FINANCIAL LITERACY
FOR YOUTHS

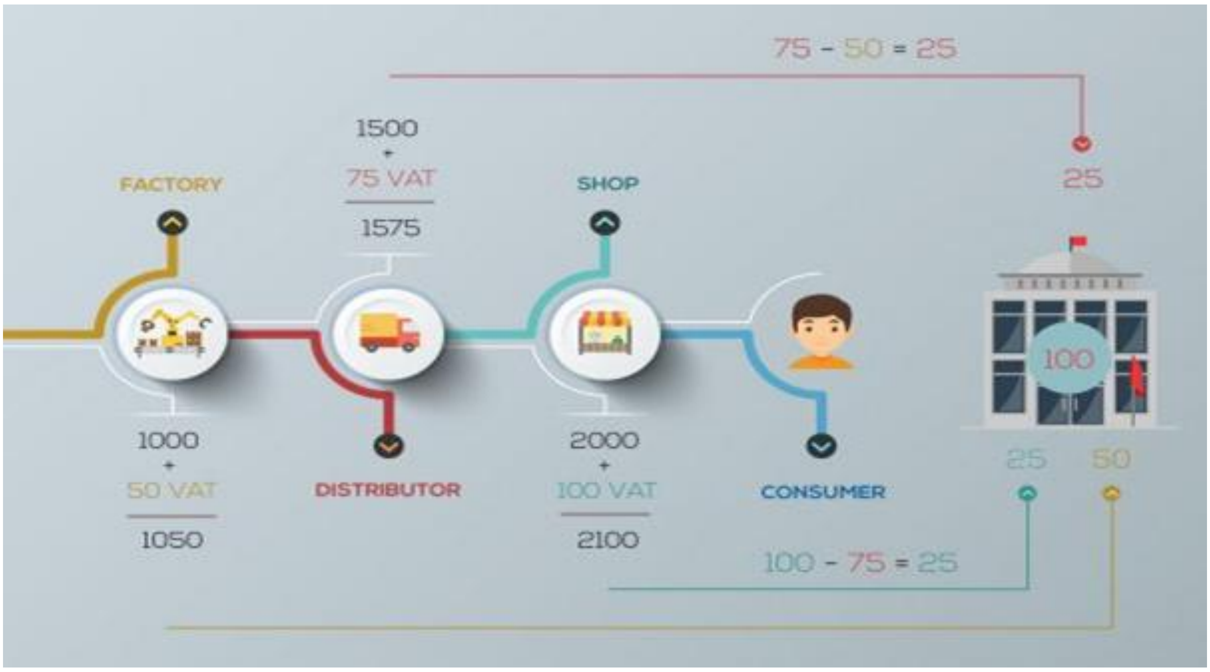
A brief comparison between GST and SST

So, we all know that the GST was recently replaced with the SST. Which can beg the question… how different are the two and what can it impose on the Malaysian society?

GST

The Goods and Services Tax (GST) is a value-added tax that was established and implemented on the 1st of April 2015 at a rate of 6%; however, not all items are subjected to the 6% rate. From a layman's perspective, "VAT" can be defined as a charge that is indirectly collected upon the consumption of goods and services by businesses on behalf of a country's Government at each stage of the supply chain (PwC.com, 2019). To gain a better insight to the term "value-added tax", the diagram below illustrates exactly how GST functions:

Illustration 1.0 represent the flow of VAT (Value-Added Tax)



Using a box of candy as an example, we can trace how the price of the candy changes over the course of its journey; from its production in a factory, all the way to the grasps of the consumer. As you can see from the illustration, the factory sells the candy to the distributor or wholesaler for RM1,050 (RM 1,000 x 5% = RM50

VAT; assuming VAT is at 5%). The factory then sends the RM50 tax to the government.

The distributor then sells the candy to the retail shop for RM1,575 (RM1500 x 5% = RM75 VAT); however, the distributor keeps RM50 and deposits RM25 as tax to the government.

The retail shop then sells the candy to the consumer for RM2,100 (RM2,000 x 5% = RM2,100 VAT). The retail shop then deposits RM25 to the government and keeps the RM75 for itself.

