Optii-Savr

Customs Incentive Insight

Glossary of terms

1. AA: Advance Authorization
2. BR: Brand rate/ Special Brand rate
3. EPCG: Export Promotion Capital Goods
4. EOU: Export Oriented unit
5. SEZ: Special Economic zone
6. MOOWR Unit: Unit setup in terms of Manufacturing and Other Operations Warehousing Regulations, 2019
7. AIR: All Industry rate of Duty Drawback
8. RoDTEP: Remission of Duties or Taxes on Export Products
9. IGST: Integrated Goods and Services Tax
10. EO: Export Obligation
11. NFE: Net Foreign Exchange Earnings
12. NPV: Net Present Value
13. N/A: Not Applicable
14. DTA: Domestic Tariff Area unit
15. ITCHS: Indian Trade Classification (Harmonized System)

Background

A correct strategy for business can change the financial scenarios upside down. Similarly, availing an optimum incentive scheme can change the costing and profitability of a business. Hence, in today's price sensitive market, it is imperative to consider various benefits and costs included in the day-to-day transactions to build a successful analysis tool.

We at Optitax's are a team of professionals having subject matter expertise in indirect taxation. We have developed an analysis tool which could assist in determining the optimum incentive scheme for formulating a sound strategy. We have made every attempt to include all relevant factors which can impact on the cost while deciding the feasibility.

The report indicates feasibility under an individual and combination of schemes. It is pertinent to note that **this calculation is done at a broad level and there could specifically provisions under a particular scheme which may be a critical requirement under a particular scheme and the respective taxpayer may not be eligible thereunder.**

Our findings:

We have analysed the information provided taking into consideration the relevant provisions of the respective schemes and based on our analysis (in following pages) we are of a view that **AA + EPCG & EOU & MOOWR Unit** schemes are the most viable in terms of monetary benefits, likely to be received by the user. Kindly take into consideration the merits/demerits for each of the scheme and take a considered decision.

Our analysis

Amount is in INR (lakhs)

S. No	Particulars	AA + EPCG	BR + EPCG	MOOWR Unit	EOU	SEZ Unit	AIR + EPCG
	Imported Capital Goods						
1	Duties of customs (other than IGST) saved/deferred at the time of import						
2	Duty payable at the time of EPCG redemption/removal from MOOWR unit						
3	Savings in opportunity cost of working capital of IGST deferred						
	Domestically procured capital goods						
4	AIR receivable						
5	Duties of customs (other than IGST) saved						
6	Duties of customs and interest payable at the time of EPCG redemption						
	Imported raw materials (for exports, SEZ supplies & deemed export)						
7	Savings in opportunity cost of duties of customs (other than IGST) saved/deferred at the time of import						
8	Savings in opportunity cost of working capital of IGST deferred						
9	Duties of customs (other than IGST) saved/deferred at the time of import						
	Imported raw materials (for domestic sales)						
10	Savings in opportunity cost of duties of customs (other than IGST) saved/ deferred at the time of import						
11	Savings in opportunity cost of working capital of IGST deferred						
	Domestic Raw Materials						
12	AIR receivable						
13	Duties of customs (other than IGST) saved						

S. No	Particulars	AA + EPCG	BR + EPCG	MOOWR Unit	EOU	SEZ Unit	AIR + EPCG
14	Savings in opportunity cost of working capital of IGST deferred						
	Export incentives						
15	RoDTEP receivable						
16	AIR receivable						
	SEZ specific						
17	IGST saved on cost of construction						
18	Duties of customs (other than IGST) saved on construction material						
19	Savings in opportunity cost of working capital of IGST on input services (domestic & imported)						
20	Differential duties of customs payable on domestic sales						
21	**Net Benefit of the respective option**						

