

PERCEPTION AND AWARENESS ON THE IMPLEMENTATION OF GOODS AND SERVICE TAX (GST) IN MALAYSIA: A LITERATURE REVIEW

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Abstract: This study aims to explore both the perceptions and awareness of the implementation of the Goods and Services Tax (GST) in Malaysia. Tax knowledge is an essential component to enhance public awareness of GST. Knowledge concerning multiple advantages of GST for the nation in the long run is not well known to the public. Nevertheless, previous studies have noted that the increase in consumers' level of awareness of GST. It is suggested that future studies can examine tax governance to investigate the tendency of tax avoidance and evasion among taxpayers.

Keywords: Perceptions, awareness, GST, implementation, advantages.

Introduction

The first country that implemented the Goods and Services Tax (GST) is France in 1950 (Palil & Ibrahim, 2010). This was followed by almost 120 countries, which includes all European Union member states. In Malaysia, GST was first announced in 2005 as a replacement to the existing Sales and Services Tax (SST). GST is a broad-based consumption tax (Alappatt & Shaikh, 2014), which is levied at producers and distributors. It is collected from the manufacturing, sales and consumption of goods and services (Alappatt & Shaikh, 2014; Sapiei & Abdullah, 2015). In addition, the 6% of GST was claimed to be a mechanism that boost work incentive and encourage enterprise (Rahman *et al.*, 2018).

Nevertheless, the initial decision by the Malaysian government to reform the old SST into GST is a controversial issue among Malaysian taxpayers (Sidik, 2020). Due to the rejection of several opposition parties, for the implementation of GST was postponed (Asmuni, Yusoff and Ses, 2017; Chen and Taib 2017). The issue was finally resolved during the 2014 Budget presentation and GST was implemented on April 1, 2015.

Compared with SST, GST has many advantages (Rahman *et al.*, 2018; Ling *et al.*, 2016; Rashid *et al.*, 2014; Abdul, 2011; Palil & Ibrahim, 2011) and it also allows a wider range of goods and services to be taxed (PAGERO, 2018). Among the benefits of GST is the avoidance of tax cascading, reducing multiple taxations imposed on the public (Ling *et al.*, 2016). In addition, GST allows revenue distribution to low-income earners (Rashid *et al.*, 2014) and narrows the economic gap between the people (Abdul, 2011). Furthermore, the GST mechanism allows for savings for the country in the case of inflation (Palil & Ibrahim, 2011).

A study by Saidi and Harun (2020) showed that GST was more favourable to households in the bottom 40% (B40) and middle 40% (M40) income groups, in that they pay lower taxes compared with those high-income groups. Moreover, GST can enhance competitiveness and improve efficiency, as the rate of SST was 10% and GST 6%. This transparent tax mechanism (Vasanthagopal, 2011) enhances the government's delivery system since it allows businesses to claim their input tax credit by way of automatic deductions in their accounting system.

Tax efficiency can be achieved, and coupled with good GST, the issue of tax evasion and avoidance can be reduced (Morrell & Tuck, 2014). GST governance is a process of guiding an entity with regards to its tax responsibilities, which enables it to be more concerned about its contribution to nation-building (Sanusi et al., 2015). Such efficiency allows for the optimum collection of this indirect tax as a source of revenue to the country.

However, GST also has several drawbacks. Several studies noted the limited understanding on the concept and reasons for GST (Abdullah et al., 2013; Shamsuddin et al., 2014; Ahmad et al., 2016). There were also negative consumer perceptions of GST due to a lack of information regarding the tax (Shamsuddin et al., 2014; Ahmad et al., 2016). In addition, Shamsuddin et al. (2014) stated that the level of knowledge of GST implementation in Malaysia was low. Knowledge is an important element in achieving the desired level of awareness among Malaysians (Rani et al., 2016) and the positive perception of GST by taxpayers will definitely support the GST tax reform (Chouhan et al., 2018).

This paper reviews past studies concerning the perceptions and awareness of GST. The remaining section is organised as follows: Section 2 explains about research methodology used in this paper, Section 3 explains and differentiates the perception and awareness of the tax, followed with prior studies of GST related to perceptions and awareness, section 4 describes prior studies on GST and section 5.0 presents the conclusions and suggestions for future research.

Methodology

This study is a review of past studies on GST in Malaysia. Several selected journals and a few conference working papers were searched via Google Scholar. These journals were chosen based on past GST studies. The keywords used are GST, perception and awareness, GST implementation, GST vs SST, Goods and Services Tax and Sales and Services Tax and GST in Malaysia, perception and awareness.

Perception and awareness

“Being aware” refers to having or showing realisation, perception or knowledge. Alternatively, awareness is defined by Merikle (1984) as the ability to make better than chance-level, forced-choice decisions concerning either the identity or the presence of the primes. On the other hand, perception is defined in Wikipedia (2008), as quoted by McDonald (2011), as “the process of attaining, awareness or understanding of sensory information”. In the context of the current study, public perception and awareness can be retrieved from two dimensions of taxes, namely GST and SST.

Past studies on GST have addressed the negative perceptions of GST (Abdullah et al., 2013; Shamsuddin et al., 2014; Ahmad et al., 2016; Alias, 2016). Alias (2016), Abdullah et al. (2013) and Shamsuddin et al. (2014) found that more than half of the respondents did not understand clearly the concept and reasons for the implementation of GST, which was evident from the inappropriate responses from the respondents. Some respondents were ignorant about GST rates and the items exempted from GST.

