The challenges of implementing GST in Malaysia

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Introduction

The prime aim of this article is to be a helpful guide concerning the new Goods and Services Tax that is expected to be implemented in one of the following years. We will try to provide answers to the most prominent questions that rise with this matter.

Initially the document will take a look at the current taxes in Malaysia. What are the direct and indirect taxes that are currently imposed? What is the position of Malaysia in the international tax world?

Next the article focuses on the basic principles of GST, what decisions have to be made by the government. Furthermore we will look into the main question of the Malaysian GST tax. What is the system? What do companies have to do to comply with the new rules? As the benefits of a GST-system are recognized worldwide, there is still a lot of discussion in Malaysia. The people fear that the lowest income class will be most affected by the tax and that this will be the straw that breaks the camel's back. However as the government of Malaysia faces a budget deficit and uncertain economic times it is necessary for the government to implement a tax that is more fair. Therefore the government has to replace the narrow-based Sales and Services Tax by a broad based tax.[1]

GST is not a new tax, the strong economic countries of South- East Asia have implemented and recognized the advantages of a GST-system many years ago. Singapore has introduced the system back in 1994 and it helped the country in becoming a highly competitive international trade system. So it is interesting to discover the key ingredients of a successful policy implementation and analyse if Malaysia is ready for GST.

To conclude there are recommendations on the matter. Is GST the right way to go? Is Malaysia ready to start with the GST-system?

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[1] *http://www.themalaysianinsider.com/malaysia/article/gst-a-ploy-to-hide-economic-ills-says-pakatan*

Contents

Tax regime in Malaysia

Current taxes in Malaysia

The fiscal policy of a country is one of the key factors considered by a foreign company when investing abroad. Therefore the importance of the matter can't be underestimated and being aware of recent evolutions is a must. However a small refresher on the basic tax system of Malaysia can be useful.

The Malaysian tax regime has a territorial scope.[2] This means that income that is derived from sources in Malaysia and every income that is received in Malaysia is subject to tax, but companies aren't taxed on their worldwide income. Further Malaysia has a Self-Assessment tax regime (SAS), taxpayers have to assess the extent of their tax liability. The government has tax audits on taxpayers to ensure proper compliance. Due to international pressure all entities were required to fully converge with the International Financial Reporting Standards (IFRS) by January 1 2012, except for private entities that continue to adopt Private Entity Reporting Standards (PERS). [3]

In Malaysia the following payable taxes exist:

Direct taxes[4]

- **Corporate tax**
  The corporate tax rate for resident and non-resident corporations (including branches of foreign corporations) is 25% and 20% for Small and medium-sized companies (SME= companies capitalized at MYR 2,5 million or less and not part of a group having a company exceeding the above capitalization threshold)[5]

- **Withholding tax**
  Certain payments to non-resident are subjected to a withholding tax. The tax is deducted at source for certain payments like services concerning property or rights, installation of or operation of any plant, machinery or other apparatus. Also technical advice, assistance or services rendered in connection with technical management or administration are liable to the

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[2] *There are exceptions for the banking and insurance business, and sea and air transport undertakings*

[3] *PKF Worldwide Tax Guide 2012, Malaysia, 2012, 1-8*

[4] *Income Tax Act 1967; Real Property Gains Tax Act 1976; Sales Tax Act 1972; Service Tax Act 1975; Stamp Act 1949 Deloitte summary taxes in Malaysia 2012, http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Tax/Taxation%20and%20Investment%20Guides/2012/dttl_tax_highlight_2012_Malaysia.pdf*http://www.treasury.gov.my/pdf/percukaian/Summary%20of%20Tax%20System%202008.pdf

[5] *A person carrying on petroleum upstream operations is subject to a Petrolium income Tax of 38 %; Furthermore there should be highlighted that there are a lot of tax incentives in Malaysia. You can find them in the Malaysian 2012/2013 Malaysian tax and business outlet, PWC, http://www.pwc.com/en_MY/my/assets/publications/mtbb-2012-2013.pdf*

withholding tax. From August 30, 2008 until December 31, 2012 an exemption is given to non-residents experts on certain services in the fields of ICT, healthcare and aircraft maintenance engineering courses. However the rate of the withholding tax can be reduced through the double tax treaties that are made between Malaysia and foreign countries. Malaysian Royalties given to a Belgian resident are subjected to the tax of the state where they were given. However the tax cannot be more than 10%.

- **Single tier dividend system**[6]

  From assessment year 2008 on, Malaysian companies are transitioning to the Single Tier System. This means that the income tax imposed on a company's income is final tax and dividends distributed are exempted from tax in the hands of the shareholders. The company doesn't have to maintain a tax credit balance. This system is considered clearer, efficient and avoids tax evasions. [7]

- **Stamp duty**

  There is a stamp duty levied at rates between 1% to 3% of the market value of dutiable property transfers and 0.3% on share transaction documents. Stamp duty has to be paid by the buyer.

- **Capital Gains Tax**

  Capital gains are almost not taxed in Malaysia.[8]

  However gains derived from the disposal of real property or on the alienation of shares in a real property company are taxed. The real property gains tax is 10% for disposals of real property made within 2 years of 1 January 2012. The rate is 5% for disposals within 3- 5 years, and an exemption applies for disposals after 5 years.

