

TAXTIME

NEWSLETTER

INDIRECT TAX NEWS

CORRECTING INVERTED DUTY STRUCTURE: GST COUNCIL LIKELY TO REVISIT PLAN TO HIKE RATE FOR TEXTILES



Even though the Goods and Services Tax (GST) Council had to drop a plan to hike the GST rates for most textile products in the man-made fibre (MMF) value chain from 5% to 12% in late December 2021 amid protests from the industry, the government may revisit it soon. The rate hike was to take effect from January 1, 2022, but the decision was rolled back a day before amid protests from the industry.

Finance minister Nirmala Sitharaman on Monday said that correcting the inverted duty structure in the textiles value chain is essential to attract investment in the sector. "The correction is required for the production-linked incentive scheme for the sector. Or else, investments are not going to come into certain areas," she said, addressing a post-Budget meeting with industry and trade representatives in Mumbai.

The GST Council's decision to alter the rate structure for textile products was aimed at resolving the long-unresolved issue of inverted duty structure in the synthetic textile segment. Manufacturers of man-made fibres have long suffered from the duty disparity with the natural fibre (mainly cotton) segment, and, in the GST system, these units suffered from accumulated input tax credit.

At present, the tax rate on manmade fibre, yarn and fabrics is 18%, 12% and 5%, respectively. To illustrate, the GST rate is 18% on mono-ethylene glycol (MEG) and purified terephthalic acid (PTA), the building blocks; 12% on polyester partially oriented yarn (POY) and 5% on grey fabrics, finished fabrics and garments. Natural yarns like cotton, silk, wool are in the 5% slab.

Inverted duty structure arises when the tax on inputs and intermediates are higher than that on finished products. Sections of the apparel industry had welcomed the GST Council's decision to hike rate – they believed the high value addition in apparels, the rate increase could be offset. A group of ministers had earlier proposed the rate increases, keeping this in view, but several states and the fabrics-to-garments industry, which include thousands of MSMEs and tiny units, opposed this move as they saw it leading to a demand compression.

OECD INVITES PUBLIC INPUT ON THE DRAFT RULES FOR TAX BASE DETERMINATIONS UNDER AMOUNT A OF PILLAR ONE



As part of the ongoing work of the OECD/G20 Inclusive Framework on BEPS to implement the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, the OECD is seeking public comments on the Draft Rules for Tax Base Determinations under Amount A of Pillar One.

The purpose of the tax base determinations rules is to establish the profit (or loss) of an in-scope MNE that will be used for the Amount A calculations to reallocate a portion of its profits to market jurisdictions. The rules determine that profit (or loss) will be calculated on the basis of the consolidated group financial accounts, while making a limited number of book-to-tax adjustments. The rules also include provisions for the carry-forward of losses.

The OECD/G20 Inclusive Framework on BEPS has agreed to release this public consultation document (également disponible en français) in order to obtain public comments, but the draft rules do not reflect consensus regarding the substance of the document. The stakeholder input received on the Draft Rules for Tax Base Determinations will assist members of the Inclusive Framework in further refining and finalising the relevant rules.

Interested parties are invited to send their written comments* no later than 4 March 2022.

GOVT LIKELY TO PROPOSE FORMULA TO BRING ATF UNDER GST



The government is likely to propose a formula to bring aviation turbine fuel (ATF) under the ambit of Goods and Services Tax (GST).

The likely government proposal will be to allow 18 percent GST in addition to VAT or excise rate, the news channel learnt from sources, adding that the formula would be introduced only if its acceptable to all the states.

The VAT or excise rate, under the formula, could vary from state to state, the report claimed.

"Globally also, in many countries such a formula of GST rate plus VAT/excise has been used in the case of ATF," a senior government official informed.

The Central Board of Indirect Taxes and Customs (CBIC) has "evaluated" the model for ATF's inclusion under GST, the government official claimed, adding, "The GST Council will be appraised with this global best practice model for them to take a final call."

The report comes days after ATF prices soared to record high levels across the country. The rates were increased by 5.2 percent on February 16 in line with a rise in international oil prices.

This is the fourth hike in jet fuel or ATF prices in less than two months following a spike in global oil prices but petrol and diesel prices remained unchanged for a record 103rd day in a row, coinciding with electioneering to elect new governments in states like Uttar Pradesh and Punjab.

TODAY'S QUOTE

*Stop Cheating on your future
with your past*

- Unknown

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