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**CONTRIBUTORS**

All manuscripts and editorial correspondence pertaining to articles and related matters should be addressed to:

The Chief Editor
Asian Institute of Knowledge Management Sdn Bhd
5, Jalan 3/125D, Desa Petaling, 57100 Kuala Lumpur, Malaysia
Tel: +603-9057 2233  Fax: +603-90571323
Email: info@asianikm.com   Website: www.asianikm.com

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## Editor’s Note

Knowledge is now recognised as the main driver of organizational performance and economy growth. The development of knowledge-based economy as reflected in many advanced countries includes information society, learning society, and innovation society. The premise of knowledge development is the “knowledge Management Process”, which includes: knowledge creation (creativity); knowledge conversion (viability); knowledge communication (sustainability); and knowledge change (survival).

Many economies, both public sector and private sector, have gone through the initial creativity and viability stage of the growth, however they have found that, their growth are not sustainable and are now in the stage of survival. For example, an organization growth can be measured in term of assets ownership; however the imbalance between asset and debt have resulted a lack of cash flow and therefore not sustainable. The same principle apply to the public sector, inefficient and over public spending, may found their economies growth not sustainable, and resulted into a debt repayment crisis like Greece. It follows that, the subsequent knowledge change (survival) is necessary and inevitable.

The first article on this issue entitled, “Knowledge risk management” allows a manager to identify, assess and resolve risks in running a business. The sources of risk are categorized includes: physical environment; social and economic environment; political and legal environment; and operational environment.

The second article will look into the GST impacts, opportunities and challenges for Malaysian SMEs, and experiences faced by other knowledge-based economies. Malaysian faced many short term challenges on the implementation of GST, but it is much needed for the long term economy sustainability. Finally, what is needed most is a knowledge-based system and processes that are transparent, efficient and well governance in the collection and distribution of the tax revenue.

**Dr Tan Thai Soon**
**Editor of Asian Journal of Knowledge Management**

# How would the knowledge manager handle risk

# -A basic approach to risk management

**DR. TAY JON JON**

**Abstract**

Knowledge risk management allows a manager to identify, assess and resolve risks in running a business. A company usually faces internal and external risks which has to be examined in order to establish a resolution. It is not dissimilar to carrying out SWOT analysis in the strategic management discipline or a marketing audit that is utilized to control, manage and minimize risks. The risk manager is one that analyzes the myriad of risk to make rational decisions for the organization.

Keyword: Knowledge risk management

**Knowledge Risk Management**

Knowledge Risk Management (KRM) traverse risk management and knowledge management and that knowledge allows us to understand and handle the risk. De Zoysa and Russell (2003, cited in Massingham 2009, p.466) had scrutinized how 'knowledge assisted risk identification, risk quantification and risk response' and others considered how knowledge informs decision makers (Verhaegen 2005 and Otterson 2005, cited in Massingham 2009). Marshall *et al.* (1996, cited in Massingham 2009) looked at how the process of knowledge management can improve risk management. How the 'transfer of knowledge to decision makers, accessibility of knowledge, and embedding knowledge in controls and systems' keep away from financial calamities. Knowledge mapping techniques would later be used as KRM. Massingham's (2009) study revealed that a high volume of decisions are necessary to manage risk which goes against the grain of traditional methods like decision tree. Although with knowledge managers are best able to identify risks it also gives rise to what he termed the 'clustering effect' or cognitive confusion. If all risks were rated the same, significant risks may be overlooked because decision makers are occupied.

However, the use of a weighting based approach on the importance of the activity reduces the clustering effect.

Massingham (2009, p.481) goes further by colour coding risks with red being intolerable and green being acceptable. Managers could then provide solutions by attending to the matters underlying the risk rating.

Risk appears in the environment and or taken from a cognitive approach (Massingham 2009). It shows up in business and in the public and 'dynamic market relations increase the uncertainty of the environment where business and public firms work' (Tcankova 2002, p.290). Risk management aims to help organisations achieve their objectives via activities. It is continuous and depends on the changes in internal and external environment of the company. Should there be changes in the environment nonstop consideration for recognition and management of risks is mandatory.

