

The Cold Truth of GST: Reactions of the Malaysian Working Citizens

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Abstract

The Malaysian government started to introduce goods and service tax (GST) in April 2015 as an initiative to enhance capability, effectiveness, and transparency of tax management. However, would the taxpayers, particularly the working citizens, be satisfied with the implementation? Would they understand the GST legislation? And would the computation of GST be burdensome to them? This study attempts to answer the above research questions by looking at Malaysian working citizens' perspectives on the matter. The participants of the study were the employees who work in firms that process the GST transactions. We investigated the positive and negative reactions towards GST implementation among the working citizens. Importantly, we evaluated the influence of income on their perceptions. To analyze the data, MANOVA was employed to compare the employees based on their income level. The results presented that the low-income group was significantly different from the higher-income groups regarding their positive reactions as well as the negative reactions. It was concluded that GST had the most effect on the low-income group of employees. This preliminary, exploratory study can shed some lights into investigating more complex issues on GST.

Keywords: Goods and services tax (GST); Working citizens' perspectives; Income groups; MANOVA

1 Introduction

Malaysia value added tax (VAT) or that newly implemented goods and sales tax (GST) have created a lot of debates as well as hues and cries from the people. Malaysia, following other 160 over countries in the world, has also begun to implement the GST starting April 2015. GST in Malaysia is not entirely a new issue since the government has suggested it in 1989 and tabled it in National Budget of 2005. Since then, the implementation has long been a postponed government policy due to the Malaysians' opinions that they were not ready (Jayaraman, 2013). Finally, the government of Malaysia decided to implement the policy regardless of complaints that were still flowing. This implementation was a government agenda to overhaul the tax system as the country is dealing with a declining economy, combined with global insecurity (Zhou, Tam, & Heng-Contaxis, 2013).

However, there were several challenges faced after the implementation of GST. The tax has to be calculated in most business transactions while the calculation tool was not user-friendly. Based on the new system, a tax-registered company can claim for tax return only if its accounts are properly maintained. For this reason, this system persuades companies to keep their accounts in order. Hence, it is important to know the view or perception of the people who deals with the transaction in their daily work related to GST. This study is exploring the opinion of the Malaysian working people specifically those who are working in the accounting department of some firms. Importantly, the literature on the GST, especially in Malaysia, is sparse given the fact that GST has just been implemented. Specifically, this study was conducted to attain the following main objectives:

- a) To identify the issues related to GST; and
- b) To find out any differences in the demography profile (i.e., income of working citizens).

1.1 What is Goods and Services Tax (GST)?

GST is one measure of the government's comprehensive agenda to improve the process of tax collection and to overhaul the financial system. As a value-added tax, the GST is a multi-stage consumption tax, whereby consumers make payments at every stage of transactions. The supply of goods and services levy each stage of the supply chain from the supplier up to the retail phase of the distribution. The supporters of GST reported that the tax could enhance government methods to increase revenue, because GST functions as a reliable source of income to the government. GST is an effective tax to acquire for its easy policy that allows the government to reduce avoidance and evasion (Pheng & Loi, 1994). There are three types of GST. First, GST is charged on goods and services that are considered standard-rated supplies. Companies acquire this tax to pay to the government. These payments can be reimbursed provided that the tax on input is higher than the tax output. Second, GST is charged on goods and services that are zero-rated. For this tax, companies can claim the input tax for these supplies. Lastly, GST is exempted on supplies that are non-taxable. Claims cannot be made for these supplies (Royal Customs Department, 2015). Although the government imposes GST at all levels of supply chain, some tax elements are claimable. GST is a tax that covers all sectors of the economy, where all goods and services offered in Malaysia are charged. GST is an indirect tax that directly affects all sectors and sections of our economy (Garg, 2014). Before GST is put into practice, Malaysia collected sales tax and services tax separately. The former tax system put a possibility for the consumers to be charged twice.

