



# GST: Frequently Asked Questions (FAQs) for TEXTILES

**Q1** As per Chapter 53 heading 5303 of the GST rate schedule, raw jute has been kept at the NIL rate slab. Thus, it is presumed that suppliers dealing only in raw jute are not required to register themselves under GST. But Jute Mills are asking their raw jute suppliers to mandatorily register themselves else their supplies would not be accepted. Please clarify whether raw jute suppliers are liable for registration?

**Ans** Raw jute has been kept at NIL rate of GST i.e. there would be no tax on raw jute. Therefore, as per Section 23(1)(a) of the CGST Act, 2017 the suppliers dealing only in raw jute are not required to register. Jute mills are not required to pay tax under Reverse Charge Mechanism (RCM) as mentioned under Section 9(4) of the CGST Act, 2017 because raw jute is exempt from GST. Similarly, Raw Silk has also been kept at NIL rate of GST i.e. there would be no tax on raw silk. Therefore, the suppliers dealing only in raw silk are also not required to register.

**Q2** Cotton under chapter heading 5201 and 5203 has been kept in 5% rate slab. Does this mean that cotton farmer is required to register under GST?

**Ans** No. As per Section 23(1)(b) of the CGST Act, 2017 an agriculturist, to the extent of supply of produce out of cultivation of land is not liable to registration.

**Q3** Does the buyer of raw cotton (who is a registered person) from the farmer need to pay GST on Reverse Charge basis?

**Ans** Yes. As the cotton under heading 5201 and 5203 has been placed under 5% rate and the cotton farmer is not liable to registration, the buyers of raw cotton (who are registered persons) from the farmers are required to pay tax on reverse charge basis as per Section 9(4) of the CGST Act, 2017.

**Q4** In respect of goods classified under Chapters 61, 62 and 63, the rate of tax for goods of sale value not exceeding Rs. 1000/- is 5% and for those exceeding Rs. 1000/- is 12%. Is this value transaction value or MRP?

**Ans** As per the rate schedule, all goods of sale value not exceeding Rs. 1000/- per piece would be taxed at 5% and the goods of sale value exceeding Rs. 1000/- per piece would be taxed at 12%. Therefore, it is the sale value i.e. the transaction value on which the tax has to be paid and not the MRP.

**Q5** No rates have been announced for Jute bags and Jute blended bags. It is feared that they may be placed under Chapter 42 for leather wherein the rate for leather bags is indicated as 28%. It is suggested that the Jute bags may be kept at zero % to promote production of green Jute diversified products for combating pollution and safe guarding environment?

**Ans** The bags made of jute are clearly specified in the rate schedule under heading 4202 22 30. The rates for Hand bags and shopping bags of jute is 18%.

**Q6** Man-made textile yarns have been kept at 18% while fabrics have been kept at 5%. If I buy yarn worth Rs. 100 by paying tax at 18% i.e. Rs. 18/- and I sell grey fabrics at Rs. 150/- considering 50% value addition by paying tax at 5% i.e. Rs. 7.50, what will be the treatment of remaining input credit of Rs. 11.50. Whether I would get refund of remaining credit and how much credit would I get?

**Ans** You will be eligible for full ITC of Rs. 18/- paid on your inputs i.e. yarn but whatever credit remains unutilized will remain in your electronic credit ledger and no refund of the same will be allowed.

**Q7** We are a small saree manufacturer at Surat. We buy ready dyed fabrics and get job work, hand work, stitching etc. done to create designer sarees. Wholesalers and retailers from all over India buy these sarees on credit basis for 30 days to 240 days. I as a trader have some queries regarding implementation of GST from 1<sup>st</sup> July, 2017:

(a) Whatever is sold, 15-30% is returned. What would be treatment of goods returned and how would I adjust my tax liability if the entire GST has already been paid?

(b) What would happen to my opening stock on 1<sup>st</sup> July 2017. Will I get input credit on it or do I just need to supply it after adding 5% GST on it?

