CANADA INDIA FOUNDATION
Democracies Working Together

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Interview of the Month

"Current version of the model GST law has features that need to be revisited"

Satya Poddar

By : Vipul Jani

Satya Poddar is called the " Father of GST " and rightly so. He has been directly and deeply involved in the design of GST in both Canada and India, assisting and advising both governments on GST. When it comes to VAT, GST, Indirect Taxes or Taxation in general, he is the man Corporate Houses and Governments look upto.

Vipul Jani, Director of Operations for Canada India Foundation caught up with Satya in India. Excerpts from that exclusive e-mail interview :

(1) How important is the passage of GST Bill in India in terms of India's economy and the ease of doing business, both for the local traders as well as international investors who have investments in several states?

Passage of the Constitution Bill for GST implementation is a significant achievement and paves way for the largest ever tax reform in the fiscal history of India. The current tax system has many flaws. It provides for taxes imposed upon narrow bases, on both production and consumption, and on both origin and destination basis. They result in significant cascading and shrinking of the GDP pie.

GST will address current distortions and anomalies and replace them with an efficient tax system. It would lead to substantial modernisation, rationalization and simplification of the indirect tax regime. It will facilitate ease of doing business, lead to better administration, and improve compliance. These positive changes would yield higher revenues to the governments and pave the way for higher economic growth / GDP. The Report on Revenue Neutral Rate by the Committee headed by the Chief Economic Advisor (the Committee on RNR) envisages that GST could result in India's GDP growth increasing by about 0.7%.

Having said that, the Constitutional amendment is only the beginning. GST in India is not a single national tax but a set of 38 taxes, i.e., 29 state taxes (SGSTs), seven Union territories, one Centre GST (CGST) and the integrated GST (IGST) on inter-State supplies, all fully harmonised to look like a single tax. The draft GST law contains many features such as state-wise registration of business entities, taxation of inter-State stock transfers and no automatic refunds for excess input tax credit which, unless reviewed, may cause more pain rather than bring ease of doing business.

Secondly, spurred by the fear of letting go of their exclusive powers, the States have insisted on the exclusion of large chunks of the economy, such as petroleum, alcohol, electricity and real estate, from the GST base. The ultimate test of the success of this process will be the design of the GST base and the rates. The GST will not be a game-changer unless it is applied to a comprehensive base with moderate rates. The GDP could be substantially larger (than the 0.7% estimate above) under a game-changer GST.

(2) What do the individual states gain (and lose) from this shift to GST?

The GST will be a reflection of renewed Centre-state relations – It will require both the Centre and the state governments to sacrifice their fiscal autonomy in favour of a collective decision making process. The giving up of the fiscal powers reflects the need for increasing co-operation among the economic players for the common good.

It is expected that over time the advantages of GST, as discussed above, will result in better economic growth and greater revenues for both the Centre and the State governments.

To allay fears of the States that they may lose revenues under the new system, the Constitution provide many safeguards to preserve the States' fiscal autonomy. The States will have full autonomy in taxation of sectors such as petroleum, alcohol, electricity, and real estate. States' demand for flexibility in setting the tax rates within a narrow band has also been accepted. The States will get full compensation for five years for any loss in revenues. By that time, it is expected that GST would have stabilised and its benefits will begin to flow in.

(3) How does it affect a common man doing his daily shopping?

Much will depend on the GST rates, the base and the classification of goods and services in different baskets, to be decided by the GST Council. The government is conscious of the fact that the standard rate of tax should be kept as low as possible.

The Committee on RNR has estimated the overall revenue rate to be approximately 15% (combined for the Centre and the States). Under a dual rate structure, basic necessities could be taxable at 12%, and other items at a standard rate of 17 to 19 per cent. At these rates, some items will become more expensive, others less. Services, which attract tax at 15%, would become more expensive.

(4) If the GST is so good as the government would have us believe, then why is there so much resistance to it? Why couldn't this bill pass earlier?

One of the most fundamental issues in GST implementation in the Indian context was striking a balance between the fiscal autonomy of the Centre and the States and the need for harmonizing the taxes at the two levels. Fiscal autonomy is important to allow the Centre and the States to set the tax rates according to their revenue needs. On the other hand, harmonization, the elements of which include the tax rates, tax base and the administrative infrastructure, is necessary to simplify compliance and enforcement. Some States had strong objections to harmonization of tax rates and base, as it is perceived as sacrifice of their fiscal autonomy.

