Goods and Services Tax Compliance Initiatives: Examining Corporate Taxpayers’ and Regulator’s Responsibilities in Malaysia

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The responsibilities of Royal Malaysian Customs Department (RMC), together with corporate taxpayers, are crucially important to achieve an elevated level of compliance for Goods and Services Tax (GST). Both parties play significant roles to ensure that the implementation of GST would run smoothly. Compliance awareness, knowledge, attitude, audit and other factors contribute towards efforts for corporate taxpayers to be consistently compliant for every submission and payment. Unfortunately, compliance is not easily achieved, as the public would have thought. Various training, reading, timing and costing are required before business owners can successfully implement GST into their accounting system and be adapted with the process. This paper presents an empirical analysis of GST activities from regulator (RMC) and corporate taxpayers of small medium enterprises (SMEs) in managing compliance activities. SMEs were selected as samples because they represent more than 90% of GST registrants in Malaysia. Findings from semi-structured interview with business owners, as well as focus group discussion with RMC, indicated that both parties strive to ensure that the level of GST compliance is

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consistently high. Continuous effort from taxpayers and monitoring activities from RMC is hence argued to form effective tools to improve compliance in the future. Studies on GST cultures among corporate business were subsequently suggested for further researches in the future.

[Keywords : Goods and Services Tax, penalty enforcement, knowledge, compliance]

1. Introduction

Recently, Malaysian economy had dropped tremendously, as a direct effect from the price reduction of crude oil worldwide. Malaysia’s income from oil was estimated to have dropped to RM40 billion in the second quarter of 2016 due to the declining performance of oil and gas industry.\(^1\) Previously in August 2014, crude oil was priced at USD100 per barrel and falls to below USD50 as on August 2017. Figure 1 indicates the reduction of crude oil price for 2016 which became upsetting news to many related parties such as investors, bankers and business players.

![Fig. 1 : Crude Oil Price weekly 2017](image)

Making things worse, Ringgit Malaysia (RM) was experiencing weak conversion with major foreign currencies. As most imported materials and trading activities are traded with major currencies such as US Dollar, Pound Sterling and Euro, the weak conversion of currency gives direct impact to Malaysia’s foreign investment. Foreign exchange of US$ 1, which is equivalent to RM4.26\(^3\), had increased operational cost to companies whose depend on imported goods for their business. Figure 2 shows the movement of US$ against RM for the period of 2009 until 2017. RM was valued to be above RM4 for 1US$ on August 2015\(^4\), causing additional cost being incurred to many local businesses, especially small medium enterprises (who are always lack of financial resources) to import their materials from foreign countries.

![Fig. 2 : US$ versus RM exchange Rate 2015- 2017](image)
Therefore, an introduction of GST on 1st April 2015 was timely, as it replaces the loss of government income due to oil price reduction and weak currency exchange. Discussion on GST proposal was started on 1983, as Malaysia sent a research team to study the potential of GST in South Korea. Output from this research was hoped to find solutions in implementing a more sustainable and broad-based consumption tax system. Implementation of GST was delayed a few times until the Malaysian Prime Minister, Datuk Seri Najib Razak, declared GST of 6% to be implemented in Malaysia, commencing from 1st April 2015 on 25th October 2013 during the announcement of 2014’s National Budget.

However, the implementation of GST is not fully supported by the public in the beginning, as the tax increases their current spending burden, in addition to the spike of prices for many goods. The same goes to businesses, as GST would increase their cost in doing business, although this assumption was rebutted by the government. The new tax reform had affected business operation in many operational systems such as accounting, marketing and project department (Banerjee, 2017). Business owners would now need to place GST into consideration while preparing transactions involving financial figures. Small Medium Enterprises (SMEs) are not an exception, as scarcity in financial resources was always their main constraints while doing business (Arham, 2014). SMEs in Malaysia are defined as companies with an income of less than RM50 million, or companies with less than 200 full-time employees (for manufacturing). For other sectors such as services and retailing, the companies’ sales turnover should not exceed from RM20 million or their full-time employees should be less than 75 (Definition by SME Corporation Malaysia, 2014).