1.2 How Does Goods and Services Tax Work?

The standard rate of GST in other countries is normally 3%, 5%, 7%, or 10%. The running government can change the GST rate based on the economic situation. The GST revenue is practically entirely collected from large businesses. All large companies are supposed to exercise GST when they acquire stocks, assets and services to operate their company (Mathew & Junaid, 2014). All supply chain key players are able to claim GST on their tax inputs. This practice decreases the company's operational cost allowing consumers to get a fairer price. Several goods and services are not taxed for socio-economic reasons. Among the good and services are basic foods, residential accommodation, education, health services, public transportation, and domestic consumption of water supply and electricity up to a certain limit.

1.3 The Cold Truth of Goods and Services Tax

In its implementation, Malaysian GST has its strengths and flaws. Among the strengths, are

that the tax does not apply to any investments and savings, as it is only charged on consumption. Therefore, this new tax system encourages the citizens to save and invest more. However, tax evasion intensifies unfair competition, reduces public revenues and hinders the exercise of fiscal policy. On the other hand, the tax system can improve a competitiveness of a country.

By having GST, the Malaysian Reserve estimated Malaysian government would collect RM22 billion a year (Panjamorthy, 2013). This scenario will help to preserve the incentive to have more effort and persuade free enterprise property market, and corporations. By generating public revenue to have a more stable source of income, the government can commit to its budget deficit reduction plans. Hence, the businessmen are more self-assured in the government's ability to raise enough revenue to restore the public financial health, and are better placed to survive with the global economy situation. Gradually private investment and job creation will spur, and thus help the government to have a sustainable economic development. This assumption is supported by an empirical study documenting a decrease in income taxes which had an impact on the increase consumption tax associated with higher economic growth, except for low-income countries (Acosta-Ormaechea & Yoo, 2012).

Implementing GST tax is a part of the government tax reform program to enhance the capability, effectiveness and transparency of tax administration and management. An efficient form of GST applies to all goods and services at a uniform rate, with a zero rate (actually no tax) for exports only, and exemptions only for small businesses and a limited range of goods and services that are particularly problematic to tax, for example, financial services and housing. Such a comprehensive GST maximizes economic efficiency and minimizes compliance and administrative costs for the government (Freebairn, 1997).

Since GST is a new phenomenon, there are a lot of issues related to it. GST is regressive in nature it could mechanically affect low-income households that involved about 56% of Malaysian households whose monthly income is RM3000 or less (Yeoh, 2011). GST is mainly criticized on weakening the lower income group's purchasing power as the same study done by Hooper and Smith (1997) that tax affects a lot of people. Another major criticism of GST is that it makes the price of essential commodities slightly higher. Nevertheless, Malaysian government seeks to address tax system by having some classifications of purchases into standard-rated, zero-rated, and exempt supply as mentioned earlier. The goods must either be standard-rated or zero-rated to be a taxable supply; exempt and out of scope supplies are not taxable supplies (Department RMC, 2014). Furthermore, GST should only be taxed on the taxable stock made by companies that have registered in the Royal Malaysian Customs.

Fitch Financial Ratings reported that the ringgit declined the most in October 2015. Malaysia is facing a worsening debt problem. Sadly, Malaysian government may not reach its 2016 fiscal deficit mark as the economy outlook endures stress from lower goods prices. Malaysia aims to reduce its budget deficit to 3% of GDP by 2015 and realize the status as a developed nation by 2020 probably by 6% growth annually. The shortfall could exceed Prime Minister, Najib Razak's estimate of 3.1 percent of the gross domestic product. Fitch also estimated the slippage is unlikely to increase Malaysia's debt ratio, which will remain around 52% of GDP until 2017.

