



INSIGHT JOURNAL
UNIVERSITI TEKNOLOGI MARA CAWANGAN JOHOR

**International, Refereed, Open Access,
Online Journal**

Volume 4 2019

eISSN : 2600-8564

Indexed in MyJurnal MCC

INSIGHT JOURNAL (IJ)

UiTM Cawangan Johor Online Journal Vol. 4: 2019

eISSN :2600-8564

Published by UiTM Cawangan Johor

insightjournal.my

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Exploring Factors Affecting Public Acceptance Towards Tax Reform in Malaysia

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Abstract

Within three years, Malaysia has undergone two consumption tax reforms: Goods and Services Tax (GST) on the 1st of April 2015, and Sales and Services Tax (SST 2.0) on the 1st of September 2018. Although tax reform is important to revenue collection, public acceptance of the newly tax reform is crucial to ensure its success. Public acceptance may be affected by tax instrument employed by the new tax system. Reversal Theory was used as the underlying theory for the study. Thus, this study aims to explore factors that influence public acceptance towards tax reform in Malaysia. Semi-structured interview sessions were conducted among lower and middle-income earners to obtain information on the extent of public acceptance of the consumption tax reform. From the interview sessions, three factors were identified namely monitoring roles by government agencies, effect of price of the good and tax awareness among the public. The findings are important for the government to take the initiative to improve the mechanism of the new tax reform in order to promote tax fairness among the public from different income levels. In addition, the findings are vital for the tax authority to improve their monitoring role and to rectify their administrative issues in order to efficiently implement tax reform in Malaysia.

Keywords: Consumption tax reform, Good and Service Tax, Sales and Service Tax 2.0, public acceptance.

1. Introduction

A consumption tax is a broad category of tax that is levied on the consumption value of goods and services. Consumption tax could be implemented in various ways including sales tax, excise tax, goods and services tax and import duties (Keen, 2006; Poterba, 2008; Dordevic, 2015; Boadway & Song, 2016). Consumption taxes are paid by the consumers rather than businesses. Tax is originally paid by a business that passes to the consumer inclusive in selling price (Ahmad, Ismail & Abdul., 2016; Hines, 2007; Keen, 2006; McClellan, 2013; Saira, Zariyawati & May, 2010). In other words, consumption taxes are not collected by the government directly from consumers (Dordevic, 2015). Tax is collected by vendors at the retail level, who then pay to the tax authority; namely the Royal Malaysian Customs Department (RMCD). Two types of consumption taxes, Goods and Services Tax, and Sales and Services Tax, will be discussed in this article.

GST rate was reduced from 6% to 0% from 1st June 2018, while goods and services listed in the Goods and Services Tax (Exempt Supply) Order 2014 will remain exempted (BERNAMA, 2018). The tax holiday ended on 1st September 2018 by the reintroduction of the Sales and Services Tax (SST 2.0). The Prime Minister, Tun Dr Mahathir Mohamad said that the government needs to bring back sales tax to replace GST as an alternative source of revenue to the country. SST 2.0 is expected to create more disposable income which in turn will help to boost consumer spending and business activities. The SST 2.0 rate was fixed at 5-10% for goods and 6% for services. On 31st July 2018, the Government tabled five Bills to repeal the GST for its first reading in Parliament. The Bills are not just to abolish the GST but also to reintroduce the Sales Tax Bill 2018 and the Services Tax Bill 2018. Besides, it is also propose for charging, levying and collection of Sales Tax. The five Bills – GST (Repeal) Bill 2018, Sales Tax Bill 2018, Service Tax Bill 2018, Customs (Amendment) Bill 2018 and the Free Zones (Amendment) Bill 2018 – were tabled by the Deputy Finance Minister, Datuk Amiruddin Hamzah. The RMCD Director-General, Datuk Seri Subromaniam Tholasy explained that a total of 6,400 will be charged under the new SST compared with 11,197 under the GST. Sales and Services Tax comprises two legislations. The Sales Tax is imposed on the manufacturing sector and governed by the Sales Tax Act 2018. Service Tax is imposed on selected service sectors, with one of the most notable ones being the food and beverage (F&B) service providers. The Service Tax Act 2018 would govern the selected service providers and the details would be gazetted in the subsidiary legislation, PU(A) Service Tax Regulations 2018.

