

# Youth Awareness towards Indirect Tax Reformation in Malaysia

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## Abstract

The reintroduction of Sales and Services Tax (SST) on 1 September 2018 to replace Goods and Services Tax (GST) after 41 months of its implementation in Malaysia has drawn high public debate. Mixed opinion from the public where some agreed and some opposed the reformation decision. The later believed the imposition of SST at 10% for sales and 6% for services will result in a price hike. It is quite interesting to understand youth awareness on such issue considering their role as a future leader in the country. To realise this, we gather information from 223 higher education students through the questionnaire. The results of the study suggested that youth today are aware of any changes made by the government and claim that such changes will affect their life, especially on their spending pattern. In addition, they also believe that both tax regimes either SST or GST do burden the consumer as the tax is charged based on consumption. This study rules out the negative perceptions towards youth nowadays where they usually been marked as not concern about current issues happening in the country. The output of this study may shed a light to the government on the importance to get the youth opinion in reforming any new policy in the future as they might have a useful idea to be utilised.

**Keywords:** Goods and Services Tax (GST), Sales and Services Tax (SST), awareness, tax reformation

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## 1. INTRODUCTION

The Malaysian government is always working to improve the quality of life of the citizen by narrowing the income gap and making the Malaysian economy better. Among the approach that has been used is, by reformulating the tax policy either direct or indirect tax. For direct tax, the changes usually relate to reducing the tax rate. While for indirect tax, major changes have been made by the previous government; first the introduction of GST to replace SST in 2015; and second the reintroduction of a new form of SST to replace GST in 2018. During the initial phase of GST introduction, many parties have questioned the need for its implementation and opposed it as they felt that such a tax regime give a burden to them. However, to the government, GST is seen as a rescuer to the economy from the losses of crude oil price instability. Despite the GST role to overcome the unpleasant effect of crude oil price instability, the Malaysian new government still decided to abolish GST implementation and replace it by reintroducing SST, considering the public comments and complaints. As usual, this new change also sparked public debate. This is when the pro-GST feels that such a turn will give negative feedback to the economy as the government does enjoy high GST collection for the development.

A reminiscence on the pattern of government revenue for the last 30 years based on information provided in Table 1, the Malaysian government rely heavily on indirect tax revenue in the 1970s. The government's decision to transform the economy from agriculture-based to industrial-based resulted in less dependency on indirect tax revenue from years to years. The main revenue contributor after the 1980s was diverted to direct tax. However, with a few series of economic crisis such as Asian Financial Crisis in 1997, instability of crude oil price, and

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global financial crisis have triggered the government to find an approach to tackle such issues. Thus, GST comes in place where it is proven that such taxes do help Malaysia to face the lower revenue due to the decline in crude oil price. Looking at the above statistic in Table 2, the implementation of GST implementation is proven in assisting the Malaysian government to overcome revenue losses due to the significant drop from revenue generated from a petroleum source. Based on the above statistic, the government decision to abolished GST only less than three years of its implementation is quite shocking. This is when Malaysia is among the last cohort of countries to implement GST / Value-Added Tax (VAT) and the rate imposed is also among the lowest at 6% while other countries such as Thailand, Indonesia and Vietnam imposed a higher percentage tax rate of 7% to 10%.

Table 1. Federal Government Revenue (in Ringgit Malaysia), 1970 to 2019

Year	Direct Tax	Indirect Tax	Sales Tax	Service Tax	GST	Total Tax Revenue	Total Revenue
1970	685	1,155	-	-		1,840	2,400
1975	1,990	2,267	272	8		4,257	5,117
1980	5,495	6,565	696	26		12,060	13,926
1985	9,259	7,441	1,234	107		16,700	21,115
1990	10,402	10,842	2,442	121		21,244	29,521
1995	22,699	18,972	4,869	1,016		41,671	50,954
2000	29,156	18,017	5,968	1,701		47,173	61,864
2005	53,544	27,051	7,709	2,582		80,595	106,305
2010	79,009	30,507	8,171	3,926		109,515	159,653
2015	111,770	53,670	5,223	3,038	27,012	165,440	219,089
2019*	135,068	41,084	13,860	8,140		176,152	261,814

\*Based on the budget estimation

Source: Malaysia (2019)

Table 2. The trend of Petroleum, Sales tax, Service tax and GST, 2012 to 2019

Year	Petroleum	Sales Tax	Service Tax	GST
2012	33,934	9,496	5,583	
2013	29,753	10,068	5,944	
2014	26,956	10,939	6,278	
2015	11,559	5,223	3,038	27,012
2016	8,422	103	103	41,206
2017	11,761	47	15	44,290
2018	16,845	2,880	1,120	19,100
2019*	18,084	13,860	8,140	

