

Post Implementation of Goods and Services Tax (GST) in Malaysia: Tax Agents' Perceptions on Clients' Compliance Behaviour and Tax Agents' Roles in Promoting Compliance

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Abstract. The Malaysian government introduced the Goods and Services Tax (GST) starting from 1 April 2015 to enhance the revenue collections and mitigate the transfer pricing manipulation. Tax agents play a significant role to help businesses to comply with GST law and regulations. After one year of GST implementation, it is vital to understand tax agents' perceptions on clients' compliance behaviour and tax agents' roles in influencing compliance. A total of 30 registered tax agents completed a survey questionnaire. The analysis shows that tax agents devote their time to provide advice to their clients on meeting their GST requirements, and recording and reporting of GST transactions. Tax agents assert that clients pass on their GST responsibilities to tax agents to some extent. Tax agents also perceive that clients' compliance level is low because clients occasionally submit GST03 after the deadline, compromise the accuracy of GST03 in order to get it done on time and intentionally make errors in their records. In terms of tax agents' role in promoting compliance, the tax agents strongly agree that it is important for them to act as trusted advisors for their clients. After one year of GST implementation, this is the first study that explores tax agents' perceptions on clients' compliance and tax agents' roles in promoting compliance. The findings benefit the Royal Malaysian Customs Department (RMCD) in assisting tax agents and the public for future compliance. Similar study should be adopted by countries that have recently implemented GST (for example, India) and it should be conducted to other GST players (i.e. taxpayers and RMCD officers) on annual basis to analyse the behavioural trends and identify weaknesses in GST administration.

1 Introduction

The Malaysian GST replaced the Sales and Services Tax which was in practiced for more than 40 years. The Prime Minister announced the replacement in 2013 and GST is not just a tax change but it will benefit the economy as a whole and have far-reaching impact on businesses. The GST Act was gazetted in 2014 for the public to understand the basic principles of GST and the businesses to make intense preparation in terms of accounting

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system, records and training for staff. The Government appointed the Royal Malaysian Customs Department (RMCD) as the authoritative body of GST. To date, the Government has issued several GST Advance Rulings and GST Orders to improve and support information in the GST Act. On the same remarks, the RMCD has been issuing numerous GST Handbooks and Specific Guideline to reduce information gap and assist the businesses for compliance.

In general, GST is imposed on most goods and services purchased in Malaysia. Similar with many other countries like Australia and Singapore, goods and services are divided into taxable supplies (i.e. standard rate supply and zero-rated supply) and non-taxable supplies (i.e. exempt supply and out-of-scope supply). Several individuals and organisations receive special relief from the government; they are not liable to pay GST and businesses should not impose GST to them. A GST registered person (i.e. individuals and corporations) are responsible to understand the GST rules and regulations, impose and collect GST, keep proper records and documents, and remit tax return (i.e. GST03) to the RMCD before the deadline. The GST03 contains summary of taxable and non-taxable supplies of companies and net tax amount to be paid or claimed. Complying with the GST rules and regulations is challenging for not only the businesses but also tax agents.

2 Issues and problems of GST in Malaysia

The most significant challenge for the Malaysian government was to establish the GST Act and continuously issue supplement rulings that are suitable with the country's economics and business operations of various industries. To date, there are various amendments made to the Act, Advance Rulings and Orders. The amendments are unavoidable for a country that recently implemented GST. Comments, recommendations and suggestions from the industry and public are valuable to ensure that the GST rules and regulations are relevant and applicable. For the businesses, the main challenges are understanding the rules and compliance costs [1]. Tax law is complex, open to different interpretations and often changing. Each taxpayer has unique business operation that they may have interpreted the tax law differently. Tax officers also may have different views on taxpayers' motives and their enforcement regulatory behaviour is influenced by various factors, for example, managerial control and experience [2, 3]. In terms of compliance costs, Ramli et al. [4] found that the estimated tax compliance costs for a Small and Medium Enterprise is RM34,742 which does not include other internal costs for tax calculation, tax planning and tax appeal. The impact of higher compliance costs is increase in prices of goods and services. Although the government assures that the price of goods and services will decrease with the implementation of GST, however, the impact could not be seen yet.

