

THE IMPLEMENTATION OF THE GOODS AND SERVICES TAX IN MALAYSIA: POTENTIAL ISSUES PERCEIVED BY BUSINESS TAXPAYERS

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ABSTRACT

The implementation of the goods and services tax (GST) in Malaysia on 1 April 2015 was part of the Malaysian government's taxation reforms aimed at improving the collection of revenue and reducing the country's budget deficit. This study presents some of the major issues and concerns that Malaysian business taxpayers perceived as key challenges in preparing for GST implementation. A survey was conducted April to June 2013, in which 426 business taxpayers responded from various small- and medium-sized enterprises (SMEs). The results confirmed that, overall, business taxpayers were poorly prepared for GST implementation, with only 9 per cent claiming to be substantially ready. Around 22 per cent of the respondents stated that they were well equipped with computer systems for GST purposes. Over 25 per cent of eligible potential GST registrants stated that they would not register. Over 74 per cent of respondents felt that GST would place an additional compliance burden on them. Only 24 per cent of respondents were confident that they would get the required help and assistance from the Royal Malaysian Customs Department, the GST tax authority. Additionally, whilst larger businesses confirmed that they were well prepared for GST, smaller businesses experienced greater stress in their preparation. This article concludes with a discussion of policy implications for the Malaysian GST system, particularly those that would alleviate businesses' compliance burdens.

Keywords: Malaysian goods and services tax; Compliance issues; Business taxpayers; Royal Malaysian Customs Department.

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I INTRODUCTION

This paper examines some of the major challenges business taxpayers¹ perceived in preparing for the goods and services tax (GST)² in Malaysia. More specifically, four broad issues were investigated: (i) business readiness to implement GST; (ii) the GST compliance burden imposed on businesses; (iii) perceptions of the Royal Malaysian Customs Department (RMCD, the body that administers GST in Malaysia) and their capacity to provide financial and non-financial assistance; and (iv) determination of whether business perceptions are related to business characteristics.

After two failed attempts, which spread over seven years, the Malaysian *Goods and Services Tax Act 2014*, based on a broad-based consumption tax, was finally passed, with effect from 1 April 2015. Kraal and Kasipillai³ argued that the key factors for Malaysia's delayed GST were public opposition in 2007, and the reduction of income tax rates, which were pre-emptively lowered in 2009 in anticipation of the second failed attempt at passing the GST Bill through the Malaysian Parliament. During the long preparation period from 2005, the private sector and the Malaysian government conducted various GST information sessions and seminars to educate Malaysian business taxpayers. However, not much is known about business taxpayers' concerns and their readiness on pre-GST implementation issues, since there is a dearth of Malaysian literature in this area. No tax impact statement was published by the tax authorities for the introduction of GST in Malaysia. To address this gap, this study aims to explore pre-GST compliance implementation issues faced by business taxpayers in Malaysia, and attempts to put forward some policy recommendations for the reduction of compliance issues.

This study focuses on business taxpayers representing small- and medium-sized enterprises (SMEs), since they make a significant contribution to the economy in terms of employment and output in Malaysia.⁴ This study is also crucial and relevant for developing countries' economies particularly in relation to the 2030 United Nations' Agenda for Sustainable Development goals. The goals of the agenda include strengthening domestic revenue mobilisation and improving domestic capacity for tax revenue collection. It is considered a key driver of these goals⁵ that public revenue from trade taxes should be gradually reduced and there should be a shift of tax burden to consumers in the form of consumption taxes.

¹ Business taxpayers include sole traders, partnerships, private companies and public companies who are eligible to register for the Malaysian GST.

² GST is also known as value added tax (VAT) in other countries, eg, Japan and the European Union. They both refer to a multi-stage consumption tax where tax on value added is imposed through the different stages of the supply chain.

³ D Kraal and J Kasipillai, 'Finally, a Goods and Services Tax for Malaysia: A Comparison to Australia's GST Experience' (2016) 31(2) *Australian Tax Forum* 257.

⁴ A S Saleh and N O Ndubisi, 'An Evaluation of SME Development in Malaysia' (2006) 2(1) *International Review of Business Research Papers* 1-14; T Ramayah and K P Ling, 'An Exploratory Study of Internet Banking in Malaysia' in *Proceedings of the 3rd International Conference on Management of Innovation and Technology* (Zhejiang University Press, 2002) 25-7.

⁵ U V Nam, *Transforming Our World: The 2030 Agenda for Sustainable Development* (United Nations, 2015).

A Background of the study

The rationale for this study was to explore the perceptions and challenges faced by SMEs regarding the introduction of GST in Malaysia on 1 April 2015. This survey was conducted from April to June 2013, two years before the introduction of GST, comprising 1500 business taxpayers from various SMEs. A total of 426 responses were received, resulting in a response rate of over 28 per cent. The findings show that Malaysia was not well placed for the implementation of GST, which was interesting given that GST was first announced for implementation in 2005. Many in the business community, both large and small, did not take the implementation date seriously, due to the earlier postponements of GST and their 'laissez-faire' attitude in hoping that GST would not be implemented at all.

B Objective of the study

There were four parties involved in successfully implementing GST in Malaysia. They were business taxpayers from various SMEs, the RMCD, the tax agents and the public. Since SMEs and tax authorities were at the forefront for the implementation of GST, this study has confined its scope to these two parties and excludes the perceptions of the tax agents and the Malaysian public.

Based on a literature review of GST implementation in other countries and Malaysia, the following four broad objectives were designed for this study.

1. To investigate the perceptions of Malaysian business taxpayers in terms of their overall readiness to implement GST, their computer system readiness, and their intention to register for GST when turnover is above or below the RM500 000 registration threshold.
2. To gain an insight into business taxpayers' perceptions on the potential compliance burden, stress levels,⁶ and the offsetting of cash flow⁷ and managerial benefits⁸ that may have eventuated due to compliance to GST rules and regulations.
3. To gather information about business taxpayers' perceptions of the RMCD, and the monetary and non-monetary assistance they sought for the reduction of their compliance burden.
4. To determine whether business perceptions were related to business characteristics.

⁶ Sandford et al stated non-economic costs (such as psychic or mental costs) are caused by the stress and anxiety of having to comply with a set of rules that a taxpayer does not fully understand, induced by the operation of a new tax system: C T Sandford, M R Godwin, P J W Hardwick and M I Butterworth, *Costs and Benefits of VAT* (Heinemann Educational Books, 1981).

⁷ Businesses normally collect more output tax than they pay in input tax during each return period. Businesses are then allowed to retain this excess for a 'grace period' before handing it over to the tax office. This gives them a cash flow benefit.

⁸ Managerial benefits may accrue to business taxpayers because of record-keeping requirements imposed by tax compliance obligations. These benefits come in the form of improved financial information to owners and managers and improved managerial decision-making for increasing cash flow and profitability of the business.

At the end of this paper, some recommendations are put forward to policy-makers for the reduction of the compliance issues based on the wish list submitted by SMEs.

Next, we look at the Malaysian economy, which gives the background for the introduction of GST.

C Malaysian economy

Malaysia is a developing country in Asia that in the last decade has successfully transformed from an exporter of raw materials into a diversified economy. Mohd⁹ notes that Malaysia has sustained a strong economy with a gross domestic product (GDP) growth average of 5 per cent per year, mainly supported by robust investment and domestic consumption. The economy continues to perform strongly at 5.9 per cent growth 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 is forecasted in 2018, due to lower petroleum prices.

Due to strong economic growth, the International Monetary Fund (IMF)¹⁰ has forecasted a low inflation of 3 per cent and a low unemployment rate at around 3.4 per cent for 2018. Thus, Malaysia is well poised for achieving a high-income status by 2020. However, the government needs to step up reforms to boost productivity and control public expenditure. As Malaysia's public debt continues to decline, the IMF recommended that the government shift towards raising revenue, rather than cutting public spending. Table 1 provides some data on Malaysia's key economic indicators such as population, inflation, unemployment and debt to GDP ratio.

Table 1: Overview of the Malaysian economy, 2015 to 2017¹¹

Indicators	2015	2016	2017
Population	31.2 million	31.7 million	32.3 million
Labour force	14.4 million	14.7 million	14.9 million
Real GDP annual growth	5.0%	4.2%	5.9%
Inflation rate	2.1%	2.1%	3.8%
Unemployment rate	3.2%	3.5%	3.4%
Income – per capita	USD5004	USD5421	USD5800

⁹ E A M Mohd, 'An Economic Outlook for Malaysia' (Paper presented at the National Tax Conference, Malaysia, 17 July 2012) <<http://www.ibfd.org/IBFD-Tax-Portal/Events/2012-National-Tax-ConferenceMalaysia>>.

¹⁰ International Monetary Fund, 'Malaysia's Economy: Getting Closer to High-Income Status' (IMF News, 7 March 2018) <<https://www.imf.org/en/News/Articles/2018/03/07/NA030718-Malaysias-Economy-Getting-Closer-to-High-Income-Status>>.

¹¹ Treasury, Malaysian Government, *Malaysia Key Data and Forecast 2017/18* <http://www.treasury.gov.my/pdf/economy/er/1718/keydata_forecast.pdf>; Treasury, Malaysian Government, *Malaysia Key Data and Forecast 2016/17* <http://www.treasury.gov.my/pdf/economy/er/1617/keydata_forecast.pdf>.

GDP – per capita	USD9505	USD9374	USD9813
Current account % of GDP	3.0%	2.4%	3.0%
Debt to GDP	57.9%	56.2%	54.2%

A review of the structure of SMEs shows that they can be defined by several characteristics based on economic size or value. Around the world, the most common measures used are turnover/revenue and number of employees, and these criteria are also used for Malaysian SMEs. Table 2 shows that, in 2011, the total number of business enterprises was 662 939, of which SMEs represented 97.3 per cent (645 136), with the remaining 2.7 per cent being large firms. The number of SMEs increased in 2012 and they constituted 99.2 per cent of total businesses (670 000 establishments). The majority of businesses are micro firms (75 per cent), followed by small firms (19 per cent), medium firms (3 per cent) and large firms (3 per cent). SMEs contribute about 37 per cent of Malaysia's GDP, 65 per cent of employment and 18 per cent of exports, making them very significant to the economy.¹²

Table 2: Businesses by annual turnover and percentage of total businesses, 2010–11¹³

Annual turnover (Ringgit Malaysia, RM)	Number of establishments	Percentage of total establishments
Micro firms: ≤ RM250 000	496 458	74.9%
Small firms: RM250 000 to RM10 million	128 787	19.4%
Medium firms: RM10 million to RM25 million	19 891	3.0%
Total SMEs	645 136	97.3%
Large firms: ≥ RM25 million	17 803	2.7%
Total establishments	662 939	100%

¹² 'Malaysia's SME GDP Contribution to Exceed 40%', *The Star* (online), 13 July 2017 <<https://www.thestar.com.my/business/business-news/2017/07/13/malaysias-sme-gdp-contribution-to-exceed-40pct>>.

¹³ Department of Statistics, Malaysian Government, *Economic Census 2011 – SME Annual Report* (2014).

