Comparison of India's Indirect Tax Regime with Malaysia and Singapore

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Abstract: ***The paper aims to compare GST regime of Singapore and Malaysia with India, in order to succinctly grasp the idiosyncratic feature of the former and look for feasibility of application in the latter. These countries have been chosen as Singapore has been successful in it implementation of GST while Malaysia has scrapped its GST regime. Studying the GST of these countries will assist in understanding the best practices as well as the corrigendum's required in the newly implemented indirect tax structure of India.***

Keywords: GST, Singapore , Malaysia , Sales Tax regime, tax collection, compliance rate

1. Introduction

It has been more than a decade since the idea of Goods and Services Tax was mooted by Kalkar Task Force in 2004. Eventually the former Union Finance Minister Shri P. Chidambaram while presenting the Central Budget (2007 – 2008), proclaimed that the GST would come into effect from April 1, 2010. Since then GST missed several deadlines. Eventually GST was implemented from July 1 2017 through the enactment of 101st Amendment Act of the Constitution of India by the Indian Government.

Internationally, GST was first introduced in France in the year 1954 and more than 160 countries have initiated GST. Countries depending on their own socio-economic formations have implemented National GST (Levied by center) or Dual GST (Imposed by both Centre and state). India, Canada and Brazil are the three countries who follow dual GST model. GST in Singapore is a broad-based VAT (Value Added Tax) charged on import of goods and all supplies of goods and services. The present GST rate is 7% in Singapore.

GST is a eradicated value added tax in Malaysia. The unpopular GST was lessened to 0% on June 1 2018; Government of Malaysia repealed GST in the parliament on 31st July 2018. GST was supersede with sales tax and service tax as on 1st September 2018.

2. Literature Review

(Kuma & Vaibhav Revankar, 2018) Have studied GST structure of India and Singapore under the title "GST: A Comparative study of India vis a vis Singapore". It has compared both the countries on the basis of history, slab rates and implementation. This paper has pointed out the motive behind the introduction of GST regimes in both the nations are different. It has also concluded that the tax structure in Singapore is "regressive in nature" while that in India it is not.

(Kumari & Jyothi, 2017) Has studied the "Impact of GST in India and Comparisons with Other Countries". The countries taken were India, Canada, UK, Singapore and Malaysia. These have been compared on the basis of thresh-hold rate, Standard rate, exemption limit, returns and payments, exempt services. The paper has also found that these differences arise due to demographic and economic conditions of the country.

(Pathan, 2017) In the paper titled "A Comparative Study of GST in India and Other Countries" gives a meticulous understanding about the general aspects of the GST regime. The paper points that India compared to other countries will receive the aspired results with its GST regimes provided its teething problems are addressed with sincerity.

(KADIRA, YUSOFB, & HASSANC, 2016) Have conducted a study titled "Goods and Services Tax (GST) In Malaysia: Behind Successful Experiences". It explains the history of GST in Malaysia. The research found that the GST regime which 75% of the times regressive in nature, with respect to Malaysia it turns out to be progressive.

(Gupta, Sarita, Singh, Komal, & Kumawa, 2015). The paper explains structure of GST in India and compares it with the slab rate of other countries. The author has concluded that implementing GST will cause a revenue loss to the government hence to compensate such losses direct tax rate will be raised.

(Osmana, Muhammada, Yenga, & Ji, 2015)) Have researched the topic titled "Goods and Services Tax (GST) Compliance among Malaysian Consumers: The Influence of Price, Government Subsidies and Income Inequality" The mentioned measures were used to check the GST compliance rate in Malaysia. It was found that these measures are strongly related to the compliance rate in the country, which can be put to use to formulate policies that help in increasing the tax base of the nation.

(Bird, 2012). The author has compared the previously existent VAT system in Canada and the current HST/GST tax regime. The researcher finds out that "Canada's unique 2 levels VAT system with certain amendments is better suited for the country both politically and economically compared to HST/GST regime.

