

Start-up Compliance Costs of the Malaysian Goods and Services Tax for Small and Medium Sized Enterprises

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ABSTRACT

The Malaysian Goods and Services Tax (GST) was implemented in Malaysia on 1 April 2015. GST implementation was part of Malaysia's reformation of their tax system aimed at improving the collection of revenue and reducing the country's budget deficit. GST, a broad-based consumption tax, was levied at 6 per cent in Malaysia, with most food zero-rated (GST free). This study examines Small and Medium-sized Enterprises' (SMEs) start-up costs of the GST in Malaysia for the period 1 April 2012, up until 30 March 2015. The research particularly assesses the magnitude of the implementation costs of a new tax, thus contributing to the compliance costs literature. A survey of sixty-eight (68) SMEs, undertaken in June 2016, estimated the mean gross start-up compliance costs at RM201,831 per SME. Mean internal costs, estimated at RM137,399, represented 68 per cent of mean start-up compliance costs, while mean external costs, reported at RM64,342 comprised 32 per cent of mean start-up compliance costs. Some respondents (43 per cent) did not overwhelmingly support the Malaysian government's taxation reform, while around 50 per cent of the respondents indicated that they found GST unreasonably complicated. This could explain why 41 per cent of the respondents reported that they resented doing GST work. Despite the high GST start-up compliance costs, SMEs also identified potential managerial benefits derived from improved accounting information system available for day to day business decisions (88 per cent), improved controls to prevent theft and fraud (71 per cent), savings in accounting costs as a result of using internal staff to keep records (60 per cent) and better accounting information forecasting cash flow and profit (72 per cent). This investigation concludes with a discussion of policy implications for the Malaysian GST system.

Keywords: Malaysian goods and services tax; Start-up compliance costs, Implementation costs; Small and medium-sized enterprises; Royal Malaysian Customs Department.

1.0 INTRODUCTION

1.1 Overview

The Malaysian government introduced the Goods and Services Tax (GST)¹ in 2015, after two failed attempts. As noted by Krall and Kasipillai² these attempts were spread over seven years. During this time, the former Prime Minister, Tun Abddullar Badawi, proposed the GST to be included in the 2005 Budget, for implementation in 2007. After much political debate and the public opposition, the first attempted implementation failed. The second implementation was attempted under the Prime Minister Najib Razak, who argued that the GST was overdue to replace the inefficient Sales and Services Tax (SST).

The GST was introduced in Malaysia on 1 April 2015 to replace the SST. The GST is a broad-based indirect tax and was levied at six per cent on most supplies of goods and services consumed within Malaysia, with most food, health and education services zero-rated (GST free). Businesses that supply zero-rated supplies are required to register for GST and can claim input tax credits for the GST that they pay on business purchases related to making zero-rated supplies such as raw materials.

On one hand, the introduction of the GST aimed to help Malaysia to achieve certain benefits, for example, broadening the tax base, improving revenue stability, replacing the complex SST and reforming the overall Malaysian tax system. On the other hand, it also presented capacity for high implementation costs for SMEs, coupled with a negative impact on the community and the overall economy.

Studies, for example, Mohd,³ have discussed the Malaysian achievement of a strong economy over the years, with a Gross Domestic Product (GDP) averaging five per cent. This sustainable growth is a result of a robust investment and domestic consumption. The Malaysian economy continued to perform strongly at 5.9 per cent in 2017 driven by strong global demand for electronics and improved terms of trade for commodities such as oil and gas. A slower growth of 5.3 per cent was forecasted in 2018, due to lower petroleum prices.

This study has focused on the start-up compliance costs of Malaysian Small and Medium-sized Enterprises (SMEs) since they make a significant contribution to the economy in terms of employment and output.⁴ Apart from Malaysia, this research is also important for other developing countries in relation to the 2030 United Nations' Agenda for Sustainable Development goals, which include strengthening domestic revenue mobilization and improving domestic capacity for tax revenue collection, as noted by Nam.⁵ Moreover, other international countries yet to introduce the GST will benefit from this research in terms of assessing the magnitude of start-up compliance costs of a GST or any new tax.

¹ In other countries Goods and Services Tax is also known as Value Added Tax in other countries

² D Kraal and J Kasipillai "Finally, a goods and services tax for Malaysia: a comparison to Australia's GST experience" (2016) 31 Australia Tax Forum 2016 at 257–287.

³ E A M Mohd,(2012). An economic outlook for Malaysia. Paper presented at the National Tax Conference 17 July 2012, Malaysia. Retrieved June 29, 2014, from <http://www.ibfd.org/IBFD-Tax-Portal/Events/2012-National-Tax-ConferenceMalaysia>.

⁴ AS Saleh and NO Ndubisi "An evaluation of SME development in Malaysia. International review of business research papers (2006) 2(1), 1-14; T Ramayah and KP Ling An exploratory study of Internet banking in Malaysia. In Proceedings of the 3rd International Conference on Management of Innovation and Technology 25-27 October 2002.

⁵ U V Nam (2015). Transforming our world: The 2030 agenda for sustainable development. United Nations 2015

Studies⁶ confirm the contribution that Malaysian SMEs make to establishments. According to the 2011 economic census, SMEs accounted for 97 per cent of total business establishments, but only 36 per cent of GDP in 2015, below the 50 per cent of GDP average for high-income countries. Some commentators alluded that in 2016, as at October 31, the Malaysian Government had collected RM59.72 billion in GST, since implementing the scheme on April 1, 2015.⁷ However, others reported GST collection in 2015 to be at RM27 billion or 12.3 per cent of the government's overall revenue of RM219.1 billion, while GST collection in 2016 was at RM41.2 billion or 19.4 per cent of the RM212.4 billion government revenue.⁸ A pre-implementation study by Palil et al found that SMEs estimated their implementation costs at RM28,000 (USD7,000).⁹ It must be noted that Palil et al's study was based on expectations than actual data from Malaysian SMEs. Moreover, prior to the implementation of a new tax, governments usually justify through their tax impact statements, that the tax will enable enterprises to derive managerial benefits.¹⁰ Several studies, for example, Rametse and Pope, Sandford and Hasseldine, as well as Lignier have confirmed the existence of managerial benefits, although overshadowed by excessive compliance costs.¹¹ Research has also confirmed smaller businesses tend to benefit more from the implementation of tax as they have less complex systems than larger enterprises.¹² This then raises the questions:

RQ 1: What are the magnitudes of the start-up compliance costs of the GST for Malaysian SMEs?

RQ 2: Can Malaysian SMEs expect to derive benefits arising from the implementation of the GST?

The importance of the political debate around the reversal of the Malaysian GST and its subsequent repeal is recognised, but beyond the scope of this research. Suffice it to say that following the election of Mahathir Mohamad (sworn on 9th May 2018), the new government has proposed to make changes to the GST legislation. With effect from 1st June 2018 all standard rate goods 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 alluded to the plan to abolish the GST in September 2018, with a reintroduction of the former SST. The Malaysian parliament needed to repeal the GST Act 2014 before the consumption tax could be totally removed.¹³ Indeed GST is now replaced with SST effective from 1 September 2018, representing a reversal of a major tax policy, which potentially could increase compliance costs of Malaysian SMEs, as they readjust their systems.

⁶ See for example OECD Economic Surveys: Malaysia, Economic Assessment November 2016. Retrieved October 19, 2018, from <https://www.oecd.org/eco/surveys/Malaysia-2016-OECD-economic-survey-overview.pdf>

⁷ The Edge Markets *Malaysia says GST collection nears RM60b since implementation* (November 21, 2016). <<http://www.theedgemarkets.com/article/malaysia-says-gst-collection-nears-rm60b-implementation>>.

⁸ A Abus *Customs Department collects RM44bil from GST in 2017: Najib* (January 24, 2018) <<https://www.nst.com.my/news/nation/2018/01/328375/customs-department-collects-rm44bil-gst-2017-najib>>

⁹ M R Palil, R Ramli, A F Mustapha and N S A Hassan, 'Elements of Compliance Costs: Lesson from Malaysian Companies towards Goods and Services Tax (GST)' (2013) 9(11) *Asian Social Science* 135.

¹⁰ 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]; *Australia's Plan for a Clean Energy Future: Regulation Impact Statement* (2011) Department of the Prime Minister and Cabinet <<http://ris.dpmpc.gov.au/>>

¹¹ N Rametse and J Pope "Start-up Tax Compliance Costs of the GST: Empirical Evidence from Western Australian Small Businesses" (2002) 17 *Australian Tax Forum* 407; CT Sandford and J Hasseldine *The Compliance Costs of Business Taxes in New Zealand* (Institute of Policy Studies, Victoria University of Wellington, Wellington, 1992); Lignier, above n 11.

¹² CT Sandford and J Hasseldine, above n 11, N Rametse and J Pope, above n 11..

¹³ The Straits Times "Malaysia says GST reduced to zero per cent from 6 per cent, fulfilling PH promise" <<https://www.straitstimes.com/asia/se-asia/malaysia-says-gst-reduced-to-zero-per-cent-from-6-per-cent-fulfilling-ph-promise>>

The objective of this research is to estimate gross start-up compliance costs of the Malaysian GST from 1 April 2012 up until March 2015. Previous studies, for example, Santhariah, et al.¹⁴ have focused more on potential implementation issues while Kraal and Kasipillai¹⁵ investigated issues that delayed the introduction of the Malaysian GST and compared these matters with Australia's GST experiences. Thus, there is a dearth of literature on the estimation of the actual implementation costs of the Malaysian GST for SMEs. To this end, this investigation has addressed this gap. In contrast to other studies, this research's results come from factual responses, reported by Malaysian SMEs on the implementation costs, hence provide reasonable estimates.

