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REFUND OF IGST PAID ON EXPORT OF GOODS AND ROLE OF COST ACCOUNTANTS (CMAS)

Introduction:

Export of goods and services are zero rated supply as per provision of section 16 of IGST Act, 2017. In the erstwhile VAT regime export of goods were treated as zero rated sales. In this given article we are limiting our discussion only to the refund of GST paid on export of goods and its refund thereof.

Export of goods means taking goods out of India to a place outside India. A similar provision is also exists in the Customs Act, 1962. So, export means taking goods out of India to a place outside of India. The formalities of export of goods are clearly prescribed under the Customs Law read with Foreign Trade Policy 2015-20 (currently applicable). An exporter of goods has the two options under GST provision as to the payment of GST in concerned. Exporter can export goods with payment of Integrated GST (IGST) or without payment of Integrated GST (IGST) under Bond or Letter of Undertaking (LTU). In both the cases he is entitled to get the refund. In the first case exporter can get the refund of IGST paid on export of goods and in the second case export can get the refund of unutilized input tax credit on export of such goods. The very basic purpose of export is the export of goods or service and not the export of Indian taxes.

When to apply for the refund of IGST on export of goods:

No separate application for refund is required to be filed under refund of IGST paid on export of goods. Filing

of Shipping Bill shall be deemed to be an application of filing of a refund. However, application shall be deemed to be filed only when the Export General Manifest (EGM) or Export Report is filed by the person in charge of conveyance carrying export of goods and the applicant has filed both statement in GSTR 1 and returns in GSTR 3B.

Example: M/s ABC India Ltd. has sent the goods at the Mumbai Container Freight Station (CFS) at the end of April 2022 and the authorized CHA of ABC India Ltd. has filed the Shipping Bill accordingly in the month of April 2022. The tax payer has also filed its GSTR 1 Statement and GSTR 3B Returns incorporating the details of Shipping Bill no, Port of Export and other details at the time of filing the GST Returns for the Month of April 2022. The customs examination has been completed and Let Export copy of Shipping Bill has also been generated in the month of April 2022. However, due to some technical issues the concerned shipping liner has delayed the confirmation of shipping booking and the booking has done in after 25th May 2022. After 25th May 2022 the concerned Bill of Lading has been filed and EGM is also generated for onward shipment of materials from Nhava Sheva Port (JNPT).

Here, the Shipping Bill is filed in the Month of April 2022 and the applicant has also filed its GSTR 1 and GSTR 3B Returns within the due date of 20th May 2022. As per the provision of rule 96(1) the application of refund shall be deemed to have been filed only after confirmation of EGM/

