

Issues of gst in singapore | research outline



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Title: Issues of GST in Singapore

Objectives

1. To test the relationship between errors made in GST Accounting Report and lack of knowledge of users of GST accounting i. e. business owners.

H₀ : There is a positive relationship between errors and the users.

H₁ : There is not a positive relationship between errors and the users

2. To study whether the implementation of GST will affect the buying power of consumers.

H₀ : Implementation of GST will affect buying power of consumers.

H₁ : Implementation of GST will not affect buying power of consumers.

Literature Review

Singapore has 5.37 million of total population included 3.34 million of citizens, 0.53 million of permanent residents and 1.6 million of non-residents (National Population and Talent Division, Prime Minister's Office, Singapore Department of Statistics, Ministry of Home Affairs, Immigration & Checkpoint Authority, 2014). In 2Q 2014, Singapore GDP had grown by 2.4% (LATEST KEY INDICATIONS, 2014). Many countries run their business in Singapore due to their highly open economy. Singapore government introduced Goods and Service Tax (GST) in order to make Singapore become more competitive than other countries. GST also known as Value Added Tax (VAT) which first introduced in Singapore in 1994. From the beginning the GST start with 3% lower rate and until 2003 was increased to 4%. The <https://assignbuster.com/issues-of-gst-in-singapore-research-outline/>

Budget 2007 had declared that GST was increased to 7% till now (GOODS AND SERVICE TAX, 2014). GST is indirect tax and only will tax on domestic consumption of good and services when buying goods and services from GST-registered company or import goods which is paid to Singapore Custom. The governments also make a special scheme for tourist that they can claim a refund GST with spending at least 100sgd (GLENN P. JENKINS, RUP KHADKA, 1998).

1) To analyze impact of consumer's lack of knowledge in GST.

Introducing GST will lead to sustain economic growth because it will increase revenue of government and lower of corporate and personal income taxes. In the meantime, knowledge in GST for consumer is important as will affect undesirable outcome like insufficient to pay GST by some lower income group in turn to affect their cost of living. The implementation GST in Singapore can be regard as a successful case with the complement of political commitment, mass participation and other elements that increase the confidence of country (GLENN P. JENKINS, RUP KHADKA, 1998).

Specifically in tax situation, public acceptance and confidence is importance and essential for the new tax implementation by government due to the new tax reform will cause the public panic because of their perspective on uncertainty of future expenditure. (International Journal of Business, 2014). With the sustain limited knowledge of GST, people will confuse and not be ready for the implementation because according to the pervious result of study, most of the consumers facing uncertainty of GST would increase the prices of goods and living costs in the upcoming future. Public will doubt that

GST would tax on the expense instead of the disposable income. On the other hand, introduce GST is to facilitate citizen to saving instead of the spending. (International Journal of Business, 2014).

Cullis & Jones (1992) implied that the concept of false awareness of public which are classified as pessimistic and optimistic. Consumer who inaccurately in predict public services burden and overestimated tax burden with the levy taxes to the citizens classified as optimistic thus government tax authority should take initiatives to conduct public and business about new tax implement and as well as to respond appropriately towards the issues of taxpayer over taxes had settled before the changeovers (International Journal of Business, 2014). Political management is an important factor that Singapore government be concerned of as it leading up to the implementation of GST and hence they introduce the campaign slogan as “ A fairer tax, a bright future” to enhance the awareness and knowledge of GST for public. During the beginning taxation impose period, the government had conducted government linked companies and also supermarkets to absorb the GST on key wage goods in order to minimize the impact on Consumer Prices Index (CPI) used to indicated the country inflation (G. ASHER, MARCH 1999).

