

EFFECT OF GST ON MOAJRI AND JUTTI CRAFT

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Abstract

India is a country of rich culture, history and heritage. It is a major producer and supplier of handicrafts product since ancient age. It earned a potential economic advantage for the country. In India Rajasthan is often called the “shopper’s paradise.” It become popular in livestock craftsmen, her usually created various kinds of innovative and artistic leather craft later on Jaipur, Jodhpur, Jaisalmer, Udaipur & Barmer developed as center of leather craft such as “Nagri” “Mojari” “Jutti” and become famous for “Salmasitra” and “Kashidakar”. The jutti (Punjabi: ਜੁੱਤੀ) or Punjabi Jutti (Punjabi: ਪੰਜਾਬੀ ਜੁੱਤੀ) is a type of footwear common in North India and neighbouring regions. They are traditionally made up of leather and with extensive embroidery, in real gold and silver thread in olden days. In current budget (2017-18) finance minister has declared it would be based on the scheme relating to textile announced last year. He said we have started an attractive scheme for textile sector. New scheme would be brought for leather & footwear sector. In June, 2016 a scheme with an outlay of 6000 corer was started for apparel & textile sector by Govt. New jobs would be generated in next three years. It would attract an investment of 11 billion dollar & export of about 30 billion dollars. Leather footwear may pinch under GST as prices likely to rise 5 to 7%. The purpose GST rates may push up prices of footwear across categories, while leather as a segment is most likely to be hit due to high rates. The GST rates council meeting, chaired by finance minister Arun Jaitly said categorised footwear into two tax slabs like those priced below Rs500 will be taxed at 5%, while others will be taxed 18%. According to CFLA (Council for Footwear, Leather and Accessories) expecting a potential price rise of 5 %to 7% in leather segment. There might not much change in non leather prices but overall, there is a huge disappointment in the industry, adding that the industry was expecting a lower slab rate.

Keywords: GST, CFLA, Changes, materials.



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GST impact: An over view

Footwear manufacturers rue high tax, dual. The proposed tax structure for footwear under the goods and services tax (GST) has left manufacturers high and dry. While the 18% tax bracket for footwear priced over Rs 500 may lead to an increase in product prices, the ‘dual taxation’ structure will add to their woes as pricing will get more complex.

The GST, could hit the growth prospects of the Rs 30,000- crore domestic footwear industry, which is already under margin pressure. Signs of worry began to appear soon after the GST

Council announced that footwear priced below Rs 500 would be taxed at 5% and the rest at 18 %.

The dual taxation has left loopholes as “scope for distortion” will continue to haunt organised players, says Adesh Gupta, chairman of (CFLA) Footwear, Leather and chief executive officer of Liberty Shoes.

“A dual tax_structure usually creates confusion and increases complexity. Also, we were expecting 12% tax rate at most. While we are still assessing the actual impact, additional burden will eventually have to be passed on to the consumers,” says Harkirat Singh, managing director, Woodland Worldwide.

According to the CFLA, prices of footwear are set to rise up to 7% from July 2017. “The government is least bothered about growth of the industry. The 13 % gap between the two tax slabs will have to be passed on to the consumers as companies are already under margin pressure,” says Mr. Adesh Gupta.

Almost all the major footwear manufacturers had been lobbying the government for the past one year for a uniform tax_structure for all categories of footwear. The CFLA had made several representations to Finance Minister Arun Jaitley, Commerce Minister Nirmala Sitharaman and other government representatives. Their key demands were to keep footwear under 5 % tax_bracket and discourage imports from China, which according to the council holds over 20 % share of the market by value.

Jharkhand Chief Minister Raghubar Das had written to the Finance Minister requesting similar tax rates for footwear and apparel, citing the importance of the sector in India’s manufacturing capabilities. In the letter dated March 9, Das wrote, “It has been brought to light (by CFLA) that India accounts for 13 % of Global footwear production, which is next to China. But China has made a vast impact on Indian market of footwear, which is adversely affecting the local industry. I request you to kindly look into the matter and take appropriate steps to keep the rate of GST_at 5 %.”

According to sources, constant representations by the industry_led the council to defer announcement of rates for footwear, along with certain other items like bidi, precious metals and textile.

“GST_rates have not brought any good news for this industry. Organised players will not grow any faster and their profitability will be hit further. However, small players may get

some relief as they will not have to pay taxes at par with bigger firms,” says Deepak Chhabra, managing director, Crocs India.

