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## **MANAGEMENT PROJECT IN SERVICE SCIENCE, MANAGEMENT & ENGINEERING**

### **Title: A CASE STUDY ON TEXCHEM FOOD SDN BHD'S READINESS FOR GST IMPLEMENTATION**

**(Project Advisor: TUAN HAJI NOOR NASIR KADER ALI)**

**NAME**

**AFFENDI BIN ABDULLAH**

**SOON GIM HOE**

**TAN AIK YONG**

**MATRIX NO.**

**P-GSM0392/11**

**P-GSM0213/11**

**P-GSM0214/11**

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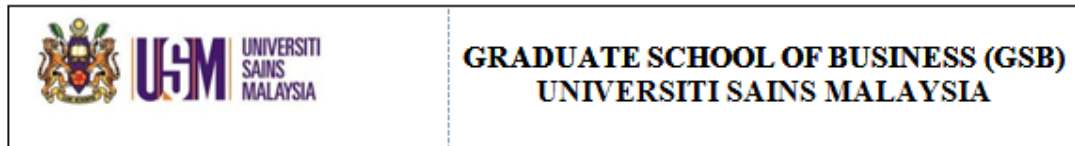
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### **DECLARATION**

We hereby declare that the project is based on our original work except for quotations and citation which have been duly acknowledged. We also declare that it has not been previously or concurrently submitted for any other degree at USM or any other institutions.

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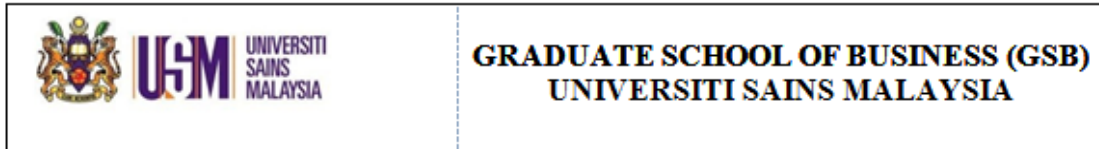
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Name: Soon Gim Hoe, Affendi Bin Abdullah, Tan Aik Yong

Date: 26 May 2014

NO. PINDAAN: 00

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Candidates Name: Soon Gim Hoe, Affendi Bin Abdullah, Tan Aik Yong

Signature: \_\_\_\_\_

Date: 26 May 2014

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This is to certify that the above thesis has been formatted according to the MBA thesis requirements of the Graduate School of Business, USM.

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(Supervisor's)

## **List of Abbreviations**

CEO	- Chief Executive Officer
DG	- Director General
Etc.	- ex-cetera
GMP	- Good Manufacturing Practice
EU	- European Union
GST	- Government Service Tax
HACCP	- Hazard Analysis and Critical Control Point
MSC	- Marine Stewardship Council
MeSTI	- Makanan Selamat Tanggungjawab Industri
MPs	- Members of Parliament
PM	- Project Manager
SST	- Sales and Services Tax
TFSB	- Texchem Food Sdn. Bhd.
TRB	- Texchem Resources Bhd
UAT	- User Acceptance
VAT	- Value Added Tax

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## **ABSTRACT**

With the announcement of Goods and Service Tax (GST) implemented by our government during the Budget 2014 on 25<sup>th</sup> October 2013, the current consumption tax systems of Sales Tax and Service Tax (SST) will be officially replaced with effect from 01<sup>st</sup> April 2015. The announcement has since triggered various reactions and perceptions from every level of the society, including manufacturers, accountants, logisticians, retailers, financial institutions, housing developers, general public, etc. that the price of a wider range of products and services will soon be impacted and increase inevitably.

Texchem Food Sdn. Bhd. (**TFSB**), a subsidiary under the Texchem Group of Companies, is also not exempted from facing the potential impacts of the new tax reform to its profitability and sustainability. Before the researchers were able to come out with our findings and recommendations to **TFSB** on their readiness for GST regime, an aggressive initiative has been taken by our team members in studying and understanding the scope, requirements and legislations pertaining to the GST implementation.

By doing so, the researchers have applied the research methodologies of ‘Questionnaire’, ‘Fishbone Diagram’ and ‘Symptoms versus Problems (SVP)’ analyses as recommended by our project advisor, e.g. Tuan Haji Noor Nasir Kader Ali. The tools were used to identify and investigate the key problems that may potentially impact the sustainability of **TFSB**, for instance cash flow, human error in report preparation and its profitability upon GST implementation.

