Understanding of Goods and Services Tax (GST) and Spending Behavior among Malaysian Consumers

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ABSTRACT

Generally, tax is recognized as one of the main sources of government’s income. Taxes can be classified into direct and indirect taxes. Corporate Tax, Personal Income Tax, Real Property Gains Tax, Estate Duty and Stamp Duty are examples of direct taxes whereas indirect taxes consist of import duties, export duties, excise duties, sales tax and service tax. Goods and services tax (GST) is an example of indirect tax. Revenues from GST form a significant portion of government income in many countries. Despite the increasing popularity and success of GST implementation around the world, Malaysian citizens are not entirely convinced with the new tax regime which caused by their lower level of understanding of the benefits behind the implementation of GST. Therefore, this study was conducted to investigate the level of understanding of GST and also examine the relationship between the understanding of GST and spending behavior among consumers in Batu Pahat, Johor. Questionnaire-based survey was conducted to obtain the data. Descriptive and correlation analyses were used to test the hypotheses constructed. The result shows that the level of understanding towards GST among consumers in Batu Pahat is at moderate level. Besides, significant findings showed that changes in spending behavior among consumers in this study after the implementation of GST. It was also found that there was no significant relationship between the level of understanding of GST and spending behavior among consumers involved in this study. The results of this study were believed to be able to serve as feedback for government, practitioner and other related parties in understanding the behavioral changes among consumers caused by the implementation of GST.

Keywords: Goods and Services Tax (GST), Spending Behavior

INTRODUCTION

Goods and Services Tax (GST, hereafter) is a broad based consumption tax on goods and services. It is a form of indirect tax in which consumers pay taxes as they purchase goods and services. Therefore, GST is a tax imposed based on spending amount unlike income tax where it is taxed based on the amount of income earned (Rashid, Mohammed & Saheh, 2005). In fact, GST is not a new tax, it is actually a tax replacing the sales and service tax. In contrast to the existing sales and services tax, GST is a multi-stage tax. This is due to the payment of tax is made in every stage by the intermediaries in the production and distribution process. In other words, GST is imposed at every level of production and distribution chain until the final consumer (Mansor & Ilias, 2013). Therefore, GST is a much fairer tax system that will detect tax evasion (Choong, 2006). According to International Monetary Fund (IMF), the introduction of GST will increase the efficiency of tax system and in the end raises the collection of tax. It was believed that the introduction of GST will provide the government with the
opportunity to reduce corporate and personal income tax rates (Palil & Ibrahim, 2012). High income taxes reduced an individual’s willingness to work, save and invest. High corporate taxes discouraged entrepreneurship and drove businesses elsewhere. Unlike corporate and personal income taxes, GST does not tax investments and savings. Therefore, it will encourage savings and investments, reward enterprise and strengthen economic resilience (Low & Loi, 1994). Consumer spending is the largest category of total spending, representing about 2/3 of the total spending. The economic condition of a country is often determined by the behaviors of consumers. Therefore, it is important to understand consumers’ spending behavior especially when there are changes to country policy like implementation of GST. The government has stressed that the implementation of GST will lower the tax burden of consumers because basic needs like rice, sugar, flour, cooking oil, vegetables, fish, meat, egg and essential services like public transport, education, health, etc. will not be subject to GST as these items will be included in zero rated supply or exempted supply (Beh & Ng, 2013).

RESEARCH BACKGROUND

The idea of introducing GST in Malaysia has first appeared since 1989 (Lau, Tam & Heng, 2013). GST was first announced in the 2005 Budget for implementation in 2007. However, in February 2006, the Malaysian Government alleged that GST would be deferred as more time was required to obtain feedback from general public. Subsequently, GST was tabled for first reading in 2009 for proposed implementation in 2011. The bill was supposed to be presented in Parliament for second reading in 2010 but was withdrawn for reassessment. Finally, it become a reality with the Parliament’s announcement on 25 October 2013 that GST would be implemented commencing on 1 April 2015 at 6% rate. The issue of GST has been a hotly debated topic since its implementation and caught massive attention from various parties including academicians, businesses, and general public. They are very concern about this issue as their interests are at stake. The increasing attention on GST has called upon researchers to explore it in order to provide an insight into this issue. Therefore, this study is focusing on investigating the level of understanding of GST among consumers in Malaysia and also to determine the relationship between their level of understanding of GST and their spending behavior.

