

# Awareness and Perception of Taxpayers towards Goods and Services Tax (GST) Implementation

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## ABSTRACTS

Announcement the proposed implementation of Goods and Services Tax (GST) are made by the Prime Minister of Malaysia in Budget 2005. However, the implementation has been delayed and the government has made decision to implement it on April 2015, as they are wanted to receive public feedback before implementing it. Until now, many communities are less understanding and confused regarding GST system and give a negative perception about it. Accordingly, this study attempts to find out what level of awareness and perception to GST taxpayers in Malaysia. This study only consists 256 civil servants of the secondary school teachers in the area Kuala Kangsar, Perak. Data collected using questionnaires. The results showed that the level of awareness was moderate and the majority of respondents give a high negative perception to the impact of GST. This eventually causes the majority of respondents did not accept the implementation of GST in Malaysia.

**Keywords:** *Goods and Service Tax (GST), awareness, perception*

## INTRODUCTION

Tax is a major contributor to total government revenue for many countries, including Malaysia. Based on review of the Malaysia federal government's revenue for the year 2011 revealed that direct taxes and indirect taxes represent more than 70 percent of total national income (Treasury Malaysia, 2011). If the tax revenue increases, the government can implement various projects to drive economic growth.

In line with Malaysia's goal of becoming a developed nation by the year 2020, the government plans to implement tax reforms meant to make the existing tax system simpler, more transparent and more efficient. Tax reform is also necessary to increase revenue and drive economic growth. Therefore, Malaysia intends to implement the goods and services tax (GST). GST is not additional tax to consumer, as it merely replaces the existing sales tax and service tax. Both sales tax and service tax are single stage tax, imposed on final consumer while GST is a multistage tax, and it is to be collected at the end of each intermediate level of production.

The primary objective of the study is to review the taxpayer's level of awareness, taxpayer's perception towards GST implementation and acceptance taxpayer towards GST implementation. This study only focuses on GST implementation from public perspective.

## **LITERATURE REVIEW**

Goods and services tax (GST) was introduced in France in 1954 by Maurice Laure and has been adopted by more than 146 countries. Generally, GST is a tax on consumption of goods and services. It is a form of indirect tax whereby consumers pay taxes as they consume goods and services. GST is also commonly referred to as value added tax (VAT) in others countries such as United Kingdom and Canada. In ASEAN, GST has been implemented for all countries excluded Malaysia, Brunei and Myanmar. The range of the tax is between 5 percent and 25 percent.

### **Impact of GST**

Impacts of GST can be seen from the advantages and disadvantages. Based on past studies, there are several implications of GST:

i. Inflation

According to Singh (2007), the introduction of GST may bring about a one-time increase in cost of living; the probability of it leading to inflation is not high. It was proven by a study by James and Zheshi (2004) pointed out that when VAT was introduced in China in 1994, it does not cause inflation. However, after studying the British and German experiences, most economists believe that a GST will cause the least inflation if imposed during a period of slow economic activity. West Germany first introduced its GST in 1968 during recessionary period with little inflationary effect (Mohd Rizal and Mohd Adha, 2011). In Malaysia, GST merely replaces the existing sales and services tax. Theoretically, it would not result in inflation because it is an additional cost to consumer, if the GST rate is set below 6%.

ii. Reduction of income tax rate

GST would result in higher tax revenue collection for government, as GST would cover a wider scope of the consumption cycle which includes high value items such as houses or financial services. Based on observations of other countries that have implemented VAT or GST, revenue from VAT or GST is high. This encouraged a number of countries that implemented GST to reduce income tax rate. For example is an introduction of GST in New Zealand at 10 percent, followed by a reduction in the individual income tax rate to 48 percent. Besides, according to Jenkins and Rup Khadka (1998), the introduction of GST in Singapore was followed by a reduction in individual income tax rate. That's meant when income tax rate reduce, taxpayers can saving more and increase their investment.

