Tax Planning for Refund in Case of Exports Under GST Regime : A Case Study of Vardhman Textiles Ltd.

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Abstract

As per the GST provisions, the refund can be claimed for the tax paid on inputs if the output is exported or tax paid on export goods if the goods are exported after payment of tax. These are the two options which are available to the exporter out of which one can be used to claim refund under GST regime. Two options can be simultaneously used for claiming refund by different units of the same company. The present case study has been done of Vardhman Textiles Ltd. It discusses the criteria for choosing the best out of available two options so that maximum refund can be claimed under GST Act.

Keywords : GST, Tax, Export, Refund, GST Act, Regime

Introduction

Export growth is important for any economy because of its effect on internal trade and economic stability. Moreover, the rate of economic growth and the distribution of income and wealth in a country are closely related to export growth. Hence, to encourage exports, exports are free from taxes. If taxes are paid on the exported goods, they are refunded to the exporter. Under newly introduced GST regime, special provisions have been made to facilitate exporters. All exports (whether of goods or services) as well as supplies to SEZs have been categorised as Zero Rated Supplies in the IGST Act, 2017. "Zero rated supply" under Section 16 of the IGST Act, 2017 means any of the following supplies of goods or services or both, namely:

(a) Export of goods or services or both

(b) Supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

On account of zero rating of supplies, the supplier will be entitled to claim input tax credit in respect of goods or services or both used for such supplies even though they might be non-taxable or even exempt supplies. Vardhman Textiles Ltd. is a big textile company having number of plants installed in various places like, Punjab, Madhya Pradesh and Baddi. For production of yarn & fabric these units have to buy raw material, packing materials, dyes, chemicals, spare parts, capital goods as well as has to avail various services. Major raw materials are cotton, acrylic, polyester, modal etc. Cotton is a product which has seasonal availability during October to March. As such, most of the cotton is purchased in MP, Baddi and Punjab units during this season. In Punjab unit, cotton is purchased but the comparatively quantum is very less. Whereas, its procurement volume is higher in MP & Baddi units. Exporters may have unutilised accumulated balance of input tax credit because of zero rate of tax on the output (exports) or due to lower rate of tax on output as compared to inputs (inverted duty structure). In case of Vardhman, substantial part of the output is exported out of the country. Moreover in most of the units, tax rate on inputs is higher than the tax rate on outputs. Resultantly, they have more unutilised accumulated ITC balance. They have following figures (hypothetical) for the three units:

Table 1 : Punjab, M.P., Baddi Units months based tax rate and turn over

Month		**Punjab unit**	**MP unit**	**Baddi Unit**
	Tax rate on output (Assumed)	12%	5%	12%
January (assumed month of export)	Total turnover	10 crores	15 crores	10 crores
	Export turnover	4 crores	12 crores	2 crores
	Net ITC in the month of export	90 lakhs	3 crores	2 crores
March (assumed month of claiming manual refund)	ITC balance in the month of March (opening + ITC)	50 lakhs	3 crores	1.20 crore
	Expected output tax liability for March	40 lakhs	60 lakhs	90 lakhs

Source : Author Compilation

The taxation officer of the company, keeping in view various provisions of GST Act; different GST rates applicable on various inputs as well as on final products and accumulation of unutilized ITC have to work out the refund option which results in higher refunds as compared to other refund options available under the GST Act.

As per the GST provisions, the refund can be claimed for the tax paid on inputs if the output is exported or tax paid on export goods if the goods are exported after payment of tax. These are the two options which are available to the exporter out of which one can be used to claim refund under GST regime. Two options can be simultaneously used for claiming refund by different units of the same company.

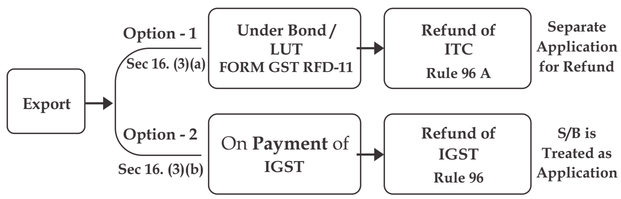
Options Available for Refund in Case of Exports Under GST

Various incentives and facilities are provided by Govt. to exporters to boost exports from India. Refund of indirect taxes paid on exported products is one of them. Under GST regime, special provisions have been added along with lesser documentation formalities for faster execution of refunds. The provisions regarding sanction of refund in case of exports are contained in Section 54 of the CGST Act, Rules 89 to 97A of the CGST Rules Refund in relation to exports can be claimed by exercising any of or both the following two options:-

1) **Refund of IGST –** in case of exports on payment of IGST (Rule 96)

2) **Refund of Accumulated ITC -** in case of exports without payment of tax under Bond/LUT (Rule 96A)

Figure 1 : Exports - Two Options



Simultaneous availment of these two options during any period is permissible under the law. In other words, an exporter can exercise both the options during a particular month if he has resorted to exports on payment of IGST as well as without payment of duty under bond/LUT during the relevant period.

