

## THE IMPACTS OF GOODS AND SERVICES TAX (GST) ON THE SMALL MEDIUM ENTERPRISE (SMEs) IN JOHOR BAHRU

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### ABSTRACT

*The Goods and Services Tax (GST) has become one of the most prominent topics discussed since its introduction in Malaysia. GST was effectively implemented in April 2015 despite the mixed reviews received from the practitioners, general public and most important businesses. The new tax policy implemented has brought about changes in the country particularly in tax administration system and business transactions. Thus, this study examines the perceived impacts of GST implementation on the Small Medium Enterprise (SMEs) in Malaysia, particularly in Johor Bahru area. Based on literatures and previous studies, three factors have been identified that posed the most impacts to SMEs towards the GST implementation. These factors are the level of knowledge, subjective norm and demographic factors of SMEs. This study utilised survey method in gathering the data and 150 questionnaires has been distributed to SMEs in Johor Bahru. The findings indicated that level of knowledge and subjective norm have significant relationships with perceived impact of SMEs towards GST implementation. However, demographic factor is proven having insignificant relationship with the perceived impact of SMEs towards GST. Findings from this study would contribute to a more comprehensive understanding on GST and their impacts on businesses, in particular SMEs. Also, it could be used by the relevant authorities to come up with better policies on GST or taxation in general. Practitioners or business owners also could benefit from the findings in dealing with their own taxation matters.*

Keywords: Goods and Services Tax, Small Medium Enterprise, Malaysia

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### Introduction

In Malaysia, Goods and Services Tax (GST) was proposed to replace the earlier Sales and Service Tax (SST) during the Prime Minister Budget speech in year 2010. However, after much debated, GST was only implemented on April 1, 2015. The introduction of GST is part of the Government's tax reform programmes to upgrade the efficiency and effectiveness of the existing taxation system.

It was argued that the implementation of GST in Malaysia brings many benefits to consumers and businesses. From the nation perspective, GST shall improve the living standard of Malaysians as the revenues from the GST could be used for development of social infrastructure such as institutions and health facilities, educational facilities and public facilities to improve their

standard of living. In addition, it helps those who have the cost of doing business. With the implementation GST, businesses can benefit from the recovery of input tax, thus reducing the cost of doing business. Under GST ruling, the tax is imposed equitably among all those involved, whether in manufacturing, wholesaling, retailing and services. Moreover, GST is administered in a fully computerized environment, thus accelerating delivery, especially for reimbursement. This makes it faster, more efficient and reliable. It is also argued that, consumers will benefit from the GST because they will know whether the items bought are subject to tax or not and how much tax they pay for that.

As parts of business community, it is no doubt that GST implementation would also affect the Small and Medium Enterprises (SMEs) in Malaysia. SMEs play vital roles in the Malaysian economy (SME Corporation, 2014). Generally, SMEs contribute 33.1% of Gross Domestic Product (GDP), 57.5% of employment and 19% of exports. Based on statistics, SMEs comprise 97.3% of total business establishments in Malaysia or a total of 645,136 companies. SMEs involve 97.3% of the aggregate number of organizations in the nation (SME Corporation, 2014). Thus, this study aspires to investigate the impacts of GST implementation to the SMEs, particularly those SMEs operating in Johor Bahru.

### **Background of Study**

As we know on 1st April 2015, GST was implemented in Malaysia and the introduction of GST in Malaysia has called many arguments from various parties including academics, professionals and the citizens (the potential GST payers) on how GST affects the price of supplies. The government tried to convince Malaysians that the GST would not burden them and various measures have been taken by the government to control the increase in prices of basic items. It is generally perceived that with the difference of 4% between the SST rate and GST rate, the price of supplies drop accordingly. In practice, this is not so because retailers are reluctant to reduce the price (Muhammad Khalique, 2014).

Furthermore, many private businesses have already increased their prices of their supplies. Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on inputs. This reduces the cost of doing business, thus enabling fairer prices for consumers. Certain basic goods and services are not subject to GST for socio-economic objectives. However, the public is worried about the significant increase in prices of many basic necessities even before GST is implemented. With the high living costs especially in big cities like Kuala Lumpur, Penang, and Johor Bahru, significant price increase due to GST is considered another burden for the lower and middle class income earners.