Risk identification commences with basic questions how can the organisation's resources be threatened, the negative effects that prevents the organisation from achieving its goals, and what positive outcomes can be revealed. Because one is unable to determine all internal and external risks or perils that face an organisation, a generalised approach is formulated. Risk identification studies activities where resources are exposed to risks and the basic elements are sources of risks, hazard factors, perils, and exposures to risk. Changes in the environment requires continuous identification of new risks and should the organisation wish to diversify it has to identify future risks with its present resources (Tchankova 2002).

**Sources of Risk**

Sources of risk are as categorized as follows:

Physical environments - natural disasters can lead to loss for a firm.

Social environment - human structures and behaviors due to culture can pose a risk.

Political environment - fiscal and monetary policies can restrict the expansion of a firm.

Operational environment - the work life balance may have to be examined.

Economic environment - the cyclical cycles in a nation's economy can pose a risk.

Legal environment - new standards may also pose risks to a firm.

Cognitive environment - to reveal, understand and assess the risk may be different from person to person.

Assessing a disaster could come from a combination or a myriad of sources of risks (Tchankova 2002).

A traditional method of risk management process (Mayer & Matulevicius 2007) is depicted in Figure 1. Here, the focus is on risk analysis which suggest some form of standard security controls applied to reach a level of security. In step (a) the security objectives are analyzed. In step (b) objectives are defined in terms of confidentiality, integrity and availability of assets. In step (c) one determines the risks that harms the assets both quantitatively and qualitatively. Step (d) risk treatment and security requirements are determined. Step (e) controls are instituted on the requirements and finally step (f) countermeasures are taken (Mayer & Matulevicius 2007, p.3).

It is thus important for top management to consider that risk management is an integral process of decision making for the organization. A company that does not take into consideration of identifying risks, assessing risks, controlling risks, managing risks and mitigating risks is one which will head into headwinds. A turnaround situation is virtually impossible whereby debt has been accumulated over a period of time due to minimal or no risk management. A knowledge manager must be able to inform a company's board of directors to divest or wind down a company should this situation continuously persist. It does not make much financial sense in the core activity or competency of a firm when past activity has only borne much losses.