As a product passes through each stage, its value increases through the refinement process and further tax is imposed on the company or individual in charge of their respective stages. In other words, when the product is passed on to the next stage, the company/ individual would be required to pay a percentage of the previous stage's VAT. Tying this to our candy example, the government would have already collected a VAT total of RM100.

Now that we've got GST out of the way, let's move on to what really matters in accordance to the triumph of victory by the newly appointed Government; the SST (Sales & Services Tax).

Illustration 1.1: How GST works

SST

The Sales and Services Tax (SST) was recently reintroduced back in Malaysia, as part of Pakatan Harapan's post-election victory manifesto during GE-18. To put it simply, the SST consists of two separate taxes that are governed by two distinct tax laws on goods and services at a single-stage. This differs largely from the GST structure we have explained above.

The service tax (part of the SST) is a type of indirect tax (tax charged on goods and services, rather than income) charged on the provision of taxable service, such as:

- Hotel services or any accommodative services
- Service of food and beverages
- Clubs (ie. Night clubs, golf clubs, etc.)
- Professional services (ie. Accounting, Management, IT services,etc.)
- Domestic flights

However, the service tax is not levied on exported and imported services; instead, it is fixed at a rate of 6%.

Moreover, the Sales Tax (part of the SST) is a single-stage tax (tax that is only charged at one stage in the supply chain) that is levied at the import or manufacturing stages. In Malaysia, the sales tax will be charged at rates ranging from 5% to 10%. However, there are certain manufacturing activities that are exempted from sales tax, such as:

- Jewellery operations
- Opticians
- Tailoring
- Installing goods into the building (ie. Lighting, and wiring)

Illustration 1.1: How GST works

Once we have a sound idea of how both tax structures operate, the question then arises: which of these would be the better taxation device?

The Sales Tax is only charged once to the manufacturer when a sale is established to a retailer, therefore, when the retail company or shop sells those good, no sales tax will be imposed. On the other hand, the Service Tax is charged at the consumer's level. From a business perspective, a single-stage tax means that these entities will incur low costs along with less impact. In addition to the benefits of SST, Finance Minister Lim Guan Eng stated that F&B entities operations that are yielding an income of less than RM 1,000,000 will not be charged the 6% service tax, hence, putting less impact on consumers as well in regard to discretionary expenses.

The GST (Goods and Services Tax) is charged at multiple levels or stages during the process of manufacturing to reaching the final consumer. Now, having a multi-stage tax device can have both its adverse and positive effects. The GST was definitely a positive income device for the government as it received the higher tax revenue relative to the SST, having a higher tax revenue means that there will be additional funds for infrastructural or other projects that would develop the Malaysian economy and the well-being of the community.

On the contrary, the multi-stage GST had an extremely adverse impact on the consumers in Malaysia due to soaring prices of goods and services, in light of implementing the GST, therefore, affecting their standard of living as well. The GST has been charged on every level, from the collection of raw materials in the manufacturing stage to the final consumer. From a business point of view, GST had a proportion of an adverse on them as well, as companies needed to satisfy the RM 500,000 per annum threshold in sales in order to claim back the tax they had paid during the production process. This will affect the cost of the company as well, as they would need to elevate their efficiency of their production process, taking into account that it is labour-intensive. They would need to increase the wages and salaries of their workers to hit the RM 500,000 sales target.

Hold Up! this doesn’t mean that the SST is heavenly angelic. The SST is sort of a less progressive type of tax, reason being that the tax revenue will most likely drop as a result of its implementation. This would pose as an adverse impact on businesses in the short run as they would need to restructure their costing systems to be in accordance with the new tax system in Malaysia. In addition, the government would have lower funds for capital expansion for now as a result of plummeting tax revenues.

The need to understand the essence and impact of these two taxes are deemed to be beneficial to the Malaysian community, as it makes us realize how are we being tax and where does it all go. In conclusion, we all now know that the SST (10% for sales; and 6% for services) and GST (standard rate of 6%) are forms of a consumption tax, in which SST is a single-stage tax while the GST is a multi-stage tax. The SST has a smaller range of taxable items in comparison to the GST, which was a wider range, meaning that basically all goods and services are chargeable based on GST unless its items are exempted (ie. Healthcare services, and public transport).

References

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