ABSTRACT

GST law has changed the whole scenario of indirect tax system in India. It is one of the biggest tax reforms since independence. It aims at boosting overall growth of Indian economy by integrating all indirect taxes into one. Textile sector has a great potential to contribute to such growth, but taxation norms in this sector are not transparent in its various segments. On the whole, the textile sector is lightly taxed and extensively subsidized. Though the current impact of GST on textile industry is negative, GST implementation is expected to produce impetus to various reforms and policy measures envisaged by the Government for the ease of doing business and to usher India into a simple, transparent and tax friendly regime in future. The paper aims to study the key role of textile industry in the Indian economy in order to understand the pertinent issues under previous taxation system and GST in textile industry and to examine the impact on textile sector under GST regime in order to provide some suggestions. From the findings, it can be concluded that GST in the Indian framework has plugged the revenue leakages in previous taxation system and at the same time has provided relief to taxpayer in terms of reduced tax burden, elimination of cascading effect and seamless flow of input credit on most of the commodities, in addition to unleashing a stream of commercial benefits untouched by the VAT system and hence it is expected that it would essentially lead to overall Economic Development of India which would eventually trickle down to the textile sector as well.

1. Introduction

The One Hundred and Twenty Second Amendment Bill of the Constitution of India formally referred to as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from 1 July 2017. The GST law has changed the whole scenario of indirect tax system. It is considered as biggest tax reform since 1947. The introduction of such a tax in Indian Economy is a concrete step of Government of India as one of the biggest taxation reforms and is aimed to integrate State economies and boost overall growth. Taxation of textile sector is not transparent in its various segments. Many textile outputs are either exempt under the central and state tax regimes or are subjected to relatively low tax rates. 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. Textile exports are supported through payments of un-rebated taxes on textile inputs and other subsidies. So the current impact of GST on textile industry is negative, considering the fact that it is the second largest textile industry in the world after China. Apart from providing one of the basic necessities of life i.e. cloth, the textile industry contributes about 14% to the country’s industrial output. After agriculture this industry provides employment to maximum number of people in India employing 35 million people. Besides, another 46 million people are engaged in allied activities. Textile Industry contributes around 4% of GDP, 9% of excise collections, 18% of employment in industrial sector, and has 16% share in the country’s export. India is the largest exporter of yarn in the international market and has a share of 25% in world cotton yarn export market. India contributes for 12% of the world’s production of textile fibers and yarn.

Poonam (2017) studied “Goods and Services Tax in India: An Introductory Study” and concluded that GST would be a really necessary step in the field of indirect taxation. The paper has tried to relinquish information concerning GST system. She additionally quoted in her research paper that Consumer’s tax burden can just about scale back to 25% to 30%. Indian manufactured products would become a lot more competitive in the domestic and international markets. This taxation system would instantly encourage economic growth. GST with its transparent mode will prove easier to administer.

Mahender (2017) studied “GST Effect on Manufacturing Industry – India” and conclude that manufacturing industry is playing a significant role in Indian 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 of the GST. Consumer and durable sector expenditure will also reduce. Telecom and banking and financial services will face the risk of rise in operating expenses. Textile and garment industry maybe negatively impacted with the introduction of GST. Media companies (DTH) may also have negative scenario.

Lourdunathan and 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. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. She suggested in her research paper that it is necessary on the part of the government to educate, conduct
proper training, continuous seminars and workshop on GST is need of the hour. Thus, necessary steps should be taken.

Shefali (2016) studied “A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy” and found that GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

Nishita (2014) examined “Goods And Service Tax: It’s Impact On Indian Economy”, and concluded in her 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.

3. Research Gap

Although there have been several research works done in the field of Goods and services tax at recent times regarding the history of its implementation, the aftereffects and how it is beneficial for different sectors of the economy, not much focus has been given on the textile industries, the kind of problems they are facing and how they are tackling with the changeover. Therefore, this paper is an attempt to analyze the impact of GST on this sector.

