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## Taxpayers' Acceptance Level of Goods and Services Tax (GST)

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**Abstract:** Generally, tax is recognized as one of the main sources of government's revenue and Goods and Services Tax (GST) is an example of tax that contributes to it. This tax has been implemented in many countries such as Canada, Australia, and New Zealand. Roughly, 90 percent of the world's population lives in countries with GST. In Malaysia, GST was implemented on 1 April 2015 at 6% rate and it replaced the present consumption tax comprising the sales tax and the service tax. The issue on GST has been raised by the Malaysian Government as an approach to reduce its deficit. GST is imposed on goods and services throughout production-distribution stages in the supply chain including importation of goods and services. The tax is embedded in the price of goods and services transacted. However, the implementation of GST in Malaysia has called many arguments from various parties including academics, professionals and the taxpayers on how GST affects goods prices, either increase or decrease. The consumers are worried about the significant price increases on basic needs. With the relatively-high living costs, significant price increases due to GST is considered as another burden for the taxpayers. Therefore, the main objective of this study is to investigate the level of acceptance of taxpayers regarding GST implementation. This study utilized survey questionnaires distributed to lecturers of Universiti Teknologi MARA (UiTM) Pahang. The findings hopefully will shed a clearer view on the taxpayers' acceptance level of GST to the tax authorities.

**Keywords:** Acceptance level, GST, Taxpayers

### 1. Introduction

Taxation is important since it is one of the main sources of government income and used to finance the government expenditures. Besides that, it serves as a medium to balance the wealth from those with higher income and assets to those with lower income. Tax is also recognized as a social and economic policy tool since the revenue collected by the government can be used as a strategy to reduce income inequality in the country.

Basically, tax can be classified into two categories, the direct and indirect taxes. Direct taxes are taxes imposed on the income of individuals or organizations that are paid directly to the government. The burden of a direct tax is borne by the individuals or entities that pay it; and cannot be passed to another entity. Examples of direct taxes are income tax, corporate tax and real property gain tax. Those direct taxes are collected by the Inland Revenue Board (IRB). On the other hand, indirect taxes are collected by the Royal Malaysian Customs Department. Indirect taxes are taxes paid by the consumers on transactions made for goods and service rendered, and they are allowed to be transferred from the retailer or supplier to other parties such as the consumers. One of the examples of indirect taxes is Goods and Services Tax (GST).

GST, also known as Value Added Tax (VAT), is imposed on goods and services throughout production-distribution stages in the supply chain including importation of goods and services. The tax is embedded in the price of goods and services transacted. GST has been implemented in Malaysia to replace the present consumption tax comprising the sales tax and the service tax (SST). Under the SST, consumers were charged at a total of 16% tax rate (sales tax 10% and service tax

6%). But now, with the implementation of GST, they are charged at 6% rate. Therefore, the prices of goods are expected to decrease.

However, the real situation does not meet the expectation. That is why the implementation of GST in Malaysia has called many arguments from various parties including academics, professionals and the taxpayers on how GST affects goods prices, either increase or decrease. The consumers are worried about the significant price increases on basic needs. With the relatively-high living costs, significant price increases due to GST is considered as another burden for the taxpayers.

Since GST is a new taxation system in Malaysia, many previous studies only investigated the perceptions, awareness and readiness of businesses and consumers towards the implementation of GST. The previous studies did not address the issue regarding GST implementation and consumer acceptance. Thus, this study would fill in the research gap by investigating the level of acceptance of taxpayers regarding GST implementation.

## **2. Literature Review**

### **2.1 Goods and Services Tax (GST)**

Goods and services tax (GST) is one of the alternatives used by many countries to solve the weaknesses of the current taxation system. Malaysia experienced a huge reduction in national income due to the economic crisis in 2009. Thus, to overcome the problem, the government has decided to replace the current sales and services tax (SST) with the GST starting from April 2015.

For the SST system, there are two acts that govern sales and service separately: Sales Tax 1972 (Act 64) and Service Tax 1975 (Act 151) where both are handled by the Royal Malaysian Customs and Excise (Mansor & Ilias, 2013). Sales tax is levied on consumers who use consumer goods, which is then collected by business entities and accountable to customs. Meanwhile, service tax is imposed on the consumers who consume food and services (Mansor and Ilias, 2013). Both sales and service taxes are single stage tax that is imposed on consumers either on the input or output stage.