\*Based on the budget estimation

Source: Malaysia (2019)

The frequent change of tax policy not only will affect the government revenue, but also the consumer specifically when the changes deal with a consumption tax. The main issue of any consumption tax either VAT or GST implementation is on the consumer as it will be imposed on every consumption, unlike direct tax where only income earner is taxed. Like it or not every consumer pays such tax to the government for the benefit of the community and country. Although GST has been said by tax experts as a transparent taxation system, the imposition of GST in Malaysia is seen give more burden to the public as the 60% of goods and services were subject to this tax. However, with the replacement to reintroduce SST, only 38% of goods and services is subjected to the new tax regime. In addition, unlike GST, which was imposed in every layer of consumption, SST is charged against consumers at one stage only ensuring the efficient price control mechanism. One thing for sure, the public need to adhere to all changes that took place. They need to know their right and make sure that no parties will take advantage specifically during the transition period.

Another point to ponder upon is on the rising cost of living. Although the government has highlighted the benefit of SST towards price control, it is interesting to see the public opinion towards it. In fact, the cost of living issues become the main agenda of the discussion by many parties. The rising prices of goods and services issues need to be seen comprehensively in order to ensure the public is well protected from any unethical act of the businesses. What is important is that people need to be given a clear, complete and thorough understanding of the change of the GST system to the current SST system. At the same time, issues of price increase of goods and services need to be addressed efficiently, effectively and thoroughly. The government should ensure that there are no issues and weaknesses in the implementation of new SST so that no one can take advantage of it causing a loss to the government. Business-friendly traders should also continue to have traders run their businesses well. Therefore, this study is conducted to see the implementation of the new reintroduced SST in the eyes of youth in Malaysia. The participants were asked to give their opinion on both GST and SST. The results of this study rule out the

assumption that youth nowadays does not bother about national issues. In general, they believe both tax system does give some impact on their life.

## **2. LITERATURE REVIEWS**

Tax policy reform is inevitable considering the dependency of government towards revenue from such source to ensure the sufficient amount of fund for the development purposes. The tax reformation occurred either in developed, developing or less developed country showed the efforts of their government on designing the best approach to enhance the ability to increase revenue. The decision to having tax reform also to combat any unanticipated tax avoidance which can cause huge revenue losses to the government (Hines, 2004). However, the tax reformation decision usually resulted in the opposition or support by the public, depending on what kind of reform has been decided by the government. If the changes cause an increase in the tax charged, it has definitely resulted in the opposition by the public. Kim (2005) highlights the issues related to tax reform in Korea which caused the increase in tax burden and the inability to understand the new system due to its complexity.

A large number of developing countries under the structural adjustment and stabilization policy conditionality of the IMF and the World Bank usually favour increasing the charged on value-added tax as compared to trade tax during the reformation process (Emran & Stiglitz, 2005). It goes back to the characteristic of VAT which is more transparent and can certain the achievement of targeted tax collection. Tax reform also becomes the main political agenda when the politician keen to offer the best deal to the public to gain power (Ilzetzki, 2018). Further, tax reform also being utilised as a formula for designing the economy to attract inbound foreign direct investment (FDI) (Azémar & Dharmapala, 2019). This is when the decision towards investment usually depends on the benefit that can be enjoyed specifically related to investment incentives. The government also used tax policy to tackle the economic downturn that faced by most of the country as well as other problems such as environmental pollution, employment and other (Rodríguez, et al. 2019).

For the past 10 years, abundant of study has been devoted to understanding the impact of indirect tax reform in Malaysia. During that period, people are concerned with the impact of the tax reform on the government and the public such as the benefit and awareness of GST. According to Singh (2007), the goodness of the GST implementation can also be seen in terms of the implementation of the tax system. GST system was operated by using self-assessment mechanisms and collections. This system helps those involved with this tax system to report their GST information more accurately. In brief, the implementation of GST is believed will create a more stable and efficient new tax system, which will contribute to a better and more stable economic position (Ahmad et al., 2016; Ahmad, et al., 2017). In turn, Malaysia is able to reduce the country's financial deficit, especially after the government's anticipation of a reduction in petroleum revenue over the next few years from now.

