ISIS Focus

INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA

- PP 5054/11/2012 (031098)
- **April 2014**

The ISIS National Forum on Malaysia's Goods and Services Tax (GST): Possible Lessons from the United Kingdom and Singapore 26 February 2014

*The ISIS National Forum on `Malaysia's Goods and Services Tax (GST): Possible Lessons from UK and Singapore,' was a one day forum. Experts from the United Kingdom and Singapore were invited to speak on their respective countries' experiences in rolling out the GST. The implementation of GST is part of Malaysia's national economic reforms to support economic stability and development and to put Malaysia on a significant path towards fiscal sustainability. Malaysian Deputy Finance Minister **Datuk Hj Ahmad Hj Maslan** officiated at the Forum. This report on the Forum was compiled by Senior ISIS Analyst, **Mr Ahmad Rafdi Endut**, with the assistance of Analysts **Mr Kamal Zharif Jauhari** and **Ms Zarina Zainuddin**, and Intern, **Mr Gan Zhi Ming**.*

Datuk Hj Ahmad Hj Maslan said in his opening speech that the GST will be implemented in Malaysia on 1 April 2015, as announced by Malaysia's Prime Minister, during the tabling of Budget 2014. The Government, he said, is committed to transforming the taxation system in Malaysia, and GST is part of this transformation initiative. Renowned as a more effective, efficient, transparent and business-friendly tax system, the GST, which will be imposed at six per cent, will replace Malaysia's current consumption tax, which consists of the sales tax at the rate of 10 per cent, and service tax (SST) at the rate of 5 per cent. The GST tax system has also proven to be the most stable source of revenue and it is believed it will not result in unpredictable economic situations.

He also noted that Malaysia's proposed GST rate is among the lowest in the world — Hungary has the highest rate (27 per cent) and countries such as Japan and Canada the lowest (five per cent). In the ASEAN region, where the rates range from seven to twelve per cent, Malaysia has the lowest rate of consumption tax.

Session 1: Keynote Speeches and Panel Discussion on `GST in Malaysia – learning from the UK and Singapore experiences'

*The session was chaired by **Tan Sri Rastam Mohd Isa**, Chief Executive of ISIS Malaysia. The two keynote speakers were **Mr Andrew Webb**, Senior VAT Policy Manager of HM Revenue and Customs (HMRC), United Kingdom, and **Ms Chia-Tern Huey Min**, Deputy Commissioner, International Investigation & Indirect Tax Group, Inland Revenue Authority of Singapore (IRAS).*

The GST or VAT as it is known in the UK is by far the most successful tax model as feedback from citizens and the business community reveals. **Mr Andrew Webb** explained that the UK had had the sales tax for more than 30 years and only introduced the value-added tax (VAT) upon joining the EU, when it

From left: Chia-Tern Huey Min, Rastam Mohd Isa and Andrew Webb

was required to impose GST in line with EU legislation. Any changes in such legislation required unanimous voting

According to Mr Webb, in terms of revenue, HMRC's collection stands at £476 billion currently, with £101 billion or 21 per cent of total tax being from VAT. The VAT rate in the UK comprises:

- Standard VAT Rate – applies to most goods and services and covers approximately 60 per cent of total expenditure;
- Reduced VAT Rate – applies to items such as domestic fuel and power, installation of energy-saving products, and children's car seats, and covers less than five per cent of total expenditure ;
- Zero (0 per cent) VAT Rate – applies to items such as food, books and newspapers, children's clothes and shoes, and public transport, and covers approximately 15 per cent of total expenditure;
- Exemptions – applies to the following social benefits or difficult-to-tax supplies: health, education, financial services, transport, and covers 20 per cent of total expenditure.

VAT revenue in the UK mostly comes from household consumption (two-thirds of total VAT revenue) while one-third of the revenue comes from exempt sectors such as government and financial sector services. HMRC has incurred a cost of 63 pence per £1 collected but the figures have been falling as HMRC introduces IT systems that reduce the overall cost of collecting VAT.

