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New SST vs GST: What's the difference?

14 August 2018

Key messages

SST 2.0 the comeback kid

- SST will be reintroduced on 1 September 2018 to replace GST
- Proposed sales tax (10%, 5% and a specific rate for petroleum) and 6% for service tax
- Taxable threshold set at annual revenue of RM500,000 (except for eateries and restaurants at RM1 million)

Refined version of SST in terms of scope and coverage

- Single-stage tax is levied on manufacturers and importers
- Narrower compared to GST though slightly wider than old SST
- Mixed reactions for consumers and businesses
- Shortfall of budget revenue collection of RM23 billion

Smooth transition and implementation of SST is the key

- Continuous stakeholders' consultations on the technical and compliance aspects of SST during the transitional period
- Dissemination of price information and enhance consumer awareness
- Step up price surveillance and enforcement of unreasonable price increases

Why Sales Tax and Service Tax (SST) making a comeback?

- The abolishment of GST and be replaced with SST is an election promise of Pakatan Harapan manifesto. **It was claimed that GST is a regressive broad-based consumption tax** that has burdened on the low- and middle-income households amid rising cost of living. In addition, its multi-stage tax levied also caused cascading cost and price effects on the goods and services.
- SERC is of the view that **GST is a more transparent and efficient tax**. While its regressivity is compensated by zero rated on basic necessities and cash handouts for the targeted group, it's the weakness in implementation and tedious compliance as well as delayed in GST refunds that affected the cash flows of businesses, forcing them to mark up higher to cover the costs and holding costs.
- The **Sales Tax Bill and Service Tax Bill**, which were repealed in 2015 have been **tabled in Parliament in July 2018**, together with the Customs (Amendment) Bill and Free Zones (Amendment) Bill. The proposed SST is expected to come into effect on 1 September 2018.
- The **proposed sales tax (10%, 5% and a specific rate for petroleum) is levied on a single stage of the supply chain**, that is at the manufacturers or importers level and **NOT at wholesalers and retailers**. The **6% service tax** is levied on services rendered.

New SST vs. GST – What's the difference?

- For ease of implementation during the transition period, relevant Ministries and agencies held briefing sessions on the **proposed new SST, including the compliance aspects and proposed negative list of taxable goods.**
- The **taxable threshold for SST is set at annual revenue of RM500,000, the same threshold as GST, with the exception of eateries and restaurants at RM1 million.** Some businesses under MyGST database will migrate to MySST if they have fulfilled the threshold. For those not registered under MyGST and have met the threshold are required to register via the Customs department.
- **The narrowed coverage of SST has cut off the number of registered tax persons from 476,023 companies under GST as of 15 July to estimated 100,405 under SST.** Owing to a single-tier tax, intermediaries along the supply chains i.e. wholesalers and retailers are not included in the SST regime.
- For SST, **38% of the goods and services in the Consumer Price Index (CPI) basket are taxable compared to that of 60% in GST.** It is estimated that up to RM70 billion will be freed up to allow consumers to spend more.
- The expected **revenue collection from SST is RM21 billion¹** compared to an average of RM42.7 billion per year in 2016-17 from GST. In 2010-14, SST's average revenue collection was RM14.8 billion per year (the highest was RM17.2 billion in 2014), of which 64% was contributed by sales tax while the balance 36% from service tax.

¹ SST revenue is estimated at RM21 billion, sourced from MOF's Media Release dated 17 July 2018 and 19 July 2018.

New SST vs. old SST – What's the difference?

- **The scope of service tax is slightly wider compared to old service tax.** This is expected to reflect the changing trends of service demand and also for enhanced revenue collection. These include hawkers and food catering services (annual revenue of more than RM1 million), gaming, all business to individual general insurance or takaful (except medical), domestic flight (except rural air services), IT services, wider telecommunication services and electricity (taxable threshold is 600 kWh).
- There are more taxable eateries and restaurants under new SST compared to old SST. New SST is levied on general restaurants with an annual revenue of over RM1 million compared to old SST, which is levied on their revenue crosses RM3 million.

