CUSTOMS, EXCISE AND SERVICE TAX APPELLATE TRIBUNAL
CHENNAI

REGIONAL BENCH – COURT No. I

1. Service Tax Appeal No. 40749 of 2017

(Arising out of Order-in-Appeal No. CMB-CEX-000-APP-23-2017 dated 21.02.2017 passed by Commissioner of Central Excise and Service Tax (Appeals-I), 6/7, A.T.D. Street, Race Course Road, Coimbatore – 641 018)

M/s. AKR Textile **...Appellant**
No. 52, Kumar Nagar,
Valayankadu Main Road,
Tirupur – 641 603.

Versus

Commissioner of GST and Central Excise **...Respondent**
Coimbatore Commissionerate,
No. 6/7, A.T.D. Street,
Race Course Road,
Coimbatore – 641 018.

With

2. Service Tax Appeal No. 40755/2017 (M/s. Poppys Knitwear Pvt. Ltd.)
3. Service Tax Appeal No. 41228/2017 (M/s. N.S.P. Knitting Mills)

APPEARANCE:

For the Appellants : Ms. Nivithra S., Advocate
Ms. Ieswarya N., Advocate
For the Respondent : Ms. O.M. Reena, Authorised Representative

CORAM:
HON'BLE MR. VASA SESHAGIRI RAO, MEMBER (TECHNICAL)
HON'BLE MR. AJAYAN T.V., MEMBER (JUDICIAL)

FINAL ORDER Nos. 41167-41169 / 2026

DATE OF HEARING : 31.07.2026
DATE OF DECISION : 04.11.2026

Per Mr. VASA SESHAGIRI RAO

The present three appeals, namely Service Tax Appeal No. ST/40755/2017 filed by M/s. Poppys Knitwear Pvt. Ltd., Service Tax Appeal No. ST/40749/2017 filed by

M/s. AKR Textile and Service Tax Appeal No. ST/41228/2017 filed by M/s. N.S.P. Knitting Mills, arise from orders passed by the Commissioner (Appeals), Coimbatore, on substantially identical facts and involve a common question concerning Service Tax liability on charges deducted by foreign banks from export proceeds. They are, therefore, taken up together and disposed of by this common order. For convenience, M/s. Poppys Knitwear Pvt. Ltd., M/s. AKR Textile and M/s. N.S.P. Knitting Mills shall hereinafter be referred to as "the appellants" individually or collectively, as the context may require, and the respective Orders-in-Appeal shall hereinafter be referred to as "the impugned orders".

2. The facts, briefly stated, are that the appellants, namely M/s. Poppys Knitwear Pvt. Ltd., M/s. AKR Textile and M/s. N.S.P. Knitting Mills, are manufacturers and exporters of knitted garments and received export sale proceeds through banking channels. The Department treated the charges deducted by foreign banks while transmitting the export proceeds as consideration for "Banking and Other Financial Services" received by the appellants and, accordingly, raised Service Tax demands under the reverse charge mechanism. In the case of Poppys Knitwear Pvt. Ltd., a demand of Rs.2,61,420/- was confirmed under Order-in-

Original No.07/2016-ST dated 11.07.2016; in the case of AKR Textile, a demand of Rs.51,227/- for the period 01.04.2014 to 31.03.2015 was confirmed under Order-in-Original No.26/2016-ST dated 23.11.2016; and in the case of N.S.P. Knitting Mills, a demand of Rs.19,89,043/- for 2013-14 was confirmed under Order-in-Original No.57/2016-ADC dated 31.03.2016, in each case together with applicable interest and penalties. The respective Commissioner (Appeals) upheld the adjudication orders by Order-in-Appeal No.23/2017 dated 21.02.2017, Order-in-Appeal No.23/2017 dated 21.02.2017 and Order-in-Appeal No.CMB-CEX-000-022-2017 dated 08.03.2017, respectively. Aggrieved by the respective impugned orders, the appellants are before this Tribunal in Appeal. The particulars of the appeals are as follows: -

Appellant	**Appeal No.**	**Period**	**Order-in-Original**	**Demand confirmed**	**Interest**	**Penalties imposed**	**Impugned Order-in-Appeal**
M/s. Poppys Knitwear Pvt. Ltd.	ST/40755/2017	2013-14 & 2014-15	OIO No. 07/2016-ST dated 11.07.2016	₹2,61,420/-	Under Section 75	₹2,61,420/- under Section 78; ₹10,000/- under Section 77(1)(a); ₹10,000/- under Section 77(2); penalty under Section 76 dropped	OIA No. 21/2017 dated 21.02.2017
M/s. AKR Textile	ST/40749/2017	2014-15	OIO Sl. No. 26/2016-ST dated 23.11.2016	₹51,227/-	Under Section 75	₹5,120/- under Section 76; ₹10,000/- under Section 77(1)(a); ₹10,000/- under Section 77(2)	OIA No. 23/2017 dated 21.02.2017
M/s. N.S.P. Knitting Mills	ST/41228/2017	2013-14	OIO Sl. No. 57/2016-ADC dated 31.03.2016	₹19,89,043/-	Under Section 75	₹19,89,043/- under Section 78; ₹10,000/- under Section 77(1); ₹10,000/- under Section 77(2); penalty under Section 76 dropped	OIA No. CMB-CEX-000-022-2017 dated 08.03.2017