SMEs contribute to the largest number of GST registrant as compared to public companies. 385,397 or 94.36 percent from a total of 408,729 GST registrants were SMEs (Data as per April, 2016). However, bigger size of registrants does not indicate better performance on GST compliance. Many SMEs were struggling to understand, to adapt and to implement GST during earlier stages of its introduction. Responsibilities of business owners since the introduction of GST are as follows: 1. to ensure documents are recorded as per GST requirements; 2. to ensure that the dateline for GST submission is met; 3. to proceed with payment handover to RMC before its due date and 4. to have related documents kept for seven (7) years (Sanusi, Md Noor, Omar, Mohd Sanusi, & Alias, 2016).

On the other hand, RMC were responsible to create awareness among the public and taxpayers from before the implementation of GST up to its current stages of expansion. They need to actively organize programs to cultivate and socialize GST among the public. All parties, especially business owners and RMC play important roles to ensure that compliance level are consistently at the top for both GST submission and payment. Co-operation between RMC and business owners are important to achieve this mission. According to the RMC’s Annual Report in 2016, the total of GST cases had increased tremendously as compared to
2015, as per Table-1. There were only 647 cases in 2015; however the number of cases increases to 980 percent in 2016 to become 6991 cases. Due to that, this article explores the responsibility of RMC and business owners, especially SMEs, in managing GST compliance. To date, knowledge about responsibilities of RMC in Malaysia is limited to only a few sources (Mansor, Mohamed, Ling, & Kasim, 2016; Perabavathi & Zainol, 2017). The article will hence discuss on awareness programs organised by RMC and SMEs’ knowledge to reduce the non-compliance behaviour among SMEs.

Table-1 : Summary of GST cases in Malaysia for year 2016

<table>
<thead>
<tr>
<th>Total Cases 2015</th>
<th>Total Cases 2016</th>
<th>Status of Investigation Paper</th>
<th>Court decision</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Investigation process</td>
<td>Prosecution action</td>
</tr>
<tr>
<td>647</td>
<td>6991</td>
<td>5165</td>
<td>1419</td>
</tr>
</tbody>
</table>

2. Literature Review

Issues of compliance had been widely discussed in the tax area of study, especially on corporate tax and individual tax (Isa, 2013; Mohd Palil, 2010). According to James & Alley (2002), tax compliance can be explained as the behaviour of act according to guidelines set by the government or other entity to the public without of enforcement. On the other hand, non-compliance may lead to tax evasion or tax fraud (Yusof, Ling, & Wah, 2014). Tax evasion is defined as an intended misrepresentation of material fact to avoid tax regulation (Bruce, 2011; Ritsatos, 2014). Due to that, tax compliance is one of the concerns among regulators and governments in managing their income collection (Mohd Isa, 2012). Having high tax collection is very important to governments so that they would have funding to implement their social development responsibilities (Sanusi, Noor, Omar, & Sanusi, 2017).

One of the efforts taken by regulators to increase tax compliance is by introducing self-assessment systems (SAS). By introducing SAS, government would rely fully on taxpayers to declare their tax computation in a truthful manner (Hassan, Nawawi, & Puteh Salin, 2016). Main feature of SAS is the responsibility of taxpayers to estimate their tax obligation for both individual and corporate tax. Implementation of GST is quite similar to SAS, as taxpayers will need to calculate their own tax obligation. SAS benefitted regulators as it reduced the regulators’ burden for tax calculation, as the number of current GST registrant in Malaysia is more than 400,000 businesses. With SAS, RMC are able to focus on other activities in delivering awareness more effectively to taxpayers.

Enforcement from regulators such as RMC, as well as the Ministry of Domestic Trade and Consumer Affairs, plays an important role in managing
compliance among businesses. There are several acts which are governed by RMC, such as GST Act 2014, GST Rules 2014 and GST Order 2014. These acts assist regulators in conducting compliance activities for GST. Penalty and imprisonment are actively imposed to wrongdoers to become examples for other taxpayers to cautiously monitor their GST compliance activities. A study by Gómez & Mironov (2015) on Russian tax enforcement on 2000 indicated that tax enforcement had reduced income evasion by most public firms in Russia. This shows that tax enforcement may be an influential instrument to curb non-compliance activities among taxpayers.

