

2024 INSAP Economic Forum

GST Reintroduction – YaY or NaY?

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Malaysia has limited fiscal space



High Dependency on Oil-related Revenue

Avg. **23.4%** in 2020-2023
(Avg. RM62.8 bn)



Avg. **21.4%** in 2015-2019
(Avg. RM50.2 bn)



1:1

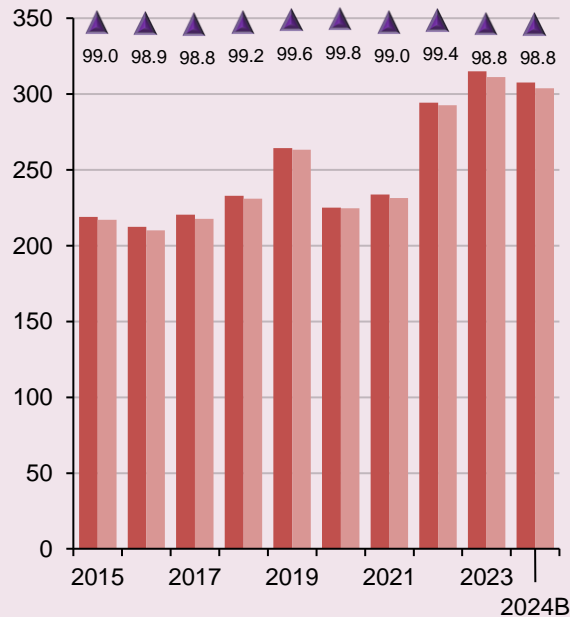
Almost 1:1 Match of Operating Expenditure to Federal Revenue

Avg. **99.2%**
in 2015-2023

Revenue and Operating Expenditure

RM billion

■ Total Revenue ■ OE ▲ OE/Revenue (%)