(Nayyar & Singh, 2018)In their research paper stated that it is very important to design the taxation system in an appropriate manner so that it doesn't lead to any kind of market distortions or failures in the economy. A good taxation policy takes care of the income distribution of a nation. The pre GST Indian taxation scenario had various issues and limitations like, the taxation system had a cascading effect, it had a very complex structure. The emergent need to replace the existing tax system with a new regime of GST was that the Indian taxation system led to misallocations of resources and lower productivity in terms of economic growth, international trade and overall development in the Indian economy. The new GST will firmament by redistributing the burden of taxation equitable between the services and manufacturing sector. With major amendments and modifications the GST has 3 prime models Central GST, State GST and Dual GST. It has also been regarded as a comprehensive and one tax system on manufacturing, sale and consumptions on goods and services. GST harmonize the trade and bring significant reforms to boost up development. France was the first country to adopt GST in 1960 and other countries also follow it and they are called after The Canadian Model, The Australian Model and so on. The concurrent dual GST is followed by India Brazil and Canada. One of the challenges of GST in India is that it is still in the maturity phase and tax reforms can occur from time to time.

(Dr.D.Amutha)Has stated in her research paper that the implementation of GST in India will be at par with more than 140 countries with respect to indirect tax structure and also increase the productivity for all the sectors. The important economic consequences of GST in India are it will help to minimize corruption and maximize tax revenue, tax evasion will be reduces, it will create a unified market, it will replace the indirect tax levied by both central and state government. The barriers of GST are, since GST is in transitional stage the final implementation will take a lot of time due to lack of clarity. Time and effective implementation will help to reap the benefits of unifying tax structure. The benefits of GST should come in the form of overcoming the barriers of GST, increasing the GDP and also by having transparency in the tax system.

(Sehrawat & Dhanda, 2015) In their research paper mentioned that most of the countries follow unified tax system whereas few countries like Brazil, Canada and India follow dual tax system imposed by both central (CGST) and state government (SGST). The recommendations made by the GST council will compensate various states who might incur a loss from GST implementations. One of the advantage of GST is to remove the cascading effect and establish an effective and transparent tax administration. One of challenges of GST is that the union government has to co-ordinate with 30 states for "Input Credit" due to transfer of credit in SGST. All the challenges will overcome if there are timely and effective implementations of the GST bill.

(Rani) In her research paper has mentioned that implementation of GST would enhance the position of India in both domestic and international market. GST will have a major impact on economic growth in terms of the growth of GDP, it avoids tax cascading and will establish well in the international market and have a good impact on international companies and facilitate for ease of doing business. Implementation of GST will enhance the tax credit set-off and effective and timely formulation of GST will increase the resource and gain for both the center and states.

(F & P, 2017) In their research paper have stated that since the demonetization had been implemented there would be a lot of challenges for the implementation of GST in India. The political reasons are one of the external factor affecting the GST, there will also be an impact on cash flows and working capital for business organizations. The implementation of GSTNET without human interactions will reduce the tax evasion and corruption to a greater extent.

(Deo & Singh, 2015) In their research article have cited that almost 160 countries have already implemented GST. France has a GST rate of 19.6, New Zealand has single system levied by central government, Canada and Brazil follow dual GST model, India is also following dual GST model, whereas all other countries follow a single tax model. GST have tax rate slabs from 0%, 5%, 12%, 18% and 28% with 12% and 18% being the standard rate. It is anticipated that there will be a 2% boost in the economic growth rate which will reduce the deficit and help the government to allocate more funds for developmental projects.

(Dani, 2016) Have stated that GST will introduce two-tiered one country one tax system, it will subsume all the indirect taxes at the Center and state level. The implementation of GST was an attempt to rationalize the indirect tax structure. The proposed GST appears to be slightly unfavorable to the telecommunication sector weather the sector should be considered under the goods and services or not, and also the proposed GST intends to keep away the petroleum products, electricity, real estate, and liquor for human consumption out of purview of GST.

(Bird & Gendron, 2009) The bill states that the GST is better in few aspects like the double dip approach of dealing with perceived regressivity issue, Canada also provides tax credit or GST credit to offset any kind of regressivity arising out of the introduction of GST in Canada.

3. Statement of the Problem

India, implementing GST regime on July 1st 2017 has myriad of teething problems ranging from clogging working capital to decreasing in revenues. To address these challenges studying GST regimes of foreign countries with respect to their unique aspects will assist in finding solutions. These reason for choosing these countries are as follows:

1) Singapore
   Singapore shifted to the GST regime on 1st April 1994 and follows a single tax rate for all the goods. However in the past 22 years of its implementation it has revised its tax rate thrice. Starting from 3% in 1994 with the latest revision of 7% in the year 2007. Studying Singaporean indirect tax regime will provide an understanding whether amending tax rates or shifting goods from one tax bracket to another (which is the case in India) better for the exchequer and businesses of the country.
2) Malaysia

Malaysia GST came into existence from 1st April 2015 and reverted back to its Sales and Service Tax regime on 1st September 2018. By studying the reasons for this change India can avoid making such errors and ensure robust implementation of its latest tax indirect tax regime. Moreover, the indirect tax regimes of both countries being politically contentious will ensure in better comparison of these tax structures.