  The Real Property Gains Tax (RPGT) has been re-introduced with effect from 1 January 2012. Gains from the disposal of residential and commercial properties are taxed between 0-10 per cent depending on the holding period of real properties. If you hold the building longer than five years the RPGT is 0 %.

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[6] *This was introduced in 2008 to ease and simplify the administrative burden, the previous system was the imputation method. Dr CHOONS KWAI FAN, FCCS,http://www.kwaifatt.com/clients/kwaifatt/images/assets/com_tax/jour_02.pdf; LIM HONG ENG, NORFAIDAH DAUD, JULIE YEAP SIEW KUAN AND MARLIZA MOHAMED, Single Tier tax System, 27 februari 2008, http://www.micpa.com.my/micpastudent/documents/Article1-10112008.pdf*

[7] *CHOONG KWAI FATT, From a Dividend Imputation System to a Single Tier Dividend System, March 2008, Accountancy today, http://www.mia.org.my/at/at/200803/08.pdf*

[8] *A **capital gain** is a profit that results from a disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price. The gain is the difference between a higher selling price and a lower purchase price*

<u>Indirect taxes</u>

- **Service tax**

  This tax is a single stage tax applicable to certain prescribed services in Malaysia. The tax also applies to professional and consultancy services as prescribed by the Royal Malaysian Customs Department. (*Infra Current Sales and Service tax)*

  The rate of the service tax is 6%

- **Sales tax**

  Sales tax is also a single stage tax imposed on taxable goods manufactured locally or imported. (*Infra Current Sales and Service tax*)

  The rates of the sales tax is 5 and 10%

- **Import and export Duties**

  Import duties are levied on ad valorem basis but may also be imposed on a specific basis. Because of the trade liberalisation import duties on several raw materials, components and machinery have been abolished, reduced or exempted. The liberalisation through FTA's (Free Trade Agreements) plays an important role for these taxes. The rates of import duties range from 0-60%. Import duties have to be paid at the time of clearance from Customs control. Raw materials, machinery, essential foodstuffs, pharmaceutical products and certain tourism related and daily use products are non-dutiable or subject to a lower rate.[9]

  Export duties are imposed on crude petroleum and crude palm oil. They have to be paid at the time of the export. Crude oil is subject to a flat rate of 10%. Crude palm oil is based on scaled rates on gazetted value. This means that the duty on such commodity is only imposed on the excess of a threshold price which reflect the cost of production of the commodity. There are no export duties collected when the price is below the threshold.[10]. However to save the palm oil industry Malaysia will discuss possible changes after Indonesia cut taxes last year of refined palm oil and boost margins for its downstream processing industry.[11]

- **Excise Duties**

[9] http://www.mida.gov.my/env3/index.php?page=import-duty
[10] KPMG Malaysia, http://www.kpmg.com/cn/en/aspac-trade-and-customs/pages/trade-customs-malaysia.aspx
[11] Malaysia govt to discuss palm oil export tax, http://www.reuters.com/article/2012/10/08/malaysia-palm-tax-idUSJ9E8F304220121008

Excise duties (ranging from 60 - 105%) are imposed on a selected range of goods manufactured in Malaysia and selected imported goods, including motor vehicles. Duties have to be paid on following objects: Alcohol, cigarettes containing tobacco, motor vehicles, and playing cards

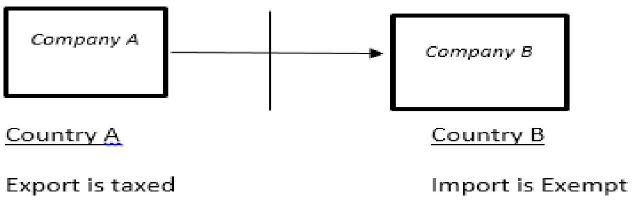
GST/ VAT

Policy choices of the Goods and Services Tax

The Malaysian government has to make policy decisions on how to implement the GST. The most basic decision about VAT is if it should be imposed as a **consumption**, **gross-product** or **income-type** tax. Malaysia proposed a consumption-based GST.[12] The proposed GST comes in the well-known transaction form (infra). The use of invoices for GST provides more transparency on how the tax is imposed. For VAT imposed as an income-type the accounting model would be more suitable. In that case it would be based on the financial records of the company. The main advantage of a VAT is that it is a **broad based** system. Typically government and non-profit enterprises are excluded from the tax base.

Further an important policy decision is to determine the place where GST is levied. For International Trade the place where the GST is levied is an important matter. On the one hand the GST can be levied on the location of production (the origin principle) on the other it can be based on the location of the final consumption (the destination principle).[13]

The origin principle VAT is levied on value added within the state for all goods and services regardless of whether they are sold within the state or exported out of the state. It excludes value added embodied in the goods and services that originated outside the state.



The most common is the use of **the destination principle**. Usually the exports are excluded from GST through a zero-rating, while the imported goods are taxed. Goods and services exported from the state

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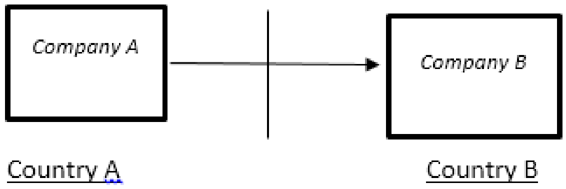
[12] VAT Choices, **Neil Bruce** sets out the different options a government have to implement a GST. Mr Bruce did research on behalf of Washington.

