

# **PARLIAMENT OF INDIA**

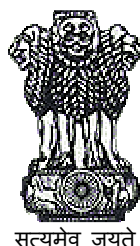
## **RAJYA SABHA**

**DEPARTMENT RELATED PARLIAMENTARY STANDING  
COMMITTEE ON COMMERCE**

**ONE HUNDRED AND THIRTY NINTH REPORT**

**IMPACT OF GOODS AND SERVICES TAX (GST) ON EXPORTS**

*(Presented to the Rajya Sabha on the 19<sup>th</sup> December, 2017)*  
*(Laid on the Table of the Lok Sabha on the 19<sup>th</sup> December, 2017)*



सत्यमेव जयते

**Rajya Sabha Secretariat, New Delhi**  
**December, 2017/ Agrahayana, 1939 (Saka)**

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## COMPOSITION OF THE COMMITTEE

(Constituted w.e.f. 1<sup>st</sup> September, 2017)

1. Shri Naresh Gujral — *Chairman*

### **RAJYA SABHA**

2. Shri Joy Abraham
3. Shrimati Roopa Ganguly
4. Shri Ram Kumar Kashyap
5. Shrimati Thota Seetharama Lakshmi
6. Shri Kiranmay Nanda
7. Shri Vayalar Ravi
8. Shri Kapil Sibal
9. Dr. Kanwar Deep Singh
10. Dr. Abhishek Manu Singhvi

### **LOK SABHA**

11. Shri Dibyendu Adhikari
12. Shri Subhash Chandra Baheria
13. Shri Abhishek Banerjee
14. Shri Bodhsingh Bhagat
15. Shrimati Bijoya Chakravarty
16. Shri Jitendra Chaudhury
17. Shri Dushyant Chautala
18. Shri Chhotelal
19. Dr. Kambhampati Haribabu
20. Shrimati Kavitha Kalvakuntla
21. Shri Saumitra Khan
22. Shri Dhananjay Mahadik
23. Shri Thota Narasimham
24. Shri Kamal Nath
25. Shri Kamlesh Paswan
26. Shri K.R.P. Prabhakaran
27. Shri T. Radhakrishnan
28. Shri Janak Ram
29. Shri D. S. Rathod
30. Adv. Narendra Keshav Sawaikar
31. Shri Vinod Kumar Sonkar

### **SECRETARIAT**

Shri Jagdish Kumar, Joint Secretary  
Shri A.K. Gandhi, Director  
Shri Narendra Kumar, Additional Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer

## INTRODUCTION

I, the Chairman of the Department Related Parliamentary Standing Committee on Commerce, having been authorised by the Committee, present this One Hundred and Thirty-Ninth Report on Impact of Goods and Services Tax (GST) on Exports.

2. The Committee took up the subject for detailed examination on 6<sup>th</sup> October, 2017 and the same was notified *vide* Parliamentary Bulletin Part-II dated 13<sup>th</sup> October, 2017. As part of examination of the subject, the Committee considered the subject in detail spanning over five meetings wherein it heard the views of Secretaries of Department of Commerce, Ministry of Commerce and Industry; Department of Revenue, Ministry of Finance; Confederation of Indian Industry (CII); Apparel Export Promotion Council (AEPC); Federation of Indian Chambers of Commerce and Industry (FICCI); Associated Chambers of Commerce and Industry of India (ASSOCHAM); Indian Banks' Association (IBA); The Cotton Textiles Export Promotion Council (TEXPROCIL); Council for Leather Exports (CLE); Federation of Indian Export Organisation (FIEO); Gems and Jewellery Export Promotion Council; Pharmaceuticals Export Promotion Council (PHARMEXCIL); Agricultural and Processed Food Products Export Development Authority (APEDA); Marine Products Export Development Authority (MPEDA); Tea Board; Coffee Board; Society of Indian Automobile Manufacturers (SIAM); Automotive Component Manufacturers Association of India (ACMA); Engineering Export Promotion Council (EEPC); National Association of Software and Services Companies (NASSCOM); Wool and Woollens Export Promotion Council; Sports Goods Export Promotion Council and Moradabad Handicrafts Exporters Association.

3. The Committee considered the draft Report and adopted the same at its meeting held on 12<sup>th</sup> December, 2017.

4. The Committee expresses its sincere gratitude to the representatives of both the Departments / Ministries and all the representatives of various organizations for placing before it their valuable suggestions, materials and information required in connection with the examination of the subject.

New Delhi;  
December 12, 2017  
21 Agrahayana, 1939

NARESH GUJRAL  
*Chairman,*  
*Department Related Parliamentary*  
*Standing Committee on Commerce*  
*Rajya Sabha*

## ACRONYMS

AA	Advance Authorisation
AIR	All Industry Rate
APEDA	The Agricultural and Processed Food Products Export Development Authority
ARN	Acknowledgement Receipt Number
AWB	Air Way Bill
BCD	Basic Customs Duty
BL	Bill of lading
CGST	Central Goods and Services Tax
CVD	Countervailing Duty
DBK	Duty Drawback
DGFT	Directorate General of Foreign Trade
DTA	Domestic Tariff Area
EDI	Electronic Data Interchange
EGM	Export General Manifest
EOUs	Export Oriented Units
EP	Export Promotion
EPCG	Export Promotion Capital Goods
FoB	Free on Board
FTAs	Free Trade Agreements
GST	Goods and Services Tax
GSTIN	Goods and Services Tax Identification Number
GSTN	Goods and Services Tax Network

GSTR	Goods and Services Tax Registration
ICB	International Competitive Biddings
ICDs	Inland Container Depots
ICEGATE	Indian Customs Electronic Data Interchange Gateway
IGST	Integrated Goods and Services Tax
ITC	Input Tax Credit
LCS	Land Customs Stations
LEO	Let Export Order
LUT	Letter of Undertaking
MEIS	Merchandise Exports from India Scheme
MMF	Man-made Fibres
MSME	Micro, Small & Medium Enterprises
RFD	Refund
RoSL	Rebate of State Levies
SAD	Special Additional Duty
SEZ	Special Economic Zone
SEIS	Service Exports from India Scheme
SGST	State Goods and Services Tax
VAT	Value Added Tax

## REPORT

### INTRODUCTION

1.1 India's foreign trade accounts for 45 per cent of country's Gross Domestic Product. It's an important source of employment and, therefore, the need for an efficacious export and import framework cannot be overemphasized. It is established that a robust export growth is both a cause and effect of optimal industrial and agricultural growth of the country. An inherently strong and vibrant export ecosystem is the *mantra* for the success of Make in India programme.

1.2 Many factors like quality of infrastructure, availability of manpower with right skill-sets, finance, market intelligence and market access, exchange rate, bilateral/multilateral trade agreements, etc goes into building up of a robust foreign trade ecosystem. Taxation structure also forms a key to the success of export framework of a country. It is crucial to ensure competitiveness of the country's/nation's export. The basic tenet is that a country exports its goods and not the taxes. The Committee here confines itself to examination of the impact of new taxation system, which has been rolled out in the form of Goods and Services Tax (hereinafter called GST) on 1<sup>st</sup> July, 2017, on India's exports.

1.3 Goods and Services Tax (GST) is an indirect tax introduced as The Constitution (One Hundred and First Amendment) Act, 2017 and came into effect from 1<sup>st</sup> July, 2017. It is a comprehensive, multistage, destination based tax that is levied on every value addition. GST has replaced multiple cascading taxes levied by Central and State Government in order to realize the goal of 'One Nation-One Tax-One Market'. It has two components - Central GST and State GST with four tax slabs of 5%, 12%, 18% and 28% and various items and sectors have been categorized under these slabs. Also, an Integrated GST (IGST) will be levied on all Inter-State supplies of goods and/or services. IGST will also be applicable on any supply of goods and services in both cases of import into and exports from India. A copy each of the Integrated Goods and Services Act, 2017 (hereinafter referred as IGST Act) and Central Goods and Services Act, 2017 (hereinafter referred as CGST Act) has been annexed.

1.4 The Department of Commerce, Ministry of Commerce & Industry has submitted before the Committee that the GST mechanism would help to increase the output and quality of exports from India through simple tax structure and minimum compliance cost. It has been stated that the introduction of GST would make a considerable impact on exports in India as it makes them competitive in the following ways:



- (i) GST replaced eight central and nine state taxes such as central excise duty, service tax, state VAT and entry tax. Integration of many taxes levied at central, state and local levels, each with a different tax compliance system would simplify the tax system thus reducing the cascading effect of taxes.
- (ii) As exports are zero rated, the exporters will get refund of most of the taxes paid on the input. In the past, many such taxes remained unrefunded.
- (iii) Earlier, only some States refunded VAT, while now the refund as part of GST refund will be applicable to all States.
- (iv) GST would also lead to lower transportation and distribution costs.
- (v) In the pre GST regime, firms spent a high cost on product distribution and warehousing. The main reason for the high cost was the expense incurred on branches and warehouses that existed due to tax saving rather than business considerations. GST removes this arbitrage thus reducing logistics cost and making exports competitive.

1.5 The introduction of Goods and Services Tax is a landmark tax reform. However, the journey of economy from pre GST to GST regime is, having its share of challenges which need to be overcome. Several transition issues and teething problems due to implementation of GST have arisen in the

export sector which need immediate attention. As a result, various initiatives and reforms need to be taken for simplifying GST and encouraging fast adoption and access of GST among the trading community and for clearing the air of uncertainty around it. The major issues/concerns brought before the Committee have been flagged in the succeeding pages of this Report.

## **REFUND MECHANISM UNDER GST**

2.1 As per Section 16(3) of IGST Act, a registered person making a zero-rated supply shall be eligible to claim refund under the following two options:

- Supply of goods or services or both without payment of IGST under a bond or Letter of Undertaking (LUT) and thereafter claiming refund of unutilized Input Tax Credit (ITC); or
- Supply of goods or services or both on payment of IGST and thereafter claiming refund of such tax paid on goods or services or both supplied, in accordance with the provisions of Section 54 of the CGST Act or the rules made thereunder.

2.2 Exporters are, therefore, entitled for claiming refund of duties paid on exports for inputs or input services used in making zero rated supplies and also the refund of unutilized Input Tax Credit. Section 54 (1) of the CGST Act prescribes that exporters can claim refunds within a period of two years from the relevant date (i.e. in case of exports by sea or air, the date on which ship or the aircraft on which goods are loaded leaves India).

2.3 The timeline envisaged in case of refund of tax on inputs used in exports is as follows:

- Refund of 90% will be granted provisionally within seven days of acknowledgement of refund application.
- Remaining 10% will be paid within a maximum period of 60 days from the date of receipt of application complete in all respects.
- Interest @ 6% is payable if full refund is not granted within 60 days.

2.4 The timeline envisaged in the case of refund of IGST paid on exports is as follows:

Upon receipt of information regarding furnishing of valid return in Form GSTR-3 by the exporter from the common portal, the Customs shall process the claim for refund and an amount equal to the IGST paid in respect of each shipping bill shall be credited to the bank account of the exporter.

2.5 The Committee during its deliberations with various stakeholders was informed that refund of IGST paid on export goods and refund of Input Tax Credit (ITC) on goods exported under Letter of Undertaking (LUT)/ Bond in the month of July, August, and September, 2017 still remain pending. As a result, huge amount of working capital has been reportedly locked up, thereby, severely hurting the businesses of exporters and affecting their ability to be competitive in international markets. The Committee notes that a sharp liquidity crunch has gripped the majority of exporters due to the blocking of funds.

2.6 The Committee takes note of the response of the Government to this difficult situation faced by the exporting community. It appreciates the decisions taken by the GST Council in its meeting held on October 6<sup>th</sup>, 2017 so as to address the problem of timely refund to the exporters. It was decided that:

- (i) Held-up refund of IGST paid on goods exported outside India in July would begin to be paid between 10<sup>th</sup> and 18<sup>th</sup> October, 2017.
- (ii) The backlog of returns for the month of August would get cleared from 18<sup>th</sup> October, 2017 and refunds for subsequent months would be handled expeditiously.
- (iii) Other refunds of IGST paid on supplies to SEZs and of inputs taxes on exports under Bond/LUT, shall be processed from 18<sup>th</sup> October, 2017 onwards.

2.7 On being enquired about the reasons for delayed refunds, the Committee was apprised by the Department of Revenue, Ministry of Finance that it is largely due to difficulties in filing returns and non-availability of electronic refund application. The Department further informed the Committee that the customs authorities have begun processing refunds of IGST from 10<sup>th</sup> October, 2017 on those exports which were made in July, 2017. However, due to issues of mismatch between information provided by exporter in GST returns vis-à-vis the information provided in Shipping Bill filed with Customs authorities, the refunds are getting delayed. The Department apprised the Committee that the analysis of data revealed

mismatches in invoices, shipping bill numbers and export manifest filed by shipping lines. Exporters have also been advised by the Department to file GSTR1 for the exports made in August and September, 2017 to get their refund claims sanctioned.

**2.8 The Committee notes that refunds, however, has started to trickle only from the month of November, 2017. The intervening period of four months from July to October, 2017 has been extremely trying for the exporters. The significant time lag in providing refunds has supposedly eroded the competitiveness of exporters by around 1.2 per cent to 2 per cent. The Committee notes that the trickle has not yet become a torrent. The refunds are still not coming to the exporters in an expeditious manner. An estimated 15-20 percent of the working capital is already stuck up with the Government for refunds. It is important that the stuck up capital is released expeditiously and the situation must not be allowed to deteriorate any further. It is felt that if the stuck up capital reaches a figure of 20-25 per cent of the working capital then it will result in a steep downward spiral of our exports. Such a situation will break the backbone of our industry and exporters will be demotivated to do business.**

**2.9 The Committee notes that the problem of delayed refund is across the industry irrespective of their size and contour. It is not only the MSME but even the large corporate houses that have been impacted. Nonetheless, the impact is more damaging for small enterprises. The Committee finds this very worrisome.**

2.10 The Committee noted that the quantum of IGST refund claims as filed through Shipping Bills during the period July to October 2017, is approximately Rs. 6,500 crore and the quantum of refund of unutilized credit on inputs or input services, as per the RFD 01A applications filed on GSTN portal, is to the tune of Rs. 30 crore. With regard to IGST paid on goods exported out of India, majority of refund claims for exports made in July, 2017, wherever due, have been sanctioned. The Committee further notes that refund claims of IGST paid for exports made in August, September and October 2017 are being sanctioned seamlessly wherever returns have been accurately filed. The prerequisites for sanction of refund of IGST paid are filing of GSTR 3 B and Table 6A of GSTR 1 on the GSTN portal and Shipping Bill(s) on Customs EDI System by the exporter. In the same vein, the Department has advised the Exporters to take due precaution to ensure that no errors creep in while filing Table 6A of GSTR 1 of August 2017 and onwards. It further says that the facility for filing GSTR 1 for August 2017

would be ready by 4<sup>th</sup> December 2017. In case of wrong entries made in July, Table 9 of GSTR 1 of August month would allow amendments to GSTR 1 of July 2017.

2.11 As far as refund of the unutilized Input Tax Credit on inputs or input services used in making exports is concerned, it has been informed that exporters shall file an application in FORM GST RFD- 01A on the Common Portal where the amount claimed as refund shall get debited from the Electronic Credit Ledger of the exporter to the extent of the claim. Thereafter, a proof of debit (ARN- Acknowledgement Receipt Number) shall be generated on the GSTN portal, which is to be mentioned on the print-out of the FORM GST RFD-01A and to be submitted manually to the jurisdictional officer. The exporters may ensure that all the necessary documentary evidences are submitted along with the Form GST RFD 01A for timely sanction of refund.

**2.12 The Committee fails to understand that if the facility for filing GSTR 1 for August 2017 would be ready by 4<sup>th</sup> December 2017 then how come refund claims of IGST paid for exports made in August, September and October 2017 are being sanctioned seamlessly wherever returns have been accurately filed. There is no information as regards the timeline by which the facility for filing GSTR 1 for the months of**

September and October, 2017 will be ready. The Committee hopes that the Department of Revenue and the Central Board of Excise and Customs will take necessary steps to redress the situation at the earliest. The claim that the Government has taken various measures to alleviate the difficulty and is fully committed to provide speedy disbursement of refunds due to exporters calls for more concerted action on the ground.

