

THE TAX REVENUES DIFFERENCES BETWEEN GOOD AND SERVICES TAX (GST) AND SALES AND SERVICES TAX (SST) AND THEIR CONTRIBUTIONS TO MALAYSIA DEVELOPMENT

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Abstract: Post-General Election 14 had affected policies in Malaysia and the one that been the most concern by the people is tax rate as the new government promise to abolish Good and Service Tax (GST) of six percent that been introduced on previous April 1, 2015. To replace the previous tax, the government reintroduced Sales and Services Tax (SST) that consist of ten percent for sales and six percent for services by September 1, 2018. This has triggered a confusing reaction and people's point of view about the best tax and the opportunity that provided by both taxes for a better economic stability. Therefore, the key purpose of this study is to gain a deep understanding regarding the revenue between GST and SST tax and the effects to Malaysia development. Based on the macroeconomy field, the tax revenue will relate to multiple kinds of massive project and jobs opportunity that leads to multiplier effects on national income. Besides that, this relationship will also affect the international trade and investments in Malaysia which finally contribute to national development. In this study, the data will be collected from primary data which is from report, article and previous research. On the year 2014 which SST tax was still on duty had collected RM38,798 million and spend it most to emolument, supplies and services, subsidies, other expenditure and economy (Bank Negara Malaysia, 2014). The year has become a good multiplier effect to Malaysia as Malaysian been provided with jobs opportunity and willing to spend their wage because of the increased government spending on subsidies and supplies and services factor. Malaysia's trade had recorded the increment of 6 percent in GDP which exceeds the government expectation from 5.5 percent to 6.5 percent (MITI, 2016). The year 2016 is a whole year which GST tax had taken over and collected RM58,054 million and spend most of the revenue on the same component in the year 2014 except the amount had reduced in supplies and services, other expenditure and subsidies but have increasement in emolument (Bank Negara Malaysia, 2016). The year did not become good multiplier effects as the people did not willing to spend their wages because of the decrement of subsidies and not having many jobs opportunity when the government reduce the supplies and services factor. Moreover, Malaysia had only recorded increasement of 4.2 percent of GDP that did not exceed the expectation of 5 percent to 5.5 percent (MITI, 2016)

INTRODUCTION

GST is already well known in the world and been implemented in 163 countries than 190 in total. Malaysia is the newest country that implements GST in the world and even ASEAN at the rate of 6 percent for goods and services, the lowest rate compared to others country. The possibility rate around the world starting from 5 percent to 25 percent. SST tax is not known by the world because of name factor but had been implemented same concept not only in Malaysia but in other countries in the world too. Malaysia SST differentiate the tax rate between sales and services for 10 percent and 6 percent

TABLE 1: LIST OF SELECTED COUNTRIES WHO APPLY GOODS AND SERVICES TAX (GST) AND THEIR RATES

Country	GST Rates (%)
Norway	25
United Kingdom	20
Turkey	18
New Zealand	15
Australia	10

Table 1 shows the list of countries and their current GST rate.

TABLE 2: LIST OF COUNTRIES APPLY SAME CONCEPT OF SST AND THEIR RATES

Country	Standard Rate (%)	Another Rate (%)
Switzerland	7.7	3.7, 2.5
Spain	21	10, 4
Netherlands	21	6
Germany	19	17
Poland	23	8, 5

Table 2 shows the list of countries that apply the same concept as SST that has two different tax rates based on the items been purchased by customers.

TAX IN MALAYSIA

Goods and Services Tax has different ways of executing compared to Sales and Services Tax in Malaysia. GST executing can be seen in the 3 years of doing multistage from the year 2015 until 2017, still need a lot of people acceptance and enough knowledge for a better understanding. Different from SST that been executed since the year 1970 until 2014 which mean about 44 years of doing after going through a lot some modification depends on the economic situation and which can give the best benefit. The oldest tax act in Malaysia history.

To gain a deep understanding, Table 3 below shows the difference between Good and Service tax (GST) and Sales and Service Tax (SST) in Malaysia

TABLE 3: THE DIFFERENCES BETWEEN GOOD AND SERVICE TAX (GST) AND SALES AND SERVICE TAX (SST)

Element	Goods and Services Tax (GST)	Sales and Services Tax (SST)
Duration	Introduced in year 2015-2018	Introduced in year 1970-2014 and had go through some improvise
Scope	Apply to most of the items except basic food, education and health	Apply to all items
Stage	Multiple-stage	Single-stage
Risk	Not exposed to tax-runner problems	Exposed to tax-runner problems
Collection	Higher	Lower
Rates	6 percent	Vary from 5-10 percent

Table 3 shows the differences between GST and SST

LITERATURE REVIEW

There is some research that has been done before about GST tax and their effect to Malaysia but it is hard to find about SST tax because most of the people are already adapted to the old national tax compared the new one. So, they think that a research about SST tax is not necessary but when GST tax was introduced, some of the people just jump right in into research. From their result, we can see that there are two different ways of interpreting the GST tax effects, meaning people do not really understand what the tax is all about and tend to follow two different paths.

1) Is Malaysian ready for GST tax to been implemented?