To preserve this autonomy, the States have been making several demands and insisting on changes in the Constitution itself such as imposition of 1% additional levy on inter-State supplies, providing for a compensation mechanism for any losses under the GST and excluding certain sectors from the GST which currently fall in their exclusive domain. These demands have been accepted, with the exception of the demand for 1% tax on inter-states supplies of goods. Most importantly, the GST has been defined under the Constitution (Amendment) Bill as "any" tax on goods and services. By definition, both the governments are empowered to levy the tax

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Happenings

Union Cabinet of India has cleared a historic bill to protect the rights of surrogate mothers as well as making the parentage of surrogate children legal. The " Draft Surrogacy (Regulation) bill", 2016 has previously been passed by a GOM (Group of Ministers) and will now be introduced in the parliament.

It was believed that in the absence of such a bill, women, especially in the rural areas were possibly exploited and children, born out of such surrogacy also faced legal and social problems. This bill, once passed by the parliament, will address those concerns. According to this bill, only those couples who have been married for at least five years and have no children, can opt for surrogacy, that too with a woman who is their close relative, is married and have borne a child before. Foreigners, NRIs, OCIs, Single people, Live-in partners, Gay people and married couples who already have biological or adopted children are barred from it. Commercial Surrogacy has also been banned.

Happenings

Prime Minister Trudeau goes to China

Prime Minister Justin Trudeau is in China – at the invitation of Premier of the State Council of the People's Republic of China, Li Keqiang – for an official visit from August 30 to September 6. During this official visit, he will also participate in the G20 Leaders' Summit on September 4 and 5 in Hangzhou, China. According to an official release issued by the prime minister's office, his visit, which includes

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stops in Beijing, Shanghai, Hangzhou, and Hong Kong, will provide an opportunity for the Prime Minister to connect with Chinese leaders in government, business, and the public at large. Canada welcomes the agenda brought forward by China as this year's G20 host, which encourages members to work together towards an innovative, interconnected, and inclusive world economy.

"Strengthening our relationship with China is essential to growing our middle class, and creating new opportunities for Canadian businesses. On this trip, I will strive for a closer, more balanced relationship between Canada and China—one that unlocks the untapped potential in our two countries' commercial ties, and advances important issues like good governance, the rule of law and the environment." Said *Rt. Honourable Justin Trudeau, Prime Minister of Canada.*

Upcoming Events

- Canada India Foundation will be launching a Speaker Series soon. Efforts are on to bring in exciting and inspiring Speakers. Stay tuned for more info.
- CIF Diwali Reception. Date / Location and other details could be announced in next month's e-newsletter.
- CIF Health Summit in New Delhi on January 24 & 25, 2017.

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in any way they consider appropriate. Further, the GST Council's recommendations are not binding on the governments, giving the leeway to the States to choose any design they deem appropriate. If they do deviate from the recommendations of the Council, the role of the dispute resolution mechanism will become very significant.

(5) What was your role vis-à-vis GST in Canada and GST in India ?

As Director of the Tax Analysis and Commodity Tax Division in the Canadian Ministry of Finance, I was actively involved in the design of the Goods and Services Tax (GST). I joined Ernst & Young soon after the publication of the government White Paper on GST reforms in 1987. At the time of introduction of GST in 1991, I was called back to advise the Canada Revenue Agency to implement the GST, and develop the administration architecture for it.

Soon after the implementation of GST in Canada, I was invited by the Government of India, Ministry of Finance, in 1992 to participate in their deliberations for reform of the Centre and State indirect tax system. I recommended at that time that the Constitution of India be amended to empower the governments to levy a GST, and, pending the Constitutional amendment, State sales taxes be converted into a value-added tax (same as GST, but limited to goods). The VAT was implemented in 2005, and, with the Constitutional amendments recently approved by Parliament, the governments are planning to implement the GST in April 2017. I have continued to interact with the governments and industry bodies in India on various aspects of GST design over this period.

(6) In Canada, we had GST and PST, which were merged into HST. How different is this to what's happening in India ?

At a broad level the GST in Canada is similar to that proposed in India. They are both value-added taxes, applied on a comprehensive base of both goods and services. In both countries, the GST is called a dual tax because it is levied by both levels of government. The key difference is that while participation of provinces in the GST is optional in Canada, it is mandatory for all the States in India.

