

Potential Issues Perceived by Business Taxpayers on the Implementation of the Goods and Services Tax in Malaysia

Appadu Santhariah,¹ Binh Tran-Nam,² Dale Boccabella³, Nthati Rametse⁴

ABSTRACT

The implementation of the Goods and Services Tax (GST) in Malaysia, on 1 April, 2015, was part of the Malaysian government's taxation reforms aimed at reducing the country's budget deficit, hence improving the collection of revenue. This article presents findings of some of the major issues and concerns that the Malaysian business taxpayers perceive as key challenges in preparing for the implementation of the GST. Using a survey questionnaire, 1,500 Malaysian business taxpayers⁵ were surveyed in June 2013 to investigate their GST implementation readiness. The results confirmed that overall, business taxpayers were poorly prepared for the GST implementation, with only nine percent claiming to be substantially ready. Around 22% of the respondents stated that they were well equipped with computer systems for GST purposes. Over 25% of eligible potential GST registrants stated that they would not register. Over 74% of respondents felt that the GST would place an additional compliance burden on them. Only 24% of respondents were confident that they would get the required assistance with the GST implementation, from the Royal Malaysian Customs Department. Additionally, whilst larger businesses confirmed that they were better prepared for the GST, smaller businesses felt more stressed out with preparing for the GST. This article concludes with policy implications for Malaysian GST system, particularly those that would alleviate businesses' compliance burden.

Key words: Malaysian GST Compliance issues, Goods and Services Tax, Business taxpayers, Royal Malaysian Customs Department.

1.0 INTRODUCTION

This paper examines some of the major issues and concerns business taxpayers perceive as key challenges in preparing for the Goods and Services Tax (GST)⁶ in Malaysia. More specifically, four broad issues were investigated, namely: (i) businesses' readiness to implement the GST, (ii) the GST compliance burden imposed on businesses, (iii) perceptions of the Royal Malaysian

¹ Appadu Santhariah graduated in 2016 with a Master of Philosophy in Taxation, The University of New South Wales, Sydney, Australia. Appadu is currently a PhD candidate at RMIT University, Melbourne, Australia.

² Binh Tran-Nam is a Professor of Taxation Law in the School of Taxation & Business Law, The University of New South Wales, Sydney, Australia.

³ Dale Boccabella is an Associate Professor of Taxation Law in the School of Taxation & Business Law, The University of New South Wales, Sydney, Australia.

⁴ Nthati Rametse is a Lecturer in Entrepreneurship in the School of Management at RMIT University, Melbourne, Australia.

⁵ Business taxpayers include sole traders, partnerships, private companies and public companies who are eligible to register for the Malaysian GST.

⁶ Goods and Services Tax (GST) is also known as value added tax (VAT) in other countries. Although GST and VAT have

Customs Department (RMCD), the body that administers the GST in Malaysia and their capacity to provide financial and non-financial assistance and (iv) to determine whether or not business perceptions are related to business characteristics. After two failed attempts which spread over seven years, on the third attempt the Malaysian Goods and Services Tax Act 2014 based on a broad-based consumption tax was finally passed with effective from 1st April 2015. During this prolonged period, the private sector and the Government of Malaysia conducted various information sessions and GST seminars to educate Malaysian business taxpayers. However, not much is known about business taxpayers' concerns and their readiness for the implementation of the GST in Malaysia. This shortcoming is due to the restrictions on mainstream press reports which only reported a limited range of the views about GST due to the restricted press freedom in Malaysia.⁷ Moreover, it is well known that the government controls the press in Malaysia, limiting media freedom and the right to express opinions. Thus, public debates on government decisions and policy matters are almost non-existent.⁸

Further it seems Malaysian academia have not taken the lead to publish studies on pre-GST implementation issues, resulting on the dearth of the Malaysian literature on this area. In an effort to address this gap, this study aims to make a contribution to the literature on the pre-GST compliance implementation issues in Malaysia. Thus a survey was conducted from April 2013 to June 2013 with a sample of 1,500 business taxpayers, 426 survey responses were received resulting in a response rate of over 28%. The findings show that Malaysia was not well placed for its implementation of GST scheduled to start on 1 April 2015. This is unfortunate given that the GST was first announced for implementation in 2005. Many in the business community both large and small did not take the implementation date seriously partly due to the postponement of the GST implementation and the "laissez -faire "attitude of many business taxpayers who were hoping that GST will not be implemented. The survey results indicate that overall, business taxpayers were poorly prepared for the implementation of the GST. Further statistical analyses revealed that overall, whilst larger businesses were better prepared for the implementation of the GST, smaller businesses felt more stressed out about the GST, this data was collected around two years before the implementation of GST and it might be that circumstances have improved somewhat since the survey data was collected but it would be surprising if the improvement was sufficiently significant. Some of the negative survey results may also reflect a dis-belief that the GST would actually be implemented this time, thereby causing "GST readiness fatigue", many hoped that GST

Different names, they are both multi-stage consumption taxes where tax is imposed through the different stages of the supply chain.

⁷ Kraal, D, Kasipillai, J 2015, 'finally, a goods and service tax for Malaysia: a comparison to Australia's GST experience'. *Australian Tax Forum* 31(2) 2016. Viewed on 26 Sept 2016, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2804416.

⁸ Mohd-Sani, M 2005, 'Media freedom in Malaysia'. *Journal of Contemporary Asia*, 35(3), 341-367.

would simply not materialize.

The rest of the paper is organized as follows: Section two reviews the literature on the GST implementation experiences in both the developing and developed countries. It also outlines the conceptual issues relating to costs of taxation and compliance costs. Section three briefly discusses the methodology used for this study. Section four provides the findings and analysis of the results. Finally, Section five concludes this paper, articulating some measures that may assist to reduce the GST compliance burden for Malaysian business taxpayers.

2.0 THE LITERATURE REVIEW

In this section, two major themes of the study are explored, 2.1 GST implementation experiences in some developing and developed countries and 2.2 conceptual issues about the costs of taxation and gross compliance costs and net compliance costs.

2.1 GST implementation experience in developing countries

Tanzi and Howell,⁹ made some observations about tax implementation issues in developing countries on all types of taxes. First, most workers are employed in agriculture or in small and informal enterprises. Second, it is difficult to create an efficient tax administration without a well-educated and well-trained workforce and operations are rarely computerised. Third, due to the informal structure of the economy, coupled with poor bookkeeping and low-level computerisation, it is hard for taxpayers to meet reporting tax obligations. Bird,¹⁰ further argued that developing countries face formidable challenges when they attempt to establish efficient tax systems for direct and indirect taxes. Emran and Stiglitz,¹¹ argued that by simply relying on GST revenue is not a good strategy due to the presence of a large informal sector. Bernardi, Fumagalli and Gandullia,¹²

⁹ Tanzi, V, & Howell, Z 2001, 'Tax policy for developing countries'. International Monetary Fund. Retrieved July 13, 2014, From <http://www.imf.org/external/pubs/ft/issues/issues27>.

¹⁰ Bird, R.M 2005, 'Value added taxes in developing and transitional countries: Lessons and Questions'. Paper presented at the First Global International Tax Dialogue Conference on GST. Rome, Italy.

¹¹ Emran, S, & Stiglitz, J.E 2005, 'On selective indirect tax reform in developing countries'. *Journal of Public Economics* 89, 599-623.

¹² Bernardi, L, Fumagalli, L, & Gandullia, L 2005, 'Tax systems and tax reforms in South and East Asia: Overview of the tax systems And main policy tax issues' MPRA Paper No. 01869 (pp. 3-34). Retrieved June 29, 2014, from http://mpra.ub.uni-muenchen.de/1869/1/MPRA_paper_1869.pdf

argued that the adoption of the GST is often seen as an opportunity in developing countries to modernise tax administration. However, many developing countries found the GST to be more difficult to administer than other taxes due to problems with administration and enforcement, compliance burden which together, often undermine the effectiveness of the GST.

Singapore's GST experience

GST was introduced in Singapore on 1st April 1994 with a registration threshold to S\$1 million to reduce the compliance burden. Currently, the GST rate is 7% on all local sales of goods and services. Jenkins and Khadka¹³ stated that Singapore was one of the countries without experience with this general type of consumption tax before the introduction of the GST, yet the implementation and the ongoing operation of the GST in Singapore has been smooth and successful. Casanegra de Jantscher¹⁴ stated that an important requirement for successful VAT administration is to structure the tax effectively to minimise problems of implementation.

To gain the confidence of registered taxpayers and to minimise problems at the implementation stage, there was strong political commitment and cooperation from all ministries to implement the tax. This was initially met with mixed feelings, because the public was not sure how the GST worked. In response, the authorities set in motion massive awareness programs through the media, information sessions, dialogue sessions, GST seminars and education programs. Several brochures and pamphlets on the GST were prepared and distributed widely, hence minimising doubts and fears from concerned groups. Due to their commitment and confidence in getting the message through, businesses in Singapore were in a better position and confident to comply with the GST law, and consumers did not resist the implementation of this tax.

¹³ Jenkins, G, & Khadka, R1998, 'Value added tax policy and implementation in Singapore'. VAT Monitor, 9(2), 35-47.

¹⁴ Casanegra de Jantscher, M 1986. *Problems of administering a value-added tax in developing countries*". International Monetary Fund. Retrieved June 29, 2014, from <https://www.imf.org/external/pubs/cat/longres.cfm?sk>

Pakistan's GST experience

Pakistan introduced the GST in 1996. It seems Pakistan succeeded in the initial years of the GST implementation but later had some problems with the GST itself. Shahid,¹⁵ notes that the extension of the base to wholesalers and retailers led to a significant improvement in GST collection from 1996 to 2000. However, when the GST was first introduced, there were multiple registration thresholds and multiple tax rates, hence created confusion among taxpayers.

Consequently, a single registration threshold and a single GST rate were eventually introduced. Another area of great concern was that only 50% of registered businesses filed the monthly GST returns due to the adversarial relationship between taxpayers and the tax administration. Despite some initial problems, Pakistan expects to have in place a fully modernised and automated GST system and aims to become the first major country in South Asia to have implemented the GST successfully.

Bangladesh's GST experience

Bangladesh introduced a VAT in 1991 its performance of VAT was quite satisfactory in the beginning, but subsequently, the GST collection stagnated (Smith, Islam, and Moniruzzaman)¹⁶. The reasons for stagnation were due to the participation of a small number of registered taxpayers, a lack of VAT awareness programs and a weak compliance monitoring system. The authors concluded that there was still scope for improving the revenue collection from VAT: by increasing the number of VAT taxpayers; reforming the VAT administration; creating intensive awareness among the people; revisiting the list of VAT-exempt items; and increasing the efficiency of the monitoring system.

