Goods and Services Tax (GST)

Bad Debt Relief, Partial Exemption and Longer Period Adjustment

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AGENDA

PART 1 – INTRODUCTION

PART 2 – BAD DEBT RELIEF

PART 3 – PARTIAL EXEMPTION

PART 4 – LONGER PERIOD ADJUSTMENT

PART 1 : INTRODUCTION

Adjustment (Input Tax and Output Tax)

- When the taxable person issues or receives credit notes and debit notes
- Payment not received after 6 months
- Debtor has become insolvent before expiry of 6 months
- Payment not made for the acquisition after 6 months
- Change of use (eg. from exempt to taxable)
  - Short claimed of input tax
  - Over claimed of input tax
- Change of accounting basis – e.g. invoice basis to payment basis
- Partial exemption and annual Adjustment
- Capital Goods Adjustment

Cont

PART 2 : BAD DEBT RELIEF

Conditions For Relief Of Bad Debts;

- Output tax declared and paid on the supply;
- no payment has been received in 6 months from the date of supply; or
- the debtor has become insolvent before the period of six months has elapsed.
- The debt has not been sold or passed to a factoring company
- Sufficient efforts have been made to recover the debt

PART 2 : BAD DEBT RELIEF

Evidence required to support claim (record keeping);

- Copy of tax invoice;
- Record / statement shows the time, nature, purchaser and consideration of the supply;
- Record shows that the tax has been accounted and paid;
- Record shows that the consideration has not been received;
- Records or any other documents showing that sufficient efforts have been made by the supplier to recover the debt.

PART 2 : BAD DEBT RELIEF

Record keeping:

i. Debtor's name and address;

ii. The amount of tax chargeable;

iii. The taxable period in which the tax chargeable was accounted for and paid to the DG;

iv. The date and number of the invoice issued;

v. Any payment received;

vi. The outstanding amount to which the claim relates;

vii. The amount of the claim; and

viii. The taxable period in which the claim was made.

PART 2 : BAD DEBT RELIEF

Adjustment to the supplier;

- Claim relief as **input tax**
- If entitle to claim, supplier must claim immediately after the expiry of 6 months after the date of supply (DG Decision 1/2014).
- Subsequently receive repayment after claiming the tax
  - account as **output tax** in return for the taxable period he receives the payment of the tax from the customer

PART 2 : BAD DEBT RELIEF

Adjustment to the recipient;

fails to pay GST within six months from the date of supply :

- **If he has claimed input tax on that supply:**
  - **pay back the input tax by accounting an amount equal to the input tax as his output tax.**
  - **account the output tax in his taxable period immediately after the six month period.**
- **If he subsequently pays the supplier:**
  - **claim back the output tax he pays to supplier as his input tax for the taxable period in which he made his payment.**

PART 2 : BAD DEBT RELIEF

- Supplier has not received any payment

→claim for the whole of the output tax paid

- Supplier received part payment for taxable supply

→ Tax fraction on the payment not received for the taxable supply; or

→ claim for an amount calculated accordance to this formula (Sec. 58, GST Act 2014)

$$\frac{A1}{B} \times C$$

Where

A1 – the payment not received for the taxable supply

B – the consideration for the taxable supply

C – the tax due and payable on the taxable supply

PART 2 : BAD DEBT RELIEF

Payment not received after 6 months

1. ABC Sdn Bhd made a taxable supply and issued a tax invoice on 25/1/2016 to XYZ Sdn Bhd for RM 21,200 (RM 20,000 + RM1,200 GST).
2. ABC Sdn Bhd accounts for output tax for the month of January 2016, while XYZ Sdn Bhd accounts as input tax in the January 2016 Taxable Period.
3. ABC Sdn Bhd receives part payment of RM12,000 (inclusive of tax RM 679) on 12/5/2016.
4. Balance payment of RM 9,200 was only made on 15/10/2016.

PART 2 : BAD DEBT RELIEF

ABC Sdn Bhd (Supplier)

1. ABC Sdn Bhd can claim bad debt relief as an input tax in the July 2016 taxable period.

2. The claimable bad debt relief is as follows:-

9200 X 6%/106% = RM521

PART 2 : BAD DEBT RELIEF

XYZ Sdn Bhd (Recipient)

1. XYZ Sdn Bhd must pay immediately the amount of input tax claimed in January 2016 as **OUTPUT TAX** in the July taxable period.

