IMPLEMENTATION OF GST IN FOREIGN COUNTRIES: A CASE STUDY

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ABSTRACT

Goods and Services Tax (GST) is a proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation. The constitution of India was amended (One Hundred and First Amendment) Act 2016.The GST is governed and administered by GST council with Union Finance Minister as its Chairman.GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. In this context it has been studied in the paper that GST implementation is not new in the world .It has been already in effect in major economies of the world. So there is a need to study the economic and social effects of this tax regime in countries, though due to time and other constraints the scope of the study was limited to one country i.e. Australia. The objectives were to study the extent of GST implementation in the country and to find out the social and economic effects of such implementation. The study clearly revealed that Australia was the fifth country among the countries in Oceania to implement the GST due to the inherent political disagreement to GST and the economic and social effects was that GST was viewed as a regressive tax and the Australian economy recorded negative economic growth for the first time in more than 10 years.

Keywords: GST, Regressive Tax, Single Taxation, Indirect Tax, Taxation

INTRODUCTION

Goods and Services Tax (GST) is a consumption tax imposed on the sale of goods and services. In some countries it is also called Value Added Tax (VAT). Goods and Services Tax (GST) was introduced in France in 1950s and has been adopted by more than 120 countries, including all member states of the European Union (EU). Goods and Services Tax (GST) is a percentage tax on value added (the difference between sales and the cost of purchased material inputs) at each stage of production. There are three basic types of value added taxes (VAT) depending on how the investment is treated in the tax base, GDP-type GST, consumption-type GST, and income-type GST. Under the GDP-type GST system, no deductions are allowed for capital investment and depreciation of capital when calculating the tax base. The tax is equivalent to a sales tax applicable to both consumer and capital goods. Under the consumption-type GST system, capital investment is subtracted from the value added in the year of purchase. The tax is equivalent to a sales tax applicable to consumer goods. Under income-type GST system, the tax base excludes the depreciation of capital. The tax is imposed on net domestic product, which is close to national income. Almost all countries that have established the Goods and Services Tax (GST) system adopt the consumption-type GST in which all purchases of capital goods from other firms are deductible from a firm's sale (Shoup, 1990). However, some countries such as Argentina, Peru and Turkey have adopted the income type GST, and countries such as China, Finland, Morocco and Senegal have employed a GDP-type GST. GST rates vary significantly among countries. The standard GST rates range from 25% (Denmark, Hungary, Sweden, and Norway) to 5% (Singapore). Reduced rates and tax exemption are applied to certain goods and services. Revenues from GST account for a significant portion of government revenue in many countries. Of total central government revenue, general sales tax and GST accounted for 33.25% in Greece in 1998, 31% in U.K. in 1999, 28% in France in 1997, 42.58% in Argentina in 2000, 35.7% in Hungary in 2000, 30.20% in Russia, and 33.7% in Ukraine in 2000. According to economists, the inflationary impact depends on the manner in which GST is implemented. Depending on the structure of the scheme, the GST may result in price increases of certain products and in other cases, reductions. One of the ways to minimize the inflationary impact on the economy, they point out, is to introduce an initial low rate for GST, and then, progressively increase the rate over the years, as in the case of Singapore that has managed its inflationary pressures well. A study by the University of Queensland, Australia, found that GST had a significant but transitory impact on inflation only in the quarter to September 2000 after the implementation of the new tax scheme at 10% in July 2000. During the quarter under review, the study claims that inflation in the country as a whole showed an average increase of 2.6%. In the case of Australia, there was evidence of a spike in domestic consumption in the months leading to GST implementation as consumers rushed to purchase products, particularly those that they believe would be substantially more expensive once the new scheme came into effect. Domestic consumption and economic activities declined once the GST came into effect, and resulted in its economy contracting during the first quarter of 2001. But consumption returned to normal soon after. It is widely believed that for the implementation of GST to go down well with consumers, the scheme has to come with some compensatory measures such as the reduction of income taxes to put more money in the pockets of households and to boost their purchasing power. And to ensure that the low-income and poor consumers – who may not enjoy the benefits of lower income taxes as most likely they are already exempted from such payment in the first place - are not worse off with GST, zero-rating some basic essential products and providing other targeted assistance programmes are necessary measures to help them.

