Goods And Services Tax: A Comparative Analysis Of Indirect Tax Pattern In India And Nigeria.

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Abstract

The Goods And Service Tax Is A Concept That Has Been Existing For More Than 60 Years. Many Countries Have Adopted This System Of Taxation With The Intent To Reap The Benefits Of The Gst While Improving The Growth Of The Economy. Although Gst Has Benefited Some Of The Countries Having This System Of Taxation, The Methods Of Implementing The Gst Vary From Country To Country. A Comparison Of The System Adopted In Those Countries May Give Some Ideas To Find Out The Important Points That Can Be Used To Adopt And Maintain The System. Hence, The Present Study Aims To Compare The Indirect Tax Pattern In India With That Of Nigeria And Highlight Significant Differences And/ Similarities As Well As Benefits Drawn From The Implementation Of The Act To Suggest The Best Way Forward Based On The Findings..

Keywords: Gst, Vat, Tax, India, Nigeria, Economy, Rate

INTRODUCTION:

Goods and Service Tax (GST) is a system of taxation in which tax is levied on goods and services that are sold for domestic consumption. It is sometimes called consumption Tax because it is paid by the consumers. GST is also called as Value-Added Tax (VAT) in some countries as the tax is levied on the value addition of the goods or supplies. Even though the GST is borne by consumers, it is however collected by the businesses selling such goods and or, providing such services and remitted to the Government. This becomes a source of revenue to the Government.

Brief History

Goods and Service Tax (GST) also known as the Value Added Tax (VAT) or Harmonized Sales Tax (HST) is a system of taxation that has existed over the years. It was formulated first by a German economist in the 18th Century and charged on goods that did not have an effect on manufacturing costs or distribution costs but was rather added and collected on the final price charged to the consumer. Here, the number of transactions is irrelevant as the tax is at a fixed percentage of the final price. GST was initially directed at outsized businesses, but was extended over time to include all business sectors.

History-wise, France was the first country to introduce GST in the year 1954 and over the years, it is believed that France has managed well with the GST. Congo, Seychelles, Gambia and Malaysia are among the lists of the latest countries to adopt GST. Over 160 countries all over the world have implemented the GST today. Inclusive of the European Union, there are more than 40 African countries, and more than 14 Countries in Asia who have adopted the GST amongst others. Examples of countries with a GST include Canada, Vietnam, Australia, Singapore, United Kingdom, Monaco, Spain, Italy, Brazil, South Korea, Nigeria, and India.

Working of Goods and Services Tax(GST) System

As explained earlier, GST is an indirect sales tax applied to the cost of certain goods and services. The business basically adds the GST to the price of the product and a customer who buys the product pays the sales price plus the GST. Most countries have a Single or unified GST system while others implemented the Dual GST structure. In a Unified GST system, a single tax rate is applied throughout the country. Most of the countries with a unified GST system merges state-level taxes (e.g. entry tax ,entertainment tax, transfer tax, sin tax, and luxury tax) with central taxes (e.g., sales tax, excise duty tax, and service tax) and collects them as a single tax. Almost everything is taxed at a single rate in these countries. Tax is collected by the federal government and then distributed to the states in a unified GST economy, On the other hand, Countries with a Dual Goods and Services Tax (GST) Structures apply the federal GST in addition to the state sales tax.

PROBLEM STATEMENT

It is known that many countries have implemented the GST over the years. Ideally, GST is supposed to boost the economy's growth, reduce or eradicate existing distortions in businesses, promote uniformity in the concerned country's tax system, while serving as an additional source of revenue to the government. However, due to each country's uniqueness, the structure/system of GST implemented may differ as a result of varying constitutional requirements which can go a long way to determine the amount of revenue generated by the country and result in varying impacts on the end users of the goods and services to be taxed. Hence, the need to compare the uniqueness of India and Nigeria's Goods and Services Tax Pattern, highlight the progress so far and suggest possible ways to reap more of the benefits with time while mitigating possible drawbacks.

OBJECTIVES OF THE STUDY

By focusing on the Indirect Tax pattern of both the countries, the researcher has framed the following objectives as a goal to be achieved at the end of the study. They are;

- To understand the Indirect system of taxation in India as well as in Nigeria.
- To highlight each country's strategy towards minimizing any negative effect(if any) while still meeting their goals so as to enable appropriate disclosures and management of GST.
- To provide suggestions to enhance the value of the system

METHODOLOGY

The researcher has chosen two countries to compare the GST. India and Nigeria fall in the list of the Top 10 developing countries in Asia and Africa respectively. The researcher has, thus, studied and compared the pattern of Indirect taxing in both countries using qualitative research method to point out significant difference and/ similarities in the system adopted by both countries. The research has relied on secondary data for the study. The data was collected from publications, research articles, websites, news feeds, The economic times, Times of India, Clear tax, etc. Also, the required data for the sample countries were obtained from the compilation made by Google and Wikipedia.

