"Implementing Goods and Services Tax in Malaysia"

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www.penanginstitute.org/gst

Structure

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Household impact from GST

- Who pays?
- How much?

Net effect after Budget's measures

Why was GST predicted to be in the Budget?

Economic impact 2015

Key Issues

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What is the impact of GST on households?

- Average household pays
  - RM 90/month
  - 2.52% of income

Will GST hit the poor more?

- Yes. GST = **Regressive tax**
- Monthly income:
  - RM 30,815: 1.32%
  - RM 605:   2.35%
  - RM 2,579:   2.67%

Key Issues

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Net effect after Budget's measures

- Income tax payers get tax cuts
- Non-income tax payers get BR1M
- Low income: more cash
- Middle income: less cash
- High income: more cash
- **Budget: negative for middle income**

How much will GST raise?

- RM 6 billion from households
  - After RM 500k business registration threshold
  - Before GST fraud

Key Issues

How inflationary is GST?

- SST abolished, <u>additional</u> inflation:
  - Max: 3.38%
  - Min: 0.56%
  - Most likely: 1.32%
- Computed using official CPI method – might vary from real world

Recommendations

- QE taper risk remain – Malaysia should insulate itself
- Need income tax adjustments for middle income

Household Impact

Latest Household Expenditure Survey (2009/2010)

0% rated and exempted items

6% standard rated items

Average household pays 3.80% of expenditure or 2.52% of income

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

+

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

=

- RM 90 per month

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GST rate (%)

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Health, Education (0.00%)

Food and non-alcoholic beverages (1.66%), housing, water, electricity, gas and other fuels (1.42%)

Transport (5.39%), recreation services and culture (5.73%), miscellaneous goods and services (5.74%)

Restaurants and hotels, furnishing, household equipment and routine household maintenance, clothing and footwear, communication, alcoholic beverages and tobacco (6.00%)

Spending pattern → GST payment

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
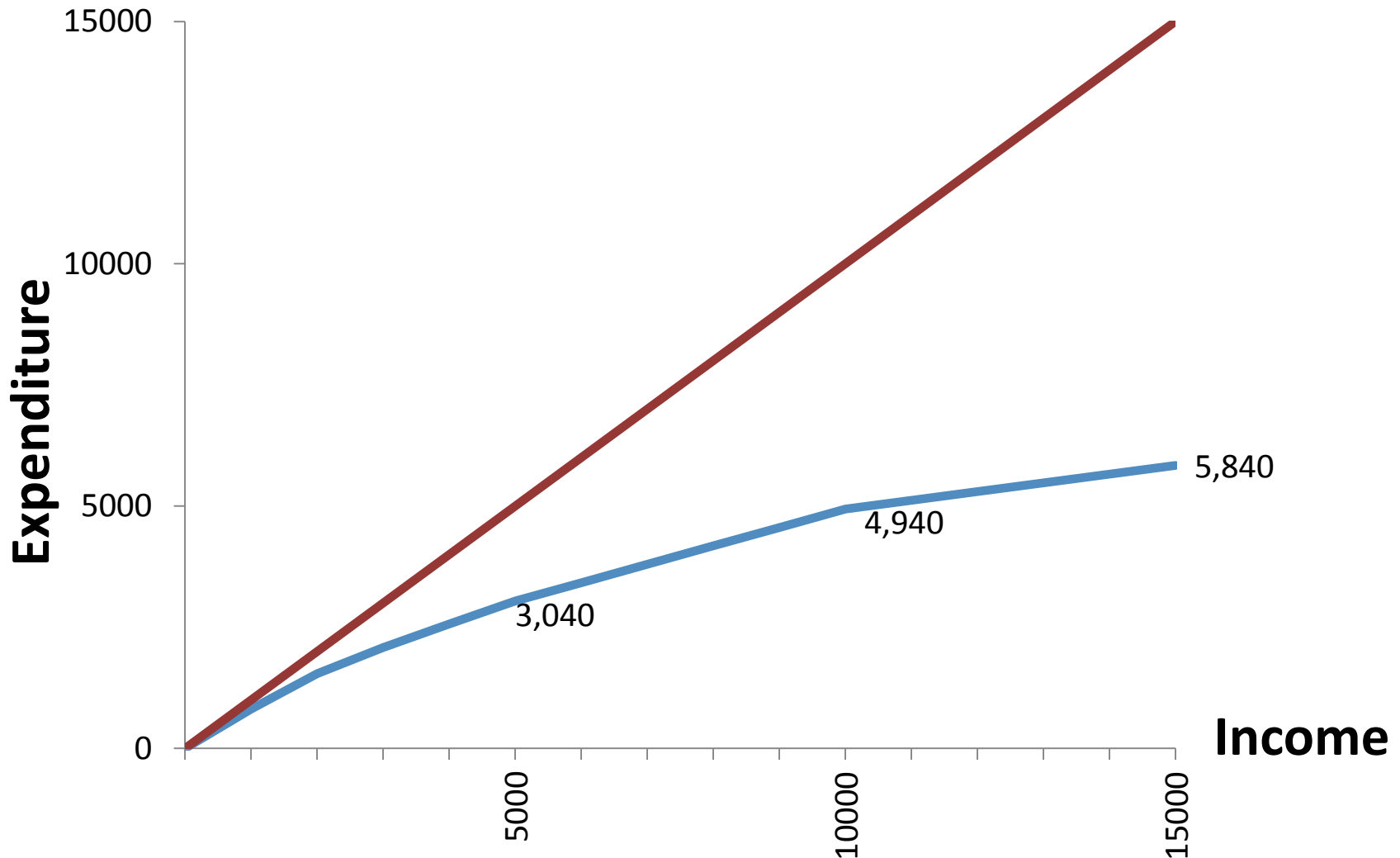
Calculating GST burden (GSTI)
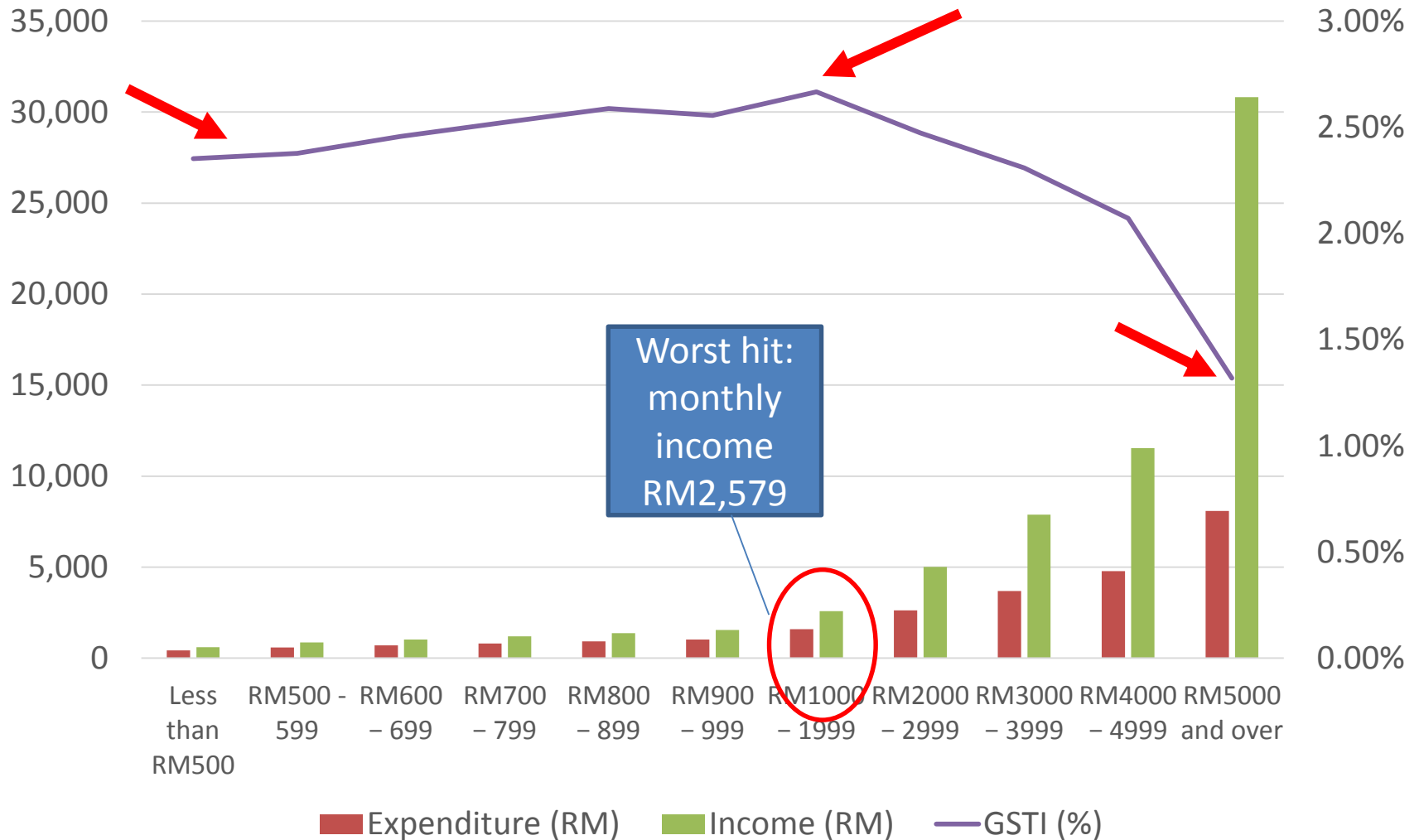
GSTI = GST (RM) ÷ Total Income

- Income increases
- Expenditure increases; but lower magnitude
- Income – expenditure relationship is concave