[13] *http://upetd.up.ac.za/thesis/available/etd-09032004-134859/unrestricted/02chapter2.pdf*

are exempted from the tax. In the draft Malaysia chose this option. The risk is that exempting exports could lead to tax evasion.

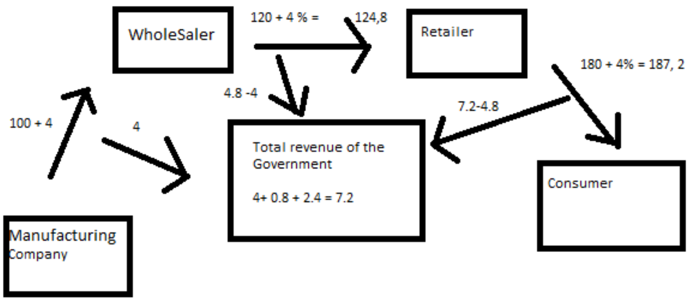


Export is zero-rated Import is taxed

Another aspect is **the calculation of the tax base**. The computation of the tax base of the GST can happen in different ways. There is the most commonly known invoice-credit method (, the addition method) and the direct subtraction method. [14]

The credit-method VAT

At each step of the production process VAT has to be paid by the registered companies, however they can reduce the amount of VAT by a credit equal to the amount of VAT paid to other registered traders in buying the inputs. The credit available is determined on the invoice requirement, commonly these are printed invoices received by the selling registered trader. Through the invoices the company can prove that an input tax has been paid. [15] This will be the method used by the Malaysian government.



The addition method uses the value added that is defined as the sum of each business's factors of production and its economic rent. Researchers would like to implement this system for the financial services.[16]

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14 *http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_d1-1.htm*

15 *http://www.americantaxpolicyinstitute.org/pdf/VAT/Grinberg.pdf*

16 *http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_d4-3.htm*

The Subtraction-Method VAT

The Subtraction-method hasn't been used a lot in practice. The difference with the credit-method is that this method doesn't use credit and registered traders subtract the value of their total non-labour inputs from the total value of their sales and then multiply by the VAT rate to determine their tax liability. So sellers subtract the full amount of the cost of their inputs including VAT from their sales and calculate the VAT on the difference. This is more an account-based than a transaction method.

The government chose for the most common system of VAT. The next chapter sets out the current Services and Sales tax and describes the proposed GST. In Malaysia the GST is opposed by the majority of the people. A reflection on the arguments pro and contra are necessary to analyse the situation.

Malaysian GST

Current Goods and services tax

Currently Malaysia has a Sales and a Service tax. They are both single staged taxes. The Sales tax concerns goods manufactured in Malaysia and goods imported into Malaysia and the Service tax is a tax on prescribed services provided by prescribed taxable persons. The rates from these taxes are respectively 10 percent for the Sales and 6 percent for the Services. There is a reduced rate of 5 percent for non-essential food and building materials. A zero-rating on essential food and a Sales tax exemption on plant and machinery, raw materials and components used in the manufacturing process can be applied to the customs authority for approval. There aren't any exemptions for Service tax, however the Ministry of Finance has the power to give them.

Registration is required for any person who manufactures taxable goods or provides prescribed taxable services and has an annual sales turnover above RM 100.000. There are different thresholds for the Services Tax which we find in the Second Schedule of the Service Tax Regulations 1975[17]. There are no provisions made for company groups, however some professional services within the same group aren't taxed when they meet certain requirements.

The biggest problem is that the Sales and Services Tax easily **can easily be evaded** by the people. Because there is no connection with the production so it is harder to audit. GST with a credit-system makes it a lot harder, however it is still possible to evade taxes.

The Sales and Services tax uses invoices. This means that everyone who sells a taxable product or delivers a taxable service has to deliver an invoice. The payment of the tax has to happen within 28 days after the end of the taxable period or the person liable will get a penalty of 10 per cent of the amount. After every 30 days period they add another 10 per cent up to the maximum penalty of 50%.

Rulings can be asked for and are binding for three years. Companies can apply for a ruling with the Customs authority.

[17] *http://www.kpmg.com.my/kpmg/publications/tax/tm/chapter10.pdf*

Discussion about the GST

The discussion about the GST has been going on for a long time. People are redundant about the GST because it would affect the poor people. However this misunderstanding can be avoided by a good preparation and awareness about GST. Nevertheless a good working GST-systems has to be implemented in an effective accounting system to be able to work in favour of the country and its people. The people will be affected when the implementation process isn't done properly or the taxes aren't claimed in the right way. Elimination of leakages in the tax system are necessary. The Finance minister announced that the personal income tax will be reduced with one per cent from 1 January 2013. The general assumption is that this is a small step towards paving the way for introducing the GST.

Pro - The arguments that are used to defend the GST-system:

- As GST is a broad based tax that would increase the income of the government and reduces the reliance on income and petroleum tax. The government income would reduce the budget deficit and normally result in government spending on public services that benefits the people providing that the government spends their money in a constructive way.
- The GST would be an incentive for people to work harder and work towards higher positions because the tax burden won't increase when income level will increase. Furthermore all the people will have to pay taxes, so it doesn't only burden the working class anymore. Further we should take into consideration that when a state grows and gets wealthier the population is ageing.
- The current Sales and Services tax system has a problem of cascading(infra p 12). Through a broad based GST system this extra burden can be avoided. GST will be charged at different stages, but in the end the burden will be on the consumer and will be neutral for the distribution. This should eventually result in a lower prices. It is also a clearer system. When it is implemented in the right way it should plug the holes in the current Sales and Service Tax System.
- The GST is a more stable tax income that minimises the impact of economic events. When a recession happens, the GST still provides a stable income for the nation and therefore provide opportunities to boost the economy.
- Most countries introduce GST as a substitute, complementary tax. So this means the corporate and individual taxes could be reduced.
- Tax evasion is harder than in the case of sales tax because the invoices provide a good opportunity to review the distribution process, the tax is collected at each stage of production, import taxes are imposed when goods enter, the burden of proof (the onus) lies with the taxpayer. The buyer who is liable to pay tax has an incentive to want an invoice, so the VAT is self-enforcing.

