



UNIVERSITI PUTRA MALAYSIA

***KNOWLEDGE, ATTITUDE AND COMMUNICATION IN RELATION TO
THE GOODS AND SERVICES TAX COMPLIANCE AMONG WOOD
PRODUCT MANUFACTURERS IN PENINSULAR MALAYSIA***

ZUBAIDAH BINTI HARUN

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**KNOWLEDGE, ATTITUDE AND COMMUNICATION IN RELATION TO THE
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MANUFACTURERS IN PENINSULAR MALAYSIA**

By

ZUBAIDAH BINTI HARUN

**Thesis Submitted to the School of Graduate Studies, Universiti Putra
Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of
Philosophy**

May 2016



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DEDICATION

This thesis is dedicated to

My lovely kids:

Ahmad Asyrafieq bin Ahmad Soffian

Nur Dalila binti Ahmad Soffian

Ahmad Umar Nazmi bin Ahmad Soffian

Nur Diana binti Ahmad Soffian

In loving memories:

My late parent, Haji Harun and Hajjah Mek Wa

My late husband, Ahmad Soffian Othman

*With love, respect and a bunch of memories
Indeed, we belong to Allah and indeed to Him we will return.*

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

**KNOWLEDGE, ATTITUDE AND COMMUNICATION IN RELATION TO
THE GOODS AND SERVICES TAX COMPLIANCE AMONG WOOD
PRODUCT MANUFACTURERS IN PENINSULAR MALAYSIA**

By

ZUBAIDAH BINTI HARUN

May 2016

Chairman : Assoc. Prof. Pakhriazad bin Hassan Zaki, PhD
Faculty : Forestry

GST is a new indirect tax system replaced the Sales and Services Tax (SST) in Malaysia on April 1, 2015. Therefore, this study is one of the first conducted on the wood product manufacturers in Peninsular Malaysia (PM). The aim of this study is to develop a model of GST compliance which is Knowledge, Attitude and Communication (KAC) model based on Knowledge, Attitude and Practice (KAP) model. There are five objectives to achieve this aim this study. Firstly, to measure the level of compliance, understanding of knowledge and attitude (cognitive and affective) toward GST. Secondly, to identify the most effective communication channel in acquiring and gaining an understanding of the GST knowledge. Thirdly, to determine the category of knowledge (concept, legal, technical and technology) that provides the most influence to the GST compliance among the wood products manufacturers. Fourthly, to examine the relationship between knowledge, attitude and communication channels toward GST compliance. Finally, is examining the moderation effect of the size of the company on the relationship between knowledge, attitude and communication channels toward GST compliance.

The quantitative survey method was used on the selected respondents based on the propositional stratified sampling technique from 2,290 the GST-registered person. There are 352 (88%) questionnaires returned from the survey out of 400 respondents. Data were analysed using SPSS for descriptive results. The structural equation modelling (SEM) using AMOS was deployed for the regression analysis.

The descriptive results revealed the level of GST compliance as moderate with a mean value of 6.22 in the range of 3.34 to 6.66. Similarly, understanding of GST knowledge shows a moderate level with the mean

value of 5.77. The level of affective (perception) is more pronounced than the cognitive (intellectual) toward GST compliance with a mean value of 5.57 and 5.32 respectively. Consultation service from the tax consultant with a mean value of 6.76 was found to be the most effective communication in acquiring and gaining an understanding of the GST knowledge by the wood products manufacturers. Concept and technical knowledge served a significantly ($p < 0.001$) high impact to the GST compliance with regression coefficient of 0.357 and 0.360 respectively. Whilst, knowledge and attitude constructs have a significant effect ($p\text{-value} = 0.05$) toward GST compliance. On the other hand, communication channels have insignificant effect. Prominently, the large companies provide moderation effect on the path of the relationship between knowledge and attitude toward GST compliance.

Based on the results it reveals the level of the readiness and preparedness of the wood product manufacturers is at a satisfactory level in terms of understanding and perception. Utilization of intellectual understanding of GST knowledge could raise the perception level among the wood product manufacturers in complying GST. The study supports the theory of the significant relationship between knowledge and attitude toward GST compliance. Similarly to the findings of previous studies, the large companies proved to provide the moderation effect on the correlation between knowledge and attitude toward GST compliance. Methodologically, the use of AMOS in this study has contributed to the latest addition to the literature of research method in the field of GST being the first to be used.

