

Goods and Service Tax in India and Its Impact on International Trade (with Special Reference to Indo-US Trade Relation)

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Abstract

India has the seventh largest economy of the world. The main factor for any economy that leads to growth of the country's economy is international trade. So by the reform in the indirect taxation system, it becomes a vital part to understand its impact on international trade performance.

Multiple indirect taxes are replaced by the GST which were earlier imposed on export and import and will work as a single consolidated tax. This reform will bring a lot of changes for the economy and international trade as well. It also includes the significant impact on the international trade as IGST Act shall be applicable to the import and export and many of the exemptions associated with various taxes for exporters will be abolished. As trading between India and US has developed a very strong relationship in the few last years, so it is quite obvious that after this indirect taxation reform, INDO-US trade relationship will also get affected.

The purpose of this study is to find that how international trade & services will be affected by the implementation of GST. And as it is observed from the last decade that India and US are playing a leading partner role so will this exercise be repeated in next upcoming years? This study will help to find the opportunities with its challenges.

Keywords : GST, IGST, INDO-US, International Trade.

Classification-JEL : F 23, K 10, K 23.

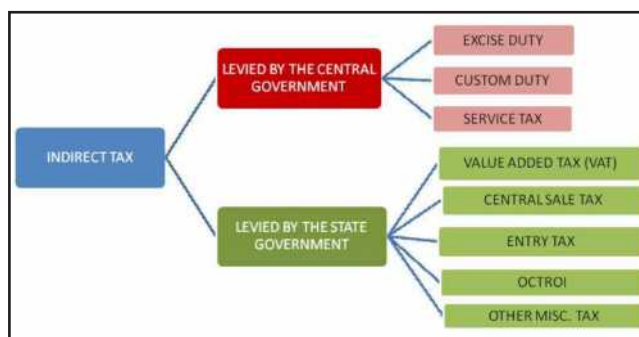
1. INTRODUCTION

Indirect taxes play a crucial role in collecting the revenue for every central/state government of the country. Indirect taxes are called so because they are not directly collected by the government from the consumers of goods and services but these are collected by the government through intermediaries of the product/services such as manufacturer, whole

seller or retailer. In India there were a lot of indirect taxes before GST such as VAT, excise duty, sales tax and service tax etc. Accordingly there were so many laws regarding indirect taxation and because of its applicability with the different rates on the different stages, it was very hard to the every aspect of indirect tax just because of its wide scope and different laws for every other indirect tax. That's why the old

pattern of indirect taxation system has been changed and an evolutionary reform has been set up in the history. GST is a consolidated and destination based indirect taxation system which is applicable from July 1, 2017 to replace all the indirect taxes such as service tax, sales tax, excise duty and VAT. From GST, the business involved in the transaction of goods/services will be affected and the consumers of the country will get the benefit of it. The first country who implemented GST was France. Since then, in more than 140 countries GST has come into force in which some of the countries following Dual GST model like Brazil, Canada. India has chosen the Canadian model of dual GST.

Fig. 1
Showing the old indirect taxation system of India



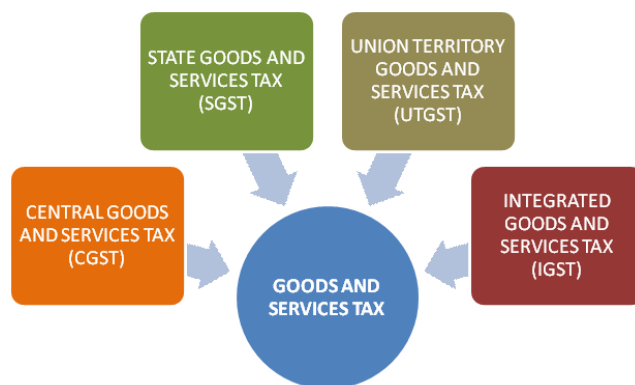
2. UNDER THE NEW TAXATION SCHEME OF GST

After GST Act 2017, the Central government and state government's indirect taxes have merged and now both the government for their indirect taxes revenue depends on single consolidated tax which is Goods and Services Tax. GST Act consist of four types of GST, which are-

