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June 19, 2017

**The Chairman,**  
GST Council,  
Ministry of Finance, Government of India.  
North Block,  
New Delhi - 110001

**Subject: Representation seeking redressal on concerns about likely impact of GST on exporters of handicraft Sector**

Hon'ble Sir,

1. Export Promotion Council for Handicrafts is an apex organization engaged in promotion of exports of handicrafts from the country and has 11000 member exporters on PAN India basis. Our objective is to promote the exports of handicrafts and to project India's image abroad as a reliable supplier of high quality handicraft goods. Handicrafts is a labour intensive sector which provides employment to over 7 million artisans which includes a large number of women and people belonging to the weaker sections of the society in rural areas. Handicrafts sector has also emerged as one of the major sources of foreign exchange earnings for the country with exports of Rs. 24392.39 crores during the Financial Year 2016-17.
2. GST in India is a welcome reform and the industry is very enthusiastically waiting to enter into GST regime.
3. The term '**Handicrafts**' has not been indicated anywhere in the GST Notification pertaining to GST rates, further, the rates announced by GST Council on different items are at 4 digit HS code level. As you may be aware the excise duty on handicrafts is currently exempted under notification no. 17/2011-CE dated 1/3/2011 (Annexure –A). Further under the VAT laws in various states, handicrafts are placed under schedule I which covers the exempted goods (Annexure –B).

On going through the schedule of rates under GST indicated for various handicrafts items are on the higher sides i.e. at 12%, 18% and 28% [Tabulation of Handicrafts ITC HS Codes with GST rates at eight or four digit level (Annexure –C)]. For example in case of handcrafted cane furniture (9403) the applicable GST rate is 28%, however currently the product is VAT exempted in 11 states (8 NER states, West Bengal, Kerala and Andaman & Nicobar). Further, for bamboo furniture (9403) the GST rate has been reduced from 28 to 18%.

**We would suggest that a flat rate of 3% GST may be made applicable for HS codes which are being used by handicrafts sector for their product categories.**

Further, most of the exporters of handicrafts work on borrowed capital. The process of payment of GST first and claiming the refund at later stage would result in the blocking of the funds for the small exporters engaged in the sector.

#### 4. Job work:-

The entire production process of the handicrafts is outside the four walls of the factories of the exporters. Since, this is a cottage sector, the process of manufacturing is not limited under one roof, the process of production is spread to minimum 7 and up to 15 stages of production at the artisan (job worker) premises who are located at the different places. Average earning of such job workers may be less than Rs. 10,000/- per Month. All these persons are not registered under GST law. As per GST law the registered person will have to pay tax on reverse charge basis from these job workers. As a result the exporter or manufacturer will prefer to pass the work to the job worker who is registered under GST act to avoid payment of GST under reverse charge resulting lakhs of small job workers on the verge of unemployment.

The Process of manufacturing when the raw material for exportable product is provided by an exporter (Each and every process is a specialized activity conducted by skilled artisans) is as under:-

#### **JOB WORK FLOW CHART (Indicative Chart for art metaware segment for Handicrafts- A product has to process through 9 hands for Job Work)**

		<u>EXISTING RATES</u>	<u>AFTER GST</u>
Raw Material	Purchased by Exporters in the form of ingot/scrap/virgin metal after payment of VAT @5%	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
Sand casting	Send for sand casting done by Artisans	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
After Casting	Sent for welding because each item casted in 2 or more parts and thereafter welded by karigar	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
Scraping	After welding another karigar have to scrap the item to make smooth finishing	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
Threading	After scraping item, karigar send the item to another karigar for threading	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
	Now semi finish item is ready to send to exporters which are not finished.	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
Polishing	Polish is done piece by piece and exporter will pay piece basis payment at a requisite place	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
Plaiting	After Polishing Exporter checks the quality and sends for plating or power coating	0%	GST (12,18,28%) Payable Under Reverse Charge
↓			
Packing	Now item is ready for packing and it is also done on piece basis.	0%	GST (12,18,28%) Payable Under Reverse Charge

- However there is certain specialized work of craftsmanship like engraving, enameling which require much more additional process of manufacturing.
- In case of merchant exporter, raw material purchased by karkhanedar and supplied to entire chain and there after billed accordingly to the exporter.

The new GST act does not provide any relief to the sector particularly with respect to the provision contained in the Section 9 (4) with regard to the Reverse charge in case of supplies from un-registered persons.

**We would strongly recommend that suitable exemption should be given to such small job workers from GST on reverse charge basis to safe guard their interest. We understand GST rate on job work is 18% , however GST rates for textiles job worker has been reduced to 5%, it is requested that the job worker engaged in handicrafts sector may also be given the same benefit.**

**5. Stock in hand as on 30<sup>th</sup> June 2017:-**

It is important to note that the gestation period in case of handicrafts items is much longer and the items are sold internationally as per the trends and requirement at the buyers end, hence the stocks kept at the exporters premises are for a much longer period. We understand from the left over stocks of previous year, ITC will be allowed for only one-year purchases. While most of the exporters specially dealing in wooden items are having stocks for more than one year. All such stocks will be used in the manufacture of goods for export only.

**We would suggest that limit of one year should be removed for handicrafts exporters for allowing ITC for Stocks and may be extended for 3 years.**

**6. Sale to foreign tourist**

At present the foreign tourist visiting India buy Handicraft items as a souvenir from the Handicraft shops/stores located throughout the country against the foreign credit cards or foreign exchange. They take these handicraft items along with them to the foreign destinations and are not sold anywhere in India and a declaration to this effect is taken by the store owner. The country earns a considerable size of foreign currency on sale of these items across the counter. Since there are no shipping bills for these items, hence they are not considered as exports and are not zero rated. Whereas, these items are taken by the foreign client to Overseas only and are not resold in India anywhere. Under, the previous regime these counter sales were treated as deemed export and benefit under Income Tax Act under Section 80HHC was available on these sale also.

