ISSUES AND PROBLEMS ON THE IMPLEMENTATION OF SALES AND SERVICE TAX (SST) 2.0 AMONG BUSINESS ENTITIES

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ABSTRACT

Re introduction of SST 2.0 had mixed reactions among the society. However, it was more significantly among business entities. The problem statement that is addressed in this thesis are What is the levels of readiness of the SST re-introduction by business? What are the main problems and issues of SST faced by business? What are the estimated costs incurred by companies to change of the SST re-introduction by business? What are the solutions sought by companies to reduce the impact of SST 2.0 implementation? What are the perceptions of business owners towards the implementation of SST 2.0? The study aims to Examine the levels of readiness among companies in Klang valley, identify the problems and issues faced by companies when SST 2.0 introduced again, the monetary impact of SST re-introduction toward business owner, the solution to business entities in order to reduce the problems when SST 2.0 was implemented and the perception of company towards implementation of SST 2.0. The research method used in this study is quantitative whereby questionnaires are distributed to manufacturing companies in Klang Valley area. The results of the study show that companies are ready with the implementations of SST 2.0, there are significant number of problems and issues faced by the companies including monetary impacts. The results also show that there are solutions available for the issues and problems faced, however the effectiveness was not studied in this study which should be used for future study.

1.0. INTRODUCTION

Taxation is an important system of a functioning government. Tax income is needed to ensure the government has sufficient income to provide the public services needed by the public. The more relied form of taxation in most of the countries are the income taxes as well as the consumption taxes (Shoven, 2020). Consumption tax is a form of indirect taxes and are charged when a consumer makes a purchase. This more the economic activities, the higher is the revenue collected by the government.

There are many types of consumption taxes such as retail sales taxes, exercise taxes, value-added taxes, use taxes, taxes on gross business receipts, and import duties. In Malaysia, the Sales Tax was introduced on the 29th of February 1972 as a single stage consumption tax, levied, charged and paid on goods manufactured in Malaysia and imported. The next form of consumption tax was the Service tax was introduced on the 1st March 1975 as a single stage consumption tax, levied, charged and paid on specific services provided by a taxable person in Malaysia.

To improve the effectiveness of the consumption tax, the Malaysian Government introduced the Goods and service tax (GST), which is also known as the Value Added Tax (VAT) in many countries around the world. GST was introduced in Malaysia to replace the sales and service tax (SST). Sales and service tax (SST) was a federal consumption tax that was imposed on different types of goods. It was a single stage consumption tax whereby businesses cannot recover the tax paid on their purchases.

The implementation of GST to replace the SST 1.0 was aiming at more efficient tax management and higher revenue for government. The Malaysian GST is a consumption tax based payable by intermediaries on every stage in the supply chain though the final tax burden is on the final consumer. When was introduced in 2018, the rate of tax is at 6%. In 2018, the new Prime Minister Tun Dr Mahathir Mohamad announced the removal of GST and replaced it with SST 2.0 which took effect June 1, 2018. Although it was not completely removed as it is still rated 0% (Rahman, Johari, Manaff, Mohamad, & Ramli, (2019).

1.2. BACKGROUND OF THE STUDY

In Malaysia, the GST was mooted way back in 2005 as a possible replacement for the SST 1.0. It was only implemented in 2015 as the government need more time was needed for people's opinion or view (YYC, 2017). The implementation of GST in 2015, makes Malaysia join the 7 out of 10 ASEAN countries that have either GST or VAT (Urif, 2016). However, the decision to revert to the previous form of SST was the first among many of the countries that has implemented VAT or GST.

SST 1.0 was introduced since 1972 and has many distinct features that are now in the form of SST 2.0, which replaced the GST in 2015 that was meant to replace the SST 1.0 due to many of the technical limitation (Syeddin, 2021). The flip-flop between the various tax regime has a serios impact in the administration of the tax by the business owners.

The SST is a single-degree tax system, where the tax was collected at the final stage of the supply chain when the final consumer makes the purchase. The SST 1.0 focused on the goods manufactured and sold by individuals who are taxable in Malaysia. Similarly, imported goods are also taxable to the SST. The SST is not taxed at every level of supply chain as compared the GST implemented in 2015. Under the new SST 2.0, a tax rate of 5% or 10% is levied on goods and 6% on all taxable services (Ghani, Mohammad, & Muhammad, 2021). The previous GTS allows the government to tax a total of 11,197 goods. However, the new SST 2.0 will only have impacted 5,612 goods with a 10% sales tax and 793 items with a 5% sales tax.

The transition from GST to SST 2.0 in a relatively short time frame require efficient and effective planning on the part of all parties involved particularly the businesses that are at the end of the supply chain. The GST was being the focus of much research as it was the better tax regime than the SST. However, the action of the Malaysian government to revert to the older SST was a move that was not discussed in any literature related to consumption tax. As such there was lack in the literature evidence on the issues faced by the business entities when the government changed the GST to the older SST.

1.3. PROBLEM STATEMENT

The main reason for the implementation of GST was said to be able to increase revenue collection by the government and reduce fiscal debt. The GST was being the focus of many research as it was the better tax regime than the SST. However, the action of the Malaysian government to revert to the older SST was a move that was not discussed in any literature related to consumption tax. As such there was lack in the literature evidence on the issues faced by the business entities when the government changed the GST to the SST 2.0 that has its own form of administration (Ghani, Mohammad, & Muhammad, 2021) that includes a new tax rate, different basket of goods, and the collection process of the tax.
The changes can have an impact on the business organizations that has previously adapted to the GST tax system. Many companies have incurred significant initial costs in complying GST regulations since 2014, however in 2018 suddenly GST was abolished and replaced with SST 2.0. The re-introduction of SST may cause significant problems to companies particularly in initial cost and cost of compliance in adhering SST 2.0. Therefore, this study attempt to investigate the problems and issues faced by companies in complying with SST 2.0.

RESEARCH QUESTION

The primary concern of this research is to examine the readiness, issues and problem of the business entities when the government changed the GST to the SST 2.0.

Therefore, the study aimed to answer the following questioned:

- What is the levels of readiness of the SST re-introduction by business?
- What are the main problems and issues of SST faced by business?
- What are the estimated costs incurred by companies to change of the SST re-introduction by business?
- What are the solutions seek by companies to reduce the impact of SST 2.0 implementation?
  What are the perceptions of business owners towards the implementation of SST 2.0?