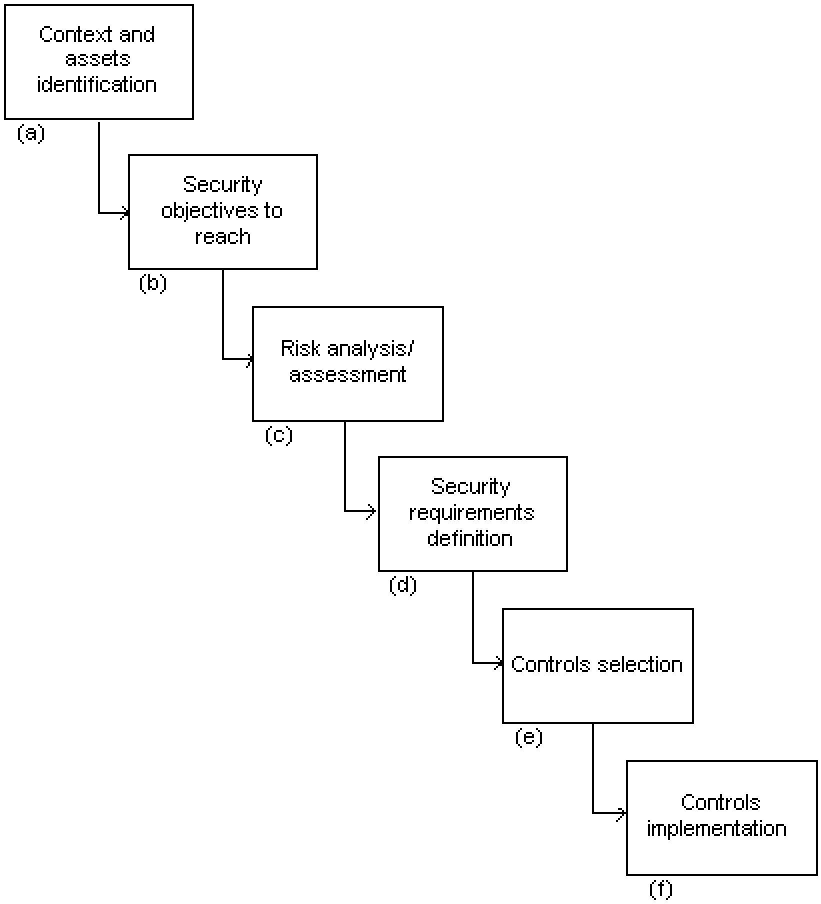


Figure 1. Risk Management Process (Source: Mayer & Matulevicius 2007).

According to IIA Paper (2013), the first line of defense in risk management is management control and how well internal control measures are designed and developed. The second line of defense comprises of financial control, security, risk management, quality, inspection and compliance. The third line of defense is internal audit.

The knowledge manager would be one with a myriad of skills to facilitate risk management and controls. To make sure that management and the audit committee should one exists in an organization, is versed on the issues both negative and positive that impact on a firm. Should it be negative then the necessary risk management processes should be implemented. Should it be positive then it would provide front line services with the opportunity to improve strategic management.

Companies of today have to be cognizant of the fact that managing risks in a logical fashion is ultimate in driving a modern organization. Combined with case scenario techniques of management would provide a potent force in improving the operations and future planning. Knowledge managers with a feel for risk management and control are the olfactory organs of a well run, well oiled corporate machine.

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# GST: The impacts, opportunities and challenges for Malaysian SMEs, and experiences faced by other knowledge-based economy.

Dr. Fakhrul Anwar Zainol
Faculty of Economics and Management Sciences
Universiti Sultan Zainal Abidin
Kuala Terengganu, Terengganu

Dr. Tan Thai Soon
TST Consulting Group Sdn Bhd

**Abstract**

This paper examines the possible impacts of the introduction of the Goods and Services Tax (GST) on SMEs in Malaysia in the context of the experiences faced by other countries that successfully implemented GST such as New Zealand, Australia and Singapore. Using qualitative approach by systematically review the literature from various databases, data were gathered on the impact of the introduction of GST pre and post implementation on SMEs in the three countries above. The paper further discussed the opportunities and challenges faced by the Malaysian SMEs with the introduction of the GST. This paper identified that SMEs incurred significant compliance costs as well as on-going cost in order to meet their GST obligations. These findings indicate governments need to be more aware of the impact of tax reforms on SMEs if they wish to implement changes with minimal adverse impacts on business operations.

**Key terms**: GST, SMEs, Challenges, Opportunities, Malaysia.

## 1 Introduction

The Malaysian Government finally implemented GST effective from 1st April 2015. This implementation came after a long wait and debates by various stakeholders of GST in the country. Looking internationally, GST have been successfully introduced in more than 116 countries worldwide. Implementation of GST in a country can be broadly considered from the three major perspectives (Ely Raziah et al, 2005):

1. Government – on the GST policies and rulings as well as studies on associated impact on economy, political and other tax systems
2. Customs and Excise – on the specific guidelines for different type of businesses, setting of an appropriate information systems solutions to handle GST claims and reporting  and setting of the appropriate documentations and forms
3. Businesses – on what businesses need to do to make sure that their business is GST compliant

This paper focuses on GST implementation from business perspective or small and medium sized enterprises (SMEs) with specific aim to examine the pre and post implementation impact of GST implementation for Malaysian SMEs. Under GST implementation, businesses do not required to pay additional tax as long as they are registered for GST. However, the process of collecting and recording tax and keeping all records in order to comply with GST requirements could be tedious and expensive process for SMEs. GST implementation will not only give the direct effect on the cash flow of the SMEs, it also needs every company to change their practice in the accounting system and business processes. SMEs must be prepared to have good accounting records and trained personnel and proper software to ensure success.Therefore, this paper will examine the possible impact of the introduction of the GST on Malaysian SMEs in the context of the experiences faced by their countereparts in other countries that implemented GST. In addition, the opportunities and challenges of the GST implementation will also be discussed to further enhance the understanding of SMEs and its stakeholders and make SMEs more resilient and competitive with the intoduction of GST in Malaysia.

