



## Public Awareness Towards Goods and Services Tax (GST) in KUALA LUMPUR, MALAYSIA

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### Abstract

This research aims to examine the key factor that has contributed to the public awareness towards Goods and Services Tax (GST) in Kuala Lumpur. In this study, several identifiable variables were selected concerning tax knowledge, tax morale and tax compliance. Using questionnaire as a research instrument, 302 sets of questionnaires had been distributed. Multiple regression analysis was used to test the cause of relationship among tax knowledge, tax morale, and tax compliance with taxpayer's awareness on GST. The results revealed that all of three independent variables were found to have significant impact toward the publics' awareness on Goods and Services Tax (GST).

### INTRODUCTION

On 10th October 2014 in Budget 2015 speech by YAB Dato' Seri Mohd Najib Abdul Razak the Prime Minister of Malaysia announced that Malaysia is going to implement Good and Services Tax that as replacement of Sales and Services Tax (SST) on 1st April 2015 and GST rate is fixed at 6%. As for now, Malaysia has the lowest rate of GST among the ASEAN countries. Malaysia government has facing budget deficits for years since 1997 because of Asian Financial Crisis. Therefore, governments try to find ways to increase more tax and enhance nation revenue. This revenue will be spending for national development. Despite, most of the taxpayers are not willing to spending much more on tax which they may have reaction against the government policy (Boonyarat et al, 2014). The main objective of the introduction of Goods and Services Tax (GST) in Malaysia is to improve the country revenue, enhance the efficiency and effectiveness of the existing tax system to replace the weaknesses of SST. The introduction of GST in Malaysia has received many arguments from various parties. Responsibility of taxpayer's associated with awareness taxpayer. According to Sumartaya & Hafidiah (2014) the taxpayer that recognized as having awareness if they knows the reasons why tax been introduce and knows the tax rules and regulations.

### PROBLEM STATEMENT

Goods and Services tax (GST) issue has been debated for several years since 2005's Malaysia budget. Malaysia has intended to implement GST on January 1, 2007 but it was delayed on February 22, 2006 due to political issues and readiness issues. Some of the individuals support the implementation of GST, some oppose to it. The

main reasons for Malaysians or the consumers unwilling to support or opposed the implementation of GST because of the fear of price hike. Majority of the respondents believed that GST would causes higher inflation. In addition, lack of information and unclear about the purpose of GST implementation (Moomal et al, 2014) Consumers are too worried until they brought up one issue, particularly regarding charges of 6% of GST on money withdrawn from the ATM. The issue also went viral on social media such as Twitter, Facebook and Blogs. This issue has something to do with awareness of individuals in Malaysia with GST system. Datuk Ahmad Maslan the Deputy Finance Minister had also addressed and confirmed that GST awareness is still low among Malaysians (The Sun, 2015). There are lots of opinions, reactions, and questions about the implementation of GST. Why these issues arise? Do Malaysians have a clear understanding and really aware of the concept of GST? What are the determinants that shape tax awareness? Therefore, this research will be focus on Goods and Services Tax awareness and identify the factors that will enhance public awareness towards GST.

## **RESEARCH OBJECTIVE**

The following are the general and specific objectives of the study:

- 1) To identify the relationship between tax knowledge, tax morale, and tax compliance on publics' awareness on Goods and Services Tax (GST) in Kuala Lumpur.
- 2) To determine level of publics' awareness on Goods and Services Tax in Kuala Lumpur.

## **LITERATURE REVIEW**

According to Palil et al. (2010) public awareness towards GST is low can happen due to introduction of GST especially in the early years such as lack of familiarity with the new system. There are several factors that discouraged customers from accepting GST implementation in Malaysia and the most important factor among all is a fear of price increase and will cause the inflation.

Based on the history of the implementation by the other countries around the world, most of the countries received a positive impact in terms of their revenue, despite the success of GST implementation the Malaysian citizens still feel uncertain with the GST, (Saira et al, 2010). The findings from the study showed that the majority of Malaysians not convinced with the GST system, (Saira et al, 2010).

