

## Compliance Costs and the Behaviour of SMEs with the Implementation of GST in Malaysia

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### ABSTRACT

The introduction of the Goods and Services Tax (GST) was a major reform of the Malaysian tax system that increased the compliance obligations of businesses. This study examines the GST compliance costs and the behaviour of Malaysian small and medium enterprises (SMEs) as a result of the GST implementation. A total of 401 usable survey responses were received from SMEs situated in the Klang Valley. Findings indicate that the costs incurred by SMEs ranged from MYR10,000 to MYR225,000 and were between 1.16% and 26.15% of their sales turnover. The average costs were approximately MYR43,803 per SME, which is five times higher when compared to the findings of a similar Malaysian study prior to GST implementation. The costs incurred in dealing with GST varied depending on SMEs' respective business characteristics, but costs were clearly higher for the construction industries. Compliance behaviour, which was measured using two tax scenarios, indicated that SMEs were predominantly compliant with income reporting and registration of the GST. The introduction of the GST in Malaysia provides an excellent opportunity for researchers to study its commencement costs and the behaviour of SMEs in view of the lack of international evidence in this area.

**Keywords:** Commencement Costs, Goods and Services Tax (GST), Small and Medium Enterprises (SMEs), Tax Compliance Behaviour, Tax Compliance Costs

**JEL Classification:** H25, H26, H27 & H3

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## INTRODUCTION

The new and highly controversial Goods and Services Tax (GST), in replacement of the Sales and Services Tax (SST), came into effect in Malaysia on April 1, 2015. The GST is also known as Value Added Tax (VAT), and it is imposed on taxable supplies of goods and services within the country. According to the Royal Malaysian Custom Department (RMCD), the tax authority responsible for monitoring indirect taxes, the introduction of GST is expected to spur economic growth by creating a more stable source of income and increasing the competitiveness of Malaysian products in the global market. However, as enforcement and operation of the GST was announced in Malaysia, it was met with massive public resistance and criticism; a majority feared that the GST would create price hikes and affect lower income groups severely. Furthermore, businesses with an annual sales turnover exceeding RM500,000 would be required to be licenced to collect GST on supplies of taxable goods and services to customers. Complaints about and objections to the compliance burden were substantial, especially from small and medium enterprises (SMEs), which were concerned that implementing the GST on their systems would directly affect their costs of operations and other expenses.

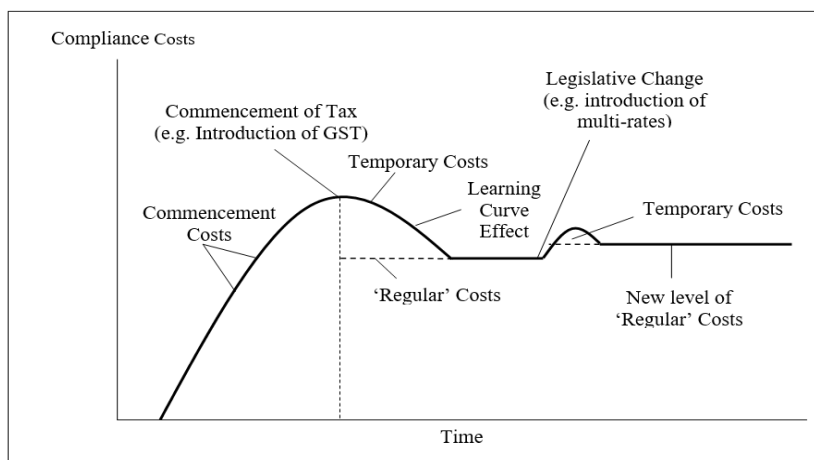
Acting as collecting agents, businesses incur compliance costs in fulfilling their obligations to collect the GST from customers on behalf of the RMCD. Thus, the implementation of the GST imposes greater compliance responsibilities on registered businesses, such as charging GST on sales of taxable supplies, accounting for the GST and remitting the GST to the RMCD within a stipulated period. Failure to register, failure to submit return and payment of the GST or any other offences will incur penalties. Reports and studies conducted by developed countries that have already implemented the GST showed that it would not be a simple tax for businesses to comply with (see Sandford *et al.*, 1981). Scholars such as Hanefah *et al.* (2001) further suggested that with major changes made in the tax system, taxpayers would incur a sizeable amount of initial irregular costs. Despite these arguments, little evidence can be drawn from previous studies or any official reports by the RMCD in considering the case of GST in Malaysia. This implies that there is a literature gap that warrants a study of developing countries, especially Malaysia, which only recently adopted the GST.

