

A Comparative study of GST Practices in the World and India

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Abstract

This paper attempts to study how **India can learn from the experience of the countries which have implemented GST** the pitfalls in administration and **comparing** application of law in developing countries as well as from the successful administrative strategies of the developed countries like the EU. The Goods and Services Tax (GST) is a value added tax levied on most goods and services sold for domestic consumption . This means that, in each stage of production of a good, when some value is added, GST is charged on this addition of value. For example, a biscuit manufacturer buys raw materials such as flour and sugar and when these ingredients are combined to make biscuits value is added to them. The biscuits are then sold to a warehousing agent who adds his label to the biscuits thus adding more value. When these packaged biscuits are sold in the market their value is once again increased. GST is therefore levied on these value additions, which is the monetary value added at each stage until it reaches the customer .

The introduction of GST was first seen in France in 1954 as an attempt to bring all indirect taxes under one umbrella and since then over 160 countries, including Canada, India, Vietnam, Australia, Singapore, U.K, Spain and Nigeria, have adopted some variation of it . India established a dual GST structure (State Goods and Services Tax & Central Goods and Services Tax) on 1st July 2017 through the Goods and Service Tax Act. Central Goods and Services Tax (CGST) is collected by the Central Government on intra-state sales while State Goods and Services Tax (SGST) is collected by the State Government on intra-state sales. Prior to GST, intra-state sales were taxed by the State Government under Value Added Tax (VAT) and inter-state sales were taxed by the Central Government, while many indirect taxes were levied by both State and Centre causing a lot of overlap. There are 5 tax slab rates under the GST regime in India. In Singapore and New Zealand, the tax rate is uniform at 7% in the former country and 15% in the latter, both low compared to India. Thus, the GST model among the Commonwealth countries work on similar lines with some variations but unlike India, other countries have a higher threshold for GST applicability and this reduces the burden on small businesses. The Indian economy has become excessively globalized in the past two decades and this fact has accelerated the growth of the Indian economy. However, though GST was brought in force to ensure a simpler and comprehensive system of tax, abolishing all other local and central indirect taxes (except custom duty), the same goal is very difficult to achieve.

Key words: Goods and services tax; Value added tax; Indirect taxation; Central Government

Introduction

Goods and Services Tax, abbreviated as the GST is an ambitious tax system implemented by the Government of India. It came into effect on 1st July 2017 but its genesis can be traced back to the year 2000 when the then Prime Minister of India introduced the concept of GST and set up a committee to oversee the design and development of a similar regime in India.

The GST system presently functioning is recognized widely for the concept of 'One Nation, One Tax'. It is a multistage, destination-based, comprehensive indirect tax model which has been brought into force to regularize the indirect taxation system in India. In the Indian GST setup, there are various tax rates and different items are allocated particular slabs in which they fall. Indirect tax is charged on them on the basis of the slab in which an item fall. This system has been brought into effect, contrary to the practice in other countries, because of the class divide in the Indian society and the plethora of goods and services offered. Apart from India, only five countries use four non-zero slabs. Also, out of 115 countries who have adopted GST, 28 countries use dual slab.

While various goods and services fall under essential commodities, there are luxury goods as well. It would have been prejudicial to charge the same rate of tax on items of necessity and luxury goods. Thus, 4 slabs have been made in which various items are placed. Gold and semi-precious stones are an exception to this rule. 3% GST is charged on gold whereas 0.25% tax is levied on semi-precious stones.

In the exempted rate i.e. 0%, about 1300 goods and 500 services have been included. Further, approximately 81% of goods and services covered under GST fall below or in 18% category. However, a matter of concern here is the regular shift of goods from one rate to another. The GST council keeps on updating the list of goods falling under particular tax slabs and this creates problems for tax payer and tax advocates.

Coming to the exemptions provided in the present system, various commodities are kept in the zero-percent slab. These goods and services include wood charcoal, handlooms, agricultural implements, condom and contraceptives. Earlier, sanitary pads were under the 12% slab however, after protests and deliberations, it was exempted from tax.

