

'Free-for-all' price hikes unlikely

Tax experts do not foresee merchants raising prices indiscriminately when PCAPA expires next month



by Ng Wai Mun

WITH the Price Control and Anti-Profitteering (Net Profit Margin) Regulations 2014 expiring on June 30, consumers are concerned that merchants will

then have a free hand to raise prices indiscriminately.

However, some tax experts do not foresee merchants raising prices substantially across the board with the expiry of the regulations that were introduced in tandem with the goods and services tax (GST). However, views are split as to whether the enforcement period for the regulations will be extended beyond the deadline next month.

Analysts are also divided on the secondary impact in the event the enforcement period was extended. A research manager says: "Price freeze basically means suppressed revenue and earnings growth. The market may have to endure longer periods of low growth, if any, when companies report their respective financial results."

Economic slowdown

For the layman, the likelihood of no substantial price hikes would be assured given that the economic slowdown has already started to show its effects. Based on Bank Negara's data on credit card-related transactions, February saw the highest growth in total cash advance of over 21% by local cardholders in over

eight years.

PwC Taxation Services Malaysia executive director Nicolaos Giannopoulos informs *FocusM* that PwC does not expect the economy to experience a "free-for-all" increase in prices across the board. "Based on our experience and observations, businesses implementing the GST have complied with the requirements of the GST and the Price Control and Anti-Profitteering Act 2011 (PCAPA) laws and passed on any tax savings through the supply chain to their customers.

"This, combined with market forces within the economy such as competition, supply and demand, has ensured that prices in the market have reached equilibrium."

He says consumers should not be worried unnecessarily. "One of the federal government's priorities has been to minimise the impact of the introduction of GST on the rakyat by regulating profiteering to minimise inflation and ensure that prices are not adversely impacted.

The Ministry of Domestic Trade, Co-operatives and Consumerism was tasked with this brief. "The ministry would be aware that there may be a minority of businesses who may be waiting for July 1 as an opportunity to suddenly increase prices with the sole aim of profiteering. The ministry is closely monitoring this situation and should it feel there is a need to act, we expect it to do so," he adds.

Authorities to monitor situation

Even if the regulations were for just over a year, Giannopoulos says there was a need to implement it. "The government was concerned that the introduction of the GST would be used as an occasion for extracting windfall profits and misleading consumers about price changes. To address this, the PCAPA was enacted with the aim of monitoring prices for a

period of 18 months from Jan 1, 2015, a period deemed sufficient to enable prices to find an equilibrium.

"Competitive markets operating in a low inflationary environment with good corporate citizenship will likely ensure that businesses will act fairly. However, these market forces may not always be present and some interventions may be required. Also, the rakyat's perception is that a certain degree of market intervention by the government is necessary to ensure adequate consumer protection," he says.

On the possibility of the regulated period being extended, especially when it expires during the fasting month, Giannopoulos says there is such a possibility. "We [PwC] believe the ministry is monitoring certain sectors to ensure there are no 'pent-up' price increases come July 1. It would not come as a surprise to us should the ministry extend the period beyond July 1.

He thinks it is unlikely that this period would be extended to only cover specific goods as we already have something in place for such circumstances. What is more likely to happen is that certain sectors of the economy may be the primary focus of the ministry and any new regulations enforced by the authority.

Restrained by competition

Deloitte Tax Services Sdn Bhd director (GST) Bruce Hamilton would be surprised if there was a free-for-all in terms of price increases after the expiry of the regulations, for the simple reason that many businesses operate in a competitive market.

"If they increase prices more than their competitors, they risk losing market share, and possibly customer loyalty. As a result, many are likely to take a short 'wait-and-see' position before moving on pricing, and in competitive markets, this could assist with keeping price increases

in check.”

He notes that many businesses have been withholding price increases that they could quite legitimately have made prior to then. “The reason for this is that they are concerned not to draw attention to themselves by doing so, even though the increases that they need would have been justifiable under the anti-profiteering regulations as they currently stand.”

Hamilton believes that consumers need not worry about substantial price hikes. “If it does happen to be extreme, which I very much doubt, I think that the authorities will be monitoring it. They do have the ability to act. In this regard, the minister already has the ability to limit price increases on some products over festive periods. This might be a way in which unnecessary price increases can

be controlled.”

Sufficient competition

Hamilton doesn’t see the regulations being extended for selected goods only. “I don’t think that pricing restrictions would be applied on certain goods only as that would indeed mean that administration of any such system would be very difficult for businesses and the ministry. It is, however, possible that there would be more focus on sectors of the economy where competition between traders is not sufficient to ensure that this acts as a restraint on price increases.

“At the end of the day, if there is sufficient competition, consumers have the power to walk out of a shop that has increased prices too much, and go to a competitor that has been more restrained, or has not increased his prices.”

On sectors which might possibly be affected more once the regulations are lifted, Hamilton says: “I would doubt that much of the food industry should be affected. Many foodstuff, and certainly most basic or fresh foodstuff, not affected by the GST or any exchange rates, as they are zero-rated, and most are not imported.

“The areas most likely to be affected, are those where goods are imported, and they are not zero-rated for GST purposes.”

The regulations came about as a result of the implementation of the GST effective April 1 last year and are enforced between January last year and next month. The regulations are to prevent unscrupulous businesses from taking advantage of the GST by indiscriminately to raise prices. **FocusM**



Giannopoulos does not expect a 'free-for-all' increase in prices across the board to occur



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