Universiti Utara Malaysia

DETERMINANTS OF GOODS AND SERVICES TAX (GST) COMPLIANCE AMONG SMEs: AN EXPLORATORY STUDY IN KLANG VALLEY

By

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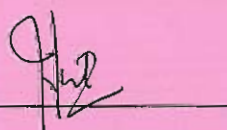
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ABSTRACT

Tax is an opportunity for government to collect additional revenues needed in discharging its pressing obligations. Introduction of the Good and Service Tax (GST), to replace the Sales and Services Tax (SST) on 25 October 2013, took effect starting April 1st, 2015. Royal Malaysian Customs Department (RMCD) has been entrusted by the Ministry of Finance to manage all administration concerning GST. The current research was specifically conducted based on research objectives developed to determine the level of GST knowledge among small and medium enterprises (SMEs) in Klang Valley; and to examine the relationship between tax knowledge, tax attitude, complexity of the GST laws and GST compliance among SMEs in Klang Valley. This study examined the relationship between independents variables (IV) and dependent variable (DV) using a survey approach. Quantitative research design has been applied by distributing the questionnaires to the respondents and adopting the cross-sectional research design where the data collection was done at a single point in time. RMCD Wilayah Persekutuan Kuala Lumpur and RMCD Selangor were selected as the context as both RMCDs were located in Klang Valley area. The statistical results exposed that there is high level of GST knowledge among SMEs in Klang Valley and also there is significant relationship between tax knowledge, tax attitude and complexity of GST laws with GST compliance among SMEs taxpayers. Thus, one of the major contributions of this study was to assist the RMCD in developing its tax education system and tax audit judgments in GST by deploying certain indicators.

Keywords: GST Knowledge, Tax Attitude, Complexity of Tax Laws, GST Compliance

ABSTRAK

Cukai merupakan salah satu cara kerajaan Malaysia mendapatkan pulangan berbentuk kewangan. Pengenalan Cukai Barang dan Perkhidmatan (CBP), untuk menggantikan Cukai Jualan dan Perkhidmatan pada 25 Oktober 2013, efektif mulai 1 April 2015. Jabatan Kastam Diraja Malaysia dipertanggungjawabkan untuk mengurus tadbir segala hal berkaitan CBP. Kajian ini dijalankan berdasarkan objektif kajian yang dibentuk iaitu untuk mengenalpasti tahap pengetahuan CBP dikalangan perusahaan kecil dan sederhana (PKS) di Lembah Klang dan untuk mengkaji hubungan antara pengetahuan cukai, sikap terhadap cukai, kerumitan undang-undang cukai dan pematuhan CBP dikalangan PKS di Lembah Klang. Kajian ini dilakukan melalui kaedah tinjauan. Kajian kuantitatif dilakukan dengan mengedarkan soalan kaji selidik kepada PKS di Jabatan Kastam Diraja Malaysia di Kuala Lumpur dan Selangor. Hasil statistik mendedahkan bahawa pengetahuan cukai CBP di kalangan PKS di Lembah Klang adalah ditahap yang tinggi dan juga mempunyai hubungan yang signifikan antara pengetahuan cukai, sikap terhadap cukai, kerumitan undang-undang cukai dan pematuhan CBP di kalangan pembayar cukai PKS. Oleh itu, salah satu sumbangan utama kajian ini adalah untuk membantu RMCD dalam membangunkan sistem pendidikan cukai dan penilaian audit cukai di CBP dengan menggunakan petunjuk tertentu.

Kata Kunci: Pengetahuan Cukai, Sikap Terhadap Cukai, Kerumitan Undang-Undang Cukai dan Pematuhan CBP

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LIST OF ABBREVIATIONS

CBP	Cukai Barang dan Perkhidmatan
CITC	Corrected Item Total Correlation
DV	Dependent Variable
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
IRBM	Inland Revenue Board of Malaysia
IV	Independent Variables
GST	Goods and Services Tax
KMO	Keiser-Meyer-Olkin
NGOs	Non-Governmental Organization
PKS	Perusahaan Kecil dan Sederhana
RMCD	Royal Malaysia Customs Department
SMEs	Small and Medium Enterprises
SST	Sales and Services Tax
SPSS	Statistical Package for Social Sciences
TAP	TaxPayer Access Point
WPKL	Wilayah Persekutuan Kuala Lumpur
WTO	World Trade Organization
WCO	World Customs Organization
VAT	Value Added Tax
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1   Background of Study

Revenues gained from taxes in any country are meant for the provision of infrastructure and other social services. For these services to be provided, the government should have sufficient revenue to finance them. Taxes are one of the easiest and economical ways of raising funds. Osundina and Olanrewaju (2013) argued that tax has been utilized by all countries to collect additional revenue.

Malaysia's revenue comes from both direct and indirect taxes. Direct taxes include income tax on individuals and companies collected by the Inland Revenue Board Malaysia (IRBM), petroleum tax, stamp duty, estate duty and real property. On the other hand, the Royal Malaysia Customs Department (RMCD) is responsible for managing and collecting indirect taxes, including the Goods and Services Tax (GST).

The RMCD is entrusted by the Ministry of Finance to administer and manage all matters concerning GST, which was first introduced on 1 April 2015. The aim of introducing GST in Malaysia is to enhance the effectiveness and efficiency of the current tax system. It has been argued that the introduction of GST in Malaysia would bring many benefits to customers and businesses. From the national perspective, GST can improve the living standard of Malaysians as the revenue from the GST can be used for development of social infrastructure, such as health,

education and public services facilities. This is one of the challenging tasks for the RMCD in its "Plan Strategic 2015 – 2019".

It is widely known that GST is a non-claimable tax charged to consumers. In other words, the consumers cannot claim a tax rebate on their purchase of the goods and services. Meanwhile, for the suppliers of goods and services or businesses who act as the tax collecting agent on behalf of the government, they can benefit from the recovery of input tax (Fatt and Ling, 2006). This is clearly stated in the GST Act 2014:

> *"GST shall be levied and charged on the taxable supply of goods and services made in the course or furtherance of a business in Malaysia by a taxable person. GST is also charged on the importation of goods and services"* (RMCD, 2015).

Since its implementation, 455,965 businesses have registered with the RMCD as at 31 December 2017. Out of this figure, Wilayah Persekutuan Kuala Lumpur (WPKL) and Selangor record the highest number of GST registrants with a total of 93,893 and 86,782, respectively (Table 1.1).

Table 1.1
GST Registrants (by State) as at 31 December 2017

No.	State	No. of Registrant As At 31 Dec 2017		
		MAND	VOL	TOTAL
1.	WPKL	65,837	28,056	**93,893**
2.	SELANGOR	58,551	28,231	**86,782**
3.	JOHOR	40,109	18,757	58,866
4.	PULAU PINANG	23,854	8,633	32,487
5.	PERAK	21,458	9,079	30,537
6.	SARAWAK	21,551	8,614	30,165
7.	SABAH	17,444	6,614	24,058
8.	KLIA[1]	16,160	7,702	23,862
9.	PAHANG	10,939	4,789	15,728
10.	KEDAH	11,025	4,134	15,159
11.	NEGERI SEMBILAN	8,869	4,957	13,826
12.	MELAKA	8,009	4,182	12,191
13.	KELANTAN	5,201	3,062	8,263
14.	TERENGGANU	4,783	2,714	7,497
15.	PERLIS	1,166	587	1,753
16.	LABUAN	649	249	898
TOTAL		**315,605**	**140,360**	**455,965**

Source: RMCD (2017)

Interestingly, Table 1.2 below indicates that the majority of GST registrants is made up of small and medium enterprises (SMEs), i.e., 434,322, which is equivalent to 95.3% of the total registrants. The statistics show that GST implementation has affected the SMEs greatly (at least in terms of GST registration). Without compliance to GST by SMEs, Malaysia may not be able to achieve the targeted revenue. This is particularly true as SMEs contribute 33.1% to Gross Domestic

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[1] Since from 16 March 2009, the Customs station in Kuala Lumpur International Airport (KLIA) has operated as a separate entity and is no longer be under RMCD WPKL administration.

Product (GDP), 57.5% to employment and 19% to exports. Other statistics further indicate that SMEs comprise 97.3% of total business establishments in Malaysia, equivalent to a total of 645,136 companies.

Table 1.2

Manufacturing	Number of Registrants	Total Registrants
Medium	3,311	
Small	44,164	53,332
Micro	5,857	
Non-Manufacturing	Number of Registrants	Total Registrants
Medium	62,177	
Small	279,304	380,990
Micro	39,509	
TOTAL SMEs		**434,322**

Number of Registered SMEs (for GST) as at 31 December 2017
Source: RMCD (2017).

While the number of GST registrants is considered overwhelming, it has been reported that about 46,316 (approximately 10% of the total registrants) failed to submit GST returns as at 14 December 2015 (RMCD Gentax System, 2015). Furthermore, the tax audit conducted by the GST Audit Department of the RMCD, WPKL, after one year of implementation of GST found that non-compliance tax totalled RM93,959.45 until 30 March 2016 (RMCD, 2016). Theoretically, non-compliance among GST registrants should not happen considering that the SMEs have collected the taxes from the consumers. In other words, as the collecting agents, the SMEs are expected to fully comply with GST by remitting whatever amount

collected from the consumers to the RMCD. This is different from direct taxes where the taxpayers are expected to allocate certain amount of their own profit to taxes. Hence, there is a need to examine the factors that can motivate the GST registrants to fully comply with their GST obligations.

1.2   Problem Statement

Table 1.3 describes the total non-receivable accounts for the years 2015 and 2016 (RMCD Annual Report, 2016). This refers to the total uncollectible amount by the RMCD for each of its taxes or duties. The statistics indicate that the accounts uncollectible for GST is the highest, i.e. RM1,928.66 million, which is equivalent to 56% of RMCD's total non-receivable accounts in the year 2016. This is surprising considering the overwhelming number of SMEs that have registered for GST.

Table 1.3
RMCD Non-Receivable Accounts for the years 2015 and 2016

Tax/ Duties	2015		2016	
	RM/ Million	% Percentage	RM / Million	% Percentage
Local GST	777.36	34.15	**1,919.92**	55.67
Import GST	0.76	0.03	**8.74**	0.25
Excise Duty	230.95	10.15	291.79	8.46
Import Duty	652.57	28.67	685.11	19.87
Export Duty	4.59	0.21	3.65	0.11
Import Sales Tax	111.93	4.91	108.52	3.14
Sales Tax	163.58	7.18	150.42	4.36
Services Tax	143.56	6.31	107.96	3.13
Surcharge & Penalties	188.96	8.30	169.94	4.93
Other Taxes	2.01	0.09	2.64	0.08
TOTAL	**2,276.27**	**100.00**	**3,448.69**	**100.00**

Source: RMCD Annual Report 2015 and 2016.

