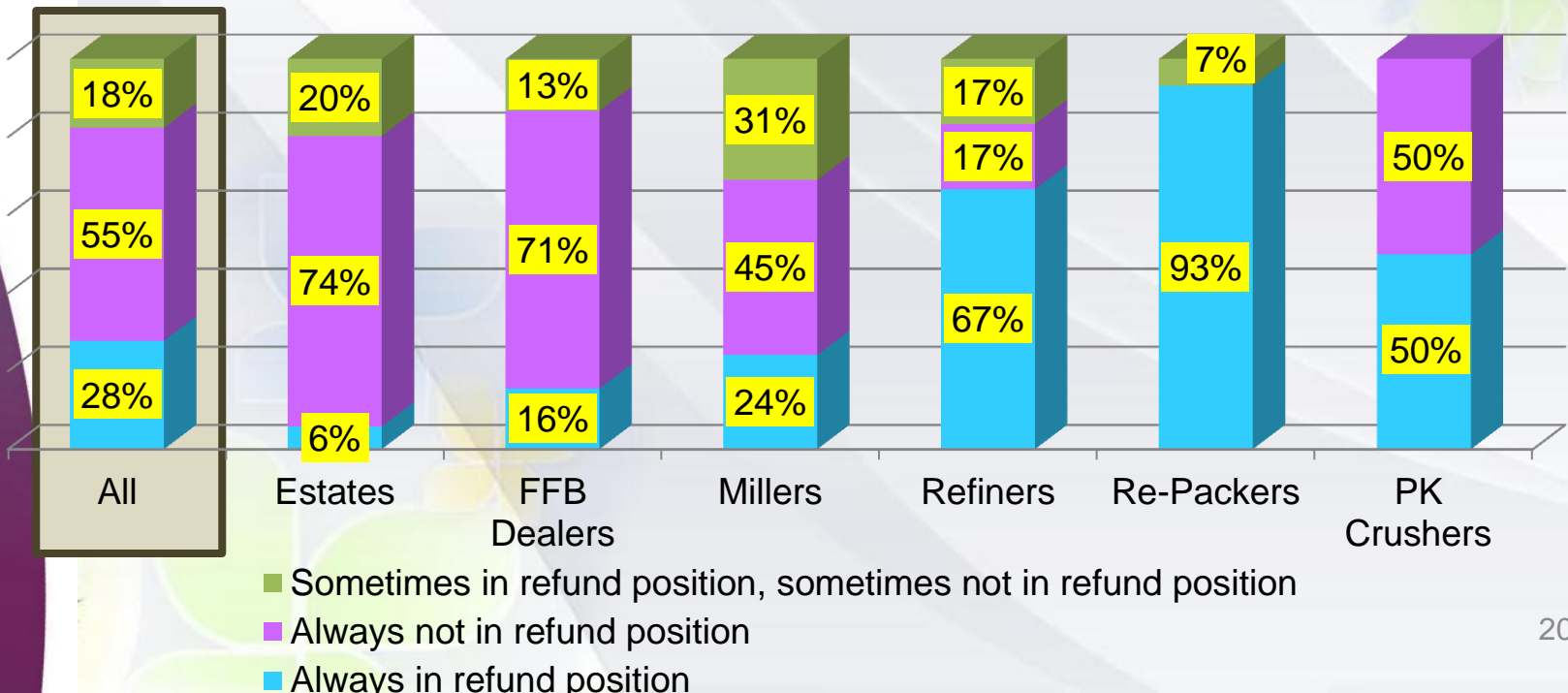
- 91% of total respondents submitted their GST form through online submission, with the majority of them being refiners, re-packers and PK crushers (meaning, **majority of them are entitled to receive GST refund within 14 working days**)
- 9% of respondents submitted their GST form through manual submission at RMCD office