2.13 The Committee further wish to point out that despite the notification of CBEC stating that filing of returns may be done by Form 6A/ GSTR-1E for the month of August and September, 2017, the exporters are witnessing an error while filing the GSTR-1E or Form 6A and as a result, the exporters are unable to claim the refunds through the GSTR-1E or Form 6A. It hopes that immediate steps will be taken to address this problem.

2.14 The Committee expresses its concern over the fact that it has been as late as 11<sup>th</sup> November, 2017 that the refund of input tax credit has started with the development of new refund application RFD 01A and modification of requisite rules for manual processing of refund application. The Committee notes that a small amount of Rs 30 crore has been refunded against the input tax credit claimed and at least a beginning has been made. The Committee notes that though the time-limit for carrying out



refund is 90 days of the filing of refund application after which there is a provision of paying interest. There is no penalty for delays in development of the refund module. It is disappointing that the module for filing ITC refund could be developed after more than 90 days of coming of GST in existence. The Committee expresses its displeasure for so late a start for refund of input tax credit. It hopes that the Department of Revenue will leave no stone unturned to expedite the process. It also desires that semi automatic system of refund of input tax credit may be replaced with completely automatic system with no human interface for claiming credit refunds.

2.15 The Committee notes several operational issues existing in the refund mechanism making the refund procedure tardy and cumbersome. The Committee feels that the optimal functioning of refund mechanism in the GST regime is of utmost importance to ensure smooth functioning of exports. The Committee notes that the technical snags in the GST Network are resulting into pushing up of deadlines for filing the returns from the month of July to October and further to December, 2017.

2.16 The Committee finds that the difficulty of handling the system from compliance perspective has been an issue for exporters and

businesses at large. The refunds are being disallowed on slightest pretext. The Committee appreciates that due diligence is *sine qua non* for granting refunds but this cannot be overplayed inasmuch as that one cannot see the wood for the trees. The Committee learns that refunds are being disallowed on various grounds. One of such grounds is that if any one of the 50 refund scrolls suffers from some defect, howsoever, minor, the customs authorities will cancel the whole batch of 50 scrolls and the entire batch will go back despite the remaining 49 refunds being in order. Further the error/mismatch is also being caused on account of difference in rounding off rupee which has been mandated under CGST Act (Section 170) and automatic dropping of the value of paisa so rounded off in the Customs ICEGATE. So the details filed in GSTN do not tally with Customs ICEGATE resulting in non-processing of refund claims. The Committee feels that these are causing undue hardship to exporters. It recommends the Department of Revenue to address the larger problem at the earliest.

2.17 The Committee was informed that exporters were also facing difficulty in refunds on account of delay in filing of electronic confirmation of gateway EGM to common portal as required under Rule 96(2) of CGST Rules by the customs authorities at gateway port. There may

**also be a delay on the part of sending Let Export Order/EGM which further delays the filing of electronic confirmation. This situation causes hardship to exporters. The Committee desires that either Rule 96(2) of CGST Rules may be amended suitably so that IGST claim can be processed on the basis of train report summary as it was being done in case of drawback disbursal or electronic confirmation may be filed by customs authorities within a reasonable time and any failure to do so must be accounted for.**

**2.18 The Committee is of the opinion that a simplified system for filing of refunds needs to be devised which is in line with the policy of ease of doing business. The Committee recommends that a simpler format be put in place for filing of refunds. The Committee also recommends that the Department should take all measures to educate and assist exporters, especially micro and small exporters, in order to enable them to handle technical glitches and several other issues that are coming in the way of exporters while filing refunds.**

2.19 The Committee notes that in order to address problem of working capital blockage, the GST Council in its meeting held on 6<sup>th</sup> October, 2017 decided to come up with "e-Wallet" which would be credited with a notional amount as if it is an advance refund. This credit would be used to pay IGST, GST etc. The "e-Wallet" solution is to be made operational with effect from 1st April 2018.

2.20 The Committee has been informed that a notional credit can be given in advance in this e-Wallet on the basis of the past export performance of

exporters and they can use the balances in e-Wallet to discharge the tax liability upfront and then adjust the credit against the refund payable to them. The notional credit in the e-Wallet is like an advance refund, with the restriction that this amount can only be used for payment of taxes and will get adjusted against final payment of refunds. The amount of credit in the e-Wallet can be fine-tuned depending on the ITC accumulation during the period being taken for processing of refunds. As and when the refunds become prompt, the balances required to be credited in the e-Wallet can be progressively reduced and ideally there should be no requirement for any such notional credit.

**2.21 The Committee welcomes the decision to set up an e-wallet. However, it is wary about adherence of the timeline of 1<sup>st</sup> April, 2018 that has been fixed to make the mechanism operational. It hopes that the Department of Revenue will be able to come up with the e-wallet on time.**

**2.22 The Committee further notes that there is no information regarding the amount that will be given as notional credit to the exporters except for the fact that the advance in this e-Wallet will be given on the basis of the past export performance of exporters. The Committee is of the considered opinion that the advance so credited in**

**the e-wallet must be adequate to cater to the needs of the exporters. The Committee feels that the Government may adopt a liberal approach in crediting the advance and it may give credit as demanded by the exporter subject to a ceiling. If the exporter fails to utilize the credit as demanded then the excess credit may be withdrawn.**

2.23 The Committee was also informed that exporters had no clue as to whom or where to go to get their problems solved as regards filing of claims or the refund processes. Further, there are difficulties in getting clarifications regarding various provisions of CGST/IGST Act. **In view of this, the Committee desires that a formal mechanism for grievance redressal of exporters must be put in place. It is of the view that a dedicated office/unit may be established for continuous interaction with exporters and also to act as a single window for their grievance redressal.**

### **REFUND OF UNUTILIZED INPUT TAX CREDIT (ITC)**

3.1 Accumulation of Input Tax Credit (ITC) happens when the tax paid on inputs is more than the output tax liability. Such accumulation will have to be carried over to the next financial year till such time as it can be utilized by the registered person for payment of output tax liability.

3.2 The GST Law (section 54(3)) permits refund of unutilized ITC in two scenarios, namely if such credit accumulation is on account of zero rated supplies or on account of inverted duty structure (i.e, where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies), subject to certain exceptions.

3.3 A registered person may claim refund of unutilized input tax credit at the end of any tax period. A tax period is the period for which return is required to be furnished. Thus, a taxpayer can claim refund of unutilized ITC on monthly basis.

3.4 Under zero rated supplies, the exporter is eligible to claim refund when there are either supply of goods or services or both under bond or Letter of Undertaking without payment of integrated tax and claim refund of unutilized input tax credit or supply of goods or services or both on payment of integrated tax and claim refund of such tax paid on goods or services or both supplied. Herein refund of unutilized ITC or tax (IGST) can be applied under Section 54 of the CGST Act, 2017 read with Rule 89 or Rule 96, as the case may be, of the CGST Rules, 2017.

3.5 With regard to inverted duty structure where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies (other than nil rated or fully exempt supplies) refund

can be applied under Section 54 of the CGST Act, 2017 read with Rule 89 of the CGST Rules, 2017.

3.6 No refund of unutilized input tax credit is allowed in cases where the goods exported out of India are subjected to export duty. Further, no refund of input tax credit is allowed, if the supplier of goods or services or both avails of drawback in respect of central tax or claims refund of the integrated tax paid on such supplies.

3.7 Section 54(3) also empowers the Government to notify supplies where refund of ITC will not be admissible even if such credit accumulation is on account of an inverted duty structure. The Committee finds that that as per the decision taken by the GST Council in the meeting held on 3rd June, 2017, the GST rate for cotton fabrics covered under HS codes 5208 to 5212 was pegged at 5 per cent on the condition that there will be no refund of ITC accumulation. Similarly fabrics of man-made textile materials covered under HS codes of 5407, 5408 and fabrics of man-made staple fibres covered under HS code 5512 to 5516 and knitted or crocheted fabrics covered under Chapter 60 was put under GST slab of 5 per cent but with the same condition of no refund of ITC accumulation.

**3.8 The Committee also finds that this blocking of ITC adds to the problem of garment manufacturer/apparel sector since mills buy MMF**

**Yarn at the rate of 12% GST. Fabric is made out of the same and sold to Garment Manufacturer at the rate of 5% GST. The difference is not refundable due to the fact that input taxes are in excess of output taxes. As a result the fabric comes loaded with non-refundable GST on Yarn which normally accounts to about 3% as blocked input credit. It increases cost and makes garments uncompetitive in international market. The Committee wishes to impress on the Department that sub-sectors like garments and made-ups within the textile sector have huge export potential and generate massive employment. It hopes that corrective steps will be taken in earnest.**

#### **DUTY DRAWBACK SCHEME (DBK) AND REBATE OF STATE LEVIES (ROSL)**

4.1 Duty Drawback Scheme has been one of the key policy support measures towards incentivizing and facilitating exports. The Scheme seeks to rebate duty or tax chargeable on any imported or excisable materials and input services used in the manufacturing of goods to be exported. The duties and tax neutralized under the scheme are (i) customs and excise duties in respect of inputs and (ii) service tax in respect of inputs. Under this Scheme, an exporter could avail benefits by opting for either All Industry Rate (AIR) or Brand Rate of Duty Drawback.



4.2 The Committee notes that in GST regime, the Duty Drawback Scheme has undergone tremendous change. Now, the law says that to the extent of the basic customs duty, the drawback will apply; for other taxes the exporter needs to claim a refund. In view of this realignment, the duty drawback rates have come down significantly.

4.3 However, to alleviate the difficulty arising on account of delay in refund and to address the problem of working capital blockage, the Department of Revenue allowed the continuation of composite rates of drawback for a transition period of three months under GST regime i.e. 01.07.2017 to 30.09.2017. The condition for furnishing certificate for claiming composite rate of drawback during said period had been done away with (Notification no. 73/2017-Cus (N.T.) dated 26.07.2017) and exporters were required to furnish a self-declaration for non-availment of credit/refund of CGST/IGST on exports to claim composite rates of drawback.

Once the transition period got over, i.e. with effect from 01.10.2017, Customs rates of drawback have been provided to exporters (Notification no. 89/2017-Cus (N.T.) dated 21.9.2017).

**4.4 The Committee finds that the new Drawback and ROSL rates (post transition, effective from 1st October, 2017) are low and not realistic. It has been submitted by various labour intensive industries**

**like textile, apparel, gems and jewellery, leather, handicrafts, sports goods and toys, engineering, etc that they do not capture the various blocked taxes that reduce the cost competitiveness of these industries.**

4.5 The textiles industry has submitted that Drawback rates earlier were in the range of 3 to 9.5% depending upon the product category but these have now come down significantly. Similarly, the new duty drawback rates for woollen products have come down to 3.5% on wool and 3% on wool blend as compared to the 8.7% drawback available so far. The Committee also learnt that the revised duty drawback rates in the sports goods sector are 70 to 80 percent less than what was in the earlier tax regime. The Handicrafts sector is suffering a low drawback rate of 1.5% while their raw material cost has gone up more than 15% to 20%. This has affected the sector badly and they are not in a position to take new order since the buyers are not ready to increase the price of the product. This has resulted in some bulk orders shift to China. Similarly, the garment sector is facing challenge from their counterparts in Bangladesh and Vietnam who are getting tremendous government support. It was informed that Pakistan has raised duty drawback rate by 50 per cent in order to support its textiles industry.

4.6 The Committee notes that exporters have been factoring the Drawback benefits while quoting to foreign buyers and with the drastic

reduction in the Drawback rates, exporters are facing serious difficulty. Although Input Tax Credits are available under the GST regime, which is in addition to the Drawback rates; however, Input Tax Credits only refunds/adjusts the GST paid at the input stage. Further, Input Tax Credit may also not take into account the embedded/blocked taxes.

**4.7 The Committee is of the considered opinion that sudden withdrawal of the incentives extended earlier under Duty Drawback Scheme will lead to the collapse of labour intensive industries. This will have a cascading effect on employment and livelihood of poor workers in these industries. It was informed that trimming down of the Duty Drawback Scheme and consequent erosion of export competitiveness have already set-in the problem of lay-offs. The Committee expresses its deep concern over the possibility of job losses and it strongly feels that if the Government wishes to withdraw the benefit of Duty Drawback Scheme as prevalent in pre GST regime, it should do so in phased manner. The Committee, however, desires that any such exercise, must take due care that the revised rate under the scheme must incorporate any additional incentives/support for the exporters, which were being given prior to the introduction of GST.**

**4.8 In order to bring relief to the exporters, the Committee recommends that the Department of Revenue, Ministry of Finance extend the pre-GST Duty Drawback rates till 30<sup>th</sup> June, 2018 or till such time the Department works out the revised duty drawback rates. The Committee hopes that this will enable the exporters to overcome the problems being faced by them currently besides helping them to take a long term perspective while negotiating export orders.**

**4.9 The Committee noted that majority of the exporters are small exporters with a turnover of less than Rs. 15 crore. Most of these exporters do not have adequate back office capability. The new system of claiming taxes, both direct and embedded, make it very difficult and complicated for the small exporters to follow. Since the bulk of the exports are made by the small exporters, especially, in the labour intensive sectors such as garments, woollen wear, home furnishings, brassware, gems and jewellery, leather items, sports goods, etc., their trade bodies have represented that the Government should give a choice to the exporter of either claiming ITC or get a high enough duty drawback rate which would encompass all the taxes levied. They felt that most small exporters would prefer the latter scheme, since they would be able to easily claim the duty drawback after exporting their**

**goods as was the system in the past. The Committee recommends that the Government provide for a duty drawback rate which would encompass all the taxes including the GST/IGST levied as well as embedded/blocked tax and give a choice to the exporters to either claim the Duty Drawback or follow the Input Tax Credit route. This will also release the pressure on GST Network.**

4.10 Another concern of the exporters has been that the revised Rebate of State Levies (ROSL) is inadequate especially since petroleum, power and agriculture has been kept outside the ambit of GST and the same needs upward revision. The taxes levied in the GST regime that are not refunded remain embedded or invisible affecting the industries. There are a number of state taxes which still remain un-rebated under GST and therefore form part of the cost of goods which are exported. The Committee was informed that based on industry average data, percentage of such blocked invisible State input taxes (not covered under the above ROSL rate) is quite significant. Many incidences of such taxes are not considered for Rebate of State Levies (RoSL) and Duty Drawback (DBK). The Committee also notes that small and labour intensive industries are characterized by many purchases of niche products from small unregistered dealers which may not be available with the organized sector and any GST taxes incurred on inputs

purchased by such unregistered dealers would also remain blocked in the export supply chain.

**4.11 The Committee is of the considered opinion that there is an imminent need to increase the ROSL adequately. The Committee strongly feels that the government may consider blocked/embedded levies for refund under Rebate of State Levies (RoSL) as well as reimbursement of embedded taxes in the central taxes, under the Duty Drawback scheme. The Committee recommends the Department to identify such incidence of embedded taxes in various industries and should evolve a mechanism so that such embedded taxes are refunded to the exporters.**

## **DUTY CREDIT SCRIPS**

5.1 In order to offset infrastructural inefficiencies and associated costs involved in manufacturing and to provide level playing field to exports vis-à-vis exporters from other countries, the Department of Commerce have been extending incentives in the form of duty credit scrips to exporters of merchandise goods under Merchandise Exports from India Scheme (MEIS) and to service exporters under Service Exports from India Scheme (SEIS). MEIS incentives are available at 2, 3 and 5 percent of the FOB value of

exports while SEIS is rewarded at the rate of 3 or 5 per cent of net foreign exchange earned.

