

## NEED OF FOREIGN TRADE

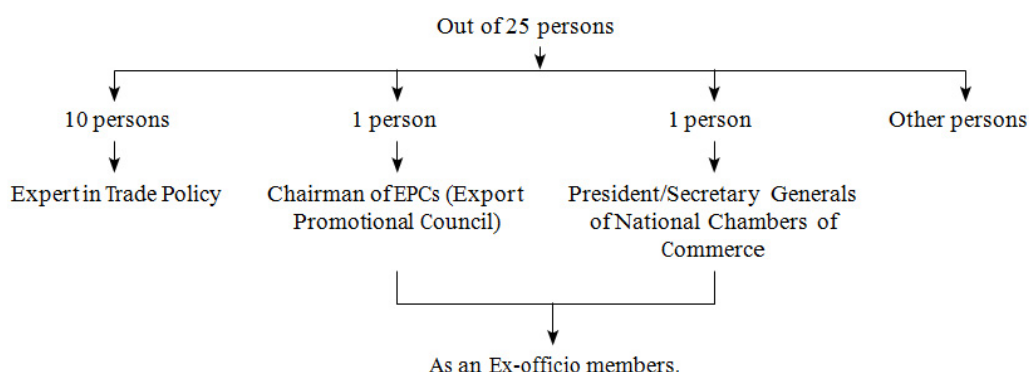


### CHAPTER OUTLINES

- Introduction
- Purpose
- Legislation governing Foreign Trade.
- Salient Features of FTP.
- Administration of FTP.
- Trade Facilitation to through FDI Initiation.
- General Provision applicable to Input and Export of Goods.
- Provision relating to Import of Goods.
- Provision relating to Export of Goods.
- Duty Exemption and Permission of Scheme.
- Reward Scheme.
- Status Holder.
- EPCG Scheme.
- Deemed Export.
- EDU, EHTP, STP & BTP Scheme.

<b>INTRODUCTION</b>	FTP is a set of guidelines or instructions issued by the CG in matters related to import and export of goods in India. Its primary purpose is not merely to earn foreign exchange but also to stimulate greater economic activity. FTP was earlier called as EXIM policy.
<b>PURPOSE</b>	→To promote foreign trade →Regulate export import →Formulate EXIM policy →Authorised to appoint Director General of Foreign Trade (DGFT)
<b>LEGISLATION GOVERNING FOREIGN TRADE</b>	<b>Ministry of Commerce and Industry</b> Governance the affairs relating to the promotion and regulation of foreign trade. <b>Foreign Trade (Development and Regulation) Act, 1992</b> For the development and regulation of foreign trade. As per the provision of the act, the govt.: →May make provisions for controlling foreign trade. →May prohibit, restrict and regulate exports and imports. →Is authorised to formulate and implement and EXIM policy and also amend the same from time to time. →Is also authorised to appoint a DGFT.
<b>SALIENT FEATURES OF FTP</b>	→Free export import unless specifically regulated by the provisions of the policy or any other law. →Some goods are free for import and export but can be imported/exported only through State Trading Enterprises (STE). →There are restrictions on export and import for various strategic/health, defence, environment and other reasons. →Exports are promoted through various promotional schemes. <b>E.g.</b> Duty Exemption Scheme, Advance Authorisation Scheme, Duty Free Import Authorisation Scheme, DDB, Duty Remission Scheme, etc. →Capital goods can be imported at NIL duty under the scheme of EPCG. →Duty credit scripts schemes are designed to promote exports of some specified goods to specified markets and to promote export of specified services.
<b>ADMINISTRATION OF FTP</b>	<b>(1) DGFT</b> DGFT issues authorisation (means license). It also grants importer exporter code number. <b>Note:</b> Decision of DGFT is final and binding in respect of interpretation of any provision of FTP. <b>(2) Other Authorities</b> (i) CBEC (ii) Reserve Bank of India (iii) State Value Added Tax Department

