

**The Associated Chinese Chambers of
Commerce and Industry of Malaysia (ACCCIM)
Survey Report on the Goods & Services Tax (GST)
Implementation in Malaysia**

Background of the Survey

Malaysia has implemented the Goods and Services Tax (GST) with effect from 1st April 2015. Since then, the business community and the public have been encountering with issues and problems. The objective of this GST Implementation Survey is to enable ACCCIM to collect and compile issues and problems faced by businesses for onward submission and deliberation with the relevant Government Ministries and Agencies so as to seek measures to resolve these issues.

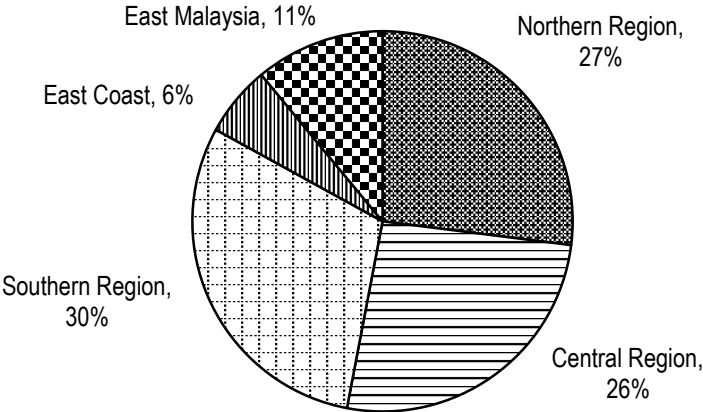
Objectives of the Survey

1. To understand the impacts and challenges faced by Malaysian businesses arising from the implementation of GST and the enforcement of the Anti-Profiteering Act.
2. The survey results will provide the basis for ACCCIM in the 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

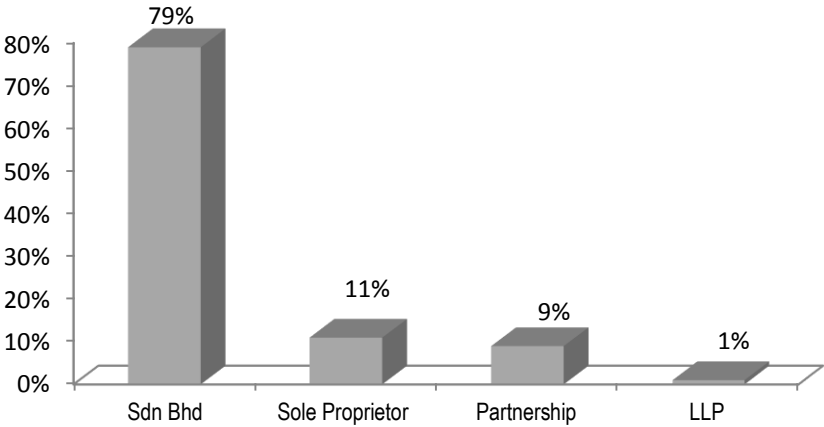
1. The survey was conducted during the period of 20th June 2015 to 31st July 2015. A total of 2,000 survey questionnaires were distributed, with 963 returns received. The response rate is 48.15%.
2. The survey was conducted mainly through ACCCIM's 17 constituent chambers located throughout Malaysia in 13 states and participated by other national level chambers of commerce, trade and sectorial organisations such as textile manufacturing, shopping malls, construction and building materials, sundry goods merchants, retailers, knitting manufacturing, hoteliers etc. The survey findings reflect the collective views of industries and businesses irrespective of ethnic group.
3. Chart 1 depicts the geographical distribution of the responded entities, of which 30% are from Southern Region (Johor, Melaka), followed by Northern Region (Perlis, Kedah, Penang and Perak) and Central Region (Kuala Lumpur, Selangor & Negeri Sembilan) which contributed 27% and 26% respectively.

Chart 1: Profile of Respondents' Operating Location in Malaysia



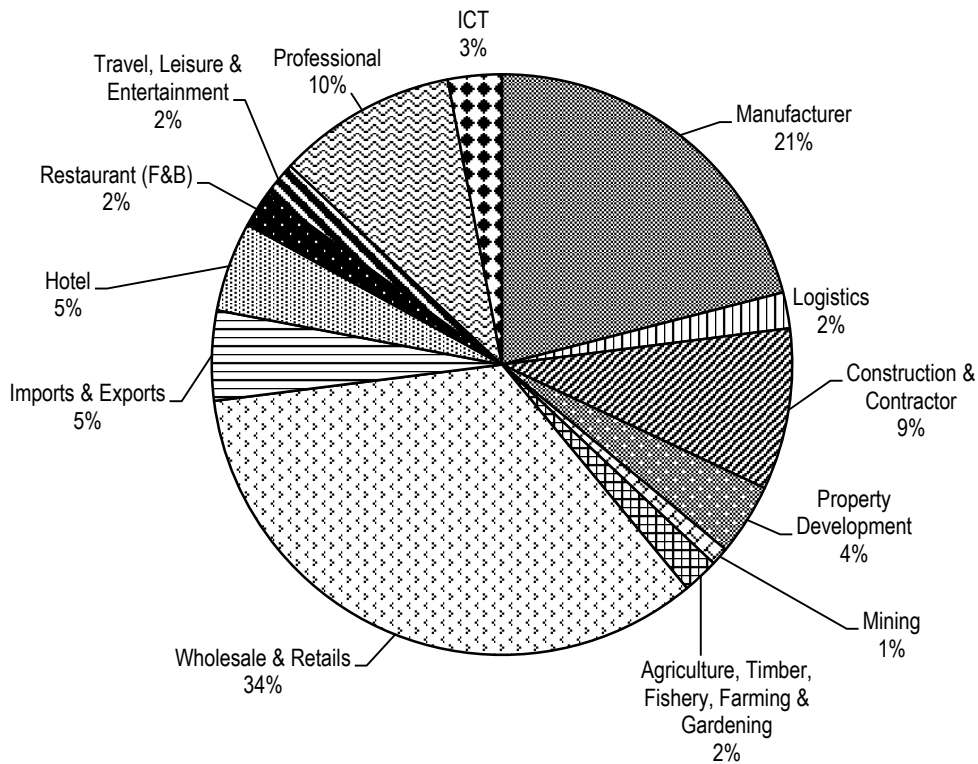
4. As shown in Chart 2 below, 79% of the respondents are private limited corporations (Sdn. Bhd.), 11% are Sole Proprietors. The rest of the respondents are in the form of partnerships: 9% are conventional partnerships and the remaining 1% of the respondents is limited liability partnerships (LLP).