Notes: Each note pertains to respective S.no above

1. The duties of customs are not creditable; hence, such an exemption is a saving in cost. In the case of a MOOWR unit, such duties are deferred, i.e., may become payable later on removal of the said capital goods from the MOOWR unit; hence it is considered as saving.
2. Where the EPCG EO is fulfilled partially till the EO period of six years is over, proportionate duties saved at the time of import are payable. We have considered that such duties are paid after seven years (i.e., one year after completion of an eligible period of six years allowed for fulfillment of EPCG EO). This amount includes the duties of customs including IGST as may be applicable plus interest. Where the EPCG EO is getting fulfilled within a prescribed period of six years the duties payable is nil. Further, in case of DTA sale of the capital goods by a MOOWR unit the duties of customs as may be applicable will become payable. We have considered NPV of such duties as a cost. In the case of EOUs and SEZs, if the NFE works out to be negative based on the projections provided by user then we have mentioned these schemes as N/A as the respective authorities of EOU or SEZ will not permit setting up of the unit under the respective schemes. Further, in case of EOUs and SEZs where the NFE is positive, and the capital goods are sold before expiry of 10 years then the duties of customs become payable on depreciated value. We have considered NPV of such duties as a cost.
3. The amount of saving is worked out considering that there is a gap of average 35 days (or the gap in days based on the information provided by the user) when the IGST otherwise would have been paid and utilized as input tax credit for discharging the monthly GST liability. The opportunity cost of working capital is considered at the rate provided by the user. Further, it also factors the growth rate and the NPV.

4. It is assumed that the SEZ unit pays consideration to the vendor in convertible foreign currency and accordingly the vendor is eligible to claim AIR at the rate of 1.5% (assumed). Please note that this AIR may vary depending on the ITCHS classification of goods.
5. The duties of customs as may be applicable are likely to be suffered by the domestic suppliers on the imported components used to manufacture such capital goods. Such duties can be neutralized by obtaining EPCG license and invalidating the same in the name of such supplier under AA+EPCG & BR+EPCG option. Such DTA supplier can neutralize duties of customs payable on imported goods used by him even for the supplies to the EOUs and SEZs. In case of the SEZ unit, both the benefits i.e., AIR mentioned *supra*, & neutralizing duties of customs by the suppliers cannot be availed simultaneously hence, it is netted off in the case of SEZ unit option. * In our view, MOOWR unit can take EPCG or Advance Authorisation to neutralize such costs. However, in absence of specific provisions the jurisdictional Customs Authorities may not agree with this view.
6. Where the EPCG EO is fulfilled partially till the EO period of six years gets over, the proportionate notional duties are payable. We have considered that such duties are paid after seven years (i.e., one year after completion of eligible period of six years allowed for fulfilment of EPCG EO). This amount includes the notional duties of customs plus interest on such duties including IGST.
7. The amount of saving is worked out considering that the upfront exemption in duties of customs availed in case of options such as AA+EPCG, MOOWR, EOU & SEZ unit would accrue savings in the opportunity cost of working capital as the raw materials imported under such schemes are converted further and then exported after a period of 60 days (or such a period as is provided by the user) from the date of import. To work out such savings the duties of customs saved **X** the opportunity cost of working capital **X** (no. of days required for conversion/ 365) for the projected period factoring growth and NPV.
8. *Same as Note 3 supra*
9. The duties of customs are not creditable; hence, such an exemption is a saving in cost. The amount of saving is worked out considering the growth rate provided by the user and for the period of project. Further, it also factors NPV of future savings at the discounting factor provided by the user.
10. The amount of saving is worked out considering that the upfront exemption in duties of customs availed in case of options such as MOOWR & SEZ would accrue savings in the opportunity cost of working capital as the raw materials imported under such schemes are converted further and then exported after at least a period of 60 days (or such a period as is provided by you) from the date of import. To work out such savings the duties of customs saved **X** the opportunity cost of working capital **X** (no. of days required for conversion/ 365) for the projection period factoring growth and NPV.
11. The amount of saving is worked out considering that there is a gap of average 35 days (or the gap in days based on the information provided by you) when the IGST otherwise would have been paid and utilization of such IGST input tax credit of discharging monthly GST liability. This saving can be availed only in this case of MOOWR, EOU & SEZ. The opportunity cost of working capital is considered at the rate provided by you. Further, it also factors the growth rate and the NPV.
12. *Same as Note 4 supra*
13. The duties of customs as may be applicable that are likely to be suffered by the domestic suppliers on the imported components used to manufacture such raw materials or components can be neutralized by obtaining AA license in case of AA+EPCG or claiming BR under the BR+EPCG option and by the EOUs and SEZs. In case of SEZ's both the benefits i.e., Duty drawback AIR mentioned above, and neutralizing duties of customs cannot be availed simultaneously hence, it is netted off in case of SEZ option. * In our view, MOOWR unit can take EPCG or Advance Authorisation to neutralize such costs. However, in absence of specific provisions the jurisdictional Customs Authorities may not agree with this view.