The study also investigates 'economies of scale' in Malaysian SMEs GST start-up compliance costs. It examines businesses' expectations of benefiting from better recordkeeping and investment in technology (for example, computers) resulting from the implementation of the GST. In addition, the investigation aims to explore the Malaysian SMEs' attitudes towards the government's tax reform as well as the complexity of the GST.

The main finding of this research on attitudes towards the support for government taxation reforms differs from those of other studies. Despite high implementation costs of a tax system, previous studies have demonstrated that SMEs have supported the overall government taxation reforms.¹⁶ However, findings of this study have been unable to demonstrate support for Malaysian government's tax reforms relating to GST.

This research is one of the first comprehensive academic studies on the GST start-up compliance costs for Malaysian SMEs. International literature on tax start-up costs to date, however, is limited. The authors are aware of only eight major studies, conducted prior to 1st April 2015 (two Canadian, one British, one Mauritian, one German and three Australian). More relevant studies on start-up compliance costs are the CIFB;¹⁷ Clare and Connor on Australia;¹⁸ Pillai on Mauritius;¹⁹ Betz on Germany;²⁰ Rametse and Pope and Rametse²¹ on Australia, as they all estimated start-up tax compliance costs (Table 1). Nearly all these studies found start-up costs to represent a significant amount of recurrent compliance costs (See Table 1). Additionally, as confirmed by most compliance costs studies, these studies have found costs to impact heavily on the smallest business²². Studies that are relevant for this research are discussed later in this paper (section 2.4).

¹⁴ 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.

¹⁵ Kraal and Kapisillai, above n 2.

¹⁶ Rametse and Pope, above n 11; N Rametse "Measuring the costs of implementing the former carbon tax for Australian liable entities" (2015) 21 *New Zealand Journal of Taxation and Policy* at 190-213.

¹⁷ Canadian Federation of Independent Business [CFIB] *The GST: A National Tax Tragedy* (Toronto, 1991).

¹⁸ R Clare and D Connor *The Cost of the Surcharge – more bad news* (ASFA Research Centre, Association of Superannuation Funds of Australia, Sydney, 1998).

¹⁹ KV Pillai "The Compliance Costs of VAT in the Hotel Industry in Mauritius" (2000) 3 *Social Sciences and Humanities and Law and Management Research Journal* 7 at 52-66.

²⁰ R Betz *Emissions trading to combat climate change: The impact of scheme design on transaction costs* (2008) <www.ceem.unsw.edu.au>.

²¹ Rametse and Pope, above n 11; N Rametse "Measuring the costs of implementing the former carbon tax for Australian liable entities" (2015) 21 *New Zealand Journal of Taxation Law and Policy* at 190-213.

²² J Pope "Compliance Costs of Taxation: Policy Implications" (1994) 11 *Australian Tax Forum: A Journal of Taxation Policy, Law and Reform* 1 at 85-121; C Evans, K Ritchie, B Tran-Nam, M Walpole *Taxpayer Costs of Compliance* (Australian Taxation Office, Commonwealth of Australia, Canberra, 1997) [often referred to as the 1997 ATAX study] T Makara and J Pope "Estimates of the Compliance Costs of Value Added Tax in Botswana" (2013) 19 *New Zealand Journal of Taxation Law and Policy* at 183-222; R Gupta and A Sawyer "Tax Compliance Costs for Small Businesses in New Zealand: Some Recent Findings" (2014) 26th Australasian Tax Teachers Association Conference (ATTA), 20-22 January.

Significantly, the major contribution of this study is on the understanding of the costs incurred by the Malaysian SMEs resulting from the implementation of the GST. Internationally, countries yet to introduce a similar tax, particularly in the South East Asian region, will potentially learn from the Malaysian experience of the cost of implementing a GST and possible ways to mitigate these costs.

This paper presents findings of the cost of implementing the GST from a survey of 68 Malaysian SMEs, which was undertaken in April 2016. The overall structure of the study takes the form of six sections, including the introduction (Section 1). The remainder of Section 1 provides policy context of the Malaysian GST and tax compliance costs research. Section 2 begins by laying out the conceptual issues on tax compliance costs, while Section 3 focuses on the empirical study design. The results and discussion are considered in Sections 4 and 5, respectively. Finally, Section 6 provides conclusions and policy implications.

1.2 Policy Context of the Malaysian GST

The reformation of the Malaysian tax system was aimed at enhancing the efficiency and effectiveness of an existing taxation system, through the introduction of the GST, replacing the SST. The Malaysian GST was levied on enterprises at a rate of six per cent. The GST model provides for standard-rated supplies (currently six per cent) and zero-rated supplies. Suppliers of zero-rated supplies are required to register for GST purposes and can claim input tax credits for the GST paid on business purchases related to making zero-rated supplies such as raw materials.

The main rationale for introducing GST is its capacity to increase tax revenue by expanding the tax base to a broader group of people, namely consumers.²³ Such a reform was needed to compensate for an expected future reduction in tax revenue from oil and gas industry.²⁴

2.0 TAX COMPLIANCE COSTS – CONCEPTUAL MATTERS

2.1 Overview

Survey-based studies on tax compliance costs research around the world in the past three or four decades have been influenced by the work of the late Professor Cedric Sandford.²⁵ Compliance costs are those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirement to comply with a given tax structure, over and above payment of the tax itself.²⁶ Thus, GST start-up compliance costs are those costs incurred by businesses in preparing to comply with the GST legislation.²⁷ Start-up compliance costs of any tax are a result of the introduction of a new tax or a major change in a tax. The world leading scholar in the area of compliance costs, Professor Cedric Sandford recognised the theoretical importance of start-up costs, however, he did not make any estimates in this area, probably because at the time of his

²³ J Kassipilai, *A Guide to Advanced Malaysian Taxation* (McGraw-Hill, 2010).

²⁴ Ibid.

²⁵ Rametse and Pope, above n 11.

²⁶ C Sandford *Successful Tax Reform: Lessons from an Analysis of Tax Reform in Six Countries* (Fiscal Publications, Bath, 1973); C Sandford, M Godwin, P Hardwick and M Butterworth *Costs and Benefits of VAT* (Heinemann, London, 1981); C Sandford, M Godwin and P Hardwick *Administrative and Compliance Costs of Taxation* (Fiscal Publications, Bath, 1989); Sandford and Hasseldine, above n 11; C Sandford ed. *Tax Compliance Costs Measurement and Policy* (Fiscal Publications, Bath, 1995).

²⁷ Rametse and Pope, above n 11.

studies, the taxes he investigated were well established in the UK.²⁸ The start-up compliance cost study of the Malaysian GST builds on the research on start-up compliance costs of the Australian GST, as well as that of the carbon tax which were new taxes at the time of their investigation.²⁹

Compliance costs cannot be separated from administrative costs as in total, they equal the operating costs of a tax system. Administrative costs are public sector costs which are incurred by government because of the introduction of a tax system. These costs would not have been incurred if the new tax had not been introduced. The relationship between administrative and compliance costs may be complementary or competitive to each other. Administrative and compliance costs may be reduced where government devise tax simplification strategies. Where certain tasks are delegated to the private sector by the public sector, for example, a situation where small business ‘acts as unpaid tax collector’, compliance costs would be relatively high and administrative costs lower. However, Sandford³⁰ suggests that taxes that have high compliance costs, such as VAT, often have high administrative costs as well.

Some empirical studies tend to exclude administrative costs from compliance costs estimation. This is probably because governments are usually unwilling to provide researchers with taxation data, for security reasons. Administrative costs studies, as opposed to empirical compliance cost studies, are often estimated from secondary data on tax administrative budget published by central tax offices. The significance of estimating the Malaysian GST administrative costs is recognised to ascertain their complete picture relative to compliance costs, particularly their inter-relationship. However, given the scope of this project, it was not possible to capture and measure administrative costs of introducing the Malaysian GST.

Table 1: Major Studies on Business Start-up Compliance Costs, 1991–2015

Study and Country	Regulation Targeted	Methodology and number of respondents (n)	Key Findings
Canadian Federation of Independent Business (CFIB 1991) – Canada	Canadian start-up compliance costs of the GST	Survey (n=25,362 SMEs)	Start-up costs =45% recurrent costs
National Audit Office (1994) – Britain	Large business start-up costs for the GST component of the impact of the Single European Market	Visits to Customs and Excise headquarters n=14 local offices	Start-up costs were estimated at 72% of recurrent costs.
Gunz, Macnaughton and Wensley (1995, 1996) – Canada	Start-up compliance costs of Canadian Research & Development Tax Incentives	Survey n=51 companies	Start-up costs represented 84% of recurrent costs
Clare & Connor (1998) – Australia	The Costs of the Superannuation Surcharge Tax (SST).	Survey methodology and estimation analysis not reviewed.	Regressivity of start-up costs of SST.

²⁸ Rametse and Pope, above n 11.

²⁹ Rametse and Pope, above n 11; Rametse, above n 16.

³⁰ Sandford, above n 26.