- Another factor is that neighbour country Thailand is lowering its corporate tax rate. What pressures Malaysia to lower theirs to be international competitive, so the government has less income and is in need to search for another revenue.

Contra - Arguments circulating against the GST

- When implementing a GST there is a risk of inflation. It could be that the general product prices may go up.
- There are concerns about the tax burden on the low income group. But even today the Sales and Service tax is not a progressive tax.
- The rate of 4% GST seems low but the government has the power to increase the percentage up to 15% to increase the revenue. So there is a fear that in the end there will be higher taxes on more products.
- Fear that the redistribution of the revenue towards the people won't happen.
- Last but not least some people see GST as a way to cover up the leakages and flaws of the current financial position of the government, some think that first the government should improve the procedure for the current taxes and fight corruption instead of replacing Sales and Service tax by a Goods and Services tax what in their opinion will be implemented without the credit system in a not efficient way what eventually will result in a heavier tax on all levels of the production.

The new broad-based GST system

The government encourages the businesses to plan the future implementation of the GST and assess the impact on their businesses. However the date of the implementation is unknown. The implementation is supposed to happen after Malaysian elections at the end of 2013 depending on who's elected. The Malaysian GST will be similar to other VAT systems. It will be a transaction based tax which will be imposed at each stage of a transaction. It will be established as a broad-based tax that is charged on *any taxable supply of goods and services, made in the course of furtherance of any business by a taxable person in Malaysia*.

GST is also charged and levied on the import of goods and services into Malaysia. The GST on imported services is payable by the recipient of the services using the reverse charge mechanism (infra).

We have to avoid the **cascading** problem that causes a rising of the consumer prices. Cascading means that a good or a service is taxed several times at different levels as it passes from business to business what results in a higher price to the consumer.

The solution of this problem is to use a credit based GST. Cascading is avoided in GST because the tax is imposed on the addition of value at every stage of production. Each link in the chain has to pay only the difference between the output- and input tax. The tax is neutral for the members in the production cycle. Eventually the final consumer bears the burden but the price should be less than with a cascading system. However this requires a good and efficient accounting system. This should be the goal of the Malaysian government.[18]

Supply of Goods covers all forms of supply were goods and services are given in return for a consideration. This can be in the form of monetary payment or payment in kind. Supply of goods involves the transfer of ownership of the goods from one person to another person.

Goods are any kind of movable and immovable property such as machinery, motor vehicle and houses. Goods do not include money. Anything that is not a supply of goods is regarded as a supply of **services**. This may include a transfer of possession of goods with no intention to transfer the ownership. Examples, lending of goods, renting of goods, provision of telecommunication and professional services. When goods and services are supplied for no consideration it can be the case that the transactions may be deemed as a supply. Examples of disposal of business assets without consideration, gifts which cost more than RM500 and private use of business assets.

[18] *http://thestar.com.my/news/story.asp?file=/2012/10/21/nation/12204437&sec=nation*

It is important that we distinguish the different types of supplies:

Taxable Supply

Standard-rated supply

* 4 %

Zero-rated supplies:

- exports of goods
- international services
- agriculture products , such as padi and fresh vegetables
- foodstuff , such as rice, sugar, table salt, plain flour, cooking oil
- livestock supplies such as, live animals, meat of cattle, buffaloes, goat, sheep and swine
- poultry - live and unprocessed meat of chicken and duck
- gresh and salted eggs and fish
- supply of the first 200 units of electricity to domestic users
- supply of the first 35 cubic meters of water to domestic users.

Exempt supply

Proposed exempt supplies:

- financial services (e.g. loan)
- Residential property
- toll highways
- private healthcare and education
- domestic transportation of passengers (public transportation systems, ship, boat ferry, express bus, stage bus, workers bus, school bus and feeder bus services.
- land for agricultural purposes and land for general use as government building and burial ground

A Standard-rated supply is a taxable supply which is subject to a positive tax rate. The rate suggested in the draft is 4 %. As Malaysia wants to become a progressive state with high income level, this rate is considered very low. On an international level the average of GST is between 10- 25%.[19] A zero-rated supply is a taxable supply which is subject to a tax rate of zero percent 0%, they are considered to be the basic necessities. This measure reduces the impact of the implementation of the tax for people who have a lower income. The zero-rating of the exports of goods is to maintain the competitive advantage of local products in the international market.

An exempt supply is not a taxable supply. An exempt supplier cannot charge GST and therefore he can't claim refund on GST on inputs acquired. The exempt supplies will be listed under the Goods and Services Tax order. This order will be published when the law is enacted. This distinction is important to ensure that input credits will be claimed properly.

