

**THE EFFECT OF MALAYSIA GOODS & SERVICES TAX (GST) TO THE
CONSTRUCTION INDUSTRY**

INTAN NURSYAFIQAH BINTI MOHAMED HISSAM

AA12107

Project report submitted as partial fulfillment of the requirements for the award of
the degree of Bachelor Eng. (Hons) Civil Engineering

Faculty of Civil Engineering & Earth Resources

UNIVERSITI MALAYSIA PAHANG

JANUARY 2016

ABSTRACT

The purpose of this study is to identify the perception of the construction industry towards the implementation of the Goods and Services Tax (GST). The others purpose of this research is to investigate the pricing effect from the perspectives of the construction industry. According to Malaysia Customs, the Goods and Services Tax (GST) is a value added tax in Malaysia. GST is levied on most transactions in the production process, but is refunded to all parties in the chain of production other than the final consumer. From this research, the independent variables are developer, consultant and the contractor while for dependent variable is the Goods and Services Tax (GST). The cost such as tax on construction cost, material cost, labor cost and management cost in construction industry has been discussed in this research.

ABSTRAK

Tujuan kajian ini adalah untuk mengenalpasti persepsi industri pembinaan terhadap pelaksanaan cukai barangan dan perkhidmatan (GST). Tujuan lain kajian ini adalah untuk menyiasat kesan harga dari perspektif industri pembinaan. Menurut Kastam Malaysia, cukai barangan dan perkhidmatan (GST) adalah nilai ditambah cukai di Malaysia. GST dikenakan pada kebanyakan urusanniaga dalam proses pengeluaran, tetapi dikembalikan kepada semua pihak dalam rantaian pengeluaran selain daripada pengguna akhir. Daripada kajian ini, pembolehubah bebas adalah pemaju, perunding dan kontraktor bagi pembolehubah bergantung adalah barangan dan perkhidmatan (GST). Kos seperti cukai ke atas kos pembinaan, kos buruh, kos bahan dan kos pengurusan dalam industri pembinaan telah dibincangkan dalam kajian ini.

TABLE OF CONTENTS

	Page
SUPERVISOR’S DECLARATION	IV
STUDENTS’S DECLARATION	V
DECLARATION	VI
ACKNOWLEDGEMENTS	VII
ABSTRACT	VIII
ABSTRAK	IX
TABLE OF CONTENTS	X
LIST OF TABLES	XIII
LIST OF FIGURES	XIV
CHAPTER 1 INTRODUCTION	
1.1 Background of Study	1
1.1.1. Good & Services Tax	1
1.2 Parties in Construction Industry	3
1.2.1. Developer	4
1.2.2. Consultant	6
1.2.3. Contractor	7
1.3 Problem Statement	8
1.4 Research Objective	10
1.5 Research Framework	10
1.6 Scope of Study	10
1.7 Expected Result	11
CHAPTER 2 LITERATURE REVIEW	
2.1 Introduction	12
2.2 Review on GST	12
2.3 What is GST?	14
2.4 Implementation of GST in Foreign Country	15

2.4.1.	Australia & GST	16
2.4.2.	India & GST	17
2.4.3.	Canada & GST	18
2.4.4.	Singapore & GST	20
2.4.5.	New Zealand & GST	21
2.5	Implementation of GST in Malaysia	22
2.6	GST & Its Impacts	23
2.7	Research on GST in Malaysia & Foreign Country	24
2.7.1.	Research on Australia	24
2.7.2.	Research on Malaysia	24
2.8	Methodology of the Research	25
2.8.1.	Australia	25
2.8.2.	Malaysia	26
2.9	Method of Collecting Data	26
2.9.1.	Australia	26
2.9.2.	Malaysia	27
2.10	Finding from the Research	27
2.10.1.	Australia	27
2.10.2.	Malaysia	28
2.11	Conclusion	28