1.4. RESEARCH OBJECTIVES

The primary concern of this research is to examine the impact of reintroduction on the SST on companies in Klang Valley. The objectives of the study are:

- Examine the levels of readiness among companies in Klang valley
- Identifying the problems and issues faced by companies when SST 2.0 introduced again.
- The monetary impact of SST re-introduction toward business owner
- The solution to business entities in order to reduce the problems when SST 2.0 was implemented
- The perception of company towards implementation of SST 2.0

1.5. SCOPE OF THE STUDY

The study aims to identify the effects of reintroduction of SST 2.0 to replace the GST on companies in Klang Valley. It will look at the business traders view of SST administration and the implication that they faced after the removal of the GST back in 2018. The scope of study is focusing on the issues, problems, financial isuuses and the levels of readiness among companies who involved in SST 2.0 in Klang Valley. Although other issues may important, however this study is focusing on the scope only. The respondent of this study are companies in Klang valley who are subject to SST 2.0 only.

1.5.1. SIGNIFICANT OF THE STUDY

GST introduction is part of the Government's tax reform program to enhance the efficiency and effectiveness of the existing taxation system. However, the action of the Malaysian government to revert to the older SST was a move that was very limited discussed in any literature. The transition from GST to SST 2.0 in a relatively short time frame require efficient and effective planning on the part of all parties involved particularly the businesses that are at the end of the supply chain. As such there was lack in the literature evidence on the issues faced by the business entities when the government changed the GST to the SST 2.0 that has its own form of administration that includes a new tax rate, different basket of goods, and the collection process of the tax.

1.5.2. SUMMARY

In 2018, the action of the Malaysian government to revert back to the older SST in form of SST 2.0. was a move that was not discussed in any literature related to consumption tax. As such there was lack in the literature evidence on the issues faced by the business entities when the government changed the GST to the older SST. This research will provide the evidence on the issues faced by the business entities when the government changed the GST to the SST 2.0 in term of the tax administration and control.

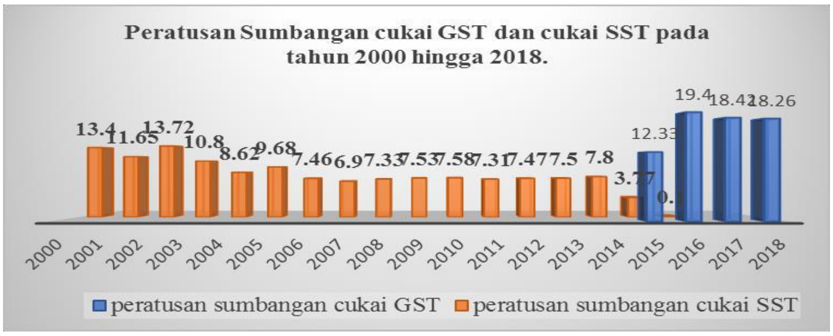
2.0. LITERATURE REVIEW

A consumption tax refers to a wide category of tax imposed on the consumption of goods and services by individual within a tax territory. There are many different types of consumption tax imposed by a government such as sales tax, excise tax, goods and services tax and import duties (Dordevic, 2015; Boadway & Song, 2016). This form of tax is levied on consumers but not businesses. As such this tax is for a B2C transaction (business to consumer) and not B2B (business to business). The tax is comprised to the price of the goods or services sold, and the business becomes the agent that collect the tax on behalf of the government (Saira, Zariyawati & May, 2010). In simple term, this form of taxes are not collected directly by the government from consumers (Dordevic, 2015) but by the business, who then pay to the tax authority.

From the Malaysian consumption taxes, there are two types that has been implemented in Malaysia, which are Goods and Services Tax, and Sales and Services Tax. The SST was established in 1972 as a single stage consumption tax, levied, charged, and paid on goods manufactured in Malaysia as well as goods imported from abroad to ensure the competitiveness of the local goods. The next form of consumption tax was the Service tax, which was introduced in1975. To improve the effectiveness of the consumption tax, the Malaysian Government introduced the Goods and service tax (GST), which is also known as the Value Added Tax (VAT) in many countries around the world. GST was introduced in Malaysia to replace the sales and service tax (SST). Sales and service tax (SST) was a federal consumption tax that was imposed on different types of goods. It was a single stage consumption tax whereby businesses cannot recover the tax paid on their purchases.

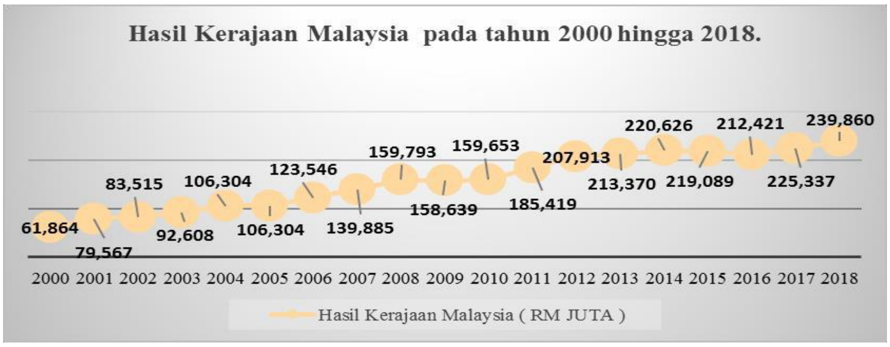
The new Prime Minister, Tun Dr Mahathir Mohamad revoked the GST implemented in 2014 and to reintroduce the sales and service tax (coined as SST 2.0) to replace the GST. According to the Prime Minister, SST 2.0 is a better option as it can generate more disposable income as compared to the GST, which can help to boost consumer spending and business activities, thereby increasing the national income. The SST 2.0 tax rate will be 10% and 5% respectively for different types of goods, while the service tax was at 6%. On 31st July 2018, the Government tabled motions to repeal the GST and to reintroduce the SST 2.0.

Figure 1. Contribution percentage of GST tax and SST tax in the year 2000 to 2018



Source: Official Portal Ministry of Finance Malaysia.

