A Comparative Study of GST in India and Other Countries

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ABSTRACT *This paper gives meticulous understanding about GST in India and some other countries of the world. The paper facilitates one with the thorough understanding of GST and various aspects concerned with it. It also explains about HSN (Harmonised System of Nomenclature) codes used for different types of products under the GST system of India. Implementation of GST in India was a very tough trade to be dealt with. The paper gives an analysis of the GST system in India and some other developed as well as developing economies of the world. The paper explains one about the cascading tax system that existed in India and the duel GST model. There is also a description on HST (i.e. Harmonized Sales Tax). There are only two countries apart from India namely Canada and Brazilto have implemented the duel GST model. In most of the other countries of the world there is a single unique taxation system which is either VAT or a GST.*

Key words: *GST (Goods and Services Tax), Cascading tax, HST (Harmonized Sales Tax), HSN (Harmonised System of Nomenclature) code.*

Inception:

GST, The Goods and Services Tax is one of the most discussed topics in the current scenario. Breaking down this particular term is need of the hour.In simple words we can describe The Goods and Services Tax (GST) as a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, the Goods and Services Tax provides revenue for the government. The GST has created a lot of buzz since its inception and has been discussed all over India by all the professionals. The impact of GST has been such that each and every one all over the country, whether concerned with it or not has been trying to breakdown the said term. GST in India is implemented with the propaganda of **"One nation one Tax"**and it has been one of the very important factors all over the world as it has made certain outstanding differences in the economic structures of some countries. On the other hand it has some limitations too, as there is always the other side of everything GST too, is not an exception and has certain criticisms as well. So let us have a better understanding of GST by having a discussion on various aspects like History, HSN (Harmonised system of Nomenclature) codes, comparison of it with other countries of the world, the present situation of GST and some other important terminologies concerned with it.Though in India the GST roll-out is expected to boost the economy by at least 2 per cent in the coming years, some experts and analysts believe that the short-term impact of GST can be neutral or it may be negative even. In the long run, the GST will be beneficial to all as it is expected to help curtail tax evasion and check price rises. Moving on further, now we are about to crack the term GST (i.e. the goods and services tax). In India GST has been implemented with a view to provide efficient tax collection, reducing corruption, easy movement of goods, provide with meticulous tax calculation system while providing better economic functionality and reducing tax evasion.

Breaking down the term GST:

In simple words it can be stated here that the goods and services tax (GST) is an indirect federal sales tax that is applied to the cost of certain goods and services. The business adds the GST to the price of the product anda customer who buys the product pays the sales price plus GST and the GST portion is collected by the business or seller which later on is forwarded to the government.A total of 160 countries all over the world have opted for GST so far. In most other countries of the world value added tax (VAT) is taken as a substitute for GST.The Goods and Services Tax (GST) isan indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India Except the State of J&K which replaced multiple cascading taxes levied by the central and state governments.

GST in India is conceived with the motto of "one nation, one tax" and has subsumed 17 different types of central and state level taxes. With the implementation of GST in India the movement of goods has become comparatively cheaper and it has eliminated various different sort of taxes. GST is a single indirect tax for the whole nation, one which is going to make India a single unified market. It's a single tax on the supply of goods and services, right from the manufacturer to the consumer. In Indian GST different types of codes are provided which are known as HSN codes. From the above mentioned information it can be concluded here in that a GST is an indirect tax which is levied on final consumption of goods and services and it only attracts the term "Supply" of goods and services and if there is no supply then there is absence of GST.

Indian GST and Some historical aspects of GST all over the world:

It would not be exaggerated to mention over here that the 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. Though in India it is termed as a new system it has its roots quite long back in some other countries of the world which we would discuss here in the upcoming lines. **France** was the very first country to implement the GST in the year 1954 and since then almost about 160 countries have adopted this tax system in one or the other way all over the world. To mention here some of the countries with the GST system are Canada, Vietnam, Australia, Singapore, UK, Spain, Italy, Nigeria, Brazil, and South Korea.The USA does not have GST as it ensures high autonomy for the states and follows a unique VAT system of taxing.As stated earlier France, the Western European country was the very first country to have implemented GST and as of now the current rate of GST is 19.6 per cent. Most European countries introduced GST back in the 1970s-80s.