Table 3: Distribution of establishments by business sector, by population and by samples¹⁴

Sector	Population of firms	Population percentage of firms	Total employment by business sector	Percentage of employment by business sector	Sample of firms	Percentage sample of firms
Services	591 883	89.3%	2 610 373	71%	310	73%
Manufacturing	39 669	6.0%	698 713	19%	59	14%
Construction	22 140	3.3%	275 631	8%	44	10%
Agriculture	8829	1.3%	78 777	2%	12	3%
Mining and quarrying	418	0.1%	5765	0%	1	0%
Total	662 939	100%	3 669 259	100%	426	100%

As shown in Table 3, the services sector has grown to be a leading contributor of businesses, accounting for 89.3 per cent, followed by the manufacturing sector at 6 per cent and construction at 3.3 per cent. In terms of employment, the services sector provides about 71 per cent, followed by manufacturing (19 per cent) and construction (8 per cent). The large services and manufacturing sectors will provide a good tax base for collection of GST.

Table 4: SME GDP and overall GDP share by key economic activity, 2014¹⁵

Sector	Percentage share of total	
	SMEs GDP	Total GDP
Services	58.6%	53.5%
Manufacturing	21.7%	23.0%
Agriculture	12.4%	9.2%
Construction	5.7%	4.3%
Mining and quarrying	0.4%	9.0%
Plus: import duties	1.1%	1.1%

¹⁴ Department of Statistics, Malaysian Government, *Economic Census 2011 – Profile of SMEs* (2011).

¹⁵ SME Corporation Malaysia, *SME Annual Report 2014/2015* (2015) 22 <<http://www.smeCorp.gov.my/images/Publication/Annual-report/BI/Annual-report-2014.pdf>>.

Total	100%	100%
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Table 4 shows that the services sector contributes 58.6 per cent of SME GDP, followed by manufacturing at 21.7 per cent and agriculture at 12.4 per cent. SMEs in the services sector recorded a growth of 8.7 per cent compared with overall services value-added growth of 6.5 per cent. SME value-added growth across all economic sectors was higher than overall value-added GDP growth in all sectors. Thus, SMEs are a major contributor of GDP in Malaysia.

D GST studies in Malaysia

This section focuses on GST studies in Malaysia, and highlights some of the issues that have arisen since the introduction of GST. In 2010, when the government first postponed the introduction of GST, the Associated Chinese Chambers of Commerce & Industry of Malaysia (ACCCIM) conducted a survey of SMEs in Malaysia. They found that businesses were clearly not prepared for GST. Thirty-eight per cent of the respondents stated they had not yet prepared for the implementation of GST. Only 4 per cent indicated that their readiness for GST was above 75 per cent, while 33 per cent were 1–25 per cent ready, and 25 per cent were 26–75 per cent ready.¹⁶

Many businesses, particularly in the SME community, were concerned that GST would have a profound impact on financial reporting and strategic decision-making such as pricing.¹⁷ Apart from the political considerations, the deferment of GST was due to readiness issues faced by business taxpayers in Malaysia. A survey by the Federation of Malaysian Manufacturers in 2013 showed that over 60 per cent of businesses were not ready for GST.¹⁸

Similarly, a study by SME Corporation Malaysia in July to November 2014, based on 2063 respondents, found that many SMEs were not ready to comply with GST.¹⁹ Small firms were leading the group with 53 per cent being ready to comply, followed by medium firms with 45 per cent and micro firms with 38 per cent. Only a small portion of SMEs indicated having full confidence and understanding of GST: micro firms at 6 per cent; small firms at 8 per cent; and medium firms at 8 per cent. The main challenges for SMEs included the establishment of an internal GST team, training of staff on GST, purchase of GST hardware and setting up the GST compliant accounting system.²⁰

Other GST studies undertaken included three before the introduction of GST and three after its implementation are discussed below.

¹⁶ The Associated Chinese Chambers of Commerce & Industry of Malaysia (ACCCIM), *Surveys Questionnaires/Reports: Report of 2010 SMEs Survey* (16 July 2010) <<http://www.accim.org.my/blog/topic/26/1/14/Report+of+2010+SMEs+Survey>>.

¹⁷ N H Mansor and A Ilias, 'Goods and Services Tax (GST): A New Tax Reform in Malaysia' (2013) 2(1) *International Journal of Economics Business and Management Studies* 12–19.

¹⁸ P Jayaraman, 'Majority of Malaysian Businesses Not GST-Ready', *The Sun Daily* (online), 17 September 2013 <<http://www.thesundaily.my/news/831481>>.

¹⁹ SME Corporation Malaysia, above n 15.

²⁰ M Hanif Tamin, *Analysing Financial Challenges of SMEs on the Implementation of Goods and Services Tax (GST) in Malaysia* (Unpublished Master's Thesis, University of Waikato, New Zealand, 2015).

The following studies were conducted before GST implementation. Marimuthu et al²¹ found that tax agents had a positive attitude and were well prepared for GST, but their issues included a lack of GST knowledge, the burden of record keeping, and the need to upgrade their computer systems. Palil et al²² examined Malaysian SMEs before the introduction of GST and found that their GST compliance costs amounted to RM28 000 (USD7000), and most of them were still not prepared for the implementation. Mansor and Ilias²³ stated that GST would boost revenue, but the RMCD needed to rectify initial problems and reduce income tax rates.

The following studies were conducted after implementation. Ishak, Othman and Omar²⁴ found that students were not supportive of GST, the majority perceiving it as a burden, and they wanted GST collection to be managed well for the benefit of citizens. Ramli and Ibrahim²⁵ found that the average start-up cost for a SME in Malaysia in 2013 was estimated at RM15 730 (USD4000). Ching et al²⁶ found that three factors influenced GST implementation for SMEs: GST taxpayers' perceptions of fairness; GST compliance readiness of businesses; and external factors that affect the businesses. The factors that affect a GST taxpayer's perception of fairness are high compliance costs, tax complexity, the extent of government support, and the stress costs of the business. The degree of readiness depends on the firm's resources and the business taxpayer's ability to cope with the change. External factors include sector-specific developments and political-economic developments that dampen the overall attitude of a business taxpayer towards GST implementation.

None of the above studies specifically focused on the main issues faced by SMEs prior to the introduction of GST, which is a gap in the literature. Next, we look at the structure and design of the proposed GST implementation and the reasons for its introduction.

E Background and context to GST reform in Malaysia

GST/VAT was first introduced in France in the 1950s, and it spread quickly around the world. The number of countries adopting GST/VAT rose from 10 in 1965 to 160 by 2013.²⁷ Cnossen²⁸ noted that though the specific reasons for adopting GST differ from country to country, the main argument put forward was that a properly designed GST

²¹ M Marimuthu, Z Bidin and H Abdul-Jabbar, 'Perceptions of Tax Agents towards the Proposed Goods and Services Tax in Malaysia' (SIBR-UniKL 2013 Conference on Interdisciplinary Business & Economics Research, Kuala Lumpur, 2012).

²² 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.

²³ Mansor and Ilias, above n 17.

²⁴ N I Ishak, M H Othman and M F Omar, 'Students' Perception towards the Newly Implemented Goods and Services Tax (GST) in Malaysia' (2015) 2(6) *International Journal of Contemporary Applied Sciences* 80–99.

²⁵ R Ramli and M A Ibrahim, 'GST Non-Compliance Behaviour of SMEs in Malaysia: Determinants and Start-Up Compliance Costs' (8th Asia Pacific Interdisciplinary Research in Accounting Conference, 2016).

²⁶ Y M Ching, J Kasipillai and A Sarker, 'GST Compliance and Challenges for SMEs in Malaysia' (2017) 15(3) *eJournal of Tax Research* 457–89.

²⁷ Royal Malaysian Customs Department, *Countries Implementing GST or VAT* (24 January 2014) <http://gst.customs.gov.my/en/gst/Pages/gst_ci.aspx>.

²⁸ S Cnossen, 'Global Trends and Issues in Value Added Taxation' (1998) 5 *International Tax and Public Finances* 399–428.

raises more revenue than any other broad-based consumption tax. Sandford et al²⁹ estimated VAT compliance costs of between 3.7 per cent and 9 per cent of VAT collections in the UK. Based on 320 of Australia's largest corporations, Ernst & Young³⁰ estimated GST implementation costs at between 0.075 per cent and 1 per cent of turnover.

Due to changes in the world economy, Malaysia needed to boldly execute a tax policy that could raise a stable revenue stream to maintain a competitive edge in the world market. Given this background, the rationale for introducing GST in Malaysia seemed logical and timely. There are four strong arguments for the introduction of GST: it broadened the tax base to reduce budget deficit; it raised a stable revenue; there was pressure from the IMF and the World Bank to introduce a consumption tax; it replaced sales and services tax (SST).

1 *Reduce budget deficit*

Narayanan³¹ stated that Malaysia had been facing a chronic budget deficit problem. Over the 43-year period from 1970 to 2012, the federal government budget was in deficit, except for the five years between 1993 and 1997. Not only were these deficits unrelated to economic cycles, but they consistently exceeded forecasts since 1999. The government wanted to broaden the tax revenue base to reduce the deficit, and thus GST was a good option.

Kasipillai,³² quoting Musgrave, argued that Malaysia, like most developing countries, relied heavily on indirect taxes during the early stages of its development. However, in more recent years, Malaysia moved from the normal tax features found in developing countries and shifted its focus to direct taxes. In 1970, for example, direct taxes comprised 27.3 per cent of Malaysia's revenue, with indirect taxes comprising 50 per cent. By 2011, however, direct taxes increased to 55.3 per cent of revenue and indirect taxes took a dramatic dive to 17.5 per cent. Thus, there was a need to shift tax collection from direct taxes (such as income taxes for individuals and corporations) to consumption-based GST.

2 *Raise stable revenue*

Narayanan³³ added that GST in Malaysia is a tax on the value added to the output: it is a multi-stage tax and has inbuilt controls based on a paper trail of all transactions. First, the multi-point collection and invoice trail minimises tax avoidance and evasion. Second, GST is better able to protect revenue from tax evasion by retailers as compared to a single-stage sales tax, since there is a paper trail of the transactions. This is supported by Jala,³⁴ who argued that Malaysia may not have been taxing all those who are legally liable.

²⁹ C Sandford, M Godwin and P Hardwick, *Administrative and Compliance Costs of Taxation* (Fiscal Publications, 1989).

³⁰ Ernst & Young, 'Preparing for the GST: An Australian Survey' (1999) 1 *Journal of Australian Taxation* 331-43.

³¹ S Narayanan, 'The Impact of the Goods and Services Tax in Malaysia: Lessons from Experiences Elsewhere' (2014) 59 *The Singapore Economic Review* 2.

³² J Kasipillai, *A Guide to Advanced Malaysian Taxation* (McGraw-Hill, 2010).

³³ Narayanan, above n 31.

³⁴ I Jala, 'Conversation with a Malaysian Angry with the Government', *The Star* (online), 2013.

Malaysia has a population of 29 million, and in 2012 the working population was 12.8 million. Out of this, only 1.7 million paid income taxes, that is, about 6 per cent of the population. Further, Bedi³⁵ reported that there were 6.4 million registered taxpayers for all taxes in Malaysia, but with only 2.4 million paying their due taxes. Hence, GST would bring more taxpayers into the tax net, since even though they were not paying income taxes, they would be paying GST when they consumed goods and services, even when there was a downturn in the economy.

3 *Pressure from the IMF and the World Bank*

Bird³⁶ argued that many developing countries adopted VAT due to the perceived success of VAT implementation in the European Union, and the 'pressure' exerted by the IMF and the World Bank. The IMF and the World Bank encouraged developing countries to adopt some form of consumption tax, using finance assistance and access to expert advice.

