

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) Report of 2014 SME Survey

Background of the Survey

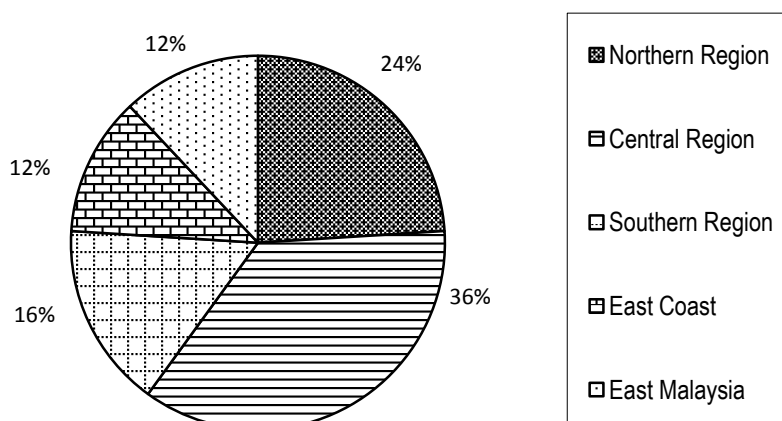
Apart from full implementation of Minimum Wages on 1st January 2014, Malaysia will be implementing the Goods and Services Tax (GST) with effect from 1st April 2015. Besides, with the objective to promote the use of electronic payment and e-banking, Bank Negara Malaysia will be implementing 50 sen levy on cheques with effect from 2nd January 2015. All these policies adversely will have great impact to SMEs. Hence, the main objective of this survey is to solicit views of the SMEs on these policies and its impact to their businesses.

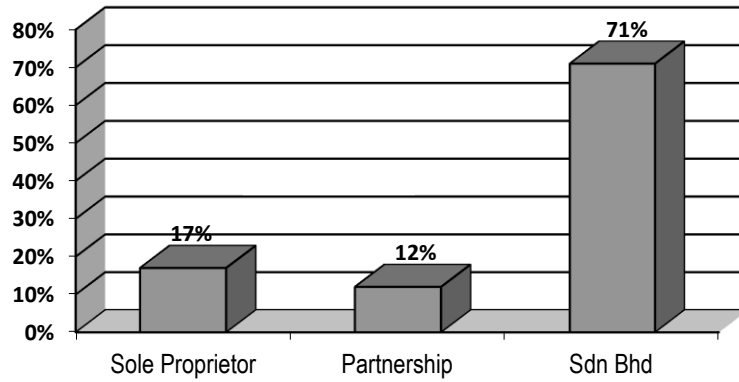
Objectives of the Survey

1. To understand problems faced by Malaysian SMEs on issues of Minimum Wages, Goods and Services Tax (GST) and e-Payment.
2. To understand the impact of the above-mentioned policies towards Malaysian SMEs.
3. The survey results will provide the basis for ACCCIM in submission of memoranda and related dialogue sessions with the Government and its related agencies. It will also be used as a reference for future events and action plans to be formulated by the ACCCIM.

Respondents Background

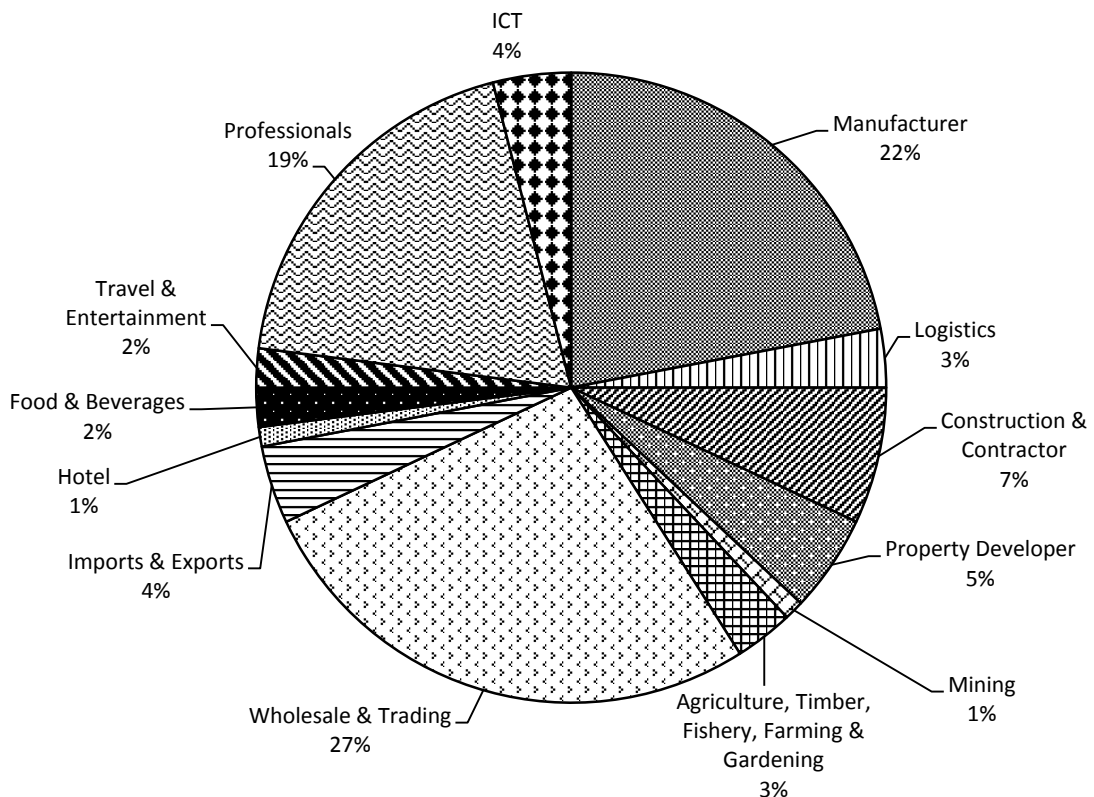
1. The survey was conducted during the period of 28th June 2014 to 30th July 2014. A total of 2,000 survey questionnaires were distributed, with 541 returns received. Response rate is 27.05%.
2. The survey was conducted mainly through ACCCIM's 17 constituent chambers and participated by selected trade associations. Hence the respondents comprise of different industrial sectors from different regions of the country.
3. With regard to the geographical distribution of the responded entities, 36% are from Central Region (Kuala Lumpur, Selangor & Negeri Sembilan), followed by Northern Region (Perlis, Kedah, Penang & Perak) and Southern Region (Johor, Melaka) which contributed 24% and 16% respectively.