The findings could be utilized by a variety of the stakeholders such as FDPM, MTIB and the wood-based associations i.e. KLFEA, MPMA, PEKA, MWIA, TEAM, MWMJC and MFC in developing GST education programs for their members with minimal cost by collaborating with RMCD. This could maximize the level of GST compliance by raising the level of understanding on GST knowledge and the same time forming a more positive attitude among the wood product manufacturers in PM as well as Sabah and Sarawak.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**PENGETAHUAN, SIKAP DAN KOMUNIKASI BERHUBUNG DENGAN
KEPATUHAN CUKAI BARANG DAN PERKHIDMATAN DIKALANGAN
PENGILANG BERASASKAN PRODUK KAYU DI SEMENANJUNG
MALAYSIA**

Oleh

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Pengerusi : Prof. Madya Pakhriazad bin Hassan Zaki, PhD
Fakulti : Perhutanan

GST adalah sistem cukai tidak langsung yang baru menggantikan Cukai Jualan dan Perkhidmatan (CJP) di Malaysia pada 1 April, 2015. Oleh itu, kajian ini adalah salah satu yang pertama dijalankan ke atas pengeluar produk kayu di Semenanjung Malaysia (SM). Tujuan kajian ini adalah untuk membangunkan satu model pematuhan GST iaitu Model Pengetahuan, Sikap dan Komunikasi (PSK) yang berasaskan Model Pengetahuan, Sikap dan Amalan (PSA). Terdapat lima objektif unyuk mencapai tujuan ini. Pertama, iaitu mengukur tahap pematuhan, kefahaman kepada pengetahuan dan sikap (kognitif dan afektif) terhadap GST. Kedua, mengenalpasti saluran komunikasi yang paling berkesan dalam memperolehi dan mendapat kefahaman kepada pengetahuan GST. Ketiga, menentukan kategori ilmu (konsep, perundangan, teknikal dan teknologi) yang paling memberi pengaruh kepada pematuhan GST dikalangan pengeluar produk kayu. Keempat, untuk kenalpasti hubungan diantara pengetahuan, sikap dan saluran komunikasi ke arah pematuhan GST. Akhir sekali adalah mengenalpasti saiz syarikat memberi kesan penyederhanaan kepada hubungan diantara pengetahuan, sikap dan saluran komunikasi ke arah pematuhan GST.

Kaedah tinjauan kuantitatif telah digunakan keatas responden yang telah dipilih berdasarkan kaedah persampelan berstrata proposional dari 2,290 orang berdaftar GST dikalangan pengeluar produk kayu. Daripada 400 borang soalselidik yang telah diedarkan, sebanyak 352 (88%) telah diterima. Data telah dianalisa dengan menggunakan SPSS untuk hasil deskriptif. Manakala Pemodelan persamaan struktur (SEM) menggunakan AMOS telah digunakan untuk analisis regresi.

Keputusan deskriptif menunjukkan tahap pematuhan GST adalah sederhana dengan nilai min 6.22 dalam julat 3.34-6.66. Manakala, kefahaman kepada pengetahuan GST juga berada ditahap sederhana dengan nilai min 5.77. Tahap afektif (persepsi) lebih ketara berbanding dengan kognitif (intelektual) untuk pematuhan GST dengan masing – masing nilai min pada 5.57 dan 5.32. Didapati khidmat nasihat daripada perunding cukai adalah saluran komunikasi yang paling berkesan dengan nilai min 6.76 dalam memperolehi dan mendapat kefahaman pengetahuan GST dikalangan pengeluar produk kayu. kategori pengetahuan konsep dan teknikal ($p < 0.001$) didapati memberi kesan yang tinggi kepada pematuhan GST pengetahuan dengan masing – masing pekali regresi pada 0.357 dan 0.360. Sementara itu, konstruk pengetahuan dan sikap mempunyai kesan yang signifikan ($p\text{-value} = 0.05$) kepada pematuhan GST. Namun saluran komunikasi tidak memberi kesan signifikan. Syarikat – syarikat bersaiz besar telah memberi kesan penyederhanaan keatas hubungan diantara pengetahuan dan sikap untuk pematuhan GST.

Hasil kajian telah menunjuk tahap kesediaan dan persiapan dikalangan pengeluar produk adalah pada tahap yang memuaskan dari segi pemahaman dan persepsi. Penggunaan intelek untuk pemahaman kepada pengetahuan GST meningkatkan tahap persepsi dikalangan pengeluar produk kayu untuk mematuhi GST. Kajian ini menyokong teori hubungan yang signifikan antara pengetahuan dan sikap untuk pematuhan GST. Sama dengan kajian-kajian lepas, syarikat-syarikat bersaiz besar memberi kesan penyederhanaan keatas hubungan antara pengetahuan dan sikap untuk pematuhan GST. Dari sudut metodologi, AMOS adalah pertama kali digunakan untuk kajian GST yang telah menyumbang satu literatur baru kepada kaedah kajian.

Hasil kajian boleh digunakan oleh pelbagai pihak yang berkepentingan seperti JPSM, MTIB dserta persatuan berasaskan kayu iaitu KLFEA, MPMA, PEKA, MWIA, TEAM, MWMJC dan MFC dalam mewujudkan program pendidikan GST kepada ahli-ahli persatuan dengan kos yang minimum melalui kerjasama dengan JKDM. Ia boleh memaksimumkan tahap pematuhan GST dengan meningkatkan tahap kefahaman pengetahuan GST dan masa yang sama dapat membentuk sikap yang lebih positif dikalangan pengeluar produk kayu di SM juga Sabah dan Sarawak.

