

Cognitive Dissonance Impact of GST Implementation Perception of Strata Property Owners in Malaysia

By Jayalakshmy Ramachandran & Ramaiyer Subramanian

Abstract

In this article the researchers discuss the cognitive dissonance impact of GST implementation on various small businesses in Malaysia. To deliberate our argument, we take the instance of Strata Property Owners, Joint Management Bodies and Management Corporations in Malaysia that are affected by the 6% GST implementation. The article discusses the resultant cognitive dissonance faced by this cohort. A press conference and pursuant appeal letter to the Customs Department helped to combat the same to a certain extent although concerns regarding increasing cost is still debatable. Similar dissonance impacts, which are yet to be addressed, are witnessed by many small businesses and start-up entrepreneurs. Other controversies regarding government spending appear to add to the anxiety.

Introduction

The Global Economic Crisis has prompted the government to take active steps to stabilise the National Economy. One of the dynamic efforts was the introduction and implementation of Goods and Service Taxes ("GST"), also known as Value Added Tax ("VAT") in other countries, effective April 1, 2015. The implementation of GST in Malaysia would be one of the other ways of assisting the Government's tax reform programme. GST at 6% is intended to replace the existing sales tax which ranges from 5% to 10% (KPMG, 2013). About 140 countries around the world have switched to GST/VAT while there are a few other countries that are yet to begin adoption of GST (Rashid et.al, 2014). The fiscal resolution to have GST differs from country to country. For example, in Singapore GST would most likely contribute towards stabilising the income tax system and is likely to act as a robust tool in the long-run to support the ageing population (Lau et. al., 2013). In Malaysia, the objective of implementing GST is to ensure that tax burden is spread evenly while also contributing to government revenues and sustaining public spending.

However, consumers in the country are sceptical about the impact of GST on the rate of inflation and the cost of living. Newspapers have highlighted news about the perception of consumers on the cost of living in Malaysia due to the introduction of GST. Consumers in Malaysia are unconvinced about impact on the cost of living despite the regulators assuring minimal immediate effect. Rashid et. al. (2014) observed that there is a big gap in terms of government's perception of how GST can help the economic condition of the country versus the consumers' image of how badly it could hit their spending and saving patterns. This is not very surprising since Australia witnessed a significant, although transitory, impact on inflation, when it was implemented in September 2000 (Valadkhani and Layton, 2004). Similarly, in Singapore, GST was implemented a decade ago at a nominal 4% rate, in order to dilute the effects of inflation, and they gradually increased the tax rate from 4% 7% which is where it stands currently. The qualms of inflation was handled carefully by Singapore with nominal reductions in the corporate tax and personal income tax rates. The Malaysian Institute of Accountants and various economists and tax professionals, view our neighbouring country Singapore, as an example for GST transition Gomez (2010) confirms that inflation due to GST implementation cannot be ruled out. This article focuses particularly on the cognitive dissonance impact of GST implementation on strata property owners in Malaysia and the perception of strata property owners in Malaysia on GST implementation.

Cognitive Dissonance

Cognitive dissonance refers to a situation involving conflicting attitudes, beliefs or behaviours (McLeod, 2008). This produces a feeling of discomfort leading to an alteration attitudes, beliefs or behaviours to reduce the discomfort and restore balance. The theory was originally developed and explained by Leon Festinger and James Carlsmith in 1954 where the researchers explained that every individual has beliefs/attitudes which could become inconsistent at some point in time. Once the inconsistencies are recognised, it could lead to dissonance of the original beliefs/attitudes. The dissonance impact will depend upon the strength of our original beliefs and the extent of the inconsistencies.

GST and cognitive dissonance



DR. RAMAIYER SUBRAMANIAN

Dr. Ramaiyer Subramanian, (M.Com, FCA, PhD) is a Senior Lecturer and Head of Accounting program at Faculty of Business Multimedia University, Melaka. In over 20 years as an academic he has taught financial accounting and reporting to undergraduate and postgraduate students.