3.1 The Ld. Advocates Ms. Nivithra S. and Ms. Ieswarya N., for the appellants, submitted that the foreign bank charges deducted from export proceeds cannot be subjected to Service Tax in the hands of the exporters. It was submitted that the appellants had not engaged the foreign banks, had entered into no agreement with them, had issued no instructions to them and had received no invoice or bill from them. The foreign banks were engaged through the banking channel adopted by the overseas buyers and the export proceeds were routed through the appellants' Indian banks. There was therefore no privity of contract or service provider-service recipient relationship between the appellants and the foreign banks. The appellants relied, *inter alia*, upon *Loomtex Exports v. Commissioner of Central Excise & Service Tax, Trichy, 2014-TIOL-23-HC-MAD-ST, Paul Merchants Ltd. v. Commissioner of Central Excise, 2013 (29) S.T.R. 257 (Tri.-Del.), Eastman Exports Global Clothing Pvt. Ltd. v. Commissioner of Central Excise & Service Tax, Coimbatore, 2024 (5) TMI 417 – CESTAT Chennai and Annur Cotton Mills v. Commissioner of GST & Central Excise, Coimbatore, 2025 (5) TMI 1917 – CESTAT Chennai.*

3.2 The Ld. Counsel particularly relied upon *M/s. SKM Egg Products Export (India) Ltd. v. Commissioner of*

GST & Central Excise, Salem, 2025 (6) TMI 184 – CESTAT Chennai, and submitted that the issue was no longer res integra. It was contended that where the exporter submits the export documents to its Indian bank and the Indian bank utilises the foreign bank for collection and remittance of the export proceeds, any service rendered by the foreign bank is to the Indian bank and not to the exporter. Reliance was also placed upon *M/s. Lingeswara Creation v. Commissioner of Central Excise & Service Tax, Coimbatore, 2017 (9) TMI 1439 – CESTAT Chennai*. The appellants further relied upon Board Circular No.16/14/2012-ST dated 10.07.2012 concerning service tax on remittances and submitted that remittance of money itself is outside the ambit of "service". The common grounds also refer to the absence of any evidence showing that the foreign bank acted on the appellants' instructions.

3.3 On limitation, it was submitted that the appellants had acted under a bona fide understanding that they were not recipients of any service from the foreign banks. The relevant transactions were reflected in their books and export records and there was no suppression, wilful misstatement or deliberate intent to evade Service Tax. It was therefore submitted that the extended period

was not invocable and, consequently, interest and penalties also could not survive. The appellants relied upon, among others, *Collector v. Chemphar Drugs & Liniments, 1989 (40) E.L.T. 276 (S.C.), Padmini Products v. CCE, 1989 (43) E.L.T. 195 (S.C.), Tamil Nadu Housing Board v. CCE, 1994 (74) E.L.T. 9 (S.C.)* and *Pushpam Pharmaceuticals Co. v. CCE, 1995 (78) E.L.T. 401 (S.C.).*

4. *Per contra*, the Ld. Authorized Representative, Ms. O.M. Reena, supported the impugned orders and submitted that the charges deducted by the foreign banks while transmitting the export proceeds represented consideration for Banking and Other Financial Services received by the appellants, who were the ultimate beneficiaries of the banking facilities. It was contended that the manner of recovery of the charges, by deduction from the export proceeds rather than by separate invoicing, did not alter their taxable character. Revenue further submitted that the appellants had neither registered nor disclosed the transactions nor discharged Service Tax under reverse charge and, therefore, the extended period and penalties were rightly invoked; the lower authorities had accordingly treated the processing and remittance of export proceeds

and the related banking charges as establishing a service relationship between the foreign banks and the appellants.

5. On consideration of the rival submissions, the Show Cause Notices, Orders-in-Original, Orders-in-Appeal, grounds of appeal, the following two questions arise for determination: -

i. Whether the charges deducted by foreign banks from the appellants' export proceeds constitute consideration for taxable Banking and Other Financial Services received by the appellants, so as to attract Service Tax under the reverse charge mechanism?

ii. Whether the extended period of limitation, interest and penalties imposed upon the appellants are sustainable?

6. We now proceed to examine the question framed for determination.

Question No. (i): Whether the foreign bank charges are taxable in the hands of the appellants?

7. We note that the appellants exported garments to buyers outside India and routed the export proceeds through their respective Indian banks. The foreign banks deducted their service charges while transmitting the

proceeds to the Indian banks, and only the net amount was credited to the appellants' accounts. The question is whether such deductions represent consideration for any taxable Banking and Other Financial Service received by the appellants.