Chart 2: Respondents' Legal Entity



5. The respondents' industry sector are categorised in Chart 3. Out of the 963 respondents, 34% are in Wholesale and Trading businesses, followed by 21% in Manufacturing and 10% in Professional services.

Chart 3: Respondents' Industry Sector



6. Respondents' Number of Employees and Annual Turnover (RM)

The majority of the respondents (79%) are from services and other industries, only 21% from the manufacturing industry and Chart 4 and 5 shows the respondents' number of employees and their annual turnover (RM) respectively.

Chart 4: Number of Employees

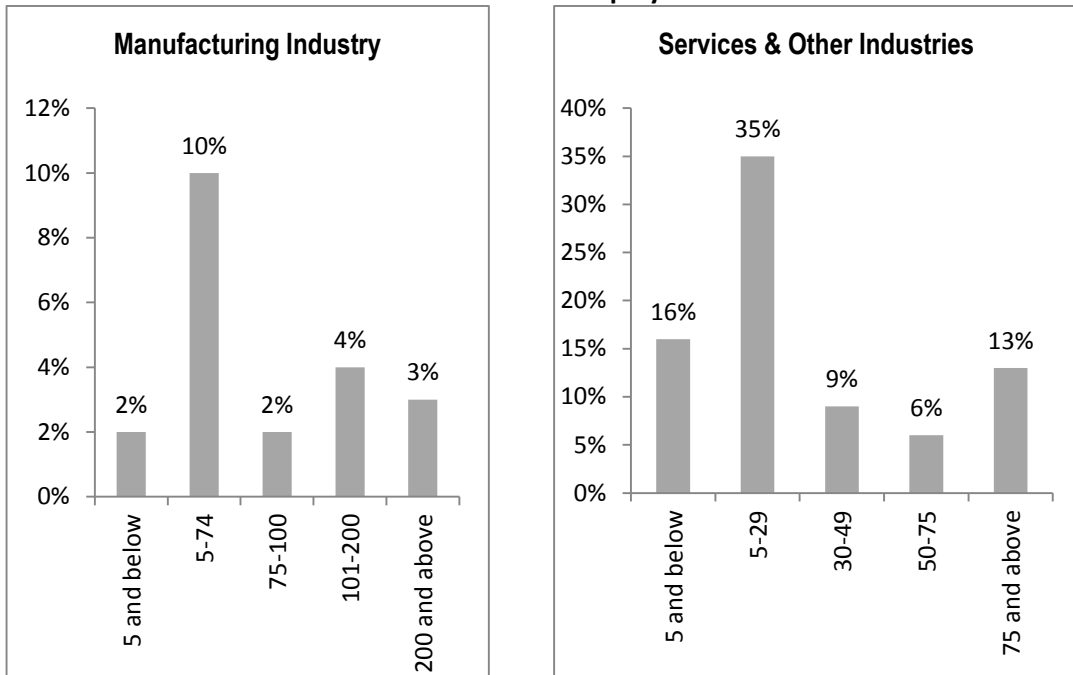
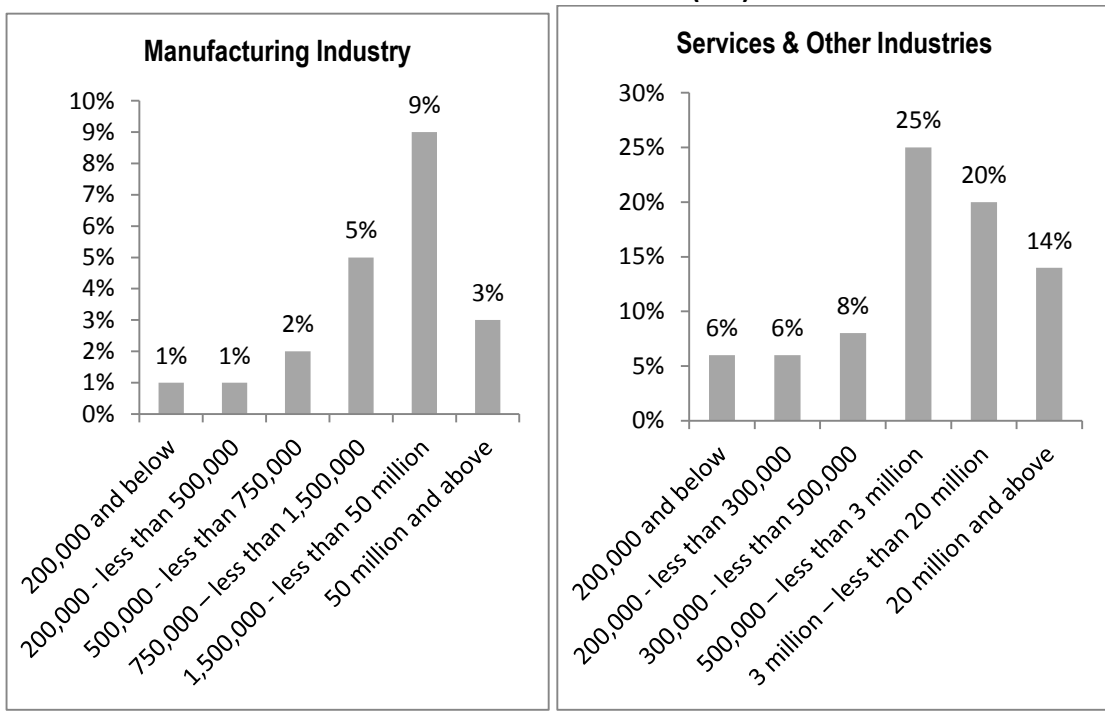


