



Coordinating a national and subnational consumption tax

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Policy shortcomings in retail sales taxes

- Base is primarily tangible goods; limited taxation of services
- Significant taxation of intermediate business inputs [+40 percent of total based on some studies]
- Taxation of digital goods and related services is inconsistent and spotty
- Significant number of product exemptions, exempt entities, and use-based exemptions (in part due to taxation of business inputs)
- Significant complexity for multistate sellers

VAT/GST vs. RST

	VAT/GST	RST
Tax Base	All goods and services	All tangible personal property and specifically enumerated services
Business Inputs	Generally not taxed (including indirect inputs)	Substantial taxation of business inputs with substantial exception of production machinery
Digital Goods/ Services	Within the scope of the tax	Subject to varying characterizations and determinations
Exemptions	Generally limited to services where value added is hard to measure and essentials/necessities	Can be product-based, use-based and entity-based. Many involve business inputs and uses.
Complexity	Less complexity in determination of taxability; complexity added through “reduced rate”; no exemption documentation requirements; is data and transaction information intensive	You know the “challenges’
Tax Incidence	End consumer; modest amounts of pyramiding	End consumer and businesses when transaction is non-exempt; pyramiding

State-local reactions to VAT

- State and local officials generally view VAT as encroachment on traditional sub-national source
 - Potential crowding out in the consumption tax space
 - Potential calls to cede policy and administrative control to federal government
- Federal VAT could improve structure of sales taxes
 - Potential for improving structure and operation of retail sales taxes
 - Potential for improving sales tax compliance
 - Potential for reducing sales tax compliance burden

Options for State

- Go it alone
 - State VAT – Problematic given flow of credits and money without universal (or nearly so) participation
 - More likely better off by examining taxation of business inputs and structure of tax (i.e., taxation of services) from a traditional RST viewpoint
- Coordinated State VAT
 - State VAT with multiple participating states
 - Could work under certain (complex) structures
 - State RST reform viable alternative
- Integrated Federal-State VAT
 - Holds potential
 - Will require accommodation by states

Canada

Overview of indirect taxes in Canada

— Federal level:

- Goods and services tax (GST): credit-invoice method levied at a rate of 5% and administered by the Canadian Revenue Agency (CRA)

— Provinces and territories level

- No local tax – 4 jurisdictions
- Provincial sales tax (PST): retail sales tax similar to the U.S. states' retail sales tax – 3 jurisdictions
- Harmonized sales tax (HST): local taxes are harmonized with GST whereby the tax rate comprises a federal and a provincial portion – 5 jurisdictions
- Quebec sales tax (QST): rules are broadly harmonized with GST, but it is a separate tax and is administered by Revenue Quebec