However, GST also has weaknesses and negative impact through its implementation. One of them is the tendency that the rate will rise across time. For example, Singapore is one of the countries that have implemented GST and its rate also increased from year to year; 3% in 1994; 4% in 2003; and 7% in 2007. While for New Zealand, the GST rate on the introduction level was 10% in 1986 but increased to 15% in 2013 (McKenzie, 2013). In addition, due to its implementation which applied to every single consumption, it was significantly affecting all group of people especially the unfortunate group. This claim is supported by Kamarudin (2015) when the comparison was made between the GST implementation system in Malaysia and Indonesia. The GST system in Indonesia is more user-friendly when the tax rate is only applied to traders in the goods and services sector.

The community has different perceptions and views towards the implications of GST implementation in Malaysia. Positive perceptions from the community provide a positive outlook on the implementation of GST, while negative perceptions bring the opposite view. Results of the study conducted by Abdullah et al. (2013) shows that 53% of consumers feel that GST is not appropriate in Malaysia, while nearly 70% are not ready and uncertain in paying GST. Shaari et al. (2015) and Atan et al. (2017) also highlight on the non-readiness of the public during the implementation of GST in 2015 resulting to the non-compliance of GST during that period. In fact, the output from studies by Abu Bakar et al. (2016) and Ahmad et al. (2017) emphasize on the public concern towards the implementation. The main concern is regarding the increase in the cost of living specifically during the transition period from the old system to the new system.

To date, with the new move by the Malaysian government, studies are now diverted to analyse the impact of the changes from GST to the new reintroduced SST. According to Abas (2018), the move to return to the SST system is a backward step, especially when more than 160 countries around the world have shifted to the GST/VAT system. This is because, as a result of an agreement between experts and international economic organizations to formulate a cascading effect, the more transparent and comprehensive regulatory system is required to avoid such

irregularities. Adding to that, under the SST system, product prices are often modified as per businesses will, as they do not have to state the actual amount of tax. In general, from the above discussion, any single tax policy reform might give either positive or negative feedback. The most important is, the authority and the public need to understand the new system in order to ensure its successfulness.

### 3. METHODOLOGY

The main objective of this paper is to explore the youth understanding of indirect tax reform in Malaysia. For this reason, few questions have been developed with the aim to observe their awareness with the current changes on indirect tax. The questionnaire was divided into two parts (referred to Part A and B). Part A elicited data on the personal details of the participants. Part B contained the question to understand the level of understanding of indirect tax reform in Malaysia. Fieldwork was conducted after six months of GST abolishment and the reintroduction of SST. A total number of 250 questionnaires were distributed to higher institutions students. Selection of respondents was made randomly, where descriptive analysis through frequency and cross-tabulation are used to explain the characteristics of respondents as well as the level of understanding and awareness of changes in the state tax system. A total of 223 students responded contributing to 89.2% response rate.

### 4. RESEARCH FINDING

The study was conducted at a public university in the East Coast Region involving undergraduate students. As per Table 3, participants of this study consisted of 14.8% male students and 85.2% female students showing that the female dominates the overall number of students in the university. In term of age, the majority of the respondent age range is between 20-29 years old (93.7%). The result shows the highest frequency is 33.7% on the monthly spending is below than RM300 or approximately RM10 per day. Based on the characteristic of the respondent, it is quite interesting to see the outcome of their opinions towards the indirect tax system in Malaysia as it is closely related to consumer and being charged based on consumption level.

Table 3. Frequency distributions of respondents

Information	Frequency	% respondent
<b>Gender</b>		
Male	33	14.8
Female	190	85.2
<b>Age</b>		
Below 20	14	6.3
Between 20 - 29	209	93.7
<b>Monthly expenses</b>		
Below RM300	84	37.7
RM301 - RM400	72	32.3
RM401 - RM500	49	22.0
RM501 - RM600	8	3.6
RM601 above	10	4.5

Referring to their understanding of indirect tax, in general, the findings rule out the mind-set where youth nowadays do not bother on national issues especially regarding economic matters. The highest mean, 4.39 relates to the question which is “Do you realize that the government has changed the tax system from GST to SST in 2018” showing that the participants keep themselves update and aware about the system change. Consistent answers were reported when they disagreed on the idea that they do not bother about the development of the tax system. The participants also update themselves with the latest information and do understand clearly the principle of GST and SST. We also run the analysis based on gender and it is quite interesting to find the consistency among male and female. Also, men express their greater concerns about changing tax policies than do women, and this gender is not accounted for by the difference in values and key beliefs. These findings are quite interesting as we are usually told that men are less concerned than women in most issues.

