



COMPARATIVE ANALYSIS OF GST IN INDIA AND CANADA

1Manisha Patawari, 2Dr. Sanjay Prakash Srivastava

1Research Scholar, 2professor

1Central University of South Bihar,

2Central university of South Bihar

Abstract: India was exposed to modern day tax structured **Sir James Wilson** in 1860 so that British Indian Government of that time can recover the losses incurred during the revolt of 1857. Since then various reforms were introduced to manage the pace of development and increase the horizon of government revenue through taxes. Most recently Goods and service taxes were introduced in India which has subsume more than 15 indirect taxes in it and becomes the most dynamic and celebrated tax reforms of the recent time. GST is an promising tax regime which was introduced with the motive make Indian businesses globally competitive by removing cascading effect, Easy inter-state movement of goods, inclusion of small business in the formal economy, reduction of tax terrorism etc. It is claimed to be one of the best measure to reduce tax evasion both direct and indirect. It was France which has introduced the GST for the first time in the world in 1954. But as world trade progresses today more that 160 countries of the world has adopted this system of taxation. It has been claimed that the GST model that India has adopted is very similar to Canadian Model of VAT. Both India and Canada are Common Law countries having very similar federal structure so it was advisable to look forward to Canadian Model of GST. Canada has adopted this system of taxation for the first time in 1991. Initially the government has faced many backlashes for the new change but today it is one of the country with smoothest Indirect tax structure. The present paper analyse the indirect tax regime in both the countries and tries to evaluate the similarities and dissimilarities of the law in both the jurisdiction.

Key words: GST, ITC, HST, VAT, RST, QST,PST, MST, indirect tax, etc.

1. Introduction: While introducing GST in India PM Narendra Modi describes GST as “Good and Simple tax”. This new law was introduced with the basic aim of providing remedy to deficiency in the existing law. After years of debate and deliberation, after the introduction of the idea of GST by “Kelkar Task Force” in 2004, GST was finally introduced in India in July 1st 2017. It is claimed to be a largest tax reform in India as it subsume in itself all most all the existing indirect taxes existing before 2017 and at the same time it has made room for cooperative federalism in India by giving right to both Central and State to tax simultaneously. Indian federal structure comprises of three tier: Centre, State and Local Self government. Our constitution categorically state that no tax shall be levied except by authority of law¹. It further prohibits arbitrary collection of taxes. Schedule VII of the Indian Constitution makes clear demarcation of power of taxation between Centre and State because of which introduction of GST become more special. This became a kind of a reform which can be done only through cooperation as both the government has to give up their existing power of exclusive taxation. Further Indian political diversity and regional financial inequality has made the task very difficulty. Therefore our leaders has to select a model which should accommodate to all worries of the state governments. The experts suggested that if India wanted to write a success story of GST it should select from the following model:-

1. Khelkar- Shah Model (similar to Canadian Model)
2. Bagchi-Poddar Model (Similar to Quebec Model)
3. Australian Model(it was rejected considering the diversity in our country)
4. Canadian Model

Considering the political similarities and similarities in the legal system Indian leaders choose to introduce dual GST model which was similar to that of Canadian Model.

In Canada GST was introduced in 1991 during the leadership of PM Brian Mulroney but the seed of the tax reforms were showed way back in 1980 because of growing satisfaction due to Manufacturing Sales Tax. Further in 1982 a report by finance department suggested that the government should think on the suggestion given by “Carter Commission” and consider either of these three alternative to replace MST: an integrated national retail sales tax (as had been recommended by the Carter Commission), a separate federal retail sales tax, or a federal VAT.² Acceptance of VAT by European Union also pushed the discussion introduction of VAT in Canada.³ After lot of debate discussion on January 1st 1991 Canada finally laid its antique manufacturers’ sales tax to rest and followed most countries around the world by introducing a new federal VAT, the GST.

2. Objective of the Study: The major objective of the study is

- A) to analysis the tax structure of both the countries
- B) Appreciate the reason why Canadian Model of GST was chosen for India?
- C) What are the similarities in Canadian and Indian GST regime?

¹ INDIA CONST. art. 265

² Department of Finance (1982) Proposal to Shift the Federal Sales Tax to the Wholesale Trade Level (Ottawa: Government of Canada, April).

³ Bird, Richard M., Jack M. Mintz and Thomas A. Wilson, Coordinating Federal and Provincial Sales Taxes: Lessons from the Canadian Experience, 59(4) NATIONAL TAX JOURNAL 891 (2006).

D) What are the dissimilarities in both the regime?

