Accounting in a Changing Environment:

Issues and Implications for Management Accounting and Taxation

- Editors -
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MONTEIRO & HENG
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GOODS AND SERVICES TAX (GST): A DISCUSSION

By

Noor Sharoja Sapiei and Mohd Zulkhairi Mustapha

INTRODUCTION

Tax reform has taken place in most developed and developing countries since 20 years ago. Countries like New Zealand, Canada, Singapore and Australia endeavoured various efforts to improve their government revenue, particularly via tax collection. An example of common tax reform throughout the world is the introduction of goods and service tax (GST). It is also known as value added tax.

GST is typically a consumption tax levied at each stage of production based on the value added to the product at that stage. Theoretically, GST would result in improvements in tax collection for the country as it provides a larger and comprehensive base for the government to collect revenue (Poh, 2003). Based on the positive experiences in implementing GST from other countries like Singapore and New Zealand, Malaysia has finally decided to introduce GST from 1 January 2007.

Is Malaysia’s decision to follow the other countries in introducing GST appropriate? What are the rationale, issues and implications of introducing GST? What are the other countries experiences on this matter? This chapter seeks to discuss and answer the above questions. The remainder of this chapter is divided as follows. First, we would like to briefly describe the current Malaysian scenario on sales and service tax and how GST differs from the existing taxes. Next sections will highlight the rationale and benefits of introducing GST and the issues and implications of GST. Finally, we will present our conclusion.
MALAYSIAN SCENARIO

Currently, the Malaysian government depends heavily on direct taxes as its main source of income. For instance, in the year 2001, direct taxes contributed 52.9% of the country's total revenue. However, based on economic reports, the government is slowly reducing its dependency on direct taxes and finding initiatives to increase the indirect taxes collection (see Table 1). It is argued that direct taxes are not stable as compared to indirect taxes, because it may decrease if the country experiences economic downturn or recession.

Table 1
Federal Government Revenue

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003^</th>
<th>2004*</th>
<th>2005**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM (mil)</td>
<td>%</td>
<td>RM (mil)</td>
<td>%</td>
<td>RM (mil)</td>
</tr>
<tr>
<td>Direct Taxes</td>
<td>42,098</td>
<td>52.9</td>
<td>44,351</td>
<td>53.1</td>
<td>43,016</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>46,424</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>45,100</td>
</tr>
<tr>
<td>Indirect Taxes</td>
<td>19,393</td>
<td>24.4</td>
<td>22,510</td>
<td>27.0</td>
<td>21,875</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24,335</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>26,042</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>18,076</td>
<td>22.7</td>
<td>16,654</td>
<td>19.9</td>
<td>27,717</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>26,158</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27,888</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>79,567</td>
<td>100</td>
<td>83,515</td>
<td>100</td>
<td>92,608</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td>96,917</td>
</tr>
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<td></td>
<td></td>
<td></td>
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<td>99,030</td>
</tr>
</tbody>
</table>


^ Real estimation  * Revised estimation  **Estimated budget without considering any changes of tax

In Malaysia, there are five main types of indirect taxes:

(i) export duties;
(ii) import duties and surtax;
(iii) excise duties;
(iv) sales tax; and
(v) service tax.

The breakdown percentage for each type of indirect taxes is shown in Table 2. It is clear that currently, besides income tax, sales tax and excise duties (which are a