

## GST – THE POTENTIAL EFFECTS ON HEALTHCARE IN MALAYSIA

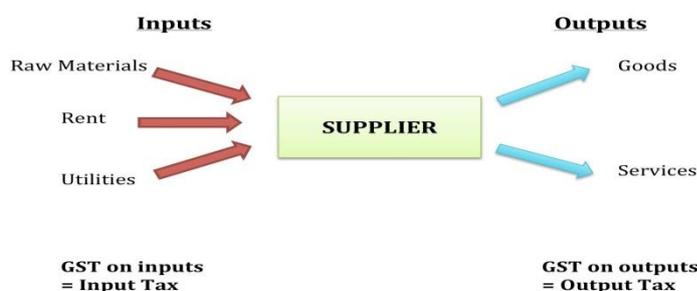
### Introduction

On the 25th of October 2013, Malaysian Finance Minister ( who is also the Prime Minister ) Datuk Seri Najib Razak announced the introduction of the Goods and Services Tax (GST) in Budget 2014 to replace the current sales and services tax, GST will be effective on April, 2015.

Of course following the budget announcement, there was a flurry of activities in the mainstream Malaysian media. There were some pro-GST comments mainly from the government and their supporters claiming that “ it will not burden the people “ and some anti-GST comments mainly from the opposition political parties crying foul saying that government ministers do not even understand the proposed GST. Of special interest, was the honorable Minister of Health who had to retract his statement after being challenged by the DAP MP.

### WHAT IS GST MALAYSIA?

Goods and Services Tax (GST) is a multi-stage consumption tax on goods and services whereby each point of supply in a production chain is potentially taxable up to the retail stage of distribution. At the same time suppliers are entitled to refunds of GST incurred on business inputs. The basic fundamental of GST Malaysia is its self-policing features which allow the businesses to claim their Input tax credit by way of automatic deduction in their accounting system. With the introduction of GST, the previous sales and services tax will be removed, and we also hope that personal income tax will also be reduced.



### What we know?

Following the definition, the goods and services are categorized by the government into 3 categories, viz,

1. The zero rated goods and services. So goods and services in this category has no GST, government does not collect from you and you do not collect from consumers.
  - Essential items such as: Rice, sugar, salt, flour, cooking oil among others
  - Public transport (LRT, KTM, Buses)
  - Sale and Rental of property
  - Electricity consumption up to 200kWh (about RM50), presumably per month

Although this list has been published, I think that this list is still not cast in stone and there is still room for negotiation and manipulation.



2. GST exempt goods and services. Goods and services in this category are exempted from GST. This means that in this category, government collects from you but you cannot collect from the consumers.

- Financial services (including life insurance and family takaful)
- Sale and lease of residential property
- Toll highway
- Private health and education
- Domestic transportation of passengers for mass public transport by rail (KTM, LRT, ERL, Monorail, ships, boats, ferries, express bus, state bus, worked bus, school bus, feeder bus and taxi)
- Land for agricultural purposes and land for general use (Government building and buried ground)

Note that Healthcare belongs in this category.



3. The GST standard rated category. All the other goods and services not in the above two category.



The Deputy Minister of Finance announced in May 2014, that 689 goods and services are in the standard rated category.

