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Impact of GST on Textile Sector– An Empirical Study of Ajmer District, Rajasthan



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Abstract

Goods and Service tax was implemented on 1st July, 2017. GST promoted the concept of “One nation and One Tax”. It is a consumption tax and destination based tax. Textile and cloth industry is connected to the total growth of India. Textile Industry is playing important role for the development of Indian Economy. Textile industry is the second largest industry in India after agriculture. It contributes towards GDP, export, employment. Textile industry not only provides employment to skilled and unskilled workers in India but also contributes around 10% of the total export. After implementation of Goods and Service Tax, textile industry was affected.

This research paper aims to examine negative and positive impact of GST on textile sector. This research paper also focuses on the impact of GST on Overall Textile product with special reference to Ajmer District. This paper highlights the GST rates on different textile products and MRP increased after GST. The data is collected using questionnaire from 200 customers. This paper analyses the impact of GST on the Maximum retail price of textile product.

Keywords: Textile Industry, Goods And Service Tax, Indian Economy, Export, Textile Products, Maximum Retail Price.

Introduction

Goods and Service Tax was implemented on 1st July 2017. GST introduced the concept of “One Tax One Nation”. GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services in India. It is a destination based tax and it is a consumption tax. GST is a multi-stage tax imposed on the value added at each stage of transaction from production to final sales to an end consumer. GST on textile industry was implemented after May 18-19 2017 when 14th GST Council meeting declared the final rates of textile industry.

Textile sector is most important sector which contributes towards the development of the Indian economy, GDP, employment and export promotion. Textile industry is the second largest industry in India after agriculture. Textile industry provides not only employment to skilled and unskilled workers in India but also it contributes around 10% of the total export and this value is to increase after implementation of GST. The textile industry has two parts: (1) Organized Sector:- It include spinning, garment and apparel which uses modern machinery and techniques. (2)

Unorganized Sector

It includes handicraft, handloom, small and medium scale mills. Textile industry includes Cotton Textile, Jute and coir textile, Woolen textile, Silk textile and Readymade garments. Silk textile and Jute textile are totally exempted from the GST. The Indian textiles industry is Labour intensive with the hand spun and hand-woven textiles sector and capital intensive sophisticated mills sector. In textile sectors, power looms/ hosiery and knitting sectors are largest component. The textile industry is interrelated with agriculture for raw materials such as cotton and the ancient culture, and this thing make the Indian textiles sector unique. The Indian textile industry has the capacity to produce a wide variety of products suitable to different market segments, both domestic and global markets.

It was expected that after implementation of GST, textile industry would be affected negatively and this thing happened in short run because Natural fibers (cotton, wool) which were exempted, now has tax under GST. The GST tax on cotton fibre (product with cotton content like Dhoti,

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Saree, Shirting, Casement, Suti, Lawn, Latha, Lungi & furnishing fabrics) is 5%. On Yarn products (Parachute fabrics, Tent fabrics, Nylon, Umbrella cloth, Polyester shooting, Polyester shirting, Nylon Brasso, Nylon jacket, Rayon saree, Rayon jackets etc.) GST tax rate is 5%. Embroidery, dyeing and printing GST tax rate is 5%.

On manmade synthetic fibre the GST tax rate is 18%. The rate of GST on apparels is also based on cost, as the apparels whose cost is below Rs. 1000 have 5% GST and apparels above this mark have 12% GST. Textile industry is providing 18% of employment in Industrial sectors. The Organized sector contributes around 10% of the fabric production in the country. Mills which comprise both spinning and weaving are called composite mills. In unorganized sector, power loom contributes 55% of the total cloth production. The power loom fabric is competing successfully in global market.

The handloom sector is providing employment to more than 40 lakh weavers and it contributes around 23% of total cloth production. Silk, Jute, cotton and Khadi are the major areas in Handloom sector. Indian apparel industry has a great potential. Indian apparels are high in fashion and has a great demand in foreign. There are around 30,000 manufacturing units in the country. Textile Industry including all garments for both men and women such as shirts, trousers, saree, apparels, shoes and any more clothing materials which is preferred by many of the small medium enterprises. In textile sector, 100% FDI is allowed by the Government. GST changed the current scenario and structure of textile industries.

