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**AN EXPLORATORY STUDY ON GST COMPLIANCE TIME COSTS OF SMEs IN
THE NORTHERN REGION OF MALAYSIA**

BY

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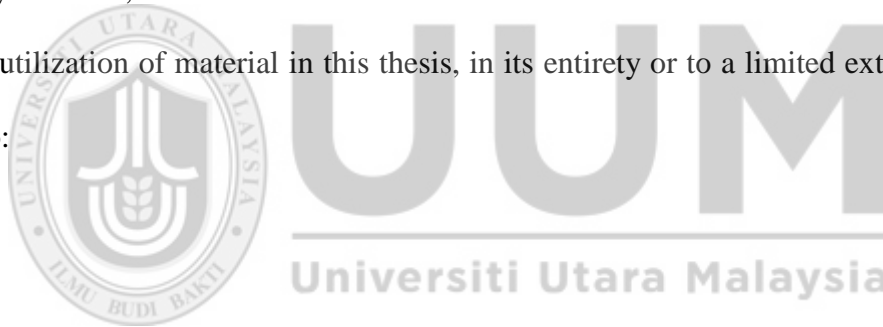
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Degree of Master of Science (International Accounting)**

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ABSTRACT

The Malaysia government is always committed in making tax system more effective, efficient, comprehensive, transparent, fair and friendly to users. Thus goods and services tax system (GST) has been implemented in Malaysia since 1 April 2015 to replace the former sales and services tax (SST) system. As such, procedural issues and compliance cost associated with the GST system are of significant interest to the taxpayers. This study is conducted one year after GST system implementation which considered as at the early stage of GST implementation. It focuses on the compliance time cost in terms of the time spent by the Small and Medium Enterprises (SMEs). The respondents of this study are the SMEs in the Northern Region of Malaysia i.e. Penang, Kedah, and Perlis. The result reveals that record keeping contributes to the major increase by percentage in GST compliance time costs followed by learning new GST systems, answering RMCD queries, claiming GST refund and GST payment process. This study also discovers that the demographic background of the SMEs indicates different of opinion in compliance time costs. While GST law complexity and time frequency of GST filing are among the main causes for the increase in compliance time costs of GST for SMEs under this study.

Key words: Goods and Services Tax (GST), Compliance Cost, Small and Medium Enterprises (SMEs) and Tax System

ABSTRAK

Kerajaan Malaysia sentiasa komited untuk menjadikan sistem cukai lebih berkesan, cekap, menyeluruh, telus, adil dan mesra pengguna. Oleh itu, cukai barang dan perkhidmatan (CBP) telah dilaksanakan semenjak 1 April 2015 bagi menggantikan cukai jualan dan perkhidmatan (SST). Dengan itu, isu-isu prosedur dan kos pematuhan berkaitan dengan sistem CBP memberi kesan yang signifikan kepada pembayar cukai. Kajian ini dijalankan setahun selepas sistem CBP dilaksanakan yang dianggap sebagai peringkat awal pelaksanaan CBP. Ia bertumpu kepada kos pematuhan dari segi masa yang digunakan oleh perusahaan kecil dan sederhana (PKS). Responden-responden dalam kajian ini adalah PKS di kawasan utara Malaysia iaitu Pulau Pinang, Kedah, dan Perlis. Hasil kajian menunjukkan bahawa penyimpanan rekod merupakan penyumbang utama terhadap peningkatan kos masa pematuhan secara peratusan dalam CBP diikuti oleh mempelajari sistem CBP yang baru, menjawab pertanyaan JKDM, menuntut pulangan balik CBP dan proses pembayaran CBP. Kajian ini juga mendapati latar belakang demografi PKS menunjukkan perbezaan pandangan ke atas kos masa pematuhan. Manakala kerumitan undang-undang GST dan kekerapan masa memfail GST adalah antara sebab-sebab utama bagi peningkatan kos masa pematuhan GST oleh PKS di bawah kajian ini.

Kata kunci: Sistem Cukai Barang dan Perkhidmatan (CBP), Kos Pematuhan, Perusahaan Kecil dan Sederhana (PKS) dan Sistem Cukai

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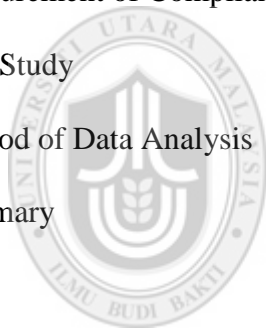
TABLE OF CONTENTS

PERMISSION TO USE	i
ABSTRACT	ii
ABSTRAK	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF ABBREVIATIONS	ix
CHAPTER ONE: INTRODUCTION	
1.1 Background of the Study	1
1.1.1 Small and Medium Enterprise (SME) in Malaysia	3
1.1.2 Challenges of Post Implementation of GST	4
1.2 Problem Statement	5
1.3 Research Questions	8
1.4 Research Objectives	8
1.5 Scope of the Study	8
1.6 Significance of the Study	9
1.7 Organization of the Thesis	10
CHAPTER TWO: LITERATURE REVIEW	
2.1 Introduction	12
2.2 Tax Compliance Costs	12
2.3 Empirical Studies on Tax Compliance Costs	15
2.4 Goods and Services Tax (GST) Compliance Costs in Various Countries	20

2.5	Compliance Costs Burden	23
2.6	Summary	26

CHAPTER THREE: RESEARCH METHODOLOGY

3.1	Introduction	27
3.2	Data Collection Method	27
3.2.1	Population and Sample of the Study	28
3.2.2	Sampling Technique	28
3.2.3	Questionnaire Distribution	28
3.2.4	Questionnaire Design	29
3.3	Measurement of Compliance Costs	31
3.4	Pilot Study	32
3.5	Method of Data Analysis	32
3.6	Summary	33



CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1	Introduction	34
4.2	Reliability Test	34
4.3	Survey Response Rate	34
4.4	Demographic Background of the Respondents	35
4.5	Compliance Time Costs of GST	38
4.6	Demographic Background of High GST Compliance Time Costs	42
4.7	Reasons for Increment in GST Compliance Time Costs for SMEs	45
4.8	Summary	46

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1	Introduction	48
5.2	Summary of Findings	48
5.3	Limitations of the Study	50
5.4	Recommendations for Future Research	50
5.5	Conclusion	51
REFERENCES		52
APPENDICES		59



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LIST OF TABLES

Table Number	Table Descriptions	Pages
2.1	List of Income Tax Compliance Costs Studies in Malaysia	17
4.1	Response Rate for GST Compliance Costs Survey : Personal Distribution	35
4.2	Response Rate for GST Compliance Costs Survey : Email Distribution	35
4.3	Demographic Background of Respondents	37
4.4	Compliance Time Costs of GST	39
4.5	Cross-Tabulation between Company Sectors and Compliance Time Costs	42
4.6	Cross-Tabulation between Business Type and Compliance Time Costs	43
4.7	Cross-Tabulation between Annual Turnover and Compliance Time Costs	43
4.8	Cross-Tabulation between Hire External Advisors and Compliance Time Costs	44
4.9	GST Compliance Time Costs Burdensome and Reasons for Increment	45

LIST OF ABBREVIATIONS

Abbreviations	Descriptions of Abbreviations
CFIB	Canadian Federation of Independent Business
CPA	Certified Public Accountants
FBT	Fringe Benefit Tax
GDP	Gross Domestic Product
GST	Goods and Services Tax
IDR	Indonesia Rupiah
IFC	International Finance Corporation
IRBM	Inland Revenue Board of Malaysia
NZ	New Zealand
MICPA	Malaysia Institute of Certified Public Accountants
OECD	Organisations for Economic Co-operation Developments
PAYE	Pay As You Earn
RM	Ringgit Malaysia
RMCD	Royal Malaysian Customs Department
RPGT	Real Property Gains Tax
SARS	South African Revenue Service
SST	Sales and Services Tax
SMEs	Small and Medium Enterprise
SPSS	Statistical Package for the Social Sciences
SST	Sales and Services Tax
VAT	Value Added Tax
UK	United Kingdom
US	United States

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Generally, tax is one of the important sources of income for developed and developing countries including Malaysia. Bhatia (2009) stated that the collection of tax as a revenue by the government will be returned as benefits to the public in the form of infrastructural facilities and development of public utilities. Malaysia's tax system is divided into two categories which are direct and indirect taxes. Under direct taxes, taxpayers have the responsibility to pay tax directly to the tax authority. Examples of direct taxes include income taxes, real property gains tax (RPGT) and stamp duty. Direct taxes are administered by the Inland Revenue Board of Malaysia (IRBM). Whilst, indirect taxes are collected by third party, such as businesses registered with Royal Malaysian Customs Department (RMCD). The examples of indirect taxes are export duty, import duty, and goods and services tax (GST). Indirect taxes are administered by the RMCD.

In order to generate revenue for a country, taxation is one of the main mechanisms. The Malaysia government is always committed in making tax system more effective, efficient, comprehensive, transparent, fair, and friendly. In order to achieve an efficient tax system, Goods and Services Tax (GST) was implemented on 1 April 2015 (gst.customs.gov.my). The GST is a replacement for sales and service tax (SST) because the Malaysian government aware that GST collections is able to cover the fiscal deficit as a result from reduction in oil prices. In addition, the purposes of implementing GST include to lower cost of doing business, improved standard of living, equality and fairness in tax system, increases global competitiveness, fair pricing to the consumers, and so forth (gst.customs.gov.my). Within less than a year of implementation the GST collection is proved to successfully increase Malaysian revenue (www.thestar.com.my). However, since its implementation, GST is

surrounded by many of issues such as taxpayers' knowledge about GST, compliance costs, acceptance and rejection by taxpayers, and so on (www.thestar.com.my).

Importantly, the compliance costs of taxation are the amount of resources expended by taxpayers, in addition to the amount of tax they are required to pay, in conforming to the requirements of the relevant tax legislation. The compliance costs are not only incurred by taxpayers, but also by all the agents or parties involved in making possible the transfer of funds from the private sector to the government department that controls public money (Eragbhe & Omoye, 2014).