5.2 During deliberations with various stakeholders, the Committee was informed that in the pre GST regime, these credit scrips were allowed to be used for payment of central excise duty, service tax and all types of custom duties like Basic Customs Duty (BCD), Countervailing Duty (CVD) and Special Additional Duty (SAD) involved in export chain. However, in GST regime, these scrips have been allowed only for the purpose of payment of the Basic Custom Duty. As a result, the exporters are not able to fully derive the benefits under these schemes. On enquiry, the Department of Commerce has informed that the issue has been taken up by them with the Ministry of Finance and GST Council. The Department has proposed that the scrips should be allowed to be used for payment of GST along with Basic Customs Duty.

**5.3 The Committee observes that limited utilization of Duty Credit Scrips issued under MEIS and SEIS schemes in GST regime has put a constraint on the working capital of exporters. The working capital could be released of the burden of payment of GST/IGST towards procurement of goods and services as well as exports of goods and services if the duty credit scrips were allowed to be utilized for payment**

**purpose of all export related activities. The Committee strongly recommends that the duty credit scrips may be permitted for payment of GST in domestic procurements and the payment of IGST on exports and imports of goods and services.**

5.4 It has been suggested by exporters that the incentive rates under MEIS should be enhanced from 2 per cent to at least 5 per cent of FOB in order to defray substantial increase in the working capital cost. It was submitted that this will help to boost exports in these sectors. It was further apprised that the increase in rates would be essential to partially offset the higher incidence of costs resulting from logistics inefficiencies and higher transaction expenses. The enhanced rates would also negate the disadvantages faced by the exporters in the garments and textiles sector on account of Free Trade Agreements (FTAs) and other tariff advantage of competing neighbouring countries.

5.5 **The Committee is happy to note that the Department of Commerce has decided to raise incentive rate for Merchandise Exports from India Scheme (MEIS) by 2 per cent across the board for labour intensive/MSME sectors. The increase in annual incentive by 34 per cent to Rs. 8,450 crore will benefit apparel, leather, handicraft, carpets, sports goods, agriculture, marine, electronic components and project**



**exports. The Committee is hopeful that this measure will incentivize the exports of labour intensive industries and contribute to employment generation. The Committee believes that these measures will restore confidence amongst exporters and stand in good stead for the exporters in the ongoing difficult transition period.**

### **REFUNDS ON CAPITAL ASSETS/GOODS RELATABLE TO EXPORTS**

6.1 The Committee notes that the entities exporting goods or services are allowed to claim refund of Input Tax Credit (ITC) or taxes paid on the exports as per the provisions under section 54 of the CGST Act read with Rule 89 or Rule 96, as the case may be, of the CGST Rules. Inasmuch as refund of unutilized Input Tax Credit (ITC) is concerned, CGST Act allows claim of refunds only in respect of inputs (raw materials) and input services. The Committee notes that as per Section 54(8)(a) of the CGST Act, refund has not been provided for in respect of import of capital goods which are used for manufacturing of goods or for provision of services.

6.2 It has been submitted before the Committee that when there is substantial expansion of plant and machinery and when machines are required to be imported then the GST/IGST paid as well as accumulated Input Tax Credit (ITC) may remain unutilized in the books for many years. Also, the ITC on purchases of such machines is at higher rates than the GST

rate on final supply or IGST on exports which may not be compensated fully by refunds. The provision of non- refund of ITC on capital goods are also impacting financial institutions like banks which are separately registered for export services, for eg., banks having branches in Special Economic Zones (SEZs).

6.3 A comparative analysis regarding the provisions under the earlier law and the GST law is as following:-

Sl. No.	Purchase of	Under Excise, Service Tax and VAT regime		Under GST regime	
		Credit available	Refund available	Credit available	Refund available
<b><i>Manufacture and Export of Goods</i></b>					
1.	Purchase of inputs (raw materials)	Excise – Yes VAT – Yes	Excise – Yes VAT – Yes	Yes	Yes
2.	Input Services	Service Tax – Yes	Service Tax – Yes	Yes	Yes
3.	Capital Goods	Excise – Yes VAT – Yes	Excise – No VAT – Yes	Yes	No
<b><i>Export of services</i></b>					
1.	Purchase of inputs (raw materials)	Excise – Yes VAT – Yes	Excise – Yes VAT – NA	Yes	Yes
2.	Input Services	Service Tax – Yes	Service Tax – Yes	Yes	Yes
3.	Capital Goods	Excise – Yes VAT – Yes	Excise – No VAT – Yes	Yes	No

Source: Indian Bank Association (IBA)

6.4 The Committee notes that in pre GST period, the exporters resorted to schemes like Advance Authorisation (AA) and Export Promotion Capital Goods (EPCG) Scheme for importing inputs including machinery. The exporters had the facility of procuring duty free inputs either through import

or from domestic market under Advanced Authorisation (AA) Scheme and procuring duty free capital goods under Export Promotion Capital Goods (EPCG) Scheme. The assessee was able to import goods without payment of customs duty against requirement to fulfill prescribed export obligation and in case of non-fulfillment of export obligation, the assessee was required to repay the customs duty so saved along with interest. However he was eligible to claim credit of CVD and SAD component of such customs duty. Also, imports as well as domestic procurement of goods were duty free under 100 per cent EOUs. However, in GST regime, in case of non-fulfilment of export obligation while the importer is required to repay the customs duty saved, including CVD and SAD component, credit of CVD and SAD is not available in absence of enabling provisions under GST law.

**6.5 The Committee notes that absence of credit on CVD and SAD component of customs duty in case of non-fulfillment of export obligation would result into CVD and SAD component becoming a cost to such exporters in GST regime. The Committee finds this to be an additional financial burden on the exporters. The need for working capital of exporters may rise substantially resulting into adverse consequences on exporters. The Committee desires that this difficulty of absence of enabling provision resulting in denial of credit may be**

**addressed on priority. In the meantime, the Government can come up with a clarification allowing credit of CVD and SAD component.**

6.6 The Committee, further, notes that in order to provide immediate relief to exporters the GST Council in its meeting held on October 6<sup>th</sup>, 2017 has extended the Advance Authorization (AA), Export Promotion Capital Goods (EPCG) and 100% EOU schemes for sourcing inputs etc. from abroad as well as from domestic suppliers without payment of any GST and Cess. The Department of Revenue has apprised that domestic supplies to holders of AA, EPCG and EOU Schemes would be treated as deemed exports under Section 147 of CGST/ SGST Act and refund of tax paid on such supplies would be given to the supplier. The Committee noted that the immediate relief to AA/EPCG/100% EOU to source inputs for exports without payment of IGST is available till 31.03.2018.

6.7 **The Committee notes that a temporary relief has been given to exporters till March, 2018. However, this does not solve the problem of non refund of IGST on capital goods import. The IGST can only be adjusted against the payment of IGST on export side. The problem of locking up of capital on account of the GST/IGST paid as well as accumulated Input Tax Credit (ITC) on import of capital goods remain as it is. Also, the problem of inverted duty structure persists when ITC**

on purchases of capital goods at higher rates than the GST rate on final supply or IGST on exports is not fully compensated. It will add into exporters' capex for the project making it impossible for them to sustain and the project will become unviable. It has been informed that the entire process of finalising and importing the capital goods and setting up of a project is more than year and a half long cycle. The immediate relief till 31<sup>st</sup> March, 2018 does not help much. The exporters' community has shared that they have put their plans of import on hold. The Committee is of the considered view that the Government come up with permanent solution to this problem. It is of the opinion that this arrangement of non payment of IGST/Cess till March, 2018 should be made permanent. Similarly, machines bought domestically against EPCG scheme should be free from payment of IGST. The Committee recommends the Department of Revenue to bring up the issue of non refund of GST/IGST and non refund of accumulated Input Tax Credit (ITC) on capital goods import as well as domestic procurement before the GST Council on urgent basis and address all the issues flagged here for the larger benefit of country's exports.

6.8 The Committee also desires that refund of IGST may be provided for in case of those who have paid IGST before the issuance of the

**notification giving immediate relief for import of capital goods under AA/EPCG/100% EOUs.**

6.9 The Committee also learnt that although the Schemes i.e. AA, EPCG and 100% EOU had been exempted from GST and cess, the same benefits had not been extended to the Export Performance Certificate (EPC) Scheme which provides similar exemption to exporters from paying customs duties, CVD, BCD and SAD for the imports of inputs such as fabrics and items like tags, labels and other accessories used while manufacturing. The Committee was informed that in earlier tax regime, imports were completely duty free under the Export Performance Certificate Scheme but it is now attracting 12% GST. It has been submitted that the Scheme of Export Performance Certificate should also be exempted from IGST in line with proposed exemptions of EPCG and AA Scheme.

**6.10 The Committee is of the view that the Export Performance Certificate Scheme is significant for exporters from labour intensive sectors. It is of the opinion that this scheme should also be brought at par with ECGC/AA Scheme with similar relief that have been brought about recently. It also desires that the Government explore the possibility of dispensing of the requirement of the payment of GST/IGST for imports made for export purpose.**

## **DEEMED EXPORTS**

7.1 The Committee noted that as per the Foreign Trade Policy, in the pre-GST regime, the goods supplied in India to the advance authorization/EPCG authorization holders or 100% EOU units were treated as deemed exports and such deemed exports were considered for fulfilment of export obligations under various schemes. However, in the GST regime, if a person imports the goods without payment of BCD as well as IGST under advance authorization/EPCG scheme, then any supplies made by such person to other advance authorization/EPCG authorization holder or to a 100% EOU unit, is not treated as deemed exports and consequently, not considered for fulfilment of export obligation.

7.2 It has been submitted that such restriction is causing issues for the exporters since in many cases, the entire value chain for the ultimate exports has multiple vendors who use parts and components imported duty free under advance authorization. They fulfil their export obligation by supplying goods to another manufacturer who also holds advance authorization and so on, till the time the goods are exported by the ultimate exporter. If the IGST exemption is claimed by any person, his supplies to other advance authorization holders, are not considered towards export obligation, resulting in increased costs for the goods ultimately exported.

7.3 Similarly, certain supplies to various projects (i.e. projects under International Competitive biddings (ICB), Mega Power Plants and World Bank funded projects) were considered deemed exports supplies, however, such supplies under GST regime had not been categorized into deemed export. The Committee noted that such supplies in pre GST regime were eligible for duty refund or exemption from central taxes in order to enhance competitiveness of Indian firms participating in global tenders or large scale bids. Under GST, these supplies have become taxable and only Customs Duties exemption are available. The Committee has been informed by the Department of Commerce that IGST ACT defines the deemed exports but has not notified any supplies as the deemed exports. Absence of notification of supplies that would qualify as deemed exports supplies has, as a result, affected the operations of over 7,000 Export Oriented Unit (EOUs) which have become akin to the domestic unit. Non-notification of deemed supplies had also made domestic sourcing under Advance Authorisation and EPCG uncompetitive.

**7.4 The Committee notes that notification of deemed export supplies as it was in the earlier tax regime is essential to strengthen the Indian Companies by providing them tax refunds and exemption. The Committee recommends the Department of Revenue, Ministry of**



**Finance to bring out notification regarding supplies as mentioned in Foreign Trade Policy for qualifying as deemed exports and extend export related benefits as provided under GST framework. It also desires that the previous position of considering the supplies made to the advance authorization/EPCG authorization holders or 100% EOU units towards export obligations under various schemes should be re-instated.**

#### **SUPPLIES TO SPECIAL ECONOMIC ZONES (SEZ) and EXPORT ORIENTED UNITS (EOUs)**

8.1 The supplies made to an SEZ unit or a SEZ developer is zero rated. The supplies made to an SEZ unit or a SEZ developer can be made in the same manner as supplies made for export either on payment of IGST under claims of refund or under bond or LUT without payment of any IGST.

8.2 Supplies to SEZ unit or SEZ developer have been accorded the status of inter-State supplies under the IGST Act. Under the GST Law, any supplier making inter-State supplies has to compulsorily get registered under GST. Thus anyone making a supply to a SEZ unit or SEZ developer has to necessarily obtain GST registration.

8.3 In so far as EOU is concerned, the duty free imports under GST regime will be restricted to Basic Customs Duty. Exemption from the additional duties of Customs, if any, under section 3(1), 3(3) and 3(5) of the

Customs Tariff Act, 1975 and exemption from Central Excise duty will be available for goods specified under the fourth Schedule to the Central Excise Act. IGST or CGST plus SGST will be payable by the suppliers who make supplies to the EOU. The EOU will be eligible, like any other registered person, to take Input Tax Credit of the said GST paid by its suppliers.

8.4 The Committee notes that some additional conditions have been levied under IGST Rules which is causing concern. Now payment for any supply made by DTA to an SEZ is required to be paid in foreign exchange. Earlier, SEZ units were not required to pay all the DTA suppliers in foreign exchange. It was only in case of services. Now, even in case of merchandise goods, they have to be paid in foreign exchange. **The Committee feels that this requirement is a hardship on SEZ units with no perceptible benefit. It is actually through general foreign exchange market and through the banks that SEZs buy foreign exchange and they pay it to the DTA suppliers. In such case, foreign exchange will remain in India only.**

8.5 It is also noted that EOUs can buy from small suppliers through reverse charge mechanism. But this provision does not extend to SEZs. **In the absence of this capability, SEZ cannot procure supplies from small vendors and Bond/LUT cannot be executed because the supplier**

**has to be a registered supplier in order to supply to SEZ. The Department may look into this difficulty.**

8.6 The Committee further notes that it is only the registered supplier who can seek the refund in case of supplies made to SEZ. The problem is that many suppliers are not GST registered. In pre GST regime, the suppliers were not registered under excise but were only registered under VAT. They were simply supplying to SEZ by charging sales tax and the SEZ units used to get the refunds while exporting. The Committee learns that suppliers are not interested to supply to SEZ if they have to seek refund. The reason may be found in their impression that they will have to understand the legal intricacies involved in such supplies and refund claims. **The Committee feels that the Government may explore the possibility of creating an optional mechanism where SEZ unit may be allowed to seek the refund in cases where the DTA suppliers refuse to seek the refund.**

8.7 Further, there are SEZ developers, who give their premises on lease. However, there is no specific charging section under IGST Act for this transaction which has caused confusion on the ground. The Committee learns that there are a lot of SEZ developers who have not yet built their units. The developers feel that if they build them, either SGST or CGST needs to be charged. However, these cannot be claimed in refund as there is

no provision of claiming them as of now. In case they do not charge the tax, there is a fear that the developers may be held liable for evasion in future. **The Committee is of considered opinion that a clarification may be put forward in this regard. It, nonetheless, feels that since both the unit holder and the developer are present in SEZ bonded area and they are required to export their goods only, hence, a transaction within the SEZ may not be subjected to any taxation.**

8.8 The Committee further notes that EOUs are not required to pay GST for import of inputs. However, if they make domestic procurement, they have to pay GST. This dichotomy has resulted in confusion among business enterprises. **The Committee is of the view that exemption of GST may be extended in both situations, whether EOUs purchase from DTA or they import their raw material from abroad.**

## **MERCHANT EXPORTERS**

9.1 It is estimated that Merchant Exporters account for over 30% of country's exports, who usually work on razor thin margins of 2-4%. Para 9.33 of Foreign Trade Policy states that Merchant Exporter is a person engaged in trading activity and exporting or intending to export goods.

9.2 Merchant exporters are instrumental in boosting exports especially exports from MSME and small manufacturers as they sell and buy on their

own account and have intimate knowledge of export markets and exportable products. They are usually well financed, extend pre-shipment finance to supporting manufacturers and, therefore, they are highly beneficial for small enterprises which does not possess adequate financial and managerial resources required for making a successful entry into a foreign market lacking expertise in exporting.

9.3 The Committee has been informed that the Merchant Exporters, under the GST regime, had to pay taxes at the time of procurement of goods meant for exports whereas a manufacturer exporter could export under LUT or bond without the payment of applicable GST. As a result, it increased the cost for merchant exporters since in pre GST regime the merchant exporter purchased goods for export from the manufacturer without the payment of any tax.

9.4 The GST Council in its meeting held on 6<sup>th</sup> October, 2017 has given relief to the Merchant Exporters inasmuch as that they now have to pay a nominal GST of 0.1% for procuring goods from domestic suppliers for export. However, nominal GST rate has been made contingent upon fulfillment of certain conditions by the merchant exporters as prescribed here under:

- (i) Supplier shall supply to recipient under a tax invoice.

