

# GST - A Descriptive Analysis of GST implementation in 'BRIC' Nations

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**Abstract:** The study carried out a descriptive analysis of GST regime in BRIC nations. Each member of the BRIC nation has been analyzed and compares to understand the positive and negative aspects of GST. Prime focus has been put over GST in India and identified the difference between 'old tax structure and new tax structure'. The research covered important researches done on GST and investigated its usefulness to the current research. This highlights the mechanism of Indian GST including positive aspects, history of GST mechanism, global scenario and GST's role in BRIC nations.

**Keywords:** GST, BRIC, Tax Reform, Tax Regime

## 1. Introduction

GST is considered as the historic economic and tax reform in world's second's largest (in population term) country of the world called India. After a long discussion and amendments into the bill with regular oppositions and varied talks on the matter GST on April 1st 2017 came into existence in Indian constitution. GST is a single indirect tax levied on consumers, manufacturers and sellers across the nation at uniform rate (Panda & Patel, 2010). It is the replacement of all different types of indirect taxes in the country levied on commercial activities. Specialists believe that, GST will ensure the uniform tax structure in the country with much more simplified taxation system. GST implementation has got well-structured tax policy and system to everyone with equitable tax rate. GST which is known as 'Goods and Services Tax' is a tax imposes on goods and services at the final destination on its consumption, it is also called destination based tax (Garg, 2014).

The below mentioned tax structure used to follow multi-layered tax system which used to have compounding effect on final price of the goods and services offered. Both central and

state government levies their own taxes separately on goods and services resulted into multiple taxes and high rate of duty.

The basic objective of new tax system is to minimize chances of dual taxation on commodities and services. It also aimed at elimination of multi-layered tax system which has compounding effect on commodities' price. The new tax structure has merged all the indirect tax of central and state government into four tier schedule of 5%, 12%, 18% and 28%. Wherein 5% is for necessity goods and 28% is for luxury and consumer durable goods (Sherry, 2007). Such tax structure will bring more than 8 lac crore of revenue to the government. Another positive aspect of GST is that, the person who owes tax liability on sale of goods or provision of service will be entitled to avail input tax credit paid on inputs used in the final product or services. By this means, GST is expected to bring positive reform in indirect tax mechanism in the country.

## Positive Aspects of GST Implementation

- Producers will have fewer burdens on their production by taking tax credit call on their production. This will foster the growth through enhanced production.
- Successful and comprehensive GST implementation will promote 'input credit mechanism' which will ensure significant price reduction of goods/services to the final consumers.
- Uniformity in taxation system of the country ensures the common tax rate across the country.
- The new tax reform in the name of GST will surely reduce the tax cascading and increase the tax revenue to the government.
- The ultimate user or end consumer has to pay single

Table 1  
Previous tax structure of India

S. No.	Central Taxes	Tax Rate in %
1.	CENVAT/Central Excise Duty	12.36
2.	Service Tax	15
3.	CVD (Countervailing Duty)	12.36
4.	CST (Central Sales Tax)	2
5.	SAD (Special Additional Duty)	4
S. No.	State Taxes	Tax Rate in %
1.	VAT (Value Added Tax)	10-14.5
2.	Entry Tax	0-12.50
3.	Sales Tax	0-15
4.	Entertainment Tax	15-50
5.	Luxury Tax	3-20

Table 2  
 New Tax Structure under GST

S. No.	Central Taxes	Status	Tax Rate in %
1.	Agricultural Goods/Commodities	Exempted	0
2.	Necessity Goods/Commodities	Low Rate	5
3.	Distribution Services	Standard Rate	12 and 18
4.	Luxury Goods and Consumer Durables	High Rate	28
5.	All Services	Standard Rate	12 and 18

tax for the goods and services.

- It is estimated that, through GST gross domestic production will increase which further may help in handling fiscal deficit.
- GST will bring India in international tax standards' line which will attract foreign investments into manufacturing and selling.
- Through single tax regime government may have less cost of tax collection which help to increase government revenue.

