

The Imposition of Goods and Service Tax to Sales and Services Tax: Malaysian Tax Agents Perceptions

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Abstract:

Malaysian Government has implemented goods and services tax (GST) starting from April 2015. However, the GST has been abolished since September 2018 after the new Malaysian Government has been in power. The GST has been replaced by the Sales and Services Tax (SST). Previous studies have shown that tax agents play an important function in assisting the businesses to meet with the tax law and policies. Hence, this study explores the implementation of the two tax systems by looking at the perceptions of Malaysian tax agent. The interviews were carried out with several tax agents. The results revealed that most of the tax agents agreed that SST system is much better as compared GST for the business communities in terms of its operation.

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INTRODUCTION

In Malaysia, taxation plays a significant contributor to the government revenue. Total taxation revenues are obtained from two main groups, that are known as direct tax and indirect tax. Direct tax revenues comprise of personal tax, corporate tax, petroleum tax, real property gains tax. These taxes are under the charge of the Inland Revenue Board. As for indirect tax, the responsibility to collect tax are under the Royal Malaysian Customs Department (RMCD). Examples of indirect taxes are export duties, excise duties, import duties, sales tax and goods and services tax.

As noted by Taha and Loganathan (2008), tax revenues are the most dependable source for Malaysian government to cover both the operating and development expenditures. Unfortunately, Malaysian government expenditure has always been

higher than the revenue collected, and thus the government need to borrow from various sources. To solve the budget deficit, many economists and International Monetary Fund (IMF) have suggested that Malaysian Government to implement goods and services tax (GST). GST tax system being used as a means to raise income and reduce budget deficits by several governments all over the world (Narayanan, 2014). Some researchers like Liu and Lu (2015) and Kasipillai and Krever (2016) have stated that GST is also seen as less susceptible to economic fluctuations in comparison with the tax money received through the income tax and petroleum tax.

The determination of Malaysian government to do a reformation on its indirect tax system into GST from the old sales and services tax (SST) had become controversial matters. The decision had

been postponed several times due to rejections from several parties (Taha and Loganathan, 2008; Asmuni, Yusoff, and Ses, 2017; Loo and Taib, 2017). Finally, during the presentation of 2014 Budget, the government has finally resolved to implement GST beginning of 1 April 2015. By implementing GST, it was expected that it will provide a better tax system especially in terms of efficiency and transparency.

However, after the elections that was held in Malaysia on 9 May 2018, the newly formed government (Pakatan Harapan) at that time, came to a decision to change the GST with the new sales and services tax (SST). This has been implemented since September 2018.

According to the Pakatan Harapan government, GST have raised a lot of implementations issues and debates. Among the issues that have been commented is on its impact on the smaller business establishments in Malaysia. Thus, the main objective of this research is to explore the implementation of the two tax systems on business establishments by focusing on the perceptions of the tax agents in Malaysia.

This paper consists of several parts. The second part of the paper is a review of the literature relating to GST and SST. The third part covers the methodology, and the fourth results and discussion. The last part is the conclusion.

LITERATURE REVIEW

GST implementation in Malaysia

In Malaysia, the rule that was related to GST known as the GST Tax Act 2014 which had become a law since June 2014 until August 2018. The GST Act 2014 provides the imposition and collection of GST. Under this Act, to become a

registered person, one must ensure that the turnover for the taxable supplies of goods and services has achieved minimum amount of RM500,000. Otherwise, the business cannot levy and collect GST from their customers. However, businesses may apply to become registered person on voluntary basis even though the business has not achieved the minimum threshold.

The computations of the GST rest on the category of the supply of goods and services that involved. Basically, the classification can be divided into standard-rate supplies, zero-rated supplies, exempt supplies and supplies not within the scope of GST. The rate for standard-rate supplies is six percent. Under this category, businesses need to identify the input tax and output tax. Under zero-rate supplies, the businesses GST rate is at zero percent while exempt supplies are exempted from GST. Lastly, supplies that are not within the scope of GST are normally for transactions that are considered as non-business, from outside of Malaysian jurisdictions and from the public sector.

The impact of GST on business

According to Narayanan (2018), GST has impacted businesses from two angles. Firstly, having pressure to increase price, which will result in reduction in sales. Secondly, increased the compliance cost borne by businesses.

