



Determinants of Attitude toward Proposed Good and Services Tax among Business Communities in Malaysia

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ABSTRACT

Goods and services tax (GST) is an indirect tax reform. The decision to implement GST was made on 1 April 2015. The Malaysian business communities are concerned that GST would affect their business. In order to comply with the new system, GST, Malaysian citizen need to have a positive attitude toward the GST. The rational is that taxpayers need to be positive in attitude for voluntarily compliance. By determining what factors could possibly influence attitude towards GST by business community and consequently could improve the compliance rate indirectly. Thus, this study is attempts to identify the determinants of attitude towards the proposed GST implementation in Malaysia. A total of 521 usable questionnaires from business community in 2014 were analyzed using multiple regressions. The results revealed and supported that awareness, understanding, and preparedness were significantly in influencing the attitude towards proposed GST implementation in Malaysia among the business communities. Suggestions to the tax authority and limitation of the study were also discussed.

Keywords: Good and Services Tax, Attitude, Awareness, Understanding, Preparedness

JEL Classifications: H20, H25

1. INTRODUCTION

The implementation of a goods and services tax (GST) system to replace sales and service tax in Malaysia has been discussed for many years. The government was committed to implement this system since 2007 and was postponed until 1 April 2015. GST is known as consumption tax and it means that taxpayer only pay tax if they consumed that particular goods or services. The reason why Malaysian government proposed to implement GST is to generate additional revenue in its quest to be a high income economy in the following decade. This would revert back to the public for socio economic development such as provision of better infrastructure, education, welfare and health services. GST has the built in cross checking features that would enhance tax compliance and difficult for anyone to avoid or evade the tax.

GST is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except

those specifically exempted. GST is also charged on importation of goods and services into Malaysia. The scope of charge on goods and services would be broadened so that the country would not depend solely on one sector to generate income to develop the nation. The collection system would be enhanced to ensure its collection is at its very efficient level. GST will make the current taxation system in Malaysia more comprehensive, efficient, effective, transparent, and business friendly. The abolishment of sales and service tax would make way for GST, which is considered as a more efficient taxation system in terms of cost. Businesses are expected to benefit as the cost of doing business would be lower and the GST is not considered as cost to the business. Furthermore, GST would able to reduce bureaucratic practices in the management and administration of the tax system that exist in the current sales and service tax. GST would substantially improve the overall tax administration in establishing an integrated tax system and development of modern procedures based on voluntary compliance (Kasipillai and Liew, 2005). In short, if GST

is introduced in Malaysia, it will achieve three main criteria of a taxation system: Efficiency, equity and tax revenue productivity (Bardai, 1993). GST is viewed as a more structured and transparent form of taxation (Kasipillai and Liew, 2005).

A total number of 143 countries had implemented GST successfully and only three Asian countries such as 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. It is important to know the view or perception of business communities regarding the GST system that would be implemented. As a registered as chargeable person, the business communities are therefore responsible for accounting output tax on their taxable supplies, and on the other hand, is eligible to claim input tax on expenses which they had incurred for the furtherance of their business. For the purpose of GST, the activities carried out by the business communities can be categorized as inputs activities and outputs activities. Thus, this study attempted to explore the level of attitude, awareness, understanding, preparedness, general perception, and area of difficulties among business community towards the proposed GST in Malaysia.

There are many literatures concerning on tax compliance behavior (Andreoni et al., 1998; Bobek and Hatfield 2003; Fischer et al., 1992; Jackson and Miliron, 1986). For example, Bobek and Hatfield (2003) investigate the factors that influence tax compliance behavior by applying theory of planned behavior. All of these studies discussed about the factors that influence tax compliance behavior. In understanding the complexity of tax compliance behavior, previous studies indicated that attitude is among the important determinant that influences tax compliance behavior (Bobek and Hatfield 2003; Fischer et al., 1992; Jackson and Miliron, 1986). These studies reveal that attitude is related with tax compliance behavior. However, previous studies highlighted that the attitude variable as an importance determinant of compliance behavior without understanding the variables that shape attitude toward tax compliance. Besides, there is also limited study had been done in analyzing the determinants of attitude toward tax compliance behavior. Thus, this study attempt to investigate the determinants of attitude towards proposed GST implementation.

