TAXING INVESTORS

In April, many investors may be surprised to find GST levied on the investing products and insurance policies. The concern is that the cost to invest has gone up with this tax, as these financial instruments are popular and are commonly used by a large segment of the population who are looking for ways to save and invest effectively for their retirement.

"The cost to invest has gone up but this is in line with the overall rising cost of living. Look at the bigger picture, instead of thinking that GST is a reason not to invest or to execute financial transactions, it should actually motivate you to invest more since there is now a bigger need to have more funds in the future," says Wong Wei Ying, general manager for Pursuimart.com.

"It is not just investors who will be paying GST in the investing industry. Funds are classified as "exempt supply." This means the expenses it incurs, such as trustee fees and administrative charges, cannot be passed on to investors (the final consumer) and cannot be claimed as an input tax. Investors who are asked to pay GST for services should not see any increase in the operating cost of their funds as a fund house is expected to absorb any GST-related costs. This is challenging especially for the smaller non-bank-backed outfits, which run on thin profit margins. Although these companies are already paying 4% GST on some of their purchases, GST will cast a far wider net on their operating expenses. A CPO of a local fund house says he spent about RM150,000 on GST-related expenses. There were many changes to the system and processes. And we had to reprice all our fund prospectuses and documents to reflect the new tax. It is quite clear what is needed for our main processes to be GST-compliant next month."

A few uncertainties remain, but these are very niche areas. For example, how do we treat rebates that are given by foreign fund managers for feeder funds or fund-of-funds? Is this rebate taxable? We still don't know at this point," says Danny.

The upfront sales fee, which can go up to 6% of the fund's net asset value, is more material as it drives up the cost to invest significantly. Investors will have to pay GST on this upfront sales charge, so the more discerning ones will look at ways to pay a lower sales fee for their funds.

As with unit trust funds, contributions made to funds managed by statutory bodies such as the Employees Provident Fund (EPF), Pension Trust Fund, Social Security Organisation (SOCS) and Lembaran Tunang Angkata Tentara, will not be subject to GST. However, tax is levied on the statutory fund's annual management fee. Financial planners who earn a commission, charge a fixed fee or earn from a combination of both fees are required to charge GST for their services if they have registered. But they should already be charging a 6% service fee, so it is status quo for them and their customers came April 1.

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