Pillai (2000) – Mauritius	Start-up compliance costs of the GST in the Mauritius hotel industry	Survey n= 82 small and large hotels.	Rs14.3 million, comprising of start-up costs of Rs9.8 million and recurrent costs of Rs4.5 million. Start-up costs represented 223% of recurrent compliance costs.
Rametse & Pope (2002) – Australia	Start-up compliance costs of the GST for Australian small businesses	Survey n=868 small businesses	Start-up costs were \$7,600 (including time) per small business; Regressivity of start-up costs evident
Betz (2008) – Germany	Start-up compliance costs of an Emission Trading Scheme (ETS) for the European Union	The author was involved in the ETS's implementation, hence able to gather data	Start-up costs were between €50,000 and €60,000 per German emission site
Rametse (2015) – Australia	Measuring the costs of implementing the former carbon tax for Australian liable entities	Survey n=50 liable entities	Start-up costs estimated at AUD 1,795,762 per liable entity.

2.2 Composition of Start-up Compliance Costs

Figure 1 summarises the composition of GST start-up compliance costs. Generally, tax compliance costs comprise economic and psychological costs. Economic costs may be estimated, and they include monetary and time costs in dealing with the requirements of tax authorities. GST start-up compliance costs are divided into internal and external costs. Internal costs represent own time of business owners (self-employed), monetary and staff costs. These costs include time spent in ensuring that accounting processes are compatible with GST requirements, incurring capital expenditure through acquisition of computer hardware and software, cash registers and tills.

External time costs comprise predominantly monetary start-up costs incurred by SMEs on accounting and legal fees charged by accountants and tax consultants. Professional fees include legal expenditure resulting from reviewing existing contracts and other regulatory costs, as well as compliance with the *Priced Control and Anti-Profiteering Act 2011*, which was later revised to the *Price Control and Anti-Profiteering (Amendment) Act 2017*, on pricing requirements.

Non-monetary costs, which are almost immeasurable,³¹ include psychological costs related to stress and anxiety of small business staff and owners arising from complying with the GST requirements.³² In this way, increased record keeping requirements of GST, coupled with knowledge of their intended use as an audit tool may cause anxiety and distrust.³³ It must be noted that there may also be psychological administrative costs if the Royal Malaysian Customs Department (RMCD) staff, in contact with the public, find their job particularly stressful.³⁴

³¹ MA Allers *Administrative and Compliance Costs of Taxation and Public Transfers in the Netherlands* (Wolters-Noordhoff, Groningen, 1994) [a summary appears in Sandford, above n 22, at 173–195].

³² Rametse and Pope, above n 11.

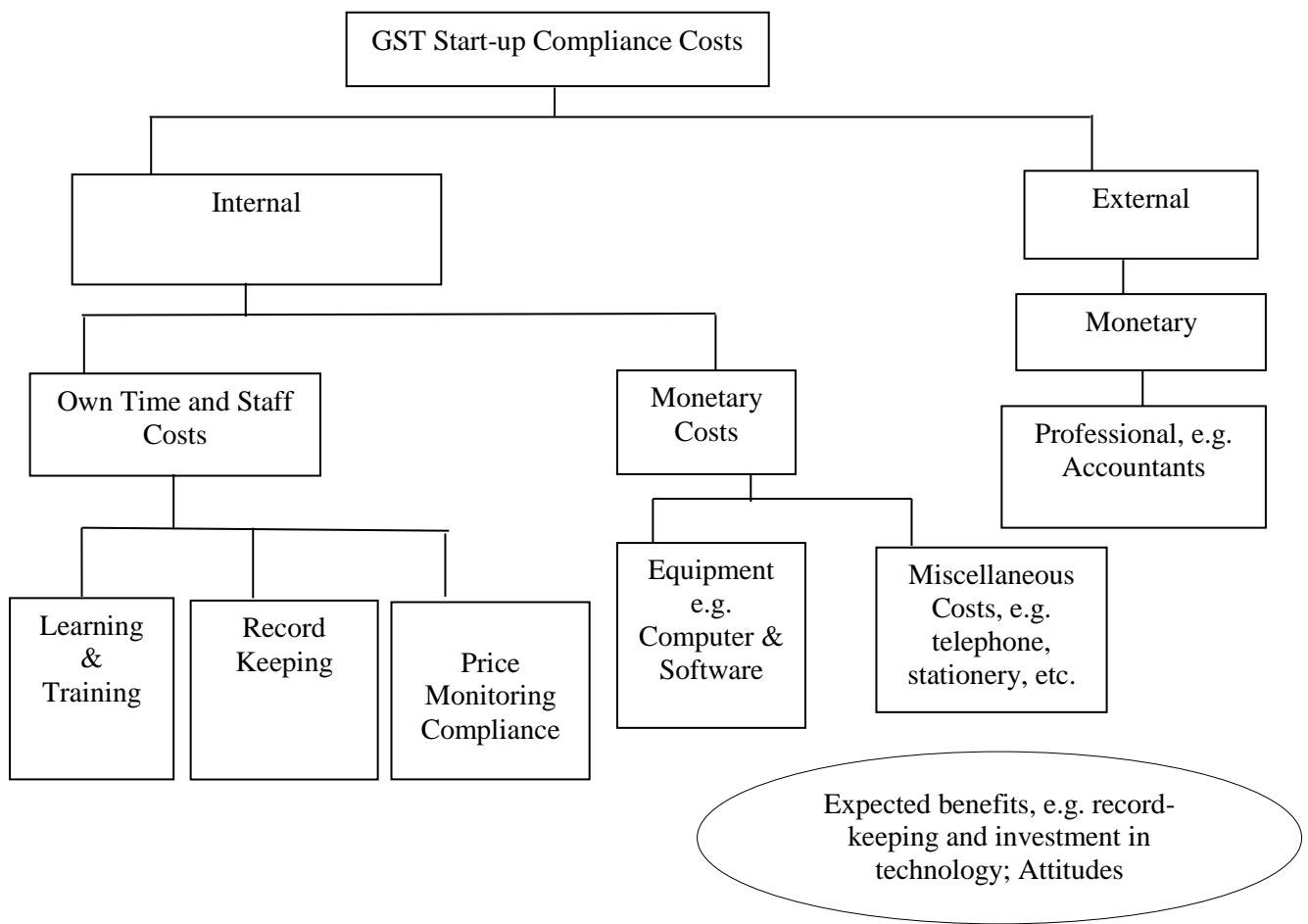
³³ Ibid.

³⁴ Sandford, Godwin and Hardwick, above n 26.

Although psychological costs are recognised, they are normally excluded from compliance cost calculations because of the difficulty in their estimation. Woellner, Coleman, McKerchar, Walpole and Zetler³⁵ have developed a research method to measure the psychological costs of tax compliance as they believe that this area has been largely neglected due to the lack of a reliable measurement method. Although this study has not measure psychological costs relating to the Malaysian GST start-up compliance costs, their importance is highly recognised.

Additionally, as shown in Figure 1, in order to calculate net compliance costs, offsetting benefits, for SMEs are considered. GST start-up tax compliance costs are divided into gross and net costs. Gross costs represent the total resource costs to the economy before considering offsetting benefits, while net costs include a reduction with the tax deductibility of the various costs incurred and the value of any cash flow benefits (CFB) arising from taxpayers. The major offset for Malaysian start-up costs are tax deductibility of expenses plus a subsidy of e-voucher of RM1,000 that was offered to businesses by the RMCD for the purchase of accounting software.³⁶

Figure 1: Economic Start-up Compliance Costs of the Goods and Services Tax for Malaysian Small and Medium Sized Enterprises



CFB are a result of the lawful delay in payment of the GST to the tax authorities, and in the delay of remitting GST collected by taxpayers on behalf of the government. Managerial benefit arising from improved accounting procedures and better record-keeping is also an important offset,

³⁵ McKerchar, M. (2003), *The Impact of Complexity Upon Tax Compliance: A Study of Australian Personal Taxpayers*, Research Study No. 39, Australian Tax Research Foundation: Sydney.

³⁶ Y M Ching, J Kasipillai and A Sarker “GST compliance and challenges for SMEs in Malaysia” (2017) 15 eJournal of Tax Research 3 at 457–489.

particularly for small business, although quantification is very difficult.³⁷ As respondents' attitudes to GST start-up costs cannot be measured directly, however, SMEs may reveal and suggest issues of significance relating to compliance costs.

Rametse and Pope found that whilst most respondents supported government's overall taxation reform, some respondents (45 per cent), however, "disagreed and strongly disagreed" to the statement "I do not mind doing GST work" and majority (53 per cent) "agreed and strongly agreed" that "GST is unreasonably complicated"³⁸. Complexity of the tax law was confirmed by respondents of a study by Loo et al³⁹ with resultant inability to keep up to date with its frequent changes.

2.3 Estimation Issues

Difficulties on the estimation of costs, for example, those relating to joint costs, have been identified by Sandford et al, (1989)⁴⁰. The main issue relates to how overhead costs should be allocated. Where overheads, such as office accommodation, lighting, heating, and computer equipment, are for both tax compliance work and normal business activities (i.e. the joint cost issue), it may be difficult, or impractical to measure the proportion that is attributable to taxation issues. In most cases, tax work is done within an accounting department, making it difficult to separate tax work from all other financial costs. As Sandford *et al*⁴¹ point out, where these costs are solely for the tax department, then the costs will clearly be compliance costs.

