

**EXPORT PROMOTION COUNCIL FOR HANDICRAFTS****"EPCH HOUSE" POCKET 6 & 7, SECTOR - C, L.S.C., VASANT KUNJ, NEW DELHI-110 070**

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Ref No. EPCH-3/1(7)-GST/2017-18 / 339711

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August 3, 2017

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

Sub:- Seeking Redressal on Concerns of Handicrafts Sector -reg

Dear Sir,

Goods and Services Tax (GST) is a welcome step and handicrafts sector has begun its transition into the new tax structure. We acknowledge the Government's role in facilitating migration of the trade and industry into the GST regime. However, there are certain issues that need to be addressed so as to facilitate exports from the Country. We would like to draw your attention towards the following :-

Sl. No.	Issue	Pre GST	Post GST	Suggestions
1.	Bond/ LUT for exports	No requirement of Bond/ LUT	A Notification No. 16/2017-Central Tax dated 7 th July 2017 regarding submission of LUT in place of BOND has been issued for registered person who intends to supply of goods or services for export without payment of IGST. Handicrafts sector is an unorganised cottage sector of the Indian Economy with majority of exporters having export turnover of less than Rs. 10 crores. As per the above mentioned Notification, one of the conditions for eligibility of LUT is "who has received the due foreign inward remittances amounting to a minimum of 10% of the export turnover, which should not be less than one crore rupees, in the preceding financial year".	Keeping in view the export turnover of Handicraft exporters, the majority of Handicrafts exporters are unable to fulfill the abovementioned condition. An export turnover limit from Rs. 10 crores to Rs. 25 lakhs may be decreased specifically for exporters representing unorganized sectors like Handicrafts. The exporters are facing problem at different ICDs as the shipment are held. It is suggested that necessary instructions may be issued and Custom officers designated to facilitate export shipments.
2.	Exemption of Handicrafts from GST	Handicraft items were exempted from Central Excise under notification no. 17/2011-CE dated 1/3/2011 and were placed under Schedule-I wrt Value Added Tax (VAT) in various states in the pre GST regime.	The GST rates on handicrafts sector are indicated at the 4 digit HS classification and that too on higher side for handicrafts items. The schedule of rates under GST indicated for various handicrafts items are on the higher sides i.e. at 12%, 18% and 28%. Further, there is ambiguity in classification of certain items w.r.t applicable GST rates.	There is ambiguity in classification of certain items w.r.t applicable GST rates. It is requested that a suitable clarification/amendment may be issued. A flat rate of 3% GST may be made applicable for HS codes which are being used by handicrafts exporters for their

