

GST ON SALARIED CLASS PEOPLE IN SARAWAK, MALAYSIA

Parameswaran S¹, Mahesh Kumar T², Monica L³, VB Kirubanand⁴

¹Associate Professor, School of Business & Management, CHRIST (Deemed to be University), India

²Assistant Professor, School of Commerce, Finance & Accountancy, CHRIST (Deemed to be University), India

³Assistant Professor, School of Business & Management, CHRIST (Deemed to be University), India

⁴Associate Professor, School of Sciences, CHRIST (Deemed to be University), India

ABSTRACT

Goods and Services Tax (GST) is a value added tax that added to the domestic products and services. It is also well-known as Value Added Tax (VAT) in other countries. In the last few decades, VAT had spread rapidly throughout the world neither in developed or developing economies. The spread of VAT is due to the first adoption by European Union (EU). There later International Monetary Fund (IMF) become a main character in spreading VAT in developing and transitional economies (DTE). The present research work assesses the impact of Goods and Services Tax (GST) towards salaried class employees in Sarawak. The data for the study was collected through a set of questionnaires that distributed to the respondents. The analysis of the result showed the, re is significant effect on the income level and purchasing power towards GST burden, and there was no significant effect on cost of living and economy boosting. A suggestion was made on the GST tax rate, which reduce to 4% in case it is reintroduce by Government as it can increase government source of revenue as well as reduce the GST burden towards the public.

Keywords: Goods and Services Tax (GST), Employees, Income level, Economy, Government.

Introduction

The concept to introduce GST has first emerged in Malaysia since 1989 (Lau, Tam & Heng, 2013). However, the announcement of the GST to be implemented in year 2007 is only made during Budget Malaysia 2005. In February 2006, in order to have more time to collect feedback from public, Malaysia Government had deferred the implementation of GST. GST was subsequently suggested for implementation in 2011 for first reading in 2009. However, it was being delayed due to withdrawal in second reding in 2010 for reassessment. During that time, there are also amid mounting critics. The critics is about awareness of public towards GST is low. Then later it is being mentioned again by former Prime Minister Datuk Seri Najib and it is finally being implemented and commenced in April 2015 at 6% rate.

Implementation of GST had replaced Sales and Service Tax (SST) which had been in practice more than a decade. The primary objectives of Malaysia Government replaced SST to GST is

to seek for additional income to offset budget deficit. In addition, GST is a more extensive and transparent tax scheme to reinforce the aptitude, efficiency and transparency of tax administration and governance as SST suffering from problems like cascading tax, double tax and pyramid tax evasion (Ling et al., 2016). Since the implementation of GST, the public are concerning on the increase of selling price of goods and services. The concern made the researchers to study on the issues in order to give an insight into the issue. Therefore, this research is focusing on the impact of GST towards the salaried class employees in Sarawak state.

Review of Literature

Palil and Ibrahim (2011)¹ pre study on GST implementation showed that even though price of goods will increase due to GST, 51.3% of respondents will kept the consumptions unchanged, 64.1% of them will spend with prudence considerations and there is 20% of respondent will increase their consumption

behaviour. Majority of the people felt the burden of GST much before it was implemented especially the middle-income group individuals. Individuals from the cities such as Kuala Lumpur, Penang and Johor were highly worried on the GST implementation as the cost of living are very expensive in these states and GST implementation will further boost the prices.

According to the study conducted by **Job Street Survey (2015)**², on the individuals' response towards GST implementation during June 2015. The results were not favouring the Government on its imposing of GST towards the public. There were 9 out of 10 respondents feel the heat of GST implementation and which resulted in high burden in the hands of individuals. The survey further revealed that respondents reduce their regular lunches outside and started having their home cook food. Public started practising car-pooling among themselves to reduce their fuel cost in order to face the GST burden. Individuals are not only considering in changing their job with better pay prospects, but also opting for part time or freelance job to bear the cost increase and the balance respondents are looking for hike their current organisation with an increase between 10% and 20%.

