

Challenges in Indirect Tax Administration: Building Transparency and Trust in Malaysia's SST System: A Policy Review Paper

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DOI: <https://dx.doi.org/10.47772/IJRISS.2025.909000204>

Received: 12 September 2025; Revised: 22 September 2025; Accepted: 25 September 2025; Published:
04 October 2025

ABSTRACT

This paper examines the challenges in Malaysia's indirect tax system, particularly the transition from the Goods and Services Tax (GST) to the Sales and Services Tax (SST). The shift created confusion among businesses and consumers due to unclear communication, administrative inefficiencies, and inconsistent enforcement. Public concerns over fairness, equity, and corruption further weakened trust in the system, while businesses, especially SMEs, faced high compliance costs and operational burdens. Drawing on the issues identified, the study emphasises the importance of improving transparency, simplifying compliance procedures, strengthening anti-corruption measures, and ensuring consistent enforcement. These reforms are crucial to restoring public confidence, promoting voluntary compliance, and sustaining government revenue collection. The paper concludes that fostering trust between tax authorities, businesses, and the public is essential for the long-term effectiveness and fairness of Malaysia's indirect tax administration.

Keywords: Goods and Services Tax, Sales and Services Tax, indirect tax, transparency, public trust

INTRODUCTION

Indirect taxes, particularly the Sales and Services Tax (SST), represent a significant source of government revenue in Malaysia. The Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) and the Royal Malaysian Customs Department (RMCD) are the principal agencies responsible for administering and enforcing these taxes, including ensuring clear communication with businesses, consumers, and other stakeholders. However, the replacement of the Goods and Services Tax (GST) with the SST in 2018 revealed substantial implementation challenges. Malaysia's indirect tax reform to replace SST with GST may be considered a flop. GST's loss is mainly attributed to poor approval of the public (Wong & Kee, 2018; Talib, A.B., & Ishak, 2018). To ensure the success of SST 2.0, the government should promote the success stories of tax reforms in other countries. The transition created confusion and dissatisfaction among both businesses and the public, mainly due to unclear guidelines, inconsistent enforcement, and gaps in communication strategies (Loong, 2023). Malaysia's indirect tax reform to replace SST with GST may be considered a flop. GST's loss is mainly attributed to poor approval of the public (Wong & Kee, 2018; Talib, A.B., & Ishak, 2018). To ensure the success of SST 2.0, the government should promote the success stories of tax reforms in other countries. These shortcomings not only disrupted compliance but also weakened public confidence in the tax system. Since public trust is critical to sustaining voluntary compliance and ensuring the long-term effectiveness of indirect taxation, addressing these issues has become a pressing priority for Malaysia's tax authorities (Jamel et al., 2021; Mutahar & Hamid, 2022). Based on a synthesis and review of existing literature and current reporting, this paper aims to understand "What are the primary barriers to trust in Malaysia's SST system?" and "What evidence-based policy reforms are recommended to address the issues?"

Theoretical Framework

Political Legitimacy Theory. According to Kirchler et al. (2008), citizens' trust in their government plays a

significant role in shaping their tax compliance behaviour. Legitimacy is understood as the belief that government institutions and social arrangements are fair, appropriate, and serve the public interest (Fjeldstad et al., 2012). Trust is therefore a crucial factor for taxpayers' willingness to fulfil their tax obligations (Scholz & Lubell, 1998). The relationship between government and power involves both trust and managed expectations in uncertain environments (Sitardja & Dwimulyani, 2016). While taxpayers with low levels of trust tend to perceive government actions negatively, those with higher trust are more likely to interpret the same events positively (Robinson, 1996). A lack of trust often leads taxpayers to doubt how tax revenues are being used, whereas trust enhances their commitment to the tax system and increases compliance (Jimenez & Iyer, 2016).

