GST implementation — what do you need to do?

MY Say

BY TIM SIMPSON

The Goods and Services Tax (GST) implementation date of April 1, 2015, is less than seven months away. The latest government figures show that over 70,000 of the expected 300,000 businesses have registered for GST. This would suggest that a significant number of Malaysian businesses have still not begun implementing the tax.

So where to begin? Firstly, a business should consider whether or not it is required to register for GST. The liability to register is determined with reference to your "taxable turnover". Generally, this will equate to your gross revenue. However, certain items are excluded from the computation, such as disposal of capital assets.

What is taxable? Put simply, if you do something in the course or furtherance of your business and you receive something (in cash or in kind) in return, you have created a potential GST liability.

However, certain supplies will not be taxed. Some will be zero-rated (taxed at 0%) and others will be exempt (no tax applied).

A doctor may have a gross revenue of RM1 million. Generally, medical services are exempt. Therefore, the doctor's revenue will not translate into taxable turnover. Basic GST knowledge is required in determining whether or not you are liable to tax. An understanding of what is and is not taxable will be required in order to decide whether to register.

What if I have to register? The registration process is relatively straightforward. A five-page form can be submitted to the nearest GST office, or completed online.

Once registered, you are required to account for GST either on a monthly or quarterly basis, depending on your turnover. But to account for GST, you must know your GST liability. How will you compute this?

Internationally, GST is not a new tax. Many accounting programmes come with GST modules. Local providers have been adapting software while global providers will leverage off compliant systems in other countries. However, every GST jurisdiction operates differently. The key to finding good software involves determining what functionality you need for your business under Malaysian law.

The computer cannot do everything for you. Businesses still need to determine the policy and process changes required to ensure that the correct information gets into your IT system in the first place. The old adage of "rubbish in, rubbish out" will apply. For example, if the correct account code is not selected for a transaction, an incorrect GST treatment may be ascribed and your GST liability will be incorrectly computed.

GST is a transaction-based tax. A business must review each and every line of its chart of accounts to determine the GST impact. You may have different treatments residing within the same account code. For example, one line for sales can give rise to several GST implications. Do you sell locally? Export? To one of the tax-free islands? Each will require a different tax code.

Assuming your software can cater for this, human input is required to ensure that the correct account code is used. Current sales processes may involve the recognition of a sale and recording of the details of the payer. If that person has an address in Kuala Lumpur, but requests delivery to Langkawi, how will you capture the transaction?

Given the comprehensive nature of the tax, you may not have the time to get everything perfect before April 1 next year. Policies, processes and systems need to be tested before the live date. You should plan to include some buffer time to allow for remedial work. While waiting for April 1, suddenly you realise you are already in mid-February.

So what are the must-dos? The law places an obligation on suppliers to account for GST on the supplies made. You need to pay over 6/106 of all taxable revenues to Customs. You must also issue a tax invoice to your customer containing the prescribed details.

Other requirements are to register before Jan 1, 2015, and submit your GST return on time. Another requirement is that any price you display, quote or otherwise communicate to your customers must be GST-inclusive. This will require a re-education of your sales staff, an update of your price lists and a change to promotional materials.

The other legislation to be wary of is the Price Control and Anti-Profiteering Act 2011. Businesses are not allowed to impose opportunistic price increases of 6% to take into account the GST. Where you make savings due to the repeal of the Sales and Services Tax and the introduction of GST, you must pass this on to your customers, or face heavy penalties.

Here, we have considered the must-dos. There are significant savings to be garnered from GST if we implement it correctly. E

Tim Simpson is a senior consultant with PwC Taxation Services Malaysia. This is the first article of a two-part series on GST implementation and what's in it for businesses. The next article will discuss some key considerations for businesses, including what they can do to ensure that they pay the correct amount of tax.