**THE IMPACTS OF GOODS AND SERVICES TAX (GST) ON MIDDLE INCOME EARNERS**

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**ABSTRACT**

The introduction of GST has called many arguments from various parties including academics, professionals and the nation (would become the taxpayers) on how GST affect goods prices-increase or decrease. The consumers are worrying of the significant price increases on basic needs when the GST has fully implemented. With the relatively high living costs particularly in main big cities, significant price increases due to GST is considered as another burden for middle income earners. Therefore, the main objectives of this study is; first, to obtain a comprehensive overview on consumer readiness, perceptions and acceptance of GST; and secondly to analyse the households’ potential consumptions (purchases) behaviour if GST is introduced. Data was collected through a structured survey among middle income earners. The proposed monthly income threshold is between RM2,000 (USD667) to RM4,000 (USD1,333) as suggested by Bank Negara Annual Report 2008. Respondents were chosen randomly from various organizations including government and private sectors from various locations in Kuala Lumpur, Malaysia. This study is expected to suggest a proposal to the relevant authorities on the social and economy impacts on those groups so that the authorities could develop strategies in order to reduce the financial burden of middle income earners in Malaysia if GST is implemented. This study is also expected to make a contribution to the tax administration and policy developments literature by demonstrating the impact of a new tax policy in a developing country in order to facilitate low income earners to survive in competitive environment. This study further contributes by providing comprehensive overview on consumer readiness, perceptions and acceptance of GST in a developing country, particularly in Asian countries that were previously under researched.

Keywords: Goods and services tax, tax evasion, middle income earners.

**INTRODUCTION**

Goods and Services Tax (GST) is a consumption tax imposed on the sale of goods and services. In some countries it is also called Value Added Tax (VAT). It is a new tax instrument introduced by the Malaysian government soon, estimated in 2012 would be the soonest year of implementation (Customs Department, 2010). The introduction of GST in Malaysia has called many arguments from various parties including academics, professionals and the nation (would become the taxpayers) on how GST affect goods prices-increase or decrease. The onus of GST is to replace the current Sales Tax and Service Tax in line with the government policy of conforming policies of AFTA.

**TYPES OF GST**

Currently, three types of GST are in use around the world. Each differs primarily in its method of handling the tax on investment (capital) expenditures. The most common method, the consumption type, permits businesses to deduct immediately the full value of the tax paid on capital purchases. A second approach, the national income type, allows only a gradual deduction of the GST paid on capital purchases over a number of years, much like depreciation.

**Table 1: Independent samples T-test between gender and readiness, perceptions and acceptance of GST**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | t | df | Mean Difference | Std. Error Difference |
| READY | 24.479 | 38 | 3.19658 | .21850 |
| PERCEPT | 38.833 | 38 | 3.42735 | .16249 |
| ACCEPT | 44.328 | 38 | 3.26496 | .12332 |
| BEHAVIOUR | 45.542 | 38 | 3.22121 | .12211 |

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