Jalil, Samsudin, Sarun, Ramli and Hashim (2015)³ revealed that GST is not burden for the poor because among the countries in the world that implement GST, Malaysia has the lowest GST rate. Besides, sales and service tax of 16% is reduced to 6% of GST, personal income tax is also reduced 0.5% to 3%, basic food and utilities are not charged under 6% GST, and also cash assistance (BR1M) is given to the public. Definitely it will not burden the poor as GST is designed for the welfare of the poor. The authors further revealed that GST intends to collect more tax from higher income group compare to lower income group. It is because purchasing power of higher income group is higher and the lower income group would like to spend on the goods which are not accountable to tax.

Healy, Chapman, Yamakawa and Yue (2015)⁴ revealed that GST will have impact on the employees' benefit. Employers have to beware on whether the benefits given to employees will be accountable for output tax and whether the purchase of the goods or services for employees can claim input tax. Although the gifts are subject to GST under gift

rule, but salaries and cash payments are not as it is not fulfilled as the terms of "goods and services". Employer can also give share free to employees as this is an exempted supply and do not account for output tax that bear by the suppliers.

Liew (2017)⁵ revealed that the individual spending increases the amount of GST spending also increases. The logic of the GST implementations seems to reduce the spending attitude of individuals; however, the income level of people has nil effect in the GST implementation. This result in high income group individuals has no problem in paying GST as their income level is higher. Whereas, the low-income group individuals have to bear the burden of GST, as the GST rate is standard for all income groups. Therefore, the low-income group individuals are forced to minimise their expenses.

Lim (2017)⁶ in his research revealed that after two-year implementation of GST, public feel more burden with the 6 % GST when the goods' prices are skyrocketing and stagnant growth of salary. It is understandable GST is not the main cause that attributes to uncurbed rising prices, but subsidies abolishment, depreciation of ringgit as well as higher rents and worker salaries. The author concluded that the implementation of GST at this juncture when the economy downfall it is heavier burden in the hands of individual. Therefore, it will have very high impact towards the salaried class people. This in turn reduces the purchasing power.

Omar (2018)⁷ stated GST is a consumption tax, it will only affect those with higher level income. In a viewpoint of individual earning group, GST is paid by end consumer, even though low-income group will be affected for all their consumption. Therefore, GST is a burden for all level of income group, but it is highly burdened in the hands of low- and middle-income group compare to high-income group. The country consists of more towards low- and middle-income group individuals.

Statement of the Problem

The cost of living at Sarawak state is in increasing trend when compared to 2009 (Then, 2017). What RM1 could cost five years ago could now be RM5 or even RM10. A minimum

RM800 wage five years ago is probably not enough to provide a comfortable quality of living for a single adult (Tuah, 2018). Many of the squatter colonies include the disabled folk are worried about the future. They are seeing a bleak future due to the rising of living cost, which is getting worst year after year. This situation had made the poor struggle just to survive (Then, 2017). The situation getting worst after GST implementation as the cost of product and services is increased further. Majority of the Sarawakians are working class people and depending on the salary for their monthly budgets. The individual salaried class people evident with diminishing on their saving rate(s) and led to lower down their morality due to increasing cost of living. As the cost of living continues to rise with the recent subsidy cut as well as the GST implementation, Malaysian salaries struggle to catch up (Jonathan Wong, 2014).

Research Questions

- ▶ What is the impact of GST implementation in the cost of living in Sarawak state?
- ▶ What should be the ideal/acceptable rate of GST instead of 6%?
- ▶ Whether the list of zero-rated goods under GST clauses to be increased?
- ▶ Whether GST collections boosts the economic situation on salaried class people in Sarawak or Sarawak state itself?
- ▶ Whether there should be a revision on the basic salary or average salary of Sarawakian?

Objectives of the Study

- ▶ To examine the impact of GST toward salaried class employees in Sarawak, Malaysia
- ▶ To explore the cost of living of Salaried class people in Sarawak after GST implementation.
- ▶ To analyse the impact of purchasing power of salaried class employees after GST implementation in Sarawak

Hypothesis of the Study

- ▶ H1: GST has direct burden on salaried class employees.
- ▶ H2: GST has increased the cost of living in the hands of salaried class employees.
- ▶ H3: The purchasing power of salaried class employees has impact due to GST implementation.
- ▶ H4: GST collection increased the overall economy in Sarawak state.

