

MEASURING PERCEPTION ON THE ON-LINE SERVICE TAX LICENSING SYSTEM

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ABSTRACT

This study measures client's satisfaction on the usage of the on-line service tax license application and the processing officer's perception on the performance of the on-line system. Service tax was initially charged and levied on prescribed goods sold or provided either by or in any prescribed establishment and on prescribed services provided by or in prescribed professional establishment. Over the years, there was an increase in the list of prescribed services and establishment. In 1999, the Service Tax Act 1975 was amended and as provided under section 3 of the Act, service tax is charged and levied on the provision of taxable service by any taxable person. A taxable person is defined as any person who is prescribed under the Act to be a taxable person and taxable services means any service which is prescribed to be a taxable service. The on-line service tax license application has been introduced to facilitate application of service tax license, in which it is available 24 hours a day and 7 days a week and can be accessed anywhere as long as there is internet access. However, the awareness level and the efficiency of the system have yet to be measured by the Royal Malaysian Customs Department (RMCD). The finding of this study would enable RMCD to decide on the need for promotional activities or enhancement of the on-line system.

Key-words: Service Tax Act 1975, Royal Malaysian Customs Department (RMCD), on-line Service Tax Licensing, client's satisfaction

INTRODUCTION

Service tax is tax charged on taxable service provided by taxable person in Malaysia. The legislation that covers service tax is Service Tax Act 1975, Service Tax Regulation 1975 and Service Tax (Rate of Tax) Order 2000. The rate of service tax is fixed by the Ministry of Finance and it is set at 5% of the value charged. The Service Tax Act, 1975 is applied throughout Malaysia except in Langkawi, Labuan, Tioman Island, Free Zone under the Free Zone Act 1990 and the area known as the 'Joint Development Area' (JDA). Over the past few years, service tax been expanded to cover new services.

Service tax applies to certain prescribed goods and services in Malaysia including food, drinks and tobacco; provision of rooms for lodging and premises for meetings, conventions, and cultural and fashion shows; health services, and provision of accommodation and food by private hospitals. The tax also applies to professional and consultancy services provided by accountants, advocates and solicitors, engineers, architect, surveyors (including valuers, assessors and real estate agents), advertising agencies, consultancy firms, management service provider, insurance companies, motor vehicle service and repair centers, telecommunication services companies, security and guard services agencies, recreational clubs, estate agents, parking space services operators and courier service firms. Generally, the imposition of service tax is subject to a

specific threshold based on an annual turnover ranging from RM150,000 to RM500,000 such as those;

- i. car rental agencies licensed under the Commercial Vehicles Licensing Board Act 1987 having an annual sales turnover of RM150,000 and above;
- ii. employment agencies having an annual sales turnover of RM150,000 and above;
- iii. companies providing management services, including project management and coordination services, having an annual sales turnover of RM150,000 and above
- iv. hotels having more than 25 rooms and restaurants within such hotels

With effect from 1st January 2008, other than architects, all Public Accountant, Advocate/Solicitor, Professional Engineer, Architect, Surveyor/Value/ Estate Agent, Consultant and Management Service Operator will be subjected to Service Tax automatically. The increase of taxable services has resulted in an incremental rise in the number of application of service tax providers for service tax license. As such, there was a need to improve procedures for service tax license as well as the licensing unit in line with the government's efforts and objectives in improving service delivery to the public sector. Responding to these needs, Customs department has developed the e-license system for the issuance of service tax license in 2007. However, since the development and implementation of the system, customs department has not made any assessment on the satisfaction level of the system.

The purpose of this study is to assess the satisfaction level of the service quality of the on-line system from the applicants' perspective.

BACKGROUND

Before a business can legally start operating, they are required to comply some to rules and regulation accorded to the operating activities which in a normal circumstances will be regulated in the form of a license. These licenses may be general license, an industry / sector specific license or activity specific license. These licenses are required by legislation and administered by various government agencies.

The increase in taxable services has resulted in an incremental rise in the number of application of service tax providers for service tax license. When the 5% service tax which was introduced in the 1975, expanded to cover transactions which include certain professional and consultancy services as well as telecommunications and management services, there was an urgent need for customs department to improvised on the delivery services with limited resources since all the service tax providers needed to be license as required under Section 8 subsection (1) of the Service tax Act where every taxable person who carries on business or providing taxable service shall apply to the senior officer of customs in the prescribe form for a license, and no taxable person shall carry on such a business unless he is in possession of a license issued under subsection 2.