According to Vaillancourt et al. , (2008, pg 3) , tax compliance costs are defined as follows:

“Those expenses incurred by individuals, families and businesses to comply with tax regulations. These include the time and expenses incurred by individuals and businesses to maintain proper records, undertake tax planning, file necessary reports and calculate required remittances. They include both the costs incurred by individuals and businesses, as well as fees paid to tax professionals, such as accountants and lawyers. Costs incurred by businesses include collecting, managing and remitting taxes paid by employees (for example, Employment Insurance and Canada/Quebec Pension Plans premiums) to the government, the costs of paying the businesses own taxes and in providing tax-related information to governments (statement of earned financial income, transaction, and some forth)”.

The above definition presented above shows that compliance costs could be incurred in many ways including monetary and also in term of time spent. Monetary compliance costs are usually borne by taxpayers through the fees paid to tax agents to manage the tax matters. The time spent on dealing with tax matters is often overlooked by taxpayers as compliance costs. However both constitute as compliance costs and it is considered as an additional cost to taxpayers apart from the tax paid to the government. Therefore, it is likely a burden to the

taxpayers and it might become one of the reasons for them to evade tax by not declaring their true revenue and financial position (Nahida, 2013).

Consequently the issues relating to tax compliance costs are strongly discussed, in Malaysia. This might be because GST is still new in Malaysia as compared to other countries. Among the taxpayers, it is believed that particularly vital to explore the GST compliance cost for small medium enterprises (SMEs) since most companies and the bulk of business taxpayers in Malaysia are SMEs (www.smecorp.gov.my). Managing and minimising the compliance costs might increase the compliance behaviour. As mentioned by Maseko (2014), SMEs constitutes as a bulk of taxpayers and, their level of compliance have significant impacts on government tax revenue collection.

As there has been a year of GST implementation in Malaysia, the time is suitable to carry out some exploratory studies on GST. Therefore, this study intends to explore one of the issues relating to GST which is compliance time costs of GST towards taxpayers in Malaysia focusing on SMEs.

1.1.1 Small and Medium Enterprise (SMEs) in Malaysia

Since 2005, there have been many developments in the economy including business trends changes in structural and price inflation. In 2013, a reviewed of the SMEs definition was undertaken and a new SME definition was endorsed by SME Corporation. The new definition covers all sectors, namely manufacturing, services, construction, mining and quarrying and agriculture. The basis of SME definition is by the number of full-time employees and sales turnover of the company. SMEs definition for manufacturing sector is defined based on the number of full time staffs should not more than 200 and annual turnover should not above RM50 million, whilst, full time staffs should not above 75 and annual turnover not above RM20 million for services and other sectors.

SME International Malaysia (2013) have reported that in Malaysia the structure of SMEs is very stable and strong in the economics' nature, total empowerment consists of 98% and contribution towards the employment was stated as over 60%, besides contribute in gross domestic products (GDP). As mentioned by SME International Malaysia, in future, the development of Malaysia's economy will come from the contribution in SMEs because SMEs play the important role in providing a stable and new development industries (www.smecorp.gov.my, 2016).

Omar et al. (2009) reported that, SMEs play important roles in order to enhance the Malaysian economic development. Moreover, Omar et al. (2009) stated that to accomplish the vision of 2020 it requires full support from the development of SMEs in Malaysia. In 2020, Malaysia visions to become industrialized nation. Saleh and Ndubisi (2006) also stated that SMEs in Malaysia plays a critical role in the country's economy and become the backbone of the industry development.

In order to maintain the development of SMEs in Malaysia, implementation in various action plans, policies and many programs are taken by the government to overcome the problems in the future such as the handling programme for SME which shows the significance of SMEs in Malaysia (Char et al., 2010). Samad (2007) reported that resistant and competitive SMEs are significant in the development process and growth in Malaysian economy which comprises of the strategic planning of the SMEs to become the source in economic growth. Due to that, SMEs in Malaysia need assistance and fully support from the government in order to be competitive global business environment.

1.1.2 Challenges of Post Implementation of GST

There are many challenges related to GST rules internally and externally (MICPA, 2015). Internal challenges are relating to low level of knowledge in GST. Taxpayers who are well-

versed in GST will take an action very fast and resolved swiftly. However, taxpayers who have low level of knowledge in GST will lead into non-compliance of GST rules (MICPA, 2015). Another internal challenges in the organisation's is the changes of personnel. To overcome this challenge, all the documented GST policies, standard operating procedures or practices, workflows, and some forth must be kept safe to ensure the changes in personnel would not adversely affect their GST compliance and reporting (MICPA, 2015). In other words, the documentation regarding business transaction must be frequently updated. Moreover, the implementation of GST requires taxpayers to change their internal processes.

As reported by MICPA (2015) external challenges on the other hands are linked to external causes such as the difficulties in understanding GST guides issued by the RMCD. This is due to unclear instructions of procedures presented in the GST guides. Another and perhaps one of the biggest challenge for businesses are to manage cash flows given that GST is paid on an accruals basis especially, where there is net output tax payable, which requires strong cash outflows (MICPA, 2015). Moreover, in the early stage of GST implementation, there are disparity occurred in the application of the GST laws and rules at the ground of level RMCD's officials especially in areas that involve discretionary judgement. This incident increase public confusion when they realised their cases are treated differently by the authority. As a conclusion, apart from the internal and external challenges there may be many more in the future depending on the nature and complexity of the business to comply with GST laws and regulations.

1.2 Problem Statement

There are a lot of complaints arising at the early stage of GST implementation in Malaysia as reported in the newspapers. These include the difficulties in understanding GST, increase in products price, confusing in GST matters and so forth. The complaints are issued to RMCD from a range of taxpayers including consumers, SMEs, and big businesses.

Based on The Star, November 16, 2015, on the first day after GST was implemented, more than 800 complaints were filed about it in Penang. While, Astro Awani, May 01, 2015, reported that a month after GST implementation, there were almost 5,000 complaints received by RMCD.

Meanwhile, SMEs also complaint about the cost of purchasing GST software, lack of GST guidance in business, and ambiguities and confusion about GST rules, regulations and information. According to vice-president of Malay Chamber of Commerce Malaysia, Hanafee Yusoff (Malaymail Online, 2015), the preparation for businesses to accommodate GST had not been thought through for example the requirement to purchase GST-compliant tools and the offer of hand-holding programmes by the authority. For the GST-compliant tools, he said that the government only give RM1,000 subsidy but the cost of GST software incurred was RM2,500. Therefore, many SMEs have complained that they cannot afford to buy the GST software. Other than that, he also said that the problem is due to the lack of understanding of GST and this factor caused the businesses to not fully prepared to accept GST. On top of that, SMEs lack in understanding rules/regulations and practical/ procedures. The lack of understanding is reflected on businesses that they are charging 6% GST on top of the previous Sales and Services Tax (SST). This will make the product price double than before.

Based on the Deputy President of SME Association Malaysia, Michael Kang (Malaymail Online, 2015), the government should provide guidance towards companies on how to be GST-compliant when carrying out their businesses. In addition, he stated that many have misunderstood about GST and wrongly pick up the system. He also reported that, on their side, they have their own hand-holding programmes in educating the businesses in order for them to understand and accept GST.

In addition, the study from Bidin, Marimuthu & Othman (2014) stated that tax agents also faced difficulties in handling their clients' GST matters because of the lack in knowledge among clients, the increased burden of documentation for record keeping, the upgraded computerized system, installing a new accounting software, getting refund from tax authority, understanding the GST legislation and so forth. The difficulties arise in administering the GST experienced by tax agents will increase the compliance costs in term of fees charged to their clients. These compliance costs are believed not only affected businesses with external tax advisors, but also other businesses who have not appointed any external tax advisors.

Based on the issues discussed above, it is anticipated that the compliance costs pertaining to tax filing will increase after the implementation of GST. SMEs might be the major group that will experience a big wave of increase in compliance costs at the early stage of GST implementation in Malaysia. This is due to study by Loh et al. (1997) on income tax compliance costs that found which income tax compliance costs of Malaysian companies were higher in small companies than larger companies.

SMEs in Malaysia need to spend their money and time to fulfil all the requirements of GST. They would need time to understand the new accounting software, need to attend training and so forth. This will contribute to an increase of GST compliance time costs. Therefore, exploring the level of compliance costs of GST among the taxpayers are vital as one of the factors that encourage full tax compliance is low compliance costs (Pope, 2001).

Previous studies on compliance costs in Malaysia had emphasised on the income taxes under self-assessment system (SAS) such as Mansor et al., 2004, Palil et al., 2013,2015, Abdul-Jabbar and Pope, 2008, 2009, Loh et al., 1997, Hanefah, Ariff and Kasipillai, 2001. To the knowledge of the author, there are lack of studies or no published studies carried out relating to GST compliance costs in Malaysia as GST is still at the early stage of implementation.

Thus, this study is carried out with the aims to explore the level of increase in the compliance time costs under GST system and examine the demographic background of high GST compliance time costs and the reasons for the increase in GST compliance time costs for SMEs in the Northern Region of Malaysia.

1.3 Research Questions

This study is intended to answer the following research questions:

1. What is the level of increase in compliance time costs with the implementation of GST by SMEs in the Northern Region of Malaysia?
2. What are the demographic backgrounds of high GST compliance time costs SMEs in the Northern Region of Malaysia?
3. What are the reasons for the increase in GST compliance time costs for SMEs in the Northern Region of Malaysia?

1.4 Research Objectives

The objectives of this research are divided as follows:

1. To examine the level of increase in the compliance time costs with the implementation of GST by SMEs in the Northern Region of Malaysia.
2. To examine the demographic backgrounds of high GST compliance time costs among SMEs in the Northern Region of Malaysia.
3. To examine the reasons of increase in the GST compliance time costs for SMEs in the Northern Region of Malaysia.

