

**UNIVERSITI TEKNOLOGI MARA**

**FACTORS AFFECTING GOODS AND  
SERVICES TAX (GST)  
COMPLIANCE AMONG SMALL  
MEDIUM ENTERPRISE (SME) IN  
MALAYSIA**

**SOLIHA BINTI SANUSI**

Thesis submitted in fulfilment of  
the requirements for the degree of  
**Doctor of Philosophy**

**Accounting Research Institute**

**January 2019**

## ABSTRACT

Goods and Services Tax (GST) plays a significant role during these three-year periods (2016 to 2018) as Malaysia's main source of income of crude oil suffered from the worldwide downward price trends along with the weakened Ringgit Malaysia (RM). Small-medium enterprises, the biggest numbers of the GST registrants were acknowledged for their contribution to the Malaysian economy despite its capital constraint. However, the sole agency in charge of GST compliance, the Royal Malaysian Customs Department (RMC) argued that there are a high number of non-compliance cases involving small and medium enterprises during the GST's initial implementation periods of 2015 to 2017. Therefore, the main aim of this research is to provide empirical evidence on factors that affect the GST compliance among small and medium enterprises in Malaysia. In this study, the operational definition of compliance has been refined to include three main processes, i.e. submitting tax return whenever required; disclosing all taxable income and settling the assessed tax by the due dates. Four research objectives with ten hypotheses were generated for the study. A mixed method of quantitative questionnaire surveys, and qualitative face-to-face and focus group interviews were used to collect data for the study. The questionnaire survey study was administered to sample GST registrants from among small and medium enterprises. A total of 379 owners/top management of small and medium enterprise participated in the study. This quantitative study was conducted to examine the relationship between voluntarism and enforcement factors on GST compliance behaviours. Structural analysis of Smart PLS was performed on both voluntarism and enforcement factors to determine which elements that would be a stronger determinant of taxpayers' compliance behaviour. The study found evidence to support that long-term tax compliance is best achieved through voluntarism factors. This study demonstrates that firms' voluntarism towards GST compliance is very much influenced by their levels of GST knowledge, availability of integrated technology within their firms and firms' own motivation. The interaction effect of GST knowledge as a moderator improves the relationship of GST Practice and audit probability on GST compliance. The survey was followed by several interactive focus group discussions involving small and medium enterprise owners/CEO and GST officers of the RMC to further deliberate the results of the quantitative analysis. Interview results implicate that strong audit and penalty enforcement contributes towards short-term compliance among small and medium firms, especially amongst the stubborn taxpayers. In view of these findings, the practical implication of this study is that the small and medium enterprise firms should be equipped with the integrated GST system within their financial information system. It also noticed that RMC had put their best effort to ensure that GST is good in place. The study contributes to the theoretical implication of the GST study in which the Responsive Regulation Theory stipulates that in the long-run, compliance is best achieved through voluntarism.

## ACKNOWLEDGEMENT

In the name of Allah S.W.T, the Most Gracious and the Most Merciful. All praise to Him for the strengths and blessings granted to me to complete this thesis.

I would like to thank all those who have contributed and played a role in supporting my PhD journey. My deepest appreciation and thanks go to my supervisors, Professor Dr Normah Omar, Professor Dr Zuraidah Mohd Sanusi and Associate Professor Dr Rohaya Md Noor for their invaluable knowledge sharing, advice, encouragement and guidance through this thesis writing process. It has been my pleasure to work and to learn about research from all of them over the past few years. This thesis would not have been possible without their guidance and expertise. I thank them from the bottom of my heart.

My appreciation to the lecturers and staffs from the Accounting Research Institute (ARI) for their assistance and support. Special thanks to Postgraduate Office, my colleagues and friends for their knowledge sharing and advise. I also would like to express my gratitude to the Royal Malaysian Customs Department (RMC) from the Goods and Services Tax Department, Enforcement and Compliance Management Department for assisting the data collection process.