He has published a number of articles in peer reviewed academic and professional journals. As a Chartered Accountant, he has served as Chairman of Bangalore branch of the Institute of Chartered Accountants of India. His main area of research include financial reporting and corporate governance.

The decision to implement GST at the rate of 6% in Malaysia was not accepted by consumers wholeheartedly despite the Government's efforts to assure that it would be smooth sailing. Preliminary research conducted by various sources has suggested that consumers are indeed sceptical about the GST implementation and its impact on the cost of living. This has only left the consumers with unreasonable cognitions. For example, a number of small businesses like restaurant owners contemplate closing their businesses due to the compulsory GST implementation. They believe that the incidental costs, including but not limited to compliance costs, due to GST implementation would likely bring losses to their businesses, and they are worried about struggling to sustain their businesses. This is similar to the position of strata property owners. The dissonance in this respect comes negatively in the form of plans to close businesses and by seeking alternative sources of income.

Who are strata property owners?

Strata title is a form of ownership that allows subdivision of a shared property such as condominiums or flats, pursuant to the specific provisions of the Strata Management Act, 2013 and the Strata Management Regulations, 2015 (Note: The Building and Common Property (Maintenance and Management) Act, 2007 is now repealed and replaced by the Strata Management Act 2013 [Act 757], Strata Management (Maintenance and Management) Regulations 2015 & Strata Management (Strata Management Tribunal) Regulations 2015).

[Within twelve (12) months from the delivery of vacant possession of parcels to the purchasers, the developer is required to form a body comprising both the developer and purchasers, known as the Joint Management Body ("JMB"). Once formed, the JMB will take over the responsibility of managing and maintaining the property from the developer (Sections 17(1), 17(2) and 17(3) of the Strata Management Act 2013. Properties for which such sub-divisions are made and registered successfully, are covered by the Strata Titles Act 1985. Section 39(1) of the Act thus states that: Upon the opening of a book of the strata register in respect of a subdivided building there shall, by the operation of this section, come into existence a Management Corporation consisting of all the parcel proprietors including in the case of phased development, the proprietor of the provisional block or blocks.

The Strata Management Act also details the roles and responsibilities of the JMBs / Management Corporations ("MCs") which broadly involves the maintenance of books of accounts and managing funds which shall be used to maintain the common property. The JMBs / MCs are allowed the discretion to decide upon any expenditure they may deem necessary to maintain the common property. In a nutshell, the objective of having JMB / MC is to take care of the common property and facilities surrounding the parcels, maintain the common property and facilities surrounding the parcels, upgrade the common property and facilities surrounding the parcels when deemed fit, and maintain records of accounts in a systematic manner, and promote transparency. This would theoretically imply good governance.

GST Act and Strata Property owner

The introduction of GST, by virtue of their definition of "business" provided in Section 3(1), covers all entities involved in any trade, commerce, profession, vocation or any other similar activity, whether or not it is for pecuniary profit. Section 3(2a) details the activities which could be deemed as carrying out a "business" which includes provisions by club, association, society, management corporation, joint management body or organisation (for a subscription or other consideration) of the facilities or benefit available to its members or parcel proprietors, as the case may be. By virtue of the above statements, it implied that owners of subdivided properties who contributed towards the maintenance of the common area will now be subject to 6% GST and will have to bear other incidental expenses to ensure that the taxes are being settled without time delays to avoid penalties or other resultant consequences.

The cognitive dissonance of the consumers

When the GST was implemented in April 2015, it was perceived (cognitions) by a large number of strata property owners, JMB and MC that:

- JMB / MC could not be treated as "businesses" for the following reasons:
- They are voluntary groups to protect the common interests of the consumers i.e. to maintain the common property and facilities;
- The owners of subdivided properties must not be treated differently from the owners of landed properties;
- Since the property is subdivided, it demands a fixed amount to be contributed unlike owners of landed property where maintenance is at the choice of the owners;



DR JAYALAKSHMY RAMACHANDRAN

Dr Jayalakshmy Ramachandran is an Assistant Professor of Accounting and Auditing at Nottingham University Business School Malaysia. She has been in academia since the last sixteen years and has particularly focused on researching on corporate governance, ethics and audit.

