



**ROYAL MALAYSIAN CUSTOMS**

**GOODS AND SERVICES TAX**

**GUIDE  
ON  
FORESTRY INDUSTRY**

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## **INTRODUCTION**

1. This Guide is designed to create a better understanding of the GST treatment on forestry sector. You are advised to read this Guide together with the GST Act 2014 and the subsidiary legislation; GST General Guide, GST Specific Guides and other GST Industry Guides as mentioned throughout this Guide.

### **Overview of Goods and Services Tax (GST)**

2. 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 charged on importation of goods and services into Malaysia.

3. 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, only the value added at each stage is taxed thus avoiding double taxation.

4. In Malaysia, a person who is registered under the Goods and Services Tax Act 2014 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 back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

## **BACKGROUND**

5. Land matters came under the jurisdiction of the respective State Governments which are also empowered to enact laws and regulations for forest management of each state. Thus, the upstream activities within the forestry sector in the three regions of Malaysia is under the administration of (i) Forestry Department Peninsular Malaysia (FDPM) which is under the Ministry of Natural Resources and Environment for the forests of Peninsular Malaysia, (ii) Sabah Forestry Department under the Chief Minister’s Department Sabah for Sabah’s forests and (iii) Sarawak Forest



Department under its State Ministry of Resource Planning and Environment for Sarawak forests.

6. In Sarawak, two other additional agencies are involved in the upstream activities; (i) the Sarawak Forestry Corporation, established by the Sarawak State Government, ensures the forests are logged sustainably and as well as assesses cess and royalty for timber and timber products harvested from the forests and (ii) Harwood Timber Sdn. Bhd., a wholly-owned subsidiary of Sarawak Timber Industry Development Corporation under the ambit of its State Ministry of Resource Planning and Environment, performs inspection of consignments of logs to ensure logs extracted are legal.

7. Downstream activities comprise value-adding activities such as (i) primary processing, converting logs to sawn timber, logs to veneer, woodchips to particleboard and medium density fibreboard; and (ii) secondary processing, utilizing the sawn timber to fabricate engineered timber products such as glulam, laminated truck flooring; veneer, plywood, particle board and medium density fibreboard for furniture production and other timber products such as laminated veneer lumber.

8. In Peninsular Malaysia and Sabah, downstream activities are under the administration of Malaysian Timber Industry Board under the ambit of Ministry of Plantation Industries and Commodities, whereas in Sarawak, it is under the administration of the Sarawak Timber Industry Development Corporation.

## **SCOPE**

9. This Guide covers upstream activities, downstream activities and other activities in the forestry industry. Upstream activities in the forestry sector, among others, include logging activities, reforestations and forest plantations. Downstream activities in forestry sector include the manufacturing of value-added activities for the conversion and manufacturing of timber products into semi-finished and finished products. GST treatment on manufacturing activities is covered in a specific industry guide. Please refer to GST industry guide on manufacturing for further details.

## **GST TREATMENT ON UPSTREAM AND DOWNSTREAM ACTIVITIES**

### **GST Treatment on Supply Under The Upstream Activity**

10. Generally upstream activities involve in a supply of logs are treated as taxable supplies and subject to GST at standard rate. Reforestation and forestation as well as forest husbandry are also part of the upstream activities. GST treatments for these activities are in accordance to the normal provision as prescribed in the GST Act, Regulations and Orders.

### **GST Treatment on Supply Under The Downstream Activity**

11. Generally downstream activities involve in the conversion and manufacturing of logs in primary and secondary processes and subsequently supplied are treated as taxable supplies of goods and subject to GST at standard rate.

### **GST Treatment on Secondary Activities**

12. Besides the upstream and downstream activities secondary activities are also carried out in the forestry industry i.e. incidental activities involving in the supply of goods and services such as, research and development, animal husbandry, agriculture, community project and other activities which are not the principal activity of the forestry industry. GST treatments for these activities are in accordance to the normal provision as prescribed in the GST Act, Regulations and Orders.

## **OUTPUT TAX AND INPUT TAX**

13. The general concept is, GST will be charged on all taxable supplies of goods and services by any GST registered person. The GST incurred on the acquisitions from another registered person is known as input tax.