Mr Webb also talked about the VAT Gap which is the difference between theoretically collected VAT amounts and actual VAT receipts. According to him, both top down (national accounts) and bottom up (day-to-day costs) figures are required in order to calculate the amount. It is important to try to identify the causes of the VAT Gap so that tax authorities can put in place appropriate counter measures to avoid any losses. In the UK, amongst the causes for the VAT Gap are error, debt, fraud and tax evasion.

VAT revenue in the UK mostly comes from household consumption ...

In order to ensure that taxpayers comply with the tax law, HMRC focuses on an approach based on the Compliance Risk Pyramid under which HMRC focuses on large businesses with turnover greater than £200 million. It employs Customer Relationship Managers (CRMs) to explain details of the tax to tax payers. HMRC also encourages and promotes voluntary compliance by ensuring these businesses are subjected to minimal audit intervention.

Fraud is among the major challenges HMRC faces in collecting the VAT. There is a risk of orchestrated attacks on the VAT system by

Hj Ahmad Hj Maslan, Malaysia's Deputy Finance Minister

organized criminals using legitimate businesses in the country while engaging in cross-border trade. Fraud was estimated to have cost the UK between £0.5 billion and £1 billion in 2011-12. Among the countermeasures that the HMRC implements currently is the improvement of the control and management of VAT registrations in order to prevent criminals from obtaining VAT registration numbers. The HMRC is also implementing targeted self-accounting arrangements, so that the customer pays for the VAT instead of the supplier.

Mr Webb also said that in order to facilitate businesses (especially small businesses), HRMC has implemented a strategy with a high VAT registration threshold of £79,000, on-line VAT schemes and the simplifying of the VAT Accounting Scheme for Small Businesses and Digital Services.

HMRC focuses on large businesses with turnover greater than £200 million

Overall, the UK has shown that VAT is a major source of revenue for the government and its importance continues to grow. It provides the government with a stable source of income. Improvements are, however, needed to facilitate taxpayers' understanding of the importance of implementing the VAT. As for Malaysia, there is a need for the authorities to model VAT based on the needs of businesses in Malaysia.

Singapore introduced the GST in 1994, one of the earliest Southeast Asian countries to do so. More than 200 countries around the world have introduced the GST as part of their taxation systems. According to **Ms Chia-Tern Huey Min**, the GST was introduced to broaden the country's tax base for long-term growth, rather than to raise revenue. It was designed to be revenue-negative upon its implementation (less affected by business cycles).

As Singapore at the time of GST implementation was a significantly export-oriented, manufacturing and wholesale trading economy, several schemes were put in place to minimize or alleviate any adverse effect that the tax might have on the export sector, Ms Chia-Tern noted. Among the schemes introduced were:

- Waiver of import GST for major exporters;
- Suspension of GST upfront on imported, non-dutiable goods stored in zero GST warehouses;
- Approved Third Party Logistics Company Scheme in which there is a suspension of import GST under certain scenarios.

Singapore started off its GST rate at three per cent in April 1994 and since then, the rate has been revised several times, and currently stands at seven per cent. However, each GST increase is accompanied by a reduction in income tax rates. The prevailing rate for personal income tax in Singapore is between 0 per cent and 20 per cent and the corporate tax rate is 17 per cent, down from 30 per cent in 1994. In 1994, about 70 per cent of individuals did not need to pay income tax while others paid less due to government offsets.

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To prepare Singaporeans and Singapore businesses for the implementation of the GST, Inland Revenue held public discussions which included extensive consultation/feedback sessions to deal with technical details in GST implementation. Apart from that, Inland Revenue also gave businesses advance notice of GST implementation and made provisions to ensure they were ready for it.

Outreach programmes were conducted to help businesses understand the need to comply with GST registration and to get ready to collect and properly account for GST. For the consumer, these programmes help explain the rationale for GST and what offsets are available. The programmes are carried out through talks at community level, advertisements, and distribution of GST brochures to all households.

As for Inland Revenue, they prepared for staff recruitment and developed computerized systems to ensure that everything would be smooth during the roll-out. They also prepared for extended office hours nearer the implementation date so as to ensure the roll-out would be without any glitch.