3. Literature review:

Vijay and Jahamgeer C (2017) in their work “Comparative study of Indian GST with Canadian model suggested that in India both centre and state has power to levy and collect taxes because of which a dual model of GST was required to be introduced. Further Canadian situation is very similar to India therefore India should look forward to Canadian Model of GST.

Haiderkhan S. (2017) in his work “A Comparative study of GST in India and other countries of the world” he meticulously discussed about various aspect of this new tax. The article paid special attention to the Dual GST model which India has followed and compared it with the two countries around the world which is following this model, i.e, Canada and Brazil.

Yogesh and Jyoti (2017) discussed about the evolution and implementation of GST. This paper talks about the traditional taxation system, their flaws and need for the implementation of GST, they also highlighted the problems in the implementation of the new law and the efforts that government is talking to make the transition smooth. This article elaborately explain the benefits of that GST will bring to the Indian economy by subsuming of almost all the indirect taxes.

A Dash (2017) in his piece of research focuses on positive as well as the negative aspect of implementation of GST in India. He suggested that though GST has both negative and positive impact, the positive impact actually outweigh the negative impact. According to him GST will help in reducing a parallel black economy and thus bring most of the business within the ambit of taxation.

Anand and Inderpal (2016) has done a comprehensive analysis on GST and elaborate discussed the available models of GST that India could use. They further suggested that a combination of Canadian and Qubecian model would be the best suited GST model for India.

Richard M. Bird (2012) is a tax expert he has written a lot of piece on GST as a policy of integration for Canada. In 2012 Bird has written a paper for University of Calgary in which he has discussed the evolution of GST in Canada and the circumstances that prevailed in Canada that forces the Canadian government to look for and integrated sales tax. He analysis the journey of GST in Canada and concluded that Canadian version of GST is far from the perfect model. According to him this model results in higher administrative cost to the government and at the same time business's very force to bear extra compliance burden. He further suggest that Canada should look forward to Australian model of GST were it could have one simple tax instead of RST, HST, PST, QST and collection powers can be allotted to provinces.

Dr. R. Vasanthagopal, (2011) work focuses on the economic changes that GST will bring in. In this research paper the author elaborately discussed the introduction of VAT and how it will pave the way for GST in India. He also talked about impact of GST on various sector of Indian economy.

Lori J. Curti and Joan Kingston-Riechers (2010) has done an imperial research to evaluate the implication of GST on Canadian families. They investigated the welfare change in the household which happened due to introduction of GST in Canada. For this investigation they uses the Quadratic Almost Ideal Demand System and the Canadian Family Expenditure Survey. The study suggested that the lower and the middle income group has been worse affect due to the policy change. Further the study suggested that the expenditure of the people have increased of the goods which are not covered under GST and the demand for the goods that are under GST has actually decreased.

4. Research Methodology: The present piece of writing is a analytical paper based on the comparison of tax law of two countries. It is based on secondary information collected from various the Acts, government websites, past research articles on the perspective area. With the help of these information and past research, the researcher wants to draw some light on the GST model of both countries, their similarities and dissimilarities. The research further focus on the lesson that we should learn from Canadian counter part in term of policy transformation and how to minimise its negative impact.

5. Limitation: Though Indian Indirect Tax regime consist of GST, Custom and excise on certain goods, this paper will majorly focuses on the GST law which governs the major part of Indian Indirect tax administration and collection.

6. GST Law in India: In pre-GST era there existed a dual levy by centre as well as state as regards to Indirect taxes. This dual levy has resulted into a complex system of multiple registration and heavy compliance under various indirect tax law. There is no doubt that GST was an unprecedented step by the Government of India. GST has changed the dynamics of Indirect taxes in India. But this was not a easy reform to achieve. There were lot of hurdles in the enactment of the law. First being a requirement of constitutional amendment as the constitution does not provide for simultaneous taxing provision to both centre and state, which could have happened only by mutual consensus between both the government. "India is a quasi federal country state with unitary bias" this is a statement that always reflect the Indian Federalism.

GST defined as a tax on supply of goods or services or both except taxes on supply of alcoholic liquor for human consumption.⁴ It is an integration of taxes on goods and services. It is concurrently imposed concurrently by the centre and the state on the supply which makes it a destination based tax. So the tax collected it actually distributed between the centre and the state of consumption.

⁴ INDIA CONST. art. 366(12A)

6.1. Structure of GST in India:

There are four types of taxes under GST:

- a) Central tax levied under CGST, 2017
- b) Integrate tax levied under IGST, 2017
- c) State Tax tax levied under SGST, 2017
- d) Union Territory Tax levied under UTGST, 2017

Note: In addition to this there is a provision for compensation cess on sin goods and luxury goods.