CHAPTER 3 RESEARCH METHODOLOGY

3.1	Introduction	29
3.2	Research Design	30
3.3	Data Collection Method	30
3.3.1.	Primary Data	31
3.3.2.	Secondary Data	31
3.4	Population and Sampling	32
3.4.1.	Convenient Sampling	32
3.5	Sampling Design	33
3.5.1.	Target Population	33
3.5.2.	Sample Size	33
3.6	Variable Used	34
3.6.1.	Dependent Variable	34
3.6.2.	Independent Variable	34
3.7	Development of Instruments	34
3.7.1.	Section A	35
3.7.2.	Section B	35

3.7.3. Section C	36
3.8 Data Analysis Method	36
3.8.1. Frequency Distribution	37
3.8.2. Descriptive Statistics	37
3.8.3. Reliability Analysis	37
3.8.4. Mean	38
3.9 Conclusion	39

CHAPTER 4 DATA ANALYSIS AND DISCUSSION

4.1 Introduction	40
4.2 Questionnaire Distribution	41
4.3 Descriptive Analysis	41
4.3.1. Respondent Demographic Profile	41
4.4 The Perception of the Construction Industry	44
4.5 Pricing Effect from GST	47
4.5.1. Tax on Construction	47
4.5.2. Material Cost	49
4.5.3. Labor Cost	50
4.5.4. Management Cost	51
4.6 Conclusion	52

CHAPTER 5 CONCLUSION AND RECOMMENDATION

5.1 Introduction	53
5.2 Implication of Study	53
5.3 Limitations of Study	54
5.4 Recommendation for Future Studies	55
5.5 Conclusion	55

REFERENCES	57
-------------------	----

APPENDICES

A	59
B	66

LIST OF TABLES

Table 3.1: Rule of Thumb for Cronbach's Alpha	38
Table 4.1: Respondent Demographic	42
Table 4.2: Do you agree that GST will not affect the property prices?	44
Table 4.3: Do you agree that the implementation of GST will not burdened the construction industry?	45
Table 4.4: Do you agree that GST will not give negative impact to the construction industry?	45
Table 4.5: Mean Score for Perception towards GST	46
Table 4.6: Tax on Construction	47
Table 4.7: Material Cost	49
Table 4.8: Labor Cost	50
Table 4.9: Management Cost	51

LIST OF FIGURES

Figure 1.1: GST Flow	3
Figure 1.2: Research Framework	10
Figure 4.1: Company Type	43
Figure 4.2: Position in the Company	43

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

1.1.1 Goods and Services Tax

GST which is also known as VAT or the value added tax in many countries is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

GST is a broad based consumption tax covering all sectors of the economy for example all goods and services made in Malaysia including imports except specific goods and services which are categorized under zero rated supply and exempt supply orders as determined by the Minister of Finance and published in the newspaper. GST basic fundamental is its self-policing features which allow the businesses to claim their input tax credit by way of automatic deduction

in their accounting system. This eases the administrative procedures on the part of businesses and the Government. Thus, the Government's delivery system will be further upgraded.

Citizen of Malaysia pay taxes to the government so that government can finance socio-economic development; which includes providing infrastructure, education, welfare, healthcare, national security for the society. Over the past few decades, the world wide has been introduced to the multi-stage GST system. Today, almost 90% of the world's populations live in countries with GST including China, Indonesia, Thailand, Singapore and also India. Now, Malaysia also joined the revolution.

GST is one method of collecting taxes which works better than others. It is shall be collected and charged on the taxable supply of goods and services made in the course or furtherance of business in Malaysia by a taxable person. GST is also charged on the importation of goods and services and out of scope supplies are not taxable supplies. A taxable supply is a supply which is standard rated or zero rated. GST can only be levied and charged if the business is registered under GST and the business is not liable to be registered if its annual turnover of taxable supplies does not reach the prescribed threshold.

Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, only the value added at each stage is taxed thus avoiding double taxation. In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as a "registered person". A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

Figure below shows how GST works.