Issue and problem statement

The reintroduction of the Sales and Services Tax (SST) following the repeal of the Goods and Services Tax (GST) in 2018 was a highly contentious issue in Malaysia. Although the shift was intended to simplify the tax system, the transition was not implemented smoothly. Both businesses and consumers expressed widespread confusion and dissatisfaction due to the lack of clear guidelines and effective communication from tax authorities (Loong, 2023). Many businesses struggled with compliance and faced increased administrative burdens, while consumers were uncertain about pricing structures under the new system. These challenges highlighted weaknesses in the communication and engagement strategies of the Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) and the Royal Malaysian Customs Department (RMCD). Beyond communication gaps, broader issues related to the efficiency and transparency of Malaysia's tax system have further undermined public trust. Studies have shown that confidence in tax authorities, perceptions of fairness, and clarity in tax policies are crucial for the success of indirect tax systems (Jamel et al., 2021). In Malaysia, however, inconsistencies in enforcement and a lack of accountability have created uncertainty and reluctance among taxpayers to comply voluntarily, posing risks to government revenue.

Another critical concern is the perception of corruption within tax authorities, which erodes citizens' trust in tax administration. Even the slightest suspicion of bribery or unfair treatment can have a negative impact on taxpayer morale and discourage compliance (Jamel et al., 2021). Such perceptions foster a cycle of non-compliance and weaken institutional credibility. Similarly, ineffective governance frameworks, bureaucratic inefficiencies, and limited accountability mechanisms have further deepened the trust deficit in Malaysia's indirect tax administration (Mutahar & Hamid, 2022).

Public dissatisfaction with SST also stems from its perceived regressiveness. Many Malaysians consider SST as an additional financial burden that disproportionately affects lower-income households, intensifying concerns about fairness and equity (Jamel & Popoola, 2020). This perception mirrors the rejection of GST, which was criticised for raising the cost of living and placing undue pressure on vulnerable groups. The public's negative sentiment demonstrates the importance of addressing fairness, transparency, and accountability in indirect taxation to ensure acceptance and compliance. Prior findings suggest that while fairness, accountability, and perceived burden significantly affect acceptance, knowledge alone does not translate into trust or compliance (Jamel & Popoola, 2020). According to Jamel et al (2021), rebuilding public trust requires a multi-faceted approach that emphasises transparent communication, consistent enforcement, anti-corruption measures, and effective public education campaigns. Only through such reforms can Malaysia's indirect tax system achieve long-term sustainability and foster voluntary compliance.

DISCUSSION

The Role of Tax Authorities in Indirect Tax Administration

The government and its agencies responsible for indirect tax collection have a critical role in ensuring the proper implementation of taxation systems. These agencies are legally mandated to formulate and administer fiscal policies that support national revenue objectives while minimising adverse impacts on businesses and households. For example, Malaysia's transition from the Goods and Services Tax (GST) to the Sales and Services Tax (SST) in 2018 was intended to simplify the tax structure and reduce the burden on consumers. However, without clear policy objectives and detailed implementation strategies, such shifts can create

confusion and provoke non-compliance. To ensure effective revenue collection, policies must not only be well-designed but also communicated in a way that taxpayers can easily understand and apply.

Communication plays an equally vital role in building trust between tax authorities and taxpayers. Clear and accessible information reduces uncertainty regarding tax obligations, due dates, and compliance procedures. Regular communication campaigns through official websites, social media platforms, and public announcements can help address taxpayer concerns and prevent the spread of misinformation. As highlighted by the Royal Malaysian Customs Department and supported by Mutahar and Hamid (2022), taxpayers who are well-informed about their obligations are more likely to comply voluntarily, thereby improving the overall efficiency of tax administration. Public education campaigns also serve to reinforce the legitimacy of the tax system by demonstrating transparency and responsiveness.

Effective enforcement mechanisms are fundamental to sustaining compliance. Tax authorities must strike a balance between supportive measures and robust enforcement strategies, including periodic audits, risk-based evaluations, and appropriate sanctions for non-compliance. Such approaches discourage evasion and reinforce perceptions of fairness across different taxpayer groups. As Jamel et al. (2021) argue, sustainable and ethical enforcement practices not only ensure revenue collection but also enhance taxpayers' perception of justice and equality within the system. Moreover, transparent enforcement where penalties are applied consistently and without favouritism can strengthen trust in the authorities and promote voluntary compliance. In addition, international best practices emphasise the integration of digital tools in enforcement and compliance. Automated filing systems, online advisory platforms, and real-time monitoring technologies can reduce administrative burdens, lower compliance costs, and improve accuracy. Incorporating such innovations within Malaysia's indirect tax administration would not only modernise compliance but also provide greater convenience to both businesses and individuals.

