

Small and Medium Sized Enterprises and the Goods and Services Tax: An Analysis of Major Implementation Issues for Malaysia, Botswana and Australia

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This paper discusses the Goods and Services Tax (GST) implementation experiences that confronted the Malaysian, Botswana and Australian Small and Medium-sized Enterprises (SMEs).¹ Botswana uses the term Value-Added Tax (VAT), which is synonymous with the Goods and Services Tax (used in Malaysia and Australia). The GST was introduced in Malaysia, Botswana and Australia on 1 April 2015, 1 July 2002 and 1 July 2000 respectively, as a key part of these countries' major tax reforms. The GST is a broad-based indirect tax and is levied on most supplies of goods and services consumed within a country, with most food, health and education services zero-rated (GST free). The former Malaysian GST was levied at a rate of six per cent. In Botswana, VAT is levied at 12 per cent, while in Australia, GST is levied at 10 per cent. This paper also refers to international SMEs' tax compliance cost studies, for example, the UK, New Zealand and Singapore. The extent to which the key stakeholders' participation in the overall GST implementation and policy debate is discussed. Further, from a compliance cost perspective, the paper focuses on the mix of charging categories, the GST registration threshold, the use of technology for GST compliance, the zero-rating of most food, the role of the Australian, Botswana and Malaysia consumer "watch-dogs" in the SMEs' compliance requirements, the methods of accounting for the GST and the potential implementation benefits for SMEs. The conclusion sums up the key issues discussed.

¹ Following the presentation invitation from the Malaysia Institute of Accountants to share the Australian SMEs' experiences on the GST implementation with their members, the Authors wanted to articulate the prominent of the issues that were discussed at the forum.

1. INTRODUCTION

After two failed attempts, the Malaysian government introduced the Goods and Services Tax (GST),² which was levied at a rate of six per cent. The GST was introduced in Malaysia in April 2015. In Botswana, the Value Added Tax (VAT) was introduced in July 2002 at a rate of ten per cent, while in Australia, GST was introduced in July 2000 and levied at ten per cent. This conceptual paper discusses the GST/VAT implementation experiences that confronted the Malaysian, Botswana and Australian Small and Medium Enterprises (SMEs).³ Comparison of Malaysia, Botswana and Australia clarifies the learning experiences and other implementation issues from a developed country's (Australia) point of view. In discussing these experiences, reference is made to these countries and other international SMEs tax compliance cost studies.

This paper discusses the following GST implementation issues and how they have affected SMEs in Malaysia, Botswana and Australia, focusing on: mix of charging categories, zero-rating of food items, registration threshold, the role of monitoring agencies and how they affected SMEs and the complexity of the GST system. Despite the potential SMEs' high implementation costs, governments, through Tax Impact Statements (TIPs), often argue that SMEs would enjoy GST cash flow benefits (CFB), managerial benefits arising from the use of technology acquired for GST purposes and stringent record keeping for GST substantiation. Whilst Australia released TIPs to inform SMEs about the magnitude of GST compliance costs and other issues pertinent to the tax itself, Botswana and Malaysia did not publish such statements. Thus, analysis of the major implementation issues in this paper will enable Botswana and Malaysia and other countries yet to implement GST and/or similar taxes, to learn from Australia about the importance of TIPs so far as they affect SMEs compliance requirements. The extent to which CFBs and managerial benefits relate to start-up compliance costs are discussed.

The remaining part of the paper proceeds as follows. Section 2 discusses the Malaysian, Botswana and Australian tax reforms in relation to GST. Section 3 discusses GST implementation issues with a focus on the mix of charging categories, exemptions and zero-rating as well as GST registration threshold, the role of monitoring bodies on profiteering and the methods of accounting for GST. Section 4 and present GST benefits and conclusion, respectively. issues in GST administration are examined in Sections 4 and 5, respectively.

2. THE MALAYSIAN, BOTSWANA AND AUSTRALIAN GST/VAT REFORMS

2.1 The Malaysian Tax Reform

The Malaysian government attempted to introduce the GST twice, unsuccessfully. Kraal and Kasipillai⁴ argued that the key factors for Malaysia's delayed GST was due to opposition from the general public in 2007 as well as political interest motives for re-election. Another factor was the reduction of income tax rates which were pre-emptively lowered in anticipation of the passage of the Bill. The other reason was the second failed attempt in 2009 at passing a GST Bill through the Malaysian parliament. It was only on the third attempt that the Malaysian government, under the leadership of Prime Minister Najib Razak, succeeded to introduce the GST, which was levied at a rate of six per cent. The *GST Act 2014* came into effect on the 1st

² The GST is known as Value Added Tax (VAT) in Botswana. These terms used interchangeably in this study.

³ This paper compares GST implementation issues in developing economies (Malaysia and Botswana) and developed economies (Australia) with the aim of highlighting GST implementation and simplification measures that developing countries can learn from developed ones.

⁴ Diane Kraal and Jeyapalan Kasipillai "Finally, a Goods and Services Tax for Malaysia: A Comparison to Australia's GST Experience" (2016) 31 Australian Tax Forum 257, 259.

April 2015 to replace the Sales and Services Tax (SST). Evidence suggests that the SMEs communities were not generally ready to implement GST as they were concerned that it would impact on pricing and other strategic decision-making.⁵ Subsequently, following the recent election of Mahathir Mohamad (sworn on 9th May 2018), the new government has proposed to make changes to the current GST legislation. With effect from 1st June 2018 all goods that were taxed at a standard rate of six per cent were zero rated to alleviate the hardship faced by the public who have voiced their concerns of price increases due to the GST. The Ministry of Finance (MOF) also stated its plan to abolish the GST in September 2018, with a reintroduction of the former SST. This represents a major policy reversal, which has the capacity to increase compliance costs for SMEs as they readjust systems and processes to cope with the change. The introduction of the GST presented four major arguments as discussed by Santhariah et al.⁶ First, it broadens the tax base to reduce budget deficit, which the country had been experiencing from 1970 to 2012; Second, it enhances revenue stability as it has capacity to reduce tax avoidance and tax evasion. Malaysia could have missed out on taxing those SMEs that are liable; Third, it replaced the SST, which had a narrow base and many exemptions. Fourth, it provided an opportunity for modernising the tax system to face the new challenges ahead. Like other countries that implemented a GST, shortfalls were evident. These included its impact on prices, the compliance costs burden imposed on SMEs and the stress imposed on businesses to meet reporting obligations.

2.2 The Botswana Tax Reform

The VAT system in Botswana was introduced on the 1st July 2002 in line with the *VAT Act No 50:03*.⁷ A single-rate VAT of 10 per cent was introduced to replace a 10 percent sales tax.⁸ The switch from sales tax to VAT was built on the need to eliminate the problem of double taxation, which often occurred with sales tax. In addition, the government of Botswana introduced VAT because it is a fairer system, since the built-in input credit facility ensures that VAT itself does not become a business expense.⁹ Just before implementation, the government of Botswana amended the *VAT Act 2001* to introduce some additional VAT-exempt goods and services. The International Monetary Fund (IMF), however, has critiqued the Botswana VAT amendments that have been implemented over the years. The IMF notes that the original VAT in Botswana was designed in line with international standards. The *VAT Act 2001*, designed a model of consumption tax with very few zero-rated and exempt supplies.¹⁰ Further exemptions were introduced in 2010 and 2015.¹¹ The IMF notes that these exemptions have downgraded the integrity of the Botswana VAT system.¹²

Regarding the pre-implementation groundwork, there is currently no information to show that the government of Botswana took sufficient measures to educate the Botswana population on VAT and its implication for the consumers and the taxpayers prior to implementation. Furthermore, the government of Botswana did not conduct a tax impact assessment.

⁵ P Jayaraman, 'Majority of Malaysian Businesses Not GST-Ready', *The Sun Daily* (online), 17 September 2013 <http://www.thesundaily.my/news/831481>.

