GST: Lessons from countries that have implemented the Goods and Services Tax

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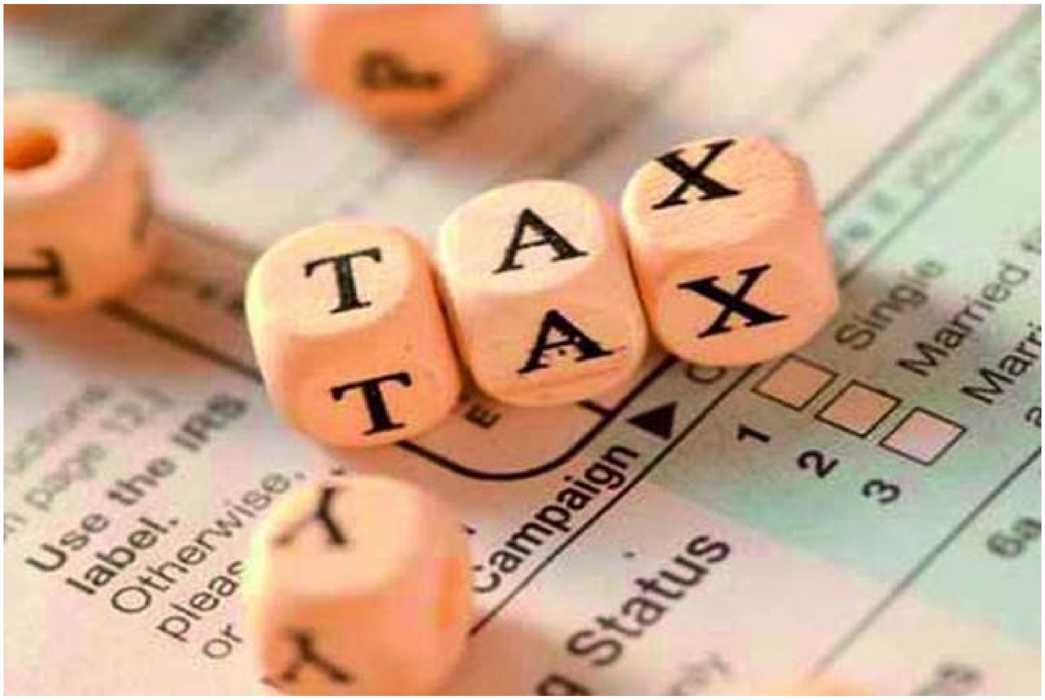

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As the proponents work towards building a better tax world, the fate of Goods & Services Tax (‘GST’) in India is still hanging on a political seesaw – though the fizz around its implementation has capably sustained for some years now. While India is still to see its share of development around implementation of GST, one should be wary of lessons learnt in countries that have implemented a similar tax regime.

All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax on consumption of goods and services. But perhaps the most contentious issue that still needs to be resolved among the different governance in the world is the GST rate. Some are still struggling to rationalize an adopted rate structure.

Similar to Indian context, it is only Canada that has the concept of dual GST. While there was strong rebel at the time of introduction of GST by the then political division in Canada, however, GST sustained despite the opposition. Even for the subsistence, the Government of Canada has been pragmatic and worked towards reducing the GST rate a couple of times post implementation. While some others have had to increase the rates very soon after introduction.

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The aforesaid is highly relevant in the India context where once revenue neutral rate was discussed at 27% and now realistically being talked about at 16-18%. It is imperative that a reasonable rate structure is adopted to ensure the success of GST.

Another aspect encountered and accepted by most of the GST countries lies in the statistic that GST will be inflationary, especially if the effective tax rate is higher than what prevailed before. For instance, Singapore saw a spike in inflation in 1994 when it introduced the GST. That makes it all the more important for administrators to keep tabs on how prices move after imposition of the tax. Malaysia, to an extent, was able to mitigate this risk as price control on account of the GST was administered by the Ministry of Domestic Trade and Consumer Affairs.

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Another key refresh from Malaysia learning is that businesses need to start early with the implementation process to be GST-ready. The Malaysian Government received strong resentment even after providing 1.5 years for GST preparedness. Given the complex GST model proposed in India and the need for a businesses to undergo a transformation to adapt to the GST regime, it would be quite challenging for the Indian government to tackle the ask of requiring businesses to implement GST in less than 9 months, with 1 April 2017 as the potential GoLive date.

One constructive learning that did come handy in the GST preparation in Malaysia was the release of sector specific guidance paper(s) on tax treatment concerning each business sector. It aided in addressing the “to be tax practice” associated with a particular business segment. Indian legislative bodies could look into similar publications to effectuate the implementation of GST in a smooth way.

As GST is a tax on transactions, which for most business organisations is voluminous, the processes and changes required for GST compliance need to be automated and encapsulated in the IT system. It is learnt that many big businesses have either failed or struggled to achieve IT transformation for having not planned or started early. It would be a mistake to assume that IT software with GST capability from other countries may be adopted wholesale in India, due to peculiarities embedded in the proposed Indian dual GST model.

Additionally, the India GST regime places the small and medium enterprises (SMEs) on the same footing as large-scale industries by keeping the exemption threshold very competitive (proposed at ` 1 million) without any tax differentiation. This poses daunting task ahead for SMEs to be ready to invest, read and change in the same way as any large-scale player, without appreciating the limited resources available with them. Some post-implementation truths from the GST in Malaysia includes wide-spread unrest and anti-GST street protests by small & medium businesses in Kuala Lumpur for few months after implementation even with a simpler systemic requirements and much higher level of exemption threshold.

From the lessons learnt, there is no denying that acceptance of GST by general public, businesses and firms would not be an easy task, with advance planning and extending adequate time to industry, continued dialogues between businesses and administrators, engaging with industry on the implementation planning, a reasonable tax-rate, timely release of the legislative documents, has proven to aid in smooth GST implementation in many countries. Of course, GST is proven to be an efficient tax collection system despite teething problems in the initial implementation period.

(Views express are personal)