

“Implementing Goods and Services Tax in Malaysia”

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Key Issues

Will GST be introduced in the Budget?

- High chance

What is the impact of GST on households?

- GST 7%: average household pays RM 104/month
- 2.93% of income

Will GST hit the poor more?

- RM 30,815 income: 1.56%
- RM 605 income: 2.62%
- RM 2,579 income: 3.07%

Key Issues

How much will GST raise?

- RM 7.5 billion from households (perfect conditions)

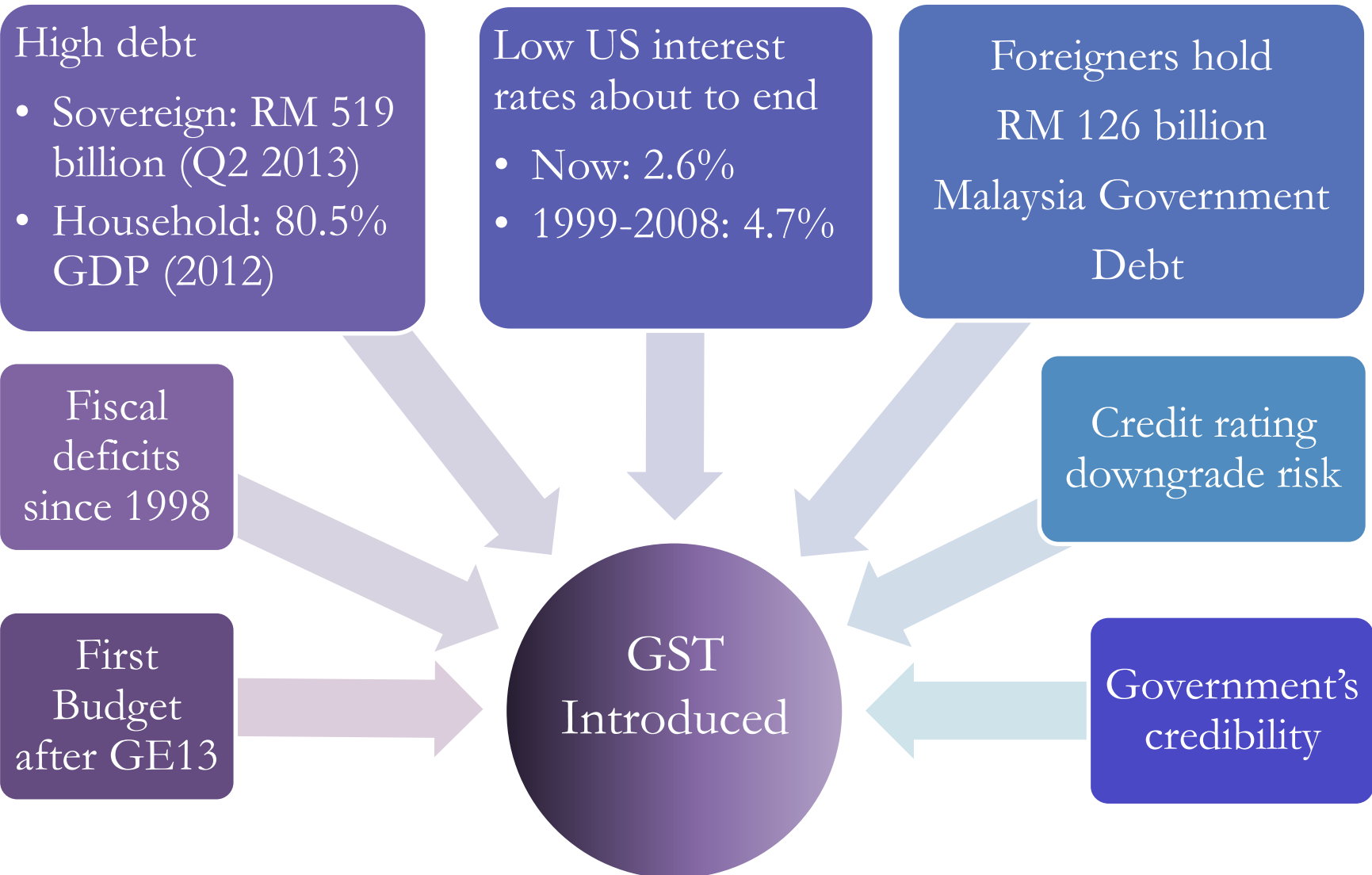
How inflationary is GST?

- CPI: additional 3.86% increase

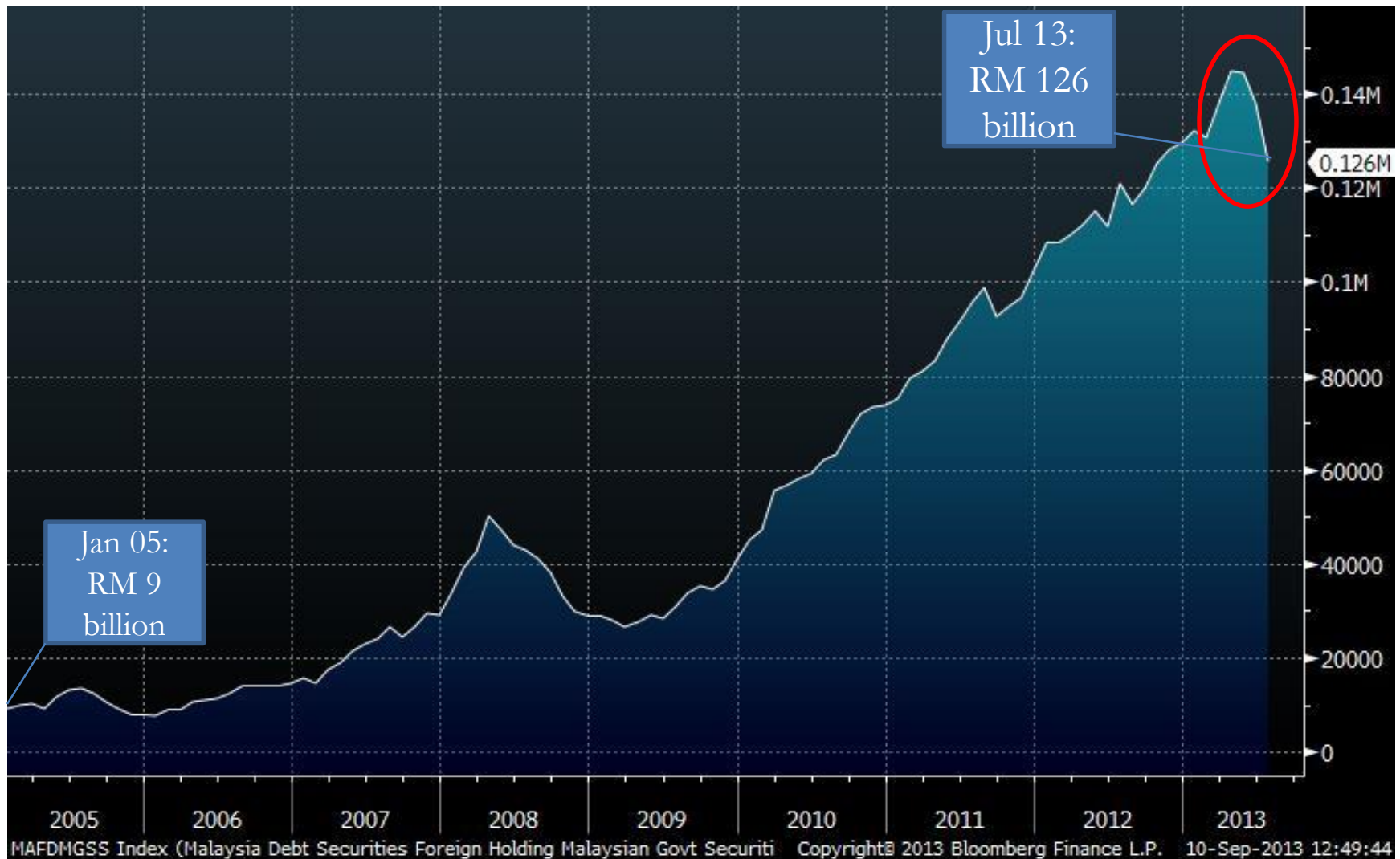
What are the wider implications of GST?