(c) Is government assuring of payment within 180 days. There are rumours that the wholesaler/retailer has to pay within 180 days. Is it true?

(d) How will I make my invoices if a buyer under the composition scheme comes to buy our sarees?

(e) We are confused about GST implementation as there was no tax on us before. Will we get relaxation for the return filing?

**Ans** (a) You can issue a credit note in respect of the goods returned and adjust your tax liability if the person returning the goods has reversed the credit availed by him at the time of original supply. Such credit note cannot be issued after September of the following year or filing of annual return whichever is earlier.

(b) Full credit of the tax paid on the stock would be available if the documents evidencing tax payment are available. However, if only documents relating to procurement are available with no documents evidencing tax payment, deemed credit would be admissible as your product was not unconditionally exempt from the whole of the duty of excise under the Central Excise Tariff. Such credit would be available after the tax has been paid on supply of these goods. This facility is available for 6 months period only or till the date of sale of such stock whichever is earlier and is limited to 40% of the central tax paid by you.

(c) As per the second proviso to Section 16(2)(d) of the CGST Act, 2017 if a recipient of the supply does not pay to its supplier the value of the supply along with the tax within 180 days from the date of issue of invoice by the supplier, the amount of ITC availed proportionate to the unpaid amount would be added to the output tax liability of the recipient of the supply along with the interest thereon. The credit so reversed can be reclaimed when the value is paid to the supplier along with the tax thereon. Thus the government is not assuring payment within 180 days.

(d) A normal invoice has to be issued irrespective of whether the buyer is under composition scheme or not. The difference would be only when you receive supplies from the person registered under the composition scheme.

(e) Relaxation in filing of returns for the month of July and August, 2017 has already been provided as per which for the first two months of GST implementation, the tax would be payable based on a simple return (Form GSTR-3B) containing summary of outward and inward supplies which will be submitted before 20<sup>th</sup> of the succeeding month. However, the invoice-wise details in regular GSTR-1 would have to be filed for the month of July and August, 2017 as per the timelines given below:

| Month        | GSTR - 3B                     | GSTR - 1                      | GSTR-2 (auto populated from GSTR-1)           |
|--------------|-------------------------------|-------------------------------|---|
| July, 2017   | By 20 <sup>th</sup> August    | By 5 <sup>th</sup> September  | 6 <sup>th</sup> - 10 <sup>th</sup> September  |
| August, 2017 | By 20 <sup>th</sup> September | By 20 <sup>th</sup> September | 21 <sup>st</sup> - 25 <sup>th</sup> September |

**Q8** I have a manufacturing unit of Cotton trouser where customer gives me fabric and I have to convert it into trouser. What would be the rate applicable on me 5% or 18%?

**Ans** The services provided by you fall under the category of job work by virtue of the definition of job work provided under Section 2(68) of the CGST Act, 2017. The rate for job work in relation to trouser, which is a wearing apparel, is 18%.

**Q9** We are manufacturing floor coverings falling under Chapter 57. As per GST Council meeting dated 11.06.2017, the rate on Coir mats, matting and floor coverings falling under Chapter 57 have been reduced from 12% to 5%. Kindly clarify as to whether rate of 5% will be applicable on all types of matting and floor coverings of Chapter 57 or only to those made of coir?

**Ans** 5% rate will apply to only the specified items of coir.

**Q10** We are manufacturing laminated textile under Chapter 59. Previously, our product was exempted under Notification no. 30/2004-CE. But in States we were paying 4% VAT. Also we are doing job work of textile lamination for some customers. Our invoice value is sum total of raw material used for job work, labour charges and profit. Under GST regime:

(a) Whether we will get input credit on material?

(b) How can we make invoice, which rate, or we have to make two different invoice, one for material used for lamination and other for service charges?