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I certify that a Thesis Examination Committee has met on 31 May 2016 to conduct the final examination of Zubaidah binti Harun on her thesis entitled "Knowledge, Attitude and Communication in Relation to the Goods and Services Tax Compliance among Wood Product Manufacturers in Peninsular Malaysia" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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LIST OF ABBREVIATIONS

AJS	Authorized Jewelers Scheme
AMOS	Analysis of Moments Structures
ATMS	Approved Tolls Manufacturer Scheme
ATO	Australian Taxes Office
ATS	Approved Traders Scheme
BAS	Business Activities Statement
BT	Business Tax
CCC	Customs Call Center
CFA	Confirmatory Factor Analysis
CoP	Community of Practice
CR	Critical Region
DA	Designated Area
DG	Director of General Customs
DoI	Diffusion of Innovation
EFA	Exploratory Factor Analysis
EYGM	Ernst & Young Global Limited
FDPM	Forestry Department of Peninsular Malaysia
FIZ	Free Industrial Zone
FRS	Flat Rate Scheme
GBRT	Gross Business Receipts Tax
GST	Goods and Services Tax
GSTSAO	GST Start-Up Assistance Office
HMRC	High Majesty Revenue & Customs
IMF	International Monetary Fund
IPC	International Procurement Centre
IRB	Inland Revenue Board
IT	Information Technology
ITC	Input Tax Claim
JKDM	Jabatan Kastam Diraja Malaysia
KAC	Knowledge, Attitude and Communication
KAP	Knowledge, Attitude and Practice
KLSFEA	The Kuala Lumpur & Selangor Furniture Entrepreneur Association
LMW	Licensed Manufacturing Warehouse
MDF	Medium Density Fiberboard
MFC	Malaysian Furniture Council

MIDA	Ministry of Industry and Development Authority
MoF	Ministry of Finance
MPMA	Malaysian Panel Products Manufacturers Associations
MTIB	Malaysian Timber Industry Board
MWIA	Malaysian Wood Industries Associations
MWMJC	Malaysian Wood Moulding and Joinery Council
NTA	Japanese National Tax Administration
OECD	Organisation for Economic Cooperation and Development
PAYG	Pay As You Go
PEKA	Association of Bumiputera Timber & Furniture Entrepreneur
PwC	PricewaterhouseCoopers
RDC	Regional Distribution Centre
RMCD	Royal Malaysian Customs Department
RoC	The Republic of China
RPGT	Real Property Gains Tax
S.E	Standard Error
SAS	Self-Assessment System
SAT	State Administration of Taxation
Sec	Section
SEM	Structural Equation Model
SME	Small Medium Enterprise
SMECorp	Small Medium Enterprise Corporation Malaysia
SPSS	Statistical Package for Social Science
SSM	Suruhanjaya Syarikat Malaysia
SST	Sales and Services Tax
STIDC	Sarawak Timber Industry Development Corporation
SUT	Sales and Use Taxes
TAP	Taxpayer Access Point
TEAM	Timber Exporter's Association of Malaysia
TPB	Theory Planned Behaviour
TM	Toll Manufacturer
TOGC	Transfer of Business as a Going Concern
TRP	Tax Panel Review
TRS	Tourist Refund Scheme
VAT	Value Added Tax
WS	Warehouse Scheme
WST	Wholesale Sales Tax

CHAPTER 1

INTRODUCTION

Every government in the world regulates the economy by implementing tax policies to revitalise economic growth. Thus, taxation becomes one of the vital economic tools in collecting revenue to govern the economics of the country besides other revenue sources. In generating the country's revenue, taxing citizens, and corporate entities is a vital method of financing for necessary public sector activities such as government administration expenditures, national security, and amenities like the courts, the legal system, national defense, and police protection (Winer & Hettich, 2005). Another main function of taxes is to ensure sustainability of social programs in providing basic public infrastructures such as health services, education and religious welfare (Silberstein, 2004). Hence, taxes as one of the vital fiscal resource for the governments that need to rise from time to time to ensure in promoting economic growth, social, country's development as well as the continuity of country's development.

In general, Business Dictionary (2013) defines the taxation as "a means by which governments finance their expenditure by imposing charges on citizens and corporate entities". In term of economic, taxation is defined as "a compulsory levy, imposed by government or other tax raising body, on income, expenditure or capital assets for which the taxpayer receives nothing specific in return" (Lymer & Oats, 2009). Although, for a working definition of taxation is confined to compulsory, unreturned payments to the general government (OECD, 2012). According to OECD (2014), there are five broad categories of taxes which are taxed on income, profits and capital gains, social security contributions, taxes on payroll and workforce, property taxes, and taxes on goods and services or known as a consumption tax.

Taxation was classified into two categories, namely, direct taxes and indirect taxes. The earliest forms of direct taxes were introduced in the 18th century in England (Kim, 2000). It also is known as income tax, which involved personal income tax, corporate income tax, payroll tax, and property tax. It is a primary tax on the person where an individual's ability to pay as measured in accordance with his net income. Direct tax functions in reducing inequality by redistribution of income and wealth among different economic classes of people to close the economic gap between the rich and the poor (Lymer & Oats, 2009). An income tax could spread tax burdens among people compare to the consumption tax, which operates regardless taxpayer's ability (Kim, 2000).

