

GST Fraud: Unveiling the Truth

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Abstract – Goods and services tax (GST) fraud is increasing in Malaysia, resulting in the loss of income for the government. Although there are mechanisms in place to prevent GST fraud, fraudsters are smart and will usually find ways of outwitting such measures. To combat such fraud, it is essential to understand the types of GST fraud perpetrated. Therefore, the purpose of this qualitative study was to identify types of GST fraud in Malaysia. Using a case study approach, the study found six major forms of GST fraud: falsifying claims, sales manipulation, non-submission of GST forms, failure to register, GST avoidance and carousel fraud. Notably, there are commonalities between GST fraud in Malaysia and in other developed and developing countries. This study suggests that authorities should be alert and aggressive in preventing GST fraud. The research contributes to tax administration and the development of literature by demonstrating the impact of a new tax policy with respect to indirect taxation such as GST to facilitate fraud prevention measures.

Keywords— Tax Fraud, GST, Case Study, Qualitative, Fraud

1. Introduction

According to [1], tax advocates claim that value added tax (VAT), or goods and services tax (GST) is an effective way of increasing revenue for the government, but they also point out that this indirect tax is vulnerable to fraud and commonly abused by taxpayers, thus depriving the public purse. Two main activities in the abuse of the system with regard to VAT/GST fraud: manipulating own liability to remit VAT and abusing the mechanism for recovery of input VAT as a means of embezzling public funds [2]. Both activities are detrimental to the government

revenue, impacting the public purse.

In Malaysia, since the recent implementation of GST, fraud has become an increasing problem, both in terms of number of reported cases and the scale. Despite the many initiatives aimed at reducing fraudulent activities, there is an increasing trend for GST fraud and abuse of the system. Only recently, in January 2018, the Star Online reported that the Royal Malaysian Customs (RMC) department claimed there were more than 5,000 companies involved in fraud concerning payments of the GST since it was implemented on 1 April 2015. Although some initiatives have been implemented to reduce fraud, such as the GST Ambassador programme, there are many cases that appear to suggest that GST fraud is not to be taken lightly.

1.2 GST fraud: A new problem in Malaysia

GST is a broad-based consumption tax, which is also often known as VAT. It is an indirect tax that is charged in multiple stages based on the net value at each stage of a business transaction. GST on inputs, including purchase, acquisition and payment, can be offset against sales, supply and income as output tax. Comparatively, GST is said to offer a better and more effective tax system than sales and services tax as it provides a stable source of income for the nation, which is susceptible to economic fluctuations. It is a tax system that eliminates double tax charges, which often arose in the sales and service tax system.

Malaysia implemented the GST on 1 April 2015, with a standard rate of 6% GST for taxable goods and services and 0% for zero-rated goods and services. GST is a replacement for the sales and services tax. Manufacturers, wholesalers and

retailers charge consumers 6%, termed GST input tax, which is claimable.

A pilot study conducted by the researchers indicated that GST fraud is a problem in Malaysia. Our preliminary findings also implied that GST fraud is on the rise and becoming increasingly complex. Hence, there is an urgent need to examine the types of GST fraud. The issue of GST fraud is a primary concern for many governments as it affects the public purse. The bulk of earlier research has focused on economic factors, such as the tax system, tax auditing, tax compliance, etc. However, exploring such economic factors limits understanding of the hidden costs. Therefore, it is the intention of this paper to unveil the truth about GST fraud, providing a typology of fraudulent activities in Malaysia and paying special attention to hard-core GST fraud. The typology of GST fraud will be useful to the nation, particularly the RMC as an enforcement agency, as it provides insightful understanding in GST fraud, affecting an important part of revenue for the Malaysian government. Most importantly, the findings are significant in indicating directions for reform towards the Malaysian GTP 2.0 goal of reducing crime and implementing anti-fraud initiatives.

2. Literature Review

Many studies on GST have investigated the relationship between tax and country growth in Malaysia [3]. Notably, there are limited studies focused on GST fraud, both internationally and from the Malaysian perspective. In terms of Malaysia, this is probably because the topic is relatively new and the implementation of GST is still in its infancy.

