

'Eliminate embedded taxes to boost exports'

Relief measure: A 2016 package for the apparel sector had rebates on state levies to offset taxes 'embedded' in exports.

The Economic Survey has suggested that the Goods and Services Tax (GST) Council should comprehensively review 'embedded taxes' and expeditiously eliminate the embedded export taxes to boost India's manufacturing exports.

Referring to the Rs. 6,000-crore package for the apparel sector announced in June 2016, the Survey observed that the largest component of that package was rebates on state levies to offset indirect taxes levied by the states (the VAT) that were 'embedded' in exports. The Survey found that the package in fact increased exports of ready-made garments made of man-made fibres.

It then said a policy implication (arising from this example) was that the GST Council should conduct a comprehensive review of embedded taxes arising from products left outside the GST (petroleum and electricity) and those that arose from the GST itself (for example, Input Tax Credits that get blocked because of "tax inversion," whereby taxes further back in the chain are greater than those up the chain).

"This review should lead to an expeditious elimination of these embedded export taxes, which could provide an important boost to India's manufacturing exports," the Survey said.

Need for national policy

Pointing out that high cost of logistics was impacting competitiveness in domestic and global market, it suggested the formulation of a National Integrated Logistics Policy to bring in greater transparency and enhance efficiency in logistics operations.

"Improving logistics sector has huge implication on exports and it is estimated that a 10% decrease in indirect logistics cost can increase 5-8% of exports," the Survey said.

The document has also thrown up some interesting findings on India's export sector. This included data on the international exports of states, the first in India's history, showing that five states — Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana — in that order account for 70% of India's exports.

Similarly, for the first time, the Survey did a firm-level analysis on exports and found that export concentration by firms was much lower in India than in the U.S., Germany, Brazil, or Mexico — meaning that India had no 'exports superstars' and that its export structure was "egalitarian" in nature.

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