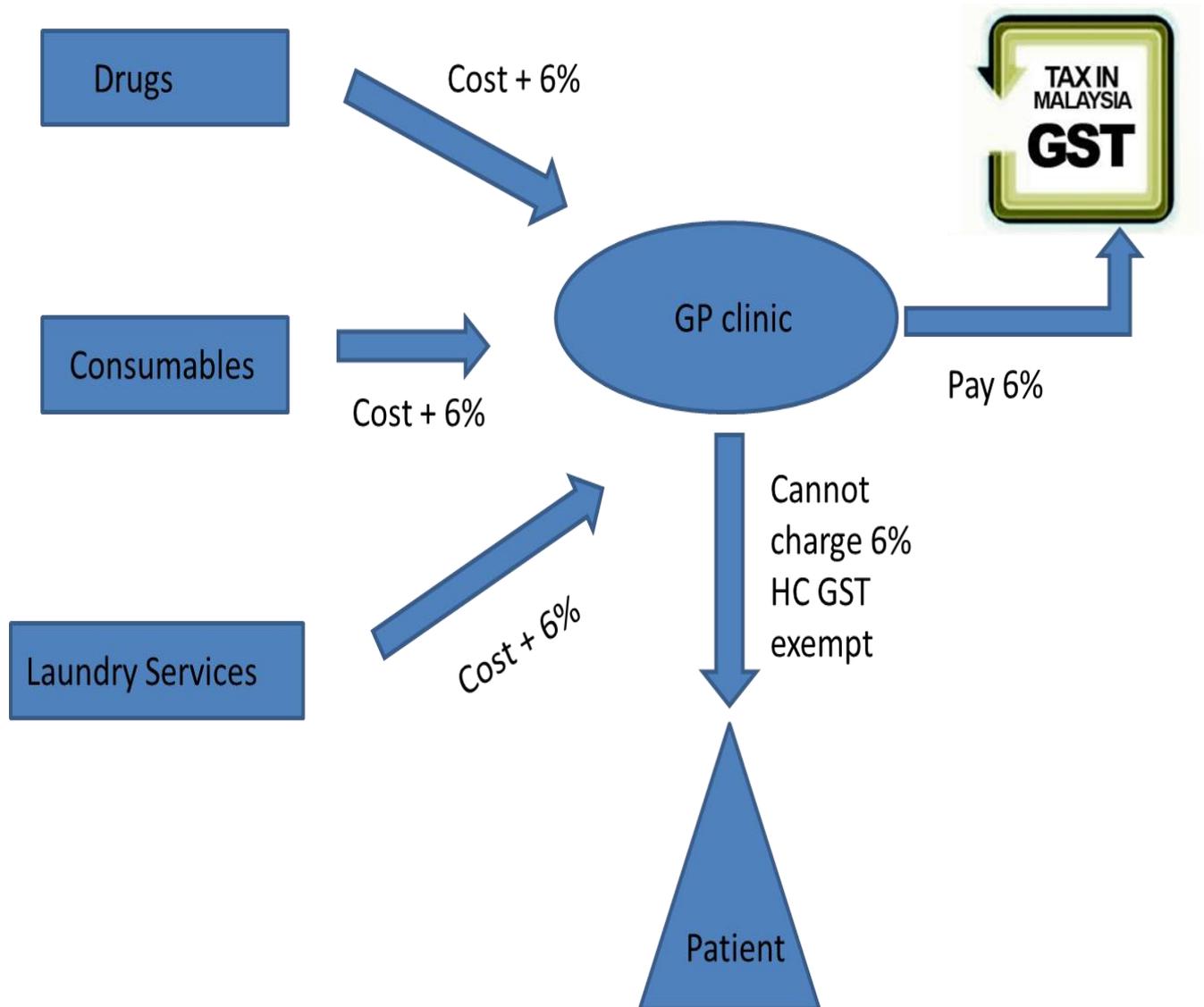
How will it work?

Doctors who run facilities with annual turnover exceeding RM 500,000 must register. The penalty for not registering is severe. Other medical facilities whose annual turnover does not exceed RM 500,000 may register voluntarily. Once you are register, you are subjected to the terms and conditions of GST legislations. If you do not pay the GST in time to the Customs department, you will be penalized.

If a GP wishes to register voluntarily, there is additional paper work and you would have to stay registered for 2 years at least. You will of course be bound by the GST legislation, which also means that you can claim GST rebates on GST goods and services supplied to your clinic.

