

# PUBLIC AWARENESS, KNOWLEDGE AND UNDERSTANDING OF GST

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**Abstract-** This is a concept paper. The focus of this paper is to propose a framework of analysis in analyzing public's awareness, knowledge and understanding on GST. GST has become a hotter issue as its launching date of April 2015 is approaching. The GST Model for Malaysia is custom designed and is developed to suit with the Malaysia's socio and politico economic situations. Apart of that, continuous improvements have been made by the government to adapt with the changes that take place from time to time. The idea of implementing GST was first highlighted in year 1998 and is practically implemented in year 2015. Throughout the period, the government has undertaken various efforts to study the effect and impact, to disseminate the information, to educate the public and to improve their understanding on the need of the system, and also the structure or operations of the system. Even so, at the early stage of implementation the public appears to be confused on the actual operations of the GST system. Many questions and complaints have been reported and lodged to the related authorities further action. This incident raises questions on the level of awareness and knowledge of the people about GST. To get a clearer picture on the degree of public's awareness, knowledge and understanding of GST, a study that pays specific focus on these areas is necessary and this paper provide some guidelines.

**Keywords-** Direct And Indirect Tax, GST, SST, Revenue.

## I. INTRODUCTION

Taxes are generally divided into two types, namely; direct taxes and indirect taxes. Direct taxes are taxes on income (individual, corporate, real estate, stamp duty), while indirect taxes are taxes on goods (or sales) and services (including customs duties and excise duties). Of both types of taxes mentioned, GST is included in the second type of tax, where it is a system of taxation of expenses or use of goods and services.

GST, or in English is known as the Goods and Services Tax, is also known as value-added tax (VAT). Tax in general is money paid by the people (according to income, the rate of purchase, the land etc.) to the government. It is a mandatory fee imposed by the government on individuals and firms or organizations concerned, where the money will be re-used or spent by the government on the activities and projects that provide mutual benefit to the community. In other words, is a mechanism for collecting revenue from individuals, companies or other bodies for the purpose of financing government spending especially in socio-economic development programs.

## II. ABOUT GST MALAYSIA

GST is an indirect type of tax, the tax that is imposed on the expenditure of goods and services. It is not an additional tax to the existing SST tax, but is a replacement tax system. GST implementation date in Malaysia is on 1<sup>st</sup>. April, 2015. In general it is a

single rate tax system, which charges a standard rate of 6% at every level of production chain and also to the final consumers. The standard GST rate (standard rate) is levied on all goods and services and industrial sectors other than those listed in the GST rate of zero (zero-rated) and GST-exempt rate (Exempted rate). GST zero-rating is imposed on the types of goods that are classified as items of basic needs. Example; chicken, fish, vegetables, cooking oil and others. In general, the category of goods in this group are considered as raw items which do not undergo value-added activities, while GST exempt (GST exempted rate) is imposed on list of goods or services of a particular sector or industry which undergo value add activities and are eligible to be imposed GST but is exempted by the government for the reason to protect the welfare of the people. The decision on the list of goods and services which are categorized within these three types of rates are determined by the Minister of Finance, and any amendments will be made public from time to time.

### A. Reasons For GST Implementation In Malaysia

GST is generally implemented for the purpose of restructuring the country's tax structure to make it more efficient, effective, transparent, business-friendly and able to generate more stable results. In other words, the GST is needed for several reasons among which are;

- GST tax system is more effective and efficient than SST.

There are weaknesses in the old tax system. The weaknesses identified in the SST tax system are; Imposing tax on tax to consumers, Allowing transfer

pricing activities, and no tax relief on exports. With the new tax system, all problems that exist under the former tax system are treated.

- GST tax system is self-policing, which is capable of operating on its own. As such, the bureaucracy can be reduced compared to the old tax system.

- The official registration and documentation procedures enhance monitoring process and capable of increasing the level of tax compliance among traders.

- GST reduce the "underground economy" Through the incentives offer rebates to dealers who obtained a revenue of RM500,000 per annum, it encourages traders out en masse to register their business with the Royal Malaysian Customs Department. This may indirectly reduce the activity of "underground economy" of illegal transactions or invalid.

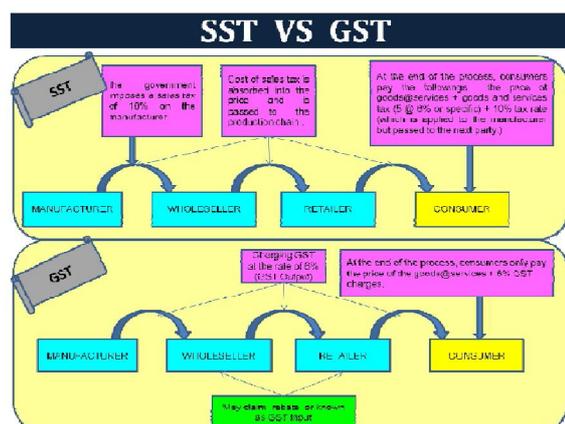
- GST potential positive impact on government revenues Success in GST revenue to government procurement seeks to reduce its dependence on income taxes as well as petroleum products.

