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# PROBLEMS IN GST IMPLEMENTATION AND GST WITHDRAWAL OF MALAYSIAN SMEs

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### *Abstract*

Malaysia has announced the abolishment of Goods and Services Tax (GST) effective from 1 June 2018 and replaced with Sales and Service Tax (SST) in September 2018. The SST is considered as a preferred taxation system among SMEs as it imposes tax at only one level compared to the GST where tax was imposed at every level, from manufacturers to wholesalers, retailers and consumers. Hence, this research tends to identify the problems in GST implementation faced by SMEs, to reveal the differences between demographic factors (business size and business experience) with problems in GST implementation and to determine the relationship between GST awareness and problems in GST implementation faced by SMEs, which lead to the withdrawal of GST in Malaysia. Eighty-three SMEs in Selangor volunteered to answer the questionnaire. The results indicated that GST awareness and business size have significant relationships and differences with problems in GST implementation faced by SMEs, which lead to the GST abolishment. However, business experiences having no significant differences with problems in GST implementation.

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**Keywords:** GST, SMEs, problems, business size, business experiences, GST awareness.



## **1. Introduction**

In April 2015, Malaysia replaced the sales and service tax (SST) with a Goods and Services Tax (GST) to broaden the tax base and reduce the country's heavy reliance on oil revenue, which made up more than 40 per cent of the federal government revenue in 2014 (Ching et al., 2018). However, in May 2018, Malaysia's Ministry of Finance announced the abolishment of GST effective from 1 June 2018 and replaced with SST 2.0 in September 2018. According to Safini (2018), SST 2.0 is a preferred taxation system among small and medium enterprises (SMEs) as it imposes tax at only one level compared to the GST where tax was imposed at every level, from manufacturers to wholesalers, retailers and consumers.

GST is a tax on the value added at each stage of the production distribution chain and is generically known worldwide as Value Added Tax and about 160 countries have adopted the GST. GST also claimed as a tax system, which can give benefits to many people, more efficient, customer friendly, overcome weakness of double taxation and can reduce bureaucracy (Shamsuddin et al., 2016). However, there was an argument that the GST was a major factor in price increases found receptive ears among Malaysians (Narayanan, 2018).

SMEs in Malaysia are very heterogeneous group and can be categorised into manufacturing and services or other sectors which involved in activities ranging from small traders, shopkeepers, contract manufacturers simply supply parts and components to Multi-National Companies and professional services such as software firms or medical researcher to sell their services to overseas markets (Shamsuddin et al., 2016). They also stated that SMEs either operating in the formal or informal sectors and they have different level of skills depending on their activities. The process of collecting and recording tax and keeping all records in order to comply with GST requirements could be tedious and expensive process for SMEs. GST implementation will not only give the direct effect on the cash flow of the SMEs, it also needs every company to change their practice in the accounting system and business processes (Zainol & Soon, 2017). According to them, SMEs must be prepared to have good accounting records, trained personnel, and proper software to ensure success.

### **1.1. Literature Review and Hypotheses Development**

Since GST has been implemented in Malaysia, there has been many problems faced by the companies including the SME. Edward and Hamizan (2016) indicated that when GST is first introduced, SMEs need an additional finance to purchase their supply for their business activity as result to the fall of income by twenty percent. Small business has not performed financially due to poor sales and loss of income affected all sectors across the board. Refer to The Malaysian Reserve (2017), after the introduction of GST in April 2015, the SMEs have been affected because of limited amount of resources and fund to comply. The SMEs have been seeking for financial support from government agencies, banks and technology vendors to lighten their burden. They also highlighted that The Malaysian Retail Chain Association (MRCA) reported that only 10% of SMEs in Malaysia are prepared for the implementation of GST. Therefore, it can be concluded that when GST has been implemented, SMEs has faced problems affected their business.

### **1.1.1. Demographic Factor - business experience**

According to Hanefah and Al-Mureshi (1991), they found that most of SMEs have lack of expertise in order to prepare appropriate business and taxation reports therefore it would be troublesome to the SMEs if they implement even more tax system in their business. Pope and Abdul-Jabbar (2008) found that SMEs could face problems to implement GST because of inadequate expertise and lack of business experience. Narayanan (2018) mentioned that one of the reason for withdrawal of GST is a complicated tax to administer and a considerable amount of preparation is necessary before it can be implemented smoothly showing that not many SMEs have done it efficiently and the problems they faced lack to the business experience. Chen and Taib (2017) agreed that, SMEs have to hire new personnel to handle all documentation related to GST to make sure they have a good accounting system. To ensure GST paid and collected will be correctly documented which could bring more problems to the SMEs itself (Zainol & Soon, 2017). A study by Chen and Taib (2017) indicated that there is a significant relationship between the business experiences with the problems in GST implementation by SME. This is because the implementation of GST requires the companies to keep appropriate accounting record (Alebel, 2011). Therefore, the following hypothesis is created:

***H<sub>1</sub>: There is a differences between the business experiences and problems in GST implementation faced by SMEs lead to GST withdrawal.***

### **1.1.2. Demographic Factor - business size**

Another problem on GST implementation that could arise is due to the business size. SME companies with annual sales turnover of RM500,000 is compulsory to register with Royal Malaysian Customs Department (RMCD) to get the GST identification number whereas for small business who have income lower than RM 500,000 are not compulsory to do so. Business operators who registered will be more aware towards these implementation and impact to their business (Chen & Taib, 2017) which could bring problems to the company. Narayanan (2018) said that the compliance cost borne by businesses, with the compliance burden falling more on small rather than large businesses lead to many small businesses ceased their operations when the GST introduced.

A study by Slemrod (2001) has stated that disproportional of tax compliance cost on small businesses compare to large business. For SMEs on their assets or sales value they have to pay a higher compliance costs as compared to large businesses plus. For example, in the United States (US) and Canada indicated that tax compliance costs issues involved large businesses are quite different from those confronting smaller entities (Slemrod, 2001). Previous studies revealed that SMEs incurred a relatively higher cost of GST for small businesses compared to large businesses (Slemrod & Venkatesh, 2002; Weichenrieder, 2007). A research by Chen and Taib (2017) also indicated that there is a significant difference between business size and problems faced by SME. Therefore, the following hypothesis is created:

***H<sub>2</sub>: There is a difference between business size and problems in GST implementation faced by SMEs lead to GST withdrawal.***

### **1.1.3. GST Awareness**

Chen and Taib (2017) revealed that level of awareness about GST is important because the employees or the operator of the companies in SMEs, whom will play such important role, need to be ready to accept that the GST will surely impact their business activities, instead of just need to be aware of GST. They also added that it is because their supplies that will be needed in their operation could be taxable to GST, which would lead to increase in cost of continuing their business. Ahmad et al. (2016) found that it is important to give awareness among the SMEs in order for those companies to survive with GST and comply with any GST requirements.

Level of awareness towards GST does not only means that the business operators need to be aware about the GST, in sense of readiness towards the implementation, they also need to potential acceptance and support towards it. Moreover, it is also important to identify the employee's and operator's level of awareness, and the problems to implement the GST by SMEs after the implementation of GST (Chen & Taib, 2017).

In addition, in order to prepare the companies to be aware and accept the implementation of GST is not an easy process that could definitely leads to problems in implementing the GST if the business could not apply it in their companies (Zainol & Soon, 2017). Chen and Taib (2017) indicated that more than 70% of the respondents which are among the business's operators and employees are aware of the GST mechanism, which indicate that they have knowledge in order to face problems to implement the GST that might arise from the implementation of GST in Malaysia. Study by Saira et al. (2010) shown that lack of knowledge and information about GST has a relationship with GST awareness and further connected with the problems of GST. Next, research by Palil and Ibrahim (2011) shows there is also a relationship between level of respondents awareness with their knowledge on taxation. Therefore, the following hypothesis is created:

***H<sub>2</sub>: There is a relationship between the GST awareness and problems in GST implementation faced by SMEs lead to GST withdrawal.***

## **2. Problem Statement**

When GST was being implemented in April 2015 by the government of Malaysia after replacing the SST there are few potential challenges arise. Challenge faced by SMEs on the implementation of GST can lead to problems. With the implementation of GST, the owners of SMEs have been the ones who have been negatively affected the most (Mittal, 2017). He highlighted five challenges faced by SMEs under GST – (1) Filing GST is complicated, (2) blockage of working capital, (3) All the necessary GST compliances have to be done online, (4) Goods Transport Agencies (GTAs) having trouble providing services to the unregistered persons, (5) Prior to the recent GST council meeting, the small dealers and manufacturers were required to pay GST on advances received.

A report by Edward and Hamizan (2016) stated that have said that GST has not helped the SMEs and the income has been reduced by 20% toward their business due to paying GST. It seems that the SME has the most negative impact since the GST has been implemented. For an example, a case from Teluk Intan where a hardware store owner, tried to commit suicide due to the pressure from trying to implement

the GST because not familiar with the technology equipment's such as the uses of computer and GST software (Lee, 2015).

### **3. Research Questions**

The research question that are highlighted in this study are as follows:

1. What are the problems faced by small and medium-sized enterprise in Malaysia that lead to GST withdrawal?
2. Is there any significant differences between demographic factors (business size and business experience) with problems in GST implementation by SMEs that lead to GST withdrawal?
3. Is there any significant relationship between GST awareness with problems in GST implementation by SMEs that lead to GST withdrawal?