As in other countries, SMEs in Malaysia are very heterogeneous group. SMEs can be categorised into manufacturing and services or others sector. They involved in activities ranging from small traders, shopkeepers, contract manufacturers simply supply parts and components to Multi National Companies (MNCs) and professional services such as software firms or medical researchers to sell their services to overseas markets. SMEs are also operate in different market environments such as urban, rural, online, physical, domestic, regional and international levels (Muhammad Khalique, 2014). SMEs, either operating in the formal or informal sectors and they have different levels of skills depending on their activities. There are certain elements that constitute the characteristics of SMEs. Basically, manufacturing should have the sales turnover not exceeding RM50 million or full-time employees not exceeding 200 workers and the services and other sectors sales turnover should not exceeding RM20 million or full-time employees not exceeding 75 workers.

In terms of locations, most of the SMEs are devoted in the Klang Valley (Selangor and Federal Territory: 35.7% share of all SMEs) and followed by Johor (10.3%), Perak (8%) and Kedah (6.8%). The high numbers of SMEs are located in the states east and north, Kelantan, Perlis, Johor, Kedah and Pahang where they constitute 88-95% of all businesses (SME Masterplan, 2012).

The important characteristics of SMEs in Malaysia is concerning the ownership, where privately owned by individual or partners, typically registered as sole proprietorship, partnership at private limited (Sdn. Bhd.) company. The second characteristic is management; the business is managed and operated by the owner(s). The entrepreneur or founder of the business leads the company, and acts as both manager and worker. Apart from that, the resources are also important where a small business often has limited resources. This is especially true for new starts-up due to a lack of track record on the business to convince potential investors and bankers. Thus, it is highly dependent on the ability of the owner to generate resources. The other characteristics of SMEs are the organizational structure: For a small business, the structure is often flat and informal. The owner has to do almost everything and the workers are normally expected to be able to function as generalists since there is no clear demarcation of tasks. Last but not least, another characteristic is the flexibility of change in where the business has more flexibility to adapt to changes in the environment due to its size and informal structure.

Government protects SMEs whose annual turnover is below RM500,000 as they are not required to charge GST on their goods and that may attract customers to them. However, the low business volumes put them at a disadvantage against supermarkets that command very low wholesale price. In the end, people will shop at supermarket because their prices, even with GST, are still lower than those in small businesses. In reality, the retailers are subject to GST when they purchase goods from the manufacturers and naturally will pass it on to the consumers. That is why even those businesses with an annual turnover below RM500,000 are required to register for the GST if they want to charge GST to their customers. The government also protects big companies and high-income earners by not increasing corporate tax and individual income tax. Those manufactures are not paying for the GST as they are allowed to claim back the input tax credit from the government. Moreover, part of the income that has been subjected to income tax by the middle-income earners will be taxed again by GST if it is spent on non-exempt goods and services, thus resulting in double taxation of the income. The worst case scenario is that countries implemented GST will raise the tax over the years and some of them are now charging as high as 27%. It is therefore imperative to understand the concern of SMEs in terms of GST implementation.

Johor Bahru was selected as the location for the study since it is one of the areas that have many SMEs; in fact, Johor Bahru is the second highest number of SMEs after Klang Valley. Furthermore, Johor Bahru is also located in a strategic location since it is the same gateway into Malaysia for tourists and businessmen, and an affordable alternative to Singapore where the cost of living is higher. For the past decade, Johor State Government has worked hard to improve Johor Bahru international reputation, (Koh Soo How, 2014). It started with the ambition to expand its port, attracting foreign real estate investments, and develop projects of beach through large-scale land reclamation. Many projects are oriented to threaten the viability of the dock-shore ecosystem services, particularly those provided by mangroves, and at times incompatible with the goals of sustainable development in the region. Some policies already in place to ensure that fisheries-dependent rural villages in the suburbs of the benefits of the new development, but tensions remain high between the goals of regional development and the needs of the people of Malaysia are subject to shrink and degradation of coastal ecosystems for their livelihoods.

Based on the above justifications, this research is conducted to study the perceived impacts of GST implementation to the SMEs in Johor Bahru and to investigate the significant relationship of it towards specific factors chosen that might have the ability to influence the perceived impact of SMEs. In this research, demographic factors, level of knowledge, and subjective norm are used as the independent variables.

This paper is organized as follows; it starts with background of the study and then follows by the literature review of the GST implementation, both in Malaysia and around the globe. Subsequently, it discusses about the contributions of SMEs to the Malaysia's economy and followed by the relevant theory applied in this research. It then discusses about the theoretical framework and the hypotheses development. Research methodology and the discussions on the findings were then discussed. It ends with conclusion, limitations, and future research.

### **Literature Review**

This section presents a brief analysis of related literature reviews. These reviews provide a clear and concise explanation in order to deliver a better understanding on the purpose of undertaking this study.