Chart 5: Annual Turnover (RM)



Based on the above charts, most of the respondents are in the small enterprise category.¹

¹ Definition of Small Enterprise:

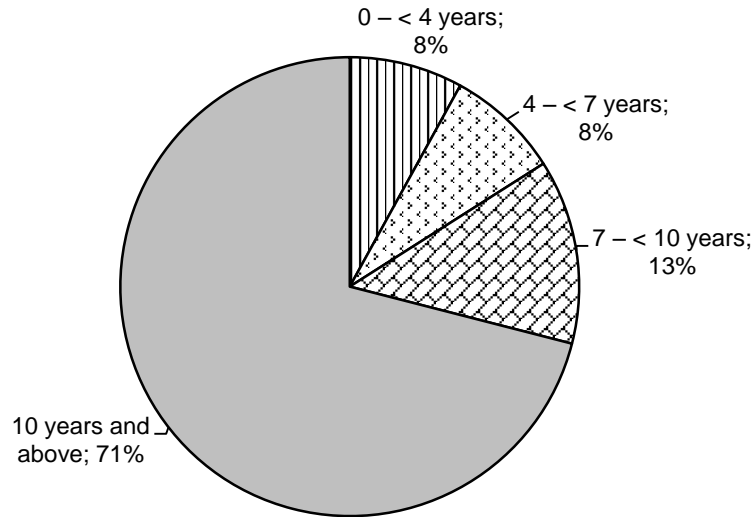
For Manufacturing: Sales turnover from RM300,000 to less than RM15 million, or Employees from 5 to less than 75;

For Services and other sectors: Sales turnover from RM300,000 to less than RM3 million, or Employees from 5 to less than 30

7. Respondents' Number of Years in Operation

Chart 6 depicts that 71% of the respondents are businesses that are in operation for at least ten (10) years. Only 8% of the respondents are newly established companies with less than four (4) years in operation.

Chart 6: Respondents' Number of Years in Operation

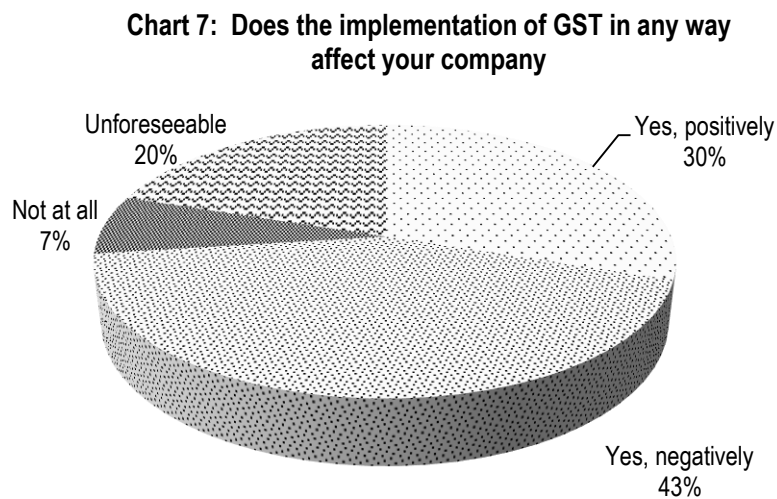


SURVEY FINDINGS

A. Goods and Services Tax (GST) Implementation

Impact of GST

The survey results have been analysed and depicted in chart format for easy understanding. Out of 963 respondents to the question on the GST implementation effect on their businesses, Chart 7 shows that 43% of the respondents indicated that GST implementation has brought adverse impact to their companies, whereas 30% revealed that there is a positive effect on their businesses.