Challenges in Indirect Tax Administration

Effective tax administration is fundamental to ensuring compliance, fairness, and sustainable revenue collection. However, Malaysia's indirect tax system continues to face multiple challenges that undermine its efficiency and public acceptance.

Transparency and Communication. Transparency forms the foundation of a credible tax system. The public perceived the tax authorities to be efficient in executing the tax system, and the government spends revenue wisely; this may strengthen acceptability (Ya'u & Saad, 2018). Taxpayers require transparent, accessible, and easy-to-understand information on tax policies, rates, and legal requirements. However, the transition from the Goods and Services Tax (GST) to the Sales and Services Tax (SST) was accompanied by insufficient clarity, inconsistent guidance, and ambiguous instructions on compliance procedures. These shortcomings eroded trust among businesses and consumers, leading to uncertainty and partial non-compliance, which is consistent with what Shleifer et al. (1992) describe as a breakdown in institutional trust. To address this, authorities must release enforcement results, publish annual performance reports, and ensure impartiality in enforcement across sectors (Royal Malaysian Customs Department, n.d.; Mutahar & Hamid, 2022).

High Compliance Costs for Businesses. Implementing indirect taxes imposes significant financial and administrative burdens, particularly on small and medium enterprises (SMEs). These costs include engaging tax consultants, maintaining digital systems, and preparing mandatory reports. Such obligations divert financial and human resources from core business operations. Simplifying compliance through user-friendly platforms, automation, and artificial intelligence in tax reporting can reduce errors and streamline processes (EY, 2022; Jamel et al., 2021). Offering support services such as helplines, interactive websites, and targeted awareness programs further enhances voluntary compliance.

Corruption and Weak Governance. Perceptions of corruption within tax authorities erode public trust and discourage compliance. Practices such as favouritism, bribery, and delays in processing refunds compromise the perceived fairness of the system and demoralise taxpayers. Strengthening anti-corruption frameworks, establishing independent oversight mechanisms, and providing protections for whistleblowers can help restore

institutional credibility (Jamel et al., 2021; Mutahar & Hamid, 2022). Mandatory ethics training for tax officials, along with transparent refund systems, also reduces opportunities for misconduct.

Complex and Ambiguous Legislation. Malaysia's indirect tax legislation has often been criticised for its complexity. Ambiguities in defining taxable goods and services create uncertainty, which can sometimes lead businesses to overpay or underpay taxes. This issue is especially burdensome for SMEs that lack access to legal expertise. Simplifying legislation, ensuring consistency in tax rulings, and providing clear interpretative guidelines are crucial to reducing compliance risks and building taxpayer confidence (Mutahar & Hamid, 2022).

Limited Taxpayer Awareness and Education. Many businesses and individuals lack sufficient understanding of their indirect tax responsibilities. Administrative workers may require more time to become familiar with the entire structure and reassess their approach to managing the new system (Takril & Sanusi, 2014; Shagari, 2014). Inadequate awareness campaigns and insufficient guidance from authorities contribute to non-compliance and penalties. Taxpayer education, achieved through nationwide workshops, webinars, and partnerships with industry associations, can help bridge this gap. Digital resources, including videos, FAQs, and multilingual guides, can also help taxpayers better understand their obligations (Royal Malaysian Customs Department, n.d.).

Technological Barriers. While digitalisation can simplify compliance, many SMEs face challenges in adopting advanced tax tools due to limited IT infrastructure, high costs, and inadequate digital literacy. Rural areas also face connectivity issues, further widening the digital divide. Providing affordable training, subsidising access to digital platforms, and offering alternative compliance options for smaller businesses are essential for inclusive tax administration (EY, n.d.).

