

Question and Answer#1...

GST Accounting – Treatment of Late Payment Interest

Your story:

The treatment of Late Payment Interest

Guide	Reference	Interpretation	Disclosure
Guide on Supply	paragraph 23 (b) Fine and penalty charge - payment can be treated as payment which may not be consideration	If you interest is bearing the nature of penalty, then it is out of scope – OS when you receive the late payment interest. However, you do use late payment penalty is better than late payment interest	Disclosure: No disclosure whether you issue invoice or payment received Out of Scope
GST (Exempt Supply) Order 2014	Second Schedule Supply of Services Determined as an Exempt Supply Financial Services – Paragraph 3 [non-connected persons]	If you charge interest to non-connected persons who are your customers with late payment interest, then you make an exempt supply and you will become mixed supplier You have to check on De Minimis Rule and IRR	You have to disclose as exempt supply when you issue invoice or receive interest payment. Exempt Supply
General Guide [27042016]	Late Payment Interest [Connected persons and trade receivables]	Subsidiaries and trade receivables could qualify as connected persons and therefore I will assign as ES43	You have to disclose as incidental exempt financial supplies Incidental Exempt Financial Supplies
Connected Persons	Third Schedule Paragraph 2 GST Act 2014	Definition of connected persons	N/A

Supporting Facts#1...

SECOND SCHEDULE [Subparagraph 2(1)]

SUPPLY OF SERVICES DETERMINED AS AN EXEMPT SUPPLY

Financial services

1. The operation of any current account, savings deposit account or investment account.
2. The provision of finance any loan, advance or similar facility.
3. The provision of any facility of installment credit finance in a hire-purchase, conditional sale, credit sale or lease agreement where an interest or any other similar charge is disclosed separately to the recipient of the supply of goods.

Payments Which May Not Be Consideration

23. Payment received is not a consideration when there is no direct link between the payment and the supply or there is no supply of goods or services in return for the payment. However, if there is a direct link between the payment and the supply or if there is a supply of goods or services in return for the payment, then such payment is a consideration for the supply and subject to GST.

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Supporting Facts#2...

(a) Fines and Penalty charges

If a payment is a fine or a penalty, then it is not a consideration. For example, a fine that is imposed on illegal parking is not a consideration.

Example 5:

A traffic police issued a summon to a motorist who parked his car on a yellow box on the road. The motorist later paid

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the fine. Payment of a parking fine which is imposed to penalise illegal parking is not a consideration because there is no supply of goods or services in return for the payment.

However, if the fine or penalty is actually an additional consideration for a supply in fulfillment of the terms and conditions of the agreement or arrangement, it is a consideration for the supply and is subject to GST.

A fine or a penalty charge for late return of a DVD compact disc is a consideration for a supply of hire as the customer has extended the use of the DVD compact disc for a longer period.

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Supporting Facts#3...

Connected persons

2. (1) A person shall be deemed to be connected if—

- (a) they are officers or directors of one another's business;
- (b) they are legally recognized partners in business;
- (c) any one person directly or indirectly owns, controls, or holds five per cent or more of the outstanding voting stock or shares of both of them;
- (d) one of them directly or indirectly controls the other;
- (e) both of them are directly or indirectly controlled by a third person;
- (f) together they directly or indirectly control a third person; or
- (g) they are members of the same family.

(2) A person shall be deemed to be members of the same family if—

- (a) they are connected by blood relationship within the fourth degree of relationship;
- (b) they are married to one another or if one is married to a person who is connected within the fourth degree of relationship to the other; or
- (c) one has been adopted as the child of the other or as a child of a person who is within the third degree of relationship to the other.

(3) A trustee in a settlement is connected with—

- (a) any individual who in relation to the settlement is a settlor;
- (b) any person who is connected with such an individual; and
- (c) a body corporate which is connected with that settlement.

Incidental Exempt Financial Supplies

196. A taxable person is eligible to claim input tax attributable to the following exempt financial supplies if he is not a financial institution mentioned in the paragraph below:-

- (a) the deposit of money;
- (b) the exchange of currency whether effected by the exchange of currency, bank notes or coin by crediting or debiting accounts or otherwise;
- (c) the holding of bonds, debentures, notes or other similar instruments representing or evidencing indebtedness, whether secured or otherwise;
- (d) the transfer of ownership of securities or derivatives relating to securities;
- (e) the provision by a taxable person of any loan, advance credit or other similar facility whether secured or otherwise to his employee or between connected persons;
- (f) the assignment of or the provision of credit for any trade receivable;

Question and Answer#2...

Hedging on CPO – Realized Gain and Loss

Your story:

Plantation company hedges the CPO and pays commission to broker. What is the treatment?

Answer as follow:

- As the hedging contract is not settled, then the revaluation shall be journal reclassification and revaluation as unrealized financial derivatives.
- Once the hedging contract is settled, the realized gain and loss shall report as ES43 as incidental exempt financial supplies.
- Commission to broker shall get a tax invoice. If you have tax invoice, you will claim as input tax credit.
 - If you are a taxable supplier, then use tax code TX
 - If you are mixed supplier, then use tax code TX-E43

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- (d) the transfer of ownership of securities or derivatives relating to securities;
- (e) the provision by a taxable person of any loan, advance credit or other similar facility whether secured or otherwise to his employee or between connected persons;
- (f) the assignment of or the provision of credit for any trade receivable;
- (g) the holding or redemption of any unit or other similar instruments under a trust fund; and
- (h) the hedging of any interest rate risk, currency risk, utility price risk, freight price risk or commodity price risk.

