

Understanding and Probable Area of Difficulty of Tax Agents towards the Proposed Goods and Service Tax in Malaysia

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ABSTRACT

Malaysian Government wanted to replace the Sales and Service Tax with Goods and Service Tax (GST) by 2015. The government would only introduce once everyone understand and familiar with the tax. This study is aimed to explore the perception of tax agents towards the proposed GST. Two constructs namely understanding and probable area of difficulty were used to measure the GST perceptions. A survey was carried out to acquire the data from 1,200 tax agent throughout Malaysia. A total of 155 questionnaires were used to analyze using descriptive statistics. Test of reliability and validity were also done on the two constructs. The result indicated that tax agents in Malaysia have good understanding towards the Government intention to introduce GST. Respondents also indicated that the most prominent probable area of difficulties in GST was the understanding or knowledge of GST. All the items in the two constructs have mean score of above 3.00. Both the cronbach alpha value and KMO value have more than 0.800 for all the two constructs. The findings suggest that the attitude, awareness, understanding and preparedness of tax agents are positive towards the implementation of GST in Malaysia. This study provides important and valuable inputs for the Government to implement strategic plan to enhance the level of understanding to taxpayers so that GST can be introduced without obstacles.

Keywords: Understanding, probable area of difficulty, GST

I INTRODUCTION

The Malaysian Government had it intention in 1989 to implement GST known as the Value Added Tax (VAT) which is a broad based type tax. The Government was committed to introduce it in 2007 after a long lead period of 15 years but postponed it again. Prime Minister of Malaysia,

Datuk Seri Najib Abdul Razak said that the implementation of GST is to help the county to overcome the deficit in the tax revenue as a result from reduction in oil revenue. According to him, the GST aim is not to tax the essential and fundamental goods and services as these goods and services would be exempted. The scope of charge on goods and services would be broadening so that the country would not depend solely on one sector to generate income to develop the nation. The collection system would be analyzed to ensure its collection is at its very efficient level ("Implementation", 2009). The reason why Malaysian Government proposed to implement GST is to ensure Malaysia's fiscal is on a firmer ground in its quest to be a high income economy in the following decade. Besides, GST has the built in cross checking features that would enhance tax compliance and the self-policing mechanism in GST would facilitates its administration for anyone to avoid or evade the tax.

The main purpose of GST is to make the current taxation system more comprehensive, efficient, effective, transparent and business friendly. The abolishment of sales and service tax would pave GST to replace it which is consider as more efficient tax system in terms of cost effectiveness. Businesses are expected to benefit as cost of doing business would be lower and GST is not considered as cost to business. Currently, sales tax is levied on imported and locally manufactured and the scope is narrow as only 30% of goods imported or manufactured in the country (Randhawa, Seang & Ahmad, 1994). The service tax is levied to any taxable service provided by any taxable service and it is even narrower than sales tax. The sales tax base needed to be broadened as such GST known as broad based would adhere to these requirements. The sales tax is a complex tax with many exemptions based on variety of criteria such as turnover, manufacturing

type etc.; as such tax cascading would have an effect in the inter-firm transaction. The conditions to obtain the license under service tax are also complex due to the definition of service itself (Randhawa, et. al, 1994). Tait (1988) reported that countries adopt VAT because they are dissatisfied with the current tax system.

A tax review panel was formed immediately after the Government announced its intention to implement GST which comprising the public and private sector to formulate the concept, legislation, process and procedures for the GST. The GST would substantially improve the overall tax administration in establishing an integrated tax system and development of modern procedures based on voluntary compliance (Kasipillai & Liew, 2005). According to Grandcolas (2005), GST would be a major source of revenue for a government if it been adopted eg. Papua New Guinea revenue share from GST has risen from 19% to 49% in 2005. In Malaysia, according to the Bank Negara Annual Report the revenue from sales and service tax comprise 10.6% of the total federal taxes in 2004. The current indirect tax system indicates some cumbersome and inefficiencies and does not provide adequate revenue in order to sustained the growing economy needs of the country, and GST is a good choice to replace the existing sales and service tax. If VAT is introduced in Malaysia, it will achieve three main criteria of a taxation system: efficiency, equity and tax revenue productivity (Barjoiyai, 1993).

A total number of 143 countries had implemented GST successfully and only three Asian countries (Brunei, Malaysia and Myanmar) that have not implement GST (GST, 2010).

