

# Challenges & Impact Of Goods And Services Tax

## Objective:

To enhance and improve competitiveness, efficiency & transparency in the Malaysian economy.

Common features of GST:

### Applicable rate of GST

- Yet to be ascertained...
- Broad based tax regime i.e. multi-stage tax;
- Credit offset allowed;
- Transaction based;
- Imposed on supply of goods and services.

### Scope of GST:

- GST is imposed on the supply of goods and services.
- GST is also imposed on importation of goods and services into Malaysia.

### Types of supplies: (Possibly four types, namely)

- Standard rated supply
- Zero-rated supply
- Exempt supply
- Out-of-scope supply

### Standard rated supply:

- Taxable supplies (Input GST)
- Applicable on local supply of all goods and services in the country.

### Zero-rated supply:

- Taxable supplies (Input GST)
- Applicable on export sales and international services outside the country.

### Exempt supply:

- No GST (i.e. Input GST cannot be claimed);
- Normally applicable to certain financial and related services, perhaps to include sale and lease of residential properties.

### Out-of-scope supply:

- GST not applicable
- Applicable to activities outside Malaysia e.g. sales of assets outside the country, transfer of business on a going concern basis.

### Value of supply:

- "GST is charged on the value of supply of local goods and services provided whenever conditions for the time of supply are met;
- "Consideration for value of supply:
- Money \$\$ paid; or
- Open market value (if consideration is not wholly in money)

### Local goods and services in Malaysia :

- " Value of local goods and services provided:  
Consideration = Value + GST element

### Imported goods and services:

- "Value of imported goods  
Sum of:
- Value of goods for customs duty purposes;
- Amount of customs duty; and
- Amount of excise duty.
- Value of imported services
- Consideration paid to overseas suppliers.

### Mechanics of GST:



### **Input / Output tax implications:**

- "Input tax is the amount of GST charged on goods and services i.e. purchases or expenses incurred;
- "Input tax is allowed for claim if goods and services are for business purposes to make taxable supplies;
- "Therefore, input tax paid for non-business purposes would not be allowed for claim.
- "This is also applicable to Exempt supplies.

### **Output tax is the amount of GST charged on goods supplied and services provided i.e. sales revenue.**

- "The net GST payable to Customs or repayable from Customs is the sum of total OUTPUT TAX minus total INPUT TAX payable on taxable supplies.

### **For eligibility for claim of input tax as credits, the following rules must be observed:**

- There must be a supply of goods and services;
- A taxable person is making the supply to another taxable person;
- The supply is used for business purposes.

### **Registration for GST**

Any person...

Who makes or intends to make taxable supplies of goods and services in Malaysia; in the course of furtherance of business; and its turnover is above the prescribed threshold; is required to be registered for GST as a taxable person.

Prescribed threshold shall be determined as follows:

- Historical turnover

This prescribed threshold would be based on turnover for current month plus next 11 months; or

- Future turnover - retrospective view

As the term indicates, the future turnover would be based on the next 12 month-period i.e. current month plus the estimated next 11 months.

### **Compulsory registration:**

- Taxable turnover  
Exceeding RM < To be ascertained >  
Singapore registration threshold = S\$1 million
- Voluntary registration  
Must remain registered for a minimum of 2 years Taxable turnover includes:
- Taxable supplies but excludes:  
Exempt; Out-of-scope supplies; and Capital assets.

Aggregate turnover of all separate business supplies in the country.

In order to relieve cash flow costs for Group of Companies, a GROUP registration facility would be made available whereby:

Every member within the Group is treated as one entity and GST is exempted for inter-company transactions e.g. management charges between companies (as in the current tax regime).

### **GST compliance cost**

GST cost element?

- Cash flow implications
- overdraft facility cost
- GST Record / Book-keeping cost / Filing of returns
- GST systems and procedures
- Accounting and invoicing
- Point of sale system / cash tills
- Staff training

### **GST compliance problems:**

- Transitional issues
- Filing of GST Returns
- Bahasa Malaysia or English?
- Record keeping
- All records are to be kept for 7 years
- Administrative procedures for claims etc.
- Impact on tourism and increased costs for non-allowable input tax.

### **GST treatment for specific industry Paper Merchant**

Issues for consideration:

- Individual GST registration by all mills (producers) / merchants / dealers / end users and/or printers?
- Goods direct from Mills to Merchants --> dealers --> end users (consumers) and / or printers?
- Commission based?
- Pricing of goods?
- Administrative procedures?

### **Preparedness for GST implementation**

Understanding GST and its implications together with transitional regulations;

- Keep up-dated of what's happening?
- To review book-keeping procedures, Point-of- sale system and Cash tills;
- To customise in-house accounting software or buy off-the-shelve accounting software?
- Staff training, setting up GST Steering Committee
- Purchasing decision and timing of supply;
- Marketing strategy, procurement and legal contractual relationships;
- Cash flow management - Future increase in GST rate?

### **On the positive note:**

Most important of all, we need to minimise business disruptions and to remain competitive at the same time!

As tax revenue collection is expected to increase, it is hoped that the corporate and individual income tax rates will be reduced in the near future hence reduce the cost of doing business in Malaysia.

Quote:

"To become successful, you must be a person of action. Merely to know is not sufficient. It is necessary to know and to do."

**Napoleon Hill**