Technical Group Discussion

Malaysia GST – Get Set, Tax!

25 February 2014, Tuesday

Participants engrossed in Accredited Tax Advisor Robin Chia's presentation on preparing for Malaysia's GST implementation in April 2015.

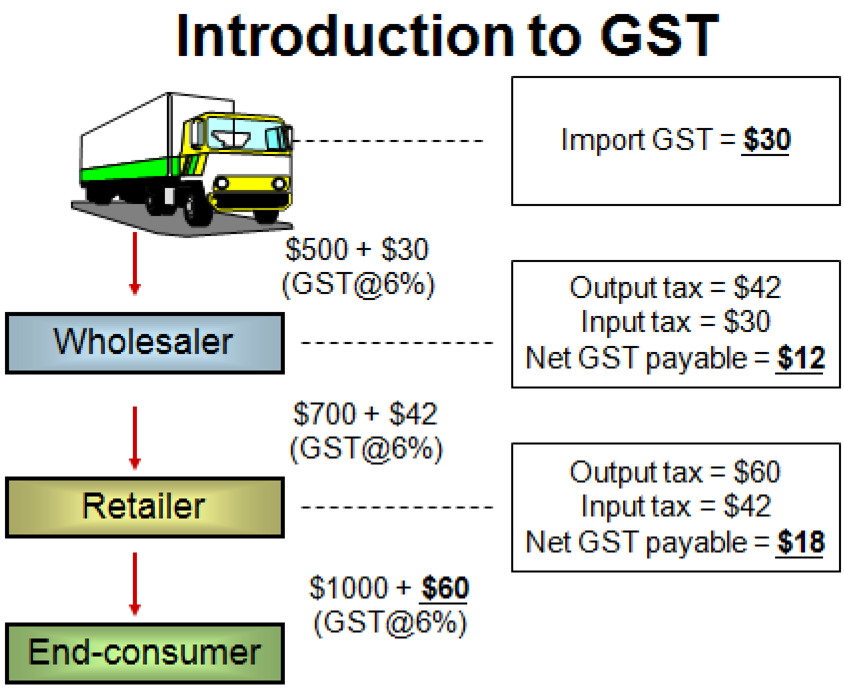
A 6% Goods and Services Tax (GST) will be rolled out in Malaysia from 1 April 2015. To be administered by the Royal Malaysian Customs, the tax follows an announcement by Malaysia's Prime Minister Datuk Seri Najib Razak on 25 October 2013.

Accredited Tax Advisor *(Income Tax & GST)* Robin Chia, Executive Director for GST, Training and Corporate Advisor at Tricor Malaysia, and Managing Proprietor at Robin Chia & Co, was in town to equip tax professionals with the right tools to embrace this implementation and gain a head start in this new arena.

Overview of the GST framework in Malaysia

Currently, Malaysia remains one of the remaining three countries in Southeast Asia that is not operating under a GST regime; the other two being Brunei and Myanmar. This will change from 1 April 2015 onwards when GST will be introduced into the Malaysian tax framework at a rate of 6%

GST in Malaysia will replace the existing sales tax and service tax regimes in Malaysia. It operates as a broad-based consumption tax which will be imposed at every stage of a supply chain. It is essentially a multi-stage value-added consumption tax payable by all intermediaries in the production and distribution chain (that is, it is transaction-based) though the tax burden will still be ultimately borne by the consumer. This is a tax on domestic consumption and not on profit.



GST will be charged on all goods and services including imports, except for certain goods and services. Table 1 illustrates the various types of supplies and their GST treatment:

TABLE 1
GST Treatment on Various Types of Supplies

TAXABLE SUPPLIES	**NON-TAXABLE SUPPLIES**
1. Standard-rated Supply (6%) (goods and services which are subjected to Malaysia GST) • Local sales of goods and services • Sales of capital assets • Imports of goods • Imports of services (reverse charge)	**1. Exempt Supply** (goods and services which are excluded from Malaysia GST) • Sale and lease of residential properties • Financial services • Domestic transport and toll fees • Private health and education
2. Zero-rated Supply (0%) (exported goods and international services where Malaysia GST applies but at 0%) • Export of goods • International services • Foodstuff and livestock • Electricity (first 200 units) • Water through pipeline • Agricultural products	**2. Out-of-scope Supply** (goods and services not within the confines of Malaysia GST framework) • Third country sales • Private transaction • GST special schemes • Government services • Transfer of going concern

However, most supplies of goods or services made within or between Labuan, Langkawi and Tioman are not subject to Malaysia GST.

