

Making the Export Competitive

Study of Embedded Taxes and
Refund Mechanism for SHEFEXIL
Products

**Sudhakar Kasture
(Director)**


{ Helpline Impex }
Pvt Ltd

Objective

- Objective of the study is to determine the incidence of Embedded taxes in SHEFEXIL products so that they could be eliminated from cost by way of rebates to exporters leading to increased export competitiveness and growth in exports.

Methodology

1. The data on export quantity and values of 23 distinct 8-digit HS code tariff lines of SHEFEXIL products for FY 2017-18 was used for calculation of costs and Embedded taxes therein.
2. These 23 products constitute over 80% of total value of export of SHEFEXIL products.

Methodology

3. A scenario-based approach with relevant assumptions and conservative estimates has been used to calculate the total cost of transportation, electricity and farm, and the incidence of Embedded taxes in these costs to arrive at an average percentage of Embedded tax in total value of export of these products.

Methodology

4. Sample data used for calculations were requested from and validated by various sources including Department of Commerce – DGCI&S Kolkata, SHEFEXIL exporters, transporters and freight forwarders and from standard public references.
5. Actual data was used wherever available and assumptions were made wherever data was incomplete.

Methodology

6. These assumptions were based on the discussions and inputs of various exporters, transporters and freight forwarders considering various important factors which impacts cost of transportation viz. rates, routes, distances, vehicle types, payload capacity, fill rates, number of distinct vehicles required, number of trips, toll, national permit, insurance and maintenance cost and those which impact cost of electricity and farm cost.

Methodology

7. A cluster of exporters was considered based on products and region to arrive at comparable costs and Embedded taxes therein, depicting reality.

Taxes considered for study:

Sector	GST taxes	Non-GST taxes
Petroleum	-	Central excise duty and State VAT on petroleum products
Electricity	-	Electricity duties
Farm	-	Mandi tax on farm output
Transport	GST on inputs in the transport (Insurance, tyres, tubes, spares etc.)	Motor vehicle taxes, Toll taxes etc.

Non GST taxes and duties are levies either by State or by Central Excise or Value Added Tax (VAT) levies which are outside the purview of GST.

Taxes not considered for Study:

- Property Tax
- Stamp Duty & Registration charges
- Profession Tax
- GST on inputs in the sectors like, Electricity, Farm & Petroleum

WHY?

1. Single property viz. an office, a factory or a warehouse is being used for multiple products and activities, some of which may not be related to pure exports.

Taxes not considered for Study:

2. Lack of availability of standards in duty rates and registration procedures for owned or rented properties in various regions in India.
3. The impact of taxation and cost due to unregistered dealers was found to be negligible for SHEFEXIL products.
4. The scope of this study included only the indirect taxes and duties levied by State Government.

Why Refund of Embedded Taxes?

1. Embedded taxes raise the base price of a product or service, they bring down price competitiveness.
2. With global trade growth forecasts still slow at 2.4 per cent, the expected compounded growth may just be about 15 per cent annually for India's exports.

How to Calculate Embedded Taxes?

1. As per recent report, Mr. Suresh Prabhu, Commerce Minister has indicated \$ 321 billion as expected export figure for 2018-19 (\$ 217 billion – Apr-Nov 2018)
2. An analytical approach based on operational data from various exporters, freight forwarders and transportation service providers has been adopted for estimating the impact of Embedded taxes on the final price of the export product.

How to Calculate Embedded Taxes?

3. Data on quantity and value of exports by products (HS codes) has been sourced from Department of Commerce – DGCI&S Kolkata. Data on transportation has been sourced from exporters, wherever they could provide them, as well as from transporter or freight forwarder.

How to Calculate Embedded Taxes?

4. Electricity Duty and Mandi tax details have been sourced from information available in public domain on the websites of various State Electricity Departments and APMCs (Agricultural Produce Market Committee). Then they were calculated and converted as a percentage of FOB value.

ELEMENTS OF EMBEDDED TAXES

Electricity Duty

1. Electricity duty is defined as per the policy of the central government with taxes going to the state government.
2. It differs from state to state. The tax is also different for different sectors and industries.

