IMPACT OF GST ON MALAYSIAN LISTED COMPANIES

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Abstract - GST was implemented in 1 April 2015 and abolished on 1 September 2018 in Malaysia. This paper accentuates the impact of GST on companies' revenue and profitability. Samples were taken from Malaysian public listed companies. Secondary data was used to analyse the impact of GST on companies' revenue and profitability. The data was analyzed using Statistical Package for Social Science (SPSS). The results suggest that revenue of listed companies increase when GST had been abolished. Despite increase of revenue, some companies showed massive losses and massive profitability due to the changes. Implications, limitations and suggestions for future research are discussed at the end of the paper.

Keywords - Goods and Service Tax, Revenue, Profitability

I. INTRODUCTION

Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services in many worldwide countries including Malaysia. The GST is paid by the end users or customers and remitted to the government by the registered traders, thus providing revenue to the government. GST is implemented by Malaysian authority effective from 1 April 2015 and abolished on 1 June 2018 to fulfil the promise made by the opposition party should they win the May 9 general election. All registered traders must now follow the decision of zero rate and is currently replaced by Sales Tax and Service Tax effective 1 September 2018.

GST is a single comprehensive tax that aims to replace various taxes i.e. direct and indirect taxes on goods and services and is presumed to reduce the price charged to the end users or customers. The tax rate for personal income tax reduced in 2015 and increased from 1% to 3% for income exceeding RM 600,000 in 2016 and 2017. Theoretically, reduce tax rate will increase the ability of low- and middle-income earners to purchase more goods and services and not much effect on high income earners as they have high purchasing powers regardless of the rate of tax imposed by the authority. Regrettably, some traders retain the old price because they are used to the higher figures for budget planning and worried of insufficient funds to operate the business if the price being reduced. Consequently, the price charged to the customers are high and lead to selective purchasing by the consumers. They would rather save money for future needs rather than spending the unnecessary goods and services.

As Malaysian people are more selective in purchasing the products and services, this will probably affect the revenues and profitability of companies. What is the impact of GST on companies' profitability when it is being imposed and abolished? Are the companies' profitability sustain when there is a tax changes? There is a lack of such research in Malaysia as the abolishment of GST happened recently. Changes of tax rate may affect the companies' revenue and profitability and ultimately the companies' survival. The rest of the paper is organized as follows. Next, is the literature review of the impact of GST to the industries, followed by description of methodology used and the quantitative analysis results that are generated by SPSS. Finally, the paper concludes and states the implications, limitations and suggestions for future research.

II. LTERATURE REVIEW

There is a vast literature of the impact of GST to companies. GST has always been an issue as the tax charged to the consumers are the same regardless of consumers' wealth, whether they are rich or poor, they will get the same tax charged on the goods and services. Theoretically, GST is revenue neutral if the rate charged equal to the taxes it replaced and the price of the goods and services sustained. Narayanan (2014) studied on the impact of GST on the price of goods and services and found that GST revenue neutral may affect the price of goods and services if the traders wanted to protect themselves from uncertain effects of a new tax.

GST is one of the most critical tax reforms in India. Rai (2018) studied on the impact of GST on micro and small companies in India and suggested that GST has led to changes in tax administration system and business transactions. GST is disruptive to small and medium industries in Malaysia. Soon et al. (2018) found that there were many issues that arise after three months of GST implementation such as rising cost of living and unjust taxes. Nevertheless, implementation of GST in Singapore is a success and accepted by the public very well due to several factors such as strong political commitment, good planning, dedicated personnel, detailed preparation and extensive taxpayer education program (Jenkins and Khadka, 1998).

III. METHODOLOGY

Secondary data was collected from the public filings

on the Bursa Malaysia Stock Exchange on which Malaysian public listed companies are required to file their interim and annual reports. Interim reports of Jun2018 were chosen and compared with March 2018 to measure the changes of revenue and profitability before and after GST was abolished. 118 companies was chosen as the sample which is 15% from the population. Descriptive statistic was used toanalyse the data.

