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GST: An Unraveling Force towards India's Ex-Im

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Abstract

Goods and Services Tax (GST) establishes in India with a soft corner on exports by treating export supply as zero rated supply. On the other hand, imports are treated as inter-state supply under GST regime. The total exports in India have grown by 76.5 percent in seven years of GST. The revenue collection under this tax system on imports has multiplied by 2.5 times in the past seven years. The government also refunded the Integrated Goods and Services Tax (IGST) collected on exports to the sum of ₹1.06 lakh crore between July 2023 and June 2024. This research article examines tax on intra & inter-state supply and tax on domestic & import supply to understand the trend of imports under GST regime. The refund of IGST & Input Tax Credit (ITC) on exported goods are analyzed to examine the trend of export in India. Later, this research article examines the overall imports and exports of India under Pre and Post GST. This new tax system acts as a catalyst for the development of cross border transactions and resilience to the climate changes happening in the globe. It can also evident that the fluctuation in exports and imports are occurs due to COVID – 19 pandemic, geo-political issues, global depression, heavy inflation etc.,. This research article also laid down few difficulties faced by importers and exporters whilst complying with GST law.

Key words: Exports and Imports, Climate Change, Cross-Border Tax, Goods and Services Tax

1. Introduction

The revolutionary tax system named Goods and Services Tax was introduced in 2017 by the Government of India with the moto of establishing single & unified market (Oxyzo, 2024). The better transparency and information-technology based compliance under this regime benefits every party in the supply chain process *viz.,* traders, manufactures, government, customs, etc., (Satav, 2020). A better international trade of a country will always push its economy forward (Lathesh, Appanna, & Avdani). The competitiveness of the export in the global market is highly depends on the amendment in the fiscal & foreign trade policy of the government, infrastructure for exports and simplified export procedure (Sharma & Singh, 2017). The increase / decrease in the trade cost of imports & exports are highly relied on tariff & taxation regime. GST will be the solution for bringing trade cost at a level playing zone by eradicating multiplicity of taxes and leakage in Input Tax Credit (ITC). The enactment of GST shows different dimensions of cross-border trade in India (Rithik, 2024). Under the erstwhile regime, the operational cost of the business and smooth movement of goods beyond state's boundary are affected due to varied and complex tax environment viz., multiple tax rates, overlapping regulation between each indirect taxes and multiple state level compliance (Goel, A., & Yadav, P. 2026). The Government of India undergoing a significant reformation of harmonizing tax structure with global trade practice, which will smoothen and faster the international trade.

The import of goods or services or both into the territory of India is deemed to be considered as supply of goods or services or both in course of inter-state trade and subject to levy of integrated tax (Constitution of India, 2016)[1]. Further, import of services are leviable under GST law whereas import of goods are subjected to customs law read with Custom Tariff Act 1975 (Government of India, 2017). The integrated tax on import of goods will be levied on the assessable value of goods including basic custom duty and other cess. The importer can claim the integrated tax paid at the time of import as ITC but ineligible to claim basic custom duty and education cess, against their tax on outward supply.

The export supply of goods or services or both are brought under zero rated supply (Section 16 of IGST Act, 2017). The export supplies can be materialized in two ways *viz.,* supply occurs with the payment of tax (later eligible for refunds) and supply happens through Letter of Undertaking (LUT), where ITC shall be allowed on inputs & input services on formula basis[2].

The GST council addressed long pending issues on claiming refund for the tax paid on the occasion of incremental price during the pursuance of contract by allowing the exporter to claim refund of the same within the time frame of two years. The council also clarified that the jurisdiction during litigation process will be GST officers (CBIC, 2024)[3].

GST law come about with a concept of deemed export through a notification. It covers supply of goods by virtue of Advance Authorization (AA), supply of capital goods by Export Promotion Capital Goods (EPCG), supply to Export Oriented Unit (EOU) / Electronic Hardware Technology Park (EHTP) unit / supply to Software Technology Park (STP) unit / Biotechnology Park (BTP) unit and supply of gold by bank or public sector undertaking against AA (Central Board of Indirect Taxes & Customs, 2017)[4]. Unlike export supply, the deemed export supplies attracts GST. Later, the supplier / recipient shall claim refund of the tax paid at the time of supply (GoI, 2017).

