

TEXTILES & APPARELS

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Recent amendments on Textiles

It has been 250 plus days since the implementation of GST and the Government has issued a slew of notifications in the rate as well as non-rate areas. A whopping 26 GST Council Meetings have taken place across India starting from September 22, 2017 to March 10, 2018 i.e. an average of one meeting every 10 days. Initially, with introduction of GST the textile sector had a major surge on exports. However, over period of time exports dipped for almost about ~40%.

We appreciate the Government for such vigorous approach. However due to number of important amendments, professionals need to be updated. Textile industry continues to be the second-largest employment generating sector in India. It offers direct employment to over millions in the country and due changes have to be made in law to avoid causing any hardship to the textile sector.

Here is quick snapshot of processes under textile:

Processes involved in textile industry can be broadly classified as: -

Process	Output from the process
Ginning	Man-made Fiber, Cotton, Jute, Silk, Wool
Spinning	Yarn
Weaving/knitting	Fabric
Processing	Processed Fabric
Apparel making	Garment

The above processes were mostly exempted under the pre-GST regime. This had an adverse impact on textile industry since it obstructed the flow of credit in the value chain.

The recent amendments that will be having significant impact on the functioning of the textile sector have summarized below:

Reverse Charge Mechanism (RCM) Applicability on Purchase of Raw Cotton:

[Notification No. 04/2017-CGST dated June 28, 2017 as amended from time to time]

- While RCM on specified services was a prevalent in the erstwhile service tax regime, the manufacturing industry is well versed with the concept of RCM. However, the GST law has also

brought in a new concept of RCM on specified goods u/s Section 9(3) of CGST Act, 2017 and Section 5(3) of IGST Act, 2017.

- The list of specified goods includes which are liable to RCM when a registered person purchases:
 - a) **Silk Yarn from any person who manufactures silk yarn from raw silk or silk worm cocoons**
 - b) **Raw Cotton from an agriculturist**
- This provision would have a far-reaching implication since the purchase of raw cotton or kapas from an agriculturist is the basic requirement for manufacture of yarn or fabric.
- It is very important to note that even though RCM has been suspended on procurements from Unregistered Dealers upto June 30, 2018, RCM would continue to be applicable on specified goods and services u/s 9(3) of CGST Act and 5(3) of IGST Act.

Relief to Job workers in the textile industry

[Notification No. 11/2017-June 28, 2017 as amended from time to time]

In terms of the notification, the job work in relation to textile yarns which were man-made fibre (MMF) was leviable to tax @ 18%. However, subsequently, vide amendment to the notification the benefit of reduced rate of 5% has been extended to textiles and textile products falling under Chapter 50 to 63

Refund of Accumulated ITC:

[Notification No. 05/2017-dated June 28, 2017 as amended from time to time]

- As per Section 54(3) of CGST Act, 2017, refund is allowed only in two situations
 - (i) zero rated supplies without payment of tax
 - (ii) accumulation of credit on account of rate of tax on inputs being higher than the rate of tax on output supplies (commonly referred to as “Inverted Duty Structure”) except on notified supplies

a) Inverted Duty Structure:

- Vide Not. 5/2017 – Central Tax (Rate), the Government has given a list of woven and knitted fabrics on which refund of accumulated ITC would not be available.
- Vide Not. 44/2017 – Central Tax (Rate), the Government has further added knotted nets, corduroy fabrics and narrow woven fabrics into the above list.

b) Exports:

- Vide Circular 18/18/2017 – GST, the Government has clarified that while on the above mentioned specified categories of goods [Fabrics], refund of accumulated ITC duty inverted duty structure would not be allowed normally, but in case of export of fabrics / textiles, refund of accumulated ITC would be admissible.

- Notification No. 40/2017- Central Tax (Rate) seeks to prescribe Central Tax rate of 0.05% on intra-State supply of taxable goods by a registered supplier to a registered recipient for export subject to specified conditions. Similar, notification has also been issued under SGST for state tax rate of 0.05% for intra-state supplies and even under IGST for inter-state supplies also rate of 0.10% has been prescribed.

Treatment of Cut Pieces of Fabric:

- Vide Circular 13/13/2017 – GST, the Government has clarified that before becoming readymade articles or an apparel, the fabric is cut from bundles and sold in that unstitched state.
- These fabrics are classifiable under chapters 50 to 55 of the First Schedule to the Customs Tariff Act, 1975 on the basis of their constituent materials and attract a uniform GST rate of 5% with no refund of the unutilized input tax credit.
- Mere cutting and packing of fabrics into pieces of different lengths from bundles will not change the nature of these goods and such pieces of fabrics would continue to be classifiable under the respective heading as the fabric and attract 5% GST rate.

Rationalization of Rate of GST

- Reduced rate of GST for MMF yarn from 18 to 12 per cent would benefit the spinning and power loom sector. This would help to avoid cost escalation of yarn and facilitate the power loom sector to remain competitive.
- Vide Notification. 1/2018 – CGST (Rate), the Government has brought the rate of tailoring services to 5%.

Composition Scheme for Textiles

- A registered person, whose aggregate turnover in the preceding financial year did not exceed one crore rupees, may opt to pay tax under the composition scheme.
- Rates under Composition Scheme:

S No	Category of Registered Persons	Rate of Tax
1	Manufacturers, other than manufacturers of such goods as may be notified by the Government	1%
2	Any other supplier eligible for composition levy under section 10 and the provisions of this Chapter	1% of the turnover of taxable supplies of goods

- Manufacture has been defined in the CGST Act as follows:
“Manufacture” means processing of raw material or inputs in any manner that results in emergence of a new product having a distinct name, character and use.
- Job Work has been specifically treated as Supply of Service as per Scheduled II of the CGST Act.

- From the above we can conclude that if a registered person engages in any activity which amounts to manufacturing can opt to pay tax under the composition scheme and has to pay tax @ 1%
- Also, if a trader who engages in the trading of readymade garments can also pay tax @ 1%

Note: A registered person who opts to pay tax under composition scheme has to comply with the other conditions as mentioned under Section 10 of the CGST Act and also under the Composition Rules.

Conclusion

The expected rate of GST would continue to be 12 %. Net off credit maybe still be at 6-9%. To some extent final cost would increase. However, in international markets GST would help exporters once refund is instantaneous. Once a simpler filing methodology is put in place, the cash dealing would significantly reduce. The unorganized industry would not be advantaged. The compliant would find their goods competitive and this protected sector would also join in contributing to tax in addition to employment etc. which was there even today. Stocking pre GST would reduce in this industry. Smaller players whether in the textile processing, job workers, fabric manufacturers or garment units would have to bring in discipline in their recorded purchases and proper accounting which has not been strong in the past.

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