With effect from 31st October, 2019, there are 28 states in India and 3 out of 9 Union territory (Delhi, Jammu & Kashmir and Puducherry) that has their own state GST law. So Indian GST system consists of 31 State GST Act, Central GST Act, Integrated GST Act and UTGST Act.

6.2 GST Council: It is a joint constitutional forum of Union and the state whose job is to make recommendations regarding the GST policies to the respective governments. The President of India appoints the members of GST council⁵. It was constituted on 15th September, 2016. Its major functions include making recommendations on the issues like tax rates, exemptions, threshold limits, dispute resolution etc⁶. This council is chaired by the Union Finance Minister (at present Nirmala Sitaram) and other members include, the Union minister of States in charge of Revenue or Finance (at present Anurag Thakur) and the Minister in charge of Finance or taxation or any other minister nominated by each State Government.⁷ GST council elects its vice chairman among its members. After reorganisation of erstwhile State of J&K into two union territories, India is having 28 states and 3 UTs with legislature which marked the number of members of GST council to 33 (2 from union, 28 from states and 3 from UTs). GST council decides every matter by taking into consideration 2 things:- Valid meeting and Majority voting. As far as valid meeting is considered the quorum comprises of 50% of the members (50% of 33=17)⁸.

Voting rights of GST council are divided between Centre and State respectively. Where Centre has two representatives with 33% of voting rights and 31 representatives of state and UT's collectively have 66% weightage.⁹

After the formation of GST council one would be surprised to know that till 18 Dec, 2019, all the decisions taken by the council were decided through consensus. GST council voted for the first time in its 38th meeting on Dec, 2019 when the issue of imposition of uniform tax rate of 28% for both state-run and state-authorized lottery was placed for discussion. It was Kerala Finance Minister Thomas Issac who challenged the decision and reminded the council about the law that talks about voting. Though GST council is an excellent example of cooperative federalism as it has representation of both centre and state but even this body has a unitary bias as Union representatives have a high voting share.

6.3 GST Network: The Goods and Services Network is a section 8 company i.e., it is a non-profit organisation. It is a company which is formed with the sole purpose of providing the IT backbone to the Government for managing the entire IT system of the GST portal. GST portal is the mother database of

⁵ INDIA CONST. art.279A(1)

⁶ INDIA CONST. art.279A(4)

⁷ INDIA CONST. art.279A(2)

⁸ INDIA CONST. art.279A(7)

⁹ INDIA CONST. art. 279A(9)

everything related to GST, which makes the role of GSTN all the more important (since transaction under GST law i.e, from registering to filling to maintaining all the details everything is paperless).

6.4 GST Rates: In India GST slab rates are 0% 5%, 12%, 18% and 28%

7. GST Law in Canada: Like India Canada is also a nation of diverse culture and people. In usual scenario it has been noticed that Canada does opt for any bold policy changes because of its diversity, however Canadian ground experience indicates that an invoice-credit, consumption-based value-added tax (VAT) is workable at the provincial level, with both Central and state governments retaining full control over the rates of their sales taxes.

The Canadian constitution gives exclusive power to the federal government to tax”¹⁰. Even though it was a revolutionary steps for a country like Canada to introduce GST It does not follow the available GST model but became an innovator and drafted its own model keeping in mind the local condition of the country. It was always argued by the tax experts around the world that the invoice-credit, destination-based value-added tax (VAT) introduced in the EU was inherently a central government tax and therefore it could not work properly at the provincial level of government. However this view was put to bin when Canada introduces Destination based VAT in 1991. Its been two decade now and Canada’s experience has actually become the lesson for federal countries like Brazil and India.

7.1 Canadian GST- Its birth and effects:- The discussion around GST in Canada started somewhere in late 1980’s. Manufacturing Sale Tax was the major reason for bringing up this discussion. It was not a easy step to dissolve MST and introduce a new tax as MST contributes 37% towards federal revenue¹¹ but its regressive nature and inbuilt cascading effect paves the way for major tax reforms in Canada. It was introduced in Canada in the year 1991 by Former Prime Minister Brian Mulroney. Originally it was introduced @ 7%. At present, after being revised for two times, the rate stands @ 5%. Canada has faced many hit backs at the time of introduction of GST. Experts like Bird also disliked the introduction of GST in Canada. A few important characteristics of Canadian GST are:-

1. There are range of GST operates across the Federal and 13 Provinces of Canada. (GST, PST, HST, QST)
2. It was first time that a country has applied GST at provincial level as well.
3. Different provinces in Canada use different combination of GST.
4. Since GST is a consumption based tax the Canadian government divided the sales in 3 Category, i.e, sales on which tax is attracted, second one is zero rated tax and thirdly the goods that are exempted from tax.