This research paper intended to answer the research question: Whether the incorporation of GST feathers to proliferate cross-border transactions in India? In order to answer this research question, the researchers analyzed three components, which are stated below:

Initially, the flow of tax (IGST & Compensation Cess) collected on imports are examined from Financial Year (FY) 2017 – 2018 to 2023 – 2024. Also, the researchers compared the tax collected on import trade with domestic trade. In the outset, the researchers also compares the tax collected on inter and intra state taxable supplies in India for the same period. The increases / decreases of tax collection on imports indicates the increases / decreases in the value of import trade. The comparison of import trade tax with domestic trade tax will highlight the growth of import trade over domestic trade.

Subsequently, the refund of tax paid on export transactions are analyzed from FY 2017 – 2018 to identify the flow of export supplies from India and also helps to witness the compliance ease / burden of GST law.

Lastly, the import and export trades in India for 7 years prior to incorporation of GST (FY 2010 – 2011 to FY 2016 – 2017) and 7 years after incorporation of GST (FY 2017 – 2018 to FY 2023 – 2024) are examined to understand the flow of cross-border transactions in Pre & Post GST.

2. Review Of Literature

Rithik (2024) stated that the government constantly working on amending the GST laws in respect of issues raises on import and export trade. It also initiated to aid the business dealing on international trade with good infrastructure and simplifying the compliance burden by streamlining the law. This transformatory tax structure reduces logistics cost, enhance digitalization and global harmonization. GST regime streamlines both

[1] Article 269A of Indian Constitution
[2] Section 54 of CGST Act read with GST rules
[3] Circular No. 226/20/2024
[4] Notification No. 48/2017

documentation and ITC. The government needs to collaborate internationally on GST matters to foster cross-border transactions

Malhotra, Kumar & Upadhyay (2021) explored that exports and imports are the two vital facts of India's economy in this global era. The government is taking lot of initiatives on providing incentives, duty drawbacks, tax rate cut for encouraging international trade in the nation. GST brings better transparency in the system but there are some issues in which Customs Act 1962 and GST Act 2017 has conflicts. GST rates for imports are slightly higher than countervailing duty and special additional duty, which ultimately increasing the price of the imported goods & services.

Satav (2020) stated that the rolling out of single tax system having a positive impact on FMCG, consumer durable, automobile logistics and cement sectors. In order to bring a level paying grounds for domestic business, GST is levied on importation of goods along with customs, anti-dumping and safe guard duties. The importation of textiles, beverages, iron ore and minerals may decline after implementation of GST. India is one of the fastest growing economy thriving to become a global manufacturing hub, through encouraging exporters by exempting from GST and also refunding input tax paid on such goods. The simplification of GST law also leading to improve imports on coal & lignite, agriculture, railways, furniture & machineries etc.,

Sharma & Singh (2017) stated that the transaction cost for imports are more that exports and using imported products for making export product will result in increasing export cost. The establishment of single tax system in India has impacted export by 13.24 percent which will drop the cost by 2-3 percent of the FOB value in long run. This new regime will hit the price positively in hardware & auto components. India can earn competitiveness and raise productivity after implementing this unified tax system. Due to multiplicity and complexity of tax structure, the suppliers are reluctant to increase productivity and engage in export activity. The timely payment by the vendors for claiming ITC, building better IT system to adhere with law by all importers / exporters, effect of cash positioning due to tax on stock transfer are some of the bottlenecks in GST regime

Lathesh, Appanna, & Avdani stated that the trade of India has increased drastically after establishment of GST. It makes the exporters comfortable by reducing the tax levy and also made affordable for importers. GST reduces the delay in trade due to eradication of multiple taxes. The central government needs to take possible measures for reducing inflation and tax evasion. This tax system facilitates the individual by reducing the tax burden that has a significant impact on improving international imports and domestic exports. GST increases the transparency in the tax system and also rationalized the tax rates for goods & services.