### **BOARD OF TRADE (25 MEMBERS)**

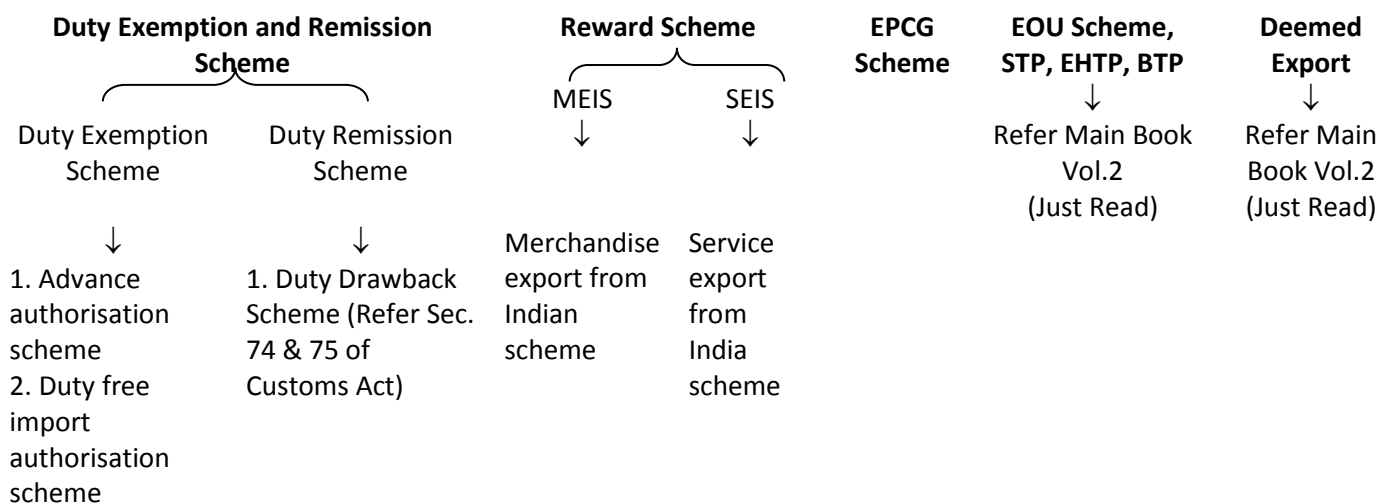


**Note:** BOT will meet at least once in every quarter.

<b>TRADE FACILITATIONS THROUGH EDI INITIATIVES</b>	DGFT has set up a secured EDI message exchange system for various documentation related import and export. E.g. Import, Export Authorisation, Bills of Shipment, BOE etc. These has reduced the physical interface of export and import with the govt. depart and is a signs.
<b>GENERAL PROVISIONS APPLICABLE TO IMPORT AND EXPORT OF GOODS</b>	<p>1. Exports and imports are free unless regulated.</p> <p>2. <b>Compliance with laws:</b> Every exporter and importer shall comply with the provisions of the foreign trade development and regulation act. All imported goods shall also be subject to domestic laws.</p> <p>3. <b>Interpretation of policy:</b> DGFT decision is final decision.</p> <p>4. Exemption from policy/procedures.</p> <p>5. DGFT may pass such orders or grant such relaxation or relief, as he may deem fit and proper, on grounds of genuine hardship and adverse impact on trade.</p> <p>6. <b>Principles of restrictions:</b> DGFT may, through a notification, adopt and enforce any measures necessary for</p> <p><b>(a) Protection of</b></p> <ul style="list-style-type: none"> <li>→Public morals</li> <li>→Human, animal or plant life or health</li> <li>→Patents, trade mark and copyrights</li> <li>→National treasures of artistic, historic and archaeological value</li> <li>→Trade of fissionable material</li> </ul> <p><b>(b) Conservation of exhaustible natural resource</b></p> <p>Prevention of traffic in arms, ammusim and implements of war and use of prison labour.</p> <p>Minimum export import price.</p> <p>→Bank guarantee/legal undertaking/bonds with customs authority.</p> <p>7. <b>Authorisation not a right:</b></p> <p>No person may claim an authorisation as a right and DGFT or RA shall have power to refuse to grant or renew the same in accordance with provisions of FT Development and Regulation Act (FT (DAR) Act].</p> <p>8. <b>Importer/Exporter Code (IEC)</b></p> <p>→It is a unique 10 digit code, issued by DGFT.</p> <p><b>DGFT has decided to use Income Tax PAN as EIC number i.e. IEC will be issued by DGFT with the difference that it will be alpha numeric (instead of 10 digit numeric at present) and will be same as PAN of an entity.</b></p> <p><b>With the introduction of GST, GSTIN would be used for the purposes of (i) Credit Flow of IGST on import of goods, and (ii) refund or rebate of IGST related to export of goods. In view of this, it has been decided that importer/exporter would need to declare only GSTIN (wherever registered with GSTIN) at the time of import and export of goods. For residuary categories, UIN issued by GSTN an authenticated by DGFT will be used. For others, common number will be notified by DGFT.</b></p> <ul style="list-style-type: none"> <li>→IEC code is mandatory.</li> <li>→Facility of electronic form.</li> <li>→Application with document with prescribed fees (₹ 500).</li> <li>→IEC issued/email within 2 working days.</li> <li>→Incomplete or ineligible application shall be rejected with reason.</li> </ul> <p>9. <b>Mandatory documents for export/import of goods from/into India</b></p> <ul style="list-style-type: none"> <li>→Bill of lading/airway bill</li> <li>→Commercial invoice cum packing list</li> <li>→For export</li> <li>Shipping bill/Bill of export</li> <li>→For import BOE</li> </ul>
<b>PROVISIONS RELATING TO IMPORT OF GOODS</b>	<p>1) Actual user condition.</p> <p>2) Second hand goods – Import of second hand capital goods and re-conditioned spares shall be allowed freely.</p> <p>However, second hand PC, laptop, AC, diesel generating sets will only be allowed against authorisation subject to restriction.</p> <p>3) Import of gifts and samples – No duty upto prescribed limit.</p> <p>4) Passenger baggage – Refer (Rule 3/4/5/6)</p> <p>5) Re-import of goods repair abroad. (Refer Section 20 of Customs Act, 1962)</p>

