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## Information Technology Sophistication and Goods and Services Tax in Malaysia

Nor Hafizah Abd Mansor<sup>a\*</sup>, Intan Salwani Mohamed<sup>a</sup>, Lai Ming Ling<sup>a</sup>, Nawal Kasim<sup>a</sup>

<sup>a</sup>*Faculty of Accountancy, Universiti Teknologi MARA (UiTM), 42300 Bandar Puncak Alam, Selangor, Malaysia*

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### Abstract

The study is intended to highlight the contribution of IT sophistication in the implementation of Goods and Services Tax (GST), as well as to explore government or tax authority strategies in strengthening IT sophistication for GST implementation, primarily to the business community. This study used a combination of information obtained from an interview with the Royal Malaysian Customs Department (RMCD) and information available from diverse sources. GST or value added tax (VAT) has been implemented by 162 countries in the world including latest list, Malaysia. Generally, while GST concept seems similar which is indirect tax revenue to the country, the implementation is significantly different between countries. Therefore, recognising the importance of IT or computer-based system is capable to smooth the GST implementation, which is something needs to be highlighted by Malaysia for future reference to prospective GST/VAT countries. A lot of effort is made by the Malaysian government or the RMCD in order to strengthen IT sophistication of businesses (registered person). These include rules and regulations, budget provision and financial assistance, computerized system development, and vendor participation. Thus, this paper is hoped contributes to the literature by providing information on the Malaysian government or the RMCD strategies in strengthening the IT sophistication of businesses, finally smoothing GST implementation, which is believed to be reported infrequently in international literature.

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\* Nor Hafizah Abd Mansor. Tel.: +600332587326.

E-mail address: [norha058@johor.uitm.edu.my](mailto:norha058@johor.uitm.edu.my)

## 1. Introduction

The demand for accurate, comprehensive and timely information contributes a rapid pulse to the information system (IS) subsystem known as information technology (IT). IT is focused on technologies that are required to handle the information. Ghasemi, Shafeiepour, Aslani, and Barvageh (2011) argued that whatever things that involve data rendering, information or perceived knowledge in any visual format, via any multimedia distribution instruments, fall under the IT sphere. In fact, Mohamed (2003) mentioned that IT covers methods, techniques and tools used to support assessing, storage, retrieval, use and sharing of data and information.

In addition, IT is considered an essential asset by way of increasing competitive advantage and enhance value to business, society, as well as the government (Barbosa, Rodello, & Padua, 2014; Bin-Abbas & Bakry, 2014). Even though IT has evolved positively globally, the IT phases are different between countries. Oyetuga (2013) posited that IT has distinguished the status of a country to namely; developed, developing and least developed country. Aware of the IT impacts, many governments worldwide are disbursing a huge amount of IT investment in public organizations which, apparently smooths the government programs including Malaysia.

IT in Malaysia was originated by the use of computer in 1966. Jabatan Hasil Dalam Negeri, Lembaga Letrik Negara and Lembaga Pelabuhan Pinang were among the government organizations that pioneered in the IT usage. Since then, numeral of agencies were established to boost the development of IT such as the National Information Technology Council (NITC), the Communication and Multimedia Commissions (CMC), and the Malaysian Institute of Microelectronic Systems (MIMOS) (Mohd-Daud & Mohamed, 2008). Meanwhile, Bohari (2005) emphasized that the Malaysian IT development experienced a rapid computerization revolution with the establishment of the Multimedia Super Corridor (MSC) where Malaysian owned IT products were successfully marketed locally and abroad.

Narrowing to the government financial management plan, precisely direct and indirect taxes, IT or IT sophistication was found to be emphasized and improved. Indirect tax administrative for instance, the tax authority, the Inland Revenue Board (IRB) has reformed the tax administration policies to embrace new strategies and technologies. This includes the implementation of electronic filing (e-filing), electronic filling (e-filling), Internet (e-project), Intergrated Application System (INTACTSG), Office Automation Workflow and Document Management System, and Integration of Assessment and Collection System (INTACT) (Lai, 2011; Mohd-Hanefah, 2007).

Recently, in resolving the prolonged financial deficit and overcoming the weaknesses of the existing system, indirect tax has experienced modernization of its administration. The implementation of GST which was effective on April 2015, in replacing separate indirect tax, namely the Sales Tax and Service Tax (SST), caused many IT-related substances to strengthen. Involving innumerable parties in its dealings, both aspects; IT use and IT management or known as IT sophistication, should be explored in order to provide useful benefits in the future. Even though GST has been implemented in 154 United Nations (UN) Member States, little is known about the GST from technological point of view. Therefore, the aims of this conceptual paper are twofold. The paper is aimed to highlight the contribution of IT sophistication in GST implementation and secondly, to explore government or tax authority strategies in strengthening IT sophistication for GST implementation, primarily to the business community.

It is hoped that the paper will make a contribution by, among other things, providing literature about GST implementation in Malaysia particularly on IT sophistication. This paper is organized as follows. Section 2 provides brief information on the IT sophistication concept. Section 3 reviews IT sophistication in the accounting discipline. Section 4 compares the Malaysian existing indirect tax, the SST and the new tax regime, GST. Section 5 presents strategies done by the Malaysian government in sharpening the IT sophistication of the businesses. Finally, Section 6 provides a summary of the main points raised in the paper.

## 2. Information technology sophistication

The sophistication term is closely associated with the field of IT. The Oxford Advanced Learner's Dictionary (2005) defined sophistication as the quality of being sophisticated of machinery, technology or computer-based system. Essentially in the IT area, IT sophistication is not exclusively subjected to the physical or the existence of technologies which impact the organization finally, but IT sophistication is comprehensive in nature. Initially, IT or system sophistication term has been used by Richard Nolan in the 1970s in order to introduce the Stages of Growth Model. Even though the model has been criticized, it has been able to explain the growth of IT in a business and finally characterizing organizational technology. Hence, this has sparked researchers to streamline the concept of IT sophistication in other disciplines.

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