Figure 2. Malaysian government revenue from 2000 to 2018



Source: official Portal Royal Malaysian Customs Department, 2018

A total of 6,400 goods and services will be taxed under the new SST 2.9 as compared with 11,197 items of goods and services under the GST. Sales Tax is imposed one time to the manufacturing company when there is a sale to the trading company, which is at the top of the supply chain, and the rest of the supply chain will not be imposing anymore sales tax. Such way, there will be no more tax input and tax output data keeping like the GST adopted in 2014. As such, according to the Prime Minister, the consumers will expect that the price of goods are much lower as compared to the GST (The Star, 2018 'GST vs SST, Which Is Better').

According to the Royal Malaysian Customs Department, unlike the SST and SST 2.0, the GST is a multi-stage consumption tax levied at every stage of the supply chain. GST paid by a business organization, known as input tax is claimable, which means that it doesn't really matter the number of stages in the supply chain (Hock, and Yew, 2010) as the final GST will be imposed on the end consumer. The GST tax rate is either 6% or 0%, where else the SST sales tax can have a percentage of 10%, 5% or 0%.

The government believes eliminating the GST can boost the private consumption and economic growth, thereby benefitting the middle-income groups, non-income groups and low-income groups in which most student happens to fall in these category. However, the sudden changes from GST which has just been implemented not more than three years prior to SST has resulted in the sudden changes to the way the taxation is administered and collected. It also adds additional burden to the business, especially those at the manufacturing process in the total supply chain (Ghani, Mohammad, & Muhammad, 2021).

2.1.1 SST 2.0

Sales Tax Act 2018 applies all over Malaysia with the exception to some geographical designated areas. The SST 2.0 is a single stage tax charged on all taxable goods manufactured in Malaysia or goods that are imported. The list of goods exempted from sales is mentioned in Schedule A of the Sales Tax (Goods Exempted from Sales Tax) Order 2018. Sales tax ranges from 10% for some goods, 5% or 0%. With the SST, the government only collects tax at the manufacturer's level, but the tax is implanted in the price paid by the end consumer as the good is moved along the supply chain. This is in contrast with the previous GST where tax is imposed at every level of supply chain but are being offset by tax input and tax output.

From a business point of view, GST main drawback is that companies needed to achieve RM 500,000 per annum in sales so that they can claim their tax input. However, GST benefits government with higher tax revenue compared to the old SST 1.0 (Ghani, Mohammad, & Muhammad, 2021).

2.1.2 WHAT ARE THE ISSUES AND PROBLEMS WHEN THE NEW TAX SYSTEM IS ESTABLISHED IN MALAYSIA OR FOREIGN COUNTRIES?

Issues and problem faced by countries when new tax system established such as components of GDP such as consumption and investment, are difficult to measure, Failure to control for other factors that impact economic growth, such as government spending and monetary policy.

The economic effects of tax changes on economic growth, as measured by changes in real GDP or GDP components like consumption and investment, are difficult to quantify. Some tax changes occur in response to economic growth, and looking at a tax cut at a specific point in time may lead to the incorrect conclusion that tax cuts are bad for growth, because tax cuts are frequently enacted during economic downturns. As a result, the majority of the recent literature, as reviewed below, has followed the methodology developed by Romer and Romer (2010): looking at unexpected changes in tax policy, which economists refer to as "exogenous shocks."

Other methodological issues exist as well. Failure to account for other factors influencing economic growth, such as government spending and monetary policy, may result in an understatement or overstatement of the impact of taxes on growth. Some tax changes, such as corporate tax changes, may have greater long-run effects than short-run effects, and a study with a limited time series would miss this effect. Finally, tax reforms have a lot of moving parts: Certain taxes may be raised, while others may be reduced. This can make categorizing certain reforms as net tax increases or decreases difficult, leading to incorrect interpretations of how taxes affect growth.

When the new tax is implemented, each company's cash flow will be impacted because they will have to pay more to each supplier for the taxable charges and price markup. As a result, the majority of the company must ensure a good level of cash flow in daily operations.

Creating a new system is an important part of preparing for the new tax, and it will include a computerized accounting system in order to have accurate financial reporting. This is due to the fact that a taxable percentage must be charged for each and every path of manufacturing or servicing. Most previous accounting systems are not ready for SST modification, so we must modify, revamp, or make significant changes. As a result, both the company and the system developer play a role in developing a new system because they need a good system to comply with SST 2.0 obligations. Before any system can be modified to be SST compliant, a survey and research must be conducted.

Furthermore, the cost-benefit impact of purchasing a new system versus making changes to the current system must be evaluated. However, in order to ensure the level of readiness to implement a new system, they must first understand the SST 2.0 process

Both companies and tax authorities must invest in more human resources. More resources are required in the company to refurbish the overall operation of manufacturing or servicing, particularly when dealing with a new SST 2.0 system. As a result, the company must act quickly to improve staff knowledge and expertise in handling any SST case. Furthermore, the tax authority must hire more new employees to work as SST personnel or as a help-desk to provide relevant fundamental information to taxpayers as they prepare for SST 2.0.

2.1.3 WHAT ARE THE MONETARY IMPACT OF SST 2.0?

Based on the Star News of business owner's perception, many business owners are afraid on the monetary impact due to the reintroduction of SST 2.0. One of the major impact that is discussed primarily is the increase in prices of raw materials. There will be many market players that will use this as a reason to increase the prices of raw materials which will impact businesses especially the manufacturing companies. There are high tendency of suppliers to manipulate the prices of raw materials despite there is no real world impact on the prices. As a result, businesses will face increase in cost of production which forces them to increase the price of goods sold. Increasing in goods prices may be a good solution to compensate the increase in raw materials prices, however it is not favorable for customers. According to Zeqiraj and Nimani (2015), customers does not prefer increase in goods prices, which leads them to switch to other businesses, hence leading to lower rate of customer retention.

Moreover, according to a survey conducted by The Edge Markets, SST pushes many businesses to increase its cost by 3 to 5 percent (Lim, 2019). The increase in cost was contributed mainly by investment in employee training for SST preparations, hiring of SST professionals and upgrading of accounting software systems (Lim, 2019). Companies are required to bear all these cost and this cost does not end during the initial stage. In the event that employees resign, businesses will need to re train the employees which incurs additional cost.

2.2. Research Framework

An important attribute toward the of implementation success of the SST 2.0 is the organizational readiness (Holt et al., 2010; Dizon, 2021). In this context, the organizational readiness to change looks at both the psychological and behavioral readiness of an organizational and the employees required with the execution of any form of new practice in organization (Weiner, 2009). According to Nguyen et al. (2019), when organizational readiness is strong, the organization can have better implementation when it comes to the anticipated change (Weiner, 2009).