27th Successive Years of Fiscal Deficit

Federal Government's Overall Fiscal Balance

RM billion

% of GDP

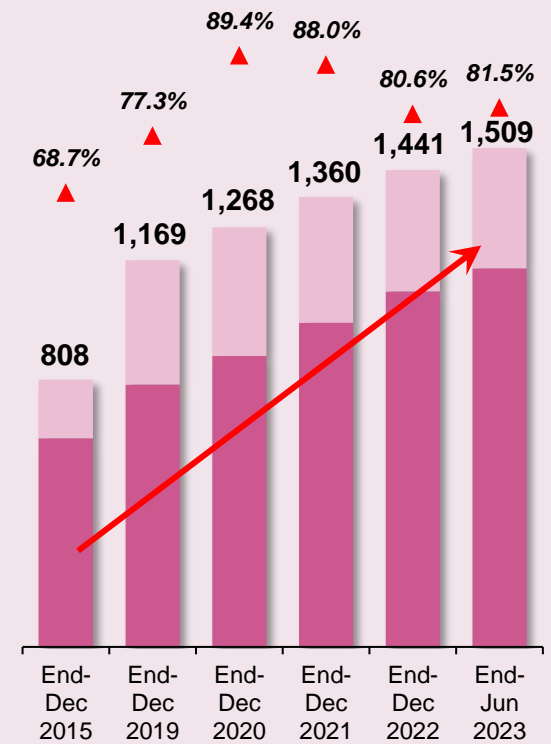


Unprecedented High Level of Debt and Liabilities

Debt and liabilities

RM billion

■ FG Debt ■ Liabilities ▲ % of GDP

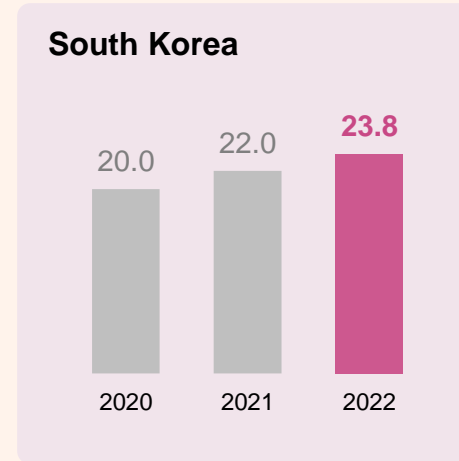
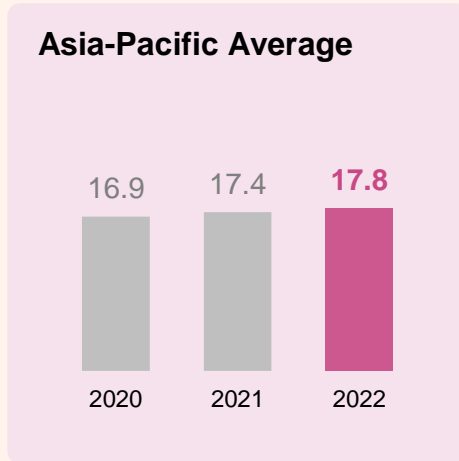
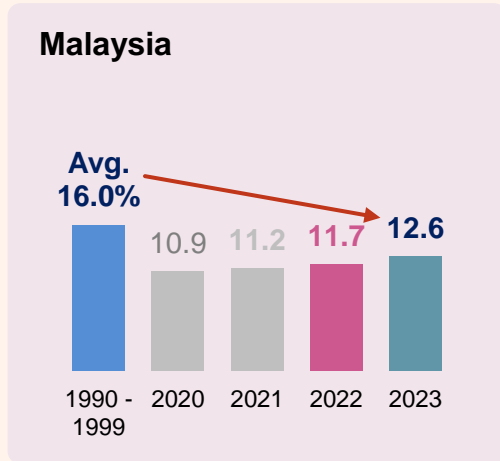


Source: World Bank; Ministry of Finance (MOF)

Malaysia's tax to GDP ratio trend

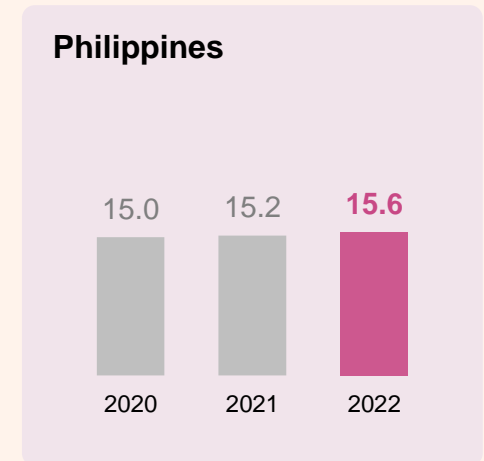
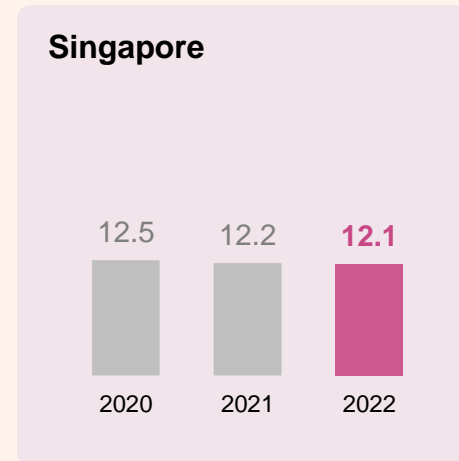
Tax revenue to GDP ratio, %

OECD's data in 2022 showed that Malaysia's tax-to-GDP ratio was just 11.7%. This was below the Asia-Pacific average of 17.8%, and the OECD average of 25.2% (2021)



Malaysia's income level is higher than other countries with VAT/GST

2023	GNI per capita ¹	VAT / GST rate
Malaysia	US\$11,970	-
Indonesia	US\$4,870	Up to 15%
Philippines	US\$4,230	12%
India	US\$2,540	Up to 28%