Shamsuddin et al. (2014) and Alias (2016) also noted the low level of knowledge of GST implementation in Malaysia. The possible justification for the lower understanding of GST is due to insufficient details and related information on GST (Ahmad et al., 2016), such as goods or services exempted from GST and the impact of inflation of price. Urif (2016) also found that employees’ attitude towards GST were unfavourable. The study by Urif is quantitative in nature and a set of questionnaires was distributed to employees of Open University Malaysia, and he found that taxpayers had an unclear picture on the implementation of GST.

Barhate (2017) also supported the fact that there was insufficient information regarding GST and apathy towards reforms, resulting in the failure of the implementation of the tax. The situation was worse in small towns, wherein no single orientation programme were planned and

executed by the authorities. The level of sales made by companies was reported to be a greater disappointment than the present tax system in India.

Goh *et al.* (2017) also highlighted the need for consumers to have a clear understanding and a positive perception of GST, which can lead to its acceptance. It is believed that once the level of understanding is enhanced, only then can they acknowledge the reasons for the tax reform in Malaysia. In order to disseminate such information, the Royal Malaysian Customs Department could begin to promote an extensive public programme. This programme could raise awareness among consumers.

In addition, the vague understanding among taxpayers on GST can be improved if they understood the logic behind why the tax was introduced and if they also understood tax regulations and principles (Sumartaya & Hafidiah, 2014). Nevertheless, the government had informed the public about GST prior its implementation via social media, as well as via workshops and seminars. Even though this transparent tax system was perceived to be better than the former SST, informing the public (taxpayers) about the good of GST was difficult, especially when it seems that there were extra costs that consumers (taxpayers) needed to pay for goods that they purchased.

In spite of the unfavorable views of GST, there are also study that showed a positive attitude towards GST. For instance, Mansor *et al.* (2013) found that the introduction of GST in Malaysia was able to enhance tax compliance, and reduce tax avoidance and evasion. It also enhanced Malaysia's competitiveness and improve efficiency. Another advantage of GST is that it was an alternative revenue stream, which reduced dependency on oil revenue (Alappatt and Shaikh, 2014). The revenue generated from oil is vulnerable and very sensitive, and its capacity to recover is slow (Morrissey *et al.*, 2016). GST is stable and a sustainable source of income. By improving Malaysia's income, the government may implement more socio-economic programmes.

Moreover, Nayyar *et al.* (2018) claimed that GST is a transparent working system for the government (i.e simple taxation system, tax base broadening, great improvements towards collections of revenues and promotes effective resource utilisation). The transparent tax system needs to be supported with good GST governance that is linked to public tax responsibility (Sanusi *et al.*, 2015).

Prior studies on GST

GST is a form of indirect tax and it is administered by the Royal Malaysian Custom Department. The primary purpose of introducing GST is to extend the government's revenue due to the claim that the SST system is less transparent (Saidi & Harun, 2019). Under the GST mechanism, an entrepreneur or trader transfers the tax burden of a product to customers by floating the prices of certain goods (Muhammad, 2012). The service tax, sales tax custom duty, excise duty, gaming tax and entertainment tax and GST are a few example of indirect taxes

One of the objectives of GST is to improve the existing tax collection system and eventually minimise the budget's deficit (Saidi & Harun, 2019). This multi-stage tax is payable by all intermediaries in the production and distribution chain, with the tax burden ultimately borne by the consumer. Even though the tax liability is shouldered by the consumers, the study by Saidi and Harun (2020) showed that GST had a favourable impact on B40 and M40 households.

These two groups in fact paid lower taxes than those in high-income groups. The study developed a basic static general equilibrium model for Malaysia, calibrated with the Social Accounting Matrix (SAM) 2014. Specific emphasis on the impact of tax on B40 and M40 (in urban and rural area) households were measured using a welfare-related instrument. Among them are regressive or progressive taxes, and simultaneous equivalent variation.

Among the benefits of the implementation of GST implementation is the avoidance of tax cascading. Tax cascading refers to a fee that the

government levies on certain goods at every stage of production (i.e from the production of goods to consumption) Hence, GST reduces multiple taxations imposed on the public (Ling *et al.*, 2016). In addition, GST allows revenue distribution to low-income earners (Rashid *et al.*, 2014) and subsequently narrows down the economic gap between the people (Abdul, 2011). Furthermore, the GST mechanism allows for savings for the country in the event of inflation (Palil & Ibrahim, 2011).

Ling *et al.* (2016) found that the public's acceptance of and compliance with GST is positively related to government subsidies. The more subsidies the government distributes to the public, the more the level of compliance and acceptance is expected from the public. Alm *et al.* (1992) supported the findings by Ling *et al.* (2016), who viewed the high amount of subsidies received by the public will eventually lead to an increase in the rate of compliance.

Conclusion and suggestions for future research

This paper is merely a review paper exploring the perception and awareness of GST implementation. Past studies have noted both favorable and unfavorable responses for GST. Both responses could change the way of tax education is conducted on taxpayers. Nevertheless, the level of awareness of GST, as well as the knowledge and relevant information on GST among consumers have increased as noted by previous studies.

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