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# Gst Model: Indian And Global Perspectives

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**ABSTRACT**

GST has been enacted in India and has come a long way. This system now governs the majority of the world's countries. Again, a new one-country tax system was required to relieve India of its several taxes and rate systems. GST will substantially aid in the establishment of general national markets by removing economic misunderstanding generated by the complex tax structure. It is envisaged that all sectors of the economy, including industry, business, government departments, and the services sector, will benefit.

## 1. INTRODUCTION

When was the last time in the history of the global economy that a project involving a constitutional revision took six years to debate but was enacted by the Union Parliament and ratified by 16 states in just two months? Where else did the federal Parliament and 31 state legislatures approve five laws (the Central Goods and Services Tax Act, State Goods and Services Tax Acts, Integrated Goods and Services Tax Act, Union Territory Goods and Services Tax, and the Goods and Services Tax (Compensation to the States) Act) in 16 languages, involving 200 pieces of delegated legislation?When was the last time a mandate emerged from 18 meetings over the course of ten months, headed by the Union Finance Minister, with involvement from Ministers representing all states' finance ministries, following lengthy deliberations and compromises?The narrative of the Goods and Services Tax is one of great national ambition, unequalled in the history of the global economy (GST).

## 2. RESEARCH OBJECTIVES

(1) To gain a better understanding of the subject of Goods and Service Tax.

(2) To investigate and evaluate the peculiarities on Goods and Service Tax Laws.

## 3. RESEARCH METHODOLOGY

This is a descriptive and conceptual research paper that examines the GST concept and framework using previous literature, books, journals, magazines, research papers, and articles, among other sources. The research is based on secondary data or other sources. In order to make the study effective, many books, newspapers, and related websites, as well as government publications and research papers, were consulted.

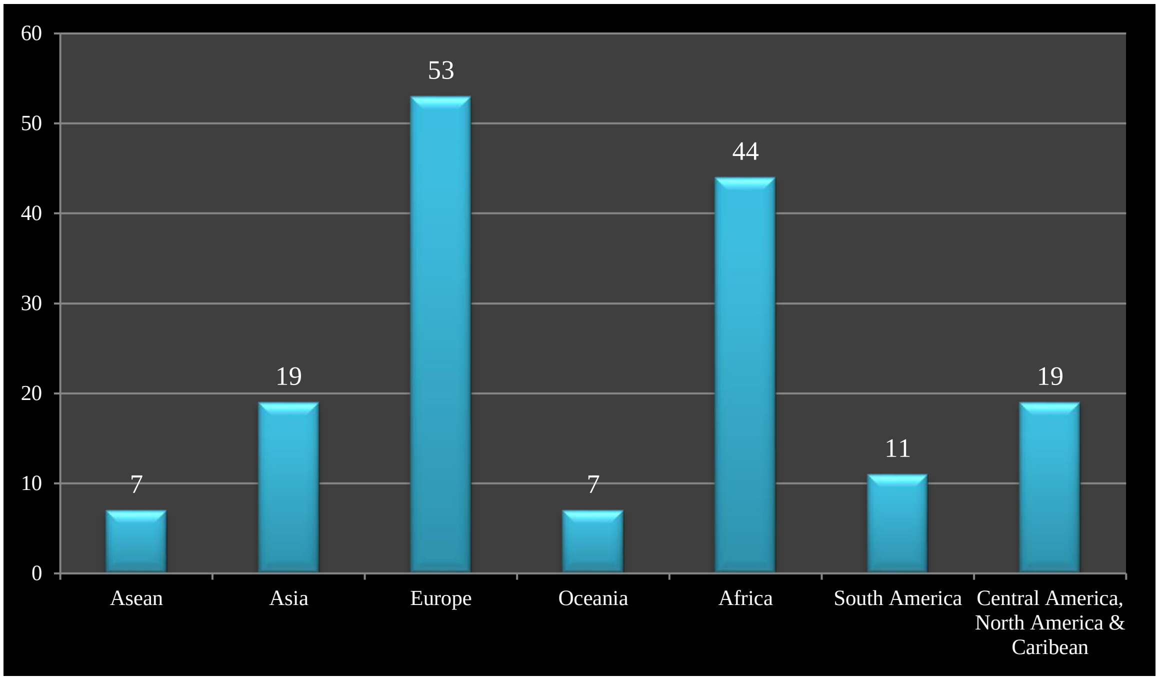
## 4. THE GOODS AND SERVICES TAX

GST is a consumption tax based on the credit invoice approach, in which only the value added at each level of the supply chain is taxed, with credit flowing freely throughout the supply chain. It absorbed a vast number of previously existing consumer taxes in India, which were previously administered independently by the Centre and the States, resulting in a greatly simplified taxing structure. [1]

