

# Corollary of GST on Foreign Trade Policy

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## ARTICLE DETAILS

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## ABSTRACT

In this paper, we are going to study about the major impacts of GST on foreign trade. GST being one of the greatest reforms in the field of indirect tax made an impact on lot of sectors such as tea, coffee, spices, iron and steel and financial sectors. The implementation of GST focused on increase in output, which in turn increase the export of India and provided tax benefits. Working capital of some of the major 100% export oriented companies had a downfall due to the unorganized refund system. In this paper, through graphical representation, we concluded that it was a positive impact on the export of the country.

## 1. Introduction

The goods and service tax, is one of the largest tax reformation undertaken in India, which came into effect from 1<sup>st</sup> July 2017. With the enactment of GST there has been a radical transition in the manner the business is carried on in India. It aims at replacing various indirect taxes and condensing them under a single head known as GST, which will elevate India on domestic and international market. There are four slab fixed for GST rates (5%,12%,18%,28%). As an outcome, the cascading effect has been eradicated and the tax burden on final consumer has been removed.

**Impact of GST on import:** Import under GST are treated as inter-state supply and attracts Integrated Goods and Service (IGST) and it is levied in the state where the import of goods and services is consumed or received. Before implementation of GST countervailing duty was levied on principle value but after IGST it is on transaction value.

**Impact of GST on export:** Under GST exports are treated as 'zero rated supplies. If GST is paid at time of supply, a trader is given two options either export without payment of IGST under bond or letter of undertaking or pay IGST and later claim for refund, in both options the exporter has to provide details of GST invoices in the shipping bills.

## 2. Review of Literature

- a. THOWSEAF S, M. A. (2016). This research paper provides a detailed study on the implementation of GST on export and other industrial sectors such as food industry, housing and construction sector, FMCG sector, financial services and impact of GST on small enterprises, it highlights the various benefits one could avail from GST. The study proves that GST has a positive impact on most of the industrial sector cutting down the cost of the material, except the agricultural sector. GST will enhance the existing tax system, widen and reduce the variation in tax rates, which will increase revenue and lead to economic growth and will contribute towards making India a developed nation.
- b. THAKUR, P. (2018). This article portrays how practice of GST has caused a major setback to the handicraft and carpet sectors. Government is working towards lessening the relevant duty from 12% to 5%, to help these sectors retain themselves in the international markets. As per the reports, there has been a decline in export of readymade garments in comparison with pre GST. In order to resolve the input tax credit and IGST refunds, the Central Board of Indirect Taxes and Custom, has set up a fortnight special refund from May 31 to June 14, and government is striving to provide provisions relating to ITC to exporters and improve the exports.
- c. NISHA TANEJA, SAMRIDHI BIMAL, VARSHA SIVARAM. (2018). This paper studies the growth of trade between in India and Pakistan since 2012. It identifies different trade policies adopted by both the countries to improve the volume of their trade. The sea and roadways are the dominant modes of transport for trade, duty structure for certain items like dry fruits, synthetic rags, foreign cotton of all staple length etc., of imports from Pakistan has undergone change. According to the study it was concluded that policies could intensify and open doors for bilateral trade between both the countries and the results, achieved only after 2-3 years of its implementation.
- d. (NISA, 2017) This research paper gives a detailed study about how India being a developing economy should improve the current tax system and how GST can contribute to remove the inefficiencies in the current tax system. It also highlights how in the past, GST was adopted by other foreign and how it had impacted inflation and slow down the consumption. The study talks about how India can withstand the new regime and challenges.
- e. (ANJALI TANDON) The main objective of this research paper is to examine effect of introducing goods and service tax and how it has impacted the economic structure, trade, employment, prices of products and the factors of productions. General economic equilibrium model has been adopted to study the

impact of India towards a comprehensive tax. The paper also talks about how the GDP of India has increased within a range of 0.9-1.7 percent after implementation of GST.

company and we have taken into consideration the export and import of various sectors.

**Expected outcome:** Through this study, we are trying to put some light on the impact of GST on Imports and Exports of India, was it a positive effect or a negative one. In addition, the actions taken by the Government in refunds and updates in the methods of filing returns. Should the manual filling of return taken off, or will it be changes to easy and better way possible.

