



GST

Customised FAQs for the clothing industry

Updated on: June 17, 2017

SUPPLY

QUERY 1

What will be the IGST impact on imports from countries with whom India has trade agreements, as a result of which there exists a concessional rate for CVD for import?

ANSWER

- Under GST, the CVD will be replaced with an Integrated Tax equivalent to IGST.
- The importer should check if similar exemptions/ concessions are continued under the IGST list of exemptions and concessions
- In any event, credit of the Integrated tax on import will be available to the importer (subject to restrictions)

QUERY 2

How will supply of vouchers be taxed under GST?

ANSWER

- The GST on vouchers will be payable at the following point in time:
 - If the supply of goods/ services which will be made against the voucher is known when the voucher is issued, the time of supply will be the date of issuance of the voucher
 - If the supply which will be made against the voucher is not known when the voucher is issued, the time of supply will be the date of redemption of the voucher
- GST will be payable on the money value of the goods / services redeemable against such voucher

QUERY 3

How will free supplies be treated (e.g. buy 2 shirts, get 1 free)?

ANSWER

- Free supplies are not separately liable to GST (unless the supply is made to a related or distinct person)

- Hence, GST for 3 shirts will be payable on the price actually received from the customer
- For example, each shirt is priced at Rs. 100 and there is a buy 2, get 1 free offer. Customer gets 3 shirts but pays Rs. 200 – GST is payable on Rs. 200.
- In case of a mixed supply for a single price, the highest rate of tax out of the individual supplies will be applied for the whole supply

QUERY 4

How do we get credit of GST against claims settled with customers after delivery of goods?

ANSWER

If you reduce the price after settling a claim with the customer, you can issue a credit note and claim reduction in output GST liability in your monthly returns. This will be subject to the customer reversing the ITC availed in respect of such reduced amount.

TAXABLE PERSON

QUERY 1

How is supply from an unregistered person to be treated?

ANSWER

- The registered recipient will be required to pay GST under the reverse charge mechanism, and undertake related compliances.
- In the case of unregistered job worker, the GST will have to be first paid by the Principal under reverse charge and then adjusted against output liability

REGISTRATION

QUERY 1

Whether a job worker having turnover less than 20 lakhs per annum should register?

ANSWER

No, only those job workers whose turnover exceeds 20 lakhs (10 lakhs for Special Category States) should be registered, unless he is required to compulsorily register under GST (e.g. he makes inter-State sales).

QUERY 2

How will the 20 lakhs threshold for registration be calculated?

ANSWER

- Aggregate turnover of a PAN holder will be considered for the purpose of calculating the threshold for registration.
- It includes value of all outward supplies (taxable supplies + exempt supplies + exports + inter-state supplies) of a person having the same PAN
- Aggregate turnover includes supplies of goods/ services made on behalf of a principal

- Aggregate turnover excludes any form of GST, GST cess, as well as the value of inward supplies on which tax is payable under reverse charge
- The aggregate turnover is to be computed on an all-India basis
- If the aggregate turnover exceeds 20 lakhs then the supplier should take registration in all the states where he supplies goods and services.

QUERY 3

What is the process of registration for dealers in fabric where there was no sales/excise/service tax earlier? Has it started already?

ANSWER

For persons who are not registered under any law today (VAT/ Excise/ Service Tax), they can directly apply for fresh registration under GST. Such application is to be made after the appointed date of introduction of GST.

VALUATION

QUERY 1

What is the value on which GST is to be paid? Will MRP based valuation continue?

ANSWER

- GST is to be paid on the 'transaction value' (TV) subject to certain inclusions and exclusions as specified under section 15 of the CGST Act.
 - TV is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related, and, the price is the sole consideration for the supply
- MRP based valuation has been done away with under GST

QUERY 2

Can discounts be excluded from GST?

ANSWER

- ❖ Yes, a discount which is given before or at the time of the sale can be excluded from GST
 - However, such discount must be recorded in the invoice
 - If the discount is not shown in the invoice, it will not be excluded from GST
- Yes, a discount which is given after the supply has been made is excluded from GST if the following three conditions are met:
 - The discount is established in terms of an agreement entered into at or before the time of sale/supply
 - The discount is specifically linked to relevant invoices
 - Linkage to be created through a Credit Note which will link the discount to the relevant invoices
 - Input tax credit attributable to the discount has been reversed by the recipient

ITC

QUERY 1

What would happen of the ITC taken by the registered person if he has not paid the consideration along with tax within 180 days from the date of issue of invoice?

