

# The Acceptance Level on GST Implementation in Malaysia

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**Abstract:** Generally, tax is recognized as one of the main sources of government's revenue and Goods and Services Tax (GST) is an example of tax that contributes to it. This tax has been implemented in many countries such as Canada, Australia, and New Zealand. Roughly, 90 percent of the world's population lives in countries with GST. In Malaysia, GST has been implemented on 1 April 2015 at 6% rate and it replaced the present consumption tax comprising the sales tax and the service tax. The issue on GST has been raised by the Malaysian Government as an approach to reduce its deficit. GST is imposed on goods and services throughout production-distribution stages in the supply chain including importation of goods and services. The tax is embedded in the price of goods and services transacted. However, the implementation of GST in Malaysia has called many arguments from various parties including academics, professionals and the taxpayers on how GST affects goods prices, either increase or decrease. The consumers are worried of the significant price increases on basic needs. With the relatively high living costs, significant price increases due to GST is considered as another burden for the taxpayers. Therefore, the main objective of this study is to investigate the level of acceptance of taxpayers regarding GST implementation. This study utilised survey questionnaires distributed to UiTM Pahang's lecturers. The findings hopefully will shed a clearer view on the taxpayers' acceptance level of GST to the tax authorities.

**Keywords:** Acceptance level, GST, taxpayers

## 1 Introduction

Taxation is important since it is one of the main sources of government income and used to finance the government expenditures. Besides that, it serves as a medium to balance the wealth from those with higher income and assets to those with lower income. Tax also is recognized as a social and economic policy tool since the revenue collected by government can be used as a strategy to reduce income inequality in the country.

Basically, tax can be classified into two categories, the direct and indirect taxes. Direct taxes are taxes imposed on the income of individual or organisations that are paid directly to the government. The burden of direct tax is born by the individuals or entities that are eligible to pay and cannot be passed to another entity. Examples of direct taxes are income tax, corporate tax and real property gain tax. Those direct taxes are collected by Inland Revenue Board (IRB). On the other hand, indirect taxes are collected by Royal Malaysian Customs Department. Indirect taxes are taxes imposed on the transaction made for goods and service rendered, and it is allowed to be transferred from the retailer or supplier to other parties such as the consumers. Examples of indirect taxes are the Sales and Services Tax (SST) and the currently implemented Goods and Services Tax (GST).

GST, also known as Value Added Tax (VAT) is imposed on goods and services throughout production-distribution stages in the supply chain including importation of goods and services. The tax is embedded in the price of goods and services transacted. GST has been implemented in Malaysia to replace the present consumption tax comprising the SST. Under SST, consumers were charged at the total of 16% tax rate (sales tax 10% and service tax 6%). But now, with the implementation of GST, they are charged at 6% rate. Therefore, the prices of goods are expected to decrease.

However, the real situation does not meet the expectation. That is why the implementation of GST in Malaysia has called many arguments from various parties including academics, professionals and the public in general on how GST affects prices of goods, either increase or decrease. The end consumers are worried of the significant price increases on basic needs. With the relatively high costs of living, significant price increases due to GST is considered as another burden for the public.

Since GST is a new taxation system in Malaysia, many previous studies only investigate the perceptions, awareness and readiness of businesses and consumers towards the implementation of GST. The previous studies have not addressed the issue regarding GST implementation and consumer acceptance. Thus, this study would

attempt to fill in the research gap by investigating the level of acceptance among Malaysian with regards to GST implementation.

## **2 Literature Review**

### **Goods and Services Tax (GST)**

Goods and services tax (GST) is one of the alternatives used by many countries to solve the weaknesses of the current taxation system. Malaysia experienced a huge reduction in national income due to economic crisis in 2009. Thus, to overcome the problem, government has decided to replace the current sales and services tax (SST) with the GST starting from April 2015.

For the SST system, there are two acts that govern sales and service separately, Sales Tax 1972 (Act 64) and Service Tax 1975 (Act 151), both are handled by the Royal Malaysian Customs and Excise (Mansor & Ilias, 2013). Sales tax is levied on consumers who use consumer goods, which is then collected by business entities and accountable to customs. While, service tax is imposed on the consumers who consumed food and services (Mansor and Ilias, 2013). Both sales and service tax are single stage tax that is imposed on consumers either on the input or output stage.

