

Goods & Services Tax : The Good, the Bad & the Ugly

By

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About The Seminar

Malaysia is one of the three countries in Southeast Asia that has not implemented the GST structure. It is inevitable that the introduction of GST structure in Malaysia is much needed as it is in line with Malaysia's vision of being a high income nation by 2020. The International Monetary Fund (IMF) has long recommended the introduction of GST as a method of raising the efficiency of the Malaysian tax system. It is crucial to gain a deeper understanding of the GST structure to facilitate the introduction of GST in Malaysia.

Dr. Veerinderjeet will discuss the ingredients that make up a strong tax system and the current tax policy issues in Malaysia. An in depth understanding of the GST system, issues relating to implementation of the GST and recommendations to improving the GST will also be addressed.

Summary

In order to understand the importance of implementing a GST system in Malaysia , one needs to first understand the tax revenue structure in Malaysia.

Currently, the tax revenue structure in Malaysia is very dependent on non tax revenues which make up 26.4 % of the revenue in 2012. This is not advisable as these sources of revenues are not sustainable and it is dangerous to be depending on non renewable

resources such as petroleum. In an event of an economic downturns, the income tax collections will suffer.

The current tax system in place is the Sales and Service Tax which is based on a single stage consumption tax. The sales tax is imposed on locally manufactured goods as well as imported goods and the service tax is imposed on certain prescribed taxable services. The rationale for the change to a GST system is due to the weaknesses in the Sales Tax & Service Tax system. The current system has many exemption factors in place and this has indirectly caused low revenue collection.

A GST system on the other hand is based on a broad-based consumption tax or value added tax imposed on the supply of goods and services. It is based on an input and output mechanism which has a number of self policing systems built in within the system which makes it easier to audit and overcome tax evaders. The GST systems will made it possible to detect malpractices must efficiently

The challenges introducing the GST in Malaysia would be the perception among the public that the GST it is going to burden the society. The public needs to be educated that the proposed GST will only replace the current sales and service tax. At the current proposed rate of 4 %, the GST will only function as a neutral rate. The public needs to be educated that the proposed GST at the rate of 4 % will only function as a replacement system.

One of the main issues brought up by Dr. Veerinder is that in order to have an effective GST system one also needs to look into the zero rating and exemption list carefully and not keep adding to the list. It needs to be kept focused and concise in order to overcome possible increase in product prices.

There also needs to be adequate usage of technology for administrating and monitoring the GST system as well as an increase in documentation and record keeping.

Once the GST is announced Dr. Veerinder advises that there should be a 12 month training period for the administrators, manufactures and general public.

Dr. Veerinder claims that there might be a small impact on price levels but this will not in any way lead to inflation. This is why it is important to monitor the exempt and zero rated supplies. Apart from that the government should introduce a shopping guide 3 months prior to the implementation rate to monitor the pricing. This will provide the public with the awareness of the price structure and it will increase the monitoring.

The introduction of the GST is long overdue. It is a system that is much needed in developing country. The implementation of the GST will not only generate a stable income for the country but also put in place a more effective tax system.

Issues Raised

It is important to implement the GST system as it provides a stable source of revenue, a better monitoring system, and reduces tax evasion.

The implementation of the GST has to be monitored carefully and executed systematically

Questions and Answer Session

Question : How to easily implement the GST?

Answer : It just need majority vote in parliament. But the challengers will be accountability and transparency. Tax changes can be done at any time rather than looking only budget time.

Question : What is the impact to the toll collection?

Answer: As the Tolls will be at an exempted rate. That means the toll operator will not change us GST but the toll operator cannot claim for the input tax . Therefore the toll operator will increase the rate.

Question : Is there an alternative to GST?

Answer : To stick to our current sales and service tax but the policing will not be in place. The challenge is to work out a mechanism that will certain to how much should be collected.

Question : How to make the current teaching material relevant ?

Answer : As there is a 12 month grace period, it is fine to still teach the current sales and service tax as it is still the law. Within the 1 years grace period, the sales and service tax will still be enforced. You cover both during the period

Question : Why is GST is not cascading?

Answer : Look at it as tax on tax. GST prevents the cascading effect as the input tax is refundable to the manufacturer.

Question : When is the best time implement this system looking at the current economic downturn?

Answer : The best time is actually over to be honest. In our case the waiting period to introduce GST is too long. There is a strain on our resources. Our deficient are getting worse. The other sources of revenue is reducing. In most countries when the GST is introduce it is at a higher rate is to increase revenue. Ours is a neutral rate as all we are doing is moving from a sales and service rate to GST rate which is the same.

About the Speaker

Dr. Veerinderjeet Singh is Chairman of Taxand Malaysia and a member of the Taxand Board. He has worked with the Malaysian Inland Revenue Department whereby he has provided his expertise on a wide range of tax matters affecting cross border investments, corporate restructuring, financial institutions, multinational entities, listed entities and government and quasi government entities and projects. He is past president of CTIM, the Chairman of the International Fiscal Association and is on the Executive Committee of MICPA and the Board of Trustees of the IBFD in Amsterdam. He is also a member of MIA and CPA Australia

He is an accomplished writer and has written over a hundred publications in local and international tax.