Countdown to GST

COMMENT

BY DAVID LAI

OF the five key strategic thrusts of Budget 2014 unveiled by our Prime Minister and Minister of Finance Datuk Seri Najib Abdul Razak on Oct 25, 2013, the central focus of the budget was "strengthening fiscal management".

Although the announcement of the goods and services tax (GST) was widely anticipated, it nevertheless came as a relief to many.

The uncertainty experienced in the recent weeks running up to the budget was unsettling for economists, financial analysts and the investor community at large.

The proposed replacement of the sales and service tax (SST) with GST come April 1, 2015 is what many economists and financial analysts would regard as a necessary change to address the fiscal deficit in the country.

The other proposals such as reduction of individual, corporate and co-operative income tax and the GST tax incentive package are aimed at counterbalancing the wide effects of GST.

GST is also one of the key Strategic Reform Initiatives necessary under the Economic Transformation Programme announced in 2010.

Although the implementation date of GST has now been announced, the draft GST legislation and regulations are yet to be released to the public. The GST Bill 2009 which was deferred at the second reading was subsequently withdrawn in May 2012 for amendments.

The new GST Bill would have to be retabled in Parliament for it to become law.

Given that businesses have only 17 months to prepare their operations and IT systems to be GST-compliant, it is hoped that the new GST Bill and Regulations would be made available to the public soon.

Meanwhile, businesses would have to start their GST implementation based on the assumption that the new GST Bill would be similar to the GST Bill 2009 and with reference to the GST Guidelines issued by the Royal Customs of Malaysia.

The Budget 2014 speech mentioned that the proposed GST rate at 6% is the lowest among Asean countries compared with 10% in Indonesia, Vietnam, Cambodia, the Philippines, and Laos and 7% in Singapore and Thailand.

Nevertheless, the GST rate at 6% may be considered high and which reflects the government's urgent commitment to address the fiscal position, as previous indications by the Royal Customs of Malaysia was that a 4% GST rate would be revenue neutral.

Now that the GST countdown to April 1, 2015 has begun, all businesses will have to take immediate steps to assess the impact of GST and mobilise resources to prepare for implementation.

The GST is a broad-based tax that will impact business organisations as a whole. Among others, its implementation will need to take into account issues such as systems and processes, pricing and legal contracts.

Actions that need to be taken during the implementation of GST would largely involve people, technology, processes and documentation.

As GST affects not only the tax or finance functions but all business functions, it is crucial for a "whole of business" GST implementation team be set up at the beginning.

In some instances, business processes and operating structures may even have to be revised to be more efficient under the GST environment.

As GST affects 100% of transactions, the GST mapping process can be time consuming and efficiency should be enhanced with the use of technology.

As many basic items are listed as "zero rated" (for example, many basic food items) or "exempted" (such as education and health services) from GST, this increases the complexity in the implementation system.

GST implementation in Malaysia is, therefore, expected to be more complex compared with, say, Singapore or New Zealand where most items are standard rated.

Businesses would also need to pay careful attention to transitional issues, such as removal of the SST, taxing point of progressive/periodic supplies, long term contracts, and instalment/credit sales.

Based on experience overseas, the recommended time frame for GST implementation is 18 to 24 months.

The reason for a long implementation time frame is that many of the implementation processes cannot be done in isolation, but are dependent on co-operation from many other business associates, for example, negotiations with suppliers and vendors who may or may not be registered for GST.

The timing for the availability of the GST Bill, Regulations and Guidelines would also determine the speed of implementation in Malaysia.

In theory, 17 months should be sufficient if the GST implementation process is given priority and commitment by senior management, and is well planned and organised.

This is, nevertheless, a challenge for Malaysian businesses given that it would be new to many, and there may be technical complexities discovered along the way.

Given the sheer volume of entities that would need to comply with and register for GST, not all would have access to consultants.

The successful implementation of GST requires careful planning and change management in the organisation.

A "whole of business approach" is crucial.

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