1. Central Goods and Services Tax (CGST) Act
2. State Goods and Services Tax (SGST) Act
3. Union Territory Goods and Services Tax (UTGST) Act
4. Integrated Goods and Services Tax (IGST) Act

Where Intra-state transactions will take place, CGST and SGST (in case of state) or CGST and UTGST (in case of union territory) will be applicable. Therefore, while making an intra-state transaction CGST collection will go to the central government and SGST collection will go to the respective state government/UT in which supply is taking place. The Union Territory Goods and Services Tax (UTGST) Act, is applicable where the supply take place in any of the Union Territories of India. IGST Act, 2017 is applicable on interstate transactions of goods/services and on international imports. Central government will collect the revenue from IGST and then it will be distributed among the respective State/UT.

Fig. 2
Showing the Types of Goods and Services Tax (GST)



Under this indirect taxation system there are five tax slabs which are- 0%, 5%, 12%, 18% and 28%. Petroleum products and Alcoholic drinks are subject to the state government's tax revenue and 0.25% of special rate is applicable on rough precious and semi-precious stones & 3% on gold. On few items like luxury cars, aerated drinks and tobacco products an additional cess of 22% or any other rates on above of 28% will be applicable. The below table will help you from a consumer's perspective to understand the types of current indirect taxation system and its applicability.

Fig. 3
Showing the Goods and Services Tax with its applicability

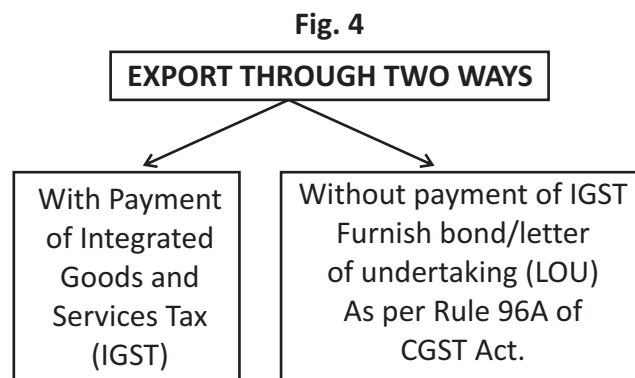
	Central Goods & Services Tax	State Goods & Services Tax	Integrated Goods & Services Tax	Union Territory Goods & Services Tax
Place of Supply	Intrastate (Within state)	Intrastate (Within state)	Inter-state (Between two states or UT) or (one state and one UT) or International imports	Within one Union Territory (UT)
Imposed By	Central Govt.	State Govt.	Central Govt.	UT Govt.
Revenue Source of	Central Govt.	State Govt.	Central Govt. & State Govt.	UT Govt.

2. INTEGRATED GOODS AND SERVICES TAX ON IMPORT AND EXPORT

Goods & Services tax Act, 2017 puts India in the line of international tax standards and making it easier for Indians to export their goods and services internationally without any barriers of taxation system. According to the provisions of the IGST Act 2017, Imports in India will now be considered as interstate supply. This is also stated in the Act that integrated tax (IGST) will be collected and levied according to the provision of Sec. 3 of the customs tariff act, 1975 and it is also been provided in the taxation laws (Amendment) Act, 2017 that imported goods will be taxable under IGST at the value as per customs act including duty but excluding the GST and the IGST on imports of goods will be kept by the central government. IGST on imports of services is subject to reverse charge payable by the recipient. Further Countervailing duty, anti-dumping duty or safeguard duties will be remain same under section 9BB of the Customs Tariff Act, 1975. If the goods come under the cess applicability, the tax will be collected and used by the state government where the consumption of goods takes place.

Now the Indian Government is aiming at

increasing the output and the exports by launching the “Make in India” policy and exporting goods or services as a “Zero-rated supply”.



According to the IGST Act 2017, exports will be deemed as “Zero rated supplies” and the person who is registered as tax payer for exporting of goods/services can claim refund in any one of the following options:

- After the payment of Tax (IGST) on export and thereafter claim that refund of the tax paid on exports.
- Without payment of Tax (IGST) on Export and claim the unutilized ITC under bond or letter of undertaking (LOU) According to the Rule 96A of CGST Act.