In an effort to collect revenue efficiently and regulate taxable service tax providers, Customs Department has developed the e-license system. This effort was made when there were a number of complaints received on the processes and procedures for application of license. It was highlighted by the public (especially the professional

service sector) that any service provider who wants to apply for a license needs to visit Customs Office at least 3 times to get a license, that is, a visit is needed for the first time to get the appropriate forms and information on the taxable service, the second time was for submission of forms and the third time for the license issued. This process is applicable if the application forms are completed and all documents are in order. Should there be any errors in the application form, the company needs to get a fresh form from customs department and resubmit to the licensing division. In order to improve governance and service delivery further, it is advisable that customs undertakes regular surveys / evaluation to assess current levels of service in terms of speed, convenience and accessibility. These surveys should also seek to assess service needs and expectations of their clients so that service delivery improvements precisely respond to the priorities as indicated in the surveys. The main objective of Service Delivery means providing services in the quantity and quality that customers and stakeholders wants or requires. The on-line system for service tax license was then developed with the intention of providing efficient delivery system in issuing service tax license. The objectives of the on-line service tax license are as stated below:-

- i. Applicants do not need to be at customs office for application of service tax license.
- ii. Only minimal supporting documents needed on request or on need basis.
- iii. Application can be done via the internet and can be accessed anywhere and anytime if there is an internet line.
- iv. Any information can be transmitted over the e-mail once an applicant has registered on-line.
- v. For a more reliable data. This is due to the validation of company data that is done by crosschecking with records received from Companies Commission of Malaysia.
- vi. For a more efficient data management system in comparison to manual data management.
- vii. Cost saving for customs department and applicant in terms of usage of papers, storage space and work force.
- viii. Cost and time saving for the taxable service provider since application can be done on-line via the internet in the office. This will eliminate parking and transport charges, the need for personnel to be at the customs office etc.

This paper attempts to evaluate the satisfaction level of the service tax provider when applying the license, especially in identifying whether the system is user-friendly, complexity of the system and consistency on the accessibility of the system to the public.

LITERATURE REVIEW

A major element of governmental initiatives to improve quality, efficiency or effectiveness of public services is with the use of technology in the service provision. E-Government seeks to achieve to excellent public delivery. A number of initiatives have been implemented by the government to enhance public delivery system electronically in the form of online transactions between citizens and the government agencies, between

government agencies and another government agency and between government and private / business sector, not only for the purpose of business or personal transactions but also for the dissemination of information. Online service or web-based service or electronic service (hereinafter known as online service) commonly offers services between parties through internet and computer as a medium for communication. Online services in Malaysia have rapidly growth parallel to internet revolution in Malaysia. MyEG, MyID, and MyCoID are the recent services provided by Malaysia government in order to contending the IT needs and user demands. These services are deployed of computer and internet usage in order to achieve high availability, incremental scalability and cost effectiveness. Consequently, online services have emerged as the leading edge of the service industry.

A variety of government project that involves service delivery to the public is already on the way, especially those that involve public delivery of services such as licensing and information on various government agencies. Competitive e-government are moving towards hundreds of services on-line and rethinking of web-strategies from their citizens' perspectives. Instead of launching on-line services on a department-by department basis, efforts are being made to aggregate services across departments. This is also to accommodate government operations requiring collaboration between different agencies, such as manufacturing warehouse license needing approval from the Land Office, the Environmental Department, Customs Department, Industrial Board and Registrar of Companies. As indicated in Malaysia's Public Sector ICT Vision by MAMPU, Community Applications aims to provide end-to-end services to citizens and businesses and requires cross agencies interaction and coordination. Twenty first century government is enabled by technology, policy is inspired by it, business change is delivered by it, customer and corporate services are dependent on it and democratic engagement is exploring it. Technology alone does not transform government but government cannot transform to meet modern citizens expectations without it. (*Transformational Government, a UK government publication*). According to Parasunam, Berry and Zeithaml (1992), service expectation concept is intended to measure clients' normative expectations and that these expectations represent an ideal standard or performance. When service shortfalls occurs, clients tolerance zones are likely to shrink. However, researchers generally agree that expectations serve as reference point in client's assessment of performance. Carman (1990) proposed that expectations are important in determining satisfaction.

