

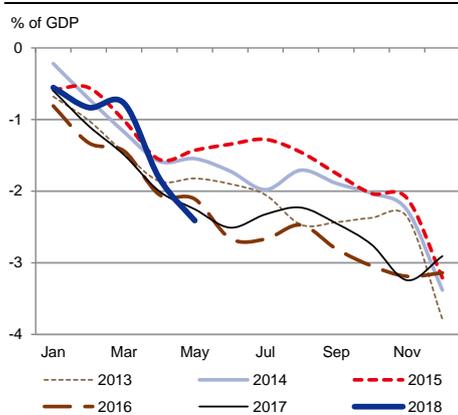
Malaysia

Economics Update

Dusting off the old playbook for SST 2.0

- Sales Tax rates of 5% and 10%, and Service Tax of 6% proposed under SST 2.0.
- Taxable goods and services shrink from 60% of CPI basket under GST to 38%.
- Households are clear winners in the GST-SST trade-off while businesses selectively benefit from lower compliance costs and boost to consumer demand.
- On the other hand, government finances remain a concern as the replacement of GST with SST 2.0 entails a revenue shortfall of RM23bn (~1.6% of GDP).
- We reiterate our GDP growth (+5.2% in 2018) and inflation forecasts (+1.3% in 2018), which had already been adjusted to reflect the reinstatement of SST 2.0.

YTD fiscal deficit



SST 2.0 borrows heavily from previous SST regime

The [Sales and Services Tax \(SST\)](#) will make a comeback on 1 Sep 2018 in a familiar fashion, with proposed rates of 5% and 10% for the Sales Tax, and 6% for the Service Tax – similar to the previous SST regime that was retired after 2015. While a separate tax schedule will be released later for petroleum and petroleum products, specific provisions were not made for tobacco and liquor, which incurred sales tax rates of 25% and 20% respectively under the SST 1.0, implying either the tax rate has not been finalised or a standard-rated sales tax of 10% applies. The new SST bill will be tabled soon and is expected to be passed before the end of the current parliamentary session in mid Aug. SST 2.0, alongside the GST zerorisation on 1 Jun, brings one of the new government’s core election promises closer to realisation.

Tweaks to improve efficiency of SST and minimise profiteering

We understand that improvements are being considered to the new SST Bill to address criticisms of the old SST like double taxation, incomplete tax relief for exports outside designated/special areas, and efficiency of collection. The Royal Malaysia Customs Department (RMCD) is also in consultation with the Finance Ministry and the Domestic Trade and Consumer Affairs Ministry to monitor and prevent unjustified profiteering during the SST 2.0 implementation.

Fulfilling pro-consumer election promise

Households are the clear winners in this trade-off, receiving additional disposable income through reduced tax collection. While goods without exemptions such as [passenger vehicles](#), selected building materials, processed F&B and services (Fig 4) are poised for price increases after the GST tax holiday, SST 2.0 covers a narrower basket of goods and services (38% of CPI basket vs. 60% under the GST as cited by Finance Minister Lim Guan Eng), curtailing the inflationary impact to consumers. We retain our inflation forecast of 1.3% in 2018, which already assumes the reintroduction of the SST.

Lower administrative and compliance burden on businesses

SST 2.0 and the proposed abolishment of the GST Act relieves many businesses from the onerous reporting requirements, with the RMCD estimating that less than 100,000 businesses will be affected by SST 2.0 vs. 472,000 under GST. FM Lim contends that delayed GST refunds had tied up operating cash flows and raised costs for businesses. RMCD plans to help reduce administrative burden via automatic registration of eligible businesses (annual turnover >RM500,000) and digitising submissions of SST returns. RMCD will begin nationwide engagement with stakeholders on SST 2.0 from 23 Jul.

