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PATCHWORK POLICY: THE HINDU EDITORIAL ON GST RATE ON TEXTILES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

On New Year's eve, nine hours before a new GST rate of 12% was to kick in for readymade garments and fabrics, Finance Minister Nirmala Sitharaman announced that the plan is off and the existing 5% rate will continue into 2022, or at least for its first quarter. The decision was made at an emergency meeting of the GST Council, which had approved the higher tax on textiles at its last meeting in September 2021 to correct the anomaly of an inverted duty structure. While the GST rate on manmade fibre is 18% and yarn made from the same is taxed at 12%, the rate on the final fabric was 5%, ostensibly creating a headache for textile producers which the Council had sought to alleviate. The move to raise that rate to 12%, along with that on footwear costing less than 1,000 a pair, had been on the Council's agenda for over a year but had been kept on hold due to the COVID-19 pandemic's adverse effects on households. Explaining the rethink to hold off the rate hikes that were to become effective January 1, the Finance Minister indicated that the original decision was arrived at after several parleys that explored, among other things, the likely impact on consumers. Yet, a letter from the Gujarat Finance Minister she had received on December 29, along with representations from industry, prompted a review.

Although the rate hike was aimed at helping producers get easier credit for taxes paid on inputs, that is not how it was seen by several players in an industry that has historically been one of India's largest employment creators and contributes around 2% to the overall economy. Last month, many lathes in the textile industry were left idling for a day, in what may be the first ever strike that has not been triggered by industrial unrest in the sector that last witnessed debilitating strikes from labour unions in the 1980s. Those protests, along with some States' missives to the Centre, warning of significant factory closures and job losses, had failed to move the needle and the industry had resigned itself to the new rates. Perhaps, it was fortuitous that most State Finance Ministers, who are members of the Council, were already expected in the capital for a consultation on the Union Budget for 2022-23. A ministerial group already tasked with rationalising inverted duty structures across products and reviewing the multiple rate slabs of the GST regime, has now been assigned the additional task to suggest an appropriate structure for textile products; it has two more months to finalise its report. It is unlikely that these broader corrections will take place before the coming State Assembly polls conclude and this time could be used for wider consultations with industry, consumers and States before pencilling in new rates and avoiding such about-turns. The course correction needs to be navigated more deftly and with greater purpose, if India hopes to revive private investments.

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