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The impact of gst on india's foreign trade

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Abstract: The present paper is an attempt to evaluate the impact of GST on India‘s Foreign Trade. GST will be rolled out sometime during April to October 2017. The implementation of the Bill is expected to ease India‘s cumbersome tax system, help goods move seamlessly across state borders, curb tax evasion, improve compliance, increase revenues, spur growth, boost exports, and attract investments by improving ease of doing business in India. The present paper is an attempt to evaluate the impact of GST on India‘s Foreign Trade. The paper will specifically examine its role in exports of goods and services, net foreign earnings and ease of doing business.

Keywords: *GST, Foreign Trade, FTP*

Introduction

Definition of India in GST

Section 2 (56) of CGST Act, 2017 defines ―India‖, which means the territory of India as referred to in article 1 of the Constitution, its territorial waters, seabed and sub-soil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976 (80 of 1976), and the air space above its territory and territorial waters.

Foreign Trade Policy

GST will be rolled out sometime during April to October 2017. This would be single most radical reform of last decade. The new tax regime, which subsumes all indirect taxes such as sales tax and excise tax, is expected to bring down tax rates in India, while converting the country into a big single market (Refer Table 1). In short, now, seamless flow of goods and services will occur across 29 states and 7 union territories! Many believe the landmark Goods and Services Tax Bill (GST) passed by the two houses of the Parliament – after years of back and forth by the ruling party and main opposition– is a key step that would catapult India into the big league in global supply chain. The implementation of the Bill is expected to ease India‘s cumbersome tax system, help goods move seamlessly across state borders, curb tax evasion, improve compliance, increase revenues, spur growth, boost exports, and attract investments by improving ease of doing business in India.

CENTRAL INDIRECT TAXES	STATE INDIRECT TAXES
Central Excise duty	Value Added Tax/Sales Tax
Service tax	Entertainment Tax (other than the tax levied by the local bodies
Additional Excise duties	Central Sales Tax
Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955	Octroi and Entry Tax
Additional Duty and Special Additional Duty of Customs	Purchase Tax
Central cesses and surcharges in so far as they relate to supply of goods and services	• Luxury Tax • Taxes on lottery, betting and gambling • State cesses and surcharges in so far as they relate to supply of goods and services

Source: First Discussion Paper on Goods and Services Tax in India submitted by the Empowered Committee of State Finance Ministers submitted on 10 November 2009; Constitution (122nd Amendment) Bill, 2014

Table 1: Indirect taxes to be subsumed into GST

GST is expected to overcome the issues and shortcomings of the existing indirect tax structure. Historically, Indirect tax regime in India has been very complex with multiple levies at multiple taxable events. GST is expected to introduce a simple, efficient and uniform Indirect tax structure in India with a comprehensive tax leviable on supply of all goods and services on the same tax base and expectations from such system of taxation are: a) Taxable event would occur simultaneously on supply of goods and services and taxability would not be dependent on _goods‘ or _services (existing in current regime). b) Existing complexities relating to _works contract‘, software, intellectual property etc., are expected to be eliminated making taxation of such transactions simpler, and reducing their tax burden. c) Challenges being faced at present by sectors such as E-commerce, Telecom, Financial services, Real Estate etc. will be addressed and resolved. d) The complexities of the existing system concerning valuations and classification of goods and services on account of the varied interpretations and rulings will be eliminated. e) Lower administrative burden and provide simplicity by standardizing GST return/challans and payments and provide for easy access through a central web-portal for registration, refund etc. In short, GST when implemented is expected to perform miracles. But, can it really?

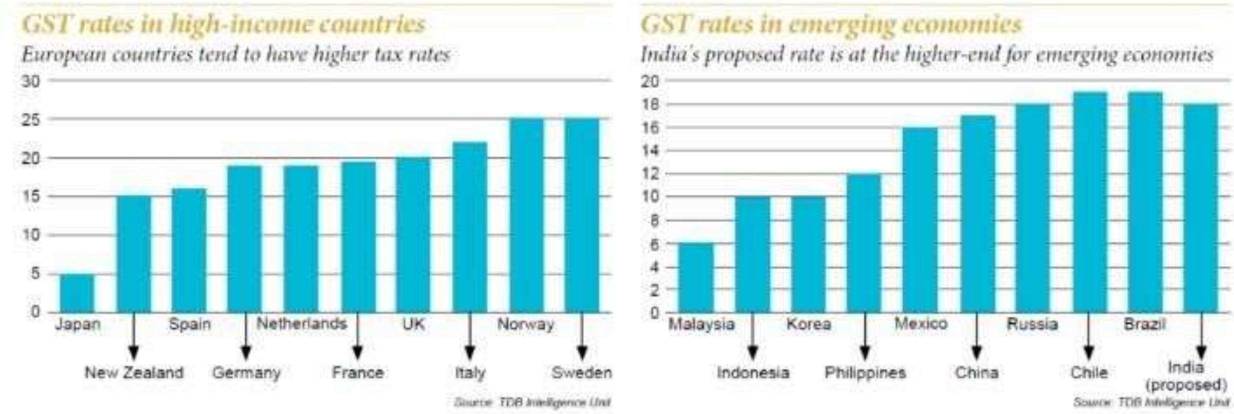

Table 1: GST rates in High Income Countries and Emerging Economies

In the past, countries (like Malaysia and New Zealand) which have opted for GST have been known to face high inflation and slowdown in consumption initially. Whether history will be repeated in India depends on a host of factors, the most important being the standard rate of GST finally agreed upon. (Refer Table 1). An introduction of GST would change the way of doing business in India and would have significant impact on international trade of goods through the change in customs duty computation, possible withdrawal of various duty exemptions and change in terms of the foreign trade policy (_FTP‘). Below we have mentioned Impact of GST on few areas related to foreign trade:

Business made easy

One factor where the industry has clearly been in consensus is that GST being a destination based tax (where the tax is not applied at the point of production but at the point of supply or consumption), will make life easier for businesses in India. Companies will not have to file tax returns with multiple departments, but there will be just one web-based form to file tax returns. The country will finally become one common market, with uniform pricing across states, and optimal allocation of resources, making our goods more competitive. –Undoubtedly the most significant reform since the liberalization in 1991, GST will transform India‘s economic landscape. Unifying the $2 trillion economy and its 1.3 billion people under a uniform tax code, makes our country one of the most attractive destinations for business.

Exports to climb

If GST improves ease of doing business, can exports be far behind? With uniform taxation and cost efficiencies owing to reduced time and costs in transportation, one obvious effect would be that ‗Made in India' products would now be more cost competitive in the global markets. –In the previous tax regime, our exports were sagging, since we also exported a major portion of taxes. Indigenous manufacturers failed to capitalise owing to double taxation. All this will change post GST. And eventually exports from the country will increase,‖ says Nihal Kothari, Chairman, National Council on Indirect Taxes.

Fate of Foreign Trade Policy Schemes

A mixed bag of good and bad news could therefore be on offer for India's exporters. And it will be that way with some sectors emerging as winners, while others losing out on a few advantages. However, what can be a bigger cause of worry for exporters is the ambiguity with respect to various export promotion schemes allowed by India's Foreign Trade Policy (like MEIS, SEIS, EPCG, DBK, Advance Authorisation, etc.) during the initial GST implementation phase. Exporters are allowed to claim refunds on Central Excise, Customs duties and Service Tax against various scrips issued by the Ministry of Commerce. Since Central Excise and Service Tax will be subsumed under GST, exporters may face problems in encashing the much-needed incentives that have been structured to support exports.

The current indirect tax regime provides for lower or no Customs Duty on imports for importers who use those imports in producing goods that are subsequently exported. However, under GST, imports would be subject to IGST (CGST plus SGST) and any exemptions or additional levy will not exist. This would provide level-playing field to domestic manufacturers against importers.

Custom Duties

The Constitutional Amendment Bill prescribes that import of goods into the territory of India would be deemed to be an inter-state supply, thereby triggering levy of IGST. This deeming fiction has also been incorporated in the Model GST (IGST) Law. As a consequence, the computation of customs duty under the GST regime would have two components, i.e., basic customs duty and IGST. The proposed levy of IGST would subsume the current levy of countervailing duty (‗CVD') and additional duty of customs (‗SAD'). The levy of IGST is likely to be collected by the Customs at the time of import into India and should be payable for each transaction, as against the monthly payment in case of IGST payable on domestic transactions. The importer is likely to report the import transactions and IGST paid on such imports in its monthly returns. Currently, the import related information is captured in multiple returns, where VAT return captures the import purchases while the excise/ service return captures the credit taken on countervailing duties paid on imported goods. Going forward, all this information should form part of the IGST return. However, under the GST regime, the integration should be more than mere credit linkage; for instance, classification for customs purposes may also apply for GST law as well. As per the Model GST Law, the GST should be payable on the transaction value of imported goods plus any duties/ taxes, etc, levied under any statute other than the GST laws. This should mean that while paying IGST on the imported goods, basic customs duty (‗BCD') should be added to the transaction value of the imported goods.

On the fast lane

GST has the potential to revolutionize the logistics industry. India's trucking and logistics sector will realize its worth once GST is implemented at the ground level. Experts believe that the tax procedure will get reduced dramatically and the cost of holding inventory will fall by 50%, since stock would no longer need to be piled up in various warehouses. Analysts estimate that the logistics sector will witness up to $200 billion in savings annually with GST, thanks to faster movement of goods and minimum idling, which have troubled the industry for long now.

–GST will convert a diversified tax regime into one uniform tax rate making India a single market place. This would facilitate seamless transportation of goods across borders with a significantly lower transit time, thereby stepping up demand for logistics services. The GST Bill will also lead to higher vehicle capacity utilisation resulting in increased efficiencies at every node of the logistics ecosystem.

Conclusion

For the industry, a transition into any new tax regime is usually fraught with several challenges and issues. While some of these are one time-short term issues, some others are long term and recurring and could have a lasting impact on the business. With GST in the anvil, it would be prudent for the industry to identify and understand some of these potential issues. Such an understanding is imperative for timely implementation of measures to overcome these issues and avoid potential disruptions they could cause to the business.

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