

Remission of Duties and Taxes on Exported Products

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Introduction

The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme was announced by Government of India (GOI) on 14 September 2019 to boost exports by allowing reimbursement of taxes and duties, which are not exempted or refunded under any other scheme in accordance with World Trade Organization (WTO) norms.

RoDTEP is a combination of the current Merchandise Export from India Scheme (MEIS) and Rebate of State and Central Taxes and Levies (RoSCTL). At present, embedded duties and taxes, which are not refunded under any other scheme, range from 1-3%. Under the scheme, rebate of these taxes will be given in the form of duty credit/electronic scrip.

RoDTEP scheme was initially proposed to be notified from April 2020. However, GOI decided to continue¹ to allow the benefits under MEIS up to 31 December 2020, and RoSCTL until the same is merged with RoDTEP. Therefore, the scheme is expected to be notified from January 2021.

MEIS and RoSCTL – A glimpse



MEIS

The scheme was launched as a part of Foreign Trade Policy (FTP) 2015-20. Under this scheme, certain rewards and incentives are given to exporters in the form of 'duty credit scrips'. These incentives are given at a specified rate, which varies from product-to-product and country-to-country.



RoSCTL

The scheme was notified³ by the Ministry of Textiles to rebate the incidence of various state and central taxes/levies on export of garments and made-ups. This scheme replaced the erstwhile scheme of Rebate of State levies (ROSL)⁴ w.e.f. 7 March 2019.

Need of RoDTEP scheme

In March 2018, the US had challenged various Indian export subsidy schemes⁵ against which several representations were made by both the countries. The allegations were heard by the WTO's dispute settlement panel and a final report was issued on 30 September 2019. On 31 October 2019, WTO ruled out that these schemes are inconsistent with the WTO agreements⁶ for providing prohibited export subsidies.

Considering the arguments against the existing export subsidy schemes, India had filed an appeal before the appellate forum⁷ against the ruling of WTO's dispute settlement panel stating that panel erred in its ruling to find these schemes as export subsidies. Although, the above matter is sub-judice, GOI on pro-active basis, decided to revisit the existing structure and roll out a scheme compatible with WTO norms.

Note

1 Vide Trade Notice 03/2020-21 dated 15 April 2020

2 Vide press release Dated 25 March 2020

3 Vide Notification No. 14/26/2016-IT (Vol.II) dated 07-03-2019

4 ROSL scheme was introduced to rebate the incidence of various state levies such as VAT on fuel used in transportation (raw materials, finished goods and factory workers), VAT on fuel used in generation of captive power, mandi tax on purchase of cotton, duty on electricity used in manufacture as accumulated from stage of cotton/MMF fibre till garment/made up stage, stamp duties on export documents and SGST on inputs used in production of cotton and embedded SGST in purchases from unregistered dealers.

5 Five Indian export subsidy schemes were challenged namely Merchandise Export from India Scheme (MEIS), Export Oriented Units (EOU), Electronics Hardware Technology Parks (EHTP), Special Economic Zone (SEZ) and Export Promotion Capital Goods (EPCG).

6 India is a signatory to the WTO and is subject to the Agreement on Subsidies and Countervailing Measures ("SCM Agreement"). Hence, India has to follow the global trade rules of WTO.

7 In November, 2019, India has challenged the final panel report before the appellate authority which is pending till date.

Key benefits



Being a member of WTO and in compliance with WTO trade norms, RoDTEP scheme can provide a seamless flow of economic benefit from the government.



It will add more competitiveness in the foreign markets, with assured duty benefits by GOI.



In the existing schemes, certain taxes, such as state taxes on power, oil, water and education cess, are not included. Under RoDTEP, such taxes are also proposed to be included in the indicative list making the scheme exhaustive.



Being more compliant and transparent with WTO norms, it will help exporters meet international standards and boost business growth.

Key features



Remission of taxes/duties/levies

RoDTEP covers reimbursement of duties and taxes (such as mandi tax, VAT and central excise on fuel, etc.), which are levied at central, state and local level and are not refunded under any other mechanism. Further, items, which were currently under MEIS and RoSCTL schemes, will be shifted towards the RoDTEP scheme.



Automated refund system

In line with digital India, refund will be issued to exporters in the form of transferable duty credit/electronic scrips, which will be maintained in an electronic ledger.



Speedy clearance through digitalisation

A monitoring and audit mechanism, with an information technology-based risk management system would be put in to physically verify the records of the exporters. This will enable faster clearance through digital platform.



Scheme for all sectors

RoDTEP covers all sectors including textile. Further, a dedicated committee shall decide the sequence of introduction of the scheme across sectors, prioritisation of the sectors and degree of benefit to be given to various items.