## 2 Problem statement

GST implementation is going to be a major exercise in Malaysia starting this year. Definitely, this is one of the important national agenda and received a fair share of attention from academicians, tax experts, consultants, business community, politicians, consumer bodies as well as the wider public. One of the major concerns of GST implementation is its implementation impact on SMEs. The main reason is because GST compliance will require SMEs to make sure that they have a good accounting system to ensure GST paid and collected is correctly documented. This compliance job is seen as a big issue for SMEs on top of coping with their day-to-day business survival.

It is with intention that SMEs become the target of this research. A large body of literature has acknowledged that SMEs play significant roles in a country's economic development (Abd Razak, Wan Fauziah, Noor, & Ahmad Kaseri, 2012; Abebe, 2014; Bennet, 2007; Heimonen, 2012; Jamak, et al., 2014). In Malaysia, SMEs represent 99.2% or 518,996 of the total establishments in three key economic sectors, namely manufacturing, services, and agriculture. In terms of location, the majority of SMEs located on the west coast of Peninsular Malaysia are concentrated in the Central Region (Federal Territory Kuala Lumpur and Selangor), which accounts for 37.1%, followed by the states of Johor (10.4%), Perak (7.3%), and Perlis (1.1%). The other 44.1% of SMEs are located in 9 other states (Normah, 2007). Considering the significant roles of SMEs in economic growth, the Government of Malaysia has provided numerous business support services through various agencies to support SMEs' activities (National SME Development Council, 2013). Up until now, billions of Ringgits have been spent under programmes with the aim of supporting the business growth of SMEs.

Though SMEs have been well known as the backbone of the country's economy, the Malaysian SMEs in particular face various obstacles when trying to build capacity, mainly constrained by lack of resources compared to larger companies that have huge budgets to invest in improvements and upgrading their technologies. Therefore, any new tax or fiscal policies should take into account of this group with particular attention so that the new tax policies will allign with other fiscal and economies policies to make SMEs more resilient and competitive with their other counterparts.

Thus, this paper therefore is aimed at ascertaining the impact of GST implementation on Malaysian SMEs in the context of the experiences faced by them before and after the implementation. The main question of the research is how the GST implementation impacted Malaysian SMEs in terms of implementation costs, on- going costs and other impacts? Simultaneously, this paper is not just aimed to ascertain the impact of GST implementation but will examine the potential opportunities and challenges of the implementation on Malaysian SMEs.

## 3 Literature Review

GST basically can be defined as a tax on consumption of goods and services. It is a form of indirect tax whereby consumers pays taxes as they consume goods and services. The tax is embedded in the price of goods and services transacted. GST therefore is tax charge based on how much individual spend compared to Income Tax whereby tax is charged based on how much individual earn.

Parties who make the sales ie businesses will then submit the GST collected to the relevant tax authority. This happens throughout production-distribution change; from manufacturer to wholesaler, from wholesalers to retailers and from retailers to the end consumers. At any stage of the production-distribution change, the selling party will charge the buying party a GST amount on goods and services that they sell, and claim the input tax on goods and services acquired. Therefore, GST is tax charged on the pure value added generated at every stage of transaction until it reaches end consumers.

Looking at SMEs in specific, when sales are made, the tax charge must be reflected in tax invoice issued by the businesses to consumers. This tax collected will then need to be submitted the businesses to the tax offices on a periodical basis, monthly or quarterly. In simple term, SMEs now become a tax agent to the tax office, collecting tax from customers as sales or supplies are made.