Reviewing the literature, studies have commonly focused on issues related to tax compliance, in particular the relationships between the effects of taxation, individual behaviour and corporate taxpayers [4]. Some have focused on non-compliance concerning corporate taxation, although the results have been inconclusive. According to [4], most studies related to non-compliance in Malaysia examine factors contributing to corporate non-compliance, such as penalty rates, marginal tax rates, foreign ownership, financial liquidity, company size and type of industry. Studies in the genre predominantly investigate tax non-compliance and

corporate behaviour using economic deterrence models. For example, studied red flags in tax reporting on the firm values of Shariah compliant companies on the Bursa Malaysia from 2001 to 2012 and found creative accounting is also a form of tax fraud [5]. This result shows there is a significant association between the tax reporting level and the market value of selected companies on Bursa Malaysia. The study concluded that aggressive tax planning strategies could be a red flag for financial fraud activities. In addition, the study disclosed some evidence concerning how financial fraud could be revealed through tax reporting strategies.

Previous studies have also found a link between VAT revenue and non-compliance, implying non-compliance with the GST is indeed a serious issue [6]. There are also VAT fraud issues. An IMF working paper, cited in [6], revealed that the greater pervasive informality in developing countries suggests that fraud and evasion are likely to pose even greater problems. The IMF working paper also provided a typology of fraud and tax evasion in countries that have adopted VAT. This illustrates several crucial ways in which tax can be evaded and fraud perpetrated (see Table 1).

Table 1. VAT fraud and evasion

Under-reported sales
Failure to register
Misclassification of commodities
Omission of self-deliveries
Tax collected but not remitted
Imported goods not taxed
False claims for credit or refunds
Credit claimed for VAT on purchases that are not creditable

Sources: Keen and Smith (2007)

Malaysian studies with regard to GST commonly draw on observations of acceptance and perceptions of and readiness for GST. Examining the literature, we conclude that studies conducted in this field have focused on understanding GST from a behavioural and economic perspective. There are few, if any, studies related to the vulnerability of GST and associated fraud. Recognizing the gap in understanding such issues, this study intends to study GST fraud in the hotel industry.

3. Methodology

This study adopts a case study, in which the main aim is to understand the phenomenon, namely GST fraud [7]. Stake described the case study as a form of inquiry that requires the researcher to explore in depth a program, event, activity, process or one or more individuals. The case study is context bound, with cases bounded in terms of time and activity. The case study approach offers insights in terms of understanding a phenomenon, in our case GST fraud. According to [8], the case study is viewed as a useful tool for basic inquiry based on questions of “why” and “how”. Previous study explains the case study approach as follows [8]:

[It is] particularly well suited to new research areas or research areas for which existing theory seems inadequate. This type of work is highly complementary to incremental theory building from normal science research. The former is useful in early stages of research on a topic or when a fresh perspective is needed, whilst the latter is useful in later stages of knowledge.

Previous study stated there are three purposes of case studies [9]: to explore new areas and issues where little theory is available or measurement is unclear; to describe a process or the effects of an event or an intervention, especially when such events affect many different parties; to explain a complex phenomenon. In terms of the research objective, this study is related to the first purpose, i.e. exploring new areas and issues for which little theory is available or measurement is unclear.

3.1 Research design – Data collection methods

Adopting by [8] suggestion that it is typical in a case study research to triangulate data, we employed data collection from multiple sources. To achieve the objectives of this study, data were gathered from three main data sources: interviews, focus groups and documentary analysis.

3.1.1. Interviews

To obtain both retrospective and real-time accounts of the phenomenon, interviews were conducted as a primary data source. Face-to-face interviews were conducted with GST tax audit officers from the Customs and Excise Departments in three sites, Kedah, Perlis and Putrajaya. The selection of

respondents was based on the suggestion by [10] that the selection of the sample should be based on specific criteria. In this study, the chief criterion was the suitability of the person in terms of being able to answer the inquiry, commonly based on experience, skills and knowledge. Engaging with these informants was viewed as crucial as it was anticipated that they could provide an in-depth and rich understanding of the issue through their experience.

