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Overhauling of the Indirect Tax System

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Editorial

Introduction of a Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes was not only desirable but imperative in the current global economic environment. Current system of separate taxation of goods and services is complex, and adds to the administrative expense to enforce compliances. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing distortions and will help in development of a common national market. Now Indian economy will be considered as large federal economic system. By providing common base and common rate this act will bring simple and transparent administration of indirect taxation in India. Moreover, this will be helpful to textile and other manufacturers of this country in complying with the tax regulations. The Indian textile industry applauds the passing of much awaited Goods and Services Tax Act 2016 (GST) in both the houses of Indian parliament. Act is expected to come in force from April 2017. If the act is implemented in letter and spirit, then this will give a leap forward in creating simple and cleaner dual VAT tax system in India for textile and other industrial sector which would minimize the disadvantage of geographic fragmentation and scattered ness of textile supply chain across country. As cotton and other natural fibre producing areas do not coincide with the textile manufacturing clusters.

As industry fraternity was expecting, creation of IGST will help industry to move its stocks from one state to another state freely as well as have access of raw material produced in various parts of country which are away from the manufacturing unit's locations.

Industry's logistics costs would surely see enormous improvement in efficiency, as various check points for paying taxes for transport companies will be reduced significantly. This will not only help in reducing road freight cost but also improve the travel time of vehicles which would be able to deliver intermediate and final goods to various locations of country for industrial and final consumption.

Any exemption to import goods act would favour foreign production over domestically produced goods. And in the current act most of the exemptions would be eliminated and it will bring neutrality of incentives between domestically produced goods and foreign import goods. By enacting exemption free GST, govt. has taken a right step to create level playing field both for domestic as well as foreign import goods. However, it is expected that the provisions under customs laws and Free Trade Agreements (FTAs) would continue. Therefore, incentives and other benefits currently available under customs and FTA benefits will be available in GST regime also.

The Economic advisor and other economic and financial research organisations like National Institute of Public Finance and Policy (NIPFP) have suggested the revenue neutral rate (RNR) of 15 to 15.5% and the standard rate is estimated to be 18%. With a stronger preference of lower end of the range textile sector has demanded that lower rate should be applied on them.

This is a historic moment in Indian economic history as implementation of GST will be a game changer for textile business in India. This will improve the business environment of country by improving the governance, strengthening tax institutions and will facilitate "Make in India by uniting India's domestic market as a Single Market". Moreover, this will bring buoyancy in the tax base and would also propel textile manufacturing activities across country.

The subsuming of major state and central taxes and comprehensive set-off of input credit on goods and services would reduce the cost of locally manufactured goods and services. This will bear up the competitiveness of Indian textile goods in the international market and give boost to India's T&C exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost for textile industry.

This edition of Textile Times, is focussing on GST and Mr. Sayee Mohan of Deloitte is explaining GST in detail with his cover story and CITI is also organising a Seminar on GST on 28th of this month at ITC Maratha Mumbai in our effort to share knowledge with the industry. Moreover you will find that with this edition, Textile Times is turning into full colour and with more vibrant content.

Binoy Job
Editor-in-Chief

GST Impact on Textile Sector

Background of Textile Sector

Indian Textile industry is built with the fabric of organized sector at one end while on the other end there is the unorganised sector, and both these extremes perfectly co-exist, contributing to a significant part of our Indian economy. The textile sector is also a labour intensive sector employing over 45 Million workforce. The textile sector also stimulates the growth of agricultural sector in India given its dependency on the latter for the raw materials. The textile industry today contributes to around 11% of the total exports made from India. It is imperative to note that the industry contributed $40 billion of exports during the FY 2015 – 2016.

Existing Indirect tax structure for Textile Industry

Currently, indirect taxes are levied by the Central and State Governments. Central taxes comprise of Central Excise, Central State tax on interstate sales and service tax on services and state taxes consist of Value added Tax on intra state sales and entry tax (currently levied in some states – Maharashtra, Gujarat and Karnataka).

Presently, the textile industry enjoys considerable amount of benefits on the indirect tax front. The textile industry is either exempted from payment of excise duty or excise duty is paid at lower rates. Exports of textile products are subject to nil rate of duty. However, there is no exemption on Central sales tax or State VAT except for Grey /Knitted/processed fabrics.