According to Dizon (2021), many issues would emerge when an organization want to implement a new system or framework, where the employee attitude is critical when adopting a new system. Employees' willingness for conversation can be defined as how the employees maintain the positive perceptions about the need for the organization to change (Armenakis et al., 1993).

Businesses that are affected by the new SST 2.0 are the manufacturers at the initial of the supply-chain as well as the service providers must have adequate tax knowledge to ensure tax compliance with the sales tax by knowing when the organization are required to register under the Sales Tax Act 2018, which is different from the previous GST. The impact on the service provider may not be as serios as the manufacturers due to the similarity of service tax under both regimes. Affected business, need to understand the calculation of the sales value of taxable goods and exempted from payment of sales tax under Schedule A, B & C.

Businesses that subject to SST need to ensure a proper internal procedure so that it can be ready on a timely basis in agreement with the regulatory requirements and are available for review by RMCD upon request. A report by Deloitte (2019) reveals that about 39% of the manufacturers concerned with the issues of tax complexity such as frequent changes to the tax regulations, unnecessary details on the tax administration, complex computations of tax amount, and the details of relevant records need to be kept by businesses (Deloitte, 2019).

According to Sales Tax Act 2018, organizations that fail to register in the system or evade tax payments are subject to penalties. From a recent internal survey carried out among 517 members from Federation of Malaysian Manufacturers (FMM), it was found that most manufacturers experiencing problem with the SST 2.0 as the management and employees lack in the understanding of the new SST tax regime and vagueness in the organization and treatment of taxable goods and services (Ching, 2019).

According to Ghani, Mohammad, & Muhammad (2021), organization readiness includes the hardware and human capital development for administrating the new SST. The employees are required to be retrained and get ready to administer the SST 2.0 under the new SST Act. This requires a significant amount of preparation such as training and educating, as well as placing the employees in accordance to the appropriate communication channel (Le et al., 2021).

This study adopts the Theory of Organizational Readiness for Change to achieve the objectives of this research. The employee in the manufacturing and service industries needs to change for coping up with the changes in GST to SST 2.0 (Weiner, 2009). The effectiveness of the new SSY system depends on the employee's cooperation to initiate the needed change, provide great effort and show persistent cooperative behavior.

The Theory of Organizational Readiness for Change was based on the social cognitive theory and the self-efficacy theory (Gist & Mitchell, 1992) that comprises a multi-level and multi-faceted constructs that targeted different organization, individuals and changes. This theory consists of two collective affective states, namely the commitment and change efficacy, and three factors of change, which are change valence, task knowledge, and resource availability (Weiner, 2009).

The readiness for change theory stated that organizational readiness consists of change commitment and change valence (Weiner, 2009). Change commitment refers to the intention of the organization to implement a change by the members of an organization. On the other hand, change valence looks at how an organization and the employees value the change (Weiner, 2009). If the organization and the employees believe that the change is effective and beneficial, the change is beneficial, the more likely they will support, engage, and accept the change. Based on the work of the existing literature, the following hypothesis is suggested
H1: The readiness levels of companies towards implementation SST 2.0 is low.
So many companies in Malaysia are facing lot of problem on the implementation SST 2.0. The readiness level of companies very low. These are the challenge faced by companies:

1. Communication between company and staff - The knowledge and expertise required for SST 2.0 implementation must be disseminated from top management to all staff in each department. This is due to the fact that they must comprehend how SST 2.0 will affect the company's performance. Furthermore, in order to be quality companies and be aware of SST 2.0 conformity, every company must conduct seminars, training, and courses. When deciding to implement SST 2.0, companies as a business community must re-evaluate their approach to SST 2.0 management and whether their employees are capable of coping with this new SST 2.0 operation.
2. Developing new system – Due to new system implementation, Companies need to change to new system. This will be incurred

H2: There frequency of problems and issues faced by companies are high
Reintroduction of SST will be affecting businesses with several problems which is discussed below.

1. Business owners are afraid of increase in prices of goods according to The Star News. This is mainly because suppliers tend to use this as a reason to increase the prices of the goods and resulting in disruption in supply chain. This is also might result in reducing purchasing power of customers.
2. There are many procedures which needs to be considered by the business before implementing SST 2.0, which makes it very difficult for the business to adapt to it and requires intervention.

H3: The monetary impact of SST reintroduction towards business owners are high
Reintroduction of SST will be affecting business owners in terms of monetary. The monetary impact towards business owners is high. There a few possible reasons for this.

1. Business owners are not ready for the change – Business owners are constantly affected due to uncertain prices in the market especially from the suppliers or the vendors. According to KPMG, business may face hike in cost due to SST. SST is an additional cost for the business rather than the consumers.
2. Tax exemptions – Not all sectors will be exempted from indirect tax regime. Therefore. The business owners which fall under selected sectors will not be able to claim back their input tax paid, hence the impact of monetary is higher.

H4: The solutions that companies have to solve the issues and problems are low
Even though businesses are faced with several problems and issues, however there are solutions within the company with the probability of success that is low.

1. Businesses will be able to use their own internal resources and the help from government support programs to adapt to SST 2.0 implementation. According to Syeddin (2021), there are many business entities that utilizes government support programs for implementation of SST 2.0.
2. There are several internal processes that the businesses change in order to compensate with the increase in goods prices. According to Erma Suryani Mohd Jamel and Muse Johnson Popoola (2020), businesses actively seek alternatives in terms of suppliers to ensure lower prices are maintained and businesses also reduces the cost of operations.

H5; The perception of business owners towards SST 2.0 implementation is negative
Reintroduction of SST does not leave a positive perception towards the business owners. There is one possible reasons to this

1. Speculation by the social media and other businesses. The implementation of SST is compared to GST, which is a different tax systems and has different impacts on the business. However, due to the existence of speculations that exists among the social media platforms and other business owners, most business owners does not have a positive perception towards SST 2.0.

2.3. Summary

The transition from GST to SST 2.0 in a relatively short time frame require efficient and effective planning on the part of all parties involved particularly the businesses that are at the end of the supply chain.

