

The Consumer Acceptance of Low-Value Goods (LVG) Sales Tax in Politeknik Mukah

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Abstract

This study aims to investigate the determinants of public acceptance of low-value goods (LVG) sales tax with a focus on consumers in Politeknik Mukah. The paradigm shift was significantly noted by the Royal Malaysian Customs Department (RMCD) declaration that LVG would be subject to Sales Tax starting from January 1, 2024. This cautious action shows that this circumspect move demonstrates the regulatory bodies' awareness of the fluid nature of international trade and their initiative-taking efforts to maintain the usefulness of the tax laws in place. The present study seeks to determine the influence of relevant factors on the acceptance of the LVG system in Malaysia. Based on a thorough examination of existing research, five variables have been determined: awareness, understanding, fairness perception, trust in authorities, and public acceptance. A standardised questionnaire was successfully collected from sixty-nine participants via official email and WhatsApp application. The data gathered were analyzed using IBM SPSS Statistics 22 and SmartPLS 4. The PLS-SEM is used as it works efficiently with complex models and can achieve high statistical power levels with small sample sizes. According to the results, both awareness and understanding do not have a relationship with public acceptance of the low value of goods (LVG) sales tax in Politeknik Mukah. However, fairness perception and trust in authorities have a significant positive relationship with public acceptance of the low value of goods (LVG) sales tax in Politeknik Mukah. The results on the dynamics of LVG sales tax acceptability and its repercussions could be highly informative for policymakers, stakeholders, and educational institutions like Politeknik Mukah.

Keywords: - Low-Value Goods (LVG), public acceptance, consumer behavior

1. Introduction

Tax policy is a significant determinant of a nation's economic development. Governments all throughout the world frequently impose taxes on inexpensive goods to increase revenue. Politicians frequently argue over whether the public supports tax policies, even when they have a favorable economic impact. Despite the potential benefits of income neutrality for political economics and economic efficiency, there are fundamental issues with its actual use (Wood, 2022). To create tax structures that are both economically and socially acceptable, it is crucial to comprehend the factors that affect the public's willingness to pay a sales tax on inexpensive goods. The Malaysian indirect tax scene is evolving quickly as the stakes are higher than ever. The rising cost of basics is made worse by the public's perception of Sales and Service Tax (SST) as a corporate expense (Popoola & Jamel, 2020). This survey aims to ascertain consumer opinion regarding the low-value goods (LVG) taxation schemes in Politeknik Mukah.

The study will explicitly look at the local community's decision to support or oppose this tax plan. With a thorough grasp of these traits, this study will be able to provide lawmakers with valuable recommendations on how to improve tax

compliance and garner public support for income-generating projects.

The 2019 coronavirus outbreak in Wuhan, China, shocked the whole population by upsetting and changing human health systems and healthcare. Most of the changes in consumer behavior are probably now irreversible. The coronavirus epidemic has caused a massive upheaval in business, particularly in worldwide e-commerce. As a result, many clients have opted to purchase online while still in their homes (Hasanova et al., 2023). E-commerce has greatly impacted international trade since it makes it simpler for consumers to buy goods from around the world.

However, because of this activity, tax authorities have faced challenges, especially in taxing low-value goods (LVG), which consumers occasionally import directly to avoid paying taxes through conventional channels. Consequently, to preserve income sources and guarantee equitable taxation, countries such as Malaysia have considered implementing a sales tax on consumer goods. Innovative taxation solutions are now necessary because of the profound changes in consumer behavior and trade patterns brought about by the increasing use of e-commerce. The Royal Malaysian Customs Department (RMCD) in Malaysia levied a

sales tax on LVG as of January 1, 2024. This change in policy demonstrates an attempt to maintain tax equity in the digital age while taking the expansion of global trade into account. One important factor influencing the effectiveness of different taxation strategies, however, is the public's willingness to accept and comply with them.