1. Refund of IGST (Rule 96)

In this option, once output tax liability on exports is settled against the available input tax credit, and afterwards refund of output tax is claimed. Lets say a company has ITC balance of Rs. 3 lakhs in electronic ledger, He makes a zero rated supply (an export sale) on which IGST is Rs 2 lakhs. It will be settled as follows:

Table 2 : Net Tax Payable

Output tax (IGST)	2 Lakhs
ITC	2 Lakhs
Net tax payable	Nil

Source : Author's compilation

Afterwards, Output tax (2 Lakhs) will claimed as refund as per rule 96. In case of this option, provisional refund is not applicable.

In this option, following conditions should be satisfied :

1. GSTR-3 should be properly filed by the exporter (Currently it is GSTR-3B)
2. Details of zero rated supplies should be given in Table 6A of GSTR-1
3. Amount of zero rated supplies mentioned in GSTR-1 should be less than or equal to GSTR- 3B
4. Details of zero rated supplies mentioned in Table 6A of GSTR-1 should match with shipping bill details in ICEGATE portal.
5. Shipping bill itself is deemed application for refund. No separate application is required.

Figure 2 : Filing GSTR

GSTR-1	**Matching with**	**Custom**
Table 6A Details of zero rated supply		ICEGATE PORTAL

While filing GSTR-1 exporter can match shipping bill details available on ICEGATE portal login

2. Refund of Accumulated ITC in Case of Exports Under Bond/ LUT (Rule 96 A)

If exporter has good amount of unutilised accumulated ITC due to purchase of input goods or seasonal purchase of input goods or procurement of services, he can exercise this option. Under this option, refund of accumulated ITC will be given in the ratio of export turnover to total turnover. Option of provisional refund is available under this rule.

Formula for Calculating Refund of ITC -

Rule 89 (4) of CGST rules prescribes the formula for calculation of refund of ITC in case of exports under bond/LUT. The updated version as on date is as under:

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

(A) "Refund amount" means the maximum refund that is admissible;

(B) "Net ITC" means input tax credit availed on inputs and input services during the relevant period other than the input tax credit availed for which refund is claimed under sub-rules (4A) or (4B) or both;

(C) "Turnover of zero-rated supply of goods" means the value of zero-rated supply of goods made during the relevant period without payment of tax under bond or letter of undertaking, other than the turnover of supplies in respect of which refund is claimed under sub-rules (4A) or (4B) or both;

(D) "Turnover of zero-rated supply of services" means the value of zero-rated supply of services made without payment of tax under bond or letter of undertaking, calculated in the following manner, namely:- Zero-rated supply of services is the aggregate of the payments received during the relevant period for zero-rated supply of services and zero-rated supply of services where supply has been completed for which payment had been received in advance in any period prior to the relevant period reduced by advances received for zero-rated supply of services for which the supply of services has not been completed during the relevant period;

(E) "Adjusted Total turnover" means the turnover in a State or a Union territory, as defined under clause (112) of section 2, excluding –

(a) the value of exempt supplies other than zero-rated supplies and

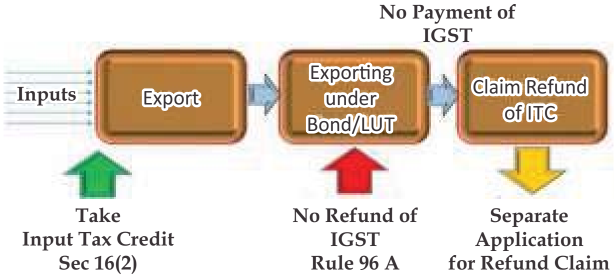
(b) the turnover of supplies in respect of which refund is claimed under sub rules (4A) or (4B) or both, if any, during the relevant period;

(F) "Relevant period" means the period for which the claim has been filed.

Lets say a company has unutilised Net ITC balance of 6 crores for the relevant period (the month of export). Their turnover for the month is as follows:

The refund under rule 96 A will be given if at the date of claiming refund, sufficient ITC balance is lying in electronic credit ledger account. So where export turnover to total turnover ratio is high, it would be beneficial for exporter to claim refund under Rule 96 A.