However there are difficulties when there are mixed supplies. If you are making mixed supplies (taxable and exempt supplies) you will have to apportion the input tax based on the proportion of taxable supplies

[19] *http://en.wikipedia.org/wiki/Value_added_tax*

made. It is hoped that GST Regulations classify clearly the various categories of supplies. This will be released once the GST Legislation is enacted. Problems of interpretation of the GST will rise. Also when there is a promotion or warranty it will have to be clear on what component of the mixed supply.

Registration

A taxable person is a person who is or is required to be registered under the GST Act. It's a person who makes taxable supplies in Malaysia and whose annual turnover exceeds the proposed threshold of RM 500,000. A turnover means the total value of taxable supplies excluding the amount of GST. So the threshold is raised from 100,000 under the current sales tax to 500,000. The different thresholds for the current Service tax range from 100,000 RM to 300,000 RM. In some cases a person is not required to be registered for GST but he registers voluntarily for GST. Than he is also a taxable person.

The taxable turnover for a period of 12 months can be determined based on either the **Historical Method** or the **Future Method**. The Historical Method takes the supplies in any month plus the value of the 11 months immediately before that month. When the turnover exceeds 500,000 RM than the business is liable to be registered for GST starting the first day of the following month and has to register within 28 days from this date. When the turnover doesn't exceed the threshold there is still the Future Method. It is based on the value of taxable supplies in any month plus the expected value of taxable supplies for the 11 months immediately after that month. If the company reasonably expects that its turnover for the whole period will be more than RM 500,000, then the company is liable to be registered for GST within 28 days from the end of the month.

The effective Date of **Mandatory registration** is on the first day of the month following the month the company is required to notify his liability to be registered. Mandatory registration can be back-dated upon request. However it cannot be earlier than the date when the liability occurs.

Companies who are related can **register as a group** when meeting the requirements. However foreign companies which are not established in Malaysia cannot become members of a group. However, for the purpose of eligibility for group registration, their subsidiaries or registered branches in Malaysia can be considered as members of a group. This is quite similar to other VAT-systems. The ratio about this rule is to maintain control over the Malaysian GST-system and to avoid tax-evasion.

The basic tax point

The basic tax point for sales occurs when the goods are removed or the time when goods are made available to the customer. For Services the basic tax point is when the services are performed. Furthermore the draft has a good explanation on the value of the supply. The treatment of imported services is quite similar to other VAT-systems. A quick explanation of how the accounting for supply of imported services is handled. This is **the reverse charge mechanism**:

- When a person receives a supply of imported services for the purpose of business he is treated as if he is making and receiving the supply. So he is required to account GST on the supply of imported services as his output tax.
- When the imported services are used for making taxable supplies, he is entitled to claim the GST incurred as his input tax. When the supplies are exempt he is not entitled to claim GST. With mixed supplies it is needed to apportion the GST incurred and claim the proportion of GST on imported services used for making taxable supplies.
    - A taxable person has to declare both input tax and output tax in his GST return and pay the tax not later than the last day of the month following after the end of his taxable period where the payment for the supply of imported services is made to the supplier
    - If the recipient is not a taxable person, he is still required to account the GST as output tax and declare the tax in a prescribed form (Form GST-05). The tax has to be paid not later than the last day of the subsequent month from the month in which the payment of supply is made.

However a recipient does not need to issue any tax invoice when he receives an imported service. The general GST guide gives good examples on how the tax invoices should be made. In the annexes you can find the examples given in the guide.

Imported goods often change hands several times before they are re-exported. They are moved from one warehouse to another for the packing, sorting and grading. The goods can be stored in **a bonded warehouse**. That is a designated area approved by the Royal Malaysian Customs (RMC) for storing dutiable goods. The goal is to alleviate cash flow problems. The GST on all goods imported and deposited in a public warehouse is suspended.

In contradiction to Singapore there isn't a Tourist Refund Scheme. Tourists there can claim a GST refund when they spent an amount of 300 SGD. They can claim it at the airport. The goods must be brought out of Singapore within 2 months of the date of the purchase. The retailer has to display their tax refund logo in order to enable a tourist to apply for a refund. This system hasn't been introduced in many countries and is exceptional. However it really enhances foreigners to buy more goods in the country.

A closer look on the GST draft makes it clear that the proposed GST isn't something new for international businesses. The draft takes the same principles according to the VAT systems as other nations. So for big businesses it shouldn't cause many problems for the implementation. However the government should give the businesses time to prepare the transition and should really assist the Small and medium enterprises. The process of implementing GST has been done before. Therefore a closer look to the implementing process in Singapore can be useful for Malaysia in order to discover their obstacles and the key ingredients of a successful implementation of the tax.

The ingredients for implementation of the GST

Political commitment

'A fairer tax a brighter future' was the catchphrase used by Singapore to promote the GST. Singapore introduced the VAT in 1994 as a major part of an overall tax reform package. In that time it seemed necessary to restructure the whole tax system to maintain international competitiveness of Singapore's economy. They introduced the GST at the moment that the economy was strong. The government didn't need the money so Singapore was able to introduce GST at a very low rate. At the same time the income tax was lowered so the Singaporeans didn't feel the burden of the GST. The people were convinced that the incentive of the government really was to implement a fairer tax. Politicians of the highest level strongly supported the GST system.