3. Analysis Of Tax Collected On Import Supplies

3.1. Ratio Between Tax on Intra & Inter-State Taxable Supply of India

FY	**Tax on intra-state supply[5] (₹ in crores)**	**Tax on inter-state supply[6] (₹ in crores)**	**Ratio**
2017-2018[7]	2,90,639	1,93,091	0.664
2018-2019	4,81,240	3,08,242	0.641
2019-2020	5,36,674	3,19,422	0.595
2020-2021	4,82,744	3,03,946	0.630

[5] Includes CGST & SGST levied on supply within the state
[6] Includes IGST levied on supply between states / union territory (domestic)
[7] FY 2017 – 2018 starts from July

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2021-2022	6,13,353	3,85,314	0.628
2022-2023	7,34,174	4,73,421	0.645
2023-2024	8,46,905	5,43,704	0.642

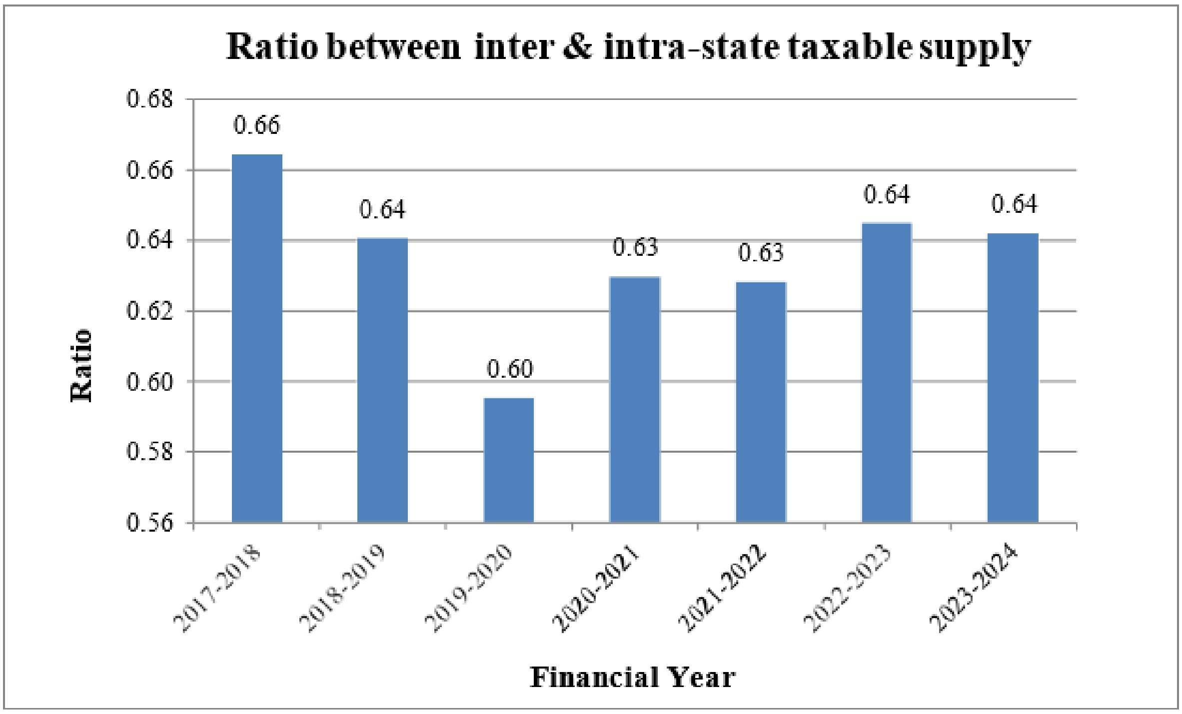

Figure 3.1. Ratio between tax on intra & inter-state taxable supply of India

Under GST regime, the taxable person has to pay Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) whenever they are making taxable supplies within the state / union territory. The Integrated Goods & Services Tax (IGST) will be attracted on the supplies between states / union territories / cross-border. The above table highlights the ratio between tax on inter & intra-state taxable supplies made by registered taxable person since inception of this revolutionary tax regime. It is clearly observed that the ratio between transaction within the state and between states stood slightly higher that the ideal ratio of 2:1. India maintains the ratio as 5: 3 approximately but in a fluctuating trend. From the above table, it can be perceived that the registered persons are making three inter-state taxable supplies for every five intra-state taxable supplies. Hence, it is a good sign on achieving the ideology of 'One-Nation One-Market One-Tax'. This ideology of unification in tax system definitely improves the cross-border transactions in India.

