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The Impacts Of Goods And Services Tax (GST) On Middle Income Earners In Malaysia

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The introduction of GST in Malaysia has called many arguments from various parties including academics, professionals and the nation (would become the taxpayers) on how GST affect goods prices-increase or decrease. The consumers are worrying of the significant price increases on basic needs when the GST has fully implemented. With the relatively high living costs particularly in main big cities like Kuala Lumpur, Penang and Johor Bahru, significant price increases due to GST is considered as another burden for middle income earners. Therefore, the main objectives of this study is; first, to obtain a comprehensive overview on consumer readiness, perceptions and acceptance of GST; and secondly to analyse the households' potential consumptions (purchases) behaviour if GST is introduced. Data was collected through a structured survey among middle income earners. The proposed monthly income threshold is between RM2,000 (USD667) to RM4,000 (USD1,333) as suggested by Bank Negara Annual Report 2008. Respondents were chosen randomly from various organizations including government and private sectors from various locations in Kuala Lumpur, Malaysia. This study is expected to suggest a proposal to the relevant authorities on the social and economy impacts on those groups so that the authorities could develop strategies in order to reduce the financial burden of middle income earners in Malaysia if GST is implemented. This study is also expected to make a contribution to the tax administration and policy developments literature by demonstrating the impact of a new tax policy in a developing country in order to facilitate low income earners to survive in competitive environment. This study further contributes by providing comprehensive overview on consumer readiness, perceptions and acceptance of GST in a developing country, particularly in Asian countries that were previously under researched.

JEL Codes: M2,M4,H2,H3 and H4

1. Introduction

Goods and Services Tax (GST) is a consumption tax imposed on the sale of goods and services. In some countries it is also called Value Added Tax (VAT). It is a new tax instrument introduced by the Malaysian government soon, estimated in 2012 would be the soonest year of implementation (Customs Department, 2010). The introduction of GST in Malaysia has called many arguments from various parties including academics, professionals and the nation (would become the taxpayers) on how GST affect goods prices-increase or decrease. The onus of GST is to replace the current Sales Tax and Service Tax in line with the government policy of conforming policies of AFTA.

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Sales tax is a form of indirect taxation imposed on consumers, collected by business entities and accountable to the Royal Customs and Excise Department and would be imposed on manufacturer upon sale and importer of taxable goods (Fatt, 2010). The rates are 10% for all taxable goods; 5% for fruits, food and building materials; and 20% for alcoholic drinks. Service tax is also an indirect tax 5% imposed on customers who consume food or services in places such as restaurants, hotels, or engaged on professional services such as audit and legal firms (Fatt, 2010).

The International Monetary Fund (IMF) has long recommended the introduction of GST as a way of raising the efficiency of the Malaysian tax system and ultimately increase the tax collection. Malaysia plans to introduce a 4% goods and services tax in 2012, in a bid to diversify national revenues (IRBM Annual Report 2008). The GST is intended to compensate with the direct tax collection – personal and corporate taxes. The Malaysian government felt the introduction of GST would provide the government with the opportunity to reduce corporate and individual income tax rates.

It is generally perceived that the introduction of GST of 4% replacing the Sales and Service tax would decrease the prices of goods (i.e. foods, fruits etc.) (because the rate is lower than Sales and Service tax) subject to the willingness of business entities to lower the price after excluding the sales and service tax element on those particular goods. However, can we imagine what happen to the prices of goods if the business entities (retailers) refused to expel the sales and service tax but at the same time surcharged the customers with the GST? Past experiences had shown that Malaysian retailers are very reluctant to decrease the prices even though the Government has announced to do so, and definitely the price of such goods would increase by 4% at least. Moreover, will the government impose a 4% GST while the cost of collecting GST itself is expected to be merely to 3% - producing only 1% net tax collection for the government (Singh, 2010). Other developed countries implemented VAT (GST) at 17.5% (United Kingdom); 19% (France, Belgium and Germany) (Tait, 1998).