In order to provide an easier understanding to the readers, all our research, including the recommended solutions are explained and simplified into the model of ‘House of

Pillars'. Meanwhile, it can also be used by **TFSB** as their business strategy and further research in the future.

**Keywords:** Goods and Service Tax (GST), consumption tax, impacts, readiness, sustainability, business strategy

## **ABSTRAK**

Dengan pengumuman pelaksanaan Cukai Barangan dan Perkhidmatan (GST) yang dibuat oleh kerajaan kita dalam Belanjawan 2014 pada 25hb. Oktober 2013, system cukai konsumsi dalam bentuk Cukai Jualan dan Cukai Perkhidmatan (SST) yang sedia ada akan digantikan secara rasminya berkuatkuasa dari 01hb. April 2015. Sejak pengumuman tersebut, ia telah mengakibatkan pelbagai reaksi and tanggapan daripada setiap lapisan masyarakat, termasuk pengilang, akauntan, pakar logistik, peruncit, institusi kewangan, pemaju perumahan, rakyat biasa and sebagainya, bahawa harga untuk rangkuman barangan dan perkhidmatan yang luas akan terjejas tidak lama lagi dan kenaikannya dijangka memang tidak dapat dielakkan.

Texchem Food Sdn. Bhd. (**TFSB**), sebuah anak syarikat di bawah Kumpulan Syarikat-syarikat Texchem, juga tidak dapat dikecualikan daripada menghadapi kesan-kesan potensi daripada pembaharuan cukai baru tersebut terhadap keberuntungan dan keberterusannya. Sebelum pihak penyelidik dapat mengemukakan hasil kajian dan cadangan kami kepada **TFSB** ke atas persediaan mereka untuk rejim GST, usaha dan langkah yang agresif telah diambil oleh ahli pasukan kami dalam mengkaji dan memahami skop, syarat-syarat dan perundangan yang berkenaan dengan pelaksanaan GST.

Dengan berbuat demikian, pihak penyelidik telah menggunakan metodologi-metodologi penyelidikan seperti analisa-analisa 'Soal Jawab', 'Gambarajah Tulang Ikan' dan 'Gejala vs Masalah (SVP)' sebagaimana yang disyorkan oleh penasihat projek kami, iaitu Tuan Haji Noor Nasir Kader Ali. Segala peralatan yang telah kami gunakan untuk menyiasat di samping mengenalpastikan masalah-masalah utama yang bakal berpotensi menjejaskan keberterusan **TFSB**, seperti aliran tunai,

kesilapan manusia dalam penyediaan laporan dan juga keberuntungannya setelah pelaksanaan GST.

Agar dapat memberikan pemahaman yang lebih mudah kepada para pembaca, semua hasil penyelidikan kami termasuk cadangan penyelesaian sepertimana yang telah dijelaskan dan dipermudahkan lagi ke dalam model 'Rumah Tiang-tiang'. Pada masa yang sama, ia juga boleh digunakan oleh **TFSB** sebagai strategi perniagaan dan penyelidikan lanjutan mereka untuk masa yang akan datang.

**Kata-kata Kunci:** Cukai Barangan dan Perkhidmatan (GST), cukai konsumsi, kesan-kesan, persediaan, keberterusan, strategi perniagaan

## **THE EXECUTIVE SUMMARY: INCLUDE THE RECOMMENDATIONS**

Texchem Food Sdn Bhd (**TFSB**), the holding company of the Food Division, which constitutes one of the subsidiaries in the organizational chart of Texchem Group of Companies, engages in the trading, export and import business of fishery products such as fish, squid and other processed seafood based product for human consumption. Whereas another type of their inedible product, e.g. 'fishmeal' which is further processed from the trash fish as well as other wastage from from sea catches, will be supplied to the animal feed industry.

Like other industries in the country, **TFSB** is also fully aware of the Goods and Service Tax (GST) implementation of a fixed rate of 6% to be imposed on about 689 items, which will be officially taken place nationwide with effect from 01<sup>st</sup> April 2015 with the announcement was made by our government during the last Budget 2014 meeting in the parliament on 25<sup>th</sup> October 2013. Also, the current consumption tax system of Sales Tax and Service Tax (SST) will be fully abolished and replaced by a single tax system of GST.

