

 By Lee Wei Lian
KUALA LUMPUR, Nov 26 ♦ The Najib administration's move to bite the bullet by strengthening its finances via a new tax regime has drawn mixed reactions from the public as well as industry.

Malaysia, along with Hong Kong, is one of the few countries that have put off implementing the goods and services tax (GST) while countries such as Canada, Australia, New Zealand and Singapore have long had a form of GST in place.

But the country already has a sales and service tax of 5 per cent which will be subsumed by the GST. "GST is a politically sensitive piece of legislation," said the tax director at a leading accounting firm.

"However, countries that have implemented it, for example Australia, tend to see tax revenues go up significantly. There tends to be a higher rate of compliance and less evasion compared with income tax."

The tax director also said that it is not a given that the prices of goods will go up with the introduction of the GST, which is a frequently expressed worry.

The GST, which is described as a "consumption tax", is levied on transactions at all stages of production of goods and services but ultimately paid for by the end consumer.

The proposal comes as the government is trying to reduce the federal budget deficit, currently at 7.6 per cent of GDP, and grow revenue by widening its tax base.

The public, not only in Malaysia but also in other countries, tends to be sceptical over the introduction of any new taxes. To ease the transition, Singapore, for example, started with a low GST rate of 3 per cent before gradually increasing it over time to the current level of 7 per cent and even then gave tax credits to eligible citizens to help them cope with the additional cost.

Others, such as Canada, have either exempted or imposed a tax rate of zero on essentials such as basic groceries, housing rent and medical services.

Some members of the public have approved the proposal as it is expected to spread the tax burden more evenly across the population as only an estimated one-tenth of workers are currently paying income tax.

There is some expectation, however, that income tax rates should come down if GST is introduced.

Others have criticised the proposal, saying that the government should first address revenue leakages and wastage before introducing new taxes to boost its income.

The Federation of Malaysian Manufacturers (FMM) says that timing and ease of compliance is key.

"The timing of the implementation has to be right," said FMM president Tan Sri Mustafa Mansur, adding that FMM was going to have a dialogue with the government over the GST next week.

Prime Minister Datuk Seri Najib Razak announced on Tuesday that he plans to table the proposed GST Bill for a first reading before the current sitting of the Dewan Rakyat ends in mid-December and engage the public in order to fine-tune the proposal.

He said the proposed GST would replace the current sales and service tax and any implementation of GST would be done "very gently" with a rate that would not burden the poor or middle-class Malaysians nor increase inflation.

Source: <http://www.themalaysianinsider.com/index.php/malaysia/44672-mixed-views-to-controversial-gst-proposal>