

Proposed Inverted Tax Rate for Textile sector

It was decided in the 45th GST Council that the GST rates should be changed in order to correct the inverted duty structure, in footwear and textiles sector, as was discussed in earlier Council Meeting and was deferred for an appropriate time, will be implemented with effect from 01.01.2022.

As per one report there are close of 5000 small and big textile process houses in Ahmedabad and Surat and more than 50000 textile trades in Gujarat giving employment to lakhs of people.

Lets study the example to understand the tax structure comparison between current taxes and the proposed tax rates and the impact increase/ decrease on the final pricing

The Tax Structure: ITC vis-à-vis Tax Payable

Typically, In A Textile Unit – If Sale Is Rs.100000 The ITC Is Roughly 8% I.E. Rs.8000. The Segregation of is As Under

Present Scenario

Particulars	Rs.
Turnover	100000
Tax at 5%	5000
Inputs	7000
Input Services	500
Capital Goods	500
Total ITC	8000
Refund Rs.	3000

Proposed Scenario

Particulars	Rs.
Turnover	100000
Tax at12%	12000
Inputs	7000
Input Services	1000
Capital Goods	500
Total ITC	8500
Tax Payable-CASH OUT FLOW	3500

The proposed change in tax rates as per the 45th Gst Council Meeting held in Lucknow proposed to be applicable from 01st Jnauary 2022 are as below:

Sr. No.	Item	Present Rate	Proposed GST Rate	Increase /(decrease) in Rate	%
1	Cotton and natural fibre/yarn (except raw jute, silk and wool)	5%	5%	-	
2	Manmade Fibres	18%	12%	decrease 33.33	minus
3	Manmade Fibre Yarns	12%	12%	-	
4	Fabrics	5%	12%	increase 140%	plus
5	Garments Below 1000/-	5%	12%	increase 140%	plus
6	Garments above 1000/-	12%	12%	-	
7	Dyeing services	5%	12%	increase 140%	plus

A common man usually buys cotton fabric or garments made of value up to Rs. 1000. The above charts clearly depict the scenario of the textile sector. There is astounding 140% Increase in GST Rates in the textile products which directly impact a common man. On the other hand, the Few Big National players having Large scale units are into manufacturing Man Made fibre, they will enjoy a lower GST.

The questions **worth concluding** in the light of the proposed amendment are:

1. Whether the final end user or the common man will get inflated or cheaper clothes or garments in the market.
2. Can the textile sector afford to pay the cash outgo as envisaged in the above assumptions.
3. Will it lead to inflation and will it boost the demand or lower it in the pandemic conditions.
4. Will the smaller players be benefitted or the larger players of the textile sector
5. What about the local artisans/ job workers/ process house workers of the textile sectors.

The above is a big food for thought and only the time will throw light on the real impact on this sector