PUBLIC ACCEPTANCE AND COMPLIANCE ON GOODS AND SERVICES TAX (GST) IMPLEMENTATION: A CASE STUDY OF MALAYSIA

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ABSTRACT

The Goods and Services Tax is a broad based consumption tax covering all sectors. Malaysian government introduced this GST from April 2015. GST is replacing sales and services tax which is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. The aim of present study is to investigate how the pertinent factors will influence the acceptance and compliance of GST system among the general people in Malaysia. From extensive literature review, four factors namely; price stability, government subsidies, income equality and readiness issues, have been identified that may affect the acceptance and compliance of GST. For collecting data, a structured questionnaire survey was conducted among 400 respondents. Findings show that there is statistically significant and moderate negative relationship between price stability and acceptance and compliance of GST and it indicates that consumers' willingness to comply and accept the new indirect tax reform will decrease if GST causes the price of goods and services to rise. Income inequality was found to be negatively correlated with acceptance and compliance of GST and it means that the perceived inequality driven by the implementation of GST will reduce the people's acceptance and compliance on GST. Readiness was positively correlated to people's acceptance and compliance of GST. Study findings also implied weak positive relationship between government subsidies and acceptance and compliance of GST. This research will allow the policy makers a step closer in understanding the voice of public. Nevertheless, government needs to take necessary approaches such as greater openness and transparency in order to gain support from the public.

Keywords: GST, income inequality, subsidy, price stability and compliance

INTRODUCTION

The announcement of Goods and Services Tax (GST) as a new fiscal policy in Malaysia, replacing the existing sales and services tax structure has turned out to be an eye catchy topic among all parties namely the general public, academicians, politicians, civil servants and et cetera. Malaysian government introduced GST from the 1st April 2015 with an aim to reduce the continuous budget deficit, preparing to encounter uncertain economic times by ensuring new resources are sustainable and less susceptible to economic fluctuations (Margaret & Khorana, 2011).The recommendation of GST as suggested by International Monetary Fund

(IMF) mainly opens up the pathway to enhance the efficiency of Malaysia Taxation system. When a new indirect tax is proposed there will be much debate about the pros and cons nevertheless there are several issues particularly highlighted by many public figures especially when the inflationary pressure in Malaysia is currently escalating, resulting from the cutback of petrol subsidies, moreover, inflation may rise even further in the following year driven by GST implementation.

The GST implementation may cause more burden on households which are less well-off thus effective and efficient redistributive policies may be imposed by the federal government to offset the regressive effect of GST. To boot, the heightening of inequality is fearful as it may lead to a perception that the system is unfair and widespread of mistrust towards government thus this is definitely an issue to be concern of. GST replacing sales and services tax is set to take effect as Parliament passed the GST Bill on 7th April 2014 after a bloc voting with total of 119 MPs voted to pass the Bill versus 81 MPs who opposed it (Ng, 2014).

The introduction of GST in Malaysia was intended to avoid tax cascading, multiple taxations and transferring pricing bias. The cost of doing business can be minimized by providing tax credit on business inputs hereby enhancing Malaysia’s competitiveness and improving efficiency. Into the bargain, a study is conducted and released by Ministry of Finance (MoF) stated there are numerous intrinsic flaws under SST administration, deducing the various inherent weaknesses listed as follows which can be resolved by GST as tax cascading and tax compounding, issue of transfer pricing and value shifting, no complete relief of tax on exported goods, discourages vertical integration and bureaucratic red tape. GST is known to be a more effective, efficient and transparent taxation system; in addition, it is business friendly and could spike economic growth, increasing competitiveness in the global market. VAT is an important element for sales tax reform in developing countries.

General Operation of GST proposed in Malaysia

GST is a comprehensive Value Added Tax (VAT). In some countries it is acknowledged as VAT since both are conceptually alike owing to the tax is applied each and every time value is added to goods and services along the supply chain (OECD, 2006). There are many differences in the way GST, a multi stage consumption tax is implemented around the world and across OECD countries nonetheless there are some typical core features. The GST is a consumption tax whereby all Malaysian will be taxed in proportion to their level of spending irrespective of income. GST is currently part of overall government tax reform program, general operations or model of GST proposed by the Malaysian government is 6 percent as announced during the Budget 2014. GST is levied on the supply of goods and services at all levels of value added activity along the supply chain, commencing from production, manufacture, wholesaler and retailer.

