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GST compliance and challenges for SMEs in Malaysia

Yong Mun Ching,¹ Jeyapalan Kasipillai² and Ashutosh Sarker³

Abstract

Malaysia introduced GST in April 2015 to reduce its budget deficit. This study investigates how the introduction of GST impacts SME owners in the retail sector. We conducted semi-structured face-to-face interviews with owners of GST-registered SMEs within the context of the theory of reasoned action model. Findings reveal mixed results on the attitudes and perceptions of the interviewees. Compliance costs are proportionally higher among SMEs and these enterprises are often not adequately prepared to accommodate the new tax provision into their existing businesses. The study identifies the relationships among the factors that influence the intention and compliance behaviour of GST taxpayers.

Keywords: goods and services tax, small and medium-sized enterprises, qualitative study, tax compliance

¹ PhD Student, School of Business, Monash University Malaysia (email: mun.yong@monash.edu).

² Professor, School of Business, Monash University Malaysia (email: jeyapalan.kasipillai@monash.edu).

³ Senior Lecturer, School of Business, Monash University Malaysia (email: ashutosh.sarker@monash.edu).

1. INTRODUCTION

One of the major concerns of goods and services tax (GST) introduction is its strong impact on small and medium-sized enterprises (SMEs). Malaysia introduced a GST in April 2015 in order to generate sustainable revenue streams and in the hope that its implementation would reduce its budget deficit to 3% in 2015 (2010: 7.4%; 2012: 4.5%; 2013: 3.9% and 2014: 3.5%) (Kraal & Kasipillai, 2016). In 2017, the revenue collection is expected to expand at around 3% to MYR219.7 billion, with a targeted fiscal deficit of 3% of GDP in 2017, compared with 3.1% in 2016.⁴ In 2015, SMEs contributed 36.3% to Malaysia's economy (GDP), a steady growth from 32.5% in 2011. SMEs employed 65.5% of the country's workforce in 2015. As Malaysia endeavours to achieve the status of a developed nation by 2020, the country deals with varied tax-collection and revenue-generation issues. To lessen its vulnerable reliance on income from petroleum, which constitutes more than 40% of federal government revenue in 2014, the country replaced the sales tax and services tax with a GST. The government sought to achieve a steady source of revenue by broadening the tax base (Alappatt & Shaikh, 2014; Narayanan, 2014; Shaari, Ali & Ismail, 2015). The GST contributed MYR41.2 billion in 2016 compared to a predicted figure of MYR18 billion from the sales tax and services tax.⁵ In addition, the GST will cast the revenue net wider by capturing the entire economic chain that includes the shadow economy, estimated at 30% (Zhou, Tam & Heng-Contaxis, 2013). Although the government has taken several measures to reduce the compliance burden for tax-paying owners of SMEs, such as providing them with e-vouchers to upgrade or purchase GST-compliant software and training (Mokhtar, 2015), it has yet to address compliance issues facing SMEs.

This study investigates the major challenges encountered by GST-registered SMEs in Malaysia, namely GST-compliance readiness, compliance costs and attitudes. To this end, we pursue a qualitative approach (Creswell 2009; 2013) and use the theory of reasoned action (TRA) model (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1977). The research strategy used in this study is phenomenology, which allows us to report our findings to closely resemble the participants' experience in implementing GST and their perception towards its introduction. This paper uses the abbreviations GST and value added tax (VAT) interchangeably.⁶

In line with our research strategy, we conducted semi-structured face-to-face interviews, which included 16 interrelated questions (see Appendix 1) that focused on the research objective, with nine owners of GST-registered SMEs in the retail sector in the state of Selangor and the Federal Territory (Kuala Lumpur) of Malaysia. Interviews were conducted at the premises of the businesses between 16 July and 16 September 2015. The results indicate that business owners are inadequately prepared to accommodate the new tax system into their existing business, while also experiencing high stress levels from complying with burdensome compliance costs. These compliance costs include both tangible costs (initial, recurring and non-compliance costs) as well as hidden costs

4 'PM Najib Razak's 2017 Budget speech', New Straits Times Online, 21 October 2016, <<http://www.nst.com.my/news/2016/10/182202/full-text-pm-najib-razaks-2017-budget-speech>>.

5 'Budget 2016: GST will boost national revenue by RM21bil', The Star, 23 October 2015, <<http://www.thestar.com.my/News/Nation/2015/10/23/Budget-2016-GST-boosted-revenue-by-RM21bil>>; 'Customs Department targets 2017 GST Collection of RM42 billion', New Straits Times Online, 21 January 2017, <<http://www.nst.com.my/news/2017/01/206096/customs-dept-targets-2017-gst-collection-rm42-billion>>.

6 A consumption tax is called a value added tax (VAT) in European countries but it is commonly labelled as GST outside Anglo jurisdictions such as Australia, New Zealand, Singapore and Malaysia.

(psychological and social costs). After reviewing the tax literature, we identified three factors influencing GST implementation among SMEs: GST taxpayers' perception of fairness, GST compliance readiness of businesses and external factors (developments) that affect the business.

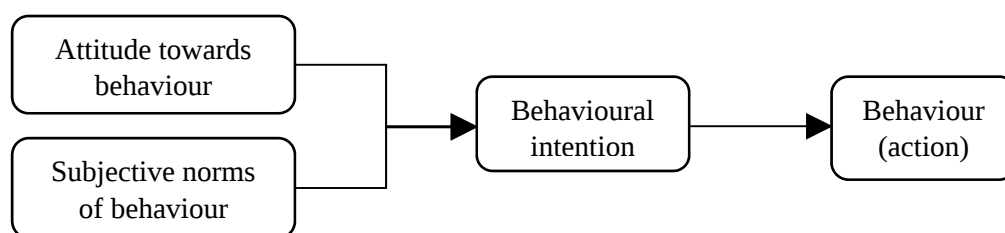
This study identifies the perception of fairness regarding the GST system, the GST compliance readiness of businesses and external factors influencing the behavioural intention of taxpayers. Further, the degree of support from family members, friends, fellow retailers and external consultants, known as subjective norms (perceived social influence), also determine the behavioural intention of taxpayers. The identification of factors influencing the behavioural intention of taxpayers is crucial because taxpayers could be influenced and nurtured to engage in GST-compliance activities over time.

2. THEORETICAL PERSPECTIVE

The TRA, which is a theory of social behaviour, was developed by Martin Fishbein and Icek Ajzen. According to Ajzen and Fishbein (1980), human beings are assumed to be rational and consider the outcomes of their actions before they make a decision to perform, or not to perform, a given behaviour. Behavioural and tax-compliance studies have widely used the TRA model to analyse tax compliance (Bidin & Shamsudin, 2013; Ishak, Othman & Omar, 2015).

Figure 1 illustrates the theoretical relationships of behavioural attitude, subjective norms, intention and action as expounded by the TRA. A behavioural intention to take action or not to take action (e.g., pay or not to pay tax) is assumed as the immediate factor that influences behaviour (e.g., tax compliance or non-compliance). The TRA model uses two components, namely attitude (personal) and subjective norms (social influence) to predict behavioural intention.

Figure 1: Theory of reasoned action



Source: Adapted from Ajzen and Fishbein (1980)

Attitude refers to a person's belief and involves evaluation of certain implications as a result of a particular behaviour. Subjective norms are 'perceived social pressure' exerted on an individual to take, or not to take action (Bidin & Shamsudin, 2013). As such, generally individuals will intend to take an action when they have a positive evaluation on the action, and when they believe that their social groups think they should do it. In this study, the TRA framework is used to analyse the motivating factor (behavioural intention) that affects actual behaviour of GST taxpayers. Desirable compliance behaviour among taxpayers can be influenced or persuaded via engaging in activities that enhance attitude and subjective norms of taxpayers' behaviour.

Using the TRA as its theoretical framework in a survey of 103 respondents in the manufacturing sector in the states of Kedah and Perlis in Malaysia, Bidin and Shamsudin (2013) affirmed that subjective norms and attitude have a significant and positive influence on the intention to comply with GST. In our study the most significant factor influencing compliance intention behaviour was subjective norm (social pressure), which refers to peers or business partners.

3. LITERATURE REVIEW

Our literature review covers the theoretical underpinning of the study and we examine prior studies in the areas of compliance behaviours and empirical studies on GST (or VAT) implementation experiences in five countries, namely Ethiopia, Bangladesh, Singapore, New Zealand and Australia. New Zealand applied GST from 1986, Bangladesh in 1991, Singapore from 1994, Australia in 2000 and Ethiopia in 2003. Other than Ethiopia, all of them are Commonwealth countries and they have all economically benefitted from introducing this new consumption tax.

3.1 Empirical studies on GST implementation

Our review of the experiences of implementing GST in five countries, namely Ethiopia, Bangladesh, Singapore, New Zealand and Australia assisted in tracing common issues and hidden costs faced by taxpayers in these countries. Certain GST implementation problems and issues in Ethiopia and Bangladesh are anticipated to arise in Malaysia too. In the case of Bangladesh, some of the common challenges in GST implementation, after more than two decades of implementation, include: difficulty in understanding the legal provision; lack of availability on updated version of law; excessive and unnecessary documentation; delay in getting refunds; disappointing computerised accounting system; and financial hardship (Bala, 2010). A study of compliance costs and problems in the Ethiopian VAT system by Yesegat (2008) highlighted major problems, including insufficient tax administration resources and gaps in administration in the areas of refunding, filing, invoicing, audits and penalties. The author also identified little tax awareness among the public, weak educational programs, and lack of trust between the taxpayers and administrators as the major challenges to the VAT system.