Arguably, as the size of the business increases and complex taxation duties are carried out, overhead costs attributable to tax compliance work increase. This phenomenon may be more applicable to SMEs of a higher annual turnover threshold that have established separate accounts departments. In contrast, the situation may be less applicable to those small firms with a lower turnover. This is because sole proprietors of smaller firms may spend extra time every month to update their tax records, hence spend minimal extra costs in heating and lighting.⁴² Most compliance cost studies leave the allocation of overhead costs to the respondents and delete outlying estimates⁴³. In this study, respondents were requested to provide information that specifically related to the GST costs which were incurred up until 30th March 2015. Respondents were also requested to state equipment purchased for GST purposes, update and normal usage up until 30th March 2015.

After a new tax is established, businesses incur recurrent/regular costs, which are continuing costs expended in running a tax system. Start-up costs do not include temporary costs, which are incurred by the tax officers and taxpayers in learning about the new tax system. Even when a tax has been well established to regard the compliance costs as regular/recurrent costs, some businesses will be starting to operate, hence experiencing start-up tax compliance costs as they prepare to comply with the tax legislation for the first time.⁴⁴ Accordingly, within the recurrent compliance costs, there will be elements of start-up compliance costs associated with changes in the taxpayer population.⁴⁵

³⁷ Rametse and Pope, above n 11.

³⁸ Ibid.

³⁹ E C Loo, M McKerchar and A Hansford "Findings on the impact of self-assessment on the compliance behaviour of individual taxpayers in Malaysia: A case study approach" (2010) 13 Journal of Australian Taxation at 1–23.

⁴⁰ Sandford, Godwin and Hardwick, above n 26.

⁴¹ Sandford, Godwin and Hardwick, above n 26.

⁴² Ibid.

⁴³ Ibid; Sandford and Hasseldine, above n 11.

⁴⁴ Rametse and Pope, above n 11.

⁴⁵ Sandford and Hasseldine, above n 11.

2.4 Relevant Studies

Research on start-up compliance costs of a new tax remains limited. More relevant studies on start-up compliance costs are the CFIB;⁴⁶ Clare and Connor on Australia;⁴⁷ Pillai on Mauritius;⁴⁸ Rametse and Pope⁴⁹ and Rametse⁵⁰ on Australia (see Table 1). Nearly all these studies found start-up costs to represent a significant amount of recurrent compliance costs. Rametse⁵¹ reported aggregate GST start-up compliance costs of AU\$5,677 million, representing four per cent of taxation revenue from all sources and around 10 per cent of business taxation revenue. Recurrent costs are expected to be lower than start-up costs as businesses become familiar with an established tax system.

The CFIB⁵² undertook a survey of their members in the first year of the GST's operation in Canada and received 25,362 responses. They estimated start-up costs of C\$3.0 billion, representing 45 per cent of recurrent costs of C\$6.6 billion. This estimate represents around 30 per cent of tax revenue at that time.⁵³ The Mauritius study estimated measurable compliance costs in 1998/99 for hotels in Mauritius at Rs14.3 million, comprising of start-up costs of Rs9.8 million (RM1,181,139) and recurrent costs of Rs4.5 million⁵⁴. Start-up tax compliance costs of the Value Added Tax (VAT) were 68.8 per cent of the total compliance costs, while the recurrent costs accounted for 31.4 per cent⁵⁵. Indicatively, start-up costs were more than twice as high as recurrent costs, representing around 223 per cent of recurrent compliance costs. Part of the start-up costs were equipment costs and training costs, estimated at 28 per cent and 18 per cent respectively. The Australian GST start-up compliance costs study estimated start-up costs at AU\$7,888 per small business⁵⁶.

3.0 METHODS

3.1 Participants

Questionnaires were distributed to 200 business taxpayers at GST seminars held at the Malaysian Institute of Accountants in Kuala Lumpur. Sixty eight responses (34% response rate) were received. The administration of the survey was predominantly through a face-to-face approach to participants at GST seminars to participants from four major business organisations: (1) Associated Chinese Chamber of Commerce and Industry of Malaysia; (2) Kuala Lumpur Malay Chamber of Commerce; (3) Malaysian Associated Indian Chamber of Commerce and (4) Industry Survey forms were given to lecturers to distribute to participants. As noted by Mohdali,⁵⁷ this method was adopted because from experience, it is difficult to obtain acceptable

⁴⁶ Canadian Federation of Independent Business [CFIB] *The GST: A National Tax Tragedy* (Toronto, 1991).

⁴⁷ R Clare and D Connor *The Cost of the Surcharge – more bad news* (ASFA Research Centre, Association of Superannuation Funds of Australia, Sydney, 1998).

⁴⁸ KV Pillai “The Compliance Costs of VAT in the Hotel Industry in Mauritius” (2000) 3 *Social Sciences and Humanities and Law and Management Research Journal* 7 at 52-66.

⁴⁹ Rametse and Pope, above n 11.

⁵⁰ Rametse, above n 16.

⁵¹ N Rametse “Aggregate Net GST Start-Up Compliance Costs for Australian Small Businesses” (2007) *Australasian Tax Teachers Conference (ATTA)*, University of Queensland, Brisbane, 22–24 January.

⁵² Canadian Federation of Independent Business, above n 46.

⁵³ *Ibid.*

⁵⁴ Pillai, above n 48.

⁵⁵ *Ibid.*

⁵⁶ Rametse and Pope, above n 11.

⁵⁷ 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.

responses from postal/email survey in Malaysia. Mohdali,⁵⁸ stated that for most tax surveys in Malaysia the response rate is normally poor at around 14 per cent to 22 per cent. Santhariah, *et al* attained a response rate of 28 per cent for a similar study in Malaysia. However, they note that there was a fear from the SME community that the data collected will be forwarded to the tax authorities.⁵⁹

3.2 Measurement/Instruments

The questionnaire on start-up compliance costs of the GST was developed, abbreviated SCCGST. To ascertain the validity of the SCCGST, a pilot study was conducted on 10 SMEs, compliance costs experts and accountants for comments and suggestions. Problematic questions were identified and refined. The start-up period commenced at the time when it was certain that GST will be implemented. The Goods and Services Tax Bill 2009 was planned for the second reading but postponed in March 2010. Prime Minister Najib formally deferred the GST in his 2011 Budget Speech. At that time, the GST implementation was certain, hence businesses started to prepare from 2012. Thus, the questionnaire requested information for the period 1 April 2012, up until 30 March 2015, in order to separate start-up costs from temporary learning costs. This enabled the exclusion of costs that enterprises might have incurred after the implementation date. Start-up costs comprised direct costs and estimated hours that SMEs spent while preparing to comply with the GST. A rate of RM14.45 was used in this study to convert the estimated internal hours spent while complying with GST into monetary terms. This rate is based on the average weekly earnings of RM2313⁶⁰ per person in Malaysia, for the financial year 2014-2015. The earnings were divided by 38 hours, representing the standard full-time weekly hours that an employee can work in Malaysia. Additionally, 12 per cent and 1.75 per cent of Employers Provident Fund and medical insurance respectively, were included, resulting in an overall rate of RM16.44.

3.3 Procedure

On the basis of the pilot, SCCGST questionnaire was administered to Malaysian SMEs ($N = 200$), between August 2016 and December 2017. Responses were received from 120 SMEs, comprising 68 questionnaires and 52 postcards. The rate of response, after allowing for out-of-frame replies, was 40 per cent.

3.4 Statistical Procedure

Statistical Package for Social Sciences (SPSS) was used for the survey to compute descriptive statements and some cross-tabulations.

3.5 Profile of Respondents

As shown in Table 2, the legal form of business was dominated by private companies (61.8 per cent), followed by sole proprietorship (19 per cent), then partnership (15 per cent). The public sector was the lowest, representing four per cent. In terms of the main business activity, the majority, 46 per cent of respondents were Professional, Scientific and Technical Services,

⁵⁸ Mohdali, above n 56.

⁵⁹ Santhariah, B Tran-Nam, D Boccabella and N Rametse, above n 14.

⁶⁰ Department of Statistics Malaysia [DSM]. Press Release: Salaries and Wages Survey Report, Malaysia, 2015, at <https://www.dosm.gov.my/v1/index.php?r=column/pdfPrev&id=czRyNkJlbDFyYXJFbU5YTVJlV1BHZZ09>.

followed by Wholesale Trading, at 19 per cent. Finance, Insurance and Business Services represented nine per cent of respondents.

Regarding the annual turnover of respondents, it is evident that majority was from the SMEs category. As Table 2 shows, the majority were from the RM500,000 to RM2,999,999 range, representing 31 per cent, followed by 21 per cent of respondents from the RM3,000,000 to RM14,999,999 categories. Respondents were initially requested to state their annual turnover figure prior to registering for the GST. A cumulative percentage of 85 per cent of respondents stated figures from RM30,000 to RM15,000,00 confirming respondents stated taxable turnover as displayed in Table 2.

The majority of SMEs employees were between 6-19 (27 per cent) and 20-50 employees (23 per cent). Around 21 per cent of respondents employed 0-5 people. Most of these SMEs had operated their business for years between 10-19 (28 per cent), 4-9 (27 per cent) and 20-39 (19 per cent).

