

GST in India and Australia-A Comparison

**Geoffrey A. Tickell*



Abstract

This paper discusses the Goods and Services Tax (GST) that became effective in India on July 1, 2017. It is notable that, unlike most nations with a GST, India has five (was six) distinct tax rates on products and a dual-tax regime. This paper provides a background to the political process undertaken to implement the GST in India. It also compares India's GST with Australia's GST; a tax introduced in Australia on July 1, 2000, also after considerable political persuasion and deal making. Unlike India, Australia has only one GST rate, that of 10%. This paper argues that India's GST is currently too complex and that simplification, similar to Australia's, is needed for acceptance by its population.

** Professor, Indiana University of Pennsylvania, USA*

INTRODUCTION

“Tax reform is a thankless and politically risky task that involves standing up to vested interests in order to achieve long-term goals”, (Eccleston, 2013, p. 103).

After intensive discussions, several committees, lengthy negotiations and two postponements, a comprehensive Goods and Services Tax (GST) finally came into effect in India on July 1, 2017 . Introduced with the slogan, “one nation, one tax, one market” , India's GST replaced a cascading array of state determined indirect sales taxes, including value-added taxes (VAT), on goods, as well as service taxes levied by the central government. Many commentators regard the introduction of a GST to India as one of its biggest reforms since it gained independence in 1947 .

Unlike most nations, India's GST has multiple rates rather than one single tax rate . On July 1, 2017, India's GST had seven rates (including zero for exempt items) but on November 10, 2017 (less than 6 months after its introduction), the GST Council reduced the number to five by eliminating the 31% and 43% rates and moving items taxed at those rates into the 28% bracket. The 28% rate is for “luxury and sinful items” . By far, the most common rate is 18%. Table 1 shows examples of tax rates on a range of goods and services.

Table 1: Examples of India's GST tax rates (ranked lowest to highest)

Product	Rate
Food grains, fresh meat, eggs, books, cereals, milk, education, healthcare	Exempt
Fishing nets, used clothing, economy class air ticket, basic hotel accommodation, goods transportation, coffee, tea, spices, stamps	5%
Condensed milk, printing ink, butter, cheese, cellphones	12%
Chocolates, fork lifts, rubber tubes, telecom services, business class air tickets, moderate hotel accommodation, restaurant services	18%
Cigars, gambling, luxury hotel accommodation, cinema tickets, automobiles, paint, sunscreen, luxury hotel accommodation	28%

Source: ET Online, 2018.

Note: The rate of GST on hotel accommodation and restaurant meals depends upon the price charged with the rate increasing to the next bracket each time the price moves into a new threshold.

On July 1, 2017, India became the 166th nation to introduce a GST. France was the first in 1954. Table 2 lists other GST countries with their corresponding tax rate . You will note from Table 2 that, unlike India, most countries only have the one tax rate.

Table 2: GST rates in a sample of other countries (in alphabetical order)

Nation	GST Rate (%)	Year Introduced
Australia	10	2000
Brazil	10	2017
Canada (Dual System)	5+5	1991
China	17	1994
Denmark	25	2000
France	20	1954
Germany	19	1991
Hong Kong	10	2006
Japan	8	1989
Malaysia	6	2015
New Zealand	15	1986
Pakistan	17	1990
Singapore	7	1994
South Korea	10	1985
Sweden	25	1969

Source: (S. Gupta, Sarita, Singh Munindra, Komal, & Kumawat, 2017; Lourdunathan & Xavier, 2017).

It is worth noting that the USA does not have a GST; instead most states levy a single-rate sales tax on goods, with the rate and the type of goods exempted varying between states.

It is apparent by studying the VAT rate on particular products prior to the introduction of the GST that India adopted a five-rate regime instead of one because they felt it to be prudent to closely match the VAT rate (i.e., the before the GST rate) with the new GST rate. This might have been for political survival as well as to closely match the amount of revenue collected from the GST with that previously collected from the VAT. Table 3 shows a sample of products with the “Before GST rate” and the “GST rate”. It is worth noting that the correlation of the before and after rates is almost 100%.

Table 3: The tax rate on a selection of goods before and after India introduced the GST

Items	Before GST(%)	GST rate (%)
Cereals, Milk, printed books,	0	0
James, jellies, juice, ketchup	12	12
Pasta, toilet paper, Telecom	18	18
Spectacle lenses, bicycles	18.5	18
Instant coffee, razors, toothpaste, sugar, refrigerators, furniture, perfumes, shampoo, paint, ceramic tiles, pianos, revolvers, make-up	26	28

Source: BQ Desk (2017).

