Goods And Services Tax : A Cross Country Comparison

Dr. Shweta Mishra and Saumya Singh
Assistant Professor, Department of Commerce, A.P. Sen Memorial Girls P.G. College,
Research Scholar, University of Lucknow

Abstract

India is witnessing one of the largest indirect tax reforms since independence in the form of goods and services tax , which was implemented from July 1, 2017 . But here one question that strikes the minds of the layman , i.e. , a person who does not have knowledge about the technicalities of taxation and it's structure is why such a change in the taxation system is required. Now when everything is settled and indirect tax collections are also positive , then why to change the tax system . When everything is going smooth and they are not facing any problem they will certainly resist the change. Developed countries adopted GST to increase revenue from general consumption , to cut down rate of income taxes , to consolidate and modernize their existing tax structure. It would be beneficial to look at the international scenario to understand the various GST models in vogue in certain countries. This paper focus on the various loopholes in the current indirect tax structure such as multiplicity of taxes , cascading effect , classification issues etc. and compares the economy of developed countries namely Canada , Singapore , Malaysia with India . It outcomes that GST is a step that will address the issues of the current indirect tax regime and resolve the same for the benefit of the tax payer .

Keywords- Goods and Services tax , International scenario , Economic reforms.

Introduction

The majority of us prefer to be in our comfort zone and resist even a minor change. But at times change becomes inevitable. The goods and services tax is also a major change under the indirect taxes. GST is one of the largest tax as well as business reform since independence. It is the bigest tax reform because the manner in which business was being done prior to the introduction of GST is going to change completely in the goods and services tax regime, due to multiple reasons, such as, branch transfer, import of services and input credit mechanism etc. The concept of the GST is not new to India earlier in 2005, value added tax(VAT) was introduced on the recommendation of the report of the Indirect Taxation Enquiry Committee, 1978(Chairman: L.K. Jha). The rest of the paper is organized into four sections: Exploring the concept of GST and it's advantages, Drawing out the key lessons from a cross-country perspective, Sketching the evolution of GST, problems and prospective respectively. Concluding observations on the implications of the GST are set out in the last section.

Review Of Literature

NishithaGupta(2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development.

Pinki, SupriyaKamna and RichaVerma(july 2014) concluded that the new government in India is positive towards implementation of GST and it is beneficial for central and state government as well as for consumers in long-term if it is backed up by strong IT infrastructure.

Dr. R. Vasanthagopal(2011) in his study "GST in India: A Big Leap in the Indirect Taxation System" said that success of GST will lead to its acceptance by more than 150 countries in world and switching to GST from current indirect tax system in India will be a positive step in booming Indian economy.

Objectives Of The Study

1.To study the theme or concept behind implementing GST.

2. To study the challenges and prospects of implementing GST

3. To study the cross-country GST implementation.

Research Methodology

It is an exploratory research based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection of academic literature on goods and services tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

The Concept

Goods and services tax is nothing but an extension of value added tax(VAT). VAT is an indirect tax as it is collected on behalf of the state government and then paid according to the provisions and the prescribed norms of the government. Thus goods and services tax is also an indirect tax.

The GST is a destination based single tax on the supply of goods and services from the manufacturer to the consumer and is one indirect tax for the entire country. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each states . The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

How Does GST Work ?

Stages of supply chain	**Purchase value of input**	**Value Addition**	**Value at which supply Goods and Services Made to next stage**	**Rate of GST**	**GST on Output**	**Input Tax Credit**	**Net GST =GST on Output-Input Tax Credit**
Manufacturer	100	30	130	10%	13	10	13-10=3
Wholeseller	130	20	150	10%	15	13	15-13=2
Retailer	150	10	160	10%	16	15	16-15=1

Advantages Of GST

1. GST is structured to simplify the current indirect system of tax by removing multiple taxes. It creates India as a single market.

2. GST will be levied only at the final destination of consumption based on VAT principle and not at various points.

3. It charges goods and services at the same rate. So, many disputes are eliminated on tax matter.

4. It will help in widening the tax base as more business entities including unorganized sectors will come under the tax system.

5. The reduced tax burden on companies will reduce cost of production making exporters more competitive at international level.