Review of Literature

A.S. Sreeshma, M. Aswamalika and V. Aparna (2018), in the research paper titled "A study on the impact of GST on Branded Textile Products" analyzed the preferences of consumer regarding brands after implementation of GST. They also analyzed the factor which leads to brand preferences, relationship between price and quality, consumer behavior after GST and offers and discounts provided by dealers to the consumer after implementation of GST.

Ms. Shebazbano Khan, Dr. Rashmi son (2018), in the research paper titled "Impact of GST on Textile Hub of Mumbai (Bhiwandi, Dist. Thane)" highlighted the impact of GST on textile industry with the special reference to Bhiwandi, Dist. Thane. They also presented the different GST rates and focused the behavior of consumer, textile industry growth and opportunities after implementation of GST.

Meenu Shrivastava (2018), in the research paper titled "GST effect on textile and apparel industry of India- An overview" focused the introduction of Goods and Service Tax, taxes come under GST benefits of GST to central and state government, benefit to business and industry as well as benefits to consumer. She also presented effects of GST on textile industry, specific effects on textile apparel.

Dr. Banamali Nath (2017) analyzed in his paper titled "Goods and services tax: A milestone in Indian economy" that GST reduced the effect of current indirect tax that will provide relief to the

producers and consumers. He also suggested that after GST, manufacturer, wholesaler and retailer can easily recover input tax credit. He also presented the positive impact of GST on manufacturing, employment and IT sectors and also presented that it will create more employment opportunities and lead to economic development that will improve GDP of the country.

Mrs. Rizwana Begum and Dr. K. S. Sarala (2017) observed in the research paper titled "Brand Positioning of Men Apparel Brands in Karnataka" that brand positioning constituting of different factors positively influence consumer and the apparel brand Louis Phillippe has a profound positioning compared to other apparel brands considered for the study. Brand positioning determines the distinctive features around which the brand has to be communicated to the consumer.

B. Anbuthambi and N. Chandrasekaran (2017) presented in the research paper titled "Goods and services tax (GST) and training for its implementation in India: a perspective" that the implementation of GST will play an important role in the growth of India Economy. The implementation of a GST will lead to gain in GDP, exports and the growth of the economy. He presented that training regarding GST would play an important role in the implementation of GST.

Dr. Saravanan, Chandra Mohan (2017) presented the effect of GST in India in the research paper titled "Assessment and Impact of Existing Indirect Tax to Goods and Service Tax in India". This paper discussed the existing taxation system and also proposed the concept of Goods and Service Tax. He also presented the negative impact in service sector and positive impact in manufacturing sector.

Poonam (2017) in the research paper titled "Goods and Service Tax in India- An introductory study" presented introduction of Goods and Service Tax in India. She also focused that GST is very necessary step for the reform of indirect taxation system and after GST Indian products become more competitive in domestic and global market.

Dr. Vikas Kumar (2016) analyzed in the research article titled "GST: Positive and Negative Effects on Common Man in India" analyzed the GST impact on the Indian consumer and also presented that single tax for one nation will be a game changer in a positive way and it would be beneficial for common man and country both.

Tanushree Gupta, (Dec. 2016) "An Impact of Goods & Service Tax on Indian Textile Industry" presented the introduction of GST, classification of textile industry, The dual model of GST and rates and policy option for specific textile segments.

Objectives of the Study

The main objectives of the study are listed as follows:

1. To examine the impact of GST on textile industry.
2. To analyze whether there is any change in customer behavior after GST.
3. To observe the change in price of the product after GST.

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- To determine which factor affect the consumer preference regarding brand.
- To study whether there is any change in preference of branded products after GST.