### **Goods and Services Tax**

Goods and Services Tax (GST), which is otherwise called Value-Added Tax (VAT) in numerous nations is a multi-stage consumption tax on products and services. GST is levied on the supply of goods and services at each stages of the supply chain from the supplier up to the retail stage of the distribution. Despite the fact that GST is imposed at every level of the supply chain, the tax element does not become a part of the cost of the product because GST paid on the business inputs is claimable (Padmashree, 2010). In this way, it does not make a difference what number of stages where a specific goods and services experiences through the supply chain it is because input tax brought about at the past stage is constantly deducted by the organizations at the following in the supply chain. GST is a wide based consumption tax covering all divisions of the economy. For instance, all goods and services made in Malaysia including imports with the exception of particular products and services which are sorted under zero rated supply and exempt supply arranges as controlled by the Minister of Finance and published in the Gazette.

The essential central of GST is its self-policing highlights which permit the organizations to claim their input tax credit by method of automatically deduct in the accounting system. This facilitates the administrative strategies with respect to organizations and the Government. Along these lines, the Government's delivery system will be further upgraded (<http://www.skybiz.my/>).

### **Goods and Service Tax (GST) in Malaysia**

GST is a broad based consumption tax that is exacted on the supply of goods and services at every phase of the supply chain from the raw material supplier up to the production, wholesale, retail and benefit supplier. Despite the fact that GST is forced at all the levels in the supply chain, it is not an expense to organizations. They just act as the tax collecting agents in the interest of the government. The Royal Malaysian Customs Department (RMCD) states that GST is a straightforward and reasonable tax assessment framework that has been executed in more than 160 nations including the developed nations and additionally under developed nations. 90% of the world population lives in nations with GST or VAT.

Since 1st April 2015, GST has been replaced the Malaysia's Sales Tax (10%) and Service Tax (6%) (SST). It is a part of the overall Government tax change program towards having a tax system which is more productive, successful, straightforward, business friendly and capable for creating a steady wellspring of revenue. In view of a study directed by the Ministry of Finance, SST comprises of different natural shortcomings including tax falling and compounding impact, issue of transfer pricing and the value shifting, no complete relief of the tax on the exported products, demoralizes vertical integration and red tape. Vertical integration is the blend in one firm of two or more stages of production ordinarily worked by isolated firms. Red tape is excessive bureaucracy or adherence to authority rules and customs. The introduction of GST will have the capacity to defeat these shortcomings in light of the fact that it is a more straightforward tax system that is imposed on numerous stages. Additionally, it will likewise help in controlling illegal tax avoidance.

### **Small and Medium Enterprises (SMEs)**

Definition of SMEs is different across the countries. In Malaysia, different agencies adopted different definitions of SMEs depending on their business interest. Nevertheless, the Small and Medium Industries Development Corporation (SMIDEC) provides the latest common definition for SMEs which have been effective on 1st January 2014. First, for manufacturing and services related to manufacturing, the SMEs should have annual turnover of less than RM50 million and full time employees less than 200 workers. On contrary, for the services and the other sectors, the SMEs should have annual turnover not exceeding RM20 million and full time employees not more than 75 workers. SME businesses can be legally categorised as entities registered either under the Registration of Businesses Act 1956 (Act 197) or Companies Act 1965 (Act 125).

As in different nations, SMEs in Malaysia are also an exceptionally diverse group. They are involved in many activities going from petty traders, supermarket operators, medium-sized contract manufacturer and supplying parts and segments to multinational organizations and professional services, for example, programming firms or medical analysts offering their services to abroad markets. SMEs likewise work in distinctive business sector environment, for example, urban, rural, online, physical, domestic, regional and global. These SMEs may be formal or in the informal sector and they have diverse levels of skills relying upon their activities. These components shape the qualities of SMEs in Malaysia and the basic for policy response. According to Mokhtar (2004), 84 percent of the industrial establishment in Malaysia consists of SMEs.

**Theory Relevance to Research - Theory of Reasoned Action**

Based on the literatures, there are a number of theories that can be used to support the study. However, the most relevant theory that was chosen for this research is the Theory of Reasoned Action.

Theory of Reasoned Action is used to explain human behaviour as a dominant theoretical framework Fishbein & Ajzen, (1975) as cited in Zainol, Faridahwati and Zainuddin (2014) .This theory focuses on behavioural intention as precedent to actual behaviour. Behavioral intention refers to how firm an individual is willing to try or how much effort they would exert to perform the behaviour (Ajzen, 1991). In the context of tax, it is important to identify the determinant of behavioural intention in order to understand a taxpayer’s behaviour (Hanno & Violette, 1996). Besides, it is also necessary to determine the attitude of taxpayers towards the tax system (Bidin, Zainol, Faridahwati and Zainuddin, 2014). In the context of GST compliance, (Remetse & Yong, 2009) discovered that many taxpayers of small businesses having displeasure in paying GST due to the tedious working papers that need to be prepare. This study of GST is carried out based on theory of Reasoned Action as the attitude and intention of the taxpayers plays a vital role in determining the perceived impact of GST on SMEs.