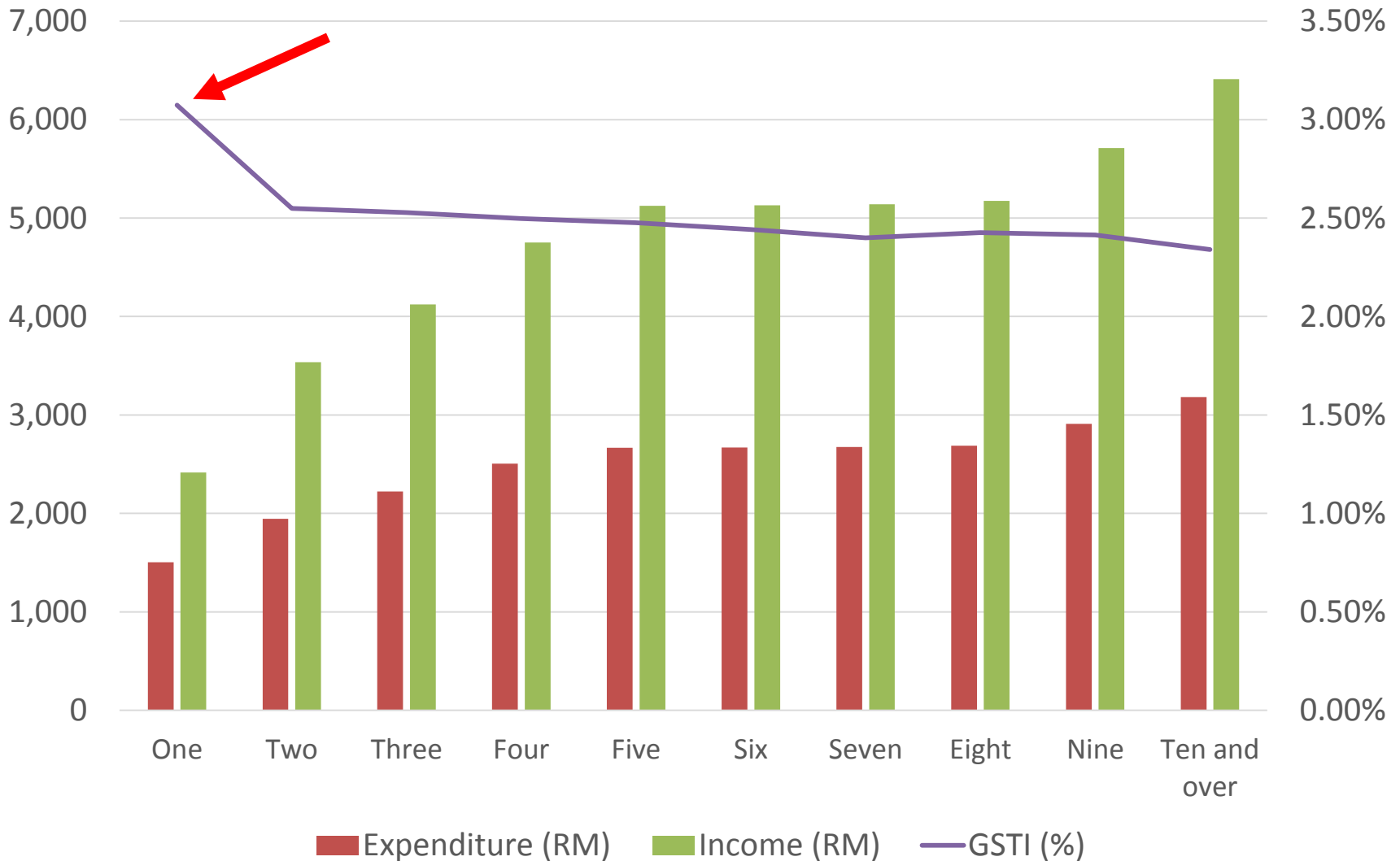# Income – expenditure relationship (from Bank Negara estimates)

Higher GSTI:
Low and middle income household
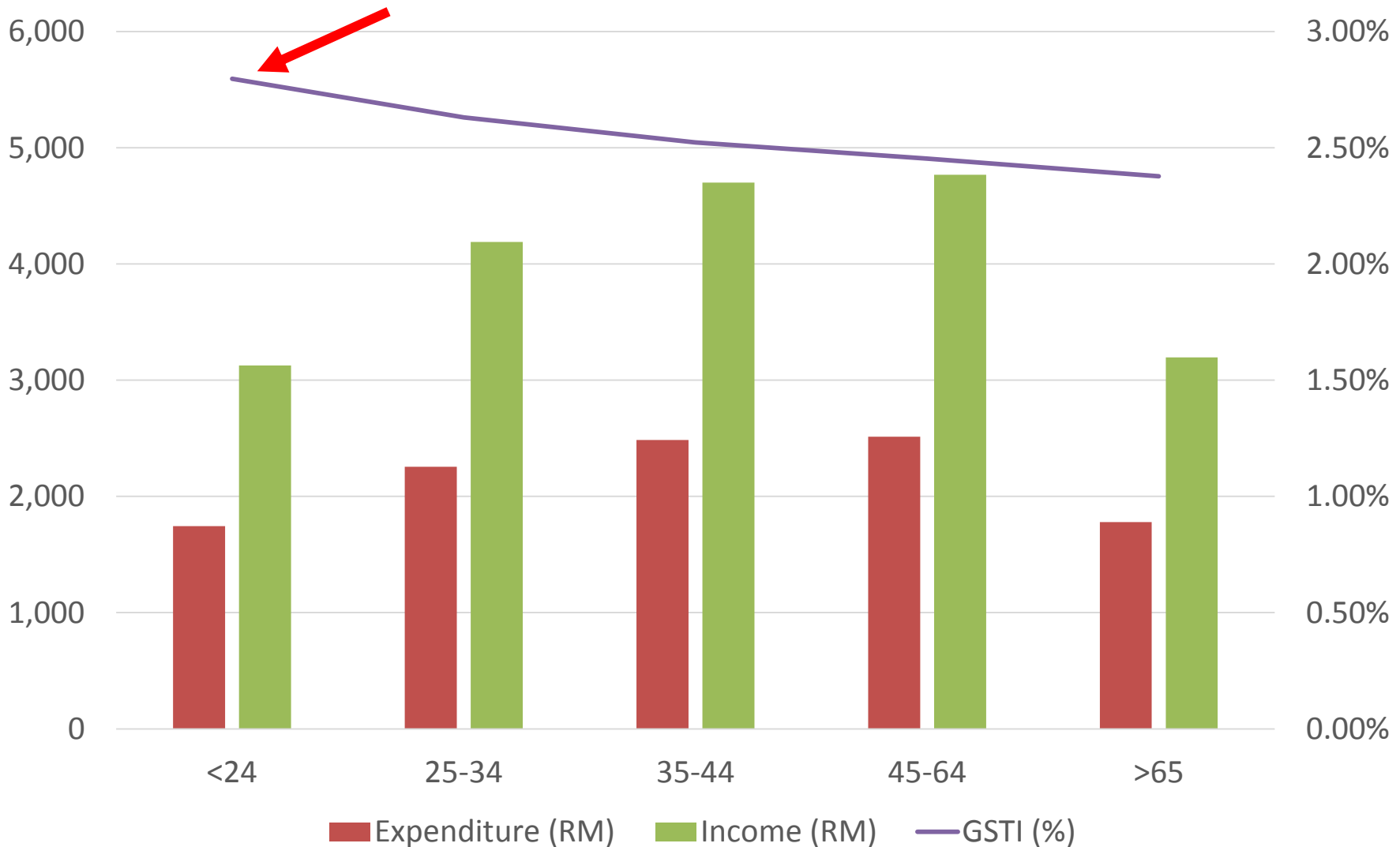

Worst hit: monthly income RM2,579

Less than RM500 | RM500 - 599 | RM600 – 699 | RM700 – 799 | RM800 – 899 | RM900 – 999 | RM1000 – 1999 | RM2000 – 2999 | RM3000 – 3999 | RM4000 – 4999 | RM5000 and over

Expenditure (RM) Income (RM) GSTI (%)

Higher GSTI:
Single person household

Legend: Expenditure (RM) | Income (RM) | GSTI (%)