	6) Import of goods used in projects abroad. E.g. After completion of projects abroad, contractors may imports, without an authorisation, goods including capital goods used in the project provided they have been used for atleast one year.
<b>PROVISION RELATING TO EXPORT OF GOODS</b>	<p><b>1) Export of Gifts</b> Goods including edible items of value not exceeding ₹ 5 lakhs in a licensing year, may be exported as a gift. However, items mentioned as restricted for exports shall not exported as gift without an authorisation.</p> <p><b>2) Export of Spares</b> Warranty spares of plant, equipment, machinery, automobiles or any other goods (except restricted goods) may be exported along with main equipment or subsequently but within contracted period of such goods subject to approval of RBI.</p> <p><b>3) Third Party Exports</b> 3rd party exports means exports made by an exporter or manufacturer on behalf of another exporter. In such cases, export documents such as shipping bills shall indicate name of both manufacturing exporter/manufacturer and 3rd party exporter.</p> <p><b>4) Export of Imported Goods</b> Export of such goods imported against payment in freely convertible currency would be permitted provided export proceeds are realised in freely convertible currency. However, export of such goods to notified countries will be permitted in Indian rupees subject to atleast 15% value additions.</p> <p><b>5) Denomination of Export Contract</b> All export contracts and invokes shall be denominated either in freely convertible currency or Indian rupees but export proceeds shall be realised in freely convertible currency. However, export proceeds may also be realised in rupees, provided it is through a freely convertible amount of a non-resident bank situated in any country other than a member country of Nepal or Bhutan.</p>

### EXPORT PROMOTION SCHEMES



#### 1. Duty Exemption and Remission Scheme

Advance Authorisation (AA) and Duty Free Import Authorisation

Advance Authorisation (AA)	Duty Free Import Authorisation (DFIA)
(i) <u>Advantage:</u> Inputs imported without payments of customs duty (The goods imported are exempt from basic customs duty, <b>IGST upto 01.10.2018, Compensation Cess upto 01.10.2018</b> , Anti-dumping and Safeguard duty, unless otherwise specified.)	(i) <u>Advantage:</u> Inputs imported without payments of customs duty (The goods imported are exempt only from basic duty, IGST & Compensation Cess, being not exempt, shall be adjusted as Input TaxCredit)
(ii) <u>Items which can be imported:</u>	(ii) <u>Items which can be imported:</u>

(a) Input, fuel, oil, catalyst which are used in exported Goods. (b) Mandatory spares up to 10% of CIF value of Imported Goods	(a) Input, fuel, oil, catalyst which are used in exported Goods. (b) Mandatory spaces up to 10% of CIF value of Imported Goods
(iii) <u>Items which cannot be imported:</u> Prohibited Goods mentioned in Indian Trade Clarification (ITC) [Harmonized System]	(iii) <u>Items which cannot be imported:</u> Prohibited Goods mentioned in Indian Trade Clarification (ITC) [Harmonized System]
(iv) <u>Actual user condition</u> Advance Authorisation and/ or materials imported thereunder will be with actual user condition. It will not be transferable even after completion of export obligation. However, Authorisation holder will have an option to dispose off product manufactured out of duty free inputs once export obligation is completed. In case where CENVAT credit facility on inputs has been availed for the exported goods, even after completion of export obligations, the goods imported against Advance Authorisation shall be utilized only in the manufacture of dutiable goods whether within the same factory or outside (by supporting manufacturer). Waste/scrap arising out of manufacturing process, as allowed, can be disposed off on payment of applicable duty even before fulfilment of export obligation.	(iv) <u>Actual user condition</u> Yes – Actual user condition
(v) <u>Minimum value addition</u> 15% of import value (in case of tea 50%) *If inputs are supplied free of Cost by foreign buyer in such case for calculation of value addition, notional value shall be taken (Eg 15% of market value)	(v) <u>Minimum value addition</u> 20% of import value
(vi) <u>Eligible Person</u> (a) Manufacturer (b) Merchant Exporter	(vi) <u>Eligible Person</u> (a) Manufacturer (b) Merchant Exporter
(vii) <u>SION</u> The import of raw material is on the basis of standard input – output Norms (SION)	(vii) <u>SION</u> The import of raw material is on the basis of standard input – output Norms (SION)
(viii) <u>Annual Advance Authorization [Eligible]</u> (a) Status Certificate Holders (b) All other categories of exporter having past export Performance (In preceding 2 years)	--
(ix) <u>Limit of Annual Advance Authorization</u> 300% of FOB value of physical export & / or FOB value of deemed export in preceding financial year. OR Rs 1 Crore WHICH EVER IS HIGHER  <b>Authorization for Annual Requirement shall be issued only where SIONs or valid Ad Hoc Norms exists on the date of issue of Authorization. It is not available on self-declaration basis.</b>  <b>Standard Input Output Norms (SION)</b> are standard norms which define the amount of input(s) required to manufacturer unit of output for export purpose. SION is notified by DGFT on basis of recommendation of Norms Committee.	--

**Note: Basis of issuance of Advance Authorisation:**  
Advance Authorisation is issued for inputs in relation to resultant product, on the following basis:

(A) As per SION notified (available in Hand Book of Procedures)

Or

(B) On the basis of self declaration Regional Authority may also issue Advance Authorisation where there is no SION/valid Ad Hoc Norms for an export product or where SION / Ad Hoc Norms for an export product or where SION / Ad hoc norms have been notified / published but exporter intends to use additional inputs in the manufacturing process, based on self declaration by applicant. Wastage so claimed shall be subject to wastage norms as decided by Norms Committee. The application shall submit an undertaking to abide by decision of Norms Committee.

Or

(C) Applicant specific prior fixation of norms by the Norms Committee.

Or

(D) On the basis of Self Ratification Scheme. Where there is no SION / valid Adhoc Norms for an export product and where SION has been notified but exporter intends to use additional inputs in the manufacturing process, eligible exporter can apply for an Advance Authorisation under this scheme on self-declaration and self-ratification basis. RA may issue Advance Authorisations and such cases need not be referred to Norms Committees for ratification of norms. An exporter (manufacturer or merchant exporter) who holds AEO (Authorised Economic Operator) Certificate under Common Accreditation Programme of CBI&C is eligible to opt for the scheme.

