PWC: GST rate should be at 6%

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KUALA LUMPUR: The indicative rate for the country's goods and services tax (GST), when implemented, should be 6%, said PricewaterhouseCoopers Taxation Services tax experts yesterday.

According to the firm, the indicative rate of 4% for GST as proposed by many economists and industry experts is insufficient.

PwC senior executive director Wan Heng Choon said GST should be introduced at a rate of 6% which is equivalent to the current rate of service tax but lower than the current sales tax.

The sales tax is presently levied at 10%, with some exceptions for certain goods where the tax levied is either 5%, 20% or a specific applicable rate.

"I do not see GST being brought in at 4%. If the government introduces GST, merely to collect the same amount of money as sales and service tax, why do it? There is no reason for it at all," said Wan at the PwC budget 2014 media briefing yesterday.

"At the moment, sales and service tax together contributes about RM26 billion to RM28 billion [to government revenue]. At the rate of 6%, some forecast has been made saying that the number is expected to exceed RM30 billion easily," said Wan.

The *2012/2013 Malaysia Economic Report* revealed that indirect taxes collected for 2012 — which comprises sales tax, service tax, customs duties and excise duties — accounts for 17.2% of the total revenue contribution for Malaysia. The budgeted indirect tax collection for 2013 is expected to be slightly higher at 17.8%.

Nevertheless, there are opposing views to the GST being implemented at a higher rate than 4%.

This is because a higher rate can create a knee-jerk reaction taking into account the current economic circumstances and ongoing subsidy rationalisation programme.

PwC has also proposed that the government should revisit the full real property gains tax (RPGT) regime as one of the measures to curb property speculation.

The full RPGT regime was implemented before 2007, when rates up to 30% were imposed on disposals of property made within two years of acquisition while a 5% RPGT is levied on disposals made in the fifth year of disposal. The rates were revised after the 2007 financial crisis.

"The removal of RPGT [after 2007] was done to spur the property market. After that, property prices moved up in a trend never seen before. If we continue with the soft approach, a gradual increase, it won't make a big difference.

"However, if you bring it (RPGT) back at 30%, which is higher than the corporate income tax rate, it is a punitive rate. It should have that impact to dampen speculators in the market," explained PwC senior executive director Steve Chia.

Currently, RPGT is implemented at a rate between 10% and 15% for disposal of property made within four years of acquisition.

Nonetheless, Chia said that tax is the one fiscal measure that can be used to help curb speculation in the market that leads to high property prices.

He said the issue needs to be looked at holistically with the introduction of measures such as lowering the loan-to-value ratio for third property purchase onwards to 50% from 70% currently and abolishing the developer interest bearing scheme or DIBS.

PwC tax leader and senior executive director Jagdev Singh opined that the government should reduce corporate tax and personal income tax rates. However, he also believes that the timing is a crucial factor to take into consideration before reducing taxes.

"Introduce GST and then announce the reduction in corporate tax rates. The right thing to do is to announce the plan for the next couple of years and what the [corporate tax] reductions will look like. That's the right way to go. If you look around the region [where the trend is to lower corporate tax rates], we will have to lower taxes too," he said.