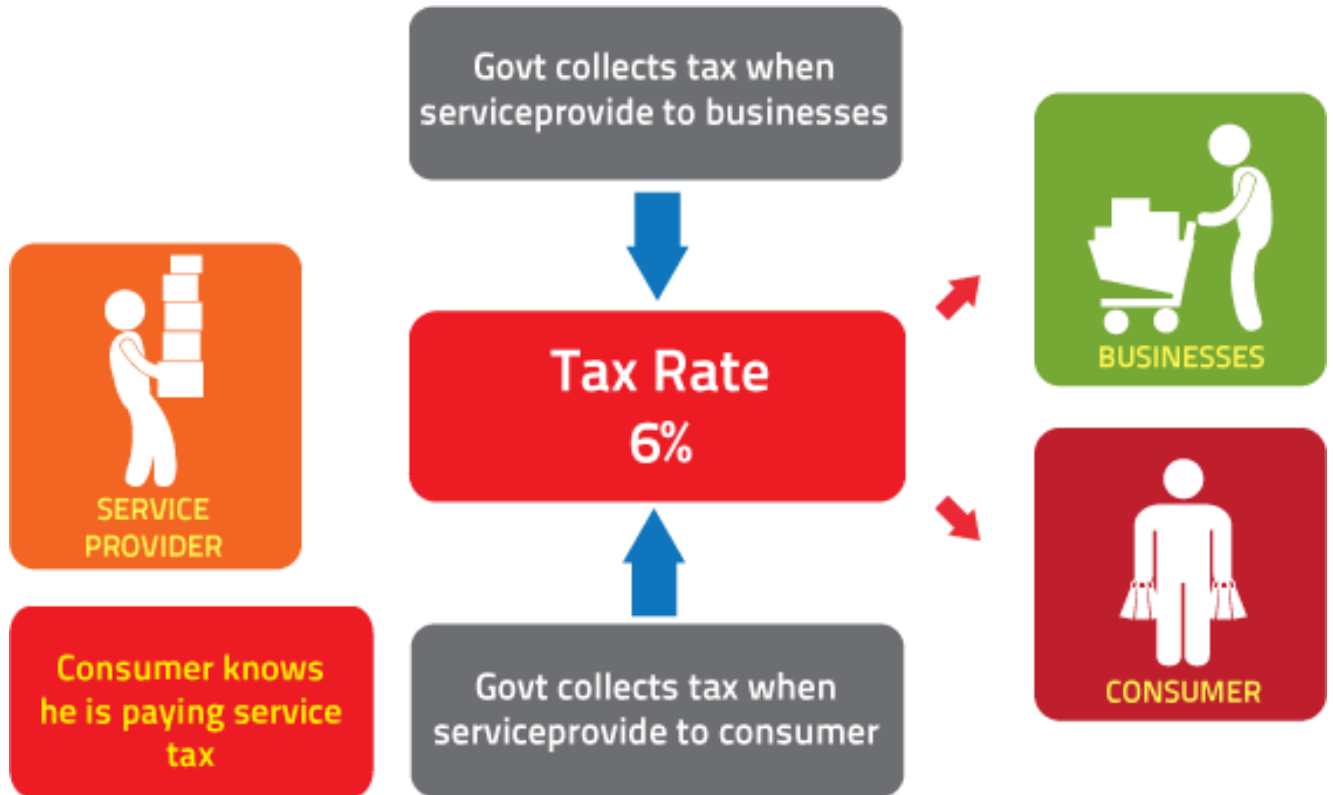


Figure 1.1: GST Flow

1.2 PARTIES IN CONSTRUCTION INDUSTRY

Normally the construction industry will include activities such as build new structures, modifications, maintenance, repair, alteration, dismantling, removal, demolition and improvements on these structures. It includes any works which form an integral part of, or are preparatory for the works mentioned, including site clearance, soil investigation and improvement, earth moving, excavation, lying of foundation, site restoration and landscaping.

The construction industry involves main contractor, developer, and consultant in the construction of residential, commercial, industrial and other building. They also involves in heavy and civil engineering construction who involved in constructing roads, highways, tunnels, bridges, sewer and other projects. Other than that, they also involves in special trade contractor who perform other specialized activities related to construction such as carpentry, plumbing, electrical, painting and other civil works. All construction services performed in Malaysia are subjected to GST. Hence, the construction industry need to register as a person who has to charge GST on the supply of construction services, whether in relation to residential or non-residential properties in Malaysia.