(7) There were high level official visits from India to Canada to study GST in Canada. Please tell us a bit about those visits / discussions and how much has that contributed in the GST bill that eventually passed?

In September 2012, some members of the Empowered Committee of State Finance Ministers visited Toronto, Ottawa and Vancouver to study GST implementation, compliance and fraud tracking mechanisms in a fellow federal system. Sushil Kumar Modi, the then Deputy Chief Minister of Bihar, led the delegation. This was the second visit by the Empowered Committee to study Canada's GST system. A delegation had visited the country for the same purpose in 2006.

Canada is the only country which follows a dual GST system. India also has followed the same model, in keeping with the spirit of cooperative federalism. Understanding Canada's experiences in this context, when it introduced the GST, and Ontario's experiences during the introduction of the Harmonised Sales Tax (HST) were important for India.

(8) Is the passing of GST bill a culmination of a long process or is this just a beginning and a lot still needs to happen?

The passage of the Constitution Amendment Bill in the Parliament is a significant achievement. However, it is just the beginning of a long journey ahead. The Bill will have to be ratified by a minimum of 15 states in their respective legislative assemblies, followed by the President's assent. The GST Council with representatives from the Centre and States will have to be formed within 60 days of the enactment of the Bill.

The GST Council will have the task of deciding on the draft GST law and Place of Supply rules and also the exemptions, threshold limits, dual administration between the states and the Centre as well as on the reports of the Joint Committee constituted by the Empowered Committee of the State Finance Ministers on payment process, registration, refund process and return under GST, which are in public domain for suggestions.

Three more enabling laws will be required to be passed to give shape to the new tax regime — laws on the Central GST (CGST) and Integrated GST (IGST) that need to be cleared by Parliament and 29 separate State GST legislations (SGST) that will have to be cleared by the respective state assemblies. The current version of the model GST law has many features that need to be revisited. All these consultations and preparations will require substantial time and effort. There will be many transitional issues to be tackled.

Alongside, the IT backbone for rolling out the tax regime, called GST Network (GSTN), will have to be commissioned which will facilitate online registration, tax payment and return filing.

The Finance Minister has announced an ambitious target of 1 April 2017 for the roll-out of GST. Given the current level of preparations, the implementation date may have to be shifted by another 6 months.

Canada India HealthCare Summit 2017

- *Canada India Foundation is organizing Canada India HealthCare Summit in New Delhi early next year (January, 2017)*
- *Following on the tremendous success of our earlier forums such as, Canada India Energy Forum (Toronto-2009), Canada India Mining and Metals Forum (Toronto-2010), Canada India Agriculture and Food Processing Forum (Vancouver and Saskatoon-2012), Canada India Infrastructure Forum (Ottawa and Toronto-2014) and Canada India HealthCare Summit (Toronto-2015) this will be the first time CIF is hosting a major summit in India.*
- *Key Objectives behind this summit are : To provide a platform for Healthcare specific dialogue among Indian and Canadian stakeholders as well as identify mutual healthcare delivery, business and research collaboration opportunities.*
- *Proposed topics will include : Rural and Remote Healthcare, Healthcare for the Disabled, Pharmaceuticals, Investment in Healthcare and much more...*
- *The Summit will provide an excellent networking opportunity with top government officials and business executives across healthcare companies in India & Canada.*

To Participate or to become a Sponsor, please feel free to get in touch with Canada India Foundation at www.CanadaIndiaFoundation.com

Guest Column

‘ UAE: a great place for Canadians to do business ’

The United Arab Emirates (UAE) is a truly fascinating country in which to represent Canada as Consul General for Dubai and the Northern Emirates. The UAE has quickly grown from about 275,000 inhabitants (when it came together as a federation in 1971) to reach over 9 million today. UAE residents comprise many nationalities, including approximately 2 million Indians and over 40,000 Canadians. In many ways, Dubai and Abu Dhabi remind me of the multi-ethnic, multi-lingual environments of our large Canadian cities.

I first visited Dubai in 1995 and remember being very impressed at what I saw back then. When I arrived in early 2015 to start my current posting, I was amazed at the progress made over the past 20 years. A tremendous transformation has taken place to turn Dubai and Abu Dhabi into modern, open and world-class cities (and economies).

