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GST: A Comparative study of India vis a vis Singapore

[1]Samuel Ravi Kumar, [2]Vaibhav Revankar, [3]Darshan Jaju

[1, 2, 3] (BBA F&A, Department of Professional Studies, Christ University, Bengaluru)

Abstract: This research paper focuses on GST in Singapore and India, our attempt is to distinguish the similarities and differences in the Inception, Implementation and execution of GST, a system to replace the erstwhile systems of indirect taxation which caused several problems to consumers and businesses. We employed the use of data from Ministry of Finance-Singapore, Inland Revenue Authority of Singapore, and RTI etc. We have found through our analysis that India and Singapore have 2 different intentions behind the taxation. Singapore has a longstanding record of low rates of GST while India has 4 slabs for application of rates to prices. We have compared items from 5 industries and drawn conclusions based on the differences.

Keywords: GST, Singapore, India, Taxation.

INTRODUCTION

Goods and Services tax has been conceived and implemented with the objective of simplifying the Indian regime of indirect taxation. The previous system had multiple forms of indirect tax which presented multiple obstacles for smooth and unobstructed flow of goods and services. There existed problems like cascading of taxes which lead to dead weight losses and reduced competitiveness of Indian goods in the international market. GST has standardized the system of taxation and has simplified compliance across all levels of the value chain. GST will unify the market as it removes inter-state barriers and promotes the agenda of 'Make in India'.

However, replacement of the previous indirect tax structure by GST has become a challenge to the small and medium sized businesses. Uncertainty and complexity regarding the GST guidelines remain. GST compliance is an unnecessary burden which pushes up the costs of entrepreneurs and SMEs.
GST as a system is still evolving with revisions and reviews being held by the council monthly.

Singapore in 1986 used to have a corporate income tax rate and the higher personal income tax rate of 40%. On the recommendation of the 1096 economic committee the Singaporean government decided to shift its focus to indirect sources of revenue to attract investment, ensure competitiveness, and promote economic growth.

Singapore follows a similar system for imposition and collection of indirect tax called Goods and Services tax. GST in Singapore was however introduced almost 2 decades earlier on 1 April 1994. The Inland Revenue Authority of Singapore states that GST being a tax on consumption not income, it inherently encourages savings and investments. GST was introduced at 3% which was one of the lowest in the world; the intention was to permit its public to get accustomed to the tax.

This paper examines the subsequent changes and effect of GST on various industries and will explore the drawbacks of GST in India and Singapore.

REVIEW OF LITERATURE

Garish Garg (2014) Studied "Basic Concepts and Features of Good and Service Tax in India", this paper finds GST as the the most logical step towards the broad indirect tax reform in our country post-independence. GST will make the Indian economy stronger through single, unified market.

Dr.R.Vasanthagopal (2011) Studied "GST in India: A Big Leap in the Indirect Taxation System" and found that the positive impacts are dependent on a neutral and rational design of the GST, full political commitment for a fundamental tax reform with a constitutional amendment, the implementation of GST would be a big leap in the indirect taxation system and give a new incentive to India's economic change.

Vasanthagopal, D (2011) in his paper GST in India: A big leap in the Indirect taxation, system explained the impact of GST on agriculture, manufacturing industry, MSME, employment, factors of production, price level, housing, Exim trade, poverty reduction, GDP, Government revenue. The whole paper focused on these elements and their impact on the implementation of GST.

Gupta, N. (2014), Goods and service tax: its impact on Indian economy, this paper focuses on the concept of GST and its impact in the Indian economy, problems of the current tax system in India and its feasibility in the current scenario. The paper also analyses the benefits of the implementation of GST over the current taxation system in India.

Nitin Kumar (2014), “Goods and Service Tax- A Way Forward” concludes from his work the benefits of implementing GST by removing economic distortion over the current tax system and encourage unbiased tax structure throughout which is different in different geographical locations.

(CBGA-India, 2015) in its working paper on International Comparison of Tax Regimes concluded that the progressivity of the tax structure in India is far below the international levels. Also, it has stated that the country needs to increase its tax-GDP ratio for adequate resource mobilization. It raised questions on tax administration in India. It also raised questions on number of tax exemptions given in India and stated that there is a need to reassess India’s tax system.

The ICAI, in its paper, “GST Model for India- Suggestions”, has discussed on the background of Indian tax structure and also pointed out he major challenges faced in its implementation in India. The paper proposes some of the suggestions to the government on the implementation of GST in India.

