Will GST cast a shadow on exports?

Neutrality and jurisdiction in international trade need to be discussed threadbare before GST is implemented in India

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This is a question too difficult for a mathematician. It should be asked of a philosopher." Albert Einstein famously responded thus, to his tax returns. I am afraid his response would have been the same today. It has been a long and slow walk for the renewed integrated taxation system in the country. In a sphere that has faced obstacles of multiple hues in the past — exports — it becomes all the more important. Let us keep in mind that the export share of India has fallen to $262 million in 2016 from $302 million in 2012. With that bit of mathematics alone, let us meander into the realm of philosophy of the goods and services tax (GST). GST aka value-added tax in some regions has already been implemented in more than 130 countries.

The *Mirrlees Review* of the UK tax system, touted to be the best-researched document on modern tax systems, lays down a road map for the ideal tax design for the 21st century. The principle of neutrality takes centre stage in the context of international trade. As GST is a destination-based tax, exports from the country of origin go out at zero-rated tax, after exempting or refunding the input taxes that may be given to the resources used in its manufacturing. Conversely, imports from another country would be taxed at the same rate as local supplies of the same category within the domestic market.

The OECD guidelines on Neutrality of VAT in International Trade lay down this as the first guideline: the burden of VAT should not lie on taxable businesses. This is to ensure that the chain of taxation doesn't wrongfully terminate in one of the business links instead of the final consumer — in case of exports, the jurisdiction where the final consumer falls, is elsewhere.

The National Council of Applied Economic Research, in 2009, brought out a paper, "Moving to Goods and Services Tax in India: Impact on India's Growth and International Trade", dwelling on the ramifications of GST on trade. It clearly states that evidence from research done in 136 countries on data from 1950 to 2000 showed a negative relationship between GST and international trade. GST implementation by a country impeded its international trade mainly due to two factors: i) GSTs were generally imposed heavily on traded sectors; ii) governments often failed to provide adequate GST rebates for exports.

As of today, in schemes such as Advance Authorisation, exporters are exempted from paying duty on items imported, against an export obligation within the given period of time. Granting of such exemptions of input taxes is feared to break the GST chain, and hence not considered viable. This would mean that the exporter in India pays GST for the imported input item, manufactures the final product and exports the goods/services to the destination country where she ends up paying the import taxes of that jurisdictional market.

This goes against the basic principle of absence of duplication in taxes under GST. In case of domestic markets, the input taxes paid are offset against the output taxes, in the form of VAT credit, even now. As the market goes out of jurisdiction — as in the case of exports — the offsetting of taxes would become impractical unless it is within a group of free-trading countries. As compensation, the concept of refund of input tax has been introduced. However, the timing of the refund is bound to be upon the fulfilment of export obligation, and is likely to quarantine huge sums of money within the coffers. The schemes which provide exemption/remission of input-taxes, according to World Trade Organization guidelines, must hence be allowed to continue, lest we export our GST, too, along with the traded goods and services.

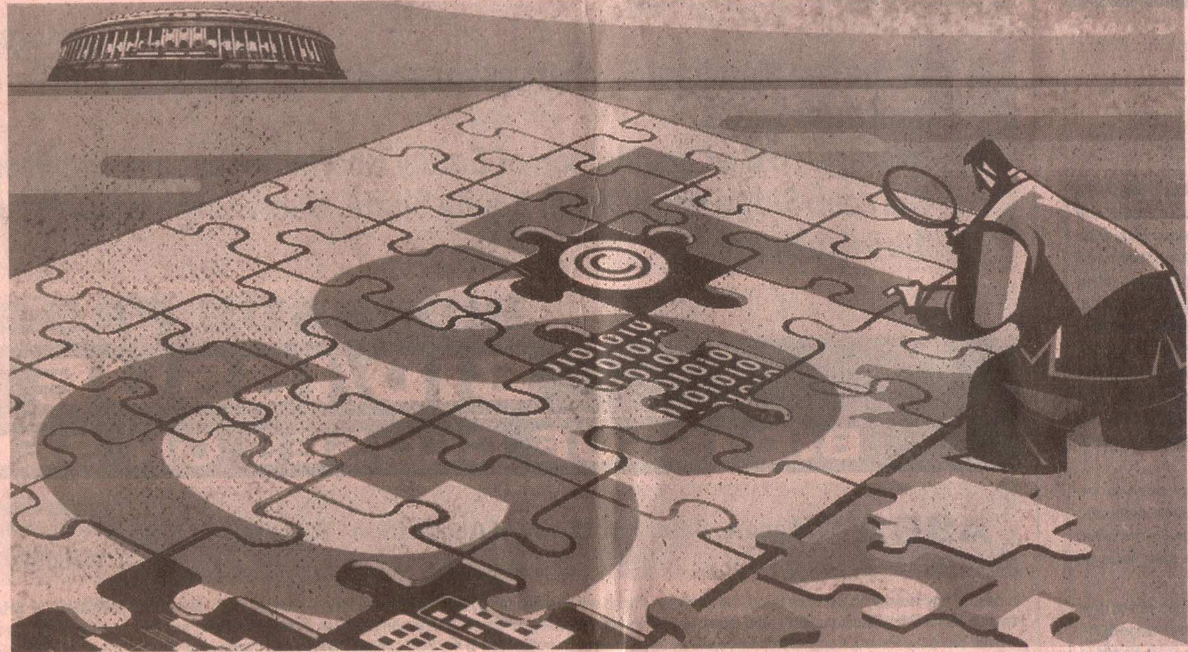
Countries with booming exports such as Singapore, Malaysia and Australia have introduced various mechanisms in GST to neutralise the input tax.

GST suspension at the point of input entry into the export cycle is the easiest to replicate, with the least disturbance of the existing system. Here, if the trader is found to not fulfil his export obligation or sell his products in the domestic market, he would be taxed according to the local rate along with GST repayment.

Input GST Deferral is another scheme, whereby, the exporter is allowed to delay the payment of GST to input items. A Business Activity Statement, which is periodically filed by the trader, reveals the GST liability thus accumulated, which is finally offset against the export obligation fulfilled. The scope of the existing provision of input tax credit in our GST Draft Bill could be expanded so that no money is actually paid by the exporter at the time of import of an input item, but a mere entry into an electronic credit ledger is made, which would be offset against the export obligations.

Input tax credit, as defined by other countries, clearly states that it is the credit on tax incurred on goods/services purchased in the course of production of taxable (zero-rated/standard-rated) output supplies. However, this explicit applicability of input tax credit to stand in for the current duty exemption schemes is lacking in the Draft Bill, and will need to be explained.

This and other concerns regarding the continuance of benefits for capital goods under the EPCG scheme, on deemed exports etc, continue to be deliberated upon.



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