3.1.2. Focus groups

The second component of data collection in the case study research design comprised focus groups, the purpose of which was to understand the experiences of administrators in investigating GST fraud cases. We conducted focus group interviews with the RMC officers in charge of GST in two states, Kedah and Perlis. We constituted three groups, each containing 5–6 GST officers. Discussion topics were issued to the leaders of the groups. Each group had one moderator to open up the discussion asking what instances of GST fraud had occurred, followed by probing questions. The discussions lasted around two hours and were tape recorded. Later, the recordings were transcribed verbatim and the data were used to build themes, then developed into a typology of GST fraud.

3.1.3. Documentary sources

The study used documents to gather information on reported GST cases. We obtained documents from RMC on types of GST fraud conducted from 2015 to 2016. The documents gave us insight into the types of GST fraud perpetrated in Malaysia. The data obtained from the documents were later triangulated with the interview data. In addition, we conducted content analysis of the media reporting GST fraud cases. The data obtained from the media provided richness complementing the other sources.

3.2 Data analysis

Qualitative gurus [11], have described data analysis as a continuous interplay between data collection and data analysis. Data analysis in qualitative as a creative process [12]. A qualitative research expertise stated that data analysis in qualitative is a process of making sense and that there is no one standard method of doing data analysis, however the ultimate reason is to make sense of the data [7].

Nonetheless, the process of analysis proposes “working intensively with your data, line by line, identifying themes and categories that seem of interest” (p. 158). This study used thematic analysis, which comprise three stages: data reduction, data display and conclusion. Each process involves levels of abstraction in which the data are reduced at each level to form small groups based on similarities [13].

3.3 Validity and reliability

To establish validity and reliability, four criteria were adopted to support the quality of empirical research as shown in Table 2 [8].

Table 2. Validity and reliability of research

<p>Construct validity</p> <p>Establishing correct operational measures for the concepts studied. This concerned exposing and reducing subjectivity by linking data collection and measures to research questions and propositions.</p>	<p>External validity</p> <p>Establishing the domain within which a study’s findings can be generalized. Generalization is based on replication logic</p>
<p>Internal validity</p> <p>Establishing a casual relationship whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationship.</p>	<p>Reliability</p> <p>Demonstrating that the operations of a study, such as the data collection procedures, can be repeated with the same results. This is achieved through documentation of procedures and appropriate record keeping.</p>

Sources: Adapted from Rowley (2002)

3. Results

There are many ways in which the GST fraud can be perpetrated. In the initial stage of GST implementation, the scale of GST fraud was relatively small and mostly at the individual level, typically linked to refunds. However, the scope has since expanded. In what follows, we detail some of

the types of fraud noted in Malaysia from the onset of GST implementation.

Type 1: Falsifying claims

The triangulation of data from desk research and the focus groups reveals that there are many ways fraudsters can falsify claims. It is also noted that falsifying claims is simple and is a common method of GST fraud, particularly in the initial stage of implementation. Falsifying claims is charged under Section 89 (1) (b) of the GST Act 2014 and Section 89(1) of the GST Act 2014:

Any person who with intent to evade or to assist any other person to evade tax... Omitting from a return any information in relation to any matter affecting the amount of his or the other person’s chargeability for tax and making any false statement or entry in any return.

Sharing their experiences, RMC officers mentioned three situations of falsifying GST tax: claiming higher input for export goods; declaring input and output tax; claiming refunds every month for fixtures and fittings against GST.

Another type of fraud noted was the multi-layered claim. This occurred in Perak where the fraudster made an input tax claim for two different companies; for example, the taxpayer might claim tax input of one million for two companies, one of which is zero rated.

Type 2: Sales manipulation

There are many ways in which traders can manipulate sales. Commonly fraud occurs in the form of under-reported sales, with the trader reporting only a proportion of sales, falsifying records and accounts to match, or making some sales “off the books” entirely. For example, they may not issue an invoice. There are also cases in which no sales are accounted for, there is a declaration of no sales and there is a failure to issue receipts.