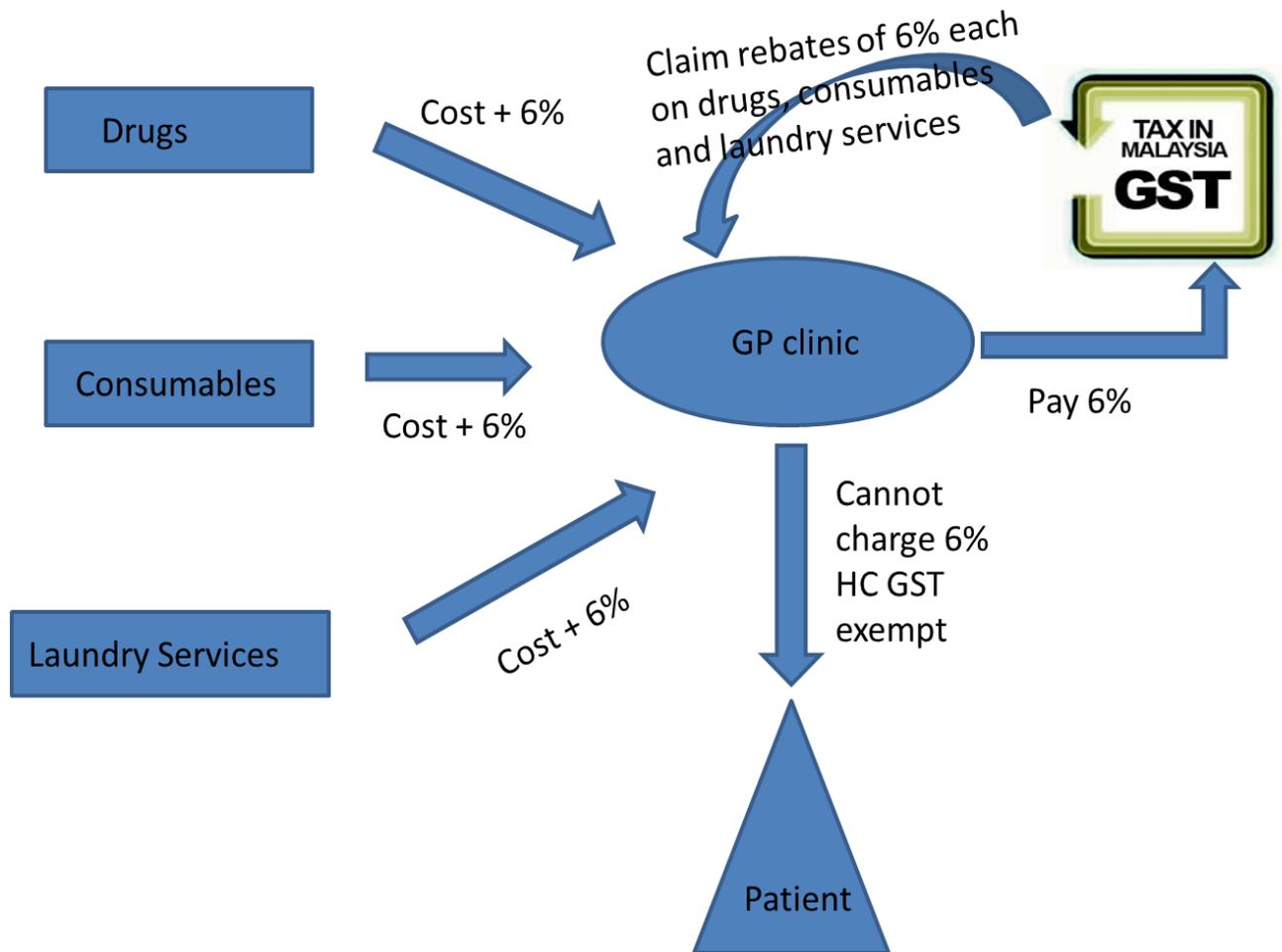
An example – A GP running a clinic.

It is my impression ( I may be wrong ), that most solo GP practices have an annual turnover not exceeding RM 500,000. In that case, the GP does not need to register with the Custom's Department under the GST regulations.



