



Swadeshi Textiles Pvt. Ltd.

A brief article on GST dt. 01.07.2017

GST- An introduction

Goods & Services Tax (GST) is an indirect tax throughout India to replace taxes levied by the central and state governments. It is introduced as The Constitution (One Hundred and Twenty Second Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by GST Council and its Chairman is Finance Minister of India. Under GST, goods and services will be taxed at the following rates, 0%, 5%, 12%, 18%, 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.

The GST regime is set to be in force from 1st July 2017 with a special midnight session in the Central Hall of the Indian Parliament to commemorate the occasion.

The following taxes will be bound together by the GST:

- Central Excise Duty
- Additional duties of excise
- Excise duty levied under medicinal and toiletries preparation act
- Additional duties of customs (CVD and SAD)
- Service Tax
- Surcharges and Cesses
- Sales Tax / Value Added Tax (VAT)
- Central Sales Tax (CST)
- Entertainment Tax (other than those levied by local bodies)
- Entry Tax
- Purchase Tax
- Luxury Tax
- Taxes on lotteries, betting and gambling
- Surcharges and Cesses

What is GST?

The Goods and Services Tax, GST for short is taxation method which links the value chain of all industrial, commercial and service activities. It is similar to the MODVAT system currently present in the Excise and VAT/CST taxes. However a major difference is that GST is a replacement for all indirect taxes, One India, One Market and One Tax. Another major feature of the GST is that it is a tax paid on supplies and distributed based on the consumption location. This is a departure from the existing taxation system.

It is anticipated that the tax system will become more efficient in terms of uniformity, removal of cascading effects and compliance. Further, it is also anticipated that the wealth distribution of the Indian states will change following the implementation of GST. Earlier states with industrial or manufacturing prowess claimed a large share of indirect taxes, under GST the states with higher populations and spending power can enjoy the major portions of the country's indirect taxes.

How does GST work?

Here is a list of items exempt under GST ([Annexure 1](#)). All other purchases of material and services are covered under GST. The tax rates under GST are 0%, 3%, 5%, 12%, 18% and 28%. The rate of any item is determined by the HSN code of that item. [A list of the HSN code wise GST rates is available here \(www.cbec.gov.in\)](#). Any expenditure for the furtherance of a business will attract GST, unless from the above list. All sales or revenue must be invoiced by adding GST. [Kindly refer the attached illustration \(Annexure 2\)](#). GST is payable monthly and the paid returns are to be filed by the 20th of the following month.

Integrated GST (IGST), Central GST (CGST), State GST (SGST) and Union Territory GST (UTGST) are the sub headings under GST. Intra-State sales to attract CGST and SGST in a ratio of 50% each of the tax rate applicable. Interstate sales to attract IGST, a single sub-heading. Sales to union territories will attract CGST and UTGST in a ratio of 50% each of the tax rate applicable.

Imports will attract IGST in place of CVD and SAD. Exports will get a refund of all GST paid on the items being exported.

Things to note under GST

Reverse charge mechanism or RCM. This applies in one of 2 cases. First, if the service availed is in the list of mandatory RCM services and second, if an entity avails of any service from an un-registered dealer (URD). It is important to understand the eligibility and method of RCM as it will impact everyone having a small turnover or large.

Transition to GST is a very important activity. Key points to note for now are the challan and invoice requirements and the stock position on 30/06/2017. The form TRN-1 is a comprehensive form and everyone should study this form carefully. Although the deadline for filing the returns for the months of July and August and the TRN-1 form are extended to September 2017, it is highly recommended that the same be done while keeping in mind the fact that September every year is anyways a busy month. Further, some transition forms have to be uploaded within a period of 30 and 60 days too. It is recommended that the supplier and customer masters are updated in the records.

GST on textiles

Textiles fall under the chapter heading 50 to 63. Traditionally majority of textiles have been outside the purview of state taxes. Hence with the introduction of GST, there is a lot of resistance to this change. The seemingly complex record keeping, compliance and harsh provisions for punishment for deviating from the norm are the main reasons for the resistance from the textile trade. All of the fabrics used for the clothing or garment industry are taxed at a rate of 5%, while industrial, furnishing and upholstery fabrics are taxed at a rate of 12%. [Here is a list tax rates of all the textile chapters \(Annexure 3\)](#).

Major points of note for the textiles sector-

[Job work of weaving and processing are now considered a service and is taxed at a rate of 5%. Other job work in textiles will attract 18% tax.](#)

GST is applicable even when advances are received and the supply has not been made.

GST is applicable on goods sent on an "On consignment" basis.

Traders are eligible to get deemed credit on stocks held on 30.06.2017.

For booking agents, if their aggregate turnover is below 20 lacs, there is an option to continue as un-registered dealers (URD's)

Interest on delayed payments will also attract GST at the rate of the product.

Discounts recorded in the invoice will not attract GST, however, any deductions after the preparation of the invoice by the purchaser will not be allowed for GST deduction, and exceptions are defective material, short supply, transport mix-ups.

There are no revisions in GST, only debit and credit notes. They will be eligible for tax deduction when the customer/supplier also records the counter in their books and the correct format of the same is maintained.

GST is applicable, but ITC cannot be availed on GTA transport, food and beverage, passenger cars, LIC and medical payments, etc.

GST Summary

Termed as a revolutionary step for tax in India, GST holds a lot of promise for both the citizens and the government. The thought and efforts put in by the finance ministry is apparent in the GST's current form. However, in a country as vast, diverse and thriving as India, the ministry has and will do well to keep its ear to the ground and have an open minded approach. The transition and practical implementation of the new tax regime will define the attitude of the common tax payer towards GST.

Thank you,
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