Inefficiency in Refunds and Rebates. Delays in issuing refunds and unclear rebate procedures further weaken trust in the tax system. These inefficiencies disrupt business cash flow and discourage compliance. Centralised and automated refund systems, coupled with the creation of a dedicated Refund Inquiry Department, would improve efficiency, transparency, and taxpayer satisfaction (Mutahar & Hamid, 2022).

Policy Inconsistency. Frequent policy changes, such as the replacement of GST with SST, have contributed to uncertainty and scepticism about the government's fiscal strategy. Stable, predictable policies are essential for fostering taxpayer confidence and ensuring long-term compliance (Jamel & Popoola, 2020).

Public and Business Perspectives on Indirect Tax Administration

Public perception of fairness and equity. This plays a crucial role in determining the level of trust and voluntary compliance within a tax system. Many taxpayers are concerned about whether tax policies are applied consistently across different income groups. When there is a perception that high-income individuals or large corporations receive preferential treatment, whether through loopholes, tax incentives, or lenient enforcement, trust in the system is undermined. Such disparities create resentment among lower- and middle-income taxpayers, who may feel disproportionately burdened by indirect taxes such as the Sales and Services Tax (SST). Effective tax administration must therefore prioritise equity by ensuring that tax rules are enforced consistently and transparently across all groups. As Mutahar and Hamid (2022) argue, perceptions of fairness are crucial in fostering compliance, as taxpayers are more likely to contribute when they believe the system treats everyone equally. Clear communication regarding tax obligations and transparent disclosure of how revenues are utilised can further reinforce fairness. For example, when taxpayers see that revenues are being used to fund public goods such as healthcare, education, and infrastructure, they are more likely to view the tax system as justifiable and equitable (Jamel et al., 2021).

In addition, fairness must extend beyond enforcement to policy design. Indirect taxes such as SST are often criticised for being regressive, as they impose a relatively higher burden on lower-income households compared to wealthier groups (Jamel & Popoola, 2020). To address this, governments can introduce targeted subsidies, exemptions for essential goods, or progressive adjustments in tax structures to reduce the disproportionate impact on vulnerable populations. Such measures not only improve equity but also enhance

the legitimacy of the tax system. Addressing inequities requires a combination of clear communication, responsive governance, and consistent enforcement. When tax authorities are perceived as impartial, accountable, and equitable, public trust in the system strengthens, which in turn promotes higher levels of voluntary compliance and contributes to sustainable revenue collection.

Business Compliance Burdens. For businesses, particularly small and medium enterprises (SMEs), indirect taxes such as the Sales and Services Tax (SST) are often perceived as complex, costly, and resource-intensive. Compliance requires substantial administrative effort, including accurate record-keeping, filing of returns, and adherence to evolving regulatory requirements. These demands can impose disproportionate burdens on SMEs, which typically operate with limited financial and human resources compared to larger corporations. High compliance costs may discourage voluntary compliance, thereby increasing the risk of errors, underreporting, or even deliberate evasion. One major challenge lies in the cost of professional services. Many SMEs are compelled to hire consultants or invest in specialised software to meet reporting standards, which can strain their financial capacity. Furthermore, regulatory requirements, such as the need for detailed invoices and periodic audits, add to operational costs and divert attention from core business activities (Loong, 2023). These factors may reduce competitiveness and hinder growth, especially in sectors where profit margins are already low.

Digitalisation offers opportunities to reduce these burdens. The adoption of tax automation tools, pre-filled tax returns, and user-friendly e-filing platforms can simplify processes and minimise the risk of human error. According to EY (n.d.), integrating artificial intelligence (AI) and digital reporting systems allows businesses to manage compliance more efficiently and at lower cost. However, challenges such as limited digital literacy, lack of infrastructure, and the high initial cost of technology adoption remain significant barriers for SMEs (Mutahar & Hamid, 2022). To mitigate these issues, tax authorities should provide dedicated support services, such as helplines, online advisory portals, and step-by-step compliance guides, to assist taxpayers. Regular training programs and workshops tailored to SMEs can further ease the compliance process. Collaboration with industry associations can also be effective in developing sector-specific solutions that address unique compliance challenges. Importantly, fostering a cooperative relationship between tax authorities and businesses rather than relying solely on punitive enforcement can encourage a culture of voluntary compliance and reduce resistance to tax obligations (Jamel et al., 2021).