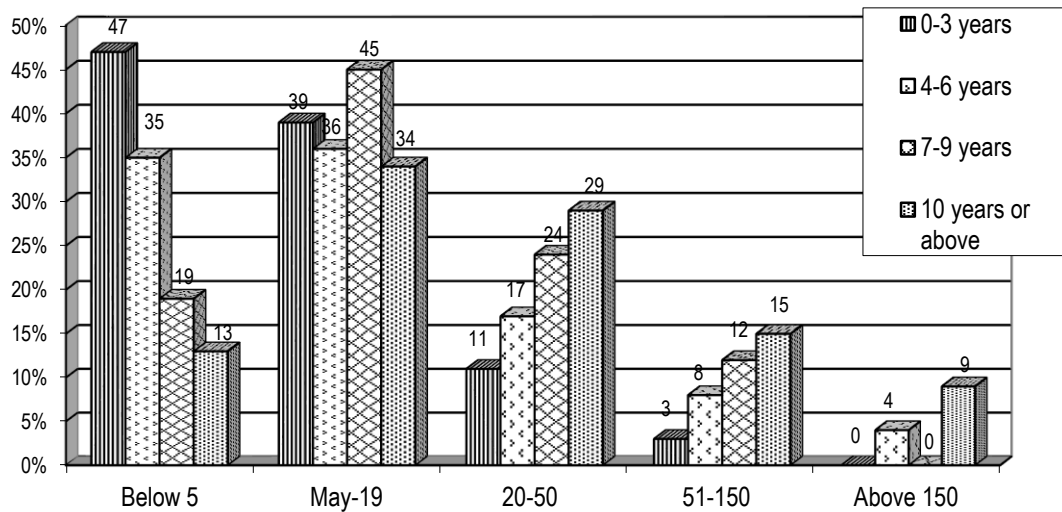


4. 71% of the respondents are Private Limited (Sdn. Bhd.), 17% are Sole Proprietors whereas Partnerships constitute 12%.

5. Out of the 541 respondents, 27% are Wholesalers and Traders, followed by Manufacturers (22%), Professionals (19%), and 12% from the Construction, Contractors and Property Developers.



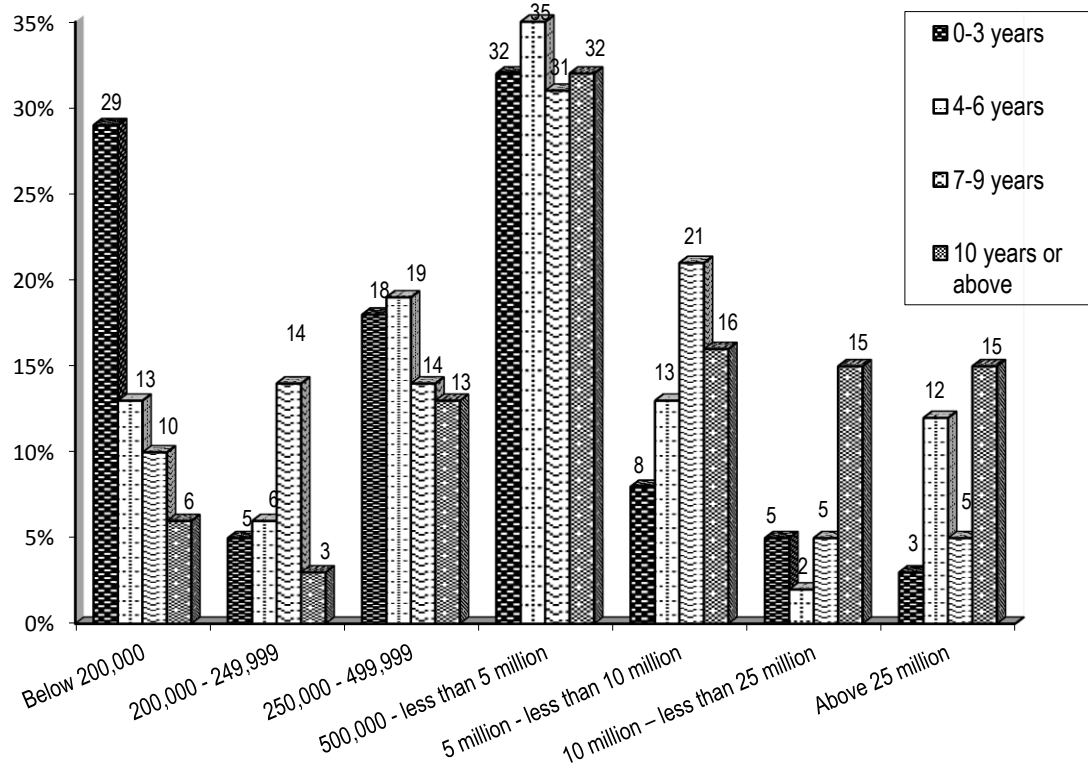
6. Number of Employees



Overall, 79% of the respondents employed less than 50 full time staff; majority has manpower between 5-19 persons.