The consumers are worrying of the significant price increases on basic needs when the GST has fully implemented. With the relatively high living costs particularly in big cities like Kuala Lumpur, Penang and Johor Bahru, significant price increases due to GST is considered as another burden for middle class and lower income earners. Therefore, the main objective of this study is to identify the impact of GST on middle and lower income earners particular on their purchasing behaviour (consumptions), savings and future financial planning. This study is expected to suggest a proposal to the relevant authorities on the social and economy impacts on those groups.

2. History of the GST

Goods and Services Tax (GST) was introduced in France in 1950s and has been adopted by more than 120 countries, including all member states of the European Union (EU). Goods and Services Tax (GST) is a percentage tax on value added (the difference between sales and the cost of purchased material inputs) at each stage of production. There are three basic types of value added taxes (VAT) depending on how the investment is treated in the tax base, GDP-type GST, consumption-type GST, and income-type GST. Under the GDP-type GST system, no deductions are allowed for capital investment and depreciation of capital when calculating the tax base. The tax is equivalent to a sales tax applicable to both consumer and capital goods. Under the consumption-type GST system, capital investment is subtracted from the value added in the year of purchase. The tax is equivalent to a sales tax applicable to consumer goods. Under income-type GST system, the tax base excludes the depreciation of capital. The tax is imposed on net domestic product, which is close to national income. Almost all countries that have established the Goods and Services Tax (GST) system adopt the consumption-type GST in which all purchases of capital goods from other firms are deductible from a firm's sale (Shoup, 1990). However, some countries such as Argentina, Peru and Turkey have adopted the income-type GST, and countries such as China, Finland, Morocco and Senegal have employed a GDP-type GST. GST rates vary significantly among countries. The standard GST rates range from 25% (Denmark, Hungary, Sweden, and Norway) to 5% (Singapore). Reduced rates and tax exemption are applied to certain goods and services. Revenues from GST account for a significant portion of government revenue in many countries. Of total central government revenue, general sales tax and GST accounted for 33.25% in Greece in 1998, 31% in U.K. in 1999, 28% in France in 1997, 42.58% in Argentina in 2000, 35.7% in Hungary in 2000, 30.20% in Russia, and 33.7% in Ukraine in 2000.

3. Types of GST

Currently, three types of GST are in use around the world. Each differs primarily in its method of handling the tax on investment (capital) expenditures. The most common method, the consumption type, permits businesses to deduct immediately the full value of the tax paid on capital purchases. A second approach, the national income type, allows only a gradual deduction of the GST paid on capital purchases over a number of years, much like depreciation. If no allowance is given for the tax paid on capital purchases, the tax is called the gross national product type, because its base is approximately equal to private GNP. Because of its equal tax on profits from labor and capital and the resulting promotion of capital formation, the consumption method is the type most often discussed.

Theoretically, a GST with one uniform rate is completely neutral with respect to all forms of productive inputs. However, political, economic, and social considerations have demanded modified systems with multiple rates and exemptions. Most nations currently using a GST apply a reduced or zero rate to necessities, such as food, shelter, and medical care. Also, because of the difficulty in computing their value added, some specific services such as banking and insurance are usually exempt. The most significant variation from the uniform rate, however, is the zero tax rate on exports. Because exports may be taxed upon entry into another country, typically a GST on the final selling price of export products is not collected. Of course, to assure that imports fairly compete with value-added taxed domestic products, the GST is applied to imports. Together, these two features strengthen a nation’s sale of exports relative to its purchase of imports. An improved balance of trade results.

4. Why GST Implemented?

The Government has never been as aggressive when it comes to consolidating its financial position until recently. From ongoing efforts to restructure the various subsidy schemes in the country, and the removal of them in some cases, to the proposal of introducing a new tax format, called the goods and services tax (GST one thing is clear – the Government is intent on putting up mechanisms that can trim its persistent financial deficits and rising debt burden to hunt for that elusive surplus and build up its savings to prepare for rainy days ahead.