Introduced into Australia on July 1, 2000, Australia's GST is a broad-based consumption tax. It replaced six sales tax brackets ranging from 12% to 45% (Groenewegan, 1983). The Federal Government levies the one rate of 10% on all goods and services, except exempt items (e.g., basic food items). The GST is subsumed in the advertised price of the good or service. The amount of GST collected is shown separately on the receipt. For exempt items, the receipt shows a code of NGST. All businesses with a turnover of \$75,000 AUD or higher must register with the Australian Tax Office for GST collection (ATO, 2018). For tax remitting purposes, businesses in Australia submit a monthly Business Activity Statement (BAS) showing the GST collected from their customers. They attach a check for the GST collected that month and send it to the Australian Taxation Office (ATO). To encourage investment on capital items, businesses can claim a rebate against the GST collected for the amount they spent on capital items (SMH, 2018).

The political journey of the GST in India and Australia

India: India's 1949 Constitution created a federation of states and one central government. This sharing of power requires lengthy negotiations between the states and the central government any time legislation affecting the states is proposed. GST negotiations necessitated a dual model of tax collection (Govind, 2011), similar to that of Canada, which also has a dual-GST model (i.e., with Federal and Provincial rates). GST is collected in the state where the item is sold with the central government collecting 50% and the state government collecting the other 50%. For example, 18% hotel laundry bill in Bengaluru is split between the Central (9% CGT) and the state of Karnataka (9% SGT). Both amounts are shown on the receipt.

The political journey of India's GST started in 2000 when the NDA government formed an empowered committee to design a GST model under the chairmanship of Asim Das Gupta (Nath, 2017). In 2004, the proposal gathered momentum under the Kelkar Task Force (Y. Garg & Gupta, 2017). In 2006, the Finance Minister, P. Chidambaram, announced a target date for implementation of the GST as 1st April 2010 (Sankar R., 2017). In 2008, an empowered committee submitted a report titled "A Model and Roadmap for Goods and Services Tax in India" (Sankar, 2017). In late 2009, the Committee sought public opinion. In 2010, the Finance Minister, Pranab Mukherjee, stated that the GST would become effective on April 1, 2011. This deadline was extended to April 2012 (Adhana, 2015). Postponements continued in 2012 and 2014. In May 2014, under the new government of Prime Minister Modi, the new bill was introduced into parliament and was passed in May 2015. Implementation delays continued until 2016 when, finally, the Finance Minister, Arun Jaitley, stated that the GST bill would be implemented through the One Hundred and Twenty-Second Amendment Act (2016) from July 1, 2017 (Adhana, 2015; S. Gupta et al., 2017).

Initial resistance to the GST came from states who felt that their tax revenue would decline due to the tax being collected in the destination state rather than the state of origin, as occurred with the previous value-added tax system (Vinay Kumar, 2016). Clearly, with the move from a VAT to a GST, the predominately industrial states felt that they would lose tax revenue to the more populous states. To ease their fear of

losing tax revenue, the Central Government has guaranteed no loss of income to individual states resulting from the introduction of the GST for the first five years (Sehrawat & Dhanda, 2015).

India's GST is intended to replace all indirect taxes including octroi, sales taxes, entry tax, stamp duty, license fees, turnover tax, etc. (N. Gupta, 2014). Businesses with an annual turnover exceeding 1.5 crore (where 1 crore equals 10 million rupees) are required to register for GST (BQ Desk, 2018; Rao & Chakraborty, 2010).

Australia: The thought of reforming the indirect tax system in Australia to include services first came in 1974 (Eccleston, 2013). In that proposal by Australia's Treasury Department, it was called a consumption tax. A Draft White Paper in 1985 advocated for a consumption tax to be introduced. This was the first time that taxing services was considered by an Australian government. However, the idea was unpopular with the trade union movement and welfare lobby groups due to it being a regressive tax and hurting those on a low-income. Due to the unpopularity of a consumption tax, the government abandoned the policy during the 1980's.