⁶ A Santhariah, B Tran-Nam, D Boccabella and N Rametse "The implementation of the Goods and Services Tax in Malaysia: Potential issues perceived by business taxpayers" (2018) 13(1) *Journal of Australasian Tax Teachers Association* at 351-397.

⁷ Botswana Customs and Excise *A Guide to Botswana's Value Added Tax* (Government of Botswana, Gaborone, 2001) 3.

⁸ Sales tax is a consumption tax levied on the turnover of the business. It is a cascade tax because products are taxed multiple times from the manufacturer to the retailer.

⁹ This principle of the VAT only holds in theory. In practice, however, once exemptions are introduced, the VAT becomes a business expense. See Botswana Customs and Excise, above n 8, 3.

¹⁰ International Monetary Fund 'Botswana Selected Issues' 2017 IMF Country Report No. 17/250, 17.

¹¹ Government of Botswana *Value Added Tax (Amendment, A. 1-2) Act, 2015* (Botswana Government Gazette, Gaborone, 2015) <www.burs.org.bw>.

¹² International Monetary Fund, above n 10

At the time of VAT implementation, Botswana did not have a consumer watchdog. Consumer watchdog was established by Business and Enterprise Solutions Botswana in 2004, two years after the VAT was implemented. This suggests that, at the time of VAT implementation, consumers in Botswana were not protected, with no one to advocate on their behalf. With the absence of a tax impact statement, it is highly possible that consumers in Botswana were adversely impacted by the implementation of the VAT. In fact, the Bank of Botswana indicated that, although difficult to quantify, prices were expected to increase as a result of the implementation of the VAT.¹³

2.3 The Australian Tax Reform

In Australia, a 10 per cent GST was introduced by the Howard government in July 2000, after several failed attempts. The first Australian attempt to implement the GST was made by the former Prime Minister John Howard who put the idea of a broad-based consumption tax on the agenda in 1978, when he was a Treasurer.¹⁴ Prime Minister John Howard recognised the earlier 1975 recommendation of the Asprey Report (1975) to replace the Wholesale Sales Tax (WST) with the GST. The establishment of the 1997 task force was followed by a tax reform package a New Tax System (ANTS) (1998). The Review of Business Taxation (RBT) chaired by John Ralph, was established to make a range of consultations and to recommend the redesign of business tax arrangements. The RBT final and rather complex Report was submitted in October 1999.

The ANTS package included the abolition of one Commonwealth WST and nine States indirect taxes, to be replaced with a single broad-based consumption tax, the GST. The reason to abolish the WST was that it applied only to a range of goods, and services were not taxed, despite Australia's predominant operation of service industries rather than manufacturing industries. Thus basically, the merit of the GST is on its potential generation of more tax revenue from the dominant Australian service industry. Furthermore, the WST base was shrinking and had become more complex. More than half of WST revenue was raised from goods that were used as inputs, increasing business costs and hampering international competitiveness.¹⁵ Consequently, as stressed by the RBT, the need for the Australian tax system to be internationally competitive is important. Notably, in 1996-97, the WST contributed 10.7 per cent of Commonwealth tax revenue, but just one year after its operation in 2001-02, the GST contributed 15.5 per cent.¹⁶ This proves the GST capability of generating more revenue as compared to the WST.

After the re-election of the Coalition Government on 3 October 1998, the Commonwealth started to prepare for the introduction of the GST, which ultimately came into operation on the 1st July 2000. Some commentators saw the ANTS package as "part of the platform which the Howard government was re-elected in that year".¹⁷ Moreover, the whole Australian tax reform at that stage became a political platform, as well as a challenge for small businesses in dealing with socio-economic and technical implications arising from the introduction of the GST. Such

¹³ Bank of Botswana 'The Monetary Implications of the Introduction of Value Added Tax (VAT)' Press Release, 2002 www.bankofbotswana.bw.

¹⁴ Cedric Sandford *Successful Tax Reform: Lessons from an Analysis of Tax Reform in Six Countries* (Fiscal Publications: Bath, 1993) 90.

¹⁵ D Warburton 'The Future of Tax Reform in Australia', Paper Presented at Tatcliffe Memorial Lecture, University of New South Wales, Sydney, 17 October 2002, 1.

¹⁶ Neil Warren *Tax Facts Fiction and Reform* (Research Study No. 41, Australian Tax Research Foundation, 2004) 37.

¹⁷ Binh Tran-Nam and John Glover "Tax Reform in Australia: Impacts of Tax Compliance Costs on Small Business" (2002) 5(3) *Journal of Australian Taxation* 338, 339.

factors required SMEs to give preparations for compliance a priority. The abolition of the complex WST, which applied different rates, was a breakthrough as it was replaced by a simpler and fairer GST, which applied a single rate of 10 per cent.

Consequently, the government introduced certain tax simplification strategies for small businesses, such as the use of the cash method of accounting for GST (for businesses with annual turnover of \$1 million) as opposed to the accrual method.

Despite the potential small businesses' high implementation costs, the Australian government through the Tax Impact Statement (TIP), known as the Regulation Impact Statement (1998), often argued that small businesses would enjoy GST cash flow benefits, managerial benefits arising from the use of technology acquired for GST purposes and stringent record keeping for GST substantiation. The development of TIPs in various Organisation for Economic Co-operation and Development (OECD) countries in the 1990s is recognised.¹⁸ However, their depth in forecasting tax compliance costs is open to criticism, at least in the case of Australia,¹⁹ which omitted to recognise the regressivity of compliance costs, alongside other weaknesses.

This was also evident in Malaysia. In Botswana, businesses that are registered for VAT use the accrual method of accounting for VAT. This leads to cash flow costs for businesses that do not receive cash for their sales. Such costs are heavier on smaller businesses.²⁰ It can thus be concluded that from previous tax reforms, prior to the Review of Business Taxation, Australia was more experienced in introducing the GST as compared to Botswana and Malaysia.

3. GST/VAT IMPLEMENTATION ISSUES

3.1 The Mix of Charging Categories, Exemptions and Zero-Rating of Supplies

To keep compliance costs for SMEs to a minimum level, there must be less zero-ratings and exemptions. A mix of charging categories means there is a mixture of goods that are taxed, input taxed and GST free. Items that are regarded as luxuries are taxed and these include restaurant meals as well as pre-prepared supermarket meals. This is a compliance burden facing SMES, particularly in the food industry. Ideally, a conceptually simple GST would have a single rate, a zero threshold, be inclusive of all goods and services, except for exports, and use invoices for sales/purchase verification.²¹

GST exemptions²² refer to the complete exclusion of certain goods and/or services from the tax base. Exemptions contradict the principle of neutrality which requires VAT to be a broad-based tax,²³ and lead to breaks in the VAT chain²⁴ by denying the businesses that trade in exempt supplies to claim the input VAT. Other problems of exemptions include tax revenue

¹⁸ Chris Evans and Michael Walpole *Compliance Cost Control: A Review of Tax Impact Statements in the OECD* (Research Study No. 27, Australian Tax Research Foundation, Sydney, 1999).

¹⁹ Australian Government *Regulation Impact Statement for the Introduction of a Goods and Services Tax, Accompanying A New Tax System (Goods and Services Tax) Bill 1998* (Presented to Parliament, Canberra, 1998), accessed at <http://www.taxreform.gov.au> [1999, May 1].

²⁰ Tshipiso Makara and Nthathi Rametse "Estimates of the Cash Flow and Managerial Benefits of Value-Added Tax Compliance in Botswana" (2017) 23(4) NZJTL 422, 440.

²¹ United States Government Accountability Office. (2008). *Value Added Tax. Lessons Learned from Other Countries on Compliance Risks, Administrative Costs, Compliance Burden and Transition* (Report to Congressional Requesters. Washington D.C., 2008) 12-13.

