

AN INVESTIGATION OF THE ATTITUDES OF BUSINESS TAXPAYERS TOWARDS THE MALAYSIAN GOODS AND SERVICES TAX AND ITS POTENTIAL MANAGERIAL BENEFITS

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ABSTRACT

The Malaysian Goods and Services Tax ('GST') was implemented in April 2015 to replace the Sales and Services Tax ('SST'), as part of the Malaysian tax reform, which was aimed at reducing the country's budget deficit by improving its revenue collection system. This study is part of a major project that investigated the start-up compliance costs of GST for Malaysian business taxpayers. Sixty-eight questionnaires were received from businesses that were registered for GST. This research applied the Theory of Planned Behaviour model to investigate business taxpayers' attitudes towards the Malaysian GST and its potential managerial benefits. A five-point Likert attitude scale was employed to measure the attitudes of businesses towards the introduction of the GST in Malaysia.

Prior studies report that Malaysian business enterprises incurred high mean gross GST start-up compliance costs. The findings of this investigation confirm that there is a direct relationship between business attitudes towards GST compliance and start-up compliance costs. Overall, respondents strongly disagreed with the statement 'I do not mind doing GST work'. Further, those who indicated that GST is unreasonably complicated, reported higher average GST start-up compliance costs. Counter-intuitively, businesses that supported the government's tax reform also incurred higher average GST start-up compliance costs.

This study found that some businesses derived managerial benefits from complying with the GST. The managerial benefits include improved accounting information systems, improved controls to prevent theft and fraud, as well as savings in accounting costs by using internal staff to maintain records. Surprisingly, businesses that expected to derive managerial benefits incurred higher costs than those who did not expect to receive such benefits. This paper concludes with some policy implications for Malaysia and possibly for other countries yet to introduce a GST.

Keywords: Malaysian goods and services tax, taxpayers' attitudes/perceptions, compliance costs, managerial benefits

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I INTRODUCTION

The Malaysian Government enacted the *Goods and Services Act 2014* (Malaysia) ('*GST Act*') on 1 April 2015 by introducing a 6 per cent Goods and Services Tax ('GST'). The *GST Act* replaced the *Sales Tax Act 1972* (Malaysia) and the *Services Tax Act 1975* (Malaysia), which were jointly referred to as the Sales and Services Tax ('SST'). GST is a broad-based consumption tax that allows some food items to be zero-rated (i.e. GST free). GST impacted heavily on Small and Medium-sized Enterprises ('SMEs') in Malaysia. This negative impact is far-reaching as SMEs play a pivotal role in the Malaysian economy given that they contribute significantly to employment (about 65 per cent).¹ In Malaysia, SMEs are defined as those that do not exceed MYR50 million annual turnover, and those that do not exceed 200 full-time employees.² Reports have confirmed the contribution that Malaysian SMEs make to business establishments. For example, the 2016 Economic Census reported that Malaysian SMEs accounted for 97 per cent of total business establishments, but only 36 per cent of Gross Domestic Product ('GDP') in 2015, which is below the 50 per cent of GDP average for high-income countries.³ Despite their significant contribution to the economy, Malaysian SMEs are continually disadvantaged by a complex taxation system and other myriad government regulatory requirements.⁴

As part of its major policy reversal, the Malaysian Government reduced the GST from 6 per cent to 0 per cent on 1 June 2018 and reintroduced the SST in September 2018.⁵ This policy reversal presented businesses with financial and time costs as they, once again, had to change and update their accounting systems. The authors of this paper recognise the importance of political debate around the Malaysian GST and its subsequent repeal. Notwithstanding, the discussion on potential compliance costs and/or taxpayer attitudes resulting from the abolishment of this tax is beyond the scope of this paper.

¹ Ali Salman Saleh and Nelson Oly Ndubisi, 'An Evaluation of SME Development in Malaysia' (2006) 2(1) *International Review of Business Research Papers* 1; T Ramayah, N Ismail and KP Ling, 'An Exploratory Study of Internet Banking in Malaysia' (Conference Paper, International Conference on Management of Innovation and Technology, October 2002).

² SME Corporation, 'SME Definitions' (Web Page, 2020) <<https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-definition>>.

³ See, eg, Organisation for Economic Co-operation and Development, 'Economic Surveys: Malaysia, (Economic Assessment, November 2016) 37 <<https://www.oecd.org/eco/surveys/Malaysia-2016-OECD-economic-survey-overview.pdf>>.

⁴ Nthathi Rametse and Sue Yong, 'Small Business Taxpayers' Attitudes to Complying with a Tax System: Lessons and Experiences from Australia and New Zealand' (2009) 1(1) *Journal of Applied Law and Policy* 83, 102.

⁵ International Bureau of Fiscal Documentation, 'Malaysia Declares "Abolishment" of Goods and Services Tax from 1 June 2018' (Article, 17 May 2018) <<https://www.ibfd.org/IBFD-Tax-Portal/News/Malaysia-declares-abolishment-Goods-and-Services-Tax-1-June-2018>>.

Prior studies have shown that frequent tax reforms burden businesses, particularly small enterprises.⁶ Taxpayers may experience and exhibit positive or negative attitudes as a result of tax reforms. Positive attitudes arise where the tax system is easy to comply with, or where enterprises support government tax reforms due to the benefits of tax compliance.⁷ The benefits of complying with a GST system may include cash flow and managerial benefits.⁸ Conversely, tax reforms may lead to negative attitudes among taxpayers, particularly where taxpayers perceive that a tax system is complex and where there is an initial negative reaction towards a newly legislated tax requirement.⁹ In Malaysia, businesses generally opposed the Malaysian Government's decision to introduce a GST,¹⁰ which potentially negatively influenced their attitudes towards the tax reforms.

This study is part of a larger project, which investigated the start-up compliance costs of the GST for SMEs operating in Malaysia during the period 1 April 2012 to 30 March 2015. Relevantly, compliance costs are those costs incurred by taxpayers — or third parties such as businesses — in meeting the requirements laid upon them in complying with a given tax structure, over and above payment of the tax itself.¹¹ Start-up compliance costs are those costs that are incurred prior to the introduction of the GST.¹²

On average, Malaysian enterprises reported having incurred start-up compliance costs of MYR201,831. Accordingly, this article predominantly discusses some key findings concerning the attitudes of business taxpayers towards the Malaysian GST. The paper also reports on managerial benefits that may arise as a result of complying with GST regulations. The literature indicates that, generally, businesses and tax agents have perceived tax compliance negatively.¹³ One of the major Australian start-up compliance costs studies conducted by Rametse and Pope found that, although businesses supported the Australian Government's overall taxation reforms, others found it unreasonably complicated and consequently, minded doing their GST compliance work.¹⁴

⁶ Tshepiso Makara and Nthathi Rametse, 'Taxpayer Attitudes, Compliance Benefits Perceptions and Compliance Costs of the Value Added Tax System in Botswana' (2018) 13(1) *Journal of the Australasian Tax Teachers Association* 246 ('Taxpayer Attitudes, Benefits and Costs of VAT in Botswana').

⁷ Nthathi Rametse and Jeff Pope, 'Start-Up Compliance Costs of the GST: Empirical Evidence from Western Australian Small Businesses' (2002) 17(4) *Australian Tax Forum* 407.

⁸ Tshepiso Makara and Nthathi Rametse, 'Estimates of the Cash Flow and Managerial Benefits of Value Added Tax in Botswana' (2017) 23(4) *New Zealand Journal of Taxation Law and Policy* 422 ('Cash Flow and Managerial Benefits of VAT in Botswana').

⁹ Rametse and Yong (n 4).

¹⁰ Nthathi Rametse et al, 'Estimating Start-up Compliance Costs of the Malaysian Goods and Services Tax for Small- and Medium-Sized Enterprises' (2020) 26(2) *New Zealand Journal of Taxation and Policy* 153.