14. On the other hand, GST is charged and collected by the GST registered supplier. The GST charged is called an output tax. The GST registered supplier accounts both input tax and output tax in a tax return where the input tax is deducted from the output tax. If the aggregate of output tax is greater than the aggregate of input tax in a taxable period, the net tax is payable to the Customs. If the aggregate

of input tax is greater than the aggregate of output tax, then the difference will be refunded to the supplier. Please refer to GST specific guide on input tax for further details.

## **REGISTRATION**

15. For GST purposes, any taxable person who make a taxable supply of goods or services in Malaysia with an annual turnover exceeding the prescribed threshold in the past 12 months, or expected to exceed the prescribed threshold within the future of 12 months, are liable to register for GST.

### **Group Registration**

16. Group registration is a facility that allows two or more related companies to register as a group. The conditions for group registration are:-

- (a) Each company must be making wholly taxable supplies;
- (b) Each company must be registered individually before they register as a group;
- (c) companies have controlling power over other companies and are holding more than 50% of the shares;
- (d) Members of the group shall be jointly and severally responsible for the payment of GST;
- (e) The associate or affiliate companies, partnerships or individuals are not eligible to be members of a group.
- (f) Foreign companies which are not established in Malaysia cannot become members of a group. However, for the purpose of eligibility for group registration, their subsidiaries or registered branches in Malaysia can be considered as members of a group. Companies incorporated in Malaysia are allowed to be members of a group even though they make taxable supplies outside Malaysia.

### **Treatment of Supplies Between Companies Under Group Registration**



17. Inter-company charges on supplies between members of a group will be disregarded. However, supplies from any member of a group to companies which are not members of the group are considered supplies for GST purposes and subject to GST.

*Please refer to GST specific guide, Guide on Registration for further details.*

### **Responsibilities of a GST-registered Person**

18. As a GST registered person, you are required to-

- (a) keep your business records for 7 years. These records include:
  - business and accounting records;
  - copies of serially printed receipts, tax invoices and simplified tax invoices issued by you;
  - tax invoices, simplified tax invoices and receipts received by you;
  - import/export declarations, if any;
  - all credit and debit notes issued; and
  - any other documents that may be prescribed by the Director General.
- (b) issue a tax invoice to taxable person for provision of taxable supply;
- (c) complete and submit the GST returns and pay the Director General the amount of tax not later than the last working day of the month following the end of the specified taxable period;
- (d) provide all information and reasonable assistance as requested by the Director General in the event of an inspection;
- (e) notify the Director General in writing when you cease making taxable supplies or when you transfer your business;
- (f) If you are a voluntary registrant you must remain registered for at least two years;
- (g) show the price as GST inclusive when you issue a receipt.

*Please refer to GST specific guide, Guide on Tax Invoice & Records Keeping for further details.*

## **FREQUENTLY ASKED QUESTION**

### **GST treatment on logging and logging related activities**

**Q1. I am engaged in logging activities. Is a sale of logs to my clients (sawmill operators) subject to GST?**

**A1.** Sales of logs to your clients (sawmill operators) are considered as a taxable supply. Therefore, the supply is subject to GST at a standard rate and you must charge your client and account the tax according to the taxable period assigned to you. For further information on accounting for tax please refer to the General Guides on GST.

**Q2. Are purchases of capital goods such as machineries and equipment used in the forestry operations subject to GST?**

**A2.** Yes, if you purchase the capital goods from a GST registered person, you will be charged GST at standard rate. If you are making wholly taxable supplies of upstream and downstream activities, the input tax incurred on the purchases in the taxable period can be recovered in full by off-setting it with your output when you submit your GST return. For further detail please refer to the Guide on Input Tax.

**Q3. In forestry industry, royalty, premium, cess and other fees and charges are paid to the state government concerned where the businesses operate. Are such payments subjected to GST?**

**A3.** Payments of royalty, premium, cess and other fees and charges to the state government, including federal government, are not subjected to GST.

**Q4. My company borrows money from banks to finance our forestry industry. What is the GST treatment on the loans?**

**A4.** Loans from banks are exempt supplies under the GST. Therefore no GST is payable.





**Q5. If my company provides financial supply such as the provision of loans to my staff, am I considered as making wholly taxable supply?**

A5. Yes, you are regarded as making wholly taxable supplies. The provision of loan by your company is considered an incidental to financial supply and such exempt supply shall be treated as taxable supplies for the purposes of approval for group registration, branch registration and Approved Trader's Scheme. The input tax incurred on the acquisition for the provision of such supply is also claimable.