Similarly, another demand regarding tax exemption is relating to insurance services. The middle-class in India contributes heavily to the development of the country by way of direct and indirect tax. However, the social security schemes in India are limited and aren't available to everyone at the expense of the government. Resultantly, a large number of people turn to private companies to buy medical and life

insurance services. GST is charged on general insurances at the rate of 18%, which increases the premium amount to be paid by policyholders. Earlier it was covered under the 15% slab.

The policyholders choose these policies because they have no other option to ensure their security and their family's financial well-being in situation of crisis. High rates of tax on these policies burdens the pockets of the middle-class families. It may further hamper people from buying such policies which will adversely affect the standard of living of Indian citizens.

The frequent changes in the tax rates are a big hinderance in the growth of this system as an effective alternative. Also, the author believes that the GST council should take into consideration the demands of the different sections of society for once and for all and decide accordingly with finality.

Objective:

This paper intends to provide a **comparison Of Indian Regime With Other Countries Goods and Services Tax**. Also the comparative disadvantage seen for the economies in the world which includes a diverse set of rules

GST in India and Beyond

Goods and Services Tax, or GST, is a common transactional tax type globally. In this whitepaper, we will explore the concept of GST as it applies around the world, then delve into the specifics of how GST relates to India.

To start, let's take a look at a roundup of the VAT/GST structure of some major world economies, including tax rates, threshold limits, exemptions, and zero-rated transactions. This provides a foundation for understanding India's GST.

European Union (EU)

The European Economic Community (EEC) adopted VAT throughout Europe, replacing cascading multi-stage turnover tax. VAT was implemented due to the ease with which it handled cross-border transactions and facilitated the development of a common market.

The VAT Directive sets the framework for VAT structure in the EU, but leaves national governments with the freedom to set the number and level of rates they choose. They may use provisions of VAT Directives in national legislation, subject to the following basic rules:

1. Goods or services supplied in the course of business by a taxable person within the EU are subject to VAT at a standard rate not lower than 15%, unless specifically exempt.
2. EU member states can opt to apply one or two reduced rates of not less than 5%.
3. Member states may subject certain goods or services listed in Annex III of the VAT Directive, such as food, water, pharmaceuticals, books, admission to cultural/amusement/sporting events, social services, medical services and equipment, agricultural inputs, to lower rates, including zero rates, which were in place on Jan. 1, 1991, though they cannot introduce any new rate under 5%.
4. Goods and services in the public interest, such as medical care, services linked to welfare and social security work by public entities or charitable organizations, certain education and cultural services, specific financial and insurance services, certain supplies of land and buildings, export of goods, and shipments of intra-EU supplies are exempt from VAT.

Canada

In Canada, GST is applicable on supply of most goods and services, including real property and intangible personal property, and is governed by the Excise Tax Act. Canada has a federal government (like India's), and a federal GST was introduced in 1991 to replace the existing federal sales tax imposed on manufacturers and certain licensed wholesalers at a general rate of 13.5%. However, all provinces continued with the provincial retail sales tax ('PST'), thereby having two levels of tax levied. The harmonized sales tax (HST) is imposed in provinces that have harmonized their provincial sales tax with the GST (New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario, Prince Edward Island) and is a combination of a federal component and a provincial component (5-8%) applicable generally on the same base of property and services as the GST.

In the remaining provinces, GST is imposed on taxable goods and services, along with provincial sales tax or a retail sales tax.

The three territories (Northwest Territories, Nunavut, and Yukon), as well as the province of Alberta, charge GST at the rate of 5%. Most goods and services supplied in or imported into Canada are considered taxable supplies, and are subject to GST at the rate of 5% or HST in the range of 13% to 15% (federal component of 5% and provincial component of 8 to 10%), with certain exceptions based on policy decisions, such as:

- Exports and supplies of goods and services relating to basic needs of individuals, such as drugs and biologicals, medical and assistive devices, basic groceries, agriculture and fishing, transportation and travel etc. are taxed at the rate of 0% (zero-rated).
- Supplies of goods and services supporting public needs such as certain real property, healthcare, educational, child and personal care, legal aid, public sector bodies, financial services, ferry/road/bridge tolls etc. are exempted from GST/HST.

