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INDIRECT TAX ALERT: SERVICE TAX UPDATES

JULY – AUGUST 2026

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In July and August 2026, the Royal Malaysian Customs Department ("RMCD") issued several updates covering:-

Rental and leasing services

Invoices issued in foreign currency

Employment services (including employment secondment)

Private healthcare services

This alert summarises the key changes and practical considerations for businesses.

1. Service Tax Policy No. 2/2025 (Amendment No. 5)

Issued on 22 July 2026, the policy clarifies the conditions and effective dates for the Service Tax exemption available to Micro, Small and Medium Enterprises ("MSMEs") acquiring rental or leasing services.

To qualify:

- MSMEs with annual sales below **RM1 million** may enjoy the exemption from **1 July 2025**, while those exceeding RM1 million but below **RM1.5 million** may qualify from **1 January 2026**.
- The MSME must register in MyPMK* by **31 December 2026** and update its annual sales information yearly.
- The MSME must have paid-up ordinary share capital not exceeding **RM2.5 million**.
- Where the MSME is established by a company within the same group of companies, the shareholding held by that company in the MSME must not exceed **20%**.

The policy also confirms that rental or leasing services are subject to Service Tax at **6% from 1 January 2026**.

What this means for businesses:

MSMEs should reassess their eligibility, verify that the relevant MyPMK requirements are met and review their Service Tax treatment in respect of rental or leasing transactions.

****MyPMK : Sistem Perusahaan Mikro Dan Kecil***

2. Service Tax Policy No. 4/2026

The policy clarifies the registration and invoicing position where rental or leasing services are provided by more than one party.

The key treatments are summarised below:

Arrangement	Service Tax Treatment
Separate invoicing by each party	Each party is treated as a separate service provider and must assess its own Service Tax registration threshold and invoice its respective shares.
Single invoice by one party	The party issuing the single invoice for the entire rental or leasing services is treated as the service provider and is responsible for Service Tax registration, subject to meeting the threshold.

What this means for businesses:

*The policy clarifies the Service Tax registration position where rental or leasing services involving multiple owners. Businesses should review their **contractual and invoicing arrangements** to determine the appropriate party responsible for Service Tax registration and compliance.*

3. Public Ruling No. 3/2026 – Foreign Currency Exchange Rates

Effective from 28 July 2026, the above replaces Public Ruling No. 1/2026 and clarifies the exchange rates to be used for Sales Tax and Service Tax ("SST") registrants when issuing invoices in foreign currencies.

Requirement	Key treatment
Foreign currency invoices	The foreign currency amount must be stated in Ringgit Malaysia using the applicable selling exchange rate.
Permitted exchange rate sources	Rates published by Bank Negara Malaysia ("BNM"), Malaysian banks registered under BNM, international news agencies such as Bloomberg, Reuters or Oanda, or specified foreign central banks may be used.
Consistent application	The selected source must be applied consistently for at least one year from the end of the accounting period.
Other exchange rate sources	Prior approval from the Director General of Customs is required.

What this means for businesses:

SST registrants that invoice customers in foreign currencies should ensure they use the relevant RMCD-approved exchange rate and apply it consistently throughout the required period. This is relevant to multinational companies, shared services and any registered companies issuing invoices to foreign parties.

4. Announcement on Service Tax for Employment Services

The revised Employment Services Guide (Version 4) dated 9 June 2026 initially treated disbursements or pass-through costs as part of the taxable employment service. On 13 August 2026, RMCD clarified that Service Tax applies only to the employment or management fee, while itemised disbursements or pass-through costs are not subject to Service Tax.

What this means for businesses:

Employment service providers should itemise qualifying disbursements or pass-through costs and review the Service Tax treatment applied to previous and future billings.

5. Service Tax Policy No. 5/2025 (Amendment No. 4)

The amendment extends the Service Tax exemption for private healthcare services to newborns who have not yet obtained citizenship status, provided that:

- at least **one parent must be a Malaysian citizen** and holds valid identification issued by the National Registration Department ("NRD").
- the required documentary evidence is provided to the private healthcare service provider during registration.

What this means for businesses:

Private healthcare providers should obtain and retain the relevant supporting documents to substantiate the exemption provided to the patients.

6. Public Ruling No. 5/2026 – Secondment of Employees

Effective from 12 August 2026, the above clarifies the conditions to be met for secondment of employee not to be subject to Service Tax. The conditions are as follows:

- the secondment is supported by an agreement between the original employer and the receiving company;
- the original employer is not in the business of providing employment services;
- the employee remains employed by and returns to the original employer after the secondment;
- the receiving company has full control over the employee during the secondment;
- salary and allowances are charged at cost without any additional mark-up; and
- the secondment period is less than six months within a year and does not continue into the following year.

If any condition is not met, the arrangement will be treated as a taxable employment service and subject to Service Tax.

What this means for businesses:

Businesses should review existing arrangements carefully, particularly secondments lasting six months or more and ensure that all the conditions are met.

How We Can Assist

We have supported businesses across various industries on **indirect tax and global trade matters**, including Sales Tax, Service Tax, customs and trade compliance, through advisory, compliance reviews and health checks.

Whether you require assistance in **understanding your indirect tax obligations, identifying potential compliance gaps or navigating changes in the indirect tax and global trade requirements**, we would be pleased to discuss how we can support your business.

Key Contacts

Mayadevi Karpayah
Director
+603 2610 2831
mayadevi@rktmalaysia.com

Kalvinder Singh Sidhu
Associate Director
+603 2610 2863
kalvinders@rktmalaysia.com

Contact Us

Kuala Lumpur
5th Floor, Penthouse, Wisma RKT
Block A, No.2 Jalan Raja Abdullah
Off Jalan Sultan Ismail,
50300 Kuala Lumpur, Malaysia
Tel : +603 2610 2888

Johor Office
Suite 16-02, Level 16, Menara Landmark,
No. 12, Jalan Ngee Heng,
80888 Ibrahim International Business District,
Johor Bahru, Johor, Malaysia
Tel : +607 276 2828

General Email: info@rktmalaysia.com

Connect to
www.rktmalaysia.com