In Australia, SMEs incur high compliance costs, mainly due to tax complexity and compliance burden to determine whether their goods and services are exempt from GST (MYOB Business Monitor, 2015). This study reported that complying with Australia's GST rules costs small businesses more than AUD13.5 billion a year. Hence, GST compliance is the major source of red-tape burden that adversely affects small business. Similar GST compliance burdens are evident in the Malaysian context as Malaysian SMEs have to ascertain, in some instances, whether goods and services they supply are exempt or zero-rated. Contrastingly, the critical success factors for GST implementation in New Zealand and Singapore are largely contributed by their well-planned implementation strategies, coupled with the design of GST system, which are easy to administer. A single GST rate is used in both countries, which covers a broad range of goods and services with minimal exemptions and exceptions. According to Sussman (2007) 'exceptions' to the general GST rules are also referred to as 'refinements' and they provide more specific outcomes while increasing tax complexity.

The more complex the rules are, the more likely taxpayers will not understand or comply with them.

Very few academic studies have been conducted in relation to challenges faced by SMEs during the post-GST implementation period in Malaysia. The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) conducted a nation-wide survey in June–July 2015 to evaluate challenges faced by companies in Malaysia. Relevant sections of the findings are used to compare with the results of our study.

3.2 Tax compliance behavioural studies

We identified a number of factors (e.g., level of income, tax rate, tax complexity, probability of audit, knowledge of peer behaviour, perception of fairness of system, gender, age and use of tax preparers) commonly used by past researchers to study tax non-compliance behaviour among individual taxpayers and sole-proprietors (Oh & Lim, 2011a). In a study conducted on behavioural intention of tax non-compliance among 196 sole proprietors in a district of Johor (Malaysia), Oh and Lim (2011b) suggest that the attitude of taxpayers towards future expected tax cost and fairness of tax system, subjective norms variables (unapproved tax and accounts preparer) and demographic variables (gender and age) all have a positive influence on their behavioural tax non-compliance intention. Our research, however, focused on examining the effects of two factors, namely tax complexity and perception of fairness of system that would impact compliance behaviour of GST taxpayers, consistent with the relationships expounded in the TRA model.

3.3 Tax complexity

In a gap analysis of intention of non-compliance studies by Oh and Lim (2011a), the authors comment that assessment of impact of tax complexity on tax compliance is complicated due to the effects of two factors, namely perception of fairness and opportunity for non-compliance. The authors suggest that reducing tax complexity may lead to lower non-compliance, which results from wrong interpretation of rules, omissions, unintentional errors and intentional under-reporting. Accordingly, reducing the complexity of the tax system may enhance perception of the fairness of the tax system and eventually result in lower incidences of non-compliance.

Based on these findings, non-compliance behaviour may be prevalent among Malaysian SMEs, given the tax complexity and compliance requirements of the newly enacted Goods and Services Tax (GST) Act 2014. The enforcement of GST is regulated by the GST Act 2014, which has 165 pages with 197 sections, and it must be read together with the GST Orders and GST-related regulations (Kasipillai, 2015). Non-compliance with GST laws and regulations may expose SMEs to penalties, fines or even imprisonment for directors. In addition, penalties are imposed for late registration, late filing of GST returns, filing of incorrect returns, and not maintaining full and accurate records. Consequently, the inherent complexity of GST law and regulations coupled with GST compliance costs may cause negative perception of fairness of GST tax among the business community. According to the World Bank's Doing Business Report 2017, Malaysia's ranking has recently dropped by one place to 23rd position among 190

economies.⁷ This is largely attributable to Malaysia's performance in 'starting a business' and 'paying taxes' indicators. The report indicates that the Malaysian government made starting a business more difficult by requiring companies with annual revenue in excess of MYR500,000 to register as GST payers.⁸ With regard to the 'paying taxes' indicator, the World Bank report notes that although the introduction of an online system for filing and paying GST has made the tax payment easier, replacement of sales tax with GST has actually made this process more complex. This is because GST covers a broader spectrum of industries when compared to sales tax which merely previously covered manufacturing companies.

3.4 Perception of fairness of tax system

In a study covering Australian taxpayers and perception of the tax system, Saad (2010) argues that complexity in tax law contributes to a negative perception of the system which promotes unwillingness to comply. Furthermore, taxpayers who perceive themselves as victims of tax unfairness increase their non-compliance activities while their morale improves when they are treated with respect by tax officials (Oh & Lim, 2011a). On a macro level, the public have been perceiving GST negatively mainly due to concerns over its impact on general price level; its regressivity on lower income households; potential rise in the GST rate over time if government spending is not managed well; and that the GST revenue is used irresponsibly to mitigate problems in wasteful public spending and leakages (Narayanan, 2014). To conclude, negative perception towards the fairness of GST and tax complexity may have a negative impact on the attitudes of SME taxpayers, thus increasing non-compliance behaviour, consistent with assumptions underpinning the TRA.

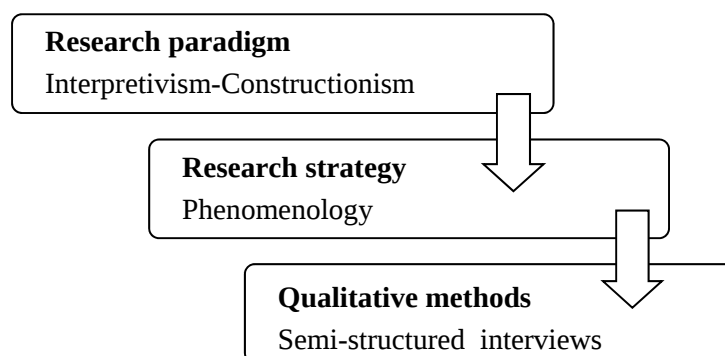
4. METHODOLOGY

4.1 Qualitative approach

This study pursues a qualitative approach which involves various levels of reflection, from the personal history of the researchers to the research philosophy and theory that establish the research framework (Creswell, 2013). The research framework underpinning this study is illustrated in Figure 2.

⁷ 'Malaysia ranked 23rd by World Bank for ease of doing business', *The Star*, 26 October 2016, <<http://m.thestar.com.my/story.aspx?hl=Malaysia-ranked-23rd-by-World-Bank-for-ease-of-doing-business&sec=business&id=%7BC9B25371-C4F2-4A7D-8950-2BB62B37E820%7D>>.

⁸ Royal Malaysian Customs: Goods and Services Tax: Guide on Registration as at 24 February 2016, para 5, <http://gst.customs.gov.my/en/rg/SiteAssets/specific_guides_pdf/REGISTRATION_24022016c.pdf>.

Figure 2: Framework for research

The research paradigm for this study is interpretivism-constructionism, which focuses on subjective and shared meanings in investigating how people (individuals and groups) interpret and understand social events and their setting (Eriksson & Kovalainen, 2008). According to Creswell (2013), social constructivism is often referred as interpretivism in which diverse and multiple interpretations of human experiences will lead researchers to discover complexity and variations in opinions. This paradigm allows for a better understanding of the historical and cultural environments of the participants in this study, thus rendering a more holistic investigation of the GST experience among SMEs in Malaysia.

The research strategy adopted in this study is phenomenology, which normally uses the interview method and targets to remain close to participants' stories (Grant & Giddings, 2002). In applying a phenomenological stand, the researcher writes and rewrites the stories until they are satisfied that the interpretation of the stories reflects the participants' lived experience. When doing a phenomenological research, a researcher refocuses the investigation not on descriptions of tangible objects, but rather on the description of the experience that the participants describe. In doing so, the researcher investigates the experience based on what is made available and aware during the research process (Polkinghorne, 1989). Hence, phenomenology allows for recognition of the experiential reality of meanings as well as tangible details of an experience. This implies that a meaning attached to an experience is the same although there are various ways the experience is described by the participant.

In this study, the experience of GST implementation and perception related to GST introduction form the basis for understanding the participants' lived experience and how meaning is attached to GST preparedness and readiness. Consequently, challenges encountered by SMEs in GST implementation are interpreted and presented from the perspective of the participants so that the findings reflect their lived experience. According to Grant and Giddings (2002), 'methods' are the instruments used for collecting and analysing data. In this study, we conducted semi-structured face-to-face interviews with participants using 16 interview questions (see Appendix 1) that are devised to address three broad research areas as follows:

1. Participants' attitudes and perceptions toward GST implementation and regulations;

2. GST readiness which covers steps undertaken to prepare for GST implementation, challenges encountered, the extent of support received from consultants and trade associations or chambers of commerce and the extent of support and interactions the businesses had with Royal Malaysian Custom Department (RMCD); and
3. Compliance costs, including initial costs, recurring costs, psychological costs and non-compliance costs relating to GST rules and regulations and Price Control and Anti-Profiteering Act 2011 (PCAP Act 2011).