Discussion of a new type of indirect tax to replace the many sales taxes did not surface in the media again until 1992 when the Opposition (Liberal) Party in Australia included a GST in its policy agenda during the election campaign (Blount, 2000). The leader of the Liberal Party, John Hewson, encountered difficulty in selling the policy to the electorate and consequently lost the March 1993 election (Eccleston, 2013). The incumbent (ALP) government was returned to power, most likely due to the unpopularity of the GST as well as a promise to reduce personal income tax rates. In fact, soon after being re-elected, the government was required to increase the rate of sales tax on many goods to pay for the loss of revenue from the income tax cuts. During the 1996 election campaign, no mention of a GST was made by either of the two major parties. They were aware of the unpopularity of a GST with Australia's voters. After the election, the new (Liberal) government placed a GST back on its policy agenda. The introduction of a GST became a prominent issue for the Liberal government in the election campaign of 1998. It seemed that the electorate was slowly warming to the idea because the Liberal Party was returned to government, albeit with a slim majority, in 1998 (Crosby, 2000).

Importantly, with the Australian government's narrow majority in the lower house (the House of Representatives) and the balance of power being held by minor parties in the upper house (the Senate), the government looked to the Australian Democrats (a minor party) to support the GST legislation. In return for their votes, the Australian Democrats demanded that basic food items (e.g., milk, bread, vegetable, fruit) be exempt from the GST (Blount, 2000). After a lengthy bargaining process, the Liberal Government, led by Prime Minister John Howard, obtained the necessary votes from the Australian Democrats for the legislation to pass both houses of parliament. Unfortunately for the Australian Democrats, it seems that a large proportion of Australia's voting public blamed them for the GST. This unpopularity resulted in the Australian Democrats not winning any seats in the 2004 or 2007 half-senate elections. In fact, today, the Australian

Democrats, as a political party, no longer exists (Economou & Ghazarian, 2008).

The Australian Federal Government levies, administers and collects the GST. States do not levy a GST. The tax rate of 10% is consistent across all states. Exemptions are also applied consistently across the nation. All non-exempt products have 10% added to the cost of the product; the retail price includes the GST and the tax collected is clearly shown on the customers receipt. The money collected by the Federal Government is then remitted back to the six states and two territories in Australia, although not necessarily at the full amount collected from each state. From the time the GST was introduced, some states (e.g., Tasmania) have consistently received more than 100% of the GST receipts while others (e.g., Victoria) have always received less. This “Robin Hood” arrangement is based on a principle known as horizontal fiscal equalization (Australian Government, 2012) Table 3 outlines the percentage returns of the GST pool to each state and territory, in 5-year intervals.

Table 4: GST distributions for select years (in five-year intervals).

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2000-01	0.91	0.87	1.02	0.98	1.18	1.51	1.11	4.16
2005-06	0.87	0.88	1.04	1.03	1.20	1.56	1.14	4.27
2010-11	0.95	0.94	0.91	0.68	1.28	1.62	1.15	5.07
2015-16*	0.99	0.91	1.05	0.38	1.20	1.76	1.28	5.28

*Treasury estimate

Source: (Australian Government, 2012; Weight, 2014)

It is notable that Western Australia's share of the GST pool has become less and less each time the federal government distributes the GST receipts. This is due to the Western Australian government collecting substantial receipts from exporting iron ore and minerals to China. As shown in Table 2, Western Australia's share of the GST pool has fallen from 103% in 2005-2006 to 38% in 2015-16.



REASONS FOR INTRODUCING A GST IN INDIA

There are several acknowledged reasons for the introduction of the GST in India. In no particular order they are:

1. To eliminate the tax-on-a-tax event that occurs as a result of a series of cascading value-added taxes on products. Unlike a VAT, the GST allows for set-offs through a tax credit mechanism whereby the GST paid by the seller is offset from the GST collected from their customers. Given that the final user is the only customer paying the GST, the tax-on-a-tax is eliminated. Sunitha and Chandra (2017) explain the problem of a VAT through the following illustration. “Suppose a truck is moving stuff from Delhi to Chennai. It will go through around 8 states. It pays a variety of taxes during that time ... By the time the truck reaches the destination in a couple of weeks, a huge amount of cost is indirectly added to the consumers. Each source of tax creates complexity, corruption and delay” (p. 56).