¹⁵ Shahid, a 2003. 'Implementation of VAT: Pakistan's experience'. Government of Pakistan: Central Board of Revenue, Islamabad, Pakistan. Retrieved July 9, 2014, from <http://www.itdweb.org/vatconference/documents/ImplementationofVATPakistanExperience.doc>

¹⁶ Smith, MC, Islam, A & Moniruzzaman, M 2011. 'Consumption taxes in developing countries'. *The case of Bangladesh*

2.2 The GST implementation experience in developed countries

Australia's GST experience

Developed countries have difficulties in selling the GST message, despite extensive consultation with business taxpayers and business organisations. For example, in Australia, there was strong opposition from the public and business taxpayers about the introduction of the GST. After two attempts, the GST was eventually implemented at the 3rd attempt at a rate of 10% in 2000. In November 1999 (a year earlier), a survey was undertaken by Yellow Pages in Australia to seek business taxpayers' responses to the proposed GST. Evans,¹⁷ summarised the findings in a report. The report indicated that the key concerns expressed by taxpayers were that the GST burden of compliance would be high and interfering with time available for their business and family. 70% businesses worried about complexity, 60% do not know how GST will affect them 74% perceived compliance burden will be increased and 50 % of the businesses stated difficulty to find adequate information on GST. Though there were initial implementation issues, Pope and Rametse¹⁸ confirmed that the GST was smoothly introduced into Australia, with small business appearing to cope reasonably well on the whole. This was confirmed by Tran-Nam and Glover¹⁹ that despite the high GST implementation cost, careful planning by the Australian Taxation Office (ATO) and other government bodies ensured that the GST was implemented successfully. Tran-Nam²⁰ stated that the implementation of the GST in Australia could be considered a success, despite some early teething problems

New Zealand's GST experience

¹⁷ Evans, D 1999. 'Concern over compliance, few see benefits'. *Taxation in Australia*, 34(1), 10-12.

¹⁸ Pope, J. and Rametse N. (2001), Small Business and the Goods and Services Tax: Compliance Cost Issues, *Small Enterprise Research* (The Journal of SEAAANZ), 9 (2), 42-54.

¹⁹Tran-Nam, B & Glover, J 2002. 'Tax reform in Australia: Impacts of tax compliance costs on small businesses. *Journal of Australian Taxation*, 5(3), 346.

New Zealand introduced GST in 1986, the GST rate was 12.5% and it increased to 15% in 2010. It was levied on a broad base at a low single standard rate, with few exemptions. Evans²¹ reported that the New Zealand GST has proven to be 'efficient and relatively problem-free' due to proper planning, good organisation, education and the high level of cooperation the New Zealand Inland revenue (NZIR) was able to elicit from businesses. Kraal and Kasipillai²² citing Rendal²³ concluded that GST was a non-event in New Zealand in 1986 since the Government had generously invested in GST education. James and Alley,²⁴ stated that despite initial problems, New Zealand's GST experiences showed relatively few issues because the legislation was policy driven and the emphasis was based on a consultative approach which was aimed at improving the quality of the product (GST) being introduced. Further Douglas²⁵ concluded that the GST success can be traced to five key process elements: political will, right people, the way in which the proposal was packaged, an effective consultative process, and an effective communication process. Thus, it seems the New Zealand government "got it right" the first time.

Overall GST implementation issues

GST/VAT has spread quickly across the world, the number of countries using GST/VAT rose from 10 in 1965 to 140 in 2006 and increased to 160 in 2011. Developed countries that implemented VAT/GST were pioneers had the opportunity to learn from other developed countries whereas developing countries had difficulty to learn from other countries since the local conditions were not comparable to other countries. However, it seems the GST implementation challenges faced by developed and developing countries are nearly the same, subject to the different stages of

²⁰ Tran-Nam, B 2008. 'Recent tax reform in Australia: An examination from a tax policy perspective'. Paper prepared for the Korea And the World Economy VII Conference, held at the Korean Institute of Public Finance. Seoul, South Korea.

²¹ See No.16

²² Kraal, D & Kasipillai, J 2015, 'finally, a goods and service tax for Malaysia: a comparison to Australia's GST experience'. *Australian Tax Forum* 31(2) 2016. Viewed on 26 Sept 2016, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2804416

²³ C Rendall, "Nothing to fear from GST: small business should find the transition to a GST relatively easy" (1999) 70(3) *Charter* 64.

²⁴ James, S., & Alley, R. (2007). Successful tax reform: The experience of value added tax in the United Kingdom and Goods and Service Tax in New Zealand. *Journal of Finance and Management in public services*. 8(1).

²⁵ Douglas, R 2007. 'The New Zealand GST policy choice and its political implications'. In R. Krever, & D. White (Eds.) *GST in Retrospect and Prospect* (pp. 45-63). Wellington: Thomson Brookers.

development in these countries. Cottarelli²⁶ argued that developing countries faced additional challenges due to ‘hard to tax areas’ because of their agricultural economies and large informal sectors, where tax gaps have been put at, for example, 50% to 60% of GDP in Indonesia and Mozambique. In addition to weak revenue administrations, low taxpayer morale, poor governance, corruption and fraud are common in developing countries. This makes it more difficult to implement the GST in developing compared to developed countries. Also, it seems the success of VAT/GST in most developed countries stems from the fact that there was more detail in pre-planning, more government involvement, and better research carried out before GST was introduced. Whereas developing countries used a “copy mentality” none of them seem to have carried out any rigorous analytical framework for the introduction of VAT/GST. However as regards implementation, it seems even developed countries like Australia with all the preparations had difficulties to implement this broad based consumption tax. It had to make three attempts since 1981 to introduce the GST due to lack of internal party backing and broader electoral support. Additionally, the Australian and New Zealand experience suggests that GST education, planning and organisation resulted in a successful GST implementation. In the same light the Malaysian government has set up a RM 100 million training grant in 2014 to increase the tax knowledge of businesses by encouraging employees to participate in GST training courses. Thus it seems up until now, the GST education had been one of major factors for the success of GST introduction in Malaysia.

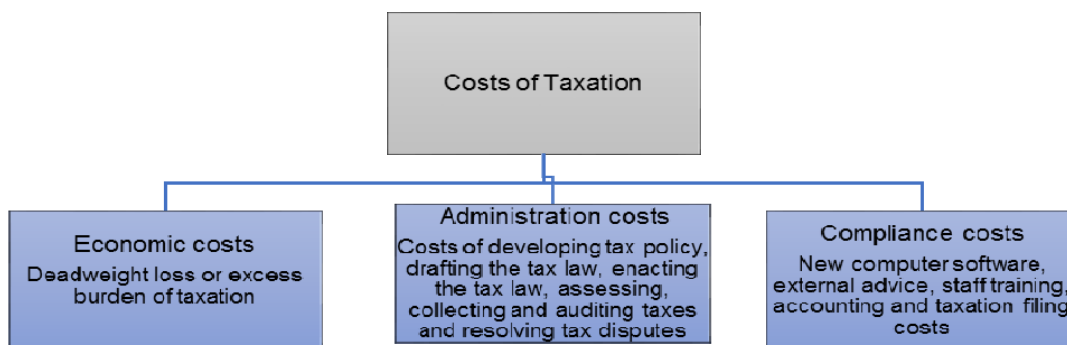
2.3 Conceptual issues pertaining to Costs of Taxation

When a new tax is introduced, it creates and adds new costs for the economy, the government and taxpayers. These costs are referred to as ‘costs of taxation’ and these costs have been largely hidden in the past and not been recognized for a long time by governments until the introduction of self-assessment of direct and indirect taxes. These costs were identified only over the past two

²⁶ Cottarelli, C 2010. ‘*From the stimulus to consolidation: revenues and expenditure policies in advanced and emerging Economies*’, International Monetary Fund. Retrieved July 13, 2014, from <https://www.imf.org/external/np/pp/eng/2010/043010a.pdf>

decades since governments all over the world have come to recognize its impact on the economy. There is currently a deluge of research papers on taxation costs, hence a suitable definition on what constitutes costs of taxation needs to be established. For the sake of simplicity, a clear definition provided by Evans²⁷ was based on other tax compliance costs studies would be adopted in this study see Figure 1 below.

Figure 1 Costs of Taxation



Source: Evans. C. (2008)

Evans suggested that the costs of taxation typically consist of three elements. First, there are economic or efficiency costs (variously referred to as deadweight losses or excess burden that arises from tax-induced market distortions). Second, there are the costs in administering and collecting the taxes (usually referred to as ‘administration costs’) that fall on the tax revenue agency. Finally, there are costs expended by taxpayers in complying with their obligations (‘paying their taxes’). These are referred to as ‘compliance costs’.

Economic costs

²⁷ Evans, C. 2008. ‘Taxation Compliance and Administrative Costs: An Overview’. In M. Lang, C. Obermair, J. Struch, C. Staringer & Weninger (Eds.). Tax Compliance Costs for Companies in an Enlarged European Community (pp. 447-470). The Netherlands: Kluwer Law International.

Economic costs or efficiency costs refer to costs arising from distortions²⁸ in the allocation of resources owing to the imposition of a tax. In economics, a deadweight loss²⁹ (also known as excess burden or allocative inefficiency) is a loss of economic efficiency that can occur when equilibrium for a good or service is not achieved or is not achievable. Taxes can affect the way the economy operates and can lead to less production of goods due to the taxes imposed. The extent to which a tax reduces production of goods is called the excess burden of taxation or deadweight loss to the economy.

Administration costs

A GST, like any tax system, needs government resources for its administration. Sandford, Godwin and Hardwick(1989)³⁰ defined public sector costs of taxation as conceptually constituting those costs that would not have been incurred by the public sector if the tax had never been introduced. If there is no taxation, there are no administration costs. Tran-Nam (2000)³¹ argued that tax administration can be divided into four types of government activities: the design and planning of tax policy; the drafting and enacting of tax law; assessing, collecting and auditing taxes; and resolving tax disputes.

Rametse and Pope³² presented the administration costs of the Australian GST as those incurred in the education campaign by the Australian Taxation Office (ATO), industry seminars, compensation package for SMEs, wages of staff, etc. which all must either be directly or indirectly related to the

²⁸ Distortions generally arise when private action (such as price fixing by a cartel) or public action (such as a tax imposed by the government) changes an individual's or firm's behavior.

²⁹ Deadweight loss is a concept used in economics that describes the loss to society as a result of market inefficiencies.

³⁰ Sandford, C., Godwin, M & Hardwick, P 1989. '*Administrative and compliance costs of taxation*'. Bath, U.K.: Fiscal Publications.

³¹ Tran-Nam, B, Evans, C, Walpole, M, & Ritchie, K 2000. 'Tax compliance costs: Research methodology and empirical Evidence from Australia'. *National Tax Journal*, 53, 229-252.

³² Rametse, N. and Pope, J. (2002), 'Start-up Tax Compliance Costs of the GST: Empirical Evidence from Western Australian Small Businesses', *Australian Tax Forum*, 17(4), 407-442

introduction of the GST. One of the main problems in quantifying administration costs is the valuation and allocation of shared administration costs.

Barbone et al,³³ estimated that average tax administration costs in the EU were 0.29% of GDP per annum, ranging from a minimum of 0.12% for Estonia to 1.3% for Cyprus. For the VAT in EU countries, the administration costs were between 0.5% and 1% of VAT revenue collected. For the UK, the cost of administering VAT was 0.7% of VAT revenues.