Meanwhile, indirect taxes or consumption taxes are not levied directly on the person who is expected to bear the tax burden. New Encyclopaedia

Britannica (1989) defined indirect taxes as “the tax imposed on expenditure rather than on income or wealth finance. It will levy on particular taxable goods and services”. This tax will collect from producers and distributors in the supply chain and the burden of the tax falls on final consumers/end users. The tax will encourage controlling the expenditure on unnecessary or luxury items. Thus, people will only spend on what they are needed and necessary to be consumed. On other reasons, the tax system also encourages a healthier lifestyle by imposing a high rate duty on tobacco and liquors products.

Malaysia's tax structure is largely based on direct income taxes, especially on corporations, while indirect taxation is underutilised. In this regards, the report by World Bank (2012) stated that the Malaysian Government has been too long over-dependent on revenue from oil and gas dividends, which is accountable for over a third of total government revenues. IMF (2014) also indicated the ratio of direct tax in Malaysia (excluding oil and gas income taxes) to indirect tax in the ratio of 2:4. Malaysia relies more on international trade for indirect tax. However, from 1980-2012 it gradually declined due to trade liberalisation practices and decline in import. Indirect tax declined almost 6% of GDP by 2012 (from 9.7 % of GDP in 1980 to 3.7% of GDP in 2012).

Relating to South Korea on the gap in taxes collection between indirect and direct taxes, its contribution to national revenue was 31%, as well as direct taxes, share at 29% in the year 2005 (Kim, 2005). Nevertheless, in Malaysia, the gap is getting bigger. As revealed in the Malaysia Economy Report 2012/2013, (2012) from the year 2008 until 2012, the gap in the collection between indirect and direct taxes had increased by 29% and 51% respectively. Furthermore, Federal Government debt as a percentage of Gross Domestic Product (GDP) currently at 55.4% but, if the lack of budgetary reform it has led Malaysia's credit outlook to negative next coming year (Zhou, Tam & Heng, 2013). Therefore, to make the country's financial stability, the gap between direct and indirect taxation should be very small.

KPMG (2011) reported China, India, and Malaysia looking to substitute narrow or inefficient forms of indirect taxes with new broad-based Value-Added Tax (VAT) or Goods and Services Tax (GST) regimes. GST Australia was considered as one of the most efficient types of taxes. In 1971, the Korean Government started to consider abolishing complicated indirect taxes in multiple tax rates and adopting the VAT regime to establish a simple and neutral tax system as well as secure financial resources stable (MOF of Korea, 2011).

Currently, the consumption tax becomes a global trend of the tax system in the developing countries. It is significantly influencing the country's tax policy

in the coming years. In order to attract and retain foreign investment, many countries choose to reduce direct tax rate (personal and corporate) while, increase the country's revenues through the implementation of VAT/GST. Among the driving factors of the high VAT/GST implementation in most of the countries are it is a real-time tax collection, easier, stable, and more effective as the tax imposed on the consumption of goods and services. VAT/GST is not unstable like corporate tax due to the fluctuation of profits and less susceptible to changes in economic conditions (KPMG, 2013).

This introductory chapter provides a general introduction to the research subjects addressed in this thesis. Starting with the definition of taxation and types of taxation, a brief explanation of the important taxes for the country, followed by the research background, the problem statement, the research questions, objectives of the study in general and specific, and research hypotheses. Then, the researcher highlights the significance of the study, the scope of the study, limitation of the study and the definition of conceptual, and operational of terms to use in this research. Later, the organisation of study also will be discussed in the latter part of this chapter.

1.1 Research Background

The recent scenario was seen that most of the countries were shifting their consumption tax system to VAT/GST in replacing the sales tax system. This tax system became one of the most important fiscal innovations of the second half of the 20th century. VAT/GST was designed as a broad-based tax levied at multiple stages of production or distribution of raw materials until to finished products and services. It also allows the taxpayers to deduct a credit for tax paid on purchases from liability on sales. Whereas, sales tax is levied on single-stage taxes at the retail level or can be collected at a pre-retail level during manufacturing or wholesale in many developing countries.

GST does not constitute an additional tax for an existing indirect tax system but it replaces the sales and services tax (SST). The introduction of GST is part of the Malaysian Government's tax reform programmed to enhance the efficiency and effectiveness of the existing taxation system. GST is proven to be a better tax system as it is more effective, efficient and transparent as well as business friendly that could stimulate economic growth as well as will increase global competitiveness. Perhaps, it is a good fiscal revenue tool to generate a more stable source of revenue for the nation as it is less susceptible to economic fluctuations. According to the Royal Malaysian Customs Department (RMCD) source, the government forecast the rise of indirect tax revenue collection from RM23.88 billion to RM47.21 billion after the implementation of the GST on April 1, 2015.

The replacement of SST to the GST will overwhelm the weaknesses of the SST which is a high incidence of tax avoidance, double taxation along the value-chain that pushes prices up, as well as extensive exemptions. GST offers a single unified system where the tax burden is equally shared between the services and manufacturing industries, whilst simultaneously broadening the tax base. This will help to minimise tax exemptions as well as the compounding effects of pyramiding tax, tax erosion, transfer pricing and value shifting.

