SQL Financial Accounting

UNDERSTANDING OF MIXED SUPPLIES (PARTIAL EXEMPTION)

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SQL Financial Accounting

GST – Understanding of Mixed Supplies (Partial Exemption)

eStream Software

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VERSION CONTROL

Version No.	Date	Initiated by	Remarks
1.0	11 May 2015	Loo Chin Soon	Initial document
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1   INTRODUCTION

What is Mixed Supplies?

A person who makes both taxable and exempt supplies is known as a mixed supplier.

A GST-registered business is partially exempt if it makes both taxable and exempt supplies i.e. residual input tax claim applies, because the general input tax recovery rule is that input tax is claimable only if it is attributable to the making of taxable supplies. Input tax attributable to exempt supplies or out of scope supplies are not claimable.

Type of Supplies	Output Tax	Input Tax	Note to Input Tax
SR	6%	6%	Input Tax claimable
ZR	0%	6%	Input Tax claimable
ES	NO GST	6%	Input Tax is not claimable

Due to exempt supplies (ES) the input tax is not claimable, the partial exemption rules apply, ie. De Minus Rule (DMR) and Input Tax Recovery Rate (IRR).

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2   TAX CODE – MIXED SUPPLIES

2.1 Tax Code

You can found the following tax code available in SQL Financial Accounting.

Type	Tax Code	Description	Tax Rate %	Partial Exemption Rules
P	TX-RE	**Purchase with GST incurred that is not directly attributable to taxable or exempt supplies.** This is only applicable to GST registered trader that makes both taxable and exempt supplies (or commonly known as partially exempt trader). This refers to GST incurred that is not directly attributable to the making of taxable or exempt supplies (or commonly known as residual input tax). Example includes operation over-head for a development of mixed property (properties comprise of residential & commercial).	6%	De Minus Rule (DMR) + Input Recovery Rate (IRR)
P	TX-E43	**Purchase with GST incurred directly attributable to incidental exempt supplies.** This is only applicable to GST registered trader (group and ATS only) that makes both taxable and exempt supplies (or commonly known as partially exempt trader). TX-E43 should be used for transactions involving the payment of input tax that is directly attributable to the making Incidental Exempt Supplies. Incidental Exempt Supplies include interest income from deposits placed with a financial institution in Malaysia, realized foreign exchange gains or losses, first issue of bonds, first issue of shares through an Initial Public Offering and interest received from loans provided to employees, factoring receivables, money received from unit holders for units received by a unit trust etc.	6%	N/A
P	TX-N43	**Purchase with GST incurred directly attributable to non-incidental exempt supplies.** This is only applicable to GST registered trader that makes both taxable and exempt supplies (or commonly known as partially exempt trader). TX-N43 should be used for transactions involving the payment of input tax that is directly attributable to the making Non-Incidental Exempt Supplies. Example for this tax code are your company bought wall paper for your residential apartment rented to others and purchase costs are already included 6% GST, but you are not eligible to claim the amount of input tax as it would be applied directly to make exempt supply (rental of resident apartment).	6%	De Minus Rule (DMR)

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3 PARTIAL EXEMPTION RULES

3.1 Input Tax Recoverable Ratio (IRR)

Formula:

$IRR = (T-O) / (T+E-O)$

$T = SR + ZRL + ZRE + DS + OS + RS + GS$
$E = ES$

O = ES43 (Incidental financial supplies)
  ES (Disposal of assets which are exempted eg. residential house)
  SR (Disposal of assets)
‘   DS (Self-recipient accounting transactions, ie. any supplies users make to themselves eg.imported services etc.)
  OS (Out of scope transactions which are not taxable in Malaysia)

3.2 De Minus Rule (DMR)

To satisfy the De Minus Rule:
1. DMR <= 5% and
2. Total Exempt Supply (ES) <= RM5,000.00 per month

Formula:

$De\ Minus\ Rule = ES / ES + (SR + ZRL + ZRE + DS + OS + RS + GS)$

3.3 Input Tax Claimable Logic (base on DMR)

Below is the summary of the calculation logic based on DMR to determine the input tax claimable.

Tax Code	Tax Rate	Fulfill DMR	Input Tax Claimable (ITC)
TX-RE	6%	Yes	ITC x 100%
TX-RE	6%	No	ITC x IRR
TX-E43	6%	N/A	ITC x 100%
TX-N43	6%	Yes	ITC x 100%
TX-N43	6%	No	ITC x 0%

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4 TX-RE - EXAMPLE

4.1 Example 1 (Total Exempt Supplies = RM5,000 per month)

For Monthly,
Total ES = RM5,000.00
Total SR = RM100,000
Total ZRL = RM50,000
Total TX-RE = RM10,000

1. Total ES (RM5,000) <= RM5,000 per month **(PASS)**
2. DMR = ES / ES + (SR + ZRL + ZRE + DS + OS + RS + GS)
   = 5,000 / 5,000 + (100,000 + 50,000)
   = 0.03 **(PASS)**

Conclusion:
Both rules are PASS, therefore Input Tax (TX-RE) is **100% CLAIMABLE**.