Several countries in ASEAN such as Indonesia, Philippines, Singapore, Thailand and Vietnam have been implemented GST. The GST rates for these countries are as shown in Tables 1:

Table 1. GST rates in South East Asia.

Countries	GST rates
Indonesia	10%
Philippines	10%
Singapore	5%
Thailand	7%
Vietnam	5% & 10%

This study is intended to explore the understanding and probable area of difficulties of Malaysian tax agents regarding the proposed GST. A positive perception or acceptance by public towards proposed GST would assist the government in determining the appropriate time to implement the tax in Malaysia. This study is important because a fair level of understanding on GST among the tax agents would be able to enhance a higher level of voluntary compliance rate among taxpayers that increases government revenue. The study is significant because information derived from this research would assist the tax authority in identifying areas that needed to be improved in order to hinder any obstacles in the implementation of the proposed GST in Malaysia.

II LITERATURE REVIEW

Goods and Service Tax

In Malaysia, the Royal Custom under the Ministry of Finance would be the governing body that deals all matters regarding Goods and Service Tax (GST). Royal Custom of Malaysia would be the tax authority for GST. This government agency would receive remittance, process refunds, claims on input taxes and other matters related to GST.

Tax agent need to be GST tax agents when dealing with Custom department on behalf of their clients. This tax is a broad based and the amount is on ad valorem basis. The GST tax is charge at every production process and the amount collected at each stage is based on the value added at that stage. GST involves the input tax credit method is where the differences between GST on sales and tax credit for the GST paid on the inputs. It's also a consumption type where the tax base is private domestic consumption. The current sales tax and

service tax is a single stage tax but a GST is a multi stage which looks more complex than sales and service tax in terms of its cost of compliance and administration (Kasipillai & Baldry, 2005). Both sales and service tax and GST has exemption for Small and Medium Industry (SMI) where small taxes are collected but having a large number of businesses. The GST is seen as more efficient and economically and more viable than SST and has compliance advantages. GST taxes on the value added on each business in the economy.

Input Tax Credit

The input tax credit relates to the matters of assessing and collecting GST. The GST is on the gross for each sales and business is allowed to get a credit on GST paid for its inputs. The GST is incorporated in the business input cost and the net tax liability for GST is by deducting tax on input. The input tax credit is a useful procedure to measure value added on the products and services, and tax due on it. The value added is the sum up of various factor payment such as wages, rent, profits and depreciation at each stage of the business process where the GST can be determined and measured (Gillis, Shoup & Sicut, 1990). The input tax credit would very simple if the goods and services are zero rate. This method has an advantage in terms of compliance because the information of taxable business and tax return generate a paper trail which is useful to trace tax defaulters. The availability of input tax credit would generate incentives for business to register for GST by providing correct information on the returns. The purchasing business need to properly document their input purchases when claiming their input tax. GST can be cross check within the supplying business as such there is no incentive to understate purchases as such the input tax credit provided a high degree of reliability information's (Kasipillai & Baldry, 2005).

Exemptions

The exemption for GST is based on certain characteristics of businesses; turnover, specified threshold level which would not required charging GST on their sales. Those GST exempted are not eligible for input tax credit claim on their input purchases. If the exemption is based on particular commodities that are not charged with GST then

the cost of administration and enforcement would be lower as it is not related to number of taxpayer. The exemption in GST for business means revenue sacrifice. The effective rate for GST thus is reduced in the exemption business which violates the efficiency criteria. Many small businesses are insignificant taxpayers and giving exemption is a revenue loss for the Government. The determination for exemption would be much more difficult for financial services, gambling, second hand goods and auctions (Kasipillai & Baldry, 2005). Thus a special exemption and rule is needed to sort these difficulties. The exemption effect on GST would reduce the cost of compliance and administration cost which has a major impact on economy efficiency.

In most countries that implement GST, the businesses and, goods and services that are exempted are: financial transactions (life insurance and banking), medical services, charitable activities, sale of newspaper, periodicals and books, sale of agricultural products and food, and small businesses with annual turnovers below a certain limit. In Malaysia the proposed exemption were on basic necessities and services, examples are basic food stuff, residential accommodation, education, health services, public transportation, domestic water and electricity supply to certain limit (GST, 2010).