2. With one tax for the entire nation, it is expected that the compliance costs will decrease and compliance rates will increase.
3. The GST has broadened the tax base thereby increasing the revenue collected by governments. For example, from July 1 2017, states for the first time are able to collect indirect taxes from the service sector. Prior to the introduction of the GST, only the central government was permitted to levy a tax on services.
4. Local production will receive a significant advantage from the change. Instead of all local goods incurring a VAT, as occurred prior to 2017, only goods and services sold in India will incur the GST. Exports will no longer incur indirect taxes making them more price-competitive overseas. The flip side of this is that imports will now incur the GST, therefore making them more expensive in the domestic market.
5. An increase in direct foreign investment is likely to occur given the simplified and unified GST.
6. There is a general feeling that the GST will significantly reduce tax evasion. Some commentators regard this to be the primary motivation behind the introduction of the GST. The black market, as it is often called, was measured at around 20% of the total tax revenue prior to the introduction of the GST. It is expected that the GST will considerably reduce the number of unreported transactions (so as to avoid paying tax), especially in the restaurant sector.
7. Primary producers are likely to benefit from the introduction of the GST because most agricultural commodities are now exempt.

Overall, there is a strong feeling among economists, politicians and commentators that the introduction of a GST in India will increase economic growth, increase government revenue, and improve employment opportunities for that nation. There is a general consensus that economic growth in India will increase by a further one to two per cent as a result of the GST.



ACCEPTANCE OF THE GST BY THE AUSTRALIAN CONSUMER

There is evidence to suggest that the Australian public has slowly grown to accept the GST. Today, consumers view the GST to be a normal part of their everyday life (Tax Foundation, 2017). In the case of many goods (e.g., home furnishings), the retail price of a product stayed about the same after July 1, 2000 due to the sales tax being replaced by the GST as well as retailers absorbing the GST. In contrast, the price paid by clients using the services sector (e.g., dentists, lawyers, accountants, real estate agents), increased the full 10%.

At regular intervals, there are suggestions by politicians, economists and the media to increase the GST to 15%, but so far all Australian governments have resisted this. There is a general belief that a political backlash would occur against any government that proposed to increase the GST rate. Given the narrow majority of seats held by the government (regardless of which party is in power), talk of an increase in the GST rate

would cause that political party to not win the next general election.

There is clear evidence that the GST has reduced the number of and the dollar amount of black-market transactions in Australia . Moreover, this increasing rate of compliance with the GST is steadily increasing as Australia's consumers move away from cash to a debit or credit card when paying for a transaction. It is understood that cash-based transactions need not be recorded in the accounting system whereas debit and credit card transactions require it for a receipt and collection. This trend might transfer to India thereby also reducing the number of black-market transactions in India.



CONCLUDING REMARKS

It is anticipated that India's GST will bring in more revenue for both the central and respective state governments, as it did in Australia, New Zealand and Canada , although it is too soon to be conclusive. However, India's GST is far more complex than Australia's straightforward one-tax rate version. India's range of tax rates is a complicating factor. According to the World Bank, “the key to India's GST success would be to reduce the number of different rates” . Knowing and then calculating the GST amount in advance will not be easy for India's everyday consumer. In 2009, Ahmad and Podder argued that, “ideally, the tax should be levied comprehensively

on all goods and services at a single rate to achieve the objectives of simplicity and economic neutrality” (p. 19). Despite this argument, India adopted a range of rates with the rate for most items being 18%. Maybe this outcome was a political trade-off between revenue collection and acceptance by consumers, given that the GST rates and the VAT rates are similar for many products. It seems that, for most products, the 2017 VAT rate became the 2017 GST rate, give or take a few percentage points. This decision differs from the majority of countries (e.g., Australia, New Zealand, Singapore and Japan), which ignored the current sales tax rates when introducing their GST and implemented one single rate for all products .

Using Australia's experience as a guide, it takes considerable time for consumers to understand and then accept a GST. One single tax rate enables quicker understanding and higher acceptance of a GST than does a multitude of rates. If the government of India wants to simplify the GST for its retailers and consumers, and as a consequence, increase acceptance of the GST, then the number of rates should be reduced. The GST Council in its 23rd meeting on November 10, 2017, did indeed recommend widespread changes to the GST by reducing the number of slabs to five (E.T., 2018). In line with research conducted by Shamsuddin, Ruslan, Halim, Zahari and Fazi (2014) and Ahmad, Ismail and Halim (2016) in Malaysia, the relative acceptance-rate of the GST by a nation's population is an area for possible future research.

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