4.2 Population and sampling

This study investigates retailers' concerns, challenges encountered and hidden costs from GST compliance efforts. The retail sector is selected for this study due to its significance to the economy; for example, the sector generated MYR343.7 million in sales value (36.1% of total sales in Malaysian distributive trade sector) in 2014. In terms of employment, the retail sector hired 968,818 or 59.9% of the total workforce, which incurred salaries and wages totalling MYR20.7 million annually, or 51% of total salaries and wages in the distributive trade sector in Malaysia (Department of Statistics Malaysia, 2014a) (See Table 1).

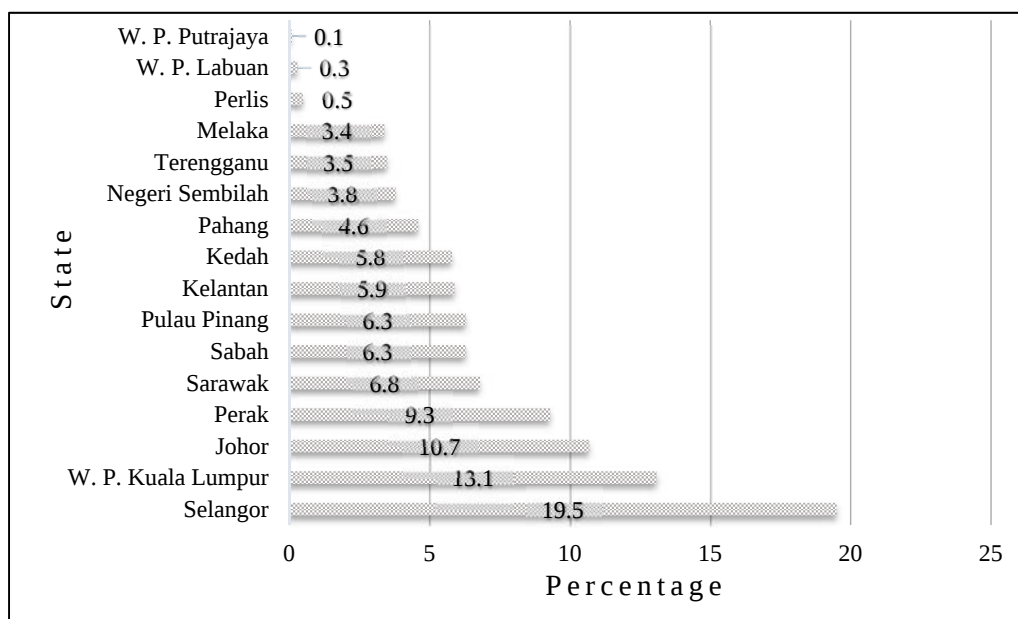
Table 1: Principal statistics of distributive trade sector by sub-sector for 2014

Trade sector	Sales value		Persons engaged		Salaries & wages	
	MYR million	%	No.	%	MYR million	%
Wholesale	471.9	49.6	405,797	25.1	14.1	34.7
Retail	343.7	36.1	968,818	59.9	20.7	51.0
Motor vehicles	135.7	14.3	243,345	15.0	5.8	14.3
Total	951.3	100.0	1,617,960	100.0	40.5	100.0

Source: Department of Statistics Malaysia (2014a)

Data collection is confined to the retail sector in the SME category and located in the state of Selangor and the Federal Territory (Kuala Lumpur) of Malaysia. Based on the latest Economic Census conducted by the Department of Statistics in Malaysia in 2010, more than 30% of SME businesses are situated in these two states (see Chart 1).⁹

⁹ The Economic Census is conducted once in every five years. The 2015 Economic Census has yet to be completed as of 31 August 2017.

Chart 1: Profile of SMEs in Malaysia (2010)

Source: Department of Statistics Malaysia (2014b)

We adopted convenience and snowballing sampling procedures to recruit participants until data collection reached a saturation point. At this point no new or relevant information emerged with respect to the themes gathered earlier in the research. In qualitative research it is common to use convenience sampling procedures to facilitate access to individuals (Eriksson & Kovalainen, 2008). Furthermore, it is very difficult to recruit participants for exploratory research that investigates sensitive matters such as GST, revenue and business profitability. We succeeded in recruiting five participants using initial convenience sampling. From these contacts, the researchers snowballed to recruit more participants.

4.3 Procedures

The trustworthiness of this study is affirmed by the researchers maintaining a detailed trail of decisions made during the data collection and analysis process, including measures undertaken to collect data ethically, recruit participants and transcribe interviews. The researchers also undertook self-reflection throughout the study to ensure that personal biases and interests were consciously set aside in the process of data gathering, evaluation and interpretation. An ethical approval for data collection from Monash University Human Research Ethics Committee (see Appendix 2) was obtained prior to approaching potential participants. Each participant was provided with an explanatory statement, which explained the purpose of this research. Later, each participant was requested to sign a voluntary participation consent form which included permission for the interview to be audio-recorded.

The data collection reached saturation level by the ninth interview. Upon the completion of the nine interviews, we conducted another interview with a senior tax advisor, Dr John (pseudonym)¹⁰ in order to obtain his perspective on some of the major

¹⁰ Dr John refers to Dr Veerinderjeet Singh and he has over 35 years of experience in the tax profession. Dr Singh is a renowned tax consultant, reputable academician as well as a widely acclaimed author and

findings that surfaced from the interviews. As such, his views were used to compare with the findings of this study while adding another dimension to the phenomena under study. The interviews were recorded using a digital recorder and transcribed verbatim to ensure accuracy of data and to ease the process of organising, analysing and interpreting the text data. The transcriptions were later sent to the respective participants for confirmation ('member's checking'). In doing so, each participant was given an opportunity to validate and amend (if any) inputs that were provided during the interview.

5. DATA ANALYSIS

The researchers manually analysed the textual data by reading the interview transcripts (161 pages in total), highlighting the relevant quotes on the transcripts and transferring them to excel worksheets. Creswell (2012) explains that manual analysis is preferred by some qualitative researchers when the sample size is small (i.e. less than 500 pages of transcripts and field notes). The researchers read the textual data several times to get a general sense of data and pre-designed codes for each segment of the data. Next, these individual codes were grouped into sub-themes, which were then grouped into few major themes.

Methodological rigour was achieved by performing triangulation and 'member's checking' as recommended by Creswell (2012). We sent minutes of interview to each participant for confirmation (member's checking) to ensure accuracy of textual data. Triangulation was conducted via corroboration of data from different sources and themes. The main findings were discussed with Dr John and compared with the results of a GST survey conducted by ACCCIM (2015), GST development in the news and empirical studies. This earlier survey carried out by ACCCIM (2015) is relevant to compare with our findings since one-third of the respondents (963) are from the wholesale and trading businesses. The respondents are members of trade and sector-specific organisations, which include shopping malls, construction and building materials sector, sundry goods merchants, retailers and manufacturers.

5.1 Demographic profile of participants and retailers

The demographic profile of participants by ethnicity, years of experience, education and gender are tabulated in Table 2. All of the participants in this study are business owners with at least a secondary education, which suggests that they have basic level of literacy to understand and handle GST implementation in their respective business.

Table 2: Profile of participants

Retailer	Ethnicity	Years of experience	Highest form of education	Gender
1	Chinese	8	Bachelor of Accounting	Male

tax observer. He is currently the Group Executive Chairman of Axcelasia Incorporated, a globally integrated professional services group. Earlier, Dr Singh was an Executive Director/Partner at Ernst & Young Tax Consultants Sdn Bhd and past-Executive Director/Partner at Arthur Andersen. Dr Singh was also past president of the Chartered Tax Institute of Malaysia and he currently serves in the GST Monitoring Committee of the Ministry of Finance, Malaysia.

2	Indian	12	Master of Logistics	Male
3	Chinese	10 +	Form Five (Ordinary Level)	Female
4	Malay	30	Diploma of Beauty Therapy	Female
5	Chinese	3	Bachelor of Accounting	Female
6	Chinese	36	HSC (Higher School Certificate)	Male
7	Chinese	30	Diploma of Accounting	Female
8	Chinese	15	Bachelor of Science (Pharmacy)	Female
9	Chinese	23	Form Five (Ordinary Level)	Female