3 Tax agents' roles in assisting compliance

Tax agent is a professional who assists taxpayer comply with tax law and represent taxpayers in their dealings with the revenue authority [5]. Tax agent is necessary when complexity of compliance exists. Devos [6] found a significant relationship between engaging tax agents and taxpayers' compliance behaviour. In assisting taxpayers for compliance, tax agents served three key roles: providing tax advice, correct tax return preparation and lodgement, and risk management for tax minimization [7]. However, Klepper and Nagin [8] assert that tax agents also can contribute to non-compliance by helping taxpayers take advantage of legal ambiguity. The mixed roles of tax agents on compliance could be influenced by tax agents' ethical behaviour, perceptions on government's support and legitimacy of the tax system. The objectives of this study are

twofold. First is to explore tax agents' perceptions on taxpayers' compliance behaviour. Second is to explore tax agents' roles in promoting compliance to taxpayers.

4 Research Methodology

To achieve the research objectives, a survey instrument was developed based on studies by the Australian Tax Office (ATO). The ATO conducts a similar study annually; they started the study in 2011 on three groups of respondent which are tax agents, micro or small and medium enterprise and Business Activity Statements (BAS) agents. The ATO's objectives are to inform, support and monitor the effectiveness of GST [9].

In this study, the survey instrument contains 9 sections – Section A until Section H. Section A, G and H contained information about the respondents. Section B and C contain information about the tax agent's clients and GST services provided by the tax agent respectively. Section D of the questionnaire requires the tax agents to evaluate clients' behaviours in complying with GST. Questions related to tax agents' attitudes and beliefs on GST are asked in Section E. And, Section F contains about the information and support that the tax agents use to help their clients with GST requirements.

4.1 Data Collection

Data on RMCD's website shows that as of 19 December 2014, there were 1,002 GST agents approved by the Ministry of Finance. The tax agents range from individual bookkeepers who are working from home to larger businesses that offer management and accounting services. The author strongly believe that the number of GST agents has increased significantly in 2015 because several accounting bodies in Malaysia like the Malaysian Institute of Accountants and Malaysian Association of Tax Accountants are consistently organise GST courses for tax agents. Participants who passed the exam after the 6-day course are qualified to become a GST agent.

The data collection was conducted in May 2016 which was one year after the implementation of GST. The ATO used different approach for the data collection; telephonists were appointed to call tax agents and guided them to answer the survey questions. Instead, the researcher of this study appointed research assistants to collect data. The research assistants contacted GST agents in two states, which are Wilayah Persekutuan Kuala Lumpur and Selangor because the list of GST agents in the RMCD's website shows that the majority of GST agents are located in the two states. Then, the research assistants set an appointment with the tax agents for a meeting and they guided the tax agents to answer the survey questions. This approach was adopted to avoid low response rate. The data collection process stopped after the research assistants managed to get 30 respondents due to time constraint and cost limitation.

5 Results

5.1 Demographic profiles

All the 30 respondents are registered GST agents or who are working with a registered agent firm or companies. The majority of the respondents (36.7%) have one to 5 years of working experience and only one respondent had more than 30 years of working experience. The working experiences are related to taxation for both direct and indirect taxes. The majority of the firms have been operated between six to ten years. The analysis shows an equal percentage of 36.7% for respondents who have 1-10 and 11-20 GST clients,

and only 3.3% of respondents who have between 51-60 GST clients. The majority (70%) of the respondents' clients dealt with cash transactions only. This is followed by clients who do importation and exportation of goods and services (56.7%), buy and sell products and services via online (53.3%), and are in property and development industry (46.7%).

5.2 Services provided to clients

Figure 1 shows type of services tax agents provide to their clients. It is apparent that in the first year of GST implementation, tax agents had to do almost everything for the clients; they assist client with GST registration (53.3%), recording transaction (50%), preparing GST03 from records provided by the clients (46.7%) and lodging GST03 statements (46.7%). They also frequently provide advice about recording and reporting of GST transaction (56.7%) and provide clients on meeting their GST requirements (53.3%). Tax agents occasionally audit client data against the records provided (46.7%) and audit data against other financial records (50%).

