



DEPARTMENT-RELATED PARLIAMENTARY STANDING
COMMITTEE ON COMMERCE

One Hundred and Thirty-Ninth Report on 'Impact of Goods and Services Tax (GST) on Exports'

The Department Related Parliamentary Standing Committee on Commerce, under the Chairmanship of **Shri Naresh Gujral, MP, Rajya Sabha** presented the **One Hundred and Thirty-Ninth Report on 'Impact of Goods and Services Tax (GST) on Exports'** to the Rajya Sabha on 19th December, 2017. The Report has simultaneously also been laid on the Table of Lok Sabha. The full Report is available on the website www.rajyasabha.nic.in. Gist of main recommendations of the Committee is given below:-

REFUND MECHANISM UNDER GST

- The Committee notes that refunds has started to trickle only from the month of November, 2017 and 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. 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. (Para 2.8)
- 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. (Para 2.15)
- 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. (Para 2.16)
- 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 act as a single window for their grievance redressal. (Para 2.23)

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

- The Committee finds that the new Drawback and ROSL rates (post transition, effective from 1st October 2017) are low and not realistic. They do not capture the various blocked taxes that reduce the cost competitiveness of various labour intensive industries. (Para 4.4)
- 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. (Para 4.7)
- The Committee recommends that the Department of Revenue, Ministry of Finance extend the pre-GST Duty Drawback rates till 30th June, 2018 or till such time the Department works out the revised duty drawback rates. (Para 4.8)
- 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 GSTN. (Para 4.9)

DUTY CREDIT SCRIPS

- 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)

REFUNDS ON CAPITAL ASSETS/GOODS RELATABLE TO EXPORTS

- Absence of enabling provision resulting in denial of credit of Countervailing Duty (CVD) and Special Additional Duty (SAD) in case of non-fulfillment of export obligation may be addressed on priority. (Para 6.5)

MERCHANT EXPORTERS

- 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. (Para 9.9)

REVERSE CHARGE MECHANISM AND EXPORTS

- 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. (Para 10.2)

GST ON JOB WORK

- 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

- GST on export freights through air, sea and railway may be exempted or rationalized. (Para 12.2)

EXPORT OF SERVICES

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

PLACE OF SUPPLY OF SERVICES

- The Government may 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)

CONCLUSION

- 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. (Para 17.1)
- The Committee 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)

- 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)
