

FIEO Asks for Tax-Free Bonds to Exporters in Lieu of Rs 40,000 cr of MEIS Stuck with Govt

Exporters have proposed the government to issue **tax-free bonds** in lieu of pending refunds under the Merchandise Export from India Scheme, in the wake of the country's poor revenue realisation. The Federation of Indian Export Organisations (**FIEO**) has proposed a mechanism of tax-free bond attracting 6% annual interest with a three-year lock-in period to provide certainty of refund and ensure liquidity for exporters.

Exporters may be allowed to file the claim so as to verify the value of the tax-free bond to be given to them, which can be encashed after 3 years, by which time the government revenue would be on sound footing.

Exporters are yet to receive around Rs 40,000 crore worth of tax refund under the **MEIS** as they were not allowed to file their claim under the scheme April 2019 onwards.

This has affected the liquidity of exporters, particularly the micro and small ones. This has also added to the uncertainties which are rising day by day. Under MEIS, the government gave duty benefits depending on product and country. Rewards under the scheme were payable as percentage of realised free-on-board value (of 2%, 3% and 5%) and MEIS duty credit scrip could be transferred or used for payment of a number of duties including the basic customs duty.

Refund Mechanism

- FIEO suggests govt to issue tax-free bonds to exporters
- Tax-free bonds to ensure liquidity, certainty
- MEIS refund worth RS 40,000 cr stuck since 2019
- Govt can settle MEIS claims for small exporters, issue bonds for others
- 3-yr bond can be used as collateral, offer sovereign guarantee

Last month, the government informed Parliament that as on February 26, 2021, the value of scrips issued under the MEIS is Rs 15,452.83 crore compared to Rs 39,530.45 crore in 2019-20.

India discontinued the MEIS in December 2020 after losing a dispute to Washington in 2019. The US had claimed that MEIS was non-compliant with the global trade norms. It was replaced with the Remission of Duties and Taxes on Exported Products scheme January 1, 2021 but the incentives under the new scheme are yet to be notified.

Alternatively, the government can settle the MEIS claims for small exporters while providing the aforesaid option to others. India's exports in FY21 contracted 7.3% to \$290.6 billion, while imports fell 18% to \$389.2 billion, leaving a trade deficit of \$98.6 billion.

Source: World Trade Scanner