¹⁰ Canadian Constitution Act, 1867, sec.91(3)

¹¹ Richard M. Bird, The GST/HST: Creating an Integrated sales Tax in a federal Country, 5 (12) SSP research paper, 1, 4-5 (2012)

5. Canadian Revenue Authority has issued a Business Number (BN number) which is a nine digit no. used by Canadian business as a common client identifier which simplify their transaction with federal, provincial, and local revenue authority.

7.2. Structure of Canadian GST: Unlike India Canada does not have a common GST for both Federal and provincial government. Canada is very flexible in the administration of GST and therefore has left on the provincial government to choose a combination of taxes that suits their local need and structure. Canada is a federation of 10 state and 3 territorial governments out of which 5 province has opted for HST (Harmonised System of Taxation) that is a combination of GST and Provincial Sales tax, these five provinces are:- New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, and Prince Edward Island.

Further the provinces of Alberta ,Northwest Territories, Nunavut and the Yukon has accepted GST which is applicable @ 5%. In the sate of British Columbia, Manitoba and Saskatchewan 5% GST as well as Provincial sales tax at different rates are applicable on the sales of goods and services. One of the most unique feature of Canadian GST is the arrangement between Federal Government and the State of Quebec. Since the very introduction of GST the federal government has given full autonomy to this particular province as far as the application of this new tax policy is concern. Quebec is a province which was not only allowed to change its own Retail sales tax into VAT but also allowed to administer Federal Goods and Service Tax in the province. It was argued that this arrangements were made keeping in mind the growing political demand of Quebec for policy autonomy.¹²

7.3 Registration:

Under Canadian GST an individual or organisations need to get registered and authorised to collect GST/HST only if they makes taxable supplies in Canada and the value of these supplies made inside or Outside Canada exceeds 30000 (CAD) in the financial year. The individual or the organisations can opt for registration under this law voluntarily even if the supplies value's below this registration threshold. The businesses shall collect GST/HST on all its taxable sales after registration. Business number are provided by the central revenue authority after successful registration, which is to be noted in the invoices.¹³

¹² ibid

¹³ Dr. Baneswar Kapasi, Indian GST and Canadian GST- A Comparative Study 07 (12) IJRMEC, 246 , 248 (2017)

7.4. Rates of GST applicable in Different provinces of Canada:

Following figure shows the rate of GST applicable at different provinces of Canada:

Sales Tax in Canada (2017 Rates)			
Region	Province	Tax System	Total Sales Tax
<i>Atlantic</i>	New Brunswick	HST	15%
	Newfoundland and Labrador	HST	15%
	Nova Scotia	HST	15%
	Prince Edward Island	HST	15%
<i>Central Canada</i>	Ontario	HST	13%
	Quebec	GST + QST	14.975%
<i>Prairies</i>	Alberta	GST	5%
	Manitoba	GST + RST	13%
	Saskatchewan	GST + PST	11%
<i>West Coast</i>	British Columbia	GST + PST	12%
<i>North</i>	Northwest Territories	GST	5%
	Nunavut	GST	5%
	Yukon	GST	5%

Fig.1.(Source:Department of Finance (2011) Fiscal Reference Tables)

The Canadian GST has a provision under which rebates are granted on the tax paid on the inputs to some specified institutions as follows¹⁴:

- Municipalities - 57.14%
- Universities and public colleges - 66%
- Schools - 68%
- Public hospitals - 83 %
- Government registered charities and non-profit organisations - 50%

8. Comparative analysis of Law:

There are various similarities and dissimilarities between the Indirect tax laws of both the countries. Both the countries have adopted dual GST system which seems feasible considering their federal structure. It was also correct that when discussion regarding introduction of GST was considered for India expert suggested that ours should be similar to canadian model of GST. After reading GST laws of both the country the author have compare the two laws and found that though Indian GST structure is similar to Canadian structure but not same. There are lot of difference between the two. From name to rates, from Department to threshold limit, etc. In Canada GST has three variant:- Federal GST, Provincial Sales tax and Retail sales tax (combination of GST and Provincial sales tax is called HST). Indian GST regime has been divided into Central GST, State GST and Union Territory GST. Canadian provinces can decide the rate of sales tax on their own where as in India both CGST and SGST rates are same and the rates are decided by a constitutional body called GST Council headed by the finance minister of the country. GST rates in Canada is fixed at 5% for all the commodities (zero rated and exempted goods are exceptions) where as in India different GST rate exist i.e, 0% for unpacked food staples, 5% for essential goods and services, 12% on