Most of the people in Malaysia are in B40 and M40 group which mean the majority of them will feel the positive and negative effects of GST tax in their lifestyle except the M20 group which rarely complain compared to both groups. People are afraid because of rapid changes and less information that been given by the government and this lead to rejection. However, they are ready to accept GST perfectly if they been given enough information and the tax did not add more burden to their selves (Hussin Abdullah, Aefi Alghazali Mohd Idrus, Normala Mehat, 2013).

2) Is GST tax will make the price increase?

Yes, some of the prices will increase more than when SST tax was being implemented. However, there is some sector that has been exceptional from price going up to such as education, health, and basic food sources. However, by implying GST tax will increase inflation too based on the research made by the University of Queensland, Australia (Mohd Rizal, Mohd Adha, 2011)

3) Is GST tax bringing positive vibes to Malaysia?

From the economy sides, it is true that GST tax can give good benefit to economy stability especially to annual Malaysia revenue (Margaret Ang Guat Hee, Laksme Khorana, 2010), however the effects to people must be considered too because every country has different condition of social level (Zaharuddin Abdul Rahman, 2014) although GST tax had been implemented in 160 out of 190 countries in the world.

4) Is GST and SST tax are allowed according to Islam?

Majority of Malaysian is Islam which this issue is really important for our knowledge. This both tax will increase items price no matter how much rates being applied but the differences are the government's ways to spend tax revenue for people sake. According to Islam, if the tax revenue provides a good opportunity to lift off people burden and develop nation for better future, then it is suitable with the Islamic principle (Nik Mustapha Nik Hassan, 2013)

POSITIVE AND NEGATIVE EFFECTS OF GOODS AND SERVICES TAX (GST) TO MALAYSIA DEVELOPMENT

The positive effects of GST Tax are as follows:

A) Reducing the reliable to income tax: As we know, most of the annual Malaysia revenue is been collected from Income Tax (Bank Negara Malaysia, 2017). It means the people burden have been lifted in the wage area and they can enjoy their wage to anything that they desired (Ministry of Finance, 2017). This act is to encourage the people to spend their wage on the local product to ensure a good multiplier effect to Malaysia economy. Besides that, this will repair the economy level for some people, especially for B40 and M40.

B) Increasing social welfare: The government promised the GST tax will not affect the three things above and this lead to a better social care where the people did not have to worry about their lifestyle. The education fees did not increase and make peoples have an easy way to send their children to a good quality educational institution. For healthcare, the GST tax will support the medicine fees for people by having Klinik 1 Malaysia that will help people who do not have strong financial to have a better life. Lastly, the basic food will help people to gain their basic need and increasing the social lifestyle.

The negative effects of GST Tax are as follows:

C) Price of product increase: This is because GST tax has multiple stages and make the price become much higher than usual that lead people start to apply to save treatment especially for the people who are in the poor financial level. Many local products did get high demand from the people because of the price. According to the economy norm, if demand is lower than supply, it will force the companies to compete with each other and start to decrease their price until reach maximize profit. However, this will not good effects to Malaysia economy

D) Creating bigger income gap: The GST will not affect the good financial level people but the percentage of rich people are not too big in Malaysia and most of Malaysia are more to medium and poor financial level. This will create a bigger income gap and it is not good for people unity. The complaint and issues are rarely come from T20 but the majority from B40 and M40, so this is a benchmark that shows there is another problem that been developed from the tax issues.

POSITIVE AND NEGATIVE EFFECTS OF SALES AND SERVICES TAX (SST) TO MALAYSIA DEVELOPMENT:

The positive effects of SST are as follows:

A. Support community financial: SST tax is collected with only using one stage, this means that the local products price has an increment but the governments focus on subsidies that make the price is affordable by all people economy stage. This creates good multiplier effects when people spend their wage on local products and give the good return on Malaysia economy. The value of Ringgit Malaysia is big and people can buy a lot of things with lower total cost.

B. Increase total national investment: SST tax managed to shows that there a consistently increasing of foreign and local investment in Malaysia. There a lot of mega-project that been supported by many companies and this has created various type of jobs opportunity for the people. The projects give good multiple profits to governments and companies and this becomes an ultimate factor to attract more investor.

The negative effects of SST are as follows:

C. Tax-evade problem: There are some companies in Malaysia evade from the SST tax with did not shows the real annual profits to the governments. This makes Malaysia had lost some of the sources that can contribute to annual revenue and make there is injustice happen among the companies which are honest with their annual company's revenue. This problem triggered dissatisfaction from the people about the companies that can give overall negative reaction to all company whether it is a right or wrong target.

