

Memorandum

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**Prime Minister cum Finance Minister
Y.A.B. Dato' Sri Najib bin Tun Abdul Razak**

on the Goods and Service Tax Bill (GST bill)

Date: 15 January 2010

Proposed by:

**Parti Gerakan Rakyat Malaysia and
(PGRM Central Bureau on Economic Development)**

Memorandum to the Prime Minister cum Finance Minister**Y.A.B. Dato' Sri Najib bin Tun Abdul Razak****On the Goods and Service Tax Bill (GST bill)****Proposed by****Parti Gerakan Rakyat Malaysia and****(PGRM Central Bureau on Economic Development)****Y.A.B. Dato' Sri Najib bin Tun Abdul Razak,****(A) BACKGROUND**

1. The goods and services tax (GST), which is described as “consumption tax”, is levied on transactions at all stages of productions of goods and services but ultimately paid for by the end consumer.
2. The Malaysian government made an announcement in Budget 2005 that it would implement GST in 2007. However, this did not materialize, as the government decided to shelve the idea temporarily in the wake of public outcry amid rising price, until now.
3. The proposal comes as the government is trying to reduce the federal budget deficit, currently at 7.6% of GDP, and grow revenue by widening its tax base.
4. The GST is also aimed at reducing the government's dependence on revenues from state oil company Petronas which accounts for over 40% of the government's revenues.
5. Malaysia, along with Hong Kong, is one of the few countries that have put off implementing the GST while countries such as Canada, Australia, New Zealand and Singapore have long had a form of GST in place.

6. Countries that have implemented GST, for example Australia, tend to see tax revenues go up significantly. There tends to be a higher rate of compliance and less evasion compared with income tax.
7. After the imposition of the GST, the government will be able to reduce corporate tax and personal income tax. Singapore lowered the corporate and income taxes after introducing the GST in the first year.
8. The proposed GST would replace the current sales and service tax and any implementation of GST would be done “very gently” with a rate that would not burden the poor or middle-class Malaysians nor increase inflation. Second Finance Minister, Ahmad Husni Handzlah said the government planned to impose **GST at 4%**.
9. The proposed GST bill will be tabled for a first reading on 16/12/2009 before the current sitting of Dewan Rakyat ends in mid-December and engage the public in order to fine-tune the proposal. The GST is scheduled to come into force in **July, 2011**.

(B) CRITICISM

1. GST is a politically sensitive piece of legislation, as it is expected to spread the tax burden more evenly across the population as only an estimated one-tenth of workers are currently paying income tax (only three million people pay income tax).
2. Others have criticized the proposal saying that the government should first address revenue leakages and wastage before introducing new taxes to boost its income.
3. Based on the government’s relatively poor efficiency, there is a concern that the imposition of the GST may mean red tape to business owners.
4. Another course of concern is the GST may lead to inflation.

5. Some argued that the introduction of GST must take place hand in hand with the national minimum wage policy to ease the burden of the lower income group.
6. Many have expressed concerns over potential abuse (prices may be arbitrary raised to absorb costs) and inadequate compliance especially in small towns (a lot of documentation and enforcement is required)
7. DAP's Tony Pua argued that the government must find ways to raise the productivity and not to introduce the GST to burden the people.

(B) PROPOSED MEASURES BY GERAKAN

1. To ease the transition, Malaysia should start with a low GST of 3% (though the GST bill proposes 4%) before gradually increasing it over time. The government should also consider giving tax credits to eligible citizens to help them cope with the additional cost like in Singapore.
2. In Singapore, it allows GST exemption for housing buying and selling. In Malaysia context, it may badly affect the property market, if the people still have to pay for the GST after paying the 5% RPGT imposed on gains starting next year
3. The government should exempt or impose a tax rate of zero on essentials such as basic necessities. In Malaysia context, this should necessary include government-subsidized sugar, flour, petrol, cooking oil and other price-controlled items. Like Canada, housing rent and medical services are another two items that should be considered for exemption for obvious reasons.
4. The government should also consider granting exemption for Cars as the government has already imposed a 100% car import duty.

5. As the GST is a politically sensitive piece of legislation, the government must take pains to educate the public on the GST as well as to counter the opposition's campaign against the GST. The Singapore government spent millions on publicity campaign and education programmes, while the Australian government allocated A\$500 million to help small businesses understand and prepare for the tax.

6. The government should also look into the timing of the official introduction of the GST. If the timing is not right it could have serious repercussion on the economy. For example, when the GST was first introduced in Australia in 2000, people rushed to the supermarket to purchase goods in which they perceived to be more expensive after implementation. As a result, discretionary spending decreased immediately after GST implementation to the point that during the first fiscal quarter of 2001, the Australian economy recorded negative growth for the first time in more than 10 years.

7. The Government should address the concerns of the manufacturers and small and medium businesses (SMBs) by putting in place a more efficient and transparent tax collection mechanism. This is crucial to minimize the possible complaints of “efficiency of refunds” which would impact exporters in particular as well as the SMBs’ fear of higher compliance costs.

(D) CONCLUSION

1. Gerakan fully acknowledges and understands the need and rationale as well as the challenges of introducing the GST at this moment in time. The burden is now on the government to undertake aggressive and effective national roadshows to educate, explain and promote the GST.
2. More importantly, Gerakan believes to convince and win over the people's support over the introduction of GST, the government must ensure two things:
 - (a) Put in place a more simplified, efficient and transparent tax collection mechanism; and
 - (b) Stop revenue leakages and wastage by spending the GST collection on improving the Malaysian transportation, education and healthcare system.
3. It is with that in mind that, Gerakan made the above proposals for the kind consideration of YAB Prime Minister cum Finance Minister.

Thank You.

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