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**SPECIAL ISSUE ON  
ENTREPRENEURSHIP AND STARTUPS-TRENDS, OPPORTUNITIES AND CHALLENGES**



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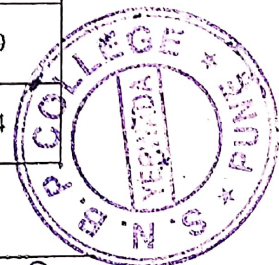


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**IMPACT OF GST ON IMPORTS AND EXPORTS**

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**Abstract :**

*GST ( Goods and Service Tax ) is a 2<sup>nd</sup> major surgical strike on tax evadors, brings most traders into the tax net, makes movement of commodities freer in the country, attracts foreign investors with a unified market with a single tax, though it has inconvenienced citizens on a spending spree with inflated bills, on wining and dining, travelling etc., But GST on 80 % of the commodities is expected to make them cheaper. A long term benefit with short term suffering as the country shifts to a new taxation regime.*

*What the future holds for India's tax structure and balance of powers between the Union and the States is something which the Indian polity shall decide over time. However the last word may not have been heard over GST and States, seeking to augment their resources may well seek changes in the law in the not too distant future.*

*Though there are many problems and challenges for the smooth implementation of the GST it ushers a transparency to measure taxes levied on the product, bringing an end to the host of hidden and embedded taxes that were been paid so far. GST is expected to facilitate free flow of goods and services across the country and expected to add to Indias GDP by 1 to 2 %. Further reduction in multiplicity of taxes will lead to confidence building of foreign investors thus giving a boost to FDI's in the country. On the imports side CVD ( Countervailing Duty ), and SAD ( Special Additional Duty of Customs ) would be replaced by IGST ( Integrated Goods and Services Tax ) barring a few exceptions. On the export side, export would be treated as zero rated supply.*

*GST has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for modernization of tax administration -make it simpler and more transparent - and significant enhancement in voluntary compliance.*

**Key Words :** Tax evadors, New taxation regime, Transparency , Zero rated supply, compliance.

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**Introduction :**

Goods and Service Tax is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner with exemptions restricted to a minimum. This in contrast to current system where taxes are levied separately on goods and services. GST is payable only at the point of final consumption.

According to Federal structure of India, it is proposed that GST be levied concurrently by the Centre (CGST) and the states (SGST). Both CGST and SGST would be levied on the basis of the destination principle. Imports would be subject to GST, while exports would be zero rated. In the case of interstate transaction within India, the state tax would apply in the state of destination as opposed to that of origin. Introduction of GST will not affect customs provision because GST model includes both basic custom duty and IGST. But for importing services, service tax will be subsumed by GST and IGST which will be levied. Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and tax revenue in case of SGDT will accrue to state where the imported goods and services are consumed. Full and complete setoff will be available on GST paid on import of goods and service. But the products like petroleum, liquor and tobacco does



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not come under preview of GST. First discussion paper on GST in India was revealed by empowered committee of state finance ministers on 10th November 2009. This discussion paper provides information about dual GST that is to be implemented in India. CGST and SGST are based on destination principle which means tax will be collected only by consuming country. Punjab finance minister Perminder Singh Dhindra suggested that state should allow levying purchase tax on wheat, paddy, sugarcane, cotton and milk under GST too, as the grain producing state would lose revenue from this new scheme.

**GST subsumes the following indirect taxes :** Under Central Taxes central excise duty, service tax, additional customs duty, special additional duty and central surcharges and cesses are subsumed. Under State Taxes value added tax, central sales tax, octroi and entry tax, purchase tax, luxury tax, taxes on lottery, betting and gambling, state cesses and surcharges and entertainment taxes are subsumed.

**Benefits :**

GST eliminates dual tax system, simplify India's tax structure and create common market across states this will lead to increase India's tax-to-gross domestic product ratio. The production cost will reduce which leads to fall in tax burden on companies. Goods and Service Tax (GST) 90 Difficulties It may affect the service sectors like BPOs and KPOs the most because, they were claiming for service tax on input services, but after implementing GST, for claiming SGST they should get registered in every state which leads to high cost and more complexity.

