



GST- IN TEXTILE SECTOR: AN OVERVIEW

Vandana Nautiyal

Assistant Professor, Department of Fashion Design, MIT Institute of Design, Pune.

Abstract

This paper basically overviews the current status of Indian Textile industry in terms of growth potential, Pre GST tax systems in Textile industry, GST in Textile Sector and its impact on Indian economy. Introduction of GST has a considerable amount of impact on textile sector. Though the final impact of GST can be determined only once the tax rate are finalised for textile sector but the current status after implication of GST on the current rate has been studied in this paper. GST is bringing vast changes in the textile industry of India which has been discussed in the paper.

Keywords: Goods and Service Tax (GST), Textile Sector, GST Impact.

Background

In India textile sector plays an important role in nation's growth in terms of GDP, employment generation and export earnings. The textile industry contributes to 10% of manufacturing production, 2% of India's GDP and to 13 % of the country's export earnings. With over 45 million people employed directly, the textile industry is one of the largest sources of employment generation in the country. The industry, currently estimated at around \$ 108 billion, and is expected to reach \$ 223 billion by 2021. In India Textile sector is vertically integrated from fibre generation to retailing of finished goods due to which it has tremendous growth potential both domestically and globally.

GST an Overview

GST stands for Goods and Service tax which came into effect in India on 1st July, 2017. GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, and it has replaced the taxes levied by the central and state governments. The tax rates, rules and regulations are governed by the Goods and Services Tax Council which comprises finance ministers of centre and all the states. GST simplified a slew of indirect taxes with a unified tax and is therefore expected to dramatically reshape the country's economy. This new Tax system allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility lies with a single authority to levy tax on goods and services. Exports are considered as zero-rated supply and imports is levied the same taxes as domestic goods and services adhering to the destination principle in addition to the Basic Customs Duty which is not subsumed in the GST.

Previous Tax Regime in Textile Sector

The taxation structure for textiles in the pre-GST era was primarily divided into the Central Excise duty and VAT, CST and local body taxes which were levied and collected by the states, with the overall incidence of such taxes varying across different states. This resulted in a fragmented input tax credit chain, leading to embedded taxes and cost escalations.

1. **Central Excise Duty:** The Central Government levied excise duty under the Central Excise Act, 1944. The tax was charged on the manufacture of goods which were meant for domestic consumption. Special excise duty and Additional duty of excise were also charged under the said act.
2. **Value Added Tax (VAT):** State VAT was a form of sales tax levied by the state governments on intra-state sale of goods. Most of the states in India have exempted textiles and fabrics from levy of VAT / Sales tax. Garments including textiles were being subject to lower rate of VAT / Sales tax in many states.
3. **Central Sales Tax (CST):** The Central sales Tax was levied by the Union government but collected and retained by the state governments of the originating State on inter-state sale of goods.
4. **Entry Tax:** Entry tax was an account based tax levied and collected by state governments on entry of goods into a local area for consumption, use or sale therein.
5. **Customs Duty:** It is levied by Central government on export and import of goods.

Issues in Previous Tax Regime

1. **Compliance Cost for Small Scale Business:** Small Scale Composition Taxpayer is hesitant to join Credit chain as it increases the compliance cost of engaging professional to meet their Tax obligation.
2. **No Input tax Credit:** Most of Textile tax payer used composition scheme. Where Registered Taxpayer purchases goods from composition Taxpayers, they were not eligible for Input Tax Credit, thus breaking the Input Credit chain. Input Tax credit paid on the transaction was included in the cost of the product making the product costly.



- Job Worker:** Every person who gets the goods, produced or manufactured on his account on job work, shall pay the duty liveable on such goods. Hence, it is the raw material supplier and not job worker who is liable to excise duty under old tax regime.
- Branded Goods:** Affixing of the brand name on goods amounts to manufacture and the person affixing brand name was liable to pay the excise duty.
- Treatment of Job Worker:** Job work units are treated like any other manufacturing unit with job workers paying CENVAT on processed fabrics and getting a credit of excise duty paid on their inputs i.e. grey fabrics.State VAT treated job workers under the Works Contract category, where job worker used to pay tax on the total value of goods used in processing the fabric like dyes etc. including gross profit. This leads to a difference in tax base with the CENVAT tax base being more than the State VAT tax base.
- Octroi and entry tax etc:** It increased Cascading effect thus increasing the cost.

GST In Textile Sector: The proposed GST rate structure for the textile industry takes into account the current effective incidence of tax and tries to eliminate the inefficiencies of the pre-GST structure, While protecting the end-customer from an abnormal hike in prices.

