From Good and Service Tax (GST) to Sales and Service Tax (SST)

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Abstract: Tax is compulsory levy made by the government as a means of raising revenue and to finance government operations. Tax in general makes up about 80 percent of government revenue. The Malaysian government tax system is seen to revert to sales and service tax (SST) as compared to good and service tax (GST). This strategy is seen as part of government tax reform program to enhance the efficiency and effectiveness of the taxation system in Malaysia. The abolishment of GST as one of the promises make by Pakatan Harapan (PH) government. SST is not a new tax system for Malaysia since it has been implemented since 1970s and it was replaced with GST in 2015 under Dato Seri Najib administration. Therefore, this paper aim to discuss on both tax system which GST and SST and its political implication.

Keywords: Tax; sales and service tax (SST); good and service tax (GST)

1. Introduction

Taxation is a major source of government revenue. It is a process of a government claiming money from the general population for the purpose of using that money to run the country. In conventional economics, there are several types of taxation, such as income tax, sales and services tax, corporate income tax, goods and services tax also road tax. Practically, taxation is a mechanism to collect revenue for governments to meet their expenditures (Keynes, J.M., 1936). The main purpose of taxation is to accumulate funds for the functioning of the government and income redistribution. It is use to lessen inequalities in the distribution of income and wealth. Government will implemented through tax policy, monetary policy, debt management and government expenditure policy.

Malaysia is considered as developed nation where the government needs to implement tax reforms to make the existing tax system easier, transparent and more efficient. Malaysia's tax system has a narrow base due to the overwhelming dependence on income tax. Corporate tax rates in Malaysia have been recorded at 25 percent, higher than Singapore, 17 percent and Hong Kong, 16.5 percent. Compared to 34 developed countries, the ratio recorded by Malaysia is too low. The lowest ratio for developed countries is 26.8 percent (Kim-Hwa et al., 2013). As a result, the low tax revenue or GDP ratio for Malaysia shows that Malaysia is experiencing a shortfall in tax revenue to cover development expenditure. When government revenue is insufficient, the government's financial position will be deficit.

To accommodate the deficit, the government has to make a loan to finance development expenditure. Therefore, on October 25, 2013, Prime Minister of Malaysia, Dato Seri Najib Bin Tun Abdul Razak announced the budget for 2014 with the theme 'Strengthening Economic Resilience, Empowering Transformation and Implementing Promises'. There are five main thrusts in the 2014 Budget, which spans economic activities, strengthens fiscal management, manages human capital, intensifies urban and rural development and raises people's lives. Malaysia needs to implement Goods and Service Tax (GST) as practiced by most countries in the world. In some countries, it is also called Value Added Tax (VAT). The implementation of GST tax enables the government to lower individual and corporate income tax rates and make Malaysia more competitive in attracting foreign investment. At present, 146 countries have already implemented GST tax. The earliest country to implement GST tax is France in 1954 (Zhou et al., 2013).

The announcement for the implementation of GST tax in Malaysia was made during the 2005 Budget presentation which states that GST tax will be implemented in Malaysia on January 1, 2007 to replace the Sales and Service Tax (SST). However, the government has delayed the implementation of the GST tax to enable traders
to make changes to the computing system and provide training to their employees. On December 16, 2009, the GST tax bill was tabled in Parliament for First Reading. The law was supposed to be tabled for Second Reading but was postponed enabling the people's views to be taken into account. The GST tax method has many advantages over SST taxes. The implementation of GST tax will increase the amount of government revenue collection and thus enable more development projects to be implemented.

After the 14th General Election, the government of the day where the Ministry of Finance (MoF) announced that Sales and Service Tax (SST) will be implemented on 01 September 2018. It will be administered by the Royal Malaysian Customs Department (RMCD). Before the 6% GST that was implemented in 2015, Malaysia levied a Sales Tax and a Service Tax. The SST is a single stage of consumption tax while GST is a multi-stage of consumption tax on goods and services that were levied at every stage of the supply chain. The rates of SST stand at 10% (for sales tax) and 6% (for services tax) that charge on the final production and service only. Under the SST tax regime, the range of taxable items and exemptions is lesser if compared with the GST's tax regime. Unlike SST, the 6% GST applies equally on every stage of supply chain, from the supplier, manufacturer, whole seller and to the retailer. The range of exemptions and taxable items are much wider which means that all the goods and services are subject to GST. However, it’s exempted items such as essential goods, healthcare services, and public transport.