How did they achieve such growth and success? One explanation that I have heard involves the 4 G’s: Geology, Geography, Geopolitics, and Governance. The first ‘G’, Geology, is obvious and important. The UAE (largely Abu Dhabi) has the world’s 7th largest oil & gas reserves and very low production costs, this has meant they have the funds necessary to make strategic investments in their development.

The second ‘G’ is Geography and is also very important. The UAE built a world-class logistics and transportation hub including the world’s largest international airport in Dubai and the world’s seventh largest port in Jebel Ali. It is an ideal location for serving the Middle East, African and South Asian markets. The third ‘G’ is Geopolitics. The UAE is a safe haven in an extremely volatile region and continues to attract high-quality human capital and investment. The fourth, and arguably most important ‘G’, is Governance. Oil wealth and strategic location do not guarantee economic success. The UAE has invested in strategic infrastructure, it pursues policies of tolerance, and it focusses on being business-friendly and regularly tops the Arab world in ‘ease of doing business’ indices.

Emmanuel Kamarianakis

Consul General for Canada in Dubai

So, what does all this mean for Canada? As I mentioned, we have over 40,000 Canadians living in the UAE (including many successful Indo-Canadians). This Canadian expatriate population is a great resource for strengthening the links between Canada and the UAE as well as strengthening Canada’s economic ties across the region. The UAE is Canada’s largest merchandise export market in the Middle East and North Africa (MENA) region, and our 15th largest export market globally. Last year, Canadian merchandise exports increased 14% and reached a record of C$ 2.03 billion.

Investment into Canada from the UAE is also very high, and continues to grow. Our internal estimate (based largely on UAE government analysis) is that the UAE has invested approximately $12-15 billion in Canada, this includes the various Abu Dhabi-based Sovereign Wealth Fund investments in Canada’s energy sector (Nova Chemicals and Taqa North are two examples) as well as Dubai-based DP World’s recent acquisition and planned expansion of the Fairview Container Terminal in Prince Rupert, BC.

Investment goes both ways, and with over 150 Canadian companies with a local presence in the UAE, we have a strong Canadian corporate community here. Companies such as Tim Horton’s, SNC Lavalin, Bombardier, Aldo Shoes, Atco, Blackberry, Cannacord Genuity, Second Cup, RBC, CAE and many others are all here with a prominent local presence.

Opportunities for Canadian companies are numerous. As noted above, the UAE is the pre-eminent logistics and transportation hub in the region and also a major hub for trade shows. 8 of the region’s largest trade shows take place in the UAE, with three of them among the largest in the world (ADIPEC is the world’s largest oil and gas event and attracted 67 Cdn companies last year; the Arab Health Exhibition and Congress is the world’s second largest and attracted 50 Cdn participants; and Gulfood is one of the world’s largest annual food and hospitality fairs and had 45 Cdn exhibitors last year).

All in all, Canada has a very robust and healthy bilateral economic relationship with the UAE. Should you wish to explore opportunities I would encourage you to contact our Trade Commissioner Service in the UAE ***www.tradecommissioner.gc.ca/united-arab-emirates-emirats-arabes-unis.***

We have offices in both Dubai and Abu Dhabi and my colleagues and I will be very pleased to hear from you.

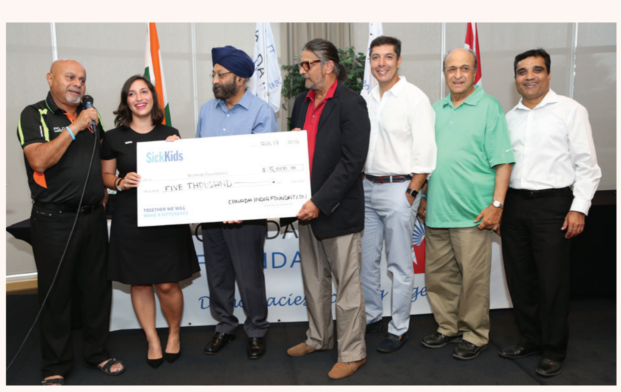
CIF Inaugural Golf Tournament raises $ 10,000 for Sick Kids Foundation

Canada India Foundation (CIF) hosted it’s Inaugural Golf Tournament at the Lionhead Golf & Country Club in Brampton on Wednesday, August 17. With over 100 players, ranging from small and medium businesses to Presidents and CEOs of large Corporate houses, the event was a thumping success.