Table 2: Profile of Survey Respondents

Characteristics of respondents	Number of Respondents	Percentage
Legal Form of Business		
Sole Proprietorship	13	19.1
Partnership	10	14.7
Private Ltd	42	61.8
Public Ltd	3	4.4
Total	68	100
Primary Business Activity		
Manufacturing	4	6.8
Construction	4	6.8
Wholesale Trading	11	18.6
Real Estate Activities	2	3.4
Professional, Scientific and Technical Services	27	45.8
Information Communication Technology	4	6.8
Finance, Insurance and Business Services	5	8.5
Transport and Storage	1	1.7
Accommodation and Restaurants	1	1.7
Total	59*	100
Annual Turnover		
Below RM300000	4	5.9
RM300,000 to 499,000	9	13.2
RM500,000 to 2,999,999	21	30.9
RM3,000,000 to 14,999,999	14	20.6
RM15,000,000 to 19,000,000	7	10.3
RM20,000,000 to 49,999,999	6	8.8
RM50,000,000 or more	7	10.3
Total	68	100.0
No of Employees		
5 or less	14	20.6
6-19	18	26.5
20-50	16	23.5
51-100	9	13.2
101-200	5	7.4

201 and above	5	7.4
Total	68	100.0
No of Years in Operation		
0-3 years	7	10.3
4-9 years	18	26.5
10-19 years	26	38.2
20-39 years	13	19.1
More than 40 years	4	5.9
Total	68	100.0

*Out of 68 respondents, only 11 stated other business activities not defined in Table 2 such as: confectionary, courier services, e-commerce, exporters, medicine, instrumentation for oil and gas, scrap metal, secondary metallic products, etc.

4.0 KEY FINDINGS

4.1 Non-Response Bias

Most businesses do not respond to questionnaires due to time constraints of potential participants, such as financial/tax managers who may be unwilling to delegate the completion of the questionnaire. This study follows a technique recommended by Allers to include a post-card with a questionnaire.⁶¹ The post-card provides participants who have insufficient time and resources to complete a full questionnaire, to answer one question only. According to Allers, if the decision not to respond is related to the object of study, the representativeness of the sample becomes questionable.⁶² It is, therefore, important to establish if non-response is related to the area under investigation, that is, start-up tax compliance costs. Moreover, the literature reveals that critics of postal questionnaires relating to compliance costs⁶³ argue that companies motivated to reply to surveys are those with higher compliance costs, and they tend to overestimate the true value of compliance costs. A strategy that is normally undertaken in surveys is to choose a larger sample to obtain sufficient response to enable data analysis. Consistent with Allers, participants were invited to answer just one question, so that they can complete the survey quickly and not be followed up anymore.⁶⁴ The post-card item was also included in the SCCGST questionnaire. The relative costs for respondents and non-respondents were compared. Furthermore, an assessment of the accuracy of respondents' perceptions against recorded costs was made. In response to the question, participants rated items on a five-level Likert scale, to indicate their level of their GST start-up compliance costs compared with other businesses in their industry.

The results are consistent with those of Allers, as survey results of respondents and non-respondents do not differ significantly (Table 3). For example, 62 per cent and 63 per cent of respondents and non-respondents respectively indicated that their level of GST tax start-up compliance costs was 'average', while 16 per cent and 13 per cent of both respondents and non-respondents ranked their costs at 'high'.

⁶¹ MA Allers *Administrative and Compliance Costs of Taxation and Public Transfers in the Netherlands* (Wolters-Noordhoff, Groningen, 1994) [a summary appears in Sandford, above n 22, at 173–195].

⁶² Allers, above n 61.

⁶³ See for example A Tait *Value Added Tax: International Practice and Problems* (International Monetary Fund, Washington DC, 1988).

⁶⁴ Allers, above n 61.

Table 3: Questionnaire versus Postcards Responses

	Respondents (Questionnaire)		Non-respondents (Postcards)	
	Number	Percentage	Number	Percentage
Very Low	1	1.5	1	3.1
Low	8	11.8	3	9.4
Average	42	61.8	20	62.5
High	11	16.2	4	12.5
Very High	6	8.8	4	12.5
Total	68	100	32	100

Both respondents and non-respondents (9 and 13, respectively) indicated a slight difference of around four per cent burden at ‘very high’. Overall, non-response bias was not evident.

4.2 GST start-up compliance costs

As shown in Table 4, Malaysian SMEs incurred high costs in preparing to comply with the GST requirements. On average, SMEs reported having incurred RM201,831. This comprised of total internal costs of RM137,399 or 68 per cent of total start-up compliance costs. Internal costs comprised of employee costs of RM41,406.43 (without time), and RM72,174, representing an average of 4,388 hours per firm comprising owners and family time, directors and managers, accounting staff, administrative staff and other staff, for example, temporary staff. Time spent was valued at RM14.45 per hour. Internal costs were also equipment costs, predominantly computers and software, amounting to RM16,800 per firm. Other internal costs amounted to RM7,011, which comprised costs incurred in changing stationary, compliance with pricing agency for monitoring, postage and telephone and travelling. External costs were RM64,431 (Table 4).

Table 4: Mean Estimated Gross Malaysian SME’s GST Start-up Compliance Costs

Categories	Hours	Cost RM	Number of respondents
Employees (without time)		41,406.43	
Employees	4,388	72,174.78	
Total employees costs		113,581.21	
Computers and software		16,800.28	
Other internal costs		7,010.77	
Total Internal Costs		137,399.26	68
External costs		64,431.19	68
Total start-up compliance costs		201,831.05	

4.2.1 Internal time costs - employees

As discussed above, components of internal time costs of implementing the Malaysian GST were employees’ time. As shown in Table 4, owners and family spent 4,388 hours per firm in seeking expert advice in accounting and information technology to introduce new systems and procedures for GST compliance. When valued in Ringgit (at an opportunity cost of RM14.45), time spent amounted to RM72,175, or 36 per cent of total start-up compliance costs. Total time spent by employees amounted to RM113,581, or 56 per cent to total start-up compliance costs (see Table 4).

Business owners and family spent 329 hours or RM5,416 in preparing to comply with GST requirements (see Table 5). When direct costs of RM2,642.15 are included, the total amount to RM8,058. Directors and managers spent 1,061 hours, valued at RM17,435 with direct costs of RM15,945, giving a total of RM33,380. The highest amount was accounting staff, who spent 2,378 hours or RM39,139.61. When direct costs of RM15,881 are included, the total costs incurred by accounting staff were RM56,021. Accordingly, costs for accounting staff were significant, representing 49 per cent of employees' time costs.

Table 5: Mean Internal Time Costs -Employees

	Time Costs		Direct Costs	Total Costs
	Hours	RM		
Owners and family	329	5,416.00	2,642.15	8,058.15
Directors and Managers	1,061	17,435.20	15,945.53	33,380.73
Accounting staff	2,378	39,139.61	15,880.94	56,020.55
Administrative staff	402	6,602.99	4,288.56	10,891.55
Other- Temporary staff	218	3,580.98	1,649.25	5,230.23
Total	4,388	72,174.78	41,406.43	113,581.21

4.2.2 Equipment costs

To address the joint cost problem, where a computer and its associated software may be used for GST compliance work, updated and/or acquired for compliance, the respondents were asked to separate these costs. Malaysian SMEs spent a total of RM3,629 per firm to acquire new computers and the significant amount was RM2,598 for GST compliance, compared to computer update and purchase for normal usage. New computer software for GST compliance was RM5,098 per firm and software update amounted to RM6,933 per firm (Table 6).

Table 6: Computers, software and other equipment

	GST Compliance RM	Update RM	Normal Usage RM	Total RM
New computer hardware	2,598.41	528.43	502.49	3,629.32
New computer software	5,097.89	6,932.58	106.97	12,137.43
New equipment – Printers	408.82	432.84	161.76	1,003.42
Others	30.10	-	-	

4.2.3 Other internal costs

Respondents were requested to estimate other internal costs of complying with GST based on five categories: changing stationery, staff training, compliance with Pricing Agency, postage and telephone, and travelling. The most significant amount was on staff training for GST purposes, which amounted to RM5,198, then RM821 for compliance with the requirements of Pricing Agency.

Table 7: Mean Estimated Total Costs on other GST Internal Costs

Cost Category	Amount RM
Changing stationery	334.31
Staff training	5,197.55
Compliance with Pricing Agency	820.71
Postage and telephone	135.78
Travelling	529.41
Total	7,017.77

4.3 Economies of scale and regressivity of gross GST compliance costs

As expected, the results of this survey demonstrate that GST start-up compliance costs, in absolute terms, to some extent, increase with the size of the firm. This is because, generally, larger firms collect more tax and require more resources for tax collection. However, as a percentage of turnover, start-up compliance costs of GST show considerable economies of scale, a situation which is evident in almost all compliance costs research. In other words, GST start-up compliance costs are regressive, suggesting that as the size of the business increases, start-up costs decrease as a percentage of turnover. This confirms that the smallest business is heavily burdened in adhering to the GST implementation requirements as compared to larger businesses. The explanation for GST regressivity is due to the fixed costs nature and economies of scale, where in complying with GST requirement, SMEs invariably need a certain minimum level of expenditure irrespective of GST start-up compliance costs.

As indicated on Table 8, gross GST start-up compliance costs as percentage of turnover (including time costs), for enterprises with less than RM300,000, are around eight per cent (of annual taxable turnover). As the size of the firm increases, GST start-up compliance costs also decrease, as evident in the turnover range of RM300,001 to RM499,999, which is around seven per cent of annual taxable turnover. Businesses in the range of RM500,000 to RM2,999,999 incurred GST start-up compliance costs of four per cent, followed by 0.46 per cent for those with a turnover of between RM3,000,000 to RM14,999,999. Enterprises with an annual taxable turnover of RM15,000,000 to RM19,999,999 incurred GST start-up compliance costs of 0.12 per cent, followed by 0.05 per cent for those within the annual taxable turnover range of RM20,000,000 to RM49,999,999, and 0.03 per cent with those of RM50,000,000 or more. This suggests that the smallest business bear a very high relative burden of implementing this consumption tax.