This paper aim to discuss on both tax system which GST and SST and its political implication in Malaysia. Leadership, courage and determination are imperative requirement for any tax reformation. The introduction of a board based consumption tax in the form of Goods Service Tax (GST) and the reintroduction of Sales and Service Tax (SST) signifies two major restructuring of tax collection system in the Malaysia.

2. Good and Service Tax (GST)

The International Monetary Fund (IMF) has been trying to push the adoption of GST by all countries worldwide. Direct tax has been seen as a diverter to hide “protectionism’ policy. For an example, high tariff were imposed on the imported motorcar which halt healthy competition among the producer of motorcars. So the population has been forced to purchase national car as the imported one become so expensive coupled with the high tariff and because of this national car are often in lower quality as they need not to compete with the established brand that is far more superior in the quality of the product.

Currently, the total population of Malaysia exceed 28 million which is doubled from the past 10 years. It is expected that by 2020, 12 % of the population will be in old age and the figure is also doubled. The current working workforce will be reduced which means the tax burden will be shifted to a smaller group of people. GST designed to address this problem by distributing the weightage of tax burden among larger segmentation of the population based on the consumption rate.

It is not a progressive tax. It is a flat at the determined rate and it is stagnant to the income level. Therefore GST will serve as a mechanism that will boost work incentive and encourage the enterprise as it is flat at one fixed rate. In Malaysia, GST is levied at the producer and distributor, therefore adopting a mechanism that is hard to be avoided or evaded. In the long term effect, the revenue loss resulted from tax evasion can be reduced to significant amount. The GST model that is implemented here is not supposed to be accumulative as the effect of the tax of the goods depends on the final value of the goods, not on the producer or distributors that the goods passes through. Supposedly there is no GST levied over GST (double taxation) as the output tax will be paid against the input tax.

In addition, in Malaysia there are three categories of GST where each category differs primarily in the rates and the methods of handling each tax. It is Standard Rate, Zero Rate and Exempted GST Rate (Lim Kim Hua, 2013). Firstly, standard-rated supplies are goods and services which are charged with the standard rate at 6%. Businesses collect GST and pay to the government. They can be reimbursed credit on their inputs provided their tax on input is greater than the tax on output. Secondly, zero-rated supplies are taxable goods and services which are charged with the zero rates. Businesses can claim input tax credit when they bring in these supplies, which will then be charged at zero rate. Thirdly, exempt supplies are non-taxable supplies which are eligible for tax relief, meaning they will not be charged with any GST. Certain goods and services are exempted from GST such as basic food items for example rice, sugar, salt, flour, cooking oil, lentils, herbs and spices, salted fish; utilities such as piped water supply and 1st 200 units of electricity per month for domestic consumers; services provided by government; transportation services like bus, train, LRT, taxi, ferry, boat, highway toll; education; health services; sale, purchase and rental of residential properties and selected financial services. Naturally, businesses
cannot claim input tax credit when they bring in these supplies. Besides, they are also not eligible to charge output tax to consumer (Lim Boon Poh et al., 2014).

GST is expected to serve as a stable source of revenue and consumption is based the demand and supply of the goods therefore least affected by the economic cycles as compared with the income tax that is very responsive to the economic condition for instance recession. In 2010, the government had cut its operating supply by 13%. This action indicated that the government is aware of the economic conditions at that time forcing the government to cut its spending due to the inadequate income. The depreciation of Malaysian currency which is the Ringgit worsening the situation and caused further inflation, therefore IMF urged the government to implement GST urgently.

Economic practitioner and tax experts expressed their concerned about distributional and economic impact because these two factor affect the overall economic performance of a country (Pechman, 2001). GST affecting the economy in different ways and the effect depending on the time of its implementation because it is argued that a short run creates a larger tax distortion than a long run (Carroll, Cline, Neubing, Diamond & Zodrow, 2010).

