

Contractors anticipate cash-flow pain, competition with GST
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General building contractor Azrai Abdul Hanif is not a big player in the construction industry and is, therefore, not required to register with the Customs Department to charge clients the goods and services tax (GST) which comes into force on April 1.

But small-scale contractors like him are registering anyway, because they fear getting squeezed amid confusion as to how the tax is going to affect the industry, where costs along the supply chain will still be taxed.

Registration will help him claim back the tax from the government, but the up-skilling needed to be GST-ready is an added cost, and he fears the entire affair is likely to drive up his overall cost of doing businesses, on top of the risk of losing clients because of the GST that could be passed to them.

Since many clients will also be looking to save money, these contractors worry that they could lose jobs to unlicensed builders, who charge less but who do not follow the rules on safety and quality.

Forced to register 'voluntarily'

Small contractors like Azrai, whose business has a turnover of less than RM500,000 a year, don't need to, but are registering anyway because clients are starting to ask for a GST reference number.

This is the number given to all businesses registered with the Customs Department to collect GST on behalf of the government.

Like the old 10% sales tax, which the GST of 6% is replacing, registration is required for all businesses which have a turnover of at least RM500,000 a year.

Businesses with a turnover of less than RM500,000 a year can register voluntarily.

"We also have to fork out money for GST software and learn how to use it so that we can then claim the tax back from the government," said Azrai, who is based in Kuala Lumpur.

This leads to the second and equally important reason. Although small contractors don't have to charge GST to their clients, they will have to pay GST to their hardware and raw material suppliers for goods that are not zero-rated.

By registering and using the software, they would then be able claim that cost of the tax back from the government.

It is exactly why another small-scale contractor, Jamaluddin Rahim from Kuala

Lumpur, said businessmen like him are registering with the Customs Department so as not to absorb the tax and reduce his profit margin.

"It will make claiming from the Customs Department easier," he said, referring to the tax refunds that he would have to file once GST comes into force.

Overall, reduced profit margin is the main reason the Malay Contractors Association (PKMM) has encouraged all its members, small or large, to register, said an official, Jamaluddin Non.

"There is also some confusion over what services and goods are zero-rated. So registration is necessary when there are services and goods where we can claim refunds from the government," said Jamaluddin, who heads PKMM's Federal Territories branch.

"I believe that for the first few months, there will be some hiccups with how we deal with the GST," the PKMM official added.

Cash-flow pain

Master Builders Association president Matthew Tee, however, said on the whole, contractors would have to learn how to better manage their cash flow after GST.

A potential problem, he said, was when clients paid late and forced contractors to absorb the tax.

Contractors have to pay tax to suppliers for material and hardware (input tax) but will then charge the tax to clients for services (output tax).

But when clients take too long to settle the bill, contractors won't be able to collect the output tax and use it to claim refunds from the Customs Department so as to make up for the input tax charged to them.

If a client takes too long in paying, the input tax starts to eat into a company's operating budget, Tee told The Malaysian Insider.

"Some suppliers, for instance, have single digit profit margins. So if they cannot get the output tax back in time, they will suffer.

"And Malaysian paymasters are usually late," said Tee.

However, he said, this was just a temporary pain to which contractors would have to adapt.

"Contractors will have to mitigate all this. We fully support the GST. We will just have to firm up our act in the first few months," said Tee.

Impact on prices and competition

Tee does not expect the cost of services such renovations and repairs to rise excessively, as the price of some materials will come down.

"Some construction materials already have a 16% sales and service tax. So with GST, all this will go down to 6%," he said, since GST was to replace the existing sales and service tax.

"We won't see overall prices for services going down because you have other costs such as investment, capital and labour. But at least prices will stabilise."

But Jamaluddin said, on the whole, prices for services would go up by 3% to 4%, even when lower taxes on materials were factored in.

This is to take into account the costs of getting ready for GST, he said, such as buying accounting software and hiring staff trained to use it properly.

"The software itself is RM1,400 a year if you are renting it. It can go up to RM10,000 if you buy it," said Jamaluddin, who is also national PKMM assistant secretary.

Family-run outfits will also have to hire staff capable of doing the day-to-day accounting, since all the input taxes will have to be documented.

Although he does not expect demand for renovations and repairs to suffer directly from the GST, there is a worry that higher prices will drive penny-pinching clients to the grey market of unlicensed contractors.

These are mostly foreign workers who have gained the skills and knowledge to do small-scale home renovations, such as adding a new room or expanding the kitchen, from their years in the industry.

But this type of work, which was estimated to be worth RM1 billion a year, Jamaluddin said, was also the bread and butter for local small-scale class-F contractors, most of whom are Bumiputeras.

"The difference is that they are unlicensed and they cut corners when it comes to safety and quality of workmanship.

"This is a possible trend that we have to look out for post-GST." – March 5, 2015.

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