D. Low contribution to annual Malaysia revenue: This shows that Malaysian need to pay a high rate of income tax because the majority contribution to annual Malaysia revenue comes from the income tax. That means that people will have the balance of their wage after the cutting. This impacts to people who have the poor financial stage and their lifestyle because they will not have much money to save as the most of wage have been spent to the basic need such as food, clothes and the house bills

DISCUSSION

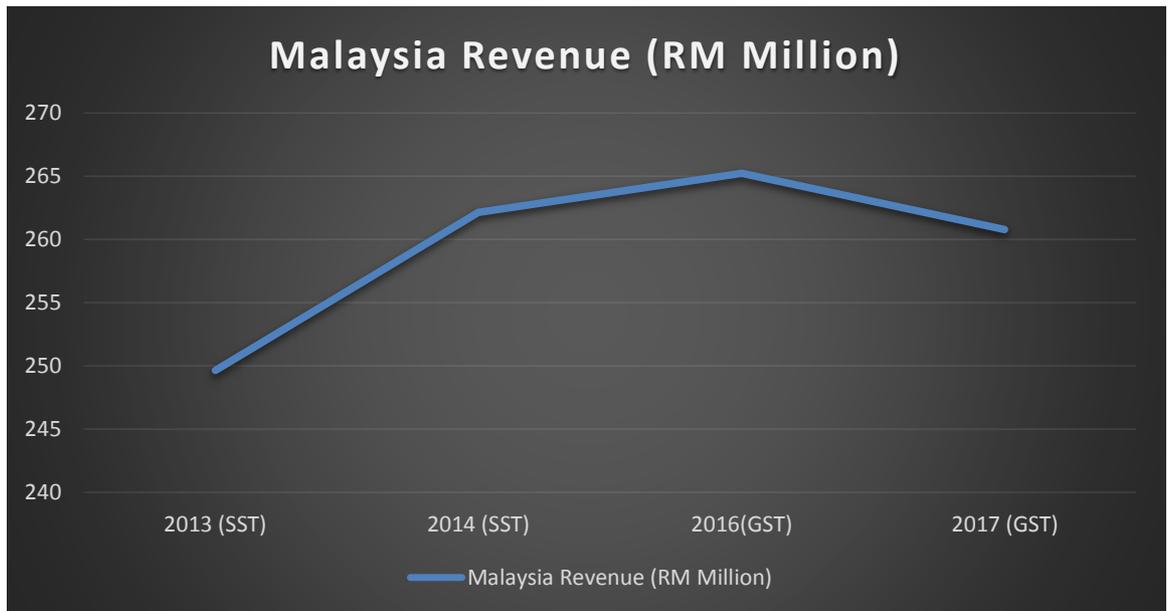


FIGURE 1

SST tax consistently helping Malaysia to increase the national revenue meanwhile GST tax has increased a little bit higher but did fall on the second year of doing it.

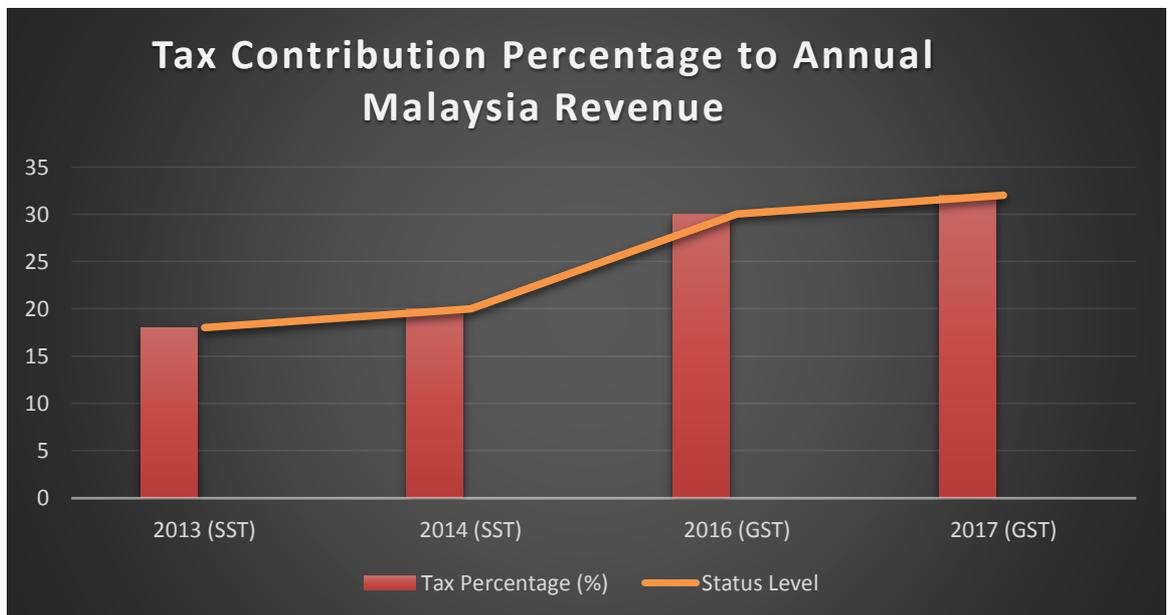


FIGURE 2

SST tax contributes lower than GST tax to annual Malaysia revenue. SST tax increases their contribution just a little bit from the year 2013 to the year 2014 but GST tax has increased rapidly starting from the year 2016 and slow bit on the year 2017.