An important attribute toward the of implementation success of the SST 2.0 is the organizational readiness (Holt et al., 2010; Dizon, 2021). In this context, the organizational readiness to change looks at both the psychological and behavioral readiness of an organizational and the employees required with the execution of any form of new practice in organization (Weiner, 2009). According to Nguyen et al. (2019), when organizational readiness is strong, the organization can have better implementation when it comes to the anticipated change (Weiner, 2009).

This study adopts the Theory of Organizational Readiness for Change to achieve the objectives of this research. The employee in the manufacturing and service industries needs to change for coping up with the changes in GST to SST 2.0 (Weiner, 2009). The effectiveness of the new SST system depends on the employee's cooperation to initiate the needed change, provide great effort and show persistent cooperative behavior. There are three independent variables which are proposed in this study which are task knowledge, change valence and resource availability.

3.0. METHODOLOGY

Chapter three discusses the methods used by researchers to answer the research questions discussed in chapter one. These three chapters focus on the design of the study that is best used to achieve the aim of this study. This chapter describes the study area and population, sample size, and sampling method. Next, this chapter describes the procedures for collecting data and designing the research including instrumentation and instrumentation. The next section describes the data analysis techniques used in this study. Finally, the conclusion concludes this chapter.

3.1 Research Design

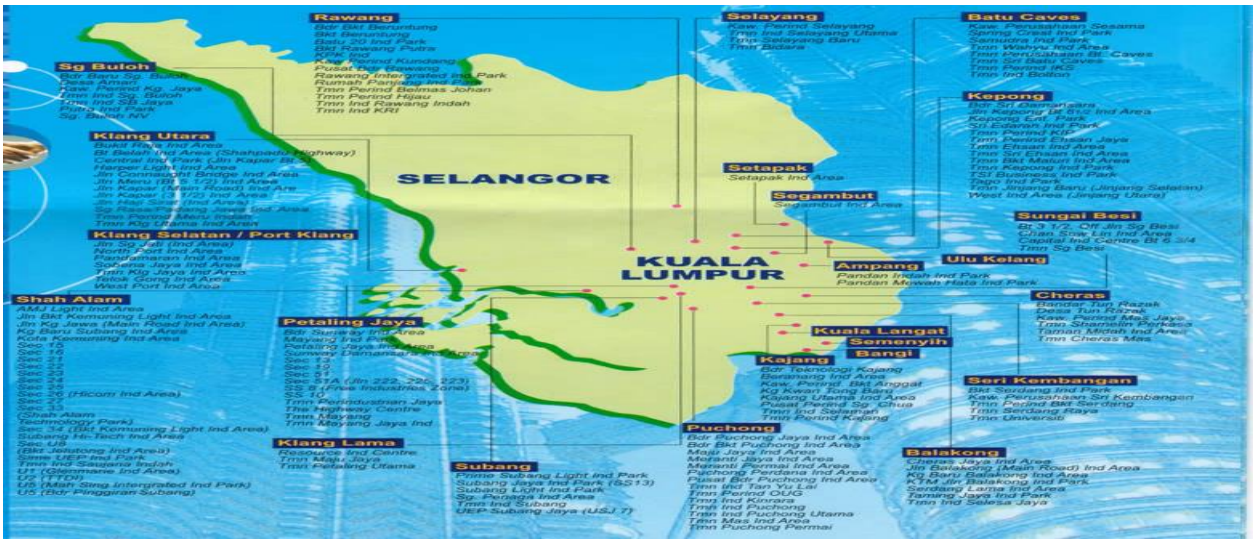
This study used questionnaire by on companies in Klang Valley. The respondents are the senior financial officer of the company. The samples of the company are chosen from companies who are involved in GST and SST 2.0 only. Any companies who do not meet this requirement are excluded from the samples. According to Zikmund et al., (2010), research design is a plan of how research should be conducted to achieve the research objectives. There are two categories of research: qualitative and quantitative research. Qualitative research is a plan whereby the data to be collected are not characterized by numbers, but by visual, verbal, or textual. Whereas quantitative research is a research plan for collecting information through surveys distributed to target respondents with the intention of testing research hypotheses (Sekaran & Bougie, 2016).

Based on the objectives of the study, the most appropriate approach to meet the objectives in the study is the quantitative research approach. This is because the design of quantitative research describes data and characteristics of the population or phenomenon under study (De Vaus, 2001). Quantitative methods are chosen because they have several advantages as this study can be repeated in the future for validation purposes because the ability of a study to be replicated is important for theory testing.

3.2 Research Area

The purpose of this study was to study the level of readiness and commitment by companies with the implementation of SST 2.0 in the Klang Valley.The reason why this area was selected is because the Klang Valley is the area that has the largest number of manufacturing firms and importers in West Malaysia. The Klang Valley is geographically outlined by the Titiwangsa Mountains to the north and east and the Strait of Malacca to the west. It covers an area of Rawang in the northwest, Semenyih in the southeast, and Klang and Port Klang in the southwest. As of 2020, the Klang Valley is home to roughly 8 million people (Macro Trends, 2022).

Figure 1 below shows the major industrial areas in Klang Valley that can be the source of the data to be collected and analyzed to answer the research objectives (sourced from https://www.malaxi.com/Map_industrialareas_kl_selangor.htm)



3.3. Data Collection Technique

Survey is the most frequently used method in quantitative studies because it enables researchers to collect large amounts of data from large populations (Gray, 2013). The survey was conducted by the researcher to obtain data or information from the respondents representing the study population (Alreck & Settle, 2004). The data obtained allow researchers to draw conclusions and conclusions about the general view of the population based on the response of the sample (Creswell, 2014).

Although the survey method has several advantages as described above, Hair et al. (2014) have noted that there are some disadvantages when using surveys. Among them are the difficulty in ensuring that the answers given by the respondents are correct and the inability of the instrument to get more information from the respondents. This practice is also criticized because the data is based on self-perceptions that may be 'biased' on aspects of the study.

To address the above issues, Hair et al. (2014) have suggested several steps or guidelines. First, the researchers used only previously tested, reliable, and valid instruments used in this study. Second to reduce the influence of researchers on respondents when answering questions, the "drop and pick" method will be used. According to Pallant (2016), this method can increase respondents 'response rate where they have ample time to answer the survey questions and do not influence the respondents' answers.

