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Certificate Course International Trade

Today's Content - GST on Exports

GST Treatment of Exports of Goods and Services

Introduction

Exports play a pivotal role in India's economic framework by contributing significantly to foreign exchange earnings and employment generation. Recognizing this, India's **Goods and Services Tax (GST)** regime provides a clear, supportive legal framework for exports to ensure they remain **tax-neutral** and globally competitive.

The fundamental principle is that **exports are treated as 'zero-rated supplies'** under the Integrated Goods and Services Tax Act, 2017 (**IGST Act**). This ensures that while the supply remains taxable, the applicable rate is effectively **0%**, enabling exporters to claim **refunds of input taxes** paid on inputs and input services.

Basic Intention behind Zero-Rating Exports under GST

1 Preserve Export Competitiveness

Exports must remain globally competitive.

If GST were levied on exported goods or services, Indian exporters would face higher costs than their foreign competitors — making Indian products/services **less attractive in the global market**.

2 Follow the Principle of Tax Neutrality

GST is a destination-based consumption tax.

It is meant to be borne by the **final consumer in the country where goods/services are consumed**, not in the country where they are produced.

By zero-rating exports, India ensures that **no domestic tax burden is embedded in exported products** — this maintains neutrality in cross-border trade.

3 Prevent Cascading of Taxes

Input Tax Credit (ITC) must flow freely.

Zero-rating ensures that exporters can claim a **refund of accumulated ITC** on inputs/input services used to make zero-rated supplies.

This removes hidden taxes from supply chains, preventing double taxation.

4 Align with Global Trade Norms

The practice of zero-rating exports is consistent with **WTO rules and international VAT/GST systems** — nearly all countries adopt the principle that **exports are taxable at 0%** so the tax burden falls where consumption occurs.

5 Encourage Foreign Exchange Inflow

By making exports tax-neutral, the government incentivises export activity, which brings **foreign exchange** into the country — strengthening the balance of payments.

Statutory Provisions

Provision	Content
Section 2(5), IGST Act, 2017	Defines <i>export of goods</i> .
Section 2(6), IGST Act, 2017	Defines <i>export of services</i> .
Section 16, IGST Act, 2017	Provides for <i>zero-rated supply</i> .
Section 54, CGST Act, 2017	Governs <i>refunds of tax</i> .
Rule 96 & Rule 96A, CGST Rules, 2017	Lay down the <i>procedural framework for claiming refunds</i> .

Zero-Rated Supply — Meaning & Significance

Zero-rated supply [Section 16, IGST Act]:

A supply of goods or services or both which is either:

- An *export*, or
- A supply to a *Special Economic Zone (SEZ) developer or unit*.

Key points:

- Such supplies attract GST at **0%**, unlike exempt supplies which restrict ITC.
- Input Tax Credit (ITC) is fully admissible.
- Exporters can claim a refund of either the IGST paid or the unutilised ITC.

What Constitutes an Export?

A) Export of Goods [Section 2(5)]

“Export of goods” means taking goods **out of India to a place outside India**.

Condition: Physical movement of goods must cross India’s customs frontier.

Example:

Export of textiles from Surat to a buyer in France.

B) Export of Services [Section 2(6)]

“Export of services” means supply of any service that satisfies **all** the following conditions:

1. **Supplier of service** is located in India.
2. **Recipient of service** is located outside India.
3. **Place of supply** of service is outside India (determined under Sections 12 or 13 of IGST Act).
4. **Payment** for such service has been received by the supplier in **convertible foreign exchange** or in Indian Rupees wherever permitted by the RBI.
5. The supplier and recipient are **not merely establishments of a distinct person** under Explanation 1 to Section 8.

Example:

An Indian software company developing and delivering software for a US-based client.

Mechanisms Available for Exporters

An exporter may supply goods or services in either of the following modes:

Mode	Description
A. Export with payment of IGST	Pay IGST on export invoice, then claim refund of IGST paid.
B. Export under Bond or Letter of Undertaking (LUT)	Supply without payment of IGST by furnishing a Bond or LUT, then claim refund of unutilised ITC.

A. Export with Payment of IGST (Section 16(3)(a))

- Exporter issues an invoice charging IGST.
- The IGST paid is claimed as refund.
- The **shipping bill filed with Customs acts as a deemed refund application** under Rule 96.
- Refund is processed by Customs after **export general manifest** (EGM) is filed and validated.