Categories: One, Two, Three, Four, Five, Six, Seven, Eight, Nine, Ten and over

Higher GSTI:
Young (less than 24 years old) household

Legend: Expenditure (RM) | Income (RM) | GSTI (%)
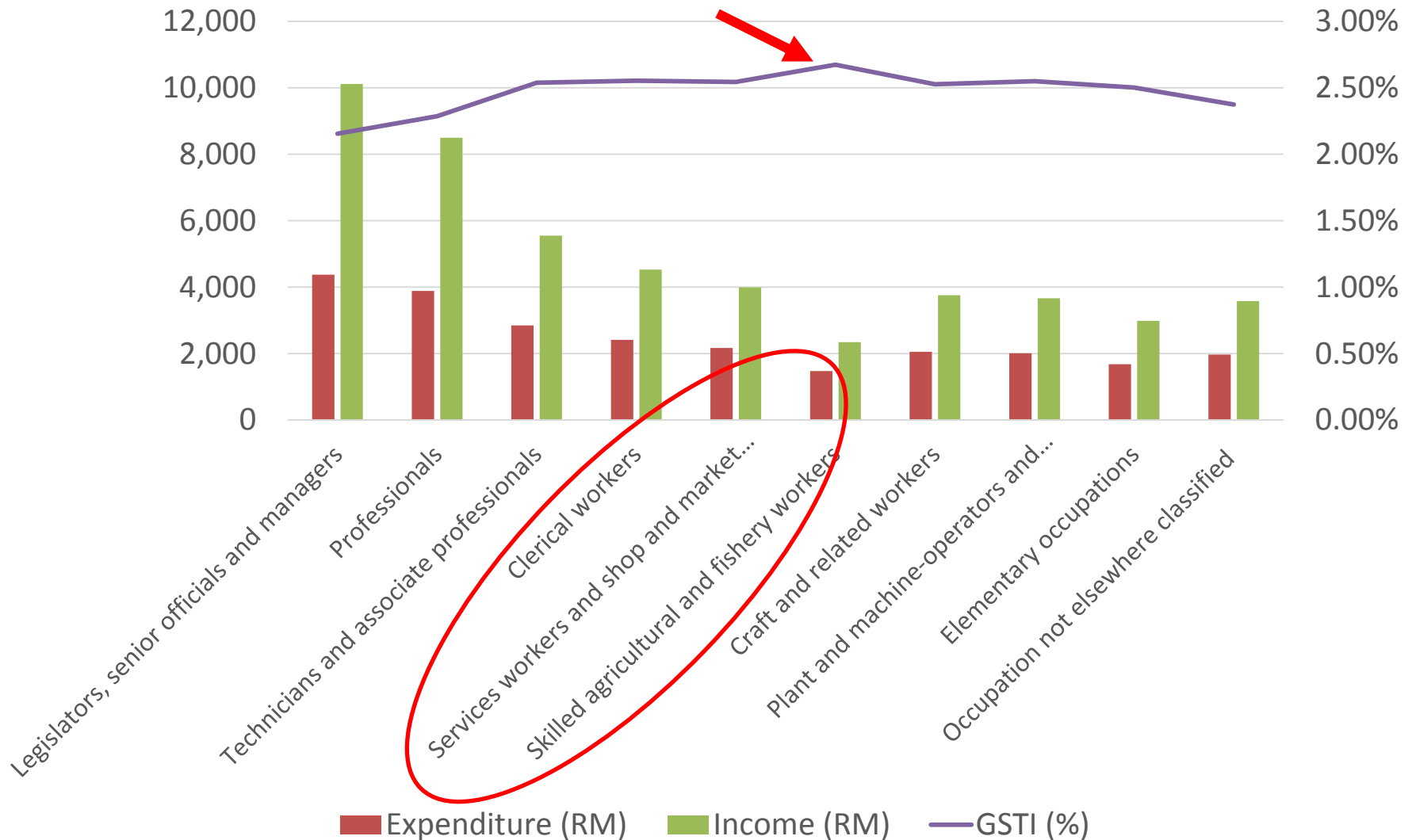
Higher GSTI:
Bumiputera–led & non–Malaysian household
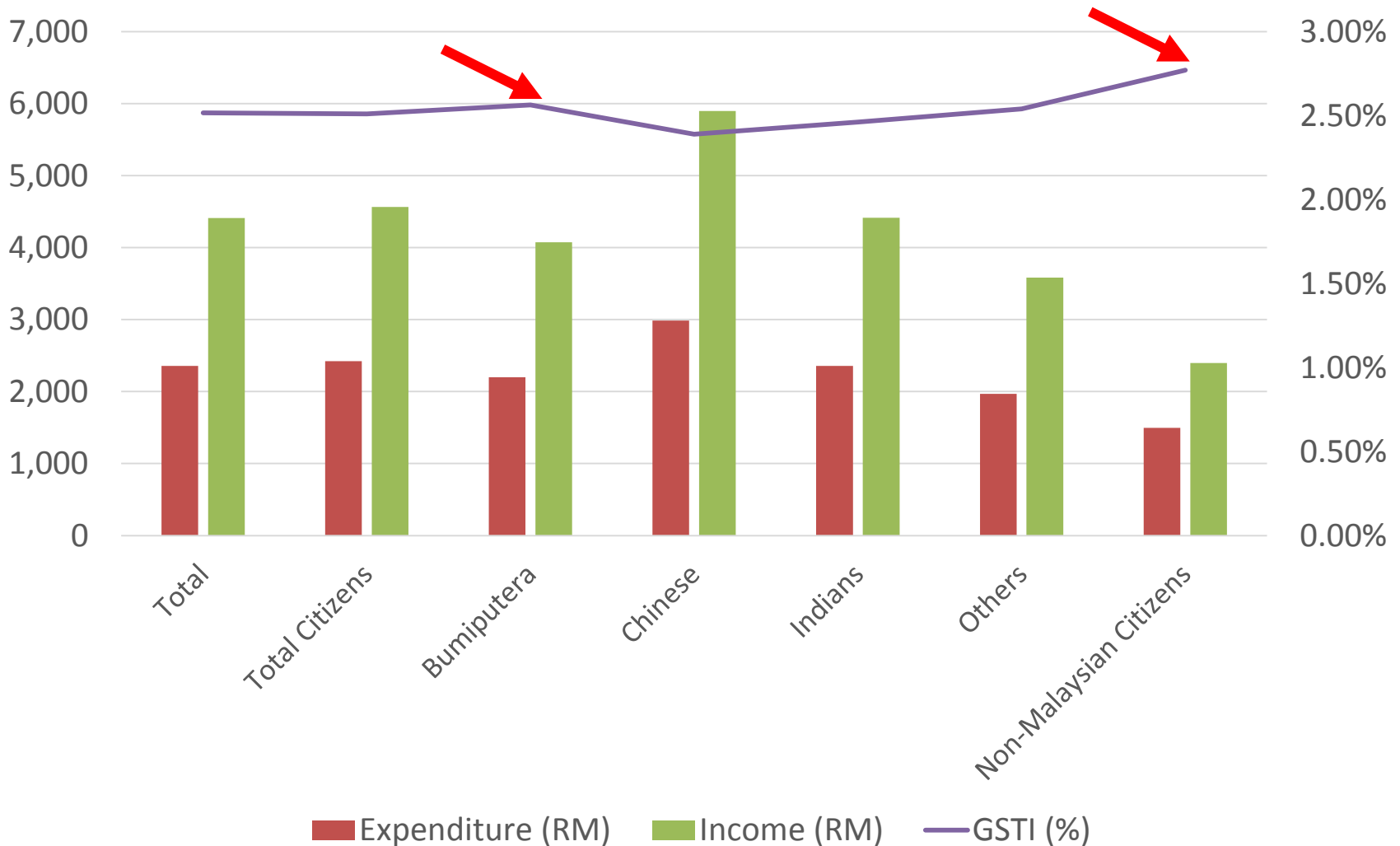
Higher GSTI:
Clerical & services workers, Farmers, Fishermen

Legislators, senior officials and managers; Professionals; Technicians and associate professionals; Clerical workers; Services workers and shop and market...; Skilled agricultural and fishery workers; Craft and related workers; Plant and machine-operators and...; Elementary occupations; Occupation not elsewhere classified

Expenditure (RM) Income (RM) GSTI (%)

Higher GST contribution: Peninsular Malaysia
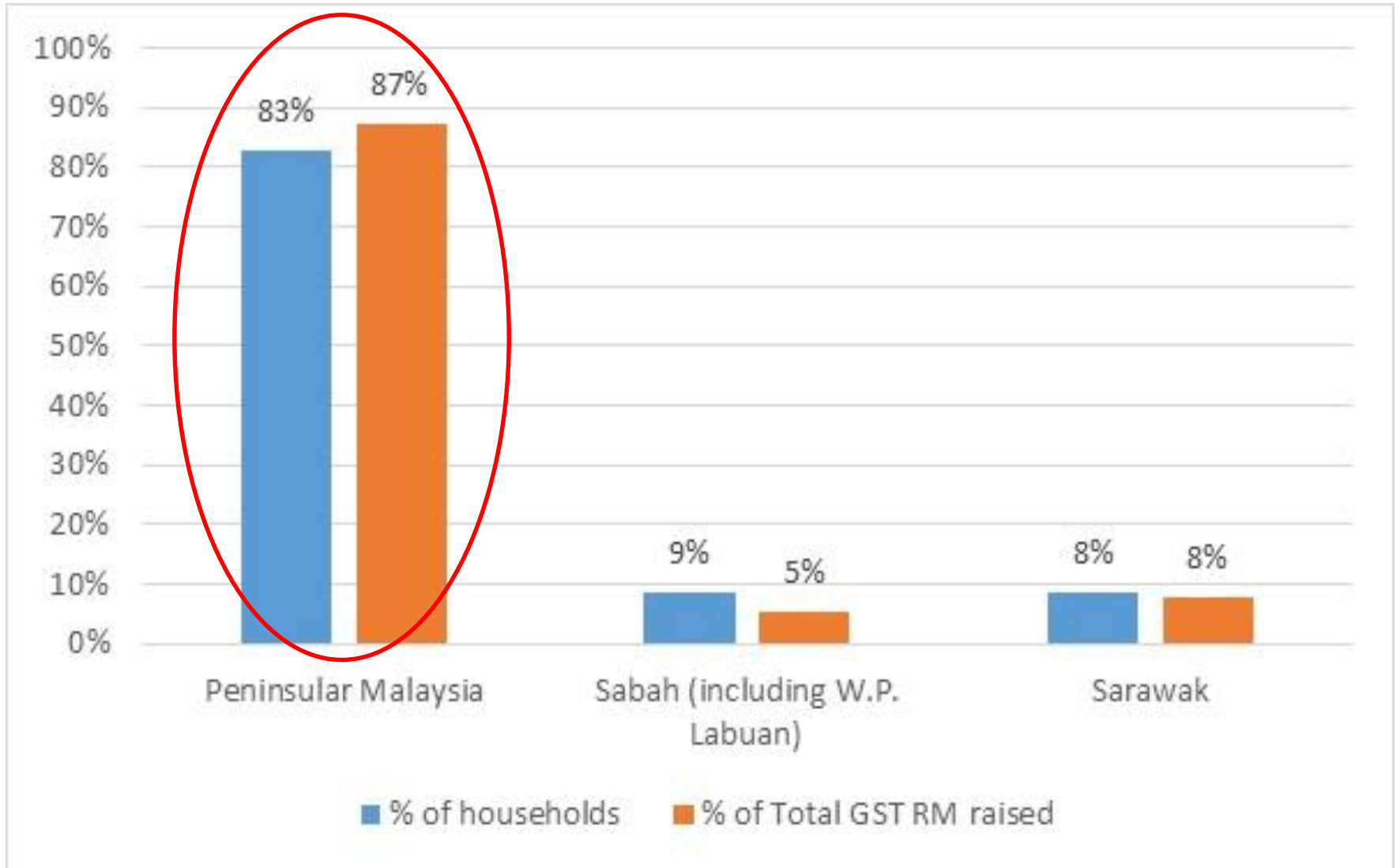
Our interactive spreadsheet:
www.penanginstitute.org/gst

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Click next cell to choose your Location:	Both
& Region:	Malaysia
& Category:	Expenditure Class
& GST rate:	6.00%

Read the background information and guide before viewing the results.

Result:	GST Payable (RM)	Average Monthly Expenditure (RM)	Average Monthly Income (RM)	GSTE (%)	GSTI (%)
Less than RM500	11.47	421.06	605.49	2.72%	2.35%
RM500 - 599	16.61	594.03	867.23	2.80%	2.38%
RM600 – 699	20.42	699.88	1,031.63	2.92%	2.46%

Click next cell to choose your Location:	Both
& Region:	Malaysia
& Category:	Age
& GST rate:	6.00%

Read the background information and guide before viewing the results.

