

## **An Exploratory Study of Goods and Services Tax Awareness in Malaysia**

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### *Abstract*

*Tax has been recognized as one of the main sources of governments' income. Goods and Services Tax (GST) is an example of tax that contributes to the governments' income. This tax has been implemented in many countries such as Canada, Australia and New Zealand. GST is a tax imposed on the sale of goods and services. In recent years, this issue on GST has been raised by the Malaysian Government as an approach to reduce its deficit. However, the Malaysian Government is still finding the right time to implement GST as they are still conducting studies on the social impact of GST. This study attempts to investigate Malaysian awareness towards the upcoming of GST implementation.*

Keywords: Goods and Services Tax (GST), Awareness, Malaysia.

### **INTRODUCTION**

Fiscal policies are being adopted by governments across the world in order to influence their country's economic condition. The government has a choice of either to use expenditure or revenue collection in implementing these policies. The purpose of this implementation is to solve the economic problem (inflation or employment), thus, increasing the country's economic growth.

Tax is a major contribution of government's revenue collection in any countries, including Malaysia. In year 2008, statistics from the Ministry of Finance reveals that 66.7 percent of Malaysian government revenues were generated from taxes. Taxation in Malaysia is imposed by the federal legislation, passed by the Parliament. Since the introduction of tax legislation in Malaysia, there were numbers of changes made to this legislation. For example, changes in year assessment, implementation of e-filing, several changes in income tax rate and the latest changes was government's intention to implement Goods and Services Tax (GST). This issue has been debated for several years in the Parliament. GST is a tax on consumption of goods and services to end user. GST is also known as value added tax (VAT) in other countries such as United Kingdom, Finland and Canada. GST has been implemented in more than 146 countries including Australia, Hong Kong and Singapore as part of their revenue. The range of the tax is between 5 percent and 24 percent.

Malaysia has been immovable with fiscal deficit for more than a decade. The budget deficit accounted 7 percent of the country's gross domestic product in year 2009 and the government is trying to reduce it to 5.6 percent by this year and lesser than 4 percent by year 2015. Due to the fixed fiscal deficit and declining revenue, the government has taken several steps to counter this issue, for example by ceasing unnecessary government expenditure. Another way to strengthened and stabilized the government's revenue in the future was to propose the implementation of GST in Malaysia. The Malaysian Government has proposed a GST rate of 4 percent, which is a lower rate compared to the other countries. The Government aimed to implement this new tax scheme in the middle of year 2011. By doing so, they hope this will help to increase the economic growth in Malaysia.

Many questions, opinions and responses from various industries and consumer groups arose during the proposal of this issue while still being debated in the Parliament. They are keen to know how GST will affect

their interest, with some agreeing to it while some opposing to the implementation of GST. Those who oppose believed that GST will affect the price of goods and services, leading to price increase. This matter concerns especially the lower income bracket. However, the government has mentioned that GST is not a new tax. GST is actually a tax replacing the service tax that rate between 5 percent and 10 percent, which is higher than the 4 percent GST rate proposed. The opponents believed that GST is another political game played by the politicians though the government has explained the purpose of this implementation was to increase its revenue and to boost the economic growth of the country. Why these affairs do come into view? Do Malaysian citizen understand the concept of GST? Hence, this study intends to investigate the Malaysian citizen awareness towards the implementation of GST. This study hopes to increase the level of awareness among Malaysian on GST and perhaps as a guide for the government to take appropriate action in regards to that.

## **LITERATURE REVIEW**

Goods and services tax (GST) is also commonly referred to as value added tax (VAT). It is a tax government collected at the final purchase consumption. However, according to Hooper and Smith (1997), GST is actually collected at various stages of the production process. Accordingly, there is output tax, a GST tax charges by the suppliers on taxable goods and services and input tax, a tax incurred by businesses on goods and services purchases. Thus it is noted that GST is not a cost to the sellers and would not appear in financial statements as expenditure.

