

Tax Liability on Goods Removed but Not Exported - An Analysis of Rule 96A

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Introduction

Over the years, globalization has reshaped the way nations view their economies. Borders have become less restrictive to trade, and exports have emerged as the true lifeline of growth. Countries now realize that the key to prosperity lies not merely in producing goods and services but in ensuring they reach global markets. Exports also play a crucial role in maintaining a country's foreign exchange balances. This understanding underscores a simple yet powerful principle: 'export the product, not the tax'.

Recognizing this, governments around the globe strive to encourage exports by exempting them from domestic taxes and duties, while simultaneously introducing various incentive schemes to encourage exporters.

India too has aligned itself with this global approach. The Integrated Goods and Services Tax Act, 2017 ("**IGST Act**") provides for exports to be treated as **zero-rated supplies**[\[1\]](#). Under this framework, **exporters are permitted to export goods or services, or both, without payment of integrated tax, subject to furnishing a bond or a Letter of Undertaking ("LUT")** [\[2\]](#). In such cases, while no tax is charged on the outward supply, the taxes paid on inputs used for making the exports often remain unutilized in the form of accumulated Input Tax Credit ("**ITC**"). To address this, the law allows exporters to claim a refund of such unutilized ITC.[\[3\]](#)

Against this backdrop, this article seeks to examine specific scenarios where an exporter undertakes exports without payment of integrated tax under a bond or LUT, particularly in

the context of the obligations and implications laid down under Rule 96A of the Central Goods & Services Tax Rules, 2017 (“**CGST Rules**”).

Rule 96A of the CGST Rules: Export of goods or services under bond or Letter of Undertaking

Rule 96A allows any person to export goods or services without payment of IGST, provided a **Bond** or **LUT** is furnished with the GST authorities.^[4] However, the exporter must comply with certain timelines as provided in said Rule 96 of the CGST Rules. If these timelines are not met, the exporter becomes liable to pay the applicable tax along with interest^[5]. The timelines^[6] are as follows:

A. For export of goods – The goods have to be exported within 3 months from the date of the invoice for exports. If not, IGST has to be paid within 15 days after the expiry of this 3-month period.

For e.g., an exporter of FMCG products issues an invoice for export of certain biscuits under a LUT on **1st Jan 2025**. Now, if the said biscuits are not exported out of India by **1st April 2025**, the exporter will be liable to pay IGST by **15th April 2025**.

B. For export of services – The payment for services has to be received in convertible foreign exchange or Indian rupees (as permitted by the RBI under FEMA, 1999) within 1 year from the date of the invoice, or within any extended period allowed by the Commissioner. If payment is not received within this period, IGST has to be paid within 15 days from the expiry of the permitted timelines.

For e.g., an exporter of certain consulting services issues an invoice on **1st January 2025** for export of services. The exporter has opted for export without payment of GST under LUT. In such a case, payment has to be received by **1st January 2026**. In case, the payment is not received by the said date, IGST has to be paid by **15th January 2026** (unless the Commissioner allows an extension).

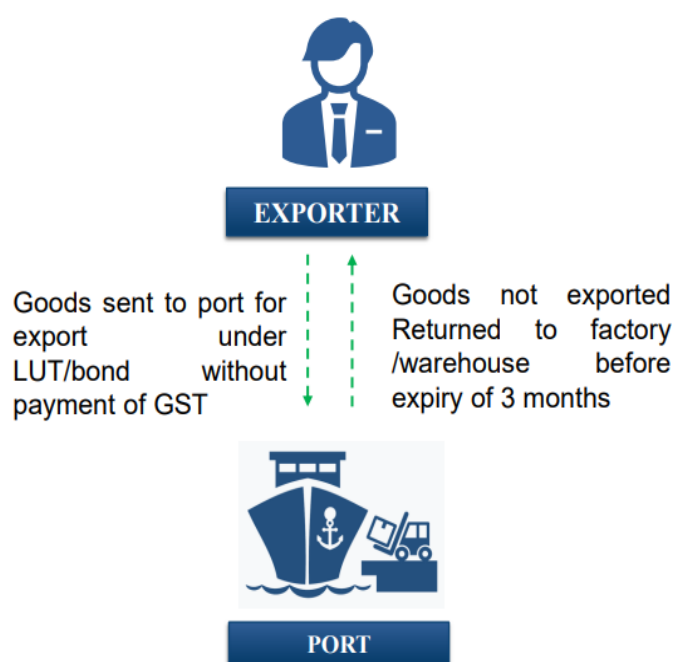
With the introduction of the said Rule 96A, the Government has achieved dual objectives with respect to promoting exports in India. On one hand, by allowing exports without payment of tax, the Government has ensured that the exporters’ working capital is not blocked. On the other hand, to ensure that the interest of revenue is not jeopardized, the Government requires exporters to **pay IGST** only if goods are not exported or export proceeds are not realised within the timelines provided in Rule 96A of the CGST Rules. [This careful balance between facilitation of trade and protection of revenue is central to the legislative intent underlying Rule 96A of the CGST Rules.](#)

Cases where Goods are not exported out of India and returned back to factory

Given the above background, let us proceed to analyse the application of Rule 96A in

certain circumstances.

Consider an exporter of textile products who dispatches an export consignment to the Mumbai port for export to California, United States. The supply is made under a bond without payment of integrated tax in terms of Section 16 of the IGST Act read with Rule 96A of the CGST Rules. The export invoice for the same has been raised for the purposes of GST. However, before the goods could be exported, the United States imposed an additional tariff on textile imports in the United States, which led to the cancellation of the export order.