²² GST exemptions often include basic education services, basic health service, financial services, real estate and construction. See Liam Ebrill, M Keen, J-P Bodin and V Summers *The modern VAT* (International Monetary Fund, Washington D.C., 2001) 91-99.

²³ Stephane Buydens *Consumption Tax Trends 2010: VAT/GST and Excise Rates, Trends and Administration Issues* (Organisation for Economic Co-operation and Development, Paris, 2011) 15.

²⁴ Ebrill, above n 22, 85.

effects, distortion of input choices, an incentive to self-supply, disruption of the destination principle, an incentive to import VAT exempt inputs, strenuous record keeping for partially exempt traders, and exemption creep.²⁵

GST exemptions also result in the imposition of tax-on-tax (cascading) and introduces inequities in the VAT system which distorts production decisions.²⁶ In addition, the exclusion of some goods and services from the tax base distorts consumer choices and reduces the tax revenue.²⁷ Tait²⁸ asserts that the more exempt goods and traders there are, the greater the possibility that value added is unintentionally taxed at different rates. Moreover, increased exemptions could possibly entice other traders to claim exemption for themselves and thereby erode the tax base. Accordingly, theoretically and practically, exemptions should be kept to a minimum²⁹ and limited to basic health, education and financial services.³⁰

3.1.1 Malaysia

In Malaysia, the former GST was charged and levied on any supply of goods or services made in Malaysia. The GST model provided for standard-rated supplies (currently six per cent) and zero-rated supplies (where no GST was levied on supplies) and exempt supplies.³¹ Suppliers of zero-rated supplies were required to register for GST purposes and could claim input tax credits for the GST paid on business purchases related to making zero-rated supplies such as raw materials. Unlike zero-rated supplies, exempt supplies were not subject to GST, hence GST could not be claimed by suppliers of raw materials/services that relate to making exempt supply. Santhariah et al³² note that some industries, for example, mining, plantation and forestry are subject to multiple rates. This has capacity to increase implementation costs as SMEs in these industries must spend more time identifying GST relating to various rates. Moreover, this presents complexity of the GST system.

Despite some advantages of increased revenue and broader base, the drawback was that there seems to be large number of zero-rated and exempt supplies. For example, there are about 900 items listed as zero-rated and exempted as at 1st April 2015³³ and since then the Minister proposed more items to be exempted. This would tend to erode the tax base and creates a greater burden for tax administrators and business taxpayers. It would divert a lot of resources to interpreting the legislation that is applicable within and across goods and services. Thus, all these factors may lead to a complex tax where simplicity and revenue raising capacity is compromised thus necessitating a higher GST rate in the future, which in turn may increase the compliance costs for business taxpayers.

3.1.2 Botswana

As mentioned above, the Botswana government initially designed a model VAT system that met international standards, with very few VAT-exempt and zero-rated goods and services. However, the government of Botswana amended the *VAT Act 2001* just before implementation

²⁵ Exemption creep is a situation whereby exemption creates direct pressure for further exemptions. Ibid, 83-90.

²⁶ For example, Alan Tait *Value Added Tax: International Practice and Problems* (International Monetary Fund, Washington DC, 1988) 50; International Tax Dialogue *The Value Added Tax: Experiences and Issues*. (Background Paper Prepared for the International Tax Dialogue Conference on the VAT, Rome, March 15–16, 2005) 8. Retrieved from www.itdweb.org.

²⁷ Sijbren Cnossen “Design of the Value Added Tax: Lessons from Experience” In J. Khalilzadeh-Shirazi and A. Shah (Eds.) *Tax Policy in Developing Countries* (World Bank, Washington, DC, 1991) 78.

²⁸ Tait above n 26, 50.

²⁹ Ibid.

³⁰ Cnossen, above n 27, 83; International Tax Dialogue, above n 26, 15.

³¹ A Santhariah, B Tran-Nam, D Boccabella and N Rametse, above n 6.

³² Ibid

³³ The Star, 4 July 2015.

to include a number of VAT exempt supplies.³⁴ The Botswana government further introduced more zero-rated and VAT-exempt goods and services into the VAT system in 2010 and 2015.³⁵ The VAT-exempt goods and services consist primarily of financial, medical, accommodation in a dwelling and educational activities. Zero-rated goods and services comprise basic foodstuffs³⁶ in their natural state, and not mixed with other products, exports, international transport services and paraffin.³⁷

While, an increase in the number of zero-rated goods may reduce consumption costs of the poor, such a move actually complicates the VAT system and increases VAT compliance costs, especially for SMEs. VAT amendments require businesses to update their VAT accounting systems in order to meet the new requirements. These reforms complicate the VAT system and make compliance arduous. Moreover, they increase VAT compliance costs and arouse negative attitudes in taxpayers, which, in turn, may lead to tax evasion.

3.1.3 Australia

Theoretically, higher start-up compliance costs of the GST should be evident in sales that have a mix of charging categories than those with a standard rate. This is because SMEs owners have to spend more time in setting up systems in order to charge different categories of their products. Tran-Nam and Glover³⁸ found that exemption of some items from the GST created problems for many retail proprietors as they had to re-price their inventory on the introduction of the GST and maintain separate GST-free accounts for stock. Businesses selling zero-rated goods are normally part of the GST system, however, these businesses recover the whole of their input tax credit.

If there is widespread zero-rating, many businesses pay their suppliers more GST than they collect from customers and must receive refunds from Australian Tax Office (ATO). Thus, a refund strategy, which the ATO has established, is critical to ensure that businesses do not wait for an unreasonable time to be refunded, as waiting for a long time can lead to cash flow problems. Sandford and Hasseldine³⁹ show that a mix of charging categories does have the effect of increasing compliance costs, although this may be less apparent for larger firms with more sophisticated accounting systems than for the smallest business. Thus, for Australian SMEs, this situation complicates GST calculations since they do not have complex accounting systems as compared to large businesses.

The ATO also provided simplifying rules for many small businesses with mixed GST inputs and outputs. These comprise the Business Norms, Snapshot and Stock Purchase methods. The Business Norms method uses a standard percentage to determine the split between zero-rated supplies and standard rated supplies. The other two methods determine the split based on records kept for a short period of time. To use these simplified methods, different eligibility

³⁴ See Botswana Customs and Excise, above n 8, 41. Exempt supplies, such as education services and public medical facilities, are not subject to VAT. They are not counted as part of a business's taxable turnover. Zero rated supplies are those that attract VAT at the rate of zero per cent, such as exports and basic food products. Sections 10 and 11 of the first schedule of the Botswana Value Added Tax Act provide a comprehensive list of exempt and zero-rated supplies.

³⁵ Government of Botswana *Value Added Tax (Amendment, A. 1-2) Act, 2015* (Botswana Government Gazette, Gaborone, 2015) <www.burs.org.bw>.

³⁶ These include foods that are consumed mainly by the poor such as millet grain, wheat grain, maize cobs, flour, sugar, maize meal and millet meal.

³⁷ This list is by no means exhaustive. Readers interested in a complete list of zero rated goods and services are referred to Botswana's *VAT Act No 50:03* available from http://www.burs.org.bw/phocadownload/Revenue_laws/CAP%2050-03%20Value%20Added%20Tax%20Act.pdf

³⁸ Tran-Nam and Glover, above n 17, 372.

³⁹ Cedric Sandford and John Hasseldine *The Compliance Costs of Business Taxes in New Zealand* (Institute of Policy Studies, Wellington, 1992) 70.

criteria apply for different industries. Fact sheets for various industries such as food retailers and supermarkets were released by the ATO mainly to enable these businesses to cope with the mix of charging categories. Basically, if small businesses are encouraged by their accountants to use these simplifying approaches, this should reduce their compliance costs.

