

## **Finance Ministry to launch a new scheme to refund service tax on goods exported**

The country's biggest exporters, such as Bajaj Auto, Reliance Industries, Welspun, will soon receive electronic refund of service tax on inputs in goods exported.

The finance ministry is all set to launch a new scheme to refund service tax to exporters on the lines of duty drawback scheme for tangible imports used to produce goods.

"Draft scheme is ready and will be launched after getting inputs from the industry," said a finance ministry official.

The scheme, which is based on the architecture suggested by a panel headed by Planning commission member Saumitra Chaudhury, will allow quick return of service tax to exporters.

Finance minister Pranab Mukherjee had announced government's intent to have such a scheme in his budget speech.

The finance ministry refunds tax paid on 17 services consumed in exports and two services are exempted.

The new scheme will reimburse service tax to exporters on the same lines as the duty drawback for goods. The duty drawback rates are fixed by an expert panel every year based on changes in the tax rates in the annual budget.

The service tax will be refunded through Indian Customs EDI System through custom houses.

"This is a positive move for exporters as it does not require detailed paperwork, audit and follow up for refund. The government should also explore such an option for service exporters," said Pratik Jain, Partner, KPMG.

Service tax refund has been a big issue with the industry with hundreds of crores locked up in refund.

Finance ministry has made several attempts to make service tax refund less cumbersome and faster but the efforts have failed to satisfy the industry.

Exporters' body FIEO has given several representations to the government seeking a simpler system, as the existing process proved to be too cumbersome, especially for smaller exporters.

A committee appointed by the department of commerce to look into transaction costs of exports recommended that service tax paid on input services used by exporters be refunded on the lines of duty drawback.

The task force pegged transaction costs at 7-10% of country's exports.

It pointed out that the embedded taxes and duties paid on inputs undermine the competitiveness of Indian exports.

As per the new scheme prepared by the apex indirect taxes body, CBEC, exporters will have the option of claiming the refund on the lines of drawback or opting for refund on actual basis after export of goods.

However, exporter will have to mention his intent on the shipping bill at the time of export.

Services eligible for tax refund include banking and other financial services, port services, transport of goods by road and railways, general insurance, technical testing and analysis, storage and warehousing, business exhibition services and specialised cleaning services.