State	Rate of Electricity Duty
Rajasthan	40 paisa per unit
Haryana	15%
UP	7.5%
Gujarat	15%
Maharashtra	9.30%

* Primarily calculated on energy charges which may include Fuel Adjustment Charges

Mandi Tax

1. Mandi Tax is levied on the sale and purchase of agricultural produce.
2. Percentage of Mandi tax varies depending on the product and state.
3. Mandi Tax is either paid by the Buyer or the seller or by both.

Product	State	Rate of Mandi Tax
Cotton Linters	Rajasthan	*1.92%
	Haryana	2.00%
Fenugreek seed	Rajasthan	*1.92%
	UP	*1.92%
Cassia Torea Seeds	Rajasthan	*1.92%
Guar Gum refined Split	Rajasthan	1.60%
	Haryana	1.00%
Guar Meal	Rajasthan	1.60%
	Haryana	1.00%
Guar gum treated and pulverized	Rajasthan	1.60%
	Haryana	1.00%
Psyllium Husk	Rajasthan	*1.92%
	Haryana	*1.92%

*1.92% - Average Rate of Mandi Tax

Taxes in Transportation

1. Optimization of transport operations essentially involves maximizing movement of goods at minimum possible costs.
2. Availability of raw materials, production schedules and post-production treatment affect transportation.
3. Lesser the optimization, more the transportation costs and higher the price of the export product.

Taxes in Transportation

4. Factors that influence cost of transportation:

- Bad road conditions, heavy traffic, distance between manufacturing or warehouse location and port of export, long waits at toll booths, long wait at ports, vehicle capacity and availability, fill rates, loading and unloading times, number of trips, number of vehicles, return trip load, safety and insurance of drivers, vehicles and goods, maintenance costs, etc.

Taxes in Transportation

5. Exporters need to maintain their profit margins to sustain business, high transportation costs force them to set high price of their product which adversely affects their export competitiveness in various markets globally.

TAXES IN TRANSPORTATION – CENTRAL EXCISE DUTIES

Particulars	Basic Excise Duty	Special Additional Excise Duty	Additional Excise Duty (Road and infrastructure Cess)
Crude Petroleum	Nil+ Cess @ 20% +Rs.50/ MT as NCCD	-	-
Petrol	Rs.2.98/ltr	Rs.7.00/ltr	Rs.8.00/ltr.
Petrol (branded)	Rs.4.16/ltr	Rs.7.00/ltr	Rs.8.00/ltr.
High Speed Diesel	Rs.4.83/ltr	Rs.1.00/ltr	Rs.8.00/ltr.
High Speed Diesel (branded)	Rs.7.19/Ltr	Rs.1.00/ltr	Rs.8.00/ltr.
Aviation Turbine Fuel (refer Note 1)	11%	-	-
Liquefied Natural Gas	Nil	-	-
Natural Gas [Gaseous state]	Nil	-	-
Natural Gas [Compressed]	14.0%	-	-

In Addition to the above, Central Taxes, Petrol and Diesel attract State Levies such as VAT, Additional Tax or Cess as imposed by the State Government.

SALES TAX/ VAT RATES		
States/Union Territories	Sales Tax/VAT Rates	
	Petrol	Diesel
Andhra Pradesh	32.54%	24.64%
Arunachal Pradesh	16.20%	8.60%
Assam	26.91%	18.84%
Bihar	21.11%	14.50%
Chattisgarh	23.08%	21.84%
Delhi	27.00%	17.21%
Goa	12.86%	15.03%
Gujarat	22.19%	22.28%
Haryana	23.37%	13.90%
Himachal Pradesh	21.71%	11.14%
Jammu & Kashmir	23.54%	13.19%
Jharkhand	21.52%	19.20%
Karnataka	27.23%	17.11%
Kerala	30.37%	23.77%
Madhya Pradesh	31.70%	19.18%
Maharashtra – Mumbai, Thane & Navi Mumbai	36.01%	23.15%

Maharashtra (Rest of State)	35.01%	20.26%
Manipur	20.09%	10.23%
Meghalaya	18.56%	9.91%
Mizoram	18.88%	11.55%
Nagaland	20.13%	10.09%
Odisha	24.63%	25.08%
Punjab	35.08%	16.65%
Rajasthan	27.01%	20.13%
Sikkim	27.83%	15.55%
Tamil Nadu	32.17%	24.11%
Telangana	33.32%	26.05%
Tripura	19.78%	12.54%
Uttarakhand	22.97%	13.22%
Uttar Pradesh	22.97%	13.56%
West Bengal	23.73%	15.98%
Andaman & Nicobar Islands	6.00%	6.00%
Chandigarh	17.47%	9.04%
Dadra & Nagar Haveli	20.00%	15.00%
Daman & Diu	20.00%	15.00%
Lakshadweep	-	-
Puducherry	21.15%	17.15%