¹¹ Cedric Sandford, Michael Godwin and Peter Hardwick, *Administrative and Compliance Costs of Taxation* (Institute for Fiscal Studies, 1989).

¹² Rametse and Pope (n 7).

¹³ Rametse and Yong (n 4).

¹⁴ Rametse and Pope (n 7).

Tax law complexity has been discussed in the literature and found to impact negatively on compliance costs. In fact, tax law complexity has been reported as the main driver of compliance costs.¹⁵ Such complexity tends to be felt mostly by taxpayers who must follow self-assessment compliance requirements. In some cases, taxpayers struggle to keep up-to-date with frequent changes in the tax law.¹⁶ Tran-Nam summarises these complexity issues into three main categories, namely: legal complexity, effective/economic complexity, and compliance complexity.¹⁷

In addition to the above objectives, this study examines the relationship between Malaysian business' attitudes towards the introduction of GST and associated start-up compliance costs. Studies have confirmed that this relationship exists and, as one would expect, businesses that do not mind doing GST work, that believe GST is not unreasonably complicated, and who support the overall government tax reforms, tend to have lower start-up costs than those who are more critical.¹⁸

As confirmed by Makara and Rametse, businesses that found Botswana's Value Added Tax ('VAT') — also known as Goods and Services tax in other countries — to be burdensome have higher VAT compliance costs.¹⁹ Contrary to expectation, the current study reports that businesses supporting the Malaysian Government's tax reform incurred higher average GST start-up compliance costs. What sets this current research apart from other findings, is that other studies (for example, Rametse and Pope) confirm that businesses that do not support the government's tax reforms incur higher average GST start-up compliance costs.²⁰ However, it is important to exercise caution when interpreting the findings of the current study, as lower respondents might have influenced costs.

This paper presents taxpayer attitudes towards the former Malaysian GST. A questionnaire, which yielded 68 respondents, was used to collect data from Malaysian business taxpayers, which was mainly comprised of SMEs.

Against this background, the remainder of the paper is structured as follows: Part II provides the theoretical/conceptual strategy; Part III then explores previous research concerning various perceptions towards tax complexity/simplification as well as taxpayers' perceptions of the Malaysian tax system, and taxpayer attitudes towards the GST/VAT system; Part IV details the methodology adopted in this study and outlines the

¹⁵ Chris Evans, 'Taxing Personal Gains in Australia: Causes of Complexity and Proposals for Reform' (2004) 19(3) *Australian Tax Forum* 371.

¹⁶ Ern Chen Loo, Margaret McKerchar and Ann Hansford, 'Findings on the Impact of Self-Assessment on the Compliance Behaviour of Individual Taxpayers in Malaysia: A Case Study Approach' (2010) 13(1) *Journal of Australian Taxation* 1.

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

¹⁸ Rametse and Yong (n 4).

¹⁹ Makara and Rametse, 'Taxpayer Attitudes, Benefits and Costs of VAT in Botswana' (n 6).

²⁰ Rametse and Pope (n 7).

profile of respondents; Part V presents the study's results; and Part VI concludes the article and discusses some policy implications.

II THEORETICAL/CONCEPTUAL MATTERS

The factors that affect the compliance of taxpayers has been discussed by Richardson and Sawyer, and relevantly include economic, structural, demographic/personal, and attitudinal traits.²¹ Economic factors incorporate the response of taxpayers to sanctions. Essentially, taxpayers, being utility maximisers, will undertake a cost/benefit analysis and only comply if the benefit of compliance outweighs the associated cost.²² Additionally, other aspects (e.g. size, location and legal structure of the business) influence tax compliance costs. Some factors, however, are beyond the control of the taxpayer and, therefore, are exogenously determined. These include structural factors such as tax administration, tax complexity, tax rate structures and audit possibility.²³ In line with this, Sandford suggests that, where it is not possible to incorporate all factors into the measurement of compliance costs, taxpayer attitudes may serve as a proxy for many factors,²⁴ because negative attitudes towards taxes can overstate the perceptions of the compliance costs involved,²⁵ and overshadow the benefits of taxation.²⁶ Indeed, taxpayers who find tax burdensome tend to report higher tax compliance costs.²⁷ Moreover, a direct relationship between the compliance behavior of taxpayers and their peers explains that taxpayers whose peers evade tax tend to follow a similar approach.²⁸

This study adopts the Theory of Planned Behaviour ('TPB')²⁹ to evaluate the influence of taxpayer attitudes on taxpayer behaviour. According to the TPB, 'intentions to perform behaviour of different kinds can be predicted with high accuracy from attitudes toward the behaviour'.³⁰ The TPB provides a framework (see Figure 1 below) of the relationship

²¹ Maryann Richardson and Adrian Sawyer, 'A Taxonomy of the Tax Compliance Literature: Further Findings, Problems and Prospects' (2001) 16(2) *Australian Tax Forum* 137. See also Betty Jackson and Valerie Milliron, 'Tax Compliance Research: Findings, Problems and Prospects' (1986) 5 *Journal of Accounting Literature* 125 cited in Richardson and Sawyer (n 21).

²² Cynthia Coleman and Chris Evans, 'Tax Compliance Issues for Small Business in Australia' in Neil Warren (ed), *Taxing Small Business: Developing Good Tax Policies* (Australian Tax Research Foundation, 2003) 147; Richardson and Sawyer (n 21).

²³ James Alm, Betty Jackson and Michael McKee, 'Estimating the Determinants of Taxpayer Compliance with Experimental Data' (1992) 45 *National Tax Journal* 107.

²⁴ Cedric Sandford et al, *Costs and Benefits of VAT* (Heinemann Educational Books, 1981).

²⁵ Ian Wallschutzky and Brian Gibson, 'Small Business Cost of Tax Compliance' (1993) 10(4) *Australian Tax Forum* 511, 541.

²⁶ Rametse and Yong (n 4).

²⁷ Makara and Rametse, 'Taxpayer Attitudes, Benefits and Costs of VAT in Botswana' (n 6).

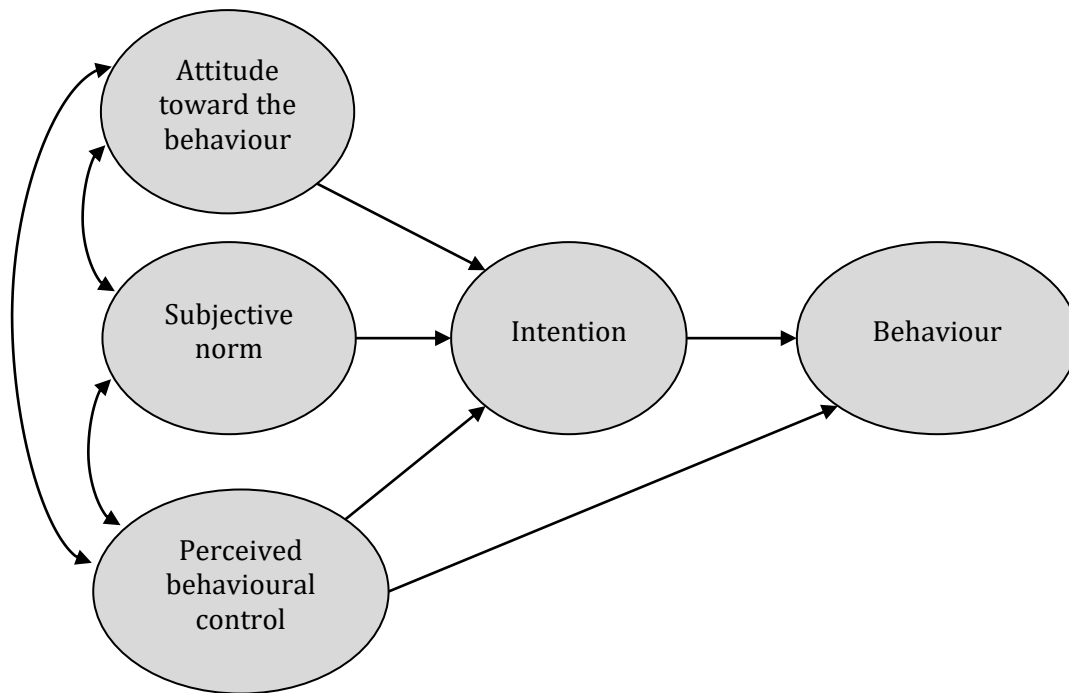
²⁸ Julie Collins, Valerie Milliron and Daniel Toy, 'Determinants of Tax Compliance: A Contingency Approach' (1992) 14(1) *The Journal of the American Taxation Association* 1.

