GST

GOODS AND SERVICES TAX

Impact on Trade

PHD Research Bureau

GST and its Impacts on Trade

1. Trade Scenario under GST

The changes in fiscal policy, export infrastructure, foreign trade policy and procedures play a pivotal role in determining the competitiveness of export products in the global markets. The impact of transaction costs has been noted most on the exporters who import more. In fact, imports are being neglected and overall transaction costs are higher for imports than exports. While in the exporting procedures, imported products are used, this impacts the costs of manufacturing.

With the advent of GST, the fiscal policy structure has been made sublime. The average aggregate impact felt by exporters as 13.24% of the f.o.b. value of exports is expected to drop by 2-3% in the medium to long run. A significant upshot from our scrutiny was that the fiscals impacted exporters the most out of the three key components of export process, with incidence felt between 4.73–5.72% i.e., around 5.22% of the f.o.b. value of exports.

2. How will the Import-Export of goods/services be treated under GST?

- 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 & input tax credit in case of import and export under GST

	Type of Supply	
	Export	**Import**
Tax Structure	Zero Rated Supply. No tax shall be charged.	IGST and Basic Custom Duty /BCD Shall be levied
Input Tax Credit	ITC allowed. Refund shall be allowed.	ITC on IGST allowed. ITC of BCS not allowed.

- Since, the import of goods/services would be deemed as the inter-state supply of goods and shall be subjected to the levy of IGST. However, the import of goods shall continue to attract Basic Customs Duty (BCD) in addition to IGST.
- The manufacturer, service provider and trader of goods who imports goods/services shall be eligible to offset IGST paid on import of goods/services against his output liability. However, the credit of BCD will not be available.

Overall impact of Fiscals, Export Infrastructure and Procedures on Exports

(As % of the f.o.b. value of exports)

Sector	Overall Impact			
	Fiscals	Infrastructure	Procedures	Total
Agro & Food Processing	6.28 – 7.42 (6.85)	1.50 – 2.50 (2.00)	1.31	10.16
Auto & Auto Components	6.71 – 7.81 (7.26)	4.50 – 5.50 (5.00)	4.16	16.42
Drugs & Pharmaceuticals	6.25 – 7.43 (6.84)	4.50 – 5.50 (5.00)	5.26	17.10
Engineering Goods	4.52 – 5.65 (5.08)	4.50 – 5.50 (5.00)	4.30	14.38
Gems & Jewellery	0.53 – 1.01 (0.77)	0.50 – 1.50 (1.00)	1.53	3.30
IT Hardware	2.49 – 3.08 (2.78)	2.50 – 3.50 (3.00)	1.25	7.03
Leather & Leather Footwear	4.88 – 5.72 (5.30)	4.50 – 5.50 (5.00)	6.73	17.03
Metals & Ores	7.03 – 8.55 (7.79)	6.50 – 7.50 (7.00)	4.60	19.39
Project Goods	3.18 – 4.23 (3.70)	4.50 – 5.50 (5.00)	2.40	11.10
Textiles	5.41 – 6.29 (5.85)	4.50 – 5.50 (5.00)	5.69	16.54
Aggregate Impact	**4.73 – 5.72 (5.22)**	**3.80 – 4.80 (4.30)**	**3.72**	**13.24**

Source: Compiled from a Study conducted by PHD Research Bureau

3. Major Implications on Trade

Under GST, exports are subjected to both Central-GST as well as State-GST. However, GST paid for any movement of goods deliberated for exports can be fully reimbursed. CGST has subsumed central excise duty, service tax and additional duties whereas SGST has subsumed value added tax and entry tax (Octroi). However, export duty has been kept intact.

With the implementation of GST, India's trade cost structure with major importers in the world is expected to drop by 3-5 percentage points every year. The major outcome of GST on Indian exports would be rise in levels of productivity and thereby on competitiveness. With the expected sublime performance of GST on production process, many of the producers who were reluctant to export due to the complex filing and refund mechanisms of the multiple tax regime, will embark on exporting their produce. Another element is based on the productivity level which gets hindered by the inverted duty structure where producers have to bear high costs due to taxed intermediate inputs made elsewhere in the country, rendering them uncompetitive compared to low-cost imported product. GST can surely eliminate such distortive elements and enhance the competitiveness of industry and enable larger participation in world markets. In addition, government has instigated on implementation of reforms to further ease the refund process by reimbursing 90% of the refunds within a week's time, which will increase both efficiency and effectiveness and will reduce the opportunity cost to an extent.

The overall impact of GST on holistic picture of exports in the coming years turns out to be accentuating and positive due to the fact that compliance cost will plummet, better functioning of the administrations, streamlining of refund mechanism, etc. However, there still lie some grey areas where government needs to be proactive and ensure smooth functioning of the overall GST mechanism, in case of exports.

- Import as the Inter-State Supply: Imports in India will be considered as Inter-State supply and accordingly will attract the Integrated Goods and Services Tax (IGST) along with BCD and the other surcharges.
- Import of Services: liability of the payment of tax on the service receiver, services are provided by a person who is residing outside India.
- This is similar to the current provision of the reverse charge, where in the service receiver is required in order to pay tax and file return.
- Transaction Value: Currently CVD is charged on the MRP valuation principle. Under the new regime, IGST include CVD and will be charged on the transaction value.