A glance of comparison between the proposed SST vs. GST

	Proposed Sales and Service Tax (SST)	Goods and Services Tax (GST)
Tax stage	Single-stage tax on manufacturer/importer/service provider	Multi-stage tax on all parties along the supply chain
Tax Rate	Sales tax rate for general taxable goods is 10%, with some taxable items at 5% and specific rate; while for taxable services is 6%, with some items rated at specific amount	Tax rate is 6% in general while the others are zero-rated or exempted supplies
Threshold	Sales of taxable goods or services reached RM500,000/year, with the exception of eateries and restaurants (RM1 million)	Sales of taxable goods or services reached RM500,000/year
Tax Base/Scope	Narrower range of goods and services, about 6,000 items; estimated 100,405 registered tax persons	Broader range of goods and services, about 11,000 items; total registrants of 476,023 as of 15 July 2018
Tax Period	Tax submission on bi-monthly basis	Tax submission on monthly basis (annual sales above RM5 million) or quarterly basis (annual sales not exceeding RM5 million) or half-yearly basis (special case)
Input Tax	Raw materials/components for production are tax exempted to maintain single-stage principle	Businesses can claim back the input tax paid (input tax rebate)

SST vs GST: How much do consumers pay? It depends on cost and mark-up

An illustration based on wholesaler's and retailer's gross profit of RM15 in Scenario A and RM20 in Scenario B:

	<u>Scenario A</u>		<u>Scenario B</u>	
	Sales Tax (10%) (RM)	GST (6%) (RM)	Sales Tax (10%) (RM)	GST (6%) (RM)
Manufacturer				
Gross Sale Price	50.00	50.00	50.00	50.00
Sales Tax / GST	5.00	3.00	5.00	3.00
Total Sale Price	55.00	53.00	55.00	53.00
Wholesaler				
Purchasing Price	55.00	53.00	55.00	53.00
Claim Back GST Input Tax	0	-3.00	0	-3.00
Gross Profit	15.00	15.00	20.00	20.00
Gross Sale Price	70.00	65.00	75.00	70.00
GST (Output Tax)	0	3.90	0	4.20
Total Sale Price	70.00	68.90	75.00	74.20
Retailer				
Purchasing Price	70.00	68.90	75.00	74.20
Claim Back GST Input Tax	0	-3.90	0	-4.20
Gross Profit	15.00	15.00	20.00	20.00
Gross Sale Price	85.00	80.00	95.00	90.00
GST (Output Tax)	0	4.80	0	5.40
Total Sale Price	85.00	84.80	95.00	95.40
Tax Collection	5.00 (Higher)	4.80	5.00	5.40 (Higher)

Impact of sales tax on consumers ...

- Overall, there is **no definite answer whether consumer will be better-off or worse-off** under SST vis-à-vis GST.
- The degree of sales tax impact would depend on **the cost and margin (mark-up) of businesses along the supply chain before reaching end-consumers**. The coverage and scope of tax imposed also matters. As the price paid by consumers are embedded in the selling price, this gives rise to psychology effect that sales tax is somewhat better off than GST.
- Despite raw materials/components used for production are tax exempted, **businesses need to protect their profit margins**, and hence the **price will be increased** so as to cover the sales tax along with other costs absorbed into their costs.
- Generally, consumers perceived that **prices should either come down or remained unchanged** as the sales tax is levied on manufacturers. On average, some items may go up and some may come down (new items exempted from SST).
- Nevertheless, we caution that **consumers may experience some price increases, as prices generally did not come down as much following the removal of GST in June**. There are concerns that prices may still go up in September when the new SST kicks in as irresponsible traders may take advantage to increase prices further.

... on businesses

- On the business front, at the first level of supply chain, i.e. **manufacturers and importers are on the hit list** as the taxable goods will be sold at a higher selling price (+10%) as compared to GST regime (+6%) from factory/importation level.
- Raw materials / components used in the production are exempted from sales tax.
- As in GST, **manufacturing goods for exports** are not subjected to sales tax.
- Intermediaries level of supply chain, i.e. wholesalers and retailers are excluded; hence, lesser tax compliance cost from GST.
- Compared to the old sales tax regime, the sales **threshold for taxable goods have been raised higher to RM500,000** from RM100,000, leaving breathing space for small-scale manufacturers (revenue between RM100,000 and RM500,000). Ministry of Finance (MOF) estimates 41,046 establishments will be registered under the new sales tax regime.

Service tax still at 6% but scope is DIFFERENT

- The tax rate for service tax and GST are the same at 6%, and it is charged on consumers who consume the taxable services. Similar with the GST, the taxable income **threshold for the proposed service tax is set at RM500,000/year with the exception of restaurants and eateries at RM1 million**. This differs from old SST, which has different revenue thresholds, i.e. no minimum sales, RM150,000, RM300,000, RM3 million for different categories.
- However, the **scope of new SST has been expanded compared to the previous SST**. Amongst these are gaming, domestic flight (excluding rural air services), IT services, insurance and takaful for individuals, more telecommunication services and preparation of food and beverages service as well as electricity supply (household usage above 600kWh).
- The proposed service tax regime **has a narrower base (43.5% of services is taxable)** compared to **GST (64.8% of services is taxable)**. Medical insurance for individuals, service charges from hotel, clubs and restaurants as well as household's electricity usage between 300kWh and 600kWh are not taxable.
- For hospitality services, the proposed service tax **lowered the registration threshold of general restaurant** (not attached with hotel) from annual revenue of RM3 million under old service tax regime to RM1 million, resulting in **expanded coverage of more restaurants**.
- Private hospital services will be excluded under the new SST regime. Overall, MOF estimates 59,359 establishments to be registered under proposed new service tax regime. To sum up, there will be **mixed impact on consumers** in terms of service tax.