Trust in enforcement mechanisms. Both the public and businesses place a high value on consistency, impartiality, and fairness in the enforcement of tax laws. When penalties are applied arbitrarily or enforcement actions appear biased, taxpayers often lose confidence in the system, which may lead to resistance, evasion, or deliberate non-compliance. Conversely, transparent and impartial enforcement fosters a positive compliance culture and reinforces the perception that all taxpayers are treated equally under the law (Jamel et al., 2021). A key element in building such trust is ensuring that penalties and sanctions are proportionate to the nature of non-compliance. Excessively harsh penalties for minor errors can create resentment, while overly lenient responses to deliberate evasion may signal tolerance for misconduct. Establishing standardised penalty structures and publicly disclosing enforcement guidelines can enhance consistency and reduce the perception of unfair treatment (Mutahar & Hamid, 2022). Dispute resolution is another critical component of enforcement trust. Efficient mechanisms for handling appeals and disputes reassure taxpayers that their grievances will be heard impartially. Strengthening alternative dispute resolution (ADR) channels such as mediation and arbitration offers businesses and individuals a more accessible and less adversarial avenue for resolving tax disagreements. Furthermore, the presence of independent review bodies ensures that enforcement decisions are not only legally sound but also perceived as fair and objective (OECD, 2017).

Additionally, regular reporting of enforcement outcomes, including the number of audits conducted, penalties imposed, and disputes resolved, contributes to transparency. This practice helps taxpayers understand the consistency of enforcement and demonstrates accountability within tax authorities (Royal Malaysian Customs Department, n.d.). Promoting fairness in enforcement also aligns with broader governance reforms aimed at combating corruption, as it reduces opportunities for discretionary decision-making and favouritism. A tax system that combines transparent enforcement, proportionate penalties, and effective dispute resolution mechanisms fosters greater trust among taxpayers. This trust not only enhances voluntary compliance but also

strengthens the legitimacy and sustainability of Malaysia's indirect tax administration.

RECOMMENDATIONS

Enhancing Transparency. Transparency in tax administration extends beyond disclosing figures, it reflects the openness and integrity of the system. When taxpayers can clearly understand how rules are applied, how revenues are utilised, and how enforcement decisions are made, their trust in tax institutions grows. In Malaysia, a lack of consistent and accessible information during the transition from GST to SST illustrated how opacity can breed uncertainty and frustration, particularly for businesses struggling to adapt to the new system (Loong, 2023). Modern tax systems increasingly rely on digital infrastructure to address this challenge. Real-time reporting mechanisms, for instance, enable tax authorities to track transactions and provide taxpayers with immediate feedback, reducing disputes and closing loopholes for evasion (OECD, 2017). Countries such as Estonia and Singapore have demonstrated that transparency can be enhanced when taxpayers are provided with easy access to their compliance records, filing history, and tax-related correspondence through secure online portals. Adopting similar practices in Malaysia would signal a commitment to accountability and help reduce administrative inefficiencies.

Transparency also depends on proactive communication. It is not sufficient to publish tax rules; authorities must actively engage the public through multiple platforms, including social media, community outreach, and industry associations. Multilingual resources, visual guides, and simplified FAQs can help reach a wider audience and reduce misunderstandings among SMEs and lower-income groups. As Fjeldstad (2020) states, taxpayers are more likely to comply when they perceive the system as fair, understandable, and free from hidden rules. Finally, transparency is closely tied to accountability. Publishing enforcement statistics, audit outcomes, and annual reports with clear performance indicators demonstrates institutional responsibility. When taxpayers can see how revenues are collected and spent whether on healthcare, education, or infrastructure they are more likely to view their contributions as legitimate and worthwhile (Jamel et al., 2021). This openness helps shift the narrative from taxation as a burden to taxation as a shared responsibility that benefits society as a whole.

