World Academics Journal of Management **Review Paper**
Vol.4, Issue.1, pp.16-18, March (2016) **E-ISSN:** 2321-905X

Study of Canadian Dual System of GST

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Available online at: www.isroset.org

Received: 15/March/2016, Accepted: 22/March/2016, Online: 31/March/2016

Abstract- Canada has set an example by introducing dual system of GST contrary to not a country with a reputation for bold experimentation. However, Canadian experience had shown that an invoice-credit, destination-based value-added tax (VAT) is workable at province level also, with both federal and provincial governments retaining full control over the rates of their taxes. This paper is based upon this view that Canadian model has really influenced country like India where different states with their different State level Taxes are already existing.

Keywords- GST, HST, RST, QST

I. INTRODUCTION

Canada's federal government imposes a 5% sales tax known as the Goods and Services Tax (GST). When a supply is made in a "participating province," the tax rate includes an additional provincial component of 7%, 8% or 10%, depending on the province. The combined 12%, 13% or 15% tax is known as the Harmonized Sales Tax (HST). When the HST was first implemented, effective from 1 April 1997, the original "participating provinces" were New Brunswick, Newfoundland and Labrador, and Nova Scotia. These provinces adopted a provincial component of 8%.

The combined rate in New Brunswick and Newfoundland and Labrador is currently 13%. Nova Scotia increased its provincial component to 10%, effective from 1 July 2010, and its combined rate is now 15%. Nova Scotia has also announced that it will lower the provincial component of its HST rate from 10% to 9% effective 1 July 2014, and to 8% effective 1 July 2015. Effective from 1 July 2010, the provinces of British Columbia and Ontario adopted the HST. Ontario's provincial component is 8%, which results in a combined HST rate of 13%. British Columbia had a provincial component of 7%, which resulted in a combined HST rate of 12%.

To address significant opposition to the adoption of the HST in British Columbia, the provincial government opted to hold a binding public referendum on the issue as to whether the province
Should retain the HST or return to the previous system, under which a provincial sales tax (PST) and the federal GST were levied.

The results of the referendum were announced 26 August 2011, with 55% of voters choosing to restore the previous system. On that date, the British Columbia government announced that it would exit the federally administered HST system and reinstate the former PST. With effect from 1 April 2013, the province exited the HST system and transitioned back to a PST system.

Although the province of Quebec is not considered a "participating province," it replaced its own retail sales tax and harmonized with the GST (subject to some exceptions) when it implemented its own Quebec sales tax (QST) on 1 July 1992. The QST rate is 9.5%, effective from 1 January 2012 (increased from 8.5%).

Because the QST is calculated on price plus GST, the effective rate is 9.975%, resulting in a combined QST/GST effective rate of 14.975%.

On 30 September 2011, the Quebec and federal finance ministers signed a memorandum of agreement regarding sales tax harmonization that provides for the implementation of certain changes to the QST that came into effect on 1 January 2013. From that date, QST was no longer calculated on price plus GST. As a result, the QST rate increased to 9.975% from 9.5% to maintain the current combined effective rate of 14.975%. Also, effective from 1 January 2013, financial services, which were previously zero-rated for QST purposes, become exempt to parallel the treatment of those services under the GST and HST systems. As a result, financial institutions are no longer able to recover the QST paid on their purchases of goods and services used for exempt activities, resulting in unrecoverable tax and accordingly additional costs.

The provinces of Manitoba, Prince Edward Island and Saskatchewan continue to impose their own retail sales tax, while the province of Alberta and Canada's three territories do not impose a retail sales tax. With effect from 1 April 2013, the province of Prince Edward Island harmonized its previous PST system with HST.