For the procedure of claim of refund of tax on exports, the GST Network (GSTN) has

introduced form GSTR-1 and this GSTR-1 consists of a table 6A in which the tax payer mentioned the data of export and claim refund under GSTR 3B and Table 6A of GSTR-1. So the person who exports goods/services can claim the refund of IGST by filling the details of paid IGST invoice and shipping bills in the GSTR-1 form at the time when export takes place.

3. GST IMPACT ON INDO-US TRADE RELATIONSHIP

As the exports of India are directly affected by the GST and now the exports will be treated as the Zero rated supply that's why exports will be enhanced by the new indirect taxation reform and the exporters will be benefited by this. But when GST was commenced and this reform became practical, it is found that many of the industries faced a critical condition before them as they were getting revenue and capital issues within the starting period. And when GST bill came into force, it is difficult to understand the laws and

regulations of the new bill and due to non-availability of refund of tax on time the export industries were facing difficult time. Lots of manufacturers are afraid of shifting the clients to other countries for better option of quick supply. Indo-US trade relation is always inter-dependent in terms of financial markets. And now as we can see that the US investors are investing more in India in comparison of the few decades. Indo-US trade relation is playing the vital role on the globe in terms of the two way trade and strategic partnership. And this is affecting the world by positive effect on the international trade system and promoting stability between the democratic countries. This will leave a message to the world in a positive manner and the trade will be enhanced for both of the countries and the new dimensions will be developed on the globe by this partnership. Now the Indo-US trade relation promotion is aiming at "mission \$500 billion" between both of the countries, this will result in improving the trade relations.

Table 1

Export and Import Trends between US and India									
	1995	2000	2008	2013	2014	2015	2016	2017	2018
Total	11.2	19.1	66.1	97.3	104.6	109.4	114.1	126.2	142.1
Exports	4.6	6.5	27.7	35.1	36.8	40.0	42.3	49.4	58.9
Imports	6.6	12.6	38.4	62.2	67.8	69.4	71.8	76.7	83.2
Balance	-2.0	-6.1	-10.6	-27.1	-31.0	-29.4	-29.6	-27.3	-24.2

Sources: United State trade representative report

India was the thirteenth largest market of goods export to United States in 2018. In 2018, US trade was estimated to \$142.1 billion US goods and services trade with India. In which, the imports of goods/services were \$83.2 billion and the exports were \$58.9 billion. The US trade deficit in 2018 with India was \$24.2 billion. The tenth biggest goods supplier to United States was India in 2018 as well as the ninth largest partner in trade in 2018 with \$87.5 billion. Indo-US trade in goods and services was \$142.1 billion estimated in which the share of total exports were \$83.2 billion and the imports were

\$58.9 billion. The US trade deficit with India was \$24.2 billion in 2018. Whereas united States trade with India estimated \$126.2 Billion in 2017. In which the imports were totaled to \$76.7 Billion and exports were \$49.4 Billion. In 2017, the United States' trade deficit was \$27.3 Billion with India. So here we can see a significant difference between the exports and imports of Indo-US bilateral trade where exports were increased with \$9.5 Billion but imports were increased only with \$6.5 Billion so downfall in good and trade deficit can be seen in the US trade deficit with \$3.1 Billion. So as we can see

that after the implementation of GST there is a lot of change in the indirect taxation system that's why this is hard to understand the provisions regarding the new indirect taxation policy to the industrialist and the exporters and importers as well so in the beginning period of its implementation there was a lot of fluctuation in the trends of trade and business within the

country or trade outside the country. So it is little bit difficult to predict the consequences in the beginning years of this reform that it'll be beneficial or not but it's sure from the study this will bring a lots of advantages to the customers, businessmen, industrialist, exporters, importers and to the nation as well.

