

CONSUMERS' PERCEPTION TOWARDS THE IMPLEMENTATION OF GOODS AND SERVICES TAX (GST) IN MALAYSIA: A REVIEW PAPER

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Abstract

The Goods and Services Tax (GST) is one of the most discussed topics in Malaysia nowadays. The Malaysian government's decision to implement the GST in April 2015 has affected every member of society in the country. Financial issues such as inflation, rising cost of living, the national budget deficit, economic instability, and the implementation of GST have impacted many Malaysian consumers in terms of their spending. As a result, this raises various concerns on the perceptions among Malaysians towards GST as a whole. This article aims to review the consumer's perception towards the implementation of GST in Malaysia. This paper is also expected to provide a better understanding for the Malaysian government on consumers' perception towards GST. Additionally, this could also assist the government in their policy making, especially in the areas of awareness raising pertaining to the benefits of GST, charging mechanism introduction, and collection, as well as enhancing society's confidence towards the government in implementing this tax policy.

Keywords: Goods and Services Tax (GST), consumer perception, Malaysia

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1.0 Introduction

The concept of Goods and Services Tax (GST) was first introduced by a French tax official during the 1950's. To date, there are 160 countries around the world which have adopted this taxation system, including the members of the European Union and ASEAN countries such as Singapore, Indonesia, Thailand and others. Theoretically, GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail level of the distribution. Although GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages a particular good or service goes

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through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next level in the supply chain (Royal Malaysia Customs Department, 2014).

The main objective of GST implementation in Malaysia is to address the weaknesses in the existing taxation policy and also to serve as the key initiative under the Economic Transformation Programme (ETP). It also serves as a powerful means of revenue collection with the objective of reducing the fiscal deficit (Lai, 2013). In order to ensure that the GST policies are being implemented effectively, the government of Malaysia has formed the Tax Review Panel consisting of representatives from both the public and private sectors. The responsibility of the panel is to review the concepts, legislation, processes and procedures for the implementation of GST. The introduction of GST is also part of the government's tax reform programme which strives to enhance the capability, effectiveness and also transparency of tax administration and management.

In addition, GST is a broad-based consumption tax covering all sectors of the economy i.e. all goods and services made in Malaysia, including imports except specific goods and services which are categorised under zero-rated supply and exempt supply orders as determined by the Ministry of Finance and published in the Gazette. The basic fundamental of GST is its self-policing feature which allows businesses to claim their input tax credit by way of automatic deductions in their accounting system. This eases the administrative procedures on the part of businesses and the government. Thus, the government's delivery system will be further enhanced (Royal Malaysia Customs Department, 2014).

There are three categories of GST which differ primarily in the rates and method of application. The three categories of GST are standard rate, zero rate and exempt supplies (Royal Malaysia Customs Department, 2014). The standard-rated of GST can be explained as the tax that is imposed on goods and services that are charged at 6% in every stage of the supply chain. As for the zero-rated GST, all items that fall into this category (e.g. unprocessed food items, education materials, basic food items, etc.) are exempted from GST. The exempt supplies refer to some goods and services (e.g. residential property, healthcare services, etc.) which are not subject to GST and no tax credits are claimable by businesses. It was argued that GST is a better and fairer tax system compared to SST (Sales and Service Tax) as GST has the advantage of lowering business cost, enhancing compliance, increasing global competitiveness, lowering business operational cost, reducing red tape, providing fairer pricing to consumers and most importantly creating transparency in the existing taxation system (Mansor & Ilias, 2013).

Implementation of GST around the world

Generally, there are 160 countries in the world that have adopted the GST including ASEAN countries such as Singapore and Indonesia, in which rates vary between 5% to 27% (Royal Malaysian Customs Department, 2015). Table 1 highlights the number of countries from various regions that have adopted a GST system as part of their taxation practices. It was found that the European region has the highest number of countries that have adopted GST (n=53), followed closely by African countries (n=44). Table 2 presents the list of ASEAN countries and the rate they impose in their GST policy. GST rates range substantially among Asian countries, where common GST rates range between 7% to 12%. Among ASEAN

countries, Indonesia was the first country to implement GST in 1984 and was followed by other countries (Berita Harian, 2013). As for Malaysia, the current GST rate is 6%.

Table 1: List of Countries Per Region that Implement GST

Region	No. of Country
Asia	26
Europe	53
Oceania	7
Africa	44
South America	11
Caribbean, Central & North America	19

Source: <http://gst.customs.gov.my>

Table 2: List of ASEAN Countries and Their GST Rates

Country	GDP Per Capita (World Bank, 2011, USD)	Year of Implementation	Initial Rate (%)	Current Rate (%)
Indonesia	3,495	1984	10	10
Thailand	4,972	1992	7	7
Singapore	46,241	1993	3	7
Philippines	2,370	1998	10	12
Cambodia	897	1999	10	10
Vietnam	1,407	1999	10	10
Laos	1,320	2009	10	10
Malaysia	10,068	2014		7

Source: <http://gst.customs.gov.my>

GST Implementation in Malaysia: Consumers' Perception

Since its inception, the pros and cons of GST implementation has been widely debated and has attracted significant attention from various parties including academics, businesses and the general public. Several issues have been highlighted by most of the parties, particularly the causal effect of GST on the price of goods. For example, Kasipillai and Sinnakkannu (2008) have argued that the GST system will have a direct effect on wealth distribution in three aspects, namely (1) changes in consumers' expenditure pattern, (2) increased financial burden for households, and (3) the burden of GST on the categories of expenditure. Palil and Ibrahim (2012) further iterated that the implementation of GST is also argued to be an antecedent of inflation which will encourage many parties to increase the prices of products and services that eventually will burden the people as a whole. As a result, most households

from the middle and lower income groups may experience a higher financial burden in comparison to higher income earners.