Ultimately, taxes on consumption paid by final consumer thus it is not intended to let the businesses to bear the burden of the tax itself or add cost to businesses operation. Companies are liable to register in the GST system if he makes taxable supplies where the annual taxable turnover exceeds RM 500,000, imposing charge on their output provided that they produced taxable goods and services. Taxable supply of goods or services must be made in Malaysia for GST to be chargeable hereby supplies that are not made in Malaysia are considered as beyond the scope of GST. Ergo, GST is neutral towards international trade based on international norm since they are destination based. All imported goods and services into Malaysia will be subjected to GST with some exception of items prescribed as zero-rated and exempt supply whereas all the exports items are zero-rated (RMCD, 2013).Even though GST is imposed at each level of the supply chain, tax element does not become part of the product cost due to GST paid on the business inputs is claimable. Disregard on several stages a specific good and service goes through the supply chain, the input tax incurred at the previous stage is always deductible, provided along the delivery process there is input and output tax flow GST will be offset.

Under the GST implementation, the tax imposes on the supply of goods and services can either be standard-rated, zero-rated or exempt supply. Supplies made by the Federal and State Government departments are not within the scope of GST except for some services prescribed by the Minister of Finance. However as the introduction of GST, general people have to spend more. Now the question arises how the consumers will comply with the new goods and services tax system. And the present study aims to identify the factors that might affect the acceptance and compliance of GST system in Malaysia.

LITERATURE REVIEW

Nkwe (2013) claimed tax compliance is the degree in which a taxpayer obliges to tax rules and regulation while James and Alley (2004) define tax compliance as the willingness of individual and other taxable entities to act accordingly along with the letter of tax law and administration without the application of enforcement activity. Olivia (2011) claimed that attitudes and perceptions are influenced by the fairness of the tax system, if the tax systems are found to be unfair tax compliance will be lower. Wearne (2013) claimed the drivers of GST compliance to be morally ‘the right thing to do’ and that GST system is perceived to be legitimate and fair, an important factors in influencing behavior.

Moreover, Kirchler (2007) revealed that taxpayers’ attitude on compliance may be influenced by many factors hence leading to the influence of taxpayers’ behavior and those factors vary from one country to another as well as from one individual to another such as taxpayers perception towards tax system, peer attitude, taxpayers understanding towards the tax system, motivations such as rewards, punishment such as penalties, cost of compliance, enforcement efforts, ethics of the taxpayer and tax collector, demographic factors such as the size of income and so on. Taxpayer’s attitude towards tax system has influenced on desire toward tax evasion and compliance. Hanno and Violette (1996) suggested attitude has significant relationship towards tax compliance intention by employing theory of reasoned action (TRA).

Likewise, Loo, McKerchar and Hansford (2007) performed a study in Malaysia stated there is positive correlation between the attitudes towards tax system and compliance behavior, in addition to, positive perceptions on the tax system are more likely to have positive attitudes towards the tax system thus encourage them to comply. Bidin and Shamsudin (2013) examined the perception of taxpayers towards the implementation of GST in Malaysia which took place in Kedah and Perlis and the study revealed that there is a positive correlation between attitudes towards GST and behavioral intention to comply with GST. Nonetheless, Olatunji (2013) in his study indicates the perceptions of members of public on VAT have no significant correlation on acceptability.

GST is a broad based consumption tax which is levied on the supply of goods and services at each stage of the supply chain. GST ultimately affects everyone thus it is definitely an issue which concerns all parties. The rise in cost of living driven by fuel subsidy adjustment has affected majority of silence additionally policy-induced inflation is expected to go higher by year 2015 thus price stability is chosen to be a predictor for public’s acceptance and compliance on GST. Additionally, GST is typically known as a regressive tax as it tend to shifts the burden more towards the poor thus government subsidies is selected as a predictor in this research study.