Zero Rating

A particular commodity would be totally free from GST. A business with a zero rating would be able to claim input tax credit (supply) tax on sales at zero rated. The net liability could be negative, mean a business can receive a refund from the tax authority. An efficient GST should tax all goods and services and has no exemptions. Adam Smith highlight three canons of taxation where the tax is simple, has a clear liability and economically efficient. A comprehensive GST should be simple and certain and the cost of compliance and administration is reduced. Under GST, a business need to be registered, collect and remit VAT on all business (domestic and international), retail transaction and it is a single rate applies to all sales and input tax credits except for exports. A GST is economically efficient by taxing all domestic consumption and zero-rating exports. There is a need for exports to be zero rated if not

producer would obtain a lower net price for export than domestic sale.

Illustration:

A supplier add RM100 value to it product and sells it to manufacturer with a GST at RM110. The supplier need remit RM10 (GST) to the relevant tax authority. The manufacturer add another RM200 value to it product and sells to the retailer at RM330 with a GST of RM30 (300 x 10%). The manufacturer is entitled for an input credit for the GST paid for the input purchased from the supplier thus the net tax liability that need to remit the tax authority would be RM20 (RM30-RM10). The retailer has purchased an input for RM330 (inclusive GST) from the manufacturer and add another RM200 to it product before finally selling it the consumer at RM550 inclusive GST. As in the case of manufacturer the retailer too is entitled to an input tax credit for the input purchased thus the net tax liability would be RM20 (RM50-RM30). In the above example the total GST collected is RM50 (10+20+20) and the final GST tax is paid by the consumer.

Threshold level

The lower threshold for GST might cause problem. Threshold should be zero if there is no compliance cost and administration cost. The ideal way to set the threshold is where the cost of compliance cost saved equal to revenue gone. In an economy environment there are large players and small timers in a business. Those businesses which do not meet the threshold need not to register and not required to collect GST. The proposed threshold in Malaysia was RM500,000 on the company's revenue which sees exemptions for 70 percent of small and medium size companies in Malaysia. Most businesses prefer themselves to be register as buyers prefer to deal with GST supplier than non GST supplier (Kasipillai & Baldry, 2005).

Understanding

Understanding (also called intellection) is a psychological process related to an abstract or physical object, such as a person, situation, or message whereby one is able to think about it and use concepts to deal adequately with that object. To understand something is to have

conceptualized (a given measure). The perception which comprises awareness and understanding in GST would determine their compliance behavior. In order to achieve a high voluntary compliance the taxpayers need to perceive the tax system positively and a negative perception will lead to poor voluntary compliance (Siti Mariam, 1994). If the government want to know the taxpayers compliance behavior than the understanding of these perception variable is vital. The positive perception of GST perceived by the public would ensure a better level of acceptance to ensure smooth implementation of the tax by Malaysian government.

III METHODOLOGY

This study is adapted the instrument used by Hanefah et al, (1995) and Saliza (2006) with some modification to suit with current environment. The questionnaire is divided into 3 parts. Part 1 is about the respondent profile. Part II consist of 6 items to measure the understanding construct and parts III is related to probable are of difficulties construct. ax agents would be asked to state their attributes preference and opinion based on 5 likert scales. The instruments would be prepared in two languages, English and Bahasa Malaysia. Tax agents is the unit of analysis for the research and respondent for tax agents would be selected randomly from licensed tax agent population which is derived from Lembaga Hasil Dalam Negeri (LHDN) home page. There are a total of 1,819 licensed tax agents with LHDN in Malaysia. Roscoe (cited in Sekaran, 1992) suggested that for most research sample sizes more than 30 and less than 500 are appropriate. Since we using a mail survey approach where has it disadvantage with its expected low return rates and in order to get good response it is suggested that we mailed the questionnaire to about 1,200 tax agents throughout the country. Descriptive analysis such as mean of factor is used to determine the scores for the attributes. The Cronbach's Alpha analysis is utilized to test the reliability of the instrument.