The country cannot continue raising debts to finance its deficits; otherwise, it will go into a debt trap. The Government needs to build surpluses, so that it can have more leeway in adopting measures that can stimulate and develop the domestic economy in the future, particularly when market conditions turn unfavourable. The agonizing fact is, Malaysia has been stuck with fiscal deficits for more than a decade. The budget deficit is projected to have ballooned to a record high of more than 7% of the country's gross domestic product (GDP) last year, although the Government is determined to bring that level down to 5.6% of GDP this year, and less than 4% of GDP by 2015.

A GST is applied to the difference between a business's sales of goods and services and its purchases of goods and services (excluding wages), therefore taxing the value added by each business. (United States Government Accountability Office, 2008). Before the introduction of GST, Warren *et. al.* (1999) and Johnson *et. al*. (1999) thoroughly evaluated the revenue, efficiency and equity effects of the indirect tax changes associated with the government's tax package. They suggested that in the long run both reductions in personal income tax and increases in social security rates could sufficiently attenuate the average price rises among broad groups of households.

Unlike the existing sales tax and service, GST is imposed on the value added to goods or services by each separate processor in the production and distribution chain. The value added is the value that a producer (whether a manufacturer or distributor, etc) adds to its raw materials or purchases before selling the new or improved product or service. Upon selling the product or service, the manufacturer or distributor will include a charge for GST at the relevant rate on the value of the supply made. The manufacturer or distributor will pay the GST collected on its sales (also known as output tax), to the Royal Malaysian Customs, but after deducting the GST it suffered on its purchases (also known as the input tax). And the cycle goes on. Hence, in reality, GST is a multi-stage tax on the increase in the sales price of the goods or services as they pass through the chain. But the main concern of the Malaysian public about GST implementation is whether the new scheme could result in a spike of the final prices that they have to pay for goods and services. After all, GST is essentially a tax on consumption, and not production; hence, the tax burden ultimately falls on the consumers. According to economists, the inflationary impact depends on the manner in which GST is implemented. Depending on the structure of the scheme, the GST may result in price increases of certain products and in other cases, reductions. One of the ways to minimize the inflationary impact on the economy, they point out, is to introduce an initial low rate for GST, and then, progressively increase the rate over the years, as in the case of Singapore that has managed its inflationary pressures well. At 4%, the consensus view is that the initial rate for GST in Malaysia is appropriate.

A study by the University of Queensland, Australia, found that GST had a significant but transitory impact on inflation only in the quarter to September 2000 after the implementation of the new tax scheme at 10% in July 2000. During the quarter under review, the study claims that inflation in the country as a whole showed an average increase of 2.6%. In the case of Australia, there was evidence of a spike in domestic consumption in the months leading to GST implementation as consumers rushed to purchase products, particularly those that they believe would be substantially more expensive once the new scheme came into effect. Domestic consumption and economic activities declined once the GST came into effect, and resulted in its economy contracting during the first quarter of 2001. But consumption returned to normal soon after.

It is widely believed that for the implementation of GST to go down well with consumers, the scheme has to come with some compensatory measures such as the reduction of income taxes to put more money in the pockets of households and to boost their purchasing power. And to ensure that the low-income and poor consumers – who may not enjoy the benefits of lower income taxes as most likely they are already exempted from such payment in the first place - are not worse off with GST, zero-rating some basic essential products and providing other targeted assistance programmes are necessary measures to help them.

6. Bounds within the Tax Theories

Keynes was determined to give government intervention in the economy a much broader role. This meant that there was no longer any effective limit to the role the government might and should play in the running of the economy. He acknowledges that “the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income” [9].

