

## **CHAPTER 5**

### **EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME**

#### **5.00 Objective**

The objective of the EPCG Scheme is to facilitate import of capital goods for producing quality goods and services and enhance India's manufacturing competitiveness.

#### **5.01 EPCG Scheme**

- (a) EPCG Scheme allows import of capital goods (except those specified in negative list in Appendix 5 F) for pre-production, production and post-production at zero customs duty. Capital goods imported under EPCG Authorisation for physical exports are also exempt from IGST and Compensation Cess upto 31.03.2020<sup>1</sup> only, leviable thereon under the subsection(7) and subsection (9) respectively, of section 3 of the Customs Tariff Act, 1975 (51 of 1975), as provided in the notification issued by Department of Revenue. Alternatively, the Authorisation holder may also procure Capital Goods from indigenous sources in accordance with provisions of paragraph 5.07 of FTP. Capital goods for the purpose of the EPCG scheme shall include:
- (i) Capital Goods as defined in Chapter 9 including in CKD/SKD condition thereof;
  - (ii) Computer systems and software which are a part of the Capital Goods being imported;
  - (iii) Spares, moulds, dies, jigs, fixtures, tools & refractories; and
  - (iv) Catalysts for initial charge plus one subsequent charge.
- (b) Import of capital goods for Project Imports notified by Central Board of Excise and Customs is also permitted under EPCG Scheme.
- (c) Import under EPCG Scheme shall be subject to an export obligation equivalent to 6 times of duties, taxes and cess saved on capital goods, to be fulfilled in 6 years reckoned from date of issue of Authorisation. Authorisation shall be

valid for import for 18 months from the date of issue of Authorisation. Revalidation of EPCG Authorisation shall not be permitted.

- (d) In case Integrated Tax and Compensation Cess are paid in cash on imports under EPCG, incidence of the said Integrated Tax and Compensation Cess would not be taken for computation of net duty saved provided Input Tax Credit is not availed.
- (e) Deleted.
- (f) Deleted.
- (g) Import of items which are restricted for import shall be permitted under EPCG Scheme only after approval from Exim Facilitation Committee (EFC) at DGFT Headquarters.
- (h) If the goods proposed to be exported under EPCG authorisation are restricted for export, the EPCG authorisation shall be issued only after approval for issuance of export authorisation from Exim Facilitation Committee at DGFT Headquarters.

## 5.02 Coverage

- (a) EPCG scheme covers manufacturer exporters with or without supporting manufacturer(s), merchant exporters tied to supporting manufacturer(s) and service providers. Name of supporting manufacturer(s) shall be endorsed on the EPCG Authorisation before installation of the capital goods in the factory / premises of the supporting manufacturer (s). In case of any change in supporting manufacturer (s) the RA shall intimate such change to jurisdictional Customs Authority of existing as well as changed supporting manufacturer(s) and the Customs at port of registration of Authorisation.
- (b) Export Promotion Capital Goods (EPCG) Scheme also covers a service provider who is designated / certified as a Common Service Provider (CSP) by the DGFT, Department of Commerce or State Industrial Infrastructural Corporation in a Town of Export Excellence subject to provisions of Foreign

Trade Policy/Handbook of Procedures with the following conditions:-

- (i) Export by users of the common service, to be counted towards fulfillment of EO of the CSP shall contain the EPCG Authorisation details of the CSP in the respective Shipping bills and concerned RA must be informed about the details of the Users prior to such export;
- (ii) Such export will not count towards fulfillment of specific export obligations in respect of other EPCG Authorisations (of the CSP/User); and
- (iii) Authorisation holder shall be required to submit Bank Guarantee (BG) which shall be equivalent to the duty saved. BG can be given by CSP or by any one of the users or a combination thereof, at the option of the CSP.

### **5.03 Actual User Condition**

Imported capital goods shall be subject to Actual User condition till export obligation is completed and EODC is granted.

