

A comparative study of indian gst with canada model

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ABSTRACT: The newly implemented Goods and Service Tax (GST) system of India will bring 'One Nation One Tax' to unite the existing Indirect Taxes under one umbrella. The important motive of the government to enact the GST was to make our business Globally competitive, Efficient Tax collection, Easy inter-state movement of goods, Reduction in the corruption, Removing of cascading effect of tax, Higher threshold for registration, Online simpler procedures etc.. Goods and service tax is taking India by the storm. India has chosen the Canadian model of dual GST. France was the first country to implement GST to reduce tax-evasion. Since then, more than 140 countries have implemented GST with some countries having Dual-GST, for example Brazil and Canada. India has chosen the Canadian model of dual GST as it has a federal structure where the Centre and states have the powers to levy and collect taxes. This paper especially focused on Comparative Study of Indian GST with Canada Model.

Keywords: GST – Comparison – Indian GST - Canada Model GST – Federal Structure.

INTRODUCTION

Goods and Services Tax is the new unified, multi-stage and consumption based tax levied on manufacture, sale and consumption of Goods and Services at national level to replace all the existing national and state tax systems like VAT, Service Tax, Excise Duty, etc. It is expected to remove the cascading effect of tax-on-tax which is prevalent presently. It is applicable to you if you are into Manufacturing, Trade, E-commerce or Services.

Globally there are two models of GSTs ie United (Single) model and Dual GST model. Globally Canada and Brazil are the only two nations implemented the Dual GST System. The federal system of governance in these countries are the main reason to implement the dual GST. Today, more than 160 countries worldwide have either VAT or GST. However, the one big difference between the Indian model of GST and similar taxes in other countries is the dual GST model. Many countries in the world have a single unified GST system, countries like Brazil and Canada have a dual GST system whereby GST is levied by both the federal and state or provincial governments. In India, a dual GST is proposed whereby a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of every transaction of supply of goods and services.

Reasons for charging Dual GST instead of one GST in India

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federality.

Why Canada?

India has followed the Canadian model. Canada has a federal government (like in India) and a federal GST was introduced in 1991 replacing the existing federal sales tax imposed on manufacturers and certain licensed wholesalers at a general rate of 13.5%. However, all provinces continued with the provincial retail sales tax (PST) thereby having two levels of levy. The harmonized sales tax (HST) is imposed in provinces that have harmonized their provincial sales tax with the GST

Forms of Taxation in Canada

Taxation is a mechanism used by all levels of government in Canada to collect revenue in order to finance government programs and services. Taxation is a compulsory payment imposed on individuals, businesses, organizations, and property.

Taxation comes in many different forms. The following lists a few of the different types of taxes in Canada:

Personal Income Tax:

Both the federal and provincial/territorial governments impose annual personal income taxes on individuals, which represent the largest portion of government revenues. Income tax is a charge on an individual's annual income or the amount of money they have earned over the course of the year. This would include such things as wages, capital gains (income earned from selling a personal asset, such as real estate and stocks), and subsidies (such as welfare and unemployment assistance).

Property Tax:

This is a tax on property, usually real estate, owned by individuals and businesses. Under this type of tax, people usually pay an annual sum equal to a certain percentage of the value of their property. Property taxes are commonly found at the local body level of government in Canada.

Sales Tax:

Another common form of taxation in Canada is sales tax, which is a charge on the exchange of goods and/or services between individuals and organizations. When one party sells a good or service to another party, a sales tax must be paid to the government. The Goods and Services Tax (GST), as well as the various provincial sales taxes, are examples of this sort of taxation.

Corporate Tax:

Federal and provincial governments also collect annual corporate or business taxes, which is a charge on the earnings and capital of businesses. Earnings are generally considered

gross revenues less expenses; in other words, companies only pay taxes on their profits, rather than on the total amount of money they collect on the sale of their products.

How Indian GST model compares with GST in Canada

Particulars	India	Canada
Name of GST in the country	Goods and Service tax	Federal Goods and Service Tax & Harmonized Sales Tax
Standard Rate	0% (for food staples), 5%, 12%, 18% and 28% (+cess for luxury items)	GST 5% and HST varies from 0% to 15%
Threshold exemption Limit	20 lakhs (10 lakhs for NE states)	Canadian \$ 30,000 (Approx Rs. 15.6 lakhs in INR)
Liability arises on	Accrual basis: Issue of invoice OR Receipt of payment -earlier	Accrual basis: The date of issue of invoice OR the date of receipt of payment- earlier.
Returns and payments	Monthly and 1 annual return	Monthly, quarterly or annually based on turnover
Reverse charge Mechanism	Apply on goods (new) as well as services (currently under Service tax)	Reverse charge applies to importation of services and intangible properties.
Exempt services	Manufacture of exempted goods or Provision of exempted services (to be notified)	Real estate, Financial Services, Rent (Residence), Charities, Health, Education

Structure of Federal GST of Canada

In Canada GST is a sales tax, meaning that it is a charge on the exchange of goods and services between individuals, business, and organizations. As such, there are several basic elements that characterize the GST.

First, the GST is a **consumption sales tax**, meaning that the party purchasing the product (the consumer) is responsible for paying the tax, as opposed to the seller of the product. If you purchase a book from a book store, for example, you are charged the GST in that particular transaction. This principle operates at all stages of production and distribution. Whenever a transaction occurs, be it at the manufacturing, distribution or retail stage, the party purchasing the good or service is required to pay the GST.

