

**EXPLORING LEVEL OF AWARENESS OF
SMALL AND MEDIUM SIZED ENTERPRISES
TOWARDS GOODS AND SERVICES TAX
IMPLEMENTATION IN MALAYSIA**

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The Director,
Bureau of Research and Consultation
UiTM Shah Alam.

Dear Sir,

FINAL DRAFT OF RESEARCH TITLED “A SURVEY ON LEVEL OF AWARENESS OF SMALL MEDIUM SIZE ENTERPRISES ON GOODS AND SERVICES TAX IMPLEMENTATION IN MALAYSIA”

In relation to the matter above, herewith, I'm submitting 3 copies of Final Draft of Research with the title of “A Survey on Level of Awareness of Small Medium Sized Enterprises on Goods and Services Tax Implementation in Malaysia” as prepared by the research team for your kind review.

Thank You.

Yours sincerely,

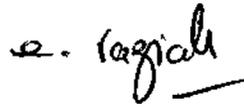


ELY RAZIAH BINTI ABDUL RASHID

Project Team Leader

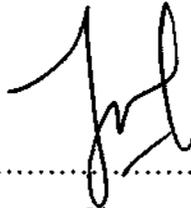
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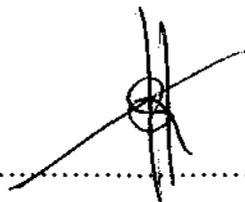
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ABSTRACT

The Prime Minister, Datuk Seri Abdullah Badawi announced the proposed implementation of Goods and Services Tax (GST) in Malaysia during 2005 Budget speech with effect from 1st January 2007.

The announcement has since received mixed responses from the public, business community, tax practitioners and experts as well as academicians. One of the much debated issues is the heavy administrative burden GST would have on Small and Medium Sized Enterprises (SMEs). GST compliance will require SMEs to make sure that they have a good accounting system to ensure GST paid and collected are correctly documented. This compliance job is seen as a big issue for SMEs on top of coping with their day-to-day business survival.

However, some practitioners are of the opinion that the real issue is awareness. Awareness contributes not only towards readiness but also potential support for the new tax system. Businesses are unlikely to accept or support a change in the tax system without being made aware of the implications it has on their businesses.

While those opinions assume low level of awareness among SMEs, the primary objective of this study is to take these opinions to another level in order to provide hard evidence on the level of awareness on GST among the SMEs. Data collection is based on questionnaires submitted individually to business addresses categorized as SMEs around Klang Valley.

An evaluation of the responses presented us with few important findings. First and foremost, the results of the research indicate a 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 salient aspect of GST, especially on how GST may benefit their businesses as well as specific implementation plan in Malaysia. This is a concern as without awareness on GST benefits, it is likely that

implementation will be met with some hostility. Of a bigger concern, while a public consultative approach was specifically alluded to in Budget 2005, very few are aware of its existence.

In addition, the research also presented some valuable findings on how best traders felt they should be educated in order to enhance awareness as well as the type of government assistance preferred in order to help them survive in GST environment. A glaring result is for example, almost 100% respondents prefer to receive assistance in form of standardized accounting software to any other form of assistance. We feel that this is indeed a finding that should be taken seriously by the relevant body. In an environment where low level of awareness is evident, a standardized accounting software, when made available, whether distributed “free” or at minimum charge, would certainly help smooth implementation.

While the research only consists of 122 respondents, we are confident that the sample is indicative of a larger population. This is supported by test of normality which concluded that respective scores for different aspect of GST implementation are normally distributed. Further, correlation tests indicate that the respondents are, on average, consistent in their perceptions of their level of awareness between different aspects of GST implementation.

We are positive that the results of this research can assist the relevant tax authority to the appropriate direction in enhancing their effectiveness in reaching the business community along the line to 1st January 2007.

December 2005