BLEND OF GST, SST IN TAX REVAMP PLAN

PM stands firm on no broad-based levy amid cost of living pressures

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An industry group has warned that higher cumulative business costs caused by a complicated tax system could be passed on to consumers.
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THE government is open to incorporating selected Goods and Services Tax (GST) features into the existing Sales and Service Tax (SST) to strengthen revenue collection without imposing a broad-based tax on Malaysians already facing cost-of-living pressures.

Prime Minister Datuk Seri Anwar Ibrahim said SST would remain the basis of the tax system, but the government could consider features that improved its efficiency and revenue collection.

"We are open to studying ways to improve the tax system.

"But if we are talking about GST alone, my concern, as I have said repeatedly, is that it would mean taxing the people," said Anwar when asked whether the government would combine GST and SST in the upcoming budget.

He stressed that the government would not compromise on avoiding a broad-based tax on the public.

"GST is a broad-based tax that taxes everyone. I do not agree with that. How do we address that in the current situation, when people are already facing cost of living and financial pressures?

"That is why we use SST as the basis, but if there are certain adjustments that can be made, we can consider them," he said after a 2027 Budget engagement session at the Finance Ministry here yesterday.

GST, a multi-stage consumption tax, was introduced in April 2015 at a rate of six per cent but was abolished and zero-rated on June 1, 2018. It was replaced by SST on Sept 1, 2018, in line with the manifesto of the then Pakatan Harapan administration.

The government has in the past repeatedly dismissed calls to reinstate GST.

Anwar said in June last year that it would only be considered when Malaysia's minimum wage exceeded RM4,000.

Last December, however, Barisan Nasional chairman and Umno president Datuk Seri Dr Ahmad Zahid Hamidi said the coalition would push for GST to be reinstated after the 16th General Election, describing it as the best tax regime to ensure fairness and stronger national revenue.

Experts told the *New Straits Times* that a GST-SST hybrid could strengthen revenue collection while addressing weaknesses in the current system.

KPMG Malaysia head of tax Soh Lian Seng said one of the most useful GST features that could be adapted into SST was the input tax credit (ITC) mechanism, particularly for business-to-business transactions.

"Under the present SST regime, businesses often bear embedded taxes that cannot be recovered, resulting in tax cascading.

"A limited and targeted credit mechanism for certain sectors or transactions could help reduce these inefficiencies without necessarily moving to a full GST model."

He also said enhanced invoice-based reporting and digital tax administration could help strengthen SST administration and reduce revenue leakages.

Bank Muamalat Malaysia chief economist Dr Mohd Afzanizam Abdul Rashid cautioned that implementation should not become burdensome for Malaysians, citing the impact of delayed ITC refunds on businesses.

"The government should learn from past episodes of lateness in returning the ITC, which can affect businesses' cash flows," he said.

Meanwhile, SME Association of Malaysia national president Chin Chee Seong said the association supported the government considering GST, but stressed that any changes should not create another layer of compliance costs for businesses.

"We should have no issue with changing to GST, but (the government) must make sure this will be once and for all."

Chin said an ITC mechanism could help address tax cascading but warned against creating a complicated system.

He also cautioned that higher cumulative business costs could be passed on to consumers.

Echoing these views, Small and Medium Enterprises Association of Malaysia (Samenta) national president Datuk William Ng said the main reason businesses preferred GST over SST was its ability to address the cascading effect.

By incorporating a mechanism such as ITC, Ng said businesses would only pay tax on the value they added.

However, Ng said delayed input tax refunds were a major concern during the previous GST era.

He called for a strict timeline for the government to process refunds.

"As most businesses have invested three times, into GST, then SST and now e-invoicing, it is not sensible to expect SMEs to absorb any additional costs of software upgrades, system integrations and staff training."