



GOODS & SERVICES TAX

GST GUIDE ON FREIGHT TRANSPORTATION

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INTRODUCTION

1. This guide provides details on the treatment of freight transportation under the Goods and Services Tax (GST). It is recommended that you read the GST General Guide before reading this guide as it requires a fair understanding of the general concepts of GST.

2. In addition to the GST General Guide, references can also be made from the following guides:

- (i) Shipping Industry Guide;
- (ii) Airline Industry Guide;
- (iii) Passenger Transportation Guide; and
- (iv) Postal and Courier Service Guide.

GENERAL OPERATION OF GST

3. Goods and Services Tax (GST) is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except those specifically exempted. GST is also chargeable on the importation of goods and services into Malaysia.

4. Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, it is ultimately passed onto the final consumer. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

5. In Malaysia, a person who is registered under the Goods and Services Tax Act is known as a registered person. A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim input tax credit on any GST incurred (input

tax) on his purchases which are inputs to his business. Thus, this mechanism would avoid double taxation and only the value added at each stage is taxed.

OVERVIEW OF FREIGHT TRANSPORTATION

6. Freight transportation is a supply of services for the carriage or movement of goods by sea and inland waterways, rail, road or air. The goods are carried or moved using various means of transport such as ships, trains, trucks (including lorries) or aircraft.

Example 1:

MasKargo provides freight transportation when it carries live trees from Malaysia to be transplanted at a place in the Middle East.

Example 2:

Postal and courier companies are providing freight transportation when they carry and deliver mail or documents to customers all over the world.

Example 3:

A ship owner allows ABC Sdn. Bhd. the use of his entire ship to carry bulk cargo. The ship owner is not making a supply of freight transportation. He is providing a supply of charter to ABC Sdn. Bhd. It is a supply of services.

Example 4:

ABC Sdn. Bhd. which is the charterer of the ship then contracts with his customer to carry chemicals from Port Klang to Busan Port, South Korea. ABC Sdn. Bhd. is making a supply of freight transportation to his customer.

Example 5:

KTM Bhd. provides passenger transportation from Butterworth to Kuala Lumpur daily through its Express Sinaran/Senandung service. It also provides courier services through Kiriman Express and couriered documents are carried on the passenger trains.

- *KTM Bhd. is supplying both freight and passenger transportation. Please refer to the GST Guide on Passenger Transportation for further details.*

Example 6:

A customer orders pizza for home delivery.

- *The delivery services are only incidental to the supply of pizza. More details on type of supply for this situation can be found in the GST Guide on Supply.*

7. For the purposes of GST, freight transportation does not include ancillary services such as loading, unloading and handling. Please refer to glossary for a list of handling services.

OVERVIEW OF GST TREATMENT ON FREIGHT TRANSPORTATION

8. The GST treatment on freight transportation depends on the type of freight transportation i.e. whether it is a domestic freight transportation or international freight transportation.

International freight transportation

9. For GST purposes, international freight transportation means:-

- a. the transport of goods from a place in Malaysia to a place outside Malaysia;

- b. the transport of goods from a place outside Malaysia to a place inside Malaysia; or
 - c. the transport of goods from outside Malaysia to another place outside Malaysia.
10. The term “from a place in Malaysia to a place outside Malaysia” refers to a place of export in Malaysia to any place in other country.
11. The term “from a place outside Malaysia to a place inside Malaysia” refers to anywhere in other country to a place of importation in Malaysia.

Example 1:

ABX Co. manufactures ceramic vases in Seremban and exports them to Europe via KLIA. The carefully packed vases are transported from the factory in Seremban to KLIA in a container truck.

- *The carriage of vases from KLIA to Europe is international freight transportation.*

Example 2:

Syarikat Perabut Sdn. Bhd. manufactures furniture in Ipoh. The furniture is exported to Dubai through Ipoh cargo terminal (ICT). The transportation services from ICT to Dubai are international transportation services.

Example 3:

JKL Co. in Kuala Lumpur imports silk cloth from South Korea. The cloth was delivered by ship leaving from Busan, stopping over in Kuching Port and Port of Singapore before disembarking in Port Klang. It is then sent by lorry to JKL Co.’s warehouse in Rawang.

- *The journey from Busan to Port Klang is international freight transportation.*
- *While the journey from Port Klang to JKL Co.'s warehouse in Rawang is domestic freight transportation.*

12. A transportation service that originates and ends outside Malaysia is considered international freight transportation, even if the goods pass through Malaysia.

Example 4:

Under a special arrangement, XYZ Sdn. Bhd. carries fresh fish and other perishables by refrigerated container truck from Bangkok to Singapore using the PLUS highway.

- *XYZ Sdn. Bhd. is supplying international freight transportation.*

Domestic freight transportation

13. Domestic freight transportation is the service of transporting goods from a place in Malaysia to another place in Malaysia. Both the point of origin and the point of destination are places in Malaysia.