On the other hand, GST is known as a multistage taxation system and is charged on added value at each stage of production and distribution in the supply chain. Every trader in the supply chain pays the GST to the suppliers who provide the goods and services. Then, the trader collects the GST on the goods or services sold by them. Therefore, from the consumers' perspective, it is a tax on the purchase price, however, from the sellers' perspective, it is a tax on the value added to a product, material, or service (Rashid, et al., 2014). The proponents of GST claimed that the well-designed structure of GST makes it a particularly more efficient tax among all (Keen and Lockwood, 2010). Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages a particular good and service goes through in the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

Basically, there are three types of GST widely used around the world (Hooper and Smith, 1997). Each varies primarily in its method of handling the tax on capital expenditure. The first one is the *consumption type GST*. This type of GST allows businesses to deduct instantly the full value of the tax paid on capital purchases. Under this GST system, capital investment is subtracted from the value added in the year of purchase. Therefore, the tax is equivalent to sales tax applied to consumer goods (Palil, et al., 2013).

The second type of GST is the *national income type*. It permits the gradual deduction of the GST paid on capital purchases over several years (Hooper & Smith, 1997). The tax is imposed on net domestic product, which is close to national income (Palil, et al., 2013). The third type of GST

is the *gross national product*. This type of GST occurs if there is no allowance given for the tax paid on capital purchase, because its base is approximately equal to the private GNP (Hooper & Smith, 1997). Under the GNP type GST system, no deduction is allowed for capital investment and depreciation of capital when calculating the tax base. The tax is equivalent to a sales tax which is applicable to consumers and capital goods (Palil, et al., 2013).

GST is used by the Malaysian government as a tool to finance its persistent financial deficit and rising debt burden. At the same time, collection from GST could be savings that can be utilized for future undertakings (Palil, et al., 2013). The country cannot continue raising debts to finance its deficits or otherwise it will cause a debt trap. Other objectives of GST implementation include (i) to enhance the capability, effectiveness and transparency of tax administration and management and (ii) to provide a stable source of national revenue to the country (Asma & Zulkarnain, 2014).

GST provides many benefits since it is one of the simulative fiscal measures that is less distortionary compared to other types of indirect taxes for several reasons (Banks & Diamond, 2008). First, GST is charged at a uniform and relatively low rate to a comprehensive and broad base, thus reduces the economic costs of taxation. Second, the GST does not distort business and export decisions because the tax paid on production inputs and exports is deductible. Third, it does not distort current and future consumption, such as savings and investment decisions (Claus, I. 2013). Finally, and most importantly, the implementation of GST would increase tax revenue (Keen & Lockwood, 2010).

## 2.2 Public awareness and Acceptance of GST

Recently, GST has been a growing topic of interest in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith, 1997), Malaysian citizens are not entirely convinced with this new tax scheme. The debates mainly center on the advantages and disadvantages derived from the new tax initiative.

Furthermore, opponents of this new tax reform argued that increased tax revenue as a result of GST would only promote larger government spending (Bickley, 1989). In addition, GST would give greater impact to the lower income group as compared to the higher income group (Hooper & Smith, 1997). This is mainly because the GST would reduce the lower income group's ability to purchase goods and services.

According to Saira et al. (2010), many Malaysians do not have a high level of confidence in the government as far as tax is concerned. Therefore, the government should explain clearly and transparently about the taxation matters, so that people could have a clear understanding. For example, the government can explain the reasons or rationales for the GST implementation as well as the advantages of taxes that they will receive later on.

Mohani (2003) found that one of the ways to increase public awareness is through knowledge. Knowledge can be improved through general understanding on the tax regulations (Tan & Chin-Fatt, 2000). Knowledge provides the taxpayers with the ability to understand the need for a new tax reform and this would eventually promote compliance (Singh, 2003).