Sales Tax is imposed one time to the manufacturing company when there is a sale to the trading company. There is no sales tax imposed from the trading company to the next supply chain; the suppliers. Thus, the consumers will expect that the price of goods are much lower as compared to the GST. On the other hand, GST mechanism is on value-added concept with input tax available as deduction. The supply chain moving from manufacturers, distributors, dealers and consumers would result in higher price. GST input tax is available as a credit or deduction against output tax based on tax invoice received from GST registrant suppliers. This would mean that GST is never a business cost as deduction is available against output tax even though there is no sales generated. Sales Tax on the other hand, would be paid by the trading company purchasing goods from the manufacturing company, incurred business cost and deduction is only available when there is a sale. This would mean that business cost would be higher as Sales Tax is part of the inventory cost and to be deducted as cost of sales when goods are sold or exported. In simple terms, no sales, no deductions (The Star, 2018 'GST vs SST, Which Is Better'). Unfortunately, the main issue with GST was its delays in refunds. As revealed by the Ministry of Finance, GST problem is when the refunds are not paid on time. It compounds the effect and leads to increase in price of goods and cost of living. Technically, each supplier can claim back GST

as an input tax from the government. The delays caused the costs to the businesses. This is why prices have escalated all the way and burdened the people (News Straits Times 2018, Malaysia needs time to adjust SST).

Based on the arguments listed above, the objective of this paper is to explore the factors affecting public acceptance towards consumption tax reform in Malaysia to Sales and Services Tax 2.0. Based on the interview conducted in September 2018, price, monitoring activities and tax awareness are among the pertinent factors that will lead to public acceptance towards SST 2.0. The findings will enable the government to undertake measures for a smooth and effective consumption tax reform. This includes enhancing the current support system and enforcement. Having this information will assist the tax authority to focus on possible ways to improve the tax awareness among consumers in Malaysia. In this regard, the approach taken would be problem solving-oriented with the intention to resolve the issue identified rather than to overhaul the whole consumption tax system.

The remainder of this study is organized as follows: Section 2 provides an overview of the issues on consumption tax in Malaysia, while Section 3 reviews the existing literature on the consumption tax. Section 4 presents the research methodology. Section 5 reports and discusses the results, and Section 6 concludes and discusses the implications of the study.

2. Issues on Consumption Tax

GST system affects the wealth distribution among consumers in three aspects: (i) changes in consumers' spending pattern, (ii) rise of financial burden for households, and (iii) the burden of GST on the categories of spending (Kasipillai & Sinnakkannu, 2008). Besides, the businesses have vast room of chances to hike up the price of products and services. It eventually leads to inflation and will burden the people. Thus, most households from the middle and lower-income groups may experience a higher financial burden as compared to higher income earners (Alappatt & Shaikh, 2014; Palil & Ibrahim, 2012)

On the other hand, SST is not transparent to the consumers. The taxes are embedded in the cost of goods and services (RMCD, 2018). It will affect all the supply chain resulting in cascading effect (Dhond, 2010; Keen, 2014; Kumar & Sarkar, 2016; Yong, 2018; Wong & Kee, 2018). Without knowing the actual tax charged, the consumers must bear higher cost of purchase price of the goods consumed. SST is a part of regressive tax. Furthermore, a regressive tax inflicts a greater burden on poor people due to it leading to larger spending expenses on goods consumed of the lower-income level. Prices would generally be reduced for goods in SST but there could be a spike in the prices of some essential goods. It includes the cost or charges for services rendered if no serious steps are taken to monitor and control it. On top of that, the Ministry of Domestic Trade and Consumer Affairs have received about 2,000 daily complaints from the public since the Sales and Services Tax (SST 2.0) was implemented. Its minister, Datuk Saifuddin Nasution Ismail, said 50 per cent of the total complaints received were related to food and beverages prices (Astro Awani, 2018 'KPDNHEP Terima 2,000 Aduan Setiap Hari Selepas Pelaksanaan SST').

The empirical findings revealed that the level of understanding and awareness among Malaysians toward consumption tax was found to be generally low (Alias, 2016; Shamsuddin et al., 2014)). It has been reported that consumers had diverse opinions over the implementation of consumption tax and most of them failed to understand the implications and benefits of the tax on goods, services, businesses and socio-economic development (Ling, Osman, Arman Hadi, Muhammad Safizal & Rana, 2016; Shafie, Kamilah & Tham., 2016; Shamsuddin et al., 2014).