On the other hand, GST is known as multistage taxation system and is charged on added value at the each stage of production and distribution in the supply chain. Every trader in the supply chain pays the GST to the suppliers who provide the goods and services. Then, the trader collects the GST on the goods or services sold by them. Therefore, from the consumers perspective, it is a tax on the purchase price, however, from the sellers perspective, it is a tax on the value added to a product, material, or service (Rashid, et al., 2014). The proponents of GST claimed that the well-designed structure of GST makes it a particularly more efficient tax among all (Keen and Lockwood, 2010). Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

Basically, there are three types of GST widely used around the world (Hooper and Smith, 1997). Each varies primarily in its method of handling the tax on capital expenditure. The first one is the *consumption type GST*. This type of GST allows businesses to deduct instantly the full value of the tax paid on capital purchases. Under this GST system, capital investment is subtracted from the value added in the year of purchase. Therefore, the tax is equivalent to sales tax applied to consumer goods (Palil, et al., 2013).

The second type of GST is the *national income type*. It permits the gradual deduction of the GST paid on capital purchases over several years (Hooper & Smith, 1997). The tax is imposed on net domestic product, which is close to national income (Palil, et al., 2013). The third type of GST is the *gross national product*. This type of GST occurs if there is no allowance given for the tax paid on capital purchase, because its base is approximately equal to the private GNP (Hooper & Smith, 1997). Under the GNP type GST system, no deduction is allowed for capital investment and depreciation of capital when calculating the tax base. The tax is equivalent to a sales tax which is applicable to consumers and capital goods (Palil, et al., 2013).

GST is used by Malaysian government as a tool to finance its persistent financial deficit and rising debt burden. At the same time, collection from GST could be savings that can be utilized for future undertakings (Palil, et al., 2013). The country cannot continue raising debts to finance its deficits or otherwise it will cause a debt trap. Other objectives of GST implementation include (i) to enhance the capability, effectiveness and transparency of tax administration and management and (ii) to provide a stable source of national revenue to the country (Asma & Zulkarnain, 2014).

GST provides many benefits since it is one of simulative fiscal measures that less distortionary compared to other types of indirect taxes for several reasons (Banks & Diamond, 2008). First, GST is charged at a uniform and relatively low rate to a comprehensive and broad base, thus reduces the economic costs of taxation. Second, the GST does not distort business and export decisions because the tax paid on production inputs and exports is deductible. Third, it does not distort current and future consumption, such as savings and investment decisions (Claus, I. 2013). Finally, and most importantly, the implementation of GST would increase tax revenue (Keen & Lockwood, 2010).

### **Public awareness and Acceptance of GST**

Recently, GST has been a growing topic of interest in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith, 1997), Malaysian citizens are not entirely convinced with this new tax scheme. The debates mainly centered on the advantages and disadvantages derived from the new tax initiative.

Furthermore, opponents of this new tax reform argued that GST increased in tax revenue would only promote larger government spending (Bickley, 1989). In addition, GST would give greater impact to lower income group as compared to higher incomes group (Hooper & Smith, 1997). This is mainly because the GST would reduce the lower income group's ability to purchase goods and services.

According to Saira et al., (2010), many Malaysians do not have a high level of confidence on the government as far as tax is concern. Therefore, the government should explain clearly and transparently about taxation matters, so that people could have a clear understanding. For example, the government can explain the reasons or rationales for the GST implementation as well as the advantages of taxes that they will receive later on.

Mohani (2003) found that one of the ways to increase public awareness is through knowledge. Knowledge can be improved through general understanding on the tax regulations (Tan & Chin-Fatt, 2000). Knowledge provides the taxpayers with the ability to understand the need for a new tax reform and this would eventually promote compliance (Singh, 2003).

Increase awareness and knowledge on GST is important in order to gain public acceptance and confidence, particularly in tax situation. Tax involves public expenditure. New tax reform creates uncertainty of future expenditure (Cullis & Jones, 1992). Uncertainty would cause resistance and poses as a challenge towards government initiative to impose new regulations. Thus, it is essential to educate the public on what is expected from the new tax initiative.