B. Export under LUT or Bond (Section 16(3)(b), Rule 96A)

- Exporter executes a **Letter of Undertaking (LUT)** in **Form GST RFD-11** to the jurisdictional GST officer.
- No IGST is charged on the export invoice.
- Accumulated ITC on inputs/input services is claimed as refund.
- LUT is valid for the entire financial year. Exporters failing conditions must switch to furnishing a Bond with security.

1 What is LUT?

A **Letter of Undertaking (LUT)** is a declaration that allows a registered taxpayer to **export goods or services without paying IGST upfront**, subject to certain conditions under **Section 16 of the IGST Act, 2017** and **Rule 96A of the CGST Rules, 2017**.

Purpose:

Facilitates exports on a tax-free basis while retaining the benefit of claiming **refund of unutilised Input Tax Credit (ITC)**.

2 Legal Basis

Legal Provision	Description
Section 16(3)(b), IGST Act	Zero-rated supply under Bond or LUT without payment of IGST
Rule 96A, CGST Rules	Procedure & conditions for export under LUT/Bond
Circulars	CBIC Circular No. 8/8/2017-GST, Circular No. 37/11/2018-GST, etc.

3 Who Can Furnish an LUT?

Eligible:

Any registered person **except those prosecuted** for tax evasion exceeding ₹ 2.5 crore in the preceding 5 years.

Ineligible:

If the taxpayer does not qualify for LUT, they must furnish a **Bond** with bank guarantee or security.

4 Conditions for Export through LUT

- Export must be completed within **3 months** from invoice date (goods) or within **1 year** from invoice date (services).
- Payment must be received in **convertible foreign exchange** or Indian Rupees as permitted by RBI.
- If conditions are not met, the exporter must pay IGST with **18% interest** from the date when tax was due till the date of payment.

5 Validity of LUT

- LUT is valid for **one financial year**.
- Fresh LUT must be furnished for each financial year.

6 Forms & Formats

- **Form GST RFD-11**: Format prescribed for furnishing LUT.
- Furnished **online on the GST portal**: www.gst.gov.in

7 Procedure for Furnishing LUT

Step 1: Log in to GST portal → Services → User Services → Furnish LUT.

Step 2: Fill Form **GST RFD-11** with required details:

- Financial year
- Exporter's details (GSTIN, legal name, address)

- Details of witnesses
- Undertaking to abide by conditions under Rule 96A

Step 3: Upload supporting documents, if any.

- Previous LUT copy (for reference, if renewing)
- Authorisation letter if signed by an authorised signatory

Step 4: Submit with DSC/EVC.

Step 5: Acknowledgement Reference Number (ARN) is generated.

Step 6: Keep the accepted LUT copy for records — no separate approval is needed if filed properly online.

Format of LUT Undertaking

As per Rule 96A, LUT must include an undertaking that:

- The exporter shall **export goods/services within prescribed time.**
- If not, IGST with interest will be paid.
- The exporter shall comply with **all GST Act provisions.**

When to Use Bond Instead

If:

- The exporter is **ineligible** for LUT (due to past prosecution or other conditions).
- Or, LUT conditions are violated.

Then:

- Furnish a **Bond** with surety or bank guarantee covering potential tax liability.
- Format: As prescribed under **Rule 96A(2).**
- Executed on non-judicial stamp paper.

⇌ Documents Required

- ✓ GST Registration Certificate
- ✓ IEC Code (Import Export Code)
- ✓ PAN of entity
- ✓ Authorisation letter (for authorised signatory)
- ✓ LUT format (auto-filled online)
- ✓ Witness details

Refund — Detailed Procedure

Particular	Export with Payment of IGST	Export under LUT/Bond
IGST on export	Paid	Not Paid
Refund claim	IGST paid is refunded automatically through shipping bill (Rule 96)	Refund of accumulated ITC claimed by filing Form GST RFD-01 (Rule 89)
Relevant Forms	Shipping Bill, GSTR-1, GSTR-3B	LUT (RFD-11), GSTR-1, GSTR-3B, RFD-01

Documents Required:

- Export invoice.
- Shipping bill / Bill of export.
- EGM copy.
- Bank realisation certificate (BRC) or FIRC for services.
- Proof of LUT acceptance.

Relevant Dates for Refund Claim

Refund of unutilised ITC must be claimed **within two years** from the *relevant date* as defined under Section 54.