Table 8: Mean Gross GST start-up Compliance Costs as Percentage of Turnover (including time costs)

Business size (Taxable turnover in Malaysian Ringgit (RM) thousands pa	Total Costs RM	Percentage of Turnover	Number of Respondents
Less than RM300,000	11,908.03	7.94	4
RM300,001 to RM499,999	26,641.70	6.66	9
RM500,000 to RM2,999,999	62,365.79	3.56	21
RM3,000,000 to RM14,999,999	41,577.20	0.46	14
RM15,000,000 to RM19,999,999	20,788.60	0.12	7
RM20,000,000 to RM49,999,999	17,761.13	0.05	6
RM50,000,000 or more	20,788.60	0.03	7

4.4 Mean computer and software cost for GST compliance by turnover

The acquisition of new computers and software tend to demonstrate economies of scale (see Table 9). Regressivity of both computer and software costs are evident. For example, as the business size increases, both computer and software acquisition costs decrease, suggesting that prior to the implementation of the GST, the smallest Malaysian enterprises had to incur the highest costs of both new computers and related software.

Table 9: Mean Computer and Software Cost for GST Compliance by Turnover

Business size (Taxable turnover in Malaysian Ringgit RM thousands pa)	New computers RM	Percentage turnover	New computer software RM	Percentage turnover
Less than RM300,000	152.85	0.1019	299.88	0.1999
RM300,001 to RM499,999	343.91	0.0860	674.72	0.1687
RM500,000 to RM2,999,999	802.45	0.0459	1,574.35	0.0900
RM3,000,000 to RM14,999,999	534.97	0.0059	1,049.57	0.0117
RM15,000,000 to RM19,999,999	267.48	0.0015	524.78	0.0117
RM20,000,000 to RM49,999,999	229.27	0.0007	449.81	0.0013
RM50,000,000 or more	267.48	0.0004	524.78	0.0007

The distribution of GST start-up compliance costs related to both computers and related software by size of the firm (turnover) shows that smaller businesses, for example, those with less than RM300,000 annual taxable turnover reported a higher cost of software upgrade and new software acquisition (0.27 and 0.19 per cent respectively). This suggests that prior to the implementation of the Malaysian GST, as compared to larger businesses many of the smallest businesses did not have computers. Additionally, it seems the smallest business spent more on upgrading their software than acquiring new software (see Table 10), suggesting the same regressivity explained above.

Table 10: Comparison of Mean New Software Acquisition and Upgrade

Business size (Taxable turnover in Malaysian Ringgit (RM) Thousands pa)	New Computer Software RM	Percentage of Turnover	Software Upgrade RM	Percentage of Turnover
Less than RM300,000	299.88	0.1999	407.80	0.2719
RM300,001 to RM499,999	674.72	0.1687	917.55	0.2294
RM500,000 to RM2,999,999	1,574.35	0.0900	2,140.94	0.1223
RM3,000,000 to RM14,999,999	1,049.57	0.0117	1,427.30	0.0159
RM15,000,000 to RM19,999,999	524.78	0.0030	713.65	0.0041
RM20,000,000 to RM49,999,999	449.81	0.0013	611.70	0.0017
RM50,000,000 or more	524.78	0.0007	713.65	0.0009

4.5 Sources of advice

The top three avenues for sources of advice are industry seminars (76 per cent), The Royal Malaysian Customs Department (70 per cent) and Accountants (63 per cent) as displayed in Table 11. In a study by Rametse and Pope⁶⁵ accountants and industry seminars were ranked amongst the top three sources of advice. Rametse and Pope explained that it could be that, unlike larger enterprises, which in most cases employ in-house accountants, GST for SMEs falls on the proprietors themselves or they rely more on their advice or outsource their accounting expertise.⁶⁶

Table 11: Sources of Advice

Type of Advice	Percentage
Your Accountant	63
Official GST Booklets	58
Industry Seminars	76
Royal Malaysian Customs Department	70
External Consultants	61
Others	21

Further analysis of total GST start-up compliance costs for Malaysian SMEs by respondents who ranked accountants as their main source of advice was computed (see Table 12).

Table 12: Mean total gross start-up compliance costs (including time) by accountants as a source of GST advice

Ranking	Mean RM	Number of Respondents
1 – most important	59,338.33	20
2	20,788.6	7
3	23,816.06	8
4	35,522.26	12
5	20,788.6	7
6	5,853.1	2
7	-	-
8	-	-
9	-	-
10 – least important	-	-
Total	16,610.70	56*

Out of 68 respondents, only 12 respondents did not rank accountants as source of advice

Unlike in the study by Rametse and Pope⁶⁷, respondents who ranked the use of accountants as most important (at the top of the scale), incurred higher mean GST start-up compliance costs, compared those who ranked accountants at the bottom of the scale. This suggests that respondents who predominantly used accountants for GST advice were prepared to pay higher accounting fees for quality and reliable advice.

⁶⁵ Rametse and Pope, above n 11.

⁶⁶ Ibid.

⁶⁷ Ibid.

4.6 Lodgement of GST returns

The questionnaire requested respondents to indicate the mode of lodging their GST returns. Most Malaysian SMEs (82 per cent) confirmed that their business would lodge GST returns, while 18 per cent indicated that their external tax advisors would lodge the GST returns on their behalf (see Table 13).

Table 13: Lodgement of Business's GST Returns

Who would lodge your GST returns?	Percentage	Number of respondents
My business	82.4	56
My external advisor	17.6	12
Total	100	68

Whilst it is evident that most Malaysian SMEs relied on external advisors for GST advice, they are still comfortable with lodging the GST to the RMCD themselves. In line with the study by Rametse and Pope⁶⁸, this suggests that SME owners wanted to “learn by doing” for either cost cutting or phasing in the learning curve and getting it right. Surprisingly, reducing the tension of dealing with the RMCD would have prompted SMEs to engage accountants to lodge the GST returns on their behalf. However, they preferred their business to lodge the returns.

4.7 Start-up compliance costs by business activity

As shown on Table 14, the dominant business activity was Professional, Scientific and Technical Services, with the highest start-up compliance costs of RM92,363.63. This is followed by wholesale trading (RM37,629.52).

Table 14: Start-up Compliance Costs (including time) by Business Activity

Primary Business Activity	Mean RM	Number of Respondents
Manufacturing	13,683.46	4
Construction	13,683.46	4
Wholesale Trading	37,629.52	11
Real Estate Activities	6,841.73	2
Professional, Scientific and Technical Services	92,363.36	27
Information Communication Technology	13,683.46	4
Finance, Insurance and Business Services	17,104.33	5
Transport and Storage	3,420.87	1
Accommodation and Restaurants	3,420.87	1
Total	201831.05	59

Out of 68 respondents, only 12 respondents did not state their business activity

4.7 Overall attitudes

4.7.1 Attitudes on reasons for employing external tax professionals

Respondents were requested to rank on a five-point Likert scale the main reasons and/or the extent of importance for employing tax professionals (1 = very important, 2 = important, 3 = neutral, 4 = not important and 5 = least important). As these reasons could not be measured

⁶⁸ Rametse and Pope, above n 11.

directly, respondents' attitudes were solicited on the implementation of the Malaysian GST for SMEs to suggest relative importance to compliance costs.

Three major areas of reasons for employing external tax professionals are:

- 1) It is cost effective to hire external tax professionals
- 2) To reduce the charge of GST audit by RMCD
- 3) Not getting the required technical help from RMCD

Notably, the results for "very important" and "important" have been combined in the analysis of this study.

Table 15 summarises the reasons for employing tax professionals. Respondents provided similar attitudes of around 319 per cent on the three areas of reasons for employing external tax professionals.

Table 15: Attitudes on Reasons for Employing External Tax Professionals

Attitudes	Percentage	Number of Respondents
It is cost effective to hire external tax professionals		
Very important	17.6	12
Important	13.2	9
Neutral	19.1	13
Not important	8.8	6
Least important	5.9	4
Total	64.7	44
Missing	35.3	24
Overall	100	68
To reduce the change of GST audit by RMCD		
Very important	23.5	16
Important	7.4	5
Neutral	16.2	11
Not important	4.4	3
Least important	13.3	9
Total	64.7	44
Missing	35.3	24
Overall	100	68
Not getting the required technical help from RMCD		
Very important	14.7	10
Important	16.2	11
Neutral	13.2	9
Not important	10.3	7
Least important	7.4	5
Total	61.8	42
Missing	38.2	26
Overall	100	68

4.7.2 Attitudes on deriving potential managerial benefits

Respondents were asked to indicate if they would derive potential managerial benefits in keeping books for meeting GST compliance benefits. All respondents said they would enjoy such benefits. They were further requested to indicate the extent to which they expected managerial benefits on a five-point Likert scale, where 1 = strongly agree, 2 = agree, 3 = neutral, 4 = disagree and 5 = strongly disagree (see Table 15). Notably, “strongly disagree” and “disagreed” are combined in the analysis of this study, as well as “strongly agree” and “agree”.