			<p>a. In the GST Schedule, under Chapter 7418, Copper Utensils, Table or Kitchen or other household articles fall under the heading 7418 and attract a GST rate of 12%, however, Articles of Brass and of Copper attract a rate of 28% under Chapter 7419, being clubbed with Industrial products. Further, EPNS Ware falls under the heading 74181024 and attracts a GST of 12% whereas similar products described as "Articles of Copper Alloys Electroplated with Nickel-Silver" and a GST Rate of 28% under 74199920.</p> <p>b. GST rates for products under Chapter 44 S.No.8 HS Code No. 4420 states "Wooden Articles of Furniture not falling in Chapter 94" with applicable GST rate of tax @ 12% only. However, in Chapter 94 for Furniture, it clearly states that the 28% tax slab applies to those items or goods not specified elsewhere whereas "Wooden articles of furniture" is already specified under chapter 44. Furthermore, the Chapter 94 does not specify wooden furniture but only furniture in general kind would refer to items of mass production such as mattress, quilts, plastic furniture etc.,"</p> <p>c. Handcrafted cane furniture (9403) the applicable GST rate is 18%, however currently the product is VAT exempted in 11 states (8 NER states, West Bengal, Kerala and Andaman & Nicobar).</p> <p>d. Most items in the musical instrument range have been classified under the 28% rate of GST. However there is one category of Musical instruments that has been classified under the Nil rate of GST. This category states "Indigenous Hand Made Musical Instruments". No list has been provided for the Indigenous Handmade musical instruments and there is ambiguity as to which instruments fall within this range and which do not.</p>	<p>product categories. These items may be value-capped upto Rs. 5000.</p> <p>No list has been provided for the Indigenous Handmade musical instruments.</p>
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			e. Chennapatna wooden toys produced by artisans having Geographical Indication (GI) as well has also been taxed with GST rate of 28%. Similarly, Blue Pottery of Jaipur and chikankari of Lucknow have GI and are world renowned handicrafts items. Blue Pottery has been placed under 18% taxation raten whereas Chiken and zari embroidered garments have been placed at 12% (products over Rs. 1000/-) and job work for embroidery on garments is at 18%.	
3.	Blocking of Working Capital	NA	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.	In order to ease the working capital situation of exporters, a loan from banks at lowest interest rate may be made available to the handicrafts exporters.
4.	Job Work	NA	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.	The GST rates for Textiles Job work has been reduced to 5%, the job worker engaged in handicrafts sector may also be considered for the same tax rate.
5.	Stock in hand as on 30th June 2017	NA	A condition - limit of one year for old stock to get ITC	A limit of one year should be removed for exporters for allowing ITC for stocks only for one year purchases in case of exporters. Further, the stock lying with the exporters for more than one year and where the documents are not available. It is requested as per Section No. 140(3), the exporter may be allowed to claim the credit equivalent to 40% of GST if the rate of the item is less than 18% and 60% if the GST rate of the item is more than 18%.
6.	Limited utilization of Duty Credit Scrips under GST	Duty Credit Scrips are used towards payments of Custom duty, CVD, SAD etc. and it is a freely transferable in open market	Duty Credit Scrips will be allowed to be utilized only for payment of Basic Customs Duty.	This limitation may drop the value of Duty Credit Scrips by 40-50%. It is requested that Duty Credit Scrips may be allowed to be utilized for all purposes as at present.
7.	GST on fair participation	Applicable service tax & No need for registration	a. GST applicable on participants in fairs organized in India.	Participants participating in fairs in various states to be exempted from GST and also exempted

		Participation in B2B fairs (no sale only order booking) within India treated similar to the process of movement of goods (No Sale or Purchase).	b. Participants participating in fairs in various states required to register as a casual taxable person in the state where the exhibition is being held.	from registering as a casual taxable person in the state where the exhibition is being held.
8.	GST on foreign agency commission earned by Buying Agents	Foreign Agency commission was considered as a taxable service	GST Applicable	The services rendered by buying agents should be treated as Export of Services at par with export of goods, as exports of goods is zero rated and commission is received by buying agents is in foreign exchange like exports and should be subject to zero rate GST.
9	Free trade samples – Post GST	a. For sending any samples to overseas customers as free trade sample, in the system it got reflected as an outstanding since no payment is going to be received for these free samples,	a. For sending any samples to overseas customers, an invoice has to be made and GST has to be charged on the invoice. Though it is mentioned as free trade sample, in the system it will show as an outstanding and since no payment is going to be received for these free samples, how this outstanding invoice will be adjusted because in the accounts of the Company and in the Export Data Processing and Monitoring System (EDPMS) system if it is not adjusted it may reelected as an outstanding at the end of the year and the exporter may be unnecessarily put in the caution list. b. In another case, samples are sent as free trade samples at low value invoice. If the samples get approved, many of the customers agree to pay the full value of the product and they also remit the money through the banking channels. In that case, it becomes sale of samples. Present RBI Circular has to get aligned with this total process otherwise once this money is received, how the exporter will account for it.	Free trade sample not to be covered under GST regime as samples are sent for business promotion and most of the cases, payment is not received by the buyer and the sample selected is retained by the buyer and remaining samples are returned.

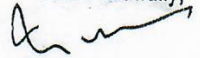
			An invoice has to be made and GST has to be charged on the invoice.	
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Prayer:

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,



(Rakesh Kumar)
Executive Director