In order to be an authorised “tax collection agents”, SMEs must register for GST. The incentive is it will allow the SMEs to charge its customers a GST rate on supplies made and at the same time may claim GST paid on purchases made. GST paid on purchases or acquisitions is termed as “input tax”. A GST registered company is eligible to claim back from the tax office amount of GST paid on purchases made in the same period. Therefore, net GST submitted to the tax office for a given period would be the difference between tax on sales (output) and the tax on purchases (input). Briefly, whatever rate of GST imposed, SMEs registering for GST will not bear any additional tax because they merely act as a “tax collection agent” to the tax office. The final tax will be borne by the end users. However, there are operational and financial consequences resulting from the new administrative role SMEs now adopt- tax collection agents, which become the main objectives of this paper. This paper will review relevant literature on the impact of GST implementation from knowledge-based economy on these issues.

### *3.1 New Zealand Experiences*

GST in New Zealand has been introduced as part of economic reforms which included the introduction of a fridge benefits tax; an overhaul of its social welfare structure; the conversion of its public health system to a user pays basis, and the deregulation of a number of highly regulated areas of the economy. Subsequently it has been difficult to segregate any impact specifically ascribable to the GST. Most of the literatures shows that the New Zealand GST experience was generally viewed positively, and the relatively problems were perceived to be due to lack of clear legislation. This was because the legislation was policy driven rather than process driven (Ernst & Young, 1999).

In spite of a relatively smooth introduction in 1986, on-going feedback by the New Zealand government on GST implementation has highlighted that compliance costs were high and tended to be proportionately higher for businesses with lower turnover or SMEs. It happened to SMEs that had less rigorous book keeping and reporting standards beforehand (Inland Revenue Department, 1999; Sandford & Hasseldine, 1992). It was also noted that some of these costs were not directly caused by the GST but were part of general bookkeeping requirements (Kloeden, 1998). It was also apparent that SMEs needed to have adequate management systems. While the cost of creating better accounting and computer systems was seen as a direct compliance cost, indirect business benefits were likely to accrue (Kloeden, 1998). Sandford and Hasseldine (1992) found that, theoretically, greater investments at the start-up stage should result in lower on-going costs. It was also found that SMEs who registered late had compliance costs above the average for their size.

Thus, a variety of methods to reduce the compliance costs and unfair burden on SMEs were implemented by New Zealand government focusing on raising registration thresholds and extending tax return cycles. Minimisation of costs was considered to be important and the New Zealand government over the past years has attempted to reduce the number of changes to the GST; simplify its structure and rulings; and better educate businesses (Inland Revenue Department, 1999; Sanford & Hasseldine, 1992).

### *3.2 Australia Experiences*

Looking at Australian context a number of studies were undertaken before and after the implementation of the GST (Pope, 2000). These included an assessment of the likely impact of the Commonwealth tax reform on businesses; prediction and measurement of the impact of the GST on SMEs; business perceptions of and concerns about the GST implementation; business preparedness for the GST and support availability (Ernst & Young, 1999; Evans & Ryan, 1999; Pope, 1999).

The findings show that start up cost are difficult to estimate and surveys providing differing estimates of GST compliance costs have been critised for failing to fully address measurement issues, in particular the treatment of joint costs incurred for both tax and managerial purposes (Pope, 2000). Problems in studying compliance costs have related to the difficulty in differentiating between start up and recurrent or on going costs (Pope, 2000). The limited data on start up costs indicates that estimates of start up cost vary from AUD$3500 (Vecci, 2000) to AUD$9750-$20000 (Ernst & Young, 1999).

A CPA Australia survey on SMEs (2001) shows that most SMEs have undergone a complete overhaul of general procedures to keep up with the requirements of the New Tax System. Conducted by market research firm Worthington Di Marzio, the survey indicated that after one year of the GST, 80 per cent of SMEs have up graded record keeping procedures, 21 per cent have accessed training, 77 per cent installed or upgraded software and more than a half have installed or upgraded computer software. The study also shows majority of the SMEs have had a positive impact on their management information, their ability to monitor cashflow and on their bookkeeping and invoicing procedures. Only 22 per cent of those surveyed felt their overall performance had improved with the recent tax changes, and believed it had a negative impact. This suggests that despite recognising the improvements they have made within their businesses, they are not translating these benefits to their bottom line. A major concern is the workload burden, with most SMEs claiming a significant increase in workload for themselves and 42 per cent claiming an increase in workload for their staff.