Keynes could be taken, therefore, as arguing that the system was subject to endemic market failure in that there was no necessity for the free-market private enterprise naturally to produce full employment and an equitable distribution of income. He was then prepared to advocate government action on the macro level to help achieve the necessary employment figure closer to full-employment since the market, on its own, would hardly produce such a result. The income distribution would, however, be achieved through a fusion of taxation and government expenditure policies indirectly affecting the level of aggregate demand in the economy.

Within the policy instruments advocated by Keynes one sees, therefore, that in his argument there is no hint that government action, as he had proposed, would create extra costs in carrying out tax collection and that such costs would have to be borne by society independently of what was required to be paid as tax. The economy might move in the direction Keynes suggested but it has costs to be paid which should be part of the whole argument. Once the goals are established then one has to look at the benefits they yield. Should the benefits outweigh the costs incurred then there is a strong argument for Keynes's proposals. In his assertion the costs of tax collection are left within the sphere of government spending, which in itself excludes the fact that taxpayers can and will incur costs in assisting tax revenue collection. Moreover, no assessment has fully explored the fact that as the government makes continual use of tax policy this can create huge distortion as far as the allocation of costs due to taxation are concerned. This could even have serious consequences on the long-run production and/or consumption pattern of the economy. One of the hypothesis proposed for this study will be looking into the extent to which businessmen may perceive the effect of tax compliance burden on their firm's performance.

Taxation is likely to be used in a manner that appeals to all those people probing social behaviour. Another major investigation into the relevance of taxes as an instrument of fiscal policy was put forward by Pareto who concentrated mainly on their income distribution effect. Pareto, however, used his method to trace out particular relations between income earners, arguing that the utilities of different individuals cannot be added up. He presented a more thorough answer to the problem between taxes and social policy. Pareto's argument became well known in the economic literature as Pareto's efficient allocation of taxation. His analysis can be summarised by stating that a tax is an efficient allocation if it makes at least one person better off without leaving any one else worse-off .

7. Study Objectives

In light of the limited literature that has documented the issue of GST, this study is conducted to attain the following main objectives:

a) to obtain a comprehensive overview on consumer readiness, perceptions and acceptance of GST; and
b) to analyse the households' potential consumptions (purchases) behaviour if GST is introduced.

8. Literature Review

The literature on the GST is surprisingly sparse. On theoretical aspects, while there is of course a large literature on the optimal design of taxes on final consumption, few contributions concern themselves with the crediting and refund mechanisms (and their potential imperfections) that make the critical difference between a GST and, for example, a retail sales tax—and which are therefore the distinctive source of any efficiency gain or loss associated with the GST. The literature establishing conditions under which uniform commodity taxation is optimal, for instance, is just as applicable to any other form of consumption tax as it is to the GST. Empirical work on the GST is also scant. A few papers have sought to model the revenue raised by, and compliance with, the GST, often with a view to estimating a revenue-maximizing rate. Desai and Hines (2005) consider the impact of the GST on international trade, finding that– particularly for other than high income countries–both openness and export performance are negatively related to both the presence of the GST and the extent of revenue reliance upon it. There has previously been no work, however, modeling the take-up of the GST. Only two studies of which are aware have looked at the impact of the GST on the efficiency of and the revenue raised by, the full tax system. Nellor (1987), proceeding essentially by case study, provided an early assessment of the revenue impact of a few GST adoptions. Closest to the present analysis, however, is Ebrill and others (2001), who address similar questions but do so using only a single cross-section of data, and–as also do Desai and Hines (2005) and the other papers cited above–taking the presence or absence of a GST as exogenous.