- Lower domestic spending etc

High Chance of GST in the Budget



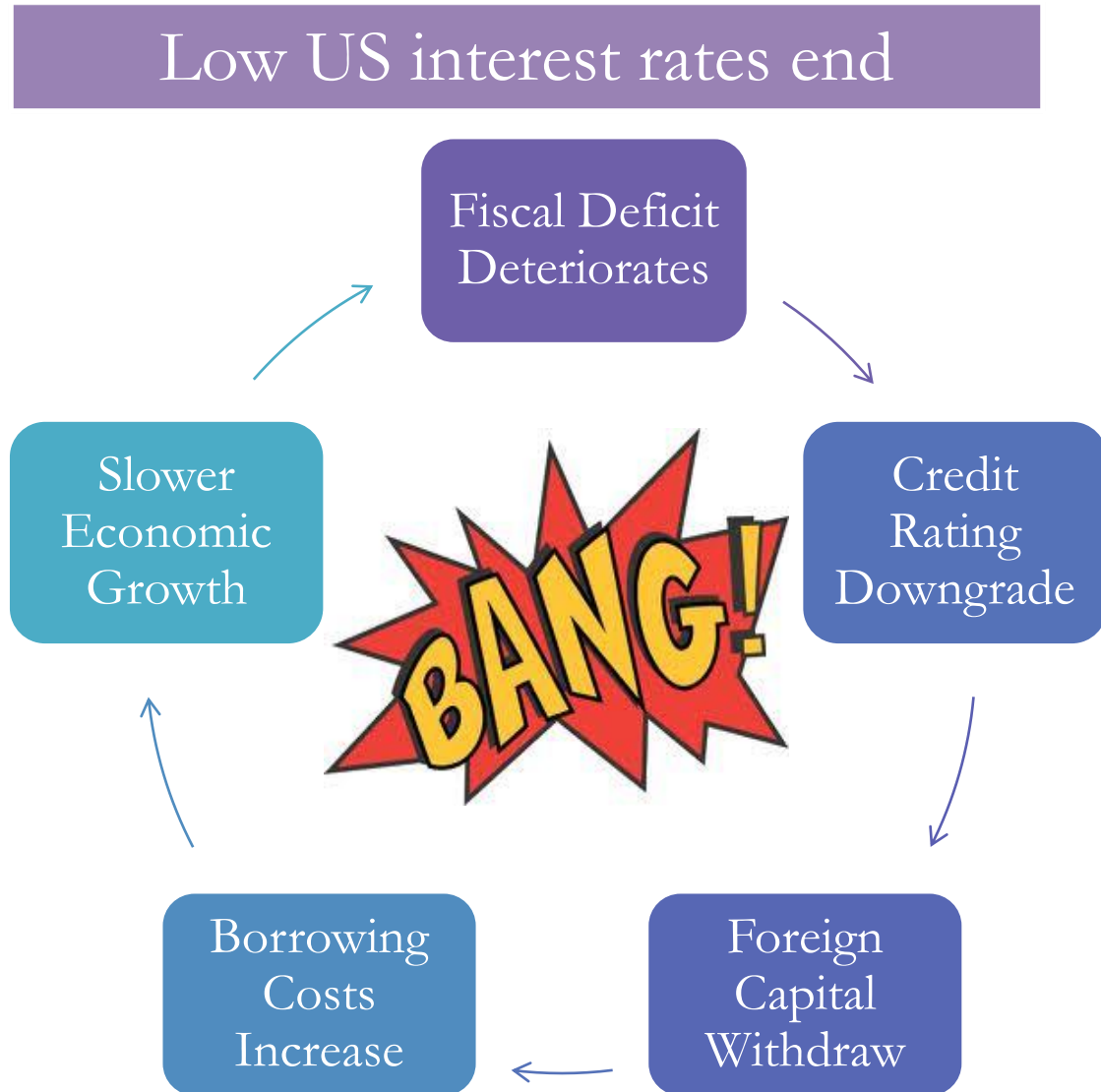
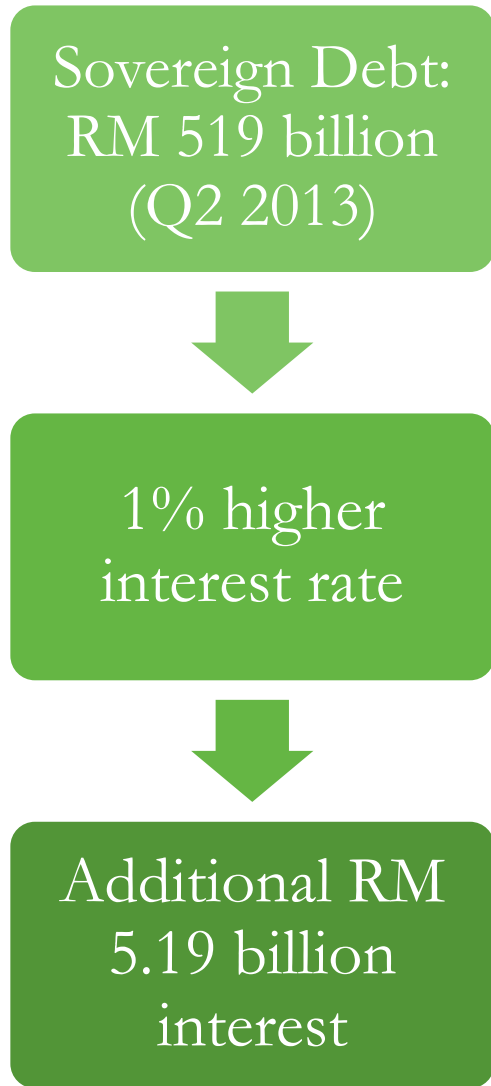
Foreigners' holdings in Malaysia Government Debt



Withdrawal of Foreign Capital → Borrowing Costs Increase



Significance



Household Impact

Latest Household Expenditure Survey (2009/2010)

0% rated and
exempted items

- Essential food
- Basic non-value added items
- Healthcare
- Public transportation
- Education