PricewaterhouseCoopers³⁷ reported that the IMF, the Organisation for Economic Co-operation and Development (OECD) and the European Commission all promoted the shift from direct to indirect taxes to help solve the financial crisis, by reducing costs on businesses to make them more competitive. After the financial crisis there was pressure from the IMF for Malaysia to adopt an indirect consumption tax as a method to increase the efficiency of the tax system, rather than relying on trade and income taxes. Now, the IMF has recently recommended Malaysia's implementation of GST as a case study to Middle Eastern countries that are looking to adopt a consumption tax regime.³⁸

4 *Replace sales and services tax*

Kasipillai³⁹ stated that SST has a narrow base, since currently there are about 4700 types of goods, representing approximately 78 per cent of the goods manufactured locally, that are exempted from sales tax. It is cumbersome to administer due to several exemptions and the different rates applied to some specified goods (5 per cent on non-basic foodstuff, 20 per cent on cigarettes and liquor, and 10 per cent on all other goods). This complexity imposes extra compliance costs on businesses.

SST is ineffective, inefficient and inequitable (whereby the rich pay more and the poor pay less). In addition, the government has argued that goods and services are costlier for consumers due to their cascading effect, since there is no credit for tax paid on business

³⁵ R S Bedi, 'Silver Lining Behind GST', *The Star* (online), 10 July 2011 <<http://www.thestar.com.my/story.aspx>>.

³⁶ R M Bird, 'Value Added Taxes in Developing and Transitional Countries: Lessons and Questions' (Paper presented at the First Global International Tax Dialogue Conference on GST, Rome, Italy, 2005).

³⁷ PricewaterhouseCoopers, 'Shifting the Balance from Direct to Indirect Taxes: Bringing New Challenges' (*Tax Policy and Administration – Global Perspectives* series, June 2013) <<https://www.pwc.com/gx/en/tax/assets/pwc-shifting-the-balance-from-direct-to-indirect-taxes-bringing-new-challenges.pdf>>.

³⁸ Kamarul Anwar, 'IMF Endorses Malaysia's GST Implementation as Case Study – Customs', *The Edge Financial Daily*, 11 March 2016 <<http://www.theedgemarkets.com/my/article/imf-endorses-malaysia%E2%80%99s-gst-implementation-case-study-%E2%80%94-customs>>.

³⁹ J Kasipillai, 'Taxpayer's Knowledge Index as a Clue for Non-Compliance (2000) 81(3) *Journal on Pakistan's Taxation Laws*.

input. Also, Narayanan⁴⁰ argued that revenue generated by SST in Malaysia compares unfavourably to that raised by GST in neighbouring countries. For example, with a standard rate of 10 per cent, GST produced about 22 per cent of total revenue in the Philippines, 21 per cent in Thailand, and 19 per cent in Indonesia. In contrast, SST contributed about 10 per cent of total revenue in Malaysia in 2012. Therefore, GST would be an improvement for Malaysia in raising a more stable revenue.

Malaysia introduced GST at 6 per cent, compared with other ASEAN (Association of Southeast Asian Nations) countries where the rates varied (for example, 7 per cent in Thailand and Singapore, and 10 per cent in the Philippines, Cambodia, Vietnam, Laos and Indonesia). There was a need for Malaysia to keep exports zero-rated to be competitive in the ASEAN and other world markets. The fiscal reform package is aimed at long-term structural reform for Malaysia, so that its economy can integrate further into the global economy and become a high-income economy by 2020.

The proposed GST of 6 per cent was expected to replace the sales tax of 10 per cent and the services tax of 6 per cent from 1 April 2015, and the threshold was set at RM500 000 (USD125 000). It was expected to collect about RM30 billion in revenue. Around 122 000 businesses were expected to register for GST, but as of February 2015, 345 939 businesses had registered.⁴¹

This GST model, broadly speaking, provided for three different types of supplies, and a credit system would be given to businesses to claim the input tax on purchases of goods and services. The GST treatment varied according to the type of supply:

- a) **Standard-rated supplies** are goods and services subject to GST at the standard rate (currently 6 per cent). A supplier is able to claim input tax credits on purchases related to making these supplies.
- b) **Zero-rated supplies** carry a zero rate of tax. Thus, no GST will need to be levied on their supply. Suppliers of zero-rated supplies are required to register for GST and can claim input tax credits for the GST paid on business purchases related to making the supplies, such as raw materials. The supply of the following goods and services were expected to be zero-rated: agricultural products; foodstuffs, such as fresh vegetables, rice, sugar, cooking oil, etc; livestock, including live animals and unprocessed meat (fresh or frozen meat).
- c) **Exempt supplies** are not subject to GST. However, unlike zero-rated supplies, no input tax credit can be claimed by the supplier on related purchases. A supplier of exempt supplies is therefore unable to claim input tax incurred on raw materials/services that relate to making exempt supplies. The supply of the following goods and services were expected to be exempt: highway tolls; private health and education; domestic transportation of passengers.

⁴⁰ Narayanan, above n 31.

⁴¹ Bernama, 'Highest GST Registration Rate Recorded on Feb 27', *New Straits Times*, 2 March 2015 <<https://www.nst.com.my/news/2015/09/highest-gst-registration-rate-recorded-feb-27>>.

- d) **Multiple rates** are applicable in some industries. For example, mining, plantation and forestry businesses need to register for GST and are not exempt. The sales can be subject to the standard rate depending on how their output is made up. They can claim input taxes for purchases incurred for the business. If the goods are exported, the sales are zero-rated and the business can claim the input tax.
- e) Most of the **financial services** provided by banks and financial institutions are not subject to GST, but fee-based services, such as loan processing fees, safe keeping and custodial services, are subject to GST at a standard rate. Zero rates apply if the services supplied to the business are charged when the business owner is outside the country. If the supply is tax exempt the business taxpayer is not entitled to claim the input tax. Exempt supply covers provision of loans, exchange of currency and traveller's cheques.

Saira et al⁴² stated that the introduction of GST in Malaysia might strengthen cash flow by providing a steady source of funding for budget spending. However, GST would come with greater administrative and compliance costs. Wan⁴³ found that SMEs deemed GST to be a major burden, considering the cost of software adaptation and staff training, especially when they were already grappling with the high cost of doing business, and complying with other government regulations.

Ching et al⁴⁴ further noted that GST was successfully implemented in Singapore and New Zealand due to well-planned implementation strategies and easy-to-administer structures and designs. Tran-Nam⁴⁵ stated that the implementation of GST in Australia could be considered a success, despite some early teething problems. This success can be attributed to broad-based community support, simple design, direct compensation, income tax cuts, and a long lead-in time, allowing ample time for taxpayer and tax practitioner education and assistance programmes, conducted by the Australian Taxation Office.

In 2017, GST revenue collected in Malaysia was RM45 billion. However, recently, despite the success of GST in other countries, the Mahathir Mohamad-led government (which won the election on 9 May 2018) revised the GST legislation introduced on 1 April 2015. With effect from 1 June 2018 all standard-rated goods of 6 per cent will be zero-rated to alleviate the hardship faced by the public, who had voiced their concern at price increases due to the imposition of GST. The Ministry of Finance⁴⁶ stated that in September 2018 SST will be reintroduced and expected to raise RM25 billion. There will be a shortfall in

⁴² K Saira, M A Saraswathi and L Yoke-May, 'An Exploratory Study of Goods and Services Tax Awareness in Malaysia' (Seminar on National Resilience, Political Management and Policies, Langkawi, Malaysia, 13–15 July 2010) 265–76.

⁴³ H C Wan, 'GST and Anti-Profitteering: Tackling the Pricing Issue', *The Edge Malaysia*, 22 September 2014 <<https://www.pwc.com/my/en/assets/press/140922-theedge-gst-n-anti-profitteering.pdf>>.

⁴⁴ Ching, Kasipillai and Sarker, above n 26.

⁴⁵ B Tran-Nam, 'Recent Tax Reform in Australia: An Examination from a Tax Policy Perspective' (Paper prepared for the Korea and the World Economy VII Conference, Korean Institute of Public Finance, Seoul, South Korea, 2008).

⁴⁶ Martha Soezean, 'Netizens Support Malaysia Replacing the GST with SST, Voicing Benefit of the Latter', *The Online Citizen*, 6 June 2018, <<https://www.theonlinecitizen.com/2018/06/06/netizens-support-malaysia-replacing-the-gst-with-sst-voicing-benefit-of-the-latter>>.

revenue of RM20 billion that will be supported by specific revenue measures and expenditure reduction including rationalisation, efficiency measures and reduction in wastages.

F GST studies in the context of GST reform in Malaysia

Based on the literature review of SMEs in developing and developed countries, the following issues were identified when countries prepare for the implementation of GST/VAT.⁴⁷ The main issues identified were the compliance burden, the complexity of GST legislation, computerisation for GST, and the lack of assistance from tax authorities to reduce SMEs' compliance burden.

1 Compliance burden

The GST tax compliance burden is defined for this study as the time and money that taxpayers expend each year to comply with GST rules and regulations. Chittenden et al⁴⁸ stated that SMEs face substantial issues in managing documentation pertaining to proper tax records. Ehrich and Billett⁴⁹ found that the task of learning to implement GST is often stressful and lacks certainty for businesses. Smulders and Stiglingh⁵⁰ concluded that time and effort spent on preparing for GST was responsible for the largest part of a business's compliance cost. Lignier et al⁵¹ found that GST compliance costs were high and regressive on smaller businesses. PricewaterhouseCoopers studied the data collected by the World Bank Group on 'the ease of paying taxes in different economies around the world' as part of the Paying Taxes 2010 project.⁵² They observed that it takes businesses around the world longer to comply with VAT than with corporate income tax. In addition, it takes less time to comply in countries where businesses use online filing and payment for VAT.

2 Complexity of tax legislation

Evans and Tran-Nam⁵³ noted the difficulty of defining or measuring tax complexity, since it is regarded as a multi-faceted concept. However, some authors attempted to broadly

⁴⁷ Value added tax (VAT) is known as goods and services tax (GST) in other countries. Although GST and VAT have different names, they are both broad-based, multi-stage consumption taxes where tax is imposed through the different stages of the supply chain. The term GST will be used in lieu of VAT in some cases in this paper.

⁴⁸ F Chittenden, S Kauser and P Poutziouris, 'Tax Regulation and Small Business in the USA, UK, Australia and New Zealand' (2003) 21(1) *International Small Business Journal* 93–115.

⁴⁹ L C Ehrich and S Billett, 'How Australian Small Business Operators Learned About the Goods and Services Tax' (2006) 14(2) *Small Enterprise Research* 59–73.

⁵⁰ S Smulders and M Stiglingh, 'Annual Tax Compliance Costs for Small Businesses: A Survey of Tax Practitioners in South Africa' (2008) 11(3) *South African Journal of Economic and Management Sciences* 354–71.

⁵¹ P Lignier, C Evans and B Tran-Nam, 'Tangled Up in Tape: The Continuing Tax Compliance Plight of the Small and Medium Enterprise Business Sector' (2014) 29 *Australian Tax Forum* 217.

⁵² PricewaterhouseCoopers and World Bank Group, 'Paying Taxes 2010 – The Global Picture' (2010) <<https://www.pwc.com/gx/en/paying-taxes/assets/paying-taxes-2010.pdf>>.

⁵³ C Evans and B Tran-Nam, 'Managing Tax System Complexity: Building Bridges through Pre-Filled Tax Returns' (2010) 25 *Australian Tax Forum* 245.

define tax complexity. Slemrod⁵⁴ identified four fundamental attributes of tax complexity: predictability, enforceability, difficulty and manipulability. McCaffery⁵⁵ identified three types of tax complexity: technical, structural and compliance.