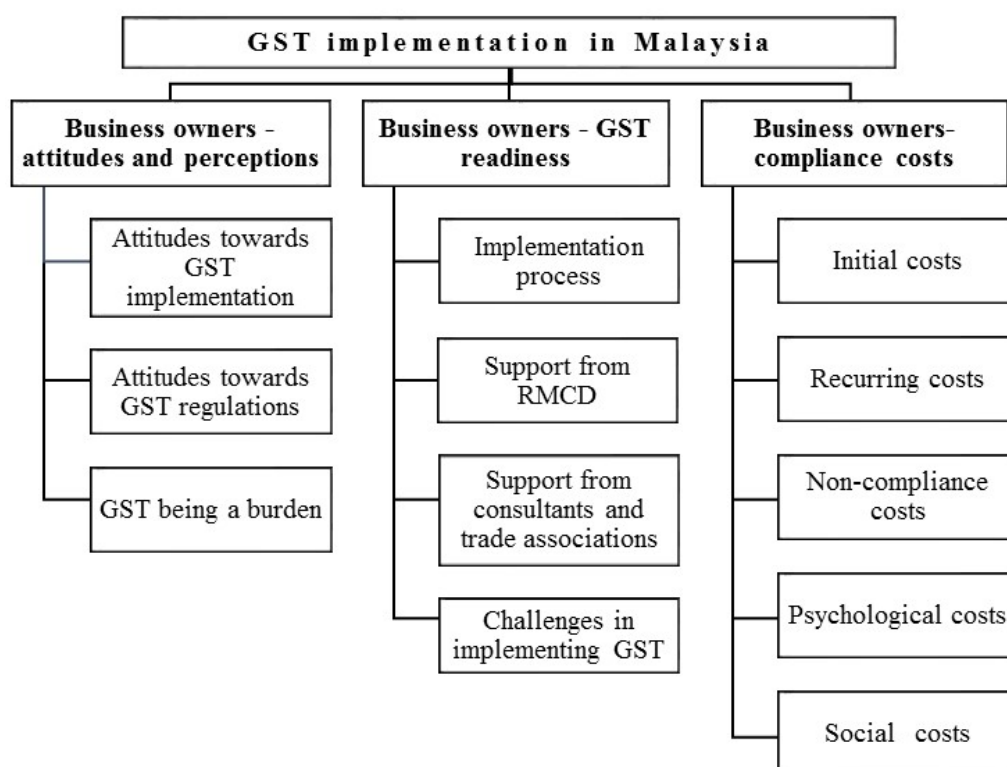
The demographic profile of retail businesses covered in this study vary in terms of types of business, years of operation, revenue size (estimate) and number of staff (see Table 3). Most of the businesses are well-established and have been in operation for more than 10 years, except for Retailer 5, a young female entrepreneur, who commenced her business in 2013. Except for Retailers 7 and 9, all of the retailers have been using computer systems in managing and controlling their operations and financial performance prior to 1 April 2015. In the case of Retailers 7 and 9, they are considered traditional businesses, given that they operate without using IT system in any aspects of their businesses. Instead, manual book-keeping is used to generate estimate financial results on a yearly basis.

Table 3: Demographic profile of retailers

Retailer	Type of retail business	Years of operation	Revenue in (MYR'000)	No. of staff
1	Fashion accessories	29	14,000	133
2	Newspapers, magazines and convenience products	12	700	3
3	Stationery, furniture and office automation products	12	900	0
4	Beauty products and treatments	30	900	3
5	Clothing, shoes and handbags	2	2,000	12
6	Educational books and stationeries for university students	23	15,000	36
7	Home delivery of fresh and frozen meat, vegetables, fruit, soft drinks and sundry goods	30	1,200	3
8	Pharmaceutical products and toiletries	10	1,400	3
9	Sundry goods, tobacco, liquors and hardware items	52	6,000	7

5.2 Themes

We constructed thematic portrayals of participants' lived experience with GST implementation using a phenomenological approach. Three main themes and 12 sub-themes emerge from our data analysis. The three main themes are business owners' attitudes and perceptions, GST readiness and compliance costs. The sub-themes provide a richer interpretation of the GST implementation experience among taxpayers, as shown in Figure 3.

Figure 3: Thematic map of GST implementation in Malaysia

5.2.1 Theme 1: Business owners — attitudes and perceptions

According to TRA, one of the determinants which affects behavioural intention to take action or not to take action (to pay tax or not to pay tax) is attitude. This refers to a person's evaluation of certain implications as a result of a particular behaviour. Generally, a person intends to take an action when one views the action positively and vice versa. Hence, this theme explains the application of the TRA in understanding GST taxpayer's behavioural intention, which eventually leads to their actions.

Further investigation into the attitudes and perceptions of participants reveals a number of factors that influence these attitudes and perceptions. Their attitudes and perceptions towards GST acceptance, readiness and implementation are interpreted and presented under three sub-themes below, namely attitudes towards GST implementation, attitudes towards GST regulations and perception of the GST as a burden.

(i) Attitudes towards GST implementation

Generally, participants expressed negative views towards GST implementation. However, we do note a number of positive views, such as the perception of GST as a more effective and transparent mechanism to collect tax for national development purposes. Furthermore, GST periodic reporting to RMCD has resulted in an improved audit trail within business entities as each transaction is now documented and reported to RMCD. Having said that, Retailer 4 commented that some businesses actually view improved transparency in business dealings negatively as they can no longer be involved in creative accounting such as manipulation of financial results.

Another positive view we observed was that GST implementation is seen to have indirectly caused a reduction in illegal and unregistered businesses in Malaysia. Illegal business evades taxation and regulatory oversight, and is estimated to account for 20% to 50% of the Malaysian economy.¹¹ This account was highlighted by Retailer 9:

Prior to 1 April 2015, one of my suppliers confided in me that her business was negatively affected by closure of about 20 businesses (customers) that were not legally established. Some of these businesses were owned by Indonesians in Chow Kit market. This is indeed a piece of good news for me and other Malaysian business owners who are doing business legally.

On the other hand, two-thirds of the participants noted that the timing of GST implementation coincided with an uncertain economic outlook and depreciation of the Malaysian currency, which had a cumulative negative impact on business in the post-GST period. Products that contain imported components became more expensive as a result of a depreciating Malaysian Ringgit against major currencies, which in turn reduces the purchasing power of consumers and leads to lower retail sales. These opinions of the participants are consistent with the findings from the Retail Group Malaysia (independent retail research firm), which reported an 11.9% drop in second quarter sales of 2015 when compared to previous year, the worst quarterly sales performance since 1997/98 Asian financial crisis.¹² Retail Group Malaysia add that an uncertain political development in the country has also contributed to weak consumer sentiment. Against this backdrop, one third of participants were worried and stressed over their ability to cope with the increased costs of doing business following GST implementation as there are inadequate tax incentives to ease the burden of SMEs.

(ii) Attitudes towards GST regulations

Our study reveals a prevailing negative attitude towards GST regulations. Seven out of nine participants viewed GST regulations as detrimental to their businesses because compliance costs further increase the escalating cost of doing business in Malaysia. Major factors that caused GST to be seen as burden are elaborated under next sub-theme: GST being a burden. None of the participants viewed GST as beneficial to their businesses, which suggests that the government's assistance in the form of training and education has not inculcated positive attitude among businesses. On the other hand, 43% of the respondents to the ACCCIM (2015) survey considered GST implementation to have had an adverse effect on their business while 30% of them were in favour of GST, possibly due to them being able to claim input-tax credits. It appears that the education programs conducted by trade associations and chambers of commerce have left some positive influence on the respondents to the survey.

Despite a prevailing negative attitude among the participants, our study found a neutral attitude among two participants who noted that GST had little impact on their business performance. One of them (Retailer 5) sells fast fashion products to middle-to-high

¹¹ 'Govt sees red over black economy, promises action', *The Star*, 25 August 2015, <<http://www.thestar.com.my/News/Nation/2015/08/25/Govt-sees-red-over-black-economy-promises-action/>>.

¹² 'Retail Group again cuts retail sales growth after Q2 sales tumble', *The Star*, 3 September 2015, <<http://www.thestar.com.my/Business/Business-News/2015/09/03/Retail-Group-again-cuts-retail-sales-growth-after-Q2-sales-tumble/?style=biz>>.

income groups indicating that the GST has had little effect on the purchasing power of middle-to-high income consumers. The other participant (Retailer 2) commented:

There are many factors that influence business performance. However, some businesses have a tendency to blame GST for their lacklustre business performance.

(iii) GST being a burden

GST compliance costs were considered burden by all of the participants. They elaborated on the magnitude of compliance costs, ranging from initial investment in IT software and hardware, to recurring costs in submission of GST returns to RMCD and finally to hidden costs associated with stress (psychological costs). Most participants experienced stress and anxiety as a result of acclimatising to the new regulatory environment within a short time frame. About half of the participants viewed the GST implementation period to be too short for most SMEs. The time pressure was more intensely experienced by two retailers (traditional businesses) who transformed their manual book-keeping into a computerised system.

Potential compliance costs emerge as one major source of anxiety among participants. One stated that he closed two of his businesses before GST implementation date, partly due to the anticipated burden of compliance costs under the new regulatory regime. Another participant (Retailer 3) commented:

There are only two of us in this business. In the past, we did not prepare financial results on a quarterly basis, but instead once a year. Now, I am under pressure (stressed) to ensure that the quarterly financial results are accurate for GST reporting purposes. Our workload has increased tremendously.

From a working capital perspective, most participants claimed to have had to increase their cash flow requirement as a result of: the higher cost of products and services; upfront remittance to RMCD on output tax relating to uncollected credit sales; and input tax relating to stocks that are written off. One participant (Retailer 2), however, mentioned that his cash-flow position has actually improved from collecting GST upfront and paying RMCD three months later.