The Cross-Country Perspective

In most countries, introduction of the VAT/GST has been preceded by prolonged deliberations about its relative merits and demerits with fixing of the optimal rate being the most contentious issue.

Developed countries are mostly adopting either of the two broad categories of GST/VAT. The first group of countries adopting GST/VAT based on the French and the European Model has several reduced rates of taxes(most member countries of the European Union are following this form). The second group of countries(Australia, Canada, Korea, New Zealand, Singapore, South Africa etc.) has adopted GST/VAT with a broader tax base at the standard rate.

Select Countries Experiences

1. Canada

GST applies to the supply of most of the goods and services in Canada. Further three provinces(Nova Scotia, New Brunswick, Newfoundland and Labrador, referred to as the participating provinces) harmonized their provincial sales tax with GST to create what is known as Harmonized Sales Tax(HST), which is imposed on taxable goods and services.

Salient Features

* Effective from January 1, 2008, the GST rate was reduced from 6% to 5% and HST rate from 14% to 13%.

* The HST comprises GST and 8% Provincial Tax and is applied to the same base of goods and services that are taxable under GST.

2. Singapore

In Singapore, Goods and services Tax is a broad-based consumption tax, which is levied on almost all supplies of goods and services and import of goods.

Salient Features

* The GST was introduced in April 1994 at 3% along with a reduction of direct and other indirect taxes to make it acceptable to the public and to minimize the inflation impact.

* It is a multi-stage tax, which is collected at every stage of the production and distribution chain.

* Exemption have been given for sale and lease of residential properties, import, and local supply of precious metals and provision of financial services.

3. Malaysia

One big reason for implementation of GST in Malaysia is the large expatriate work force in the country who benefit from economic growth but are exempt from income tax.

Only businesses with annual sales turnover of RM 500,000 and above are liable to be registered under GST.

Salient Features

* GST in Malaysia was implemented with effect from April 1, 2015.

* GST rate is fixed at 6%.

* In order to attract GST, supply of goods and services must be made in Malaysia.

<u>How Indian GST model compares with GST in other countries</u>

Particulars	India (proposed)	Canada	Singapore	Malaysia
Name of GST in the country	Goods and Service tax	Federal Goods and Service Tax &Harmonized Sales Tax	Goods and Service Tax	Goods And Services Tax
Standard Rate	4 tier tax	GST 5% and HST varies from 0% to 15%	7% Reduced rates- Zero rated, exempt	6%
Threshold exemption Limit	20 lakhs (10 lakhs for NE states)	Canadian $ 30,000 (ApproxRs. 15.6 lakhs in INR)	Singapore $ 1 million (ApproxRs. 4.8 crore)	MYR 500,000 (ApproxRs. 75 lakhs)
Liability arises on	Accrual basis: Issue of invoice OR Receipt of payment -earlier	Accrual basis: The date of issue of invoice OR the date of receipt of payment- earlier.	Accrual Basis: Issue of invoice OR Receipt of payment OR Supply - earliest Cash basis:(T/O upto SGD$1mn): Payment	Accrual Basis: Delivery of goods OR Issue of invoice OR Receipt of payment
Returns and	Monthly and 1	Monthly,	Usually quarterly	Large

payments	annual return	quarterly or annually based on turnover	Business option- Monthly returns.	organsations- Monthly
Reverse charge Mechanism	Apply on goods (new) as well as services (currently under Service tax)	Reverse charge applies to importation of services and intangible properties.	Reverse charge applies to supply of services	Reverse charge applies to imported services
Exempt services	Manufacture of exempted goods or Provision of exempted services (to be notified)	Real estate, Financial Services, Rent (Residence), Charities, Health, Education	Real estate, Financial services, Residential rental Incone	Basic food,Health Transportation, Residential property, Agricultural land

<u>Evolution Of Goods And Services Tax</u>

The GST/VAT design of imposing tax on value addition at each stage of production and distribution and the set-off of taxes paid on purchases by each supplier in the supply chain-except the final consumer-ensures the neutrality of tax.

Maurice Laure, Joint Director of the France Tax Authority, is considered to have built upon this idea of GST/VAT and was the first to introduce this taxation system inFrance on April 10, 1954.