GST impacted big, medium and small enterprises (Sanusi, Omar, & Sanusi, 2015). During the early implementation, the RMCD officials said that the food outlet with the annual turnover exceeding RM3 million will only be charged to the GST, but truth is a lot of food premise that have smaller capital also charged GST to the customers. GST compliance requirements and thresholds are major problem in the GST implementation.

GST implementation is applicable to all level of supply chain with only very few necessities being exempted from the list of “Bakul Barangan” which the goods that fall under this list will be charged on the zero rate. Therefore it means that from the acquisition of the raw materials to all the way to the end user (customer ready), GST is charged to the every level. According to Von Halddenwang & Ivanya (2012), Malaysia was ranked among a low tax performing country based on Gross Domestic Product (GDP) last twelve years. Hence, the GST is the right call to address this matter.

The major objective for GST is to enhance transparency of the tax collection system. Tax shadow and tax evasion occur due to the misguided of the tax policy as well as weaknesses stem from the governance of the government (Prinz & Hokamp, 2015). Through GST Act 2014, it is an assessable tax regulation with the specific details on the rates and exempted goods procedures. Therefore it may constraints the wrongdoing by the officials. There should be a transparent linkage between the tax collections until the tax distribution to increase the compliance to the taxpayers however the government failed to show the public this linkages, in terms of how much allocation that they derived from the revenue to what specific expenditures (Everest-Phillips & Sandall, 2009).

3. Impact of GST on politic and social

Price inflation.

With the introduction of GST, even though in the mechanism proposed by the government enable the producer to reclaim the GST that they paid from the government, often the producer opted to shift the cost directly to the consumer since they claimed for the purpose of sustaining their own capital turnover. This is because they say that the process of doing so is complex and time consuming to their disadvantage. The end consumer therefore suffer double taxation cost since they paid the tax on the behalf of the producer as a well as on their own. This indirectly become a factor of a price hike accompanied by the irresponsibility of the seller and producer that simply increase the price without a proper reason.

The government alleviate the problem through creating a list of exempted goods and charging zero rate to those goods. For example staple food, basic health treatment and basic groceries. Even though these essential goods were not subjected to GST, but GST sparked the price rise. For instance when the fuel price increased to RM2.70, the price of other goods automatically increased. But when the fuel price decrease, the price of other affected commodities had never been recorded any substantial decrease at all. Furthermore, the overcharged by the supplier that adding GST over the existing price of the goods after sales tax is another troublesome problem in the implementation of GST. Therefore GST is argued to be the culprit of causing burden to the poor and economically vulnerable especially to those who receive financial assistance from the government as well as those who are in B40 income category. Those who do not pay income tax as their income is less than the taxable amount, with the scrapped of subsidies will result a heavier financial burden to the low income families. With GST, the things such as toys, processed food and so on can increase their cost of living.

The restructure of the subsidies creates dissatisfaction, tension and discomfort as the people who deserve the
subsidy be left out by the government when the government try to refine the distribution method of its resources to the citizen.

**Complexity of the system**

Contrary to its popular believe that GST is easy to administer GST is hard to be implemented unless with the allocation of massive cost, coupled with advance technology and electronic communication system. It means that the execution of GST is very expensive to both revenue authority and business sector. The mechanism of GST system, GST refund system might be an opportunity to the corruptions and unethical business to exploit weaknesses in the system. Indirect tax is regressive in nature especially for GST. This is because the tax is levied on a flat rate across all level of income including may item that the poor need to buy. The price inflation hit the poor the hardest.

**The power of civil servant**

Those who hold ministerial position is powerless to address, mitigate and curb the inflation. For instance, when the removal of a subsidy on white bread resulted in the price increase up to 30 cent per loaf. The Deputy of Domestic Trade, Cooperative and Consumer Affairs minister commented that price adjustment was unnecessary, urged the companies to practice their welfare policies (CSR) and urged the consumer to exercise the customer power. This kind of statement is useless against profiteering problem. The public wanted the government to concern about their social wellbeing, not giving un-smart statement like this.