With regard to the industrial sector, companies which generally hire less than 20 persons are Professionals (78%) and ICT (68%). Hotels will have more employees, 50% of the respondents employed more than 20 staffs, and this is followed by Manufacturing (48%) and Agriculture, Timber, Fishery, Farming & Gardening (40%).

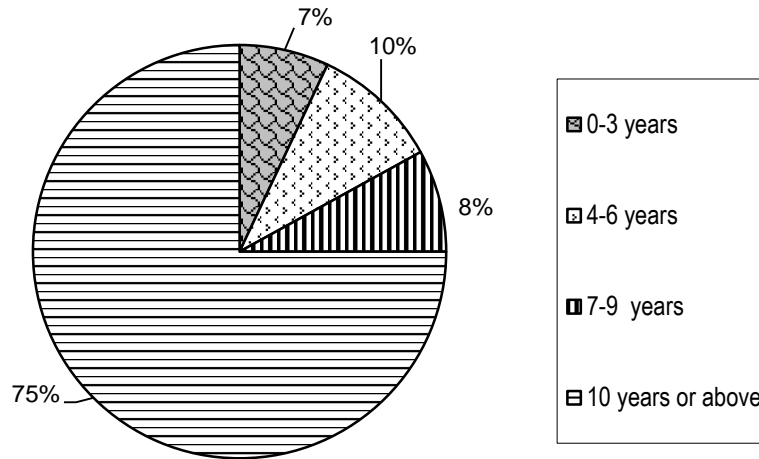
7.



Majority of the respondents (73%) are with turnover of over RM500,000, they are mainly from the Hotels, Property Developers, Construction & Contractors, Manufacturing, Wholesale & Trading, Import & Export, as well as Agriculture, Timber, Fishery, Farming & Gardening.

With regard to the type of legal entities, 82% of Sdn. Bhd. are with turnover of over RM500,000 whereas only 44% of Sole Proprietors are fall under the same category.

8. Years of Operation

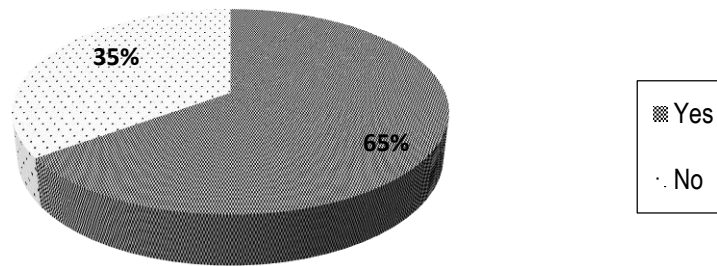


75% of the respondents are companies in operation for 10 years and above. Only 7% of the respondents are newly established companies with less than 3 years operation.

SURVEY FINDINGS

A. Minimum Wages (MW)

Does the company need to adjust the staff salaries upon implementation of MW

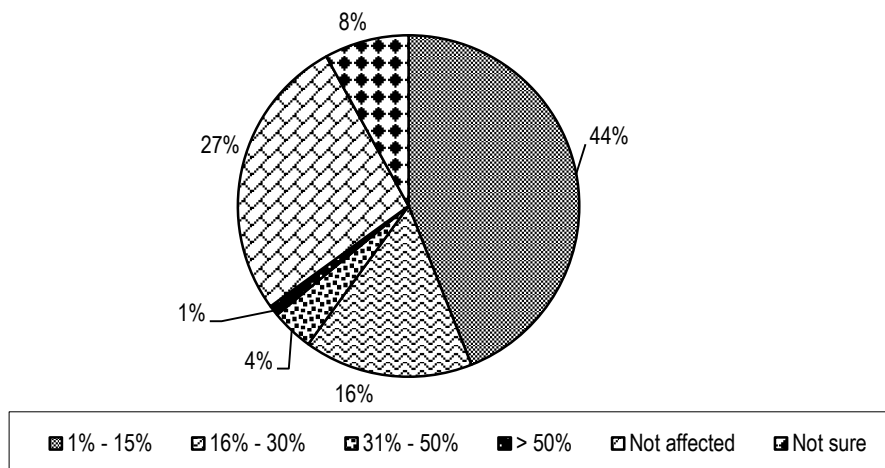


Out of 541 respondents, only 35% indicated that no adjustment required in term of staff salary in order to comply with MW.

Kuala Lumpur (59%), Selangor (47%) and Penang (46%) are the least affected regions, whilst Terengganu (82%) and Sabah (80%) are mostly affected as respondents from these states need to adjust their staff salary upon implementation of MW.

With regard to the industrial sector, Hotels (100%), Agriculture, Timber, Fishery, Farming & Gardening (93%) and Manufacturing (91%) are mostly impacted by the implementation of MW. Meanwhile, ICT (77%), Property Development (63%) and Professionals (60%) are less affected by the implementation of MW.

