

EPCH draws strategy to address GST issues

Urges Union Finance Minister to exempt Handicrafts from GST



Mr. Arun Jaitley, Union Minister of Finance, seen with the EPCH led industry delegation (LtoR): Mr. P N Suri, President, North India Shippers Association; Mr. Rakesh Kumar, Executive Director, EPCH; Mr. Satpal, Moradabad Handicrafts Exporters Association; Mr. Dinesh Kumar, Chairman, EPCH; Mr. Bharat Dinesh, Secretary, Jodhpur Handicrafts Exporters Association; Mr. Abdul Azim, Moradabad Handicrafts Exporters Association; Mr. O P Prahladka, Vice Chairman, EPCH; Mr. Tulasi Rao, All India Crochet Lace Exporters Association

Among points discussed during the interaction were : Rate of GST on handicrafts, tax-free procurements for exporters of handicrafts, optimization of working capital, rate of duty drawback, loss of credits under various situations, refund mechanism in case of exports, job work procedure, GST on sale of scrips and its utilization and stock from previous years.

the banner of Export Promotion Council for Handicrafts (EPCH) met Union Minister of Finance, Mr. Arun Jaitley at his office in New Delhi on 17th October, 2016. The delegation submitted the petition

EPCH organized a stakeholders consultation meet in EPCH House, New Delhi on 10th October, 2016 wherein representatives of industry associations and exporters gathered to discuss the implications of GST on handicrafts sector. EPCH engaged the services of a leading tax consultant of national repute having expertise on GST matters, to prepare a petition on behalf of handicrafts exporters to be submitted to the GST Council, Ministry of Finance, Govt. of India.

In continuation to this, a delegation of manufacturers, exporters and industry associations from all over India under

to the Finance Minister, pertaining to the concerns of the handicrafts sector towards the forthcoming GST regime.

The Hon'ble Finance Minister gave a patient hearing to the delegation and among points discussed during the interaction were : Rate of GST on handicrafts, tax-free procurements for exporters of handicrafts, optimization of working capital, rate of duty drawback, loss of credits under various situations, refund mechanism in case of exports, job work procedure, GST on sale of scrips and its utilization and stock from previous years.

The handicrafts sector has apprehensions that the GST regime may be tough on MSMEs and crafts persons. The sector which has 100% exemption under Central Excise, is covered under the GST regime with higher taxes, making the products uncompetitive in the international market. The delegation requested the Hon'ble Minister for the full exemption of the handicraft sector from the GST as the refund of taxes would result in blockage of capital.

The Hon'ble Minister also enquired about the future growth of the sector and assured that its interests will be safeguarded in GST. The Finance Minister also interacted individually with the representatives of associations about the products from their region and their growth prospects. GST is all set to integrate the state economies and boost overall growth, with its implementation with effect from 1st April 2017.

Excerpts from EPCH's representation seeking redressal on concerns about likely impact of GST on exporters of handicraft industry

Rate of GST on Handicrafts

The handicraft industry is comprised of small level artisans located in various clusters and the annual turnover of such persons may be well below Rs. one crore. Most of the exporters of handicrafts work on borrowed capital. In case handicrafts are not exempt under GST and GST is imposed at the reported rate of 18-22%, the same will result in increased working capital requirement for the exporters with additional compliance requirements at each level in the handicraft industry. Currently, the merchant exporter can avail the exemption of sales tax on the last sale or purchase of goods preceding the sale or purchase occasioning the export of goods out of the territory of India through Form H system. However, in the FAQs issued by govt. on GST issues, there will be no provision in GST under which the merchant exporters could purchase the goods without payment of taxes. They will claim refund of the accumulated ITC. This will in turn lead in additional cost of interest for exporters which will have to be added in the price at which goods are exported, rendering export of handicrafts unviable in the competitive global market. Further making handicrafts taxable under GST will result in additional compliance requirements at each level in the industry. Over the years, the govt. has taken various initiatives to promote the growth of the sector in India. We hereby request that the existing exemptions with respect of handicrafts should continue under GST regime and nil rate of Central GST and State GST be imposed on handicrafts.

