

IMPACT OF GST ON CUSTOM VALUATION OF CASHEW KERNALS: A STUDY ON PRESENT SCENARIO

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ABSTRACT

Tax is an important and most significant source of revenue of the government. It is an effective tool to achieve economic growth. Taxes may be direct or indirect. New indirect tax reform made tremendous variation in the Indian economy. New tax reform affected on price of the goods and services of the country. Goods and Service Tax is one of the transformation reforms of the indirect tax, which replaced excise duty, CENVAT, service tax, entry tax etc. This effect the another element of indirect tax of India i.e., customs duty. One of the major imports of India is cashew kernels which contributes 65% of the world export. In order to meet the domestic demand, Cashew kernel was imported from other countries. This new tax affects the price of the cashew and also the procedure of custom valuation of goods and gateways for availing input tax credit.

This study is attempted to identify the Goods and Service Tax effect on import duty and changes happened in case of valuation of cashew kernels

Keywords: Goods and Service tax, Customs, Indirect tax, Cashew kernels.

INTRODUCTION

July 1, 2017 is the day of largest tax reform for India which leads to abolish of VAT, Excise duty, CST and adopted dual GST model as per Kelkar committee suggestions. GST is levied through implementation of bills i.e., CGST, SGST, IGST and State Compensation Cess and also classification of rates i.e., 0%, 5%, 12%, 18%, 28% other rates of 0.25% for uncut diamonds and 3% on gold. GST will be levied on the supply of goods and services. New tax reform leads to removal of cascading effect by implementing uniformity of tax rate, easy compliance, single, transparent tax and relief of tax burden. Custom duty is also affected by introduction of GST. Very important component components of custom duty are CVD and SAD which components of domestic taxes. GST leads to abolish of CVD and SAD but Basic Customs continue with same as earlier and it is kept outside from GST. One of major imports which contributes to foreign trade i.e., cashew kernels from African countries. There is an impact of GST on cashew industry also. So cashew kernels are comes under 5% IGST. This research is attempted to know the valuation of imports and their procedure dealt with imported cashew kernels.

Need for Study:

Implementation of Goods and Service Tax made fluctuation of price of commodities in the economy. There are mixed opinion about Goods and Service Tax (positive and negative).

Another indirect tax i.e., custom duty also connected with earlier abolished tax i.e., Counter-Veiling Duty and Special Additional Duty. So here we made an attempt to study the effect of Goods and Service Tax on import valuation.

Objectives:

The main objective of this study is to know the effect of Goods and Service Tax on the import valuation of cashew kernels. However in order to satisfy the main objective the following objectives are framed

- To identify the changes in the import procedure after GST.
- To estimate the impact of GST on imports.
- To analyze impact of GST on custom valuation.

- To determine the changes in the price of imported goods after implementation of GST bill.

Methodology:

Primary data:

The study is based on primary data collected through the questionnaire by asking respondents of 20 cashew industry of Udupi and Dakshina Kannada district. Based on the opinion of the accountants and proprietors of cashew industry data was collected.

Secondary data:

For Literature review it was collected from the secondary source by referring books and internet.

Limitations:

- Study is limited to cashew industry of Udupi and Dakshina Kannada districts.
- Research is made before the finance budget 2018 so updates are not considered.
- Study is limited to 20 respondents

Review of Study:

Calculation of customs duty:

BEFORE GOODS AND SERVICE TAX IMPLEMENTATION

Serial No.	Duty Description	Duty%	Amount	Total Duty
1.	Assessable value		xxxx	
2.	Basic Customs Duty	10	xx	xx
3.	Sub-Total for CVD calculating (1+2)		xxxx	
4.	CVD 3*Excise duty rate	12.5	xx	xx
5.	Sub-Total for cess calculating (2+4)		xxx	
6.	Education cess of customs (2%of '5')	2	xx	xx
7.	SAH education cess of customs(1%of '5')	1	xx	xx
8.	Sub-total for Special CVD (3+4+6+7)		xxx	
9.	Special CVD u/s 3(5) (4%of '8')	4	xx	xx
10.	Total Duty(2+4+6+7+9)			xxx
11.	Duty rounded off			xxx

Note:

- Buyer who is a manufacturer is eligible to avail Cenvat Credit of '4 and 9' of above table.
- A buyer, who is a service provider, is eligible to avail Cenvat Credit of '4' above.
- A trader who sells imported goods in India after charging VAT and CST get refund of '9' above.