2. LITERATURE REVIEW AND HYPOTHESES

Literatures indicate that research on indirect tax has been largely scarce in comparison to direct taxation even though sales tax and service tax can help raise more revenue than individual income tax. Successful implementation of GST depends much on the acceptance of the public. Awareness, understanding and preparedness of what makes them have positive or negative attitude and perception of GST is important especially for the tax authority in modernizing the existing tax system, because it could ensure voluntary compliance later when GST is put in place. As such, results of this study would provide valuable input for the tax authority to implement the necessary measures to enhance GST compliance. This study is important because a fair level of awareness and understanding of GST among business community is able to enhance a higher voluntary compliance rate

among taxpayers. Thus the collection of taxes from GST could be conducted efficiently and effectively by the tax authority through well prepared GST collectors. The study is significant because information derived from this research would assist the tax authority in identifying areas that need improvement to facilitate in the implementation of the proposed GST in Malaysia.

Attitude is one of the key determinants of behavior (Fishbein and Ajzen, 1975). A person's attitude toward an object will affect not only his or her behavior but also other people's behavior. Past studies have overwhelmingly found a significant association between attitude and behavior in various contexts and using different models. For instance, attitude was found to be significantly related to tax compliance behavior (Bobek and Hatfield, 2003; Hanno and Violette, 1996). Attitude towards the behavior is based on a person's underlying behavioral beliefs, and refers to the degree to which the person has a favorable or unfavorable evaluation of the behavior of interest (Fishbein and Ajzen, 1975). It influences the person attitude either to perform a good deed or not. If the people feel that they are aware, understand and prepare towards GST, it will create a favorable attitude in performing the behavior. Positive attitudes towards GST will have an impact on consumer willingness to pay for GST. Jackson and Milliron (1986) reported that attitudes more important than opportunities in determining taxpayers' behavior.

Awareness is the state or ability to perceive, feel, or be conscious of events, objects or sensory patterns. In this level of consciousness, sense data can be confirmed by an observer without necessarily implying understanding. It is the state or quality of being aware of something (Wikipedia, 2010). Domstein (1987) conducted a survey on taxpayer's perception and attitudes towards the tax system and found that tax consciousness is positively related to attitudes of taxpayers. The findings also indicated that the low income group perceived any tax applied to them as unjust and hence would oppose any taxes. The high income group, on the other hand, perceived that some taxes are specifically and unfairly aimed at them. Another study by Schifferstein and Ophuis (1998) reported that health awareness is the predictor of consumer attitudes towards organic food. Health consciousness is a construct that can be used to reflect a person's readiness to do something for her own health.

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 it conceptualized (a given measure) (Wikipedia, 2010). Evans and Durant (1995) found that positive relationship between understanding of science and levels of support for science. Wang et al. (2002) reported in their study about understanding consumers attitude toward advertising found that by understanding consumer's attitude towards advertising, designers and marketers can better strategize their advertising designs. Public concern about preparedness also is the important element that influencing attitude. Adanza (2014) reported that preparedness has significant related to attitude toward ICT-Based Education. Porcano and Price (1992), Christensen et al. (1994) and Wartick (1994), which agreed that

taxpayers with more tax knowledge would have a positive view about tax system.

Based on the review of the above literatures, there are limited literatures that considered all the above variables in the context of indirect tax (GST) areas. This gap provides support to extend previous studies in the context of indirect tax literatures particularly on GST. Therefore, this study presented the hypotheses below:

- H1: Awareness is positively influence attitude toward proposed GST.
 H2: Understanding is positively influence attitude toward proposed GST.
 H3: Preparedness is positively influence attitude toward proposed GST.

The proposed research model is shown in Figure 1.