3.2. Trend of Tax on Domestic & Import Supplies in India

FY	Domestic supplies (₹ in crores)				Imports supplies (₹ in crores)			
	IGST	Compensation Cess	Total	CAGR	IGST	Compensation Cess	Total	CAGR
2017-	1,93,092	56,319	2,49,411		1,94,264	6,294	2,00,558	

2018[8]								
2018-2019	3,08,244	87,289	3,95,533	59	2,90,496	10,079	3,00,575	50
2019-2020	3,19,422	88,304	4,07,726	3	2,67,277	10,443	2,77,720	-8
2020-2021	3,03,947	79,153	3,83,100	-6	2,61,773	9,185	2,70,958	-2
2021-2022	3,86,676	98,918	4,85,594	27	3,76,956	8,790	3,85,746	42
2022-2023	4,73,421	1,17,390	5,90,811	22	4,71,799	10,896	4,82,695	25
2023-2024	5,43,704	1,32,639	6,76,343	14	4,83,085	11,915	4,95,000	3

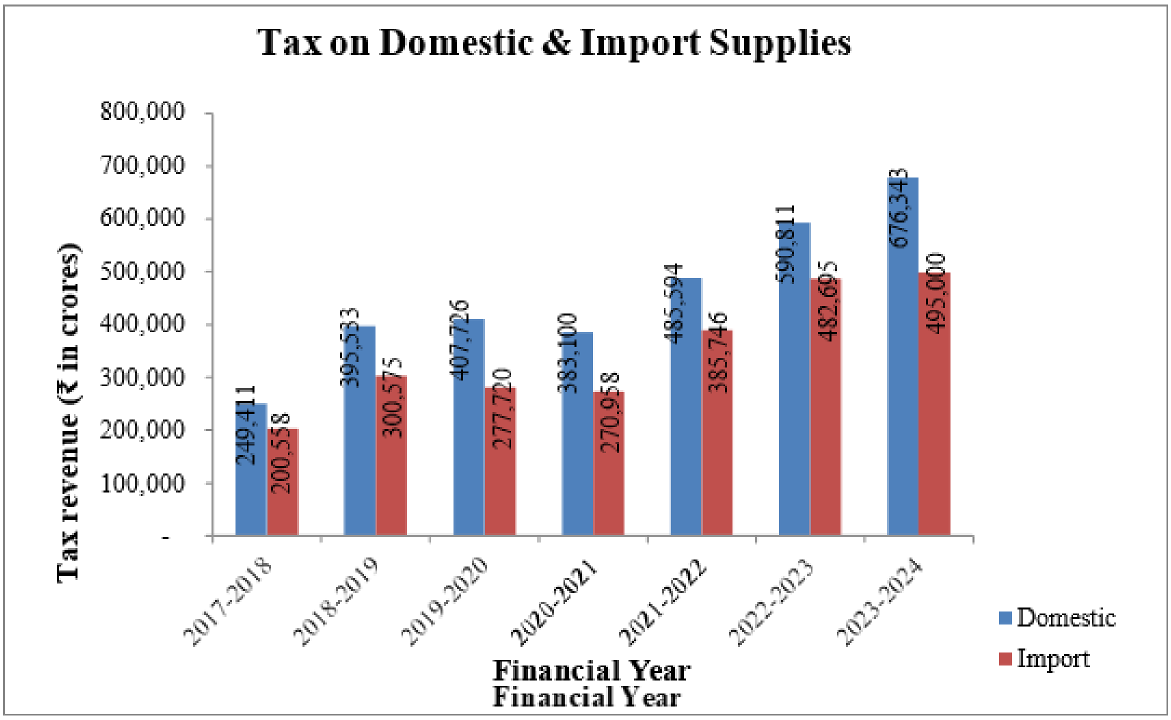

Figure.3.2. Trend of tax on domestic & import supplies in India

The central government levy IGST on every taxable inter-state and cross-border supplies. They also levy compensation cess on certain transactions covers under 28 percent tax bracket. The tax on import supplies also increased every year except in FY 2019 – 2020 & FY 2020 – 2021 due to economic shutdown throughout the world. The above table also highlighted that the tax on both domestic and import trade increased every year but at a decreasing rate especially after COVID-19 pandemic. The import trade taxes are growing at a sharp declining trend compared to domestic inter-state supplies. The tax on domestic inter-state supplies increased to 27 percent in FY 2021 – 2022, subsequently decreased