SCOPE OF THE STUDY

Records show that roughly 90 percent of the world's population lives in countries with VAT or GST. There is currently no comparison between the India's GST system with that of Nigeria. With this in mind, the researcher has undertaken this study aiming to understand the indirect tax system in both countries.

LIMITATIONS OF THE STUDY

The study is subject to the following limitations:

- The study period is limited to two countries alone
- This study is solely from secondary data source . Thus, the accuracy of the findings entirely depends on the secondary data taken for the present study.
- There are different methods used to determine the Growth level of a company, so experts' views differ from one another.
- The conclusion drawn from the present study could not be generalized for all the countries in South Asia and West Africa
- The present study is largely based on GST system in both countries, which has its own limitations.

REVIEW OF LITERATURE

There have been a lot of reviews on the tax system in India and in Nigeria as well. below are some of the reviews gotten from existing literatures.

INDIA

Vidya Suresh and Bipasha Maity(2016)[1], in their paper, gave a descriptive analysis of GST with reference to India and concluded that GST would generate greater employment as it helps to boost labor intensive sectors, So along with growth in GDP, economic wellbeing will be enhanced as well.

Sankar R. (2017)[2], In his paper, gave an overview of the concepts of GST and its impact and implications on the various Industries in the Indian Economy and concluded that being a very vital tax reform in India since independence, The GST must be better handled with extreme care and analyzed properly before implementation and, the government both central and state have to conduct awareness programs and various literacy programs about GST to its various stakeholders.

Anand Nayyar et al(2018)[3], Their paper gave a highlight on the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other countries, and after revising GST and outlined some challenges of GST implementation, presented an in-depth coverage as regards advantages of GST to various sectors of the Indian economy

Rajat Deb(2018)[4] Adopted a methodical Literature Review technique after accessing the academic e-journals of selective publishers and applying a filtering process. In his study, he reviewed 119 paper samples published in 2002-2016 and focused on objectives and results of those cited papers from which he documented results from the tax reforms executed globally with several objectives showing few limitations as practice implications, have sketched the roadmap for subsequent studies especially in the transition period in India when it would soon move to GST regime.

Ademola Eyitope Ojo, Francis Olukayode Oladipo(2017)[5] in their study examined the implication of tax and taxation on the construction sector in Nigeria with a view for industry operator's decision making. Results showed that Value Added Tax/GST With Holding Tax were most identified. The study concluded that appropriate guidance and understanding of tax system and policies is required by operators/investors and tax authorities in order to attract tax compliance in the Nigerian economy.

Edori Daniel Simeon et al (2017)[6] adopted a theoretical framework technique in their study and According them, the Nigerian tax system is intended as a source of income generation of which the three tiers of government have the responsibility of tax administration in Nigeria. The study highlighted the many issues faced by the Nigerian tax system and concluded by suggesting the way forward.

Zakariya'u Gurama (2015)[7] in his study analyzed the Tax Administration Problems And Prospect in a state in Nigeria with the main objective to examine the problems and prospect of Gombe state board of internal revenue services. Also, the study analyzed and suggested recommendations for the problems highlighted. The findings showed insufficient public awareness, lack of training, poor working condition, poor remuneration and lack of motivation and gave suggestions.

COMPARATIVE ANALYSIS

The analysis of the taxation system of both the countries has revealed information needed for comparison and for the ease of understanding.

DESCRIPTION	**INDIA**	**NIGERIA**
Previously	Central and State Indirect Taxes. e.g. VAT, excise duty and service tax	Erstwhile Sales Tax
Currently	GST	VAT/GST
Governing Legislation	GST Act, 2017	Value Added Tax Act
Model	Dual GST	Single VAT
Year of implementation	1-July-2017	1-December- 1993
Administered by	Union Government and concerned State Governments	Federal Inland Revenue Service (FIRS)