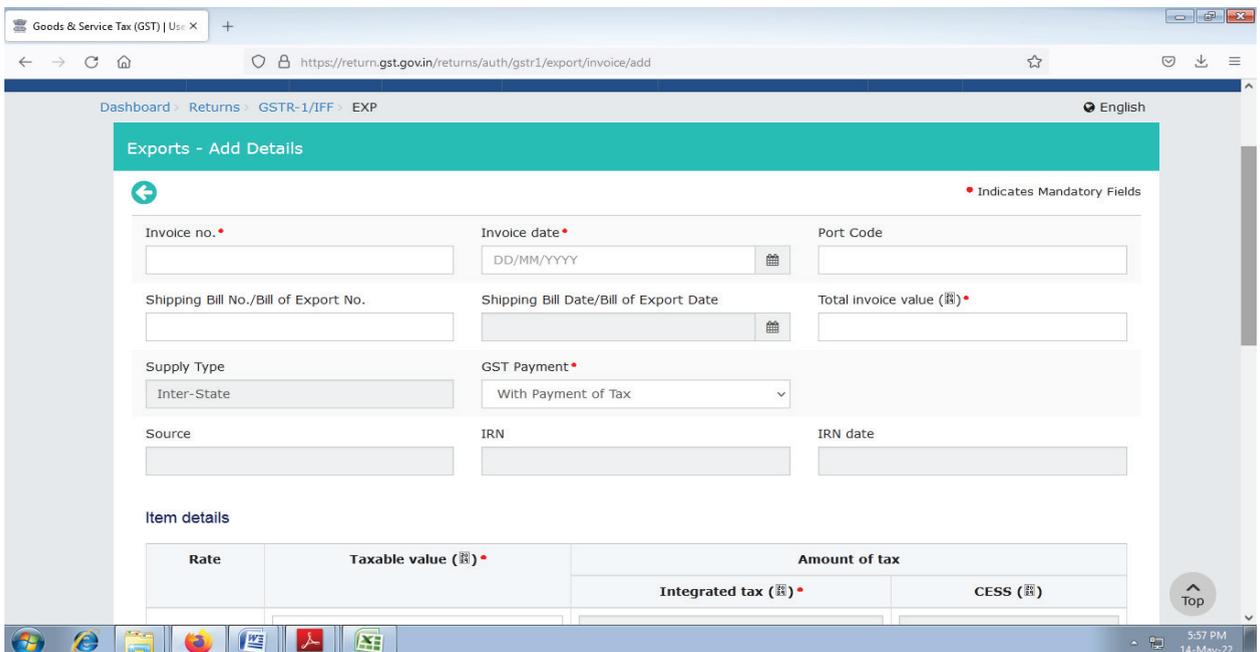
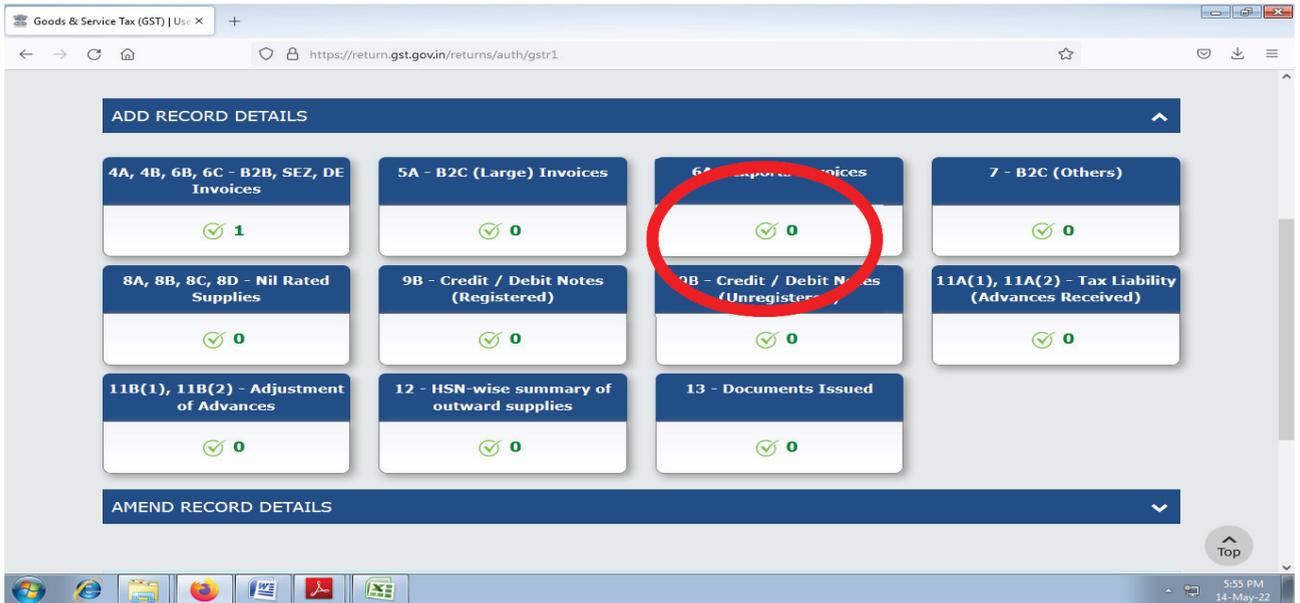


Export Report by the person –in-charge of conveyance of goods and coupled with the filing of outward statement in GST 1 and return in GSTR 3B. The application shall be deemed to be filed after 25th May 2022 although shipping bill is filed in April 2022.

