



**DEVANESAN
EVANSON**

COUNTERING CONTRABANDS

PLUGGING THE LEAKAGES

ON Aug 4 last year, 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 goods purchased online and delivered to Malaysians by vendors registered with the Finance Ministry.

This flat rate will be imposed on low-value goods (LVG) sold online that are priced below RM500. It will be implemented from April 1 this 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 subject to tax while online sales products fall through the loophole and not be subject to tax. Charity, after all, begins at home.

Then-deputy finance minister Shahar Abdullah said the government was expected to collect RM200 million per year from the implementation of the tax.

Illicit tobacco

Meanwhile, Malaysian tobacco companies have long been fighting the scourge of counterfeit 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 com-

pany Nielsen, illicit cigarettes prevalence in Malaysia is now at 57.3 per cent — a drop of 6.5 percentage points from an all-time high of 63.8 per cent in 2020.

In fact, this is the first time since 2014 that illicit cigarettes prevalence has registered a decline. But the fact remains that for each sale of a legal cigarette, there is another cigarette that is sold illegally.

The Confederation of Malaysian Tobacco Manufacturers (CMTM) has said despite the decline, more needs to be done to address the issue because the government continues to lose billions of ringgit every year from unpaid taxes on illicit cigarettes.

According to CMTM, the illicit cigarettes prevalence of 57.3 per cent is still very high, and Malaysia remains the No. 1 country for illegal cigarettes. This is an accolade that we shall not wear proudly. CMTM has called on the government to further enhance its enforcement to address continuous smuggling activities, especially in coastal areas.

This includes a closer collaboration between the industry and the government to address tobacco smuggling activities 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 and eroding the hard-won gains in tackling the illegal cigarette trade in Malaysia. In relation to the Tobacco End Game, former health minister Khairy Jamaluddin was reported as saying that the country hoped to pass the legislation this year.

On Feb 17 last year, he had announced that Malaysia would introduce a radical new law to ban smoking and possession of tobacco products, including vapes, for people born after 2005, as part of a Generational End Game for smoking in the country.

This effectively means that Malaysians who turn 17 this year, and those who are younger, will not be able to legally buy cigarettes and other tobacco products for the rest of their lives.

The introduction of the new law should not have the unintended consequence of exacerbating the illicit tobacco trade. The unintended consequence will be an increase in leakages in tax revenue. The impact on the economy if Malaysia were to introduce a new law to ban smoking and the possession of tobacco products, including vapes, is that it may create a bigger black market.

The introduction of the Generational End Game should come with steps to prevent the concomitant increase in the illicit products.

What is important, again, is cre-

ating a level playing field.

Illicit beers

Meanwhile, there is a similar illicit beer issue in the brewery industry. According to the Confederation of Malaysian Brewers Bhd, out of the total market volume of three million Hectolitres (one hectolitre is equal to 100 litres), the legal market volume was two million Hectolitres. That leaves an illegal market volume of one million Hectolitres. The estimated annual loss to government tax revenue is RM 1.5 billion.

Win-win

It would definitely be win-win if the illicit trade is addressed. There will be more tax revenue for the government and licensed law-abiding tobacco and brewery companies will enjoy increased sales with the reduction in the illicit trade. And what is in it for minority shareholders?

Well, if they are shareholders of the companies affected by the illicit trade, these companies will report higher profits and along with these higher profits come the concomitant benefits of greater dividends and share price increases. In fact, it will be win-win-win-win — the government, the rakyat, the company 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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