



Goods and Services Tax

26 February 2014

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Agenda

- 1 Budget Proposal on GST**
- 2 Why GST**
- 3 Weaknesses of SST**
- 4 GST Impact**
- 5 Conclusion**

1

Budget Proposal on GST

30 Years towards GST- How We Got There

Bold, New Beginnings

Malaysia sends a research team to South Korea to study the potential of GST in implementing a more sustainable, broad-based consumption tax system.

1983



Dato' Seri Anwar Ibrahim

GST Budget Announcement

On 30 October 1992, Dato' Seri Anwar Ibrahim, then Minister of Finance, announces GST for the 1993 Malaysian budget. It was later deferred.

1992

Cross-Country Learnings

Malaysia sends a team to visit nations such as Australia, New Zealand and Indonesia to further study the mechanics of GST.

2005



Datuk Seri Najib Razak

GST Announced

On 25 October 2013, Prime Minister Datuk Seri Najib Razak declares GST of 6% in Malaysia. It will commence from 1 April 2015.

2013

GST First Looks

On 21 October 1988, Tun Daim Zainuddin, then Minister of Finance, tells the Malaysian public that the government is considering implementing the GST.



Tun Daim Zainuddin

GST Budget Announcement

On 10 Sept 2004, Dato' Seri Abdullah bin Ahmad Badawi, Prime Minister at the time, announces GST for the 2005 Malaysian budget which would have come into effect by 1 Jan 2007. It was then deferred in 2006 to give time for businesses to adapt to changes in processes and training of personnel.



Dato' Seri Abdullah bin Ahmad Badawi

GST Bill Read In Parliament

As a step to developing a more effective, efficient and sustainable taxation system, the 2009 GST Tax Bill was tabled for reading at the Dewan Rakyat. It was deferred to ensure laws & regulations relating to the implementation are all in place and the rakyat will be engaged inclusively.

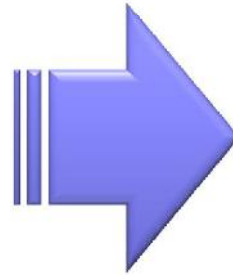


GST is a Replacement Tax



~~SST~~

~~5%, 6%, 10%
& specific
rates~~



6%
GST

- Charged on
 - taxable supplies made in the country
(threshold > RM 500,000)
 - imported goods (only taxable goods)

GST Safety Net in Malaysia

0%

Poultry & Livestock
(chicken, duck, cow, goat, etc)

Exported goods and services and international services

Agricultural products –
rice, paddy and vegetables

Basic food - rice, flour, sugar, salt, infant milk, cooking oil

Fish, shrimps, prawns, crab, cockles, squid

Supply of piped water to domestic users

Supply of first 200 units of electricity to domestic users

EXEMPTION (No GST)



Public Transport



Toll Highway



Residential Property



Land for Agriculture & General Use



Education



Health Services



Financial Services

THRESHOLD = RM 500,000

80% businesses are expected to be excluded

With large base of zero-rated items and exemption of critical sectors including government services, Malaysian model makes GST in Malaysia **Progressive** and Not Regressive



2

Why GST



Why GST?

- Part of the government's tax reform programme to make it more efficient, effective, business friendly, transparent and capable of generating a more stable source of revenue

Effective (self-policing and overcomes inherent weaknesses of SST)

Efficient (less bureaucracy)

Capable of generating a more stable source of revenue
(not susceptible to economic downturn)

Business friendly (lower cost)

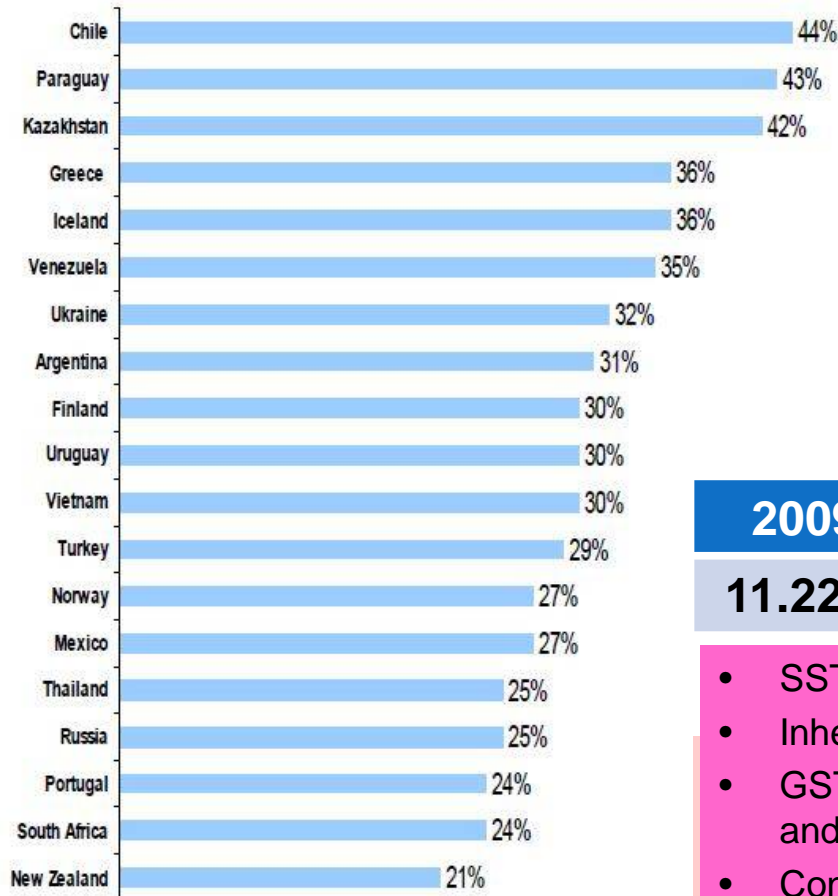
Foreigners and tourists will have to pay tax on consumption

