GOODS AND SERVICES TAX: AN OVERSEAS REVIEW WITH SPECIAL EMPHASIS ON INDIA

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Abstract: The efficiency of economic organizations combined with an access to public goods is essential for the achievement of growth and development in an economy. When the market mechanism is unable to arrange such goods, then government plays an important role in providing an optimal amount of public goods. The literature advocates efficient taxation system as one, generating revenue for the government and consequent effective revenue-utilization towards public goods in an economy, with an overall check at commodity rates. For, a substantive and reliable taxation policy is imperative towards the growth and development of any nation.
Indian economy has witnessed changes in taxation policy since 1947. Various policy implications including sincere efforts were being made to replace obsolete policy with an adept tax structure. Indicative of research is that; “Goods and Services Tax” (GST) with a dynamic approach delivers simplicity in taxation policy with enhancement of manufacturing sector competency. Presenting a review of the tax structure, highlighting GST also known as "good and simple tax" in India, the purpose of the paper is to consider the roots of GST in a group of varied versions, of various nations such as Canada, Australia, Brazil and alternates.

Keywords: Goods and Services Tax, Indian Taxation System, Indian Economy, Tax Policy.

Introduction: Taxes are necessary for the provision of public goods in the economy and efficient distribution of wealth. The introduction of energy subsidies by the British government leads to the foundation of Industrial Revolution in the 18th century. Optimal taxation facilitates the allocative efficiency and bolsters institutions which hold the framework of a successful economy. Deducing a review and the economic analysis of tax structure and policy the work converges from taxation system to Goods and Services Tax. The researchers’ critically analyse various versions of GST prevailing in the world. This has helped in drawing conclusions regarding potential gains and losses that may further arise as an impact of GST.

Significance of GST: World Overview: The presence of taxes dates back to ancient Indus and Egyptian civilisation [33],[1]. However, the concept was primarily relevant for funding the war expenditure. With the introduction of Industrial revolution in the 18th century, the world experienced a rise in the standard of living. New sectors viz. manufacturing and services sector began to overcome the agriculture sector. This necessitated the need to develop the taxation system to capture the new economic activates. Taxes were also gaining importance for negative externalities [2]and balancing income distribution[3].

Before the World War I, the taxation rates were lower than 1 percent of the GDP [4] After World War II, the urge to increase taxes were felt for reconstruction, growth and development, and the tax levied was on the final commodity. Resulting in high transactional costs and decreased efficiency of tax in theeconomy. The second wave of taxation system namely Value Addition Tax (VAT) was intended to stratify the tax rates by multistage taxation and increase the tax revenue. Thus, the theoretical and empirical research confirms the success of VAT [5] The technological revolution in the contemporary era contrived category of commodity connecting goods and service-specific information and technology sector making taxation of such commodities beyond the parameters of the VAT.

Goods and Services Tax (GST) is worked out to adhere the asserts of modern economies, where the hybrid goods (partial good and partial service that is Goods such as mobile sim has no utility unless mobile service is activated. Taxation of such items is ambiguous under the VAT regime) are present in the markets. France when implemented GST in 1954[6], it perceived revenue efficiency and economic competitiveness.

Therefore, the various country-specific policy of GST calls for a discussion now.

Australia: The new taxation system in Australia introduced GST on 1st of July 2000, substituting all the prior indirect taxes including the prominent WST (Wholesale Sales Tax)[7]. As along with tax bill the government also introduced Regulation Impact Statement (RIS) which estimated the tax compliance cost to be around 1 billion dollars [8]. Further, the inflationary effect that is approximately 2 percent inflation rate, that of GST in eight capital cities was transitory effecting single September quarter (2000) [9]. Australians enjoy lowest GST amongst OCED (Organization for Economic Co-operation and Development) countries and also, witnessed increment in their standard of living. Non- Uniform industrial impacts were seen in the economy with a rise in some industrial activities whereas the small industrial, output discovered a fall. Strikingly, health industry and employment effect were negative and zero respectively, the instant the tax policy is administered by Tax Office, on behalf of Australian government with tax rate stands at 10 percent[10].