Government to tighten belt after picking up the tab

The government expects to collect RM21bn p.a. from the SST, vs. RM44bn p.a. under the GST regime estimated in Budget 2018 before it was abolished on 1 Jun, leaving a shortfall of RM23bn p.a. (~1.6% of GDP). While higher oil-related revenues provide a fortuitous temporary buffer, maintaining fiscal discipline hinges on the new government’s ability to rapidly rationalise unproductive expenditures and reduce revenue leakages. Alongside these fiscal reforms, we believe a comprehensive tax reform over the medium term, which helps simplify tax structures and broaden the tax base, is equally critical to ensuring fiscal and debt sustainability.

Economist(s)



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Figure 1: Government expects to collect RM4bn from the reintroduced SST in 2018

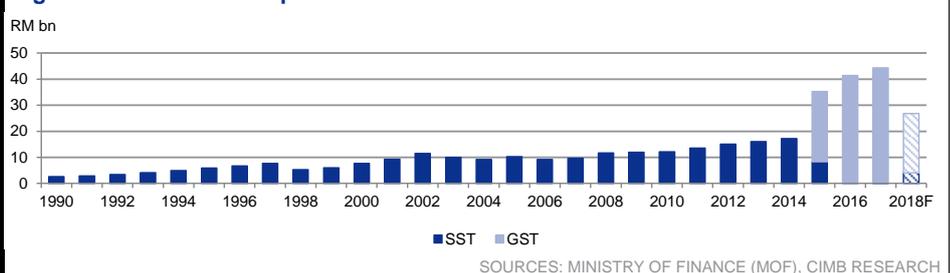


Figure 2: Reintroduced Sales and Service Tax

	SALES TAX	SERVICE TAX
Scope and charge	A single-stage tax chargeable on: - <ul style="list-style-type: none"> taxable goods manufactured in Malaysia by a taxable person and sold by him (including used or disposed off) taxable goods imported into Malaysia Not chargeable on: - <ul style="list-style-type: none"> goods listed under the Proposed Sales Tax (Goods Exempted From Sales Tax) Order 	Chargeable on: - <ul style="list-style-type: none"> any provision of taxable services; made in the course or furtherance of any business; by a taxable person; and in Malaysia. Not chargeable on: - <ul style="list-style-type: none"> imported services exported services
Tax rate	<ul style="list-style-type: none"> 5%; or 10%; or A different rate for petroleum 	<ul style="list-style-type: none"> 6% For the provision of credit card or charged card services, a specific rate of tax of RM25 is imposed upon issuance of principal or supplementary card and every subsequent year or part thereof
Threshold	<ul style="list-style-type: none"> Manufacturer: RM500,000 p.a. Sub-contractor: RM500,000 p.a. 	<ul style="list-style-type: none"> RM500,000 p.a.
Determination of taxable turnover	<ul style="list-style-type: none"> Historical method: the total value of taxable goods/supplies in that month and the 11 months immediately preceding the month Future method: the total value of taxable goods/supplies in that month and the 11 months immediately succeeding the month 	
Transitional registration	Any manufacturer/person who is liable to be registered is required to register before 1 Sep 2018 and the registration commencement date will be on 1 Sep 2018	
	Automatic registration <ul style="list-style-type: none"> Manufacturers/service providers who are GST Registered Persons which have been identified and fulfilled the required criteria will be registered automatically as Registered Manufacturer/Persons under Sales Tax/Service Tax. The Registered Manufacturer/Person needs to charge tax beginning 1 Sep 2018 Persons not registered automatically <ul style="list-style-type: none"> GST Registered Persons who fulfilled the required criteria to be registered but were not registered by 1 Sep 2018 need to apply for registration within 30 days from the commencement date 	
Tax return	<ul style="list-style-type: none"> Registered manufacturer/person has to declare SST return every two months according to the taxable period. SST return has to be submitted not later than the last day of the following month after the taxable period ended. SST return has to be submitted irrespective whether there is any tax to be paid or not. SST return has to be submitted electronically or by post. 	
Payment	<ul style="list-style-type: none"> Electronic payment By cheque, bank draft and posted to SST Processing Centre 	
Late payment penalty	<ul style="list-style-type: none"> 10% - first 30 days period 15% - second 30 days period 15% - third 30 days period maximum penalty 40% after 90 days 	
Records keeping	<ul style="list-style-type: none"> 7 years Bahasa Malaysia or English to be kept in Malaysia, except permitted by DG to be kept outside Malaysia Can be kept in soft or hard copy 	
Relief for bad debts	Bad debts may be claimed: - <ul style="list-style-type: none"> within 6 years from the date the taxable goods is sold / the taxable services is provided subject to conditions determined by the DG according to a prescribed formula 	

