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## **MEDIA RELEASE**

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### **CPPS's Policy Recommendation on the Implementation of GST**

The idea of introducing the Goods and Services Tax (GST) may become a reality in the upcoming Budget 2014 with implementation starting within 18 to 24 months at an initial rate of 4%. The consumption tax is set to replace the existing Sales and Service Tax (SST) which is narrowly-applied and does not constitute a viable option for the Malaysian government's objective of achieving fiscal sustainability.

In a policy paper entitled, "The Introduction of Goods and Services Tax in Malaysia: A Policy Analysis", published by the Centre for Public Policy Studies (CPPS), the GST is recommended to begin at 5 %. The cost to adjusting consumption behaviour by households will be similar at 4-5 % GST because the proposed rate is still lower than the current standard rate for SST. Moreover, the government could raise tax revenue meaningfully with an expected addition of RM8bn and reduce the chances of having to revise the rate upwards at least for the next 5 years.

Seven policy recommendations are offered to minimise irresponsible profiteering activities and strengthen the government's credibility in pushing through the tax reform. Profiteering activities can be reduced by enforcing the display of actual amount of GST payable on the price tag. Items that are zero-rated or exempted from GST should carry similar tag that informs consumers. Also, the government should encourage establishment of local consumer associations to assist in gathering reports of price fixing since local households are more sensitive to price changes than enforcement agencies at the national level. On the other hand, the government should commit to a 5-year timeline when introducing the GST and review the tax with the possibility of raising it by 2020. This commitment restricts the government from arbitrarily increasing or removing the GST to promote price stability. Issues of leakages and a lack of transparency in public expenditure should be resolved more enthusiastically in order to build credibility in the eyes of the public regarding the government's fiscal adjustment plans.

To conclude, the CPPS broadly agrees with the need to introduce the GST but recommends that the government should look at enhancing measures to be taken at fighting price manipulation as well as reinvesting revenue gains from GST to improve the quality of public services.

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