

Getting ready for **GST**

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THE GOODS AND SERVICES TAX (GST) HAS ONLY BEEN DEFERRED, NOT CANCELLED. BUSINESSES STILL NEED TO BE PREPARED FOR GST IMPLEMENTATION, OR FACE THE UNPLEASANT CONSEQUENCES OF NON-COMPLIANCE.

From the very outset of his presentation on GST at MIA's seminar on 'An Overview of the GST Bill' (Its Impact, Policy and Implementation), Deputy Director of Customs (Internal Taxes Division), Subromaniam Tholasy made it clear: the implementation of GST has only been deferred, not cancelled. So whether Malaysians are for or against this tax, they will have to deal with it in the future.

■ ■ LONG IN THE PIPELINE

Originally slated for implementation on 1 January 2007, GST is intended to replace the current sales and service tax. It is a consumption tax levied only when a product is bought or consumed, or when services have been rendered. GST is by no means new; more than 140 countries have already instituted it. In the ASEAN region alone, seven countries – Indonesia (1984), Thailand (1992), Singapore (1993), Philippines (1998), Vietnam (1999), Cambodia (1999) and Laos (2009) – have implemented it. Only Brunei, Malaysia and Myanmar have no GST/VAT at present.

The case for GST in Malaysia was first mooted in 1988 but it was then considered unnecessary as the sales and service tax (introduced in 1972 and 1975 respectively) had been found to be effective. The GST idea was floated again in 2004; however, its implementation was deferred because the powers-that-be decided the proposed model needed refining. Also,





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businesses needed adequate lead time to make changes in processes, develop appropriate software and train personnel to handle the new tax.

"GST is not a cost to business, but Sales & Service Tax (SST) is," Subromaniam explained. "The government is of the opinion that SST has reached its threshold. To increase it in any way would make our exports uncompetitive. Under SST, exporters were incurring as much as RM1.4 billion annually. The answer was therefore not to expand it but to institute GST."

■ ■ YOU CAN CLAIM GST

He clarified that manufacturers sell to wholesalers with a 10% sales tax. Wholesalers then sell to retailers with another 10% sales tax tagged on, in addition to what they already paid to the manufacturer. The retailer then sells to the consumer at an even higher price. With GST, the proposed four per cent rate is claimable, whereas the SST is not. "Once the tax element is claimable, the tax cannot be a business cost," he pointed out.

When goods are passed down the

supply chain, tax becomes embedded and compounded; there is a tax on tax. The pyramiding effect of SST often fails to distinguish between the cost of goods sold and the tax element, allowing the traders to benefit at the expense of government revenue. "With SST, the tax is a cost which affects pricing," he said. In theory, therefore, with GST, the prices of goods are likely to come down because there are no hidden taxes. Subromaniam was quick to add, however, that not all prices will come down. "Some prices will go up," he said, "but they cannot go up more than four per cent."

Knowing that it would run up against a storm of protest, the decision to implement GST was not taken lightly. But it is a means of mitigating the effects of a rapidly-globalising market place that is relentless in its demand for goods and services. Despite increased productivity and a healthy manufacturing sector, revenue from imports and taxes from the corporate sector may fluctuate. GST, a consumption tax, will not – thereby bringing in a steady revenue stream that is locally generated and therefore sustainable.

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Besides setting up another income stream, GST has the potential to bring hidden or shadow sectors to light. In order to qualify for GST claims, businesses must register; the government sees this as one way of reducing instances of smuggling or distribution of contraband goods, which avoid taxation. In response to claims that the cost of living will rise with GST implementation, Subromaniam said only 30% of lower-income expenditure will be taxed because of zero-rated supplies, and the poor will not be hard hit.

“Exports and services are zero-rated at present,” he said. “Public transport will also be zero-rated, and there will be no GST on land, health, financial services or education. There won’t be any taxes on government services either, except for purchase of advertising space on RTM. In addition, non-reviewable contracts will be zero-rated because prices have already been fixed and cannot be changed.”

If invoices show how much has been charged on stock at hand, GST can be refunded too, so that prices will not increase. But what if, despite these assurances, there is profiteering? Profiteers beware: GST brings with it severe penalties. There is specific legislation on profiteering, and the authorities will not hesitate to bring the full weight of the law to bear on those that contravene it.

■ SINGAPORE: GST SUCCESS STORY

In the case of Singapore, which instituted GST in 1993, more revenue has translated into better development, in the 17 years since its implementation, said Robin Chia, Director (GST and Training) of Tricor Malaysia. “There were mixed feelings in Singapore when GST was implemented,” he recounted. “People didn’t know how it worked, and there was a general lack of awareness of the rebates that citizens would enjoy in tandem with its implementation. But since GST was instituted, the Singapore government has seen an increase in its annual revenue by millions every year.”

Authorities set in motion a massive awareness-raising effort, including media blasts and information sessions for 45,000 people, plus dialogues, meetings, GST seminars and education programmes. GST revenues exceeded expectations from the first year of implementation. “The government thought that it would collect about S\$100 million,” Chia said, “but the first year of GST brought in S\$1.5 billion.”

From the Singapore perspective, GST was a means of prudent management. The country was then enjoying a budget surplus, and was in a good posi-

tion to start setting aside funds for the future. It was also aware of its limitations and lack of natural resources and realised it needed to maintain international competitiveness and continue attracting talent. One way was to offer superior infrastructure; another was to have good tax benefits.