[Source: Extracted from Petroleum Planning and Analysis Cell-
http://ppac.org.in/content/149_1_PricesPetroleum.aspx

Top 23 Export Products of SHEFEXIL

Rank	Tariff Lines at 8-digit Code	Description	Values in USD Million	Quantity in Thousand	
			2017-18	UOM	2017-18
1	13023230	Guargum treated & pulverised	517.65	KGS	321923.78
2	12119032	Psyllium husk (isobgul husk)	226.20	KGS	39708.36
3	33012590	Others	221.95	KGS	6439.38
4	13021919	Other extracts ...	219.02	KGS	3797.30
5	30039021	Menthol crystal	110.34	KGS	4561.
6	13023210	Guar meal	70.48	KGS	127437.
7	33012400	Essntl oil of peppermint(mentha piperita)	70.39	KGS	2332.
8	13023220	Guar gum refined split	58.81	KGS	44740.
9	13019099	Shellac and Hydrolysed Lac	39.00	KGS	6360.
10	13023290	Othr mucilages thcknrs w/n modifd,derivd from locust beans or locust bean seed	26.15	KGS	31968.
11	14042000	Cotton linters	22.03	KGS	41185.
12	12119099	Othr prts of plants usd in perfmry,pharma-cutical etc,frsh/drid	20.80	KGS	9951.
13	13021918	Cambodge extract	20.39	KGS	1305.
14	09109912	Fenugreek seed	16.44	KGS	27395.
15	12119029	Other leaves, powder, flurs & pods fresh/dried w/n cut	15.71	KGS	5878.
16	13021916	Extracts, neem	14.77	KGS	186.
17	15159040	Fixed veg oils of edible grade viz. mango kernel, mahua, rice bran oil	14.74	KGS	10459.
18	14049090	Othr crude vegetable matrls, inedible, nes	13.30	KGS	16057.
19	15155091	Sesame oil & itsfractions other than crude of edible grade	11.76	KGS	4189.
20	12119022	Senna leaves and pads	11.23	KGS	11636.
21	09109915	Cassia torea seed	11.07	KGS	21218.
22	12119045	Zedovary roots	10.99	KGS	3453.
23	07129020	Dehydrated garlic powder	10.46	KGS	7430.

CALCULATION OF EMBEDDED TAX

Guar Meal

VEHICLE MOVEMENT FROM NHAVA SHEVA TO PUNE, MAHARSHTRA

SR.NO	PARTICULARS	VEHICLE TYPE									
		CANTER	LPT	OPEN TRUCK	20 FT SIDE OPEN	TRAILER 1 X20	TRAILER 1 X20	TRAILER 1 X20	TRAILER 1 X20 - ISO TANK	TRAILER 1 X40	TRAILER 1 X40
A	CARGO LOAD										
1	CARGO WEIGHT IN MT	3.2	4.5	9	9	7	12	20	20	20	24
2	CONTAINER WEIGHT IN MT	0		0	0	2.5	2.5	2.5	3.5	3.5	3.5
3	GROSS WEIGHT IN MT	3.2	4.5	9	9	9.5	14.5	22.5	23.5	23.5	27.5
	RETRUN DISTANCE IN KM	320	320	320	320	320	320	320	320	320	320
	AVERAGE KILO METER PER LTR OF FUEL	8	6.5	4.5	4.5	4.5	3.5	3	2.75	3	2.5
	FUEL COST AS ON 26.10.2018	78.41	78.41	78.41	78.41	78.41	78.41	78.41	78.41	78.41	78.41
B	EXPENSES PER KM										
1	DIESEL	9.80	12.06	17.424	17.42	17.42	22.40	26.14	28.51	26.14	31.36
2	TOLL	3.29	3.29	5.63	5.63	5.63	5.63	5.63	5.63	7.50	7.50
4	TOTAL COST PER KM	13.09	15.35	23.049	23.05	23.05	28.03	31.76	34.14	33.64	38.86
	Note:										
1	Nhava Sheva - Pune Toll Charges	1052	1052	1800	1800	1800	1800	1800	1800	2400	2400
	Other expenses Approx.										
2	Driver Salary/Month	13000	15000	15000	15000	15000	15000	15000	15000	18000	18000
3	Insurance/Year	21795	25331	46817	39447	39447	39447	39447	39447	48590	48590
4	Road Tax/Year	37800	43385	13800	13800	13800	13800	13800	13800	29250	29250
5	National Permit/Year	0	0	20000	20000	20000	20000	20000	20000	28000	28000
6	Spares/Lube/Maintance etc./Month	5000	5000	6000	7000	7000	7000	7000	8000	9000	9000
7	Drivers allowance extra as per trip and distance										