Input Tax Claimable (TX-RE)   = Input Tax (TX-RE) x 100%
    = 600.00 x 100%
    = **600.00**
GST Unclaimable (GST-301)   **= 0.00**

4.2 Example 2 (Total Exempt Supplies = RM6,000 per month)

For Monthly,
Total ES = RM6,000.00
Total SR = RM100,000
Total ZRL = RM50,000
Total TX-RE = RM10,000

1. Total ES (RM6,000) > RM5,000 per month **(FAIL)**
2. DMR = ES / ES + (SR + ZRL + ZRE + DS + OS + RS + GS)
   = 6,000 / 6,000 + (100,000 + 50,000)
   = 0.04 **(PASS)**

Conclusion:
Due to rule no.1 is FAIL, therefore Input Tax (TX-RE) is **CLAIMABLE using IRR formula**.

IRR   = (100,000 + 50,000) / (100,000 + 50,000 + 6,000) X 100%
    = 95.15%

Input Tax Claimable (TX-RE)   = Input Tax (TX-RE) x IRR
    = 600.00 x 95.15%
    = **576.90**
GST Unclaimable (GST-301)   = 600.00 – 576.90
    = 23.10

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4.3 Example 3 (Total Exempt Supplies = RM6,000 for 3 months)

For 3 Months,
Total ES = RM6,000.00
Total SR = RM100,000
Total ZRL = RM50,000
Total TX-RE = RM10,000

1. Total ES (RM6,000 / 3 mths = RM2,000) <= RM5,000 per month **(PASS)**
2. DMR = ES / ES + (SR + ZRL + ZRE + DS + OS + RS + GS)
   = 6,000 / 6,000 + (100,000 + 50,000)
   = 0.04 **(PASS)**

Conclusion:
Both rules are PASS, therefore Input Tax (TX-RE) is **100% CLAIMABLE**.

Input Tax Claimable (TX-RE)   = Input Tax (TX-RE) x 100%
         = 600.00 x 100%
         = **600.00**
GST Unclaimable (GST-301)   **= 0.00**

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5 TX-N43 - EXAMPLE

5.1 Example 1 (Total Exempt Supplies = RM5,000 per month)

For Monthly,
Total ES = RM5,000.00
Total SR = RM100,000
Total ZRL = RM50,000
Total TX-N43 = RM10,000

1. Total ES (RM5,000) <= RM5,000 per month **(PASS)**
2. DMR = ES / ES + (SR + ZRL + ZRE + DS + OS + RS + GS)
   = 5,000 / 5,000 + (100,000 + 50,000)
   = 0.03 **(PASS)**

Conclusion:
Both rules are PASS, therefore Input Tax (TX-N43) is **100% CLAIMABLE**.

Input Tax Claimable (TX-N43)	= Input Tax (TX-N43) x 100%
	= 600.00 x 100%
	= **600.00**
GST Unclaimable (GST-301)	**= 0.00**

5.2 Example 2 (Total Exempt Supplies = RM6,000 per month)

For Monthly,
Total ES = RM6,000.00
Total SR = RM100,000
Total ZRL = RM50,000
Total TX-N43 = RM10,000

1. Total ES (RM6,000) > RM5,000 per month **(FAIL)**
2. DMR = ES / ES + (SR + ZRL + ZRE + DS + OS + RS + GS)
   = 6,000 / 6,000 + (100,000 + 50,000)
   = 0.04 **(PASS)**

Conclusion:
Due to rule no.1 is FAIL, therefore Input Tax (TX-N43) is **NOT CLAIMABLE**.

Input Tax Claimable (TX-N43)	= Input Tax (TX-N43) x 0%
	= 600.00 x 0%
	= **0.00**
GST Unclaimable (GST-301)	**= 600.00**

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5.3 Example 3 (Total Exempt Supplies = RM6,000 for 3 months)

For 3 Months,

Total ES = RM6,000.00
Total SR = RM100,000
Total ZRL = RM50,000
Total TX-N43 = RM10,000

1. Total ES (RM6,000 / 3 mths = RM2,000) <= RM5,000 per month **(PASS)**
2. DMR = ES / ES + (SR + ZRL + ZRE + DS + OS + RS + GS)
        = 6,000 / 6,000 + (100,000 + 50,000)
        = 0.04 **(PASS)**

Conclusion:
Both rules are PASS, therefore Input Tax (TX-N43) is **100% CLAIMABLE**.

Input Tax Claimable (TX-N43)	= Input Tax (TX-N43) x 100%
	= 600.00 x 100%
	= 600.00
GST Unclaimable (GST-301)	**= 0.00**

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