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IMPACT OF GST ON MANUFACTURING SECTOR

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Abstract—*The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 15% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry including all garments for men and women like shirts, trousers, saree, apparels, shoes and any more clothing materials which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route). It is expected that the tax rate under GST would be higher than the current tax rate for the textile industry. Natural fibers (cotton, wool) which are currently exempt from tax, would be taxed under GST. The Indian leather industry accounts for around 12.93 per cent of the world's leather production of hides/skins. The country ranks second in terms of footwear and leather garments production in the world and accounts for 9 per cent of the world's footwear production. Through this paper we ask the government to treat the leather industry on a par with the textile industry and be subjected to a 5 per cent tax across the board. Because of both the industries are labor-intensive, export oriented, and providing largest employment opportunities.*

Keywords—*Central Excise Duty, GST, Manufacturing Sector, Small Medium Enterprises, Textile Industry.*

INTRODUCTION

India's textiles sector is one of the oldest industries in Indian economy dating back several centuries. Even today, textiles sector is one of the largest contributors to India's exports with approximately 15 per cent of total exports. The textiles industry is also labour intensive and is one of the largest employers. And the growth in demand for leather is driven by the fashion industry, especially footwear. ... The leather industry has a place of prominence in the Indian economy due to substantial export earnings and growth. The Indian leather industry accounts for around 12.93 per cent of the world's leather production of hides/skins. This paper attempts to discuss the impact of GST on textile industry and leather industry

IMPACT OF GST ON TEXTILE AND CLOTH INDUSTRY

- **Unorganized sector not considered**
  There has been no major change in the tax rate in respect of the unorganized sector.
- **Avail credit where it's due**
  The government has permitted assesses to avail themselves of credit accumulated during the pre-GST period.
- **Burden of legacy stocks**
  Huge stocks of unaccounted inventory (of yarn) are lying with weavers. These will now incur tax on sales without any deduction on raw material cost.
- **Lowering of tax rate not yet notified**
  The GST council has lowered the tax rate on all textile job work from 18 per cent to 5 per cent, but no notification has yet been published. This has set off doubts as to whether the reduction takes effect from July 1.
- **Burden of added compliance factor**
  There is indirect updating of the transactions of the unorganized sector; direct compliance is negligible. This has become an added initial cost and additional compliance factor for the purchaser, which will directly affect domestic sale.

- **Accumulated credit can't be set off against GST**
  The credit accumulated during the pre-GST period can be availed off. However, it cannot be utilized to pay the GST during July. This affects the cash-flow of the taxpayer. Also, the industry is concerned about the lapse of credit at the fabric stage.
- **Lack of clarity**
  The largely unorganized textile industry in the south has welcomed the advent of the Goods and Services Tax (GST) regime, and is, from all accounts, working overtime to comply with its provisions. Corporates are working round the clock to comply with the norms" with the help of chartered accountants. In this process, they are harnessing their experience gained under the erstwhile state Value Added Tax (VAT) regime, wherein online procedures were introduced during the last financial year to fall in line with the GST provisions.
  And, yet, in the run-up to the September 5 deadline for filing the first full returns, sections of the industry are still grappling with the perceived lack of clarity on certain aspects of the new tax measure, including fitments in rate slabs.
- **Work out of home**
  A major part of the textile process (post spinning), such as weaving and garmenting among others, operates in the realm of micro/mini units, and in fact from out of the homes of entrepreneurs.
  And given the fact that the down-stream sectors of the industry are highly fragmented, the realization that compliance with GST procedures will essentially 'formalize' certain aspects of their business, thereby effectively doing away with the informal manner of their erstwhile operations, has only begun to dawn on them of late.
  There are over 2 million power loom manufacturing units across the country, weaving close to 20 billion meters of cloth every year. And by some accounts, power looms account for about 60 per cent of the textile industry's production. Handloom weavers, on the other hand, operate on a much smaller scale.
  While those in the power loom sector have 10 to 20 looms each, and weave on an average around 1,000 meters of cloth per loom per month, handloom weavers typically have just one or two looms, many of which operate from out of their homes.
- **Mode of operation**
  Until end-June, both power loom and handloom units remained out of the tax net, except for VAT. Most of them operate on a cash-and-carry basis.
  The GST rollout has perforce imposed compliance and paperwork processes, requiring them to document each job work. It also compels them to change their erstwhile informal mode of operation (on cash basis) and brings them onto the tax radar.
- **Manufacturing process**
  The manufacturing process starts with the blending of cotton or man-made fibre (MMF) for making different kinds of yarn. The yarn is sent for intermingling and twisting, and the twisted/dyed yarn (after washing and processing, which is carried out as job work) is used in the weaving process. The yarn is then loaded on sticks and beams for warp and weft, before it is woven as cloth.
  A majority of the weaving units do not have the capacity to execute all the processes under one roof. The material is, therefore, sent back and forth before the yarn is loaded and ready to be woven.
- **Involve paper work and reverse charge mechanism**
  Under GST, every movement of materials will have to be recorded. This will involve paperwork, and the units will also have to pay GST on labor charges.
  If the unit that undertakes the job work is an unorganized entity, the cloth manufacturer will have to pay GST under reverse charge Mechanism (RCM). Under this mechanism, the recipient of goods and services pays tax on the material and services that he had availed of from the unregistered dealer. Smaller players find this process cumbersome.
  Weavers typically operate on very slender margins on the cloth woven by them. And particularly for those who operate on a smaller scale in the supply chain for cloth manufacture, the cost of compliance may prove a burden, the more so because they will have to turn to an accountant or a tax consultant to complete their paperwork processes.