2.1 Sales and Services Tax 2.0

2.1.1 Sales Tax

Sales Tax Act 2018 applies throughout Malaysia, excluding some designated areas and special areas. Sales tax is a single stage tax levied and charged on all taxable goods manufactured in or imported into Malaysia. Sales tax is an ad valorem tax and different rates apply based on group of taxable goods. Sales tax for petroleum is charged on a specific rate which is different from other taxable goods. Taxable goods are goods of a class or kind not for the time being exempted from sales tax. Goods exempted from sales tax are listed in Schedule A of the Sales Tax (Goods Exempted from Sales Tax) Order 2018 (Royal Malaysian Customs Department, 2018). Figure 1 shows how the SST work through the supply chain from the manufacturer up to the consumer. It shows that the government only collects tax at the manufacturer's level but the element of sales tax is embedded in the price paid by the consumer.



Figure 1: How Sales Tax works (RMCD, 2018)

2.2.1 Service Tax

Service tax in Malaysia is a form of indirect single stage tax imposed on specified services termed as “taxable services”. Service tax cannot be levied on any service which is not included in the list of taxable services prescribed by the Minister under First Schedule of the Service Tax Regulations 2018. Service tax applies to certain prescribed goods and services in Malaysia including foods, drinks and tobacco. The Service Tax Act 2018 (STA 2018) applies throughout Malaysia excluding some designated areas, free zones, licensed warehouses, licensed manufacturing warehouses and Joint Development Area (JDA). The rate of service tax is 6 per cent of the price or premium for insurance policy, value of betting and gaming, etc. of the taxable service as determined under section 9 of STA 2018. Figure 2 explains the implementation of service tax in Malaysia.

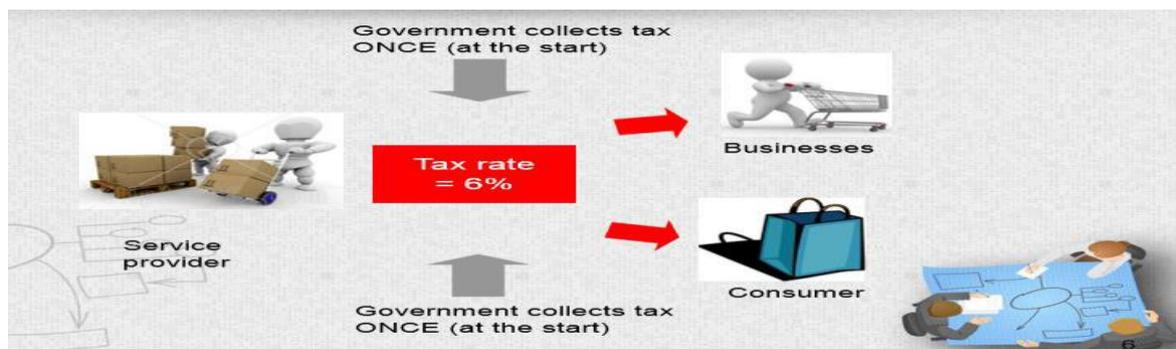


Figure 2: How Service Tax works (RMCD, 2018)

The RMCD has also drawn up a proposed list of services subjected to six per cent service tax under SST. These included hotels and homestay operators as well as Pay-TV, telecommunication, insurance and takaful service providers. It means that consumers will be charged a 6 per cent service tax on their monthly Astro bill as well as on their insurance premiums. RMCD has also proposed that RM25 tax per annum will be levied upon the issuance of every principal or supplementary credit or charge card. Professional services such as legal, accounting, surveying, architectural, valuation and engineering will also be subjected to the service tax. Restaurant operators, including hawkers and food truck operators, must also pay the service tax. However, the SST will only be applicable to individuals and businesses that make more than RM500,000 annually. This threshold level is the same as GST threshold level. Datuk Seri Subromaniam Tholasy, Customs Director-General explained that the department's proposal will be scrutinised by the Cabinet in the Parliament.

3. Literature Review

There are three principles underlying in a tax instrument: efficiency, equity and administrability (Bardai, 1988; Avi-Yonah, 2006). An efficient tax system should be simple and convenient towards taxpayers, tax agents and public at large (Bardai, 1988). To enhance the public acceptance, the consumption tax should be fair to people from all levels of income (Lesch, 2018). However, the implementation of tax regime itself is hard to fulfill the tax principles mentioned. The public does not fully support the taxation introduced by the government as the burden will be on their shoulders.