Besides that, the Ministry of Finance reported in the Dewan Rakyat that 37,556 compounds were issued by the RMCD for various offences related to the GST from 1 April 2015 to17 February 2017 (Malaysian Parliament, 2017). The compounds were imposed as GST registrants failed to display prices, inclusive of GST and failed to submit the tax returns, tax payments, tax invoices and such other registration-related offences. Johor received the highest number of compounds with 8,104 cases, followed by WPKL (5,036) and Selangor (4,707) (The Star Online, March 2017).

From the report of the Ministry of Finance, it can be deduced that perhaps the taxpayers' surroundings may have influenced their non-compliance behaviour. This is evinced in a study by Misu (2011) which reported that tax compliance factors are divided into two categories: (i) economic factors, which include income levels, probability of an audit, tax audit, rate and benefits and penalty; and (ii) non-economic factors, which include the perception of taxes, personal norms, social and national factors and perceived fairness. These factors are related to and affect taxpayers' compliance behaviour. It is important to identify how tax compliance behaviour can be improved to enhance revenue for meeting public services expenditure without undue burden on the taxpayers. One of the biggest apprehensions pursuant to the implementation of GST is its effect on SMEs as registering for GST requires SMEs to have a good accounting system for ensuring payment and collection are systematically managed and documented. However, some SMEs have not emphasised on this.

The implementation of GST in Malaysia is still relatively new, this year (2017) being only the third year of its implementation. Therefore, only a few studies have

been undertaken on the level of tax knowledge among Malaysian taxpayers after GST implementation. Results show that several factors affect the level of tax knowledge of taxpayers. Since GST is new in Malaysia, knowledge on GST is not comprehensive, especially at secondary school and tertiary levels. Thus, it is assumed that GST non-compliance could be due to lack of knowledge.

Alberto (2014) concluded the readiness of SMEs to pay tax is very critical and must not be overlooked. The government should stress on factors, like tax knowledge, that can influence the willingness of SMEs to pay tax. If SMEs are more enthusiastic about paying the tax due, the government can increase revenue to provide better public services and ultimately lead to more economic stability and development of the nation.

1.3   Research Questions

This study attempts to answer the following research questions:

1. What is the level of GST knowledge among SMEs in the Klang Valley?

2. What is the relationship between tax knowledge, tax attitude and the complexity of GST laws and GST compliance among SMEs in the Klang Valley?

1.4   Research Objectives

The specific objectives of the study are:

1. To determine the level of GST knowledge among SMEs in the Klang Valley; and

2. To examine the relationship between tax knowledge, tax attitude and complexity of GST laws and GST compliance among SMEs in the Klang Valley.

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1.5   Significance of the Study

The objective of GST implementation by the Malaysian Government is to improve the ability and efficiency of tax supervision and administration (RMCD, 2016). The results of this study contribute to tax literature on GST knowledge and GST compliance, both within and outside Malaysia. This is important, as most previous studies have focused more on direct taxes.

In terms of practical significance, this study examines the level of GST knowledge among SMEs and the relationship between tax knowledge, tax attitude, complexity of GST laws and GST compliance. Specifically, the findings are expected to provide further insights into the level of GST knowledge among GST registrants after its two-year implementation. This information is important to decide on whether or not advertisements and information-sharing sessions are effective. It may provide guidance to tax administrators on the mechanisms to improve or to update knowledge of GST registrants.

The findings also highlight the important determinants of GST compliance. This information can assist the RMCD to develop relevant strategies to facilitate and improve compliance measures, thus contributing to increased revenue generation. For example, poor record-keeping of accounting documents and time cost appear to be significant factors of tax non-compliance among SME taxpayers, then the RMCD should invest in educating taxpayers and simplify GST laws in order to the achieve organisational objectives.

1.6   Scope and Limitation of the Study

The primary aim of this study is to examine the level of taxpayers' knowledge and compare this with the relevant tax compliance determinants. The scope of knowledge tested in this study is limited to Part V: Accounting, assessment, recovery, etc., which comprises section 33 to 53, Goods and Services Tax Act 2014 (RMCD, 2016). Tax compliance determinants of this study are limited to three variables that prior studies have indicated as the likely core determinants. The variables that are examined are GST knowledge, taxpayers' attitude and the complexity of GST laws. The scope of this study covers SMEs registered as GST taxpayers in the Klang Valley. For this field study, a number of SME taxpayers were selected as the representative sample of the study. Specifically, 300 SMEs from the Klang Valley were selected using convenience sampling.

Though significant findings were obtained, there are also limitations in this study. The first limitation is the location of the study. Samples were only taken from the Klang Valley, consisting of two GST controlling stations (Wilayah Persekutuan Kuala Lumpur and Selangor). Secondly, the samples were narrowed down to only GST taxpayers who declared GST-03 returns for quarterly taxable periods. Quarterly taxable periods refer to GST taxpayers who achieved sales less than RM 5 million for 12 months. Since the study involved only GST taxpayers from two of states in Malaysia, the findings should not be generalised to all GST taxpayers in Malaysia.

1.7 Organisation of the Study

The study is discussed in five chapters as follows: Chapter 1 covers the background, objectives, significance, scope and limitations of the study. Relevant literature on the variables are reviewed in Chapter 2. Chapter 3 presents the research methodology, development of framework and hypotheses, the research design, instruments of measurement, population, sample, questionnaire and data collection. Chapter 4 illustrates the findings, respondents' demographic profile, interpretation of the analyses and results of hypothesis testing. Finally, Chapter 5 provides a summary of the findings and discussions on the relationship among the variables. Besides that, implications and limitations of the study are discussed and recommendations for future research provided.

CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

This chapter discusses the relevant concepts and issues related to this study. It reviews the literature pertaining to tax compliance and the factors that may influence compliance. It begins with an overview of GST in Malaysia and of the RMCD in Section 2.2 and Section 2.3. Section 2.4 describes the SMEs in Malaysia in relation to the focus of the study which is tax compliance of SMEs in Malaysia. Section 2.5 discusses the tax compliance concept and theories. Then, Section 2.6 discusses determinants of tax compliance and lastly in Section 2.7, a theoretical framework is developed to analyse GST compliance and the variables used in this study.

2.2   Overview of Goods and Services Tax (GST) in Malaysia

The introduction of the GST was announced by the Prime Minister of Malaysia, Datuk Seri Najib Tun Razak, during the Budget 2014 to replace the Sales and Services Tax (SST) on 25 October 2013, and it came into effect on 1 April 2015. The RMCD has been entrusted by the Ministry of Finance to administer and manage GST, which includes the process of ensuring the success of its implementation and achieving low tax non-compliance. Since the recession in 2009, many countries have been perceiving taxes as important sources of income, as reported by Ernst & Young (2014). Many researchers have agreed that GST is important to help in increasing revenue without over-dependence on certain income sources, like PETRONAS

dividends. All eligible organisations must comply with their tax obligations without exception.

GST is the government's tax reform programme, the main objective being to ensure its effectiveness, efficiency and transparency. In addition, it is designed to be more business friendly and cost-effective, compared to the SST (Bidin, Marimuthu and Othman, 2014) with greater ability to generate a more stable source of income for the country even during economic fluctuations (www.gst.customs.gov.my).

In Malaysia, a person/company who is registered under the GST Act 2014 is known as a "GST registrant". A GST registrant defined clearly in GST Act 2014 as;

> *"Any person/company who makes a taxable supplies of goods and services in the course or furtherance of business and whose taxable turnover within a period of 12 months has exceeded the threshold of RM500,000. However, any person/company with taxable turnover of RM500,000 and below, although not required to be registered, may choose to apply for voluntary registration"* (RMCD, 2015).

According to the GST Act (2014), a GST registrant is required to charge GST on any output of taxable supply of goods or services made to customers. The registrant is allowed to claim as credit any GST incurred on purchases which are inputs to the business. If the customers are also in a business of making taxable supply of goods or services, they are also allowed to claim a credit on the GST paid on their input. Thus, double taxation is avoided and only the value added at each stage is taxed. In the GST environment, tax is imposed in two situations, i.e., input tax and output tax.

A taxable registrant may fall under one of the three categories of GST rates: standard-rated supplies, zero-rated supplies and exempt supplies. The tax treatment for these three categories is different as explained below.

a)   Input tax

Input tax is the GST that a taxable person has incurred on the purchase of goods and services in the course or furtherance of his or her business.

b)   Output tax

Output tax is the GST that a taxable person charges on his or her taxable supply of goods and services made by him or her in the course or furtherance of his or her business.

c)   Standard-rated supplies

Standard-rated supplies are taxable supply of goods and services, which are subject to a standard rate. The taxable person is eligible to claim input tax credit on his or her business inputs in making taxable supplies.

d)   Zero-rated supplies

Zero-rated supplies are taxable supplies which are subject to a zero rate. Although there is no GST imposed on these supplies, the taxable person is eligible to claim input tax credit on his or her business inputs in making taxable supplies.

e)   Exempt supplies

Exempt supplies are non-taxable supplies that are not subject to GST. Suppliers of exempt supplies are not eligible to claim the GST incurred on their business inputs.

Under the GST regime, GST payers will need to manage their documentation and keep all relevant records to account for input and output tax, which may be subject to audit by the RMCD. GST registrants are required to keep business and accounting

records related to GST for a period of seven years. These records can be kept either in Bahasa Melayu or English.

The following are the list of records that should be kept by GST registrants:

(a) All records of goods or services supplied by or to a taxable person, including tax invoices, statements of sales, receipts, credit notes, debit notes and export declaration forms;

(b) All records of importation of goods;

(c) Physical books of accounts, financial statements and paper-based documents, including computer printouts of business and accounting records;

(d) Electronic records; and

(e) Details of accounting system, including charts, codes of accounts, instruction manuals, systems and programme documentation and specification, etc.

GST registrants are required to file their GST returns to the RMCD not later than the last day of the following month after the end of a taxable period. Taxable period of a GST registrant depends on the taxable turnover. Those with annual gross taxable turnover of less than RM5 million are required to submit their tax returns on a quarterly basis. A monthly submission of tax returns is applicable to those whose gross annual taxable turnover is more than RM5 million.

Any fiscal deficit can be managed by an effective taxation system, like the GST system (RMCD - GST portal, 2015) as it provides a lot of advantages. It improves living standards and social infrastructure, reduces business costs, recovers input taxes, increases GST registrant compliance, introduces self-assessment systems,

improves delivery system, utilizes a fully digital environment and reduces tax non-compliance cases. GST is a multi-stage tax on domestic consumption except those specifically exempted. GST is also applied on imported goods and services except certain goods under the Relief Order 2014 (RMCD – GST portal: Guide on Import, 2016).

2.3   Overview of the Royal Malaysian Customs Department (RMCD)

The RMCD is moving forward to engender economic intensification in becoming an essential body of trade in services, balancing customs assessment together with the World Trade Organization (WTO), World Customs Organization (WCO) and the world's economic committees in realizing its vision. In relation to globalisation, the RMCD has the vision to become "A World Class Customs Administration". The mission of RMCD is to "collect revenue and provide trade facilitation through enforcement of and compliance with applicable laws to spur economic growth, maintain national security and public welfare", via three primary functions as follows:

1) *Collect revenue* – collect indirect taxes in the form of import duty, export duty, excise duty, GST, tourism tax, levy on extraordinary profits, vehicles levy, non-tax revenue and state or trust fund.