Research Methodology

Area of the Study

In this present study, an effort had been taken to examine the impact of GST on textile industry and textile products and to study the consumer perception regarding product prices in Ajmer district of Rajasthan. The study is confined to Ajmer district of Rajasthan.

Sources of The Data

This empirical and exploratory study is based on primary data which is collected through pre-structured questionnaires from 200 consumers of both urban and rural areas of Ajmer district. The pre-structured questionnaire was carefully designed after a pilot study and several discussions with textile product consumers. Respondents were considered and classified in different age group, different income group, occupation and educational qualification.

Sampling Technique

The survey was conducted on the basis of convenience sampling method. For developing a sample design, totally 200 respondents were selected for this study.

Tools for Analysis

The filled 200 pre-structured questionnaires were scrupulously plaid and compiled. Tabulation of data has been done to illustrate propensity, patterns and culminations. The base of data analyzing is the information provided by the respondents. Data were analyzed with the help of charts, tables, ranks and percentages.

Effect of GST on Textile Industry

The Indian Textile industry is playing important role for the development in Indian Economy. This Industry is amongst very few industries that vertically integrated from raw material to finished Products. Textile industry had various tax exemption, benefits and concessions under indirect taxes. Before GST, some indirect taxes were implemented like CST, VAT, Entry tax etc. After implementation of GST all these taxes were eliminated. There are three sectors which affected negatively like: Khadi and Handlooms, Cotton textiles and Cover weaving.

GST affected the cotton value chain of the textile industry which is chosen by most small medium enterprises. The average rate of GST on textile and its products is 18% and it increased the MRP of textile products. On the other side there is a positive impact also. Earlier credit on capital goods was not available but after implementation of GST, input tax credit is available on capital goods. GST helped textile industry to be more competitive in global and domestic market and create job opportunities. GST boost exports also. For cotton there is zero duty as compared to high excise duty and manmade fiber has 12.5% GST tax rate.

Composite mills are taxed at a higher rate than the power looms discouraging integration of production. There is a uniform tax rate which will

result that blocked input taxes eliminated. Lots of local taxes are also eliminated, so goods movement within the state became much easier. After implementation of GST, compliance cost was also reduced. Reduced compliance will automatically lead to higher revenues for any given rate as long as that rate is not high. Implementation of GST reduced time of movement and logistic costs, stocking costs and carrying costs.

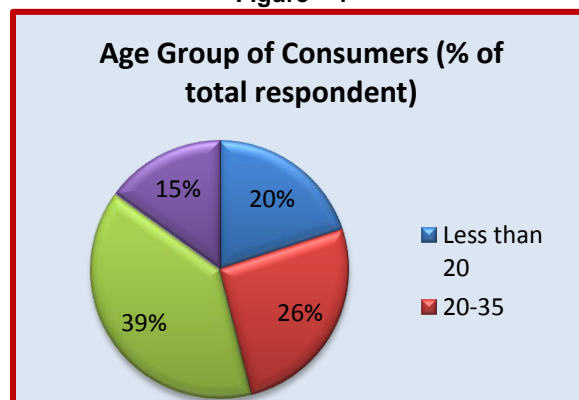
In textile sector, the dealers which are domestic market oriented will be able to set-off the GST paid on domestic capital goods. This will reduce the cost of capital investment and will be positive impact on domestic markets. The material business is the main areas in the Indian economy. India is known to be the third largest market of cotton and it covers 22% of the worldwide market also holds 25% share in the cotton yarn industry over the globe. The Indian Textile Industry contributes around 14% to overall Index of Industrial Production. It generated more employment opportunities.

GST in material business rearranged the present methodology by merging different complex aberrant expenses into a bound together stage and conjointly enhance the material business. Under textile industry, processing of goods through job work is a normal activity like movement of goods happens to job worker and goods move back to the sender after completion of process. Job workers are receiving the goods for doing job work which is required to register under GST and discharge tax liability. Job Worker is a person who gets the goods, produced or manufactured on his account on job work, shall pay the duty imposed on such goods.