**Ans** (a) Yes. You would be eligible for credit of tax paid on material used for job work.

(b) No. You are not required to raise two different invoices. You would be raising one invoice similar one to what you have been doing till now and GST at the applicable rate will be charged on the invoice value. You can pay your tax liability by using Input Tax Credit (ITC). However, invoice should carry all the details as required by the CGST Act, 2017 and the CGST Rules.

**Q11** We are in furnishing fabrics industries for curtain and upholstery fabrics. We mainly deal in woven, knitted, polyester and coated fabrics. You are requested to help us to know the chapter number under which our fabrics as mentioned herein above are covered and GST rate applicable to us?

**Ans** The woven fabrics are classifiable under the various headings depending upon their composition. The knitted or crocheted fabrics fall under Chapter 60. Polyester fabrics fall under Chapter 54 and 55 and coated fabrics fall under Chapter 59.

**Q12** There is a gross confusion on the tax applicable for embroidered sarees and fabric. Typically, principal manufacturers supply fabric/sarees to jobworkers and get various embroidery designs done on the fabric/sarees. We understand that the textile jobworker would charge an output supply GST of 5% on the composite jobwork supply. This embroidery fabric/ saree are then sold by the principal manufacturers to wholesale and retail sellers. What would be the output GST applicable on such embroidered fabric/sarees when the same is sold by the principal manufacturer?

**Ans** The rate of 5% would be chargeable on the job process relating to the textile yarns (other than man-made fibre/filament) and fabrics. Sarees are treated as fabrics and a saree remains fabrics only as no new item emerges having distinct name, character and use. Therefore, the sarees whether embroidered or not would be taxed at the same rate at which the fabric is taxed.

**Q13** Will the 5% fabric GST be applied or 12% GST on embroidery strips/badges be applicable?

**Ans** Embroidery strips/ badges (narrow woven fabrics) are classified under heading 5810 and chargeable to tax at 12%.

**Q14** What is the difference between fabric and made-ups? Whether shawl is a fabric or apparel or made-up? What is the rate applicable on shawls?

**Ans** Shawls fall in the category of articles of apparel and clothing accessories and are classified under heading 6117, if knitted or crocheted and under heading 6214, if not knitted or crocheted. The rate of tax is 5% if the sale value of shawl does not exceed Rs. 1000/- per piece and the rate is 12% if the sale value exceeds Rs. 1000/- per piece.

**Q15** Dress material are sold by length. They can include upto 3 pieces. These can be plain or embroidered (value-addition or further worked upon). Where should dress material be classified?

**Ans** Dress sets are classified under heading 6307 and the rate of tax on the dress materials/patterns is similar to the apparels i.e. for dress material of sale value not exceeding Rs. 1000/-, tax at 5% would be charged and for dress material of sale value exceeding Rs. 1000/-, tax at 12% would be charged.

**Q16** Please clarify the ITC (HSN) of yarn made from worn clothing, the material composition of which varies from lot to lot. It is uncertain as the clothing may be of cotton/woollen/man made fibre?

**Ans** Under HSN, the classification of yarn is on predominance basis. So the yarn having predominance of wool would fall under Chapter 51. If all kinds are in equal proportion i.e. no fibre is predominant, it will get classified in the chapter covering the fibre last in the numerical order, so Chapter 54 or 55 in case MMF are present.

**Q17** What would be the GST rate on old cotton dhoti used for cleaning purpose? If it is a used product recycled for cleaning purpose. Is there any GST on old dhoti because there is no VAT on old dhoti?

**Ans** Dhoti is classifiable under Chapter 52 or Chapter 54 as fabrics. Old dhoti is classifiable under heading 6309 as worn clothing. The tax for chapter 63 is similar to apparels and related to sale value whereas cotton fabrics/man-made fabrics, irrespective of value, are taxed at 5%. Whatever be the classification, as presumably the old cotton dhoti would be below the sale value of Rs.1000/- per piece, it would be taxed at 5%.

