



SW Project Consulting Sdn Bhd (1001320-A)

Project Management for GST System Changes



Tripartite Arrangement for GST - Hotel Booking

Introduction

Tripartite arrangement means a GST transaction which involves in three parties. It is usually the consumer, the service provider and the agent.

Readers may read Guide on Input Tax Credit Paragraph 28 ~ 30 to understand tripartite arrangement that involves local parties.

However, this article will address the tripartite arrangement that involves with an overseas agent due to international traveling is happening in today's world. The most common example for this arrangement is the hospitality industry that involves an overseas agent, local hotel & local customer.

Let's discuss on the potential scenario for the tripartite arrangement in hospitality or accommodation industry.

Many hotels engage a third party booking agent for marketing their products. As such, we may have the combination as per the matrix below:

1. Local Agent + Local Hotel + Local Consumer
2. Local Agent + Overseas Hotel + Local Consumer
3. Overseas Agent + Local Hotel + Local Consumer
4. Overseas Agent + Overseas Hotel + Local Consumer

Hotel Booking from Travel Agent – Tripartite Arrangement

GST is based on the following facts:

- Three parties involved – Consumer, Travel or Booking Agent and Hotel

Party 1 – Booking Agent	Party 2 – Hotel	Party 3 – Consumer	Document	Input Tax Credit	Payment
Local	Local	Local Consumer pays to agent instead of hotel	Tax Invoice	Agent	Agent
	Overseas		Invoice	RCM	Agent
Overseas	Local		Tax Invoice	Not available	Agent
	Overseas		Invoice	Out of Scope	Agent
Agoda Singapore	Berjaya Hotel	Stanley Wong	Tax Invoice from Berjaya to Agoda Singapore	Agoda Singapore No Input Tax Credit. Make payment to Berhaya	Stanley Wong paid to Agoda

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Tripartite Arrangement for GST - Hotel Booking

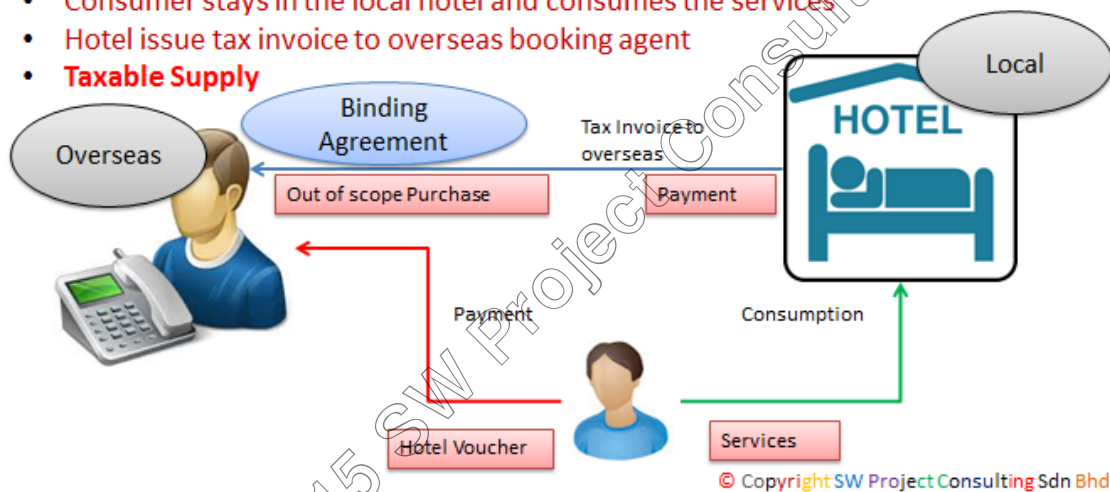
Let's start with Item 3 that involves

1. Overseas Agent (bookings.com; agoda.com; ctrip.com)
2. Local Hotel (XYZ Hotel)
3. Local Consumer (GST Registrant)

This is very common to happen as many GST registrants who are businesses, entrepreneur, corporates and sole proprietor use overseas travel agent for hotel booking. As such, this creates an issue for claiming input tax credit. Please refer to the diagram below for illustration

GST is based on the following facts:

- Three parties involved – Consumer, Overseas Booking Agent and Local Hotel
- Consumer pays to overseas booking agent
- Consumer stays in the local hotel and consumes the services
- Hotel issue tax invoice to overseas booking agent
- **Taxable Supply**



For consumer who is a GST registrant

No input tax credit available as overseas agent is issuing a hotel voucher to check-in the local hotel. Local hotel will not issue the tax invoice upon checkout. Local GST registrant consumer is only consuming the service. Local consumer paid full amount for the consumption.

