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14th Mar, 2010, JAGAM invited Ms. Evonne Chen, Financial Adviser for Standard Financial Planner Sdn. Bhd. to share with its members a hot topic that concerns every consumer – the GST. Although its implementation is still pending government's decision, let's get ourselves informed by the expert. Below is a concise excerpt from her presentation as well as the biodata of the speaker.

What is GST?

GST stands for Goods and Services Tax. It is a pro-active tax based on consumption. Since GST is new to Malaysians, many have questions about its operating mechanism, for example how it applies to each level of the goods in a supply chain and eventually how it affects the end consumer. Business owners would be more interested to find out how it affects the production costs and its impact in running the businesses.

In the technical sense, GST is divided into input tax and output tax. When the Buyer makes a purchase and pays GST to its supplier, from the Buyer's point of view, it is called input tax. When the Supplier charges GST as it sells its product and collects GST from its buyer, to the Supplier's point of view, this is called output tax.

For example, when X pays Y GST for its purchase, the GST that X pays becomes X's input tax. On the other hand Y collects the GST from X, the GST collected is Y's output tax.
(Editor's comment: Input tax is related to a purchase whereas output tax is related to a sale.)

		GST (RM)		
Business Level	Selling Price (RM)	Output Tax 4% (A)	Input Tax 4% (B)	Payable Tax (A-B)
Cotton Planter	100	4	-	4
Cloth Manufacturer	200	8	4	4
Garment Manufacturer	300	12	8	4
Wholesaler	400	16	12	4
Store	500	20	16	4
Consumer pays final price of RM 520 for end-product.				

To understand the GST operating mechanism lets look at the above illustration: a cotton planter sells cotton to cloth manufacturer at RM100 and collects 4% GST that is RM4 and pays to the government. When the cloth manufacturer sells cloth to garment manufacturer at RM200, he collects 4% GST at RM8. Earlier on, he had paid RM4 input tax to the cotton planter. He can then use the RM4 input tax from the purchase to offset the RM8 output tax from the sale and eventually pays the net GST of RM4 to the government.

At every level, a business can use the input tax to offset the output tax. This can avoid double taxation. Even though GST will be charged at every level, the consumer is the one who finally bears the GST.

Are consumers being charged extra? Not necessarily so. It all depends on whether the type of goods and services they consume, is subjected to GST or not.

Under the GST tax regime, all goods and services are classified under 3 types of supplies:

1. Standard-rated supplies
2. Zero-rated supplies
3. Exempt supplies

The businesses that supply standard-rated supplies must charge 4% GST to their customers. Therefore looking at the illustration again, the consumers need to pay RM520 to buy their clothing.

Some goods and services are rated with zero GST, hence known as the zero-rated supplies. Basically, these are the basic necessities. This will help to ease the burden of the lower income group. Goods and services that are catered for export market are also classified as zero-rated supplies so as to maintain the competitive advantage of local products in the overseas market.

If a business pays input tax for the raw material to his supplier, yet its end-product is classified as zero-rated supplies, meaning it cannot charge GST for its end-product, the business can ask for refund of its input tax from the government.

Exempt supplies is a supply of any goods and services that is not subjected to the imposition of GST. Basically the mechanism is very similar to zero-rated supplies except that there will be no refund on input tax paid to supplier.

The use of GST

The implementation of GST is a way the government diversifies its revenue coffer. GST is not an add-on new tax. It is intended to replace the existing sales and services tax. The GST tax system is independently self-governed unlike the personal income tax, sales tax and service tax where it can be evaded through structured devised scheme.

GST is also a way the government uses to control the spending behaviour of its people; it encourages consumer to spend less on non-essential items and to save more.

Impact of GST to Businesses

GST may or may not increase cost of production. It depends on whether the business already practices the imposition of sales/service tax. Moreover, they can use input tax to offset output tax or they may choose to pass on the additional costs to its consumer. However the businesses will incur additional compliance costs, eg. they will need to upgrade their accounting and recording system, information technology system and staff training. This may incur a one-off increase in its capital/revenue expenditure. Most importantly, the business will need to restructure their cashflow so as to prevent having cashflow problems once the government starts to implement GST. The businesses need to charge GST on sales, so if the customers are late in paying due to credit terms, the businesses will have to pay the tax first. Businesses should be educated and be aware of the potential cashflow aspects of GST.

Impact of GST to Individual

The more you spend the more tax you need to pay, therefore the tax system encourages wise spending.

Conclusion

GST is a way for the country to become a high income nation. Prior to its implementation, the government should look to mitigate the impact of GST, ensure that it is business and investor friendly, so that it will not add unnecessary pressure to its people.

Evonne Chen is a Financial Adviser for Standard Financial Planner Sdn. Bhd., holding the Capital Market Services Representative License by Securities Commission , the Financial Adviser Representative License by Bank Negara Malaysia and the Corporate Unit Trust Adviser Representative License by Federation of Investment Managers Malaysia(FIMM). By having the licenses from the regulators, Evonne has met the compliance requirement to provide comprehensive financial planning services to clients. She is among the first few Certified Financial Planner (CFP®) designee who became licensed Independent Financial Adviser in Ipoh.

She was an auditor with Ernst & Young and prior to joining Standard Financial Planner Sdn Bhd, she has 6 years experience in the unit trust industry. Currently she is a committee member for Financial Planning Association of Malaysia Ipoh Chapter; she has been a lecturer for the CFP Certification Program with IFPA Resources since 2005.