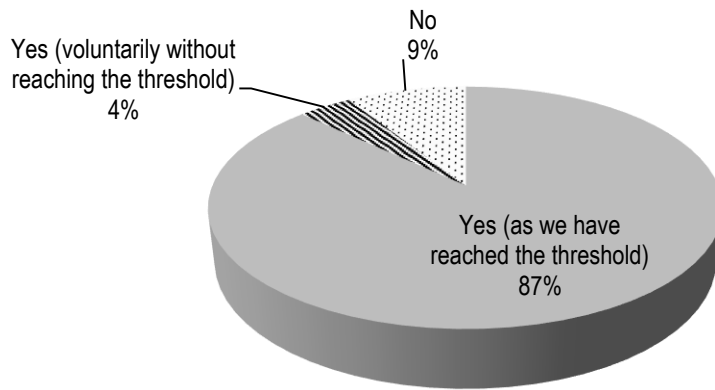
The industries that suffer highest negative impact by the implementation of GST are Logistics (59%), Property Development (51%) and Imports & Exports (50%).

As high as 41% of the respondents from Agriculture, Fishery, Farming & Gardening and Timber is unable to foresee and assess the impact of GST on their business as most of these sectors are exempted from GST imposition or zero-rated.

GST Registration

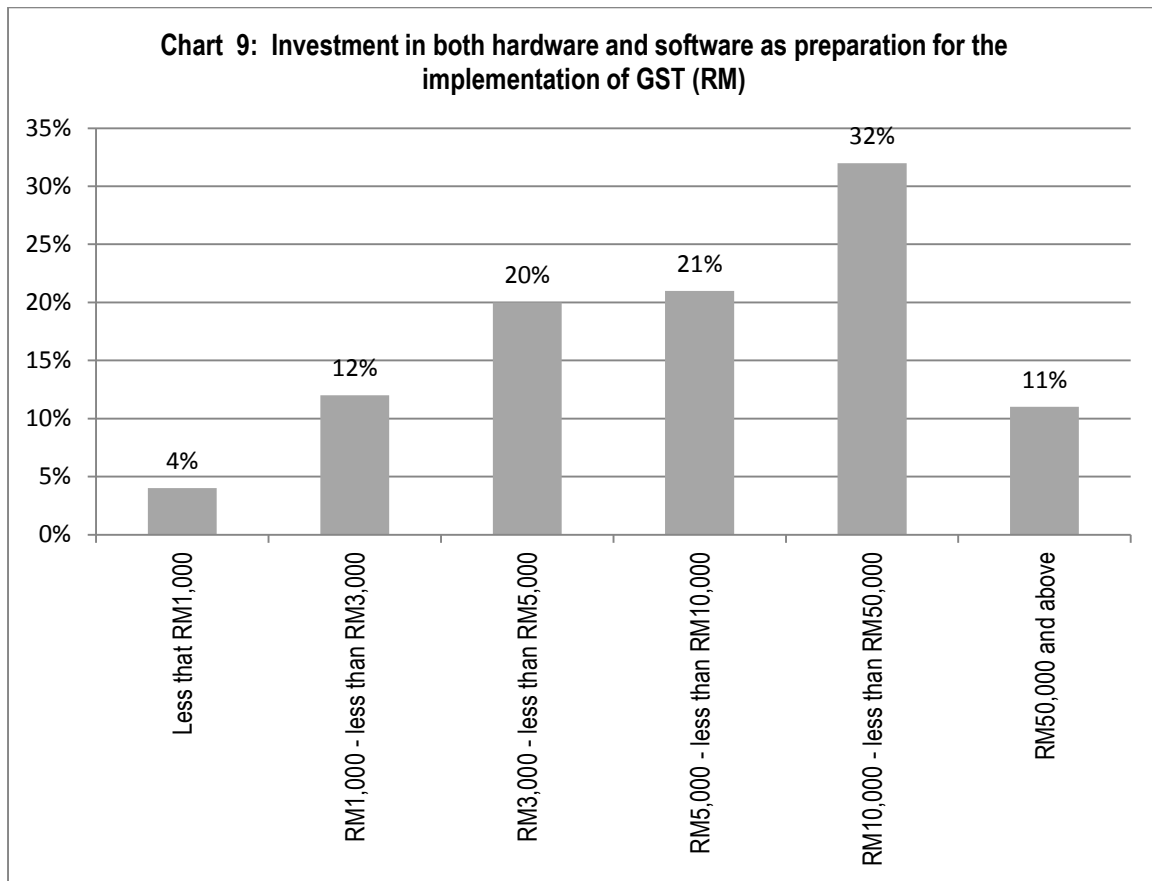
As depicted in Chart 8, approximately 87% of the respondents are GST registrants where their taxable turnover have exceeded the threshold of RM500,000 per annum, while 4% are voluntary registrants as their annual taxable supply is below the threshold of RM500,000. Only 9% of the respondents do not register or are not required to register for GST.

Chart 8: Is your company a GST registrant



Investment in information technology for GST Implementation, Trainings & GST e-Voucher

In terms of investment in both hardware and software for the preparation of the GST implementation, Chart 9 shows that the cost of the implementation of GST for almost one third (1/3) of the respondents (32%) was between RM10,000 to less than RM50,000.



When analyzed by sector, it is noted that majority of Food & Beverages and Travel, Leisure & Entertainment businesses are inclined towards investment between RM10,000 to RM50,000. The industry that made a huge investment is the hospitality businesses with 42% of the respondents indicated that their investment is more than RM50,000. This is to ensure that their hotel information system is GST compliant.

More than half (52%) of the respondents utilized the GST e-Voucher worth RM1,000 offered by the Government for SMEs to purchase/ upgrade GST accounting software. This indicates that the e-Voucher of RM1,000 per SME is not cost-beneficial or effective to assist the SME in alleviating the cost of implementing GST as almost half of the respondents (48%) did not take the initiative to apply for the one-off subsidy.