Empirical Results and Discussions

The following figures and tables show the age groups, incomes, occupation, educational qualification, factor affected textile product, MRP increased after GST, discount offers providing by dealers after GST implementation and growth of textile industry after GST.

Figure – 1

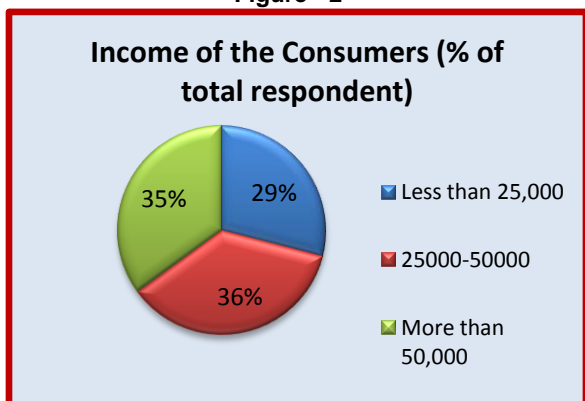


Source: Primary Data collected through questionnaires.

The age groups of the respondents is given in figure-1, out of 200 respondents taken for the study, 20% consumer belong to the age of less than 20 years, 26% belong to the age of 20-35 years, 39% belong to the age of 35-50 years and 15% belong to more than the age of 50 years.

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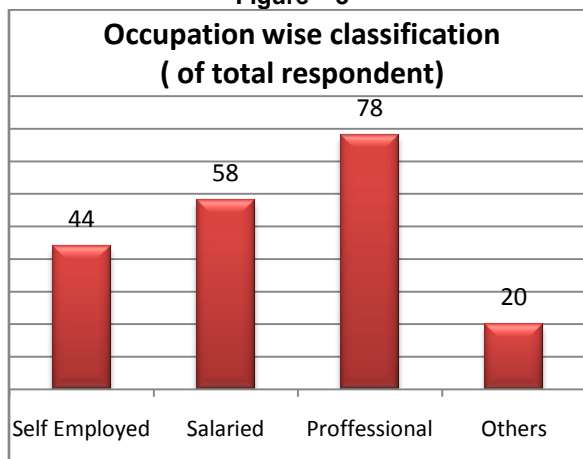
Figure - 2



Source: Primary Data collected through questionnaires

Data of income groups of respondents is analyzed in figure-2, out of 200 respondents taken for the study and it reveals that 29% consumers have the income level of Rs. less than Rs. 25,000, 36% have the income level of Rs. 25,000 to 50,000 and 35% have the income more than Rs. 50,000.

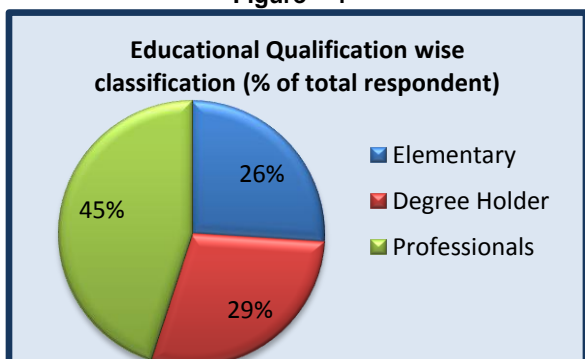
Figure - 3



Source: Primary Data collected through questionnaires

Figure-3 shows the occupation wise classification of consumers, out of 200 respondents, it has been observed that 22% consumers are self-employed, 29% are salaried, 39% are professionals and 10% belongs to other categories.