4. Objectives of the Study

The study has following objectives-
1. To cognize the concept of GST
2. To study the key role of textile industry in the Indian economy
3. To study the pertinent issues under previous taxation system and GST in textile industry
4. To examine the impact on textile sector under GST regime

5. Research Methodology

The research is exploratory in nature. It is a descriptive study based on secondary data. Data have primarily been collected from economic surveys of various issues, and various articles published by national and international journals etc. Annual statistical data used in the analysis purposes. The data collected from various publications which are reliable, authentic and regularly used is also taken into the consideration.

6. Discussion and Analysis

6.1. Concept of GST - GST is a comprehensive, indirect, multi-stage, destination-based tax that is levied on every value addition. The goods and services tax (GST) is aimed at creating a single unified market that directly affects all sectors and sections of our economy. GST is a tax levied at each stage of value addition in the supply of goods and services. It seeks to eliminate inefficiencies in the tax system that results ‘tax on tax’. It is a single tax on the supply of goods and service, right from the manufacturer to the consumer. Credits of input taxes paid at each stage are available in the subsequent stages of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer thus bears only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

The introduction of GST has replaced the various taxes presently being levied by Central & State Government(s). These are as follows –

<table>
<thead>
<tr>
<th>INDIRECT TAXES SUBSUMED INTO GST</th>
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<tbody>
<tr>
<td><strong>CENTRAL INDIRECT TAXES</strong></td>
</tr>
<tr>
<td>Central Excise Duty</td>
</tr>
<tr>
<td>Additional Excise Duty</td>
</tr>
<tr>
<td>Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955</td>
</tr>
<tr>
<td>Service Tax</td>
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<tr>
<td>Additional Customs Duty (i.e., Countervailing Duty)</td>
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<tr>
<td>Special Additional Duty of Customs</td>
</tr>
<tr>
<td>Central cesses and surcharges relating to supply of goods and services</td>
</tr>
<tr>
<td><strong>STATE INDIRECT TAXES</strong></td>
</tr>
<tr>
<td>Value Added Tax (VAT) / Sales Tax</td>
</tr>
<tr>
<td>Entertainment Tax (Other than by local bodies)</td>
</tr>
<tr>
<td>Octroi and Entry Tax</td>
</tr>
<tr>
<td>Purchase Tax</td>
</tr>
<tr>
<td>Luxury Tax</td>
</tr>
<tr>
<td>Taxes on lottery, betting and gambling</td>
</tr>
<tr>
<td>State cesses and surcharges relating to supply of goods and services</td>
</tr>
</tbody>
</table>

(Taxation of Petroleum, Tobacco, Alcohol, Vehicles, Road and Tolls, Stamp Duty and Registration, Land Revenue and other direct taxes)

India has chosen the Canadian model of dual GST and honours the federal structure. GST is levied by both central and state governments. This comprises of Central GST (CGST) which will be levied by centre, State GST (SGST) which will be levied by state and Integrated GST (IGST) which will be levied by central government. For within the state (Intra-State) supplies both CGST and SGST shall be levied with CGST Portion payable to Central Government and SGST Portion payable to respective state. For across the state (Inter-State) supplies IGST (CGST + SGST) shall be levied and collected by centre out of which the SGST Portion shall be transferred to respective consumer state.

6.2 Indian textile industry - The textile industry has two broad segments. First, the unorganised sector, that consists of handloom, handicrafts and sericulture, which are operated on a small scale and through traditional tools and methods. The second is the organised sector consisting of spinning, apparel and garments segment which apply modern machinery and techniques such as economies of scale. The textile sector of
India is further decomposed into nine segments as indicated below:

- Khadi and handlooms
- Cotton textiles
- Woollen textiles
- Silk textiles
- Art silk and synthetic fibre textiles
- Jute, hemp, and mesta textiles
- Carpet weaving
- Ready-made garments
- Miscellaneous textile products

The Indian textiles industry is extremely varied, Labour intensive with the handspun and hand-woven textiles sectors at one end of the spectrum, while the capital intensive sophisticated mills sector at the other end of the spectrum. The decentralised power looms/ hosiery and knitting sector form the largest component of the textiles sector. The close linkage of the textile industry to agriculture for raw materials such as cotton and the ancient culture and traditions of the country in terms of textiles make the Indian textiles sector unique in comparison to the industries of other countries. The Indian textile industry has the capacity to produce a wide variety of products suitable to different market segments, both within India and across the world.