**THE EFFECT OF GST IMPLEMENTATION ON A GP CLINIC**

**(Without rebates )**



**THE EFFECT OF GST IMPLEMENTATION ON A GP CLINIC  
(With rebates)**

**NB**

To claim rebates you must register with Customs Department, and face a ton of paperwork and customs department scrutiny.

## Comments.

Currently only about 10% of working adults in Malaysia pay taxes. 90% do not and the government knows why and who they are who do not pay taxes. In this scenario then, consumption taxes would mean that all Malaysians who consume will be tax, and there is no escape for individuals by race or religion. The other point to make is that unless the leakages in the system is plugged, no amount of taxation will be enough for the government to use. The more you collect, the more is leaked. Soon we will be back to square one and the GST 6% tax rate will slowly creep up to 10% then 15% and soon 20%. I am very afraid of this, because this GST tax has the potential if creating social disharmony and increase crime rates. What is a father with 3 kids, earning RM2, 000 a month supposed to do, when his kids have no money to go to school, to buy uniform and stationary, and no money for the tuck shop? The young one is crying because there is no milk left and no food to eat? He sees his nearby neighborhood of middle income wage earners passing by every day. What do you think he will do?

Leaving social issues aside, Let us take a look at Healthcare. Of course Public Healthcare is NOT affected as there is NO GST on public goods and services. They are all zero rated. In Private healthcare, there is the Healthcare facilities (medical centers, ambulatory centers and also hemodialysis units). Cost will sure go up, no matter how the Minister of Health wishes to spin it. The whole supply chain to the private healthcare facilities are NOT GST zero rated, so GST will be collected and rebated. At the last link in the chain (healthcare facilities to patients), this step is GST exempt but the medical center has to pay the Custom Department GST, so they will surely be raising their cost, as started by their spokesman lately. They cannot absorb the increase. They will pass it on to the patient. In a very surprising way, imported drugs which at the moment are subjected to a 10% sales tax, will now be theoretically cheaper as the 10% sales tax is removed and replaced by a 6% GST although I personally do not see that happening.

As for the private GP, his practice will now cost more, as all his consumables, and other services like laundry, will cost more. If he registers with GST, he will face a ton of paperwork. If he does not, he will have to absorb the cost and pass it on. The 6% GST that he has to pay to Customs must also be factored in. As for drugs, the drugs from multinational companies may be cheaper ( 10 % less for no sales tax, but 6\$ more for GST ), while for locally manufactured drugs ( currently no sales tax ) will see an increase in price because of the 6% GST. Basically, I see the cost of running a GP clinic going up and so I can see that the cost of healthcare will go up. But the GPs cannot also simply increase cost as market forces dictate the cost of GP care. So the GPs are badly squashed between the MCOs / TPAs and their terms, PHCFSA Act, market forces and now GST. God help us all.

The government keeps telling us that this GST 6% initial rate is supposed to be revenue neutral. I just do not see it. Some goods will be, but the majority will not be, so

overall things will go up. What I fear is that, after making a start in April 2015, they will slowly increase GST over the years so that before I meet my maker, it may be 15% ( if I am lucky ). During the Dewan Negara sitting in May 2014, the Deputy minister of Finance said that GST will be imposed on 689 goods. He expects that the price of 73 items of these will go up, the price of 287 items will go down, and the price of 287 items would remain the same after GST. I find this statement irrational. To make sure that traders and business people do not profiteer with this new tax, there must be good monitoring and enforcement of the "Anti-Profiteering Act". Firstly, this Act is yet to be implemented. For GST to be effective, good monitoring and across-the-board enforcement has to be part of our public servants culture, failing which, I think profiteering will be rampant with this new GST in April 2015.

Anyway coming back to healthcare, I am certain that cost will rise.

What then can we do? Very little I am afraid. The porridge has already been cooked. Enjoy it as much as you can. Do not choke on the bones. Life is tough as a GP.

Post script

I would like to declare that I am one of those who supported the Tak Nak GST demonstration on 1<sup>st</sup> May 2014.

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