Table 2
2017: U.S. Trade in goods with India

Month	Exports	Imports	Balance
January 2017	1,666.2	3,790.4	-2,124.2
February 2017	1,933.4	3,470.4	-1,537.0
March 2017	2,110.8	4,142.7	-2,031.9
April 2017	1,992.4	3,759.3	-1,766.9
May 2017	2,061.8	4,498.1	-2,436.3
June 2017	2,338.4	4,016.9	-1,678.5
July 2017	2,186.1	4,198.6	-2,012.5
August 2017	2,491.7	4,176.8	-1,685.1
September 2017	2,253.9	4,345.1	-2,091.2
October 2017	2,224.7	4,552.6	-2,327.8
November 2017	2,023.5	4,001.2	-1,977.8
December 2017	2,365.3	3,597.6	-1,232.3
TOTAL 2017	25,648.3	48,549.7	-22,901.5

Table 3
2018: U.S. trade in goods with India

Month	Exports	Imports	Balance
January 2018	2,200.5	4,417.6	-2,217.0
February 2018	2,305.7	3,959.6	-1,653.9
March 2018	3,279.5	4,367.6	-1,088.2
April 2018	2,442.0	4,783.1	-2,341.1
May 2018	2,624.7	5,091.5	-2,466.8
June 2018	3,275.5	4,173.0	-897.5
July 2018	2,541.7	4,593.7	-2,052.0
August 2018	3,110.2	5,075.7	-1,965.5
September 2018	2,946.0	4,499.0	-1,553.0
October 2018	2,826.1	5,331.8	-2,505.6
November 2018	2,659.7	4,107.1	-1,447.4
December 2018	3,291.2	3,949.6	-658.5
TOTAL 2018	33,502.8	54,349.3	-20,846.5

From the above given table we can predict the impact of GST after its implementation from July 2017 as there was no such a significant downfall in INDO-US trade. In 2018, U.S. exported the goods to India of \$33.1 billion, which was more than 28.9% from 2017 and 87.3% from the year 2008. The overall export of US in 2018 consists of 2.0% share for India. Total Exports were \$58.9 billion; imports were \$83.2 billion. The trade deficit of United States' goods and services with India was \$24.2 billion in 2018. India is currently United States ninth largest goods trading (two ways) partner with \$87.5 billion in 2018. After the GST implementation, the indirect taxation system has become more transparent and corruption-free tax system has been set up in India. From the Input credit (ITC) system, there will be uninterrupted flow of cash for trade and industries will get the benefit of it this will be the result of reduced price of goods and services. It has become more convenient process after inclusion of all the indirect taxes for both the government as well as for the international exporters. There will be Tax harmonization for the international transaction in every state. The implementation of Goods & Services tax puts India in the queue of international tax standards and making it easier for Indian businessmen to sell their goods or services in the international market. The costs of product will be reduced. The collection cost of the tax will be reduced. Due to the low price of the product or services there will be a better competition among the countries for promoting the export market. All transactional records will now be accessible on a single platform because of this it will become more comfortable for the tax authorities to identify the tax evasions and to take action accordingly. This will provide the more revenue to the government.

4. CONCLUSION

GST being destination based tax, less number of document/paper works is required at

intermediate level, and it will reduce corruption from many levels of transaction. Due to this, the indirect taxation system has become more transparent. Tax Compliance will secure loss of tax credits and bring more profits in trade measures. The government most famous initiative, 'Make in India' will attract foreign direct investment from which 'Make in India' initiative will get boost with high profits arising out from manufacturing industries after the implementation of GST. It will also increase the rating of India in ease of doing business in international forum and with increase in export worldwide; India's manufacturing industries will flourish or comes in limelight in international forum. For India, the United States can play a lead role in forming the country's economy more stable and developed in comparison to the other developing economies. The main advantage of the indirect tax reform is that, it will increase the level of productivity and competition internationally.

Hence, the new indirect taxation system is a welcome step in reforming our tax regime. But, central government needs to ensure that with implementation of GST, the revenue of state government from indirect tax will not be affected. In case of losses to state government, proper compensation needs to be ensured to all without any discrimination. Every reform needs time to be effective completely and to give its positive outcomes to the nation. Likewise GST, reform in the indirect taxation system, will surely give its benefits in the long run to the nation as well international trade however in the short time some difficulties may be faced as the consequences.

So from the above study we can say that the impact of GST on international trade will be beneficial but there are lots of things to give attention so that the actual benefit of the indirect taxation system can equally give its significant contribution to the both, the central government and the state government revenue.

And there is no doubt in it that the relationship between the India and United State will get better and strong after the implementation of Goods and Services Tax because there will be

easier way of export and import and so many hindrance of trade have abolished after coming into the existence of Good and Services Tax.

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