Consistent with the effort by Royal Malaysian Customs on its GST awareness programmes, 68% of the respondents or their employees have attended GST workshops or training courses provided by the Royal Malaysian Customs (RMC). This demonstrates the seriousness of the business community in the implementation of GST, but many questions and doubts remain unanswered as shown in Chart 10 and Chart 11.

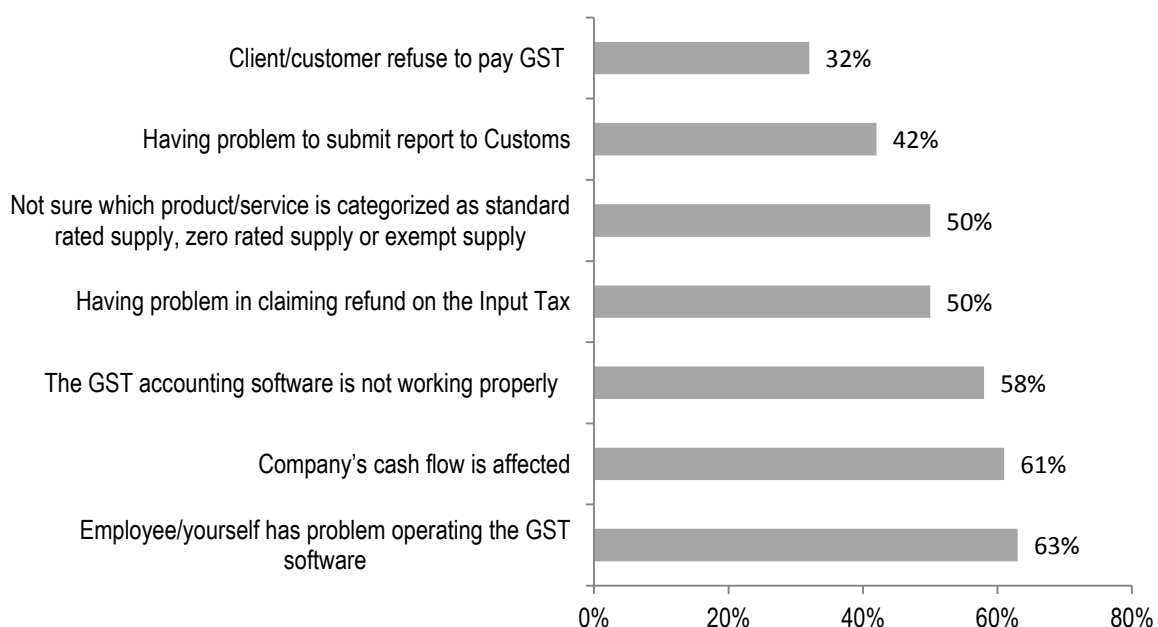
Based on the comments and findings made in the earlier paragraph, it was noted that businesses in the Foods & Beverages and Travel, Leisure & Entertainment saw the lowest rate of 50% and 42% respectively in participating the GST workshops or training.

GST Implementation Issues

Following on from the concerns of the implementation of GST, the business community was then asked as to the extent of the consequential effect on their businesses.

This survey revealed that businesses are still facing many issues and challenges since the GST took effect on 1st April 2015. Chart 10 shows that approximately 63% of the respondents indicated that they or their employees are having problems to operate the GST software, 61% facing cash flow problems and 58% of the respondents stated that their GST accounting software that were approved by RMC are not functioning properly.

Chart 10: Issues encountered since the GST took effect on 1st April 2015



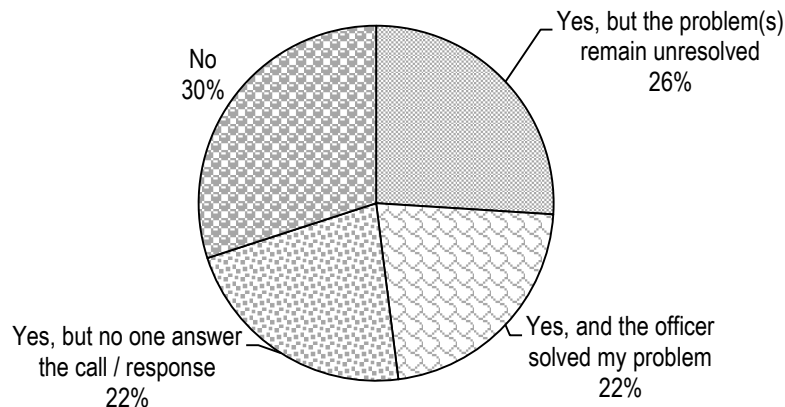
In addition to the above, another major issue is the refusal to pay GST where 32% of the respondents is facing the problem of their clients/customers refusing to pay GST on their purchases. Also, 62% of respondents from Foods & Beverages industry and 50% from Travel, Leisure & Entertainment industry are facing the similar issue. In terms of geographical analysis, more than half (59%) of the respondents from Kelantan are having the same issue.

Royal Malaysian Customs decided that GST registered persons are obliged to issue computer generated invoice or pre-printed invoice which is GST compliant beginning 1st October 2015. The respondents were thus asked with regards to this issue. The results of the survey shows that 86% of respondents is currently using computer generated invoice, where 3% of respondents indicate that they are still using entirely handwritten invoice.