Countries choose to introduce GST/VAT as the preferred form of consumption tax for different reasons, depending on their pre-existing tax syatems. Such as, to increase revenue from general consumption to cut down rate of income taxes. Revenue neutral approach was another reason.

Other countries moved to GST/VAT to consolidate and modernize their existing tax structure, comprising multiple sales taxes at different rates.

This increasing trend towards GST/VAT can be attributed to key factors such as:-

* Eliminates weakness of single stage taxation system such as cascading and compounding effect.

* GST/VAT preserves tax neutrality by taxing the value added by each factor equally.

* Consumption tax is a large and more stable source of revenue.

* It is potentially self-enforcing in nature.

At present, more than 162 countries across the globe have implemented the GST system of taxation. These countries include 33 of the 34 member countries of OECD, the United States being the sole exception as most states employ some form of retail sales tax.

GST In India – Overview

As per schedule Vll of the Indian Constitution, the taxes were specified in three lists i.e. , Union list, State list and Concurrent list. Since the implementation of GST needs to be backed up by the constitution, the amendments have been made to the constitution of India by virtue of the 101st constitution amendment act 2016, after a struggle of almost a decade.

The constitution was amended in a manner that for the purpose of levying GST the following two articles were inserted in the constitution:-

(a). Article 246A - In case of intra-state supplies both central and state government/union territory are empowered to levy and collect the tax called the goods and services tax. The following statutes are enacted by the government for the purpose of the same:-

(i). Central goods and services tax by central government(CGST).

(ii). State goods and services tax by state government(SGST).

(iii). Union territory goods and services tax by union territory(UTGST) not having a legislature of their own.

Therefore, it can be concluded that if supplies are within a state, there shall be two taxes levied - either CGST and SGST or CGST and UTGST.

(b). Article 269A - The other situation is where goods or services are supplied inter-state, i.e. , from one state to another state. In this situation the tax applicable will be Integrated Goods and Services Tax(IGST).

As per the provisions of this article the central government will be eligible to levy and collect the integrated goods and services tax and then it shall share the same collected tax with the state in which such goods and services are being consumed.

Challenges In Implementing GST

1. Note ban has huge impact on the goods and services tax(GST) a serious doubt on implementing GST by the central government's targeted deadline of April 1, 2017.

2. The impact of the november 8 demonetization of high value currency on their respective economies to underline that it is not the appropriate time to implement.

3. Political reasons are determining the fate of GST, which is not the correct thing, because ideally GST is an economic and tax reform and economic and tax reforms should not be dictated by political.

4. The centre continues to be compromising on the issue of jurisdiction over assesses, the states maintain.

5. GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will have to pay GST at full rate on stock transfer from one state to another.

Prospects Of Implementing GST

1. Removal of tax barriers on introduction of uniform GST across the country with seamless credit, will make India a common market leading to economy of scale in production and efficiency in supply chain.

2. The current indirect tax structure is major impediment in India's economic growth and competitiveness. Tax barriers in the form of CST, entry tax and restricted input tax credit have fragmented the Indian market. Complex multiple taxes increase cost of compliance. In this scenario, the introduction of GST is considered.

3. Major beneficiary of GST would be sectors like FMCG, Pharma, Consumer Durables and Automobiles and Logistic Industry.

4. High inflationary impact would be on Telecom, Banking and Financial Services, Air and Road Transport, Construction and Development of Real Estates.

5. Electronic processing of tax returns, refunds and tax payments through 'GSTN' without human intervention, will reduce corruption and tax evasion.

Concluding Observations

It can be concluded from above discussion that GST will bring One Nation and One Tax Market. Provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set-off and subsuming the several taxes. As evident from the cross-country perspective, the short-term effects on inflation depend upon a host of factors including the initial rate at which GST is implemented, the tax base and the efficiency of tax administration. In the Indian context, the implementation of GST is likely to have a pass-through impact lasting 12-18 months on the inflation trajectory. This would eventually be moderated by reduction in supply chain rigidities, transportation and production costs which would accrue from the creation of a unified goods and services market post-GST.

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