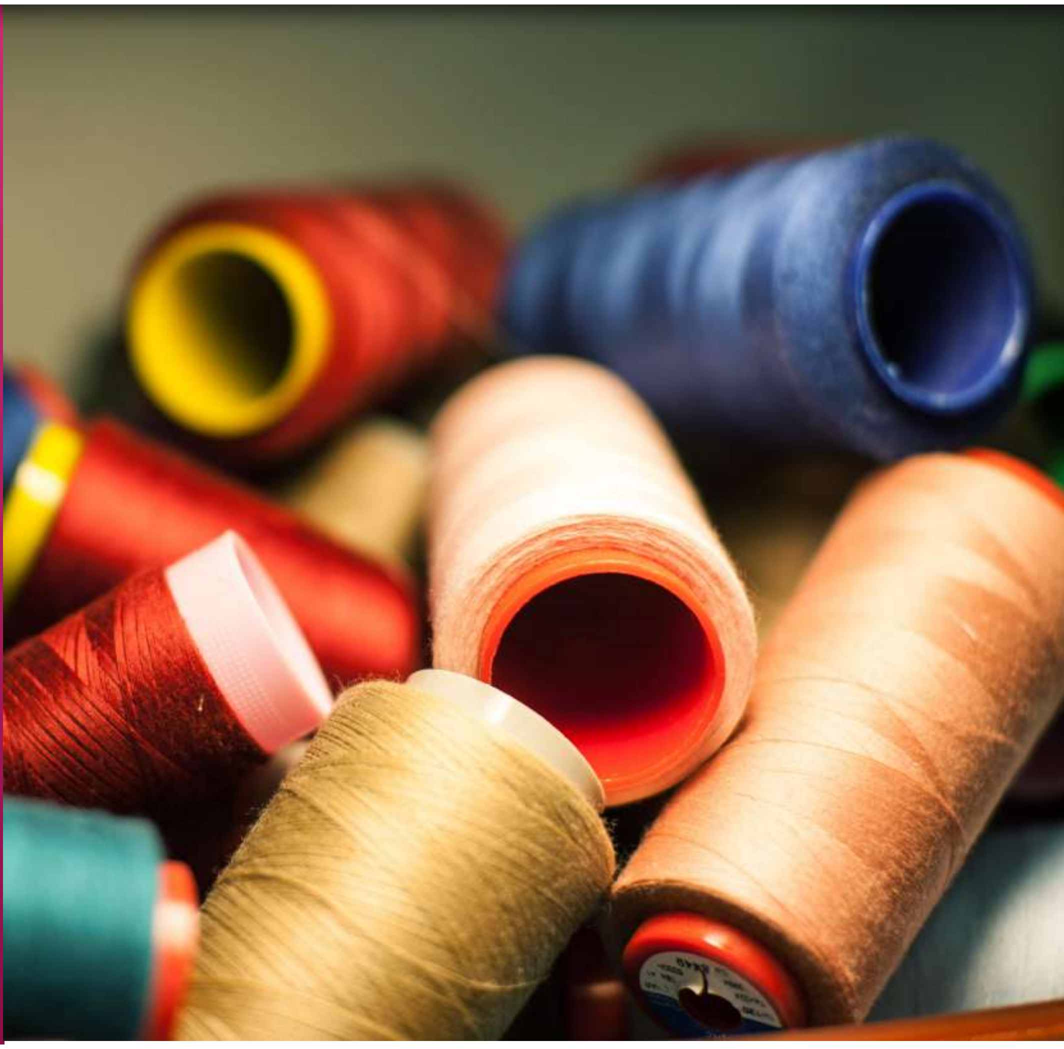
Getting Textile Companies Ready for GST



Under the proposed GST regime, various Indirect taxes would be subsumed (except for few taxes such as Stamp Duty), and hence it is expected that it would have mixed implications on the Textile industry. Companies dealing in natural fibres such as cotton and silk will see a possible increase in cost of manufacturing and in cost to end customer, since such companies are currently exempt from excise duties.

On the contrary companies manufacturing synthetic fibres can expect their cost of production to decrease since input credits from purchase of chemicals and more will be made available under the GST.

However since a vast majority of businesses deal with natural fibres, the overall industry is expected to have a negative impact.

Impact of GST

Particulars	Pre-GST	Post-GST
Tax rates	Currently, the State VAT is ~4~5% on apparel and with ~1.2% central excise duty on branded garments with MRP of more than ₹1000, the overall tax incidence on the finished goods.	Under the new regime apparel is expected to fall under the 12%, which is the lowest rate being proposed in GST. This would increase the incidence of tax substantially.
Availability of input tax credits	Since most businesses are exempt from tax incidence of input tax credits is negligible.	At the new 12% rate, the apparel retailers will not have sufficient input credits (such as service tax on rent of showrooms) to offset the increased tax liability if the GST is not levied on upstream sectors like yarn and fabrics and this will have a negative impact on retailers.
Impact on capital investments	Cost of capital was higher since several input credits are not available in the current indirect tax system.	With cotton textile sector coming under GST, companies who deal in the domestic markets will be able to claim ITC on capital goods thereby reducing cost of capital investments.
Transparency	There is little to no transparency in the existing tax system since most business have significant dealings in cash.	With Input tax credit chain becoming more transparent and integrated, the tax credit for exporters will become easier and full credit of indirect taxes can be claimed; and the duty drawback scheme, which aims to provide credit of Indirect taxes will lose relevance under GST.
Impact on exports	Excise duty became a part of cost and therefore claiming drawback became cumbersome.	With introduction of GST, export markets will open up, products will become cheaper and be internationally competitive.
CENVAT credit	The manufacturer is unable to utilize the credit of Central Sales tax and VAT provided output is charged under Composition Scheme, which becomes the Cost for him.	A Manufacturer will be eligible to take Credit of SGST (Earlier VAT) as well as IGST (Earlier CST) on the purchases.

Particulars	Pre-GST	Post-GST
Change in definition of capital goods	Defined type of goods are considered as Capital Goods.	"Capital goods" means goods, the value of which is capitalized in the books of accounts of the person claiming the credit and which are used or intended to be used in the course or Furtherance of business; [Section 2 (19)]
Minimization of classification issues	There are numerous issues on classification of goods due to separate rates on different goods and exemptions on certain goods.	There shall be minimization of classification issues due to uniform rate and less expected exemptions.
Speedy movement of goods	There is much compliance in current regime on inter-state movements or locally such as way bills, statutory forms etc. which lead to slow movements of goods.	There will be minimization of trade barriers, such as filing of way bills/entry permits, compliance under Entry tax will be abolished.
Valuation of samples	In current law, goods are removed on sample basis. Tax needs to be paid by adopting the nearest aggregate value.	Six months are granted to decide whether the good sold on sample basis has been approved or not, which is beneficial for the manufacturer. However, after 6 months, the tax needs to be paid if the same is still in the process of approval.