(x) Validity period of imports

(a) 12 months from the date of issue of authorization.  
(b) Advance authorization for deemed export shall be coterminous with contracted duration of project execution or 12 months from the date of issue of authorization, whichever is less.

(xi) Export Obligation period

18 months from the date of issue of authorization or notified by DGFT

**NOTE :** In case of items falling in categories of defence, military store, aerospace and nuclear energy ☐ 24 months

(x) Validity period of imports

Applicant shall file online application to Regional Authority concerned before starting export under DFIA

(xi) Export Obligation period

Export shall be completed within 12 months from the date of online filing of application.

**Example 1:** AAAR : Compute Entitlement advance authorization for annual requirement for an exporter having performance is 3-4 years and last financial year's details being

- (a) Physical Export [FOB Rs40 Lakh]  
(b) Deemed Export [FOR Rs8 Lakh]

**Answer:** Since exporter has export performance is at least 2 years, it is eligible for advance authorization for annual requirement

The entitlement would be:



- 300% of the [40 lakh + 8 Lakh] = Rs. 144 lakh; or
  - Rs. 1 Crore,
- Whichever is higher i.e., Rs. 144 Lakh

**Example 2:**

Aadi Ltd. Has imported inputs without payment of duty under AA

- CIF Value = Rs. 10,00,000

After processing, the final product is exported

What should be the minimum FOB value of exported Goods?

Answer: Minimum export value (FOB value) addition

= 10 lakhs + 15% of 10 lakhs = Rs. 11.5 lakhs

**2. Reward Scheme****Distinguish between MEIS and SEIS**

<b>MEIS</b> <b>Merchandise Exports from India Scheme</b>	<b>SEIS</b> <b>Service Exports from India Scheme</b>		
(i) <u>Object</u> : To offset infrastructural inefficiency & associated costs involved in export	(i) <u>Object</u> : Encourage Export of Notified Services from India		
(ii) <u>Eligibility</u> : Exporter of Goods/products, which are product/manufacture in India	(ii) <u>Eligibility</u> : (1) Service provider to notified services, such service rendered in the prescribed manner.		
	<div data-bbox="852 790 1452 1153" data-label="Diagram"> <p style="text-align: center;"><b>If service provider is</b></p> <pre> graph TD     A[If service provider is] --&gt; B[Individual &amp; Sole proprietorship]     A --&gt; C[Other]     B --&gt; D[Minimum net free foreign exchange earning [MNFE]]     C --&gt; E[Minimum net free foreign exchange earning [MNFE]]     D --&gt; F[US \$ 10000]     E --&gt; G[US \$ 15000]           </pre> </div> <p>* MNFE = Gross earning of foreign exchange – Total Expenses / payment of foreign Exchange</p>		
	(2) If the IEC holder is a manufacturer of goods as well as service provider, then the net foreign exchange earning total expenses / Payment shall be taken into account for service sector only.		
(iii) <u>Entitlement</u> : The basis of calculation of reward would be on <table border="1" data-bbox="145 1411 780 1603"> <tr> <td data-bbox="145 1411 456 1603">Whichever is less</td><td data-bbox="456 1411 780 1603">               Realised FOB value in FFE (free foreign exchange)                OR                FOB shown in shipping bills             </td></tr> </table> <p>(In case of export of goods through courier or foreign post offices using e-Commerce: MEIS reward would be limited to FOB value of Rs25,000 only) (ref Ex. 2)</p>	Whichever is less	Realised FOB value in FFE (free foreign exchange) OR FOB shown in shipping bills	(iii) <u>Entitlement</u> : Service providers of eligible Service shall be entitled to duty credit at notified rates on net Foreign exchange earned.
Whichever is less	Realised FOB value in FFE (free foreign exchange) OR FOB shown in shipping bills		

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Rate Rewards 3%

**Solution:**

**Solution:**

Amount of Reward:	3% of	2,00,000 OR 2,05,000	↓ ↓	Whichever is less
		= 3% of 2,00,000		
		= Rs. 6,000		

### Example 2:

Rate Rewards 3%

**Solution:**

Amount of Reward = 3% of 50,000 (Bid value is to be restricted to Rs. 25,000)  
= 3% of 25,000 = Rs. 750

### Example 3:

Deemed export with FOR value = Rs. 50,000

**Solution:**

Deemed exports are not eligible FOR MEIS

### Example 4:

### Export of Red Sanders

**Solution:**

Not eligible for MEIS.

### Example 5:

Determine reward under MEIS from the following particulars (rate or reward may be taken to be 5%):

1. Goods A – FOB Value declared in shipping bill is Rs. 5,00,000. FOB value realized due to exchange gains: Rs. 5,10,000
2. Goods B – FOB Value declared in shipping bill is Rs. 2,00,000. FOB value realized due to exchange loss: Rs. 1,98,000
3. Exports of Product A through e-commerce platform – FOB Value Rs. 30,000
4. Exports of Product B through e-commerce platform – FOB Value Rs. 22,000
5. Supplies of goods made to SEZ units : Rs. 50,000
6. Export of Cereals: FOB Value Rs. 1,75,000

