Socio-Economic Research Centre
SERC 社会经济研究中心

Targeted Revised Sales Tax Rate and Expansion of Service Tax Scope (SST):

What Does It Mean for Consumers and Businesses?

9 July 2025

The implementation of SST expansion and the timeline

The expansion of Sales and Service Tax was first proposed in the Budget 2025

Budget 2025

- **Proposals**:
  - Sales tax on **basic food items will remain exempt**
  - Sales tax **will be increased on non-essential items**, such as imported premium goods (e.g. salmon and avocado)
  - The **scope of service tax will be expanded to include new services, such as commercial service transactions between businesses (B2B)**
- Effective date: **1 May 2025**

9 June 2025

- **Implementation**:
  - Sales tax **remains exempted on basic food items, and is imposed at 5% or 10% on discretionary and non-essential goods**
  - The scope of service tax will **be expanded to cover additional services** (wellness centre, financial, and healthcare) and **three new services** (rental or leasing, construction works and education)
- Effective date: **1 Jul 2025 ***

** The effective date for the service tax expansion is 1 July 2025. However, for newly taxable services, businesses are only required to register once their taxable turnover exceeds the prescribed threshold. If the threshold is reached in a particular month (e.g., Jul), registration must be made in the following month (e.g., Aug), and service tax is imposed starting the first day of the month (e.g., Sep) after registration takes effect.*
Note: Grace period until 31 Dec 2025.

28 June 2025 **

- **Changes**:
  - Selected materials and imported foods are exempted
  - Increased registration threshold for leasing or rental and financial services to RM1 million
  - Higher SMEs relief for rental services with a turnover of RM1 million
  - No service tax on beauty services

*** Based on MOF's press release.*

Source: Ministry of Finance (MOF)

The scope of sales tax

A 0% Sales Tax	B 5% Sales Tax	C 10% Sales Tax

Essential goods

Example:

- Unprocessed foods – meat, certain seafoods, local vegetables and fruits
- Processed foods – flour, sugar, salt, cooking oil, white bread, noodles, milk, etc.
- Medicines & medical devices
- Books, journals, newspapers
- Livestock & pet foods
- Basic construction materials
- Fertiliser, agricultural machinery

Discretionary and non-essential goods

Examples of goods remained at 5%:

- Foods – abalone, lobster, quinoa, cheese, fruit jam
- Others – smartphones

Examples of goods remained at 10%:

- Foods – caviar, shark fin, alcoholic drinks
- Others – cigarettes, leather goods

Examples of goods that have had their tax rate increased to 5%:

- Foods – king crab, salmon, cod, truffle, strawberries
- Others – essential oil, silk, industrial machinery

Examples of goods that have had their tax rate increased to 10%:

- Others – tungsten scrap waste, racing bike, antique hand painting

Source: MOF

Comparison of total taxable items under sales tax

	2022		2025 (Old) On 9 Jun 2025			2025 (New) On 28 Jun 2025	
	No.	% Share	No.	% Share		No.	% Share
Exempted	5,164	45.1%	1,804 (-3,360)	15.8% (-29.3%)	+35 →	1,839 (-3,325)	16.1% (-29.0%)
At 5%	919	8.0%	4,072 (+3,153)	35.6% (+27.5%)	-6 →	4,066 (+3,147)	35.5% (+27.5%)
At 10%	5,303	46.3%	5,547 (+244)	48.4% (+2.1%)	-26 →	5,521 (+218)	48.2% (+1.9%)
Ad Hoc	25	0.2%	25 (0)	0.2% (0.0%)		25 (0)	0.2% (0.0%)
Total	**11,411**		**11,448**			**11,451**	

Note: This list is based on 10-digit HS codes, reflecting the total items (11,453 items) subject to sales tax. Items not specified in either the Sales Tax (Rates of Sales Tax) Order 2025 or the Sales Tax (Goods Exempted from Sales Tax) Order 2025 are subject to the sales tax rate of 10%. Additionally, there were 42 (2022), 5 (2025 Old) and 2 (2025 New) items under the same HS Code, leading to the goods being classified as exempted and taxed simultaneously. To overcome these issues, the total items listed in this table are the sum of the total items under the 10-digit HS code without the overlapping items.
Parenthesis indicates the changes in 2025 compared to 2022.

Source: Various federal government gazettes

Changes in sales tax between 2022 and 2025

	2025 (Old) vs. 2022		2025 (New) vs. 2022		2025 (New) vs. 2025 (Old)	
	No.	% Share	No.	% Share	No.	% Share
Remain exempted	1,791	15.6%	1,826	15.9%	1,804	15.8%
Remain taxed at 5%	853	7.5%	854	7.5%	4,063	35.5%
Remain taxed at 10%	5,289	46.2%	5,289	46.2%	5,521	48.2%
From exempted to 5%	**3,177**	27.8%	**3,170**	27.7%	**0**	0.0%
From exempted to 10%	**193**	1.7%	**168**	1.5%	**0**	0.0%
From 5% to 10%	**65**	0.6%	**64**	0.6%	**0**	0.0%
From 10% to 5% *	3	0.0%	3	0.0%	1	0.0%
From 10% to exempted *	11	0.1%	11	0.1%	25	0.2%
From 5% to exempted	1	0.0%	1	0.0%	9	0.1%
Ad hoc items	25	0.0%	25	0.0%	25	0.0%
From overlap to exempted	1	0.0%	1	0.0%	1	0.0%
From overlap to 5%	39	0.3%	39	0.3%	2	0.0%
Overlapping items	5	-	2	-	5	-

** These changes may be due to the newly classified items under the HS code.*
Note: The sum of the numbers will not equal the total items in the "Comparison of Total Taxable Items Under Sales Tax" due to overlapping items in the exemption and the 5% sales tax. Please refer to the note under that table.
Source: Various federal government gazettes

Changes in sales tax by category between 2022 and 2025

Category	2022			2025 (New)		
	Exempted	5%	10%	Exempted	5%	10%
Animals & Animal Products	498	120	4	↘ 289	↗ 331	⧗ 4
Fruits & Vegetables	377	132	2	↘ 217	↗ 294	⧗ 2
Processed Foods & Beverages	177	294	97	↘ 108	↗ 397	↗ 98
Raw Materials & Intermediate Goods	2,501	118	1,492	↘ 651	↗ 1,863	↗ 1,598
Consumer Goods	331	5	1,465	↘ 109	↗ 219	↗ 1,473
Machinery, Transport & Electronics	1,268	250	2,195	↘ 453	↗ 962	↗ 2,298
Miscellaneous & Special Categories	12	0	48	⧗ 12	⧗ 0	⧗ 48
Total*	**5,164**	**919**	**5,303**	**1,839**	**4,066**	**5,521**

↘ Reduce to
↗ Increase to
⧗ Remain at

Local vegetables and fruits are exempt from Sales Tax as they are classified as agricultural produce grown (not manufactured goods) in Malaysia.