Basic Customs Duty

Basic customs duty is levied under section 12 of Customs Act. Normally, it is levied as a percentage of Value as determined under section 14(1). The rates vary for different items, but general rate on non-agricultural goods at present is 10 % w.e.f. - 3.2007. To protect Indian agriculture and Indian automobile sector, duties on some articles is higher. Duty on liquor (including wine) is also high and educational cess on liquor was exempt as per WTO agreement.

Assessable value = CIF value of imported goods converted into rupees at exchange rate specified notification issued by CBE&C plus landing charges 1% .

Additional Customs Duty Section3 (1)

'Additional Customs Duty' is often called Countervailing Duty' (CVD). Additional duty is levied under section 3(1) of Customs Tariff Act. Thus, it is not a 'duty under the Customs Act.

This duty is equal to excise duty levied on a like product manufactured or produced in India. If like article is not produced or manufactured in India, the excise duty that would be leviable on that article had it been produced in India is the base. If the product is leviable with different rates, then highest rate among those rates is to be considered. The duty is leviable on Value of goods plus customs duty payable.

As per section 3(7) of Customs Tariff Act, this duty is in addition to any other duty imposed under Customs Act or any other law. As per section 3(8), all provisions of Customs Act and Rules, including those relating to drawbacks, refunds and exemptions will apply to this duty.

Mode of Calculation of CVD

CVD is payable on assessable value (as determined u/s 14 (1) customs Act or tariff value fixed u/s 14(2) of Customs Act) plus basic customs duty chargeable u/s 12 of Customs Act) plus any other sum chargeable on that article under any law in payable on assessable value [as determined u/s 14(1) of charge addition to and in the same manner as duty of customs (e.g. NCCD of Customs)

However, while calculating CVD, following duties are not to be considered - Safeguard duty u/ s 8B and SC of Customs Tariff Act Countervailing duty, if any, u/s 9 of Customs Tariff Act Ant- dumping duty payable u/s 9A of Customs Tariff Act Customs portion of education cess and SAH education Cess on imported goods, CVD itself which is payable u / s 3 (1). Additional Duty payable u/s 3(3) and 3(5) of Customs Tariff Act [section 3(2) of Customs Tariff Act].

In other words, CVD is payable on assessable value plus basic customs duty plus NCCD of customs. While calculating CVD, Anti Dumping Duty, education cess of customs, SAH education cess of customs and safeguard duty is not required to be considered.

Cenvat credit of CVD-

Cenvat credit is available of CVD paid on imported goods, if the imported goods, are used in manufacture of final products or for provision of output service. Cenvat of CVD paid on capital goods imported is also available in terms of Cenvat Credit Rules.

Education cess on customs duty

An education cess of customs has been imposed on imported goods w.e.f. 9-7-2004. The cess will be 2 % of the aggregate duty of customs. However , education cess will not be payable on

(a) Special CVD (SAD) payable u/s 3(5) of Customs Tariff Act (aa) Safeguard duty under sections 8B and 8C (b) Countervailing duty under section (c) Anti Dumping Duty under section 9A of the Customs Tariff Act (d) Education cess and (e) Education cess Section 94 of Finance.

Secondary and Higher Education Cess

In addition to existing education cess, an education cess of 1% of the total duties of c has been imposed on imported goods vide section 136 read with section 139 of Finance Act. The duty is payable w.e.f. 1-3.2007 at 2%.

Additional Duty under section 3(3)

In addition to Additional Duty under section 3(1) of Customs Tariff Act which is chargeable on all goods, further additional duty can be levied by Central Government to counter-balance excise duty leviable on raw materials, components etc. similar to those used in production of such article [Section 3(3) of Customs Tariff Act]

As per section 3(7) of Customs Tariff Act, this duty is in addition to any other duty impose under Customs Act or any other law. As per section 3(8), all provisions of Customs Act and Rules, including those relating to drawbacks, refunds and exemptions will apply to this duty.

Additional Duty under section 3(5) (Special CVD SAD)

Section 3(5) of customs tariff act empowers central government to impose additional duty. This is in addition to Additional Duty leviable u/s 3(1) and 3(3) of Customs Tariff Act. The additional duty u/s can be imposed by issuing a notification. Such tax cannot exceed 4% of value.

Special CVD

Purpose of the additional duty is to counter balance sales tax, VAT, local tax or other charges leviable on articles on its sale, purchase or transaction in India. It will be leviable based on sales tax, VAT or other tax of similar manufacturing goods in India.

