Standing Committee Report Summary

Impact of Goods and Services Tax (GST) on exports

- The Standing Committee on Commerce (Chair: Mr. Naresh Gujral) submitted a report on the 'Impact of Goods and Services Tax (GST) on exports' on December 12, 2017. The Goods and Services Tax (GST) is an indirect tax which subsumes several central and state taxes such as central excise duty, service tax, and entry tax. Currently, it has two components: (i) central GST, and (ii) state GST. Further, an Integrated GST (IGST) will be levied on inter-state supplies of good and services. The IGST will also apply to imports and exports of India. Key observations and recommendations made by the Committee include:

- **Refund mechanism under GST:** Under the IGST Act, exporters are eligible to claim refund on: (i) duties paid on exports, and (ii) unutilized input tax credit. Such refund should to be paid within 60 days from the date of receipt of the complete refund application. Further, an interest rate of 6% should be paid in case full refund is not granted within 60 days.

- The Committee noted that the refund under IGST was pending for the months of July, August and September 2017. Further, it noted that an estimated 15-20% of working capital stuck as refunds is affecting the optimal functioning of both small enterprises, and large corporates. In this regard, the Committee recommended that the refund amount should be released without any further delay. It further recommended that the semi-automatic system of input tax credit should be replaced with a completely automatic system for claiming refunds.

- **Grievance redressal:** The Committee noted there are difficulties in getting clarifications regarding various provisions of CGST/IGST Act including filing of claims and refund processes. The Committee recommended there should be a formal mechanism for grievance redressal of exporters.

- **Refund of unutilised Input Tax Credit:** Input Tax Credit is the credit accumulated when the tax paid on inputs in more than the output tax liability. Such accumulated credit can be carried over to the next financial year for utilisation. In such cases, refund of unutilised credit is permitted under GST. Certain cotton fabrics and man-made textiles were put under a GST rate of 5% under the condition that there will be no refund of such accumulated credit. The Committee noted that this would increase the cost, and make garments uncompetitive in the global market.

- **Duty Drawback Scheme:** Under the Duty Drawback scheme, duties and taxes such as customs, excise duties, and service taxes are rebated on inputs used in the manufacturing of goods to be exported. Post-GST, the drawback applies to basic customs duty only. The Committee noted that the duty drawback rates for certain products have reduced significantly. These include products in labour-intensive sectors such as textile, leather and handicrafts. The Committee stated that such sudden withdrawal of incentives affects the labour-intensive industries, and thereby leading to job losses in these industries. Hence, the Committee recommended that the duty drawback rates before the introduction of GST should continue till Jun 30, 2018 or till the Department of Revenue works out revised duty drawback rates.

- **Deemed exports:** The Committee noted that certain goods supplied to export oriented units in India are treated as deemed exports. Such deemed exports were eligible for duty refund or exemption from central taxes to increase the competitiveness of Indian firms participating in international tenders. The Committee observed that the Department of Commerce has not notified any supplies as deemed exports. The Committee recommended that the Department of Revenue should bring out a notification regarding such supplies for qualifying as deemed exports, and extend export related benefits under the current GST framework.

- **Reverse charge mechanism:** Under reverse charge mechanism, when an unregistered person supplies goods or services to a registered person, the registered person should pay the GST on such supply. The Committee stated that this mechanism discourages exporters from making purchases from unregistered vendors such as small enterprises. It further stated that this mechanism increases operational and compliance issues for exporters as they need to first pay reverse charge and then claim a refund. It recommended that the reverse charge mechanism be removed.

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