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Special Issue of First International Conference on Advancements in Research and Development Implications of the GST Regime for the Country's Textile Sector

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Abstract

None believed that the GST regime would see the light of the day in our country. It did, and it is almost stale news now. What is current news is how to simplify the most complicated GST regime in the world. It was accorded a mixed reception upon arrival, with doomsayers and optimists having their role cut out. Some doomsayers joined the opposite camp and some optimists became doomsayers, though. The researcher's interaction with two stakeholder categories associated with the textile sector, namely, textile manufacturers and consultants reveal that, on the whole, the impact of the GST regime on the textile sector has not been as bad as originally feared by certain segments of the textile sector. Even where a few hiccups were witnessed, it is believed, the problems and difficulties can be smoothed over, with the passage of time. The GST Council has been sensitive to the problems faced by the tax-payers although there is still some way to go. The researcher recommends that the sector players import state-of-the-art technology by availing of the tax carrots the GST regime offers. It will help the said players improve their bottom-lines.

Key words: *complicated; doomsayers; mixed reception smooth over; stale; tax carrots*

1. Introduction

1.1 Theoretical background

The Goods & Services Tax law in India is a comprehensive, multi-stage, destination-based tax (Cleartax, 2018). It is levied at every stage of value addition. Put differently, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. The GST law has replaced many indirect tax laws that were in force earlier.

1.2 Statement of the problem

When a radical and comprehensive tax regime that subsumes all the indirect taxes being levied in the country is introduced, some disruption is inevitable at least in the short term. In the medium term, the dust is supposed to settle, and the beneficiaries concerned, namely, the tax administration and the

taxed assesseees, are expected to look forward to benefits from the new regime to accrue. However, the disruption and the brouhaha that followed the introduction of the GST regime in India was not insignificant.

1.3 Review of literature

1.Many from the textile industry now agree that the overall tax burden has come down for the textile sector to 18 per cent from 20 per cent. It has also raised transparency in the operations of the sector. It is true that small textile businesses were disrupted by the GST regime in the initial phase owing to compliance hiccups (ETNownews.com, 2018).

2.Though the effect of GST-induced disruptions cannot be ignored in the near-term, the Indian

textile industry is poised to grow from the long-term benefits that the new legislation offers (Krishna, 2018) (Krishna, 2018).

3.The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country (GST, 2017) (GST, 2017).

4.With the Goods and Services Tax (GST) Council unable to arrive at an agreement on the textiles sector, the rate announcement has been deferred to June 3 (BS Reporter, 2017) (BS Reporter, 2017). The deferment is attributable to complexities within the entire textiles value chain, in addition to the industry's anticipation of a fibre neutral taxation across the chain.

1.4 Research gap

An improved coverage of the problems that the various stakeholders associated with the textile sector are confronted with, would have added value to the reviewed literature. It is this gap the present study seeks to bridge.

1.5 Scope of the study

The study confines itself to the two major stakeholder categories associated with the textile space, namely, textile businesses and textile industry consultants.

1.6 Objectives of the study

The objectives of the study are to identify the benefits that accrue to the textile sector from the GST regime.

1.7 Hypothesis proposed to be tested

The study proposes to test the following hypothesis:

“Delay in refunds to apparel exporters delays procurement of textiles”

1.8 Research design

The following paragraphs explain how the research is designed.

1.8.1 Research methodology

The study is descriptive in nature and uses the ‘fact-finding’ survey method. Interview schedules specially designed for the purpose were administered to the respondents for collection of primary data.

1.8.2 Sources of data

Data required for the research has been collected from both primary and secondary sources. Primary data has been collected from textile manufacturers and textile industry consultants.

Secondary data has been collected from various sources relating to the topic, like articles from the financial press, house journals of industry associations / trade bodies and the websites of the Ministry of Textiles of the government of India.[1-6].

1.8.3 Sampling plan

Textile manufacturers: Given the limited number of textile manufacturers operating in the area covered by the study and the limited time at the disposal of the researcher, purposive or judgement sampling under the non-probability method was undertaken. The researcher selected 30 textile manufacturers operating in the area at least for the past 15 years.

Textile industry consultants: Given the limited number of such consultants operating in the area covered by the study, purposive or judgement sampling under the non-probability method was used. The researcher selected 30 such consultants operating in the area covered by the study at least for the past 10 years.

1.8.4 Data collection instruments

Interview schedules, specially designed for the purpose, were drafted. They featured open questions and closed questions.

1.8.5 Data processing and analysis plan

Non-parametric statistical units were used to test the association between some qualitative characters and conclusions were drawn on the basis of formation of Ho and H1. To be specific, Likert scale and chi-square test were applied to test the hypotheses.