Consultation with the Royal Malaysian Customs

As shown in Chart 11, a significant majority of respondents (70%) did seek for consultation from Customs either by calling the GST Hotline or through GST Portal. However, only 22% of the respondents indicated that their problems are being resolved through this channel.

Chart 11: Have you ever seek consultation from Customs by using the GST Hotline / GST Portal

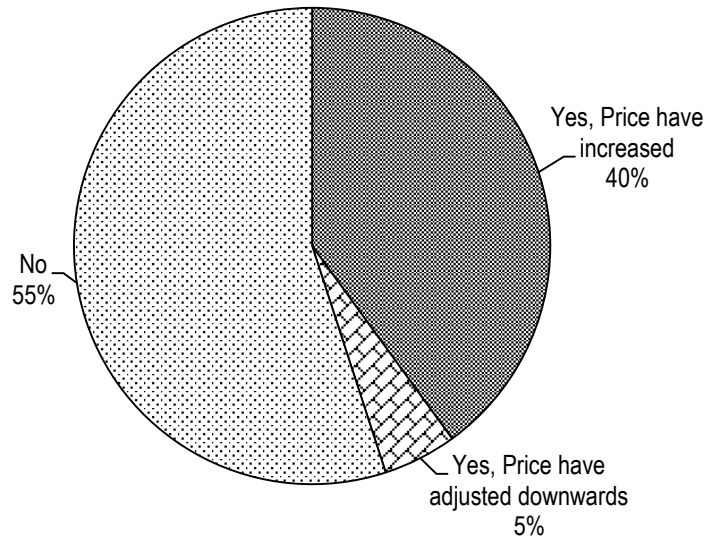


In the case of respondents claiming that they had seek assistance from Customs, ICT is the industry with most problems remain unresolved (41%), followed by Foods & Beverages (38%) and Logistics (38%).

Price Adjustment after GST Implementation and Credit Terms

As shown in Chart 12, more than half of the respondents (55%) responded that they do not adjust the price of their goods/ services after the implementation of GST, whereas the balance 40% claimed that they have increased the price whilst only 5% adjusted the price downwards.

Chart 12: Have You Adjusted Price of Products/ Services after GST



The introduction of GST has resulted additional resources to be allocated on business operation to ensure compliance. Cash flow is another issue going pressure to the company who practice longer credit terms granted to customer.

The results of the survey show that only 15% of the respondents is on cash term basis and the majority are from the Foods & Beverages industry. As noted from the survey, businesses that are required to extend longer credit terms for above six (6) months are Agriculture, Timber, Fishery, Farming & Gardening, and Wholesale & Retail sector.

Longer credit terms will have further ramifications on cash flow as the seller are required to pay GST on behalf of their trade debtors before they get paid. Accordingly, there is a need to change the culture of long credit terms given to a shorter credit term to avoid the adverse effect on company cash flow and working capital of business.

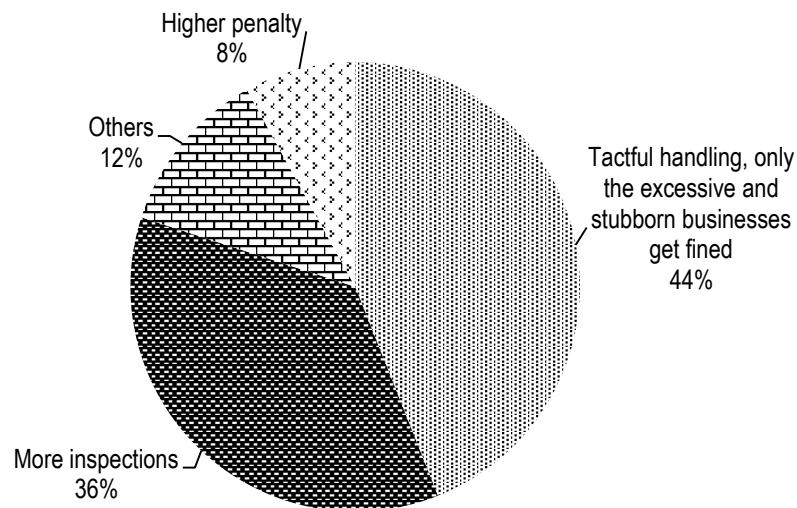
B. Anti-Profitteering

The introduction of “Price Control and Anti-Profitteering Act 2011” has resulted in many businesses scrambling towards its offences and unclear guidelines. Certainly the fear will likely to continue to rise in future.

The respondents were thus asked with regard to methods or measures that would be able to solve the profiteering by businesses.

Chart 13 shows that 44% of the respondents indicated that the Government ought to be tactful in the enforcement of the “Price Control and Anti-Profitteering Act 2011” and to only penalise those stubborn businessmen who take advantage of the GST implementation to gain excessive profits.

Chart 13: Methods that you feel would be able to solve the profiteering by the businesses



More than half (51%) of the respondents stated that they are not aware of the price control law, however only 37% said that they are aware of the Act.

In response to the 3-day deadline to provide information upon issuance of the notice under Section 21 of the “Price Control and Anti-Profitteering Act 2011” by the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC), half of the respondents opined that it is not practical nor reasonable and responded that the Government should grant at least a week’s notice or longer based on the complexity of the information required.

The results of the survey show that a whopping 84% of respondents complained that they do not understand the Net Profit Margin calculation formula provided in the “Price Control and Anti-Profitteering Act 2011” where the net profit margin is pegged at Ringgit value rather than in percentage, as it is used to be in business practices.