Therefore, by comparing these aspects of GST of Malaysia and Singapore with India, we aim to find methods to ameliorate the indirect tax regime of the country.

Objectives of the Study

- To determine the methods to improve the GST regime of India by comparing it with other nations.
- To know the impact of changing tax rates of GST on the exchequer and businesses of a country
- To know the reasons for scrapping of Malaysian GST regime and check whether India is prone to making such errors.

4. Research Design

This research involves the use of secondary data and has adopted methodologies based on the unique aspects in the GST regime of the respective countries. These aspects are compared with the Indian GST and suggestions for amelioration are made.

1) Singapore

This country has changed it tax rates thrice which was 3% at the time of implementation to 4% in 2003, 5% in 2004 and 7% in 2007. The data about change in revenue collection due to revision of tax rates will be collected and analyzed. This will be collected from Inland Revenue Authority of Singapore and data approved by the Singapore government. With respect to India, the reports of GST council meeting will be collected for analysis. These are available at the GST council's official website which contains detail about the number goods that have been shifted across various tax brackets. The data collected will be compared with the monthly revenues as released by the government. After which a conclusion will be drawn whether amending tax rates or shifting goods from one tax bracket to another is better for the exchequer and businesses of the country.

2) Malaysia

It has implemented its GST regime starting from 1st April 2015 with a single rate of 6%, however it was scrapped from 1st June 2018 by a newly formed government. GST revenue collections, implementation, compliance etc. will be studied qualitatively to know the reasons for these failures. These aspects will be compared to the Indian GST scenario and suggestion will be made to improve the GST tax regime of India.

5. Analysis

1) Singapore

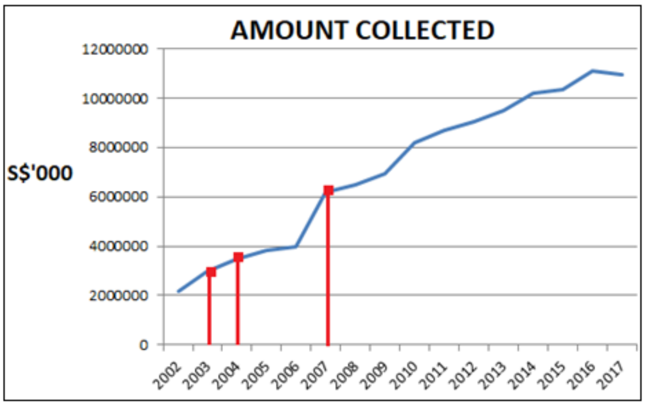

Figure 1: Singapore GST Tax Revenue from the Year 2002
Red Lines Indicate the Year in which Rates have Changed

As assumed the GST revenues of Singapore have increased every year from S$ 2,16,64,93,000 in 2002-03 to S$ 10,96,25,71,000 in 2017-18 showing a total increase of 406%. However a slight dip is seen in between the years 2016-17 and 2017-18 by 1%.

When the GST rate was increased to 4% in the year 2003 the revenue grew by an amount of 36% compared to the previous year. However another 1% increase in the rate also swelled the revenue by 17% compared to the year 2003-04. Another major change was seen in the year 2007 with rate being increased to 7% this bolstered the revenue by 54% compared to the previous year.

This constant increase in tax revenue cannot solely be attributed to the increase in tax rates of the economy. As the table mentioned below regarding the number of GST compliant businesses too indicate an increasing trend from the time of its implementation.