Result:	GST Payable (RM)	Average Monthly Expenditure (RM)	Average Monthly Income (RM)	GSTE (%)	GSTI (%)
<24	70.55	1,745.38	3,127.22	4.04%	2.80%
25-34	88.93	2,254.53	4,189.64	3.94%	2.64%
35-44	95.74	2,484.70	4,701.58	3.85%	2.53%
45-64	94.45	2,514.31	4,769.09	3.76%	2.46%
>65	61.36	1,780.15	3,197.05	3.45%	2.38%

Measures in the Budget
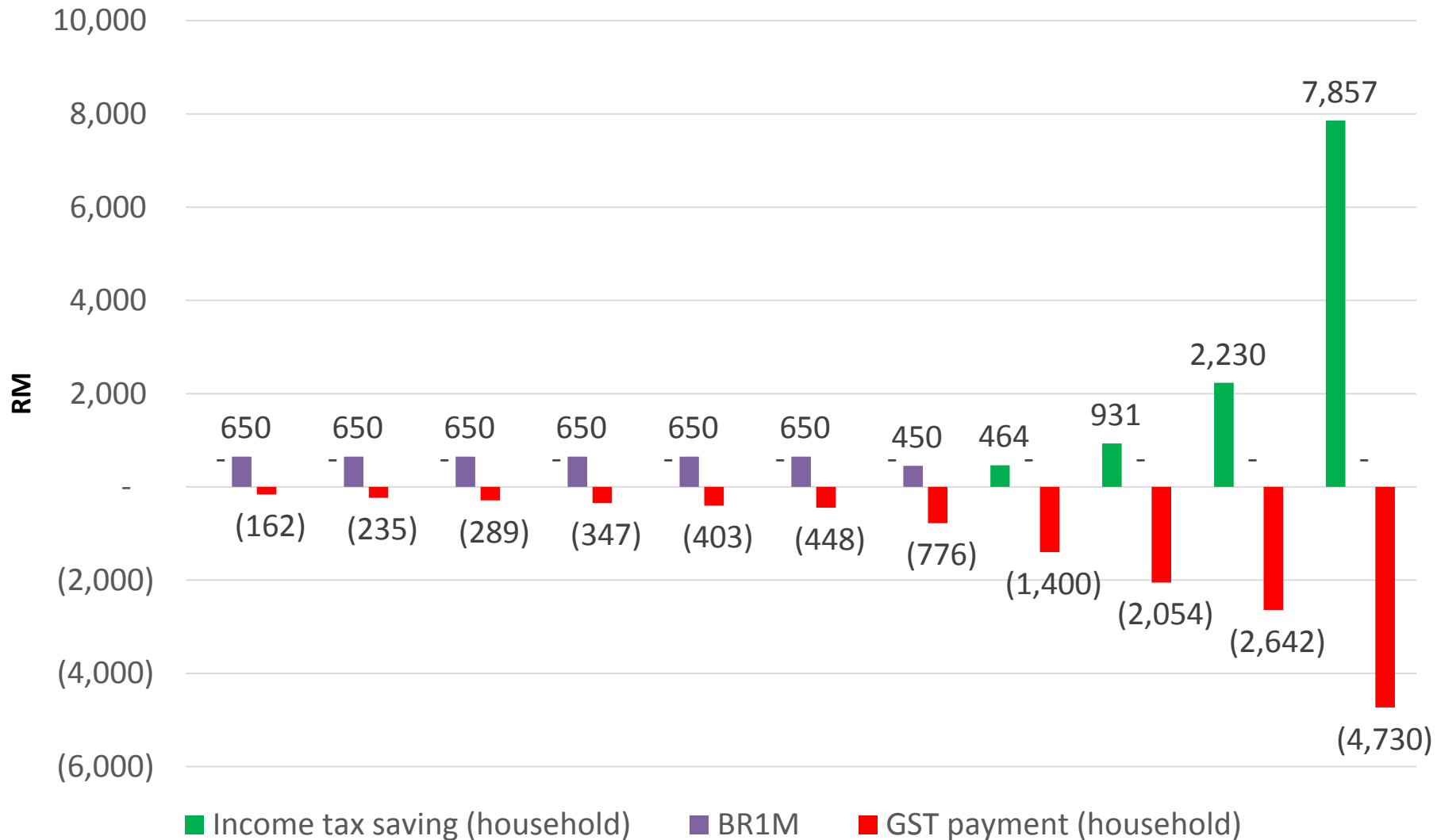
Cash outflow

Cash inflow
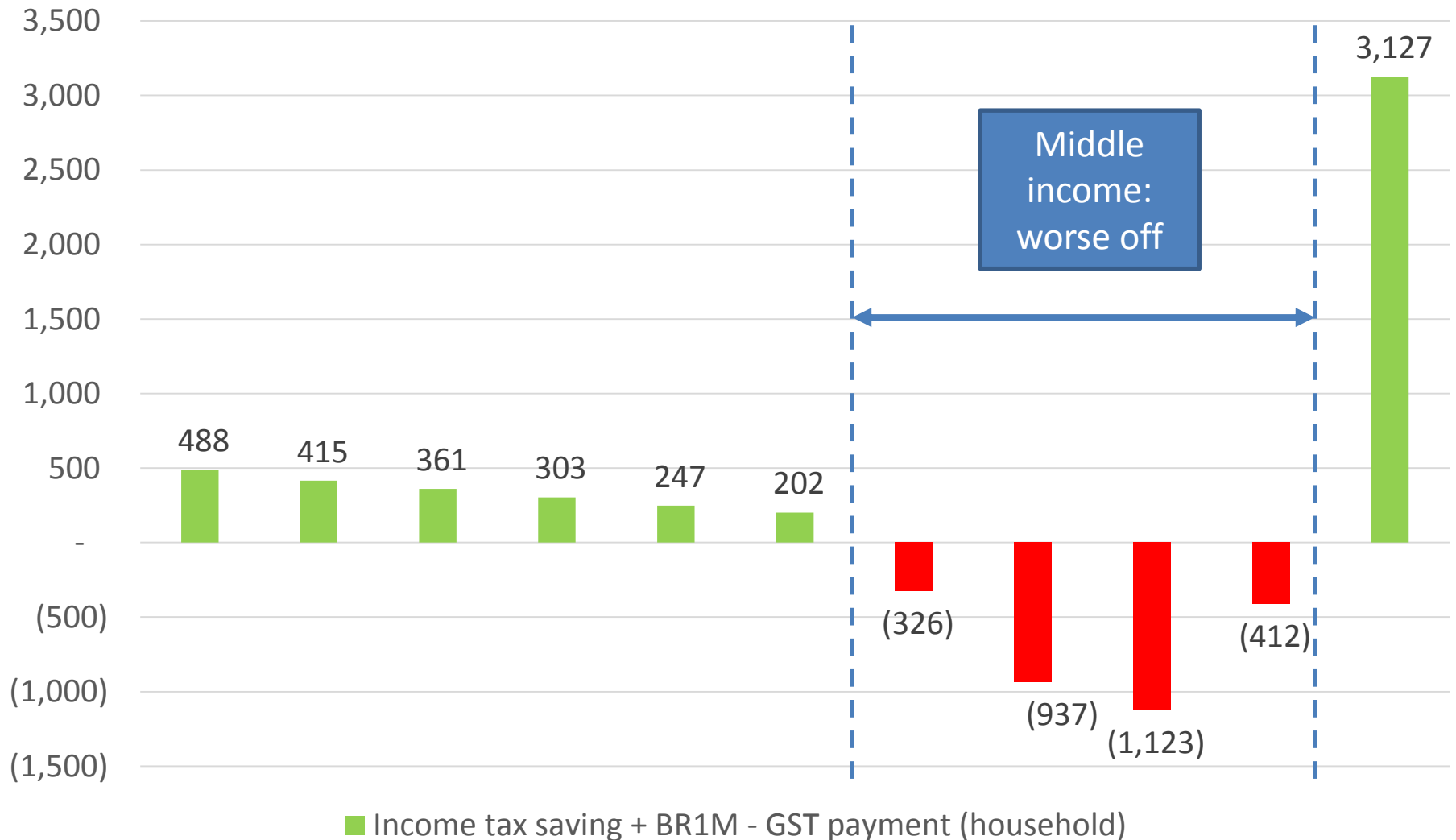
Income tax cut

GST
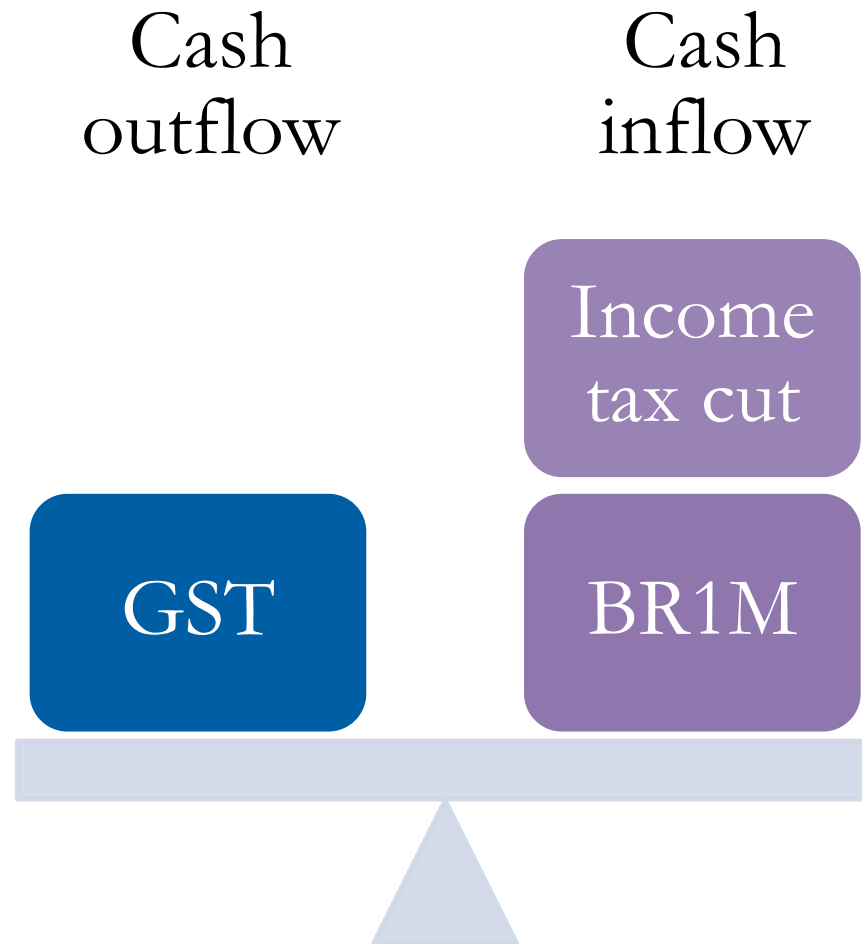
BR1M

Annual Household Income
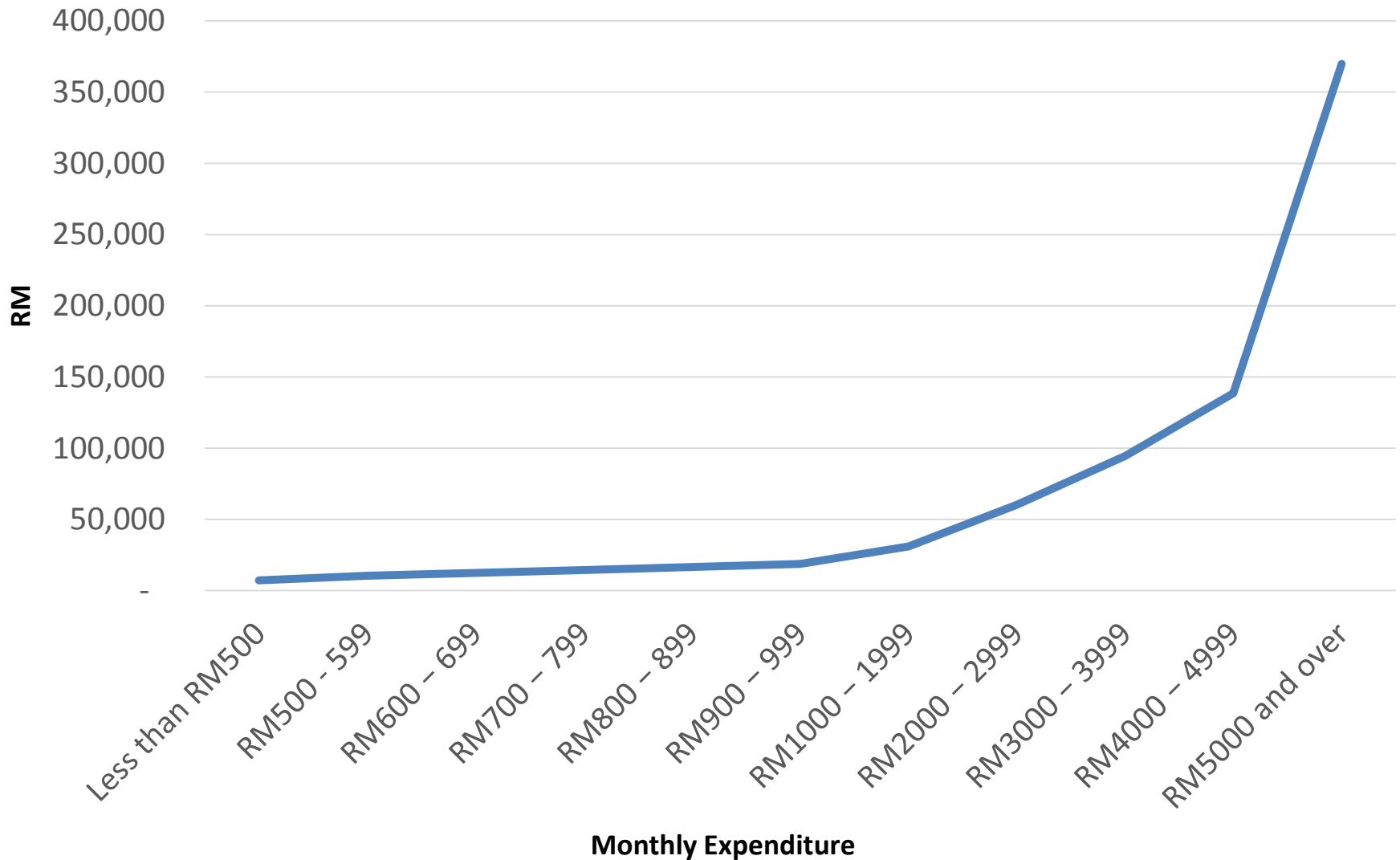
Budget's measures: Income tax cuts, BR1M & GST

Income tax savings + BR1M − GST: Middle income worse off

Income tax saving + BR1M − GST payment (household)

Budget: households with current annual income RM 30k– 150k to pay more tax

Annual income (household)	7,266	10,407	12,380	14,443	16,551	18,662	30,950	60,177	94,524	138,521	369,778
Chargeable income (individual)	-	1,238	3,178	4,115	4,787	5,509	13,559	32,282	52,242	74,126	159,646
Income tax saving (household)	-	-	-	-	-	-	-	464	931	2,230	7,857
BR1M	650	650	650	650	650	650	450	-	-	-	-
GST payment (household)	(162)	(235)	(289)	(347)	(403)	(448)	(776)	(1,400)	(2,054)	(2,642)	(4,730)
Income tax saving + BR1M - GST (household)	488	415	361	303	247	202	(326)	(937)	(1,123)	(412)	3,127