Figure 3 : Exporting under Bond/LUT Rule 96A



Procedure of claiming refund under GST

1. Refund of IGST (Rule 96)

The procedure for claiming refund of IGST paid on exports is briefly as under:

- No application required
- Shipping bill itself is the deemed application for refund
- Refund is deemed to have been filed:
- Only when EGM (Export General Manifest) or Export Report is filed, and
- Valid Return 3B is filed

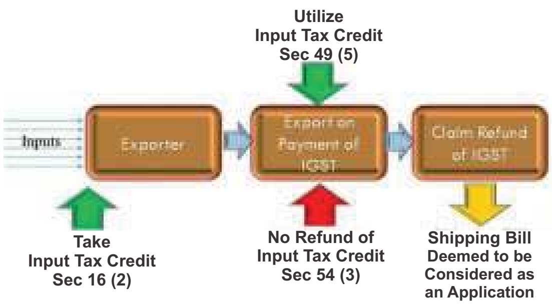
Table 3 : Turnovers Calculation

Total adjusted turnover	5 crores
Export turnover (zero rated supply)	4 crores
Domestic sales	1 crore
Export turnover ratio	80: 20
Refund under Rule 96A	6 crores * 80%= 4.8 crores
If he claims refund under rule 96	4 crore * applicable rate Lets say tax rate is 12 % Refund amount will be just 48 Lakhs

Source : Author Computation

- Table 6A of Form GSTR-1 to be filed
- Officer to check/match/validate the shipping bill details in ICEGATE portal with Table 6A on the common portal.
- Officer also to check the payment of IGST in Return 3B.
- Officer to sanction refund if the above particulars match.
- Refund to be credited electronically in the bank account of the exporter.

Figure 4 : Exporting by paying IGST Rule 96



2. Refund of ITC (Rule 96A)

While processing the refund claim of unutilised ITC, the value of goods declared in GST invoice and the value in corresponding shipping bill/bill of export is examined and if both are different, then lower of the two values is sanctioned as a refund. The procedure for claiming refund of accumulated ITC in respect of exports without payment of duty under bond/LUT is briefly as under:

Online application for refund has to be filed in RFD-01A on the common portal The following details are to be filed in RFD-01A :

1. The GSTIN/ Temporary ID allotted
2. Legal name
3. Trade name (if any)
4. Address of the principal place of business
5. Tax period for which the claim of refund is made (if applicable)
6. Amount of IGST, CGST and SGST, Interest or cess (if any)
7. Grounds for the claim of refund (as per the list given)
8. Details of Bank account in which the refund is to be credited
9. **Verification :** To be signed by the authorised person

Certain time limits and frequencies of filing Form GST RFD-01/01A have been prescribed as under:

Time limits : The Form RFD-01/01A has to be filed within a span of two years from the relevant date.

Frequency of filing : The Form RFD-01/01A has to be filed on a monthly basis by exporters.

- After filing RFD-01 form make a Debit entry in the electronic credit ledger
- Generation of proof of debit from electronic credit ledger
- Print out of RFD-01A to be taken and ARN to be filled in
- Manual submission of RFD-01A to the jurisdictional officer
- All necessary documentary evidences to be enclosed
- Application accepted only if complete
- Acknowledgment (RFD-02) within 15 days of submission
- Deficiency memo (RFD-03) within 15 days of filing
- Only one deficiency memo allowed
- Rectified application treated as fresh application – to indicate the original ARN and debit entry no.
- If no resubmission within 30 days of deficiency memo – amount to be recredited
- Officer to validate the GSTIN details on common portal – to check whether 3B has been filed or not
- Processing for grant of provisional refund (equivalent to 90%) to be completed in 7 days
- Bifurcation of taxes i.e. CGST, SGST/UTGST,

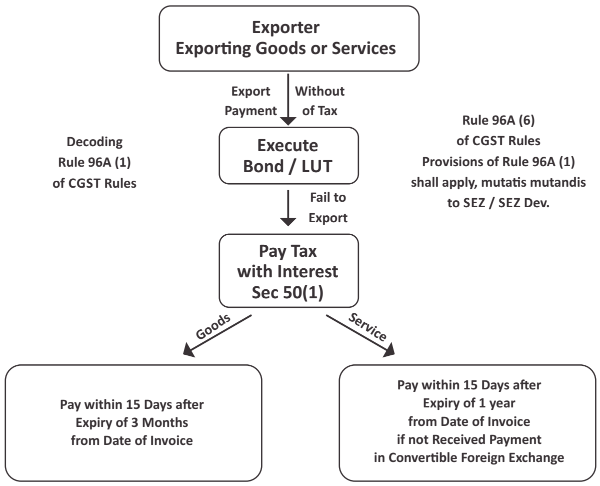
IGST, Cess to be shown (currently, refund can be claimed under any head if sufficient balance is there under that head)

