



Date: 19th March, 2021

To
The Hon'ble Union Minister of Finance,
Ministry of Finance,
Government of India,
North Block,
New Delhi – 110001

Natubhai Patel
President

Hemant N. Shah
Sr. Vice President

K. I. Patel
Vice President

Pathik S. Patwari
Hon. Secretary

V. P. Vaishnav
Hon. Secretary (R)

Sachin K. Patel
Hon. Treasurer

Sub: Taxability of MEIS duty credit scrips when actual receipts have been deferred by CBIC

Ref: CBIC (Drawback Division) Office Memorandum dt. 12.11.2020

Respected Madam,

We would like to place on record our sincere appreciation to the laudable efforts taken by the government towards fighting the COVID-19 pandemic and also applaud the recent relaxations and support given to the trade and industry. We would like to draw your kind attention to the office memorandum (“OM”) dt. 12.11.2020 issued by the Central Board of Indirect Taxes and Customs, which categorically deals with the proposal for allocation of funds for MEIS for FY 2019-20 and for 9 months of FY 2020-21 (i.e. from 01.04.2020 to 31.12.2020).

The objective of the Merchandise Exports from India Scheme (“MEIS”) is to promote the manufacture and export of notified goods/ products. MEIS provides duty benefits depending on product and country. Rewards under the scheme are payable as percentage of realized free-on-board value (of 2%, 3% and 5%) and the MEIS duty credit scrip can be transferred or used for payment of a number of duties including the basic customs duty.

Details of the Office Memorandum dt. 12.11.2020:

As per the OM, the competent authority had approved the allocation of Rs. 39,097 Crs. for MEIS benefits for exports made during FY 2019-20. Further allocation totaling Rs. 15,555 Crs. for MEIS benefits for exports made during the period, April 1, 2020 to December 31, 2020 was also

conveyed with the approval of the competent authority.

However as per the OM, due to the ongoing stress on Customs revenues, it was suggested to limit the issuance of MEIS duty scrips in this financial year. **Accordingly, DGFT was requested to issue MEIS scrips, up to a total value of Rs 16,000 Crs. in FY 2021. It was further informed that the issuance of remaining scrips is to be spread over the subsequent financial years through an appropriate mechanism.** The government has already capped the benefits under MEIS to Rs 2 Crs. per exporter from September 1 - December 31, 2020. (Notification No. 30/2015-20 dt. 01.09.2020)

Issue on hand:

Out of the total approved allocation for FY 2019-20 and 2020-21 (till December, 20), DGFT will issue MEIS scrips of total value of only Rs. 16,000 Crs.

All the exporters who have made exports in FY 2020-21, will have to make provision of income receivable (MEIS scrips) on 31.03.2021 (following the accrual method of accounting) and will have to pay Income Tax on the same in FY 2020-21 (AY 2021-22). Creating a provision of Rs. 15,500 Crs. will result into a burden of Rs. 4,000-5,000 Crs. of income tax on all exporters – **without having any clarity or certainty of receipt of MEIS claims. Further, DGFT has already notified withdrawal of MEIS effective January 1, 2021.**

Severe cash crunch:

Due to the COVID-19 pandemic since last one year, there is a direct negative impact on demand and supply of goods and services and businesses are also facing serious cash flow issues. The businesses are facing severe supply chain disruptions and expect the situation to worsen further till the time the things get normalized. Not only the large businesses, but even the small and medium businesses are severely affected and if not supported timely, we may see large chunk of MSMEs closing down resulting in mass unemployment and related problems.



Suggestion:

It is hereby humbly but urgently requested to tax the MEIS credits to exporters on **receipt basis** as and when DGFT issues MEIS duty scrips so that the exporters will not have to face huge burden of cash outflow without any corresponding assurance of related income in near future.

We all are facing this unprecedented situation and we require your co-operation and patient hearing to our concerns. We would be very grateful if your goodself would take an early action in this regard and have a positive consideration of our requests. This will be very useful for the taxation fraternity and also for the trade and industry. In conclusion, we request that a suitable orders / clarification may be issued to this effect at the earliest.

With warm regards,

Sincerely,


Natubhai Patel
President


Jainik Vakil
Chairman, Direct Tax Committee