

# [The oldest contributors to the economy and is](https://assignbuster.com/the-oldest-contributors-to-the-economy-and-is/)

The Indian Textile Industry is a major contributor to the economy as it contributes roughly around12 percent of the GDP of the country. It is one of the oldest contributors to the economy and is thesecond largest contributor, right after agriculture. The Indian textile industry provides a hugechunk of employment to skilled and unskilled labours.

The industry contributes hugely towardsexport as 10 to 15 percent of the total exports is from the Textile Industry itself. This is one of thevery few industries that is vertically integrated and has huge potential for considerable expansion. The textile industry has two major segments: a.) Yarn and Fibre (Natural and Man-made)b.

) Processed fabrics and readymade garmentsTHE EARLIER TAX REGIMEThe earlier tax regime consisted of indirect taxes under various sectors. The textile industry wastaxed both under the central and state regimes. The regime was charged the Central Excise Duty. Special excise duty and additional duty were also charged. Under this structure no input tax creditwas charged and cotton tax was payable at the time of removal. The structure comprised of VATwhich is a form of sales tax levied by the state. Tax is payable at the time of sale and tax is addedon every stage depending on the inputs added.

The regime taxed central sales tax which is collectedby the union and retained by the state as well as entry tax , customs duty along with exportincentives. IMPACT OF GST ON THE TEXTILE INDUSTRYWith the implementation of GST the contribution of the industry towards exports has increasedsignificantly. GST has increased the tax rate for the industry than it was previously. Under theearlier regime wool and cotton were exempted from the tax structure altogether. A huge amountof the textile industry falls under the unorganised sector and this creates a gap in the flow of theinput tax credit as under the unorganised sector there are no registered taxpayers and there are noinputs from them. The implementation of GST has helped in curbing the unorganised sector and asmooth flow in the input tax credit.

GST has helped in bringing down the manufacturing cost bycutting down on fringes like octroi, entry tax, luxury tax etc. GST has streamlined the process ofclaiming input tax credit and made the textile industry more competitive in the global market. Under GST input tax credit is being provided as a refund and thus duty drawbacks have lost theirsignificance. GST is helping the textile industry in the long run by getting more registeredtaxpayers under a well-regulated system and creating an environment for long sustainable growth.

Some GST Negative Impact on Textile Industry1. Goods Transfers as Stock: Transfer of Goods to other place will be liable for GST if thetransfer is in the course of inter-state trade. If there are separate dealerships of a dealer and separateGST registration number is obtained for each such dealership, then transfer of any supply betweensuch dealerships will also be liable for GST.

Whereas there is no CST/Tax on stock transfer2. Advance Booking: It is necessity in this sector to book Goods in advance to meet marketdemand on payment of certain amount as token money. In GST System Tax has to pay on advancereceived for booking whereas Currently, VAT is not being paid on such advances as the same ispayable at the time of sale of such Goods. 3. Road Tax/ Environment Tax: In the GST System, GST must also include Road Tax. GSTmodel act states that no taxes shall be allowed as reduction from the value except CGST, SGSTand IGST. Whereas Currently, Service tax or VAT is not paid on the Road Tax element.

4. Post Supply Discounts: Generally, dealers receive various discounts from its manufacturersbased on targets, goods lifted etc. It is to note that post supply discounts will not be allowed asdeduction from the value if the same is not linked to any invoice in the GST return. 5. Related Party Transactions: Transaction value can be rejected if the transaction is with anyrelated party or if the same is with any of its other entity with separate GST No.

Therefore, valuein such cases will be calculated on the basis of valuation rules.