

Zero rated Supply, Export and Import under GST Law

- "Zero rated supply" means any of the following supplies of goods or services or both, namely:—

- (a) **Export** of goods or services or both; or
- (b) Supply of goods or services or both for authorized operations to a **Special Economic Zone developer or a Special Economic Zone unit**.

- **Credit of input tax may be availed** for making zero-rated supplies; notwithstanding that such supply may be an exempt supply.
- A registered person making zero rated supply shall be **eligible to claim refund of unutilized input tax credit** on supply of goods or services or both, without payment of integrated tax, under bond or Letter of Undertaking.

Provided that the registered person making zero rated supply of goods shall, **in case of non-realisation sale proceeds, be liable to deposit the refund** so received under this sub-section along with the applicable interest within thirty days after the expiry of the time limit prescribed under the Foreign Exchange Management Act, 1999 for receipt of foreign exchange remittances.

- **No refund of unutilized input tax credit** on account of zero rated supply of goods or of integrated tax paid on account of zero rated supply of goods shall be allowed where such zero rated supply of **goods** are **subjected to export duty**.

Definitions under IGST Act, Sec. 2

(5) "**export of goods**" with its grammatical variations and cognate expressions, means taking goods out of India to a place outside India;

(6) "**export of services**" means the supply of any service when,-

- (i) the supplier of service is located in India;
- (ii) the recipient of service is located outside India;
- (iii) the place of supply of service is outside India;
- (iv) the payment for such service has been received by the supplier of service in convertible foreign exchange 1[or in Indian rupees wherever permitted by the Reserve Bank of India]; and
- (v) the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in section 8;

(11) "**import of services**" means the supply of any service, where-

- (i) the supplier of service is located outside India;
- (ii) the recipient of service is located in India; and
- (iii) the place of supply of service is in India;

(19) "**Special Economic Zone**" shall have the same meaning as assigned to it in clause (za) of section 2 of the Special Economic Zones Act, 2005;

Sections under IGST Act

Section 7. Inter-State supply -

(2) Supply of goods imported into the territory of India, till they cross the customs frontiers of India, shall be treated to be a supply of goods in the course of inter-State trade or commerce.

(4) Supply of services imported into the territory of India shall be treated to be a supply of services in the course of inter-State trade or commerce.

(5) Supply of goods or services or both,-

(a) when the supplier is located in India and the place of supply is outside India;

(b) to or by a Special Economic Zone developer or a Special Economic Zone unit; or

(c) in the taxable territory, not being an intra-State supply and not covered elsewhere in this section, shall be treated to be a supply of goods or services or both in the course of inter-State trade or commerce.

Section 11. Place of supply of goods imported into, or exported from India –

The place of supply of goods,-

(a) imported into India shall be the location of the importer;

(b) exported from India shall be the location outside India.

What is Zero Rating?

By zero rating it is meant that the entire value chain of the supply is exempt from tax. This means that in case of zero rating, not only is the output exempt from payment of tax, there is no bar on taking/availing credit of taxes paid on the input side for making/providing the output supply. Such an approach would in true sense make the goods or services zero rated.

Difference between Exempted Supplies, Nil rated Supplies & Zero rated Supplies

There are certain supplies on which there is no incidence of GST. It is important to understand the underlying difference among all such supply criteria:

Particulars	Exempted Supplies	Nil rated Supplies	Zero rated Supplies
Meaning	Supplies which are exempt from payment of GST	Goods and services on which 0% GST is applicable	Goods or services which are exported or supplied to SEZ
Input credit availability	Not available	Not available	Available
Payment of Tax	Not Mandatory	Not Mandatory	Once make payment and after that claim Refund.
Example	Transport services provided by a GTA, where the gross amount charged is less than Rs. 1,500 for a consignment in a single	Hotel accommodation with tariff below Rs. 1,000	Export of Jewellery to USA

	carriage or Rs 750 for a single consignee.		
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Key Features of Zero Rate Supplies

- Pivotal for ensuring India's global competitiveness and seamless cross-border trade
- Preserves the competitiveness of Indian exports by preventing the cascading of taxes
- Treated as Inter-state supply and IGST is charged
- Supplies allow full availment of ITC on inputs, input services & Capital Goods used in making such supplies, even if the output is not taxed
- Supply under Bond or Letter of Undertaking (LUT) without payment of IGST
- Refund of the IGST paid can be claimed post-export and customs clearance, typically processed automatically via ICEGATE