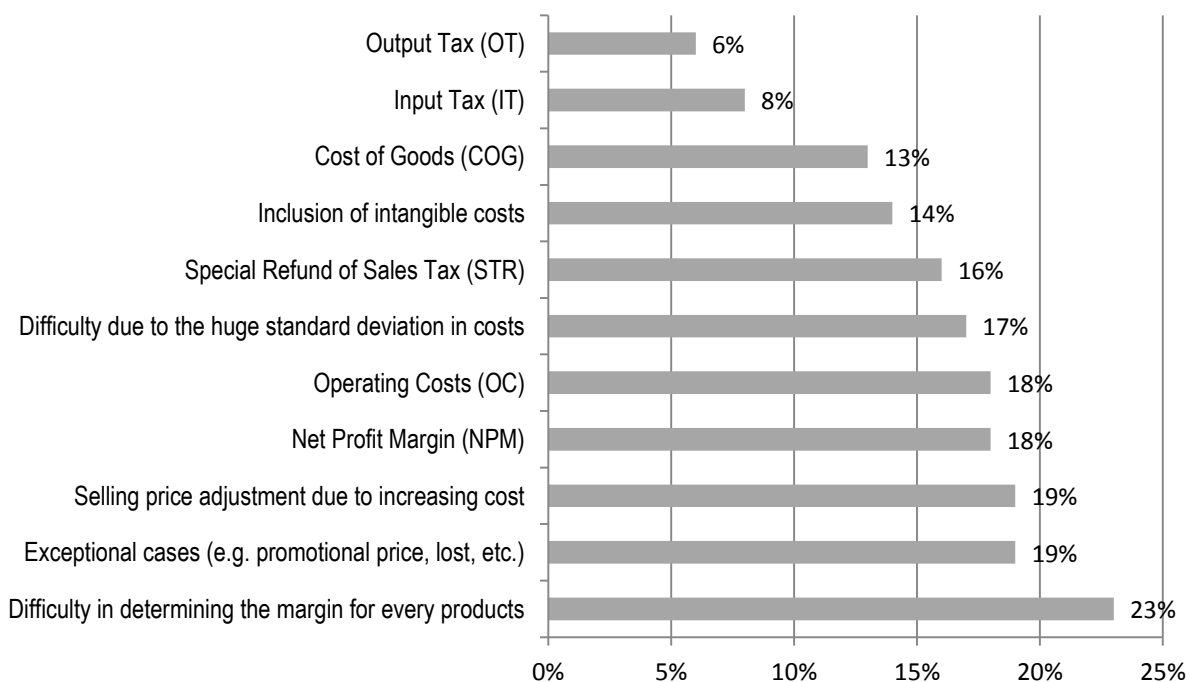
Issues in Calculating the Profiteering Formula

The survey found that the five major constraints faced by the businessmen while calculating the profiteering formula as depicted in Chart 14 is as follow:

1. The determination of the margin for every product category (23%),
2. In certain exceptional cases, i.e. due to promotional discounts or damaged inventory that will affect the calculation of the net profit margin (19%),
3. The calculation of the selling price adjustment due to the increase in cost during the annual timeline as it is customary to increase price every year to cater for pay rise, increase in price-level changes irrespective of GST implementation (19%).
4. The determination of Net Profit Margin (NPM) (18%), and
5. What constitutes operating costs (18%).

Hasty actions to bring traders to Court on profiteering charges without clear and rational profiteering formula to prove profiteering practices beyond reasonable doubts would results in prolonged court battle and waste of resources on the part of MDTCC and the traders that are accused of profiteering in challenging the ambiguous profiteering formula. Genuine or innocent businessmen that adjust selling price not due to GST implementation can be charged at no mercy based on the Ringgit-based NPM formula and would need unnecessary time and cost to engage a good lawyer to dispute the ambiguous NPM formula provided under the law.

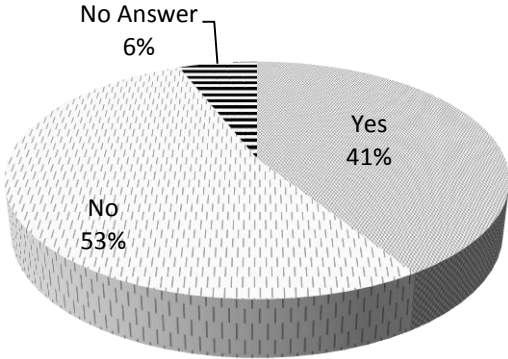
Chart 14: Top 5 most critical items/issues that you do not understand, or those issues that require more clarification in the calculation of the profiteering formula.



C. GST and Anti-Profitteering Enforcement

Chart 15 shows that more than half (53%) of the respondents do not agree with the use of MDTCC or RMC officers to act as mystery shoppers to nab errant businessmen or traders. Instead, respondents argued that the Government officers should act openly and come with proper identifications to assist and educate businesses during this initial stage of GST implementation. Acting as mystery shoppers may cause fraudulent incidents as businessmen are not able to confirm their identity.

Chart 15: Do you think it is fair and appropriate for the MDTCC or RMC officer acting as mystery shopper to issue penalty to businesses



9% of the respondents, mainly from Foods & Beverages, Travel, Leisure & Entertainment, Wholesale and Retail sectors indicated that officers from the Royal Malaysian Customs and MDTCC have been inspecting their companies since the implementation of GST of which 22% of the officers acted as mystery shoppers.