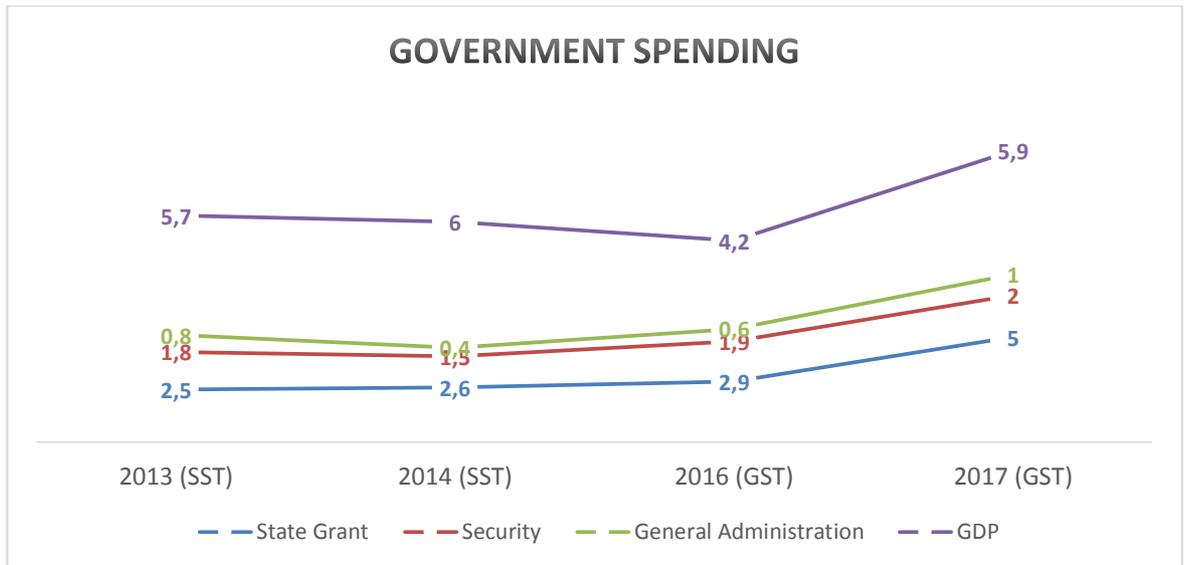


FIGURE 3

From the SST tax, we can see the government increases their spending on state grant from 2.5 percent to 2.6 percent to ensure the state benefit projects to the community but decrease for security from 1.8 percent to 1.5 percent because of crime statistic drop on the year 2014. The general administration also decreases from 0.8 percent to 0.4 percent because the government's skills had increase which did not many grants need to be used for the staffs. GST tax increases their spending on security from 1.5 percent to 2 percent is one of the effects when a big amount of Bangladesh workers being imported by the government. General administration increase from 0.4 percent to 1 percent because there are changes of staff position during the new government's era which need some incensement fund to train new skills. The most changes are for the state grant from 2.6 percent to 5 percent because there are also new staffs and projects been done throughout the two years.

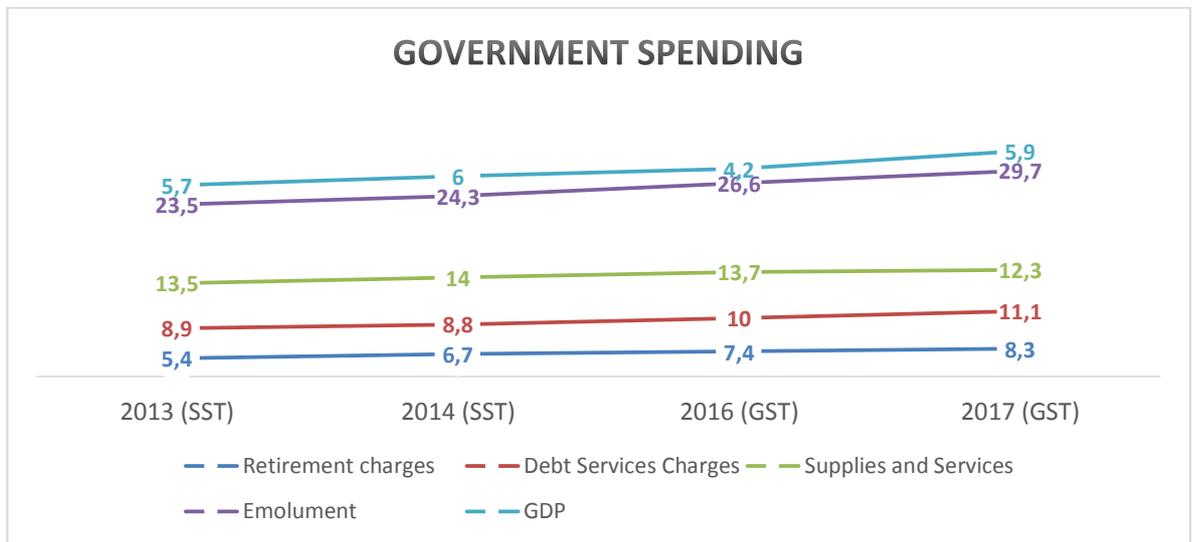


FIGURE 4

The government spends the SST tax revenue on increasement of emolument from 23.5 percent to 24.3 percent because the economy level was good back then which give a good return to the governments and the people too. Supplies and services increase from 13.5 percent to 14 percent to provide jobs opportunity. Retirement charges increase from 5.4 percent to 6.7 percent as appreciation for people who have to serve the nation. Debt services charges decrease because the governments focus more on fulfill people need. In GST, supplies and services decrease from 14 percent to 12.3 percent because there is increasing in national debt which also increase debt services charge from 8.8 percent to 11.1 percent. Retirement charges also increase from 6.7 percent to 8.3 percent for the same purpose on the year 2014. Emolument has the rapid increase from 24.3 percent to 29.7 percent with a hope that people will spend their wage on the local product to produce multiplier effects which can help solve national debt problems.