The Golf Tournament, sponsored by TD, had breakfast, lunch and dinner as well as several prizes to be won. Members of Parliament Mr. Ramesh Sangha (Brampton Centre), Sonia Sidhu (Brampton South), MPP Amrit Mangat (Mississauga-Brampton South) as well as Senator (former) Con Di Nino attended the evening reception.

A total of $ 10,000 were donated to the Sick Kids Foundation ($ 5000 from CIF and a matching $ 5000 contribution from Mr. Surjit Babra, the first Chair and current board member for CIF)

Thank you everyone for coming out and supporting this event.



Member Profile

Surjit Babra

First Chair and now a member of the Board of Governors, Canada India Foundation

"A serial entrepreneur" as he calls himself, Surjit has done it all and seen it all. A philanthropist, a humanitarian by heart, Surjit has made millions and also touched millions of lives. As (former) Chairman and CEO of Skylink Aviation, his planes (some times 120 of them) delivered medicines and food, helped refugees evacuate and transported aid workers globally-often to remote and dangerous parts of the world that no one else wanted to fly. Governments of several countries, major aid agencies and even USAID (a US Govt. organization) was among his clients.

Born in Punjab, Surjit grew up in Kenya, trained as a travel agent in London (UK) and after establishing a hugely successful travel firm in Europe, came to Canada in 1979. Surjit's company – Skylink Group – established a global presence through brands such as Skylink Aviation, Skylink Express, Skylink Software (now Global Travel Software), Skylink Travel, Flylink Travel, Tourcan Vacations and Skylink Holidays. Skylink Travel is a leading consolidator in North America . He was honoured with the Sabre Travel Network's " Peak of Excellence " Award. He along with his partner Walter Arbib had started, built and sold several travel, aviation and transportation companies.

In 2014, as Chairman of Highbury Canco, he acquired the Heinz plant in Leamington, Ontario, saving 250 local jobs. Although he officially retired in 2014 from travel and Aviation, Surjit is still the Chairman of Skylink Capital Corp, Chairman and CEO for Skylink Group of Companies, Vice Chairman and Partner in Highbury Canco Corporation, Chairman of Skylink Express Inc, CEO for Global Travel Software and Partner in Starling Corporation. Based in Markham, Surjit now forms joint ventures and invests in SMEs through his investment firm Skylink Capital.

Surjit has been involved with many humanitarian causes. Sometimes offering his and his company's services for free or by donating his personal time and money. He has supported various causes, including : Human rights, Children and Youth Charities, Drip Irrigation Farming in India, providing interest free loans to children for education, Right to Play, also supported Children's Run Across Canada to raise funds for Canadian Children's Hospitals as well as Schools in developing countries. Surjit has been a proud supporter for Trillium Hospital and Sick Kids Hospital.

In 2009, he started his own " Skylink Children's Charity " and has contributed to Haiti, Sick Kids Hospital, Guru Gobind Singh Children's Foundation and several other causes related to children.

No wonder, awards and recognition has chased him wherever he has gone, including : Pravasi Bharatiya Samman Award in New Delhi, World Travel Mart Award (UK), Queen Elizabeth 2 Diamond Jubilee Award, Sikh Sewa Award, Transformation Award for Enterprise, Business Person of the year award from Indo Canada Chamber of Commerce, Mother Teresa Humanitarian of the Year Award, B'nai Brith Canada's Award of Merit, Gulland Excellence Award (UK), an Award for Community Service from RBC as well as several other recognitions in Canada, US, UK and other parts of the world. He has been featured in the top 30 and power lists published by India Abroad as well as Diversity Magazines.

Married to his wife Remy (since 1981), Surjit has 2 daughters – Gagandeep (30), Manpreet (28) and a son Pritpal (20). A very humble and positive man, Surjit now wants to share his knowledge and experience with the youngsters and make them the leaders for tomorrow. When asked for advice, he simply says : Invest in yourself. Take time out. Hard work is good but be smart about it.

Who can disagree ?

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CIF in Western Canada

BC's Real Estate Tax on Foreigners – Is the BC Government Really Trying to Resolve Middle Class Affordability?