- (ii) Merchant Exporter/Recipient shall export the said goods within a period of 90 days from the date of issue of invoice.
- (iii) Merchant Exporters/Recipient shall indicate GSTN and Tax Invoice No. of the supplier in the Shipping Bill.
- (iv) Merchant Exporters/Recipient shall be registered with an Export Promotion Council/ Commodity Exchange Board recognised by Department of Commerce.
- (v) Merchant Exporter/Recipient shall place order on Supplier for supplying goods at concessional rate and a copy of the order shall also be given to the jurisdictional tax officer of the supplier.
- (vi) Merchant Exporters/Recipient can move the goods from the place of supplier directly to port, Inland Container Depot (ICD), Airport or Land Custom Stations (LCS) from where goods are to be exported or directly to a registered warehouse from where the goods shall be exported from port, ICD, Airport or LCS as the case may be.
- (vii) If the Merchant Exporter/Recipient accumulates all goods from different suppliers the goods shall move to a registered warehouse and on aggregation shall move to port, ICD, Airport or LCS as the case may be.
- (viii) In situation (vii) the Merchant Exporter/Recipient of goods shall endorse receipt of goods on tax invoice and also obtain acknowledgment of receipt of goods in the warehouse by the warehouse operator. Such endorsed invoice, acknowledgement shall be provided to the supplier as well as jurisdictional tax officer of the supplier.
- (ix) After the goods have been exported the Merchant Exporter/Recipient shall provide following documents to the supplier and the jurisdictional tax officer of the supplier:
  - Copy of shipping bill/ Bill of export (incorporating supplier's GSTIN)
  - Tax invoice provided by supplier
  - Export General Manifest/ Export report

9.5 It has been submitted by various stakeholders that these conditions are so stringent that they take away the benefit intended for merchant exporters. The difficulties being faced on this count have been mentioned below:

- (i) **GST Number & Tax Invoice Details:** The Committee was informed that the Shipping Bill as of now has no provision to include the details of GSTN & Tax Invoice Details of the registered supplier. Also, if the details of more than one supplier are to be given under one shipping bill, difficulty arises in mentioning the GST No. and Tax Invoice Details of all the suppliers in the Shipping Bill. **The Committee recommends necessary provisioning in the shipping bill for encapsulating the details of GSTIN and tax invoice numbers of more than one supplier may be made.**
- (ii) **Definition of registered warehouse when the goods are moved to ports via such warehouses:** The registered warehouse has not been clearly defined since the registered warehouse may either be the principal place or additional place of businesses or a Container Freight Station. **The Committee recommends that clarity should be made on the definition of registered warehouse with a view to ease of doing business.**

- (iii) **Compliances on purchase and aggregation of goods:** The requirement of furnishing purchase order copy to the jurisdictional tax officer of the supplier and later the endorsed tax invoice and acknowledgement of warehouse operator to the jurisdictional tax officer of the supplier may increase the compliance burden on the Merchant Exporters. **The Committee recommends that Government may explore the possibility of doing away these compliance requirements.**
- (iv) **Furnishing copies of shipping bills after exports:** It was brought before the Committee that the requirement of providing a copy of shipping bill to the supplier will disclose all details of the buyers of Exporters and the price of exports. This may result in risk for exporters losing the buyer to the supplier. The Committee is also of the view that the further requirement of furnishing copies of one shipping bill to various suppliers for one export shipment if goods have been procured from more than one supplier and submitting the shipping bill to the same number of jurisdictional authorities of suppliers will become a cumbersome compliance requirement for exporters. It has been submitted that since Export Promotion (EP) copy of the shipping bill is not being issued by Customs, therefore, the



same should not be prescribed as a compliance document. **The Committee recommends the Department to take necessary steps to address the problems.**

- (v) **Exports within 90 days:** It has been provided that the supplier will not be eligible for the exemption, if registered recipient fails to export the goods within period of 90 days from the issue of tax invoice. It has been submitted that that there is no clarity about the date which will be considered as the export date – Shipping Bill date, Let Export Order (LEO) date or Bill of Lading (BL)/ Air Way Bill (AWB) date or Export General Manifest (EGM) date. **The Committee recommends that a clarification in this regard may be issued.**

9.6 The Committee also finds that the obligation to export within 90 days has also made the suppliers reluctant to sell under the scheme since the supplier will have to pay GST with interest, if the exporter is not able to complete the export either partially or fully within 90 days. It will be considered as Supplier's Default under the GST law. As a result, the supplier may ask exporter/recipient to block their tax amount or deposit security until the export is completed. This will defeat the purpose of the relief extended. **The Committee is of the considered opinion that the ceiling of 90 days should be relaxed and it may be extended to 180 days.**

9.7 The Committee further learnt that confusion prevails about the rate of IGST (when 0.1% or some other applicable GST rate) imposed on goods procured by merchant exporter when these goods are not exported under the facility of Letter of Undertaking. Further, it is not clear whether the registered supplier would be eligible to claim ITC treating it as a case of inverted duty since the output duty is much less than the input duty. Moreover, whether such refund would be available on monthly basis or not is also not clear. Clarification is also required on whether the complete chain involved in exports (i.e. from raw material to multiple job works, packaging and to exports) will be coming under the notification issued for merchant exporters wherein nominal rate of GST of 0.1% will be charged. **The Committee is of the view that the Notification of 23<sup>rd</sup> October, 2017 regarding Merchant Exporters needs clarifications. The Committee desires that the clarifications may be issued on priority in view of their pivotal role in country's exports especially for MSME sector which is critical to employment generation.**

9.8 The Committee also notes that in many cases, the Indian exporter places an order with a vendor located abroad with instructions to directly deliver the goods to the customer of the Indian exporter outside India. The Indian exporter raises invoice on the end-customer to whom the goods are

delivered. It has been submitted that since the goods do not enter India at all, therefore, there should not be any customs duty or GST in the absence of any import of goods into India. Further, there is no physical export of goods by the Indian exporter to his customer outside India from India and consequently, the sale by the Indian exporter is not covered under the definition of 'exports' under IGST Act. However, some confusion persists as to whether such exporter fall under tax net. It has been pointed out that as per section 10 of the IGST Act read with section 7(5) of the IGST Act, the supplier (i.e. Indian exporter) is located in India and the place of supply of goods is outside India, the sale by the Indian exporter qualifies as inter-State supply. Accordingly, there is an apprehension in the industry that the tax authorities may seek to levy IGST in such cases, despite the goods never entering into India.

**9.9 The Committee feels that in the cases of 'High Seas Trade', where the goods never enter India and are directly delivered to the customers outside India on instruction of the Indian supplier, it would be preferable that such transactions are kept outside the purview of GST in India. In view of the prevailing apprehension, the Committee recommends that a specific clarification may be issued in this regard.**

## **REVERSE CHARGE MECHANISM AND EXPORTS**

10.1 As per section 9(4) of the CGST Act, in case of supply of goods/services by an unregistered person to a registered person, the GST on such supply is payable by the registered person under reverse charge basis. It was submitted that this provision of paying GST under reverse charge mechanism are resulting into cash flow issues for the exporters since they need to initially pay GST in cash and then claim refund. The provision relating to liability under reverse charge on procurements from unregistered persons has been temporarily suspended till 31<sup>st</sup> March, 2018. It has been requested that the exporters should be exempted from reverse charge liability on procurements made from unregistered persons on a permanent basis.

**10.2 The Committee notes that the reverse charge mechanism is increasing the operational woes and compliance issues on exporters wherein unnecessary burden had been imposed on them of first paying reverse charge and then claiming a refund. It also desist an exporter to make purchase from unregistered vendors who are usually small enterprises. Thus the businesses of these enterprises are likely to be affected adversely which will lead to job losses. The Committee is of the view that in order to have hassle free exports as well as to give boost to**

**small enterprises, reverse charge mechanism may be removed on a permanent basis in the procurement made in relation to export activity. The Committee recommends the Department to engage with Ministry of Finance and take all steps to exempt the exporters from reverse charge liability.**

### **GST ON JOB WORK**

11.1 In pre-GST regime, no tax was imposed on the Job Work. However, in the GST regime, Job Work involved in the labour intensive sectors is attracting varying GST rates ranging from 5% to 18% and in some cases even 28%. The Committee notes that recently the GST rate on job work in textiles, leather, diamond processing and jewellery sector have been brought down to 5%. It has been suggested that there should be uniformity in GST rate on job work reducing the burden of taxation and avoiding classification dispute on all categories of job work. Levying high rates of GST on job work involved in the manufacturing of products has severely affected the job workers wherein the job work units are not receiving any orders from manufacturers and exporters especially those in MSME sector.

11.2 **The labour intensive industries such as leather, garments, carpet, handicrafts etc which form a major part of exports of our country utilizes intensively the service of job workers in the manufacturing of**

**products. These job workers are mostly self employed individuals or home workers especially women. Therefore, the Committee feels that high rates of GST on job work would have a negative bearing on the job workers as well as industries especially micro and cottage. It may also add to the compliance burden of job workers who are not equipped to handle such responsibility. Further, charging different rates on job work will be creating confusion in their classification resulting into disputes. Since the GST on job work for exports is revenue-neutral, the Committee is of the considered opinion that no GST may be imposed on job work for exports. The Committee understands that there may be concerns that it will be difficult to keep a track on such products that they do not enter domestic market. To tackle such a situation, the Committee feels that the Government may provide for criminal penalty for any such breach.**

## **GST ON FREIGHT**

12.1 The Committee was informed that GST rate of 18 per cent is being imposed for services rendered by airline for perishable cargo which is exorbitantly high. Also, GST at the rate of 5 per cent is being charged on sea freight. As a result exporters in fruits and vegetable sectors are paying a considerable percentage of their exports on air and sea freight in spite of the

fact that no GST is being charged on sale of vegetables and fruits. The Committee was informed by the representatives of Agricultural and Processed Food Products Export Development Authority (APEDA) that more than 50 per cent of the cost of entire turnover in exports of perishable goods such as vegetables, fruits etc is being incurred on freight cost thereby creating huge working capital burden on exporters. The Committee was further apprised by the representatives of Wool and Woolens Export Promotion Council that imposition of 12 per cent GST on railway freight on transshipment of exportable goods is also an additional cost burden on exporters.

**12.2 The Committee notes that charging high rates of GST on air, sea and railway freight on exports not only causes additional cost burden on exporters but also erodes the competitiveness of export. The Committee is of considered opinion that imposition of GST on export freight which is later refunded is an unnecessary burden which stretches the working capital requirements of exporters. It, accordingly, recommends that export freights through air, sea and railway may be exempted or rationalized.**

## **INDIAN SHIPPING LINES AND GST**

13.1 The Committee was informed that when an Indian Shipping line is engaged by an Indian Exporter for exporting goods, GST is payable on air or ocean freight as the place of supply of services under Section 12(8) of IGST Act will be the location of the registered person.

13.2 Under Section 13 (9) of the IGST Act, where either the supplier or recipient of the service is outside India, the place of supply of services of transportation of goods, other than by way of mail or courier, shall be the place of destination of such goods. Thus, when a foreign based shipping line is engaged by an Indian Exporter, GST is not payable since the place of supply is outside India. The Committee takes serious note of the disparity in respect of freight payable during export of goods since engaging a foreign based shipping line does not attract GST whereas engaging an Indian shipping line would be liable to GST. **The Committee recommends that provisions of the IGST Act should be suitably amended for bringing exports made by Indian shipping line at par with foreign shipping lines and provide level playing field for Indian Shipping Industry.**

## **EXPORT OF SERVICES**

14.1 The Committee notes that financial institutions and IT companies provide services to establishments outside India and receives convertible



foreign exchange from service recipient, viz. their branches outside India. This transaction between the Head Office and its branches outside India has been made subject to GST liability by virtue of the fact that the service provider and service recipient in such cases would be regarded as 'distinct person'. This excludes the transaction from becoming export of services as per section 2(6) of the IGST Act.

14.2 'Export of services', as defined under Section 2(6) of Integrated Goods and Service Tax Act, 2017 ('IGST Act') means the supply of any services when:

- i. The supplier of service is located in India;
- ii. The recipient of service is located outside India;
- iii. The place of supply of service is outside India;
- iv. The payment for such service has been received by the supplier of service in convertible foreign exchange; and
- v. The supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in section 8.

14.3 Concerns have been expressed that tax on services provided by Head Office / branch of a bank in India to overseas establishment would have to be borne by the Head Office / branch in India. This would add to the cost of operations and would add to the cost of business. The increased cost is likely to adversely impact the cost of providing services, and the resultant shifting

or loss of business. It is the longstanding policy of the Government of India to export services and goods without exporting taxes and duties.

**14.4 The Committee desires that the Government may revisit section 2(6) of the IGST Act and ensure that such transactions between the Head Office and its branches may be kept out of its ambit.**

#### **PLACE OF SUPPLY OF SERVICES**

15.1 The Committee noted that service providers providing services to overseas suppliers of goods earn commission in convertible foreign exchange. IGST @ 18% is leviable on such commission because the Government does not recognize their services as “Export of Services”. Section 13(8) provides that Place of Supply of services will be the location of service supplier and not the location of overseas customers. Even in cases where both supplier and buyer are located outside India, commission earned for such transaction also attract IGST @ 18%.

**15.2 In view of the fact that GST is a destination based consumption tax, the Committee is of the view that following steps may be taken:**

- **Provide that Place of Supply of Indian Intermediaries of Goods will be the location of service recipient i.e. customers located abroad (and not the location of such intermediaries as is currently**

- provided), so that Intermediary Services will be treated as ‘Exports’; or
- Providing an exemption to Indian Intermediaries of Goods from levy of IGST, exercising the powers vested under Section 6(1) of IGST Act; or
  - Notify such services under Section 13(13) of the IGST Act to prevent double taxation (tax in India as well as in the importing country) by treating place of effective use (foreign country) as place of supply.

**15.3 The Government may also cause amendment to section 13(8) of the IGST Act to exclude ‘intermediary’ services and make it subject to the default section 13(2) so that the benefit of export of services would be available.**

## **REINSURANCE SERVICE**

**16.1 Exports Credit Guarantee Corporation of India Ltd. (ECGC) provides credit risk insurance and related services for exports with the objective of promoting and strengthening exports from the country. The Committee was apprised that the reinsurance taken by ECGC on Export Credit Insurance was exempted from service tax in the earlier tax regime. Since Export Credit Insurance is exempted from GST as it is covered under Mega Exemption**

List, no GST is being imposed on premium charged on Export Credit Insurance at present. However, GST is being charged on reinsurance service taken on Export Credit Insurance.

**16.2 The Committee is of the considered view that reinsurance service is an essential insurance product available to exporters which help them guard against high risk in exports due to volatile nature of global markets. The Committee recommends the Department to take necessary action so that the reinsurance service may also be covered under mega exemption list and the same should be exempted from payment of GST.**

## **CONCLUSION**

**17.1 The Committee is of the view that structurally GST is a much better taxation system than the earlier tax regime. However, teething problems have been there and there is a feeling that what was thought as the grand idea of GST, on the ground, the implementation has not been proper. The teething problems are, of course, there in the GST and technology-related issues. It has been noticed that there is no interface amongst GSTN, Customs ICEGATE and DGFT EDI systems and this problem needs to be addressed on urgent basis. The Committee feels that GSTN did not get enough time for testing. Even**

the training given to the officers on ground on issues like Letter of Undertaking (LUT) and related matters has not been adequate. Problems persist on procedural requirements as to what constitute a LUT. Different officers on the ground do not have any clarity on what should be the format of this Letter of Undertaking, whether it should be on a stamp paper or not. The Committee is happy to note that the GST Council and the Government have been responsive to the problems being faced by the exporting community and are trying to alleviate them urgently. The Committee hopes that the Government will leave no stone unturned to place in an efficacious taxation framework for a robust export framework.

