

# Impact of GST on Textile Sector



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*...although there was dip in the textile sector during GST implementation period, it is expected that GST will accelerate textile sector growth in the long run particularly in terms of higher production, export and employment generation*

**T**extile sector contributes 13.5 per cent to manufacturing and 2.1 per cent to GDP in India. Textile exports accounted for 14 per cent of total exports in 2016-17. It is the largest employer after agriculture (105 million estimated employment with 45 million direct employment) (2011 Census). Significantly, women constitute 70 per cent of the workforce in the garment manufacturing sector. However, the Indian textile sector is facing many challenges including tough competition in the global market due to many reasons, which include higher input costs compared to costs of competing countries, uncompetitive tax structure, etc. The Textile industry was perpetually demanding for uniform, lower tax structure. Meanwhile, the Goods and Services Tax (GST) was introduced w.e.f. 1<sup>st</sup> of July, 2017 pursuant to 122<sup>nd</sup> amendment of the Constitution. It is a single tax system on the supply of goods and services, right from the manufacturer to the consumer. All the indirect taxes of Central and State Governments have been subsumed under the GST. Credits of input taxes (ITC) paid at each stage will be available in the subsequent stage of value addition – tax only on value addition at each stage. GST Council headed by Union Finance Minister comprising of State Finance Ministers of States/UTs as Members, finalise/recommend rates of tax on supply of goods and services.

## GST rate for Textiles

GST has been imposed on all textile items except silk and jute. The GST rate initially was fixed on (i) Cotton and other natural fibres (5 per cent); (ii) Natural Yarn (5 per cent); (iii) 18 per cent on man-made yarn; 5 per cent on all fabric including knitted or crocheted and woven; 5 per cent on apparel and made-ups below value of Rs.1,000 and 12 per cent on its value above Rs.1,000. 5 per cent GST for job works (reduced from 18 per cent); and 12 per cent for carpets and other textile floor coverings, etc. Textile Trade/ Industry Associations raised concern over the rate and demanded exemption for different items of textiles, stock transfers, exports, refund of blocked taxes, to make 5 per cent rate for job applicable across the value chain up to garment stage including Man-Made Fibre (MMF), those pertaining to HS code classification, etc. All those issues/demands were placed before the GST Council.

## Impact of GST on Textiles

Whether there was any impact of GST on textile sector may be assessed, based on data of prices, production, export-import of textiles, employment, etc. The Textile Industry Associations claimed that GST on the textile sector particularly the inverted tax i.e. 18 per cent GST on MMF yarn and 5 per cent GST on fabric, 5 per cent/18 per cent GST on job works, reduction of



import duty (from 29 per cent to 15 per cent) led to escalation/uncompetitive prices, low production, export, closure of industries, unemployment, etc. Although the three months period may not be sufficient to capture the impact of GST on prices, production, exports of textiles, an attempt has been made to assess the impact based on the data compiled by the Office of the Textile Commissioner, Mumbai (TxC), Director General of Commercial Intelligence & Statistics (DGCI&S), Central Silk Board (CSB), Central Cottage Industries Corporation of India Ltd. (CCICI),

Cotton Corporation of India (CCI), The Jute Corporation of India Ltd (JCI) and National Handloom Development Corporation (NHDC).

#### Impact of GST on Prices of Textile Items

Price of major textile items like cotton hosiery, viscose, polyester, etc has increased by 15 per cent from June to July, 2017 and it has declined during September, 2017 i.e. 8 per cent below the prices of June, 2017. Whereas, price of MMF items have increased between 5 to 15 per cent during the said period as shown in Table -1.

Table: 1

S. No.	Textile product/items	Average Price (Rs)		Increase/Decrease (Col (4) over Col.3)	Average Price (Rs) Sept., 2017	Increase/Decrease (Col.6) to Col.3)
		June, 2017	July, 2017			
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Cotton Yarn (20s)	200	195	(-5) (-2.5 per cent)	190	(-10) (-5 per cent)
2	Cotton Hosiery yarn (30s comb)	229	229	0	212	(-17) (-7.4 per cent)
3	Poly./Viscose	199	214.76	(+15.8) (+7.9 per cent)	215	(+16) (+8 per cent)
4	Poly./Cotton (70:30 per cent)	161.28	173.23	(+11.9) (+7 per cent)	143.4	(-17.9) (-11 per cent)
5	MMF (30s Viscose Yarn)	210	217	(+7) (+3.3 per cent)	220	(+10) (+5 per cent)
6	MMF(300 D Polyester)	147	173	(+26) (+18 per cent)	173	(+26) (+18 per cent)
7	Lint Cotton 1 Candy:355.62 kgs)	42,642	42,422	(-220) (-0.5 per cent)	40,930	(-1,712) (-4 per cent)

Source: Office of the Textile Commissioner (Txc), Mumbai & CCI.