## 2. History of GST tax mechanism

GST at global platform is considered as the most comprehensive taxation system with uniform approach. It is believed that, GST is quite successful tax regime across the world (Mehra, 2015). The first country who adopted the concept of GST into its country's tax system was France in the year 1954. And now more than 160 countries have adopted GST (Roy, 2016). The concept was put into commence and conceptualized by Wilhelm Von Siemens in early 1920. Siemens was a German businessman who thought of the single tax structure to eliminate current loopholes of taxation system with much more comprehensive tax system. Soon after this, European countries started adopting GST mechanism on different parameters (Article published in 'Legal instinct', 2017).

## 3. Global scenario of GST

The concept of GST across the world is similar but with different mechanism. The below table included few countries with their GST understanding and application parameters which help us to understand the GST scenario across these nations.

The global scenario reveals that GST revolution has brought significant change in the economic development of the countries. It offered hustle free tax process, tax collection and reducing expenses of tax collection. The GST mechanism gave

chance to the government to have access of substantial increment in the revenue of the government through eliminating industries from historically tax structure (Patrik, 2015).

## 4. Literature review

Tax structure is an important component of any economy and it influences various macroeconomic development indicators also. Tax rate plays crucial role in defining the performance of the development indicator in any country. Mehra (2015) found that, there is a significant relationship between 'value added tax' and prominent macroeconomic development indicators of the country. The tax pattern decides the way these factors functions in an economy. A reasonable tax pattern give boost to the economy by providing financial cushion through consistent sources of financial supplies.

Many researchers believed that, GST is a modern tax structure to bring reform in the tax collection mechanism and push the growth of the economy while providing equality to the tax payers. Adding to this Sijbren (2013) in his study found that India has prepared itself over the period of several decades to install a new and unified tax mechanism in the country called GST. It would definitely resolve various tax related problems of tax collectors as well as tax payers of the country.

According to Dani (2016) GST is supposed to bring revolution in India's tax scenario. Will help in eliminating various loopholes and corners in current taxation system. Researcher also propounded that, GST is a well-researched concept and is being used by many developed countries including our neighbors 'China & Pakistan'. It has proved its relevance to the economies by providing them simplified tax collection practices.

Putting light on the economic reforms through GST implementation the 'Chief Economic Advisor' of India, Mr. Arvind Subramanian spoke upon the findings of 'India Economic Survey Report 2018' released by Honorable

Table 3  
 Country and rate of GST

Country	Rate of GST	Remark
Canada	13-15% + 8% Provincial Tax	It is dual GST system which includes 'Central & State' GST.
Brazil	IPI: 0%-365% ICMS: 0%-35% ISS: 0%-5% PIS-PASEP: 0.65%, 1.65% COFINS: 3%, 7.6%	Use categorized tax system with different tax structure for different categories of goods and services.
Malaysia	6%	Very economic rate of tax applied on goods and services
Australia	10%	Maximum goods and services are covered under 10% of GST.
China	6%, 11%, 17%	Standard rates applied on majority of products and special goods are applied with standard rates with other rates

Narendra Modi led government in Parliament. He said, GST become the game changer for India as it has given new perspective to the government to think upon to revamp the economic growth of the country. The report also revealed that, through GST there is a significant increase of almost 50% indirect tax payers. GST also encouraged individuals to tie up with government's single tax policy or regime, as a result significant increase has been observed in voluntary registrations for GST number by small enterprises.

### 5. Analysis of GST in BRIC Nations

*Brazil:* Brazil opted the concept of single tax system in the country with a view to have uniform tax practices and economically united nation. The prime objective of this initiative was to have 'one nation, one tax & one market'. The Brazil's indirect tax covers 26 states of the nation with tax rate ranging between 17-19%. The country represents the world's eighth largest economy by GDP. The country has mixed economic system and believe on import substitution rather than import of necessary goods. It is estimated that, Brazil has abundance of natural resources worth of US\$21.8 trillion. It is a biggest exporter of Gold, Iron, Uranium, Timber etc. With its economic power Brazil ranks among the fastest growing economies of the world. One of biggest reasons of such development is single tax structure on commodities to reduce tax complications. GST has brought single tax system to the nation with much comfortable manner. Brazilian ministry of finance estimated that the old tax structure used to take 2600 hrs in a year to calculate the tax for each individual but the new tax system (GST or single tax system) reduced this time to 600 hrs a year.