Public acceptance is vital because when the consumers reject the tax, the government will suffer from the loss of expected revenue (Bidin & Othman., 2014 & Saad, 2013). Besides, the government's decision to reform the consumption tax in Malaysia from GST to SST 2.0 can be costly due to the experiences during the implementation GST (Azmi et al., 2016; Palil et al., 2013). Malaysian citizens are not entirely convinced with the consumption tax scheme (Syazwani, Fadzillah & Hussin, 2016; Othman et al., 2017; Goh, Huei & Tay, 2017). In addition, studies also reported that the consumers had diverse opinions on consumption tax. They failed to really understand the advantages of its implementation (Saira et al., 2010; Shamsuddin et al., 2014). Scholars also reiterated that low awareness and confusion on consumption tax charges experienced by the consumers as among the main factors that lead to discouragement of consumption tax (Ling et al., 2016; Palil et al., 2012; Saira et al., 2010; Shafie et al., 2016; Shamsuddin et al., 2014). The regressivity nature of consumption tax will affect most households from the middle and lower-income groups. They may experience a higher financial burden in comparison to higher income earners (Palil & Ibrahim, 2012; Alappatt & Shaikh, 2014; Ling et al., 2016). Ahmad et al, (2016) stated the negative perception of consumers to consumption tax was due to information leakage on the goods and services that are exempted and also the volatility of products' price.

For this study, the principles of tax instrument are identified. The efficiency and administrability were themed under monitoring activities. The argument on price fairness that was argued by the respondents is a proxy for equity. Tax awareness is another factor that will affect the public acceptance towards consumption tax reform in Malaysia.

3.1 Efficient Monitoring

Public acceptance towards consumption tax reform will be influenced by the efficient monitoring function by the government agencies or tax authorities. Consumers believe that the government especially RMCD should strictly enhance their monitoring roles in

implementing the consumption tax. Monitoring is vital in ensuring the success of the implementation of SST 2.0 (James, 2015; Badinski & Bakija, 2014; McClellan, 2013; Guyton, Manoli & Payne 2018). Many businesses will take advantage by raising prices if the monitoring activities are lacking. Among the misbehaviours done by the businesses in previous GST era was adding on the input tax to the costs of goods sold. They were not supposed to do so as it is claimable. The acceptance towards consumption tax will be low if the tax system is inefficient because of a limited number of taxpayers, lack of modern administration, and high level of avoidance. These are due to the system being outdated and complicated, and having poor collection procedure (Amir, Asafu-Adjaye & Ducpham., 2013). The key to the success of tax reform in United Kingdom and New Zealand is effective consultation prior implementation. Besides, it is also important that the reform is seen to be fair through monitoring activities conducted (James & Alley, 2008). American Institute of CPAs (AICPA, 2017) in their Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals explained that an efficient and administrability tax system should keep to a minimum cost to collect tax. These costs include the administrative cost to the government that is influenced by the number of revenue officers necessary to administer the tax. Consideration of taxpayer compliance costs is also a must. Currently, Malaysia is practising the Price Control and Anti-Profiteering Act 2011 (Act 723). Section 14 of the act clearly states any person, who, during trade or business, “profiteers” in selling or offering to sell or supplying or offering to supply any goods or services, is considered as committing an offence. According to the act, the word “profiteer” means making unreasonably high profit. According to the act, any person who commits any offence under such situation, on conviction, shall be liable: (a) where such person is a corporate body, to a fine not exceeding RM500,000. Second or subsequent offence, to a fine not exceeding RM1 million; or (b) where such person is not a corporate body, to a fine not exceeding RM100,000 or imprisonment for a term not exceeding three years or both. The common problem faced by the tax administrative is usually due to the unfamiliarity with the new system (Othman et al., 2017). Thus, the administrative may need time not only to familiarise themselves with the whole system, but also to reassess their approaches in managing the emerging issues (Takril & Sanusi, 2014; Shagari, 2014).