Tax slabs	5	1
Standard Rate(s)	0.25%(for selected goods alone), 5%, 12%, 18%, 28%. **Others**: zero rated and exempt	7.5% (revised from 5% previously). **Others**: zero rated and exempt
Reviews post-GST	40(as @ june 2020)	1 (i.e. new vat rate reviewed)
Major objective	(a)To bring uniformity in the structure as 'one Nation one Tax' (b)To simplify indirect tax structure of India by eliminating double taxation or tax on tax c)To reduce price of goods and services to consumers.	(a) Promote fiscal equality (b) Align local tax laws with International standards. (c) Introduce tax incentives for investments in infrastructure and capital investments (d) Support SME's (e) Raise Government revenues
Scope	(a) Applies to the supply of goods/services or both, (b) Supply made for a consideration, (c) Supply made in the course of business or in the furtherance of business. (d) Supply made by a taxable person (e) All taxable supplies (f) Supply made within the taxable territory	(a) Applies to supply of goods and services other than those specifically exempt under the VAT Act (b)Goods and services imported into Nigeria
GST Type	Indian version of Goods and services tax called as **All India Goods And Services Tax.**	Ideal VAT (i.e. all indirect taxes will be subsumed in to one)
Sharing the GST Revenue	In case of Inter-State transactions revenue is collected and shared equally between the State and Centre. In case of intrastate, . revenue is collected by the central government and shared as per the goods' destination.	Revenue from VAT is shared among the three tiers of government viz., for Federal Government 15%, for State government 50% and for local governments 35%..
Harmonized System of Nomenclature(HSN) Code	Applicable. All entrepreneurs need to state the code, which is a six-digit unique number assigned to respective goods.	Applicable.
ITC(Input Tax Credit)	Applicable. Can be claimed only by businesses and respective suppliers registered under the GST Act.	Applicable.

Return Period	Monthly and annual	Monthly
Penalty	For delayed filing of returns, non-filing of returns,charging non-gst rates, not issuing invoice etc.	For example late registration and so on.
Indirect Tax Identification Number	Applicable. Called GSTIN-Goods & Service Tax Identification Number, a unique 15-digit number provided to a business on GST registration.	Applicable. Called as VAT/ Tax Identification Number (TIN), a unique **10**-digit number used by the tax payer.
Composition Scheme	Applicable but not Compulsory.	Available
Registration Thresholds	Businesses whose **turnover** exceeds Rs. 40 lakhs (Rs 10 lakhs for North East and hill states) are required to **register** as a normal taxable person.	Nil
Economic growth forecast	Enhance the tax base and increase government revenue and growth	Positive and significant growth
Registration	All taxable persons	All taxable persons
VAT & Digital Economy	Digital technology needed for implementation and furtherance of GST	Digitalisation implemented in 2017-18 only

FINDINGS & INTERPRETATIONS

After studying and analyzing the above comparisons, the following points are identified on some of the parameters used for comparison for further understanding.

1. GST Type & Classification .

- Pre-GST, India did not follow an ideal VAT i.e. Central VAT at central level and State VAT at state level and same is the case with GST. In India, two types of GST is charged enable the Centre and the States to fulfill the responsibilities and powers by the Constitution for which they need resources. Therefore, a dual GST will be in line with the Constitutional requirement of fiscal federalism.

- Nigeria is a Federal country like India. However, Both Nigeria and India do not share similar Goods & Service Tax model. This is because India implemented the dual GST concept while Nigeria did the reverse.

2. The Concept Of Input Tax Credit (ITC) .

- In India, the Input Tax credit concept allows a tax payer to pay tax by charging tax on the value added at his point. For example, a manufacturer selling the final product and paid 300 as input tax while purchasing the product and the output tax stands at 700. In this, he can claim/receive an ITC of 300 on the final product and needs to pay only the difference of 400 (i.e., 700 – 300) to the government as the Goods and Service Tax by making it compulsory to register themselves by businesses under the Goods and Services Tax Act to claim ITC.

- In Nigeria, a taxable person can recover input tax charged on the purchase by offsetting it against output VAT. If input VAT exceeds the output VAT, the taxable person can claim a refund of the excess tax paid and it is equally applies to zero-rated goods and services.

- An input VAT can be claimed through credit method, direct cash refund or both. However, the most common is the credit method under which the taxable person may offset the excess input VAT against the output VAT in the subsequent month.

- Non-deductible input tax: A taxable person cannot claim VAT paid on goods and services used for non-business purposes. Also, input Vat cannot be recovered from output VAT if the former have been incurred on the purchase of fixed assets and expenses such as general administration and overhead costs

- Refunds: The FIRS Establishment Act provides for a cash refund within 90 days subject to a refund application by the tax payer and an appropriate audit Under FIRS.