Brazil: The federal Brazilians follow the ICMS (Tax on Consumption/circulation of goods and services), on the manufacture, market and import goods. The tax was able to generate high revenue at a low rate. Non-uniform tax distribution was witnessed, with the absence of transparency in tax burden [11]. Also, ICMS the state level tax revenue is the highest as compared to the PIS (a program of social integration) and COFINS (Contribution for the financing of social security) which are the national level VAT [12]. Being a state collection revenue tax, the less industrialized area is not able to collect the reasonable tax and there prevails a tax collection competition which may generate a fiscal war. A competitive disadvantage is there to production sector, with an increase in the cost of investment of capital goods. Tax and judicial uncertainty in private sectors [13].

Canada: A value-added tax, the multi-level tax was made available on 1st, January 1991 [14], this Canadian goods and services tax replaced the federal sales tax (FST) [15] or the hidden manufacturing tax[16]. The Canadian economy has a trio tax namely PST-Provincial state tax, GST-goods and services tax and HST-Harmonized sales tax. 1991, GST being the most disliked tax in Canada as it withdrew money out of the economy that could be used alternately. GST was introduced due to the flaw of tax on tax in MST (Manufacturing sales tax). The question of both horizontal and vertical equity arose on GST in Canada. An increase in effective tax rate caused cross-border shopping. The only province to agree to harmonize sales tax was Quebec at the time of initial implementation [17]. Today, there are various rates of GST as per the province of Canada whereas, the most popular rate stands at 5 percent as on 29th September 2016[18].

European Union and Denmark: France was the first country to implement GST in 1954[19], whereas the Danish government applies a single EU-VAT (European Union- Value Added Tax) of 25 percent the highest. A rigid tax rate prevailed in Scandinavian countries since 1977 due to the requirement of approval from all the members of European Union, which necessitated the European Union to publish a green paper in 2010[20]. The tax sums up to the largest share of GDP (Gross Domestic Product) at 9.9 percent. The tax system here does not levy tax on intermediate producers which results in a decrease in biases of the production process. The study suggests a high relative increase in EU-VAT, burdens the household sector more as it is a consumption good targeting tax. The revenue-neutral standardized EU-VAT rate is seen to benefit more to the non-household sector. Also, many services are not taxable. But, different EU- VAT rate may diversify consumption choices and negatively impact efficiency [21].

Singapore: GST, formulated on 1st April 1994, at a nominal rate of 3 percent and then 4 percent[22].The government of Singapore raised the tax in 2003 to 7 percent, with a motive to enhance competitiveness.

Young and old both were included to pay GST, as it is a consumer tax. No tax on savings and investments in Singapore forms rationale of GST. It tries retention of domestic funds and increment of offshore investment with the interest earned from saving, fixed, and current deposit is exempted. Administration detected that evasion was difficult in case of GST in Singapore. The tax was observed to be regressive in nature which was a serious problem in consumer goods having demand inelasticity as well the results were inflationary where the fixed income group people were adversely affected. The underground economy was promoted [23]. **Thus, considering various versions of GST, the Indian government also proposed the introduction of GST in 2005 as its 122nd amendment** [24].

GST: Role in Indian Economy- Taxes play a vital role in developing countries such as India to frame and fortify the institutions. Literature reveals that efficient taxation system can have many fold advantages like Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption[25].
A robust taxation system will be able to fund the economy's need and contribute towards the public goods. This can be explained with the help of Figure 1.

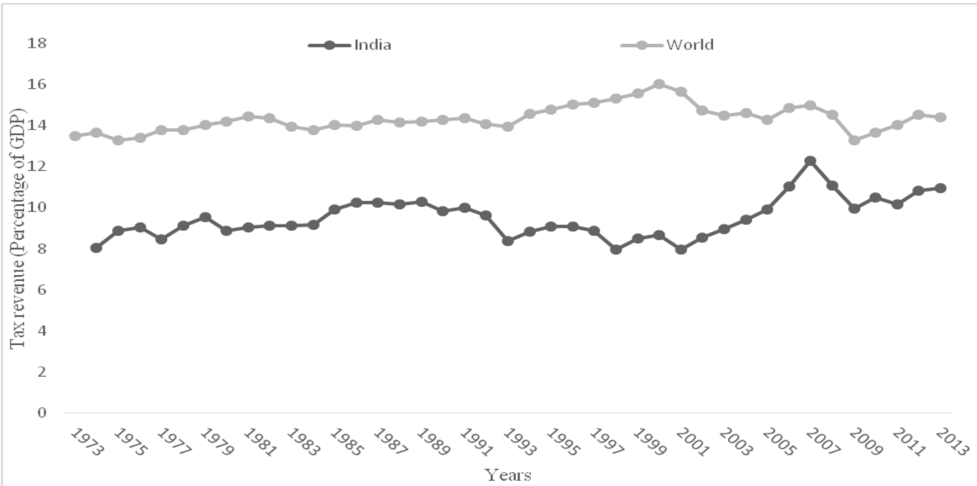

Figure 1: Tax to GDP (Gross Domestic Product) for India and World
Source: World Bank (2017).