6.3 Textile industry and the pre-GST tax structure -

There are mainly two kinds of Indirect Taxes i.e. Central Excise Duties and service Tax. Service is not levied on textile since it comes under goods. Various indirect taxes on textile sector are indifferent across its various sectors. Most of their products are either exempt or are taxed at a relatively lower rate and are extensively subsidized under different central and state regimes. Central Excise duty Central excise duty was first introduced on woven garments in year 2001 which was subsequently extended to entire textile industry by 2003. The excise duty exemption option was also provided vide notification no.30/2004 with condition of non-availing of Cenvat credit. There was also an option to pay concessional rate of excise duty with CCR benefit. However, almost all assesses opted for exemption. In 2011, mandatory excise duty was reintroduced on branded garments with CCR benefit and abatement of 55% for duty payment. This mandatory levy was again removed in 2013 and optional scheme of paying duty with CCR benefit was continued. In 2016, mandatory excise duty has been introduced again on branded readymade garments made up of textiles falling under central excise tariff heading 61, 62 and 63. The levy is attracted only when retail sale price (RSP) is Rs.1000/- or more and levy is only on 60% value after standard abatement of 40%. For payment of duty, rate of 2% without Cenvat credit or 12.5% with Cenvat credit option is applicable. on-branded goods continue with “Nil” levy without CCR benefit. Otherwise, option of paying 6% with CCR in case of garments / articles of cotton, not containing any other textile material is available. For garments of other composition, “Nil” rate without Cenvat credit or 12.5% with Cenvat credit is available. Job Work In garment industry many times, brand name owners outsource the goods manufactured completely or on job work basis. There are special provisions that the central excise duty levy which in normal course should be with the job worker gets shifted to brand name owner. Such brand name owner instead of job-worker needs to register and comply with excise provisions. Brand name owner alternatively could authorize his job-worker to obtain registration and pay the duty on goods. Most of the states in India has exempted textiles and fabrics from levy of VAT. Garments including textiles are being subject to lower rate of VAT in many states. For example, in Karnataka state, readymade garments and other articles suffer lower rate of 5.5% tax. Textiles are exempted from VAT. For small players, the option of paying taxes at concessional rates is also provided under composition scheme in many states. In case of many states, entry tax is levied on specified goods when goods enter local area. Even textiles such as cotton, woolen or silk or artificial silks are liable to entry tax in states like Karnataka at the rate of 1% which is adding to purchase cost. Various indirect taxes on textile sector were indifferent across its various sectors. Most of their products were either exempted or were taxed at a relatively lower rate and were extensively subsidized under different central and state regimes. Hence, the issues faced under the pre-GST tax structure were as follows:

<table>
<thead>
<tr>
<th>SN</th>
<th>Issue Point</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Compliance Cost for Small Scale Business</td>
<td>Small Scale Composition Taxpayer is hesitant to join Credit chain as it increases the compliance cost of engaging professional to meet their Tax obligation.</td>
</tr>
<tr>
<td>2</td>
<td>No Input tax Credit</td>
<td>Most of Textile tax payer use composition scheme. Where Registered Taxpayer purchases goods from composition Taxpayers, they are not eligible for Input Tax Credit, thus breaking the Input Credit chain. Input Tax credit paid on the transaction is included in the cost of the product making the product costly.</td>
</tr>
<tr>
<td>3</td>
<td>Job Worker</td>
<td>Every person who gets the goods, produced or manufactured on his account on job work, shall pay the duty leviable on such goods. Hence, it is the raw material supplier (RMS) and not job worker who is liable to excise duty under current regime.</td>
</tr>
<tr>
<td>4</td>
<td>Branded Goods</td>
<td>Affixing of the brand name on goods amounts to manufacture and the person affixing brand name would be liable to pay the excise duty.</td>
</tr>
<tr>
<td>5</td>
<td>Treatment of Job Worker</td>
<td>Job work units are treated like any other manufacturing unit with job workers paying CENVAT on processed fabrics and getting a credit of excise duty paid on their inputs i.e. grey fabrics.</td>
</tr>
</tbody>
</table>
6.4 Impact of GST on Textile Sector –
Positive Impacts:
- Shift towards organized sector: A substantial segment of the Indian textile industry operates under the unorganized sector. It creates a gap in the input tax credit system. If the registered taxpayers buy inputs from the unorganized sector, they can not avail input tax credit facility. GST on textile brings a significant change in the input tax credit system and it creates an important balance between organized and unorganized sectors of the industry. In fact, GST helped the entire textile industry in shifting towards an organized sector.
- Improved compliances: An important effect of GST is to improve compliance. The value chain under the GST on exports is generally null rated aside from raw cotton and cotton waste; imports are leviable to CVD and special CVD.
- Export Incentives: GST streamlines the process of claiming input tax credit thus allowing the textile industry to be more competitive in the export market. The same opinion is shared by the secretary of ITF (Indian Texpreneurs Federation) PrabhuDhamodharan. Previously, manufacturers/traders were not inclined towards exports due to the extensive procedure costs and delays made in the processing of duty drawback. Under GST, the system of duty drawback loses its significance. Input tax credit is provided as a refund under GST instead of current duty drawback schemes. This is a significant boost for promoting the export of textile products.
- Input Tax Credit for Capital Goods: Previously, Indian textile manufacturers needed to pay heavy excise duty while importing capital goods. This excise duty was costly as input tax credit facility was not available under previous tax laws. But with GST’s launch, the excise duty has input tax credit facility and it will decrease the total import cost for capital goods.
- Textile industry is now more competitive: GST has restructured the input tax credit claiming process. It has made the entire textile industry more aggressive in the export market. In addition to this, input tax credit is a significant step for promoting the export of textile products. It also encourages the manufacturers to adopt cutting edge production system to develop existing products.
- GST encourages the farmers: Cotton yarn and fabrics comes under 5% GST tax slab and it inspires the farmers to grow ample amount of cotton more than before. The farmers get the accurate price for their hard work. It is expected that GST on textile will create development in the entire value chain.
- Transparent taxation: In GST, textile output is taxed and input tax credit is available as rebate whether in the case of export or for domestic use making taxation transparent.
- Fiscal barriers for inter-state movement are removed: Time required for movement of goods and logistic costs, stocking costs and carrying cost are now much reduced after introduction of GST.

Negative Impacts:
- Readymade garments are now costlier: GST on readymade garments has created a huge difference in the consumption. The tax slab is 12% under GST while the previous slab was 4-5% VAT and 2% excise. This higher tax slab has definitely increased the price of readymade garments for the consumers.
- GST on apparel: The Indian government has decided to keep 5% GST on apparels that are below than INR 1000 and apparels beyond this price will have 12% GST rate. It may have an adverse effect.
- Increase in administrative cost: Implementation of GST caused an increase in administrative and compliance costs.
- Rate-Revenue Effect: Since the CGST and SGST rates are higher than the corresponding textile sector RNRS; the textile prices have gone up. This has adversely affected the demand for textile products.

7. Findings
Major changes in tax rates specific to textile inputs/outputs:
1. Excise duty on fabrics made from cotton alone increased from 5% to 6%
2. Excise duty on synthetic textile inputs such as polyester and viscose also increased to 12%
3. Abatement applicable to branded ready-made garments increased from 55% to 70% of the Retail Sale Price.

The overall impact of GST on the textile industry and consumers depend on how the available policy options are exercised in relation to textiles. There are three segments that are in a relatively disadvantaged position are:
1. Khadi and Handlooms
2. Cotton textiles
3. Carpet weaving.

The main policy options, which may be considered for specific segments or all segments of textiles, are as follows:

a. Zero rating-Zero rating involves an effective mechanism for refunds and even advanced tax jurisdictions find it difficult to implement it. It should be recognized that zero rating will not cover producers below threshold levels.
On the other hand, it may lead to rush for registration with the central and state governments to claim the refunds. It may also open up an avenue for claims that may be fraudulent.