7% standard
rated items

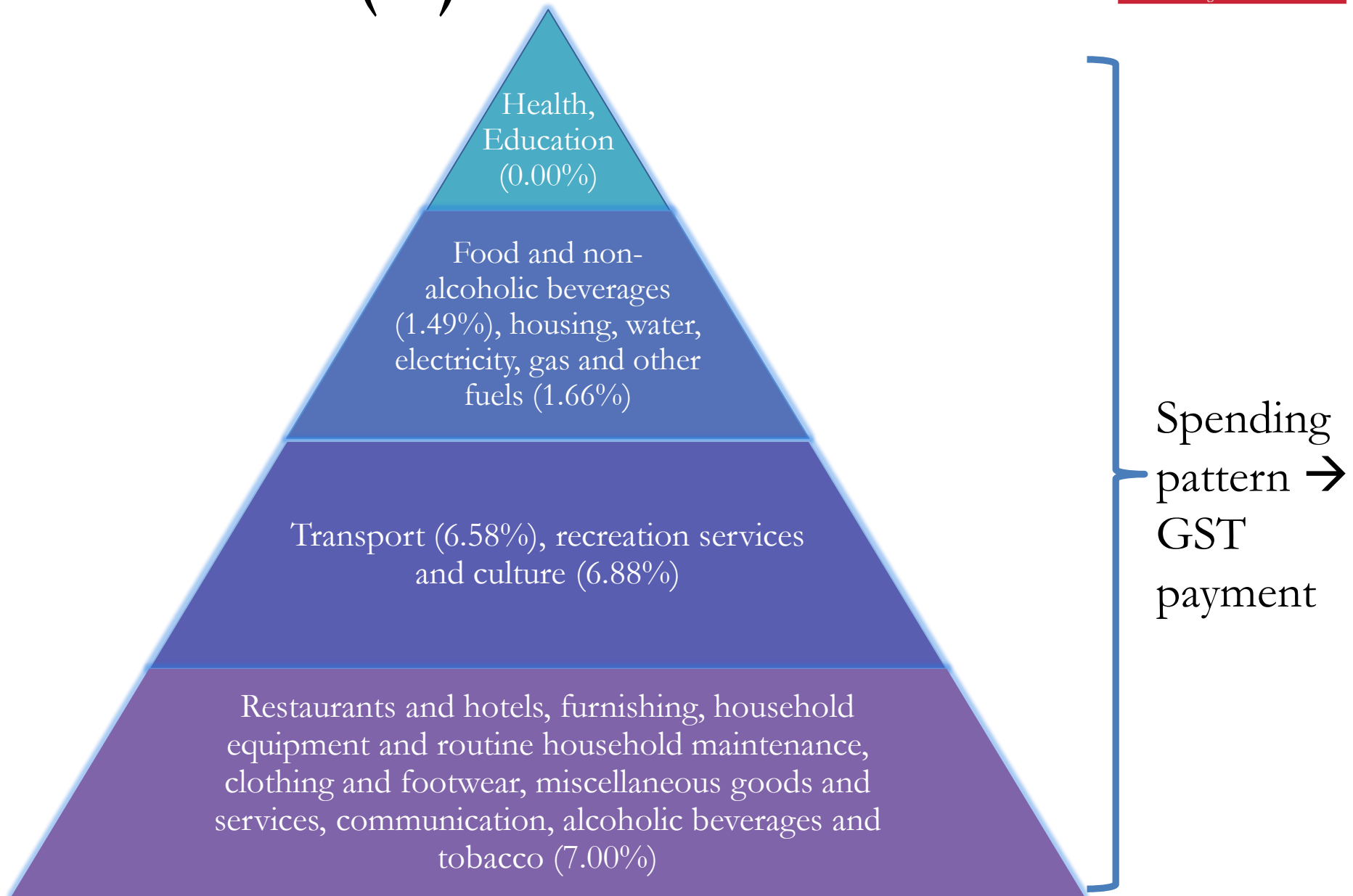
- Clothes & footwear
- Restaurants & Hotels
- Household equipment
- Tobacco & alcohol



Average household pays
4.41% of expenditure or
2.93% of income

- RM 104
per
month

GST rate (%)



Higher GST burden if you are:

Low and middle income

Single person household

Young (less than 24 years old)
household

Bumiputera-led households

Clerical workers, skilled agricultural
and fishery workers

Peninsular Malaysia



Calculating GST burden (GSTI)