IV FINDINGS

A total 1,200 questionnaires were mailed to tax agent throughout Malaysia as respondent for this study. The sampling frame have been identified through 1,800 tax agents who registered as tax

agent with Finance Ministry and their names and addresses were published in the Lembaga Hasil Dalam Negeri (LHDN) website. A total of 157 questionnaires were returned by the respondent within a month. From the total of 157 questionnaires, 2 questionnaires could not be used due respondent failing to complete fully all the parts in the questionnaire. Thus the sample size that could be use to analysis in this studies totaled to 155, giving a response rate of 13% which is considered acceptable in mail survey. The total number of questionnaires of 155 would be used to analysis are consider adequate based Roscoe (cited in Sekaran, 2003) which he suggested that for most research sample sizes more than 30 and less than 500 are appropriate. He also suggested that the total respondent need to perform the regression analysis is 10 times of independent variable.

Descriptive Analysis

Demographic variables

As shown in Table 2 below, the tax agent with the length of service from 6 to 10 years forms the highest respondent rate of 26 percent and then followed by from 1 to 5 years (23.3 percent), 21 years and above (20.7 percent), from 16-20 years (16.7 percent) and from 11-15 years (13.3 percent). A total of 155 questionnaires were received from all the state in Malaysia. The highest response rate comes from Federal Territory with 18.7 percent. State of Selangor was second highest with a response rate of 16.1 percent and the third highest response rate 9.7 percent comes from state of Perak. An average of 8.37 percent response rate was received from state of Penang, Johor and Sabah. Other states the response rates were from 1 percent to 5 percent. Out of 155 questionnaire received only 152 tax agent stated their position. Tax agent with Director Position received the highest response rate with 65.8 percent followed by Tax manager (13.8 percent), Tax consultant (7.9 percent), Tax senior (5.3 percent), others (3.9 percent) and Tax junior (3.3 percent).

Table 2: Descriptive analysis of General Information

	Frequency	Percent
Length of Tax Agent Service (year)		
1-5years	35	23.3
6-10years	39	26
11-15years	20	13.3
16-20years	25	16.7
21years and above	31	20.7
Location of the Tax Agent Office		
Perlis	2	1.3
Kedah	8	5.2
Pulau Pinang	14	9
Perak	15	9.7
Selangor	25	16.1
Wilayah Persekutuan	29	18.7
Negeri Sembilan	4	2.6
Melaka	7	4.5
Johor	13	8.4
Pahang	6	3.9
Terengganu	7	4.5
Kelantan	6	3.9
Sabah	12	7.7
Sarawak	7	4.5
Position of Tax Agent		
Director/partner	100	65.8
Tax consultant	12	7.9
Tax manager	21	13.8
Tax senior	8	5.3
Tax junior	5	3.3
Others	6	3.9

Table 3 below indicates the mean score for all the 9 items measuring the understanding responded by 155 tax agent was 4.09 which is shows a good understanding about GST among tax agents. All the 9 statement about understanding on the proposed GST received mean score above 3.70. The tax agents mean score for each understanding statement about that GST were ranked as in the above table. The tax agents understand well that GST would replace the sales and service tax which has the highest mean score (4.45). The lowest mean score of 3.74 for the understanding statements were for that GST was supposed to be implemented in middle of 2015.

The tax agents understand well that GST is a consumption tax, transaction based taxation, stage by stage taxation, the collection and payment is on self-assessment basis and input tax credit. Overall tax agents are understood well about the proposed GST in Malaysia.

Table 3: Descriptive Analysis of Understanding

Statements (Understanding)	Mean	Standard Deviation	Min	Max
GST would be replacing the current sales and service tax?	4.45	0.666	1	5
GST is a consumption tax.	4.37	0.658	1	5
GST is transaction based taxation.	4.19	0.796	1	5
The collection and payment in GST is on self-assessment basis.	4.14	0.757	1	5
The input tax credit provides a mean of passing the GST liability along the production / supply chain.	4.12	0.764	1	5
The government needs public opinion on GST?	4.03	0.929	1	5
GST is a stage by stage taxation.	3.99	0.907	1	5
There is no time frame when GST would be implemented in Malaysia?	3.77	1	1	5
GST was supposed to implement in middle of 2015?	3.74	0.966	1	5

Table 4: Descriptive Analysis of Probable Area of Difficulty

Rank	Probable Area of Difficulty	No. of respondent
1	Lack of GST knowledge among clients	126
2	Increase documentation burden of record keeping	103
3	Need to upgrade the computerization system	100
4	Getting refund from tax authority	99
4	Enhance the accounting system to accommodate for GST	99
6	Clarity of goods and services that are taxable	96
7	Maintaining records for clients	89
8	Understanding the GST legislation	85
9	Dealing with tax authority	83
10	Cooperation from clients	77
11	Calculating the input tax credit	73
12	List of exempted goods and services	70
13	Shorter period of time to lodge the tax return	70