Tax-Free Procurements for exporters of Handicrafts

In case handicrafts are not exempt under GST regime, the working capital requirements of the exporters will increase

significantly and the additional amount of working capital will be blocked till the time the goods are exported and refund of input tax is granted. In view of the above, it is requested that if the general exemption for handicrafts is not allowed under GST then a mechanism should be developed under the GST law to enable exporters of handicrafts to procure goods without payment of taxes for optimization of the working capital. We feel such a mechanism is feasible under the GST system as all supplies by taxable person would be uploaded through GSTR-1 mentioning the GSTIN of buyer. The buyer accepts and confirms the receipt of such supplies in his GSTR-2. In cases where buyer is registered and accepts the receipt of supplies in his GSTR-2 the seller's liability can be shifted to the exporter's liability as is done in reverse charge situations. The exporter in turn can be made liable to pay GST if he fails to export the said goods in the specified period. This will help in reducing the working capital outflow by avoiding the process of first paying the tax and then claiming the same as refund. This will also reduce the administrative cost for the department through elimination of refund processing route.

Optimization of Working Capital

Liability of exporters to pay under reverse charge

For optimization of working capital at the end of the exporters, suitable provisions may be incorporated under the GST law providing that no GST will be payable by the exporters under reverse charge on the supplies made to them. Otherwise in such cases, the exporters will have to pay taxes at the first stage upon receipt of the supply and thereafter claim refund of such taxes after the goods are exported. Even under service tax law, in respect of services received by the exporters

on which service tax is payable under reverse charge like Goods Transport Agency service or commission agent's service, outright exemption from service tax has been granted. Same principle should be applicable under GST as well. Further, the supplies to the exporters can be considered as 'zero rated supplies' allowing such suppliers to avail credits on their inputs and input services.

Status of existing schemes under GST

At present, benefits regarding excise duty, service tax and central sales tax on various supplies are available under the provisions of the Customs Law, Foreign Trade Policy and Special Economic Zone. Till now, there is no clarity regarding the manner in which these schemes will continue under GST. For instance, there is no clarity as to whether the exemption under the Advance License and EPCG schemes will be available only with respect to the BCD element of the customs duty or whether the exemption will also be available in respect of the IGST element of the customs duty which will be levied instead of CVD and SAD under the GST regime. Similarly, various scrips like MEIS are issued to exporters which can be utilized for making payment of CVD and SAD or excise duty in case of domestic procurements. Such scrips should be allowed to be utilized for payment of IGST also under the GST regime. In order to avoid additional working capital requirements under GST, the benefits under the existing schemes should be extended to GST as well.

Rate of Duty Drawback

As many of the small exporters procure goods from the unorganized sector which may fall below threshold limit or may fall under composition limit under GST, no credit of taxes suffered by them in their inputs and services used for such goods meant for export can be availed by the exporter. Such tax incidence is being offset by way of grant of duty drawback to these exporters at the specified rates. It is requested that even after implementation of GST in India, duty drawback should be allowed as an option at two rates viz., lower rate of drawback when input tax credit is availed and higher rate of duty drawback when input tax credit is not availed on the same lines as available currently in the Drawback Schedule. Further, the All Industry Rate of Duty Drawback should also be revised under GST so as to factor the increased tax cost on the

procurements on account of increase in rate of taxes on input material and input services.

Loss of Credits under various situations

Place of supply provisions under the proposed IGST Act in majority of cases recognize the location of service recipient as the place of supply where the supply is to a registered person. However, in some cases like services relating to immovable property location of service recipient is not taken into consideration for deciding the place of supply. Thus there can be situations where the supplier and place of supply will be in the same state, but the receiver will be located in a different state. Such supplies will then be taxed as intra-state supply liable to CGST and SGST, credit of which will not be available to the receiver of service located in a different state.