PROBLEM STATEMENT

The implementation of GST was believed to be able to increase revenue collection by the government and reduce fiscal debt. Despite the benefits from the implementation of GST, there are rising concerns from many parties on increasing prices of goods and services that will burden the people in the country. The findings from the study conducted by Abdullah, Idrus & Mehat (2013) showed that more than half of the respondents do not understand clearly about GST since the announcement was made on its implementation. This can be seen from the questions asked in the survey such as the rate of GST, the items exempted from GST and so on. In addition, the findings from the study conducted by Shamsuddin, Ruslan, Halim, Zahari & Fazi (2014) showed that there is low level of awareness towards GST implementation in Malaysia. Most Malaysians still confused with the implementation of GST as they do not understand the justification behind the implementation of this new tax scheme. Besides that, the findings from Saira, Zariyawati & Yoke-May (2010) indicated that many Malaysians do not have a high level of confidence on government regarding GST. Consumers are worrying of the significant price increases when the GST has fully implemented especially will be a burden for middle and low income earners (Palil & Ibrahim, 2012). This is true with the regressive nature of GST with respect to income which means that households with lower incomes may pay proportionately more tax than those with higher incomes. The recent demonstration against the GST also proved that there are still objection among Malaysian consumers over the implementation of GST.

RESEARCH AIMS, SIGNIFICANCE AND SCOPE

This study provides an overview of consumers’ level of understanding towards GST and its relationship with their spending behavior. The objectives of this study are as twofold; (1) to examine the level of understanding towards GST among consumers in Malaysia, and (2) to investigate the relationship between consumers’ level of understanding of GST and their spending behavior. The results of this study can provide an insight for government and other related parties to take appropriate measures in order to enhance the level of understanding towards GST among consumers and eventually
increase the understanding of its impact on consumers’ spending behavior. Apart from raising government income through the collection of GST, consumers’ spending behavior is also an important mechanism that have a big impact on the economy of a country as a whole and should be taken into consideration as well. The scope of the study will be consumers in Batu Pahat, Johor, Malaysia.

LITERATURE REVIEW

Level of Understanding of GST and Spending Behavior

The literature on GST in Malaysia is considerably sparse as it is still a new issue in Malaysia since its implementation from 1 April 2015. However, there is a lot of research about Value Added Tax (VAT), the other name of GST in other countries such as Pakistan, United Kingdom, New Zealand and Singapore.

There are many preliminary studies on GST in Malaysia prior to its actual implementation. Overall, the level of understanding among Malaysian toward GST was found to be generally low from the previous studies. For instance, Shamsuddin, Ruslan, Halim, Zahari and Fazi (2014) investigated the level of awareness and acceptance towards GST in Malaysia and the findings of this study show that there is low level of awareness and moderate level of acceptance towards GST implementation in Malaysia. Besides that, there are some other studies which explored the issue of GST. Mansor and Ilias (2013) explored the GST as a new tax reform in Malaysia. This study provides an insight into the reasons for implementation of GST in Malaysia and general operations of GST. In addition, Kasipillai and Sinnakkannu (2008) conducted a research on the distributive effects of the introduction of GST in Malaysia. The findings from the research showed the effects in 3 perspectives: change in expenditure due to GST, burden of GST on household classes and burden of GST on the categories of expenditure.

Meanwhile, a study by Lau, Tam and Heng (2013) present the current tax system in Malaysia and analyzed the effect of GST on the economy. From the growth impact perspective, it was found that the quarters before the full implementation of GST may show accelerated growth in consumption as households bring forward future purchases to avoid paying GST (Lau, Tam & Heng, 2013). Furthermore, the arguments arising from the proposed introduction of GST has called Palil and Ibrahim (2012) to obtain a comprehensive overview on consumer readiness, perceptions and acceptance of GST. Their study further analyzed households’ potential consumptions behavior if GST is introduced. It was concluded that people’s consumption behavior would change significantly due to the implementation of GST. However, this particular study also found that 51.3% of the respondents will not change their consumptions behavior although they perceived that GST would increase the price of goods and services.