As a GST registrant, SMEs were required to ensure that the business process and procedures are in place and thus improve their governance matters. This is because SMEs need to ensure that they maintain proper accounting records, filing GST returns on a timely basis, issue GST compliant tax invoices, proper documentation on debit and credit notes to claim for GST, proper coding for expenses and income, proper pricing as well as records on suppliers and customers

(Radziah, Farizal, Norhasnah, 2005; Thaneemalai, 2014; Santhariah, Tran-Nam and Boccabell, 2018). However, those improvements are expected to bring long lasting benefits to the SMEs (Tony, 2014). Study in Ghana showed that VAT has improved SMEs record keeping skills and accounting system (Adom, Amakye, Doh and Anku, 2014).

In Malaysia, the tax rules stated that all the documents must be kept for 7 years. Apart from that as compared to other countries, the GST in Malaysia may cause confusion due to longer list of exemption and zero-rated products. This, in return will increase their cost of compliance as the SMEs need to hire GST consultants. This may also affect their operational costs especially in terms of buying new software and time spent to train their staff to understand the mechanism of GST. Study by Ramli, Palil, Hassan, and Mustapha in 2015 found that, with GST, the small and medium businesses is projected to face an average cost of compliance above RM28,000 every year. In Australia, Lignier and Evans (2012) found that GST was considered as the most time consuming of all taxes. They did the research based on a sample of 3,500 small business establishments with rate of response at 4.5 percent.

There are several studies that have been conducted in Malaysia after GST have been implemented. The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) discovered that GST has resulted the cost of operation for the small businesses to escalate. Fifty eight percent of the respondents stated that they incurred cashflow problems. These findings are based on a survey done in 2016. However, in their study in 2019, the results revealed that marginally more than 54.6 percent of the Chinese business establishments disclosed that they prefer GST tax system as compared SST (Nee, 2019).

In another study, Loo and Taib (2017) discovered that majority of the business establishments encountered difficulties in fixing the right price, fill in GST forms, submit and claiming for the refunds. Most of the respondents also agreed that their compliance cost has increased because they need keep relevant records, stored those documents, and hired new staff. This study was conducted in the city of Melaka.

Study by Muhammad (2017) on Malaysia tax agents suggested that most of their clients were facing troubles in coping up with the requirements of GST. The clients relied heavily on the tax agents' services in helping them to fulfil with the GST requirements. The main reason given is many of the clients were not familiar in complying with the requirement of GST rules. As a result, the businesses had to pay more fees to their tax agents in order to get assistance on GST compliance.

Results from these findings suggested that the level of acceptance and awareness on GST by the respondents is at a reasonable level. Business establishments especially the SMEs were experiencing problems in comprehending the GST processes especially to classify the input and output tax. This at the end, affect their compliance with respect to the GST Act. However, as noted by Baker and McKenzie (2013), although the introduction of GST would initially impact businesses, in the long run a focused and well driven implementation should prove to be beneficial for the country.

The new SST

SST has two components which is Sales tax and service tax. Both taxes are single-stage taxes and fall within the group of indirect tax in Malaysia.

Sales tax is charged and levied on taxable goods. The definition of taxable goods are

goods that brought into Malaysia through import or goods that are manufactured by a taxable person. Thus, if manufacturer of taxable goods that have turnover value above MYR500,000 for a year is responsible to register for this tax.

Service tax is a tax that is imposed on any provision of taxable services made in the course or furtherance of any business by a taxable person in Malaysia. In general, any person who provides taxable services exceeding MYR500,000 in a 12-month period is liable to register for Service Tax, subject to certain exceptions. Both Sales tax and Service Tax cannot be claimed from the RMCD, thus the taxes become a cost to the business. The cost may also be included into the price of products or services sold and may affect the businesses profitability and competitiveness. Survey by ACCCIM in 2019 discovered that some businesses have experienced higher input price after new SST have been implemented and 66.1 percent of them raised the selling prices (Nee, 2019). Thus,

at the end, the consumers have to suffer the burden of higher costs that cannot be absorbed by the manufacturers.

Narayanan (2014) claimed that SST has several benefits. Among them are familiarity, administrative simplicity, and lower compliance cost. Under the new tax SST, goods or services are only taxed once at the importer, manufacturer, or service provider level.