More tax

Mitigate negative effect on middle income 1: Our proposed income tax rates

Chargeable Income (upper limit)	Our proposal	Change vs. current	Change vs. Budget
5,000	0.0%	0.0%	0.0%
20,000	1.0%	-1.0%	0.0%
35,000	1.5%	-4.5%	-3.5%
50,000	8.0%	-3.0%	-2.0%
70,000	18.0%	-1.0%	2.0%
100,000	24.0%	0.0%	3.0%
250,000	25.0%	-1.0%	1.0%
400,000	25.0%	-1.0%	0.5%
9,999,999	25.0%	-1.0%	0.0%

Bigger cuts at lower income

Smaller cuts at higher income

Expenditure efficiency improvements to make up any revenue shortfall

Budget vs. Our Proposal: Income tax savings + BR1M − GST

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3,500
3,000
2,500
2,000
1,500
1,000
500
-
(500)
(1,000)
(1,500)

488 415 361 303 247 202 (326) (318) 281 160 449

Middle income: less worse off

Highest income: less better off

■ Income tax saving + BR1M - GST payment (Budget)
■ Income tax saving + BR1M - GST payment (Proposal)
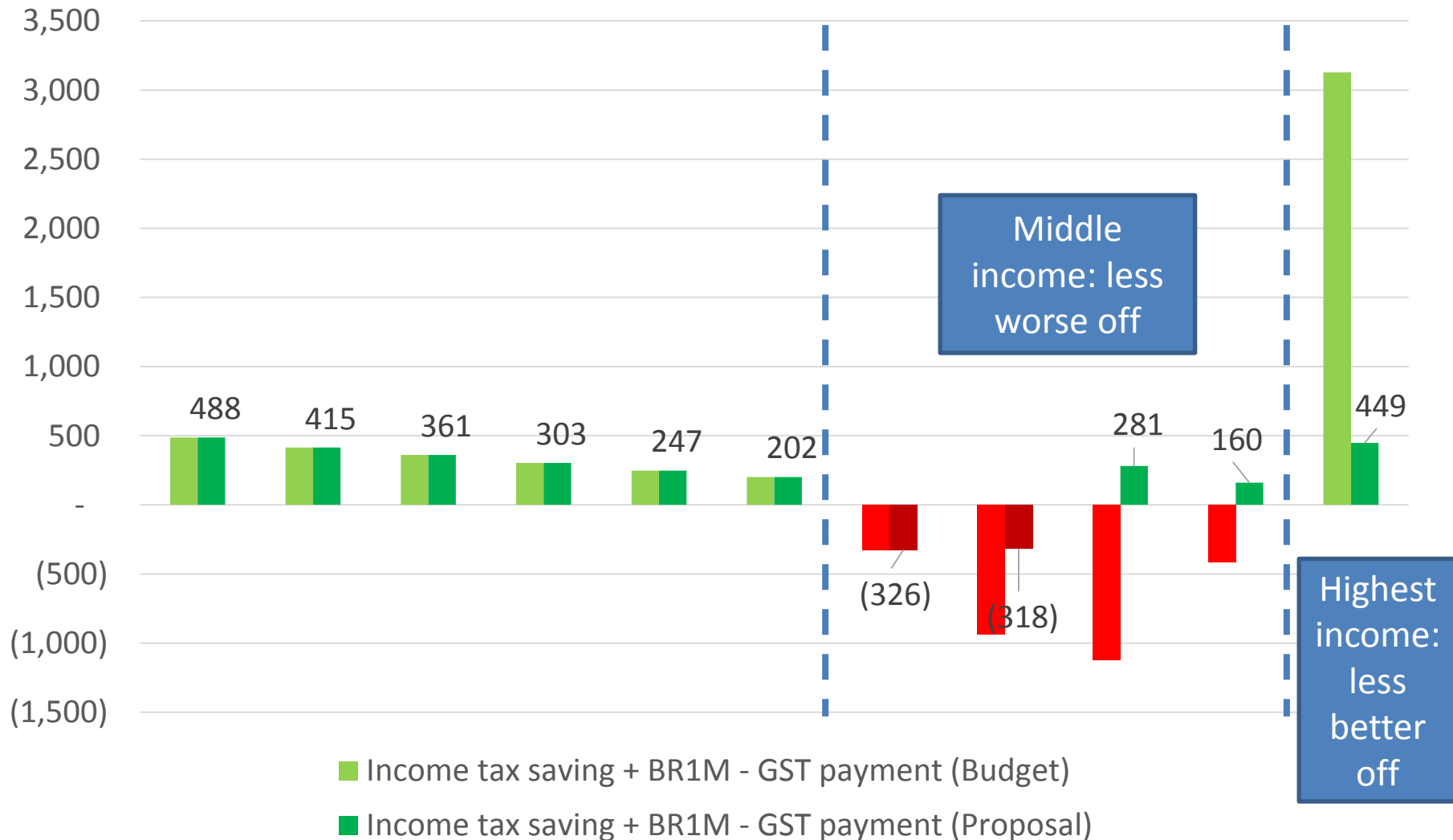
Total GST Revenue from Households

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Perfect condition: RM 6.5 billion

Simplify tax administration

(GST register if > RM 0.5m sales)

+

Practical condition: RM 6 billion

Simplify tax administration

(GST register if > RM 0.5m sales)

+

GST Fraud?