Zero-rating food means that basic food is excluded from the GST. In Australia, the decision to zero-rate most food received much controversy and political debate. The Democrats supported the idea of zero-rating food from a social concern by focussing more on consumers, for example, protecting low income families and the environment. Arguably, equity issues could have been addressed by compensation programs through social security transfers to fulfil the broad principle of targeting start-up compliance costs towards the public sector rather than the private sector. It must be noted that the Democrats however, down-played the effect of zero-rating food on compliance costs for small businesses.

Prime Minister John Howard was determined to continue to campaign for fundamental tax reform, despite Independent Senator Brian Harradine's refusal to support the GST⁴⁰ on the issue of food inclusion. After much political debate on the food issue, the Democrats then proposed that in the GST amendments, those businesses that provided GST free food must be compensated. In order to pass the ANTS legislation, the government desperately needed support from the Democrats in the Upper House (Senate).

When the final amendments were presented before Parliament, this issue was excluded from the discussions and the amendments that were made. Clearly, the government and the Democrats reached a compromise on this issue. Despite the recommendations made by the Commissioner of Taxation,⁴¹ business organisations, the Business Coalition for Tax Reform (BCTR)⁴² and academics, for example,⁴³ the government went ahead with zero-rating most food. Basically, these parties recommended that lower income groups be directly compensated. Thus, from a compliance cost perspective, SMEs had to ultimately put systems in place that distinguished the GST-free products from those that were fully taxed. The Tran-Nam and Glover⁴⁴ study revealed that complications arising from zero-rating of basic food items was experienced in catering for shearers and other seasonal workers because some items were exempted, and some were subject to GST.

The decision to remove basic food from "the base of the GST was at a cost to revenue of \$3.6 billion in 2001-02, of which \$1.2 billion was funded [through lessening the] reductions in the top personal income tax marginal rates, and the remainder through changes to indirect taxes and subsidies".⁴⁵ Compliance cost literature, however, does not reveal any research so far that supports zero-rating of food. Senator Andrew Murray was cited saying, "the evidence is that countries that exempt food from GST, like the UK, Canada and Ireland, do not have a compliance cost problem".⁴⁶

⁴⁰ ABC News "PM to Push Ahead with GST" (May 15, 1999) 1. Accessed from www.abc.net.au/1999/05/item199905105014301_1.htm [2000, January 10].

⁴¹ Carmody (1999), 'Carmody Takes on Food Fight', Australian Financial Review, 25 March, p7.

⁴² Business Coalition for Tax Reform *Submission to the Senate Select Committee on A New Tax System* (Extracts, 1999) 27-18.

⁴³ Jeff Pope "The Compliance Costs of the Goods and Services Tax: Major Issues" (1999) 18(2) Economic Papers, 61.

⁴⁴ Tran-Nam and Glover, above n 17, 372-373.

⁴⁵ Neil Warren, A Harding, S Lambert and M Robinson "Distributional Impact on Households of the Australian Y2K Tax and Transfer Reforms" Paper Presented at the Conference on Reform of Tax and Tax Transfers in Germany and Australia – and the Ralph Report, UNSW Cliffbrook Campus, Sydney, 1-3 September, 1999, 18.

⁴⁶ Australian Financial Review [AFR] (1999a), 'GST: Car Industry Fears Multiple Tax Slugs', 17 March, p8

However, Senator Murray's argument was contested by Sandford,⁴⁷ stating that caution is needed when making international comparisons as they have the capability of misleading than enlightening. Thus, countries that zero-rate food may have lower compliance costs in aggregate because of other factors such as GST design features, experience and familiarity with GST or similar forms of tax, for example retail sales tax, structure of the GST population and greater use of computers.⁴⁸ It is therefore imperative to argue that zero-rating food does not necessarily lead to lower compliance costs, but could be the result of the above-mentioned issues.

Again, the pre-implementation debate on zero-rating food often made reference to the Canadian experience in comparison with that of New Zealand to justify the Australian situation. The GST compliance costs in Canada, which zero-rates food, was further analysed by Pope.⁴⁹ The Canadian data was obtained from the original study by Plamondon and Associates, summarised by Wurts.⁵⁰

3.2 The level of the GST Registration Threshold of Countries under Comparison

The issue regarding the level of GST/VAT registration threshold is a contentious one. The literature provides conflicting suggestions in relation to an optimal registration threshold. A low registration threshold is seen as a misuse of government revenue on a sector that yields low revenue in comparison to the high cost incurred in administration and compliance. In contrast, a high registration threshold results in differential treatment of businesses, which in turn distorts competition by favouring small businesses below the registration threshold. Such distortions, implied by additional costs in the form of the tax liability and compliance costs, affect the VAT registered businesses.⁵¹ Indeed the choice of an optimal VAT registration threshold is a very contentious issue.⁵²

On the one hand, Shome⁵³ proposes a low registration threshold and argues that small businesses should be taxed for two reasons. To begin with, the contribution to the tax by small businesses, when combined with the medium-sized taxpayers, can be large at over a quarter of total revenue. Second, there is likely to be a strong effect upon the economic growth emanating from ignoring a large amount of potential tax revenue from particular sectors.

On the other hand, Keen and Mintz⁵⁴ maintain that the revenue that is lost by raising the registration threshold and dropping many small businesses from the tax base, can be traded-off against the compliance costs saved by the taxpayers. In the same way, the International Tax Dialogue (ITD)⁵⁵ emphasises the importance of balancing the government's need for revenue against tax compliance costs suggests. The ITD suggests that, generally, it will be optimal to levy the tax only on taxpayers above some critical size, and entirely exclude all those below it from the tax.

⁴⁷ Cedric Sandford *Tax Compliance Costs Measurement and Policy* (Fiscal Publications, Bath, 1995) 405.

⁴⁸ Pope, above n 43, 62.

⁴⁹ Ibid, 66-67.

⁵⁰ B Wurts "Report on the Plamondon Compliance Cost Study for the Canadian Goods and Services Tax", in C Sandford (Ed.) *Tax Compliance Costs Measurement and Policy* (Fiscal Publications, Bath, 1995) 299-320.

⁵¹ Ebrill, above n 22, 120.

⁵² Michael Keen and J Mintz "The Optimal Threshold for a Value Added Tax" (2004) 88(3-4) *Journal of Public Economics* 556, 559-560

⁵³ Parthasarathi Shome *Tax Administration and the Small Taxpayer* (Policy Discussion Paper No. 04/2, International Monetary Fund Publications, Washington D.C., 2004) 3-4.

⁵⁴ Keen and Mintz, above n 52, 562.

⁵⁵ International Tax Dialogue *Taxation of Small and Medium Enterprises* (Background Paper for the International Tax Dialogue Conference, Buenos Aires, October, 2007) 23. Retrieved from <http://www.itdweb.org/documents/itd%20global%20conference%20-%20background%20paper.pdf>.

3.2.1 Malaysia

Mandatory GST registration applies to all suppliers whose sales exceed the threshold of RM500,000 per year (AUD167,683). However, other suppliers were given the opportunity to register voluntarily if their sales are below the threshold. This option was to assist, for example, export companies to claim input tax on their purchases since the exports are zero-rated.

This threshold was considered low and business organisations have voiced their concerns since it would burden SMEs with extra compliance costs due to paperwork and time to meet reporting obligations. They argued that the neighbouring country Singapore has a higher threshold of SGD 1 million (AUD 1.03 million). Currently only selected goods and services are liable for Sales and Service tax (SST). However, under the GST regime, a wider range of goods and services would be subjected to GST since more business taxpayers would register for GST and generate more revenue despite the extra compliance burden imposed on smaller businesses.