2. As only part payment (RM9,200) did not pay to ABC Sdn Bhd after 6 months from the date of supply, the amount of **output tax** that need to be paid by XYZ Sdn Bhd is:-

9200 X 6%/106% = RM521

PART 2 : BAD DEBT RELIEF

Bad Debt Repayment

- Supplier has received the claim
- Buyer subsequently paid the debt to Supplier
- Supplier has to repay an amount calculated with the follow

$$\frac{A2}{B} \times C$$

Where
A2 – the payment received in respect of the taxable supply
B – the consideration for the taxable supply
C – the tax due and payable on the taxable supply

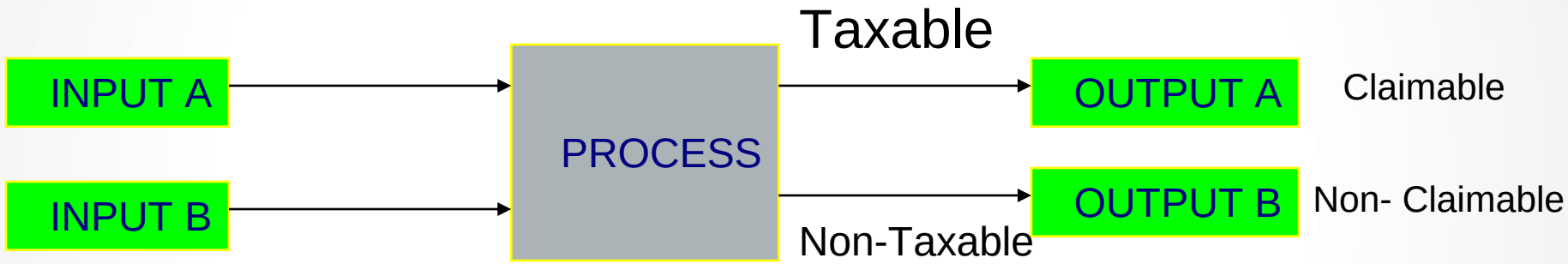
- Declare in GST-03

If only part payment received after six months

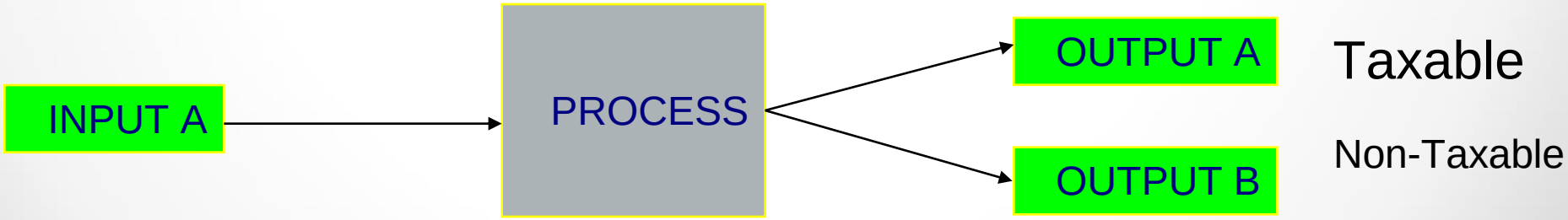
- *Please refer to the previous example.*
- *As balance payment of RM 9,200 was made on 15/10/2016, ABC Sdn Bhd must account for output tax of RM521 in October taxable period.*
- *XYZ claims input tax of RM521 also in October taxable period.*

PART 3 : PARTIAL EXEMPTION

DIRECT ATTRIBUTE



INDIRECT ATTRIBUTE - *Apportionment*



PART 3 : PARTIAL EXEMPTION

- ✓ Partial Exemption – the situation of a mixed supplier has to apportion the amount of residual input tax
- ✓ Mixed Supplier – a person who makes both taxable and exempt supplies
- ✓ Eligible to claim full amount of input tax credit if the input tax incurred is exclusively attributable to the taxable supplies
- ✓ Not entitled to claim input tax incurred if the input tax incurred is exclusively attributable to the exempt supplies

