

Goods & services tax – it's on our doorstep



COMMENT

BY SM THANNEERMALAI

Irwan Serigar Abdullah saying that “GST is a must, not an option”, and on Aug 29, 2013, he said that the Treasury advised the prime minister to include GST in his Budget 2014 speech next month.

The government appears to have started the fiscal reform process with the 20 sen increase in petrol and diesel prices on Sept 3, 2013 together with the announcement that it plans to increase the BRtM payment from RM500 to RM1,200 to alleviate the impact of rising prices on the middle and lower

income sections of our society.

If GST is introduced then this will have to be part of a holistic package of fiscal reforms to address the budget deficit issue. The rationalisation measures that could be introduced could include the reduction of subsidies towards electricity generation and perhaps others too.

In order to cushion the impact, a reduction in personal and corporate taxes is expected to follow. If GST is introduced, personal tax and corporate tax rates could be reduced by possibly 3% and perhaps up to 5% over a number of years.

Other measures will be simultaneously introduced to tackle profiteering by unscrupulous businesses through proper enforcement of the Price Control and Anti-Profitteering Act 2010.

GST is a more efficient tax compared to the sales and the service taxes it will replace. The latter two taxes are single-stage taxes and are not taxes on the value added.

In a value-added tax or GST regime, although the tax is collected throughout the supply chain, it is only the final customer who pays for it. This is because businesses may recover the tax at every stage of the value chain of a taxable product or service until it reaches the final consumer.

However, one cannot deny that the introduction of GST, despite the zero rating of essential products and services such as rice, salt and vegetables and essential healthcare services, will result in temporary

inflation but the experience in other countries has been that such increases taper off in one to two years.

I anticipate the GST rate to be set at no lower than 4%, but could be as high as 6% if one uses the current service tax rate as a benchmark.

Finally, this is a tax that can only be introduced, in my opinion, no earlier than 15 months after its announcement. That means the earliest date for the implementation of GST could be Jan 1, 2015, thus allowing ample time for businesses in the country to prepare their systems to account for this tax to the government.

The government can help the business community by setting a clear policy on the appointed date to facilitate preparations to implement the tax.

A word of caution though: even without the introduction GST, the government will still have to deal with the budget deficit issue and this is can only be done through a reduction in government expenditure or through borrowings or through tougher enforcement of the current tax laws by the Inland Revenue Board and the Royal Malaysian Customs and minimising leakages from the system.

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THE goods and services tax (GST) has come up for discussion many times over the past decade and each time the political considerations have outweighed the need to balance our government's books, which resulted in Malaysia experiencing budget deficits since 1999.

In simple terms, the budget deficit means that the government spends more money than it receives.

But this state of affairs cannot carry on forever. The time has come for the government to come up with fiscal reforms to address this issue; otherwise it will impact our long-term future.

Effects are already beginning to be felt with the negative outlook of the country rating (this has an impact on the cost of borrowing by our corporates and on sovereign borrowings) recently by Fitch Ratings agency.

And, indirectly, one of the reasons for the recent weakening of the ringgit against the US dollar could also be attributed partly to the ongoing deficit saga.

Therefore, I believe that this time around the signals coming from the authorities are very strong and so far we have had Finance Ministry secretary-general Tan Sri Mohd