Research Methodology

The study is mainly based on the primary research which employed quantitative approach.

Data Collection

Primary data is used in collecting data through a set of questionnaires regarding the impact of GST towards salaried class of employees with reference to Sarawak Malaysia. The questionnaire is designed into two parts which demographic questions are and closed ended questions related which will reflect the variables and the research objectives. It is also prepared in bilanguage which are in English and Mandarin in order to get more respondents to answer the questionnaires. Secondary sources such as journal articles, conference proceedings, online articles, newspapers articles will be used in order to collecting data.

Sampling Method

The probability sampling method is used in the present study.

Sample Size

According to Department of Statistics Malaysia Official Portal (2018), the number of employed people in Sarawak is 1,251,800 people in Sarawak in year 2017. With the use of G*Power is used for deciding the sample size in this study. G*Power (Buchner, Erdfelder and Faul, 1996) is a software that used for computation of statistical power analysis for various type of statistical tests. Based on G-Power analysis (Appendix 1), there are four independent variables in this study which required 129 sets of data with 95% of confident level in this study.

Tools used for Data Analysis

The tools used for Data Analysis are **Analysis & Interpretation**
 Descriptive Statistics & Structural Equation
 Modeling (Using Smart PLS).

Table 1 Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.0	64	32.8	32.8	32.8
	2.0	131	67.2	67.2	100.0
	Total	195	100.0	100.0	

Table 2 Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.0	104	53.3	53.3	53.3
	2.0	66	33.8	33.8	87.2
	3.0	15	7.7	7.7	94.9
	4.0	7	3.6	3.6	98.5
	5.0	3	1.5	1.5	100.0
	Total	195	100.0	100.0	

Table 3 Nature of Employer of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.0	55	28.2	28.2	28.2
	2.0	127	65.1	65.1	93.3
	3.0	13	6.7	6.7	100.0
	Total	195	100.0	100.0	

Table 4 Monthly Income of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.0	112	57.4	57.4	57.4
	2.0	37	19.0	19.0	76.4
	3.0	20	10.3	10.3	86.7
	4.0	5	2.6	2.6	89.2
	5.0	21	10.8	10.8	100.0
	Total	195	100.0	100.0	

For the study, salaried class of employees are the respondents and there are 195 respondents who respond and return the

questionnaires. Among the 195 respondents, there are 32.8% of male and 67.2% of female. More than half of the respondents have the age of 18-27 (53.3%), follow by 28-37 (33.8%), 38-47 (7.7%), 48-57 (3.6%) and above 57 (1.5%). 5.1% of the respondents are working in private sector, 28.2% of them work in government sector and 6.7% of them are working in semi-government sector.

Since this research is related to salary, question regarding salary is included in the questionnaire. There are five category of salary range which are A) Below RM2500.00, B) RM2501.00-RM3500.00, C) RM3501.00- RM4500.00 D) RM45001.00-RM5500.00 and E) Above RM5500.00, the respondents are respond 57.4%,19.0%, 10.3%, 2.6% and 10.8% respectively.

Assessment of Convergent Validity

Table 5 Convergent Validity

CONSTRUCT	ITEM	SCALE	LOADINGS	AVE/T-VALUES	VIF	CR
COST OF LIVING	CL2	REFLECTIVE	0.960	0.879	2.408	0.936
	CL3		0.915		2.408	
ECONOMY BOOSTING	EB2	REFLECTIVE	0.920	0.671	1.159	0.801
	EB4		0.704		1.159	
GST BURDEN	GB1	REFLECTIVE	0.728	0.640	1.545	0.877
	GB2		0.833		1.800	
	GB3		0.787		1.674	
	GB4		0.848		1.918	
INCOME LEVEL	IL2	REFLECTIVE	0.791	0.688	1.474	0.868
	IL4		0.786		1.703	
	IL5		0.905		2.147	
	PP1	REFLECTIVE	0.742	0.613	1.609	0.888