For local hotel who is a GST registrant

Local hotel must issue tax invoice to overseas agent. This is a taxable supply which is consumed in Malaysia that triggers GST.

For overseas agent who is residing outside Malaysia

Overseas agent will receive full payment from consumer, including all type of due tax and GST. Local hotel will give tax invoice to overseas agent. As an overseas entity, GST stated in the tax invoice is not applicable. But the consumer who made full payment. The overseas agent is just transferring the fund to settle the tax invoice from local hotel, at no extra cost to the overseas agent since the tax due was paid by the local consumer

Tripartite Arrangement for GST - Hotel Booking

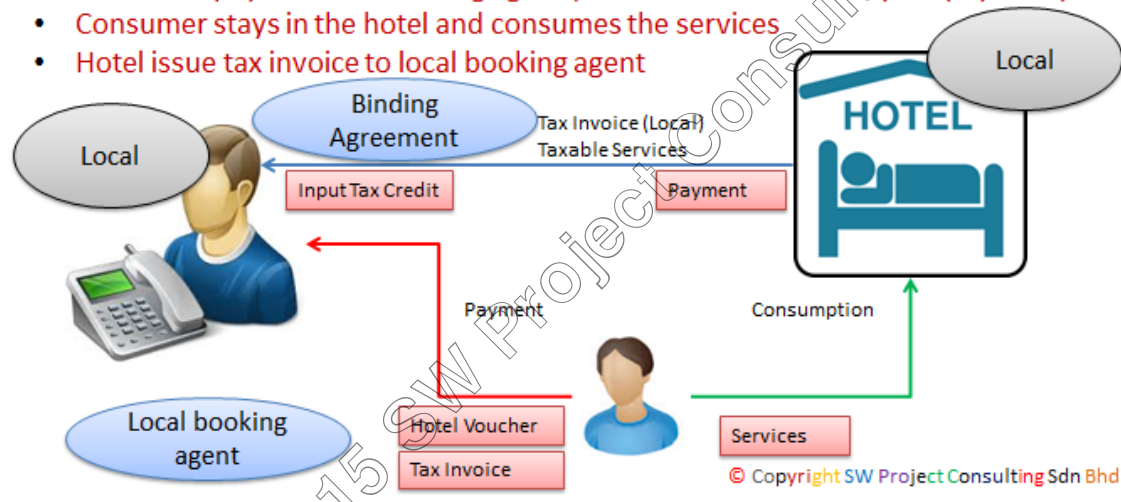
Let's start with Item 1 that involves

1. Local Agent (tour company, travel company)
2. Local Hotel (XYZ Hotel)
3. Local Consumer (GST Registrant)

Since everyone is local, it does not matter whether a binding agreement exists, because a local agent who is a GST registrant, has the responsibility to issue tax invoice to the consumer (within 30 days from the payment received). The local hotel will then issue tax invoice to the local agent. **It will become an ordinary GST transaction.** Consumer and local agent are entitled for input tax credit.

GST is based on the following facts:

- Three parties involved – Consumer, Local Booking Agent and Local Hotel
- Consumer pays to Local booking agent (tax invoice within 30 days of payment)
- Consumer stays in the hotel and consumes the services
- Hotel issue tax invoice to local booking agent



For consumer who is a GST registrant

Input tax credit is available as long as local agent issues tax invoice within 30 days from the payment received. As such, consumer who is GST registrant is entitled to input tax credit based on tax invoice from local agent.

For local hotel who is a GST registrant

Local hotel issues tax invoice to local agent. This is a taxable supply which local agent will make payment to the hotel and entitle for input tax credit. This is ordinary GST supply, regardless whether a binding agreement exists.

For local agent who is residing inside Malaysia

Two transactions occur. The first is the payment from the consumer. Local agent has to issue tax invoice within 30 days. The second is the hotel issues tax invoice on the hotel consumption by consumer. At the end, local agent pays to the hotel to settle it. Local agent may earn on the commission from the consumer or local agent may issue tax invoice for the commission income to the hotel.