**Solution: The MEIS reward is computed below –**

1. Goods A (FOB Value realized or FOB value in shipping bill, whichever is lower)	Rs. 5,00,000
2. Goods B (FOB Value realized or FOB value in shipping bill, whichever is lower)	Rs. 1,98,000
3. Exports of Product A through e-commerce Platform – FOB Rs. 30,000 (For MEIS Computation, value is limited to Rs. 25,000)	Rs. 25,000
4. Exports of Product A through e-commerce Platform – FOB Rs. 22,000 (For MEIS Computation, value is limited to Rs. 25,000)	Rs. 22,000
5. Supplies of goods made to SEZ units: Rs. 50,000 (Not eligible for MEIS)	Ineligible
6. Export of Cereals FOB Value Rs. 11,75,000 (Not eligible for MEIS)	Ineligible
<b>TOTAL</b>	<b>Rs. 7,45,000</b>
<b>MEIS REWARD @ 5%</b>	<b>Rs. 37,250</b>

**LIST OF SERVICES AND THE NOTIFIED RATES OF REWARDS ARE AS UNDER:**

Sl. No.	Sectors	Admissible rate of credit Scripts
1.	Business Services	
A.	Professional Services Legal services, Accounting, auditing and book-keeping services, Taxation services, Architectural services, Engineering services, Integrated engineering services, Urban planning and landscape, Veterinary Services, Services provided by midwives, nurses, physiotherapists and paramedical personnel	5%
B.	Research and development services R&D Services, on natural sciences, R&D services on social sciences and humanities, Interdisciplinary R&D services	5%
C.	Rental/Leasing services without operators Relating to ships, relating to aircraft, Relating to other transport equipment, relating to other machinery and equipment.	5%
D.	Other Business services Advertising services, market research and public opinion polling services Management consulting, service, Services related to management Consulting, Technical testing and analysis services, services incidental to agricultural, hunting and forestry,	3%
(2)	<b>COMMUNICATION SERVICES</b> Audiovisual services: Motion picture and video tape production and distribution service, Motion picture projection service, Radio and television services, Radio and television transmission services, Sound recording.	5%
(3)	<b>CONSTRUCTION AND RELATED ENGINEERING SERVICES</b> General Construction work for building, General Construction work for Civil Engineering, Installation and assembly work, Building completion and finishing work	5%
(4)	<b>EDUCATIONAL SERVICES (Please refer Note 1)</b> Primary education services, Secondary education services, Higher education services, Adult education.	5%
(5)	<b>ENVIRONMENTAL SERVICES</b> Sewage services, Refuse disposal services, Sanitation and similar services	5%
(6)	<b>HEALTH-RELATED AND SOCIAL SERVICES</b> Hospital services	5%
(7)	<b>TOURISM AND TRAVEL-RELATED SERVICES</b> (A) Hotels AND Restaurants (including catering) (i) Hotel (ii) Restaurants (including catering) (B) Travel agencies and tour operators services (C) Tourist guides services	3% 3% 3% 3%
(8)	<b>RECREATIONAL, CULTURAL AND SPORTING SERVICES (other than audiovisual services)</b> Entertainment services (including theatre, live bands and circus services), News agency services, Libraries, archives, museums and other cultural services, Sporting and other recreational services.	5%
(9)	<b>TRANSPORT SERVICES (Please refer Note 2)</b> (A) Maritime Transport Services : Passenger transportation*, Freight transportation*, Rental of vessels with crew*, Maintenance and repair of vessels, Pushing and towing services, Supporting services for maritime transport (B) Air transport services : Rental of aircraft with crew, Maintenance and repair of aircraft, Airport Operations and ground handling (C) Road Transport Services : Passenger transportation, Freight transportation, Rental of Commercial vehicles with operator, Maintenance and repair of road transport equipment, Supporting services for road transport services (D) Services Auxiliary To All Modes of Transport : Cargo-handling services, Storage and warehouse services, Freight transport agency services	5% 5% 5% 5%

**Example 1:**

ABC Ltd. A service exporter of specified service is having net free foreign earning of US \$ 20,000 during preceding financial year, requires you to compute its duty credit scrip entitlement for the current financial year under the SEIS.

The company has provided/supplied specified service during current year as follows:

1. Supply from India to US → \$ 30,000
2. Supply from India to Service Consumer of US in India → \$ 12,000
3. Supply from India through commercial branch in a city of US → \$ 8,000
4. Supply from India through presence of employees in another city of US → \$ 6,500

The total expenses/payments of ABC Ltd. Relating to aforesaid supplies are:

- (1) 5% of gross receipts in foreign exchange, and
- (2) Another 10% of gross receipts in Indian Rupees.

ABC Ltd. Also informs that it has received –

- (3) Loans of \$ 5,000 from US
- (4) Another amount of \$ 6,000 (net of expenses) from EEFC Account towards services export; and
- (5) Another amount of \$ 2,500 (net of expenses) on behalf of a client, who is also and export of specified services.

