Customs: GST will lower car prices by up to 3%

BY **BEN SHANE LIM**

Come April 1, car prices should fall by as much as 3% as the Goods and Services Tax (GST) replaces the existing sales and services tax (SST), says Subromaniam Tholasy, Royal Malaysian Customs Department's director of GST, brushing off concerns for higher costs by automotive players for stock in hand during the transition.

"Car prices have to come down. Customs is in the business. We know the base for sales tax and the base for GST. They are different but will still result in savings. How much savings will depend on whether it is an imported car or a locally assembled car."

GST will apply to the final selling price of a car, whereas the existing 10% sales tax is applied at the point of a car's manufacture and passed down along the supply chain.

Therefore, the amount of savings will vary depending on the distribution costs and whether the car is locally assembled or imported. Based on Customs' calculations, locally assembled cars should see savings of around 3% while their imported counterparts would see a little less.

That said, consumers who have been holding back might not see those savings passed down to them in the form of cheaper prices.

"The Price Control and Anti-Profiteering Act only compels businesses to pass down the savings but not to lower prices. They can still comply with the spirit of the Act by throwing in extras like extended warranty, for example. It will increase their costs and keep their margins level," says Ernst & Young Tax Consultants Sdn Bhd's partner of tax Bernard Yap.

For carmakers, this could help them protect their branding as well as the resale value of cars that were sold recently.

Car sales in January and February were sluggish as some consumers held off on purchases. Car registrations grew only 1.2% to an estimated 102,192 in the two months compared with the previous year, largely driven by the low end of the market with some 16,000 registrations of Perodua's Axia.

Proton and Toyota, for example, saw their sales fall an estimated 15.9% and 36.6% to around 17,000 units and 9,100 units respectively in the first two months of the year.

Moving forward, the Malaysian Automotive Institute said last Friday it expects total industry volume to increase to 700,000 units this year, up from 656,000 units last year, on lower prices post-GST.

Minimal transitional issues

Subromaniam urges the Malaysian Automotive Association (MAA) not to exaggerate the transitional issues faced by carmakers due to stock in hand being subject to double taxation.

"Don't try to magnify a small issue. How much stock do you have? For imported cars, you can always keep them at a bonded warehouse. Most imported cars are kept at bonded warehouses or free zones at the port.

"You may go to the free zone in Port Klang, go up the building and see. Thousands of cars will be there. Imported, yes. But declared, not yet. They are stock in hand but you cannot be claiming because you have not paid the customs duty," he says.

ABDUL GHANI ISMAIL/THE EDGE

The amount of savings from GST vary depending on the distribution costs and whether the car is locally assembled or imported

In fact, Subromaniam estimates the actual stock in hand for the industry to be a few thousand at most, a fraction compared with the annual total industry volume of over 670,000, which the MAA is expecting this year.

Recall that MAA president Datuk Aishah Ahmad had previously said that "for unsold stock for which sales tax has been paid, consumers would have to pay 10% sales tax plus 6% GST on April 1, especially for stock held by dealers".

Subromaniam stresses that automotive players should pass down the savings to consumers rather than take advantage to earn fatter margins.

Keep in mind that Customs is still offering a special rebate for SST, albeit only 20% of the purchase price. This is because the cars would have changed hands several times and there would be distribution margins.

Furthermore, Customs recently made an amendment that will allow retailers to claim this special rebate up to 60 days from April 1. Previously, retailers would have had to fully pay for their goods by March 31 in order to enjoy the special rebate.

This extends to the automotive industry, easing cash-flow concerns for retailers.

"For other goods, it makes sense that the special rebate on sales tax is less than the full amount because Customs can't be 100% sure if the tax has been paid. The assumption is that tax has been paid but it is hard to prove.

"However, when it comes to cars, car distributors have pointed out that car chassis have serial numbers. If Customs want to, it can trace the paper trail and determine exactly how much tax has been paid on each car and give a refund," says PricewaterhouseCoopers Taxation Services Sdn Bhd executive director R S Raja Kumaran.

He adds that Customs might be reluctant to pursue this option as it would open the floodgates for other industries to seek full refund for sales tax on their goods, since most goods have serialised production codes that can easily be traced and documented. E