PURCHASING POWER	PP2		0.811		1.789	
	PP3		0.816		1.856	
	PP4		0.766		1.712	
	PP5		0.779		1.766	

Figure 1: Before Deletion

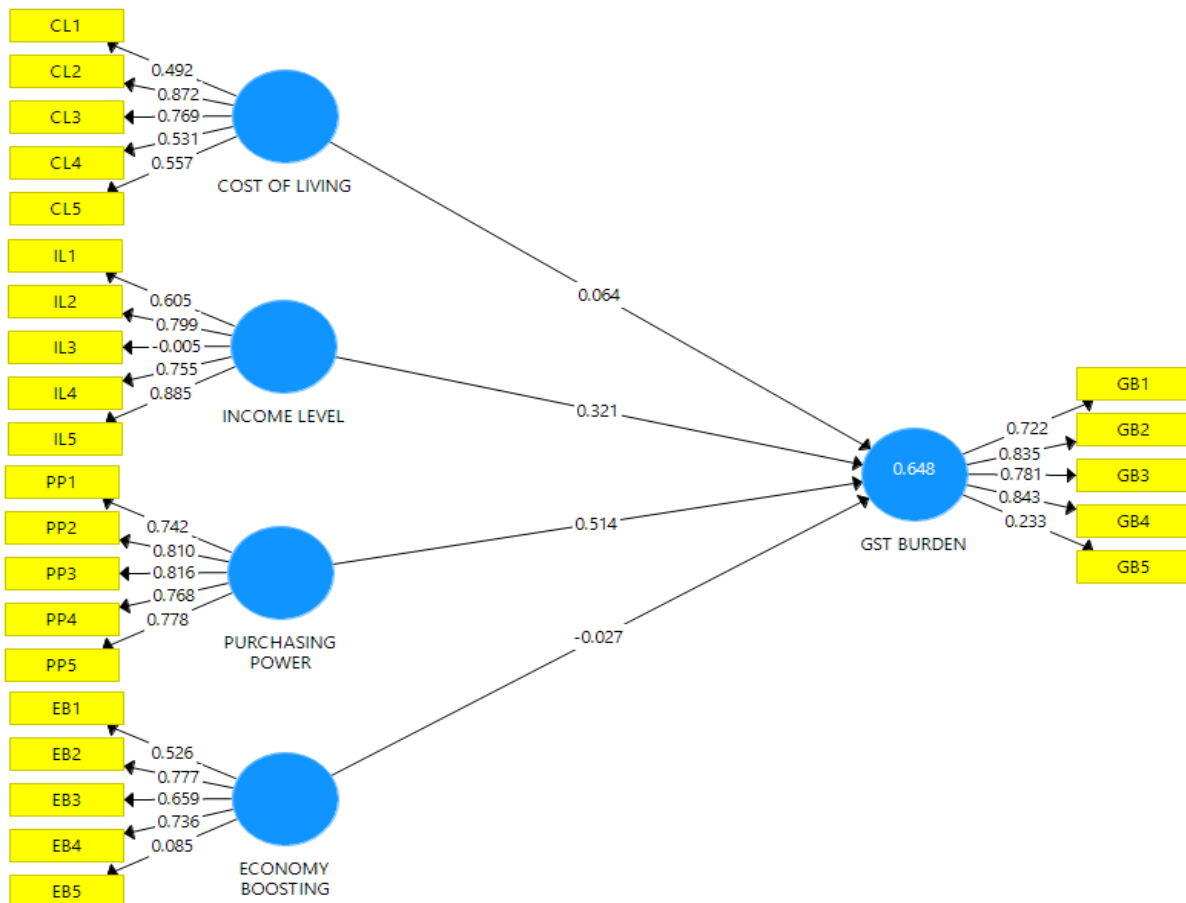
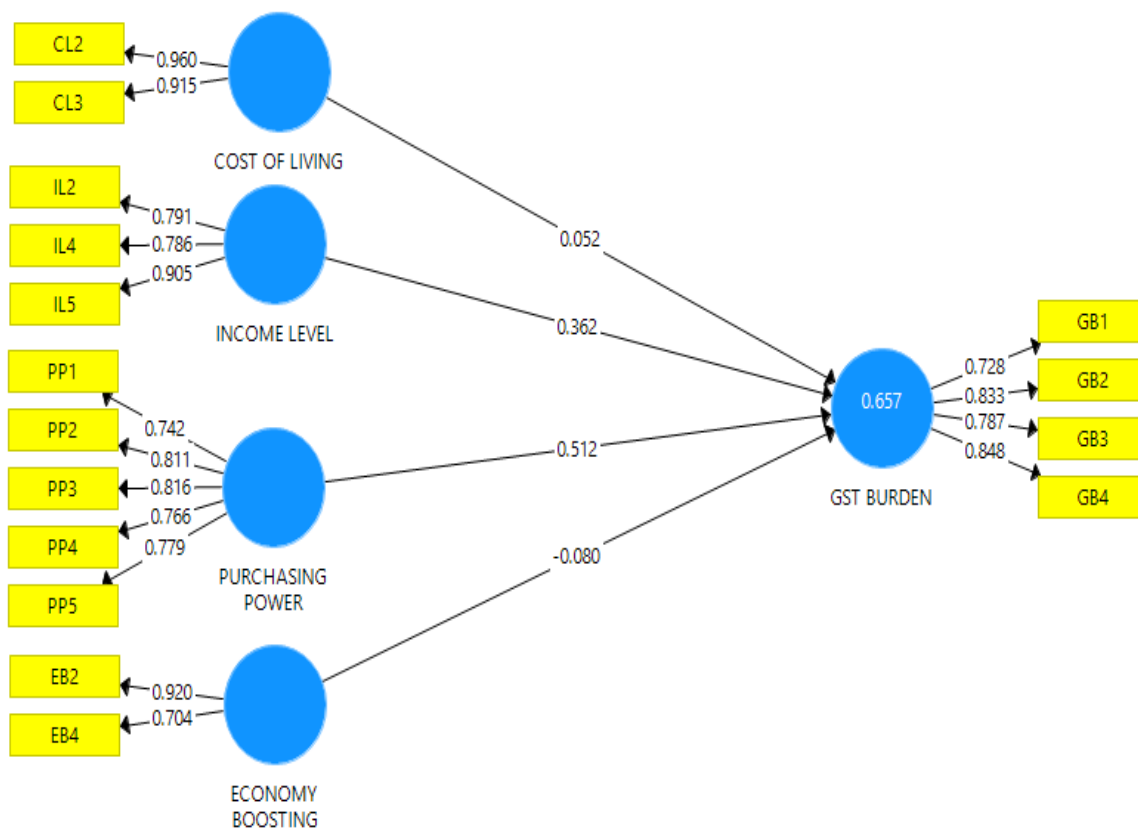