1.5 Scope of the Study

This study focuses on the compliance time costs of SMEs under GST system in Northern state of Malaysia which includes Penang, Kedah and Perlis. The locations are chosen for the

purpose of collecting accurate, valid and relevant data. Besides, previous studies have selected the same locations and their results have been generalized for the country at large (Mansor and Pantamee, 2015). As this study is an exploratory study of GST compliance costs of SMEs in Malaysia, plus the Northern Region is considered suitable because it consists of well developed and less develop area which is suitable to represent other region in Malaysia.

This study only focuses on the increment of the compliance time costs among SMEs during the early stage of GST implementation in Malaysia and does not attempt to estimate or measure compliance time costs in monetary unit. Besides, this study will also investigate the demographic backgrounds of high GST compliance time costs SMEs and the reasons for the increase in GST compliance time costs for SMEs in the Northern Region of Malaysia.

1.6 Significance of the Study

Generally, high compliances costs are considered as heavy burden to the taxpayers. Though the compliance costs are burdening the taxpayers, tax is compulsory as postulated by legislation where taxpayers have to obey to avoid any offences and penalties. Malaysia is one of the latecomers of GST compared to other countries which have successfully implemented GST such as New Zealand, United Kingdom, United States, Australia, and Singapore. The findings of this study would provide some insights to the policy makers and particularly the RMCD in relation to the compliance cost incurred by the SMEs at the early stage of GST implementation. This might help to further improve the implementation of the system that might benefit both the taxpayers to comply with the rules and to improve the services provided by the authority.

This study contributes to the existing literature on the measurement of GST compliance costs in term of increase in time spent among SMEs. As this study is carried out at the early stage of the GST implementation in Malaysia, it is considered as exploratory study relating to

compliance time costs of GST in Malaysia. In addition, the study shared lights on the demographic backgrounds of high GST compliance time costs and the reasons for the increase in GST compliance time costs for SMEs in Northern Region of Malaysia.

This study also contributes to practical implications especially to the administration of GST in Malaysia. The findings can be used by RMCD pertaining to GST compliance costs among SMEs in Malaysia. RMCD will get some insights on the level of the time spent by taxpayers as one of the main factors that contributed to the increase compliance costs under the new GST system. In addition, this study also contributes towards the management of SMEs, internal staffs of SMEs could utilise the findings to manage their time spent by planning their works and increase their knowledge to reduce GST compliance costs.

1.7 Organization of the Thesis

The purposes of this study are to examine the level of increase in the compliance time costs with the implementation of GST by SMEs in the Northern Region of Malaysia and the demographic backgrounds of high GST compliance time costs and also the reasons for the increase in GST compliance time costs for SMEs in the Northern Region of Malaysia. Sequentially, this study is separated into five chapters which comprise of:

Chapter one presents the introduction of the study by explaining the background of the study, problem statement, research questions and research objectives, scope, significance as well as contribution of the study.

Chapter two discusses the relevant literature in the related area that relates to tax compliance costs, VAT/GST compliance costs, compliance costs burden, and others empirical studies about compliance costs.

Chapter three provides the explanation on the research design, research method, and population of the study such as, sampling techniques as well as sampling size that employed in this study. Furthermore, this chapter also includes the sources of data collection, data collection procedures, instrument used to collect data, and appropriate test on reliability and validity of the instruments.

Next, in chapter four, the discussions of the data analysis techniques are presented and also the interpretation of the results of the study. In other words, this chapter will provide details explanation of the findings and discussions.

Lastly, chapter five concludes this study and provide recommendations and suggestions for future studies as well as the limitations of this study.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents prior studies on tax compliance costs that have been carried out in others countries and Malaysian settings. As the main focus of this study in on compliance costs of GST among SMEs in Malaysia, this review focuses mainly on studies that discussed on compliances cost of GST that incurred in small and medium enterprises.

2.2 Tax Compliance Costs

Tax compliance cost is defined as the cost borne by the taxpayers to comply with the tax rules and regulations. In order to fulfil the requirement of tax compliance, the taxpayers have to accept the burden i.e. tax compliance cost in order to file a correct tax returns. It is significant to manage the compliance cost in order to encourage compliance behaviour.

There are three phases of tax compliance cost that discussed by Sandford, Godwin, and Hardwick in between the 1930s and early of 1980s which marked as a starting point of the development in the tax compliance costs studies. Sandford, Godwin, Hardwick and Butterworth (1981) had defined compliance costs as *“costs which are incurred by taxpayers [and] or by third parties in meeting the requirements of the tax system, over and above the tax liabilities itself and over and above any harmful distortions of consumption or production to which the tax may give rise”* (Sandford et al., 1981,p 13). Meanwhile, Sandford (1995, p. 1), defined the concept of tax compliance costs, as follows:

Tax compliance costs are the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. These costs would disappear if the tax was abolished. They include the costs of collecting, remitting and accounting for tax on

the products and profits of the business and on the wages and salaries of its employees, and also the costs of acquiring and updating the knowledge to enable this work to be done, including knowledge or legal obligations and penalties.

Meanwhile, Americans for Fair Taxation (2007) stated that tax compliance cost as the whole are money and time spent on learning tax rules, tax forms, keeping records, and other tax matters. In addition, tax compliance costs are the total of source in taxpayers expenses which comprise additional total tax that are liable to them, including the costs that incurred to comply with the rules and regulations (Eragbhe and Modugu, 2014). As mentioned by Eragbhe and Modugu (2014), this cost also includes the fee to paid to all agents and entities that participate towards fund transaction process.

However, the definition of tax compliance costs is still complex and under debate. The definition given by Sandford (1995) is the most frequently cited proffered but has been regarded as inconsistent by Yesegat (2009). Saipei and Kasipillai (2009) agree with the definition but make some extension from that definition. Sapiei and Kasipillai (2009) stated that from the first sentences of the compliance costs definition means cost incurred in complying with the requirement of the rules and regulations in tax system, while for the next sentences opened up the scope of tax compliance costs to include all cost except for the distortion cost and tax liability.

Sandford et al. (1981) also outlined three separate elements to the compliance costs namely fiscal or monetary costs, time costs, and psychological costs. The monetary costs include sums incurred on tax professionals (i.e. accountants and tax agents) and expenses relating to taxation guides, books, communication and other incidental costs. Monetary costs also include the initial (start-up) costs in forming a business entity, the cost of submitting GST returns, the cost of expertise in understanding and keeping up with changes in policies and

rates, cost of external accountants for operational and advisory services as well as employee costs of running day-to-day GST accounting.

On the other hand, time costs are incurred by the taxpayer for completing tax return, preparing documentation to assist tax agents, maintaining business record for tax commitments, as well as time consumed by business entities for tax administration. Whilst, psychological costs exist and the onus is squarely on the business to conduct their GST activities appropriately alongside the tax regulations; including financial and criminal sanctions for non-compliance with tax regulations and the costs of anxiety in complying with tax obligations which are difficult to quantify.

Evans (2013) on the other hand, separates the tax compliance costs into three elements which are include explicit costs, implicit costs, and incidental costs. Explicit cost is defined as value of monetary that is paid to the external parties, for example, tax agents, and external tax advisors or consultations. An implicit cost represents the time spent by the unpaid helpers, internally paid employees, and taxpayers. While, for the incidental costs or also known as non-labour costs which represent the overhead costs incurred by the business enterprise, which comprise of costs stationery, equipment, travel expenses, computers, and some forth.

Both definitions provided by Sandford et al. (1981, 1995) and Evans (2013) emphasised on the fiscal or monetary and time costs. The differences are the terms used to represent the costs as categorised by Evans (2013); explicit costs for monetary and implicit costs for time spent in relation to tax matters.

For the purpose of this study, compliance cost will be referred specifically to the time spent by taxpayers in fulfilling the requirement under GST system. Thus the amount of time spent will be considered and not the monetary value of compliance costs.

2.3 Empirical Studies on Tax Compliance Costs

The first reported study on tax compliance cost was by Haig (1934) which covered all state and federal taxes in the US using mail survey to large corporation. The study showed that taxes which have low administrative costs appear to involve the taxpayer in high compliance costs and vice versa. In the UK, a study was carried out by Sandford (1973) by using a survey method to collect responses towards individuals which included self-employed under the personal income tax. It was found that low income taxpayers had higher compliance costs than higher income taxpayers. He also revealed that the compliance costs is amounted to about 1.9% to 3.4% of the total revenue. Later, the number of studies on compliance costs were increasing such as by Sandford, Godwin, and Hardwick (1989), Pope et al. (1990-1994), Evans et al. (1997), and Allers (1994). The study on compliance costs then spreaded to Australia, Netherlands, New Zealand and Canada.

In year 1997, Evans et al. conducted a study to investigating compliance costs of personal income and business income taxes in Australia. The results indicated that the compliance costs of all federal taxes for business and personal taxes is about 7% of federal tax revenue and GDP with 1.36%. Thereafter, the following research regarding the tax compliance costs were carried out. Those studies carried out by Lignier and Evans (2012); Glover and Tran-Nam (2005); Certified Public Accountants [CPA] (2003); and Rametse and Pope (2012). Recently, Evans, Tran-Nam and Lignier (2013) conducted a study on the compliance costs of the small business by using data in 2012. The results showed that there is an increase in the compliance costs from 1995 to 2012 which is from an average of A\$5,254 per firm in 1995 to an average of A\$13,313 in 2012. The increases is 150% in constant dollar terms. These studies covered and focused on small businesses.

In Netherlands, a study was conducted by Allers (1994) on compliance and administrative costs of taxation and also public transfer. The study used a single question postcard survey in

order to avoid the non-response bias. The study found that, the total compliance costs to business in year 1989 were Gld7.2 billion or 4% of tax revenues.

