



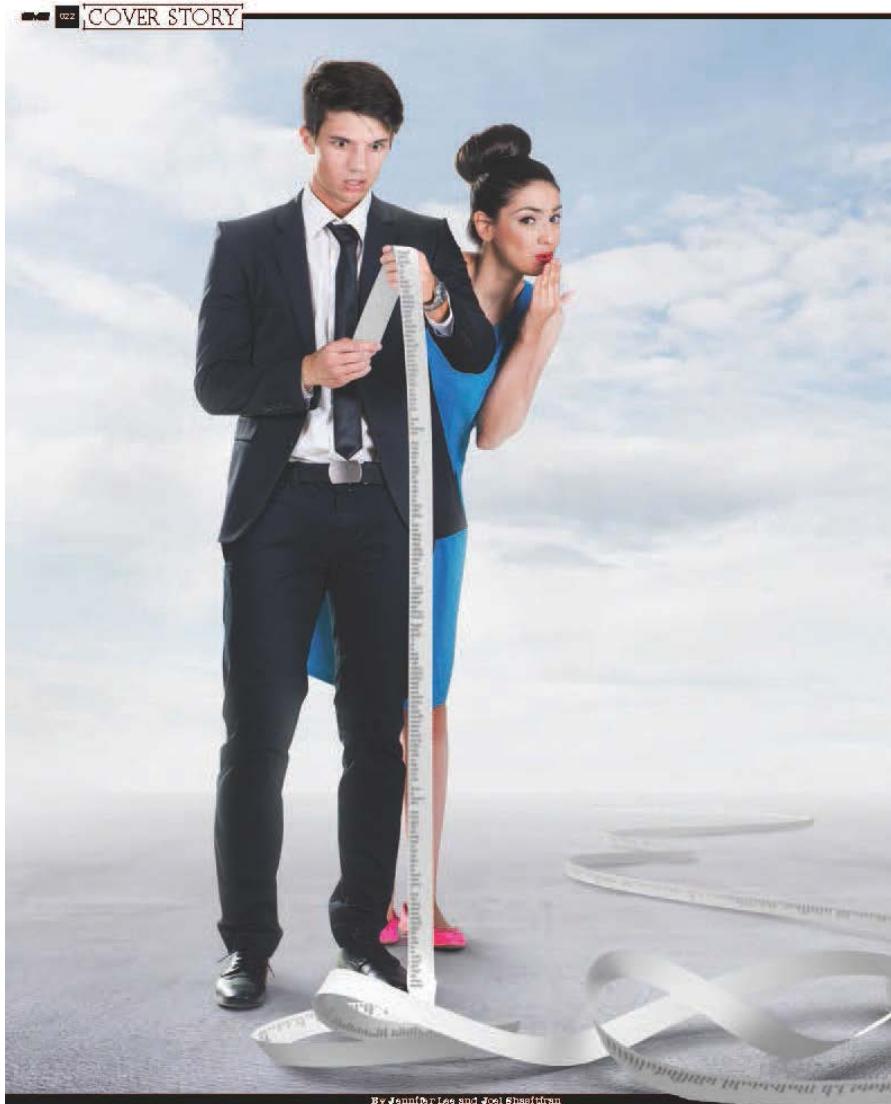
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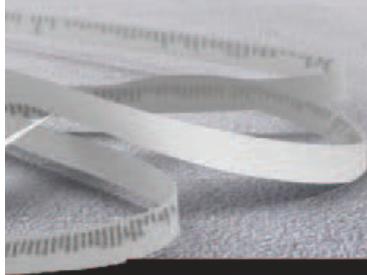
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# GST MALAYSIA THE ROAD SO FAR

“IN ANY JURISDICTION, WE BELIEVE THAT THE GST LAWS AND POLICY TREATMENTS ARE BASED ON FUNDAMENTAL ECONOMIC POLICIES IMPLEMENTED BY THE GOVERNMENT, IN ORDER TO ACHIEVE ITS NATIONAL OBJECTIVES.



