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GST and Exports in India

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Abstract

Goods &services tax came into force with effect from 1st July 2017. It has revolutionized tax system. GST law has replaced many indirect tax laws which were previously in existence in India. This paper highlights the norms of GST and its effects on export pattern of the country. Exports and various studies show that the impact of GST will be experienced after April 2017. It will reduce the cost of exports.

Introduction

GST that is goods and service tax is a single tax on the supply of goods and services right from the manufacturer to the consumer. It has replaced multiple cascading taxes levied by the central and state governments. The GST is governed by GST council and its chairman is the finance minister of India. Under GST, goods and services are taxed at 0% ,5%,12%,18% and 28%. The single GST replaced several former taxes and levies included – Central Excise Duty, Service Tax, additional custom duty, surcharges, state level value added tax. GST is levied on all transactions such as:

1) Sale
2) Transfer
3) Purchase
4) Barter
5) Lease
6) Import of Goods & Services

Central and state are dealing in GST. There is great impact of GST on Industrial sector in logistics, Goods and Restaurants, E-commerce etc. On foreign trade sector is also affected by GST. Foreign trade sector is an important sector of the economy. Traditionally India's tax regime relied heavily on indirect taxes including our terms & excise duties.

Methodology and Objectives

This paper is based on exploratory techniques. Various reports regarding GST and its impact are used for the study. Secondary data like newspaper articles and news about GST have been used for study material. Following are the objectives of this study.

1) To study the measures taken for exports under GST
2) To study the impact of exports of GST

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3) To study the challenge before GST especially in international trade in India.

GST on Exports

The export of goods and services is considered as zero-rated supply. GST will not be levied on export of any kind of goods or services. A duty drawback was provided under the previous laws for the tax paid on inputs for the export of exempted goods. A guidance note relating to the above issue was released by the Indian government which has helped in clearing doubts. An exporter dealing in zero-rated goods under GST can claim a refund for zero-rated supplies. The supply of goods and services to the following would be treated as exports under GST. It will effect on -

1) Supply made to a SEZ unit / SEZ developer
2) Supply made to an export Oriented undertakings (EOU)

The Role Of Input Tax Credit

The GST will mitigate the cascading effect of the multiple taxes under the current system. The facility of input tax credit will be available to the exporter even in the case of state taxes (SGST). An input tax credit implies that while paying tax on the output, one can reduce the tax that has already been paid on inputs. Thus one doesn't pay the same tax twice, and instead only pays the amount of tax on the value addition done. Thus this measure will reduce the cost of inputs and the amount of taxes paid by the exporters. This reduced cost acts as an incentive for the exporters.

Export Promotion Schemes

There are two main export promotion schemes in India. The merchandise exports from India scheme (MEIS) and the services exports from India scheme (SEIS) will be continued post after the implementation of the GST. Under this duty credit, the exemption of duties paid on the import of raw materials. The amount of exemption is expressed as a percentage of the total turnover of the exporter.

Duty Drawback Scheme

Under the duty drawback scheme, the exporters are provided with a refund of the customs and excise duties paid on the imported inputs. This provision on duty drawback scheme majorly helps those exporters who produce goods that are not being taxed but still have to pay taxes on the inputs used in their manufacture.

Export Schemes

The current system of export scheme has evolved over the decades. Advance authorisation scheme that allow duty free sourcing of raw material is in existence since the 1970's. The export Promotion Capital Goods (EPCG) scheme that allow duty free sourcing of machinery was introduced in early 1990's. These schemes were really helpful in engineering, electronics, automobile, chemical, petrochemical and pharmaceutical sectors to build an export base.

GST has introduced now regulatory regime for India's exports. For the manufactured product exporters, the most significant impact would be the increased requirement and blockage of working capital.

It is criticized that GST will affect the deemed exports. It will block the working capital. Industry sector is hopeful that in the next year there will be positive impact on the following sectors of the Indian Economy.

1) Fast moving consumer goods sector – FMCG sector consists 50% food and beverage sector and 30% is house hold and personal care. Taxation policy influences company's decision on manufacturing location and distribution of goods. It affects the cost of production and it affects total exports also.

2) The proposed GST rate is under the IT industry is not yet decided. Combined rate of GST for the product 27%. The use and transfer of software decides the cost of it. Implementation of GST will help in uniform simplified and single point taxation.

3) Government has been regulating the export-import policy and has introduced various schemes for promoting exports of both goods and services. Special economic zone SEZ is a specified demarcated duty free region. This has been setup primarily to promote exports. This SEZ have to follow Act, 2005 and GST norms. All export goods and services and supplies of goods / services made to a SEZ are chargeable to IGST. Filling refund has been shifted from SEZ units to supplier. Any procurement of raw material, goods and services made by SEZ from outside India for its authorised operations have been exempted from basic custom duty and IGST both.

Summery

Thus the effect of GST on Import and Export sector will be observed after one year of its implementation. Present situation shows that there will be duties substituted by GST but there is no duty on exports. There are other issues regarding refund of many invested in raw material etc. under incentive scheme of the Government.GST will reduce the cost of export processing.

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