**We would request that since these items which are sold across the counter have all the ingredients of export sales like they earn foreign currency, these items are taken out of India and are not resold in India, FIRC (Foreign Inward Remittance Certificate) is also issued by the bank, RBI is duly informed about all these transactions, hence these sale of handicraft items against foreign exchange should be classified as exports and should be zero rated.**

**7. GST on foreign agency commission earned by Buying Agents**

There is no clarity whether the services as rendered by the buying agents to their foreign customers wherein the customer is located outside India and payment from them is also received in foreign currency towards export of services.

Buying Agents are exclusively appointed by Foreign Buyers (Principal) to look after their business interests in India. The Agent's assignment includes receiving artwork, sketches, prototypes or a full sample of the item to be developed, manufactured and shipped from India, and the service is being utilized by the foreign principal in the foreign country only. Proper clarification is required to be issued that services rendered by these buying agents engaged with foreign principals are treated as export of services.

**It is requested that services rendered by buying agents should be treated as Export of Services where commission is received in foreign exchange and should be subject to zero rate GST.**

## 8. GST on fair participation:-

a) EPC's organizes Exhibitions and Trade Fairs (Reverse Buyer Seller meets) which are B2B shows with no retail sale and only orders are booked. **Since the exhibitors do not sell their goods and only book orders and after the event is over bring their goods back to their own premises, it may be treated similar to the process of movement of goods (No Sale or Purchase) and may be exempted from GST.** Further it is important to note that the service tax on participation in fairs within India was exempted till March 2009 (Notification 43/2007 dated 29<sup>th</sup> November 2007) and for participation in fairs overseas is exempted [Notification No. 5/2011-service tax dated 1<sup>st</sup> March 2011 (Annexure -D)].

b) The exhibitors having registered office in one city and participate in these shows in various cities of India are required to get registered in each state where they intend to participate. As per the new GST regime (**Section 2 Sub Section (20) of CGST "casual taxable person"**), every participant has to register himself as a casual dealer in the state where the exhibitions is being held. It will be a cumbersome exercise for the exhibitors and will discourage the participants for participating in the Trade Fairs and Exhibitions, **it may be clarified that the participant is not required to register himself/herself as a casual taxable person in the state where the exhibition is being held and he is not selling any goods in the exhibition.**

### Transitional arrangement for exhibitors of Textiles India – 2017

The exhibitors would be visiting Ahmedabad for participation before 30th June, 2017 when the present VAT would be applicable and would be returning from Ahmedabad to their destination after 2nd July, 2017 when the new GST regime would be in place. It is requested that necessary transitional arrangement can be worked out which may include endorsement of the exhibitors list by the Department so that the exhibitors do not face any problem with respect to taxation.

## 9. Rate of Duty Drawback

Currently, such tax incidence on export goods is being offset by way of grant of duty drawback to exporters at the specified rates. **We would request that even after implementation of GST in India, duty drawback should be allowed as an option at two rates viz. lower rate of drawback when input tax credit is availed and other rate of duty drawback when input tax credit is not availed on the same lines as available currently in the Drawback Schedule.**

Further, the All Industry Rate of Duty Drawback should also be revised under GST so as to factor the increased tax cost on the procurements on account of increase in rate of taxes on input material and input services.

## 10. GST on Sale of Scrips:-

- a. The incentives received i.e. MEIS, SFIS etc. is merely 'duty credit' scrips and these are 'intangible goods' and is a document in lieu of 'cash'. These scrips can be utilized exclusively for the purpose of payment of customs, excise, service tax etc. So technically these are like bank cheques which need not be subjected to GST. These will also reduce the transaction costs of the exporters.
- b. The Government has announced that on implementation of GST effective 1<sup>st</sup> July, 2017, export incentives such as MEIS/SEIS and all relevant reward scheme scrips issued either as per the old policy or the current policy will be eligible only for discharging payment of basic customs duty. This would mean that the demand for such scrips will now be only around 25% and the exporters returns will go down tremendously.

- c. Exporters get the scrips only after about three to four months of export and sometimes even later. The exporters calculate the costing keeping in mind that around 95% realization of these scrips and accordingly quote for the products to the buyers. With the under utility of the scrips apart from basic customs duty, the exporters will lose to the extent of 40-50% and will incur losses.

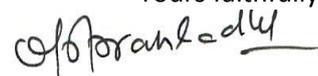
**It is requested that the Government may consider the utilization of these scrips against all types of GSTs.**

**Prayer:**

In view of the above it is submitted that in case the above issues are not resolved, the increased cost of exports would render the export from India as non-competitive and severely affect the handicraft export from India. Export industry will not be able to sustain the hit and shall collapse. As this sector is labour intensive and employs artisans from remote clusters, any adverse impact on the sector give rise to employment crisis. Therefore, we humbly request your good self to take necessary action and issue the requisite clarifications in order to ensure the smooth transition of our industry into the GST regime.

We shall be pleased to furnish any further information, which your good self may require in this regard.

Yours faithfully,



**(O. P. Prahladka)**  
Chairman

Encl : as Annexure above

- A. Notification of Central Excise
- B. Notification of VAT (various States)
- C. List of 167 ITC HS Codes
- D. Notification of Fair participation
- E. Representations of Association