RESEARCH DESIGN

1. Statement of Problem

Singapore and India have different economic objectives, and this trickles down to the indirect taxation systems. Singapore being a developed country and India being a developing/emerging one. Identifying areas of differences in terms of industry and the effect on economy has not been undertaken before.

2. Objectives of study

a) To understand the concept scope of GST.
b) To comprehend the benefits of GST to the business and consumer and to collect information of current tax system and analysis of tax by GST.
c) To study tax structures and tax rates of the different countries vis a vis GST.
d) To analyze the challenges faced by both government and consumers at the time of implementation.
e) To examine the impact on consumers pre-GST and post-GST in India.

Period of study

a) India **-** 2017 – 2018
Implemented on 1 July 2017 with different tax slabs
b) Singapore - 1994 – 2017
Implemented on 1 April 1994 @ 3%, it was then increased to 4% from 1 January 2003, 5% from 1 January 2004 and 7% from 1 July 2007 and proposed to increase to 9% in the 2018 Budget by 2020.

DATA ANALYSIS

Background Singapore

The idea of introduction of GST came into the picture due to a ‘Report of the ECONOMIC COMMITTEE THE SINGAPORE ECONOMY: NEW DIRECTIONS’.

The report published in 1986 explored the reasons of the prevalent recession, suggested changes in policy and analyzed the key strategies to be pursued for growth and to promote various sectors of the economy.

One of the internal factors which contributed to the recession was identified as Loss of competitiveness. This focused their attention towards costs of doing business in Singapore and this led the committee to study the costs which can be reduced by the government. A major component of cost was employer’s contribution. The committee recommended a reduction of the rate by 15%. This would reduce the cost of wages by 15%. Wage increases should not exceed the rate of productivity to remain sustainable and competitive.

Another suggestion was to influence savings and investments in the economy. A broad range of measures where suggested among them, a reduction in Corporation tax and Personal Income Tax, which was 40% at the time to 30% and subsequently 25% as soon as the revenue position would permit.

There was a marginal rate of income tax at its peak was 40%. The committee observed that the rate of income tax must appropriately be reduced to match the lower rate of corporate tax. Because otherwise well-off individuals could form companies and writes off their expenses to pay lower taxes. Lower rate of Income tax would stimulate entrepreneurship and promote investment by residents.

Goods and services tax (GST) is a tax on domestic consumption. The tax is paid when money is spent on goods or services, including imports. It is a multi-stage tax which is collected at every stage of the production and distribution chain.

"Output tax" is the GST a registered trader charges on his local supplies of goods and services. The tax is collected by him on behalf of the Comptroller of GST. "Input tax" is the GST that the trader has paid on purchases of goods and services for his business. The input tax is deductible from output tax to arrive at the GST payable by the trader, or amount to be refunded to him.

Background-India

In current administration there are separate laws for independent collect like excise duty, customs duty, central sales tax, value added tax etc. Be that as it may, if there should be an occurrence of GST it is going to be

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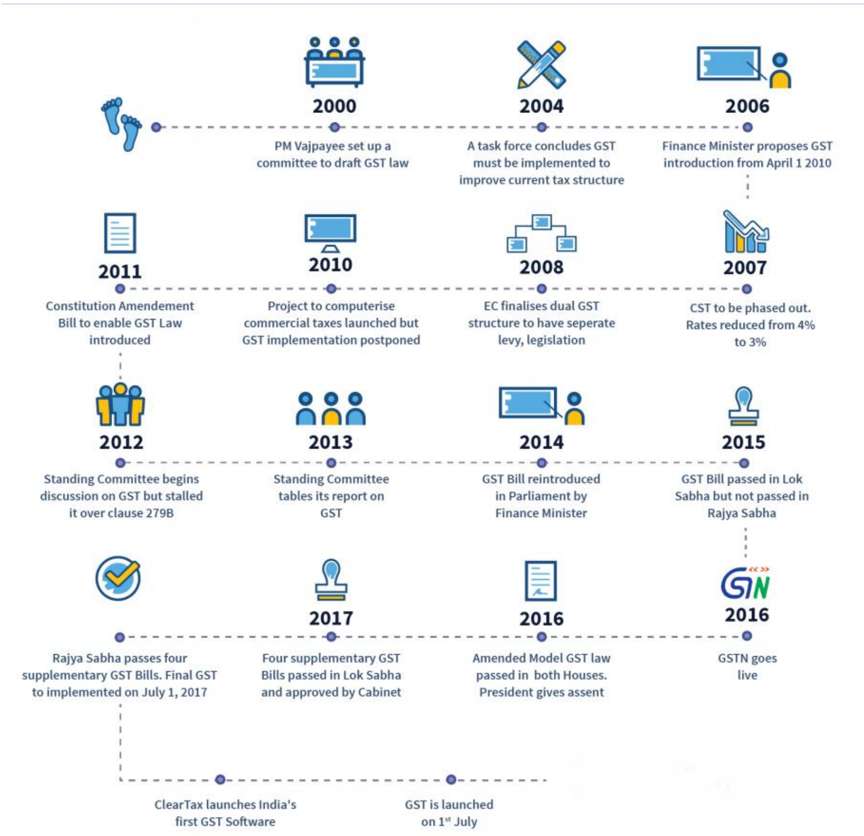
a wide plan which subsumes every one of the laws. The duty consistence is going to be simple as every one of the laws is subsumed and just a single GST law to be actualized.