It has been four months since the Goods and Services Tax (GST) was launched in Malaysia and as expected there are many teething problems. Despite the months (and years for some) of preparations leading to the implementation of GST, many Malaysians were still caught off-guard. Businesses that thought they were ready, were proven otherwise. Even consultants and tax agents privately lament over the amount of education and training required, as well as the less than perfect roll-out.

Needless to say, those with the biggest complaints are consumers – who face the brunt of the effect. While the government continues to assure consumers that the GST will not bring about a steep inflation, the reality is far from that. Theoretically, prices shouldn't go up, since any output tax is offset by input tax. However, in reality, many businesses have taken advantage of the GST implementation to raise prices, and compensate for a weak economy and slower global demand for our goods and services.

Now that most SMEs are submitting their GST returns for the first time, many of the problems associated with GST implementation are beginning to rear their ugly heads.

So has the journey been all bad? Not so, as SME Magazine discovers.

#### THE HISTORY OF GST

Some Malaysians would probably think that GST is a relatively new idea, but talks about its implementation in Malaysia have been going on for about a decade. The government first attempted to table the GST laws in 2009, but that first reading in Dewan Rakyat met with so much objections and protests – from both legislators and the civil society – that it was set aside.

However, the government realised the importance of having a diversified tax regime, and given the uncertainty of exports and the prices of oil and gas, it became even more urgent to introduce the GST. So on 25 October 2013, Prime Minister (and Finance Minister) Dato' Sri Najib Tun Razak announced the introduction of Goods And Service Tax as part of his Budget speech in the Dewan Rakyat. The implementation date was set on 1 April 2015, to give the business community and the general public time to adjust and prepare for it. Unfortunately, it is now obvious that despite the almost one and a half year of preparation, Malaysians at large are still ill-prepared.

GST is nothing new. With its implementation, Malaysia joined 160 countries worldwide including seven ASEAN countries with

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GST or Value Added Tax (VAT) in place, including some more developed countries like Singapore and Australia.

When compared with other ASEAN countries that have GST or VAT in place, Malaysia has the lowest taxation rate. The enforced GST rate in Malaysia is at 6%. Malaysia's closest neighbor, Singapore has a 7% GST, similar to Thailand, and Australia has set theirs at 10%. However, despite the low rate, some challenges and issues arose since its implementation and there are many questions still unanswered.

#### PROFITEERING

While GST was supposed to give businesses an easier time, it seems like it is doing the quite the opposite. A number of businesses have increased the price of their products and rates of their services as the prices from suppliers increased. Although the government organized many workshops and seminars to educate entrepreneurs about GST and the how-to, there is little to almost no effect at all. In addition, many irresponsible businesses are charging GST to the final price of their products and services although they have not registered for GST with the Royal Malaysian Customs (RMC), despite the hefty penalties that the Government has set in place for such misconducts.

#### THE CHALLENGES

Many businesses that we speak to agree that the GST could have been better planned and implemented.

Dato' Mu staffa Abdul Rahman of AMP Resources Sdn. Bhd. felt that the government should not have charged 6% straight away, but should instead increase it gradually. "Big ticket items like cars and auto parts should be subjected to GST first, while daily goods such as foodstuff should be subjected to GST later, once the system has been stabilized", he said.

The owner of a chain of restaurants agreed, saying that for a start, the government should have started with 3 to 4 percent, so the people will not feel the pinch. "Businesses would not be affected by a significant impact unlike now where we see shopping malls have gone quieter and purchasing power has declined. It is worrisome for SME business growth," she said, requesting anonymity.

According to Bob Kee, executive director of tax at KPMG and the firm's head of GST in Malaysia, there has been a mixture of sentiments in the market – depending on which industries the businesses fall under.