Tripartite Arrangement for GST - Hotel Booking

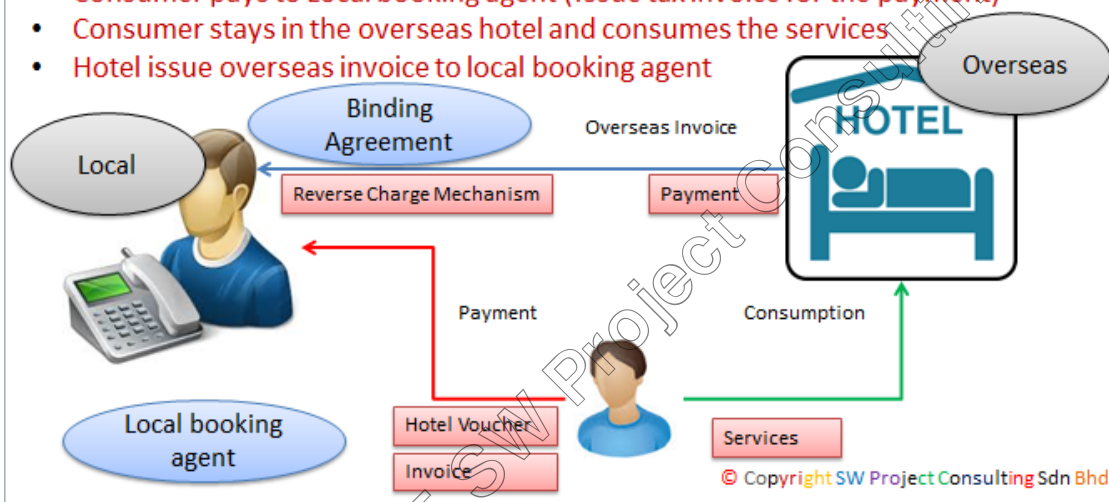
Let's start with Item 2 that involves

1. Local Agent (tour company, travel company)
2. Overseas Hotel (XYZ Hotel)
3. Local Consumer (GST Registrant)

It is agent which sells overseas services to the local consumer. It is consider outbound service which is zero-rated. As such, three parties have no input tax credit since it is zero rated. Therefore whether it is a hotel voucher or an invoice will not change the consequence. Local agent may charge commission or service fee which is standard rated and tax invoice to be issued to consumer

GST is based on the following facts:

- Three parties involved – Consumer, Local Booking Agent and Overseas Hotel
- Consumer pays to Local booking agent (Issue tax invoice for the payment)
- Consumer stays in the overseas hotel and consumes the services
- Hotel issue overseas invoice to local booking agent



For consumer who is a GST registrant

No input tax credit as outbound arrangement is zero-rated supply. The local agent may give hotel voucher and it gives invoice for zero rated supply. Any service fee or commission is standard rated supply to the consumer.

Overseas hotel

Overseas hotel will issue tax invoice or invoice to local agent.

For local agent who is residing inside Malaysia

Local agent may issue invoice for zero rated supply for outbound arrangement. It is zero rated supply. If following tripartite arrangement, it can issue hotel voucher. For the overseas invoice issued by overseas hotel, it will perform reverse charge mechanism. Local agent may issue invoice to overseas hotel for commission. It is zero rated supply for outbound arrangement.

Tripartite Arrangement for GST - Hotel Booking

Let's start with Item 4 that involves

1. Overseas Agent (tour company, travel company)
2. Overseas Hotel (XYZ Hotel)
3. Local Consumer (GST Registrant)

Since the consumption is overseas, it is out of scope as the accommodation incurs overseas VAT or GST. How will overseas agent and overseas hotel handle their tax, it is not within our control and therefore not a concern for us.

GST Input Tax Credit

Scenario	Input Tax Credit
1	Consumer entitles input tax credit if it is treated as ordinary GST transaction. Means that local agent issues tax invoice
2	No one entitles input tax credit as it is zero rated supply for outbound arrangement
3	It is a typical tripartite arrangement. No input tax credit for consumer, overseas agent and local hotel.
4	No one entitle input tax credit as the consumption is overseas.

Conclusion

Avoid Tripartite Arrangement

If local GST registrant needs to claim input tax credit, it is better to check-in and book directly with local hotel. Consumer will get tax invoice from hotel for the accommodation. It is not possible to claim input tax credit without tax invoice.

Upcoming Event

You may be interested in the following event:

Preparation for GST Audit

Avenue Business Centre Phileo Damansara 1

April 7th 2016, 9:30 A.M. ~ 5:30 P.M.

Training Fee: RM689.00 Inclusive 6% GST

Please contact Stanley Wong for registration at

Tel: 603-27247183 Mobile: 012-3052908



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