This is a common type of fraud perpetrated in Malaysia. There are also many cases of non-submission either intentionally or unintentionally. Non-declaration of GST is an offence under GST Act 2014, in which the person charged is liable to a maximum fine of RM 50,000 or three years’ imprisonment, or both, under Section 41 (6). Our

data showed cases of intentional non-submission, for example, there are cases in which the fraudster intentionally declared a closed shop and used other businesses to cover up.

Type 3: Failure to register

The most common case in terms of GST fraud is relatively small businesses operating close to the level of turnover at which registration becomes compulsory and failing to register, saving both the GST for which they would be liable and GST compliance costs. One participant from Perlis revealed that there are many such cases. There were also cases in which restaurant operated day and night, known as “restaurant ala- Malaysia”, but declared under the sales threshold.

Type 4: Double accounting

This is a typical means of engaging in fraud in which the fraudster creates two or more accounts for the purpose of manipulating the authority. For example, explained one participant described a taxpayer creating three accounts submitted to the Inland Revenue Board (IRB), RMC and Board of Directors respectively, with the intention to conduct fraud.

Type 5: “Missing trader” and carousel fraud

The “missing trader” phenomenon is a new trend in Malaysia. As traders are becoming more comfortable with GST and more information is publicly available, there are greater opportunities for fraud. Missing traders is one of the newest GST fraud trends in Malaysia. This involves fraudulent suppliers collecting GST from customers but not remitting the tax to the RMC. This is generally perpetrated by traders, but can involve organized crime, albeit there have been no such cases in Malaysia.

In contrast, carousel fraud involves a series of frauds repeatedly conducted with regard to GST charges. In other words, the same goods are traded around contrived supply chains. Normally there is a ring leader for this supply chain. For example, Company A imports goods and then sells the goods to Company B and charges GST for the supply of the goods. However, Company A does not account for the GST that should have been transferred to the RMC. Later the goods will be sold to a shell company. The process is repeated through a series

of companies and some goods will even be exported. The exporter will then claim input GST paid on the exported goods, seeking a refund of the GST amount that the tax authority never received. Even worse, sometimes the non-goods continue to be available as the transactions remain in paper form but the GST refund is made nonetheless.

4. Discussion: Unveiling the GST fraud typology

Regardless of the effectiveness of monitoring, like any other tax income GST is vulnerable to fraud. Indeed, over the last few years, there has been an increasing trend for GST fraud. However, due to its early stage of implementation, there is limited information with respect to reported losses, although information gathered from the RMC reveals common cases of GST fraud.

Our analysis of the data revealed that there are clusters of GST fraudulent practices in Malaysia. Based on the 10 emergent types of GST fraud and critical analysis of the data, we propose a typology of GST fraud. Our findings are congruent with previous studies showing many ways of linking taxpayers to GST fraud, such as under-reporting income, overstating deductions, failing to pay obligations [13], inflating refund claims, creating fictitious traders, disguising domestic sales as exports, missing traders, non-registered traders and so on [14]. Interestingly, according to [13] there is a lack of evidence linking the tax burden to tax evasion. Table 3 depicts the typology of GST fraud gathered from the data.

Table 3. GST fraud typology

Falsifying claims
Sales manipulation
Non-submission of GST
Failure to register
GST avoidance
Carousel fraud

Sources: Own elaboration

There are many ways in which taxpayers can fraudulently exploit the payment of GST. Making sense of the analysis, we found emergent themes supporting the typology of GST fraud. Based on the data, we found three patterns of GST fraud and one non-compliance category: (i) inappropriate

claims; (ii) avoidance of GST; (iii) hard-core GST fraud; (iv) non-compliance.

Non-compliance

We found non-compliance to be part of pervasive abnormal tax practices in Malaysia. The data revealed that in the early stage of GST implementation there were many instances of non-compliance due to several factors, but predominantly lack of knowledge, resulting in many non-registered individuals and lack of enforcement resources to address non-compliance. Nonetheless, the non-compliance issue is pervasive and thus requires serious attention from the RMC as there is a concern that non-compliance may lead to fraud. In their study examining the determinants of corporate tax non-compliance among small-and-medium-sized corporations (SMCs) in Malaysia using multiple regression revealed that the marginal tax rate, company size and type of industry exerted significant effects on non-compliance with regard to corporate tax [4]. They also found that the services and construction industries were among those predominantly engaged in tax non-compliance. Due to similar environmental exposure, we assert that similar findings could explain GST non-compliance in Malaysia.