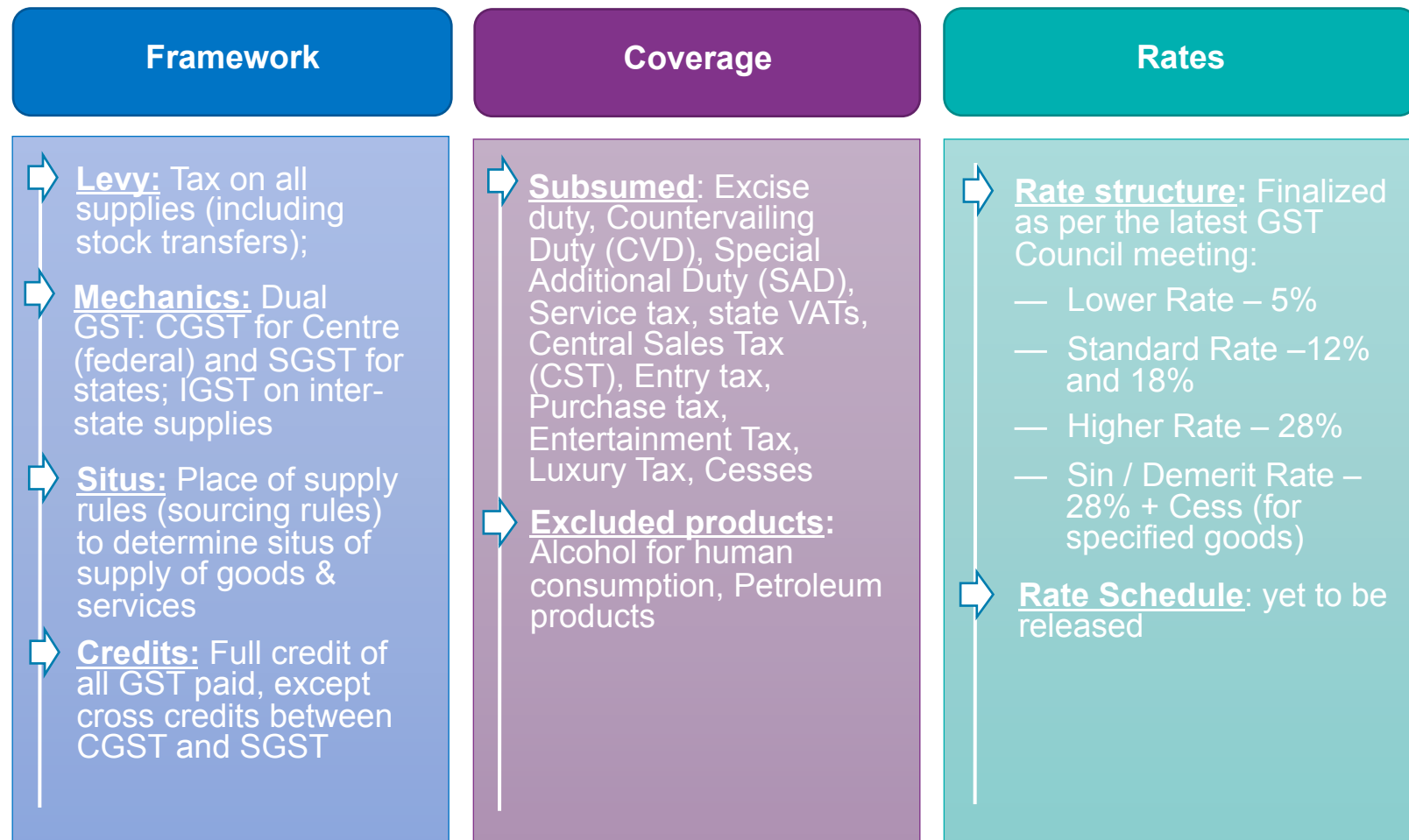
HST

- HST combines a federal component (i.e., 5% GST) and a provincial component
- Same tax base and rules as GST
- Administered by the Canada Revenue Agency (CRA)
- A person registered for GST is also registered for HST
- One combined GST/HST return
- Specific rules to HST
 - HST place of supply rules
 - Recaptured input tax credits (RITCs) in some HST provinces
 - A few point-of-sale rebates for provincial component of HST
- Various special calculations for some financial institutions including pension plans

Indirect taxes levied in India

Indirect tax	Taxing authority	Applicable on
Excise duty	Federal government	Manufacture of goods in India
Service tax	Federal government	Provision of taxable services
Central sales tax (CST)	Federal government	Inter-state sale of goods
VAT	State governments	Sale of goods within the state
Entry tax/octroi	State governments/local authorities	Entry of goods in state/local area for consumption, use or sale

Structure Proposed for GST in India



Mechanics of GST Levy

- Dual GST will consist of CGST and the SGST, which in themselves, would include both Goods Tax and the Services Tax

Present Structure

Intra-state sale of goods	Rate	100
Excise Duty	12.5%	12.50
Value Added Tax (VAT)	5%	5.63
Total Invoice Value..		118.13

Inter-state sale of goods	Rate	100
Excise Duty	12.5%	12.50
Central Sales Tax (CST)	2%	2.25
Total Invoice Value..		114.75

GST Structure

Intra-state supply of goods	Rate	100
CGST	9%	9
SGST	9%	9
Total Invoice Value..		118

Inter-state supply of goods	Rate	100
IGST	18%	18
.....
Total Invoice Value..		118

* Calculations are made assuming GST of 18% and State and Centre share equally

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