**History:**

In 2000 Vajpayee government started discussion on Goods and Service Tax by setting up an empowered committee, headed by Asin Das Gupta, finance minister of West Bengal. The committee was given the task of designing the GST model and overseeing the IT back-end preparedness for its role out. During this period a major improvement over existing Centre excise duty at national level and sales tax at sales level was done. Later in 2006, union finance minister P. Chidambaram moved towards GST in his budget and proposed to introduce it by 1st April 2010. However Empowered Committee of State Finance ministers (EC) released its "first discussion paper" on GST in November 2009. In 2007-08 budget, empowered committee of state finance ministers on P. Chidambaram's request work with central government to prepare a road map for introduction of GST in India. State finance ministers, decided to set up Joint Working Groups on 10th may 2007 with the advice to the union finance ministers and minister's secretary of empowered committee. In 2008 EC report to the titled "a model and road map for GST in India" containing broad recommended above the structure and design of GST. In 2009 first discussion paper was released based on inputs from GOI and state with objective of generating a debate and obtaining inputs from all stake holders.

**Imports Under GST :**

**Duties at the time of Import :**

In the GST regime, IGST and GST Compensation cess will be levied on imports by virtue of sub – sections 7 and 9 of Sec 3 of the Customs Tariff Act, 1975. Barring a few commodities such as pan masala majority would attract IGST. Further, a few products such as aerated waters, tobacco products etc., would also attract levy of GST Compensation Cess, over and above IGST. IGST and GST Compensation Cess, would be levied on cargo which has arrived prior to 1<sup>st</sup> July 2017.

**Duty Calculation :**



There are 7 rates prescribed for IGST – Nil, 0.25%, 3% 5% 12% 18% 28%. The actual rate applicable to an item would depend on its classification and would be specified in Schedules notified under sec 5 of the IGST Act, 2017. The rates applicable to goods of Chapter 98 are as under :

1. Project Imports = 18%.
2. Laboratory Chemicals = 18%.
3. Passenger Baggage = Nil Rate.
4. Specified Drugs = 5%.
5. Medicines for personal use = 12%.
6. All other dutiable goods for personal use = 28%

**Change in Import Procedure :**

Importer Exporter Code ( IEC ) : In GST regime, GSTIN would be used for credit flow of IGST paid on import of goods. Therefore , GSTIN would be the Key identifier. It is advised that all importers need to quote GSTIN in their bills of entry in addition to IEC. In the due course of time IEC would be replaced by PAN / GSTIN.

**Import Procurement by SEZ's:**

Authorized operations in connection with SEZ's shall be exempted from payment of IGST. Hence there is no change in operation of the SEZ scheme.

**Baggage :**

Full exemption from IGST has been provided on passenger baggage. However, basic customs duty shall be leviable at the rate of 35% and education cess as applicable on the value which is in excess of the duty free allowances provided under the baggage rules 2016.

**Imports and Input Tax Credit ( ITC ) :**

In GST regime, input tax credit of the integrated tax ( IGST ) and GST Compensation Cess shall be available to the importer and later to the recipients in the supply chain, however the credit of basic customs duty ( BCD ) would not be available. In order to avail ITC Of IGST and GST Compensation Cess , an importer has to mandatorily declare GST Registration number ( GSTIN ) in the bill of entry. Provisional ID's issued by GSTIN can be declared during the transition period. However, importers are advised to complete their registration process for GSTIN as ITC of IGST would be available based on GSTIN declared in the bill of entry.

**Export Under GST**

Under GST regime exports would be considered as zero rated supply. Any person making zero rated supply shall be eligible to claim refund under any of the following options :

1. He may supply goods or services or both under bond or letter of undertaking, subject to such conditions, safeguards and procedures as may be prescribed, without payment of integrated tax and claim refund of unutilised input tax credit.
2. He may supply goods or services or both subject to such conditions, safeguards and procedures as may be prescribed, on payment of integrated tax and claim refund of such tax paid on goods and services or both supplied, in accordance with the provisions of sec 54 ( Refunds ) of the GST act or the rules made there under. ( Refund Rules 2017 )

**Change of Export Procedure**

Electronic as well as manual Shipping Bill formats including Courier shipping bill are being amended to include GSTIN and IGST related information so as to ensure that the export benefits like refund of IGST paid as well as accumulated input tax credit can be expressed seamlessly.