Note: Animals & animal products refer to the HS Code of 1-5; fruits & vegetables refer to 6-14; processed foods & beverages refer to 15-22; raw materials & intermediate goods refer to 23, 25-40, 44-49, 68-70, and 72-83; consumer goods refer to 24, 41-43, 50-67, 71 and 94-96; machinery, transport & electronics refer to 84-92; and miscellaneous & special categories refer to 93 and 97-98. This is a rough grouping based on 2-digit HS code due to many entries.
Source: Various federal government gazettes   ***There are 25 ad hoc items and overlapping items subject to sales tax in 2022 and 2025, which are not included in the table.***

Expansion of service tax scope

A. Leasing or Rental Services

8% on rental or leasing of tangible asset services provided by the registered services having annual leasing or rental revenue from taxable services exceeding the threshold of RM1 million.

Non-taxable and exemptions:

- No tax on leasing or rental of housing accommodation*, reading material, financial leases, and tangible assets outside Malaysia
- Tenants who are MSMEs with annual sales of less than RM1 million **
- Business-to-business (B2B) transactions and group relief **
- Non-reviewable contracts are granted a 12-month exemption from the effective date **

** Including small office home office (SOHO), serviced apartment, serviced condominium, serviced suite or residential suite*

B. Construction Services

6% on any construction works services provided by contractors with total revenue from taxable services exceeding the threshold of RM1.5 million.

Non-taxable and exemptions:

- No tax on residential buildings and public amenities related to housing
- B2B exemptions
- Non-reviewable contracts are granted a 12-month exemption from the effective date. **

*** Mentioned in the Service Tax Policy*

C. Financial Services

8% on fee- or commission-based financial services with certain taxable services exceeding the threshold of RM1 million.

Non-taxable and exemptions:

- No tax on basic financial services (e.g. basic banking) and others, such as foreign exchange and capital market gains, punitive charges or fees, outward remittance transactions, financing facilities directly related to exported goods, charges to remittance agents abroad for inward transfers to Malaysia, and life insurance/takaful, medical, and family takaful-related broking or underwriting services for individuals
- B2B exemptions

Source: MOF; various federal government gazettes *Note: Completed list of service tax refer to Appendix 1.*

Expansion of service tax scope (cont.)

D. Private Healthcare Services

6% on taxable services provided by private healthcare, traditional and complementary medicine, and allied health services providers to non-citizens, where service providers exceed the threshold of RM1.5 million from taxable services.

Non-taxable and exemptions:

- No tax on public healthcare and private healthcare under the Universities and University Colleges Act 1971 or the MARA University of Technology Act 1976
- Malaysian citizens for public and private healthcare services, traditional and complementary medicine, and allied health services

E. Education Services

6% on the following services charged when provided by registered providers:

- Private preschools, primary schools, and secondary schools with annual tuition fees exceeding RM60,000 per student
- Higher education services provided to non-citizens.

Non-taxable and exemptions:

- No tax on public preschools, primary schools, and secondary schools
- Preschools, primary schools, and secondary schools for Malaysian citizens with disabilities (OKU)
- Higher education for Malaysian citizens

F. Beauty Services *

8% on taxable service provided by those whose revenue from taxable services reaches RM500,000 within a 12-month period.

Beauty services are no longer included in the Service Tax expansion based on the latest announcement.

** Beauty services are grouped as a wellness centre under Group C.*

Source: MOF; various federal government gazettes *Note: Completed list of service tax refer to Appendix 1.*

Transitional provisions

The government has introduced the following transitional provisions under the Sales Tax (Rates of Tax) Order 2025 and the Service Tax (Rates of Tax) (Amendment) Order 2025:

Sales Tax

- Invoices issued before 1 July 2025: If an invoice was issued for goods no longer exempted before 1 July 2025, no sales tax will be charged, even if the goods are delivered or remain in stock on or after 1 July.
- Usage or disposal on or after 1 July 2025: Sales tax must be charged on goods that are no longer exempt if they are used or disposed of on or after 1 July, regardless of whether the usage or disposal was recorded earlier.
- A previously exempt person who becomes a registered manufacturer on or before 30 September 2025 will not be subject to sales tax on existing stock of taxable goods held as at 1 July 2025.

Service Tax

- Services fully rendered before 1 July 2025 are not subject to the new service tax.
- Services rendered on or after 1 July 2025 are subject to the new service tax.
- For (local or imported) services spanning across 1 July 2025, only the portion rendered on or after 1 July.
- For payments received in full before 1 July 2025 for (local or imported) services, the old tax rate applies, even if the service is rendered on or after 1 July.

Companies supplying newly taxable goods or services began assessing whether they had reached the respective threshold in July. If the threshold was met, it proceeded with SST registration in August and started charging SST in September.

However, manufacturers were allowed to voluntarily register for sales tax as early as July to qualify for exemptions on taxable raw materials.

Source: P.U. (A) 170/2025; P.U. (A) 173/2025; P.U. (A) 192/2025

The broad impact of expanded SST on fiscal, businesses and consumers

Impact on Fiscal Position

Fiscal Revenue:

+ RM5 billion in 2025; annualised RM10 billion

Impact on Businesses

Increased business costs

Key impact from Sales Tax:

- Importer
- Manufacturing

Key impact from Service Tax:

- Commercial tenants
- Construction services (excl. B2B & residential)
- Medical tourism

Impact on Consumers

Higher prices; dampen discretionary consumer spending

Direct impact:

- Higher cost of living, particularly for imported foods and products

Indirect impact:

- Businesses are likely to pass on increased costs to consumers through higher prices, which can lead to broader inflationary pressures

Economic Growth

- The Treasury has maintained the 2025 Budget fiscal deficit target at 3.8% of GDP, though there is a likely revision of 2025's GDP growth estimates, currently at 4.5%-5.5%.
- Inflation is likely to stay within the projected range of 2.0% - 3.5%.