Tran-Nam⁵⁶ made a distinction between legal and effective complexity. Legal complexity refers to the ease with which a tax law can be read, understood and applied. Effective complexity can be measured in terms of the operating costs required to raise a certain level of tax revenue. For simplicity purposes, we used Tran-Nam's legal complexity definition for this study.

Conceptually, a simple GST will comprise a single-rate threshold, which is inclusive of all goods and services, except for exports, which are zero-rated. However, tax law becomes complex with increased sophistication of GST design and structure, including an increased number of rates and tax codes applicable to standard-rated, zero-rated and exemption items. Ebrill et al⁵⁷ argued that VAT is an intrinsically complex tax, cumbersome to both authorities and the taxpayer. Complexity may also increase the uncertainty of tax laws and thereby frustrate taxpayers and reduce their willingness to comply.⁵⁸

McKerchar⁵⁹ found that in Australia the main cause of complexity was uncertainty in tax law and the level of detailed information provided to the taxpayer to meet their tax obligations. In addition, tax complexity can generate significant economic costs. It is generally accepted that tax systems should be simple, but tax policy principles of simplicity and equity cause conflict and trade-offs, which can add complexity to tax legislation.

Bird and Gendron⁶⁰ found that only a few countries within developing or transitional economies offer taxpayers assistance in coping with tax complexity, or pay attention to the impact of compliance costs imposed on taxpayers. Richardson,⁶¹ in his study of 45 countries, found complexity is the largest determinant of non-compliance, apart from education, income source, fairness and tax morale. He adds that complexity of the tax system affects the level of taxpayers' compliance costs.

According to Kasipillai,⁶² there is a direct relationship between complexity of the tax system and the level of the compliance costs incurred by taxpayers. Any increase in the

⁵⁴ J Slemrod, 'Complexity, Compliance Costs, and Tax Evasion' in J A Roth and J T Scholz, *Taxpayer Compliance: Volume 1: An Agenda for Research* (University of Pennsylvania Press, 1989).

⁵⁵ E J McCaffery, 'The Holy Grail of Tax Simplification' (1990) *Wisconsin Law Review* 1267.

⁵⁶ B Tran-Nam, 'Tax Reform and Tax Simplification: Some Conceptual Issues and a Preliminary Assessment' (1999) 21(3) *Sydney Law Review* 500.

⁵⁷ L Ebrill, M Keen, J-P Bodin and V Summers (eds), *The Modern VAT* (International Monetary Fund, 2001).

⁵⁸ G A Carnes and A D Cuccia, 'An Analysis of the Effect of Tax Complexity and Its Perceived Justification on Equity Judgments' (1996) 18(2) *The Journal of the American Taxation Association* 40.

⁵⁹ M McKerchar, 'The Effects of Complexity on Unintentional Noncompliance for Personal Taxpayers in Australia' (2002) 17 *Australian Tax Forum* 3.

⁶⁰ R M Bird and P Gendron, 'Is VAT the Best Way to Impose a General Consumption Tax in Developing Countries?' (2006) 60(7) *Bulletin for International Taxation* 287.

⁶¹ G Richardson, 'Determinants of Tax Evasion: A Cross-Country Investigation' (2006) 15(2) *Journal of International Accounting, Auditing and Taxation* 150-69.

⁶² J Kasipillai, *A Comprehensive Guide to Malaysian Taxation: Under Self-Assessment System* (McGraw-Hill, 2009).

complexity of the tax system will escalate the compliance burden for taxpayers. Rising complexity in the tax system also leads to burdensome administrative costs for the tax authorities.

In Malaysia, a study by Mustafa and Hanefah⁶³ found that, due to self-assessment of income taxes, taxpayers perceived the legislation to be very complex and ambiguous, particularly in terms of record keeping. According to Kasipillai,⁶⁴ the newly enacted *Goods and Services Tax Act 2014* is a complex document with 165 pages and 197 sections, and must be read together with GST orders and regulations.

Finally, based on a study by Saad,⁶⁵ there are six potential causes for complexity: ambiguity, frequent changes, calculations, details, forms and record keeping.

3 Computerisation for GST

The use of technology to enhance the effectiveness of tax administration and compliance attracts increasing attention in both developed and developing countries, as asserted by Edwards-Dowe.⁶⁶ Bernier and Suire⁶⁷ postulated that data is the key for GST/VAT reporting. Mohd Daud and Mohamed⁶⁸ posited that information technology (IT) usage will enable the improvement of both individual and organisational performance.

Plamondon⁶⁹ in a Canadian study, and Hasseldine and Hansford in a UK study,⁷⁰ found that GST/VAT taxpayers who used computers in their accounting routines had lower compliance costs than those who used manual accounting systems. On the other hand, Hansford et al⁷¹ found that SMEs using computers for GST record keeping incurred higher compliance costs than those working manually, implying that initial costs could be high due to the purchase of new hardware.

Lim⁷² found that 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

⁶³ H Mustafa and M Hanefah, *An Evaluation of the Malaysian Tax Administrative System and Taxpayers Perceptions towards Assessment Systems, Tax Law Fairness and Tax Law Complexity* (Unpublished PhD Dissertation, University Utara Malaysia, 1996).

⁶⁴ J Kasipillai, *A Guide to Malaysian Taxation* (McGraw-Hill, 2015).

⁶⁵ N Saad, 'Tax Knowledge, Tax Complexity and Tax Compliance: Taxpayers' View' (2014) 109 *Procedia – Social and Behavioural Sciences* 1069–75.

⁶⁶ 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).

⁶⁷ G Bernier and J Suire, 'Meeting the VAT E-audit Challenge' (Indirect Tax Briefing: Issue 11, EYGM Limited, December 2014).

⁶⁸ 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* 294–306.

⁶⁹ R Plamondon, Department of Finance, Government of Canada, *GST Compliance Costs for Small Business in Canada* (1993).

⁷⁰ J Hasseldine and A Hansford, 'The Compliance Burden of VAT: Further Evidence from the UK' (2002) 17 *Australian Tax Forum* 369.

⁷¹ A Hansford, J Hasseldine and C Howorth, 'Factors Affecting the Costs of UK VAT Compliance for Small and Medium-Sized Enterprises' (2003) 21(4) *Environment and Planning C: Government and Policy* 479–92.

⁷² T M Lim, 'Outsourcing to Ensure Successful ICT Systems Implementation and Maintenance' (Monash University, 24 August 2006).

and a lack of IT expertise. Seow⁷³ 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. Tan⁷⁴ also noted that SMEs in Malaysia are slow in adapting to IT to increase their global competitiveness.

4 *GST tax authorities*

The tax authorities play an important role for the reduction of compliance costs. Apart from the simplification process of the tax legislation, they can provide friendly and prompt services to taxpayers' queries at no cost. Alm et al⁷⁵ argued that supporting private taxpayers through services provided by tax authorities reduces their compliance burden, since there is no need for the taxpayer to seek help from costly external tax experts.

Zumbo⁷⁶ argued that authorities do have a responsibility in assisting taxpayers to comply with tax requirements. Franzoni⁷⁷ argued that tax authorities should avoid the vicious circle of countering evasion by introducing complex tax legislation, which increases compliance costs and fosters non-compliance. Frey⁷⁸ stated negative experiences with tax officials lead to taxpayers losing faith in the system.

Berhan and Jenkins⁷⁹ argued that whilst governments of developing countries are eager to create modern tax systems, they are often saddled with weak tax administrations. These governments normally experiment with tax administration mechanisms that result in large compliance costs for taxpayers. Faridy, quoting Franzoni,⁸⁰ argued that businesses may resent tax authorities for creating high levies and a very complex tax system. Eichfelder and Kegels⁸¹ found evidence that customer-friendly Belgian tax authorities established ways to reduce the compliance burden of their business customers by about 20 per cent on average.

Some of the above studies have highlighted the issues faced by businesses from some developed and developing countries prior to the introduction of GST, which have the capacity to prevail in Malaysia. However, Sandford⁸² warned that international

⁷³ T C Seow, 'SMEs Need to Embrace ICT', *Computerworld Malaysia* (online), 2006.

⁷⁴ C Tan, 'Towards Progress', *Computerworld Malaysia* (online), July 2006.

⁷⁵ J Alm, T Cherry, M Jones and M McKee, 'Taxpayer Information Assistance Services and Tax Compliance Behavior' (2010) 31(4) *Journal of Economic Psychology* 577–86.

⁷⁶ F Zumbo, 'Tax Assessments and Judicial Review: Do the Courts Have a Supervisory Role?' (1996) 79 *Canberra Bulletin of Public Administration* 97.

⁷⁷ L Franzoni, 'Tax Compliance' in B Bouckaert and G De Geest (eds), *Encyclopedia of Law & Economics* (Edward Elgar, 1999).

⁷⁸ B S Frey, 'Deterrence and Tax Morale in the European Union' (2003) 11(3) *European Review* 385–406.

⁷⁹ B A Berhan and G P Jenkins, 'The High Costs of Controlling GST and VAT Evasion' (2005) 53(3) *Canadian Tax Journal* 720.

⁸⁰ N Faridy, 'VAT Compliance Costs and VAT Evasion of Small and Medium Enterprises (SMEs) Sectors in Bangladesh: Is There a Link' (Paper presented at the 25th Annual Australasian Tax Teachers Association Conference, Auckland, New Zealand, 23–25 January 2013); see also Franzoni, above n 77.

⁸¹ S Eichfelder and C Kegels, 'Compliance Costs Caused by Agency Action? Empirical Evidence and Implications for Tax Compliance' (2014) 40 *Journal of Economic Psychology* 200–19.

⁸² C Sandford (ed), *Tax Compliance Costs: Measurement and Policy* (Fiscal Publications, 1995).

comparisons are more likely to mislead than enlighten, because there are differences in the time periods, quality of data, definitions used and units of measurement.

II RESEARCH METHODOLOGY

Sandford et al⁸³ conducted various studies into compliance costs of VAT in the UK using extensive mail surveys. Sandford and Hasseldine⁸⁴ also investigated the compliance costs of New Zealand's GST using a mail survey. Postal surveys feature most prominently in taxation studies, with two-thirds of studies wholly or partly using this method. For this study, a quantitative method was adopted: to determine the legal form, size, industry sector and year of establishment for each business; to analyse and generalise about the issues; and to determine the relationship between business perceptions and business characteristics.

The research questions were made simple to encompass a broad range of topics on GST matters. Some were selected from Evans et al's 'A Report into Incremental Costs of Tax Compliance'.⁸⁵ A focused survey of business taxpayers was undertaken using a structured questionnaire, with 36 questions. Questionnaires were distributed to 1500 business taxpayers in a sample of business enterprises throughout Malaysia, covering various business sectors.

A Survey sample selection, design and piloting

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

1 *Data selection*

Instead of postal surveys, this survey was administered through a face-to-face approach at GST seminars, to participants from three major business organisations.⁸⁶ Survey forms were given to lecturers to distribute to participants. This method was adopted because previous Malaysian survey experiences have proved it difficult to get responses through postal/email surveys. Mohdali⁸⁷ stated that for most tax surveys in Malaysia the response rate is poor, at around 14–22 per cent. There is a fear amongst respondents that data provided may be forwarded to revenue authorities.

⁸³ Sandford, Godwin and Hardwick, above n 29.

