

IN FOCUS: INVERTED DUTY STRUCTURE

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

[GST Council](#) will take up [tax structure](#) rejig on March 14 to correct the [inverted duty structure](#) in many sectors. ET looks at the reasons as to why there is a case for correcting the structure.

What is Inverted Duty Structure?
It's created when inputs attract a higher tax rate than final product

How Does it Impact Industry?

- It hurts manufacturers of that product
- They have to pay higher tax on inputs
- Has led to pile up of input tax credit
- It has created cash or flow issues for Cos

Which Sectors are Impacted Under GST ?

Product	GST on inputs	GST on finished goods
Mobile phones	18%	12%
Fertilizers	12%	05%
Footwear	18%	05%
Man-made yarn	18%	05%
Fabric	18%	05% or 12%

There is a Case for Correction...

- Tax on inputs/ raw material should be less than finished goods
- Accumulated unutilised ITC becomes cost
- Govt cannot refund ITC; ITC gets adjusted against tax liability

...Internal Panel Also Backs Rejig...

- Committee of officers bats for correction
- Favours changes in phases
- This will help manage refund outgo
- Council to take up rate rejig for mobiles, footwears, textiles, renewable energy equipment, fertilizers

Rate Changes

Item	GST now	GST proposed	GST
Mobile phones	12%	18%	12%
Fertilizers	05%	12%	05%
Footwear	05%	18%	05%
Man-made yarn	05%	18%	05%
Fabric	05% or 12%	18%	05%

[GST Council](#) will take up [tax structure](#) rejig on March 14 to correct the [inverted duty structure](#) in many sectors. ET looks at the reasons as to why there is a case for correcting the structure.

What is Inverted Duty Structure?
It's created when inputs attract a higher tax rate than final product

How Does it Impact Industry?

- It hurts manufacturers of that product
- They have to pay higher tax on inputs
- Has led to pile up of input tax credit
- It has created cash or flow issues for Cos

Which Sectors are Impacted Under GST ?

Product	GST on inputs	GST on finished goods
Mobile phones	18%	12%
Fertilizers	12%	05%
Footwear	18%	05%
Man-made yarn	18%	05%
Fabric	18%	05% or 12%

There is a Case for Correction...

- Tax on inputs/ raw material should be less than finished goods
- Accumulated unutilised ITC becomes cost
- Govt cannot refund ITC; ITC gets adjusted against tax liability

...Internal Panel Also Backs Rejig...

- Committee of officers bats for correction
- Favours changes in phases
- This will help manage refund outgo
- Council to take up rate rejig for mobiles, footwears, textiles, renewable energy equipment, fertilizers

Rate Changes

Item	GST now	GST proposed	GST
Mobile phones	12%	18%	12%
Fertilizers	05%	12%	05%
Footwear	05%	18%	05%
Man-made yarn	05%	18%	05%
Fabric	05% or 12%	18%	05%

END

Downloaded from crackIAS.com

© Zuccess App by crackIAS.com