Relevant Date Examples:

- For goods exported by sea or air: Date on which ship/aircraft leaves India.
- For services: Date of receipt of foreign exchange.

Additional Points

- ✓ Refunds must pass scrutiny by the GST officer.
- ✓ Refund may be withheld for pending dues or discrepancies.
- ✓ Interest is payable by the government if refund is delayed beyond 60 days from the date of receipt of a complete application.

Common Compliance Errors

- ⊗ Non-filing or late filing of LUT/Bond.
- ⊗ Invoice, shipping bill, or GSTR-1 mismatch.
- ⊗ Non-receipt of export proceeds within allowed time.

- ⊗ Incorrect classification under HSN/SAC codes.
- ⊗ Failure to claim refund within statutory limits.

Practical Example

Case Study — Export with LUT

- ABC Ltd. exports readymade garments worth ₹ 40 lakh to Europe.
- Inputs used attract ₹ 7 lakh GST.
- Export is under LUT; hence no IGST is charged on invoice.
- Export proceeds are received in EUR.
- ABC Ltd. files RFD-01 and claims ₹ 7 lakh as refund of accumulated ITC.

Penalty for Non-Compliance

- Non-realisation of proceeds → Tax + interest @ 18% p.a.
- Misuse of LUT → Exporter barred from LUT for future supplies.

Key Takeaways

- Exports are zero-rated, not exempt — hence ITC is admissible.
- Exporters can choose between paying IGST and claiming refund or exporting under LUT/Bond.
- Timely compliance with documentation and refund claims is crucial to manage working capital efficiently.

Important Forms & Rules

Form	Purpose
GST RFD-11	Filing LUT
GST RFD-01	Refund application for unutilized ITC
GSTR-1	Details of outward supplies
Shipping Bill	Customs export declaration
EGM	Export General Manifest (filed with Customs)

Practical & Interesting Points on Exports under GST

1 Shipping Bill = Refund Application

One of the practical features unique to India's GST is that the **Shipping Bill filed with Customs is automatically deemed a refund application** for IGST paid on exports.

☞ Exporters don't file a separate refund form for IGST exports — but must ensure their **GSTR-1 & Shipping Bill data perfectly match**. Even a mismatch in invoice number or port code can stall refunds.

2 LUT Filing — Often Missed but Critical

Many first-time exporters **forget to renew LUT at the start of the financial year**, leading to unplanned tax payments or show cause notices later.

☞ Practical tip: File LUT on **April 1st** every year — keep a tickler in your compliance calendar.

3 Payment Realisation — RBI Link

For **export of services**, the payment must be received in **convertible foreign exchange** (or INR as allowed by RBI).

☞ The **Bank Realisation Certificate (BRC)** or **Foreign Inward Remittance Certificate (FIRC)** is crucial — if you don't get this, your refund claim for ITC can fail.

☞ Smart exporters proactively track BRCs with their AD Bank instead of waiting for year-end surprises.

4 High-Value Exports: Refund Blockage

Some big exporters (like textiles or pharma) export huge volumes under LUT.

☞ If their domestic output is low or exempt, ITC accumulates heavily — meaning **huge working capital locked in refunds**.

☞ Many firms use **merchant exporters** or **job work** to manage cash flow and credits smartly.

5 Sez Supplies = Zero-Rated, But Not Export!

Supplying to an SEZ unit is also **zero-rated**, but **not an "export"** in the legal sense — no shipping bill, no physical movement out of India, but the benefit is same: supply @ 0% tax with refund of ITC.

☞ Many trainees confuse SEZ supply with export — highlight this in your training.

6 Non-Realisation → Tax with Interest

If export proceeds aren't realised within the prescribed period (3 months for goods, 1 year for services), the exporter must pay **IGST with 18% interest**.

☞ Practical headache: Sometimes payments are delayed for genuine reasons (like overseas client delays) — in such cases, extension from RBI or FEMA routes can help avoid GST liability.

7 No LUT? Use Bond — But Not Popular

Export under Bond with bank guarantee is theoretically available for everyone — but very few businesses use it because it ties up additional working capital. LUT is simpler, no security needed — so it's the preferred route.

8 Error: Mistakenly Charging IGST

Some exporters mistakenly raise export invoices with IGST when they meant to export under LUT.

☞ This leads to avoidable working capital blockage — or messy refund corrections.

☞ Always double-check **invoice type** and **shipping bill declaration**.