Increasing awareness and knowledge on GST is important in order to gain public acceptance and confidence, particularly in tax situations. Tax involves public expenditure. New tax reform creates uncertainty of future expenditure (Cullis & Jones, 1992). Uncertainty would cause resistance and pose a challenge towards government initiative to impose new regulations. Thus, it is essential to educate the public on what is expected from the new tax initiative.

Amanuddin (2014) investigated the level of public acceptance towards GST before the implementation of GST. The results of the study indicate that majority of respondents have a moderate level of acceptance on the implementation of GST.

### 3. Research Methodology

This study is a pilot study on the acceptance of GST conducted six months after the implementation of the tax system. Data were collected using the questionnaire-based survey. The samples selected were derived from the permanent academic staff of Universiti Teknologi MARA (UiTM) Pahang. They were selected due to the perception that they had the required knowledge and understanding on the implementation of GST. The total number of permanent lecturers in UiTM Pahang is 267. The total number of responses received for this study is 41 representing 15% of the population.

The questionnaire was adapted from the previous study on GST implementation carried out by Junainah (2002). Appropriate modifications were made in order to achieve the research objectives. The questionnaire was designed in such a way that the statements are not too long and contain simple words to enhance response rate. The questionnaire for this study is separated into two segments; Section A and B. Section A consists of the demographic profile such as gender, age, marital status, income, race and employment status. Section B is made up of main research questions.

The extent of each variable is based on five-point Likert scales which scale points from 1-strongly disagree to 5-strongly agree. Data analysis was carried out after collecting the data. The results of the survey were analyzed using the SPSS software.

## 4. Results and Discussion

### 4.1 Demographic Profile of the Respondents

Survey questionnaires were distributed to permanent academic staff of UiTM Pahang but only 15% responses were received. Table 1 shows the descriptive statistics of the respondents' demographic profiles. The majority of respondents are in the age group of 31-35 years old comprising 80.5% female. Most respondents are married and have a master degree in academic qualification. The findings in Table 1 reveal that 43.9% of the respondents have zero acceptance of the implementation of GST. In other words, quite a big number of the respondents do not agree with the implementation of GST. For those who agree with the implementation of GST, 31.7% respondents have an acceptance level of 1%- 25% followed by 14.6% for acceptance in the range 26%-50%. This shows that the acceptance of the GST implementation is at the lower level i.e. 25%. The upper level acceptance in the range of 51%-75% and above 75% both resulted in low acceptance level of 4.9% by the respondents.

The main reason given on the non-acceptance of GST is unclear purpose of the implementation at 43.9% followed by fear of price hike at 39%. Other reasons are given such as no need for GST since respondents have paid other taxes; GST is against the Islamic practice, inappropriate timing to implement GST and lack of readiness of people in terms of knowledge and government in terms of enforcement at 12.2% and lack of information at 4.9%.

**Table 1.** Demographic Profile of the Respondents

Demographic Factors	Category	Frequency	Percentage
Age	26 years - 30 years	12	29.3
	31 years - 35 years	25	61.0
	41 years -45 years	4	9.8

Gender	Male	8	19.5
	Female	33	80.5
Marital_Status	Single	6	14.6
	Married	35	85.4
Education_Level	Bachelor Degree	3	7.3
	Master Degree	37	90.2
	PhD	1	2.4
Working_experience	Less than 6 years	14	34.1
	6 years - 10 years	12	29.3
	11 years - 15 years	8	19.5
	16 years and above	7	17.1
Faculty	Accountancy	11	26.8
	Business Management	5	12.2
	Applied Science	9	22.0
	Computer Science & Mathematics	7	17.1
	Law	2	4.9
	ACIS	2	4.9
	APB	5	12.2
Level Acceptance	0%	18	43.9
	1% - 25%	13	31.7
	26% - 50%	6	14.6
	51% - 75%	2	4.9
	Above 75%	2	4.9
Reason	Lack of information	2	4.9
	Fear of price hike	16	39.0
	Unclear purpose of implementation	18	43.9
	Other	5	12.2

