

Chapter –IV

GST International

Prospective

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There is considerable expectation in India that the government at the centre would activate the reform process to introduce the goods and services tax (GST). GST is a value added tax (VAT) on both goods and services, as against the prevailing VAT on only goods. The important gains from the GST reform are that it is expected to broaden the tax base, reduce distortions in the economy through a more comprehensive input tax credit, enhance export competitiveness by comprehensively relieving domestic consumption taxes on exports, ensure greater regional equity by getting rid of inter-state sales tax and having a destination-based tax, and help create a seamless national market by removing inter-state trade barriers. It is hoped that the reform will significantly reduce the compliance cost for taxpayers by simplifying and harmonising the tax structure and by making the administration uniform across states.

The dual GST proposed to be introduced is expected to expand the tax bases and simplify and harmonise the conception tax systems presently levied at both central and state levels. The central VAT (CENVAT) levied at present, has a narrow base and multiple rates. It is levied on goods at the production stage, and value added in subsequent stages is not included in the base. In the proposed Central GST, the base will be expanded by merging the service tax with the CENVAT, extended to wholesale and retail levels and simplified to have only one or two rates. The merger of service tax in GST helps to ensure more comprehensive input tax credit and relieve the tax on exports. The State GST will expand the base of the prevailing VAT to include services. The tax will be simplified by merging a number of other taxes such as motor vehicles tax, goods and passengers' tax, entertainment tax, electricity duty and entry taxes.

Harmonisation of tax rates and administration across states would bring about significant gain in minimising distortions and reducing compliance cost for taxpayers.

While the desirability of the reform is not in doubt, making a transition to GST involves not only considerable work but also formidable challenges. Unlike in many other countries where GST is a centralised tax, in India it is leviable by both Central and State governments, according to the proposal. This implies that both the structure and administration of the levy will have to emerge after detailed negotiations and bargaining between the centre, 29 states and the two Union Territories with legislatures. Given the sharp differences in the structure of the economy and sales tax revenue (as a ratio of gross state domestic product, or GSDP) across states, the interests of the states do not always coincide and considerable effort is needed to persuade them to adopt a uniform or even a broadly harmonised structure and administrative system for the tax.

The assessee base is expected to jump considerably from the present base. Hence, there is an urgent need for efficient administration and manpower planning. Presently, the Union government's field officers are located in cities/places where manufacturing activity is happening, whereas States do not have much to do with manufacturing or services. There will also be a dislocation of officers and also lot of resistance from the officers.

The proposed suggestion of lateral entry would harmonise the tax machinery in both the Centre and the State.

While no model is ideal, a model is suggested after study/research of the various models and also the existence tax laws and present administrative hierarchy in place, in both the Centre and the States. The present VAT structure in the State of Andhra Pradesh and Gujarat has been compared with structure in CBEC. Even after restructuring of the Andhra Pradesh, there is no change in VAT structure or Act in Telangana or Andhra Pradesh. In the international context also, only two major countries viz., Canada and Brazil have dual GST

structure. I had opportunity to visit South Africa and Sweden during the course. South Africa has national government , Provincial government and local government. Metro cities there have local government headed by a Mayor. However, the local government has almost no taxing powers and the country has highly unitary setup. In Sweden , there is national government , county government and local government. The county government is having nominal powers and national and local governments are powerful and taxes are levied at both local and national levels. Yet, being part of European Union, the trucks don't face any checks at any borders and thus , non-uniformity of taxation is not impeding the transport, as in India. The Canadian Model has been discussed in detail, in the paper.

Structure and Administration of GST in Canada

1. Prior to introduction of federal GST in Canada in 1 January,1991, it had Federal sales Tax (FST), levied by federal Govt at the Manufacturing Level. It was levied at rate of 7% on sale price (Government of Canada. (n.d.). Retrieved July 27, 2015, from Canada Revenue Agency: <http://www.cra-arc.gc.ca/menu-eng.html>).

Tax administration at provincial level: Canada has ten autonomous Provinces and three territories.

A) **Quebec Model:** As per Memorandum of Understanding dated 30th August,1990, with **Quebec Province** (Transition period 30 August 1990 to 31 Dec,1991) effective 1 January 1992, as per which Quebec was responsible for all administration aspect of GST within the Province from Registration of Vendors 86 Suppliers, for collection of Taxes and Audit along with Qubec Sales Tax (QST), and remits yield of GST to Federal Govt. after

deducting charge of collection. Revenue Quebec (RQ) administers GST on behalf of federal Govt. in its territory. RQ deals with registration under GST/HST(Harmonized Sales Tax). After registration, all taxable persons continue to deal with RQ for all GST/HST related matters including returns, remittance, rebate application, audit, investigation, interpretation of laws, notice of objection, tax collection and unfilled returns. Canada Govt. responsible for matters relating GST Policy as well as legislating change and interpretation of GST Legislation. The quality of RQ as a tax administration, and its details knowledge of its taxpayer population, when added to economies of scale from collecting two taxes together rather than separately, made the package an attractive one. As per fiscal year 2007-08, RQ received C\$129.2 Million from CRA (588,489 entities registered for GST in Quebec) to administer the GST in Quebec's territory, which works out to 220 per registrant. The Objective of July, 1992 agreement was as under:

- i) Minimising costs by eliminating overlap in the administration of two Taxes
- ii) Reducing cost of administration;
- iii) Guaranteeing the integrity of Revenue for both levels of Govt.;
- iv) Facilitating application of GST & QST by Vendors and suppliers; v) Providing a high level of service to the Public;

B) HST Model with three Atlantic provinces; Comprehensive Integrated Tax Co-ordination Agreement, 1996, with three Atlantic provinces , e.g, Newfoundland Br, Labrador, Nova Scotia , and New Brunswick, under which Harmonised Sales Tax/HST, comprehensive Tax levied @15% (Federal component 7% , and Provincial component 8% against earlier 12% ,12% &10% RST in these provinces)levied covering same base of goods and services ; Earlier combined Tax rate was @19.84%-Newfoundland, and @18.77% in other two provinces. Under the agreement, the Provinces are to receive grant of

CAD 961 Million from Canada, payable over four years for compensation of loss of Revenue due to reduction in Tax rate. The Provinces have no choice over base or Tax rate. The Tax /HST is levied and collected by Canada/Federal Govt. at no cost to Provinces, but provincial share distributed as per formula based mainly on consumption. All three Provinces must agree before rate can be lowered, however only two out of three Province need to agree in order to raise the Tax .

-Hence at provincial level, all Provinces except Alberta levy sales tax. Three different models for levying sales tax at Provinces. Quebec levies VAT, known as Quebec Sales Tax(QST), three Provinces (Newfoundland, Nova Scotia &, New Brunswick) levy harmonised sales tax(HST)- combination of GST 8%, VAT, rest of provinces levy Retail sales tax (RST). GST, HST & VAT are collected from all traders registered with Tax Deptt., but RST is collected only from dealers who sell directly to final consumers. Three Provinces viz, Ontario, Manitoba , British Columbia levy RST on price exclusive of GST, but one small province, Prince Edward Island, levied RST on a GST exclusive base. Hence, three Models are working in Canada as under

- a) Separate federal and provincial VAT, administered provincially- Quebec Model, which is unique in the world
- b) Joint federal and provincial VAT administered federally (Newfoundland& Labrador, Nova Scotia, and New Brunswick)/HST
- c) Provincial RST administered separately.

C) March, 2009; Ontario (largest province) announced to replace existing 8% RST by 8% VAT imposed on same base as Federal GST. Under the agreement, they will receive Federal compensation of 4.3 billion over period of time; It will be administered by Federal Govt. along with GST and revenue will be allocated same way as HST revenue received

for three provinces. The tax will be administered by the Canada Revenue Agency, although Ontario will be responsible for winding down its retail sales tax. Ontario will receive transfer payments from the federal government for the provincial component on the basis of an agreed formula, similar to the compensation arrangements in place in the participating provinces.

-Under Canada's Constitution, federal and provincial Govt. can not tax each other, however Govt. of HST provinces , like federal Govt. has agreed to pay GST/HST on their taxable purchases.

D) BRITISH COLUMBIA: Following Ontario's lead, British Columbia announced its intention to harmonize its sales tax system with the GST on July 23, 2009. The harmonization is to be effective July 1, 2010 at a rate of seven per cent, for composite rate of BC HST of 12 per cent.(However due to subsequent dispute it withdrew from GST , reverted to RST in 2013). GST introduced at 7%(1991) was lowered to 6%(2006), and now at 5%(Jan,2008).

The present Tax Structure for these provinces are:

Province	HST(GST(%)	PST(%)	Total Tax(%)
British Columbia		5	7	12
Alberta		5		5
Saskatchewan		5	5	10
Manitoba		5	8	13
Ontario	13			13
Quebec		5	9.975	14.975
New Brunswick	13			13
Nova Scotia	15			15
Prince Edward Island	14			14
New Foundland & Labrador	13			13

Statistics: Since 2000, Tax burden in Canada declined 34.9% to 30.6% in 2013 (OECD average in 2013 of 34.1%); GST Revenue in Canada (both Central Govt and Provinces) accounted for 13.7% of total Revenue in 2012 (OECD Average of 19.5%).

Governance of GST :

1. Declarative obligation: This includes registration of Traders with Canadian Customs &, Revenue Agency(C CRA), and submission of return and payment of Tax;
2. Accounting Obligations: Traders must maintain sufficient details in the Accounts, to show their purchases and turnover to enable the VAT authorities to verify input credit and VAT liability
3. Processing of Returns: Done by System - based upon pre-defined selection criteria , the processing system selects documents for review and verification or audit ; System also identifies non-compliant accounts for further action i.e, neither submit returns nor pay tax;
4. Auditing traders; based Risk management theory -Audit information management System (AIMS) helps in verification, enforcement &, compliance (VEC) of Traders. The information technology branch(ITB) supports this work.
5. Management information system(MIS); Data capture system, starting from time of Registration till payment of tax and processing of Returns / random selection of traders / information on accounting -
- 6.Appeals: Three -tier approach: First, it sorts out problem with taxpayer through mutual and informal discussion - Next step appeal made before Appellate authority but tax has to be paid before appeal is filed;
7. Tax payer services: brings out publications for use of tax payer, assist taxpayer file tax returns correctly, and help them understand their obligations and entitlements.