Transparent (long-term benefit in terms of pricing)

GST as % of GDP and total tax

GST / VAT is a major contributor to Govt tax revenue

GST per total Govt tax revenue (%)



**Average for
83 countries:**

27.3%

Note : Depends on the tax rate

**Malaysia SST (Sales & Service Tax)
Contribution to the Total Tax Revenue**

2009	2010	2011	2012	Avg.
11.22%	11.05%	10.05%	10.09%	10.60%

- SST base is too narrow
- Inherent weaknesses contribute to lower productivity
- GST@6% expected to give additional RM 3.87 Bil after tax and non-tax packages and incentives in the first year
- Contribution to total revenue could improve significantly over time



3

Weaknesses of SST

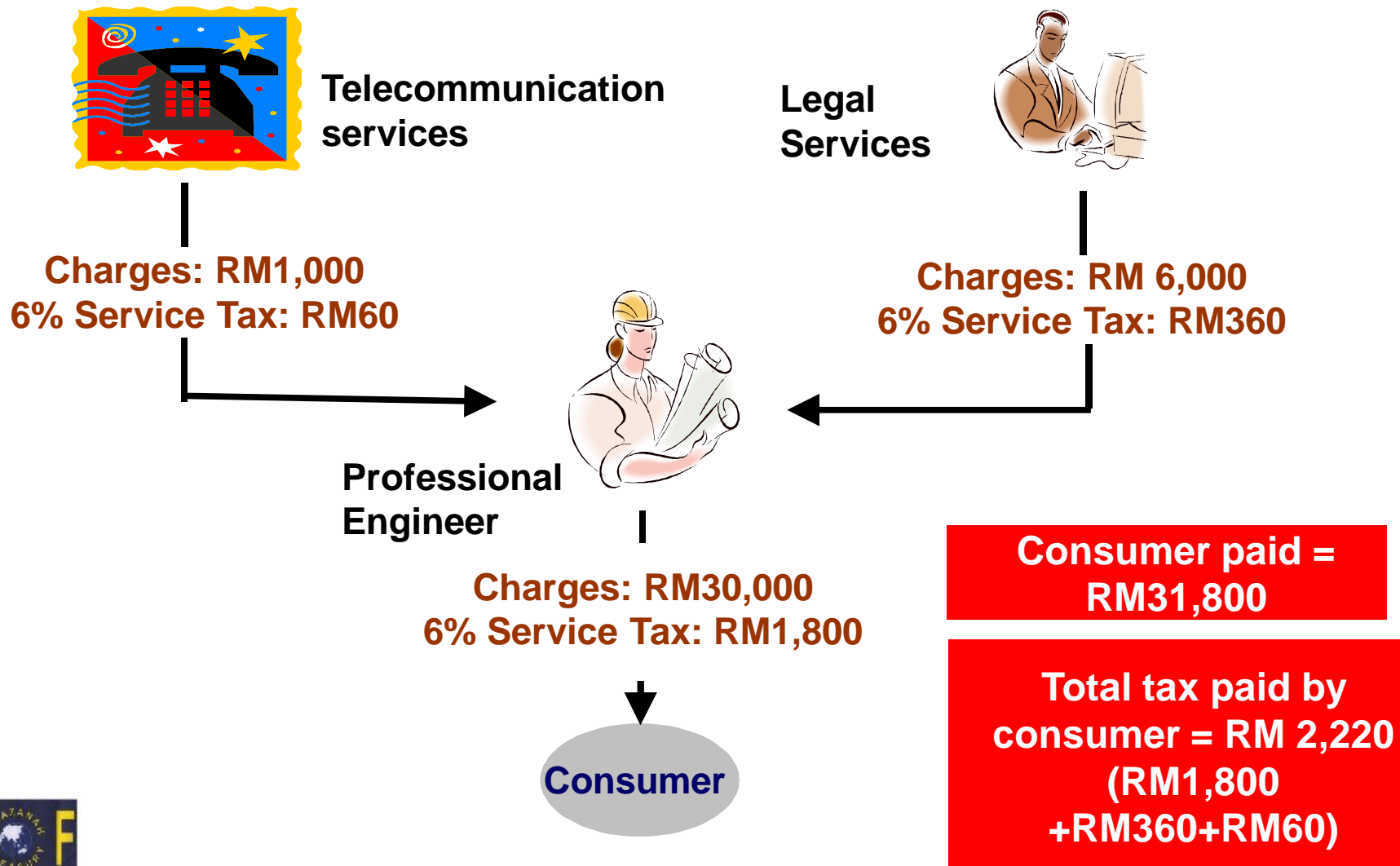


1. SST - COST TO BUSINESS

Goods/services purchased	Value	Sales tax@10% or service tax@6%
Office Furniture	20,000	2,000.00
Telecommunication	10,000	600.00
Audit Fee	3,000.00	180.00
Consultancy	10,000	600.00
Insurance Premium	10,000	600.00
	Tax cost	RM3,980.00

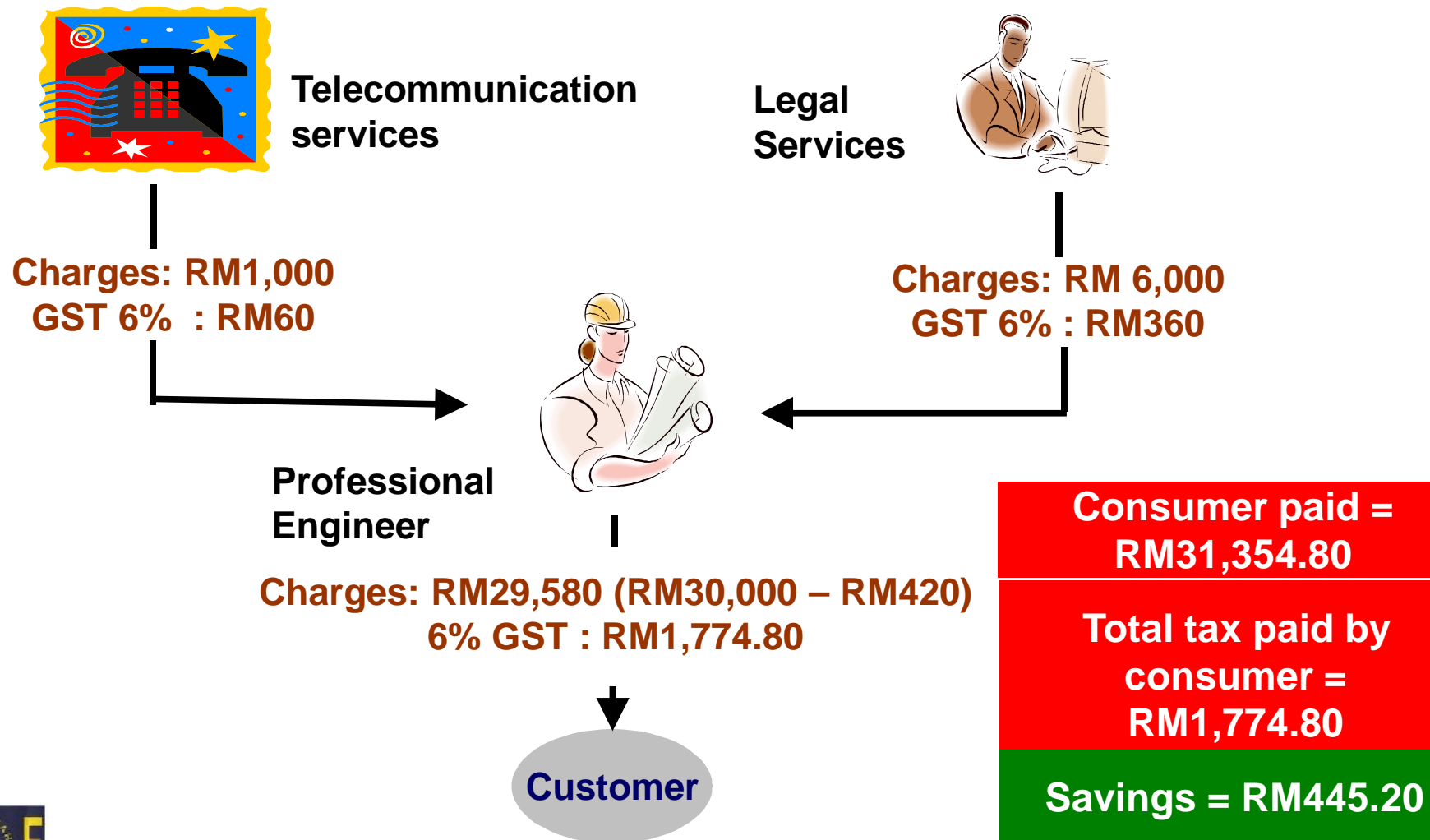
2. CASCADING EFFECT

Scenario 1 (same tax regime)