Even though Bickley (1989) disputed that the increase in tax income would encourage greater government expenses, GST does help tax collection efficiency. McGowan & Billings (1997) emphasized that this tax can materialize the objective of reducing the government deficit. Remarkably, after the tabling of budget 2016, Malaysia Prime Minister has claimed that GST has proven to be the savior of Malaysia economy despite the fact that there are allegations it burdens the people. GST may create havoc especially to the lower income group but it does wonder to the government, as Drum and Edwards (2007) remarked that the biggest challenge that has been experienced by countries that have successfully implemented GST is to convince the citizen that the long-term benefits of GST will compensate the short-term discomfort.

1.4 Goods and Services Tax and Satisfaction

The implementation of GST could possibly limit the social flexibility for most Malaysians particularly the lower income-earners. The lower income families' spending behaviour is more susceptible to fluctuations in income, commodity-related revenue, and informal sector earnings are not steady making the unfortunate more vulnerable to price increase in their daily spending. To add salt to the injury, this low-income group has little or no savings because the most of the earnings is spent on the basic necessities such as food and utilities. A tax on food consumption especially will further limit the capability to save for many of the lower income households. Zhou et al. (2013) stressed that without sufficient savings, the unfortunate lower income earners will encounter problems in improving their quality of life such as collecting assets and better access to technology and education and hence undeniably increase the dissatisfaction among them.

Stathopoulos and Wise (2009) studied about job satisfaction and tax complexity in Australia in which they examined whether tax complexity influence job satisfaction among accounting practitioners. They found that the professionals were overwhelmed with the numerous of tax legislations which negatively influence their job satisfaction. When the demographic variables were investigated among the practitioners on their perceptions of the tax laws, no significant difference were found. Importantly the study documented that the dissatisfaction was mostly influenced by the laws complexity.

In the same front, the Australian GST challenged a dramatic shift among its working citizens especially the accounting practitioners. Phillips and Lange (2006) explored the effect of GST on working conditions, job satisfaction, and burnout, among public accountants. The study reveals that the GST introduction contributed to the increase burnout levels; however there was no significant change in job satisfaction. The most interesting finding of this study was the high propensity to leave the job among the accountants after the implementation of GST. Another similar study done in Barbados on work stress can have a detrimental effect on worker performance and productivity by Cadogan-McClean (2009) examining the relationship between the individual difference on resilience and work stress among accountants. Although the results were not statistically significant, the findings of this study will inform future research on the role of resilience in the workplace.

1.5 Goods and Services Tax and its Legislation

Once the policy is implemented, the government considers some factors to determine the tax rate such as the sales and services, social and economic considerations, exemptions and zero-rating, compliances costs, as well as rates in other countries that have implemented GST (Mansor & Ilias, 2013). The implementation of GST and another element of the new tax system are creating challenges and problems (Mykata, 2000). GST, as a consumption tax collects a larger portion of income from the low-income citizen than the high-income households. Curtis and Kingston-Riechers (2010), Narayanan (2014), and Alapatt (2014) are in the same opinion that GST is a regressive tax that will hit the low-income group. Malaysians are not an exception. Further, Walpole and Magnus (2005) studied on tax agent in Australia on GST work; they felt that the administrators had a poor understanding of business and tax agents' work, and processes, three-quarter of the respondents agreed that GST is not easy. Also, Buchan, Olese, Black and Kumar, (2012) found in their study GST influenced the compliance costs of businesses, particularly in the areas of software development and testing, technical research, high level transaction-class tax-audits, employee customer relationship regarding the impact of the rate change on their business transactions, thus, it is burdensome to the businesses.

1.6 Goods and Services Tax and its Calculation

Since GST is a new tax concept, the implementation of GST is a complex matter in Malaysia. The relevant literature about its application in Malaysia is still few. The greatest burdens of taxation are placed on the lowest income earners. Since there are a lot of considerations made in the process of calculating GST (Pheng & Loi, 1994) suggested that professional advice should be sought whenever necessary.

Additionally, GST record-keeping becomes a major problem for many businesses. The Royal Malaysian Customs Department regulate that businesses fulfill necessary duties to account for GST payment. It is very important, therefore, for businesses to maintain proper records and accounts for all GST transactions. This book-keeping is necessary to support claim as well as tax return. Hence, GST calculation has become more difficult especially for those who make the transactions as their daily work. Stevenson (2006) agreed that the new tax is burdensome in Canada.