Export, Deemed Export & Merchant Export

Aspect	Export (IGST Act)	Deemed Export (CGST Act)	Merchant Export (Notifications)
Definition	Sec. 2(5), 2(6) IGST Act	Sec. 2(39), Sec. 147 CGST Act	Not defined in Acts; covered by Notifications
Movement of Goods	Goods leave India	Goods remain in India	Goods procured domestically, then exported
Tax Treatment	Zero-rated (Sec. 16 IGST Act)	Normal GST rate, refund available	Concessional 0.1% GST on supply
Refund Eligibility	Exporter (supplier)	Supplier or recipient (not both)	Merchant exporter (via LUT/IGST refund)
Key Notifications	LUT/Bond rules, refund circulars	Notification 48/2017-CGST	Notification 40/2017-CGST, 41/2017-IGST
Circulars	Refund clarifications (e.g., 45/19/2018)	Circular 14/14/2017-GST	CBIC FAQs & clarifications

REFUND OF ZERO RATED SUPPLIES

The suppliers making Zero-rated supplies are entitled to claim refunds. The refunds are for the input tax paid on the goods and services which are used for such Zero-rated supplies (including non-taxable and exempt supplies). There are two options available with a dealer to claim refunds:

- I. The dealer can export under Bond or LUT (Letter of Undertaking) and claim a refund of the accumulated Input credit of tax; or

II. The dealer can pay IGST while making the supplies and claim refund of the same.

Rules for Supplies to SEZs

Special Economic Zones (SEZs) are treated as foreign territory for tax purposes under GST.

- **Zero-rated treatment:** Supplies to SEZ units or developers are zero-rated.
- **Inter-state supply:** Even if the DTA (Domestic Tariff Area) supplier and the SEZ unit are in the same state, the transaction is treated as an inter-state supply, attracting IGST.
- **SEZ to DTA supply:** Supplies from an SEZ to a DTA are treated as imports into India and are subject to customs duty and applicable IGST.

Separate registration: SEZ units must obtain a separate GST registration from their DTA operations

Key Documents for Exports and Zero-Rated Supplies

- Importer Exporter Code (IEC)
- Commercial Invoice and GST Invoice
- Packing List
- Shipping Bill (filed via ICEGATE)
- Bill of Lading/Airway Bill
- Certificate of Origin (if required)
- Insurance Certificate
- Letter of Undertaking (LUT) or Bond
- Bank Realization Certificate (BRC)/Foreign Inward Remittance Certificate (FIRC)
- Export General Manifest (EGM)
- GST Returns (GSTR-1, GSTR-3B)
- Refund Application (Form RFD-01) and supporting statements

PROVISIONAL REFUND

The exporters and suppliers of SEZ are entitled to a 90% refund on a provisional basis. Provisional refund is granted within seven days of the refund claim. The amount of provisional refund is credited directly to the claimant's bank account.

There is a condition attached to provisional refunds. The provisional refund is not granted if the applicant has been prosecuted for any offense under the GST law or earlier law within past five years. The amount of tax evaded in such prosecution shall be more than Rupees Two Hundred and Fifty Lakhs (**Rs. 2.5 Crores**).

Calculation of Refund Amount

For supplies made *without* payment of IGST, the maximum unutilized ITC refund amount is calculated using a specific formula prescribed under Rule 89(4) of the CGST Rules:

Maximum Refund Amount=
(Turnover of zero-rated supply of goods + Turnover of zero-rated supply of services)×Net ITC / Adjusted Total Turnover

- **Net ITC:** Input Tax Credit availed on inputs and input services during the relevant period.
- **Adjusted Total Turnover:** The total turnover of the business in the relevant period (with specific adjustments for exempt/non-zero-rated supplies).
- **Turnover of zero-rated supply of goods:** The lower of the Free on Board (FOB) value in the shipping bill or the invoice value, or 1.5 times the value of like goods supplied domestically.

