GST: A misunderstood tax?

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GST (Goods and Services Tax) is one of the most misunderstood taxes in the current economic climate. The continual deferrment of GST has caused ripples, leaving taxpayers wondering whether the tax will ever be implemented. Today, we carry the first of four articles on different aspects of GST, outlining the tax and its implications for the man-in-the-street. The other three articles will be published over the next three weeks. They are:

- GST & You: What a consumer should know;
- GST & You: What a business owner should know; and
- GST & You: What do I need to do?

WHAT IS GST?

It is a broad-based consumption tax that will replace the existing sales and service tax. GST is charged at each stage of the supply chain and is also known as the "value-added tax".

GST collected from consumers (i.e. output tax received) is offset against the GST paid by businesses to suppliers (i.e. input tax paid). The balance is remitted to the Royal Malaysian Customs (RMC). If the output tax collected is less than the input tax paid, the GST registrant may enjoy a refund.

Inherent in the GST system is a self-policing mechanism for collection of taxes and should lower the tax leakages currently experienced under the existing sales and service tax system.

The broader base of the tax system should also allow a lowering of direct taxes in the future.

It is a transaction-based tax, which requires regular submission of both tax returns and remittances of the taxes collected.

Such a mechanism should allow refunds to be issued in a more efficient manner, as the monies due to taxpayers (when the output taxes received are lower than the input taxes paid) are already in the coffers of the RMC, due to the regular remittances made by GST-registered entities.

HOW IS GST IMPOSED?

Goods and services are either subject to GST (taxable) or not (non-taxable). For taxable goods and services, there are two rates of GST that can be imposed — standard rate (current prescribed rate to be imposed is 4%) and zero rate.

For non-taxable goods and services, there are two categories to be considered — exempt and "out of scope". In both categories of non-taxable goods and services, no GST (output tax) is imposed and no GST (input tax) can be claimed.

GST IN ACTION

In order to illustrate the different GST implications based on the various categories, we have used arbitrary figures in our example in the table below.

Company A manufactures and sells a product to consumers. Jane acquires the product for RM100,000 and Company A acquires supplies/raw materials (taxable supplies)
for RM40,000 and pays its suppliers, RM41,600 (GST component — input tax of RM1,600).

We have outlined the GST implications based on the different categories in the table below.

	Output tax, if any (i.e. paid by Jane) (RM)	Input tax paid by Company A (RM)	Refund/remittance to RMC (RM)
▶ Standard rated (current prescribed rate of 4%)	100,000 * 4%= 4,000	40,000*4% = 1,600	Company A will remit 2,400 (balance of 4,000 – 1,600) to RMC. Whilst the supplier to Company A remits 1,600. Total received by RMC = 4,000
▶ Zero rated	Nil	40,000*4% = 1,600	RMC receives 1,600 from the supplier. RMC gives a refund 1,600 to Company A (since Company A's input tax is greater than its output tax, i.e. 0).
▶ Exempt	Nil – none imposed	40,000*4% = 1,600	RMC receives 1,600 from the supplier. However, no input tax credit offered to Company A – since exempt supply made.
▶ Out of scope	Nil – none imposed	40,000*4% = 1,600	RMC receives 1,600 from the supplier. However, no input tax credit offered to Company A – since 'out of scope' supply made.

HOW DOES THE GST ENVIRONMENT COMPARE TO THE CURRENT SALES AND SERVICE TAX REGIME?

At present, sales and service taxes are imposed on taxable goods and services, as defined by the Sales and Service Tax legislations respectively. The categories are specific.

However, due to "inconsistent interpretation", not all taxable goods and services are taxed under the current regime, resulting in significant leakages.

The current regime is a single-stage tax system, with no "input tax credit". Therefore, taxes paid by vendors in the supply chain become "sunk costs", which are embedded as part of the cost of the good or service with no input tax credit relief.

This may result in a "cascading" effect if manufacturers price their products based on a mark-up on cost.

GST is a transparent tax, which eliminates the cascading effect currently experienced with the existing sales and service tax ("hidden taxes" borne by the consumer). Therefore, the introduction of GST may not necessarily translate into higher pricing of goods and services.

GST is a transaction-based tax and is imposed upon consumption/ "enjoyment" of goods or service. As the GST amount is required to be shown on all invoices, consumers can monitor their costs accordingly.

This tax should also provide a level playing field to businesses as compliance is more easily monitored.

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