The objective of LVG sales tax is to maintain price stability between local and imported products. Thus, the LVG sales tax is expected to increase sales of domestic retailers and might result in more job opportunities and a more robust domestic economy, subsequently boosting government revenue and bolstering the ringgit by reducing overseas cash flow (Bernama, 2023). However, small and medium-sized enterprises (MSMEs) might not benefit from the sales tax on LVG. With a small profit margin, MSMEs may not have sufficient funds to cover additional costs, and it is not easy to compete with larger corporations. The increasing cost will increase the product's selling price, which disproportionately impacts low-income consumers. This eventually increases income disparity and further harms consumers who are already struggling with growing prices due to inflation and the depreciation of the ringgit. At the same time, MSME profitability also decreased as consumers cut or control their spending (Musa, 2023).

These mixed views create uncertainty regarding LVG sales tax's reception among consumers and its impact on consumer behaviour and the broader economy. Hence, actions must be taken to positively impact public impressions of LVG sales tax to avoid the new indirect tax burdening the public. The history of public rejection of the Goods and Services Tax (GST) should be the best life lesson for the Malaysian government. It proved how the public acceptance of LVG sales tax is critical to ensure the success of the new indirect tax. Therefore, this study investigates the determinants of public acceptance of LVG sales tax with a focus on consumers in Politeknik Mukah. This study will answer the following research questions:

1. Does awareness have a relationship with public acceptance of low-value goods (LVG) sales tax?
2. Does understanding have a relationship with public acceptance of low-value goods (LVG) sales tax?
3. Does fairness perception have a relationship with public acceptance of low-value goods (LVG) sales tax?
4. Does trust in authorities have a relationship with public acceptance of low-value goods (LVG) sales tax?

This study has significant implications for policymakers, tax administrations, businesses, and consumers. Its findings may offer significant insights into the practicality and consequences of implementing LVG sales tax, which can guide

policymaking, improve tax acceptance and compliance, and establish a fair and effective taxation system in Malaysia.

In the context of indirect tax literature, the study of LVG sales is still scarce due to its newly introduced globally. Prior studies mostly focused on goods and services tax (GST) and environmental tax, the findings of which may not be generalized into LVG sales tax due to differences in nature and target consumers. It is important to know how people think and react towards LVG sales tax. It allows public and tax authorities to comprehend whether tax policies LVG sales tax are possible and their impact. At the same time, the findings of this study will enrich the current tax literature on indirect tax, particularly LVG sales tax.

2. Literature Review and Hypotheses Development

2.1 Awareness and Consumer Acceptance

Awareness from a tax perspective is interpreted as the inclination of taxpayers to embrace the tax burden, in which they can completely understand the rationale behind paying taxes and abide by the law based on social responsibility, economic implications, and subjective personal perceptions (Dung et al., 2023). Awareness is claimed to be the critical driver to enhancing acceptance and compliance among taxpayers. Thus, it should be prioritized when introducing a new taxation system (Bidin et al., 2016; Dung et al., 2023; Shamsuddin et al., 2014). Past studies found that awareness has a positive significant relationship with public acceptance or compliance with tax (Anto et al, 2021; Asmuni et al., 2017; Erasashanti et al., 2024; Rikayana et al., 2023). High-awareness taxpayers will understand that tax will contribute to the revenue and sustainability of their country, so they will be willing to pay tax voluntarily as a citizen obligation and never consider it a burden (Anto et al, 2021; Erasashanti et al., 2024). The scholar suggests that the government must prioritize putting more effort into education, raising awareness, clarifying, and improving people's knowledge of the new tax (Asmuni et al., 2017). On the contrary, Fuad & Khusfiah (2019) and Famami & Norsain (2019) reject the relationship between tax awareness and tax compliance in their studies. The taxpayers believe that the country spending will be reduced when they postpone their tax payments (Famami & Norsain, 2019). Based on the discussion, this study predicts the following hypothesis:

H1: Awareness has a positive significant relationship with public acceptance of low-value goods (LVG) sales tax in Politeknik Mukah.

