

Perception of Consumers towards Deduction through General Sales Tax (GST) in Pakistan: An Empirical Investigation in Pakistan

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Abstract

The Goods and Services tax is one of the most discussed topic in Pakistan now a days. The Pakistan Govt. decision to implement the 17% GST on 1st July 2019 has affected every member in the country. Financial issues such as inflation, rising cost of living, economic instability and the implementation of GST have impacted many Pakistan consumers in terms of their spending. However the government has undertaken various efforts to study the effect and impact, to disseminate the information, to educate the public and to improve their understanding on the need of GST in taxation system. Even so at the early stage of implementation the public appears to be confused on the actual operations of the GST system. Many questions and complaints has been reported and lost to the related authorities for further action. This incident raises questions on the level of awareness and knowledge of the people about GST. To get a clearer picture on the degree of public awareness knowledge and understanding of GST in Pakistan, This study will pays specific focus on these areas which are necessary and this study aims to review the consumer's awareness towards the implementation of GST in Pakistan and its effects on end users.

Keywords: *Goods and Service Tax (GST), Consumers Awareness, Pakistan, Perception*

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1. Introduction

Goods and Services Tax (GST) is not a new introduction it is used from 1954 in France named as (taxe sur les produits et services, TPS) It was consequently after France countries like Japan, South Korea, UK and Australia implemented the GST law. Until 2016, 160 countries has implemented GST in which 7 ASEAN , 19 Asian, 53 European, 7 Oceania, 44 African, 11 South American, 19 Caribbean, Central & North American countries are involved.

In Pakistan, the sales tax rate is a tax charged to consumers based on the purchase price of certain goods and services. The benchmark we use for the sales tax rate refers to the standard rate. Revenues from the Sales Tax Rate are an important source of income for the government of Pakistan.

Sales Tax Rate in Pakistan is expected to be 17.00 percent by the end of this quarter, according to Trading Economics global macro models and analysts expectations. In the long-term, the Pakistan Sales Tax Rate is projected to trend around 17.00 percent in 2020, according to our econometric models. The present Government in Pakistan bringing it down to half but also increased the maximum rate of income tax to 35 per cent from 29 per cent, an increase of 6 per cent while introducing four new tax slabs. The government has decided to impose a standard rate of 17 percent sales tax on the five export-oriented sectors - textile leather, carpets, surgical and sports goods to mobilize Rs 75-80 billion additional revenue in the budget for next fiscal year.

Statement of the Problem

Since its Inception, the pros and cons of GST implementation have been widely debated and have attracted significant attention from various parties including academic, business and the general public. Even the professional in the Pakistan financial system are facing problems of clarity in the concepts of GST. Therefore it is the need of time to have the study on the public awareness, knowledge and understanding of GST in Pakistan.

Objectives of the Study

- To investigate public awareness and understandings towards GST in Pakistan.
- To find out on the consumer's level of expectation from the implementation of GST
- To provide suggestions based on the findings of the study for the implementation of GST

2. Review of Literature

Kasipillai and Sinnakkannu (2008) have argued that the GST system will have a direct effect on wealth distribution in three aspects, namely (1) changes in consumers' expenditure pattern, (2) increased financial burden for households, and (3) the burden of GST on the categories of expenditure. Palil and Ibrahim (2012) further iterated that the implementation of GST is also

argued to be an antecedent of inflation which will encourage many parties to increase the prices of products and services that eventually will burden the people as a whole.

As a result, most households from the middle and lower income groups may experience a higher financial burden in comparison to higher income earners. According to Alappatt and Shaikh (2014), some of society's major concerns of charging GST in the country such as increase in social problems, increase in inflation rate, negative effects on middle and low income groups, and increase in the price of food, healthcare, medical products, public transportation and other essential services. Moreover, household income was further reduced as purchasing power and spending were curtailed with the higher cost of living (Faruqi, 2015; Urif, 2016).

Hence, the scenario has resulted in consumers tightening their belts as they perceive that the prices of goods and services are unreasonably inflated post GST implementation. The changes in behavior of consumption have badly affected all business as the majority businesses are experiencing sales decreases from the automotive, property and retailing sectors (Ishak et al., 2015; Faruqi, 2015; Urif, 2016; Zabriet al ., 2016). Consumers had diverse opinions over the implementation of GST and most of them failed to understand the implications and benefits of GST on goods, services, businesses and socio-economic development (Abdullah et al ., 2013; Saira et al ., 2010; Shamsuddin et al ., 2014).

Analysis and Interpretation

Table 1 Demographic Profile of the Respondents

Particulars	N(Counts)	%age
Gender		
Male	81	81.0
Female	19	19.0
Age		
<30	16	16.0
30-40	26	26.0
41-50	19	19.0
>50	39	39.0
Qualification		
Under Graduate	2	2.0
Graduate	11	11.0
Post Graduate	36	36.0
Professional	51	51.0
Occupation		
Business	64	64.0
Private Job	31	31.0
Govt. Job	5	5.0
Personal Income		
< 1.5 Lac	24	24.0
1.5 Lac -2.0 Lac	17	17.0
2.0 Lac -3.5 Lac	22	22.2

3.0 Lac - 4.0 Lac	4	4.0
> 5 Lac	33	33.0

The Table 1 shows a detailed over views of respondent's profile who , participated in the current study. The respondents of the sample comprised 81 % males and only 19% females. In terms of age group 39 % of the respondents are more than 50 years, 26% of the respondents aged between 31 to 40, 19 % of respondents aged between 41 to 50 years while 16 % of the respondents are less than 30 years. It can be seen that majority of the respondents are highly qualified either professional (51%) or Post Graduate (36%) degree holders. However, 64 % are doing their business followed by 31% are in private job while only 5% are doing govt. job.