In times of election the subject of tax matters are a taboo. A common remark is that the GST system covers up the economic ills of the state and is a lazy way to avoid dealing with corruption. A big opposition doesn't agree with how the state handles its budget and fears that nothing will improve. This is however a general problem that counts for every tax and every government deal. If Malaysia wants to become a high income level state, it will have to improve the system in an efficient way for all the people. Providing that everything is according to the law and that the law is fair and equal, a tax reform introducing GST would be more clear and efficient. GST has a self-policing mechanism, which facilitates the administration and makes it more difficult to avoid or to evade the tax.

Furthermore the timing is not the most favourable. The government copes with a budget-deficit and is forced to reform, the international economic situation is unstable. However this doesn't mean that nothing has to happen. The system needs improvement and economy needs the right stimulation. The problem will not fix itself and courage to handle the current problems is expected from the next government.

Education and a good administration

Singapore developed a government's programme in a wider sense:[20]

- A GST steering Committee was formed in March 1993. There were representatives from the Ministry of Finance, the Ministry of information and Arts, the Ministry of Trade and Industry, the Customs and Excise Department and the Attorney General's Chamber.

- [20] *Glenn P. Jenkins and Rup Khadka, "Vallue Added Tax Policy and Implementation in Singapore", VAT Monitor, vol. 9 No.2, March/ April 1998, 35-47; M.* GOMES., "Getting ready for GST", *Accountants Today*, May 2010, 6-10

- A new computer system was developed for GST as they never had a similar tax system
- There was an extensive tax payer education program on GST that had to get the businesses ready. Dialogue sessions were held.
- GST seminars were held by trade associations and the IRAS (Inland Revenue Authority of Singapore). Trade associations provided all logistic transport. The also organized seminars for people working during normal office hours.
- There was a toll-free help-line to supply information by the telephone
- There was a publicity programme that informed the consumers about the tax. Talks were organized in community centres, the Ministry of Community Development, police and schools. The local police were taught to, they could help to educate the local people. Also the colleges taught the teenage students who were going to influence their parents.
- An advertising company and consultancy firm were hired. Their budget was 1.5 million Singapore dollars.

When they implemented the GST the government took several measures.

- The IRAS extended office hours
- A Joint Operations Unit was created with the Ministry of Trade and Industry and the Consumer Association of Singapore in order to monitor the price situation.
- Officials of the IRAS were deployed to different parts of the island to observe the working of the new tax at retail shops.
- The IRAS has been carrying out audit and investigating activities to encourage compliance with the new tax law. First they focused on correcting mistakes to educate every company about the new tax law instead of penalizing immediately
- They analysed the mistakes from the early beginning and published them to avoid them in the future
- Prosecution of mistakes started three years later. In 1996 the first company was prosecuted.

Malaysia has started education programs and published the draft. However the date of the implementation has yet to be announced.

Exploratory Studies of Goods and Services Tax Awareness in Malaysia showed that knowledge among the people about this tax is low. [21] However the government already invested in infrastructure and an education programme. Business and organizations can get information and the educational material on

[21] M. Rizal Palil and M. Adha Ibrahim, "The impacts of Goods and Services Tax (GST) on middle income earners in Malaysia, 1-16; L., SAIRA AND M.A., ZARIYAWATI AND L., YOKE-MAY ,"An exploratory study of goods and services tax awareness in Malaysia", In: *Proceedings Seminar on Nasional Resilience (SNAR 2010) Political Managements and Policies in Malaysia*, 13-15 July 2010, Bayview Hotel Langkawi. Institute of Tun Dr. Mahathir Mohamad's Thoughts, Universiti Utara Malaysia Sintok, Sintok, pp. 265-276.

the website www.gst.customs.gov.my and can call the Customs Centre(CCC) on the number 03-78067200 or faxing the questions to 03- 78067599. The call centre is open from Mondays – Fridays 8.30 a.m. to 5 p.m. Malaysia established a GST Unit at the Royal Malaysian Customs Department located in

The Ministry of Finance Complex,
No. # Persiaran Perdana,
Precinct 2,
62596 Putrajaya, Malaysia.

However the site of the government lacks a consumer friendly way and some official texts aren't translated. On top of this the aversion of the people towards the GST forms an obstacle in getting educated about it. Malaysia lacks the political will and ministerial back up to introduce this tax. Furthermore the government didn't start any campaign yet to do marketing around the GST as tax issues are taboo in election times.

The education of the people will take the biggest effort. Malaysia is bigger than Singapore and different regions have to be reached. It's really unclear on what the actual program of the government is, so it should be developed more customer friendly. The companies of Malaysia are already acquainted with a Sales and Services Tax. So the compliance costs for businesses won't be that big. However they are still costs and it depends on the efficiency and clearness of the government how high these costs are going to be. The big change will be that they can claim the tax that they paid on the input back. Invoices have to be tuned on the new GST tax and government administration has to do it in an efficient way.

Avoid inflation

The big fear in Singapore was that there would be a big inflation due to the GST. In 1994 there was an inflation of 3.6 per cent in Singapore. That was higher than the previous year but lower than the 5.5 per cent that was expected as a result of the introduction of the GST. As the income tax was lowered and several big retailers decided to absorb the GST prices wouldn't rise. The Singapore government kept a tight control over monetary policy ensured that inflation could not increase by the full amount of GST. So the Consumers weren't greatly affected by the implementation.

In Malaysia the same fear exist. However the Sales and Service tax is going to be replaced by 4 % GST and there are many exemptions on food, health and education. The exemptions made in the proposed draft are among the highest number of exemptions in the international tax world. The estimated inflation is 0.5-1%.