by 5 percent and 8 percent in FY 2022 – 2023 & FY 2023 – 2024 respectively. On the other hand, tax on import supplies increased by 42 percent in FY 2021 – 2022, subsequently decreased by 17 percent and 22 percent in FY 2022 – 2023 & FY 2023 – 2024 respectively. This trend resembles the relationship between Average Cost (AC) and Marginal Cost (MC) where tax on import supplies act as MC[9]. The ratio between tax on import transaction and domestic transaction of India ranges between 0.7:1 to 0.9:1. The

[8] FY 2017 – 2018 starts from July
[9] When AC increases, MC will increase and vice versa. MC flows faster than AC

ratio increased gradually after COVID-19 pandemic but dropped in FY 2023 – 2024.

4. Analysis Of Tax Refunds On Export Supply

4.1. Trend of Tax Refunds for Export Supply

Unlike erstwhile regime, GST imposed restriction on rebate under Rule 96(10) and refund under Rule 89(4A) & 89(4B) for AA, EPCG, EOU which reduces the refund / rebate. On the flip side, GST regime works on faceless manner and self-authorization basis that reduces the disbursement period from 60 days to 15 days. Under rebate on export supplies, the GST law disburse the amount based on transaction value rather free on-board value, which in turn shoot up the value of rebate.

FY	IGST (₹ in crores)	Cess (₹ in crores)	Total (₹ in crores)	CAGR
2020-2021	52,620	1,354	53,974	
2021-2022	80,874	2,073	82,947	54
2022-2023	1,02,397	2,414	1,04,812	26
2023-2024	92,035	1,542	93,577	-11