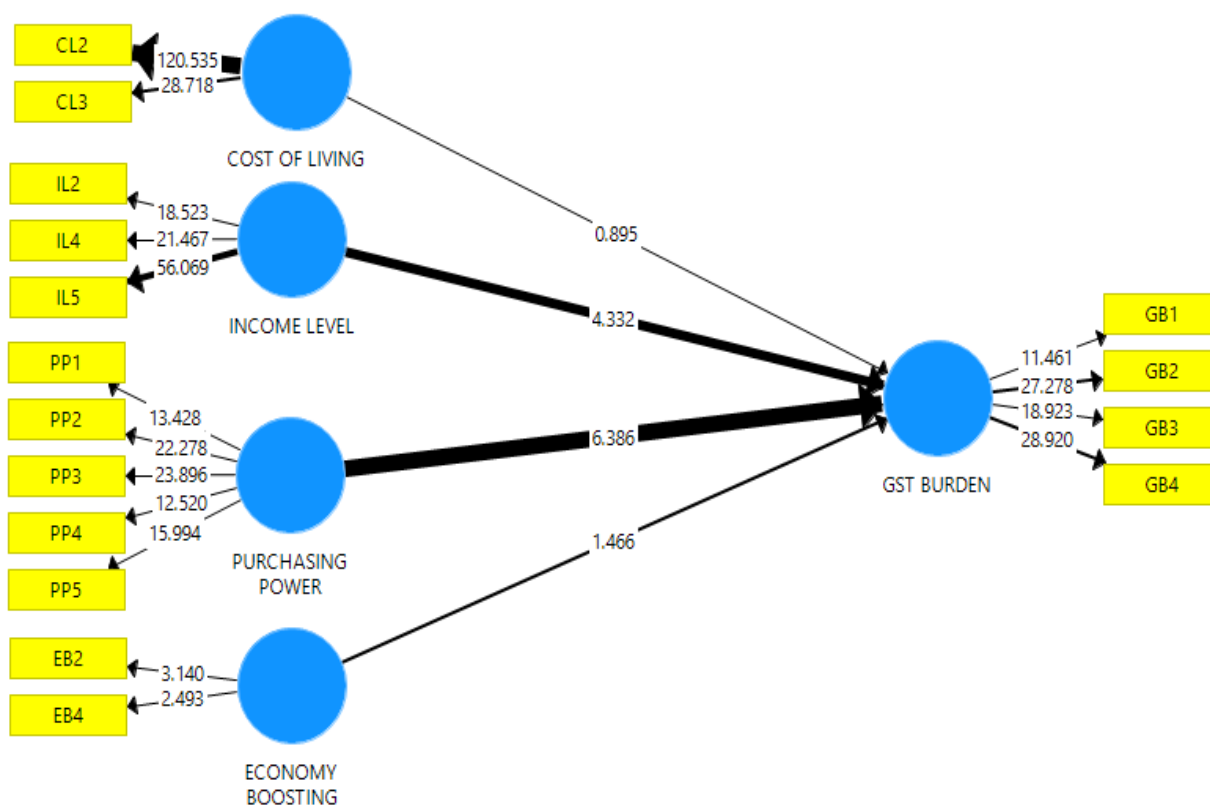
Table 5 had outlined all the values of the study. In this research, the factor loadings revealed support for convergent validity for the five constructs. All the loadings are greater than 0.70 which are favourable, and it provides a reason for concluding that the measures are of convergent validity. AVE of each construct is more than 0.5 which indicates all the indicators are associated with the construct. CR with figures that greater than 0.70 indicate high level of reliability. Since all the constructs in the study