Amanuddin (2014) investigated the level of public acceptance towards GST before the implementation of GST. The results of the study indicates that majority of respondents have a moderate level of acceptance on the implementation of GST.

### **3 Research Methodology**

This study is a pilot study on the acceptance of GST which had been implemented for six months at the time of the study undertaken. Data were collected by using questionnaires-based survey. The samples selected were derived from the permanent academic staffs who are working in Universiti Teknologi Mara (UiTM) Pahang. They are selected due to the perception that they have the required knowledge and understanding on the implementation of GST. The total number of permanent lecturers in UiTM Pahang is 267. The total responses received for this study is 41 which represent 15% of the population.

The questionnaire was adapted from the previous study on GST implementation carried out by Junainah (2002). Appropriate modifications were made in order to achieve the research objectives. The questionnaire was designed in such a way that the statements are not too long and contain simple words to enhance response rate. The questionnaire for this study is separated into two segments; Section A and B. Section A consists on the demographic profile such as gender, age, marital status, income, races and employment status. Section B is made up with main research questions.

The extent of each variable is based on five point Likert scales which scale points from 1-strongly disagree to 5-strongly agree. Data analysis was carried out after collecting the data. The results of the survey were analyzed by using SPSS software.

### **4 Results and Discussion**

#### **Demographic Profile of the Respondents**

Survey questionnaires were distributed to the permanent academic staff of UiTM Pahang but only 15% responses were received. Table 1 shows the descriptive statistics of the respondents' demographic profiles. The majority of respondents are in the age group of 31-35 years old and comprising of 80.5% female. Most respondents are married and have a master degree in academic qualification. The findings in Table 1 reveal that 43.9% of the respondents have zero acceptances on the implementation of GST. In other words, quite a big number of the respondents do not agree on the implementation of GST. For those who agree with the

implementation of GST, 31.7% respondents have an acceptance level of 1%- 25% followed by 14.6% for acceptance in the range 26%-50%. This shows that the acceptance on the GST implementation is in the lower level i.e. 25%. The upper level acceptance in the range of 51%-75% and above 75% both resulted in low acceptance level of 4.9% by the respondents.

The main reason given on non-acceptance of GST is unclear purpose of implementation at 43.9% followed by fear of price hike at 39%. Other reasons such as no need for GST since respondents have paid other taxes; GST is against Islamic practice, inappropriate timing to implement GST and lack readiness of people in knowledge and government in terms of enforcement at 12.2% and lack of information at 4.9%.

**Table 1.** Demographic Profile of the Respondents

Demographic Factors	Category	Frequency	Percentage
Age	26 years - 30 years	12	29.3
	31 years - 35 years	25	61.0
	41 years -45 years	4	9.8
Gender	Male	8	19.5
	Female	33	80.5
Marital_Status	Single	6	14.6
	Married	35	85.4
Education_Level	Bachelor Degree	3	7.3
	Master Degree	37	90.2
	PhD	1	2.4
Working_experience	Less than 6 years	14	34.1
	6 years - 10 years	12	29.3
	11 years - 15 years	8	19.5
	16 years and above	7	17.1
Faculty	Accountancy	11	26.8
	Business Management	5	12.2
	Applied Science	9	22.0
	Computer Science & Mathematic	7	17.1
	Law	2	4.9
	ACIS	2	4.9
	APB	5	12.2
Acceptance Level	0%	18	43.9
	1% - 25%	13	31.7
	26% - 50%	6	14.6
	51% - 75%	2	4.9
	Above 75%	2	4.9
Reason	Lack of information	2	4.9
	Fear of price hike	16	39.0
	Unclear purpose of implementation	18	43.9
	Other	5	12.2

N=41

**Acceptance**

Part B of the questionnaire contains eleven questions regarding the permanent academic staff of UiTM Pahang’s acceptance towards GST implementation in Malaysia. Respondents’ acceptance scores were derived from their responses on the 5 scales provided, which is 1- strongly disagree, 2- disagree, 3- neither disagree nor agree, 4- agree and 5- strongly agree. The total maximum score should not exceed 55 (11 questions x 5). According to Amanuddin, et al. (2014), the summated scores of the statements which represent the overall respondents’ level of acceptance is divided into three categories:

- a) High (with summated scores between 44 to 55)
- b) Moderate (with summated scores between 23 to 43)
- c) Low (with summated scores between 11 to 22)

According to the findings as revealed in Table 2 below, acceptance total scores are 26.73, which falls under moderate category and it is referring to the overall respondents’ level of acceptance towards GST implementation in Malaysia. The result is further supported by the respondents’ score for individual item number 1 to 11.