PART 3 : PARTIAL EXEMPTION

- ✓ Residual input tax means input tax that is not directly attributable to either taxable or exempt supply, eg. electricity, water, rents, etc.
- ✓ Residual input tax need to be apportioned using an approved apportionment method (regulation 39(4))

PART 3 : PARTIAL EXEMPTION

APPORTIONMENT METHOD

Apportionment of Residual input tax (Reg 39(4))

- Turnover-based method will be used as a standard method for apportioning any residual input
  - the proportion must correctly reflect the use to which the inputs are put
  - must reflect the range of the taxable person's activities
  - adjustment to the initial input tax claim should be made annually (annual adjustment)

Cont

PART 3 : PARTIAL EXEMPTION

STANDARD METHOD – Reg.39 (4)

$$IRR = \frac{T - O}{S - O} \times 100\%$$

$$= \frac{T - O^1}{T + E - O^2} \times 100\%$$

PART 3 : PARTIAL EXEMPTION

IRR = recoverable percentage of residual input tax

T = total value of taxable supplies made in the taxable period

E = total value of exempt supplies made in the taxable period

O = Total value of excluded supplies made in the taxable period

PART 3 : PARTIAL EXEMPTION

O = total value of all excluded amount

Excluded Supplies	O^1	O^2
Supply of capital goods	√	√
Imported services	√	√
Value of any supply made by a recipient in accordance with the ATMS under Sec. 72	√	√
Incidental financial supply		√
Supply of land for general use		√

PART 3 : PARTIAL EXEMPTION

EXAMPLE :

ABC Sdn. Bhd., whose current tax year ends on 31/12/2016, his current taxable period is May 2016, made some mix supplies and at the same time incurred residual input tax as follows :

		RM
T	Value of all taxable supplies (exclusive tax)	200,000.00
O	Value of a capital goods disposed off (exclusive tax)	50,000.00
O	Incidental exempt financial supply (interest income on loan to employee)	10,000.00
E	Value of exempt supplies	40,000.00
	Residual input tax	10,000.00

PART 3 : PARTIAL EXEMPTION

- **Residual input tax recovery rate percentage for May 2016**

$$\frac{200{,}000 - 50{,}000}{200{,}000 + 40{,}000 - 50{,}000 - 10{,}000} \times 100\% = 83.33\%$$

- **Amount of residual input tax that ABC Sdn. Bhd can be claimed for May 2016**

Residual input tax recovery rate % x residual input tax incurred
83.33% x RM10,000 = RM 8,333.33

- ABC Sdn. Bhd. Can only claim RM 8,333.33 out of the RM 10,000 of residual input tax incurred by him in that taxable period (i.e. May 2016)

PART 3 : PARTIAL EXEMPTION

- Other Alternative Methods
  - Floor Space method
  - Transaction-based method
  - Input-based method
  - Cost Centre accounting method
  - Employee Time Method

- Use of these methods need prior approval
- a written application to any GST office and submit a detailed proposal on the alternative method he wishes to adopt.

PART 3 : PARTIAL EXEMPTION

Example Alternative Method

- Finance company Sifu Sdn Bhd. deals in taxable leasing and exempt personal loans services. The value and number of transaction of taxable and exempt supplies for Jan-Mac 2016 Taxable Period are as follows:

Activities	No. of Transactions	%	Value (RM)	%
Leasing agreements entered into (Taxable)	75	60	750,000	42.9
Personal loans (exempt)	50	40	1,000,000	57.1
TOTAL	125	100	1,750,000	100

PART 3 : PARTIAL EXEMPTION

DE MINIMISE LIMIT

- Exempt input tax can be recovered in full **in any taxable period or a longer period** if satisfies the following conditions:
- Prescribed amount of *de minimis* limit:
  - total value of the exempt supplies does not exceed
    - ✓ an average of $5,000 per month

      and
    - ✓ 5% of the total value of total supplies (exempt supplies / total supplies) made in the taxable or longer period.