Compliance costs

When new taxes such as the GST are introduced it adds an extra compliance burden on to taxpayers, which can be measured and quantified and referred as compliance costs. Sandford et al,³⁴ defined compliance costs as those costs incurred by taxpayers, or third such as businesses, in meeting the requirements upon in complying with a given tax structure. The example of these costs typically include the value of the time losses by taxpayers, internal staff and unpaid helpers in dealing with business tax affairs, the costs of external tax advisers, any non-labour costs such as specific travel relating to tax compliance activity, the cost of tax publications, stationery, postage, telephone and facsimile, the use of office and equipment such as computers for tax purposes and any non-labour costs such as specific travel relating to tax compliance activity, the costs of tax publications, stationery, postage, telephone.

Sandford et al,³⁵ also included psychological costs in the definition of tax compliance costs. These costs refer to stress, anxiety and frustration experienced by taxpayers in dealing with tax affairs. These costs are hard to quantify and the measurement of these costs have not been figured in

³³ Barbone, L, Bird, RM, & Caro, JV 2012. '*The costs of GST: A review of the literature*. Case network report. No. 0106/2012', Centre for Social and Economic Research 40. Warsaw, Poland. Retrieved July 9, 2014, <http://icepp.gsu.edu/sites/default/files/documents/icepp/wp/ispwp1222.pdf>

³⁴ See No.26

³⁵ See No 26

empirical studies. These costs are mainly relevant during the transitional stages of introduction of new taxes but a less compliance costs (Glover and Tran-Nam)³⁶. Rametse and Pope³⁷ Point out that economics such as Adam Smith and Irving Fisher fully recognised the role of psychic costs, particularly Fisher who incorporated psychic costs in defining income.

Woellner et al,³⁸ attempted to develop a research method to measure psychic costs, however, it seems up until now, and there is no clear measurement of psychological costs from a compliance costs perspective. Since this study is based on pre-GST period some attempt has been made in the study to assess psychological costs qualitatively.

Smith³⁹ based on his famous quote about taxation, stated that ‘every tax ought to be contrived so as to take out of the pockets of the people as little as possible, over and above that which it brings into the public treasury of the state’. This means that tax authorities should attempt to keep compliance costs to a minimum when collecting taxes from taxpayers.

Tran-Nam et al,⁴⁰ argued that compliance costs have long been treated as ‘hidden costs of taxation’ by most governments in developing countries since when tax policies are formulated the emphasis is more on tax collection rather than on compliance costs. Franzoni⁴¹ concluded that companies develop a kind of resentment against authorities who impose high levies and complex systems. Evans,⁴² claimed that there will always be a debate on what should be included in the definition of compliance costs. He added that there was no neat and formal model for tax compliance costs, and that it takes painstaking research to properly estimate compliance costs. Evans⁴³ argued that it was

³⁶ Glover, J. & Tran-Nam 2005. ‘The GST recurrent compliance costs/benefits of small business in Australia: A case study Approach’, *Journal of Australasian Tax Teachers Association*, 1(2), 237-258.

³⁷ See No 32

³⁸ Woellner, R. et al (1998), ‘Impact of TLIP on Compliance Costs: Progress report on an empirical study’, Paper presented at the 3rd International Conference on Tax Administration, Sydney, April

³⁹ Smith, A. 1993. *Wealth of nations. An inquiry into the nature and causes of wealth of nations*. USA: Readaclassic.com

⁴⁰ Tran-Nam, B, Evans, C, Walpole, M, & Ritchie, K. 2000. Tax compliance costs: Research methodology and empirical evidence From Australia. *National Tax Journal*, 53, 229-252.

⁴¹ Franzoni, L. 1998. Tax compliance. *Encyclopaedia of Law and Economics*, 1999 - spazioweb.inwind.it.

⁴² Evans, C. 2008. *Taxation Compliance and Administrative Costs: An Overview*. In M. Lang, C. Obermair, J. Struch, C. Staringer & P Weninger (Eds.). Tax Compliance.

⁴³ Evans, C. 2012. *Regulation Overload: How the Smallest Businesses are hardest hit*. Retrieved July 13, 2014, from Australian School of Business. <https://www.businessthink.unsw.edu.au>

the government's responsibility to make tax compliance easier for businesses.

Gross compliance costs versus net compliance costs

Glover and Tran-Nam,⁴⁴ stated that Sandford et al⁴⁵ distinguished between gross compliance costs and net compliance costs. Though compliance burden imposes extra costs on taxpayers there are some benefits that flow through to the taxpayers. Thus the definition of gross compliance costs is reduced by these benefits resulting in a net compliance costs. Thus the net compliance costs take into account, through a subtraction from gross compliance costs, offsets like cash flow benefits, managerial benefits and tax deductibility benefits associated with the need to comply with the new tax regime. In light of this, in recent years, the following formula has been widely used to ascertain the net compliance costs of VAT/GST.

$$\text{Net compliance costs} = \text{Gross tax compliance costs} \text{ minus (cash flow benefits plus managerial benefits plus tax deductibility benefits)}$$

Cash flow benefits exist due to the time lag between the time GST is collected from customers and the time it is paid over to revenue authorities. Thus business taxpayer enjoys this cash flow benefit in the short-term.

Tran-Nam, et al ⁴⁶ argued that some cash flow benefits derived by business taxpayers can be viewed as cash flow losses to the tax authorities (public revenue), and therefore the cash flow benefit to business taxpayers represents a transfer within the economy, which reduces compliance costs to taxpayers but not to the economy as a whole. This cash-flow benefit may quickly turn to be negative if revenue authorities are late in making tax refunds to taxpayers or if the businesses

⁴⁴ Glover, J. & Tran-Nam 2005. The GST recurrent compliance costs/benefits of small business in Australia: A case study Approach, *Journal of Australasian Tax Teachers Association*, 1(2), 237-258.

⁴⁵ See No 26.

⁴⁶ Tran-Nam, B, Evans, C, Walpole, M, & Ritchie, K. 2000. 'Tax compliance costs: Research methodology and empirical evidence From Australia'. *National Tax Journal*, 53, 229-252.

extend the credit terms for a longer period beyond the GST payment dates.

Managerial benefits refer to the potential for better and more informed business decision making that may come about because of complying with the GST legislative requirements, particularly arising as a result of better record keeping for GST purposes. These benefits can be maximised when record keeping for substantiation is of a high quality. Managerial benefits exist but are difficult to quantify especially for small and medium sized business when accounting and record keeping methods are poor. Sandford, Godwin, Hardwick & Butterworth⁴⁷ indicated that the value of managerial benefits can be quite considerable. Accordingly, as Tran-Nam and Glover⁴⁸ pointed out, these benefits are normally omitted in empirical compliance cost studies. However, Lignier⁴⁹ through his research on managerial benefits, uncovered that some business taxpayers were deriving managerial benefits in the form of improved knowledge of financial affairs and that the main source of this benefit was improved use of computer accounting.

Tran-Nam and Glover⁵⁰ highlighted a distinction between social compliance costs (costs to the economy) and taxpayer compliance costs (directly borne by taxpayers). They argued that tax deductibility benefits (business compliance cost activities are tax deductible) arise since business compliance costs are a transfers from the government sector to taxpayers with zero net effect, while managerial benefits are genuine benefits to the business taxpayer with no cost to the government sector.

What do worldwide compliance studies tell us?

Evans⁵¹ pointed out that compliance costs are regressive on SMEs, are high and significant, and not decreasing over time. Thus, compliance costs impact heavily on the smallest business. There is also evidence that VAT/GST is responsible for higher compliance costs than other taxes.

⁴⁷ Sandford, C, Godwin, M, Hardwick, P & Butterworth, M. 1981. ' *Costs and benefits of GST*'. London, U.K.: Heinemann.

⁴⁸ Glover, J. & Tran-Nam 2005. 'The GST recurrent compliance costs/benefits of small business in Australia: A case study Approach', *Journal of Australasian Tax Teachers Association*, 1(2), 237-258.

⁴⁹ Lignier, P. 2008. ' *The Managerial benefits of tax compliance: An empirical study of small businesses in regional Australia*'. Paper presented at the 8th International Tax Administration Conference, ATAX, University of New South Wales, Sydney.

⁵⁰ Tran-Nam, B., & Glover, J. 2002. Estimating the transitional compliance costs of the GST in Australia: A case study Approach. *Australian Tax Forum*, 17(4), 499-536.

⁵¹ Evans, C. 2008. ' *Taxation Compliance and Administrative Costs: An Overview*'. In M. Lang, C. Obermair, J. Struch, C. Staringer & P Weninger (Eds.). *Tax Compliance Costs for Companies in an Enlarged European Community* (pp. 447-470). The Netherlands: Kluwer Law International.

According to Fernandez and Oats,⁵² research in the UK showed that compliance costs as a percentage of turnover for small businesses were 1.94%, whereas they were only 0.004% for large businesses.

According to Evans⁵³ the compliance costs of taxes (personal income tax, corporation tax, VAT/GST) are between 2% and 10% of the tax revenue collected, and up to 2.5% of GDP. Sandford et al⁵⁴ estimated VAT compliance costs of between 3.7% and 9% of VAT collections in the UK. The Tran-Nam et al,⁵⁵ study of personal taxpayer compliance costs found that compliance costs have grown over the period of 17 years measured in absolute terms or relative to tax revenue or Gross Domestic Product (GDP). The average real personal taxpayer compliance costs (whether gross or net) rose by about 73 per cent in the period from 1995 to 2012 for all federal and state/territory government taxes.

GST compliance cost studies

Most of the GST compliance cost studies were carried out in developed countries and there is a dearth of literature within the context of developing countries. Cedric Sandford⁵⁶, the 'father' of modern compliance costs, did conduct detailed work on the compliance costs of VAT/GST but stated comparing compliance costs between countries can be more misleading than informative due to different tax cultures between different countries. Pope,⁵⁷ showed that, based on research done by other academics internationally, nearly all studies showed that recurrent compliance costs are

⁵² Fernandez, P & Oats, L. 1998. 'The small business under a goods and services tax regime, in C Evans & a Greenbaum (Eds.)' *Tax administration: facing the challenges of the future*. Sydney, Australia: Prospect Media

⁵³ Evans, C. 2008. 'Taxation Compliance and Administrative Costs: An Overview'. In M. Lang, C. Obermair, J. Struch, C. Staringer & P Weninger (Eds.). *Tax Compliance Costs for Companies in an Enlarged European Community* (pp. 447-470).

⁵⁴ See note 26.

⁵⁵ Tran-Nam, B, Evans, C & Lignier, P. 2014. 'Personal taxpayer compliance costs: Recent evidence from Australia'. *Australian Tax Forum*, 29: 17-171.

⁵⁶ Sandford, C. T., Godwin, M. & Hardwick, P. 1989. *Administrative and compliance costs of taxation*, Fiscal publ. Bath.

⁵⁷ Pope, J. 2008. 'Favorable small business taxation: To what extent is it justified from tax policy perspective?' *Journal of Applied Law and Policy*, 29.

very regressive on smaller businesses.

Hasseldine et al,⁵⁸ summarised their findings from a tax compliance research study of small businesses in Australia, Canada, South Africa and the UK. This study was based on the various compliance costs for a combination of different taxes. It found it is more expensive to comply with GST when compared to income taxes and other taxes, in every country studied, except for Canada.