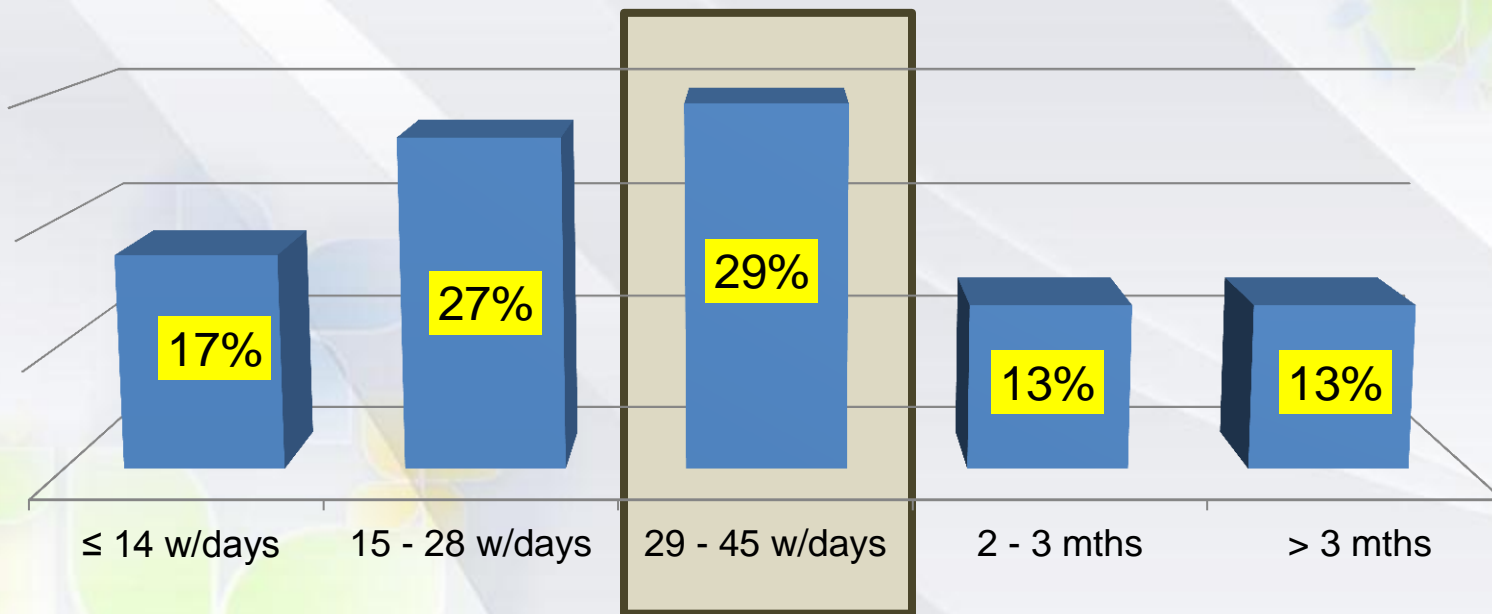
5. Status on refund or not in refund (pay-back) positions

- 28% of total respondents were always in refund position (input tax > output tax, i.e. they can claim back from Govt.) – their cash flow will be influenced by the length/period of refund process paid by RMCD – majority of them being refiners, re-packers and PK crushers (**these are industry's major players who claim that their cash flow is affected**)
- 55% of total respondents were always not in refund position (input tax < output tax, i.e. they have to pay GST collected to Govt.)



