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GST Worldwide

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Abstract:

Tax is a monetary, pecuniary or compulsory burden that is levied or put on each and every individual by the government. The payment of tax is inevitable that's why a funny thing that is said about the tax is that "death comes once, but the payment of tax comes every year". When the topic of tax comes, being a common man there are two questions that arise in our mind the first one is why the government needs to collect tax and the second one is what does the government do with the amount of tax collected? Well the answer for the first question is that the amount of tax collected is very huge and is the main source of income for the government.

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services. GST is a destination based tax which is levied only on value addition at each stage because credits of input taxes paid at procurement of inputs will be available. Thus, the final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages

1. Introduction-

Introduction of Goods and Services Tax (GST) will indeed be an important perfection and the next logical step towards a widespread indirect tax reforms in India. As per, First Discussion Paper released by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, i.e. taxation power lies with both by the Centre and the State to levy the taxes on the Goods and Services. The scheme was supposed to be implemented in India from 1st April 2016, however it may get delayed since the NDA government does not have majority in Rajya sabha ('The upper house of parliament' or 'the house of states'). Further, Punjab and Haryana were reluctant to give up purchase tax, Maharashtra was unwilling to give up octroi, and all states wanted to keep petroleum and alcohol out of the ambit of GST. Gujarat and Maharashtra want the additional one per cent levy extended beyond the proposed two years, and raised to two per cent. Punjab wants purchase tax outside GST.

2. Taxes in History-

The procedure of taxation is very old it is said that the taxation system started from the time around 3000 BC in Ancient Egypt. At that time the main occupation of the people was agriculture and they use to pay one fifth or 20% of their total crop to Pharaoh (ancient Egyptian rulers) as tax. In India the people used to pay tax to the kings and it was mainly in the form of crops. The history also has provided enough evidences that during the rule of King Akbar he had cancelled many forms of taxes. During the British rule it was introduced in the year 1860. There was no act passed so it was just used as a temporary way for the government to get the income it went on till 1886 and in 1886 an Income Tax Act was passed and it was replaced by legislation act of 1918 and later by the Income Tax Act of 1922. This income Tax Act was followed till India got the freedom and as there was an establishment of congress government and adoption of constitution so there was a need for a new income tax act as the prevailing economic condition of post independence India were different to pre independent India and as a result of that a New Income Tax Act was passed in the year 1961.

Till today this act is being followed and till today on an average there have been about 25 amendments every year made to this Income Tax Act and because of this some of the experts have opinioned that the Income Tax Act of 1961 has lost its originality and we need to replace it with a new act. Another reason for the talks of changing this act is that the economic conditions of the present year i.e 2009 are very different as compared to 1961 and one of the reasons for this might be the liberalization, privatization and globalization that happened in the year 1991. As a result of this a new tax code has been prepared and once it gets passed in the parliament it's going to be passed as an act.

3. Taxes in India-

Taxes in India are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality. The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law". Therefore, each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature. In 2015-2016, the gross tax collection of the Centre amounted to 14.60 trillion (US$230 billion).

India has abolished multiple taxes with passage of time and imposed new ones. Few of such taxes include inheritance tax, interest tax, gift tax, wealth tax, etc. Wealth Tax Act, 1957 was repealed in the year 2015. Direct Taxes in India were governed by two major legislations, Income Tax Act, 1961 and Wealth Tax Act, 1957. A new legislation, Direct Taxes Code (DTC), was proposed to replace the two acts. However, the Wealth Tax Act was repealed in 2015 and the idea of DTC was dropped.

Constitutionally established scheme of taxation- Article 246 of the Indian Constitution, distributes legislative powers including taxation, between the Parliament of India and the State Legislature. Schedule VII enumerates these subject matters with the use of three lists.

- List - I entailing the areas on which only the parliament is competent to make laws,
- List - II entailing the areas on which only the state legislature can make laws, and

- List - III listing the areas on which both the Parliament and the State Legislature can make laws upon concurrently.

Separate heads of taxation are no head of taxation in the Concurrent List (Union and the States have no concurrent power of taxation). The list of thirteen Union heads of taxation and the list of nineteen State heads are given below.

