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# UNIT 16 PROCEDURES FOR CLAIMING EXPORT INCENTIVES

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## 16.0 OBJECTIVES

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After studying this unit, you should be able to :

- explain the need for procedural formalities of export incentives
- describe the process of claiming duty drawback
- explain the methods of claiming excise incentives under various schemes of central excise rules
- describe various facilities of duty exemption scheme
- describe the procedure of exemption under income-tax, sales tax.

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## 16.1 INTRODUCTION

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You have learnt about the infrastructure and various export incentives provided by Government of India Unit in 15. These incentives are instrumental for the export promotion in India. Moreover, exporters are required to comply various procedural formalities for fuller realisation of export incentives on a regular basis. In this Unit you will learn the procedure of claiming incentives under duty drawback rules and central excise rules. You will also be acquainted with various facilities of duty exemption scheme and tax exemption scheme.

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## 16.2 NEED FOR PROCEDURAL FORMALITIES

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Procedural formalities prescribed for claiming various export-incentives need timely and proper compliance on the part of exporters. This alone will ensure fuller realisation of export incentives on a regular basis. Delays and cuts in the realisation of export incentives will upset the fund-flow position of the export firm on the one hand, and will render the export effort unremunerative on the other. It is therefore, essential for the exporters to develop a complete understanding about the procedural and documentary formalities for timely preparation and submission of claims of export incentives to the appropriate authorities on a regular basis. It may be desirable to prepare an action plan by the export department

of the firm for filing claims of export incentives to different authorities on a planned basis.

Unfortunately, exporters in India are required to approach a number of authorities for realisation of export incentives against each export transaction. The task of the exporters has been rendered further difficult and complicated because of the fact that each incentive-disbursement authority has prescribed its own exclusive procedure and documentary requirements for processing claims of export incentives. Thus besides multiplicity of authorities to be approached for realising claims of export incentives, exporters are also required to follow different procedural and documentary formalities in each case.

Moreover, as per the existing rules, export incentives are to be claimed on post-export basis, i.e., after effecting exports. However, the basic documents required for filing these claims emanate from the process of physical shipment of export cargo. Hence, exporters have to take necessary care and precautions at the time and stage of export-shipment to claim the export incentives. Exporters have to see that the claims of export incentives after the shipment are not adversely affected due to incomplete or inadequate information in the documents supporting the fact of actual shipment of export cargo. This calls for the need for a total plan of action from factory to realisation of incentives against each export transaction.

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## 16.3 DUTY DRAWBACK SCHEME

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The scheme of Duty Drawback is governed by the 'Customs and Central Excise Duties Drawback Rules' compiled and notified by 'Drawback Directorate' of the Department of Revenue, Ministry of Finance of the Government of India. Under these rules, customs duties and central excise duties on raw materials, components and packing materials used in export products are refunded back to the exporter, on post-export basis. In other words, import duties and central excise duties on material inputs for export products are allowed to be drawn-back (i.e. refund) under the incentive scheme of Duty Drawback. Thus the drawback refers to the rebate of duty chargeable on any imported or excisable material used in the manufacture of goods exported from India. According to the Drawback Rules 1995, drawback has been permitted not only on materials/inputs used in the manufacture but also processed or subjected to any other operation for export of goods from India. Drawback is given both to the manufacturers, exporters or merchant-exporters and export/trading houses, etc. Levy of interest on delayed payment of drawback has also been permitted. Interest at such rate as may be fixed by the Board would be leviable in case payment against a claim for drawback is not made within three months of filing the claim in the prescribed manner. Drawback will not be allowed if the total foreign exchange spent on inputs used in the goods exported is more than the FOB value of the exports or the value addition is negative. Drawback will also not be allowed if the export value of goods is less than the value of the imported material used in the manufacture of the export goods or where the sale proceeds of the exported goods are not received within the specified limit. Drawback will also not be admissible if MODVAT is availed of.

### 16.3.1 Drawback Rates

Two types of drawback rates are available :

- i) **All Industry Rates** : These are published in the form of notification by the government every year and are normally valid for one year.
- ii) **Brand Rates or Special Brand Rates** : These are fixed on the individual request of an exporter/manufacturer.

The rates at which the incentive of Duty Drawback will be granted to individual exporter have been specified product-wise in the Drawback Schedule specified under the Drawback Rules. Sometimes the amount or rate of drawback are not determined in respect of export goods. In such cases the manufacturer or exporter of such goods may apply in the prescribed form 'Application for Fixation of Drawback Rates'. The application should be submitted to the Department of Revenue, Ministry of Finance or with the Customs House/Central Excise Collectorate in whose jurisdiction their manufacturing unit is located. The application must be submitted within 60 days from the date of export.