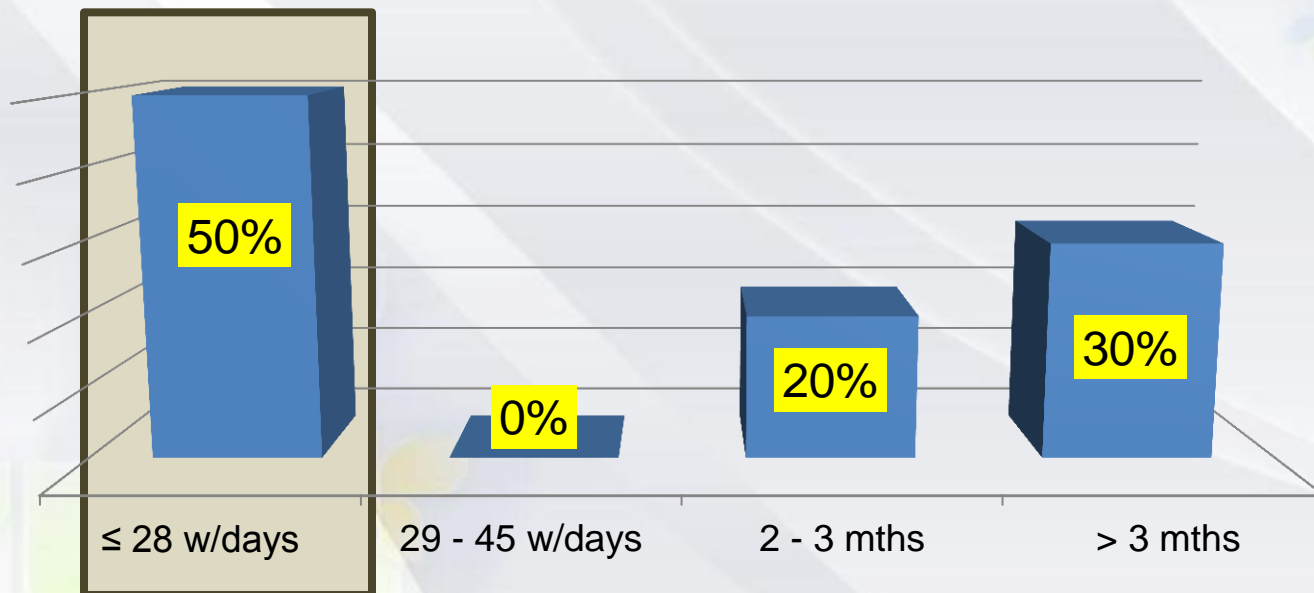
6. Timeframe for Refund from RMCD (Online submission)

- Out of 75 respondents (those in refund position) who submitted GST through online, only 17% reported receiving GST refunds from RMCD within 14 working days
- **Most of the respondents (29%) received GST refunds from RMCD between 29 – 45 working days, thus affecting their cash flow.**



7. Timeframe for Refund from RMCD (Manual submission)

- Out of the 10 respondents who submitted GST manually, **50% of them reported receiving GST refunds from RMCD within 28 working days (as promised) – Congrats to RMCD**
- However, 30% of these respondents received their GST refunds after more than 3 months.





LATEST UPDATES ON GST FOR THE M'SIAN OIL PALM INDUSTRY



LATEST UPDATES ON GST FOR THE M'SIAN OIL PALM INDUSTRY

1. Following Dialogue on the GST Treatment on String Contracts held between PORAM, MoF and RMCD organised by MPOB on 30th Sept. 2015, **positive results**:
 - MoF & RMCD agreed to classify String Contracts to be categorized as **Exempted Supply** (exempted from GST) as compared to Standard Rated Supply (6% GST) - effective 10th March 2016
2. On 23rd May 2016, supported by MPOB, PORAM appealed for the same treatment to be given to Circle, Washout and Document By-Pass Activities for palm oil transaction, **positive results**:
 - MoF & RMCD agreed to classify such activities as **Exempted Supply** (exempted from GST) as compared to Standard Rated Supply (6% GST) - effective 20th Dec 2016

RMCD Treatment on String Contracts



KEMENTERIAN KEWANGAN MALAYSIA
KOMPLEKS KEMENTERIAN KEWANGAN
NO. 5, PERSIARAN PERDANA, PRESINT 2
PUSAT PENTADBIRAN KERAJAAN PERSEKUTUAN
62592 PUTRAJAYA

Tel. : 03-8000 8000
Faks : 03-8882 3893
03-8882 3894
Web : www.treasury.gov.my

0.3865/356(SJ.4) Jld.23 (SK.6)A(11)