Table 15: Managerial Benefits

Attitudes	Percentage	Number of Respondents
Improved accounting information system available for day to day business decisions		
Strongly agree	47.1	32
Agree	41.2	28
Neutral	8.8	6
Disagree	5.9	1
Strongly disagree	1.5	1
Total	100	68
Better and improved controls to prevent theft and fraud		
Strongly agree	29.4	20
Agree	41.2	28
Neutral	23.5	16
Disagree	4.4	3
Strongly disagree	1.5	1
Total	100	68
Savings in accounting costs using internal staff to keep records		
Strongly agree	23.5	16
Agree	36.8	25
Neutral	22.1	15
Disagree	11.8	8
Strongly disagree	2.9	2
Total	98.5	67
Missing	1.5	1
Overall	100	68
Better accounting information forecasting cashflow and profit		
Strongly agree	35.3	24
Agree	36.8	25
Neutral	13.1	9
Disagree	8.8	6
Strongly disagree	6	4
Total	100	68

Three major areas of managerial benefits solicited from the respondents are:

- 1) Improved accounting information
- 2) Better and improved controls to prevent theft and fraud
- 3) Savings in accounting costs using internal staff to keep records
- 4) Better accounting information forecasting cashflow and profit

The highest area of potential managerial benefits for Malaysian SMEs was on improved accounting information (88 per cent), then better accounting information forecasting cashflow and profit (72 per cent), then better and improved controls to prevent theft and fraud (71 per cent), and lastly savings in accounting costs using internal staff to keep records (60 per cent).

4.7.3 Attitude on doing GST work, complexity and support for GST reforms

Respondents were requested to indicate, on a five-point Likert scale, their attitudes towards GST compliance. They were to indicate if they “strongly agreed”, “agreed”, “neutral”, “disagreed” and “strongly disagreed” (see Table 17). Notably, “strongly disagree” and “disagreed” are combined in the analysis of this study, as well as “strongly agree” and “agree”.

Three major areas of attitudes solicited from the respondents were:

- 1) I do not mind doing GST work
- 2) GST is unreasonably complicated
- 3) Overall, I support Government’s tax reforms

Of the three statements, respondents “strongly agreed and agreed” to the statement “GST is unreasonably complicated” (50 per cent), followed by “overall, I support Government’s tax reforms” (43 per cent) and “I do not mind doing GST work” (37 per cent).

Table 17: Attitude on Doing GST work, Complexity and Support for Government’s Tax Reforms

Attitudes	Percentage	Number of Respondents
I do not mind doing GST work		
Strongly agree	16.2	11
Agree	20.6	14
Neutral	22.1	15
Disagree	27.9	19
Strongly disagree	13.2	9
Total	100	68
GST is unreasonably complicated		
Strongly agree	23.5	16
Agree	26.5	18
Neutral	22.1	15
Disagree	16.2	11
Strongly disagree	11.7	8
Total	100	68

Overall, I support Government tax reforms		
Strongly agree	16.2	11
Agree	26.5	18
Neutral	35.3	24
Disagree	13.2	9
Strongly disagree	8.9	6
Total	100	68

4.8 Respondents' Comments on the Malaysian GST

The questionnaire requested respondents to provide their opinion on the GST or tax reform. Around 38 comments were made. One comment was in favour of the support they received from the RMCD and strict compliance that business displayed; and 37 comments were on criticising the GST. One respondent, who favoured the RMCD and compliant business said, *"The RMCD should be commended on the approach taken, being friendly, providing lots of hard-holding sessions, helpful when we go to their offices, especially Head Quarters in Putrajaya. Business should also be commended for taking compliance strictly"*. Thus, this respondent regarded the RMCD highly for assisting SMEs on GST matters. Additionally, the respondent also believed that businesses positively complied with the GST regulations. However, the rest of respondents provided critical comments in around eight areas: complexity; GST collected and refunds; GST knowledge of RMCD officers; the RMCD website; GST education and information; prices; extra costs and registration (see Table 18).

Many comments were on GST complexity because of the changing rules and too many tax codes.

Table 18: Critical Comments on the GST

<p>Complexity due changing rules and legislation</p> <ul style="list-style-type: none"> • The rules and legislation by RMDC are ever changing and cause the taxpayers relatively hard to keep abreast with • Too many tax codes • Complexity on tax codes; updates on GST Act/Regulations • Complicated and time consuming • Due to the complexity and continuous revision of Malaysian GST, the ambiguity causes compliance burden to the tax payers • GST regulations for Malaysia are quite complicated • Guidelines/rulings keep changing • There is a lot of grey areas especially on the input tax claims and too complex GST codes. The GST ruling in Malaysia lacks transparency and custom officials are not helpful on public enquiries, resulting in confusing the public on GST rules • To simplify the tax codes of GST or to tax all the items instead of NR, OP, ZR and to consider lowering the income tax rate instead 	
Total	9

<p>GST refunds and GST collected</p> <ul style="list-style-type: none"> • In terms of GST refund, only 7 days is given to respond to avoid the refund being rejected. This 7 days is relatively too short and unreasonable. • Credit balance due from Royal Malaysian Customs cannot be utilised to offset in subsequent months. It is subject to their review and audit. They take long time to review; Refund of tax credit is slow, ie more than 6 months • Company which a net input tax claimable always attract GST audit before refund being processed. • Refund on GST (input tax) slow • Refunds should be processed quicker • The taxable amount to be paid to customs should extend the period of 6 months or 1 year as we have not collected the money from debtors. Besides, no penalties should be imposed on the late payment as our company would have not collected from our debtors 	
<p>Total</p>	<p>6</p>
<p>Knowledge of custom officers and approved GST</p> <ul style="list-style-type: none"> • A need to make clear statement, clearer to simplify the process and standardize the knowledge among custom officers • Custom officers should be trained more properly to give consistent answers to the taxpayers • Many different and conflicting interpretations, e.g. on disbursements vs reimbursements. • Approved GST tax agents, customs (RMCD) have different interpretations; Would be better of RMCD provide examples in numbers (scenarios) and not just words/sentences. • RMCD must be knowledgeable on the subject matters as well; Keep the public posted on the GST developments • Royal Malaysian Customs Department not ready. They are not sure in few areas in GST when approached for advice 	
<p>Total</p>	<p>6</p>
<p>Website</p> <ul style="list-style-type: none"> • GST website not up to date and very misleading; GST website not updated on all guidelines and no indication where is already updated • RMCD updates do not tally among various places in their website. It is very hard to find because it was just in a few different places and conflicting responses from their officers 	
<p>Total</p>	<p>2</p>

GST education and information	
<ul style="list-style-type: none"> • GST custom, WHT should provide training from time to time • Malaysia customs do not give the end user more information on GST. All recent update on the GST guide are not informative to the public. • Need provide education seminar to public so public can understand more the role of GST • The helpline should be more helpful in answering questions; The person answering the call must be knowledgeable; Most time different answers are given by different individuals; They also do not give their names to remain anonymous; There is no accountability for their answers • To conduct more course on GST for private sector and to assist on GST queries and the GST customs staff need to have sound knowledge on GST • Too risky as most of the taxpayer have lack of knowledge, ie deemed supply 	
Total	6
Prices	
<ul style="list-style-type: none"> • GST is common for many countries. But with GST government revenue will increase significantly. This should be translated into more subsidy for essential items, food petrol, etc. But what is happening is the opposite. More GST collected but prices of food keep increasing! • Once it is implemented GST system, please do not revoke it, it will be very bad to consumers. Prices will not go down 	
Total	2
Extra costs	
<ul style="list-style-type: none"> • We had to employ more staff to comply with GST • Have to get new staff; Extra costs and time consuming • Too many changes resulting in high costs; • Too many postponement decisions resulting in extra costs • The audit penalty is too high 	
Total	5
Registration	
<ul style="list-style-type: none"> • To streamline all business to register instead of blocking those with below 500000 revenues from registering; 	
Total	1
OVERALL	37

4.9 Fair compensation from government

Respondents were requested to indicate the amount they would claim as fair compensation for time and money spent by their businesses on setting-up the new system, specifically for GST, from 1 April 2012 to 31 March 2015. This question aimed at testing the consistency of the measurement of the total mean start-up compliance costs.

Respondents stated various ranges for the amount they would claim as fair compensation. The lowest five per cent sought RM5,000 or less, whilst the maximum amount sought was RM15,000,000. Overall, Malaysian SMEs confirmed that, if they were to claim from government for the time and money spent for GST purposes, they would claim an average of

\$412,434. This amount is 49 per cent more than the estimated GST start-up compliance costs of RM201,603. Previous studies have concluded that overstatement of costs could have been a strategy of lobbying the government for GST policy change⁶⁹. This is because prior to implementation, small businesses strongly resented their role of acting as ‘unpaid tax collectors’⁷⁰.

5. DISCUSSION

The main objective of this study was to estimate gross start-up compliance costs of the GST for Malaysian SMEs, with the research question: *What are the magnitudes of the start-up compliance costs of the GST for Malaysian SMEs?* Prior to constructing the questionnaire, it was important to define start-up compliance costs and guide respondents properly to avoid including some elements of recurrent compliance costs and equipment acquired for normal business activities (joint cost problem). Estimation of GST start-up compliance costs was mainly left to respondents to provide, and as such, there could be errors and overestimation. Moreover, compliance costs researchers have acknowledged that the method of calculating compliance costs is never precise, hence figures obtained normally represent an estimated level of magnitude. However, testing strategies, for example, a non-response bias test⁷¹ were exercised to reduce the possibility of such errors and to improve the reliability of findings. This study’s survey results of respondents and non-respondents showed similar results (62 per cent and 63 per cent, respectively indicated that their GST start-up compliance costs were average, while 16 per cent and 13 per cent respectively, ranked their costs high).

