GST: A Global Facet

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Abstract: Over 160 countries around the world have implemented Goods and Services Tax (GST) or Value Added Tax (VAT) in some form or the other. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax levied on the consumption of goods and services. GST was first coined by a German economist in 18th century, and after many discussions was finally adopted by France in 1954. Here, therate of GST plays crucial role. Various countries have been struggling to rationalise the rate structure. This research paper examines where the Indian GST model stands compared to other countries. The other countries have a unified GST system whereas India has a dual GST system where the tax is collected by both the union and state governments namely the CGST and SGST. The study focuses to compare the taxation policy of different countries. Effort has also been taken to understand the VAT system that is present in more than 150 countries with VAT receipts representing approximately 20% of total tax revenue in the OECD countries. By conducting this study, we can come to a conclusion how India with $2 trillion economy with 1.3 billion consumers will become a single market.

Keywords: GST, Global experience, Indian scenario, GST rates

1. INTRODUCTION

Taxes are a major source of revenue for a Government of any country for its functioning. The taxes thus collected are spent by Government from the people are in reverse spent for the public. These taxes are broadly classified into two types: Direct Tax and Indirect Tax.

Those taxes which are imposed on the Income of an individual is termed as Direct tax. The total amount of Tax payable by an individual varies on the income earned by the individual from various sources such as salary, house property, profession and business, capital gains etc. The more you earn the more tax you will have to pay to the Government which essentially aims the rich pay more tax in comparison to the poor.

Those taxes which are not imposed directly on income of individuals are termed as Indirect tax. Instead of directly imposing, it is imposed on goods and services which in turn increase the cost MRP of Goods and Services. Direct taxes are borne by the individuals on their income whereas indirect tax should be borne by the end customer, rich and poor alike. There are many types of indirect taxes. Some of these taxes are collected by the Central Government whereas the others are levied by the State Government making the structure of indirect tax system an extremely complicated system.

GST has been introduced to replace multiple indirect taxes levied by State and Central Governments in order to simplify the indirect tax system. GST has replaced almost 17 of the existing state and central indirect taxes such as central excise duty, additional customs duty, VAT, entertainment tax, service tax etc. It is called as Goods and Services Tax because it is applicable on the supply of both Goods and Services.

GST will cultivate the idea of “One nation one tax” to merge all the indirect taxes under one umbrella and facilitate Indian business to be globally competitive. The first country to adopt GST to eradicate tax evasion is France. Thereafter, more than 140 countries have adopted GST few being a Dual-GST like Brazil, Canada etc. India's GST model has its origin from the Canadian Dual-GST model.

Indian GST slabs are pinned at 0%, 5%, 12%, 18%, and 28%. GST is nothing new for many countries around the world. Every country has different figures and just like India, some have multiple slabs for example, New Zealand has GST of 15%, whereas in Brazil there are two slabs being 7% and 12%. Every other country has slab rate being 0% to 25% but India stands with the highest slab rate of 28%.

Different countries reacted differently to the introduction of GST around the world. For example, it was after 26 years of debate in Malaysia GST was introduced in the year 2015 and yet did not have best initial impact. People at Malaysia started protesting since the inflation had risen up. However, chaos did settle later and today most of the Malaysians are adapted to the GST effects. The United States of America (USA) being the only major economy that does not have GST have a high autonomy on taxation.

The GST is the biggest tax reform in India, paving the way for a single national market by merging several central and state taxes. It is also expected to make Indian products more competitive in both domestic as well as international markets and also attract large inflows of foreign direct investment than before in view of the stability it will impart because of the new tax regime. And also, the new tax system is transparent and easier to
administer. Thus, the GST has the potential to raise India’s growth over the long-term.

II. NEED OF THE STUDY

The essential need for this research is to understand where does our Indian GST model stands compared to other countries depending upon their socioeconomic obligations. Secondly, to compare the taxation policies that has been adapted by different countries. Finally, understanding how this vast economy of India dense with consumers will unite as a single market.

III. SCOPE OF THE STUDY

The scope of this research is confined to the comparison of Indian GST model with that of other countries like Malaysia, Australia, Canada, Singapore, Denmark, Finland, and Norway.

IV. OBJECTIVES OF THE STUDY

> To determine the Global implications GST.
> To evaluate the Indian GST model and compare the same with other countries.
> To analyse the characteristics of different countries who have adopted GST.
> To summarise the post-implementation effects of GST in India.