b. Exemption-The second option is exemption for selected segments. Exemption does not mean no incidence of tax since it results in blocked input taxes. It may result in higher tax incidence due to blocked input taxes and tax cascading. The tax impact of exemption becomes dependent on the nature of supply chain. For example, vertical integration may reduce the magnitude of block input taxes. This option is also not recommended as it distorts resource allocation choices. It shifts tax burden from consumption to production. Exemption to fabrics leads to pressure from industry for exemption from production inputs as well. This leads to complexities in the administration of tax. In general, selective exemptions detract from the supply chain neutrality as well as fiber neutrality in the textile sector. Under the GST scheme, area-based exemptions will be discontinued.

c. Lower rate of tax-The next option is to subject the textile segments to the lower rate of tax, which may be possible in a dual rate regime. This is an advisable option if the government chooses to have a lower GST rate along with a standard rate. It is also suggested that all textile fabric categories (e.g., khadi, cotton, synthetic, and readymade garments) should be in the same category to avoid classification disputes and maintain fibre neutrality. However, the scope of lower tax rate needs to be determined. There will be issues if inputs are taxable at higher rate and outputs are taxable at the lower rate. It gives rise to issues relating to refunds and requires monitoring of refunds.

d. Standard rate of tax with appropriate subsidies-Standard rate of tax with appropriate subsidies another option is to apply the standard rate of tax with appropriate subsidies. If the country goes for a single rate regime, this option may be recommended in preference to zero-rating and exemption even if there is a net positive effect on prices. However, the price effect of GST will depend on the actual level of the standard GST rate. A GST regime with a standard rate results in a clean tax system. It achieves production efficiency, which is the key concern as opposed to the regressively of the tax system. It can be accompanied by an appropriate subsidy regime to support weakest segments of the textile industry. In the case of textiles, additional resources will be released to finance such subsidies as many of the existing support schemes will not be required once zero-rating of exports becomes integral to the tax system as under GST.

8. Suggestions

Some of the possible way outs are mentioned below -

1. Raw material bank: Yarn constitutes more than 60% of the overall cost of handloom products. Typically major yarn spinners are not located within or near the handloom clusters and they do not sell yarn directly to the weaver/master weaver/cooperatives. There are a number of agents involved in the process of delivering the yarn from mill to weaver, which increases the price of yarn and sometimes creates artificial shortage of raw material availability, which in turn increases the price of yarn. Development of raw material (yarn) bank at a cluster level will not only ensure continuous supply of raw material but will also help in reducing the price of yarn.

2. Supply of handloom parts at subsidized rate: Many times handloom weavers can't change the defective handloom parts due to its high price. This reduces the efficiency level of the handloom weavers and also deteriorates the quality of the products. Supply of handloom parts at subsidized rate will help handloom weavers to improve their efficiency, which will help in reduction of cost of production. Also, an improvement in quality will enable the handloom weavers to charge a premium for their product.

3. Improved Dyeing facility: Colour fastness is the most common quality problem with handloom products. Many consumers hesitate to purchase handloom products due to this problem. Usage of age old dyeing facility is the reason behind such quality problem. Installation of better dyeing technology at cluster level will help in solving this quality issue, which will help in increasing the demand of handloom products and its price as well.

4. Product & design development: Supporting handloom weavers in product and design development will help them in reducing the cost of manufacturing and developing higher value added products, which can be sold with higher premium. This facility can be provided to handloom weavers through training or opening facility Centre at the cluster level. It is important to mention here that Ministry of Textiles is implementing many such interventions through different schemes. The scale and coverage of those interventions might be expanded to improve its effect on overall handloom industry.

9. Conclusion

From above discussion it can be concluded that introduction of GST has ushered in a plethora of changes in the textile business of India with an overall positive impact on the sector. GST implementation is expected to produce
impetus to various reforms and policy measures envisaged by the Government for the ease of doing business and to usher India into a simple, transparent and tax friendly regime. It has already simplified the previous procedures by convergence of various complex indirect taxes into a unified platform and conjointly improve the “textile export” state of affairs of India. The compliant would notice their goods become competitive in the global and domestic markets and can also be hoped that GST will help the textile industry in the long run by getting the drawbacks for the textile industry due to the higher tax rate and removal of benefits under cotton value chain, but it is safe to say that GST will help this industry in the long run by getting more registered taxpayers under a well regulated system. It can also be hoped that GST will help the textile industry to get more competitive in both the global and domestic markets and create opportunities for sustainable, long-term growth.

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