1.2.1 Developer

Construction developers can be just project owners or both the owner and contractor of a development project. In either capacity, a developer has certain obligations that need to be spelled out clearly in the contract documents. If this is done, the probability of a successful completion of the project is enhanced. If the initial step is omitted, the chances of delay and conflict are increased. In the construction industry, a developer is usually considered to be a person who develops land through construction and who, to this end, becomes an owner of the developed land. The developer seeks a profit from development of the land, either by selling a development, such as a tract of residential homes, a shopping mall, or an office building, or by holding the developed property to reap a return on the investment.

Developers can operate in many different economic arrangements. Some developers form construction companies to do their own work, and to pick up any other work they can obtain at a good price. Some are simply brokers, without much staff, who subcontract all or most of the work they undertake, often with only one criterion: the lowest responsible price. Others attempt to operate as contractors; some succeed, become established, and do good construction work in the market place. Some developers have found advantages to having their own construction company, such as ensuring themselves a consistently high standard of construction work without having to pay for full-time inspection. Having their own construction company gives those developers a measure of flexibility in contracting, not usually attainable with other contractors,

through competitive bidding and it gives them maximum control over development projects and costs.

Experience shows, however, that a prevailing risk for developers, doing their own construction work, lies in the temptation for them not to operate at arm's length. That is, the parent company may not be treated by the subsidiary in the same way as any other customer (at arm's length), so that the construction work is often not done at actual cost and for a reasonable profit. Because costs are constantly changing, it is difficult to estimate or determine some of the costs of construction work. Without the constraint of competition in the open marketplace, construction costs tend to become amorphous. In all instances of owners as contractors, separate companies should exist for the different functions and proper construction contracts between such companies should be made in writing.

Whether a developer is just an owner or both owner and contractor, there are two major types of contracts that usually govern construction projects. The first type of contract is the stipulated sum contract, also called the lump-sum, or fixed-price, contract. In a stipulated sum contract, a bidder stipulates the amount for which he or she will do the work. This is probably the most familiar type of contract, as it has been the most common form of construction contract for the last 100 years or more. While it is still the most common form of contract, many of the larger construction contracts today are not done on a stipulated sum basis.

A developer can wear one or two hats in a construction project. A successful construction contract strives to clearly set out the rights and responsibilities of the parties at the onset. In this way, a project can be efficiently and successfully carried out and needless conflict avoided. An experienced construction law attorney will be able to insure that the developer's rights and responsibilities are clearly set out and understood in any given project.

1.2.2 Consultant

A construction consultant is someone who is hired to assess and advise on structural issues. These consultants are experts in construction, with a degree in engineering or a related field. They usually have several years of experience in construction, and are familiar with all aspects of the construction trade. Most work for consulting firms, but they may also work for legal firms, government agencies, or as individual contractors. Construction consultants do many different things. Some assist companies with administration tasks; they make sure everything is running smoothly, and on time, so that the site owner and managers can concentrate on other business matters. A construction consultant may be hired to keep a project running on budget, and handle any problems that may appear. This may also mean working as an in-between for the owner of the site and the construction crew.

Project planning is another job that a construction consultant firm may be hired to do. The company would assist in designing the structure, and help to anticipate any potential issues. A consultant is able to create a flexible plan, in case something does go wrong. He or she would also be able to work with crews to develop a realistic timeline for the completion of the project. Consultants may also be hired to aid in cost estimating, giving site owners a realistic idea of what their plans will cost. This is usually given in a detailed report, listing each separate expense, and what they can expect to pay for it.

Another job that a construction consultant may perform is forensic work. In construction, this means determining why a building failed. The problem may be something small, such as a weak spot in the floorboards, or something as major as the structure collapsing. A construction consultant will be called in, and can tell clients where the building failed, why it failed, and what steps need to be taken to make sure that it doesn't happen again.