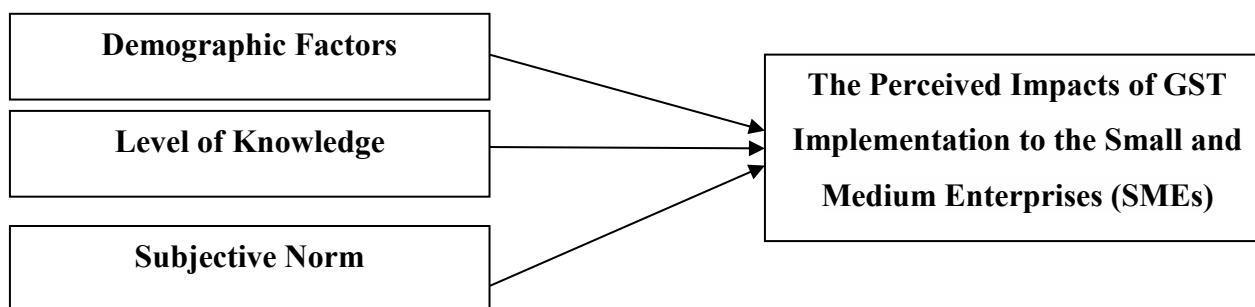
**Definition of “Perceived Impact”**

“Perceived impact” refers to perception of the ease or difficulty of the particular effect Palil and Ibrahim (2011). It is closely linked with the presence of factors that may facilitate or inhibit performance of those impacts. The perceived impact in this research describes the effect that SMEs businesses faced after GST was implemented. The perceived impact could be encountered through various forms such as impact on the cost of doing business, business performance, and business competitiveness. Study by Palil and Ibrahim (2011) analyse the potential impact of GST on consumptions behaviour. Findings by Palil and Ibrahim (2011) shows that 51.3% of the respondents were not affected although they perceived that the GST would increase the goods prices.

**Theoretical Framework**

This research conducted to determine the perceived impact of GST implementation to the SMEs in Johor Bahru. To complete this research, this study chose three independent variables which are demographic factors, level of knowledge and subjective norm. Demographic is the investigations of a population in light of components, for example, age, gender, race, educational level and year of experience. Level of knowledge on the GST is very important for the taxpayers because to have a better understanding on the execution of GST. The subjective norm is the belief about whether most of the people approve or disapprove the behaviour. Thus, this study came up with the Theoretical Framework as shown in **Figure 1** below. Details discussion on the variables (dependent and independent) is discussed in the Hypotheses Development section.

Figure 1 Factors influencing the SMEs towards the implementation of GST



## Hypotheses Development

Based on previous context, the purpose of this study is to investigate whether there is significant association between demographic factor, level of knowledge, subjective norm and the perceived impact of GST implementation to the SMEs. Theory of Reasoned Action is adapted into this research because this research is basically to identify the perceived impact of SMEs in GST implementation. This is because when a new system is implemented, it would certainly affect the economy level of both the companies and the country in one way or another. Thus, a proper planning that can keep up the track of the economic activities is needed and hence theory of reasoned action is needed. Hence, this study came up with the following hypotheses.

### Demographic Factor

Demographic is the investigations of a population in light of components, for example, age, gender, race, educational level, year of experience, type of business and year of establishment of company. These components assume essential part on the SMEs and their effect on the execution of GST. As indicated by Amanuddin, Ishfaq, Afifah, Fatin and Farhana (2014) there is no significant difference in between male and female respondents on the level of awareness towards GST execution. Past study by Palil and Ibrahim (2011) show that there is no huge significant differences in gender on the readiness and acceptance of GST on middle income earners in Malaysia. This show male and female was having different opinion upon these variables. Although, Amanuddin et al., (2014) demonstrates that distinctive fields of education have different level of awareness on GST implementation. Hence, the following hypothesis is created:

*H1. There is significant relationship between demographic factors and the perceived impact of SMEs towards the implementation of GST in Johor Bahru.*