GST implementation promotes transparency and accountability in businesses since they have to maintain accurate and complete record-keeping at an individual transaction basis. However, enhanced business transparency is considered a burden by some business owners, making it more difficult to manipulate financial results or/and to camouflage unusual business transactions. GST implementation also requires businesses to transform their way of doing business with the use of IT systems, which was not well received by certain small traders. For example, Retailers 7 and 9 viewed computerisation of their business as a burden. They failed to recognise the managerial benefits from using an IT system in the long run, including provision of timely financial results and better control over business operations. This predicament suggests a lack of understanding and appreciation of modern ways of doing business among certain business owners, who consequently view the GST as a burden.

5.2.2 Theme 2: Business owners — GST readiness

‘Readiness’ is a measure of being GST-compliant by participants. In this regard, GST readiness of a business depends on a number of factors, which are closely related and

dependent upon each other. The main factors include attitude and capability of the business owner to manage GST requirements, the business resource capacity and the availability of support from trusted advisors, RMCD and the government. We further discussed business owners' GST readiness in terms of four sub-themes namely: implementation process; support from RMCD; support from consultants and trade associations; and challenges in implementation.

(i) Implementation process

The GST implementation process for businesses, including SMEs, generally spans a 1–2 year period and involves a number of phases before the new system can go live. Significant amounts of time and resources are involved in information gathering, training, data migration and business process. Further, the implementation period also varies in accordance with the type of business supplies required, which all attract different GST rates. For example, participants (Retailers 3 and 5) that supply stationery and clothing are subject to the standard-rate of 6%. The implementation process for these businesses are more straightforward and involve less administrative work, particularly when compared to businesses (Retailers 7, 8 and 9) that supply products with mixed GST rates, that is, both zero and standard rates.

In this study, most of the participants were the primary drivers for their GST-readiness projects. They have invested significant amount of time and resources in preparing their businesses for GST implementation, including attending trainings and seminars. Seven out of the nine participants used existing resources to handle GST compliance requirements, thus resulting in increased overtime for both the owners and staff. In contrast, two of the participants employed additional staff to meet GST reporting requirements. Five participants also reported educating themselves by attending training sessions. In order to keep abreast with latest GST developments, participants noted regularly checking GST updates on the official RMCD GST website, reading books on GST and reviewing Q & As (Questions and Answers) on GST in Chinese newspapers. One participant (Retailer 1) commented:

Besides attending courses, both my accountant and I are heavily involved in GST implementation. We have been spending considerable time in reading GST-related materials and checking the customs website regularly to keep ourselves updated on the latest developments.

Support from family members, friends and fellow retailers emerges as one of the critical success factors in transitioning a business to the new tax regime. One participant (Retailer 8) stressed the importance of using a social media tool, 'WhatsApp' to accelerate her understanding of GST requirements. She commented:

Support group is very important in educating ourselves on GST matters. There are about 10 to 20 of us in few GST online support groups. In my first GST submission to RMCD, I relied on these support groups.

(ii) Support from the RMCD

The RMCD of Malaysia plays an important role in providing the necessary support, training and infrastructure on GST. Hence the degree of support rendered by the RMCD affects the level of ease in GST implementation. In this study, we gathered opinions on the extent of participants leveraging the support and resources from the RMCD in their GST readiness efforts, as well as their level of interaction with the RMCD. In terms of

monetary support, the RMCD offered a GST e-voucher of MYR1,000 to businesses for purchase of accounting software. While all participants appear to have been aware of the GST e-voucher, only four of them actually claimed the vouchers. Five of the nine participants did not claim the e-vouchers because they missed the deadline set by the RMCD. The amount of each e-voucher was generally viewed as immaterial by the participants when compared to the initial cost of GST-compliant software. For example, Retailers 2 and 4 spent MYR10,000 to MYR12,000 for full Point of Sales (POS) IT software. According to the ACCCIM (2015) survey, only 52% of the respondents utilised the GST e-vouchers offered for SMEs. This finding indicates that the e-voucher is not wholly cost beneficial or effective in alleviating GST compliance costs.

Besides offering e-vouchers, the RMCD also organised complimentary GST workshops and training sessions to the public during the pre and post GST implementation period. However, only one out of the nine participants surveyed attended the training, either because they were not aware of such training, or they were not successful in registering for it. Instead, they incurred costs in attending private GST training or seminars. In contrast, the study by ACCCIM (2015) revealed that about 68% of respondents attended workshops or training courses provided by RMCD although many of the queries posed by the respondents as yet remain unanswered.

In terms of the provision of necessary infrastructure to facilitate GST compliance, most of the participants expressed frustration over the usefulness of the official RMCD GST website. For instance, Retailer 1 stated that the GST website does not provide clear guidelines and clarification on 'grey areas' such as mixed input tax credit. He noted:

The basic support from RMCD is to provide consistent and clear-cut rules on its official website. When we download information from the website, some of the guides are still in draft versions until now. Further, there are still a number of grey areas, which we need further clarification. It is difficult to comply with the GST Act if we are not able to get a consistent answer on the website, or by calling GST hotline. Sometimes, custom officers provide varying opinions on specific areas of concern.

With regard to interactions with the RMCD, more than half of the participants stated that dealings with the RMCD via the GST Hotline and emailing are not effective, thus their concerns and queries are not usually addressed in a timely manner. Similar issues were also raised in the ACCCIM (2015) survey — while 70% of the respondents consulted the RMCD via calling GST Hotline or accessing the GST Portal, only 22% reported that their problems were resolved. It thus appears that there is a significant expectation gap in terms of delivery of support and services by RMCD to business communities.

(iii) Support from consultants and trade associations

In this study, 'consultants' refers to approved GST consultants, approved IT (GST compliance IT vendors) consultants, tax advisors and auditors. We wanted to investigate the degree of support from consultants and trade associations because these parties are considered social influences (subjective norms) that impact on the behaviour intention of taxpayers. Besides attitude, subjective norms are also used to predict behavioural intention under the TRA model. This study reveals heavy involvement among IT consultants in supporting businesses for GST implementation. Only one participant complained that she did not get reliable and adequate support from her IT

vendor. Most of the participants seem to view involvement of IT consultants as adequate to address major GST requirements. This stance is taken to contain implementation costs although they are exposed to some risks of not complying with the complex nature of GST law.

While IT consultants provide the necessary knowledge and mechanism to capture GST transactions in the IT system, assessment of the full impact of GST on business, in particular big businesses, requires involvement from approved GST consultants or qualified tax or accounting advisors. With regard to this issue, Dr John explained that consultants work with businesses to identify various types of transaction and decide what the GST effect would be for each of them before proposing solutions to simplify these transactions. One retailer in this study, with turnover exceeding MYR5 million, relied solely on its own internal resources in assessing the full impact of GST because their consultant proposed an exorbitant fee that the business simply could not afford. In order to mitigate the risks of non-compliance, three of the participants (with revenue less than MYR1 million) reported employing GST consultants approved by the Ministry of Finance, Malaysia to review quarterly GST return prior to submission to the RMCD.

Trade associations appear to have little involvement in supporting and educating businesses with regard to GST implementation, perhaps due to lack of interest from participants. Only one participant attended GST training organised by the Malaysian Pharmaceutical Society. Another participant (Retailer 3) is a member of a trade association but did not attend any GST talks or trainings conducted by the association. She commented:

The association is big and I do not like to be involved in its activities. It has invited me to attend GST trainings, but I did not attend any of them. It has also been promoting GST, but I do not understand many aspects of it.

In respect of the minimal role of trade associations in educating the participants in our study, Dr John indicated that perhaps the RMCD appears to have only worked with big trade associations (i.e., Federation of Malaysian Manufacturers and Malaysian International Chamber of Commerce & Industry) and may not have reached various trade associations catering to the needs of small business operators. He commented:

To be fair, I think even if you look at Australia, they had the same issues. I thought Australia did it better because they actually funded associations. They gave them financial allocation to conduct trainings for their members. They did it in a very structured way.

(iv) Challenges in implementing the GST

The GST is generally viewed as a burden to businesses (as elaborated under sub-theme of Theme 1: GST being a burden). However, most of the participants in this study reported using their existing resources to comply with GST compliance matters, resulting in the diversion of resources away from business operations. In addition, cash flow management is one of the major challenges and two-thirds of the participants experienced tighter cash flows in their business, largely as a result of advancing GST payments to their suppliers, lower sales in terms of volume and pricing (i.e., absorption of GST) and higher compliance costs. Tighter cash flow were also experienced by around 61% of the respondents of the ACCCIM (2015) survey.

Another challenge relates to education of staff in compliance with GST rules and regulations. Retailer 1 expressed concern that some of his staff were not receptive to change despite relentless effort made to educate them on GST matters. Other participants were concerned that they may be potentially exposed to the risks of unintentional errors or negligence in terms of actions committed by their staff. With regard to software, two participants voiced concerns about glitches in their GST-compliant software that may potentially affect the accuracy of their GST returns. As such, there is a risk that the RMCD may penalise them for inaccurate filing of GST returns. This issue was also raised by more than half of the respondents of the ACCCIM (2015) survey, who indicated that their GST accounting software does not work properly. For the seven businesses who were using IT systems before GST implementation, none have introduced significant business process changes, except perhaps for additional and more detailed documentation and record-keeping. The two businesses who adopted IT systems for the first time, in contrast, encountered significant changes to business processes and applications as a result of the computerisation of business operations coupled with compliance with GST requirements. One participant (Retailer 9) who computerised her father's business for the first time commented:

Due to GST implementation, we have incurred enormous expenses in buying software and hardware, and in hiring another full-time staff to handle GST requirements. There is a great deal of extra workload and we had to hire an extra staff. I quarrel [argue] a lot with my boss [father] who is 70 years of age as I need to educate him on using IT for the first time.