Malaysia on the road

"Careful planning, detailed preparation, mass participation and an extensive taxpayer education programme are key ingredients for success of the implementation of a VAT in any country." It seems that Malaysia is focused on the education program, but that the programs will have to be more effective than now. On international level the recommendation seems to be that after the elections the implementation of GST should happen on a neutral political base with the goal to improve the tax system and therefore improve Malaysia on efficiency and tax level. It is important that the Goods and Services tax is implemented with the credit system to have a good self-policing regime and one that is fairer towards the people.

Final conclusion

Providing that the system is implemented in the right way with a credit system, the GST can be a fairer tax for the people and companies of Malaysia. As the international competition in income tax rates becomes higher and the budget deficit of the government grows, there is a need for a broad based and stable tax that doesn't get easily affected by economic influences. The ideal introduction of GST should happen as a complementary tax. The rate of 4 percent is among the lowest in the entire VAT international world. A raise of this rate can be found necessary in the future to gain more income.

Assuming that 4% is the tax rate, it shouldn't cause many operational costs and adjustment problems for corporations as people are used to the current Sales and Services tax and international companies know the GST (VAT) system. However a good education and transition period for the understanding of the tax credit system is necessary. On the one hand the companies will have to adjust to new accounting principles (focused on the input tax return) and invoices, on the other hand the government will have to be clear on interpretation problems between the taxable, zero-rated and exempted supplies. So the government should not immediately strike with penalties, but publish warnings about new GST problems that are raising.

The biggest challenge is creating awareness on all levels, especially for SME's and Malaysian people. It is estimated that low income people won't be that affected as there are a lot of exemptions for basic food products, education and health. Even more the people don't have to pay the Sales and Service tax anymore as it is replaced by the 4 per cent GST. However we should remember that there is a risk of inflation and the evolution of prices in Malaysia can be followed closely to react if necessary.

Notice that this paper is based on the current draft of the GST. This draft still can be changed. The draft has one of the highest numbers of exemptions in the VAT-world and one of the lowest percentages. There is a big chance that this draft will change in the future.

The problem of the budget deficit won't be solved by GST alone. GST can be part of a total tax reform package, making Customs and government- spending more efficient. The GST with credit system is an honest tax and is self –policing what makes it more difficult to avoid it. However there has to be an audit system to control, because evasion is still possible.

Careful planning, detailed preparation, mass participation and an extensive taxpayer education programme are key ingredients for success of the implementation of a broad based GST with credit system in any country.

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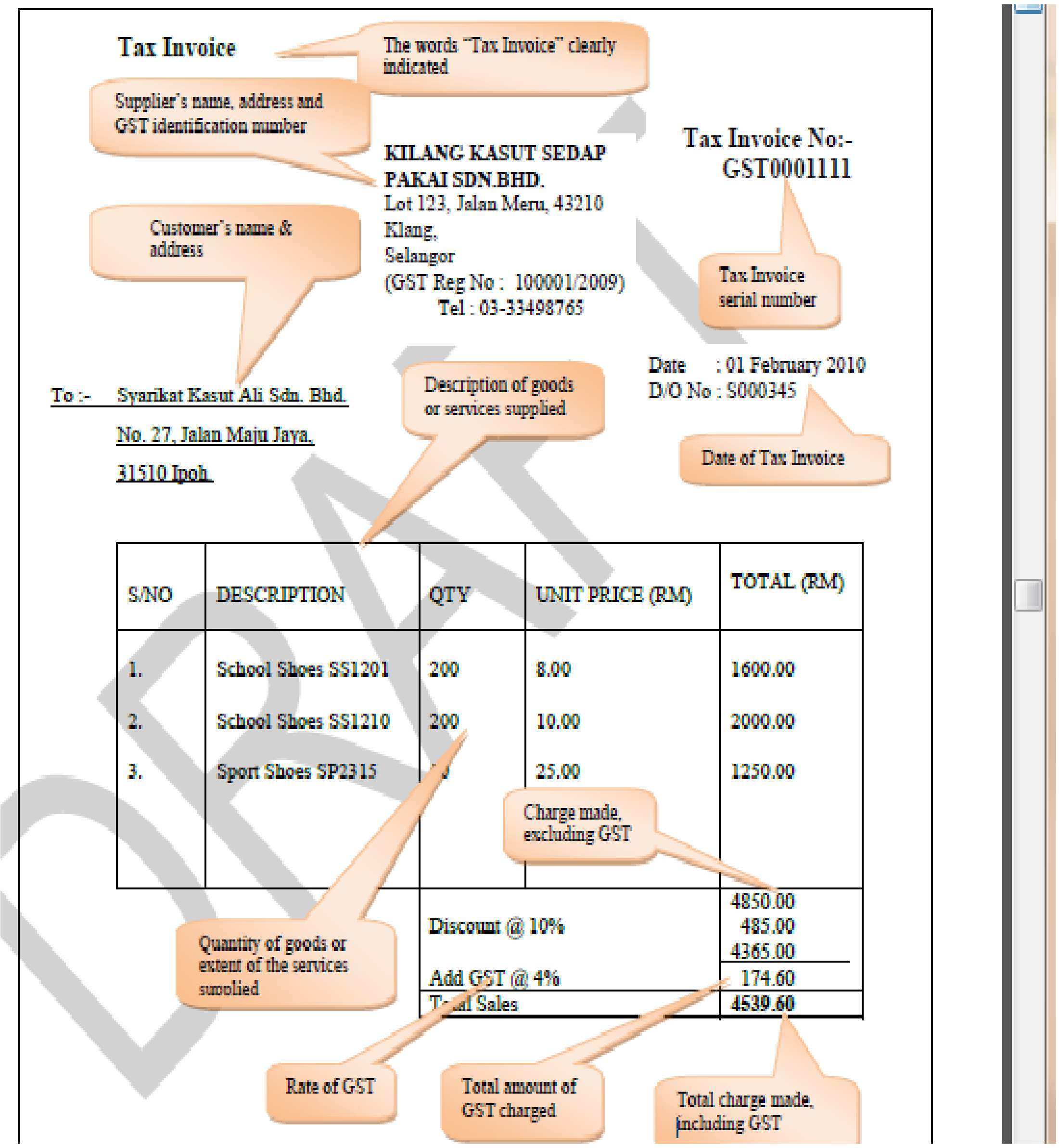
Annexes