Cnossen⁵⁹ comprehensively reviewed GST compliance costs in the UK, New Zealand and Canada by taking data from original studies of these countries and converting them into USD for six annual turnover categories. For businesses with less than USD 50,000 of turnover in the UK, the compliance cost is 1.49% of turnover, but as turnover increases to USD 10 million, the cost decreases to 0.07% of turnover. As the size of businesses decrease, compliance costs increase as a percentage of turnover, making VAT regressive in terms of compliance costs.

GST compliance cost studies in Malaysia

After the Asian financial crisis, Malaysia had to find a way to build up government revenue quickly. Bernardi et al,⁶⁰ stated that in order to achieve this goal of strengthening revenue collections, governments embark on a rationalisation of their administrative procedures and an improvement of tax administration. In the process, the government withdrew its focus on the

⁵⁸ Hasseldine, J, Evans, C, Hansford, a, Lignier, P, Smulders, S, & Vaillancourt, F 2012. 'A comparative analysis of tax compliance costs and the role of special concessions and regimes for small business in Australia, Canada, South Africa and the United Kingdom'. Paper presented at the National Tax Conference. Providence, Rhode Island, USA.

⁵⁹ Cnossen, S. (1994). Administrative and compliance costs of the VAT: A review of the evidence. *Tax Notes International*, 8, 1649-1668.

⁶⁰ Bernardi, L., Fumagalli, L., & Gandullia, L. (2005). *Tax systems and tax reforms in South and East Asia: Overview of The tax systems and main policy tax issues*. MPRA Paper No. 01869 (pp. 3-34). Retrieved June 29, 2014, from http://mpra.ub.uni-muenchen.de/1869/1/MPRA_paper_1869.pdf

compliance burden of taxpayers with the result that compliance costs to business taxpayers increased. Abdul and Pope⁶¹ argued that the potential importance of compliance costs in influencing compliance behaviour has not been recognised in the Malaysian tax literature. Despite growing problems of tax non-compliance and evasion in Malaysia, very few studies have been carried out to discover the extent and determinants of the non-compliance and evasion problem. In the context of a GST in Malaysia the aim of this study is to make a contribution to GST literature about the potential issues faced by business taxpayers for the implementation of GST in Malaysia. Moreover, there is a dearth of the literature on compliance costs in Malaysia due to the newness of this tax.

3.0 RESEARCH METHODOLOGY

Sandford et al,⁶² conducted various studies into compliance costs of VAT in the UK using extensive mail surveys. Sandford and Hasseldine⁶³ also investigated the compliance costs of New Zealand's GST using a mail survey. Postal surveys feature most prominently in taxation studies, with two-thirds of studies using this method wholly or partly. For this study a quantitative method was adopted to elicit data determining the different legal forms, sizes, industry sector and years the businesses were established, to analyse and generalise about the issues and to determine the relationship between business perceptions and business characteristics. The research questions were made simple to encompass a broad range of topics on GST matters. Some were selected from "Report into incremental costs of incremental costs of taxpayer compliance" (Evans et al,⁶⁴). For this study, a focused survey of business taxpayers was undertaken using a structured questionnaire with 36 questions. Questionnaires were distributed to 1,500 business taxpayers to a sample of various business enterprises throughout Malaysia and 426 responses were received.

⁶¹ Abdul, J.H., & Pope, J. (2008). Exploring the relationship between tax compliance issues in Malaysia. *Journal of Applied Law and Policy*, 1(1).

⁶² See note 26.

⁶³ Sandford, C.T., & Hasseldine, J. (1992). *The compliance costs of business taxes in New Zealand*. Wellington, New Zealand:

This survey was administered mainly through a face-to-face approach at GST seminars to participants from three major business organisations, and to a lesser degree through postal/email surveys. This method was adopted because previous Malaysian survey experiences have shown that it was difficult to get responses through postal/email surveys. Mohdali⁶⁵ stated for most tax surveys in Malaysia the response rate is normally poor at around 14% to 22%. There is a fear factor and suspicion that data provided by respondents may be forwarded to revenue authorities.

Survey sample selection, design and piloting

The design of the survey instrument comprised three sequential steps involving data selection, questionnaire design and the piloting of the survey questionnaire.

Data selection

The survey participants were selected by a direct face-to-face approach via three main business organisations whose members participated in GST seminars. The business organisations agreed to circulate the questionnaires to their members at these seminars. The GST academics who participated in various seminars in Malaysia agreed to distribute and collect the questionnaires after completion of the seminars from the participants. This procedure was chosen since it was the most cost-effective solution for reaching a large wide section of business taxpayers, who are spread out in various parts of Malaysia.

Questionnaire design

The survey questionnaires were designed to be user friendly, simple and comprehensive. Mohd-Sani⁶⁶ stated that it is well known that the government controls the press in Malaysia. Media

The Institute of Policy Studies.

⁶⁴ Evans, C., Ritchie, K., Tran-Nam, B., Walpole, M. 1996. 'A report into incremental costs of tax compliance'.

A report prepared for the Revenue Analysis Branch of the Australian Taxation Office 21 November 1996.

⁶⁵ Mohdali, R. 2010. The effects of religiosity and taxpayer's perception towards government on voluntary compliance. Paper presented at School of Economics and Finance, Curtin University. Retrieved July 9, 2014, from https://sydney.edu.au/law/parsons/ATTA/docs_pdfs/conference_papers/Mohdali.

⁶⁶ Mohd-Sani, M.A. 2005. 'Media freedom in Malaysia'. *Journal of Contemporary Asia*, 35(3), 341-367.

freedom and the right to express opinions is limited, and public debates on government decisions and policy matters are nearly non-existent.

Thus, public debates about the GST are very limited. To make the survey more meaningful and realistic, most of the material for the questionnaire was fine-tuned to take into account various reactions to newspapers articles which are an important channel of communication in Malaysia.

Measurement/Instruments

The proposed questionnaire was developed and pilot tested on six participants comprising one practising accountant, two compliance costs academics and three revenue officials in Malaysia. The purpose of the pilot study was to solicit comment and suggestion on the survey instrument and to ascertain its reliability and validity. After their comments, the researcher made suggested corrections. The final questionnaire was sub-divided into six identifiable sections, Sections A to F as shown on Table 1 below:

Table 1 – Summary of the questionnaire components

Section A: Demographic and background information - Questions about the legal structure, location, primary activity, turnover, and age of the business, as well as its number of employees.
Section B: Registration for GST above and below the GST threshold, GST and tax accounting, submission of returns, getting ready for the GST, set-up costs, transitional issues, degree of readiness, grace period for implementation.
Section C: The fundamentals of GST, GST rates, threshold, the benefits of GST to the economy, the impact on the poor and the burden of compliance.
Section D: The psychological costs of GST, including stressful aspects of the GST.
Section E: The administration of GST by revenue authorities, improvements, government assistance, and the attitude of the RMCD in assisting business taxpayers.
Section F: General comments as well as questions about managerial benefits and cash flow benefits and business taxpayers' suggestions on how to reduce the compliance burden.

Procedure

Fowler⁶⁷ stated that a random sample of 150 would describe a population of 15,000 or 15 million with the same degree of accuracy. Assuming a plausible response rate of 20%, a survey sample of 1,500 was selected in order to generate an effective sample size of at least 300 respondents. In this study the effective sample was 426 generating a response rate of 28% is a good rate for statistical sampling. A further test using the Raosoft⁶⁸ sample size selector for a population of 662,939 of Malaysian businesses only a sample size of 384 would be a reasonable minimum assuming a response distribution of 50%, at a 95% level of confidence with a 5% margin of error. The sample size of 426 in this study more than meets the requirement.

Table 2 Distribution and collection of survey forms

Associated Chinese Chamber of Commerce and Industry of Malaysia	300
Kuala Lumpur Malay Chamber of Commerce	300
Malaysian Associated Indian Chamber of Commerce and Industry	200
Kuala Lumpur Indian Chamber of Commerce	100
GST seminar lecturers	600
Total	1,500
Responses received	426
Response rate	28%

Based on Table 1 it seems the distribution of the survey forms via the three major business organisations are well represented. The effective sample of 426 generating a response rate of 28% is a good rate for statistical sampling. Mohdali⁶⁹ found that, based on tax research carried out in Malaysia by Abdul and Pope⁷⁰ and Hanefah, Ariff, and Kasipillai⁷¹, the response rate to surveys of

⁶⁷ For practicalities in survey research, it is suggested by Fowler (1993) that a random sample of 150 would describe a population of 15,000 or 15 million with the same degree of accuracy; hence, 290 people will describe the Malaysian population of 29 million. However, when deciding on the sample size, the researcher takes into account non-responses. Of the 1,500 distributed questionnaires, 426 completed responses were received, thereby giving a response rate of 28%. The sample obtained seems to be a fairly representative sample of the population.

⁶⁸ Retrieved on 12 July 2015: <http://www.raosoft.com/samplesize.html>.

⁶⁹ Mohdali, R. 2010. 'The effects of religiosity and taxpayer's perception towards government on voluntary compliance'. Paper presented at School of Economics and Finance, Curtin University. Retrieved July 9, 2014, from https://sydney.edu.au/law/parsons/ATTA/docs_pdfs/conference_papers/Mohdali.

⁷⁰ Abdul, JH, & Pope, J 2008. Exploring the relationship between tax compliance issues in Malaysia. *Journal of Applied Law and Policy*, 1(1).

⁷¹ Hanefah M., Ariff, M. & Kasipillai, J. 2002. Compliance costs of small and medium enterprises. *J. Austl. Taxation*, 4, 73.

this nature in Malaysia tend to be fairly low, usually between 14% and 22%. Abdul and Pope⁷² stated in Malaysia that business surveys targeting SMEs or large firms often yield a poor response rate of between 10% and 20%. Thus the response rate of 28% for this study is considered satisfactory because of the data collection method that was employed. It also compares favourably to other surveys conducted in Malaysia.

Statistical Procedure

The results were derived by using the Statistical Package for Social Sciences (SPSS). Descriptive statements, cross-tabulations and correlations were performed.

Representativeness of observed samples

As Miles and Huberman⁷³ argued, the ability to draw statistical inferences from samples to reference populations is largely dependent on how well the attributes of observed samples represent the attributes of the population.

In order to establish if the survey sample is representative of the population, three attributes, namely, turnover, business sector and the businesses' location by region were included in the survey questionnaire.

It was found that the observed samples seem to show a good representativeness of the attributes of the population surveyed.

A quick examination of the survey data indicates that the samples for this study included 55% of respondents with a turnover above the RM 500,000 compulsory registration turnover threshold, and the rest (45%) were below the compulsory registration turnover threshold. This indicates a good representation of business taxpayers who would compulsorily and optionally register for the GST.

⁷² Abdul, JH, & Pope, J 2008. Exploring the relationship between tax compliance issues in Malaysia. *Journal of Applied Law and Policy*, 1(1).

⁷³ Miles, M, & Huberman, AM 1984. Qualitative data analysis: A sourcebook of new methods. *Qualitative Research Journal*, 56(2), 2.

Regarding the length of operation of business, only 14% represented new businesses operating between 0-3 years, and established businesses operating for more than 3 years accounted for 86%. Thus a good percentage of established businesses have been included in the survey.