14. The amount of saving is worked out in case of the SEZ units, as the supplies received by SEZ units from the domestic supplies are zero rated under the GST law and therefore the SEZ unit does not suffer with the IGST on such inward supplies. The same creates opportunity to save on working capital cost considering minimum gap of average 35 days (or the gap in days based on the information provided by you) when the IGST otherwise would have been paid on such domestic procurement and utilization of IGST input tax credit for the purpose of discharging monthly GST liability. The opportunity cost of working capital is considered at the rate provided by you. Further, it also factors the growth rate and the NPV.
15. The units operating under MOOWR option presently are not entitled to RoDTEP benefit. Hence, it is shown as Nil under the said option. Please note that RoDTEP benefit is restored to the AA, EOU & SEZs units in the latest past & effective from 1 June 2025.
16. The DTA units not availing of any of the schemes such as AA, BR, MOOWR, EOU, SEZ option are entitled to duty drawback AIR benefit.
17. The said benefit is accrued only to the SEZ units. The IGST payable of construction of factory building is not entitled to be availed as input tax credit hence it becomes a cost to any given unit except SEZ unit. The SEZ units can avail of such services without suffering with the GST thereon. Similarly, the imported goods required for the construction by an SEZ unit as well can be procured without payment of the duties of customs. Accordingly, the respective amounts of GST and the duties of customs as provided by the user are saving.
18. The said benefit is accrued only to the SEZ units. The IGST payable of construction of factory building is not entitled to be availed as input tax credit hence it becomes a cost to any given unit except SEZ unit. The SEZ units can avail of such services without suffering with the GST thereon. Similarly, the imported goods required for the construction by an SEZ unit as well can be procured without payment of the duties of customs. Accordingly, the respective amounts of GST and the duties of customs as provided by the user are a saving.
19. The SEZ units can procure the imported as well as domestic input services without payment of GST. In case of other options, input tax credit of such GST is generally admissible hence, the said exemption in a way accrues only the opportunity of saving the working capital cost. The same is worked out considering the average minimum gap of 35 days (or the gap in days based on the information provided by the user) from the date of procuring such services when the IGST otherwise would have been paid on the same and utilized as input tax credit for the purpose of discharging the monthly GST liability.
20. Presently, in case of DTA sales by the SEZ units, the value on which the SEZ units are required to pay the duties of customs is the transaction value at which such goods are sold in DTA. In such a case, the SEZ unit pays the duties of customs even on the value addition made by such unit over the CIF value of imported goods. Such differential duty is considered as a cost for the said option. Further, we have also considered the growth and the NPV of such cost over a project period.
21. Please note that if the user is an existing unit other than SEZ unit, then even if the net benefits in case of SEZ unit option are higher than the other options, it may not be feasible to convert such unit into an SEZ unit. Accordingly, the second-best option/s should be considered

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Please contact us for any assistance in this regard. We are enclosing our summary profile for ease of reference

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About us: Optitax's is a boutique Indirect tax consulting firm specialising in GST (advisory/compliance) & Customs/FTP (advisory/compliance including SEZ/EOU/MOOWR, import licensing, BIS) and related representations before Trade Regulatory Authorities. Set up in 2016, we have presence in Pune, Bangalore, Mumbai, Indore & Kolkata and have associates in major cities in India.

We have a cohesive 50+ member team including senior CAs, experienced lawyers with demonstrated capability in representing before several Judicial fora, including High Courts across India. Our team includes professionals having combined experience with Customs/Excise/Service tax department and ex-big Four consulting firms, having thorough acumen in Customs and GST law. This rich breadth of experience helps us in getting thorough insight of each relevant aspect of a transaction, thus supporting our clients to take appropriate tax positions.

Our Senior Advisors have authored a book on MOOWR which gives an overview on legal provisions and compliances requirements. Optitax's has been professionally assisting clients/Industries in representations before DGFT, Ministry of Commerce, CBIC, for clarifications on trade policy matters and claiming exemptions under Customs, apart from assistance in regular trade compliance issues with statutory Authorities.

We serve clients with advisory, compliance and outsourcing services in Customs, Foreign Trade Policy and GST **(200+ plus clients turnover ranging from INR 1 crore to INR 20,000 crore, across various industries and having presence in multiple States).**