Table:2

S. No.	Textile item(s)	Production (Fig. in million)			
		2016-17 (P)	2016 (P) Apr.-July.)	2017 (P) Apr.-July.)	per cent Variation between col.(4) and Col. (5)
(1)	(2)	(3)	(4)	(5)	(6)
1	Man-made fibre	1364	459	455	-0.9
2	Man-made filament yarn	1159	377	401	+6.4
3	Cotton yarn	4056	1388	1351	-2.7
4	Blended & 100 per cent non-cotton yarn	1606	543	533	-1.8
5	Total Spun Yarn	5662	1931	1884	-2.4
6	Cloth				
(i)	Mill Sector	2264	785	731	-6.9
(ii)	Decentralized Sector	61630	20896	20930	+0.2
	Sub-total of 6	63591	21681	21661	-0.1

Source; Office of the Textile Commissioner (Txc), Mumbai & CCI.

#### Impact of GST on Textiles Production

The month-wise production of textile items during pre-GST and post-GST period is not available. However, data of textiles production during April- July, 2016 and April- July, 2017 has been used for assessing the impact of GST on textile production. Table-2 indicates that production of Man-Made fibre has declined by 0.8 per cent and filament yarn by 6.4 per cent during April-July, 2017 corresponding to the same period of the previous year. Production of cotton yarn decreased by 2.7 per cent and blended and 100



per cent non-cotton yarn decreased by 1.8 per cent during April-July, 2017 corresponding to the same period last year. Like-wise cloth production also decreased by 0.1 per cent during April-July, 2017 as compared to the same period last year except cloth production by decentralized sector, which has increased by 0.2 per cent during the said period.

#### Impact of GST on Export of Textiles

The data of DGCI&S given in Table-3 shows that the overall exports of textile and clothing in June, 2017 was of the order of US\$ 3008.7 million which came down to US\$ 2686.80 million (i.e. 10.7 per cent less) in July, 2017 and then, it has increased to US\$ 2840.30 million (i.e. +5.71 per cent) in August, 2017.

Even if export of textiles in August, 2017 is compared with that of June, 2017, it shows that export of textiles declined by 5.6 per cent in August, 2017 as against decline of 10.7 per cent during the period between July and August, 2017 which indicates that textile exports has been picking up.

#### Impact of GST on Import of Textiles

The figures given in Table 4 indicate that import of textiles and



clothing have declined by 24.59 per cent during July, 2017 and then it has surged to 38.61 per cent during August, 2017 and this may be due to lower import duty and other market forces. The comparison of imports in August, 2017 to that of June, 2017 also shows surge in import of textile items.

#### Sector Specific Impact of GST

**Silk:** Production of raw silk as well as employment generation in silk sector have increased more than 70 per cent during the period between June to August, 2017 (Table 5).

The price of cocoon has been decreasing during June – September, 2017 except the price of filature raw silk, which has increased during August-September, 2017, as shown in the Table 6.

**Cotton and Jute:** The price of raw cotton declined by 4 per cent between June, 2017 and September, 2017 due to fluctuations in the domestic and international markets and there was no impact of GST on the prices of raw cotton. GST has no impact on the prices of raw jute. There was a dip in the supply of cotton and silk yarn during the month of July, 2017 due to

Table: 3

S.No.	Textile Item(s)	Textiles Exports 2017 (Fig. US\$ million)					
		June	July	per cent change of Col. (4) to Col.3	August	per cent change of Col. (6) to Col.4	per cent change of Col (6) to Col.3
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Readymade Garment	1515.9	1243.8	-17.9	1311.4	+5.43	(-)13.5
2	Cotton Textiles	814.6	766.6	-5.9	789.7	+3.01	(-)3.1
3	Man-Made Textiles	425.1	430.9	+1.4	462.5	+7.33	(-)8.8
4	Wool & Woolen Textiles	0.0	30.8	-	31.4	+1.95	-
5	Silk Products	18.8	16.6	-11.7	14.5	-12.65	(-)22.9
6	Handloom Products	33.4	32.3	-3.2	32.8	+1.55	(-)1.8
7	Carpets	113.0	105.7	-6.5	131.8	+24.69	(+) 16.6
8	Jute Products	27.9	30.7	+10.0	36.1	+17.59	(+)29.4
9	Coir & Coir Manufacturers	26.9	29.3	+8.9	29.9	+2.04	(+)11.2
	Total Textile & Clothing	3008.7	2686.8	-10.7	2840.3	+5.71	(-)5.6

Source: Director General of Commercial Intelligence & Statistics (DGCI&S), Kolkata.



