

6. "GST: A 17-year-old dream, 17 phases towards creating history", India Today, 29 June 2017



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### **GST Impact on India's Foreign Trade**

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**Abstract:** India is one of the fastest growing global economy and in the way to becoming the new global manufacturing hub. While manufacturing activities are on rising, we are also witnessing expansion in foreign trade both imports and exports. foreign trade play a significant role in Indian economy. Equilibrium in balance of payments is soundness of countries growth. GST has become popular as a 'One Nation-One Tax' formulation; the realities of implementation may be more complicated than political negotiations in the Parliament. After the implementation GST, it would change the structure of foreign trade .It is making changes in India's import and export through withdrawing previous indirect taxes under the present tax structure.

**Introduction:** India .is one of the fastest growing global economy. One of the most significant factors that lead to a growth in the economy of a country is foreign trade. So it becomes a vital part to have a watch trade performance on both, domestic as well as international markets. The balance of payment is the basic tool to evaluate a country's economic performance and it refers to the balance between import and export as no country is fully self-sufficient. The great tax reform in India come into play on 1<sup>st</sup>july 2017 in form of goods and service tax. After the implementation of the GST, it would change the business structure of India and would also bring some significant changes on the impact of international trade (import-export) of goods through the change in the computation of the basic customs duty. GST will influence the import and export scenario in India. GTS is making changes in export and import in India by withdrawing wide variety of previously levied indirect taxes and it will affect the Foreign Trade Policy (FTP) of the nation.

#### **Objective of study:**

- 1.To study tax structure for import and export under IGST.
- 2.To study impact of GST on India's foreign trade.

**Methodology:** This study is based on secondary data. The data is collected from reference books, articles, newspaper and websites

The GST treats the import and export of goods as inter-state trade under Integrated Goods and Service Tax (IGST). Thus, all the IGST provisions are applicable in any kind of good and service supply regarding import and export. India is by no means the first country to experiment with a

unified tax regime. 160 countries already have some form of GST or a value added tax. What makes GST in India special is that as opposed to a federally administered regime, the Union and state governments will jointly administer India's dual GST. This means it will be a set of many different taxes – a GST for each of the 29 states and two union territories (SGST), a Central GST (CGST), and an Integrated GST (IGST; which will be a combine of CGST and SGST on inter-state supplies of goods and services) Supply of goods/services in the course of import and export has been considered as Inter-State trade or commerce.

**“Integrated Goods and Services Tax” (IGST)** means tax levied under this Act on the supply of any goods and /or services in the course of inter-State trade or commerce. Hence, the provisions of **IGST** act shall be applicable to supply of goods/services in the course of import and export.

#### Tax structure and Input tax credit

Type of Supply	Export	Import
Tax Structure	0% on supply	Levy of IGST and Basic Custom Duty (BCD)
Input Tax Credit	ITC and refund are allowed	ITC of only IGST allowed, ITC of BCD is not allowed

#### GST On Import:

As per the Model GST Law, GST will subsume **Countervailing Duty (CVD)** and **Special Additional Duty (SAD)**, however, Basic Customs Duty will continue to do its round in the import bills. BCD has been kept outside the purview of GST and will be charged as per the current law only. However, the import of goods shall continue to attract Basic Customs Duty (BCD) in addition to IGST. The service providers, manufacturers, and traders of goods as well as services can balance their paid IGST against their output liability. But they cannot enjoy any credit for Basic Customs Duty (BCD) under the present GST structure.

- **Import of Services** – Model GST law accord liability of payment of tax on the service receiver, if such services are provided by a person residing outside India. This is similar to the current provision of reverse charge, wherein service receiver is required to pay tax and file return.
- **Transaction Value based Valuation Principal** – Model GST law has borrowed the concept of transaction value based valuation principal from current customs law for

charging GST. This will have implication at the time of tax liability determination as currently CVD is charged on MRP valuation principle. Under the new regime IGST which subsumes CVD will be charged on transaction value. This may also require working capital restructuring. This may also reveal the margin of Service Provider which is currently not the case.

- **Refund of Duty** – Under the new law, tax paid during import will be available as a credit under “Import and Sale” model, whereas no such credit is available presently. Also refund of SAD which is available now, after doing specific compliance, no such restrictions are placed under GST.
- **Withdrawal of Current Exemptions** – The current customs import tariff is loaded with multiple exemption notifications which are likely to be reviewed and possibly withdrawn or converted into a refund mechanism. This could mean change in the structure of export-linked duty exemption schemes under the FTP where the duty exemptions may get limited to exemption from payment of BCD, while IGST may not be exempted. Withdrawal of exemptions or changing them to refund mechanism could fundamentally change the attractiveness and viability of some of the key schemes under the FTP like EOU, STP, Advance authorization etc

### **GST On Export:**

As per the place of supply rules of the new tax regime, 0% GST is charged in any export of goods and services from India. The suppliers can avail the input tax credit under CGST/SGST and IGST. After paying the amount on input and input services, they can apply for the refund as per the 38th section of Central GST Act, 2016. The export of goods or services is considered as a zero-rated supply. GST will not be levied on export of any kind of goods or services.

Under this regime, companies are given the opportunity to claim refunds for the taxes they pay while buying inputs for their businesses, such as raw materials. However technical glitches, among other things, have meant that the government has repeatedly pushed back the deadline for filing GST returns, delaying tax refunds too. Exporters claim that they are suffering the most. Delays in processing tax refunds under the new Goods and Services Tax regime has locked up the funds of exporters, hurting their businesses and affecting their ability to be competitive in international markets. The process of claiming refunds is taking much more time than was envisaged because deadlines for the filing of returns are constantly being pushed back. In the earlier tax regime, companies part of the Software Technology Parks of India scheme were entitled to claim exemption on taxation on capital goods. This exemption is not available as Software exports are badly hit as firms that export software services are not eligible for tax refunds on the purchase of capital goods that they use to provide these services Under GST.

**Conclusion:** IGST covers the import and export sectors in India whereas export is GST free and import welcomes Basic Customs Duty along with IGST rate. As per the Federation of Indian Export Organization (FIEO), the exporters may face liquidity problems as the domestic companies may fall around 2% in the market. The merchant exporters may suffer from higher compliance costs.

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