Increment to Cost of Operation After Minimum Wages

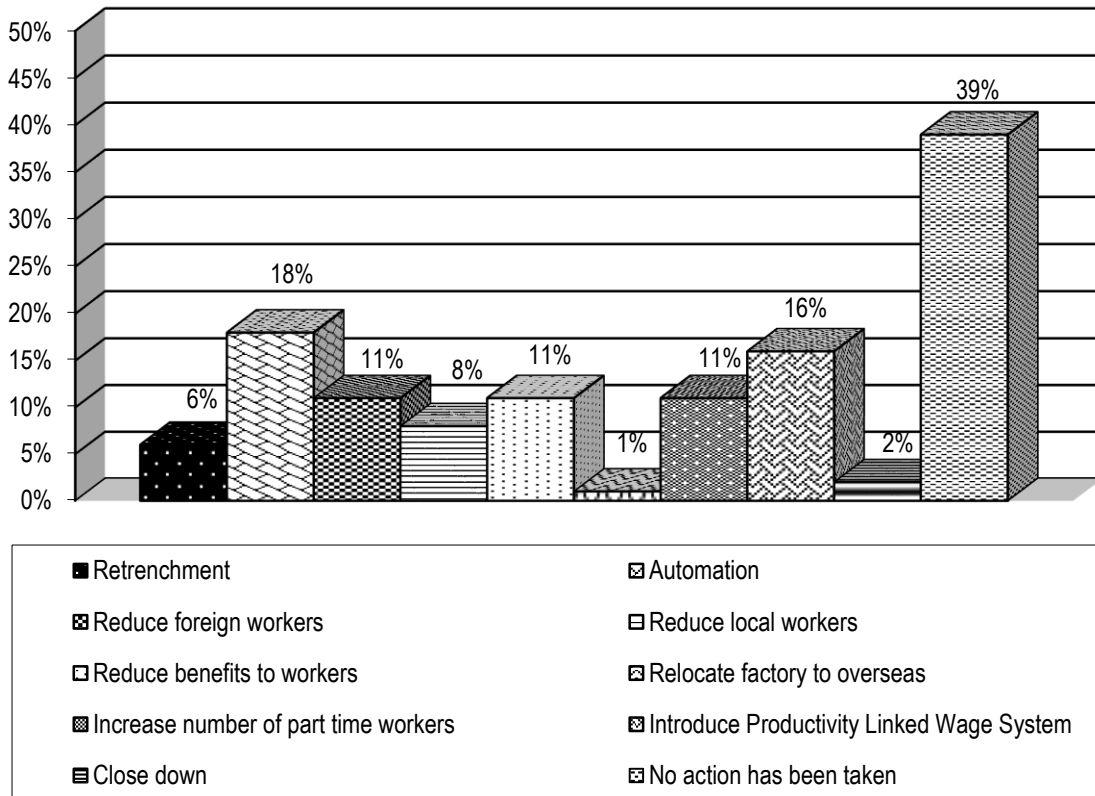


The survey revealed that as high as 65% of the respondents indicated that they experienced the increase in operation cost after the implementation of Minimum Wages.

The three industrial sectors that mostly affected are Agriculture, Timber, Fishery, Farming & Gardening (93%), Food & Beverages Industry (89%), and Manufacturing (84%); whilst ICT and Professionals have minor impact with the implementation of MW.

Urban cities or developed states such as Kuala Lumpur and Penang have least impact, 46% of the respondents from these states are not affected at all by MW; unlike Kedah, Sabah and Terengganu are severely affected with 98%, 90% and 76% of the respective respondents indicated that their operation cost have increased because of the implementation of Minimum Wages.

Actions to Reduce the Impact of Minimum Wages

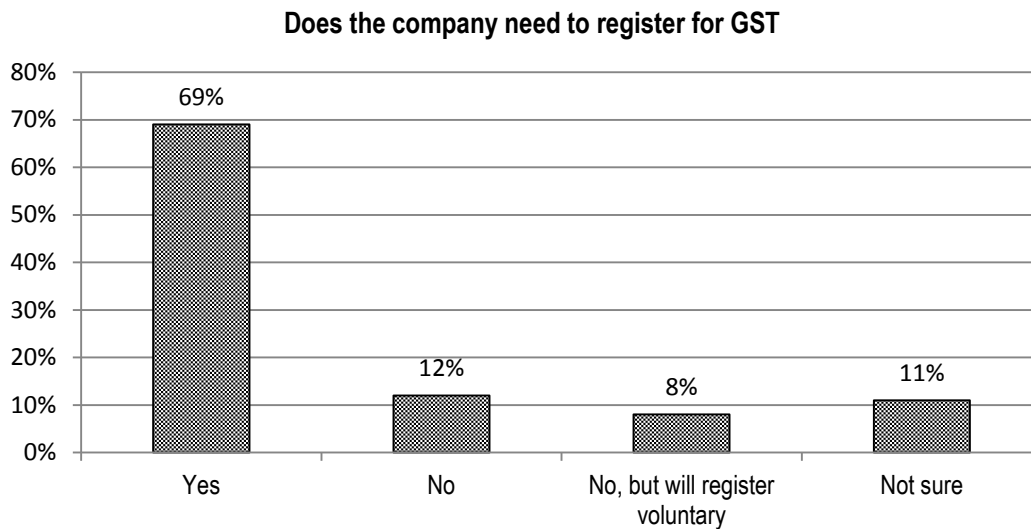


The survey results showed that as high as 39% of the respondents do not take any measure to mitigate the impact of MW.

