



## AN IMPACT OF GOOD & SERVICE TAX ON INDIAN TEXTILE INDUSTRY

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### ABSTRACT

*Goods and Services tax (GST) is one hundred and first amendment of the constitution of India. Taxation of textile sector is not transparent in its various segments. Numerous material yields are either absolved under the focal and state charge systems or are exposed to moderately low assessment rates. The majority of the aberrant assessments fall on inputs, the two products and enterprises, and along these lines stay covered up. All in all, the material segment is delicately exhausted and widely financed.*

**KEYWORD :** Goods and Services tax (GST) , hundred and first amendment.

### INTRODUCTION

Material fares are upheld through installments of un-refunded assesses on material data sources and different appropriations. 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.

### Classification of Indian Textile Industry:

1. Organized sector
  - A) Spinning mills or composite mills
2. Chaotic decentralized division
  - A) Power loom portion
  - B) Handloom section
  - C) Hosiery section
  - D) Khadi and Carpet fabricating section



### The model of GST :

A double GST framework is intended to be executed in India as proposed by the Empowered Committee under which the GST will be partitioned into two sections: Central Goods and Services Tax (CGST) State Goods and Services Tax (SGST) The Goods and Services Tax (GST) is

said to supplant all circuitous assessments imposed on products and enterprises by the Government, both Central and States. The GST will merge all State economies. It will be one of the greatest tax assessment changes to happen in India. The GST will make a noteworthy achievement clearing path for a comprehensive circuitous expense change in the nation

### FINDINGS & DISCUSSION :

Significant changes in charge rates explicit to material information sources/yields:

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 will depend on how the available policy options are exercised in implementing GST in relation to textiles. There is three segments that would be in a relatively disadvantageous 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-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.

### SUGGESTIONS:

Some of the possible suggestions 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:** Color 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 cover age of those interventions might be expanded to improve its effect on overall handloom industry.

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