Start-up compliance costs of the Malaysian GST for SMEs were estimated at RM201,831 (equivalent AUD68,635). Unlike other countries, the Malaysian government did not publish a tax impact statement, to inform SMEs and the public about the magnitude of the GST start-up compliance costs. As such, the extent of the start-up costs can only be compared with those of other countries. Moreover, for comparison to be meaningful, it must be acknowledged that taxes differ in features and this must be considered. These features are stated by Sandford and Hasseldine⁷² as the tax structure, the tax base, the rates, the administrative costs and the administrative methods and regulations.

These costs are significant when compared with the Rametse and Pope⁷³ study on the Australian GST start-up compliance costs. There are several possible explanations for these results:

- 1) ***The time taken by the government for the GST*** to be finally introduced in Malaysia due to opposition from the public. Hence the high costs could be resulting of the length of time it took businesses (more than 3 years) to prepare for the implementation of the GST.
- 2) ***The training programs that were introduced prior to the implementation.*** By end of February 2015, 6443 training programmes were conducted by the RMCD and 61,600 people had attended⁷⁴. This suggests that a low number, around ten people, attended each training program. Since most SME owners and employees did not attend the training seminars, it can be argued that they lacked pertinent knowledge on GST. This resulted in

⁶⁹ Rametse and Pope, above n 11.

⁷⁰ Ibid.

⁷¹ Allers, above n 30.

⁷² Sandford and Hasseldine, above n 11.

⁷³ Rametse and Pope, above n 11.

⁷⁴ H Husni, ‘350,054 Companies GST-Ready as of March 11’, *New Straits Times*, 11 March 2015.

these people spending many hours on “learning by doing”. They also incurred high costs on external advisers to assist with setting up GST systems and processes. Indeed, the RMCD made considerable effort to provide GST information and education to SMEs, however, the respondents still viewed this as inadequate (see Table 18 above). Moreover, evidence confirm that only one out of nine participants attended the training sessions organised by RMCD. This was because they either were not aware of such training or could not register for it,⁷⁵ probably due to their busy schedules.

- 3) ***Overstatement of costs as a lobby for policy change.*** It is apparent that the Malaysian public and business resisted their role as “unpaid tax collectors” for government and, as such, overstatement of costs was probable. This can be confirmed by the more than double amount of the compensation SMEs stated that they would claim from government if they were required to do so. Additionally, most respondents expressed that they do not support the government’s tax reforms. The study by Rametse and Pope indicated the opposite as respondents supported the government’s tax reforms. Attitudes on the complexity of the legislation for the current study were also not positive. Critical comments from respondents suggest that the Malaysian GST legislation is too complex due to many tax codes and continuous revision/changes of the legislation
- 4) ***Availability of resources for businesses.*** It must be noted, as opposed to Malaysia, that Australia, as a developed country, had more resources that they provided for SMEs, hence minimised SMEs GST start-up compliance costs. Although the RMCD provided SMEs with RM1,000 e-voucher for the purchase of software, it was regarded as insufficient when compared to the initial cost of the GST compliant software. The SMEs also regarded a voucher of AUS200 provided by the Australian government to get them to register as inadequate. Evidence suggests that many Malaysian SMEs were not aware of the e-voucher and some diverted resources from business operations for GST compliance.⁷⁶ Moreover, GST start-up compliance costs for the Malaysian SMEs are regressive, suggesting that, as compared to large businesses, costs impact heavily on the smallest business.⁷⁷

Another comparison can be made with the Canadian GST start-up compliance costs study, although it was widely criticised for bias. The Mauritian study estimated start-up costs and recurrent costs of VAT in the hotel industry. The Canadian study estimated start-up costs C\$3.0 billion (around RM9 billion). A comparison of start-up costs of the current study with the Mauritian study indicates that the Malaysian GST start-up compliance costs represent as low as 0.002 per cent of the Mauritius study, confirming the variation of costs across different tax cultures discussed above.

The study has also answered the question: *Can Malaysian SMEs expect to derive benefits arising from the implementation of the GST?* All respondents confirmed that they expected to derive managerial benefits because of the introduction of the GST, a situation confirmed by most compliance costs studies.⁷⁸ Managerial benefits emanate from keeping stringent records for GST purposes. However, when asked to state the extent of managerial benefits for improved accounting information system for day to day business decisions, a few were neutral

⁷⁵ Y M Ching, J Kasipillai and A Sarker, above n 36.

⁷⁶ Y M Ching, J Kasipillai and A Sarker, above n 36.

⁷⁷ Pope, above n 22; Evans and others, above n 22; Ritchie and others, above n 22; Makara and Pope, above n 22; Gupta and Sawyer, above n 22.

⁷⁸ Rametse and Pope, above note 11.

(nine per cent) and around seven per cent disagreed and strongly disagreed to the statement. Similarly, whilst the majority indicated that they expected managerial benefits for better and improved controls to prevent theft and fraud (71 per cent), around 24 per cent were not sure and others (10 per cent) disagreed and strongly disagreed. Again, majority of respondents confirmed that they expected managerial benefits in savings in accounting costs using internal staff to keep records (60 per cent). A majority (72 per cent) agreed and strongly agreed that they would benefit from better accounting information forecasting cashflow and profit. Overall, this study confirms that managerial benefits exist, although can be surpassed by excessive compliance costs.⁷⁹

Unlike the Australian GST start-up compliance costs study, the Malaysian SMEs did not overwhelmingly support the overall government tax reforms (43 per cent). Again, most respondents disagreed to the statement “I do not mind doing GST work” (41 per cent) and 22 per cent were neutral, while 37 per cent agreed and strongly agreed. Negative attitudes could be because they see the GST as unreasonably complicated. In Australia, small businesses complained about complex taxation legislations.⁸⁰ Tran-Nam⁸¹ views complexity in terms of “legal complexity”, which relates to the difficulty in reading and understanding the income tax law. Additionally, Tran-Nam⁸² asserts that “effective/economic complexity” relates to the difficulty in determining the correct tax liability in terms of enterprises’ effort in raising tax revenue. Thus, for the current study, Malaysian SMEs commented that complexity resulted from many tax codes, which at the time of GST implementation totalled twenty-three.⁸³ Complexity relating to tax codes make it difficult for SMEs to determine the correct GST liability, which relates to both legal and effective/economic complexity, as noted by Tran-Nam.⁸⁴

While Malaysian government decided to take a major decision on GST policy reversal, this means that the country could miss out on the capacity to generate more revenue as expressed by most commentators.

6.0 CONCLUSION AND POLICY IMPLICATIONS

This research has estimated GST start-up compliance costs for Malaysian SMEs. This study is a contribution for academics and policy makers in countries yet to introduce GST. Although the government repealed the GST, the study will hopefully enable them to recognise the magnitude of start-up compliance costs of any new tax or major regulatory measure for business. As a recommendation, countries yet to introduce GST may provide incentives to SMEs to mitigate start-up compliance costs.

Previous studies indicate that start-up compliance costs are significant compared to recurrent costs. As such, importantly, governments must publish tax impact statements to sensitise taxpayers about the magnitude of start-up compliance costs and recurrent costs. This essential tax reform process was not undertaken by the Malaysian government.

⁷⁹ Ibid.

⁸⁰ C Coleman and C Evans “Tax Compliance Issues for Small Business in Australia, in Warren” (2003) in *Taxing Small Business: Developing Good Tax Policies*, Australian Tax Research Foundation, Conference Series 23, Sydney at 147–181; N Rametse and SE Yong “Small Business Taxpayers’ Attitudes to Complying with a Tax System: Lessons and Experiences from Australia and New Zealand” (2009) 1836-6953 *Journal of Applied Law and Policy*, Curtin University at 83–104.

⁸¹ B Tran-Nam ‘Tax Simplification and the Operating Costs of the Australian Federal Tax System’, 1999 at 5-10. Paper Presented for the Australian Tax Teachers Conference, University of Canberra, Canberra, 5-7 February 1999.

⁸² Tran-Nam, above n 81.

⁸³ Tax codes, at www.autocountsupport.com

⁸⁴ B Tran-Nam, above n 81

Sandford et al's⁸⁵ noted that governments are usually concerned with the growth of public expenditure and/or the increase in taxation that goes with it, and, as such, are tempted to devise strategies that would decrease such costs at the expense of private sector costs. This study has confirmed that Malaysian SMEs incurred high start-up costs of GST, compared to those estimated by the Australian start-up compliance costs of the GST study⁸⁶. Thus, unless compensation arrangements can be made, governments should try to reduce compliance costs by allocating more costs to administration costs than compliance costs of the new tax. Countries yet to introduce GST or similar taxes must make the legislation as simple as possible to reduce start-up and recurrent costs.

There is scope for further research on the operating start-up compliance costs of any new tax. On hind sight, whilst this study has not discussed the repeal of the Malaysian GST in depth, interestingly, a study on the compliance costs SMEs resulting from the Malaysian GST repeal is suggested. The limitation of this study was a smaller sample size that generated a lower response rate, which means results cannot be generalised to the entire population of Malaysian SMEs. The fair compensation estimated amount from respondents suggest that Malaysian SMEs were emotive on their role as "unpaid tax collectors" for government. However, further comments requested by the questionnaire provided rich attitudinal data on the implementation of the Malaysian GST. Moreover, the non-response bias test makes the figures credible.

⁸⁵ Sandford, Godwin and Hardwick, above n 26.

⁸⁶ Rametse, above n 11.