**Q6. Sometimes my company pays surcharge and fines for late payment of royalty, premium and cess to the government authority. In addition to that, my company also has to pay charge or penalty for offences such as the felling of undersized trees, high stumps, merchantable timber trees not harvested, damage to residual stand, etc. What is GST treatment on the fines and surcharge on the late payment imposed by the authorities?**

A6. Fines and surcharge for late payment and/or penalty imposed by the government authorities, for example, the Forestry Department are not subject to GST.

**Q7. The Forestry Department sometimes subcontracts its regulatory and enforcement functions to a private company such as grading and marking of timber. Are such services made by the private company subject to GST?**

A7. Yes, regulatory and enforcement functions such as grading and marking of timber made by a private company subcontracted by the Forestry Department are subject to GST at standard rate.

**Q8. My company is dealing in logging operation and is contractually required to pay liquidated damages to a licensee should the stipulated minimum annual production have not been met. What is GST treatment on such payment?**

A8. Liquidated damages is not the payment for a supply, therefore it is not subjected to GST.

## Registration



**Q9. My company is not a registered person under GST when we are awarded a timber concession from the state government and it will take some time for us to extract the logs from the forest as we have to do some preparatory work. For the preparatory works I have to acquire supplies subject to GST which will become cost to my supply of logs. Can I be registered under the GST even if my logging activity has not properly taken off and claim the input tax in respect of my purchases?**

A9. Yes, you can apply for voluntary registration if you intent to make taxable supply i.e., supply of logs, as soon as you get a written approval for the concession. Once registered you must remain as a GST registered person for a minimum of two years. This will enable you to claim input tax incurred on your purchases prior to the harvesting of the logs. For further information on voluntary registration, please refer to the GST **Guide on Registration**.

**Q10. Is registration for GST mandatory for all logging operators?**

A10. Registration for GST is mandatory if the logging operators are carrying on a business of making taxable supplies and the annual turnover for the said supplies exceeds or is expected to exceed the prescribed threshold.

**Q11. What constitutes annual turnover for the purpose of GST registration?**

A11. The annual turnover includes the value of all taxable supplies (standard-rated and zero-rated supplies) made in the course or furtherance of the business. It also includes the value of taxable supplies resulting from your secondary business activities, e.g. supplies of cash crops, animal husbandry, fish ponds, etc. It excludes the value of exempt supplies and sale proceeds of capital assets and other non-taxable supplies, e.g. out of scope supply. When computing the value of taxable supplies, it should take into account of supplies of goods and services (standard rate), and goods or services exported (zero rate).

### **Export and supply through Agent**

**Q12. If I export my products, do I have to charge GST to my overseas clients?**

A12. Goods exported are subject to GST at zero percent. This means that you do not collect GST on your exports but you are entitled to claim GST you have



incurred on your inputs. However, you must keep the supporting documents as evidence of exports. The supporting documents include:

- (a) original purchase orders received from overseas customers;
- (b) copies of invoices issued;
- (c) copies of export declarations (Customs No.2 form), bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents;
- (d) proof of payments received from customers; and
- (e) any other relevant documents supporting the exports.

**Q13. Y is a marketing agent acting on behalf of a local customer X. Y exports logs to an X's client, Z and uses its own name as the exporter. The sale price from X to Y is the same as the sale price from Y to Z. Is there a supply between X to Y and does X have to charge GST to Y on the local supply of logs from X to Y? Y is earning a "handling fee" for this job. What is the treatment on the handling fee?**

A13. There is no supply from X to Y if there is no transfer of ownership from X to Y, and there is no consideration for this transaction and X does not invoice Y. In such a transaction, X will not charge Y and there is no liability to pay GST.

On the other hand if there is a transfer of ownership and there is consideration in return for the supply of goods, and X invoices Y for the local supply of logs prior to export to Z, X is making a supply to Y, therefore, X has to charge GST in the invoice and Y is liable to pay GST. If Y is a registered person, Y may claim the tax as his input tax.

As far as the "handling fee" is concerned, if Y is a registered person under GST, Y has to charge GST on the "handling fee" to X, and X may claim the tax incurred as his input tax.