Scenario 1

Facts:

Supposedly, the exporter sent the consignment to the Indian port for export to California, US under a bond on 1st June 2025.

However, before the said consignment could be exported, the export order was cancelled and on 20th August 2025, the exporter arranged for the goods to be brought back from the port to its warehouse/factory i.e., within the 3 month period.

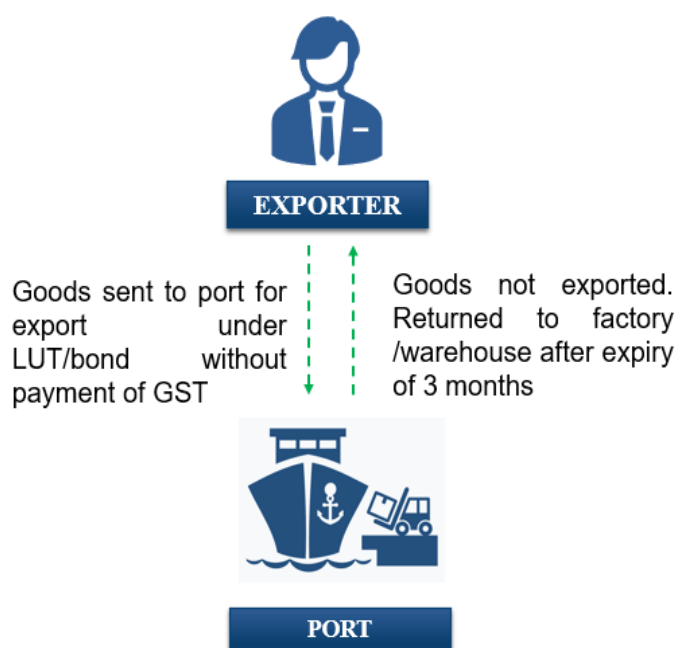
Issues:

- Whether the exporter will be liable to pay GST along with interest on return of the consignment?
- What shall be the procedure for return of consignment in such situation of no exports?

Our view:

It is pertinent to note that the liability to pay tax and interest under Rule 96A gets triggered only if the goods are not exported within 3 months from the date of the export invoice and continue to remain uncleared beyond that period. Consequently, if the goods are brought back by the exporter before the expiry of the 3-month period, no liability to pay integrated tax or interest should arise.

The goods can be brought back to the warehouse/factory under the cover of a delivery challan^[7] and an e-way bill. A credit note can also be issued to nullify the sales under the export invoice.



Scenario 2

Facts:

Now, supposedly, the same textile exporter arranged for the goods to be brought back from the port to its warehouse/factory on 2nd September 2025 i.e., after expiry of 3 months from the date of issuance of an invoice

Issues:

- Whether the exporter will be liable to pay GST along with interest on return of consignment?

Our view:

In this situation, the exporter brings the goods back to his factory due to his inability to export. The said goods are made available to the exporter to export to another party or to sell in the domestic market. When such goods are sold in the domestic market, the exporter will pay the applicable GST. Alternatively, when the exporter exports the goods to another party at a later date, the export compliances will be undertaken afresh by the

exporter. In such circumstances, can Rule 96A bind the exporter to pay IGST for violation of Rule 96A of the CGST Rules?

On a literal reading of Rule 96A of the CGST Rules, it seems that IGST becomes payable. This gives rise to the anomalous situation of double taxation on the same goods, firstly, when the liability under Rule 96A arises due to non-export, and secondly, when the goods are eventually sold domestically. This does not seem to be the intention of the law.

This is coupled with the fact that GST is a levy on “supply”. The mere act of return of goods from the port to the exporter’s premises does not constitute a supply in itself. In such a case, [imposing tax liability solely on the basis of non-export after three months may appear to extend beyond the foundational principle of the GST framework i.e., tax is attracted only upon the incidence of supply](#). This raises a larger interpretational question i.e., whether a rule made by Government can go beyond what is prescribed in any Act.

Concluding Remarks

After examining Rule 96A of the CGST Act, we are of the view that the questions raised herein invites for a closer examination of how Rule 96A of the CGST Rules operate, and as to how the said rule should be harmoniously construed with the basic tenets of the GST law. Should it be read strictly and literally, thereby creating liability even in cases of mere non-export, or should it be interpreted purposively so that its application does not override the principle that tax can only be levied on a “supply” as contemplated under the Act? The answers to these questions are crucial, not only to resolve the apparent anomaly of double taxation but also to ensure that subordinate legislation does not travel beyond the scope of the parent statute.

This issue assumes particular significance in the present global trade environment, especially in light of the recent restrictions and additional tariffs imposed by the United States on imports from India. In these circumstances, Rule 96A of the CGST Rules places exporters in a precarious position. While the rule is designed to ensure that export benefits are not misused, its strict application could result in unintended consequences.

[1] Integrated Goods and Service Tax Act, 2017, § 16(1)(a).

[2] Integrated Goods and Service Tax Act, 2017, § 16(3).

[3] *Id.*

[4] Central Goods and Service Tax Rules, 2017, Rule 96A(1).

[5] Central Goods and Service Tax Act, 2017, § 50(1).

[6] *Supra*, Note 4.

[7] Central Goods and Service Tax Rules, 2017, Rule 55.