In New Zealand a comprehensive study on compliance costs is carried out by Sandford and Hasseldine (1992). This study reported that there was NZ\$1.9 billion estimated to the amount of total compliance costs, which is indicated by GDP with 2.5%. Another study by Bruton (2005) investigated the compliance costs of income tax, fringe benefits tax (FBT) and pay as you earned (PAYE) GST was estimated around NZ\$4,024, with almost 90% which comprise of 51% of income tax and another 39% incurred for GST. According to New Zealand Inland Revenue Department (2010), the compliance costs incurred by SMEs in New Zealand is estimated to be about NZ\$5,557. In addition, these costs increase in relation to the business size from NZ\$4,138 for business without staffs to NZ\$9,447 for business with staffs. The findings of these studies showed that taxpayers need to incurred a significance portion of compliance costs in order to comply with the tax laws. This implied that taxpayers had to bear extra burden in paying their taxes.

Recently, in year 2014, Gupta and Sawyer had investigated the compliance costs in New Zealand by using online survey to estimate the compliance costs of small business in order to comply with the income tax, PAYE, GST, KiwiSaver, and FBT. As a result, they estimated that total compliance costs was about NZ\$31,096. The study also concluded that tax compliance costs are regressive on all types of taxes surveyed and several percentage of compliance costs are incurred for GST compliance.

Meanwhile, studies of compliance costs also carried out in Asian countries including Malaysia, Singapore, and Indonesia. The early years of 1990s and 2001 the studies of tax compliance costs had been conducted and were compiled by Ariff and Pope in year 2002.

Thereafter, studies conducted by Abdul-Jabbar (2009) extended compliance costs research in Asia especially in Malaysia. These studies covered small medium enterprise (SME) business.

Abdul-Jabbar and Pope (2008) focused on the compliance costs incurred for corporate income tax of SMEs for the year 2006. The result of the study showed that the average total compliance costs is at RM9,284. On average, the annual percentage turnover of the Malaysian corporate income tax compliance costs are regressive, falling from 6.53% for the businesses in the smallest turnover category to 0.04% for the medium-sized businesses in the highest turnover band.

Further, Susila and Pope (2012) had carried out a study on big corporate taxpayers in Indonesia. The study discovered that the average total compliance costs is around IDR420 million per company. Other than that, the costs comprise of routine and non-routine costs, external and internal costs, as well as planning and computational costs. The study also, confirmed that tax compliance costs is regressive in nature. The study was also the first study in Indonesian that related to the compliance costs of large corporate taxpayers which is the biggest contributors of Indonesian tax revenue.

All the studies pertaining to tax compliance costs in Malaysia are summarised in Table 2.1 below:

Table 2.1
List of Income Tax Compliance Costs Studies in Malaysia

Author(s); (year)	Respondents (year of study)	Main Outcomes
Loh et al. (1997)	Public Listed Companies (1995)	<ul style="list-style-type: none"> • The average compliance costs per public listed company was RM68,836 with 72% of the compliance costs external in nature. • Compliance costs (61%) forms a major portion of compliance costs. • Compliance costs decrease as company size increases.

Table 2.1 (continued)

Author(s); (year)	Respondents (year of study)	Main Outcomes
Hanefah, Ariff and Kasipillai (2001)	SME and Tax Agent (1999)	<ul style="list-style-type: none"> • RM21,964, with 75% of the costs derived internally. • Computation costs form 59%, while the remaining (41%) was planning cost. <p>Compliance costs were four times more regressive than listed company.</p>
Mansor, Saad and Ibrahim (2003)	SME Companies (2002)	<ul style="list-style-type: none"> • The major source of increase in compliance costs (measured in terms of relative increase of time spent) was time spent with tax agents (78.83%), followed by time spent in learning tax law changes (55.4%).
Sapiei and Abdullah (2008)	Individuals, including self-employed	<ul style="list-style-type: none"> • The average time spent on compliance activities by individual tax payers was 70.6 hours per annum. • The average money cost per tax payer was RM187.90. • A large majority of tax payers (71%) prepared their own tax return.
Palil, Ramli, Mustapha, and Abu Hassan (2013)	Companies	<ul style="list-style-type: none"> • The compliance costs would potentially increase at the early implementation of GST. • They stated that, it might be due to external services required to manage GST matters such as tax planning and tax computation services. • Likewise, companies are anticipated to also incur and increase their internal cost.
Palil, Ramli, Mustapha, and Abu Hassan (2015)	SMEs in Malaysia	<ul style="list-style-type: none"> • Expected to increase in external source with an estimated average external cost of RM6,336 per year.

Besides the above studies, taxpayers in Nigeria also need to bear a significance amount of compliance costs. A study was carried out by Eragbhe and Modugu (2014) on the compliance costs in SME of Nigeria. The results indicated that Nigerian SMEs are bearing high tax

compliance costs. The study clearly addressed that the high compliance costs are incurred by small SMEs in Nigeria.

In Africa, the first investigation on compliance costs was by Shekidele (1999) in Tanzania. The methods used in the study were questionnaires distributed and collected from a very low sample of 14 businesses to examine the nature and type of compliance costs of excise duties. The result estimated that 16% of excise duty revenue is the compliance costs. It also shows that developing countries incurred more relative in compliance costs compares to developed countries.

A study was conducted in Canada by Plamondon and Zussman (1998) regarding small and medium businesses reflected to the tax compliance costs. Based on the study, each of the business were estimated at the average about C\$3,829 which indicated around 2.6% of an average sales volume. Other than that, scholars also estimated the federal and territorial tax compliance cost. Total provincial of compliance costs range between C\$2.3 billion and C\$4.5 billion, with an average of C\$3.4 billion which represent around 1.5% of tax revenue and 0.4% of GDP.

Canadian Federation of Independent Business (CFIB) (2008) also conducted a study on total compliance costs incurred by SMEs. The result showed that of C\$12.6 or 2.7% of tax revenue, which contribute of 90% on total compliance costs. CFIB in year 2008 stated that average tax compliance costs with amount C\$18,321.

From the empirical studies of tax compliance costs showed that only a few of the studies focuses on the time spent in the compliance costs. Thus, the purposes of this study intend to extend the literature on the compliance time costs in Asian countries.

2.4 Goods and Services Tax (GST) Compliance Costs in Various Countries

Palil, Ramli, Mustapha, and Abu Hassan (2013), in their feasibility study before the implementation of GST found that the compliance costs would potentially increase at the early implementation of GST. They stated that, it might be due to external services required to manage GST matters such as tax planning and tax computation services. Likewise, companies are anticipated to also incur and increase their internal cost (Palil et al., 2013). Palil, Ramli, Mustapha, and Abu Hassan (2015) had extended their research on compliance costs that will be incurred by SMEs in Malaysia after the implementation of GST. This research found that with the implementation of GST, the SMEs are expected to increase their external source of GST services with an estimated average external cost of RM6,336 per year. Thus, the SMEs are expected to experience an increase of compliance costs due to the implementation of GST, in term of tax appeal, tax planning, and tax calculation.

Earlier, in the study done by Pheng and Loi (1994), the compliance costs of construction industry in Singapore also increase after the implementation of GST. The increase in compliance costs was experienced by both smaller contractors as well as larger constructors.

Further, in a study by Pope (2001) in respect of compliance costs of small businesses in Australia found that small business incurred extra compliance costs upon commencement of their businesses. This study also made recommendations about ways to alleviating the cost burden of small businesses. Pope (2001) suggested that small businesses are given monetary compensation, the GST business registration threshold are raised, adjustment in terms of tax payment arrangement, and increase tax education course by government to reduce the burden of small businesses.

A case study in Australia about small business with regards to GST start-up compliance costs discovered that small business's compliance costs are estimated at A\$7,600 gross during the

early stage. The study did not focus on recurrent costs, but the finding showed the GST compliance costs in small business are aggressively increasing. Recurrent cost is the costs that will consistently equivalent to the value of time spent by staff to fulfil with the new tax changes with which are similar to them (Glover and Tran-Nam, 2005). Recurrent costs also named as regular costs.

Glover and Tran-Nam (2005) in their study about recurrent compliance costs of small business in Australia noticed that the net recurrent compliance costs of the GST for small businesses in Australia was estimated to be at \$1,244 on average. The GST recurrent costs hiked at the early stage but Glover and Tran-Nam (2005) stated that it shall be declining over time once businesses became more familiar with it. However, this findings could not be generalised to others as this study is based on a very small number of case studies.

Another case study done Bruton (2005), in New Zealand found that the compliance costs in term of internal and psychological costs are estimated at NZ\$1,852. Psychological costs referred to high levels of stress of the owners/partners, managers, clerks and unpaid family or friends to comply with GST compliance.

A recent study on the compliance costs measured by time spent, Hansford and Hasseldine (2012), found that 219 hours on average is spent annually on VAT compliances in the UK. This contributes up to about more than 40% of the £6,062 of internal tax compliance costs. Similar to UK, based on a study conducted by International Finance Corporation (IFC) (2009) in Ukraine, VAT are found to have the highest compliance costs compared to other types of taxes. IFC (2009) found that time spent on VAT compliance costs on average was 650 person-hours. The study concluded that Ukraine tax matters were the most time consuming when compared to other countries. A study in Uzbekistan (2010) also found out that the average time spent on preparing VAT invoices amounted to 94 man-hours. It also

represents a burden of approximately UZS28 billion in terms of labour cost for all legal entities in that country. The study done in Armenia also showed that the most time consuming relating to tax matters are record keeping for VAT activity. They found that large companies spent, on average, 108 hours studying, analysing, and searching VAT rules and regulation (IFC, 2011a).

Lignier and Evans (2012) also found out that GST is the most time consuming of all taxes. The research is conducted by electronic survey of a sample of 3,500 small businesses and found that 287 hours were estimated as internal GST compliance time and this is estimated to be equivalent to AU\$11,950.

Eichfelder and Vaillancourt (2014) stated that the process of tax accounting, tax return preparation and bookkeeping are the most costly to the compliance activities, whereas post-filing activities and tax planning are in general less important.

Hasseldine, Evans, Hansford, Lignier, Smulders, and Vaillancourt (2012) study concluded that in South Africa, UK, and Australia the most time spent in the internal tax compliance costs are incurred by 60% and the internal compliance costs that incurred mostly incurred in time spent in recording information about tax matters and half of the time spent in order to comply with the tax rules and regulations.