Taxable services: Comparison between SST 1.0, 2.0 & GST

Taxable services	During SST 1.0	SST 2.0 is ...	During GST	SST 2.0 is ...
Hotel	Hotel category for having 26 rooms and above only with no threshold	Worse-off for small and medium operator (<26 rooms) above sales of RM500K/year and their customers	Service provider with revenue of RM500K/year	Neutral , but if there is any service charge incurred, consumer is better off as service charge is not taxable
Insurance and Takaful	Individual is not taxable	Worse-off for consumer as general insurance (excl. medical) is now taxable, e.g. travel insurance & motor insurance	Life insurance is exempted	Better-off for consumer as medical insurance is not taxable
Service of food and beverage preparation	No threshold if attached with hotel above 25 rooms; RM150K if attached with hotel less than 26 rooms; RM3mil if not attached with hotel; few types (e.g. catering without restaurant, canteen in education/religious institution) are exempted	Worse-off for small and medium operators and their customers as threshold is lowered to RM1 million for general f&b service provider (not attached with hotel) as well as all types of f&b providers are included	Service provider with revenue of RM500K/year	Better-off as narrower coverage due to higher registration threshold (RM1 million/year) and any service charge incurred is not taxable
Club	Threshold of RM300K/year on taxable services	Better as higher threshold, but club is expected to have high revenue	Service provider with revenue of RM500K/year	Neutral , but if there is any service charge incurred, consumer is better off as service charge is not taxable

Colour Label

Overall impact of the taxable Services				Impact of SST 2.0		
Better-off	Mixed	Neutral	Worse-off	Better-off	Neutral	Worse-off

Taxable services	During SST 1.0	SST 2.0 is ...	During GST	SST 2.0 is ...
Gaming	Not taxable	Worse-off as not covered in previous	Service provider with revenue of RM500K/year	Neutral
Telecommunication	Taxable without threshold, but services like internet services, VOIP, Web hosting, IPTV, etc. are not taxable	Worse-off as more coverage and telecommunication service provider is expected to have high revenue	Service provider with revenue of RM500K/year	Neutral
Pay-TV	Taxable without threshold	Neutral as pay-tv provider is expected to have high revenue	Service provider with revenue of RM500K/year	Neutral
Forwarding agents	Taxable without threshold, with manifest documents and EDI services are exempted	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Legal	Taxable without threshold	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Accounting	Taxable without threshold, non-registered accountant is exempted	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Surveying	Taxable without threshold	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Architectural	Taxable without threshold	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral

Colour Label

Overall impact of the taxable Services				Impact of SST 2.0		
Better-off	Mixed	Neutral	Worse-off	Better-off	Neutral	Worse-off

Taxable services	During SST 1.0	SST 2.0 is ...	During GST	SST 2.0 is ...
Valuer	Taxable without threshold	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Engineering	Taxable without threshold	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Consultancy	Taxable without threshold	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Employment agency	Threshold of RM150K/year	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Security	Threshold of RM150K/year	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Management services	Taxable without threshold	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Parking	Threshold of RM150K/year, motorcycle parking is exempted	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Motor vehicle service or repair	Threshold of RM150K/year, spare-part, motorcycle, air/sea/rail transport are exempted	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral

Colour Label

Overall impact of the taxable Services				Impact of SST 2.0		
Better-off	Mixed	Neutral	Worse-off	Better-off	Neutral	Worse-off