Subsequently, the rising income inequality in Malaysia has raised the concerns from many parties; moreover, based on the previous studies shown GST has the tendency to widen the inequality hence income inequality is selected as a predictor for this study. GST is still a new field of knowledge need to be explored by all parties and based upon earlier studies it claimed that GST is complex as it involves tedious working paper thus readiness issue is selected as one of the dimension in determining public's acceptance and compliance on GST. All these four dimensions are discussed below.

Price Stability

European Central Bank's Governing Council in year 1998 came out with the definition of price stability as "a year-on-year increase in the Harmonized Index of Consumer Prices (HICP) for the euro area of below 2 percent and to be maintained over a medium-term perspective". The Governing Council too clarified that in the pursuing of price stability it aims to maintain the inflation rates below, but close to 2 percent over the medium term, sufficiently to fully acquire the benefits of price stability (European Central Bank, 1998). Most recent PTA signed in year 2007 defines price stability as annual increases in the consumer price index (CPI) of between 1 and 3 percent on average over the medium term. Conceptually, price stability refers to an environment in which the price is stable enough where people pay no attention to inflation when making economic decision (James & Alley, 2008). Price stability promises high levels of economic activity and employment, enhancing the price mechanism's transparency.

Moreover, price stability reduces the distortion of inflation which will affect the economic behavior and social security. In an environment where the price of all goods and services continuously escalating, consumers, businesses and investors are left with no solid ground in making sound economic decisions. Such uncertainty call for various costs owing to businesses may end up making incorrect investment decision. Businesses' relative prices can be distorted due to inflation thus this makes it difficult for businesses to invest in a high inflation environment. Inflation is a tax (Crowe, 2005) and when inflation is high, firms and businesses face uncertainty about the future and this change the way in which they behave, reducing the economic agents' enticement to invest.In point of fact, when GST was first introduced in year 1993, Singapore government kept a tight control over monetary policy to safeguard the inflation rate could not increase by the full amount of expected inflation (Chan, 2012).

Furthermore, Singapore government-linked companies decided to absorb the GST on key goods during the initial stage, retaining low CPI and keeping track of inflation. Ergo, members of public were not greatly affected by regressive effect of GST enforcement. Additionally, inflation affects the economic growth rate negatively (Padovano & Gall, 2001, 2002). Hellerstein (1997) stated American want their public official to fight inflation to increase long-term output and employment in addition to strengthen the society's moral foundation. In a nutshell, without the inflation protection even with the GST credit which was intended to protect the poor is pointless as the purchasing value erodes over time (GST, 2003). Thus, price stability is essential in determining the willingness of people to invest, the willingness of people to work and political stability.

Nkwe (2013) claimed tax compliance is the degree in which a taxpayer obliges to tax rules and regulation while James and Alley (2004) defined tax compliance as the willingness of individual and other taxable entities to act accordingly along with the letter of tax law and administration without the application of enforcement activity. Bloomquist (2003) stated taxpayer dissatisfaction may arise when the perception of public in the value of goods and services received is less than taxes paid. Olivia (2011) claimed that attitudes and perceptions are influenced by the fairness of the tax system; if the tax systems are found to be unfair hence the tax compliance will be lower. Torgler (2003) claimed that when payment is to be made including the taxes, individual with financial distress may perceive the payment of tax as a strong restriction. However, Alabede and Ariffin (2011) implied the financial condition of individual might positively or negatively affect his willingness to comply in tax dependent on its financial status.

H^1 There is a negative relationship between price stability and acceptance and compliance on GST.

Government Subsidy

McKerchar (2003) suggested that social system should be designed to convince the taxpayers that their hard-earned money is being wisely spent by the government and that they should feel positive about their contribution thus leading to increase in tax compliance. Smith (1992) in his study claimed that positive incentives tend to increase citizen's commitment to tax compliance. Similarly, Alm, Jackson and McKee (1992a) and Bordignon (1993) implied that positive inducements such as reward or public good have a significant and positive impact on compliance. Alm, McClelland and Schulze (1991, 1992) suggested government can increase compliance by offering 'goods' that is preferred by members of public and providing these goods in a more efficient manner or more effectively thus emphasize that taxes are necessary for receipt of government services.

H^2 There is a positive relationship between government subsidies and acceptance and compliance on GST.