The objective of this study is therefore to assess the magnitude and nature of the compliance costs incurred by SMEs during the implementation of the GST in Malaysia. A framework established by Sandford (1995) is used in estimating and examining GST compliance costs for businesses. For the purpose of meeting the objective of this study, the components of costs adapted from Sandford's model consist of the following: (i) internal owner and staff costs; (ii) external advisers' fees; and (iii) incidental costs. This study also aims to explore the impact of the GST implementation on SMEs' compliance decisions. Theoretically, taxpayers' compliance behaviour may, to a certain degree, be caused by the tax compliance costs incurred.

In the context of this paper, the following section provides an overview of the relevant tax literature as a means of looking into the practical and theoretical background of the study. The third section looks at the research method employed. The findings of this study, which focus on estimates of the commencement compliance costs, their incidence on how the burden varies between businesses, the nature of the costs and the compliance behaviour of SMEs, are reported in the fourth section. The final section provides the concluding remarks, which include the limitations of the study and future research recommendations.

## REVIEW OF LITERATURE

Businesses incur compliance costs in meeting the requirements laid upon them while complying with a given tax structure (Sandford *et al.*, 1989). When the GST was implemented, additional tax compliance activities for registered business included invoicing, accounting processes, collection and payment for input and output tax, submission of GST returns and maintenance of proper records. In addition, businesses may have had to install new software, to engage external tax professionals and incurred other incidental costs such as training of existing staff or employing new staff to deal with GST compliance (Sandford *et al.*, 1981; Tran-Nam *et al.*, 2000). The tax compliance costs can be further categorized into commencement, temporary and recurrent elements (Figure 1). Commencement and temporary costs are transitional expenses incurred by businesses due to significant changes made to the existing tax legislation (Sandford *et al.*, 1981; Tran-Nam and Glover, 2002). Examples of commencement and temporary costs include expenses incurred for the initial training of staff to deal with a proposed new tax change (commencement costs) and to become familiar with the new regulations (temporary costs). With a learning curve effect, these costs gradually become recurrent costs as taxpayers become familiar with the new tax amendments that have been introduced (Sandford *et al.*, 1989; Tran-Nam *et al.*, 2000).



Source: Sandford *et al.* (1981), p. 15

Figure 1 Model of Changes in Total Compliance Cost Levels with a New Tax

The GST commencement costs of Western Australia's small businesses, examined by Pope and Rametse (2002), had average compliance costs of AUD7,626, consisting of internal time costs, equipment, consultancy fees, training course fees, stationery and telephone call costs. The authors recognised such expenditures as sunk costs that were not recoverable but suggested that they may also represent an investment in the latest technology, which will yield managerial benefits later. Likewise, an earlier study by Sandford *et al.* (1981) examined UK-registered VAT traders and highlighted the additional compliance burden on businesses. The authors found that the compliance costs would be reduced through 'learning-by-doing', and businesses that were more efficient tended to achieve greater gains in cost reduction and would

actually benefit from compliance. Yesegat (2009) estimated the compliance costs of Ethiopian companies to be ETB108 million in aggregate, which represented 2% of the VAT revenue and was relatively high. Palil *et al.* (2013) examined Malaysian SMEs before the introduction of the GST and found that most were still not prepared for the implementation. Only around 8% were equipped with GST guides and software and less than 10% had undergone human resource training for the GST.