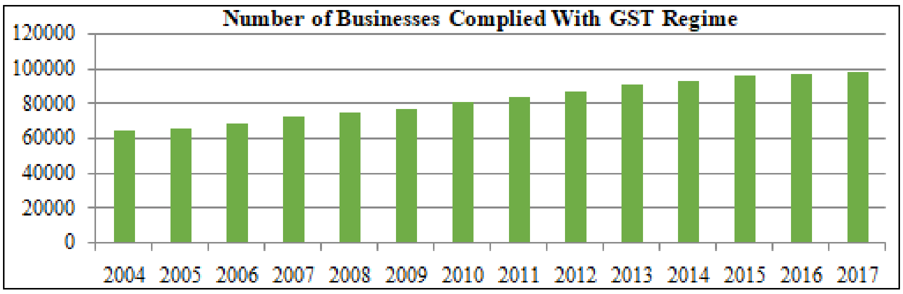

Figure 2: Tax Base for the GST Regime in Singapore

From the time of implementation until now the tax base has seen a constant increase. It started with 65559 businesses in the year 2004 and currently contains 98818 GST compliant businesses. This indicates 50% rise in the tax base from the year 2004.

Hence the increase in tax base too is responsible the rise in revenue. This increased compliant rates despite raise in tax rates, indicates the robust and simple implementation mechanism followed by the country.

India

Table 1: GST Revenue Collected from July 2017 to December 2018

Year	Month	Amount Collected (In Thousand Crores)
2017	July	94,063
2017	August	90,669
2017	September	93,141
2017	October	83,346
2017	November	80,808
2017	December	86,703
2017	January	86,318
2018	February	85,174
2018	March	1,03,458
2018	April	1,03,458
2018	May	94,016
2018	June	95,610
2018	July	96,500
2018	August	93,960
2018	September	94,442
2018	October	1,00,710
2018	November	97,637
2018	December	94,700

Table 2: GST Council Meeting and the number of goods changed or decreased

GST Council Meeting	Number of Goods Changed/ Reduced
21st Meeting Held in the month of September 2017	40
23rd Meeting Held in the month of November 2017	283
25th Meeting Held in the month of January 2018	27
28th Meeting Held in the month of July 2018	55

When GST was introduced in the month of July, 2017 the revenue amount collected was 94,063. The 21st GST Council meeting was held in the month of September 2017 and it was recommended to change the rates of 40 goods, they reduced the tax bracket of few goods from 12% to 5%, 28% to 18%, 18% to 12%, and 28% to 5%. The rates were effective implemented from the month of October and the revenue amount collected decreased from 93,414 in September to 83,346 in October.

The 23rd GST Council meeting held in the month of November 2017 changed the rates of 177 goods from 28% to 18% tax bracket. They decreased the tax rates of 2 goods from 28% to 12%. They retained 50 goods in the 28% tax bracket. They lowered the tax rates of 54 goods from 12% to 5% and 18% to 5% etc. The tax rates were put into effect in the month of December and there was a rise of 5,895 (86,318 – 80,808), from that of revenue amount collected as compared with the month of November.

25th GST council meeting was held in the month January 2018. They recommended to bring down 2 goods from the rate of 28% to 18%. Lesser 1 goods tax rate from 28% to 12%. Lower 8 goods from 18% to 12%. Reduced 4 goods from 18% to 5%. There was 1 good which was brought down from 12% to 5% and one good was increased from 12% to 18%. The rates were applicable in the month of February and there was a decline in the revenue collection, it dwindled from 86,318 in January to 85,174 in the month of February. There was a drastic improvement in the revenue amount collected which increased up to 1, 03,458 in the month of March 2018.

28th GST Council Meeting was held in the month of July 2018 and 13 goods changed from 28% to 18%. 8 goods were amended from 18%, 12% 5% to NIL. Few goods were revised from 12% to 5%. The rates were executed from August 2018 and there was a downfall in the revenue amount collected from 96,500 in the month of July to 93,960 in the month of August.

2) Malaysia

Background

GST implemented in the year 2015 saw the rise in revenues to the government and contributes 17% of the total revenue in the year 2017-18(Malaysian statistics department). Previously the country was highly dependent on oil revenues, however due to volatility in its prices brought the need for Malaysia to diversify its revenue portfolio. As a result GST was implemented. However, in its preceding indirect tax regimes called Sales and Service Tax (SST), had 2 tax rates of 6% and 10% for goods and services respectively. Despite reducing the tax rate on goods by 4% (GST rate was 6%) in the GST regime, it saw the overall rise in prices for the consumer as goods of everyday consumption were taxed.