I would like to acknowledge the Ministry of Higher Education and Universiti Sains Malaysia for sponsoring my PhD studies under the SLAB/SLAI program. Without their financial support, it is difficult to complete my thesis and to achieve my dreams of gaining more knowledge.

Lastly, I would like to acknowledge my deepest gratitude and love to all my family members especially my husband, Mohd Azlan Mohamed Shapie, for the understanding, support and encouragement; my children, Iman Haqimi, Uthman Wazir, Iman Ilhan Humayra and Uthman Elyasa' for being around to cheer my days; my mother for her prayers and my other siblings for the encouragement. Finally, this thesis dedicated to the loving memory of my dear late father, Hj Sanusi Bin Hj Hassan who passed away during the first year of my PhD study.

## TABLE OF CONTENTS

	<b>Page</b>
<b>CONFIRMATION BY PANEL OF EXAMINERS</b>	<b>ii</b>
<b>AUTHOR’S DECLARATION</b>	<b>iii</b>
<b>ABSTRACT</b>	<b>iv</b>
<b>ACKNOWLEDGEMENT</b>	<b>v</b>
<b>TABLE OF CONTENTS</b>	<b>vi</b>
<b>LIST OF TABLES</b>	<b>xv</b>
<b>LIST OF FIGURES</b>	<b>xvii</b>
<b>LIST OF ABBREVIATIONS</b>	<b>xviii</b>
<b>CHAPTER ONE: INTRODUCTION</b>	<b>1</b>
1.1 Introduction	1
1.2 Background of the Study	1
1.2.1 Compliance Issues by Small and Medium Enterprises	4
1.3 From Sales and Services Tax (SST) to Goods and Services Tax (GST)	5
1.4 Statement of the Problem	6
1.5 The Motivation of the Study	10
1.6 Objectives of the Study	11
1.7 Research Question	12
1.8 The Scope of the Study	12
1.9 Significance and Contribution of the Study	13
1.9.1 Contribution to Practice	14
1.9.2 Contribution to Theory	14
1.9.3 Contribution to Body of Knowledge	14
1.10 Thesis Outline	15
1.11 Chapter Summary	17
<b>CHAPTER TWO: GOODS AND SERVICES TAX REGIME IN MALAYSIA</b>	<b>18</b>
2.1 Introduction	18

2.2	Goods and Services Tax Implementation Worldwide	18
2.3	Royal Malaysian Customs Department (RMC) as Custodian of Indirect Taxes in Malaysia	20
2.3.1	Sales Tax	21
2.3.2	Service Tax	21
2.3.3	Import and Export Duty	22
2.3.4	Excise duty	22
2.3.5	Licensing	23
2.3.6	Windfall Profit levy	23
2.4	Goods and Services Tax Background in Malaysia	24
2.5	The State of Goods and Services Tax in Malaysia	25
2.6	Benefits of GST	26
2.7	Three Types of GST in Malaysia	28
2.8	GST Registration	30
2.9	Operationalisation of GST in Malaysia	32
2.9.1	Issuance of Tax Invoice	33
2.9.2	Accounting for GST	33
2.9.3	GST Return to RMC	33
2.9.4	Claiming GST Refund	34
2.9.5	GST Remittance	34
2.9.6	Offences	35
2.9.7	Review and Appeals	35
2.10	Rules and Regulations Embedded to GST in Malaysia	36
2.11	Comparison between Direct and Indirect Tax in Malaysia	37
2.12	Goods and Services Tax Challenges	38
2.13	Goods and Services Tax's Contribution to the Malaysian Revenue	40
2.14	Chapter Summary	41
<b>CHAPTER THREE: LITERATURE REVIEW, CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT</b>		<b>43</b>
3.1	Introduction	43
3.2	The Shadow Economy and Tax Leakages	43
3.3	Goods and Services Tax Compliance Study	46