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Procedure for supplies to SEZ Developer/ unit in GST

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With the introduction of GST from 1st July, 2017, there has been a huge chaos among SEZ Developers/ units as to the procedures to be followed w.r.t procurement of goods/ services. As the supplies to SEZ are taxed at 'zero' rate under GST, SEZ Developer/ units were puzzled about the continuation of requirement of existing certificates such as Form ARE-1 (in case of goods) and Form A-2 (in case of services). Further, few SEZ Developers/ units have interlude their procurements in paucity of information in this regard. Considering all the practical difficulties faced, an attempt has been made to relieve the intricacies associated with the subject matter.

Concept of Zero-rated supplies:

Supply of goods/ services made to SEZ Developer/ units are termed as "zero rated" supplies where the following options are available for the supplier:

1. Supply of goods/ services without payment of integrated tax (IGST) under bond or Letter of Undertaking.
2. Supply goods/ services on payment of integrated tax (IGST)

However, it has to be noted that input tax credit on inward supplies is available on such zero-rated supplies though no GST is paid.

Procedure for making Zero-rated supplies:

Government has specified the procedure for making zero-rated supplies vide Notification No. 15/2017 – Central Tax dated 01.07.2017 (to be read with Circular No. 2/2/2017- GST dated 04.07.2017). Accordingly, the following procedure shall be followed where a person making zero-rated supplies and availing the option of supplying without the payment of IGST shall follow the below procedure:

- a) Furnish a bond or Letter of Undertaking (LUT) before making such supply.
- b) Such bond or Letter of Undertaking shall be filed before jurisdictional Deputy/ Assistant Commissioner in Form GST RFD-11. (Formats of bond, LUT & GST RFD -11 have already been notified and made available from 01.07.2017)

- c) Further in Form GST RFD -11, assessee shall bind himself to pay the tax due along with interest within in a period of –

| Good/ Service | Time Limit |
|--------------------|---|
| Supply of goods | Within 15 days after the expiry of 3 months from the date of issue of invoice, if goods are not supplied to SEZ/exported |
| Supply of services | Within 15 days after the expiry of 1 year from the date of issue of invoice, if payment of such services is not received in convertible FE. |

- d) Form GST RFD-11 needs to be filed electronically on the common portal. However, till the software module for filing such form is available on common portal, assessee may furnish manually with above said cadre officers.

Execution of bond Vs LUT

Persons making zero-rated supplies without payment of IGST,

The persons satisfying the below conditions can execute LUT instead of bond:

- Status holder as per Para 5 of Foreign Trade Policy 2015-2020; or
- A person who has received foreign inward remittances equal to 10% of the export turnover or 1 crore whichever is higher.

Persons not satisfying the above conditions shall execute bond

Invoicing:

Invoice shall carry an endorsement as follows:

- In case of removal with payment of duty - "SUPPLY MEANT FOR EXPORT/SUPPLY TO SEZ UNIT OR SEZ DEVELOPER FOR AUTHORISED OPERATIONS ON PAYMENT OF INTEGRATED TAX"; or
- In case of removal without payment of duty - "SUPPLY MEANT FOR EXPORT/SUPPLY TO SEZ UNIT OR SEZ DEVELOPER FOR AUTHORISED OPERATIONS UNDER BOND OR LETTER OF UNDERTAKING WITHOUT PAYMENT OF INTEGRATED TAX".

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