

TAX
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THE introduction of the goods and services tax (GST) due mid-2011 will represent a profound change in our tax system in recent decades.

"While GST, also known as value-added tax, is as a whole relatively simple compared with the income and corporate tax, some of its features and rules are anything but simple.

This poses a challenge to officials who are charged with bringing on the tax – to get businesses and consumers (i.e. the public) to get to grips with or at least have a broad understanding of how the tax works.

That there are clear misconceptions amongst many can be discerned from the various letters written to the press expressing negative sentiments.

The answers to the following broad questions will assist in the basic understanding of the GST.

What is GST?

It is a tax on consumption, an indirect tax charged on imports and on

Getting to grips with GST – what you should know

the value added to goods and services sold by one business to another, or to the end consumer.

It is the buyer who pays the tax, not the seller. GST replaces the current sales and service tax but not the income tax or customs import duty or excise tax. It will be broad-based, covering a comprehensive range of business transactions.

What is value added?

It is basically the mark-up in arriving at the selling price of a product/service. The selling price is made up of the cost of materials and purchases plus profit charged to customers.

How will the tax be charged?

GST will be charged at 4% of the value added to goods/services at each stage of production/ distribution. This rate, indicated by the Finance Minister, is known as the standard rate.

How does GST differ from the sales tax which it will replace?

Sales tax is a single stage tax whereas GST is multi-stage (i.e. the latter is levied at every value added stage in the distribution chain).

Unlike the sales tax, GST has no cascading effect and does not lead to price distortion.

What are the benefits from changing to the GST system?

It is widely considered as a more efficient system. More tax can be collected with a lower rate because it is broad based. The system of issuing invoice for input tax credit operates as an auto control which could reduce tax evasion and thus increase income tax collection.

Who can charge GST?

A business with sales in one year amounting to RM500,000, as indicated by the Finance Minister, must register to charge GST. A business with sales amounting to less than this threshold may volunteer to register to charge GST and claim input tax credit (see paragraph below).

GST on imports

Businesses which import goods and services will have to pay GST at the time of importation.

GST on domestic products

Businesses supplying goods and services will pay GST within one

month following the end of the taxable period. This taxable period can be one, three or six months depending on how the business is "classified" by the GST authorities.

Final consumers will pay the tax upon purchasing the taxable goods and services. Not all goods and services will be charged to tax. They will be classified into three main categories viz: taxable, zero-rated and exempt.

Taxable goods and services

Consumers will be charged GST at the established rate of 4%. A GST registered business will charge GST at the same rate on the sale of taxable goods and services and pay GST on its purchases.

Zero-rated goods and services

The final consumer will pay GST at a rate of 0%. This essentially means that no tax is charged on consumers on the item. A GST registered business will be able to claim a credit for any GST paid on its inputs.

Exempt goods and services

No tax is charged on the consumer. Unlike the zero-rated goods, the GST registered business is not enti-

pled to claim any input tax credit on purchases.

How will GST affect you, the consumer?

Since the current sales and service tax are at rates exceeding the GST proposed rate of 4%, the final prices of these goods and services are not expected to see an increase.

The prices of goods and services which currently have little or no taxes will increase slightly. Some goods and services will be exempted from GST and others taxed at a zero rate.

The latter category will cover essential goods and services; the measure is to shelter the lower income group from the effect of the tax. The list of exempt and zero-rated items has yet to be released.

Businesses in general need to understand the detailed rules and consider how these would apply to their own business operations.

Failure to do so may result in the loss of the set-off or credit for input taxes suffered and/or being exposed to onerous penalties for non-compliance with the law.

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