Second, the GST is a **percentage consumption tax**, meaning that the amount of tax you pay is based on a certain percentage of the sale cost (before taxes) of the goods or service you have purchased. For example, if the book purchased at cost \$10, then the GST on that purchase would be six percent of \$10 (or \$0.60). The total cost of the book, including taxes, would be \$10.60.

Third, the consumer pays the GST, while the seller or vendor is **responsible for collecting and remitting the GST to the government**. The consumer who purchases the book pays the GST to the bookstore and the bookstore remits it to the government at a later date. Over the course of the tax year, vendors in Canada are responsible for keeping track of how much GST they have collected and then sending that amount to the government.

As India followed the Canada model, it is relevant to view the similarities and differences in GST system. They can depict in the following heads.

1. Title

The Indian model is named Goods and Service Tax (GST) which subsumed most of the indirect taxes under one head. The names of present tax system of Canada are the Federal Goods and Service Tax and Harmonised Sales Tax (FGST and HST)

2. Milestones

India implemented the GST from 1st July 2017 onwards based on the Constitution Amendment bill passed on August 2016. In the year 2006 the parliament announced to introduce GST by 2010 was the first step in regard.

In the late 1980s, the federal government of Canada, led by Progressive Conservative Prime Minister Brian Mulroney pursued the issue of sales tax reform, announcing its desire to replace the MST (Manufactures Sales Tax) with a new value-added sales tax called the Goods and Services Tax (GST). The GST was implemented in Canada on January 1, 1991 after a long study and political and economical debates. In the year 1996 Harmonized Sales Tax (HST) implemented in some provinces by considering demand of concerned province Governments.

3. Jurisdiction

All the states and Union Territories of India comes under the GST regime. But all provinces (states) of Canada not comes under in the single uniform system of GST.

4. Components

In the Indian model mainly there are three components .ie CGST, SGST and IGST. CGST levied by the central government and SGST by the concerned states governments. IGST (Integrated GST) levied and collected by the Union government on interstate movement of goods and services and on import of goods and the collected amount of tax is apportioned later between concerned states with central Government.

In Canada all the provinces are not in same uniformity in the tax rates and charges The tax applied on the final sale of a product or service in Canada is called Sales Tax. The following sales taxes are levied in Canada, based on region:

GST: A Federal Tax called (GST - Goods and Services Tax) is levied by the federal government in every province in Canada.

PST: In addition to GST, every province (except Alberta) levies a provincial tax called PST (Provincial Sales Tax).

HST (GST + PST combined): The combination of GST and PST (the total tax that you have to think about paying) is called HST (Harmonized Sales Tax) in the provinces of New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island. These provinces don't apply GST and PST separately; they levy one combined tax called HST.

QST and RST: The provincial sales tax applied in Quebec Province is called QST (Quebec Sales Tax). Merchants in Quebec are required to pay GST and QST for all the sales made.

The provincial sales tax in Manitoba is called RST (Retail Sales Tax). Merchants in Manitoba are required to pay GST and RST for all sales made.

Depending on the province or territory in which we operate the business, we need to collect either a combination of GST and PST, GST or only HST.

5. Rate of Tax

Under Indian system 5 levels of Taxes are levied (0% (for food staples), 5%, 12%, 18% and 28%) + Cess for luxury items of goods and services.

In Canada GST is 5% and HST in the range of 13% to 15% (federal component of 5% and provincial component of 8 to 10%) . But there is options to changes in rates at some provinces according their jurisdictional peculiarity.

6. Threshold exemption limit

In India an uniform threshold limit of annual turnover of Rs. 20 lakhs is fixed across all States and Union territories by considering with adequate compensation for NE/SC States (the States in North-Eastern Region and Special Category States) where lower threshold of Rs. 10 lakhs had prevailed in the GST regime. In Canada the threshold limit is \$ 30,000 (Approximate to Rs. 15.5 lakhs in INR)

7. Taxable and Non-taxable goods

All sales made in Canada classify into three categories: those that are taxable, those are zero-rated (meaning they are taxable but are taxed at 0%) and those that are exempt from tax. Real estate, Financial Services, Rent (Residence), Charities, Health, Education are exempted services.

In India food staples are comes under zero rated tax. And in case of services related to manufacture of exempted goods or provision of exempted services are not taxable. Export of goods and services are also not charged.

8. Returns and Payments

In India the registered tax payer should submit returns monthly and one annual return. In Canada monthly, quarterly or annually returns are to be submitted based on turnover. Because of Canada implemented GST in 1991, its impacts at various sectors are noticed. During these 26 years Canada compelled for many modifications in GST regulations. In Indian case we have to wait to see how the GST will react in our economic developments and in Indian politics. In Canada it was implemented after a long political debate and oppositions against GST regulations. After its implementation in 1991, the ruling party was thrown out from the power in the 1993 general election in Canada.

Conclusion

In many countries, GST was introduced at a lower rate than pre-existing tax rate. Like anything new, GST will have teething troubles. But on overcoming these troubles, the other countries saw the advantages of having a unified tax system, easy input credit, reduced compliances. While India is yet to see its share of development around implementation of GST, one should be wary of lessons learnt in other countries that have overhauled their indirect tax systems. We at Clear Tax have understood the challenges Indian businesses and professionals are facing with the implementation of GST.

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