

# GST-"Dnyan Satra"

**Exports, Zero Rated Supply,  
Deemed Exports and Refunds.**

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from GST Audit Perspective

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Zero rated Supply  
with payment of IGST

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## Zero Rated Supply

### Export of goods

Means taking goods out of India to a place outside India.

### Export of services

supply of any service when,--

- (i) the supplier of service is located in India;
- (ii) the recipient of service is located outside India;
- (iii) the place of supply of service is outside India;
- (iv) the payment for such service has been received by the supplier of service in convertible foreign exchange; and
- (v) the supplier of service and the recipient of service are not merely establishments of a distinct person

### Supply to SEZ developer/ unit

SEZ unit and developer shall have same meaning as assigned under SEZ Act, 2005.

## Zero rated Supply with payment of IGST (Rule 96)- applicability

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- Applicable where no LUT/ bond is executed.
- Supply to SEZ unit/developer to be treated as inter state supply. (*Section 7(5)(b)*)
- The tax payer should not have received any of the supplies on which the supplier have availed benefit of following notifications w.e.f. 23<sup>rd</sup> October 2017:-
  - *Notification 48/2017- CT* i.e. against advance authorization, EPCG, supply to EOU, supply of gold by bank/ PSU against Advance Authorization.
  - *Notification 40/2017-CT (Rate)* i.e. purchase of goods @ 0.10 % GST as a Merchant Exporter.
  - *Notification 78/2017-Customs* i.e. supply under *Notification 52/2003- Customs* for supply to EOU.
- The **auditor** should verify the inward supplies to ensure that no such supplies are received in case there is refund claim on account of IGST paid exports.
- Management representation to be taken.

# Zero rated Supply with payment of IGST

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## Supply of goods

- to be reported in Table 6 of GSTR 1 as exports with payment. No separate refund application is to be filed.
- Difference in taxable value and tax amounts as per GSTR 3B and GSTR 1 is to be reconciled and effect taken.
- **Auditor** to verify GSTIN, IGST amount, assessable value etc. on shipping bills.
- Ensure IGST is paid on FOB value of exports and not on CIF value.
- Can make such exports even if capital goods are purchased in EPCG. (*Notification No. 54/2018 – Central Tax*)
- Ensure Statement 3A is filed giving details of shipping bill and EGM.

## Supply of Services

- Verify place of supply of services which should be outside India.
- to be reported in Table 6 of GSTR 1 as exports with payment. Separate refund application is to be filed under RFD 01 for relevant tax period.
- **Auditor** to verify Bank Realization Certificates.

## Confusion created on account of multitude of notification and circulars

- All notifications issued are retrospective effective from 23<sup>rd</sup> October 2017

Period	Legal Position of relevant time	Impact of Notification
1 <sup>st</sup> July 2017 to 23 <sup>rd</sup> October 2017	Any exports made were entitled for obtaining the refund under Rule 96 or Rule 89 of CGST Rules 2017	No Change

## Confusion created on account of multitude of notification and circulars

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- All notifications issued are retrospective effective from 23<sup>rd</sup> October 2017
- By issuing multitude of notification for amending Rule 96(10) and corresponding circulars, a great confusion has been created in the mind of exports who have received goods under advance authorization or benefit of deemed exports under Notification 48/2017-CT etc.
- Notification No.3/2018-Central Tax was issued on 23<sup>rd</sup> January 2018 w.e.f. 23<sup>rd</sup> October 2017 to insert Rule 96(10). As per the notification the persons claiming refund of integrated tax paid on exports of goods or services should not have received supplies on which the supplier has availed benefit of specified notifications.
- Notification No.39/2018- Central Tax was issued on 4<sup>th</sup> September 2018 w.e.f. 23<sup>rd</sup> October 2017 to amend Rule 96(10). It implied that the person claiming refund of integrated tax paid on exports of goods or services should not have received supplies on which it has availed benefit of specified notifications.
- Then again Sub-rule (10) was restored back to previous version/ provisions vide Notification No. 53/2018 Central Tax dt. 9 Oct. 2018 w.e.f. 23 Oct. 2017.
- Finally Notification 54/2018 Central tax was issued on 9<sup>th</sup> October 2018 to imply that person claiming refund of integrated tax paid on exports of goods or services should not have received supplies on which it has availed benefit of specified notifications.