"For example, the retail sector is facing challenges in trying to identify whether the items that they are selling are subject to GST at 6% or 0% as the classification of goods is not an easy task. As another example, the education sector is also experiencing an increase in costs of doing business arising from not being able to claim most

of the GST incurred on their purchases", he said.

Kee added, "In general, larger corporations and MNCs have been preparing themselves way ahead of the implementation date and have proven that proactive measures indeed lessen the issues faced during implementation phase. On the other hand, we have also noticed that certain sectors of the market, mainly SMEs, have experienced issues with their GST implementation project – specifically in the areas of obtaining technical support and clarity in the interpretation of certain GST related provisions in the law".

Nevertheless, Kee believed that the Royal Malaysian Customs has done a fairly good job in the implementation of GST overall, although there is room for improvement, such as providing clearer guidance / interpretation of the law from time to time.

Dato' Sri Khazali Haji Ahmad, Director-General of the RMC said that the department realize that there are some challenges.

"Overall it is a great success and we have fared well in the implementation of GST. Of course, there were many challenges due to our unique GST model but the critical factor lies in the early preparation. The success is also largely attributed to the handholding programme which we have initiated about a year in advance", Khazali said.

Explaining the programme, he said, "The Royal Malaysian Customs has undertaken the handholding programme to educate businesses. General public are basically given awareness through outreach programme and also through electronic and print media. The awareness programme includes appointing GST advocates and ambassadors as well as public acceptance and persuasion programme which is carried out to train NGOs; both public and private".

He also said that there were not as much issues as expected during the first few weeks of implementation. "It was quite a pleasant surprise to note that there was no major issues during the first weeks of implementation of GST".

#### IMPACT OF GST ON SMEs

The impact on SMEs is varied, with some SMEs finding the GST to be a major disruption to their business, while others were relatively unaffected.

"We do not face any issues on GST because our IT system is well organised. So all input and output taxes are well recorded and we are able to claim back the GST we are entitled to. As we are dealing mostly in government projects, most of our projects are zero rated by Customs, while some projects will have the GST factor in their billing", AMP's Mustaffa said.



**Dato' Sri Khazali Haji Ahmad,**  
Director-General,  
Royal Malaysian Customs



**Dato' Mu staffa Abdul Rahman,**  
AMP Resources Sdn. Bhd.



**Bob Kee,**  
Executive Director, Tax,  
KPMG in Malaysia

However, he feels that the GST has the most impact on the low-income group, while some businesses in the services sector have closed shop due to their inability to cope with GST.

"Most of these smaller businesses are not getting much customer due to higher pricing and the government is not doing enough to curb the rise of costs. Even cooking gas has increased by RM2 to RM4 depending on location", said Mustaffa.

"Spending power has reduced because a typical consumer will not have to pay more for foodstuff such as Milo or teh tarik. People in villages encounter GST everyday, from their roti canais and nasi lemak to dry goods at the supermarket. I think the government should consider removing or reducing the rates for all processed foodstuffs", he added.

The owner of the chain of restaurants concurred. "We have seen our sales dropped by 15% in Q2 2015 compared to Q1 2015 before the implementation of GST. We hope that sales will pick up in Q4. Across the board, GST has affected our business and our growth", she said.

"GST is definitely good for the accounting and tax profession as it creates new job scopes and more jobs. However, does Malaysia have enough talents in this category? Sadly, I would think not. It is difficult to hire the right candidates (in accounting and tax) in SME businesses", she added.

"We feel that businesses have come to terms that GST is here to stay and we notice that businesses are placing increased importance on their compliance processes, due to the hefty penalties introduced under the GST regime," KPMG's Kee observed.

"For tax professionals, it has been challenging for the past 18 months, and we foresee that it will be the same in time to come. GST law and treatments will have to be reviewed from time to time in order to keep up with the pace of the marketplace.

