# GST FOR SMEs: TO REGISTER OR NOT?

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**With the implementation of GST just months away, many SMEs are still unsure of how GST will affect their businesses and mulling over how to implement GST. One of the most common questions asked by SMEs is whether they must or should register for GST. What are the pros and cons of registering?**

GST registration has already opened since June 1, 2014. Businesses that currently exceed the threshold for registration must register by **31st December, 2014.** Therefore, SMEs should consider soon whether they must or intend to register for GST.

## REQUIREMENTS FOR REGISTRATION

Businesses must understand the mandatory registration requirements.

> **"An entity or person is required to register for GST if taxable turnover over a twelve month period exceeds RM500,000."**

**Taxable turnover** refers to sales related to standard-rated or zero-rated goods and services. All goods and services are standard rated except for certain goods and services defined as zero-rated or exempt-rated, or out of scope supplies. That is why GST is called a broad based tax. Zero-rated goods and services are as listed in the GST orders (to be finalized in August 2014). On the other hand, it means that exempt-rated or out of scope sales are not part of taxable turnover.

All taxable turnover by a business entity or person is *aggregated* in determining the taxable turnover. For businesses operating under an individual's name, i.e. a sole proprietor, the turnover of all businesses must be added together in calculating his taxable turnover.

Twelve-month taxable turnover is determined based on historical actuals (the total value of taxable turnover of the current month and the previous 11 months) or by estimating the future turnover (the total value of taxable supplies of the current month and the next 11 months).

You can start registering for GST either electronically via the GST portal or by filling up a manual form. If you know your business already exceeds the threshold for registration, it is wise to register early. By doing so, you will obtain your registration number early to set up your accounting systems and accounting records; avoid the last minute jam; apply for special schemes or anything else that requires permission (such as simplified tax invoices) and the RMC (Royal Malaysian Customs) has indicated they would be more responsive to queries from registered businesses.

## BELOW MANDATORY THRESHOLD- TO REGISTER VOLUNRTARILY OR NOT?

An entity or person can register voluntarily even though his twelve-month taxable turnover does not exceed RM 500,000. So how should a business decide on whether to register or not? Here are some factors to consider:

1) **Input Tax Claim**
   GST registered business can claim input tax incurred on purchases. Non-registered businesses cannot make any input tax claim meaning any tax paid is a cost to the business.

2) **GST Charged on Sales**
   GST registered businesses must charge GST on sales relating to all standard-rated goods and services. Therefore, if customers are not GST registered, the cost of the goods and services may be more expensive compared to purchases from a non-GST registered business.

3) **Cost of Compliance**
   Registration for GST can impose significant compliance costs and administrative burden on a business, especially a SME. To start, staff will need to be trained and business processes and systems will need to be enhanced to cope with the GST regulations. Compliance with GST also requires greater discipline over retaining accounting records and mandates issuing proper tax documentation with prescribed details. Filing for GST returns need to be filed every quarterly or monthly, which means accounts need to be updated on a timely basis. Businesses must also pay the taxes upon filing, even if they have not received the GST payment from their customers, which can impact the cash flow and result in increased financing cost. There are also various special rules that a business can easily fall foul of, especially without proper preparation and proper systems in place.

   Further, the gazetted GST Bill 2014 provides for significant penalties to be imposed on businesses that do not comply with the rules. To deter fraud, business owners and directors of private limited companies (SDN BHD) are made personally liable for all unpaid taxes and penalties imposed.

4) **Supplier Credibility**
   If a business is not GST registered, this indicates to your customers, suppliers and other business associates that your business revenue does not exceed RM500,000, which may impact your credibility and reputation.

   Some companies may also require that all their suppliers are GST registered to ease their administrative burden. If this is a major customer to the SME, he may have no choice but to register.

5) **Cost-benefit Analysis – Business Perspective**
   Whilst it is true that registration probably leads to lower input costs as input taxes can be claimed, it does not necessary mean it is always more beneficial to register. When deciding whether to register or not, SMEs businesses will have to weigh up the four factors discussed above, if they have not met the mandatory turnover threshold.

 

**Below we discuss 3 types of businesses and the key considerations on whether to register or not**.

## A. Businesses making mainly ZERO-RATED SALES

Businesses that make mainly zero-rated sales should, in most cases, register as they will receive a net claim from the Customs. The most common types of zero-rated sales are export of goods and services.

If you are a business that has significant imports, you may also be eligible to apply for the Approved Trader Scheme that allows you to suspend GST payments for imported goods.

Compliance costs outweigh the benefits of registration, businesses that make wholly zero-rated sales that exceed the RM 500,000 threshold, can apply for exemption from registration. This may arise in situations where a business incurs insignificant input taxes on purchases or is expected to incur significant compliance costs due to complicated systems.

## B. B2C Businesses (Retail)

Business to consumer enterprises generally sells to the end customer who will bear the full brunt of the tax as they are not GST registered. Therefore, GST charged effectively increases the purchase cost to the consumer. So how does this affect the margins of a business? It is easiest to illustrate with an example:

Suppose a shoe retailer buys a pair of basketball shoes at a cost of RM 100 exclusive of GST and consumers are willing to pay RM 200 for shoes, whether inclusive of GST or not.

| | **Non-GST registered** | **GST Registered** |
|---|---|---|
| Selling Price | 200 | 188.68[1] |
| Purchase cost | (106)[2] | (100) |
| Gross profit | 94 | 88.68 |
| Profit margin | 47% | 47% |

*Explanatory notes:*

*[1]Since consumers are only willing to pay RM 200; that is the GST inclusive price for the GST registered company. Therefore (RM 200 x 6/106) RM 11.32 of GST has to be paid to Customs and the remaining RM 188.68 is the true revenue to the business.*

*[2]Non-registered businesses will have to incur the GST on purchases (RM 100 x 6%) as their cost as they cannot claim this back from the government.*

As demonstrated, since consumers should only care about how much they have to pay for the goods, a non-registered business should be able to earn a higher selling price offset by a higher purchase cost. As selling price should exceed purchase cost, the non-registered business will earn a higher gross profit although the profit margin is the same.

Therefore, a profit-making enterprise that sells mainly to the end consumer, and sells less than RM 500,000 over twelve months will be better off not registering for GST.

## C. B2B Businesses

If business sells mostly to GST registered companies, the considerations will be different as any GST charged on the sales is not a cost to the customer. Again, we will use an example to illustrate.

Suppose a hardware company buys a power tool at a cost of RM 100 exclusive of GST and sells the tool for RM 200 to the customer exclusive of GST.

| | Non-GST registered | GST Registered |
|---|---|---|
| Selling Price | 200 | 200[1] |
| Purchase cost | (106)[2] | (100) |
| Gross profit | 94 | 100 |
| Profit margin | 47% | 50% |

*Explanatory notes:*
*[1]Since customers can reclaim GST, the business can charge RM 200 plus 6% GST and the cost to the customer is still RM 200.*

In this example, the cost of purchases to a non-GST registered business will be higher but the sales derived will be the same. Therefore, both the gross profit and profit margin will be lower.

Therefore, from a margin perspective, businesses that sell mainly to GST registered customers should register. However, the additional margins should be weighed against additional compliance costs.

## CONCLUSION

In this article, we have outlined the requirements for registration and the key consideration factors of whether to register if you are below the threshold for registration. Businesses are highly encouraged to consider whether they need to register early, particularly if you are choosing to register voluntarily. Customs will likely take some time to evaluate your registration application and a delay in registration can also delay your GST preparation.