A study by Mohdali, Isa, & Yusoff (2014) on a localized context of Malaysian tax environment proved that treat of punishment is an effective tool to deter tax non-compliance. 302 individual respondents were selected to measure items required using five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Researchers of this study concluded that taxpayers tend to evade tax when they feel threatened with RMC’s audit and penalty. Hence, RMC should start to approach businesses in a manner which is more subtle to business owners. Realizing this issue, as well as to reduce enforcement tasks, RMC introduced Customs Blue Ocean Strategy (CBOS), which started from 2016 until 2018 with a main objective to visit all registered GST in Malaysia (Kumar & Thomas, 2017). The purpose of this strategy is to provide clear and better awareness among businesses on GST compliance while they self-check their businesses documentation.

Businesses on the other hand, shall co-operate with RMC in handling their GST compliance independently. By that, GST 03 return form needs to be submitted before its respective due dates; payment needs to be made to RMC on time; and related documents need to be kept for seven years. Documents related to GST filing and payment must available prior to visits by RMC. All of these activities can only be reliable if business owners have enough knowledge and training from RMC or other external parties such as CTIM (Chartered Tax Institute of Malaysia), Malaysian Institute of Accountant (MIA) and MATA (Malaysian Association of Tax Accountant). It was noted from previous studies that knowledge is one of the crucial factors in managing compliance activities (Isa & Pope, 2011).

Knowledge on taxation can be defined as businesses capability to recognize rules and regulation on taxation and their ability to comply with the required laws (Singh, 2003). Knowledge would be gained from familiarity and expertise which are received during the commencement of activities (Cordell, 1997). Basic knowledge on tax education would be acquired by accounting students during their university days and industrial training. Basic accounting on the other hand, would have been learnt by students during their time in secondary school. This type of education are positively related to compliance without enforcement by businesses on tax compliance (Muehlbacher, Kirchler, & Schwarzzenberger, 2011; Ritsatos, 2014). The higher is the tax knowledge received, the deeper will be the understanding on taxation established. To improve understanding among
businesses, RMC invited new GST registrants to attend a workshop, which was internally organized.

3. Research Methodology

The aim of this study is to explore the responsibilities of corporate taxpayers and RMC toward successful implementation of GST system in Malaysia. Findings from this study are also hoped to provide better understanding on scenario revolving GST activities between SMEs and RMC. Therefore, a qualitative approach is considered to be more suitable for this study, rather than to test existing models or hypothesis (Patton, 2002).

Personal in-depth interviews were used to gather information from business owners of SME establishments in Malaysia. In-depth interview helps the researcher to obtain detailed and thorough information on a topic which is being investigated (Adam and Cox, 2008). Data were gathered from eight respondents from SMEs who are active participants in early 2017. All of them were engaged from researcher’s personal network using snowball sampling process. Initially, there were 10 respondents who were contacted to participate with the interview. An invitation email was sent out to each of them, explaining the purpose of this study. A follow-up phone call was also made in order to increase response rate and to arrange for appointments. From this, two of them had decided to decline the researcher’s request, while the other eight respondents had agreed to participate. An interview of approximately 60 minutes was then conducted with each of these respondents (Creswell, 2007). In the early phase of conversation, respondents were asked to describe the process of GST implementation and their responsibilities in their respective organization. After that, specific questions were asked to answer the research questions in this study, such as “How do you solve GST issues raised in a company?”.

Afterwards, focus group interview was conducted for RMC officers during a seminar held by Accounting Research Institute, in collaboration with the Royal Malaysian Police (RMP) on April 2017. Appointment was set up earlier to ensure the availability of respondents. Five respondents from three related departments, namely GST Department, Compliance Management Department and Enforcement Department were willing to assist the research by providing any non-confidential information for this study. The discussion took place for about 120 minutes to obtain adequate responses to the questions prepared by the researcher.