⁸⁴ C T Sandford and J Hasseldine, *The Compliance Costs of Business Taxes in New Zealand* (The Institute of Policy Studies, Wellington, 1992).

⁸⁵ C Evans, K Ritchie, B Tran-Nam and M Walpole, 'A Report into Incremental Costs of Tax Compliance' (Revenue Analysis Branch, Australian Taxation Office, 21 November 1996).

⁸⁶ (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 Industry.

⁸⁷ R Mohdali, 'The Effects of Religiosity and Taxpayer's Perception towards Government on Voluntary Compliance' (Paper presented at School of Economics and Finance, Curtin University, 2010).

2 Questionnaire design

The survey questionnaires were designed to be user-friendly, simple and comprehensive. Mohd-Sani⁸⁸ stated that it is well known that the government controls the press in Malaysia. Media freedom and the right to express opinions is limited, and public debates on government decisions and policy matters are nearly non-existent, limiting public debates on GST issues. Thus, to make the survey more meaningful and realistic, most of the material for the questionnaire was fine-tuned to capture various reactions in newspapers articles and blogs. (Blogs are an important channel of communication in Malaysia, as they are unauthorised, and their authors cannot be held liable for criticising the government.)

3 Pilot testing

The proposed questionnaire was pilot-tested using six participants, including one practising accountant, two lecturers and three revenue officials. Using their feedback, the questionnaire was refined and finalised. Please refer to Appendix 1: Survey Questionnaire.

B Survey implementation

Fowler⁸⁹ stated that a random sample of 150 would describe a population of 15 000 or 15 million with the same degree of accuracy. Assuming a plausible response rate of 20 per cent, a survey sample of 1500 was selected to generate an effective sample size of at least 300 respondents. In this study the effective sample was 426 – a response rate of 28 per cent, which is a good rate for statistical sampling. A further test was applied, using the Raosoft⁹⁰ sample size selector, and showed that for a population of 662 939 Malaysian businesses a sample size of 384 would be a reasonable minimum (assuming a response distribution of 50 per cent, at a 95 per cent level of confidence with a 5 per cent margin of error). Thus, the sample size of 426 in this study more than meets the requirement.

Table 5: Distribution and collection of survey forms

Associated Chinese Chamber of Commerce and Industry of Malaysia	300
Kuala Lumpur Malay Chamber of Commerce	300
Malaysian Associated Indian Chamber of Commerce and Industry	200
Kuala Lumpur Indian Chamber of Commerce	100
GST seminar lecturers	600
Total	1500
Responses received	426
Response rate	28%

⁸⁸ M A Mohd-Sani, 'Media Freedom in Malaysia' (2005) 35(3) *Journal of Contemporary Asia* 341–67.

⁸⁹ F J Fowler, *Survey Research Methods* (Sage Publications, 2nd ed, 1993).

⁹⁰ Raosoft, *Sample Size Calculator* (2004) <<http://www.raosoft.com/samplesize.html>>.

As shown in Table 5, the survey forms were evenly distributed amongst the three major business organisations.

The effective sample of 426, a response rate of 28 per cent, is a good number for statistical sampling. It also compares favourably to other surveys conducted in Malaysia: Mohdali⁹¹ found that, based on tax research carried out in Malaysia by Abdul and Pope⁹² and Hanefah, Ariff and Kasipillai,⁹³ response rates to surveys of this nature in Malaysia tend to be low, usually between 14 per cent and 22 per cent; Abdul and Pope⁹⁴ stated that business surveys targeting SMEs or large firms in Malaysia often yield a poor response rate of between 10 per cent and 20 per cent.

C Representativeness of observed sample

As Miles and Huberman⁹⁵ argued, the ability to draw statistical inferences from samples to reference populations is largely dependent on how well the attributes of observed samples represent the attributes of the population. To establish if the survey sample was representative of the population, three attributes – namely, turnover, sector and location by region – were included in the survey questionnaire.

The sample for this study included 55 per cent of respondents with a turnover above the RM500 000 (USD125 000) compulsory registration turnover threshold, and the rest (45 per cent) were below the threshold. This is a good representation of business taxpayers who would compulsorily and optionally register for GST.

Regarding the length of operation of business, 14 per cent of the sample were new businesses that had been operating for fewer than three years, with 86 per cent being established businesses operating for more than three years. Thus, a good percentage of established and new businesses have been included in the survey.

The survey responses will now be summarised in more detail, starting with a profile of the respondents' legal form, turnover, industry sector and other major variables.

Table 6: Respondents by legal form (from Survey Questionnaire, Question 1)

Legal form	Number	Percentage
Sole Trader	133	31%
Partnership	63	15%
Company – Private	177	42%
Company – Public	53	12%
Total	426	100%

⁹¹ Mohdali, above n 87.

⁹² J H Abdul and J Pope, 'Exploring the Relationship between Tax Compliance Issues in Malaysia' (2008) 1(1) *Journal of Applied Law and Policy*.

⁹³ M Hanefah, M Ariff and J Kasipillai, 'Compliance Costs of Small and Medium Enterprises' (2002) 4 *Journal of Australian Taxation* 73.

⁹⁴ Abdul and Pope, above n 92.

⁹⁵ M Miles and A M Huberman, 'Qualitative Data Analysis: A Sourcebook of New Methods' (1984) 56(2) *Qualitative Research Journal* 2.

Table 6 shows the respondents by legal form of business. The largest category was private companies, which accounted for 177 (42 per cent) of respondents, followed by sole traders at 133 (31 per cent), partnerships at 63 (15 per cent), and publicly listed companies at 53 (12 per cent). This represented a good mix of the various legal forms of business.

Table 7: Respondents by legal form and industry sector (from Survey Questionnaire, Questions 1 & 3)

Industry sector	Legal form								Total sample		Total population	
	Sole Trader		Partnership		Private Company		Public Company		N	%	N ('000)	%
	*N	*%	N	%	N	%	N	%	N	%	N ('000)	%
Manufacturing	6	5	3	5	43	24	7	13	59	14	40	7
Construction	8	6	9	14	23	13	4	8	44	10	22	3
Agriculture	7	5	1	2	3	2	1	2	12	3	9	1
Mining	0	0	0	0	1	1	0	0	1	0	0	0
Services	112	84	50	79	107	60	41	77	310	73	591	89
Total	133	100	63	100	177	100	53	100	426	100	662	100

* N denotes number of respondents; % denotes percentage.

Table 7 shows the respondents by legal form and industry sector. The total samples were grouped into 15 industry categories, based on the Malaysian Statistics Department's Standard Industrial Classification 2008. Further, the total sample was summarised into sectors, with services at 73 per cent, manufacturing at 14 per cent, construction at 10 per cent, and agriculture at 3 per cent.

The services sector represented 73 per cent of the businesses in the sample, compared with 89 per cent of the total population of SMEs. The manufacturing sector represented 14 per cent of the sample, compared with 7 per cent of the total population. Thus, the sample well represented the distribution of sectors in the total population.

Table 8: Respondents by legal form and turnover (from Survey Questionnaire, Questions 1 & 4)

	Sole Trader		Partnership		Private Company		Public Company		Total	
	N	%	N	%	N	%	N	%	N	%
Up to RM200 000	65	49	12	19	20	11	3	6	100	23
RM200 001–249 999	16	12	8	13	13	7	3	6	40	9

RM250 000–499 999	22	17	14	22	17	10	2	4	55	13
RM500 000–4 999 999	19	14	26	41	54	31	9	17	108	25
RM5 000 000–9 999 999	1	1	1	2	13	7	2	4	17	4
RM10 000 000–24 999 999	5	4	1	2	14	8	5	9	25	6
RM25 000 000–49 999 999	2	2	0	0	8	5	2	4	12	3
RM50 000 000 or more	3	2	1	2	38	21	27	51	69	16
Total	133	100	63	100	177	100	53	100	426	100

Table 8 shows 195 businesses (45 per cent) with turnover below the compulsory registration threshold of RM500 000, with the rest (231; 55 per cent) above the threshold and therefore required to register for GST. The sample selected was therefore a good representation of businesses with different turnovers that would register for GST. It is worth noting at this stage that the 45 per cent of respondents who operated below the threshold would prefer to stay out of the GST net to avoid the compliance burden associated with registration.

In conclusion, the sample responses from the survey findings were a good representation of the population in Malaysia, in terms of legal form, industry sector and turnover. Thus, the study findings provided a reliable set of data for further analysis.

III FINDINGS AND ANALYSIS

The findings of this study are discussed in relation to the four study objectives: (i) to analyse business readiness to implement GST; (ii) to analyse the GST compliance burden imposed on businesses; (iii) to gather the perceptions of the capacity of RMCD to provide financial and non-financial assistance; and (iv) to determine whether business perceptions are related to business characteristics. Several specific conclusions can be drawn for each of the objectives, as explained below.

A Objective 1: Business readiness to implement GST, comprising overall readiness, computerisation readiness, and readiness to register for GST if turnover exceeds threshold

1 Overall readiness for the implementation of GST

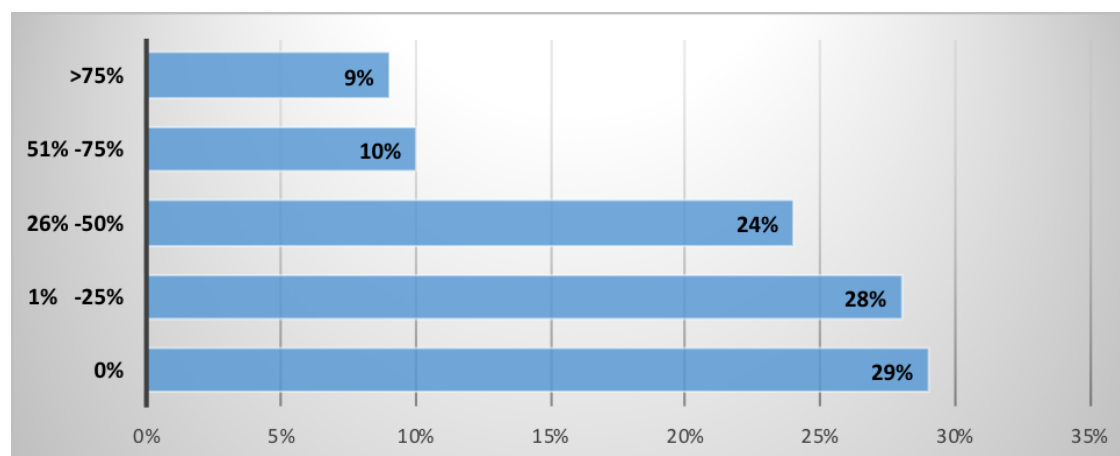
Overall readiness is generally made up of the business taxpayer's ability to cope with the change, the firm's resources and the availability of support from external tax agents and the RMCD.

Figure 1 below shows overall readiness for the implementation of GST. Only 9 per cent of respondents stated they were at least 75 per cent ready, while about 19 per cent considered themselves more than 50 per cent ready, and 81 per cent were less than 50 per cent ready. The poor preparation for GST was mainly due to the businesses'

perception that GST may not be implemented, since it was postponed twice and the starting date was unknown (at the time of this survey). This made it more difficult for businesses to properly prepare for GST, and this was reflected in the survey findings.

The findings of this study are confirmed by a similar study by ACCCIM.⁹⁶ Their study found only 4 per cent perceived that they were more than 75 per cent ready for GST. In this study, three years later (in 2013), there had been a marginal increase from 4 per cent to 9 per cent.