2 Methodology

The present study examined the positive and negative perceptions of GST among Malaysian working citizens. To gather the data, one set of survey questionnaire was distributed to the accounting department employees in a number of large firms operating in Klang Valley. The questionnaire questioned issues related to the implementation of GST (i.e., lack of GST knowledge among clients, increasing documentation burden of record keeping, 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, keeping records and documentation, understanding the GST legislation, cooperation from clients, calculating the input tax credit, list of exempted goods and services, and shorter period of time to lodge the tax return). Besides the perceptions, we also gathered information about the employees' demographic profiles.

Table 1. Demographic Profile

Characteristics	Frequency
Gender	
Male	31 (30.1%)
Female	72 (69.9%)
Status	
Married	60 (58.3%)
Single	43 (41.7%)
Individual Income	
Below RM 2,000	30 (29.1%)
RM 2,000 to RM 3,000	29 (28.2%)
RM 3,001 to RM 4,000	44 (42.7%)

N = 103

Altogether, we distributed 300 questionnaires; however, only 103 returned which further analyzed for this study. Table 1 presents the demographic profile of the employees. There were more female respondents 69.9% than male, 30.1%. The majority of the respondents were married (58.3%) and only 41.7% of them were still single. This sample profile was

representative of the population as in the accounting field we observed more female staffs.

3 Result

This study is among the preliminary ones conducted to evaluate the implementation of GST in Malaysia. Specifically, we highlighted the working citizens' perceptions towards GST. Two types of responses were recorded, namely positive and negative perceptions on GST application in Malaysia. Further, we evaluated whether the perceptions among the working citizens can be differentiated based on their income level. There were three different income levels analyzed: the low income group (LIG, with income below RM2,000), the moderate income group (MIG, with income RM2,001 – RM3,000), and high income group (HIG, with income above RM3,000).

Table 2. Descriptive Results

Perceptions	Income	Mean	Std. Deviation
Positive	LIG	2.5833	.48171
	MIG	2.5733	.30713
	HIG	2.3522	.40625
Negative	LIG	3.2500	.27070
	MIG	2.5000	.60872
	HIG	2.8711	.43142

N = 103

Table 2 above shows the descriptive nature of our data. When asked about the perceived positive aspects of GST, the LIG's reactions were higher than the other two income groups ($M_{LIG} = 2.583$, $SD = .482$; $M_{MIG} = 2.573$, $SD = .307$; $M_{HIG} = 2.352$, $SD = .406$). When asked about the perceived negative aspects of GST, similarly, the LIG recorded higher mean as compared to the other two income levels ($M_{LIG} = 3.250$, $SD = .270$; $M_{MIG} = 2.255$, $SD = .608$; $M_{HIG} = 2.871$, $SD = .431$). Looking at the descriptive numbers in details, the LIG and HIG recorded higher agreement with negative perceptions of GST than the positive perceptions while MIG agreed more with the positive perceptions than to the negative ones.

Table 3. MANOVA Results

Effect		Value	F	df	Sig.	Partial
Income	Pillai's Trace	.323	6.345	6.000	.000	.161
	Wilks' Lambda	.700	6.380	6.000	.000	.163
	Hotelling's Trace	.397	6.414	6.000	.000	.166
	Roy's Largest Root	.284	9.368	3.000	.000	.221
	Root					

Significant is at $p < .05$

MANOVA was used to evaluate the differences between the income groups. Table 3 shows the full model result. We found that there was a significant difference of reactions toward GST between the income groups (Wilks' Lambda = .700; $F = 6.380$; $df = 6$; $p < .001$). The differences applied to both positive and negative perceptions. To evaluate where the differences lie, we utilized the Tukey's Post Hoc test. The full results can be found in Table 4. The Post Hoc results for the positive reactions of the working citizens indicated that the HIG was significantly different from the lower income groups ($M_{LIG} - M_{HIG} = .306$, $p = .002$; $M_{MIG} - M_{HIG} = .296$, p

= .030). For the negative perceptions, the results showed that the LIG was significantly different than the higher income groups ($M_{LIG} - M_{MIG} = .750, p < .001$; $M_{LIG} - M_{HIG} = .383, p = .033$).