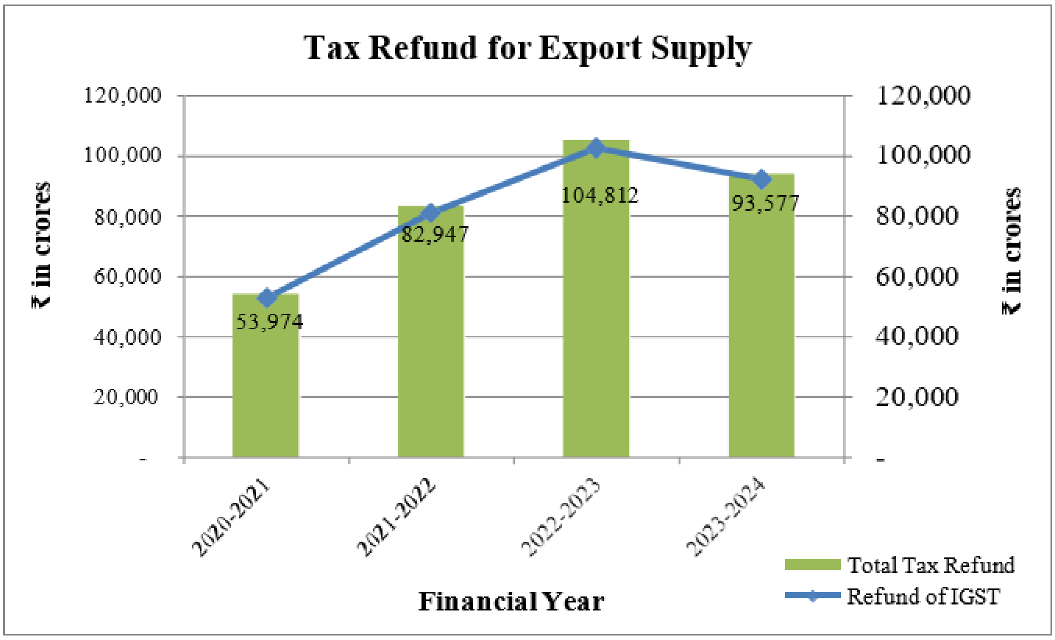

Figure.4.1. Trend of tax refunds for export supply

In this transformatory tax regime, export supplies are generally taxed at zero rate. The export suppliers are also eligible to claim tax refund on both input goods & services utilized by them on export supplies. It is observed from the above table that the refund of tax on exports has increased year after year till FY 2022 – 2023. In FY 2023 – 2024, there is a small dip in the refund of taxes on export supplies. However, it is 73.37 percent higher than the FY 2020 – 2021 and stood at ₹93,577 crores. This flameout can be reversed in FY 2024 – 2025 because, the refund amount of export supplies crossed ₹79,000 crores (as of November 2024). Therefore, value of export supplies in India showing an upward trend despite a slip on FY 2023 – 2024 and that have a positive impact on refund of IGST and cess.

4.2. Refund of IGST on Export of Goods with Invoice Count & Returns Count

Month	IGST (₹ in crores)	Invoice count	GSTR -1 count
July 2023	8,343.55	2,92,915	20,339
August 2023	8,829.42	3,07,365	19,235
September 2023	8,835.33	2,93,361	18,999
October 2023	8,749.44	2,94,695	20,747
November 2023	8,761.19	2,94,240	19,179
December 2023	8,090.69	2,75,741	18,086
January 2024	9,114.96	3,19,469	20,450
February 2024	8,870.40	3,22,115	19,426
March 2024	9,202.39	3,26,282	20,016
April 2024	10,014.46	3,54,314	21,254
May 2024	9,009.30	3,26,936	20,081
June 2024	9,321.30	3,35,964	20,152
Total	**1,07,142.43**	**37,43,397**	**2,37,964**

During the twelve months period from July 2023 to June 2024, the government released the refund of ₹1,07,142.43 crores encompasses 37,43,397 invoices spreading across 2,37,964 GSTR1. The refund of IGST on export of goods grows significantly from January 2024. Hence, the statistics visualizes the improvement of export trade in India. The simplification in the compliance of GST shows a clear vision and direction towards the development of international trade.

5. Examining The Exports & Imports In India Under Pre & Post Gst

5.1. Trend of Exports & Imports in India

FY	Exports (₹ in Lakhs)	CAGR	Imports (₹ in Lakhs)	CAGR
2010-2011	11,36,96,426.38		16,89,46,695.57	
2011-2012	14,65,95,939.96	28.94	23,45,46,324.45	38.83
2012-2013	16,34,31,828.96	11.48	26,69,16,195.69	13.80
2013-2014	19,05,01,108.86	16.56	27,15,43,890.74	1.73
2014-2015	18,96,34,841.76	-0.45	27,37,08,657.84	0.80
2015-2016	17,16,38,440.44	-9.49	24,90,30,553.78	-9.02

2016-2017	18,49,43,355.34	7.75	25,77,67,536.68	3.51
2017-2018	19,56,51,452.80	5.79	30,01,03,343.35	16.42
2018-2019	23,07,72,619.38	17.95	35,94,67,461.19	19.78
2019-2020	22,19,85,418.10	-3.81	33,60,95,445.61	-6.50
2020-2021	21,59,04,322.13	-2.74	29,15,95,770.04	-13.24
2021-2022	31,47,02,149.28	45.76	45,72,77,458.91	56.82
2022-2023	36,21,54,987.57	15.08	57,49,80,127.11	25.74
2023-2024	36,18,95,227.05	-0.07	56,16,04,236.63	-2