ANSWER

- The amount of ITC would be added to output tax liability of the person. He would also be required to pay interest.
- However, he can take ITC again on payment of consideration and tax.
- This condition is not applicable in cases where the tax is required to be paid under reverse charge.

QUERY 2

What if the supplier is registered but does not pay GST?

ANSWER

The recipient will not be eligible to take credit of the GST that he has paid to the supplier until it is paid by the supplier to the Government.

QUERY 3

What are the conditions for availing ITC?

ANSWER

- Following four conditions are to be satisfied by the registered taxable person for obtaining ITC:
 - he must be in possession of tax invoice or debit note or such other tax paying documents as may be prescribed, with all the particulars correctly filled;
 - he must have received the goods or services or both;
 - the supplier must have actually paid the tax charged in respect of the supply to the government; and
 - he must have furnished the return under Section 39.

QUERY 4

What are the items of expenditure for one can claim input tax credit (ITC) under GST?

ANSWER

- Under GST, ITC can be availed for inputs, capital goods and input services (i.e. goods/services used for business purposes)
 - Important to note that traders/ wholesalers/ retailers can avail credit of input services for the first time under GST, which was earlier a cost
- However, there are certain goods/services for which ITC is not available
 - Motor vehicles
 - Goods given to customers by way of free samples, gifts etc.
 - Food and beverages
 - Rent-a-cab, health insurance and life insurance

[the detailed list of such exclusions is prescribed under section 17(5) of the CGST Act]

QUERY 5

Once the invoices are uploaded and tallied with our supplier, is it our responsibility if he does not pay GST?

ANSWER

If your supplier does not pay GST, you will not be able to avail the input tax credit.

STOCK TRANSFER/ BRANCH TRANSFER

QUERY 1

Will branch transfers be liable to tax under GST?

ANSWER

- Branch transfer/stock transfer between 'distinct persons' on an inter-State basis will be subject to a levy of IGST
- Distinct persons are offices/ locations of the same legal entity which are separately registered
- In case of movement of goods under the same registration on an intra-State basis, there will be no GST
- Value of branch transfer is the "open market value" of the goods
- If the recipient is eligible for ITC, the invoice value declared will be taken as the "open market value"
- Option to pay GST on 90% of price at which recipient makes outward supplies of goods of like kind and quality to unrelated customers.

JOB WORK

QUERY 1

When goods are received from a job worker (fabric/ readymade garment), who is not registered under GST, what will be the GST implications?

ANSWER

- Where the job worker is unregistered, the Principal will need to pay GST on the job work charges under the reverse charge mechanism
 - GST is payable on job work for textile yarns and textile fabrics @ 5%
 - As per the current law, rate will be 18% for all other cases
- The GST will have to be first paid by the Principal under reverse charge and the tax paid will be available as credit against output liability

EXPORT

QUERY 1

How will merchant exporter get refund of GST paid on local purchases?

ANSWER

- Export can be made on payment of IGST and refund can be claimed of the output tax. In such case, the GST paid on local purchases can be offset against the IGST paid on export.
- Alternatively, export can be carried out under bond and refund of unutilized input tax credit on local purchases can be claimed.
- If the application is complete, provisional refund of 90% will be granted on *prima facie* satisfaction within 7 days, and the balance 10% within 60 days after scrutiny of the application and documents (including details of shipping bills, invoices, FIRC etc.)

SALES RETURN/ SALE ON APPROVAL

QUERY 1

How is sales return treated under GST?

ANSWER

- When the supply is initially made, GST will be payable
- In both cases of sales and purchase returns, a credit note needs to be issued by the supplier mentioning the corresponding tax invoice, and the amount of GST paid
- Based on the credit note, the supplier can claim a reduction in output tax liability, provided the recipient reverses the ITC which he had initially availed on such goods

QUERY 2

Does GST law provide for the concept of 'supply of goods on approval basis'?