+

Realistic condition: Less than RM 6 billion

GST Revenue Source

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Miscellaneous goods and services
13%

Food and non-alcoholic beverages
9%

Furnishings, household equipment and routine household maintenance
6%

Clothing and footwear
5%

Communication
9%

Restaurants and hotels
17%

Housing, water, electricity, gas and other fuels
9%

Recreation services and culture
7%

Transport
21%

Alcoholic beverages and tobacco
4%
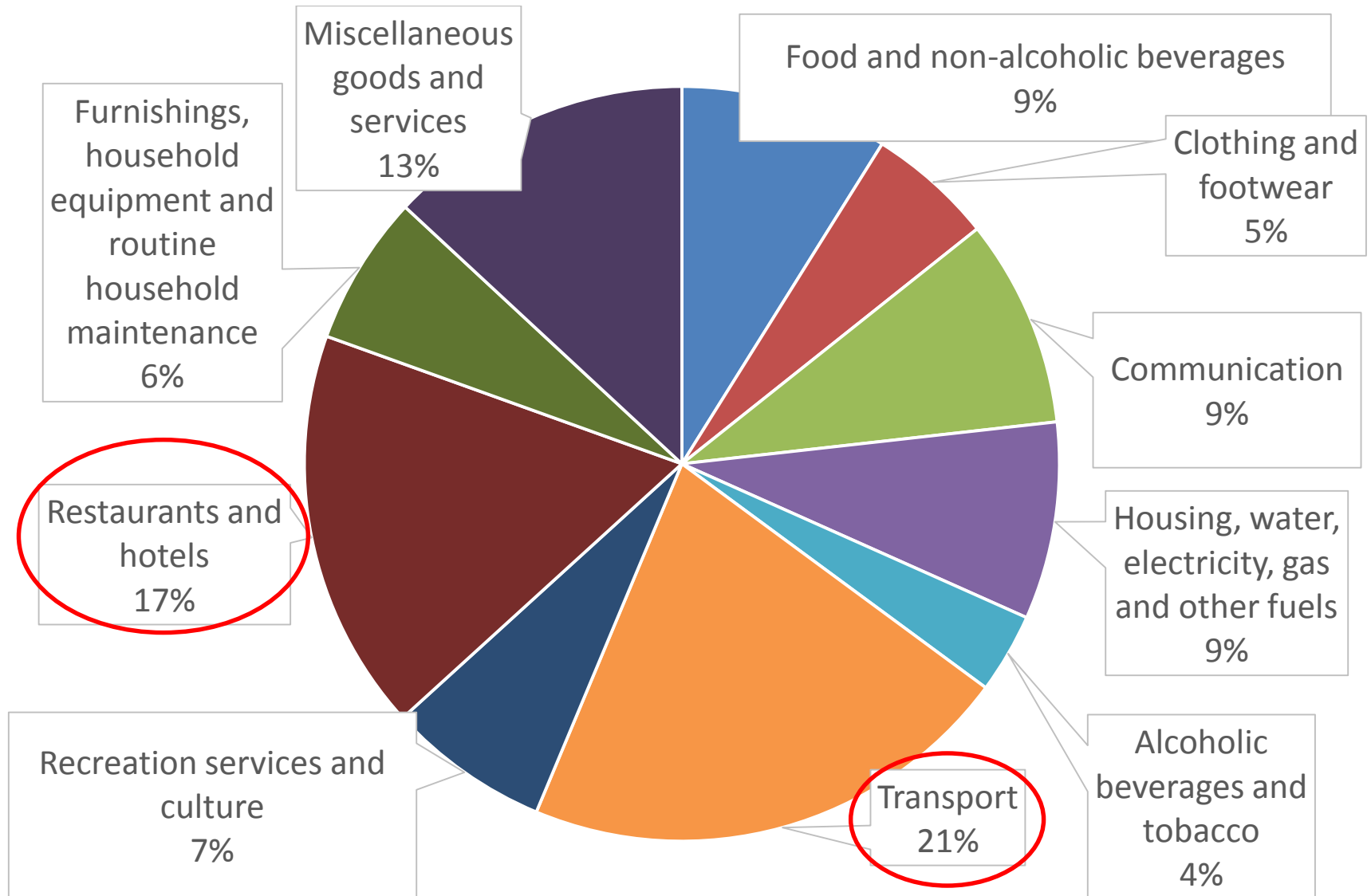
Mitigate negative effect on middle income 2: Make GST less regressive

Top 2 GST revenue source

Transport
Hotels & Restaurants

Multi-tier
GST

High GST rate
on selected items
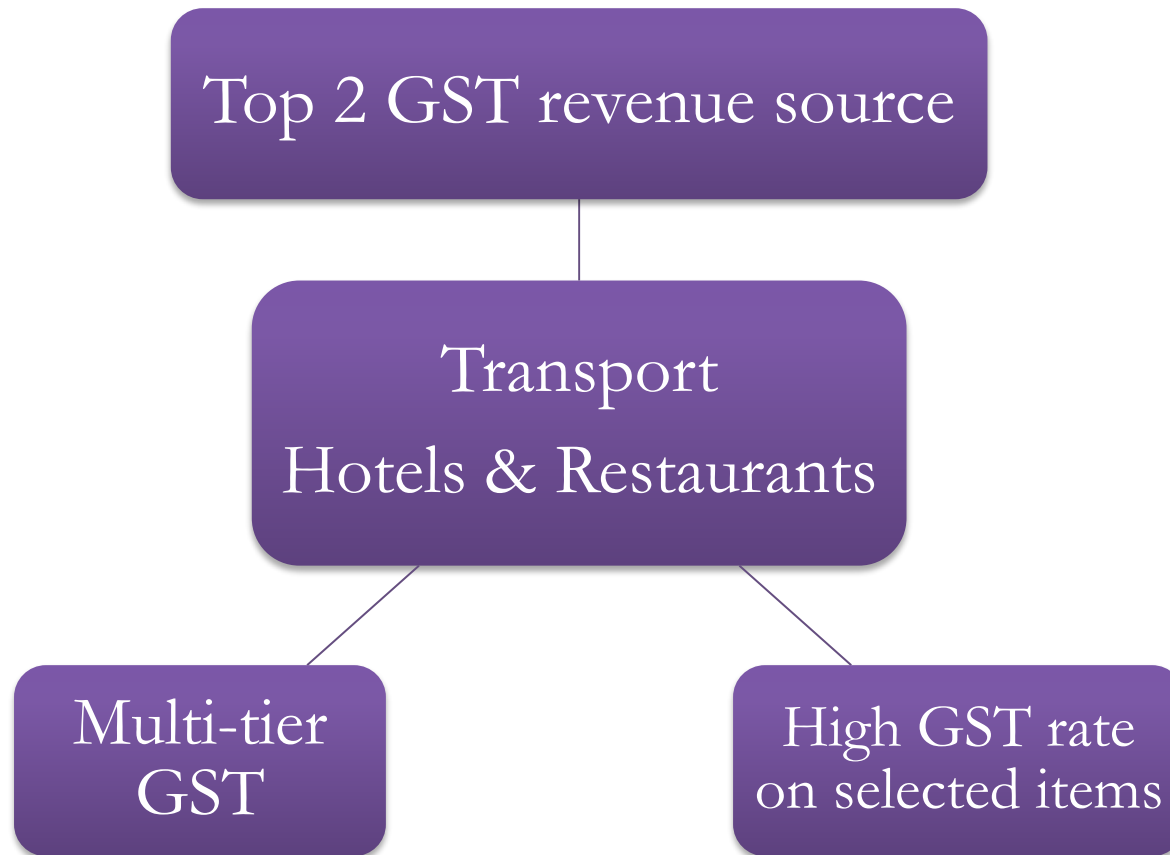
Why target Transport?
Transport as % of income increases as income rises

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Legend:
- Food and non-alcoholic beverages
- Housing, water, electricity, gas and other fuels
- Restaurants and hotels
- Transport
- Alcohol beverages and tobacco
- Income (RM Jul '13)

Categories:
- Less than RM500
- RM500 - 599
- RM1000 – 1999
- RM3000 – 3999
- RM4000 – 4999
- RM5000 and over

Callouts: 2%, 6.7%, 5.8%
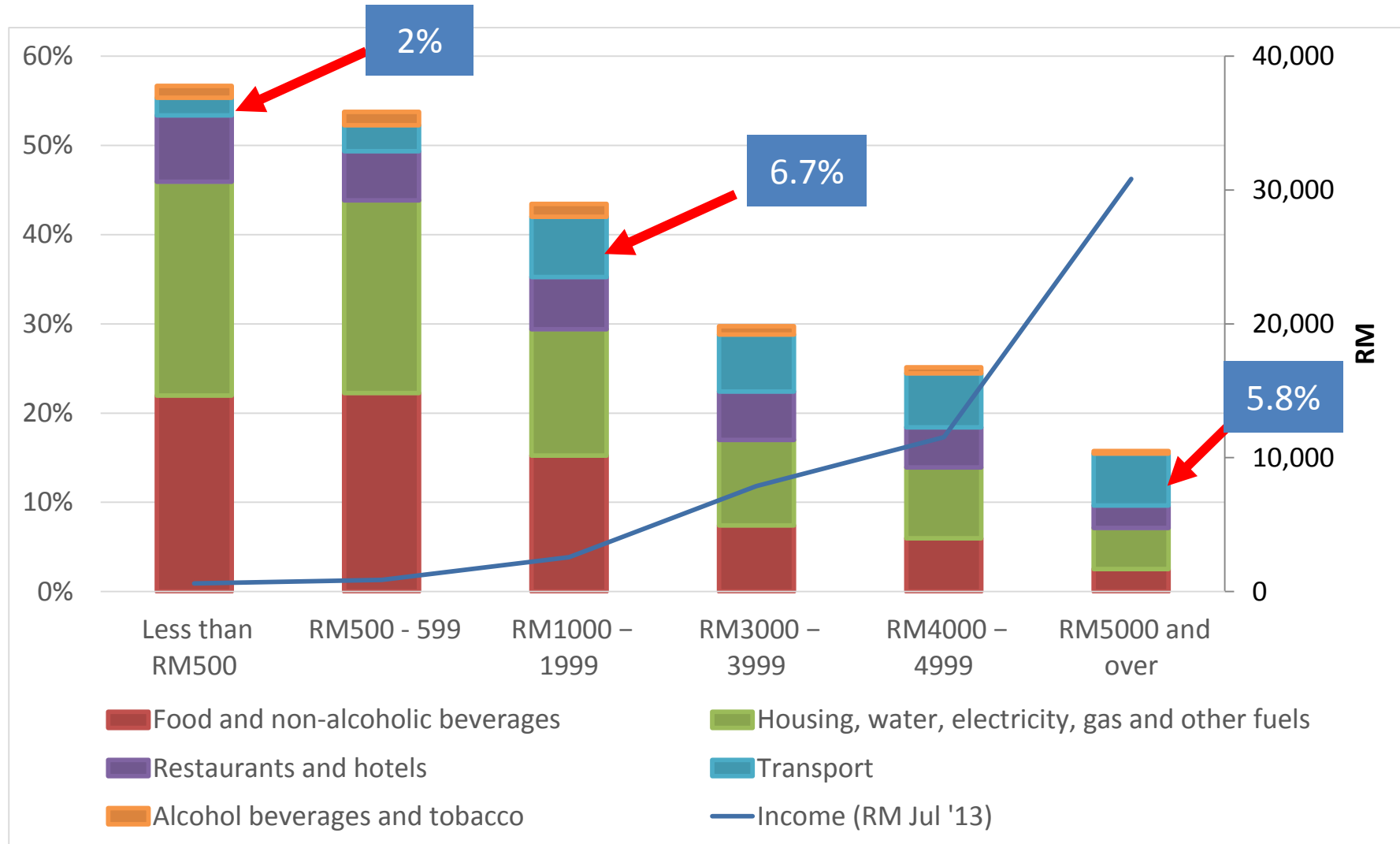
Raise same amount of revenue but make GST less regressive?