General approach for data analysis with guidance was followed with accordance to Miles and Huberman (1994). All interviews were recorded by using a Sony voice recorder. Bucher et al. (1956) argued that recorded interview would provide an objective basis for assessing the adequacy of data. This method would also provide rich source of verbatim materials. Recorded data is important to increase validity in qualitative research paradigm (McMillan and Schumacher, 2006). Responses from participants were categorized according to research
questions and findings are then summarized in the Finding and Discussion section of this paper. Each respondent was indicated using identification alphabet of RESP A until RESP M in order to protect their identities.

4. Findings and Discussion

It was found from this study that high compliance on GST may increase the revenue for the government. One of the respondents acknowledges the compliance process as below:

Compliance by registered company to submit the GST record at a specific period and transfer the GST collection to the Government (RESP C)

From the perspective of RMC officers, compliance is best described as below:

The taxpayers register with the GST system, make an exact declaration, succumb GST return to RMC, correct and on time payment, no manipulation and keep their documentations for seven years (RESP M).

Response from the above SME owner was shown to have some resemblance with the explanation obtained from RMC officer. This indicates that respondents understand the definition of compliance which is required by RMC. However, some respondent such as RESP G mentioned that taxpayers are still in confusion when it comes to the calculation of GST rate as was introduced by RMC. Different rates which are provided for different items makes it difficult for them to decide the best rate that they should selected for their transaction. Selection of incorrect rate will caused them to be imposed with a penalty by RMC.

Many non-compliance issues were traced by RMC during their visits to business premises. According to an RMC officer, SMEs seems to have been treating GST in a similar way as corporate tax, where they would only submit and pay tax once a year (RESP K). This statement was supported by RESP D who provides accounting services to his clients. According to RESP D, after the introduction of GST, many of his clients had focused on GST first and account preparations later. This practice is discouraged as both processes should be done concurrently. Companies with many subsidiaries or related companies might have constraints to achieve high compliance as one or a few staff would only be appointed to settle the burden of multiple transactions which are made for all the companies. Limited number of staff makes them work harder and longer to fulfil GST requirements.

On the other hand, companies which have prior experience with Sales and Service Tax (SST) did not have any problems to understand how GST operates, as GST serves as a replacement to the SST system. Their familiarity with SST makes it easier for them to understand the rules and regulation of GST. Based on interview with business owners, all these respondents demonstrate an effort to ensure that they would best comply with all GST requirements.

However, for some cases, especially businesses which are involved with retail as well as food and beverages industry, they did not keep their documents
intentionally. This is how they manipulate GST system as RMC cannot trace their transactions when they claim for input tax credit (RESP I). It slowly becomes a common practice among retailers as their main motivation to register their businesses under GST becomes solely to claim refund or input tax credit (ITC) (Mohdali et al., 2014). Refund motivation incurred should hence need to be thoroughly inspected by RMC. RMC’s annual report in 2016 indicated that RMC had a total refund amounting RM20,197,954,377.96 in 2016. The state of Perlis was indicated to have input tax credit higher than output tax credit. As at April 2017, the total of non-compliance cases which are due to failure in GST submission had reached to 70,000 cases (RESP K).

To reduce the occurrence of cases as was previously mentioned, awareness and responsibilities from businesses are very important. It was noted by RESP A that he submitted and paid for his business’ GST when it is due as he understands GST well. RESP A had a degree in accounting, hence technical terms of GST is not a problem for him to understand. He was just having problems with the accounting software which is being used as his headquarters’ software, as the software do not synchronize with GST system. Hence, he needs to purchase another software and key in his data again. Other than that, awareness activities are still being conducted by selected organizations and respondent are still sending their staff away for proper training. Most of these courses will have invited speakers from RMC to obtain first-hand information regarding GST implementation. Another alternative which could be used to obtain related information is by having a contact person in RMC or any tax association for further clarification by business owners. One remark was noted from a respondent as below:

We will try to find any answer to the GST problem by calling RMC for confirmation. I do have a few contacts in RMC to seek for information. We do have a WhatsApp group among the MATA members to settle any doubts occurs related to GST (RESP D).

