



# **EXPORT PROMOTION COUNCIL FOR HANDICRAFTS**

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October 17, 2016

**Shri Arun Jaitley**  
**Hon'ble Finance Minister,**  
 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**

Hon'ble 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 9000 member exporters. 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 21,457.91 crores during the Financial Year 2015-16.
2. GST in India is a welcome reform and the industry is very enthusiastically waiting to enter into GST regime. We understand that GST will become effective from 1<sup>st</sup> April, 2017.
3. Based on the information about the proposed GST law and system available in public domain (Model GST Law, Draft Rules on certain processes and earlier draft reports) the industry feels that there may be negative impact for them in certain areas. This can adversely affect the handicraft industry and also the export sector as a whole. We wish to draw your kind attention to the following concerns of the industry for appropriate redressal:

### **Rate of GST on Handicrafts**

4. 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. The exporters of handicraft purchase handicraft from them for export purposes. At present, excise duty on handicrafts is exempted under Notification No. 17/2011-C.E. dated 1.3.2011. Further, under the VAT Laws in various states, handicrafts are placed under Schedule 1 which covers the exempted goods (Extract of the excise notification and Schedule 1 of some of the states is attached as Annexure-1).

5. We would like to bring to your kind notice that most of the exporters of handicrafts work on borrowed capital. In case the 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 at the end of the exporters and 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 Government on GST issues, it has been clarified that there will be no provision in GST under which the merchant exporters could purchase the goods without payment of taxes. They will have to purchase goods upon payment of tax and claim refund of the accumulated ITC.
6. This will in turn lead in additional cost of interest for the exporters which will have to be added in the price at which goods are exported. As a result, the export of handicrafts will become unviable in the competitive global market. Further making handicrafts taxable under GST will result in additional compliance requirements at each level in the handicraft industry. As explained above the handicraft industry comprises of small level artisans which operate from their homes located in remote clusters and undertaking systems based GST compliance for them will be cumbersome and costly.
7. Over the years, the government has taken various initiatives to promote the growth of the handicraft sector in India.
8. In line with the above policy of the Government, we hereby request your goodself that the existing exemptions with respect of handicrafts should continue under GST regime and nil rate of Central GST and State GST is imposed on handicrafts. This will ensure that the handicrafts are available in the Indian market at affordable prices and it will also reduce the cost of procurement of the handicraft exporters and enable them to stay competitive in the international market.

#### **Tax-Free Procurements for exporters of Handicrafts**

9. As mentioned above, 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.
10. In view of the above, we hereby request your goodself that if the general exemption for handicraft is not allowed under GST then a mechanism should be developed under the GST law to enable the exporters of handicrafts to procure the goods without payment of taxes for optimization of the working capital requirements of such exporters. 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 exporter 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.
11. 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**

12. 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 Customs, Foreign Trade Policy and SEZ on issues regarding GST**

13. 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.
14. 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 today 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.
15. 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**

16. As many of the small exporters particularly in case of handicraft, carpets, handlooms procure the 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. Currently, such tax incidence is being offset by way of grant of duty drawback to these exporters at the specified rates.
17. We hereby request you 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.
18. 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**

19. 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 intra-state 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.
20. The above 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**

21. 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.
22. 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.
23. 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.
24. 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**

25. 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 that to avoid multiple permission requirements the provision should allow for taking a one-time permission (valid for a defined period) from a single authority only.

26. However, there is no clarity whether job worker would be required to charge GST on its supply when above procedure is followed. Thus 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**

27. Various types of scrips like MEIS are issued by the Government of India against the export of goods. Such scrips are transferable and the exporters can sell the same. 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.

28. 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 should be considered as zero rated supplies only. Issuance of scrips by Government 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.

29. Further 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 the same.

### **Utilization of scrips**

30. 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. Government should consider their utilization against all types of GSTs.

31. 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.

32. 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.

**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 goodself to take necessary action and issue the requisite clarifications in order to ensure the smooth transition of our industry into the GST regime.

We shall be pleased for furnish any further information which your goodself may require in this regard.

Yours faithfully,



**(Dinesh Kumar)**  
Chairman

Encl: As above