Proper filing of statement in GSTR 1 and returns in GSTR 3B:

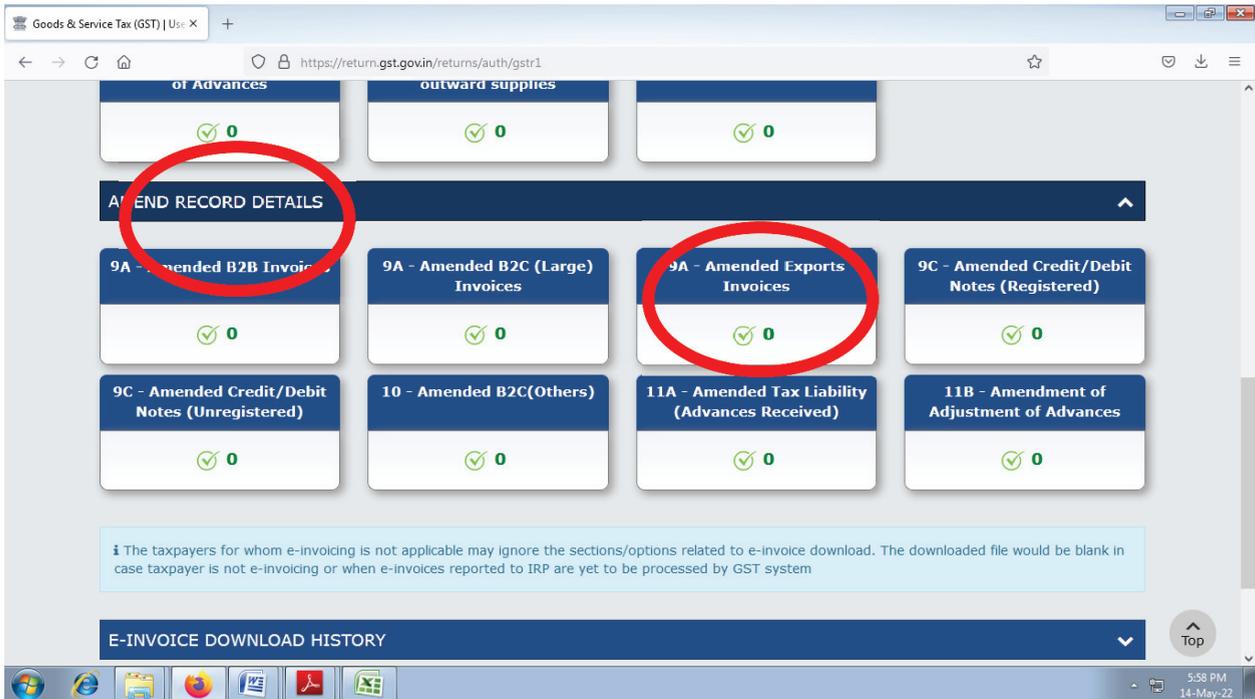
The IGST refund module is an in-built mechanism to automatically grant refund after validating the Shipping Bill data with available in ICES and the corresponding GST Returns data duly transmitted by GSTN common portal. The

refund amount may get delayed in case of mismatch of shipping bill with the GST Returns and many other reasons. The proper filing of GSTR 1 and GSTR 3B are inevitable to get the automatic refund without any complexity and error. At the time of filing of GSTR 1 return the applicant has to include its export details under the table 6A with proper shipping bill number, port code, invoice number, value of invoice as mentioned in shipping bill. Further the applicant shall mention the export value and its IGST amount under Box 3.1(b) of GSTR 3B Returns. The amount mentioned in GSTR 3B and GSTR 1 shall be matched. The screen short of GSTR 1 is provided hereinafter.



