GST Impact on Textiles

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GST Impact – Theme

Goodbye Cascading

Simplified Procedures

Tax Convergence

“Every Masterpiece Begins With a Drawing”
- Leonardo De Vinci
GST: Broad Framework

Central Taxes
- Central Excise
- Service Tax
- CVD/SAD
- Surcharge/Cesses
- Central Sales Tax

State Taxes
- VAT
- Purchase Tax
- Entry Tax/Octroi
- Entertainment Tax
- Luxury Tax

Tax Convergence
- Inter State Sales, Exports & Imports – IGST
- Intra State Sales – CGST + SGST

Goodbye Cascading
- IGST: IGST
- CGST: CGST
- SGST: SGST
- UTGST: UTGST
GST Impact on Cascading

Different PoS for Provision & Receipt of Output & INPUT/INPUT Services

Reversals on Non Business Use

Exempted Sectors
- Health/Education/Non GST

Loss of Credits
- Non GST

Elimination of Stranded Taxes

Removal of Exemptions

Uniform Taxation of all Transactions
- Refund of accumulated credit due to duty inversion

Cross Utilization of Credits

Wider Definition of Inputs
- Linked to furtherance of business
- Credit for construction of Plant & Machinery
GST Benefits ...

Reduction in Multiplicity
Simpler Tax System
More Efficient Neutralization of Taxes Especially for Exports
Mitigation of Cascading/Double Taxation
Development of Common Market
Reduction of Transit Time

Benefits
### Implication of GST on Textiles

- **GST Rate on Textiles**

<table>
<thead>
<tr>
<th>Item</th>
<th>GST Rate</th>
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<tbody>
<tr>
<td>Silk and Jute</td>
<td>0%</td>
</tr>
<tr>
<td>Cotton and natural fibre</td>
<td>5%</td>
</tr>
<tr>
<td>Manmade Fibre</td>
<td>18%</td>
</tr>
<tr>
<td>All categories of Yarn</td>
<td>5%</td>
</tr>
<tr>
<td>Manmade Yarn</td>
<td>18%</td>
</tr>
<tr>
<td>Fabric</td>
<td>5% - No refund of ITC accumulation</td>
</tr>
<tr>
<td>Apparels priced above Rs 1,000</td>
<td>12%</td>
</tr>
<tr>
<td>Apparels priced below Rs 1,000</td>
<td>5%</td>
</tr>
</tbody>
</table>
Implication of GST on Textiles

- The GST rate for textiles will eliminate the cascading effect of duty/taxes which will reduce the costs and improve the competitiveness of the textiles exports.

- Taxes paid on purchase and installation of capital asset and equipment can be claimed as ITC. This will encourage up-gradation and expansion of the Textile Industries with latest improved technologies.

- Compliance cost in the GST regime will be generally lower due to fewer taxes. However, textile sector being outside tax net at present will face compliance burden.

- Fiscal barriers will be removed for the movement of Textile inputs and outputs from one State to another.

- The rate of 5 per cent for cotton textiles is very progressive and will lead to the growth and development of the entire value chain.

- Job work activity under GST will be considered as service, composition scheme would not be available and tedious procedural aspects need to be complied with.
Implication of GST on Textiles

- Non Uniformity in Fibres: Difference between cotton fibre and manmade fibre in the GST Structure

- GST on textiles will not entirely remove existing tax stranding of inputs/input services/capital goods

- Credit will be available subject to matching/verification with returns filed and payments made by the supplier of goods or services
Valuation

Valuation for Supplies:

- As per Section 15 of GST Law, value of supply shall be “Transaction Value”

Stock Transfer for Sale:

- Declared value in the Invoice shall be considered as “Open Market Value” if full ITC is eligible

Draft Valuation Rules:

- **Rule 2** - Where goods are transferred from one state to another state

- **Rule 3** - Where supply of goods between the principal and his agent

Goods Supplied Through Agent

- Instead of OMV 90% of the price charged by the Agent to its unrelated customers or 110% of cost of goods supplied
Treatment of Post Sale Discounts

Section 15(3) of Central GST Law

- Transaction value shall not include any discount that may be allowed after the supply has been effected

- Such discount should be established as per the agreement and is known at or before the time of supply and specially linked to relevant invoices

- If an intimation for post-sale discounts is given before the sale is effected then whether an agreement is still needed or Pricing Circular will serve the purpose?

- One to one co-relation with each invoice may be challenge?
Return of Goods

- **Material supplied** on delivered basis / Ex works basis and customer returns goods after / before taking delivery
- **Diversion of material** from one customer to another customer on account of return/rejection (intra / inter state)
- **Accident case** – Handover to transporter within state of supplying plant/ Customer
- **Short supply** of goods
- Material supplied on **CIF / FOB basis** and customer returns goods after/before taking delivery

- **Dispatch and return** inter / intra state
- Dispatch intra state and return inter state and **vice-a-versa**
- Return within/beyond **6 months**
- **Full / partial** return of goods
Return of Goods

Section 12 (2) of GST Law, Taxable Events Shall be the Earliest of the Following

- The date on which the goods are removed
- The Date on which the supplier issues the invoice
- The Date on which the supplier receives the payment

Tax is Payable on Receipt of Advance Against Supplies. Few Scenario Where Advance Can be a Big Challenge

1. Advance received is lower /more/equal than Invoice value
2. Security deposit subsequently adjusted as advance
3. Credit balance on account of discount is treated as money received for future supply
4. Destination of supply and origination of supply is not ascertainable at the time of receipt of advance
5. After supply against advance excess amount lying to be refunded to customer
6. After receipt of advance customer instructs to supply to his location having different registration in same state or different state
Requirement for robust IT infrastructure for submission of exhaustive information viz. invoice wise / HSN code wise details, matching of documents for Input tax credit etc.

If supplier is unregistered, recipient required to pay GST under reverse charge

Capital goods not excluded for reversal of Input tax credit, if used for taxable and non-taxable supplies

To retain Input tax credit it is necessary that supplier makes the tax payment, in the absence Input tax credit to be reversed with interest

No visualization for extension of tax benefits to STPs & EOUs

Key Concerns

Goods and Services Tax
Optimization Strategy

01. Keep Excise Invoices of inputs properly

02. Inventories of Inputs, WIP and finished goods like on appointed date will be eligible for transitional credit, hence, now onwards purchase of inputs should be excise paid

03. Procurement of goods including capital goods and services need to be deferred, wherever possible

04. Try to liquidate stocks whether at factory or at sales outlets

05. Keep minimum advances from such customers who have multiple locations to receive the goods
ANALYSIS + OPTIMIZATION = +ve IMPACT

Thank You