2.2 Understanding and Consumer Acceptance

Understanding can be referred to as tax knowledge (Taing & Chang, 2021), which is the comprehension of fundamental tax policy concepts by taxpayers

within a nation (Dung et al., 2023). Tax literature believed that taxpayers would have more favorable opinions of the nation's tax system when they have greater tax knowledge, which consequently led to tax compliance (Dung et al., 2023; Petra et al., 2022). In addition, tax non-compliance is mostly due to taxpayers' ignorance of the tax law (Dung et al., 2023). This is in line with previous studies which shows that tax understanding has a positive impact on taxpayers' acceptance or compliance (Anto et al., 2021; Erasashanti et al., 2024; Fuad & Khusfiah, 2019; Hambali & Kamaludin, 2017). However, taxpayers with greater knowledge and understanding do not necessarily comply with tax law (Cuccia, 2013). Despite being knowledgeable about tax regulations, they still have the potential for tax non-compliance and are only going to be more conscious of the penalties associated with tax evasion. Meanwhile, Asmuni (2017) and Rikayana et al. (2023) reveals that understanding is not significant to tax acceptance or compliance. It is argued that the taxpayers with small business may not bothered about tax knowledge because their main goal is growing their business (Rikayana et al., 2023). Based on the discussion, this study predicts the following hypothesis:

H2: Understanding has a positive, significant relationship with public acceptance of low-value goods (LVG) sales tax in Politeknik Mukah.

2.3 Fairness Perception and Consumer Acceptance

According to Farrar et al. (2021), fairness is defined as a comparative assessment using real or hypothetical reference points. Perceptions of fairness are associated with higher levels of satisfaction and cooperative behavior, while perceptions of unfairness are associated with higher levels of resentment and uncooperative behavior. More precisely, fairness perceptions have been reported to boost taxpayers' willingness to pay taxes and affect their cooperation with tax authorities when it comes to tax compliance. This argument is confirmed by prior studies indicating that fairness perception is the main driver for tax compliance (Farrar et al., 2021; Muslichah & Graha, 2018). At the same time, fairness perception is also revealed to be a significant predictor for public acceptance in tax implementation (Thaller et al., 2023). Nevertheless, Azaka and Balogun (2022) findings show the opposite. They contend that different individual and organizations' interpretations of fairness may be the reason why the perception of fairness does not influence tax compliance. Based on the discussion, this study predicts the following hypothesis:

H3: Fairness perception has a positive significant relationship with public acceptance of low-value goods (LVG) sales tax in Politeknik Mukah.

2.4 Trust in Authorities and Consumer Acceptance

Trust in authorities can be interpreted as a person's belief and willingness to take a risk due to their positive expectations that governmental organizations, including the judiciary, parliament, or politicians, will act on behalf of society (Muhammad et al., 2022). Jamel et al. (2021) assert that the implementation of indirect tax depends on public acceptance. This is contradicted by a direct tax that relies on tax compliance to be successful, and any non-compliance will be imposed with a penalty by authorities. Therefore, trust is essential to gain positive results in indirect taxes since it will increase public acceptance. The taxpayers will support the action taken by authorities once they perceive that the authorities can be trusted. However, distrust might lead to failure. In Malaysia, the goods and sales tax (GST) was rejected as the public did not have confidence in how the authorities were spending the taxpayers' money. A study by Jamel et al. (2021) indicates that trust in authorities is an enabler for public acceptance of sales and service tax (SST), while Muhammad et al. (2022) do not find any influence of trust in authorities toward Malaysian acceptance in regard of environmental tax. In addition, Mebratu (2024) found trust had significant impact on tax compliance in Ethiopia but not in the study by Fuad and Khusfiah (2019). Based on the discussion, this study predicts the following hypothesis:

H4: Trust in authorities has a positive significant relationship with public acceptance of low-value goods (LVG) sales tax in Politeknik Mukah.