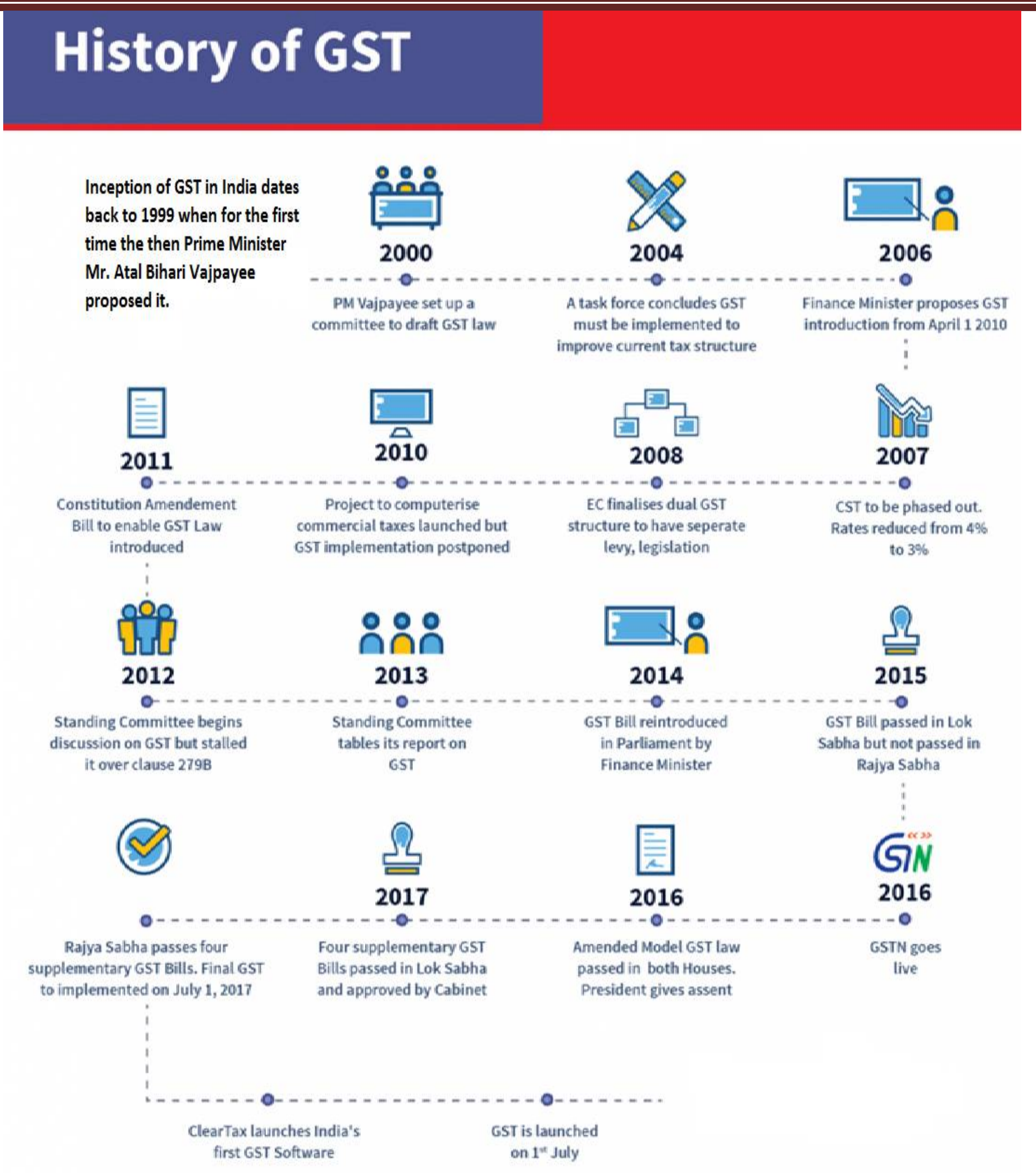
Now a days a single unified tax system is a global fiscal trend. The one big difference between the Indian model of GST and similar taxes in other countries is the dual GST model. Many countries in the world have a single unified GST system, countries like Brazil and Canada have a dual GST system whereby GST is levied by both the federal and state or provincial governments. It is the Canadian model of dual GST (central and state) implemented in 1991 that the Indian model of the indirect tax reform finds similarities with. Canada introduced GST in the year 1991 at a rate of 5 percent and the Canadian GST model gives options to provinces to go for state or central GST. In India, a dual GST is proposed whereby a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of every transaction of supply of goods and services. The government believes that the implementation of the new indirect tax regime will be a key component in improving ease of doing business. The GST, country's biggest indirect tax reform since independence has replaced a slew of central and state levies, transforming the nation of 125 crores people into a customs union. As of now, India ranks at 130th out of 190 countries in the list of ease of doing business by the World Bank. The government has categorised 1211 items under tax slabs of 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. While the implementation of the tax reform in India may be historic for the scale of change that it envisages, it is not the first country to move to unified indirect taxation system as mentioned earlier.

