



Confederation of Indian Industry

CII Recommendation to remove anomaly retrospectively of charging GST on supply of services of Job work on export goods

To fulfil the dream of our honourable prime minister, of make in India, large number of small-scale units are engaged in contract manufacturing or job work manufacturing for foreign countries. The raw material used to be imported for job work were exempted under Notification No. 32/97-cus dated 01.04.1997 and exported without payment of excise duty during the pre-GST regime.

Consequent to introduction of GST from 01.07.2017, the exemption under Notification 32/1997 was **not** extended to the IGST and thus IGST is payable even when the goods are imported for job work purposes and also to be paid on export of finished products. This job work activity is covered under section 13(3) of IGST Act.

Section 13 (3): The place of supply of the following services shall be the location where the services are actually performed **except in case where imported for repairs and then exported**. As job work is done in India, it will attract service tax/GST even if exported and realisation in convertible currency. This was not intended as it defeated the basic principle of export-- "goods and services are exported, taxes not exported". The Govt. soon realised and corrected the mistake, and the Parliament passed the bill which received President assent on 29th August 2018 which was called Integrated goods and service tax (amendment) Act 2018 (No,32 of 2018) where in clause 13(3) the words "except in case where imported for **repairs** and then exported" was changed to "except in case where imported for **repairs or any other treatment or process**", clarifying that GST will not be charged for export even if any other process or treatment also done in addition to repairs. It is also pertinent to mention that this act of 29th August 2018 was notified vide Notification No. 01/2019 ' Integrated Tax w.e.f. 01.02.2019, after 5 months.

This gross anomaly of delay in notifying the amendment and without giving retrospective effect gave reason to the GST department to levy and charge GST with interest and penalty on all job work exports done from 1.7.2017 to 31.1.2019 putting many small job work converter /exporters to huge losses and harassment forcing large number of small job work export industries to close down.

Due to these fallacies and initial teething problems in GST, large number of Small exporters will have to pay huge amounts of Tax, penalty and Interest for the period from 01.07.2017 to 31.1.2019 and facing their business closure and Bad debts for Banks. Considering the small taxpayers' unwarranted financial agony, the unintended

mistake needs to be rectified from retrospective effect to give the genuine relief to large section of small-scale industries.

It is pertinent to mention that similar anomaly was detected and rectified with retrospective effect where provisions of levy of interest on delayed payment of GST was amended from full value to the net payable component.

Recommendation:

- Integrated goods and service tax (amendment) Act 2018 (No,32 of 2018) dated 29th August 2018 be implemented retrospectively from 01.07.17 rather than 01.02.2019.