Profile and representativeness of respondents

The survey responses are summarised in Table 3 below.

Table 3 above shows the respondents by legal form of business. The largest category of the legal form was private companies, which accounted for 177 (42%) of respondents, followed by sole traders at 133 (31%), partnerships at 63 (15%), and publicly listed companies at 53 (12%). This signifies a good representation and a mix of the various legal forms of businesses.

Table 3 Respondents by legal form

Legal form	Number	Percentage
Sole trader	133	31
Partnership	63	15
Company – private	177	42
Company – public	53	12
Total	426	100

Source: Question 1: Survey questionnaire

In the USA, Slemrod and Blumenthal,⁷⁴ concluded that compliance costs differ between various industry sectors. Table 4 provides two classifications of respondents, by legal form and industry sector. The samples were grouped into 15 industry categories, based on the Malaysian Statistics Department’s Standard Industrial Classification 2008.⁷⁵

Table 4 Respondents by legal form and industry sector

Legal form	Sole trader	Partnership	Private Co	Public Co	Total

⁷⁴ Slemrod, C., & Blumenthal, J 1992. *The income tax compliance cost of big business*. Working Paper Series 93(11). University of Michigan Business School, Michigan, USA.

⁷⁵ Statistics Department Malaysia https://www.dosm.gov.my/v1/uploads/files/4_Portal/MSIC_2008.pdf

Industry sector	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture, fishery, gardening	7	5	1	2	3	2	1	2	12	3
Construction and contractors	8	6	9	14	23	13	4	8	44	10
Finance and business services	19	14	6	10	16	9	9	17	50	12
Hotel and restaurants	13	10	6	10	10	6	2	4	31	7
Imports and exports	3	2	1	2	2	1	3	6	9	2
Information technology	7	5	2	3	8	5	3	6	20	5
Logistics	0	0	1	2	3	2	9	17	13	3
Manufacturing	6	5	3	5	43	24	7	13	59	14
Mining	0	0	0	0	1	1	0	0	1	0
Professionals	27	20	12	19	27	15	2	4	68	16
Property development	2	2	1	2	1	1	0	0	4	1
Plantations	0	0	0	0	1	1	1	2	2	0
Travel and entertainment	6	5	1	2	6	3	1	2	14	3
Wholesale and trading	27	20	14	22	12	7	2	4	55	13
Others	8	6	6	10	21	12	9	17	44	10
Total	133	100	63	100	177	100	53	100	426	100

Source: Questions 1 & 3: Survey questionnaire

In Table 5 businesses with turnover below the compulsory registration threshold of RM 500,000 numbered 195 (45%), and the rest, 231 (55%), were above the threshold of RM 500,000 and therefore are required to register for GST. The sample selected is therefore a good representation of various businesses with different turnovers that would register for GST. It is worth noting at this stage that 45% of respondents who operate below the threshold would prefer to stay out of the GST net to avoid the compliance burden associated with GST registration. In conclusion the responses received confirm a good representation of the wider use of different legal forms, industry sector and turnover of businesses in Malaysia.

Table 5 Respondents by legal form and turnover

Turnover	Sole trader		Partnership		Private Co		Public Co		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Up to RM 200,000	65	49	12	19	20	11	3	6	100	23

RM 200,001 to 249,999	16	12	8	13	13	7	3	6	40	9
RM 250,000 to 499,999	22	17	14	22	17	10	2	4	55	13
RM 500,000 to 4,999,999	19	14	26	41	54	31	9	17	108	25
RM 5,000,000 to 9,999,999	1	1	1	2	13	7	2	4	17	4
RM 10,000,000 to 24,999,999	5	4	1	2	14	8	5	9	25	6
RM 25,000,000 to 49,999,999	2	2	0	0	8	5	2	4	12	3
RM 50,000,000 or more	3	2	1	2	38	21	27	51	69	16
Total	133	100	63	100	177	100	53	100	426	100

Source: Questions 1 & 4: Survey questionnaire

4.0 FINDINGS AND ANALYSIS

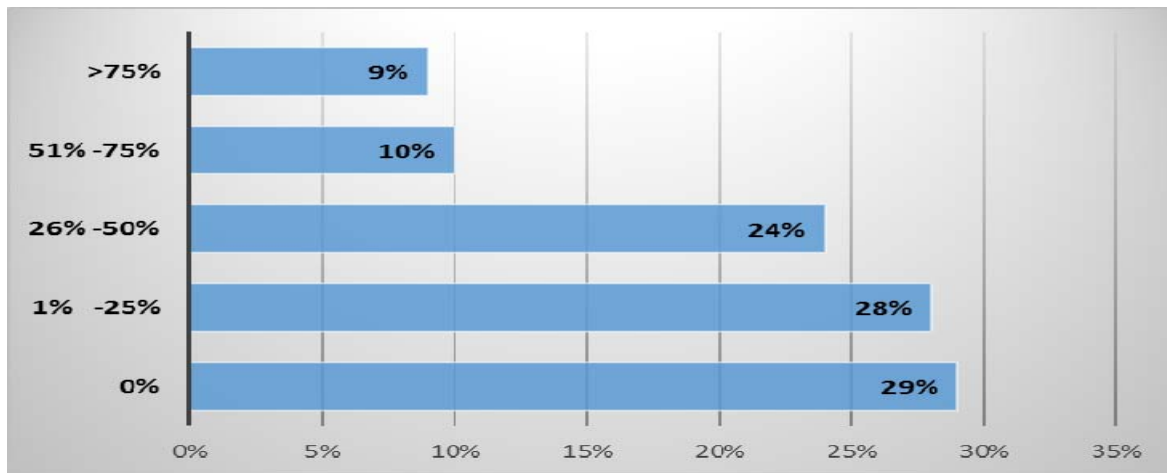
Next the findings are discussed in relation to the four objectives are reported, namely, (i) businesses readiness to implement the GST, (ii) the GST compliance burden imposed on businesses, (iii) perceptions of the capacity of RMCD to provide financial and non-financial assistance and (iv) to determine whether or not business perceptions are related to business characteristics. A number of specific conclusions can be drawn for the each of the objectives as explained below.

Objective 1: Business readiness to implement GST comprised of business taxpayers' overall readiness, getting computer systems ready and to register for GST if turnover exceeds RM 500,000

A. Overall readiness for the implementation of GST

As shown in Figure 2 below, in regard to overall readiness, only 38 (9%) of respondents stated that they were at least 75% ready for the implementation. Overall, the findings suggest that only a small percentage of business taxpayers, about 78 (19%), were more than 50% ready for the implementation of the GST and 81% were overall not ready.

Figure 2 - Overall Readiness for the implementation of GST



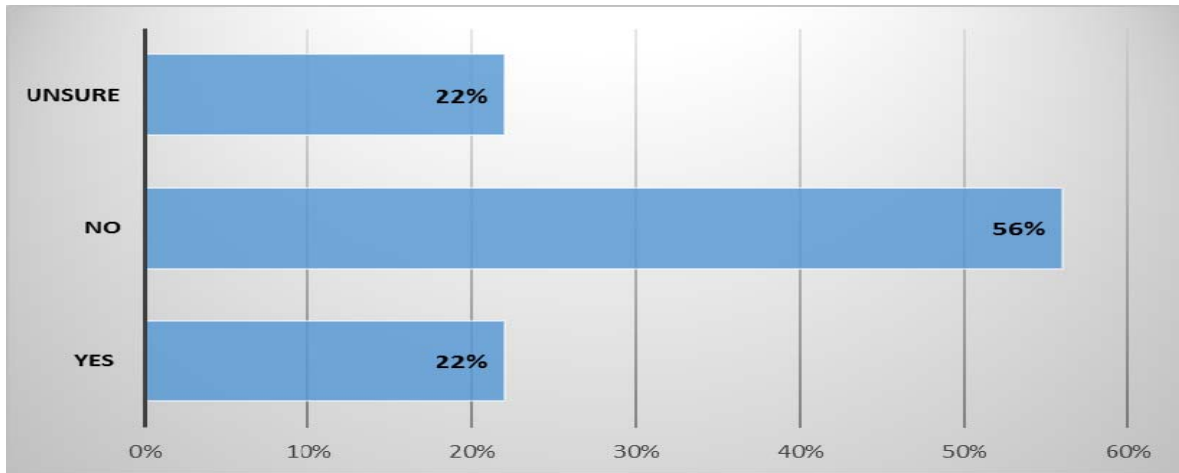
Source: Author's survey

Larger businesses with a turnover of over RM 50 million seemed to be more ready than smaller businesses. The manufacturing sector and the accounting profession were also more ready than other industry sectors. The persons responsible for implementing GST in most businesses were mostly internal accountants (46%), followed by external tax advisers/agents (26%), owners/directors (22%) and internal bookkeepers (6%). This suggests that internal accounting staff (accountants/bookkeepers) and external tax advisers played a major role and were instrumental in the successful implementation of the GST in Malaysia.

B. Computer hardware and software readiness for GST implementation

Figure 3 indicates that overall, only 22% of business taxpayers believed their computer hardware and software were ready for the GST, with 78% not being ready. Again, larger businesses with a turnover of over RM 50 million, and the financial services, manufacturing, and accounting profession seemed to have their computer systems more ready compared with smaller businesses and other sectors.

Figure 3 - Computer hardware and software readiness



Source: Author's survey

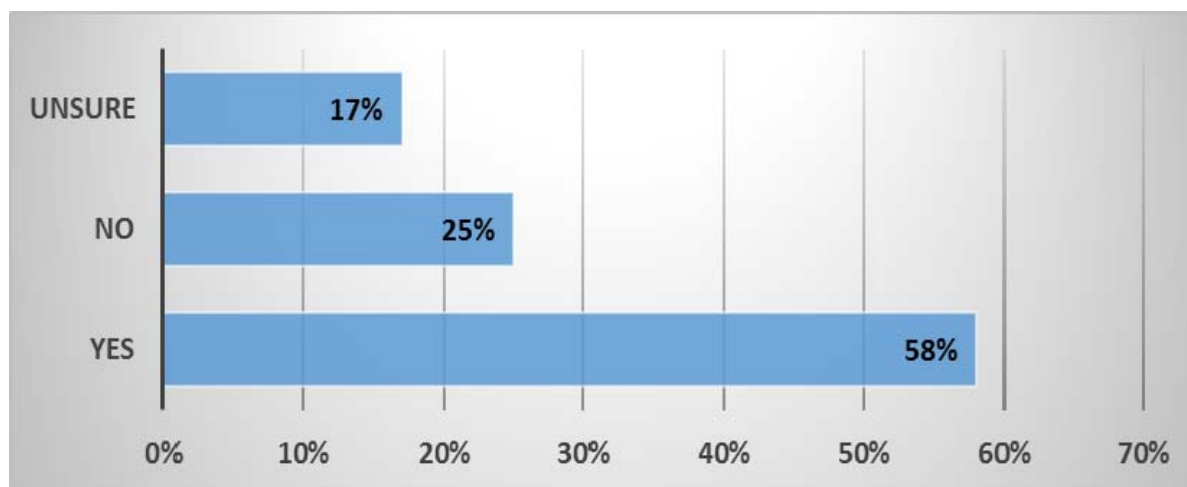
This low usage of computers suggest that a large proportion of SMEs still operate on a 'cash basis', based on the fact that 78% believed that they were not ready with their computer systems for the GST implementation. This is in line with the findings of Kasipillai and Liew⁷⁶, who pointed out that many small businesses operate on a 'cash bases and do not use computerized accounting or cash registers to maintain records.