Moving towards automation (18%) and Productivity Linked Wage System (16%) are the two most common measures adopted. However, about 11% of the respondents opt for reduction of workers' benefits, reduce the number of employment of foreign workers and recruit more part time workers.

Respondents who choose automation to mitigate the impact of MW are from Agriculture, Timber, Fishery, Farming & Gardening (53%) and Manufacturing (41%) sectors.

B. Goods and Services Tax (GST)

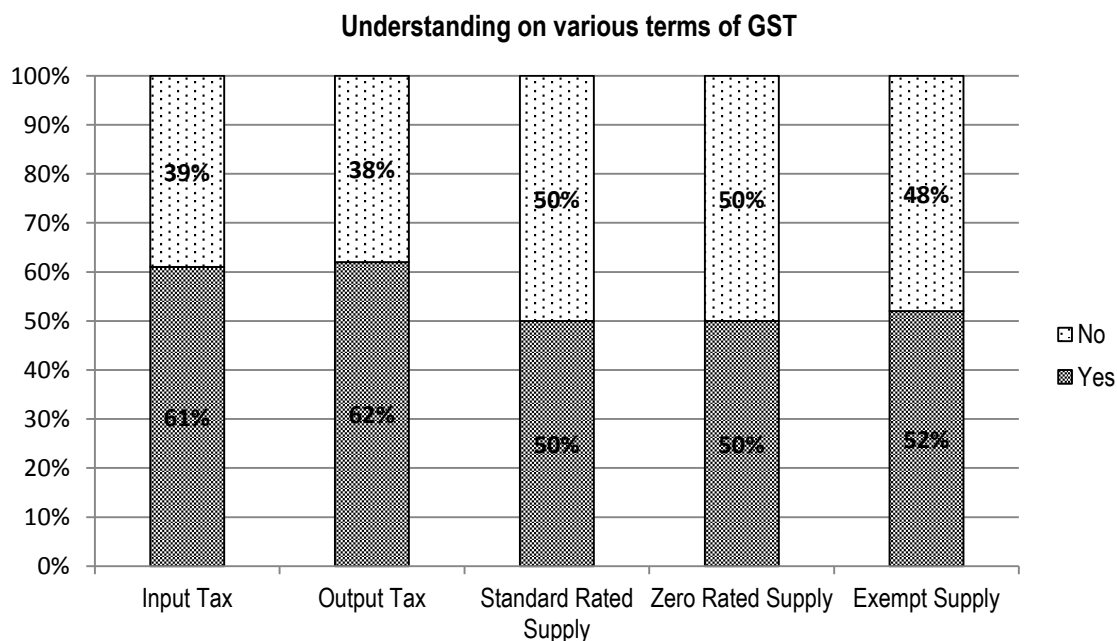


Among the 541 respondents, 69% stated that they need to register for GST; whilst 8% will register voluntary although their taxable turnover has not reached the threshold.

Respondents who are not sure whether they need to register for GST are from the Travel & Entertainment sector, the percentage is as high as 20%.

80% of the respondents were aware that they can register online through Royal Malaysian Customs' GST Website with effect from 1st June 2014.

Industrial sectors that need to enhance awareness on GST are Food & Beverages, Travel & Entertainment, and Agriculture, Timber, Fishery, Farming & Gardening, as 56%, 50% and 47% of the respondents respectively are not aware that they can register online.



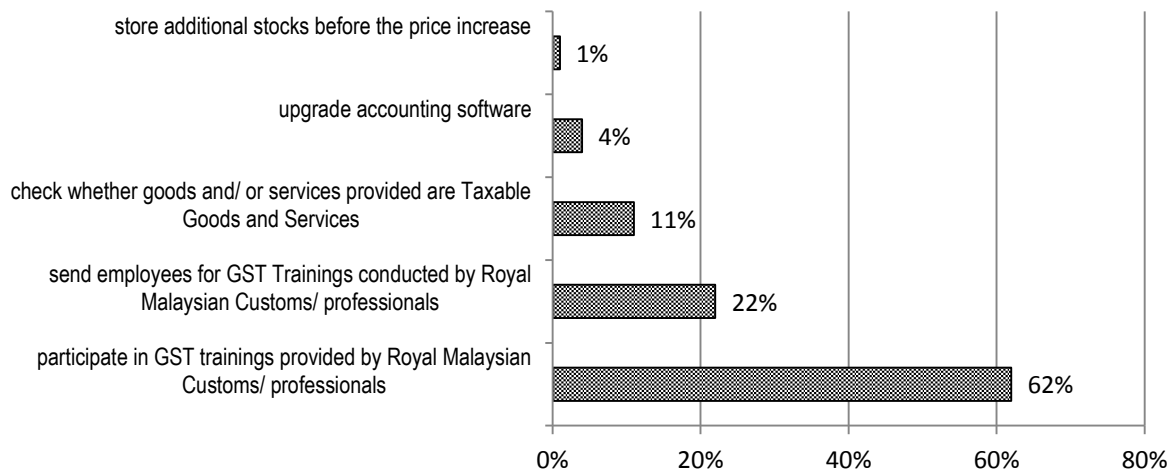
Overall, respondents' understanding on the basic terms of GST needs to be strengthened.

Only 60% of the respondents understand what is input tax and output tax, while only half (50%) of the respondents know what are standard rated supply, zero rated supply and exempt supply.