### *3.3 Singapore Experiences*

GST system in Singapore turned 21 this year. Introduced since 1994, it was part of a fundamental shift in the country long-term fiscal policy - from direct taxes on income to indirect taxes on consumption - with the objective of providing Singapore with a stable source of tax revenue. As a result, the corporate income tax rate was immediately cut from 30 per cent to 27 per cent. The top marginal tax rate for individuals was reduced from 33 per cent to 30 per cent, resulted with at least 70 per cent of individuals or Singaporeans have been dropped out of the income base. Today, the corporate income tax rate is 17 per cent while the top marginal tax rate for individuals is 20 per cent.

In the first fiscal year after its implementation, GST contributed $1.5 billion to the tax coffers, which accounted for about 11 per cent of government tax revenue. For the financial year ended March 31, 2013, it generated about $9.04 billion in revenue, making it the second-largest tax revenue contributor with about 20.4 per cent of the total taxes ($41.36 billion) collected by the Inland Revenue of Authority (IRAS) or 16.2 per cent of the government's operating revenue ($51.81 billion) (Koh Soo How, 2014).

Historically, the few rate increases that started with the hike from 3 per cent to 7 per cent currently were always accompanied by offsets to help Singaporeans cope with the higher GST. With no further increase is expected before 2016, the possibility of a hike remains if social safety nets need strengthening and higher government spending is needed. From the business point of view, the Singaporean government has been responsive in addressing industry feedback whenever GST is seen to have an adverse cash-flow impact on businesses or creating material costs. For examples, few counter measure actions have been taken such as Major Exporter Scheme (1994) - Provides relief for qualifying exporters who pay GST on the import of goods with no output GST on export sales; Tourist Refund Scheme (1994) - Resulted from the Singapore Retailers' Association's feedback on undesirable GST impact on the tourism industry; Approved Contract Manufacturer and Trader Scheme (1999) - Provides relief to qualifying contract manufacturers from having to account for GST on value-added activities performed on goods belonging to overseas customers; Approved Refiner and Consolidator Scheme (2012) - Provides cash-flow and import relief to qualifying refiners and consolidators of investment precious metals.

Compliance wise, voluntary compliance has been largely achieved in the area of GST, where 99 per cent of GST returns are normally filed with IRAS, with 93.4 per cent of returns received on time in the last financial year. When compared with the European Union's GST or VAT (value-added tax) systems with higher rates and complex rules, Singapore's broad-based GST with relatively simpler rules reduces opportunities for wrongdoing. Despite that, additional taxes and penalties collected from GST errors detected in tax audits have not decreased. For example, for the financial year ended March 31, 2013, IRAS collected additional tax and penalties of $109 million, a $29 million increase from the previous year (Koh Soo How, 2014).

While it is not possible for large organizations to identify all errors in their GST reporting, IRAS introduced the Assisted Compliance Assurance Programme (ACAP) in April 2011; a vital initiative that sets out expectations of good GST governance and a risk management framework. The philosophy is simple – stronger GST controls lead to fewer errors in the returns. Besides that, the advance ruling system enables businesses to apply for a ruling on the tax treatment of a transaction or a specific business scenario. In addition to giving legal certainty to a tax position, it introduced the requirement for fees to be paid to IRAS if an advance ruling is required. This gave rise to initial criticism as the GST is a self-assessed tax that requires businesses to determine their own GST liability, which suggests taxpayers should be entitled to freely know how the tax laws apply to their circumstances. In short, Singapore's GST system deserves a high credit for the above achievements.