**Q18** We are small traders of textile dealing in suiting, shirting, sarees, dress material, blankets, dhoti etc. We have some queries regarding implementation of GST from 1<sup>st</sup> July 2017:

(a) What will be the status of opening stock of textile items? Will 5% be added on closing stock as on 30<sup>th</sup> June 2017?

(b) What is the GST rate in fabrics, as there are various types of fabrics like cotton, synthetics, man-made fabrics, acrylic, mixture of cotton and other fabrics etc. Will there be flat rate of 5% on all fabrics or different rate?

(c) Please provide clarification on HSN number. Is it mandatory to quote in invoice by B2C traders & B2B traders? Further there are various codes in one type of item, would it not create confusion among traders?

(d) As per news in some business news channels, Input Tax Credit would not be allowed in textile for some period? Please clarify.

(e) Is Rs 1000/- bracket for 18% rate applicable on sarees and suit lengths or will it attract flat rate?

**Ans** (a) When you make supplies out of this stock after 1<sup>st</sup> July, 2017 you will be liable to pay tax as applicable to the goods sold by you.

(b) GST rate on fabric is flat 5% irrespective of composition.

(c) Upto Rs. 1.5 cr. turnover, no HSN code is required to be mentioned. For those having turnover of Rs. 1.5 to 5 cr., first 2 digits of the HSN code are required i.e. the chapter number. Only those who have turnover above Rs. 5 cr. are required to mention 4 digits of the HSN code. You will start getting the HSN code in your supplier's invoice, so it would not cause any issues once the supplies under new regime take place.

(d) ITC would be admissible as per the transitional provisions of GST Law.

(e) Rate of tax linked to the sale value applies only to garments and not for sarees and suit lengths which are fabrics.

**Q19** I am an un-registered trader dealing in textile fabrics which was exempted from tax under the State VAT Act. If I get registered under the GST Act, will I be eligible to avail of Input Tax Credit on my stock of goods lying on the appointed day?

**Ans** Since the goods you are dealing with are exempted from tax under the State Act, you will not be eligible to avail input tax credit as SGST under the SGST Act, 2017 on your stock of goods lying on the appointed day. But, you will be eligible to avail CENVAT credit as Central Tax on your stock if you have invoices or other prescribed documents evidencing payment of excise duty under the existing law and such invoices/prescribed documents were issued not earlier than twelve months immediately preceding the appointed day. Your product was not unconditionally exempt from the whole of the duty of excise under the Central Excise Tariff. If you do not possess invoices/other documents evidencing payment of excise duty in respect of your stock of goods, you will be allowed to avail input tax credit on goods held in stock on the appointed day at the rate of 40% of the Central Tax on your intra-State supply of goods after the appointed day or 20% of the Integrated Tax on your inter-State supply of goods after paying Central Tax/Integrated Tax on such supply. You are allowed to enjoy the scheme for six months from the appointed day or till such stock is sold out, whichever is earlier, and tax paid by you shall be credited as Central Tax in your electronic credit ledger.

**Q20** I am a manufacturer of readymade garments. If I send any inputs to the job worker, will it be treated as taxable supply under the GST Act? Can I supply the goods after completion of job work from the place of business of the job worker?

**Ans** You can send your inputs or capital goods to a job-worker for job work without payment of tax and also bring back the same, after completion of job work, within one year or three years respectively. You can also supply the inputs or capital goods from the place of business of the job worker subject to the condition that you have to declare the place of business of the job-worker as your additional place of business if the job-worker is not a registered person. However, if the inputs or the capital goods, other than moulds and dies, jigs and fixtures or tools, which have been sent to the job-worker are not received back within the specified time period, it shall be deemed that you have supplied the inputs or capital goods on the day when you have sent it to the job-worker and you have to pay tax on such supply accordingly.

**Note:** Reference to CGST Act, 2017 includes reference to SGST Act, 2017 and UTGST Act, 2017 also.

Disclaimer : The replies given above are only for educational and guidance purposes and do not hold any legal validity.