²⁹ Icek Ajzen, 'The Theory of Planned Behavior' (1991) 50(2) *Organizational Behavior and Human Decision Processes* 179.

³⁰ *Ibid* 179.

between attitudes, intention and behaviour, with intention as an antecedent to behaviour. Essentially, the intention to behave in a certain way is a good predictor of whether a person engages in that behaviour.³¹ Thus, taxpayers' attitudes can be a significant reflection of the complexity/simplicity of the tax system and the intention to comply. For example, if taxpayers find a tax system to be simple, they are expected to comply. As such, the knowledge of the attitudes of taxpayers towards tax is critical and should be incorporated in tax policy decision-making.

FIGURE 1: THE THEORY OF PLANNED BEHAVIOUR³²



III LITERATURE REVIEW

This Part proceeds to explore the literature concerning various perceptions towards tax complexity/simplification of GST/VAT, taxpayers' perceptions of the Malaysian tax system, and studies that have explored taxpayer attitudes towards the GST/VAT system.

A *GST/VAT Complexity/Simplification*

The complexity of GST/VAT systems has been a major concern for taxpayers in many countries. A complex GST/VAT system makes compliance very challenging and consequently, leads to higher compliance costs for taxpayers. Pope asserts that 'compliance costs are one measure of the complexity of any tax, with high costs implying

³¹ Zainol Bidin, Faridahwati Mohd-Shamsudin and Zainudin Othman, 'Using Theory of Reasoned Action to Explain Taxpayer Intention to Comply with Goods and Services Tax' (2014) 5(1) *International Journal of Business and Social Science* 131.

³² Ajzen (n 29) 182.

a complex tax regime and vice versa'.³³ Essentially, complex GST/VAT requirements lead to high GST/VAT compliance costs³⁴ and breeds resentment among small business owners,³⁵ which, consequently, may lead to tax evasion acts by some businesses.³⁶ Indeed, 'a complex VAT design has higher compliance costs that burden smaller businesses the most',³⁷ and increases noncompliance as it gives taxpayers the incentive to misclassify goods (as exempt or zero-rated) in an attempt to avoid tax.³⁸

Conceptual matters relating to complexity of tax systems have been discussed in the literature. Relevantly, these include: legal complexity, which refers to the difficulty in reading and understanding the income tax law;³⁹ effective/economic complexity, which refers to the difficulty in determining the correct tax liability in terms of their effort in raising tax revenue;⁴⁰ and compliance complexity,⁴¹ being the difficulty in complying with tax requirements, such as completing forms and recordkeeping.⁴²

Researchers have discussed varying tax simplification measures to address tax complexity issues. Several studies have investigated the design of GST/VAT systems to uncover design elements that can potentially minimise its complexity. The literature provides best-practice design features of GST/VAT systems that are aimed at simplification.⁴³

³³ Jeff Pope, 'The Compliance Costs of Taxation in Australia and Tax Simplification: The Issues' (1993) 18(1) *Australian Journal of Management* 69, 70.

³⁴ Makara and Rametse, 'Taxpayer Attitudes, Benefits and Costs of VAT in Botswana' (n 6).

³⁵ Cynthia Coleman and Lynn Freeman, 'Changing Attitudes of Small Business Owners to the ATO in a Tax Reform Environment' (Conference Paper, Australasian Tax Teachers Association Conference, 5-7 February 1999) 13.

³⁶ Sandford, Godwin and Hardwick (n 11).

³⁷ Tshepiso Makara and Adrian Sawyer, 'Towards Simplification of Value Added Tax Compliance for Small Businesses in Botswana – Lessons from New Zealand' (2019) 14(1) *Journal of the Australasian Tax Teachers Association* 77.

³⁸ United States Government Accountability Office, *Value Added Tax. Lessons Learned from Other Countries on Compliance Risks, Administrative Costs, Compliance Burden and Transition: Report to Congressional Requesters* (Report, United States Government Accountability Office, 2008) 4-5.

³⁹ Tran-Nam and Glover (n 17).

⁴⁰ Binh Tran-Nam, 'Tax Simplification and the Operating Costs of the Australian Federal Tax System' (Conference Paper, Australasian Tax Teachers Association Conference, 5-7 February 1999).

⁴¹ Edward McCaffrey, 'The Holy Grail of Tax Simplification' (1990) 1990(5) *Wisconsin Law Review* 1267.

⁴² Coleman and Evans (n 22).

⁴³ See Rick Krever, *VAT in Africa* (Pretoria University Law Press, 2008) 9; Ine Lejeune, 'The EU VAT Experience: What Are the Lessons?', *Tax Analysts* (Article, 2011) <<http://www.taxhistory.org/www/freefiles.nsf/Files/LEJEUNE-21.pdf/%24file/LEJEUNE-21.pdf>>; United States Government Accountability Office (n 38); Alan Tait, *Value Added Tax: International Practice and Problems* (International Monetary Fund, 1988); Sijbren Cnossen, 'Design of the Value Added Tax: Lessons from Experience' in Javad Khalilzadeh-Shirazi and Anwar Shah (eds), *Tax Policy in Developing Countries* (World Bank, 1991); Liam Ebrill et al, *The Modern VAT* (International Monetary Fund, 2001); International Tax Dialogue, 'The Value Added Tax: Experiences and Issues', *International Tax Dialogue* (Website, 2005) <www.itdweb.org>; Richard Bird and Pierre-Pascal Gendron, *The VAT in Developing and Transitional Countries* (Cambridge University Press, 2007); Milka Casanegra de

A detailed discussion of the literature concerning the optimal design of a simple GST/VAT system can be found in a recent study undertaken by Makara and Sawyer.⁴⁴ It must be noted that some of the studies focused on a conceptually simple GST/VAT. In practice, however, the authors suggest that GST/VAT simplification measures should be adopted with due consideration of the relevant country's prevailing infrastructure (for adoption of e-filing, especially in developing countries), economy and the revenue needs of the country.

Furthermore, it must be noted that the issue of tax simplification is complicated. Although research advocates for tax systems to be simplified, there is no agreement as to how it can be achieved.⁴⁵ Tran-Nam et al see tax simplification remaining as elusive as ever.⁴⁶ In fact, others maintain that some degree of tax system complexity is necessary. According to James, Sawyer and Wallschutzky, 'modern tax systems are often used to advance a range of policy objectives and have to operate in a complex and changing socio-economic environment in a way that is broadly acceptable to taxpayers'.⁴⁷ This calls for a determination of some sort of balance between simplicity and complexity in tax systems. So far, the question of the degree of simplicity — versus the degree of complexity that should be inherent in a tax system — remains unanswered.