Table 2 Relationship Analysis of Demographic Profile and Level of Knowledge and Awareness about GST

		Sum of Squares	Df	Mean Square	F	Sig.
GENDER	Between Groups	3.999	7	.571	4.614	.000
	Within Groups	11.391	92	.124		
	Total	15.391	99			
OCCUPATION	Between Groups	14.216	7	2.031	1.936	.073
	Within Groups	96.534	92	1.049		
	Total	110.750	99			
INCOME	Between Groups	23.362	7	3.37	1.362	.231
	Within Groups	225.388	92	2.450		
	Total	248.750	99			
AGE	Between Groups	26.521	7	3.789	3.525	.002
	Within Groups	98.869	92	1.075	1.075	
	Total	125.390	99			
EDUCATION	Between Groups	10.219	7	1.460	1.460	.021
	Within Groups	53.571	92	.582	.582	
	Total	63.790	99			

To investigate the relationship between demographic profile and level of awareness and knowledge about GST one way ANOVA test was used. it is observed from the Table 2 that there is a significant relationship between gender, age and qualification and level of awareness and knowledge about GST however, occupation and income do not have significant relationship.

Table 3 Analysis of Demographic Profile and Level of Expectation from Implementation of new GST in Pakistan

		Sum of Squares	Df	Mean Square	F	Sig.
GENDER	Between Groups	4.746	13	.365	2.950	.001
	Within Groups	10.644	86	.124		
	Total	15.390	99			
OCCUPATION	Between Groups	27.833	13	2.141	2.221	.015
	Within Groups	82.917	86	.964		
	Total	110.750	99			
INCOME	Between Groups	51.655	13	3.973	1.734	.068
	Within Groups	197.095	86	2.929		
	Total	248.750	99			
AGE	Between Groups	37.264	13	2.866	2.797	.002
	Within Groups	24.377	86	1.025		
	Total	125.390	99			
EDUCATION	Between Groups	24.377	13	1.875	4.091	.000
	Within Groups	39.413	86	.458		
	Total	63.790	99			

To investigate the relationship between demographic profile and level of expectation from the implementation of GST one way ANOVA test was used and it can be seen from the Table 3 that there is a significant relationship between the demographic variables viz. gender, age, qualification, occupation and level of expectation from implementation of GST however, income do not have significant relationship.

Table 4 Expectations of Consumers after implementation of new GST in Pakistan

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
GST target to Make Tax System More Efficient	12	11	11	46	20
GST is a source to Generate and Increase the Revenue of the Country	4	12	18	38	28
GST effects Prices rate for Goods And Services in the country	2	18	26	37	17
GST saves the end user of Low Income Group in Pakistan	23	35	21	19	2
GST leads Pakistan towards A Developed country	7	29	12	27	25
GST fulfill the Principal of One Nation One Tax	4	14	18	44	20
GST Has badly destroyed and slow down Economic Growth of Pakistan	6	44	9	31	30
GST has condensed the Purchasing Power of Consumers in Pakistan	7	34	24	29	6

It is also observed from the Table 4 that 46% of the respondents agreed that 'GST aims to make tax system more efficient' followed by 44 % of respondents agreed on the 'principle of one nation one tax' and 38 % of the respondents agreed that 'GST has generated the revenue for country'.

But at the same time 37% of the respondents agreed on that ‘GST has increased the prices of goods and services’. On the Other hand 44% of the respondents disagree on ‘GST has slowed down the economy of country’ followed by 35% of the respondents disagree on ‘GST has protected the interest of low income group’. But at the same time 34% of the respondents also disagree on ‘GST has reduced the purchasing power of consumers’ and 29 % of the respondents disagree on the GST is Pakistan’s move towards the developed nation.

5. Conclusions and Discussions

The findings of the study have demonstrated that apart from indifference of income, all other demographic variables was the significant factors in the demographic variables in regard to the consumers’ awareness, knowledge and level of expectations from GST implementation. The findings also indicate that the level of awareness of the GST is still not reached a satisfactory level. This is because the study involved only general questions that should be known by the respondents as end users. This cause the respondents gave high negative perception of the impact of implementation of GST. Evaluate the results show, seems to indicate respondents received less information and promotion of the authorities. Most of the respondents were unclear which goods and services are subject to GST slabs.

Furthermore, due to the lack of information on GST, the respondents had a high negative perception. Therefore, the government must convince that GST will not have a lasting impact on the public as particularly convincing end users that no increase in prices of goods and services. Thus, in introducing the GST in Pakistan, government should have careful planning, detailed preparation, participation of community and extensive public education program is the key success in the implementation of GST for any country. GST System is basically structured to simplify current Indirect Tax system in Pakistan that will reduce the current bad situation. However, GST is still facing many challenges after its implementation and but will result to give many benefits. In overall through this study we conclude that high rate of GST will play a bad role in the growth and development of our country.

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