In addressing the issue of the effects of the GST, Ms Chia-Tern said that more than 80 per cent of GST collections are contributed by the higher-income group and 40 per cent by foreigners. The lowest 60 per cent of the population only contribute 16 per cent. The bottom 20 per cent of households in the country account for only six per cent of total household expenditure. So according to their research, exemptions on basic necessities ought to benefit higher-income households more as they consume (or spend) more in absolute terms.

Some offsets were implemented to alleviate the effects of GST on lower-income groups. These included increased subsidies to offset GST payable for state education, absorbing GST for subsidised patients in public hospitals and polyclinics, automatic employment benefits in topping up wages of older and lower-income workers and GST credits to relieve the tax burden of the lower income group.

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In terms of efficiency, she noted that the high exemption rate set by the authorities ensures that only large businesses with a turnover of S$1 million, and better accounting systems (constituting only 15 per cent of all businesses) are required to register for GST. The high threshold will relieve small traders (including small retailers, neighbourhood shops and hawkers) of administrative costs and compliance requirements and at the same time, help to mitigate the impact of the GST on the lower-income group. Therefore, it is said that the efficiency of GST lies in the fact that it can be collected from a relatively small number of businesses which have a compliance rate of 99 per cent.

... only large businesses with a turnover of S$1 million and better accounting systems ..... are required to register for GST

She concluded by noting that the GST system is designed for simplicity, effectiveness and efficiency in compliance and administration. With wide coverage, a lower tax rate and higher threshold for registration, the targeted revenue may be achieved. The single rate facilitates business compliance and enables greater efficiency in tax administration. She also stressed that targeted help and redistribution measures will alleviate negative impacts on the lower-income group.

Session 2: Are Consumption Taxes Really More Efficient and Resilient?

*The session was moderated by **Prof Datuk Dr Norma Mansoor**. The three panelists in the session were **Mr Subromaniam Tholasy**, Director of Internal Tax, Royal Customs Department of Malaysia, **Dr Verinderjeet Singh**, Chairman of Tax and Malaysia, and **Dr Lim Kim Hwa**, Fellow in Finance and Financial Reporting, Penang Institute.*

Mr Subromaniam Tholasy said Malaysia's GST model had been developed over a period of ten years and includes zero-rated taxes affecting public transportation, essential goods, and education. The number of companies that have registered voluntarily for GST is higher than

From left: Norma Mansoor, Subromaniam Tholasy, Verinderjeet Singh and Lim Kim Hwa

'required,' Mr Tholasy said, implying that businesses see the benefits of GST in reducing the costs of doing business.

Despite the belief that the GST is regressive in nature, the Malaysian GST model has been made 'slightly progressive,' said Mr Tholasy. He explained that the GST is regressive only when you tax everything in the supply chain, as in the case of Singapore. However, Singapore offsets the effect of increasing prices in GST by giving direct assistance to those in the lower income group. In the case of Malaysia, the one-off assistance of RM300 can help the lower income group by reducing the impact of the GST during its implementation stage.

The GST model in Malaysia is a tax reform programme that has the main objective of overcoming the weaknesses of the current tax system. Malaysia aims for its tax system to be more efficient, effective, and business-friendly, he said. However, current indirect taxes in Malaysia are very narrow in scope, and only benefit foreign workers and tourists. Malaysia has a large number of foreign workers who do not pay income tax, let alone consumption tax, whereas 30 per cent of Singapore's tax revenue comes from foreigners (both foreign workers and tourists).

Mr Tholasy also suggested that the biggest benefit of GST is its transparent nature, making it hard for unscrupulous traders to engage in profiteering activities. The current sales and services tax (SST) contributes only 10.1 per cent of tax revenue whereas the GST is expected to contribute more.

Mr Tholasy pointed out that the government's setup of GST will ensure that the government collects the tax at every level of the supply chain while consumers pay only the 6 per cent GST, provided the manufacturers pass on the savings to the consumers. To pre-empt those who attempt to take advantage of the situation, and to counter any possible price increase in the future resulting from the introduction of GST, the Price Control and Profiteering Act 2010, an anti-profiteering act, is being put in place.