Currently, there are more than 160 countries in the world had adopted GST/VAT as a tool for collecting consumption tax with successful experience. GST was proven as a stable source of revenue to the government as well as enables less exposure to economic fluctuations. It provides benefits to the business community in reducing the costs of productions and overhead cost. The advantages also to the public in determining what are the needs and wants in daily consumption spending. Perhaps, GST will make people behave in their spending habit.

The preparation for seventeen months since the announcements of GST implementation in the Budget 2014 on 25 Oct 2013, allow ample time for the Ministry of Finance (MOF) and the RMCD made an intensive preparation like robust IT system, recruitment and training personnel. Alongside, a total of RM130 million has been spent by the government for the cost of GST implementation programs like seminars, workshops, and training in educating the business community, as well as campaigns, road shows, and outreach programs to the public in educating and raise their awareness on the advantages of GST.

However, as the tax authority and administrator, the RMCD facing vast challenges, barriers and difficulties to go through the roadmaps and plans of GST implementation strategies in the process of the transition of SST to GST system. The challenges are in awareness, perception, acceptance, readiness, and preparedness of the business community who are directly involved as the GST payers as well as the public as the end consumers who will bear the GST. The RMCD source mentioned, up to December 2014, there are 6,162 training, seminars, and awareness programs for the government agencies, industries as well as the public were organised and accomplished by the MOF together with the RMCD that involves 516,659 of participations.

The tax compliance determinants were classified into three categories which are the political determinants, economic determinants, and the social psychology. The political determinants relate to the complexity of the tax law, the complexity of the tax system along with the fiscal policy. Whilst, economic determinants are comprises of audit probability, tax rates, fine, and income. The social psychology is also known as non-economic

determinants involves tax knowledge, attitudes, norms, perceived opportunity to evade, fairness perceptions, and motivational postures (Kirchler, 2007).

However, for the purpose of this study, the researcher considers exploring the social psychological factors or later will know as non-economic determinants for the GST compliance. These determinants also called internal factors that involve tax knowledge and attitude. These internal factors are significant to be assessed and measured for the reasons of GST is the new tax reform for the business sectors. Furthermore, this study was conducted during pre-GST implementation in Malaysia. For the moment, the economic determinants seem not noteworthy to be studied since GST is not yet implemented during this study was executed. Perhaps, to assess and measure the effectiveness, causes and effects of the GST implementation on the economic perspective, it should take at least one year after GST implemented to gain the results and feedback from involves parties.

GST is a tax innovation to the Malaysian, particularly for the businesses as well as to the citizen. Refers to Rogers (2003) states the vital element of innovation is knowledge and the process of innovation adoption involve of diffusion. Therefore, exploring the level of knowledge and understanding as well as identifying the effectiveness of communication channels in disseminating and transferring GST information is significance to be studied. Since the GST compliance is the ultimate objective of the study, attitude involves with components cognitive and affective as socio-psychological factors will be explored. When the RMCD able to understand the attitude, behaviours, and feelings of the registered person, then psychological awareness approach can be taken by giving motivation and encouragement for better comply with the GST.

The study was conducted to identify the level of GST knowledge and understanding specifically for the manufacturing sector, particularly for wood-based manufacturers in Peninsular Malaysia. The researcher also considers exploring the existence of a correlation between knowledge, attitude, and communication channels toward GST compliance. On regard of this study, KAP model was adapted as an underpinning theory in achieving the study objectives.

1.2 Problems Statement

Previously, the studies on GST were conducted on SMEs, the manufacturers, the tax agents, and the public. On regard of this study, the wood-based industry was selected as the target respondent since it is one of the oldest traditional industries in Malaysia beside mining, agriculture, plantation, fishery, and livestock. The wood-based industry is one of the

major contributors to the Malaysian economy where the total export of timber and timber products funded RM20.03 billion (USD4.91 billion) out of RM674 billion (USD165.21 billion) of Malaysia's estimated total commodities exports for the year 2011 (MIDA, 2013). The output of wood products increased from -2.7% in January until July 2013 to 5.1% for the same period in 2014 (MoF of Malaysia, 2014). It contributes about 2% of GDP Malaysia (Hoare, 2015) and provides 300,000 employment.

A survey was conducted by Jeyapalan & Chen (2014) among the tax professional and tax education professionals on Malaysian taxation issues revealed 91.6% of the respondents agreed the compliance issues on GST is the most issue that necessary to be studied detail. Meanwhile, 86.3% support the issues of tax education and knowledge of the taxpayers should be studied further. Besides that, the researcher had carried out preliminary study randomly among the wood product manufacturers located in Klang Valley. The result showed their GST knowledge at an unsatisfactory level.

The RMCD reports the understanding of the business community especially on GST technical aspects is still at an unsatisfactory level. The GST preparation involves skilled people, changes of business process and enhancement of technology resources. The RMCD has the challenges in increasing awareness, perception, acceptance, readiness, and preparedness toward implementation of GST among the business community as the GST payers. Previous studies found the lack of tax knowledge has identified the cause of unfavourable attitude toward tax compliance. The taxpayers will troublesome to comply with the tax laws, regulations, and procedures. Hence, this study tends to identify the level of understanding on GST knowledge of the wood product manufacturers as the GST payers.