3.2 Price Fairness

Tax fairness is important as it will increase the acceptance of consumers towards tax systems (Peggy, 2013), especially in consumption tax (Dordevic, 2015). Consumers perceived fairness by means of the price fairness of goods and services will affect their spending pattern (Daskalopoulou & Petrou, 2006). The tax should be perceived as fair, so the consumers will support the system and show their acceptance (Saad, 2011). The term “fairness” is quite impossible to define as it is subjective to the level of interpretation of an individual (AICPA, 2017; Jimenez & Iyer, 2016). The public hope to see prices of goods and services fall as a result on the tax reform as only 38 per cent of the goods and services in the Consumer Price Index (CPI) basket are taxable compared to 60 per cent under the GST. It is estimated that up to RM70 billion will be freed up to allow consumers to spend more. Under the GST regime, a total of 11,197 goods were imposed the 6 per cent tax. In comparison, only 5,612 goods are subjected to sales tax in SST 2.0.

Vertical equity and fairness are interpreted as ability of individual to bear the tax burden (AICPA, 2017). Lower and middle-income earners might face more burden in consumption tax as compared to high-income level (Kaplanogou & Newbery, 2008; Anushuya & Pal, 2014; Castro, 2014; Jose, 2014) as the rate for GST and SST 2.0 is equally charged regardless the income of the households. The main concern of the public is that the prices of goods and services are getting higher after the consumption tax reform took place. Prices should be lower compared to GST as the SST 2.0 only applies to 38 per cent of selected

goods and services compared to GST which taxed some 60 per cent of basket goods and services. Another fear is that the public have to pay the sales and services tax on top of prices which have included the GST before.

3.3 Tax awareness

The influence of tax awareness on compliance behaviour has been discussed by many research (Palil, 2010; Saad, 2011; Farrar, 2011)). It is believed that the tax system must be smooth in operational and acknowledged by the consumers to enhance the acceptability (Hamid, et al., 2016). Lacking in awareness of consumption tax being implemented in Malaysia has led to shudders among the society (Saifi, Suhaily & Shuhaimi, 2015). Knowledge on taxation may influence the compliance and awareness on the tax collection being spent by the government (Moomal & Zakaria, 2014). Besides, by educating consumers with tax awareness, it will enhance public acceptance (Hambali & Kamaludin, 2017). The empirical findings revealed that the level of understanding and awareness among Malaysians toward consumption tax is generally low (Kamarudin & Mustapha, 2017; Normahayu et al., 2015; Suriana et al., 2015; Shafie et al., 2016; Rashid et al., 2015). This indeed reflects that the majority of Malaysian consumers are still confused and lack knowledge of consumption tax. It will directly influence their perception and level of acceptance of consumption tax as a whole. Even those who have been exposed to the technical aspect of consumption tax are still unsure on how the tax works (Harun, Hamid & Yahya, 2017).

3.4 Reversal Theory

Reversal Theory is used in order to provide a comprehensive picture of the acceptability amongst Malaysians towards indirect tax reform implemented in Malaysia. The Reversal Theory has been established as a dominant theory in explaining one's behaviour, which refers to acceptance in this study (Apter, 2005). There are four pairs of domains in this theory: means-ends, rules, transactions and relationships. Each pair in a domain represents two opposite forms of people's motivation.

- Means-Ends – The first pair is called "Telic" (or "Serious") and "Paratelic" (or "Playful") and refer to whether one is motivated by achievement and future goals, or the enjoyment of process in the moment.
- Rules - The next pair is called "Conforming" and "Rebellious" (or "Negativistic") and refers to whether one enjoys operating within rules and expectations, or whether one wishes to be free and push against these structures.
- Transactions – This pair represents "Mastery" and "Sympathy" and relates to whether one is motivated by transacting power and control, or by care and compassion.
- Relationships - The final pair is called "Autic" (or "Self") and "Alloic" (or "Other") and refers to whether one is motivated by self-interests (personal accountability and responsibility) or by the interests of others (altruism and transcendence).

The domain chosen in this study is 'rules' which is explained as any kind of constraint, expectation, convention or routine that directs a person and delineates what he or she should do in a given situation. The two states of this domain are conformist and negativistic. It is typical to obey rules most of the time, since they give life structure and meaning, apart from helping us to feel that we belong in situations where we know what is expected of us – which refers to most situations that we come across in our daily lives. In the situation of indirect tax implementation, the government needs to cushion the revenue collection, and when the public agrees to the intention, it refers to the conformist state. On the other hand,

there are times when we feel rules to be restricting, confining, unjust and repressive. At such times, we want to break free of the rules, do things differently in obsolete manner, unforeseen, and even commit acts that may be immoral, aggressive, forbidden or just plain “bad.” This is called the negativistic or rebellious state. The tax reform from GST to SST 2.0 is one of the examples of what happen when the public choose to rebel.