14	List of zero rated goods and services	67
15	Calculating the standard rate tax	43
16	Remitting the GST tax	42
17	Others	16

As indicated in table 4 above, a total of 126 respondent or 81.3 percent of total respondent of 155 ranked lack of GST knowledge among clients as the most probable difficulties in relation to the proposed GST. The increased burden of documentation for record keeping also ranked as the second highest or 66.5 percent of total responded as the probable area of difficulties in GST. The third ranked on probable area of difficulties or 64.5 percent of respondent agreed on the need to upgrade computerization system. Percentage ranging from 63.8 percent to 49.6 percent of the total respondent agreed on getting refund from tax authority, enhance the accounting system to accommodate for GST, clarity of goods and services that are taxable, maintaining records for clients, understanding the GST legislation, dealing with tax authority and cooperation from clients as the probable area of difficulties in GST and ranked it from fourth (4) to ten.

Test of Reliability and Validity

Results of reliability test shows that the understanding constructs have achieved a good level of reliability which alpha value is 0.88. Hair et al., (1998) an alpha value of 0.70 and above is acceptable. The factor analysis is used to determine the validity of the constructs. This analysis method is also used to determine the adequacy of the samples for the research with the KMO (Kaiser-Meyer-Olkin) value. KMO measures the sampling adequacy which should be greater than 0.50 for further analysis. The understanding construct have KMO value above 0.80 and have only one factor. The Bartlett's Test of Sphericity shows all the constructs are significant at 0.000 which means the correlation matrix is not an identity matrix thus the factor model is appropriate.

V DISCUSSION

The objective of this study was to explore the perception of tax agents regarding the proposed GST in terms understanding, and probable area of difficulties. The result indicates that tax agents have a good perception towards the proposed GST. They are positive in understanding about GST for the proposed GST. Generally, this study found that tax agents well understood about GST, which is a good indicator for the government. Schisler (1995) agreed that understanding would enhance communications between tax authority and taxpayers. The findings from his study (Schisler, 1995) had helped tax prepares to understand about the aggressiveness of taxpayers in certain tax issues. Eriksen and Fallan (1996) suggested that if more taxation information is given to the society, it would enhance compliance behavior. As such to enhance understanding about GST the public needs to be continuously educated so that they would comply with the new tax when it is implemented.

The present study found a number of probable area of difficulties when GST is implemented in Malaysia such lack of GST knowledge among clients, the increased burden of documentation for record keeping, the need to upgrade the computerized system, getting refund from tax authority, enhancing the accounting system to accommodate for GST, clarity of goods and services that are taxable, maintaining records for clients, understanding the GST legislation, dealing with tax authority, and cooperation from clients. The potential list of area of difficulties reported by the tax agents should be taken into consideration by the government when GST is to be implemented. The government needs to recognize such problems and take necessary action to enhance compliance when GST is to be implemented. In this context, GST knowledge is the most important part of implementing the tax. A high level of tax knowledge would help increase the level of tax compliance (Crane & Nourzad, 1990; Hanefah, 1996; Kasipillai, Aripin, & Amran, 2003).

Findings shows tax agents are having positive perception towards the proposed GST and a few areas that need to give importance by the government especially the knowledge on GST among public. In order for GST be successful, it must be accepted by taxpayers and tax agents. GST cannot be accepted if public do not have the

necessary knowledge of GST. An educational program should be initiated by Royal Custom of Malaysia to elevate taxpayers so that they would cooperate with tax agents for compliance once GST is introduced in Malaysia.

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Example of GST Computation at 10% Standard Rate

	Input purchased	GST paid on input purchased	Value Added	Selling Price	GST received (selling)	Net GST to Tax Authority	Tax on Value Added
Supplier	0	0	100	110	10	$10-0 = 10$	$100 \times 10\% = 10$
Manufacturer	100	10	200	330	30	$30-10 = 20$	$200 \times 10\% = 20$
Retailer	300	30	200	550	50	$50-30 = 20$	$200 \times 10\% = 20$
Consumer				* 550			