On the other hand, GST which is also known as Value Added Tax (VAT) in other countries, has been widely implemented in 160 nations as of today, with VAT was firstly implemented in France in 1954.

As mentioned earlier, the rate of our GST which is fixed at 6%, which will be widely impacted on consumable goods and services, with the inclusion of three (3) general types of supply in the GST scheme, for instance '*standard rated supply*', '*zero rated supply*' and '*exempted supply*'. Anyway, majority of **TFSB**'s products is classified as '*zero rated supply*' and which is not subject to GST.

In our research conducted in finding out about how does **TFSB** able to ensure its business is ready for the new tax regime in year 2015, even though it's not much affected by GST due to the majority of its products are not subject to 6% GST on the output tax portion. However, the cost elements in its operations to bring in its materials into this country into consideration, such as fuel, transportation and other operating costs in the supply chain may encounter price hike coupled with the additional of 6% input tax, via its vendor and supplier's invoices.

Although **TFSB** is still eligible to claim back the input tax from the government, but the important point here is that it has to plan carefully on its cash flow and working capital in order to mitigate its financial constraints in their daily business transactions.

As a result, **TFSB** have taken an initiative in studying the important issues of GST on its mechanism, requirements and legislation at the earliest stage from various sources, as well as to identify and minimizing the effect of the significant impacts to their business. It includes the awareness and education on GST's key elements, the anticipated cost increase in the supply chain, cash flows, product price competitiveness, staff's competency in GST handling issues, and so on.

Meanwhile, in addition to the existing preparations being taken by **TFSB**, the researchers would also take the opportunity in proposing our research methodologies of 'Questionnaire', 'Fishbone Diagram' and 'Symptoms vs Problems (SVP) analyses as recommended by our project advisor, to **TFSB** in helping them to identify and investigate the key problems that may potentially impact their sustainability, in terms of cash flow, human error in report preparation and profitability upon GST implementation.

Furthermore, the researchers have also come out with our simplified recommendations in the form of ‘House of Pillars’ model, in providing an easier reference and understanding to **TFSB**’s staff from the its basic important issues in GST knowledge, talent and financial planning. Ultimately, the model can also be used as their business strategy and for future research in achieving their objectives in gaining the future growth opportunity by taking advantage of the effective GST Management.

Notwithstanding with the mentioned tools and recommendations, there is still a limitation in our current research project as all the researching works and our solution recommendations are fully based on the existing and up-to-date information on GST implementation to the company of TFSB only, even though things might be changed or further improved in another few months time down the road until the actual implementation date begins from 01<sup>st</sup> April 2015.



## **CHAPTER 1: INTRODUCTION**

### **1.1 BACKGROUND OF THE ISSUES**

During the recent parliament meeting of Budget 2014 on 25<sup>th</sup> October 2013, the Malaysian government has officially announced implementation of new tax reform, e.g. Goods and Services Tax (GST) in replacing the existing consumption tax regime of Sales Tax and Services Tax (SST) with effect from 1<sup>st</sup> April 2015. With the implementation of the GST, there will about six hundred and eighty nine (689) kinds of products and services will be imposed with a standard tax rate fixed at 6%, compared to a flexible tax rate under SST which is between 5% to 10%.

For common understanding, GST is a new type of consumption tax based on the value-added concept where the tax is imposed on the goods and services at multi-stage of the supply chain from importation until the distribution stage where the GST amount is finally paid by the end-consumer. The Implementation of GST is one of the government's efforts to reduce the budget deficit meanwhile to enhance the transparency in the nation's tax collection at the Royal Malaysian Customs Department (RMCD) estimates that GST would be able to contribute an additional revenue of RM5 - 6 billion on top of the current revenues derived from the existing SST system.

Although GST is a type of business-friendly tax whereby the input tax that paid by the business entity is claimable within a given short period, but this new tax regime implementation is expected would bring some potential impact to most of the businesses.

On the other hand, Texchem Food Sdn Bhd (**TFSB**) which is one of the subsidiaries under the Texchem Group of Companies, that engages in the trading business in both export and import business of fishery products meant for human consumption.

Whereas, there is another type of inedible product in ‘fishmeal’ supplied for animal feed industry. Under the GST scheme guidelines, we have noticed that majority of **TFSB**’s products is classified under the category of *zero rated supply*, which is not subject to GST.