The documents prescribed for such application are as under :

- i) Application for Fixation of Drawback Rates
- ii) DBK Statement I
- iii) DBK Statement II
- iv) DBK Statement III
- v) Relevant facts including the proportion in which the material or components are used in the production or manufacture of goods and duties paid on such material or components.

A copy of such application should be sent directly to the Director (Drawback), Ministry of Finance, New Delhi. On receipt of the application, the customs/central excise officer will verify the application and forward to the Director (Drawback), Ministry of Finance, Government of India, New Delhi for fixation of Brand Rate. If satisfied, he will determine the amount or rate of drawback in respect of such goods. The Government have also provided simplified procedure of brand rate fixation without insisting on pre-verification of data by the Drawback Department.

### 16.3.2 Procedure for Claiming Duty Drawback

The claim of Duty Drawback (DBK) is processed and passed for payment, primarily on the basis of the relevant information given in the Drawback copy of shipping bill. The exporters are required to file the Drawback copy of shipping bill in triplicate, in quadruplicate if any export assistance is applicable, well in advance in the Export Department or Central Registration Unit at the port or ICD Container Freight Station/Air Cargo Complex, etc. The DBK Shipping Bill must indicate the DBK Schedule No. of the export product, product description, DBK rate and total amount of drawback claim. In addition, it should also have a declaration that exports are being made under a claim of Duty Drawback. At the same time there should also be a declaration that the duties of customs and central excise have been paid in respect of the material inputs used in manufacture of export goods as also in respect of container or packing materials. Exporters have to make sure that no separate claim is being made for rebate of central excise duties under the Central Excise Rules.

The Shipping Bills and other documents are scrutinised and examined by the concerned Customs Officer. Duplicate and Triplicate copies of the Shipping Bills with suitable examination order are returned to the exporters for presenting them to the Docks Appraising Officer. The Custom Officer gives examination report on both the copies of shipping bills and returns duplicate and triplicate copies to the exporters and original copy is retained. Exporters present duplicate and triplicate copy of shipping bills duly examined by the customs office to the Docks Appraising Officer alongwith the export goods. If the officer finds it in order, he endorses 'Let Export' order on both copies of the Shipping Bills. Triplicate copy of the Shipping Bill is deemed to be a claim for the drawback. If claims are found admissible and in order, are sanctioned. The amount is credited in the ledger account of the exporter maintained in the Drawback section.

**Documents :** The claim for duty drawback is filed alongwith the following documents :

- i) Copy of export contract or letter of credit, as the case may be.
- ii) Copy of packing list.
- iii) Copy of AR4 form, wherever applicable.
- iv) Insurance certificate wherever necessary.
- v) Copy of communication regarding rate of drawback (if applicable)
- vi) Copy of Test Report (if required)
- vii) Declarations (if required)
- viii) Declaration regarding not availing MODVAT.
- ix) Certificate from the Jurisdictional Excise Superintendent (if applicable)
- x) Any other documents.

Where an exporter desires that he may be granted the incentives of drawback provisionally, he may, after making the application, apply in writing to the Drawback Directorate. He may request that a provisional amount be granted to him towards drawback on export of such goods, pending determination of the amount or rate of drawback. However, for making provisional claims of duty drawback an exporter may be required to execute a general

bond for the amount of drawback claim, with the Collector of Customs at the port from which the said goods are exported.

If the rate of drawback is less than three-fourth of the duties paid on the materials or components used in the production or manufacture of the said goods, he may within sixty days from the date of export, make an application in writing to the Drawback Directorate for fixation of appropriate amount or rate of drawback. The procedure and documents required for such application is the same mentioned earlier for fixation of drawback rates.

**Duty Drawback Credit Scheme :** As an export promotional measure, the Government of India have authorised the Reserve Bank of India to instruct the commercial banks (Authorised Dealers in Foreign Exchange) to grant interest-free credit to the exporters. The credit is given against their Duty Drawback entitlements pending scrutiny, sanction and payment by the Custom House. Such interest-free credit is being made available to exporters in India for a period of 90 days. However, the scheme is applicable only for export of such products for which Drawback rates have already been determined either on all-industry rate basis or on brand-rate basis.

**Drawback on export by post :** Where goods are to be exported by post under a claim of drawback, the outer surface of the packing must be marked as 'DRAWBACK-EXPORT'

In such cases, the exporters will submit to the Postal Authorities a **Drawback Claim Form** instead of a shipping bill giving details regarding drawback schedule number, product description, drawback rate and amount.

#### Check Your Progress A

1. What do you mean by Duty Drawback Scheme?

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2. What is Duty Drawback Credit Scheme?