3. Methodology

This quantitative study used an online survey via google forms to gather the primary data. The survey was distributed randomly using official email and WhatsApp applications to 315 staff in Politeknik Mukah Sarawak (PMU). Staff in PMU are chosen as they are the consumer or taxpayers who contribute to Malaysia revenue through LVG sales tax. As a higher education institution, PMUs' staff is expected to be exposed to a new policy introduced by the government, thus they might have information about LVG sales tax. In addition, it is convenient for researchers to collect data from their co-workers.

The measurements of all five variables are adapted from previous tax studies, including Jamel et al. (2021), Asmuni et al. (2017), Sinnasamy & Bidin (2017), and Bornman (2015). The survey has two separate parts: demography and variable measurement. Demography gathers information such as age, gender, and work designation of respondents. At the same time, the variable measurement part used a five-Likert scale ranging from strongly agree to disagree,

allowing the respondents to determine their response. The sample size of 129 is calculated using G*Power, and the feedback received was 69 without any rejection. Therefore, the response rate is 53%. The average response rate for online surveys is 42.8 (Burgard et al., 2020), and 30% of the response rate is considered acceptable (Sekaran & Bougie, 2016). Thus, a 53% response rate is considered reasonable and could produce trustworthy results. The data gathered were analyzed using IBM SPSS Statistics 22 and SmartPLS 4. The PLS-SEM is used as it works efficiently with complex models and can achieve high statistical power levels with small sample sizes (Hair Jr et al., 2021). Moreover, this method works best when exploratory modeling or predictions are the main goals of the research (Popoola & Jamel, 2020), 2020).

Table 1. Demographic of respondents (N=69)

		Frequency	Percentage
Gender	Male	27	39.1
	Female	42	60.9
Age	20-29	7	10.1
	30-39	30	43.5
	40-49	27	39.1
	≥50	5	7.2
Designation	Academic	51	73.9
	Non-academic	18	26.1

4. Result

4.1 Descriptive Analysis

All variables in this study have a mean between 3.0952 and 3.6498, with a standard deviation between 0.6 and 0.90. The Cronbach alpha's rules of thumb indicate that these scores are above acceptable levels. In addition, the mean value of independent variables is 3.6498 for awareness, 3.5966 for understanding, 3.3652 for trust in authority, and 3.0952 for fair perception, which reflects that the public has a good level of awareness, understanding, trust in authority, and fair perception toward the implementation of low-value goods sales tax. Meanwhile, the dependent variable, public acceptance, has a standard deviation of 0.6405 and a mean of 3.5966, which shows that the public has accepted the introduction of low-value goods sales tax in Malaysia.

4.2 Measurement Model Assessment

This first stage of the analytical approach employs individual item reliability, internal consistency, convergent validity, and discriminant validity to assess the instrument's reliability and validity. As suggested by Hair et al. (2022), several items, such as FP6, TA3, AC10, AC11, AC12, AC2, and AC9, were removed due to outer loading below 0.40. The other items remain in this study, as per Table 2.

Composite reliability (CR) is used to assess internal consistency reliability. As shown in Table 2, this study has adequate internal consistency, as the composite reliability value for all variables is over 0.70 (Hair et al., 2022).

Table 2. Outer loading, composite reliability, and average variance extracted

First Order Construct	Items	Loadings	CR	AVE
Public Acceptance	AC1	0.792	0.935	0.677
	AC3	0.868		
	AC4	0.913		
	AC5	0.852		
	AC6	0.866		
	AC7	0.831		
	AC8	0.597		
Awareness	AW1	0.657	0.873	0.536
	AW2	0.796		
	AW3	0.751		
	AW4	0.818		
	AW5	0.644		
	AW6	0.709		
Understanding	UN1	0.774	0.864	0.522
	UN2	0.829		
	UN3	0.872		
	UN4	0.625		
	UN5	0.690		
	UN6	0.469		
Fair Perception	FP1	0.813	0.915	0.643
	FP2	0.867		
	FP3	0.862		
	FP4	0.768		
	FP5	0.792		
	FP7	0.696		
Trust in Authority	TA1	0.898	0.92	0.743
	TA2	0.864		
	TA4	0.830		
	TA5	0.854		

In addition, the average variance extracted (AVE) value is used to evaluate the convergent validity of variables. AVE for all variables in this study has a value over 0.50, indicating that the convergent is sufficient in that the variables describe over 50 per cent of the variance of its indicators (Hair et al., 2022). Meanwhile, Heterotrait-Monitrait Ratio (HTMH) is used to measure the discriminant validity of instruments. There is no issue in discriminant validity since the HTMT value is below the threshold of 0.90 (Henseler et al., 2015).