According to Tan and Chin-Fat (2000) Malaysian understanding regarding GST was still low. Based on study conducted by Djawadi and Fahr (2013) pointed out that knowledge about tax is important to increase the thrust of authorities and also the citizens.

Based on study conducted by Boonyarat et al. (2014), the researcher used Structure Equation Modelling (SEM) to examine the relationships between tax awareness and tax knowledge and the researcher found out that tax knowledge has positive relationship with tax awareness. Hence, taxpayers will be more aware about tax system when they have knowledge and understanding towards the tax system.

Palil et al. (2013) study by using multiple regression analysis, the researchers found out that there are significant relationship between awareness and tax knowledge. When individuals have knowledge related to the tax systems, people will be more willing to respect the tax systems and improved individuals' awareness. Further, Jatmiko (2006) also conclude that awareness can be developed from the knowledge and the understanding. Palil et al. (2013) and Jatmiko conclusions is also supported study by Tayib (1998) identified that individuals' awareness towards the tax system can increase when the individuals has knowledge about the tax. This makes tax knowledge and tax awareness has significant relationship and when the individuals or the taxpayers have knowledge about it and it will make it easier for them to study and follow the tax rules.

According to Torgler (2011) tax morale is important to taxpayer awareness. On the other hand, research by Tekeli (2011) using multiple regression analysis show that tax morale has insignificant relationship on tax awareness. A Tekeli (2011) conclusion is supported study by Torgler and Schaffner (2007) regarding cause and consequences of tax morale.

Research by Mustapha and Palil (2011) stated that the influence of compliance behavior towards individuals' awareness has been proven in various researches. From the findings of Razak and Adafula (2013); Santi (2012) they found that taxpayers' awareness is significantly associated with tax compliance and this is also supported by study Jatmiko (2006).

Tulu (2007) indicate that other factors such as taxpayers' attitude or morale found to be the result of lack of awareness has found to have little impact on taxpayers' attitude towards taxation. A lot of individuals or

taxpayers might want to comply in full with the tax systems, but are unable to do so because they are not aware of and lack of understanding their full obligations. Even they understand their obligations they may not know how to comply with it because of there is no two way communications between the authorities and taxpayers. Dup (2014) claimed that the ability of taxpayers to comply with the tax laws have a strong relationship with tax awareness.

## RESEARCH METHODOLOGY

These studies focus on primary data because the researcher needs the current information from the respondents through questionnaires-based survey. In collecting the data, the researcher decides to focus on the questionnaires distribution to the Kuala Lumpur citizens. Researcher will use simple random sampling. As the Kuala Lumpur population is 1.67 million, 384 samples are enough and appropriate to represent the entire population. The questionnaire was distributed at KLCC and KL Sentral. The process of distributing questionnaire was done in 3 weeks from 18<sup>th</sup> May 2015 to 13<sup>th</sup> June 2015. The data was collected randomly. The multiple regressions are one of the statistical tool or model to measure relationship exploratory and response. The variables must two or more variables to be called multiple regressions (Studenmund, 2014).

The following model is use to run the regression analysis:

$$TA = \beta_0 + \beta_1 TM + \beta_2 TK + \beta_3 TC + \varepsilon$$

Where:

TA = The taxpayer awareness

$\beta_0$  = Constant

TM = Tax Morale

TK = Tax Knowledge

TC = Tax Compliance

$\varepsilon$  = Error

Reliability test used to measure that each item in the questionnaire is not correlated with each other and no bias (Sekaran and Bougie, 2013). To make sure all the items and the requirement are reliable the researcher were using Cronbach's Alpha. Other than that descriptive analysis is used to examine the mean score regarding their level of awareness towards Goods and Services Tax (GST). Multiple regression analysis is used to identifying the important variables that give impact on the dependent variable and the researcher has used several test, such as T-test, F-test and Coefficient of determination (R<sup>2</sup>) for regression analysis. Some diagnostic test have been implemented to rectify problem in regression analysis such as Multicollinearity and heteroscedasticity problem.