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## 16.4 REFUND OF CENTRAL EXCISE

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Refund of central excise is an important fiscal incentive for export promotion. As you know, exports should not bear the burden of indirect taxes. Hence, exportable goods are either exempted from such taxes or these taxes are refunded, if exemption is not possible. In India, excisable goods are free from the incidence of excise duty levied by the central government, both on finished product and raw materials. The scheme is governed by the Section 37 of the Central Excise and Salt Act, 1944 as amended from time to time. It has been amended on September 22, 1995. In lieu of the Rules 12, 12A and 191 A of the Central Excise Rules, only one Rule 12 operates for exports under claim for rebate of duty. The rebate is granted on the duty levied at finished product and on inputs for this finished product. Rule 13, 191-B, and 191-BB of Central Excise Rules have been integrated into Rule 13. This rule is applied for exports of goods in bond and utilisation of non-duty paid raw material for manufacture and export of excisable goods.

Manufacturer's of export product are required to register their factories with the local Central Excise Authorities, by opening Personal Ledger Account (PLA). In PLA, the credit balance of the deposit account opened by individual manufacturers with the Central Excise Authority is shown. At the time of removal of a consignment, the amount of duty actually levied on the consignment is shown as debit entry. After the proof of exportation the equivalent amount is again entered on the credit side. PLA is not needed in case of exports under bond because the duty has not been actually paid.

**Documents :** The major excise documents are :

**Invoices :** Invoices are prepared in four copies. The original copy is for the buyer, duplicate for the transporter, triplicate for the Central Excise Officer and fourth copy for manufacturer's record.

**AR4/AR5 Forms :** It is prepared in sixuplicate. Both AR4 and AR5 forms can be used for export in Bond or under Rebate of Central Excise duty. Let us first learn how they are used.

AR4 form is to be used where either finished stage duty is not paid or its rebate is to be claimed later on. It can be elaborated as under :

- i) Form AR4 is to be used in case of exports in Bond, of all goods without payment of duty on finished item (not on inputs).
- ii) AR4 Form is also used where finished stage duty is paid and a rebate thereof is to be claimed after export.

Form AR5 is used where goods are manufactured/exported without the payment of duty on inputs (input stage duty). It can be elaborated as under :

- i) AR5 form is used where no duty is paid on production inputs and the finished stage duty is also not paid on account of their export being made in bond.
- ii) AR5 form is also used where inputs stage duty is not paid but duty on finished goods is paid and the rebate thereof is to be claimed after export.

**Form C :** It is an application for refund of excise duty. It contains details like AR4 Form No. and date of Shipping bill, name and address of the factory and its licence number, tariff classification of the goods exported and shipment details.

#### **16.4.1 Export Under Claim of Rebate Under Rule 12(i) (A)**

Under the Central Excise Rule 12(i) (A), rebate of duty paid on export of duty paid goods shall be granted. The rule permits to grant rebate on all excisable goods except mineral oil and goods supplied as ship stores. The facility is available on export of goods to all countries other than Nepal and Bhutan. Let us discuss the procedure in detail.

**Removal of Goods without Examination :** Exporters are allowed to remove the goods for export without getting the goods examined by the Central Excise Officers. AR4 Forms are prepared in sixuplicate. The exporter retains the original and duplicate copies of AR4 Forms for presenting alongwith the consignment to the customs officer. The exporter delivers triplicate, quadruplicate, quintuplicate and sixuplicate copies to Superintendent of Central Excise having jurisdiction over the factory or the warehouse. These forms should be delivered within twenty-four hours of the removal of the consignment.

The jurisdictional superintendent shall examine the information and verify the facts of payment of duty. If he is satisfied with the information, he will sign and put stamp on AR4 Forms. He sends the triplicate copy to the rebate sanctioning authority, quadruplicate to the chief accounts officer in the collectorate headquarters, the quintuplicate to the office copy, retained by the central excise officer and sixuplicate to the exporter.

**Exports under Central Excise Seal (After Examination) :** Exporters are allowed to remove the goods for export in a seal. The sealing of goods is done by the Central Excise Officers. The sealed exportable goods are not examined by the customs officers at the port. For this purpose, exporters are required to submit 6 copies of AR4 forms to the superintendent of central excise having jurisdiction over the factory or warehouse. These forms should be submitted atleast twenty four hours before the removal of the exportable goods. The superintendent of central excise or his inspector may go for sealing of goods. He examines the goods, relevant information and verifies the factors of payment of duty. He may also draw samples, if necessary, in triplicate. Two sets of the sealed samples are handed over to the exporters for delivering to the customs officer at the port. The officer retains third set for his record.