These restrictions mean that these previous results are subject to potentially serious biases. The essence of the GST is that it is levied on all transactions but, being credited against tax due on traders' sales, ultimately comes to bear–if the crediting chain is unbroken, and tax properly charged on imports and remitted on exports–only on final consumption. The principal claim made by advocates of the GST (and indeed by some of its opponents, as noted above) is that, if well-designed, this structure makes it a particularly efficient tax. There are several potential sources of efficiency gain associated with adoption of a GST. In practice, the GST often replaces either a turnover tax (bearing on all transactions) or a single-stage sales tax (levied at retail or some other level). Turnover taxes, however, bear on intermediate transactions, and so induce production inefficiencies. Sales taxes often do so too (since it is hard to distinguish these from final sales), and, moreover, can be particularly vulnerable to evasion and avoidance (because revenue is lost completely if, for some reason, the tax is not properly imposed at the final point of sale), and so tend ultimately to levy high rates on narrow bases. In other cases, the GST has been adopted as part of a package of trade liberalization, intended to compensate for the revenue loss from the reduction of tariffs whilst preserving the gains in production efficiency from moving producer prices closer to world prices. At a more general level–and especially in developing countries–adoption of the GST is often seen as the central element in a program of modernizing tax administration, developing the use of methods of self-assessment whose generalization is expected ultimately to ease administration and compliance in relation to other taxes too. But it could be, on the other hand, that the GST has actually reduced efficiency, for it clearly has potential weaknesses.

When the GST chain is broken–as, for many reasons, it commonly is–production inefficiencies may be created, which could in principle offset the benefits of greater assurance of revenue collection. The GST has also proved vulnerable to high profile criminal attack: ‘carousel fraud,’ for example, which exploits arrangements for the taxation of intracommunity trade within the European Union, has amounted to around 1.5–2.5% of net revenue, or more, in the United Kingdom (Keen and Smith, 2006). And imperfections in the refund system, and/or excessive statutory exemptions, may have meant that the GST has in practice functioned largely as a tax on exports and intermediate production, and so tended to reduce exports and national output (this being one potential explanation of the Desai-Hines (2005) result, to which we shall return). Informality can also have an important bearing on the impact of the GST. Piggott and Whalley (2001) show that expanding the base of a consumption tax can reduce welfare by increasing the scale of inefficient informal production, and in similar vein Emran and Stiglitz (2005) argue that the GST may be inferior to tariffs in the presence of an informal sector (with the substantial qualification–stressed and pursued in Keen (2008)–that most of the GST collected in developing countries is in fact levied on imports, and so functions precisely as a tariff for purchasers in the informal sector). Thus the question of whether the GST has enhanced the efficiency with which governments finance themselves is (or ideally would be) ultimately an empirical one. The issue then is how any such efficiency gains (or losses) might be detected empirically.

Despite many favorable aspects of the GST, the tax does have several potentially serious drawbacks. Certainly the most salient is its regressive nature with respect to income. As a tax on consumption, households with lower incomes may pay proportionately more tax than those with higher incomes. This would be true in the GST's basic form, because the proportion of income spent on consumption declines as income rises.

However, as applied in most countries and as proposed in the U.S., adjustments can be made to reduce this undesirable distribution of the tax burden. Moreover, the extent of the GST's regressively may be lower than opponents suggest. Just as many states currently exempt specific goods from the retail sales tax, necessities such as food, housing, clothing, and medical care-approximately 45 percent of all consumption expenditures in the U.S.-could be taxed at a low or zero rate. Any remaining regressive effects could then be offset by corresponding reductions in highly regressive taxes such as Social Security and the corporate income tax. (This assumes that corporate taxes are shifted to consumers in the form of higher prices.) If policy makers still determine that some groups are absorbing inequitably large portions of the GST, other remedies such as a negative income tax or cash rebate system could be implemented. The total tax burden as calculated by both payments and benefits received measures the overall equity of any tax system. Therefore, rather than being harmed by the GST's regressive nature, it may be that if lower income sectors receive greater governmental assistance along with improved employment opportunities, they may gain greater net benefits from the implementation of the tax. A GST has the potential to allow improved federal assistance and contribute to stable economic conditions.