## 4.0. Opportunities and challenges

Despite all the impacts discussed above, the GST implementation also created opportunities as well as challenges for Malaysian SMEs. The combined effect of input tax credit claim and elimination embedded SST under GST is likely to lead to elimination or lowering of the incidence of SST costs to SMEs. The opportunities for SMEs with the implementation of GST are as follows:

## *4.1 Improve export competitiveness*

As a measure to maintain Malaysia's competiveness in the international market, all exports from Malaysia under GST regime will be zero-rated. Zero rated exports means that exporters will be able to claim input tax credit on all input tax incurred in the making of exported supplies. This will further enhance export competitiveness and generate additional business opportunities for Malaysian SMEs. In addition, to help the local manufacturers and exporters, approved trader scheme (ATS) was introduced to alleviate the cash flow problem faced by importers who mainly re-export their supplies.

## *4.2 Lower costs of business supplies including capital assets*

The elimination of lowering the SST costs to business intermediaries in the supply chain via the efficient and transparent nature of GST embodied around its input tax credit mechanism can result in lower costs of business supplies to SMEs. This could include cost of capital assets as GST paid on capital assets (valued at RM100,000 or more) used in the business will be claimable as input tax credit. Hence with GST, SMEs could look to their business vendors and suppliers for potential lowering costs to business supplies including the supply of capital assets.

However, the mechanism of claiming the Capital Good Adjustment is complex, when applies to taxable person who is making mixed supply. They need to make the capital goods adjustment over a period of 5 years (for equipment, machinery or vehicle) or 10 years (for land and building).

## *4.3 Preferred GST registered suppliers*

Only businesses with annual sales turnover of RM500,000 or more are required to register for GST. However, businesses with lower annual sales turnover can also volunteer to be registered for GST purposes. But, once registered, a business must remain registered for a period of at least 2 years.

The benefits of SMEs registering for GST purposes are varied. Besides, being entitled to claim back GST incurred on the inputs used in the making of their taxable supplies, SMEs would be able to position themselves as preferred GST registered suppliers to MNCs who are looking at optimising their input tax claims. Under the GST system, only GST registered person are permitted to issue GST tax invoices to their customers for the input tax credit claim purposes. In this regard, GST registered SMEs could be preferred suppliers to MNCs who look towards optimising their business costs in Malaysia as a means of staying competitive in their business.

However, there are many small traders and sole proprietor; they have to incur additional resources and costs in implementing the GST, at least in the short term

### *4.4 Improving governance*

A successful implementation of GST will require SMEs to put in place proper processes and operating procedures throughout their business operation. This is to ensure the business not only imposes and levies GST on its taxable supplies correctly, but also claims back only input tax that it eligible to claim and which can be supported with proper documentation. This necessity to have in place proper processes and operating procedures for GST will undoubtedly provide SMEs with an opportunity to implement or improve on their existing business governance matters. Such improvements are expected to bring long lasting benefits.

### *4.5 Government Assistance*

The preparation for GST readiness is not an easy or simple process. It requires SMEs's commitment of time and resources to prepare and implement the processes and procedures that are compatible with the GST technical requirements. Towards this end, SMEs should appreciate that the Government has outlined financial assistance and incentives to assist SMEs in their GST implementation. These include:

- Expenses incurred for GST-related training of employees in accounting and ICT will be given further tax deduction in year of assessment 2014 & 2015
- A training grant of RM100 million will be provided to businesses that send their employees for GST training in 2013 and 2014
- Financial assistance of RM150 million will be provided to SMEs for purchase of accounting software in 2014 and 2015

Though government has plays its role to assist SMEs in the implementation of GST, there was still lack of compliance and awareness among SMEs being reported. Again, there are always resistances to every new system but SMEs must take it as challenges and looking for long term benefits rather than being trap in their own comfort zones.

## 5 Conclusion

GST remains an effective and flexible tool for the government to drive higher tax revenue though there were compliance costs and on-going costs incurred during the implementation for SMEs. On that note, it is vital to balance its revenue-raising abilities with the need to ensure that SMEs are not overwhelmed by the resulting tax burden. Meanwhile, the GST Voucher Scheme provides a level of welfare for lower-income individuals to address its regressive and potentially inflationary nature.

An effective and efficient tax system that creates a "win-win" for government, businesses and the individual through constructive and engaged dialogue, together with the recognition of both social and economic objectives, is a powerful and winning combination.

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