If the officer is satisfied with the details of exportable goods, he would sign on all six copies of AR4 forms and allow the clearance of goods. He returns original, duplicate and sixuplicate copies to the exporter for presenting to the customs officer at the port. The officer sends triplicate copy to the rebate sanctioning authority, quadruplicate to the chief accounts officer at his collectorate headquarters and retains the quintuplicate copy for records. The exporter shall use the sixuplicate copy for the purposes of claiming drawback.

**Submission of Forms at the Customs Office:** The exporters present the original, duplicate and sixuplicate copies of AR4 forms to the customs officer at the port alongwith the consignment. The custom officer examines and verifies the goods and other relevant facts. In case of export under seal, he ensures that it is not broken. If he is satisfied, he allows the export of the goods.

The custom officer makes endorsement on the original, duplicate and sixuplicate copies of AR4 forms. He returns original and sixuplicate copies to the exporter, and sends duplicate copy to the rebate sanctioning authority.

**Filing Claim for Rebate:** Exporters have been granted option of claiming rebate either from Maritime Collector or Jurisdictional Assistant Collector of Central Excise. The exporters are required to file the claim within six months from the date of export. The claim should be filed in the prescribed form alongwith original copy of the AR4 form duly endorsed by the customs officer certifying the export of the goods. Maritime Collector of Central Excise or Jurisdictional Assistant Collector will compare the original AR4 form with the triplicate copy of AR4 form received from the Superintendent, Central Excise. If he is satisfied he shall sanction the rebate either in whole or in part as the case may be.

**Documents :** Following documents are required to be filed for claiming rebate :

- i) Application in prescribed form
- ii) Original copy of AR4 form
- iii) Duplicate copy of AR4 form in sealed cover received from Customs Officer, if required.
- iv) Duly attested copy of Bill of Lading
- v) Duly attested copy of Shipping Bill (Export Promotion Copy)
- vi) Disclaimer Certificate in case claimant is other than Exporter

#### **16.4.2 Export Under Claim for Rebate of Duty on Excisable Materials used in the Manufacture of Export Goods (Rule 12 (1) (B))**

Under Central Excise Rule 12(1)(B) rebate has been granted on the duty paid on raw materials/inputs used in the manufacture of the finished goods exported from India except to Nepal or Bhutan. Rebate may be granted on any excisable materials used in the manufacture and packing of the goods exported. The rebate of input stage may be claimed on the export of all finished goods whether excisable or not. In order to claim this rebate on the input stage, the export must be in the name of the exporter. The rebate may be granted on the duty paid on raw materials, consumables, components, semi-finished goods, assemblies, sub-assemblies, intermediate goods, accessories, parts and packing materials required for manufacture of export goods.

The rebate on input stage cannot be claimed where :

- i) the finished goods are exported under claim for Duty Drawback.
- ii) the finished goods are exported in discharge of export obligation under a Value Based Advance Licence or a Quantity Based Advanced Licence issued before 31-03-1995.
- iii) the facility of input stage credit is availed under MODVAT provisions under Chapter VAA of Central Excise Rules, 1944.

The manufacturer of finished goods are required to file a declaration in quintuplicate to the Collector of Central Excise having jurisdiction over the factory. The declaration shall contain details of finished goods to be exported, the details of materials required and their consumption ratios. The Collector of Central Excise may nominate suitable officer for

verifying the declaration. The officer shall examine and verify the information furnished by the manufacturer. If the officer is satisfied, he may grant permission to the applicant for manufacture and export of finished goods under claim for Rebate of Central Excise duties paid on materials/inputs used in the manufacture of finished goods.

**Procedural Formalities:** The manufacturers are required to prepare AR5 Forms in Sixuplicate. He shall submit them to the Jurisdictional Superintendent of Central Excise atleast 24 hours before the removal of the goods for export from the factory. Where export goods are dutiable the manufacturer may avail the facility of export, without payment of Central Excise duty on finished goods under Central Excise Bond (Rule 13(1)(a)). Finished goods may also be exported after payment of Central Excise duty leviable on finished goods under claim of Rebate (Rule 12(1)(a)).

The exportable goods under AR5 form will be moved directly from the place of manufacture to the place of export. The packages are required to be marked legibly in ink or oil colour in a durable manner with progressive number. The Superintendent of Central Excise shall verify the information contained in AR5 form. The Superintendent of Central Excise shall examine and verify the facts, certificates and declaration made by the manufacturer. If the Superintendent is satisfied, he will allow the clearances for exports by signing and putting stamp on AR5 forms. The Superintendent shall draw samples wherever feasible in triplicate. He would handover two sealed samples to the manufacturer or his authorised agent for delivering to the Customs Officer at the point of export. He would retain the third set for record. The export consignment shall be sealed by the Superintendent of Central Excise before permitting clearances. The Superintendent of Central Excise will handover original, duplicate and sixuplicate copies of AR5 forms to the exporter. Triplicate copy will be sent to the Jurisdictional Assistant Collector of Excise. Quadruplicate copy to be given to Chief Accounts Officer at the Collectorate headquarter.