"Overall, GST has indeed strengthened the collection of government coffers, which should help to drive the current economic situation positively. It is our hope that the government and authorities will continue to work hand in hand with the businesses and taxpayers to achieve a more balanced and harmonized tax environment in Malaysia and of course ultimately, achieving the nation's goal of being a high income nation", Kee said.

### KEY ISSUES AFFECTING SMEs

Dropped businesses aside, SMEs are encountering a myriad of problems with the GST.

"We lack the staff to enter daily detailed entry resulting in hiring additional headcount and increased cost to our business. And incorrect entries by staff due to the voluminous amount of work leads to more time to review by the accountants. It is very time consuming to check every single transaction entered into the accounting system", the restaurateur said.

"For companies without an integrated ERP system, the stand-alone systems have rounding differences against the other

systems that results in spending more time by the accountants to find out the reasons", she lamented.

"One of the biggest issues is the GST uncertainties where we believe the Royal Malaysian Customs have to help solve or provide guidance rather than imposing penalties to SME owners who are collecting and paying GST to the government. Most are unsure which items the 6% applies to, or are zero rated, or exempted, and many assume it is the same and unable to differentiate especially since these are technical issues", says Bryan Lew, head of GST support team at local accounting firm Cheng & Co.

"The issue pertaining to tax invoices also created a period of argument and summonses was issued to those who failed to comply with the GST regulations. Quite a number of business owners are not sure and doubtful when they received invoices from their suppliers. The RMC has also announced in their Director General's Decision 3/2015 dated 14 April 2015 where the handwritten invoices are not allowed and pre-printed invoices are allowed to be used until end of September this year; after which the GST-registered person must use computer generated invoices in their business dealing", Lew said.

"Addressing the confusion is extremely important, particularly for SMEs/SMsIs as there a lot of news about them being charged for GST wrongdoings, for instance breaching the Anti-Profitteering Act where the business owners are charging their products/services in an exorbitantly high price to the consumers. The business owners must understand well their cost and work out the reasonable profit margin for each product/services", he added.

"Another popular issue that still troubles business owners is GST-03 calculation and accounting. Most SMEs/SMsIs are relying a lot on their accountants to handle the GST accounting for them but are these accountants well trained on GST accounting especially about the accounting treatments and tax codes relevant to their respective companies? Over these three months, Cheng & Co have been receiving many calls from both clients and non-clients asking for help to solve their GST accounting issues such as providing them GST Accounting Training and other GST advisory services such as GST-03 review to help them clear their doubts and to provide an error free GST-03 to the RMC", Lew said.

"Another problem that SMEs/SMsIs should take note of is their credit control process. The Bad Debt Adjustment issue has been made compulsory by the RMC to all business owners to claim back any outstanding debt owing to them by their clients when exceeded the 6 months period. Falling which, it may attract penalties from RMC", Lew warned.

Many Malaysians, including SMEs, continue to question the rationale for the GST. This is made more complicated by the various treatments of different goods, with some zero rated (no GST is charged), while others are standard rated (charged at 6%).

Bob Kee of KPMG explains, "In any jurisdiction, we believe that the GST laws and policy treatments are based on fundamental economic policies implemented by the government, in order to



Bryan Lew,  
Cheng & Co

achieve its national objectives. For Malaysia, we can understand why certain policies are drawn-up and why the lawmakers have decided to treat certain industries differently from the others. More often than not, these reasons are not perceived well by businesses and at times, questions arise on why such unfair treatment applies to them".

"As tax professionals, we believe that our job is to bridge the expectation gap between the authorities and businesses, and at the same time, assisting the government to achieve its objectives. In order to do this, we feel that mindsets need to be changed. Businesses must accept that the market is evolving at all times and hence, the necessity to change will always be there. As for the authorities, we feel that they need to be more understanding in terms of how businesses operate in Malaysia and their practical difficulties, so that certain GST provisions / rules could be explained in greater detail to businesses", he said.