L Sayee Mohan

Senior Director with
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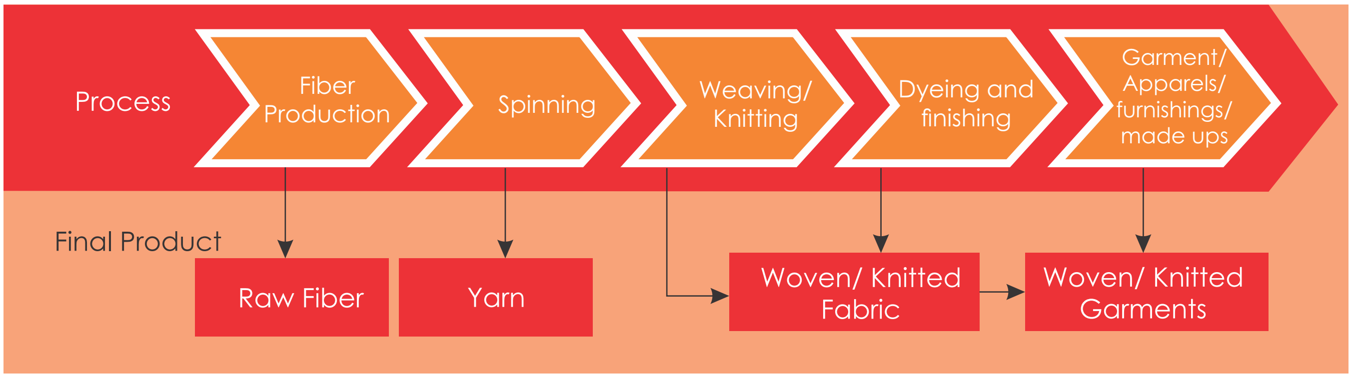
Below are the various segments of textile industry:



The present indirect tax flow on textile products is appended below:

RAW COTTON	Excise duty TNVAT	- Nill Rate - 5%on Cotton
YARN	Excise duty TNVAT	- 6% / 12.5% / NILL -5%
FABRIC	Excise duty TNVAT	- 6% / 12.5% / NILL - Exempt for woven fabrics (Schedule IV of TNVAT Act)
GARMENTS/ MADE UPS	Excise duty TNVAT	- MRP Value > 1000, ED of 6% / 12.5% / NILL Payable on 60% of the MRP Value - 5% of on Ready made Garments

Goods and Services Tax

Goods and Services Tax (GST) is the new milestone for our Indian taxation system and is considered to be one of the biggest indirect tax reforms till date. The introduction of GST is likely to address most of the loopholes present under the existing indirect regime. The Constitutional Amendment Bill which would pave way for the introduction of GST has been passed in the Lower House of the Parliament on May, 6th 2015 and the bill has been passed by the upper house of the Parliament on August 3rd, 2016 with few amendments. The Lok Sabha has passed the amendments made to the Constitution bill on August, 8th 2016. With that the Government of India is determined to introduce GST effective 1st April 2017 which would be a game changer both for the country and to the industry also. The model Goods and Services Tax law has also been issued by the Empowered Committee of State Finance Ministers in June 2016.

GST shall replace the current Central and State levies with an integrated tax. However, the provisions under Customs laws and FTA would continue. Therefore, incentives, exemptions and other benefits currently available under Customs and FTA benefits will be available in GST scenario as well.

GST Impact on Textile Industry

The impact for textile sector under GST is expected to be inflationary in the short term but will be having a positive impact both for industry and consumers at large in the long term.

Goods and service tax is a destination based tax whereby tax shall be levied based on consumption principle. The taxable event under GST shall be "supply" of goods or services as against manufacture (excise duty), sale (VAT/CST) and service (Service tax). The system of GST is synchronized in such a way that the tax levied on supplies shall be apportioned between Central and state governments.

Immediate impact may be felt with the increase in the prices of the product as it would be subject to GST at each stages of supply till it reaches the end consumer.

While the price rise may be seen as an adverse impact, owing to the unique features of GST the same shall have a long term positive impact on the business which would prove to be constructive. The key advantages of the GST are as follows;

GST is a destination based tax

Tax on supplies (elimination of various taxable event such as manufacture, sale, etc.).

GST is payable on value addition.

Seamless flow of tax and availability of credit at every stages of supplies.

Exports are zero-rated

Elimination of various forms under sales tax which is a step taken towards ease of doing business in India

GST Rates for Textiles:

Recommendations have been given by the National Institute of Public Finance and Policy, Empowered Committee, Chief Economic Advisor (CEA) on Revenue Neutral Rate (RNR) and possible tax rates under GST. The proposed RNR is expected to be between 15 – 15.5% and the standard rate is estimated to be 18%. There has also been recommendations by the CEA for lower rates of taxes for certain sectors currently enjoying lower tax rates. However, the rate of taxation for textile products will be known once the GST council on its establishment.

Comparative Analysis and Impact of GST on Various segments of Textile Industry:

Impact on the textile industry can be ascertained once the exemption list is made available. With regard to the GST rates and the eligibility of input tax credit, the issue to be addressed is whether the present exemption under Central Excise which is a central levy will be translated to exemption under CGST and whether the VAT currently applicable in some states would be taxed under SGST is a question to be answered.

Based on the presumed standard rate of GST @ 18%, tax implication and flow is illustrated below:

Procurement - Credit Analysis :

Particulars	Raw Cotton		Filament Fiber		Polyester-Man made Fiber	
	Current	GST	Current	GST	Current	GST
Input	1000	1000	1000	1000	1000	1000
Add :						
Excise Duty*	-	-	-	-	-	-
CGST @9% (Est)	-	-	-	90	-	90
SGST @9% (Est)	-	-	-	90	-	90
IGST @9% (Est)	-	180	-	-	-	-
VAT @5%/ 14.5%	-	-	145	-	50	-
Interstate - CST @2%	20	-	20	-	20	-
Total Cost - Intra State	1000	1180	1145	1180	1050	1180
Total Cost - Inter State	1020	1180	1020	1180	1020	1180

*Excise duty is optional for textile industry. The estimates under GST regime are worked out based on the standard rate (18%).