By geographical analysis, respondents from Terengganu, Negeri Sembilan and Sabah are more ignorant about GST.

Most respondents from Property Development and ICT indicated that they understand the above terms, whereas most respondents from Food & Beverages Industry stated the opposite.

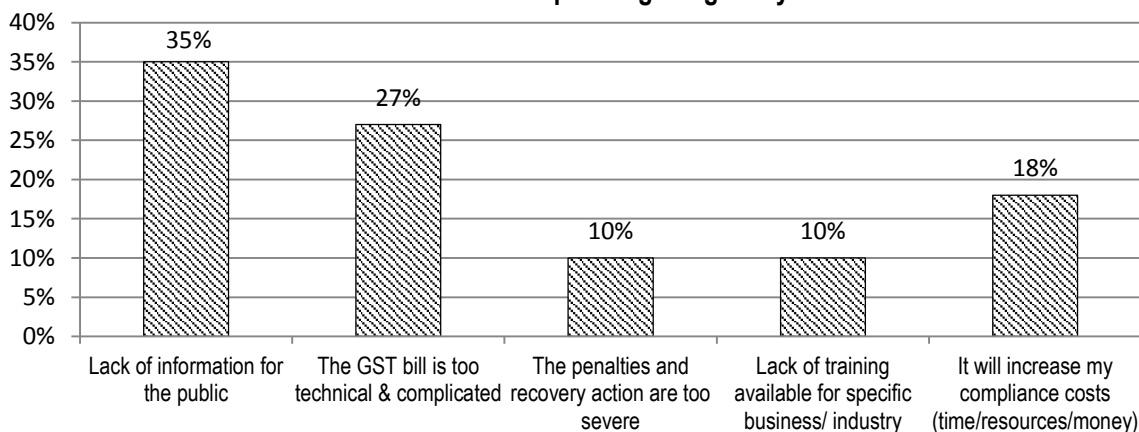
First action before implementation of GST



62% of the respondents will participate in GST Trainings organised by the Royal Malaysian Customs / professionals, another 22% will send their employees for trainings.

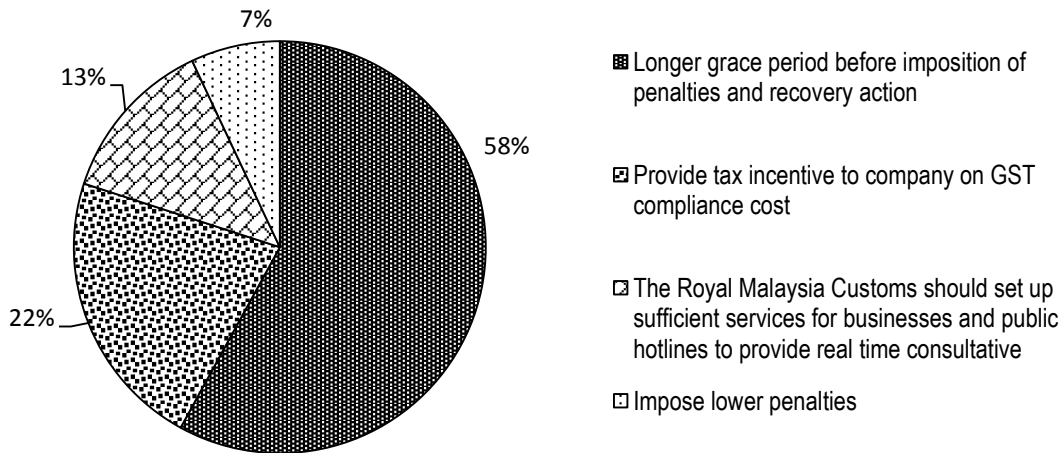
However, 1% of the respondents stated that the first action they will take before implementation of GST is to store additional stocks before the price increase, and most of them are from the Food & Beverages sector.

Most stressful aspect in getting ready for GST



35% of the respondents found that the most stressful aspect they are facing to get ready for GST is lack of information for the public, followed by the too technical and complicated GST Bill (35%) and increase of compliance costs (18%).