- Rationale: To relieve small companies from the partial exemption requirements.
- Exclude all incidental exempt supplies (Reg. 40)

PART 3 : PARTIAL EXEMPTION

EXAMPLE 1:

- Taxable period = Monthly
- Value of taxable supply = RM200,000
- Value of exempt supply = RM 50,000
- Input tax attributable to taxable supply = RM 10,000
- Input tax attributable exempt supply = RM 2,000
- Residual input tax = RM 1,000

Test for de minimis rule first.

Value of exempt supply does not exceed RM 5,000 and 5% of total supply ? If yes, All exempt input can be claimed. Otherwise use the formula.

In this case de minimis rule is not fulfilled.

Therefore residual input tax that can be claimed - apportionment

= 200,000/(200,000 + 50,000) x 100% x RM 1,000 = RM 800

Total ITC can be claimed in January = RM 10,000 + RM 800 = RM 10,800

PART 3 : PARTIAL EXEMPTION

EXAMPLE 2:

- Taxable period = Monthly
- Value of taxable supply = RM 200,000
- Value of exempt supply = RM 4,000
- Input tax attributable to taxable supply = RM 10,000
- Input tax attributable exempt supply = RM 2,000
- Residual input tax = RM 1,000

Test for de minimis rule first.

Value of exempt supply does not exceed RM 5,000 and 5% of total supply ? If yes, All residual input can be claimed. Otherwise use the formula.

In this case de minimis rule is fulfilled.

Therefore all input tax incurred can be claimed

Total ITC in January = RM 10,000 + RM 2,000+ RM 1,000 = RM 13,000

PART 4 : LONGER PERIOD ADJUSTMENT

- A recovery of residual input tax in a taxable period is only provisional
- The proportion of residual input tax recovered may not be reflective or fairly attributed to the taxable supplies
- Fluctuations or high volatility in supplies from taxable period to another taxable period
- Therefore, mix supplier is required to make annual adjustment, which also refer to as “longer period adjustment”.

PART 4 : LONGER PERIOD ADJUSTMENT

TAX YEAR

Definition

- Tax years refer to the period in which a registrant remains registered under the GST Act 2014
- A tax year in its ordinary meaning would constitute 12 calendar months
- Tax Year = 12 months or other period approved by the DG (i.e. 6 months up to 18 months)

PART 4 : LONGER PERIOD ADJUSTMENT

TAX YEAR

1st Tax Year

- The first tax year –effective date of registration or the date he should be registered until the day before his next tax year commences.
- First tax year may depend on the effective registration date
- Period : 6 – 18 months

1st Tax Year – Example 1

Tax Year Consisting Of 12 Months

- Partly-Exempt Sdn. Bhd. whose financial year ends on 31st December 2016, was a GST registrant on 1st January 2016 and subject to quarterly taxable period.
- The first tax year for Partly-Exempt Sdn. Bhd. would commence from 1st January 2016 and end on 31st December 2016, which is for a period of 12 months.