Most of the means of respondents’ scores are close to 2. The items with the mean score close to 2 (more towards disagree) are item number 1,2,3,5,7,8,9,10 and 11. The results shows that majority of respondents disagree with those statements. They disagree that GST should be implemented in Malaysia and GST is fairer than SST. They also disagree that SST should be replaced by GST since they disagree GST will bridge the gap between low and high income earners. Furthermore, they do not agree that GST system proposed is easy to understand and they do not believe GST implementation will contribute in developing Malaysia’s economy. Apart from that, the respondents much more prefer increasing income tax rate in assisting the government to increase its revenue as compared to GST. However, the good thing is that respondents disagree GST will only benefit government more than the taxpayers and they disagree GST implementation encourages people to cheat. The highest mean score i.e. 3.10 is for the item number 6 which means that the respondents neither agree nor disagree that GST implementation would help government by contributing an additional revenue to offset government budget deficit. While the lowest mean score i.e. 1.93 (more towards strongly disagree) is for the item number 4. It indicates that respondents strongly disagree with the 6% rate of GST.

**Table 2.** Descriptive Analysis for Respondents’ Acceptance on GST

No	Items	Mean
1	GST should be implemented in Malaysia	2.24
2	GST is fairer than SST	2.34
3	GST should replace SST	2.49
4	GST should be charged at 6%	1.93
5	GST will bridge the gap between low and high income earners	2.46
6	GST implementation would help government by contributing an additional revenue to offset government budget deficit	3.10
7	GST system proposed is easy to understand	2.24
8	GST implementation will contribute in developing Malaysia’s economy	2.98
9	GST is better than increasing income tax rate in assisting the government to increase its revenue	2.49
10	GST will benefit government more than the taxpayers.	2.34
11	GST implementation encourages people to cheat.	2.12
Total Mean		26.73

The findings reveal that in general the level of acceptance towards GST implementation among academic staff of UiTM is at the moderate level. This is not very encouraging for the GST implementation. It seems that the respondents are forced to accept GST. On the reasons of GST implementation, many respondents cited unclear purpose of implementation and fear of price hike as the two main reasons for non-acceptance of GST. The replacement of SST by GST may confuse the respondents that are used to the old tax system since in SST the tax is already embedded in the price paid whereas in GST the tax paid is added to the price of goods and services. At a glance it would seem that the consumers are paying higher tax than before. Fear of price hike may be justified even though the government keeps assuring the consumers that there will be very little increase in

price, but six months into GST implementation there are various complaints reported in newspapers and social media on price hike in goods and services.

## 5 Conclusion

The objective of the study is to investigate the taxpayers' acceptance level of GST. This pilot study is conducted after six months of GST implementation. In general the acceptance level of GST is moderate based on the summated mean score. However from the percentage of frequency on acceptance level, respondents do accept the implementation of GST but the high level of acceptance is in the low range of below 50%. The zero acceptance percentage of GST is worrying and relevant measures should be undertaken by the Royal Custom Department as the party entrusted to oversee the implementation of GST to reduce if not eliminate the non-acceptance. A reduce rate of GST to 4% may be a step in the right direction to ensure high GST acceptance by consumers. In addition, a continuous sharing and availability of information to educate the consumers on all aspects GST would reduce confusion and increase understanding of the tax system. The government must really mobilise a continuous monitoring on price of goods and services to ensure there is no major price hike by traders and the Anti Profiteering Act is truly enforced. When the consumers are satisfied with the efforts and measures taken to ensure they are not being victimized by this new tax system, only then the acceptance level of GST implementation will improved and hopefully all consumers will be willing to contribute to the country's economy via GST.

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