There was a discernible downward trend over time in the second major component of internal tax compliance costs – the costs of calculating and paying taxes – perhaps in part attributable to the development of more technologically advanced interactive systems between taxpayers and revenue authorities in all four countries.

2.5 Compliance Costs Burden

Previous studies suggested that compliance costs may be relatively more burdensome to the small medium sized companies as compared to large companies. SMEs in Malaysia will be more affected in compliance costs at the early stage of GST implementation. Previous research in other countries such as New Zealand, Singapore, United States, and Canada had provided evidences on the phenomena. Erard (1997) stated that the business sector had to bear the burden in compliance costs incurred especially SMEs.

Based on Evans (2008) the taxation burden comprises into three elements. First element is regarding the liable taxes towards them, which are on the profits, the staffs or the products. Secondly, comprises of cost of efficiency which involving of tax-induced market distortion. Lastly, regarding costs of operations in tax systems which are included administrative costs, costs in order to comply with the tax systems or as compliance costs.

Based on Brussels (2013) emphasised prevention strategies must be taken to reduce the compliance costs burden due to the expectation that GST will incurred more costs on SMEs. They study outlined that there are several factors on the level of compliance costs, i.e. simplicity of the tax laws and occurrence of tax policy.

Since the compliance costs are predicted to significantly increase especially among SMEs during the early stages of implementation of GST hence, before the GST implementation, discussions among tax related parties such as tax agent, academic and accountant should be held for the GST implementation. For example, GST payment posits a series of necessary duties closely associated to the regulations implemented by the RMCD. The firms are also required to keep sufficient accounting records of all transactions for reimbursement purposes. Besides, the firms are required to provide supporting documents as evidences for their claims such as sales invoices, in line with the GST rules.

SMEs with small profit, turnover, and assets might be affected more than the larger companies. This is no doubt that the SMEs bear the heaviest burden as mentioned by Erard (1997). As found by National Audit Office of United Kingdom (1994), smaller companies are estimated to suffer the costs of compliance at 20% of the tax paid.

Moreover, it has been recognised that the studies in the economic literature have tended to look only into the excess burden of taxation as a whole, implying that the welfare loss created with tax burden is derived exclusively as a result of a whole range of 'inescapable' obligations required by the tax legal system. In order to suggest that the excess burden can be represented in such a way, which basically assumes the existence of unlimited sources of tax pressure, seems to be an unrealistic proposition. It is the case that, in addition to data problems of measuring excess burden in the broad sense, such an approach does not offer much help towards the monetary loss inflicted on the private sector by tax legislation. It is rather important, therefore, to acquire some knowledge on measuring tax excess burden expressing what amounts to, in monetary terms, the burden created by tax legal obligations. One of the small but rewarding parts of assessment of tax excess burden is the attempt to measure that part which has been associated to the burden of accounting for tax revenue.

Pope (2001) mentioned that in the case of VAT which comprise of an additional burden on taxpayers had contributed to the non-compliance for unpaid taxpayers as well as SMEs taxpayers. These compliance costs comprises particularly in gathering information about new procedures for filling VAT returns, changes in the law, obtaining other relevant information, filling and preparation of VAT returns, record keeping for VAT, and checking accounts (O'Keefe and O'Hare, 2008).

GST compliance cost represents an additional burden on taxpayers, including SMEs which are acting as unpaid tax collectors, especially in the case of VAT compliance costs (Pope, 2001). These compliance costs encompass mainly record keeping for VAT, preparation and filling of VAT returns, change in the law and other relevant information (O'Keefe and O'Hare, 2008). Research revealed that relative compliance costs according to VAT are relatively higher burden for small business (Pope and Rametse, 2001). Specifically, Massey (2003) found that SMEs in New Zealand incurred VAT compliance costs at 2.7% of their turnover as compared to only 0.005% for the largest companies. VAT was also voted as the largest source of tax compliance costs in eight out of 11 Organisations for Economic Co-operation Developments (OECD) countries that were studied (Pope, 2001). According to OECD (2008) and South African Revenue Service (SARS) (2011), in order to reduce the compliance costs burden that incurred by small businesses, government in every country has taken many alternatives and strategies.

Other than that, tax audit procedures, however, may increase the compliance burden on taxpayers, in terms of time taken to prepare tax records and meet with tax authorities as well as the level of anxiety in being audited and investigated by tax authority. Andreoni, Erard and Feinstein (1998) further argued that tax audit and investigation can result in considerable compliance costs burden, not only to the non-compliant taxpayers, but also to the honest taxpayers.

However, the challenges faced in tax compliance costs research, particularly in the definition and measurement of compliance costs burden remain. There has also been considerable discussion, particularly by Pope (1993, 2003), Sandford (1995), Tran-Nam et al. (2000) and Tran-Nam and Glover (2002) on the compliance costs measurement and conceptual issues. The main issues include the lack of precisely defined boundaries in allocating costs incurred

for accounting and tax compliance costs, computational and planning costs, as well as commencement and recurrent costs.

Based on the extensive review of VAT and GST literature across the countries, it is discovered that studies that delve into GST compliance costs are very scarce in Malaysia. To date, there are little discussions on compliance costs after the implementation of GST. Thus, this study intends to fill the gap in order to improve GST administration and management in Malaysia and across the globe. This study focuses in GST compliance costs which are incurred internally and externally incurred by the SMEs in the Northern Region of Malaysia in term of time spent.

2.6 Summary

This chapter covers the literature review of the topic. The literature regarding tax compliance costs and empirical studies on tax compliance costs has been discussed. Later on the GST compliance costs in various countries has been discussed. The discussion further proceeds with the compliance costs burden. At the end a brief discussion has been made regarding the previous studies on the tax compliance costs.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

As mentioned in the research objectives, this study intends to explore the level of increase in compliance time costs with the implementation of GST and also to find the demographic backgrounds of high GST compliance time costs SMEs in the Northern Region of Malaysia. In addition, the study also attempts to provide reasons for the increase in GST compliance time costs for SMEs in the Northern Region of Malaysia. This chapter discusses the methods employed and procedures used to obtain valid, accurate, and relevant data for this study. Collecting a reliable data for the research is important in order to achieve the research objectives as set out in Chapter 1. Hence, this chapter explains data collection method, questionnaire design, pilot study, population of the study, sampling techniques, and method of data analysis.

3.2 Data Collection Method

There are several methods to conduct a research which are qualitative, quantitative, and mix mode methods. This study uses quantitative method in determining the level of increment in the compliance time costs and in determining the demographic backgrounds of high GST compliance time costs SMEs in the Northern Region of Malaysia and also in determining the reasons for increase in GST compliance time costs for SMEs in the Northern Region of Malaysia at the early stage of GST implementation.

The study was conducted in the Northern Region of Malaysia which include Penang, Kedah, and Perlis. SMEs located in the Northern Region of Malaysia are chosen as a sample to represent all SMEs in Malaysia at large due to fact that it consists of well-developed and less develop area which is suitable to represent other region in Malaysia. In order to obtain primary source of data, this study used questionnaire survey as a method of data collection.

3.2.1 Population and Sample of the Study

As mentioned earlier, the respondent in this study were SMEs in the northern states of Malaysia which are Penang, Kedah, and Perlis. The SMEs are chosen as respondents of this study because previous study found that income tax compliance costs of Malaysian companies were higher in small companies than larger companies (Loh et al., 1997). Thus it is anticipated SMEs suffer high compliance costs of GST at the early stage of GST implementation.

3.2.2 Sampling Technique

According to Sekaran, 2013, sampling is a process that allows the researcher to select sufficient number of the elements from the entire population for the purpose of generalizing the results to the entire population.

According to the directory of the Ministry of International Trade and Industry on SMEs, the total number of SMEs for the whole of Malaysia was 10,400. However, for this study, the sample was selected based on convenience and random sampling for SMEs in the Northern Region of Malaysia.

3.2.3 Questionnaire Distribution

There were two procedures applies in distributing the questionnaires and gathering the completed questionnaires by the respondents; by hands and email. This study utilised a convenience way of obtaining high respond rates relating to questionnaire survey. Even though the generalization of the results from this type of sampling is limited, convenience samples are the best utilized for exploratory research as mentioned by Zikmund (1994). As this study is related to GST, it is closely related to RMCD. In order to get a large number of valid respondents, an appointment was set with RMCD officers, asking any seminars held for SMEs in relation to GST compliance. During the period of data collection, there was one

seminar conducted by RMCD, Penang at Hotel Sunway Seberang Jaya and it was conducted by the Senior Officer RMCD Seberang Jaya, Penang on 26 April 2016. The seminar was addressed specifically for the SMEs. The researcher was allowed to personally distributed the questionnaires to all seminar participants and the completed questionnaires were collected at the end of the seminar.

The main reason of selecting this mode of questionnaires distribution was because the respondents could be clarified immediately if there is unclear of the question being asked. Further, this mode saves time because all the respondents are available in one place and at one particular time. The participants of the seminar were from SMEs located in Penang and suitable for this study. There are 114 completed questionnaires obtained at the end of the seminar.

While in Kedah and Perlis the random sampling is used in selecting SMEs of this study. The questionnaires were distributed via emails to SMEs in Kedah and Perlis using the information from the SME Corporation website. After a week from the data of email, follow up phone calls were made to ensure the questionnaire were completed. The phone calls were also made to help respondents in clarifying the area in the questionnaires which are not clear to them. These steps were necessary to obtain high volume of usable completed questionnaires.

3.2.4 Questionnaire Design

The design of questionnaire was adopted from previous studies that were conducted in the area of compliance costs i.e. Ferdjani (2015), Mansor et al. (2004), and Nahida et al. (2013).