Footwear below Rs 500 range taxed at 5 % under the Goods and Services Tax, while the rest would be in the 18 % bracket as soon as the new regime is rolled out from July 2017. The GST Council, chaired by Finance Minister Arun Jaitley and comprising his state counterparts, in June 28% decided on tax rates for six goods including footwear, textiles, biscuits and gold.

Sources said the footwear costing below Rs 500 will be taxed at 5 % to that above Rs 500 will attract 18 % levy. Currently, footwear priced from Rs 500-1,000 attracts 6 per cent excise duty. Besides, it states also levy VAT.

Different from one state to another Sources said items like readymade garments are likely to be taxed at 12 per cent, while cotton textiles and cotton yarn will be in the 5 per cent category.

GST rates: Footwear to cost more as firms look to increase prices by 5 to 7%

Footwear companies are looking to increase prices of their products, particularly leather shoes, by 5-7%, in a bid to compensate for a higher GST rate

New Delhi: Footwear companies across the country are looking to increase prices of their products—particularly in the leather segment—by 5 to 7%, in a bid to compensate for a higher Goods and Service Tax (GST) rate.

The GST Council had categorised footwear into two tax slabs. Those priced below Rs500 will be taxed at 5%, and others will be taxed at 18%.

While we welcome the path-breaking tax reform of GST “ as claimed by GOI”, we will be required to increase the prices of our products by at least 5 to 7% with effect from September “after the existing stock is cleared” due to the 18% rate. Leather footwear as a segment will be hit more because the excise duty was much lower on non-leather,” said Adesh Gupta, chief executive officer at Liberty Shoes Ltd and chairman of CFLA.

CEO of Footwear Industry also said the dual tax slab rates will have a detrimental impact on the overall sector as footwear priced between Rs500 and Rs1, 000 will be taxed more. CFLA has made multiple representations to the government to reconsider the 5% and 18% rates and bring them at par with those applicable to the apparel industry, which is taxed at 5 GST: Businesses race to adapt to new tax regime

The footwear market in India is growing at the rate of 12% per annum and is expected to touch \$11.5 billion by 2020 from \$6 billion in 2014, according to an estimates from the Retail Consultancy Technopak Advisors.

A Graphic Overview of the Sector :-

Size of the domestic footwear market: **₹30,000 crore/year**

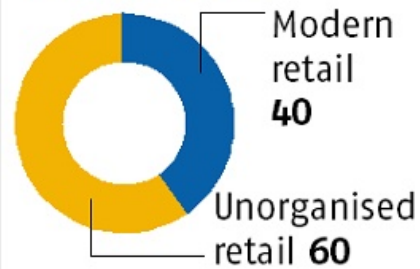
Imports from China:
₹6,000–8,000 crore/year
or 20 million pairs a year

India ranks distant second behind China

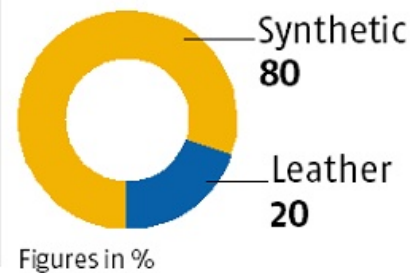
Rank		Annual production*
1	China	14,200
2	India	2,209
3	Brazil	900
4	Vietnam	770

*in million pairs

Market share



Type of footwear based on material



Impact on Leather Shoes Post GST Implementation

1. Leather segment most likely to be hit due to high rates.
2. Leather shoes prices are expected to go up by an estimated 5to7%
3. Might not be much change in non-leather prices.
4. Huge disappointment in the industry.
5. Industry was expecting a lower slab rate of 12%.
6. Currently, the industry pays between 9% and 20% in indirect taxes (Excise, Central Sales Tax and Value-Added Tax), depending on the state and price range a company operates in.
7. Excise on leather is much lower than non-leather currently, which is why the segment will be hit more.
8. However, GST will provide a relief from multiple taxation issues.
9. Footwear priced between Rs500 and Rs1,000 will be unfairly taxed.
10. Dual tax slab rates imposed by govt. under GST is difficult to understand.

