CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

1.1.1 Goods and Services Tax

GST which is also known as VAT or the value added tax in many countries is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

GST is a broad based consumption tax covering all sectors of the economy for example all goods and services made in Malaysia including imports except specific goods and services which are categorized under zero rated supply and exempt supply orders as determined by the Minister of Finance and published in the newspaper. GST basic fundamental is its self-policing features which allow the businesses to claim their input tax credit by way of automatic deduction.
in their accounting system. This eases the administrative procedures on the part of businesses and the Government. Thus, the Government’s delivery system will be further upgraded.

Citizen of Malaysia pay taxes to the government so that government can finance socio-economic development; which includes providing infrastructure, education, welfare, healthcare, national security for the society. Over the past few decades, the world wide has been introduced to the multi-stage GST system. Today, almost 90% of the world's populations live in countries with GST including China, Indonesia, Thailand, Singapore and also India. Now, Malaysia also joined the revolution.

GST is one method of collecting taxes which works better than others. It is shall be collected and charged on the taxable supply of goods and services made in the course or furtherance of business in Malaysia by a taxable person. GST is also charged on the importation of goods and services and out of scope supplies are not taxable supplies. A taxable supply is a supply which is standard rated or zero rated. GST can only be levied and charged if the business is registered under GST and the business is not liable to be registered if its annual turnover of taxable supplies does not reach the prescribed threshold.

Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, only the value added at each stage is taxed thus avoiding double taxation. In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as a “registered person”. A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.
Figure below shows how GST works.

![GST Flow Diagram]

**Figure 1.1**: GST Flow

### 1.2 PARTIES IN CONSTRUCTION INDUSTRY

Normally the construction industry will include activities such as build new structures, modifications, maintenance, repair, alteration, dismantling, removal, demolition and improvements on these structures. It includes any works which form an integral part of, or are preparatory for the works mentioned, including site clearance, soil investigation and improvement, earth moving, excavation, lying of foundation, site restoration and landscaping.