### **5.04 Export Obligation (EO)**

Following conditions shall apply to the fulfillment of EO:-

- (a) EO shall be fulfilled by the authorisation holder through export of goods which are manufactured by him or his supporting manufacturer / services rendered by him, for which the EPCG authorisation has been granted.
- (b) EO under the scheme shall be, over and above, the average level of exports achieved by the applicant in the preceding three licensing years for the same and similar products within the overall EO period including extended period, if any; except for categories mentioned in paragraph 5.13(a) of HBP. Such average would be the arithmetic mean of export Performance in the preceding three licensing years for same and similar products.
- (c) In case of indigenous sourcing of Capital Goods, specific EO shall be 25% less than the EO stipulated in Para 5.01.

- (d) Shipments under Advance Authorisation, DFIA, Drawback scheme or reward schemes under Chapter 3 of FTP; would also count for fulfillment of EO under EPCG Scheme.
- (e) Export shall be physical export. However, supplies as specified in paragraph 7.02 (a), (b), (e), (f) & (h) of FTP shall also be counted towards fulfillment of export obligation, along with usual benefits available under paragraph 7.03 of FTP.
- (f) EO can also be fulfilled by the supply of ITA-I items to DTA, provided realization is in free foreign exchange.
- (g) Royalty payments received by the Authorisation holder in freely convertible currency and foreign exchange received for R&D services shall also be counted for discharge under EPCG.
- (h) Payment received in rupee terms for such Services as notified in Appendix 5D shall also be counted towards discharge of export obligation under the EPCG scheme.

#### **5.05 Deleted**

#### **5.06 LUT/Bond/BG in case of Agro units**

LUT/Bond or 15% BG as applicable, may be furnished for EPCG authorisation granted to units in Agri-Export Zones provided EPCG authorisation is taken for export of primary agricultural product(s) notified or their value added variants.

#### **5.07 Indigenous Sourcing of Capital Goods and benefits to Domestic Supplier**

A person holding an EPCG authorisation may source capital goods from a domestic manufacturer. Such domestic manufacturer shall be eligible for deemed export benefits under paragraph 7.03 of FTP and as may be provided under GST Rules under the category of deemed exports. Such domestic sourcing shall also be permitted from EOUs and these supplies shall be counted for purpose of fulfilment of positive NFE by said EOU as provided in Para 6.09 (a) of FTP.

#### **5.08 Calculation of Export Obligation**

In case of direct imports, EO shall be reckoned with reference to actual duty saved amount. In case of domestic sourcing, EO shall be reckoned with reference to notional Customs duties saved on FOR value.

### **5.09 Incentive for early EO fulfillment**

With a view to accelerating exports, in cases where Authorisation holder has fulfilled 75% or more of specific export obligation and 100% of Average Export Obligation till date, if any, in half or less than half the original export obligation period specified, remaining export obligation shall be condoned and the Authorisation redeemed by RA concerned. However no benefit under Para 5.21 of HBP shall be permitted where incentive for early EO fulfillment has been availed.

### **5.10 Reduced EO for Green Technology Products**

For exporters of Green Technology Products, Specific EO shall be 75% of EO as stipulated in Para 5.01. There shall be no change in average EO imposed, if any, as stipulated in Para 5.04. The list of Green Technology Products is given in Para 5.29 of HBP.

### **5.11 Reduced EO for North East Region and Jammu & Kashmir**

For units located in Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Jammu & Kashmir, specific EO shall be 25% of the EO, as stipulated in Para 5.01. There shall be no change in average EO imposed, if any, as stipulated in Para 5.04.

### **5.12 Post Export EPCG Duty Credit Scrip(s)**

- (a) Post Export EPCG Duty Credit Scrip(s) shall be available to exporters who intend to import capital goods on full payment of applicable duties, taxes and cess in cash and choose to opt for this scheme.
- (b) Basic Customs duty paid on Capital Goods shall be remitted in the form of freely transferable duty credit scrip(s), similar to those issued under Chapter 3 of FTP.

- (c) Specific EO shall be 85% of the applicable specific EO under the EPCG Scheme. However, average EO shall remain unchanged.
- (d) Duty remission shall be in proportion to the EO fulfilled.
- (e) All provisions for utilization of scrips issued under Chapter 3 of FTP shall also be applicable to Post Export EPCG Duty Credit Scrip(s).
- (f) All provisions of the existing EPCG Scheme shall apply insofar as they are not inconsistent with this scheme.

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<sup>i</sup> Para 5.01(a) amended vide Notification no. 57/2015-20 dated 20.03.2019