- Final processing order within 60 days

Final processing includes detailed scrutiny of:

- Refund statement details with GSTR-1 (or Table 6A) on the common portal
- Shipping bill and EGM details on ICEGATE
- No pre-audit required
- Manual refund order
- Manual submission of refund order and bank account details in PFMS (Public Financial Management System) by DDO
- Signed copy of sanction order to PAO
- Credit of refund in bank account
- Payment under different heads by respective authorities
- Communication within 7 days to the counterpart tax authority (i.e. State/UT or Central as the case may be)
- Rejected portion of refund (if any) to be recredited in the credit ledger (GST PMT – 03 & GST RFD – 01B)

Figure 5 : Teaching Notes



So, suggest the taxation officer of Vardhman Textiles Ltd. about the choice of the refund option to be exercised under GST regime.

Table 4 : Tax Planning for refund in case of exports under GST regime: A case study of Vardhman Textiles Ltd.

Teaching Notes

Month		**Punjab unit**	**MP unit**	**Baddi Unit**
	Tax rate on output (Assumed)	12%	5%	12%
January (assumed month of export)	Total turnover	10 crores	15 crores	10 crores
	Export turnover	4 crores	12 crores	2 crores
	Net ITC in the month of export	90 lakhs	3 crores	2 crores
	Refund (Rule 96) (export turnover*tax rate on output)	**48 lakhs**	60 lakhs	**24 lakhs**

March (assumed month of claiming manual refund)	Refund (Rule 96A) =Net ITC in the month of export* Export turnover ratio of month of export	90 lakhs* 40% 36 lakhs	3 crores*80% **2.4 crores**	2 crores*20% 40 lakhs
	ITC balance in the month of March (opening + ITC)	50 lakhs	3 crores	1.20 crore
	Expected output tax liability for March	40 lakhs	60 lakhs	90 lakhs
Decision in March		Don't claim	Claim refund under 96A	Claim refund of IGST under Rule 96 in January

The taxation officer of the company should consider following mentioned factors while choosing the option of refund:

1. **Availability of Unutilised Accumulated ITC Balance**
2. **Export turnover Ratio**

Once option of refund has been finalised, next factors to be considered are:

1. **ITC (Opening +ITC) to Output Tax Liability Ratio**
2. **Closing Balance In Electronic Credit Ledger:** While Taking Refund Under Rule 96 A When The Unit Has to Make A Debit Entry In Electronic Credit Ledger, Refund Would Be Lesser of The Two Amounts : Closing Balance in ECL or Refund Amount.

In case of MP unit, sufficient net ITC balance (3 crores) is available with the unit and their export turnover ratio (80%) is high for the month of January. Refund of IGST (under Rule 96) for March will be 60 lakhs. So, they should claim refund of unutilised ITC balance under rule 96A (manual refund). Such balance is generally available when company deals in raw materials which are purchased seasonally or when rate of tax on inputs is more than rate of tax on output. In the month of March, they will have to check whether sufficient ITC balance is there to meet the output tax liability of March month. If yes, they can claim refund by filing online application in RFD-01 form and make a debit entry in electronic credit ledger. In case of Baddi unit, Export turnover ratio is 20%. So refund amount will be 40 lakhs under Rule 96A where as refund under Rule 96 will be 24 lakhs. They should claim refund under 96 A. however, in the month of March, refund amount is Rs 40 lakhs. ITC (opening + ITC) to output tax Liability Ratio should also be considered. Although sufficient ITC balance is there to claim refund but the output tax liability of March month is 90 lakhs. If ITC balance is there but the output tax liability in the near future is almost equivalent to the available ITC balance, one should not claim refund as they will have to pay output tax liability in cash. If unit can predict sales in future months, they should claim the refund of IGST under Rule 96.

In case of Punjab unit, export turnover ratio is 40% and net ITC is 90 lakhs only. As in case of Punjab unit, the tax rate on input and output is same and lesser seasonal product is purchased. Moreover the quantum of zero rated supplies is less. Hence, they have lesser amount of accumulated net ITC. If they claim refund under Rule 96, the amount would be Rs 48 lakhs and under Rule 96 A it will be Rs 36 lakhs. Hence they should claim refund under rule 96. Here, shipping bill will be deemed application for refund resulting in lesser procedural formalities. But even under Rule 96, they have to check the output tax liability for the month of January. If sufficient margin is available, only then they should claim refund of IGST. For example, they have estimated output tax liability of Rs 80 lakhs and and ITC balance of Rs 1 crore for the month of January. They should not claim refund of IGST. Then export should be made under LUT. And if they have estimated output tax liability of Rs 20 lakhs and and ITC balance of Rs 1 crore for the month of January. They should claim IGST refund.