A STUDY ON COMPLIANCE ISSUES IN SERVICE TAX
AND CUSTOMS DUTIES

Mazni binti Abdullah

Bachelor of Accounting
University of Malaya
Kuala Lumpur
1998

Submitted to the Faculty of Business and Accountancy,
University of Malaya, in partial fulfilment of the
requirements for the Degree of Master of Business
Administration (Accountancy)

May 2003
Acknowledgement

First and Foremost, all my gratuitous to Allah the Almighty, with His consent I was able to complete this thesis.

I would like to express my sincere appreciation to my project supervisor, Associate Professor Dr. A. Thillaisundaram for his valuable advice and guidance in the completion of this research paper.

My special thanks to the Customs officers in Putrajaya, En.Yaakub, En.Supian, Pn. Siti Baya and Pn. Hjh. Azizah Idris as well as the librarians of the Royal Customs library for providing me the assistance I need during the completion of thesis.

To my friends who in one way or another contributed to the completion of this project, thank you very much for your kind cooperation. It is virtually impossible to name everyone involved but whatever little contribution made deserves deepest gratitude.

Last but not least, my deepest appreciation is extended to my parents, Hj. Abdullah and Hjh. Kamariah, brothers and sisters for their love, constant encouragement and moral support. Though there are not with me, their understanding, support and trust are always the greatest driving force to my study. Thank you very much.
Abstract

Tax compliance is a growing national concern as it seriously threatens the capacity of government to raise public revenue. Thus this study seeks to explore the functions of the Customs authorities in preventing non-compliance in Service tax and Customs duties. Various strategies and recommendations to enforce or increase compliance are discussed in this study. The problems to enforce compliance are presented as well. This study also attempts to gauge the perceptions of service providers regarding compliance in service tax. To tackle the policy problems of tax non-compliance requires at least some understanding of the factors why the individuals decide to comply or not to with the laws. A knowledge of these factors may give some insights to the relevant authorities to pinpoint areas or situations where non-compliance is more likely and adopting the proper measures to address them.
# CONTENTS

Acknowledgement
Abstract
List of Tables and Chart

## CHAPTER 1 - OVERVIEW OF THE STUDY

1.1 OVERVIEW OF MALAYSIAN TAXATION  
1.2 TRENDS OF INDIRECT TAXATION IN MALAYSIA  
   1.2.1 INCREASING RELIANCE ON SERVICE TAX  
1.3 TAX COMPLIANCE ISSUE  
1.4 PROBLEM STATEMENT  
1.5 OBJECTIVES OF THE STUDY  
1.6 RESEARCH METHODOLOGY  
1.7 SCOPE OF THE STUDY  
1.8 ORGANISATION OF THE STUDY  
1.9 CONCLUSION

## CHAPTER 2 - LITERATURE REVIEW

2.1 INTRODUCTION  
2.2 DEFINITION OF TAX COMPLIANCE, TAX EVASION AND TAX AVOIDANCE  
2.3 FACTORS AFFECTING NON-COMPLIANCE  
2.4 IMPROVING TAX COMPLIANCE  
2.5 CONCLUSION
CHAPTER 3- RESEARCH METHODOLOGY

3.1 INTRODUCTION .............................................. 25
3.2 TYPES OF DATA ............................................. 25
3.3 SAMPLING DESIGN ........................................... 26
3.4 DATA COLLECTION PROCEDURES ......................... 27
3.5 QUESTIONNAIRE DESIGN ................................... 28
3.6 DATA ANALYSIS TECHNIQUE ............................... 29
3.7 CONCLUSION .................................................. 29

CHAPTER 4- SERVICE TAX

4.1 INTRODUCTION .............................................. 30
4.2 OVERVIEW OF THE SERVICE TAX ......................... 30
  4.2.1 CHARGE TO TAX (SEC. 3, STA) ......................... 30
  4.2.2 RATE OF TAX (SEC.5, STA) ............................ 30
  4.2.3 PERSON CHARGEABLE TO TAX (SEC.7, STA) ......... 31
  4.2.4 LICENSING REQUIREMENTS (SEC. 8, STA) .......... 31
  4.2.5 SCOPE OF CHARGE ...................................... 31
  4.2.6 ANNUAL TURNOVER TRESHOLD ......................... 32
4.3 COMPLIANCE UNDER THE SERVICE TAX LEGISLATION .... 33
4.4 STRATEGIES TO CURB NON-COMPLIANCE ................. 36
4.5 PROBLEMS FACED BY THE CUSTOMS ...................... 37
4.6 FINDINGS FROM THE SURVEY .............................. 39
  4.6.1 BACKGROUND OF THE SURVEY .......................... 39
  4.6.2 PERCEPTIONS ON THE POSSIBLE FACTORS OF NON-COMPLIANCE 39
  4.6.3 PERCEPTIONS ON THE POSSIBLE STRATEGIES .... 42
     TO ENFORCE COMPLIANCE
4.7 OTHER ISSUES OR COMMENTS REGARDING SERVICE TAX .... 44
4.8 RECOMMENDATIONS ......................................... 45
4.9 CONCLUSION .................................................. 47
APPENDICES

APPENDIX 1  THE NUMBER OF LICENSEES FOR THE YEAR 2001 AND 2002

APPENDIX 2  THE NUMBER OF LICENSEES ACCORDING TO THE STATE

APPENDIX 3  COVER LETTER

APPENDIX 4  QUESTIONNAIRES TO THE SERVICE PROVIDERS
## LIST OF TABLES AND CHART

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1</td>
<td>Federal Government Revenue, 1995-2005</td>
<td>3</td>
</tr>
<tr>
<td>Table 1.2</td>
<td>Tax Revenue Detected vs Tax Collected (1998-2001)</td>
<td>6</td>
</tr>
<tr>
<td>Table 1.3</td>
<td>Number of cases prosecuted and compounded (2000-2001)</td>
<td>6</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Sample selected in the study</td>
<td>39</td>
</tr>
<tr>
<td>Table 4.2 (a)</td>
<td>Respondents perception of the possible causes of non-compliance</td>
<td>41</td>
</tr>
<tr>
<td>Table 4.2 (b)</td>
<td>General perceptions of the important factors that cause non-compliance</td>
<td>41</td>
</tr>
<tr>
<td>Table 4.2 (c)</td>
<td>Respondents’ perception on the strategies to enforce compliance</td>
<td>43</td>
</tr>
<tr>
<td>Table 4.2 (d)</td>
<td>General perceptions of the strategies to enforce compliance</td>
<td>43</td>
</tr>
<tr>
<td>Table 5.1</td>
<td>Statistics of Smuggling of Major Commodities in the year 2002</td>
<td>55</td>
</tr>
<tr>
<td>Table 5.2</td>
<td>Statistics of Smuggling of Cigarette from the year 1994-2001</td>
<td>55</td>
</tr>
<tr>
<td>Chart 5.3</td>
<td>Statistics of Smuggling of Cigarette (1994-2002)</td>
<td>56</td>
</tr>
<tr>
<td>Table 5.4</td>
<td>Comparison between legal cigarettes and illegal cigarettes in the market</td>
<td>57</td>
</tr>
</tbody>
</table>