However the aim of diversification and increase in revenue collection was achieved. As abolition of SST saw a revenue loss of RM 17.1 billion (2014), the first 9 months of GST generated a revenue of RM 27 billion in 2015. The revenue collection went up to RM38.5 billion and RM44 billion in the years 2016 and 2017 respectively. The below graph too indicates the reduction in dependence of oil generated revenues by Malaysia.

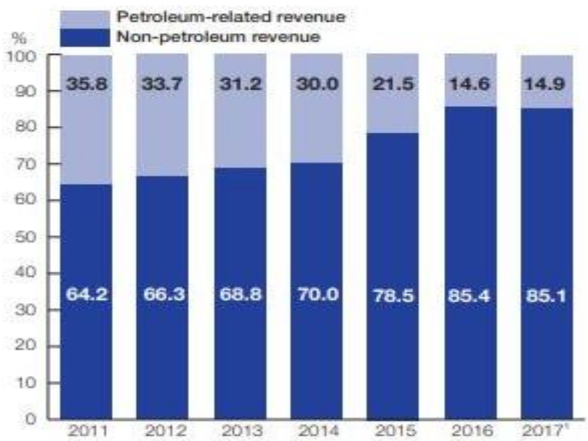

Figure 3: Revenue Sharing Stats of Malaysia
Source: Department of Statistics, Malaysia

Despite rise in revenues and lowering dependency on oil the GST regime was scrapped after the election of new government in Malaysia.

6. Reasons for Failure of GST Regime

- Regressive nature: By implementing a single rate for all goods and services saw the regressive nature of GST greatly affecting the lower income groups in the country. The GST regime covered 60% of the goods and services that was used to determine the Consumer Price Index (CPI). Hence, GST not being revenue neutral adversely affected the common people.
- Complicated: The previous SST regime was a single staged tax system that was levied in one stage of the supply chain at the import or manufacturers level. There were simple drawback mechanisms for exporters and other service providers. However the implementation of GST at every stage of transaction added confusion and created complication for small businesses. Input Tax Credit mechanism and clogging of working capital made the population turn its back towards the GST regime.
- Political Environment: The world's oldest prime minister Mahathir Bin Mohamad was elected into office for one of his elections promise of scrapping the GST regime, which had raised the cost of common goods within the country. The political pressure too played its role in scrapping the GST regime, as a legislation was passed to repeal the GST act within 100 days of his incumbency.

7. Findings and Conclusion

Analyzing the revenue collection of Singapore and India it can be inferred that the latter has seen a better result. According to Singapore's budget announcement in the year 2018, it was decided that there would be an increase in rate of GST from 7% to 9% from the year 2020. India on the other hand has seen mixed results with respect to the revenue collection and improving various aspects of its GST regime will bolster its collections.

However GST being regressive in nature keeping a single rate will increase the cost of living as seen in the case of Malaysia. The economic inequality in the population cohort too will rise especially in India. Moreover, recent statistics too indicate India's top 1% hold 78% of the wealth in the country. Following a single tax structure like Singapore and Malaysia would add to this income inequality and worsen the situation. Hence by adopting the multiple tax brackets India has done the right job.

An advantage of India over Malaysia GST apart from having multiple rates is that, the VAT regime in India suffered the cascading effect of taxes as it was an origin based tax. In case of Malaysia, SST did not have the cascading effect. Therefore implementing GST in India has reduced the rates of most of the goods which did not happened in Malaysia. However, the complexity parts of both the regimes have remained the same. India needs to address these problems to reap the benefits of GST.

Therefore, India has a long way to go before the teething problems of GST have been addressed. However, it has started strong and has to continue this trend.

8. Suggestions and Recommendations

In order to improve its revenue, from Singapore it can learn to increase its GST compliance rate. The implementation GST in India increased the number of people required to file GST returns by 32% however the number people not filing these returns has increased by 167% . This shows that the number of non-tax filers is growing faster than the tax base itself. Hence following a simple and easy to use compliance mechanism like Singapore will increase the tax base, leading to rise in revenues.

Instead of aiming to increase the tax base the recent notification by the government has increased GST exemption limit to file returns (aggregate turnover) to 40 lakhs from 20 lakhs and from 10 to 20 lakhs for the north eastern region. The estimated loss due to erosion of tax by raising the limit is 5200 crore.

Therefore it can be said the GST regime must focus on increasing tax base by following business friendly user mechanism and increasing compliance rate which will enhance its revenue prospects and simplify compliance process.

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