Income Inequality

Spicer (1974) revealed there is positive relationship between perceived income inequality and tax evasion in tax systems. Likewise, EU economists claimed that there is positive correlation between evasion activity and inequality as the widening of inequality will lead to more evasion thus less to tax compliance. Bloomquist (2003) claimed that the widening of income inequality will contribute to the tendency to tax evasion by both opportunity and motive to evade. Falkinger (1995) pointed out individuals tend to reduce evasion if the socio-economic system is considered to be relatively equal and fair. However, inequality leads to unfair system and caused mistrust towards the government.

H^3 There is a negative relationship between income inequality and acceptance and compliance on GST.

Issues of Readiness

A study by Tajudin (2014) conclude that the capability of minimum household income families in Malaysia to accept GST was difficult and Bloomquist (2003) suggested that financial strain may lead to non-compliant when the expenses of his household are more than his income. Subsequently, Torgler (2003) implied tax complexity may result in unintentional non-compliance if the taxpayers facing problem in filling the tax form likewise Remetse and Yong (2009) also revealed that tedious working paper of GST may result in noncompliance.

Additionally, Torgler (2003) revealed that fiscal ignorance might be a pivotal contributor in the development of negative feelings towards taxation. Bloomquist (2003) stated that the tax non-compliance is inversely related to the effectiveness of tax authorities. Carnes and Cuccia (1996) claimed that increased information related to tax regulatory may increase the perceived fairness of tax system as well as favoring the tax compliance.

H^4 There is a positive relationship between readiness issues and acceptance and compliance on GST.

METHODOLOGY

In this study, the structured questionnaire survey was employed. A total of 400 sets of questionnaires were distributed through convenient sampling. The sampling population for this study was among the households in Penang. Penang serves as the Hub for the Northern Corridor Economic Region (NCER). The data collected were then analyzed and interpreted using IBM Statistical Package for the Social Sciences (SPSS) software package version 21.

FINDINGS

Reliability Analysis

Sekaran (2000) stated that the reliability of the measurement is obtained via testing the consistency and stability of the data collected. This is to ensure all the dedicated items in each of the variable are compliant in providing consistent results.

Table 1. Reliability test

Variable	*Number of Items*	*Cronbach's Alpha*	*Remarks*
Acceptance and Compliance	5	0.916	Dependent variable
Price Stability	4	0.927	Independent variable
Income Inequality	3	0.864	Independent variable
Government Subsidies	4	0.877	Independent variable
Readiness Issues	10	0.927	Independent variable

Cronbach's alpha coefficient for all variables ranged above 0.8 indicates a good and excellent correlation as suggested by George and Mallery (2003). Likewise, Sekaran (2000) also claimed that internal consistency with alpha coefficient 0.80 and above can be ranked as good. The highest Cronbach's alpha correlation coefficient as documented is 0.927 and it comprises of two independent variables namely price stability and readiness issues as exhibited in Table 1. The second highest mean score is acceptance and compliance on GST is at 0.916 and as quoted by George et al. (2003) Cronbach's Alpha above 0.9 the instrument can be considered as excellent thus reliable. Moreover, the Cronbach's Alpha for government subsidies and income inequality both range above 0.8 that is 0.877 and 0.864 respectively.

Correlation Analysis

Pearson's correlation coefficient (r) involve the measurement of linear associations and on how variables are related, Table 2 shows the bivariate correlations between the dependent variable and predictors for this study namely acceptance and compliance, price stability, income inequality, government subsidies and readiness issues. Values of correlation coefficients (r) are ranged between -1.00 and +1.00 with positive numbers used to identify a positive relationship and negative number is used to identify a negative relationship. Additionally, the closer a Pearson's r value to 1 the stronger the relationship between the two variables.

Table 2. Correlation analysis

	Acceptance and Compliance	*Price Stability*	*Government Subsidies*	*Income Inequality*	*Readiness Issues*
Acceptance and Compliance	1	-	-	-	-
Price Stability	-.476**	-	-	-	-
Government Subsidies	.286**	-.182**	-	-	-
Income Inequality	-.544**	.688**	-.136**	-	-
Readiness Issues	.523**	-.327**	.187**	-.384**	1

**. Correlation is significant at the 0.01 level (1-tailed).

Table 2 shows that the Pearson's correlation (r) between acceptance and compliance and price stability has relatively moderate negative relationship (r = -0.476), in addition to, the Sig. (1-tailed) value less than 0.05 thus this proves that there is significant negative correlation between these two variables. Thus, an increase (decrease) in price stability will lead to decrease (increase) of acceptance and compliance on GST.