Simplifying Compliance Procedures. This is essential for reducing the administrative and financial burden on businesses and individuals, thereby fostering a more conducive environment for voluntary tax compliance. In Malaysia, the current system of indirect taxation has often been criticised for its complexity, particularly by small and medium enterprises (SMEs), which face difficulties in meeting detailed reporting requirements and adapting to frequent policy changes (The Star, 2023). Such challenges not only increase compliance costs but also heighten the risk of errors, which may result in penalties and further discourage compliance. To address these concerns, tax authorities should prioritise the integration of comprehensive digital solutions that streamline administrative processes. Automated tax filing systems, pre-populated returns, and real-time error detection mechanisms have been successfully implemented in various OECD countries, demonstrating their effectiveness in reducing compliance burdens (OECD, 2019). By minimising manual input and simplifying data entry, such systems can improve accuracy, lower administrative costs, and free up resources for businesses to focus on core operations. Equally important is the provision of clear and accessible guidance. Step-by-step manuals, visual tutorials, and multilingual resources tailored to the needs of SMEs can help bridge knowledge gaps and reduce unintentional non-compliance (Mutahar & Hamid, 2022). Beyond static resources, regular taxpayer education initiatives such as workshops, webinars, and training sessions conducted in collaboration with industry associations are vital for equipping taxpayers with the practical knowledge required to navigate the tax system effectively (Jamel et al., 2021).

Furthermore, fostering partnerships with technology providers and professional associations can expand access to affordable compliance tools and advisory services, particularly for SMEs with limited capacity. Such collaborative efforts not only ease the compliance process but also signal a commitment by tax authorities to support, rather than merely regulate, taxpayers. As noted by the IMF (2019), simplification and taxpayer support are central to enhancing compliance culture and improving overall tax collection efficiency. Streamlining compliance procedures through digital innovation, accessible guidance, and taxpayer education has the dual benefit of reducing administrative complexity while strengthening the legitimacy and credibility

of Malaysia's indirect tax administration.

Strengthening Anti-Corruption Measures. Corruption in tax administration represents a critical barrier to achieving effective governance, public trust, and sustainable revenue collection. Even the perception of corruption, whether in the form of bribery, favouritism, or misuse of discretionary powers, can undermine taxpayer morale and discourage voluntary compliance (Jamel et al., 2021). In Malaysia, concerns about corruption within public institutions, including tax authorities, have fueled distrust in indirect tax systems such as the Sales and Services Tax (SST), weakening compliance and contributing to tax evasion (Mutahar & Hamid, 2022).

One effective strategy for addressing corruption risks is to strengthen collaboration between tax authorities and the Malaysian Anti-Corruption Commission (MACC). Joint oversight mechanisms and information-sharing arrangements can enhance investigative capacity and ensure greater accountability in enforcement processes. Additionally, establishing independent review panels to oversee misconduct cases can reassure taxpayers that unethical practices are dealt with fairly and transparently, thus reinforcing institutional credibility (OECD, 2017).

Institutional reforms should also emphasise preventive measures. Introducing mandatory ethics training for tax officials, coupled with clear codes of conduct, can instil professional integrity and reduce opportunities for malpractice. Transparent procedures for handling tax disputes, audits, and refund claims further diminish the scope for discretionary abuse by ensuring that all taxpayers are subject to consistent and impartial treatment (EY, 2022). Whistleblower protection is another critical element in combating corruption. Providing secure, anonymous channels for reporting misconduct, alongside legal protections for whistleblowers, empowers employees and the public to expose irregularities without fear of retaliation. Evidence from international best practices demonstrates that effective whistleblowing mechanisms can significantly enhance organisational accountability and deter corrupt practices (Transparency International, 2020). Finally, enhancing oversight mechanisms, including periodic audits of tax administration processes, strengthens governance by identifying vulnerabilities and ensuring corrective measures are implemented. When taxpayers perceive that corruption risks are being systematically addressed, their willingness to comply increases, and the legitimacy of the tax system is reinforced. In this way, anti-corruption reforms not only safeguard institutional integrity but also serve as a foundation for sustainable voluntary compliance in Malaysia's indirect tax system.