Figure 1: Overall readiness for the implementation of GST



Larger businesses with a turnover of over RM50 million seemed to be more ready than smaller businesses. This study further discovered that the manufacturing sector and the accounting profession were more ready than other industry sectors. Large businesses have international connections, more resources, better trained staff and in most cases a separate tax department, thus they are better equipped for GST preparation.

Persons responsible for implementing GST comprised internal accountants (46 per cent), external tax agents (26 per cent), owners/directors (22 per cent), and internal bookkeepers (6 per cent). This is positive, since it is better to utilise internal staff, who are less costly and can, at the same time, train other supporting staff internally.

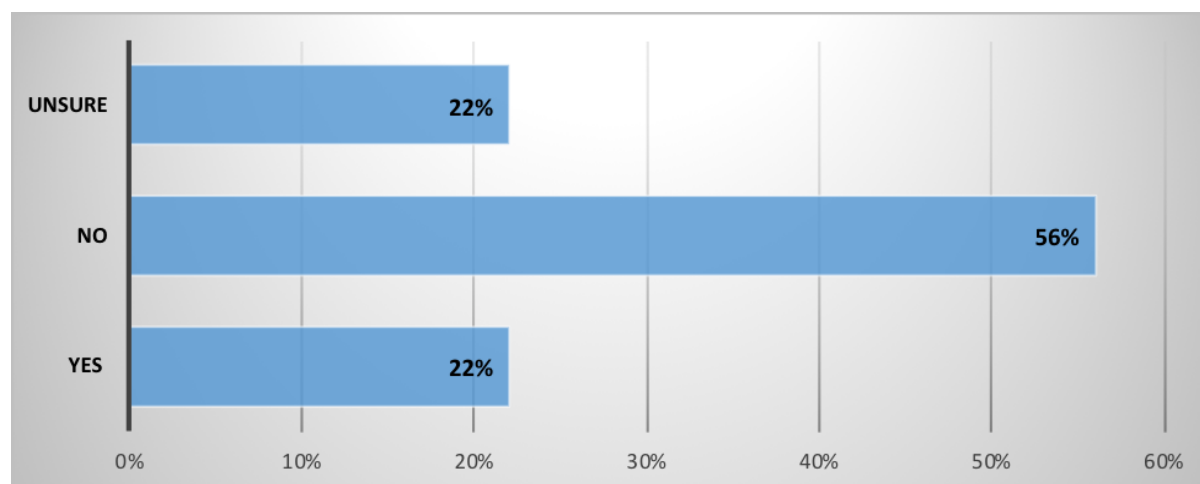
2 Computer hardware and software readiness for GST implementation

Figure 2 below indicates that overall only 22 per cent of business taxpayers believed that they were ready with their computer hardware and software for GST implementation. Again, larger businesses (with a turnover of over RM50 million), the manufacturing sector, as well as accounting firms, had their computer systems readier compared with smaller businesses and other sectors. Since the manufacturing sector had their accounting systems already set up for reporting sales tax, it was easier for them to update

⁹⁶ Tan Sri William Cheng, President of ACCCIM, 'President Speech: Media Conference on the Report of ACCCIM 2010 SMEs Survey' (Speech delivered at the Media Conference on the Report of ACCCIM 2010 SMEs Survey, ACCCIM Conference Room, 16 July 2010) <<http://www.acccim.org.my/blog/topic/27/1/36/Media+Conference+on+the+Report+of+ACCCIM+2010+SMEs+Survey>>.

their systems for GST. Similarly, since the accounting profession was already acting as advisors for the new GST, their computer systems were more ready than other sectors. It is a concerning issue that 78 per cent of businesses, mainly SMEs, believed their computer systems were not ready. Low computer usage suggests that a large proportion of SMEs still operate on a cash basis. This is in line with the findings of Kasipillai and Liew,⁹⁷ who pointed out that many small businesses operate on a cash basis and do not use computerised accounting or cash registers to maintain records.

Figure 2: Computer hardware and software readiness



An earlier study by ACCCIM⁹⁸ highlighted the same issue, where 80 per cent of respondents indicated that their computer systems were not ready to meet their compliance obligations. In addition, 71 per cent of the respondents indicated that they would not electronically file GST returns. Only 42 per cent of business taxpayers indicated they would use electronic filing to submit GST returns to the RMCD, with 21 per cent using external tax advisers, 17 per cent filing manual returns, and 20 per cent undecided.

Even though 42 per cent was a good start, the remaining 58 per cent of business taxpayers seemed to be uncomfortable using computers to submit returns, even with the knowledge that manual filing was costlier than electronic filing. The lack of confidence in using electronic filing leads to less investment in computer systems and a shortage of IT staff to run the software. This is an area of concern, as SMEs may not meet the reporting obligations, and thus may incur heavy RMCD penalties.

3 Compulsory registration for GST turnover above threshold of RM500 000

Figure 3 shows that 58 per cent of businesses stated they would register for GST. However, one of the most worrying results of this research was that 25 per cent of respondents with a turnover above the RM500 000 threshold stated they would not register for GST, which is a clear breach of the law. Another 17 per cent said they were not sure if they would register. One hopes that these respondents simply made a mistake

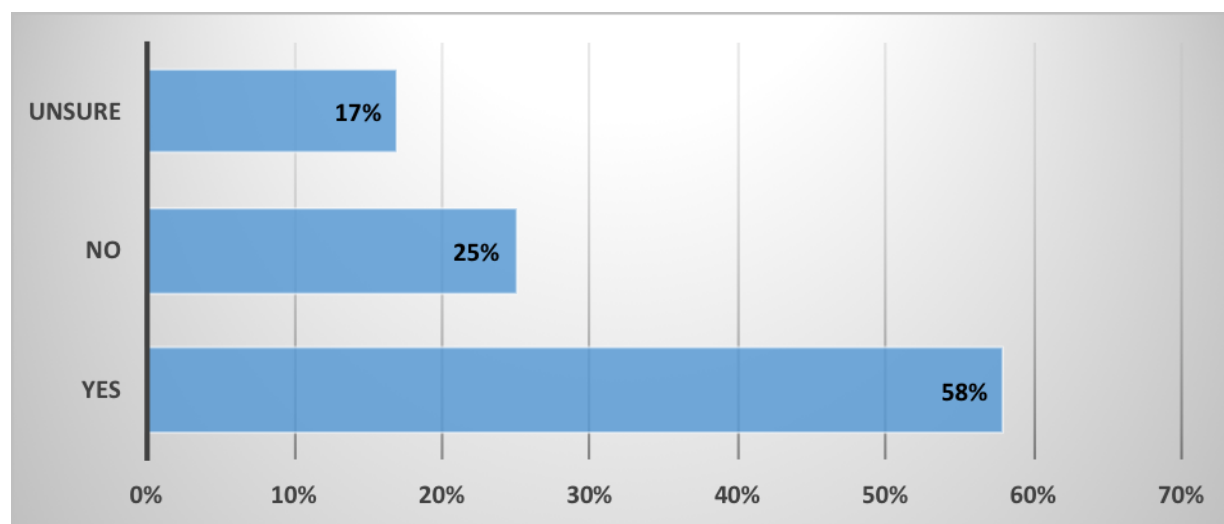
⁹⁷ J Kasipillai and R Liew, 'The Small and Medium Enterprises under a GST Regime' (2004) 17 *Accountants Today* 10–13.

⁹⁸ Cheng, ACCCIM, above n 96.

and were not aware of the compulsory registration threshold, but given that the registration threshold under SST was below that for GST, this is unlikely.

No matter what the reason, the RMCD should be concerned. A significant level of non-compliance with the compulsory registration requirement of GST would be incredibly damaging to its ongoing success. It seems some business taxpayers were adopting a 'wait and see' approach, and were willing to take the chance in not registering and face the consequences arising from RMCD action through their audit processes.

Figure 3: Compulsory registration for GST turnover above threshold of RM500 000



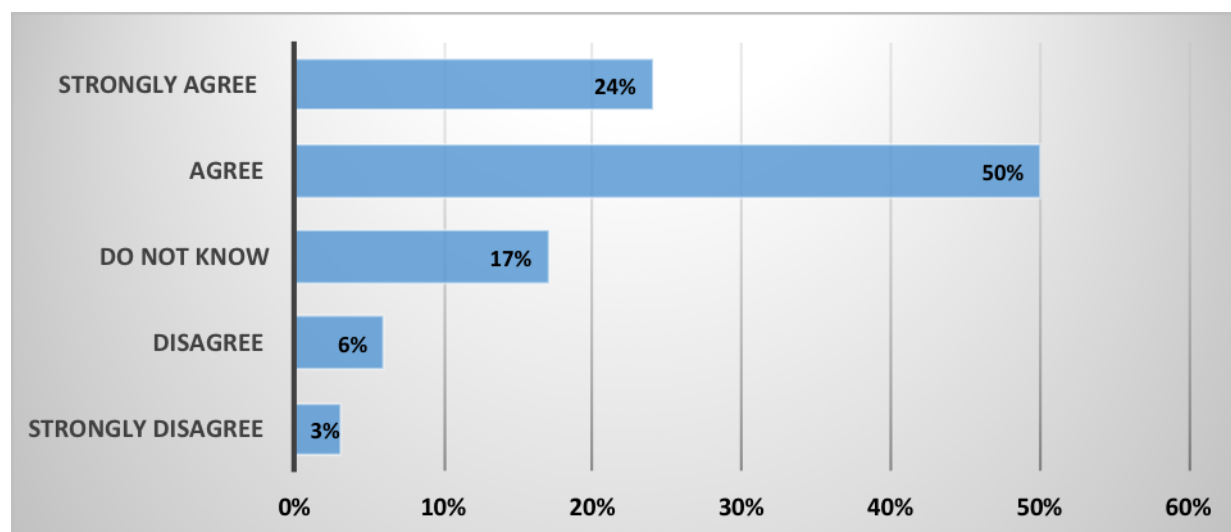
The RMCD had previously been using a persuasive approach, advocating collaboration with business taxpayers to register for GST, but, due to business taxpayers' continued non-compliance, and they changed to a deterrence approach and started imposing tax penalties after December 2014 (deadline for registration for GST).

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

1 Compliance burden

Figure 4 summarises the compliance burden of business taxpayers, with 74 per cent of respondents agreeing that GST placed an additional compliance burden on their businesses. In this regard, it should be remembered that international research found that a high compliance burden leads to high costs, which fall more heavily on small enterprises.⁹⁹

⁹⁹ C Evans, 'Taxation Compliance and Administrative Costs: An Overview' in M Lang, C Obermair, J Struch, C Staringer and P Weninger (eds), *Tax Compliance Costs for Companies in an Enlarged European Community* (Kluwer Law International, 2008) 447-70.

Figure 4: Compliance burden of business taxpayers

2 *GST-induced stress levels*

Fifty per cent of respondents stated that their stress levels would increase, and 36 per cent were not sure, due to the increased compliance burden, the lack of general information and the specific training required for GST. Another concern is that, due to stress levels, business taxpayers could voluntarily defer registration and be non-compliant with GST law.

In 2010, ACCCIM¹⁰⁰ found that 33 per cent of the respondents to their study expressed high stress in getting ready for GST, due to a lack of information. Another 22 per cent stated that the GST Bill was too technical and complicated. It seems stress levels had increased as the date of introduction of GST was getting closer, given the response of 50 per cent in this study. Businesses may have been hiring external advisers to set up the GST systems and train staff, and, thus, stress levels would have increased when the responsibility of reporting obligations fell back to the internal accountants and owners of businesses. However, it should be noted that this study and that by ACCCIM reflect a fairly rudimentary measure of stress levels, since GST had not been implemented at the time, and therefore businesses had not experienced the 'real' stress of GST compliance.