GST in India:

Goods and service tax has taken India by the storm as itis believed that it will bring in **"One nation one tax"** to unite indirect taxes under one umbrella and facilitate Indian businesses to be globally competitive. The Indian GST case is structured for efficient tax collection, reduction in corruption, easy inter-state movement of goods, and betterment of the economy as well as demolition of the possibility of tax evasion with some other important considerations. The Goods and Services Tax has revolutionized the Indian taxation system. In India the GST Act was passed in the Lok Sabha on 29th March, 2017 and came into effect from 1st of July, 2017 however it took drastically long enough for the act to be implemented. While having a discussion on GST in India there are certain difficulties necessary to be mentioned which states that Unlike India, other countries have a much higher threshold for GST applicability which in turn helps them in reducing the burden for small businesses while in India it seems a bit difficult and it will bring in challenges for the Indian SMEs (i.e. Small and medium enterprises). The other thing to be taken care of is that India has the highest rate of GST at 18% compared to some other emerging market economies of the world. India has two types of GST hence it called as duel GST model which includes CGST (Central Goods and Services Tax) and SGST (State Goods and Services Tax).The GST in India was implemented after so many controversies, so let us have a look at the timeline of the GST implementation in India.

Timeline of GST in India:

From the below mentioned artefact it can be derived that in India GST came in to force on 1st of July, 2017.One India, One Tax became a reality on the 1st of July, 2017, when the Goods and Services Tax came into effect. This landmark moment in the history of modern India comes after nearly 20 years of debate and negotiations among states and successive central governments from different parties, members of Parliament and other interested stakeholders.



Taxation system in India before GST:

As discussed earlier there were numerous taxes applicable at different levels in the old taxation system of India but now after the implementation of GST the tables have turned. With the implementation of GST now the tax is payable at the final point of consumption which means that the taxable event will be the 'supply of goods' and the 'supply of services' only if a good or service does not move at all it is not termed as a supply and hence it is not taxable . Before GST the taxes were levied on various stages like on manufacturing of goods, sale of goods and on rendition of services which from now on will not be relevant under the GST system of Taxation. While discussing GST it would be important to mention that there had been certain central taxes (e.g. sales tax, excise duty tax, and service tax) In India with co-existence of some state level taxes (e.g. entertainment tax, entry tax, transfer tax and luxury tax) which now are collected with a unique taxation system called GST.

Some historic trends of GST in various countries of the world:

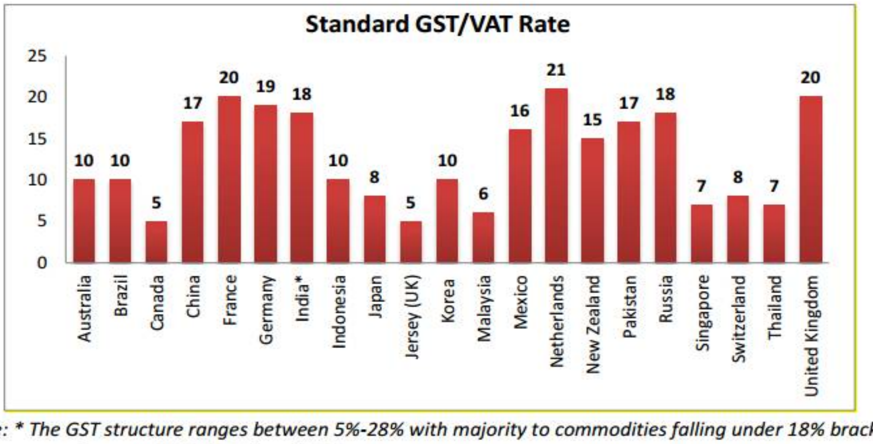
China had implemented GST in the year1994 and later on in 2016 Beijing completed Value Added Tax (VAT) reforms to replace its conflicting business tax system ceasing and doing away with business tax and other taxes and switching to VAT contributed to bursting of the Chinese real estate bubble.Russia did the same in the year 1991 whereas Saudi Arabia plans to implement a single unified taxation in the year 2018.Despite being a major economy in the world The United States of America does not have GST states however, enjoy high autonomy in taxation. Japan introduced consumption tax in 1989 at a rate of 3 percent which later on in the year 1997 was increased to 5 percent and the Asian country had to face the recession. In 2012 it doubled the tax to 10 percent but had to delay the tax increase to October 2019.In Malaysia too, after the 26 years of debate implementation of GST was possible in 2015 at 6 percent. Australia introduced GST in 2000 where the implementation was quite smooth compared to other countries. The rate was fixed at 10 percent but now it plans to increase GST rate to 15 percent. New Zealand introduced GST in 1986 at a rate of 10 per cent and had to change the rates twice, 12.5 percent in 1989 and 15 percent in 2010.Singapore introduced GST in 1994 at a rate of 7 percent. Austria introduced GST at a rate of 20 percent, Sweden at 25 percent and Pakistan at 17 percent. It can be observed from the above trend that the GST has always been on a constant hike wherever and in whichever country it was implemented. The question here to worry about is that in India it is 18% in the initial stage and the highest applicable rate is 28% and what would be the situation if it keeps on increasing?