The original, duplicate and sixuplicate copies of the AR5 forms shall be presented by the exporter or his agent to the customs officer at the point of export alongwith the goods, Shipping Bill and sealed samples. The customs officer shall examine them carefully. If he is satisfied, he may clear the goods for shipment. After the shipment of the goods the customs officer would make endorsements in the original, duplicate and sixuplicate copies of the AR5 forms by putting his signature and stamp. He would give the original and sixuplicate copies to the exporter. The duplicate copy will be sent to the Assistant Collector of Central Excise. The exporter will use the original copy of AR5 form for claiming rebate from the Jurisdictional Assistant Collector of Central Excise. Sixuplicate copy will be presented in the customs house for record.

**Claiming of Rebate:** The application for rebate is made to the Jurisdictional Assistant Collector of Central Excise. Where exports are under claim for rebate under Rule 12(1)(a), the same should be claimed in the combined application for rebate.

**Documents:** Following documents should be submitted for filing claims:

- i) original copy of AR5 form duly endorsed by the customs officer,
- ii) duly attested copy of Shipping Bill (Export Promotion Copy),
- iii) duly attested copy of Bill of Lading/Airway Bill.
- iv) duplicate copy of Central Excise Invoice (where rebate under Rule 12(1)(a) is also being claimed).
- v) duplicate copy of the AR5 form received from the customs officer in a sealed cover (if obtained).

If the Assistant Collector is satisfied, he will sanction the rebate.

### 16.4.3 Export of Goods Under Bond Under Rule 13

The exporters have been permitted to export the excisable goods without the payment of Central Excise duty. Exporters are required to execute a bond with the Central Excise Authority equivalent to the amount of excise duty on the basis of their estimate. All the excisable items and the raw materials required for their production are covered under this scheme.

There are also provisions for export under bond on a regular basis. This is covered under Rule 14. For this purpose, **Running Bond Account** is maintained. In this case, the amount of bond is determined on the basis of the excise duty involved in export transaction over a period of time, generally regarded as transit period. Exporters are required to maintain a bond account of requisite value with the Central Excise Authority of the region, whenever any block transfer are made in favour of other central excise authority, debit shall be made in the account. Suitable debit shall also be made whenever exports are allowed against the bond.

On acceptance of the proof of export the bond account shall be credited to the extent the debit was made while permitting the exports. The running bond account shall be credited after the block transfer is returned by the other authority.

There are six types of bonds. These are : B1 (Surety) and B1 (Security), B1 (General Surety), and B1 (General Security), B16 (General Surety) and B16 (General Security). B1 (Surety) and B1 (Security) bonds are to be executed for an individual excisable consignment. The exporters can execute a consolidated B1 general bonds to cover a series of export from his factory or B16 bonds with the prescribed excise authority. Manufacturer exporters who have executed B16 bond are not required to execute separate bond to cover duty on goods exported without payment of duty.

Manufacturer-exporters other than those registered with EPCs and Central Excise, Export Houses, etc., are required to execute B-1/B16 bond with 100% security/bank guarantee. Merchant exporters other than registered exporters shall execute B1 bond with 25% security/bank guarantee.

**Procedure:** Packages in which goods to be exported are packed, shall be legibly marked in ink or oil colour or in such other durable manner as the Commissioner of Central Excise may allow. Exporters shall prepare Invoices, AR4/AR5 forms and execute the relevant bond for this purpose.

**Removal of Goods without the examination of Central Excise Authority:** As you have learnt, exporters are allowed to remove the goods without the examination of Central Excise Authority. Exporters shall prepare AR4/AR5 Forms in sixuplicate. They will deliver triplicate, quadruplicate, quintuplicate and sixuplicate copies of AR4/AR5 forms to the Jurisdictional Superintendent of Central Excise. The forms should be submitted within twentyfour hours of the removal of goods. The exporters shall retain the original and duplicate copies for presenting to the customs officer at the point of export alongwith the consignment. The Jurisdictional Superintendent of Central Excise shall examine the consignment and relevant information. If he is satisfied, he would allow the clearance of goods. He would send the triplicate copy of the authority before whom the bond is executed. He would send quadruplicate copy to the Chief Accounts Officer and retain the quintuplicate copy for his record. Sixuplicate copy will be returned to the exporter.