Nevertheless, their fishmeal product has adversely fallen under the category of *standard rated supply* which subjects to 6% GST. In view of this situation, the management of TFSB has acted proactively in embarking their early GST readiness preparation programs. It includes the efforts of creating GST awareness through the understanding of its mechanism, requirements and legislation. Meanwhile, TFSB has also tried to anticipate and identify some of the potential impacts of the GST implementation to its business performance, such as constraints in cash flow, competency of human resource in handling of GST matters, and the company’s profitability upon GST implementation.

During the process of our research was being carried out lately, a survey in the form of a questionnaire on their GST preparations and comments had been conducted within the organization where a few selected **TFSB**’s personnel with the positions of Assistant Manager and above from various departments. Meanwhile, the Fishbone analysis (cause-and-effect diagrams) and Symptoms and Problems (SVP) analysis had also been applied as the tools in our findings and to analyze the anticipated potential impacts, meanwhile to identify and propose the suitable GST readiness plans should be taken by **TFSB**.

## **1.2 PROBLEM STATEMENT**

For the beginning part of this study, we are going to discuss on the awareness of the new tax regime of GST through the understanding of its scheme, mechanism, compliance requirements and legislation. Whereas, the subsequent part of this study



is to identify the readiness areas and analyze the potential impacts such as challenges of cash flow, competency of human resource in handling GST and the company's profitability upon GST implementation. The last part of the study is to provide recommendations on the GST readiness action can be taken by TFSB to ensure a smooth operating once GST takes place in the year 2015.

### **1.3 RESEARCH OBJECTIVES**

Basically, the objective of this study is to provide TFSB with our findings of potential impacts that may occur under GST implementation through research tools applied, such as Fishbone analysis and SVP analysis. Meantime, recommendations on GST readiness action plans and solutions will also be provided and supported with relevant quantitative data.

### **1.4 RESEARCH QUESTION**

In this study, the questionnaire is used to examine the understanding degree of TFSB's personnel pertaining to the GST implementation and the targeted departments included Finance and Administration, Sales, Operations and Aquaculture. There were total eight (8) sets of questionnaire being distributed and only five (5) sets of the questionnaire have been responded. From the results of our findings, a few selected research questions have been chosen and used as our justification in finding out the understanding degree of GST among the staff. The selected research questions are as follows:-

-  Are you aware of what would be the major impact(s) of GST to your company?
-  Besides the products that you are selling, would you foresee that the cash flow of your company would also be impacted and pre-counter measures taken?

- ✚ In your opinion, would that be any necessities in re-structuring of your product' price results from GST implementation?
- ✚ In your opinion, do you think that is there any possibilities of the players in the supply chain to take advantage of the implementation of GST to increase their product price and cause a burden to the consumers eventually?
- ✚ From your current understanding and knowledge of GST systems, what would you think the impacts of GST implementation of the sales revenue and profitability of TFSB, either favorable or unfavorable? Why?

## **1.5 RESEARCH SIGNIFICANCE**

This study was conducted with the purpose of discussing about the readiness of **TFSB** towards the implementation of GST in the year 2015 by sharing of the GST mechanism and describing the potential impacts and difficulties which may be encountered by the organization.

Based on the findings from our research, we strongly believe that our survey would be able to provide the organization with more in-depth information which may help **TFSB** in figuring out on what would be the main areas of their concern. Also, it provides some useful recommendations with supported by relevant quantitative data to the organization.

Besides that, this research may become the secondary data for those students whom wish to conduct a similar research, in future.

## **1.6 RESEARCH LIMITATION**

Nevertheless, this study has a limited research area by merely examined the understanding degree of **TFSB**'s staff on the GST implementation through

questionnaire and identifying the potential GST impacts of towards the organization by utilizing SVP analysis.

As the result, a few recommendations have also provided based on the results obtained from our findings. However, the results were only limited based on our prediction made during the research was being carried out while it may need to be further improved when the time the GST implementation will only go on live on its actual date begins from 01<sup>st</sup> April 2015.

## **CHAPTER 2: LITERATURE REVIEW**

The first proposal of GST was announced by government during unveil the budget 2005 for implementation on year 2007. However, this proposal have been postponed by Malaysian government in year 2006 with reason that government needed more time for getting feedback from the public to implement this new tax system. Subsequently, this GST bill was tabled for first reading in meeting of the Dewan Rakyat during year 2009 for proposed implementation in year 2011 with GST rate 4%. But the GST implementation was again repeatedly postponed for second reading due to no further progress in Parliament to set the date.