The questionnaire was divided into three sections. Section 1 seeks the respondent's demographic background which consists of eight questions, Section 1 of the questionnaire combined the questions from studies carried out by Ferdjani (2015), Mansor et al. (2004), and Nahida et al. (2013). Section 2 consists of five questions designed to measure the increase

level in percentage of compliance time costs in term of time spent by the SMEs. This section was adopted from study Mansor et al. (2004). Section 3 consists of three questions asking the respondents opinion about the GST compliance costs burden suffered by SMEs. For this section, questions were adopted from study Ferdjani (2015). The questionnaires adopted then were self-amended based on the literature of GST compliance costs in order to match with the objectives of this study. The variables are tested to ensure that they measure the compliance costs based on the research conducted by Evans et al. (1997). Details of questions in the questionnaires are explained below:

Section 1

This section asks general information about demographic background of the respondents which comprised of company sector, business type, annual turnover, the year of GST registration, and the reason of GST registration. Moreover, this section also asked the respondents about their engagement with external advisors and if they have experienced an increase in the charges, as well as changes in time spent when dealing with external advisors after the GST implementation. The respondents were also asked to provide information about the duration of external advisors engagement.

Section 2

Section 2 was designed to cater SMEs who handle GST matters by themselves. Therefore, Section 2 focus on the measurement of compliance costs in term of time spent to handle GST matters. The questions consisted of the time spent in learning about GST, time spent in record keeping, time spent in answering RMCD queries, time spent in paying GST, and time spent in claiming refund of GST. This section was replicated from the study on SAS compliance costs conducted by Mansor et al. (2004).

Section 3

Section 3 asked about the level of increase in percentage relating to overall GST compliance costs burden among SMEs in Malaysia.

The sample of the questionnaires is attached in the Appendix 1.

3.3 Measurements of Compliance Costs

Previous studies have suggested the way and manner in which tax compliance costs should be defined and measured. This study follows Evans (2013) to split the gross tax compliance costs into three broad categories as follows:

- Explicit costs which represent monetary values that are paid to external parties, such as tax advisers and tax agents.
- Implicit costs which represent that time spent by the unpaid helpers, taxpayers and internally paid employees.
- Incidental costs (non-labor costs) which refer to the overhead costs incurred by the business enterprises, including costs of computers, equipment, travel expenses, stationery, and some forth.

The measurement of this study focuses on the implicit costs in order to achieve the objective of this study. The compliance time costs is measured in term of five aspects as follows:

- i. Time spent in learning the new tax laws.
- ii. Time spent in record keeping.
- iii. Time spent in answering RMCD queries.
- iv. Time spent in paying tax.
- v. Time spent in claiming tax.

Time spent in learning about GST means the ways staffs in the companies spent their time in learning new tax system in Malaysia either by reading newsletters, via RMCD websites, and

bulletins. Moreover, the staffs might also attend seminar, workshops, in-house training, and conferences regarding the GST information that provided by their company, RMCD, or private sectors. Then, time spent in record keeping is about the time that spent by staffs in recording keeping needed for GST, keeping all physical receipts in an organized manner (i.e, sales slips, invoices, and receipts), keeping the forms and registers related to GST, and so forth. In sequence, time spent under answering RMCD queries included time for dealing with RMCD and answering their queries regarding the company by email, phone calls, or receiving a visit from them. Then, time spent under paying GST is about the time spent when calculating GST, completing the form for paying GST, and the process of paying GST. Besides, time spent under claiming GST refund is covered time spent in preparing and making GST monthly refunds, and submitting GST refund document to RMCD.

3.4 Pilot Test

In order to improve the reliability, validity, and understand ability of the questionnaire items in this study, a pre-testing was carried out on 30 UUM students prior to distribution to the actual respondents. The feedbacks and comments from the respondents were used to improve the questionnaires of UUM students to ensure the validity of the questionnaires, tax professional were also asked to review the questionnaires. From the pilot test, the questionnaires were amended accordingly and the reliability test using Cronbach's alpha was performed. It was found that the items asked in the questionnaires were reliable with high reliability score which is Cronbach's alpha 0.768. In a nutshell, this process helps researcher to improve the construct validity of the questionnaire (Nunnally & Bernstein, 1994). The result of pilot test is shown in the Appendix 2.

3.5 Method of Data Analysis

This study employs, the Statistical Package Social Science (SPSS) version 21 to analyse the data. The completed questionnaires were pre-numbered to provide the respondents an

anonymous identity. The data was then keyed in into the SPSS system to enable the analysis works.

Before performing the analysis, the data was again cross checked with the pre numbered questionnaires to ensure data was entered correctly.

As this study is an exploratory study, descriptive analysis was used to analyse the data. The descriptive analyses of this study explain on the mean, frequency and cross tabulation of data. The way of data analysis was inspired and similar to previous study relating to compliance costs on self-assessment system (SAS) carried by out by Mansor et al. (2004).

3.6 Summary

The data for this study was collected from Malaysian SMEs in the Northern Region of Malaysia using the questionnaire to obtain the GST compliance costs in term of time spent. The questionnaire was adopted and modify based on the study by Evans et al. (1997), Mansor et al. (2004), Ferdjani (2015), and Nahida et al. (2013). To improve the validity of the questionnaires, a pilot test was carried out on 30 students from UUM as well as been reviewed by tax professionals. The face value of reliability then analysed. After conducting pilot test, the questionnaire was administered to the actual respondents by way of personal distribution in the seminar conducted by RMCD for SMEs in Penang and via email to the respondents in Kedah and Perlis.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents and discusses the results derived from the data analysis, which examined the level of increase in the compliance time costs at the early stage of GST implementation among SMEs of the Northern Region in Malaysia. As this study is exploratory in nature, descriptive analyses are performed and presented in this chapter. This chapter also presents a brief analysis of association relationship between SMEs demographic backgrounds and compliance time costs under GST system. Prior to that, the reliability test of questionnaire items using Cronbach's alpha is also presented in this chapter to reflect the validity of the instrument used.

4.2 Reliability Test

The reliability test reflects the consistency of the responses to the items investigated in the questionnaires. It reveals that the coefficients of Cronbach Alpha were 0.958. In general, Cronbach Alpha indicates that there is a high level of consistency given by the respondents since the reliability coefficients were above 0.65 (Nunnally, 1978).

4.3 Survey Response Rate

The data for this study was gathered by using two modes of questionnaires distribution i.e. personal and email distribution. The questionnaires were targeted to staff of the companies who are dealing with GST matters as they are aware of GST rules and regulations. As explained in chapter three, in particular, 114 questionnaires were personally distributed to the respondents in a seminar conducted by RMCD. Another 36 questionnaires were sent by email and followed up by telephone calls. Only 36 questionnaires were sent to Kedah and Perlis because SME registered under GST not too much and it difficult to trigger their by email and telephone number through search engine. That makes up total of 150 questionnaires distributed to respondents. From 150 questionnaires distributed, 106 were returned from

personal distribution and another 29 were returned from email distribution, which give a response rate of approximately 92.98% and 80.55% respectively. The response rate of the survey is summarized in Table 4.1 and Table 4.2 below:

Table 4.1
Response Rate for GST Compliance Time Cost Survey: Personal Distribution

	Respondents (Penang)
Questionnaire Distributed	114
Questionnaire Returned	106
Response Rate	92.98%

Table 4.2
Response Rate for GST Compliance Time Cost Survey: Email Distribution

	Respondents (Kedah and Perlis)
Questionnaire Distributed	36
Questionnaire Returned	29
Response Rate	80.55%

4.4 Demographic Background of the Respondents

Demographic backgrounds information were sought in the Section 1 of the questionnaire. It consists of questions related to company sector, business type, annual turnover, year of registration in GST, reason of registration, hiring of external advisors, and duration of the appointment of the external advisors. Table 4.3 presents the descriptive statistics of demographic background of the respondents.

From the table, it was found that 36.3% of the respondents are from SMEs in the industrial products, followed by trading and services sector (28.1%), consumer products (14.8%), construction (13.3%), properties (4.4%), and other sectors (3.00%).

In term of business types, slightly more than half of the respondents (53.3%) are from private limited company, 25.2% are sole proprietors, 12.6% are small public companies, 7.4% are partnership, and 1.5% are others.

About 55.6% of the companies under study has annual turnover, an annual turnover of RM2,000,001 and above. It is, followed by 22.2% with annual turnover between

RM1,500,001-RM2,000,000, 12.6% with annual turnover between RM1,000,001-RM1,500,000, 8.1% with annual turnover RM500,000-RM1,000,000, and only 1.5% with annual turnover below RM500,000. This results show that the majority of the respondents have achieved the threshold of annual turnover and become compulsory to be registered under GST system.

The duration of GST registration shows that 64.4% have registered GST in year 2014 which is before the effective date of GST implementation and 33.3% registered in the year 2015. Whereas, only 2.2% have registered, in the year 2016. This shows that almost all of the companies are aware of the GST implementation and try to comply with the rules and regulations to avoid the penalty. Ninety-eight percent of the respondents have stated that they registered compulsorily based on the annual turnover threshold and only 1.5% is voluntarily registered under GST system.

As for the appointment of external advisors, 65.2% of the SMEs does not appoint external tax advisors. Only 34.8% of them have appointed the external advisors to handle their tax-related matters. Out of 34.8% that hired external advisors, 22.2% of the respondents hired before the year 2014, followed by 6.7% of respondents in the year 2014 and 5.2% respondents in the year 2015. Only 0.7% respondent appointed external advisors in the year 2016.

Further, as mentioned in the data analysis chapter as presented in Table 4.3, most of the SMEs have not hired any external advisors to administer GST related matters. This situation also might contribute to the increase in time spent for in house staffs who are not expert about tax matters. Moreover, hiring external advisors would mean another costs to be incurred and this increase compliance costs in term of monetary value.

However, in the study by Mustapha & Jeyapalan (2001), they reported that SMEs normally outsources their accountancy and tax matters to different consultants and accounting firms

because they believe that these firms have in-depth knowledge of the technical and legal framework of the country for efficient law compliance.

In relation to the increase in the external advisors' charges after the GST implementation, out of 34.8% of the respondents that hire external advisors, 11.1% have experienced an increase of fees by 31%-50%, 8.1% reported increase by 11%-30% and 1%-10%, while 7.4% has no change in the charges.