### Level of Knowledge

Level of knowledge on the GST is very important for the taxpayers because to have a better understanding on the executed GST. According to Mohani (2003), knowledge is one of the most effective ways to increase public awareness on the GST. Tan and Chin-Fatt (2000) moreover proclaimed that tax knowledge can be conveyed through general understanding on tax regulation. They likewise showed that the government had dependably been promoting and advancing for the usage of GST, but the understanding of GST for Malaysian, even in basic level, is still neglected to be conveyed. Study by Amanuddin et al (2014) demonstrates that numerous respondents are as yet having moderate understanding about their responsibility on GST. This statement is supported through study directed by Palil and Ibrahim (2011) which recommend that the level of respondent's awareness were connected with the tax knowledge. Additionally, individuals are in current thought that GST will increase the cost of goods because of their less knowledge about the GST. Thus, respondents who are having less knowledge about the GST will have negative perception towards the implementation of GST in Johor Bahru. Hence, this study posits the second hypothesis that:

*H2. There is significant relationship between level of knowledge and the perceived impact of SMEs towards the implementation of GST in Johor Bahru*

### Subjective Norm

The subjective norm is the belief about whether most of the people approve or disapprove the behaviour. It is an individual's perception about the specific behaviour, which is impacted by the judgment of significant for others. Subjective norms likewise define how much the individual feels the social pressure to do it or besides that, subjective norms are otherwise called an individual's own perception of the social pressure to perform the behaviour's objective. Subjective norms are having two parts which is work in interaction and believe about how other individuals believe, who may be somehow significant to the individual, might want them to perform (normative beliefs).

In the context of taxation, it was found that a critical and positive outcome of subjective norms on approach to answer the questions on GST compliance (Shamsudin, 2013). In another study, as indicated by Bame-Aldred, (2011), they proclaimed that business generally coordinate operations and financial transactions to minimize taxes, which are regularly, adapted practice. The study distress whether the illegal tax evasion practices would not report sales income to taxing authorities instead of the possible legal ways to deal with avoiding tax payments.

In this research, usage of subjective norm as one of the independent variable is very essential. Saira et al. (2010) states that the respondents will agree with the implementation of GST once they clearly understand about the GST. At the end of this research, we can determine the perception and willingness of the taxpayers in paying their taxes. From that we can conclude the impacts of the tax payers (SMEs) towards the implementation of GST. Hence, the third hypothesis is:

*H3. There is significant association between subjective norm and the perceived impact of SMEs towards the implementation of GST in Johor Bahru.*

### Research Methods

In this research, data were collected by using questionnaires-based survey. According to Sekaran and Bougie (2013), the adoption of survey questionnaire would be one of a good way to collect data in dealing with large number of sample. They



further add that this type of research is more appropriate since the data that are collected through survey questionnaire method are gathered just once, such as over the period of days or weeks or month. Hence, the application of this method towards the collection of data would reduce the cost and consumption of time. In addition, respondents would get a clear picture regarding the research topic where the researchers were able to explain to them while distributing the questionnaires. Any doubts that the respondents might have on any question could be clarified on the spot. As a result, researcher would get quick responses from the respondents.

For this research, the populations were SMEs which are located in Johor Bahru. The types of businesses in Johor Bahru are manufacturing and services such as E&E, Plastics, Food Processing Commerce & Finance Arts & Culture Hospitality and Entertainment MICE Retail Trade. There is no particular industry specifically chosen; subsequently there was an assortment of commercial enterprises that picked as respondents. In general, the researchers have distributed 300 questionnaires to SMEs from various industries. Respondents, ranging from the SMEs owner, manager or administrator, accountant or account executive and others answered the questionnaire. From the 300 questionnaires that were distributed, the researchers managed to collect 200 questionnaires in return. The reason why researcher carried out the study at Johor Bahru because it is common entry point into Malaysia for tourists and businesspeople, and an affordable alternative to Singapore where the cost of living is much higher.

### **Data Collection Procedure**

The data for the study were derived from questionnaire survey. The questionnaire is adapted from the previous study on GST implementation carried out by Amanuddin et al, (2014). Appropriate modifications are made in order to achieve the research objectives. A questionnaire is designed to elicit responses from the respondents regarding their views on the impacts of SMEs towards the implementation of GST. Questionnaire is used to collect data because it is the most commonly used method for collecting information quickly and cheaply (Sekaran and Bougie, 2010).