- Pre-registration cost is not recoverable. Also, non-resident and unregistered businesses cannot recover input VAT in Nigeria.

3. Composition Scheme For Indirect Tax.

This Scheme aim to ease the process of indirect tax payment for small taxpayers. Small taxpayers can then get rid of tedious formalities and pay their Goods and Service Tax at a fixed rate of turnover.

- The Central Board of Indirect Taxes and Customs (**CBIC)** notified that companies with an annual turnover within Rs. 1.5 Crore can opt for the scheme to pay their taxes. For North-Eastern states, the turnover limit is Rs. 75 Lakhs. The Registration under the scheme is, however, voluntary. For Goods traders and manufacturers, Total GST Rate is 1% (i.e 0.5% for CGST and 0.5% for SGST) while for Restaurants that do not serve alcohol, Total GST Rate is 5% (i.e. 2.5% for CGST and 2.5% for SGST). Furthermore, Taxpayers need to meet a set of conditions to avail the scheme, file GST CMP-02 when opting for the scheme (can be done via the GST online portal).

- A dealer under the composition scheme is not eligible to avail ITC

4. GSTN And GSTIN?

In India, Goods and Services Tax Network(**GSTN**) is a structural framework within which the tax regulations are implemented. In India, a 15-digit unique identification(GSTIN) number is provided to the concerned business after it completes its GST registration to be used for the submission of payment and returns.

5. Rate Review & HSN Codes

The 'Revision of Tax rate' is the chain of amendments (after the inception/implementation of GST) which the Indirect Tax System goes through.

- India holds GST meetings to monitor the progress and make changes where attention is needed. This is done with the goal to benefit everyone(ensure uniform distribution of wealth among residents of India) in the long run and to solve or rectify potential drawbacks that would render the GST implementation unsuccessful. The highest rate slab for GST is further categorized into items with cess and items without cess. The suppliers need to state the HSN code, which is a six-digit unique number assigned to respective goods and is accepted worldwide.

- In Nigeria, a Strategic Revenue Growth Initiative(SRGI) was launched by The Federal Government to increase revenue generation by government agencies so as to enable it to meet its ever-growing financial obligations. The objective of the SRGI includes increase in VAT rate by 50%(i.e. 5% to 7.5%), identification of new revenue sources and enhancing revenue collection from existing revenue sources. This increase in VAT rate has led to an amendment in Sec 4 of the VAT Act. This review in Nigeria's VAT rate is happening after over 27 years (i.e. from 1993 to 2020) since it was first implemented. HSN Code is also applicable for goods in Nigeria.

6. Tax Administration

- In India for instance, a federal country, dual GST model had been adopted(i.e. GST is administered by the central and the state government). Thus, for sales between states, GST is administered on a federal level and for sales within states, GST is administered on a state level.
- In Nigeria, tax administration is carried out by the Federal Government, the thirty-six States of the Federation and the Federal Capital Territory and the various Local Governments(the three tiers of government). However, the FIRS was established under the Federal Inland Revenue (Establishment) Act, 2017 to administer and enforce the various tax laws in Nigeria. The principal functions of the FIRS include -

  (a) assess persons as well as companies, enterprises chargeable with tax;

  (b) assess, collect, account and enforce Tax administration is simply defined as the implementation of the various tax laws in a country in order to achieve its objective.

  (c) recover, collect and pay to the selected account any tax under any provision of this Act or any other enactment or law;

7. Standard Rates

- In Nigeria, VAT rate increased by 50% compared to the rate at implementation stage
- In India, the slab includes 0%, 0.25%, 5%, 12%, 18%, 28%. The highest tax percentage in India is noticeably greater than that of Nigeria.

8. Penalty

- In India, Penalty for not issuing invoice, Penalty for not registering under GST, Penalty for incorrect invoicing, tax evasion or supply without proper documents
- In Nigeria, Section 19 of VAT shows the increase in the penalty payable by a taxable person for non-remittance within the particular period from 5% to 10%.
- There is a new section 8 of the VAT Act to cater for the registration of a taxable person upon commencement of business, otherwise liable for the penalty. However, the time from which a taxable person is obligated to register with the service is not stated under the new law as the law basically hinged the time on" commencement of business." This is in some way unclear and may be subject for court's elucidation.

Section 15 of the VAT also introduced a fresh threshold for VAT compliance. Thus, companies with turnover of NGN 25, 000, 000 or more shall render their tax on or before the 21st of every month.