Recently, the government initiative to introduce Goods and Services Tax (GST) has been a growing topic of interest in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith, 1997), Malaysian citizens are not entirely convinced with this new tax scheme. The debates mainly centered on the advantages and disadvantages derived from the new tax initiative.

Proponents of GST contended that GST tax is necessary to reduce federal government deficit (McGowan & Billings, 1997). It is also viewed as a method to diversified government sources of income. GST would be able to provide government with a constant flow of income, thus increasing government abilities to elevate public services and improve economic stability. Nevertheless, opponent of this new tax reform argued that GST is difficult to implement and increased in tax revenue would only promote larger government spending (Bickley, 1989). In addition, GST would have profound impact to lower income group as opposed to higher incomes group (Hooper & Smith, 1997). This is mainly because the introduction of GST would reduce the lower income group's ability to purchase goods and services.

Cullis and Jones (1992) have highlighted the concept of false awareness in citizens, which are optimistic and pessimistic. Optimistic refers to citizens who 'underestimate the tax load incurred from public services' (Csontos, Kornai, & Toth, 1998). Alternatively, pessimistic are citizens who have overestimated tax burden or inaccurately estimate public service burden with the tax imposed to the public. These contradictive views have continually provided misconception on tax requirements, particularly when a new tax reform is to be introduced. Thus, this raises the need to increase awareness on what constitute GST.

One of the fundamental ways to increase public awareness is through knowledge (Mohani, 2003). (Tan & Chin-Fatt, 2000) asserted that tax knowledge can be imparted through general understanding on the tax regulations. Knowledge provide the taxpayers with the ability to comprehend the need for a new tax reform and this would eventually promote compliance (Singh, 2003).

A study conducted by (Csontos, et al., 1998) in Hungarian found that many citizen are not aware of the numerous kind of taxes levied on them. They have very limited knowledge on government true expenditures and

the cost of public services provided by the state government. This poor awareness has created many misconceptions on the true value of tax. Many have underestimated the tax burden needed in sustaining public services. This situation is not only unique in European countries as Cullis and Jones (1992) investigated the level of tax knowledge and awareness in the UK arrived at similar conclusions. Majority of the citizen (93 percent) only recognized income tax as government source of revenue. They also observed that female respondents display higher ignorance on government source of income than the male respondents. This result highlighted that the male counterparts are more concern with tax issues. In addition, they (Cullis & Jones, 1992) also noted that majority of respondents preferred fixed tax at current rate than the idea of improving public services by imposing increase tax rates.

Increase awareness and knowledge on a new tax initiative is essential to gain public acceptance and confidence, particularly in tax situation. Tax involves public expenditure. New tax reform creates uncertainty of future expenditure (Cullis & Jones, 1992). Uncertainty would subsequently initiate resistance and poses as a challenge towards government initiative to impose new regulations. Thus, it is paramount to educate the public on what is expected from the new tax initiative.

## **DATA & METHODOLOGY**

Primary data was collected through questionnaires-based survey. The questionnaire was divided into two sections with the intention to extract information regarding citizens' awareness on GST. The first section comprised of questions related to Malaysian citizen awareness on goods and services tax (GST). Meanwhile, the samples' demographic information was contained in section two.

Table 1 below is the summarization of descriptive statistics performed. Panel A reported that 94.74 percent of respondents are male while female only accounted a percentage of 5.26. From that total, 95.83 percent of the

male respondents came from the accounting background while only 4.17 percent are females.