iii. Impact on Revenue

According to Mohammad Abood Salmeen Alebel (2010), a potential revenue can be raised from VAT depends on a number of factors, such as how broad the tax base will be and the extent to which business will be comply with the tax. Munk (2004) asserts that the least developed countries may not benefit from the introduction of domestic taxes as administrative costs may outweigh the allocation benefit. However, based on Keen and Ligthart (2002) have provided academic support for the IMF and World Bank recommendations for developing countries to use VAT rather than border taxes to raise government revenue. For example is China, the implementation of VAT contributed significantly to the rapid economic development and the VAT is an important for the China development (Jun.Lin (2009). Besides, GST also generated revenue for Singapore from SGD 1,523 Million in 1994/1995 against an original estimate of SGD 960 Million. GST revenue increased to SGD 1,623 Million in 1995/1996 (Jenkins and Rup Khadka, 1998).

**Awareness**

According to Cullis and Jones (1992), they highlighted the concept of false awareness in citizens, which are optimistic and pessimistic. Optimistic refers to the citizens who 'underestimate the tax load incurred from public services' (Csontos, Kornai and Toth, 1998). While, pessimistic are citizens who have overestimated tax burden or inaccurately estimate public service burden with the tax imposed to the public. The contradictive views have continually provided misconception on tax requirements, particularly when a new tax reform is to be introduced. Thus, this raises the need to increase awareness on what constitute GST.

Information is important to combat such fears and explain the rationale and benefits of VAT to the stakeholders (Sthanumoorthy, 2008). Indirectly, it can raise awareness of the implementation of VAT. Awareness not only readiness but potentially contribute to support the new system (Ely Raziah et al., 2005). According Mohani (2003), one of the basic ways to increase awareness by provides knowledge to the people. Tan and Chin-Fatt (2000), asserts that tax knowledge can be conveyed through a general understanding of the tax rules. Knowledge about new tax system reform needs given to the taxpayer and this will eventually encourage compliance (Singh, 2003).

Alebel Salmoon Mohammad Abood (2010) also stated that the public should be educated with knowledge related to the new tax system whereby the end user will have to bear the tax burden. Park and Hyun (2003), also suggests tax education is one of the effective tools to encourage more taxpayers to comply the new tax. In other words, taxpayers are more willing to comply if they really understand the concept of the tax base.

Csontos et al. (1998), conducted a study in Hungarian found that many citizen are not aware of the numerous kind of taxes levied on them. They have very limited knowledge on government true expenditure and the cost of public services provided by the state government. This poor awareness has created many misconceptions on the true value of tax. Cullis and Jones (1992),

investigated the level of tax knowledge and awareness in the UK arrived at similar conclusions whereby majority of respondents preferred fixed tax at current rate than the idea of improving public services by imposing increase tax rates.

Survey by Saira et al. (2010), a majority of respondents has heard of the GST while respondents who did not hear about the GST are female respondents. This study was supported by Cullis and Jones (1992), where the results of research showed that female respondents in the United Kingdom more ignorant to government revenue sources than male respondents. These results also emphasize that men pay more attention to tax issues. Mohd Rizal and Mohd Adha (2011) discovered that although the majority of respondents were not satisfied with the information provided by the government on the introduction of GST and not happy with GST, but almost half of the respondents aware that the government will implement the GST.

Studies conducted in India by Sthanumoorthy (2008) also found that the majority of the general public aware of the VAT base. However, only a few respondents were able to give the exact meaning of the VAT. This shows the basic of GST among respondents still not enough. This is consistent with the results obtained by Saira et al. (2010) whereby respondents who understand the GST can only give general meaning of GST. However, studies conducted to business in India by PriceWaterCoopers India (2006) found that more than 50 percent of respondents have a good level of awareness regarding GST in India.