Breaking down 'harmonized sales tax (HST)'

The HST is applicable in Canada it is good to be informed about it as the Indian GST model is inspired from the Canadian model of Duel GST. The Harmonized Sales Tax (HST) was implemented by several provinces in Canada to build a more efficient tax system that would improve the competitiveness of businesses in the participating provinces. The Harmonized Sales Tax (HST) is a combination of the Canadian Goods and Services Tax (GST) and Provincial Sales Tax (PST) that is applied to taxable goods and services. By fusing sales tax at the federal level with sales tax at the provincial level, the participating provinces harmonized both taxes into a single federal-provincial sales tax. HST is a consumption tax that is paid by the consumer at the point of sale. The vendor or seller collects the tax proceeds from consumers by adding the HST rate to the cost of goods and services, and then remits the total collected tax to the government at the end of the year.

GST in other countries of the world:

Most countries with a GST have a single unified GST system, which means that a single tax rate is applied throughout the country. These countries tax virtually everything at a single rate. The bar diagram depicted here in as under gives vital information about the current state of GST in various nations of the world. It can be observed that in India the GST rate is at 18%. The highest rate of GST is observed in Netherlands while the lowest one can be found in countries like Canada and Jersey. So far there has been various positive as well as critical changes in all these countries after implementation of GST.



*Note: * The GST structure ranges between 5%-28% with majority to commodities falling under 18% bracket.*

Source: OECD (2016) and CBEC

What are HSN codes?

As we have discussed a lot as of now about GST in India, Cascading taxes and GST all over the world it is really important to know about HSN codes. Various states in India presently have their own systems for classifying goods for tax rate determination but with the coming Goods and Services Tax (GST) regime, there is a desire for more uniform classification, not only at a national level but internationally. Hence there was a requirement of the Harmonised System of Nomenclature (HSN) for goods. So we will now discuss HSN codes as they relate to the GST.

HSN is a multipurpose international product nomenclature developed by the World Customs Organization (WCO). WCO has 181 members, three quarters of which are developing countries that are responsible for managing more than 98 percent of world trade. HSN standardizes the classification of merchandise under sections, chapters, headings, and subheadings which in turn results in a six-digit code for a commodity (two digits each representing the chapter, heading, and subheading). India is a member of WCO since 1971 and has been using HSN codes since 1986 to classify commodities for Customs and Central Excise. Customs and Central Excise added two more digits to make the codes more precise, resulting in an eight-digit classification. Under GST, the majority of dealers will need to adopt two, four, or an eight digit HSN codes for their commodities depending on their turnover.

As the GST is now implemented in India under the HSN codes system dealers with turnover of less than Rs. 1.5 crores will not be required to adopt HSN codes for their commodities while the dealers with turnover between Rs. 1.5 crores and Rs. 5 crores shall be required to use two-digit HSN codes for their commodities. Dealers with turnover equal to Rs. 5 crores and above shall be required to use four-digit HSN codes for their commodities and In the case of imports and exports, HSN codes of eight digits shall be compulsory, as GST has to be compatible with international standards and practices.

What is Cascading Tax?

There were numerous taxes applicable on goods and services in the old taxation system of India at central as well as state levels. These taxes were Excise duty, VAT, Service Tax, Sales Tax, entertainment tax, entry tax, transfer tax, luxury tax etc. in addition to this there were ever education cess, higher education cess, taxes relating to agriculture and cleanliness too. Thus, it can be understood that there were end number of taxes levied on goods and services at different level like sales tax at central level and at the state level too and this application of applying a tax on tax repeatedly is termed as a cascading tax.

Conclusion:

There has been some very good motives behind the implementation of GST in India and it probably will attain the desired results in the coming years. We had a discussion on various and almost all the important aspects concerned with the GST in this particular paper. Let us hope that the Indian GST turns out to be a blessing for the people of India and betterment of the economy. GST has faced certain limitations also in various country wherever it has come into force and India too does not seem to be an option. The paper has given a thorough understanding about GST in India and some other countries of the world with a view to provide the global trend of GST all over the world. Still the question remains the same will India too have to increase the rates of GST? well let us hope for the betterment of people of India and the economic development as well.

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