## Confusion created on account of multitude of notification and circulars

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- The net effect of these changes is that any exporter who imported any inputs/capital goods in terms of notification Nos. 78/2017-Customs and 79/2017-Customs both dated 13<sup>th</sup> October, 2017 shall be eligible to claim refund of the IGST paid on exports till the date of the issuance of the notification No. 54/2018 –Central Tax dated 9<sup>th</sup> October, 2018.
- After the issuance of notification No. 54/2018 –Central Tax dated 9<sup>th</sup> October, 2018, exporters who are importing goods in terms of Notification Nos. 78/2017-Customs and 79/2017-Customs both dated 13<sup>th</sup> October, 2017 would not be eligible for refund of IGST paid on exports as provided in the said sub-rule.

## Export of Services – accounting and GST impact

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- While verifying export of services, it is important for the auditor to verify each transaction to ascertain the Place of Supply.
- In case of services there are certain transactions wherein though payment is received from foreign recipient in convertible foreign exchange, the place of supply may be in India.
- In case the place of supply is in India, then GST is payable on such outward supply under B2C transaction type with place of Supply being “Other Territory”.
- The Auditor should go through the agreement to understand the exact nature of service provided.
- In case of intermediary services, the agreement needs to be read with precaution to ensure that proper place of supply is mapped to the transaction.
- Just because payment is received in convertible foreign exchange, it cannot be implied that the transaction is export of service.

## Zero rated Supply to SEZ with payment of IGST

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- Refund application to be filed only after goods are fully admitted in SEZ for authorized officer as endorsed by the specified officer of the SEZ.
- In case of services the specified officer should endorse that the services are used for authorized operations.
- **Auditor** should verify that endorsement by the Specified officer is on record.
- **Auditor** to verify that a declaration is taken from the SEZ recipient that it has not availed the input tax credit of tax paid by the supplier.
- DTA supplier will have to file the refund claim in FORM GST RFD – 01 on the common portal, as per Rule 89(1).

# Zero rated Supply with payment of IGST – Disclosure under GSTR 9

## Part 2: Details of outward and inward supplies declared during the financial year

Table	Nature of supplies	Taxable Value	Central Tax	State Tax	Integrated Tax	Cess
4	Details of advances, inward and outward supplies on which tax is payable as declared in returns filed during the financial year.					
C	Zero rated supply (Export) on payment of tax (except supplies to SEZs)	Value as declared in GSTR 1 filed for July 2017 to March 2018. May be taken from table 6 of GSTR 1.	-	-	Value as declared in GSTR 1 filed for July 2017 to March 2018. May be taken from table 6 of GSTR 1.	
D	Supply to SEZs on payment of tax	May be taken from b2b supplies of GSTR 1 filed for July 2017 to March 2018.	-	-	May be taken from b2b supplies of GSTR 1 filed for July 2017 to March 2018.	

## Zero rated Supply with payment of IGST – Implications under GSTR 9C

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Part II	Reconciliation of turnover declared in audited Annual Financial Statement with turnover declared in Annual Return (GSTR9)	
<b>5</b>	<b>Reconciliation of Gross Turnover</b>	<b>Amount (Rs.)</b>
A	Turnover (including exports) as per audited financial statements for the State / UT (For multi-GSTIN units under same PAN the turnover shall be derived from the audited Annual Financial Statement)	
N	Adjustments in turnover due to foreign exchange fluctuations (+/-)	Difference in value of exports as per books of accounts and as per GST returns on account of exchange rate is to be mentioned. This may happen in case where CBIC notified rate is taken in GSTR 1 and RBI notified rate is taken in books of accounts.

Zero rated Supply  
without payment of IGST

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## Zero rated Supply without payment of GST- applicability

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- Applicable where LUT/ bond is executed before making exports of goods/ services. Application can be made online.
- Goods shall be exported out of India within 15 days from the expiry of 3 months from the date of issuance of invoice. **Auditor** should verify shipping bill date and invoice dates.
- In case of services, payment shall be received within 1 year from the date of issue of invoice. **Auditor** to verify invoice date and BRC date.
- The commissioner may extend the above mentioned periods on application by the tax payer.
- In case above conditions are not fulfilled, tax is to be paid along with interest.
- **Auditor** to
  - Ensure LUT is executed prior to exports.
  - Ensure above mentioned timelines are followed.

