Empirical Study of the Public Acceptance Model of Indirect Tax Policy: The Underlying Guiding Principles of Good Tax Policy

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ABSTRACT

In view of the strong rumor that the Goods and Services Tax (GST) may be re-introduced in Malaysia, Bernama (2022) reported that Malaysia is keen on reintroducing GST to expand its revenue base and carry the weight of public subsidies. In fact, no country in the world has reverted from the Goods and Services Tax (GST) to the Sales and Services Tax (SST), except for Malaysia. Due to GST abolishment, Malaysia incurred an annual revenue loss of RM20 billion, and, surprisingly, the reintroduction of SST 2.0 did not contribute much to the government. Compared to the GST collection of RM41 billion in 2016 and RM44 billion in 2017, SST 2.0 only collected RM26.7 billion in 2020 and RM27.9 billion in 2021. Unfortunately, from the public's perspective, GST remains a very unpopular indirect tax reform due to its regressive nature, affecting both the poor and poor the rich. Since the tax applies to every transaction regardless of the socioeconomic status of individuals, it places an undue burden, especially on poor households. Similarly, the SST 2.0 also disappoints the public since it has the same features as SST 1.0, for instance, high tax evasion levels by businesses (Sanusi et al., 2015) and a cascading impact of sales tax whereby the tax incurred by manufacturers is re-taxed (tax-on-tax effect) to a certain extent at subsequent manufacturing process stages, thus increasing the prices of goods and services (Zhou et al., 2013). Besides, literature on the key catalyst of the public acceptance of Malaysian indirect tax also lacks discussions on a specific public acceptance model for indirect tax policy implementation. Since these unresolved problems could instigate another tragic rejection by the public and impact the government's revenue collection, this study, therefore, aims to bridge the gap by proposing an indirect tax acceptance model using the guiding principles of good tax policy recommended by AICPA (2017).

Keywords: Goods and Services Tax (GST), Indirect Tax Policy, Good Tax Policy.