She has conducted several workshops and trainings in the area of corporate governance, integrity and ethics. She has published peer-reviewed articles in her area of specialisation and has presented papers in international and local conferences. She has published articles on corporate governance in Nesan4U newspaper. She is a Malaysian Human Resource Development Fund certified trainer.

- They are non-profit organisations with limited cash flow;
- It was also noted that the 2009 draft had not included JMBs/MCs(?) while the later draft did so.
- The implementation of GST appears to result in different impact for people gaining similar benefits:
- Low cost and medium cost apartments are totally exempt, and there is confusion about how apartments are classified as low or medium cost. Although the value of the property could be one means of classification, interpretations could differ. For example an RM400,000 apartment could be considered medium cost in Kuala Lumpur while it could be considered high-end in another state.
- Some high-end condominiums could escape GST due to their low collections because of fewer blocks of condominiums, although it is unclear if such a distinction is made.

- Could JMB / MC bear the burden of non-compliance?
- Many owners of condominium apartments live outside Malaysia, and often, payments are made in arrears, whereas the GST billing requirements follow a billing cycle.
- Although bad debts can be recovered, the waiting period of seven months to recover the GST on bad debts will put pressure on the cash flow of such organisations, that already face a collection issue in many condominiums and flats.
- Defaulters are many, and it is difficult to track down the owners to pay the maintenance, let alone to pay any penalties.

- JMB / MC would face financial pressures:
- The maintenance charges currently charged by many condominiums are barely sufficient to cover the general maintenance, which is likely to increase with the implementation of GST;
- Incidental costs of GST implementation such as hiring knowledgeable accounting staff, upgrading accounting systems to maintain GST records, administration, documentation and filing could add to the financial pressures of many JMBs/MCs. The limited ability of JMB / MC to pay competitive salaries deter specialised staff from working within such organisations;
- Temporary funding facilities are not easily available to JMB / MC like for other businesses and even if funding can be arranged, the finance costs will have to be borne by the parcel owners.

- The liability clause as per Section 29(2) of GST Act:
Where anything is to be done under this Act by or on behalf of the society or similar organisation, the affairs of which are managed by a committee, or committee of its members, it shall be the joint and several responsibility of:
 - (a) Every member holding office as president, chairman, treasurer, secretary, or any similar office; or
 - (b) In default of any such member, every member holding office as a member of a committee.

By virtue of the above clause it appears that non-compliance with GST would make the voluntary JMB / MC members personally and severally liable. Consequently, it was felt that this clause would deter JMB / MC members' willingness to accept positions as office bearers within the JMB / MC (dissonance), which will indirectly have an impact on maintenance, and subsequently on the rental income and property prices.