… the GST is regressive only when you tax everything in the supply chain, as in the case of Singapore

Mr Tholasy concluded by quoting the Advisor for GST, Dato' Kamariah, who had suggested that implementing GST in Malaysia would protect the low income group. She said that the consumption pattern of various income groups in Malaysia was studied and the Malaysian model was then made a progressive one, unlike those of many countries which are regressive. The model is designed to lessen the impact of GST on the people, and at the same time overcome the inherent weaknesses of the SST.

Dr Verinderjeet Singh of Tax and Malaysia said that he was a supporter of GST implementation. Having said that, he also stated that Malaysia's GST model could be improved further even before the implementation of the tax system. The improvements he proposed were mostly from the perspective of efficiency, and are on tax policy design, tax administration, compliance, and tax professionals.

He also highlighted Malaysia's total revenue structure, specifically the contribution by indirect taxes, which stands at around 17 per cent of Malaysia's total revenue. He said that once GST replaces SST, this contribution is expected to increase, and the tax base to broaden. Ultimately, the hope is that the higher revenue will work towards solving the problem of the country's current fiscal deficit.

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Dr Singh also pointed out that during an economic downturn, income tax suffers, but GST generally does not suffer as much. Income tax depends on profitability, while GST depends on consumption, which is more stable. This is one of the main reasons for the introduction of GST in Malaysia. Another reason is that it will address the weaknesses of SST, which many criticize as having too many exemptions — as much as 80 per cent of taxable goods are exempted under SST, which does not benefit the country as a whole.

He also said that the most important challenge he sees in the implementation of GST is the usage of technology in order to maintain good accounting records for businesses, particularly important for smaller businesses. The implementing agencies should train personnel of both the enforcing agencies and businesses to deal with the change to GST.

He ended the presentation by commending the Royal Customs Department for developing the structure of the GST. However, with the introduction of the GST, the real challenge for businesses is to develop the right attitude of providing good service. Dr Singh also commended the relevant government agencies for a good job done in providing draft guidelines and gazette orders, as well as continuing to engage and consult with stakeholders. He suggested that it would be good for the Customs Department to merge with Inland Revenue so that their functions would be broadened in order to serve the nation better in the future.

Dr Lim Kim Hwa focused on issues such as the standard of living, the nature of the tax system (regressive vs progressive), the net effect of BR1M and income tax cuts, and the efficiency of the tax system.

Using an income model, Dr Lim arrived at the following conclusion: each household will pay an additional RM90 per month, or 2.3 per cent of current income with the implementation of GST. A poor household paying 6 per cent GST would be harder hit than a wealthy household that pays the same GST. However, if the expenditure model is used, then households with higher incomes will be taxed more under GST because of the assumption that a higher income household will consume more. Therefore, the expenditure model is more appropriate in addressing the issues of GST.

He believed that GST per se is a regressive tax that will affect the lower income group more than the higher income group. However, for the lower income group, the BR1M payment will override the GST that they have to pay while the higher income group will enjoy benefits from income tax cuts. It is middle income households earning between RM 30,000 and RM 150,000 that will be the most hit, as not only do they have to pay GST, they will also not benefit from BR1M.

The middle income group will be the hardest hit as not only does it not benefit from BR1M, it will also have to pay GST

Dr Lim said that the government should be able to collect about RM 6 billion from the GST, but when fraudulent cases are factored in, the amount would be lower. Therefore, there is a need to strike a balance between efficiency and ease of compliance. GST is a consumption tax, and thus there is the expectation of higher expenditure from the household, transportation, and restaurant sectors.

From left: Khairul Anwar Hj Bachok, Rajah Rasiah, Paul Selva Raj and Mohd Rozlan Mohammed Ali

He concluded that by looking at the bigger picture, with the high budget deficit, higher debt at the government and household levels, the threat of fund outflows due to a potential hike in the US interest rate, and the threat of a credit downgrade, the question remains: what would happen to Malaysia if we do not implement the GST?

