GST – HERE IT COMES!

GST in the financial sector

Financial institutions are mostly ready for the new tax regime. Now, it is time for their customers to get on board.

After several deferments, it looks like the Goods and Services Tax (GST) will be enforced on April 1. The general consensus among tax consultants and software implementers is that many companies are still scrambling to get their systems, processes and people in place to comply with the new tax regime.

The banking sector is felt to be the most GST-ready among all the industries in the country. This is attributed to the proactive measures taken by industry players and the central bank five years ago. The GST Bill was first tabled for reading in parliament in 2009.

"The banking sector, led by Bank Negara Malaysia, started discussing early the impact this tax will have on the banking sector. This means they had time to look at which banking transactions and products would come under the ambit of GST and what needed to be changed internally to account for this tax," says Raja Kumaran, executive director at PricewaterhouseCoopers (PwC) Taxation Services Sdn Bhd.

"Financial institutions are used to complying with new banking standards or requirements. Having to implement a widespread change throughout the organisation is not new to them," says PwC executive director Hanita Ahmad.

"Bankers already knew what was needed to implement GST — things like starting a GST project team, finding a GST champion within the company, training users, rolling out systems to different branches, testing and validating transactions. All this is not new to them and the familiarity eased the process of getting GST-ready."

On the other hand, the level of awareness about GST among their customers — the general public — is still low. Many consider banking services and products to be essential items and therefore tax-exempt.

An example of this lack of awareness is the brouhaha following what appeared to be a WhatsApp message from Deputy Finance Minister Datuk Ahmad Maslan confirming that there is a GST charge on cash withdrawals at automated teller machines (ATMs) via the interbank network service offered by Malaysian Electronic Payment System Sdn Bhd (MEPS).

News reports on this GST charge appeared at the end of last year, but it wasn't a sudden decision. Taxing the service fee for ATM withdrawals using the MEPS network was noted in The Royal Malaysian Customs Department's GST Guide on Commercial Banking published in November 2013.

Whether GST is incurred or not in the banking sector largely depends on what is being paid. GST is not levied on products for which the consideration paid to or by the bank is in the form of interest or spread. This means that interest earned on savings and current accounts and fixed deposits are not subject to GST.

Deposits and withdrawals from savings and current accounts and fixed deposits are also not subject to GST. Neither are loans, credit or advances, or travellers cheques. In other words, interest paid to or received from a bank will not be charged GST.

This tax is applied once a service fee is charged, say for the provision of loans or for specific transactions, such as currency exchange or cash withdrawal using the MEPS network. This means the processing fee for ATM cards, bank statements, demand drafts, telegraphic transfers, cashier's orders, cheque books and withdrawals via the MEPS network will incur GST.

Other taxable banking fees include establishment fees, arrangement fees, advisory fees, processing fees as well as fees for safekeeping or custodial services, safe deposit box rental services, and prepaid and reload services. The annual fee imposed on credit cards is also taxable unless the bank chooses to waive the fee.

The Customs Department, which oversees the collection of GST, has determined that a set of banking fees and charges will not incur this tax, in a bid to avoid penalising customers for not meeting banking requirements or conditions. These are the fees and charges imposed to compensate the bank for losses or damages, including late payment charges, interest charged on outstanding credit card balances, compensation charges imposed on dishonoured cheques and overdraft excess fees.

Since GST is not imposed on exports, banking services for customers abroad are regarded as zero-rate supply and not taxable if the customer is outside the country at the time of the transaction. Similarly, any commercial banking service rendered in connection with land or goods located outside Malaysia is zero-rated.

> Instead of thinking that GST is a reason not to invest or to execute financial transactions, it should actually motivate one to invest more since there is now a bigger need to have more funds in the future.
> | WEI YI

TAXING INVESTORS

In April, many investors may be surprised to find GST levied on 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 one to invest more since there is now a bigger need to have more funds in the future," says Wong Weiyi, general manager for Fundsupermart.com.

Like the banking sector, the investing industry has both taxable and tax-exempt services. The tax treatment for this industry is more straightforward and investors should be able to quickly identify what is taxable and what is not.

"A general rule is this: a fee paid for advice and services is subject to GST, while capital gains and interest earned are not taxable," says S M Thanneermalai, president of the Chartered Tax Institute of Malaysia and senior executive director at PwC.

Exceptions to the rule are the treatment for advisory services for funds managed in accordance with shariah principles. Since the Securities Commission Malaysia requires shariah-compliant funds to seek shariah advisory services, the latter is not regarded as a taxable supply and is not subject to GST. This also applies to Islamic banking services and Islamic real estate investment trusts (I-REITs).

GST is not levied on the realised capital appreciation of assets, such as shares, bonds and residential property. Dividends, interest earned and other income distributions, as well as unit splits and reinvestment of dividends, are also not taxable. The buying and selling of shares and units in unit trust funds, REITs and exchange-traded funds (ETFs) are also not subject to tax.

The tax only comes into play when there is a service or sales fee incurred to invest in these vehicles. This means the upfront fee charged by a unit trust agent, the brokerage commission and clearing fees are all taxable. The annual management fee, performance fee, switching fee and transfer fee levied by a fund house will incur GST, but the stamp duty imposed on share transactions is not taxable as it is considered a disbursement.

GST effectively increases the cost of investing. This means investors and fund managers need to strive for better returns to break even and profit from their investments.

"The fund's annual management fee ranges from 1% to 1.8% per annum. GST of 6% will be levied on this fee. In my opinion, this isn't much, especially since the returns made by the fund should far surpass the amount paid for GST," says Areca Capital Sdn Bhd CEO Danny Wong.

"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 (Socso) and Lembaga Tabung Angkatan Tentera, 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 come April 1.

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 a 6% service tax on some of their purchases, GST will cast a far wider net on their operating expenses. A CEO of a local fund house says he spent about RM100,000 on GST-related expenses.

"There were many changes to the system and processes. And we had to reprint all our fund prospectus 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. — *By Elaine Boey*

> 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.
> | DANNY

KENNY YAP/THE EDGE, SUHAIMI YUSUF/THE EDGE