Studies done by Saira et al. (2010), found that inconsistent awareness among respondents due to a lack of understanding or knowledge about the GST and this encourages them do not support GST implementation. This is consistent with the results (Mazni and Noor Sharoja, 2008; Tan and Chin Fatt, 2000). For small and medium sized businesses in Malaysia in the study by Raziah Ely et al. (2005), found that the moderate level of awareness on what GST is in general, for example, meaning of GST. However, a very low level of awareness was concluded on more important aspects of GST, especially on how GST may benefit their businesses. Traders also felt they should to be educated to raise awareness as well as the type of government assistance preferred in order to help them survive in GST environment. To increase 100 percent compliance with tax, awareness regarding VAT required for each organization (PriceWaterCoopers India, 2006).

### **Perception**

Based on previous studies, perception can be made that individual with positive attitude towards tax, commonly believed to equality and fairness in the tax system, tax administration and compliance with the commission of the tax law (Norsiah, 2002). Positive attitude towards citizen regarding tax system is important to enable individual have responsible towards development of country.

According Marziana, Norkhazimah and Mohmad Sakarnor (2010), the taxpayer perceptions associated with knowledge and experience. Studies conducted earlier showed that different

views and opinions regarding the implementation of GST and had misconceptions of the implications on goods and services, business and economic development (Lai and Choong, 2006). Many opinions arise because consumers are interested to know how GST will effect and affect their interest with some agree and some refuse of GST. Some respondents believe that GST would result in negative impact on their lives. This is proven by a number of studies related to the implementation of GST.

Studies conducted by Mohd Rizal and Mohd Azha (2011) shows a majority of respondents are worried in price hikes and cost of living rise when GST is implementing in Malaysia. This finding was supported by Saira et al. (2010) in which the results of research showed that respondents disagreed with the GST believe GST will affect the price of goods and services and this particularly affects the purchasing power of low-income people. Hopper and Smith (1997) also state that GST will have give impact on lower income groups than higher income groups.

The study conducted by Lai and Choong (2006), shows the same finding as previous studies whereby the majority of participants in their study felt that the GST will affect the prices of goods and services as well as the rise in wages. Results study indicate that more than half of the respondents expected the GST will affect the spending habit and perceived that they would spend less and maintain their investment and saving amount after implementation of GST. Theoretically, GST did not result to inflation, but the study found that most participants predicted that GST will result in inflation.

Sthanumoorthy (2008) in his study on the perceptions of the implementation of VAT in India found that respondents give a bad view of the impact of VAT on the cost of production, prices and position of traders. Only a few respondents believe that VAT will help in minimizing the cost of production.

In contrast to the study conducted by PriceWaterCoopers India (2006), respondents which are trader do not felt VAT will affect the prices on their products. This finding is interesting and contrary to the popular notion that VAT contributed to price increases in most of the manufacturing sector.

Based on studies conducted by The Associated Chinese Chambers of Commerce and Industry of Malaysia (2010), indicate that less than half of respondents (45%) agree that the introduction of GST will help government to increase the revenue of tax. Regardless of their beliefs about the benefits of GST to Malaysia's economy, more than 80 percent of the surveyed entities still believe that the proposed GST will certainly burden on the poor.

## **METHODOLOGY**

Researcher using quantitative method to collected data through questionnaires-based survey to the respondents. Population in this study is consists 256 civil servants of secondary school teachers in the area of Kuala Kangsar, Perak, Malaysia. This questionnaire is divided into three

sections. The first section comprised of question related demographic information including gender, age, race, marital status, education level and salary. For the second section contain 21 questions related to general information of GST, the type of goods or services that are exempted to GST and the type of goods or services subject to GST. Meanwhile, perception of taxpayer regarding GST implementation was contained in section three.

Data analyzes were conducted to classify the data according to the research objectives. Part A, statistics used are in the form of frequencies and percentages, Parts B and C, the researchers maintain the classification of the four-point scale to calculate the frequency, mean and standard deviation of each item. ANOVA test was also carried out for the B and C section in order to test the hypotheses that have been built.