4. **Sales and Service Tax (SST)**

Similar to GST, SST is another form of indirect taxation that is levied to the consumer upon the consumption of the goods or services. Before the GST establishment, Malaysia already implemented SST. Nevertheless, it is charged on a much selected services that are deemed to be non-necessity by the government. The SST rate are 5% for fruits, certain foodstuff and building material, 10% for general goods which includes motor vehicles, 20 to 25 % for sin tax (alcoholic beverages and cigarettes respectively). Under SST, 85 % of the businesses, especially small and medium enterprises, will be excluded from the tax net, while the annual sales range for eligibility to register for the sales tax will be increased to RM500,000.

The GST and SST in Malaysia each have benefits in different areas, meaning their economic benefits can be considered generally equal. The social and economic effects of the SST still need to be monitored more detail analysis since it is only a several months it is being implemented. The new Malaysia administration by Pakatan Harapan (PH) promised to abolish the GST as a political measure for their voters in the 14th general election. The PH Election Manifesto, released in March, listed five core elements through which the PH vowed to rebuild the country, to make it great again. The core elements of the manifesto was to reduce the people’s burden by abolishing the GST (Xirui, 2018).

SST is a single-stage tax, where the sales ad valorem tax is charged upon taxable goods manufactured and sold by a taxable person in Malaysia and taxable goods imported into Malaysia. Service tax is charged on taxable services provided in Malaysia and not on imported or exported services (Royal Malaysia Customs Department, 2018). In this context, the taxable persons are defined as manufacturers of taxable goods or providers of taxable services with annual turnover exceeding RM 500,000. A taxable person is also a person who provides taxable services such as hotel, insurance, club, gaming, telecommunication, legal, accounting, architectural, security, and others in the course of furtherance of business in Malaysia and is liable to be registered or is registered under the Service Tax Act 2018. Besides that, sales tax will be imposed at the rate of 5%, 10% or a specific rate for petroleum products and the service tax will be at the rate of 6%. Moreover, SST returns are required to be submitted on a bi-monthly basis to Royal Malaysian Customs Department. There are also certain goods and services are exempted from SST such as live animals, unprocessed food, vegetables, medicines, machinery, chemical and others. While manufacturing activities exempted from registration regardless of turnover are tailor, jeweller, optician, engraving, vanishing table top and others (Royal Malaysia Customs Department, 2018).

Implications in political aspect seems to have mixed views from multiple groups of people that involved in the implementations. From the views of the new administration’s Minister of Finance YB Lim Guan Eng, SST is a form of tax that is taxable on only 38% of the Consumer Price Index (CPI) which means that it is less than GST which taxable on 60% of the CPI. On the other hand, former UMNO Youth Chief, Khairy Jamaluddin stated that
the 6% GST rate will collect much lower revenue from the expected to be collected by SST (Ministry of Finance Malaysia, 2018). This is expected from both parties to defend their administration policies, taking with them the support of their voters that continued to express their dissatisfaction on the implementation of SST even the GST before. The people have spoken when the change of administration happen in 14th general election that Malaysian want to change GST to the former tax system which in their opinion is less burden. Malaysia Small and Medium Enterprises (SME) president Datuk Michael Kang also said that the implementation of the SST was likely to benefit and profit the industry players more than GST (Safini, 2018). For the common people the expectation is that the price of goods will be much cheaper than before, reducing their cost of living especially in big cities such as Kuala Lumpur, Johor Bharu and Penang (Nathan, 2018). So, from the view of several groups of Malaysian people the expectations are clear: a better tax system, cheaper goods and reduced cost of living. Some believed that the people spending power will increase while other do not believe so.

