Exporters' GST backlogs stay high, EEPC India tells FM, seeking IT exemption on export income

Backlogs of exporters' refunds of Goods and Services Tax (GST) stay quite high majorly affecting the financial health of the SMEs, despite a large number of changes and notifications to resolve the issue, the EEPC India has pointed out to Finance Minister Mr Arun Jaitley in the pre-Budget consultations.

Exporters have also sought exemption from income tax on export income or at least lower taxes on forex earnings.

" The refunds issue is major problem and a large number of notifications and changes have been made to resolve this problem. However, the actual refunds received remain rather low," EEPC India's former Chairman and Working Committee Member Mr P K Shah said in his presentation.

He said a large backlog of GST refunds for exporters, which are rated as zero - tax, has hit the entire exporting community but a severe impact is being felt by those in the SME segment. It is this segment which forms the backbone of India's exports and contributes at least 30 per cent of employment .

For resolving the issue, the apex export promotion council of the engineering sector , has suggested that with respect to IGST, despite some errors, whatever lowest amount is shown in GSTR 1, GSTR 3B and Shipping Bill, that amount should be paid without any further delay.

In another significant suggestion, the EEPC India has made out a case for exempting export incentives form Income Tax Act, as these are given in the form of assistance for promotion of exports and for making export competitive.

Presently under various export Promotion Schemes such as MEIS incentives are given in the form of entitlement such as Duty credit Scripts which are transferrable for consideration. Consideration is used by Exporters as assistance for promoting exports. At present, these export incentives are taxed at a normal highest rate of 30%. That means, the full intended benefit is not reaching to the exporters. It is discounted by the tax amount of 30% so that the net amount of assistance gets reduced to 70% only. It is suggested that export incentives should be exempted from Income Tax.

Mr Shah said, to strengthen the exporting companies, export income should be exempted from Income Tax for five years so that the tax saved can be retained in the business which will make exporters more competitive.

In case this is not possible, a differential rate of tax should be introduced on foreign exchange earnings and the rate should be one percent lower than the MAT rate.

It may be mentioned that the US Senate has approved a Tax Bill wherein such a differential tax rate has been imposed on foreign exchange earnings by US export earners.

Besides, exporters are entitled for the refund of IGST and input tax refund. The refunds are given after shipments and also after completing the formalities, which involves a considerable time lag. It is suggested that the refund of IGST and input credit should be chargeable under Income Tax Act on actual receipt basis and not on accrual basis. In other words, the exporter should pay the income tax after receipt of refund in computation of income on actual receipt basis and not on accrual basis.

Other suggestions made by the EEPC India include creation of a USD two billion fund for the capital goods/project suppliers to developing/developed countries apart from the Lines of Credit. Also a Rs 5000 crore Technology Upgradation Fund be created for SME exporters and duty-free imports for Research and Development to make Indian exports globally competitive.