Legal firms may hire a construction consultant to advise attorneys on cases, and to act as an expert witness. Consultants may also be chosen by government agencies to assist in the building of new structures, or the renovation of older ones. They may assist in renovating historic districts, or private homes. Construction consultants may also help homeowners who are looking to build their dream house, or add an expansion onto their current homes, by creating a plan that fits the homeowner's needs.

1.2.3 Contractor

The general contractor is a manager, and possibly a tradesman, employed by the client on the advice of the architect, engineer or the architectural technologist or the client him/herself if acting as the manager. A general contractor is responsible for the overall coordination of a project. A general contractor must first assess the project-specific documents (referred to as bid, proposal or tender documents). In the case of renovations, a site visit is required to get a better understanding of the project. Depending on the project delivery method, the contractor will submit a fixed price proposal or bid, cost plus price or an estimate.

The general contractor considers the cost of home office overhead, general conditions, materials and equipment as well as the cost of labor to provide the owner with a price for the project. Contract documents include drawings, project manual (including general, supplementary and/or special conditions and specifications), addendum or modifications issued prior to proposal/ bidding and prepared by a design professional such as an architect. The general contractor may be the construction manager or construction manager at risk. A general contractor is responsible for providing all of the material, labor, equipment (such as engineering vehicles and tools) and services necessary for the construction of the project. The general contractor hires specialized subcontractors to perform all or portions of the construction work.

Responsibilities may include applying for building permits, securing the property, providing temporary utilities on site, managing personnel on site, providing site surveying and engineering, disposing or recycling of construction waste, monitoring schedules and cash flows, and maintaining accurate records. There are no set educational qualifications to become a general contractor, though many employers prefer a bachelor's degree. Some general contractors obtain bachelor's degrees in construction science, building science, surveying, construction safety, or other disciplines.

General contractors often start out as construction workers. While gaining work experience, they learn about different aspects of construction, including masonry, carpentry, framing, and plumbing. Aspiring general contractors communicate with subcontractors and may learn the management skills they need to run their own company. Experience in the construction industry as well as references from customers, business partners, or former employers are

demanded. Some jurisdictions require candidates to provide proof of financing to own their own general contracting firm.

General contractors often run their own business. They hire subcontractors to complete specialized construction work and may manage a team of plumbers, electricians, builders, carpenters and other specialists. General contractors build their business by networking with potential clients, buying basic construction tools, and ensuring that their subcontractors complete high-quality work. General contractors don't usually complete much construction work themselves, but they need to be familiar with construction techniques so they can manage workers effectively.

1.3 PROBLEM STATEMENT

In general, GST also affect the construction industry. This increment by 6% for construction industry effected players for example developer, contractor and also consultant. With the costs of overall sales increase, it will give effect to the construction industry who in charged for a whole project. As mentioned, the replacement of SST with GST is intended to be revenue-neutral to the government's coffers, so in theory to consumers this may represent a minimal effect to the aggregate prices of everyday goods and services. Many Malaysians are concerned with what this bodes for prices in general. It is inevitable that home prices will also be affected.

Based on the Sales Tax Act of 1972, basic building materials such as bricks, cement and floor tiles fall inside First Schedule Goods, in which all the goods in this category will not be subjected to sales tax. Meanwhile, other building materials fall inside Second Schedule Goods, in which all the goods in this category will only be charged sales tax of 5%. Under the new GST implementation, all building materials and services for example contractor and engineer will be subject to GST with a standard rate of 6%. This will invariably raise the production cost for developers. But in construction industry the exempt-rated, the additional tax cost is borne by the party before the final consumer which is the developer. The developer does not have a next "victim" in the supply chain.

The problem that arises from GST issues is many Malaysian does not really understand how GST gives effect to them in buying residential houses. Even though the price of residential house are exclude from GST, but the material for the construction are include GST. Based on CIDB, they anticipate that construction industry projects increase from 30% in 2013 to 50% by end of 2015 and barring any unforeseen market conditions, building tender prices in Kuala Lumpur are anticipated to increase by about 3.5% to 4.0% in 2015.

