

Will the SST lead to lower prices? Well, it depends

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Veerinderjeet said the SST should technically result in prices being 'marginally' lower compared to when the GST was applied at a rate of six per cent. — Picture by Hari Anggara

KUALA LUMPUR, July 24 — The Sales and Services Tax (SST) is touted as a simpler system that will lower the tax burden on the average consumer compared to the Goods and Services Tax (GST), but experts believe it may not necessarily bring down prices swiftly.

Tax consultant Veerinderjeet Singh said the SST should technically result in prices being “marginally” lower compared to when the GST was applied at a rate of six per cent.

However, he said the effects may also be muted by the current tax holiday following the zero-rating of the GST beginning June, as well as businesses that could opt to pocket the savings.

Veerinderjeet explained that some items may also rise in price as the sales tax of 10 per cent is technically higher than the GST, but added that its more limited application meant most products would either stay at current prices or fall marginally.

“Food items, the prices will not change compared to prices now after zero GST, and should remain similar so in that sense there should not be unnecessary increase in prices because less goods are subject to tax.

“But the challenge is that, in reality, you find some traders may still increase prices so that needs to be managed with strict enforcement. There’s a lot of profiteering going on,” the non-executive chairman of Axcelasia Inc told *Malay Mail* when contacted.

When pressed to say if replacing the GST with the SST would result in lower prices now, he responded in the negative and explained that previous increases may not have been solely caused by the consumption tax.

He held up the absence of universal price decreases following the zero-rating of the GST to support his assertion that external factors could frustrate the government’s intention to lower prices.

“You find even with zero GST, some prices still have not gone down. Why is that so? It’s because traders do not seem to appreciate that they should reduce prices when they don’t have additional tax,” he said.



Firdaos said car prices were where the impact would be most palpable. — Picture courtesy of Firdaos Rosli

More than just tax alone

Analyst Firdaos Rosli of the Institute of Strategic and International Studies (ISIS) argued that a switch from GST to SST will not reduce prices as there will still be a consumption tax either way, and as there are additional considerations that have already been “priced in” since the GST’s April 2015 introduction.

These include differing levels of competition then and now, and wage increases, as well as changes in external factors, most notably the decline in the ringgit’s value vis-a-vis the US dollar in recent years.

“Although the product coverage under the SST is much less than the GST, prices cannot revert to pre-2015 levels simply due to the change in consumption tax,” the director of economics, trade and regional integration at ISIS told *Malay Mail* when contacted.

“Whether SST will reduce prices, my answer is no. We will see prices probably maintained, while some will undoubtedly increase due to additional increase in consumption tax like cars.”

Firdaos also said car prices were where the impact would be most palpable, noting that the 10 per cent sales tax was clearly above the 6 per cent levied as the GST previously.

The switch to the SST would also make it more difficult for authorities to detect profiteering as businesses need not continue with the stringent tax reporting that was among the GST’s touted benefits.

Firms will also no longer be able to claim tax credit on input costs, which he said some may use as an excuse to maintain prices.

“SST is not as transparent as GST, so how will know for sure that the 10 per cent or 6 per cent that we pay go directly to the government? Under GST, the receipt will tell us exactly how much tax we are paying for each transaction we make,” he said.

He then asked if the government would be able to ensure there was adequate enforcement to contain the risk of profiteering.

The Royal Malaysian Customs Department had last Thursday released an extensive 292-page list of proposed items to be exempted from sales tax under SST.

The Finance Ministry also last Thursday highlighted examples of items that will be SST-free, including food items commonly consumed by the B40 or lower-income group, which Prof Yeah Kim Leng believes will have similar prices to the tax holiday period with zero-rated GST.

“When SST is imposed, we should not see any significant change in the price of food and basic items,” the professor of economics at Sunway University Business School told *Malay Mail* when contacted, adding that prices of items that were already exempted or zero-rated under the GST should also not increase.

“Most prices would not change after SST. In that sense, cost pressures will be contained and for any reduction, it will depend on the ability of producers and manufacturers to lower prices.

“And to lower prices it will mean cost of production have to come down, and that can only be from increased competition, greater production due to productivity increase; and passing on of cost savings to consumers,” Yeah said.

Commenting on the Finance Ministry’s announcement last week that the SST will be taxable on only 38 per cent of the Consumer Price Index (CPI) basket of goods as compared to GST’s 60 per cent, Yeah said the smaller coverage will reduce the CPI and lower the cost pressure on the average Malaysian household.

“From June to September, there will be a slight drop because of the tax holiday. And after SST, should see a slight uptick in CPI, given the SST will kick in. From then, it will take a year for prices to level off,” he said, adding that prices increases under SST will not be as much as GST due to the narrower coverage.

According to the latest Department of Statistics Malaysia’s data on July 18, the CPI’s June figures showed that inflation grew the slowest in the past 40 months, at only 0.8 per cent when compared against last June. The June CPI also fell by 1.2 per cent when compared against May.

Cost of living

Tax consultant SM Thanneermalai said the SST’s reduced scope would lead to lower cost of living.

“The SST will be levied on a fewer number of items and as a result the cost of living will be reduced.

“However, there will be items that are subject to Sales Tax at 10 per cent will be costlier, overall the SST will be positive for the people as RM23 billion will be returned to them under the new tax regime,” the managing director of Thannees Tax Consulting Services Sdn Bhd told *Malay Mail*.

Both Yeah and Firdaos suggested that much of what is generally viewed as rising cost could simply be lifestyle inflation.

Yeah said cost of living could depend on factors such as a consumer’s income level and also their location.

“So in terms of CPI, it should bring down, given coverage is almost halved. Cost of living will be lifestyle, income level and expenditure preference - some can go for high end, some can go for medium to low end,” he said.

Firdaos said the whole issue of addressing cost of living is very “subjective” as it means different things to different people.

“Having said that, we should address three basic things; cost of food, transportation as well as communication. Everything else is lifestyle choices,” he said.

He suggested that the government spend more on public transport to address high transportation costs where car ownership is often necessary, noting that the government is taking steps to make internet more accessible but said the question of access remains for fixed broadband which has less competition than mobile broadband providers.