2) *To provide trade facilitation to the industry sector* – provide tax exemptions on raw materials and machinery, pull back taxes and tax refund claims, assist in the clearance of goods for export and import and passenger clearance. It also offers trade facilitation, constant with the current policy of the government.

3) *Enforcing laws* – enforces legislation through the Custom Act 1967, Excise Act 1976, Free Zones Act 1990, Vehicle Levy Act 1963, Extraordinary Gains Act 1998, Sales Tax Act 1972 and Service Tax Act 1975 (both Acts up to 31 March 2015), Goods and Services Act 2014 and Tourism Tax Act 2017.

The introduction of the GST is a major transformation in the national taxation system, which positively affects and impacts national income, businesses and the people. When the government announced the implementation of the GST from 1 April 2015, the RMCD created a new division called the GST Audit Division under the supervision of the Compliance Management Division. The GST Audit Division's role is to carry out the duties of audit of GST registrants. It aims to ensure that the GST registrants comply with all the regulations stipulated by the GST Act 2014.

In order to ensure compliance with the GST Act 2014 and its related legislations, the RMCD has prepared the GST audit framework for compliance audit to ensure auditing of the registered persons or auditees can be performed in a systematic, transparent and fair manner (RMCD, 2016). When registered persons/companies are being audited, it does not necessarily mean an offence has been detected or committed; it is more for assessing the level of compliance with the requirements of the GST Act 2014.

2.4   Small and Medium Enterprises (SMEs) in Malaysia

Malaysian SMEs are the pillar of the economy and play an important role in its growth. The Government, through a number of agencies, offers numerous kinds of services to support SMEs' development and growth (National SME Development

Council, 2013). According to the SME Corporation Malaysia (SME Corp., 2016), to qualify as a manufacturing SME, it must have revenue turnover of less than RM50 million or full-time workers less than 200, and revenue turnover for services and other sectors is less than RM20 million or full-time workers of less than 75.

The contribution of SMEs to the Malaysian economy is significant. According to the Economic Census 2011, SMEs accounted for 97.3% or 645,136 of all business establishments in 2010. The Klang Valley (Selangor and WPKL) constitute almost one-third (32.6%), followed by Johor (10.7%) and Perak (9.3%). SMEs in Malaysia have different forms of ownership: privately owned by an individual as a sole proprietorship or a group of individuals registered as a partnership or as a private limited company or "Sdn. Bhd.". In terms of management, owners manage and operate the business, lead the company and can be both manager and worker. SMEs often have limited resources. This is true for new start-up companies as they lack experience and good track record to attract possible investors and bankers. Thus, they mostly depend on the ability of the owner to obtain the requisite resources. The organisation structure of SMEs is often flat and informal. The owner does almost everything, and the workers are usually expected to function as generalists as there is no clear boundary of tasks. SMEs are also very flexible and can quickly adapt to changes in the environment as a result of their relatively smaller size and informal structure.

SMEs make a significant contribution to economic growth, social elevation and political stability. SMEs dominate the economy of most countries and contribute in terms of taxes collected, thus being a major revenue source for the Government

(SME Corp. 2016). In most of developing countries, prior studies (Yusof, Ling, and Wah; 2014) have indicated that smaller companies are less tax compliant. Their study has found that record and document keeping and tax complexity are two of the difficulties experienced by SMEs, which are in turn, associated with their tax non-compliance.

The Malaysian Government has been spending billions of Ringgit on various programmes to support the growth of SMEs. With this in mind, it only means that if a large number of SMEs do not pay their GST, the Government is on the losing end in terms of the amount of GST collected from SMEs. This can adversely affect the Government's development projects and growth of the economy. In spite of this challenge currently faced by the Government, little has been done to determine the factors for improving GST compliance among SMEs in developing countries, more particularly in Malaysia. This indicates that the planning, designing and organising of tax initiatives, like tax reforms, have been done with inadequate understanding of the factors which may improve GST compliance among SMEs in Malaysia.

The Government defends SMEs with an annual turnover below RM500,000 is not required for them to be registered under the GST Act and there is no need to add GST to their products. Besides that, the Government allocated RM150 million as financial assistance for 150,000 SMEs to buy GST accounting software between 2014 and 2015. The SME Corp. provides a RM1,000 GST eVoucher on a first-come first-served basis to help SMEs purchase or upgrade their accounting software from suppliers appointed by the RMCD to help them comply with GST requirements.

Based on the above discussion, this current research is conducted to study the GST knowledge level among SME taxpayers and to examine the relationship of specifically chosen factors and GST compliance among SME taxpayers. Independent variables for this research are level of tax knowledge, tax attitude and complexity of GST laws. These two variables are selected because there is a gap in knowledge as to what factors can enhance compliance to GST. Thus, this study analyses the factors that can improve GST compliance among SMEs in Malaysia.

2.5   GST Compliance

There is a large amount of literature on tax compliance, and much of it has focused on a single type of tax, for example, direct tax, excise duty, customs duty and so on. This discussion considers some principles applicable to all of the above, but by and large, most of the citations are from studies on direct tax compliance. Tax compliance means taxpayers comply with the rules and make payment within the stipulated time, by submitting a complete document (Oyedele 2009). Kirchler (2007) pointed out that taxation should be briefly defined and made easy to be understood, thus leading to a willingness to pay. Alm (1991) and Jackson and Milliron (1986) stated that a person is considered as having complied with tax payment instructions after submitting all tax-related reports as required by law. According to Song and Yarbrough (1978), tax compliance is defined as a taxpayer's ability and willingness to comply with tax laws, as determined by ethics, the legal environment and other situational factors at certain times and places. In addition, tax compliance includes the willingness of taxpayers to fulfil tax laws, declare the correct income each year and pay the exact amount of tax on time (IRS, 2009; ATO, 2009; IRB, 2009). Voluntary tax compliance generally involves a positive attitude towards taxation and

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taxpayers' willingness (Noami and Joel, 2009). However, tax compliance is a significant problem for many tax authorities and it is not an easy task to convince taxpayers to comply (James & Alley, 2002).

Studies concerning compliance behaviour, especially on indirect taxation, are scant in the tax literature. Many studies have focused on direct tax compliance, which can also be tailored to indirect tax compliance. In direct taxation, compliance means declaring all revenue and paying all taxes according to the law, rules and court decision (Alm, 1991). But the obligations of a GST registrant are different from direct taxation. GST compliance means GST registrants report their incomes voluntarily, calculate their tax liability accurately and file tax returns promptly. This tax compliance basically relates to the extent to which a GST registrant understands the four GST registrant obligation categories, which are:

• System registration;

• Filing or lodging of requisite taxation information on time;

• Reporting the correct and complete information (including good record keeping); and

• Timely payment of tax.

When GST registrants fail to meet any of the obligations, they are considered as non-compliant (GST Regulations – Goods and Services Tax Act 2014). The focus in this study is on compliance to register as a GST tax licensee because this is the first step to ensure a GST registrant (after this called 'taxpayer') follows other compliance categories. GST compliance is the dependent variable of this study.

2.6   GST Compliance Determinants among SMEs and Development of Hypotheses

GST compliance is influenced by various factors, such as taxpayers' knowledge, taxpayers' attitude and the complexity of tax laws.

2.6.1   Tax Knowledge and GST Compliance

In this section, the importance and role of tax knowledge, particularly in determining taxpayers' compliance behaviour, is discussed. Knowledge, in this regard, is very closely linked to the ability of taxpayers to recognise existing tax laws and their willingness to comply with those legal requirements. The aspect of compliance knowledge is a universal understanding of tax regulations and information on how to comply taxes and taxpayers' obligations (Eriksen & Fallan, 1996). The influence of knowledge on compliance behaviour has been evaluated by previous researchers. Harris (1989) divided tax knowledge into two aspects, namely knowledge through education and general and formal knowledge on the possibility of avoiding taxes. Tax knowledge of taxpayers is among the key factors that contributes to the understanding of tax, especially with regards to tax laws and regulations. Previous studies have confirmed that overall, tax knowledge has a close relationship with the taxpayers' ability to fully understand the laws and regulations, and their ability to comply accordingly (Singh, 2003).

Eriksen and Fallan (1996) showed the need for and importance of tax knowledge in the tax system, example in this study knowledge of how to use the Taxpayer Access Point (TAP) system. Tonderai, Severino, Denver, and Lilian (2014) examined the

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relationship between tax knowledge and compliance among owners or managers of retail operators in Gweru. Their findings reveal that there is a weak relationship between tax knowledge and manager's or owner's ability to comply with the tax system. Additionally, Collins, Milliron, and Toy (1992) sent a random survey to 700 households in the United States. Of the 220 functional responses, tax knowledge and level of education coincide with satisfactory tax behaviour. In addition, Lewis (1982), as mentioned in Mohamad Ali, Mohd Hanefah, and Mohd Noor (2011), reviewed the relationship between tax knowledge and certain compliance behaviours and completion of tax returns. The study aimed to identify changes in attitude towards taxation and compliance as a result of better knowledge of taxation. Lewis disagreed with the statement that there is limited knowledge of tax regulations that lead to a negative economic impact (increase in tax gaps). There are significant differences in the level of knowledge although the level of education remains unchanged. So far, no attempt has been made to focus on how certain tax knowledge affects attitude towards taxation as stressed by Alm (1991), who conducted an experimental study on tax compliance.

Cialdini (1989) summarised that compliance could also be influenced, by educating taxpayers of their social responsibility to pay and thus their intention would be to comply. A low level of knowledge and misinformation can create doubts and negative feelings towards taxation; on the other hand, good tax knowledge is precisely related to a positive attitude towards taxation (Niemirowski, Wearing, Baldwin, Leonard and Mobbs, 2002). A study in Malaysia by Loo and Juan (2005), examined the competence of taxpayers in direct taxation by limiting the samples to individuals who paid taxes in and before 2003 and those who may pay taxes in and

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after 2004. Knowledge of tax was viewed from the aspects of taxable income, exemptions, relief, tax rebates and credits. A total of 250 questionnaires was completed. The findings show that although respondents have tertiary education, their tax knowledge on personal taxes is still at a low level, making them 'inefficient and unwilling' to comply under the self-assessment regime (Loo and Juan, 2005).

According to Jackson and Milliron (1986), knowledge of tax laws is considered as critical and significantly determines the attitude towards taxation. Under a self-assessment system, taxpayers' knowledge and skills are needed, and some aspects of tax attitude, such as tax ethics and perception of the fairness of the tax system also have an impact on tax evasion (Jackson and Milliron, 1986). From the perspective of tax administration, researchers have concluded that compliance can be significantly influenced by taxpayers' knowledge of their social obligations and obligations to pay. How the government spends money must be clearly transmitted to the community to increase their taxation law awareness (Mohd, 2010). Educate public by recuperating the flow and quality of information like via television campaigns yields greater revenues than through enforcement. More importantly, all members of the society from all walks of life should be educated from young about the importance of paying taxes (Mohani, 2001).