Value for purpose of Special CVD (SAD)

As per section 3(6) of Customs Tariff Act, value of article for purpose of levy of this Additional Duty is aggregate of – 1) Assessable Value determined u/s 14(1) of customs act or tariff value determined u/s 14(2) of customs. 2a) Basic customs duty payable u/s 12 of Customs Act. 2b) any sum chargeable on that article in the same manner as duty of customs (This will include CVD payable u/s 3(1) and additional duty payable u/s 3(3) of Customs Act)

However value will not include following a) Additional Duty payable u/s 3(5) b) Safe dump guard duty payable u/s 8B and 8C c) Countervailing duty payable u/s duty u/s 9 and d) Anti – dumping duty u/s 9A of Customs Tariff Act. SAD is imposed at 4% on imported goods.

Exemption from SAD or refund of SAD

Some categories of imports have been exempted from this special CVD (SAD), main among these are

Goods on which excise duty is payable on basis of MRP price Patent and proprietary medicines

Readymade garments Passenger baggage

Goods which are completely exempt from customs duty or ' Free ' or Nil duty and which are exempt from CVD

Project imports

Articles of Jewellery attracts a lower rate of special CVD at 1 %

In case of products covered under MRP valuation provisions, P&P medicines, readymade garments, importer has to give declaration regarding State where goods are to be taken immediately on importation and his Vat (sales tax) registration number of that State

AFTER GOODS AND SERVICE TAX IMPLEMENTATION

Under IGST Act 2017, the import of goods has been defined as bringing goods into India from a place outside India. All imports shall be deemed as inter-state supplies and accordingly Integrated Goods and Service Tax will be levied in addition to the other applicable Custom duties.

Serial No.	Duty Description	Duty%	Amount	Total Duty
1.	Assessable value		xxxx	
2.	Basic customs duty	12.5	xx	xx
3.	Sub-total of value(1+2)		xxxx	
4.	IGST('3'*as per HSN code	as per HSN code	xx	xx
5.	Sub-total		xxxx	
6.	Compensation cess(if applicable)		xx	xx
7.	Total duty		xx	xx
8.	Duty rounded off		xx	xx

Integrated Goods and Service:

IGST (Integrated Goods and Services Tax) is a component under GST law, which is levied on goods being imported into India from other country. It has been subsumed various customs duties including Countervailing Duty (CVD) and special additional duty (SAD)

Compensation Cess:

Under GST regime, Compensation Cess will be charged on luxury products like high-end cars and demerit commodities like pan masala, tobacco and aerated drinks for the period of 5 years in order to compensate states for loss of revenue .Under GST law, IGST will also be charged apart from BCD and Compensation Cess.

Findings

- Importers of cashew kernels are in dilemma about the valuation of imports.
- GST abolish SAD and CVD by replacing IGST and compensation cess.
- IGST credit related to goods and service can be set off with other GST payment and it is beneficial then the SAD and CVD.
- Double taxation relief has been comes down from GST.
- Before GST, import is made through duty free advance license, after GST importer has to pay IGST
- ITC will help the importer then earlier because GST applicable at single rate and they can claim at single rate.
- Some respondents had hope that in future this new indirect tax reform will be beneficial for everyone.

- Most of the respondents are feeling that valuation procedure is very complicated than earlier.
- More documentation is required while filing the returns and availing ITC.

Suggestions

- Procedure for availing refund of IGST has to be made simpler and has to get refund in a short span of time.
- While valuing the imports the custom authorities has to consider transaction value for levying IGST.
- Guidelines had to be set and communicated about valuation of imports.
- There should be simpler procedure and less documentation to availing the ITC.

CONCLUSION

GST implementation made solution for the problems of indirect tax faced by tax payer. In the initial stage some problems are arises on rate and valuation of goods and service later it has been solved. While it comes to import duty the GST has affected the import of cashew kernels. It lead to change of valuation of cashew kernels and it created confusion in the manner of valuing goods. GST had the benefit to get the credit and refund by way of levying single rate of tax. The cascading effect has removed by new tax law. Some documents are more while availing the benefit of tax. Credit availed can be set off with payment of tax. By considering all aspects effect of GST has benefited the importer and made easier to compute at single rate. Even though GST made initial complication, but in future it will be friendly tax policy.

Abbreviations

GST – Goods and Service Tax

IGST- Integrated Goods and Service Tax CVD – Counter Veiling Duty

SAD – Special Additional Duty VAT – Value Added Tax

CST – Central Sales Tax

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