# Zero rated Supply without payment of IGST – Disclosure under GSTR 9

## Part 2: Details of outward and inward supplies declared during the financial year

Table	Nature of supplies	Taxable Value	Central Tax	State Tax	Integrated Tax	Cess
<b>5</b>	Details of Outward supplies on which tax is not payable as declared in returns filed during the financial year					
A	Zero rated supply (Export) without payment of tax	Value as declared in GSTR 1 filed for July 2017 to March 2018. May be taken from table 6 of GSTR 1.	-	-	-	-
B	Supply to SEZs without payment of tax	May be taken from b2b supplies of GSTR 1 filed for July 2017 to March 2018.	-	-	-	-



## Zero rated Supply without payment of GST – Implications under GSTR 9C

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<b>7</b>	<b>Reconciliation of Taxable Turnover</b>	<b>Amount (Rs.)</b>
A	Annual turnover after adjustments (from 5P above)	
B	Value of Exempted, Nil Rated, Non-GST supplies, No-Supply turnover	
<b><u>C</u></b>	<b><u>Zero rated supplies without payment of tax</u></b>	Amount to be taken net of debit/ credit notes if any.
D	Supplies on which tax is to be paid by the recipient on reverse charge basis	
E	Taxable turnover as per adjustments above (A-B-C-D)	
F	Taxable turnover as per liability declared in Annual Return	
G	Unreconciled taxable turnover (F-E)	

# Deemed Exports

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## Deemed Exports- meaning

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- *Notification No. 48/2017* – Central Tax dated 18 October 2017 has notified the following supply of goods as deemed exports:
  - Supply of goods by the registered person against Advance Authorization (AA).
  - Supply of capital goods by the registered person against Export Promotion Capital Goods Authorization (EPCG).
  - Supply of goods by the registered person to Export Oriented Unit (EOU)/ Electronic Hardware Technology Park Unit (EHTP) / Software Technology Park Unit (STP) / Bio-Technology Park Unit (BTP).
  - Supply of gold by Bank or Public Sector Undertaking against Advance Authorization.

## Deemed Exports- point to be verified

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- Deemed exports are to be disclosed as B2B transaction by mapping invoice type as Deemed Exports in GSTR 1. General error invoice type is not selected properly as “Deemed Export” and hence reflected as “Regular”.
- Ensure not disclosed as zero rated supply in GSTR 3B.
- verify declaration received from the recipient of goods.
- Ensure that CGST and SGST is charged for intra-state transaction and IGST is charged for inter-state transaction. Due to error on GST portal, in some cases by default IGST was charged for all deemed exports transactions.
- Undertaking by the recipient that no ITC has been claimed.
- Undertaking by the recipient that it shall not claim a refund in respect of such supplies.
- Supply to merchant exporter is neither deemed exports nor zero rated supply but it is taxable supply.
- Take adequate management representation.

# Deemed Exports– Disclosure under GSTR 9

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## Part 2: Details of outward and inward supplies declared during the financial year

Table	Nature of supplies	Taxable Value	Central Tax	State Tax	Integrated Tax	Cess
5	Details of Outward supplies on which tax is not payable as declared in returns filed during the financial year					
E	Deemed Exports	To be extracted from B2B data of GSTR 1 filed for July 2017 to March 2018. No impact of debit/ credit notes or amendments to be taken in this row.				

# Refund

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# Types of Refund

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- Refund of IGST paid on Exports
- Refund of Excess Balance in Electronic Cash Ledger
- Refund of ITC on Export of Goods & Services without Payment of Tax
- On account of supplies made to SEZ unit/ SEZ developer (without payment of tax)
- Refund on account of ITC accumulated due to Inverted Tax Structure
- On account of Refund by Recipient/ Supplier of deemed export.
- Refund on account of Supplies to SEZ unit/ SEZ Developer (with payment of tax)
- Export of services with payment of tax
- Tax paid on an intra-State supply which is subsequently held to be inter-State supply and vice versa
- Excess payment of tax.