Finally, during the unveil of budget 2014 in parliament meeting on 25<sup>th</sup> October 2013, the Prime Minister Datuk Seri Najib Razak have officially declared that implementation of Goods of Services Tax (GST) which effective from 1<sup>st</sup> April 2015 with fixed rate at 6% percent. This new tax system will replace the current tax system - Sales and Services (SST) which is subject to flexible tax rate 5% to 10%. (*The Straits Times, October 25, 2013*). On 31<sup>st</sup> March 2014, the bill of implement 6% GST was tabled at Dewan Rakyat with final result where the bill of GST passed through 119 votes support versus 81 votes opposed by Members of Parliament. (*The Star Online, April 7, 2014*).

The Goods and Services Tax (GST) which also known as VAT (Value Added Tax) is a tax concept that proposed by german's businessman, Wilhelm Von Siemens in year 1918 in order to solve the financial problems of german's government but the Value-Added Tax (VAT) system was first introduced by Maurice Lauré, a joint director of the French Tax Authority in year 1954. Today, GST or VAT has been widely spread and implemented worldwide in 160 countries

The Goods and Services Tax (GST) is a consumption taxes based on the value-added concept where the tax is imposed on goods and services at multi-stage of the supply

chain from importation until distribution stage. Goods and Services Tax (GST) is levied on the difference between the sale prices and production cost which called the “value-added” portion and all businesses are authorized to claim input tax credit once they are registered. The GST Tax amount is finally paid by end-consumer. This overview of GST concept has been defined by Malaysian Customs Department with definition below:-

*“GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.” (Royal Malaysian Customs Department, 2014)*

The implementation of Goods and Services Tax (GST) is part of government’s effort to reducing continuous of nation’s budget deficit through tax reform programmed which aimed to enhance effectiveness and transparency in nation’s revenue collection. Besides that, GST system also offer greater simplicity, flexibility revenue measure and competitiveness compared to current sales tax and service tax that helps to overcome various weaknesses inherent in the present tax system such as cascading and compounding effects, transfer pricing and value shifting, no complete relief on goods exported, discourage vertical integration, administrative bureaucratic red tapes, classification issues and etc. *According to Royal Malaysian Customs (RMC), the proposed Goods and Services Tax (GST) at 6% will raise tax receipts by an additional RM5 billion to RM6 billion on top of the current earnings of RM16 billion derived from the existing sales and services tax and estimate contribute revenue of*

*up to RM22 billion to the government's coffers annually. Therefore, RMC believes that GST is a good solution to fix leakages in the current consumption tax collection and result in the extra revenue. (The Malaysian Reserve, November 22, 2013).*

The Goods and Services Tax (GST) regime is substantially differs compare with Sales and Services (SST) regime from aspect of tax base, classification, tax payment and accounting period. The existing Sales and Services (SST) implemented in Malaysia are single-staged taxes where the sales tax refers to tax levied on local manufactured taxable goods when the goods are sold or disposed by the manufacturers and it will also be imposed on taxable goods imported into Malaysia with generally at rate of 10%. The sales tax is governance under Sales Tax Act 1972 for taxable goods and Schedule A of the Sales Tax (Exemption) Order 1980 for exempted goods. For the services tax is an indirect tax imposed on specified services called "taxable services" with standard rate 6%. The "taxable services" is referring to professional and consultancy services provided by the professional firms or persons such as accountants, lawyers, engineers, architect, insurance companies, restaurant and etc. The services tax is governance under Service Tax Act 1975. The payment of sales and services tax is every two months.

In Malaysian GST framework to be introduced, the tax regime is multi-stage tax base which tax is charged on every stage of supply chain included all supplies of goods and services and the ultimate tax burden is borne by end consumer at tax rate of 6%. The GST's tax payment and accounting period is on monthly basis and claimable for input tax. Under GST mechanism, those business entity with annual sales turnover exceeding RM500,000.000 are liable to be registered under GST and the business entity need to decide on which type of registration either voluntary registration, group registration or divisional/branch registration they wish to register. In the GST



system, there are four (4) different type of supply for purpose to classify the group of taxable, non-taxable and exempted goods and services that GST will be imposed