Earlier study by Choong (2006) examined the possible implication of GST on household spending behavior. It was found that majority of the respondents foreseen that GST would affect their spending habit. This study also provides useful insight on how Malaysians distribute their income which can reflect their consumption patterns.

In terms of studies of VAT in foreign countries, Gelardi (2013) used a graphical descriptive analysis to analyze value added tax and consumer spending. The analysis found that there was no or little consumers’ behavioral changes when new taxes were introduced in the UK and Canada (Gelardi, 2013). The debate around the regressive nature of GST can be found in many studies. James and Alley (2008) mentioned in their study that although low income household spend a greater proportion of their income on food than do those on higher income, most of the benefit from food exemption will be benefited the latter group. The study on VAT by Zaman, Okasha and Iqbal (n.d.) also found that value added tax was highly regressive in the case of India and Pakistan. Aside from the GST topic, the other part of this study is related to spending behavior among consumers. Sereetrakul, Wongsveeravut and Likitapiwat (2013) also look into the gender differences in saving and spending behaviors of Thai students. On the other hand, Ganesan (2012) investigated the relationship between different variables such as budgeting, distraction, economic cost assessment, time-binding and pre-commitment with the spending behaviors of Generation Y. From the past researches mentioned above, there is limited study that links the relationship between understanding of GST and consumers’ spending behavior.

The level of consumers’ understanding towards GST and its relationship with consumers’ spending behavior are a great concern for many parties including the government and hence will be explored further in this study. Since GST is a consumption tax, it would be an added cost to the consumers. It would be expected that there could be some behavioral changes by consumers (Gelardi, 2013). This statement is evidenced when many consumers were on a buying spree prior to the implementation date of GST in order to avoid GST (The Strait Times Asia, 2015). In the case of
Australia, there was evidence of spike in domestic consumption on the months leading to GST implementation as consumers rushed to purchase products. Domestic consumption declined when the GST came into effect but returned to normal soon after (Palil & Ibrahim, 2012). The rationale of stock stacking for future use to avoid price increases after the implementation of GST will depend on the understanding of the consumers toward GST as a whole. Good understanding will result in more savings. Subsequently, the relationship between level of understanding and spending behavior is worth to find out.

METHODOLOGY

Data Collection and Analysis

Data collection is the process of collecting data on different variables in the study. Questionnaire-based survey was used in this study to obtain the data for the level of understanding of GST and spending behavior among consumers in Batu Pahat, Johor, Malaysia. This study only focuses on consumers in Batu Pahat, Johor due to some constraints such as limited time and budget to carry out research throughout the whole Malaysia. The total population in Batu Pahat is determined by referring to the statistics information provided by Batu Pahat Municipal Council. The sample to be taken was determined by using convenience sampling method. Consumers’ level of understanding on GST will be based on the knowledge of the respondents about GST. Level of understanding on GST is categorized into 5 levels which are “Understand Clearly”, “Understand”, “Moderately Understand”, “Not Understand” and “Not Understand At All”. It is determined by giving a number of questions generally about GST. Meanwhile, consumers spending behavior is determined by asking the respondents whether there is an increase or decrease on their spending after the implementation of GST.

Data analysis is a critical part in a research. Results of the data analysis was used to determines whether the hypotheses being accepted or rejected. In this study, descriptive analysis and correlation analysis were used to analyze the data collected. Descriptive analysis is used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. It will describe how the level of understanding of GST is and how are the changes in spending behavior based on the data collected. Correlation analysis is a data analysis method to examine the relationship between two variables. When comparing the correlation between two variables, one variable is called dependent variable and the other is called independent variable. The goal is to see if a change in the independent variable will result in a change in the dependent variable. The value of +1 indicated that there is a positive relationship between the two variables. Meanwhile, the value of -1 indicated that there is a negative relationship between the two variables. On the other hand, if the correlation coefficient is zero, it indicated that there is no relationship between the two variables.