## RESULTS

### Respondents Background

Table 1

*Respondents Background*

		Frequency	Percentage
Gender	Male	57	26.9
	Female	155	73.1
Marital status	Single	67	31.6
	Married	145	68.4
Age	Less than 30 years old	79	37.3
	31-40 years old	75	35.4
	41-50 years old	46	21.7
	More than 50 years old	12	5.7

At the first, the respondents comprised of 256 samples. But, from 256 respondents, only 212 people (82.8%) knew about GST, the remaining 44 (17.2%) did not know about GST. Analysis of the study will be continued only for 212 respondents. The respondents comprised of 155 (73.1%) females and the rest of 57(26.9%) were male respondents, 145 (68.4%) of respondents was married and 67 (31.6%) respondents are still single. In terms of age, 79 respondents were aged less than 30 years old, 75 (35.4%) aged between 31 to 40 years and 46 (21.7%) aged between 41 to 50 years while only 12 respondents (5.7%) aged more than 50 years.

## Source of Information About GST

Table 2

*Source of Information About GST*

Source	N	Percentage
Newspaper	120	56.6
Television / Radio	113	53.3
Internet / Website of Customs	73	34.4
Friend	67	31.6
Teacher/Lecturer	15	7.1
Seminar	12	5.7
Others	11	5.2

The study also found that the majority of respondents, 56.6% know about GST through reading the newspaper. The other major sources that helped promulgate GST, in order of their importance, were television or radio (53.3%), internet (34.4%), friends (31.6%), teachers or lecturers (7.1%), seminar (5.7%) and other sources (5.2%). Other sources include political talks, life in a foreign country, and information from family members. The predominance of newspapers as a source of information on GST was found among all categories of respondents, implying that this medium could be effective tool for government publicity campaigns.

## The Awareness of GST

The awareness of GST is divided by general information, goods or services exempted from GST (zero rated supply and exempted supply) and goods and services subject to GST.

### General information

General information relating to GST includes the definition of GST and starting rates of GST implementation in Malaysia.

### Zero rated supply

Zero rated supplies will carry a zero rate of tax. Thus no GST will need to be levied on its supply. Suppliers of zero rated supplies are required to register for GST purposes and are allowed to claim input tax credits if the GST paid on business purchases such as raw materials.



### **Exempt supply**

No GST will be applicable on an exempt supply. However unlike zero rated supplies, no input tax credit can be claimed by the supplier. A supplier of exempt supplies will therefore not be able to claim input tax suffered on raw material or services etc. which were purchased as part of his business. Supply of the following goods and services are expected to be exempt from GST.

Table 3

*Awareness towards Implementation of GST across Gender*

	Gender	N	Min	SD	F	P
General information	Male	57	10.2982	2.54926	1.972	.162
	Female	155	10.8194	2.33681		
Goods or services exempted from GST (Zero Rated Supply)	Male	57	11.8772	2.73254	.296	.587
	Female	155	11.6839	2.10983		
Goods or services exempted from GST (Exempt Supply)	Male	57	22.0175	5.17719	.199	.656
	Female	155	22.32901	4.24128		
Goods or services subject to GST	Male	57	4.8421	1.66679	.407	.524
	Female	155	5.0000	1.57084		

ANOVA analysis in the above table shows the mean scores awareness of respondents about general information of GST respectively 10.2982 and 10.8194 for male and female respondents. For mean score awareness of respondents about goods and services that exempted from GST in terms of zero rated supply respectively 11.8772 and 11.6839 for male and female respondents, mean score for awareness of respondents about goods and services that exempted from GST in terms of exempted supply, respectively 22.0175 and 22.3290 for male and female respondents and mean score for awareness of respondents about goods and services subject to GST respectively 4.8421 and 5.0000 for male and female respondents. Therefore, the results for all variable tested showed the level of awareness of both male and female respondents were moderate. The above table also shows that there are no significant differences among respondents' gender for variable tested, general information ( $P = .162$ ), zero rated supply ( $P = .587$ ), exempt supply ( $P = .656$ ) and goods or services subject to GST ( $P = .524$ ). Which mean that regardless gender the respondents are, they have similar awareness towards the implementation of GST in Malaysia.