### **4. Purpose of the Study**

This study is being carried out to identify problems that the SMEs have to face after the implementation of GST and their perception towards it, which leads to the withdrawal of GST in Malaysia. In addition, for the practitioners (accountants/ authorities) and regulators are responsible to deepen their knowledge in the tax systems. Practitioners can learn about this new tax system (previous GST) and new SST 2.0 to apply it in their work's situation or their real life. It is very important for them to do a lot of research about GST vs SST 2.0 in order for them to understand how this system works in this country, take action if appropriate and to ensure their knowledge about Malaysia's tax system is current and up to date. The regulators also should be aware of the problems of GST to prevent the same case happened in the new SST 2.0 in order to protect the interest of the public and to avoid any unintended consequences by providing adequate of information to the public, sufficient of time and more training programs.

### **5. Research Methods**

#### **5.1. Population and Sample**

Population is defined as a group of knowledgeable people (Hair et al., 2007). This study focus SMEs in Selangor due to 19.8% of total 907,065 establishments in Malaysia located in Selangor (SME Corporation Malaysia [SME], 2018), the highest among all states. This study indicated to collect data from SMEs under service sector (focusing on trade wholesale and retail provider industry) with the highest (89.2%) sector compared to other. In terms of performance by economic sectors, the increase in share of SMEs to GDP in the growth period of 2011 - 2017 was largely contributed by the services sector and further supported by the construction sector (SME, 2018). This study distributed the questionnaire through the judgmental sampling that mostly the management will answer the questionnaire. Eighty-three SMEs in Selangor have volunteered to answer the questionnaire.

#### **5.2. Measurement of variables.**

The questionnaire consists of three section. Section 1 elicits data on the business size and year of establishment (business experiences). Ordinal scale is used for business size and business experiences.

Section 2 elicits responses on level of awareness on the implementation of GST in Malaysia from the direct ‘Yes/No’ question and Section 3 comprised of 13 statements refer to problems in GST implementation faced by SMEs. Respondents were requested to response to the statements based on a five-point Likert-scale (which 1=strongly disagree until and 5=strongly agree). The questionnaires adopted from Chen and Taib (2017). All data gathered from the questionnaires, examined with the Statistical Package for Social Science (SPSS) version 24.

## 6. Findings

### 6.1. Normality Test and Reliability Test

This study run the normality test in order to determine between two data set significance and to ensure whether the data distribution is normal or not (Sekaran & Boogie, 2013). From the results, all of the items in the questionnaires has shown that the significant level of the data is lower than 0.05, therefore the data is not normal distributed, thus, a non-parametric test has to be conducted for further analysis.

Cronbach’s alpha reliability coefficient indicates how well the items in a set are positively associated to one another. Internal consistency is considered reliable when Cronbach’s alpha is closer to 1 (Sekaran & Boogie, 2013). The result of Cronbach’s Alpha for GST awareness problems in GST implementation shows 0.704 and 0.935 respectively; suggest that the instrument used is valid and of a good degree of reliability. Thus, the questions can be used for future analysis. Table 1 shows the summary of reliability test analysis.

**Table 01.** Reliability Test Analysis

	Cronbach’s Alpha
GST Awareness	0.704
Problems in GST implementation faced by SMEs that lead to GST withdrawal	0.935

### 6.2. Descriptive Result Test

With regard to person answering the questionnaires, 43.4% are the owner and account/tax executive and 13.3% are the managers. In terms of business size, 49.4% are from micro size, followed by medium (30.1%) and small size (20.5%) while for the year of establishment; majority of the SMEs (73.5%) established in the 2009-2018. Table 2 shows the summary of demographic variable:

**Table 02.** Summary of demographic variable

		Frequency	Percent %
Position	Owner	36	43.4
	Manager	11	13.3
	Account/Tax Executive	36	43.4
Business Size	Medium	25	30.1
	Small	17	20.5
	Micro	41	49.4
Year of Establishment (Business Experiences)	Less than 1998	2	2.4
	1999-2008	20	24.1
	2009-2018	61	73.5

The univariate findings of GST awareness reveals that the majority of the respondents are aware of the GST implementation with the score 71.1% and most of respondents (96.4%) are aware with the statement “*GST will be charged at 6% when implemented on 1st April*”.

With regard to problems in GST implementation faced by SMEs that lead lead to GST withdrawal, 68.4% (mean 3.42) respondents agreed with the problems that they faced upon the implementation of GST lead to GST withdrawal. The finding reveals that 75% (mean 3.75) respondents almost agreed with the statement “*GST will increase compliance cost in running your business*”.