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Income Tax rate cut, refundable tax credits

High GST rate on only some items

Multi-tiered GST

Simple, effective tax regime

Raise billions

Broaden tax base
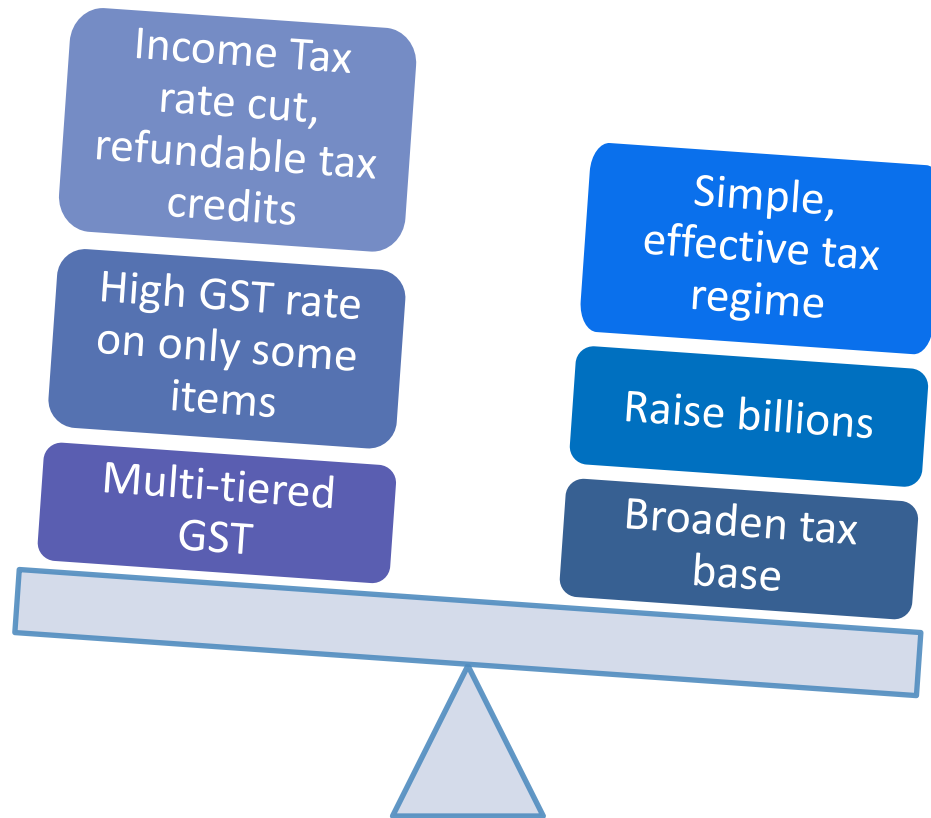
Difficult – middle income groups still pay higher GSTI

Base 6% vs:
Multi-tiered, High GST rate on selected items

Cannot make middle income pay less GSTI than highest income

Legend:
- Income (RM)
- Base: Flat 6% standard rate
- 25%: transport (excl public transportation); 2% standard GST rate
- 17.5%: transport (excl public transportation), restaurants & hotels

X-axis categories: Less than RM500, RM500 - 599, RM600 – 699, RM700 – 799, RM800 – 899, RM900 – 999, RM1000 – 1999, RM2000 – 2999, RM3000 – 3999, RM4000 – 4999, RM5000 and over
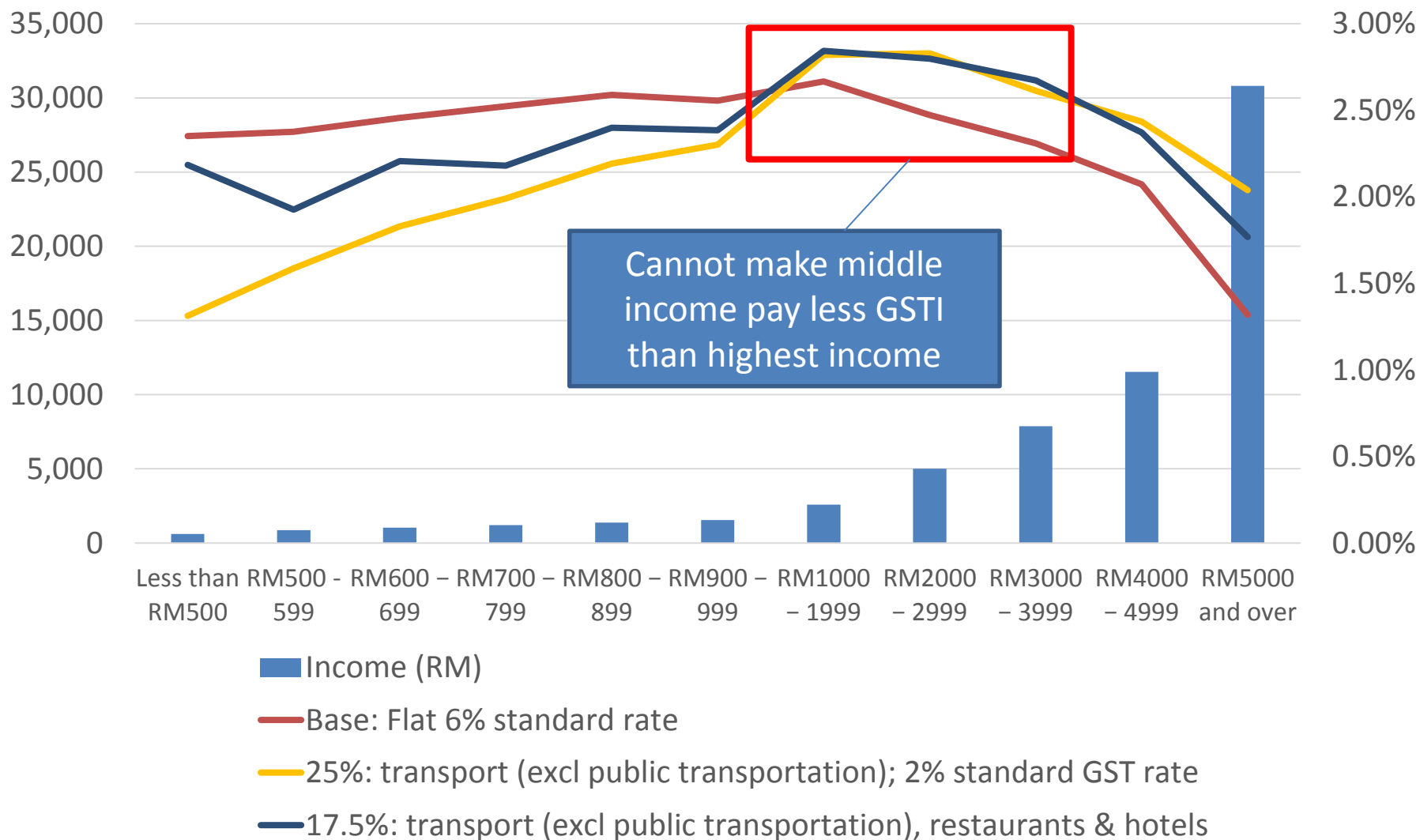
GST is a strongly regressive tax

Higher income households still pay lower GSTI

GST is intrinsically regressive

Middle income households still pay higher GSTI

Hence, need income tax reduction, refundable tax credits/rebates

Why was GST predicted to be in the Budget?

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High debt
- Sovereign: RM 519 billion (Q2 2013)
- Household: 80.5% GDP (2012)

Low US interest rates about to end
- Now: 2.6%
- 1999-2008: 4.7%

Foreigners hold RM 126 billion Malaysia Government Debt

Fiscal deficits since 1998

Credit rating downgrade risk

First Budget after GE13

GST Introduced

Government's credibility
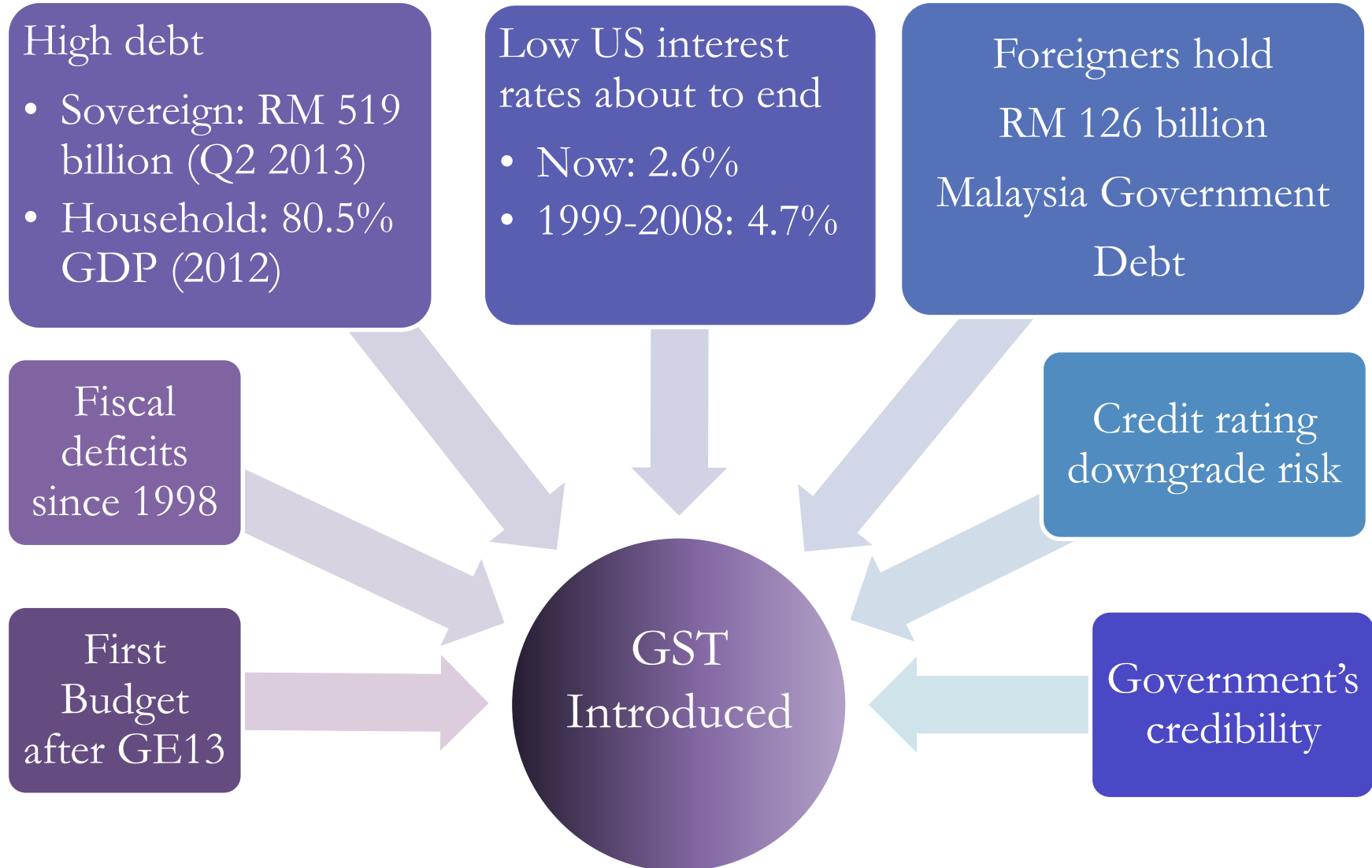
Foreigners' holdings in Malaysia Government Debt

