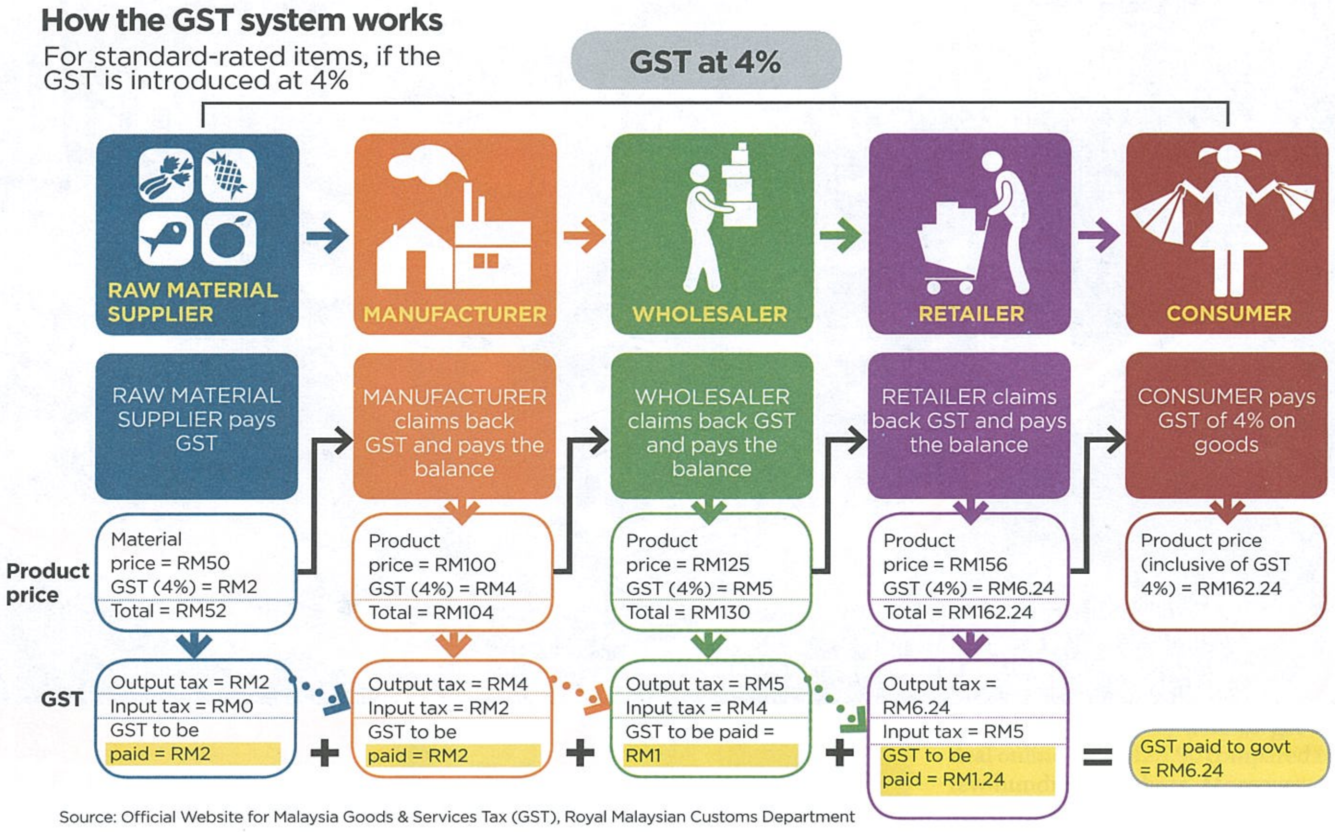
Will GST finally come in 2015?

Signals from politicians and civil servants leave question hanging

by LIM WEY WEN



Source: Official Website for Malaysia Goods & Services Tax (GST), Royal Malaysian Customs Department

THE goods and services tax (GST), delayed for several years, has lately hogged the headlines again. But will this consumption tax become reality in the coming Budget?

The recent revelation the government is trying to include the GST in Budget 2014 has been deemed the clearest signal the consumption tax is set to be implemented.

This came from Finance Ministry secretary-general Tan Sri Mohd Irwan Serigar Abdullah, who said on Aug 29 that Treasury has proposed to Prime Minister Datuk Seri Najib Razak the inclusion of the GST in his Budget 2014 speech. He also said the GST is "a must, not an option". Several hours later, Najib declined to confirm or deny the statement.

"We have been talking about it," Najib said. "But whether or not it's in the Budget, you have to wait until the Budget." Irwan's and Najib's recent statements have met with indifference, as consumers and businesses adopt a wait-and-see approach.

"There's nothing to prepare, as we do not know what the GST would be like," says a businessman, whose business has surpassed the RM500,000 turnover threshold that makes it compulsory for him to be included in the GST system. "We don't even know when it will happen," he says.

Some, especially those already paying the sales or services tax, are hopeful the replacement tax will soon be implemented.

"For footwear manufacturers who are already paying a 10% sales tax, a 4% to 5% GST will be lower than what we are previously paying," says Malaysian Footwear Manufacturers Association president Tony Ting. "When I pay my supplier, I could also deduct the (GST they charge me) from my GST," he says.

Consumer associations, however, have demanded more clarity and transparency before the tax is implemented.

In June, Federation of Malaysian Consumers Associations (Fomca) secretary-general Datuk Paul Selvaraj said while the GST was important for the nation to generate income, the government should communicate the workings of the GST to the people as many remain skeptical of its benefits.

