

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

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DEVANESAN
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TAXES

PLUGGING THE LEAKAGES

On Aug 4, the Dewan Rakyat passed the Sales Tax (Amendment) Bill 2022 with a majority voice vote. The bill seeks to impose a flat 10 per cent sales tax on imported goods purchased online and delivered to Malaysians by vendors registered with the Finance Ministry.

This flat rate will be imposed on low-value goods sold online that are priced below RM500 beginning next year.

The tax would level the playing field between online sellers both inside and outside Malaysia. There is no reason why local products should be subjected to tax while online products fall through the loophole. Charity, after all, begins at home.

Deputy Finance Minister Datuk Mohd Shahar Abdullah said the government was expected to collect RM200 million per year from the implementation of the tax. The RM200 million will be extremely useful for the government to uplift the people.

Illicit tobacco

On another issue, tobacco companies have long been fighting the scourge of counterfeit goods or illegal tobacco trade in the

country. At the heart of that fight is the high prevalence of illicit cigarettes and how they rob the country of an estimated RM5 billion in unpaid taxes every year.

According to the Illicit Cigarettes Study (ICS) in Malaysia 2021 conducted by international market research company Nielsen, illicit cigarettes prevalence in Malaysia stood at 57.3 per cent, a drop of 6.5 percentage points from an all-time high of 63.8 per cent in 2020. This was the first time since 2014 that illicit cigarettes prevalence had registered a decline. But the fact remains that for every legal cigarette sale, there is another cigarette that is sold illegally.

The Confederation of Malaysian Tobacco Manufacturers (CMTM) had said more was needed to be done to address the issue because the government continued to lose billions of ringgit every year from unpaid taxes on illicit cigarettes.

CMTM has called on the government to further enhance its enforcement to address smuggling activities, especially in coastal areas.

This includes a closer collaboration between the industry and the government to address tobacco

smuggling through the Multi-Agency Task Force. CMTM has also called on the government to conduct a detailed regulatory and economic impact analysis and to engage all stakeholders across the entire value chain, including manufacturers, distributors and retailers, before introducing proposals such as the Tobacco End Game 2040.

Failing to do so may inadvertently increase illicit products in the market, eroding the hard-won gains in tackling the illegal cigarette trade in Malaysia.

The introduction of a new law to ban smoking and possession of tobacco products for people born after 2007 should not have the unintended consequence of exacerbating the illicit tobacco trade.

The unintended consequence will be an increase in leakages in tax revenue. It may also create a bigger black market.

The introduction of generation endgame should come with steps to prevent the concomitant increase in the illicit products.

What is important, again, is creating a level playing field.

Illicit beers

Meanwhile, there is a similar

issue in the brewery industry. According to the Confederation of Malaysian Brewers Bhd, of the total market volume of three million hectolitres (one hectolitre is equal to 100 litres), the legal market volume is two million hectolitres. That leaves an illegal market volume of one million hectolitres. The estimated annual loss of government tax revenue is RM1.5 billion.

Addressing illicit trade

It would definitely be a win-win situation if illicit trade is addressed. There will be more tax revenue for the government while licensed, law-abiding tobacco and brewery companies will enjoy increased sales.

And what is in it for minority shareholders? Well, these companies will report higher profits along with concomitant benefits of greater dividends and share price increases. In fact, it will be a win-win result for the government, the people, the companies and the shareholders.

And we would have levelled the playing fields.

The writer is chief executive officer of Minority Shareholders Watch Group.

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