Customs Blue Ocean Strategy (CBOS) is organized by RMC as one part of awareness and education program to help business owners become more informed about GST. The principle of CBOS is to make GST compliance as easy as possible. By that principle, RMC would visit all business premises during the commencement of this program and issue Bill of Demand (BOD) to any non-compliance cases discovered during the period. For CBOS program in 2016, RMC had successfully collected RM1.6 billion worth of additional tax from various businesses. These businesses are hence required to amend their submission within thirty days from the date of BOD issuance. Nevertheless, enforcement of GST compliance by Enforcement Division of RMC is continuously on going, despite RMC officers being busy with CBOS informed compliance. As RMC have collaboration with other agencies such as Inland Revenue Board of Malaysia, Central Bank of Malaysia, Royal Malaysia Police and Companies Commission of
Malaysia, gathering of information which are related to businesses activities was simplified.

Another mechanism of enforcement implemented by RMC is by preventing directors of problematic companies from going overseas if they fail to pay their businesses’ outstanding GST within fourteen days from the due date mentioned to them. This type of enforcement have been working efficiently, as most SMEs would make settlements of their outstanding payment out of their worry for being blacklisted (RESP K). Another program, called the National Revenue Recovery Team (NRTT), was developed to deal with major cases which involves huge amount of tax evasion involving money laundering. These cases would be charged under Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATPUAA, 2001).

Table-2 shows a list of investigation papers filed for the year of 2016. 7768 investigation papers were opened throughout 2016, with 683 cases being brought to court for prosecutions. RMC hence needs to work hard to manage these issues, as it will most definitely bring effect towards the government’s revenue collection.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>State</th>
<th>Total Cases</th>
<th>Registered to court</th>
<th>Court decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Johor</td>
<td>1419</td>
<td>54</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>Melaka</td>
<td>94</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>Kelantan</td>
<td>144</td>
<td>59</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Pulau Pinang</td>
<td>286</td>
<td>38</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Kuala Lumpur</td>
<td>1343</td>
<td>132</td>
<td>42</td>
</tr>
<tr>
<td>6</td>
<td>Pahang</td>
<td>230</td>
<td>73</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Sarawak</td>
<td>799</td>
<td>9</td>
<td>34</td>
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<tr>
<td>8</td>
<td>Selangor</td>
<td>1764</td>
<td>79</td>
<td>164</td>
</tr>
<tr>
<td>9</td>
<td>Perlis</td>
<td>73</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>USFGST</td>
<td>55</td>
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<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Sabah</td>
<td>361</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>12</td>
<td>KLIA</td>
<td>161</td>
<td>44</td>
<td>11</td>
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<td>13</td>
<td>Kedah</td>
<td>136</td>
<td>14</td>
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<td>14</td>
<td>Perak</td>
<td>521</td>
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<td>8</td>
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<tr>
<td>15</td>
<td>Negeri Sembilan</td>
<td>261</td>
<td>61</td>
<td>3</td>
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<tr>
<td>16</td>
<td>Labuan</td>
<td>83</td>
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<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Terengganu</td>
<td>38</td>
<td>0</td>
<td>9</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>7768</strong></td>
<td><strong>683</strong></td>
<td><strong>316</strong></td>
</tr>
</tbody>
</table>
5. Conclusion

Knowledge about compliance activities and its impact on organizational performance was still lacking, especially within Malaysian businesses. An attempt to explore a well-researched topic of GST compliance among Malaysian businesses from a qualitative point of view hence provide significant values to RMC and SMEs in the country. It is strongly suggested that high compliance does matter within the scope of Malaysian SMEs. SMEs responsibilities, together with regulators’ roles will highly contribute to the success of GST compliance in Malaysia (Mohdali et al., 2014).

As RMC promotes compliance through their awareness programs, business owners aspire to ensure that they adequately follow with RMC’s rules and regulation. Both parties’ grow mutual understanding and share responsibilities together in maintaining high compliance level of GST (Kumar & Thomas, 2017). Therefore, an understanding of responsibilities between RMC and business owners is crucial to ensure further development of GST in the country. Finally, it is hoped that findings produced from this study would incite debates for future research directions, especially ones which cultivates GST advocacy among the public and SME business owners.

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Footnotes

4. Source from Bank Negara Malaysia website.

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