**Removal of goods after the examination of Central Excise Authority :** In this case the exporter shall submit AR4/AR5 forms in sixuplicate to the Jurisdictional Superintendent of Central Excise. Exporters are required to submit the application forms twenty four hours before the removal of goods. The Excise Authority shall examine the goods and relevant information. He may draw the samples in triplicate wherever necessary. Two sets of sealed sample will be returned to the exporter for delivering to the customs officer at the point of export. The third set will be retained for his record. If the Excise Officer is satisfied, he would allow the clearance of goods. He shall return original and duplicate copies of AR4/AR5 forms to the exporter for presenting to the Customs Officer at the point of export. The sixuplicate copy shall be given to the exporter in a sealed cover for handing over to the Customs Officer. The triplicate copy shall be sent to the authority with whom the exporters have signed the bond. Quadruplicate copy will be sent to the Chief Accounts Officer at the headquarter. Quintuplicate copy shall be retained for records.

The exporters shall present original, duplicate and sixuplicate copies of AR4/AR5 forms to the customs authority at the point of export alongwith the consignment. The customs officer will check the consignment and verify the relevant information. If he is satisfied, he would clear the goods for shipment. After the shipment of the goods the customs officer would make endorsements on original, duplicate and sixuplicate copies of AR4/AR5 forms. He

would return original and sixtuplicate copies to exporters. The duplicate copy will be sent to the authority before whom the bond was executed.

**Documents :** Following documents shall be filed by the exporter as a proof of export of goods :

- i) Original copy of AR4/AR5 forms.
- ii) Duplicate copy of AR4/AR5 forms in a sealed cover received from Customs Officer.
- iii) Duly attested copy of Bill of Lading.
- iv) Duly attested copy of Shipping Bill (Export Promotion Copy).

**Check Your Progress B**

- 1. Distinguish between AR4 and AR5 Forms.  
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- 2. What is Personal Ledger Account?  
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- 3. What is Running Bond Account?  
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- 4. State whether the following statements are True or False.
  - i) Under the duty drawback scheme customs duties and central excise duties on inputs are refunded back to the exporter on post-export basis.
  - ii) According to duty drawback credit scheme interest free credit is being made available to exporters for a period of 60 days.
  - iii) Rule 12 of central excise rules provide for refund of Central Excise on the finished goods.
  - iv) AR4/AR5 Forms are prepared in sixtuplicate.
  - v) Rule 13 of central excise provides for export under bond on a cotinuous basis.

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## 16.5 DUTY EXEMPTION SCHEME

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Registered exporters are eligible for the facility of duty free import of raw materials, components, packing materials, etc., required for manufacture of the product for executing export orders. Duty Exemption Scheme consists of Duty Free Licence and Duty Entitlement Pass Book. Let us now discuss them in detail.

### 16.5.1 Duty Free Licence

Import of raw materials, intermediates, components, consumables, parts, accessories and packing materials may be permitted against a Duty Free Licence. Duty Free Licence includes Advance Licence, Advance Intermediate Licence and Special Imprest Licence.

- i) **Advance Licence :** An advance licence is granted to a merchant exporter or manufacturer exporter for the import of inputs required for the manufacture of goods without payment of basic customs duty. Raw materials, components, intermediates, consumables, parts, spares (not exceeding 5% of the CIF value of the duty free licence), packing materials and computer software may be imported under this scheme. However, such inputs shall be subject to the payment of additional customs duty equal to the excise duty at the time of import. Exemption from payment of additional customs duty shall be allowed, if the advance licence is issued with actual user condition to the manufacturer exporter or merchant exporter. Advance licences shall be issued in accordance with the policy and procedure in force on the date of issue of licence. It shall be subject to the fulfilment of a time bound export obligation and value addition as may be specified.

- ii) **Advance Intermediate Licence** : An advance intermediate licence is granted to a manufacturer exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter or eligible deemed exporter holding an advance licence/special imprest licence.
- iii) **Special Imprest Licence** : A special imprest licence is granted to a manufacturer exporter for the import of inputs required in the manufacture of goods to be supplied to the following categories :
- i) Supplied to units in Export Processing Zones, Export Oriented Units, Technology Parks, etc.
  - ii) Supply of capital goods to holders of licences under zero duty Export Promotion Capital Goods Scheme.
  - iii) Supply made to projects financed by multilateral or bilateral agencies.
  - iv) Can be availed by the subcontractor of the main contractor to the project.
  - v) Supplies made to United Nations Organisation or under the aid programme of the United Nations or other multilateral agencies and paid for in foreign exchange.

**Other Schemes** Besides, the above mentioned schemes, other schemes are Advance Release Orders and Back to Back Inland Letter of Credit.