3.3.1 *Sampling*

In social science studies, it is impossible to get information from the whole population due to time constraints and money, especially for large populations. According to Krejcie and Morgan (1970), sample size is a subset of populations and sample size is determined by population size. In determining the sample size of the target, this study adopted the recommendations of Krejcie and Morgan (1970) as they greatly simplified the sample size decision by providing a table that ensures good model results. In this study, the population was the manufacturing firms in the Klang Valley that has about 2,184 manufacturing companies that may be subjected to SST (dun & bradstreet, 2022).

As the population in this study is 40 manufacturers in Klang Valley. The sampling method used to achieve the aim of the study was the simple stratified sampling where the sample size of each estate was randomized to ensure it was in line with population size. While the sample of each estate is determined based on the systematic method. This method is selected to ensure that any 'bias' of the study can be eliminated or minimized as much as possible and that a fair representation of the population is obtained.

3.3.2 *Questionnaire Design*

The surveys used in this study consist of four sections (as attached in Appendix A). Section A contains the demographic information of the respondents. The other three sections, Parts B, C and D, are a series of elements that can influence the implementation of the SST. It is expected that each respondent will need between 15 and 20 minutes to complete the survey. The following is a detailed discussion of each section

Section A consist of questions related to company's information. Section B will be consisting of questions related to readiness of business entities which will testing on the change valence variable. Section C will consist of questions related to problems and issues faces by the business during the implementation of SST 2.0 which will testing on the change valence variable and resource availability. Section D will consist of questions related to monetary issues faced by the business which will be testing on the resource availability variable. Section E will consist of statements related to solutions in regards to the problems and issues faced by the business which will be testing on the task knowledge variable. Section F will consist of statements related to business owner's perception towards the implementation of SST 2.0 which will be testing on the change valence variable.

3.3.3 *Constructs, variables and research items.*

We have constructed independent and dependent variable based on our research. Independent variable: Change valence, task knowledge and availability of resources. Dependent variable: 30 companies in Klang Valley

In this study, the researchers used the research instruments from the previous constructs, variables and types of research and adapted the research context in the organization to develop this research instrument. This is a common approach used in instrument development since existing instruments have been evaluated for validity and reliability (Kitchenham & Pfleeger, 2002).

3.4 Administrating the Survey

The instrument was distributed to the respondents using the method discussed in section 3.3.1. Because the study involved several manufacturers in Klang Valley and due to lack of research time, the dissemination of the instrument was done by email invites. The email will contain the link to the Google forms where the respective respondents can provide their answers.

3.5 Data Analysis

All the data collected from the final survey will be used in the statistical analysis to solve the research problems addressed in Chapter One.

3.5.1 Descriptive Statistics

The use of descriptive analysis is important to describe the phenomena and characteristics of the sample in this study (Pallant, 2016). The purpose of the descriptive analysis of the data collected is to summarize the data collected and interpret the data as useful information. In this study, demographic information of the respondents was analyzed using descriptive analysis of mean and percentage. Variable data were also evaluated using descriptive analyzes such as mean and standard deviation.

The Mean value is intended to provide overall responsiveness to a variable as well as any statement to the variable. It allows us to understand the general view of each statement. Whereas, standard deviation seeks to determine the extent to which a statement has a uniform response by the respondents. High standard deviation values indicate inconsistencies in the responses provided by respondents.

3.6 Chapter Summary

To achieve the objective of the study, a quantitative survey method was used to obtain data from respondents who are manufacturers in Klang Valley. The survey form has several key components of the respondents such as demographic information, statements about readiness for SST and issues faced.

4.1 RESEARCH BACKGROUND

SST or known as Sales and Services tax was re-introduced to abolish Goods and Services Tax (GST) in Malaysia on September 2018 (Malaysia VAT Guide - Avalara, n.d.). The climate for indirect taxes in Malaysia is rapidly changing, and the danger is now greater than ever. GST was cited as the primary cause of burden on businesses in Malaysia. Basically, the majority of Malaysians opposed the GST. According to Ling et al (2016), most businesses feared that it will lead to increase in prices and suggested that the implementation of indirect taxes is unfair. At the same time, abolishing GST would affect the country's income severely. Therefore, former Prime Minister of Malaysia, Tun Dr Mahathir Mohamad corroborated with Ernst & Young to replace GST with SST 2.0 as a better alternative which led to its re-introduction in 2018 (Ernst & Young, 2018). Price increases for necessities are made worse by the general public's perception of SST 2.0 as a corporate expense. The study is pertinent because of the significant weight on Malaysians' business income, which ultimately causes a great deal of stress and uproar. There is lack of study conducted on the manufacturing industry on the issues and problems faced due to the re-introduction of SST 2.0, hence this study is aimed to fill those gaps.

4.2 PROBLEM STATEMENT

The re-introduction of SST 2.0 created a buzz in the news and online platforms. This is mainly due to the negative perception of the public especially business owners. Manufacturing industry is one of the largest industries in Malaysia which contributes to 23.49% Gross Domestic Product (GDP) in 2021 (Trading Economics, 2022). Federation of Malaysian Manufacturers conducted survey on manufacturing companies on the view on SST reintroduction which showed that most owners had negative perception towards it mainly on the cost impact towards their businesses (Federation of Malaysian Manufacturers, 2022). There is lack of study conducted to study the impact of SST on manufacturing companies in Malaysia, which would have contributed to the negative perception of business owners. This study aims to investigate the issues and problems on the reintroduction of SST 2.0 on manufacturing companies targeted in Klang valley area.

4.3 FINDINGS

4.3.1 Demographics

A total of 49 companies responded to the questionnaires in Klang Valley. Out of the 49 companies, 30 companies are from manufacturing industry as shown in table 4. Most of the companies were established in different years, however 10 companies which constitutes of 20.4% is from year 2000 as shown in Table 1. 59.2% of the companies has annual turnover between RM 500,000 to RM 999,999. 20.4% of the companies has annual turnover between RM 10,000,000 and above, 12.2% of the companies has annual turnover of RM 1,000,000 to RM 4,999,999 and 8.2% of the companies has annual turnover of RM 5,000,000 to RM 9,999,999. As seen in table 3, 38.8% of the company is private limited company, 30.6% is sole proprietorship, 18.4% is partnership, 10.2% is public limited company and 2% is limited liability partnership. This study is focused on manufacturing companies; hence the analysis will be done only for 30 companies instead of 49 companies.