3. RESEARCH METHOD

This study is to investigate the perception of managers of manufacturing companies and the owner of small and medium enterprises (SME) in Malaysia which is measure by variable of attitude, awareness, understanding and preparedness towards the proposed GST. Thus the most appropriate research method recommended to measure the business community opinion on GST would be the survey method (Jackson and Milliron, 1986; Roth et al., 1989). This is quantitative research because there eight variables to measure the perception of taxpayers such it is appropriate to use the survey research method. Items for each variable were assigned with a value or weight. The reliability of the instruments was tested using the appropriate statistic measurement. The target population of the study is managers of manufacturing companies and the owner of SME where the business details such name, address and contact number can be found in Federation of Malaysian Manufacturer (FMM) and small and medium industries development corporation (SMIDEC) directory.

The population of the study was managers of manufacturing companies and the owner of small and medium size of business in Malaysia. Therefore, the unit of analysis for the study is consists of managers of manufacturing companies who are members with FMM and the owner of small and medium businesses. The lists of the manufacturing companies were obtained from FMM Directory of Malaysian Industries (2012). Meanwhile, the small and medium businesses were obtained from SMIDEC. Thus,

the sampling frame of the study was from FMM and SMIDEC directories. According to the directories, there are more than 2,600 manufacturing and services companies from FMM. In SMIDEC there are more than 500,000 small and medium industries in all over the country in Malaysia. As indicated in Sekaran (1992), if the populations (N) more than 1,000,000 then the appropriate sample size is 384. Roscoe (1975), as cited in Sekaran (1992) suggests that for most research sample sizes more than 30 and less than 500 are appropriate. Since a mail survey approach was used, 1500 questionnaires were mailed to the companies and small and medium businesses throughout the country in order to compensate for the inherent disadvantage of low return rates associated with a mail survey. Since this is nationwide survey all the states in Malaysia would be included in the survey. The companies and small and medium businesses were randomly selected from every state in Malaysia. Since we anticipated low return on samples size due to the survey approach used, a high number samples would be required, thus 2,500 questionnaires were distributed to each state in Malaysia. The instrument used to measure this variable was adapted from Munusamy et al. (2012). Seven items were used to measure this variable on a 5-point Likert scale in which “5” “strongly agree” and “1” “strongly disagree.”

3.1. Reliability and Validity Analysis

The values of alpha were calculated to access the internal consistency reliabilities of the scale. The value for the construct of attitude, awareness, understanding and preparedness toward proposed GST were 0.74, 0.79, 0.90, and 0.89 respectively. The overall coefficients of reliability are all above the acceptable level of 0.70 (Hair et al., 2010; Nunnally, 1978).

3.2. Factor Analysis

The variables of attitude, awareness, understanding and preparedness toward proposed GST had gone through factor analysis in order to ensure that these variables were a different construct. All of the items used principle component analysis with varimax rotation. Kaiser-Meyer-Olkin values presented for attitude, awareness, understanding and preparedness toward proposed GST were 0.70, 0.83, 0.86, and 0.91 accordingly. The findings were larger than the recommended value of 0.70 (Hair et al., 1998). Factor analysis also appropriate to be performed when the results of Barlett’s test of sphericity for all the variables were significant at 0.000 levels. The results indicated that these variables were a distinct construct and unidimensional because the items loaded on the single factor.

3.3. Correlation Analysis

In this present study, Pearson correlation analysis was employed to analysis the data for the purpose of understanding the sample characteristics and level of correlation among variables. The results were presented below in Table 1. Cohen (1988) indicated that the value can be identified when the value of correlation coefficient were in the range of 0.10-0.29 (weak), 0.30-0.49 (medium) and 0.50-1.00 (strong). Multicollinearity problem also can be identified with correlation analysis. In this present study, the results for correlation were below 0.80. These show that there are no crucial multicollinearity problems (Hair et al., 1998).