Table 4. Understanding towards indirect tax reform in Malaysia

Description / Statement	Overall	Mean Male	Female
Do you understand what is GST	3.71	3.94	3.67
Do you understand what is SST	3.50	3.79	3.45
Do you realize that the government has changed the tax system from GST to SST in 2018	4.39	4.58	4.36
You do not bother about the development of the tax system	2.21	1.85	2.27
You are consistently updating knowledge about the tax system through reading	3.09	3.48	3.02

Table 5 shows the descriptive statistics for the opinion towards GST and SST. All questions and statements in this perspective are considered average rating. It indicates that the participants are not confident with both the re-introduced SST and GST. This is when the short-term period of GST implementation for only 41 months did not allow the public to see the effectiveness of GST on the public. Most of the information was obtained from the public debate without having real fact from a reliable document. In fact, the replacement to re-introduce SST seems does not really able to overcome participants' burden as both are the charge on spending. What can we generalise from the output of this study is, although people are aware of the changes, they are still unsure about the system as they cannot really see the effect of GST in the short-term period. Adding to this, prior to GST implementation, the public did not bother on SST as all the cost associated with it was embedded in the final price. Thus, they do not realize the additional cost that they have to bear.

Table 5. Opinion towards GST and SST

Description / Statement	Overall	Mean Male	Female
Do you agree that SST is more beneficial to the Malaysian economy than GST	2.81	2.7	2.83
The exchange of systems from GST to SST is important and needs to be implemented	3.04	2.91	3.06
SST eases consumer burden as compared to GST	2.70	2.76	2.69
SST is a better system as compared to GST	2.76	2.61	2.78
The abolishment of GST is a wise decision	2.99	2.91	3.01
The government will re-implement GST in the future	2.93	3.12	2.9
Do you agree with the prescribed SST rate?	2.74	2.85	2.73
Changes from GST to SST are more burdensome to the public	3.06	3.03	3.06
Price of goods dropped since SST was reintroduced	2.33	2.42	2.31

Focusing on the impact of tax reform on spending habits, the highest mean is for the statement that stated, "The price of essential items is strictly controlled by the government to avoid a sharp rise in prices due to tax changes" (3.70). It shows that the participants agree that the government has put their full effort to control the potential of profiteering by business in the event of changes. The second statement that scores good mean is "I made a list of items when buying food and drinks as a saving measure" and "I had to control my daily expenses especially for basic needs" with the mean score of 3.51 and 3.37, respectively. These two statements indicate that in the midst of instability of the price of goods and services due to the tax reform that took place, proper planning on spending is crucial. This is also in-line with the fact that many of the participants have less than RM300 pocket money. The statement stated "My monthly spending is getting lower since the GST is abolished" record average score showing that the participants feel that the change does not give much impact to them.

Table 6. The impact of tax reform on spending habits

Description / Statement	Overall	Mean Male	Female
My monthly spending is getting lower since the GST is abolished	2.48	2.52	2.47
Tax changes have no effect on my spending habits	2.65	2.7	2.64
I made a list of items when buying food and drinks as a saving measure	3.51	3.42	3.52
I had to control my daily expenses especially for basic needs	3.37	3.24	3.39
The price of essential items is strictly controlled by the government to avoid a sharp rise in prices due to tax changes	3.70	3.88	3.67
I had to work part time to cover the rising cost of living due to tax changes	3.13	3.09	3.14

## 5. CONCLUSION

Tax reform in Malaysia has become the most debatable issue since the government announce the replacement of SST with GST in 2015 and revert to SST in September 2018. It is believed that the drastic change in the tax system has affected the spending behaviour of the public. This is when the changes are closely related to the consumption pattern. In line with this, this paper was conducted to observe the youth awareness towards indirect tax reform in Malaysia considering the huge population of youth in Malaysia. The result of this study has ruled out the negative perceptions of youth as the group who always ignore and least concern with any new national issue. In general, it can be concluded that respondents in the study do understand the GST implementation system that has been implemented for the last three years. Most respondents are less familiar with the GST concept than SST. This is as expected as the new GST system is only being implemented for 3 years as compared to SST. Based on their limited understanding, they are more likely to choose SST over GST as they believed that GST only caused an extra burden to them. In addition, low levels of acceptance greatly affect respondents' negative views on GST implementation although to the government, GST implementation system is better than the SST implementation system, the implementation of the GST is able to increase the country's revenue (Ahmad et al., 2017). However,

the public's acceptance and negative views on the implementation of GST substitute the positive impact of its implementation which can be obtained through the enactment of the tax system. To boot, this research will allow the policymakers in making a step closer to understand the voice of people, heading towards developing a prudent tax system that able to foster strong growth in the future. In addition, in-depth explanation is necessary in introducing a new system which may affect the quality of life of the public to certain low rejection. Ultimately, as no one enjoys paying tax, formulation of new tax policy in the country should involve the opinion from all level of people to get a meaningful opinion.

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