With regard to the changes in times dealing with external advisors, the analysis shows that 18.5% out of the respondents who have external advisors experience an increase of time spent by 1%-10%, followed by 9.6% with 11%-30% increase of time spent, 5.9% experience no change in time spent dealing with external advisors, and only 0.7% had increased by 31%-50%. None of the respondents have experiences an increase of time spent in dealing with external advisors for more than 50%.

Table 4.3
Demographic background of respondents (N=135)

Characteristics	Frequency	
	No. of Respondents	Percentage (%)
Sector		
1. Properties	6	4.4
2. Trading and Services	38	28.1
3. Construction	18	13.3
4. Consumer products	20	14.8
5. Industrial products	49	36.3
6. Others	4	3.0
Business type		
1. Sole proprietorship (individual ownership)	34	25.2
2. Partnership	10	7.4
3. Private limited company	72	53.3
4. Shareholding company	17	12.6
5. Others	2	1.5
Annual turnover		
1. Below RM500,000	2	1.5
2. RM500,000-RM1,000,000	11	8.1
3. RM1,000,001-RM1,500,000	17	12.6
4. RM1,500,001-RM2,000,000	30	22.2
5. RM2,000,001 and above	75	55.6

Table 4.3 (continued)

Characteristics	Frequency	
	No. of Respondents	Percentage (%)
Year registration GST		
1. Year 2014	87	64.4
2. Year 2015	45	33.3
3. Year 2016	3	2.2
Reason of registration GST		
1. Voluntary	2	1.5
2. Compulsory	133	98.5
External advisor		
1. Yes	47	34.8
2. No	88	65.2
Year hired external advisor		
1. Not applicable	88	65.2
2. Before year 2014	30	22.2
3. Year 2014	9	6.7
4. Year 2015	7	5.2
5. Year 2016	1	0.7
Changes in external advisor charges		
1. Not applicable	88	65.2
2. No change	10	7.4
3. Increase 1% - 10%	11	8.1
4. Increase 11% - 30%	11	8.1
5. Increase 31% - 50%	15	11.1
6. Increase > 50%	-	-
Changes in time dealing with external advisor		
1. Not applicable	88	65.2
2. No change	8	5.9
3. Increase 1% - 10%	25	18.5
4. Increase 11% - 30%	13	9.6
5. Increase 31% - 50%	1	0.7
6. Increase > 50%	-	-

4.5 Compliance Time Costs of GST

This section presents the findings related to the first objective in this study i.e. regarding the level of increase in the compliance costs in term of time spent at the early stage of GST implementation. The findings are summarized in Table 4.4.

Table 4.4
Compliance Time Costs of GST (N=135)

Characteristics	Frequency		Mean	Std. Deviation
	No. of Respondents	Percentage (%)		
Learning new tax laws				
1. No change	5	5.7	2.08	1.74
2. Increase 1% - 10%	17	19.3		
3. Increase 11% - 30%	30	34.1		
4. Increase 31% - 50%	28	31.8		
5. Increase > 50%	8	9.1		
Record keeping				
1. No change	2	2.3	2.16	1.77
2. Increase 1% - 10%	16	18.2		
3. Increase 11% - 30%	34	38.6		
4. Increase 31% - 50%	25	28.4		
5. Increase > 50%	11	12.5		
Answering RMCD queries				
1. No change	10	11.4	1.64	1.46
2. Increase 1% - 10%	40	45.5		
3. Increase 11% - 30%	26	29.5		
4. Increase 31% - 50%	6	6.8		
5. Increase > 50%	6	6.8		
Paying GST				
1. No change	8	9.1	1.74	1.50
2. Increase 1% - 10%	31	35.2		
3. Increase 11% - 30%	35	39.8		
4. Increase 31% - 50%	10	1.4		
5. Increase > 50%	4	4.5		
Claiming GST refund				
1. No change	13	14.8	1.53	1.37
2. Increase 1% - 10%	44	50.0		
3. Increase 11% - 30%	23	26.1		
4. Increase 31% - 50%	3	3.4		
5. Increase > 50%	5	5.7		

The descriptive results in Table 4.4 refer to companies that do not hire external advisors which consist of 65.2% of the respondents (see Table 4.3). This means that the SMEs handled tax related matters internally. In other words out of 135 SMEs, 88 SMEs manages GST related matters by themselves, while the rest of the SMEs hired external advisors to deal with GST matters as presented earlier in Table 4.3.

Table 4.4 shows that 5.7% of the companies have not experienced any change of time spent in learning the new tax laws and regulations. However, 94.3% have indicated that they have increased their time spent in learning the new tax laws, while 53.4% experienced increase by 1% - 30%. Meanwhile, 40.9% stated that their compliance costs increased by more than 30%. From the mean analysis, overall, the SMEs claimed that their compliance costs in terms of learning the new tax laws had increased by 10%.

With regard to record keeping Table 4.4 shows that only 2.3% of the respondents do not experience any changes after GST implementation while 56.8% had experienced increase of time spent by at least 1% to 30% in record keeping. The rest which is, 40.9% had experienced more than 30% increase in time spent for GST record keeping matters. The means that increment for the compliance costs in relation to record keeping under GST system is more than 10%.

In term of answering the RMCD queries regarding GST, Table 4.4 highlights that 11.4% of the respondents did not record any change in time spent in answering the queries about GST after its implementation. However, the majority of the respondents, which is 75% had experienced an increase of time spent by 1% to 30% to answer the tax authorities' queries. Meanwhile, 13.6% stated that their time spent on this matter are increased by more than 30%. The mean for the increase in compliance costs for answering the RMCD queries would be less than 10%.

Based on Table 4.4, only 9.1% of the respondents stated that they did not go through any changes in time spent in relation to GST payment process, whereas 75% of the respondents have spent up to 30% of extra time in GST payment process. Almost 6% of the respondents have indicated increase of their time spent by more than 30%. The mean for the overall increase in time spent for GST payment process was less than 10%.

In relation to claiming GST refund, 14.8% of the respondent did not experience any change in the time consumed nevertheless, 50% reported that time spent increase by 1% to 10% in dealing with this matter. About 26% reported increase in time spent by 11% - 30%. The respondents indicated that they have experienced time spent by more than 30.00% in relation GST refund process. To be specific, 3.4% of them experienced increased by 31% - 50% and 5.7% had increased by more than 50%. The mean of the process of claiming taxes under GST system was less than 10%.

From the result of the analysis, it is discovered that there is an increase of compliance cost of GST in term of time spent among SMEs in Malaysia. The SMEs have experienced an increase in time spent for administering all GST compliance activities. The increase in time spent occurred with regards to activities such as learning the new tax laws, record keeping, answering RMCD queries, paying GST, and also claiming GST refund.

The findings are comparable to the study by Mansor et al. (2004) on the compliance time cost under self-assessment systems the early stage of implementation. The results reflected that, SMEs spent more time in GST related activities especially in record keeping and learning the new tax laws. Record keeping contributed to the major source of increase in term of GST compliance cost. This could be due to the early stage of GST implementation that requires the SMEs to maintain proper records in order to handle GST filings correctly. The findings could be related to one of the objectives of GST that is to introduce proper record keeping to make the tax system fair and transparent.

Learning new tax laws also ranked among the highest GST related activities which increase the time spent by the SMEs to comply with GST requirements. These new tax laws require extra time to be comprehended and also might due to the new software and hardware adopted by the SMEs.

4.6 Demographic Background of High GST Compliance Time Costs

This section provides the cross-tabulation analysis to examine the demographic backgrounds of high GST compliance time costs SMEs in the Northern Region of Malaysia. This analysis is performing to investigate whether different nature of SMEs business background relates to the level of GST compliance time costs.

Table 4.5
Cross-tabulation between company sector and compliance time costs (N=135)

Company Sector	High compliance time costs		Total
	Yes	No	
Properties	6	0	6
Percentage (%)	100	0	100
Trading and Services	35	3	38
Percentage (%)	92.10	7.89	100
Construction	15	3	18
Percentage (%)	83.33	16.67	100
Consumer Products	20	0	20
Percentage (%)	100	0	100
Industrial Products	40	9	49
Percentage (%)	81.63	18.37	100
Others	4	0	4
Percentage (%)	100	0	100
Total	120	15	135

The cross-tabulation in Table 4.5 shows that majority of the company sector experienced higher compliance time costs for GST which comprises of 100% for properties and consumer product sector, 92.1% for trading and services sector, 83.33% for construction sector, 81.63% for industrial products sector and 100% for other sectors.

Table 4.6
Cross-tabulation between business type and compliance time costs (N=135)

Business Type	High compliance time costs		Total
	Yes	No	
Sole Proprietorship	33	1	34
Percentage (%)	97.05	2.94	100
Partnership	10	0	10
Percentage (%)	100	0	100
Private Limited Company	65	7	72
Percentage (%)	90.28	9.72	100
Shareholding Company	10	7	17
Percentage (%)	58.82	41.18	100
Others	2	0	2
Percentage (%)	100	0	100
Total	120	15	135

Results in the Table 4.6 show that all business type also experienced higher compliance time costs for GST. The table shows that 97.05% of sole proprietor had higher compliance time costs, partnership (100%), private limited company (90.28%), shareholding company (58.82%), and other business type (100%).

Table 4.7
Cross-tabulation between annual turnover and compliance time costs (N=135)

Annual Turnover	High compliance time costs		Total
	Yes	No	
Below RM500,000	2	0	2
Percentage (%)	100	0	100
RM500,000 – RM1,000,000	10	1	11
Percentage (%)	90.91	9.09	100
RM1,000,001 – RM1,500,000	13	4	17
Percentage (%)	76.47	23.53	100
RM1,500,001 – RM2,000,000	28	2	30
Percentage (%)	93.33	6.67	100
RM2,000,001 and above	67	8	75
Percentage (%)	89.33	10.67	100
Total	120	15	135

Table 4.7 shows the cross tabulation results between annual turnover and compliance costs. All of the respondents having below than RM500,000 indicated that GST compliance time costs is a burden for their organization; SMEs with RM500,000-RM1,000,000 turnover (90.91%); SMEs with RM1,000,001-RM1,500,000 turnover (76.47%); SMEs with turnover RM1,500,001-RM2,000,000 (93.33%); and SMEs with above RM2,000,001 turnover indicates 89.33% increased in the compliance time costs.