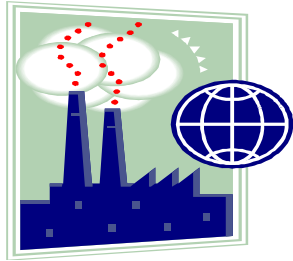
CASCADING EFFECT

GST eliminates cascading in the same tax regime



CASCADING EFFECT

Scenario 2 (due to multiple tax)



Factory price: RM4.00
Sales tax 5% = RM0.20

Product : Biscuits

Sales tax 5%
Service tax 6%



Purchase price: RM4.20
Hotel selling price :
RM7.20 (RM4.20 + RM3.00)
Service tax 6% = RM0.43

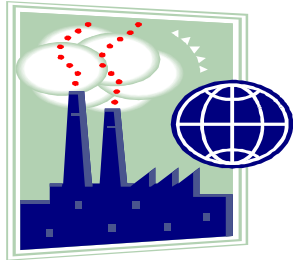


Consumer paid RM7.63
(RM7.20 + RM0.43)
Total tax paid RM0.63
(RM0.20 + RM0.43)

- Sales tax paid (RM0.20) by hotel operator embedded in the selling price
- Products sold by the hotel will be taxed again

CASCADING EFFECT

GST eliminates cascading due to multiple tax



Factory price: RM4.00
GST 6% = RM0.24



Purchase price: RM4.00
Hotel selling price :
RM7.00
(RM4.00 + RM3.00)
GST 6% = RM0.42



Consumer paid RM7.42
(RM7.00 + RM0.42)
Total GST paid RM0.42

**Savings to the
consumer = RM0.21**

3. COMPOUNDING EFFECT

SST at 10%



Manufacturer

Cost RM 100
+ 10% tax
(RM10)

RM10.00

Govt collects: Tax RM10



Wholesaler

RM110

+ 20% Margin
(RM 22)

RM10 x 20%
= RM2.00

Tax Nil

RM132



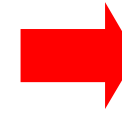
Retailer

+ 30% Margin
(RM 39.60)

(10 + 2) x 30%
= RM3.60

Tax Nil

Businessmen
“free ride”



Consumer

RM171.60

Final price paid
by Consumer

*Tax ballooned to
RM15.60 (10 + 2 + 3.60)

RM10.00

Total tax
collected by
Govt

RM 5.60

Total tax loss/
uncollected

COMPOUNDING EFFECT

GST is an effective tax because it is captured at every stage
(Assume GST at 6%)



Govt collects: Tax RM 6

Tax RM 1.20

Tax RM2.16

RM9.36

Total GST collected

RM 0 (Zero)