3.2.2 Botswana

The VAT registration threshold in Botswana has gone through several changes. At implementation of the VAT in 2002, the registration threshold was P250,000 (AUD32,000).⁵⁶ The registration threshold was increased to P500,000 (AUD64,000) in April 2010 and to the current P1,000,000 (AUD128,000) in 2015.⁵⁷

3.2.3 Australia

A major factor that affects both administrative and compliance costs of the GST, or any tax, is the number of taxpayers in the system.⁵⁸ Poutziouris, Chittenden and Michaelas⁵⁹ argue that raising the threshold has provided benefits for both Government and businesses. In Australia, the current registration threshold is A\$75,000. One of the major findings of Cnossen⁶⁰ was that exempting small business from the GST system through increasing the registration threshold, will lower both the administrative and compliance costs of the GST. Furthermore, a higher registration threshold is, thus, important, as it gives small business the choice of being part of the GST system. Many countries do allow businesses with sales turnover below a certain level of the registration threshold, to opt out of the GST system altogether, hence those that opt out, face a tax burden instead of a compliance burden. This is because, as opposed to registered businesses, they must pay GST on their supplies, but will not qualify to claim input tax credit.

The registration threshold, however, is a major compliance problem for small businesses. Moreover, from a policy perspective, the government's concern with tax evasion, compliance of tax regulations by businesses, as well as weakening ATO tax data collection. Consequently, governments normally set the registration threshold at a lower level to give tax authorities ease of monitoring. This is because they believe that "a GST is self-monitoring and can flush out the cash economy".⁶¹

Time taken by small business owners in attending to registration issues prior to the implementation of the GST is a start-up compliance cost. Small businesses had to know their

⁵⁶ The exchange rate of Botswana Pula (BWP) to Australian Dollar (AUD) as at August 2018 was 0.128: <www.xe.com>.

⁵⁷ Government of Botswana *Value Added Tax (Amendment) Act, 2015* (Botswana Government Gazette, 2015) A.1-2: <www.burs.org.bw>.

⁵⁸ Jeff Pope and P Fernandez "Current Tax Reform in Australia: An Ambitious Programme" (2001) 2 *British Tax Review* 135, 137.

⁵⁹ P Poutziouris, F Chittenden, and N Michaelas *Modelling the Impact of Taxation on the Small Business Economy: The NatWest MBS Tax Index for the Self Employed, Sole Traders and Partnerships* (Manchester Business School, 1999) 9.

⁶⁰ Cnossen, above n 27..

⁶¹ Binh Tran-Nam "Assessing Revenue and Simplification Impacts of Government's Tax Reform" (1999) 9(10) *Journal of Australian Taxation* 329, 331.

turnover to comply with the registration threshold requirement. The literature recognises that invariably, many small businesses' compliance costs are normally more than the GST revenue generated. As such, the choice of a registration threshold is very important in the design and implementation of GST.⁶²

Overall, GST registration thresholds differ from one country to another across the globe. Countries such as the UK and Singapore have a high registration threshold, mainly to keep small businesses out of the GST system with the intention of reducing their compliance costs. As already discussed above, the lower registration threshold attracts a greater number of small businesses and non-profit making organisations to register and be part of the GST system, leading to high gross compliance of the whole country. Regarding most developing and transitional countries, it is likely wiser to set the registration threshold too high than too low.⁶³ In the case of the countries under study, Malaysia and Botswana have higher registration thresholds, which have the capacity to prevent more SMEs from being part of the GST system (see Table 1). As such, the tax base will be narrower.

Table 1 – Current Registration Thresholds for Malaysia, Botswana and Australia

Country	Registration Threshold in Australian Dollars***
Malaysia	\$167,683*
Botswana	\$128,000**
Australia	\$75,000

*\$500,000

**P1,000,000

***Converted to Australian Dollars on 18 July 2018

To this end, comparing these countries needs caution. In 1973, when VAT was introduced in UK, the registration threshold was £5,000 and was gradually increased until it reached the current registration threshold of around £54,000. In Singapore, the registration threshold is S\$1 million⁶⁴ These registration thresholds are much higher than those of Australia and New Zealand. When New Zealand first introduced the GST in 1986, the registration threshold was NZ\$30,000.

The UK evidence has been cited, which found that the registration threshold acts to restrain the growth of micro-businesses. Eighteen per cent of the micro-businesses intentionally forgo growth in order to keep their turnover below the GST-registration limit.⁶⁵ Similarly, Chittenden et al reiterate this and conclude that tax compliance costs appear to affect business decisions.⁶⁶ This phenomenon, coupled with the paperwork and other compliance burdens of the GST, may, without proper government policy responses, act as a barrier to economic growth and

⁶² For example, Ebrill, above n 22, 113; Michael Keen and J Mintz "The Optimal Threshold for a Value Added Tax" (2004) 88(3-4) *Journal of Public Economics* 556, 559; International Tax Dialogue, above n 26, 16.

⁶³ Richard M Bird and P Gendron *The VAT in Developing and Transitional Countries* (Cambridge University Press, New York, 2007) 3.

⁶⁴ Jeff Pope 'Factors affecting the Compliance Costs of the Goods and Services Tax in Australia', in Evans, C., Pope, J. and Hasseldine, J. (Ed) (2001), *Tax Compliance Costs: A Festschrift for Cedric Sandford*, Prospect Media Pty Ltd, St. Leonards, pp139-157.

⁶⁵ Poutziouris, Chittenden and Michaelas, *Modelling the Impact of Taxation on the Small Business Economy: The NatWest MBS Tax Index for the Self Employed, Sole Traders and Partnerships* (Manchester Business School, 1999).

⁶⁶ Francis Chittenden, Saleema Kauser and Panikkos Poutziouris "Tax Regulation and Small Business in the USA, UK, Australia and New Zealand" (2003) 21(1) *International Small Business Journal* 93, 5.

employment. Consequently, there is no doubt that this would negatively affect the overall economy.

In a submission to the Senate Select Committee on the GST, Pope advocated for a higher GST business registration threshold, a matter that was not considered by the government. Furthermore, Pope and Fernandez⁶⁷ contested that there was hardly any support from leading business organisations or from the Senate Select Committee⁶⁸ and even from a major report by Evans and Ryan⁶⁹ on this issue. However, a later report⁷⁰ discussed an increase in the registration threshold “if it proves to be the case that the costs of small business compliance are inordinately large compared to tax yield (whilst recognising the potential revenue leakage as a result of non-registered enterprises”.⁷¹ This suggests that the issue of registration threshold is important for all the parties concerned, without overlooking tax evasion.

Kauser et al however, argue that more recently there has been a concern about the effect of the threshold on competition between registered and unregistered businesses.⁷² VAT registered small businesses face a competitive distortion. This is because these businesses have to compete with the registered micro-firms who do not have to comply with VAT regulations and are able to quote competitive prices to clients who are able to avoid paying VAT.

3.3 The Role of the Monitoring Bodies on Profiteering

3.3.1 Malaysia

In Malaysia, to control profiteering by unscrupulous traders who took advantage of GST to increase prices, the *Price Control and Anti- Profiteering Act 2011* was enacted. Later this Act was revised to *Price Control and Anti-Profiteering (Amendment) Act 2017*. However, this monitoring body was unable to function effectively to control prices. Due to lack of confidence in the Royal Malaysian Customs Department (RMCD) to control the prices, the Anti-Profiteering and Price Monitoring Council in enforcing the GST Act, as well as the Price Control and Anti-Profiteering Act effectively. Even this monitoring body was unable to function vigorously. The Australian government empowered the Australian Competition and Consumer Commission (ACCC), as part of its tax reform program, to monitor prices for a period of 35 months.⁷³

3.3.2 Botswana

Prior to implementation of the VAT, the Botswana government did not engage any monitoring agency in monitoring businesses that took advantage of VAT by increasing prices for profiteering. The current consumer watchdog was established two years after the VAT had been implemented

⁶⁷ Pope and Fernandez “Current Tax Reform in Australia: An Ambitious Programme” (2001) 2 *British Tax Review*, 135-151.

