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



UUM
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By

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**Research Paper Submitted to
Othman Yeop Abdullah Graduate School of Business,
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(International Accounting)**



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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 independent 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,

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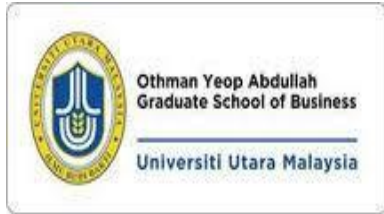


APPENDIX A

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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			

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

SECTION E (TAX COMPLIANCE)

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
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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
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Very high probability

-END OF QUESTIONNAIRE -

**“THANK YOU VERY MUCH FOR TAKING YOUR PRECIOUS TIME TO
ANSWER THE QUESTIONNAIRE”.**



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