Start from official announcement of GST implementation to effective date 1<sup>st</sup> April 2015, business entities will have approximately 17 months for preparing their business to imminent new tax regime. However, many of businesses are still continue to adopt a wait and see approach. The primary reasons are due to lack of information on GST framework and no understanding about time and resources that needed to compliance GST system. The non-readiness of business toward GST implement will result rush and panic during the time GST effective. In achieve success on new GST system, the government need to be pro-active to create awareness of GST to all citizens and businesses by distributing enough information through seminar, advertisement, GST guideline, set-up of specify help desk and etc to ensure sufficient knowledge and information is effectively delivered to all level of citizen in Malaysia. *Jents Debruyne (2012)* mentioned that careful planning, detailed preparation, mass participation and an extensive taxpayer education programme are key ingredients for success of the implementation of a broad based GST with credit system in any country.

Although, government is highlighted that GST is business friendly where business entities only acting as tax collector on each stage of supply chain for tax submission to government which the business is allowed to claim credit on any GST incurred on its purchases which are input to business. However, the business still faced some direct and indirect challenges during the compliance to GST requirement such as financial, human resource and administration aspect. Deloitte Malaysia Country GST leader, *Tan Eng Yew (2013)* mentioned that “GST preparation have wide-ranging implications requiring the involvement of people, processes and technology as all these components would be critical for business to be GST ready”.

Therefore, businesses should have some plans in place as to how they need to ready themselves on the event that GST implementation in year 2015. For the businesses entities that compulsory to register GST account, the complex business transactions that involvement many parties will be challenges if there is no initial step taken since now.

Under the new GST system, businesses are encountering finance challenges such as potential increase of cash flow and impose of GST compliance costs for short and long basic. *Veerinderjeet (2013)* mentioned that for exporters cash flow will be significantly impacted by the speed and efficiency at which GST refunds in respect of exports are processed. The payment period of GST is held on monthly basis where businesses need to pay the GST tax to government although they have not receive customer payment because of longer credit term offered on their trade agreement. Adding to that the speed of tax refund by customs department also being take consider to estimate the impact toward available of cash flow upon GST implement. To solve this issue, the businesses are encouraged to prepare extra budget on cash flow for catering the business daily rolling.

Besides that, the businesses may face increase of tax compliance under GST system. *Hijattulah & Jeff (2008)* mentioned that compliance costs of taxation include three major components: money costs, time costs and psychological costs to the taxpayer. Also *Hijattulah & Jeff (2008)* have defined each compliance costs as:-

- **Money or financial costs** refer to an amount spent on tax professional and expenses relating to taxation guides, books, communication and other incidental costs.
- **Time costs** are incurred in keeping record of tax information, completing the tax form or preparing tax details for tax professional as we as time spent in dealing with the tax authorities.

- **Psychological costs** refer to the effects upon a taxpayer having deal with his/her tax affairs such as the anxiety of handling complex tax matter.

From above definition, it can be used by businesses as guideline to study on their entire tax administration system to determine potential impact and shortcoming that need to fix before GST start.

Besides that, competency of human resource in handling GST also critical areas for business entity as the sufficient knowledge and accuracy of GST reporting will avoid documentation error and delay in GST refund. In the same time, it will also prevent heavily penalty and additional unnecessary rework cost.

Texchem Food Sdn Bhd (TFSB) is one of the subsidiaries of Texchem group that main responsibility in spearheading the Food Division, in which it will be acting as an investment holding company and provides support services such as sales and marketing, logistics, research and development, and management services to other sister companies within the division. TFSB is runs fully integrated seafood operations encompassing upstream and downstream activities where the company is applied “self-supply strategy” by set-off own farm and also get the raw material directly from fisherman. Also, the TFSB is built the manufacturing factory Myanmar for product processing and being import to Texchem Malaysia for domestic and re-export business transaction. For the market analysis, the company gain the profit based on ratio of 95% international export sales and 5% for Malaysia local sales.

Through the questionnaire survey conducted to Texchem Food Sdn Bhd (TFSB) noticed that the GST awareness have been created among the employees in organization and the top management is taken pro-active action for physical improvement by focusing more in-depth study area to foreseen potential impact that may occur for ensure smooth business operating and maintaining company’s competitiveness during GST implementation in year 2015.