4. GST in India-

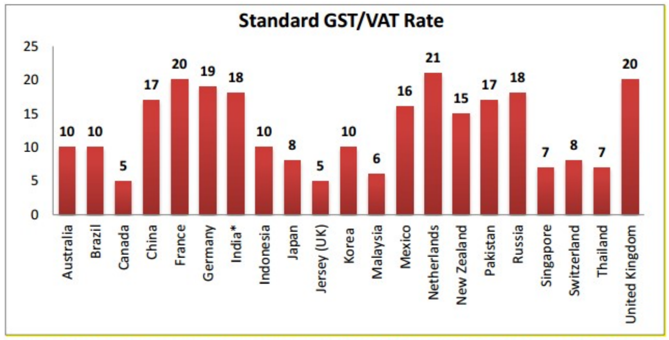
"Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India. GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs(therefore a tax on value addition only)and ultimately the final consumer shall bear the tax".

One of the main objective of Goods & Service Tax(GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle.

5. GST Worldwide-

France was the first country to introduce GST in 1954. Worldwide, Almost 150 countries have introduced GST in one or the other form since now. Most of the countries have a unified GST system. Brazil and Canada follow a dual system vis-à-vis India is going to introduce. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below:-

The GST council has set tax rates for goods and services under five brackets of 0%, 5%, 12% and 28% as the bill is just a month away from its implementation. Concept of GST is not new to the world as nearly 160 countries as on 2016, have opted this mode for bringing individually tax rates into a single tax. In most countries value added tax (VAT) is taken as a substitute for GST. Presently, countries like Australia, Canada, Singapore, New Zealand, Jersey (UK), Malaysia, Indonesia and Pakistan have a GST system while remaining follow a VAT system. As days near for GST to be active in India, lets have a look at what differentiates the country's GST regime with others.



*Note: * The GST structure ranges between 5%-28% with majority to commodities falling under 18% bracket.*
Source: OECD (2016) and CBEC

In comparison with emerging market economics (EMEs), India has highest rate of GST at 18% - with major commodities falling under this rate. EMEs like China and Brazil have their most of commodities falling under the tax rate of 17%, 10% respectively. However, some of the developed countries like s like France, Germany and United Kingdom have higher GST rates set between 19 – 20%. Latest data of Organisation for Economic Co-operation and Development stated that average VAT/GST rate in major OECD countries is between 20-22% higher than the rate proposed for India The Reserve Bank of India (RBI) in its research report named "GST: A Game Changer" - showcased performance of many countries after implementation of GST.

New Zealand: GST in New Zealand was introduced in 1986 at a rate of 10%. However the rates were changed twice later – 12.5% in the year 1989 and 15% in 2010 in a move to mobilize higher revenue while removing distortions in the tax structure. This led to adoption of GST at single rate with food included in the GST base at the full rate. Such broad-based the tax net and also reduced both compliance and administrative costs. At present, the country is highest tax productive nations among OECD countries.

Canada: Canada introduced GST in the form of a multi-level VAT in 1991 on supplies of goods and services purchased in the country – included almost all products except certain essentials like groceries, residential rent and medical services. Once implemented, the bill led to new processing operations and techniques to verify the accuracy of the returns submitted by small entrepreneurs. However, Canada imposes their own sales tax besides GST – this has created price distortions in the country.

Singapore: The country introduced the bill in April 1194 at a tax rate of 3% to make it acceptable to the public and to minimize inflation. The government committed not to raise tax for next 5 years which came in as a important decision in reviving consumer spending. Also, Singapore introduced a compensation scheme under the GST which provided support to the needy and underprivileged. However, in initial stage of GST, the country faced uptick in inflation to 3.1% in 1994 from 2.3% in 1993. But after that it moderated below 2% between 1995 – 1996.

Australia: Though the GST concept was first seeked in the year 1975, it was implemented in Austrailia after 25 years on July 2000 at a tax rate starting at 10%. Austrailia also replaced a range of existing taxes like the wholesale sales tax (WST), debit tax, financial institutions duty, and stamp duty on shares, leases, mortgages and cheques. However, the10% tax rate led to low GST revenue productivity from a tax collection standpoint.

Malaysia: GST in this country has been imposed in the year 2015, after a 26 years of debate over its potential merits and shortcomings. It was introduced at a standard rate of 6% - which is relatively low compared to VAT rates in other ASEAN countries. After implementation of GST, the cost of doing business in Malaysia reduced as the tax burden was transferred from manufacturers to consumers. Yet, the country has seen low revenue productivity in terms of tax collection.

6. Conclusion-

Indian government has structured GST for efficient tax collection, reduction in corruption, easy inter-state movement of goods etc. India does not follow an ideal VAT. Central sales tax which the central imposed on the sale of goods from one state to another will continue in the different form called Integrated GST. One big differentiation between GST in India and GST in other countries is that, in India two types of GST is charged - hence called as duel GST.

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