Customs' Khazali said that one of the frequently occurring issues is that of refund. "The delay in refund is due to many factors such as errors in filling up the returns, incomplete submission of returns, incomplete bank information, and difficulties getting in touch with companies after seven days from the date of issuance of the letter. There are even no or slow responses from the applicants to the queries by the refund officer. Businesses are advised to fill in the returns correctly and respond immediately when contacted in order to expedite the refund process", he said.

#### **MORE PROS THAN CONS**

"GST will have a positive impact for business and it will lead to greater efficiency, effectiveness and it is more business friendly. It will reduce weaknesses in the existing taxation system and improve the country's competitiveness. The fact that more than 384,000 registrants have registered (more than the expectation of the Government) for GST is an indication that the businesses are ready for GST and they are convinced that GST is good for business", says Khazali.

"Small retailers are encouraged to invest in Point of Sales or cash register system. Government has also provided tax incentives in the form of accelerated capital allowances and further tax reduction for GST training", he said.

#### **EASING THE PAIN**

With so much teething problems associated with GST implementation, what can SMEs in Malaysia do to ease these pains?

"Businesses should adopt a more pro-active approach in liaising with the authorities, rather than playing the "sit and wait" game. If uncertainties surround the GST's impact on the operations of a business arises, it is imperative that clarity is seek without undue delay as the GST treatment apply on each transaction of the business. We cannot emphasize enough on the importance of having clarity on GST treatments on transactions, especially where it involves large volume / frequency - if there's a mistake, it may get repeated and undetected, which may result in hefty penalties in the long run", says KPMG's Kee.

Tom Wong, COO of Cheng & Co advised SMEs to engage a GST consultant or tax agent to advise

**"THE RETAIL SECTOR IS FACING CHALLENGES IN TRYING TO IDENTIFY WHETHER THE ITEMS THAT THEY ARE SELLING ARE SUBJECT TO GST AT 6% OR 0% AS THE CLASSIFICATION OF GOODS IS NOT AN EASY TASK. AS ANOTHER EXAMPLE, THE EDUCATION SECTOR IS ALSO EXPERIENCING AN INCREASE IN COSTS OF DOING BUSINESS ARISING FROM NOT BEING ABLE TO CLAIM MOST OF THE GST INCURRED ON THEIR PURCHASES"**

them especially on the GST-03. "The GST-03 report must be accurate before you submit it to the RMC. Certainly, preparation must be early and avoid any last minute work", he said.

#### **WISH LIST FOR THE GOVERNMENT**

Wong added, "the RMC must step up and help solve issues by providing more handholding programmes and work together with GST consultants in all aspects in providing clearer answers to certain technical issues faced by specific industries. We hope that by this time next year, most of the doubts and uncertainties on GST issues will be solved and we can move forward towards a stable economy and achieving Malaysia's Vision 2020".

"As mentioned, GST will be here to stay and we think the rules and regulations surrounding it will improve over time. We hope that better guidelines and policies are introduced to supplement the ever-growing marketplace in Malaysia, and businesses will strive to achieve better tax efficiency on an overall basis. Nonetheless, the logical path that lies ahead after the implementation stage would be to conduct audits and health checks; hence, businesses should prepare themselves now. It is also our hope that the authorities will be lenient when carrying out their audits", KPMG's Kee said.

Whilst it's probably wishful thinking that the government will change drastically the GST or to scrap it off; nevertheless many SMEs are praying that the government can look into

some of these teething problems, ranging from compliance to procedures to giving a longer grace period for full compliance.

There is little doubt that the GST will be good for the economy, and by extension, businesses. This is especially so when the promised reduction in corporate tax takes place next year. In the meantime, SMEs will just have to stomach the implementation pains and the one-off rise in costs.

In the long run, GST will indeed help businesses to develop greater fiscal discipline and serve as a form of natural selection - where the better run businesses will not only survive, they will thrive.



**Tom Wong,  
Cheng & Co**