Budget wishlist: Make it cheaper to import for export, says industry

By Shariq Khan, ET Online • Last Updated: Jan 29, 2024, 10:35:00 AM IST

Synopsis
Exporters want the FM to resolve issues around inverted duty structure in sectors like textiles, engineering and leather. FIEO suggests extending the 15% corporate tax facility for three years and the development of an Indian shipping line of global repute to save on freight remittances.

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The exporting community wants the government to change the Integrated Goods and Services Tax (IGST) regime, in the **interim budget**. Exporters also want customs duty rates on certain sectors such as textile, engineering and leather to correct inverted **duty structure**.

An inverted duty structure refers to a higher tax rate on **raw materials** than the rate applicable on finished goods. It makes it difficult for industry to claim full input tax credit, blocking their working capital.

Exporters are claiming that such measures are more important today given that they are facing several problems: a slowdown in demand in developing markets, a steep rise in freight costs due to conflicts, uncertainty in business and difficulty in getting raw materials.

The exporting sector needs some revival, says Federation of Indian Export Organisations (**FIEO**)'s Director General Ajay Sahai. Urging the government to consider extending the 15% corporate tax facility for the next three years, he says this will ensure that a lot of investments stuck in the pipeline flows in.

The budget allocation for capital spending should rise as this will encourage the private sector as well, he says, adding befitting India's global stature, a road map should be announced to develop an Indian shipping line of global repute to save on freight remittance and break the near-monopoly of overseas shipping lines. "Inverted duty structure, on account of FTAs, particularly where imports from FTA account for over 75% of total imports in the country, can be addressed to support the domestic manufacturing companies," Sahai adds.

Vijay Kalantri, Chairman of the MVIRDC-World **Trade** Center (WTC), says the government should allow exporters to claim input tax credit against duty paid on the import of capital goods. Currently, businesses engaged in zero-rated supplies (such as **exports**) are unable to claim a refund of unutilised input tax credit (ITC) on capital goods as rule 89(4) of the CGST Rules defines net ITC as ITC availed on inputs and input services; it thereby excludes the ITC availed on capital goods.

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Mobile phone manufacturing is an emerging export-oriented sector that the government should support, say industry officials. There should be a reduction in customs duty on input components that cannot be sourced domestically. To address immediate pain points, the electronic industry wants the government to reduce the customs duty on certain electronic components used in mobile phones so that exporters can import them at competitive cost, says Kalantari, adding government should announce a dedicated refinancing fund under SIDBI or Exim Bank to facilitate the flow of pre-shipment and post-shipment credit at reasonable interest cost.

The Apparel Export Promotion Council (AEPC), on its part, wants some improvements in the Import of Goods at Concessional Rates of duty Rules (IGCR Rules).

It says the garment export trade essentially requires various kinds of quality trimmings and embellishments (tags, labels, stickers, belts, buttons, linings, inter-linings and so on) to ensure the desired functionality and aesthetics of garments in the global market. To maintain their brand image, foreign buyers insist on maintaining consistency. Any deviation in the specification and quality results in the rejection of the shipment. As of now, certain trims and embellishment items are not entitled to duty exemptions.

A uniform GST of 5% only should be levied across the entire MMF value chain, it says. Currently, the MMF GST rate on fibre is 18%, yarn is 12%, fabric is 5%. This leads to unutilised input credit, leading to liquidity issues for MSME units. It is therefore requested that minimum wastage of 10% be allowed under the IGCR Rules for import of trimmings and accessories by issuing an appropriate notification, it adds.