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EXPORT ORIENTED UNIT (EOU) SCHEME

By

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Introduction to EOU

- ✓EOU scheme is introduced basically to boost exports by creating additional production capacity, earn Foreign Exchange to the country, transfer of latest technology, stimulate direct investment and to generate additional employment.

- ✓A 100 per cent export-oriented unit is an industrial unit offering for export its entire production, excluding the permitted levels of domestic tariff area sales for manufacture of goods, including repair, re-making, reconditioning, re-engineering and rendering of services.

Eligibility/Conditions for formation of an EOU

- ✓ An EOU can be set up by any entrepreneur for manufacturing of goods and also for rendering services. An EOU can be set up for repair, reconditioning, re-making and re-engineering also.

- ✓ There should be a minimum investment of Rs. 1 crore in plant and machinery. The minimum investment should take place before the unit commences production.

- ✓ The entire production and operation of 100 per cent EOUs must be in a customs bonded factory, unless specifically exempt from physical bonding; Goods will be imported into the customs bonded premises.

- ✓ An approved EOU will execute a bond/legal undertaking with the Development Commissioner concerned and failure to fulfill the obligations stipulated in the letter of approval or intent will render the unit liable to penalty.

Eligibility/Conditions for formation of an EOU

- ✓ Trading activity is not allowed in the EOU Scheme.

- ✓ EOU unit is required to achieve only positive Net Foreign Exchange (NFE) over a period of 5 years.

- ✓ EOU unit can be set up on leased premises obtained from the Government, or incase of lease from private parties, the lease should have validity of 5 years from the date of LUT.

Salient Feature of EOU

- ✓ No Customs Duty on any imported goods (including capital goods on lease and second hand capital goods, without any age limit) required for EOU
- ✓ No Excise Duty on procurement of indigenous goods.
- ✓ Deemed export benefits including duty free raw materials, duty draw-back to the supplies to EOUs.
- ✓ Refund of Central Sales Tax.
- ✓ Export proceeds can be realized within 12 months
- ✓ Units will be allowed to retain 100% of its export earning in the EEFC account.
- ✓ Sub-contracting in DTA allowed.

Salient Feature of EOU

- ✓Sub-contracting in EOU for DTA unit is allowed for export purpose only.
- ✓Sub-contracting can be given to the extent of 50% of the overall production of previous year in value terms with the annual permission of Customs Authorities.
- ✓EOUs to achieve positive Net foreign exchange, with no restriction of minimum export obligation.
- ✓Advance DTA Sale Permission for Trial Production.
- ✓Domestic Sales at concessional rate of duties upto 50% of FOB Value of Exports.
- ✓Exit from EOU scheme is permissible whenever required.

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Application for EOU

- All applications are to be filed with the concerned Development Commissioner of Special Economic Zone (*For jurisdiction of Development Commissioner*) Appendix 14-I- K in triplicate.

- DD for Rs. 5,000/- drawn in favor of The Pay & Accounts Officer, Ministry of Commerce and Industry, Department of Commerce, payable at the Central Bank of India, Udyog Bhavan, New Delhi.

- Application for conversion of into an EOU unit from existing DTA units, having an investment of Rs. 50 Crores and above in plant & machinery or exporting Rs. 50 Crores and above annually shall be placed before BOA for a decision.

- Import Export Code: If the unit does not have an Import Export code (IEC), it will apply in the prescribed form (Appendix 18-B) to the Regional DGFT.

Permissions to be Obtained before starting the operation under EOU scheme

- **Letter of Permission (LOP):**

After submitting the application form and if every thing is in order, Letter of Permission (LOP) is issued by the DC after interview of the promoter by the Approval Committee. For format of LOP please see Appendix 14-I E.

- **Acceptance Letter :**

After confirming Details on LOP, formal Acceptance Letter has to be submitted to SEEPZ

- **Legal undertaking (LUT)**

A legal undertaking in the prescribed form undertaking to abide by the terms and conditions of the LOP has to be executed by the unit in format given at Appendix 14-1F on stamp paper of Rs. 150/-

- A Green Card will be issued to the unit by the DC.

