

Hoping for a good deal out of a taxing issue

Written by 3K Admin

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By CECILIA KOK

SINCE the idea of implementing the goods and services tax (GST) in Malaysia was revived by the Government two months ago, many questions have been raised by various industry and consumer groups as to how the new regime will affect their interests.

Apart from the information in the GST Bill, few details of the new tax have been announced, but the Government has made a commitment to make the GST system a win-win solution. The tax will likely be enforced about 18 months after the second reading of the bill scheduled for March in parliament.

To understand some of the concerns that consumers and businesses might have in relation to GST, StarBizWeek catches up with several associations representing different interest groups, including consumers, small and medium-sized enterprises (SMEs), and the retail and manufacturing industries.

Consumers need a win-win situation

It is without a doubt that consumers are always resistant to any new form of tax, says Consumer Research and Resource Centre CEO Datuk Paul Selva Raj, who is also the vice-president of the Federation of Malaysian Consumers Association.

But in the economic sense, we believe GST is a necessary form of revenue for the Government, due to its rising fiscal deficits, and declining revenue, Paul says.

For people to accept any new form of tax, Paul points out, the Government has to make strong effort to educate and explain to consumers clearly on how the new tax (in this case, the GST) will benefit them in the long run.

Also, the Government has to ensure there is no leakage in the system.

It has to give the public confidence that the additional tax they pay to the Government is managed well and used in their best interests at heart. Otherwise, the credibility of the whole process will be dampened, Paul says.

While consumer groups understand that there will be some negative effects over the short term or during the adjustment period when the GST is implemented, their main concern is how that will affect the marginalised and poor consumers.

We believe the impact of GST will be highest on the poor, says Datuk Dr Jacob George, president of the Consumers Association of Subang and Shah Alam.

He adds: The poor are already paying high costs for basic goods and services at the present market conditions, so additional tax will make them worse off.

Paul concurs, urging for measures in the form of incentives or subsidies to be in place to protect the poor and marginalised.

While Paul believes that the Government has already done the right thing by proposing to zero rate several basic essential items, he argues that consideration should also be given to zero rate basic services such as public transportation, medical and education.

In addition, consumer groups believe there should be transparency at all levels of the supply chain to prevent frauds, and strict enforcement should be in place to prevent profiteers from taking advantage of the new scheme by raising prices arbitrarily.

Retailers expect consumer spending to turn cautious

As for the retail industry, the main concern is how the change in consumer spending pattern as a result of the GST implementation would affect their businesses.

We expect consumers to be more cautious about their spending once GST comes into effect, says the Malaysian Retailer Chains Association (MRCA) secretary-general Datuk Nelson Kwok.

According to Kwok, the low to middle-income groups currently form the bulk of the industry's customers. Most of the households in these categories presently do not have to pay income taxes, but once the GST is

implemented, they will have start paying taxes for their daily consumption of goods and services, and that could possibly dampen their spending mood, he explains.

Kwok also points out that if GST results in higher bank charges for credit card transactions, and hence, significantly higher prices in certain products, retail businesses will be adversely affected.

Other issues that MRCA is concerned about include the possibility of additional record-keeping requirements under the new scheme and the high cost of compliance.

Details still sketchy, so SMEs may not be ready

According to the president of the Small Medium Industry Association of Malaysia, Chua Tiam Wee, most SMEs in the country are not ready for the GST implementation because they are still not very clear about the mechanisms surrounding the new tax.

He says the association's main concern is that the 18-month period may not provide the industry with sufficient time to prepare for the necessary changes in their business and accounting processes, including the installation of new software and training of staff, because a lot of the details are not out yet.

The other concern is that GST will have a serious negative impact on the cash flow of the SMEs if there isn't an efficient tax refund mechanism in place, Chua says, adding that the association intends to organise briefing roadshows soon to ensure that SMEs are aware of the issues surrounding GST and be well prepared for the implementation of the new scheme.

He points out that if GST compliance costs are high, whether in terms of dollars and cents or time, SMEs will be unnecessarily burdened. He believes that the Government should be supportive of the industry by providing appropriate structure and guidance to help the industry prepare for the new scheme, and to also provide the industry grace period for compliance so that it will not be unnecessarily penalised when mistakes are made during the transition phase.

Many concerns, manufacturers hope for more discussions

Federation of Malaysian Manufacturers (FMM) president Tan Sri Mustafa Mansur believes there is insufficient time for the private sector to fully understand the implications of GST and conduct the necessary preparatory works to comply with the new scheme if it to be implemented in the second half of next year.

He says it is necessary to have continuous discussions with the Government to straighten out the concerns that the manufacturing sector, comprising export-oriented companies and SMEs, has in relation to the GST scheme.

While burden of GST is on consumers, businesses will still have to pay GST upfront on inputs and then claim for their refund.

Without an effective and efficient refund mechanism, businesses would face serious cash flow constraint, Mustafa explains, adding that export-oriented manufacturers will be particularly vulnerable if there is no timely refund of input tax credits.

FMM estimates there would be around 20,455 companies from the manufacturing sector that will be submitting their claims for refunds, compared with an estimated 200,000 non-manufacturing companies that are also covered under the GST scheme. So, the question is whether the Government can cope with the huge amounts of claims while ensuring timely refunds for all parties?

He is also concerned about the possible high cost of GST compliance being a huge burden to the industry, particularly the SME manufacturers, as they are not able to pass on such costs to their customers.

The country has to ensure that the export sector remains vibrant and competitive, so all forms of assistance should be given to export-oriented companies and SMEs to achieve cost-efficiency and productivity, Mustafa says.

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