B Taxpayers' Perceptions of the Malaysian Tax System

Taxpayers' perceptions of the Malaysian tax system have been investigated by several studies over the years, however, the focus of these studies have mainly concerned Personal Income Tax ('PIT') and Corporate Income Tax ('CIT') (see Table 1 below). Accordingly, there is gap in research regarding GST compliance attitudes and behaviour in Malaysia. Overall, taxpayers perceive that the Malaysian tax system is complex. This complexity, which affects SMEs the most, increases the compliance burden and compliance costs, and further influences non-compliance behaviour among taxpayers. In addition, the studies report that tax knowledge is low among Malaysian taxpayers. To counter this deficiency in tax knowledge, some taxpayers engage external tax professionals to assist them with tax compliance, which can result in higher compliance costs. With regards to perception of fairness, the literature reports mixed findings.

Jantscher, 'Problems of Administering a Value Added Tax in Developing Countries' (Working Paper No 86/15, International Monetary Fund, 1 December 1986); Yige Zu, 'VAT/GST Thresholds and Small Businesses: Where to Draw the Line?' (2018) 66(2) *Canadian Tax Journal* 309, 312; Michael Keen and Jack Mintz, 'The Optimal Threshold for a Value Added Tax' (2004) 88(3-4) *Journal of Public Economics* 559; Parthasarathi Shome, 'Tax Administration and the Small Taxpayer' (Policy Discussion Paper No 04/2, International Monetary Fund, 2004); Makara and Sawyer (n 37); Kathryn James, *The Rise of the Value-Added Tax* (Cambridge University Press, 2015).

⁴⁴ Makara and Sawyer (n 37).

⁴⁵ Simon James, Adrian Sawyer and Ian Wallschutzky, 'The Complexities of Tax Simplification: Progress in Australia, New Zealand and the United Kingdom' (1998) 14(1) *Australian Tax Forum* 29, 30.

⁴⁶ Binh Tran-Nam et al, 'Managing Tax Complexity: The State of Play after Henry' (2016) 35(4) *Economic Papers* 347.

⁴⁷ Simon James, Adrian Sawyer and Ian Wallschutzky, 'Tax Simplification: A Review of Initiatives in Australia, New Zealand and the United Kingdom' (2015) 13(1) *eJournal of Tax Research* 280, 283.

TABLE 1: TAXPAYERS' PERCEPTIONS OF THE MALAYSIAN TAX SYSTEM

AUTHORS	COUNTRY (YEAR)	KEY FINDINGS
Hanefah ⁴⁸	Malaysia (1996)	<ul style="list-style-type: none"> ▪ Respondents reported positive perceptions regarding the implementation of the self-assessment system. ▪ Taxpayers perceived the Malaysian tax law to be complex. ▪ Recordkeeping for tax purposes and tax law ambiguity were major factors that hindered voluntary compliance.
Abdul-Jabbar and Pope ⁴⁹	Malaysia (2009)	<ul style="list-style-type: none"> ▪ Malaysian corporate taxpayers perceived the CIT to be complex. ▪ Due to tax complexity, most SMEs employed tax professionals to assist them with tax compliance.
Kasipillai ⁵⁰	Malaysia (2009)	<ul style="list-style-type: none"> ▪ There is a direct relationship between tax system complexity and the level of the compliance costs incurred by taxpayers.
Mohd Isa ⁵¹	Malaysia (2012)	<ul style="list-style-type: none"> ▪ Tax complexity influenced compliance behaviour negatively. ▪ Tax computations, recordkeeping and tax ambiguity are the three dimensions of tax complexity that are encountered by Malaysian corporate taxpayers. ▪ The following areas were reported by taxpayers as more difficult: estimating income tax payable, increasing the burden of recordkeeping for income tax purposes, and understanding income tax legislation.
Sapiei, Kasipillai and Eze ⁵²	Malaysia (2014)	<ul style="list-style-type: none"> ▪ Evidence of a significant positive relationship between tax complexity and tax non-compliance behaviour exists. ▪ There is a positive relationship between: perceived tax deterrence sanctions and non-compliance of corporate taxpayers; perceived fairness in the tax rate structure and non-compliance of corporate taxpayers; perceived fairness of the tax system and non-compliance of corporate taxpayers; and perceived level of psychological costs and non-compliance of corporate taxpayers.

⁴⁸ Mustafa Hanefah, 'An Evaluation of the Malaysian Tax Administrative System and Taxpayers Perceptions Towards Assessment Systems, Tax Law Fairness and Tax Law Complexity' (PhD Thesis, University Utara Malaysia, 1996).

⁴⁹ Hijattulah Abdul-Jabbar and Jeff Pope, 'Tax Attitudes and Compliance Among Small and Medium Enterprises in Malaysia' (2009) 15(3) *New Zealand Journal of Taxation Law and Policy* 198.

⁵⁰ Jeyapalan Kasipillai, *A Comprehensive Guide to Malaysian Taxation: Under Self-Assessment System* (McGraw-Hill, 2009), cited in Appadu Santhariah et al, 'The Implementation of the Goods and Services Tax in Malaysia: Potential Issues Perceived by Business Taxpayers' (2018) 13(1) *Journal of the Australasian Tax Teachers Association* 351.

⁵¹ Khadijah Mohd Isa, 'Corporate Taxpayers' Compliance Variables under Self-Assessment System in Malaysia: A Mixed Methods Approach' (PhD Thesis, Curtin University, 2012) 153-177.

⁵² Noor Sharoja Sapiei, Jeyapalan Kasipillai and Uchenna Cyril Eze, 'Determinants of Tax Compliance Behaviour of Corporate Taxpayers in Malaysia' (2014) 12(2) *eJournal of Tax Research* 383, 402-403.

C *Studies of Taxpayer Attitudes Towards GST/VAT Systems*

Studies regarding taxpayer attitudes towards GST/VAT systems are scanty. To date, only a few studies have investigated the attitudes of business taxpayers towards GST/VAT systems in Malaysia (see Table 2 below). As such, the significance of this study in contributing to the literature in this area is emphasised. Most existing literature reports that taxpayers find their country's GST/VAT system to be unfair, costly and unreasonably complex.⁵³ Due to this complexity, taxpayers mind doing their GST/VAT work.⁵⁴ Thus, their attitude towards potential managerial benefits is negative as they see it as a compliance burden rather than a benefit, since they lack time to monitor their finances as closely as they should.⁵⁵

TABLE 2: STUDIES OF TAXPAYER ATTITUDES TOWARDS GST/VAT SYSTEMS

AUTHORS	COUNTRY (YEAR)	KEY FINDINGS
Sandford, Godwin and Hardwick ⁵⁶	United Kingdom (1989)	<ul style="list-style-type: none"> ▪ Respondents felt that the VAT was unreasonably complicated (54 per cent). ▪ Respondents minded doing their VAT work.
Adams and Webley ⁵⁷	United Kingdom (2001)	<ul style="list-style-type: none"> ▪ Some taxpayers engage in mental accounting (thinking that the VAT collected belongs to them) for VAT money and, as such, resent remitting the VAT money to the revenue office. ▪ Taxpayers resent acting as unpaid tax collectors for the government.
Rametse ⁵⁸	Australia (2006)	<ul style="list-style-type: none"> ▪ Small businesses (53 per cent) find GST to be unreasonably complicated and, therefore, mind doing their GST work (45 per cent). ▪ Although many small businesses in Australia believe that GST is unreasonably complicated, the majority support the government's tax reform.

⁵³ Yesegat reports the findings that contradict this in an Ethiopian study. See Wollela Abehodie Yesegat, 'Value Added Tax in Ethiopia: A Study of Operating Costs and Compliance' (PhD Thesis, University of New South Wales, 2009) 149–152.

⁵⁴ Sandford, Godwin and Hardwick (n 11); Nthati Rametse, 'Start-Up Compliance Costs of the Goods and Services Tax (GST) for Small Businesses in Australia' (PhD Thesis, Curtin University, 2006) 151–152 ('Start-up Compliance Costs of GST'); Lynley Woodward and Lin Mei Tan, 'Small Business Owners' Attitudes Toward GST Compliance: A Preliminary Study' (2015) 30(3) *Australian Tax Forum* 517, 534; Makara and Rametse, 'Taxpayer Attitudes, Benefits and Costs of VAT in Botswana' (n 6).