Notified rate for service provided by ABC Ltd. Is 5%

**Solution: ABC Ltd. Is eligible for SEIS Benefits:** ABC Ltd. Is eligible for SEIS benefit, as its NFE (Net free foreign exchange earning) during the preceding financial year was USD \$ 20,000

The SEIS benefit is computed below:

	Gross (\$)	Expenses in Foreign Exchange (\$)	NFE of Current Year (\$)
Supply from India to US – Eligible	30,000	5% i.e. 1,500	28,500
Supply from India to service consumer of US in India – Eligible	12,000	5% i.e. 600	11,400
Supply from India through Commercial Branch in a city of US	Ineligible	Ineligible	Ineligible
Supply from India through presence of employees in another city of US	Ineligible	Ineligible	Ineligible
Loan from US	Ineligible	Ineligible	Ineligible
Exports realization from EEFC A/c	Ineligible	Ineligible	Ineligible
Realization on behalf of client	Ineligible	Ineligible	Ineligible
<b>TOTAL</b>	<b>42,000</b>	<b>2,100</b>	<b>39,900</b>
<b>Credit scrip entitled @ 5% of \$ 39,900</b>			<b>1,995</b>

**EXAMPLE 2:**

XYZ Ltd. a service exporter of specified services, having net free foreign earning of US \$ 26,000 during preceding financial year, requires you to compute its duty credit scrip entitlement for the current financial year under the Service Exports from India Scheme (SEIS) from the following information –

- 1) Supply from India to US \$ 30,000 (Expenses incurred US \$ 900)
- 2) Amount of \$ 4,000 (net of expenses) realized on behalf of client who is also an exporter of specified services.

Notified rate of SEIS is 5%.

**Solution:** Service Providers of notified services who have earned minimum net free foreign exchange earnings of US \$ 15,000 in preceding financial year are eligible for Duty Credit Scrip. Since XYZ Ltd. is eligible for SEIS benefit, as its NFE (Net free foreign exchange earning) during preceding financial year was US \$ 26,000 it is eligible for SEIS benefit.

The SEIS benefit is computed below:

	Gross (\$)	Expenses in Foreign Exchange (\$)	NFE of Current Year (\$)
Supply from India to US – Eligible	30,000	900	29,100
Realization on behalf of client	Ineligible	Ineligible	Ineligible
<b>TOTAL</b>	<b>30,000</b>	<b>900</b>	<b>29,100</b>
Credit scrip entitled @ 5% of \$ 29,100			1,455

### STATUS HOLDER

Status Holder are business leaders who have excelled in international trade and have successfully contributed to country's foreign trade. Status Holders are expected to not only contribute towards India's export but also provide guidance and hand holding to new entrepreneurs.

### STATUS CATEGORY

Status Category	Export Performance FOB / FOR (as converted) Value (in US \$ million)
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

### PRIVILEGES OF STATUS HOLDER

Status Holders are granted certain benefits like:

- Authorization and Custom clearances for both imports and exports on self-declaration basis.
- Fixation of Input Output Norms (SION) on priority i.e. within 60 days.
- Exemption from compulsory negotiation of documents through banks. The remittance receipts, however, would continue to be received through banking channels.
- Exemption from furnishing of Bank Guarantee in Schemes under FTP
- Two Star Export Houses and above are permitted to establish export warehouses.
- Three Star and above Export Houses shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of CBEC.
- Grant of double weightage for calculation of Export Performance for Grant of Status
  - Eligible Exports for double weightage:
    - Micro, Small & Medium Enterprise
    - Manufacturing units having ISO / BIS
    - Units located in North Eastern States Including Sikkim, Jammu & Kashmir.
    - Units located in Agri Export Zones.
  - One Star Export House only eligible: Double weightage shall be available for grant of One Star Export House Category only. Such benefit of double weightage shall not be admissible for grant of status recognition of other categories namely Two Star Export House, Three Star Export House, Four Star Export House and Five Star Export House.
  - A shipment can get double weightage only once in any of above categories.
- Status Holders shall be entitled to export freely exportable items (excluding Gems and Jewellery, Articles of Golds and Precious Metals) on free of cost basis for export promotion subject to an annual limit of –**
  - Rs. 1 Crore; or
  - 2% of average annual export realization during preceding 3 licensing years.**Whichever is lower.**

For export of pharma products by pharmaceutical companies, the annual limit would be 2% of the average annual export realization during preceding 3 licensing years.



**In case of supplies of pharmaceutical products, vaccines and lifesaving drugs to health programmes of international agencies such as UN, WHO-PAHO and Government Health Programmes, the annual limit shall be upto 8% of the average annual export realization during preceding 3 licensing years.**

**Such free of cost supplies shall not be entitled to Duty Drawback or any other export incentive under any export promotion scheme.**

#### **EXAMPLE:**

ABC Ltd. a medium enterprise, covered under MSMED Act has made exports worth US \$ 25 Lakhs per annum (on an average) during last 3 years. It wants to export certain goods for export promotion on Free of Cost basis, which are worth Rs. 32 Lakh. Can it do so, given that 1\$ = Rs. 60.

#### **Solution:**

Exports by MSMEs are given double weightage for determination of one-star status. Hence, for said purpose, exports are worth = \$ 25 Lakh x 2 = \$ 50 Lakh = \$ 5 Million. Therefore ABC Ltd. is eligible for status of One Star Export House.

- (i) A status holder can export goods free of cost for export promotion as follows:
- Rs. 1 Crore; or
  - 2% of average exports of last 3 years i.e. 2% of \$ 25 Lakh x Rs. 60 per \$ = Rs. 30 Lakh.
- Whichever is lower.

Hence it can export freely export promotion material upto Rs. 30 Lakh

### **3. EPCG SCHEMES**

Eligible person	1. Manufacturer 2. Merchant Exporter 3. Service Provider
Purpose	For pre-production For post-production
Amount of Duty	Zero
Export obligation	6 times of duty saved on Capital Goods
Export obligation period	Fulfilled in 6 years
Validity period	Valid for 18 months from the date of issue of authorisation

#### **NOTE:**

1. **IGST/Compensation Cess** paid and Cenvat Credit not availed then, **IGST/Compensation Cess** would not be taken for computation of duty saved
2. Actual user obligation till export obligation is complete.

