PwC recommends 6% GST

> Higher rate instead of 4% will bring in long-term benefits and more revenue

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KUALA LUMPUR: The proposed goods and services tax (GST) should be implemented at a higher rate than 4% in order to produce long-term benefits and more revenue collection for the Government, PricewaterhouseCoopers (PwC) Taxation Services Sdn Bhd said.

"The government indicated about a year ago a rate of 4% will give a neutral position to the country. There are two pillars that the country must address namely fiscal deficit as well as fundamental transformation of the taxation system into an equitable taxation system.

"If 4% merely gives us an 'as is' position, I've had people asking me 'why do it at all?' In my mind, an appropriate rate would be something that is higher than 4%," its senior executive director Wan Heng Choon told reporters at PwC's GST in Malaysia: Facts and Myths workshop yesterday.

He said keeping the rate at 6%, which is similar to the current service tax, would yield better long-term benefits and with the wider base upon implementation of the GST, it would deliver the larger revenue that is required by the government.

Last month, Minister in the Prime Minister's Department Datuk Seri Idris Jala said the country would have an additional income of RM27 billion if the GST is implemented at 7%, similar to Singapore's GST rate. However, Wan believes it will deliver more than RM27 billion.

According to Wan, 4% GST would address the fiscal deficit and the transformation of the taxation system into a more equitable system but it would not be the "silver bullet that cures everything with the fiscal deficit" but increase the rate to above 4% would address those issues.

"In the International Monetary Fund's view, anything less than 10% will not yield long term benefits because if it is less than 10% and you have to keep it at that rate for a number of years, it reduces the impact of GST," he said.

He added that the GST has proven to be a much more effective fiscal tool that many governments use to treat the economy, compared with corporate income taxes due to the time lag because if the government fiddles with corporate tax rates, it would take a year for tax returns to come through.

"If the people, citizens of the country want to enjoy the present level of services that are being provided by the government – medical care, education, BR1M, help for the needy – it has to be funded somewhere. Corporate and income taxes as shown, will not deliver those numbers and those revenues," he said.

PwC Taxation Services senior executive director Jagdev Singh, who was also at the workshop, said the government would have to stick to the chosen GST rate for some time before increasing or decreasing it.

"It is impossible to introduce GST at a particular rate, say 4%, then think about increasing it the following year or year after. Singapore held its GST rate for five years and they had it legislated that they will hold it for five years.

"So whatever rate we decide to introduce, we will have to hold it for a while. Therefore, if the government introduces a rate that is too low, it may not work out because things move very quickly. When they calculated 4% which is tax neutral a couple of years ago, that may not be the case today," he said.

He added that the government would also have to tie in the GST rate and timing of introducing the GST with the subsidies rationalisation programme (SRP).

"If they are going to put in two things together, rationalise subsidies which means prices will increase and on the other hand GST coming in at a high rate, people will view it very negatively. So they will have to look at the two things together," he said.

He added that education and communication on the GST structure and its impact are important factors.

VAT/GST IN ASEAN COUNTRIES

Country	Year	Initial Rate	Current Rate
Indonesia	1984	10 %	10%
Cambodia	1999	10%	10%
Laos	2009	10%	10%
Philippines	1998	10%	12%
Singapore	1993	3%	7%
Thailand	1992	7%	10% (in 2014)
Vietnam	1999	10%	10%

source : PwC