Table: 4

S.No.	Textile Item(s)	Textiles Imports 2017 (Fig.US\$ million)					
		June	July	per cent change to Col.3	August	per cent change to Col.4	per cent change to Col.(3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Readymade Garment	49.13	50.77	(+)3.34	76.95	(+)51.56	(+)56.6
2	Cotton Textiles	283.95	157.44	(-)44.55	268.20	(+)70.35	(+)5.5
3	Man-Made Textiles	188.94	158.39	(-)16.17	181.77	(+)14.76	(-)3.8
4	Wool & Woolen Textiles	29.72	30.11	(+)1.31	39.61	(+) 31.58	(-)33.3
5	Silk Products	19.11	18.60	(-)2.70	20.92	(+)12.51	(+)9.5
6	Handloom Products	0.9	0.3	(-)62.47	0.8	(+)125.41	(-)11.1
7	Carpets	6.52	4.73	(-)27.38	7.11	(+)50.24	(-)9.0
8	Jute Products	7.23	20.97	(+)189.97	16.66	(-)20.56	(+)130.4
9	Coir & Coir Manufacturers	0.5	0.6	(+)12.51	0.6	(+)0.47	(+)20
	Total Textile & Clothing	586.05	441.96	(-)24.59	612.62	(+)38.61	(+)4.45

Source: Director General of Commercial Intelligence & Statistics (DGCI&S), Kolkata.

the fact that many user agencies (of handloom) did not register themselves under GST. All of them are reported to have registered under GST and in August/September, 2017. Supply has also picked up since then. The price of handloom products is reported to have increased by 5 per cent to 12 per cent on account of levy of GST on those products.

#### Concern over GST on Textiles.

It was reported that the Textile Trade Associations, power loom weavers, ready made garment units etc. which are located in cities and textile clusters across India, resorted to protests during 1<sup>st</sup> of July to 20<sup>th</sup> of July 2017 and demanded for abolition of GST on Yarn to Fabric and Job work units, reducing GST rate on Man-Made Fibre/Yarn, job work, etc. Due to the protest/unrest of the textile

traders/industry, there was temporary slowdown of production as there was no pick up for the products in the market.

#### Revision of GST Rates: Implications

Textile Associations/Traders represented to Government concerning various issues relating to GST which inter-alia include (i) reduction of GST rate on MMF from 18 per cent to 5 per cent or at least 12 per cent; (ii) for zero GST to all textiles job works; (iii) to increase import duty on textiles; (iv) to exempt handicrafts and handmade handloom products from the GST, etc.

The Government, in consideration of their request, reduced the GST rate on some textile segment/items and on all job works of textiles from 18 per

cent to 5 per cent, and that of MMF yarn from 18 per cent to 12 per cent and the GST on real Zari from 12 per cent to 5 per cent by covering it under HS Code Heading 5605. Further, exemption has been given to those service providers whose annual aggregate turnover is less than Rs. 20 lakh (Rs. 10 lakh in special category States except Jammu and Kashmir) from registering under GST, even if they are making inter-state taxable supplies of services. Those whose annual turnover is upto Rs.1.50 crore, can now file returns on quarterly basis and avail input credit tax (ITC) on a monthly basis. The taxpayers having annual aggregate turnover upto Rs.1.50 crore are not required to pay GST at the time of receipt of advances on supply of goods. The GST on such supplies shall be payable only when the supply of

Table: 5

Item	Pre-GST price	Post-GST price			
	(June, 2017)	July, 2017	Increase/ Decrease to Col.(2)	August, 2017	Increase/ Decrease to Col.2
(1)	(2)	(3)	(4)	(5)	(6)
Raw Silk production (MT)	5474	7447	(+)1973 (+36 per cent)	9713	(+) 4239 (+77 per cent)
Estimated Employment Generation (Persons in lakh)	15.05	20.02	(+)4.97 (+33 per cent)	26.25	(+)11.2 (+74 per cent)

Source: CSB, Bengaluru.

Note: Silkworm rearing starts from August and silk production increases from July onwards.