The four GST chunks have been set at 5%, 12%, 18% and 28% for various things. The incorporation of duty laws in GST is required to lessen the taxation rate on the citizen contrasted with show framework where the citizen's weight is high. Directly the expense is at two focuses i.e., when the item moves out of processing plant also, other at the retail outlet. Yet, GST is to be exacted at definite goal of utilization also, not at different focuses.

Implementation of GST



Slab rates

Days before the Union Budget 2018-2019, the GST Council in its 25th gathering on Thursday has cut the rates of 29 things and 53 classes of administrations. The Council was going by the Finance Minister Arun Jaitley and has chosen the new rates, will soon be successful from 25th January 2018. The pinnacle basic leadership body of the assessment has chosen to diminish the costs of old and utilized engine vehicles to 12%, medium and substantial autos and SUVs from 28% to 18%. LPG supply to local family unit shoppers by private LPG wholesaler will come down to 5% from 18% section. Not just this, the rate on biofuel-controlled transport has additionally been diminished to 18% from 28%. Alongside this, the rate of jewels and valuable stones has been sliced from 3% to 0.25%. Aside from this, the rates of couple of agrarian items have additionally been lessened while keeping 29 handiwork things in 0%.

In any case, on the off chance that we discuss the administrations, the Council has decreased the duty rate on fitting administration from 18% to 5%. Furthermore, admission to amusement parks, water parks, moonlight trips, carousels, go-trucking and expressive dance will likewise boil down to 18% from 28%.

Implementation in Singapore

Increase in competitiveness was the intention behind the introduction of Goods and Service Tax in Singapore. “A Fairer tax, a brighter future” became the GST slogan as quoted by Glenn P. Jenkins and Rup Khadka. Many high-ranking politicians were involved in the preparation of GST and stated that GST was not introduced to raise money.

The leaders were ready to solve problems in the process of implementation and post implementation and also established Causeway Customs check points to observe the functioning of GST on the very first day of implementation.

GST is charged on all sales of goods and services in Singapore. GST is charged at the prevailing rate of 7%. GST-registered businesses must charge GST on all sales of goods and services supplied in Singapore such as construction industry, pharmaceutical industry etc.

Exceptions to charging 7% GST

A. International services

You may **zero-rate** your supply of services (i.e. Charge GST at 0%) only if it falls within the description of **international services under Section 21(3) of GST Act.** It is important to know that not all services provided to overseas customers can be zero-rated.

B. Export of goods

You can charge GST at 0% for your supply of goods when you are certain that at the point of supply (based on the time of supply for exports):

1. The goods supplied will be exported or have been exported, and
2. You have the required documents to support zero rating.

C. Exempt supplies

Supplies that are exempt from GST include:

1. The provision of financial services
2. The sale and lease of residential properties
3. Import and local supply of Investment Precious Metals.

GOODS OR SERVICES	ZERO RATED	EXEMPT
A. PROVISION OF INTERNATIONAL SERVICES		
i. Advertising Services	YES	-
Co-location Services (for computer server equipment)	YES	-
International Transport (for Goods and Passengers)	YES	-
Lease or hire of transport	YES	-
Services performed completely overseas	YES	-
Services related to goods for export and goods moving outside Singapore	YES	-
Services related to land or buildings or goods located overseas	YES	-
Services supplied to overseas person	YES	-
Services related to ship or aircraft	YES	-
Services related to electronic system	YES	-
Services performed on goods stored in a warehouse under the specialised warehouse scheme	YES	-
Telecommunication Services	YES	-
Trust services	YES	-
Suppliers related to air and sea containers	YES	-
B. EXPORT OF GOODS		
Direct Exports		
Indirect Exports	YES	-
C. EXEMPT SUPPLIES	YES	-
The import and local supply of Investment Precious Metals (IPM) (Effective 1 Oct 2012)	-	YES
Financial services	-	YES

FINDINGS AND CONCLUSION

Interpretation

Average difference in prices of the items represented above is 8.91%.

