

TAX

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Getting GST-Ready

Are Malaysian businesses ready for a Goods and Services Tax?

THE GOODS AND SERVICES

Tax (GST) which was first announced by the Government of Malaysia in 2004 to be implemented in Malaysia on Jan 1, 2007, is now in the final stage of implementation study by the Government.

The GST addresses the need for the Government to ensure increased revenue flows in the coming years by expanding the tax base. Upon implementation of the GST, the existing Service Tax and Sales Tax in Malaysia will be abolished.

The GST will operate similarly to that in other countries with a GST or VAT (Value Added Tax) system. There will be two rates – a zero-rate which will apply to most goods and services exported from Malaysia, and a standard rate, yet to be announced, but expected to be less than 5%. In comparison, the GST rates of the closest neighbouring countries are 7% in Singapore and Thailand and 10% in Indonesia.

The GST will apply on the 'supply' of most goods and services consumed in Malaysia. There will be four categories of supplies for GST purposes:

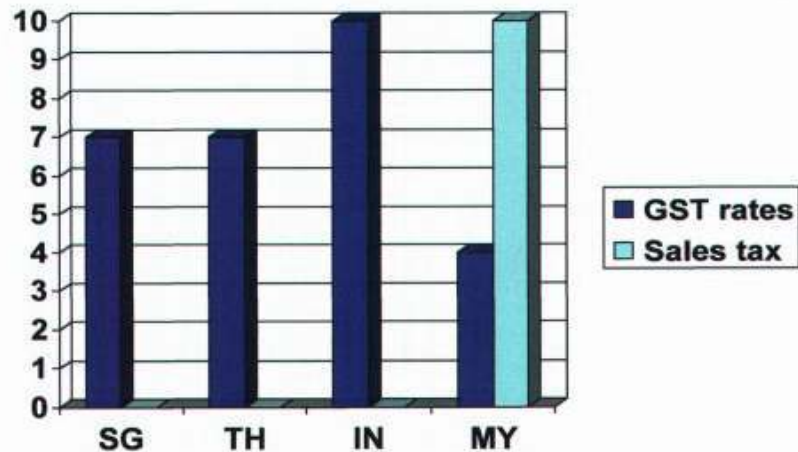
- Standard-rated (taxable) – subject to the GST at the relevant rate
- Zero-rated (also taxable) – subject to the GST at 0%
- Exempt – not subject to GST but with

input tax restrictions

- Out of scope – not subject to GST
- Liability for GST on standard-rated taxable supplies rests with the supplier; therefore suppliers need to ensure that they collect the GST from their customers. Registered businesses providing standard-rated supplies (subject to GST) or zero-rated supplies (eg, exports – subject to the tax but at 0%) are entitled to offset their GST liability (if any) on supplies made by the GST paid on inputs (input tax). This is known as the input tax credit (ITC). This should

ensure that in most instances, the GST should not be a cost to business, unlike the current Service Tax and Sales Tax. GST should, in most cases, ultimately be borne by the end consumer.

The exception to the above is the exempt supplies. These are expected to include certain services provided by financial institutions, residential property developers, educational and health care organisations. No GST is charged on most supplies provided by these entities, but there is no entitlement to an input tax credit for GST incurred



GST RATES IN SINGAPORE, THAILAND AND INDONESIA RANGE FROM 7 - 10%. CURRENT SALES TAX RATES ARE AS HIGH AS 10% IN MALAYSIA AND THIS WILL BE REPLACED BY THE GST WHICH IS EXPECTED AT A RATE TO BE LESS THAN 5%



either. In this instance, input GST will be a cost to these businesses that will either be absorbed or passed onto the customer. In other countries operating GST type systems, certain concessions or limited reliefs are provided to the exempt sectors to provide partial ITC-type credits to offset the input GST costs to the suppliers of such services. It is unknown whether such similar partial ITC credits will be available to the suppliers of exempt services in Malaysia.

All of these will not necessarily result in Malaysian consumers automatically paying higher prices when purchasing everyday goods and services. The Malaysian GST system as proposed will extend the zero-rating category to include certain other goods used by all consumers and considered basic necessities, including basic groceries. In addition, certain services that are vital to both the health and development of all Malaysians will be exempted from the GST. This will include health-care services provided by the Government, university and private hospitals and clinics.

Mass domestic public transportation services such as rail (KTM, LRT, ERL and Monorail), ships, boats, ferries, express bus, stage bus, workers bus, school bus, feeder bus and taxi services will also be exempted.

The Government has also indicated that the GST will not apply to the supply of residential real estate. This means that the sale, rental or lease of a residential home would not attract the GST as such services will be considered exempt from the GST.

While examining the GST impact on most Malaysian consumers, it has been found that in certain industries, GST should have a beneficial impact to the consumer. Take for example a new vehicle purchased in Malaysia. Currently the Sales Tax on that new vehicle is 10%. Under the GST proposed for Malaysia, the GST charged will be less than 5%. This should result in a direct cost savings to the consumer. Similar GST cost analyses have been conducted by the Government for a variety of goods and services across

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various industry sectors as part of the Government's overall study of the social impact of the GST.

The Malaysian GST system is likely to be a pioneer in how the GST will impact Islamic financial services. Other jurisdictions with dynamic Islamic financial arrangements are also planning for tax reforms which include the introduction of GST or VAT systems. The United Arab Emirates (UAE) and the other five members of the Gulf Cooperation Council (GCC) have deferred the introduction of GST but work has been done on drafting legislation. Pakistan is also currently in the early stages of drafting a comprehensive VAT legislation. A Malaysian GST law which adequately and fairly addresses the impact of the GST on Islamic financial services is likely to become a useful reference tool for these and other countries as they draft their own GST rules.


As with any legislative or regulatory reform, ensuring compliance with the new rules will be a challenge for the authorities. One way to accomplish this would be for the Ministry of Finance and the Royal Malaysian Customs to implement a coordinated approach to ensure that all Malaysians and Malaysian businesses are adequately informed of the impending GST and their responsibilities.

Will Malaysian businesses be ready for a GST that might begin in the second half of 2011? Eighteen months should be a sufficient time-frame for even large businesses to be prepared. For the largest Malaysian businesses, namely, those operating on a wider global-scale, the expectations are that they would have already done some type of GST preparation either in-house or using tax

advisers. This may include looking at how the company's foreign operations operate under an existing GST or VAT framework.

When the Government of Malaysia announced the deferment of the GST in February 2006, the reason was to allow Malaysian businesses more time to prepare and get ready for the changes the GST would bring. But how many Malaysian businesses have taken the opportunity provided by the Government to do so? Many have indicated that they will not begin any GST preparations until such time when the Government has announced a start-date.

Malaysian businesses must do their part to ensure they are adequately prepared for the introduction of the GST and the impact it will have on their business operations, customers and suppliers. The time and resources required for a GST implementation programme need to be adequately planned for, especially in the light of other competing business transformation projects that might be ongoing. The type of GST implementation programme required depends on the complexity of the business itself, its local and foreign operations and group structure. Certainly every business needs to look at income and expenses to determine the GST impact; along with a review of current IT systems to assess compatibility with GST requirements, as well as ensuring documentation will be compliant with the GST legislation.

When the Government does announce a GST start-date, all Malaysian businesses will need to actively engage in a GST implementation programme, or re-start the GST implementation programme they had in place in 2004/2005. 

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