Table Agenda
38th GST Council Meeting (18.12.2019)

Agenda Item 15 (iv): Proposal for change in GST rate on woven/nonwoven bags and sacks of polypropylene/polyethylene, whether or not laminated and Flexible Intermediate Bulk Containers (FIBC) from 12% to 18%

The GST Council in its 37th meeting held on 20th September, 2019 had recommended that the GST rate on all woven and nonwoven bags and sacks of polypropylene and polyethylene, (whether or not laminated) to be rationalized at a uniform rate of 12% to avoid the classification disputes due to the rate differential on such bags on the basis of their classification.

2. Earlier the sacks and bags made up of manmade textile material, falling under heading 6305 attracted GST at the rate of 5% (their value being less than Rs. 1000/-), while polypropylene, polyethylene and other plastic bags falling under heading 3923 attracted 18% GST. These differential rates gave rise to disputes regarding classification. To resolve the issue a clarification was issued vide circular No. 80/54/2018-GST dated 31.12.2018. However, disputes continued and were aggravated due to multiple divergent advance rulings. To resolve the issue, the Council recommended a uniform rate of 12%, (as stated in para 1 above).

3. However, subsequently requests have been received from the trade associations stating that the major basic constituent ingredient for these bags is HDPE/PP granules which attract 18% GST. They have further stated that 12% GST rate on woven and nonwoven bags and sacks of polypropylene and polyethylene is leading to inverted duty structure and increasing the compliance burden and efforts for seeking refund on small manufacturers of these bags. This would make investment in the sector unviable.

4. These woven and nonwoven bags and sacks of polypropylene and polyethylene, (whether or not laminated) are used in a number of applications such as packaging of cement, fertilizers, sugar, sponge iron/mineral packing etc. Increase of GST rate to 18% may not increase the cost of the bags to the end consumers as this is a B2B product and full ITC of the GST paid on bags is available to the user industry.

5. Therefore, the GST rate on all woven and nonwoven bags and sacks of polypropylene and polyethylene, whether or not laminated may be increased from 12% to 18%. This will remove the inverted duty structure and accumulation of ITC with the manufacturers of these
bags. Further, Flexible Intermediate Bulk Containers (FIBC) classified under 63053200 attract 12% GST. These are intermediate goods used in a number of industries for bulk packing and transportation of goods. Input Tax Credit of GST paid on these goods is available for these users. Therefore, to have a uniform tax rate on all types of such bags, it is proposed to increase the GST rate on woven and nonwoven bags and sacks of polypropylene and polyethylene, whether or not laminated (classified under 3923 or 6305) including Flexible Intermediate Bulk Containers (FIBC) from 12% to 18.

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