



# Export Promotion Capital Goods Scheme (EPCG)

## EXIM MANAGEMENT SERVICES

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OUR BRANCHES – MUMBAI, NASIK & AHMEDABAD



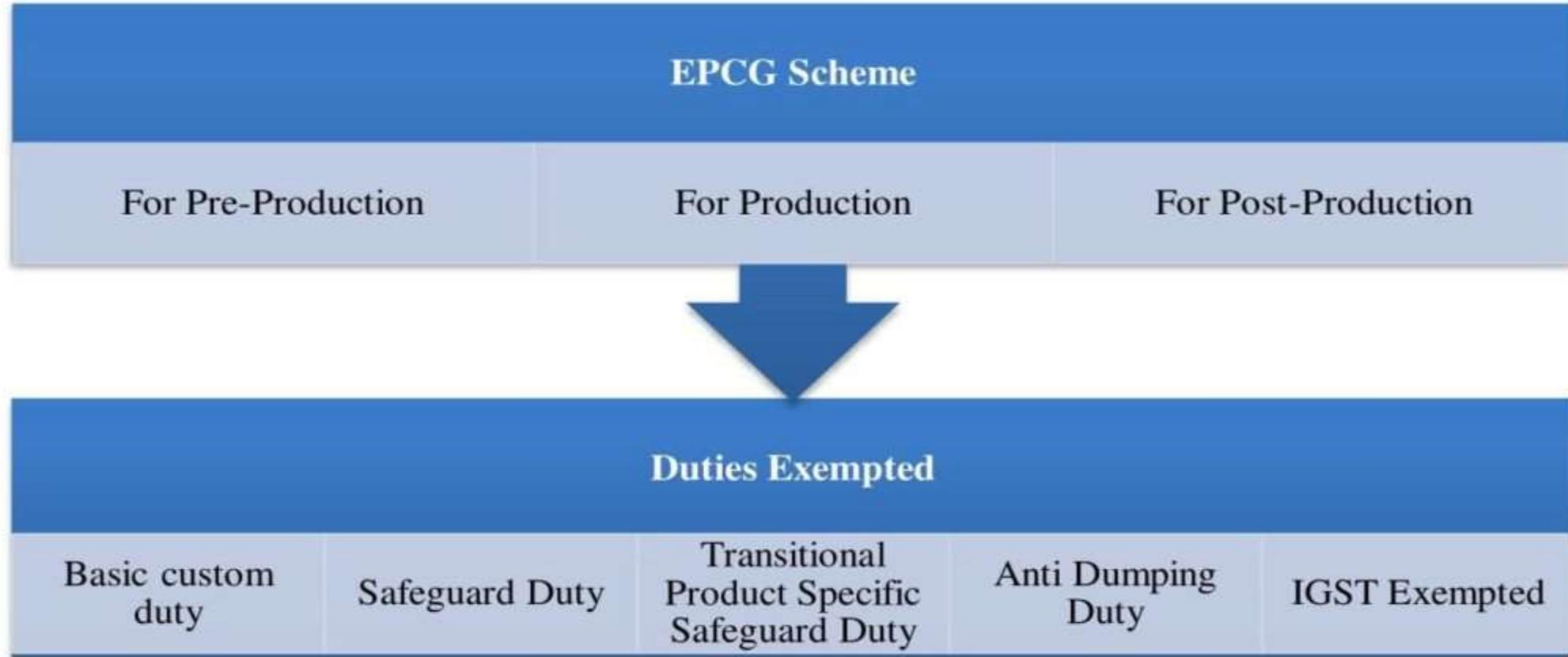


## Export Promotion Capital Goods Scheme - Overview

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In one line, the Export Promotion Capital Goods Scheme (EPCG Scheme) can be explained as “Duty-Free (Zero Customs Duty) Import of Capital Goods/Machinery for the manufacture of products meant for Export.” The Capital Goods may be used for production, pre-production & post-production stages of goods. This scheme is also known as zero duty EPCG scheme. We are all well aware of the heavy custom duties companies have to pay on the Capital machinery imported for the production requirements, due to which businessmen usually do not import them and compromise with the quality of the goods. The higher the price of the Machinery used to be, the higher the custom duty was, and this functionality started affecting the competitiveness and quality of manufacturing industries deeply. To improve this situation, The Government of India came up with a scheme where it was allowed to import capital goods at zero customs duty. EPCG Scheme was introduced by the Government of India to facilitate the Import of Capital Goods/Machinery for producing high-quality goods and services. The main aim of the EPCG Scheme is to improve India’s competitiveness in the manufacturing sector.