Apart from the reasons mentioned above, GST become an alternative to replace the existing tax system because, in terms of applications, there are a total of 160 countries of the world which have implemented this system in their respective countries. Among the ASEAN countries, referring to the date before April 2015, all countries have implemented except for Malaysia, Brunei and Myanmar . This statistics provide indication this system is more popular, contemporary and works better than the SST system.<sup>1</sup>

### B. The GST and SST Models

Figure 1 portrays the GST and the SST models for comparisons. Under SST system, the government imposes sales taxes by the amount of 10% to producer/manufacturer. This cost in return is passed to the next party, though charging higher prices. The process continues to the final user or consumer. The overall process causes the consumer to bear multiple costs. Apart from paying the cost price of goods and services purchased, the consumer also bears the cost of tax imposed on goods (and services) at a rate of 5% (or 6%) plus the cost of the sales tax that is initially imposed to the manufacturer/producer.

<sup>1</sup> GST is not implemented by developed countries only. Out of 160 countries that execute GST, majority are low-income countries where the per capita income is less than Malaysia. Example of these countries are: Burundi (GST rate 18%), Niger (GST rate 18%), Malawi (GST rate 16.5%), Togo (GST rate 18%), Mozambique (GST rate 17%), Ethiopia (GST rate 15%), Haiti (GST rate 10%), Nepal (GST rate 13%), Burkina Faso (GST rate 18%)



Source: Jabatan Kastam Diraja Malaysia (2015)

Figure 1 The SST and GST Models

Under the GST system, the imposition of GST or also known as GST output, will be implemented at each stage of sales activity that takes place between the production agents in the channel. Production agents whose sales exceed RM500,000 per annum and are registered with the Royal Malaysian Customs Department; are eligible to claim back a rebate or GST input for the purpose of recovering back the costs incurred under GST output. The giving of GST tax rebates made the costs bear by agents of production to become almost zero. The benefit of cost reduction is expected to spill over to the consumers, who will then purchase the goods and services at cheaper prices. At the end of the process, the consumer only pays the cost price of the goods and also the 6% GST charge.

In summary, in the case of SST, consumers bear two kinds of taxation; for example, sales tax imposed on the producers and the tax on purchasing goods and services, while in the GST system, consumers only pay one type of tax only; the GST or excise taxes on purchases of goods and services at a rate of 6%.

### C. Issues Related GST

The general issues commonly highlighted relating to GST implementation are;

- Why implement GST?
- Why GST, not other tax system?
- GST is only for rich or developed countries
- GST increases price level
- GST burdens or oppress the poor

#### Why Implement GST

- Because the problem of "tax on tax" in the SST system can be avoided.
- transfer pricing problems which occur in the SST can be dealt with under the GST.
- Exports of goods and services in full relief where goods and services are zero-rated exports and eligible to claim input tax.

#### Why GST and not other tax system?

- A total of 160 countries are applying GST (excluding Malaysia).
- It is not new, as historically GST, which was originally known as VAT (Value Added Tax), the earliest carried out in France in 1950. And today as many as 160 countries of the world has done so. This provides indication of its stability and practicality.
- GST rate is highest in the list; Africa (40%), Finland and Poland (27%) of EU countries (20%). Moreover, among the ASEAN countries, before April 2015, all countries had implemented GST except for Brunei, Myanmar and Malaysia.

### GST Is Only for Developed Countries

GST has been implemented not only in developed countries but also in countries under low-income status. As for Malaysia which is classified as medium high income country, its official participation on April 2015 made it the 40th country in this category.