OTHER FINDINGS

a. Similarities Found: The researcher found a number of similarities in the system of taxation implemented in both India and Nigeria. Below is a summary:

DESCRIPTION	**INDIA & NIGERIA**
Tax type	Indirect
Concepts of Levy	Multi-Stage, destination-based and Value Added
Zero rated and exempt?	Yes
Scope	Supply of Goods and/ Services
Penalties?	Yes
Input Tax credit?	Yes
GST rates across the country	Uniformly applied
Indirect tax incidence	Borne by consumers
Registration	All taxable persons
Return Filing	Monthly

b. Some goods and services are zero-rated or exempt from tax*.

- In Nigeria, **goods and services taxable at 0%** consist of Non-oil exports, aircraft spare parts and machinery , Goods and services purchased for humanitarian donor-funded projects, Goods and services purchased by diplomats, Imports of commercial aircraft, and equipment used in the solid minerals sector.
  Some examples of **exempt supplies of goods and services** includes Medical goods and services and pharmaceutical products, All exported goods and services, Basic food items, Books and educational materials, Plant, machinery and goods imported to utilized in free-trade zones and also, equipments purchased for the use of gas in downstream petroleum operations, Tractors, plows and agricultural implements purchased for agricultural purposes, Plays and performances by educational institutions as part of learning, Proceeds from the disposal of short-term federal government of Nigeria securities and bonds, Services rendered by community banks and mortgage institutions, Proceeds from the disposal of short-term state, local government and corporate bonds.

- In India, the key items exempted from GST are Alcoholic liquor for human consumption, Aviation turbine fuel, Diesel, Petrol etc. In other words, GST council has got to decide when those items should be covered under GST. Tax rate of 0% is applicable for some foods , newspapers, books, cotton cloth, and hotel services. 0.25% tax rate is applied to cuted and semi-polished stones. 5% tax rate is charged on household necessities like spices, sugar, tea, and coffee. 12% tax rate is charged on computers and processed food. An 18% tax on industrial intermediaries , soap, hair oil, and toothpaste. The rate tax of 28% tax, applies to luxury items like ceramic tiles, refrigerators, cars, cigarettes, and motorcycles.
- The broad nature of Goods and Services tax levy takes into account every stage of manufacture whereby value added to an item is taxable. In addition, a change of destination also attracts GST.

SUGGESTIONS

After analyzing the GST model implemented by both countries, the researcher has the following suggestions to support the findings from the study. This will assist both countries in reaping further benefits of the GST in the long run.

1. A facet encountered and accepted by most of the GST countries lies within the statistic that GST is going to be inflationary, especially if the effective tax rate is above what prevailed before. Hence, the governments shall take measures to curb inflation to avoid increase in tax rate.

2.As the compliance cost is more, small and medium enterprises find it difficult to adopt and use it. They may be given some privileges compared to large scale enterprises

3. The Chief Economic Advisor (CEA) in person of Arvind Subramanian released a comparative study of GST implementations in the federal systems around the world in December, 2015. His report focused on the experiences of European Union, Canada, Brazil, Indonesia, China (a unitary nation) and Australia. Subramanian found that most of these countries were facing 'serious challenges' in working with the GST like overly centralized, dual structure, many differences in tax rates and make inter-state transactions difficult to tax. The set-backs associated with the Indirect tax pattern in both Nigeria and India shall be identified and measures to correct be implemented.

4.In India, the GST Council meets from time to time to revise the GST rates for various products. a number of states and industries advocate cutback in GST tax rate for various items which are discussed in these meetings. In like manner, the Nigerian Tax officials/council could meet from time to time to see if the increased rate is favoring those who pay such taxes. This will enable them figure out the need for a review in the VAT rate where needed.

5. Businesses, suppliers should register under the respective Indirect Tax Act in order to claim ITC as and when required to minimize unnecessary expenses/loss and hence, formalities shall be simplified and speedy so that the benefits can be transferred to the end user viz., consumers.

6.The government shall create awareness programs and training to the tax payers and officials continuously to ensure effective adoption of GST and to get feedback to make revisions.

CONCLUSIONS

GST is the most logical steps towards the comprehensive indirect tax reform with good motive to increase revenue base to the government which is levied on all supply of goods and provision of services. Thereby it has its impact on all sectors of the economy. It will increase consumption and productions of goods and services. So that both countries should review its model frequently to ensure that it is user-friendly and transparent tax system with advance planning and extending adequate time to industry, continued dialogues between businesses and administrators, timely release of the legislative documents and enable GST to be an efficient tax system despite teething problems in the initial implementation period or at later stage.

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