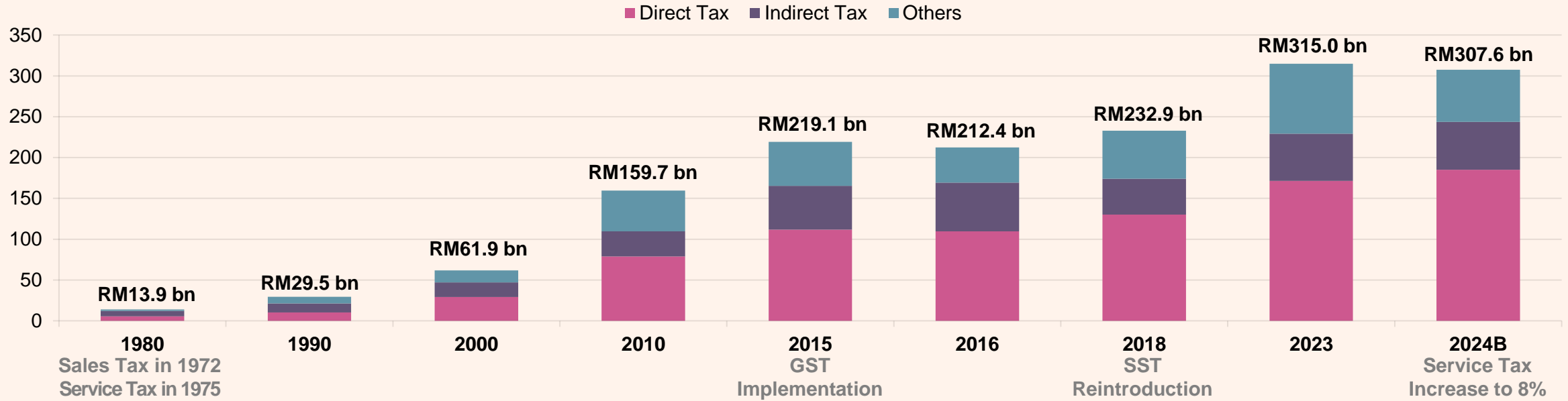
¹ Gross National Income based on the Altas method.

Note: Data on tax revenue excludes social security contributions and is based on OECD's definitions.

Source: Bank Negara Malaysia (BNM); World Bank; OECD, PwC

Malaysia's tax revenue relies more on direct taxes

Federal Government Revenue, RM billion



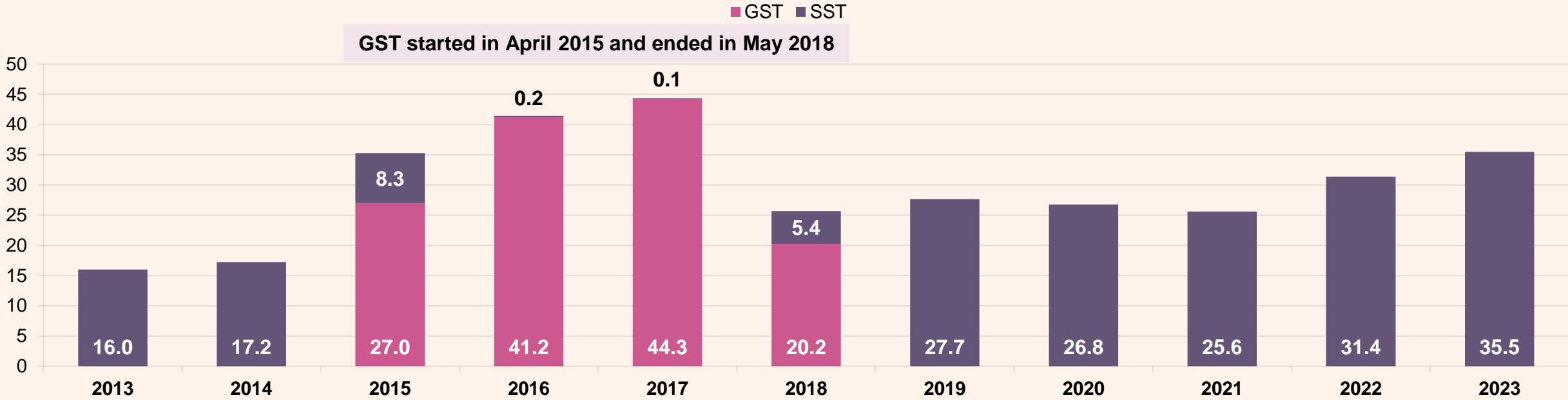
	1980	1990	2000	2010	2015	2016	2018	2023	2024B
Direct Tax	RM5.5 bn (39.5%)	RM10.4 bn (35.2%)	RM29.2 bn (47.1%)	RM79.0 bn (49.5%)	RM111.8 bn (51.0%)	RM109.6 bn (51.6%)	RM130.0 bn (55.8%)	RM171.3 bn (54.4%)	RM185.0 bn (60.1%)
Indirect Tax	RM6.6 bn (47.1%)	RM10.8 bn (36.7%)	RM18.0 bn (29.1%)	RM30.5 bn (19.1%)	RM53.7 bn (24.5%)	RM59.7 bn (28.1%)	RM44.0 bn (18.9%)	RM57.8 bn (18.4%)	RM58.6 bn (19.1%)
Others	RM1.9 bn (13.4%)	RM8.3 bn (28.0%)	RM14.7 bn (23.7%)	RM50.1 bn (31.4%)	RM53.6 bn (24.5%)	RM43.1 bn (20.3%)	RM58.8 bn (25.3%)	RM85.8 bn (27.2%)	RM64.0 bn (20.8%)
Petroleum-related Revenue				RM56.5 bn (35.4%)	RM47.1 bn (21.5%) ↓	RM31.0 bn (14.6%) ↓	RM54.5 bn (23.4%) ↑	RM69.7 bn (22.1%) ↑	RM61.8 bn (20.1%) ↓