3 *Managerial benefits*

Managerial benefits refer to the potential for better and more informed business decision-making. These benefits can be maximised when record keeping is of a high quality. GST compliance forces taxpayers to keep better and timelier records of business transactions. Managerial benefits exist but are difficult to quantify. Accordingly, as Tran-Nam and Glover¹⁰¹ pointed out, these benefits are normally omitted in empirical

¹⁰⁰ Cheng, ACCCIM, above n 96.

¹⁰¹ B Tran-Nam and J Glover, 'The GST Recurrent Compliance Costs/Benefits of Small Business in Australia' (2005) 1(2) *Journal of the Australasian Tax Teachers Association* 237.

compliance cost studies. However, Lignier¹⁰² uncovered that some business taxpayers were deriving managerial benefits in the form of improved knowledge of financial affairs, mainly through increased use of computer accounting.

The survey results indicated only 44 per cent of respondents believed they may enjoy some managerial benefits, while 30 per cent were not sure and 26 per cent felt there would be no managerial benefit for them. It would be difficult to measure the impact of managerial benefits enjoyed by business taxpayers, since GST was not implemented at the time of the survey. Therefore, these findings may not be used to draw any credible conclusions.

4 Positive cash flow benefits

The business taxpayer enjoys a short-term cash flow benefit due to the time lag between when GST is collected from customers and when it is remitted over to revenue authorities. Only 28 per cent of respondents believed they would enjoy some short-term cash flow benefits, while 33 per cent were not sure, and 40 per cent believed they would not enjoy any cash flow benefits. From an accounting point of view, positive cash flows are very important for businesses, but respondents felt that, overall, GST would not contribute positive cash flow benefits for their organisation. Again, since the survey was carried out before GST implementation, it would be difficult to forecast any cash flow benefits.

C Objective 3: Business taxpayers' perceptions of the RMCD

Chow¹⁰³ stated that the OECD considers increasing responsiveness in solving taxpayer issues as one of the major challenges for revenue authorities. Increasing the responsiveness can include consistently delivering quality information to taxpayers, and dealing with inquiries and appeals from taxpayers in a timely fashion. Singh¹⁰⁴ stated that some of the public are still lacking knowledge and information regarding taxation, which leads to low awareness of their responsibility to pay taxes. So, taxpayers need to have sufficient knowledge of the current taxation system to comply with laws and regulations, as there seems to be a close relationship between knowledge and compliance. Also, a good positive relationship between taxpayers and revenue authorities is vital for the dissemination of knowledge and information to taxpayers.

¹⁰² P Lignier, 'The Managerial Benefits of Tax Compliance: An Empirical Study of Small Businesses in Regional Australia' (Paper presented at the 8th International Tax Administration Conference, University of New South Wales, Sydney, 2008).

¹⁰³ W S Chow, 'Tax Administration in the Hong Kong Special Administrative Region: Benchmarking against International Standards' in *ATAX Tax Administration Series, Vol 3: Tax Administration: Safe Harbours and New Horizons* (Fiscal Publications, 2008).

¹⁰⁴ V Singh, 'Goods and Service Tax, It Is Time', *The Malaysia Insider* (online), 21 September 2013.

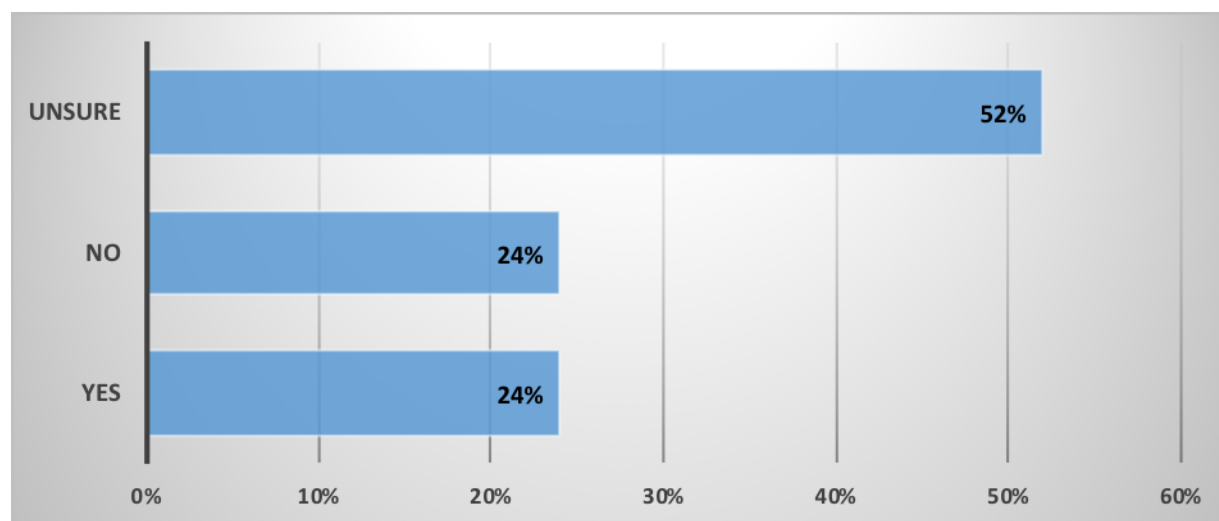
Figure 5: Business taxpayers' perceptions of the RMCD

Figure 5 demonstrates that, unfortunately, only 24 per cent of business taxpayers felt that the RMCD officers would provide friendly, courteous and helpful assistance to them during the interim period for implementation of GST, while 52 per cent were unsure if they would get any help, and 24 per cent indicated that the RMCD may not provide the required help and assistance.

This low level of 'approval' may indicate that business taxpayers were not confident that they could get help and assistance to sort their queries in a timely manner. ACCCIM¹⁰⁵ found that 50 per cent of the respondents to their study did not comment on the attitude of the officers handling tax audit, since the businesses had not been subjected to an audit within the past five years. This was an area of concern, since a lack of trust and the absence of a good relationship between business taxpayers and the RMCD staff could hamper the administration and collection of GST revenue.

It is important to note that if the RMCD fails to extend the required assistance, taxpayers may have to seek assistance from external tax advisers, but this can be costly. It is crucial that taxpayers have access to inexpensive and accurate information from the RMCD to encourage them to be compliant with GST rules and regulations. Prohibitive costs paid to external tax advisers should be avoided, since this can induce non-compliance when the same tax advice could be obtained free-of-charge from RMCD.

D Objective 4: Business perceptions in relation to business characteristics

The fourth objective of this study was to determine whether businesses' perceptions about GST were related to various characteristics of those businesses. The chi square statistic was used for testing relationships between perceptions and characteristics.

The results of all the chi square statistic tests have been summarised for characteristics such as legal form, turnover and industry sector and the corresponding three perception

¹⁰⁵ Cheng, ACCCIM, above n 96.

variables, namely overall GST readiness of business taxpayers, the compliance burden, and GST-induced stress levels. The results of the correlation analysis were carried out using the business turnover variable and nine business perception variables. Only three perceptions – ie, the overall readiness to implement the GST, computer system readiness and stress factor – seem to have a significant association with turnover. The legal form and industry sector variables were ignored, since they were not considered ordinal variables for the statistical analysis. Table 9 shows the correlation between annual turnover and business perceptions.

Table 9: Correlation between annual turnover and business perceptions

Variables	Pearson (r)	Spearman (rho)	Significance
Overall readiness	0.311	0.312	0.000***
Computer readiness	0.121	0.114	0.012**
Compulsory registration	0.086	0.076	0.191
Optional registration	0.025	0.021	0.724
Compliance burden	0.037	0.049	0.446
Managerial benefits	0.060	0.057	0.218
Cash flow benefits	0.016	0.012	0.744
GST-induced stress	-0.090	-0.081	0.062*
RMCD	0.070	0.076	0.147

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

As shown in Table 9, the significant correlation coefficients for the variables overall readiness and computer system readiness suggest that the larger the business, the more ready they were for GST overall and the more likely they were to have an updated computer system. The negative sign of the correlation coefficient for stress factor indicates that, as expected, smaller businesses felt more stress about the implementation of GST than larger businesses.

The Cronbach's alpha is defined by researchers as 'reliability of measurement'. This method is used to estimate the level of reliability and internal consistency of the data, since there were several Likert-type questions in the survey. An alpha value of above 0.75 is generally taken to indicate a scale of high reliability; a value of 0.5 to 0.75 is generally accepted as indicating moderate reliability; and a value below 0.5 generally indicates low reliability.

The Cronbach's alpha estimate of this study was about 0.64, suggesting that the data was moderately reliable. Thus, it can be concluded that the collected sample data was reliable for further statistical analysis.

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

Bernardi, Fumagalli and Gandullia¹⁰⁶ argued that the adoption of GST is often seen as an opportunity in developing countries to modernise tax administration. However, many developing countries found GST more difficult to administer than they initially thought, and problems with administration and enforcement often undermined its effectiveness. Ching et al¹⁰⁷ stated that in Bangladesh, even after more than two decades of implementation, businesses have difficulty in understanding GST legislation, due to excessive documentation, poor computerisation and delays in getting refunds.

Even developed countries had difficulty in selling the GST message, despite extensive consultation with business taxpayers and business organisations. For example, in Australia there was strong opposition by the public and business taxpayers. After several attempts, GST was eventually implemented at a rate of 10 per cent in 2000. In November 1999 (a year earlier), a survey was undertaken in Australia to seek business taxpayers' responses to GST compliance issues for the proposed July 2000 start date. Evans¹⁰⁸ listed some of the responses of business taxpayers, the key concern being that the GST compliance burden would be high. Many taxpayers expressed concern that there would be less time to run their business, less time for their family and reduced profitability. Others were worried about the complexity of complying with GST. The majority felt that they did not know enough to judge how GST would affect them, and many believed that it would be difficult to find adequate information on GST.

Based on the survey findings, it seems there are number of challenges Malaysian business taxpayers would face for the introduction of GST. The main issues are getting ready for GST, computerisation for GST, complexity of GST and the relationship with the RMCD. So, to overcome these challenges, Question 28 in the survey asked what business taxpayers wished from the government for the smooth introduction of GST. Normally, this could include monetary assistance to offset GST compliance costs, or free training to enhance tax knowledge. Kasipillai¹⁰⁹ stated that tax knowledge is an essential element in maximising voluntary compliance, and thereby affects the compliance behaviour of business taxpayers. Pope and Jabbar¹¹⁰ suggested providing free workshops. Kasipillai and Liew¹¹¹ recommended providing free software packages to business taxpayers. Singh,¹¹² taking the example of the Australian experience, proposed introducing a tax advisory board to assist business taxpayers in raising their issues with the RMCD during the implementation stage.

Based on the questions pertaining to requests for monetary and non-monetary assistance from the RMCD: 37 per cent of respondents hoped that the government would compensate them for GST start-up costs, which ranged from RM5000 (USD1250) for

¹⁰⁶ L Bernardi, L Fumagalli and L Gandullia, 'Tax Systems and Tax Reforms in South and East Asia: Overview of the Tax Systems and Main Tax Policy Issues' (2005) *Società italiana di economia pubblica*.

¹⁰⁷ Ching, Kasipillai and Sarker, above n 26.