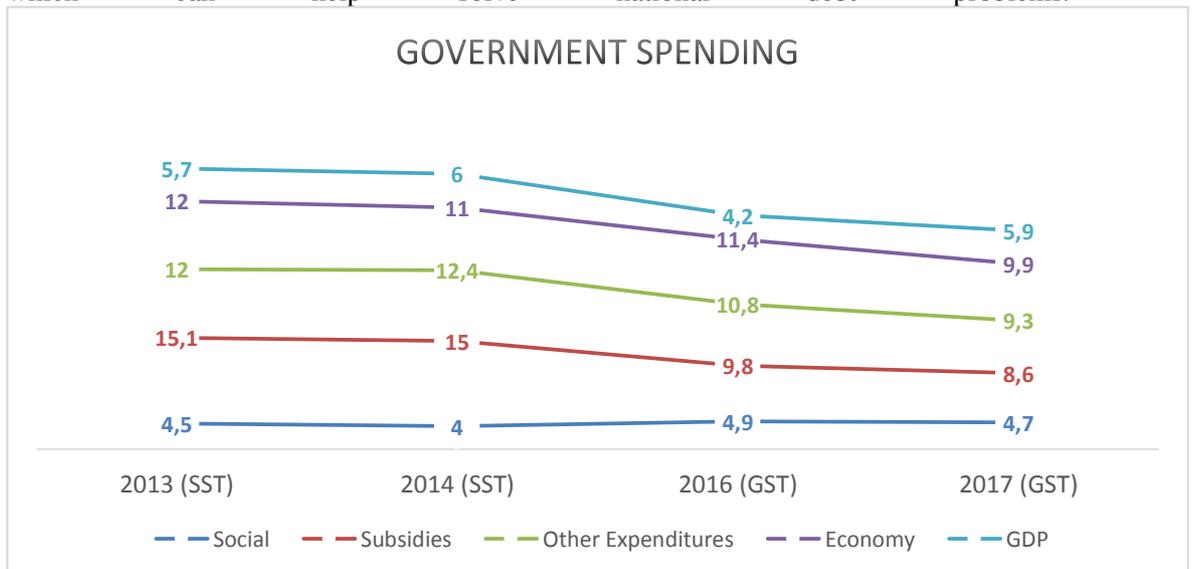


FIGURE 5

Governments spend SST Tax on other expenditure that increases from 12 percent to 12.4 percent to purchase some asset or as investments that can help Malaysia in the future. The economy decrease from 12 percent to 11 percent because people are able to fulfill their need with fewer problems which mean economy sector fund can be reduced and did not add burden to the government. Subsidies have been reduced because there is a bit increment in national debt, so the reduction is too repairing the problem. Social sector decreased from 4.5 percent to 4 percent because healthcare and education fees are able paid by people. In GST, economy fund been decreased from 11 percent to 9.9 percent because governments focusing more on debt payment which affects other expenditure to that decrease from 12.4 percent to 9.3 percent. The debt problems had forced the government to decrease their subsidies from 15 percent to 8.6 percent in other to collecting more national revenue for solving the problems. However, the social fund had increased from 4 percent to 4.7 percent because of the BR1M new idea from the government.

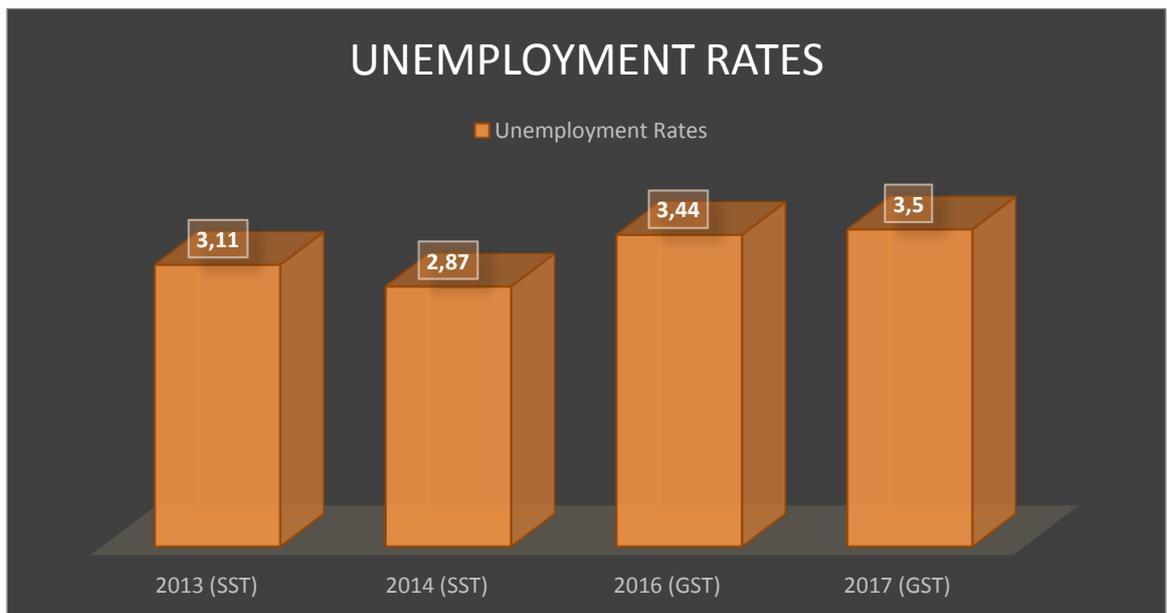


FIGURE 6

Unemployment rates on SST tax era are much lower and have hit the lowest rate on the year 2013 and 2014 compared to GST tax era that has higher rates of employment and has hit the highest on the year 2016 and 2017.