**Export under factory stuffing procedure**

In the context of GST, taking into account the obligation of filing GSTR1 Aand GSTR2 by exporters who are registered under GST, Board intends to simplify the procedure relating to factory stuffing hitherto carried out under the supervision of Central Excise officers. It is the endeavour of the Board to create a trust based environment where compliance in accordance with the extant laws is ensured by strengthening Risk Management system and Intelligence mechanism of the department.

**CASE 1 :Where products attracts IGST but not CVD:**

Suppose Assessable value including landing charges is Rs=100/-

1. BCD : 10%
2. IGST : 12%
3. Education Cess : 2%
4. Higher Education Cess : 1%.

In view of the above parameters, the calculation of duty would be as below :

- A. BCD = Rs 10 [ 10% of AV ].
- B. Education Cess = Rs 0.2 [2% of A.].
- C. Higher Education Cess = Rs 0.1 [1% of a ]
- D. IGST – Rs 13.236 [ AV+A+B+C\*12%]

**CASE 2 : Where product does not attract CVD but attract IGST as well as compensation cess :**

Suppose the Assessable value including landing charges = Rs 100/-

1. BCD = 10%.
2. IGST = 12%.
3. Education Cess = 2%.
4. Higher Education Cess = 1%.
5. Compensation Cess = 10%.

In view of the above parameters, the calculation of duty would be as below :

1. BCD = Rs 10 [ 10 % of AV ]
- A. BCD = Rs 10 [ 10% of AV ]
- B. Education Cess = Rs 0.2 [ 2% of a ]
- C. Higher Education Cess = Rs 0.1 [ 1% of a ]
- D. IGST = Rs 13.236 [AV +A+B+C\*12%]
- E. Compensation Cess: Rs 11.03 [ AV +A+B+C\*10%]

**CASE 3 . Where product attract CVD,IGST and Compensation Cess :**

Suppose Assessable value including landing charges = Rs 100/-

1. BCD – 10%.
2. CVD – 12%
3. IGST – 28%.
4. Education Cess – 2%.
5. Compensation Cess – 10%.

In view of the above parameters, the calculation of duty would be as follows :

- A. BCD = Rs 10 [ 10% of AV ]
- B. CVD = Rs 13.2 [12% of AV+BCD ]

C . Education Cess = Rs 0.464 [ 2% of BCD +CVD]

D . Higher Education Cess = Rs 0.232 [ 1% of BCD + CVD ]

E . IGST= Rs 34.69 [ AV +A+B+C+D\*28% ]

F . Compensation Cess = Rs 12.389 [ AV +A+B+C+D\*10% ]

### Conclusion

It has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for modernization of tax administration -make it simpler and more transparent – and significant enhancement in voluntary compliance. We assume that implementation of GST will increase the GDP rate from 2%-2.5% due to elimination of dual cascading effect. This assumption is made because the Canadian experience is suggestive of the potential benefits to the Indian economy. The GST in Canada replaced the federal manufacturers' sales tax which was then levied at the rate of 13% and was similar in design and structure as the CENVAT in India. It is estimated that this replacement resulted in an increase in potential GDP by 1.4%, consisting of 0.9% increase in national income from higher factor productivity and 0.5% increase from a larger capital stock. On levying IGST the country can eliminate double taxation and also it is based on destination principle where only final consumer will pay the tax. Therefore, when the country import the goods it can earn more revenue by collection the tax and also consumer will get input tax credit (set off). At present, government of India is not able to meet the expected tax collection due to lack of transparency in the present tax structure. Therefore according to our results implementation of GST is very much required and GST rate should be fixed in such a way that they meet their target.

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