GST registration

Businesses with annual value of taxable supplies exceeding RM500,000 are required to register for GST. There are two methods, namely historical and future, to determine the liability to register for GST.

For the historical method, liability is calculated based on value of taxable supplies at the end of any month and the preceding 11 months. For the future method, liability is determined based on the value of taxable supplies in the next 12 months.

Businesses that are liable for GST registration are required to be registered by 31 December 2014, as stated in the GST Bill. Businesses that fail to register shall be liable to a fine not exceeding RM50,000 or imprisonment for a term not exceeding three years or both.

Businesses with annual taxable supplies of less than RM500,000 can choose to voluntarily register for GST. However, such businesses are required to stay registered for at least two years.

Prescribed accounting period

Businesses registered for GST will file GST returns either monthly or quarterly, depending on their annual sales. Businesses with annual sales of or exceeding RM5 million are required to file monthly GST returns while those with annual sales of less than RM5 million will file quarterly GST returns..

Reverse charge mechanism

One of the most significant differences between Singapore and Malaysia GST other than the zero-rated and exempted supplies of certain goods and services is probably the introduction of a reverse charge mechanism in Malaysia.

Reverse charge mechanism refers to the application of GST on “imported services”. ”Imported services” refer to services supplied by a supplier outside Malaysia to a GST-registered recipient in Malaysia who consumes these services in Malaysia.

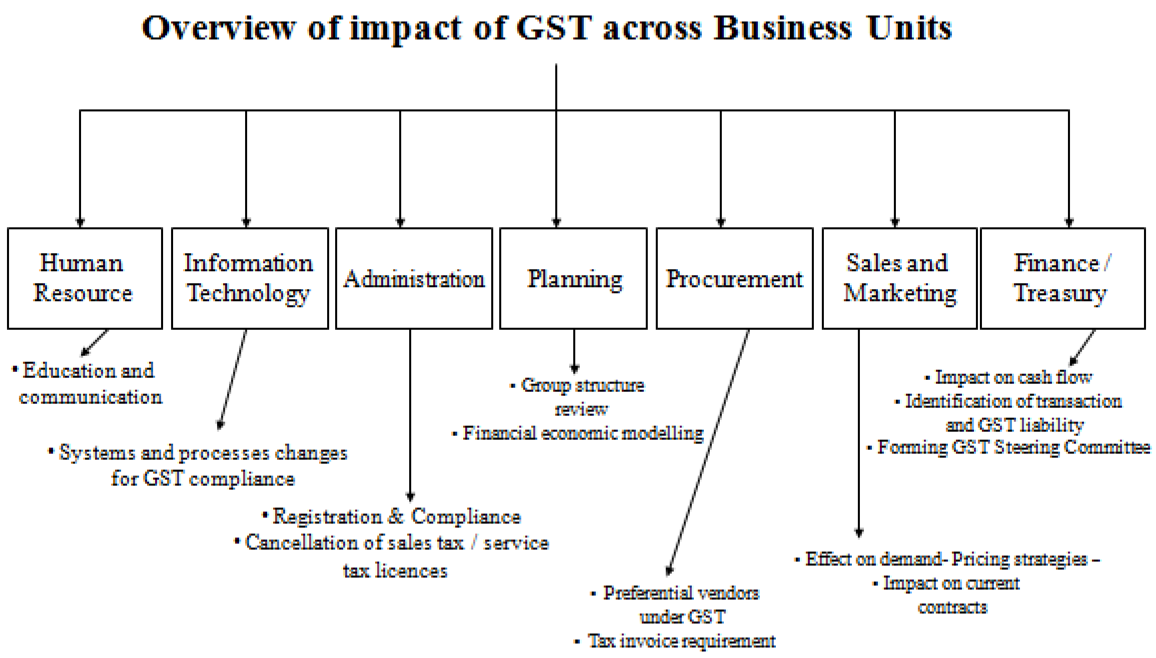
Under this mechanism, the recipient of the imported services will be deemed to have made and received the supply and thus will be required to account for GST on the value of these imported services in the GST returns. This means that a GST-registered business that received the imported services from an overseas party (for example, Singapore company) will need to account for 6% GST (that is, output tax) when making payment for the said services.

Although Singapore has a provision for the reverse charge mechanism in the GST Act, it remains dormant. Hence, such services will fall outside the scope of Singapore GST if they are provided by an overseas supplier who is not registered for GST in Singapore, and consequently the GST-registered recipient of the services in Singapore will not be required to account for any output GST on the “importation” of the services from outside Singapore.