Eligible Credit :

Particulars	Cotton		Filament Fiber		Polyester-Man made Fiber	
	Current	GST	Current	GST	Current	GST
CENVAT Credit Available	-	180	-	180	-	180
VAT Credit Available	-	-	145	-	50	-

Net Impact Under GST	High amount of cash flows on duties	High amount of cash flows on duties	High amount of cash flows on duties

As explained in the above example, we observe that there is an immediate cash outflow in the procurement stage. However, the same can be availed as input tax credit in the spinning stage.

Spinning Industries:

Particulars	Cotton Yarn		Filament Fiber		Polyester-Man made Fiber	
	Current	GST	Current	GST	Current	GST
Transaction Value (Sale Value)#	1200	1200	1200	1200	1200	1200
Add :						
Excise Duty @ 6%/12.5%	-	-	-	-	-	-
(CGST +SGST)/IGST @ 18% (Est)*	-	216	-	216	-	216
VAT @ 5%/14.5%	60	-	174	-	60	-
CST @ 2%	24	-	24	-	24	-
Eligible CENVAT Credit (Est.) c/f from procurement	-	(180)	-	(180)	-	(180)
Eligible Input Tax Credit (Est.) c/f from procurement	-	-	(145)	-	(50)	-
Net duty outflow – Intra state sale	60	36	29	36	10	36
Net duty outflow – Interstate sale	24	36	24	36	24	36
Total Impact – Intra state sale	1260	1236	1229	1236	1210	1236
Total Impact – Inter state sale	1224	1236	1224	1236	1224	1236

Weaving Industries/Knitting Industries

Particulars	Cotton Fabrics		Filament Fiber		Polyester-Man made Fiber	
	Current	GST	Current	GST	Current	GST
Transaction Value (Sale Value)#	1500	1500	1500	1500	1500	1500
Add :						
Excise Duty	-	-	-	-	-	-
(CGST +SGST)/IGST @ 18% (Est)**	-	270	-	270	-	270
VAT	-*	-	-*	-	-*	-
CST @ 2%	30	-	-	-	-	-
Eligible CENVAT Credit (Est.) c/f from spinning	-	(216)	-	(216)	-	(216)
Eligible Input Tax Credit (Est.) c/f from spinning	(60)	-	(174)	-	(60)	-
Net duty outflow – Intra state sale	-	54	-	54	-	54
Net duty outflow – Interstate sale	30	54	30	54	30	54
Total Impact – Intra state sale	1500	1554	1500	1554	1500	1554
Total Impact – Inter state sale	1530	1554	1530	1554	1530	1554

Currently, Excise duty is levied at concessional rate of 6%/12.5% (with CENVAT credit) or Nil (without CENVAT credit) for textile industry. It is yet to be clarified whether the concessional rate would continue under the GST regime

Readymade Garments:

Particulars	Cotton Yarn		Filament Fiber		Polyester Fiber	
	Current	GST	Current	GST	Current	GST
Transaction Value (Sale Value)#	2000	2000	2000	2000	2000	2000
Add :						
Excise Duty	72	-	150	-	150	-
(CGST +SGST)/IGST @ 18% (Est)*	-	360	-	360	-	360
VAT @ 5%	104	-	108	-	108	-
CST @ 2%	41	-	43	-	43	-
Eligible CENVAT Credit (Est.) c/f from Weaving/Knitting	-	(270)	-	(270)	-	(270)
Eligible Input Tax Credit (Est.) c/f from Weaving/Knitting	-	-	-	-	-	-
Net duty outflow – Intra state sale	176	90	258	90	258	90
Net duty outflow – Interstate sale	113	90	193	90	193	90
Total Impact – Intra state sale	2176	2090	2258	2090	2258	2090
Total Impact – Inter state sale	2113	2090	2193	2090	2193	2090

Excise duty for garments shall be calculated under section 4A of Excise act, 1944 - MRP Valuation. This is applicable when the value of readymade garments is greater than Rs. 1000. There is no concept of MRP under GST regime.

Setting off Input Tax Credit:

Under current regime, though there are many exemptions and benefits for the sector, the taxes paid at input stages have been blocked as there is no output tax liability at every stage. This distortion in the flow of tax likely to be rectified under GST regime by allowing credit on the input tax paid.

It is to be noted that the cost of the product under GST regime under spinning industry for both scenarios have considerably reduced as the input tax so paid in procurement stage has been allowed as credit under manufacturing of yarn.

Credit Mechanism under GST

Input tax credit shall be allowed on IGST, CGST and SGST. Credit of IGST can be used to set off IGST liability. Credit of IGST can also be used to set off both CGST and SGST liability. Credit of CGST and SGST shall be used to set off IGST liability. However, cross utilization of CGST credit against SGST liability or SGST credit against CGST liability will not be allowed.