IMPACT OF GST ON LEATHER INDUSTRY

Leather industry representatives don't need much convincing that the GST framework is beneficial in the long run. However, there is much about the GST that induces a sense of anxiety in them in the short term.

- **GST rates are higher than in earlier regime**
  The industry believes that taxes on leather and leather products are on the higher side as compared with the previous regime, when taxes were more varied. Indicatively, leather inputs imported for export products attract 18% GST, against nil import duties earlier.
- **Tax on effluent treatment plant use**
  Small companies will now have to pay 18% tax for using common effluent treatment plants. CETPs are typically run on no-profit basis and were earlier not taxed at all.
- **Related products are taxed at different rates**
  Tax rates vary widely on closely related products. For instance, semi-finished leather attracts 5 per cent GST, while finished leather is taxed at 12%. In job work, leather tanning attracts 5 per cent tax, but job work for shoe components is taxed at 18%.
- **Export composition**
  The anxiety is accentuated by the fact that the industry is going through a rough patch in the first place. Export of leather and leather products dipped 3 per cent in 2016-17 to $5,665 million from $5,855 million in the previous year. Challenging conditions in the overseas market, particularly Europe, and a stronger rupee, discentivised exports. Saddlery/harness are 3 per cent, footwear 49 per cent, leather garments 9 per cent, leather goods/accessories 23 per cent and finished leather 16 per cent.
- **Impact on ancillary units**
  In the short while since the July rollout of the GST, the leather industry is yet to settle into the changed business environment. The major concerns for the sector are centered around the perceived high tax rates for various inputs, including imported items, and the provision that taxes job work, which could impact ancillary units.
- **Textile vs. leather industry**
  In a sense, the leather industry compares itself with the textile sector in that it is labor-intensive and a large number of small units take on job work for larger players and exporters.
  In the textile sector, there is a degree of homogeneity in GST rates, but the leather industry has not been given a similar consideration, say industry representatives. In their estimation, tax rates for the sector are generally on the higher side, and given the procedural aspects that require them to pay GST on exports upfront, and claim refunds, they fear they will face cash-flow constraints, pushing up their working capital requirements.
  The industry has appealed to the government to treat the leather industry on a par with the textile industry and be subjected to a 5 per cent tax across the board.
- **Impact on entrepreneurship**
  Levying a high GST rate on job work would have a negative impact on entrepreneurship. That is because larger players may be reluctant to farm out job work to ancillaries, and instead do them on their own.
- **Highest slab**
  Under the GST regime, leather goods are taxed at 28 per cent, the highest slab. But leather handbags and products are no longer considered luxury items, and so should qualify for lower taxes. The industry is pinning its hopes on the GST council to lower the rate to 12 per cent on products, including shoes and bags.
- **Refund and credit**
  The full impact of the GST rates on the industry will be known by August end. With refunds expected after September, the industry is keeping its fingers crossed in the hope that the refunds will come through as promised within seven days.
  One of the biggest concerns for the sector is that its credits under the CENVAT and VAT regime, which was in place before the July 1 rollout of GST, remain locked up.
  Businesses with huge amounts locked up thus under the previous tax regime will have to generate additional funds to pay GST in October even if they fail to secure refunds that are due to them. There is no provision in the GST returns forms for them to claim refunds.

CONCLUSION

The largely unorganized textile industry in the south has welcomed the advent of the Goods and Services Tax (GST) regime, and is, from all accounts, working overtime to comply with its provisions. Corporates are working round the clock to comply with the norms" with the help of chartered accountants. In this process, they are harnessing their experience gained under the erstwhile state Value Added Tax (VAT) regime, wherein online procedures were introduced during the last financial year to fall in line with the GST provisions.

The online infrastructure to facilitate digital processing would have to be strengthened, even though industries are for now still doing paper work. A leather trader who did not want to be named said the IT infrastructure is not adequately in place. In fact, even under the previous tax regime and for license, the system would crash at peak filing time. Their employees had to be provided with laptops so they could login from their homes late at night, when web traffic is lean. "I hope the government does a better job with GST facilities online.

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