5.2.3 Theme 3: Business owners — compliance costs

In a new GST regime, GST compliance costs can include both tangible and hidden costs. The tangible costs include initial costs, recurring costs and non-compliance costs. In contrast, the hidden costs include psychological costs and social costs. We further discuss compliance costs in further detail under five sub-themes below, namely initial costs (one-off investment), recurring costs, non-compliance costs, psychological costs and social costs.

(i) Initial costs

In order to meet GST reporting requirements, businesses need to incur considerable initial GST costs, which include investment in IT software and hardware, GST related training, cost of consultants (such as approved GST consultants, tax consultants and auditors) and other internal resources. The higher costs of doing business are however, partially cushioned by a number of tax incentives granted to all businesses. These include the accelerated capital allowance on Information and Communication Technology Equipment for Years of Assessment (YA) 2014 to 2016 (MICPA, MIA & CTIM, 2014) and the double deduction of GST-related training in accounting and ICT for YA2014 and YA2015 (MICPA, MIA & CTIM, 2015). Participants provided an estimate of initial (one-off) costs with regard to implementation of the GST, which can be compared to the size of revenue (Table 4).

Table 4: Analyses of initial costs estimate by size of revenue

Revenue (MYR)	Retailer	Initial cost/revenue (percentage)	Initial costs (in MYR '000)
< 1 million	2, 3 & 4	0.56–1.71	5–12
1–5 million	5, 7 & 8	0.30–0.57	6–8
5–15 million	1, 6 & 9	0.20–0.67	30–50

Compliance costs are fixed, regardless of the size of business, thus GST costs are regressive in nature. In the case of businesses with revenue of less than MYR1 million, the one-off costs were more than 1% of revenue, except for Retailer 3 (cost of MYR5,000, 0.56% of sales) as the business was not using a Point of Sales (POS) system. For a full POS system, initial costs were MYR10,000 and MYR12,000 for Retailers 2 and 4 respectively. Similarly, the relatively low initial cost (below MYR8,000) incurred by businesses with revenue between MYR1–5 million, was also due to Retailers 5 and 7 not using a POS system. Meanwhile an initial cost of MYR8,000 incurred by Retailer 8 was as a result of an upgrade to an existing POS system as well as becoming GST-compliant. The RMCD set 1 October 2015 as the deadline for retailers in the hardware, grocery, bookstores, restaurants, mini-markets, pharmacy and entertainment business to implement a POS system (RMCD, 2015). Businesses that had not implemented POS system (i.e., Retailers 3, 5 and 7) incurred penalties. Three companies with a business turnover of MYR5–15 million incurred costs of MYR30,000–50,000 (0.20%–0.67% of revenue) as a result of using a full POS system.

In this study, we did not perform a cost comparison with other countries' experience since the data was obtained at a different time, and such comparisons are complicated when dealing with different currencies, different tax designs and different compositions of taxed population (Sandford, 1998). Instead, we compared the initial GST costs with the findings of ACCCIM (2015) which reported a wide range of costs from 'below MYR1,000' to 'MYR50,000 and above' (Table 5). According to the survey, most of the respondents (32%) incurred initial costs ranging between MYR10,000–MYR50,000.

Table 5: Initial GST costs — ACCCIM survey

Costs in MYR	Percentage of total respondents
Less than 1,000	4
1,000 – < 3,000	12
3,000 – < 5,000	20
5,000 – < 10,000	21
10,000 – < 50,000	32
50,000 and above	11

Source: ACCCIM (2015)

(ii) Recurring costs

Sandford (1998) describes recurring costs as ongoing or regular costs that are borne by traders who have become familiar with the tax in a manner that best suited them. Therefore, they are costs incurred when the tax has been in place for some years, without

a major change. In compiling the estimated recurring compliance costs for 2015, these costs were inflated with some amount of embedded learning costs in the first year of GST implementation. According to this study, the estimated recurring costs for GST include participants' personal time, hiring of additional staff and costs paid to independent GST consultants (see Table 6).

Table 6: Recurring GST costs analysis

Revenue (in RM)	Retailer	Compliance cost/revenue (percentage)	Estimated compliance costs (in MYR'000)
< 1 million	2, 3 & 4	3.43–6.67	24
1–5 million	5, 7 & 8	1.00–1.80	12–36
5–15 million	1, 6 & 9	Non-Quantifiable (NQ)–0.60	NQ–60

Given the fixed nature of GST recurring costs, these costs have a bigger impact on the profitability of smaller companies. For instance, compliance costs account for 3.43% to 6.67% of revenue (business with revenue of less than MYR1 million), which is considered significant as certain retail businesses, for example, sundry shops, generate low margins. The percentage of cost over revenue reduces to less than 1.9% of revenue in the bigger business (revenue of MYR1–5 million), and to less than 0.7% for business with higher revenue of MYR5–15 million. Thus, GST compliance costs are regressive, with material impact on small businesses, consistent with compliance costs studies conducted in United Kingdom, Netherlands, New Zealand, Germany and Canada (Sandford, 1998). In the case of Singapore, costs were 0.3018% of annual revenue for business with revenue of less than SGD1 million (registered voluntarily) and 0.0086% for those with revenue in excess of SGD50 million (Jenkins & Khadka, 1998).

(iii) Non-compliance costs

Under the new GST regime, traders are potentially exposed to non-compliance costs from breaching rules and regulations of the GST Act 2014 and the PCAP Act 2011. Firstly, non-compliance with GST laws and regulations could arise from a number of factors, namely misinterpretation, omissions, ignorance or intentional non-compliant endeavours (i.e., such as charging of GST without registering with the RMCD). Non-compliance costs are also closely related to the psychological costs borne by business owners. In this study, most of the participants expressed anxiety and worry (psychological costs) over potential penalties arising from unintentional non-compliance with the GST Act 2014, mostly caused by errors/mistakes made by staff as well as lack of familiarity with the new GST system. They were also nervous over the uncertainty surrounding the degree of enforcement by the RMCD. With regard to the degree of enforcement by the RMCD, Dr John commented:

The intention of advisory audits conducted by RMCD in the first year or two is not to penalize unless there is intentional tax evasion on the part of the taxpayers. Genuine mistakes are identified and corrected. If there are some obvious gaps coupled with no efforts made by businesses to rectify the situations, then enforcement may be taken under the GST Act 2014.

In addition, some participants felt it to be unfair for the non-compliance penalty to be so strict (including jail terms) as they also incur costs as GST collection agents for the

government, without gaining any benefit in return. The educational support and other efforts from the RMCD are considered inadequate while businesses have to assume full responsibility for the accuracy of GST collection and book-keeping. Many of the responses from the survey participants included manifestations of the psychological cost (such as anger, frustration and fear) arising from coping with a drastic change in the tax regime. Similarly, in Bangladesh, there were furious criticisms and protests on the inception of the GST in 1991, and the VAT was renamed as the 'Very Anxious Taxation'. Now, however, the VAT is an inevitable part of public life in Bangladesh (Bala, 2010). In response to the issue on non-compliance costs, Dr John commented:

If I were a trader, I would not keep raising this issue of non-compliance costs because at the end of the day, I should aim [to] get it right. So, it is an emotional response because some parties have played this up. However, I do agree that from a structural point of view, if you look at income tax laws and the GST laws perhaps the level of penalties should be similar. Perhaps the government may have felt that many may try to circumvent the GST. Since it was an important part of the government's fiscal reform package, therefore non-compliance needs to be subjected to higher penalties.

Against this backdrop, eight out of nine participants commented that they assumed full responsibility for driving the compliance process in order to mitigate any non-compliance risks. Only one participant (Retailer 5) displayed a lack of interest over this matter and commented that the entire responsibility for GST compliance has passed to her accountants. Four of the participants even took another step further by hiring GST consultants to assist in GST compliance matters.

In a post-GST environment with higher costs in terms of operations, businesses need to devise various pricing strategies in order to sustain their sales. However, this could lead to escalating prices. The government therefore introduced the PCAP Act 2011 with the objective of protecting consumers in Malaysia from excessive price increases in goods and services post-GST. As a result, post GST implementation, businesses must demonstrate that their new pricing policies have been properly reviewed and documented. Failure to do so may cause them to be seen as 'profiteering' under PCAP Act 2011 and thus subject to heavy penalties or even jail sentences (Wan, 2014). In our study, we noted four modes of pricing schemes adopted by participants in order to mitigate the higher costs of doing business namely:

- (i) full absorption of GST (one business),
- (ii) partial absorption of GST (two businesses),
- (iii) retain old prices plus 6% of GST (three businesses) and
- (iv) selective price increases (three businesses).