Reducing the cognitive dissonance impact: What is practical? A press conference was held on 2nd December 2014 in Petaling Jaya by the Building Management Association of Malaysia (BMAM), the only multi-stakeholder organisation (established in 2009) representing the collective interests of Chambers of Commerce, developers, engineers, architects, shopping and high-rise complex managers, MCs, JMBs and managing agents. The press conference was one of the many efforts by the stakeholders to urge the government to either zero-rate or exempt all JMB / MC from GST. A joint resolution signed by numerous strata property owners was submitted to the Minister of Finance with copies to the Deputy Finance Minister, and to all Members of Parliament highlighting the anticipated financial impact of the GST on building management, particularly stratified residential properties (flats, apartments and condominiums) that are managed and maintained by Joint JMB at the pre-strata stage and by MC at the post-strata stage. In furtherance to the Stakeholder Dialogue and press conference on GST which were held on 2 December 2014, an official letter was received from the Malaysian Customs Department, confirming that all JMB / MC managing and maintaining residential buildings would be exempted from GST. This took effect via Resolution Number O.3865/356(SJ.4)(-Jld.14)(SK.12)(21) dated 5 January 2015. This exemption included 'management fees and maintenance charges charged by the MC or JMB' and 'sinking fund'. However, the said GST exemption is only applicable to JMB / MC that are managing and maintaining residential buildings. JMB / MC that are managing and maintaining commercial buildings are still subject to GST. JMB / MC that are managing and maintaining residential buildings not belonging to stratified property owners are also not exempted from GST. JMB / MC of such properties, where the annual turnover exceeds RM500,000 will therefore have to be registered with the Customs Department and be GST-compliant. To some extent the efforts taken by BMAM to obtain GST exemption status for JMB and MC of residential buildings was achieved bearing in mind that the vast majority of stratified residential buildings in Malaysia are low and medium cost flats and apartments. However the impact of getting GST exempt is that "these are non-taxable supplies that are not subject to GST. Businesses are not eligible to claim input tax credit in acquiring these supplies,

and cannot charge output tax to the consumer” .

The resultant effect is that increase in the cost of services due to input tax is being felt by JMB / MC since there is no way of claiming as credit on the GST incurred on services received that are inputs for JMB / MC. Therefore, although JMB / MC could avoid/reduce the incidental costs of implementation of GST, there seems to be no recourse to them for the increased costs due to the rise in related costs which are subjected to GST.

In summary

The Government's efforts to stabilise the economy and increase revenue to sustain expenses is well appreciated. The introduction of GST is helping Malaysia blend with other parts of the world. However, the impact of GST implementation is also likely to cause adverse effects to some parts of the community, such as strata property owners, who expressed their concerns about the same through demonstrations or press conferences. While the subsequent actions by the Customs Department addressed the issues raised by the strata property owners and JMB / MC, the concern still remains regarding the increased cost as a result of GST, and the manner to overcome these rising costs. This is further borne out by the fact that the Auditor General, in his Annual Reports to Parliament has highlighted several instances of leakage of funds, corruption, mismanagement of funds, irregularities and lack of transparency in product procurement practices including but not limited to closed and negotiated tender procedures, the lack of proper enforcement of financial reporting systems, and a host of related financial control issues. These have been reported year after year, with little visibility of any serious form of enforcement against offenders such as holding the respective officers legally accountable for their actions, or lack of action. This state of affairs could further exacerbate the public cognition that GST is not really being used for its intended purpose, i.e. to finance public spending and for infrastructure development, but is being used to close the deficit in public spending caused by mismanagement. Timely action and support from the Government on critical issues will help to reduce cognitive dissonance in many areas which we may otherwise witness in the near future.

References

- Gomes, M (2010), Getting Ready for GST, Accountants Today, Vol 23(5)
- Lau, Z.Z, Tam, J and Heng, J. (2013) The Introduction of Goods and Services Tax in Malaysia: A Policy Analysis, Centre for Public Policy Studies.
- McLeod, S. (2008), Cognitive Dissonance, Simple Psychology <http://www.simplypsychology.org/cognitive-dissonance.html>
- KPMG (2013) GST- An Introduction, <http://www.kpmg.com/MY/en/services/Tax/gst/Documents/tl-gst-malaysia.pdf>
- Rashid, M, N., Yusoff, A, H., Nor, H, N., and Asgar, R, B (2014) Study on possible impact of GST towards Malaysia using selected economic indicators: case of Singapore, Thailand and Indonesia as model countries. 5th International Conference on Business and Economic Research Proceedings, 569-578
- Valadkhani, A., and Layton, A.P. (2004). Quantifying the effect of GST on inflation in Australia's capital cities: An intervention analysis. Australian Economic Review, 37, 125-138