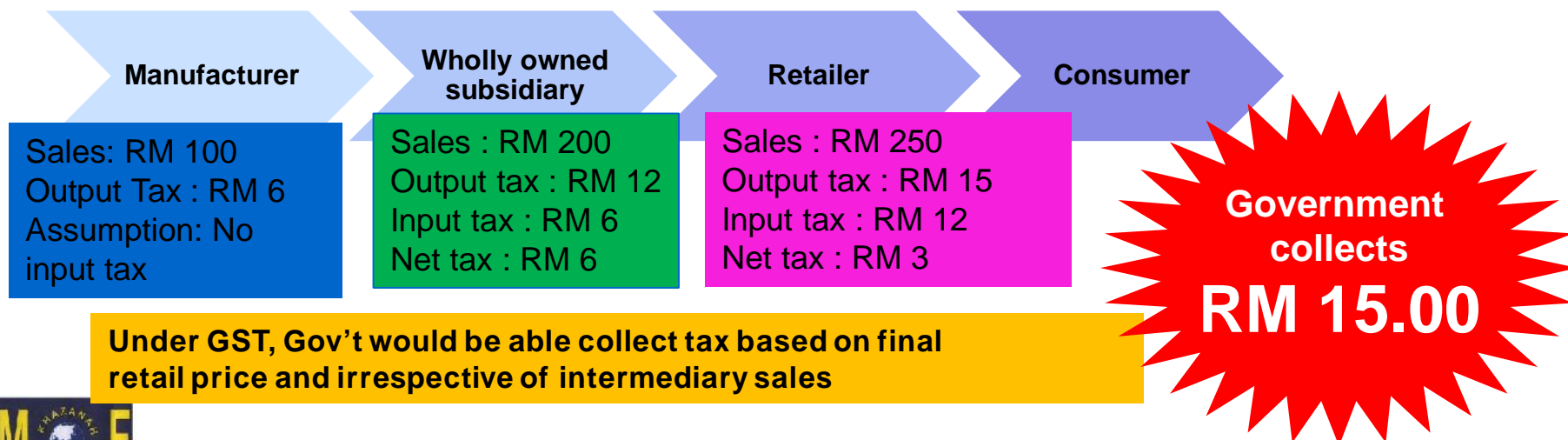
Total tax loss/ uncollected

4. TRANSFER PRICING ISSUE UNDER SST

Assume SST at 10%



HOW GST OVERCOMES TAX LOSS THROUGH TRANSFER PRICING. Assumption: GST at 6%



TRANSFER PRICING ISSUE - IMPORTS

GST provides opportunity to minimise loss of corporate tax revenue due to transfer pricing (over-pricing of imports)

<u>Malaysian Co.</u>	TP	Actual
M'sia Co. import value	10,000.00	5,000.00
Effective duty rate	4%	4%
Landed cost	10,400	5,200.00
Other expenses	1,000.00	1,000.00
Total cost	11,400.00	6,200.00
Sales	12,000.00	12,000.00
Profit before tax	600.00	5,800.00
Tax (25 %)	150.00	1,450.00
Net Profit after tax	450.00	4,350.00

**Tax
liability
150.00 vs
1,450.00**

GST provides opportunity to minimise loss of corporate tax revenue due to transfer pricing (under-pricing of exports)

<u>Malaysian Co.</u>	TP	Actual
M'sia Co. export value	10.00	20.00
M'sia Co. cost	9.00	9.00
M'sia Co. Profit	1.00	11.00
Tax (25 %)	0.25	2.75
Profit after tax	0.75	8.25
<u>Singapore's Marketing Company</u>	TP	TP (Actual)
Singapore Co. SP	22.00	22.00
Cost	10.00	20.00
Profit before tax	12.00	2.00
Tax (17 %)	2.04	0.34
<u>Profit Impact of the Organization as a whole</u>	TP	TP (Actual)
Profit before tax	13.00	13.00
Total Tax	2.29	3.09
Profit after tax	10.71	9.91

**35 %
difference
in total tax
liability**

4

GST Impact

1. GENERAL

GST able to address the inherent weaknesses of SST

SST	GST
<ul style="list-style-type: none">• Cascading and compounding effects	<ul style="list-style-type: none">• Eliminated
<ul style="list-style-type: none">• No complete tax relief for export	<ul style="list-style-type: none">• Exports are zero-rated and eligible to claim input tax
<ul style="list-style-type: none">• Transfer pricing	<ul style="list-style-type: none">• Tax at multi stages addresses the issue of transfer pricing

2. CPI

Peninsula Malaysia	2.0%
Sabah	1.5%
Sarawak	1.6%
Average	1.8%

3. IMPACT ON CONSUMER

Issue → **Will GST increase the burden of the *rakyat*?**

- **GST will not burden the *rakyat***

GST will replace the sales tax (5% & 10%) and service tax (6%) which the *rakyat* is currently paying for

GST will not be imposed on basic food and necessities

RM300 one-off cash to BR1M recipients as household assistance

Individual income tax rates reduced by 1% to 3% to increase their disposable income - 300,000 tax payers will no longer pay tax

Families of RM4,000 household income will no longer pay tax

Chargeable income subject to the maximum rate of exceeding RM100,000 will be increased to exceeding RM400,000. Current maximum tax rate of 26% will be reduced to 24%, 24.5% and 25%

IMPACT ON CONSUMER

- **Issue** → **GST increase the burden of the rakyat**
- Quote from Harakah dated 26 Oct 2013 – PAS Chief Information Officer

“Moreover, Malaysians are not given adaption period to the GST and it was announced at such a high rate at 6 percent. In Singapore, the GST was introduced at a rate of 3 percent before increasing it gradually to 7 percent.”

Question: Is this true?

Singapore 3 % but almost all supplies are taxable

Singapore never had any consumption tax before 1994

Please compare the current rate of proposed 6% with a large safety net to the Singapore's 7% (full blown version of GST)