In addition, some proponents claim that overall equity under a GST may be improved in other ways. For example, by eliminating the allowances for credits and deductions present in the current income tax structure, horizontal equity could be improved. Unlike current approaches, which reduce the tax burden for certain debt or loan-financed purchases in comparison to goods purchased from saved income, the GST taxes the same total consumption at approximately the same amounts. Another frequent criticism focuses on the probability that the GST will generate a net increase in prices, resulting in inflation. However, the direct effect on the price of goods depends upon each product's elasticity. Suppliers of inelastic goods will indeed be able to pass the GST on to the consumer, whereas producers of relatively elastic products may have to absorb part of the price increase. Indeed, some advocates of the GST are convinced that its substitution (partial or complete) for corporate and payroll taxes has the potential to generate a compensating reduction in prices, assuming that prices are not sticky downward.

After studying the British and German experiences, most economists believe that a GST will cause the least inflation if imposed during a period of slow economic activity. In 1979, Great Britain raised its GST from 11 percent to 15 percent, resulting in a massive wage-price inflation spiral. In this case, inflationary and generally prosperous circumstances invited producers to increase prices well beyond what was necessary to cover the additional GST. However, West Germany first introduced its GST in 1968 during a recessionary period with little inflationary effect. All subsequent rate increases in Germany have also been successfully imposed during weak economic periods.

In the U.S., economists have estimated that the net effect of implementing a 10 percent GST would be a 5 percent increase in the price level Prices would rise only once and the case for higher wages probably could not be made convincingly, because of offsetting decreases in income taxes. Over the longer term, by reducing incentives for consumption over saving, the GST may actually help limit inflation. Another area of disagreement between supporters and opponents focuses on administrative aspects of implementing the tax. Advocates believe the overall administration associated with federal taxes could be reduced by the introduction of a GST. Critics, on the other hand, anticipate that GST compliance costs for businesses would be quite high (especially if numerous special exemptions and rates were included). Because a new GST would not totally eliminate existing income or payroll taxes, it does seem likely that its introduction will increase the tax administrative burdens and costs on firms.

Finally, because almost all states impose a sales tax on final goods, critics fear the GST will interfere with and negatively affect this more "local" tax. Opponents believe it will destroy one of the states' major sources of funding. But as stated by Hafer and Trebing (19801, advocates foresee that "continued use of the retail sales tax should not conflict with the federal use of the GST from an economic efficiency view." Others suggest that the West German practice of dividing revenues between the federal and state governments in an equitable and predetermined manner could overcome this problem.

9. Research Methodology

Data was collected through a structured survey among middle income earners. The proposed monthly income threshold is between RM2000 - RM4,000 (USD667 – USD1333) as suggested by Bank Negara Annual Report 2008. Respondents were chosen randomly from various organizations including government and private sectors from various locations in Malaysia. Focus will be given to residents of big city as this would represent the entire population of the state (see Bryman and Bell, 2003; Palil, 2010). Furthermore, residents who live in cities are having a unique consumption behaviour in response to the introduction of GST compared to respondents who are living outside cities. This would increase the external reliability, reduce sampling errors and enrich the data (Sekaran, 2000; Sekaran and Bougie, 2010). Since this survey represents respondents' acceptance, readiness and their behaviour in response to the introduction of GST, enumerators are needed to obtain responses. Presence of the enumerators is expected to establish two-way interactions in explaining the spirit of GST and answering any problems pertaining to the questionnaire. Although this data collection method (using enumerators) might be costly compared to other data collection methods such as postal surveys and interviews, however, as for exploratory research like this particularly exploring the impacts of a new government policy (GST), this is the most suitable method in obtaining a valid, reliable and independent data (Black, 2001).