8. We also note that the mere deduction of charges from export proceeds cannot, by itself, establish that the exporter was the recipient of banking service. The appellants have consistently stated that they neither engaged nor selected the foreign banks, issued any instructions to them, entered into any agreement with them nor received any invoice or bill from them. The Department has not produced any material to establish a direct contractual or service relationship between the foreign banks and the appellants. In the case of N.S.P. Knitting Mills, the record further indicates that the foreign banks charged the Indian banks and the corresponding charges were collected from the appellant by the Indian bank.

9. We find that the issue is no longer *res integra*. In *Rogini Garments and Others v. Commissioner of Customs, Central Excise & Service Tax, Coimbatore, Final Order Nos. 41819-41832/2017 dated 29.08.2017*, the Tribunal held that

charges deducted by the foreign bank while transmitting export proceeds to the Indian bank could not be treated as consideration for services rendered to the exporter, particularly when the foreign bank was chosen by the overseas buyer and there was no direct or contractual relationship with the exporter. *Rogini Garments followed Greenply Industries Ltd. v. Commissioner of Central Excise, Jaipur-I, 2015 (38) S.T.R. 605 (Tri.-Del.) / 2015 (12) TMI 80 – CESTAT New Delhi,* where, in the absence of any document showing that the foreign bank had directly charged the exporter, the exporter was held not to be the service recipient. The same principle was reiterated in *M/s. AKR Textile and Others v. Commissioner of Central Excise & Service Tax, Coimbatore, 2020 (10) TMI 479 – CESTAT Chennai* (One of the Appellants in the case), where the Tribunal treated such deductions as bank-to-bank transactions and held the demand of Service Tax on "other financial services" to be unsustainable.

10. The same view has consistently been followed in subsequent decisions. In *SKM Egg Products Export (India) Ltd. v. Commissioner of GST & Central Excise, Salem, 2025 (6) TMI 184 – CESTAT Chennai, Annur Cotton Mills v. Commissioner of GST & Central Excise, Coimbatore, 2025 (5)*

TMI 1917 – CESTAT Chennai and *Lingeswara Creation v. Commissioner of Central Excise & Service Tax, Coimbatore, Final Order No.40564/2026 dated 05.05.2026*, the Tribunal likewise held that, in the absence of a service-provider and service-recipient relationship with the exporter, foreign-bank charges deducted during transmission of export proceeds cannot be subjected to Service Tax in the hands of the exporters.

11. Applying the above principle, the fact that the foreign banks acted in the course of the banking arrangement of the overseas buyers and transmitted the proceeds to the appellants' Indian banks assumes significance. The mere deduction of charges, which reduced the amount ultimately credited to the appellants, cannot make them the recipients of the service. The economic incidence of the charge is distinct from the identity of the service recipient, and reverse charge liability can arise only when the Department establishes that the taxable service was rendered to the person sought to be taxed.

12. We therefore find that the foundational requirement for fastening reverse charge liability upon the appellants is absent. The Department has not established

that the foreign banks were engaged by the appellants or that they rendered any taxable Banking and Other Financial Service to them. The appellants consequently cannot be treated as recipients of such service merely because charges were deducted from their export proceeds.

13. We further note that the disputed periods are subsequent to 01.07.2012. Section 66A of the Finance Act, 1994, which governed taxation of services received from outside India under the earlier regime, ceased to operate from 01.07.2012. The reverse charge mechanism thereafter operated under the provisions then in force, including Section 68(2) and the applicable notification. Since the demands fail on the substantive issue itself, it is unnecessary to examine the consequence of the reference to Section 66A in the impugned proceedings.

14. Once the substantive demand itself is unsustainable, the penalties imposed under Sections 76, 77 and 78 cannot survive. The penalties under Section 77 were consequential upon the alleged liability to obtain registration and furnish returns in respect of the disputed transactions, while the penalty under Section 78 was linked to the alleged Service Tax liability. With no Service Tax liability arising on

the foreign-bank charges, the consequential interest and penalties also cannot be sustained.

15. Consequently, the demands of Service Tax, interest under Section 75 and the penalties imposed under Sections 76, 77 and 78 in the respective proceedings are set aside.

16. Since the appeals succeed on the substantive issue itself and the demands are liable to be set aside on merits, we do not consider it necessary to examine the alternative contentions relating to limitation, including invocation of the extended period under the proviso to Section 73(1) of the Finance Act, 1994.

17. Accordingly, the impugned orders are set aside and all the appeals are allowed with consequential relief, if any, in accordance with law.

(Order pronounced in open court on 04.11.2026)

Sd/-
(AJAYAN T.V.)
MEMBER (JUDICIAL)

Sd/-
(VASA SESHAGIRI RAO)
MEMBER (TECHNICAL)

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