⁶⁸ Senate Select Committee *On a new tax system* April 19, 1999. Accessed from <http://www.aph.gov.au/senate/committee/publications/reports.htm> [2000, January 30].

⁶⁹ Evans and Ryan, above n 16.

⁷⁰ Chris Evans and J McManus *Tax Reform Issues for Small Business – Discussion Paper on “A Tax System Redesigned”* (Ralph Review of Business Taxation, 1999). Accessed from <http://www.cpaonline.com.au> [2000, July 20].

⁷¹ *Ibid*, 25.

⁷² Saleema Kauser, F Chittenden and P Poutziouris *On the VAT Affairs of Small Firms: Empirical Evidence from the UK SME Economy* (Paper Presented to the Institute for Small Business Affairs/Small Business Service Workshop on the Taxation of Small Business, Manchester Business School, 26 September 2001) 8.

⁷³ Business Council of Australia *The ACCC’s GST Price-Monitoring Regime* (2000) 2(2), 42-53.

3.3.3 Australia

In Australia, the monitoring started from 8 July 1999 to 30 June 2002, which was the New Tax System's transition period.⁷⁴ This price monitoring was mainly against GST profiteering by businesses and it included enormous fines of up to \$10 million on businesses and \$500,000 and jail sentences on individuals such as business owners, directors and others who are found guilty. While the business community welcomed the application of the ACCC regime to changes to prices rather than their level, it still presented difficulties for them. Moreover, as Pope and Rametse have noted,⁷⁵ whether high compliance costs can be passed onto the consumer is problematical given the very competitive market in which many small businesses operate and the role of the ACCC in protecting consumers against unnecessary price increases.

Arguably, in order to minimise compliance costs associated with this, monitoring could have been constrained to only the periods in which the actual changes occurred. Outside this period, it would be impossible to distinguish between GST price changes and normal practice.

3.4. Method of Accounting for GST

The cash or accrual method of accounting for the GST also has a direct relationship to start-up tax compliance costs for small businesses. SMEs have to consider switching from their existing accrual method of accounting to take advantage of the benefits offered by the use of required method under the GST system.

Businesses account for GST/VAT using either the cash or the accrual method of accounting. Under the cash accounting method, businesses account for the GST they have actually received, thereby minimising their cash flow problems that arise from slow payers and paying tax on bad debts. This allows small businesses that operate on a manual cashbook not to "require the services of their accountant to calculate the GST payable since the cash basis system is not as complex as the accrual method".⁷⁶ Furthermore, small businesses may align their GST and income tax positions.

In contrast, the accrual method of accounting for the GST requires an understanding of double-entry bookkeeping and accounting processes. According to this system, businesses are to account for the GST immediately when the invoice is issued. The shortcoming of this method is obvious – the GST is accounted for irrespective of cash receipt. The accrual method is likely to impact heavily on rural sectors where growers of grain crops are paid by instalments until they have grown their crop. Businesses that rely on credit sales also suffer cash flow problems, as they have to remit VAT to the government before receiving payment from sales.

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⁷⁴ Australian Competition and Consumer Commission *GST Final Report: ACCC Oversight of Pricing Responses to the Introduction of the New Tax System* (ACCC, 2003) 5. Accessed at <http://ACCC.gov.au/content/index.phtml/itemId/256507> [2005, [2004, August 3].

⁷⁵ Jeff Pope and Nthathi Rametse "Small Business and the Goods and Services Tax: Compliance Cost Issues" (2001) 9(2) Small Enterprise Research (The Journal of SEANZ) 42-54.

⁷⁶ Jeff Pope and Nthathi Rametse "Small Business and the Goods and Services Tax: Compliance Cost Issues" (Working Paper 2000.43, Curtin University, School of Economics and Finance, Perth, 2000) 15.

complex as the accrual method”.⁷⁷ Furthermore, small businesses may align their GST and income tax positions.

In contrast, the accrual method of accounting for the GST requires an understanding of double entry bookkeeping and accounting processes. According to this system, businesses are to account for the GST immediately when the invoice is issued. Botswana uses the accrual method of accounting for VAT purposes. The shortcoming of this method is obvious – the GST is accounted for irrespective of cash receipt. The accrual method is likely to impact heavily on rural sectors where growers of grain crops are paid by instalments until they have grown their crop. Businesses that rely on credit sales also suffer cash flow problems, as they have to remit VAT to the government before receiving payment from sales.

3.4.1 Malaysia

In Malaysia to ease the burden on SMEs compliance the cash method accounting was allowed for businesses with turnover less than RM 2million. For turnover over RM 2 million the reporting was based on accrual basis. Lim (2006)⁷⁸ found that most SMEs in Malaysia are family-based businesses that still operate the ‘conventional’ way (cash basis) with very little computerisation.

3.4.2 Botswana

The Botswana VAT system uses the accrual method for accounting for VAT for all business sizes. This creates an unnecessary cost for businesses in a system that is already burdensome. Not all businesses receive cash for their sales. Some businesses sell goods and services on credit and receive payment at a later date, in some cases after three months. These businesses are required to remit to the Botswana government the VAT that they have not yet received and, in the process, incur a cash flow cost.⁷⁹

3.4.3 Australia

The cash method of accounting was part of a Simplified Tax System (STS), recommended by the Ralph Report.⁸⁰ Under the STS, small businesses with an annual turnover of \$1 million could use cash accounting system and other simplification methods to calculate income tax liabilities from 1 July 2001, not from 1 July 2000 as originally proposed by Ralph.⁸¹

Although the cash accounting system of reporting was generally accepted by small business, the turnover threshold limit for cash reporting under the GST was a concern for many. Prior to the implementation date (1 July, 2000) or the initial ANTS proposals, the threshold was originally set at \$250,000.⁸² After much lobbying by CPA Australia (the then Australian Society of CPAs), the turnover threshold, at which small businesses could use the cash method of accounting, was gradually increased from \$250,000, to \$5000,000⁸³ and ultimately \$1

⁷⁷ Jeff Pope and Nthathi Rametse “Small Business and the Goods and Services Tax: Compliance Cost Issues” (Working Paper 2000.43, Curtin University, School of Economics and Finance, Perth, 2000) 15.

⁷⁸ T M Lim *Outsourcing to ensure successful ICT systems implementation and maintenance* (2006). Retrieved July 9, 2014, from <http://www.infotech.monash.edu.my/news/media.html>.

⁷⁹ See Makara and Rametse, “Estimates of the Cash Flow and Managerial Benefits of Value Added Tax in Botswana” (2017) 23(4) *New Zealand Journal of Taxation Law and Policy* 422.

⁸⁰ Australia Review of Business Taxation and John T Ralph *A Tax System Redesign: More Certain, Equitable and Durable: Report Review of Business Taxation* (Treasury, Canberra, 1999) <<http://www.rbt.treasury.gov.au/publications/paper4/index.htm>>.

⁸¹ Jeff Pope “Factors affecting the Compliance Costs of the Goods and Services Tax in Australia” in C Evans, J Pope and J Hasseldine (Eds) *Tax Compliance Costs: A Festschrift for Cedric Sandford* (Prospect Media Pty Ltd, St. Leonards, 2001) 3.

⁸² Evans and Ryan, above n 16, 35; Australian Financial Review *Push to Lift GST Reporting Limit* (1999) Australian Financial Review, 32.

⁸³ Angela Ryan, Letter to the Deputy Commissioner, GST – Australian Taxation Office, dated 11th August, 1999.

million on 30 August 1999.⁸⁴ Suffice it to say that the low threshold was criticized for its capability of increasing compliance costs. This is because it could force the majority of small businesses to use the complex accrual method of reporting, which requires a significant understanding of the double entry accounting system.