In the context of consumers' perspective, the empirical findings revealed that the level of understanding and awareness among Malaysians toward GST was found to be generally low (Alias, 2016; Shamsuddin *et al.*, 2014). Ahmad *et al.* (2016) argued that the negative perception of consumers toward the implementation of GST was due to lack of information on the goods or services which are exempted from GST, and the impact of inflation of price. This indeed reflected that the majority of Malaysian consumers are still confused and lack knowledge of GST, which directly influence their perception and level of acceptance of GST as a whole. The implementation of GST on 1st April 2015 till now has sparked arguments from various parties, especially those from the middle and low income level (Ling *et al.*, 2016). This may have resulted from the changes in price of consumer goods and services due to the rising cost of production and supplies. Moreover, the implementation of GST has directly affected society's welfare and consumers' daily life. According to Alappatt and Shaikh (2014), some of society's major concerns of charging GST in the country were such as increase in social problems, increase in inflation rate, negative effects on middle and low income groups, and increase in the price of food, healthcare, medical products, public transportation and other essential services.

In addition to the above, research studies have indicated that the majority of Malaysians have a negative perception towards the implementation of GST (e.g. Bidin & Marimuthu, 2016; Ling *et al.*, 2016). It has been reported that consumers had diverse opinions over the implementation of GST and most of them failed to understand the implications and benefits of GST on goods, services, businesses and socio-economic development (Abdullah *et al.*, 2013; Saira *et al.*, 2010; Shamsuddin *et al.*, 2014). The past research studies have also reiterated that the main factors that discourage consumers' acceptance of GST implementation in Malaysia were due to the low awareness and confusion experienced by consumers when it comes to GST charges (Ling *et al.*, 2016; Palil *et al.*, 2012; Saira *et al.*, 2010; Shafie *et al.*, 2016; Shamsuddin *et al.*, 2014; Zabri *et al.*, 2016). Hence, there is no doubt that till today, it can be seen that the Malaysian taxpayers' understanding of GST is still relatively low and this scenario remains a great challenge for the Malaysian government to address.

As for the businesses context, the implementation of GST in Malaysia has also resulted in retail and service-oriented sectors suffering short-lived downturns as consumers become cautious of spending and its bleak impact on business (Urif, 2016). According to Alias (2016), the situation has worsened with the depreciation of the value of the Malaysian Ringgit, abolishing of subsidies, increase of living costs and uncertainties of the job market experienced by Malaysians. Moreover, household income was further reduced as purchasing power and spending were curtailed with the higher cost of living (Faruqi, 2015; Urif, 2016). Hence, the scenario has resulted in consumers tightening their belts as they perceive that the prices of goods and services are unreasonably inflated post GST implementation. The changes in behaviour of consumption have badly affected all business as the majority of businesses are experiencing sales decreases from the automotive, property and retailing sectors (Ishak *et al.*, 2015; Faruqi, 2015; Urif, 2016; Zabri *et al.*, 2016).

Suggestions for Future Research

Although the past research studies have highlighted important findings on GST in various settings, however, there are some other areas that are worth visiting in future research. For example, more research studies should focus on the consumers' perception and their behaviour towards GST in their product and service consumption. Since GST is a consumption tax, it would be an added cost to the consumers and it is expected that there could be some behavioural changes by consumers (Gelardi, 2013). Yet, there is a lack of evidence from studies to support an overview on consumer readiness, perceptions and acceptance of GST after the implementation of GST in Malaysia to date. Specifically, studies that link the relationship between the perception of GST and consumers' spending behaviour to the price of GST-inclusive products and services are still scarce. Further analysis is needed to study how households' potential consumption behaviour would change with the implementation of GST. Moreover, the level of consumers' understanding towards GST and its relationship with consumers' spending behaviour is also a potential area which is worthy to be addressed in a future study.

Conclusion

This study highlighted the overall view of GST in Malaysia since its implementation back in the year of 2015. The review suggested that there is a significant need for the Malaysian government to put in more effort to ensure that consumers have a clear understanding and develop a positive perception towards GST, leading to its acceptance. Good understanding among consumers is important as it can generate a positive perception towards the taxation policy. The Royal Malaysian Customs Department (RMCD) could initiate and promote an extensive publicity programme which could help to create awareness among consumers in understanding the rationale and importance of GST in Malaysia. As for the educational context, it is important for policymakers to incorporate basic education of GST in higher education institutions with the objective to educate students and the future generation in hopes to improve their perception towards the system. In summary, it is concluded that consumer perception and their behavioural changes in spending is important towards GST implementation in Malaysia since it has an enormous impact on their spending power and the economic viability of the nation.

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