Source: MOF

Ultimately, consumers are liable to consumption taxes, either directly or indirectly

Sales Tax

Manufacturer / Importer → Wholesaler → Retailer → Consumer

Manufacturer / Importer: **Liable to pay the sales tax for taxable goods**

Manufacturer / Importer to Wholesaler: Pass on the tax via higher prices

Wholesaler to Retailer: Pass on the tax via higher prices

Retailer to Consumer: Pass on the tax via higher prices

Consumer: **Indirectly paying the sales tax**

Service Tax

Taxable service provider → Consumer

Taxable service provider to Consumer: Charge service tax

Consumer: **Directly paying the service tax**

Goods and Services Tax (GST)

Manufacturer / Importer → Retailer → Retailer → Consumer

Service provider → Consumer

Manufacturer / Importer to Retailer: Charge GST to buyer

Retailer to Retailer: Charge GST to buyer; claim back input tax

Retailer to Consumer: Charge GST to buyer; claim back input tax

Service provider to Consumer: Charge GST to buyer

Consumer: **Directly paying the GST**

Note: For sales tax, manufacturer / importer needs to register as a taxable person with a threshold of annual sales above RM500,000; whereas threshold for taxable service provider varies between RM0 (e.g. private education) and RM1.5 million (e.g. F&B, private healthcare, and construction), with general threshold at RM500,000. For GST, the threshold was standardised at RM500,000.

Impact on consumers – Illustrations (profit margin at fixed amount, SST vs. GST)

Scenario A: RM2.00 margin each by wholesaler and retailer	Sales tax (10%)	GST (6%)
Manufacturer / Importer		
Gross Sale Price	10.00	10.00
Sales Tax / GST	1.00	0.60
Total Sale Price	11.00	10.60
Tax collected by the Government	*1.00*	*0.60*
Wholesaler		
Purchasing Price	11.00	10.60
Claim Back GST Input Tax	-	-0.60
Gross Profit (RM2.00)	2.00	2.00
Gross Sale Price	13.00	12.00
GST (Output Tax)	-	0.72
Total Sale Price	13.00	12.72
Tax collected by the Government	-	*0.12*
Retailer		
Purchasing Price	13.00	12.72
Claim Back GST Input Tax	-	-0.72
Gross Profit (RM2.00)	2.00	2.00
Gross Sale Price	15.00	14.00
GST (Output Tax)	-	0.84
Total Sale Price	15.00	14.84
Tax collected by the Government	-	*0.12*
Consumer		
Purchasing Price	15.00	14.84
	(Higher)	(Lower)
Government		
Tax collection	1.00	0.84
	(Higher)	(Lower)

Scenario B: RM5.00 margin each by wholesaler and retailer	Sales tax (10%)	GST (6%)
Manufacturer / Importer		
Gross Sale Price	10.00	10.00
Sales Tax / GST	1.00	0.60
Total Sale Price	11.00	10.60
Tax collected by the Government	*1.00*	*0.60*
Wholesaler		
Purchasing Price	11.00	10.60
Claim Back GST Input Tax	-	-0.60
Gross Profit (RM5.00)	5.00	5.00
Gross Sale Price	16.00	15.00
GST (Output Tax)	-	0.90
Total Sale Price	16.00	15.90
Tax collected by the Government	-	*0.30*
Retailer		
Purchasing Price	16.00	15.90
Claim Back GST Input Tax	-	-0.90
Gross Profit (RM5.00)	5.00	5.00
Gross Sale Price	21.00	20.00
GST (Output Tax)	-	1.20
Total Sale Price	21.00	21.20
Tax collected by the Government	-	*0.30*
Consumer		
Purchasing Price	21.00	21.20
	(Lower)	(Higher)
Government		
Tax collection	1.00	1.20
	(Lower)	(Higher)

Scenario C: RM3.33 margin each by wholesaler and retailer	Sales tax (10%)	GST (6%)
Manufacturer / Importer		
Gross Sale Price	10.00	10.00
Sales Tax / GST	1.00	0.60
Total Sale Price	11.00	10.60
Tax collected by the Government	*1.00*	*0.60*
Wholesaler		
Purchasing Price	11.00	10.60
Claim Back GST Input Tax	-	-0.60
Gross Profit (RM3.33)	3.33	3.33
Gross Sale Price	14.33	13.33
GST (Output Tax)	-	0.80
Total Sale Price	14.33	14.13
Tax collected by the Government	-	*0.20*
Retailer		
Purchasing Price	14.33	14.13
Claim Back GST Input Tax	-	-0.80
Gross Profit (RM3.33)	3.33	3.33
Gross Sale Price	17.66	16.66
GST (Output Tax)	-	1.00
Total Sale Price	17.66	17.66
Tax collected by the Government	-	*0.20*
Consumer		
Purchasing Price	17.66	17.66
	(Same)	(Same)
Government		
Tax collection	1.00	1.00
	(Same)	(Same)

Impact on consumers – Illustrations (profit margin at percentage term, SST vs. GST)

Scenario D: 20% margin each by wholesaler and retailer	Sales tax (10%)	GST (6%)
Manufacturer / Importer		
Gross Sale Price	10.00	10.00
Sales Tax / GST	1.00	0.60
Total Sale Price	11.00	10.60
Tax collected by the Government	*1.00*	*0.60*
Wholesaler		
Purchasing Price	11.00	10.60
Claim Back GST Input Tax	-	-0.60
Gross Profit (20%)	2.20	2.00
Gross Sale Price	13.20	12.00
GST (Output Tax)	-	0.72
Total Sale Price	13.20	12.72
Tax collected by the Government	-	*0.12*
Retailer		
Purchasing Price	13.20	12.72
Claim Back GST Input Tax	-	-0.72
Gross Profit (20%)	2.64	2.40
Gross Sale Price	15.84	14.40
GST (Output Tax)	-	0.86
Total Sale Price	15.84	15.26
Tax collected by the Government	-	*0.14*
Consumer		
Purchasing Price	15.84	15.26
	(Higher)	(Lower)
Government		
Tax collection	1.00	0.86
	(Higher)	(Lower)