In responding to the argument by Dr Lim, Mr Tholasy did not dispute his findings, but pointed out that the assumptions that were made were the main issue. Dr Lim's study ignored the abolishment of SST entirely. Mr Tholasy pointed out that the revenue neutral rate is about 4.5 per cent, and if such a huge percentage is ignored, the results will be regressive. He suggested that unscrupulous profiteers would find it harder to sell their products at whatever prices they wished to ask. With the implementation of the Price Control and Profiteering Act 2010, prices will be monitored from time to time to lessen the impact of GST on the middle and lower income levels.

Session 3: Impact of GST on the Poor and Underprivileged

*Session 3 of the National Forum was chaired by **Prof Rajah Rasiah**, The speakers were **Dato' Paul Selva Raj,** Secretary General and Chief Executive Officer of the Federation of Malaysian Consumer Associations (FOMCA), **Mr Khairul Anwar Hj Bachok**, Director (Management Division) of the Ministry of Women, Family, and Community Development of the Department of Social Welfare or Jabatan Kebajikan Masyarakat (JKM) and **Mr Mohd Rozlan Mohammed Ali**, Deputy Director, Technical, of the Unit Committee on GST of the Malaysian Association of Tax Accountants (MATA).*

Prof Rajah Rasiah said that the GST is a regressive tax, targeted more towards the lower income group. On the other hand, he said the middle income group may save because of the GST. Despite all of the negatives that surround GST, why do other countries adopt it or target the system?

It is well known that GST is a mechanism to combat public debt. However, that was not the fundamental argument. The argument was rather whether we want to avoid our prices becoming relatively too low compared to those of our neighbours. Low prices, with subsidies in place, will lead to economic leakages. This means that the country will need to subsidise what has been leaked out through smuggling. This has been happening in Malaysia for a long time and GST apparently will reduce these economic leakages while at the same time targeting subsidies more at the poor rather than blanket subsidies.

Subsidies are not enjoyed by all parties. For example, in the Nordic countries, subsidies are only for the lower income group. In Malaysia, if tourists also enjoy subsidies, the government's expenditure will be further increased because Malaysia aggressively promotes tourism.

The first speaker of the session **Dato' Paul Selva Raj**, began by asserting that FOMCA supports GST, but that it has issues with its implementation. He asked: `How do we prepare the consumers?' According to him, FOMCA's research unit had carried out focus group studies on people's thoughts on GST in the past. The result of the studies among the focus groups was that people still do not understand the GST. Due to this lack of knowledge, there will be resistance to it. Currently there is anxiety over the phrase '*new tax,*' especially considering the higher cost of living. Due to its transparent nature, many believe that GST is a new, add-on tax. Therefore, people should be reminded that they are currently already paying a sales and services tax.

... a comprehensive safety net for the poor should also include food stamps and employment guarantees

There is genuine concern that GST will increase the prices of goods in the market. Dato' Selva Raj stressed that it is unwise for anybody to try and trick consumers. Consumers know the prices in the market, and they interact closely with the sellers.

Dato' Selva Raj's final point was that there must be a comprehensive safety net for the poor. The net will be needed as there will be two impacts: that of the introduction of the GST and that of subsidies rationalisation. The net should also include food stamps and employment guarantees. Although some of the concerns have already been addressed by the government, there are others that have yet to be addressed.

For example, there is a lack of consumer complaint centres. The government should learn from the experience of other countries and work extensively on communicating with consumers. Prices have gone up exorbitantly even before the implementation of GST. Dato' Selva Raj ended by pointing out that the revenue from GST should be put to good use, with visible benefits for all.

The second speaker, **Mr Khairul Anwar Hj Bachok** said the objective of the JKM was to distribute financial aid to the needy. The JKM

A participant poses a question

helps 490,000 citizens. Interestingly, he said, these people do not care much about the GST because, as far as they are concerned, the more the taxes, the more the financial assistance for them. And at the same time, they are happy since most of the goods they normally purchase will be exempted from GST.

Mr Khairul shared an example of the aborigines in the state of Pahang. They do not care about the GST, and only care about the first day of the month, the day that they receive the financial aid. They spend that money on an upgrade to their lifestyles, such as going out to McDonalds or some other fast food chain (instead of eating porridge, which their daily diet consists of), or on buying something nice for themselves.