- i) **Advance Release Orders** : A duty free licence holder has the option either to import items allowed under the licence directly or to obtain them from indigenous sources or canalising agencies. This option may be availed against Advance Release Orders denominated in foreign exchange or Indian Rupees. An Advance Release Orders may be granted by the Licensing Authority which issued the duty free licence.
- ii) **Back to Back Inland Letter of Credit** : Instead of an Advance Release Order, the exporter may avail the facility of Back to Back Inland Letter of Credit. Such exporter may approach to a bank for opening an Inland Letter of Credit in favour of an indigenous supplier.

**Conditions** : In order to avail duty exemption licence scheme, the exporters are required to follow the conditions of the export obligations, Input-Output norms, value additions, etc. These are discussed as under :

**Export Obligation** : The export obligation shall be fulfilled within a period of 18 months. In case of supplies under Special Imprest Licence to the projects, the export obligation must be fulfilled during the contracted duration of execution of the project. The period shall commence from the date of issuance of the licence.

**Input-Output Norms** : The standard input-output norms for the imports and exports for the grant of a duty free licence shall be in accordance with the norms published by the Director General of Foreign Trade. In respect of goods for which such standard input-output norms have not been published, the norms will be as specified by the competent authority.

**Value Addition** : Unless otherwise specified the duty free licence shall be subject to the achievement of a minimum value addition of 33%.

**Third Party Exports** : The advance licence holder may export directly or through their party. In this case, shipping bills relating to the export shall show the names of both the licence holder and the third party.

**Procedure to obtain Licence**: Any merchant exporter or manufacturer exporter who holds an Import-Export Code No., Registration-cum-Membership Certificate, a specific order or letter of credit or project authority, may apply for duty free licence. In case of exporters working under production programme and exports to warehouse by FIEO in Dubai made by Export Houses or Public Sector Undertaking on consignment basis, application may be filed without export order or letter of credit. An application for a duty free licence may be made in duplicate to the concerned Licensing Authority having jurisdiction under the Duty Exemption Scheme. The Licensing Authorities are Regional Licensing Authority, Advance Licensing Committee and Zonal Advance Licensing Committee. The application is sent alongwith the following documents :

- i) Profile of Exporter-Importer
- ii) Bank receipt or demand draft in duplicate towards the payment of application fee
- iii) Export order or Letter of credit, if any
- iv) Self certified copy of valid RCMC
- v) Any other documents if required

### **16.5.2 Duty Entitlement Pass Book**

Under the Duty Entitlement Pass Book scheme, an exporter shall be eligible to claim credit as a specified percentage of FOB value made in freely convertible currency. The credit shall be available against such export products and at such rate as may be specified by the Director General of Foreign Trade. Any item except those appearing in the Negative List of Imports shall be allowed for import without payment of basic customs duty, special duty as well as additional customs duty against the credit under this scheme. The third party exports are admissible for grant of credit. The DEPB shall be valid for a period of 12 months from the date of its issue. The DEPB may be issued on post export basis or pre-export basis.

The DEPB holder shall be required to execute Bond with surety/security to the customs authority. The bond shall be for a value as may be specified in this behalf before the imports are effected under the DEPB on pre-export basis. The exports made under DEPB scheme shall not be entitled for drawback.

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## **16.6 TAX EXEMPTION**

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In order to promote export various taxes and duties have been exempted. Let us now discuss them.

### **16.6.1 Income-Tax Exemption**

In order to promote exports, tax incentives are granted under the Income-Tax Act. The major incentives are :

- 1) All export profits derived from export of goods or merchandise outside India, except mineral oil and minerals and ores and services are exempted from the income-tax. The benefit is also available to supporting manufacturers/processors, selling goods or merchandise to an Export/Trading House for export.
- 2) Tax relief is provided on export of computer software and for import of system.
- 3) A deduction of 50% of the profits from project exports is granted to an Indian company or resident tax payer.
- 4) Five years tax holiday is provided to the units in Free Trade Zones/Export Processing Zones and 100% Export Oriented Units.

The exporters or manufacturers are required to enclose with their tax return a report in the prescribed form duly signed by a Chartered Accountant.

### **16.6.2 Sales Tax Exemption**

Purchase of goods meant for exports are exempted from sales tax including Central Sales Tax. However, the purchaser of goods has to be a registered dealer for the class of goods meant for exports. He is allowed to furnish a satisfactory proof of export of goods to the seller of goods, along with Form-H. Proof of export can be in the form of export-invoice and Bill of Lading (non-negotiable copy) or Airways Bill or postal receipt etc. The seller will then submit the proof of export along with Form-H to the sales tax Authorities.

The exporter has to fill-in Form-H in triplicate and issue original and duplicate copies to the supplier along with Form-H and retain the triplicate copy for his own record. The supplier submits original of Form-H and proof of export to the Sales Tax Authority. Thus for availing the benefit of sales tax exemption, the exporter should first get the items concerned covered under his local sales tax registration certificate and apply for issuance of Form-H.