¹⁴ Municipalities, academic institutions, schools and hospitals are known as MASH sector.

most of the services, 18% on services like courier services and 28 % on luxury goods and services. In Canada the threshold limit for exemption under the law is CAD 30,000 where as in India it is around CAD 66,000 (Canadian Dollar for all the province except the north eastern state where the threshold limit is around CAD 33,000)¹⁵. In GST is administer and collected by the Central Government where as in Canada both federal and provincial government their taxes separately. Quebec is one of the Canadian province that not only administer and collect Quebec sales tax but also has given power to collect federal GST. As far as filing of GST is concern Canada has accepted three ways of filing:- Monthly, Quarterly and Yearly based on their turnover (annually if the turnover is upto CAD 1.5 million, Quarterly if the turnover is above CAD 1.5 million to CAD 6 Million, and monthly if the turnover exceeds CAD 6 million) where as in India monthly return are usually filed and one yearly return is required to be filed (quarterly return need to be file if the turn over exceed Rs. 1.5 cr in financial year).

Canada has provided full say to the state as far as their local taxes are considered where as GST in India has actually subsumed all the major taxing power of states. Canadian structure is more complex and because of so many taxes coexisting administrative cost in Canada is very high. At the same time Indian version is simple.

9. Conclusion: Canada is a country which has achieved a innovative system of GST which was never seen or talked about. It was the first country to introduce dual GST.¹⁶ At present its Harmonize model of GST has been proved to be a very successful model where both Federal and provincial government can tax separately. India has followed a very similar model and with innovations that suits her fiscal system. In India both state and centre imposes GST simultaneously at a same rate. India become the third country in the world to adopt a dual GST regime after Canada and Brazil. Cultural diversity and regional difference is actually a region of dual GST in Canada as well as India. After analysing the law of both the countries it is evident that there are a lot of similarity in the two nations. But at the same time there are certain differences to suits the local needs. Canadian model is more complex and complicated when compared to India model and provinces has more say in Canada. Where as India model is simple as we have less number of taxes and administrative compliance. In Indian case Centre has a upper hand as out of 33 member of GST Council 2 Union minister has 33% of voting rights. So in this case Canadian Structure is more federal then ours. Both the system has there own positive and negative and thus we should learn from each other to make our indirect tax system more effective.

¹⁵ Dr. Baneswar Kapasi, Indian GST and Canadian GST- A Comparative Study 07 (12) IJRMEC, 246 , 249 (2017).

¹⁶ Purohit Mahesh C., "Structure and Administration o f V A T in Canada: Lessons for India", IVATM, 311, 315 (2001).

Reference:**Books:**

1. Romila Chawla, A hand Book on GST in India, Life Span Publisher and Distributor, 2017
2. Dattey V.S. , Indirect Taxes Law and Practice, 44TH Edition, Taxmann, New Delhi, 2020.
3. CA (Dr.) K.M. Bansal, GST and Custom Law, 5th Edition, Taxmann, New Delhi, 2021
4. Law of taxation, Dr. SR Myneni, 4th Edition, Allahabad Law Agency, Allahabad, 2018
5. Basu, Durga Das . Introduction to The Constitution of India, 24th Edition, Lexis Nexis, Haryana, India, 2018.
6. Jain MP. Indian Constitutional Law, 1014, Vol.1, 8th Edition, Lexis Nexis, Haryana, India, 2017.

Journals:

1. Purohit Mahesh C., "Structure and Administration of VAT in Canada: Lessons for India", International VAT Monitor, 311-323 (2001).
2. Dr. Baneswar Kapasi, International Journal of Research in Management, Economics and Commerce, ISSN 2250-057X, Impact Factor: 6.384, Volume 07 Issue 12, December 2017, Page 246-250
3. Richard M. Bird, The GST/HST: Creating an Integrated sales Tax in a federal Country, vol.5 Iss.12 School of Policy Study research paper, 1-39 (2012)
4. Haiderkhan S. Pathan, A Comparative Study of GST in India and Other Countries, Vol. 4 Iss. 4 (2017), IJRAR- International Journal of Research and Analytical Reviews.
5. K, V. K., & C, J. (2017). A comparative study of indian gst with canada model. Journal of Management and Science, 7(2), 254-258