Zero rated exports

Export of goods are zero rated under the GST regime. Therefore under GST, like in the present regime, exports will be zero rated with enabling provisions for refund of input taxes.

Import of products would continue to attract customs duty and also IGST under GST scenario. The sector is eligible for incentives, exemptions and any other benefits under Customs and Free Trade

Agreements (FTA) as the Customs and FTA provisions are to be continued under GST regime as well. It is pertinent to note that benefit under duty drawback which us under Customs Act would therefore continue.

Textile units operating under 100% EOU:

The Model GST law is silent on the modus operandi for the units under EOU schemes. There is an apprehension among the industries that the units currently operating under EOU scheme may have to forego their at source exemption facility and adopt the refund route. This may result in immediate cash flow for the industry. Section 10 of model GST law provides power to the Central Government or State government to grant exemption from payment of CGST/SGST. There is a fair expectation that the respective government may come out with exemption notification providing tax relief at sourcing stage for units operating under EOU Scheme. Imports by EOU will continue to be governed by the Customs Act. Therefore present exemptions for import by EOU will continue

Provisions for products sold on Maximum Retail Price

Currently, some of the textile products like ready-made garments /apparels/accessories are subject to MRP based levy of excise duty. On these products excise duty is levied on all garments whose MRP is higher than INR 1000. Duty excise duty shall be levied on such value after an abatement of 40%.

Under GST regime, MRP based levy will be of no relevance and the value of the goods shall be the transaction value. Therefore, rate of tax shall be applied on the transaction value on the supply of readymade garments.

Transitional Provisions:

Below are the important transitional provisions addressed in the GST model law:

Provisional registration will be issued which shall be valid for the period of six months from the appointed date. Final registration under GST may be obtained on submission of documents in the manner prescribed

Carrying forward of the eligible Credit under existing indirect tax regime is allowed.

Any pending refund claims will be disposed off under current indirect tax laws.

Challenges for Textile industry under GST

Some of the challenges present under the current regime continue even in the GST regime. Below are some of the major impacts on textile industry out of taxes not subsumed under GST;

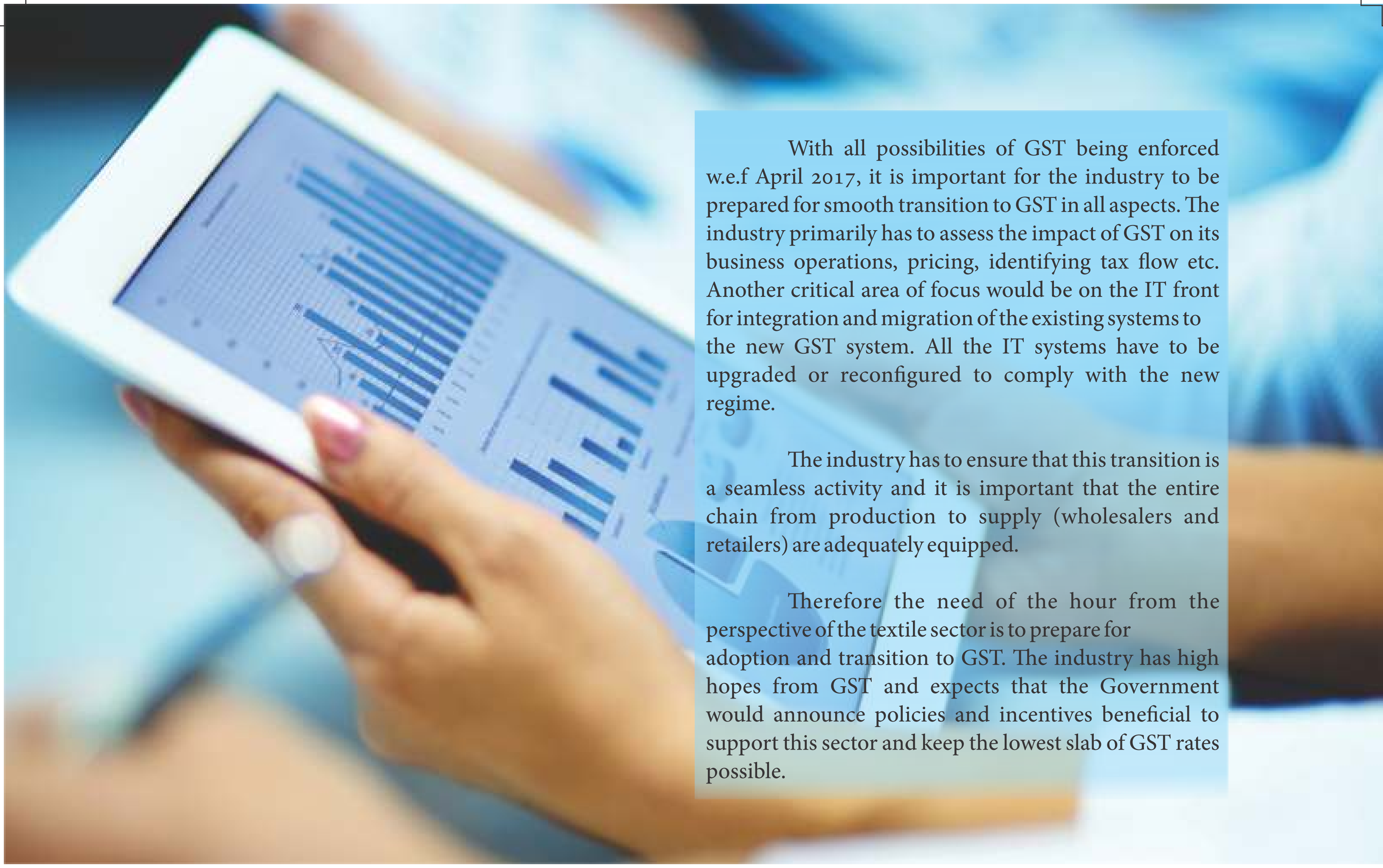
Usage of power where the power is used partly for production and partly given to the grid power is kept outside the purview of GST)