SOURCES: RMCD, CIMB RESEARCH

Figure 3: Sales tax – exemption and facilities

Exemption and facilities
Exemption from Sales Tax <ul style="list-style-type: none"> Goods - Proposed Sales Tax (Goods Exempted from Sales Tax) Order 2018 <ul style="list-style-type: none"> i.e. live animals, unprocessed food, vegetables, medicines, machinery, chemicals, etc Person - Proposed Sales Tax (Persons Exempted from Sales Tax) Order 2018 <ul style="list-style-type: none"> Schedule A: class of person i.e. Ruler of States, Federal or State Government Department, Local Authority, Inland Clearance Depot, Duty Free Shop Schedule B: Manufacturer of specific non-taxable goods - exemption of tax on the acquisition of raw materials, components, packaging to be used in manufacturing activities Schedule C: Registered Manufacturer: exemption of tax on the acquisition of raw materials, components, packaging to be used in the manufacturing of taxable goods (replacing CJ5, CJ5A, CJ5B)
Exemption from Registration <ul style="list-style-type: none"> Manufacturing activities exempted from registration regardless of turnover <ul style="list-style-type: none"> i.e. tailor, jeweler, optician, engraving, vanishing table top, etc

SOURCES: RMCD, CIMB RESEARCH

Figure 4: Taxable services

Taxable services
<ul style="list-style-type: none"> • Hotel i.e. lodging house, service apartment, homestay, inn, rest house, boarding house
<ul style="list-style-type: none"> • Insurance and Takaful includes: <ul style="list-style-type: none"> - All insurance B2B - All B2C general insurance or takaful excluding medical insurance or medical takaful **Service tax is charged on actual premium paid
<ul style="list-style-type: none"> • Service of food and beverage preparation i.e. restaurant, café, catering, takeaway, food truck, retail outlet, hawkers etc
<ul style="list-style-type: none"> • Club i.e. night club, private club, golf club and golf driving range
<ul style="list-style-type: none"> • Gaming i.e. casino, game of chance, sweepstakes, gaming machines, lottery, betting **Service tax is charged on collection, based on formula
<ul style="list-style-type: none"> • Telecommunication
<ul style="list-style-type: none"> • Pay-TV
<ul style="list-style-type: none"> • Forwarding agents
<ul style="list-style-type: none"> • Legal
<ul style="list-style-type: none"> • Accounting
<ul style="list-style-type: none"> • Surveying
<ul style="list-style-type: none"> • Architectural
<ul style="list-style-type: none"> • Valuer
<ul style="list-style-type: none"> • Engineering
<ul style="list-style-type: none"> • Employment agency
<ul style="list-style-type: none"> • Security
<ul style="list-style-type: none"> • Management services
<ul style="list-style-type: none"> • Parking
<ul style="list-style-type: none"> • Motor vehicle service or repair
<ul style="list-style-type: none"> • Courier
<ul style="list-style-type: none"> • Hire and drive car
<ul style="list-style-type: none"> • Advertising
<ul style="list-style-type: none"> • Domestic flight except Rural Air Services
<ul style="list-style-type: none"> • Credit or charge card
<ul style="list-style-type: none"> • IT services
<ul style="list-style-type: none"> • Provision of electricity from B2C on usage more than 600kWh

SOURCES: RMCD, CIMB RESEARCH

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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