Transitional Issues

The introduction of GST in Malaysia has a significant impact on businesses. Businesses should review their processes and supply chains to identify the incidence of GST at each stage of the supply chain; review their contracts and trading terms to manage this transition, and ensure appropriate systems and documentation are in place to account for and ensure GST compliance.

Fig 1: An illustration of the across-the-board impact of GST on a business.



It is also critical that businesses ensure all employees are attuned to the GST requirements and equipped to prepare the GST returns correctly for accurate GST reporting.

Systems adaptation to point-of-sales, invoicing and accounting systems to account for 6% GST requires time, proper planning and coordination with IT vendors or in-house IT support group to ensure smooth transition to the new tax system. Businesses also need to ensure that they invest in government-approved accounting systems.

Processes and internal controls need to be reviewed to ensure that GST returns are accurately and correctly prepared with adequate supporting documentation. This is even more critical if staff turnover is high. Maximum compliance with the GST legislation will prevent unnecessary costs to businesses as varying penalties may be meted out for non-compliance. As such, businesses should consider setting up a GST Steering Committee to ensure smooth implementation and prevent negative repercussion as result of inadequate planning

To minimise unnecessary tax or cash flow impacts of businesses, the following are some areas that businesses may wish to review:

- Bring forward purchases with blocked input tax credit;
- Manage cash flow effectively (consider interval between GST incurred and GST recovered);
- Manage potential surge in demand for goods and services closer to the implementation date;
- Timing of purchases (inventory, capital expenditure, etc);
- Staff claims on reimbursement basis should be made timely.

Businesses will need to effectively pass on to customers the applicable GST to avoid incurring additional costs. As such, businesses should assess their business contracts to determine if any contract restricts the business from charging GST to customers and whether supplies can be zero-rated under the transitional rules during the transition period.

In view of the above, the government has also granted the following measures to aid businesses during this transition period:

- Cost of purchasing ICT equipment and software is given accelerated capital allowance until YA2016;
- Expenses for training in Accounting and ICT relating to GST will be given further deduction for YA2014 and YA2015;
- Training grant of RM100 million will be provided to business associations to send their members and employees for GST training in years 2013 and 2014;

- Financial assistance amounting to RM150 million will be provided to small and medium-sized enterprises for the purchase of approved accounting software in years 2014 and 2015, such as the one developed by Mr Chia, which is approved by the Royal Malaysian Customs.

Businesses would be in a better position to manage this transition and ensure appropriate channels are in place to resolve the uncertainties which will invariably arise with the introduction of a new tax as soon as the Malaysian government releases the GST laws and regulations. There will no doubt be numerous questions and issues surrounding the initial implementation of GST, but in the midst of these uncertainties, one thing is certain, all businesses must be GST-ready by 1 April 2015.

A big thank you to Robin for sharing his valuable tax knowledge!

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About SIATP's Technical Discussions
SIATP's technical discussions have continually been very well received by accredited tax professionals. Unlike the run-of-mill Continuing Professional Educational courses which typically cover tax fundamentals, SIATP's interactive technical discussions are designed to cover tax issues that do not have clear-cut solutions or situations that may have different interpretations. Over time, these discussions contribute in boosting the overall tax standards in Singapore.

About Mr Robin Chia

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Donning numerous professional hats, Robin's business activities include auditing, accounting, taxation, information technology, risk management and business consultancy with business associates in Malaysia, Hong Kong, Taiwan and China. An audit and financial committee chairman for non-profit organizations for many years, Robin is also a financial consultant to a government.

Robin has done intensive research on Goods and Services Tax, Corporate Tax, Internal Controls, Corporate Fraud and conducted numerous external training, seminars and workshops since 1996. Robin receives frequent invitation to lecture at government and other institutions in Singapore, Malaysia, China, Hong Kong and Vietnam and is a regular speaker with local and overseas professional bodies.

Robin is currently an Adjunct Professor with Sun Yat-Sen University, National Huaqiao University, Shandong Electric Power International School, Nanjing University of Information, Science and Technology, Nanjing Forestry University and Nanjing Audit University.

This technical event commentary is written by SIATP's Tax Manager, Ms Eileen Goh. With over six years of experience in both corporate and GST accumulated from mid-tier consultancy, Big Four and multi-national corporation background, she now champions various initiatives of Singapore's first dedicated professional body for tax specialists, to enhance Singapore's position as a centre of tax excellence.