The first part consists of respondent's background including gender, age, race, education level, current position and years of experience. The second part consists of company background including type of business, average monthly sales, GST registered, year of establishment and number of employees. The third part consisted of respondents' level of knowledge towards implementation of GST. The fourth part consisted of respondent's subjective norm towards implementation of GST. The last part attempts consisted of respondent's impact of SMEs towards implementation of GST. The question is using measurement of five scales. The respondent is asked to respond by ticking the appropriate number on the scales provided (1 = Strongly Disagree; 2 = Disagree; 3 = Neither Agree Nor Disagree; 4 = Agree; 5 = Strongly Agree).

### **Statistical Analysis**

Data analyses were carried out after collecting the data of the study. The study utilised descriptive analysis and correlation analysis in order to analyze the data. The research applied descriptive statistics which consists of methods for organizing, displaying and describing data by using tables, graphs and summary measures. It is utilized to characterize the fundamental structures of a gathering of information in measurable terms. It is intended to give basic surveys about the example and the measures. Together with humble graphs, the analysts practiced the base of the essential delineation of information. The distinct measurements contain shaping and concise the information (Kumar, Abdul Talib, & Ramayah, 2013). This study used descriptive statistic in order to describe the demographic profiles of respondents as well as other independent and dependent variables.

This research was applying the correlation analysis that aims to determine the relationship between two variables which are independent and dependent variables. They are expressed in the ordinal scale (Kumar et al., 2013). In Spearman's connection two variables will be measured on an ordinal, interim or proportion scale. Conversely, in Spearman's relationship will be utilized when the information is not disseminated ordinarily. Non parametric tests will be performed when the typicality suspicion is not fulfilled.

The relationship examination will be utilized to direct whether there is any association between two or more variables relationships proposed in this exploration. They are the Pearson's Correlation and Spearman's Correlation, and if so what is the quality of essence and the way of connection (Kumar et al., 2013). In order to determine the impact of small medium enterprises towards implementation of GST, there are two types of correlation analysis.

The Pearson's Correlation coefficient measures the point to which there is an undeviating relationship between two variables noble in either interim and/or proportion scale. On the off chance that the information is ordinarily circulated, Pearson relationship is utilized up to characterize the relationship between the dependent variable and independent variable. At the point when a particular autonomous variable expands, the dependent variable additionally increments. This implies that there is a positive connection coefficient. Then again, when there is negative connection coefficient, the independent variable will be diminishing and accordingly the dependent variable likewise diminishes.

### **Measurement of Variables**

To measure the demographic backgrounds of the respondents, this study uses nominal scale. The independent variables in this study are level of knowledge and subjective norm. The scale used to measure these independent variables is interval. The dependent variable, which is the perceived impacts of SME's upon GST implementation, is also measured through interval scale. The interval scale implies rating on a particular scale. The interval data collected can be used to calculate mean, standard

deviation, correlation coefficient, regression, analysis of variance, factor analysis, and a whole range of advanced multivariate and modelling techniques. The researchers use this scale because the questionnaires used measures on a rating scale from strongly disagree to strongly agree.

**Findings and Discussion**

In this study, descriptive analysis was used to analyse the independent variable (IV) and dependent variable (DV) of the data collected from this research. Table 1 shows the results of the descriptive analysis of IV and DV of this research.

The higher mean score of the LOK (3.42) over SN (3.40) indicates that respondents have a better knowledge on GST rather than influenced by other factors. The results indicate that the level of knowledge (LOK) is higher than subjective norm (SN). The results supported the findings by Tan and Chin-Fatt (2000) who stated that tax knowledge can be explain through general understanding on tax regulation. In the meantime, the DV, the impact of the implementation of GST (IMP) shows the mean of 3.41 which indicates that SMEs agree on the implementation of GST.

Table 1: Descriptive Analysis of Independent and Dependent Variables

	LOK	SN	IMP
N Valid	200	200	200
Missing	0	0	0
<b>Mean</b>	<b>3.4207</b>	<b>3.4025</b>	<b>3.4100</b>
Median	3.4286	3.2500	3.4000
Std. Deviation	.56151	.66442	.59097
Skewness	-.684	-.454	-.668
Std. Error of Skewness	.172	.172	.172
Kurtosis	1.533	.742	1.561
Std. Error of Kurtosis	.342	.342	.342
Minimum	1.00	1.00	1.00
Maximum	4.71	5.00	4.60

**Test of Correlation**

The correlation analyses were conducted to test the relationship between the IV which are demographic factors, LOK and SN and the DV which is impact (IMP) of SMEs’ towards the implementation of GST. The data in this research is not normally distributed. Thus, this study employed non-parametric test to run the analysis. In order to identify the relationship between the variables, the Spearman’s rho correlation coefficient was employed.