⁵⁵ Rametse and Pope (n 7).

⁵⁶ Sandford, Godwin and Hardwick (n 11).

⁵⁷ Caroline Adams and Paul Webley, 'Small Business Owners' Attitudes on VAT Compliance in the UK' (2001) 22(2) *Journal of Economic Psychology* 195.

⁵⁸ Rametse, 'Start-up Compliance Costs of GST' (n 54).

Rametse and Yong ⁵⁹	Australia and New Zealand (2009)	<ul style="list-style-type: none"> ▪ Australian and New Zealand small businesses reported similar views as regards their tax obligations and tax complexity. Respondents in both studies resented their role of acting as ‘unpaid tax collectors’ for the government and regarded the relevant GST system as complex.
Yesegat ⁶⁰	Ethiopia (2009)	<ul style="list-style-type: none"> ▪ Business taxpayers (58 per cent) perceived VAT to be a simple method of collecting tax and not unreasonably complicated (53 per cent). ▪ Most of the respondents (74 per cent) did not mind doing their VAT work. ▪ The taxpayers felt that they did not spend too much time on their VAT affairs.
Woodward and Tan ⁶¹	New Zealand (2015)	<ul style="list-style-type: none"> ▪ Most small business owners perceived the New Zealand GST system as unfair and burdensome. ▪ Evidence of mental accounting is reported.
Ching, Kasipillai and Sarker ⁶²	Malaysia (2017)	<ul style="list-style-type: none"> ▪ Business taxpayers viewed the Malaysian GST implementation and regulations negatively. ▪ Majority of the respondents indicated that the GST regulations were ‘detrimental to their businesses because compliance costs further increase the escalating cost of doing business in Malaysia’.⁶³ ▪ The costs of GST compliance were viewed as burdensome by all research participants.
Makara and Rametse ⁶⁴	Botswana (2018)	<ul style="list-style-type: none"> ▪ Business taxpayers find the VAT system to be burdensome, unreasonably complicated and costly and, as such, resent doing their tax compliance work. ▪ Taxpayers who reported negative attitudes towards the VAT system also reported higher VAT compliance costs than those who did not. ▪ However, although taxpayers perceived VAT compliance costs to be high, these costs are, to some degree, mitigated by compliance benefits in the form of better management and record keeping.

⁵⁹ Rametse and Yong (n 4).

⁶⁰ Yesegat (n 53).

⁶¹ Woodward and Tan (n 54).

⁶² Yong Mun Ching, Jeyapalan Kasipillai and Ashutosh Sarker, ‘GST Compliance and Challenges for SMEs in Malaysia’ (2017) 15(3) *eJournal of Tax Research* 457.

⁶³ Ibid 470.

⁶⁴ Makara and Rametse, ‘Taxpayer Attitudes, Benefits and Costs of VAT in Botswana’ (n 6).

Santhariah et al ⁶⁵	Malaysia (2018)	<ul style="list-style-type: none">▪ Business taxpayers were poorly prepared for GST implementation, with only 9 per cent claiming to be substantially ready.▪ Only 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 (who met the registration threshold) 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 receive the required help and assistance from the Royal Malaysian Customs Department ('RMCD').▪ Whilst larger businesses confirmed that they were well-prepared for GST, smaller businesses experienced greater stress in their preparation.
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Numerous studies have reported evidence of mental accounting for VAT money.⁶⁶ It is possible that the different ways of mental accounting for VAT money influences the compliance of some businesses that believe the VAT money they collect is theirs.⁶⁷ As such, those businesses resent remitting the tax to the revenue office. Taxpayers also resent acting as unpaid tax collectors for the government. Such resentment leads to negative attitudes towards tax compliance.⁶⁸

Contrary to popular findings in studies of taxpayer attitudes, Yesegat reports that most of the Ethiopian taxpayers (58 per cent) perceive VAT as a simple method of collecting tax and not unreasonably complicated (53 per cent). Yesegat's findings do not corroborate with the current study in which business taxpayers confirmed the Malaysian GST system was complex. Moreover, Yesegat does not expound on why business taxpayers perceive that the relevant VAT collection system is simple. However, this may be why most of the respondents (74 per cent), in Yesegat's study, do not mind doing VAT work. Additionally, the taxpayers felt that they did not spend too much time on VAT affairs. As regards compliance costs, those that perceive their VAT compliance costs to be significant (41 per cent) are like those that find their VAT compliance costs to be insignificant (49 per cent).⁶⁹

⁶⁵ Santhariah et al (n 50).

⁶⁶ Adams and Webley (n 57) 208; Woodward and Tan (n 54) 534.

⁶⁷ Adams and Webley (n 57) 208.

⁶⁸ Ibid 206.

⁶⁹ Yesegat (n 53) 149-152.

D Taxpayer Attitudes Towards the Malaysian Goods and Services Tax

Through the introduction of GST in Malaysia, the Government sought to improve the efficacy of the country's overall tax system by replacing the SST with a GST.⁷⁰ Mixed feelings regarding the elimination of the SST and subsequent implementation of a GST have been reported by business taxpayers in Malaysia. In a study by Aziz, Bidin and Marimuthu, the Malaysian business community indicated a positive attitude towards the implementation of the GST. The authors have, however, not provided the reasons for this positive attitude.⁷¹ Nevertheless, these findings are important as they confirm those of prior studies that have investigated tax implementation issues. For example, Australian studies have reported that SMEs in Australia were in support of the overall government tax reforms, notwithstanding the high implementation costs of the tax system,⁷² as the tax reform encompassed a simple and fair taxation system.⁷³

In other Malaysian studies, however, taxpayers reported that they did not support the Malaysian GST tax reform.⁷⁴ In fact, taxpayers viewed the Malaysian GST implementation and regulations negatively,⁷⁵ and considered that the GST regulations were 'detrimental to their businesses because compliance costs further increase[d] the escalating cost of doing business in Malaysia'.⁷⁶

IV RESEARCH STRATEGY

This Part outlines the research methodology adopted in the context of this study.

A Data Collection

A questionnaire was used to collect information from Malaysian SMEs. A questionnaire methodology was applied as a result of limited resources and the difficulty in obtaining responses from SMEs in Malaysia. Furthermore, due to the confidentiality of taxpayer data, the RMCD — who administers the GST in Malaysia — was unable to provide a list of the GST registered businesses for this study. The small sample size of this study makes it impossible to generalise the results to the entire SMEs population of Malaysia.

⁷⁰ Rametse et al (n 10).

⁷¹ Saliza Abdul Aziz, Bidin Zainol Bidin and Munusamy Marimuthu, 'The Effect of Attitude and Understanding Towards GST Satisfaction Among Business Communities in Malaysia' (2017) 23(4) *Advanced Science Letters* 3120.

⁷² Rametse and Pope (n 7); Nthathi Rametse, 'Measuring the Costs of Implementing the Former Carbon Tax for Australian Liable Entities' (2015) 21(2) *New Zealand Journal of Taxation and Policy* 190.

⁷³ Rametse and Yong (n 4) 100.

⁷⁴ Rametse et al (n 10).

⁷⁵ Mun Ching, Kasipillai and Sarker (n 62) 469–471.

⁷⁶ *Ibid.*

The questionnaire was predominantly self-administered to participants at GST seminars conducted by the Malaysian Institute of Accountants. These seminars were attended by various business organisations and accounting firms as follows:

1. Associated Chinese Chamber of Commerce and Industry of Malaysia;
2. Kuala Lumpur Malay Chamber of Commerce;
3. Malaysian Associated Indian Chamber of Commerce; and
4. Accountants and accounting staff from accounting firms.