GST knowledge is fundamental, especially for GST registrants. According to Mohani (2001), knowledge is one of the most effective ways to boost awareness on GST. Tan and Chin-Fatt (2000) stated that tax knowledge could be defined as a general understanding of tax guidelines. In the Malaysian context, the government has done its part in promoting GST and tax awareness, but the message has not been

adequately conveyed and understood. Amanuddin, Muhammad, Afifah, NurFatin and Nurul (2014) established that many respondents do not as yet have a reasonable understanding about their GST obligations. This is supported by Palil and Ibrahim (2011) who recommended that the level of their respondents' awareness is related to their level of tax knowledge.

Tax knowledge in this study refers to a taxpayer's knowledge of the existence of the GST Act 2014 and the corresponding regulations. An instruments of measurement that has been used in tax knowledge variable includes information, knowledge and understanding of GST law, such as the fact that goods and services are subject to GST license, goods and services which are exempted from GST and how, where and which department taxpayers should seek consultation. Additionally, most businesses currently perceive that GST would increase the price of goods due to their limited GST knowledge. Thus, those with less knowledge regarding GST are more likely to be non-compliant. Based on the literature review, the relationship between tax knowledge and GST compliance is hypothesised as follows:

H1. *There is a significant relationship between tax knowledge and GST compliance among SMEs in the Klang Valley.*

2.6.2 Tax Attitude and GST Compliance

Ajzen's (1991) Theory of Planned Behaviour says attitude reflects someone's personal view of behaviour. Attitude is a positive or negative view of "attitude objects", i.e., a person, behaviour or event. In terms of taxation, taxpayers' attitude can be defined as a positive or negative view of tax compliance conduct. As a result, a positive view is tax compliance and a negative view is tax non-compliance.

Attitude represents the positive or negative judgment that a person holds of an object. It is assumed that attitude motivates individuals to act accordingly. Kirchler, Hoelzl, and Wahl (2008) said taxpayers with a positive attitude towards tax non-compliance are expected to be lower than taxpayers with a negative attitude. Studies on tax non-compliance have produced significant but weak relationships between attitude and self-reported tax evasion (Trivedi, Shehata, and Mestelman, 2004). Attitude is essential for power and the dimensions of belief. In other words, a constructive attitude will contribute to the confidence of the authorities and consequently increase voluntary tax compliance. Attitude is related to one's own personal views about behaviour (Ajzen's, 1991). Attitudes, in general, are thought to influence compliance behaviour because they signify the tendency of taxpayers to respond either positively or negatively to a particular situation (Ajzen, 1991; Eagly and Chaiken, 1993). A number of empirical studies have revealed a statistically unique link between attitude and self-behaviour (Chan, Troutman and O'Byran, 2000; Trivedi et al., 2004). However, since the relationship is weak in most studies, attitude is not considered a convincing proxy for behaviour (Kirchler, 2007).

Damayanthi and Low (2016) conducted a study on the power of attitude towards tax compliance choice among individual taxpayers in Sri Lanka and used attitudinal factors as deliberation. According to their findings, in Sri Lanka, there is a very tight association between the taxpayers' attitude and tax compliance. In other words, taxpayers' attitude encourages tax compliance in Sri Lanka. Another study was conducted by Tonderai et al. (2014) on SME taxpayers' attitude and their compliance in Zimbabwe. Their findings reveal a strong and positive relationship

between attitude and tax compliance among owners or managers of retail operators in Gweru. Most SME taxpayers do not believe in the taxation system and VAT rates are considered to be too high. This is one of the reasons that contributes to non-compliance of tax regulations by the SMEs in the country.

In this current research, the use of attitude as one of the independent variables is very vital. Saira, Zariyawati and Yoke-May (2010) posited that respondents will agree with the implementation of GST if they clearly understand it. Based on the above literature review, there is a relationship between attitude and compliance with GST. Hence, the second hypothesis is as follows:

H2. *There is a significant relationship between attitude and GST compliance among SMEs in the Klang Valley.*

2.6.3   Complexity of Tax Laws and GST Compliance

Tax law is a major issue confronted by most taxpayers before deciding to comply. Its complexity positively influences taxpayers to be well-intentioned or otherwise. Tax complexity is a multidimensional idea, depending on how someone views it from different angles (Evans & Tran-Nam, 2013) but mostly the views are from the perspective of tax consultants, tax lawyers and taxpayers. From the perspective of tax consultants, tax complexity refers to the time taken for preparing income tax returns, which includes tax planning or consultation period. From the perspective of a tax lawyer, tax complexity is judged when reading, understanding and interpreting the tax terms. From a taxpayer's perspective, complexity involves time and money incurred when complying. For that reason, this current study perceives complexity in terms of time.

It can be analysed whether or not complexity of tax laws and compliance can generate ease and promote compliance among GST registrants. Forest & Sheffrin (2002) used data from the 1990 taxpayers' opinion poll to explore the relationship between taxpayers' perception of system complexity and taxpayers' non-compliance. They suggested simplifying the tax system so as not to be an effective barrier to tax non-compliance because taxpayers do not necessarily consider a complicated tax system to be unfair. The complexity of the tax system has long been identified as one of the determinants of tax compliance in tax systems or structures (Chan, Troutman, and O'Bryan, 2000; Chau and Leung, 2009; Fischer, Wartick and Mark, 1992). Richardson (2006), in his research on 45 countries, concluded that complexity is the most critical factor that contributes to non-compliance, other than education, income, tax fairness and tax attitude. The authors found that the complexity of tax procedures also contributes to the increase in tax non-compliance.

In a study on Australian tax agents, McKerchar (2005) claimed that tax agents disagree with the increasing complexity of tax laws. He claimed that tax agents want tax laws with less regulation on materials and less ad-hoc alterations. Such complexity forces taxpayers to engage with tax agents when dealing with their tax matters, whereas they can still do it themselves if tax laws are flexible or less stringent and knowledge is enhanced (McKerchar, 2001; 2003). Similar findings were by Kirchler et al. (2008) and Erich, Niemirowski and Wearing (2006). They found that the complexity of tax laws leads to an increase in negative perception of the tax system and subsequently induces refusal to comply. In Malaysia, Mustafa (1996), who reviewed the perception of taxpayers on the self-assessment system,

suggested there is a significant complexity of taxation in Malaysia, particularly in terms of record keeping, overly detailed tax laws and ambiguity. The same finding is documented by McKerchar (2003) who identified the most common problems faced by taxpayers is to understand the directives in TaxPack 2000[2], followed by problems in understanding the rules, documentation issues, especially tax return forms and other written information provided by the tax authority.

Miller (1993) identified the three main types of complexity that exist in many tax systems: technical complexity, compliance complexity and structural complexity. Technical complexity and compliance complexity have become a problem in Bangladesh, given the relatively low standards of education and low levels of financial literacy there (BBS, 2012). Complexity is a universal problem and has been referred to as the most serious problem by US income taxpayers (Oveson, 2000). Excessive complexity increases filing and administrative costs, and impacts on voluntary compliance (Collins et al., 1992; Vogel, 1974) although several other studies have failed to document such a relationship (Porcano, 1988; Yankelovich and White, 1984). However, in a more recent empirical study in Australia (in the context of personal income tax, rather than value added tax (VAT) or - in the Australian context – General Sales Tax), the level of complexity is found to be directly related to taxpayers' compliance costs and hence to taxpayers' commitment to compliance (McKerchar, 2003).

A parallel empirical result was attained by Pope & Abdul-Jabbar (2007) from a Malaysian income tax perspective. Other studies have highlighted that tax

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[2] TaxPack 2000 is a booklet issued by the Australian Taxation Office to assist individuals complete their income tax return for year 2000.

complexity could have an effect on tax compliance (Richardson & Sawyer, 2001). However, most of the studies on tax complexity have been related to compliance costs and not tax compliance (Cline & Neubig, 1999; Forest & Sheffrin, 2002; Guyton, Ohare, Stavrianos, & Toder, 2003; Slemrod & Sorum, 1985). Only a few studies on tax complexity are related to compliance behaviour. Alabede (2012) measured complexity as a single construct among four constructs of measuring tax systems / structures and its effect on tax compliance. Another study viewed tax complexity as the most important variable in tax compliance activities (Saad, 2009, 2011). However, a study by Saad (2009, 2011) which did not examine the relationship between complexity and tax compliance directly, reveals the relationship between complexity and perceived behavioural control. Saad (2014) suggested for future research to consider the investigation of tax complexity as a possible determinant of tax non-compliance.

The complexity of the tax laws can affect small businesses more than the large taxpayers. Small firms can be more adversely impacted by bureaucracy than big companies because small firms are less skilled in addressing the complexity of the regulations and causing the cost of tax compliance to be absorbed into large-scale operations (Chittenden, Kauser and Poutziouris, 2003). However, the role of tax complexity, apparent or real, in clarifying non-compliance of taxpayers with the value added tax (VAT) Act in Bangladesh, has not been empirically investigated. It has been argued that the more complex the tax laws and regulations are, the greater the knowledge gap or the information asymmetry between legislators and taxpayers, and more costs to taxpayers to comply with the law (Sandford, 1995; Franzoni, 1999). This study was conducted using SMEs in Zaria, North-Central Nigeria, to

assess and evaluate factors that promote non-compliance by SMEs (Atawodi and Ojeka 2012). The authors found that high tax rates and complicated filing procedures are the most important factors that lead to non-compliance by SMEs. Other factors, such as various tax rates and the lack of knowledge affect tax compliance among SMEs. They recommended that SMEs should be subjected to lower taxes to allow for adequate financing for business improvement and better chance of being competitive in aggressive markets. Even when the business grows, tax will be paid more in the future. Moreover, they recommended for the government to consider providing more tax incentives such as exemptions and holiday taxes, as these will promote voluntary compliance and draw investors' attention.

GST law complexity is defined as a taxpayers' perception of how clear the law is, such as whether or not it is easy to understand the law, whether or not there is enough information for the public and whether or not there is easy excess to the information provided by the RMCD. Based on the above review, it is expected that higher complexity of GST laws would probably lead to lower GST compliance among SMEs. Therefore, the following hypothesis is suggested below:

H3. *There is a significant relationship between the complexity of GST laws and GST compliance among SMEs in the Klang Valley.*

The summary of hypotheses development is shown in Table 2-1

Table 2.1
Summary of Hypotheses

H1		There is a significant relationship between tax knowledge and GST compliance among SMEs in the Klang Valley.
H2		There is a significant relationship between attitude and GST compliance among SMEs in the Klang Valley.
H3		There is a significant relationship between the complexity of GST laws and GST compliance among SMEs in the Klang Valley.