In case the applicant has wrongly mentioned the shipping bill or other details in GSTR 1, then the applicant can amend the same in the next month's GSTR 1 statement

and incorporate the amended one in Box 9A of GSTR 1 statement.



Some of the common error as envisaged by Customs – Clarification of Customs:

There are some common errors observed during the process of Shipping Bill like wrongly mention the invoice number in GSTR 1, Port Code, Shipping Bill number in GSTR 1 and many others. Director General of Systems, CBIC has issued “Guide on IGST Refunds in ICES” where the probable errors with error code and the action taken procedure are specified in details. We are not extending here details of such errors. Readers may refer the guidance note issued by CBIC.

Preparation of Commercial Invoice and Tax Invoice properly:

In order to export the goods the following documents are mandatorily required as specified in Foreign Trade Policy vide chapter 2, para 2.06:

- a. Bill of Lading/ Airway Bill/ Lorry Receipts/ Railway Receipts/ Postal Receipts;
- b. Commercial Invoice cum Packing List. Separate commercial Invoice and Packing List are allowable;
- c. Shipping Bill/ Bill of Export/ Postal Bill of Export.

It is the obligation to the exporter to prepare Commercial Invoice which is denominated in foreign currency. However, Indian rupee is permissible in case of export to Nepal and Bhutan. This commercial Invoice will be dispatched along with the goods being exported.

Exporter shall also prepare a Tax Invoice in rupee terms referring the exchange rate as published under customs notification for export of goods for GST compliance. Exporter shall endorse in the tax invoice that **Supply Meant for Export on Payment of Integrated Tax**.

It is desirable for the exporter to keep the same invoice number in both tax invoice and commercial invoice so that there will be no issue in filing of Shipping Bill and refund of IGST thereof. Exporter shall charge GST extra in tax invoice after converting the basic amount in Indian rupee.

Example: M/s Shah Brothers has got an export order valued at \$20,000.00 M/s Shah Brothers wants to avail the option to pay IGST on export and get refund thereof. Exporter has delivered the materials on 15th May 2022 to Mumbai Port for export. He has prepared two set of invoice one is commercial invoice and second one is tax invoice and handed over the same to its CHA (Customs House Agent) for filing of Shipping Bill. The exchange rate of USD



\$ is Rs.75.35 (Notification No 40/2022 dated 05-05-2022). The value of commercial invoice will be USD \$ 20,000/- and tax invoice value will be Rs.15,07,000/- (\$ 20,000 x 75.35) plus additional GST at 18% Rs. 2,71,260/-. Total amount of tax invoice is Rs.17,78,260/-. CHA shall mention in the Shipping Bill the invoice number and its value in foreign exchange and in Indian rupee with GST amount.

Authentication of Aadhaar number or uploading of e-KYC document:

Exporter has to undergo the authentication of the Aadhaar number or uploading the e-KYC documents in the GST common portal. The invoice having complete Shipping Bill details including Port Code will be transmitted by the GST system only if Aadhaar is successfully authenticated or eKYC document is uploaded. So it is important to authenticate Aadhaar or upload e-KYC documents as per rule 10B of CGST Rules, 2017.

Procurement of goods without availing of the benefit of notification no. 40/2017 - Central Tax (Rate) dated 23rd October, 2017 or 41/2017- Integrated Tax (Rate) dated 23rd October, 2017:

The exporter of goods availing the option to pay IGST and get the refund thereof shall not be entitled to procure the goods at the concessional rate of IGST 0.10% or 0.05% under CGST/ SGST, as the case may be. The exporter shall procure goods at the normal rates as specified under rate schedule and export the goods with payment of IGST by utilizing ITC or payment of cash or both.