#### **Eligible and Ineligible Capital Goods**

Eligible (Import of CG without payment of duty)

→ Any CG (Refer definition of CG)

→ Catalyst

→ CG for project imports notified by CBEC

→ **Computer Systems & Software which are a part of the Capital Goods being Imported**

→ **Spares, Moulds, Dies, Jigs, Fixtures Tools & Refractories.**

Ineligible (Duty will be charged at the time of import)

→ Second hand CG

→ Any CG for:

- Export of electrical energy
- Supply of electrical (under deemed export)
- Use of power in their own unit
- Supply/export of electricity transmission Services

#### **NOTES:**

1. Shipment under advance authorisation, DFIA, drawback scheme or reward scheme would also be counted for fulfilment of export obligation under EPCG scheme.
2. Both physical export as well as deemed exports shall also be counted towards fulfilment of export obligation.
3. Incentive for early fulfilment of export obligation.  
In case where authorisation holder has fulfilled 75% or more of specific export obligation and 100% of average export obligation till date, if any, in half or less than half the original export obligation specified (it means within 3 years) remaining export obligation shall be condoned and the authorisation redeemed.
4. Post Export EPCG duty credit scrips

Under these scheme capital goods are imported on full payment of duties. Later BCD paid on capital goods is remitted in the form of freely transferable duty credit scrips.

5. 25% less EO in Case of ingeniousness sourcing of Capital Goods = ~~6 times~~ 4.5 times  
 E.g. Domestic purchase of Capital Goods 'A' → IGST payable Rs. 1,00,000 but Notional Customs Duties payable (considering it as deemed import) Rs. 1,20,000 → 4.5 times = Rs. 5,40,000

#### NOTES:

**A person holding on EPCG authorization may source Capital Goods from a domestic manufacturer. Such Domestic Manufacturer shall be eligible for deemed export benefits under FTP & as may be provided under GST Rules under the category of deemed exports.**

### 4. DEEMED EXPORTS

Deemed exports referred to those transactions in which goods manufactured in India are supplied to specified projects or to specific categories of consumers. In deemed exports, goods supplied do not leave the country and payment for such supplies is received either in Indian rupees or in free foreign exchange by the recipient of the goods.

The objective of the deemed exports is to ensure that the domestic suppliers are not in disadvantageous position vis a vis foreign suppliers in terms of the fiscal concessions. The underlying theory is that foreign exchange saved must be treated at par with foreign exchange earned by placing Indian manufacturers at par with foreign suppliers. Deemed exports broadly cover the areas –

- Supplies to domestic entities who can import their requirements duty free or at reduced rate of duty.
- Supplies to projects/proposes that involve international competitive bidding.
- supplies to infrastructure projects of national importance.

Categories of supplies considered as 'deemed exports' :

Supply by manufacturer	Supply of goods to projects or turnkey contracts financed by multilateral or bilateral agencies/Funds notified by Department of Economic Affairs (DEA), under International Competitive Bidding
Supply by goods against advanced authorization/advance authorization for Annual requirement/DFIA.	Supply of goods to any project where import is permitted at zero customs duty as per customs Notification No. 12/2012- Cus dated 17-03-2012 and supply is made against International Competitive Bidding
Supply of goods to units EOU/STP/BTP/EHTP	Supply of goods to mega power projects against International Competitive Bidding (even if customs duty on imports made by such projects is not zero). The ICB procedures should be followed. Supplier is eligible for benefits as specified. International Competitive Bidding (ICB) is not mandatory for mega power projects if requisite quantum of power has been tied up through tariff based competitive bidding or if project has been awarded through tariff based competitive bidding
Supply of capital goods against EPCG authorisation	Supply of goods to UN or international organisations for their official use or supplied to projects financed by them.
Supply of marine freight containers by 100% EOU provided said containers exported within 6 months.	Supply of goods to nuclear projects through competitive bidding (need not be International Competitive Bidding)

#### Benefits for Deemed Exports

Deemed exports shall be eligible for any / all of the following benefits in respect of manufacture and supply of goods, qualifying as deemed exports, subject to specified terms and conditions :

- Advance authorisations / Advance authorisations for Annual requirement / DFIA
- Deemed export drawback
- Refund of terminal excise duty if exemption is not available.