Taxes paid on the petroleum products such as HSD, Furnace oil and it non availability of credit which would result in increase in the manufacturing cost

Taxes paid on the construction of factory building /immovable property not available as credit

Working capital impact on account of payment of GST on stock transfers/ payment GST on advances received against future supply of textile goods.

Administration of certain class of entrepreneur in Unorganized sectors like power loom/independent weavers located across the Country.



With all possibilities of GST being enforced w.e.f April 2017, it is important for the industry to be prepared for smooth transition to GST in all aspects. The industry primarily has to assess the impact of GST on its business operations, pricing, identifying tax flow etc. Another critical area of focus would be on the IT front for integration and migration of the existing systems to the new GST system. All the IT systems have to be upgraded or reconfigured to comply with the new regime.

The industry has to ensure that this transition is a seamless activity and it is important that the entire chain from production to supply (wholesalers and retailers) are adequately equipped.

Therefore the need of the hour from the perspective of the textile sector is to prepare for adoption and transition to GST. The industry has high hopes from GST and expects that the Government would announce policies and incentives beneficial to support this sector and keep the lowest slab of GST rates possible.

A STEP IN THE Right Direction ?

Q&A

1.What is GST? How does it work?

GST is one indirect tax for the whole nation, which will make India one unified common market.

GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

2. What are the benefits of GST?

The benefits of GST can be summarized as under:

For business and industry

> Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

> Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

> Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

> Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

> Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For Central and State Governments

> Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

> Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

> Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For Central and State Governments

> Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

> Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

3. Which taxes at the Centre and State level are being subsumed into GST?

At the Central level :

a. Central Excise Duty,
b. Additional Excise Duty,
c. Service Tax,
d. Additional Customs Duty commonly known as Countervailing Duty, and
e. Special Additional Duty of Customs.

At the State level :

a. Subsuming of State Value Added Tax/Sales Tax,
b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
c. Octroi and Entry tax,
d. Purchase Tax,
e. Luxury tax, and
f. Taxes on lottery, betting and gambling.

4. What are the major chronological events that have led to the introduction of GST?

GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:

a. In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.

b. A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.

c. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).

d. Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.

e. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.

f. In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.

g. Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.

h. This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.

i. The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:-

(a) Committee on Place of Supply Rules and Revenue Neutral Rates;
(b) Committee on dual control, threshold and exemptions;
(c) Committee on IGST and GST on imports.

j. The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.

l. The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.

m. The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.

n. In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.

o. Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.

5.How would GST be administered in India?

Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

6.How would a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed

threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise.

A diagrammatic representation of the working of the Dual GST model within a State is shown in Figure 1 below.