The survey instruments was developed based on Junainah (2002) and divided into two main sections. The first section consisted of demographic variables including gender, age, monthly income and their political affiliations. The second section consisted of four sub sections which cover questions related to respondents' readiness, acceptance, perceptions and their purchasing behaviour towards GST. Junainah's study was related to the respondents' perceptions, awareness and readiness toward implementation of a new tax system in Malaysia known as the Self Assessment System (SAS). The SAS in Malaysia was first introduced in 2004 while Junainah's study was conducted two years before the implementation of SAS. Therefore, using similar instrument and approach as used by Junainah is relevant in this study as GST will be implemented in near future. For the purpose of this study, 39 respondents were analysed to answer the research questions and objective of this paper. The next section will discuss the results of this study by outlining the descriptive evidence of respondents as well as comparing means through t-test and one-way ANOVA

10. Results

The results of this study are divided into four sections which begin with respondents' background followed by respondents' readiness, acceptance and perceptions. Respondents' behaviour toward the implementation of GST and further analysis to describe the relationship between the demographics backgrounds and variables tested are also discussed in the later part of this section.

10.1 Respondents Backgrounds

The respondents comprised of 26 females, 13 males, 27 respondents were aged less than 30 years old, 11 respondents were between 31 – 40 years old while only one respondent aged more than 40 years old. The distribution of respondents are equally likely for the fact that 20 respondents are working in government sector while another half (19 respondents) are involved in private sector. On their monthly income, the majority of the respondents (26 respondents) are earned between RM2000 – RM3000 (USD667 – USD1000) while the remaining respondents are earned less than RM2000 (USD667) per month.

10.2 Readiness, Perceptions and Acceptance of GST

The study suggested that the majority of respondents (65%) were not satisfied with the information provided by the government pertaining to the introduction of GST. In addition, 64% of the respondents also not ready to support the government when GST is implemented. However, although the majority of the respondents are inadequately informed and are not very happy with GST, nearly half of the respondents are aware that the government will impose the GST. In contrast, on average 54% of respondents are ready with the implementation of GST in Malaysia.

Further analysis revealed that although half of the respondents were ready, however, 72% of the respondents are worried that the GST will increase the goods prices in near future, 81% of respondents were also believed that living costs would also increase significantly when GST is implemented. On the other hand, 43% of the respondents were remain unclear and not sure what would happen when GST is implemented. On average, 67% of the respondents perceived that GST would increase living cost in Malaysia.

The levels of acceptance of GST among respondents were also low evidenced by 30% of the respondents were disagree with the implementation of GST. Furthermore, only 12% of the respondents could accept GST as they believed that GST would decrease their living costs.On top of that as they are aware that the implementation of GST is beyond their control, therefore this study suggested that 39% of respondents have to accept GST and have to reschedule their consumptions behaviour to conform with the impact of GST.

10.3 Potential Impacts on Consumptions Behaviour

This study suggested that 51.3% of the respondents were not affects their consumptions behaviour although they perceived that the GST would increase the goods prices. 64.1% of the respondents will still purchase the goods but with prudence considerations while 64.1% will reduce their purchases in line with their income. Only 20% of the respondents were likely to increase their consumptions behaviour if GST is implemented.

10.4 Further Analysis

The previous three sub sections (10.2 – 10.3) uncovered that the majority of the respondents were considered dissatisfied if the implementation of GST could increase the goods prices and finally increase their living costs particularly in big cities. According to Table 1, the T-test evidenced that there is no significant gender differences for all variable tested (readiness ($t = 24.479$), perceptions ($t = 38.833$), acceptance ($t = 44.328$) and behaviour ($t = 45.542$)) which mean that male and female were having indifferent opinion upon these variables.