*LPT – Long Platform Truck

Example – Guar Meal

Calculation of Embedded taxes when container is 50% loaded			
Export Product - Guar meal	Route of Transport- Jodhpur to Mundra		
Vehicle type	ASHOKLEYLAND (3116-IL)		
Cargo carrying capacity(Tons)	22.5		
a	Export Value in USD	70480000.00	
b	USD to INR rate	64.4	
c	Export Value INR (a X b)	4538912000	
d	Qty MT	127437.10	
e	Cargo wt MT	11.25	
f	No. of Round Trips (d/e)	11328	
g	Insurance/Year/Vehicle - in INR	39447	
h	Road Tax/Year/Vehicle - in INR	13800	
i	Spares/Lube/Maintenance etc./ Year/ Vehicle - in INR	84000	
j	National Permit/Year/Vehicle - in INR	20000	
k	Average Diesel Price/Litre - in INR	64.74	
l	Toll charges/vehicle/Trip - in INR	4560	
m	Return dist. - Km	1274	
n	Average of Veh. In Km	3	
o	Total fuel req. in Litre (m/n)	424.67	
p	Diesel rate/km. in INR (k/n)	21.58	
q	Toll rate Rate/km. in INR (l/m)	3.58	

Incidence of Embedded Tax when container is 50% Loaded

Incidence of Embedded Tax if one trip is completed in 7 days		Rs.
1	Embedded tax on Diesel	
A	Retail Diesel price per Ltr	64.74
B	Value for VAT Calculation	53.89
C	VAT @ 20.13% on B	10.85
D	C.Ex duty for branded HSD 16.19/Ltr	16.19
E	Total Tax on HSD in Rs (C+D)	27.04
F	% of Tax in Retail price of Diesel ((E/A)*100)	41.76%
G	Total Embedded tax on account of diesel in Rs	130068532.31
H	% of Embedded tax on account of fuel (HSD) in FOB value	2.87
2	% of Embedded tax on account of Toll in FOB Value	1.14
3	Embedded tax on account of Insurance services (GST)	
A	Total Insurance Cost	8569638.72
B	GST Paid	1307233.02
C	% of Embedded tax on account of Insurance in FOB value	0.03
4	% of Embedded tax on account of Road Tax in FOB value	0.07
5	Embedded tax on account of Spares/Lube/Maintenance etc. (GST)	
	Total cost	18248527.20
	GST Paid	2783673.64
	% of Embedded tax on account of spares/lube/maint.	0.06
6	% of Embedded tax on account of National Permit in FOB value	0.10
7	Embedded tax on account of Mandi tax	
A	Amount for calculation of Mandi tax(50% of FOB value)	2269456000
B	Rate of Mandi tax @ 1.60% (AX1.60%)	36311296
C	% of Embedded Tax on account of Mandi tax	0.8
8	% of Embedded tax on account of Electricity Duty	0.044
	% of Total Embedded tax in value of export	5.10