Scenario E: 50% margin each by wholesaler and retailer	Sales tax (10%)	GST (6%)
Manufacturer / Importer		
Gross Sale Price	10.00	10.00
Sales Tax / GST	1.00	0.60
Total Sale Price	11.00	10.60
Tax collected by the Government	*1.00*	*0.60*
Wholesaler		
Purchasing Price	11.00	10.60
Claim Back GST Input Tax	-	-0.60
Gross Profit (50%)	5.50	5.00
Gross Sale Price	16.50	15.00
GST (Output Tax)	-	0.90
Total Sale Price	16.50	15.90
Tax collected by the Government	-	*0.30*
Retailer		
Purchasing Price	16.50	15.90
Claim Back GST Input Tax	-	-0.90
Gross Profit (50%)	8.25	7.50
Gross Sale Price	24.75	22.50
GST (Output Tax)	-	1.35
Total Sale Price	24.75	22.50
Tax collected by the Government	-	*0.45*
Consumer		
Purchasing Price	24.75	22.50
	(Higher)	(Lower)
Government		
Tax collection	1.00	1.35
	(Lower)	**(Higher)**

Scenario F: 29.1% margin each by wholesaler and retailer	Sales tax (10%)	GST (6%)
Manufacturer / Importer		
Gross Sale Price	10.00	10.00
Sales Tax / GST	1.00	0.60
Total Sale Price	11.00	10.60
Tax collected by the Government	*1.00*	*0.60*
Wholesaler		
Purchasing Price	11.00	10.60
Claim Back GST Input Tax	-	-0.60
Gross Profit (29.1%)	3.20	2.91
Gross Sale Price	14.20	12.91
GST (Output Tax)	-	0.77
Total Sale Price	14.20	13.68
Tax collected by the Government	-	*0.17*
Retailer		
Purchasing Price	14.20	13.68
Claim Back GST Input Tax	-	-0.77
Gross Profit (29.1%)	4.13	3.76
Gross Sale Price	18.33	16.67
GST (Output Tax)	-	1.00
Total Sale Price	18.33	17.67
Tax collected by the Government	-	*0.23*
Consumer		
Purchasing Price	18.33	17.67
	(Higher)	(Lower)
Government		
Tax collection	1.00	1.00
	(Same)	**(Same)**

Impact on consumers – Illustrations (double taxation effect, SST vs. GST)

Scenario G: Consumption involved both sales tax and service tax	Sales tax (10%) & Service tax (6%)	GST (6%)
Importer		
Gross Sale Price	10.00	10.00
Sales Tax / GST	1.00	0.60
Total Sale Price	11.00	10.60
Tax collected by the Government	*1.00*	*0.60*
F&B service provider		
Purchasing Price	11.00	10.60
Claim Back GST Input Tax	-	-0.60
Gross Profit (RM10.00)	10.00	10.00
Gross Sale Price	21.00	20.00
Service Tax / GST (Output Tax)	1.26	1.20
Total Sale Price	22.26	21.20
Tax collected by the Government	*1.26*	*0.60*
Consumer		
Purchasing Price	22.26	21.20
	(Higher)	(Lower)
Government		
Tax collection	2.26	1.20
	(Higher)	(Lower)

Summary on impact on consumers and government tax collection (SST vs. GST)

	SST	GST
Scenario: Profit margin at fixed amount		
Consumer's purchasing price level	Depends on profit margin level	Depends on profit margin level
Government' consumption tax collection	Depends on profit margin level	Depends on profit margin level
Scenario: Profit margin at percentage term		
Consumer's purchasing price level	Higher	Lower
Government' consumption tax collection	Depends on profit margin level	Depends on profit margin level
Scenario: Involves both sales tax and service tax		
Consumer's purchasing price level	Higher	Lower
Government' consumption tax collection	Higher	Lower

SERC's commentaries

- On 9 June 2025, the Government has announced the implementation of **targeted revision of sales tax rate and expansion of service tax scope (SST), effective from 1 July 2025**. The timeline of implementation is two months later than the original timeline of 1 May 2025 as tabled in the Budget 2025 on 24 October 2024.
- The revised and expanded SST framework is part of broader fiscal reforms aimed at strengthening public finances through increasing revenue and broadening tax base. **It is projected to yield RM5 billion tax revenue in 2025, and annualised RM10 billion for a full year**. This helps to keep the 2025 Budget fiscal deficit intact at 3.8% of GDP despite a likely downward revision of 2025's GDP growth estimates (currently at between 4.5% and 5.5%).
- **However, many business and industry groups have raised concerns about the timing of the SST expansion, increased business costs, a disproportional impact on consumers, lack of clarity and insufficient lead time for preparation**. The stakeholders have commented that the implementation of service tax on construction services will have to consider the transitional rules, which allow for exemptions on contracts that straddle past the implementation date.
- **The timing and sequencing of regulatory policy and tax changes are crucial to avoid undue burden on businesses and consumers**. Careful planning and sequencing are essential to ensure the measures effectively address economic challenges without creating unintended consequences.

SERC's commentaries (cont.)

- **Many costs induced by policy changes have been incurred or come due this year and in 2026, making it difficult for businesses to manage**. These include an increase in the minimum wage of RM200 to RM1,700 per month, the planned implementation of a 2% employers' contribution to the EPF for foreign workers, a multi-tiered levy, RON95 fuel subsidies rationalisation and an adjustment in electricity tariffs as well as the forthcoming port tariff adjustment of 30% at Port Klang implemented in phases over a three-year period, starting 1 July 2025.
- Amid ongoing global economic headwinds and uncertainty surrounding the US tariffs policy, potentially cause negative spillovers on domestic economy and business conditions, implementing the SST expansion could strain SMEs and increase pressure on consumer prices.
- With businesses already reeling from rising operating costs, implementing the expanded SST could further burden businesses with increased costs and squeeze their profit margins. Most construction contracts are normally awarded on a fixed-price and fixed-duration basis, which limits the industry's flexibility to absorb new cost burdens without disrupting the project delivery.
- A back-of-the-envelope calculation of operating costs increases due to 8% service tax on rental or leasing together with other personnel cost-related measures indicated that the operating costs for a small-sized enterprise in business services would increase by 6.1% or RM8,398 per month; a small-sized enterprise in fashion business would increase by 8.9% or RM5,924 per month; and a medium-sized enterprise in the manufacturing sector would increase by 11.0% or RM26,058 per month (see Appendix 3).

SERC's commentaries (cont.)