Figure 1: Proposed research model

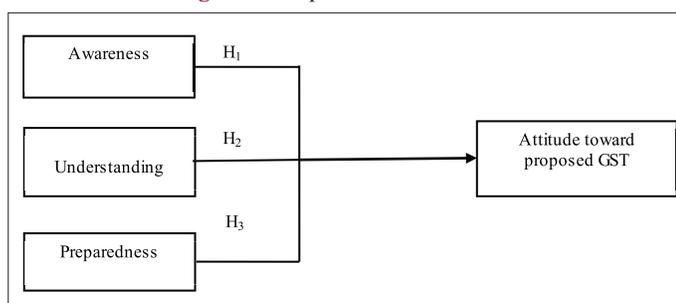


Table 1: Inter correlation between variables

	Attitude on proposed GST	Awareness	Understanding	Preparedness
Attitude on proposed GST	-			
Awareness	0.379**	-		
Understanding	0.527**	0.573**	-	
Preparedness	0.340**	0.425**	0.477**	-

**Correlation is significant at the 0.01 level (2-tailed)

3.4. Multiple Regression Analysis

Multiple regression analysis was conducted to determine the relationship between awareness, understandings and with attitude toward proposed GST. The regression result was presented in Table 2. The R^2 value of the regression model indicates that all the variables predict 29% of the variance in attitude toward proposed GST. With reference to the multiple regression results, awareness ($t = 7.006$, $P < 0.05$), understanding ($t = 2.005$, $P < 0.01$) and preparedness ($t = 2.231$, $P < 0.05$) were found positively and significantly influence attitude toward proposed GST. Therefore, this present study accepts the former hypothesis of H1, H2, and H3.

4. DISCUSSION

This study intended to investigate the influence of awareness, understanding, and preparedness among business community towards the proposed GST in Malaysia. Results of the study indicated that the variables understudy namely, awareness, understanding, and preparedness were significantly influenced attitude towards proposed GST among business communities in Malaysia.

The study indicated that the findings were consistently with the previous study that investigates this relationship in the context of attitude (Adanza, 2014; Domstein, 1987; Evans and Durant, 1995). In general, the study demonstrated that the business communities in Malaysia were influenced by these three variables on attitude of the implementation of the proposed GST, which is a good indicator for the government. In order to develop a better awareness, understanding, and preparedness among business communities, the government needs to continually provide information, education or knowledge relating to GST, as a positive attitude toward GST would encourage better GST compliance. Previous studies have shown that attitude has a significant impact on compliance (e.g. Jackson and Milliron, 1986). Schisler (1995) agreed that understanding would enhance communications between tax authority and taxpayers. 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 and preparedness about the GST, tax authority needs to be continuously educated so that they would comply with the new tax when it is implemented.

The positive perception on awareness, understanding and preparedness for GST is important for the government in the success implementing GST. In order to facilitate business preparation toward accepting and complying with the new tax, government agencies such as the Customs Department need to hold more training programs for taxpayers. Sufficient materials on GST should also be provided to the public. GST returns should

Table 2: Results of multiple regression analysis

Constructs	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Standard error	Beta		
	Constant	6.159	0.872		
Awareness	0.074	0.037	0.093	2.005	0.045**
Understanding	0.414	0.046	0.428	9.014	0.000*
Preparedness	0.063	0.028	0.096	2.231	0.026**

* $P < 0.01$, ** $P < 0.05$, Adjusted $R^2 = 0.289$, F-statistics = 71.586, Sig at 0.000

not be complex so that the taxpayers could prepare the returns without any problem. The law on GST need to aid with issuances of public rulings which would a guide for taxpayer for clarity. Accurate information in GST is also part of compliance. Good preparation by business communities in Malaysia would enhance the level of compliance.

Some limitations also exist in this study. Despite such achievement with respondents all over Malaysia, the findings of this study may not necessarily be generalizable to a wider public as this study was limited to business communities only. The proposed GST is for all member of society. This study suggests that further studies could be undertaken to widen its scope by considering other taxpayers too such salaried group and others in order to get better insight into their attitudes towards GST. This would provide the government with better input on how to ensure the taxpayers are willing to accept the tax, and comply with it.

5. CONCLUSION

The important role of attitude towards GST cannot be denied anymore. This study provides evidences that awareness, understanding, and preparedness were significantly influenced attitude towards proposed GST among business communities in Malaysia. The results presented also similar with the previous empirical evidences in other areas. Therefore, the government particularly tax authority can retain and attract more taxpayers to comply with GST by making appropriate decisions based on the results and recommendations highlighted in this study.

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