

Tax Alert | Delivering clarity

16 December 2020

External Trade Facilitation-Export of Goods and Services

A.P. (DIR Series) Circular No. 8 dated 04 December 2020 on External Trade-Facilitation-Export of Goods and Services

Background:

The Reserve Bank of India (“RBI”) has announced several measures pertaining to external trade to enhance export competitiveness and to help exporters and importers cope with the challenges posed by the COVID-19 pandemic.

Continuing with these efforts, RBI announced further liberalisation in policies governing export transactions through A.P. (DIR Series) Circular No. 8 dated 04 December 2020 (the ‘Circular’) for facilitating external trade – export of goods and services. The Circular provides additional authority to Authorized Dealer Banks (AD banks) for write-off of unrealised export bills, set-off of export receivables against import payables, refund of export proceeds etc.

Highlights of the Circular are summarised below.

Key Amendments:

“Write-off” of Unrealised Export Bills:

Presently, AD banks are permitted to allow write-off of unrealised export bills up to a certain limit beyond which the AD banks are required to seek directions from RBI.

With a view to simplifying the procedure, reduce the time taken for according approvals thereby reducing the regulatory cost, the RBI has now delegated the power of allowing write-off to AD banks. AD banks can now approve write-off of export receivables without any limit in specified circumstances, viz., cases where overseas buyer has become insolvent or the settlement of the export proceeds to be received, has happened through the Indian embassy, Foreign Chamber of Commerce or similar organisations or if the goods had been destroyed by the Port/Customs/Health authorities in the importing country.

While calculating the percentage limit for write-off, the total export proceeds realised during the calendar year preceding the year in which the write-off is being done, has to be reckoned and considered. The exporter must be a regular customer of the AD bank for minimum 6 months and fully compliant with KYC/AML guidelines.

Set-off of Export Receivables against Import Payables:

Presently, AD banks allow exporters /importers to set-off their outstanding export receivables against outstanding import payables from/to the same overseas buyer/supplier.

RBI has now allowed AD banks to approve requests of Indian exporters / importers to set-off export receivables against import payables in respect of goods and services with their overseas group/associate companies, either on a net basis or gross basis, through an in-house or outsourced centralised settlement arrangement. Such an arrangement should be operationalised/supervised through/by one AD bank only. Set-off of export receivables against goods is not permitted against import payables for services and vice versa. The Circular also includes other conditions for compliances for availing of this relaxation.

Refund of Export Proceeds:

Presently, AD banks through whom the export proceeds were originally realised, could consider requests for refund of export proceeds of goods exported from India and re-imported on account of poor quality. It has now been decided to allow AD banks to consider refund requests without insisting on re-import of goods, which had been auctioned/destroyed by the Port/ Customs/ Health authorities/ any other accredited agency in the importing country, subject to production of documentary evidence and compliance with conditions specified in the Circular.

Conclusion:

Allowing set-off of export–import transactions amongst group / associate entities with AD bank approval will facilitate ease of doing business. Similarly, allowing AD banks to write-off specified unrealised export bills and refund export proceeds, will expedite the process.

Source: A.P. (DIR Series) Circular No. 8 dated 04 December 2020 issued by RBI.



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

This material and the information contained herein prepared by Deloitte Touche Tohmatsu India LLP (DTTI LLP) is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). This material contains information sourced from third party sites (external sites). DTTL LLP is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such external sites. None of DTTL LLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this material, rendering professional advice or services. This information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this material.