... the government needs to build confidence in the people, and make visible the advantages of the GST

The final speaker, **Mr Mohd Rozlan Mohammed Ali**, claimed that Malaysia is a little late in implementing the tax system. However, the upside of this is that we are able to learn from other countries. He reminded the audience that we tend to forget that we are currently paying taxes. For example, paying SST is inevitable, since it is levied on manufacturing, importation, and goods. The only transparent tax is the service tax that we see on bills. More importantly, we have not discussed the impact of SST nor have we conducted a study on it so as to level up the field, as there are plenty of studies on GST.

From left: Chia-Tern Huey Min, Raja Kumaran, Steven Wong, Kamariah Hussain and Andrew Webb

He also reminded the audience that GST is only a replacement tax, and that there are currently eleven financial aid packages to help those affected. One of the packages reduces the income tax rate, and another comprises the one-off cash payment aid or BR1M. Studies have shown that at least 70 per cent of the income of the lower income group is spent on essential goods. These goods are zero-rated and not affected by the GST. We can learn from Singapore's efforts, in which the CPF (equivalent to our own KWSP) gives rebates to people in the low income group who pay GST. Furthermore, a top-up of a certain percentage is given to these people to cover their future living expenses.

A lesson that Malaysia can learn from the UK is that children's clothes can be zero-rated and commercial land and buildings be made tax-exempt. He ended the presentation with the suggestion that perhaps supermarkets can elect to absorb the increase in tax rates.

During the discussion, Dr Lim Kim Hwa conceded that while GST by itself is a regressive tax, when coupled with other forms of financial aid, it is not. However, he spoke about the pattern of crime in the country, and expressed concern that rising costs can lead to more crime. Mr Khairul countered by saying that education is the key to combatting crime as without education, children may experiment with criminal activities.

Prof Rasiah then asked whether BR1M can be justified as financial aid or if people will make use of it in a negative manner. Mr Khairul answered that the vouchers that JKM provides have mostly been put to good use, such as for the purchase of adult diapers and for monthly trips to fast food restaurants. The final question came from Mr Raja Kumaran, who asked whether zero-rating helps the poor. The panel answered that BR1M does come into play to help the poor, as the latter use it for essential items.

The panel was in agreement that zero-rated items can only help to a certain extent. There is a need for a comprehensive social safety net, as currently there is none. Mechanisms on the preparation and transition period for the people are also necessary, along with a complaints centre. Lastly, the government needs to build confidence in the people, and make visible the advantages of the GST.

Session 4: Open Mike: Questions and Public Interactions

*The panel consisted of **Dato' Kamariah Hussain,** Tax Advisor in the GST Implementation Office of the Ministry of Finance, **Mr Raja Kumaran,** Executive Director for Pricewaterhouse Coopers Taxation Services. They were joined by **Mr Andrew Webb** and **Ms Chia-Tern Huey Min**. This final session was moderated by **Mr Steven Wong**, the Deputy Chief Executive of ISIS Malaysia.*

Dato' Kamariah touched on some of the outstanding issues or unresolved questions regarding the GST. She reiterated that the

Participants of the dialogue

implementation of the GST was decided upon not because of the fiscal deficit. It was because of the weaknesses in the current Sales and Services Tax system. Before concluding that the GST was needed, the GST Implementation Office examined widening the scope of SST and modelling the outcome of it. Despite this, it was found that the retail sales tax still had its disadvantages. The inherent weaknesses of SST cannot be overcome. Due to these reasons, they decided that the best solution would be to implement GST.

Secondly, Dato' Kamariah touched on the issue of an increase of 1.8 per cent in the prices of products. She explained that simulation was based on 944 items within the CPI basket. The proportion of those items subjected to GST increased from 40 per cent to 70 per cent, hence the base was widened. It is only natural that due to the increase in the items subjected to GST, the overall price will be increased to 1.8 per cent. Another factor is the nature of GST. The GST in comparison to SST is a multiple stage tax and that will cause an increase in prices. In the end, it depends a lot on what the people consume. Perhaps fast food chains such as Starbucks and KFC will not see a price increase whereas prices of other items will increase.