Example 1:

Encik Ali was transferred from Putrajaya to Kuching. He obtained the services of Pindah Sdn. Bhd. to move his household items by lorries from his house to KLIA airport where the items were air freighted to Kuching by Maskargo.

- *Encik Ali's car was transported from Port Klang to Kuching Port by the ship MV Alamanda and it makes a stop in Port of Singapore to drop off another customer's goods.*

- *The services provided to Encik Ali by Pindah Sdn. Bhd., Maskargo and MV Alamanda is domestic freight transportation.*

Example 2:

In the above example, Encik Ali carried one bag of clothes which was allowed as hand luggage while a box of reference books was packed and entered as cargo.

- *The carriage of the hand luggage and reference books is not considered as freight transportation but forms part of passenger transportation.*

Example 3:

XYZ Sdn. Bhd. sends auto spare parts by an express bus from Puduraya to its subsidiary company in Alor Star.

- *Express buses provide passenger transportation. However in this example, the carriage of auto spare parts by the express bus company is a supply of freight transportation.*

Example 4:

PQR Sdn. Bhd. sends vegetables and fresh produce by truck from a farm in Miri to a wholesaler in Kota Kinabalu. The journey from Miri to Limbang goes through territories of Brunei.

- *Transportation was provided partly outside Malaysia but both the origin and destination are in Malaysia. It is, therefore, domestic freight transportation.*

Example 5:

An undertaker company engages KLM Co. for hearse carriage services from its funeral parlor to the burial grounds.

- *KLM Co. is treated as providing domestic freight transportation to the undertaker company.*
- *However if the undertaker himself supplies the transport, it then forms part of the funeral services provided and is not treated as a separate service.*

14. Domestic freight transportation is a taxable supply of services and is subject to GST at the standard rate. However, the supply of domestic transportation services can be zero rated if the services are supplied by the same supplier who provides the international freight transportation services.

Example 6:

ABC Hotel Shah Alam imports fresh oysters from Australia and air freights them to KLIA using the services of MasKargo. After customs clearance, the hotel engages CDE Sdn. Bhd. to transport the oysters from KLIA to Shah Alam using a refrigerated truck.

- *The air freight supply by MasKargo to ABC Hotel is zero rated.*
- *The supply of refrigerated trucking by CDE Sdn. Bhd. to ABC Hotel is standard rated.*

Example 7:

In the above example, ABC Hotel decides to engage KM Bhd. to handle the importation of the oysters up to the hotel's premise. KM Bhd. buys air freight from MasKargo, declares and pays import duties and delivers the oysters to ABC Hotel in its own refrigerated truck. For the second shipment of oysters, its refrigerated truck broke down and it has to engage the services of CDE Co. to send the oysters to ABC Hotel.

- *The supply of air freight by MASkargo to KM Bhd. is zero rated.*
- *The supply of services by KM to ABC Hotel for the first shipment is zero rated which includes the refrigerated trucking service.*
- *For the second shipment, the supply by CDE Co. to KM is standard rated. However, the supply of transport services by KM to ABC Hotel remains zero rated.*

Example 8:

DP Sdn. Bhd. is entrusted to procure, import, store and manage the delivery of various spare parts for an automotive manufacturer AM Bhd. The spare parts are imported by ship or by air freight but stored in DP Sdn Bhd's warehouse before sending to the automotive plant on a just-in-time basis.

- *The supply of freight transportation for the spare parts from overseas to the plant by DP is zero rated.*
- *If DP was required to send a quantity of the spare parts to a branch of AM Bhd., then the supply of domestic freight transportation from DP's warehouse to the branch is standard rated.*
- *However if the spare parts were to be sent directly upon importation to AM Bhd's branches on AM's request, then such supply of transport service is zero rated.*

Example 9:

Referring to the above example, DP Sdn. Bhd. is also required to arrange for the export to UK of cars manufactured by AM Bhd's plant in Gambang, Kuantan. For export, DP contracts with an

automotive haulier to transport the cars from the plant in Gambang to Kuantan Port. A local shipping agent arranges for a feeder ship to carry the cars to Port of Tanjung Pelepas before a locally owned main line vessel loads the cars for shipment to UK.

- *The supply of transport from Gambang to UK provided by DP Sdn Bhd. to AM Bhd. is zero rated.*
- *Transport services provided by the haulier and the local ship to DP Sdn Bhd. is standard rated*
- *The supply of sea freight to UK is zero rated.*

Ancillary Transport Services

15. Ancillary and related transport services are treated separately from the supply of freight transportation. Where a supply of freight transportation is zero rated, it does not necessarily mean that any ancillary or related transport services with respect to that supply would also be zero rated.

16. Care must be taken not to immediately assume that any incidental or ancillary services provided to or supplied in relation to a supply of freight transportation is to be part of that freight transport.

17. The GST liability on the supply of ancillary transport services depends on who is supplying and where the services are supplied or performed.

Example 1:

Goods transported by XT Sdn. Bhd. are unloaded onto the container yard of a port before being deposited in a bonded warehouse by the port operator.