The questionnaires were distributed to 200 business taxpayers at these GST seminars held at the Malaysian Institute of Accountants in Kuala Lumpur. After data validation for accuracy and reliability, 68 responses were received (34 per cent response rate).

B Measurement (Likert Scale)

To determine the SMEs attitudes towards the introduction of the Malaysian GST, the same questionnaire included a five-point Likert scale which listed attitudinal/perception statements towards various aspects of the Malaysian GST. Kumar notes that the Likert attitude scale 'is based upon the assumption that each statement/item on the scale has equal "attitudinal value", "importance" or "weight" in terms of reflecting an attitude towards the issue in question'.⁷⁷

The attitudes solicited covered three main areas of start-up compliance costs. Relevantly these included:

1. Doing GST work, complexity, as well as support and service quality from RMCD;
2. Reasons for employing external tax professionals; and
3. Deriving potential managerial benefits.

The questionnaire also requested that respondents provide qualitative comments on the Malaysian GST. The additional information provided by SMEs was used to augment attitudinal information arising from the five-point Likert scale.

1 Doing GST Work, Complexity and Support for GST Reforms

Respondents were requested to indicate, on a five-point Likert scale, their attitudes towards meeting the Malaysian GST compliance obligations. They were asked to indicate if they '*strongly agreed*', '*agreed*', were '*neutral*', '*disagreed*' or '*strongly disagreed*'.

Three major areas of attitudes solicited from the respondents were:

1. I do not mind doing GST work;
2. GST is unreasonably complex and complicated; and
3. Overall, I support Government's tax reforms.

⁷⁷ R Kumar, *Research Methodology: A Step-by-Step Guide for Beginner's* (Addison Wesley Longman, 1996) 129.

2 *Reasons for Employing External Tax Professionals*

Respondents were requested to rank, on a five-point Likert scale, the main reasons and/or the extent of importance for employing tax professionals (1 = 'very important'; 2 = 'important'; 3 = 'neutral'; 4 = 'not important'; and 5 = 'least important'). As these reasons could not be measured directly, respondents' attitudes were solicited on the implementation of the Malaysian GST for SMEs to suggest relative importance to compliance costs.

Three main reasons for employing external tax professionals are:

1. It is cost effective to hire external tax professionals;
2. To reduce the chance of GST audit by the RMCD; and
3. Not getting the required technical help from the RMCD.

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

3 *Deriving Potential Managerial Benefits*

Respondents were asked to indicate if they expected to derive managerial benefits from maintaining records for meeting GST compliance benefits. All respondents stated that they would expect to derive such benefits. The respondents were further requested to indicate, on a five-point Likert scale, the extent to which they expected managerial benefits, where: 1 = 'strongly agree'; 2 = 'agree'; 3 = 'neutral'; 4 = 'disagree'; and 5 = 'strongly disagree'.

The four major areas of managerial benefits solicited from the respondents were:

1. Improved accounting information
2. Better and improved controls to prevent theft and fraud;
3. Savings in accounting costs using internal staff to keep records; and
4. Better accounting information for forecasting cash flow and profit forecasts.

C *Profile of Respondents*

The legal form of business respondents was dominated by private companies (61.8 per cent), followed by sole proprietorships (19 per cent) and partnerships (15 per cent). The public sector was the lowest, representing 4 per cent of respondents. In terms of the main business activity, the majority of respondents (46 per cent) were working in Professional, Scientific and Technical Services, followed by Wholesale Trading at 19 per cent. Finance, Insurance and Business Services represented 9 per cent of respondents.

Regarding the annual turnover of respondents, it is evident that the majority were in the SMEs category. In particular, the majority were fell into the MYR500,000 to MYR2,999,999 annual turnover range, representing 31 per cent, followed by 21 per cent of respondents from the MYR3,000,000 to MYR14,999,999 annual turnover category. Respondents were initially requested to state their annual turnover figure prior to registering for the GST. A cumulative percentage of 85 per cent of respondents stated

figures from MYR30,000 to MYR15,000,00 confirming the respondents' stated taxable turnovers. Most SME respondents had between 6–19 employees (27 per cent) and 20–50 employees (23 per cent). Around 21 per cent of respondents employed 0–5 people. Most of these SMEs had operated their business for years falling between 10–19 years (38 per cent), 4–9 years (27 per cent) and 20–39 years (19 per cent).

V FINDINGS AND ANALYSIS

In light of the above, this Part will proceed to detail the results of the survey against each of the three attitudes solicited, as stated in Part IV B above.

A *Attitude on Doing GST Work, Complexity and Support for GST Reforms*

Respondents were requested to indicate, on a five-point Likert scale, their attitudes towards GST compliance. They were to indicate if they '*strongly agreed*', '*agreed*', were '*neutral*', '*disagreed*' or '*strongly disagreed*'.

Three major areas of attitudes solicited from the respondents were:

1. I do not mind doing GST work;
2. GST is unreasonably complicated; and
3. Overall, I support Government's tax reforms.

The majority of respondents '*strongly agreed*' and '*agreed*' to the three statements. Of the three statements, respondents '*strongly agreed*' and '*agreed*' to the statement '*GST is unreasonably complicated*' (50 per cent) followed by '*overall, I support Government's tax reforms*' (43 per cent) and '*I do not mind doing GST work*' (37 per cent). Makara and Rametse found that Botswana VAT taxpayers regarded the VAT system as burdensome, unreasonably complicated and costly and, as such, resented doing their tax compliance work.⁷⁸ The findings of a prior study by Rametse reveal that SMEs expressed similar views to the findings of the current study, as the majority found the relevant GST to be unreasonably complicated and, consequently, were against doing their GST work.

Generally, complexity and ambiguity of the Malaysian GST system has been confirmed by other researchers.⁷⁹ The findings of the current study support those of prior studies, which reported that taxpayers had mixed feelings about the implementation of the Malaysian GST. Businesses in this study support the implementation of the Malaysian GST, but dislike doing GST work. This supports the findings of previous studies.⁸⁰ Thus, it is a reasonable view to express negative feelings towards doing GST work if the tax system is complex, (as suggested by multiple recommended tax codes used to map GST-

⁷⁸ Makara and Rametse, 'Taxpayer Attitudes, Benefits and Costs of VAT in Botswana' (n 6).

⁷⁹ Hanefah (n 48); Abdul-Jabbar and Pope (n 49).

⁸⁰ Aziz, Bidin and Marimuthu (n 71); Rametse and Pope (n 7).

related transactions and GST accounting entries in Malaysia)⁸¹ as such complexity makes compliance burdensome.

The relationship between attitudes towards GST work, complexity and support for government tax reforms, as well as mean GST start-up costs was assessed (see Table 3 below).

TABLE 3: ATTITUDE ON DOING GST WORK, COMPLEXITY AND SUPPORT FOR GOVERNMENT'S TAX REFORMS

ATTITUDE(S)		MEAN (MYR)	NUMBER OF RESPONDENTS
I do not mind doing GST work	Strongly Agree	32,696.63	11
	Agree	41,577.20	14
	Neutral	44,604.66	15
	Disagree	56,310.86	19
	Strongly Disagree	26,641.70	9
	Total	40,366.21	68
GST is unreasonably complicated	Strongly Agree	47,430.30	16
	Agree	53,485.23	18
	Neutral	44,604.66	15
	Disagree	32,696.63	11
	Strongly Disagree	23,614.23	8
	Total	40,366.21	68
Overall, I support Government tax reforms	Strongly Agree	32,696.63	11
	Agree	53,485.23	18
	Neutral	71,246.36	24
	Disagree	26,641.70	9
	Strongly Disagree	17,962.96	6
	Total	40,406.58	68

As expected, and in line with prior research,⁸² respondents who '*strongly disagree*' and '*disagree*' to the statement '*I do not mind GST work*' incurred higher costs (MYR56,310 and MYR26,641, respectively) compared to those who '*strongly agree*' and '*agree*'. Additionally, respondents who '*strongly agree*' and '*agree*' to the statement '*GST is unreasonably complicated*' incurred higher costs (MYR47,430 and MYR53,485, respectively) than those who disagreed to the statement. Lastly, and counter-intuitively, respondents who supported the Malaysian Government's tax reforms incurred higher costs (MYR32,6976 and MYR53,485, respectively) than those who did not support it.