Note: Others include non-tax revenue and non-revenue receipts.
2024B refers to the 2024 Budget.

Source: BNM

Goods and Services Tax (GST) vs. Sales and Services Tax (SST)

GST and SST Revenue, RM billion



GST

From **Apr 2015**
to **May 2018**
(3 years 2 months)



GST collected
RM132.7 bn
(average RM41.9 bn)

SST

From **Sep 2018**
to **Dec 2023**
(5 years 4 months)



SST collected
RM152.3 bn
(average RM28.6 bn)

GST's average annual collection was 46.5% (RM13.3 bn per year) higher than SST

“The main factor for low collection for the **SST** was due to the smaller scope, which covers 41% of all goods and services sold in the market compared to **76% under the GST.**”

Source: BNM

Malaysia's tax at a crossroads: GST or Other new taxes



Addressing revenue shortfall



Capital Gains Tax on non-listed private companies

- Hinder entrepreneurship, discourage capital formation, and deter long-term investments. Concerns over it will extend to other asset classes.



Luxury Tax (pending in the planning stage)

- "Subjective" interpretation of luxury goods; lead to black market and dampen domestic high-end markets.



Taxes on foreign-sourced income

- Discourage Malaysian companies with foreign operations and individuals from remitting their foreign income back to Malaysia.

These measures may create uncertainties among businesses and investors as they wary about whether more new taxes on capital and income are in the making.



Why is GST better than SST and others?

• GST as a sustainable revenue source

- ✓ **Broaden consumption tax base** – revenue enhancement
- ✓ **Transparent, fairer and effective tax.** Concerns about the GST's regressive impact on lower-income households can be mitigated by exempting certain essential items and GST vouchers.
- ✓ **Mitigate tax erosion, transfer pricing, and value shifting,** as well as covers the tax net on the "**shadow economy**" (estimated turnover of almost RM275 billion or 18.2% of GDP in 2019).
- ✓ **Tax productivity increases.**

#1

It covers **76%** of all goods and services
(vs. 41% under the SST)

