



Ext. : 118

Email : policy@epch.com

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June 16, 2017

The Chairman,
GST Council,
Ministry of Finance, Government of India.
North Block,
New Delhi - 110001

Subject: Representation seeking redressal on concerns about likely impact of GST on exporters of handicraft industry

Sir,

1. We, Export Promotion Council for Handicrafts (hereinafter referred to as "EPCH"), is an apex organization engaged in promotion of exports of handicrafts from the country and has 11000 member exporters on PAN India basis. Our objective is to promote the exports of handicrafts and to project India's image abroad as a reliable supplier of high quality handicraft goods. Handicrafts is a labour intensive sector which provides employment to over 7 million artisans which includes a large number of women and people belonging to the weaker sections of the society in rural areas. Handicrafts sector has also emerged as one of the major sources of foreign exchange earnings for the country with exports of Rs. 24530.25 crores during the Financial Year 2016-17.
2. GST in India is a welcome reform and the industry is very enthusiastically waiting to enter into GST regime.
3. The 'Handicrafts' has not been indicated anywhere in the GST Notification pertaining to GST rates, further, the rates announced by GST Council on different items are at 4 digit HS code level. As you may be aware the excise duty on handicrafts is currently exempted under notification no. 17/2011-CE dated 1/3/2011 (Annexure –A). Further under the VAT laws in various states, handicrafts are placed under schedule I which covers the exempted goods (Annexure –B). On going through the schedule of rates under GST indicated for various handicrafts items are on the higher sides i.e. at 12%, 18% and 28% [Tabulation of Handicrafts ITC HS Codes with GST rates at eight or four digit level (Annexure –C)]. It is requested that the rates for handicrafts items may be rationalized so that the quantum of benefit under excise and VAT exemption which was available to the handicrafts sector continues in the GST regime. Handicrafts being employment generating cottage sector should be accorded special status and rates be minimized so that livelihood of the individuals engaged in the sector is not affected.

Further, most of the exporters of handicrafts work on borrowed capital. The process of payment of GST first and claiming the refund at later stage would result in the blocking of the funds for the small exporters engaged in the sector.

4. Job work:-

The entire production process of the handicrafts is outside the four walls of the factories of the exporters. Since, this is a cottage sector, the process of manufacturing is not limited under one roof, the process of production is spread to minimum 7 and up to 15 stages of production at the artisan (job worker) premises who are located at the different places. Average earning of such job workers may be less than Rs. 10,000/- per Month. All these persons are not registered under GST law. As per GST law the registered person will have to pay tax on reverse charge basis from these job workers. As a result the exporter or manufacturer will prefer to pass the work to the job worker who is registered under GST act to avoid payment of GST under reverse charge resulting lakhs of small job workers on the verge of unemployment.

The new GST act does not provide any relief to the sector particularly with respect to the provision contained in the Section 9 (4) with regard to the Reverse charge in case of supplies from un-registered persons.

We would strongly recommend that suitable exemption should be given to such small job workers from GST on reverse charge basis to safe guard their interest. We understand GST rate on job work is 18% , however GST rates for textiles job worker has been reduced to 5%, it is requested that the job worker engaged in handicrafts sector may also be given the same benefit.

5. Stock in hand as on 30th June 2017:-

We understand from the left over stocks of previous year ITC will be allowed for only one year purchases. While most of the exporters specially dealing in wooden items having stocks for more than one year. All such stocks will be used in the manufactured of goods for export only.

We would suggest that limit of one year should be removed for exporters for allowing ITC for stocks only for one year purchases in case of exporters.

6. Input Credit

There is no clarity as regards availment of CENVAT credit on the stock of finished goods by a handicraft manufacturer because handicraft industry avails drawback at full rate without the facility of CENVAT. Since the units are registered with Central Excise department for availing facility of self sealing of containers. Hence the transitional provisions of taking credit of by non-registered unit cannot avail the credit as per provisions of Section 140 (3) of CGST Act. Moreover, there are no transitional provisions as regards availment of cenvat credit on a particular category of goods on the ground that cenvat credit facility was not availed as full rate of drawback was claimed. Therefore, a suitable clarification needs to be issued in this regard.