Most of the participants commented that any new pricing schemes have to be carefully implemented as increases are scrutinised by consumers who are now very price sensitive. However, they were not concerned over non-compliance with PCAP Act 2011 as they were confident that appropriate measures had been taken to review any new price schemes prior to implementation. We found that two-thirds (six) of the participants were aware of the PCAP Act 2011 and its enforcement. One-third of the participants, however, were not aware of the legislation. In contrast, ACCCIM (2015) reported that

51% of the respondents were not aware of the PCAP Act 2011.¹³ In Australia, there is more flexibility in dealing with profiteering and the authorities adopt less stringent methods for dealing with offenders, including compensating of respective customers by offending businesses (Hamilton & Teo, 2015). Where customers can not be identified, offending businesses compensate customers in general by providing free services for a certain period, or by donating any 'unreasonable profits' to charity (Hamilton & Teo, 2015).

(iv) Psychological costs

According to Sandford (1998), psychological costs are those associated with stress and anxiety which are suffered by honest taxpayers due to challenges in coping with a tax, in particular when it is new to them. These costs are lingering hidden costs that may taint participants' attitude towards, and perception of, the GST. Psychological costs may also influence taxpayers into perceiving the GST as an unfair tax forced on them for implementation, potentially leading to non-compliance behaviour.

In this study, we identify a number of stress-triggering factors among participants. These include the burden of compliance costs coupled with fear and anxiety over potential penalties from non-compliance of the GST Act 2014. A qualitative description of psychological costs as a result of non-compliance costs is discussed above (see the sub-theme: non-compliance costs). The level of stress is also compounded by a difficult business environment with declining sales and the overall higher cost of doing business. One business participant (Retailer 2) commented:

The penalty for non-compliance is too severe. It remains to be seen how many businesses would be closed down post-GST since the penalty has made the cost of doing business too costly.

(v) Social costs

Some participants expressed concern over the closure of small or/and traditional (i.e., sundry, hardware and Chinese medicine shops) businesses as a result of not being able to cope with GST requirements, coupled with anxiety and fear (psychological costs) over non-compliance costs. The unexpected outcome of business closure is considered as a social cost to the community in terms of inconvenience in obtaining goods or services. Such incidences also happened after the VAT was introduced in the United Kingdom, when certain traders, many nearing retirement age, made the choice to give up their businesses rather than adapt to the VAT regime (Sandford, 1998). With regard to this matter, Dr John commented:

The structural aspects of the small businesses have been overlooked by the government in which there are still certain segments of the sectors, which are not computerized and yet, the businesses within these segments have reached the registration threshold.

¹³ The new Price Control and Anti-profiteering (Mechanism to Determine Unreasonably High Profit for Goods) Regulations 2016 came into force from 1 January 2017. The new 2016 Regulations apply only to food and beverages and household goods. The aim is to control unreasonable increase in profit for businesses which ultimately sell essential products used by the customers. Source: P.U. (A) 349/2016; Federal Subsidiary Legislation; Issuing Authority: Minister of Domestic Trade, Cooperatives and Consumerism <<http://mltic.my/general/legislation/price-control-and-anti-profiteering-mechanism-to-determine-unreasonably-high-profit-for-goods-regulations-2016-MY18005.html>>.

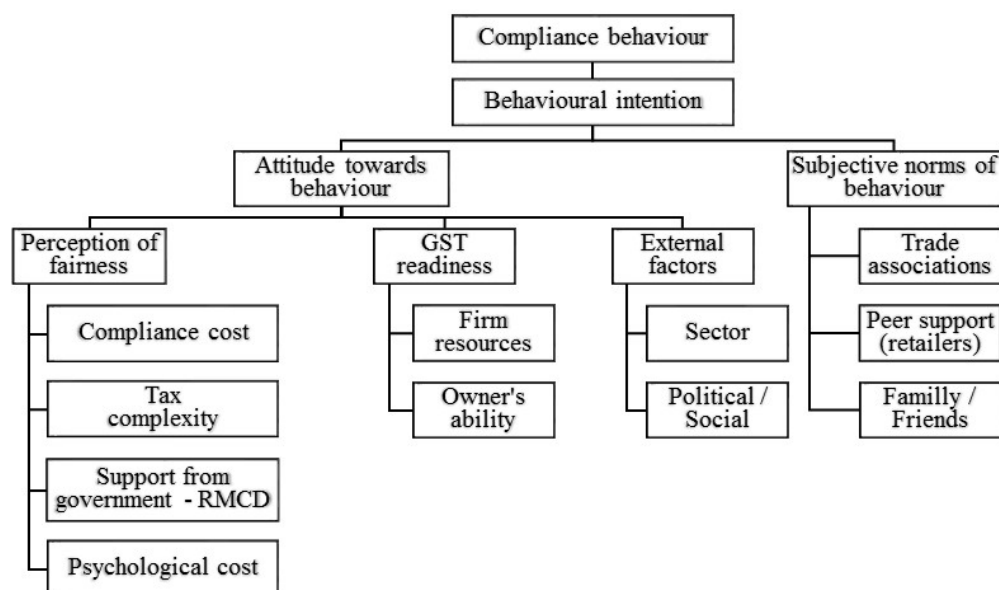
Small businesses, which are not registered for GST will eventually have to register voluntarily to avoid losing clients or face the risk of closing down. It is interesting to note that as of 23 May 2016, there were a total of 38,330 micro businesses (revenue of less than MYR300,000) who have voluntarily registered with the RMCD although the threshold for registration is actually MYR500,000. This registration made up 9.8% of total registration which has reached 389,198 (Ahmad, 2016), indicating that some micro businesses have taken the proactive measure of registering for GST in order to stay competitive under the new GST regime. The remaining non-registered businesses will potentially lose out in terms of pricing and customer base in the long run, as GST-registered customers will no doubt prefer to trade with GST registered businesses, and thus claim input tax on purchases. One participant (Retailer 9) noted:

Many small businesses have closed down, in particular small retailers or convenient stores in small towns and villages. Their sales may not reach MYR500,000 but eventually they have to register for GST in order to survive in the new system. This is an issue that the government needs to review critically.

It thus appears that the government's intervention programmes are not reaching these alienated traders, perhaps due to lack of awareness or even interest on the part of traders, or/and ineffective execution strategy on the part of the government. For example, the government introduced 'The Small Retailer Transformation Program' in 2011. However, by December 2014, only 305 traditional sundry stores had been transformed into modern businesses that could handle GST implementation (Economic Transformation Programme, 2015).

6. THEORETICAL CONTRIBUTION

To our knowledge, this is the first study of its kind to employ a qualitative (phenomenological) approach to understanding the challenges faced by taxpayers (retail sector) with regard to GST implementation in Malaysia. This study examines and evaluates the TRA model and identifies a number of significant factors that affect attitudes towards behaviour and subjective norms of behaviours. These factors influence the behavioural intention that determines GST taxpayers' compliance behaviour, as illustrated in Figure 4.

Figure 4: Application of TRA for GST taxpayers in Malaysia

6.1 Attitude towards behaviour

We identify three main factors that affect attitudes, namely: GST taxpayers' perception of fairness; GST readiness of business; and external factors affecting business operations. Previous studies have shown that a negative perception of fairness towards a tax system may increase non-compliance behaviours among taxpayers (Oh & Lim, 2011b). In our study, we note a number of major factors that influence a taxpayer's perception of fairness, including: high compliance costs; tax complexity; the extent of support from the government; and psychological costs in coping with a new system, all amidst a difficult business environment (external factors). These major factors are closely linked with each other in influencing any perception of fairness among taxpayers. For example, the extent of GST compliance costs are closely associated with the degree of tax complexity and support from the government, which eventually culminate in a certain amount of hidden costs (psychological costs) borne by GST taxpayers.

The degree of GST readiness of a business may influence the attitude of certain taxpayers. Businesses that are more prepared to handle GST implementation tend to have a more positive attitude towards GST. The GST readiness of a business is generally determined by two main components: firm resources and owner's/participant's ability to cope with change. Firm resources include financial resources (i.e., ability to cope with initial and recurring compliance costs and increased working capital requirements); level of infrastructure (IT system and processes); and manpower. In the Malaysian context, most owners are heavily involved in the day-to-day running of the business; hence the owner's ability to deal with the new tax regime is crucial. The ability of the owner is dependent on their level of education, age, working experience and aptitude to adapt to new challenges.

Finally, attitude is also influenced by external factors, including sector-specific developments and political-economic developments (i.e., falling commodities prices, depreciation of the Malaysian Ringgit and slow-down in global economies). Our study

found that these external factors dampened the overall perception and attitude of participants towards GST implementation.

6.2 Subjective norms of behaviour

Subjective norms are perceived as social influences that have an effect on taxpayers' compliance behaviour, either to comply, or not to comply with GST regulations. This factor influences attitude as shown in previous studies (Bidin & Shamsudin, 2013; Oh & Lim, 2011a). Our study found that peer influence and support plays a significant role in accelerating the transition to a new system. However, the scope of social influence is limited to family, friends and fellow retailers. In this study, trade associations played a minimal role in influencing the behavioural intention of taxpayers. Instead, IT consultants were found to take on an influential role in affecting the tax compliance behaviour of GST taxpayers, especially when compared to other consultants, such as GST consultants, tax advisors and auditors. The above discussions surrounding TRA provide a more comprehensive understanding of the various factors that affect taxpayers' compliance behaviour. Consequently, the government should be able to devise long-term strategies to enhance taxpayer compliance behaviour, focusing on areas that deliver the most impact in terms of taxpayer behavioural intention.