One of the major concerns of this study would be increase in the Exports by motivating exporters through various exemptions and refunds, which in turn helps in increase in exports of India and leading the GDP to the top and pulling the rupee value for a dollar as lower as possible.

**Limitations of the study:**

- In our study the impact of GST on Exports and Imports of India are considered. As we believe foreign trade to be a vast area, we focused on the imports and exports which has a major effect on GDP.
- We are considering the data of the year 2016-2017 and 2017-2018 for comparison of pre and post GST effects.
- The working capitals of the companies are in crores and the data relating the exports are in US Dollars.

**3. Research Design**

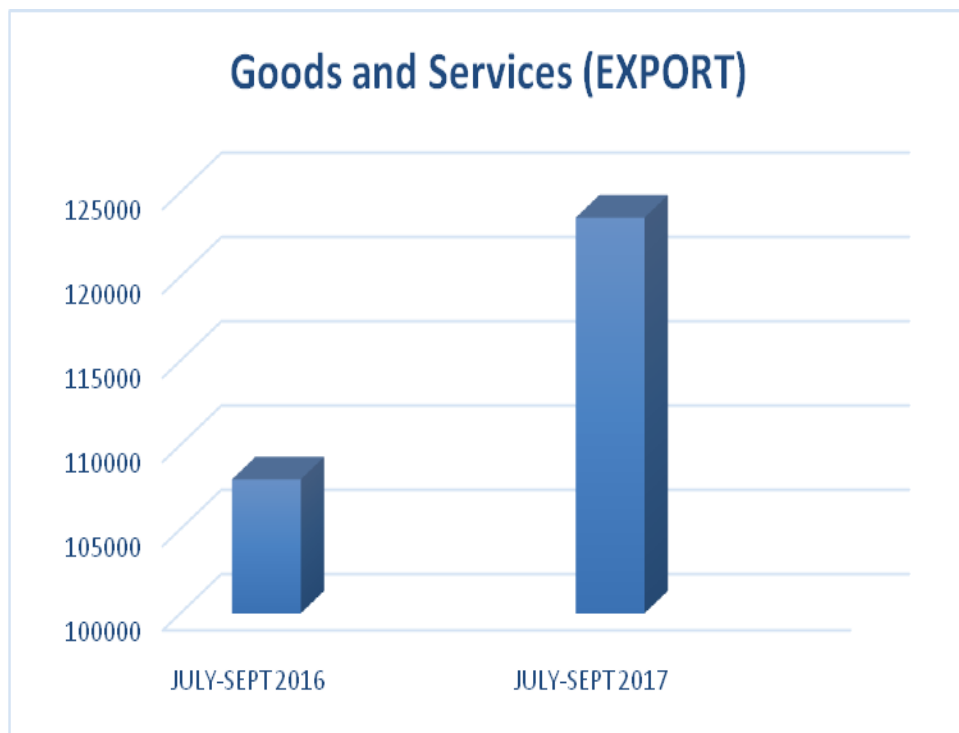
**Statement of problem:** GST is one of the greatest things happened in India along with demonetization but to what extent was it useful to general public, officials, business tycoons, corporate world etc., in this paper we are more concerned about the effects of GST on foreign trade of India. More focused on the IMPORTS and EXPORTS this has its impact on the GDP.

- Delay in the refund of input tax credit, which is delaying the exports.
- Technical glitches, which is delaying the process of refund and application.
- The difference in the amount claimed as refund by the exporter with the amount entered in the IGST return
- Discrepancies in filing the return by the small manufacturers

**Source of data:** For the purpose of this study, we have used secondary data. The data is collected from different sources such as newspaper articles, research papers, magazines, and websites.

**Scope of data:** We have considered 1-year (2016-2017) data to analyse our study, annual basis for analysing the

**4. Data Analysis and Interpretations**



This is the comparison of data between 2016 and 2017, one being pre GST and another being post GST. With the graph, we can evidently make out that when compared with the exports of second quarter of 2016 there was an increase in the

exports for the second quarter after the implementation of GST, which was on JULY 1 of 2017. This data being a total export of both goods and services as compared with 2016 there was a growth of 14 % ( approx.).