Table 1 – Independent samples T-test between gender and readiness, perceptions and acceptance of GST

	t	df	Mean Difference	Std. Error Difference
READY	24.479	38	3.19658	.21850
PERCEPT	38.833	38	3.42735	.16249
ACCEPT	44.328	38	3.26496	.12332
BEHAVIOUR	45.542	38	3.22121	.12211

Furthermore, According to Table 2, the t-test also revealed that there is no significant political affiliation (for party elected in previous general election) differences, for all variable tested (readiness (t = .712), perceptions (t =1.395), acceptance (t = .883) and behaviour (t = 2.111) which mean that regardless of their affiliation (*Barisan Nasional, Parti Islam seMalaysia* or *Parti Keadilan Rakyat (*the *Barisan Nasional* are current ruling party in Malaysia while *Parti Islam SeMalaysia* and *Parti Keadilan Rakyat* are examples of the opposition parties), they have indifferent opinions which means that whatever their political affiliations are, they are not satisfied if goods prices were increase when GST is implemented.

Table 2 – Independent samples T-test between political affiliations and readiness, perceptions and acceptance of GST

	t	df	Mean Difference	Std. Error Difference
READY	.712	15	.29630	.41588
PERCEPT	1.395	15	.44444	.31850
ACCEPT	.883	15	.14352	.16249
BEHAVIOUR	2.111	15	.33233	.12021

The one-way analysis of variance (ANOVA) as illustrated in Table 3 also suggested that there is no significant differences among respondents' age for all variable tested, except for behaviour (readiness (F = 2.062), perceptions (F = 1.029), acceptance (F = 1.732) and behaviour (F = 2.322) which means that regardless how old the respondents are, they have similar opinions and consumptions behaviour towards the implementation of GST in Malaysia.

Table 3 – One-way analysis of variance (ANOVA) among respondents age and readiness, perceptions and acceptance of GST

		Sum of Squares	df	Mean Square	F
READY	Between Groups	4.934	4	1.233	2.062
	Within Groups	20.337	34	.598	
	Total	25.271	38		
PERCEPT	Between Groups	1.246	4	.312	1.029
	Within Groups	10.298	34	.303	
	Total	11.544	38		
ACCEPT	Between Groups	1.361	4	.340	1.732
	Within Groups	6.679	34	.196	
	Total	8.040	38		
BEHAVIOUR	Between Groups	2.614	4	.654	3.710*
	Within Groups	5.990	34	.176	
	Total	8.604	38		

** significant at $p < 0.02$*

11. Discussions and Conclusions

In considering the impacts of GST in Malaysia, there is almost a blind belief by the general public that there will be an increase of at least 4% in prices across the board for end consumers. This study suggested that many respondents were worried on their purchasing power particularly among the middle income earners. The implementation of GST in Malaysia if of course to increase the efficiency of the tax collection system as well as become a major source of indirect income to the government. In comparison with Australia, in the first year of GST in 2000 with the rate of 10% until today, net GST collections amounted to A$24 billion and this increased in the second year by almost 15% to a little over A$27 billion. By 2007, total collections had increased to A$39.5 billion, making up almost 16 of the total tax collected for that year (Singh, 2010). Judging from the results of this study it seems that respondents received less information and promotions from the relevant authorities. Many people still unsure on how the GST will be implemented. The government should promote GST more through media so that people are ready for the impacts. Secondly, due to less information, in current people’s mindset, GST will increase goods prices. Therefore, the government should convince that GST will not increase goods prices significantly and if GST increases the prices, the government should have alternatives planning to reduce the burden of lower and middle income earners such as lowering the income tax rates or increasing exemptions for individuals. Thirdly, as this study suggested that people’s consumptions behaviour would change significantly due to the implementation of GST, it is believed that respondents would be more prudence and selective in their purchasing behaviour. This would potentially distort the economic growth particularly on aggregate demand.

Generally speaking, Malaysia should implement the GST in near future as an alternative approach to increase the government revenues although at the early stage of implementation there would be many operational problems and acceptance issues from various parties such as traders and consumers. Looking at other developed countries such as United Kingdom (17.5%) and New Zealand (12.5% - 15%), the introductions of GST has improved their tax revenues and efficiency provided that Malaysia received a considerable support and cooperation from all parties not only from business entities but also from consumers like us.

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