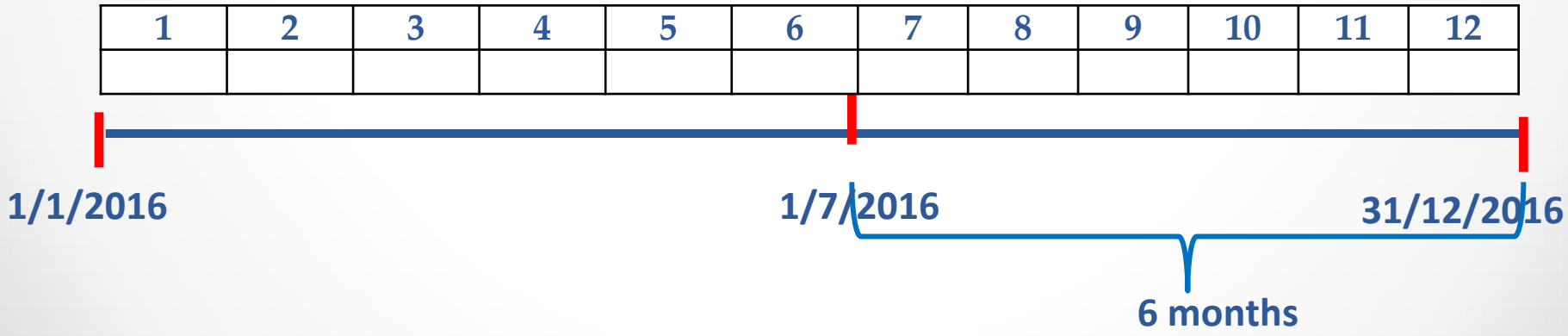
1	2	3	4	5	6	7	8	9	10	11	12

PART 4 : LONGER PERIOD ADJUSTMENT

1st Tax Year – Example 2

Tax year less than 12 months

- If Partly-Exempt Sdn. Bhd. was registered on 1st July 2016 and subject to quarterly taxable period, the first tax year for ABC Sdn. Bhd. would only commence from 1st July 2016 and end on 31st December 2016, which is for a period of 6 months.



TAX YEAR

1st Tax Year – Example 3

Tax year exceeding 12 months

- Partly-Exempt Sdn. Bhd. was registered on 1st October 2016 and subject to quarterly taxable period
- Its first tax year would commences from 1st October 2016 and only ends on 31st December 2017, stretching into its next financial year and covering a period of 15 months.

1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12

PART 4 : LONGER PERIOD ADJUSTMENT

Subsequent Tax Year

- The tax year following the first tax year
- Commence on the day immediately after the last day of the first tax year
- End on the last day of the 12th calendar month
- Each following subsequent tax year would similarly consist of 12 calendar months and correspond with the registrant's respective financial year

PART 4 : LONGER PERIOD ADJUSTMENT

Final Tax Year

- The tax year in which a person ceases to be a registrant
- The final tax year would end on the day in which the cessation, cancellation or revocation is took effect
- It covers a period of 12 months or less than 12 calendar months

PART 4 : LONGER PERIOD ADJUSTMENT

Final Tax Year - example

- Assuming Partly-Exempt Sdn. Bhd. ceased to be a registrant on 15th April 2016
- the final tax year for Partly-Exempt Sdn. Bhd. would be from 1st January 2016 to 15th April 2016.
- In this example, Partly-Exempt Sdn. Bhd. final tax year only covers a period of less than 4 months.

PART 4 : LONGER PERIOD ADJUSTMENT

- Longer period = annual adjustment period
- Means a tax year or a period comprising of 2 or more taxable periods or part thereof.
- If a taxable person who incurs exempt input tax during any tax year, then a longer period shall correspond with that tax year.
- Exempt Input Tax – input tax which is attributable to exempt supply and not recoverable as tax credit

PART 4 : LONGER PERIOD ADJUSTMENT

- If he did not incur exempt input during his immediately preceding tax year, his longer period shall –
  - ✓ begin on the first day of the first taxable period which he incurs exempt input tax; and
  - ✓ end on the last day of that tax year.

PART 4 : LONGER PERIOD ADJUSTMENT

- If the first partial exemption period falls on the last taxable period of the tax year, longer period is not applicable to work out adjustment for that tax year.
- Generally, longer Period = tax year = 12 months
- In some cases, first longer period may be less or even more than a period of 12 months depending on the length of his first tax year.

PART 4 : LONGER PERIOD ADJUSTMENT

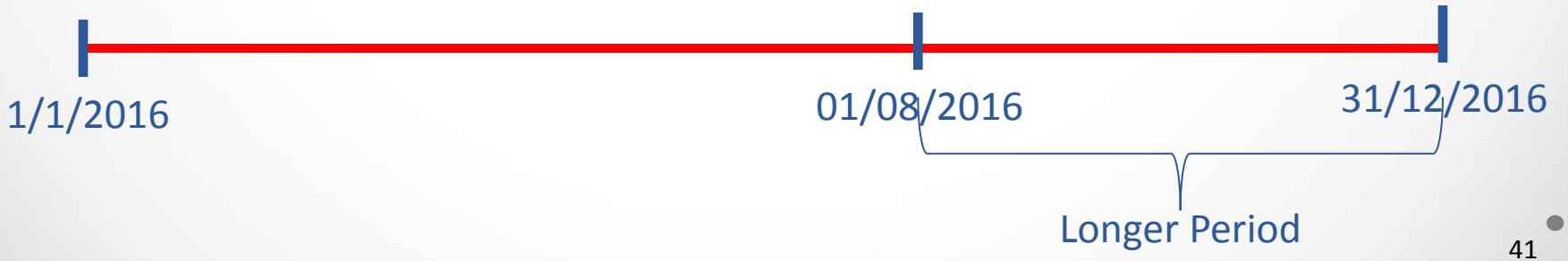
Longer Period – Example 1

Monthly Taxable Period

- Tax year run from 1st January 2016 to 31st December 2016.
- Start to make exempt supply on 15th August 2016.