The exporter should enclose the following documents for issuance of Form-H.

- i) Copy of shipping bill, duly certified by the customs authority.
- ii) Copy of Invoice duly certified.
- iii) Copy of letter of credit.
- iv) Copy of confirmed export order.

### Check Your Progress C

1. What do you mean by Intermediate Advance Licence?  
.....  
.....
2. What is Special Imprest Licence?  
.....  
.....
3. State whether the following statements are True or False.
  - i) Advance Licence is granted to the exporter for the import of finished goods.
  - ii) Special Imprest Licence is granted to exporter for the import of inputs.
  - iii) All export profits are exempted from income-tax.
  - iv) Purchase of goods meant for exports are exempted from sales tax.
4. Fill in the blanks :
  - i) Running Bond Account facility is provided under Rule.....
  - ii) Licence under duty exemption scheme is granted ..... to the export of shipment
  - iii) Special imprest licence is granted only against.....
  - iv) The applicant of the duty exemption scheme, has to assure a minimum of .....per cent value addition on the imported inputs used in export product.

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## 16.7 LET US SUM UP

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Exporters are required to comply various procedural formalities for fuller realisation of export incentives on a regular basis. Export incentives are to be claimed on post-export basis. Therefore exporters have to take necessary care and precautions at the time and stage of export shipment. Exporters have to furnish adequate information in the documents supporting the fact of actual shipment of cargo for the export claims. Government of India have provided various schemes of export incentives.

Under the scheme of duty drawback customs and central excise duties on raw materials, components and packing materials used in export product are refunded to the exporters on post-export basis. Duty drawback can be claimed by the exporter at the all industry rates as specified in drawback rules or at the brand rates as determined separately on the request of the exporter. The scheme is governed by the customs and central excise duties drawback rules.

Excisable goods are free from the incidence of excise duty levied by the central government both on finished product and raw materials. Rule 12(1)(A) of Central Excise permits rebate of duty paid on export of duty paid on finished goods. Rule 12(1)(B) permits rebate on the duty paid on raw materials/ inputs used in the manufacture of the finished goods exported from India. Rule 13 permits the export of goods under bond. The major documents are Invoices and AR4/AR5 Forms.

Registered exporters are eligible for the facility of duty free import of inputs which may be permitted against duty free licence. Duty free licence includes : Advance Licence, Advance Intermediate Licence and Special Imprest Licence. Under Duty Entitlement Pass Book Scheme, an exporter shall be eligible to claim credit as a specified percentage of FOB value made in free convertible currency. Income tax and sales tax are also exempted from export goods.

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## 16.8 KEY WORDS

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**Duty Drawback :** Refund of customs duties and central excise duties on raw materials and components used for export.

**Duty Drawback Credit Scheme :** A scheme under which Government of India have authorised the RBI to instruct the commercial banks to grant interest free credit to the exporters.

**Central Excise Rebate :** Rebate of central excise duty paid in respect of materials used in the manufacture of exports.

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## 16.9 ANSWERS TO CHECK YOUR PROGRESS

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- B 4 i) True ii) False iii) True iv) True v) False  
C 3 i) False ii) True iii) True iv) True  
4 i) 13 ii) Prior iii) deemed exports iv) 33%

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## 16.10 TERMINAL QUESTIONS

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1. Analyse the need for action-plan by an exporter for timely and proper compliance with different formalities for claiming export incentives.
2. Explain the procedure for :
  - a) fixation of brand-rate for duty drawback.
  - b) making a claim of duty drawback on exports.
  - c) claim of duty drawback under 'duty drawback credit scheme'.
3. Discuss the formalities prescribed under Central Excise Rules for :
  - a) claiming rebate of central excise under Rule 12
  - b) export under central excise bond under Rule 13
4. Discuss the procedure for obtaining Advance Licence under Duty Exemption Scheme.
5. Explain the formalities for :
  - a) Claiming income-tax exemption
  - b) Sales tax exemption

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## SOME USEFUL BOOKS

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Central Excise Rules, Government of India.

Duty Drawback on Exports, Drawback Directorate, New Delhi.

Ministry of Commerce, Import and Export Policy, Vol.I, II and III, Government of India Publication, New Delhi.

Nabhi's Exporters Manual and Documentation, (New Edition), A Nabhi Publication, Delhi.

Ram Paras, Export What, Where, How (New Edition) Anupam Publishers, Delhi.

**Note :** These questions and exercises will help you to understand the unit better. Try to write answers for them. But do not send your answers to the University. These are for your practice only.