10 Mac 2016

Encik Wan Mohd Zain Wan Ismail
Pengerusi
Persatuan Penapis Minyak Sawit Malaysia (PORAM)
801C/802A, Block B
Executive Suites
Kelana Business Centre
97, Jalan SS7/2
47301 KELANA JAYA

Tuan,

Permohonan Persatuan Penapis Minyak Sawit Malaysia [*Palm Oil Refinery Association of Malaysia (PORAM)*] Mengenai Pengesahan Ke Atas Layanan GST Bagi *String Contract* Dalam Urusniaga Jual Beli Minyak Sawit

Dengan hormatnya saya merujuk kepada perkara tersebut di atas.

- Adalah dimaklumkan bahawa YB Menteri Kewangan telah bersetuju supaya layanan GST ke atas aktiviti *string contract* dalam urusniaga jual beli minyak sawit ditetapkan seperti di Lampiran 1.
- Sehubungan dengan penetapan layanan tersebut, Persatuan Penapis Minyak Sawit Malaysia [*Palm Oil Refinery Association of Malaysia (PORAM)*] perlu memaklumkan ketetapan tersebut kepada semua ahli PORAM dan pihak yang terlibat dalam aktiviti *string contract* dan seterusnya semua pihak yang terlibat perlu mengambil langkah seperti berikut:
 - Membuat pelarasan (*adjustment*) di dalam Borang GST-03 untuk memulangkan semua amaun *input tax* yang telah dituntut sebelum ini dan pada masa yang sama menuntut kembali amaun *output tax* yang telah diakaunkan ke atas urusniaga jual beli minyak sawit;
 - Semua pelarasan yang berkaitan perlu dibuat sekali sahaja di dalam tempoh bercukai terkini selepas dari tarikh surat Kementerian Kewangan ini dikeluarkan; dan
 - PORAM perlu mengemukakan senarai lengkap syarikat yang terlibat di dalam aktiviti *string contract* bagi tujuan rekod dan semakan Jabatan Kastam Diraja Malaysia.
- Kementerian Kewangan mempunyai hak untuk meminda, mengubah atau menarik balik pelepasan yang diberi pada bila-bila masa.

Sekian, terima kasih.

"BERKHIDMAT UNTUK NEGARA"

Saya yang menurut perintah,

(Khodijah Binti Abdullah)
Setiausaha Bahagian Cukai,
b.p. Ketua Setiausaha Perbendaharaan.

RMCD Treatment on Circle, Washout and Document By-Pass Activities



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62592 PUTRAJAYA

Tel. : 03-8000 8000
Faks : 03-8882 3893
03-8882 3894
Web : www.treasury.gov.my

0.3865/356(SJ.4)JLD.23(SK.6)A(24)

SEGERA DENGAN FAKS: 03 - 7492 0128

20 November 2016
Disember

Encik Mohammad Jaaffar Ahmad
Ketua Pegawai Eksekutif
Persatuan Penapis Minyak Sawit Malaysia
801C/802A, Block B, Executive Suites
Kelana Business Centre
97, Jalan SS7/2
47301 KELANA JAYA
SELANGOR

Tuan,

Permohonan Persatuan Penapis Minyak Sawit Malaysia [*Palm Oil Refinery Association Of Malaysia (PORAM)*] Mengenai Pengesahan Layanan GST Bagi Aktiviti "*Circle*", "*Washout*" Dan "*Documents By-Pass*" Bagi Transaksi Minyak Sawit

Dengan hormatnya saya merujuk kepada surat tuan bertarikh 23 Mei 2016 mengenai perkara di atas.