The GST in comparison to SST is a multiple stage tax and that will cause an increase in prices

Thirdly, we have the issue of which products are to be zero-rated, exempted or standard-rated. In Singapore and New Zealand, all sectors except for property and residential housing, are standard-rated. However, in Malaysia, we cannot impose the standard rate across all sectors. This is because under the current SST, there are items that are non-taxable in certain segments, such as food, and taxing these items will further affect the CPI. Thus if we tax the goods across the whole segment, it would further affect the CPI.

Lastly, Dato' Kamariah said that it was found that having a model that is based on a `half -half' system will create more trouble for businesses — i.e. half of items of a similar nature are put into one category while the other half is put into another category — for example, standard-rating non-local fish such as salmon and zero-rating local fish. Therefore, the verdict was to implement the same rate across the board on certain items.

On the topic of GST readiness, Dato' Kamariah said the Government is helping SMEs get ready for GST by giving out grants for tax software. Another programme is that of hand-holding for SMEs. The programme is meant to help SMEs in specific industry training and to ensure that the act of profiteering is avoided. Dato' Kamariah concluded that around 200,000 to 300,000 companies would be subjected to GST.

Mr Raja Kumaran spoke on the penalties of not complying with GST. Firstly, GST is selfregulatory and entails high penalties. For example, incorrect returns will be penalized by a fine of RM50,000 and/or 3 years' jail. Coupled with businesses having to give monthly returns, the damage can be great. Another penalty is that of general mistakes which can entail a RM30,000 fine while penalties for late compliance would be 25 per cent of returns. Mr Kumaran said he found the fines to be high and the penalties to be quite harsh and excessive. He hoped the board would be more lenient and review the rates. Businesses may not know of the mistakes that they have made until much later, after being audited, and that may take years. Although there is a two years' `relaxation' period, it is highly doubtful that all of the estimated 300,000 companies will be audited in that time.

… GST has an appeal process, through which the offender can appear before a tribunal

Mr Kumaran also added that he hoped businesses would own up to their mistakes voluntarily, and then perhaps be given a lenient punishment. From the Singapore experience, the likelihood of making mistakes in GST is high. Currently GST has an appeal process, through which the offender can appear before a tribunal. Mr Kumaran said that he believed this is good as the tribunal would have a more independent view, and after the tribunal, it is possible to go through the normal judicial process.

The next issue that Mr Kumaran brought up was what would happen if customers did not pay within six months. Though businesses are allowed to claim back taxes paid, because government contracts take a long time to be awarded and paid, businesses will have difficulty trying to claim the taxes back within the stipulated time set by the government. Therefore, this issue need to be resolved so that businesses are not penalised for the fault of the customers.

Ms Chia-Tern Huey Min said that Singapore did not penalize those who made honest mistakes during the first year of implementation. However, it came down hard on the non-compliant, and encouraged civilians to come forward to own up on their tax mistakes.

Rastam Mohd Isa concludes the Forum

Mr Andrew Webb stated that in the UK, businesses are encouraged to contact the HMRC to discuss any issues that may arise. HMRC will then arrange an independent official who is not part of the initial assessment panel to assess the matter more objectively. The issue will then be discussed at the tribunal level, which is a part of the judiciary system, but on a lower level. Overall, HMRC aims to develop a good relationship with businesses, he said in concluding.

The first question during the open mike part of the session was whether Singapore and the UK had any intention of changing their business thresholds. Another was whether GST will be a macroeconomic tool for Malaysia as it is for the UK. Ms Chia-Tern answered that the threshold had served them well and there was no plan to review it in the future. Mr Webb said that the threshold is reviewed annually in line with inflation in the UK. However, there is no intention to significantly increase it and the UK has to comply with the ruling within the EU. Thus, HMRC may not be able to increase the threshold as they please.

… as there are penalties for late payments, what happens in late refunds?

Lastly, Dato' Kamariah said the imposition of the tax in Malaysia had always been with the objective of encouraging economic development. GST should not be used as a tool in certain sectors, and should be as broad as possible. Dato' Kamariah also added that there is no need to increase the rate in the near future.