ANSWER

- For goods sent on 'sale on approval' basis, there is no GST applicable till there is a supply of the goods and invoice is raised, provided such supply takes place within 6 months
- Beyond 6 months, invoice must be raised and GST must be paid

QUERY 3

Where goods sold prior to GST are returned, how will such sales return be treated under GST?

ANSWER

- For goods sold not earlier than 6 months prior to GST, if they are returned within 6 months of the date of introduction of GST by an unregistered person, and such goods are identifiable, the supplier will be eligible for refund of the tax/duty under existing law paid at the time of supply
- If the goods are returned by a registered person, the return of such goods will be deemed to be a supply liable to GST, and such person will have to pay GST

PAYMENT OF TAX

QUERY 1

How is GST to be paid?

ANSWER

- Through debit of Credit Ledger of the taxpayer maintained on the Common Portal (i.e. payment through input tax credit); or
- In cash by debit in the Cash Ledger of the taxpayer maintained on the Common Portal (i.e. payment in cash).

TRANSITIONAL PROVISIONS

QUERY 1

What will be the GST implications for stock as on the transition date?

ANSWER

- Manufacturer
 - Law does not appear to contemplate transition of credit for a manufacturer who currently pays duty at concessional rate of 2% subject to no input tax credit
- Wholesaler
 - 100% VAT credit will be available for stock in trade, based on VAT returns
 - 100% Excise duty credit will be available, subject to following conditions
 - Duty-paying document is available
 - Duty-paying document has been issued not earlier than 12 months prior to GST
- Retailer / Wholesaler (who does not hold a duty-paying document)
 - Credit of 40% of CGST or 20% of IGST can be transitioned if duty-paid document unavailable [when 60% will be available- please specify]
 - Credit is subject to the goods being supplied within 6 months of the introduction of GST

QUERY 2

What is the permissible age of stock for transition of input credit?

ANSWER

- All stocks purchased under invoice/ document of procurement issued within 12 months prior to introduction of GST (i.e. 1st July 2016, assuming that GST is introduced on 1st July 2017) will be eligible for ITC.
- Where credit is validly shown in the current returns, there is no prescribed age of stock.

QUERY 3

What is the position for sales taking place during the transition phase?

ANSWER

- If goods are received post GST, but the earlier taxes were already paid, credit of those taxes can be taken under GST
 - Invoice or other duty-paying document must be recorded in the books of account of such person within 30 days of the GST transition date

- Details of the same must be filed on the Common Portal within 90 days in Form GST TRAN -I

QUERY 4

Where goods have been sent on 'sale on approval' basis prior to GST, what are the implications under GST?

ANSWER

- Where goods have been sent on approval basis, not earlier than 6 months before GST, and the goods are rejected or not approved by the buyer, and returned to the seller within 6 months of introduction of GST, no tax will be payable
 - Period of 6 months may be extended by a further 2 months by Commissioner
- If the goods are returned beyond 6 months, GST is payable by the person who has sent the goods on approval basis
- If the goods are not approved, GST is payable by the person returning the goods
 - Credit of the GST paid by the supplier is available as credit

QUERY 5

Do we get any credit on opening stock of fabrics as on 1st July? Fabric is currently exempt from all taxes.

ANSWER

No credit is available for opening stock of fabric since it is exempt.

ANTI-PROFITEERING

QUERY 1

How is the anti-profiteering clause to be applied?

ANSWER

- Anti-profiteering applies under the following circumstances:
 - There is a reduction in rate of tax on any supply; or
 - There is a benefit of input tax credit which becomes available on account of introduction of GST.
- In the above cases, the pricing must be adjusted to pass on the benefits to the consumers
- It may also be necessary to carry out re-labelling of prices on the products to be supplied under GST
- Detailed rules for anti-profiteering are awaited
 - As per press reports, provision can only be initiated on a complaint

E-WAYBILLS

QUERY 1

Is e-way bill required only for inter-state transactions or even for intra-state transactions?

ANSWER

As per the current draft E-waybill Rules in the public domain, e-waybill is required for inter-State transactions and even for intra-State transactions. However, there are reports that the E-waybill related provisions which are in draft form may be re-visited.



DISCLAIMER: The FAQs are for general informational purposes only, and are not intended as a substitute for legal advice. No part of the contents thereof should be construed as, or acted upon, as legal advice, without seeking professional or legal counsel on the particular facts and circumstances of the relevant matter.