17.2 The Committee finds that the problem of delayed refund to exporters has caused hardships to the exporters. It is aware that the GST Council has taken various measures to alleviate this problem. The Committee, however, feels that if the taxes are to be finally refunded then what is the need to put the exporters to the rigmarole of paying taxes and taking its refund or taking refund of unutilized input tax credit. It has been experienced that it is easy to pay tax but it is very difficult to get a refund. The Committee feels that a system may be

**devised to ensure that the procurement/manufacture for export purpose may be exempted from taxation system.**

**17.3 It has also been submitted before the Committee that a period of three month is not adequate to assess the impact of GST on exports. It has been emphasized that during July-September 2017, merchandise exports grew by 13.49% over same period in 2016. During July-September, 2017, services exports grew by 1.90% over same period in 2016. So, in totality, overall exports witnessed a positive growth. The Committee is of the considered opinion that the country cannot afford to wait and watch the impact of GST on exports after the lapse of considerable period. India's export is deeply intertwined with employment and rolling of machines in MSME sector. So it's a bounden duty to ensure that export sector remain healthy and vibrant. An early diagnosis and redressal of the problems helps in maintaining a healthy eco-system.**

**17.4 Moreover, the Committee has been of the view that the rise in exports during the period July-September, 2017 was the result of continuation of composite drawback duty scheme during the transition period which ended on 31<sup>st</sup> September, 2017 and exporters' haste to avail the scheme which made them advance the supply of their export**

order for the transition period of July to September, 2017. Though the Committee would have desired the outcome to be otherwise but the export figure for the month of October, 2017 indicate that the Committee presaged rightly. There is a slide in exports after the expiry of the transition period of composite rates of drawback. The Committee notes that in the month of October, there is an overall decline in the merchandise exports by -1.12 per cent *vis-à-vis* exports of October last year. The Committee notes that during the period July-October there has been a drop in the exports in the sectors like readymade garments of all textiles, fruits and vegetables, carpets, handicrafts, gems and jewellery, and there has been some stagnation in the sectors like leather. Thus the labour intensive sectors appear to have been adversely impacted in this brief period. Growth, however, has been visible in petroleum and chemical sector. This is largely on account of the increase in the commodity prices. There are increases also in the engineering sector which is relatively more organized sector. The Committee is certain that the Government will take all corrective measures in the present taxation system to ensure a sustained growth trajectory of our exports.

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## **RECOMMENDATIONS/ OBSERVATIONS - AT A GLANCE**

### **REFUND MECHANISM UNDER GST**

1. The Committee notes that refunds, however, has started to trickle only from the month of November, 2017. The intervening period of four months from July to October, 2017 has been extremely trying for the exporters. The significant time lag in providing refunds has supposedly eroded the competitiveness of exporters by around 1.2 per cent to 2 per cent. The Committee notes that the trickle has not yet become a torrent. The refunds are still not coming to the exporters in an expeditious manner. An estimated 15-20 percent of the working capital is already stuck up with the Government for refunds. It is important that the stuck up capital is released expeditiously and the situation must not be allowed to deteriorate any further. It is felt that if the stuck up capital reaches a figure of 20-25 per cent of the working capital then it will result in a steep downward spiral of our exports. Such a situation will break the backbone of our industry and exporters will be demotivated to do business. (Para 2.8)
2. The Committee notes that the problem of delayed refund is across the industry irrespective of their size and contour. It is not only the MSME but even the large corporate houses that have been impacted. Nonetheless, the impact is more damaging for small enterprises. The Committee finds this very worrisome. (Para 2.9)
3. The Committee fails to understand that if the facility for filing GSTR 1 for August 2017 would be ready by 4<sup>th</sup> December 2017 then how come refund claims of IGST paid for exports made in August, September and October 2017 are being sanctioned seamlessly wherever returns have been accurately filed. There is no information as regards the timeline by which the facility for filing GSTR 1 for the months of September and October, 2017 will be ready. The Committee hopes that the Department of Revenue and the Central Board of Excise and Customs will take necessary steps to redress the situation at the earliest. The claim that the Government has taken various measures to alleviate the difficulty and is fully committed to provide speedy disbursal of



refunds due to exporters calls for more concerted action on the ground. (Para 2.12)

4. The Committee further wish to point out that despite the notification of CBEC stating that filing of returns may be done by Form 6A/ GSTR-1E for the month of August and September, 2017, the exporters are witnessing an error while filing the GSTR-1E or Form 6A and as a result, the exporters are unable to claim the refunds through the GSTR-1E or Form 6A. It hopes that immediate steps will be taken to address this problem. (Para 2.13)
5. The Committee notes that a small amount of Rs 30 crore has been refunded against the input tax credit claimed and at least a beginning has been made. The Committee notes that though the time-limit for carrying out refund is 90 days of the filing of refund application after which there is a provision of paying interest. There is no penalty for delays in development of the refund module. It is disappointing that the module for filing ITC refund could be developed after more than 90 days of coming of GST in existence. The Committee expresses its displeasure for so late a start for refund of input tax credit. It hopes that the Department of Revenue will leave no stone unturned to expedite the process. It also desires that semi automatic system of refund of input tax credit may be replaced with completely automatic system with no human interface for claiming credit refunds. (Para 2.14)
6. The Committee notes several operational issues existing in the refund mechanism making the refund procedure tardy and cumbersome. The Committee feels that the optimal functioning of refund mechanism in the GST regime is of utmost importance to ensure smooth functioning of exports. The Committee notes that the technical snags in the GST Network are resulting into pushing up of deadlines for filing the returns from the month of July to October and further to December, 2017. (Para 2.15)
7. The Committee finds that the difficulty of handling the system from compliance perspective has been an issue for exporters and businesses at large. The refunds are being disallowed on slightest pretext. The Committee appreciates that due diligence is *sine qua non* for granting refunds but this cannot be overplayed inasmuch

as that one cannot see the wood for the trees. The Committee learns that refunds are being disallowed on various grounds. One of such grounds is that if any one of the 50 refund scrolls suffers from some defect, howsoever, minor, the customs authorities will cancel the whole batch of 50 scrolls and the entire batch will go back despite the remaining 49 refunds being in order. Further the error/mismatch is also being caused on account of difference in rounding off rupee which has been mandated under CGST Act (Section 170) and automatic dropping of the value of paisa so rounded off in the Customs ICEGATE. So the details filed in GSTN do not tally with Customs ICEGATE resulting in non-processing of refund claims. The Committee feels that these are causing undue hardship to exporters. It recommends the Department of Revenue to address the larger problem at the earliest. (Para 2.16)

8. The Committee was informed that exporters were also facing difficulty in refunds on account of delay in filing of electronic confirmation of gateway EGM to common portal as required under Rule 96(2) of CGST Rules by the customs authorities at gateway port. There may also be a delay on the part of sending Let Export Order/EGM which further delays the filing of electronic confirmation. This situation causes hardship to exporters. The Committee desires that either Rule 96(2) of CGST Rules may be amended suitably so that IGST claim can be processed on the basis of train report summary as it was being done in case of drawback disbursal or electronic confirmation may be filed by customs authorities within a reasonable time and any failure to do so must be accounted for. (Para 2.17)
9. The Committee is of the opinion that a simplified system for filing of refunds needs to be devised which is in line with the policy of ease of doing business. The Committee recommends that a simpler format be put in place for filing of refunds. The Committee also recommends that the Department should take all measures to educate and assist exporters, especially micro and small exporters, in order to enable them to handle technical glitches and several other issues that are coming in the way of exporters while filing refunds. (Para 2.18)

10. **The Committee welcomes the decision to set up an e-wallet. However, it is wary about adherence of the timeline of 1<sup>st</sup> April, 2018 that has been fixed to make the mechanism operational. It hopes that the Department of Revenue will be able to come up with the e-wallet on time. (Para 2.21)**
11. **The Committee further notes that there is no information regarding the amount that will be given as notional credit to the exporters except for the fact that the advance in this e-Wallet will be given on the basis of the past export performance of exporters. The Committee is of the considered opinion that the advance so credited in the e-wallet must be adequate to cater to the needs of the exporters. The Committee feels that the Government may adopt a liberal approach in crediting the advance and it may give credit as demanded by the exporter subject to a ceiling. If the exporter fails to utilize the credit as demanded then the excess credit may be withdrawn. (Para 2.22)**
12. **In view of this, the Committee desires that a formal mechanism for grievance redressal of exporters must be put in place. It is of the view that a dedicated office/unit may be established for continuous interaction with exporters and also to act as a single window for their grievance redressal. (Para 2.23)**

#### **REFUND OF UNUTILIZED INPUT TAX CREDIT (ITC)**

13. **The Committee also finds that this blocking of ITC adds to the problem of garment manufacturer/apparel sector since mills buy MMF Yarn at the rate of 12% GST. Fabric is made out of the same and sold to Garment Manufacturer at the rate of 5% GST. The difference is not refundable due to the fact that input taxes are in excess of output taxes. As a result the fabric comes loaded with non-refundable GST on Yarn which normally accounts to about 3% as blocked input credit. It increases cost and makes garments uncompetitive in international market. The Committee wishes to impress on the Department that sub-sectors like garments and made-ups within the textile sector have huge export potential and generate massive employment. It hopes that corrective steps will be taken in earnest. (Para 3.8)**

## **DUTY DRAWBACK SCHEME (DBK) AND RATE OF STATE LEVIES (ROSL)**

14. **The Committee finds that the new Drawback and ROSL rates (post transition, effective from 1st October 2017) are low and not realistic. It has been submitted by various labour intensive industries like textile, apparel, gems and jewellery, leather, handicrafts, sports goods and toys, engineering, etc that they do not capture the various blocked taxes that reduce the cost competitiveness of these industries. (Para 4.4)**
15. **The Committee is of the considered opinion that sudden withdrawal of the incentives extended earlier under Duty Drawback Scheme will lead to the collapse of labour intensive industries. This will have a cascading effect on employment and livelihood of poor workers in these industries. It was informed that trimming down of the Duty Drawback Scheme and consequent erosion of export competitiveness have already set-in the problem of lay-offs. The Committee expresses its deep concern over the possibility of job losses and it strongly feels that if the Government wishes to withdraw the benefit of Duty Drawback Scheme as prevalent in pre GST regime, it should do so in phased manner. The Committee, however, desires that any such exercise, must take due care that the revised rate under the scheme must incorporate any additional incentives/support for the exporters, which were being given prior to the introduction of GST. (Para 4.7)**
16. **In order to bring relief to the exporters, the Committee recommends that the Department of Revenue, Ministry of Finance extend the pre-GST Duty Drawback rates till 30<sup>th</sup> June, 2018 or till such time the Department works out the revised duty drawback rates. The Committee hopes that this will enable the exporters to overcome the problems being faced by them currently besides helping them to take a long term perspective while negotiating export orders. (Para 4.8)**
17. **The Committee noted that majority of the exporters are small exporters with a turnover of less than Rs. 15 crore. Most of these exporters do not have adequate back office capability. The new**

system of claiming taxes, both direct and embedded, make it very difficult and complicated for the small exporters to follow. Since the bulk of the exports are made by the small exporters, especially, in the labour intensive sectors such as garments, woollen wear, home furnishings, brassware, gems and jewellery, leather items, sports goods, etc., their trade bodies have represented that the Government should give a choice to the exporter of either claiming ITC or get a high enough duty drawback rate which would encompass all the taxes levied. They felt that most small exporters would prefer the latter scheme, since they would be able to easily claim the duty drawback after exporting their goods as was the system in the past. The Committee recommends that the Government provide for a duty drawback rate which would encompass all the taxes including the GST/IGST levied as well as embedded/blocked tax and give a choice to the exporters to either claim the Duty Drawback or follow the Input Tax Credit route. This will also release the pressure on GST Network. (Para 4.9)

18. The Committee is of the considered opinion that there is an imminent need to increase the ROSL adequately. The Committee strongly feels that the government may consider blocked/embedded levies for refund under Rebate of State Levies (RoSL) as well as reimbursement of embedded taxes in the central taxes, under the Duty Drawback scheme. The Committee recommends the Department to identify such incidence of embedded taxes in various industries and should evolve a mechanism so that such embedded taxes are refunded to the exporters. (Para 4.11)

## **DUTY CREDIT SCRIPS**

19. The Committee observes that limited utilization of Duty Credit Scrips issued under MEIS and SEIS schemes in GST regime has put a constraint on the working capital of exporters. The working capital could be released of the burden of payment of GST/IGST towards procurement of goods and services as well as exports of goods and services if the duty credit scrips were allowed to be utilized for payment purpose of all export related activities. The Committee strongly recommends that the duty credit scrips may

be permitted for payment of GST in domestic procurements and the payment of IGST on exports and imports of goods and services. (Para 5.3)

20. The Committee is happy to note that the Department of Commerce has decided to raise incentive rate for Merchandise Exports from India Scheme (MEIS) by 2 per cent across the board for labour intensive/MSME sectors. The increase in annual incentive by 34 per cent to Rs. 8,450 crore will benefit apparel, leather, handicraft, carpets, sports goods, agriculture, marine, electronic components and project exports. The Committee is hopeful that this measure will incentivize the exports of labour intensive industries and contribute to employment generation. The Committee believes that these measures will restore confidence amongst exporters and stand in good stead for the exporters in the ongoing difficult transition period. (Para 5.5)

#### **REFUNDS ON CAPITAL ASSETS/GOODS RELATABLE TO EXPORTS**

21. The Committee notes that absence of credit on CVD and SAD component of customs duty in case of non-fulfillment of export obligation would result into CVD and SAD component becoming a cost to such exporters in GST regime. The Committee finds this to be an additional financial burden on the exporters. The need for working capital of exporters may rise substantially resulting into adverse consequences on exporters. The Committee desires that this difficulty of absence of enabling provision resulting in denial of credit may be addressed on priority. In the meantime, the Government can come up with a clarification allowing credit of CVD and SAD component. (Para 6.5)
22. The Committee notes that a temporary relief has been given to exporters till March, 2018. However, this does not solve the problem of non refund of IGST on capital goods import. The IGST can only be adjusted against the payment of IGST on export side. The problem of locking up of capital on account of the GST/IGST paid as well as accumulated Input Tax Credit (ITC) on import of capital goods remain as it is. Also, the problem of inverted duty structure persists when ITC on

purchases of capital goods at higher rates than the GST rate on final supply or IGST on exports is not fully compensated. It will add into exporters' capex for the project making it impossible for them to sustain and the project will become unviable. It has been informed that the entire process of finalising and importing the capital goods and setting up of a project is more than year and a half long cycle. The immediate relief till 31<sup>st</sup> March, 2018 does not help much. The exporters' community has shared that they have put their plans of import on hold. The Committee is of the considered view that the Government come up with permanent solution to this problem. It is of the opinion that this arrangement of non payment of IGST/Cess till March, 2018 should be made permanent. Similarly, machines bought domestically against EPCG scheme should be free from payment of IGST. The Committee recommends the Department of Revenue to bring up the issue of non refund of GST/IGST and non refund of accumulated Input Tax Credit (ITC) on capital goods import as well as domestic procurement before the GST Council on urgent basis and address all the issues flagged here for the larger benefit of country's exports. (Para 6.7)

23. The Committee also desires that refund of IGST may be provided for in case of those who have paid IGST before the issuance of the notification giving immediate relief for import of capital goods under AA/EPCG/100% EOUs. (Para 6.8)
24. The Committee is of the view that the Export Performance Certificate Scheme is significant for exporters from labour intensive sectors. It is of the opinion that this scheme should also be brought at par with ECGC/AA Scheme with similar relief that have been brought about recently. It also desires that the Government explore the possibility of dispensing of the requirement of the payment of GST/IGST for imports made for export purpose. (Para 6.10)

## **DEEMED EXPORTS**

25. The Committee notes that notification of deemed export supplies as it was in the earlier tax regime is essential to strengthen the Indian Companies by providing them tax refunds and exemption.