Subsequently, correlation analysis indicates there is a positive relationship between government subsidies and acceptance and compliance on GST due to the value of Pearson's correlation coefficient is positive. Nonetheless, the Pearson's r is 0.286 and with Sig. (1-tailed) of 0.00 at 10 percent confident level this indicates there is significant but weak relationship between these two distinct variables. For a positive relationship this will imply that an increase in government subsidies will increase people's acceptance and compliance on GST.

Further, the correlational relation between income inequality and the acceptance and compliance on GST was tested. As shown in Table 2, Pearson's r is -0.544 and it has Sig. (1-tailed) at 0.01 levels thus this would suggest that these two distinct variables have significant, negative and relatively moderate relationship. A negative affiliation implies that the widening of income inequality will decrease people's acceptance and compliance on GST. The correlation analysis shows that there is statistically significant positive and moderate relationship between readiness issues and acceptance and compliance on GST since the Pearson's r is 0.523 and it is significance at 0.01 levels. Therefore, an increase (decrease) in people's readiness issues will lead to the increase (decrease) of people's acceptance and compliance on GST.

Multiple Regression Analysis

Multiple regression analysis assesses both the degree and the characteristic of relationship between the independent variable and dependent variable. The regression coefficients express the relative magnitude for each of the independent variable in the extrapolation of dependent variable. The closer the R^2 to 1 meaning the regression model fits the data better as most of the variation in the dependent variable can be explained by the model. The R^2 value for four independent variables embedded in the regression model shown in Table 3 is 0.447, suggesting that almost 45 percent of the variation in acceptance and compliance on GST is explained by independent variables. As computed the F value is 71.249 and p-value =0.000 ≤ 0.05, thus it can be concluded that the regression model is fit and generally considered statistically significant.

Table 3. Coefficient

Variables	*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
	B	*Std. Error*	*Beta*		
(Constant)	2.073	.254		8.170	.000
Price	-.132	.057	-.127	-2.301	.022
Subsidies	.160	.041	.158	3.891	.000
Inequality	-.301	.055	-.307	-5.479	.000
Readiness	.401	.052	.334	7.665	.000

R Square = 0.447
Adjusted R Square = 0.441
F Change = 71.249
Sig. = .000[b]

Model Summary

ANOVA[a]

Based upon the β values for all the variables as shown in Table 3, readiness issue is the most significant item in determining the acceptance and compliance with the highest standard deviations value of 0.334. The second determinant of acceptance and compliance is income inequality with β value of -0.307 and this is followed by government subsidies and price stability with β value of 0.158 and -0.127 respectively.

DISCUSSION

The findings of this study demonstrates statistically significant (Sig t = 0.022) and moderate negative linear relationship (r = -0.476) between price stability and acceptance and compliance on GST. This indicates that the consumers' willingness to comply and accept the new indirect tax reform has been negatively correlated to the price of goods and services. In other words, the people's acceptance and compliance on GST will decrease if GST causes the price of goods and services to rise. This finding is consistent with Bloomquist (2003) as the author claimed that taxpayers' dissatisfaction may arise from the burden of the tax system and the perception of the public in the value of goods and services received is less than taxes paid. Regressive taxes place a greater burden on consumers thus may induce a sense of unfairness towards the tax (Kaplan, 2002). In a nutshell, the hypothesis is accepted and price stability can be finalized as one of the factors in influencing people's acceptance and compliance on GST. Both correlation and regression analyses suggested that there is a statistically significance (Sig. t = 0.000) and weak positive relationship (r = 0.286) between government subsidies and acceptance and compliance on GST.

Hence, this finding implies that public's acceptance and compliance on GST is positively related to government subsidies. That is to say, the redistribution of cash transfer or other compensation packages by the federal government induce public's acceptance and compliance on GST. The hypothesis is consistent with Smith (1992) as the author claimed that positive incentives tend to increase citizen's inclinement upon tax compliance. In this support, Alm et al. (1992) implied positive inducements such as reward or public good have a significant and positive impact on compliance.

