KAAV INTERNATIONAL JOURNAL OF LAW, FINANCE & INDUSTRIAL RELATIONS
A REFEREED BLIND PEER REVIEW BI-ANNUAL JOURNAL
KIJLFIR/JUL-DEC2017/ VOL-4/ ISS-2/A5 PAGE N0.21-24
ISSN: 2349 2589 IMPACT FACTOR (2017) :5.877
WWW.KAAVPUBLICATIONS.ORG

GOODS AND SERIVICES TAX IN INDIA AND MALAYSIA: DIFFERENCES AND SIMILARITIES

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ABSTRACT

GST dates back to 1950's when France introduced GST. And since then, more than 140 nations have adopted the GST. India choosing the Canadian model of GST where fiscal powers have to be concurrently distributed in a manner where the powers of centre and state should not overlap, with each having its own area to look into. Then on the other side, we have Malaysian model implemented on 1st April, 2015, which is quite recent to study the differences and similarities between dual GST model and single GST. This paper aims to study the two very recent GST implications in two different nations after being delayed for quite a few years since their discussions started in respective nations.

GOODS AND SERVICES TAX

The GST that would subsume all indirect taxes at the centre and state levels into one uniform indirect tax for the entire country and would satisfy the ideal condition of 'one-country-one-tax'. Such tax will not only reduce the cascading burden on a large number of indirect taxes on the final consumer but will also benefit the producer by way of cost reduction, increases productivity and increase in overall demand for the goods. As a result, it will lead to increase in GDP, tax GDP ratio, help eliminating the revenue deficit to result in a revenue surplus and thus emerge as the most revolutionary reform of indirect tax structure.

GOODS AND SERVICES TAX IN INDIA

Breaking the three most important terms of the act, 'goods', 'services', 'tax' are defined as following under the act : ' "goods'' means every kind of movable property other than actionable claim and money but includes securities, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under the contract of supply;

Explanation– For the purpose of this clause, the term 'moveable property' shall not include any intangible property.' Services '"services'' means anything other than goods; Explanation: Services include intangible property and actionable claim but does not include money. "tax" means goods and services tax levied on the supply of goods and/or services under this Act and includes any amount payable under section 8;' GST is a destination based tax, chargeable at the supply of goods and services. GST is a unified tax structure which aims to make India one unified market, by bringing all indirect taxes under one umbrella. This unified tax structure will make India a common market with common taxes in every

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state and common tax practices being adopted in a nation, making it a unified economy. The composite indirect tax structure which dates back to 1950's to countries like France, first country to implement GST to reduce tax evasion. Since then many nations have adopted the unified tax structure of GST, with few nations having the dual GST (eg. Brazil, Canada), India is following the dual GST model of Canada. GST has been delayed in India to quite a number of years. GST as a proposal was first introduced in the Union Budget 2007-08 by the then Finance Minister. At that time it was proposed to be introduced from 1st April, 2010. The empowered committee of state finance ministers (EC) which was formed to design the structure for state VAT, was requested to formulate and design a plan for GST. Representatives were taken from the states as well as centre in the joint working committee to look into different aspects of GST, especially on exemptions and thresholds, taxation of services and taxation on inter-state supplies. The meetings and discussions of the EC with the central government, EC released its First Discussion Paper (FDP) on GST in November, 2009. This has been the basis of discussions between the centre and the states. The GST pattern in India that has emerged would subsume the following indirect tax/duties;

Central taxes: (a) Central Excise (CENVAT); (b) Additional Excise Duties (c) Service tax; (d) Additional and Special Additional Custom Duties; (e) Central Surchages; and (f) Central Cesses.

State taxes: (a) VAT/Sales Tax; (b) Entertainment Tax; (c) Luxury Tax; (d) Taxes on Lottery, betting and gambling; (e) State Cesses and Surcharges; (f) Entry Tax; (g) Octroi; (h) LBT

GST initially was resisted by States. Why?