The on-line service tax licensing system was initiated by Customs Department to facilitate application and issuance of Service Tax License as well as to further improve the service delivery of Royal Malaysian Customs Department. Findings from the World Bank report entitled "Doing Business 2008" ranked Malaysia as at 105th position amongst 178 countries surveyed under the criteria of "dealing with licenses". With the increase of taxable service tax providers, the on-line service tax license which was launched in 2007 was then linked to the Business Licensing Electronic Support System (BLESS) in 2008. On applying the Service Tax License, instead of dealing or interacting with officers or customs staff at service counters, taxable service providers will deal with the on-line service tax licensing system and interact with a user interface. The user

interface or site design determines how services are delivered to customers and this can be expected to impact their evaluation of the core, facilitating and supporting services. If the website cannot be accessed or it pages download slowly, customers may not have the patience to wait or try again later (Dabholkar 2000).

DATA AND METHODOLOGY

Client's satisfaction and perceptions of performance are linked to expectations and actual experience. Surveys are deemed to be useful in providing perception based performance feedback. This study uses an empirical research approach where a structured but open ended questions was prepared as a guideline to collect the necessary data and response pertaining to expectation and satisfaction level of the online application of service tax license. Surveys were done whereby respondents were requested to provide comments on general statements as below :-

- i. Easy access to e-license,
- ii. Whether there was difficulty in providing information in the application form,
- iii. Whether there were any delays in submitting application form, and
- iv. Whether there is any delay in response or approval by Customs Department,

As of February 2010, there are 5299 licensees that are currently registered with Customs Department and has applied the service tax license via on-line. As of February 2010, there are 5299 licensees that are currently registered with Customs Department and has applied the service tax license via on-line. In view of time and cost constraints as well as the diversity population of taxable service providers in the country, convenience sampling was used to collect data from the licensees in Selangor and Wilayah Persekutuan, Kuala Lumpur. One-to-one interviews were used to identify and provide feedback and response on the satisfaction level of the on-line service tax license or e-license. Interviews by phone were done, allowing for a larger target of respondents and a wider range of observations on the availability of the e-license. All responses to the questions were documented. As of February 2010, there are 5299 licensees that are registered with Customs Department and had applied their service tax license via on-line. A total of 40 respondents from the 5299 service tax providers were chosen due to availability of owners or managerial level in answering questions and were interviewed. Final gathering of data indicated the details of respondents as below:

No of Respondents

Taxable Services Provided

4	Hotels
8	Public Accountant
8	Advocate / Solicitor
2	Engineering Consultancy
10	Consultant and Management services
2	Restaurant Operators
5	Architect/estate Agent/Surveyor
1	Others (Car repair Centre)

It should be noted that even though the sampling method adopted has limitations compared to other sampling methods, it is assumed that the sample represents the population of taxable service providers in Malaysia.

FINDINGS AND DISCUSSION

Out of the 40 respondents that were interviewed, 38 respondents gave a positive response with the online service tax licensing system. Two respondent did not gave a positive answer but implied some difficulty in submitting the application on-line when application was done during the late evening. Comments on the online service tax licensing system were freely given to the researcher, indicating satisfaction in the services on application of service tax, on response by Customs Department and on approval. The researcher was also informed on the response by e-mail and by phone on any irregularities by Customs Officers on receiving the application.

The overall findings are that the business community was satisfied with the online service as compared to their counterparts who had opted to apply manually. The respondents also indicated their satisfaction on the fact that when the on-line service tax license was introduced, there was no necessity for submission of documents such as Memorandum and Articles of Association, Copy of Company Registration, Name of Board Directors, Return of Allotments Of Shares, Copy of Certificate of Fitness to occupy building / premise and Copy of business license /certificate issued by the Local Council. These forms were unnecessary because the online service tax licensing system was interlinked with the Companies Commission of Malaysia and all information pertaining to companies' registration can be accessed by Customs. There were suggestions by 34 respondents that the on-line service tax system be upgraded to include submission of Service Tax Returns and Service Tax Payments.

CONCLUSIONS

The study aims to measure client's satisfaction of the on the on-line service tax licensing system. Though the satisfaction has not been extended to all services by Customs Department, the study shows an overall and significant satisfaction level with the on-line service tax system. It appears that respondents participating in this study are reasonably satisfied with the on-line system. However, this study is only representing the licensing factor and does not reflect the overall service tax implementation, i.e. including submission of tax returns and payments of service tax to the government shows. However, a larger scale study is needed, taking into consideration taxable service tax providers from all over the country and from all taxable services, to study and gauge the level of satisfaction of the on-line service tax licensing system.

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