Apart from the political considerations, the deferral of GST implementation comes from the factor of readiness issues from the business community, especially among the small and medium-sized enterprises (SMEs) community. The Federation of Malaysian Manufacturers (FMM) completed a survey among businesses in 2012 revealed over 60% of them were not ready for the GST. The residual 40% have made some preparations by attending seminars and training in gaining knowledge and familiarise with the GST. Meanwhile, Deloitte Malaysia claims, most businesses are undecided whether to embark on any GST readiness steps while waiting for confirmation announcement by the government. Less than 5% of businesses have started getting themselves ready (Jayaraman, 2013). In line with this, the researcher wants to examine the level of the attitude of the wood product manufacturers toward GST compliance.

For this reason, this study attempts to measure the level of GST knowledge and attitude among the wood product manufacturers that will affect and

influence the GST compliance. In addition, to identify the effectiveness of communication channels were used in disseminating GST knowledge.

The dimension of knowledge and attitude toward GST compliance as well as the effectiveness of communication channels in disseminating and giving an understanding of GST knowledge have not yet been studied previously. Moreover, previous studies have never been investigating the correlation of knowledge and attitude toward GST compliance. For instance, Ely Raziah, Nor Farizal, and Norhasnah (2005) studied on awareness among SMEs, whilst Saliza (2007) studied on SMEs' understanding and preparedness on GST. Nordiana (2012) studied the theory planned behaviour (TPB) variables which are attitude, subjective norms, and perceived behavioural control influence GST compliance among the manufacturers.

Meanwhile, Marimuthu, Zainol, and Hijjatullah (2012) studied on understanding, perception, and awareness on GST among the tax agents and the study on the perception and probable area of difficulties in GST among the managers in manufacturing companies (Zainol & Marimuthu, 2014). Hence, this study makes a consideration study on the dimension of knowledge, attitude, and communication channels as the independent variables whereas, GST compliance as the dependent variable.

Other studies by Rizal and Adha (2011) survey on the Malaysian middle earners and Hussin, Aeefi, and Normala (2013) investigate among the public on awareness, perception, and readiness for the implementation of GST. The results of both studies revealed 64% and 70% respectively of the respondents were not ready for GST due to inadequate information about GST cause of lack of promotions and awareness programs.

The gaps between industry practice and academic were highlighted as mentioned above to be a strong justification to proceed with an investigation of this study according to the following research questions in achieving the main objective of the study.

1.3 Research Questions

The following research questions of this study require for the solution acquire from methodical and confirmable processes.

- i. What is the level of the GST compliance, understanding of the GST knowledge (concept, legal, technical, and technology) and attitude (cognitive and affective) among the wood products manufacturers?

- ii. What is the most effective communication channel in acquiring and gaining an understanding of GST knowledge from the RMCD to the wood products manufacturers?
- iii. Which category of knowledge will provide the most influence on the GST compliance by the wood products manufacturers?
- iv. Is there any significant relationship between knowledge, attitude and communication channels toward GST compliance among the wood products manufacturers?
- v. Does the size of the company has moderation effect in influencing the relationship between knowledge, attitude and communication channels toward GST compliance by the wood products manufacturers?

1.4 The Main Objective of the Study

The main objective of this study is to examine the level of compliance and its determinants (knowledge and attitude) of the wood product manufacturers by developing the GST compliance model based on knowledge, attitude, and practice (KAP) model. The effect of the determinants variables to the GST compliance and the moderation effect (the size of the company) will identify by using the structural equation model (SEM). The most effective communication channel in acquiring an understanding of the GST knowledge will also identify. Therefore, to achieve the main objective and five specific objectives were itemised in next subheading.

1.5 Specific Objectives of the Study

This study is designed to achieve the following specific objectives:-

- i. To measure the level of GST compliance, understanding of the GST knowledge (concept, legal, technical, and technology) and attitude (cognitive and affective) by the wood products manufacturers.
- ii. To identify the most effective communication channel in acquiring and gaining an understanding of the GST knowledge towards GST compliance by the wood products manufacturers.
- iii. To determine the category of knowledge will provide the most influence to the GST compliance by the wood products manufacturers.
- iv. To examine the relationship between knowledge and attitude toward GST compliance among the wood products manufacturers.

- v. To examine the moderation effect of the size of the company on the relationship between knowledge, attitude and communication channels toward GST compliance by the wood products manufacturers.

1.6 Research Hypotheses

Hypothesis commonly comes from the research questions in a declarative statement that predict the outcomes. The hypotheses of this study are as follow:-

- H4_a: Knowledge has a positively significant influence on the wood product manufacturers toward GST compliance.
- H4_b: Attitude has a positively significant influence on the wood product manufacturers toward GST compliance.
- H4_c: Communication channels have a positively significant influence on the wood product manufacturers toward GST compliance.
- H5_a: The size of the company has moderation effect to the relationship between knowledge and GST compliance.
- H5_b: The size of the company has moderation effect to the relationship between attitude and GST compliance.
- H5_c: The size of the company has the moderating effect the relationship between communication channels and GST compliance.