Table 4.8

Cross-tabulation between hire external advisor and compliance time costs (N=135)

External Advisors	High compliance time costs		Total
	Yes	No	
With external advisors	44	3	47
Percentage (%)	93.62	6.38	100
Without external advisors	76	12	88
Percentage (%)	86.36	13.64	100
Total	120	15	135

As mentioned earlier, 65.2% of the respondents is without external advisors and the balance 34.8% hired external advisors to handle their tax matters. Table 4.8 above shows that 93.62% of the SMEs that hired external advisors agree that GST is high in compliance time costs while another 6.38% disagree. As for the SMEs without external advisors, 86.36% indicated that GST is high in compliance time costs while the balance 13.64% stated that GST system is not high in compliance time costs.

Based on the cross-tabulation results, it is discovered that the demographic backgrounds of the SMEs indicates different of opinion in compliance time costs. This finding is aligned with the previous studies of Erard (1997); Rametse and Pope (2001), Mustapha and Jeyapalan (2001), as they also found that VAT cost is influenced by the existance of external advisors, business sector, and most importantly, the type of business carried out by the SMEs.

4.7 Reasons for Increment in GST Compliance Time Costs for SMEs

This section provides the findings concerning the reasons for the increase in GST compliance time costs for SMEs in the Northern Region of Malaysian. The findings are summarised in

Table 4.9 below:

Table 4.9
GST Compliance Time Costs Burdensome and Reasons for Increment (N=135)

Characteristics	Frequency	
	No. of Respondents	Percentage (%)
GST compliance costs burdensome		
1. Yes	120	88.90
2. No	15	11.10
Percentage of GST compliance costs' burden to the company		
1. No changes	15	11.10
2. 10% - 20%	31	23.90
3. 21% - 30%	34	25.20
4. 31% - 40%	17	12.60
5. 41% - 50%	14	10.40
6. More than 50%	24	17.80
Reasons of burden based on percentage		
1. GST law complexity	59	43.70
2. GST is a monthly tax to pay	32	23.70
3. GST takes more time than other taxes	15	11.10
4. Company needs new accounting system	19	14.10
5. Company incurred cost in upgrading hardware for GST	5	3.70
6. Company incurred cost in providing staff training in GST	2	1.50
7. Company needs to hire new qualified staff for GST	2	1.50

In the Table 4.9 above, it is found that 88.9% of the respondents demonstrate that GST compliance costs is burdensome, while only 11.1% indicated that GST compliance costs are not problematic for them.

In term of the estimated increase of the GST compliance costs burden, 25.2% of the respondents stated that the increase is between 21% to 30%, while 23.9% believe that it is

increased by 10% to 20%. Another 17.8% of the respondents felt that the GST compliance costs burden increase by more than 50% and only minority of the respondents, which are 12.6% indicated that there is an increase in GST compliance costs burden by 31% to 40%. About 11% of the respondents opined that their compliance costs are not burdensome, while only 10.4% stated that the GST compliance costs give them between 41% to 50% extra burden.

The respondents were also asked about the possible reasons which contribute to the increase in the GST compliance costs. Almost half of the respondents (43.7%) chose GST law complexity cause them to spend extra time, 23.7% of the respondents stated that GST compliance costs are burdensome because of the GST returns needed to be administered monthly. About of the respondents agree that complying for GST takes more time than other taxes, while, 14.1% opined that the GST compliance is burdensome because they need to buy and install a new accounting system to comply with GST. Only 3.7% of the respondents agree that costs incurred of upgrading hardware for GST, costs for providing staff training in GST (1.5%) and costs for hiring new qualified staffs (1.5%) have created extra burden for them.

4.8 Summary

All descriptive results from data analyses are presented in this chapter. As this study is exploratory in nature, most of the results are presented descriptively. Overall, majority of the respondents have experienced an increase in the compliance costs in term of time spent to administer GST matters. Most of the respondents felt the extra burden of compliance costs when the GST is implemented in Malaysia. The GST law complexity and time frequency of GST filing are the main causes for the increase of compliance costs of GST in term of time spent among SMEs under study.

This chapter also reported the demographic factors and GST compliance time costs among SMEs in the Northern Region of Malaysia. The cross-tabulation analysis shows that GST compliance time costs are varied according to the business type, company sector, annual turnover, and external advisors of the SMEs in Malaysia.

However, even though majority of SMEs have experienced extra time spent to deal with GST matters, only small percentage of them hired an external advisor to administer GST.



CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses and concludes the findings obtain of this study of whether SMEs experience any increase in their compliance time costs at the early stage of GST implementation. This chapter also summarises the demographic backgrounds of SMEs which are high in GST compliance time costs and the reasons for the increase in GST compliance time costs for SMEs in the Northern Region of Malaysia. In addition, this chapter provides the limitations of this study and provide some recommendations for practice and future research.

5.2 Summary of Findings

This study received 90% response rates where, out of 150 questionnaires distributed, 135 were returned and usable. From the analysis, it shows that most of the respondents have achieved the GST threshold and are compulsory to be registered with RMCD. Majority of them also administered their GST filing themselves which made this study more accurate in term of measuring the compliance costs by way of time spent by the taxpayers.

Almost more than half of the respondents agree that they have experienced significant increase in the compliance time costs of GST between 10% to 50%. The analyses also shows that the compliance costs of GST are relative to the type of business that the SMEs are operating.

From the analysis of the data collected, it shows that record keeping is the highest aspect for the increase in GST compliance time costs which is 97.7%. It is then followed by learning new GST systems (94.3%), answering RMCD queries (88.6%), claiming GST refund (85.2%) and GST payment process (80.9%).

As for the demographic backgrounds of high GST compliance time costs among SMEs in the Northern Region of Malaysia, the findings show that different demographic backgrounds for SMEs are related to GST compliance time costs. The demographic background tested in this study includes company sector, business type, annual turnover, and hiring of external advisors. The results indicates that SMEs from the industrial products is ranked as the highest on GST compliance time costs. In addition, business type, the findings show that private limited company is the highest ranked on GST compliance time costs. This study is aligned with the previous study by New Zealand Inland Revenue Department in the New Zealand which found that business type is the important factor that contributes to the cost incurred in most of the time spent.

In term of the annual turnover the highest amount to relate with ranked the GST compliance time costs is in the range of over RM2,000,000. It shows that the SMEs higher turnover the higher the company's GST compliance time costs. Beside that, for the hiring of external advisors, the result reveals the SMEs without external advisors incurred towards higher GST compliance time costs.

Apart from the questions relating to compliance time costs of GST, the questionnaires also seek the possible reasons for the increase in GST compliance time costs for the SMEs to comply with GST requirements. Overall, SMEs admit that GST compliance time costs affected them. This is due to GST law complexity, GST is a monthly tax to pay, GST takes more time than other taxes, company needs new accounting systems, company incurred cost in upgrading hardware for GST, company incurred cost in providing staff training in GST, and company needs to hire new qualified staff for GST.

5.3 Limitations of the Study

There are certain limitations of this study that have to be highlighted. Firstly, data was only collected from one region in Malaysia which is northern region. Other regions might have different and varieties of business sectors which have influence on the volume of GST activities. Secondly, the measurement of the GST compliance costs only focuses in time spent to handle GST related activities, which are subjective and difficult to quantify and has to be estimated. However, this measurement is replicated from the previous study by Evans et al. (1997). Another limitation of this study is it is carried out at the early stage of GST implementation in Malaysia. Hence, the respondents still have limited experience in GST activities and judgment is made base on scarce resources.

In addition, the data collected were only relied on the co-operation and trustworthiness of the respondents who completed the questionnaires. These respondents may, however, fail to disclose their view on GST compliance time costs when completing the survey. This can pose limitation to this study.

5.4 Recommendations for Future Research

As this study is an exploratory in nature, it is recommended that future research relating to compliance costs of GST to include both measurements i.e. time spent and monetary value. Moreover, future studies can be expanded to the population throughout all Malaysian regions, so that the result could be better generalized to the whole of Malaysia and more useful. Future studies could be carried out after the GST implementation has stabilised in Malaysia such as after five or ten years. Moreover, in order to make the data collection process smooth, future researchers could collaborate with RMCD. This is one of the effective methods to gather more and relevant data.

5.5 Conclusion

The purpose of this study is to explore the GST compliance time costs among SMEs of in the Northern Region of Malaysia, in particular, Penang, Kedah, and Perlis. According to Nelson (2014), SMEs are the majority business taxpayers in most developing countries and as such, their compliance levels directly influence government tax revenue collection. As a conclusion, the results of this study reveal that record keeping contribute to the major increase by percentage in GST compliance costs in term of time spent at the early stage of GST implementation in Malaysia. Most company will spent a lot of time in record keeping and will make the GST compliance costs also increase and affected. The widespread introduction and use of withholding regimes (whereby the tax remitted by someone other than the statutory bearer of the tax liability) has important compliance time costs implication for businesses that must a keep a complete record keeping system (Shaw et al., 2008: 24). The result of this study is similar to Evans et al. (1997) where, they also found that internal time spent on record keeping in relation to employment withheld taxes and superannuation charges exceeded 25 hours per year.

Moreover, this study also discovers that different demographic background of SMEs, for example the business type of ownership such as sole proprietorship, partnership, private limited companies have different impact on the GST compliance time costs. SMEs also ranked that GST complexity as the highest reason which increases the level of compliance time costs burden among SMEs in Malaysia. Since high compliance time costs burden in GST it might impede SMEs innovation and growth, it is necessary that policy makers continuously strive to further reduce them. Based on Price Waterhouse Coopers (2008), SMEs regularly report that complying with taxation regulation is a constraint on their development and growth due to the cost that must incur to become and remain tax compliant.

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