2.7 Research Framework

To recapitulate, the main objective of this research is to investigate the level of tax knowledge among SMEs in the Klang Valley. Besides, the study examines the influence of tax knowledge, tax attitude and complexity of the GST laws on GST compliance among SMEs. The research framework in Figure 2.1 illustrates the theoretical relationship of the variables.
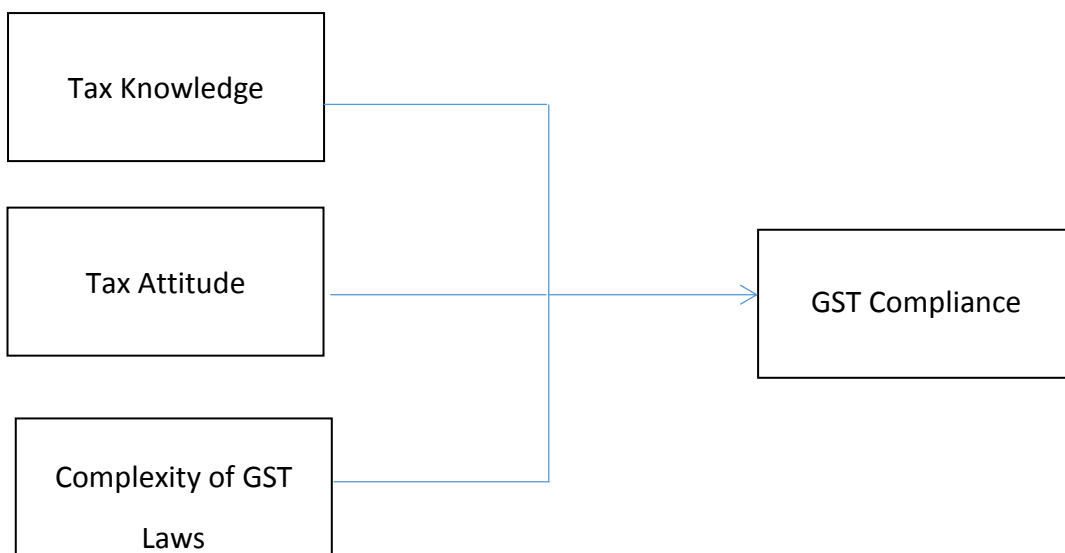
Figure 2.1:
Conceptual Framework of Determinants of GST Compliance among SMEs

CHAPTER THREE

METHODOLOGY

3.1   Introduction

This chapter discusses the research methodology on the determinations of GST compliance among SMEs. The use of the instruments to measure each variable in the research model is also explained. A detailed discussion is provided on the research design and data collection, followed by a discussion on data analyses methods and the pilot test. Lastly, a summary of the chapter is given.

3.2   Research Design

This study examines the relationship between tax knowledge, attitude and the complexity of GST laws and GST compliance among SME taxpayers in the Klang Valley. The aim of this research is to ascertain the determinants of GST compliance among SMEs. A quantitative research design was applied by distributing a questionnaire to the respondents. This study adopted a cross-sectional research design where the data collection was done at a single point in time. The RMCD of WPKL and RMCD Selangor were selected as both RMCDs are located in the Klang Valley, which is the area of this study.

3.2.1   Research Instrument and Measurement of Variables

The survey questionnaire consists of two main parts: Part 1 and Part 2 prepared in English (Appendix A). Part 1 consists of the respondent's demographic profile, including gender, race, company background, type of business and some background

information on the respondent's tax history. Part 2 consists of four sections, i.e. Section B - Tax Knowledge, Section C - Tax Attitude, Section D - Complexity of GST Laws and Section E - GST Compliance.

Section B consists of six questions related to the respondent's knowledge of GST which is primarily based on Part V of the Goods and Services Tax 2014. The questions are measured on a five-point Likert scale, where the respondents were asked to respond by ticking the appropriate number on the scale provided (1 = never do; 2 = probably not do; 3 = not sure; 4 = probably do; 5 = definitely do). The higher the number, the higher the level of knowledge among respondents.

Sections C and D consist of respondent's attitude towards GST compliance (four items) and their perception of the complexity of GST laws (four items), respectively. A five-point Likert scale was used where the respondents were asked to respond by ticking the appropriate number on the scale provided (1 = strongly disagree; 2 = disagree; 3 = not certain; 4 = agree; 5 = strongly agree). The items for attitude were expressed in negative statements and were recoded for analysis. The higher the number (after recoding), the more favourable the respondent's attitude towards GST compliance. As for complexity of GST laws, two items were negatively worded and later recoded for analysis. The interpretation is that the higher the number, the more complex the GST laws.

The final section (Section E) consists of one hypothetical question related to GST compliance behaviour followed by three questions (one question with Yes/No option and another two questions on a five-point Likert scale).

3.2.2   Population, Sampling and Data Collection Procedures

The population of this study is the SMEs who are registered as GST registrants. The total number of SMEs registered for GST in Malaysia as at 31 December 2017 is 434,322.

This study employed convenience sampling. Convenience sampling is a way to get the respondents to willingly take part in the present study. In addition to that, convenience sampling is the most suitable method to collect basic data or information efficiently within a short period, and it is also cost-effective. Ramayah, Yusoff, Jamaluddin, and Ibrahim (2009) used the convenience sampling method to obtain information on the intention of tax-paying respondents to use tax filing. The total sample size for this study is 300 respondents, chosen from the GST registrant population in WPKL and Selangor. Sekaran (2003) assured a sample size larger than 30 and less than 500, is suitable for most researchers. Roscoe (1975) stated that there should be 10 samples for each variable. Hence, the 300 sample size chosen is adequate for this study as suggested by Sekaran (2003) and Roscoe (1975).

For data collection, questionnaires were distributed to GST payers who had visited the GST kiosks at RMCD Wilayah Persekutuan Kuala Lumpur or RMCD Selangor from 3 July 2017 until 14 July 2017. The questionnaires were personally handed to the respondents upon arrival and collected after they had completed the survey questions. This method allowed the researcher to gather first-hand information and any doubts faced by respondents were clarified on the spot.

3.3 Data Analysis Techniques

Data gathered were analysed using Statistical Package for Social Sciences (SPSS). Prior to further analysis, reliability and normality of data were tested and verified. Since the data were considered normally distributed, appropriate statistical tools were deployed.

3.3.1 Descriptive Analysis

Descriptive analysis provides the profile of the collected sample, such as mean, median, standard deviation and range of scores as well as information relating to the distribution of scores on continuous variables as well as the frequencies of the categorical variables. This information is needed to choose the right statistical techniques to analyse the data depending on the level of measurement and the nature of the data (parametric or non-parametric). For this study, descriptive analysis was used to analyse the first objective of the study. i.e., to determine the level of GST knowledge among SMEs in the Klang Valley.

3.3.2 Reliability Analysis

Reliability analysis is determined by obtaining the proportion of systematic variation in a scale, which can be done by determining the relationship between the items obtained from different administrations of the scale. Thus, if the relationship in reliability analysis is high, the scale yields consistent results and is therefore reliable. This analysis allows to study the properties of the measurement scale and the items that comprise the scale. The reliability analysis procedure calculates a number of commonly used measures of scale reliability and also provides information about the

relationships between individual items in the scale. Intra-class correlation coefficients can be used to compute inter-rater reliability estimates.

3.3.3 Factor Analysis

Factor analysis is a data reduction technique that is often used in social sciences. A defined concept is operationalised using several items, usually a Likert scale. In the analysis, the mean score of the responses to the items in the construct is taken as the respondent's perception.

In order to determine whether or not the items in the construct are adequately measuring what they are intended to measure, factor loadings were observed. Factor loading indicates the strength of relationship of each variable to the underlying factor. As a rule of thumb, the variable should have a rotated factor loading of at least 0.4 onto one of the factors in order to be considered important. Similarly, the Kaiser-Meyer-Olkin (KMO) test also measures the suitability of the data collected for factor analysis purposes. As a rule of thumb for interpreting the statistics, a KMO value of between 0.8 and one (1) indicates that the sampling is adequate. KMO value that is less than 0.6 indicates the sampling is not adequate and that remedial action should be taken. KMO value closer to zero indicates that there are large partial correlations compared to the sum of correlations (Hair, Black, Babin and Anderson, 2010).

3.3.4   Inferential Analysis

3.3.4.1 Correlation Analysis

Correlation analysis is a statistical technique used to examine the direction and level of the relationship between two variables. It explains the relationship between the two variables and inter-correlation among the other variables. Pearson Product-Moment Correlation is used for parametric data that meets the assumption of normal distributions whereas Spearman Rank Order Correlation is used for non-parametric data.

3.3.4.2 Multiple Regression Analyses

Multiple-regression is a statistical technique used to explore the predictive ability of a set of independent variables on the dependent variable. Multiple regression is known to be an appropriate statistical test that can be used when there is an attempt to identify the relationship between the independent and dependent variables. According to Kerlinger and Lee (2000), multiple regression analysis is a practical, realistic and powerful method for researching the science of behaviours.

3.4   Pilot Test

A pilot test was conducted before the actual survey took place. The pilot test is important for ensuring this study can be successfully conducted on a larger scale. A pilot test aims to assess the goodness of a measure and uncovers the weaknesses of the questionnaire before distributing to respondents.

The pilot test also determines how consistently a specific perception is measured. Thirty questionnaires were distributed and duly completed by the target respondents, i.e., SMEs who visited the RMCD WPKL office. Table 3.1 exhibits the results from reliability analysis, i.e., the minimum corrected item total correlation (CITC) and Cronbach's Alpha for all the four variables.

Table 3.1
Pilot Study - CITC and Reliability of Cronbach's Alpha Test Results (n=30)

Variable	Item	CITC	Cronbach's Alpha	Comment
GST Compliance	1	.458		CITC > 0.3 & Cronbach's alpha > 0.7, Thus, items 1, 2 & 3 are reliable measures of GST compliance
	2	.694	0.759	
	3	.662		
Tax Knowledge	1	.663		CITC > 0.3 & Cronbach's alpha > 0.7, Thus, items 1, 2, 3, 4, 5 & 6 are reliable measures of tax knowledge
	2	.625		
	3	.713	0.834	
	4	.802		
	5	.392		
	6	.583		
Tax Attitude	1	.845		CITC > 0.3 & Cronbach's alpha > 0.7, Thus item 1, 2, 3 & 4 are reliable measures of tax attitude
	2	.946	0.955	
	3	.860		
	4	.915		
Complexity of GST Laws	1	.305		CITC for item 4 < 0.3 & Cronbach's alpha < 0.7. After dropping item 4, Cronbach's alpha is 0.601. Thus, only items 1, 2, & 3 are reliable measures of complexity of GST laws
	2	.658		
	3	.399	0.405	
	4	.154		

Table 3.2 exhibits the summary results of Cronbach's Alpha for all the four variables after dropping items with CITC < 0.3, which is not a reliable measure. According to Maslach, Jackson and Leiter (1996), Cronbach's Alpha coefficient range between 0.6 and 1.0 is acceptable. The analysis for Cronbach's Alpha shows that all variables are acceptable as the values range from 0.601 to 0.955.