V. RESEARCH METHODOLOGY

This research is conducted with regards to the perspective of GST in different countries due to which the study is based on secondary data collected from articles, journals and various other sources from web. Considering the objective of study the research design adopted is descriptive in nature.

VI. GST-CONCEPT

The Goods and Services Tax is a destination-based single tax on the supply of goods and services from the manufacturer to the ultimate consumer and is one indirect tax for the entire nation. GST will replace multiple taxes such as central excise duty, central sales tax, state sales tax, Service tax etc. Uniform tax rates all over the country will facilitate better tax administration, improve tax compliance, and eliminate cascading effect or double taxation, and also ensuring adequate tax collection from inter-state sales. While the Value Added Tax (VAT) is imposed at different stages of production of goods and services, the GST is levied at the national level on supply of goods and services. Credits of input taxes paid at each stage can be claimed in subsequent stages of value addition, which makes GST essentially a tax on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain with set-off benefits against all previous stages. Consequently the benefits of GST are spread across all the stakeholders such as business, government and the consumer.

<table>
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<tr>
<th>TABLE I: INDIRECT TAXES SUBSUMED UNDER GST</th>
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<tbody>
<tr>
<td>Central Taxes</td>
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<tr>
<td>Central Excise Duty</td>
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<tr>
<td>Additional Customs Duty known as Countervailing duty (CVD)</td>
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<tr>
<td>Special Additional Duty (SAD) of Customs</td>
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<td>Service Tax</td>
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<td>Central Sales Tax (levied by the Centre and collected by the States)</td>
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<td>Cesses and surcharges on the above</td>
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<th>TABLE II: VAT AND GST</th>
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<td>Basis of difference</td>
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<td>Structure</td>
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different states differ will be levied on the same base. GST to have four rates.

| Cascading effect | CENVAT and VAT have not yet been extended to include the chain of value addition and thus the benefits of a comprehensive input tax and service tax set-off remains out of the reach of manufacturers/dealers. | The introduction of GST will not only include more indirect Central taxes and integrate goods and services taxes for set-off relief, but will also capture value addition in distributive trade and a continuous chain of set-off from the original producer's and service provider's point up to the retailer's level. This would eliminate the burden of all cascading effects. Also, major Central and state taxes will get subsumed into the GST, reducing the multiplicity of taxes. |
| Coverage | Relatively narrow base and separate Service tax. | Wider base and applied on both goods and services. GST is a consumption based tax which will be collected by the states where the goods or services are actually consumed. |
| Procedures for collection of tax | It varies from state to state. | Likely to be uniform throughout the country. |
| Tax Administration | Complex due to number of taxes. | Intention is to make it simple, easy and tax-payer friendly. |
| Use of Information Technology | Not much. | Completely IT-based. Its success to a great extent will depend on IT for which the goods and services tax network (GSTN) – a separate company has been formed. |

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<tr>
<th>Advanced Economies</th>
<th>Implementation Year</th>
<th>Initial Standard Rate (per cent)</th>
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<tbody>
<tr>
<td>1 Australia</td>
<td>2000</td>
<td>10.0</td>
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<tr>
<td>2 Canada</td>
<td>1991</td>
<td>7.0</td>
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<tr>
<td>3 France</td>
<td>1954</td>
<td>20.0</td>
</tr>
<tr>
<td>4 Germany</td>
<td>1968</td>
<td>11.0</td>
</tr>
<tr>
<td>5 Italy</td>
<td>1973</td>
<td>12.0</td>
</tr>
<tr>
<td>6 Japan</td>
<td>1989</td>
<td>3.0</td>
</tr>
<tr>
<td>7 Korea (South)</td>
<td>1977</td>
<td>10.0</td>
</tr>
<tr>
<td>8 United Kingdom</td>
<td>1973</td>
<td>8.0</td>
</tr>
</tbody>
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| Emerging Market Economies | |
|----------------------------|---------------------|---------------------------------|
| 9 China                    | 1994                | 17.0                            |
| 10 India                   | 2017 (GST)          | 15.0                            |
| 11 Mexico                  | 1980                | 10.0                            |
| 12 Russia                  | 1991                | 28.0                            |
| 13 Saudi Arabia           | 2018                | 5.0                             |
| 14 Turkey                  | 1985                | 10.0                            |

TABLE III: VAT/GST Rates - Select Countries
VII. THE CROSS COUNTRY EXPERIENCE

VAT/GST has been introduced over several decades, with France being the earliest entrant. Today, more than 160 countries have some form of VAT/GST, with the United States being a prominent absentee from this list. There are different models of VAT/GST currently in place. Singapore taxes virtually everything at a single rate, while many countries (France, Italy, UK) have multiple rates. In some countries (e.g., UK), a reduced rate on necessary items is applied with basic goods being exempted to minimize the regressive impact of the tax.