**The Committee recommends the Department of Revenue, Ministry of Finance to bring out notification regarding supplies as mentioned in Foreign Trade Policy for qualifying as deemed exports and extend export related benefits as provided under GST framework. It also desires that the previous position of considering the supplies made to the advance authorization/EPCG authorization holders or 100% EOU units towards export obligations under various schemes should be re-instated. (Para 7.4)**

#### **SUPPLIES TO SPECIAL ECONOMIC ZONES (SEZ) and EXPORT ORIENTED UNITS (EOUs)**

- 26. The Committee feels that this requirement is a hardship on SEZ units with no perceptible benefit. It is actually through general foreign exchange market and through the banks that SEZs buy foreign exchange and they pay it to the DTA suppliers. In such case, foreign exchange will remain in India only. (Para 8.4)**
- 27. It is also noted that EOUs can buy from small suppliers through reverse charge mechanism. But this provision does not extend to SEZs. In the absence of this capability, SEZ cannot procure supplies from small vendors and Bond/LUT cannot be executed because the supplier has to be a registered supplier in order to supply to SEZ. The Department may look into this difficulty. (Para 8.5)**
- 28. The Committee feels that the Government may explore the possibility of creating an optional mechanism where SEZ unit may be allowed to seek the refund in cases where the DTA suppliers refuse to seek the refund. (Para 8.6)**
- 29. The Committee is of considered opinion that a clarification may be put forward in this regard. It, nonetheless, feels that since both the unit holder and the developer are present in SEZ bonded area and they are required to export their goods only, hence, a transaction within the SEZ may not be subjected to any taxation. (Para 8.7)**



30. **The Committee is of the view that exemption of GST may be extended in both situations, whether EOUs purchase from DTA or they import their raw material from abroad. (Para 8.8)**

## **MERCHANT EXPORTERS**

31. **The Committee recommends necessary provisioning in the shipping bill for encapsulating the details of GSTIN and tax invoice numbers of more than one supplier may be made. (Para 9.5 (i))**
32. **The Committee recommends that clarity should be made on the definition of registered warehouse with a view to ease of doing business. (Para 9.5(ii))**
33. **The Committee recommends that Government may explore the possibility of doing away these compliance requirements. (Para 9.5 (iii))**
34. **The Committee recommends the Department to take necessary steps to address the problems. (Para 9.5 (iv))**
35. **The Committee recommends that a clarification in this regard may be issued. (Para 9.5 (v))**
36. **The Committee is of the considered opinion that the ceiling of 90 days should be relaxed and it may be extended to 180 days. (Para 9.6)**
37. **The Committee is of the view that the Notification of 23<sup>rd</sup> October, 2017 regarding Merchant Exporters needs clarifications. The Committee desires that the clarifications may be issued on priority in view of their pivotal role in country's exports especially for MSME sector which is critical to employment generation. (Para 9.7)**
38. **The Committee feels that in the cases of 'High Seas Trade', where the goods never enter India and are directly delivered to the customers outside India on instruction of the Indian supplier, it would be preferable that such transactions are kept outside the purview of GST in India. In view of the prevailing apprehension,**

**the Committee recommends that a specific clarification may be issued in this regard. (Para 9.9)**

## **REVERSE CHARGE MECHANISM AND EXPORTS**

- 39. The Committee notes that the reverse charge mechanism is increasing the operational woes and compliance issues on exporters wherein unnecessary burden had been imposed on them of first paying reverse charge and then claiming a refund. It also desist an exporter to make purchase from unregistered vendors who are usually small enterprises. Thus the businesses of these enterprises are likely to be affected adversely which will lead to job losses. The Committee is of the view that in order to have hassle free exports as well as to give boost to small enterprises, reverse charge mechanism may be removed on a permanent basis in the procurement made in relation to export activity. The Committee recommends the Department to engage with Ministry of Finance and take all steps to exempt the exporters from reverse charge liability. (Para 10.2)**

## **GST ON JOB WORK**

- 40. The labour intensive industries such as leather, garments, carpet, handicrafts etc which form a major part of exports of our country utilizes intensively the service of job workers in the manufacturing of products. These job workers are mostly self employed individuals or home workers especially women. Therefore, the Committee feels that high rates of GST on job work would have a negative bearing on the job workers as well as industries especially micro and cottage. It may also add to the compliance burden of job workers who are not equipped to handle such responsibility. Further, charging different rates on job work will be creating confusion in their classification resulting into disputes. Since the GST on job work for exports is revenue-neutral, the Committee is of the considered opinion that no GST may be imposed on job work for exports. The Committee understands that there may be concerns that it will be difficult to keep a track on such products that they do not enter domestic market. To tackle such a situation, the Committee feels that the**

**Government may provide for criminal penalty for any such breach. (Para 11.2)**

## **GST ON FREIGHT**

41. **The Committee notes that charging high rates of GST on air, sea and railway freight on exports not only causes additional cost burden on exporters but also erodes the competitiveness of export. The Committee is of considered opinion that imposition of GST on export freight which is later refunded is an unnecessary burden which stretches the working capital requirements of exporters. It, accordingly, recommends that export freights through air, sea and railway may be exempted or rationalized. (Para 12.2)**

## **INDIAN SHIPPING LINES AND GST**

42. **The Committee recommends that provisions of the IGST Act should be suitably amended for bringing exports made by Indian shipping line at par with foreign shipping lines and provide level playing field for Indian Shipping Industry. (Para 13.2)**

## **EXPORT OF SERVICES**

43. **The Committee desires that the Government may revisit section 2(6) of the IGST Act and ensure that such transactions between the Head Office and its branches may be kept out of its ambit. (Para 14.4)**

## **PLACE OF SUPPLY OF SERVICES**

44. **In view of the fact that GST is a destination based consumption tax, the Committee is of the view that following steps may be taken:**
- **Provide that Place of Supply of Indian Intermediaries of Goods will be the location of service recipient i.e. customers located abroad (and not the location of such intermediaries as is currently provided), so that Intermediary Services will be treated as ‘Exports’; or**

- Providing an exemption to Indian Intermediaries of Goods from levy of IGST, exercising the powers vested under Section 6(1) of IGST Act; or
  - Notify such services under Section 13(13) of the IGST Act to prevent double taxation (tax in India as well as in the importing country) by treating place of effective use (foreign country) as place of supply. (Para 15.2)
45. The Government may also cause amendment to section 13(8) of the IGST Act to exclude ‘intermediary’ services and make it subject to the default section 13(2) so that the benefit of export of services would be available. (Para 15.3)

## **REINSURANCE SERVICE**

46. The Committee is of the considered view that reinsurance service is an essential insurance product available to exporters which help them guard against high risk in exports due to volatile nature of global markets. The Committee recommends the Department to take necessary action so that the reinsurance service may also be covered under mega exemption list and the same should be exempted from payment of GST. (Para 16.2)

## **CONCLUSION**

47. The Committee is of the view that structurally GST is a much better taxation system than the earlier tax regime. However, teething problems have been there and there is a feeling that what was thought as the grand idea of GST, on the ground, the implementation has not been proper. The teething problems are, of course, there in the GST and technology-related issues. It has been noticed that there is no interface amongst GSTN, Customs ICEGATE and DGFT EDI systems and this problem needs to be addressed on urgent basis. The Committee feels that GSTN did not get enough time for testing. Even the training given to the officers on ground on issues like Letter of Undertaking (LUT) and related matters has not been adequate. Problems persist on procedural requirements as to what constitute a LUT. Different officers on the ground do not have any clarity on what should be the format of this Letter of Undertaking, whether it should be on a stamp paper or not. The Committee is happy to note that the

- GST Council and the Government have been responsive to the problems being faced by the exporting community and are trying to alleviate them urgently. The Committee hopes that the Government will leave no stone unturned to place in an efficacious taxation framework for a robust export framework. (Para 17.1)**
- 48. The Committee finds that the problem of delayed refund to exporters has caused hardships to the exporters. It is aware that the GST Council has taken various measures to alleviate this problem. The Committee, however, feels that if the taxes are to be finally refunded then what is the need to put the exporters to the rigmarole of paying taxes and taking its refund or taking refund of unutilized input tax credit. It has been experienced that it is easy to pay tax but it is very difficult to get a refund. The Committee feels that a system may be devised to ensure that the procurement/manufacture for export purpose may be exempted from taxation system. (Para 17.2)**
- 49. It has also been submitted before the Committee that a period of three month is not adequate to assess the impact of GST on exports. It has been emphasized that during July-September 2017, merchandise exports grew by 13.49% over same period in 2016. During July-September, 2017, services exports grew by 1.90% over same period in 2016. So, in totality, overall exports witnessed a positive growth. The Committee is of the considered opinion that the country cannot afford to wait and watch the impact of GST on exports after the lapse of considerable period. India's export is deeply intertwined with employment and rolling of machines in MSME sector. So it's a bounden duty to ensure that export sector remain healthy and vibrant. An early diagnosis and redressal of the problems helps in maintaining a healthy ecosystem. (Para 17.3)**
- 50. Moreover, the Committee has been of the view that the rise in exports during the period July-September, 2017 was the result of continuation of composite drawback duty scheme during the transition period which ended on 31<sup>st</sup> September, 2017 and exporters' haste to avail the scheme which made them advance the supply of their export order for the transition period of July to**

September, 2017. Though the Committee would have desired the outcome to be otherwise but the export figure for the month of October, 2017 indicate that the Committee presaged rightly. There is a slide in exports after the expiry of the transition period of composite rates of drawback. The Committee notes that in the month of October, there is an overall decline in the merchandise exports by -1.12 per cent *vis-à-vis* exports of October last year. The Committee notes that during the period July-October there has been a drop in the exports in the sectors like readymade garments of all textiles, fruits and vegetables, carpets, handicrafts, gems and jewellery, and there has been some stagnation in the sectors like leather. Thus the labour intensive sectors appear to have been adversely impacted in this brief period. Growth, however, has been visible in petroleum and chemical sector. This is largely on account of the increase in the commodity prices. There are increases also in the engineering sector which is relatively more organized sector. The Committee is certain that the Government will take all corrective measures in the present taxation system to ensure a sustained growth trajectory of our exports. (Para 17.4)

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# MINUTES

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## **I FIRST MEETING**

The Department Related Parliamentary Standing Committee on Commerce met at 11.00 A.M. on Friday, the 6<sup>th</sup> October, 2017 in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

### **PRESENT**

#### **MEMBERS**

1. Shri Naresh Gujral — *Chairman*

#### **RAJYA SABHA**

2. Shri Joy Abraham
3. Shri Ram Kumar Kashyap
4. Shri Kiranmay Nanda
5. Shri Vayalar Ravi
6. Dr. Kanwar Deep Singh

#### **LOK SABHA**

7. Shri Subhash Chandra Baheria
8. Shri Jitendra Chaudhury
9. Shri Dhananjay Mahadik
10. Shri Thota Narasimham
11. Shri Kamlesh Paswan
12. Shri K.R.P. Prabhakaran
13. Shri T. Radhakrishnan
14. Shri Janak Ram
15. Shri D.S. Rathod
16. Adv. Narendra Keshav Sawaikar

#### **SECRETARIAT**

Shri Narendra Kumar, Additional Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer



2. At the outset the Chairman welcomed the Members of the Committee to the first meeting after its reconstitution *w.e.f.* 1<sup>st</sup> September, 2017. \*\*\*
3. He, thereafter, discussed with the Members about the pending subjects before the Committee for examination and new subjects that could be taken up for examination. \*\*\*. In addition, four new subjects, namely (i) Impact of Goods and Services Tax (GST) on Exports, (ii) \*\*\* (iii) \*\*\* (iv) \*\*\* were also selected by the Committee for detailed examination. It was also decided to take up the immediate examination of 'Impact of Goods and Services Tax (GST) on Exports' and \*\*\* and to issue Press Communiqué on these subjects inviting comments/suggestions from individuals/ experts/ institutions/ organisations.
4. The Chairman thanked the Members for their participation in the meeting.
5. The Committee then adjourned at 11.45 A.M. to meet again at 3.00 P.M. on 23<sup>rd</sup> October, 2017.

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\*\*\* Relates to other matter.

## **II SECOND MEETING**

The Department Related Parliamentary Standing Committee on Commerce met at 03.00 P.M. on Monday, the 23<sup>rd</sup> October, 2017 in Committee Room 'A', Ground Floor, Parliament House Annexe, New Delhi.

### **PRESENT**

#### **MEMBERS**

1. Shri Naresh Gujral — *Chairman*

#### **RAJYA SABHA**

2. Shri Joy Abraham
3. Smt. Roopa Ganguly
4. Shri Ram Kumar Kashyap
5. Shri Kiranmay Nanda
6. Shri Vayalar Ravi
7. Dr. Kanwar Deep Singh

#### **LOK SABHA**

8. Shri Dibyendu Adhikari
9. Shri Subhash Chandra Baheria
10. Shri Bodhsingh Bhagat
11. Smt. Bijoya Chakravarty
12. Shri Jitendra Chaudhury
13. Dr. Kambhampati Haribabu
14. Shri Thota Narasimham
15. Shri K.R.P. Prabhakaran
16. Shri Janak Ram
17. Shri D.S. Rathod

#### **SECRETARIAT**

Shri Jagdish Kumar, Joint Secretary  
Shri A.K. Gandhi, Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer

## **WITNESSES**

### **REPRESENTATIVES OF DEPARTMENT OF COMMERCE, MINISTRY OF COMMERCE AND INDUSTRY**

- 1) Ms. Rita Teaotia, Secretary
- 2) Shri Alok Vardhan Chaturvedi, Director General, DGFT
- 3) Shri Nikunj Kumar Srivastava, Addittional DGFT
- 4) Shri Ajay Kumar Srivastava, Joint DGFT
- 5) Shri Rahul Kumar, Deputy DGFT

### **REPRESENTATIVES OF CONFEDERATION OF INDIAN INDUSTRY (CII)**

- 1) Shri Harishanker Subramaniam, Chairman, CII Core Group on GST & National Leader, Indirect Tax, Ernst & Young LLP
- 2) Ms. Janaki Choudhary, Member CII National Committee on Export and Head, Strategy & Business Development, Tata International Ltd.
- 3) Shri Rahul Gupta, Committee on Export & Chairman Export Promotion Council for EOUs & SEZs

### **REPRESENTATIVES OF APPAREL EXPORT PROMOTION COUNCIL (AEPC)**

- 1) Shri Virender Uppal, EC Member
- 2) Shri Milind Haldankar, EC Member
- 3) Shri Harish Ahuja, EC Member
- 4) Shri Narendra Goenka, EC Member
- 5) Shri Ratnesh Malhotra

### **I. ORAL EVIDENCE OF REPRESENTATIVES OF DEPARTMENT OF COMMERCE, MINISTRY OF COMMERCE AND INDUSTRY**

2. At the outset, the Chairman welcomed the Members of the Committee and informed them of the agenda of the meeting. The Committee then decided to postpone the examination of the subject 'Startup India Programme', to take it up after completing the examination of 'Impact of

Goods and Services Tax (GST) on Exports. He, thereafter, made opening remarks for the officials of Department of Commerce, Ministry of Commerce and Industry wherein he sought their views on various issues/concerns on the subject 'Impact of Goods and Services Tax (GST) on Exports '.

3. The representatives of Department of Commerce started the presentation by providing a background of the GST regime. The Committee was then apprised about the export trends post GST which appeared to be increasing. However, it was admitted that the increasing trend in exports post implementation of GST could be attributed many other factors other than GST. It was submitted that three months is too less a time period to assess the impact of GST on exports. The Committee was informed that labour intensive exports have not shown good growth post GST implementation. It was then briefed about the positive impact of GST such as reduction in cascading effect of taxes, unified common national market promoting foreign investment and Make in India, lower compliance costs etc.

4. The Committee was informed of a key change that implementation of GST has brought about. Pre-GST, taxes and duties on inputs required for manufacturing of exports were either *ab-initio* exempted or refunded under

various schemes. But post GST, instead of *ab-initio* exemption, the exporters have to pay first and then apply for refund which has blocked the working capital of exporters. This system has led to increased cost of exports and possible loss of orders. The Committee was then apprised of the issues related to GST resolved in the GST Council meeting on 6<sup>th</sup> October, 2017. Pending key issues of the GST Regime and the way ahead were also presented by the Department's representatives.