Comparison between RoDTEP, MEIS and RoSCTL

| Aspect | MEIS | RoSCTL | RoDTEP |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Incentive scheme | Incentive on exports of goods in form of transferable scrips | Rebate of certain central and state taxes and levies issued in the form of duty credit scrips | Refund of indirect taxes on inputs used in the manufacture of exported product that are not being currently reimbursed in any other existing schemes |
| WTO compliant⁸ | Currently under dispute whether it is compliant or non-compliant with WTO norms | Compliant with WTO trade norms | Compliant with WTO trade norms |
| Application form | Form ANF-3A (to be filled online on DGFT portal) | Form ANF 4R (to be filled online on DGFT portal) | Yet to be notified |
| Incentive | 2-5% of realised FOB value of Exports in free foreign exchange or FOB value of exports as per shipping bill, whichever is lower | 1-4% based on FOB value of exports in foreign currency | Product based % way of reward (to be notified) |
| Mode | Issued in the form of transferable scrips (physical copy) | Issued in the form of transferable scrips in paperless mode | To be issued in the form of transferable duty credit/ electronic scrip, which will be maintained in electronic ledger |
| Transferable | Transferable in open market | Transferable in open market | Transferable in open market |

Our view

In the current COVID-19 scenario, where merchandise exports are declining and industries are already facing uncertainties and slowdown, export-oriented industries need to be supported by the government by providing a better operating and financial atmosphere. The effective and efficient introduction of RoDTEP will be very important in improving sentiments of export industry which is otherwise down.

The RoDTEP scheme is now expected to be notified from January 2021. Ideally, in the meantime, the government can consider to provide the operational guidelines and procedures along with rates and methodology etc., in public domain. The government may also consider a reasonable time for a seamless and efficient transition.

On the other hand, exporters, may consider the following steps:



To review financials vis-a-vis scheme to ensure maximising the benefit



To analyse if taxes so embedded in export goods are appropriately considered in proposed scheme



To prepare a business plan with action steps for transitioning



To prepare and file representation/ recommendations to the committee with a request⁹ to consider the same



To identify indicative list of taxes, such as stamp duty, embedded taxes on purchases from main vendors, embedded GST on purchase from unregistered dealers, etc.

Note

⁸ WTO prohibits any direct subsidies to a firm or industry which are contingent upon export performance. In MEIS the basis of calculation of benefits was the FOB value of the export product, thereby making it non-compliant to WTO. WTO does not put any restriction on remission/rebate of duties and taxes which have been built in cost of the exported products.

⁹ Earlier the exporters were invited to submit the recommendations till 15 November 2019 only.

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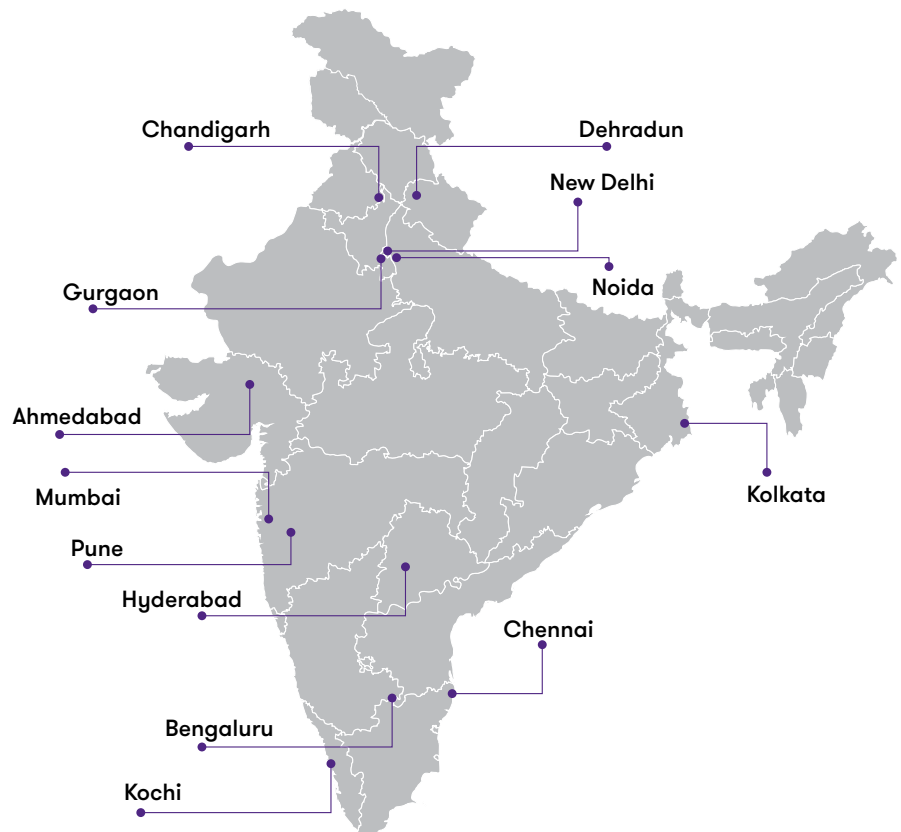
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