Most desired action from the Government in regard to GST implementation

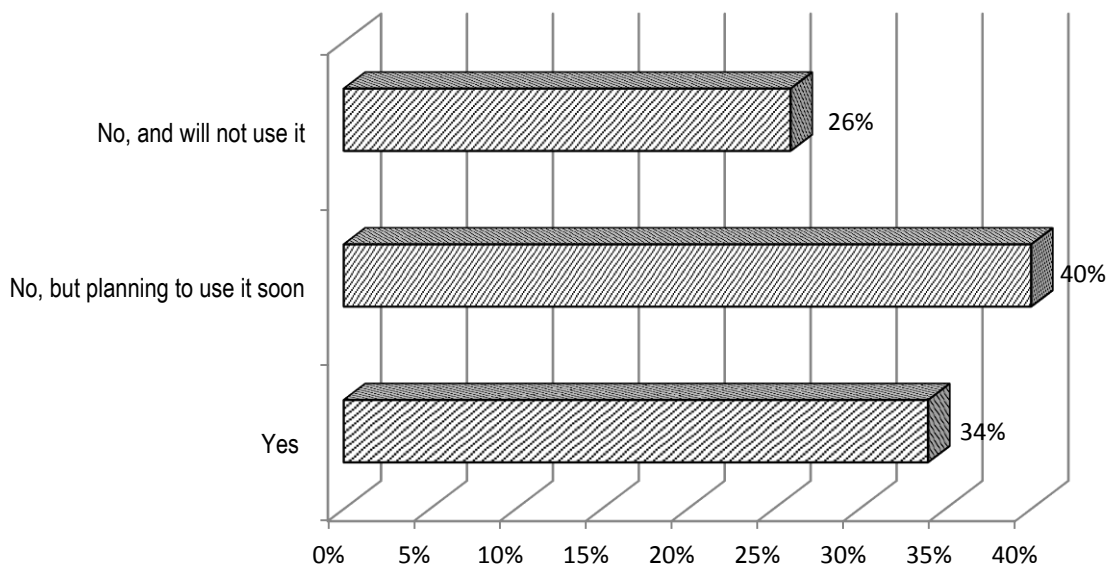


More than half of the respondents (58%) hope that the government can grant longer grace period before imposing any penalty and take recovery actions against businesses, whereas another 1/5 of the respondents wish to have tax incentives on their GST compliance cost.

However there are only 30% of the respondents stated that their employees and accounting software are ready for the implementation of GST. Most of the respondents from the Food & Beverages sector are not prepared for GST.

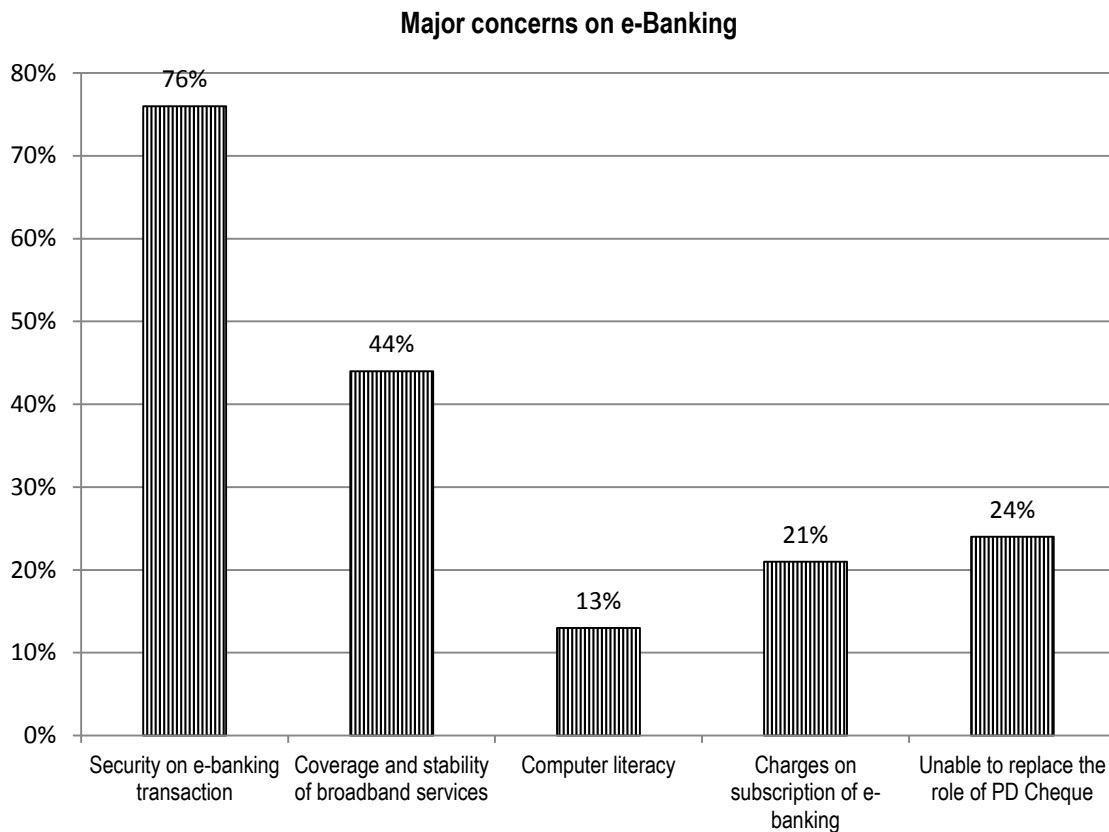
C. E-Banking

Does company using e-Banking services



Only 34% of the respondents use e-Banking, most of them are from ICT and Logistics sectors. Kuala Lumpur, Selangor, Negeri Sembilan and Penang have the highest usage of e-Banking.

Most of the respondents from the Food & Beverages sector (78%) did not use e-Banking and have no plan to use e-Banking due to the nature of the business activities are dealing with cash



Respondents' major concern of using e-Banking is the security issue on e-transaction (76%), followed by the coverage and stability of broadband services (44%).

More than half of the respondents from Melaka (64%), Sabah (60%), Sarawak (55%) and Terengganu (53%) expressed concern over the coverage and stability of broadband services.

For Logistics (38%), Wholesale and Trading (32%), and Travel and Entertainment (30%) sectors, one of the major concerns is e-Payment which unable to replace the function of Post-dated Cheque.

Overall, almost half of the respondents (43%) stated that they will not reduce the issuance of cheque after 2nd January 2015 even though a 50 sen levy per cheque is being imposed.