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. GST rates vary widely among countries – the average VAT/GST rate in major OECD countries is higher than the rate proposed for India and those prevailing among other EMEs in 2016.

Diverse motives have been cited for the introduction of the VAT/GST, although the common element seems to be that of reforming the existing tax system and simplifying the tax structure. In this regard, a robust federal structure of government is particularly helpful for ensuring success of such reforms – Brazil, India and Canada being prominent examples. Discussion on tax reform to simplify federal and state indirect taxes is underway in Brazil with a proposal to introduce a single integrated national VAT on both goods and services. India’s plan to have central GST (CGST) and state GST (SGST) has some resemblance to the structure of the system existing in the Canadian province of Quebec where independent (GST) and provincial (QST) VATs are operative simultaneously.

A robust and fail-proof information technology (IT) framework is regarded as an essential prerequisite for the success of the GST, given the large volume of transactions involved. Besides, sensitising industry and public through information dissemination such as release of legislative documents and conducting outreach programmes/media interactions with the tax authorities are also critical. Furthermore, tax laws need to be simplified to avoid definitional issues and defray administrative costs. Drawing on lessons in the implementation experience of countries, a well-designed GST should ensure that (i) a single rate is levied on a comprehensive base (goods and services); (ii) no exemptions are given beyond standard ones; (iii) GST refunds are processed expeditiously; (iv) an adequate threshold is delineated to exclude small and micro business; and (v) initial rates are suitably calibrated to avoid disruptions to economic activity and macroeconomic stability.

Apart from the merits of GST implementation, international experience points out some likely risk relating to tax evasion and avoidance. These are (i) small businesses may not register; (ii) a trader may under-report actual sales; (iii) traders may reduce their liability by exaggerating the proportion in the lower tax slabs; (iv) tax authorities need to guard against traders who collected tax but were not remitted to the government; and (v) traders may make false claims for refunds etc.

As it promotes competitiveness, efficiency gains from GST is considered to be higher in relation to other taxes, the benefits of which accrues to growth over the medium-term and long term. In the short term, however, it may result in lower growth as
households adjust their consumption after GST implementation. The experiences also shows that implementation of GST may be inflationary under specific circumstances.

From a fiscal perspective, international evidence suggests that implementation of VAT/ GST have resulted in a higher government revenue-GDP ratio over time. The tax-GDP ratio increased significantly after VAT implementation in twelve European countries. Moreover, OECD data on member countries from Europe suggest an increase of 37 per cent in the VAT revenues-GDP ratio between 1975 and 2006 (OECD, 2008). While an increasing VAT revenue-GDP ratio is not necessarily correlated with a rising government spending-GDP ratio, critics have argued that an indirect VAT may support higher levels of government spending compared to the use of direct taxes which are more visible.

*Global experience is summarised nation wise as follows:*

**Australia**

GST on was implemented by the Howard Government on 1st July 2000 which aimed at replacing the previous Federal wholesale sales tax system. This tax is levied on Goods and Services sold and consumed within the country. The GST is imposed at the rate of 10% on most of the goods and services, apart from the items that are exempted from GST, and input taxed goods and services. GST is allotted by the Tax department on behalf of the Australian Government, and is appropriated to the States and territories. The GST of Australia applies to most of the business units in Australia if it is registered for the GST tax, then businesses are required to collect about one eleventh of sales price and submit it to the Australian taxation office. Over the years, Australia's economy like the major economies germinated to be more services based, and the GST assisted to eliminate the unjust tax advantage that service providing businesses had over suppliers of goods. Now, Australia is planning to increase the GST rate to 15%.

**Canada**

It was the combined effort of Prime Minister Brian Mulroney and the then finance minister Michael Wilson in the introduction of GST in Canada on 1st January 1991. Its target was at replacing the earlier hidden 13.5% Manufacturers’ Sales Tax (MST). This tax was initially concentrating for being levied on supplies of goods or services acquired in Canada and include most products, except groceries, residential rent, and medical services, and services like financial services which are considered as political essentials. GST is imposed at the rate of 5%. Canada follows a dual GST model like that of India comprising of CGST and SGST. Canada provides alternative options to the provinces to choose whether go for CGST or SGST. In 1997, the states of Nova Scotia, New Brunswick and Newfoundland along with the Government of Canada amalgamated their respective sales taxes into the Harmonized Sales Tax (HST). The present HST rate is 15%. HST is governed by the Canada Revenue Agency.