Taxable services	During SST 1.0	SST 2.0 is ...	During GST	SST 2.0 is ...
Courier	Threshold of RM150K/year	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Hire and drive car	Threshold of RM300K/year	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Advertising	Threshold of RM300K/year	Neutral/better-off if yearly revenue of service provider is below threshold	Service provider with revenue of RM500K/year	Neutral
Domestic flight except rural air services	Not taxable	Worse-off as not covered in previous	Service provider with revenue of RM500K/year	Neutral
Credit or charge card	Principal card charged at RM50; supplementary card charged at RM25	Better-off for consumer as principle card is uniformly taxed at a lower amount of RM25/card	GST charged on card with annual fees and no charge on zero annual fees	Much towards worse-off as consumer only better-off if the annual fees of the credit card is above RM416.67
IT services	Not taxable	Worse-off as not covered in previous	Service provider with revenue of RM500K/year	Neutral
Electricity	Not taxable	Worse-off for both business and consumer as electricity is not taxable in previous Service Tax	For consumer, zero-rated for usage of 300KWH and below	Better-off for consumer as taxable threshold is higher at 600KWH
Private hospital <i>(Not taxable in SST 2.0)</i>	Threshold of RM300K/year on taxable services (room, f&b)	Better-off as not stated in the list	Service provider with revenue of RM500K/year	Better-off as not stated in the list

Colour Label

Overall impact of the taxable Services				Impact of SST 2.0		
Better-off	Mixed	Neutral	Worse-off	Better-off	Neutral	Worse-off

Designated Area (DA) and Special Area (SA)

Principal Customs Area (PCA)

(Any places in Malaysia other than DA and SA)



World

- Goods sold from PCA to DA/SA are deemed exports, hence not subject to sales tax
- Services provided from PCA to DA/SA are subjected to service tax except prescribed

Goods imported from world to DA/SA are exempted from sales tax except:

- Langkawi: Marble, petroleum, anchovies
- Tioman: Petroleum, motor vehicles
- Labuan: Petroleum
- SA: Goods listed in proposed SA Order

- Goods sold from DA/SA to PCA are deemed imports, hence subject to sales tax
- Services provided from DA/SA to PCA are subjected to service tax

Designated Area (DA)	Special Area (SA)
<ul style="list-style-type: none"> • Labuan • Langkawi • Tioman 	<ul style="list-style-type: none"> • Free Zone (FZ) • Licensed Warehouse (LW) • Licensed Manufacturing Warehouse (LMW) • Joint Development Area (JDA)

- **Manufacturing activities in DA or SA are not subjected to sales tax, except petroleum in DA.**
- **Goods and services from/to DA to/from SA are not taxable.**

Operational changes and transitional matters

Operational changes

- **Payment of SST and submission of SST Return** have to be made via two channels listed below and **no walk-in is allowed** unlike previous regime:
 - **Electronically**; or
 - **Cheque or bank draft** and posted to SST Processing Centre
- **Late payment penalty** has been reduced to a cap of **40% from 50%**.
- **Record keeping for 7 years** (can be kept in soft or hard copy) instead of 6 years in the previous SST regime (no change from 7 years of record keeping under GST).

Transitional matters

- **Identified taxable persons via GST database** (MyGST) will be automatically registered under SST (MySST) and shall be charging tax on the SST commencement date.
- For non-automatically registered persons but fulfilled criteria to be registered are required to register themselves within 30 days from SST commencement date.
- GST registrants will be automatically deregistered once GST Act is repealed and **any input tax claim/adjustment/bad debt relief shall be done within 120 days** from the date of GST Act being repealed.

SERC's comments on the proposed SST

Scope and threshold

- There were mixed reactions about the migration of GST to SST. For **consumers**, more goods will be exempted and hence, narrower in scope compared to GST though it is less transparent.
- For **businesses, especially SMEs** are feeling at ease in terms of tracking the input and output tax to claim the input tax credit. The delayed in tax input refunds was cited as causing cashflows problem and hence, they marked up higher to cover the costs and holding costs.
- There are **lesser classifications in terms of threshold** for the proposed new SST. The standardisation shows that the government's efforts in treating the businesses equally.
- Compared to old SST, the scope and coverage under new service tax are somewhat wider in general but is narrower under the new proposed sales tax. It is believed that some zero-rated or exempted goods and services under GST regime will be excluded in the new SST.

Payment method

- **Electronic payment is a welcome approach** to promote e-payment (cashless) and also expedite the submission process. More importantly, the authorities must ensure that the system is user-friendly and services support is adequate and efficiently run to handle the queries. Counter services shall be available for exceptional cases.