Table 1: Year the companies were established

Year

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1906	1	2.0	2.3	2.3
	1960	1	2.0	2.3	4.5
	1972	2	4.1	4.5	9.1
	1980	1	2.0	2.3	11.4
	1989	1	2.0	2.3	13.6
	1991	1	2.0	2.3	15.9
	1992	2	4.1	4.5	20.5
	1995	2	4.1	4.5	25.0
	1997	2	4.1	4.5	29.5
	1999	1	2.0	2.3	31.8
	2000	10	20.4	22.7	54.5
	2001	2	4.1	4.5	59.1
	2002	1	2.0	2.3	61.4
	2003	2	4.1	4.5	65.9
	2004	2	4.1	4.5	70.5
	2005	1	2.0	2.3	72.7
	2007	2	4.1	4.5	77.3
	2010	1	2.0	2.3	79.5
	2011	2	4.1	4.5	84.1
	2012	1	2.0	2.3	86.4
	2015	1	2.0	2.3	88.6
	2017	1	2.0	2.3	90.9
	2018	1	2.0	2.3	93.2
	2019	2	4.1	4.5	97.7
	2021	1	2.0	2.3	100.0
	Total	44	89.8	100.0	
Missing	System	5	10.2		
Total		49	100.0		

Table 2: Companies annual turnover

Turnover

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	RM 500,000-999,999	29	59.2	59.2	59.2
	RM 1,000,000 – RM 4,999,999	6	12.2	12.2	71.4
	RM 5,000,000 – 9,999,999	4	8.2	8.2	79.6
	RM 10,000,000 & above	10	20.4	20.4	100.0
	Total	49	100.0	100.0	

Table 3: Business entity of the companies

Entity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sole Proprietership	15	30.6	30.6	30.6
	Partnership	9	18.4	18.4	49.0
	Private Limited Company	19	38.8	38.8	87.8
	Public Limited Company	5	10.2	10.2	98.0
	Limited Liability Partnership	1	2.0	2.0	100.0
	Total	49	100.0	100.0	

Table 4: The industry of respondents

Industry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	30	61.2	61.2	61.2
	Others	19	38.8	38.8	100.0
	Total	49	100.0	100.0	

4.3.2 Hypothesis testing

There are five statements or questions asked for each hypothesis. The Likert scale is used which consist of 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree for 4 hypothesis. The five-point Likert scale is considered interval scale. However, for the fifth hypothesis Likert scale of 1=Not at all likely to 5=Extremely Likely is used. Even though, there has been 49 respondents, our study is focused on manufacturing companies, hence other companies will be filtered out to exclude from the analysis.

i. The readiness levels of companies towards implementation SST 2.0 are low
SST is a single stage tax which is implemented to simplify taxation for business (Surendran, 2018). SME Info stated that SST 2.0 will be easier for companies to adapt (SME, 2021). In other words, it should not impact the readiness level. However, according to an article, it was stated that there were many criticisms towards the implementation of SST 2.0 as most companies are not ready (Kong, 2018).
In order to analyze this, we have conducted survey to understand the readiness of manufacturing companies in Klang Valley. Based on the descriptive statistics shown in table 5, it shows individual question mean and standard deviation.

Table 5: Descriptive Statistics of Readiness level of manufacturing companies in Klang Valley

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
My company always responsive on any changes on tax policy	30	1.00	5.00	3.9000	.84486
In preparing for SST 2.0, my company is ready with the pricing policy	30	3.00	5.00	4.0000	.52523
My company is ready with the computer systems such as software to implement SST 2.0	30	3.00	5.00	4.0000	.58722
The degree of readiness of my business to implement SST 2.0 is above 50%	30	1.00	5.00	3.7000	.83666
My company is ready with the establishment of SST team	30	1.00	5.00	3.8333	.83391
Valid N (listwise)	30				

Based on table 5, has a mean between 3.41 to 4.20 which indicates that the companies agree that they are ready with the implementation of SST 2.0. The highest mean is for statement 2 and 3 which states “In preparing for SST 2.0, my company is ready with the pricing policy” and “My company is ready with the computer systems such as software to implement SST 2.0”. The results show that the readiness of manufacturing companies in Klang Valley is high, hence the hypothesis is rejected.

ii. There frequency of problems and issues faced by companies are high
According to The Star News, there is an increasing fear among business entities because suppliers may use this as a reason to increase the prices of raw materials. Apart from that, businesses are burdened with procedures that are required to implement SST 2.0. Therefore, in order to analyze the frequency of problems and issues faced by manufacturing companies in Klang Valley, survey has been conducted and the below results are derived.

Table 6: Descriptive analysis of problems and issues faced by manufacturing companies in Klang Valley

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
As a business, we are afraid that SST 2.0 will cause an increase in prices of goods	30	1.00	5.00	4.0000	.83045
It is very difficult to implement SST 2.0 due to its procedures	30	2.00	5.00	3.8000	.71438

SST 2.0 will reduce the purchasing power of customers, hence the company will have reduced sales	30	2.00	5.00	3.8000	.66436
My company will have to change the pricing strategy which will affect customer retention	30	3.00	5.00	3.9000	.40258
Supply chain will be affected due to high cost, hence will affect the delivery of raw materials for our manufacturing plant	30	2.00	5.00	3.8667	.62881
Valid N (listwise)	30				

Based on the results in Table 6, has a mean between 3.41 to 4.00 of interval scale which indicates that the companies agree that the frequency of problems and issued faced by the manufacturing companies are high. Statement 1 which states "As a business, we are afraid that SST 2.0 will cause an increase in prices of goods" has the highest mean. This is similar to the statement made in The Star News, which stated that companies are afraid of increase in the prices of raw materials. Therefore, the hypothesis is accepted.

iii. The monetary impact of SST reintroduction towards business owners are high
According to Finance Minister Lim Guan Eng, the monetary impact will be lesser than GST (Kong, 2018). However, KPMG stated that SST 2.0 may result in hike in cost for business owners. This is because not all the sectors will be claiming the input tax, which makes the impact of monetary on businesses high. This study aims to analyze the monetary impact on manufacturing companies in Klang Valley and below are the results.