In exploring the compliance behaviour of taxpayers, some theoretical literature has suggested tax compliance costs as a possible determinant (see Jenkins and Forlemu, 1993; Slemrod, 1989, 2001). The literature proposed that compliance costs may cause resentment and adversely influence taxpayers' compliance behaviour. Empirically, Chattopadhyay and Das-Gupta (2002) ascertained that only legally mandatory compliance costs adversely affected the compliance behaviour of businesses. Yesegat (2009) discovered that compliance costs adversely affected the intentional reporting compliance decisions of businesses, although the relationship was statistically weak. Acknowledging the weaknesses noted in previous studies, Abdul-Jabbar (2009) and Sapiei *et al.* (2014) adopted hypothetical tax scenarios to investigate tax compliance behaviour of Malaysian SMEs and publicly listed companies, respectively. Unfortunately, both studies were unable to establish any significant relationship. Thus, prior studies have not been able to conclusively prove that the relationship is significant.

## RESEARCH METHODOLOGY

A list of SMEs was obtained from the SME Corporation of Malaysia. The target population consisted of SMEs that were GST registered with the RMCD. Using a convenience sampling approach, a total of 500 survey questionnaires were distributed in the Klang Valley area because SMEs are generally concentrated around the city centre. Data collection in this study used enumerators because other methods, such as postal or web surveys, normally result in a very low response rate. The survey period spanned three months, October to December 2014. The target respondents were either the owners or the senior executives of the SMEs involved.

The questionnaires comprised three sections requiring the following information: (i) demographic characteristics, (ii) compliance cost components as well as the nature of the costs and (iii) compliance behaviours of SMEs. The measurement of the GST compliance costs (Table 1) was adapted from available questionnaires sourced from published research (see Sandford *et al.*, 1981) with some modifications to account for the specific characteristics of the Malaysian tax legislation. Respondents were given one catch-all question concerning the amount of internal, external, software and other incidental costs incurred, followed by another question for the details of such costs. Each category was simplified in an effort to obtain more reliable survey responses with a possibility of achieving a higher response rate, thereby improving the validity of this study.

Table 1 Measurements of Tax Compliance Costs

Components	Measurement
Internal Staff Costs	The costs for GST compliance activities undertaken by the business and the internal staff.
External Advisers Fees	Charges by external advisers solely on tax matters for GST tax activities.
Software Costs	Costs of software to comply with GST tax requirements. These costs were segregated from other costs to address the joint cost problem where a computer systems and the related software is used for GST compliance work as well as for management and accounting purposes.
Incidental Costs	Miscellaneous GST compliance related costs which may include travel, stationery, computer, staff training, telephone, court litigation costs.

In the context of this study, the term compliant taxpayers refers to those who accurately report income and pay income tax in accordance with stipulated tax laws. Tax compliance behaviour in this study was explored via hypothetical tax scenarios because taxpayers would normally avoid revealing their non-compliance decisions. A modified version of the non-compliance scenarios depicting income reporting and GST registration (see Table 2) were adapted from Chan *et al.* (2000). Behaviour was measured with a five-point Likert scale: lower scores indicate that respondents would be very likely to comply and vice versa.

Table 2 Measurements of Tax Compliance Behaviour

Non-compliance Behaviour	Scenarios
Under-reporting of income	Mr. A, a self-employed businessman is considering not including a cash sale of MYR10, 000 as his business income for revenue. Legally, the cash receipts of MYR10,000 should be included as a business income. However, he is almost certain that the tax authority will not audit him and would not know if the amount is not reported. Taking into account all known and likely business circumstance, to what extent do you agree with Mr. A's possible action of not reporting the cash sale of MYR10, 000 as his business income?
Non-registration of GST	Mr. B, self-employed businessman, had accumulated an annual sales turnover of MYR500,000. Legally, he had to register his business to be licensed for GST. However, he is almost certain that the tax authority will not know that his business has already reached the threshold specified. Taking into account all known and likely business circumstance, to what extent do you agree with Mr. B's possible action of not registering for GST?