Table 4. MANOVA Results

Perceptions	Income level (I)	Income level (J)	Mean differences	Std. deviation	Sig. value
Positive perceptions	LIG	MIG	0.0101	0.10722	1.000
		HIG	0.3060	0.10463	0.022
	MIG	HIG	0.2959	0.10556	0.030
Negative perceptions	LIG	MIG	0.7500	0.14710	0.000
		HIG	0.3828	0.13828	0.033
	MIG	HIG	0.3672	0.13950	0.048

The mean difference is significant at $p < .05$.

4 Discussion

From the results, the study highlighted that the perceptions on GST of the Malaysian working citizens can be differentiated by income level. The LIG reported the highest agreement on both positive and negative responses among the three income groups. This result was not surprising because it is true that, in many contexts, the citizens with low income are the ones to suffer the impact of taxes, especially GST (Acosta-Ormaechea & Yoo, 2012). The low-income people are benefitted but also severely hurt by GST. This group of citizens is aware of the positive aspects that they can enjoy from GST implementation; on the other hand, their expenditure is now increased due to GST, which can hurt their financial condition.

Another point we found was the differences in the reactions toward GST between the income groups. The HIG recorded lower agreement on positive reactions on GST. The disagreement could be due to the fact that this group of citizens does not directly enjoy the benefits of GST, for example, they are not eligible for tax-return. Additionally, these citizens are the ones who contribute more on paying GST. Most of their expenditures are highly taxable. For example, this group does not only pay GST for the goods that they purchase, but they also pay for the services due to their lifestyle that require luxury services from other people. On both positive and negative reactions, the MIG was significantly different with the other two groups; however, the differences in the mean were too small to be further discussed.

5 Conclusions

The results of the study suggested that Malaysian working citizens have both positive and negative reactions toward the implementation of GST. Importantly, the low-income citizens were the ones who have strongest reactions on both sides. These reactions could be due to the strong impact of GST on their financial state. Therefore, firms need to take advantage of tax incentives to help their lower-income employees, as stated in the Malaysian Government's budget which proposes tax deductions for GST-related purchases, services and training, which may mean tax incentives are available for one's business.

Further, this study proposes for the Malaysian government is to have knowledge fed in media to the public. Besides the government, particularly the Customs Department should conduct seminars and training regularly to facilitate business owners and company operators as

well as to gather feedback from tax payers, and at the same time to educate them on the GST system as what the Inland Revenue Authority of Singapore (IRAS) has been doing (Pheng & Loi, 1994). The transparent approach could maximize the level of thrust that contributed to the psychology and satisfaction of the working citizen.

Importantly, the government's initiatives to expand the tax base and to efficiently collect the tax through the implementation of GST, the majority of the population will be included in the tax base. This approach enables all citizens to become stakeholders in the federal budget. Therefore, the government must transparently display the will to cut wastages, leakages, and corruption. Additionally, to win the citizens' acceptance of GST, the government must reflect transparent accounting system and must exercise prudent spending, as well as ensure the citizens' welfare.

Despite the points highlighted and recommended, this study has some limitations. First and foremost, we had a low response rate, only 103 employees participated when we distributed to 300 targeted respondents. Also, this study did not utilize the simple random sampling technique to recruit the respondents. Therefore, there could be bias responses. Finally, it must be noted that the results of this study can barely be the preliminary path into understanding in more depth about GST implementation in Malaysia. However, this research served as a guideline or contribution of literature for future researchers who are interested in investigating similar area of interest.

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