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To: Managing Directors / General Managers / Export / Import / Purchasing Managers / Executives

Latest Updates on Service Tax:
Improvements to the Service Tax Policy on Logistics Services

Following strong advocacy from FMM to remove double taxation or cascading effects resulting from taxing multiple layers within the logistic supply chain and to grant tax exemption for export orientated companies, the Royal Malaysian Customs Department (RMCD) in its ***Service Tax Policy No. 4/2024*** dated **March 29, 2024** has announced several improvements to the Service Tax policy for logistics services as follows:

I. Further Expansion of Tax Exemption for Business-To-Business (B2B) Logistics Services

The Business-To-Business (B2B) tax exemption **allows logistics service companies within the same item (Butiran) or category to be exempted from service tax** when acquiring logistics services from other logistics companies in the same item/ category. The scope of the tax exemption for B2B logistic services to cover services within the same item / category has been expanded to reduce the tax-on-tax element within the logistic supply chain. The Ministry of Finance has agreed to amend the Service Tax Regulations 2018 for Logistics Services (Group J) whereby Item 1(a) in relation to logistics services, and Item 1(b) pertaining to delivery or distribution or transporting services are merged into a single item. By combining the two items into one, the exemption scope for business-to-business activities has been widened whereby logistics service providers classified under Item 1(a) are now no longer required to incur service tax for acquiring delivery or distribution or transporting services that previously had been listed under Item 1(b).

The following are the **REVISED** categories of taxable persons under the logistics sector:

Details	Service
1(a)	Logistics services including all or part of the supply chain services of logistics management, port and airport management, warehousing or warehouse management, freight forwarding, shipping, air or cold chain facility services, delivery, distribution or transportation of goods;
1(c)	Delivery, distribution or transportation of goods, documents or packages using E-commerce platforms including on behalf of any person; or
1(d)	Express delivery services licensed under section 10, Postal Services Act 2012 *[Act 741]*
2	Persons acting as agents under subsection 90(2) Customs Act 1967 *[Act 235]*

However, Customs Brokerage/ Forwarding Agent classified under item 2 has not been included in this widening of the scope of the B2B exemption and therefore will not be able to qualify for exemption when using services provided by logistics providers in **the other categories** ie. 1(a), 1(c) or 1(d).

II. Treatment of Tax on Export and Import Activities

(a) All logistics services rendered by taxable service providers to companies located within and between Special Areas or Designated Areas such the Free Industrial Zones (FIZ), Regional Distribution Centers, Free Commercial Zones (FCZ) or Licensed Manufacturing Warehouse (LMW) are **NOT** subject to service tax. However, services provided by Customs / Forwarding Agents classified under item 2 to companies located in Special Areas/ Designated Areas are still subject to the service tax.

(b) Logistics services rendered by taxable service providers that provide door-to-door logistics services are exempted from service tax subject to the following conditions:
   i. Single service provider providing door-to-door logistics services ie. third-party service providers (3PL) or fourth-party service provider (4PL) for shipments from a place outside Malaysia directly to a place within Malaysia or from a place within Malaysia directly to a place outside Malaysia.
   ii. Single service provider to issue a single invoice for logistics services from consignor to consignee (single billing invoice).
   iii. The goods delivered / exported / imported using the same airway bill / bill of lading / consignment note from consignor to consignee.

(c) Logistics services related to transit activities ie. delivery, distribution or transportation of goods which arrives at the Malaysian Customs port or airport *for the purposes of transit* until the goods are transported out of Malaysia are not subject to the tax.

(d) Exemption from paying service tax is granted on (ocean freight) charges for all goods transported by sea for the following journey/destinations:
   i. Peninsular Malaysia to Sabah / Sarawak / Labuan;
   ii. Sabah / Sarawak / Labuan to Peninsular Malaysia; and
   iii. Between Sabah, Sarawak and Labuan.

III. Measures to Reduce the Service Tax on Logistics for Trade Activities by Renegotiating Terms of Sale / Incoterms with Foreign Supplier / Foreign Buyer

All logistics services rendered for import or export shipments including logistic management services, warehousing or warehousing management services, freight forwarding services, haulage, Customs agent, port or airport services, shipping services (domestic), aviation services or cold chain facilities services that are **borne fully by the foreign supplier or foreign buyer will not be subject to tax** as the logistics service providers will be invoicing/ billing the foreign importer or exporter. To benefit from this exemption, members are encouraged to utilise the following Incoterms in your contract or terms of sales:

i. **For Export Use Incoterms Free Carrier (FCA)** – Sell/ export using shipping term Free Carrier (FCA) where the Malaysian seller / exporter is responsible for export Customs clearance and delivery of goods to the carrier at the named place of delivery (seller would need to specify the address/ place of loading of the container ie factory premise or warehouse). In this regard, the Malaysian seller is only responsible for loading the goods if the seller's place of business is the named place of delivery. The foreign buyer/ importer assumes all risks and responsibilities including all logistics services including transportation the goods out of the factory / warehouse until it reaches the foreign buyers premise/ warehouse. As the logistics services is borne by the foreign buyer although they are utilising local service providers, no service tax is levied for the services rendered in this transaction.

ii. **For Import Use Incoterms Delivered At Place (DAP)** – Import / buy using Delivered At Place (DAP) where the foreign seller / exporter is responsible for delivery of the goods, ready for unloading, at the named place of destination. The foreign seller/ exporter assumes all risks and costs involved up to unloading (the Malaysian buyer/ importer would need to specify the address/ place of unloading of the container ie factory premise or warehouse). Under DAP rules, the Malaysian buyer/ importer is responsible for import Customs clearance, pay import duty or carry out import formalities. As the logistics services are borne by the foreign seller/ exporter although they are utilising local service providers, no service tax is levied for the services rendered in this transaction.

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