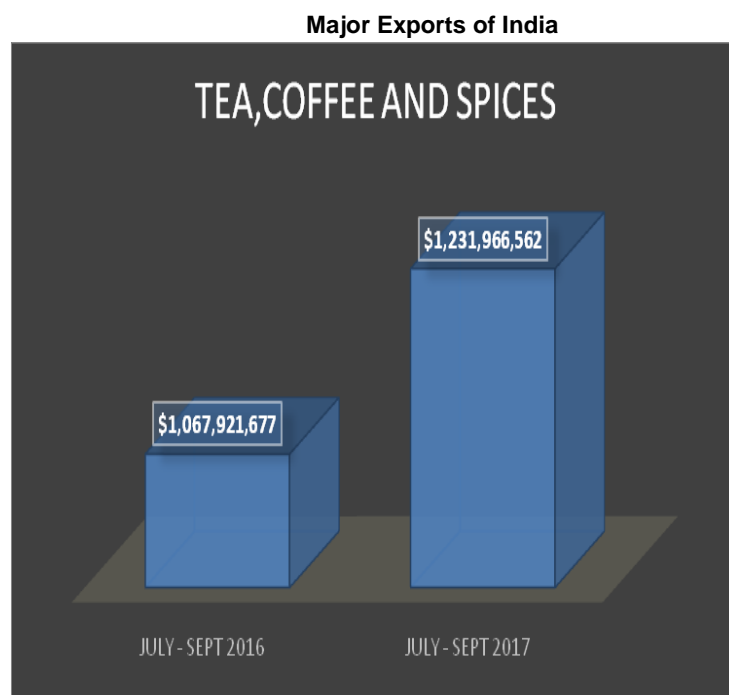
With the implementation of the GST, the government was planning for increase in outputs, which in turn increasing the exports of India and providing various tax benefits to the taxpayers. Under the previous indirect tax, the duty drawbacks given for the tax payers on the inputs for export of exempted goods. Under GST duty drawback was only given to the inputs which was imported for which custom duty or central excise duty was paid on certain product such as petroleum or tobacco used as inputs. Regarding this there was confusion as to refund of tax paid by the exporters on the inputs.

The government regarding this issue took certain measures by releasing the guidance note for helping taxpayers clear their doubts about the claims of input tax credit on ZERO-RATED SUPPLIES. Exporters were given two options for claiming refunds

**OPTION 1:** The goods and services supplied under bond or letter of undertaking after fulfilling all the prescribed conditions and procedures, without making payment of integrated tax and later claim a refund on unutilized input tax credit.

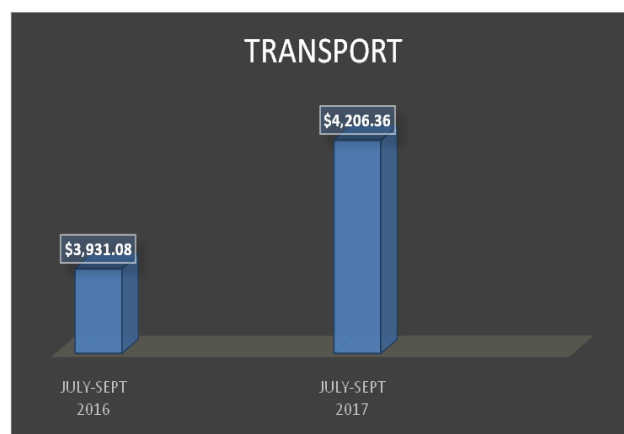
**OPTION 2:** The goods or services, or both supplied after fulfilling all the prescribed conditions and procedures and paying IGST, refund for such tax paid on the supplied goods or services, or both. The applicant has to apply for refund as per the conditions specified under section 54 of CGST.

With the implementation of GST India, exporters with now be able to have competitive prices in the global market and resulting in increase in the exports of India. This should encourage more of the companies in exports and expansion of their market from domestic to global.