Consistency and fairness in enforcement. When enforcement actions are perceived as arbitrary, selective, or biased, trust in the tax system deteriorates, leading to resistance, disputes, and in some cases, deliberate non-compliance. Conversely, when tax authorities apply rules uniformly, transparently, and proportionately, taxpayers are more likely to perceive the system as just and legitimate (Mutahar & Hamid, 2022). A crucial starting point for ensuring fairness is the development of clear, publicly accessible guidelines on enforcement. Standardised penalty structures that are transparent and well-documented reduce opportunities for discretionary decision-making and reinforce perceptions of equal treatment. As noted by Loong (2023), uncertainty over how penalties are applied has been a source of frustration among Malaysian businesses adapting to the Sales and Services Tax (SST). Establishing clarity in enforcement actions can therefore mitigate confusion and support compliance.

Institutional mechanisms are also necessary to safeguard procedural fairness. The creation of an independent appeals body to review enforcement decisions provides taxpayers with confidence that disputes will be adjudicated impartially and fairly. Such bodies, when adequately resourced and empowered, serve as checks and balances against potential abuse of authority, helping to ensure that enforcement is applied consistently across different taxpayer groups (OECD, 2017). Regular evaluation of enforcement practices is equally important. Periodic reviews of penalty effectiveness, informed by empirical data and taxpayer feedback, can ensure that sanctions remain proportionate to the severity of non-compliance and continue to serve as effective deterrents. Overly punitive measures for minor infractions risk alienating compliant taxpayers, whereas insufficient penalties for serious evasion may encourage misconduct. Incorporating feedback mechanisms into this review process strengthens accountability and promotes taxpayer engagement (Jamel et al., 2021).

Consistent enforcement requires equal treatment regardless of taxpayer size, industry, or political influence. Demonstrating impartiality in enforcement actions not only reinforces equity and justice but also addresses broader concerns about favouritism and corruption within tax administration. By combining transparency, proportionality, and accountability, Malaysia's tax authorities can enhance the legitimacy of enforcement mechanisms and cultivate a compliance culture founded on trust.

CONCLUSION

The administration of indirect taxes in Malaysia, particularly the Sales and Services Tax (SST), faces significant challenges that directly influence taxpayer compliance and public trust. Issues such as perceptions of unfairness, the high compliance burden on businesses, inconsistent enforcement, and the persistence of corruption risks have collectively weakened confidence in the tax system. These problems are further compounded by gaps in transparency, inadequate communication strategies, and complex regulatory procedures, all of which discourage voluntary compliance and increase the risk of tax evasion.

This report highlights that effective tax administration must move beyond revenue collection to prioritise fairness, efficiency, and accountability. Strengthening transparency through real-time reporting, clear communication, and open access to information can bridge the trust deficit between tax authorities and the public. Simplifying compliance procedures, particularly for small and medium enterprises, will reduce administrative burdens and encourage greater participation in the system. Equally important are robust anti-corruption measures, including collaboration with the Malaysian Anti-Corruption Commission (MACC), whistleblower protections, and independent oversight mechanisms, which are necessary to safeguard integrity. Consistent and fair enforcement, supported by standardised penalties and impartial appeals processes, is essential to ensure equity across all taxpayer groups.

Taken together, these measures reflect the broader need for institutional reform and modernisation of Malaysia's tax administration. Leveraging technology, strengthening governance structures, and engaging in proactive taxpayer education will not only enhance compliance but also reinforce the legitimacy and sustainability of the indirect tax system. Ultimately, building a culture of fairness, accountability, and transparency is vital to securing long-term public trust and ensuring that Malaysia's fiscal system effectively supports national development.

Suggestion For Future Research

For future research, several approaches could be undertaken to provide deeper insights into the study's propositions. An empirical study using a mixed-methods design would be valuable, combining surveys to capture SME perceptions of compliance costs and trust in the RMCD with interviews involving tax officials, business owners, and policymakers, as well as the analysis of government data on compliance rates and refund processing times. Additionally, a comparative study could be conducted to examine the success of transparency and digitalisation initiatives in other ASEAN countries, such as Singapore and Thailand, in order to derive lessons applicable to the Malaysian context. Besides, a longitudinal study that tracks public trust and compliance levels before and after the implementation of recommended reforms would offer meaningful evidence on their effectiveness and long-term impact.

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