*EPCG Scheme*



## Under the EPCG Scheme, below are the Type of Capital Goods / Machinery eligible for Import

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- All the capital goods, including semi-knocked down and complete, knocked down conditioned goods.
- All the software and computer systems included in the capital goods that are imported.
- Moulds, spares, jigs, dies, tools, fixtures, and refractories.
- Catalysts for initial charge along with one subsequent charge.

As per para 9.08 of FTP 2015-20, “Capital Goods” are defined as “any plant, machinery, equipment or accessories required for manufacture or production, either directly or indirectly, of goods or for rendering services, including those required for replacement, modernization, technological up-gradation or expansion. It includes packaging machinery and equipment, refrigeration equipment, power generating sets, machine tools, equipment, and instruments for testing, research and development, quality, and pollution control. Capital goods may be for use in manufacturing, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture, and viticulture as well as for use in the services sector.”



## What is the benefit of EPCG License, and who can apply for the EPCG scheme

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The main benefit of the EPCG Scheme is importing capital goods with zero customs duty.

### ❖ Eligibility Criteria for applying under EPCG Scheme-

Benefits under EPCG Scheme can be applied by any Exporter irrespective of his turnover. EPCG License can be issued to the following category of Exporters:

- Manufacturer Exporter.
- Merchant Exporter with a supporting manufacturer.
- Service Provider (who is exporting services) For Example. Hotel Industry.

### ❖ Duties Exempted under EPCG Scheme-

Capital Goods under EPCG Scheme can be imported at zero customs duty. However, it must be noted that IGST and Compensation Cess is exempted only up to 31.03.2021. The Government may extend the date through a notification issued from time to time. Capital Goods under EPCG Scheme can also be procured from indigenous sources (i.e., from domestic suppliers). In such cases, applicable GST for the supply would be exempted.

### ❖ Indigenous Sourcing of Capital Goods-

The Exporter can also indigenously procure capital goods from a domestic manufacturer. Such domestic manufacturers shall be eligible for deemed export benefits under paragraph 7.03 of FTP.



## 1. EPCG scheme for Manufacturer Exporters

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Manufacturer Exporter is eligible to apply for EPCG License. But Capital Goods imported under EPCG scheme comes with an actual user condition till the export obligation is completed. It means that the capital goods cannot be sold or transferred until the obligation is completed.



## 2. EPCG scheme for Merchant Exporters

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Merchant Exporter tied with supporting manufacturer is eligible to apply for EPCG License. Supporting Manufacturer's Name and his factory address where the capital goods are proposed to be installed should be endorsed on the EPCG License. Merchant exporter while discharging his export obligation should indicate the name & address of supporting manufacturer in all his shipping documents i.e. Shipping bill, Custom Invoice etc.



### 3. EPCG scheme for Service Providers

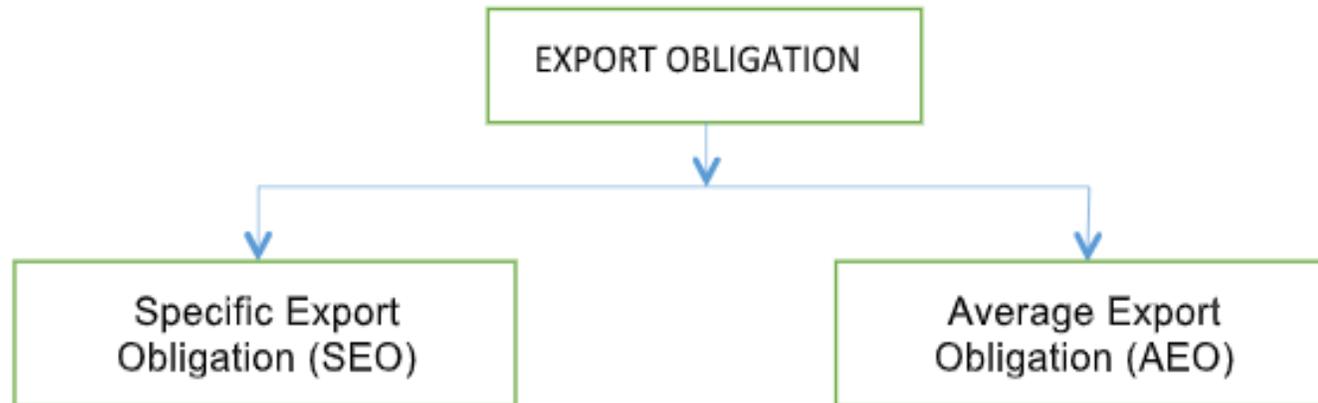
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The Service provider is also eligible to apply for EPCG License. Various service exporters can take EPCG License to reduce capital cost. Service Exporter like Hotels, Tour Operators, Taxi Operators, Logistics Companies, Construction Companies can utilize the EPCG Scheme by importing / procuring domestically capital goods duty-free.

