

Small traders in a bind over GST
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Pasar malam trader Keong is in a bind over the goods and services tax (GST): he knows that his supplier will tax him an extra 6% on the shoes he buys come April 1, but his business is too small for him to pass on the extra tax to his customers.

However, he also realises that if he absorbs the extra cost, it will eat into his margins which will only mean less income for him and his family.

His dilemma is shared by many of the two million traders and hawkers in the country who are too small to tax consumers but are themselves taxed by their suppliers.

They are one section of the business community, sometimes called the informal sector, which is worried that the GST could unintentionally lead to lower income.

Keong said if his business suffers post-GST and he was unable to provide for his family, he would just have to close shop and look for work somewhere else.

Tax collectors for the government

To understand how GST works along the business chain, it would be easy to regard importers, wholesalers and retailers as "tax collectors" for the government.

That 6% is supposed to be charged and paid by the end consumer. The person who charges 6% is supposed to collect it for the government.

The government has decided that only businesses which make more than RM500,000 in revenue a year have to register with the government to charge GST or in other words, to become "tax collectors".

Keong and nine other hawkers and traders met by The Malaysian Insider represent those businesses which do not have to register and collect GST from consumers.

All 10 traders sell items which are "standard rated", or have a 6% tax levied on them. These include clothes, shoes, sandals, wallets, belts, handbags, underwear and accessories.

Their suppliers are big enough to charge GST. The traders, however, cannot pass on that 6% to their consumers, meaning they have to absorb the 6%.

The common sense response to higher prices from suppliers would be to up the prices of their goods to consumers, but the traders interviewed said it was not that straightforward.

"I cannot just increase my prices because my customers will run and my sales will

drop," said Xia, 53, another pasar malam trader in Kepong, who sells belts and wallets.

Another hawker, Fahdi Ismail said it was risky to simply raise prices because customers were more discerning.

"Their buying power has shrunk. We get taxed by our supplier but our customers want the same price," said Fahdi, who sells sandals at a pasar malam in Gombak.

Among the 10 traders interviewed, five said they would try and absorb the extra cost from GST for as long as they could.

These are people like Xia and Lee, from Shah Alam. Lee said he would have to fork out an extra RM200 to RM300 a month when their supplier charges them GST.

Four of the 10 said they would probably raise the price of their wares even though they risked losing customers. One is still undecided.

Some like Lim, who sells costume jewellery in Shah Alam, said GST could be turned into advantage if a trader adjusted his prices smartly.

"Big stores will charge GST. So if we are smart and don't raise our prices too high, customers can come to us because we don't charge GST."

Xia, who plans to absorb the extra cost, said he would just have to make do with lower profits in order to go on trading.

"I will see less profits, so I'll just have to work harder," said Xia, who already works seven days a week at different morning and night markets.

Keong plans to raise prices even though he risks doing less sales.

"But if my income goes below RM3,000 a month, I won't be able to do this any more. I'll have to find another job," said the 45-year-old who has three school-going children.

Sansiwari Mogek, 68, who sells headscarves, said her regular customers have been asking her if her prices would increase after GST.

"I'm telling them that I will not increase prices for now because I am not registered and suppliers have also been telling me that they will not charge me the tax.

"I pay cash to my suppliers. But if I am subject to GST, I will have to raise prices although my customers have told me they will stop buying if prices increase," she said.

Consequences for everyone

Kuala Lumpur Malay Hawkers and Small Traders Association chairman Datuk Bahrin Abdul Razak dismisses the view that hawkers like his members will be squeezed by GST.

He said this was since their overheads were low to begin with because they did not have to rent physical stores or pay for utilities.

Sansiwari Mogek, 68, who sells headscarves, says her regular customers have been asking her if prices will increase after GST. – The Malaysian Insider pic by Nazir Sufari, February 25, 2015. Sansiwari Mogek, 68, who sells headscarves, says her regular customers have been asking her if prices will increase after GST. – The Malaysian Insider pic by Nazir Sufari, February 25, 2015. “So we can actually sell our products below market rates compared with the big stores. We are actually price stabilisers,” said Bahrin, who also sits on a council in the Domestic Trade and Consumer Affairs Ministry.

Bahrin also brushes aside concerns that small traders would be hit by GST from suppliers but unable to pass that extra cost on to consumers as a tax.

“We won’t pass on the cost to consumers. It is the importers and wholesalers who will charge GST.

“The majority of small traders do not complain about GST. Those who complain are the minority and the media,” Bahrin said in response to the feedback from traders whom The Malaysian Insider interviewed.

Former Treasury deputy secretary-general Tan Sri Ramon Navaratnam, however, said the impact on small traders and ultimately, consumers, should have been anticipated by the government.

“We are not the first country to introduce GST. We should have looked at other countries’ experiences to deal with teething problems like this. GST should be implemented fairly, smoothly and reasonably.”

Kluang MP Liew Chin Tong said the extra burden small traders have to bear would also hit businesses further up the chain which depended on these traders as customers.

If small traders and hawkers cannot bear the extra cost because of GST and close shop, it would mean wholesalers and importers would lose customers.

He estimates that hawkers and small traders make up one third of the customer base for wholesalers.

“If 30% of the supply chain is wiped out, there will be a lot of adjustments that have to be made in this sector. And this is also happening in an economic situation where people are buying less.

“It is irresponsible of the government not to have considered this.” – February 25,

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