The treatment to exempt residential house is to reduce the burden of citizen because house is a basic necessity to the citizen. The treatment also complements the Government's initiatives to build more affordable houses for those who qualify especially the lower income group. This will give a minimum effect compared to a situation where GST is charged at a standard rate on the residential house. The price of the residential house especially in big cities is very high where among the reasons is due to limited supply. As such, GST should not be used as an excuse for the price increase.

Construction services, regardless whether they relate to residential or commercial property, are all standard-rated. Generally, GST should be accounted for at the earlier of the tax invoice date and the payment date. However, where "certificate of work done" (interim certificate) is required and a tax invoice is not issued within 21 days from the date of the interim certificate, GST should be accounted for on the date of such certificate (unless if the payment was received earlier). Where there are discrepancies between the tax invoice and the value in the interim certificate, the adjustments involving credit and debit notes may be used.

If the construction company and the property developer are connected persons, GST should be accounted for based on the open market value of the service. In practice, this is likely to be important where the construction service relate to a residential property. If the building materials are supplied (regardless whether at cost or with profit basis) by the developer to the construction company, the developer should issue a tax invoice and account for output tax. The construction company can claim input tax credit on such "acquisition". In exceptional situations where the construction contract requires the materials to be provided by the developer without any charge, the developer does not have to account for output tax on the materials. Any retention amount is not subject to GST until the amount is released to the contractor.

1.4 RESEARCH OBJECTIVES

- I. To identify the perception of the construction industry towards GST
- II. To investigate the pricing effect in perspective of the construction industry.

1.5 RESEARCH FRAMEWORK

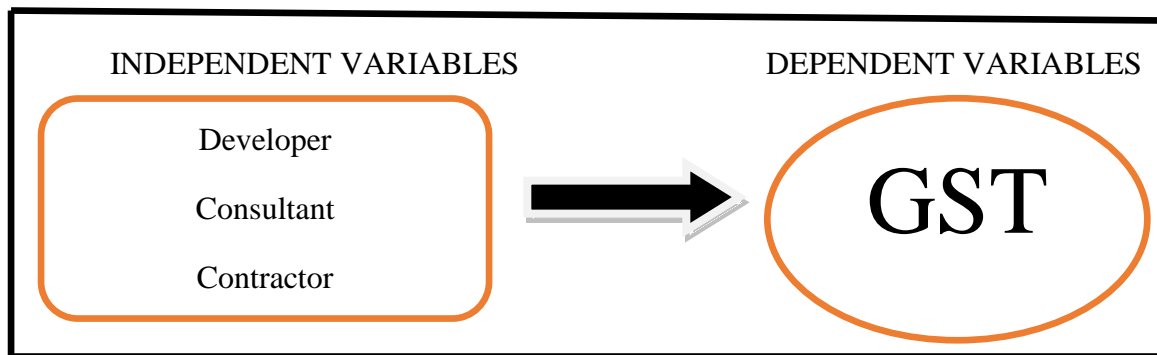


Figure 1.2: Research framework

Figure above shows the relationship between independent variables and dependent variables between Goods and Services Tax (GST) and the construction industry which are developer, consultant and contractor. The independent variables are developer, consultant and contractor and dependent variables are GST.

1.6 SCOPE OF STUDY

This study main focus is on the perception of the construction industry towards GST. Next, this study also will focus on the pricing effect in perspective of the construction industry. The study area for this research is at Setapak Kuala Lumpur that had many construction

companies. As we know, in Kuala Lumpur the have rapidly development of construction industry, Setapak is one of the area in Kuala Lumpur which have lots of construction companies.

The study is conducted to investigate and identify how Goods and Services Tax (GST) really effect the construction industry and the properties cost since its implementation on 1st April 2015. As we know residential house is an exempt supply. The price will increase when GST is implemented as input tax cannot be claimed by property developer. How is it possible to convince the citizen that the price will not be increased substantially because of GST.

For this research method, the researcher will be used questionnaire to collect the data and the respondents chosen are the construction company which are developer, consultant and contractor. This method is chosen because the researcher wants to find out how GST effect the construction industry. So the questionnaire is the most suitable methods for the collection of data in this study.