Recent Regulatory Updates (Effective September/October 2025)

The GST regime has undergone significant streamlining, which impacts zero-rated suppliers:

- **Simplified GST Slabs (Sept 22, 2025):** While the *concept* of zero-rated supply (0% on exports/SEZ supplies with ITC refund) remains the same, the underlying rates for inputs have changed. This affects the calculation of your "Net ITC" amount available for refund. Many raw materials and input services saw rate changes (e.g., from 18% to 5%), which impacts accumulated credit.
- **Mandatory ITC Reversal for Exempt Goods (Oct 15, 2025):** The rules regarding ITC reversal are stricter. If any of the inputs purchased are now completely exempt (nil-rated) under the new 2025 regime, one cannot claim ITC on those specific inputs, even if used for a zero-rated export. One must ensure that ITC claims only include inputs where tax was paid.
- **Provisional Refund Mechanism Streamlined (Effective Oct 1, 2025):** The government has formalized a risk-based, system-generated mechanism to grant 90% of the claimed refund amount provisionally within seven days for low-risk applicants. This significantly improves exporter cash flow.
- **SEZ "Authorized Operations" Condition Remains Critical:** The benefit for supplies to SEZ developers/units is strictly conditional on the goods/services being used for their "authorized operations". Suppliers have been advised to obtain an endorsement on their invoices from the SEZ Authorized Officer to avoid disputes where the GST authorities might treat the transaction as a normal, taxable supply

Practical Compliance Checklist for Exporters

To ensure a smooth zero-rated supply process and timely refunds, the following compliance points are to be considered by a taxpayer:

- **Annual LUT Filing:** Ensuring filling of [Letter of Undertaking \(LUT\)](#) in Form RFD-11 for the current financial year by the deadline. Without it, one must pay IGST upfront or may have to furnish a Bond.

- **Time Limit for Export of Goods:** If exporting under LUT, the physical goods must be exported within three months of the invoice date, or the supply will be treated as a normal domestic supply.
- **E-Way Bills are Mandatory:** E-Way bills must be generated for moving goods to or from an SEZ, just like any other inter-state supply, if the taxable value exceeds ₹50,000.
- **Documentation Retention:** One must maintain all documentation meticulously, including tax invoices marked as "Zero-Rated Supply," Shipping bills, EGM (Export General Manifest) details, BRC/FIRC for services, and SEZ officer endorsements.

System and Procedural Refinements

- **Provisional Refund Automation (Effective October 2025):** The provisional refund mechanism has been enhanced. A risk-based, system-generated process now grants 90% of the claimed refund within seven days to low-risk applicants. This significantly improves cash flow for exporters.
- **E-KYC Requirement for Exports:** As of 2025, the GST system will not transmit export invoices to ICEGATE for processing unless the Aadhar/e-KYC documents of the taxpayer are authenticated.
- **Simplified Refund via Shipping Bill:** For goods exported on payment of IGST, the shipping bill is considered the refund application itself, provided the GSTR-1, GSTR-3B, and export manifest data are properly filed and reconciled.
- **GSTR-1 and GSTR-3B Declaration:** Suppliers must accurately declare zero-rated supplies in their GST returns (GSTR-1 and GSTR-3B). Inaccurate reporting can cause delays in refund processing.

Examples and Practical Application

- **Example: Manufacturing for Export:** An Indian shoe manufacturer buys inputs (leather, soles) and pays GST. When they export the shoes to Germany, the supply is zero-rated. The manufacturer does not charge GST to the German customer but can claim a refund for the ITC paid on the inputs, making the exported product more competitive.
- **Example: SEZ Supply:** A company provides IT services to a unit located in an Indian SEZ. This is a zero-rated supply. The company can either provide the services without charging IGST under an LUT and claim a refund for its ITC, or charge IGST and claim a refund of that IGST.
- **Common Mistakes:** A frequent mistake is to treat zero-rated supplies as exempt and fail to claim the ITC. Another common error is inadequate documentation, which can delay or deny refunds.

Handling Specific Scenarios

- **Capital Goods ITC:** While ITC is generally available on inputs and input services used for zero-rated supplies, the refund of ITC on capital goods is treated differently. The formula for calculating the refund of accumulated ITC (Rule 89(4)) typically excludes ITC related to capital goods. This ITC must be utilized against future domestic tax liability and cannot be claimed as a cash refund for zero-rated supplies.
- **Job Work and Zero-Rating:** If an exporter sends inputs for job work and then exports the final product, the ITC paid on both the inputs and the job work services can be claimed as a refund under the zero-rating mechanism.
- **Currency of Payment:** The condition of receiving payment in "convertible foreign exchange" for service exports is strict. Payments made in Indian Rupees from a Non-Resident External (NRE) account in India for services rendered to that non-resident outside India may sometimes face scrutiny during the refund process, even if legally permissible under FEMA (Foreign Exchange Management Act) rules, requiring extra documentation to justify the zero-rated status.