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Permissions to be Obtained before starting the operation under EOU scheme

- ✓ Declaration of Warehousing Station, if not declared
- ✓ Private Bonded Licenses – u/s 58 & 65 for storage of duty free material and manufacture in bond and approval of ground plan.
- ✓ B-17 Bond - for projected duty saved amount
- ✓ Central Excise Registration
- ✓ Port Registrations

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B-17 Bond

- B-17 bond is a multi – purpose surety bond which the unit has to execute with the Jurisdictional Assistant/ Deputy Commissioner Customs/ Central Excise on a non-judicial stamp paper.
- Bond amount to be supported either Bank Guarantee to the extent of 5% of Bond Amount or Solvency Certificate twice the bond amount.
- Exemptions from BG or solvency in case the unit has a turnover of Rs. 5 Cr. or more, the unit is in existence for last three years and is having an unblemished track record
- The bond amount shall be equal to 25% of the duty foregone on the capital goods required in the next 5 years plus duty foregone on the value of raw material for a period of 3 months.

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Net foreign exchange earnings

- EOU unit is required to achieve only positive Net Foreign Exchange (NFE) over a period of 5 years.

- Net Foreign Exchange Earning shall be calculated cumulatively for a period of 5 years from the commencement of production.

Positive NFE = A – B >0, where

NFE is Net Foreign Exchange Earning,

A-is the FOB value of exports by the SEZ/EOU/ EHTP/STP/ BTP units; and

B- is the sum total of the CIF value of all imported inputs, the CIF value of all imported capital goods, and the value of all payments made in foreign exchange by way of commission, royalty, fees, dividends, interest on external borrowings during the first five years period or any other charges.

- For annual calculation of NFE, the value of imported capital goods and lump sum payment of foreign technical know how fee shall be amortized @ 10% for each of the 10 years.

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Net foreign exchange earnings

Calculation of NFE		Quarter: July to Sept	
A. FOB Value of Exports upto the quarter			
Less:			
Import Consumption upto the Qtr			
Amortised value of Capital goods			
Other foreign exchange payments			
B. Total Outflow			
Net Foreign Exchange (A-B)			
Rate of amortization per quarter			2.5%
Capital Goods	Value	Quarters	Amortised value
Op. Bal as on April'12		2.00	
Apr-June		2.00	
July-Sept		1.00	

DTA Sale

- EOU Units may sell manufactured goods including Waste & Scrap upto 50% of FOB value of exports, subject to fulfillment of positive NFE, at concessional rate of duty as applicable as per Notification No.23/2003 N.T. dt. 31.03.2003 as amended.

- Such permission can be obtained quarterly, half-yearly or annual basis.

- The duties on DTA sale will be equal to 50% of applicable Basic Customs Duty and regular additional duty in case imported raw material is used and the customer can avail the CENVAT benefits equivalent to additional duty payable on such products if imported.

- No permission , but intimation for DTA entitlement for Star House Exporters.

- If unit would like to sell over and above the prescribed limit, it can sell in DTA with full rate of duty as if the goods are imported provided they have achieved positive Net foreign exchange. Cenvat benefits equivalent to CVD payable is available on such sales.

DTA Sale

- If finished goods are manufactured from indigenous raw material, the duty to be paid is equivalent to excise duty.
- Debit duty – PLA / Cenvat Credit / Service Tax Credit at the time of Clearance
- In case the Products of the company are covered under MRP, than Duty Calculation as per separate formula

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Inco Terms

- Incoterms are standard trade definitions most commonly used in international sales contracts.

- When negotiating an international sales contract, both parties need to pay as much attention to the terms of sale as to the sales price.

- To make it as clear as possible, an international set of trade terms (INCOTERMS) has been adopted by most countries that defines exactly the responsibilities and risks of both the buyer and seller including while the merchandise is in transit.

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Return & Reports

	Reports & Returns	Particular	Last Date for Filing
1	ER-2	Monthly	10th subsequent month
2	ER-4 (Annual Financial Information statement for each financial year)	Assesse paying duty of Rs. One Crore or more per annum through PLA & Cenvat	1st November, every year
3	ER-5 (annual return for principal RM)	Assesse paying duty of Rs. One Crore or more per annum through PLA & Cenvat	30th April, every year
4	ER-6 (Monthly Receipt and consumption of principal inputs and finished excisable goods)	Assesse required to submit ER-5 return.	10th subsequent month
5	Annexure-19	Statement of Exports and Proof of Exports during the month	10th subsequent month
6	Quarterly Performance Report		Within 30 days of the end of the quarter
7	Annual Performance report		Within 90 days of the end of the year
8	CST refund		Within 6 months of the end of the quarter
9	DTA sale permission		Quarterly / Half-yearly / Yearly
10	Service Tax Return		

Thank You…!!