Key observation was the stark difference in the net price in certain industries. Specifically, Construction, FMCG and aerated drink products.

Construction

Introduction of GST has enabled builders to claim Input tax credit as VAT and service tax have been replaced by GST. However, under GST input tax credit is available only on cost of material and there is no abatement for land. This would cause end prices to customers to rise who have a larger component of land as incidence of tax is higher due to absence of abatement. Also, any gains arising from claiming ITC on materials will be set off against the cost of manpower for GST compliance and failure of vendors to comply with GST would also negate any gains.

Hence a positive net effect of GST is negligible if any, until the government intervenes to provide abatement for land or smoothen compliance.

India

GST, the greatest tax reform since Independence. Like everything else, all isn't smooth cruising for GST and there are some conspicuous difficulties for organizations and end customers. Customer's comprehension of GST arrangements and its effect on their business is still at an early stage, and numerous yet distinguishing the areas and areas they should be enrolled in.

These organizations are likewise evaluating the GST-consistency, their applicable rules they need to stick to, including their Supply Chain, IT Systems, and Legal. This is essential for distinguishing their new Working Capital, Cash Flow, and Fund Flow needs. To be on the correct side of the GST against profiteering provision, organizations are likewise surveying their cost sheets while performing Comparable Analysis of the estimating of products and ventures, pre-and post GST.

Different arrangements of GST are yet not clear. Categorization of products and ventures in different cases is as yet indistinct. Arrangements for anti-profiteering, and also the now-conceded e-way charge, which tracks dispatches over states, are vague.

Different organizations are yet to delineate bookkeeping software and IT frameworks in accordance with the new duty arrangements, to make GST solicitations, and concentrate on required reports. Assessment and bookkeeping experts together need to guarantee that their customers' present frameworks are in sync with their GST Service Provider (GSP).

With GST requesting consistence, just days after rules were issued completely, India Inc scrambled for time to alter the whole IT system. Consistent execution will require six million micro, small, and medium enterprises (MSMEs) to adjust their invoicing approaches for which they don't have sufficient IT support and frameworks.

With GST rates and their complexities just as of late turning into a piece of our strategy system, talented staff with refreshed GST subject information and preparing are not smoothly accessible. This has put an extra work stack on faculty crosswise over businesses, and made an urgent requirement for extra GST-talented workforce to guarantee quick execution.

Singapore

Individuals with lower level of income are more likely to pay higher amount of GST tax when compared to those paid by individuals with high level of income. From this we come to know that GST tax is regressive in nature (in economics terms) i.e. the average rate of tax decreases with increase in the income level of an individual. Where goods are relatively more price inelastic, in such a case the regressive effect faced by the ultimate consumers is a serious consequence. Therefore, it is not easy for the consumers to leave the market, which is as a result of tax unattractive. Examples of price inelastic goods are food, clothing, medicine and cigarettes.

The government has notified that introduction of GST is not to raise additional monetary resources but to offset the reduction indirect taxation. The retailers have been benefitted by the introduction of GST by exploiting the consumers by potential unfair increment in the prices of goods and services (profit incidence). Due to this the buyers would not only pay higher prices but would also incur additional searching cost for searching sellers who are not interested in earning higher profit. The introduction of GST also had an adverse impact on individuals with fixed income. This is because GST being inflationary in nature has either capped the amount of savings by them or has forced to reduce the quantity of goods and services purchased by them.

So far, the discussion concentrates on the negative aspect of the GST. It is logical at this stage to examine the positive impact of the GST on the Singapore economy. Clearly, a positive aspect of the GST is its ability in raising Singapore's level of competitiveness given that the introduction of the GST and increment in the GST rates correspond to the lowering of direct taxes. The expected inflow of foreign direct investments is likely to create employment opportunities to the people therefore contributing to lower unemployment rate (bearing in mind that tax rate does not represent the sole factor in consideration). With the government's intention in attracting high value-added industries in operating in Singapore, more highly paid jobs will be offered to the residents of Singapore, contributing to higher standards of living. Of course, with the inflow of the FDI, the balance of payments account will also improve further increasing the already high foreign reserves in Singapore. These reserves act as safeguards in Singapore against uncertainties in the economic environment. The government can use these reserves to help the residents at times of economic downturn. These reserves can also be invested in financial instruments (say by the Government Investment Corporations) to further build-up the long-term assets of Singapore.

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