Table 1: Descriptive Statistic

Panel A								
Gender	Male				Female			
NACT	94.23%				5.77%			
ACT	95.83%				4.17%			
Total	94.74%				5.26%			
Panel B								
Age (year)	20-24	25-29	30-34	35-39	40-44	45-49	above 49	
NACT	9.62%	30.77%	30.77%	9.62%	3.85%	7.69%	7.69%	
ACT	12.50%	37.50%	25.00%	20.83%	4.17%	0.00%	0.00%	
Total	10.53%	32.89%	28.95%	13.16%	3.95%	5.26%	5.26%	
Panel C								
Status	Single				Married			
NACT	48.08%				51.92%			
ACT	50.00%				50.00%			
Total	46.68%				51.32%			
Panel D								
Educational Level	Diploma	Degree		Master	PhD			
NACT	13.46%	55.77%		9.62%	23.08%			
ACT	4.17%	75.00%		20.83%	0.00%			
Total	10.53%	60.53%		13.16%	15.79%			
Panel E								
Income (RM)	Less 2000	2001-3000		3001-4000	Above 4000			
NACT	19.23%	28.85%		15.38%	36.54%			
ACT	4.17%	12.50%		16.67%	66.67%			
Total	14.47%	23.68%		15.79%	46.05%			
Panel F								
Job Area	Academician	IT	Engineering	Insurance	Government	Others	Finance	Accounting
NACT	38.46%	5.77%	19.23%	17.31%	9.62%	9.62%	0.00%	0.00%
ACT	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	58.33%	41.67%
Total	26.32%	3.95%	13.16%	11.84%	3.95%	9.21%	18.42%	13.16%
Panel G								
Position	Manager	Senior Exec.	Junior Exec.	Clerk	Others			
NACT	9.62%	30.77%	17.31%	25.00%	17.31%			
ACT	12.50%	70.83%	12.50%	0.00%	4.17%			
Total	10.53%	43.42%	15.79%	17.11%	13.16%			

Panel B showed that most of the respondents are from the age group of 25 – 29 years old, charting a percentage of 32.89, followed by 35 – 39 years old (13.16 percent), 20 – 24 years old (10.53 percent), 45 – 49 years old (5.26 percent), above 49 years old (5.26 percent) and 40 – 44 years old (3.95 percent). In the age group of 25 – 29 years old, 37.5 percent are from the accounting background while 30.57 percent came from the non-accounting background.

Panel C displayed the marital status of respondents. 48.68 percent are single while 51.32 percent are married, both striking a balance from the accounting background. The non-accounting background reported 48.08 percent and 51.92 percent respectively.

Panel D showed majority of the respondents holds a Degree qualification with a percentage of 60.53, with 75 percent of them from the accounting background. This is then followed by 20.83 percent with a Master and 4.17 percent with a Diploma in Accounting/Finance.

Panel E clearly shown that almost half of the respondents (46.05 percent) have an income level of RM4000 and above. This is then followed by those with an income level of RM2001 – RM3000 (23.68 percent), RM3001 – RM4000 (15.79 percent) and those less than RM2000 (14.47 percent). Of the total of the high income level (RM4000 and above), 66.67 percent has an accounting background while the remaining 36.54 percent without any accounting background.

Panel F exhibited 31.58 percent of the respondents are working in the Finance and Accounting area, followed by 26.32 percent from Academics, 13.16 percent from Engineering, 11.84 percent from Insurance and 9.21 percent from other areas. Those working in the field of Information Technology and Government only accounted 3.95 percent. Of the total, most of them are Senior Executives (43.42 percent) with 70.83 percent came from the accounting background while 30.77 percent do not have any accounting background.

**FINDINGS**

We begin our questionnaire by questioning the respondents if they realized that tax is the major revenue for the government before proceeding with questions regarding GST. From Table 2, we found that about 95 percent of respondents realized that tax is the major source of income for the government. However, there are small groups (5.26 percent) of respondents who are still not aware of this. Surprisingly, from that amount, about 4.17 percent came from the accounting (ACT) background.

Table 2

Knowledge of tax as government revenue		
	Yes	No
NACT	94.23%	5.77%
ACT	95.83%	4.17%
Overall	94.74%	5.26%

In total, 93.42 percent (71) heard about GST as being revealed in Table 3. The remaining who have yet to hear about GST are female respondents from the non accounting (NACT) working background. Hence, this shows that respondents from ACT background are aware and should be aware of GST.