5. Issues such as delay in release of Integrated Goods and Services Tax (IGST) refunds, GST rates on job works, efforts by the Government to persuade the banks for credit for exporters in face of delays, uniformity of GST in labour contracts, duty drawback incentives for value added products, GST on ocean freight, traders/exporters clarity on GST rates, GST's effect on inflation, etc. were raised by Chairman/Members.

6. The Chairman then thanked Secretary, Department of Commerce, Ministry of Commerce and Industry and her colleagues for the information provided and requested them to furnish the replies in writing on the issues not addressed during the interaction.

## **II. ORAL EVIDENCE OF REPRESENTATIVES OF CONFEDERATION OF INDIAN INDUSTRY (CII) AND APPAREL EXPORT PROMOTION COUNCIL (AEPC)**

7. The representatives of Confederation of Indian Industry (CII) opined that the reforms of the tax sector in the form of GST are complex and the exporters are navigating through many difficult points in the newly formed tax structure. They apprised the Committee about the effect of the decisions taken by the GST Council on 6<sup>th</sup> October, 2017 on the exporters and their working capital. They informed that majority of exporters don't prefer paying IGST but go for refund mechanism through Letter of Undertaking (LUT)/Bond mechanism leading input tax credit getting stuck as the refunds are delayed. They submitted that the compliance of the new tax system has been an issue. It was suggested that an offline utility for refunds on input tax credit needs to be started. The need for clarification about the e-wallet mechanism and early roll out of the mechanism by the Government was emphasised on.

8. The Committee was apprised that under the present GST regime, SEZ units are required to pay the suppliers of Domestic Tariff Areas in foreign exchange not only for services as was earlier but also for merchandise and goods, which is a hardship and not beneficial. Another issue brought to the fore was the hesitance of suppliers to supply to SEZ as they are wary of the refund process. It was suggested than an optional mechanism may be brought under GST where instead of the suppliers, the SEZ unit may seek

the refund. Other suggestions to simplify the GST regime vis-à-vis SEZ were also preferred.

9. The representatives of Apparel Export Promotion Council (AEPC) apprised the Committee that the duty drawback scheme, that the apparel exporters prefer, has seen a reduction in its rate from 12% to 3% in the GST regime. They apprised the Committee that they have not opted for the refund mechanism under GST yet and are still continuing with duty drawback route for exports. Concerns were raised about 18% IGST to be paid on inputs and the absence of a clear mechanism to claim it back. It was submitted that since the apparel exporters have paid IGST, they cannot claim it because they have opted for the drawback route. The need for clarity amongst exporters regarding the process of refunds under GST was stressed for.

10. It was suggested that Government may consider giving higher support under Merchandise Export from India Scheme (MEIS) to the textile exporters, mostly comprising of MSME, so that it undercuts the working capital issues and high transaction cost that have arose in the GST regime. The Committee was apprised that 80% of garment exporters, who are worth below Rs.10 crores of exports, are at disadvantage unless they get full refund under the new regime. These exporters are facing issues of capital,

transaction complexities arm twisting by suppliers etc., in the GST regime and it is perceived that 10%-15% of the exporters are on the verge of exit within a year. The Committee was informed of the presence of inverted duty structure vis-à-vis imported capital goods. It was hoped that the Government would address it through e-wallet or some other mechanism. The representatives of AEPC submitted that they are not aware of the modalities of e-wallet. It was requested that projects under EPCG should be exempted from the rigmarole of paying IGST upfront issues and waiting for refunds.

11. The Chairman then thanked the representatives of CII and AEPC for their views on the subject and requested them to furnish the issues/concerns raised by them and their suggestions in writing.

12. A verbatim record of the proceedings of the meeting was kept.

13. The Committee then adjourned at 4.06 P.M.



### **III THIRD MEETING**

The Department Related Parliamentary Standing Committee on Commerce met at 03.00 P.M. on Monday, the 3<sup>rd</sup> November, 2017 in Committee Room No.4, Block A, First Floor, Annexe Extension Building, New Delhi.

#### **PRESENT**

#### **MEMBERS**

1. Shri Naresh Gujral — *Chairman*

#### **RAJYA SABHA**

2. Shri Joy Abraham
3. Shri Ram Kumar Kashyap
4. Shri Kiranmay Nanda
5. Shri Vayalar Ravi
6. Dr. Kanwar Deep Singh

#### **LOK SABHA**

7. Shri Dibyendu Adhikari
8. Shri Subhash Chandra Baheria
9. Dr. Kambhampati Haribabu
10. Shri T. Radhakrishnan
11. Shri Janak Ram
12. Shri D.S. Rathod

#### **SECRETARIAT**

Shri A.K. Gandhi, Director  
Shri Narendra Kumar, Additional Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer

#### **WITNESSES**

#### **REPRESENTATIVES OF FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY (FICCI)**

1. Shri Santosh Dalvi, Partner, KPMG

2. Shri Manab Majumdar, Deputy Secretary General
3. Ms. Ira Khanna, Additional Director

**REPRESENTATIVES OF THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA (ASSOCHAM)**

1. Shri Pratik Jain, Chairman
2. Shri J.K. Mittal, Co-Chairman
3. Shri V.Sivasubramanian Executive Partner
4. Shri Vineet Agrawal, Senior Vice President
5. Shri Avinash Sharma, Additional Director

**REPRESENTATIVES OF INDIAN BANKS' ASSOCIATION (IBA)**

1. Shri Jatinderbir Singh, Chairman
2. Smt. Radhika Kamat, Member
3. Shri Atul Gautam, Senior Advisor

**REPRESENTATIVES OF THE COTTON TEXTILES EXPORT PROMOTION COUNCIL (TEXPROCIL)**

1. Shri Ujwal R Lahoti, Chairman
2. Shri Siddhartha Rajagopal, Executive Director
3. Shri A. Ravindra Kumar, Joint Director

**REPRESENTATIVES OF COUNCIL FOR LEATHER EXPORTS (CLE)**

1. Shri Mukhtarul Amin, Chairman
2. Shri Aqeel Ahmed, Vice-Chairman
3. Shri Manoj Tuli, Convener
4. Shri Sunil Harjai, Convener

2. At the outset, the Chairman welcomed the Members of the Committee and informed them the agenda of the meeting. He drew the attention of the Members to Rule 294 (i) of the Rules of Procedure and Conduct of Business in the Council of States (Rajya Sabha) which require that the Members

declare their interests before participating in any debate taking place in the Council or its Committees on a matter under consideration.

**I. ORAL EVIDENCE OF REPRESENTATIVES OF ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY (ASSOCHAM), FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY (FICCI) AND INDIAN BANKS' ASSOCIATION (IBA)**

3. The Chairman welcomed the representatives of ASSOCHAM, FICCI and IBA and sought their views on the subject 'Impact of Goods and Services Tax (GST) on Exports'. The representatives of Indian Banks' Association (IBA) apprised the Committee about the issues of compliances required in filing the GST returns and unnecessary documentation, abolition of refund of GST on capital goods used as inputs in production of goods and services for exports, clause (v) of Section 2(6) of the IGST Act that excludes services transaction from the benefit of exports and Section 13(8) of the IGST Act that includes intermediaries hired in exports in the category of location of suppliers subjected to GST thereby increasing the cost of exports.

4. The representatives of ASSOCHAM raised the issue of delay in refund in case of Countervailing Duty (CVD) and Special Additional Duty (SVD) on exports in the post GST regime. In this context, a request was made that for the export licenses obtained prior to 1<sup>st</sup> July, 2017, a corresponding credit or a refund should be allowed. The Committee was

also apprised that MEIS and SEIS scrips obtained by the exporters earlier should be allowed to be used in the post GST regime for the payment of GST on local procurement as well as for payment of IGST on imported procurement.

5. The Committee was then briefed about the absence of any mechanism of refund of GST for foreign tourists and restoration of benefits to the deemed exporters and scrapping of reverse charge mechanism. Further, it was submitted that the benefits of refund i.e. 0.1% of GST given to merchant exporters should be extended to manufacturers.

6. The representatives of Federation of Indian Chambers of Commerce and Industry (FICCI) discussed the issues of expediting refunds to exporters, the benefits of online filing of Letter of Undertaking (LUT), need of clarifications in the provisions of GST related to the merchant exporters and the problems of accumulated credit. Improper implementation of GST, difficulties faced by small exporters and businesses in complying with GST norms and measures taken by the Government to address them were also discussed. It was further submitted by them that returns should be allowed to file quarterly in order to reduce burden of compliance. Issues of e-way bills, benefits of e-wallet mechanism, the steps taken by banks in providing

interim relief to exporters who have been affected in the GST regime, the coming down of duty drawback rates were also discussed.

7. The Chairman then thanked the representatives of ASSOCHAM, FICCI and IBA for the issues raised before the Committee and requested them to furnish the replies in writing on the issues raised by the Members during the interaction.

## **II. ORAL EVIDENCE OF REPRESENTATIVES OF COTTON TEXTILES EXPORT PROMOTION COUNCIL (TEXPROCIL) AND COUNCIL OF LEATHER EXPORTS (CLE)**

8. The representatives of Cotton Textiles Export Promotion Council (TEXPROCIL) apprised the Committee that the exporters who have been denied the refunds on GST lacks clarity on why their request for refunds have been rejected and what remedial measures shall be taken in this regard. The Committee was suggested that refunds should be initiated immediately after the Export General Manifest (EGM) is filed with the Customs as there exist sufficient checks and balances within the system. Issues of accumulated Input Tax Credit, usage of duty scrips in the payment of IGST, difficulties in filing of online returns and reduction in duty drawback returns were also discussed.

9. The Chairman further asked for a note on the adverse effect of slashing of duty drawback rates on the exports of cotton textiles and the issues of embedded taxes as a result of GST.

10. The Representatives of Council of Leather Exports submitted to the Committee that due to high GST rates on leather garment industry and thin profit margin, the industry is in a crisis. It was further apprised that due to this, the industry is also facing severe competition from countries like Bangladesh. Also, the Committee was informed that in the post GST regime due to requirement of additional working capital, the input costs have risen by 10 per cent than the previous year. It was suggested that level playing field should be given to leather exports and government should provide every support to this sector.

11. The Chairman then thanked the representatives of TEXPROCIL and CLE for presenting their views before the Committee.

12. A verbatim record of the proceedings of the meeting was kept.

13. The Committee then adjourned at 4.57 P.M to meet again on 10<sup>th</sup> November, 2017.

#### **IV FOURTH MEETING**

The Department Related Parliamentary Standing Committee on Commerce met at 11.00 A.M. on Friday, the 10<sup>th</sup> November, 2017 in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

#### **PRESENT**

#### **MEMBERS**

1. Shri Naresh Gujral — *Chairman*

#### **RAJYA SABHA**

2. Shri Joy Abraham
3. Shrimati Roopa Ganguly
4. Shri Ram Kumar Kashyap
5. Shri Kiranmay Nanda
6. Shri Vayalar Ravi

#### **LOK SABHA**

7. Shri Subhash Chandra Baheria
8. Shri Bodhsingh Bhagat
9. Shri Jitendra Chaudhury
10. Shri Thota Narasimham
11. Shri Janak Ram
12. Adv. Narendra Keshav Sawaikar

#### **SECRETARIAT**

Shri Jagdish Kumar, Joint Secretary  
Shri A.K. Gandhi, Director  
Shri Narendra Kumar, Additional Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer

#### **WITNESSES**

#### **REPRESENTATIVES OF FEDERATION OF INDIAN EXPORT ORGANISATION (FIEO)**

1. Shri Ganesh Kumar Gupta, President
2. Shri Ajay Sahai, Director General & CEO

3. Shri Bimal Mawandia, Member Managing Committee

#### **REPRESENTATIVES OF GEMS AND JEWELLERY EXPORT PROMOTION COUNCIL**

1. Shri Anil Sankhwal, Regional Chairman
2. Shri K.K. Duggal, Director (Policy)
3. Shri Supreme Kothari, Consultant

#### **REPRESENTATIVES OF PHARMACEUTICALS EXPORT PROMOTION COUNCIL (PHARMEXCIL)**

1. Shri Ashutosh Gupta, Immediate Past-Chairman

#### **REPRESENTATIVES OF AGRICULTURAL AND PROCESSED FOOD PRODUCTS EXPORT DEVELOPMENT AUTHORITY (APEDA)**

1. Shri D.K. Singh, Chairman
2. Shri Sunil Kumar, Director

#### **REPRESENTATIVES OF MARINE PRODUCTS EXPORT DEVELOPMENT AUTHORITY (MPEDA)**

1. Shri B. Sreekumar, Secretary

#### **REPRESENTATIVES OF TEA BOARD**

1. Shri Shyamal Misra, Joint Secretary

#### **REPRESENTATIVES OF COFFEE BOARD**

1. Dr. Y. Raghuramulu, Director

#### **REPRESENTATIVES OF SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS (SIAM)**

1. Shri Sugato Sen, Deputy Director General



**REPRESENTATIVES OF AUTOMOTIVE COMPONENT  
MANUFACTURERS ASSOCIATION OF INDIA (ACMA)**

1. Shri Vinnie Mehta, Director General

**REPRESENTATIVES OF ENGINEERING EXPORT PROMOTION  
COUNCIL (EEPC)**

1. Shri Pankaj Chadha, Vice Chairman
2. Shri Pradeep Kumar Agarwal, Deputy Regional Chairman
3. Shri Suranjan Gupta, Additional Executive Director

**REPRESENTATIVES OF NATIONAL ASSOCIATION OF  
SOFTWARE AND SERVICES COMPANIES (NASSCOM)**

1. Ms. Bishakha Bhattacharya
2. Shri Vinod Mandlik
3. Shri Saurabh Kanchan

2. At the outset, the Chairman welcomed the Members of the Committee and informed them the agenda of the meeting.

**I. ORAL EVIDENCE OF REPRESENTATIVES OF (i)  
FEDERATION OF INDIAN EXPORT ORGANISATION (FIEO); (ii)  
GEMS AND JEWELLERY EXPORT PROMOTION COUNCIL; AND  
(iii) PHARMACEUTICALS EXPORT PROMOTION COUNCIL  
(PHARMEXCIL)**

3. The Chairman welcomed the representatives of Federation of Indian Export Organization (FIEO), Gems and Jewellery Export Promotion Council and Pharmaceuticals Export Promotion Council (PHARMEXCIL) and flagged various issues on the subject 'Impact of Goods and Services Tax (GST) on Exports' and sought their views thereon. The representatives of Federation of Indian Export Organisation (FIEO) apprised the Committee of

the delay in refund process which has resulted in blocking of working capital and concomitant challenges for exporters especially those from labour intensive sectors. It was submitted that although short term measures were taken by GST Council to solve the problem of blocked working capital, however, the challenges remain in their implementation. It was emphasized that non availability of refunds has resulted in increase in cost liability and consequent erosion of export competitiveness by around 1.2 per cent to 2 percent.

4. The representatives of FIEO further apprised the Committee of the issues of taking away of certain benefits that were given to exporters under the Foreign Trade Policy in the post GST regime such as limited usage of Merchandise Export from India Scheme (MEIS) and Service Export from India Scheme (SEIS) scrips, imposition of pre import conditions that completely prohibits domestic purchases causing difficulty in complying the delivery schedule as well as inventory management, technical glitches in filing of IGST as well as ITC refunds, difficulties in working of reverse charge mechanism, problems arising due to imposition of GST on job work and embedded taxes were also discussed. It was suggested that introducing the option of duty drawback rates that combine both customs duty as well as GST paid on inputs in addition to the existing option of duty drawback

offsetting Customs duty shall give much relief to the exporters, especially small and medium exporters from the poor working of the refund mechanism. The exporter may exercise any of the two option. Issues of embedded taxes on silk, high GST rates on handicrafts products and furniture, GST on air freight and sea freight paid by vegetables and fruits exporters, GST on job work were also discussed.

