Journal of Business Innovation
Jurnal Inovasi Perniagaan
Volume 2 No. 2/ 2017: 99-106

REVIEW ON THE GOODS AND SERVICES TAX IN MALAYSIA

Nuur Su'aidah Haji Zakariah
Lecturers, Faculty of Business Innovation & Accountancy, Kolej Universiti Islam Melaka, Kolej Universiti Islam Melaka, Malaysia

Abstract

In the 2014 Budget announcement, the Government announced that Goods and Services Tax (GST) will be implemented in Malaysia effective from April 2015 at the rate of 6 % and this new tax will replace the current Sales and Service Tax (SST). This paper was discussing on the implementation of GST towards Malaysia Government and Economy, Small Medium Enterprise (SME) and to the consumers.

Keywords: Taxation, Goods and Service Tax.

Journal of Business Innovation
Jurnal Inovasi Perniagaan
Volume 2 No. 2/ 2017: 99-106

KAJIAN TINJAUAN TERHADAP CUKAI BARANGAN DAN PERKHIDMATAN DI MALAYSIA

Abstrak

Semasa pengumuman Bajet 2014, Kerajaan mengumumkan bahawa Cukai Barangan dan Perkhidmatan (GST) akan dilaksanakan di Malaysia berkuatkuasa dari April 2015 pada kadar 6% dan cukai baru ini akan menggantikan Cukai Jualan dan Perkhidmatan (SST) semasa. Kertas kerja ini membincangkan mengenai pelaksanaan GST ke arah Kerajaan dan Ekonomi Malaysia, Perusahaan Kecil Menengah (PKS) dan kepada pengguna.

Kata kunci: Percukaian, Cukai Barangan dan Perkhidmatan

INTRODUCTION

Historically, Goods and Services Tax (GST) was first introduced in Europe (France) in the 1950s. Currently, 160 countries in the world are using GST or VAT as the main component of national revenue. GST is a percentage of tax, at each stage of manufacturing where inputs are complimented with added value. In theory, the rate of GST in many countries is uniform, completely neutral to all forms of productive inputs. The operation of GST is considered as an input tax in which tax will be imposed on inputs processed to outputs.

The implementation of GST is based on a consumption-type tax in which tax will be imposed on all purchases of inputs from intermediaries. Many developed countries including the United Kingdom and New Zealand charge zero GST to basic needs products such as food, wheat, rice and public transport (Rosiati et. al, 2015).

Background of Study

In the 2014 Budget announcement, the Government announced that GST will be implemented in Malaysia effective from April 2015 at the rate of 6 % and this new tax will replace the current Sales and Service Tax (SST). According to Nor Asmat (2015), the disadvantage of the current SST is a high incidence of tax avoidance. Therefore, the Government proposed GST in order to solve this matter and also to generate more revenue. She also stated that GST is a broad-based consumption tax, based on the value-added concept and is imposed on a multiple-stage basis. This is the differences of the current SST which is imposed at only one stage, which is the end of the supply chain. Under GST, the tax burden is ultimately carried by the consumer at the time of purchase (Nor Asmat, 2015).

Business or firm will not pay GST because after it is registered for the purpose of GST, it will be allowed to claim input tax credit to offset against the GST consumed on the goods or services supplied to its customers. Therefore, the GST possesses a self-policing mechanism, whereby businesses will automatically factor in the GST as part of the selling price on inputs to other manufacturers. This indirectly administers the imposition of the GST, while significantly reducing cases of tax avoidance. Business or firm knows that the GST is claimable and will have less reason to avoid tax. Furthermore, GST will not be a cost to business or firm, nor will it appear as an expense in their financial statements because GST shifts the tax burden to the consumers.

During the launch of the national budget, it was announced that the following goods and services would be exempted from GST.

1. Agricultural products – paddy, fresh or chilled vegetables, certain provisionally preserved vegetables
2. Essential foodstuff – oils, salt, flour, etc.
3. Livestocks and livestock supplies or poultry – live animals and unprocessed meat
4. Eggs
5. Fish – live, fresh, frozen and dried
6. First 300 kwh of electricity for domestic use
7. Water for domestic users
8. Goods supplied to designated areas from Malaysia – Labuan, Langkawi & Tioman
9. Exported goods
10. Exported services – such as architecture services in connection with land outside Malaysia
11. Selected services in Malaysia – such as pilotage, salvage or towage services
12. International services – such as transport of passengers or goods from a place in Malaysia to a place outside Malaysia
13. RON95 petrol, diesel and LPG
14. Sale of Residential Property
15. Services provided by Government which are not considered commercial services, such as permits, licences etc. Services considered commercial are TV advertisement, rental of equipments, rental of multifunction halls etc.

DISCUSSION FINDINGS

Impact of GST to Malaysia Government and Economy

Under the previous tax system, the Government depends too much on direct taxes, both from individual and corporate taxpayers. With the fact that only 1.8 million Malaysians pay individual income taxes, the Government is running low on tax revenue collected. This is causing them to incur more debt each year to sustain their primary spending.

In Budget 2014, the Government has cutting back on public sector expenses and subsidies to generate savings. The previous Sales and Services Tax (SST) is narrow based as it is levied at only one stage of the supply chain which is sales tax at manufacturer level and service tax at consumer level. This makes it difficult for Customs and the Inland Tax Revenue Board to identify non-compliance of taxpayers.

According to Palil and Ibrahim (2011), The Government needs to build surpluses, so that it can have more leeway in adopting measures that can stimulate and develop the domestic economy in the future, particularly when market conditions turn unfavourable.