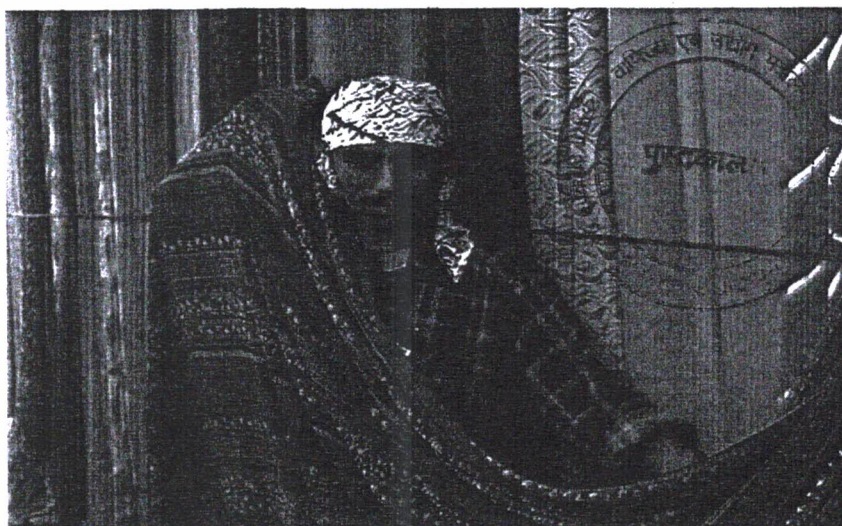
Table: 6

Movement of Prices of Cocoon (Ramananaram Cocoon Market)							
Item	Pre-GST price	Post-GST price					
	(June, 2017) (Avg. Price) (Rs./kg)	July, 2017	Increase/ Decrease to Col.(2)	August, 2017	Increase/ Decrease to Col.2	Sept. 2017	Increase/ Decrease to Col.2
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Cross breed Cocoon	387	344	(-) 43 (-11 per cent)	376	(-)11 (-3 per cent)	363	(-) 24 (-6 per cent)
Bivoltine	489	408	(-)81	459	(-)30 (-6 per cent)	462	(-)27 (-6 per cent)
Filature Raw Silk	3296	3248	(-)48	3255	(-)41 (-15)	3488	(+) 192 (+6 per cent)

Source: Central Silk Board (CSB), Bangalore.

good and services is made, which will reduce the compliance cost of small service providers. All these measures are expected to promote the fabric sector in alignment with global production and demand pattern.

The Traders/Industry Associations viewed that reduction of GST from 18 per cent to 12 per cent on MMF yarn and fabrics at 5 per cent GST has reduced accumulation of non-refundable ITC with the weavers and eased the working capital flow. The refunding of notional amount for the time being and later adjusting the amount in the e-Wallet w.e.f 1<sup>st</sup> April, 2018 will provide a permanent solution to the liquidity problem for the exporters. The exemption on inputs required for production of export textiles through Advance Authorization, EPCG and EOU schemes and putting a duty of 0.1 per cent on any supply from manufacturing to merchant will resolve the problems being faced by merchant exporters. Reduction of GST rate on real Zari from 12 per cent to 5 per cent by covering it under HS Code Heading 5605, will encourage production and generate employment for more women. Allowing SMEs with an annual turnover upto Rs.1.5 crore to file quarterly basis IT returns and pay tax and exempting exporters from furnishing Bond and Bank Guarantee when they clear goods for exports, will ease doing business. Still, some issues exist, which will impact



MMF textile industry severely. These include (i) 18 per cent GST on MMF yarn; (ii) import of textiles; (iii) not allowing refund of accumulated ITC, (iv) 18 per cent GST on Freight, (v) non-exempting handmade handloom and handicraft products from the purview of GST etc.

### Conclusion

As far as impact of GST on textile production is concerned, price of textile items like Viscose, polyester, etc increased slightly during the month of July, 2017 and then, declined during August, 2017; however, the price of MMF textiles increased during the said period; textile production also declined marginally during the said period; textile exports declined by 10.7 per cent in June-July, 2017 and

then increased by 6 per cent in August, 2017. Import of textiles and clothing surged to 38.61 by August, 2017 which may be due to lower import duty besides market forces. This signifies that import duty needs to be enhanced in such a manner that cost of imported textile items is equivalent to cost of those textile items being produced in India. Sector specific data shows increase of silk production and employment during the period under report. This reveals that although there was dip in the textile sector during GST implementation period, it is expected that GST will accelerate textile sector growth in the long run particularly in terms of higher production, export and employment generation. □

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