¹⁰⁸ D Evans, 'Concern over Compliance, Few See Benefits' (1999) 34(1) *Taxation in Australia* 10–12.

¹⁰⁹ Kasipillai, 'Taxpayer's Knowledge Index', above n 39.

¹¹⁰ J Pope and H A Jabbar, 'Small and Medium Size Enterprises and Regulatory Burden in Malaysia. Alleviating the Compliance Costs of Goods and Services' (Paper presented at the Global Economy Conference 2007, Malaysia).

¹¹¹ Kasipillai and Liew, above n 97.

¹¹² V Singh, *Tax Thoughts on Today Are Taxing Times* (Digibook Sdn Bhd, 2005).

SMEs to RM20 000 (USD5000) for larger businesses; 22 per cent hoped that the government would provide free GST training; 20 per cent wanted GST postponed until a tax impact statement was published by the RMCD; 17 per cent wanted a grace period before the imposition of GST penalties; and 4% wanted lesser penalties until GST was accepted. It seems there was an urgent need for funding for training and for purchase of computer hardware and software.

One of the concerns of the newly enacted *Goods and Services Tax Act 2014* is the tax complexity. It has 165 pages with 197 sections and must be read in conjunction with GST orders and GST-related regulations, with the added burden of 35 tax codes.¹¹³ Saad¹¹⁴ argued complexity of tax laws can lead to high compliance costs, which can provide strong incentives for business taxpayers to illegally stay out of the system, damaging the integrity of GST. There seems to be reluctance on the part of business taxpayers to get necessary help and assistance from the RMCD. This may be due to a lack of clarity in relation to the application of the draft GST legislation. RMCD has released several customs regulations on GST matters that have not yet been explained clearly to business taxpayers. The potential contradiction between RMCD positions and the law may add to confusion, leading to taxpayer reluctance in seeking assistance from RMCD officials and the adoption of a 'wait and see' approach until GST is implemented.

IV LIMITATIONS OF THE STUDY

This study had some strengths and weaknesses. Some of its strengths included a good response rate of 28 per cent and the support of the survey from major business organisations. In addition, several major variables were identified to capture the perceptions of the underlying GST issues using different legal forms, sizes and industry sectors.

Some of the weaknesses of the study were: the survey was carried out during the heat of a general election, so the responses may be politically biased and not objective; since the GST had not been implemented it is difficult to know to what extent respondents really understood the questions to respond effectively, without having a practical working knowledge of GST; there is no input from the RMCD operational team to validate the findings; importantly, the survey was carried out from April to June 2013, 21 months before GST was implemented. According to the findings at this time, business taxpayers were poorly prepared for the implementation of GST. This may not be the case in June 2015, as the RMCD had by then carried out numerous GST education programmes. Hosni¹¹⁵ stated that by the end of February 2015, 6443 training programmes were conducted by the RMCD and 61 600 people had attended. Currently GST training and examinations are still being conducted to increase GST knowledge of business taxpayers. It seems all these educational training programmes may have helped to increase the tax knowledge of business taxpayers and that circumstances may have improved somewhat since 2014.

¹¹³ Kasipillai, *A Guide to Malaysian Taxation*, above n 64.

¹¹⁴ Saad, above n 65.

¹¹⁵ H Husni, '350,054 Companies GST-Ready as of March 11', *New Straits Times*, 11 March 2015.

V CONCLUSION

The findings of this study will contribute to the tax compliance literature in terms of explaining the GST issues faced by SMEs in a developing country. Specifically, this study highlights the issues, namely, readiness for GST, computerisation for GST, complexity of GST and the help and assistance from the tax authority to meet compliance obligations. Overall conclusions from this study's findings are broadly in line with other studies in Malaysia and around the world.

In the end, taxpayers are legally obliged to be ready for GST. But, no matter what the reasons for the low preparedness, this research reveals that there were areas where the government, perhaps through the RMCD, could be doing more to help prepare Malaysian businesses. There is no doubt that GST could be simplified for taxpayers facing unwarranted complexity, and this could be done without unduly compromising the integrity of the GST system. For example, Australia has been very successful in designing simplified GST accounting methods for many businesses that make both taxable and non-taxable supplies, thereby avoiding the costly problem of individually classifying a supply at the point of sale. Indeed, it is arguable that the government should be drawing more on external expertise to address the numerous GST implementation challenges.

In short, the survey in this study appears to be a good representation of the views of businesses across Malaysia. While the research data still needs to be statistically analysed for deeper and more targeted results, overall the survey results indicate that SMEs were poorly prepared for the implementation of GST, while larger businesses were better prepared overall.

Finally, an important point to note is that this data was collected around 21 months before GST was implemented. It seems that the circumstances have improved somewhat since the survey date in 2013. Yong,¹¹⁶ the Deputy Finance Minister, announced that as of 16 August 2014 only 12 500 businesses had registered. RMCD expected 122 000 to register for GST and later this figure was revised to 240 000. Registrations then increased sharply, as noted by Maslan,¹¹⁷ and by June 2015, 380 313 business entities had registered. On the face of it, one would presume that GST education training programmes had helped to increase registration of business taxpayers through better tax knowledge, but, on the contrary, it seems the deterrence or 'carrot and stick' approach by the RMCD to impose hefty fines had forced substantially increased registration numbers by 2015.

Businesses that chose not to register for GST are a concern for RMCD. As Hashim¹¹⁸ stated, some SMEs in Malaysia opted not to register their businesses for fear of being taxed for income tax and GST. These SMEs are considered part of the non-formal sector, which accounts for about 31 per cent of GDP and thus could lead to a significant loss of revenue for the government.

GST should be incorporated with the larger objective of achieving long-term fiscal sustainability, despite any initial implementation problems. The following short- and long-term policy recommendations are put forward to alleviate some of the major issues

¹¹⁶ C T Yong, 'Registration for Implementation of GST Picks Up Speed Time', *The Star* (online), 16 August 2014.

¹¹⁷ A Maslan, 'Govt Collects More Than RM 6 Billion, in GST', *The Star* (online), 12 June 2015.

¹¹⁸ H Hashim, 'Why Some SMEs Refuse to Register', *New Straits Times*, 20 July 2015.

uncovered from this study. The RMCD should study these recommendations and take appropriate action.

The short-term recommendations are:

1. Expedite ways and means to spread GST tax knowledge and education to the business taxpayers, for example, providing industry-based targeted seminars.
2. Extend financial assistance to business taxpayers for purchase of computers and software.
3. Take measures that will reduce the compliance burden by reducing the GST tax codes from 35 to a lower figure, reducing the frequency of reporting, and increasing the threshold from RM500 000 (USD125 000) to RM1 million (USD250 000).
4. Put in place procedures for the improvement of the RMCD's relationship with business taxpayers, for example, by employing more multicultural staff who can communicate in Chinese and Tamil languages.
5. Conduct an independent survey on GST compliance issues faced by business taxpayers to find out 'first hand' the issues confronting business taxpayers.

Long-term recommendations are:

1. The Government of Malaysia should publish a GST tax impact statement.
2. The government should establish a GST Research Centre with the universities.
3. The government should establish one tax authority for the administration of direct and indirect taxes, which should reduce compliance costs for business taxpayers and administration costs for the government.

Dealing with taxation matters in Malaysia remains a challenge, since very little research is published on taxation issues. At the time of this study, there seemed to be a lack of commitment by the government to allocating resources for taxation research, since revenue collection had been their focus due to the fiscal deficit. The introduction of a broad-based GST was one of the most significant reforms Malaysia had made to its public finance regime. The experiences of other countries have taught us that the implementation of GST must be carefully managed. This is not only regarding the structural design of the GST, but also regarding the initial implementation of the GST. It is worth investing considerable resources to get the implementation right from the start as failures to correct the weaknesses will leave a legacy that will be felt for some time and prove costly to correct in the future.

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APPENDIX 1: SURVEY QUESTIONNAIRE



THE UNIVERSITY OF
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Goods and Services Tax (GST) Survey Questionnaire on issues due
to the implementation of proposed GST in Malaysia

SURVEY QUESTIONNAIRE

A THIS SECTION ASKS ABOUT YOUR BUSINESS' BACKGROUND

1. Legal form of your business

Sole proprietor Partnership Private Ltd Public Listed

2. Location of the head office of your business

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

3. Primary activity of your business

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

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

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

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5. No of staff employed as at 31st October 2012.

5 or less

6- 19

20-50

51 -150

151-200

201 and above

6. Number of years of operation

0-3 years

4-6 years

7-9 years

10 years or more

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

7. Do you believe that you need to register for GST business registration?
(Note if your business annual turnover is more than RM 500,000 you need to register for GST).

Yes

No

Unsure

8. Do you intend to register for GST if your turnover is less than RM 500,000?
(Note if your turnover is less than RM 500,000, you can still register for GST in order to claim input tax credit on purchases for goods and services).

Yes

No

Unsure

9. Who will handle **GST Accounting** matters of your business when GST is implemented? (Examples of GST accounting matters include registering for GST, setting up the business records to capture GST, issuing new GST invoices and changing GST tax codes).

Owner/CEO/Management

Internally hired accountant

Internally hired bookkeeper

Externally hired tax adviser

Externally hired tax adviser

10. Who will handle **GST Taxation** matters when GST is implemented? (Examples of GST tax matters include checking GST records, calculation of GST Taxes, preparing GST returns and dealing with Customs authorities).

Owner/CEO/Management

Internally hired accountant

Internally hired bookkeeper

Externally hired tax adviser

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

GST Electronic filing Use of external tax professionals

Manual GST returns Unsure

12. How does your business plan to get ready for the GST?
(Please tick more than one circle if appropriate).

To read GST articles in the media To study cash-flow impacts of GST

To stock up inventory before GST To wait for Government public training

To conduct In-house staff training To hire external GST experts

To review contracts for goods/ services purchases To change computer software

To send staff for external training Others (please specify)

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

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

Yes No Unsure

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

Below RM 5000

RM 5001 up to RM 9,999

RM 10,000 up to RM 19,999

RM 20,000 or more

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


Yes No Unsure

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

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

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

12 months
 18 months
 24 months
 Not sure



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

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

Yes No Unsure

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

Yes No Unsure

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

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

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

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


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

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

D THIS SECTION ASKS ABOUT THE PSYCHOLOGICAL COSTS OF PROPOSED GST

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

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Goods and Services Tax (GST) Survey Questionnaire on issues due to the implementation of proposed GST in Malaysia

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

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

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

The proposed GST Bill is too technical & complicated.

Lack of general information for the public.

Lack of training available for a specific business type.

It will increase my compliance costs in terms of time and money.

The penalties and recovery action are too severe.

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

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

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

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

Reduction of personal and corporate income tax rates.

Simplified GST rules and regulations for easier compliance.

Faster in processing and payment of tax refunds by RMCD

RMCD is designated as one point for GST collections and administration.

More streamlined counter and on line services to sort GST queries.

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

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

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

Yes No Unsure

F THIS SECTION ASKS FOR YOUR GENERAL COMMENTS

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

Yes No Unsure

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

Yes No Unsure

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

Yes No Unsure

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

Yes No Unsure

THIS SECTION ASKS FOR YOUR GENERAL COMMENTS

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

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

Yes No Unsure

31. GST reform may provide your business with some cash flow benefits. There will be a timing difference between the date when the GST is collected and paid over to the revenue authorities. Do you think your business will experience such a cash flow benefit?

Yes No Unsure

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