**Norway**

One of the richest countries based on GDP per capita income is Norway and it is ranked as the happiest country according to International survey. It is the Government which contributes in all the basic requirements for easy living and thus the country is called to be happy. The VAT rate of Norway is divided into three different slabs:

- 25% is for general VAT.
- 15% is for food and restaurant takeaway.
- 8% for transport, movie tickets and hotel stay.
- Newspapers and books are free of VAT.

**Denmark**

Denmark has just one tax with very few limitations, unlike many other countries with more than two or three different taxes. The conclusive VAT of Denmark is 25%. Yet, a number of services have deduced VAT, for instance public transportation of private persons, health care services, publishing newspapers, rent of premises and travel agency operations.

**Finland**

The Finnish tax administration carries out the operations of taxation in Finland. As per 2013, the standard rate of VAT is 22% in addition to that two reduced taxes are taken:

- 17% (imposed on food and animal feed) and
- 8% (imposed on transportation, entertainment and healthcare services).

**Malaysia**

On 1st April 2015 Goods and Services Tax was implemented in Malaysia. The GST tax rate was fixed at 6%. Currently GST tax rates are 10% and 6% respectively. The wide spread unrest and street protests by small and medium business in Kuala Lumpur for few months after the implementation was witnessed in Malaysia and also the inflation had gone high. These protests were carried on although Malaysia enjoyed simpler systematic tax reform.

**Singapore**

The consumption tax on most domestic goods and services is GST. GST relieved for the sale and
lease of residential properties and also in most of the financial services. The current rate of GST in Singapore is 7%. GST rates in the previous periods accounted to 1st April 1994 - 31st December 2002 were 3% and from 1st January 2003 - 31st December 2003 was 4%. From 1st January 2004 - 30th June 2007, the tax rate of 5%. Finally, from 1st July 2007 the Tax rate is 7%.

Indian scenario

India’s indirect tax regime process began in 1986 by Viswanath Prathap Pratap with the introduction of the Modified Value Added Tax (MODVAT).

"Goods and Services Tax (GST)" was proposed and given an ascent in 1999 during a meeting between the then Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patil, Bimal Jalan and C. Rangarajan. A committee was set up by Vajpayee headed by the then finance minister of West Bengal, Asim Das Gupta to design a GST model, but the deadline of 1 April 2016 to implement GST was rejected by many states.

The Lok Sabha passed the Constitution Amendment Bill, in May 2016 paving way for GST. The Congress which led the opposition demanded that the GST Bill be sent back to the Selection Committee of the Rajyasabha due to disagreements on several statements in the Bill relating to taxation. Finally in August 2016, the Amendment Bill was passed.

The GST journey in India began in the year 2000 when a committee was set up to draft law. It took around 17 years from then for the Law to evolve. In 2017 the GST Bill was passed in the Lok Sabha and Rajyasabha. On 1st July 2017 the GST Law came into force.

Before the implementation of GST, every person include in the transfer of goods from the manufacturer including the final consumer paid tax on tax. This method of paying tax on tax is called Cascading Effect of Taxes.

GST avoids this cascading effect as the tax is calculated only on the value-added at each stage of transfer of ownership.

The general rates of GST are divided into five categories which are 28%, 18%, 12%, 5%, 0%.

The basic necessities are pleased in 0% category like food grains, bread, salt, books etc. Consumables are placed in the 5% category. Mobile phones, medicines, sweets are under 12%. All the different types of services are under the category of 18%. All the other luxury items are placed under the last head of 28%.

Petrol, gas, crude oil, diesel etc. are still out from the purview of GST.

VIII. ONE YEAR OF GST IN INDIA

India's businesses saw a complete makeover with the introduction of Goods and Services Tax, dubbed as one nation one tax. It aimed at to remove the cascading effect of 'tax on tax', and reducing the overall prices of most of the items.

The GST - India's biggest post-Independence tax reform - engulfed around 17 taxes and multiple cesses, aligning India with global regimes. Central taxes such as excise duty, services tax, countervailing duty and state taxes - including value added tax, octroi and purchase tax - were all rolled into one.

Source: Business Today

According to Ministry of finance, the GST system has stabilized since rollout and some 1.11 Crore businesses have registered themselves under the regime. The government claims that the average monthly compliance of return filing and tax payment should rise to around 96 percent in a few months. The government is expecting to mop up on an average Rs.1 lakh crore in taxes every month.
The industry too welcomed the tax reform despite the initial hiccups. The GST council ironed-out major issues in 27 meetings over 1 year.