Australia

The implementation of New Tax System package in Australia, including New Tax System (Goods and Services Tax) Act of 1999, was considered a landmark change to the Australian tax system. The new GST replaced the federal wholesale sales tax and some state and territory taxes with a single tax rate of 10% on the supply of most goods and services, with some exceptions.

- The basic rule of GST in Australia is destination-based consumption tax, with limited tax base exclusions.
- Certain supplies, such as certain food products, most medical and health services, drugs, medical aids and appliances, most education courses, childcare, exports, religious services, and international transport are known as GST-free (other countries refer to these as zero-rated).
- Certain supplies, such as financial supplies, residential rent, residential premises, precious metals, school shops and canteens and fundraising events conducted by charities are known as input-taxed supplies (other countries refer to these as exempt) and no GST is applicable on such supplies.

Observations from VAT/GST in Other Jurisdictions

A trend can be observed from the VAT/GST legislation and provisions in the aforementioned jurisdictions. VAT/GST are destination-based, and therefore apply to consumption taking place in the respective country/region. These taxes, therefore, exempt exports and tax imports.

Furthermore, input tax credits can be claimed for the cost of procuring and producing, in the case of zero-rated supplies, and cannot be claimed in case of exempted supplies.

VAT/GST has emerged as the successful choice among other forms of indirect taxation. Jurisdictions using these taxes work continuously toward reforming structural issues. An example of this occurred in December 2010, when the European Commission published a Green Paper on the future of VAT, arguing that there were "numerous shortcomings in the current VAT system which create obstacles to the Internal Market,

cause burdens for businesses and prevent Member States from benefiting from the true potential of this tax". The paper also pointed out the system is susceptible to fraud.

Businesses report finding the EU VAT model very complicated, due to its complicated exemption application rules. Reduced rates among member states cause competitive distortion and create additional compliance costs borne by businesses conducting cross-border trade when compared to businesses that only trade domestically. In Canada, businesses face challenges under GST/HST due to interpretation issues and the variation of tax rates between provinces. Although British Columbia harmonized its PST with the GST in July 2010, it re-implemented PST in 2013. In all jurisdictions, even New Zealand and Australia, compliance costs under VAT/GST have been reported to burden small businesses more.

Proposed GST Structure in India

The proposed GST in India consists of a consumption-type VAT, in which only final consumption is treated as the final use of a good. GST is expected to integrate taxes on goods and services across the supply chain, allowing for offsets and capture of value addition at each stage. A continuous chain of offsets is expected to be established, from the level of the original producer or service provider to the retailer's level, which would eliminate the burden of all cascading (or "tax on a tax") effects. Suppliers at each stage would be permitted to set off the GST paid on the purchase of input goods and services against their GST obligations to be paid on the supply of goods and services.

Salient features of the proposed GST model based on reports of the Empowered Committee are summarized below:

1. Aligned with the federal structure of the Indian government, the proposed GST model consists of a dual structure (like in Canada) to be levied and collected by the Union government and respective State governments . This dual GST model would be implemented and governed by one CGST/IGST statute applicable across the country, SGST statutes for each state, and common rules determining valuation, place of supply, and place of origin.

This would imply that the Centre and the states would have concurrent jurisdiction for the entire value chain and the basic principles of law, such as chargeability, definition of taxable event and taxable person, and measure of levy (including valuation provisions and basis of classification) will be uniform across State statutes. Draft laws are already written and under internal discussions. Also, various allied rules are in the process of being drafted and finalized.

2. CGST and SGST would be comprehensively applicable to all goods and services up to the final consumer (retail) level, reflecting the tax base of a typical consumption VAT. Therefore, CGST and SGST

would be applicable to all transactions involving supply of goods and services made for a consideration, except alcoholic liquor for human consumption, exempted goods and services, goods which are outside the purview of GST, and transactions below the prescribed threshold limits.