### **6.3. Differences between demographic factors and problems in GST implementation faced by SMEs that lead to GST withdrawal (H<sub>1</sub> & H<sub>2</sub>)**

Kruskal-Wallis Test was used to test whether there is any significant difference (Sekaran & Boogie, 2013). Table 03 presents the finding of the test. At 0.05 significance levels, there is a significant difference with regards of business size to the problems in GST implementation faced by SMEs ( $p=0.048$ ). This result is supported with previous study (Slemrod & Venkatesh, 2002; Weichenrieder, 2007) which found that SMEs incur a relatively higher cost of GST compared to a large business. The result also supported by Narayanan (2018) and Chen and Taib (2017) that indicated business size shows significant differences with problems faced by business operators on the implementation of GST. Therefore, H<sub>1</sub> is supported.

However, there is no significant difference with regards of business experience to the problems in GST implementation faced by SMEs ( $p=0.398$ ). From the result, it shows that the hypothesis is against from a study by Narayanan (2018), Chen and Taib (2017), and Alebel (2011). Thus, H<sub>2</sub> is not supported.

**Table 03.** Differences Test Analysis (Kruskal-Wallis Test)

<b>Demographic Factors</b>	<b>Problems in GST implementation faced by SMEs that lead to GST withdrawal</b>
Business size	0.048
Business experience	0.393

### **6.4. Relationship between GST awareness and problems in GST implementation faced by SMEs that lead to GST withdrawal (H<sub>2</sub>)**

Correlation analysis is used to measure strength association between two or more variables (Sekaran & Boogie, 2013). Table 04 shows the correlation between GST awareness and problems in GST implementation faced by SMEs. At 0.01 significance level, GST awareness shows significant relationship ( $r=.0277$ ) with problems on the implementation of GST faced by SMEs that lead to GST withdrawal. This result shows that 27.7% GST awareness has an effect toward problems in GST implementation. The result is consistent with the study of Chen and Taib, (2017) that more than 70% of the respondents which are among the business’s operators and employees are aware of the GST mechanism, which indicate that they have knowledge in order to face problems to implement the GST that might arise from the implementation of GST in Malaysia. This result also is constant with the study of Saira et al. (2010) that lack of knowledge and information on GST could lead to low level of awareness regarding the implementation of GST. In addition, the result also in line with Palil and Ibrahim (2011) which recommend that the level of respondent’s awareness connected with the tax knowledge. Therefore, H<sub>3</sub> is accepted.

**Table 04.** Spearman's Rho Test Analysis

	<b>Problems in GST implementation faced by SMEs that lead to GST withdrawal</b>
Correlation coefficient	0.277*
Sig. (2-tailed)	0.011

## 7. Conclusion

This study is conducted with three objectives; to identify the main problems in GST implementation faced by SMEs that lead to GST withdrawal, to investigate the differences between demographic factors and problems in GST implementation faced by SMEs problems and to identify the relationship between GST awareness with problems in GST implementation faced by SME.

For the first objective findings, the main problems in GST implementation faced by SMEs that lead to GST withdrawal (with the mean score above 3.50) are:

1. GST will increase compliance cost in running the business;
2. The information and explanation on GST provided by RMCD is insufficient to deal with GST implementation;
3. With implementation of GST, the compliance costs to implement GST in the business will be higher; and
4. With implementation of GST your business will face problems in setting the prices of goods and services provided to customers.

The research findings also indicated that GST awareness and business size have significant relationships and differences with problems in GST implementation faced by SMEs that lead to GST withdrawal. On the other hand, business experiences having no significant differences with problems in GST implementation.

### 7.1. Limitations of study

This research only focuses and collected data from SMEs which are located in Selangor. Thus, the results could not be generalised and do not represent SMEs in Malaysia. If the research could be expanded to the main cities or other cities, the result will be more reliable and could representing total population in Malaysia. In addition, this study only refer to the eighty-three selected SMEs since GST has been removed as a result some of the respondent no longer wanted to answer the questionnaire. Another limitation is this study only constructed on business size, business experience and GST awareness factors. Other factors such as compliance cost, ethnicity and business initiates could contribute to the problems arise due to GST or any new tax system implementation.

### 7.2. Recommendations

For future research, the target respondents could be extended to those in other state in Malaysia. A comparative research among SMEs in other states would be helpful in examine whether there is any significant differences between the SMEs. Further study could also include any other possible factors such as business initiatives and the ethnicity of business that may be appropriate with the problems faced by

SMEs related to the goods and services taxation issue in Malaysia. Furthermore, for future study may also make a comparison between the problems arise from the implementation of GST and SST which is imposed on 1 September 2018 with rate of 5% to 10% compared to GST with 6%.

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