On August 2, 2016 the BC government put into force the 15% BC Real Estate Tax on foreign buyers of residential property in Lower Mainland. The high demand from foreign buyers, particularly hailing from China has led to unprecedented housing price inflation. When I immigrated from China to Vancouver 16 years ago, I had GOOGLED "Which is the best city in the world to live in?" It will not surprise anyone that the result was Vancouver and Melbourne. So we packed our bags and arrived in Vancouver? Nothing has changed 16 years later. Vancouver indeed remains one of the most desirable cities in the world to live in.

Armed with that knowledge, is the BC Real Estate Tax really working to achieve its aim of increasing affordability for the middle class Canadian? Statistically, a middle class Vancouverite has an affordability of approximately $700,000 to $800,000 for a detached house. This is little more than half of the average cost of a detached house in Vancouver today. **Does the BC Government really want the average price to come down 50%? Will this not lead to even more devastating consequences for the economy of this city & its citizens?** The Government only needs to ask the Banks in BC, what is the biggest debt its citizens carry? What would be the consequences of a 50% drop in the housing prices? People have acquired their homes at much higher prices, so they will end up paying high mortgages for their properties that have devalued.

Let's take a step back – Canada has a negative growth population, it needs to use its immigration and investment laws, to attract the kind of people who can grow the Canadian economy, contribute to the tax base of this great country so that it can maintain its social security system and superior quality of life that makes this country the most desirable place in the world to live in.

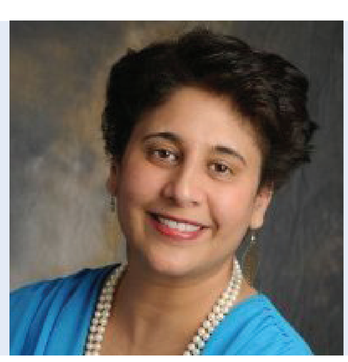
Is the problem the foreign buyer or the limited supply of BC housing? The age old concept of demand and supply is what needs to be addressed by the BC Government. I believe that the limited amount of housing available in the lower mainland market, combined with the fact that the citizens of one of the most populous countries in the world are looking for a safe haven to invest their money in, makes the situation untenable for the local average middle class Vancouverite.

It is my opinion that when one lives in a beautiful city like Vancouver, one needs to pay the price to maintain this beautiful city. That means we need to support the environment, the health & education system, the infrastructure and all the facilities that an average citizen or landed immigrant supports via the taxation system. **Growing the "tax base" on an annual and regular basis is what the BC Government needs to think about when making decisions on who and how to tax.**

When a foreign buyer buys real estate in Vancouver, a onetime tax will not pay for the infrastructure, education & health system that they are afforded by simply purchasing a property. **Raising the affordability of its citizens is what the Government needs to think about. Growing the economy is what the government needs to think about.** The government should consider taxing them annually via the property tax system. We already have an established housing tax system, where one gets a grant if the property is a primary residence or if one is a senior citizen. Why not impose an additional annual property tax on all foreign buyers of residential property? An increased annual house tax will be fair because they live in the city, use its infrastructure, education & health systems – enjoy the pollution free environment. I do understand that this is a rather simplistic solution and easier said than done. However, the government has unparalleled intellectual resources that I am confident can come up with a more thoughtful solution than the BC Real Estate Tax of foreigners.

A good Chinese friend of mine stated with great confidence, "Give my compatriots 6 months to re-group and they will definitely find a way to deal with this BC Real Estate Tax issue. The markets will slow temporarily and then the "foreign buyers" will be back re-enforced." I actually believe she may be right. They have money and they want to invest it in a safe and desirable place – what better place than Vancouver? A onetime tax of 15% is a small price to pay when looking for a safe haven to park your money.

I would caution all other provinces that are thinking of emulating the BC Government Real Estate Tax strategy to take a little time to think through what they are really trying to achieve.



(Anita Dalakoti (MA, MBA, CPCA) is the CEO of Apple Insurance & Financial Services. She has lived 1/3 of her life in each of 3 countries - India, China & Canada. She speaks English, Hindi, Urdu, Mandarin & Russian. She is an expert in her field of insurance & investments and was nominated 4th among the Top 50 Advisors of Canada in 2014. Anita is a Governor on the Board of the Law Foundation of B.C. She is also a Board Member & Treasurer of the Canada India Foundation)