Response Rate and Reliability Analysis

The questionnaires were distributed to consumers in Batu Pahat. About 500 consumers were approached and 300 consumers agreed to fill up the questionnaires. Therefore, the survey response rate is 60%. Reliability analysis was carried out to indicate how free the study is from random error which is measured by Cronbach’s Alpha. This test was conducted for both pilot as well as the actual study. According to Sekaran and Bougie (2010), the reliability of the measures is higher if Cronbach’s alpha has the value near to 1. Cronbach’s alpha of 0.6 is considered poor, 0.7 is acceptable while 0.8 is considered good. The results of reliability analysis for pilot and actual study are presented in the following Table 1.

The Cronbach’s Alpha for level of understanding of GST and spending behavior is 0.874 and 0.887, respectively which indicating good internal consistency. This is also indicate that the design of the questionnaire is good and reliable which reflect a clear understanding by the respondents. Therefore, it is suitable for the questionnaires to be used in actual study where the Cronbach’s Alpha for level of understanding of GST and spending behavior is 0.932 and 0.941, respectively. Both items shows an excellent internal consistency.
DATA ANALYSIS AND RESULTS

Understanding of Good and Service Tax (GST)

The following Table 2 and Table 3 present the outcomes of descriptive analysis on general and specific understanding of GST among respondents of this study.

Table 2 below shows the analysis of the level of understanding of GST. The possible answers for the components of level of understanding included “Not Understand at all”, “Not Understand”, “Moderately Understand”, “Understand” and “Clearly Understand”. The highest mean was the impact of GST, whereas the lowest mean was the classification of GST. Overall, the aggregate mean score was 2.86 which indicated a medium level of understanding towards GST.

On the other hand, Table 3 indicate frequency and percentage of specific understanding towards GST for four different questions. It can be seen that the question that most of the respondents answered it correctly was question related to standard-rated items, with 54% of the respondents answered correctly. Meanwhile, the question that most of the respondents answered it wrongly was question related to exempted supply, with 70% of the respondents answered wrongly.

Spending Behavior

The following Table 4 presents the overall results on consumers’ spending behavior.

Table 4 above showed the analysis of spending behavior. The possible answers for components of spending behavior ranged from “Strongly Not Agree”, “Not Agree”, “Neutral”, “Agree” and “Strongly Agree”. The highest mean was increase price whereas the lowest mean was save more. Overall, the aggregate mean score was 3.71.

Relationship Between Level of Understanding of Gst and Spending Behavior

Since the sample size (df) was more than 50, therefore, the results of Kolmogorov-Smirnov will be used. All p values (Sig.) from Kolmogorov-Smirnov were less than 0.05. This indicates that the data in this study were not normally distributed. Therefore, Spearman correlation analysis will be used to test whether there are any relationship between level of understanding of GST and spending behavior.

(Table 5)

Table 5 showed the Spearman correlation analysis between level of understanding and spending behavior. The value of correlation coefficient was +0.03. This means there was a very weak positive and not significant relationship between level of understanding and spending behavior.

DISCUSSIONS AND CONCLUSIONS

The topic of Good and Services Tax (GST) or Value Added Tax (VAT) has been extensively studied by many researchers especially researchers from foreign countries. However, research about GST in Malaysia still remains sparse since it was still a fresh and new topic in our country. In addition, there was limited research about the relationship between level of understanding towards GST and spending behavior among consumers. Therefore, there was a research gap that can be filled in. There were several important findings from this study. First, respondents had mixed response towards GST topic. Some respondents refused to fill in the questionnaires when they heard that it was related to GST. Some respondents were very willing and actively participated in the survey. This contributed to survey response rate of 60%. Second, the part of real level of understanding will really test the understanding of respondents towards GST. The respondents could just answer “understand clearly” in the Likert-scale type questions but in fact they were not understood at all about the questions being asked. This will provide a more accurate measure of the level of understanding.