India being a federal nation, fiscal powers between the centre and state have been clearly identified in the constitution, where both have their respective domains to look into without any overlap. The centre used to levy tax on the manufacturing of goods (except alcoholic liquor, opium, narcotics) and states used to levy tax on sale of goods. In case of inter-state sales, the tax was collected and retained by the originating state. In the case of services, centre alone was empowered to levy tax on services. For export and import, centre alone levies and collects this tax as additional duties. The prevailing fiscal structure, required changes for the implementation of GST, to concurrently empower states and centre to levy and collect GST. Dual GST will help the status of constitutional federalism. To address all the issues relating to the fiscal powers, Constitution (One Hundred and First) Amendment Act, 2016 was enacted. The act states for levy of GST on supply of all goods and services except alcohol. The tax will be levied as:

1. GST to be levied by centre on intra-state supply of goods and services (CGST)
2. GST to be levied by States (SGST)
3. GST to be levied on inter-state supply of goods and services by centre (IGST)

For example, a dealer Sarita in Haryana sold goods worth Rs. 10,000 to Nirmal in Haryana. GST rate being 18% comprising CGST of 9% and SGST of 9%. In this case, the total GST levied is Rs. 1800, Rs.900 being payable to centre and Rs. 900 to Maharashtra government. In the second case, if Sarita in Haryana would have sold goods worth Rs.1,00,000 to Suman in Maharashtra, GST levied is 18%, comprising 9% CGST and 9% SGST. Rs. 1800 will be levied by centre as IGST. Under GST, both the centre and states will have concurrent powers to tax all goods and services. Therefore, the taxing powers of states would also extend to services which comprise nearly 60 percent of the GDP. Similarly, taxing powers of the centre will extend to the retail stage which comprises 15 percent of GDP. The government has kept majority of items under 18% tax rate. The government classified 1211 items in different tax slabs. Gold and rough diamond are not included in the current tax slabs and will be taxed at 3%. The different tax slabs categorised are:

1) No Tax(0%)
2) 5%
3) 12%
4) 18%
5) 28%

Goods and services categorised in these different tax slabs, where necessities and small items categorised under no tax or 0%, and maximum number of products falling under 18%. 28% tax rate is applicable on

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luxury items and with a less than 10% of the items and services of 5 start hotels, private-run lotteries authorised by states, race club betting, cinema hall.

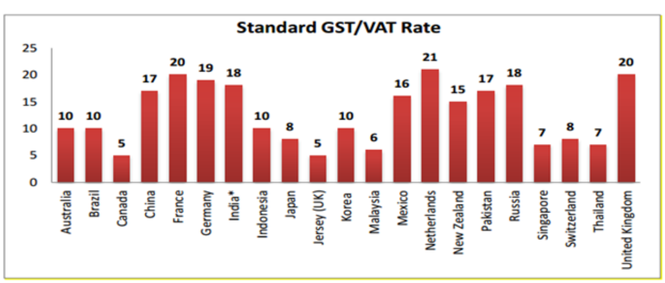
GOODS AND SERVICES TAX IN MALAYSIA

Goods and services tax replaced Sales and services tax in the process of government's tax reforms programs for the administration and management's effectiveness and transparency. Malaysia's Prime Minister Najib Razak defended his decision to introduce tax saying that only one out of ten Malaysians pay tax. Fall in the prices of global oil prices, resulting in the decrease in revenue to the government. These two have been the major reasons to widen the tax structure in Malaysia. The implementation of GST at the rate of 6% announced by Minister of Finance in the budget of 2014 came into operation on 1st April, 2015.GST is charged on all taxable supply of goods and services made in respect of any business by a GST registered person in Malaysia. Standard rate of 6% is applicable on all goods and services, unless a provision to categorize and treat them differently. Although, there have been few reliefs and exemptions for few goods and services. Zero Rated: agricultural products, foodstuff, water to domestic consumers, electricity supply (with limits) to domestic users, export of goods and international services. Exempt: residential property, private healthcare and private education and certain financial Services are exempted from the purview of GST. Impact on other taxes: The sales tax of 5% for fruits, food and building material, 10% on other taxable goods and 5% tax on services was abolished. Introduction of GST in Malaysia, brought and end to all these taxes. Every reform faces its own set of resistance from the public. Malaysia faced resistance from the public in form of street protests in Kuala Lumpur, consumers alleging overcharged prices by the sellers, sellers confused in the process of calculating their value-additions, even more difficult for elderly sellers. The need for GST in Malaysia has been to increase efficiency and effectiveness of the tax systems and to increase the revenue for the government through widening the tax base.

