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Malaysia News:

Malaysian Goods and
Services Tax ("GST")

Update: Taxable supplies will
be zero-rated with effect
from 1st June 2018

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Malaysian Goods and Services Tax ("GST") Update: Taxable supplies will be zero-rated with effect from 1st June 2018

The new Pakatan Harapan (Alliance of Hope) government of Malaysia has announced that the Goods and Services Tax will be zero-rated for essentially all taxable supplies effective 1st June 2018. This move by the newly sworn-in government was highly anticipated since it was one of the primary election promises made by the alliance in their manifesto. The original stated goal was to repeal the GST and replace it with the already abolished Sales and Services Tax ("SST").

What does this mean to businesses?

From an administrative perspective, it is business as usual for companies that are GST registered. They are still required to issue tax invoices, submit their returns in accordance with their taxable period and comply with all the GST regulations. Businesses will also be able to claim input tax credit for GST paid. What has changed is essentially only the rate of the tax, with all the other obligations imposed on businesses remaining intact. Some changes to the accounting and point-of-sales ("POS") systems will be required in order to apply the changes, but these changes are expected to be minimal. Zero-rating GST obviously also means that businesses will have a better cash flow.

Why maintain a system that does not contribute to government coffers?

We can only speculate what the intentions of the government are, but would assume that keeping the GST system intact provides for a speedy implementation of the new zero-rate and achieves the objective of alleviating the financial burden of the people. Repealing the GST, in contrast, would take some time and lead to additional costs for businesses as the current system would have to be dismantled and various financial and business information systems be updated. Another reason may also be that repealing the system would probably result in losses of jobs for those in the customs department and the professional services sector which is presumably not desired.

Finally, maintaining the GST reporting system will continue to ease the collection of income tax due to the ability to cross-check sales and purchases across companies and identify tax evasion.

What's next?

The zero-rating could be a temporary measure towards the total repeal of the GST and the new government could potentially bring back the repealed SST as promised in their election manifesto. However, we believe that due to the archaic nature of the SST system and the much narrower scope, the government could indeed be considering to keep the current GST system for any proposed new tax system. Retaining the system could potentially provide the flexibility for a more targeted consumption tax in the future and as such it could remain in force for the foreseeable future.

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