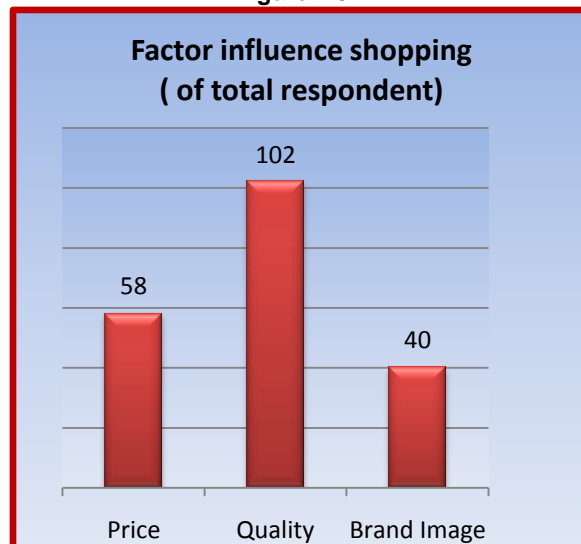
Figure - 4



Source: Primary Data collected through questionnaires

Figure-4 shows educational qualifications classification of Consumers. It is analyzed that out of 200 respondents, 26% belongs to elementary education, 29% belongs to degree holders and 45% belongs to professional.

Figure - 5



Source: Primary Data collected through questionnaires.

Figure-5 shows factor influence to consumer while shopping. It is analyzed that out of 200 respondents, 29% choose price, 51% chose quality and 20% choose brand image.

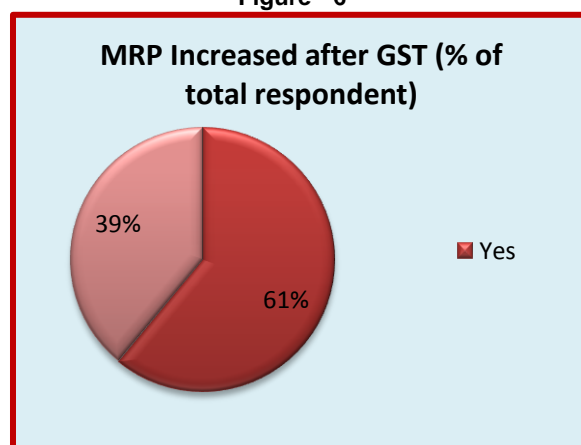
In order to know the changes in MRP after implementation of GST, the customers are asked through questionnaire to know whether they changed their preferences after GST.

Table 1

MRP Increased After GST

Particulars	No. of Respondent
Yes	122
No	78
Total	200

Figure - 6



Source: Primary Data collected through questionnaires.

Figure-6 shows textile products price increased after implementation of GST. It is analyzed

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that out of 200 respondents, 61% said "yes" and 39% said "no".

Table 2 Dealers providing discount offers after GST

Particulars	No. of Respondent
Yes	119
No	81
Total	200

Figure - 7



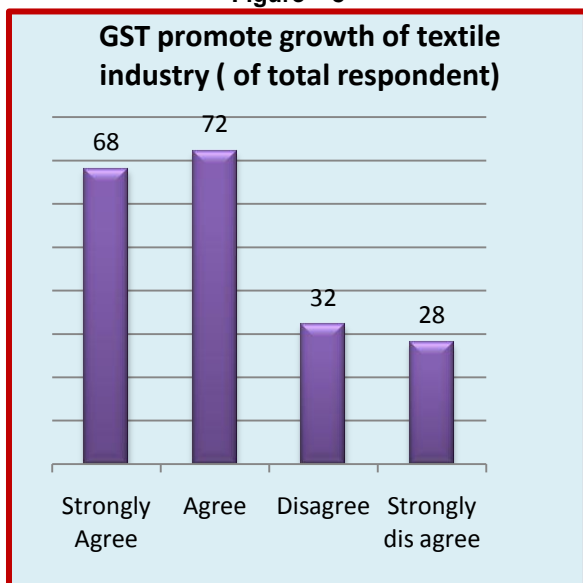
Source: Primary Data collected through questionnaires

Figure-7 shows discounts offers provided by dealers after implementation of GST. It is analyzed that out of 200 respondents, 59% said "yes" and 41% said "no".