Example: M/s Dawn and Construction has got a foreign contract to export \$50,000 of Apron Feeder Machinery. The exporter is not a manufacturer of such goods and will procure the said goods locally from a manufacturer. M/s Dawn has unutilized input tax credit amounting to Rs.10,00,000/- available in the Electronic Credit Ledger. M/s Dawn is planning to pay full amount of IGST at 18% on such export which comes nearly to Rs. 7,20,000/- (\$50,000/- multiplied by exchange rate Rs. 80/\$) by utilizing the available input tax credit and procure the machinery at concessional rate of GST @ 0.10% (CSGT .05% and SGST 0.05%). However, such an arrangement of mis-utilisation of input tax credit is prohibited under sub-rule (10)(a) of rule 96 of CGST Rules, 2017.

Further the exporter shall not be entitled to import goods under Advance Authorisation without payment of customs duty and integrated tax (notification no 79/2017- Customs, dated 13th October, 2017). However, exporter can import

capital goods under EPCG Authorisation without payment of Customs Duty and Integrated Tax for manufacturing the export product.

Example: M/s A2Z Expo is engaged in the business of garments export. It imports rayon and uses the same in manufacturing of garments and exports the same. A2Z Expo has obtained Advance Authorisation from the office of DGFT-Kolkata RA to import such rayon on duty free and registered the Authorisation at Kolkata port. A2Z Expo has imported the raw materials rayon without payment of customs duty as well as IGST on the basis of the Advance Authorisation. Such export entity wants to pay IGST on export of garments and get the refund of same. Sub-rule (10)(a) of rule 96 of CGST Rules, 2017 prohibits the Advance Authorisation holder to export goods with payment of IGST and get the refund of same except the import of capital goods under EPCG Authorisation.

In this connection readers may go through **Minutes of 30th GST Council Meeting held on 28th September, 2018** covering item no 9 for rational behind such prohibition to Advance Authorisation holders and allow only Import of capital goods under Export Promotion Capital Goods (EPCG).

Refund made in cash only:

The refund of IGST paid on export of goods is basically monitored by customs and such refund amount once sanctioned will categorically be credit to the Bank Account only.

Realisation of export proceeds within the time frame:

The exporter of goods shall realize the export proceeds within the time limit as prescribed by Reserve Bank of India including any extension thereof on export of goods. If the export proceeds shall not be realized in full or realized in part then the exporter shall refund the GST amount to the extent of unrealized portion of sale proceeds including the applicable interest under section 50 of CGST Act, 2017 within a period of 30 days from the last date of realization of export proceed as allowed under RBI guidelines. In case the exporter does not deposit the refund amount with interest then the proper officer may proceed to recover the same under section 73 or 74, as the case may be. The realization of export proceed within the time frame is utmost important to avoid any interest and penalty.

Role of CMA:

CMAs being tax professionals check the detailed operation of the business activities including rate of input



tax and output tax payable on each component of supply of goods and services and others related particulars including verification of books of accounts and cost records. CMAs should properly guide the tax payer whether they will opt to pay IGST and get refund or export without payment of tax under LUT or Bond, as the case may be in order to optimum utilization of the working capital resource. Make a co-ordination with the CHA while filing of the Shipping Bill so that there will be no issue of mismatch of tax invoice details as mentioned in Shipping Bill and other details. If any such technical issue arises then CMA should represent properly before the customs authority including GST authorities for smooth disbursement of refund and provide necessary

certification/clarification thereof. It is worthwhile to mention here that **Customs vide its Circular No 33/2018-Customs dated 19th September, 2018** has also authorized CMAs to provide requisite certificates as envisaged under Customs Circular No 12/2018 dated 29th May, 2018. There are huge opportunities of CMAs in the field of Customs, GST, DGFT and other indirect taxes. Further, in the Cost Audit Records and Report Rules a specific para of reconciliation of Indirect Taxes is provided and the Cost Accountants while doing the audit of cost records should reconcile and verify each items of indirect taxes from books of accounts and relevant records and guide the industry for proper tax planning and compliances thereof.

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