## Export Obligation under EPCG scheme

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Export Obligation under EPCG Scheme is of two types i.e. Average Export Obligation & Specific Export Obligation.





## Export Obligation under EPCG scheme

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### *Export obligation under EPCG Scheme*

- Export Obligation under EPCG Scheme should only be fulfilled by the export of goods manufactured from the Imported/Domestically procured Machinery.
- What is the Average Export Obligation under EPCG scheme? – It is the most important of the two export obligation under the EPCG Scheme. It basically means that the Average turnover maintained in the past 3 years before obtaining the license should be maintained for each FY until the specific export obligation is completed. It is imposed with a view that after upgradation and induction of new machinery, the overall export should not fall below the past average of turnover achieved i.e., there should be a rise in the export turnover with the help of new machinery. It is to be maintained over and above the specific export obligation.
- What is Specific Export Obligation under EPCG scheme? – Goods manufactured from the imported machinery to be exported worth 6 times of the duties, taxes, and cess saved on the capital goods within 6 years from the date of issue of EPCG Authorization. In the case of indigenous sourcing of Capital Goods, specific EO shall be 25% less than the above Export Obligation.



## Export Obligation under EPCG scheme

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- If the required Export Obligation is not fulfilled in 6 years, one extension of 2 years can be obtained, based on case to case basis. If the EPCG Authorization holder fails to achieve the Export Obligation (even after extension), the Organization has to pay all the Custom Duties, Cess, taxes, saved plus 15% annual interest to the Customs Authority.
- The Export obligation can be fulfilled by direct exports, deemed exports, supply to SEZ, EOU Units, etc., Third Party exports, service exports in case of service providers.

**Note:** If the EPCG License holder intends to pay the IGST & Compensation Cess while importing, then the net duty saved amount would be reduced accordingly, which will, in turn, reduce the obligation. However, this facility can only be availed on the condition that tax credit of IGST will not be taken by the Exporter.

## EPCG License procedure – How the EPCG Scheme works?

1. Import of Capital Goods has to be completed within 18 months of obtaining the EPCG License. The Revalidation of EPCG Authorization will not be permitted.
2. At the time of Import, a bond or bank guarantee has to be executed with customs authorities, as per applicable provisions.
3. After the Installation of the Capital Goods, it is mandatory to obtain the installation Certificate of the imported Machinery by an independent Chartered Engineer, and the same has to be submitted to DGFT.
4. In order to incentivize fast-track exporters, if 75% of Specific Export obligation & 100% average export obligation is fulfilled in half or less than half of the export obligation period, than the remaining obligation shall be condoned and the EPCG License shall be closed by the concerned authorities.
5. After completion of export obligation, a redemption letter has to be obtained from the concerned regional authority of DGFT.





## How to apply for an EPCG License online?

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The Applicant should submit an online application to DGFT to get EPCG License.  
Please find steps below:

- Visit the DGFT Official Website- [www.dgft.gov.in](http://www.dgft.gov.in)
- Login with DSC -> Select Services -> Online E-com Application
- Click on EPCG (0%)
- Fill all the details and upload the necessary documents.
- Kindly note that the following important points to be noted to make sure the documents are prepared error-free:
  - IEC/RCMC should show the applicant as a manufacturer exporter.
  - IEC/RCMC should have the address where the machine is proposed to be installed.
  - MSME/SSI/Manufacturing proof should have the export products listed in the EPCG License.
- After filling all the details, submit the application.
- After a successful application, DGFT will issue the EPCG License.



## Documents required to obtain EPCG license from DGFT.

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The following documents will be required for EPCG Online Application:

1. Pro forma Invoice/Purchase order of the Capital Goods/Machinery.
2. Copy of IEC, RCMC, MSME & Central excise registration & GST Certificate.
3. Details of Capital Goods sought to be imported with HSN code/Name, Model Number, and Technical Description.
4. List of Products to be exported using the above machinery with HSN code.
5. Chartered Engineer Certificate showing the nexus between the Capital Goods and the products to be exported.
6. CA Certificate indicating the last three financial year turnover in USD & INR only for the above mentioned Export Products.
7. Factory Address where the machine will be installed.
8. Stepwise Process/Flow Chart indicating the stages where the capital goods are to be used.
9. End-use of Capital Goods for Export products and stage where and how to be used. (Detailed Explanation)



# Thank You

Please visit us at <http://eximmanagementservices.com/>

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