COMPARING THE GST IN INDIA AND MALAYSIA

DIFFERENCES

What makes the Indian model of GST distinguishable from the model of other nations or for the purpose of this paper, Malaysia, is its feature of dual GST. India follows dual GST model where the two types of GST, *CENTRAL GST* and *STATE GST*, giving concurrent powers to centre and states in the fiscal powers. Whereas, Malaysia follows single GST. India's need for the tax reform was to bring uniformity in the tax structure and reduce the cascading effect of taxes, Malaysia's need for widening tax base to include more citizens in the tax-paying process. Further, adding to the revenues of the government which are declining due to the fall in global oil prices. Malaysia has fixed a standard rate of 6% on all goods and services replacing the sales and services tax of 5%, 10%. India, on the other hand has categorised the list of items in different categories with different percentages (0%, 5%, 12%, 18%, 28%) of tax applicable on them. Indian model of GST is more complex than the Malaysian model of GST because of the different categories of the tax applied. Giving a look to percentage of taxes charged in different nations, most of the nations charge a standard tax rate, except India. India charges quite an average amount of taxes, not too less, not much higher.



*Note: * The GST structure ranges between 5%-28% with majority to commodities falling under 18% bracket.*
Source: OECD (2016) and CBEC

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SIMILARITIES

Foremost similarity when any kind of reform is introduced in any nation is the resentment. Reform in any field being introduced in any nation invites criticisms, questions, protests from opposition parties, stakeholders, various groups. GST in both nations has faced resentment, in India, States initially resisted, as GST interfered in their fiscal powers, which are now to be shared with the centre and in Malaysia, merchants resisted the reform understanding just its complexities. However, GST model being different in two nations but the advantages to the stakeholders will be similar in all nations, making it a win-win situation for all.

1) To Industry:

a)common market
b)common tax
c)common tax procedures
d)comprehensive input tax credit across the entire value chain
e) ease of doing business

2)To Government:

a) makes the goods and services competitive
b) uniform tax code
c) technology driven

3) To consumer:

a) cheaper goods and services
b) transparency in distinguishing the economic value and tax
c) simpler tax system

Both the nations have faced the issue of deciding the tax rate, and not only these two nations but many others have faced this contentious issue of tax rate. Few nations even after implementation struggle to rationalise the tax rate. Most important similarity between the two models is the intention of the government in respective nation to bring a uniform indirect tax code, which will help economy boost and gain a competitive space worldwide.

CONCLUSION

A reform in the sector of tax subsuming all indirect taxes into one GST and achieving the ideal situation of 'one nation one tax', integrating the economy. G ST has been recommended by IMF(International Monetary Fund) to its member nations to increase the efficiency of the tax systems and reduce tax evasions. Observing the introduction of tax structures in two nations, its very important to educate the population on the various advantages to the stakeholders. Unaware people, resist the changes when they are unable to understand the implications of any reforms. It's too early to analyse the impacts of tax structure in India, but the advantages overlap the micro limitations, bringing in a win-win situation for allthe stakeholders. In Malaysia, if assessed on overall basis, implementation of GST has increased the efficiency of tax management and aims at improving the GDP of the nation.

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