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N=41

## 4.2 Acceptance

Part B of the questionnaire contains eleven questions regarding the permanent academic staff of UiTM Pahang's acceptance towards GST implementation in Malaysia. Respondents' acceptance scores were derived from their responses on the 5 scales provided, which are 1- strongly disagree, 2- disagree, 3- neither disagree nor agree, 4- agree and 5- strongly agree. The total maximum score should not exceed 55 (11 questions x 5). According to Amanuddin, et al. (2014), the summated scores of the statements which represent the overall respondents' level of acceptance is divided into three categories:

- a) High (with summated scores between 44 and 55)
- b) Moderate (with summated scores between 23 and 43)
- c) Low (with summated scores between 11 and 22)

According to the findings as revealed in Table 2 below, acceptance total scores are 26.73, which falls under the moderate category and it is referring to the overall respondents' level of acceptance towards GST implementation in Malaysia. The result is further supported by the respondents' score for the individual items from number 1 to 11.

Most of the means of respondents' scores are close to 2. The items with the mean score close to 2 (more towards disagree) are items number 1, 2, 3, 5, 7, 8, 9, 10 and 11. The results show that majority of respondents disagree with those statements. They disagree that GST should be implemented in Malaysia and GST is fairer than SST. They also disagree that SST should be replaced by GST since they disagree that GST will bridge the gap between low and high income earners. Furthermore, they do not agree that GST system proposed is easy to understand and they do not believe that GST implementation will contribute in developing Malaysia's economy. Apart from that, the respondents much more prefer increasing income tax rate in assisting the government to increase its revenue as compared to GST. However, the good thing is that respondents disagree that GST will only benefit the government more than the taxpayers and they disagree that GST implementation encourages people to cheat.

The highest mean score i.e. 3.10 is for item number 6 which means that the respondents neither agree nor disagree that GST implementation would help the government by contributing an additional revenue to offset the government's budget deficit. The lowest mean score i.e. 1.93 (more towards strongly disagree) is for item number 4 which indicates that respondents strongly disagree with the 6% rate of GST.

**Table 2.** Descriptive Analysis for Respondents' Acceptance on GST

No	Items	Mean
1	GST should be implemented in Malaysia	2.24
2	GST is fairer than SST	2.34
3	GST should replace SST	2.49
4	GST should be charged at 6%	1.93
5	GST will bridge the gap between low and high income earners	2.46
6	GST implementation would help government by contributing an additional revenue to offset government budget deficit	3.10
7	GST system proposed is easy to understand	2.24
8	GST implementation will contribute in developing Malaysia's economy	2.98
9	GST is better than increasing income tax rate in assisting the government to increase its revenue	2.49
10	GST will benefit government more than the taxpayers.	2.34
11	GST implementation encourages people to cheat.	2.12
	Total Mean	26.73

The findings reveal that in general, the level of acceptance towards GST implementation among academic staff of UiTM is at the moderate level. This is not very encouraging for the GST implementation. It seems that the respondents are forced to accept GST. As for the reasons, many respondents cited unclear purpose of implementation and fear of price hike as the two main reasons for the non-acceptance of GST. The replacement of SST by GST may confuse the respondents that

are used to the old tax system since in SST, the tax is already embedded in the price paid whereas in GST, the tax paid is added to the price of goods and services. At a glance, it would seem that the consumers are paying higher tax than before. Fear of price hike may be justified even though the government keeps assuring the consumers that there will be very little increase in price, but five months into GST implementation, there have been various complaints reported in newspapers and social media on price hikes in goods and services.

## 5. Conclusion

The objective of the study is to investigate the taxpayers' acceptance level of GST. This pilot study is conducted after more than five months of GST implementation. In general, the respondents do accept the implementation of GST but the level of acceptance is in the low range of below 50%. However, the zero acceptance of GST is worrying and relevant measures should be undertaken by the Royal Custom Department as the party entrusted to implement GST to reduce if not eliminate the non-acceptance. A reduced rate of GST to 3% may be a step in the right direction to ensure the GST acceptance by consumers. In addition, the government must mobilize a continuous monitoring on price of goods and services to ensure that there is no major price hike by traders and the Anti Profiteering Act is truly enforced. Only then, when the consumers are satisfied with the measures taken to ensure they are not being victimized by this new tax system, the acceptance level of GST implementation will improve and hopefully all consumers will be willing to contribute to the country's economy via GST.

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