One more problem is that, since the ATO requires the Business Activity Statement (BAS) to be submitted three weeks after the end of the period, small businesses would not cope with compliance under the accrual system. The reason being, the accrual system requires clients to wait two or three weeks at the end of the period to obtain all their statements from suppliers. The pre-GST implementation survey by the Victorian Employers' Chamber of Commerce and Industry (VECCI)⁸⁵ showed that 58 per cent of the respondents considered accounting for the GST to be the most significant burden. A post-implementation figure could probably be lower than this pre-implementation estimates as SMEs become familiar with the GST, especially with the use of the cash accounting system. Moreover, with the qualification of the threshold on the use of the accounting method, Australian small businesses have the choice of the method of accounting for GST purposes. However, switching from an existing accounting method may increase compliance costs for small businesses, as they would need more time to change systems and familiarise themselves with the new method.

As discussed above, both the cash and accrual methods of accounting were part of the STS recommended by Ralph. Dirkis and Bondfield⁸⁶ and Dirkis and Bondfield⁸⁷ extensively critique the Ralph recommendations post the implementation of the GST, so far as they affect small businesses. Dirkis and Bondfield note that the government claimed that 95 per cent of all businesses and 99 per cent of farming businesses would be eligible for STS. However, by 17 April 2003, of eligible taxpayers who lodged their 2002 tax returns, only 14 per cent had opted into STS.⁸⁸

4. GST BENEFITS

4.1 Cash Flow Benefit

The lag in payment of the GST collected by small businesses to the ATO is of particular significance in calculating compliance costs. The Cash Flow Benefit (CFB) comprise of the collection period and the grace period, which is the time that the business is holding the tax collected before it is remitted to the ATO. Theoretically, collection and payment of the GST systems to the ATO generate a CFB to small businesses. The issue is to what extent does the CFB relate to small business start-up tax compliance costs of the GST? This is controversial as this benefit has much more of a direct relationship with recurrent costs than start-up costs.

To these authors' knowledge, the literature does not reveal any study that has estimated CFB relative to start-up tax compliance costs. Previous studies that have estimated CFB are those that related to recurrent compliance costs. For example, Pope⁸⁹ estimated the value of CFB for

⁸⁴ Australian Financial Review *GST Cash Limit to \$1m* (1999) Australian Financial Review, 5.

⁸⁵ Victorian Employers' Chamber of Commerce and Industry *Special Questions - GST Compliance Burden, Survey of Business Trends and Prospects* (September Quarter Performance and December Quarter 1999 Outlook, No. 20, Melbourne).

⁸⁶ Michael Dirkis, and Brett Bondfield "The RBT ANTS Bite: Small Business the First Casualty" (2004) 19(2) Australian Tax Forum, 107-158.

⁸⁷ Michael Dirkis and Brett Bondfield "Much Ado About Nothing: Ralph's Consideration of Small Business", (2002) 1(2) Journal of the Australasian Tax Teachers Association, 110-141.

⁸⁸ Dirkis and Bondfield "Much Ado About Nothing: Ralph's Consideration of Small Business" (2005) 1(2) Journal of the Australasian Tax Teachers Association, 110-141.

⁸⁹ Jeff Pope "The Compliance Costs of Major Taxes in Australia, in *Tax Compliance Costs Measurement and Policy*" (1995), Sandford C. (Ed.), (Fiscal Publications: Bath, 1995).

1990/91. Evans, Ritchie, Tran-Nam and Walpole⁹⁰ provided estimates of the CFB for the major Commonwealth taxes for 1994/95. Sandford and Hasseldine also articulate the methodology for calculating CFB.⁹¹

For the Australian GST, Pope⁹² and Ariff and Pope⁹³ fully discuss theoretical aspects and the formula for calculating the CFB for small and medium sized businesses. Isle, Freudenberg and Copp⁹⁴ report that Australian businesses recognise minimal or no cash flow benefit from holding the GST liability before it is remitted to the government. More recently, Makara and Rametse⁹⁵ estimated the CFB for businesses in Botswana at BWP 61 million (AUD8 million)⁹⁶ and BWP 69 million (AUD9 million)⁹⁷ for the financial years 2009/10 and 2010/11, respectively. The Botswana estimates relate to VAT recurrent compliance costs, not implementation costs. Notably, for Malaysia, GST was only implemented in 2015, hence difficult to estimate the cash flow benefit since in the first year of its implementation, most of the businesses changed the credit period from 120 days to 60 days to meet GST payments. Thus, after 3 years of the GST implementation, the cash flow benefit may be effectively estimated once the credit period is established.

CFB [and also the tax deductibility of legitimate business expenses (acquisition of new plant or new software/upgrades)] is an offset to the recurrent gross compliance costs of the GST and arguably start-up compliance costs too. It could be argued that CFB of the GST should not feature at all in the calculation of start-up costs. However, it is legitimate to argue that to some extent this area overlaps any investigation of recurrent GST compliance costs. As such, careful analysis is required in order to demonstrate the relationship between the level of start-up costs (as a *business investment*) and lower recurrent costs (*benefits* arising from the period the GST is withheld by small businesses before remitted to the ATO).⁹⁸

CFB is indirectly related to start-up costs since small businesses that did not have computers before the implementation of the GST had to acquire them for compliance (direct benefit), but could use these computers in managing their finances to ensure that they do not suffer a cash flow cost (indirect benefit) arising from input tax credits exceeding the GST collected. Although this study Rametse⁹⁹ recognises the CFB for small businesses, its quantification was omitted because of its weaker relationship to start-up costs. Moreover, small businesses only enjoy the CFB once the new tax has been introduced.

Theoretically, the small numbers of annual remitters are at a better cash flow advantage than quarterly remitters. Since most businesses collect more GST on their outputs than they pay on

⁹⁰ Chris Evans, K Ritchie, B Tran-Nam & M Walpole *A Report into Taxpayer Costs of Compliance* (Australian Government Publishing Service Canberra, 1997) 42-50.

⁹¹ Sandford and Hasseldine, above n 39, 72.

⁹² Pope, J. (2000b), 'Tax Compliance Costs: The Value of Cash Flow Benefits to Business and the Effect of the Pay-As-You-Go System', Paper presented at the Fourth International Conference on Tax Administration, 28-29 April 2000, Sydney, and in Walpole, M. and Evans, C. (Ed., 2001), *Tax Administration in the Third Millennium*, Prospect Media Pty Ltd, Sydney.

⁹³ Mohamed Ariff and Jeff Pope *Taxation and Compliance Costs in Asia Pacific Economies* (University Utara Malaysia Press Sintok, Malaysia, 2002) 151-157.

⁹⁴ Melissa Belle Isle, Brett Freudenberg and Richard Copp "Cash Flow Benefit from GST: Is it Realised by Small Businesses in Australia?" (2004) 29(3) Australian Tax Forum 417.

⁹⁵ Makara and Rametse, above n 4.

⁹⁶ See <www.xe.com>.

⁹⁷ Ibid.

⁹⁸ Nthati Rametse and Jeff Pope *Start-up Tax Compliance Costs of the GST: Empirical Evidence from Western Australian Small Businesses* (Paper Presented at the 15th annual Australasian Tax Teachers Association (ATTA) Conference, University of Wollongong, 30 January – 1st February, 2003) 20.

⁹⁹ Nthati Rametse *Start-up Compliance Costs of the Goods and Services Tax (GST) for Small Businesses in Australia*, PhD thesis, Curtin University (Unpublished).

their inputs, the cash flow advantage to small businesses should be greater than reporting on a monthly basis. In fact, businesses that provide GST free supplies pay more GST on their inputs than on their outputs. Thus, reporting on a monthly basis may be beneficial to them since they can claim input tax from the ATO within a short period of time. Consequently, a pre-implementation requirement for small businesses was to assess their situation as to when to remit the GST they collected.

4.2 Information Technology and Management Efficiency

As noted by Edwards-Dowe,¹⁰⁰ the use of technology to enhance the effectiveness of tax administration and compliance has increasingly attracted attention in both developed and developing countries. Moreover, Bernier and Suire¹⁰¹ postulated that data is the key for GST/VAT reporting.