IV. FINDINGS AND DISCUSSION

Data was analysed using SPSS and the result of company's revenue is as per Figure 1. Comparison of interim is made between the period before and after GST had been abolished. 43.2% of the sampled companies have negative changes of revenue when GST was abolished. 56.8% companies have positive changes. The highest percentage of changes is between 1% to 10% (30.5%), followed by -1% to -10% (28%) and between 11% to 20% (11.8%). The result suggest that majority of listed companies' revenue increased when GST being abolished, ranging from 10% to 20%. However, this study has limitation where two-third of the period assessed was with GST and one-third period was without GST.

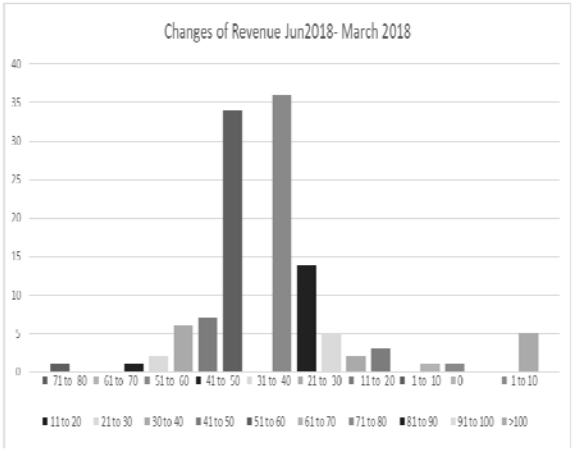


Figure 1 Changes of Revenue (Jun2018-March2018)

Despite an increase in revenue, 56% of sampled companies experience negative profitability. However, as per Figure 2, 11.9% companies have more than 100% changes of negative profitability and 10.2% have positive changes of profitability. The result suggests that when GST was abolished, some companies had massive increase in profitability, but some companies have the problems of selling their products and services.

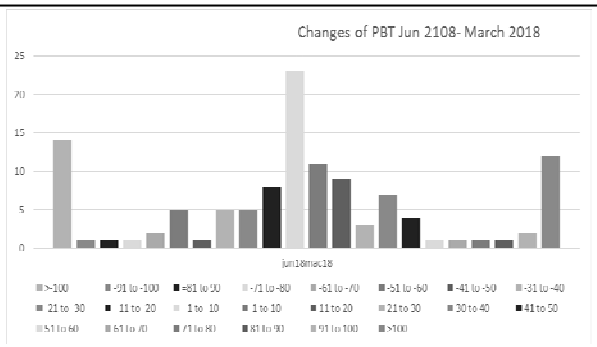


Figure 2 Changes of Profit Before Tax (Jun2018-March2018)

The changes of Profit After Tax is as per Figure 3. The changes of PAT is with similar trend with PBT. There are companies which experience massive profitability (11.0%) and low profitability (11.9%).

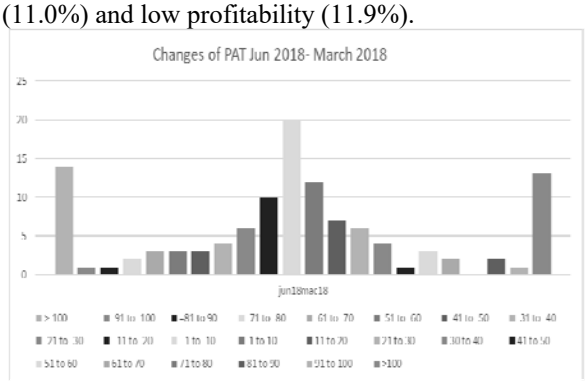


Figure 3 Changes of Profit After Tax (Jun2018-March2018)

These findings provide implications to companies' management and stakeholders to prepare strategic plan when the authority imposed and abolished taxes as changes of taxes may influence the companies' revenue and profitability.Comparison of revenues and profitability after the new tax i.e. Sales and Service Tax (SST) were imposed on 1 September is suggested for future research.

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