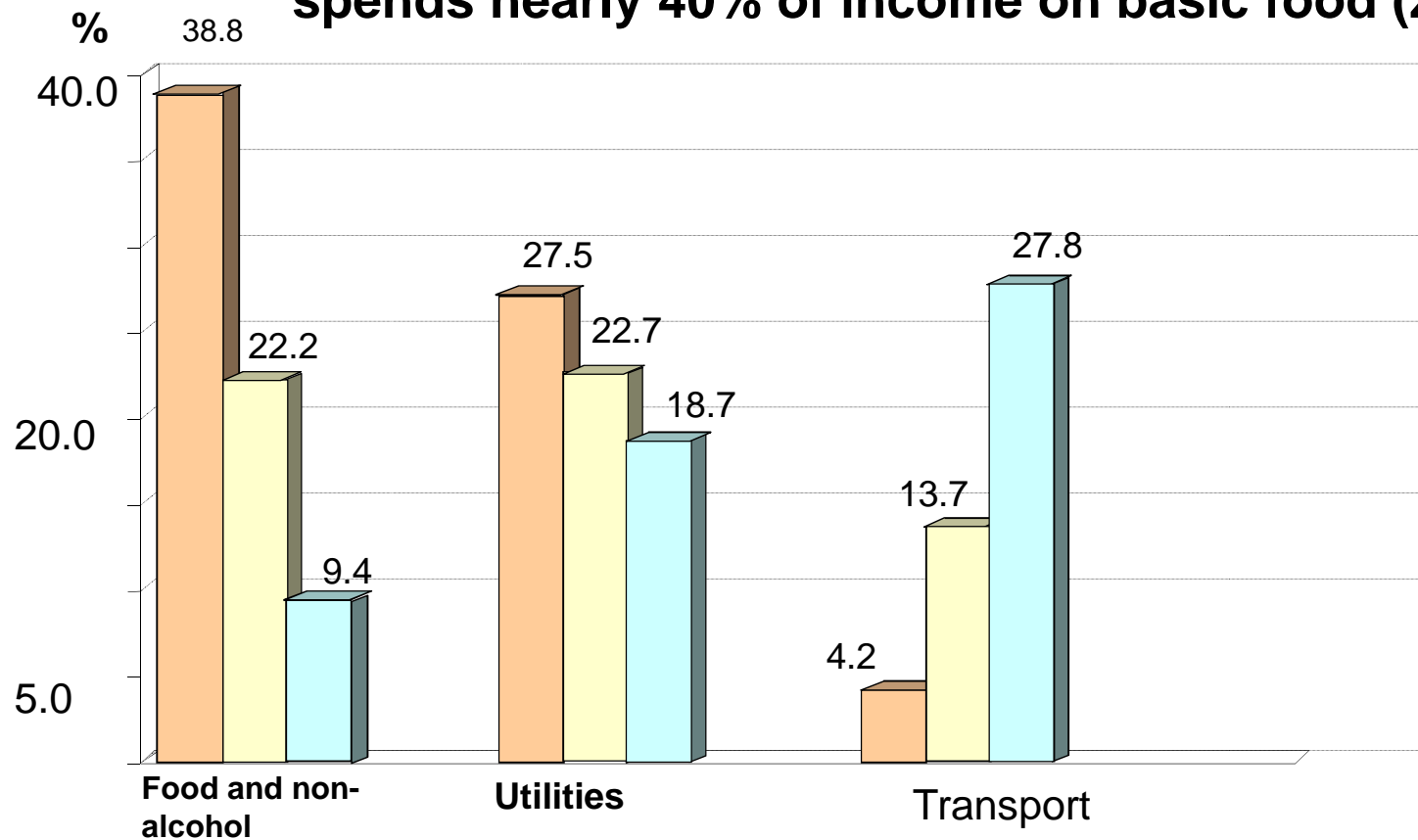
In Malaysia, additional tax base is only about 20 - 25%

80% small businesses will be excluded (high threshold)

Net impact is minimal – CPI (1.8%)

IMPACT ON CONSUMER

Expenditure pattern of Malaysians – Low income spends nearly 40% of income on basic food (zero-rated)



key :

Low income

Medium income

High income

Source: HES



IMPACT ON CONSUMER

Tax Incidence Under GST

Low Income Group

Income	RM 2000.00	Tax Incidence at 6% GST
Expenditure on zero-rated items	RM640.00	RM0.00
Expenditure on exempt items	RM707.40	RM12.73
Expenditure subject to GST	RM652.60	RM 39.16
Total		RM 51.89
Total Expenditure	RM2000.00	
Tax Burden as %to expenditure		2.59%

High Income Group

Income	RM 12000.00	Tax Incidence at 6% GST
Expenditure on zero-rated items	RM1093.86	RM0.00
Expenditure on exempt items	RM2155.08	RM27.59
Expenditure subject to GST	RM5751.06	RM 345.06
Total		RM 372.65
Total Expenditure	RM9000.00	
Tax Burden as %to expenditure		4.14%



IMPACT ON CONSUMER

- **Issue** → **GST is regressive**
- The model has taken into consideration the welfare of the *rakyat* especially the lower income group

Basic foods, water and electricity are zero rated

No GST is imposed on services provided by government

Mass public transportation, education, health, toll, residential property and financial services exempted from GST

Proposed *threshold* (RM500,000) will exclude small businesses from being registered under GST