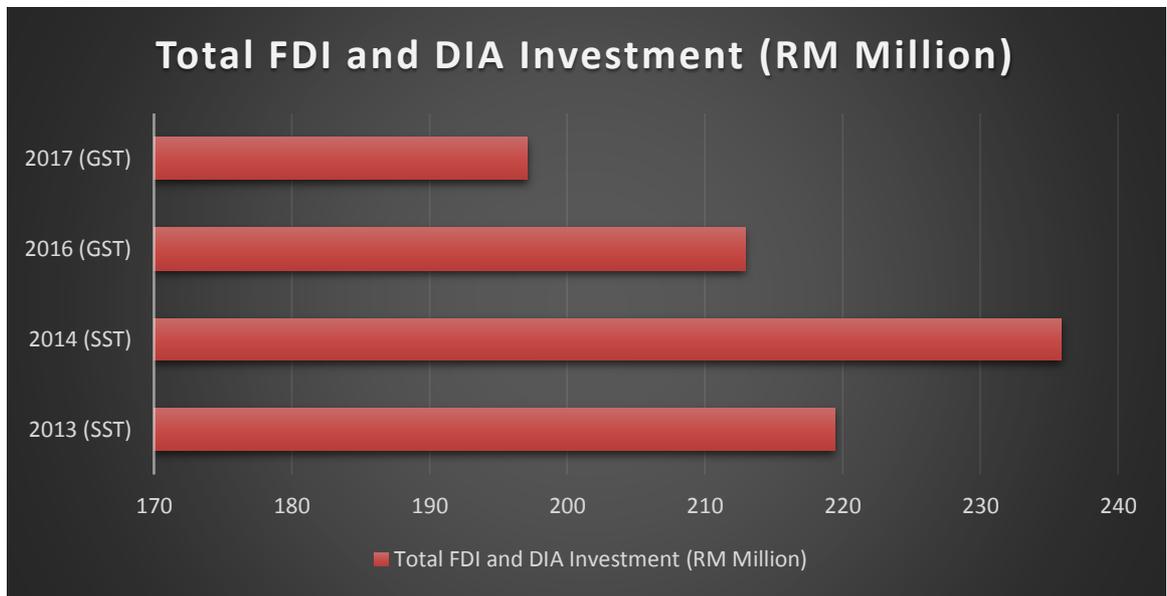


FIGURE 7

SST tax managed to attract the foreign and local investor to make investments in Malaysia in the year 2013 and 2014. Both of year had become the highest total investments compared to GST which consistently decrease the investments until becoming the lowest in the graph.

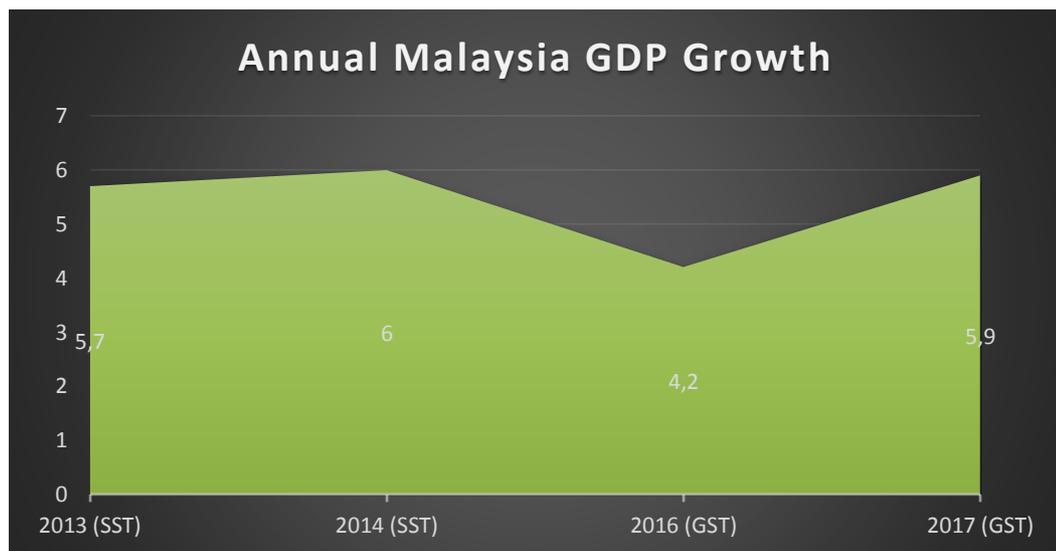


FIGURE 8

Annual Malaysia GDP growth from applying SST tax has increased in the year 2013 to the year 2014 which has become among the highest rates in the graph. GST tax record decrement of GDP on the year 2016 but has increased rapidly in the year 2017.

