GST Lessons from Singapore

Why in news?

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Singapore government recently announced changes in the rate of the Goods and Services Tax (GST).

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What is the taxation announcement?

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- Singapore government announced that it would raise the rate of the GST from 7% to 9%.
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- This will be the fourth increase after the GST was introduced there in 1994 at 3%.
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- The last increase was in 2007, when it went up from 5 to 7%.
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- The reason cited for the latest increase is to help the government raise resources.
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- It is to enhance outlays for health care, infrastructure and security.
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- It is said that the increase would take place between 2021 and 2025.
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- In essence, the duty hike is to be effected over a period of four years.
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- Moreover, the announcement for the increase is made 3 years in advance.
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What could India learn?

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- Early announcement of duty hike is one element of Singapore’s GST

structure that India should embrace.
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- There are clear advantages of outlining the new rates in advance before enforcement.
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- In India, there is virtually no time between the duty increase announcement and its enforcement.
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- This is an offshoot of the old mindset that prevailed during the licence-permit-controls regime.
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- There is no reason to continue the same practice even after decades of liberalisation.
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- **Early announcement** - Industries could plan their production and sales in keeping with the new duty regime.
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- Also, an advance announcement permits reasonable debate and discussion.
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- So, if some changes are considered necessary, they can be introduced as well.
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What is the way forward?

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- A single-rate GST structure is not what India can accept and implement at present.
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- It may not be easy to unify the many current GST rates into one rate.
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- However, the medium-term goal to reduce the multiplicity of rates could aim for
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i. eliminating the top rate of 28%
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ii. bringing down the 18% rate by a few percentage points
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iii. raising the lowest rate by a similar margin
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- It could contribute to moving towards a two-rate GST regime.
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- Even the transition to a two-rate structure should be implemented in phases.
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- This will ensure that the consumers are able to absorb the impact and inflation remains under control.
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- One of the achievements of the Indian GST regime is that it has not been inflationary.
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- However, it must be ensured that items consumed largely by the poorer sections are not taxed higher than the previous rates.
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Source: Business Standard

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