From the data analysis, it can be found that the level of understanding of GST for 300 respondents was moderate. This result was in consistent with the study by Saira et al. (2010) and Shamsuddin et al. (2014), which also showed that there was moderate level of understanding towards GST among the respondents involved. The questions being asked in the part of level of understanding towards GST were very general and could be easily found through online website. Furthermore, most of the respondents could not answer correctly the multiple choices questions in the part of real level of understanding towards GST. All these findings emphasized that efforts need to be taken to reinforce
the level of understanding towards GST among Malaysians. From the data analysis, it can be found that most of the respondents agreed that they will reduce their spending after the implementation of GST. This result was deviated with the study of Palil & Ibrahim (2011), which showed that 51.3% of the respondents agreed that the implementation of GST will not affect their consumptions behavior. The deviation in result can be justified by the fact that the study by Palil & Ibrahim (2011) was 4 years ago and there could be changes in consumers’ behavior due to more information received within this 4 years period. Meanwhile, results of the correlation analysis indicates that there is a very weak positive non-significant relationship between level of understanding and spending behaviour, implying that the spending behaviour was best explained by other factors than consumers’ level of understanding towards GST.

It can be concluded that the level of understanding of GST among consumers at Batu Pahat was at moderate level. Furthermore, it was found that there was no relationship between consumers’ level of understanding and their spending behavior.

REFERENCES


TABLE 1: Results of Reliability Analysis

<table>
<thead>
<tr>
<th>Items</th>
<th>N</th>
<th>n</th>
<th>$\alpha^1$</th>
<th>Internal consistency$^1$</th>
<th>$\alpha^2$</th>
<th>Internal consistency$^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of understanding of GST</td>
<td>6</td>
<td>300</td>
<td>0.874</td>
<td>Good</td>
<td>0.932</td>
<td>Excellent</td>
</tr>
<tr>
<td>Spending Behavior</td>
<td>10</td>
<td>300</td>
<td>0.887</td>
<td>Good</td>
<td>0.941</td>
<td>Excellent</td>
</tr>
</tbody>
</table>

$\alpha = $ Cronbach’s Alpha, N = Number of questions, n = Number of respondents, $^1$Pilot, $^2$Actual

TABLE 2: General Understanding of GST

<table>
<thead>
<tr>
<th>Components of Level of Understanding</th>
<th>Mean</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose and objective of GST</td>
<td>3.14</td>
<td>Medium</td>
</tr>
<tr>
<td>Whole system and mechanism of operation of GST</td>
<td>2.81</td>
<td>Medium</td>
</tr>
<tr>
<td>Rationale behind implementation of GST</td>
<td>2.74</td>
<td>Medium</td>
</tr>
<tr>
<td>Impact of GST</td>
<td>3.18</td>
<td>Medium</td>
</tr>
<tr>
<td>Classification of GST</td>
<td>2.60</td>
<td>Medium</td>
</tr>
<tr>
<td>Popularity of GST</td>
<td>2.68</td>
<td>Medium</td>
</tr>
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</table>

TABLE 3: Specific Understanding of GST

<table>
<thead>
<tr>
<th>Choices</th>
<th>Standard-rated items</th>
<th>Exempted supply</th>
<th>Zero-rated items</th>
<th>Type of GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correct answer</td>
<td>161</td>
<td>54%</td>
<td>89</td>
<td>30%</td>
</tr>
<tr>
<td>Wrong answer</td>
<td>139</td>
<td>46%</td>
<td>211</td>
<td>70%</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
<td>100%</td>
<td>300</td>
<td>100%</td>
</tr>
</tbody>
</table>

TABLE 4: Respondents’ Spending Behavior

<table>
<thead>
<tr>
<th>Components of Spending Behavior</th>
<th>Mean</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Think twice before spending</td>
<td>3.83</td>
<td>High</td>
</tr>
<tr>
<td>Weakening purchasing power</td>
<td>3.76</td>
<td>High</td>
</tr>
<tr>
<td>Discourage from eating outside</td>
<td>3.75</td>
<td>High</td>
</tr>
<tr>
<td>Avoid paying tax</td>
<td>3.75</td>
<td>High</td>
</tr>
<tr>
<td>Increase price</td>
<td>4.07</td>
<td>High</td>
</tr>
<tr>
<td>Spending pattern</td>
<td>3.66</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>Level of Understanding</td>
<td>Spending Behavior</td>
</tr>
<tr>
<td>---------------------------</td>
<td>------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Spearman's rho</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.030</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.603</td>
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<tr>
<td>N</td>
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<tr>
<td>Correlation Coefficient</td>
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<tr>
<td>Sig. (2-tailed)</td>
<td>.603</td>
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<tr>
<td>N</td>
<td>300</td>
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