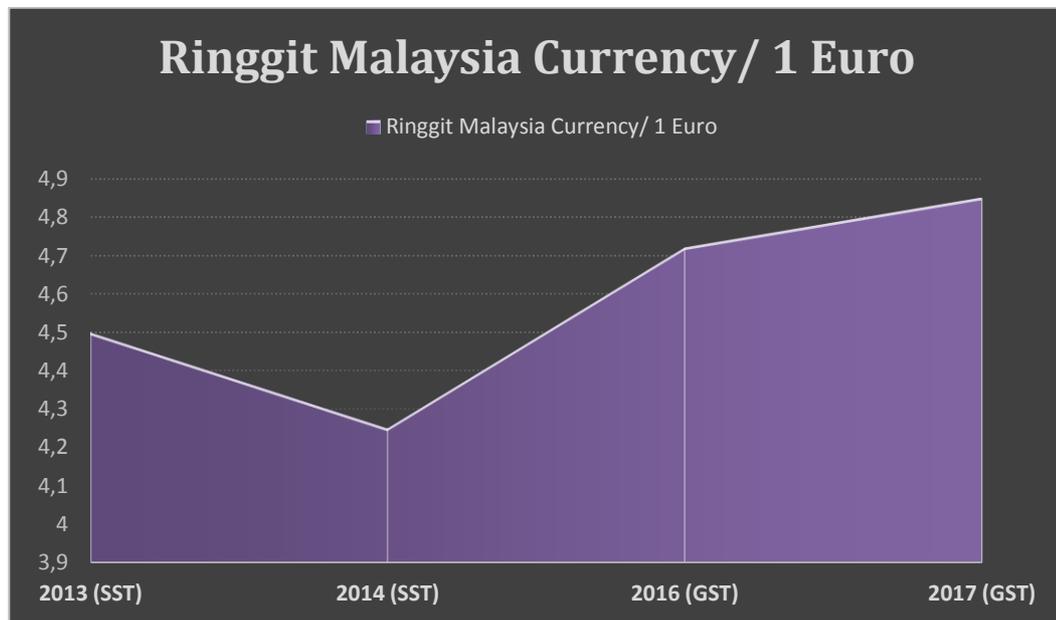


FIGURE 9

Interpretation: Ringgit Malaysia is stable in the year 2013 (SST) and has an incensement of monetary value for the year 2014 (SST). In the year 2016 (GST), the Ringgit Malaysia currency has dropped drastically and been continue until the year 2018 (GST)

From the annual Malaysia revenue, the year 2013 (SST) has the lowest percentage in the graph but successfully rose 4.76 percent in the year 2014 (SST) which make among the highest rates besides on the year 2016 (GST) were managed to increased 1.16 percent from last SST year. However, the rate of Malaysia revenue rapidly increased throughout the year where SST tax still been applied although the year 2016 (GST) have the highest rate of annual revenue. In the year 2017 (GST), annual Malaysia revenue decrease 1.67 from 2016 (GST) and become lower than what has been collected in the year 2014 (GST).

The annual Malaysia revenue consists of several sources such as income tax, indirect tax, non-tax revenue, others direct tax and borrowings of governments assets. Indirect tax is which GST and SST tax are included. In the year 2013, SST tax just contributes 18 percent from the whole Malaysia revenue and increase 2 percent on the year 2014 which contributes 20 percent meanwhile in the year 2016, which GST rapidly increase to 30 percent and keep increasing until 32 percent on the year 2017.

For government tax revenue spending, the year 2014 (SST) had increased their grant for the state to ensure each state can provide a bigger opportunity for the people to have a better life. For examples, the grant will be used for academic scholarship, health care or any activities that involve the people in a good lifestyle. Besides that, the governments decrease the grants for security and general administration to give more on the important things. Furthermore, during this year the crime rates had fallen 16.3 percent compared to the previous year on 2013 (Ministry of Defense Malaysia, 2014). Debt services charges had been decreased although the statistics show that national debt has increased 1 percent compared to the previous year (Ministry of Finance Malaysia, National

Bank Malaysia, 2014). This makes emoluments are one of the things that been increased by the government in order to make people spend their money on the local product so that it can create multiplier effects which will give a good return to the national economy. Then, supplies and services have also been increased to ensure the companies have enough material to make a bigger project and this will lead to jobs opportunity opening. This act has good effects which make Malaysia hold the lowest unemployment rate at 2.87 percent on the bars chart that been shown above.