1.7 Significance of the Study

The selection of the wood product manufacturers as a target population is significant because it is one of the first studies on GST Malaysia for this industry empirically. This industry is one of the oldest traditional industries in Malaysia as well as mining, agriculture, plantation, fishery, and livestock. Hence, most of the owners of this factory possess only a primary and secondary education level. With that education level, the researcher presumes it is tough for them to understand GST knowledge due to it is broader and more technical in term of processes and procedures compare to SST system. This is another reason for this industry was selected to be studied.

This empirical study is significant because it involves the variable knowledge with four categories (concept, legal, technical, and technology), attitude with components (cognitive and affective) and communication channels for GST compliance purposes that have never been conducted previously in

Malaysia. Thus, this study provides new insights to fill the gaps of previous studies on the GST Malaysia. This study also contributes new literature to the taxation discipline especially for indirect and specifically for GST/VAT locally and globally. The data gathered and used to examine the relationship between variables knowledge, attitude, and communication channels toward GST compliance and the moderation effect the size of the company between those variables was tested using SEM makes a significant study compared with previous studies.

This study also serves a significant contribution that provides relevant materials to the academic development since it crosses academic disciplines from taxation, psychology, information technology, and knowledge management. Finally, this study also provides a significant finding to the wood product manufacturers as the target respondents as well as to other related stakeholders like FDPM and MTIB to evaluate and scrutinize the level of GST knowledge. Therefore, they are enabled to improve their understanding to be a good GST compliant.

1.8 Scope of the Study

The wood product manufacturers are comprised of seven major wood-based industries which are sawmills, plywood/veneer mills, moulding mills, blackboard mills, furniture or woodworking and joinery mills, chipboard or particleboard mills and medium density fibreboard mills (FDPM, 2014) were selected as the target respondents. The respondents were selected using the propositional stratified sampling technique since the target population is heterogeneous (various types of wood-based mills).

For the reason that this study discovers the social and behavioural science, the survey method is the most appropriate in collecting data compare to observation technique (Pope, Royen, & Baker, 2002). Moreover, this study adapted the KAP model in collecting data, the quantitative survey method using the questionnaire as the primary research instrument is the most appropriate to be deployed.

Knowledge, attitude, and GST compliance (practice) are the variables for this study. Thus, the questionnaire was customised to measure the level of GST compliance (behaviour), understanding the GST knowledge, and the level of the attitude of this target respondent only. The effectiveness of communication channels used in disseminating and transferring GST knowledge also to be identified because the GST is taxation innovation to the tax system in Malaysia which requires an effective diffusion of innovation to be adopted by the target group measured. Furthermore, the researcher wants to identify either the size of the company of the target respondents provides a moderating effect on the relationship of knowledge and attitude

toward GST compliance. The differences in demographic such as nature of the business, business activities, a location of the business, the size of the company, workers' skill background, and respondent's profiles are the factors will influence the findings of the study that cannot be generalised to other industry sectors.

1.9 Limitation of the Study

The geographical area is the first limitation of this study involves of the wood product factories (2,765 mills) located in Peninsular Malaysia (PM) excluding the factories in Sabah and Sarawak (1,216 mills). Secondly, the manufacturers who are being the GST registered persons were selected as the target respondents that restricted from the selected states of four regions namely southern (Johor and Melaka), central (Kuala Lumpur, Selangor, and Negeri Sembilan), northern (Perlis, Kedah, Penang, and Perak) and east coast (Kelantan, Terengganu, and Pahang). However, seven states were randomly selected from eleven states in these regions. The financial and time constraints are the reasons for the limitations of this study.

1.10 Conceptual and Operational Definition of Terms

The conceptual and operational definitions of term representative of independent and dependent variables as the borders and guide for the whole process of this study as below:-

1.10.1 GST-Registered Person

Conceptual definition: The general definition of a taxpayer who is responsible for paying tax to the tax authority.

Operational definition: Any person liable to register or that voluntarily apply to be registered under Part IV, Sec. 19, of the GST Act 2014 who provide the taxable goods and services.

1.10.2 GST Compliance

Conceptual definition: Tax compliance is the willingness of taxpayers to pay their taxes in different degree of compliance (Kirchler, 2007).

Operational definition: The willingness of a GST-registered person to pay the tax accurately, correctly, and timely to RMCD.

1.10.3 GST Knowledge

Conceptual definition: Knowledge is an organised combination of instincts, ideas, rules, procedures, and information to guide the actions and the decision of a problem (Marakas, 1999). It is a set of instruction or recipe on how goods and services can be produced Jones (2004).

Operational definition: GST knowledge can be described as a set of a new idea and information regarding concept, legal, technical, and technology knowledge become an instruction for how GST should be successfully adopted and implemented as well complied.

1.10.3.1 GST Concept Knowledge

The concept and general knowledge about GST such as how GST works, type of supplies, type of taxable and non-taxable goods and services, category of GST registration, type of GST forms, type of GST taxable periods, methods to return GST, and the responsibility of GST payers to keep the business and accounting record related to GST for certain years.