Table 1. Tax Agents' GST Services for Clients

Services for Clients	Never (%)	Occasionally (%)	Very frequently (%)
Assist client with registering for the GST	10	36.7	53.3
Record transaction for the client	13.3	36.7	50.0
Provide advice about recording and reporting of GST transaction	0	43.3	56.7
Prepare GST03 from records provided by your clients	3.3	50	46.7
Lodge GST03 statements on behalf of your clients	6.6	46.7	46.7
Audit client data against the records provided	23.3	46.7	30.0
Audit client data against other financial records	23.3	50	26.7
Provide advice to your clients on meeting their GST requirements	3.4	43.3	53.3
Provide training to your clients on using software to record GST transactions	26.6	36.7	36.7

5.3 Tax agents' perceptions on clients' GST compliance

As shown in Figure 1, the majority of the respondents strongly agree that many of their clients feel burdened with GST requirements (80%) and they find it difficult to understand how to comply with GST obligations (66.7%). The majority of the respondents are neutral when asked whether grey areas of the GST law make non-compliance more likely (63.3%) and whether clients have tried to intentionally dodge the GST system (46.7%). In terms of penalty, 46.6% of the tax agents strongly agree that RMC penalties are a concern for many of their clients.

5.4 Clients pass on their GST responsibilities to tax agents

Businesses are responsible to prepare all documents and submit GST03 to the RMC before by the deadline. However, the majority of the tax agents (73.3%) agree that clients pass on their GST responsibilities to the tax agents to some extent. Figure 2 shows ways clients pass on their GST responsibilities. 90% of the tax agents stated that they have to ask clients for information and documents. This is followed by reminding clients to lodge GST03 (63%) and asking clients for tax information needs (63%). Some of the respondents agree that clients do not check their records passing them onto tax agents (30%) and not voluntarily providing all relevant information to tax agents (30%). Another way of how clients pass on their GST responsibilities is letting tax agents to decide on the GST03 tax code.