Table 3. Heterotrait-Monitrait Ratio (HTMH)

	AC	AW	UN	FP	TA
AC					
AW	0.237				
UN	0.246	0.824			
FP	0.824	0.241	0.232		
TA	0.743	0.203	0.215	0.796	

Note: AC-public acceptance, AW-awareness, UN-understanding, FP-fair perception, TA-trust in authorities

4.3 Structural Model Assessment

The second step of the analytical approach in PLS-SEM is the assessment of the structural model. The path coefficient, the R^2 , the Q^2 , and the goodness of fit measure are used to evaluate the ability of the model to predict the target variables and the relationship between the variables in the model. As a pre-assessment of the structural model, the variance inflation factor (VIF) is used for the multicollinearity test. This study has no issue of multicollinearity as the VIF score for each variable is below the threshold of 5.

Table 4 shows the results of the hypotheses after conducting bootstrapping procedures of 5,000 subsamples. The t-value should be higher than the critical value of 1.65, and the p-value should be lower than the significant level of 5% for any hypotheses to be accepted. Thus, H1 and H2 were rejected, while H3 and H4 were accepted in this study. The coefficient determination, which is the R^2 value, is used to evaluate the prediction power of this study's structural model (Hair et al., 2022). The R^2 value for the dependence variable, public acceptance, is moderate at 0.647 in accordance with the parameter suggested by Chin (1998). Meanwhile, the Q^2 value is 0.546, which means that this study has a large predictive relevance (Hair et al., 2022). Lastly, the goodness of fit (GoF) for this study is 0.635, which is considered a large value, indicating that the model has sufficient validity for the PLS model.

Table 4. Results of hypotheses testing

Hypo	Relation	Beta	t-value	p-value	Decision
H1	AW-AC	0.034	0.312	0.755	Rejected
H2	UN-AC	0.098	0.749	0.454	Rejected
H3	FP-AC	0.553	3.899	0.000	Accepted
H4	TA-AC	0.267	2.142	0.032	Accepted

Note: AC-public acceptance, AW-awareness, UN-understanding, FP-fair perception, TA-trust in authorities

5. Discussion

The discussion will interpret the findings in the context of existing literature and the specific socio-economic environment of Politeknik Mukah. It will

explore the implications for policymakers and suggest strategies to enhance public acceptance and mitigate any negative impacts of the LVG sales tax. Refer to Table HI: Awareness has a positive significant relationship with public acceptance of the low value of Goods (LVG) sales tax and Politeknik Mukah; and H2: Understanding has a positive significant relationship with public acceptance of the low value of goods (LVG) sales tax in Politeknik Mukah were rejected. The result suggests that the awareness and understanding among the staff in Politeknik Mukah have no significant relationship with public acceptance of LVG in Politeknik Mukah. Therefore, knowledge and comprehension are not necessary conditions for the general acceptance of LVG among Politeknik Mukah employees. The finding that awareness is not substantially and adversely correlated with public acceptability of LVG sales tax implementation in Malaysia is consistent with the research of Fuad & Khusfiah (2019) and Famami & Norsain (2019). Furthermore, Asmuni (2017) and Rikayana et al. (2023) discovered that public acceptability of taxes is not significantly influenced by understanding. According to Cullis & Jones (2009), the new tax raises questions about future spending because it influences people's expenditures. This could be the reason why staff members are hesitant to accept LVG despite having established awareness and understanding of it, given the uncertainty around future expenses. Additionally, employees' interest in making direct online purchases from merchants outside of Malaysia is a result of the environment's ease of use and convenience (Kavitha, 2017). In addition, LVG sales are still being implemented in January 2024, thus the consumers might not yet experience the impact of the tax to their living cost. The consumer also may not be concerned about LVG sales tax since the tax automatically computed by online shopping platform and compared to online seller, the consumer does not need any registration to pay LVG sales tax.