4. Research Methodology

This study used a qualitative design in the data collection. Semi structured face-to-face interview method was adapted because of the exploratory nature of the research question. It was also because of the interviews’ ability to identify and generate the range of relevant issues surrounded the new SST 2.0. The interviews were conducted to understand issues and problems faced by publics on the recent tax reform in Malaysia in a very informal manner. The informality of the interviews was intended to encourage participants to express their opinions freely without fear.

The sample for the study consists of 12 interviewees, nine were from middle income level (M40) while another three were from low income level (B40). The respondents were chosen due to their convenience and willingness in answering the interview questions. The interviews were conducted in the month of September 2018. The interview questions were prepared based from the information derived from the review of literatures. For ethical reason, an information sheet explaining the research work and the rights of the interviewee was handed out and explained. During the interviews, measures were taken to ensure the wordings of the questions and the manner of questioning did not bias the interviewees. The following table presents the profile of the interviewees selected for the qualitative interview. For ethical reason, the interviewees are referred to as case 1, 2...until 12 respectively.

Table 1: Profile of the Respondents

Interviewee	Gender	Education	Age	Job	Category
1	Female	Degree	48	Teacher and part-time baker	M40
2	Male	Diploma	37	Technician	M40
3	Male	SPM	41	Used-car dealer	M40
4	Female	Degree	36	Teacher	M40
5	Female	Master	44	Teacher	M40
6	Male	Degree	32	Diplomat Officer	M40
7	Male	SPM	75	Businessman	M40
8	Male	Degree	36	Teacher	M40
9	Female	Degree	38	Teacher	M40
10	Female	SPM	47	Housewife	B40
11	Female	SPM	48	Housewife	B40
12	Female	SPM	51	Housewife	B40

5. Findings and Discussions

This section reports the findings from the interview sessions which involved 12 interviewees. Nine of them were from middle income level (M40) while another three interviewees were from lower income level (B40). The public had experienced two tax reforms within three years’ time from the GST implementation on 1st April 2015 to the new SST on 1st September 2018. Findings will discuss on the monitoring roles by the government agencies, the effect of goods’ price and tax awareness from the taxpayers.

5.1 Monitoring Roles of the Government Agencies or Tax Authority

From the interview session conducted, seven out of the 12 respondents urged the government to monitor the businesses. Business shall not take advantage of SST 2.0 implementation. The reaction showed by Respondent 1 was:

"...the people are angry, the government is taxing GST, SST...but the monitoring activities are weak...that is why people get angry.."

Meanwhile, Respondents 2, 6 and 7 emphasised that:

"What I heard is that...even when reading in Facebook, previously the price of the item is more expensive...because the GST tax is recurring..6% in every supply chain...for me, the government is not wrong by reintroducing the SST 2.0, but they have to make sure that the enforcement is good, ensure that the price of goods are monitored. Don't let the businesses taking advantage by simply increasing the prices of goods..."

"I heard that SST is good...because in previous GST, the price of goods were mark-up to 24% as there is a problem with enforcement...and end up, the consumers were burdened badly"

While the rest of respondents, Respondents 10, 11 and 12 mentioned these respectively:

"why is the government doing this to us...we are poor people...we just afford to buy the necessities but the prices are getting higher, don't the government enforced any monitoring activities?"

"I just bought some onions yesterday, why is the price is so expensive? Even onions is the basic necessities, it is unfair for us, the businesses simply rise up the prices of goods, so can you please tell the government to come down and monitor the prices of goods?"

"Instead of adding more goods to the SST exempted list, the government should also monitor the businesses..."

From the findings, it is proved that monitoring activities are vital in ensuring the success of the consumption tax reform (James, 2015; Badinski & Bakija, 2014; McClellan, 2013; Guyton, Manoli & Payne 2018). Axcelasia Taxand Chairman, Veerinderjeet Singh regretted that previous consumption tax monitoring was lacking and many businesses took advantage of it by rising up prices. Among the misbehaviour done by the businesses was adding on the input tax to the costs of goods sold even they were not supposed to do so as it is claimable. Besides, the separated monitoring body that ruled the consumption tax, the Royal Malaysian Customs Department (RMCD,) was the executor but the monitoring came under the Domestic Trade and Consumer Affairs Ministry. Thus, the monitoring activities under the Anti Profiteering Act failed as a result to the dichotomy (Malay Mail 2018 'Success of SST Hinges on Enforcement).