Annexe 1:



Tax Invoice

KILANG KASUT SEDAP PAKAI SDN.BHD.
Lot 123, Jalan Meru, 43210
Klang,
Selangor
(GST Reg No : 100001/2009)
Tel : 03-33498765

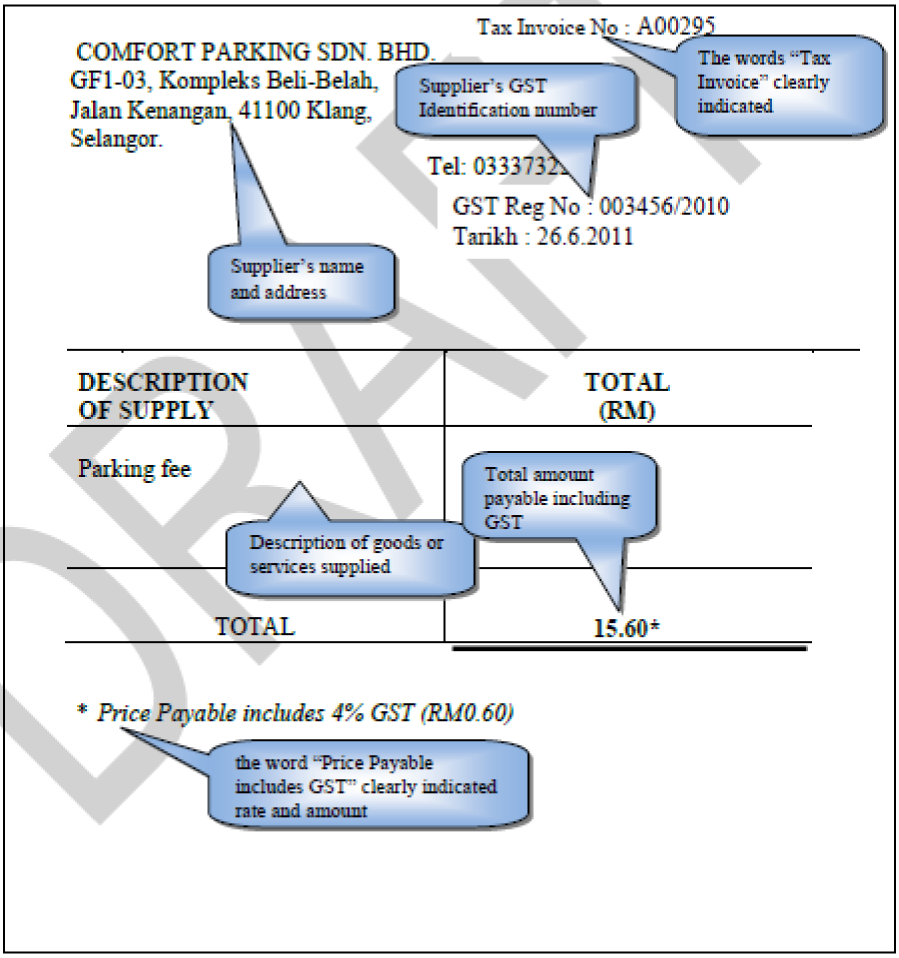
Tax Invoice No:-
GST0001111

Date : 01 February 2010
D/O No : S000345

To :- Syarikat Kasut Ali Sdn. Bhd.
No. 27, Jalan Maju Jaya,
31510 Ipoh

S/NO	DESCRIPTION	QTY	UNIT PRICE (RM)	TOTAL (RM)
1.	School Shoes SS1201	200	8.00	1600.00
2.	School Shoes SS1210	200	10.00	2000.00
3.	Sport Shoes SP2315	[illegible]	25.00	1250.00
				4850.00
		Discount @ 10%		485.00
				4365.00
		Add GST @ 4%		174.60
		Total Sales		4539.60

EXAMPLE:- SIMPLIFIED TAX INVOICE


Tax Invoice No : A00295

COMFORT PARKING SDN. BHD.
GF1-03, Kompleks Beli-Belah,
Jalan Kenangan, 41100 Klang,
Selangor.

Tel: 0333732

GST Reg No : 003456/2010
Tarikh : 26.6.2011

DESCRIPTION OF SUPPLY	TOTAL (RM)
Parking fee	
TOTAL	**15.60***

* *Price Payable includes 4% GST (RM0.60)*

DRAFT