# "Government postpones goods and services tax [GST]"

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Late last month the major dailies reported a Government press release to the following effect:

> *In order to provide sufficient time to resolve issues raised and for businesses to be GST-ready, the Government has decided to postpone the implementation of the GST …* [1]

The new target date for implementing GST is unknown, but many interest groups appear mightily relieved that GST has been postponed.[2]

In view of the general hubbub, and the frenetic activity hitherto of the myriad consulting firms and other prospective experts on GST, we thought it useful to revisit the chain of events leading up to the latest announcement.

We had previously written that the 2005 Budget Speech, on 10 September 2004, proposed the introduction of a broad-based consumption tax, GST, with effect from 1 January 2007.

GST would replace the existing sales tax and service tax, and would eventually enable income tax rates to be reduced.

The draft legislation and the details of the standard GST rates, exemptions for basic items and small businesses, input credit systems, etc, were expected to be released within twelve months.

In July 2005, the Royal Customs & Excise released a discussion paper on the proposed GST, which paper was presented and discussed in a series of dialogues with industry and the professional bodies.

Representatives of this Firm attended the first dialogue, at which Customs and members of the Taxation Review Panel requested, for practical reasons, that the discussion paper not be

[1] See e.g. "Government postpones goods and services tax", New Straits Times, Thursday, February 23, 2006

[2] See e.g. Business Times, Monday, March 6, 2006: "The shipping industry has welcomed the recent decision [as the] tendency will be for trade to flow via Singapore rather than Port Klang … Federation of Malaysian Manufacturers [stated] GST would erode the competitiveness of local industries …"

disseminated to the general public. Written submissions still needed to be received from interest groups, until closing a month or two later.

After that it was expected that a GST Bill would be drafted and tabled by the end of 2005.

Customs also advised that there would be a GST "pre-registration exercise" in the middle of 2006.

It was apparent from the discussion paper and dialogues that Malaysia's GST framework would be conceptually similar to New Zealand's, the oldest and most established GST system (1986).

Indeed, any conventional GST should be similar to New Zealand's. It is apparent, for example, that Singapore's GST, introduced in 1994, was substantially based on the New Zealand system.

It was noted by Customs that New Zealand advisers assisted in the set-up of our sales tax system in the 1970s.

Apart from the standard GST rate, it was proposed that there would be a "zero rate", such that a person entitled to charge the zero rate (e.g. an exporter of goods or services) would be able to claim back his input tax—GST paid by him on inputs purchased—even though he would not be collecting revenue for the Government from the relevant zero-rated sales.

On the other hand, a charitable organization would not be a registrable person, meaning it would be exempt from charging GST on goods and services sold, but would not be able to claim input credits for its purchases.

In the absence of a GST Bill and draft regulations, the main issues to be resolved included:

- The minimum revenue threshold for a registrable person (e.g. >RM100,000 per annum)
- The standard GST rate (e.g. a flat 3 percent, or 5 percent)[3]
- Zero-rated goods and services (e.g. exported goods and services, financial services, residential rentals)
- General exemptions (e.g. for charities)
- Specific small exemptions (e.g. for basic foodstuffs and other items relied upon by lower income groups)

[3] Singapore's standard GST rate is 5 percent, and New Zealand's, 12.5 percent

In practical terms, this meant that tax payers could not plan comprehensively for GST yet, as the regulations, prescribed forms, Revenue rulings and practice notes, etc, would normally be the basis for this.

Having said that, the practical measures for the transition to GST will require studying the definitions of taxable supply, registrable person and so on in the draft legislation, to identify who will be affected, and how.

System reviews will then be undertaken (in light of the draft regulations, practice notes, etc) to assess, among others, the GST-capability of taxpayers' bespoke and off-the-shelf accounting systems; to audit sales tax and service tax "credits" that may be available as initial inputs under the GST regime; and to carry out stock-takes and inventory valuations to verify GST input credits.

In terms of the compliance workload for taxpayers, it would not appear relevant, for example, that a registrable person is a Licensed Manufacturing Warehouse, as exported goods will be zero-rated for GST, as opposed to exempt. Input credits will therefore be claimed, and the flow of goods and services will still have to be tracked.

As a final thought, predicting the new date for implementation of GST should probably take into account the outlooks for inflation, interest rates and the timing of the next General Election.

## Further Information

Please contact any of the following partners at SCS Global Professionals for further information:


| | | |
|---|---|---|
| Jerome Davids (K. Lumpur) | +603-2093 1902 | Jerome@scsglobal.com.my |
| Kenichi Shohtoku (Tokyo) | +81-3-5575-6701 | Shohtoku@scsglobal.co.jp |
| Guat-Guat Lee (K. Lumpur) | +603-2093 1902 | Guat_guat@scsglobal.com.my |
| Yaw-Choo Hee (K. Lumpur) | +603-2093 1902 | Yaw_choo@poc.com.my |

***Kuala Lumpur:***
15-1, Medan Setia 1
Plaza Damansara
Damansara Heights
50490 Kuala Lumpur
MALAYSIA

Phone: +603-2093-1902/1906
Fax: +603-2092-2101

***Tokyo:***
5th Floor, New Akasaka Building
2-2-5 Roppongi, Minato-ku
Tokyo 106-0032
JAPAN

Phone: +81-3-5575-6701/6703
Fax: +81-3-5575-0771