2) To examine whether GST affects consumer's buying power positively or negatively

GST known as consumption tax and through the view of consumers which is a tax on the purchase price that have to pay more on it. In other way, GST can make the value of a material, product or the service increase for the

sellers. The main reason which causing burden of tax to many businesses are the charging GST on full value of goods which are sending to neighboring countries on delivery for simple processing and then brought back to Singapore for additional processing. Hence, for the exporting firms will face the cash-flow problem as paying the GST on purchases of local inputs. If the exporters choose the order directly from overseas instead of from local intermediaries, Major Exporter scheme will limit the relieving of GST on imports (G. ASHER, MARCH 1999). The purchasing power for the lower income groups are more easily affected by the fluctuations in income, commodity-related revenue (LAU ZHENG ZHOU, OCTOBER 22, 2013). One of the objectives for introducing GST in Singapore is to encourage citizens to save more money and not consume (Min, October 2004), pay the lower GST. In fact, GST can be a burden for those lower income workers as they have very little of savings because of the total of paying for the essentials such as food and utilities may take up most of their income (LAU ZHENG ZHOU, OCTOBER 22, 2013) especially when the 7% tax is paid during times of high inflation on the increasing price of daily essentials. For the example, a worker with income less than \$1, 000 per month, on average, spend 30% of his income on food compared to 6% for those who earns over \$10, 000 per month. They have no extra money for savings and their buying power will become lower because of everything that buy or the service has included GST. GST probably may cause price of goods increase and again Singapore maintains the inflationary pressure from hike up (MOHD RIZAL PALIL, 2012) by introducing low rate for GST at first and increase the rate progressively over the years in order to minimize the inflationary impact of the economy.

Some items affected by the tax hike saw price rises and as an example like prices of food and some other retail rose by an average of around 0.7%. In contrast, prices of consumer services, including education, healthcare, and communication climbed higher by an average of 1%.

3) To examine whether errors in GST reporting give detrimental(harmful) effect that increases company accounting expenses or just some minor affect that could be ignored.

Singapore people still facing problems in doing reporting account of GST although it has been 20 years of implementation. Example of errors listed by Inland Revenue Authority of Singapore are standard-rated supplies and output tax errors, zero-rated supplies errors, exempt supplies errors, taxable purchases and input tax errors (Inland Revenue Authority of Singapore, 2012). When errors like this are uncovered during Inland Revenue Authority of Singapore (IRAS) audits, companies may face costly penalties because responsible of having a proper accounting of GST is with the GST registered companies. (Inland Revenue Authority of Singapore, 2012). Company need to submit n activity statement revision form to correct errors (Australian Taxation Office, 2013).

IRAS had developed a self-assessment compliance packagen which is Assisted Self-help Kit to review GST submissions on its correctness and helps to discover errors early in order to skip penalties on the errors in GST reporting. ASK focus on 3 key areas which are GST practices, pre-filling checklist and ASK annual review. GST practices include peoples that work on GST, keeping records and GST transaction reports handled by systems and

internal control. GST checklist is to ensure no errors before submitting the GST accounting report, and ASK annual review is to review on previous submission in order to helps the company detects previously errors. (Inland Revenue Authority of Singapore, 2012).

Research Gap

To accomplish our research, we have go through a lot of information on GST such as backgrounds of GST, government guides on reporting and remedies for errors made in reporting GST. For journals related to GST, we are able to find journals on how GST is implemented and how it works yet we could not find any journals related to errors made in GST accounting reporting. This is our research gap as there is currently no or less research about errors in GST reporting and therefore this is our opportunity to conduct a research on this area of GST reporting.

Research Methodology

The purpose for us to do this research is to study the understanding of the accounting users towards GST accounting methods. We have targeted some proprietors to collect the primary data and targeted consumers for secondary data. The method that we used in this research is quantitative method.

We have used the hypothesis to test the relationship between the dependent variables and the independent variables. The independent variables is the GST which implemented by the government and the dependent variables is the users of GST as the users have to depends on information of the GST or how the GST affect in the reports.

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Most of the data that we used in this research are primary data as there are no specific journals that discuss about the errors on the GST reporting clearly. We have do the questionnaire survey among around 70-80 proprietors in Singapore. The reasons why we choose to do this kind of survey because questionnaire survey is easier for us to get the primary data. We just need pass the questions to our target population and this can make us to collect data more effectively and efficiency. Besides, we can get back their feedback in a short time. The people who did the survey have no worries of disposing their names, I. D. which can be used to trace back to them as survey is question and answer without knowing who they are as to protect their privacy. The following questions are the questions that we prepared for the survey:

1. How do you prepare your accounting reports for your business? > If self-prepare, go to 2. > If outsource to accounting firm, go to 6.
2. Do you aware of which item in your business is included in GST list? > Yes. > No.
3. Do you know about GST accounting report method? > Yes.> No.
4. Do you have any errors on previous accounting reports? > Yes. > No.
5. Do you know there are remedies for errors in GST reporting (i. e. reducing the charges for errors in reporting)? > Yes.> No.
6. Are there any errors in your business's previous accounting report prepared by accounting firm? > Yes. > No.
7. Did the accounting firm inform you about the GST reporting? As in the knowledge needed for GST reporting of a business accounts? > Yes. > No

From the questionnaire survey, the results of the data which has shown that 85% of proprietors in Singapore choose to outsource to accounting firm out of 100% and the remaining 15% of the proprietors are choose to prepare themselves. Out of the 85% of the majority who outsource to accounting firm to work on their accounts, there are 39% of proprietors having errors in their GST reporting. Some is small issues which can make some correction without being charged and there are some who had bigger errors that is charged with a certain amount of fees to edit the error made. Out of the 85% of the proprietors who outsource the accounting work to accounting firm, about 57% of them do not know much about GST reporting.

In addition, secondary data also included in our research but not sufficient enough to use as data for analyzing although we have referred to some journals, articles, newspaper and some official websites of Singapore as these could help us to understand further about how GST works in accounting area and what the effects which will bring to the consumers.

The reason why we did not choose others method to make data collection for the research such as interview is because by doing interview, it will take quite a long time to interview one by one and it is not so effective if we choose this. We did survey because we are trying to collect more feedback from more people that can be used as a sample in Singapore. Furthermore, interview is more likely personal opinion and the personal opinion does not represent the whole Singapore.

However, using survey method also has its own limitation on getting the responses from populations. One of the limitations is the questions on the

survey may not really carry out the problem that those proprietors are facing. Therefore, they may feel boredom to write the answer. Some of the people may read the questions with different perspectives and simply answer the questionnaire which does not based on their truly opinion. For example, the answer “ disagree” may represent things to different subjects, and they may be having different meaning with their own as maybe they think “ not so but not strongly disagree” but the question only asks “ agree, neutral or disagree”. The answer of “ yes” or “ no” also exist contradict when respondents may want answer “ only once” but there only have “ no”. They may give inaccurate answers. So, there is no way to tell how truth the responses. Besides that, the respondents are only part of the proprietors in Singapore, so their questionnaire survey not represents the majority proprietors thinking but can only be used as a tool in this research.

Research tools

We have use some extra tools to assist us to complete this research, such as:

1. Computer

Computer is an item which is very important for us to complete our research as it can provide the software for us to show our report.

2. Public transport

Since we are going to collect the primary data, we took bus and the LRT to Singapore and look for those proprietors. These public transports have helped us to complete our task easier.

Conclusion

This preliminary study found that business peoples, in this research is proprietors, they don't have sufficient knowledge about GST except for the ones who prepare their own accounts where they have smaller business and registered voluntarily as a GST company which contains benefit of not needing to monitor the company's turnover constantly as if does it exceeds the SGD\$1 million threshold for compulsory registration (Inland Revenue Authority of Singapore , 2014). For them as they are the ones who prepare the accounts for their own company, they ought to know the do's and don'ts of the GST reporting as they have sufficient time to understand GST reporting before they register. For the proprietors who outsource the accounting work to accounting firm, they did not bother much on the GST reporting as they outsource to accounting firm and it will be the accounting firm's job to make sure the GST reports are correct but the proprietors might miss out a part where accounting firms can only work on the documents the proprietors provide them with hence if a not complete document is handed over to accounting firm, miscalculation or misinterpretation of data will occur and there will be errors in the overall GST reporting. There are remedies offered by IRAS as if the errors were in an allowed range of amount and in an allowed period of time where the company can edit the errors without paying heavy penalty or companies may be able to skip the heavy penalty by attempt to voluntarily disclose the errors made in previously submitted activities statements. Even though the remedies is stated, 57% out of the 85% outsource for accounting skill proprietors is assumed that they don't

acquire such knowledge as they said they don't have much knowledge about GST reporting in the survey questionnaire.