In order to overcome these issues, the Government is in the efforts of strengthen the country's financial system to find new sources of revenue and improve the efficiency of tax collection, to which GST is being introduced. GST will be imposed on all goods and services at every production and distribution stage in the supply chain including importations of goods and services. As GST will be paid at every step of the supply chain process, this will enable the authorities to determine who is avoiding duties and taxes.

Review On The Implementation Of Gst To The Small Medium Enterprise (SME)

Small and medium enterprise (SME), or sometimes just simply being referred to as small business can make remarkable contribution to a nation's economic prosperity (Filzah, 2009). Bank Negara Malaysia categorized that businesses with paid up capital less than RM250,000 (about USD82500) or fixed assets less than RM500,000 (about USD1650000) are small business.

In recognition of their contribution to the economy and employment, the SMEs have been continuously and increasingly supported by the government (I Osman and Mohd- Khairuddin Hashim, 2003), particularly with regards to general business and financial management. The sector is expected to play a vital supportive role in sustained economic growth. The lack of explicit recognition of the regulatory burden in general and taxation in particular imposed on SMEs may affect them adversely (Pope et.al, 2008).

Pope (2008) stated that SMEs in Malaysia are subject to income tax, either as individual (unincorporated businesses) or as corporate taxpayers (incorporated businesses), depending on the business establishment. Recognizing that all SMEs in Malaysia are subject to business income tax, the income tax-related-difficulties are of primary interest of this paper. Record keeping and documentation, tax compliance costs, tax complexity and legal entities are among major tax difficulties faced by SMEs in Malaysia (Pope et.al, 2008).

According to Rosiati et.al (2015), the meaning of 'successful' is relatively wide and very subjective whereby compliance costs especially among SMEs play a significant role in determining the success of a new tax system. It is important for the government to well educate the entrepreneur before implementing a new policy in the country.

In the study by Palil & Ibrahim (2011), the study discovered that the majority of respondents (65%) were not satisfied with the information provided by the government pertaining to the introduction of GST. In addition, 64% of the respondents also not ready to support the government when GST is implemented. The study also discovered that many respondents were worried on their purchasing power particularly among the middle income earners.

Review on the implementation of GST to the consumers

GST is essentially a tax on consumption, and not production; hence, the tax burden ultimately falls on the consumers (Palil and Ibrahim, 2011). They said that it is believed that for the implementation of GST to go down well with consumers, the scheme has to come with some compensatory measures such as the reduction of income taxes to put more money in the pockets of households and to boost their purchasing power. They also concluded that the most salient is its regressive nature with respect to income.

As a tax on consumption, households with lower incomes may pay proportionately more tax than those with higher incomes. This would be true in the GST's basic form, because the proportion of income spent on consumption declines as income rises.

CONCLUSIONS

GST is a regressive tax and imposes a burden on end-user consumers of products. GST seems to have a negative impact as lower income earners pay more tax than higher income earners. It promotes inflation which reduces the purchasing power of consumers, and raises barriers to upward social mobility for the lower income households. In the long run, inflation may trigger higher interest rates and dampen private investment as well as overall economic growth.

Pope (2008) has concluded that the most important policy area that should be addressed is to recognize fully the compliance burden of the SMEs at the national level. Meanwhile Rosiati (2015) concluded that as for the impacts of the implementation of GST on SMEs, majority of the SMEs participated in the study agreed that their businesses would continue as usual with turnover and profit continue to increase despite the implementation of GST.

GST is a tax scheme where the tax is imposed at each phase of the manufacturing process so that each phase brings revenue to the government. GST is introduced at the beginning of the manufacturing process and is counted in each phase of product or service production and marketing until it reaches the consumer, who pays the tax. GST is collected after the final consumer prices are imposed.

Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. So, the entire burden of the tax will be borne by the consumer. GST is a regressive tax, because it taxes on consumption and in terms of the same consumption, people with lower income spend a larger part of their income rather than those with higher income. It seems to burden the low-income households because they have larger marginal propensity to consume and most of their income will be spent on food and necessities.

REFERENCES

Mohd Rizal Palil & Mohd Adha Ibrahim (2011), *The Impact of Goods And Services Tax (GST) on Middle Income Earners In Malaysia*, World Review of Business Research Vol. 1 No.3, Pp 192-206.

Nik Maheran Nik Muhammad (2009), *Impact of Culture and Knowledge Acquisition to Organizational Success: Study on Chinese and Malay Small Firms*, Asian Culture and History, www.ccsenet.org/journal.html, Vol.1, No.2, Pp 61 – 73.

Nor Hafizah Abd Mansor, Intan Salwani Mohamed,Lai Ming Ling and Nawal Kasim (2016), Information Technology Sophistication and Goods and Services Tax in Malaysia, *Procedia Economics and Finance 35 (2016) 2 – 9*

Pope, Jeff and Jabbar, Hijattulah (2008) *Tax compliance costs of small and medium enterprises in Malaysia: policy implications*, School of Economics and Finance Working Paper Series: no. 08:08, Curtin University of Technology, School of Economics and Finance.

Rosiati Ramli, Mohd Rizal Palil, Norul Syuhada Abu Hassan and Ahmad Fariq Mustapha (2015), *Compliance Costs of Goods and Services Tax (GST) among Small and Medium Enterprises,* Jurnal Pengurusan 45 (2015) 15 pages, Galley Proof ISSN 0127-2713 Scopus, Cabell and MyCite Indexes.

http://www.gst.com.my/what-is-gst-goods-and-services-tax.html