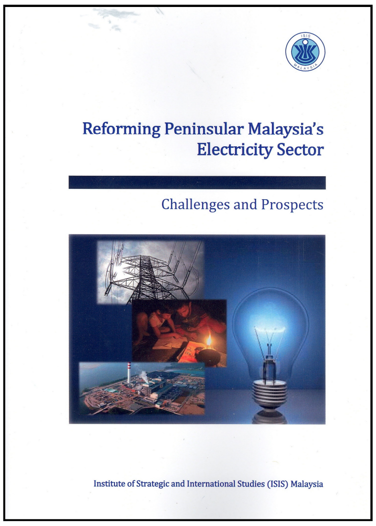
The second question was regarding the transition period. What did the UK do to compensate those who carried stocks from before GST implementation, and is there any complication in the process? Any difference between fraud and incorrect submissions, and what does general offence mean? Lastly, as there are penalties for late payments, what happens in late refunds? Dato' Kamariah then answered that refunds are only a concession; it is entirely up to the government whether there will be any refunds. Dato' Kamariah did concede that there is a genuine fear that businesses can sell their old stocks at GST-based prices even before the implementation of the tax.

… the only successful GST plan for Malaysia is the one that suits Malaysia best

The third question was whether all activities in the financial sector will be exempted from GST? Dato' Kamariah answered that fee-based activities will be standard-rated, whereas other activities such as deposits will be exempted.

Mr Steven Wong asked the final question: do the panelists have any advice for Malaysia? Ms Chia-Tern said it was hard to give advice as the social economic contexts are different. She added that getting the businesses and administrators ready for the change, comprehensively, is a priority and this would need more communication efforts. Mr Webb was firmly of the view that the only successful GST plan for Malaysia would be the one that suits Malaysia best. The nation has to tailor the system to suit local conditions.

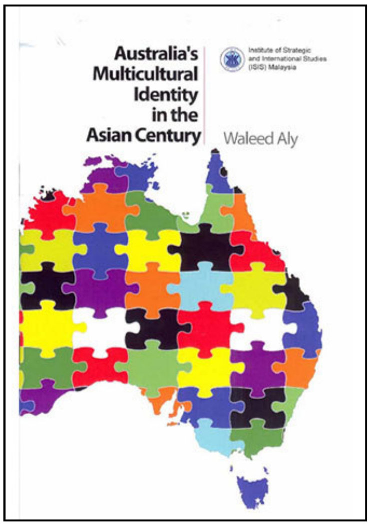
Mr Kumaran added that it was pleasing to hear that Customs will use their `heart' to judge incidents and offences as the penalties planned are very high. He also said that businesses have to get ready and that they need to be in shape to comply with GST. Dato' Kamariah ended the session by expressing the hope that GST would be implemented smoothly with minimal problems on 1 April 2015.



Reforming Peninsular Malaysia's Electricity Sector: Challenges and Prospects
Kuala Lumpur: ISIS Malaysia, 2014. E-book

The e-book discusses the prospects and challenges associated with the objective of reforming the power sector in Peninsular Malaysia. It revolves around four themes namely: energy market outlook and regional experience with electricity market reform; electricity tariff review in Malaysia and its expected impact; reforms to increase competitiveness in Malaysia's electricity sector; and transition and adaptation to a new sectorial structure. These themes are drawn from the discussions that took place during the *Public Forum on Reforms in Peninsular Malaysia's Electricity Sector* which ISIS Malaysia and MyPower Corporation co-organized on November 7, 2013.

Available at:http://www.isis.org.my/attachments/e-books/Electricity_Reforming_Final-book.pdf



Australia's Multicultural Identity in the Asian Century
Waleed Aly. Kuala Lumpur: ISIS Malaysia, 2014.

This monograph is based on a talk titled, 'Australia's Multicultural Identity in the Asian Century', given by the author at an ISIS International Affairs Forum on 30 April 2013 in Kuala Lumpur.

Available at: http://www.isis.org.my/attachments/e-books/Waleed_Aly.pdf

INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA

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Published by

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