- *The charges for services of unloading, transportation to the warehouse and storage in the warehouse are zero rated if it is provided by the port operator.*

Example 2:

An exporter engages a forwarding agent to arrange for his goods to be exported. The forwarding agent arranges with a shipping agent for space (freight) on a ship, loading of goods and customs clearance.

- *The arranging for services by the forwarding agent for the exporter is standard rated.*

Example 3:

Referring to the above example, the forwarding agent has expanded his business providing logistics management. He owns and operates a fleet of lorries and charters a ship to offer freight transportation services to clients exporting their goods.

- *The forwarder is now a person providing international freight transportation in his own right. Following the above example, his supplies of loading of goods and customs clearance are then zero rated.*

FREQUENTLY ASKED QUESTIONS (FAQS)

Q1. Is there special treatment for goods transported by ferry?

- A1. The transport of goods including unaccompanied vehicles transported by ferries or barges is standard rated. However for vehicle accompanied by a fare paying passenger who drives the vehicle, the transport service is treated as passenger transportation.

Example:

Encik Abu owns a car showroom in Bukit Jambul, Penang. He brings a batch of the latest Proton models by ferry from Butterworth.

- *The transport of the new Proton cars is standard rated*

Q2. What about goods sent by post?

A2. Domestic postal services are subject to GST at a standard rate. Documents and goods sent from overseas by courier service to any place in Malaysia and vice versa is zero rated. Please refer to GST Guide on Postal and Courier Services for more details.

Q3. Is there special treatment for freight transportation provided in and to the free ports of Langkawi, Labuan and Tioman?

A3. No GST will be charge on any taxable supply provided from a place in the free port to another place in the same free port. However, supplies of freight transportation to destinations in the free ports from any place in Malaysia or vice versa are standard rated. Please refer to GST Guide on Designated Area for more details.

Example:

FP Co. operates lorry transport on Langkawi Island. The company also provides transportation of goods by ferry from Kuah jetty to Teluk Ewa port. It also charters a private plane to occasionally send goods to Tioman.

- FP Co. will not charge GST on supply of freight transportation by lorry and ferry.*
- The transport of goods by plane to Tioman is standard rated.*

Q4. Is there special treatment for freight transportation provided in and to a Free Commercial Zone (FCZ)?

A4. No, any supply of service in or to a Free Commercial Zone (FCZ) including freight transportation is subject to GST at a standard rate.

Q5. What about freight transportation provided in and to businesses operating in a Free Industrial Zone (FIZ)?

A5. Freight transportation provided in and to businesses in a FIZ is standard rated. Domestic freight transportation services are also standard rated if supplied to Licensed Manufacturing Warehouses.

Q6. What is the GST treatment for the services of arranging freight transportation?

A6. The services of arranging the transport of goods is standard rated whether or not the freight transportation is domestic or international.

Example

An exporter engages a forwarding agent to arrange for his goods to be exported. The forwarding agent arranges with a shipping agent for space (freight) on a ship, loading of goods and customs clearance.

- *The arranging for services by the forwarding agent for the exporter is standard rated.*

Q7. The GST treatment above relates to output of a registered person. What about GST incurred on inputs?

A7. Generally, GST on standard rated supplies of goods or services forming business inputs to a registered person making taxable (standard rated and zero rated) supplies, including disregarded supplies are allowed to offset against the output tax payable. Ancillary transport and related transport services would be inputs for a supplier of freight transportation and the GST incurred would be allowable for input tax credits. Valid GST invoices including receipts which are accepted as simplified GST invoices must be

available before input tax credits can be claimed. Please refer to GST General Guide and GST Guide on Input Tax Credit for further guidance on the eligibility of input tax credits.

Q8. What is the GST treatment if I export my goods from Serendah to Bangkok by rail?

A8. The movement of goods from Serendah to Padang Besar is domestic freight transportation and is subject to GST at standard rate, while from Padang Besar to Bangkok is international freight transportation at zero rate. However, in this example the whole freight transportation is eligible for zero rate treatment if the domestic leg as well as the international leg of the freight transportation is provided by the same supplier such as KTM Bhd.

MORE INFORMATION ON GST

18. More information to help you understand GST further can be obtained from:-

- (i) GST website: www.gst@customs.gov.my
- (ii) Customs Call Center at :
 - Tel: 03 - 7806 7200/1-300-88-8500
 - Fax: 03 - 7806 7599
 - Email : ccc@customs.gov.my

GLOSSARY

Handling services includes:

- (a) stevedoring and portorage;
- (b) loading, unloading, reloading, stowing, securing and shifting cargo for the use of cranes and weighing machines together with an operator;
- (c) sorting, opening for inspection, repairing and making good, weighing and tarring, taping and sealing, erasing and re-marking, labelling and re-numbering, tallying, checking, sampling, measuring or gauging of goods;
- (d) survey of cargo (including damaged cargo);
- (e) cargo security services;
- (f) presenting goods for Customs examination;
- (g) preparing or amending Customs entries; and
- (h) preparing or amending bills of lading, airway bills, and certificates of shipment.