Moreover, the increase in the amount of individuals receives from a given tax payment hence their compliance rate will increases (Alm et al., 1992). Cubero et al., 2010 and Zirlott, 2007 denoted redistributive effect of social spending is progressive besides Goerke (2003) claimed that higher level of tax progressivity tends to encourage the tax compliance. This may be the result of weak positive association found between government subsidies and acceptance and compliance on GST as there are respondents who opposed redistribution policies. Even so, the hypothesis is accepted and government subsidies can be regarded as one of the relevant dimension in influencing people's acceptance and compliance on GST.

This study suggested there is statistically significant (t= 0.000) and moderate negative relationship (r = -0.544) between income inequality and acceptance and compliance on GST. This can be concluded that income inequality is negatively correlated with acceptance and compliance on GST as the perceived of inequality driven by the implementation of GST will reduce the people's acceptance and compliance on GST. This hypothesis was supported by previous study done by Spicer (1974) who revealed that there is positive relationship between perceived inequality and tax evasion in tax systems.

Similarly, EU economists claimed that there is positive correlation between evasion activity and inequality as the widening of inequality will lead to more evasion thus reduce tax compliance. Falkinger (1995) also pointed out that individuals tend to reduce evasion if the socio-economic system is considered to be relatively equal and fair. Bloomquist (2003) claimed that if the tax system negatively impact taxpayer's financial status may lower the tax compliance. High levels of inequality may bring about the sense of fatalism and disengagement from political processes (Lister, 2007). Ultimately, the hypothesis is accepted and income inequality can be considered as a relevant predictor in manipulating people's acceptance and compliance on GST.

The findings of this study indicated there is a statistically significant (t= 0.000) and moderate positive relationship (r = 0.523) between readiness and acceptance and compliance on GST. This would imply that readiness is positively related to people's acceptance and compliance on GST. In other words the state of being fully prepared to absorb the shock of GST will motivate people's acceptance and compliance on GST. Ebrill et al. (2002) stated that VAT is often thought to be cumbersome for both taxpayers and authorities and Remetse et al. (2009) denoted loads of small scale business owners dislike paying GST primarily due to tedious working papers thus result in noncompliance. In addition, Torgler (2003) implied that tax complexity may result in unintentional non-compliance except (Schmidtchen, 1994) as the author implied a more complex tax will increase tax compliance.

Nevertheless, (Tajudin, 2014; Palil et al., 2013) revealed that Malaysians are not ready towards GST. A success of any fiscal policy requires proper planning, effective communication and quality of its implementation (Olatunji, 2013). Bloomquist (2003) claimed the tax non-compliance is inversely related to the effectiveness of tax authorities. Smith (1992) stated positive action and behavior by the state tend to increase taxpayer's positive attitude and commitment to tax system and tax payment thus tax compliant. Nonetheless, Carnes and Cuccia (1996) claimed that increased information related to tax law and explanation for changes may increase the perceived fairness of tax system hence favoring the tax compliance.

CONCLUSION

The aim of this study is to investigate on the influential factors upon the acceptance and compliance of Good and Services Tax (GST) system in replacement of current Sales and Services Tax (SST) among the Malaysian citizens. Four elements namely; (i) price stability; (ii) government subsidies, (iii) income equality and (iv) readiness were tested as the factors toward the acceptance and compliance of GST. The statistical analyses have resulted in significant and moderate negative relationship between price stability and acceptance and compliance of GST indicating that consumers are open to accept the new indirect tax reform to decrease due to GST and the price of goods and services to rise. Income inequality was negatively correlated with acceptance and compliance of GST and it means that the perceived inequality driven by the implementation of GST will reduce the people's acceptance and compliance on GST. Readiness was positively correlated to people's acceptance and compliance of GST. Findings in this study also implied weak positive relationship between government subsidies and acceptance and compliance of GST. This paper fulfils an identified need to study on enhancement of awareness and level of understanding on the needs of the GST implementation among low income earners in Malaysia.

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