

Govt studying excessive profits from GST data

Businesses that have profit margins that are deemed unreasonably high being identified

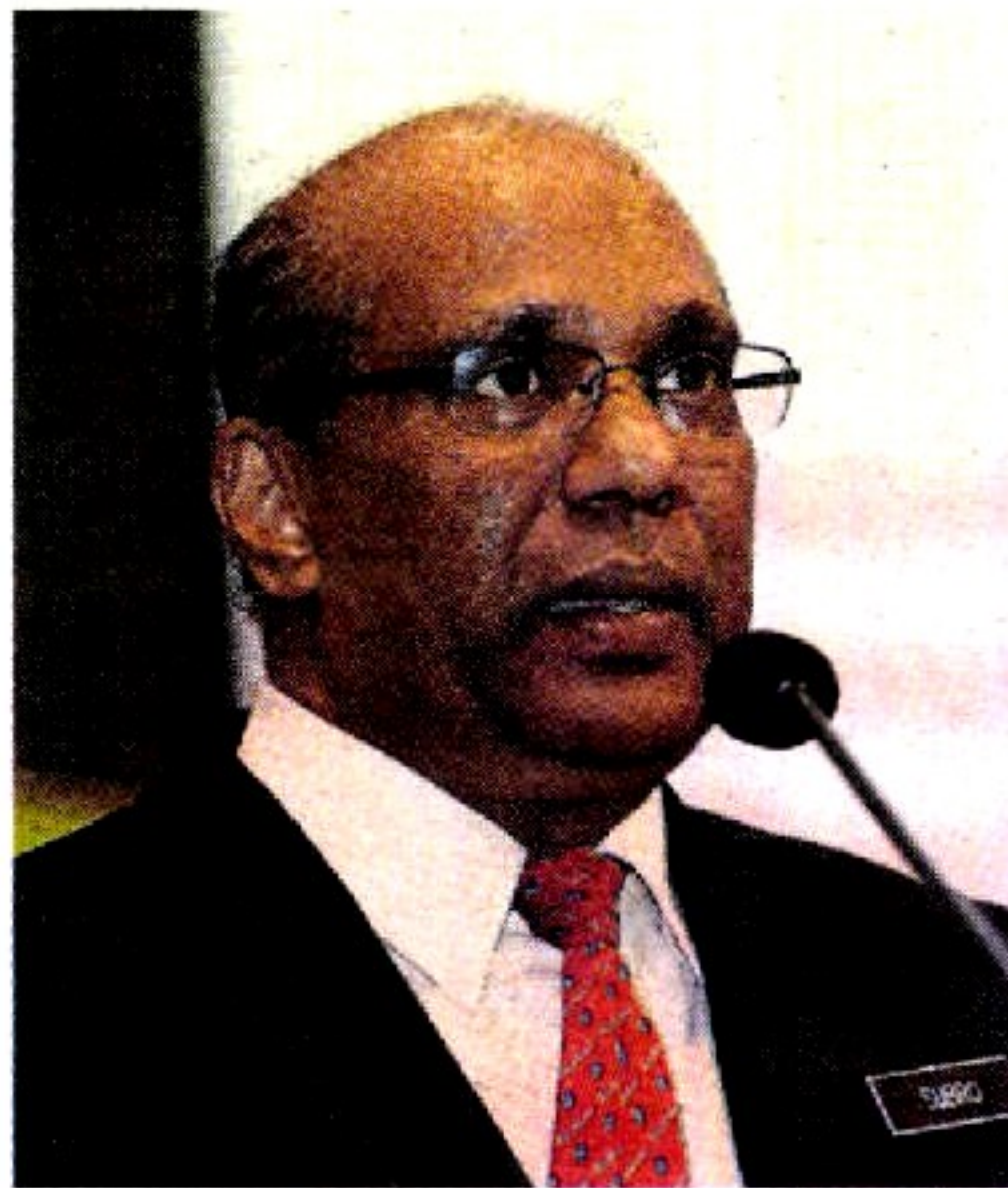
by ALEXANDER WINIFRED

THE federal government may ask certain businesses next year to reduce profit margins as a way to lower prices and mitigate the impact of the Goods and Services Tax (GST).

The Customs Department, which is a division of the Finance Ministry, and the Ministry of Domestic Trade, Co-operatives and Consumerism are studying data collected through GST filings submitted by companies to identify businesses that have profit margins that are deemed unreasonably high or excessive, a top official told *The Malaysian Reserve*.

The department has collected over RM30 billion in GST from 400,000 companies this year.

As part of regulatory procedures, companies submit purchase and sales data when they file returns to Customs.



Pic by Muhd Amin Naharul

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The data collected by Customs indicate some companies may be overcharging for their goods and services, said Datuk Subromaniam Tholasy, the Customs director in charge of GST.

"One of the things we are looking at is the prices that are being charged by pharmaceutical companies. These companies are selling for huge mar-

gins," Subromaniam said.

The implementation of GST this year has been partially blamed for a significant drop in consumer sentiment to all-time lows, the Malaysian Institute of Economic Research and Nielsen said in separate surveys in October.

GST contributed to a drop in business for retailers since April of between 20% and 50%, MD of research firm Retail Group Malaysia Tan Hai Hsin said in a Dec 13 interview with a local online news portal.

But Subromaniam said the increase in prices "has nothing to do with GST as there's a long list of zero-rated products which are exempt from the consumption tax".

Hence, the Customs and Ministry of Domestic Trade, Co-operatives and Consumerism are coming up with a "long-term solution to curb profiteering", Subromaniam said.

"We are investigating if prices are still beyond unreasonable levels. Previously, no one knew the margin levels that these companies made. Now, we can track these data through

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GST filings that are submitted to us," said the official.

Barely weeks after GST was implemented in April, businesses had increased the prices of 500 items by 10% to 30%.

"Of course, there was confusion in the beginning, but through our handholding programmes with traders, things have since settled down," Subromaniam said.

Consumers have been reporting inconsistencies to the department, such as failure to provide GST numbers on receipts, the official said.

"In a way, they have indirectly helped us," Subromaniam said. The government will need to tread carefully during this investigation to avoid potential backlash from firms that are unable to continue their business due to higher costs associated with GST, said Dr Yeah Kim Leng, dean of the school of business at Malaysian University of Science and Technology.

This may result in shortages of supply, which can also result in hoarding in expectations of price escalation, the economist said. Due to a lack of competition which needs to be addressed, certain firms have indiscriminately taken advantage of GST as an excuse to raise prices, Yeah said.

By tracking the data and holding these companies accountable, the government may also be able to curb tax evasion as well as "second-round price increases", said the economist.

Some businesses increased the price of products beyond what is justifiable by factoring in licensing costs and rising expectations of inflation, Yeah said.

In the long run, consumers will benefit from the move and may be able to improve public perception towards the tax, Yeah said.

The debate over whether the current GST rate would be sufficient to sustain fiscal revenues has been reignited, even as the government faces a potential shortfall in revenue from weaker energy prices.

Bearish projections on the price of oil mean the Malaysian government could increase the GST rate as early as 2016 to address a potential shortfall in revenue, economist Prof Dr Hoo Ke Ping said.

"If oil prices stay under US\$40 per barrel, the government could increase the GST to 7% next year," Hoo said.

A drop in the price of oil from US\$48 to US\$40 per barrel is estimated to cost the government a minimum of US\$8 billion in annual revenue according to the economist.