



GST- A GAME CHANGER THE TEXTILE SECTOR IN INDIA

BY

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Abstract: Goods and Service tax (GST) constitutes the last mile of long journey of reforms of indirect tax in India. GST replaced a large number of state and centre taxes. Taxation in textile sector is opaque and non-neutral across its various segments. The textile sector contributes 4% to the country's GDP and 14% to industrial production. The GST also has a significant impact on the textile sector. This is the biggest reform proposed in tax regime of our country after independence. GST has changed the approach of payment of taxes in the textile sector. This study examines the implications of GST for the Indian textile industry adopting qualitative approach. It also highlights how Indian textile industry is preparing for transition to GST. Efficient formulation of GST will lead to resources and revenue gain for government majorly through widening of tax base and improvement in tax compliance.

Keywords: Goods and Services Tax (GST), Textile Sector, Gross Domestic Product (GDP), Cascading.

1. Introduction

Taxation was born and shaped with civilization. The structure and complexity of the tax system have been developed along with the development of civil society. Most of the indirect taxes fall on inputs, both goods and services, and therefore remain hidden, if un-rebated. On the whole, the textile sector is lightly taxed and extensively subsidised. Textile exports are supported through payments of un-rebated taxes on textile inputs and other subsidies. Textile units are historically enjoyed exemption given to small industries. Garment manufacturing is labour dependent in India unlike China where mechanised. While the recession of 2008 onwards was an external shock, the current demonetization efforts were a domestic shock. Here again the effect was more pronounced on the smaller players in the MSME bracket than the large scale firms. With GST rollout scheduled to commence on July 1, India's textile sector is racing against time to align itself with the new indirect tax regime. The textile sector has witnessed a huge inflow in investment during the last five years. GST is a simple tax on the supply of goods and services, right from the manufacturer to the consumer. In the nutshell, it's a tax that would be levied only on the value addition with transfer of input tax shall be borne by the final consumer of the goods and services, in GST, good means every kind of movable property other than money and securities. The services mean anything other than goods money and security but includes activities relating to the uses of money. Hence the main objective of GST is to replace the numeral Centre and State taxes.

Indian Textile Industry

India is world's second largest producer of textile and garments after China. Demand for finished textile products largely depends on population, purchasing power of the consumer and trend in

fashion. The Indian Textile Industry contributes approximately 4% to India's Gross Domestic Product (GDP), and 14% to overall Index of Industrial Production (IIP). The industry accounts for nearly 15% of total exports, India is one of the largest exporters of readymade garments and made-ups to the world. India is considered as the second most preferred sourcing destination for major global retailers because of the availability of all types of raw material, availability of manpower at economic rate, vertical & horizontal integration of the industry, flexibility of the manufacturing process, capability of catering to smaller lot size etc. India is world's third largest producer of cotton after China and USA and second largest consumer after China.

2. Literature Review

The relevant literature relating to the topic is reviewed as under:-

Jaiprakash (2014) in his research study mentioned that the GST at the central and state level are expected to give more relief to industry, trade, agriculture and consumer through a more comprehensive and wider coverage of input tax set off and service tax setoff, subsuming of several taxes in GST and phasing out of CST.

Gupta (2014) examined "Goods and Services Tax": Its impact on Indian Economy", and concluded in his research paper that GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. She also stated that a single rate would help to maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services.

Kumar (2014) studies, "Goods and Services Tax – A Way Forward" & concluded that implementation of GST in India will help in removing economic distortion by current indirect tax system and is expected to encourage unbiased tax structure which is indifferent to geographical locations.

Dhanda & Sehrawat (2015) studied "GST in India: A Key Tax Reform" and concluded that a simplified and transparent tax system was the need of Indian economy. Pointing out the various advantages they said that GST will provide India a world class tax structure and a seamless tax system but it will depend upon effectiveness of its implementation.

Shefalidani (2016) stated impact of GST on Indian economy in the study in which some benefits of GST such as on enation one tax, free from cascading effects, transparency and GDP growth are studied. Petroleum product, real estate and liquor are free from GST.

Dani (2016) in her research study revealed that GST being a system replacing all indirect taxes might hamper the progress of country as the attempt to implement it is not being made wholeheartedly.

Munde & Chavan (2016) conducted a study to discuss pros and cons of GST and accordingly make suggestions to minimise loopholes and make it more effective. They concluded that if portable loopholes are dealt effectively, tax payer will accept the change brought upon and if procedure in GST proves to be simple and assures involvement of interest of all stakeholders then definitely it will lead to economic development and rationalization of prices.

Nath (2017) in his paper on GST discussed benefit and impact of GST on Indian economy and also conclude that GST has a positive impact on various sectors and industries.

Mahender (2017) studies "GST Effect on manufacturing industry – India" and conclude that

manufacture industry is playing a significant role in India business scenario hence manufacturing sector is economic growth of nation. In his research paper he states that “The cemetery industry can enjoy operating and transportation expenses with the introduction of GST”. Automobile industry will also get benefits to GST. Consumer and durable sector expenditure will also reduce. Telecom and banking and financial services will face the risk in operating expenses. Textile and garment industry may be negatively impacted with the introduction of GST. Media companies (DTH) may also have negative scenario.