Table 7: Descriptive Analysis of the monetary impacts on manufacturing companies in Klang Valley

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
My company will need to invest heavily in upgrading of accounting software to adapt to SST 2.0	30	2.00	5.00	3.8000	.55086
My company will need to bear additional cost of hiring of SST professionals or consultant	30	2.00	5.00	3.8667	.57135
My company will incur an additional cost of training the current employees with knowledge and skills related to SST 2.0 implementation	30	2.00	5.00	3.9667	.55605
The expected increase in cost for goods, will result in reduced profit for the company	30	2.00	5.00	3.8000	.66436
My company will not be able to sustain with lower priced goods as it will result in loss for the company	30	2.00	5.00	3.6667	.80230
Valid N (listwise)	30				

Based on Table 7, the mean ranges from 3.41 to 4.00 on interval scale which indicates that the companies agree with the statements. This shows that business owners are afraid of the monetary impact for their businesses due to SST 2.0 implementation. Therefore, the hypothesis is accepted.

iv. The solutions that company have to solve the issues and problems are low
It is stated by Syeddin (2021, that companies seek for governmental support programs in order to solve the issues and problems they face, whereas Erma Suryani Mohd Jamel and Muse Johnson Popoola (2020) stated that businesses seek alternative to reduce the cost involved. This study aims to identify if the manufacturing companies in Klang Valley have solutions to the problems they face.

Table 8: Descriptive analysis of solutions available to manufacturing companies in Klang Valley

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
My company will adjust the system rate in the existing accounting software and does not need to upgrade to a new software	30	2.00	5.00	3.6667	.84418
My company will use the professional guidance from MYSST general guide to adapt to SST 2.0	30	3.00	5.00	3.8667	.50742
Employees will be signed up for government training program for SST 2.0	30	3.00	5.00	3.7667	.56832
My company will look for alternative suppliers for a lower goods price	30	3.00	5.00	4.0000	.52523
My company will reduce the cost of operations in order to compensate the increase in goods prices	30	2.00	5.00	3.9333	.52083
Valid N (listwise)	30				

Table 8 shows that the solutions presented are for the issues and problems presented in Table 7. Table 7, first statement is "My company will need to invest heavily in upgrading of accounting software to adapt to SST 2.0" with a mean of 3.8 which means the companies agree that they will need to invest heavily to upgrade the accounting software. The solution presented in Table 8 is "My company will adjust the system rate in the existing accounting software and does not need to upgrade to a new software" with a mean of 3.67 which also indicates that the business has a solution that they implement. Similarly, for all the four statements, the means is above 3.41 which shows that manufacturing companies in Klang Valley has solution for the existing problems. Therefore, the hypothesis is rejected.

v. The perception of business owners towards SST 2.0 implementation is negative
As mentioned by Kong (2018) there are many negative criticisms by business owners towards SST 2.0 implementation. This is mainly contributed due to the speculations in social media and other businesses. This study aims to analyze the perception of business owners towards SST 2.0 implementation and below are the results.

Table 9: Descriptive analysis of business owners' perception towards SST 2.0

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
I am feeling determined to implement SST 2.0	30	1.00	5.00	3.6667	1.09334
I am motivated to implement the changes in the business	30	1.00	5.00	3.8667	1.19578
I am certain that I can coordinate the task related to SST 2.0 implementation	30	2.00	5.00	3.8000	.92476
I strongly believe SST 2.0 is a good idea for my business	30	1.00	5.00	3.7333	1.17248
I believe that SST 2.0 will help my business to save cost	30	1.00	5.00	3.6333	1.24522
Valid N (listwise)	30				

Based on the results in Table 9, Statement 1 "I am feeling determined to implement SST 2.0" and Statement 5" I believe that SST 2.0 will help my business to save cost" has a mean of 3.67 and 3.63 which is closer to Likert scale of 3 that is neutral. This shows that the business owners are not determined to implement SST 2.0 and skeptical on the fact that SST 2.0 will help their business to save cost. This is significant to the statement made by manufacturers as stated by Federation of Malaysian Manufacturers (2022). On the other hand, statement 2, 3 and 4 shows a mean above 3.7 which indicates that the companies are likely to have positive perception towards the implementation of SST 2.0. It is hard to determine if the perception towards the implementation of SST 2.0 is positive or negative, therefore another test is conducted to find the mean of all the statements as seen in Table 10. The table shows a mean of 3.74 which indicates that manufacturing companies have a positive perception towards SST 2.0 Implementation. Hence, the hypothesis is rejected.

Table 10: Descriptive analysis of all the statements on perception

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
perception	30	2.20	5.00	3.7400	.91297
Valid N (listwise)	30				

RECOMMENDATION AND CONCLUSION

This study is conducted to identify the issues and problems faced by manufacturing companies in Klang Valley. The study is focused on a selected area as there are many manufacturing companies and it is easier to interpret the data. Despite the questionnaires was sent to over 60 companies, only 49 companies responded in which 19 companies are non-manufacturing companies. It suggested that for future studies, more manufacturing companies are included from different regions in Malaysia to further understand the issues and problems faced by manufacturing companies.

Even though, the issues and problems faced by manufacturing companies has a high mean, the solutions also have a high mean. However, this does not mean that the solutions are effective in solving the issues and problems faced by the companies. Therefore, for future studies it is recommended to analyze on the effectiveness of solutions to solve the issues and problems manufacturing companies face during the implementation of SST 2.0.

Apart from that, the perception of the 30 companies indicates that the companies have positive perception towards the implementation of SST 2.0. This is limited to the perception of 30 companies and does not represent the entire manufacturing industry or the majority of manufacturing industry. To improvise further, it is highly recommended to analyze the perception from different regions in the country while maintaining the same number of samples.

The study does not focus on the causal and effect relationship between the issues and problems faced by the manufacturing. It is merely conducted to identify the issues and problems, hence for further studies the issues and problems can be studied with media communication as social media influence the negative perception of SST 2.0 implementation.

In conclusion, the study results show that hypothesis 1 which is the readiness levels of companies towards implementation SST 2.0 are low, hypothesis 4 which is the solutions that company have to solve the issues and problems are low and hypothesis 5 which is the perception of business owners towards SST 2.0 implementation is negative are rejected. On the other hand, hypothesis 2 which is their frequency of problems and issues faced by companies are high and hypothesis 3 which is the monetary impact of SST reintroduction towards business owners are high is accepted. It is true that manufacturing companies are burdened with issues and problems but at the same time it is also agreed that the implementation is easy for businesses which results in the companies to have positive perception

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