- Ultimately, increased business costs, if not absorbed, would be passed onto consumers, potentially dampening discretionary consumer spending due to higher prices of non-essential goods and a wider range of taxed services.
- In response to feedback from various stakeholders, the Government has made several amendments to the original expanded scope of SST on 28 June 2025. These include **exempt selected materials and foods such as apples, oranges, mandarin oranges, and dates from Sales Tax; increase the Service Tax registration threshold from RM500,000 to RM1 million for leasing or rental and financial services; increase the exemption threshold for tenanted SMEs from paying service tax on rental/leasing to RM1 million from RM500,000; and remove beauty services from Service Tax.**
- Under this latest sales tax structure, a total of 3,338 items previously exempted are now subject to tax: 3,170 items (27.7% of total goods excluding overlapping items) at 5%, and 168 items (1.5%) at 10%. In total, out of 11,448 items in 2025, 1,839 items (16.1%) remain exempted, while 4,068 items (35.5%) are taxed at 5% and 5,521 items (48.2%) at 10%.
- Compared to 2022, the number of taxed "**Raw Materials and Intermediate Goods**" increased by 1,851 items, bringing the total to 3,461 items (36.1% of all items taxed at 5% and 10% totalling 9,587 items in 2025). This is followed by "**Machinery, Transport Equipment, and Electronics**", which increased by 815 items to 3,260 items (34.0%), and "Consumer Goods" increased by 222 items to 1,692 items (17.6%).

SERC's commentaries (cont.)

- In the "**Fruits and Vegetables**" category, having a total of 513 items, 217 items (42.3%) remain exempted, down from 377 in 2022. Conversely, 294 items (57.3%) are now subject to 5% tax, up from 132 items previously. These are primarily imported products, while locally grown produce remains tax-exempt.
- For "**Processed Foods and Beverages**", exempted items dropped significantly from 177 in 2022 to 108, while the number of items taxed at 5% increased to 397, up from 294 previously.
- While the zero-rated sales tax on essential goods consumed by the public will not significantly affect the low-income households, the imposition of 5% or 10% on discretionary and non-essential goods will likely increase the prices of those goods and could potentially lead to decreased discretionary consumer spending. This is because consumers will have to pay more for discretionary and non-essential items, which may cause them to reduce their purchases of these goods.
- On the service tax, there have been changes and an increase of the standard service tax rate from 6% to 8% in 2024. The scope was subsequently expanded to several new taxable services on 1 March 2024, including karaoke centre services, repair and maintenance services, brokerage and underwriting services for non-financial sectors (such as brokerage for ship and aircraft space, commodities, and real estate), as well as logistics services.
- Effective from 1 July 2025, the scope of service tax will be expanded to cover additional services (financial and healthcare) and **three new services (rental or leasing, construction works and education)**. This brings the service tax framework to a total of 13 service groups (see Appendix 1).

SERC's commentaries (cont.)

- To mitigate the impact of any potential tax cascading, B2B exemption and group relief will be given to businesses carrying on rental and leasing activities, while B2B exemption will apply for construction services and financial services. For rental or leasing services, tenanted SMEs with annual sales of less than RM1 million will be exempted from 8% service tax. The tenant must make a declaration and register the SME through the MyPMK system developed by the Royal Malaysian Customs Department (RMCD).
- The service tax on leasing and rental services is expected to create significant spillover effects, particularly impacting commercial and retail sectors like shopping malls. This is because the tax will increase costs for businesses operating within these spaces, potentially squeezing their profit margins, and ultimately, the unabsorbed costs could pass onto consumers, leading to increased prices.
- Many of the so-called "essential" goods, including daily necessities, are also sold in leased retail spaces. Imposing service tax on rental agreements may raise operational costs for store operators, especially small businesses and franchisees. These increased costs are likely to be passed on to consumers, potentially contributing to inflationary pressures on essential goods.
- **The implementation of expanded SST has to consider the transitional rules, which allow for exemptions on contracts that straddle past the implementation date**. The provision of a 12-month exemption from tax for non-reviewable contracts is viewed as insufficient due to the type of projects and project cycles, in particular, large-scale infrastructure projects or property development have project cycles which often exceed one year.

SERC’s commentaries (cont.)

- A revision of items subject to higher sales tax rates is planned to align with the postponement of the High-Value Goods Tax (HVGT), also known as the luxury goods tax. However, the distinction between essential and non-essential or premium goods is subjective and varies based on individual circumstances, including preferences and health considerations. For example, deep-sea fish, or salmon are healthy foods, not premium items, and often consumed for their health benefits. Hence, higher taxes levied on "premium" or healthier foods could disproportionately affect middle-income households, potentially making healthier options less affordable and pushing them towards less healthy, but cheaper, alternatives.
- While companies that take steps to comply with the SST registration and reporting requirements by 31 December 2025 will not face prosecution or penalties, the lead time of less than three weeks leaves businesses scrambling to reconfigure systems, classify products, apply for exemptions, and communicate price changes. Although the grace period reduces the risk of penalties, it does not ease the immediate compliance burden imposed on these businesses under extremely tight timelines.

SERC’s recommendations

1. Review of the Threshold Exemption from the SST

- For service tax on rental or leasing, it is proposed to raise higher threshold of exemption to RM2 million annual sales from RM1 million, to relieve the burden on more MSMEs. For construction services, the threshold of exemption should be raised to RM3 million from RM1.5 million, to avoid overburdening small contractors. A higher threshold is better aligned with the definition of SMEs for the services and other sectors – the upper bound of the MSME is RM3 million in annual revenue for small enterprises.
- For construction services, the SST should only be levied on the service portion of the contract value, with the non-service portion, including building materials and other hardware, being given exemption.

2. Longer Exemption Period for Non-Reviewable Contracts

- While the project contracts include a clause that anticipates and permits adjustments to the agreement due to policy changes, the provision of a 12-month exemption from tax for non-reviewable contracts is viewed as insufficient.
- We therefore propose to grant a 36-month exemption and expand to cover all project types, not just non-reviewable ones, due to the type of projects and project cycles, in particular, large-scale infrastructure projects or property development have project cycles which often exceed one year. Additionally, the SST shall not be applied retrospectively to protect pre-existing contracts from unexpected cost increases.

SERC’s recommendations (cont.)

3. Undertake a Comprehensive Review of the SST Expansion Scope

- The government shall have active and wider engagements with all stakeholders, considering the industry stakeholders’ interests in ensuring clear and smooth implementation. We concur with the concerns raised by business groups in the construction, services and manufacturing sectors over the timing of the SST expansion, increased costs, lack of clarity and insufficient time for preparation.