Table 1. Number of Countries by Income Group

Income Categories (USD)	Countries	# of states
Low (<\$1,025)	(Cambodia, Bangladesh, Ethiopia)	28
Medium Low (\$1,026-\$4,035)	(Indonesia, Sri Lanka, Filipina)	41
Medium High (\$4,036-\$12,475)	(Brazil, Thailand, Panama) + Malaysia	39+1 = 40
High (>\$12,476)	(Australia, Jepun, Singapura)	42
Not Available (NA)	(Argentina, Jamaica, Ivory Coast)	10
Total		160

Source: Royal Malaysian Customs Department 2 (2005)

### GST increased price level

In general, it is expected that the implementation of GST will not lead to significant price changes. If there is, it is estimated the price increase occurred at a rate of 1-1.2%. As precautionary steps in dealing with sellers or dealers who may exploit the situation by raising prices to reap the maximum profit, the government took the following actions;

- introduce the Price Control Act and Anti-Profitteering 2011 with effect from 1 April 2011.
- action taken by the Ministry of Domestic Trade, Cooperatives and Consumer Affairs (Ministry) established the J / power driver as a preparatory measure GST implementation (legislation, enforcement, promotion, pricing data, call center), reviewing staffing requirements (enforcement)
- Establish Shoppers' guide to assist users in knowing the price changes of goods and services
- Launch an education and awareness program that seeks to comprehensively educate the public about the power and the rights of consumers, and purchase based on the needs or requirements

### GST Burden The People, Especially The Poor

GST will not burden the people because;

- GST rate is the lowest in the world.
- With the implementation of the GST, indirect tax rate is reduced from 15 @ 16% to 6% GST system, and the maximum income tax rate of 26% is reduced to 25-24%.
- The highest taxable income of the group increased to RM400,000 compared with RM100,000 previously.
- Personal income tax rates reduced by between 0.5% and 3% for all groups of taxable income.
- GST does not burden the poor because the system has been developed by taking into consideration the welfare of the poor. Among the incentives that are given for the benefits of this group are;
  - GST will not be charged on basic food and utilities
  - GST is tailored to suit with Malaysian socio-economic environment, in which by character it tends to collect more taxes from higher income groups compared to low-income groups. This is because low-income earners tend to spend on goods and services which bear zero-rated, while high-income groups tend to buy luxury goods and services subject to the standard rate. Obviously, GST does not burden the poor.
  - Provide cash assistance of RM300 for one-off BR1M recipients.

### III. A STUDY ON PUBLIC AWARENESS, KNOWLEDGE AND UNDERSTANDING OF GST

GST implementation plan was first mentioned as early as in 1988, namely during the tabling of Budget 1989 by Tun Daim Zainuddin as the Minister of Finance at that time. However, the intention to implement this new tax had to be postponed. The suspension period takes about 26 years; in which during the period the Government had conducted a thorough and comprehensive review on the structure, process and impact, and also takes into account the views from various walks of life, including chambers of commerce, investors, economists, academics, consumer organizations and NGOs. Based on the findings of this studies and discussions, in 2013, during the presentation of the 2014 budget, Prime Minister Datuk Seri Najib Razak has announced that the GST will be implemented on April 1, 2015.

In less than a year, the GST tax system is officially implemented in Malaysia. During the early periods of its implementation process, the government receive many reports and complaints from the public on the actual practiced and the effect of GST, especially on the price of goods and services purchased. The confusion and questions issued by the public raised one big question regarding on their level of

understanding on GST. In relation to this, the researcher feels it is necessary to conduct a study and investigate this situation in detail. Specifically, the study put focus on identifying the level of awareness, knowledge and understanding of the public on the implementation of the GST. The outcome of the study does not only explain the level of public's awareness, knowledge and understanding on GST but also measure the effectiveness of the government programs in spreading the information to instill awareness, nurture knowledge and understanding throughout the 26 year period.

#### IV. PROPOSED METHODOLOGY

This study is an exploratory type of study which involves primary data collection. The instrument used for data collection is a set of questionnaires. In general, the questionnaire set is divided in five parts according to the following order; Personal details and demographics, questions measuring degree of awareness, knowledge and understanding on GST. The objectives of this study is to identifying the degree of awareness, knowledge and understanding of the respondents regarding GST. Data analyses are descriptive and inferential by types. Apart from using the SPSS software to analyze the data, the researchers may also extend the study by using Structural Equation Modeling using AMOS software.

#### V. SUMMARY

The ineffectiveness of the tax collection system has pushed the government to identify the problems related to it and to assess the structure of the existing model. Based on the practice and experience of the world and the ASEAN countries, the Malaysian government sees GST taxation system is the best solution to the existing problem. Facts have provide indication that the recognition period (1998) to implementation period (2015) of GST involves a 26 years period. Throughout the time, the government had conduct studies, evaluating the appropriateness of

this model to the Malaysia's socio-economic climate, disseminate the information for the purpose of improving the awareness and knowledge and understanding of the people. In relation to this, the proposed study is carried out to assess the degree of awareness, knowledge and understanding of the people about the GST in theory and also in practice. Other than these, the findings of this analysis also provides a reflect on the effectiveness and the success of the government's efforts in disseminating and educating the public on GST.

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