*Russia:* GST/VAT was implemented in 1991 with standard tax rate of 18% on maximum goods and services. Products like foodstuffs, livestock, medicine, books, water etc. comes under the range of 10% tax rate. The Russian tax system is quite comprehensive in nature and known as the most simplified tax structure in the world. In the year of 2019 Russian Finance Ministry has decided to raise the VAT tax rate from 18% to 22%. The GST regime has brought significant change in the tax revenue of the country. The performance of GST signifies the importance of single tax to the country and better tax compliance to the ministry.

*India:* Indian GST has replaced many indirect taxes on various goods and services. India passed GST bill in parliament on 29th March 2017 in association with all political parties. The GST is a comprehensive, multi-stage and destination-based tax system levied on every value addition in goods and services. Indian GST subsumed nine different state level taxes viz. state value added tax, entry tax, purchase tax, central sales tax, entertainment tax, lottery tax, advertisement tax, betting & gambling and luxury tax. GST has many facets to conquer old tax regime and provide tax reforms to the nation while ensuring equitable share of state and central. Many objectives have been fulfilled with single tax system like removal of double tax

system, eliminate roadblocks due to cross border transactions, entry or toll plazas, and reducing tax burden on producers and foster the growth of production.

*China:* China-Despite of huge discussion and dilemma Republic of China adopted GST taxation system in the year 1994. It was a reforming decision in China's history, the country came up with new tax regime view to have desired economic development in the country in the coming decades. China set standard rate of 6%, 11% & 17% on various goods and services offered to consume. But GST in China do covers the entire range of goods and services, various products and services are kept away from GST range as they are special or of other nature. Currently, china levy 26 different types of taxes depending upon the function and nature of commodity. The taxes are classified into eight different categories like- Turnover Tax (includes VAT, Business Tax and Consumption Tax), Income Tax (Includes Individual Income, Enterprise Income), Resource Tax (Levied on consumption of resources like land for township etc.), Tax for Special Purpose (Includes City Maintenance, Fixed Asset Investment, Vehicle Acquisition, Farmland Occupation, Construction Tax etc.), Property Tax (Includes House Property Tax, Urban Real Estate Tax), Behavioral Tax (Includes Vehicle and Vessel Usage Tax, License Plate Tax, Stamp Tax, Slaughter Tax, Securities Exchange Tax, Deed Tax, Banquet Tax etc.), Agricultural Tax (Agricultural Specialty Tax, Animal Husbandry Tax or Income arising from agriculture and animal husbandry activities), Custom Duties (Includes duties on imported goods and articles, Excise Tax etc.)

### 6. Findings

GST implantation shown positive outcomes in the all the BRIC nations. Economies have experienced great journey with GST system and recorded hustle free taxation system in the country. All four nations viz. 'Brazil, Russia, India & China' have acknowledged the significance of GST tax regime. It has given countries a chance to consolidate all direct and indirect taxes into single form. GST has proven itself a driver to economic growth and simple tax system. Although, India is the last country to implement GST among BRIC nations but within one year or so of GST implementation the government has announced its positive outcomes in the parliament during its budgets session. GST is a simplified tax mechanism observed by all the nations who adopted GST taxation policy. GST helped BRIC nations to control tax lose and provide better mechanism to implement new tax policy. GST has come up as unique tax system which is easy to understand, implement and control.

### 7. Conclusion

GST has impacted Indian commercial activities in multi-dimensional ways. A much advanced and comprehensive tax regime has provided a strong system of tax collection and control. It facilitate complete control on taxation levied on

every stage of production and its refund to the concern parties other than final consumer immediately after end of each stage. The whole taxation system is governed by the 'GST Council' which consists 31 members. Overall GST is found to be a successful initiative among the BRIC nations which consistently helping nations to their success retention. The exports of BRIC nations have increased due to single tax (simplified tax system) regime and attracted foreign investments from many countries. GST has successfully eradicated the intention of tax evasion by some or the other ways by providing single and clear tax rate. BRIC nations could achieve price advantage of goods and services due to significant reduce in price of the products by eliminating multi-layer old tax structure. This has given the chance to set uniform pricing mechanism across the nation. GST also brought tax transparency before the citizens which help government to convince people for the tax they are paying. In totality, GST is a fruitful policy to encourage manufacturers, traders, retailers and the consumers to pay tax for nation's prosperity, growth and development.

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