1.8.6 Limitations of the study

Primary data has at times been deduced through constant topic-oriented discussions with the respondents. It is possible that a certain degree of subjectivity, albeit negligible, has found its way in.

1.9 Analysis of primary data collected from the 30 textile manufacturer respondents

In the following paragraphs, the primary data collected from the 30 textile manufacturer respondents is analysed.

1.9.1 Benefits accruing to the textile sector from the GST regime

It is claimed that many advantages have accrued to the textile sector from the GST regime. Hence the researcher requested the respondents to reveal the benefits that have accrued to the textile sector from

the GST regime. Their replies to the query appear in the following Table-1.

Benefits accruing to the textile sector from the GST regime

Benefits	Number of respondents
Input tax credit or ITC is available to all the tax paid on capital goods.	27
GST regime has raised transparency in the sector	27
The overall tax burden has come down to 18 percent from 20 percent	26
Provides a level-playing field to synthetic textile manufacturers through a uniform tax rate on the entire value chain.	25
GST Council allows input credit and reduces the effective rate on fabric to five percent from 12 percent	24

Input tax credit or ITC is available to all the tax paid on capital goods, cite 27 respondents. GST regime has raised transparency in the sector, cite 27 respondents. The overall tax burden has come down to 18 percent from 20 percent, cite 26 respondents. Provides a level-playing field to synthetic textile manufacturers through a uniform tax rate on the entire value chain, state 25 respondents. GST Council allows input credit and reduces the effective rate on fabric to five percent from 12 percent, state 24 respondents.

1.10 Analysis of primary data collected from the 30 textile industry consultants

In the following paragraphs, the primary data collected from the 30 textile industry consultants is analysed.

1.10.1 Benefits accruing to the textile sector from the GST regime

It is claimed that many advantages have accrued to the textile sector from the GST regime. Hence the researcher requested the respondents to reveal the benefits that have accrued to the textile sector from the GST regime. Their replies to the query appear in the following Table-2.

Table-2. Benefits accruing to the textile sector from the GST regime

Benefits	Number of respondents
Input tax credit or ITC is available to all the tax paid on capital goods.	27
GST regime has raised transparency in the sector	27
The overall tax burden has come down to 18 percent from 20 percent	26
Refund of input tax credit replacing the duty drawback scheme will promote the export of textile products.	26
Provides a level-playing field to synthetic textile manufacturers through a uniform tax rate on the entire value chain.	25
GST Council allows input credit which reduces the effective rate on fabric to five percent from 12 percent	24

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Table.3 reveals the computation made using MS-Excel.

Category	Observed Values		
	Yes	No	Total
Textile manufacturers	25	5	30
Textile industry consultants	27	3	30
Total	52	8	60
Category	Expected Values		
	Yes	No	Total
Textile manufacturers	26	4	30
Textile industry consultants	26	4	30
Total	52	8	60
	Yes	No	
o-e	-1.0000	1.0000	
	1.0000	-1.0000	
(o-e)^2	1.0000	1.0000	
	1.0000	1.0000	
((o-e)^2)/e	0.0385	0.2500	
	0.0385	0.2500	
CV	0.0769	0.5000	0.5769
TV			3.8415
p			0.9656

Conclusions

Conclusions are inferences / generalisations drawn from the findings and relate to hypotheses. They are answers to the research questions or the statements of acceptance or rejection of hypotheses. As explained already, this study proposes to test the following hypothesis:

“Delay in refunds to apparel exporters delays procurement of textiles”

Hence H_0 and H_1 are as follows:

H_0 : Delay in refunds to apparel exporters does not delay procurement of textiles

H_1 : Delay in refunds to apparel exporters delays procurement of textiles

On the basis of the primary data collected from the respondents, vide Tables: 1 and 2, a chi-square test was applied to ascertain the association, if any, between the three variables. Table.3 reveals the computation made using MS-Excel. The calculated value of χ^2 is 0.5769, lower than the table value of

3.8415 for an alpha of 0.05 at one degree of freedom. Hence the null hypothesis is not rejected, and the research hypothesis is rejected. $p=0.9656$ is the inverse of the one-tailed probability of the chi-squared distribution.

Recommendations

The following are the researcher's recommendations:

1. It is not possible to curb all imports without proper justification. So, any delay in the release of rebate / remission of state levies (ROSL) to the apparel sector must be avoided by the government.
2. Prompt release of ROSL cannot be overemphasised given that it offsets indirect taxes (embedded in exports) levied by states.
3. Delays in refunds particularly hurt the apparel exporters since vendors will not supply textiles on credit.
4. Input tax credit or ITC is available in respect of all the tax paid on capital goods. Hence the units will do well to import state-of-the-art technology to manufacture textile goods. Such imports will no longer be expensive, with ITC being available for all the tax paid on capital goods.

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