The GST umbrella system, among other things, integrated the Federal and State Governments' tax administrations, creating a single interface for taxpayers, creating an IT backbone that would match the details of inward and outward supplies at the line item level, eliminating the cascading effect of taxes, thereby making the country's exports more competitive in the global market, and finally re-establishing the country's competitiveness in the global market.[2] GST is a first-of-its-kind experiment in fiscal federalism, in addition to changing the country's industrial landscape. Politicians, policymakers, and tax administrators negotiated, bargained, and reached judgments across ideological lines, all in the name of the greater good. In the genuine spirit of democracy, the legislations that made up GST were presented in the public domain for feedback several times at each level, permitting all stakeholders to decide on what type of future they wished to help shape.GST is primarily a tax on the supply of goods and services. It is known as integrated tax when it is levied by the Federal Government, administered jointly by the Centre and the States, and then allocated between them in the case of an inter-state supply. An intra-state supply is taxed in two ways: the federal tax, which is imposed by the federal government, and the state/union territory tax, which is imposed by the separate administrations.

## 5. COUNTRIES WHICH IMPLEMENTED GST/VAT

**Figure-1: The number of countries implemented GST**




Out of 160 countries, eight countries are not United Nation member states and they are Azores, Taiwan, Faroe Islands, Isle of Man, Jersey, Kosovo, Madeira and Niue. Numbers of UN member states are 193 and out of them only 41 member countries did not implement VAT/GST and are listed in Table-1.

**Table 2: List of Countries which are yet to adopted GST**

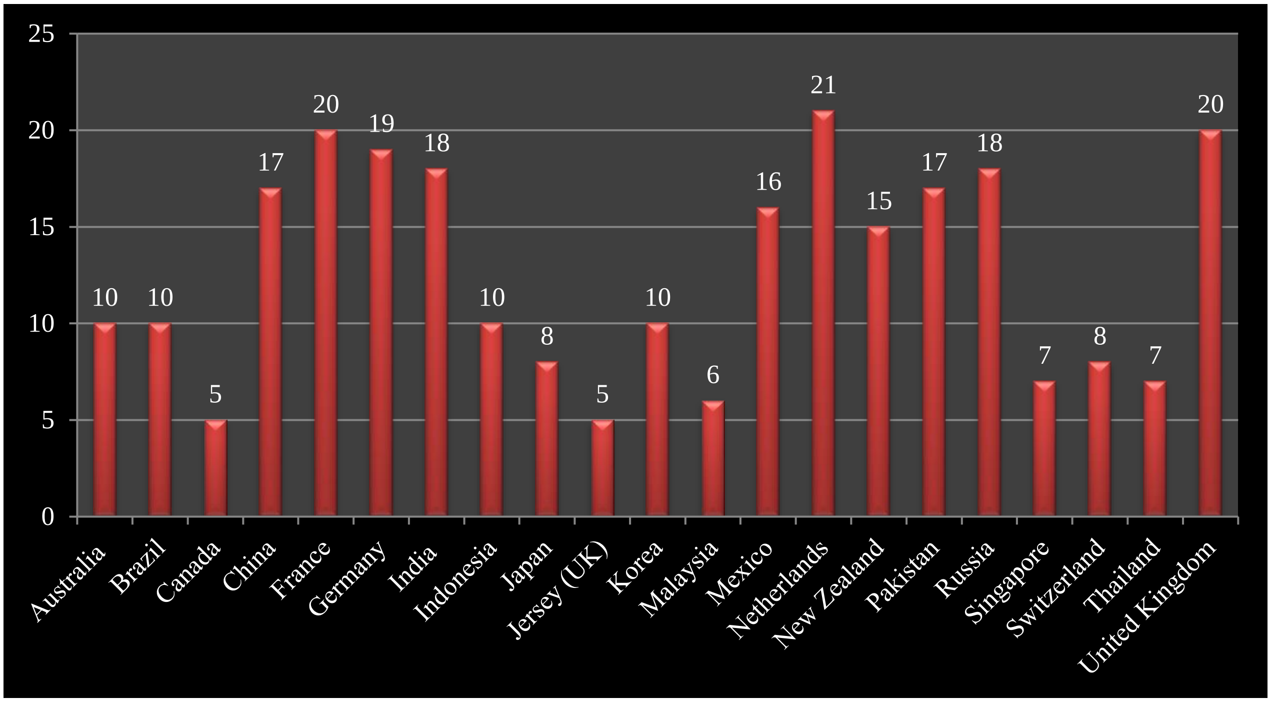
| Asean | Asia | Europe | Oceania | Africa | Caribbean, South, Central&North America |
|---|---|---|---|---|---|
| Malaysia, Brunei, Myanmar | Afghanistan, Bahrain, Bhutan, Iraq, Kuwait, Maldives, North Korea, Oman, | Andora, San Marino | Kiribati, Marshall Islands, Micronesia, Nauru, Palau, Solomon Island, and Tuvalu | Angola, Comoros, Djibouti, Eritrea, Liberia, Libya, Sao Tome and Principe, Somalia, | Bahamas, Cuba, Saint Lucia, Suriname, United States of America |