Table 4

*Awareness towards Implementation of GST across Marital Status*

	Status	N	Min	SD	F	P
General information	Single	67	11.0000	2.28963	1.755	.187
	Married	145	10.5310	2.44397		
Goods or services exempted from GST (Zero Rated Supply)	Single	67	11.2985	2.48642	3.621	.058
	Married	145	11.9379	2.17058		
Goods or services exempted from GST (Exempt Supply)	Single	67	21.4179	4.42838	3.346	.069
	Married	145	22.6276	4.49837		
Goods or services subject to GST	Single	67	4.7761	1.54548	1.269	.261
	Married	145	5.0414	1.61536		

ANOVA analysis in the above Table 4 shows the mean scores awareness of respondents about general information GST respectively 11.0000 and 10.5310 for single and married respondents. For mean score awareness of respondents about goods and services that exempted from GST in terms of zero rated supply respectively 11.2985 and 11.9379 for single and married respondents, mean score for awareness of respondents about goods and services that exempted from GST in terms of exempted supply, respectively 21.4179 and 22.6276 for single and married respondents and mean score for awareness of respondents about goods and services subject to GST respectively 4.7761 and 5.0414 for male and female respondents. Therefore, the results for all variables tested showed moderate level of awareness of both single and married respondents. The above table also shows that there are no significant differences among respondents' marital status for variable tested, general information ( $P = .187$ ), zero rated supply ( $P = .058$ ), exempt supply ( $P = .069$ ) and goods or services subject to GST ( $P = .261$ ). Which mean that regardless marital status the respondents are, they have similar awareness towards the implementation of GST in Malaysia.

Table 5

*Awareness towards Implementation of GST across Age Level*

	Age Level	N	Min	SD	F	P
General information	< 30 years old	79	10.8861	1.83964	.714	.545
	31-40 years old	75	10.7333	2.89610		
	41-50 years old	46	10.4130	2.49957		
	> 50 years old	12	10.0000	1.85864		
Goods or services exempted from GST (Zero Rated Supply)	< 30 years old	79	11.4430	2.32460	2.958	.033*
	31-40 years old	75	11.4933	2.33292		
	41-50 years old	46	12.3034	2.07493		
	> 50 years old	12	13.0000	1.95402		
Goods or services exempted from GST (Exempt Supply)	< 30 years old	79	21.5949	4.14642	2.302	.078
	31-40 years old	75	21.9333	5.08398		
	41-50 years old	46	23.5000	3.88015		
	> 50 years old	12	23.6667	4.33450		
Goods or services subject to GST	< 30 years old	79	4.8101	1.58580	1.918	.128
	31-40 years old	75	4.7867	1.55349		
	41-50 years old	46	5.3478	1.64948		
	> 50 years old	12	5.5000	1.50756		

\*p < 0.05

Table 5 reports that there were significant differences between those who aged less than 30 years old and those who aged above 50 years old in terms of goods and services exempted from GST (zero rated supply). Furthermore, respondents more than 50 years old have high level of awareness regarding goods and services exempted from GST in term of zero rated supply and the rest respondents have moderate level of awareness regarding general information, goods and services exempted from GST in term exempted supply and goods and services subject to GST.

### **Perception Towards GST**

In this study, we examine the positive and negative perception of respondents towards impact of GST in Malaysia.