In conclusion

- The targeted revision of sales tax rate and expanded service tax scope form part of broader fiscal reforms to keep the nation's fiscal deficit on a sustainable path through increasing revenue and broadening the tax base.
- The SST reforms inevitably lead to adjustments in the economy, affecting various stakeholders, including households and businesses across different sectors. These adjustments can be higher business costs, as well as increased prices of goods and services, potentially leading to a reduction in discretionary consumer spending. When businesses face increased costs for inputs, they often pass those costs onto consumers through higher prices. This, in turn, can lead consumers to cut back on non-essential purchases, especially if their disposable income is also affected by inflation or other economic factors.
- Timing and proper sequencing of policy measures are crucial to avoid a burden on consumers and businesses. Many costs induced by policy changes have been incurred or come due, making it difficult for businesses to manage. These include an increase in the minimum wage of RM200 to RM1,700 per month, the planned implementation of a 2% employers' contribution to the EPF for foreign workers, a multi-tiered levy, RON95 fuel subsidies rationalisation and an adjustment in electricity tariffs as well as the forthcoming port tariff adjustment of 30% at Port Klang implemented in phases over a three-year period, starting 1 July 2025.
- We are concerned that over-bunching of regulatory and policy changes can significantly increase business costs, potentially impacting their profitability and cash flow. This comes at a time when businesses' sentiments were dampened by global economic uncertainty induced by the US's tariffs policy and its consequential negative spillovers on the domestic economy.

In conclusion (cont.)

- Malaysia needs a sustainable and predictable source of revenue to meet our growing development expenditure needs and strengthen fiscal resilience to build a fiscal buffer against economic shocks.
- The Government has indicated that it will prioritise improving the current tax system before assessing the need to reintroduce Goods and Services Tax (GST). Businesses and manufacturers have called for a reintroduction of GST as it is a more transparent and efficient tax system compared to SST. SST has some inherent structural limitations given its narrow base to enhance revenue growth, sustainability and also its compounding effect on businesses and consumers. Businesses do not get to claim a credit for incurring it; it creates a tax-on-tax effect along the supply chains.

Appendix 1: Full list of service tax

Group	Provision of Services	Taxable Threshold	Tax Rate	Remarks
A	Accommodation	RM500,000	8%	
B	Food and beverage	RM1.5 million	6%	
C	Night clubs, dance halls, cabarets, karaoke centre, massage parlours, public houses and beer houses	RM500,000	8%	
D	Private club	RM500,000	8%	
E	Golf club and golf driving range	RM500,000	8%	
F	Betting and gaming	RM500,000	8%	

Source: MOF; various federal government gazettes

Appendix 1: Full list of service tax (cont.)

Group	Provision of Services	Taxable Threshold	Tax Rate	Remarks
G	Professionals or skills, including legal services; accounting and auditing services; surveying services; engineering consultancy services; architectural services; consultancy, training, and couching services; information technology services; management services; employment services; security services; operation of online platform or marketplace; and maintenance or repair services.	RM500,000	8%	
H	Finance	RM1 million; NIL for credit card or charge card	8%, with a fixed amount of RM25 per credit card or charge card	Newly including financial services, with insurance / takaful and underwriting services regrouped from Group I

Source: MOF; various federal government gazettes

Appendix 1: Full list of service tax (cont.)

Group	Provision of Services	Taxable Threshold	Tax Rate	Remarks
I	Other service providers, including telecommunication services; parking; services and repair of motor vehicles; advertising services; electricity provision (above 600 kWh per billing cycle); domestic air services; brokering services; cleaning services; digital services; private healthcare services; traditional and complementary medicine services (T&CM); and allied health	RM500,000, except RM1.5 million for private healthcare services, T&CM, and allied health	8%, except telecommunication services, parking services, and health-related services at 6%	Health-related services regrouped from Group C with private healthcare becomes taxable
J	Logistics services including courier services; and customs agent	RM500,000; NIL for customs agent	6%	
K	Rental or leasing	RM1 million	8%	New group, with vehicle hiring services regrouped from Group I
L	Construction works	RM1.5 million	6%	New group
M	Education	NIL	6%	New group

Source: MOF; various federal government gazettes

Appendix 2: Compilation of industries' concerns about the expanded SST

Industry / Association	Concerns	Wishlist
Food importers Source	• Sales tax expansion will ultimately be borne by consumers and affect their healthy eating habits. • Salmon importer, and smoked salmon manufacturer – Malaysia is a relatively small player compared to countries such as Thailand, Indonesia and Vietnam. The SST would just burden them on top of other costs such as packaging, processing and transportation. • Demand for seafood like salmon and cod, which is then processed into smoked salmon, has been increasing annually. Sales tax will negatively affect the demand.	• Support the healthy food industry, such as salmon, to encourage their growth.
Kuala Lumpur Fruits Wholesalers' Association Source	• Inconsistency in the tax applications when billing customers.	• Request the publication of a comprehensive list of fruits subject to sales tax.
Malaysian Retail Chain Association (MRCA) Source	• Rising operational costs from the expanded SST will lead to price increases for consumers. • No longer able to absorb escalating expenses and the cost burden.	

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
Malaysia Retailers Association	• Multiple cost escalations, such as minimum wage, electricity tariff hikes, stamp duty on employment contracts, subsidy rationalisation, and sales tax on low-value imports. • No formal consultation or engagement has taken place with retail businesses. • Geopolitical instability has resulted in negative regional trade sentiment, leading to higher risks of compounding inflation and weakening consumer sentiment.	• Waive the 8% SST on commercial rentals altogether, or defer the implementation sine die (indefinitely) • Adopt a shared SST burden between landlords and tenants • Exclude service charges and shared-area operational recoveries from SST • Raise the SST exemption threshold to RM2 million in annual sales • Defer the SST on rentals until after Visit Malaysia Year 2026. • Introduce SST gradually, starting at 3% and rising to 8% over a five-year period.

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
Federation of Malaysian Manufacturers (FMM) Source	• A direct tax burden on machinery and equipment typically classified as capital expenditure, including items critical to upgrading production lines, automating processes, and scaling operations. • Serious implications for operating costs, investment decisions, and long-term business sustainability • Many newly impacted manufacturers, particularly those previously not registered under SST, require more time to prepare and comply. • Rising taxes on financial and logistics services, which form integral components of business operations, will cascade throughout supply chains, impacting investment decisions, export competitiveness, and overall business viability.	• Provide clearer and more practical transition guidelines, particularly for manufacturers engaged in mixed supplies and service providers navigating overlapping tax thresholds. • Engage more closely with stakeholders to align the rollout timeline and administrative processes with operational realities. • Calls for a broader exemption list, particularly for capital expenditure items such as machinery and equipment used in production. • Reevaluate the inclusion of construction services as well as leasing and rental services, given their far-reaching cost implications across sectors.

