The information presented in the slides aim to provide a better understanding of SST treatment and is not intended to address all possible SST issues. The information is correct as at the date of presentation. While all effort has been made to ensure that this information is consistent with the prevailing law and procedures, should there be any changes, RMCD reserves the rights to vary our position accordingly.
GST vs SST2.0
# GST vs SST2.0
Malaysian consumption tax in a nutshell

<table>
<thead>
<tr>
<th></th>
<th>GST</th>
<th>SST2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>System</strong></td>
<td>GST</td>
<td>SST2.0</td>
</tr>
<tr>
<td><strong>Year of introduction</strong></td>
<td>1 April 2015</td>
<td>1 September 2018</td>
</tr>
</tbody>
</table>
| **Replacing**        | Sales Tax 1972  
Service Tax 1975 | Goods and Services Tax 2014 |
| **Scope of charge**  | • supplies of goods & services;  
• importation | • sale of manufactured taxable goods;  
• importation  
• Selected taxable services in Malaysia  
• Imported taxable service |
| **Rate**             | • Standard rate  
• Zero rate  
• exempt supply | • 5%, 10%;  
• specific rate *(Petroleum)* | • 6%;  
• RM25 *(Credit card)* |
| **Facilities**       | • *input tax credit*;  
• *tax relief*  
• *various schemes* | • exemption on raw materials, packaging materials & component | • adjustment of CN & DN  
• deduction of refunded tax  
• B2B Exemption for Professional service |
| **Threshold**        | RM500,000 | RM 500,000  
RM 1.5M *(F&B)*  
RM 500,000 *(Others)*  
In business *(Customs agent)* |
Summary of GST Mechanism

**Standard Rate**
- Manufacturer - Claims back GST
- Wholesaler - Claims back GST
- Retailer/Dealer - Claims back GST
- GST paid is 6%

**Zero Rate**
- Manufacturer - Claims back GST
- Wholesaler - Claims back GST
- Retailer/Dealer - Claims back GST
- GST paid is 0%

**Exempt**
- Wholesaler - Claims back GST
- Retailer/Dealer - Can not claim back GST
- No GST is payable
SCOPE & METHODOLOGY OF SST

SALE TAX

1. **TAX SYSTEM**: Single Stage Tax
2. **THRESHOLD**: RM500,000
3. **CHARGE & LEVIED ON TAXABLE GOODS**:
   - Manufacturing
   - Importation
4. **TAXABLE PERIOD**: bi monthly
HOW SALES TAX WORKS?

Manufacturer ➔ Wholesaler ➔ Retailer ➔ Consumer

Govt collects tax at the manufacturer’s level only

Element of sales tax embedded in the price paid by consumer
SCOPE & METHODOLOGY OF SST

SERVICE TAX

- **TAX SYSTEM**: Single Stage Tax
- **THRESHOLD**: RM500,000
- **TAXABLE SERVICE**: PRESCRIBED
- **TAXABLE PERIOD**: bi monthly
HOW SERVICE TAX WORKS?

Government collects tax ONCE (at the start)

Service Tax

Government collects tax ONCE (at the start)
### GST vs SST 2018

**Application**

<table>
<thead>
<tr>
<th>GSTA2014</th>
<th>SST 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax on <strong>supply</strong></td>
<td>• Tax on <strong>business transaction</strong></td>
</tr>
<tr>
<td>• Anything done for consideration</td>
<td></td>
</tr>
<tr>
<td>• <strong>Scope of taxation:</strong> supply made in Malaysia</td>
<td>• <strong>Scope of taxation:</strong></td>
</tr>
<tr>
<td>• Where the supplier belongs</td>
<td>✓ Taxable goods manufactured / imported goods</td>
</tr>
<tr>
<td>• <strong>Charging of tax:</strong> at the time of supply</td>
<td>✓ service provided in Malaysia / imported taxable service</td>
</tr>
<tr>
<td>• Payment / invoiced / service performed</td>
<td>• <strong>Charging of tax:</strong></td>
</tr>
<tr>
<td></td>
<td>✓ Transfer of properties of goods</td>
</tr>
<tr>
<td></td>
<td>✓ when service is provided</td>
</tr>
</tbody>
</table>
GSTA2014 | SST 2.0
--- | ---
| **Consideration of supply is inclusive of tax** | • **Tax on the**
- Value of manufactured goods sold / customs value of imported goods
- Actual value of service provided

| • Tax is due (to be accounted) at the time of supply | • Tax is due (to be accounted)
- **Goods**: when goods removed / point of importation
- **Service**: when payment is received for the service provided
GST STRUCTURE

• Rate = 6% (one single rate)
• Threshold = RM500,000 (for all types of businesses)

• Zero-rated supplies
  - Foodstuff
  - Agriculture products
  - Livestock
  - Poultry & eggs
  - Seafood
  - Supply of the first 300 units of electricity for domestic use
  - Supply of treated water for domestic use
  - Exported goods and services