7. GST on Sale of Scrips:-

- a. The incentives received i.e. MEIS, SFIS etc. is merely 'duty credit' scrips and these are 'intangible goods' and is a document in lieu of 'cash'. These scrips can be utilized exclusively for the purpose of payment of customs, excise, service tax etc. So technically these are like bank cheques which need not be subjected to GST. These will also reduce the transaction costs of the exporters.

- b. The Government has announced that on implementation of GST effective 1st July, 2017, export incentives such as MEIS/SEIS and all relevant reward scheme scrips issued either as per the old policy or the current policy will be eligible only for discharging payment of basic customs duty. This would mean that the demand for such scrips will now be only around 25% and the exporters returns will go down tremendously.
- c. Exporters get the scrips only after about three to four months of export and sometimes even later. The exporters calculate the costing keeping in mind that around 95% realization of these scrips and accordingly quote for the products to the buyers. With the under utility of the scrips apart from basic customs duty, the exporters will lose to the extent of 40-50% and will incur losses.

It is requested that the Government may consider the utilization of these scrips against all types of GSTs.

8. GST on fair participation:-

a) EPC's organizes Exhibitions and Trade Fairs (Reverse Buyer Seller meets) which are B2B shows with no retail sale and only orders are booked. Since the exhibitors do not sell their goods and only book orders and after the event is over bring their goods back to their own premises, it may be treated similar to the process of movement of goods (No Sale or Purchase) and may be exempted from GST. Further it is important to note that the service tax on participation in fairs within India was exempted till March 2009 (Notification 43/2007 dated 29th November 2007) and for participation in fairs overseas is exempted [Notification No. 5/2011-service tax dated 1st March 2011 (Annexure -D)].

b) The exhibitors having registered office in one city and participate in these shows in various cities of India are required to get registered in each state where they intend to participate. As per the new GST regime (**Section 2 Sub Section (20) of CGST "casual taxable person"**), every participant has to register himself as a casual dealer in the state where the exhibitions is being held. It will be a cumbersome exercise for the exhibitors and will discourage the participants for participating in the Trade Fairs and Exhibitions, it may be clarified that the participant is not required to register himself/herself as a casual taxable person in the state where the exhibition is being held and he is not selling any goods in the exhibition.

9. GST on foreign agency commission earned by Buying Agents

There is no clarity on Taxability under GST on 'Intermediary Service' based on Place of Supply of Services as rendered by buying agents.


Buying Agents are exclusively appointed by Foreign Buyers (Principal) to look after their business interests in India. The Agent's assignment includes receiving artwork, sketches, prototypes or a full sample of the item to be developed, manufactured and shipped from India, and the service is being utilized by the foreign principal in the foreign country only. Proper clarification is required to be issued that these buying agents engaged with foreign principals are not covered under the definition of 'intermediary services'.

It is requested that services rendered by buying agents should be treated as Export of Services where commission is received in foreign exchange and should be subject to zero rate GST.

Prayer:

In view of the above it is submitted that in case the above issues are not resolved the increased cost of exports would render the export from India as non-competitive and severely affect the handicraft export from India. Export industry will not be able to sustain the hit and shall collapse. As this sector is labour intensive and employs artisans from remote clusters, any adverse impact on the sector give rise to employment crisis. Therefore, we humbly request your good self to take necessary action and issue the requisite clarifications in order to ensure the smooth transition of our industry into the GST regime. The copy of representations from various handicrafts associations also enclosed for your ready reference (Annexure-E).

We shall be pleased to furnish any further information, which your good self may require in this regard.

Yours faithfully,


(O. P. Prahladka)
Chairman

Encl : as Annexure above

- A. Notification of Central Excise
- B. Notification of VAT (various States)
- C. List of 167 ITC HS Codes
- D. Notification of Fair participation
- E. Representations of Associations