5.2 The Effect on Price of the Goods

From the interview session conducted, 10 out of the 12 respondents were concerned that price fairness was affecting their acceptance towards consumption tax reform. Based on the interview conducted in this study, Respondent 1 was quoted as saying:

“The price is increasing today. I bought box of cakes, and went up in price, a difference in RM600 compared to the month of May. It's bad, I do business because I'm looking for additional income but the cost goes up.”

In agreement to the rising in price of products, Respondent 2 mentioned that:

“Now, the price of the item does not change. There are also the goods that go up..th.at oil prices are higher. During GST period, many prices of goods t rise due to 6% taxes, but now in SST, most of the goods should go down ... because the government says that most of goods are exempted from SST, but why do not prices go down? I bought Annum 500g milk for RM28.90, now RM31.90, I just bought a box...I don't think the milk is charged under SST...sometimes I have to change the cheaper milk for my child”.

At the same time, during the interview sessions, Respondents 4,6, 8 and 9 informed had similar answers regarding the price of goods being the same or have increased from the GST era.

“...the price of goods seems same compared to GST before..even the GST is said have recurring charge effect...6% at every supply chain..”

“ I did not keep the receipt very much..if you look at the expenses now, it does not matter much...same as before, previously, the GST tax appeared on the receipt when we buy the goods...so we know the taxable goods...but now, people are really looking at the price of cheap stuff, but the price of the goods embedded with SST so the consumers are not able to see what item is taxable...because the charge is hidden in the price good”

“There are so many differences in the prices of goods and services now, even the basic necessities were also getting expensive nowadays...how about those with lower-income earners? They must be burdened by this consumption tax”

“Yes, the prices of goods really rise up nowadays. Yesterday, I bought the foods for my cats, it's getting higher now...even the quotation from the contractor (I want to renovate my house) made me shocked...but the contractor told me that the prices of building materials are expensive now”

In contrast, Interviewee 3 seemed to appreciate the new tax reform of SST 2.0. This situation could be due to his nature of business as second-hand car dealer. He claimed that the second-hand car dealer seems to gain benefit due to the price of the car is reducing as compared to during the GST tax system.

“During GST, the second-hand car dealer will charge 6% to the customer when the transaction occurred either selling of car or refinance. However, with SST which is single supply chain, tax will on levy at the manufacturer stage not at the distributor, thus, lowering the price of the car”

Most of the findings are in-lined with a number of concerns that the SST would apply in most transactions between related companies of the same corporate group. This would create significant costs for such groups, as there are considerable shared costs (The Star, 2018; ‘Transition to SST Lessons Learnt for Future Tax Reforms’). This is one of the cascading effects in SST (RMCD, 2013). Grinberg (2006) elaborated that some goods are double-taxed as businesses pay sales tax on goods they purchase as inputs and the inputs are taxed second time during sales of the final goods. Adli Amirullah, a research coordinator at the Institute for Democracy and Economic Affairs (IDEAS) warned that bringing back the SST may increase the price of goods because of double taxation in the tax regime (Sinar Harian, 2018).

The answers from the B40 respondents showed that they were really upset with the prices of goods and services after the consumption tax reform took place. Respondents 10, 11 and 12 expressed their exasperation:

“It is so expensive...the prices of goods before and after the implementation of any consumption tax...I received aids from the Majlis Agama Islam Melaka (MAIM). Before this, they gave RM150 and now they increased to RM200. But still, it is not enough.

“Nowadays I only able to buy fewer goods with RM50, luckily my kids received aids from Kumpulan Wang Amanah Pelajar Miskin (KWAMP) and Rancangan Makanan Tambahan (RMT), so I can manage their school utilities by using the funds. But, my kids also want to be like other children, they want to eat KFC, go to amusement parks, but I can’t fulfil their needs as it is costly...”

“We are the buyers, we only buy in small amount, the price of goods are really expensive, but why the government taxed us? The businesses able to claim the tax being paid to government, but, how about us?”