## RESULTS AND DISCUSSION

Based on 401 usable responses, descriptive statistics of the sample and mean estimates of the tax compliance costs incurred are summarized in Table 3. The data obtained for this study were mainly from owner managers (170 responses), followed by managing directors (93 responses), and the remaining data were from other positions inclusive of accountants, chief operating officers and other staff (138 responses). Overall, the respondents exhibited reasonable variation

in terms of their demographic characteristics, namely, industry classification, length of time in business, number of staff, paid-up capital, annual sales turnover and ownership of business.

The manufacturing and services sectors each accounted for around 30% of the sample population; the remaining 40% were from the construction sector and other industries such as wholesale, retail trade and repair of motor vehicles. Respondents were asked to indicate the length of time their company had been in operation: 53% had been in operation for more than 5 years, 35% for 2 to 5 years and only 12% for less than 2 years. As for the number of staff, 32% of the SMEs had fewer than 5 staff members, 35% of the SMEs had around 5 to 19 staff and the remaining 33% had 20 or more. In looking at the paid-up capital, the majority of the SMEs (62%) had less than MYR500,000 and 38% had MYR500,000 or more. In terms of business size, the highest response came from SMEs with an annual sales turnover level of between MYR250,000 and MYR499,999 (27%), followed by those with less than MYR250,000 (22%) and those with MYR500,000 to MYR999,999 (21%). The remaining respondents (30%) were in the top level of annual sales turnover, at least MYR1 million. In looking at business ownership, 55% of the SMEs in this study were owned by Bumiputeras and 45% were owned by Non-Bumiputeras.

Table 3 Descriptive Statistics of the Sample

Items	Categories	Frequency (Percentage)	Mean Costs (MYR)
Main Business Activity	Manufacturing (including Agro-based)	51 (13%)	47,353
	Manufacturing-related services	73 (18%)	55,942
	Services (including ICT)	116 (29%)	33,898
	Construction	25 (06%)	67,212
	Other	136 (34%)	37,984
Business Length	Less than 2 years	50 (12%)	50,379
	2 to 5 years	140 (35%)	39,393
	More than 5 years	211 (53%)	27,296
Number of staff	Less than 5	129 (32%)	26,732
	5 to 19	141 (35%)	40,036
	20 to 50	69 (17%)	55,208
	More than 50	62 (16%)	73,988
Paid up Capital	Less than MYR500,000	247 (62%)	31,981
	MYR500,000 and more	154 (38%)	59,133
Sales Turnover	Less than MYR250,000	90 (22%)	28,095
	MYR250,000 to MYR499,999	108 (27%)	31,574
	MYR500,000 to MYR999,999	83 (21%)	41,058
	MYR1,000,000 to MYR1,499,999	38 (10%)	43,049
	MYR1,500,000 and more	82 (20%)	79,455
Ownership	Bumiputera	219 (55%)	42,766
	Non-Bumiputera	182 (45%)	44,810

In examining compliance costs by demographic characteristics (Table 3), it was found that the mean compliance costs of the construction sector were markedly higher compared to the other sectors. In looking at the length of time in businesses, those that had been in business longer appeared to have higher compliance costs when compared to younger companies. Similarly, in looking at size characteristics, mean compliance costs increased with a rise in the number of staff, paid-up capital and annual sales turnover. This seems to suggest that the GST compliance costs distribution increases with size because the GST is transaction based. Thus, larger SMEs would normally have a higher number of transactions, which requires more resources to comply with the GST legislative requirements in terms of collection, payment and management of GST. Finally, in looking at ownership of the businesses, the percentage of mean compliance costs is slightly higher for the Non-Bumiputera companies.