You must keep the following documents to prove that the goods are exported:

- (a) purchase orders from Z;
- (b) written instruction from X requesting Y to export the goods to Z;
- (c) copy of your invoices issued to Y if relevant;

- (d) copies of export declarations ((Customs No.2 form), bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents;
- (e) proof of payments received from customers; and
- (f) any other relevant documents supporting the exports.

**Q14. A foreign customer Y purchased logs from my company. Upon his instruction, I delivered the logs to an independent local freight forwarder X, who would consolidate them with other consignments before exporting. Do I have to charge GST to X for the delivery of logs to be exported to Y?**

A14. On the delivery of the logs to the local freight forwarder, there will be no GST implication because you are not selling the logs to X, therefore there is no transfer of ownership. You do not have to charge GST to the freight forwarder X who acts on your behalf for supplying the logs to your overseas client, Y. Your export to Y is treated as zero rated supply. On the hand, X will charge you GST on the service he performed for the delivery of logs to Y. If you are a registered person you may claim it as your input tax. You must hold the documents related to the exportation of logs. The documents include:

- (a) purchase orders from Y;
- (b) written instructions you received from Y to deliver the goods to X for export;
- (c) delivery note to X;
- (d) copy of invoices issued to Y;
- (e) copies of export declarations ((Customs No.2 form), bills of lading/airway bills, packing lists/delivery notes, other shipping documents and insurance documents; and
- (f) any other relevant documents supporting the exports.

*For further information on GST treatment on agency services, please refer to **GST Guide on Agents**.*



## Grants and Funds

**Q15. If a Timber Association receives financial grants from the state government and subsequently distributed to the subsidiaries to handle training to the members, research and development (R & D) of the industry and also for social welfare, what is GST treatment on the grants?**

A15. Financial grants are a supply of money which is not a supply for GST purposes. If the state government awards the grants to the association and the association distributes the grants to its subsidiaries, such provision of grants are out of scope under the GST and not subject to GST.

**Q16. My company spends significant sum of money every year for research and development (R & D) activities associated with the forest and timber industry. What is GST treatment if I engage a company to carry out R & D activities?**

A16. If you outsource the R & D task to a private company and provide fund to such company, the fund provided to the company is considered as a consideration for the supply of R & D service provided by the company. In other words the company who is providing the R & D service will have to charge and account GST based on the fund you provide to the company. If you a registered person, you can claim the tax incurred as your input tax.

## Reforestation, forest plantation

**Q17. My company is dealing in forest plantation, i.e. the growing and forest husbandry of trees in a forest. We also do reforestation activities, i.e. the replanting of trees in a forest. If I outsource the general maintenance to a registered person, what is GST treatment on such activities?**

A17. If the activities are carried on by the employees of your own company, such activities are not treated as a supply. If you outsource or sub-contract the activities, e.g. general maintenance to another registered person, then the supply of such services by the registered person is subjected to GST at standard rate. The input tax incurred is claimable as it is your inputs in the forest plantation.



## **Secondary and agricultural activities at Logging sites**

**Q18. Besides my forest plantation activities, I am also involved in secondary activities, e.g. planting of cash crops and engaging in animal husbandry in the same forest plantation areas while waiting for the trees to mature. Can I claim input tax incurred on my secondary activities?**

A18. Yes, you can claim input tax incurred on your secondary activities provided that you have been registered for GST is under your main activities (forest plantation).

**Q19. What is the GST treatment of livestock and poultry product?**

A19. The zero-rated products are only limited to the list as follows:

- (a) live animals– cow, buffalo, goat, sheep, and swine
- (b) Fresh, chilled or frozen meat of cow, buffalo, goat, sheep, and pig
- (c) Live dairy animals – cow and goat
- (d) Live poultry– chicken and duck
- (e) Fresh and salted eggs – chicken and duck
- (f) Fresh, chilled or frozen meat of chicken and duck

**Q20. What types of livestock products are standard-rated?**

A20. All types of livestock products are standard-rated other than the products that are mention in Q19.

**Q21. Are animal feeds, fertilizer and pesticide subject to GST?**

A21. Animal's feed, fertilizer and pesticide are subject to GST at standard-rated. You can claim back the tax incurred on your purchases if you are a GST registered person.