Figure 1 shows the tax to GDP ratio for India and World from 1973 to 2013, displaying that India's tax to GDP ratio is lower than the world's average. Indicating towards the scope of improvement in the prevailing taxation policies. The GST tax reform is expected to meet this challenge. The pause was for adding significance to the tax reform, to an extent which does not backlash as a damaging socio-economic aspect in any perspective. Unbalanced growth which balances economy is challenging.
The 'ability to pay' has ever since formed the basis of the taxation system. To meet the inefficiency of tax to provide public goods developments of taxation system took place. The incentives were for revenue generation and avoidance of deficit. Several inefficiencies were prevalent in a closed economy, 1991 reforms of Liberalization, Privatization and Globalization rendered India to be an open economy siding international competition, and the inefficiencies caused taxation policy discussions. From optimality theory to the principle of lobbying, taxation has achieved new aspects. But, it is of significance to have the promotion of "common market". Clarity, co-ordination and co-operation are requisite of a good taxation system [26].

The shortcomings of Indian taxation system during the 1990s rendered the burden of government revenue to fall on indirect taxes, as liberalization demoted import duties. Chelliah committee (1991) recommended the necessary reforms. Some of the reasons for the occurrence of VAT were heterogeneous and diverse nature of tax rates and policies; fragmented and overlapping tax base, with wholesale and retail not being taxed, double taxation on trade causing difficulties for central and local administration. Ad Valorem; a tax at each stage of production, the furthermore final tax being at consumption level (market price of sales fewer purchases) was, having a consumption base with the applicability of destination principle [27].

Before the launch of GST, in the central hall of parliament June 30th, 2017 India had two main subheads the direct tax and the indirect tax paid directly to government and paid by intermediate persons to government respectively. Income tax, wealth tax and corporate tax are examples of direct tax and indirect tax is further sub-categorized into central tax and state tax. The central tax generated revenue for union and state tax to state government. Excise, customs and service are part of central tax wherein VAT, entry tax, lottery, entertainment tax forms a part of state tax. The VAT was a multi-stage tax charged at each stage of production and on the supply of goods. MODVAT [28] was introduced as a tax on inputs. MODVAT- Modified Value Added Tax was applied in 1968, it was the first step to convert tax to consumption type with its applicability to capital goods as well [29]. MODVAT was converted CENVAT - centralized value added tax which was charged with manufacturing goods. Service tax was charged for services.

Contemporary economies essential is GST, destination-based neutral tax with no charge on inputs and capitals. It had been 11 years of critical discussion for implementation of GST and removal of negative aspects. The dual GST acceptance remained ambiguous, as it was shifted from period to period. Finally, the recommendation of 13th finance commission was received of “flawless GST”. 122nd amendment bill proposes GST of the constitution. Suitable design of GST ensures broad base and adequate revenue of government. Apparently, non-consideration of natural gas and petroleum products has caused price falsification and many complexities of cascading effects. GST is to be implemented in such a manner to increase revenue, productivity with improved economic climate [30]

Conclusion: Every nation seeks to develop a tax to an optimal efficiency. The shortcomings of previous taxes gave birth to GST in India as well as around the globe. India can learn from the inadequacies of different nations and implement GST in such a way to reap its fruit to the fullest. Skilled operations in GST at central and state level must advantage in materials as well as dividends to a country as a whole. Yes, GST implementation required robust resolutions and we wish and hope that also confident impression will be gained in the economy with a substantial increase in the growth rate. GST is expected to cause a walking inflation and poor sector of the economy may suffer, satisfactory efforts will be required by the government of India for the same. Further, the amendments decided by government are to be keeping in view the developing scenario of the economy. Positive outcomes are expected from the system and the amendments that are to be rolled out. Uniformity, reliability and ease of interstate and intrastate movement are expected from this taxation policy.

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