

UNIVERSITI TEKNOLOGI MARA

**MODELLING THE
GUIDING PRINCIPLES OF GOOD
TAX POLICY
IN ENHANCING PUBLIC
ACCEPTANCE TOWARDS
INDIRECT TAX IMPLEMENTATION
IN MALAYSIA**

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ABSTRACT

The government introduced the Sales Tax 2018 and Service Tax 2018 (SST 2.0) effective from 1 September 2018 to replace the Goods and Services Tax (GST), which was abolished on 1 June 2018. The implemented SST 2.0 shares similar attributes to the previous Sales Tax 1972 and Service Tax 1975 (SST 1.0). While consumers resent the price hike that continues increasing despite the implementation of SST 2.0, studies also tend to omit the analysis of public spending pattern changes from GST to SST 2.0. Hence, using the Household Expenditure Survey data from the Department of Statistics Malaysia (DOSM), the current study analysed the changes in public spending patterns. Based on the empirical findings, household expenditure substantially changed in 2014, 2016, and 2019, particularly among lower-income earners under the B40 category. The findings from the first research objective complement the need to examine the factors that help enhance public acceptance towards indirect tax implementation in Malaysia. In this vein, the second research objective of this study aims to determine the degree to which the principles of equity and fairness, appropriate government revenue, neutrality, certainty, simplicity, the effectiveness of tax administration, accountability to taxpayers, and transparency and visibility affect public indirect tax acceptance. Data were gathered using survey questionnaires disseminated to Malaysians through purposive sampling. Overall, the structural equation model analysis affirmed that incorporating the five guiding principles of appropriate government revenue, neutrality, simplicity, the effectiveness of tax administration, and transparency and visibility in indirect tax implementation could improve public acceptance. Since there is no public indirect tax acceptance model to date, such unaddressed issues could induce another public outcry and adversely impact government tax revenues. Based on the findings, a model constituting the five guiding principles was formulated, which could be employed to elevate public indirect tax acceptance to answer the third research objective. Such significant outcomes offer pivotal insights into the essentiality of structuring a model for indirect tax acceptance. Moreover, tax administrators could also develop adequate approaches to elicit a high public acceptance level by comprehending the five guiding principles of good tax policy-public behaviour association. In summary, the current study has significantly expanded the current body of literature on indirect tax acceptance with novel techniques in the methodology section and additional insights into the factors impacting tax acceptance, particularly in indirect taxation. Furthermore, the model of this study could be used in other countries as a medium for policymakers to communicate with the public in order to successfully implement any tax policy.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter briefly discusses Malaysians' indirect tax acceptance as the study background, direct and indirect tax connotations in local economic and taxation scenarios, the essentiality of tax collection for a robust national economy, and indirect tax acceptance concerns among the general public to holistically comprehend the research terms. Notably, the problem statement and study objectives, questions, scope, and significance were elaborated based on both the background information and indirect tax issue identification. The final section outlines and describes the remaining study section for optimal flow of thought.

1.2 Background of the Study

Direct and indirect taxes imply the two tax system components in Malaysia. As the earliest taxation form, indirect taxes entailing (i) excise duties on alcohol, tobacco and similar products, (ii) import, stamp, and export duties, and (iii) levies were locally introduced in 1910 (Barjoyai, 1991). Following Barjoyai (1991), indirect tax most conveniently increased government revenues to fund the development of national facilities: roads, rails, and ports. Indirect taxes encompassing export and import duties, surtax, and excise and road taxes, proved to be dominant tax revenue sources within Malaysia in the 1970s.

The Income Tax Act (ITA) 1967 was enforced on 1 January 1968. Barjoyai (1991) claimed that direct taxes comprising personal and corporate income tax collection gradually increased from the 1960s following the rapid rise of employment and petroleum tax revenues. Sufficient resources proved necessary to fund the increased expenses incurred by the local government from establishing universities and hospitals (Taha & Loganathan, 2008). The Sales Tax Act 1972 was introduced to resolve rubber