➢ First longer period would runs from 1st August to 31st December 2016

1	2	3	4	5	6	7	8	9	10	11	12



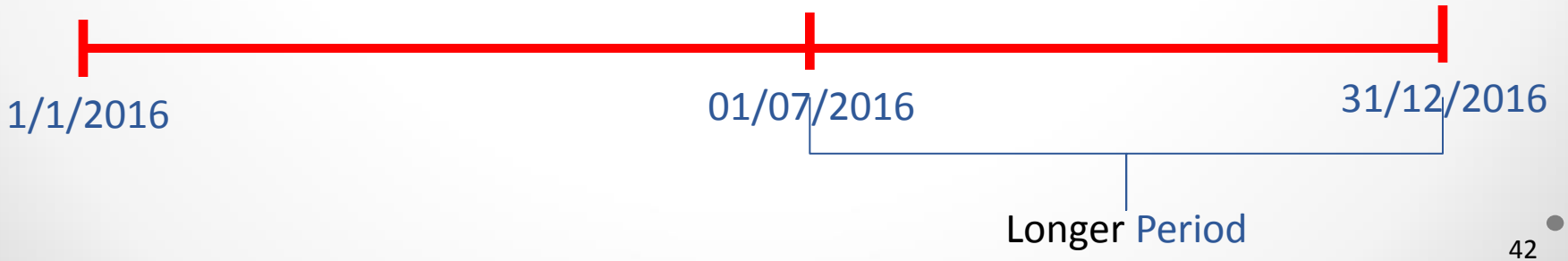
PART 4 : LONGER PERIOD ADJUSTMENT

Longer Period – Example 2

Quarterly Taxable Period

- Tax year run from 1st January 2016 to 31st December 2016.
- Start to make exempt supply on 15th August 2016.
- First longer period would runs from 1st July to 31st December 2016

1	2	3	4	5	6	7	8	9	10	11	12



PART 4 : LONGER PERIOD ADJUSTMENT

Longer Period – Example 3

PE falls on the last taxable period

- Tax year run from 1st January 2016 to 31st December 2016 (quarterly taxable period)
- Start to make exempt supply on 3rd October 2016.
- Longer Period not applicable

1	2	3	4	5	6	7	8	9	10	11	12

PART 4 : LONGER PERIOD ADJUSTMENT

EXAMPLE:

ABC Sdn. Bhd. current tax year ends on 31st December 2016, and incurred the following supplies and input tax. Compute the longer period adjustment amount.

TAXABLE PERIOD	TAXABLE SUPPLIES	EXEMPT SUPPLIES	RESIDUAL INPUT TAX
Q1	50,000	500,000	100,000
Q2	300,000	800,000	150,000
Q3	100,000	3,000,000	50,000
Q4	600,000	400,000	250,000

Example (Annual adjustment)

	Q1	Q2	Q3	Q4	Total
Taxable supplies	50,000	300,000	100,000	600,000	1,050,000
Exempt supplies	500,000	800,000	3,000,000	400,000	4,700,000
% of Taxable	9.1%	27.3%	3.2%	60%	18.3%
Residual input tax	100,000	150,000	50,000	250,000	550,000
Claimable residual	9,100	40,950	1,600	150,000	201,650 / 100,650

Total residual input tax claimed in 4 quarters = RM 201,650

Under annual adjustment claimable input is only RM 100,650.

Therefore, an adjustment of RM 201,650 – RM 100,650 = RM 101,000 need to be made.

LONGER PERIOD ADJUSTMENT

Declaration of annual adjustment amount:

- **Regulation 43 – in a GST Return for the second taxable period next following the longer period.**
- **Based on the example, ABC Sdn Bhd need to account and pay additional output tax of RM101,000 in the April-June 2017 Taxable Period.**