In the case of respondents who mentioned that their companies have been visited by officers, approximately 88% of the respondents stated that these officers acted professionally, and they have provided clear answers to the enquiries made by the businessmen on-site visit, indicating that hand holding programme are valued by the business community. However, 12% responded that these officers were rude and hostile. Moreover, 14% of the respondents revealed that they received notices to provide information or explanation to these authorities or summons from the Royal Malaysian Customs or MDTCC after the visit of these officers. Clearly, summons at the inception stage of GST implementation is unwarranted especially when all parties are in the same learning stage.

SUMMARY

1. Malaysia has implemented the Goods and Services Tax (GST) with effect from 1st April 2015. Since then, the business community and the public have been encountering with several issues and problems.
2. The survey was conducted during the period of 20th June 2015 to 31st July 2015. A total of 2,000 survey questionnaires were distributed, with 963 returns received. The response rate is 48.15%.
3. The survey was conducted mainly through ACCCIM's 17 constituent chambers located throughout Malaysia in 13 states and participated by other national level chambers of commerce, trade and sectorial organisations such as textile manufacturing, shopping malls, construction and building materials, sundry goods merchants, retailers, knitting manufacturing, hoteliers etc. The survey findings reflect the collective views of industries and businesses irrespective of ethnic group.
4. In term of the geographical distribution of the responded entities, of which 30% are from Southern Region (Johor, Melaka), followed by Northern Region (Perlis, Kedah, Penang and Perak) and Central Region (Kuala Lumpur, Selangor & Negeri Sembilan) which contributed 27% and 26% respectively.
5. Out of the 963 respondents, 34% are in Wholesale and Trading businesses, followed by 21% in Manufacturing and 10% in Professional services.

A. Goods and Services Tax (GST) Implementation

6. 43% of the respondents indicated that GST implementation has brought adverse impact to their companies, whereas 30% revealed that there is a positive effect on their businesses.
7. The industries that suffer highest negative impact by the implementation of GST are Logistics (59%), Property Development (51%) and Imports & Exports (50%).
8. As high as 87% of the respondents are GST registrants that where their taxable turnover have exceeded the threshold of RM500,000 per annum.
9. In terms of investment in both hardware and software for the preparation of the GST implementation, almost one third (1/3) of the respondents (32%) was between RM10,000 to less than RM50,000. This inevitably did increase the cost of doing business.

The industry that made a huge investment is the hospitality businesses with 42% of the respondents indicated their investment is more than RM50,000.
10. Slightly more than half (52%) of the respondents utilized the GST e-Voucher worth RM1,000 offered by the Government for SMEs to purchase/ upgrade GST accounting

software. This indicates that the e-Voucher of RM1,000 per SME is not cost-beneficial or effective to assist the SME in alleviating the cost of implementing GST.

11. Although there are 68% of respondents attended workshops or training courses provided by Royal Malaysian Customs as mentioned above, but many questions and doubts remain unanswered.
12. Since the GST took effect on 1st April 2015, 63% of the respondents indicated that they are having problems to operate the GST software, whilst 61% facing cash flow problems.

Another major issue is the refusal to pay GST where 32% of the respondents facing the problem of their clients/customers refusing to pay GST on their purchases.

13. The results of the survey shows that 86% of respondents is currently using computer generated invoice, where 3% of the respondents indicate that they are still using entirely handwritten invoice.
14. Majority of respondents (70%) did seek for consultation from Customs either by calling the GST Hotline or through GST Portal. However, only 22% of the respondents indicated that their problems are being resolved.

ICT is the industry with most problems remains unresolved (41%), followed by Foods & Beverages (38%) and Logistics (38%).

15. Only 5% adjusted the price downwards after the implementation of GST.
16. Only 15% of the respondents are on cash term basis, majority from the Foods & Beverages industry.

Businesses that are required to extend longer credit terms for above six (6) months are Agriculture, Timber, Fishery, Farming & Gardening, and Wholesale & Retail sector.

B. Anti-Profiteering

17. More than half (51%) of the respondents stated that they are not aware of the price control law.
18. The results of the survey show that a whopping 84% of respondents complained that they do not understand the Net Profit Margin calculation formula provided in the "Price Control and Anti-Profiteering Act 2011".
19. The survey found that the five major constraints faced by the businessmen while calculating the profiteering formula as follow:
 - i. The determination of the margin for every product category (23%),
 - ii. In certain exceptional cases, i.e. due to promotional discounts or damaged inventory that will affect the calculation of the net profit margin (19%),

- iii. The calculation of the selling price adjustment due to the increase in the cost during the annual timeline as it is customary to increase price every year to cater for pay rise, increase in price-level changes irrespective of GST implementation (19%).
- iv. The determination of Net Profit Margin (NPM) (18%), and
- v. What constitutes operating costs (18%).

C. GST and Anti-Profitteering Enforcement

- 20. More than half (53%) of the respondents do not agree with the use of MDTCC or RMC officers to act as mystery shoppers to nab errant businessmen or traders.
- 21. 9% of the respondents indicated that officers from the Royal Malaysian Customs and MDTCC have been inspecting their companies. 88% of them stated that these officers acted professionally, and they have provided clear answers to the enquiries made by the businessmen on-site visit, indicating that hand holding programme are valued by the business community.
- 22. Amongst this 9% of respondents being inspected, 14% revealed that they received notices to provide information or explanation to these authorities or summons from the Royal Malaysian Customs or MDTCC.