Price level

- The MOF commented that the new designed SST will **have proportionately lesser impact** on lower income households as the **SST will only cover 38% of the CPI basket**, which is lower than **GST, which has more than 60%** of the CPI basket.
- As illustrated (*refer to Slide 6*), price paid by consumers would depend on the costs and profit margin. Retail prices will be cheaper under sales tax regime when the intermediaries' costs and profits are 66.67% or two-thirds higher than factory gross selling price, vice versa.² However, the price setting is depending on the respective intermediary level's costs and profit based on the nature of their business.
- Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) should keep tap on price watch to **curb unscrupulous businesses** from raising prices unethically. However, some form of **leniency and "hand-holding"** should be provided to the genuine businesses, especially during the transitional period.
- **Lack of awareness** on the concept of fair price shop and pricing guidance and sharing of price information applications. KPDNHEP needs to promote further the concept and active usage of the applications in order to outreach the general public.
- Review the **anti-profiteering mechanism on its effectiveness and practicability of implementation**. One-size-fits-all mechanism may not be effective and practical on different types of businesses.

² Assumed factory gross selling price (before sales tax or GST) is RM100, while the combined gross profit of the wholesaler and retailer is RM66.67 (66.67% or two-thirds of factory gross selling price), the final retail price under SST and GST will be same at RM176.67.

Intermediary level of the supply chain

- In addition to **lesser tax compliance costs**, distributive traders (wholesalers and retailers) will be **hassle-free from cash flows problem** as they are no longer required to submit GST output tax while waiting to claim back the GST input tax, albeit the sales tax effect has been reflected into higher purchasing price.
- Smaller-scale traders who are not a GST registrant will also benefit since they are not allowed to claim back the GST input tax and had been forced to absorb the tax amount as costs for past three years.

Transitional period

- Despite MOF has engaged accounting firm PricewaterhouseCoopers (PwC) to conduct a comprehensive SST review exercise in simplifying SST, **technical issues are unavoidable**, especially during the transitional period. It is necessary that the MOF and Customs department have **continuous technical consultations** with the tax experts, industry and private sector who have hands experience with the handling of SST.
- Proper platform should be set up to provide fair treatment to stakeholders instead of penalising them with “name and shame” in media.

Federal Government's financial position

- MOF estimated a **full-year revenue collection of SST at RM21 billion**, much lower compared to RM44 billion of GST revenue budgeted for 2018. In 2010-14, revenue collection from SST averaging RM14.8 billion per year (the largest amount collected on record was RM17.2 billion in 2014), of which 64% was contributed by sales tax while the balance 36% from service tax. GST had yielded much higher revenue of RM42.7 billion per year in 2016-17.
- Following the implementation of SST, the Government will come to terms that the **budget spending will have to be rationalized and realigned with lower revenue collection** from SST to keep lower budget deficit on track.
- As such, the Government expects **cost-savings, plugging of leakages, weeding out of corruption as well as the containment of projects cost** would help to balance the financing gap between revenue and spending.
- Despite the anticipated revenue shortfall of RM23 billion in 2018, **MOF has maintained the budget deficit at 2.8% of GDP** (3.0% of GDP in 2017). The shortfall in revenue will be compensated by some initiatives via expenditure rationalisation, plugging of leakages and cost savings as well as revenue optimisation.

Federal Government's financial position (cont.)

- **Flaws in the sales tax system** (tax avoidance and loopholes as well as transfer pricing among manufacturers and businesses) and inadequate price enforcement have eroded the revenue base of SST. It is expected that the tax enforcement and Customs department will tighten the loopholes aspect of the transfer pricing and rules of valuations to achieve high tax compliance.
- On a longer-term, the Government will have to **enhance the tax revenue buoyancy** to help bridging the budget financing gap besides achieving expenditure efficiency and optimization of spending. Possible sources of revenue could come from e-hailing, e-commerce and digital business.

Appendix I

Selected items/activities which are excluded from sales tax:

For household use ...



Sardine



Milk product



Coffee & tea



Chili & tomato sauce



Motorcycle <250cc & Bicycle



Sri kaya & margarine

For housing ...



Sand



Bricks



Cement

For farmers & fisherman ...



Tractors



Fertilizer



Purchase of fishing boats

Certain manufacturing activities ...



Jeweller



Optician



Tailoring

Appendix II

The proposed Regulations and Orders of Sales Tax Act and Service Tax Act are as follows:

Sales Tax	Service Tax
<p><u>Regulations (4)</u></p> <ul style="list-style-type: none">• General• Custom Ruling• Valuation• Compound	<p><u>Regulations (3)</u></p> <ul style="list-style-type: none">• General• Custom Ruling• Compound
<p><u>Orders (8)</u></p> <ul style="list-style-type: none">• Amount of Sale Value• Appointed date• Tax rate (2 schedules)• Designated Area• Special Area• Goods exempted from tax• Person exempted from payment of tax (3 schedules)• Person exempted from registration	<p><u>Orders (3)</u></p> <ul style="list-style-type: none">• Appointed date• Tax rate• Taxable service & threshold



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