Lourdunathan & Xavier (2017) studied “A study on implementation of Goods and Services Tax (GST) in India. Prospectus and challenges” and concluded that GST will bring One Nation and One Tax market. Some issues such demonetisation issue, inappropriate time, political issues, rate for manufacturer and traders, impact on working and cash flow and implementation in unorganised sectors became some issues in path of GST.

Lakshmi & Kumar (2018) observed that the prices of readymade garments will rise to a great extent as now there will be GST on job work which was previously part of manufacturing process now will be taxed separately.

3. Objective of the Study

The objective of the study is as follows:

- i. To study the concept of GST
- ii. To study the transition of textile industry of GST in the Indian economy.

4. Research Methodology

This study is conceptual and descriptive in nature. The data is collected from various national & international journals, research papers, magazines, annual reports, official websites and newspapers.

5. Result and Findings

5.1 Goods and Services Tax (GST)

The concept of GST was introduced keeping in consideration the trade practices prevalent worldwide. It aimed towards stream lining the flow of goods and services across borders. Main objective of GST is to replace the number of taxes. The important taxes that were subsumed in GST are excise and service tax at Central level, Central sales tax and entry tax at state level along with other duties and cess and charges. Most of the indirect taxes fall on inputs, both goods and services, and therefore remain hidden. On the whole, the textile sector is lightly taxed and extensively subsidized.

Components: GST will be basically divided into two components i.e. namely, central goods and services tax and also state goods and service

Applicability: GST will be also applicable to all the Goods and Service sold and provided in India, only except from the list of exempted goods which fall outside its purview.

Payment: At central and state level GST will be paid separately.

Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service Tax.

GST rates across categories

GST rates across categories for textile industry

FiberType	Cotton	Synthetic	Silk/Jute	Wool Standard	Wool carded combed	Other Natural
Raw Material	5%	18%	0%	0%	5%	5%

Yarn (Spinning)	5%	18%	5%	5%	5%	5%
Yarn (Knitting/Weaving)	5%	5%	5%	5%	5%	5%
Garments						
Upto Rs.1000	5%	5%	5%	5%	5%	5%
Exceeding Rs.1000	12%	12%	12%	12%	12%	12%
Carpets, Towels	12%	12%	12%	12%	12%	12%
Technical Textiles	12%	12%	12%	12%	12%	12%
Made Ups						
Upto Rs.1000	5%	5%	5%	5%	5%	5%
Exceeding Rs.1000	12%	12%	12%	12%	12%	12%

Source: Ministry of Textile.

Tax Rate Comparison for Fabrics

Particulars	Current Rate (VAT + Excise duty + Central sales tax)	GST Rate
Cotton	5-7%	5%
Synthetic	11-14%	13-14%
Blended	11-14%	13-14%
Wool	8-10%	5%
Silk	8-10%	5%

Source: Ministry of Textile.

Tax Rate Comparison for Garments

Particulars	Current Rate (VAT + Excise duty + Central sales tax)	GST Rate
Cotton-less than Rs. 1000	7-8%	5%
Cotton –more than Rs.1000	8-9%	12%
Synthetic & Blended-less than Rs.1000	8-10%	5%
Synthetic & Blended-more than Rs.1000	9-11%	12%

Source: Ministry of Textile.

5.2 Preparing for Transition to GST: Textile Industry

1. The textile industry in India is undergoing a major transformation in terms of product development and technological up-gradation. There is also increased competition to Indian exports from her major textile producers in the world.

2.The global fibre consumption trend in future is likely to further move in favour of man-made fibres due to limitation of growth of cotton world-wide on account of limited availability of land for cotton cultivation. Huge additional capacities are required in the man-made fibre industry so it is desired that incentives are provided to the industry to speed up the process of capacity build-up, to make sure adequate supply of fibres to the user industry.

3.Most policy support will have to be signed in a manner such that benefits are common to all manufacturing sectors and not specific to particular products.

4.Both the government (textile ministry and state textile departments) and textile industry should prepare for the transition to GST. Adequate preparation for the implementation of GST, not only by the central and state governments, but also by the industry, that is producers, wholesalers and retailers is a prerequisite for the success of GST in India.

6 Conclusion

From above it can be concluded that introduction of GST will usher plethora of changes in textile business of India with an overall positive impact on the sector. GST implementation is expected to produce impetus to various reforms and policy measure envisaged by the government for the ease of doing business and to usher India into a simple, transparent and tax friendly regime. It will simplify the present procedures by converging various complex indirect taxes into a unified platform and conjointly improve the “textile export” state of affairs of India. The complaint would notice their goods become competitive and the sector would conjointly take part in contribution to tax in addition to providing employment and other social benefits at a level higher than today. No doubt that GST will give India a world class tax system by amalgamating erstwhile completely different treatment to manufacturing and service sector.

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