

## **RM27b GST saves the day for gov't**

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**ECONOMIC REPORT** An estimated RM27 billion is expected to be collected in 2015 from the Goods and Services Tax (GST), cushioning the blow of lower crude oil prices, according to the 2015/2016 Economic Report by the Finance Ministry.

The collection is higher than the initial projection of RM21 billion when GST was implemented. GST is categorised as indirect tax which is forecasted to spike 42.2 percent, driven by the introduction of GST.

Because of the GST, total federal government revenue in 2015 is still expected to increase marginally by 0.8 percent to RM222.5 billion. Its share of to Gross Domestic Product (GDP) is expected to sustain at 19.2 percent due to lower collection from oil-related revenue and non-tax revenue.

GST was implemented on April 1, 2015, to replace the Sales and Services Tax (SST). GST broadens the government's tax base. It also simplifies the previous tax system which has multiple rates and different thresholds to a single tax rate at 6 percent. For businesses, the threshold for GST is RM500,000 in turnover.

Crude oil prices have collapsed by more than 50 percent in the last 12 months due to severe oversupply. Brent crude oil prices, a widely used benchmark, was trading at almost US\$100 per barrel in 2014. Now, it is hovering just below the US\$50 mark.

The Malaysian government has been trying to reduce dependency on oil revenue in the last few years. Share of oil-related revenue to total revenue has declined from 41.3 percent in 2009 to 30 percent in 2014. It is expected to drop further to 19.7 percent in 2015.

Petroleum income tax from oil fell 64.6 percent to RM9.5 billion but this was offset by the GST collection.

Lower oil prices are also expected to hit direct tax, which is a major contributor with 52.5 percent of total government revenue. Direct tax is expected to fall 7.9 percent to RM116.8 billion in 2015. However, the largest component of direct tax - corporate tax - is expected to grow 4.2 percent to RM68.3 billion. Corporate tax makes up about 40.2 percent of total tax revenue.

Import duties for 2015 are expected to increase by 2.1 percent to RM2.7 billion due to strong demand for intermediate and capital goods.

On the other hand, excise duties are expected to fall by 5.9 percent to RM12.2 billion due to a decline in sales of motor vehicles, down 3.3 percent to 332,184 units in the first half of 2015. This downward trend is expected to continue for the rest of the year.

Export duties are expected to follow a similar path at RM1.1 billion, with sluggish export volume and lower crude oil prices.

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