• Exempt supplies
  - Land for general use
  - Agriculture land
  - Residential property
  - Highway toll
  - Funeral, burial or cremation
  - Private health & education services / child care
  - Rights to use Land
  - Financial services
  - Public transport (land & water mode)
SALES TAX 2018: Taxable Goods

- **Taxable goods** means goods of a class or kind **not exempted from sales tax**
- Examples of taxable goods ---

### Processed Foods
- Biscuits
- Fruit juice
- Dry noodle
- Processed meat or fish
- Butter, margarine
- Jams

### Foods & drinks
- Fizzy drinks (Coke, 100+)
- Chocolate
- Ice cream

### Petroleum products
- Eg: Tariff code 27.10 of RON 97 and above

### Furniture
- Sofa
- Mattress

### Personal items
- Shampoo
- Toothpaste
- Shower gel

### Electrical appliances
- Washing machine
- Television
- Electronic device
- Smart phones
- Computer devices
- Printer

### Tourist favorites
- Watches
- Cameras
- Spectacles

### Other
- Engine oil for vehicle
- Brake fluid
- Tobacco products
# Goods Exempted From Sale Tax

## Eg of Exempted GOODS:

<table>
<thead>
<tr>
<th>Live animals</th>
<th>Food items</th>
<th>Machinery</th>
<th>Personal items</th>
<th>General goods</th>
<th>Health</th>
<th>Vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horses</td>
<td>Rice</td>
<td>Vending machine</td>
<td>Pampers</td>
<td>Newspaper</td>
<td>Medicine</td>
<td>Motorcycle below 250cc</td>
</tr>
<tr>
<td>Fish</td>
<td>Beef, mutton and chicken</td>
<td>Escalator</td>
<td>Deodorant</td>
<td>Books</td>
<td>Vitamin</td>
<td>Bicycle</td>
</tr>
<tr>
<td>Sheep &amp; goats</td>
<td>Seafood</td>
<td>Industrial machine</td>
<td></td>
<td>Wheelchair</td>
<td>Hearing aids</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fruits &amp; Vegetables</td>
<td></td>
<td></td>
<td></td>
<td>Pacemaker</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sardine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cooking oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coffee</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bread</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Please refer** *Sales Tax (Goods Exempted From Tax) Order 2018 [P.U.(A)219/2018]* **for the gazetted goods**
IMPOSITION OF SERVICE TAX

TAXABLE PERSON

PRESCRIBED TAXABLE SERVICES
First Schedule, Service Tax Regulations 2018  [P.U.(A)214/2018]
GST vs SST2.0
### Bilangan Pendaftaran GST Mengikut Negeri

<table>
<thead>
<tr>
<th>BIL</th>
<th>NEGERI</th>
<th>JUMLAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>WPKL</td>
<td>98,533</td>
</tr>
<tr>
<td>2</td>
<td>SELANGOR</td>
<td>90,463</td>
</tr>
<tr>
<td>3</td>
<td>JOHOR</td>
<td>61,765</td>
</tr>
<tr>
<td>4</td>
<td>PULAU PINANG</td>
<td>33,848</td>
</tr>
<tr>
<td>5</td>
<td>PERAK</td>
<td>31,651</td>
</tr>
<tr>
<td>6</td>
<td>SARAWAK</td>
<td>31,381</td>
</tr>
<tr>
<td>7</td>
<td>SABAH</td>
<td>24,552</td>
</tr>
<tr>
<td>8</td>
<td>KLINIA</td>
<td>24,120</td>
</tr>
<tr>
<td>9</td>
<td>PAHANG</td>
<td>16,499</td>
</tr>
<tr>
<td>10</td>
<td>KEDAH</td>
<td>15,754</td>
</tr>
<tr>
<td>11</td>
<td>NEGERI SEMBILAN</td>
<td>14,475</td>
</tr>
<tr>
<td>12</td>
<td>MELAKA</td>
<td>12,640</td>
</tr>
<tr>
<td>13</td>
<td>KELANTAN</td>
<td>8,583</td>
</tr>
<tr>
<td>14</td>
<td>TERENGGANU</td>
<td>7,773</td>
</tr>
<tr>
<td>15</td>
<td>PERLIS</td>
<td>1,844</td>
</tr>
<tr>
<td>16</td>
<td>LABUAN</td>
<td>530</td>
</tr>
</tbody>
</table>

**JUMLAH:** 476,348

### Jenis Hasil Pungutan (RM Bilion)

<table>
<thead>
<tr>
<th>Jenis Hasil</th>
<th>Pungutan (RM Bilion) 2017</th>
<th>Pungutan (RM Bilion) 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GST TEMPATAN</td>
<td>44.137</td>
<td>26.529</td>
</tr>
<tr>
<td>GST IMPORT</td>
<td>22.952</td>
<td>10.126</td>
</tr>
<tr>
<td>JUMLAH (KASAR)</td>
<td>67.089</td>
<td>36.655</td>
</tr>
<tr>
<td>PINDAHAN HASIL</td>
<td>22.800</td>
<td>16.400</td>
</tr>
<tr>
<td>JUMLAH (BERSIH)</td>
<td>44.289</td>
<td>20.255</td>
</tr>
</tbody>
</table>

**Orang Berdaftar:** 69,293
**RM 4,883,887,017.75**
Rationalization

• The rationale to introduce the GST is to
  ➢ Modernize and reform the tax system
  ➢ Overcome the inefficiency of the indirect tax system
  ➢ Curbing excessive profiteering with the transparent GST pricing mechanism and would benefit consumers
  ➢ Boost the Government revenue and help to plug leakages
  ➢ Achieve our vision to become high income developed nation by 2020
Why GST?