3. Based on recommendations of both the 13th Finance Commission and Empowered Committee, GST on following products shall be levied from a date to be notified by the GST Council -

- Petroleum Crude
- High Speed Diesel
- Motor Spirit (commonly known as Petrol)
- Natural Gas
- Aviation Turbine Fuel

4. GST is to be structured on the destination principle, so that the tax base shifts from production to consumption. This way, imports will create a tax liability while exports will be relieved of the burden of GST. Consequently, revenues will accrue to the State in which the consumption takes place or is deemed to take place.

5. Taxes paid on input goods/services against CGST shall be allowed to be utilized as input tax credit (ITC) against output tax liabilities under CGST, and the same principle applies to SGST. Cross-utilization of input tax credits between the Central GST and the State GST would not be allowed, except in case of interstate supply of goods and services. Therefore, a taxpayer or exporter shall be required to maintain separate details in books of account for using or refunding credit.

6. In order to maintain an uninterrupted credit chain, CST would be phased out in case of interstate transactions of taxable goods. On such transactions, Centre would levy Integrated GST (referred to as IGST, which can be calculated by adding CGST to SGST) with appropriate provision for consignment or stock transfer of goods and services. The inter-state seller will pay IGST on value addition after adjusting available credit for IGST, CGST, and SGST on his purchases.

7. The importing dealer will claim credit of IGST while discharging his output tax liability in his own state. The relevant information will also be submitted to the Central Agency, which will act as a clearing house mechanism, verify the claims, and inform the respective governments to transfer

the funds.

8. A uniform threshold across all states and Union territories is being considered, with adequate compensation for the states (particularly, the states in the North-Eastern Region and Special Category States) where a lower threshold had prevailed in the VAT regime.

9. In view of the fact that the CGST and SGST are intended to be levied on consumption of all goods and services, these two taxes must subsume all taxes presently levied on various goods and services by the Centre and the states, respectively. With an objective of free flow of tax credit in intrastate and interstate levels, following indirect taxes are proposed to be subsumed:

Central Levies - Central Excise Duty, Service Tax, Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act of 1955, Additional Duty and Special Additional Duty of Customs, Central cesses and surcharges insofar as they relate to supply of goods and services.

State Levies - Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax, Octroi and Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting and gambling, State cesses and surcharges insofar as they relate to the supply of goods and services.

Economic Expectations

The existing indirect tax system of multiple levies across sectors of production has led to reports of distortions in the allocation of resources, as well as production inefficiencies. Non-recoverable taxes built into retail costs make Indian products more expensive than their imported equivalents, making it difficult for domestic producers to compete. GST is therefore expected to provide a boost to exports by mitigating costs. This change is estimated to increase exports by 3.2-6.3%.

The broad objectives behind introducing a comprehensive GST in India include harmonization and consolidation of multiple indirect taxes in India, the creation of a common national market by widening the tax base and cutting down exemptions, mitigation of cascading and double taxation, and promotion of voluntary compliance through a lower overall tax burden on businesses and end consumers. Today, the GST design includes aberrations, like a 1% additional tax, exclusion of certain sectors of the economy, and exclusion of certain taxes that make the design deviate from these objectives. It is expected that these aberrations would be temporary, and the GST will eventually be an all-encompassing tax that can fulfill the expectations of Indian businesses and people. It is hoped that with GST encouraging compliance, economic sectors that currently constitute parallel economies would enter the mainstream and further boost the GDP.

Conclusion

The global spread of VAT/GST reinforces the success of the VAT/GST system of indirect taxation over any other form of tax. With India inching towards a GST regime, a set of key expectations surrounds economic development, growth in international trade, moderate taxes, and stability in prices. Taxpayers hope for the new tax structure to be simple and uniform, clear and transparent, making compliance easier through administrative improvements and the creation of simpler and faster mechanisms for redressing grievances. Because GST has been shown to be a simple, efficient, and successful form of indirect taxation globally, its introduction contribute significantly towards economic growth. The GST is keenly awaited by all who have lived through the maze of the current inefficient, irrational and complex indirect tax system in India.

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