#2

170 countries have implemented VAT/GST

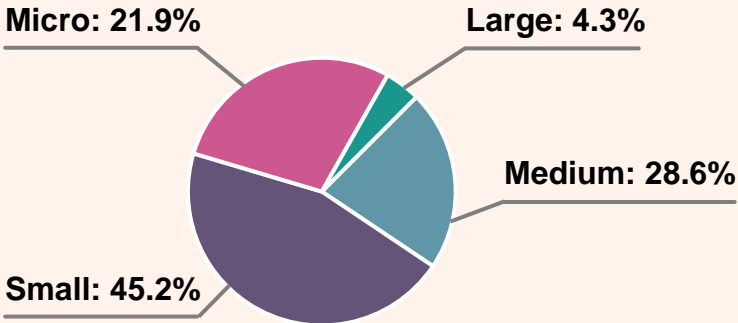
Source: Royal Malaysian Customs Department (RMCD)

Malaysian businesses welcome the return of GST

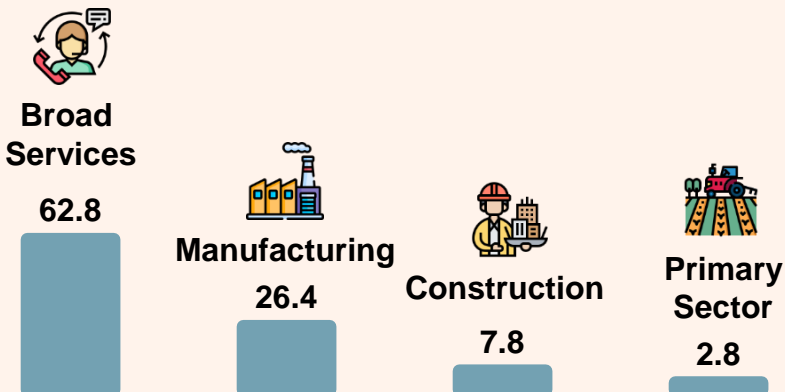
#1 Survey Information

Profile by Operation Size:

SMEs: 95.7%



Profile by Sector:



#2 Survey Results

- 75.4%** of respondents **“AGREE”** with the reintroduction of GST
- 55.5%** of respondents **prefer two-tier GST rate structure**
 A zero rate and a standard rate (removal of exempt supplies)
 44.5% prefer to remain the previous three-tier GST rate (standard rate, zero rate and exempted supplies).
- 68.8%** of respondents **require 6-12 months for** the preparation of GST implementation

4 GST Compliance Issues

#1	Cumbersome procedures and documentation	68.6%
#2	Issues with GST implementation	56.0%
#3	High compliance cost	47.0%
#4	Lack of IT infrastructure	29.6%
#5	Lack of trained manpower in the company	29.6%

Source: The Associated Chinese Chambers of Commerce and Industry of Malaysia’s (ACCIM) Quick-Take Survey (QTS)

Businesses' expectations about GST

5 Expectation for Improvements

#1	Shorten the turnover time for GST input tax refund	72.9%
#2	Reduce paperwork or document submission	68.1%
#3	Efficient and friendly GST filing system	67.8%
#4	Adopt "Refund first, audit later" approach	62.1%
#5	Allowing the net-off in output tax submission with the input tax claim	59.8%
#6	Standardise the filing of GST on a quarterly basis	56.0%

6 Expectations on Government Assistance

#1	Financial grant/tax rebate for software upgrading or accounting system adoption	78.9%
#2	A six-month grace period from the penalty for the genuine offender	75.6%
#3	Set up GST portal network to provide guidance to business	70.6%
#4	Provide a 3-6 months of tax holiday before the implementation of the GST regime	68.1%
#5	Free GST-related training or courses nationwide	66.1%

Lessons learned ...



Recommendations



At least 12 months for the preparation



Starting at **3.0-4.0%** rate



Regressive in nature to ease the burden on low-income households by **zero-rated all essential goods and services**



Make it simpler. Zero-rated for essential goods and a standard rate for others, with exemptions given to some critical services



Ease of **compliance costs and administrative costs**



Effective communication to raise awareness and consumer education on exempted items



Voucher and tax incentives for GST-compliant accounting software



Refund first, Audit later



A one-off cash assistance in the form of a voucher rather than direct cash handouts to help the most vulnerable households smooth out sudden changes



Price surveillance to ease consumers' concerns about price increases



Collaboration with consumers protection association to step up price surveillance in reining profiteering activities

THANK YOU

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