Suggests that the marginal tax rate, company size and type of industry are the main factors influencing compliance behaviour among SMCs, indicating that non-compliance is prevalent and authorities ought to focus on such firms to minimize non-compliance [4]. As mentioned, due to the similarity in terms of the environment, this provides important insights indicating that GST non-compliance should be taken seriously and that the RMC should take measures to mitigate non-compliance, such as diverting resources to firms of similar characteristics as a preventive measure. Economic deterrence theory suggests that the compliance decision of tax payers is influenced by the attributes related to the costs and benefits associated with tax compliance [4]. This theory is useful in explaining GST non-compliance as our findings reveal similar outcomes, i.e. many cases of non-compliance relate to cost factors.

A relatively recent study conducted by [15] found similar results, namely that it is challenging to ensure Malaysian taxpayers comply with the regulations of the tax systems. They found that

among economic factors, tax rates comprised a positively significant determinant of tax non-compliance in Kuala Lumpur and inflation was negatively correlated and income level positively correlated with tax non-compliance. The study explored the role of religiosity in determining taxpayers' attitudes towards tax compliance. Considering Malaysia, a country of religious value and a stance of religiosity as *numero uno* in its interpretation of "rukun negara", it is might seem surprising to find that religiosity is found to have a minimal significant positive impact on voluntary tax compliance. In contrast, [16] assert that Malaysia has strong religious values in addition to the concept of giving, emphasized in almost all religions, supporting the significant positive relations between religiosity and tax compliance. Nonetheless, their study found religiosity was viewed as having little impact on tax compliance. Taxpayers' strong civic duties and high responsibilities in contributing to other people are emphasized as being the main reasons for people paying taxes. [16] revealed that:

[The] minimal impact of religiosity on voluntary tax compliance may be because only intrapersonal religiosity was found to impact on voluntary tax compliance in the multiple regression analyses. Nearly all of the participants acknowledged that the minimal impact of religiosity on tax compliance was firmly determined by the internal values in each individual. The reflection of taxpayers' religious beliefs and faiths was expected to be translated into their actions; hence, the inner values in taxpayers derived from religious beliefs and faith had nurtured a sense of carrying out civic duties to the country, as well as contributing to help others. (p. 82)

The study found that Muslims pay zakat and sadaqah and other religions pay contributions or make donations as good deeds, which possibly explains the reluctance to pay tax. It is important to note that there are studies showing different outcomes, i.e. there are other influencing factors that support individual behaviour with respect to compliance and non-compliance. As such there are inconclusive findings in terms of individual taxpayers' behaviour when it comes to paying tax. Nonetheless, there is no doubt that non-compliance does occur and GST non-compliance is no exception.

In this regard, it is essential to consider personal moral values when considering taxpayers' behaviours. Many studies have been conducted suggesting that such behaviours are related to values, in terms of ethics [17], civic duty [20], moral obligation [18], [19] religiosity, etc.

In addition, there are other studies which addressed wilful non-compliance with tax regulations. This particular study, although limited to the United States, is useful as the nature of non-compliance behaviour is transferable [20]. The failure to make accurate payments due to under-reporting of actual tax returns commonly occurs on the part of an individual. The study also found larger firms with complex operations have more opportunities to engage in non-compliance [20].

GST fraud typology

There are many ways in which the GST is fraudulently exploited. In this study, the findings show three patterns of GST fraud: (i) inappropriate claims; (ii) avoidance of GST; (iii) hard-core GST fraud.

Inappropriate claims

Inappropriate claims describe fraudulent exploitation of the authority in terms of making payments for GST. The findings indicate that common fraudulent activities are: falsifying claims, sales manipulation, engaging in fraud to avoid GST, multilayer claims, disclosure of inaccurate input tax, double accounting and imported goods. These types of fraud are generally linked with fraudsters making false claims either by under-claiming or over-claiming. There are circumstances in which fraudsters under-report sales, i.e. reporting only a proportion of sales and falsifying records and accounts to avoid paying higher GST.