Table 3.2
Pilot Study - Reliability Test Results (n=30)

Variable	Item	Cronbach's Alpha
GST Compliance	3	0.759
Tax Knowledge	4	0.834
Attitude	4	0.955
Complexity of GST Laws	3	0.601

Therefore, the questionnaire after dropping one item, is consistent and reliable for capturing the information from the respondents.

3.5 Summary

This chapter outlines the basic structure of the research methodology adopted in this study. Besides, it provides a brief discussion on the research design in terms of research population and sample selection procedures. Also, this chapter includes an explanation on the instrumentation, data collection and techniques used for data analysis. The detailed output of the data analysis is discussed further in Chapter Four.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1   Introduction

This chapter presents the data analysis and discussion of the findings. This chapter is organised into ten sections, including the introduction and the summary. Section 4.2 provides response rate of the data, followed by summary of respondent's profile in section 4.3. Next, section 4.4 provides data screening and followed by section 4.5 provides factor analysis. An illustration of the reliability analysis results and analysis of the findings in section 4.6. Then, section 4.7 provides descriptive statistics. Next, section 4.8 provides statistical analysis, used to test the hypothesis and answer the research questions. This includes normality test, correlation analysis and also the results together with an explanation of regression analysis as well as justifications on the results in relation to the hypotheses of the study. The summary of hypothesis testing is provided in section 4.9, and lastly, the summary of this chapter is presented in section 4.10.

4.2   Response Rate

A total of 300 questionnaires were administered to GST taxpayers who came to the GST kiosks in RMCD WPKL and RMCD Selangor from 3 July 2017 until 14 July 2017. The questionnaires were personally handed to the random respondents upon arrival and collected after they had completed the survey questions. This method allowed the researcher to gather first-hand information and any doubts faced by respondents were clarified on the spot. Table 4.1 shows that out of the 300 questionnaires, only 280 respondents completely answered the questionnaires, giving

a response rate of 93%. The 280 questionnaires are sufficient and represent a valid

rate for analysis (Sekaran, 2003).

Table 4.1
Response Rate

Questionnaire	Frequency	Percentage
Total Questionnaires Distributed	300	100%
Returned	280	93.3%
Not Returned	20	6.7%
Complete	280	93.3%

4.3 Summary of Respondent's Profile

Table 4.2 below presents the breakdown of the respondents' profile. The sample for

this study are SME GST registrants in the Klang Valley. Out of the total of 280

respondents, 148 (52.9%) are male while the remaining respondents of 132 (47.1%)

are female. The highest response to the questionnaire is from Malay respondents

with a total of 120 representing 42.9%, followed by Chinese respondents with a total

of 85 (30.4%), and only 56 were Indian respondents (20%) and others with a total of

19 respondents (6.8%). From the total respondents, 122 respondents are from

companies, representing 43.6 %, followed by 55 respondents from sole

proprietorship (19.6%). A total of 34 respondents are from partnerships and 34

respondents from an association (12.1%), followed by 29 and six respondents from

professional bodies and others, with 10.4% and 2.1%, respectively.

As shown in Table 4.2, out of 280 respondents, the majority of them are familiar

with and have been using TaxPayer Access Point (TAP) to file GST returns with a

total of 205, representing 73.2%. The remaining respondents have never used TAP to

file GST returns with a total of 75, representing 26.8%. Most of the respondents had

attended/passed formal GST courses organised by the RMCD, university, other professional bodies or any other bodies, with a total of 168, representing 60%. The remaining 112 respondents (40%) had never attended/passed any formal GST course.

The majority of respondents had never been audited by the RMCD with a total of 196 representing 70% while the remaining 84 respondents (30%) had been audited by the RMCD since April 2015. Besides that, only 60 respondents (21.4%) had been penalised by RMCD due to various offences, such as not filing their tax returns, late filing of tax returns, under/over-reporting income, under/over-claiming deductions and late tax payments. The remaining 220 respondents (78.6%) had not been penalised by RMCD as of the date of this survey.

Table 4.2
Respondent's Profile

	Frequency	Percentage
Gender		
Male	148	52.9
Female	132	47.1
Ethnic		
Malay	120	42.9
Chinese	85	30.4
Indian	56	20.0
Others	19	6.8
Type of SMEs		
Company	122	43.6
Partnership	34	12.1
Sole Proprietorship	55	19.6
Association	34	12.1

	Frequency	Percentage
Professional	29	10.4
Others	6	2.1
Filing tax returns using 'TAP.'		
Yes	205	73.2
No	75	26.8
Attended GST course		
Yes	168	60.0
No	112	40.0
Audited by RMCD		
Yes	84	30.0
No	196	70.0
Penalised by RMCD		
Yes	60	21.4
No	220	78.6

4.4 Data Screening

Data screening was performed to ensure the data is useable, reliable and valid for testing causal theory. Most of the statistical analyses are sensitive to outlying cases. These cases need to be identified and either removed from the data or brought into the distribution by transformation or recode options. From the results of data screening process, 15 outliers were taken out from the analysis. Out of the 280 respondents, only 265 were used in statistical analyses.

4.5 Factor Analysis

In this section, the results of factor analysis are discussed. In the course of performing factor analysis, four items were deleted (two items each from tax

knowledge and tax complexity) as they did not meet the loading requirements. After the removal of the items, factor analysis was repeated and the results are as in in Table 4.3.

Table 4.3
Kaiser-Meyer-Olkin Analysis

Variables		Component			KMO	Sig
		1	2	3		
Tax Knowledge	Item 1	.554	**.758**	.045	0.853	.000
	Item 2	.450	**.808**	-.027		
	Item 3	.509	**.764**	.059		
	Item 4	.568	**.736**	.017		
Attitude	Item 1	**.818**	-.378	.141	0.812	.000
	Item 2	**.783**	-.532	.182		
	Item 3	**.692**	-.446	.248		
	Item 4	**.800**	-.445	.224		
Complexity of GST Laws	Item 1	-.541	.233	**.628**	0.662	.000
	Item 2	-.409	.183	**.788**		

From the Table above, it appears that the loadings are reasonably adequate for all variables, ranging from 0.628 to 0.818. As for KMO values, the results are 0.853, 0.812, 0.662 for tax knowledge, attitude and complexity of tax law, respectively. In sum, the results indicate that the items used are appropriate to measure the variables under study.

4.6 Reliability Analysis

According to Pavot, Diener, Colvin, and Sandvik (1991), the five-point Likert scale has a good internal consistency, with a Cronbach's alpha coefficient reported at 0.85. In order to analyse the internal consistency of the reliability of the variables in this study, Table 4.5 shows the Cronbach's alpha results. Cronbach's alpha coefficient for all the three variables are in the range of 0.705 and 0.945. From Table 4.4, it is

observed that the independent variable, Tax Knowledge, has the highest Cronbach's alpha value of 0.945 and complexity of GST laws has the lowest Cronbach's alpha value of 0.705. According to Nunnally (1978), the minimum acceptable value of 0.70 for Cronbach's alpha is dependent on the number of items in the scale. When there are small numbers of items in the scale (fewer than 10), Cronbach's alpha values can be quite small.

Table 4.4

Reliability Analyses

Variable	No. of Items	Cronbach's Alpha
GST Compliance	2	0.707
Tax Knowledge	4	0.945
Tax Attitude	4	0.937
Complexity of GST Laws	2	0.705

4.7 Descriptive Analysis

To analyse the independent variables and dependent variable, descriptive analysis was used. Descriptive statistics show mean, minimum, maximum and standard deviation values. The results of descriptive statistics of the three tax compliance determinants were tested. The results of the descriptive analysis of the independent and dependent variables are as shown in Table 4.5.

Table 4.5
Descriptive Statistics

N=265	Minimum	Maximum	Mean	Std. Deviation
GST Compliance	1.00	5.00	3.23	1.192
Tax Knowledge	2.00	5.00	4.51	.633

Tax Attitude	1.00	5.00	3.31	1.256
Complexity of GST Laws	1.00	5.00	3.71	.922

The mean score for tax knowledge is 4.51 and standard deviation is 0.633. This implies that an above average number of GST registrants are knowledgeable about the GST system as a whole and know what is required from them. The level of GST knowledge seems high among respondents. Therefore, this finding provides the answer to the first research question regarding the level of GST knowledge among SMEs in the Klang Valley.

The means score of tax attitude is 3.31 and standard deviation is 1.256, indicating that on average, respondents have awareness of their GST obligations and are ready to comply with GST laws and regulations; however, many do not comply. The mean score of complexity of GST laws is 3.71 whereas standard deviation is 0.922. This shows that on average, respondents have awareness about GST laws and guidelines for their business and have the ability to interpret GST laws when computing their taxes although they do not have full understanding. For the dependent variable, GST compliance has a mean of 3.52 while standard deviation is 1.192. This indicates that on average, GST registrants among SMEs have understood and complied with the GST laws, regulations and obligations.

4.8   Statistical Analysis

To test the hypotheses and answer the research questions, the researcher used statistical analysis. The distribution of data was confirmed by normality test. The normality test was done to decide whether to use parametric or non-parametric

analysis to answer the second research question and to test the hypotheses. This study used a parametric test, i.e., Pearson Correlation and Multiple Regression Analysis to answer the second research question and to test the hypotheses.

4.8.1 Normality Test

Skewness and Kurtosis tests were conducted to verify the normality of data distribution. Based on the results in Table 4.6, the values for Skewness and Kurtosis are between -2 and +2 and considered acceptable in order to prove normal univariate distribution (George & Mellery, 2010; Trochim and Donnely, 2006; Field, 2009; Gravetter and Wallnow, 2012).

Table 4.6
Skewness and Kurtosis Test

Variables	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
GST Compliance	0.066	.150	-0.637	0.298
Tax Knowledge	-1.262	.150	0.697	0.298
Attitude	-0.412	.150	-0.994	0.298
Complexity of GST Laws	-0.503	.150	-0.354	0.298

4.8.2 Correlation Analysis

Correlation analyses were conducted to test the relationship between the independent variables (tax knowledge, tax attitude and complexity of tax laws) and the dependent variable (GST compliance) among SMEs. The data in this research are normally distributed. Thus, this study employed Pearson correlation coefficient test to identify the relationship between the variables as presented in Table 4.7 below. The result shows that GST compliance is significantly correlated to tax knowledge, tax attitude

and complexity of the laws with correlation values ranging from -0.088 and 0.254.

The highest correlation between the dependent and independent variables is between

GST compliance and tax knowledge with a value of -0.268.

Table 4.7
Pearson Correlation Coefficient Analysis

	Tax Knowledge	Attitude	Complexity of GST Laws	GST Compliance
Tax Knowledge	1.000			
Attitude	.071	1.000		
Complexity of GST Laws	-.088	-.398**	1.000	
GST Compliance	.254**	.085*	-.006	1.000

**. Correlation is significant at the 0.01 level (2-tailed).

4.8.3 Multiple Regression Analysis

This study utilised a standard multiple regression to investigate the overall effect of

the independent variables on tax compliance and to determine the most significant

explanatory variables that influence the dependent variable. The results of the

regression analysis are presented in Table 4.8. The dataset shows no significant

problems of heteroscedasticity based on the observation of the scatter plot of the

predicted and residual values.