To begin at the beginning, Canada first introduced a federal sales tax in 1920 in the form of a one percent turnover tax, applied to all sales except those at retail. The aim of the new tax, which was largely modeled on several similar taxes in Europe, was essentially to pay off the debts incurred as a result of the First World War (Due 1957). Although one fiscal historian labeled the introduction of the tax "a quick, easy delivery" (Gillespie 1991), from the beginning the new tax was exceedingly unpopular with business, largely owing to its effects on nonintegrated firms such as wholesalers. As a result, after a number of modifications, the turnover tax was replaced in 1924 by a six percent tax on sales by manufacturers — the so-called manufacturers' sales tax (MST). Although there was little or no public discussion of any of these early sales taxes, all of which were essentially invisible to final consumers, this tax too proved to be so unpopular with manufacturers that, in response to their continuing complaints,

The rate of the MST was gradually lowered to a token one percent in 1930, with the apparent intention of abolishing it the next year. However, the Depression intervened, and the ensuing increases in fiscal deficits soon led to an increase of the basic MST tax rate to eight percent in 1936, the year in which the MST yielded an all-time high of 31 percent of federal revenue (Due 1957).

Despite the revenue importance of the MST, the Rowell-Sirois report at the end of the 1930s recommended the elimination of this tax for two reasons: it's regressively and the "cascading" that resulted from taxing inputs (Report 1940). Although no attention was paid to this recommendation at the time, the rate of the MST was not further raised during the Second World War, in part to hold down price (and hence wage) increases. Soon after the war, however, the rate began to creep up again. Unsurprisingly, so did the volume of complaints about the structure and operation of the tax from manufacturers. This time the response, in 1955, took the form of establishing what turned out to be the first of many committees intended to recommend reforms for the MST. This pioneering committee's basic recommendation was to move the MST forward to the wholesale level, largely in order to respond to business complaints about the increasing valuation problems that had arisen as the federal government attempted, through an extensive series of administrative regulations, to treat different types of sales by taxpayers (to other manufacturers, to wholesalers, to retailers, and to final consumers) more evenly (Report 1956). While nothing was done in response to this report, it turned out to be one important reason for this decision was simply because the federal government was not alone in the sales tax field. Interestingly, the first sub national sales tax in Canada was actually a local retail sales tax (RST) imposed in Montreal in 1935. The first provincial RST was not imposed (in Saskatchewan) until 1937. When Quebec imposed a similar RST in 1940, it not only left the Montreal tax in place, but also introduced a similar tax in Quebec City (Perry 1955).

Subsequently, the municipal sales tax (at rates of one or two percent) spread to a number of other municipalities in Quebec, until it was finally abolished by the province in 1964 (Johnson 1974). other provinces did not introduce RSTs until after the war, beginning with British Columbia in 1948 and concluding with Manitoba in 1967 (Robinson 1986). By 1989, just prior to the introduction of the GST, there were no general local sales taxes in any province, as is still the case today. In contrast, by 1989 all provinces except Alberta had entered the sales tax field, Levying RSTs at rates ranging at the time from seven to 12 percent.

Since the GST operates very differently than the RST, it appears more complex to the firms that Actually pay the taxes over to the government. To consumers, however, a sales tax that they have to pay when they buy anything is a sales tax, no matter what it may be called or to which Government the money flows. To most Canadians, the proposed GST thus looked like a new —And very unwelcome— federal addition to the familiar provincial RST.

II. PROVINCIAL SALES TAXES: FROM RSTS TO HST

The main economic benefit of the GST is that it frees most business inputs from tax. However, many people do not see this as an improvement, perhaps because they think that if business pays the tax, that means they —the public— do not. Hidden taxes may be economically Distorting, but they often appear to be more palatable politically than visible ones. The GST was Initially criticized not only as a new tax on transactions, but also because it expanded the tax Base to encompass a much broader range of consumer services. The prices of manufactured Goods, like automobiles, may have gone down a bit over time, but people were understandably Much more aware of the fact that the price of eating at a restaurant or having one's hair cut Went up. Moreover, for many small businesses and especially for the many small service firms.

That, for the first time, had to deal with the federal sales tax, the GST constituted a new and Unwanted additional compliance burden. In addition, as already discussed, a wide variety of Public, charitable, and non-profit organizations that had previously escaped both the income tax And the RST were now faced with coping with the intricacies of the GST. Finally, and most Importantly, the provincial governments understandably saw the federal government as Crowding them out of tax room at the retail tax level, and complicating their already sufficiently Difficult fiscal lives.

III. FINDING AND CONCLUSION

Whether it is GST HST or QST by replacing MST and RST they have improved old system of defaulty pattern in Canada leading to role model for other country like India those which are also having same pattern of Dual system of Taxation structure.

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