

GST will be precursor to hyperinflation
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Donplaypuks

I refer to the letter GST will allow Umnoputras more 'Disneyland' trips.

The writer's opinion of the deleterious effects of GST is clearly based on a complete misunderstanding of how the 'input tax'/'output tax' GST system works.

Most businesses which register for GST based on the minimum threshold turnover figure of RM500,000 per year stipulated under GST regulations will be able to claim back from the Royal Customs & Excise Department (C&E) the 4% GST they are charged by their suppliers.

If we take the writer's example, for the sale of RM100 by a soap manufacturer to a wholesaler, he will add RM4 GST (RM100 at 4%) and charge the wholesaler RM104 in his invoice. The manufacturer will then pay RM4 GST to the Customs Department which he will have to collect from the wholesaler. Therefore his real sale in his profit and loss (P&L) account will be RM100 and not RM104.

The wholesaler may sell the product to a retailer for RM200 and add RM8 GST (RM200 at 4%). He will pay RM4 to the Customs Department (RM8 output tax less RM4 input tax). His P&L will show sales of RM200 and cost of sales of RM100 (not RM208 and RM104).

When the retailer sells the product to the end-user at say RM300, he will add RM12 (RM300 at 4%) and charge him RM312 which the customer will have to bear in full unless he is also registered for GST and buys the product for his business (such as a hotel). The retailer's P&L will show sales of RM300 and cost of sales of RM200 (not RM312 and RM208).

This final RM312 borne by the final consumer is not the same as the writer's compounded GST figure which will, in error, result in a final charge to the retail customer '..from the manufacturer to the agent (4%) to the wholesaler (4%) to the retailer (4%) to the consumer (4%). Total 16% ++++ (vs 10%) or 60% more in taxes'. That would be ludicrous!

GST/VAT systems all over the world work on the principle that each GST-registered business is only an agent collecting and remitting GST/VAT to the government. GST, generally, will not form part of the P&L cost of the business unless the business is not registered under GST rules. Many basic items such as food, medicine, school books, childrens' clothings etc, will be exempted from GST or zero-rated.

However, there will be a general rise in prices associated with the administrative costs in implementing GST such as buying new cash registers, upgrading computerised accounting systems and keeping extensive records for inspection by the Customs Department.

More than that, our government is proposing to implement GST at a time when we have not quite attained a developed nation status which is in complete contrast with that when VAT was introduced in Europe, Australia and Singapore.

Hence, GST is likely to adversely affect the lower and middle-income groups more than the rich, resulting in hyperinflation and depleting disposable incomes for the masses. This is what the government should be very careful about as the distribution of the national income may become lopsided if GST is introduced at the wrong time in a country's economic cycle.

Besides, if the government itself is projecting an additional income of only RM1 billion by replacing sales tax with GST, it will make more sense to tighten up loopholes in the sales tax, widen it and defer GST to another day when the country is ready for it.

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