The regression model is statistically significant at the 1% level with F-Statistic of

16.820 and the adjusted R^2 value of 0.153. This means that 15.3% of the variation in

GST compliance is explained by the chosen independent variables. The magnitude

of the impact of the independent variables is within the range as reported in previous

studies, for example, the adjusted R^2 value is between 13.1 to 16.1% in Adhikari et

al. (2006) and between 11.1 and 16.3% in Md Noor, Fadzillah and Matsuki (2010). However, some studies have reported a better result, for example, the value of adjusted R² is reported as more than 40% in the study by Md Noor & Matsuki (2009).

The overall statistical results of the explanatory variables for GST compliance are significant. The values of the significant coefficients in the model are as follows: tax knowledge (0.253 – significant at 99% confidence level); attitude (0.193 – significant at 95% confidence level); and complexity of tax laws (-0.165 – significant at 99% confidence level).

Table 4.8
Results from Multiple Linear Regression Analysis

Independent Variables	Collinearity Statistics		Standardized Coefficients		
	Tolerance	VIF	Beta	T	Sig.
(Constant)				.705	.482
Tax Knowledge	.991	1.009	.253	4.232	.000
Tax Attitude	.841	1.190	.193	1.426	.032
Complexity of GST Laws	.838	1.193	-.165	-.993	.004
R²					0.161
Adjusted R²					0.153
F Statistic					16.820

VIF – Variance Inflation Factor

The data set does not have a critical multicollinearity problem since the correlation coefficient is considerably low. The highest correlation between the independent variables is e attitude and complexity of tax laws with a value of -0.398. Pallant

(2011) suggested that multicollinearity exists when correlation between independent variables is 0.9 and higher. However, it is suggested that 'collinearity diagnostic' for variables be performed with a bivariate correlation above 0.7.

The multicollinearity problem on a data set can also be observed by examining the Tolerance and Variance Inflation Factor (VIF) values using collinearity statistics. Multicollinearity is not a problem in this dataset as the value of Tolerance is more than 0.10 (ranging from 0.838 and 0.991) and also, VIF value is below 10 (ranging from 1.009 and 1.193) for all the independent variables as presented in Table 4.8 (Pallant, 2011).

4.9   Summary of the Findings

This section is on the results obtained from each of the hypothesis tested in this study. Hypothesis 1 postulated that tax knowledge has a positive relationship with GST compliance among SMEs taxpayers. The regression result shows that tax knowledge has a positive and significant relationship with GST compliance among SME taxpayers at a confidence level of 99% (beta= 0.253, p<0.01). In other words, the results indicate that there is an effect of 0.253 for every one unit of tax knowledge on GST compliance among SME taxpayers. Therefore, H1 is supported. Similarly, Hypothesis 2 posited that attitude has a positive relationship with GST compliance among SME taxpayers. The results of the study show that attitude has a positive and significant relationship with GST compliance among SME taxpayers at a confidence level of 95% (beta= 0.193, p<0.05). Hence, the results show that there

is an effect of 0.193 for every one unit of attitude on GST compliance among SME taxpayers. Therefore, H2 is supported.

Lastly, Hypothesis 3 proposed that the complexity of tax laws is expected to be negatively related to GST compliance among SME taxpayers. The results of the study show that the complexity of tax laws has a negative and significant relationship with GST compliance among SME taxpayers at a confidence level of 99% (beta= -0.165, $p<0.01$). Hence, the results show that there is an effect of 0.165 for every one unit of the complexity of tax laws on GST compliance among SME taxpayers. Therefore, H3 is supported.

Table 4.9 below summarizes the overall findings of the results from these statistical analyses.

Table 4.9
Summary of Statistical Results

	Research Question / Hypothesis	Findings
Q1	What is the level of GST knowledge among SMEs in the Klang Valley?	The level of knowledge is considered high (mean = 4.51)
Q2	Do tax knowledge, tax attitude and complexity of tax laws influences GST compliance among SMEs in the Klang Valley?	
H1	There is a significant relationship between tax knowledge and GST compliance among SMEs in the Klang Valley	Supported
H2	There is a significant relationship between attitude and GST compliance among SMEs in the Klang Valley	Supported
H3	There is a significant relationship between complexity of GST laws and GST	Supported

compliance among SMEs in the Klang
Valley

52

4.10   Summary

This chapter had organized the statistical analysis and the main findings that were acquired from this study. Descriptive analysis was used to test the variables affecting GST compliance. The results successfully explain the first objective of the study. Since normality test results show that the data are normally distributed, parametric tests were carried out to achieve the objectives of this study. Pearson correlation confirms both the research objectives and hypotheses H1, H2, and H3. In addition, the results of regression analysis is that the three independent variables have significant relationships with GST compliance among SMEs in the Klang Valley. Chapter 5 presents the conclusions and recommendations of the present study.
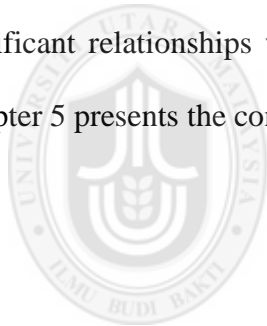
CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is on the findings and presents the whole concept of this study. First, it

provides a summary or conclusion and important findings based on the results of the

study analysis as discussed in Chapter 4. This is followed by the implications and

recommendations that can be applied by the RMCD in the future. Discussions on the

limitations of the research and directions for future research are also provided. This

chapter ends with the overall conclusion of the study.

5.2 Discussion of the Research Findings

This section summarises and discusses the results of the research findings of the

study.

5.2.1 Tax Knowledge

The first objective of this study is with regards to tax knowledge, i.e., to determine

the level of tax knowledge of GST payers in Malaysia. The results from the survey

presented in Chapter 4 suggest that GST registrants among SMEs have high levels of

knowledge of their respective GST obligations. The results are consistent with prior

studies by Kamaluddin and Madi (2005) and Madi et al. (2010).

To address the second research objective, this study first hypothesized that '*there is*

a significant relationship between tax knowledge and GST compliance among

SMEs in the Klang Valley'. Results suggest that tax knowledge is positively and significantly related to GST compliance. This result is consistent with previous findings of Hungerford and Volk (1990) and Eriksen and Fallen (1996).

As such, when a GST registrant has better tax knowledge, this will in turn, increase compliance. Thus, it is suggested that tax knowledge is important for increasing voluntary GST registration among SMEs in Malaysia. Teaching tax laws and tax knowledge as a compulsory subject in secondary schools might be relevant in order to increase voluntary GST registration among businesses in Malaysia. This study suggests that providing more tax knowledge to all SMEs in Malaysia can help to increase GST compliance. Various measures need to be taken to educate GST registrants (or more specifically to encourage them to be more knowledgeable) so that the level of compliance will increase and the objectives of GST in Malaysia can be achieved. One of the ways in which this could be achieved is through a tax education programmes, which is being implemented in many developed countries, like the US, Canada and the UK.

5.2.2 Tax Attitude

As for the second hypothesis, '*there is a significant relationship between tax attitude and GST compliance among SMEs in the Klang Valley'*, results suggest that tax attitude is positively and significantly related to GST compliance. This results are consistent with previous findings of Kirchler, Hoelzl, and Wahl (2008) and Damayanthi and Low (2016).

This results show that a better attitude could help to encourage GST compliance among SME registrants. For example, GST registrants could feel guilty and think it is ethically wrong if they exclude some of their collection/revenue or manipulate the figures when completing their GST returns.

The RMCD should champion literacy campaigns to improve the GST registrants' ability to understand GST laws, i.e., filing and paying before due date, etc. Besides that, the RMCD should work to improve peer attitude, i.e., a belief that business competitors are reporting and paying tax honestly, and rewarding GST registrants who fully comply with GST laws and regulations, for example, giving a trophy for being best GST registrant. The RMCD should also make the GST registrants feel and understand that they are not paying an unfair share of tax. Therefore, the RMCD should improve their services and consult the GST registrants in its dealings with GST matters i.e., to provide a more efficient and effective process of input tax refund.

5.2.3 Complexity of GST Laws

Based on the results from data analysis and findings of the research for the third hypothesis, '*there is a significant relationship between complexity of GST laws and GST compliance among SMEs in the Klang Valley'*, the findings suggest that complexity of GST laws is negatively and significantly related to GST compliance. This result is consistent with previous findings of Richardson (2006); Kirchler et al. (2008); and Erich et al. (2006).

The findings are that the more complex the GST laws,   the lower the GST compliance. Such complexity has forced GST registrants to engage tax agents when dealing with their GST matters, when in actual fact, they can do it themselves if tax laws are less stringent and knowledge is enhanced. This suggests that the RMCD should simplify the GST laws and regulations, to enable GST registrants to understand the GST laws and regulations and GST documentation and procedural issues, especially GST returns form and other written information provided by the RMCD.

5.3   Implications

The results of this study lend support that attitude is influenced by good tax knowledge. This positive finding is very useful and an important input for the RMCD in raising the awareness of taxpayers. This would also help the RMCD in planning the best mechanisms in the process of updating the latest information on tax regulations (advertisements in media, websites, brochures and customer service desks) and achieving the ultimate goal of using the self-declaration system through the TAP. The findings are also very useful for the RMCD to study the level of knowledge of taxpayers in order to plan any amendments to tax laws and policies (e.g., tax rates, filing requirements, penalties, etc.).

The RMCD needs to establish a good relationship between the tax authority and stakeholders because a good relationship between them can ensure a significant increase in tax payments (Kirchler, 2007). A good relationship can be established through an auditing process that is less complex. Additionally, the TAP system does not allow the RMCD to carry out an aggressive process of auditing but rather

encourages the investigation to be conducted reasonably. More frequent audits can be performed, to ensure more tax compliance will occur, and it is hoped that voluntary compliance will increase drastically as proposed in this study.

The findings of this study will be useful to the Ministry of Education (in charge of all primary and secondary schools with students aged 7 to 17 years) or the Ministry of Higher Education (controlling all institutions of higher learning) in Malaysia. Both Ministries can further develop appropriate syllabi for students so that they can know the importance of paying taxes, after acquiring adequate knowledge and taxation skills. Furthermore, the findings show that compliance with tax payment is closely linked to the level of knowledge while tax-related courses have only been taught at the diploma or postgraduate levels.

Neighbouring countries, like Indonesia, Vietnam and Cambodia, can apply the results of this study as a benchmark for their tax education system; this will certainly give a good understanding to the people and increase the number of taxpayers on a daily basis. Furthermore, it is hoped that such scientific studies be conducted periodically, i.e., every two years to find the latest and up-to-date input in order to increase tax revenue.