Avoidance of GST

We found two main fraudulent exploitative activities: failing to register for GST although already reaching the threshold and non-submission of GST, where the fraudster has already registered but fails to submit the GST to the RMC. However, it is important to note that there are cases in which the taxpayer's ignorance contributes to the non-submission of GST. [6] addressed the issue of failure to register as a common form of indirect tax evasion, i.e. related to VAT, which is similar to the

GST concept. They conclude that the failure to register commonly occurs among small businesses operating close to the level of turnover at which registration becomes compulsory. They point out that "ghost traders—wholly unknown to the revenue authorities—may be able to evade income taxes as well as VAT. Once again, firms selling to final consumers (or to other unregistered businesses) are likely to predominate in this group" (p. 8).

Another type of fraud under this category includes tax collected but not remitted to the RMC, which commonly arises in the form of false accounting, either under- or over-reporting. The findings also reveal imported goods not submitted for tax. According to our data, taxes that are not levied at the point of immigration results in imported goods escaping tax; these goods are later resold on the domestic market. Studies have shown that high tax rates are related to tax avoidance. For example, [21], studying tax evasion and tax rates on Chinese imports and exports from and to Hong Kong, found that tax avoidance occurred mostly at higher tax rates. [22] studied the effects of tax avoidance and evasion on financing, found it essential for governments to minimize leakages in order to reduce loss of revenue as this reduces the income for the legal economy and increases shadow economic activities, which are not recognized by tax authorities.

Hard-core GST fraud

Hard-core GST fraud relates to missing traders, in turn linked to "carousel" fraud and "shell" companies. Both are found to be complex. "Carousel fraud", a term used in the United Kingdom to denote "missing trader intra-community fraud" (MTIC) is a GST fraud that exploits the zero-rating of exports combined with the "deferred payment" mechanism for collecting VAT on imported goods. This type of fraud is becoming increasingly common in Malaysia. Indeed, missing trader fraud investigated in 2017 was found to constitute the largest GST fraud ever in Malaysia. [23] found that missing trader fraud occurred in certain industries for transactions with large value or goods small in weight, for example mobile phones and computer microchips, because these are products that present less difficulty, being low cost in terms of transportation and easy to handle.

Other studies have found missing traders and carousel fraud occur when a business makes an intra-community purchase, not paying VAT for the purchase but collecting VAT on the onward sale and then disappearing without submitting the taxable income [24]. Previous study assert that the impacts of carousel fraud on the trade deficit are understated [30].

Making sense of GST fraud in Malaysia

GST fraud in Malaysia is becoming more sophisticated, is conducted by mediocre players and takes advantage of loopholes in the laws. Each is delineated below.

First, our findings suggest that GST fraud is clearly becoming increasingly sophisticated. This statement is made based on the analysis of the nature of GST frauds, specifically the finding that the number and types of system exploitation have increased in the last year. There is an escalating scale of GST fraud. We linked the increasing number of GST fraud, the profiling of GST fraud cases (referring to the types of fraud) and the number involved to several factors. These are highly connected to the fraud triangulation model, i.e. rationale, opportunity and pressure.

Second, the findings revealed that the most prominent case in Malaysia involved a person who had a mediocre educational background. At first glance, the data imply that those conducting GST fraud tend to come from small and medium-sized corporations. It is found that there are two profile features: (i) those conducting the modus operandi individually; (ii) those colluding with third parties. This insight leads to the proposition that GST fraudsters come from various backgrounds.

In terms of theoretical justification, the conduct of fraud depends on three main underpinnings: (i) pressure, (ii) opportunity and (iii) rationale. This supports the fraud triangle model developed by [25], who found these to be the components explaining why people commit fraud. In terms of profile, he found that the fraudster (i) must have accepted the position of trust in good faith and (ii) must have violated the trust in relation to the three components. Extending this model, included capabilities as the fourth component, suggesting four observable traits for committing fraud: (i)