Incidence of Embedded Tax when container is 100% Loaded

Incidence of Embedded Tax if one trip is completed in 7 days		Rs.
1	Embedded tax on Diesel	
A	Retail Diesel price per Ltr	64.74
B	Value for VAT Calculation	53.89
C	VAT @ 20.13% on B	10.85
D	C.Ex duty for branded HSD 16.19/Ltr	16.19
E	Total Tax on HSD in Rs (C+D)	27.04
F	% of Tax in Retail price of Diesel ((E/A)*100)	41.76%
G	Total Embedded tax on account of diesel in Rs	65034266.15
H	% of Embedded tax on account of fuel (HSD) in FOB value	1.43
2	% of Embedded tax on account of Toll in FOB Value	0.57
3	Embedded tax on account of Insurance services (GST)	
A	Total Insurance Cost	4284819.36
B	GST Paid	653616.51
C	% of Embedded tax on account of Insurance in FOB value	0.01
4	% of Embedded tax on account of Road Tax in FOB value	0.03
5	Embedded tax on account of Spares/Lube/Maintenance etc. (GST)	
	Total cost	9124263.60
	GST Paid	1391836.82
	% of Embedded tax on account of spares/lube/maint.	0.03
6	% of Embedded tax on account of National Permit in FOB value	0.05
7	Embedded tax on account of Mandi tax	
A	Amount for calculation of Mandi tax(50% of FOB value)	2269456000
B	Rate of Mandi tax @ 1.60% (AX1.60%)	36311296
C	% of Embedded Tax on account of Mandi tax	0.8
8	% of Embedded tax on account of Electricity Duty	0.044
	% of Total Embedded tax in value of export	2.97

Incidence of Embedded Tax

Jodhpur to Mundra Port (Gujarat)

Container Capacity	No of days required to complete the trip	% of Embedded taxes
100%	7	2.97
	10	3.03
	13	3.08
	16	3.13
80%	7	3.50
	10	3.57
	13	3.64
	16	3.71
60%	7	4.39
	10	4.48
	13	4.57
	16	4.66
50%	7	5.10
	10	5.21
	13	5.32
	16	5.42
40%	7	6.16
	10	6.30
	13	6.43
	16	6.57

Product – wise summary of Embedded Tax

HS Code	Product	Average Embedded tax (%)	
		At 100% Container Capacity	At 50% Container Capacity
09109912	Fenugreek Seed	4.75%	8.53%
14042000	Cotton Linters	4.15%	7.32%
13023220	Guar Gum Refined Split	2.02%	3.31%
13023230	Guar Gum Treated & Pulverized	2.08%	3.14%
13023210	Guar Meal	3.80%	6.87%
12119032	Psyllium Husk	1.40%	1.70%
09109915	Cassia Torea Seed	4.13%	7.30%
Average		3.19%	5.45%

Conclusion

1. The seven products, account for roughly 47% of total exports of SHEFEXIL products by value.
2. The calculation is done based on all parameters put together whereas, taxes are built in the prices but not anywhere refunded as they are either not covered by GST or not refunded by any mechanism per say.

Conclusion

3. The embedded taxes primarily include taxes on Diesel (Central Tax & VAT), Electricity Duty, Mandi Tax, Insurance and other consumables used in maintenance of vehicles, Toll Charges, etc.
4. The Average impact if taken into account works out between 3.19% and 5.45% of FOB value.

Conclusion

5. The capacity utilization is taken into account as many types of vehicles are used in actual transportation.
6. The Capacity utilization ranges from 40% to 100% based on the volume/weight of the product and small & big order size.
7. Hence, the ideal rate should be 4.32% or say rounded off to 4.5% of FOB value.

Conclusion

8. This refund does not anyway constitute as export incentive with reference to WTO principles and regulations. These are primarily embedded taxes actually suffered in processing and transportation of the product to the port of shipment.
9. The Principle of export as universally accepted is, “We export Goods and Services, not Taxes”. Therefore, refund of embedded taxes cannot be considered as incentives.

Conclusion

10. We therefore strongly believe that, **4.5% of FOB value can be considered as normal rate for 7 HS Codes** and for other HS Codes a residual rate of 5% should be considered. This is primarily because the above mentioned seven products constitute 47% of export in value terms and for balance 53% there are almost 140 products which automatically means products are exported but not in volumes and big size.

Conclusion

11. Naturally, when exports are in small quantity cost increases. Thereby payment of taxation also increases. Hence, a **residual rate of 5% for all other HS Code seems appropriate.**
12. This amount of 4.5% should be credited to exporter's account similar to drawback as ROSL (Rebate of State Levies) based on the FOB value indicated in the Shipping Bill.
13. This will avoid making of separate application for refund.