**More Effective, Efficient and business-friendly**
- Increase savings and investment
- Self policing system/ Increase Tax Compliance
- Less bureaucracy / less red tape
- Transparent / Cross checking elements

**Weaknesses in Sales and Service Tax**
- Double Taxation / Tax Cascading
- Transfer Pricing
- No Tax Relief On Exports / Tax embedded
- Pyramiding effect / vertical integration

**More Stable Source of Revenue**
- Reduce dependence on income tax/direct tax (>50% of revenue)
- Petroleum revenue
- Less affected by the economic downturn

**Shadow Economy**
- Motivation to register GST with incentive for traders and able to claim GST inputs
- Size in Malaysia is quite big (30%)

**Not only the locals have to pay tax**
- Tourist and foreigner also have to pay GST

**Why GST?**
Sales Tax Weakness → Cascading Tax

10% Sales Tax

**MANUFACTURER**:
Cost RM100 + 10% tax (RM10) = RM110

**WHOLESALER**:
Purchase cost (RM110) + 20% profit margin (RM22) = RM132

**RETAILER**:
Purchase cost (RM132) + 30% profit margin (RM39.60) = RM171.60

**CONSUMER**:
*Final price RM171.60 (Pay Hidden Tax)

- Tax collected by government: RM10.00
- Tax collected by government: RM0.00
- Hidden tax: RM2.00 (RM10x20%)
- Tax collected by government: RM0.00
- Hidden tax: RM3.60 (RM12x30%)

* Tax has increase to RM15.60 (10 + 2 + 3.60)

Total loss/tax not collected = RM15.60 - RM10.00 = RM5.60

Immoral Business “free ride”
GST is no loss on revenue

MANUFACTURER:
- Cost RM100
- GST = RM6

WHOLESALER:
- Cost (RM100) + 20% profit margin (RM20) = RM120
- GST = RM7.20

RETAILER:
- Purchase price (RM120) + 30% profit margin (RM36) = RM156
- GST = RM9.36

CONSUMER:
- Final price: RM165.36 + GST 6% (No hidden Tax Paid)

Tax collected by government:
- RM6.00
- RM1.20 (RM7.20 – RM6)
- RM2.16 (RM9.36 – RM7.20)

Total GST collected = RM9.36
Total lost / tax not collected = RM 0

Consumer save payment on hidden tax = RM 6.24 (RM171.60 - RM165.36)
Cascading Effect (Service Tax)

- Telecommunication services (RM1,000)
  - Price: charge + 6% CP = RM1,000 + RM60 = RM1,060
- Legal Service (RM6,000)
  - Price: charge + 6% CP = RM6,000 + RM360 = RM6,360
- Architect services (RM22,580)
  - Charge: RM30,000 (RM22,580 + RM1,060 + RM6,360)
  - ST: RM30,000 x 6% = RM1,800
  - Consumer pay: RM31,800 (RM30,000 + RM1,800.00)

Total tax paid = RM2,220 (RM1,800 + RM60 + RM360) (Hidden Tax)

No cascading effect (GST)

- Telecommunication services (RM1,000)
  - Price: charge + 6% GST = RM1,000 + RM60 = RM1,060
- Legal Services (RM6,000)
  - Price: charge + 6% GST = RM6,000 + RM360 = RM6,360
- Architect services (RM22,580)
  - Charge: RM29,580 (RM22,580 + RM1,060 + RM6,360)
  - GST: RM29,580.00 x 6% = RM1,774.80
  - Consumer pay: RM31,354.80 (RM29,580 + RM1,774.80)

Consumer pay = RM31,354.80

Total GST paid = RM1,774.80

SAVE RM445.20

*No cascading effect (GST)
**FOR SURE**

- With or without tax, price will increase
- With SST 2.0
  - Tax is cost to business
  - Business will pass tax burden to consumer
- SST 2.0 not a new tax
  - GST (6%) [2015 – 2018]
  - SST 1.0 (5, 6, 10%) [1972 – 2015]
- SST 2.0 structure based on SST 1.0
  - Not business friendly
  - Inherent weakness
  - Tax avoidance
  - Non compliance
TAX SYSTEM

• SST 2.0 is **NOT** transparent, fair and less effective

• Non compliance by business

• Increase of tax leakages

• Not in tandem to GDP growth

BUSINESS

• Bureaucracy

• Unfairness / non compliance

• Increase of business cost

CONSUMER

• Tax embedded in price

• Price increase
Questions?
End of presentation

Thank You