The government, however, plans to educate the public and businesses after the GST is agreed on.

GE13, Umno and petrol price hike

While Najib stated in 2011 that the GST would be implemented only after the 13th general election, there are several factors that keep the guessing game going – including the Umno election and the recent petrol-price hike unpopular among many Malaysians.

"We are expecting [the ruling government] to announce the GST soon," says Kelana Jaya MP and Parti Keadilan Rakyat economic policy adviser Wong Chen.

With the Umno election in October, Chen is unsure if such an announcement will be made, adding that businesses may not be ready to implement it even if the government announces it next year. With the recent 20 sen increase in prices of RON95 petrol and diesel, the introduction of yet another unpopular policy may be difficult for the people to accept.

The Federation of Malaysian Manufacturers (FMM), for instance, is of the view that the GST should be deferred.

"We are of the view that reducing wastages/leakages in government expenditure, ensuring better value for every ringgit spent and improving efficiency in utilising public funds to reduce the current deficit should be given priority over the introduction of GST, which could hurt the economy, especially given the weak external environment," FMM tells ***FocusM***.

"Businesses, especially SMEs, are still adjusting to higher costs of production following the introduction in 2013 of the minimum wage, minimum retirement age, EPF contributions beyond 55 years and rising costs of transport, including port charges.

"The full effects of these major cost burdens have not yet flowed through the economy, as companies are just beginning to implement these changes."

Thanneermalai: As the GST is a consumption tax, it will provide a more stable revenue for the country

Implementation takes time

"What a lot of people don't realise is that there is a time lag between the date of announcement and the implementation date of the GST," says BDO Tax Services Sdn Bhd executive director and head of tax advisory David Lai.

According to him, the recommended time is 18 to 24 months. "Some businesses already have a good understanding of GST," Lai says. "However, given the previous deferrals of GST, it is understandable that many are waiting for the implementation date to be announced before deploying their resources to prepare for GST," he adds.

A survey by FMM in April 2012 to assess the readiness of businesses to implement the GST revealed that over 60% of businesses that responded were not ready for the tax. "FMM is of the view that 14 months is inadequate for the private sector to fully understand the implications of each provision of the GST legislation, conduct training, undergo registration, and implement computerisation and other preparatory work necessary to ensure successful implementation," says the federation.

Yeah: Budget 2014 represents a golden opportunity to introduce fiscal reforms in a holistic manner whereby compensatory measures will be integrated to alleviate the tax burden on the targeted groups

Biting the bullet

The implementation of the GST is expected to come with a slight increase in headline inflation. "Experiences in other countries generally show one-off price increases that taper off after one to two years," says RAM Holdings Bhd chief economist Dr Yeah Kim Leng.

He expects a similar effect for the GST if the rate is set on par with the current sales and services tax.

"Together with zero-rating and exemptions for essential goods and services, the inflationary impact is not expected to be large," he adds.

With the recent Fitch Ratings' downgrade of Malaysia's sovereign credit rating and the withdrawal of foreign funds from emerging economies such as Malaysia, it is more apparent today that measures to narrow the country's fiscal deficit cannot wait.

The government can no longer fall back on taxes on declining oil revenues and the additional pressure to fulfil election promises made during the last general election is high. Last year, Malaysia's budget deficit was 4.5% and its debt-to-GDP percentage has breached 53%, climbing towards the country's self-imposed limit of 55%.

"Considering the economic situation we are in at the moment, I do not think we should remain skeptical about it. The government is planning to implement the GST and it is inevitable," says PricewaterhouseCoopers Tax and Business Consulting Services division senior executive director SM Thanneermalai.

He says tax collection will increasingly be key for the economy, especially when foreign funds are leaving the country. "As the GST is a consumption tax, it will provide a more stable revenue for the country."

In 2011, the sales and services tax (SST) contributed RM13.56 bil to government coffers and this figure increased by an estimated RM1.82 bil to RM15.38 bil last year. This year, the SST is expected to bring in RM16.15 bil, 5% higher than the 2012 estimate.

The GST is expected to beef up the national coffers in the long run, but it may not rake in extra returns during its first few years of implementation. The Performance Management & Delivery Unit (Pemandu) has estimated additional revenue from the GST for the first two years to be between zero and RM8 bil, depending on the proposed implementation rate of 4-5%.

If the GST is pegged at 7% as in Singapore, Malaysia will reportedly rake in an additional income of up to RM27 bil when every Malaysian starts to contribute to the tax. The recent petrol-price hike is also set to help the government save RM1.1 bil in subsidies and a further RM3.3 bil annually.

These measures to increase revenue will mean little if the government does not take measures to stem waste and leaks in its expenditure. Najib has announced the government will review and "sequence" or postpone projects with high import components accordingly, but the measures and fuel subsidy cuts may not be enough.

In response to Sept 2 reports about fuel subsidy cuts, Fitch Ratings said the following day that Malaysia's measures to lower fuel prices are "too small" to alter its negative outlook on the country's A- sovereign credit rating.

Despite acknowledging the fuel subsidy reduction is a "first, small" step ahead of possible added measures to shore up public finances, the ratings agency says the fundamental driver of the narrowing current-account surplus has been the widening public-sector deficit.

The public may acquiesce to the GST and to other potentially painful fiscal measures; but the government must be prepared to meet its expectations for better public infrastructure and services as well as greater transparency and accountability regarding how the funds are used. FocusM