MoF: Unwise to replace GST by relying on oil revenue

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PUTRAJAYA — Replacing the Goods and Services Tax (GST) by relying solely on revenue from commodities such as petroleum is not a wise decision.

M.A. Sivanesan, deputy under-secretary (Indirect Tax & GST Policy Sector) at the Finance Ministry's tax division, said GST acts as a form of consumption tax which provides stability to government revenues.

"With commodities like petroleum, the price fluctuation is difficult to control due to external factors. So relying on oil revenue is not a wise choice," he said in an interview on Wednesday.

Sivanesan said abolishing GST would be a backward move as its original objective was to reduce dependence on petroleum revenue.

"If we were to look back to 2016, when the world oil price dropped to about US$30 (RM118) per barrel, it had an impact of RM30 billion on our economy," he said.

He said GST had been adopted in over 160 countries and its effectiveness had attracted at least three more countries to implement it after Malaysia — India, Saudi Arabia and the United Arab Emirates.

Sivanesan said it was inaccurate to blame GST solely for the rising cost of living as a post-implementation study conducted in 2015 found it contributed less than 1.0 per cent to the tax.

He said other factors included the demand for goods and services exceeding supply, and the exchange rate which affected the price of imported products.

"We have to admit that most of the goods we consume are imported. When the ringgit declines, it impacts the prices," he said.

Sivanesan said the GST model adopted by Malaysia was also aimed at ensuring the exemption of certain basic goods and services, including food and transportation.

He said the 6.0 per cent rate was "neutral" and not aimed at boosting government revenues drastically. It was to compensate for the Sales and Service Tax (SST) that was abolished to make way for GST.

Sivanesan said to ensure that low and medium-income groups were not burdened with GST, the government had implemented initiatives such as the 1Malaysia People's Aid for eligible groups instead of providing subsidies across the board like before.

The government had also reduced income tax rates with the objective of increasing household disposable income, thereby maintaining the people's purchasing power.

Sivanesan said with the GST structure, 31 categories of goods and services had been zero-rated.

Even though the World Bank and the International Monetary Fund had called for the scope of relief and imposition of zero-rated GST to be reviewed, the government did not have such plans at this time.

"We find that the list of zero-rated or exempt items gives a very good impact on tax progress. It means the low-income group will remain protected and not burdened with GST," he said.

Sivanesan said the government had no plans to raise the GST rate at the moment. However, it could be reviewed if there was a need to raise or lower the rate based on economic factors.

For example, Thailand lowered the GST rate to 7.0 per cent from 10 per cent in the late 1990s because of economic issues.

Sivanesan said the number of businesses that had registered for GST had doubled since its implementation in 2015 to 70,000.

GST collection grew year-on-year to RM44.3 billion in 2017 from RM42 billion in 2016 and RM27 billion in 2015.
— Bernama