## **Tax Invoice and Accounting for Tax**

**Q22. What are the requirements of a tax invoice?**

A22. A tax invoice verifies a GST registered person's claim for the GST incurred on purchasing a taxable supply. Details to be shown on the tax invoice include the following:



- (a) The words “Tax Invoice” in a prominent place;
- (b) An identifying number;
- (c) The date of issue of the invoice;
- (d) Your name, address and registration number;
- (e) Your customer’s name (or trading name) and address;
- (f) The type of supply, e.g. credit sale, hire-purchase, loan;
- (g) A description of goods or services supplied;
- (h) The quantity of goods or extend of services and the amount payable (excluding tax) for each description;
- (i) Any cash discount offered;
- (j) The total amount payable excluding tax, the rate of GST and the total tax chargeable shown separately;
- (k) The total amount payable, including tax; and
- (l) If applicable, the breakdown of exempt, zero-rated or other supply, stating separately the gross amount payable in respect of each.

**Q23. My company (logging operator) engaged individuals or small-scale subcontractors who are non registered persons to carry out the harvesting of timber trees and transportation of logs to the designated logs points. In some cases they would purchase tools and equipment, etc. to carry out their respective activities. Such expenses (embedded with GST) would subsequently be reimbursed by my company (logging operator). What is GST treatment on the reimbursements and can I claim input tax incurred on them?**

A23. Reimbursements made by the company to sub contractor is just a cost recovery by the sub contractor, it cannot be treated as consideration made for a supply. Therefore the input tax incurred by the sub contractor is not considered as your input tax.

**Q24. Our company receives advance payments (non-refundable) from our buyers as part of the final payments. Are the advance payments subject to GST?**

A24. Yes, advance payments are subjected to GST at standard rate. GST has to be charged on the remaining value of the goods when the goods are delivered to your buyers later.

*Please refer to GST specific guide, Guide on Tax Invoice & Records Keeping for further information.*

### **Free supplies to the community and employee's benefit**

**Q25. My company provides free logs to build long-house, medical and educational facilities to the community at my logging sites as part of our community project. What is the GST treatment on such facilities?**

A25. In order to be relieved from charging and collecting GST on the supply of logs for a community project, you must get an approval from the Minister of Finance. The conditions for approval may be:

- (i) the project has to be for the benefit of the community at large;
- (ii) there is no consideration of any kind for the supply;
- (iii) the supply made is not under the directive of any laws or industry regulations; and
- (iv) any other conditions the Minister deems fit to impose for protection of revenue

Once approved, you will not charge and collect GST on the supply the logs to the community. However input tax incurred attributed to the supply of logs to the community is claimable.

On the other hand for supply of services such as the supplies of exempted medical and education services provided without consideration to the community, the supplies may be considered as supplies made in the course or furtherance of the business under GST. The input taxes attributed to the supplies of logs and medical and education services are claimable since the supplies are treated as attributed to the company's logging business. However



if a nominal fee is imposed, such supplies shall be treated as the normal GST principles.

**Q26. In forestry industries we sometimes provide staff with remote work-site accommodation (e.g. cabins, caravans, barracks, etc.). What is GST treatment on supplies of such accommodation?**

A26. If the supply is a supply of services made without consideration, the supply is treated as non supply and you do not need to account for GST. In the case of a supply of accommodation to your staff at the work-site, it is regarded as a supply of services for the course or furtherance of your business under the GST. The input tax incurred on acquisition for the supply of accommodation is claimable.

**Q27. We provide transport facility to our workers to and from their work places. What is GST treatment on the transportation?**

A27. Provision of transport facility to your employees is considered as employee's benefit. It is also considered as a supply made for business purposes and you are entitled to claim input tax incurred in providing the transport facility. However if the employees are charged with nominal fee, the supply shall be treated as its normal GST treatment as an exempt supply.

## **FEEDBACK OR COMMENTS**

19. Any feedback or comments will be greatly appreciated. Please email your feedback or comments to either Rokiah binti Embong (rokiah.embong@customs.gov.my) or Ishak bin Daud (ishak.daud@customs.gov.my).

## **FURTHER INFORMATION**

20. Further information can be obtained from:

- (a) GST Website: [www.gst.customs.gov.my](http://www.gst.customs.gov.my)
- (b) GST Hotline: 03-88822111
- (c) Customs Call Centre:



- Tel : 03-78067200 / 1-300-888-500
- Fax : 03-78067599
- E-mail : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)