authoritative position or function within the organization; (ii) capacity to understand and exploit accounting systems and internal control weaknesses; (iii) confidence that it would be easy to avoid discovery/the consequences; (iv) the capability of an otherwise good person to deal with the stress created when committing bad acts (p. 194) [26]. The latest model – money, ideology, coercion and ego (MICE) – suggested by [27] further develops this, suggesting that the motivation of fraud perpetrators may be ideological, i.e. the ends justify the means. Thus, the perpetrators steal money or participate in a fraudulent act to achieve some perceived greater good that is consistent with their beliefs (ideology). Coercion occurs when individuals may be unwillingly pulled into a fraud scheme, but those individuals can turn into whistle blower. Ego can also be a motive for fraud, for example in the case of those fearing loss of reputation or a position of power in their society or families, i.e. in the face of social pressure. In sum, seminal research on fraud by [25] found the three main underpinning fraud factors, as mentioned above, influenced why people do fraud.

With respect to companies involved in GST fraud, our desk research indicated that the RMC had identified more than 5,000 companies involved in fraudulent over-payments since it was implemented on 1 April 2015. The data revealed that the type of fraud occurred in the initial stage of GST implementation related to the manipulation of claims. However, it is important to highlight that there is a lack of clarity with respect to the severity of GST fraud. Our findings indicate that the GST fraud is becoming more sophisticated and it has been reported in the media based on statements from the RMC that GST fraud tends to be oriented towards overpayments of GST, which is considered hard-core fraud. According to Datuk Seri T. Subramaniam, “These hardcore companies collect GST, don’t pay up and also cheat”.

To some extent, the findings are similar in terms of the data revealing that in the initial stage of GST implementation a lack of understanding resulted in GST fraud. Nonetheless, within five years of its implementation, it has been found that GST frauds are becoming bolder. There is an association between the occurrence of fraud and opportunity related to: (i) legal limitations; (ii) limitations on the part of authorities, such as lack of investigative

skills in detecting fraud; (iii) limitations in the system to detect fraud; (iv) creative ways of conducting fraud.

Studies have linked fraudsters to the traditional fraud triangle model, indicating that for a person to perpetrate a fraud, he or she must perceive an opportunity, feel pressure and rationalize the behaviour. [28] extended the fraud model, finding that societal-level influences on fraud have a connection with the philosophical tradition. His study showed that Chinese fraudsters have relations with Chinese roots initiated by Confucianism. The expectation of gift giving is a tradition that is evidenced in traditional folklore and is fundamental for business, termed *guanxi* (characterized by secrecy and trust); if connected with fraud, this may be interpreted as assisting in collusion with someone with whom a trusting relationship is maintained or desired. Such strong relationships exist both within and across organizations. Hence, it is implied that there is influence from societal-level factors that need to be incorporated in the model of fraud to provide an adequate explanation of its occurrence in different societies. This study is perceived to be applicable in the Malaysian given the similarity in traditional Asian beliefs and norms.

Taking advantage of legal loopholes

In making sense of the data, we considered the lack of a clear definition between non-compliance and fraud, leaving room for fraudsters to create opportunities for GST fraud. Model of fraudulent behaviour explains that pressure, opportunity and rationalization are the dimensions leading to fraudulent acts [29]. Also, according to [29], pressure may come in both financial and non-financial forms. There is also strong reason to rationalize the act. Expanding Cressey's model, include incentives as another dimension to explain why fraudsters conduct fraud [26].

Our findings also show that the distinction between GST fraud and non-compliance is vague. The data imply that the definition is too loose and that non-compliance is confused with fraud. Due to the vagueness of the definition, many cases remain unmitigated.

5. Conclusion

GST fraud is becoming more adventurous in Malaysia and hence control measures are needed to mitigate and minimize fraud. Where fraud does occur, there should be a structure enabling rapid detection and to investigate in order to minimize GST fraud. This study has identified several GST frauds contributing to the loss of government revenue. Making sense of the data, the study found that GST fraud in Malaysia is becoming more sophisticated. Most importantly, the fact that GST implementation is still in its infancy has opened doors for fraudsters to take advantage of loopholes in the laws. It is suggested that future research should focus on strategies aimed at preventing GST fraud to curb further loss of revenue.

Acknowledgement

The authors would like to acknowledge the Ministry of Education for the funding the research under the SO Code 13220.

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