Table 6

*Negative Perception towards Impact of GST*

		N	Min	SD	F	P
Gender	Male	57	15.7895	2.93827	1.656	.122
	Female	155	15.6710	2.68983		
Marital Status	Single	67	15.2388	2.74739	2.808	.095
	Married	145	15.9172	2.73735		
Age level	< 30 years old	79	15.4684	2.76348	2.053	.108
	31-40 years old	75	15.5067	2.67306		
	41-50 years old	46	15.9783	2.87123		
	> 50 years old	12	17.4167	2.27470		

The mean score shows respondents give high negative perception towards impact of GST. Table 6 also shows that there are no significant differences among respondents for variable tested, gender ( $P = .122$ ), marital status ( $P = .095$ ) and age level ( $P = .108$ ). Which mean that regardless gender, marital status and age the respondents are, they have similar negative perception towards impact of GST in Malaysia.

Table 7  
Positive Perception towards Impact of GST

		N	Min	SD	F	P
Gender	Male	57	10.6491	2.37164	.465	.496
	Female	155	10.8710	1.99255		
Marital Status	Single	67	10.3582	2.06487	4.650	.032*
	Married	145	11.0207	2.08656		
Aged	< 30 years old	79	10.8354	1.82174	.386	.763
	31-40 years old	75	10.7333	2.38992		
	41-50 years old	46	10.7391	2.07026		
	> 50 years old	12	11.4167	2.10878		

\*p < 0.05

The mean score shows respondents give moderate positive perception towards impact implementation of GST. Table 7 also shows that there are no significant differences among respondents for variable tested, gender (P = .496) and age level (P = .763). However, there are statistically significant differences among those who married and single regarding impact of GST in Malaysia.

Table 8  
Acceptance towards Implementation of GST in Malaysia across Gender

Acceptance	Gender	N	%	Total	Percentage
Yes	Male	8	3.8	49	23.1
	Female	41	19.3		
No	Male	49	23.1	163	76.9
	Female	114	53.7		

Based on Table 8, majority of respondents (163 person or 76.9%) did not agree with the implementation of GST in Malaysia instead 49 respondents (23.1%) agreed the implementation of GST. There are 41 female respondents and 8 male respondents are agreed with the GST implementation in Malaysia.

Table 9

Acceptance towards Implementation of GST across Marital Status

Acceptant	Marital Status	N	%	Total	Percentage
Yes	Single	23	12.3	49	23.1
	Married	26	10.8		
No	Single	44	20.8	163	76.9
	Married	119	56.1		

Based on Table 9, majority of respondents (76.9%) did not agree with the implementation of GST in Malaysia instead 49 respondents (23.1%) agreed the implementation of GST in Malaysia. There are 26 married respondents was agreed with GST implementation.

Table 10

Acceptance towards Implementation of GST across Age Level

Acceptant	Age Level	N	%	Total	Percentage
Yes	< 30 tahun	25	11.8	49	23.1
	31-40 tahun	16	7.5		
	41-50 tahun	7	3.3		
	> 50 tahun	1	0,5		
No	< 30 tahun	54	25.5	163	76.9
	31-40 tahun	59	27.8		
	41-50 tahun	39	18.4		
	> 50 tahun	11	5.2		

Based on Table 10, majority of respondents (76.9%) did not agree with the implementation of GST in Malaysia instead 49 respondents (23.1%) agreed the implementation of GST in Malaysia. There are 25 respondents (11.8%) which aged less than 30 years old agreed with GST implementation.

## **CONCLUSION**

These findings indicate that the level of awareness of the GST is still not reached a satisfactory level. This is because the study involved only general questions that should be known by the respondents as end users. This cause the respondents gave high negative perception of the impact of implementation of GST.

Evaluate the results show, seems to indicate respondents received less information and promotion of the authorities. Most of the respondents were unclear whether the goods and services are not subject to GST. Furthermore, due to the lack of information on GST, the respondents had a high negative perception. Therefore, the government must convince that GST will not have a lasting impact on the public as particularly convincing end users that no increase in prices of goods and services.

Thus, in introducing the GST in Malaysia, government should have careful planning, detailed preparation, participation of community and extensive public education program is the key success in the implementation of GST for any country.

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