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
The Malaysia Shopping Malls Association (PPK Malaysia) Source	• The compounding cost pressures threaten business continuity and overall market sentiment • Other key cost escalations: electricity tariff hike (effective 1 July 2025), RM10 stamping fee on employment contracts (1 Jan 2026), and fuel and subsidy rationalisation (2H 2025) • Retailers will be forced to absorb or pass down these costs to consumers.	• Defer the SST expansion on rental, leasing, construction, and beauty services until after Visit Malaysia Year 2026. • Introduce a staggered SST approach, beginning at 3% and gradually rising to 8% over five years, and exclude service charges from SST, as they are not rental income but a recovery of shared-area operational costs. • Raise the SST exemption threshold to RM2 million in annual sales to protect small businesses. • A phased and consultative engagement to support business continuity.

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
Master Builders Association Malaysia (MBAM) Source 1, Source 2	• Revision and expansion of SST on construction services will strain the industry's cash flow, especially when the sector has been burdened by multiple layers of taxation on materials, labour and equipment. • Most contracts are awarded on a fixed-price and fixed-duration basis. • SST with potential for retrospective application would disrupt existing contractual obligations, leading to delays and cost overruns.	• Postpone the service tax only to contracts executed after 1 Jan 2026. • No tax applied to ongoing projects as contractors have no means to absorb unexpected costs once budgets are finalised. • Reduce service tax rate from 6% to 4%. • Extend the exemption for non-reviewable contracts to 24 months and apply it to all projects. • Levy the SST only on the service portion of construction contracts, excluding materials and hardware. • Propose to tie service tax to certified progress claims rather than invoice dates.

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
Real Estate and Housing Developers' Association (REHDA) Source	• Increased project costs & uncertainty when SST adds to existing indirect taxes (e.g., materials and labour). Worry about retrospective application: contracts signed before SST enforcement may not account for the added cost, forcing developers to absorb the tax. • Although residential buildings and housing-related public amenities are exempt, serviced apartments and commercial units (often part of mixed developments) will be taxed. • Several local authorities mandated the inclusion of shop lots within strata residential developments, and the impact of SST will undoubtedly be felt by the owners of these units. • Many SME developers are not yet registered with the Inland Revenue Board.	• Do not apply SST retrospectively to protect pre-existing contracts from unexpected cost increases. • Postpone the implementation date • Extend the grace period until 2026 Reconsider SST on mixed-use developments, especially where residential units are part of commercial projects due to land title

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
Malay Contractors Association of Malaysia Source	• SST will put a dent in the thin profits of building contractors who are already struggling with higher operating costs. • Affect the smooth flow of projects and cause delays. • Increased costs, especially when existing and future compliances, such as removal of the diesel subsidies, and the compulsory EPF contributions for foreign workers, the future removal of petrol subsidies and the hike in electricity tariff, may lead to contractors opting for cheaper alternatives, resulting in compromised quality.	• Gradually implement SST in phases over a year or two.
Association of Private Hospitals (APHM) Source	• Short implementation timeframe as the industry needs to adjust administrative systems, billing processes, and compliance procedures • Concerns about service accessibility, pricing transparency, and operational preparedness, especially for sectors like healthcare, which serve many non-Malaysians, including foreign workers, expatriates and international students.	• Postpone the implementation of private healthcare services for non-Malaysians. • Propose a "more practical timeline" instead of a short lead time. • Request clarification on the policy application, including its impact on professional fees, treatment of foreigners residing in Malaysia and other related implementation matters.

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
National Association of Private Educational Institutions (NAPEI) Source 1, Source 2	• Institutions that rely heavily on international student enrolment will face the challenge of diversifying their market base. • Students from developing countries could be disproportionately impacted by the additional costs. • Weaken Malaysia's competitive edge in the international education market. • Increase compliance and administrative challenges.	• A more balanced and phased approach is essential to allow businesses to adjust their business models. • Propose targeted exemptions or rebates for students from developing countries or those enrolling in critical fields such as STEM, artificial intelligence (AI) and healthcare. • Create a policy dialogue platform that includes the Higher Education, Finance Ministry and key stakeholders such as NAPEI to collaboratively monitor and address the tax implications.
Honorary President of the Malaysia Hairdressing Association and President of the UAHA (United Asian Hairdressers Association) Source	• The RM500,000 exemption threshold is too low, especially considering the rental fee in malls is high. • Double tax burden for mall-based salons as service tax on beauty services and rental (mall leading). • Limited cost-passing power as beauty service is a highly competitive market. • Short implementation timeline to study and prepare for compliance. • Beauty service is a labour-intensive sector with significant labour costs.	• Increase the SST registration threshold to RM1.5-RM2 million to target only luxury and high-end services. • Waive service tax on hairdressing as it is an essential service in Australia. • Delay implementation to provide sufficient lead time and engagement for businesses to comply.

Source: Various sources

Appendix 2: Compilation of industries' concerns about the expanded SST (cont.)

Industry / Association	Concerns	Wishlist
President of the UAHA (United Asian Hairdressers Association) Source	• The RM500,000 exemption threshold is too low, especially considering the rental fee in malls is high. • Double tax burden for mall-based salons as service tax on beauty services and rental (mall leading). • Limited cost-passing power as beauty service is a highly competitive market. • Short implementation timeline to study and prepare for compliance. • Beauty service is a labour-intensive sector with significant labour costs.	• Increase the SST registration threshold to RM1.5-RM2 million to target only luxury and high-end services. • Waive service tax on hairdressing as it is an essential service in Australia. • Delay implementation to provide sufficient lead time and engagement for businesses to comply.
Persatuan Anggun Menawan Malaysia (PAMM) Source	• Multiple compounding pressures, such as rising raw material costs, pressure to increase staff wages, and mandatory implementation of e-invoicing. • Vulnerability of the sector: ○ The beauty industry is a service-based, labour-intensive sector • Many operators are women-led micro and small businesses	• Immediately halt the service tax expansion on beauty services. • Call for constructive dialogue with beauty industry player to understand their real operating condition. • Seek a more inclusive, supportive approach that balances tax goals with the survival and growth of SMEs.

