



“A Study on the Impact of Changing Rates of GST in Textile Industry”

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ABSTRACT:

GST is an Indirect Tax that came in existence with the purpose of one nation one tax system. Any change in the tax structure can create a huge impact on whole working of the particular sector in which changes are made. This Paper is mainly related to the analysis of the impact of increasing rates of GST from 5% to 12% in Textile Industry on garments above Rs.1000, and to understand the reasons for deferral of the decision which has to be implemented from 1st January 2022. This study also focuses on the government's outlook regarding changing rates and the impact of increasing rates of GST on businesses and on the customers.

Keywords: Goods and Service Tax (GST), Textile Industry, Customers, Government.

Introduction

GST is a pioneering indirect tax reform that came into existence to create one nation one tax system and eliminate the cascading effect of tax. It is a destination-based tax in which most of the taxes are subsumed. It is technically paid by suppliers (under FCM) but borne by consumers (recipient of goods or services).

GST tax slab rates are 5%, 12%, 18% and 28%. In India, a dual GST model is adopted in which both Centre and State will simultaneously tax goods and services. CGST and SGST will be levied on intrastate supply and IGST will be levied on inter-state supply of goods and services.

GST applies to almost all industries including the textile industry. The textile industry in India is one of the largest and oldest industries and it also plays an important role in the development of the Indian economy by contributing significantly to employment generation, export promotion, and GDP in the country.

A large portion of GST is collected from the textile industry, and if any change occurs in the tax rates, it might have a huge impact on the working of the whole industry. Recently in the 45th GST council meeting, a decision was taken to increase the rates from 5% to 12% in the textile industry which is to be implemented from 1 January 2022, this decision was opposed by many states and the textile industry due to which on 31st Dec 2021 in 46th GST council meeting the decision of hike in rates is kept on hold till the further notice.

So, this study is to understand why this decision is opposed and how it can impact the growth of the textile industry and what are the positive and negative consequences if rates are increased.

Objectives of the study

- To understand the reason why the government wants to increase rates of GST in the textile industry.
- To understand what can be the impact of GST on the Textile industry if the rates will increase from 5% to 12%.
- To analyze the impact of changing rates of GST on businesses and consumers.

Literature Review

Vandana Nautiyal (2020)¹ examined “GST- In Textile Sector: An Overview” and concluded that GST had cut down the old procedures by conveying various complex indirect taxes at a unified platform and with that improving the “textile export” state of affairs of India. The compliant would see their goods become more competitive, and the sector would also contribute to taxation while also providing employment and other social benefits at a higher level than it does now. Without a question, GST will provide India with a world-class tax system, but this will be contingent on its rational design, prompt implementation, and regular monitoring.

Mr.Dipesh Jain (2020)² studied “Impact of GST on the Textile Sector of Surat City” and concludes that the impact of GST on the textile sector of Surat City is negative. The effect of GST is mostly experienced by threads manufacturers and traders. After the implementation of GST, the cost of products is increased which is harmful to the textile traders as well as the Indian economy.

Dr. R. A. RATHI and SHILPA SAMPATH KUMAR (2019)³ studied “GST-A TRANSITION FOR THE TEXTILE SECTOR IN INDIA” they concluded that the adoption of GST will result in numerous changes in India's textile industry, with a generally good outcome. There are a few drawbacks of GST for the textile industry which is due to the higher tax rate and removal of benefits under the cotton value chain.

Shreya Bude, Shweta V. Yadav, and Dr. Meenal Pendse (2019)⁴ examined “Effect of GST on Textile Industry” and concluded that individuals with low-level financial gain and Textile business house owners square measure economically stricken by the implementation of GST. Thus, GST may result in the tax burden being shifted to the final client, diminishing demand for textiles. On the opposite hand, textile production can win higher technology, additional balanced fiber mixture, high productivity, and competition. And it'll additionally encourage the farmers to supply additional.

K.PRABHA KUMARI and ANUPRIYA.K.P (2018)⁵ they studied “IMPACT OF GST IN TIRUPPUR TEXTILE INDUSTRY” and concluded that the introduction of GST will usher in a plethora of changes in the textile business of India with an overall positive impact on the sector However GST would help exporters. would. The unorganized industry would not be advantaged. Stocking pre-GST would reduce in this industry. Most smaller businesses, whether in textile processing, job workers, fabric manufacturers, or garment units, would have to improve their record-keeping and accounting, which has been lacking in the past.

Industry Profile

The textile industry is primarily concerned with yarn, cloth, and apparel design, production, and distribution. It is one of the oldest, most important, and largest industry. Textile is the second-largest industry in the country, after agriculture, and it provides massive employment opportunities for both skilled and unskilled laborers.

