

Malaysia introduces digital service tax

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Executive summary

On 8 April 2019, the *Dewan Rakyat* (the lower House of Malaysia's Parliament) approved the legislation (the Bill) on the digital service tax (DST) introduced in the 2019 Budget.¹ The Bill is currently being tabled at the Senate.

This Alert summarizes the key aspects of the Bill.

Detailed discussion

Any foreign service provider providing digital services to consumers on or after 1 January 2020 is required to charge a 6% service tax on the digital services.

The key terms defined in the Bill are as follows:

- ▶ **Digital service:** Any service that is delivered or subscribed over the internet or other electronic network, which cannot be obtained without the use of information technology and the delivery of the service is essentially automated
- ▶ **Foreign service provider:** Any person who is located outside Malaysia and provides any digital service to a consumer, including any person who operates an online platform for the buying and selling of goods, or for providing services (whether such person provides any digital services) and who makes transactions for the provision of digital services on behalf of another person

► **Consumer:** Any person who meets any two of the following conditions:

- a. Makes payment for digital services using a credit or debit card provided by any financial institution or company in Malaysia
- b. Acquires digital services using an internet protocol address registered in Malaysia or an international mobile phone country code assigned to Malaysia
- c. Resides in Malaysia

Based on the Frequently Asked Questions (FAQs) for DST released by the Royal Malaysian Customs Department (Customs) on 18 April 2019, the service tax registration threshold is RM500,000 (US\$ 122,000) and the application for registration will be processed online.

Any foreign service provider who provides digital services prior to 1 January 2020 and is liable to be registered should begin applying for service tax registration on 1 October 2019. The registration will be effective from 1 January 2020 or any later date as determined by Customs.

As a service tax registered person, the foreign service provider will be required to file quarterly returns and pay the service tax due, not later than the last day of the month following the end of the quarterly taxable period to which the return relates.

Endnote

1. See EY Global Tax Alert, [Malaysia releases 2019 Budget](#), dated 4 December 2018.

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