**Correlation Analysis of LOK**

Table 2 show that there is a positive significant correlation between LOK with the impact of GST implementation on SMEs. The p-value is less than 0.05, thus it indicates that there is a significant relationship between LOK and IMP. The result is consistent with the study conducted by Haruhiko Fukuda (1997) in Japan and Mohani (2003). Hence, it clearly shows that the LOK of the respondents will affect the impact of SMEs towards the implementation of GST. The degree of correlation coefficient records 0.948. It shows that the LOK have a strong positive correlation with the impact of GST implementation to the SMEs. This finding is supported by Mohani (2003). Based on this result we can infer that the SMEs are having a clear and enough knowledge about the GST which is recently implemented. According to Mohani (2003), the LOK is one of the most effective ways to increase public awareness on the GST.

Table 2: Correlation Analysis of Level of Knowledge and GST Implementation

		LOK	IMP
Spearman's rho	LOK	Correlation Coefficient	1.000
		Sig. (2-tailed)	.000
		N	200
	IMP	Correlation Coefficient	.948**
		Sig. (2-tailed)	.000
		N	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Correlation Analysis of SN**

Results displays in Table 3 indicate that there is a positive significant correlation between SN with the impact of SMEs towards the implementation of GST (IMP). The p-value is less than 0.05 which indicates that there is a significant correlation between SN and IMP. Again, the finding is consistent with that of Haruhiko Fukuda (1997). However, the correlation coefficient (0.620) is lower than that of the relationship between LOK and IMP (0.948). Study done by Ramli (2012) also indicated that SN has a good positive correlation with the impact of GST implementation to the SMEs.

Table 3: Correlation analysis of Subjective Norm and GST Implementation

			SN	IMP
Spearman's rho	SN	Correlation Coefficient	1.000	.620**
		Sig. (2-tailed)	.	.000
		N	200	200
	IMP	Correlation Coefficient	.620**	1.000
		Sig. (2-tailed)	.000	.
		N	200	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Correlation Analysis of Respondents' Demographic Factors**

Table 4 shows the results of the correlations between respondent's background and impact of GST implementation (IMP). The correlation result of respondent background consists of 6 criteria which includes gender, age, race, educational level, current position and also years of experience. Out of 6 criteria, only the educational level and current position of respondents that have significant relationships with IMP. Even though the relationships are significant but the relationships are weak with the coefficient values of 0.179 (educational level) and 0.145 (current position). The results indicate that the higher the level of education of employees and the higher the position of the employees, the better their understanding on the implementation of GST. These findings are consistent with the study of BennoTorgler (2007).

Table 4: Correlation Analysis of Respondent's Background and GST Implementation Correlations

			Gender	Age	Race	Educational Level	Current Position	Years of Experience	IMP
Spearman's rho	Gender	Correlation Coefficient	1.000	.352**	-.019	-.097	-.211**	.215**	.033
		Sig. (2-tailed)	.	.000	.789	.171	.003	.002	.642
		N	200	200	200	200	200	200	200
	Age	Correlation Coefficient	.352**	1.000	.035	.004	-.411**	.605**	.050
		Sig. (2-tailed)	.000	.	.621	.959	.000	.000	.486
		N	200	200	200	200	200	200	200
	Race	Correlation Coefficient	-.019	.035	1.000	.034	-.099	.169*	-.088
		Sig. (2-tailed)	.789	.621	.	.632	.162	.017	.214
		N	200	200	200	200	200	200	200
	Educational Level	Correlation Coefficient	-.097	.004	.034	1.000	.174*	.006	.179*
		Sig. (2-tailed)	.171	.959	.632	.	.014	.932	.011
		N	200	200	200	200	200	200	200
	Current Position	Correlation Coefficient	-.211**	-.411**	-.099	.174*	1.000	-.233**	.145*
		Sig. (2-tailed)	.003	.000	.162	.014	.	.001	.041
		N	200	200	200	200	200	200	200
	Years of Experience	Correlation Coefficient	.215**	.605**	.169*	.006	-.233**	1.000	-.049
		Sig. (2-tailed)	.002	.000	.017	.932	.001	.	.494
		N	200	200	200	200	200	200	200



IMP	Correlation Coefficient	.033	.050	-.088	.179*	.145*	-.049	1.000
	Sig. (2-tailed)	.642	.486	.214	.011	.041	.494	.
	N	200	200	200	200	200	200	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 5 indicates the results of the correlations between company's background and impact of GST implementation (IMP). Company background consist of 5 factors includes the type of business factor, average monthly sales, GST registration, years of establishment and the number of employees in the company. The results prove that only the average monthly sales of the company that have significant impact on GST implementation. With p-value of 0.036 and coefficient correlation of 0.148, the relationship is rather weak. The result however contradict with the findings by Sherena Wong (2013) who found that SME's monthly sales do not have significant relationship with GST implementation.