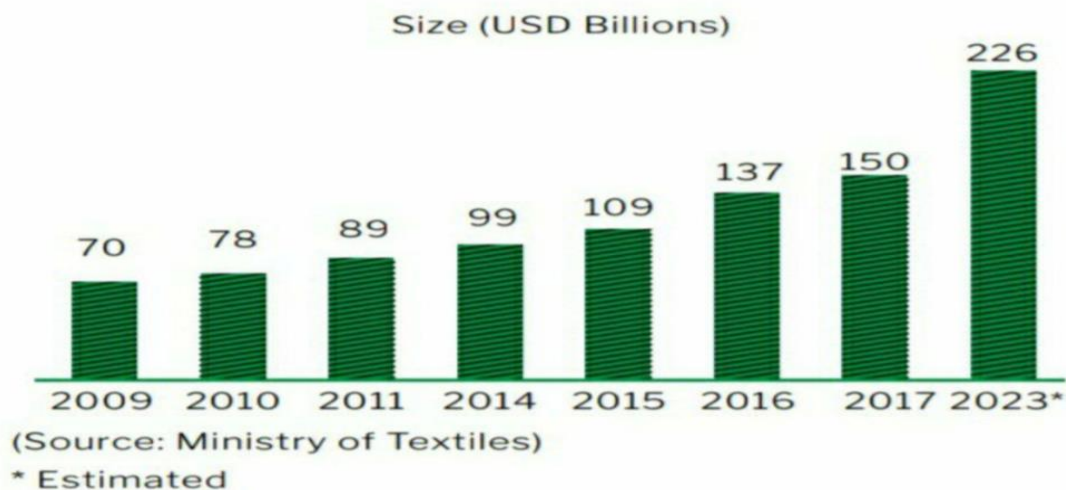
Textile Industry also plays an important role in contributing significantly to GDP and export promotion. The second-largest exporter of textile and clothing in the world is India.

The textile industry has been divided into two segments.

- The unorganized sector which includes sericulture, power loom, handloom, and handicrafts, are operated on a small scale and through the old methods.
- The organized sector which includes garments, spinning, and apparel applies model machinery and techniques such as economies of scale.

This provides the industry with the capacity to provide a large variety of products suitable to the different segments of the market both within the country and outside the country.

Growth in Textile Industry



GST rates in Textile Industry

Fibre Type	Raw Material	Yarn (Spinning)	Yarn (Knitting/Weaving)	Garments		Carpets, Towels	Technical Textiles	Made Ups *	
				Upto Rs 1000	Exceeding Rs 1000			Upto Rs 1000	Exceeding Rs 1000
Cotton	5%	5%	5%	5%	12%	12%	12%	5%	12%
Synthetic	18%	18%	5%	5%	12%	12%	12%	5%	12%
Silk/Jute	0%	5%	5%	5%	12%	12%	12%	5%	12%
Wool - Standard	0%	5%	5%	5%	12%	12%	12%	5%	12%
Wool - Carded/Combed	5%	5%	5%	5%	12%	12%	12%	5%	12%
Other Natural Fibres	5%	5%	5%	5%	12%	12%	12%	5%	12%

* Includes blankets, home linen, curtains

Source: Ministry Of Textiles

Research Methodology

The method used for data collection is secondary data collection. The data is collected from numerous journals, analysis papers, and web site to understand the impact of GST on the Textile industry and what can be the further impact if rates are increased, to create a sense of the expertise from completely different views. The analysis is shown in graphical form, which involves the knowledge from numerous sources, along with theoretical knowledge from third-party databases, specifically websites.

Data Analysis and Discussion

New rates (which are kept on hold) and the existing rates.

Textile products	Existing	New
All types of fabrics	5%	12%
Garments below Rs.1000	5%	12%

The GST on garments priced above Rs. 1000 will be hiked from 5% to 12%. Meanwhile, the rates on other textiles such as fabrics, synthetic yarn, blankets, tents, and other similar items will cost more when the rates are hiked.

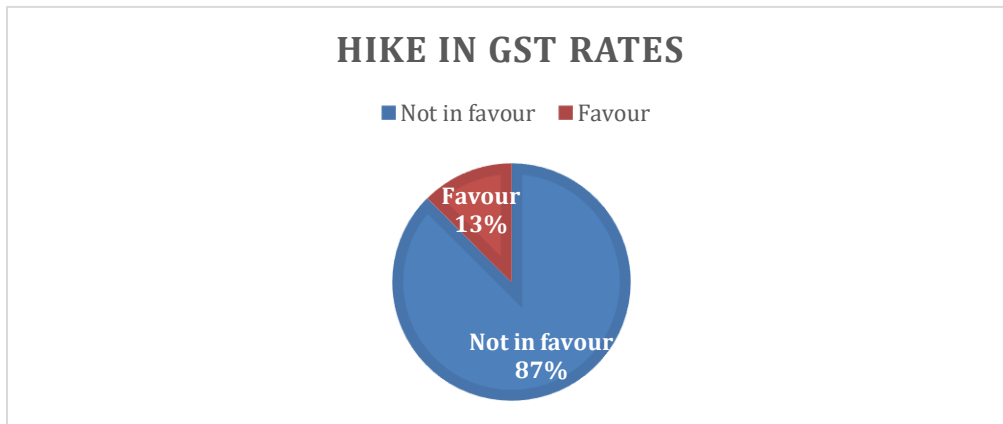
Responses of CAIT, Textile Minister, State Governments and Business Owners in view of hike in GST rates in Textile Industry