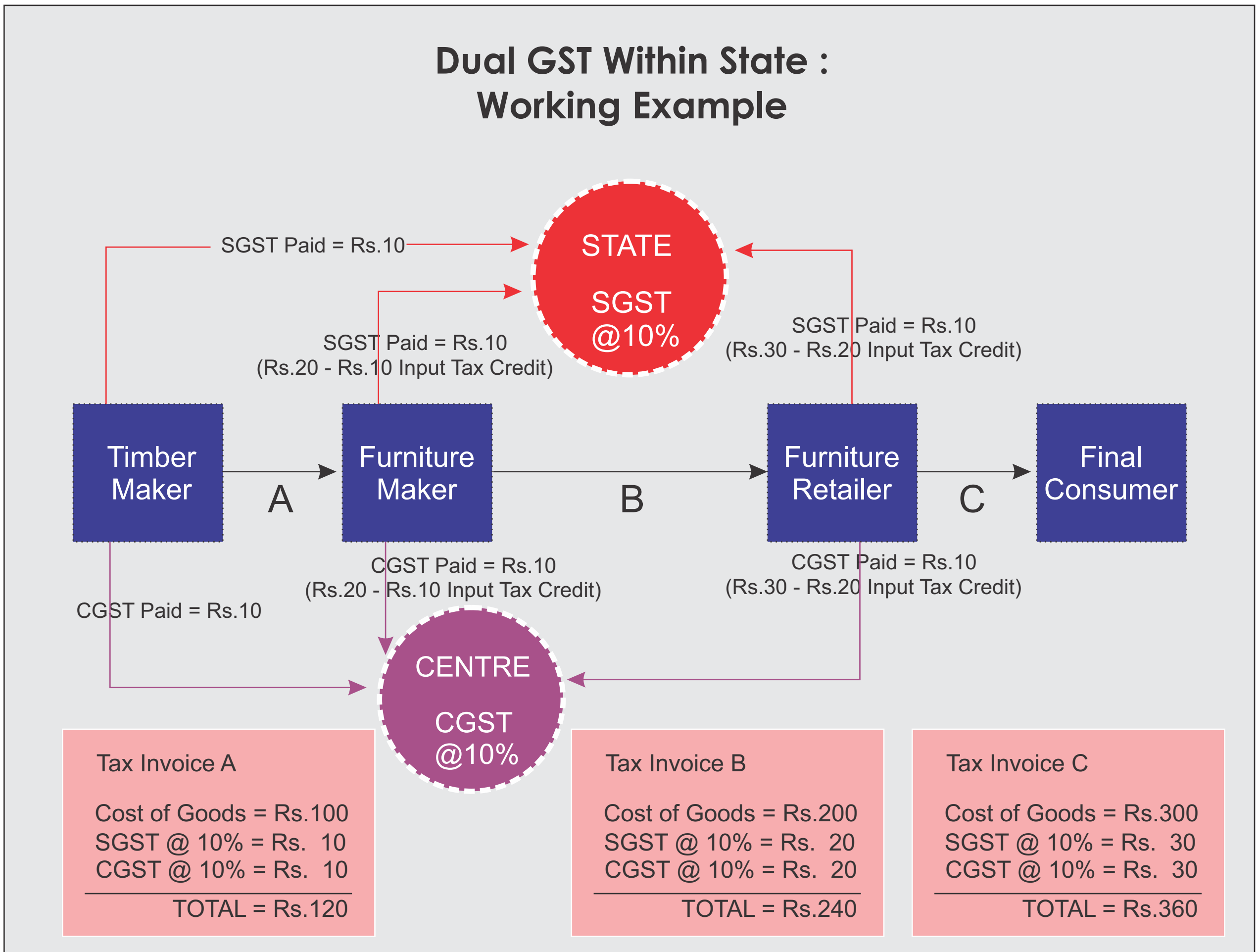


Figure 1

7.Will cross utilization of credits between goods and services be allowed under GST regime?

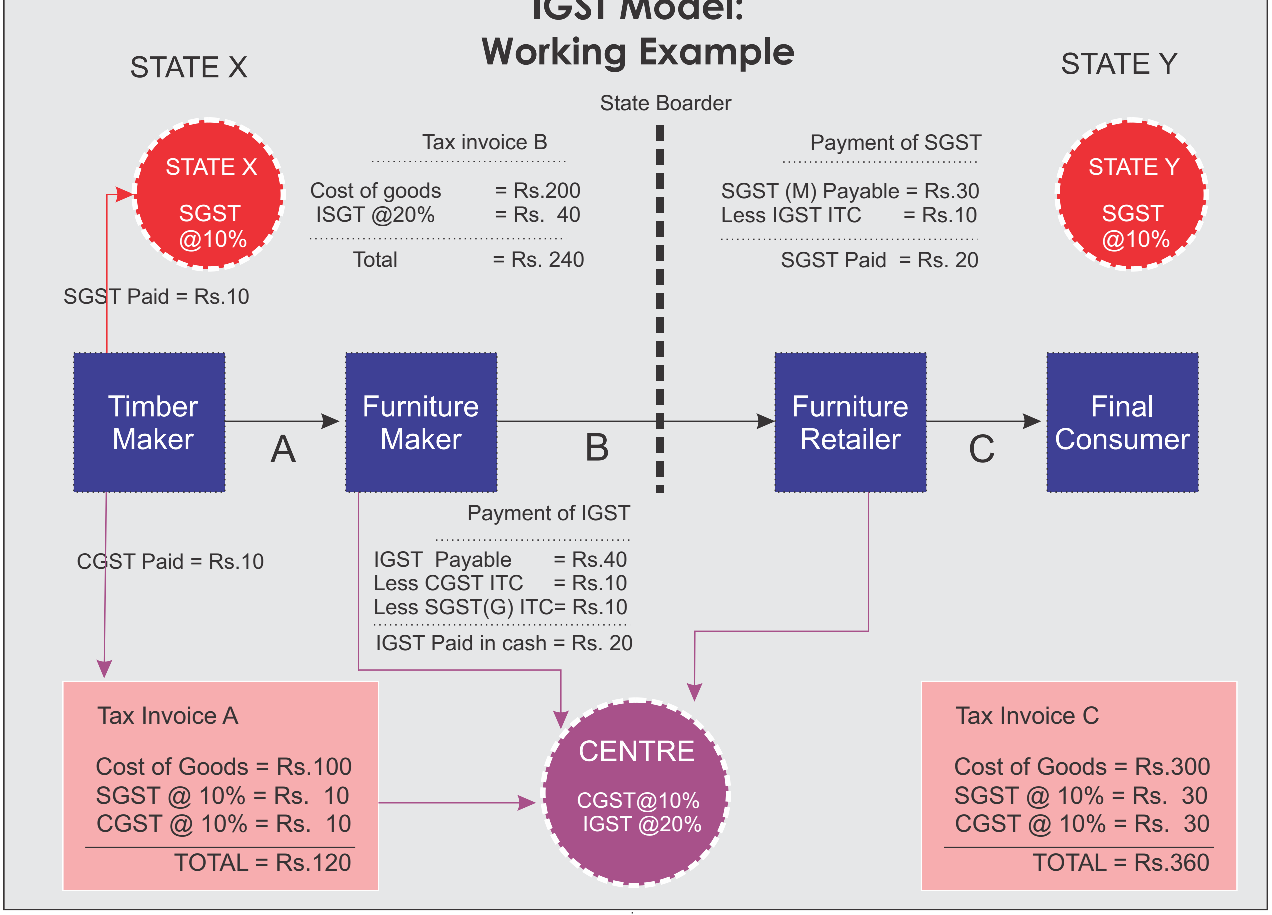
Cross utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would not be allowed except in the case of inter-State supply of goods and services under the IGST model which is explained in answer to the next question.