1.7 EXPECTED RESULT

The main objective of this research is to identify the perception of the construction industry towards GST and to investigate the pricing effect in perspective of the construction industry. The purpose of this study will help readers to better understand and use as a guide or information to gain knowledge about Goods and Services Tax (GST) and construction industry. Besides that, the researcher also expects that the reader can get the knowledge on relationship between GST and pricing effect such tax on construction cost, labor cost, management cost and also material cost that are examined in this study.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

In this chapter, the previous relevant literature was reviewed. A study of literature review can be seen as an answer to the problem statement and supports the researcher to comprehend the results of the empirical study. A comprehensive literature overview of the builds being investigated is provided. It provided several definitions for the perception of the construction industry towards Goods and Services Tax (GST) and how its effect the price of properties.

2.2 REVIEW ON GST

The aim of each country in total development do not rests by simply gaining additional economic strengths. Indeed, they must catch the growth of the other developed countries. They must increase the progress of the economic activities and provide essential policies and governmental regulations that can be implemented and applied in both local and national regions. Furthermore the country should target a balanced development and global competitiveness.

The Malaysian government had implemented the GST on 1st April 2015. Definitely, this will create an impact on the businesses and people. GST was introduces bearing the 6% tax that

will take effect on 2015. It is important that the businesses understands the GST bill in order to provide the expected benefit and create a feedback on the government. Furthermore, both people and businesses are entitled to assess the risk and various impacts that might produce by the GST (Chia, 2010). However, what are the expected recognizable impacts of GST among the contractor.

Malaysian economy experienced the growth on their GDP for 2005 by pointing the 5% increase. In return, the budget deficit dropped in 3.8% which helped the progression of the projects. However, the government is still looking for appropriate intervention to stabilize the prices on oil and other fuel products. In the year of 2006, the government proposed that there should be better flexibility in sustaining the growth momentum. Thus in beginning of 2007, GST will be introduced to improve tax collection through indirect taxation and to ensure a more stable source of revenue (Nathan, 2006).

Among measures announced during 2004 was that the current sales and service tax would be replaced with a single consumption tax or the GST, in line with many other ASEAN countries. This introduction of new tax attacks the deficiencies in the policies and regulations in the country. For example, smuggling was targeted because of the huge loss of about 30 per cent of income from cigarette duties. Security inking and tax stamps on cigarettes as well as a customs crackdown which began in June, yielded a significant drop in smuggling and higher duty collection of RM800 million (US\$210.5) for just the period from June to September, compared with RM600 (US\$157.9) million collected for the first three months of the year.

However, industry sources say that there is still much more to be done (Martinez, 2005). It is expected that a number potential benefits can be gained through the implementation of GST in the country. Firstly, the knowledge regarding the GST can provide the opportunities for the businesses and consumers in their investment and consumption decisions. The implemented of GST would stimulate the domestic consumption as consumers seek to minimize any impact that GST that may have on prices when the tax becomes live.

There is a significant effect on the acceleration of spending by consumers and business spending to prepare for the tax would also potentially increase tax revenue for the government through the increase in domestic consumption and aid in the reduction of the budget deficit. GST

can have a positive impact on exports and the ability of the government to make timely refunds to export-oriented businesses. Therefore, the acceptance of the new tax by the public would also be a key factor for the government and answer the basic necessities such as food issues, water, electricity and water, and health (Choon, 2009).

2.3 WHAT IS GST?

Tax is a major contribution of government's revenue collection in any countries, including Malaysia. In year 2008, statistics from the Ministry of Finance reveals that 66.7 percent of Malaysian government revenues were generated from taxes. Taxation in Malaysia is imposed by the federal legislation, passed by the parliament. Since the introduction of tax legislation in Malaysia, there were numbers changes made to this legislation. For example, changes in year assessment, several changes in income tax rate and the latest changes was government's intention to implement Goods and Services Tax (GST).