Overall, respondents who indicated that they did not mind doing GST work, who believe that GST is unreasonably complicated and who support the Malaysian Government's tax reforms incurred higher average GST start-up compliance costs. Findings of this study concur with the compliance costs literature that there is a direct relationship between tax

⁸¹ See 'GST Tax Codes (01 June 2018 Onward)' <[https://www.biztrak.com/downloads/18052018/GST-Tax-Codes-\(01-June-2018-onward\).pdf](https://www.biztrak.com/downloads/18052018/GST-Tax-Codes-(01-June-2018-onward).pdf)>.

⁸² See Makara and Rametse, 'Cash Flow and Managerial Benefits of VAT in Botswana' (n 8).

system complexity and the level of tax compliance costs incurred, suggesting that for this study compliance costs tend to increase with increases in tax complexity.⁸³

Findings in this study are different from the study by Rametse and Pope⁸⁴ which found that respondents who supported the Australian Government's tax reforms incurred lower costs than those who were more critical of the reforms. The explanatory factor for the lower costs could be that respondents possible had adequate internal accounting expertise, hence did not need to outsource external advisers. Additionally, those who were more critical could have overstated their costs as a strategy to lobby the Australian Government to change some of the GST policy issues. One of the prominent GST issues in Australia was that some small businesses resisted the need to be part of the Australian GST system, and hence, lobbied the Australian Government to increase the registration threshold which, at the time of the GST's implementation, was set at AUD50,000. After much lobbying from SMEs, academics and tax professionals, the government increased the GST registration threshold to AUD75,000.⁸⁵

The current study found that although most respondents supported the Malaysian Government's tax reforms, they incurred high mean start-up compliance costs. This suggests that the high costs they incurred can be attributed to efforts to prepare for the implementation of the GST, albeit there was greater stress experienced by smaller business while preparing for the introduction of the GST.⁸⁶

Respondents in this study also stated that they disliked doing GST work. SMEs usually do not have in-house accounting expertise and accordingly, they rely mostly on external expert advice.⁸⁷ As stated in qualitative comments in response to this survey, respondents stated that education and information on GST was lacking from the RMCD. Some believed that the RMCD was not ready for the tax reform concerning the implementation of GST. They lacked in GST knowledge, as they could not answer some GST-related questions when approached for advice. Husni noted that by the end of February 2015, 6,443 training programs were conducted by the RMCD and 61,600 people had attended these programs.⁸⁸ This suggests that a low number, around 10 people, attended each training program. Since most SME owners and employees did not attend the training seminars, it can be argued that they lacked pertinent knowledge regarding the GST.⁸⁹ Moreover, critical respondents could have overstated their costs for the usual strategy of trying to influence the Malaysian Government to change GST policy.

The SME respondents who were more critical of the implementation of the GST and reported higher costs may have generally believed that the cost of getting ready for the

⁸³ Ibid.

⁸⁴ Rametse and Pope (n 7).

⁸⁵ Ibid.

⁸⁶ Santhariah et al (n 50).

⁸⁷ Rametse and Pope (n 7).

⁸⁸ H Husni, '350,054 Companies GST-Ready as of March 11', *New Straits Times* (online, 11 March 2015).

⁸⁹ Rametse et al (n 10).

GST's implementation outweighed its potential benefits. Moreover, respondents complained that the number of tax codes and continuous revision/changes to the Malaysian GST regulations made it too complex for them to understand, as supported by the literature.⁹⁰ It must be noted that at the time of Malaysian GST implementation, there were around thirty-one tax codes.⁹¹ Moreover, in their comparative study regarding the complexity of the GST system, Rametse and Yong⁹² found that Australian and New Zealand small businesses reported similar views regarding their tax obligations and tax complexity. All these issues have been discussed as comprising of legal complexity, effective/economic complexity, and compliance complexity.⁹³

This suggests that high costs could be due to outsourcing of expert advice. As Rametse and Pope⁹⁴ suggest, it is possible that critical respondents who incurred high costs had to spend more time in sorting out their recordkeeping systems as their records were possibly improperly maintained prior to the introduction of the GST. Moreover, the introduction of the Malaysian GST — similar to other countries, for example, Australia — required tax invoices to be used, which were not required under the SST system. Debit notes for GST purposes were also different to those used by businesses under the SST system.

B Attitudes on Reasons for Employing External Tax Professionals

Respondents provided similar attitudes on the three areas of reasons they provided for employing external tax professionals. The relationship between attitudes regarding the extent of importance for employing external tax professionals and GST start-up compliance costs was assessed (see Table 4 below). Businesses that found it '*very important*' and '*important*' that hiring external tax professionals was cost effective incurred the highest mean GST start-up compliance costs of MYR54,988 and MYR41,241, respectively, as compared to those who regarded it as '*not important*'. The reason could be that they would rather spend more money hiring external consultants who may be more knowledgeable on GST matters, than dealing with the tax compliance work themselves.

⁹⁰ See Hanefah (n 48); Abdul-Jabbar and Pope (n 49); Tran-Nam and Glover (n 17).

⁹¹ See tax codes at 'GST Tax Codes (01 June 2018 Onward)' (n 83). The authors could not find an official source for the tax codes. However, the cited source is deemed credible, as it is widely cited in the literature.

⁹² See Rametse and Yong (n 4).

⁹³ See Loo, McKerchar and Handsford (n 16); Tran-Nam and Glover (n 17); Tran-Nam (n 40); McCaffrey (n 41).

⁹⁴ Rametse and Pope (n 7).

TABLE 4: MEAN TOTAL GROSS COSTS (INCLUDING TIME) BY ATTITUDES ON REASONS FOR EMPLOYING EXTERNAL TAX PROFESSIONALS

ATTITUDE(S)		MEAN (MYR)	NUMBER OF RESPONDENTS
It is cost effective to hire external tax professionals	Very Important	54,988	12
	Important	41,241	9
	Neutral	59,674	13
	Not Important	27,494	6
	Least Important	18,433	4
	Total	40,366	44
To reduce the chance of GST audit by RMCD	Very Important	73,308	16
	Important	23,084	5
	Neutral	50,535	11
	Not Important	13,725	3
	Least Important	41,489	9
	Total	40,428	44
Not getting the required technical help from RMCD	Very Important	48,008	10
	Important	52,907	11
	Neutral	43,109	9
	Not Important	33,638	7
	Least Important	24,167	5
	Total	40,366	42

External consultants, who were already working in Malaysia, may have previously dealt with GST requirements from other countries that already had an established GST and hence, were knowledgeable about the Malaysian GST requirements. This explains the reason why respondents who found it *'very important'* to reduce the chance of a GST audit being conducted by the RMCD incurred higher costs of MYR73,308. Moreover, businesses that found it *'very important'* and *'important'* to engage external consultants because of *'not getting the required technical help from RMCD'* incurred high costs of MYR48,008 and MYR52,907 respectively, than those who regarded it as *'not important'*. As Rametse and Yong note, complex tax rules make the compliance process exhausting, necessitating the need to seek expert advice, which, consequently, increases compliance costs.⁹⁵ It must be noted that tax authorities work in consultation with drafters of the legislation to ensure that taxpayers' compliance costs are reduced by drafting a simple tax legislation as well as providing efficient services to taxpayers' queries.⁹⁶ The reasons for incurring high costs by Malaysian enterprises bode well with the qualitative comments that the respondents provided, which suggests that overall the RMCD officers were not knowledgeable enough to provide prompt GST advice.

