SIX-MONTH DEFERMENT

CAR TAX RULE DELAYED

Manufacturers seek clarity as uncertainty continues over CKD valuation framework

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The six-month deferment of the revised Open Market Value (OMV) calculation for locally-assembled (CKD) vehicles underscores the need for a permanent tax framework rather than repeated short-term extensions.

Automotive analyst Shamsul Yunos said the extension would help avoid disruption to the automotive industry.

Manufacturers will continue to seek clarity for long-term planning and investment decisions, he added.

"A six-month extension provides limited long-term predictability. It is more of a temporary measure that postpones addressing a broader structural fiscal issue," he told Business Times.

A news portal reported that the government had again postponed implementation of the revised OMV calculation.

The Finance Ministry informed industry players on June 26 that more time was needed to finalise the methodology and ensure fair treatment across manufacturers with different business models and reporting structures.

The revised OMV methodology, first gazetted in 2019, broadens the basis for calculating excise duties.

It includes non-manufacturing costs such as marketing expenses, administrative costs and profits in vehicle valuations.

The proposed changes have raised concerns among automakers, which said the broader valuation base could raise excise duties and increase CKD vehicle prices.

However, the government and the Malaysian Automotive Association have maintained that the impact on retail prices will be minimal.

The OMV revision has been postponed several times since 2019, reflecting discussions between the government and industry stakeholders over the implementation of the revised excise duty framework.

Shamsul said the postponement was necessary because the proposed formula has yet to prove it can be applied equitably across manufacturers with different corporate and accounting structures.

"The mathematical formulas and automated customs declaration software do not seem to generate the level-playing field policymakers are seeking."

He added that the main challenge is deciding which costs should be included in factory valuation without disadvantaging certain business models.

Shamsul said manufacturers with vertically integrated operations could end up paying more tax than rivals that separate manufacturing, marketing and distribution into different legal entities.

"If the rule goes live, global original equipment manufacturers can legally restructure by outsourcing marketing, public relations and administrative functions to separate subsidiaries.

"Those costs may never touch the factory floor, potentially shielding them from the OMV declaration."

Rather than creating a level playing field, he said the policy risks penalising manufacturers with deep local operations while favouring companies with more flexible corporate structures.

He said the industry needs either a gazetted grandfathering provision or a codified calculation formula that provides certainty and ensures no material impact on vehicle prices.

Shamsul questioned the assertion that the revised methodology is required to comply with World Trade Organisation (WTO) rules.

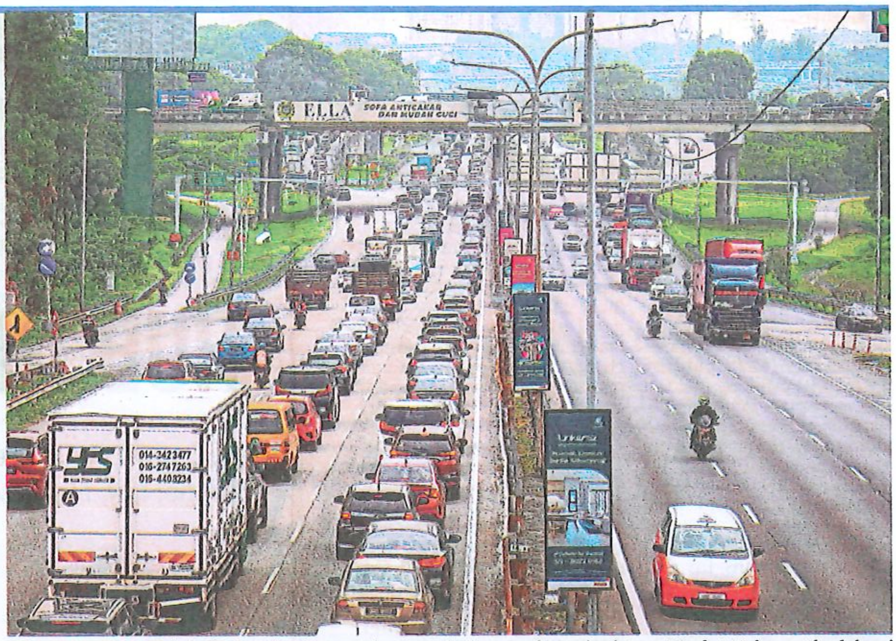
He said the WTO's Customs Valuation Agreement is intended to prevent discrimination against imported goods rather than require countries to tax domestic marketing and administrative costs.

He said policymakers should pur sue other ways of strengthening gov ernment revenue without weakenin Malaysia's competitiveness agains regional automotive hubs, such a Thailand and Indonesia.

He said taxing non-manufactur ing overheads discourages compa nies from establishing regional head quarters and investing in local talent

"If the government requires addi tional revenue, it should tax con sumption instead.

"Reverting to the Goods and Ser vices Tax, a globally recognised an transparent consumption tax, woul be a more sustainable approach tha penalising companies with estab lished local operations."



The government and the Malaysian Automotive Association say the revised Open Market Value methodology' impact on retail prices is minimal. NSTP FILE PIC