Jul 13: RM 126 billion

Jun/Jul 2013: Foreign capital withdrawn

Jan 05: RM 9 billion

MAFDMGSS Index (Malaysia Debt Securities Foreign Holding Malaysian Govt Securiti   Copyright© 2013 Bloomberg Finance L.P.   10-Sep-2013 12:49:44
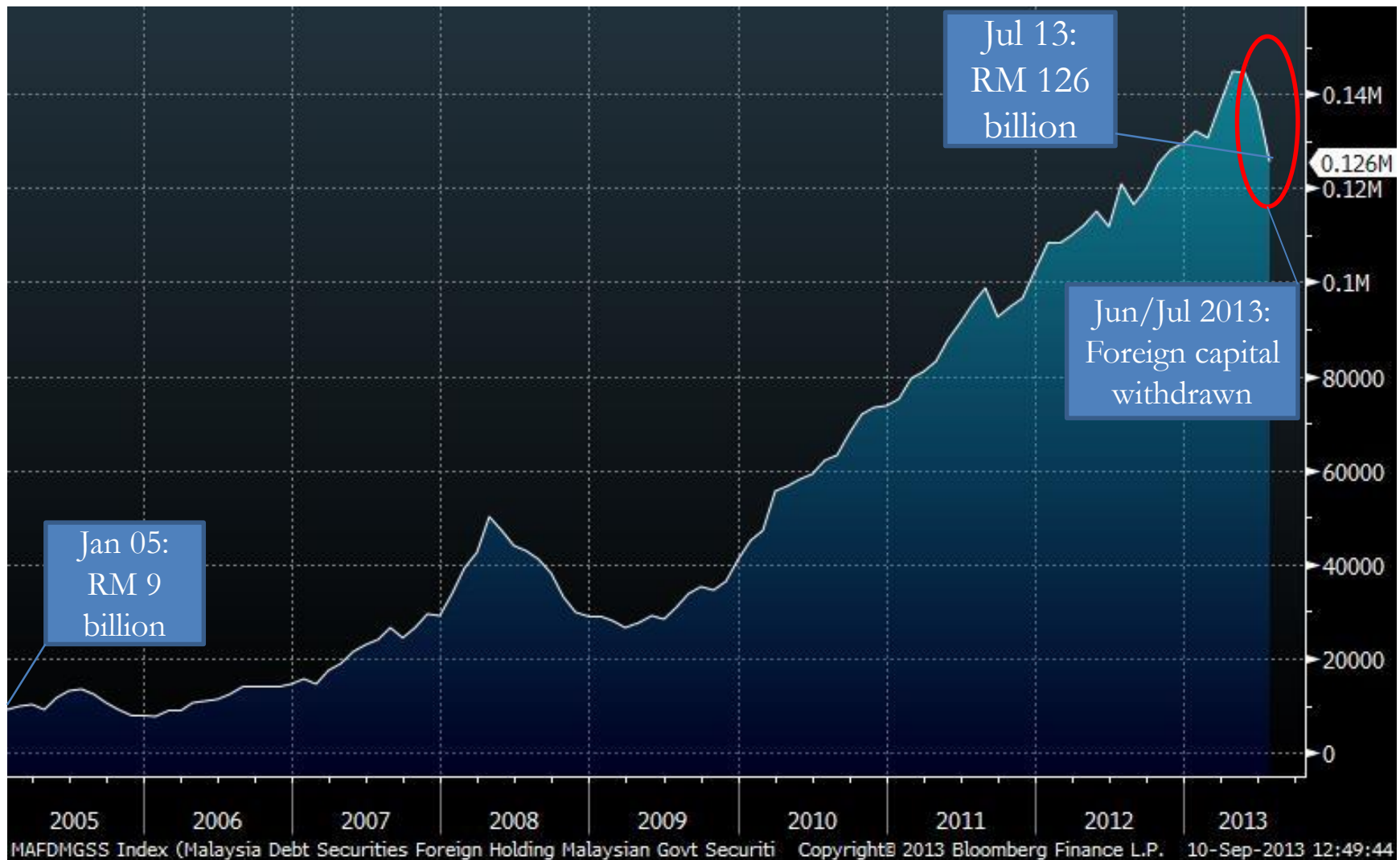
Foreign Capital withdrawn Borrowing Costs Increase (3.4%→4%)

Jun/Jul 2013: Foreign capital exert significant influence

MAGY10YR Index (Malaysia Govt Bonds 10 Year Yield) Daily 26SEP2012-01AUG2013 Copyright© 2013 Bloomberg Finance L.P. 26-Sep-2013 08:32:50

Significance

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Sovereign Debt:
RM 519 billion
(Q2 2013)

↓

1% higher
interest rate

↓

Additional RM
5.19 billion
interest

Low US interest rates end

Fiscal Deficit
Deteriorates

Credit
Rating
Downgrade

Slower
Economic
Growth

BANG!

Foreign
Capital
Withdraw

Borrowing
Costs
Increase

Likely Economic Impact 2015

Q4 2014 – 31 Mar 2015
- Consumers/businesses front load expenditure: big ticket items (cars), IT
- Economy booms

1 Apr 2015
- GST imposed

Q2-4 2015
- Economy sluggish – Minimal expenditure; but BR1M insulates domestic demand
- High inflation, likely to peak around Q4

31 Dec 2015
- AEC starts – minimal impact as most goods are already tariff free
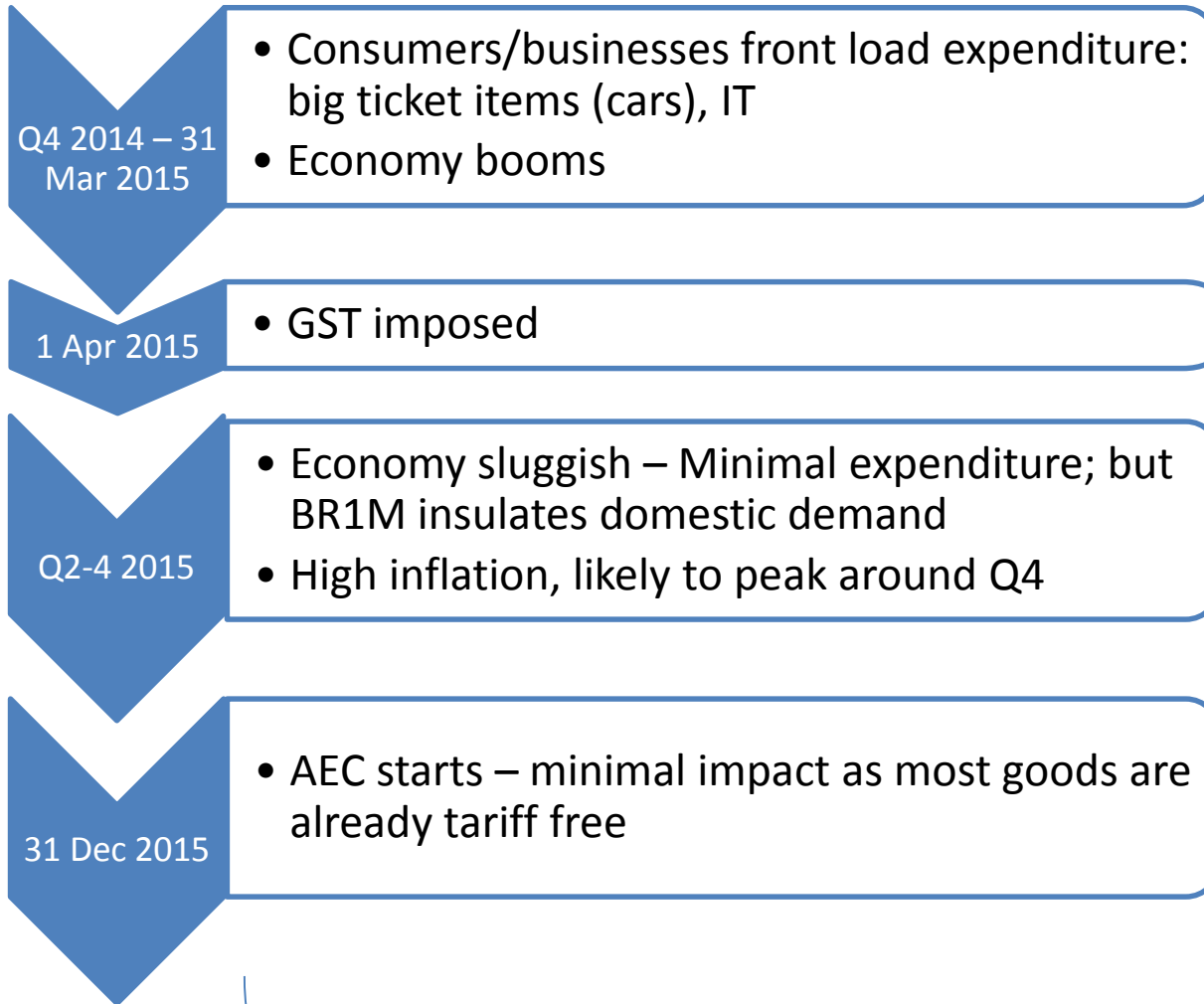
- US Fed – Yellen appointed 2014; tapering in 2015?

- Economic cycle every 6/7 years. So, possible economic downcycle in 2015?

Domestic

Global