# Refund of ITC on account of exports under LUT

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- Points to be verified:-
- "Net ITC"
  - includes only ITC relating to inputs and input services and not relating to capital goods.
  - Should not include input tax credit which was carried forward through TRAN 01.
  - Once total refund amount is calculated, the same should be first debited from IGST account and balance amount is to be claimed equally from CGST and SGST.
- Aggregate total turnover excludes value of exempt supplies other than zero-rated supplies and the turnover of supplies in respect of which refund is claimed under Rule 89 (4A) or(4B)or both, if any from 23rd October 2017.
- Turnover of zero-rated supply shall include only those supplies which are made under LUT.



## Refund of ITC on account of inverted duty

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- Points to be verified:-
- “Net ITC”
  - includes **only ITC relating to inputs** and not relating to input services and capital goods w.e.f. 18<sup>th</sup> April 2018.
  - Should not include input tax credit which was carried forward through TRAN 01.
  - Includes GST amount of all inputs and not only of those inputs having same or higher GST rate. (*CircularNo.79/53/2018-GST*)
- Aggregate total turnover excludes value of exempt supplies other than zero-rated supplies and the turnover of supplies in respect of which refund is claimed under Rule 89 (4A) or(4B)or both, if any from 23rd October 2017.

# Refund– Disclosure under GSTR 9

## Part VI: Information

15. Particulars of Demands and Refunds								
	Details	Central Tax	State Tax	Integrated Tax	Cess	Interest	Penalty	Late Fee / Others
A	Total Refund claimed	To be verified from refund applications made. Should be cross verified from debits to Electronic credit/ Cash ledger.						
B	Total Refund sanctioned	To be verified from RFD 06 orders issued for various refund applications.						
C	Total Refund Rejected	Auditor may verify the bank statements to ascertain the amount of refund actually received.						
D	Total Refund Pending	Can be calculated from figures mentioned in A, B, C and D above.						
E	Total demand of taxes							
F	Total taxes paid in respect of E above							
G	Total demands pending out of E above							

# Refund– Disclosure under GSTR 9C

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## Part VI: Information

PART V: Auditor's recommendation on additional Liability due to non-reconciliation					
Description	Value	To be paid through Cash			
		Central tax	State tax / UT tax	Integrated tax	Cess
Erroneous refund to be paid back					

Considering that auditor has to certify the amount of refund which is erroneously claimed, the auditor should exercise due caution in calculation of amount of refund claimed.

# Typical Issues

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## Typical Issues

Drop Shipment	In the GST Amendment Act 2018, Drop Shipment is covered in Such Schedule III in section 7. However this is not having retrospective effect and therefore whether it will be considered as exempt supply for the calculation of reversal under rule 42 & 43 for the purpose of finalization of GSTR-9C certification for the year July 2017 to March 2018 and for the period April 2018 to 31 <sup>st</sup> January 2019.
Supply to SEZ by unregistered supplier without payment of GST	Whether SEZ needs to pay GST under reverse charge mechanism till 13.10.2017  There is exemption on payment of any tax to SEZ Units and Developer for authorized operations on the reverse charge basis vide Notification No. 18/2017 IGST Rates dtd. 05.07.2017 and hence no tax is required to be paid.
Supply to SEZ by registered supplier without payment of GST but without execution of LUT	Whether SEZ is require to pay the GST in such case?  Supplier will have to discharge the GST liabilities as LUT is not executed.
Supply to SEZ unit / developer located at non-processing zone for operation and maintenance	Whether the supplier can avail the benefit of exemption of IGST when goods / services are supplied to be used in non-processing zone for operation and maintenance of SEZ?  In our opinion, since it is not covered under authorized operations, it will not be zero rated supply. It will not be treated as supply to SEZ.

## Typical Issues

Supply to SEZ unit / developer located at non-processing zone for developing infrastructure	If it is for authorized operations, then only such supply will be treated as zero rated supply.
Export of Free Samples	Whether reversal is required u/s 17(5) (h) ?
Goods removed for exports under LUT but not exported within specified timeline.	Time limit specifies is 3 months from the date of invoice + 15 days or as extended by Commissioner.
Goods removed at Private Bonded Warehouse or Export Ware House	Whether such supply is to be treated as zero rated supply or as exempt supply or as no Supply?
Debit Note / Credit Note issued for export invoices	Whether such debit/ credit notes are reported correctly in GSTR 1 and GSTR 3B?
Service Exports for which remittances not received in specified time limit	Whether it is export or taxable supply?
Intermediary Services accounted as export of services	Whether it is export or taxable supply?

# Thanking you!

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