Question and Answer#3...

Tie In Product

Your story:

The treatment of tie-in product

Answer as follow:

- Input Tax Credit will claim full
- The value of free items shall assign to the value with the price of the principal goods
- It may reduce the cost of the purchase of cost of sales

Tied-in Goods

37. When a person purchases goods with free tied-in goods, the value of the tied-in goods is treated as being included in the price of the principal goods supplied.

Example 13:

Scenario 1: If both tied-in and the principal goods are standard-rated

Principal goods - Toothpaste (standard rate)

Tied-in goods (free item) - Toothbrush (standard rate)

Since the principal goods is a standard rated supply, GST is chargeable on the supply. If the price of the goods with the free tied-in goods is RM6.36 inclusive of GST, GST should be accounted from RM6.36 as the tied-in goods and principal goods are treated as one supply.

Price (inclusive of 6% GST) of toothpaste : RM 6.36

6% GST inclusive : RM 0.36

(RM6.36 X 6%/106%)

Question and Answer#4...

Bank Transfer via Journal

Your story:

What shall show in GAF for bank transfer via journal?

Answer as follow:

- It shall show in Ledger Structure as it is journal entry in the accounting software

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Question and Answer#5...

Wrong Tax Invoice Amendment

Your story:

If you enter a wrong tax invoice, can we use a self-created CN to adjust it?

Answer as follow:

- Your accounting software shall have a feature to do the reversal of wrongly posted AP tax invoices, follow the accounting software
- When the transaction volume is high, it is inevitably to make mistakes on accounting records, and therefore adjustment shall allow
- The ultimate compliance is to make sure your adjustment is true and justified. How to adjust it is depending on the accounting software

Question and Answer#6...

Advance Payment

Your story:

How do we handle advance payment when accounting software does not allow to issue tax invoice without stock?

Answer as follow:

- Step 1 – You may create a stock service item
- Step 2 – Issue tax invoice within 30 days from advance payment received
 - Dr Bank
 - Cr Advance Payment
 - Cr Output Tax
- Step 3 - Issue tax invoice with stock delivery and reverse the stock service item
 - Dr Debtor
 - Cr Output Tax
 - Cr Revenue
 - Dr Advance Payment
 - Dr Output Tax
 - Cr Debtor

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Question and Answer#5...

Advance Payment – Example

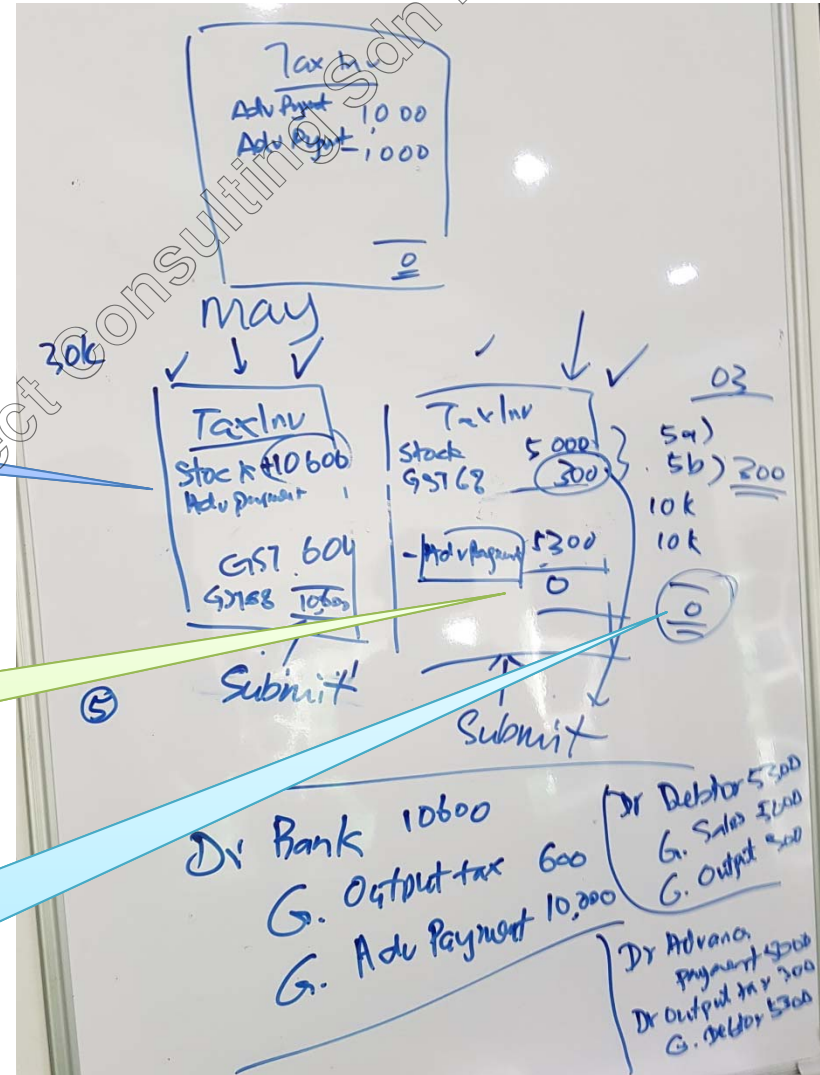
Your story:

1. Received advance payment of RM10,600
2. Partial delivery of RM5,300

Issue tax invoice within 30 days

Issue tax invoice for stock delivery and deduct from advance payment.

The entire tax invoice may be zero if it is offset by advance payment



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