$$\text{GSTI} = \frac{\text{GST (RM)}}{\text{Total Income}}$$

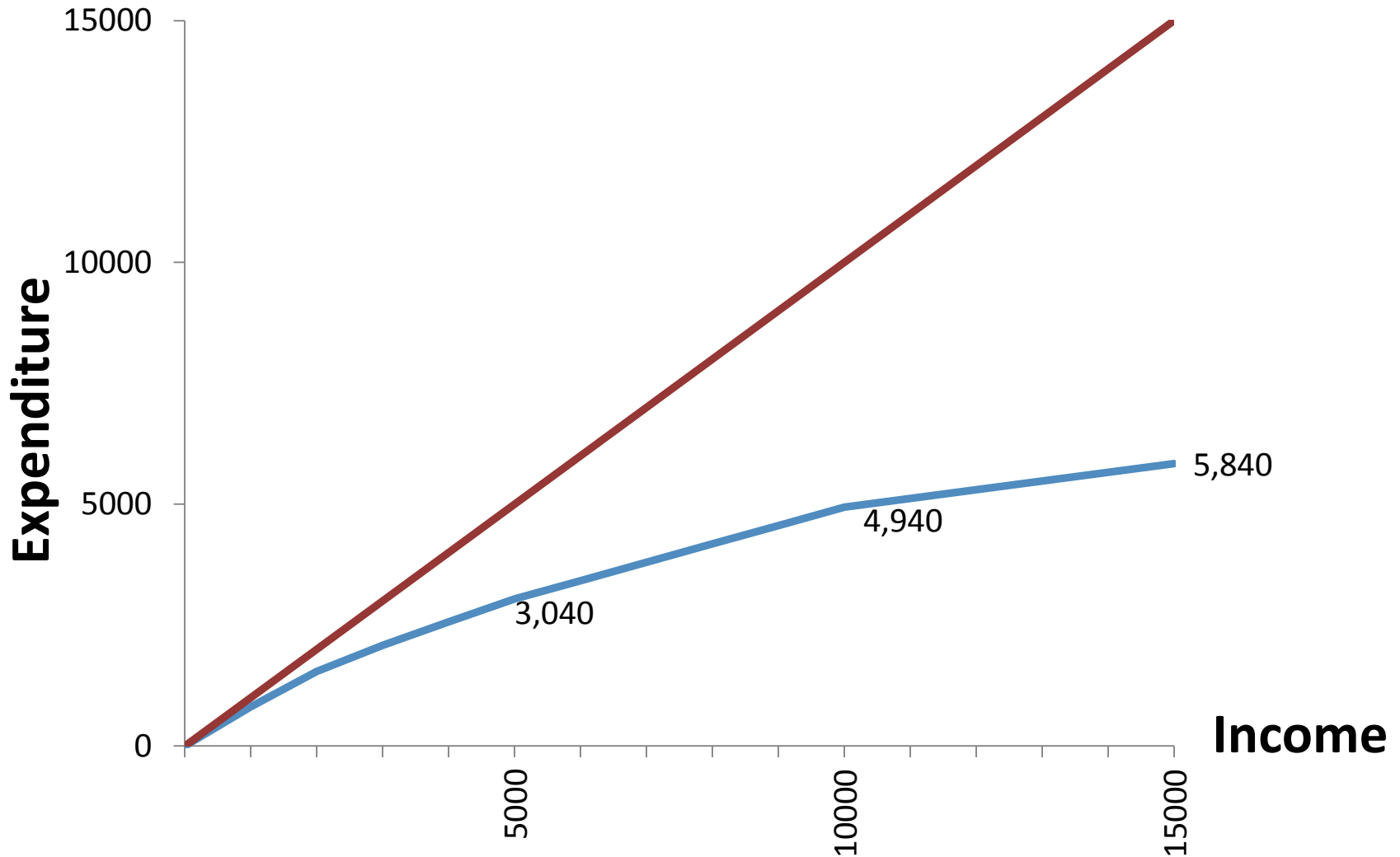
Income
increases

Expenditure
increases;
but lower
magnitude

Income –
expenditure
relationship is
concave

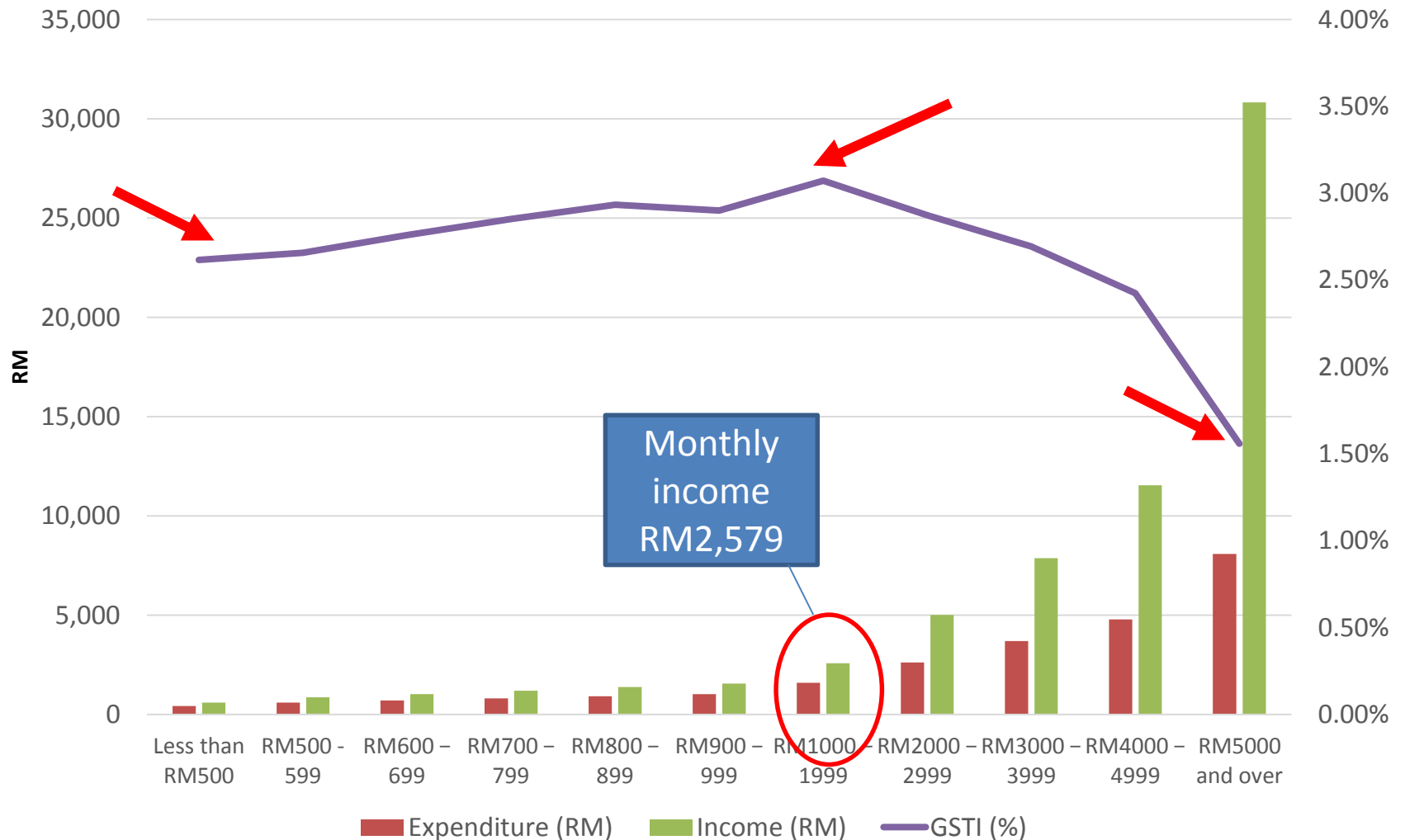
Income – expenditure relationship

(from Bank Negara estimates)



Higher GSTI:

Low and middle income household

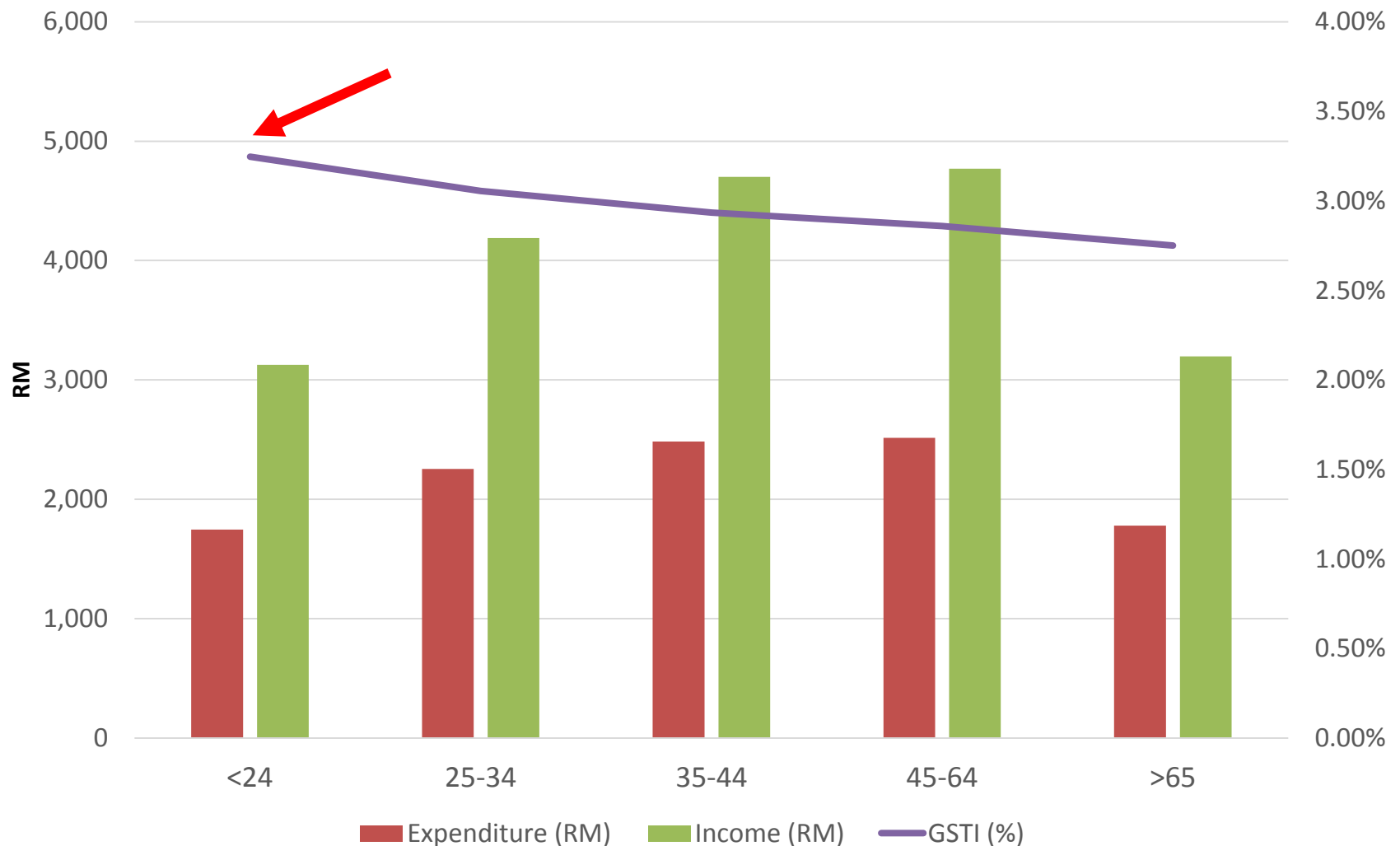


Higher GSTI: Single person household



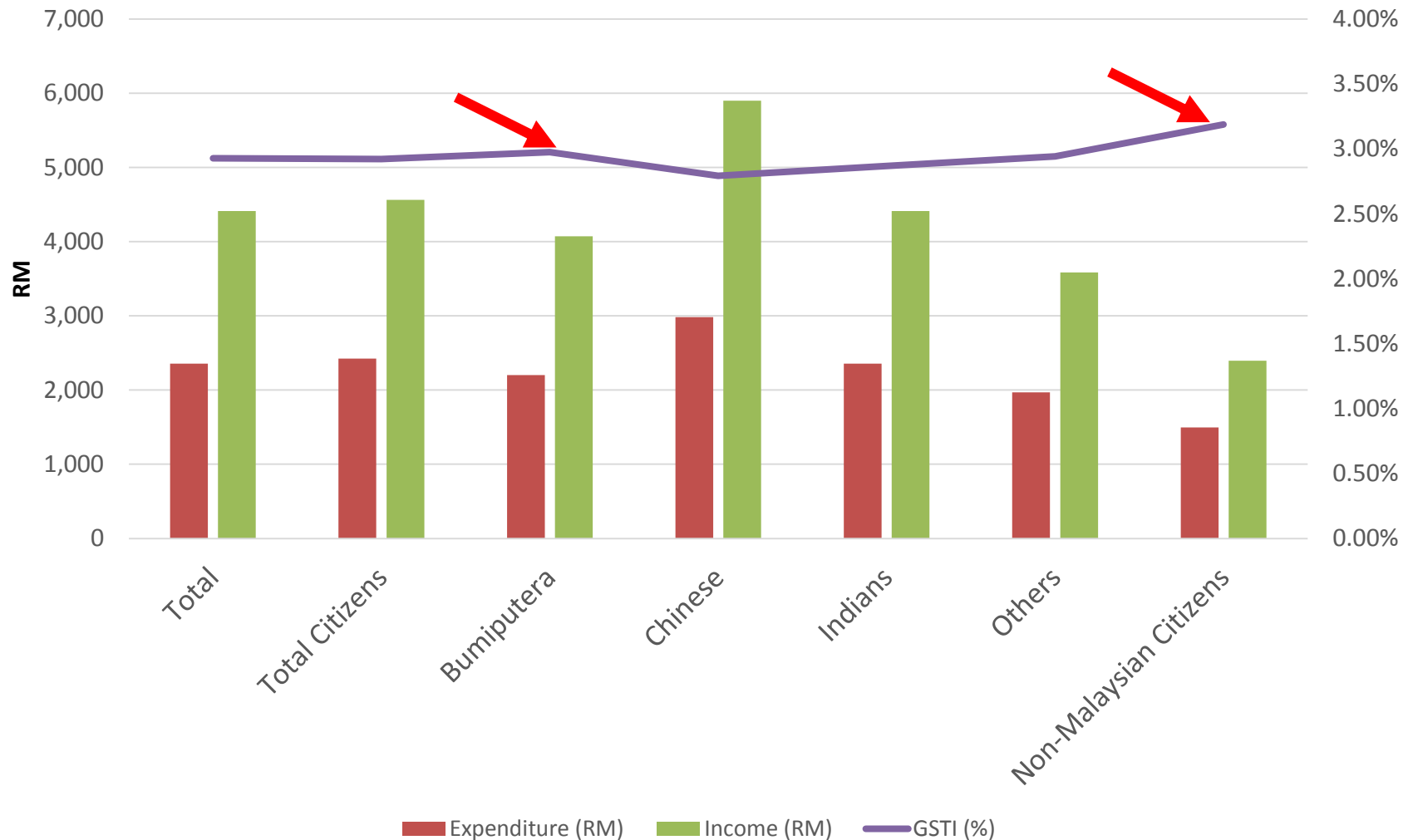
Higher GSTI:

Young (less than 24 years old) household



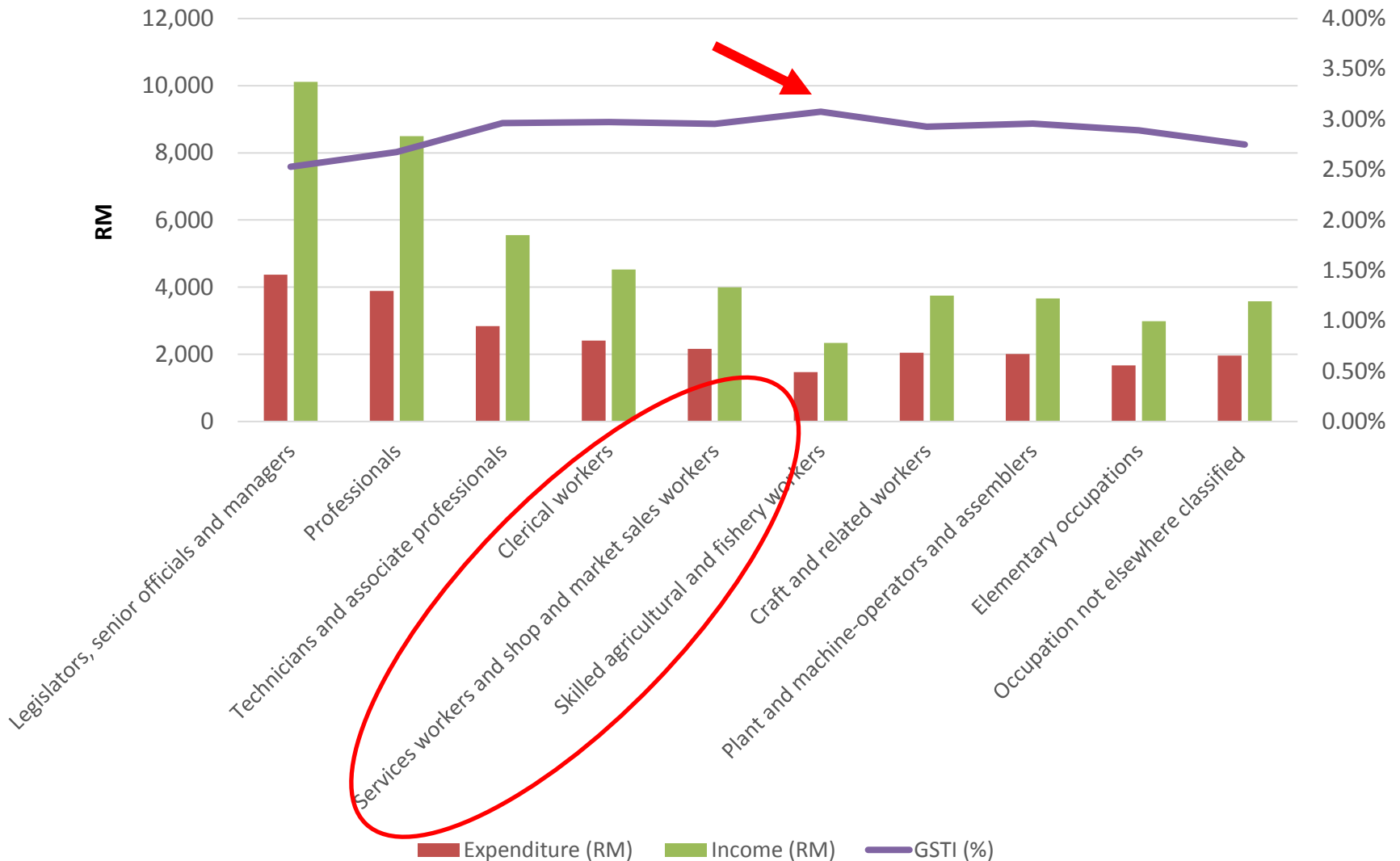
Higher GSTI:

Bumiputera-led & non-Malaysian household

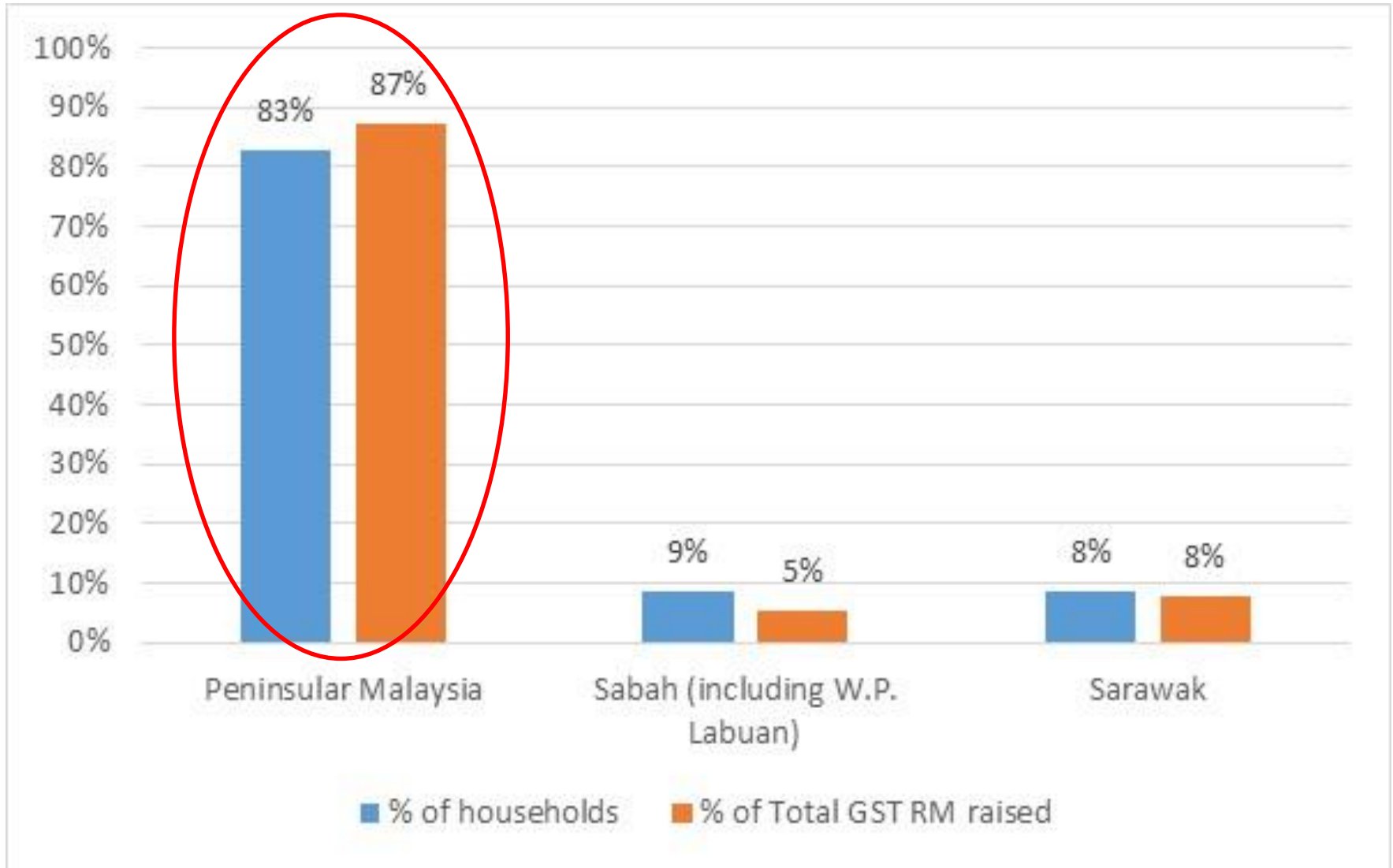


Higher GSTI:

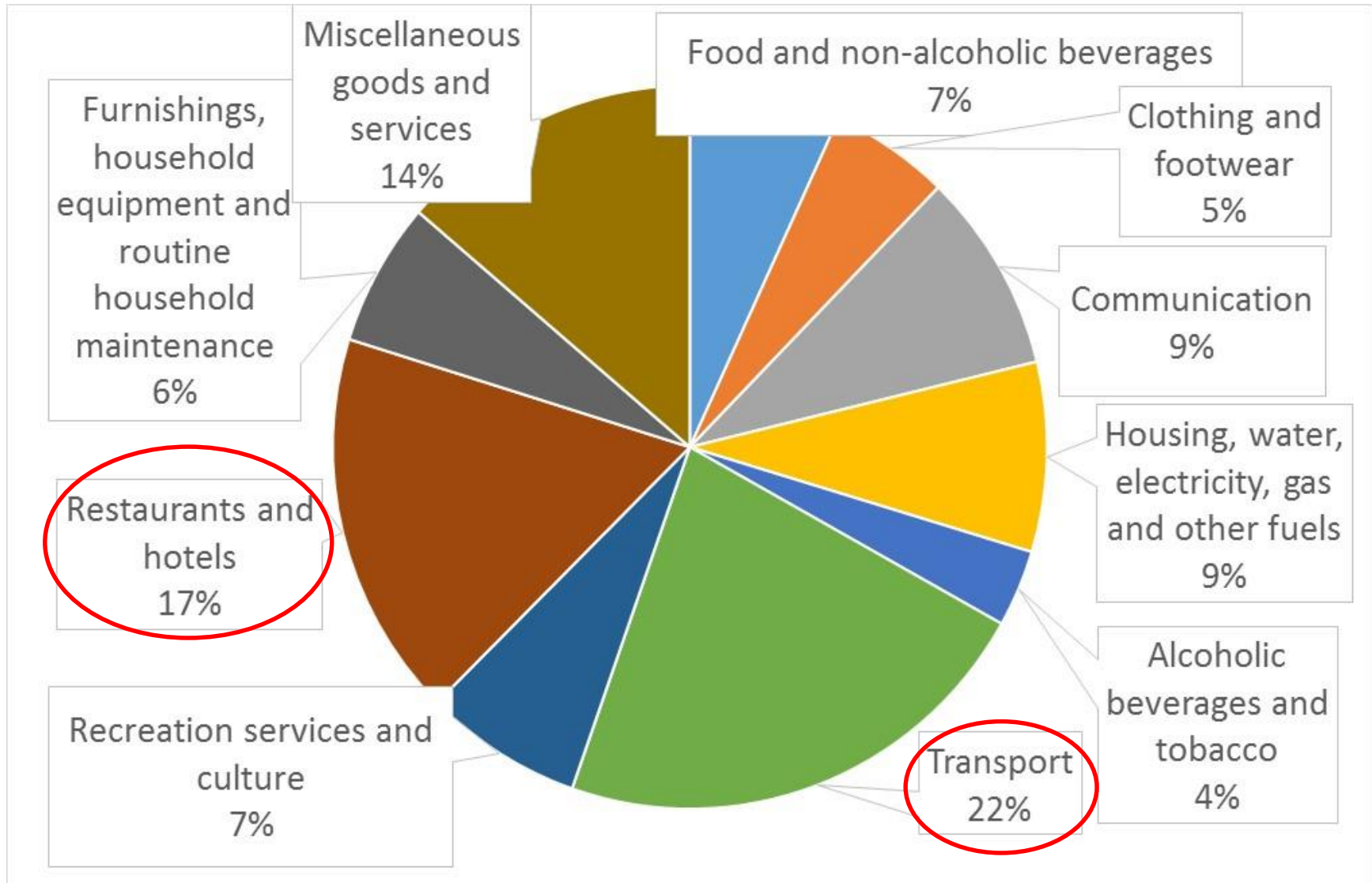
Clerical & services workers, Farmers, Fishermen