India's trade cost at a glance

	2010	2014
USA	103.3	104.1
UK	107.1	97.3
Germany	106.9	104.1
Japan	127.5	123.0
Singapore	128.0	130.3
Spain	137.1	129.7
France	113.4	113.1
UAE	54.7	56.7
South Korea	104.1	101.0
Russia	137.1	130.6

Source: PHD Research Bureau; Compiled from World Bank's Trade Cost Database

Tariffs and Taxation regime is a vital component of Trade Cost. With the implementation of GST, India's trade cost structure with major importers in the world is expected to drop by 2-3 percentage points every year in the first 3 years. The major outcome of GST on Indian exports would be rise in levels of productivity and thereby on competitiveness.

4. Illustration to Understand the Import under GST regime

1. Let's take an example, if 'X' imported goods worth of INR 10,000 and incurred some expenses to produce the final good. 10% of basic customs duty is chargeable on the imported goods, and then manufactured goods are sold at INR 45,000 plus applicable GST.
2. The cost of goods was 10,000, with additional BCD of 10% of the cost which makes the cost of imported goods as 11,000 and an additional charge of 5 % (550) CGST and 7 %(770) SGST of the cost of imported goods including BCD makes it INR 12,320.
3. When these imported goods are in the states for example 45,000 with CGST on the import of 5% (2,250) and SGST on the import of 7% (3,150) computes the sale value as INR 50,400.

5. Some of the implications for imports and importers by the implementation of GST in India

- Import as the Inter-State Supply: Imports in India will be considered as Inter-State supply and accordingly will attract the Integrated Goods and Services Tax (IGST) along with BCD and the other surcharges.
- Import of Services: liability of the payment of tax on the service receiver, services are provided by a person who is residing outside India. This is similar to the current provision of the reverse charge, where in the service receiver is required in order to pay tax and file return.
- Transaction Value: As per the Model GST Law, GST includes Countervailing Duty (CVD) and Special Additional Duty (SAD). The Basic Customs Duty will continue in order to do its round in the import bills. BCD has kept outside the purview of GST and will be charged as per the current law
- Refund of Duty: Under the new regime, the tax which is paid during the import will be available as a credit under the “Import and Sale” model. Also, the refund of SAD is available, after doing the specific compliance; no such restrictions are placed under GST.

6. Tax structure and ITC in case of exports

- GST shall not be charged on goods/services exported from India. In Case, the supply of goods qualifies as export out of India as per the Place of Supply Rules the transaction shall be treated as “zero-rated supply”.
- The supplier shall be allowed to export the goods/services without charging any tax and can avail the CGST/SGST and IGST credits paid on inputs and input services.
- If the person is unable to utilize the credit then, can go for refund of credits as per section 38 of proposed Central GST Act, 2016
- In a nutshell; imports and exports are going to be covered in IGST. Exports will be zero rated and refund of ITC shall be allowed. IGST, as well as Basic Custom Duty, shall be leviable on imports.

7. Potential Challenges

- The immediate impact under GST could be on the working capital requirements for the traders as the tax rates under GST regime are likely to be higher than the current tax rates.
- Further, as trading business largely depends on inter-state stock transfers; levy of GST on stock transfers is expected to contribute to requirements for additional cash outflow.
- The stock turnover ratio is also going to play an important part in determining the cash and working capital requirements as transfers without corresponding sales could lead to locking up of cash in the form of tax.
- Further, the efficacy of the premise of additional credits would largely depend on the timely and accurate compliances by the vendors and accordingly an efficient compliance tracking mechanism

not only for self but also for the vendors would be a key aspect for trading business in the GST regime.

- It is also necessary that business houses, irrespective of their size and complexity, would need to have robust IT systems to ensure adherence with the new compliance requirements. While making a decision in this regard, business houses would need to keep in mind the cost of laying the IT systems and cost of compliance vis-à-vis the business benefits to be derived from such a system.

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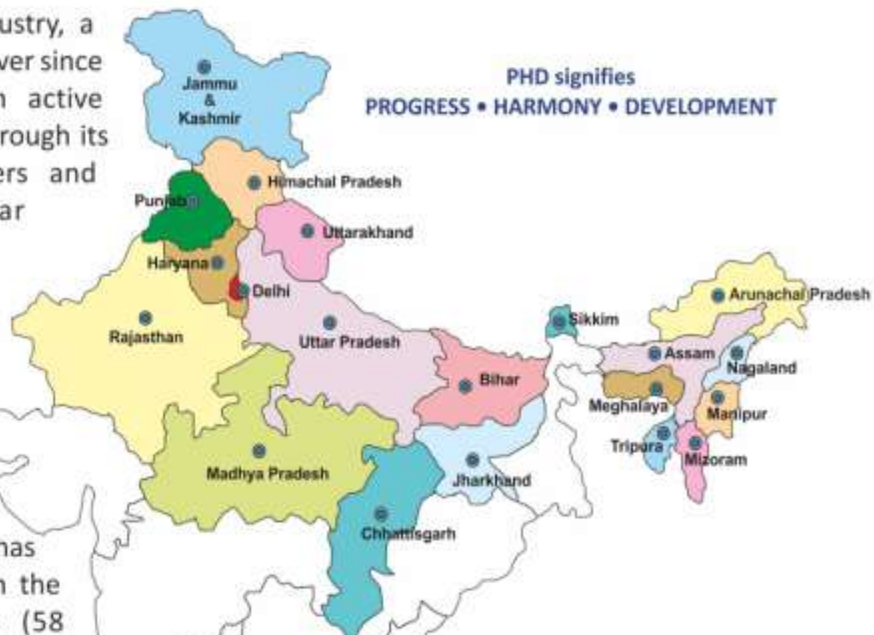

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