UNIVERSITI TEKNOLOGI MARA

THE EFFECT OF DIGITISATION, POST-AUDIT VERIFICATION AND SPECIAL OPERATION ON THE EFFICIENCY OF INDIRECT TAX ADMINISTRATION IN MALAYSIA UNDER ROYAL MALAYSIAN CUSTOMS DEPARTMENT

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ABSTRACT

Indirect taxation serves as a critical revenue source for governments worldwide, playing a pivotal role in ensuring fiscal sustainability. As the primary agency responsible for indirect tax administration in Malaysia, the Royal Malaysian Customs Department (RMCD) faces the dual challenge of maximizing revenue collection while maintaining operational efficiency. The consequences of administrative inefficiency extend beyond revenue shortfalls, potentially leading to fiscal imbalances, unsustainable debt levels, and constrained public expenditure capacity. Conversely, improvements in tax administration efficiency directly contribute to enhanced revenue performance, highlighting the importance of robust performance measurement. Against this backdrop of efficiency measurement, Malaysia's indirect tax landscape has experienced fundamental reforms in both policy and administration. Concurrently, RMCD implemented three key administrative innovations: (1) digitisation of tax processes, (2) targeted enforcement via Special Operations, and (3) post-audit verification protocols. While these interventions entail substantial operational costs, their synergistic impact on revenue generation and administrative efficiency remains underexplored in extant literature. This study addresses this gap by investigating the extent to which digitisation, Special Operations, and post-audit verification influence the efficiency of indirect tax administration under RMCD's purview. This study adopts quantitative method approach that combines secondary analysis of RMCD annual reports from 2013 to 2024 using the cost to revenue ratio, a widely recognised measure of operational efficiency, with primary survey data from 115 RMCD officers across key operational divisions and seven states including the KLIA customs station. This integration enables both quantitative evaluation and contextual validation of efficiency in indirect tax administration. Inferential statistical analysis revealed significant positive correlations between administrative efficiency and both digitisation ($p < 0.05$) and post-audit verification ($p < 0.01$), while Special Operations showed statistically insignificant effects ($p > 0.10$), indicating limited impact in its current form. These empirical results illuminate the complex relationship between institutional reforms, technological modernization, and operational efficiency in indirect tax administration. The findings suggest that the transition from GST to SST 2.0, when combined with digital transformation and strengthened audit processes, generated measurable improvements in administrative performance. By establishing these causal relationships through rigorous quantitative methods analysis, this study makes significant contributions to public finance literature, particularly regarding tax administration efficiency in developing economies. The evidence-based conclusions offer practical policy recommendations for RMCD and provide transferable insights for tax authorities facing similar modernization challenges globally.

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CHAPTER 1
INTRODUCTION

1.1 Background of the Study

The foundation of a country's development is its tax system, which provides funds for infrastructure, essential services, and initiatives that improve Malaysians' quality of life (Business Today, 2024). A fair and effective tax system is essential in an economy like Malaysia that is changing quickly. Each Ringgit that taxpayers contribute is an investment in a more promising and sustainable future. Tax revenue remains the government main source of income to foster economic growth and development of social programs and public investments. However, even the governments need revenue but the challenges are to carefully choose the tax base as well as developing a framework of tax enforcement which does not disincentive participation of taxpayers (The World Bank, 2018 & 2020). According to Organisation for Economic Co-operation and Development (OECD) study on tax policy reforms, the overall tax revenue composition across all income groups in 2022 was essentially unchanged from 2021 (OECD, 2024). Not only the tax rate matters but tax administration is also crucially important. As emphasized in Bird (2010), how a tax system is administered, it will affect its yield, its incidence and its efficiency. Tax administration also should reflect the changing in the ecosystem in which it operates and adjusted to be parallel with the vast increase in digital information flows (OECD, 2017). Thus, tax administration must be responding to these challenges due to changes in the surrounding of its ecosystem through the implementation of new technology and enforcement strategy but at the minimal administration cost, in order to increase the taxpayers' compliance and revenue collection (The World Bank 2018 & 2020).

. When a tax policy is being introduced, focus should not only be paid to the amount of revenue, but also on the overall expense of the tax collection process itself (Dziemianowicz, 2017). A proper review on tax administration cost, or known as tax collection costs, provides the prospect of an unambiguous assessment of the tax system administration efficiency. Commonly used concept of administration efficiency such as Rutgers and van der Meer (2010) explained that the lower the ratio of input-output or cost-revenue, the more efficient the administration is. In another word, the