8.How will be Inter-State Transactions of Goods and Services be taxed under GST in terms of IGST method?

In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State.

A diagrammatic representation of the working of the IGST model for inter-State transactions is shown in Figure 2 below.

Figure 2



9.How will IT be used for the implementation of GST?

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.

There would no manual filing of returns. All taxes can also be paid online. All mis-matched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.

10.How will imports be taxed under GST?

The Additional Duty of Excise or CVD and the Special Additional Duty or SAD presently being levied on imports will be subsumed under GST. As per explanation to clause (1) of article 269A of the Constitution, IGST will be levied on all imports into the territory of India. Unlike in the present regime, the States where imported goods are consumed will now gain their share from this IGST paid on imported goods.

11.What are the major features of the Constitution (122nd Amendment) Bill, 2014?

The salient features of the Bill are as follows:

g. Conferring simultaneous power upon Parliament and the State Legislatures to make laws governing goods and services tax;

h. Subsuming of various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, and Special Additional Duty of Customs;

i. Subsuming of State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling;

j. Dispensing with the concept of 'declared goods of special importance' under the Constitution;

k. Levy of Integrated Goods and Services Tax on inter-State transactions of goods and services;

l. GST to be levied on all goods and services, except alcoholic liquor for human consumption. Petroleum and petroleum products shall be subject to the levy of GST on a later date notified on the recommendation of the Goods and Services Tax Council;

m. Compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years;

n. Creation of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, taxes, cesses and surcharges to be subsumed, exemption list and threshold limits, Model GST laws, etc. The Council shall function under the Chairmanship of the Union Finance Minister and will have all the State Governments as Members.

12.What are the major features of the proposed registration procedures under GST?

The major features of the proposed registration procedures under GST are as follows:

i. Existing dealers: Existing VAT/Central excise/Service Tax payers will not have to apply afresh for registration under GST.

ii. New dealers: Single application to be filed online for registration under GST.

iii. The registration number will be PAN based and will serve the purpose for Centre and State.

iv. Unified application to both tax authorities.

v. Each dealer to be given unique ID GSTIN.

vi. Deemed approval within three days.

vii. Post registration verification in risk based cases only.

13.What are the major features of the proposed returns filing procedures under GST?

The major features of the proposed returns filing procedures under GST are as follows:

a. ***Common return*** would serve the purpose of both Centre and State Government.

b. There are eight forms provided for in the GST business processes for filing for returns. Most of the average tax payers would be using only four forms for filing their returns. These are return for supplies, return for purchases, monthly returns and annual return.

c. ***Small taxpayers***: Small taxpayers who have opted composition scheme shall have to file return on quarterly basis.

d. Filing of returns shall be completely online. All taxes can also be paid online.

14.What are the major features of the proposed payment procedures under GST?

The major features of the proposed payments procedures under GST are as follows:

i. Electronic payment process- no generation of paper at any stage
ii. Single point interface for challan generation- GSTN
iii. Ease of payment – payment can be made through online banking, Credit Card/Debit Card, NEFT/RTGS and through cheque/cash at the bank
iv. Common challan form with auto-population eatures
v. Use of single challan and single payment .instrument
vi. Common set of authorized banks
vii. Common Accounting Codes

Monthly Exports Update on

Textile and Clothing

India's T&C exports did not gain any momentum in July 2016 and were down by -8.1% in USD terms when compared with the July 2015, while all commodity exports (-6.8%) were also down in July 2016 over the same month of previous year. Cumulative export growth of T&C for April-July 2016 was subdued and were down by -4.5% and cumulative decline was marginally lower than the all commodity exports (-5.1%) cumulative growth over the same period of previous year.