The answers from the B40 respondents showed consumption taxes are burdening the households with lower income, as they applied the same tax rate for all (Galle, 2008; Poterba, 2008; Kim-Hwa & Qi, 2013; James, 2015; Dordevic, 2015). Besides, the regressive consumption tax will reduce the disposable income of lower and middle-income earners. The poor have to pay more as a percentage of their income than the rich do (Gruber, 2011; Narayanan, 2014; Alappatt & Junaid, 2014 & Dordevic, 2015).

5.3 Tax Awareness

All interviewees categorised as lower income earners (B40) did not understand at all what the GST and new SST are, and they did not even have knowledge of these two tax reforms. They just noted that the price of goods consumed increase as reflected from the receipts that they received at the counter. However, with SST 2.0, they expected for betterment. Unfortunately, the price is still high and they even noticed that price of some of goods are

even increase during the new SST. While, for middle income level, the responds were as follows:

“The price of goods are became more expensive now. For example, I bought bulk of boxes for my homemade cookies. The price increase to RM600 now as compared in the month of May 2018.” (Interviewee 1).

Interviewee 2 also supported the same contention as Interviewee 1 where he claimed that the price of Annum 500g milk for his baby has now increased from RM28.90 (GST) to RM31.90 (new SST) and this situation has forced him to substitute with the cheaper baby milk.

Interviewee 4 seemed unclear on the effect of the tax reform as she did not check receipt received every time she purchased any product. Thus, she was unable to decide on the changes in price of goods during SST. For Interviewee 5, although she has got the information about the tax reforms, she is still unclear on the mechanism and how it affects the price of the goods.

Lack of knowledge about the consumption tax implemented in Malaysia has led to shudders among the society (Suriana et al., 2015). It is because knowledge on taxation has proven to influence the compliance level (Ling, et al., 2016). It has also led to awareness on the tax collection being spent by the government (Moomal & Zakaria, 2014). Besides, by educating consumers with tax knowledge, it will enhance public acceptance (S. Hambali & Kamaludin, 2017).

6. Conclusion

It can be concluded that most of the respondents that participated in this study agreed that monitoring activities, price fairness and tax awareness affect their acceptance towards tax reform in Malaysia. Since Malaysia just underwent the consumption tax reform, there is limited empirical evidence on the issue of public acceptance in the tax system. The information on the current level of acceptance among the public particularly on the dimensions that require attention from the tax authorities may help in improving the tax system in Malaysia. This will therefore enable the tax administrative to undertake measures for a smooth and effective transition to SST 2.0. This includes enhancing the current support system and enforcement. Having this information will assist the tax authority to focus on possible ways to improve the fairness of taxation in Malaysia. In this regard, the approach taken would be problem solving-oriented with the intention to resolve the issue identified rather than to overhaul the whole consumption tax system.

Acceptability is undeniably important for the tax authorities to plan and develop the appropriate mechanisms to improve compliance. If the findings suggest that fairness perceptions significantly influence consumers' decisions to comply, the tax authorities may need to emphasise on ways to improve the tax instrument. It can be done by being transparent about how the tax money is spent, allocating fair distribution among consumers and treating the consumers in sensible manner. Reversal Theory stated that at one side, the public may accept and follow the indirect tax being implemented by the government. On the other hand, the public will rebel when they feel burdensome by the tax – the situation that happened with GST. The government should employ some strategies such as incorporating tax education in high school curriculum, and having consistent public campaigns through

mass media and on-going seminars for the consumers may be helpful to encourage them to accept it. In addition, the information on consumers' level of knowledge may benefit the tax authorities to develop their tax education and tax simplification programme.

In short, the findings of the study should assist policy-makers, particularly tax authorities, in reviewing and modifying current tax systems. It is necessary to enhance consumers' acceptability of consumption tax reform in Malaysia for future improvement. Future studies may look at the efficiency of new tax regime SST 2.0 that can be discussed from the administrative part of RMCD or the compliance part from the taxpayers.

Acknowledgements

The authors would like to express their gratitude to Universiti Teknologi MARA for granting LESTARI grant ref no: 600-IRMI/Dana KCM 5/3 LESTARI(143/2017). Special thanks go to the Faculty of Accountancy and Research Management Centre (RMC) of Universiti Teknologi MARA for their trust and continuous support.

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INSIGHT JOURNAL

UNIVERSITI TEKNOLOGI MARA CAWANGAN JOHOR

**International, Refereed, Open Access,
Online Journal**

Volume 4, 2019

eISSN : 2600-8564