- Sebagai pihak tuan sedia maklum, layanan GST ke atas aktiviti *string contract* dalam urusniaga jual beli minyak sawit telah ditetapkan sebagai pembekalan dikecualikan melalui surat Kementerian Kewangan bertarikh 10 Mac 2016. Berdasarkan penetapan tersebut, adalah dimaklumkan YB Menteri Kewangan bersetuju bahawa aktiviti "*Circle*", "*Washout*" dan "*Documents By-Pass*" bagi transaksi minyak sawit yang tidak melibatkan pergerakan fizikal komoditi tersebut serta memenuhi ciri-ciri yang sama dengan *string contract* adalah juga merupakan pembekalan dikecualikan dari GST.
- Adalah dimaklumkan juga bahawa Kementerian Kewangan berhak untuk meminda, mengubah atau membatalkan ketetapan ini pada bila-bila masa.

Sekian, terima kasih.

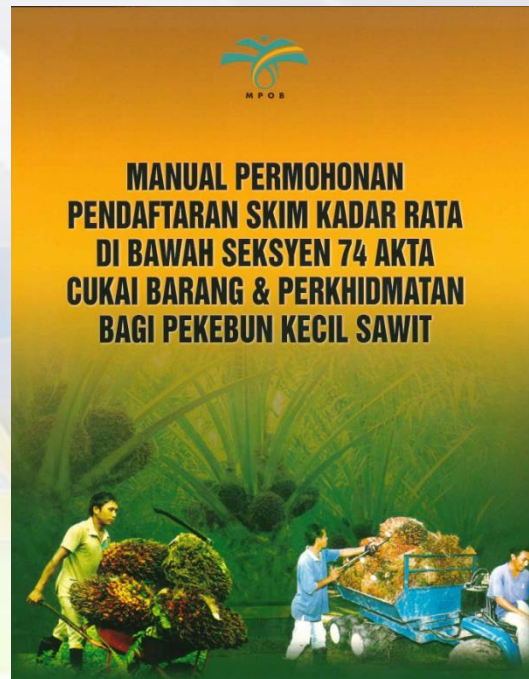
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LATEST UPDATES ON GST FOR THE M'SIAN OIL PALM INDUSTRY

3. OP Smallholders can apply and benefit for RMCD's Flat Rate Scheme (FRS) / Skim Kadar Rata if their annual sales recorded >RM50,000 (effective 1st Jan 2016). [Previously it was >RM100,000 but less RM500,000]
 - **MPOB published Manual for FRS Registration in Oct 2016 – to assist oil palm smallholders on applying for FRS**





CONCLUSION

- The Malaysian OP industry is a taxable supply under the rules & regulations of GST.
- Each sector in the Malaysian OP industry has to be registered with the RMCD under the GST if their annual sales turnover has exceeded the prescribed threshold level of RM500,000.
- All sectors in the Malaysian OP industry are categorized as a standard-rated supply (6% GST), **except for the sectors that are producing cooking oil to sell in the domestic market & for PO export products (Both incur = 0% GST).**
- **Latest: String Contracts & Circle, Washout and Document By-Pass Activities incur = Exempted from GST (Exempted Supply)**
- OP smallholders are entitled to register for FRS, which gives an additional income of 2% when selling their fresh fruit bunches (FFB) to GST registered dealers/millers – this is to minimize GST impact on their FFB production cost.

CONCLUSION

- Cash flow for the oil palm industry will be influenced by the length of GST refund process paid by RMCD. Advisable for GST forms to be sent through online submission with all necessary documents provided to minimize any undue delay in GST refunds.
- OP industry is nevertheless expected to remain resilient due to:
 - Ability of PO producers to claim back the GST paid for their inputs in furtherance of their businesses, while no GST is imposed (0% GST) on exports of OP products.
 - Majority of the OP sectors are in the GST refund position, i.e. GST paid on inputs is claimable from the Govt.
 - GST rate in M'sia of 6% is the lowest Vs. other OP producing countries like Indonesia =10% & Thailand =7%.



Thank You

**FOR FURTHER DETAILS, KINDLY CONTACT:
N. BALU
TEL. NO : 03-7802 2808
HP NO. : 019-6687011
E-mail : balu@mpob.gov.my**



LEMBAGA MINYAK SAWIT MALAYSIA
Kementerian Perusahaan Perladangan & Komoditi Malaysia