- The Confederation of All India Traders (CAIT) stated that the increased tax would increase the financial burden on end-users, have an impact on small businesses, and encourage tax evasion.
- Mr. Manish Sisodia, deputy chief minister, stated that the move to increase GST on textiles is not 'people-friendly' and should be withdrawn; he also stated that Delhi is opposed to this.
- Vijayawada Cloth Merchants' Association cloth has opposed the GST price increases on ready-made garments and footwear, which would increase to 12% from the existing rate of 5% on January 1, 2021. According to Batchu Koteswara Rao, secretary of the Cloth Merchants' Association, " After Covid-19, celebrations became more low-key affairs. This is not the ideal time to raise GST on garments, which is an essential commodity."
- The textile ministry opposes a rate hike, claiming that the industry requires relief. The ministry claimed that their communication to the GST secretariat would maintain a status quo on rates.
- Weavers and textile traders from the Kashi ready-made garments organization have proposed to the government that the high GST rate on various textile items be reduced.

- The Aligarh cloth merchants' association (ACMA) organized a peaceful protest against the Indian government's decision to raise the GST rate on textile fabrics from 5% to 12% from January 1, 2022.
- Amit Mitra, the principal chief advisor to the West Bengal chief minister, had urged Union Finance Minister Nirmala Sitharaman to roll back the proposed hike.
- "While the proposed rollback of the GST rate hike on many textile products would benefit the sector, particularly SMEs and MSMEs that operate in this employment-intensive sector, it would be necessary to find a solution in the future to the problems of inverted duty structure in the textile sector," said MS Mani, partner, Deloitte India.

Findings

From the above responses, we find out that 7 responses are not in favor of hike of GST rates on the textile industry and 1 response is in favor of it so by these responses we can find out the percentage of favor and not in favor of responses.



Result

This shows the negative impact of the hike in GST rates in the textile industry.

Impact of hike in GST rates

- This would have an impact on 85 % of the industry and roughly 80% of final products.
- Over 15 lakh jobs in main and subsidiary units would be lost because of an increase in GST rates.
- Nearly 1 lakh small and medium-sized enterprises may face closure due to working capital pressures. The handloom sector may see up to 25% income loss.
- The unorganized sector accounts for more than 80% of fabric production in the country, raising the GST on fabrics to 12% will harm power loom and handloom weavers.
- Due to extraordinary price increases in raw materials such as yarn, packing materials, and freight, the market is likely to see a 15-20% price increase in clothing shortly. The traders lament the fact that people who buy clothing for less than Rs 1,000 will be the hardest hit.
- Cloth traders claimed that the Covid-19 pandemic had hampered trading activity for the previous two years, but that it is gradually improving due to a decrease in new illnesses in recent weeks. They had high hopes for the year 2022, but those were dashed by the announcement of an increase in GST rates.
- In addition, the incremental revenue may be limited because many small businesses that were in the informal sector before GST may revert to that status. The imposition of high taxes has already created an environment of uncertainty for consumers as well as manufacturers.

Government's outlook

Due to rising spending needs and also the economic impact of the second wave of the Covid-19 pandemic within the first half of this financial year, both the federal and state governments are under revenue challenges. This tax increase will aid the Centre, which is experiencing a revenue shortage as a result of recent fuel duty cuts, by stabilizing tax revenues and freeing up funds for welfare initiatives. It'll also spare states from a fiscal cliff when the central government's GST compensation ends in June of next year. The Centre wishes to correct the inverted duty structure because the GST on fiber is 18%.

Reasons for deferral of decision

- 70% increase in cotton prices in the last year has resulted in significant increases in garment prices.
- Another increase would cause a significant drop in consumption or a shift to lower-cost, lower-quality goods.
- Protests against the GST increase have begun among cloth traders, who intend to escalate the agitation.
- Gujarat FM requested a postponement of the decision taken in the September Council meeting on tax structure inversion," said FM Nirmala Sitharaman.
- GST council has decided to postpone the correction of inverted duties for textiles, and will again be referred to the "rate rationalization panel", said FM.

Recommendations

- The decision of increasing rates should be deferred for at least 2-3 years, as of now due to covid already many small businesses are facing difficulties, if rates are increased then it will be hard for them to remain in the market.
- Proper guidelines and instructions regarding which good is to be covered in the revised rates category are to be issued and by also considering its impact on other goods before any change.
- This rise in the amount of the goods due to increase in GST may create a financial burden on the consumers due to which the consumer will be unable to purchase the goods. So before implementing the hike in the rates, the consumers' aspect is also to be noticed.

Conclusion

As Textile Industry is one of the largest industry, any change made in the tax structure or rates can have a huge impact on the whole working, so by this study I would conclude that if the decision of increasing rates from 5% to 12% which is on hold is implemented then there will be a negative impact on the textile industry, there will be a rapid increase in prices of the product due to demand of the products can also fall and as per the expectations many people will become unemployed and small business will be impacted badly, it will become hard for them to survive in this competitive market.

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