5.4   Recommendations

This current study has a few recommendations based on the findings. All recommendations would be helpful for the RMCD and other agencies which manage taxation.

5.4.1 Tax Awareness and Education

Theoretical exercises can be developed by the RMCD by inviting all taxpayers to participate in order to be able to know the exact tax information. RMCD shall provide courses and training on an ongoing basis based on a circular or a new law enacted. It is intended that all registrants concerns and law-related information is constantly updated. For examples, there are several activities that Her Majesty's Revenue and Customs (HMRC)[3] had established on order to tackle tax compliance. It comprises of organized publicity campaigns as a communication medium to awaken the public's role as taxpayers, especially for them (taxpayers) to be honest, engaging criminal investigation to prosecution etc. (NAO, 2015).

The literate taxpayers require sufficient tax knowledge and this knowledge should be provided early and not when they are already at the tertiary level. GST knowledge must be made a part of tax education. Gaining GST knowledge should not only be the responsibility of the businesses but also the responsibility of the consumers. In order to increase the compliance rate among the companies, consumers and the public as a whole, they must possess GST knowledge as early as possible. Once they have become taxpayers or run their own businesses, they would be able to comply with at least the basic stage of taxation and consequently, lead to higher compliance rate in Malaysia.

5.4.2 Understanding Non-Compliance Behaviour

To address this problem, it is important to identify the main points to be corrected. It is therefore crucial to identify and understand the taxpayers' attitude and opinion on

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[3] HMRC is a non-ministerial department of the UK Government responsible for the collection of taxes.

compliance issues (Thomson, 2008). Therefore, there are several factors that custom officers should consider in order to understand taxpayer's attitude to compliance (Thomson, 2008). Firstly is business profile which includes a business structure such as either the business is sole proprietor, partnership or company. Besides that, size and age of business, types of focus of business either local or international and also types of activities that the business carried out. Secondly, the list includes industry factors such as the size of industry, cost structures, level of competition, industry regulation and profit margins of the industry. Also important are the views and attitudes of high officials on issues, such as ethnicity and social norms. Economic factors, such as inflation and interest rates, as well as psychological factors, such as greed, also need to be understood by customs officers. Therefore, every public opinion should be investigated before and after the implementation of GST so that they (public) feel that they are involved in this effort.

5.4.3 Strict Enforcement

The GST 2014 Act stipulates that a person who refuses to pay taxes may be charged RM50,000 or three years' jail or both, and a penalty equal to the amount of tax which has been declared as undeclared payment. This strict punishment will make the taxpayers aware of the importance of paying, besides making them pay voluntarily. If they have committed an offense, they would suffer losses more than payment incurred to comply with tax instructions.

Therefore, the RMCD should launch a comprehensive publicity programme to explain the rationale for introducing GST in Malaysia to enhance understanding of GST.

5.5   Limitations of the Study

There are a few limitations faced by the researcher as identified below:

1. The research area covered for this study. Only Klang Valley area were chosen for the research due to the time constraints. The data collected could not really show the relationship of all SMEs in Malaysia as the area and number of respondents are both small - 280 SMEs in the Klang Valley. Consequently, the researcher could not generalise the findings   on the relationship of tax knowledge, attitude and complexity of tax laws and GST compliance among SMEs. It is recommended that future research should be extended to other areas in Malaysia that have a larger number of SMEs.

2. GST compliance is not only dependent on these three independent variables (GST knowledge, tax attitude and complexity of GST laws). Consequently, the researcher again cannot generalise the findings for determining GST compliance among SMEs. Future researchers could conduct their research with more independent variables. They may identify more factors that influences GST compliance among SMEs. This would aid them to gain better understanding on aspects relating to determinants of GST compliance among SMEs.

5.6   Direction for Future Research

A similar study can be carried out in other parts of Malaysia, or in other countries where the same tax system exists. The development of new technologies and tax systems, such as TAP, creates the need for more advanced and sophisticated research. Data collection methods also need to take into account other methods, such

as interviews and experiments that are supposed to provide different results and answers to researchers. More transparent communications can provide more accurate and meaningful data. Research in the future may also examine the other developments of taxation so that the acquired information can add to the body of knowledge.

5.7   Conclusion

This chapter is the final chapter on the results of the study. This chapter provide discussion of the research findings. Besides, the implications and limitations are also highlighted, as well as the directions for future research. The significant contribution of this study is its finding on the level of knowledge among SME taxpayers in the Klang Valley. All the tested hypotheses provide strong evidence to support the determinants influencing tax compliance, this study also contributes to the literature that tax knowledge, tax attitude and complexity of tax laws influence the SMEs' GST compliance. It is hoped that future studies might continue this research by addressing the limitations of the study as highlighted in this chapter.

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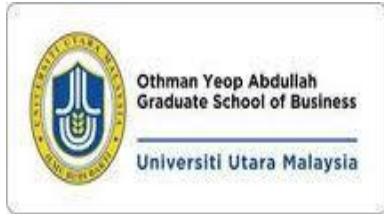
APPENDIX A

Cover Letter for Research Questionnaire

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A SURVEY ON DETERMINANTS OF GOODS AND SERVICES TAX (GST) COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES (SMEs).

Dear Respondents,

I am a Master Degree candidate at the above-named university, currently working on my Master Dissertation with a proposed title of 'Determinants of GST Compliance among SMEs'. For that purpose, I would appreciate your kind cooperation to fill in this questionnaire. This questionnaire will only take approximately 10 minutes to be filled in.

Please be assured that your responses will only be used for academic purpose. Hence, your identity will never be known throughout any part of the research process.

Thank you very much in anticipation of your responses.

Yours sincerely,

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DETERMINANTS OF GOODS AND SERVICES TAX (GST)

COMPLIANCE AMONG SMEs

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GENERAL INSTRUCTION.

This survey is divided into FIVE SECTIONS. Please answer all questions.

SECTION A – DEMOGRAPHIC PROFILE

Kindly tick (/) in the appropriate box.

1. Gender

    Male [   ]   Female [   ]

2. Ethnicity

    Malay [   ]   Indian [   ]

    Chinese [   ]   Others [   ]   Specify: …………………………………..

3. Type of business

    Company [   ]   Association [   ]

    Partnership [   ]   Professional [   ]

    Sole Proprietor [   ]   Other [   ]   Specify: ……..…………………

4. Have you ever used 'Taxpayer Access Point' to file your tax returns?

    Yes [   ]   No [   ]

5. Have you attended/passed any formal taxation course organized by JKDM or university or other professional bodies or any bodies previously?

    Yes [   ]   No [   ]

6. Has your company ever been audited by JKDM

    Yes [   ]   No [   ]

    If Yes, how many times? …………………

7. Has your company ever been penalised by the JKDM due to the following conditions?

	Yes	If Yes, How many times?	No
Not filing a tax return			
Late filing of tax return			
Under reporting income			
Over reporting income			
Under claiming deductions			
Over claiming deductions			
Late tax payments			

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SECTION B– TAX KNOWLEDGE

Please read each statement carefully and answer (circle) accordingly **based on** the following scale:

> **1** If you think you will **NEVER DO**
> **2** If you think you will **PROBABLY NOT DO**
> **3** If you are **NOT SURE** either to do or not to do
> **4** If you think you will **PROBABLY DO**
> **5** If you think you will **DEFINITELY DO**

		Will not do				Will do
1	Informing and declaring actual invoice received from all sources and actual invoice issued to the JKDM	1	2	3	4	5
2	Keeping records/documents pertaining to purchases and sales for a period of seven years after submission of the Tax Return	1	2	3	4	5
3	Submitting tax return due within 30 days from the date of filling period end or within the stipulated period	1	2	3	4	5
4	Paying taxes due within 30 days from the date of filling period end or within the stipulated period	1	2	3	4	5

Please read each statement carefully and answer (circle) accordingly based on the following scale:

> **1** If you think you are **DEFINITELY UNAWARE**
> **2** If you think you are **PROBABLY UNAWARE**
> **3** If you are **NOT SURE** about the statement.
> **4** If you think you are **PROBABLY AWARE**
> **5** If you think you are **DEFINITELY AWARE**

		Unaware				Aware
5	Late submission of tax return or fail to declare tax return – compound minimum RM1000 to maximum RM25,000	1	2	3	4	5
6	Late payment of tax or fail to pay tax – i) 10% penalty for the first thirty-day period after the date of filling period end; and ii) 15% penalty for second following thirty-day period; and iii) 15% penalty for third following thirty-day period of the amount of tax due and payable	1	2	3	4	5

SECTION C (ATTITUDE)

Please read each statement carefully and state your opinion using the following scales:

1	Strongly disagree
2	Disagree
3	Not certain
4	Agree
5	Strongly agree

Disagree   **Agree**

1	I do **NOT** comply with GST laws because JKDM is less efficient in its dealings with taxpayer correspondence (e.g. delay in making refunds)	1	2	3	4	5
2	I would **NOT** feel guilty if I excluded some of my income when completing my tax return	1	2	3	4	5
3	Since there is no requirement to submit the supporting documents to the JKDM, I can manipulate the figure in the tax return	1	2	3	4	5
4	I do **NOT** think it is ethically wrong if I excludes small amount of income when completing the tax return.	1	2	3	4	5

SECTION D (COMPLEXITY OF LAWS)

Please read each statement carefully and state your opinion using the following scales:

1	Strongly disagree
2	Disagree
3	Not certain
4	Agree
5	Strongly agree

Disagree   **Agree**

1	The sentences and wording in the Goods and Services Tax guide are lengthy and not user-friendly	1	2	3	4	5
2	I do **NOT** have a problem with completing and filing the GST-03 return form.	1	2	3	4	5
3	Most of the time I need to refer to others for assistance in dealing with GST matters.	1	2	3	4	5
4	I do **NOT** have to make a lot of effort to understand the explanations given in Goods and Services Tax guide and other similar explanatory material.	1	2	3	4	5

In this section, you are given ONE situations related to decision making. Please read the situations carefully and state your opinion on the statements that follows.

SITUATION 1

> *In the past two years, Miss V, a self-employed businesswomen and GST registrant has declared her business income accurately based on her actual business income. Since she has never been audited by the Jabatan Kastam Diraja Malaysia (JKDM) for the past two years. However, in year 2017, in her first quarterly GST-03 return declaration, she underreported part of her fixed asset sales and over claimed input tax in her tax return. By doing so, she saved RM1,000 in total tax payable.*

i) Do you agree with her decision to underreport sales and over claim input tax?

    YES _____   **NO** _____

ii) If you were in her situation, what is the probability of underreport sales and over claim input tax in the first quarter for year 2017?

Very low probability	1	2	3	4	5	Very high probability

iii) If you were in her situation, what is the probability of reporting the correct sales and claiming the correct input tax in 2017?

Very low probability	1	2	3	4	5	Very high probability

-END OF QUESTIONNAIRE -

"THANK YOU VERY MUCH FOR TAKING YOUR PRECIOUS TIME TO ANSWER THE QUESTIONNAIRE".