

FinMin notifies 12% GST on manmade fibre, yarn, fabrics, apparel from Jan 1

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Addressing the duty anomaly in manmade textile industry, the Finance Ministry has notified uniform 12 per cent GST rate on manmade fibre (MMF), yarn, fabrics and apparel. This move is expected to rectify the inverted tax structure in the MMF textile value chain.

As of now, MMF, MMF yarn and MMF fabrics attract GST at 18 per cent, 12 per cent and 5 per cent, respectively.

Taxing inputs at higher rates than finished products created build up of credits and cascading costs. It further led to accumulation of taxes at various stages of the MMF value chain and blockage of crucial working capital for the industry.

In its last meeting on September 17, GST Council had decided that the inverted duty anomalies in the textile sector would be corrected from January 1, 2022. The Central Board of Indirect Taxes and Customs (CBIC) put this decision to effect on November 18 by notifying 12 per cent GST rate for MMF, MMF yarn and MMF fabrics.

Experts said though there is a provision in GST law to claim the unutilised Input Tax Credit (ITC) as a refund, there were other complications and resulted in more compliance burden. The inverted tax structure caused an effective increase in the rate of taxation of the sector.

The world textiles trade has been moving towards MMF but India was not able to take advantage of the trend as its MMF segment was throttled by the inverted tax regime, they said, adding the correction in duty anomaly will help the segment grow and emerge as a big job provider.

EY Tax Partner Bipin Sapra told PTI that the rate changes in the textile industry is the first of the changes promised by the GST Council with an aim to rectify inverted duty structure and bring an efficient tax structure for a given sector.