

Key Highlights: The Expansion Of Sales Tax & Service Tax In Malaysia

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During Budget Speech 2025 delivered on 18.10.2024, the Government announced a progressive expansion to the scope of the Sales and Service Tax (SST). However, the enforcement of the expanded SST was subsequently delayed, providing a reprieve for businesses in relation to Trump's reciprocal tariff.

The expansion of the SST scope was eventually implemented through several legislations, which were gazetted on 9.6.2025.

This alert highlights the key aspect of the expanded SST regime.

A. Sales Tax

Through the Sales Tax (Rate of Sales Tax) Order 2025 (Sales Tax Order 2025) and the Sales Tax (Goods Exempted from Sales Tax) Order 2025 (Sales Tax Exemption Order), the key changes in the sales tax regime are stated as follows:

Sales Tax Order 2025

Effective from 1.7.2025, the key changes under the Sales Tax Order 2025 are summarised as follows, amongst others:

- (a) The sales tax rate imposed on taxable goods shall be at 10% except for those specified in the Sales Tax Order 2025, which are subject to a rate of 5% or a specified rate. Amongst others, the non-exhaustive list of goods to be taxed at the following rates:
 - Sales tax imposed at 5%
 - (i) Imported seafood
 - (ii) Imported Fruits (e.g. bananas, grapes, guavas)

- (iii) Reading materials and essential goods (e.g. cooking oil, table salt and etc)
 - (iv) Raw materials
 - (v) Materials used in the construction industry
 - (vi) Waste and scrap of metals (e.g. aluminium, copper and etc)
 - (vii) Machinery
 - (viii) Vehicles
- Sales tax at 10%
- (i) Tungsten waste and scrapes
 - (ii) Racing bicycles
 - (iii) Vessels used exclusively to transport passengers
- (b) The following transitional rules are applicable:
- Applicable sales tax rate
- Invoices issued prior to 1.7.2025:
- The goods must apply the existing sales tax rates.
- Invoices issued on or after 1.7.2025:
- The goods must apply the new rates pursuant to the Sales Tax Order 2025.
- In the event the registered manufacturer uses or disposes of taxable goods prior to/ on 1.7.2025, the new sales tax rate specified in the Sales Tax Order 2025 is applicable, even if the usage or disposal has been recorded in the company's accounts previously.

Meanwhile, in light of the new order, the Sales Tax (Rates of Tax) Order 2022 was revoked.

Sales Tax Exemption Order 2025

Effective from 1.7.2025, the key changes under the Sales Tax Exemption Order 2025 are summarised as follows:

- (a) The Sales Tax (Goods Exempted from Tax) Order 2022 is revoked.
- (b) Based on the Sales Tax Exemption Order 2025, certain goods have been removed from the sales tax exemption order, which are now subject to sales tax as stated above. However, the sales tax exemption on some of the essential goods (such as poultry, flour, rice, noodles, sugar, salt, medicine and etc) are maintained.
- (c) Pursuant to paragraph 2(c) of the Sales Tax (Goods Exempted from Sales Tax) (Amendment) Order 2025, apples and oranges, mandarin oranges and dates will be exempted from sales tax.

B. Service Tax

Through the Service Tax (Rate of Tax) (Amendment) Order 2025 (Service Tax Rate Amendment Order 2025), Service Tax (Amendment) Regulations 2025 (Service Tax Amendment Regulations 2025) and the Service Tax (Persons Exempted from Payment of Tax) (Amendment) Order 2025 (Service Tax Exemption Amendment Order 2025), the key changes in the service tax regime are stated as follows:

Service Tax Rate Amendment Order 2025 & Service Tax Amendment Regulations 2025

Effective from 1.7.2025, the key changes under the Service Tax Rate Amendment Order 2025 and Service Tax Amendment Regulations 2025 are:

- (a) The service tax rate shall be at 8% of the price, value, premium or takaful contribution of the taxable service unless stated otherwise.
- (b) The expanded scope of taxable services in the First Schedule of the Service Tax Regulation 2018 is illustrated in the table below. The registration thresholds for Groups H and K was subsequently adjusted through the Service Tax (Amendment) Regulations 2025 (Amendment) Regulations 2025.

No.	Group	Type of Taxable Service	Registration Threshold	Service Tax Rate
1.	Group C	Wellness Centre	RM 500,000	8%
2.	Group H	Financial Services	RM 1 million	8%
3.	Group I	Private Healthcare	RM 1.5 million	6%
4.	Group K	Rental or Leasing	RM 500,000	8%
5.	Group L	Construction Work	RM 1.5 million	6%
6.	Group M	Education	N/A	6%

(i) Group C – Wellness Centre

- Pursuant to Regulation 2(a) of the Service Tax Amendment Regulations 2025, the taxable services are expanded to include any wellness centre which provides:
 - Any treatment on any part of the body using any substance or equipment including aromatherapy, acupuncture, reflexology or cupping;
 - Any care or treatment for postnatal mother and infant; or
 - Wellness care for the elderly.
- Pursuant to the MOF's statement dated 27.6.2025, it was further clarified that services such as manicure and pedicure, facial treatments, haircutting, and hairdressing are not subject to service tax.

(ii) Group H – Financial Services

- The expanded taxable services primarily include the provision of financial services such as credit facilities, factoring, financial leasing, insurance, Shariah-compliant financing services, takaful, trade financing that offered for a fee, commission or similar payment by any regulated person.

(iii) Group I – Private Healthcare

- The expanded taxable services include the provision of healthcare services, the practice of traditional and complementary medicine, and allied health services such as physiotherapy, medical physics and nutrition.
- However, service tax exemption is applicable to services provided to Malaysian citizens.