GST is a tax on consumption of goods and services to end user. GST is also known as Value Added Tax (VAT) in others countries such as United Kingdom, Finland, and Canada. GST has been implemented in more than 146 countries such as Australia, Hong Kong and Singapore as part of their revenue. It is a tax government collected at the final purchase consumption. However, according to (Hooper and Smith, 1997), GST is actually collected at various stages of the production process. GST tax charges to the suppliers on taxable goods and services is the output tax and input from that is tax incurred by businesses on goods and services purchases.

The initiative of government to introduce the Goods and Services Tax (GST) has become a growing topic of interests in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith. 1997), Malaysia citizens are not really convinced with this new tax scheme. Many of Malaysia citizen debate about the advantages and disadvantages derived from this new tax scheme.

Proponents of GST contended that the implementation of GST help to reduce the federal government deficit (McGowan & Billings, 1997). It is as a method to diversified government

source of income. GST is able to provide government constant flow of income, thus increasing government abilities to elevate public services and improve economic stability. On the other side, the opponent of this new tax reform argued that GST is difficult to implement and increased in tax revenue would only promote larger government spending (Bickley, 1997).

Many questions, opinions and responses from various industries and consumer groups arose during the proposal of this issue while still debated in the Parliament. They are wondering to know how GST will affect their interest, with some agreeing to it while some opposing to the implementation of GST. Those who oppose believed that GST will affect the price of goods and services, leading to the price increase. This matter concerns especially the lower income group. GST also gives impact to the lower income group opposed to the higher income group (Hooper & Smith, 1997). This is because the introduction of GST would reduce the lower income group's ability to purchase goods and services.

However, government has mentioned that GST is not a new tax but it is replacing the old tax system. The government has explained the purpose of GST implementation was to increase its revenue and to boost the economic growth of the country. Increase awareness and knowledge on a new tax initiative is essential to gain public acceptance and confidence, particularly in tax situation. Thus, it is necessary to educate the public on what is expected from this new tax initiative.

2.4 IMPLEMENTATION OF GST IN FOREIGN COUNTRY

Currently, there are 160 countries in the world that have implemented GST. The number of countries based on region are Asia with 19 countries, Europe with 53 countries, Oceania with 7 countries, Africa with 44 countries, South America with 11 countries and also Caribbean, Central & North America with 19 countries.

2.4.1 Australia & GST

The Goods and Services Tax (GST) in Australia is a value added tax of 10% on most goods and services sales. GST is levied on most transactions in the production process, but is refunded to all parties in the chain of production other than the final consumer. The tax was introduced by the Howard Government and commenced on 1 July 2000, replacing the previous federal wholesale sales tax system and designed to phase out a number of various State and Territory Government taxes, duties and levies such as banking taxes and stamp duty

In 1980s, The idea for a broad-based consumption tax was first proposed by then federal treasurer Paul Keating at the 1985 Tax Summit but was dropped at the behest of then Labor Prime Minister Bob Hawke after pressure from the ACTU, welfare groups and business, which did not like its association with proposals for capital gains and fringe benefits taxes. All Australian businesses whose turnover is above the minimum threshold which is currently \$75,000 per annum are required to register for GST. Businesses whose turnover is below the threshold may register if they wish to.

A GST-registered business must charge its customers GST on taxable goods and services it provides, but is entitled to a credit for any GST it has paid for its expenditures on these goods and services as well as capital purchases or called input tax credits. A registered business must periodically lodge Business Activity Statements by monthly, quarterly or annually and at the same time pay the net amount of GST owed to the tax office if more GST is paid than collected, a refund is paid by the tax office instead.

Some goods and services for example notably salaries, wages, fresh food, and real estate are exempt from GST. Other goods and services such as rental income and financial services are "input-taxed", which means that GST is not charged on the sale, but GST paid by that part of the business is not eligible to be claimed as an input tax credit. Taxable supplies include goods wholly within Australia, from or to Australia or real property in Australia. Certain types of supplies are free of GST, examples include fresh unprocessed food, medical services, education courses, childcare, exports, pre-owned real estate and going concerns.