In the context of this study, the estimation of tax compliance costs for each SME is the summation of its measurable internal staff costs, external advisers' fees, software and other incidental costs. The mean estimate of the commencement GST compliance costs found in this study is MYR43,803 per SME (Table 4). The costs incurred ranged from MYR10,000 to MYR225,000 and were between 1.16% and 26.15% of sales turnover. The largest share of the average costs is related to software costs (27%) and internal costs (26.7%). This is followed by external costs (23.2%) and incidental costs (23.1%) that were incurred while complying with the GST regulations. The internal-external compliance costs ratio is 77:23, indicating that GST compliance activities were mainly handled internally. Only about 23% of the GST compliance costs were paid to external tax advisers, which suggests that there was a greater reliance on internal sources in handling GST matters such as preparing tax return forms and documentation.

Table 4 Average Income Tax Compliance Costs

Costs Components	Mean Estimates	Nature of Costs
Internal Staff	MYR11,449 (26.7%)	Manager (47%) Accounting Staff (46%) Other staff (7%)
External Advisers	MYR9,950 (23.2%)	Tax Agent (40%) Financial Consultant (57%) Others (3%)
Software	MYR11,597 (27.0%)	New (56%) Upgrade (43%) Others (1%)
Incidental	MYR9,890 (23.1%)	Staff Training (60%) Travelling (36%) Others (4%)
<b>Total Compliance Cost</b>	<b>MYR43,803 (100%)</b>	

In this study, respondents were asked to briefly describe the nature of each component of compliance costs incurred. As shown in Table 4, the mean estimate of each component and the nature of the costs are as follows:



- *Internal Staff* – On average, business owners and their staff spent MYR11,449 in preparing for the GST. These costs accounted for around 27% of the total compliance costs. The internal component of complying with the GST has three main categories: owner manager (47%), accounting staff (46%) and other staff (7%).
- *External Advisers* – The average fees paid by SMEs to external advisers for GST work was MYR9,950 per company, accounting for around 23% of the total compliance costs. With regard to sources of advice, financial consultants ranked the highest (57%), followed by tax agents (40%) and other advisers (professional accountants and information technology consultants).
- *Software* – The average software cost was MYR11,597, which accounted for 27% of the total compliance costs. A total of 56% of businesses bought new software, and 43% only upgraded their existing software.
- *Incidental* – The average incidental cost was MYR9,890 per company (23% of total compliance costs). The two broad incidental cost categories identified were (i) staff training (60%) and (ii) travel (36%).

Regressivity of compliance costs, which has been revealed in most of the existing literature (see Evans, 2003), was also evident in this study. Larger businesses incurred greater total compliance costs than their smaller counterparts. However, as a percentage of annual sales turnover, these costs were greater for smaller businesses (Table 5). The mean percentage showed that the GST commencement costs for SMEs fell remarkably in relation to their annual sales turnover. The average compliance cost noted in the lowest turnover category was five times higher when compared to those in the middle category, and almost 11 times higher when compared to that in the highest turnover category. The overall mean compliance cost, as a percentage of the average weighted turnover level, was 0.031%. Hence, the increase in the compliance costs of SMEs was not proportional to the increase in size, suggesting that smaller SMEs bore a disproportionate share of the tax compliance costs burden.

Table 5 Mean Compliance Costs as a Percentage of Sales Turnover

Turnover Level (Million)	Compliance Costs	
	Mean (MYR)	Percentage of Turnover <sup>a</sup>
Less than MYR250,000	28,095	0.225
MYR250,000 to MYR499,999	31,574	0.084
MYR500,000 to MYR999,999	41,058	0.055
MYR1,000,000 to MYR1,499,999	43,049	0.034
MYR1,500,000 and more	79,455	0.041
Overall	43,803	0.020

<sup>a</sup>Denominator used is the midpoint of the turnover level. Denominator of MYR4 million is used for the turnover level of more than MYR1.5 million. The denominator used for the overall turnover category is MYR1.375 million. This denominator is derived by weighting all the midpoints of the turnover level, rounded to the nearest million.