India's T&C exports in July 2016 were to the tune of USD 2889.5 mn. as against USD 3143.7 mn. in July 2015.

T&C exports for cumulative month of April-July 2016 stood around USD 11739.3 mn. as against USD 12289.8 mn. in April-June 2015.

For the month of July 2016; monthly exports of Handicrafts (12.8%), was positive while rest categories of exports are negative. Textiles (-10.1%) and clothing (-6.0%) both were down in July2016 compared to same month of the previous year.

In the first four months of this fiscal all T&C subsectors have registered negative growth in exports except for handicrafts (38.2%).

Monthly Export Updates of Textile and Clothing Exports, (Exports in USD Mn.)

Export catagory	Exports in USD mn.					
					% Change	
	July _ 15	Cumulative (Apr-July) 2015- 16	July-16	Cumulative (Apr-July) 2016-17	Monthly (July 16/ July 15)	Cumulative (Apr-July 16)/ (April-July15)
Cotton Yarn/Fabs./made-ups, Handloom Products etc.	894.4	3390.0	752.9	3126.3	-15.8	-7.8
Man-made Yarn/Fabs./made-ups etc.	398.1	1627.7	379.7	1489.5	-4.6	-8.5
RMG of all Textiles	1547.2	6142.2	1454.5	5836.7	-6.0	-5.0
Jute Mfg. including Floor Covering	45.5	137.4	35.8	127.4	-21.2	-7.3
Carpet	126.3	496.6	117.4	474.2	-7.1	-4.5
Handicrafts excl. handmade carpet	132.2	495.9	149.1	685.3	12.8	38.2
Textiles	**1596.5**	**6147.6**	**1434.9**	**5902.6**	**-10.1**	**-4.0**
Clothing	**1547.2**	**6142.2**	**1454.5**	**5836.7**	**-6.0**	**-5.0**
Textile and Clothing	**3143.7**	**12289.8**	**2889.5**	**11739.3**	**-8.1**	**-4.5**
All Commodity	**23281.2**	**89972.1**	**21689.57**	**84998.9**	**-6.8**	**-5.5**

Source: Ministry of Commerce and Industry, Quick Estimates, Aug.2016

Quick Estimates of IIP for

Textile and Clothing Sector (T&C)

The Quick Estimates of Index of Industrial Production (IIP) for the month of June 2016 have been released by the Central Statistics Office (CSO) of the Ministry of Statistics and Program Implementation (MOSPI) on 13th Aug. 2016.

The General Index for the month of June 2016 stands at 183.0, which is 2.1 percent higher as compared to the level in the month of June 2015. The cumulative growth for the period April-June 2016 over the corresponding period of the previous year stands at 0.6 percent

The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of June 2016 had growth rates of 4.7 percent, 0.9 percent and 8.3 percent as compared to June 2015. The cumulative growth in these three sectors during April-June 2016 over the corresponding period of 2015 has been 2.3 percent, (-) 0.7 percent and 9.0 percent respectively.

In terms of industries, eighteen out of the twenty two industry groups in the manufacturing sector have shown positive growth during the month of June 2016 as compared to the corresponding month of the previous year. The industry group 'Radio, TV and communication equipment & apparatus' has shown the highest positive growth of 15.8 percent followed by 8.8 percent in 'Motor vehicles, trailers & semi-trailers' and 8.7 percent in 'Other transport equipment'. On the other hand, 'Electrical machinery & apparatus n.e.c. has shown the highest negative growth of (-) 46.1 percent, followed by (-) 13.8 percent in 'Luggage, handbags, saddlery, harness & footwear; tanning and dressing of leather products' and (-) 9.0 percent in Furniture; manufacturing.

Among the T&C i.e. textile (5.2%) and wearing apparel (5.8%) have shown positive growth in the June 2016 over the same month of previous year. Similarly, combined T&C sector IIP have also registered positive growth of 5.4% in June 2016 compared to the corresponding month of previous year. **Cumulative change for April-June 2016-17 for textiles, wearing apparel and T&C were 2.5%, 1.3% and 2.7% respectively over the April-June 2015-16.**

Table 1: T&C in Index of Industrial Production (IIP) : Growth Rates (%, Y-o-Y)

Sector	2014-15	2015-16	Jun-15	Jun-16
Textiles	2.7	2.6	1.1	5.2
Wearing apparel	5.4	6.7	27.6	5.8
T&C Sector*	3.6	4.0	9.4	5.4

Source: Estimates from CSO Data, Aug. 2016

* Based on CITI Estimates (Calculated by adding the textile and wearing apparel weights)

Trend in T&C Production Growth FY 2016-17

Month and Year	Monthly Textiles	Monthly Wearing Apparel	Monthly T&C Sector	Cumulative Textiles	Cumulative Wearing Apparel	Cumulative T&C Sector
April	3.4	1.0	2.5	3.4	1.0	2.5
May	4.5	-1.2	2.4	2.0	-0.1	1.3
June	5.2	5.8	5.4	3.2	1.9	2.7

Source: Estimates from CSO Data, August. 2016