## 5. EOU, EHTP, STP & BTP SCHEME

Eligibility	1. Manufacturer of Goods (including repair, remaking, reconditioning, reengineering, rendering of services, Development of software, Agriculture.) 2. Ineligible: Trading Units
Entitlement	1. Reimbursement of Central Sales Tax CST. 2. Exemption from excise duty. 3. Reimbursement of duty paid on fuel. 4. CENVAT credit
Other Entitlements	1. Exemption from industrial licensing 2. 100% in EEFC account 3. No bank guarantee in certain cases 4. 100% FDI
Export permitted	All goods & services except prohibited goods.
Import permitted	1. Export promotion material only upto 1.5 % of FOB value of previous year export. 2. All goods including capital goods except prohibited items of import. 3. Certain specified goods from DTA without payment of duty for creating central facility. 4. Second hand capital goods without any age limit, duty free. 5. Procurement and export of spares/ components, upto 5% of FOB value of exports, may be allowed to same consignee/ buyer of the export article, subject to the condition that it shall not count for NFE and direct tax benefits.
Procurement Mode	1. Import 2. Procure from bonded warehouses in DTA, and 3. Procure from international exhibition held in India.
Duty exemption	1. Basic customs duty. 2. Additional duty of customs (CVD or special CVD) 3. IGST leviable u/s 3(7) of Customs Tariff Act, 1975 4. GST Compensation Cess leviable u/s 3(9) of Customs Tariff Act, 1975, as per notification issued by the department of Revenue. Exemption from IGST and GST compensation cess is available upto 01-10-2018.
Positive NFE (Net Foreign Exchange Earning)	EOU/EHTP/STP/BTP unit shall be a positive net foreign exchange earner except for sector specific provision as specified, where a higher value addition shall be required. NFE earning shall be calculated cumulatively in blocks of 5 years, starting from commencement of production.
Investment Criteria	1. For EOU, minimum investment of Rs. 1 Crore in P & M 2. Not applicable to EHTP/ STP/ BTP, Handicrafts/ Agriculture/ Floriculture/ Aquaculture/ Animal Husbandry/ Information Technology Services, Brass Hardware and Handmade jewellery sectors.
Deemed Exports	Considered as deemed exports and eligible for relevant entitlement.
Inter unit transfer	1. Prior intimation to concerned Development Commissioner (DC) is to be given. 2. Transfer of capital goods is also be allowed.
Subcontracting	1. Annual permission required from customs authorities. 2. 50% of overall value of production can be subcontracted. 3. Job work can be undertaken by EOU unit on behalf DTA exporters.
DTA sale of finished products rejects/ waste/ scrap/ remnants/ and by-products	1. DTA sale by units manufacturing and exporting more than one product – upto 90% of FOB value of export of the specific products subject to the condition that total DTA sale does not exceed the overall entitlement of 50% of FOB value of exports for the unit, as stipulated above. 2. DTA sale of Rejects within an overall limit of 50% may be sold in DTA on payment of duties. Sale of rejects upto 5% of FOB value of exports shall not be subject to achievement of NFE.
Letter of permission or letter of intent or legal undertaking LoP/Lol	Shall have initial validity of 2 years. Extension of 1 year by the DC and further 1 year by the Unit Approval Committee. Valid for 5 years from commencement of production – extension for 5 years.
Sale of Unutilized Material	If unable to utilize then 1. transferred to another EOU/ EHTP/ STP/ BTP/ SEZ unit 2. disposed off in DTA with approval of Customs authorities on payment of applicable duties and submission of import authorization; or 3. exported.

Exit from EOU scheme	Prior approval of DC required. Subjective to payment of excise and customs duties and industrial policy in force.
Conversion	Existing DTA units may also apply for conversion into an EOU/ EHTP/ STP/ BTP unit. Existing EHTP/ STP units may also apply for conversion/ merger to EOU unit and vice-versa. In such cases, units will remain in bond and avail exemptions in duties and taxes as applicable.

**NOTE:**

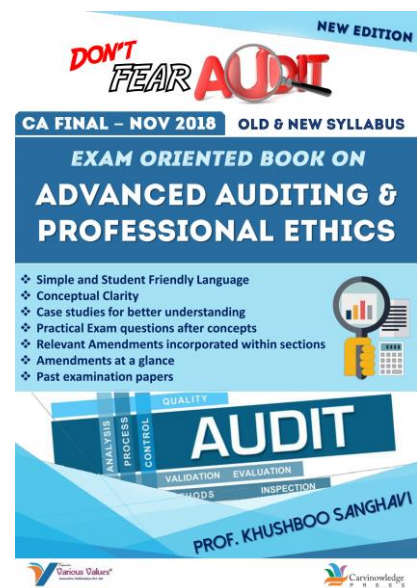
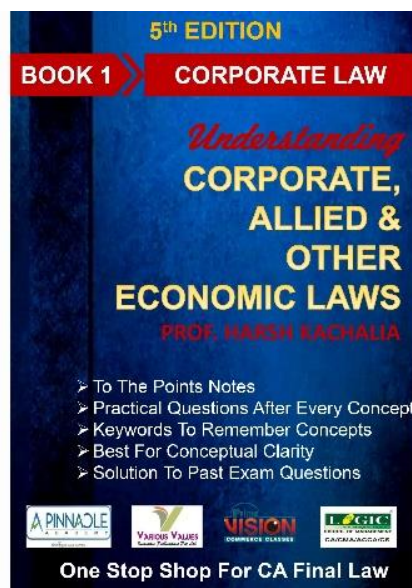
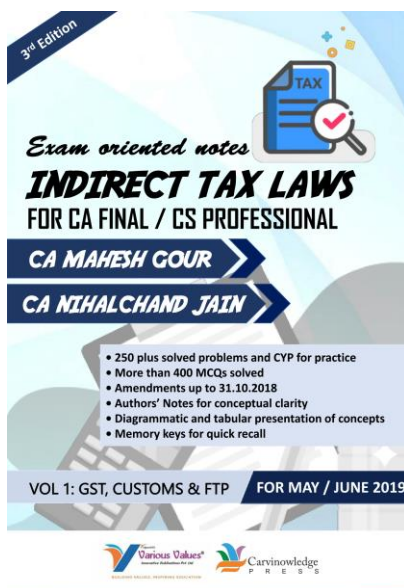
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