| | | | | | |
|---|---|---|---|---|---|
| | Qatar, Saudi Arabia, Syria, Timor Leste, United Arab Emirates and Yemen | | | South Sudan and Swaziland | |

Chinese GST was introduced in 1994 and Beijing subsequently completed the reform of the Value Added Tax (VAT), which replaced its conflicting business tax system and contributed to the explosion of the Chinese real estate bubble with its abolition of taxes and VAT. In 1991 Russia was doing the same, while in 2018 Saudi Arabia planned to implement a single unified tax. Although the US does not have GST States, the US enjoys high tax autonomy, although this is a leading economy in the world.In 1989, Japan introduced consumption tax at a rate of 3%, which later grew to 5% in 1997 and was faced with a recession in Asia. The tax was doubled to 10 percent in 2012 but the increase was delayed to October 2019. After 26 years of GST discussion, it was possible to implement GST again in Malaysia at 6% in 2015. In 2000, Australia introduced GST in comparison with other countries where implementation has been quite smooth. The rate has been set at 10%, but the GST rate is now set to rise to 15%. New Zealand introduced 10% of GST in 1986 and had to change rates twice, 12.5% in 1989 and 15% in 2010.In 1994, Singapore introduced GST by 7%. The GST rate for Austria was 20%, 25% for Sweden and 17% for Pakistan. From the trend above, it can be seen that the GST has always been steadily on the rise in any country. The question is, it is 18% in India and the highest rates applicable in the initial phase are 28% and what would happen if it continued to increase?

Most GST countries have a unified GST system, meaning a single tax rate applies across the country. GST is a common taxation system. Almost all of these countries tax at a single rate, the bar diagram shown below gives vital information on the current state of GST in different countries around the world, in India, a GST rate of 18 percent can be observed. The Netherlands shows the highest rate of GST, and Canada and Jersey have the lowest. In all these countries, there have been several positive and critical changes since GST was introduced.

**Figure: Standard GST/VAT Rate in different countries**




Source: OECD, 2016

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.

## 6. GENESIS OF GST

According to the Kelkar Task Force on Fiscal Responsibility and Budget Management (FRBM) Act, 2003, a comprehensive GST based on the Value Added Tax principle should be implemented. The idea of introducing a national-level GST was initially proposed in the 2006 Budget Speech. The Empowered Committee of State Finance Ministers was tasked with developing a design and road map for the implementation of GST (EC). The EC presented its First Discussion Paper on Goods and Services Tax in November 2009, based on input from the Government of India and the States.[3]

In March 2011, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha. However, the question of compensating states for revenue losses remained a point of disagreement between the Centre and the States, and the Constitution (115th Amendment) Bill was forwarded to the Standing Committee on Finance for review in the face of opposition in Parliament.[4] The Empowered Committee debated the Constitutional Amendment Bill between the Centre and the States until the 15th Lok Sabha was dissolved in May 2014, however no agreement could be reached on the contentious topics of compensation, petroleum product treatment, and entry tax subsumption. With the dissolution of the 15th Lok Sabha, the amendment bill lapsed.

After the new government's approval, the draught Constitution Amendment Bill was delivered to the Empowered Committee in June 2014. All GST discussions between the Centre and the States were marred by a lack of trust. States were concerned about relinquishing their taxing jurisdiction, the treatment of petroleum products, the subsumption of taxes such as entry and purchase taxes, and receiving enough compensation for any revenue losses over a five-year period. On the 3rd of July 2014 and the 11th of December 2014, the Union Finance Minister met with the Chairman of the Empowered Committee and State Finance Ministers.On December 15, 2014, he met with the Chairman of the Empowered Committee as well as the Finance Ministers of Gujarat, Haryana, Punjab, Tamil Nadu, and Karnataka. In these two meetings, it was decided that a provision would be inserted into the Constitution Amendment Bill itself for payment of compensation to the States for the first five years following the implementation of GST, and that the GST Council would recommend the date on which GST would be applied to petroleum products.[5] The Government sought Cabinet agreement to introduce the revised Constitution (122nd Amendment) Bill in Parliament, based on this broad consensus.On the 19th of December 2014, the Constitution (122nd Amendment) Bill, 2014 was tabled in the Lok Sabha.