Illustration: Employee of exporter located in Delhi visits suppliers located in Maharashtra and uses hotel accommodation services in Maharashtra. In this case, the place of supply (POS) being in Maharashtra, the hotel will charge GST as intrastate supply liable to CGST and SGST. The exporter being registered in Delhi will not be in a position to avail credit of SGST/CGST for its business in Delhi. Such situations where credit gets blocked will increase the cost of operations and may thus be taken into account while fixing drawback rates.

Refund Mechanism in case of Exports

Some of our members may claim refund of taxes paid in relation to the exported goods or on the inputs or input services used in the goods which are exported out of India as provided under Section 38 of the Model GST Law. As per the said provision, 80% of the refund claim can be disbursed on provisional basis to the claimant and the balance amount is given after verification or processing of claim. From the draft refund rules and forms released in the public domain it appears that refund of credit of IGST and CGST and credit of SGST would be separately processed by two authorities. This will lead to multiple handling and duplication of refund sanctioning process creating additional procedural requirements for the claimant also. It is requested that the claim with respect to all the above heads should be jointly decided and disbursed by Central Government by adopting settlement route with state governments with respect to SGST portion of refund claim. The

refund claim should not be administered by dual authorities. Further, as the past experience of industry in claiming refunds from departments is not good, it is requested that in-built procedural mechanism should be created in the system for keeping accountability of any delay in refunds on the concerned officers. The procedural provisions should not be allowed to be used as a tool for delaying the refunds.

Job Work Procedure

It is our understanding that goods can be sent to job workers without payment of GST on such goods and the processed goods can further be transferred to other job workers in the same way and finally the finished goods meant for export can be received by the exporter. In this process neither the job worker nor the principal (exporter) would be required to pay any GST if the special procedure as provided for in the Act (Section 43A of Model GST Act) is followed. The referred section provides that the Commissioner may permit the above procedure by a special order. In this process, there can be situations where multiple jurisdictional commissioners would be involved from both CGST and SGST perspective. In this regard it is prayed, to avoid multiple permission requirements the provision should allow for taking a onetime permission (valid for a defined period) from a single authority. As there is no clarity whether job worker would be required to charge GST on its supply when above procedure is followed, suitable provision may be made to hold that the job workers would not be required to pay any GST with respect to their value addition (attributable to goods or services or both from its account) when such procedure is followed. Job worker may be given an option to charge GST on its value addition to enable him to utilize the credit available with him.

GST on Sale of Scrips

Various types of scrips like MEIS are issued by the Govt. of India against the export of goods. These are transferable and the exporters can also sell them. Such sale of scrips are either exempted from VAT in States or are subjected to lower rate of VAT (4%). No other indirect tax is applicable on such sale of scrips. Under GST, new Tax rates might be applicable at the time

of sale of such scrips. It is therefore requested that such scrips being issued as an incentive to the exporter be considered as zero rated supplies only. Issuance of scrips by Govt. should not be treated as supply under GST. It can be covered under Schedule IV Entry 4 (d) which says that the Government shall not be regarded as taxable person with respect to services provided regarding currency, coinage, legal tender, foreign exchange, etc. The transfer of such scrips should also not be considered as supply. Even if the same is treated as a supply it should attract lower rate of GST as presently only sales tax/VAT at lower rate is payable on it.

Utilization of Scrips

The utilization of the scrips issued to exporters is also an important matter. It is understood that under GST, the MEIS scrips will only be eligible for payment of basic customs duty as against their current utilization for payment of basic/additional/excise /service tax, which will hurt the exporters as usability of scrip will be restricted. The Govt. should consider their utilization against all types of GSTs.

Stock in hand before GST, what shall happen to the opening stock?

The left over stock from previous years ITC shall be allowed, only one year purchases where as it is requested that entire stocks of previous years ITC should be allowed and carried forward. Purchases from un-registered dealer by the exporters, purchases tax must be exempted under section 5. In the year 01.04.2010 when "E" Form was introduced the purchases from un-register dealer was exempted and same facilities should be available in GST.

Request

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. 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 for necessary action and issue of requisite clarifications to ensure the smooth transition of our industry into the GST regime. ■