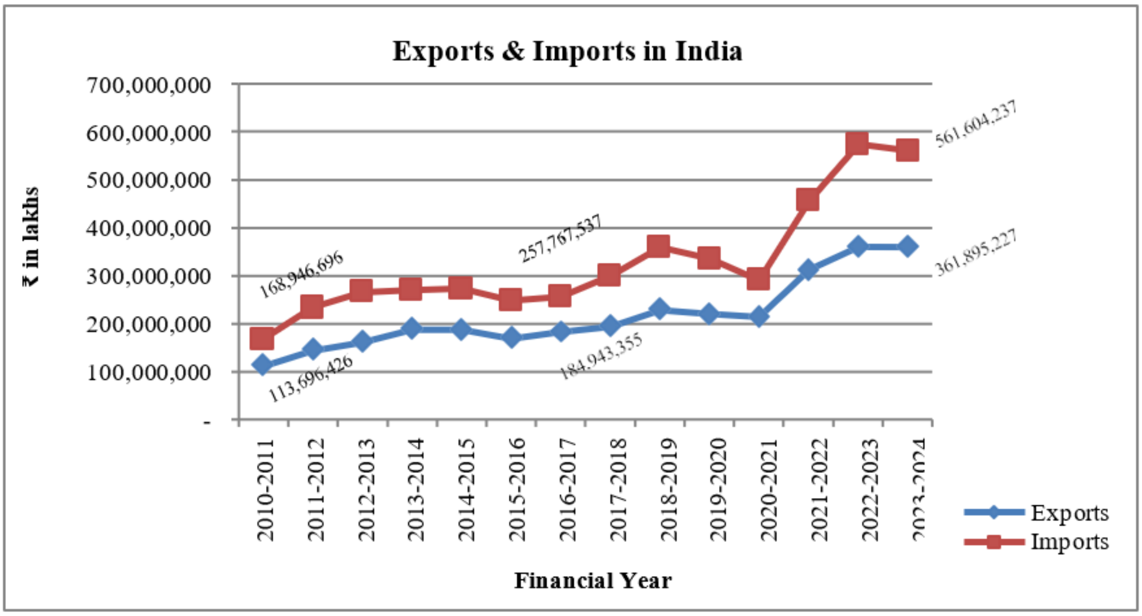

Figure.5.1. Trend of exports & imports in India during pre & post GST

The above table compares the trend of exports & imports in India during 7 years of GST regime and pre-GST regime. It is clearly evident that the growth rates of exports as well as imports sounds better after establishment of GST compared to pre-GST era. There is a slowdown in the growth rates of exports & imports in FY 2014 – 2015 and FY 2015 – 2016 during pre-GST era

similarly, FY 2019 – 2020 and FY 2020 – 2021 in post-GST era due to economic shutdown. Despite these years, the exports as well as imports have dropped in FY 2023 – 2024 by 0.07 percent and 2 percent respectively. The fallen of exports and imports in India is due to reducing global demand because of heavy inflation, geo-political conflicts between many countries, depreciation of Indian currencies etc.,. The exports and imports were increased to 163 percent and 153 percent during 7 years prior to rolling out of GST whereas it increases to 184 percent and 187 percent respectively during 7 years after rolling out GST despite global depression, COVID-19 pandemic, negative effect of demonetization etc.,. The fiscal policy of a country influences the cross-border transactions (Sharma & Singh, 2017). Hence, the establishment of GST certainly plays a positive and vital role on the growth of cross-border transaction.

6. Conclusion

The legislature, executor and judiciary are Brahma, Vishnu and Shiva of GST law. GST council always thrives to address the difficulties faced by the registered tax payers and intending to simplify the compliance procedures dealing in cross-border transactions. The country's economic development is relied on both domestic and international trade. Therefore, India's development is highly influenced through its international relations and it is the reason why India reiterate its ancient Hindu philosophy of Vasudeiva Kutumbakam to bring the ideology of "World is one family and every nation are its family member". In this context, GST is a pioneer step for achieving this ideology. In this new tax regime, India is one market having a single tax structure. The following are the conclusions derived from the research work:

In India, the ratio between tax on inter and intra-state taxable domestic supplies is 3:5 and tax on inter-state supplies encompasses 40 – 45 percent on import supplies.

India also witnessing a great increase in the export transaction due to provision of zero tax on export supplies and seamless ITC on the input goods & services used for exports. Due to global demand and geo-political issues, the exports dropped by 0.07 percent and the refund of tax on export (IGST) also dropped by 11 percent in FY 2023 – 2024. These global components also affect the import trade of the nation by 2 percent in the same year.

GST portal refrains the tax payers to file the refunds application for relevant period before filing for previous period and also stifled from clubbing refunds of two financial years. It also needs to further reduce the time frame for reimbursing the tax collected on exports (Negi et al., 2022). On the overall view, the GST is added feathers for improving cross-border commerce and resilience to the climate changes happening in the globe.

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