Table 5: Correlation Analysis of Company Background and GST Implementation  
Correlations

	Type of Business	Average Monthly Sales	GST registered	Year of Establishment	No. of Employees	IMP	
Spearman's rho	Correlation Coefficient	1.000	-.103	.036	-.115	-.178*	-.108
	Sig. (2-tailed)	.	.145	.609	.104	.012	.128
	N	200	200	200	200	200	200
Average Monthly Sales	Correlation Coefficient	-.103	1.000	.028	.284**	.136	-.148*
	Sig. (2-tailed)	.145	.	.691	.000	.055	.036
	N	200	200	200	200	200	200
GST registered	Correlation Coefficient	.036	.028	1.000	.070	.007	.119
	Sig. (2-tailed)	.609	.691	.	.321	.918	.094
	N	200	200	200	200	200	200
Year of Establishment	Correlation Coefficient	-.115	.284**	.070	1.000	.593**	.137
	Sig. (2-tailed)	.104	.000	.321	.	.000	.053
	N	200	200	200	200	200	200
No. of Employees	Correlation Coefficient	-.178*	.136	.007	.593**	1.000	.124
	Sig. (2-tailed)	.012	.055	.918	.000	.	.081
	N	200	200	200	200	200	200
IMP	Correlation Coefficient	-.108	-.148*	.119	.137	.124	1.000
	Sig. (2-tailed)	.128	.036	.094	.053	.081	.
	N	200	200	200	200	200	200

\* . Correlation is significant at the 0.05 level (2-tailed).

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Conclusion**

The findings from the descriptive analysis of the dependent variable reveal that SMEs in Johor Bahru are generally agreed with the implementation of GST. However, based on the correlation analysis conducted, two out of the three independent variables are positively correlated to the dependent variable of this study, the perceived impacts of GST implementation to the SMEs. Meanwhile, the demographic variables have shown mixed results. The level of knowledge is the most influencing factor of the perceived impacts of GST. This variable has the higher degree of correlation as compared to the subjective norms. As for the demographic factors, only the educational level and current position of respondents that have significant relationships with IMP. As for the company's background is concern, only the average monthly sales of the company that have significant impact on GST implementation. The results indicate that a better understanding on GST, the higher educational level of employees and the higher level of management support the implementation of GST in SMEs in Johor Bahru. Other demographic factors such as age, gender, and others are not relevant.

**Limitations, Recommendation and Future Research**

One of the limitations faced throughout the study is concerning the research area covered for the study. Only selected industrial area were chosen for the research due to the time constraint. The questionnaire surveys were distributed among 200 SMEs in

Johor Bahru. Hence, the data gathered from these specific areas could not express the perceived impact of the entire SMEs towards the implementation of GST. Therefore, the researchers could not produce conclusion as a whole on the perceived impact of SMEs towards the implementation of GST. Apart from that, the variables tested in this research are limited to three which are demographic factors, level of knowledge and subjective norm. Subsequently, the findings cannot be generalized to all other factors involved in determining the perceived impact of SMEs towards the implementation of GST. Other than that, the researchers faced challenges where the SMEs in Johor Bahru did not response well towards the survey conducted and also not willing to answer the questionnaire that gave to them to evaluate the impact of implementation of GST to SMEs in Johor Bahru.

The recommendation that could be proposed from this study is that the government should play an integral role in assisting the SMEs to overcome any adverse impacts arising from the GST implementation. The government might consider providing on-going training programme to SMEs even after the GST implementation until the SMEs are ready to handle GST system on their own. This is to ensure the introduced GST does not affect the business performance of the SMEs. Apart from that, government could set up a body whose function is to oversee and educate the SMEs on tax issues as there are still some SMEs struggling with the newly implemented tax system. Besides that, government should take the initiative to provide incentives for SMEs to shelter their incomes as they might encounter a dip in their income during the post GST implementation period. A guideline that varies according to the type of industry should also be drawn. The guideline should comprise of GST treatment and the procedure pertaining to the specific industries.

The current study has its limitation in terms of sample area whereby there is only specific area, which is Johor Bahru, is being selected. It would be recommended that the future research should be extended to other areas in Malaysia that has large number of SMEs. Future researcher could conduct their research with more independent variables. They may identify more factors that will influence the perceived impact of SMEs towards the implementation of GST. This would aid them to gain better understanding on aspects relating to impact of SMEs towards the GST implementation.

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