Nevertheless, H3: Fairness perception has a positive significant relationship with public acceptance of low-value goods (LVG) sales tax in Politeknik Mukah, and H4: Trust in authorities has a positive significant relationship with public acceptance of low-value goods (LVG) sales tax in Politeknik Mukah were accepted. This result is confirmed by Farrar et al. (2021), Muslichah & Graha (2018), Popoola & Jamel (2020), and Thaller et al. (2023) when fairness perception revealed as a significant factor and main driver for public acceptance compliance in tax implementation.

6. Conclusion

At the end of the study, the main results will be summed up, along with what they mean for Politeknik Mukah's tax policy and suggestions for more research. It will stress how important it is to take public opinion

into account when making and enforcing tax policies. Based on the results of this study, it seems that most people in Politeknik Mukah are not completely against the idea of putting a sales tax on low-value goods. Most participants agreed that a sales tax was needed to bring in more money for the government and support public services. However, some were worried about how it might raise the cost of living and how it would affect people who already pay less. For people, introducing them to the new LVG tax at a 10% rate would be troublesome for their purchasing costs. There needs to be more teaching and communication about the pros and cons of this tax policy so that more people can understand and agree with it. Also, lawmakers should think about taking steps to lessen the effect of the tax on people and families with low incomes. Overall, the results show how important it is to involve the people and listen to their concerns when tax policies are being made and put into place.

As discussed earlier, awareness and understanding have no significant relationship with public acceptance of LVG tax while in contrast fair perceptions and trust in authorities have significant relationship with public acceptance of LVG tax. This result has implications for the role of the consumer to be aware and understand the tax that were first imposed on the seller and consequently the burden of paying it being transferred to the consumer. Hence, as a consumer they must pay without giving much thought if they choose to make use of the products. In addition, fair perceptions and trust in authorities was found to be a key influence and motivator for tax acceptance among public. This result has the implication of transparency and supportive tax system in enhancing the acceptance among public despite new tax implementation. Therefore, it is recommended that the government and tax authorities continue to be accountable and committed to maintaining the stability of the tax system and promoting a strict and effective legal system to generate large public support.

Previously, sales taxed on low-value goods was not a common practice globally for the purpose of making customs clearance for mail and courier shipments easier. However, LVG sales began to be introduced globally, including Malaysia, due to the growth of internet retail, which created an unfair advantage for internet retailers who sell directly to Malaysian consumers over conventional retail (Bernama, 2023). Thus, to the researcher's knowledge, there is not yet a study focused on LVG sales tax in the tax literature due to its recent introduction. Moreover, the current indirect tax literature only discusses the acceptance level of indirect tax but is still limited in examining the drivers of indirect tax's acceptance (Popoola & Jamel, 2020). Hence, the finding of this study might enrich tax literature since it investigates unexplored area, which is LVG sales tax, in the tax field.

This study has several limitations which can be focus on the future research. First, the sample of the study is PMUs' staff only, as consumer. Therefore, the findings may not be generalized into other settings of study. Hence, future study may emphasize on online seller perspective. Online seller may comprehend more about LVG sales tax in comparison to consumer since they must register to authorities for collecting LVG sales tax from their customer and doing self-assessment of the amount to be paid to authorities. Second, this study only investigates the drivers of consumer acceptance. It is suggested for future research to extend into how consumer perception about LVG sales tax influence their spending behaviour.

Acknowledgement

The authors would like to acknowledge the residents of Politeknik Mukah for their enthusiastic participation in this study. They also highly value the research team and academic advisors for their assistance and direction during this undertaking.

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