Table 3 GST promote growth of Textile Industry

Particulars	No. of Respondent (%)
Strongly Agree	68 (34%)
Agree	72(36%)
Disagree	32(16%)
Strongly Disagree	28(14%)
Total	200(100%)

Figure – 8



Source: Primary Data collected through questionnaires

Figure-8 shows discounts offers provided by dealers after implementation of GST. It is analyzed that out of 200 respondents, 34% were strongly agreed with

discount offers, 36% were agreed, 16% were disagreed and 14% were strongly disagreed with discount offers.

Benefits of GST on Textile Industry

1. GST reduced many taxes and duties like CST, VAT, octroi, exercise duty, entry tax etc. which would help reduce cost for manufacturers in the textile industry.
2. A major portion of the textile industry works under the unorganised sector or opts the composition scheme, therefore creating a gap between the flows of Input Tax Credit. Input tax credit is not provided to composition scheme holders. If a registered taxpayer buy the input from taxpayers under the composition scheme or the unorganised sector, input tax credit will not be allowed for him. GST would enable a good input credit system, which would shift the balance towards the organized sector.
3. After implementation of GST, now input tax credit on capital goods is also allowed.
4. Currently, manufacturers were not interested towards exports due to the extensive procedure costs and delays made in the processing of duty refund. Under GST, Input tax credit will be provided as a refund. This would be a significant boost for promoting the export of textile product in international market.
5. Textile industry would be more competitive after implementation of GST.

Findings and Suggestion

The introduction of GST was an important step in the reform of taxation system in India. The GST council has announced some rules regarding the e-way bill and rates. At the same time, the GST rates on job work of textiles and the related products that are manufactured were reduced from 18% to 5% and this was the good sign for textile industry. After GST, the different rates and categorization of GST in the textile sector has been eased out. Due to the fall in price, there will be competition in the market which will create healthy environment for export.

Because of procedure, implementation of GST is difficult in textile sector. So it is necessary to simplify the procedure of registration and return. Composition schemes should be available for job workers. There is a need for explicit subsidy schemes for export. The Textile industry involves interdependence between organized and unorganized sectors which will help to face additional challenges because many dealers who cross the minimum limits for paying tax, opt for composition scheme. So compliance burden on dealer is relatively less than on a normal tax payer.

Overall GST had changed the current tax structure of textile industries and the tax burden shifted to the consumer by claiming of the credit of taxes paid on input. This industry contributes around 4% of GDP. Under GST, all fibers are treated in same way. There is no discrimination between cotton fiber and man-made fiber in GST structure. So there is a need to differentiate between cotton fiber and manmade fiber. There is a need to plan for the purchase of inputs at better prices considering various

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factors such as quality, location of supplier, type of taxes charge etc.

Taxes paid on inter-State purchases would be eligible for credit in GST taxation system. The purchases from unorganized sectors who opts for composition scheme under GST could increase the cost of materials as such suppliers would not be eligible for any input tax credit. Therefore, the source of purchase would also play a vital role in GST taxation system. There is a need to analyse the impact on the entire business including main functions which will provide us help to do easy transaction in GST. Small vendors should be trained to understand the concept of GST system, impact and compliance requirement under GST.

Textile industry needs to be ready to meet this additional expenditure. The unorganized industry would not be advantaged. Mostly smaller players whether in the textile processing, job workers, fabric manufacturers or garment units would have to bring in discipline in their recorded purchases and proper accounting which has not been strong in the past. The overall impact of GST on textile industry and consumers will depend on how the policy options are exercised after implementing GST. It is also suggest that all textile fabric categories should be in the same category to avoid classification disputes.

Conclusion

When GST was introduced it was expected that transparent taxation system will be implemented. There may be some drawbacks for the textile industry because of higher tax rate, but we can say that GST will help textile industry in the long run by getting more registered tax payers. Also it will help to create more opportunities for sustainable and long term growth. It was found that most of customers changed their behavior regarding brands after implementation of the GST. From the study conducted we can conclude that implementation of GST there is lots of changes created by the customers mind.

The scope of lower tax rates need to be determined. A GST regime with a standard rate result 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.

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