Source: Various sources

Appendix 3: Illustration of operating costs (rental and personnel expenses) increases

Illustration A: **A business services firm with 30 employees, renting a purpose-built office of 4,500 square feet in Klang Valley**

	Monthly basis	Annual basis
Rental payment in 2024	RM20,226	RM242,709
Rental payment in 2025 (post-SST revision)	RM21,844	RM262,126
8% service tax on rental payment	**RM1,618**	**RM19,417**
Salaries and wages (incl. employers' contribution to EPF) in 2024	RM117,701	RM1,412,410
Salaries and wages with ripple effect from higher minimum wage of RM200 per employee (incl. employers' contribution to EPF) in 2025	RM124,481	RM1,493,770
Ripple effect from higher minimum wage	**RM6,780**	**RM81,360**
Rental and wage (with EPF) increase	**RM8,398 (+6.1%)**	**RM100,777 (+6.1%)**

Assumption:

- *Rental rate: Average RM48.38 per square meter in 2024 for purpose-built office in Klang Valley (Source), unchanged for both years.*
- *Size of office: Assuming 150 square feet is needed per employee (Source), a small enterprise with 30 employees will need 4,500 square feet or 418.06 square meters.*
- *Personnel expenses: Employees are technicians and associate professionals, earning RM3,472 per month, with reference to the Salaries and Wages Survey Report 2023.*

Appendix 3: Illustration of operating costs (rental and personnel expenses) increases (cont.)

Illustration B: A fashion outlet with 10 employees, renting a shopping mall lot of 5,000 square feet in Klang Valley

	Monthly basis	**Annual basis**
Rental payment in 2024	RM45,802	RM549,620
Rental payment in 2025 (post-SST revision)	RM49,466	RM593,590
8% service tax on rental payment	**RM3,664**	**RM43,970**
Salaries and wages (incl. employers' contribution to EPF) in 2024	RM20,543	RM246,521
Salaries and wages with ripple effect from higher minimum wage of RM200 per employee (incl. employers' contribution to EPF) in 2025	RM22,803	RM273,641
Ripple effect from higher minimum wage	**RM2,260**	**RM27,120**
Rental and wage (with EPF) increase	**RM5,924 (+8.9%)**	**RM71,090 (+8.9%)**

Assumption:

- *Rental rate: Average RM98.60 per square meter in 2024 for shopping centres in Klang Valley (Source), unchanged for both years.*
- *Size of unit: 5,000 square feet is equivalent to 464.52 square meters.*
- *Personnel expenses: Employees are service and sales workers, earning RM1,818 per month, with reference to the Salaries and Wages Survey Report 2023*

Appendix 3: Illustration of operating costs (rental and personnel expenses) increases (cont.)

Illustration C: A manufacturer with 100 employees (50 local workers and 50 foreign workers (FW)), renting a factory at 10,000 square feet in Selangor

	Monthly basis	Annual basis
Rental payment in 2024	RM20,000	RM240,000
Rental payment in 2025 (post-SST revision)	RM21,600	RM259,200
8% service tax on rental payment	**RM1,600**	**RM19,200**
Salaries and wages (incl. employers' contribution to EPF and FW levy) in 2024	RM216,048	RM2,952,580
Salaries and wages with ripple effect from higher minimum wage of RM200 per employee (incl. employers' contribution to EPF [13% for local and 2% for FW] and FW levy) in 2025	RM240,507	RM2,886,080
Ripple effect from higher minimum wage, EPF contribution for FW, and higher FW levy (under multi-tier levy)	**RM24,458**	**RM293,500**
Rental and wage (with EPF and potential increase of levy) increase	**RM26,058 (+11.0%)**	**RM312,700 (+11.0%)**

Assumption:

- *Rental rate: Assuming RM2.00 as rental cost for a ready-built factory in Selangor is RM1.50-RM3.00 per square foot (Source), unchanged for both years.*
- *Personnel expenses: 50 manufacturing employees are local workers, earning RM2,360 per month, with reference to the Salaries and Wages Survey Report 2023. 50 employees are foreign workers, earning minimum wage; foreign worker (FW) levy to increase from RM1,850 to RM2,200 as a result of a multi-tiered levy (tiered rate not revealed yet).*

Appendix 4: Key takeaways from the engagement session on 25 & 26 Jun 2025

General Service Tax

- If a customer fails to pay the bill after 12 months, the seller is still required to account for the service tax, but may apply for a refund under the bad debt relief mechanism, subject to the approval of the Director General and fulfilment of specific conditions.

A. Leasing or Rental Services

- A system will be introduced by Customs to enable businesses to register their SME status for the purpose of leasing and rental exemptions. [Note: Further details were disclosed in RMCD Service Tax Policy No. 2/2025 subsequently on 29 June 2025 (Source)]
- Lessors are not required to determine the purpose of use by the lessee in order to qualify for the B2B exemption.
- Maintenance or utility charges will not be subject to service tax if they are separated from the leasing contract, as tax treatment is based on the contract instead of invoice / billing.
- If a company leases accommodation for employees, the service tax treatment depends on the property title. If it has a residential title, it is exempt from service tax.

B. Construction Services

- Definition of non-reviewable contract to be disclosed later [Note: It was disclosed in RMCD Service Tax Policy No. 3/2025 subsequently on 29 June 2025 (Source)].
- The imposition of service tax is based on the structure of the contract. If raw materials and construction services are provided under separate contracts, i.e. one contract for raw materials and another for construction works, only the construction services contract is subject to service tax. While there are concerns about service tax being imposed on top of sales tax, the Ministry of Finance (MOF) clarified that many basic raw materials are zero-rated under the sales tax, following its discussions with JKR and CIDB.
- Although the construction services to government bodies are exempt from service tax, the value of construction services to government bodies is included in the calculation of the threshold for registration.

Source: Royal Malaysian Customs Department

Appendix 4: Key takeaways from the engagement session on 25 & 26 Jun 2025

B. Construction Services (cont.)

- The imposition of service tax on professional services (Group G) and again under final construction services (Group I) may result in a tax-on-tax situation; the MOF considers these as separate services but will review the matter.

- In cases where manufacturers both produce machinery and carry out installation works, the MOF will assess whether sales tax or service tax registration is more appropriate

C. Private Healthcare

- For bills that include both medicine and consultation, the charges should be itemised as medicine as goods and consultation as services, with service tax applied only to the taxable service portion.

Sales Tax

- The sales tax registration threshold is determined based only on the value of taxable goods; non-taxable goods are excluded from the calculation.

- Effective 1 July 2025, sales tax applies to imported raw materials, but manufacturers who are not yet registered cannot claim exemption. Although they may anticipate exceeding the threshold, registration can only be done from 1 August based on July's figures, making the tax payable. The MOF is considering a refund mechanism to address this issue.

Source: Royal Malaysian Customs Department

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