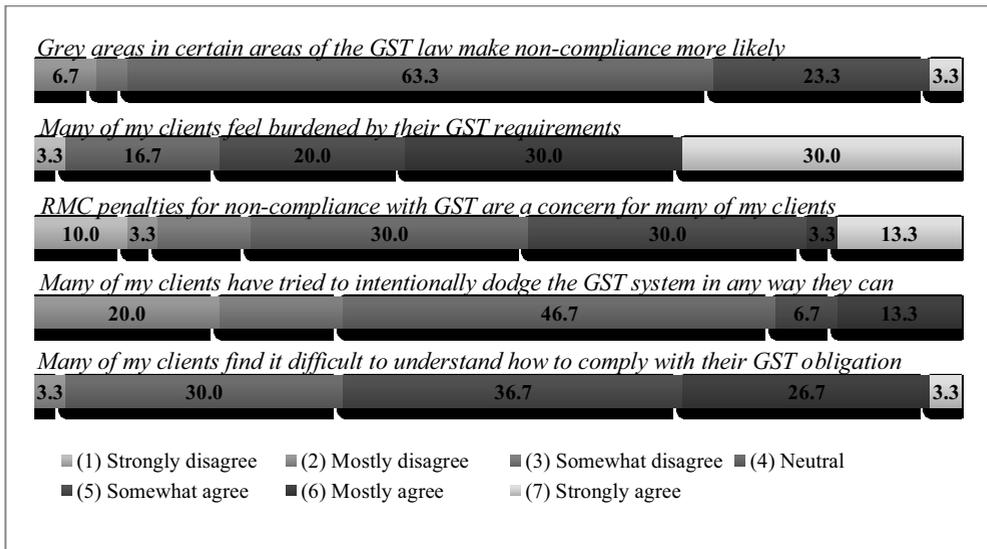


Fig. 1. Tax Agents' Perceptions on GST Clients

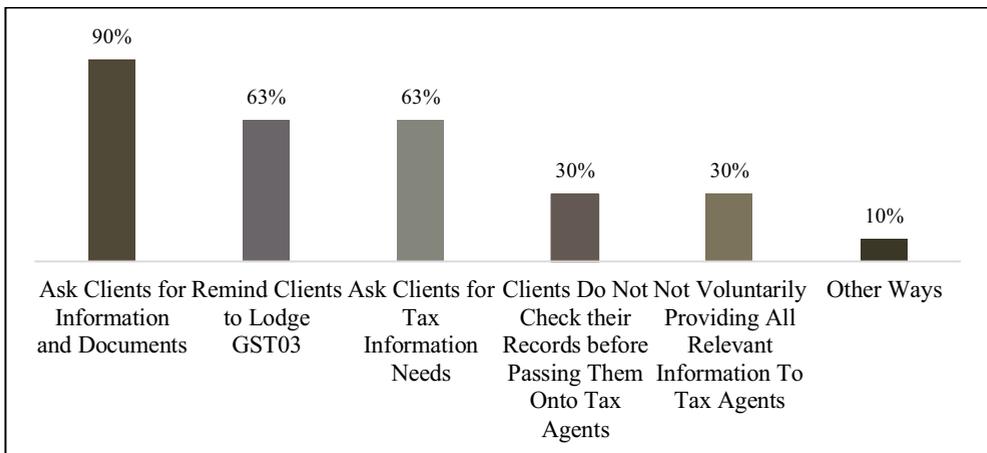


Fig. 2. Ways Clients Pass on Their GST Responsibilities to Tax Agents

5.5 Tax agents' evaluations on clients' documents and GST03

Tax agents' were asked to evaluate clients' documents and GST03. The results are shown in Table 2. The analysis shows that tax agents perceive that their clients occasionally lodged GST03 after the deadline (73.3%), compromise the accuracy of GST03 in order to get it done on time (70%), intentionally make errors in their records (53.3%), under-reporting GST payable (53.3%) and look for grey areas in the GST law to minimise GST debts (53.3%). Tax agents also perceive that clients never de-register to avoid paying a GST (63.3%) and use the GST collection to fund other business expenses and manage cash flow (60%).

Table 2. Tax Agents' Evaluations on Clients' Documents and GST03

Clients' Documents and GST03	Never (%)	Occasionally (%)	Very frequently (%)
Error in your clients' record keeping that you think were intentional	43.0	53.3	3.3
Client GST03 statements being lodged late	23.3	73.3	3.3
Clients compromising the accuracy of their GST03 in order to get it in on time	20.0	70.0	10.0
Under-reporting of GST payable on your clients GST03	36.7	53.3	10.0
Incorrect claims of GST credits on your clients GST03	43.4	50.0	6.7
Clients using GST collected to fund other business expenses and manage cash flow	60.0	33.3	6.7
Clients dealing in cash to avoid paying some GST	50.0	46.7	3.3
Clients looking for grey areas in the GST law to minimise a GST debt	43.3	53.3	3.3
Clients de-registering to avoid paying a GST bill	63.3	33.3	3.3

5.6 Tax agents' perceptions on managing GST

The tax agents were also asked about their perceptions on managing GST. Figure 3 shows that the majority of the tax agents strongly agree that GST is a matter of course in their everyday business (56.6%) and it is easy to keep well-informed and up to date with GST legislation and rules (46.6%). However, 50% of the respondents were neutral when asked whether GST obligation is a simple thing to deal with.