are earning the satisfactory results for AVE and CR which indicating that the convergent validity threshold is met for each construct.

Figure 2 Model Structure After Deletion**Structural Model Evaluation****Table: 6 Sample Mean, Standard Deviation, T-Value and P-Value for Structural Model**

HYPOTHESIS	RELATIONSHIPS	STD.BETA	SAMPLE MEAN (M)	STANDARD ERROR	T-VALUE	P Values	LL	UL	f2	LEVEL OF ACCEPTANCE	DECISION	
H1	COST OF LIVING -> GST BURDEN	0.052	0.054	0.058	0.895	0.371	-	0.067	0.163	0.006	No effect	Not supported
H2	ECONOMY BOOSTING -> GST BURDEN	-0.080	-	0.064	1.466	0.143	-	0.194	0.016	0.016	No effect	Not supported
H3	INCOME LEVEL -> GST BURDEN	0.362	0.359	0.084	4.332	0.000	0.206	0.529	0.174	Medium Effect	Supported	
H4	PURCHASING POWER -> GST BURDEN	0.512	0.513	0.080	6.386	0.000	0.335	0.657	0.397	Medium Effect	Supported	

Figure 3 Model Structure after Bootstrapping



Level of Effect Size (F²)

The thumb rule for interpreting the impact of f² at structural model is when f² is 0.35, 0.15 and 0.02 which represent the large effect, medium effect and small effect respectively (Cohen, 1988). In this study, the cost of living and economy boosting has a f² of 0.006 and 0.016 respectively which indicates there is no effect in producing R² for GST Burden. However, the income level and purchasing power has the f² of 0.174 and 0.397 respectively which can be said both independent variables are having medium effect in producing R² for GST burden.