Next, retirement charges are increasing as an appreciation for the previous generation that has sacrifice lot of things for national independence when there a lot of issues and complaints from their family that the national soldiers did not get enough care. This activity also is actually to raise their vote for the general election 13 that been done on the year 2014. Other expenditures have a raise while subsidies been reduced meaning that the main product demand such as oil and sugar will increase. This to ensure Malaysia can stabilize the people need and at the same time did not burden the country for debt. However, the reduction rates of subsidies are not too high that impact people purchase power. Economy sector grants were being reduced, this is because the multiplier effect had helps Malaysia to stand on their own although having increasement of debt. So, the new rates after reduction seem enough to back up Malaysia. Moreover, Malaysian poor rates decreased in this year (Departments of Statistic Malaysia, 2014). Finally, social have the decrement because the people are able to afford their healthcare and educational fees. In SST era, people are able to spend their wage to fulfill their need by buying local product and this give good multiplier effects to nation which increase GDP growth and attracts foreign and local investors to make big investments in Malaysia. The big projects provide huge jobs opportunity to the people and increase their lifestyle by having good income which constantly being spent for local products or leisure. The multiplier effects keep growing and lead to the increment of Ringgit Malaysia currency value.

Now we go through governments GST tax revenue spending. Firstly, the state grant was increasing rapidly throughout the year 2016 until 2017. This helps people to get some funds from the state organization for specific cases such as healthcare, organizing community activities and life support except educational because there is less scholarship in this year and been replaced with borrowing system. Next, security grant was increased because there was increase crime rate that source from the foreign workers in Malaysia after there was an approval act of governments to import a huge number of foreign workers to serve in the blue-collar industry (Ministry of Defense Malaysia, 2016). General administration grant increased because there a lot of work for the governments after introducing GST tax on the year 2015 that triggered many reactions from people, so these expenses were meant to build people confidence for this new act. Besides that, emolument was increased rapidly to persuade people spending their wage on the local product but the plan did not succeed when governments rapidly reduced the subsidies and make the price goes higher. This has made people to save their money rather than spending for any of local products and lead to low multiplier effects that did not give a good return on Malaysia economy.

This problem increased when the national debt increases 17 percent and 34.7 percent from the year 2014 (Ministry of Finance Malaysia,2016) multiplying with the fall of Ringgit Malaysia currency as the effects of too many foreign workers who will send out Malaysia money to their country. According to economy effect, the more demand for

foreign money currency from Malaysia, the less the value of Ringgit Malaysia. The governments were forced to increase debt services charges to ensure Malaysia did not have the huge amount of debt in future. The supplies and services had also been decreased due to the economic problem and make a lot of company did not have enough material to produce a product. In economy, if the demand is higher than supply, the price of the products will increase and this makes people keener to save their money besides than the GST tax factor. The Malaysian companies need to save their cost and they tend to fire some workers and replace it with foreign workers because of low wages factor and this makes the unemployment rates increase in both years based on the graph given.

Retirement charges were still in increasement mood as preparation to raise the vote for the General Election that happened in the year 2018. Other expenditures had been reduced to give more focus on the important things that can solve some of the national problems that been mentioned before meanwhile the social grants have increased because of BRIM act to recover the huge decrement in subsidies sector. This is actually a good effort from government to show their love and help people to improve their quality of life with the hope that it will give a good return on Malaysia economy but people are still saving the funds because of products price. Finally, there is a high increment in the economy grant to ensure Malaysia still achieve the maximum stability while dealing with the problem. The problems have affected the GDP that shows the lowest rate in the graph and make a decrement in the number of foreign and local investor (MITI, 2017). However, with a few adjustments and adaption, Malaysia GDP has increased rapidly in the year 2017 but did not manage to attract the investor to our country which lead the decrement of Ringgit Malaysia value currency.

CONCLUSION

Based on the data and information that been collected throughout this research, it is clear to say that SST tax is more helpful in developing Malaysia into a whole new level compared to GST. Although SST tax revenue contributes a low percentage to annual Malaysia revenue, the government have very brilliant ideas to stabilize between people need and in the same time lead this nation to a better future. The revenue is being spent on the right sector according to the problems that been faced by people and this help Malaysian to have their needs be fulfilled and did not felt a too heavy burden. They also able to live a good lifestyle no matter the background level. This type of behavior attracts foreign and local investors to do big investments and lead to the increase of Ringgit Malaysia value currency that makes Malaysia stand out compared to others country in the world.

For GST tax is also tools that really help Malaysia to increase their annual revenue, however, the strategy that been used by the governments is bad and did not suitable to the problems that been faced by the peoples. This makes Malaysian felt a burden and cannot adapt to GST although the are some solutions that been given by the government to help with. Malaysia is a nation that has 80 percent of the population that live in middle and low economy group that make the majority of people felt the bad effects and lead to the rejection. This behavior reflects a bad image of Malaysia not only to the local but also the foreign investors. So, we can see there are rapidly decrement of total investments every year that lead to the decrease of Ringgit Malaysia value currency that makes Malaysia

become dimmer while another country is always doing their best to compete with each other in the world.

However, we as Malaysian must admit that both taxes have their own advantages and disadvantages and not condemning any of those.

RECOMMENDATIONS

Malaysian should gain the understanding of GST and SST tax knowledge because it will affect our lifestyle and we should make a plan of avoiding ourselves from involving in a problem that will make us blindly complaining if there are any single changes that been made in our country. Next, the governments should make people need as a first priority despite increasing the annual national revenue because Malaysian are the one that can reflect good or bad social level and this will affect to all sector especially economy and politic. Tax revenue should have been spent on the right place or sector which can lift people burden and repair the problems that been faced by the nation. Finally, strengthen the tax execution act to ensure the tax-evade problems did not happen again in our society.

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