Research has also proven that the use of automated collection and reporting systems, particularly for SMEs, have indeed decreased their compliance cost burdens.¹⁰² However, a contrasting factor to the use of computers reducing compliance costs for small and medium sized businesses was evident in a recent UK study.¹⁰³ Businesses that used computers for VAT record-keeping incurred significant higher recurrent compliance costs than businesses that did not. The possible reason could be that businesses using manual systems do not place a high value on the time taken and/or businesses are more able to accurately value costs of operating a computerised system. Further alternative reasons were explained as possible quality of computer software and computer training.¹⁰⁴

Studies that investigate managerial benefits are sparse. The literature indicates that, to date, only three studies have attempted to estimate managerial benefits. The National Audit Office¹⁰⁵ estimated the managerial benefits for the UK businesses at GBP 150 million (AUD274 million).¹⁰⁶ These benefits ranged from GBP 4million (AUD7 million) for the smallest businesses to GBP 49 million (AUD90 million) for the larger businesses. In Australia, Rametse reported that average managerial benefits for were around AUD 4,639 per small firm. More recently, Makara and Rametse estimated aggregate managerial benefits Botswana SMEs at BWP 79 million (AUD13 million)¹⁰⁷ for 2009/10 and BWP 95 million (AUD14 million) for 2010/11. The smallest businesses reported estimated managerial benefits of BWP 11,810 (AUD1,968) per small firm in 2009/10 and BWP 9,261 (AUD1,323) per small firm in 2010/11.

In Malaysia, Mohd Daud and Mohamed¹⁰⁸ posited that Information Technology (IT) usage will enable the improvement of both individual and organisational performance. Lim¹⁰⁹ found that

¹⁰⁰ D Edwards-Dowe *E-Filing and E-Payments – The Way Forward* (Paper presented at the Caribbean Organization of Tax Administration, Caribbean Regional Technical Assistance Centre, 2008).

¹⁰¹ G Bernier and J Suire *Meeting the VAT E-audit Challenge* (Indirect Tax Briefing: Issue 11, EYGM Limited, December 2014).

¹⁰² R J Cline and T S Neubig (1999), *Masters of Complexity and Bearers of Great Burden: The Sales Tax System and Compliance Costs for Multi-State Retailers* (1999), accessed at www.ecommercecommission.org/document/MastersOfComplexity.pdf. [2003, January 10].

¹⁰³ John Hasseldine and Ann Hansford “The Compliance Burden of VAT: Further Evidence from the UK (2002) 17 Australian Tax Forum 369.

¹⁰⁴ *Ibid*, 382.

¹⁰⁵ National Audit Office *HM Customs and Excise: Cost to Business of Complying with VAT Requirements* (HMSO, London, 1994).

¹⁰⁶ See <www.xe.com>.

¹⁰⁷ *Ibid*.

¹⁰⁸ N Mohd Daud and I S Mohamed “Evaluating the Intranet Acceptance with the Extended Task-Technology Fit Model: Empirical Evidence in Malaysian Maritime Industry” (2010) 3 *International Journal of Arts and Sciences*, 294.

¹⁰⁹ T M Lim *Outsourcing to Ensure Successful ICT Systems Implementation and Maintenance* (Monash University, 24 August, 2006).

most SMEs in Malaysia are family businesses and operate on a cash basis with very little computerisation. Low computer use was also due to high staff turnover and a lack of IT expertise. Seow¹¹⁰ found that only 30 per cent of SMEs in Malaysia have a web presence and use IT in their daily operations and found that SMEs seem more concerned with appearance in the marketplace than getting into new technology to increase the efficiency of their business. Tan¹¹¹ also noted that SMEs in Malaysia are slow in adapting to IT to increase their global competitiveness.

In Australia, it may be argued that though the Government made the use of technology for GST and PAYG optional for small businesses; this remains a paradox. This is because it could be costly for small businesses to acquire or upgrade computers and accounting software to comply with GST requirements in the short-term, but in the long run, this may provide them with managerial benefits. In their critical review of regulatory burdens on small firms, Chittenden, Kauser and Poutziouris¹¹² omitted the effect of technological change that might have lowered compliance costs. This was because the majority of the studies they reviewed were out-dated.

Technological advancement can ease small business communication with the ATO and make GST and PAYG calculations much simpler than manual systems. Time and effort involved in complex and difficult communication with the ATO increases compliance costs for small businesses. Furthermore, complexity of tax calculations can cause error which has a potential of exposing small business taxpayers to the risk of penalties by the ATO. In this context, provision of on-line tools by ATO to small business taxpayers could overcome this problem. The ATO could be responsible for the calculation, whilst small businesses provide correct data. Overall, GST and PAYG benefits of information technology entail:

- Ease and accuracy in the calculation of GST liabilities.
- Lower GST/PAYG penalties risk.
- Ease and reduced need of communication with ATO.
- Fewer tax calculations and forms to complete.
- Electronic lodgement of PAYG returns

The extent of the use of technology by small businesses was revealed by the Canadian Federation of Independent Business (CFIB) GST study.¹¹³ This research showed major differences on the start-up costs of technology for small and medium-sized businesses. Medium-sized businesses reported higher software costs than small businesses but lower equipment costs. This indicated that unlike smaller firms, medium sized businesses already had computers and only needed to spend on upgrades rather than new acquisitions.

5. CONCLUSION

The overall tax reform which encompassed the introduction of the Australian GST raised major controversial compliance issues for SMEs. A higher registration threshold is important mainly to keep the Malaysian, Botswana, Australian and other countries' small business out of the GST system, hence reduce compliance costs. However, as a start-up compliance requirement,

¹¹⁰ T C Seow "SMEs Need to Embrace ICT" (2006) Computerworld Malaysia (online).

¹¹¹ C Tan "Towards Progress" (2006) Computerworld Malaysia (online).

¹¹² Francis Chittenden, Saleema Kauser and Panikkos Poutziouris *Regulatory Burdens of Small Business: A Literature Review* (A Research Project Funded by the Small Business Service and Supported by the Leverhulme Trust, Manchester Business School, University of Manchester, 2000) at 5 accessed at www.sbs.gov.uk/content/research/Regulation_report.pdf. [2003, January 14].

¹¹³ Canadian Federation of Independent Business *The GST: A National Tragedy* (CIFB, Toronto, 1991).

small businesses had to know their turnover for registration. International comparisons on compliance costs issues must be treated with caution because of tax cultures and methodological differences.

Complexity is seen as a major problem of the governments' tax reform as far as small businesses are concerned. In Australia, this was made worse by the Democrats' deal with the Government to zero rate basic food. Simplification strategies (for example, in Australia) calls for SMEs to use a cash basis of accounting for the GST. However, the choice of the method of accounting during the GST implementation could be problematic for SMEs if they have to switch from their existing method of accounting. In Malaysia, the government announced 54 GST zero-rated items, which was an increase on 40 items from 2009,¹¹⁴ as one of the measures aimed at mitigating the impact of start-up compliance costs and recurrent costs of the GST on small businesses (regressivity),

Whilst the GST offers benefits for small businesses, such as CFB and managerial benefits, some small businesses argued that these may be overshadowed by high start-up compliance costs. Though the CFB has a weaker relationship to start-up costs, small businesses had to assess their situation as to when to remit the GST collected. Governments often argue that the acquisition of computers and related software as start-up costs would result in managerial benefits and efficiency for small businesses. Meeting monitoring bodies' requirements on price increases arising from the GST was also a start-up compliance requirement for SMEs.

¹¹⁴ Malaysia's Budget 2015, at www.treasury.gov.my/index.php?option=com_content&view=article&id=4292:budget-2015&catid=256&Itemid=2472&lang=en