The effect size for H1 and H2 do not have any effect while H3 and H4 had a medium effect. There are four out of two of the hypotheses having the t-value ≥ 1.96 for significance at 0.05 level of significance. The T-value for each construct is shown in the Figure 4.3. Thus, there is positive relationship between the predictors of income level (β=0.362, p<0.05) and purchasing power (β=0.512, p<0.05) with GST burden. It also indicates that H3 and H4 are supported. H1 and H2 are not supported in the model since Beta value and p value are as following: cost of living

(β=0.052, p>0.05) and economy boosting (β= -0.080, p>0.05) which are not fall in the significant range. Furthermore, upper and lower bounds of confidence interval (bias correlated) are calculated during bootstrapping and then are interpreted in Table 4.9. Those with beta value that fall in between lower and upper bounds indicates all the indicators resulting a good confidence interval. It showed in the Table 6 that income level (β=0.362) and purchasing power (0.512) has a t-value of 4.332 and 6.386 respectively which were significant. However, the variables with t-value less than 1.95 and p value more than 0.05 are cost of living (β=0.052) and economy boosting (β = -0.008). Hence, it can be concluded that there was no relationship among cost of living and economy boosting to GST Burden.

Therefore, out of four hypotheses tested, there are only two were came with the results of significant and supported. It shows that both income level and purchasing power has relationship with GST Burden while cost of living and economy boosting has no relationship to GST Burden. So, it is concluded that H1 and H2 are failed to reject.

Findings of the Study

1. It is observed that income level has significant impact on GST Burden with β value of 0.362. It indicates that income level contributes 36% towards GST Burden for salaried class employees in Sarawak.

2. The respondents of this study agreed that the income level for all categories should be increased as GST impacts on the hike on the prices of goods and services. It is also agreed that the higher the incomes, purchasing power will also higher which may cause the respondents spend more and thus the burden on GST is higher.

3. It is also depicted that the purchasing power is significant to the GST Burden with β value of 0.512. Implementation of GST reducing the purchasing power. It is because people can only use the unchanged salary to cover the higher expenses due to the GST implementation.

4. However, it is analysed that there is no significant on the cost of living and economy boosting. Cost of living is the amount required to spend for sustaining a normal standard of living through spending on the basis expenses such as food, housing, and healthcare. Although Sarawak state do not have high cost of living compared to Johor State and Kuala Lumpur, but the cost of living in Sarawak is just compatible with the salary range in Sarawak.

Suggestions

1. Since there is significant effect on the income level and purchasing power, it could be suggested that the GST tax rate could be lower down to 4%.

2. Zainal (2018) stated the forum panellist and Mydin managing director Datuk Ameer Ali Mydin stated that new Government can reintroduce GST with a lower rate, either 3% or 4% since GST is a more effective and efficient way of tax collection compared to SST.

3. Moreover, the reduction rate of GST can also lower the GST burden towards the salaried class employees as they pay lesser with the same salary compared to 6% rate of GST.

Conclusion

GST was implemented in Malaysia for a period of three years. The implementation of GST is to seek for additional income to offset budget deficit. GST is also a more comprehensive and

transparent tax scheme compared to SST. This research is carried out to analyse impact of GST towards salaried class employees in Sarawak. This study had carried out the four variables which are having impact towards salaried class employees in Sarawak. The four variables are income level, cost of living, purchasing power and economy boosting. In order to obtain the data and information, questionnaires are designed and distributed to the working people in Sarawak. There is a structural model created for the study. The analysis of the data gathered and analysed through the use of SPSS and Smart PLS. From the findings, it shows there is no impact on the cost of living and economy boosting but there is significant impact on income level and purchasing power. Suggestion of reintroduce GST with lower rate of 4% is recommended in order to collect more income for better development of Malaysia.

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