- GST rate is one of the lowest in the world
reduces the impact on prices

IMPACT ON CONSUMER

- **Issue** → **GST is regressive**

Quote from Malaysian Insider dated 26 Oct 2013

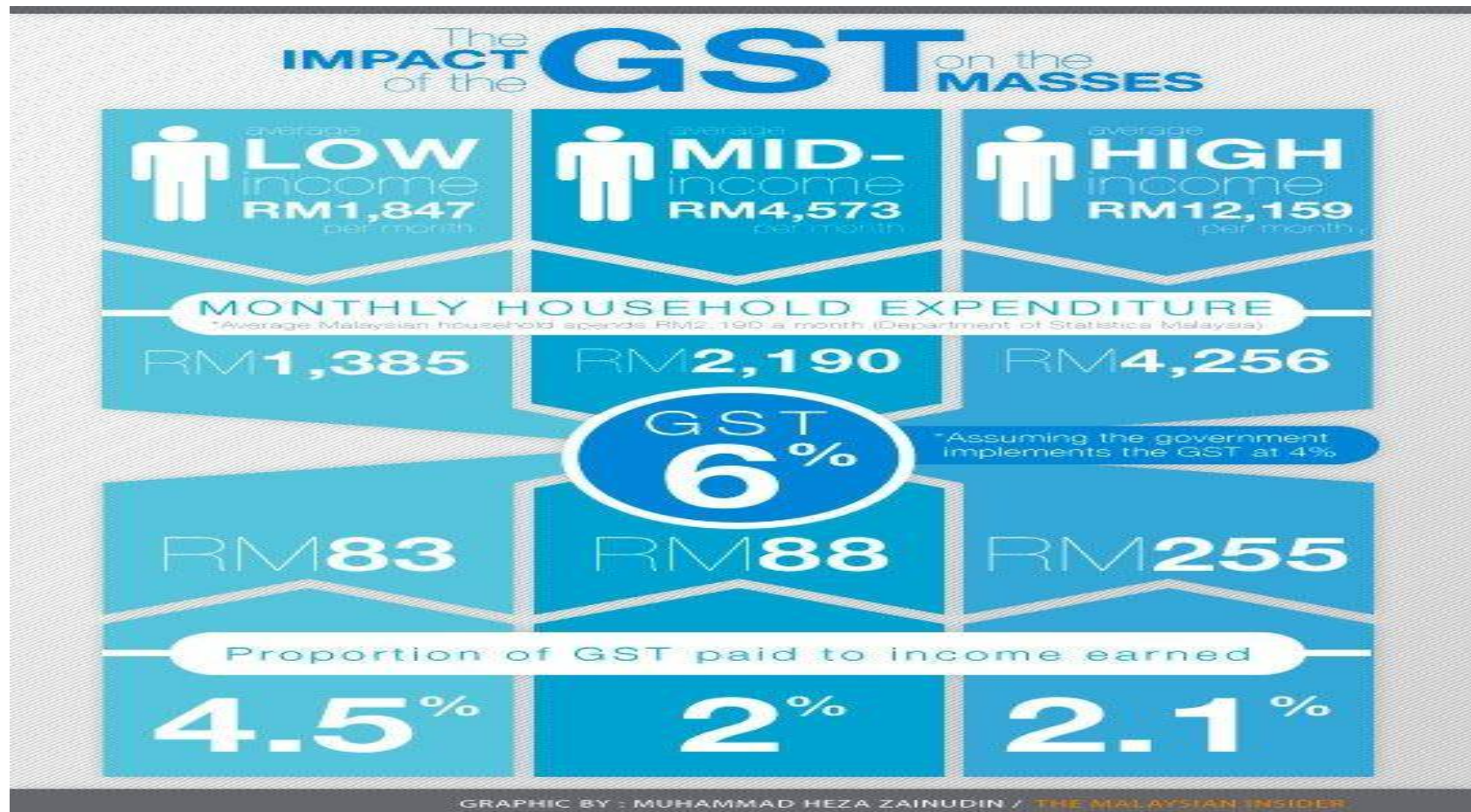
“This is a regressive tax where the poor would be taxed more than the rich,” said Lim Mah Hui, from the Socio-economic and Environment Research Institute (SERI).”

‘The lower income group would have to fork out a bigger chunk of their wages in terms of percentage compared with the rich, forcing the poor to pay a bigger percentage margin to the government in the form of the GST, he told The Malaysian Insider.’

Question: Is this true?

IMPACT ON CONSUMER

Issue → **GST is regressive** (From Malaysian Insider dated 26 Oct 2013)



IMPACT ON CONSUMER

- **Issue** → **GST is regressive**
- **Quote from Malaysian Insider dated 26 Oct 2013**

Fellow of Malaysian Institute of Economic Research (MIER) Professor Emeritus Datuk Dr Mohamed Ariff Abdul Kareem said that handouts and exemptions do not take the sting out of the GST.

“Those who earn less than RM2,000 and didn't have to pay taxes before this will now have to in the form of GST. This will eat into their salaries and, adding to their household debts, which is now at a worrying level, they will have to pay more for most things so they will have less disposable income,” he told The Malaysian Insider.”