RESEARCH METHOD

To explore the implementation of these two systems on business establishments, data was collected by means of face to face interviews. The interviewees were the tax agents. The interviews were conducted between March to May 2019 at the location within the Klang Valley, Malaysia. Each interview took an average of 30 to 45 minutes. The background of the interviewees is as shown at Table 1 below:

Table 1: Profiles of the interviewees

Tax Agent	Position	Working Experience
TA1	Owner of Accounting Firm	More than 20 years
TA2	Managing Director of Tax Consulting Firm	More than 20 years
TA3	Tax Consultants	More than 10 years
TA4	Tax Consultants	Less than 10 years
TA5	Tax Consultants	More than 12 years

RESULTS AND DISCUSSIONS

Agreement of GST Implementation

The question that was being asked are whether they agree with the implementation of GST in 2014. In general, four of the respondents agree with the GST implementation except for TA4.

TA4 commented that she disagreed with the implementation of the GST because of two reasons. The first reason is GST affect the cost of living and secondly, the

implementation process. According to her *“the process incurs high cost. When the implementation process required high cost, government need to collect more tax to cover the cost”*

Impact of GST on Business Community

Among the challenges that the businesses faced in GST is compliance with the GST Act. As mentioned by TA1 *“In GST, the compliance a bit difficult. So many guides*

to comply..bad debt relief, capital goods adjustments, all of these are quite complex kind of calculation. GST need sophisticated software”

TA2 also stated that *“In GST, everyone who’s running a business must register for GST, either you are selling goods or services”*. TA5 further spelled out *“They need to register for their business in order to submit the GST return, when their annual sales turnover exceed the threshold, which is RM500,000”*.

The advantage about GST is in terms of transparency. As mentioned by TA5 *“The business registered under GST can charge and claim GST. Businesses are allowed to claim whatever amount of GST paid on the business inputs by offsetting against the output tax and only the excess amount of output tax are to be remit to the Customs. In simplest words, businesses are not paying the exact amount of 6 percent charge in the tax invoice. When any person registered but not make any GST return, this can be subject to audit investigation as Customs have all the information.”* This indicates that the possibility of the businesses not to report GST is lower. TA4 also supported this view.

Impact of SST on Business Community

Most of the tax agents agreed that SST is much easier as compared to GST. This is because the businesses do not need to have special software to keep track of the tax. As noted by TA2 *“Business owner can do the record of business transactions in their accounting book. This means that the records can be done manually, without the need to have specific software unlike GST. This is much simpler. Tax will only be imposed on the manufacturers and not on the distributors or suppliers like the GST. Smaller businesses that have turnover less than RM500,000 annually are not compulsory to register for GST. They will*

feel less burden in this SST era”. This will assist the business especially SMEs from incurring higher compliance cost.

In addition, SST has lesser rules and regulations, and do not have input tax and output tax. As stated by TA1 *“SST especially sales tax, nothing difficult. It’s just out of 10% or 5%, It’s so simple. Service tax, merely we need to determine whether your service is prescribed service or not. From there on, it’s just out of 6%. There isn’t any mechanism output tax, which you need to offset and get back the money”*. T5 also agreed because as tax agent, he noted that *“They have lesser burden in collecting and making payment to the Customs.”*

However, TA4 and TA5 mentioned that there are several issues that may arise due to SST implementation. Among the issues are as noted by TA4 *“I believe there will be several issues will be arised when SST being reintroduced in Malaysia. First, the business community will exploit the SST to maximise their revenue which they will raise the price of some goods and services as it hardly to be monitor by customs or government compared to when GST era. Next is manufacturer who previously enjoy claimable input tax under GST, might pass the increase cost to the wholesalers and retailer thus will affect the price when the good arrive to the consumer. Another issue mentioned by TA5 is the possibility of tax avoidance in SST. He said that “they are still lot of business community that are still running away from their responsibility in declaring the SST to the Customs”*. This is because unlike GST, the businesses do not have to submit input and output to the Customs.

CONCLUSION

From the above discussion, most of the tax agents agree with the implementation of the GST. However, they also found that

businesses face higher compliance cost during the GST implementation era. This is in line with previous studies (Loo and Taib, 2016 and Muhammad, 2017).

Tax agents also found that SST tax system is much simpler as compared to GST. However, since SST has becoming part of the expenditure to the business, the tendency of them to pass it to the customers is higher.

GST is not a new type of taxation. It has been successfully being implemented in other countries. Experience from some countries showed that GST has improved the taxation system to be more efficient, effective, and transparent. Malaysia maybe the only country in the world that have revert to the old system. Thus, there is a need for the government to do further research on the issues by having a cost benefit analysis. This is to ensure that the SMEs will not be burdened by unnecessary operational costs which in return may affect their efficiency and productivity.

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