In terms of submission of GST returns to the RMCD, 42% indicated they would use electronic filing, 21% external tax advisers, 17% manual returns and 20% were not sure how they intended to submit their GST returns. Though 42% is a good start, the remaining 58% of business taxpayers seemed to be uncomfortable in using computers to submit GST returns knowing manual filing is costlier than electronic filing. The lack of confidence in using electronic filing confirms that their computer systems were not ready for generating reports for the submission of GST returns to RMCD.

C. Compulsory registration for GST turnover above threshold of RM 500,000

⁷⁶ Kasipillai, J & Liew, R.2004. 'The small and medium enterprises under GST regime.' Accountants today, November.

Figure 4 - Compulsory registration for GST The survey questionnaire requested respondents to state if they would register for the GST or not.



Source: Author's survey

As shown in Figure 4, 58% of businesses stated they would register for GST. One of the most worrying results of this research was that 25% of respondents with a turnover above the RM 500,000 which is compulsory registration threshold, said they would not register for the GST. This would entail a clear breach of the law. Another 17% said they were not sure if they would register. These respondents were probably not informed enough about their registration requirements, hence did not know about the level at which the compulsory registration threshold cuts in. Given that the registration thresholds under the sales and services tax (SST) were below the GST threshold, the respondents not planning to register could have not confused the GST registration thresholds with those under the SST. No matter what the reason, the RMCD should be concerned. A significant level of non-compliance with the compulsory registration requirement of the GST would be incredibly damaging to the ongoing success of the GST. Some business taxpayers may adopt a 'wait and see' approach and may also be willing to take a chance not to register and face the consequences arising from RMCD action through their audit processes.

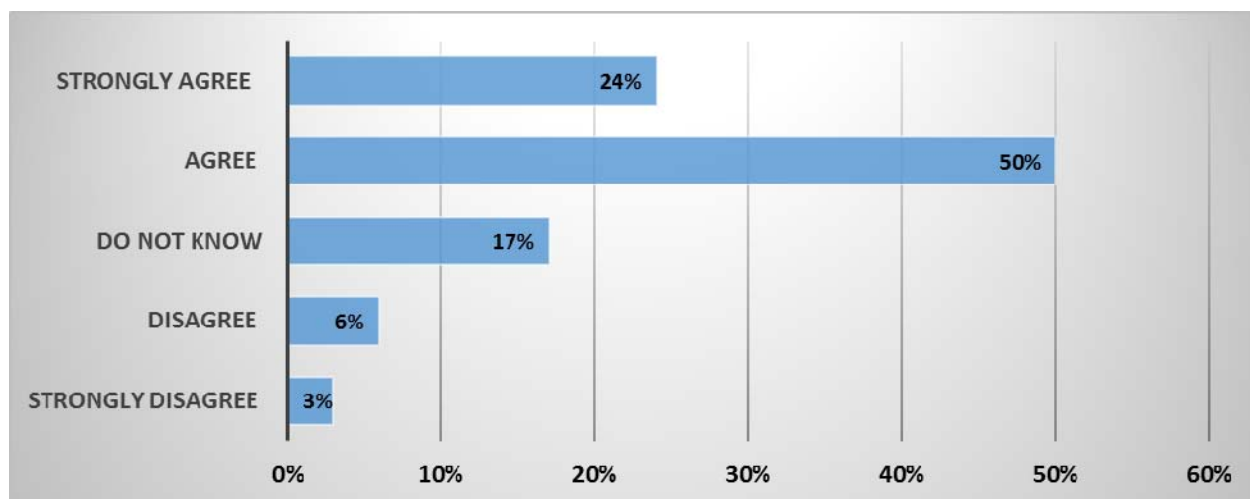
Objective 2: Compliance burden, stress levels, managerial and cash flow benefits

A. Compliance burden

Figure 5 shows regarding the compliance burden, 74% of respondents agreed that the GST will

place an additional compliance burden on their businesses. This confirms the findings of international research on compliance costs of the GST that they are regressive and fall more heavily on small enterprises.

Figure 5 - Compliance burden of business taxpayers



Source : Author's survey

High compliance costs can of course provide strong incentives for business taxpayers to illegally stay out of the GST system, which in turn can damage its integrity. Currently the RMCD is using a persuasive approach advocating collaboration with business taxpayers to register for GST, but this may change if business taxpayers continue to be non-complaint. The RMCD may have used the deterrence or stick approach by imposing tax penalties after December 2014 (deadline for registration for GST) to make business taxpayers comply with their tax obligations.⁷⁷

In regard to GST-induced stress levels, 50% of respondents stated that their stress levels would increase and 36% were not sure about their stress levels, because of the GST. This was mainly because of the increased compliance burden, lack of general information and specific training concerning the GST. This confirms the psychological costs of compliance expressed by the

⁷⁷ The hard truth about GST

compliance costs literature.⁷⁸ The other concern, due to stress levels, is that business taxpayers may voluntarily put off the decision to defer registration and be non-complaint with the GST law.

C. Managerial benefits

Only 44% of respondents believed that they would enjoy some managerial benefits, 30% were not sure and 26% felt there would be no managerial benefit for them. This is a concern since business taxpayers are not fully aware of the advantages of keeping proper books of account, apart from paying the correct taxes. Good records and documentation can assist businesses to make better financial decisions, for example, through having profit forecasts. The following studies indicated there are managerial benefits due to keeping records to meet tax compliance obligations.⁷⁹

D. Positive and negative cash-flow benefits

Based on question 31 (positive cash flow benefits), only 28% of respondents believed they would enjoy some short-term cash flow benefits, 33% are not sure, and 40% of the respondents believed they would not enjoy any cash flow benefits. From an accounting point of view, positive cash flows are very important for businesses, but respondents feel that overall, GST will not contribute to generating positive cash flows for their organisations. RMCD has promised to make tax refunds within 14 days to 28 days, but if they fail to comply with this input tax refund policy, businesses' cash flows would be adversely affected. The following studies indicated there are some cash flow benefits accrued to business taxpayers for meeting tax compliance obligations.⁸⁰

Objective 3: Business taxpayers' perceptions of the RMCD

www.thestar.com.my › Business › Business News, Oct 13, 2016 - FOR goods and services tax (GST)-registered businesses who have ... At present, the **Royal Malaysian Customs** Department (Customs) is ... of GST, there can also be late payment **penalties imposed**.

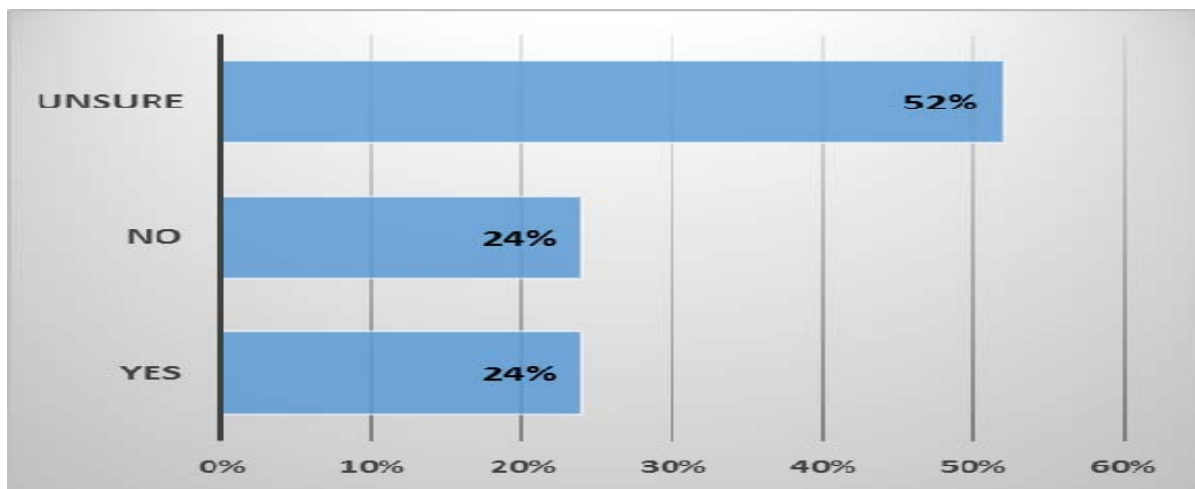
⁷⁸ Woellner, R., Gaylard, S., McKerchar, M., Walpole, M., Coleman, C., & Zetler, J. (1998). *Once More into the Breach. A Study of Comparative Compliance Costs under the 1936 and 1997 Acts: Progress Report*. In *Tax Administration -facing the Challenges of the Future*, edited by Chris Evans and Abe Greenbaum, pp195-216. Sydney: Prospect Med

⁷⁹ Sandford et al 1981, Sandford et al 1989, Sandford & Hasseldine 1992, National Audit Office 1996, Tran-Nam & Glover 2002, Rameste 2006, Lignier 2008, Allers 1994

⁸⁰ Sandford et al. 1989 (UK), Sandford & Hasseldine 1992 (NZ), Allers 1994 Netherlands

Singh (2013)⁸¹ stated that some of the public are still lacking in knowledge and information regarding taxation, which leads to low awareness of their responsibility to pay taxes. So taxpayers need to have sufficient knowledge of the current taxation system to comply with laws and regulations, as there seems to be a close relationship between knowledge and compliance; more knowledge means more compliance and less knowledge means less compliance. International research has shown that a good positive relationship between taxpayers and revenue authorities is vital for the dissemination of knowledge and information to taxpayers.

Figure 6 Business taxpayers' perceptions of the RMCD



Author's survey

Figure 6 above shows, unfortunately, only 24% of business taxpayers feel that the RMCD officers will provide some limited friendly, courteous and helpful assistance to them during the interim period for implementation of GST, 52% are unsure if they will get any help, and a small percentage, 24%, feel that the RMCD may not provide the required help and assistance.

This low level of 'approval' may indicate that business taxpayers are not comfortable but cautious and apprehensive in approaching the RMCD for help and assistance in dealing with queries on GST. This will be an area of concern, since a lack of trust and the absence of a good relationship

⁸¹ Singh, V 2013. *Goods and service tax, it is time. The Malaysia Insider Newspaper. 21 September 2013.*

Retrieved 24.7.2015 from <http://www.themalaysianinsider.com/>.

between business taxpayers and the RMCD staff can hamper the administration and collection of GST revenue. If the RMCD fails to extend the required assistance, taxpayers may have to seek assistance from external tax advisers, but this can be costly. It is crucial that taxpayers have access to inexpensive and accurate information from the RMCD directly to encourage them to be compliant with the GST rules and regulations. In short, prohibitive costs paid to external tax advisers should be avoided since this can induce non-compliance when the same tax advice can be obtained free of charge from RMCD.