It must be noted that this study solicited pre-implementation information for the period 1 April 2012 to 30 March 2015. Therefore, although the RMCD had provided training for

⁹⁵ Rametse and Yong (n 4).

⁹⁶ Other possible GST simplification measures have been suggested by Makara and Sawyer (n 37).

RMCD officers and businesses, it is possible that, at the time of data collection, the RMCD officers were still in training and not fully familiar with the GST system. Such a gap in knowledge by the RMCD officers could have evoked negative attitudes from taxpayers who did not receive the support they required. Not surprisingly, customs officers and all those who were engaged in the Malaysian GST implementation faced a steep learning curve cost. Other studies have discussed this gap in tax knowledge. For example, research by Santhariah et al, found that only 24 per cent of respondents were confident that they would get the required help and assistance from the RMCD.⁹⁷ Indeed, if GST is reintroduced in Malaysia, as suggested by many (for example, the Malaysian Institute of Economic Research (MIER)),⁹⁸ a post-implementation study could provide improved and/or some positive attitudes towards the RMCD officers as they become more knowledgeable in handling GST matters.

C Attitudes Concerning Potential Managerial Benefits

Four major areas of managerial benefits solicited from the respondents were:

1. Improved accounting information;
2. Better and improved controls to prevent theft and fraud;
3. Savings in accounting costs using internal staff to keep records; and
4. Better accounting information forecasting cash flow and profit.

The highest area of potential managerial benefits for Malaysian SMEs concerned improved accounting information (88 per cent), followed by better accounting information for forecasting cash flow and profit (72 per cent), better and improved controls to prevent theft and fraud (71 per cent), and lastly, savings in accounting costs using internal staff to maintain records (60 per cent).

The relationship between attitudes concerning the derivation of potential managerial benefits and mean total gross costs (including time) was assessed (see Table 5 below). The findings of this study suggest that those businesses that expected to derive managerial benefit from improved accounting information systems, improved controls to prevent theft and fraud, and savings in accounting costs using internal staff to keep records, incurred the highest costs than those businesses that did not expect such benefits.

Overall, businesses that expected to derive managerial benefits from improved accounting information systems available for day-to-day business decisions incurred mean gross start-up compliance costs of MYR50,458. Most of the businesses who '*strongly agreed*' and '*agreed*' to the statement that managerial benefits will result in improved accounting information systems incurred the highest mean gross start-up compliance costs of MYR96,412 and MYR84,335 respectively.

⁹⁷ Santhariah et al (n 50).

⁹⁸ Malaysian Institute of Economic Research ('MIER'), 'MIER Urges Gov't to Reintroduce GST in Budget 2020', *Malaysiakini* (online, 1 October, 2019) <<https://www.malaysiakini.com/news/494041>>.

This was followed by: those who '*strongly agreed*' and '*agreed*' that managerial benefits will arise from '*better accounting information for forecasting cash flow and profit forecasts*' (MYR74,5235 and MYR77,692 respectively); '*better and improved controls to prevent theft and fraud*' (MYR59,338 and MYR83,154 respectively); and '*savings in accounting costs using internal staff to keep records*' (MYR48,846 and MYR76,492, respectively).

TABLE 5: MEAN TOTAL GROSS COSTS (INCLUDING TIME) BY ATTITUDE ON DERIVING POTENTIAL MANAGERIAL BENEFITS

ATTITUDE(S)	MEAN (MYR)	NUMBER OF RESPONDENTS
Improved accounting information systems available for day-to-day business decisions	Strongly Agree	32
	Agree	28
	Neutral	6
	Strongly Disagree	1
	Total	67
Better and improved controls to prevent theft and fraud	Strongly Agree	20
	Agree	28
	Neutral	16
	Disagree	3
	Strongly Disagree	0
Total	67	
Savings in accounting costs using internal staff to keep records	Strongly Agree	16
	Agree	25
	Neutral	15
	Disagree	8
	Strongly Disagree	2
Total	67	
Better accounting information for forecasting cashflow and profit forecasts	Strongly Agree	24
	Agree	25
	Neutral	9
	Disagree	6
	Strongly Disagree	4
Total	67	

These findings suggest that, despite deriving potential managerial benefits, these businesses still incurred high start-up compliance costs. This confirms findings of a study by Rametse and Pope that, although managerial benefits exist, they are overshadowed by excessive compliance costs. Moreover, these businesses possibly regard managerial benefits as a GST compliance burden, rather than a benefit as they usually lack time to monitor their finances as closely as they should.⁹⁹

Although Makara and Rametse's study relates to recurrent compliance costs, its findings are useful, as they are not based on expectation of benefits. Their findings suggest that while taxpayers perceive VAT compliance costs to be high, these costs are, to some

⁹⁹ Rametse and Pope (n 7).

degree, mitigated by compliance benefits in the form of better management and recordkeeping.¹⁰⁰ This supports Coleman and Evans' notion that taxpayers are utility maximisers who will comply if the benefits of compliance outweigh the costs.¹⁰¹ Moreover, as findings of the current study confirm, respondents support the Malaysian Government's tax reform relating to the GST. This signifies expectation that businesses would comply with the Malaysian GST as a result of the managerial benefits they expect.

VI CONCLUSION

The findings of this study suggest that overall, in a Malaysian context, businesses that do mind doing GST work, that believed GST is unreasonably complicated and that support the Malaysian Government's tax reforms relating to GST, incurred higher average GST start-up compliance costs. Furthermore, this research suggests that SMEs provided similar attitudes regarding the employment of external advisors for the following three main reasons: 1) it is cost effective to hire external tax professionals; 2) to reduce the chance of a GST audit being conducted by the RMCD; and 3) because they did not receive the required technical help from the RMCD. However, the relationship between attitudes and start-up compliance costs indicated that start-up costs were higher for those businesses that found it very important that hiring external tax professionals was cost effective as compared to those who regarded it as not important. Most businesses expected to derive managerial benefits from: 1) improved accounting information; 2) better and improved controls to prevent theft and fraud; 3) savings in accounting costs using internal staff to maintain records; and 4) better accounting information for forecasting cash flow and profit. When attitudes to all the areas of potential managerial benefits were analysed by start-up costs, these businesses also incurred the highest start-up costs in all the areas, compared to those who did not expect to derive managerial benefits.

This study contributed to studies on perceptions/attitudes of SMEs with respect to the tax compliance process and the costs that are incurred when a new tax is introduced, particularly consumption taxes such as the GST. For SMEs to present positive attitudes towards their tax obligations, tax authorities (for example, the RMCD) have a duty to educate/re-educate the business taxpayers on their compliance obligations. Tax simplification strategies, such as simplifying the tax legislation are vital, and go a long way in motivating SMEs to comply with the tax obligations. Government must also publish Tax Impact Statements ('TIS'), which the Malaysian Government failed to do, to inform SMEs about the costs they are most likely to incur as a result of introducing a new tax. The TIP must also include potential benefits of compliance, which expectedly, will encourage SMEs to comply and hence, lower compliance costs as well as the stress resulting from the GST compliance requirements.

Relevantly, this study's limitation is its small sample size; hence, the findings of this study must be treated with caution, as they cannot be generalised to the Malaysia SMEs'

¹⁰⁰ Makara and Rametse, 'Cash Flow and Managerial Benefits of VAT in Botswana' (n 8).

¹⁰¹ Coleman and Evans (n 22).

population. Future research related to start-up costs of any consumption tax need to have a large sample size, which can aid to estimate potential managerial benefits.

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