SUMMARY

1. The implementation of Minimum Wages for foreign workers employed by SMEs has been deferred for one year, i.e. from 1st January 2013 to 1st January 2014 due to the strong objection from the businesses. With full implementation of Minimum Wages, the impacts on SMEs and measures taken are still one of the main focuses of the survey.
2. The Goods and Services Tax (GST) schedule to take effect from 1st April 2015 will completely change the business operation and taxation submission format. Apart from replacing the Sales Tax and Services Tax that implemented since 1972 and 1975 respectively, this new tax regime is expected to bring huge impact to both businesses and consumers. Therefore this survey emphasizes on the understanding and preparation of SMEs on GST.
3. Effective from 2nd January 2015, Bank Negara Malaysia will implement 50 sen levy on cheques in order to encourage e-Payment. The survey also solicits the SMEs' views on e-Payment.
4. The survey was conducted during the period of 28th June 2014 to 30th July 2014. A total of 2,000 questionnaires have been distributed, with 541 questionnaires received. Response rate is 27.05%. The survey was conducted mainly through ACCCIM's 17 constituent chambers and participated by selected trade organisations. Hence the respondents comprise of different industrial sectors from different regions of the country.
5. As high as 79% of the respondents with staff force less than 50 persons, and is categorised as micro and small enterprises. Hotels and Manufacturing are the two sectors that have more employees.

A. Minimum Wages (MW)

6. In order to comply with MW, 65% of the respondents indicated that they need to adjust their staff salary. Terengganu and Sabah are greatly impacted as 82% and 80% respectively of the respondents from these states need to adjust their staff salary upon implementation of MW. Kuala Lumpur is not much affected as 59% of respondents have no effect.

With regard to the various industrial sectors, Hotels (100%), Agriculture, Timber, Fishery, Farming & Gardening (93%) and Manufacturing (91%) are mostly impacted by the implementation of MW as businesses need to increase their staff salary due to implementation of MW.

7. 65% of the respondents responded that MW has increased their cost of operation.
Kedah, Sabah and Terengganu are severely affected with 98%, 90% and 76% of the respective respondents from these states claimed that they have suffered from cost increased due to MW.
8. 39% of the respondents do not take any measure to mitigate the impact of MW. Respondents who choose automation to mitigate the impact of MW are from Agriculture, Timber, Fishery, Farming & Gardening (53%) and Manufacturing (41%) sectors.

B. Goods & Services Tax (GST)

9. 69% of the respondents need to register for GST. Most respondents are from Hotels (100%), Manufacturing (87%) and Logistics (82%) who reached the threshold of GST.

8% of the respondents will register voluntarily although their taxable turnover has not reached the threshold.

Overall, 11% of the respondents are not sure whether they need to register for GST, in particular respondents from the Travel & Entertainment sector, the percentage from this sector itself is as high as 20%.

10. Majority of the respondents (80%) do aware that they can register online through Royal Malaysian Customs' GST website with effect from 1st June 2014.

Industrial sectors that need to enhance awareness on GST are Food & Beverages, Travel & Entertainment, and Agriculture, Timber, Fishery, Farming & Gardening.

11. Generally, respondents' understandings on the various basic terms of GST need to be strengthened. Only 60% of the respondents understand what is input tax and output tax, while only half (50%) of the respondents know what are standard rated supply, zero rated supply and exempt supply.

Most respondents from Property Development understand the above terms, while respondents from the Food & Beverages sector are rather ignorant.

12. 84% of the respondents indicated that they will personally attend or send their staff to attend GST trainings conducted by Royal Malaysian Customs / professionals as the first measure in preparation for the GST. Only 4% opt for upgrading their accounting software as initial measure. This implied that most of the businesses will only decide their next cause of action after they have understood what GST is.

Unexpectedly, there is 1% of the respondents stated that their first action is to store additional stocks before the implementation of GST.

13. 35% of the respondents found that the most stressful aspect they are facing to get ready for GST is lack of information for the public, followed by the too technical and complicated GST Bill (35%) and increase of compliance costs (18%).

14. More than half of the respondents (58%) hope that the government can grant longer grace period before imposing any penalty and take recovery actions against businesses, whereas another 1/5 of the respondents wish to have tax incentives on their GST compliance cost.

In the numerous memoranda submitted by ACCCIM to the government on GST as well as the press statements issued by the ACCCIM, these two proposals are on the ACCCIM wish list and we are hoping that the government could render more assistance to businesses.

15. Survey revealed that only 30% of the respondents stated that their employees and accounting software are ready for the implementation of GST.

16. Overall, the survey found that most of the respondents from the Food & Beverages sector are rather ignorant on GST, regardless their understandings on the various basic terms of GST, first action to be taken, or employees and software preparation for implementation of GST, this is worrying.

C. e-Banking

17. Only 34% of the respondents use e-Banking, most of them are from ICT and Logistics sectors. Another 40% indicated that they will shift to e-Banking soon. The statistic shows that Food & Beverages sector do not use e-Banking at all, and 78% amongst them have no plan to use it.

Kuala Lumpur, Selangor, Negeri Sembilan and Penang have the highest usage of e-Banking.

18. Respondents' major concern of using e-Banking is the security issue on e-transaction (76%), followed by the coverage and stability of broadband services (44%).

Respondents that expressed concern over the coverage and stability of broadband services mostly are from Melaka, Sabah, Sarawak and Terengganu.

For Logistics (38%), Wholesale and Trading (32%), and Travel and Entertainment (30%) sectors, one of the major concerns is e-Payment which unable to replace the function of Post-dated Cheque.

19. Almost half of the respondents (43%) stated that they will not reduce the issuance of cheque even though a 50 sen levy per cheque is being imposed.