(iv) Group K – Rental or Leasing

- The expanded taxable services are expanded to include the provision of all types of rental or leasing of tangible asset services or any other services that form part of the rental or leasing services, excluding:
 - Housing accommodation (e.g. small office home office (SOHO), serviced apartment, serviced condominium, serviced suit or residential suite);
 - Reading materials;
 - Tangible assets located outside Malaysia;
 - Tangible assets through a financial lease;
 - Aircraft except for drone; and
 - Ships except for floating platforms.

(v) Group L – Construction Work

- The expanded taxable services are expanded to include the provision of any construction works services excluding the construction of a residential building and public facility related to the residential building.
- The definition of “construction work” is:

“construction works means the construction, extension, installation, repair, renewal, renovation, alteration, dismantling, demolition of, or facility maintenance in the construction works period –

(a) any building, erection, edifice, structure, wall, fence or chimney, whether constructed wholly or partly above or below ground level;

(b) any road, harbour works, railway, cableway, canal or aerodrome;

(c) any drainage, irrigation or river control works;

(d) any electrical, mechanical, petrochemical or telecommunication works;

(e) any gasworks or waterworks; or

(f) any bridge, viaduct, dam, reservoir, earthworks, pipeline, sewer, aqueduct, culvert, drive, shaft, tunnel or reclamation works,

which includes any works which form an important and integral part of or are preparatory to or temporary for the works specified in paragraphs (a) to (f);

(vi) Group M – Education

- The expanded taxable services provided by the taxable person are expanded to include:
 - a. Any private educational institution registered under the Education Act 1996 (EA) that provides pre-school, primary school, lower secondary, upper secondary / post-secondary education services which imposes exceeding RM 60,000 per student for each academic year;
 - b. A higher education institution registered under the Universities and University Colleges Act 1971, a private higher education institution registered under the Private Higher Educational Institutions Act 1996 or a higher education institution registered under the EA that provide education services to a non-citizen.
 - c. Any language centre registered under the EA.

Transitional Rules

Whilst the Service Tax Amended Regulations 2025 are silent on the transitional rules, reference can be made to the Sales Tax Regulations 2018 (STR). Under the STR, in the event there is a change in taxable service as specified in the First Schedule, service tax shall be imposed in the following manner:

- (b) In the scenario where the taxable service is no longer specified as a taxable service in the First Schedule and the provision of such service is spanning across the date of change (i.e. 1.7.2025), service tax shall be imposed on the proportion of the service which is attributed to the part of the period before the date of such change;
- (c) In the scenario where a new service is specified as a taxable service and the provision of such service is spanning after the date of change (i.e. 1.7.2025), service tax shall be imposed on the proportion of the service which is attributed to the part of the period after 1.7.2025; or
- (d) In the scenario where a new service is specified as a taxable service and before the date of such change, any payment is received in connection with such service that will be provided on or after the date of change, no service tax shall be charged on the payment received.

Business-to-Business (B2B) Exemption

Effective from 1.7.2025, the B2B services that are exempted from service tax are summarised as follows:

- (a) The services that are granted service tax exemption for B2B services are:
 - (i) Group H – Finance Services
 - (ii) Group K – Rental or leasing services;
 - (iii) Group L – Construction works services; and
- (b) The conditions to be satisfied for the B2B service tax exemption are stated below:

Group H

- (i) The service is acquired from a service provider (SP) who is a registered person (i.e. any person regulated by Labuan Financial Services Authority) or any person outside Malaysia; and
- (ii) The said service under Group H is used by the SP who provides any services regulated under Labuan Financial Services and Securities Act 2010 or the Labuan Islamic Financial Services and Securities Act 2010.
- (iii) Through the MOF's statement dated 27.6.2025, it was further clarified that the acquired taxable financial service is used for the purpose of providing the following services:
 - Taxable financial services;
 - Financial services related to goods, land, or matters outside Malaysia; or
 - Financial services directly related to goods exported out of Malaysia.

Groups K and L

- (i) Both the SP and the service recipient (SR) are registered persons under the Service Tax Act 2018 in respect of the relevant taxable service, under the same taxable group;
- (ii) SR must provide the same taxable service (i.e. sublease/sublet for Group K; construction service for Group L) to another party; and
- (iii) The service provided by SR to the other party is for the same purposes of subletting or subleasing or construction service, which is not for personal consumption.

However, the B2B exemption is only available for sublease or sublet based on the Guidelines issued by the Customs at this juncture.

Reviewable & Non-Reviewable Contracts

Based on the Guidelines issued by the Customs, non-reviewable contracts for construction services, rental & leasing services, are exempted from service tax up to 12 months. The Customs subsequently issued a service tax policy clarifying that non-reviewable contracts for financial services are also exempted from service tax up to 12 months.

Subject to the specific conditions for each industries, the general conditions to satisfy for non-reviewable contracts pursuant to the service tax policies dated 29.6.2025 and the amended service tax policies dated 24.7.2025 as stated follows:

- (a) The service provider is a registered person for service tax;
- (b) The contract does not contain a price revision clause or any value adjustment mechanism;
- (c) The contract is made in writing, signed, and stamped by the Inland Revenue Board of Malaysia on or before 9 June 2025;
- (d) The contract clearly states:
 - the type of service provided;
 - a fixed contract value (non-variable);
 - the contract duration;
- (e) The contract remains in force after 1.7.2025.

However, it must be noted that the conditions for the said exemption for non-reviewable contracts are yet to be legislated at this juncture.

Conclusion

Businesses are urged to take proactive steps in light of the recent changes to the SST framework. This includes reassessing their tax obligations, reviewing the nature of their service offerings and existing contractual arrangements, and seeking professional advice where necessary to ensure compliance and mitigate potential risks. Given that certain aspects of the expanded SST framework remain subject to clarification, businesses should also closely monitor official announcements for further updates.

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