Objective 4: Statistical analysis: a summary

The fourth objective of this research was to determine whether or not perceptions that businesses have about the GST are related to various characteristics of those businesses. The results of all the chi-square tests were summarised for legal form, turnover and industry sector variables and the corresponding three variables, namely, overall GST readiness of business taxpayers, compliance burden, and GST-induced stress levels. In all these cases, we rejected the null hypotheses and accepted the alternative hypotheses that the three key business perceptions are related to business characteristics relating to turnover. This suggests that any GST promotional plan in Malaysia should take turnover into account because the three perceptions are related to business turnover. The results of the correlation analysis were carried out using business turnover and nine business perceptions. Only three perceptions, the overall readiness to implement GST, computer system readiness and stress factor seem to have a significant but weak association with turnover. The rest of the six perception variables have weak and insignificant associations with turnover.

Table 4.6 Correlation between annual turnover and business perceptions

Variables	Pearson (r)	Spearman (rho)	Significance
Overall readiness	0.311	0.312	0.000***
Computer readiness	0.121	0.114	0.012**

Compulsory registration	0.086	0.076	0.191
Optional registration	0.025	0.021	0.724
Compliance burden	0.037	0.049	0.446
Managerial benefits	0.060	0.057	0.218
Cash flow benefits	0.016	0.012	0.744
GST-induced stress	-0.090	-0.081	0.062*
RMCD	0.070	0.076	0.147

Source: Author's survey

* Significant at 10%, ** Significant at 5%, *** Significant at 1%

The first two significant correlation coefficients (readiness to implement GST and computer system readiness) suggest that the larger the business, the more they are ready for the GST overall and better prepared they are in terms of an updated computer system. A negative sign of the third correlation coefficient (stress factor) is that, as expected, smaller businesses feel more stress about the implementation of GST than larger businesses. Legal form and industry sector variables were ignored for this exercise since they were not considered an ordinal variable for the statistical analysis. Finally, the Cronbach alpha estimate was about 64%, suggesting that the data is moderately reliable. Thus, it can be concluded that the collected sample data has the attributes of internal consistency and reliability and is therefore suitable for further statistical analysis.

What areas business taxpayers wished for before implementation of GST?

Question 28 asked what business taxpayers wished from the government for the smooth implementation of GST. Normally, this could include monetary assistance to offset GST compliance costs or free training to enhance tax knowledge of taxpayers. Kasipillai (2000)⁸² stated that tax knowledge is an essential element in maximising voluntary compliance and thereby affects

⁸² Kasipillai, J. (2000). Taxpayer's knowledge Index as a Clue for Non-compliance. *Journal on Pakistan's Taxation Laws*, 81(3).

the compliance behaviour of business taxpayers. Pope and Jabbar (2007)⁸³ suggested providing free workshops. Kasipillai and Liew⁸⁴ suggested providing free software packages to business taxpayers. Singh⁸⁵ suggested, taking the example of the Australian experience, introducing a tax advisory board to assist business taxpayers to raise their issues with RMCD during the implementation stage. Some of the requests for monetary and non-monetary assistance from respondents were as follows: 37% of respondents hope that the government may compensate them for GST start-up costs, which range from RM 5,000 for SMEs to RM 20,000 for larger businesses; 22% of respondents hope that the government will provide free GST training, 20% of respondents want the GST postponed until a tax impact statement is published by the RMCD; 17% want a grace period before the imposition of GST penalties; and 4% want lesser penalties till GST is accepted. It seems business taxpayers wanted more financial and non-financial assistance to reduce the compliance burden and help become ready for the GST. On top of this, some respondents requested that GST be postponed until a tax impact statement is published, and some have requested a grace period for the imposition of penalties and lesser penalties till GST is fully understood by business taxpayers.

What are the challenges for business taxpayers when GST is implemented?

Based on the survey findings, it seems there are a number of challenges that business taxpayers need to face when GST is implemented. For example, within the organization, urgent steps are needed to set up the computer system using internal staff rather than relying on external accountants, tax consultants and software consultants. There is also a lack of awareness and knowledge within the organization on the GST matters since there is a perception that the GST is a complex tax matter and therefore the finance team should take full responsibility. This perception needs to be changed whereby all staff in the organization should be trained in the GST, from

⁸³ Pope, J., & Jabbar, H.A. (2007). Small and medium size enterprises and regulatory burden in Malaysia. Alleviating The compliance costs of goods and services, *Global economy conference 2007, Malaysia*. Retrieved 24 July 2015 <http://espace.library.curtin.edu.au/cgi-bin/espace.pdf?>

⁸⁴ See note 65.

⁸⁵ Singh, V. (2005). *Tax thoughts on today are taxing times*. Malaysia: Digi book Sdn Bhd

pricing, coding, invoicing and recording of all GST transactions. More accounting and non-accounting staff need further training and there is an urgent need to update the computer system to meet GST obligations. The other area of concern is the relationship with the RMCD. There seems to be reluctance on the part of business taxpayers to get necessary help and assistance from the RMCD. This may be due to a lack of clarity in relation to many GST related matters on the application of the GST Act 2014. The RMCD has released a number of customs regulations and private rulings on the GST matters that have not yet been tested in the courts. The potential contradiction between the RMCD positions and the law may add to confusion thus taxpayer reluctance in seeking assistance from the RMCD officials and adopt a 'wait and see approach' to get assistance from the RMCD.

5. Conclusion

In the end, taxpayers are legally obliged to be ready for the GST. But, no matter what the reasons for the low preparedness, this research reveals that there are areas where the government, perhaps through the RMCD, could have done more to help prepare the Malaysian businesses for the GST. There is no doubt that the GST can be simplified for taxpayers facing unwarranted complexity, and this can be done without unduly compromising the integrity of the GST. For example, Australia has been very successful in designing simplified GST accounting methods for many taxpayers that make both taxable and non-taxable supplies, thereby avoiding the costly problem of individually classifying a supply at the point of sale. Indeed, it is arguable that the government should be drawing more on external expertise to address the numerous GST implementation challenges. It is worth investing considerable resources to get the implementation right from the start as the legacy of poor implementation and low business readiness will be felt for some time. While the contribution of this research is significant in identifying the major issues perceived by business taxpayers before the implementation of GST, there is a need to undertake a further study to identify

the “real issues” faced after the implementation of GST in 2015. This project obtained survey responses from 426 Malaysian businesses, covering small, medium and large enterprises. The survey respondents represented all the main business forms used in Malaysia (e.g. sole trader, partnerships, private companies and public companies), and it also covered businesses in various regions of Malaysia. In short, the survey appears to be a good representation of the views of business across Malaysia. The research data was collected during January-March 2013. While the research data still needs to be statistically analyzed for deeper and more targeted analysis, overall the survey results indicate that the business sector was poorly prepared for the implementation of the GST. Larger businesses are better prepared for GST overall and smaller businesses felt more stressed about GST. A high compliance rate with the 31 December 2014 deadline to register for GST needs to be achieved to ensure the success of the GST. Finally, an important point to note is that, this data was collected around 21 months before GST was implemented. It may be that circumstances have improved somewhat since the survey date in 2013. Yong (2014)⁸⁶, the Deputy Finance Minister, announced that as of 16 August 2014 only 12,500 businesses have registered. RMCD expected 122,000 to register for GST and later this figure was revised to 240,000. Surprisingly, by June 2015 registrations had increased sharply. Maslan ⁸⁷stated that 380,313 business entities had registered for GST. On the face of it, it would have presumed that GST education training programs have helped to increase the tax knowledge of business taxpayers to register for GST but on contrary it seems the ‘deterrence or stick approach’ by the RMCD to impose fines has forced substantially increased registration numbers by default by 2015.

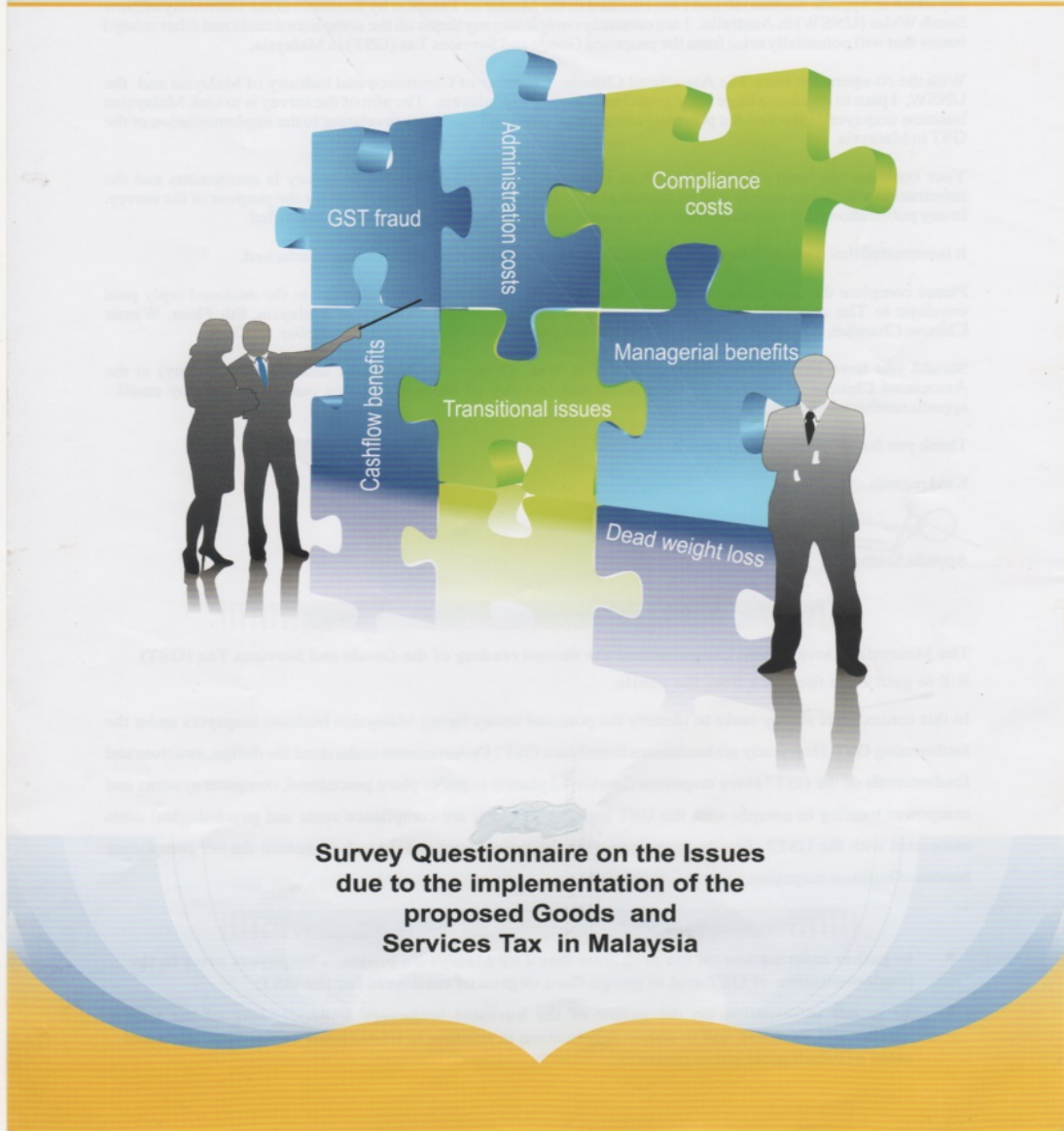
It is concluded Malaysian businesses were poorly prepared in 2013 and do require additional assistance despite the fact registration numbers have increased beyond the projected figures in the later years. A number of measures are suggested to alleviate businesses’ compliance burden. They include compensation for GST set-up costs, more free training and simplification of GST reporting.