SCOPE OF THE STUDY:

The scope of the study is limited to the implementation of GST and the effects of that on the social and economic framework of Australia.This paper gives an idea about the implication of GST adoption in foreign countries.

OBJECTIVES OF THE STUDY:

1. To study the extent of GST implementation in the country.

2. To find out the social and economic effects of such implementation.

LITERATURE REVIEW:

Lledo (2001) analyzed Brazilian Indirect tax system with the two objectives named the reason of not approving a comprehensive reform of the tax system and to know macroeconomic effect of tax system. He achieved these two objectives in the light of fiscal adjustment restriction. For the purpose of the study, A-K model is used giving detail description of CGE models and found positive long run income growth. All factors are increasing due to adoption of single VAT in comparison of existing taxes. His results made a base for political parties to vote in its favour.

Desai and Hines (2005) consider the impact of the GST on international trade, finding that– particularly for other than high income countries–both openness and export performance are negatively related to both the presence of the GST and the extent of revenue reliance upon it. There has previously been no work, however, modeling the take-up of the GST. Only two studies of which are aware have looked at the impact of the GST on the efficiency of and the revenue raised by, the full tax system.

Giesecke and Tran (2009) developed a general equilibrium framework which used VAT model in detail to analyze macroeconomic and sectoral effect of Vietnam' complex tax system. They suggested single rate which is budget neutral instead of three tax rates along with desire o removing many exemptions. They used input- output table of 2005 for the study and found that private real consumption would increase due this single rate VAT.

Ehtisham Ahmed and Satya Poddar (2009),studied , "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will providesimpler and transparent tax system with increase in output and productivity of economy in India .But the benefits of GST depends on design of GST.

Hernandez (2012) evaluated impact of increase in VAT rates replacing para fiscal taxes on employment of Colombia. For his study, he divided labor into two parts- formal and informal labor. He used MEGATAX model and SAM of 2005 for the analysis. He used effective tax rate instead of normal rates in his study. His result showed that Increase in VAT rate had negative impact on household consumption and output. He used a wage curve developed by Blanchflower and Oswald, 1994 for unemployment and the Harris-Todaro approach was adopted to analyze worker's decision regarding to work in formal or informal sector.

Dr .R.. Vasanthagopal (2011) studied "GST in India:A big leap in the Indirect Taxation,System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Agogo Mawali(2014) studied , "Goods and services Tax-An Appraisal" and found that GST is not good for low income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Benedict, (2011) The author studies the law provisions dealing with financial services under the Australian GST law with the intention to verify whether the provisions have been construed correctly in light of the original purpose of the legislation and how the concerns identified may be rectified.

RESEARCH METHODOLOGY:

In this research secondary data was taken from different sources which includes the information available on the internet regarding GST.All the available journals, articles, papers provided necessary information to finalize the study. GST AND AUSTRALIA : In Australia broad based consumption tax was first proposed by then federal treasurer Paul Keating at 1985 taxation summit but due to opposition from Australian trade union and other political circles, was dropped.Subsequently on 28th June 1999, A new Tax System i.e Good and Services Tax Act was passed by Australian parliament after much deliberations due to prolonged effort by the then Prime Minister of Australia Mr.John Howard.. It came into operation on July 1 2000. All the Australian businesses whose turnover is above the minimum threshold(currently $75,000 per annum) are required mandatorily to register for GST. Also there is provision for small business houses that they also have the option to register. A GST registered business must charge its customer GST on taxable goods and services it provides, but is entitled to a credit for any GST it has paid for its expenditures on these goods and services as well as capital purchases, called as input tax credit. A business registered under GST must periodically lodge business activity statements which may be monthly, quarterly or annually and at the same time pay the net amount of GST to the tax office, also adequate provisions are there for refund procedure. In Australia, some goods and services like wages, exports, medical services, fresh foods and real estate (re-sale of existing properties) are exempt from GST and other goods and services are input taxed like rental income financial services, new residential and commercial properties, processed foods like biscuits, soft drinks and restaurant meals are subject to GST.

CONCLUSION:

It can be concluded from the study that though Australia is the largest country in the ocenia with the highest GDP, but it has taken over a decade to finally reach a consensus regarding the implementation of GST in the country due to due to the inherent political disagreement to GST and opposition from trade unions, other business community which viewed it as a regressive tax ,which will pressurize the lower income groups.

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