Higher GST contribution: Peninsular Malaysia



GST Revenue Source



Total GST Revenue from Households

Perfect condition: RM 7.5 billion

Simplify tax administration
(GST register if > RM 0.5m sales)



Practical condition:
RM 7 billion

Simplify tax administration
(GST register if > RM 0.5m sales)



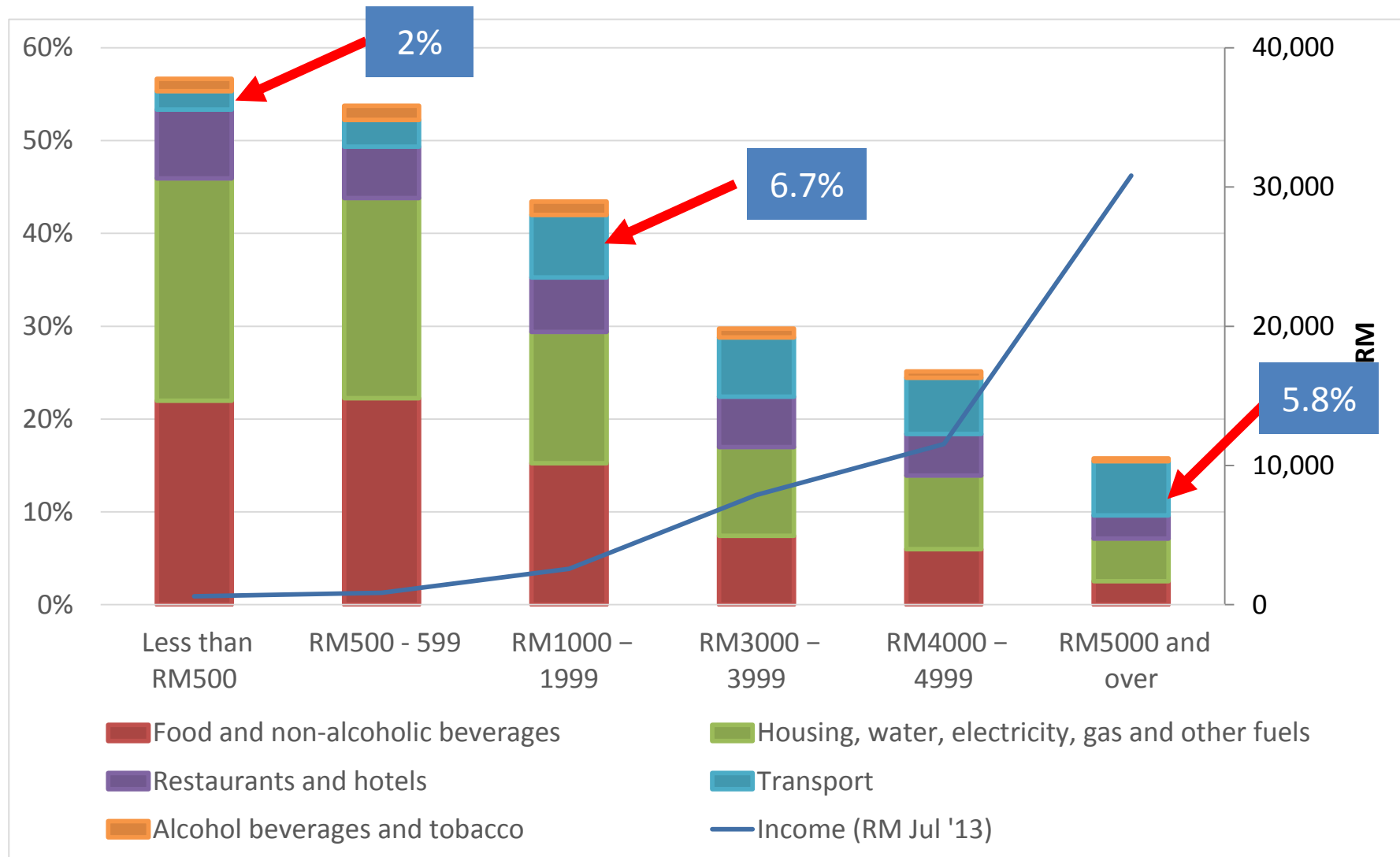
GST
Fraud?



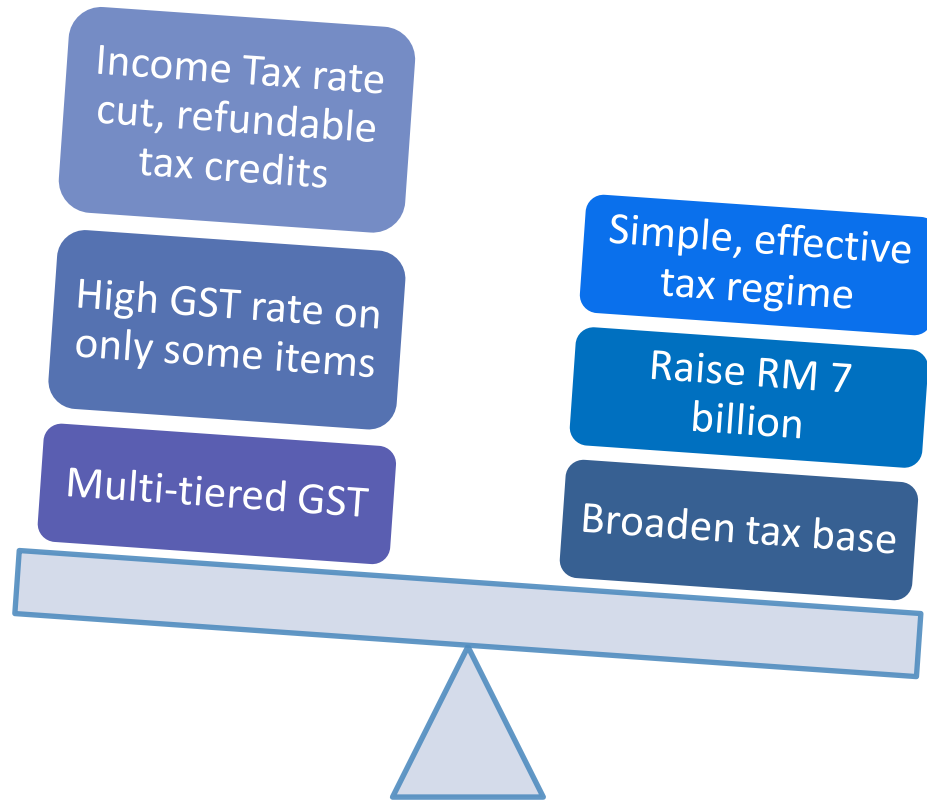
Realistic
condition: Less
than RM 7 billion