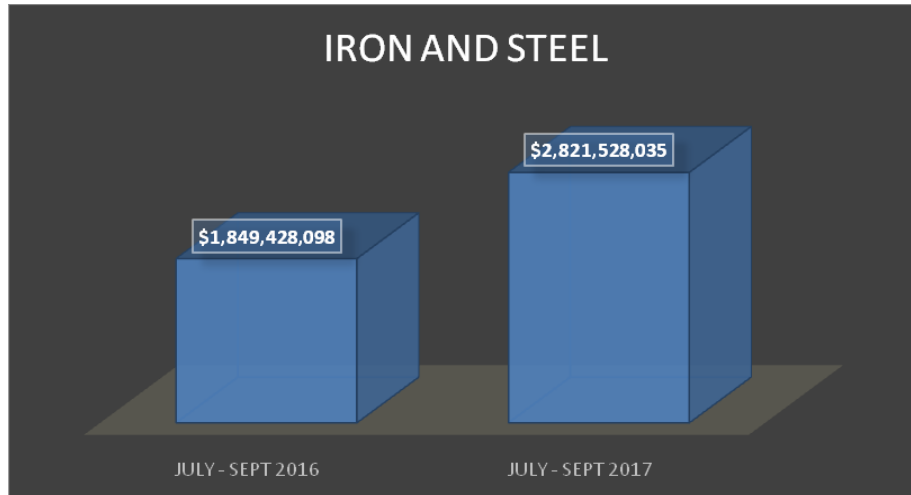
As we can see from the graph, there was a steady growth in the exports of coffee, tea and spices from July- Sept 2016 to July- Sept 2017. If we focus more on the second quarter of 2016-17 and 2017-18, which are the years of pre GST and post GST respectively, we can make out that there was rather a positive impact than negative as compared with the previous

year (2016-17) there was a growth of **15 % (approx.)**. The tax rates regarding the tea and coffee been lowered under GST as compared to previous indirect tax, previous tax incidence included central sale tax, octroi, and entry tax would come up to 8% which under GST is only up to 5% which less 3%.



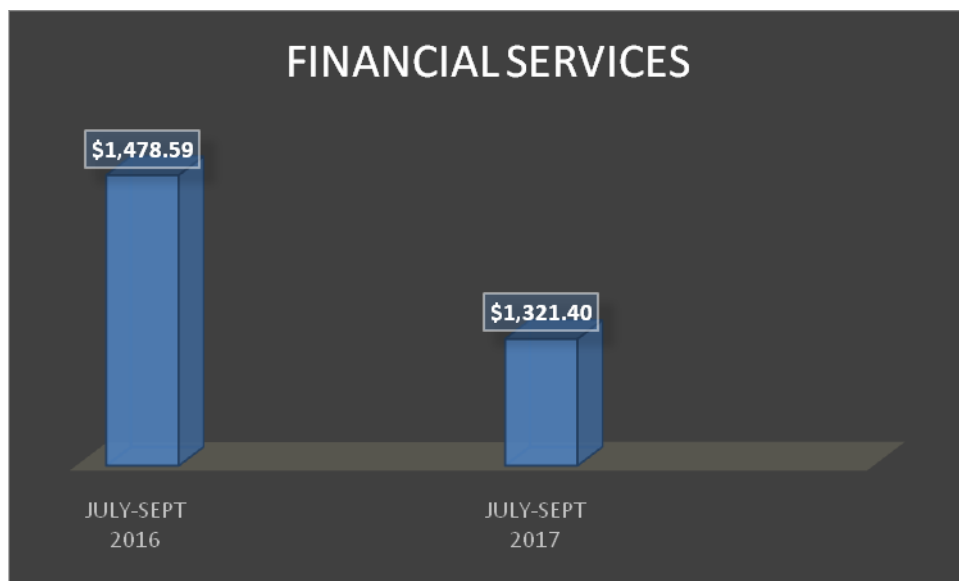
The transport service including sea transport and air transport had a positive effect helping in speeding up the movement of consignment. The sector saw 20% increase in efficiency due to uniform system and introduction of E-way bill. The GST was able to removed taxes of 15 different states and tariffs this helped in reducing the complexities of transporting goods among states and the cascading effects. Previous tax had a higher logistics cost which is reduced by 20%, along with

this, due to difference in tax rates in various states the companies had housed warehouse in various states instead of at strategic points leading to increased warehousing cost. With removal of multiple warehouse, the logistics have improved; an optimal supply chain is created. The transportation throughout the country is been made easy with removal of multiple checkpoints resulting in removing the complexities, and time consumption and paper works. E-way bill has removed much confusion and has created uniformity in the industry.



