



REFUND OF ACCUMULATED INPUT TAX CREDIT ON ACCOUNT OF EXPORTS – GETTING THE MOST OUT OF IT

RAMBABU GONDALA

Superintendent in Central Tax, Rangareddy Commissionerate

Refund Mechanism plays a vital role in any tax administration.. be it a direct tax administration like Income Tax, Wealth Tax or an Indirect Tax Regime like Service tax, Central Excise. The newly introduced Goods and Service Tax is no exception for this. The striking difference between refunds of Income Tax and that of GST is, refunds under the former administration is a onetime affair and not done as a part of business activity, the refund under GST on the other hand is part of business activity, the delay in sanction of any refund, thus, leads to cash crunch. Knowing the fact, the Government of India is making several arrangements for speedy disposal of refund claims and issuing various guidelines from time to time keeping the interest of Tax payers in consideration. In this context, let us discuss the salient features of “Refund of Accumulated Input Tax Credit on Account of Exports”. Let us try to understand the basic concepts with the following illustration.

Mr. Madhavan is an exporter. He is procuring goods domestically and availing Input Tax Credit (ITC) on the items so procured. While exporting goods he has two options viz: exporting goods with payment of IGST under claim for refund and export of goods without payment of IGST under an LUT. In case the first option is chosen, the credit so availed on input can be utilized for payment of IGST and the IGST so paid can be applied as refund. On the other hand of the second option is chosen at the time of export, the goods are to be exported without payment of tax hence ITC so availed will be unutilized and gets accumulated in his electronic credit ledger. Unless such unutilized credit is converted into cash, it affects his profitability adversely which thus leads to cash crunch. Hence, the said provision of refund claim is made available to exporters.

How to claim:

Exporter who wish to avail the facility of refund of unutilized credit on account of exports may apply for the same through his account in GST portal (www.gst.gov.in) and select “the application for refund” option under “Refunds” tab available under “services” menu and he has to choose “Refund of ITC on Export of Goods & Services without Payment of Integrated Tax”.. Once the said refund option is chosen, system would ask for the certain inputs, by filling the same, the exporter will get

the eligible refund amount based on the following formula.

Refund Amount = (Turnover of zero - rated supply of goods + Turnover of zero - rated supply of services) x Net ITC ÷ Adjusted Total Turnover

The amount so arrived by above formula is maximum refund amount the exporter is eligible for

(for detailed meaning of each item described in the above formula, exporters may refer Rule 89(4) of CGST Rules, 2017)

Lets try to understand above jargons with a simple illustration again.

Mr. Madhavan is filing claim for the month of Dec, 2017. He has availed total credit to a tune of 1.00cr and he has exported goods with a value of 3.00cr without payment of tax during the month. In addition he has exported goods with a value of 1.00cr with payment of IGST and he sold certain goods in domestic market to a tune of 1.00cr .Closing balance of accumulated credit as on 31.12.2017 is 0.80cr. Though the application intended to be filed is for the month of Dec, 2017 the application is actually filed on 31.03.2018. Hence as on 31.03.2018 Mr. Madhavan is having a credit balance of 0.50 Cr.

If we adopt the above values for the purpose of refund, the main elements would be like this:

Net ITC (B) = 1 Cr

Turnover of zero rated supply of goods (C) = 3 Cr. (though Mr. Madhavan has exported 4 cr, the value of those goods which are exported without payment of tax should only be taken into consideration)

Turnover of zero rated supply of services (D) = 0

Adjusted Total turnover (E) = 5 Cr (total turnover including domestic sales)

Hence if we adopt those values for the above formula, the maximum refund is

$\{(C+D) \times B\} \div \text{Adjusted Total Turnover} = (3) \times 1 \div 5 = 0.60 \text{ Cr or } 60 \text{ lacs.}$

Wait...it does not mean that Mr. Madhavan is getting a refund of Rs.60 lacs. The value arrived here is only maximum refund. Then what is actual amount Mr. Madhavan would get .It is least of maximum refund amount (0.60Cr), actual credit taken during the month (1.0Cr) and balance of ITC available as on refund application filing date (0.50Cr). Hence, Mr. Madhavan would get 0.50Cr as refund. On submitting the application online, the said amount (0.50Cr) will get debited from credit ledger and an ARN would be issued by the system. Copy of the ARN along with manually filled Refund application in RFD-01A along with supporting documents are to be submitted in the jurisdictional divisional office.

How to get maximum refund:

Most exporters wonder why they are getting less refund despite the fact that the actual ITC availed is much higher. There could be two reasons (i) the proportionate turnover of exports without payment of tax vs total turnover ...higher the ratio higher the refund (ii) it is actual balance available as on application date which plays a major role and not the closing balance of the month for which the application is filed. In the above illustration the refund application is filed for the month of Dec, 2017 and there has been a balance of 0.80 Cr ITC available in his credit ledger, but as on 31.03.2018 - the date, on which application is being made, the credit balance was only 0.50 Cr. Hence, it would be a wise decision to look into the balance before applying for refund, If the balance of ITC is too low and there is a chance of getting more ITC due to purchase of more inputs in subsequent month then wait till such time. Now, department has provided an option to file the refunds for multiple months/quarters keeping the interest of exporters in view. Exporter has to make a paper work separately for a single month or a single quarter and in combination of months before applying for a refund claim online (this facility is expected to be available online soon). By taking these minimum precautions, exporters may increase the refund amounts.