A WB report on GST states that India’s GST structure was among the most complex in the world with not only one of the highest rates, but also the highest number of tax slabs as compared to other countries.

The total GST revenue collection have been inconsistent with the first few months seeing impressive GST collections of over Rs.90000 crore and then a gradual slide to Rs.83716 crore in December, post which it has again picked up. In April, it scaled to over Rs.1 lakh crore but has dipped to Rs.94016 crore in May. The average GST collection for the last fiscal was Rs.89885 crore.

India’s equity benchmark BSE Sensex has gained 13.67 percent since GST was rolled out till June 26, 2018. The index which represents the consumer durables sector advanced 26 percent in the same period.
Source: Business Today

The biggest dampener in GST was the compliance process. Technical flaws blocked the smooth rollout. The filing system was put in place in the beginning was quickly abandoned as business struggled with compliance. A new return form is being crafted to help make the process much less painful for business and is likely to be available soon.

According to the Economic survey 2017-18, a preliminary analysis suggests there has been a 50 percent increase in the number of indirect tax payers, besides a large increase in voluntary registrations, especially by small enterprises.

The delayed refund of Integrated GST (IGST) has led to blockage of working capital funds with export houses. The export industry faced a slump in growth, registering only Rs 30,280 crores in 2017-18 as against the anticipated Rs 32,500 crores in the previous fiscal year. The textile industry, in particular, is expected to stare at a loss of Rs 1,500 crore refunds budgeted for this year.

The GST Council with central and state representatives and the federal arrangement worked perfectly. The Centre has a 33% vote while the states account for 66%. It has never had to vote on any issues, with just one dissent recorded so far. The council has successfully found solutions to most issues that made the first year good mostly.
BIRD’S EYE VIEW: PLOTTING THE POLICY MAP

GST Council met regularly through the last year to solve glitches in the new tax regime. ET looks at the policy journey in the last year.

JULY 1, 2017 GST rolls out nationally except in Jammu & Kashmir
JULY 17, 2017 First GST Council meet post launch, recommended increase in compensation cess rates on cigarettes
JULY 27, 2017 Summarised return in Form GSTR-3B prescribed for July 2017, more time for filing
AUG 5, 2017 20th GST Council Meeting, deliberation on anti-profiteering, job work for textile and textile products to be taxed under 5% rate, GST rates for certain services revised
SEPT 9, 2017 GST Council extends GSTR-3B to December 2017
OCT 6, 2017 GST Council defers TDS/TCS provisions/reverse charge mechanism on procurement from unregistered persons

Source: The Economic Times
The second year of the GST may witness:

- Simplification of compliance process
- Ease in generation of e-way bill for barrier free movement of goods
- Next year, taxpayers will be required to fill out a simpler return like a GSTR-3B to avail input tax credit without the hassle of matching the claims across multiple returns
- Slabs rationalization: There are 6 slabs, excluding exempt goods, at present. Most goods fall in the 12%, 18% and 28% brackets. There is a case for merging slabs to reduce complexity and classification disputes. The 12% and 18% bracket could be merged into one single slab in the 14-16% range.
- More goods under the GST net. Key items outside its ambit are electricity, alcohol, petroleum goods and real estate.
- Anti-profiteering agency was constituted for a period of two years. It has been functional for about six months and issued a few orders following investigations. The Council needs to decide whether to wind it up after two years or keep it going until the tax regime matures.

IX. CONCLUSION

For understanding the GST implication in India and in other countries, it should be known to all that more than 160 nations have brought up GST till now. The highlighting part of GST in India is that India has the highest rate of GST (28%) as compared to other countries and the emerging market economics. GST in India is known as dual GST as there are two types of GST in India. The remaining countries are following a VAT system while Australia, Canada, Singapore, New Zealand, Jersey (UK), Malaysia, Indonesia and Pakistan are following GST.

Unlike other countries India had many hurdles, rules and regulations for implementation of GST. GST structures of other countries like Canada, New Zealand are quite simple and easy to understand. Procedure of filing tax and paying amount is complicated than rest of the countries. GST is unified structure but it is bit complicated and confusing than any other countries.

There are no sure fire ways to reduce the initial teething troubles that India is facing while transitioning to GST. Despite difficulties, the countries following GST have found that it reduces much of the compliance burden and double-taxation.

In the long run, GST stands to be beneficial to both businesses and the country’s economy, but it remains to be seen if the benefits mentioned on paper will translate into real-life advantages too.

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