5. The representatives of Gems and Jewellery Export Promotion Council submitted that in the post GST regime, the working capital in the diamond industry and jewellery industry is blocked to the tune of Rs. 4000 crores and Rs. 515 crores respectively. The blocked fund has adversely affected exports and has put employment under stress. It was proposed that various players in the chain, such as importers, job workers, traders, aggregators, exporters etc. involved in any transaction should be charged under one single nominal rate of GST. Also, the GST on export may be reduced to 0.1 per cent from present 3 per cent. It was submitted that the entire chain may be treated as one single entity otherwise it will cause difficulty in compliances. Further there was also a need for simplification in the compliance processes. It was suggested that GST model of Belgium and Israel may be studied to achieve this end.

6. The representatives of Pharmaceuticals Export Promotion Council informed the Committee that delay in refunds has caused blockage of capital wherein the exporters of pharma exporters are facing tough competition with countries like China in the post GST regime. Also, complex compliance mechanism involved in GST is affecting ease of doing business.

7. The Chairman then thanked the representatives of FIEO, Gems and Jewellery Export Promotion Council and PHARMEXCIL for presenting their views before the Committee.

**II. ORAL EVIDENCE OF REPRESENTATIVES OF (i) AGRICULTURAL AND PROCESSED FOOD PRODUCTS EXPORT DEVELOPMENT AUTHORITY (APEDA); (ii) MARINE PRODUCTS EXPORT DEVELOPMENT AUTHORITY (MPEDA); (iii) TEA BOARD; AND (iv) COFFEE BOARD**

8. The representatives of Coffee Board submitted that though green coffee attracts zero tax, there is confusion over certain grades of green coffee which is being taxed at 5 per cent. It was requested that a clarification in this regard may be issued. It was also requested, as was the case in pre GST time, a clarification on no tax on coffee curing that does not affect the primary characteristic of the product, may be issued.

9. The representatives of Tea Board informed the Committee that Rs. 100 crores have been blocked as working capital due to delay in funds. Other issues like high GST rate on tea sourced from brokers, difficulty in

complying with 90 day requirement for export, high rate of GST on tea warehousing were also raised.

10. The representatives of Agricultural and Processed Food Products Export Development Authority (APEDA) informed the Committee that the sector was facing problem on account of high rate of GST on air freight which was earlier exempted and the problem of embedded tax in food processing industry.

11. The representatives of Marine Products Export Development Authority (MPEDA) submitted that exports of marine products have not been much affected by GST.

12. The Chairman then thanked the representatives of Coffee Board, Tea Board, APEDA and MPEDA for presenting their views and requested them to furnish the replies in writing on the issues raised by the Members during the interaction.

**III. ORAL EVIDENCE OF REPRESENTATIVES OF (i) SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS (SIAM); (ii) AUTOMOTIVE COMPONENT MANUFACTURERS ASSOCIATION OF INDIA (ACMA); (iii) ENGINEERING EXPORT PROMOTION COUNCIL (EEPC) AND (iv) NATIONAL ASSOCIATION OF SOFTWARE AND SERVICES COMPANIES (NASSCOM)**

13. The representatives of Society of Indian Automobile Manufacturers (SIAM) made a power point presentation wherein they raised the issues of

compensation cess levied on exports, procedural issues in filing of returns, GST on imports of capital goods, limit for exporting goods etc.

14. The representatives of Automotive Component Manufacturers Association of India (ACMA) also made a power point presentation and requested that a uniform GST rate of 18 per cent across all product categories in the auto component sector may be put in place and also refund of GST shall be allowed on procurement of capital goods. It was further submitted that after the introduction of GST utilization of Merchandise Exports of India Scheme (MEIS) scrips and Services of Export India Scheme (SEIS) scrips to pay CGST, SGST and IGST is not allowed and the same be allowed with retrospective effect from 1<sup>st</sup> July, 2017.

15. The representatives of Engineering Export Promotion Council (EEPC) submitted that challenges in refund mechanism has badly affected the sector and this may affect the growth momentum noticed in recent past. It was pointed out that the problem of delay of refunds is due to no interface between GST Network and Customs ICEGATE. Further, no refund module as of now has been developed for GST to be paid under a bond or Letter of Undertaking (LoU). It was also informed that the exporters are facing procedural issues in e-sealing facility.

16. The representatives of National Association of Software and Services Companies (NASSCOM) made a power point presentation and discussed the issues related to compliance and submitted that clarifications are needed on several procedural aspects while filing the returns. It was further submitted that transactions carried between head office and branch office and consequent fund transfer should be outside the GST ambit. Issues related to place of supply, difficulties faced by Special Economic Zone (SEZ), Export Oriented Unit (EOU) and Software Technology Parks of India (STPI) Units, IGST on testing services were also discussed by them.

17. The Chairman thanked the representatives of SIAM, ACMA, EEPC and NASSCOM for presenting their views and requested them to furnish replies on the issues raised by the Members during the interaction.

18. A verbatim record of the proceedings of the meeting was kept.

19. The Committee then adjourned at 3.22 P.M.

**V**  
**FIFTH MEETING**

The Department Related Parliamentary Standing Committee on Commerce met at 03.00 P.M. on Monday, the 20<sup>th</sup> November, 2017 in Committee Room 'C', Ground Floor, Parliament House Annexe, New Delhi.

**PRESENT**

**MEMBERS**

1. Shri Naresh Gujral — *Chairman*

**RAJYA SABHA**

2. Shri Joy Abraham
3. Shrimati Roopa Ganguly
4. Shri Ram Kumar Kashyap
5. Shri Kiranmay Nanda
6. Shri Vayalar Ravi

**LOK SABHA**

7. Shri Dibyendu Adhikari
8. Shri Subhash Chandra Baheria
9. Shri Dushyant Chautala
10. Shri Chhotelal
11. Dr. Kambhampati Haribabu
12. Shri Saumitra Khan
13. Shri Dhananjay Mahadik
14. Shri K.R.P. Prabhakaran
15. Shri D.S. Rathod

**SECRETARIAT**

Shri Jagdish Kumar, Joint Secretary  
Shri Narendra Kumar, Additional Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer



## **WITNESSES**

### **REPRESENTATIVES OF WOOL & WOOLLENS EXPORT PROMOTION COUNCIL**

1. Shri Sushil Kaura, Chairman
2. Shri Harmit Singh Bhalla, Member
3. Shri Mahesh N Sanil, Executive Director

### **REPRESENTATIVES OF SPORTS GOODS EXPORT PROMOTION COUNCIL**

1. Shri Dharam Mahajan, Chairman
2. Shri Rajesh Arora, Member

### **REPRESENTATIVES OF MORADABAD HANDICRAFTS EXPORTERS ASSOCIATION**

1. Shri Satyapal, General Secretary
2. Shri Ajai Gupta, Executive General Secretary

2. At the outset, the Chairman welcomed the Members of the Committee and informed them the agenda of the meeting.

### **ORAL EVIDENCE OF REPRESENTATIVES OF (i) WOOL AND WOOLLENS EXPORT PROMOTION COUNCIL, (ii) SPORTS GOODS EXPORT PROMOTION COUNCIL AND (iii) MORADABAD HANDICRAFTS EXPORTERS ASSOCIATION**

3. The Chairman welcomed the representatives of Wool and Woollens Export Promotion Council, Sports Goods Export Promotion Council and Moradabad Handicrafts Exporters Association and sought their views on various issues pertaining to the subject 'Impact of (GST) on Exports'. The representatives of Wool and Woollens Export Promotion Council submitted that though GST *per se* is good yet its implementation has caused hardship

to small exporters, especially merchant exporters. An overview of the GST rate of various items of wool and woollen products sector was given and it was pointed out the anomalies in tax structure exists which need to be removed. Concerns were raised over considerable reduction in duty draw back rates on various items and non refund of embedded tax. It was pointed out that GST imposed on services like rail/shipping freight, warehousing, customs sale, marine insurance, ECGC cover was eating away much of their funds. Further, the remittances received are also being taxed by banks which have added to the cost. It was submitted that such taxations must be done away with.

4. The representatives of Moradabad Handicrafts Exporters Association submitted that the biggest problem being faced by them was the delay in GST refund. It was pointed out that as estimated Rs.600 crore is blocked on this account. Further, the rise in metal prices which already attract very high rate of GST and reduced duty drawback rate has added to their woes. Other issues affecting this sector like GST on job work, different tax rate on same metal product, non-payment of small workers and artisans were also raised.

5. The representative of the Sports Goods Export Promotion Council submitted that sports goods are subject to three different GST slabs. It was requested that a uniform 12 percent GST may rather be imposed across all

goods in the sector. Issues like difficulty arising on account of GST on job work, reduced duty drawback rates on export were also flagged. It was also requested that GST on sea freight and air freight for export may be withdrawn. It was suggested that banks may be instructed to pay the refund claims to the extent of 90 per cent after verification of the documents. This will help the exporters overcome the problem of blocked capital.

6. All witnesses were unanimous that duty drawback rate should be realistic and the Government should go back to old system of giving them the duty drawback so that they do not have to claim refunds.

7. The Chairman thanked all the representatives of the three organizations for presenting their views on the subject. He requested them to furnish replies on issues raised by the Members during the interaction.

8. A verbatim record of proceedings of the meeting was kept.

9. The Committee then adjourned at 3.53 PM to meet again on 28<sup>th</sup> November, 2017.

## **VI SIXTH MEETING**

The Department Related Parliamentary Standing Committee on Commerce met at 03.00 P.M. on Monday, the 28<sup>th</sup> November, 2017 in Committee Room 'A', Ground Floor, Parliament House Annexe, New Delhi.

### **PRESENT**

#### **MEMBERS**

1. Shri Naresh Gujral — *Chairman*

#### **RAJYA SABHA**

2. Shri Joy Abraham
3. Shrimati Roopa Ganguly
4. Shri Ram Kumar Kashyap
5. Shri Kiranmay Nanda
6. Dr. Kanwar Deep Singh

#### **LOK SABHA**

7. Shri Dibyendu Adhikari
8. Shri Subhash Chandra Baheria
9. Shri Bodhsingh Bhagat
10. Shrimati Bijoya Chakravarty
11. Shri Jitendra Chaudhury
12. Dr. Kambhampati Haribabu
13. Shri Thota Narasimham
14. Shri Kamlesh Paswan
15. Shri Janak Ram
16. Shri D.S. Rathod
17. Adv. Narendra Keshav Sawaikar

#### **SECRETARIAT**

Shri Narendra Kumar, Additional Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer

## **WITNESSES**

### **REPRESENTATIVES OF DEPARTMENT OF REVENUE, MINISTRY OF FINANCE**

1. Dr. Hasmukh Adhia, Secretary (Finance)
2. Shri B.N. Sharma, Additional Secretary (Revenue)
3. Mrs. Vanaja N. Sarna, Chairperson (CBEC)
4. Shri Prakash Kumar, CEO, GSTN
5. Shri L.S. Srinivas, Joint Secretary (Customs)
6. Shri Nitish Kumar Sinha, Joint Secretary (Drawback)

### **REPRESENTATIVES OF DEPARTMENT OF COMMERCE, MINISTRY OF COMMERCE AND INDUSTRY**

1. Ms. Rita Teatia, Secretary (Commerce)
2. Shri Alok Vardhan Chaturvedi, Director General, DGFT
3. Shri Nikunj Kumar Shrivastava, Additional Director General, DGFT

2. At the outset, the Chairman welcomed the Members of the Committee and informed them the agenda of the meeting.

3. The Chairman thereafter welcomed the representatives of Department of Commerce, Ministry of Commerce and Industry and representatives of Department of Revenue, Ministry of Finance and flagged various issues and concerns *vis-a-vis* the subject 'Impact of Goods and Services Tax (GST) on Exports' and sought their views thereon. Responding to the issues raised by the Chairman in his opening remarks, the Commerce Secretary submitted that the Department of Commerce is working closely with the Department of Revenue to address the concerns of exporters rising under the GST regime. The Committee was then briefed about the performance of exports in the

months following the implementation of GST as compared to the same period last year. It was stated that labour intensive exports have been adversely affected in these months. The Committee was informed that the Government has decided to increase the rates for incentives under Merchandise Exports from India Scheme (MEIS) for two sub-sectors of the textile industry and the measure would stimulate the exports of labour intensive sectors of the readymade garment industry. Thereafter, it was submitted that Department of Commerce is in constantly engaged with Export Promotion Council and Department of Revenue to expedite the refund of IGST and input tax credit, the delay of which is the main concern of exporters.

4. The Finance Secretary informed the Committee that the overall impact of GST on exports is going to be hugely positive. Under GST structure, there would be complete refund of CGST and SGST making it very friendly for the exporters as compared to the earlier tax regime where delay in the refund of VAT component of taxes paid by exporters was excruciating. The Committee was apprised that the duty drawback scheme, which the exporters found attractive and were comfortable with, was continued for three months even after the advent of GST. This led to advancing of export orders and front loading of exports in the month of

September this year. Then there was a decline in exports as the duty drawback scheme ended on 30<sup>th</sup> September, 2017. It was submitted that the overall picture of exports is positive and in addition to GST, the global factors have also propped up the export.

5. The Committee was apprised of the functioning of e-wallet mechanism. It was submitted that the applicability of Duty Drawback Scheme within the GST structure and MEIS and SEIS scrips as payment for IGST would be explored in the GST council.

6. Issues such as refund of unutilized input tax credit, decline in services exports, non refund on capital goods import, grievance redressal cell for exporters, non-uniform freight rates, fluctuating rates of GST, GST on job work and its refund, tax on sports goods, effect of GST on labour intensive industries, amount of refunds pending disbursement and revenue generated in the pre-GST regime and the GST regime were also raised.

7. The Chairman thanked the representatives of the Department of Commerce and Department of Revenue for information provided on the subject. He requested them to furnish replies on issues raised by the Members not addressed during the interaction and also to the questionnaire handed over to them.

8. A verbatim record of proceedings of the meeting was kept.

9. The Committee then adjourned at 4.17 P.M.

## **VII SEVENTH MEETING**

The Department Related Parliamentary Standing Committee on Commerce met at 03.00 P.M. on Tuesday, the 12<sup>th</sup> December, 2017 in Committee Room 'E', Basement, Parliament House Annexe, New Delhi.

### **PRESENT**

#### **MEMBERS**

1. Shri Naresh Gujral — *Chairman*

#### **RAJYA SABHA**

2. Shri Joy Abraham
3. Shrimati Roopa Ganguly
4. Shri Ram Kumar Kashyap
5. Shri Kiranmay Nanda
6. Shri Vayalar Ravi

#### **LOK SABHA**

7. Shri Dibyendu Adhikari
8. Shri Subhash Chandra Baheria
9. Shri Jitendra Chaudhury
10. Shrimati Kavitha Kalvakuntla
11. Shri Janak Ram

#### **SECRETARIAT**

Shri A.K. Gandhi, Director  
Shri Narendra Kumar, Additional Director  
Shri Amit Kumar, Deputy Secretary  
Ms. Kiran K., Research Officer

2. At the outset, the Chairman welcomed the Members to the meeting and informed them about the agenda of the meeting. The Committee, then, took up for consideration the draft 139<sup>th</sup> Report on 'Impact of Goods and Services Tax (GST) on Exports'. After some discussion, the Committee



adopted the draft 139<sup>th</sup> Report with some modifications/alterations. The Committee then authorized the Chairman to make corrections/alteration, if any of minor nature, in the Report on behalf of the Committee. The Committee decided to present the said Report on Tuesday, 19<sup>th</sup> December, 2017.

3. It was decided that the said Report will be presented in Rajya Sabha by the Chairman and in his absence, by Shri Kiranmay Nanda, M.P. and in the absence of both of these Members, Shri Joy Abraham, M.P. will present the Report. In Lok Sabha, the Report would be laid by Shri Janak Ram, M.P. and in his absence by Shri Jitendra Chaudhury, M.P. would lay the Report.

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5. \* \* \*

6. The Committee then adjourned at 3.45 P.M.

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\*\*\* Relates to other matter.

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# ANNEXURE

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