



**SERVICE TAX POLICY NO 10/2020**

**SERVICE TAX EXEMPTION ON PROVISION OF DIGITAL SERVICES RELATED TO BANKING/FINANCIAL SERVICES**

1. Effective from **1<sup>st</sup> January 2020**, digital services provided by local service providers are subject to service tax under item (m), Group G, First Schedule, Service Tax Regulations 2018.
2. The Minister of Finance has decided that digital services related to banking/financial services provided by local service providers, is **not** subject to service tax under section 34 (4) of the Service Tax Act 2018 effective from 1<sup>st</sup> January 2020.
3. Recipients of digital services related to banking/financial services from service provider in paragraph 2 are exempted from payment of service tax as provided under section 34 (3) (a) of the Service Tax Act 2018.
4. Local digital service providers in paragraph 2 who granted exemption are as follows:
  - 4.1 Banks, investment banks or any financial institution licensed under the Financial Services Act 2013 [Act 758], Islamic Financial Services Act 2013 [Act 759], the Labuan Financial Services and Securities Act 2010 [Act 704] and the Labuan Islamic Financial Services and Securities Act 2010 [Act 705];
  - 4.2 Development Financial Institutions as prescribed under the Development Financial Institutions Act 2002 [Act 618] or other written law; or
  - 4.3 Any digital service provider who fulfill the following criteria:
    - i. He is a registered person (RP) under the Service Tax Act 2018;
    - ii. He is a digital service provider in Malaysia; and
    - iii. Provides digital service in relation to service of withdrawals or transfers of funds from one bank account to another, where service charges are charged separately to the account holder.
5. The above exemption does not apply to:
  - 5.1 Provision of digital service related to banking/financial provided by foreign service provider to consumer in Malaysia;
  - 5.2 Provision of digital services other than digital service related to banking/financial provided by local service provider in paragraph 4.1 – 4.3 as above.

6. **Adjustment of service tax being exempted** are as follows:

- 6.1 Where service tax charged has been accounted for on invoice basis, even though payment is not received on taxable service to be available on or after 1<sup>st</sup> January 2020, registered person has to issue credit note to customer under regulation 11(1) Service Tax Regulation 2018 and make adjustment under regulation 11(2) Service Tax Regulation 2018; or
- 6.2 Where the service is provided for a period prior to 1<sup>st</sup> January 2020 and continues after 1<sup>st</sup> January 2020, the registered person has to account and pay service tax only on the service provided before 1<sup>st</sup> January 2020.
- 6.3 **No claiming of service tax refund** is allowed for any person who has paid service tax.

INTERNAL TAX DIVISION  
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