Expenditure as % of income:

Only Transport increases as income goes up



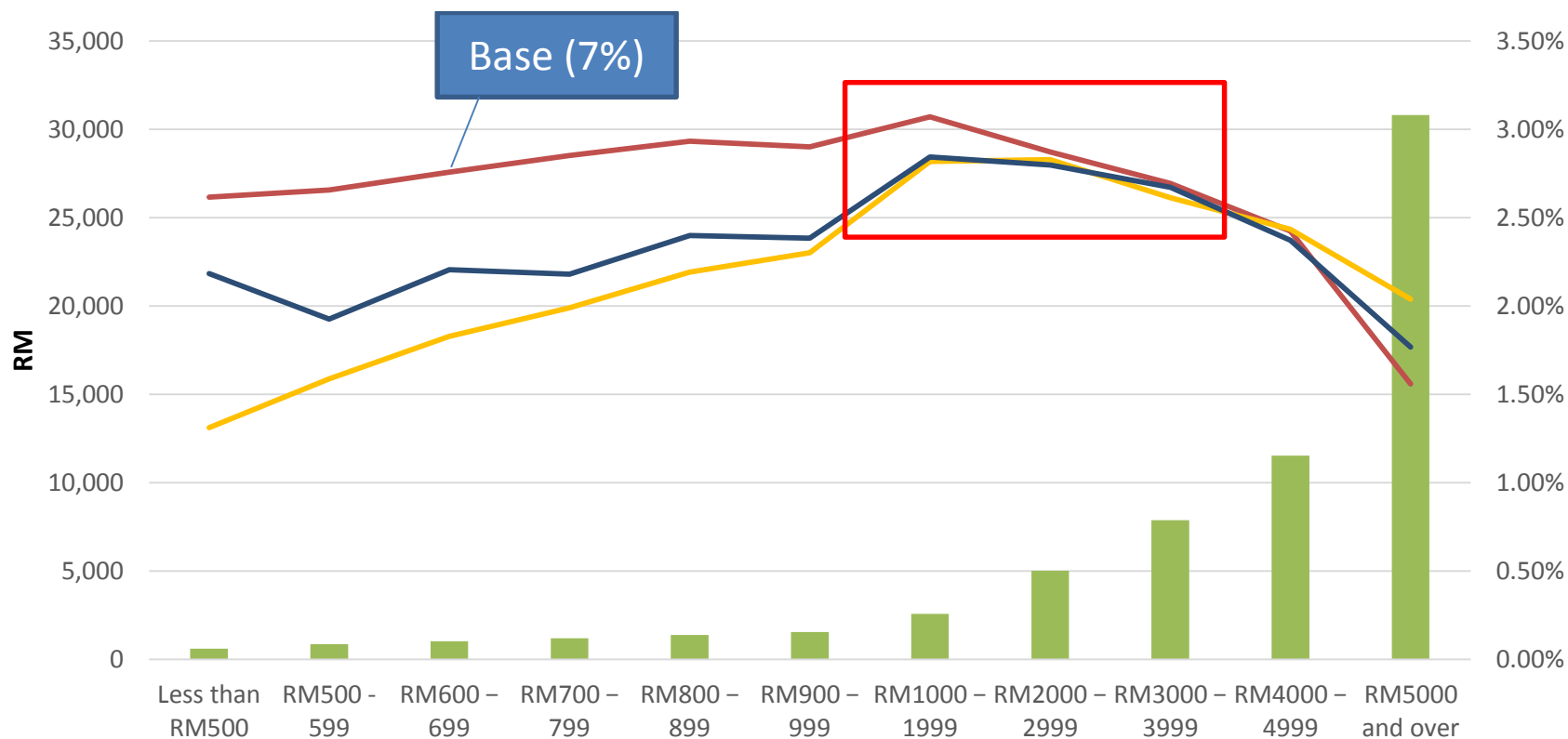
Raise same amount of revenue but make GST less regressive?



Difficult –
middle income
groups still pay
higher GST!

Base 7% vs:

Multi-tiered, High GST rate on selected items



Income (RM)

Base: Flat 7% standard rate

25%: transport (excl public transportation); 2% standard GST rate

17.5%: transport (excl public transportation), restaurants & hotels

GST is a strongly regressive tax

Higher income households still pay lower GSTI



GST is intrinsically regressive



Middle income households still pay higher GSTI



Income tax reduction, refundable tax credits?

Wider Implications

Inflation per CPI

- Spike up 3.86% additionally (ignore secondary effects)

Credit rating agencies & foreign capital reassured?

Fiscal reform, wider tax harmonisation

Economic growth

- Lower domestic spending
- Ringgit uncertain

Government welfare cash hand outs or refundable tax credits?

Property prices

- Overall effect uncertain

Narrowing window for fiscal reform

| | |
|--|---|
| Click next cell to choose your Location: | Both Malaysia Age 7.00% |
| & Region: | |
| & Category: | |
| & GST rate: | |

Read the background information and guide before viewing the results.

| Result: | GST payable (RM) | Average Monthly Expenditure (RM) | Average Monthly Income (RM) | GST (%) | GSTI (%) |
|---------|------------------|----------------------------------|-----------------------------|---------|----------|
| <24 | 81.75 | 1,745.38 | 3,127.22 | 4.68% | 3.25% |
| 25-34 | 103.07 | 2,254.53 | 4,189.64 | 4.57% | 3.05% |
| 35-44 | 111.10 | 2,484.70 | 4,701.58 | 4.47% | 2.93% |
| 45-64 | 109.82 | 2,514.31 | 4,769.09 | 4.37% | 2.86% |
| >65 | 70.82 | 1,780.15 | 3,197.05 | 3.98% | 2.75% |

| | |
|-------------|--------------|
| & GST rate: | 4.00% |
|-------------|--------------|

Read the background information and guide before viewing the results.

| Result: | GST payable (RM) | Average Monthly Expenditure (RM) | Average Monthly Income (RM) | GST (%) | GSTI (%) |
|---------|------------------|----------------------------------|-----------------------------|---------|----------|
| <24 | 46.72 | 1,745.38 | 3,127.22 | 2.68% | 1.85% |
| 25-34 | 58.90 | 2,254.53 | 4,189.64 | 2.61% | 1.75% |
| 35-44 | 63.48 | 2,484.70 | 4,701.58 | 2.56% | 1.68% |
| 45-64 | 62.75 | 2,514.31 | 4,769.09 | 2.50% | 1.63% |
| >65 | 40.47 | 1,780.15 | 3,197.05 | 2.27% | 1.57% |