The estimates of prior studies of tax compliance costs for Malaysian SMEs are compared with the findings of this study in Table 6. Abdul-Jabbar (2009) evaluated the compliance costs estimations for corporate SMEs before the implementation of the GST. His study found an average of MYR9,295 per SME with an internal-external compliance costs ratio of 59:41. Palil *et al.* (2013) investigated compliance costs in relation to the potential implementation of the GST in Malaysia. They observed a cost that was three times higher than the average SME compliance cost of MYR28,406 when compared to the earlier study done by Abdul-Jabbar (2009). The internal-external compliance costs ratio had also changed to 74:26, reflecting a greater use of internal sources. The current study examines the GST commencement costs incurred by SMEs in complying with the GST obligations. This study found a higher estimated average compliance cost of MYR43,803 per company, which is 1.5 times higher when compared to Palil *et al.*'s (2013) pre-GST study and 4.6 times higher when compared to Abdul-Jabbar's (2009) non-GST study. This study also found a marginally higher internal costs ratio of 77:23.

Table 6 Average Income Tax Compliance Costs in Malaysia

Compliance Costs	Without GST (Abdul-Jabbar, 2009) <sup>a</sup>	Pre-GST (Palil <i>et al.</i> , 2013) <sup>b</sup>	With GST (Current study) <sup>c</sup>
Internal	MYR5,509 (59%)	MYR21,018 (74%)	MYR33,728 (77%)
External	MYR3,786 (41%)	MYR7,388 (26%)	MYR10,075 (23%)
Total	MYR9,295 (100%)	MYR28,406 (100%)	MYR43,803 (100%)

Source: <sup>a</sup>Abdul-Jabbar (2009) <sup>b</sup>Palil *et al.* (2013) <sup>c</sup>Current study

The views of respondents on the tax compliance behaviour of the SMEs are provided in Table 7. With regard to income reporting, a mean score of 2.21 indicates some level of agreement toward compliant behaviour. Only around 13% of the respondents showed a non-compliant attitude by not disclosing income fully. Interestingly, about 24% of the respondents were indifferent regarding truthfully reporting their income, although they were almost certain that the tax authority would not audit them and would not know if the amount was not reported. Comparatively, when looking at the GST registration, the mean score was slightly lower (2.09), with only around 11% of respondents showing a non-compliant attitude by not registering their businesses to be licensed for the GST although their annual sales turnover had reached the minimal registration amount of MYR500,000. Similarly, about 21% of the respondents were indifferent towards registering their companies for the GST as they were almost certain that the tax authority would not know that their businesses had already reached the threshold specified. Nevertheless, an overall mean of 2.15 for the under-reporting of income and non-registration of the GST is an indication of marginally tax compliant behaviour among SMEs.

Table 7 Respondents' Views towards Non-compliance Behaviour

Non-compliance Behaviour	Mean	Median	Standard Deviation	No. of Responses (%) <sup>a</sup>		
				Agree	Neutral	Disagree
Under-reporting of income	2.21	2.00	1.13	51 (12.8)	97 (24.2)	253 (63.0)
Non-registration of GST	2.09	2.00	1.08	43 (10.7)	83 (20.8)	275 (68.5)
Overall non-compliance	2.15	2.00	1.11	-	-	-

<sup>a</sup> Percentage of responses is given in parentheses.

The analysis of this study also found a strong positive correlation of +0.782, indicating that non-compliant taxpayers in under-reporting their income, would also be non-compliant under non-GST registration. Correlation analyses were further endeavoured to explore the relationship between tax compliance costs and the likely tax non-compliance behaviour. However, there was no significant relationship found between the two types of non-compliance behaviour (under-reporting of income and non-GST registration) and the compliance costs incurred.