⁸⁶ Yong, C.T. (2014, August 16). Registration for implementation of GST picks up speed time. *The Star Newspaper*. Retrieved from <http://www.thestar.com.my/news/nation/2014/08/16/Registration>

⁸⁷ Maslan, A. 2015, ‘Government collects more than RM 6 billion, in GST. *The Star*, 12 June 2015 viewed 13 July 2015.

Further, the RMCD should strive to build a closer relationship with business taxpayers to iron out the major issues so that the existing business taxpayers that have registered can comply with the GST law and regulations and unregistered business are encouraged to register for GST. Also it is timely for RMCD conduct a GST survey internally to find out the major issues faced by business taxpayers so that steps can be taken by RMCD to reduce the GST compliance issues.

Schedule A: GST Survey questionnaire



**Survey Questionnaire on the Issues
due to the implementation of the
proposed Goods and
Services Tax in Malaysia**



SURVEY QUESTIONNAIRE

A THIS SECTION ASKS ABOUT YOUR BUSINESS' BACKGROUND

1. Legal form of your business

- Sole proprietor
- Partnership
- Private Ltd
- Public Listed

2. Location of the head office of your business

- Johor
- Kedah
- Kelantan
- Kuala Lumpur
- Melaka
- Negri Sembilan
- Pahang
- Others (please specify)
- Penang
- Perak
- Perlis
- Sabah
- Sarawak
- Selangor
- Terangganu

3. Primary activity of your business

- Agriculture, Timber, Fishery, Gardening
- Constructions & Contractor
- Finance, insurance, business services
- Hotel, Restaurants
- Imports & Exports
- Information Technology
- Logistics
- Manufacturing
- Mining
- Professionals
- Property Developer
- Plantations
- Travel & Entertainment
- Wholesale & Trading
- Others (please specify).....

4. Annual turnover of your business in Ringgit Malaysia (RM)

- Below 200,000
- 200,000 up to 249,999
- 250,000 up to 499,999
- 500,000 up to 4,999,999
- 5 million up to 9,999,999
- 10 million up to 24,999,999
- 25 million up to 49,999,999
- 50 million or more



5. No of staff employed as at 31st October 2012.
- 5 or less 151-200
- 6- 19 201 and above
- 20-50
- 51 -150

6. Number of years of operation
- 0-3 years 7-9 years
- 4-6 years 10 years or more

B THIS SECTION ASKS ABOUT YOUR BUSINESS ACCOUNTING/TAXATION MATTERS WHEN PROPOSED GST IS IMPLEMENTED.

7. Do you believe that you need to register for GST business registration?
(Note if your business annual turnover is more than RM 500,000 you need to register for GST).
- Yes No Unsure
8. Do you intend to register for GST if your turnover is less than RM 500,000?
(Note if your turnover is less than RM 500,000, you can still register for GST in order to claim input tax credit on purchases for goods and services).
- Yes No Unsure
9. Who will handle **GST Accounting** matters of your business when GST is implemented? (Examples of GST accounting matters include registering for GST, setting up the business records to capture GST, issuing new GST invoices and changing GST tax codes).
- Owner/CEO/Management Internally hired bookkeeper
- Internally hired accountant Externally hired tax adviser
10. Who will handle **GST Taxation** matters when GST is implemented? (Examples of GST tax matters include checking GST records, calculation of GST Taxes, preparing GST returns and dealing with Customs authorities).
- Owner/CEO/Management
- Internally hired accountant
- Internally hired bookkeeper
- Externally hired tax adviser



11. How does your business intend to submit GST returns?

- GST Electronic filing Use of external tax professionals
 Manual GST returns Unsure

12. How does your business plan to get ready for the GST?

(Please tick more than one circle if appropriate).

- | | |
|---|--|
| <input type="radio"/> To read GST articles in the media | <input type="radio"/> To study cash-flow impacts of GST |
| <input type="radio"/> To stock up inventory before GST | <input type="radio"/> To wait for Government public training |
| <input type="radio"/> To conduct in-house staff training | <input type="radio"/> To hire external GST experts |
| <input type="radio"/> To review contracts for goods/ services purchases | <input type="radio"/> To change computer software |
| <input type="radio"/> To send staff for external training | <input type="radio"/> Others (please specify) |

13. If you have ticked more than one circle in Q12, which is likely to be the most important step you could take to get ready for GST?

Please specify one option from the above ten options.

14. Is your business computer system (hardware and software) ready for the implementation of GST?

- Yes No Unsure

15. Have you paid any costs pertaining to the proposed implementation of GST? (Costs include one-off advice on GST matters paid to external consultants, training staff in-house or attendance at GST courses, seminars, capital cost such as new computers, software includes bought or hired computers or special equipment e.g. cash registers).

- Below RM 5000
 RM 5001 up to RM 9,999
 RM 10,000 up to RM 19,999
 RM 20,000 or more



16. Have you studied the transitional GST tax issues, to avoid double taxation and business disruption to your entity? Examples are reviewing existing non reviewable and reviewable contracts and review of stock ordering process to account for GST.

- Yes No Unsure

17. How ready is your business to implement the GST. State the degree of readiness of your business for the implementation of GST.

- 0%
 1%- 25%
 26%- 50%
 51% -75%
 Above 75%
 Not sure

18. Assuming your business is not ready to implement the GST. What is a suitable grace period you need to get your business ready for GST?

- 12 months
 18 months
 24 months
 Not sure





C THIS SECTION IS ABOUT THE UNDERSTANDING OF THE FUNDAMENTALS OF GST DESIGN AND STRUCTURE BY THE BUSINESS TAXPAYER

19. The proposed GST rate is 4%, do you think this is a suitable rate for your business?

- Yes No Unsure

20. The GST threshold is set at RM 500,000. Should this limit be increased to a higher figure to reduce the compliance burden to your business?

- Yes No Unsure

21. The proposed GST will benefit the Malaysian economy since it will help the government to raise a more stable and more tax revenue.
(Please use the scale below to indicate your attitude to this statement).

- Strongly disagree Disagree Neutral/Don't know Agree Strongly agree

22. The proposed GST will certainly burden the poor since it will lead to an increase in prices due the general belief that there will be an inflationary impact attributable to the introduction of the GST.
(Please use the scale below to indicate your attitude to this statement).

- Strongly disagree Disagree Neutral/Don't know Agree Strongly agree

23. The proposed GST will certainly burden the business in terms of extra paper work to comply with the new tax laws. This will also entail employing new staff, training and purchasing new equipment to carry out the regulatory GST compliance work which will add further load to your current self-assessment role of the business taxpayer.

(Please tick below to indicate your attitude to this statement).

- Strongly disagree Disagree Neutral/Don't know Agree Strongly agree

D THIS SECTION ASKS ABOUT THE PSYCHOLOGICAL COSTS OF PROPOSED GST

Stress is often a normal response to change. Stress can sometimes bring positive changes to the business. However other times, the rate of change can be too great and the stress that accompanies can be lead to non compliance of the tax legislation and increase in tax evasion.



24. Have you felt uncomfortably stressed as a response to the forthcoming GST reform?
(Please tick below to indicate your attitude to this statement).

- Strongly disagree Disagree Neutral/Don't know Agree Strongly agree

25. In terms of your general stress level, which aspect did you find to be most stressful in getting ready for the GST?

- The proposed GST Bill is too technical & complicated.
 Lack of general information for the public.
 Lack of training available for a specific business type.
 It will increase my compliance costs in terms of time and money.
 The penalties and recovery action are too severe.

26. Below are lists of costs that may be a consequence of GST tax reform. Please indicate the level of intensity of stress by ticking a number for each cost, where 1 is highly stressed and 5 is not stressed at all. (For example, if you believe that the financial costs associated with tax reform have been extremely stressful, and then circle financial costs p 1).

- | | | | | | |
|---|-----|-----|-----|-----|-----|
| <input type="radio"/> Financial costs | p 1 | p 2 | p 3 | p 4 | p 5 |
| <input type="radio"/> Time costs | p 1 | p 2 | p 3 | p 4 | p 5 |
| <input type="radio"/> Worry costs | p 1 | p 2 | p 3 | p 4 | p 5 |
| <input type="radio"/> Health costs | p 1 | p 2 | p 3 | p 4 | p 5 |
| <input type="radio"/> Other costs - please specify..... | p 1 | p 2 | p 3 | p 4 | p 5 |

E THIS SECTION ASKS FOR YOUR COMMENTS ON GST ADMINISTRATION BY THE ROYAL MALAYSIAN CUSTOMS DEPARTMENT (RMCD).

27. Which area do you wish to see improvement first?

- Reduction of personal and corporate income tax rates.
 Simplified GST rules and regulations for easier compliance.
 Faster in processing and payment of tax refunds by RMCD
 RMCD is designated as one point for GST collections and administration.
 More streamlined counter and on line services to sort GST queries.



28. What type of assistance do you desire from the government in regards to the smooth implementation of GST?

- The postponement of its implementation until a GST impact statement is issued.
- Incentives given to taxpayers to compensate for the additional costs incurred due to the implementation of GST.
- Provision of free of charge training by Government.
- A grace period before the imposition of penalties and recovery action.
- Lesser penalties during the grace period until GST is well accepted.

29. How do you perceive the attitude of the RMCD officers who will be handling the administration of GST? In your opinion, will the officers be more friendly, courteous and focused on assisting you during the interim period of GST implementation.

- Yes No Unsure

F THIS SECTION ASKS FOR YOUR GENERAL COMMENTS

30. GST reform may provide your business with managerial benefits such as better information for decision-making and better book keeping. Since to comply with GST, all books of accounts have to be reconciled and kept up to date to pay the GST liability. As a result, do you think your business will experience such managerial benefits?

- Yes No Unsure

31. GST reform may provide your business with some cash flow benefits. There will be a timing difference between the date when the GST is collected and paid over to Inland Revenue, so your business would enjoy a use of cash for a short time. Do think your business will experience such a cash flow benefit?

- Yes No Unsure



32. GST reform may cause some negative cash flow benefits. For example if your business uses an accruals system for booking the sales invoices, a credit period would be normally stated in the invoice. In this case, cash is not collected when the sales invoices are generated but delayed for a later time. This may result in a negative cash flow due to timing differences between the time cash is collected from the customer and paid over the revenue authorities. In other words, you may have to pay the GST before you collect the GST from your customers. Do you think your business will be worse off under the GST regime because you may experience a negative cash flow?

- Yes No Unsure

33. Please comment on how you think tax compliance costs could be reduced (but abolishing GST is not an option).

- Yes No Unsure

30. GST reform may provide your business with managerial benefits such as better information for decision making and better cash flow management. Do you think your business will experience such managerial benefits? As a result, do you think your business will experience such managerial benefits?

Please add any other comments you wish to add on this survey.

- Yes No Unsure