Meanwhile, in order to close the trust gap, the Union Finance Minister received Cabinet approval to compensate states for income losses resulting from the CST rate drop from 4% to 2% in 2010-11, 2011-12, and 2012-13, over a three-year period commencing in 2014-15. This had been a long-standing demand of the States, and the Centre's and the States' deliberations had been harmed in recent years due to non-payment of this compensatory amount. [6]

On May 6, 2015, the Lok Sabha passed the Constitution (122nd Amendment) Bill, which was then referred to the Rajya Sabha for consideration. On the 12th of May 2015, the Rajya Sabha sent the Bill to a Select Committee for examination. On July 22, 2015, the Select Committee submitted its report. The Bill was then passed by both Houses of Parliament on August 8, 2016. [7] The President signed the Constitution (101st Amendment) Act, 2016 on September 8, 2016, after it was ratified by 50 percent of the states. After clearing this first and most difficult hurdle, the process of enacting this historic reform gained enormous traction. [8]

## 8. PECULIARITY OF THE INDIAN GST MODEL

The Indian GST model is unique in that it is one of just a few nations in the world to have established a dual structure (other examples include Canada and Brazil), ensuring that both the Centre and the States have an equal stake in intra-State products and services. The invoice-matching system that has been established in the Indian GST model is another noteworthy feature. On a monthly basis, an estimated three billion invoices will be matched to maintain a smooth flow of credit among taxpayers. [9]

GST could not have arrived at a better moment for India. The country is at a key juncture in its development, when it is set to leap to the next level of socioeconomic growth and requires a catalytic leap to get there. What makes the introduction of GST in 2017 so significant is that it comes at the end of a long series of local and global events, many of which were carefully and strategically planned.The Jan DhanYojana, a national objective of financial inclusion to enable affordable access to financial services including as banking, savings and deposit accounts, remittance, credit, insurance, and pension, is one of the government's significant policy measures. [10]

**Table: GST Regimes in state and central**

| Transaction | New regime | Old regime | Details |
|---|---|---|---|
| Sale inside the State | CGST+ SGST | VAT+ Servicetax/Central Excise | The revenue collected as taxare distributed equally to thestate and central |
| Sale to | IGST | CentralSales | Only one of tax that is |

| | | | |
|---|---|---|---|
| another State | | tax+Excise/ Service tax | centraltax in case of interstate sales.The central will give the GSTrevenuebasedondestination of the goods |

One of the stated benefits of GST is the formalisation of a significant portion of the informal economy, thanks to the need that a registered recipient of supply pays GST under reverse charge if the provider is not registered, effectively disincentivizing tax fraud.The move from an informal to a formal channel would have been extremely difficult for the enormous number of individuals employed. However, because to the Jan DhanYojana, which has opened 300 million accounts, this move has been greatly facilitated, GST has also made electronic payment mandatory, advancing the government's cashless payment push, which is a key component of the Digital India agenda.

**Advantages of GST:**

- Removing cascading tax effect
- Higher threshold for registration
- Composition scheme for small business
- Online simpler procedure under GST
- Lesser compliances
- Defined treatment for E-Commerce
- Increased efficiency in logistics
- Regulating the unorganized sector

## 9. CONCLUSION

GST is the most efficient first step in our country's comprehensive indirect tax reform. Since independence, the GST has provided more relief to farmers through a more comprehensive and broader coverage of input tax set-off and service tax set-off, as well as the subsumption of various Central and State taxes in the GST and the phase-out of the CST. The GST would lower the cost of locally manufactured goods and services by combining significant federal and state taxes.

This is projected to improve Indian exports by increasing the competitiveness of Indian goods and services in the worldwide market. GST would lower the cascade effect and lower costs for consumers. The tax burden on consumption and demand would rise, investment would rise, and GDP would rise as a result. Higher tax revenues (higher tax GDP ratio) would reduce cit to half its current size and revenue scale, bringing cit to zero. GST would also integrate the Indian economy with the rest of the world, as it is already in existence in over 130 nations.

There are a few drawbacks in the analysis that should be mentioned. First, because this is a static model, the GST's influence should be regarded as a long-term effect. Second, the model is inadequate to account for the growing importance of services trade in both local and foreign commerce. In reality, the predicted service tax rate is greater than the existing service tax rate, which may diminish the total effects. Third, the impact on tax collections is not assessed in this note. Despite the fact that the model predicts a reduction in tax collection, there are grounds to assume the GST will be revenue neutral.

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