Coordinating a national and subnational consumption tax

Federation of Tax Administrators
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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

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

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

**Framework**
- **Levy:** Tax on all supplies (including stock transfers);
- **Mechanics:** Dual GST: CGST for Centre (federal) and SGST for states; IGST on inter-state supplies
- **Situs:** Place of supply rules (sourcing rules) to determine situs of supply of goods & services
- **Credits:** Full credit of all GST paid, except cross credits between CGST and SGST

**Coverage**
- **Subsumed:** Excise duty, Countervailing Duty (CVD), Special Additional Duty (SAD), Service tax, state VATs, Central Sales Tax (CST), Entry tax, Purchase tax, Entertainment Tax, Luxury Tax, Cesses
- **Excluded products:** Alcohol for human consumption, Petroleum products

**Rates**
- **Rate structure:** Finalized as per the latest GST Council meeting:
  - Lower Rate – 5%
  - Standard Rate – 12% and 18%
  - Higher Rate – 28%
  - Sin / Demerit Rate – 28% + Cess (for specified goods)
- **Rate Schedule:** yet to be released
### 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**
    - Excise Duty: 12.5% → 12.50
    - Value Added Tax (VAT): 5% → 5.63
    - Total Invoice Value: 118.13
  - **Inter-state sale of goods**
    - 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**
    - CGST: 9% → 9
    - SGST: 9% → 9
    - Total Invoice Value: 118
  - **Inter-state supply of goods**
    - IGST: 18% → 18
    - Total Invoice Value: 118

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