There was also an aging population to consider, and the growing need to distribute the national tax burden across a wider population base. It was hoped that GST would be able to address all these needs because of its desirable features, such as its ability to relieve investments from tax, and its tax revenue stability. The authorities also saw it as a check-and-balance system, and a good form of internal control, besides being relatively unaffected by economic cycles.

Chia pointed out, however, that GST could cause short-term inflation and that there were compliance costs for small businesses. Only 20% of all businesses in Singapore were required to register for GST. Surprisingly, though, “Small businesses like hawkers have absorbed GST to help customers,” he said.

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■ ■ VIETNAM VAT

“GST/VAT has created a lot of work for accountants in Vietnam,” quipped Lim Chor Ghee, a Partner with VietValues Audit & Consulting Group. “It requires monthly reporting, and everything hangs on the “Red Invoice” which must be purchased from the Vietnamese Ministry of Finance. For starters, it’s complicated because in Vietnam, VAT depends on where the business is set up. Each province or district has its own regulations, and nobody will do business with you if you cannot raise a Red Invoice.

■ ■ NOT JUST A TAX ISSUE

“GST is not just a tax issue; it involves total business realignment,” said Tan Eng Yew, speaking on the impact of GST on business functions, and how to prepare for implementation. Tan, Executive Director of KPMG Tax Services Sdn Bhd, remarked that organisations sometimes expect the company accountant to “take care” of GST matters, not realising that this is one tax which has far-reaching implications.

If not attended to properly from the outset, it has a tendency to come back and bite you. “The idea is to have minimal disruption to the business,” he said. “But the awareness of GST is still very low, and it is often perceived as the sole responsibility of finance. A “last minute” attitude is quite prevalent, and generally there is complacency about it. What people may not be aware of are the severe penalties for non-compliance.”

Companies can expect GST to impact widely. All areas of operations, including IT, finance, marketing, HR and procurement will be affected.

GST penalties are heavy indeed but the rule of thumb is: don’t under-charge and don’t over-claim. To minimise disruptions, a plan is needed to manage the firm’s transition from non-compliance to complete compliance with all policies and provisions in connection with GST. The GST Transition Plan should encompass business, the actual transition, IT and the company’s supply chain. Understanding the legalities and implications is of paramount importance, and it must be constantly borne in mind that GST is a tax on everything.

Staff who are managing the transition to GST compliance need to be conversant with the terminology, and how accounting is applied when dealing with it. It should also be noted, Tan said, that GST rules differ from one country to another, although GST models may be similar. “Sometimes input tax is specifically blocked,” he said. “For example, staff entertainment is blocked in Singapore, but you have to make sure that it is applicable here as well.”

Companies can expect GST to impact widely. All areas of operations, including IT, finance, marketing, HR and procurement will be affected. To ensure all these elements function smoothly, they need to be project-managed. There may even be instances where businesses need to be restructured and operations restrategised through repackaging or new product offerings. From the legal standpoint, non-reviewable contracts may be affected too, and may require GST clauses to be inserted.

“Vietnamese VAT law is only 20 pages long,” he clarified. “As a result, a lot of it is subject to interpretation. There is a great reliance on decrees, circulars and official letters which are issued by the different district authorities. Systems are complicated, and there is still corruption to deal with. Loopholes still exist; there are variations in the way things are done in every district and practically in every neighbourhood as well.”

However, he was quick to add that although doing business was difficult in Vietnam, it was not impossible – as evidenced by the growing number of Malaysian companies which have set up shop in the country. It’s not just the multinational developers or construction firms either; many small and medium-sized Malaysian businesses have ventured into the Vietnamese markets as sub-contractors. What needs to be kept in mind is that the Red Invoice has to be used to claim corporate tax deduction. VAT is imposed on top of import duty, and importers can claim on import duty, which is refunded without too much trouble, provided all documentation is in order. VAT on imports is under the purview of the Customs Department, and is generally quite similar to the systems in use in the UK, Singapore and Australia.

■ START NOW

Tan’s sentiments were echoed by Paul Bahnisch, Executive Director (IT Advisory) of KPMG Business Advisory Services Sdn Bhd. “Accountants today are in a dilemma because they have a lot on their plate, with GST,” he said. “They may not know what to do or where to start; it’s a really challenging time. GST cuts across all areas of business and also impacts on customers and the supply chain. It takes at least three months to test GST systems and ensure everything runs. Training is necessary.”

Accountants and all others involved in the process may feel overwhelmed at the magnitude of what is required, but there are ways of achieving it. Firstly, a “Tax Champion” – someone who understands the issues – needs to be identified. Relook contracts, and strategise how to manage them. “It may be necessary to write to contractors to ask if the contracts still exist,” Bahnisch said. “Check if there is a possibility of renegotiating, if the price is too high.”

It is imperative to have a comprehensive management plan for GST with adequate resources. Establish a steering committee with representation from all business units so that a clear picture of issues arising can be obtained. Open

channels of communication with staff, customers and suppliers. A help desk or customer service line may be necessary. Gather as much information about issues as possible; identify focus groups that can handle each issue and determine the deliverables for each. Awareness sessions should be ongoing.

“Ultimately, you could use GST as a strategic opportunity to re-examine how you do business,” he concluded. “Restrategising or repositioning the business may become imperative, in which case change management will be necessary. You’ll need to work out the impact and repercussions of these, and resolve them before GST is enforced. ■

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