GST and Textile Industries

Your Business Manager Team

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Textile Industry in India – An Overview

The Textile industry contributes to 10% of Manufacturing production, 2% of GDP and 13% of total Export earnings of India. After agriculture sector Textile sector is only sector which generate huge employment in India. It continue to be second largest employment generator with over 45 million people. There are 55 SEZs in India for textile industries.

India Textile Sector (Major Contributors)

- **COTTON**
  - The consumption of cotton is 300 lakhs bales p.a which is 59% of total proportion of Indian Textile industries.

- **ORGANISED MILLS**
  - 3400 textile mills with 50 million spindles and 842000 rotors is the largest in the world.

- **POWERLOOMS**
  - Contributes 60% of total cloth production in the country.

- **HANDLOOMS**
  - 95% of the world’s hand woven fabric comes from India.

- **JUTE**
  - Supports 40 lakhs farm families and meets all standards of SAFE packaging.

- **SILK**
  - With production of 28,523 MT is world’s second largest after China.

- **HANDICRAFTS**
  - Employes more than 68 lakhs artistian and quantum contribution to export.

- **APPAREL AND GARMENTS**
  - It accounts to 42% of Textile Exports.
Current Tax Regime – An Overview

Currently Indirect Tax on Textile Sector is dissimilar and complicated across its different sub-sectors. Most of products are exempted or may charges at lower rates as textile sector subsidised with various schemes declare by central and state government. The textile industries are taxed both by central and state in following manner:

- **Excise Duty:** The tax is charged on manufacturing of goods. Cotton industries are exempted and apparels attracting excise duty at effective rate of just 1.2%. Tax payable at the time of removal of goods.
- **CST:** It is charged at the time of inter-state sale at the rate of 2%.
- **VAT:** VAT is payable at the time of every sale within the state with Input Tax Credit mechanism.
- **Entry Tax:** It is collected by state when goods are enters in state from outside for local consumption or sale.
- **Custom Duty:** Custom duty on Export is normally NIL rated. Custom Duty on Import is charged at the time of Import with CVD and other additional duties as announced from time to time.
- **Export Incentives:** Announces from time to time in the form of rebate, refund, Duty drawback, DEPB and such others.

Currently, many business of this sector are SSI or Unrecognised which do not want to join tax chain rather applies to composition scheme and hence breaks ITC chain which makes product costly. Apart, there is different treatment of Job work transaction under CENVAT and State VAT which leads to different tax base.
Goods and Service Tax – An Overview

GST is a Destination Based Tax Mechanism where taxable event will be Supply of Goods or Services. India has Dual GST structure where Central and State will both levied GST on same taxable value of Supply. For supplies within the state both CGST and SGST will be levied and supplies across states attracts IGST levied by the Central.

Every person with more than 20 Lakhs of turnover and making Inter-state supplies is labile to be register under GST.

Composition Scheme is available to person whose turnover does not exceed 50 Lakhs and who did not make any Inter-state supply (outward), no Input credit be taken and no supply is made through electronic commerce operators.

Supply of Goods will be taxable event and tax will be payable on the basis of following event:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Time of Supply</th>
</tr>
</thead>
</table>
| Supply of Goods | Earlier of the following:  
|               | Date of Issue of Invoice.  
|               | Receipt of Payment.  |
| Reverse Charge Mechanism on Supply of Goods | Earlier of the following:  
|               | Date of Issue of Invoice.  
|               | Date of Receipt of Goods.  
|               | Date following 30 days from the date of Issue of Invoice.  |

Import will attract Custom Duty and IGST, whereby one can take ITC of IGST paid at the time of export. Export and supply to SEZ will be treated as ZERO RATED supplies.

GST Council presently recommended 4 tier tax structures as follows:

- 5% - Essential Goods.
- 12% - Standard Slab.
- 18% - Standard Slab.
- 28% - Luxury and De-merit Goods. (Also attracts additional cess).

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There will be following four Acts which govern GST in India:
- The Union Territory Goods and Service Tax Act.

GST Regime will change current Business dynamics by inducement of clear ITC mechanism, Records and data capturing, and Statutory Compliance with Cross-verification trails.

The Input Tax Credit set-off will be as follows:

<table>
<thead>
<tr>
<th>TAX</th>
<th>IGST</th>
<th>CGST</th>
<th>SGST</th>
<th>UTGST</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGST</td>
<td>✓ (1)</td>
<td>✓ (2)</td>
<td>✓ (3)</td>
<td>✓ (3)</td>
</tr>
<tr>
<td>CGST</td>
<td>✓ (2)</td>
<td>✓ (1)</td>
<td>Not Allowed</td>
<td>Not Allowed</td>
</tr>
<tr>
<td>SGST</td>
<td>✓ (2)</td>
<td>Not Allowed</td>
<td>✓ (1)</td>
<td>Not Allowed</td>
</tr>
<tr>
<td>UTGST</td>
<td>✓ (2)</td>
<td>Not Allowed</td>
<td>Not Allowed</td>
<td>✓ (1)</td>
</tr>
</tbody>
</table>

* ✓ implies set-off allowed and Number in brackets implies order of set-off

GST overcomes the limitations in current Indirect Tax regime such as Multiple Taxable events, cascading effects of central and state tax. Though, GST comes with so many advantages albeit there will be increase in compliances cost as separate state wise return and accounting will be require. There will be 3 Monthly Returns on (10th, 15th, 20th day of following month) and 1 Annual Returns on before first 31st December following end of financial year.
GST IMPACT OF TEXTILE SECTOR

The most important determinant of the GST Impact on textile sector is GST Tax rates which are yet to be announced. Dr. Arvind Subramanian Committee recommended 12% standard slab of GST, still this will impact textile sector negatively. Cotton Sector which is dominating the sector will be worst effected as currently there is no Excise Duty and input are taxed at the minimal tax of 2% to 6%.

Though there will be benefit of taking credit of Input Tax paid on services which are used for furtherance of business, enjoyment of which is not available currently.

ITC chain will become more transparent due to improved and regular compliance and record keeping thus there will be decrease in Input Cost.

The administrative and compliance cost will increase many fold because of:
- Increase in Business Registration.
- Monthly 3 Returns and One Annual Return submission state-wise.
- E-way bill generation even in intra-state for movement of goods more than 50 thousand. (proposed)
- Cost of Record and Accounting Management.
- Increase in Man-power cost.

**Other impacting points:**
- The cash transaction will significantly reduce.
- The Unrecognized / Unregister / Small business will not able to take GST advantages.
- Pre GST stock would reduce.

FOR SMOOTH GST IMPLEMENTATION PLEASE CONTACT US

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