Iron and steel industry did have a small struggle in higher cost due to transition and also suffer in working capital requirements but it is was all smooth latter period as they were able to absorb it with the reduction in cost of logistics and also less tax on inputs. The growth did continue for the industry. Under the previous tax the rates were, Excise duty 12.5%, Average VAT 5% and central and sales tax 2% adding up to 19.5% (12.5+5+2). However, under GST sale and

manufacturing of iron rods, scraps of iron etc., were charged 18% and there will be different rates for different kind of articles made of iron and steel. Steel industry is more likely to enjoy the benefits of less tax rate of 5% on the inputs used like coal and iron ore and as the transportation of steel is kept under 5% bracket reducing the logistics cost. The companies were expecting for a growth in their working capital but at the current refund situation they must plan their funds.



The entire financial services can be categorized into financial services on mutual funds, insurance companies and real estate and banking services each having its own impact and implication from GST. Many components of a services such as custodian fees, registrar and transfer agent fees etc.,

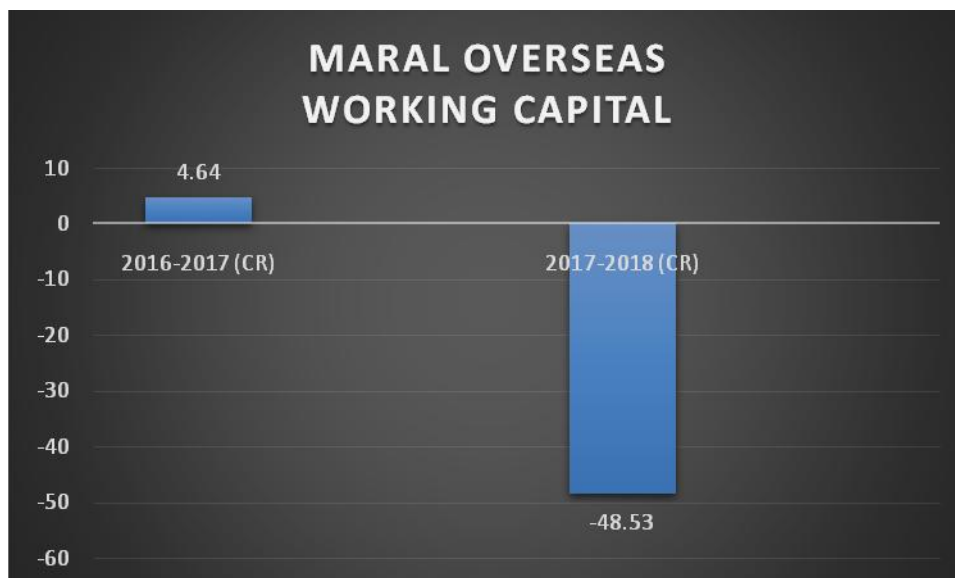
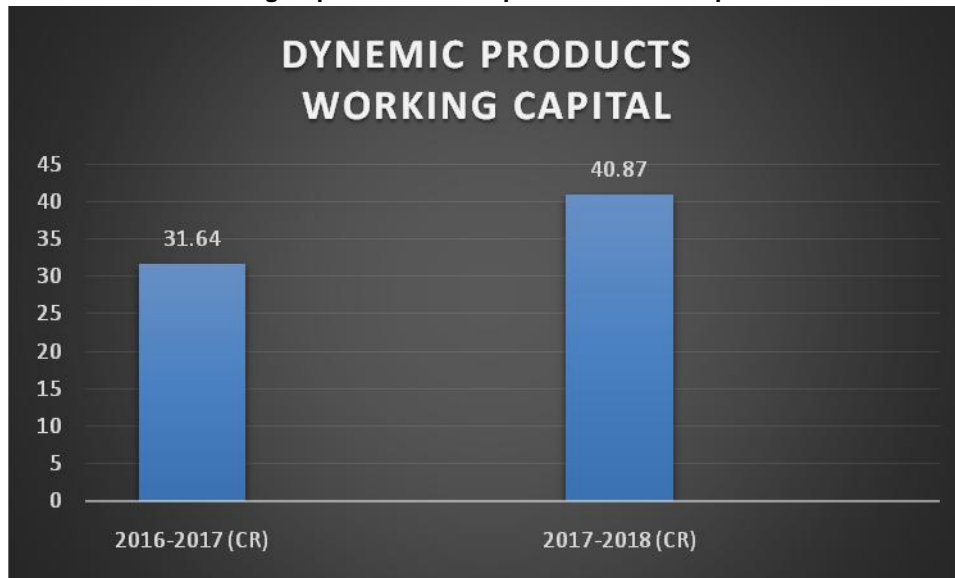
attract service tax. The total expenses ratio expected to rise from 15% to 18% affecting the investor. Even the insurance premiums went up and the immediate effect was pushed over to the customers leaving the artificial person (companies)