11. Now a consumer will have to pay 13% more tax on a footwear which is priced even slightly more than Rs500
12. Companies playing in Rs500 to 1,000 category will have a lot to lose.
13. Overall impact of GST on footwear would be that the prices will not come down and the unorganized sector will widen.
14. Profitability of organized players will be under strain, which will effectively work against the growth of Footwear Industry and entry of start ups.
15. According to Technopak, the footwear market in India is growing at 12% per annum and is expected to touch \$11.5 billion by 2020 from \$6 billion in 2014.
16. Your leather shoes are set to cost a little more than usual. Under the Goods and Service Tax, leather products will be taxed at 28%, active Members of this industry are now worried about the new tax structure and its implementation.
17. With the run up to the new tax regime, several industrial bodies have apprehensions about the rollout and the implementation.
18. MIRROR NOW travelled to Dharavi in Mumbai and find out that the Leather Industry were extremely unhappy with the 28% tax bracket and seek in the reduction of the same considering it will be passed on to the consumers.
19. In addition, workers alleged that there is lack of awareness about the impact and implementation of the GST.
20. However, before the GST rollout, various malls are offering lucrative offers and discounts to attract buyers and the party has already begun for shoppers.
21. Consumers are flocking into malls and retail outlets are now offering discounts to the tune of 40 to 50%. Diwali has indeed come early for buyers as white goods and apparel have now begun offering massive discounts to sell unsold stock ahead of the rollout.
22. At Big Bazaar, massive discounts have been offered to the tune of 50% on apparels and white goods such as TV, refrigerators etc.
23. The move taken by the retailers to sold off unsold inventories. The older the stock, the bigger is the discount of the consumers.
24. Commenting on the same, Abhishek Rastogi, Tax Expert said, "Under the GST regime, even if the rate goes to the higher 28% bracket, there are lot of input tax that will come in the chain, and henceforth, most of the products would be reduced from the existing tax structure."

25. The Leather Industry seems to be divided over GST rates on footwear. While some footwear makers expressed their disappointment over an overall increase to a higher slab of 18% on leather shoes, others welcomed the move stating that the impact may not be much.

26. Recently, the GST Council meeting, chaired by Finance Minister Arun Jaitley, categorised footwear into two tax slabs, priced below Rs 500 will be taxed at 5%, while others will be taxed at 18%.

27. Woodland Worldwide MD Harkirat Singh said, "It has come to us as a surprise. GST rates will affect the footwear industry as it is such a big game changer. We cannot judge the impact of GST overnight." He, however, said corporates who were into manufacturing as well as retailing of lifestyle products would be hit.

28. Industrialists said since most leather shoes were being priced above Rs 1,000 so tax slab of 18 % would not have much impact and would not lead to increase in price either.

Drish Shoes vice-president Ajay Sharma said: "With GST, the Industry will have to shell out 18 % instead of current 23%, including all taxes, on the footwear priced above Rs 1,500. Since there are only two brackets, footwear makers paying in Rs 500-Rs to 1,000 range will lose to some extent. Overall, the impact may not be much."

The proposed Goods and Services Tax rate of 17 to 18 per cent as suggested by a panel headed by Chief Economic Adviser Arvind Subramaniam would benefit most companies engaged in manufacturing of goods, according to tax experts, economists and brokerage houses.

"Most goods manufactured in the country have an average 27 to 30 % indirect taxes component. If the proposed standard rate of 17-18 % is implemented, the final prices of these goods can come down by 10-12 %," says Sachin Menon, partner and head, Indirect Tax and COO, tax and regulatory services, KPMG in India.

At present, manufactured goods attract 12 % excise duty, 5 to 15 per cent value-added tax (VAT) and in case of inter-state sales, a central sales tax of 2 to 15 per cent. Besides, some states also impose entry tax and Octopi of up to 15 per cent. With GST, all these taxes would be subsumed and a standard rate would be applicable across the country.

Though initially the government was planning a single uniform rate across the country, due to protests from states, which fear losing out on tax revenue, the government has proposed a three-tiered tax structure to begin with - a low rate of 12 % for essential items, a high rate of

40 % for luxury cars, tobacco products and aerated beverages, and a standard rate of 17-18 % for most goods and all services.

According to Religare, companies like BATA India (Footwear), Kajaria Ceramics, Somany Ceramics (Tiles), Mayur Uniquoters (Artificial leather), Finolex Industries (Pipes), Pidilite (adhesive), etc may benefit from unorganised players losing the price differential benefits post GST.

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