"In the textile and apparel sector, IDS gravely affects us as our input tax credits accumulate a lot," says Sudhir Sekhri, Chairman of **Trend Setters Group**, a Delhi-based apparel firm. "The government says the surplus tax paid will be refunded, but that is not happening. It was a major issue during the earlier tax regime too. The **GST** framework has not made our life any better regarding this issue as the problem continues to exist."

Many firms who are part of a supply chain of an exported product feel the IDS pinch. It is a bigger worry for **MSME** exporters, who are hugely dependent on value chain intermediaries for raw materials. Unsurprisingly, several sectors have repeatedly asked the government to fix this issue.

On May 28, the GST Council deliberated on ways to correct the IDS issue in fertilisers, steel utensils, solar modules, tractors, tyres, electrical transformers, **pharma**, textiles, fabrics and railway locomotives, among others. However, no decision seems to have been taken yet.

The Council gave priority to discussing issues such as rate cuts, says Sandeep Jhunjhunwala, Partner at Nangia Andersen LLP. "The only option now with businesses is to file representation with the GST Council or knock on the door of courts."

The obvious question is, if IDS is really so troublesome, why has the government not been able to resolve it? Because there aren't any easy solutions, experts say. It involves dealing with the complex manufacturing value chain, where each raw material is a part of a bigger chain. Disrupting such an integrated system can create havoc.

The issue of IDS has been on the agenda of several GST Council meetings, says a **finance** ministry official on condition of anonymity. "However, because of the devastating effects of the pandemic, especially the second wave, the GST Council,

Inverted duty structure is particularly troublesome for exporters.

Under the GST framework, an exporter can file for tax refund in two ways: On payment of tax on exports, or by not paying tax on goods exported under bond or letter of undertaking route but claiming refund of unutilised input tax credit. Another form of refund is the inverted duty structure wherein a registered beneficiary who accumulates input tax credit on account of an IDS (18% paid on inputs but 12% payable on outward supplies) can file for a refund of the rate differential (6%, in this case).

Exporters qualifying for IDS refund now face a peculiar situation. They can either file for a refund on GST paid on exports or file for refunds on account of inverted duty structure. The law restricts exporters from claiming both. So, in a situation wherein the inputs remain taxed at 18% and GST paid on exports at 12%, the exporter will be entitled to a refund of 12%. "However, the issue here is his inputs have already been taxed at 18%, so he is bound to accumulate the remaining 6%. Ideally, he should get a refund on this 6% too — as a case of an IDS — but he does not receive that as he opted for filing refunds based on his exports of finished goods, and not on the inputs used," says Jhunjhunwala.

While the law was designed to stop exporters from getting double benefits, the drafting of the law appears to have unintentionally excluded genuine exporters who qualify for both, adds Jhunjhunwala.

Then there are the troubles caused by foreign trade agreements (FTAs). Through such pacts, India gives signatory countries preferential tariff on certain finished goods. However, a domestic manufacturer of the product would be at a disadvantage as it would have to import raw materials by paying non-preferential rates. Indian companies get burdened by higher manufacturing costs, while