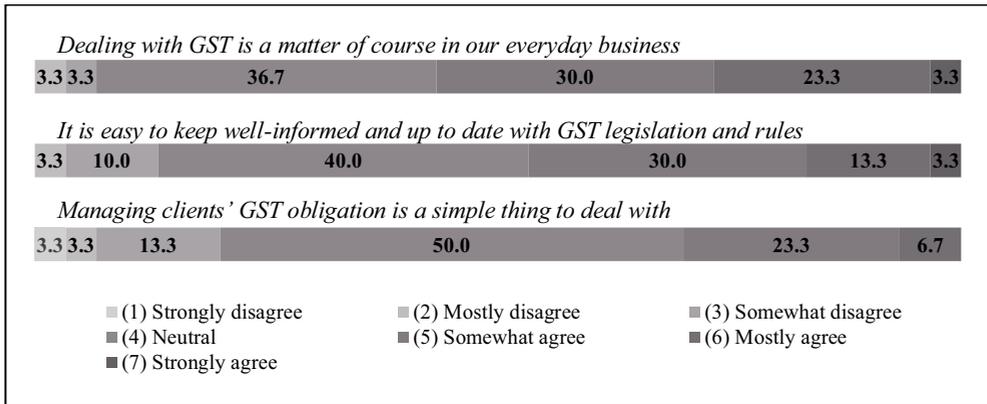


Fig. 3. Tax Agents' Perceptions on Managing GST

5.7 Tax agents' roles in influencing GST compliance

Tax agents play important role in influencing compliance. Figure 4 shows tax agents' perceptions on their roles in influencing compliance. 76.7% of the respondents strongly agree that it is a significant risk in the practice if clients incorrectly repost GST. Correspondingly, tax agents strongly agree that they rely on having accurate records (76.7%) and pay close attention to detail in client records when completing the GST03 (73.3%). The majority of the respondents (86.67%) also agree that it is important for them to act as trusted advisors for their clients. The tax agents conduct their responsibilities ethically as 70% of the respondents would not run a blind eye and let the client take responsibility for the GST lodge.

5.8 Tax agents' perceptions on legitimacy of tax system and the GST

Tax agents' perceptions on legitimacy of tax system is important in promoting compliance. Figure 5 shows that the majority of the tax agents are being neutral when asked about the legitimacy of tax system and the GST. Only 40% of the respondents strongly agree GST supports the wellbeing of the economy and society and 36.7% of the respondents strongly agree GST helps to improve business financial practices. A total of 26.3% of the respondents strongly disagree that GST is a fair tax.