7. RECOMMENDATIONS

Our recommendations are geared towards major areas that are considered effective in changing taxpayers' behavioural intention and compliance behaviour, such as perception of fairness in terms of the GST system and the GST readiness of business. Our study suggests that there are areas of improvement in the content and level of user-friendliness on the official RMCD GST website. Studies have found that public service announcements are an effective tool in enhancing taxpayers' perception of fairness of tax (Oh & Lim, 2011b). To minimise communication barriers between the RMCD and taxpayers from different ethnic groups, the RMCD should increase its manpower from various ethnic backgrounds. This would also help to accelerate taxpayer understanding of GST mechanisms, which are currently considered as complex. The official GST website should also consider making available a range of information and services in other languages, such as Chinese and Tamil. With regard to this recommendation, Dr John noted that the RMCD could emulate efforts undertaken by the Australian Tax Office to offer tax guides in different languages so as to cater to diversity in the composition of the population. As at 29 August 2016, GST guides in Australia are available in 29 languages, plus English. These initiatives would reduce the tax complexity of the GST and enhance the perceptions of taxpayers (ethnic group), thus promoting compliance behaviours.

The strict enforcement approach, using penalty and prosecution to enforce compliance, has generated some anxiety and resentment (psychological costs) among honest taxpayers. We recommend that the RMCD's enforcement activities emphasise compliance improvement in the future, rather than penalising past errors. Widdowson (1997) explains that compliance improvement means focusing on building future voluntary compliance instead of just correcting past errors, balancing between assistance and enforcement. While the RMCD has verbally assured taxpayers that such 'advisory audits' will be employed in the first one or two years post-implementation period, we recommend that such an effort be extended for a longer period. This is

particularly important when we consider that Malaysian SMEs are predominantly micro businesses with fewer than five employees. In general terms, financial, human and IT resources are lacking in such micro businesses, and these businesses therefore need more time and support in order to transition to a new regulatory environment.

The government should also critically assess the financial and social impact of closure of small businesses as a result of GST implementation. In addition, a more sympathetic approach could be devised to support this alienated group of SMEs so that they can continue to make a living under the new tax regime. For example, the RMCD should develop closer engagement with smaller trade associations by conducting dialogues, as well as educational and handholding programs with their members. In doing so, the RMCD will be able to reach out to a larger segment of micro businesses and thus gain a better understanding of their GST operational and technical issues.

8. CONCLUSION

The findings of our study are important for GST researchers, policy makers and the RMCD in further improving Malaysia's tax administrative system, particularly in terms of compliance costs and 'ease of administration' to GST registrants. This study focused on GST implementation issues and associated costs impacting SMEs when formulating strategies to encourage voluntary registration among businesses. It could also be useful for policy makers and VAT administrators in India and Gulf Cooperation Countries (GCC) such as Oman and Saudi Arabia which are in the process of designing and implementing an effective and easy-to-administer VAT system.

Leveraging the results of this study, large-scale quantitative or mixed method studies could be conducted across Malaysia, by specific sectors or across sectors. In order to obtain a broader dimension on GST implementation, future studies should include involvement from representatives of trade organisations, chambers of commerce, SME associations, the RMCD and various government agencies involved in the enforcement of the GST Act 2014. Some areas to be covered in future research include the burden of compliance costs, taxpayers' compliance behaviours and the level of understanding of the GST regulations from the perspective of the taxpayers. This study identifies three main factors that affect taxpayer's attitudes towards GST, namely taxpayers' perception of fairness, GST readiness of business and external factors affecting business operations.

9. REFERENCES

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10. APPENDICES

10.1 Appendix 1 — Profile of interviewees and interview questions

Profile of participant:

Gender: Male/Female

Years of experience:

Ethnicity: Malay/Chinese/Indian/Others

Highest formal education:

Type: Senior executives/Owners

Profile of company:

Annual turnover:

No. of employees:

No. of years of operations:

Location:

Type of business:

Detailed research questions:

- 1) The Government has introduced GST with effective from 1 April 2015. What are your views as to the implementation of GST among SMEs? *(relates to perception of taxpayers)*
- 2) Why are businesses not receptive towards a new system? List 3 to 5 potential burdens (if any). *(relates to challenges in implementation i.e., regulatory, financial and psychological costs)*
- 3) What is your view towards GST regulations as whole? Select one statement that best summarise your view: *(relates to attitude of taxpayers)*
 - a) *Positive:* Regulation is generally beneficial to my business as it raises standards of doing business in Malaysia, thus improving the competitiveness of business environment;
 - b) *Negative:* Regulation is generally detrimental to my business because it increases the cost of operation and it makes my life more difficult in running my business; and
 - c) *Neutral:* Regulation makes little difference to my business operations and to my business environment.
- 4) What steps do you undertake to prepare for GST implementation? List 3 to 5 steps. *(relates to GST readiness)*
- 5) Are you aware of the available grant or resources provided by Royal Malaysian Custom Malaysia (RMCD) for SMEs? *(relates to level of support rendered by the Government)*
 1. For example, GST e-voucher of MYR1,000 for GST accounting software;
 2. Have you participated in any GST workshops or trainings courses organised by RMCD?
- 6) List 3 main challenging issues facing your business when implementing GST (Potential challenges identified are cash-flow, resources, business process changes, managing customers, GST software not working well, submission of GST return, claiming of refund, and compliance with GST Act 2014).
- 7) Do you get advice or support from consultants (i.e., accountant, IT services and tax advisors on direct and indirect tax) on the implementation?
- 8) Are your existing available resources adequate to address your concerns?
- 9) If not, how do you comply with GST requirements? What kind of support do you expect from RMCD i.e., consultation via GST Hotline and GST Portal?

- 10) How much have costs of doing business increased from initial GST costs? These include manpower, IT costs and consultancy costs? State roughly how much do you incur when implementing GST (cost then are computed as a % of revenue).
- 11) What is the estimated cost of compliance and how would you absorb this cost in your business? There are 3 options namely (1) full absorption (2) partial absorption (3) pass on all costs to customers.
- 12) Are you aware and concern of the 'Price Control and Anti Profiteering Act 2011'? Select one option (1) Aware and concern (2) Aware, but not concern (3) Not aware
- 13) How do you manage your customers on GST effects on pricing? I.e., Customers refuse to pay.
- 14) Are you concerned over various penalties from late filing, inaccurate filing, etc.?
- 15) *Statement: Non-compliance with severe penalties being imposed.* How would you overcome non-compliance of GST Act?
- 16) What are your recommendations to smoothen the implementation of GST? For example, education, consultation with Customs, penalty.

10.2 Appendix 2 — Approval letter on ethics



Human Ethics Certificate of Approval

This is to certify that the project below was considered by the Monash University Human Research Ethics Committee. The Committee was satisfied that the proposal meets the requirements of the *National Statement on Ethical Conduct in Human Research* and has granted approval.

Project Number: CF15/2713 - 2015001111

Project Title: Challenges encountered by SMEs ('Small and Medium Enterprise') with the implementation of GST ('Goods and Services Tax') in Malaysia: A Qualitative Study

Chief Investigator: Prof Jeyapalan Kasipillai

Approved: **From:** 10 July 2015 **To:** 10 July 2020

Terms of approval - Failure to comply with the terms below is in breach of your approval and the Australian Code for the Responsible Conduct of Research.

1. The Chief investigator is responsible for ensuring that permission letters are obtained, if relevant, before any data collection can occur at the specified organisation.
2. Approval is only valid whilst you hold a position at Monash University.
3. It is the responsibility of the Chief Investigator to ensure that all investigators are aware of the terms of approval and to ensure the project is conducted as approved by MUHREC.
4. You should notify MUHREC immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.
5. The Explanatory Statement must be on Monash University letterhead and the Monash University complaints clause must include your project number.
6. **Amendments to the approved project (including changes in personnel):** Require the submission of a Request for Amendment form to MUHREC and must not begin without written approval from MUHREC. Substantial variations may require a new application.
7. **Future correspondence:** Please quote the project number and project title above in any further correspondence.
8. **Annual reports:** Continued approval of this project is dependent on the submission of an Annual Report. This is determined by the date of your letter of approval.
9. **Final report:** A Final Report should be provided at the conclusion of the project. MUHREC should be notified if the project is discontinued before the expected date of completion.
10. **Monitoring:** Projects may be subject to an audit or any other form of monitoring by MUHREC at any time.
11. **Retention and storage of data:** The Chief Investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.

Professor Nip Thomson
Chair, MUHREC

cc: Dr Uma Devi Jogulu, Ms Mun Ching Yong

Monash University, Room 111, Chancellery Building E
24 Sports Walk, Clayton Campus, Wellington Rd
Clayton VIC 3800, Australia
Telephone: +61 3 9905 5490 Facsimile: +61 3 9905 3831
Email: muhrec@monash.edu <http://intranet.monash.edu.au/researchadmin/human/index.php>
ABN 12 377 614 012 CRICOS Provider #00008C