Table 3

Heard about GST		
	Yes	No
NACT	90.38%	9.62%
ACT	100.00%	0.00%
Overall	93.42%	6.58%

Table 4 shows respondents’ understanding towards GST. The results showed a balance between those who understands and those who do not. However, majority (57.69 percent) of NACT respondent do not

understand what GST is. In contrast, the ACT group reported only 33.33 percent. We then further analyzed whether respondents who understands GST are able to define what GST is. We found that they are only able to provide a very general meaning of GST. For example they defined GST as tax with certain rate that were being charged on goods and services that consumer purchase. They did not mention about GST being charged at end user and were not aware that the Malaysia government has proposed a GST rate of 4 percent beginning middle of next year.

Table 4

Understand about GST		
	Yes	No
NACT	42.31%	57.69%
ACT	66.67%	33.33%
Overall	50.00%	50.00%

Overall, 60.53 percent of them do not agree with the implementation of GST proposed by the government. Concurrent with the previous respond from NACT (Table 4), we found that respondents who answered “yes” (really understand about GST) seems to agree with the implementation of GST. Alternately, respondents who answered “no” (do not really know about GST) disagreed with the implementation of GST. However, these results are not in line with ACT respondents. As revealed, 66.67 percent of ACT respondents who understand about GST (Table 4) do not agree with the implementation (Table 5). Meanwhile, 33.33 percent of ACT respondents agreed with the implementation of GST (Table 5) even though they do not have in-depth knowledge regarding GST (Table 4). In addition, those who disagreed with the implementation of GST believed that GST will further increase the price of goods and services. Consequently it would affect consumer purchasing power, especially the poor people. In addition, some of the respondents suggested that there is a need for the government to conduct a thorough research before

implementing GST, to provide a win-win situation. They also stressed on the need to reduce the role of “middle person” in business transaction, in order to avoid paying higher price of goods and services.

Table 5

Implementation of GST		
	Yes	No
NACT	42.31%	57.96%
ACT	33.33%	66.67%
Overall	39.47%	60.53%

Finally, asked the respondents whether they prefer the implementation of GST or increasing income tax rate in assisting the government to increase its revenue. Even though 60.53 percent (Table 5) of respondents disagreed with the implementation of GST, majority (51.32 percent in Table 6) of them opted for the implementation of GST instead of increasing income tax rate. More than 70 percent of ACT respondents chose the implementation of GST. Meanwhile, NACT respondents who agreed with the implementation of GST in Table 5 opted for the implementation of GST (Table 6), showing a consistent response. 40.38 percent of them chose the option to increase tax rate while the balance do not agree with either option.

Table 6

GST or increase income tax		
	Yes	No
NACT	42.31%	40.83%
ACT	70.83%	29.17%
Overall	51.32%	36.54%

In a nut shell, the awareness of GST among respondents is not consistent. This could be due to the lack of understanding or knowledge regarding GST. As a result, this motivates them to disagree with the

implementation of GST. This result is consistent with (Mazni & Noor-Sharoja, 2008; Tan & Chin-Fatt, 2000). The authors suggested that the level of respondents' awareness were associated with the tax knowledge. Respondent who are lack of knowledge relating to tax will have negative perceptions towards the tax imposed. It is also found in this study that the different level of awareness between respondents is related to their background, whether they have knowledge in accounting. This is clearly shown from the explanation in Table 4 and Table 5. This revealed that people with knowledge or works in the accounting area have different judgment regarding the implementation of GST.

## **CONCLUSIONS**

GST is an issue much being discussed in Malaysia recently. This situation occurs when the government proposed the implementation of GST as a way to increase its revenue and to further reduce government's deficit. An earlier plan by the government was to implement GST in the beginning of January 2007; however this plan was being deferred. The Government hopes to investigate further the social impact of GST implementation and to wait for the best time to implement it. This study intends to investigate the awareness among Malaysians regarding the implementation of GST. Findings of this study show that the level of awareness among Malaysian is still relatively low. This could be due to the lack of knowledge or information regarding GST. Consequently, this affected their decision to disagree with GST (Mazni & Noor-Sharoja, 2008; Tan & Chin-Fatt, 2000). For this reason, the government should reflect on how to increase the knowledge of GST among citizen. Furthermore, they should put more effort in delivering information and educating the citizen regarding GST, so that the citizen will have positive view about this GST implementation.

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