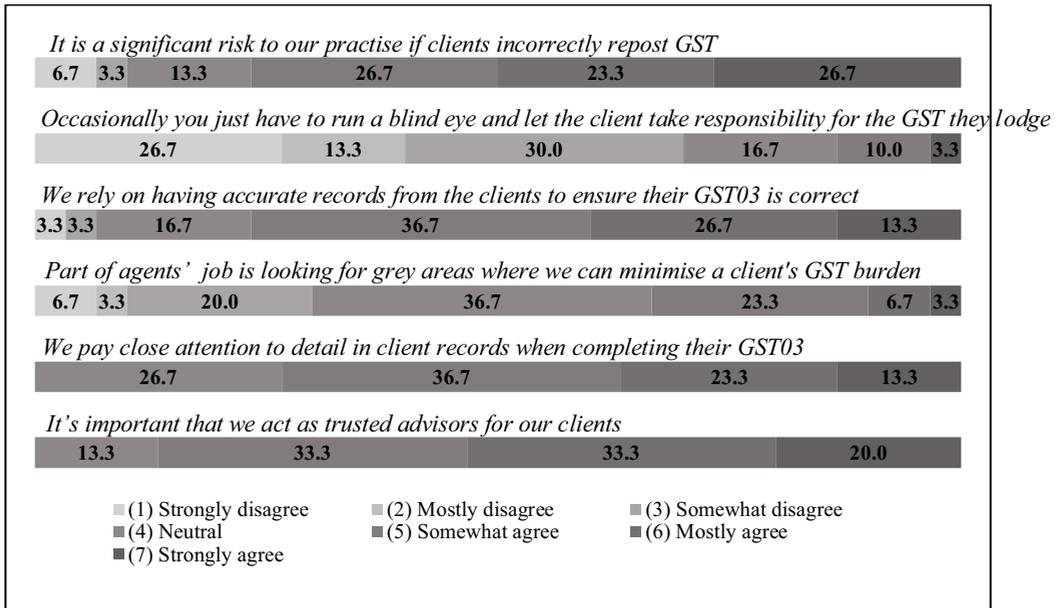


Fig. 4. Tax Agents' Roles in Influencing GST Compliance

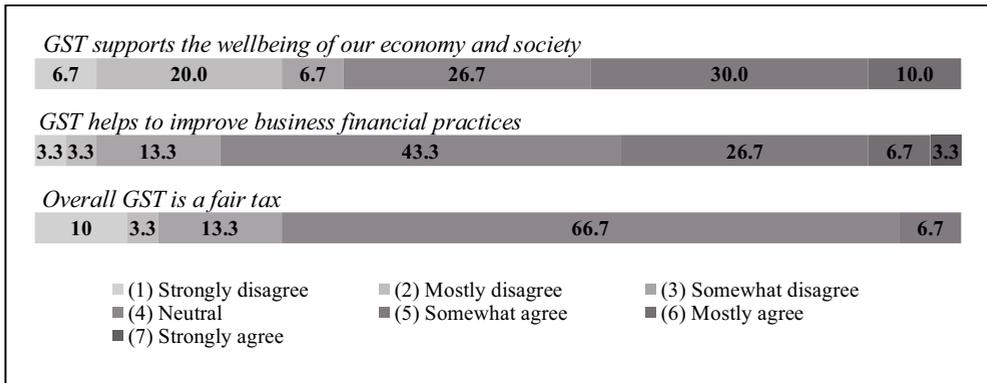


Fig. 5. Tax Agents' Perceptions on Legitimacy of Tax System and the GST

6 Discussions and recommendations

GST is another source of income to the government to build facilities for the public and develop the country. The successful of GST implementation is depending on several factors including tax administration and taxpayers' compliance. Businesses rely on tax agents' expertise to understand and comply with the newly implemented GST rules and regulations. In assisting compliance, tax agents play a significant role to provide tax advice, prepare and lodge correct tax return, and minimise tax risk.

The tax agents strongly agree that many of their clients feel burdened by GST requirements and find it difficult to understand how to comply with GST obligations. Consistent with what has been expected, tax agents confirm that their clients pass on their GST responsibilities to tax agents to some extent. Tax agents not only provide advice to their clients on meeting their GST requirements, but also recording and reporting of GST transactions for the clients. It is understandable that in the first year of GST

implementation, businesses may not understand the concept and technical issues of GST. Furthermore, the GST rules and regulations are keep on changing in regards to the tax professionals' comments and suggestions. It is expected that businesses will be more independent after several years or when the GST rules are more stable to comply with.

Tax agents perceive that clients' compliance level is low because clients occasionally submit GST03 after the deadline, compromise the accuracy of GST03 in order to get it done on time, intentionally make errors in their records, under-reporting GST payable and look for grey areas in the GST law to minimise GST debts. However, these non-compliance issues are common in any tax regimes. Studies found that non-compliance is influenced by various factors including economics, psychology, tax administration and behaviour [10, 11, 12, 13]. In tax administration, it is important for the tax authority to reduce the tax gap, have an effective audit and investigation activities, ensure tax evaders are penalised and create awareness for future compliance.

In terms of tax agents' role in promoting compliance, the tax agents strongly agree that it is important for them to act as trusted advisors for their clients. Hence, they rely on having accurate records and pay close attention to detail in client records when completing the GST03. However, when asked about the legitimacy of tax system and GST, the majority of the tax agents are neutral. Only a minority of the respondents strongly agree that GST supports the wellbeing of the economy and society, and helps to improve business financial practices. With more income to the government, the public want to see significant changes on country's development, better economic condition to expand businesses and they also expect more facilities are provided with minimal or no cost to the public. If the government is able to prove the effectiveness of GST to the country, tax agents' may strongly agree with the legitimacy of tax system and GST. However, there are many ways of looking at fairness; perhaps the tax agents were unsure as to which aspect of fairness that was aimed at. Future research could certainly explore the concept of fairness, either procedural fairness, retributive fairness or distributive fairness.

Another interesting finding is that about 30% of the agents agree that part of their job is to look for grey areas where clients' GST burden can be minimised with another 37% did not want to disagree. This may confirm past studies on tax agents' ethical behaviour [14, 15] which found that tax agents play dual roles - as enforcer as well as exploiter.

This is the first study that explores tax agents' perceptions on clients' compliance and tax agents' roles in promoting compliance after one year of GST implementation. The findings benefit the RMCD to understand tax agents' challenges in assisting clients' compliance. For future studies, researchers should examine businesses' compliance behaviour and explore RMCD officers' enforcement regulatory behaviour. These key players in the tax system play significant roles to ensure the effectiveness of GST. They have different issues and challenges which need to be identified and resolved. Similar study should be adopted by countries that have recently implemented GST, for example, India. Similar study should also be conducted annually to analyse the behavioural trends and identify weaknesses in GST administration.

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