continued to enjoy the input tax credit. In real estate, there is an expectation that any small difference in tax may lead to hike

up in the total cost, construction materials most of it falls under the slabs of 18% and 28%. However, in case of real estate there is a way out in neutralizing this cost by availing input tax credit. When it comes to bank all services such as non-maintenances of minimum balance interest on ATM

transactions all are going to be charged under the rates of GST with rates falling under 18% instead of 15%. In all the cases it was expected for input tax credit to soften the blow, but after a detailed analysis by including all the services into one and comparing with the previous year's records it has been a considerable downfall.

**Working Capital Of 100% Export Oriented Companies**



These both are one of the 100% Export oriented companies and there working capitals for the year 2016 and 2017.

A dynamic product is colorant exporters looking at their working capital its clear cut that they had smooth flow in their business transactions. There is increase in the working capital by 12cr is amazing growth.

Maral Overseas is one of the largest textile exporter industries, it was expected that the tax rates would increase after the implementation of GST but never did they expect

refunds to go this chaotic. All the refunds that were claimed during the period starting from July 2017 which was estimated

to be-20000 crore. The companies who are into 100% export were total in a messed up situation as their working capital was

at stake with no proper information on the refunds. Some of the main reasons for the delay of the refunds were there were certain clerical errors due to which there was a problem in filing of returns, and the application of IGST and ITC are offline which is slowing the entire procedure.

## 5. Findings and Suggestions

### Findings:

The paper discusses about the impact of GST, its changes in rates and policies on export. From the data obtained, we are able to infer that the exports of different sectors have increased comparatively when compared with the previous year. These sudden increases in exports were because of the changes in rates, even though in some sectors the input tax was increased the companies were able to compensate it with the reduction in other costs such as logistics and removal of cascading effect. However, the refund system gave a hard time to the companies especially to the EOU textile companies, without proper refunds, they were not able to manage their working capital and this had a greater effect on their operations. However, government is working on clearing the claims of the exporters within the prescribed time.

### Suggestions:

Government should set up a system that monitors all the business transactions in all sectors so that they would be able to detect flaws and act upon it. Even though there are GSTN online portals, the mechanism isn't effective enough. Therefore in order to resolve this, a more robust and volume handling portals must be introduced. In order to rectify the errors made by the exporters while filing the GSTR-1 the

government should authorize councils to look after this. The government should take necessary actions to refund the exporters.

## 6. Conclusion

From the above study, we have discussed some of the major exports of India and impact of GST on it. With some of the data available especially for the quarter July-Sept 2016 and 2017, exports for service sectors were running intact and could make better out of GST with some reductions in rates. However, most of the exports of goods were to face many problems in the above data we were able to see a breakdown in the working capital of a textile industry being one of the largest textile exporters. Somewhere there was a feeling that India was not ready for something like GST so soon, this to be in perspective of exports and imports as government had no answers for the refunds, most of the claims still in pending and some are stuck in processing as to what amount must be given as refunds.

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