1.10.3.2 GST Legal Knowledge

Refer to GST Act 2014, GST Regulations 2014, GST General Guide, GST Guide on Registration, GST Guide to Forestry Industry GST Guide on Manufacturing, GST Guide on Tax Invoice and Record Keeping, and GST Guide to Enhance Your Accounting Software to be GST Compliant as well as A Handbook for GST for Businesses.

1.10.3.3 GST Technical Knowledge

Specify to the technical knowledge of manufacturing needs to be acquired and fully comprehend by the wood-based manufacturers as the GST-registered person. It is discovered on how to calculate and account for GST payable and claimable, loan of raw materials, GST treatment on discount, gift, sample, lost or to destroyed of goods, farming out, transaction with designated areas and Free Commercial Zone, drop shipment, warehouse scheme, the time to issue tax invoices, type of invoice (full tax invoice and simplified tax), and claims for input tax for export of goods.

1.10.3.4 GST Technology Knowledge

This knowledge refers to the skill of GST-registered person to utilise information technology (IT) in dealing with GST transaction and

administration. It involves the skill how to use GST accounting application system in managing GST transaction, use of Taxpayer Access Point (TAP) for GST return via MyGST portal and seek for detail GST information through MyGST Portal.

1.10.4 Attitude

Conceptual definition: An attitude is a nature to react favourably or unfavourably to an object, person, institution or event (Fishbein, & Ajzen, 1975) that include of cognitive, affective and conative (behavioural) components (Thomas, 1969).

Operational definition: Attitude toward GST compliance is the GST payers' positive or negative reaction (comply or not to comply) to the GST regulations and procedures.

1.10.4.1 Cognitive Attitude

Cognitive attitude is the response of the GST payers with information and knowledge such as enough information and good understanding on GST knowledge drive to high GST compliance.

1.10.4.2 Affective Attitude

Related to favourable or unfavourable the GST payers toward GST implementation like GST is useful for the provision of public facilities and trust to the government expenditure will determine the compliances of GST payers.

1.10.5 Communication Channels

Conceptual definition: Generally defined as the process of creating and share information in order to reach a mutual understanding among groups of participants. However, Rogers (2003) defines "as the process of exchanging a new idea and information using a specific type of communication by individual to one or several others".

Operational definition: The type of information sources utilised by the RMCD in disseminating and transferring GST information and knowledge. GST website, seminar/workshop, face to face consultation with the RMCD officials, telephone conversation with the RMCD official and consultation services from the tax agents are provided information sources.

1.11 Structure of Thesis

The structure of the thesis involves of six chapters. As a standard organisation of the thesis, it is opening with an introduction section as chapter 1, chapter 2 detail about GST Malaysia, followed by literature review in chapter 3. The research methodology is detailed in chapter 4; the results, findings, and discussions are clarified in chapter 5. Then this thesis is wrapped up with a summary, conclusion, implications and recommendations in chapter 6.

Chapter 1 consists of background of the study, problem statements, research questions as well as objectives of the study (main and specific), a list of research hypotheses, the significance of the study, the scope of the study, limitations of the study, conceptual and operational definition of terms, and closed with the structure of the thesis.

Chapter 2 will details about GST Malaysia as a core subject matter of this study. It consists of the history of world taxation, history of the consumption taxes, history of Malaysian taxation, the reformation of GST Malaysia, salient features of GST, type of supplies, GST treatment of the industries, GST special schemes, GST treatment to the manufacturing sector and to the forestry industry.

Chapter 3 is about the literature review comprise with previous studies on tax compliance and GST studies in Malaysia, overview the wood product manufacturers in Malaysia, the success and failure experiences of GST/VAT from selected countries, theoretical framework, conceptual framework of the study that involves compliance as the dependent variable, GST knowledge with it categories (concept, legal, technical and technology), attitude (cognitive and affective) and communication channels as the independent variables.

The research methodology was discussed in chapter 4 involves research design and approach of the study, the location of the study area, population and sample of the study, sample size and sampling procedure, the instrument that detailed of measurement of instrument, knowledge variable, attitude variable, and communication variable. Then, explained data collection process, the validity, and reliability of research instrument, the reliability of internal consistency test for the pilot survey, exploratory factor analysis (EFA) confirmatory factor analysis (CFA), Mahalanobis for data outliers, assessing normality, and end with the conclusion of the chapter.

Chapter 5 discusses the findings of the data analysis using SPSS 20 and AMOS 20 followed the discussion of the results. The result was clarified

according to six research objectives that involve descriptive information of the company and respondents, the level of respondents' knowledge and attitude, the most effective communication channels, the relationship between knowledge, attitude and communication channels toward GST compliance and finally test of the size of the company as moderator variable influence the relationship of path knowledge, attitude and communication channels toward GST compliance. This chapter will close with a discussion and findings of the result.

Finally, this thesis came to an end with chapter 6 that consist of a summary of findings, the conclusion of findings, implications for the theory, policymakers, and business community. In this chapter offer the recommendations to related parties like to the policy maker such as Malaysia Government, MOF, and RMCD as well as to the business community. The researcher also provides a few suggestions for future research.

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