GST on Goods	STAGE			
	Fibre/ Raw	Yarn	Fabric	Apparels/ Garments
Cotton	5%	5%	5%	Sale Value>Rs. 1000: 12% Sale Value<Rs. 1000: 5%
Synthetic/ MMF	18%	18%	5%	
Silk	0%	5%	0%	
Jute	0%	0%	0%	

For Jute and Silk Articles

GST on Job Work Charges	Stages			
	Fibre	Yarn	Fabric	Garments
GST	5%	5%	18%	18%

The Key Features of the GST Regime for Textiles Are

- Cotton sector which was hitherto exempted from central taxes and liveable to VAT at the fibre and yarn stage only, has been brought into the GST net, albeit with a low rate of 5%. This will ensure availability of Input Credit to all.
- The GST rate structure is fibre neutral at the fabric stage with 5% GST on both Cotton and Synthetic/Man-made fabric, thus eliminating the inefficiencies arising out of the varied duty structures on different fibres.
- Job work charges which were hitherto exempted from service tax provided the Principal is paying Excise Duty upon clearance of goods are now liveable to GST. This will allow job-workers to avail ITC on inputs, consumables and input services. Wool, raw silk, silk waste, Khadi yarn, raw jute and processed jute except jute yarn have been exempted from GST.

Impact of GST on Textile Sector

The Final Impact of GST on textile industry could only be determined after final rates are declared for the goods. Few of the current impacts and speculations are as follows:

- Shift towards organized sector:** A substantial segment of the Indian textile industry operates under the unorganized sector. It creates a gap in the input tax credit system. If the registered taxpayers buy inputs from the unorganized sector, they can not avail input tax credit facility. GST on textile will bring a significant change in the input tax credit system and it will create an important balance between organized and unorganized sectors of the industry. In fact, GST will help the entire textile industry in shifting towards an organized sector.
- Improved compliances:** An important effect of GST would be to improve compliance. The value chain under the GST will be fully traceable. As a result, ITC claims will have to be backed by full information chain of purchases and sales. Improved compliance will automatically lead to higher revenues for any given rate as long as that rate is not excessively high.
- Increase in administrative cost:** for the textile industry as hitherto most of the activities were out of tax net.
- Input Tax Credit for Capital Goods:** Presently, Indian textile manufacturers need to pay heavy excise duty while importing capital goods. This excise duty is costly as input tax credit facility is not available under current tax laws. But with GST's launch, the excise duty will have input tax credit facility and it will decrease the total import cost for capital goods.



5. **Textile industry will be more competitive:** GST will restructure the input tax credit claiming process. It will make the entire textile industry more aggressive in the export market. In addition to this, input tax credit will be a significant step for promoting the export of textile products. It will also encourage the manufacturers to adopt cutting edge production system to develop existing products.
6. **GST will encourage the farmers:** Cotton yarn and fabrics will come under 5% GST tax slabs and it will inspire the farmers to grow ample amount of cotton more than before. The farmers will get the accurate price for their hard work. It is expected that GST on textile will create development in the entire value chain.
7. **Readymade garments will be costlier:** GST on readymade garments will create a huge difference in the current consumption. The tax slab will be 12% under GST while the present slab is 4-5% VAT and 2% excise. This higher tax slab will definitely increase the price of readymade garments for the consumers.
8. **GST on apparel:** The Indian government has decided to keep 5% GST on apparels that are below than INR 1000 and apparels beyond this price will have 12% GST rate. In India, mass consumption of apparel is generally below Rs 1000. With the increasing purchasing capacity, change in the tax system will not have an impact on the buying pattern of consumers.
9. **Transparent taxation:** In GST, textile output will be taxed and input tax credit will be rebate whether in the case of export or for domestic use making taxation transparent.
10. **Fiscal barriers for inter-state movement to be removed:** Reduce time of movement and logistic costs, stocking costs and carrying cost.

Conclusion

Introduction of GST has brought changes in the textile business of India with an overall positive impact on the sector. GST implementation is producing impetus to various reforms and policy measures envisaged by the Government for the ease of doing business and to usher India into a simple, transparent and tax friendly regime. It has simplified the old procedures by converging various complex indirect taxes into a unified platform and conjointly improving the “textile export” state of affairs of India. The compliant would notice their goods become competitive and the sector would conjointly take part in contributing to tax in addition to providing employment and other social benefits at a level higher than today’s. No doubt that GST will give India a world class tax system but all this will be subject to its rational style, timely implementation and regular follow up.

References

1. www.texmin.nic.in.
2. www.taxguru.in.
3. Goods and Services Tax and Its Impact on Indian Economy, Dr. Yogesh Kailashchandra Agrawal, IOSR Journal of Business and Management, Vol19, Issue 10.
4. http://idtcicai.s3.amazonaws.com/download/knowledgeShare1718/KS_Impact_GST_Textile_Industry2017.pdf.
5. An Impact of good & Service Tax on Indian textile industry Tanushree Gupta ,International Journal of Scientific & Engineering Research, Volume 7, Issue 12.
6. GST-A game changer for the textile sector in India Jyotsna Oberoi International Journal of Applied Research 2017; 3(7): 189-194.