## RESEARCH ANALYSIS

Reliability test was performed to examine the consistency of the items used in measuring the variables. Researcher found that all the variables have high Cronbach's quality which near 1 with tax awareness at 0.739, tax knowledge at 0.742, tax morale at 0.932 and tax compliance at 0.969. Cronbach's alpha values from 0.6 or greater are considered acceptable (George and Mallery, 2003). Therefore, all the items used in measuring the variables are considered acceptable.

According to table 4.4, the VIF from regression for Tax Knowledge is 1.186, tax morale is 1.088 and tax compliance is 1.207. Those entire variable has VIF lower than 5. Multicollinearity problem exist only when VIF is more than 5. In this study found that there is existence of heteroscedasticity by comparing the value of Obs\*R-squared with the value of critical Chi-Square from table. From the table, the value of Obs\*R-squared is bigger than the value of critical chi-square which is 19.51145 > 7.81. In order to eliminate the existence of heteroscedasticity in this study, the researcher used Weighted Least Squares (WLS) as one of the method to remove heteroscedasticity.

$$TA = 0.792 + 0.326 TK + 0.357TM + 0.045TC + \varepsilon$$

(3.903)\*\* (6.115)\*\* (6.997)\*\* (2.591)\*

( ) = t-statistic

\*\* = 5% level of significance

\* = 10 % level of significance

Tax knowledge and tax awareness has positive relationship. From the beta value, it shows that increase in tax knowledge will increase taxpayers' awareness at 0.326. Tax knowledge is significantly associated with tax awareness because the significant value is 0.000 which is the p-value less than 0.05. That tax morale and tax awareness has positive relationship. An increase in tax morale will increase taxpayers' awareness at 0.357. From this result, the highest beta value is at tax morale which can explain that this variable is the most influence among the other independent variable.

Result shows that tax compliance also has positive relationship with tax awareness. An increase in tax compliance will increase taxpayers' awareness at 0.118. Tax compliance is also significantly associated with tax awareness because the p-value is 0.010 which is significant at 10% significant level. The F-Test indicate the result of the regression model whether the model is acceptable or not and the value of significant less than 0.05 it will be considered significant. The result shows that the F-statistic of the model is 52.139. Whereas the significant value of the F-statistic is significant because the significant value is 0.000 which is less than 0.05.

## CONCLUSION

The objective of the study is to investigate the relationship of tax knowledge, tax awareness and tax compliance on tax awareness and the level of awareness towards GST among citizens in Kuala Lumpur. The findings of this study reveal that tax morale is the most influence factors to tax awareness. This means government of Malaysia need intense focus on publics' knowledge and attitude towards the implementation of GST. The finding of this study is consistent with the findings from previous studies found that Malaysians awareness towards the implementation of GST was relatively moderate (for example, a study by Zakaria et al, 2015). On top of average awareness regarding GST implementation, most of the taxpayers are also not willing to support and accept the implementation of GST.

## RECOMMENDATION

As a recommendation, awareness can be increase by improve communication on GST to the public. Royal Malaysian Customs Department (RMCD) should launch an extensive publicity programmes for general public in which to explain the rationality for introducing GST in Malaysia and make them understand fully rather than generally. Besides spread the information through social media, tax authorities should organize more talk programmes and collaborates with NGO'S to suburban residence especially to rural populations like the natives.

The level of education could also affect the publics' awareness on tax. As for now, the fact that basic tax education is not currently taught in any schools or higher institutional, the publics' general knowledge of tax are low. It is suggested that government to make an effort to provide or add subject about basic taxation as main subject at schools to educate students at an early age and also the teachers. This could improve their tax knowledge, tax morale, and could change their perception towards the tax.

Effectiveness of GST becomes a vital issue among Malaysian. Researcher found several complain among the respondents regarding the current issue of GST, however none of their suggestion had been entertained by the tax authorities. Government should seek feedbacks from the citizen because Malaysia is a democratic country. Thus it is necessary for government to hear voices from all parties. As a result,,public will be more willing to comply with GST law.

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