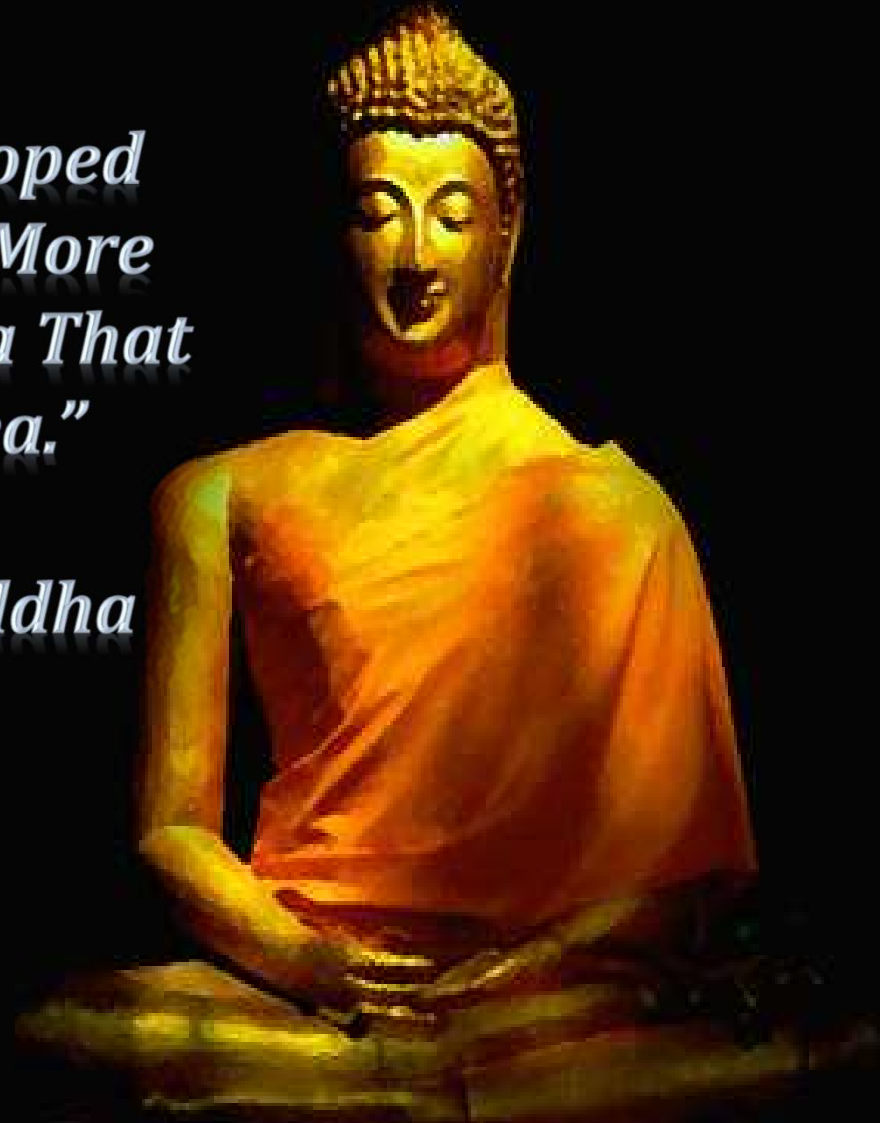
Acknowledgement

- We would like to thank SHEFEXIL for giving us this opportunity.
- Our heartfelt thanks for responses from Exporters:
 - Aromatic & Allied Chemicals
 - Chimique (India) Limited
 - Hind Suter Shellac Pvt. Ltd.
 - Pioneer Extracts Pvt.Ltd.
 - P.S.S. Exports
 - Sarda Udhyog
 - Shree Kumarasamy Polychem
 - Shree Ram Colloids Pvt Ltd
 - Vikas WSP Ltd
 - India Glycols Limited
- Freight Forwarders – Royal Forwarders Private Limited, Mumbai

THOUGHT FOR THE DAY....

*“An Idea That Is Developed
And Put Into Action Is More
Important Than An Idea That
Exists Only As An Idea.”*

-Buddha





Sudhakar Kasture (Director)



Mumbai - Head Off.

A-203, Everest Chambers,
Next to Marol Naka Metro Station,
Marol Naka, Andheri-Kurla Road,
Andheri (East), Mumbai – 400059.
Tel: 022-29252771/28507329
E-mail: sk@helplineimpex.co.in

Website: www.helplineimpex.co.in