## 2.1 GST SCHEMES AND MECHANISM

Under the new GST tax system, the classification of GST rate is divided into four (4) which it have been defined clearly in Malaysian Customs Official website such as:-

- ✚ **Standard-Rated Supplies** are taxable supplies of goods and services which are subject to GST at standard rate. A taxable person who is registered under GST has to collect GST on the supply and is eligible to claim input tax credit on his business inputs in making taxable supplies.
- ✚ **Zero-Rated Supplies** are taxable supplies of goods and services which are subject to GST at zero percent rate. In this respect, businesses do not collect any GST on their supplies but are entitled to claim credit on inputs used in the course or furtherance of the business.
- ✚ **Exempt supplies** are supplies of goods or services which are not subject to GST. In this context, businesses do not collect any GST on their supplies and are not entitled to claim credit on his business inputs.
- ✚ **Supplies not within the GST scope** are supplies which do not fall within the charging provision of the GST Act include non-business transactions, sale of goods from a place outside Malaysia to another place outside Malaysia as well as services provided by the Government sector.

As explained by the prime minister, the implementation of new tax regime - GST is not meant to burden the citizens but the GST is able to help stimulate growth and enable the government to have enough money to provide more infrastructures and basic needs in urban and rural areas. Meantime, the prime minister also highlighted the statement that the GST model is prone to be progressive type as:-

*This system (adopted by 90%of countries) is more progressive as it depends on how much our expenses are.*

*"And in this way, together with steps taken to exclude taxes on essential items used by the people, the introduction of the GST will not burden the people,"(The Sun Daily, May 05, 2014)*

From the established GST scheme, some industries will enjoy lesser tax especially on import and manufacturing industries, while others might incur additional tax. The tax is spread over multistage of level within the supply chain itself and the consumer of company is allow to submit tax refund for collecting back input tax that being paid during transaction.

In the GST system, there is two (2) type taxes that involved in the tax transaction such as input tax and output tax. The input tax is the tax amount that incurred during the purchases of goods and services for the business activity. Output tax is the total amount that imposed during the supply goods and services to next party in the distribution. Both the input tax and output tax is crucial to be record into the tax invoice for tracking purpose. Details can be referred to Appendix A for Zero Rated Supplier and Appendix B for Exempted Supply. The document has been obtained from the official website fo GST byRoyal Malaysia Customs Department.

Type / Scheme	Rate	Description	Example
Standard rated supplies	6%	Standard rate supplies are goods and services	Any supplies of goods and services
Zero Rated Supplies	0%	Businesses eligible to claim input tax credit in acquiring these supplies, and charge GST at zero rate to consumer.	Import - Live stock, Live Fish,
Exempted Supplies	non-taxable	Businesses are not eligible to claim tax credit in acquiring these supplier, and cannot charge output tax to the customer.	Financial service, Education service, Medical Service, Nursery, Transportation, Highway and tolls, etc Rice, sugar, salt, flour, cooking oil among others.
Out of Scope	non-taxable	Service performed by Government Agency, Supplies not make in Malaysia, Sales between warehouse.	Purchasing of goods and supplies by government agency

**Table 2.1.1 : GST Scheme and example**

## **2.2 HOW IS THE NEW GST WORK?**

### ***2.2.1 Registration of Company***

Pre-GST implementation, a company needs to identify if they are required to register for GST identification. Company with annual sales turnover exceeding RM500,000 are liable to be registered under GST, while if the condition is not met, registration is on voluntary basis. Based on financial statements of year 2013 for Texchem Food Sdn Bhd had fallen into registration is compulsory. Company can decide if they are registering as Group Registration or Divisional/Branch Registration. At this stage, it is not yet decided by company's board but most likely to have the later option. With the option, it is much easier to operate and monitor, while group registration will require larger effort and resource. Texchem Food Sdn Bhd is a company under Food Division of Texchem Resources Bhd. Texchem Food Sdn Bhd will have separate GST identification number and make its own processing of GST related transaction. Registration of company can be done as early as 6 months before implementation as it will provide adequate time for businesses to make preparation, and October 2014 is proposed dated for the registration process.

### ***2.2.2 Issuing Tax invoices and Accounting***

Invoice system needs to be updated to show the amount of GST and the price of supplies as separate line in the new invoicing transaction. The amount will be used to clarify amount paid and refund process than will be process within the chain of service to deliver the goods or services. Tax invoice has to be issued within 21 days after the time of supply. Compulsory particulars to be shown in the tax invoice are:

- The word tax invoice on the invoice sheet.
- Invoice serial number.
- Date of invoice issuance.
- Name or company, address and GST identification number of the supplier.