## CONCLUSIONS

In this study, the tax compliance costs incurred by SMEs during the implementation of the GST were estimated and compliance behaviour explored. The GST compliance commencement costs incurred by SMEs were approximately MYR43,803 per SME, which is almost five times higher when compared to the sum incurred in the pre-GST era. This discovery supports the finding of previous studies that have suggested that compliance costs incurred due to the implementation of GST tend to be high in terms of commencement and temporary costs. The increase in costs was due to higher spending in preparation for GST compliance, especially in acquiring relevant software and training for staff involved, with 77% of compliance costs incurred being internal. To a lesser extent, the costs of engaging external advisers to handle company GST affairs also increased. This study identified the regressivity of tax compliance costs and supports the findings of existing studies that claim that regressivity can impose an unfair burden on smaller businesses (see Evans, 2003). Due to economies of scales, smaller SMEs would require a minimum level of expenditure, irrespective of the costs incurred, in starting up with the GST system. According to Pope and Rametse (2002), the relatively higher burden incurred by micro businesses would likely affect the equity of the tax system as a whole and thus would affect the profitability and competitiveness of these businesses.

Overall, the findings of this study contribute to the existing knowledge in this area of research and to the decision-making abilities of policymakers and practical businesses. Because the survey was conducted during the period when the GST was nearing implementation in Malaysia, this study measures the commencement compliance costs. It represents the 'once and for all' costs incurred by businesses in learning about a new tax regulation that is likely to be imposed as the changes take place (Sandford *et al.*, 1981). Hence, this study is the only one, to the best of our knowledge, to provide an estimate of the commencement compliance costs of Malaysian SMEs, and it can never be repeated because the GST will only be implemented once in a tax jurisdiction.

Practically, the findings may be used to enlighten the Malaysian tax authorities, especially the RMCD, on the commencement costs incurred by businesses with the implementation of the GST. Based on the empirical findings of this study as well as prior studies, it is hoped that policymakers can recognize the extra burden incurred by businesses in fulfilling their obligations to the Malaysian government when making tax policy decisions. Proper policies should be in place not only to punish non-compliant businesses but also to help and encourage them to become better GST collectors on behalf of the government. For the SMEs, the outcome of this study may correct immense misunderstanding among consumers who think that businesses are making huge profits out of the GST. The public should be aware that instead of deriving income from the GST, these businesses are incurring compliance costs in fulfilling their obligations to collect the GST from customers on behalf of the RMCD. Finally, this study addresses gaps in the literature by providing empirical evidence with regard to the impact of GST compliance costs on compliance behaviour of SMEs. The compliance burden may have been a source of dissatisfaction and resentment regarding the GST legislation, thereby resulting in increased non-compliance and reduced the RMCD's tax collection. Although no significant correlation was found between compliance costs and the behaviour of SMEs toward both income reporting and registration of the GST, this study is likely to act as a point of reference for future GST studies, covering both compliance costs and compliance behaviour of SMEs.

A limitation of this study is its ability to comprehensively measure the GST compliance costs incurred by businesses, especially the managerial and cash flow benefits of tax compliance that materialises from compliance obligations. Future research may consider these benefits and focus on only specific industries that have a more complicated GST system. In this study, it was noted that the SMEs in the construction sector incurred a remarkably higher level of compliance costs due to business complexities for example, in charging GST on progress payments and retention sums that are connected to construction services performed. It is also highlighted here that the GST compliance costs estimates established will serve as a benchmark for assessing change in compliance costs in the future. The initial commencement costs due to the introduction of the GST system may evolve into recurrent costs as businesses become accustomed to the requirements of the GST. This could result in lower compliance costs. Hence, future studies should consider replicating this study to see whether the hypothesis of cost reduction holds true.

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