Question: Is this true?

IMPACT ON CONSUMER

- **Issue** → **GST is regressive**
- **Quote from Free Malaysia Today dated 26 Oct 2013**

“Refuting the federal government’s repeated assurance that it won’t affect the low income group, the Penang Institute today claimed that their study involving 24,768 “living quarters” showed that at 6% GST, prices of items will go up by as much as **an additional 3.38%.**”

The study was done by Dr Lim Kim Hwa, Fellow at Penang Institute, and Ooi Pei Qi, research analyst at the same think tank.

Question: Is this true?

IMPACT ON CONSUMER

Comments on GST

Prof. Glenn. P Jenkins

Economics Professor, Queen University, Canada

“ A broad based consumption tax, such as a value added tax, is generally considered to be a regressive tax. This conclusion, however has not taken into account the fact that in developing countries the commodities on which poor households spend most of their income, is not taxed. When this factor is considered, VAT can be naturally progressive”

Working Paper - **Is the Value Added Tax Naturally Progressive? - 2006**

IMPACT ON CONSUMER



- **Issue** → **Price increase due to profiteering**

Introduction of Price Control and Anti Profiteering Act 2010
Effective on 1 April 2011

Shoppers' guide

**To inform consumers on price changes of goods and services
before and after GST implementation**

A comprehensive awareness and training programme on GST

4. IMPACT ON INDUSTRIES

Issue → High initial and compliance cost to the businesses after GST implementation

- **Threshold of RM500,000**
Small businesses will be excluded to be registered under GST
- **Corporate income tax be reduced from 25% to 24%**
- **SME companies income tax be reduced from 20% to 19% from 2016**
- **Cooperative income tax rate be reduced by 1 to 2 percentage points from 2015**
- **Secretarial fee and tax filing fee are allowed as tax deductions from 2015**

IMPACT ON INDUSTRIES

Cont.

- Cost of purchasing ICT equipment and software is given Accelerated Capital Allowance until 2016
- Expenses for training in accounting and ICT relating to GST be given tax deduction for 2014 and 2015
- RM100 million Training Grant provided to businesses that send their employees for GST training in 2013 and 2014
- Financial assistance of RM150 million for purchasing accounting software to the SME in 2014 and 2015
- GST is not a cost to the industry

GST paid on the business inputs can be claimed as tax credit

IMPACT ON INDUSTRIES

Issue → The Government ability to pay GST refund within the stipulated time frame

- **The Government will ensure that GST refund will be paid within the stipulated time frame**

refund is guaranteed within 14 or 28 workings days

GST Refund Fund to be established

Interest on late refund can be considered later

5. IMPACT ON ECONOMY

Malaysian products and services become more competitive

- Exports and international services are zero-rated

Promote more tourists to visit and to spend in Malaysia

- Tourist refund scheme
at international airports
- Designated area
Labuan, Langkawi and Tioman
no GST

Computable General Equilibrium Model (CGE)

- GST will increase the GDP to 0.3%
export (0.3%)

5

Conclusion

Comments on GST

Dato' Sri Khazali bin Ahmad

Director General of Customs



“Implementation of GST in Malaysia should not be viewed in isolation. GST in Malaysia is implemented in a package. To offset the regressive impact of a broader taxation base on low-income, the Government has proposed zero-rating on basic food and exempting the essential sectors from GST. Moreover, tax packages and non-tax packages are also being introduced to lessen the impact”

Interview with Media

25 October 2013



Comments on GST

Subromaniam Tholasy

Director of Internal Tax

Royal Malaysian Customs



“GST is actually a Beautiful Tax System. I am glad that we are finally adopting it. It is not a cost to business. In fact the businesses would gain because the operating cost would be lower under GST. GST also going to make our exports more competitive. GST is a very transparent tax system which makes it harder for unscrupulous traders to take advantage and this would ultimately benefit the consumers in Malaysia”

Interview with NTV 7

26 October 2013

Comments on GST

Dato' Kamariah Binti Hussain

Chairman, Tax Review Panel, MoF



"GST in Malaysia would protect the low income group. We have studied the consumption pattern of various income group in Malaysia and made our Model a Progressive one, unlike many countries where GST is regressive. The model is designed to lessen the impact of GST on Rakyat and at the same time overcome the inherent weaknesses of SST "

GST Public Consultation

26 October 2009

Comments on GST

Dato' Zaleha Hamzah

Advisor, Royal Malaysian Customs



“We're not talking about a tax on an item in isolation or a GST in isolation, we're talking about a tax that is self-policing, efficient and effective; that is going to make evasion and avoidance more difficult. GST is a way forward towards making Malaysia a high income nation. GST will broaden our tax base and this will facilitate the aim of a tax reform as recommended under the New Economic Model”

**Interview with RTM
2009**





Thank You