Bank Negara Malaysia projected the inflation of the country will be at 2% and 3% by the first half of the year with gross domestic product (GDP) increase by 5.4% in the first quarter 2018. With that, Bank Negara Malaysia also predict there will be a strong increase in private sector activity (Ruxana, 2018). With predictions like this on paper of course the SST will be the perfect tax system to rebuild the country after GST, however SST is not as it should be. The SST is still not enough to support the government. As projected before, SST will contribute RM 20 billion which less that GST’s RM 44 billion. Due to this issue the government need to squeeze from another sources of income such as the fuel price. The fuel RON 95 and diesel price is stabilise to ensure the fixed revenue to the government despite the international market change (Zainoodin, et al., 2018). Because of this some Malaysian people condemn the new government for the fact that one of their manifesto is to reduce the fuel price, which one of the biggest concern in the country. Politically this issue had been played by the opposition parties to gain more support in their own fight against the new government.

5. The reverting of SST from GST

The implementation of GST was argued not to result in an unpredictable economic situation, in fact thru the collection of GST has guarantee a stable type of revenue collection (Maslan, 2014). Malaysia has been trapped on budget deficit for more than a decade, in 2009, it accounted for 7% of the GDP but it was reduced to 3% of the GDP by 2015. Indirect tax cover a boarder population unlike direct tax that depended on fixed income earners and the switch to indirect tax automatically widen the tax base and minimize the dependency on employment especially for countries that facing aging population (Bond & Hughes, 2013). Hussain (2014) argued that the introduction of GST is not to increase the tax base of Malaysia, rather as a mechanism of addressing the weaknesses of SST. In ETP Annual Report (2012) the implementation of GST was necessary on two major reasons which are to reduce the dependency on income tax and on petroleum revenue in order to stimulate the people’s income and corporate profits by lowering both rates (Ismail, 2014). The introduction of GST was also with the aim of addressing the 30% of shadow economy in Malaysia which represent substantial potential revenue for the government as they registered for their business (Ismail, 2014). The GST mechanism consisted of three component which are standard-rated, zero-rated and exemptions to mitigate and cushioning the impact of GST on the vulnerable group (Faizalnudin, 2012). Indirect tax is more burdensome to the people as it is regressive in nature and it took a larger percentage from the low income than from the high income people as the tax is applied equally (Saira, 2010). The tax incidence of the low income people increases as they have lesser ability to pay which indicated that there is an inverse relationship between the rate and the payer’s ability to pay as being measured against consumption, assets and income. (Ahmad, 2010). Indirect tax would unfairly penalized the poor (Caspersen & Metcal, 1995) and this is a major concerned to the policy makers (Ahmad, 2014). According to Juliana, Yusoff and Muhammad (2016), the lower income group spent 15% more than the rich in the percentage of consumption against income, hence the amount of they would be taxed higher than the rich would have to pay. On the other hand, Ismail (2014) argued that the zero rated and exemption mechanism adopted by the government ultimately directed to the progressive taxation as the lower income household spent 70% of their income on basic essentials and most of these items falls under this categories. A study by Penang Institute in 2013 alarmed the B40 group sustained the hardest hit from GST implementation since they paid GST but did not receive assistance from BRIM. Nevertheless they enjoyed cash-handout form the income tax reduction (Lim, 2013). Centre for Public Policy Studies (CPPSP) concluded that at least 60% of the household shift their purchased on the cheapest goods and services if their income stagnant but the price inflate. Lower income group are very sensitive to the price inflation since they spend most of their earning on consumption but very limited or nil on savings. However, those
with the income of exceeding RM5K monthly could cope with the price increase. Despite all of this arguments, GST failed to serve as a good mechanism which caused the public outrage and the falls of the Barisan National reign for over 60 years. The new government, Pakatan Harapan in one of its manifestoes promised GST would be scrapped if they won the last general election. GST was substituted with SST.

6. Conclusion

As conclusion, the implementation of GST in 2015 is still new in terms of implementation with only 3 years of the process and it’s still being improved in every aspect of their implementations. However, since rakyat keep on blaming and feel burden with the implementation of the GST, the Pakatan Harapan government come into the picture and give hopes to the citizen by abolished the GST and come with an idea to introduces back the SST. However, the new government need time to adjust to the new tax system. Time is needed for the new administration and the people of the country to carefully implement it and at the same time improve it according to the situations. The GST have left its mark in the Malaysian tax system that need to be assimilated by the new tax system so no former mistakes and confusion that burdened the people will happen again.

7. References


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