

## Impact of GST on the Textile Sector of Surat City

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### ABSTRACT:

A largely unorganised sector, Surat is home to 50,000 power loom units, another 40,000 units for value addition and about 400 dyeing units. Surat city is the largest manufacturing industry for manmade fabrics, especially silk. Markets at Sahara Darwaja offers a wide variety of fabrics at wholesale price. More than 12 lakh workers are directly or indirectly getting the jobs from the textile sector of Surat city. The impact of GST on textile sector will be quite significant. GST is bringing vast changes in the textile industry of Surat city which has been discussed in the paper.

**KEYWORDS:** GST, Textile Industry, VAT, Textile Products, Textile Hub(Surat City)

### I. INTRODUCTION

GST stands for goods and services tax(GST).The GST was came into effect from 1st July 2017 through the implementation of the One Hundred and First Amendment Act 2017 of the Indian Constitution.The GST is an indirect tax which replaced existing multiple taxes levied by the Central and State Government.

#### ➤ Before Introducing GST

Suppose there is a manufacturer who buys raw material.He needs to pay VAT along with the cost of the product.The manufacturer incurs some cost to produce the products and then adds some profit to the cost of product and sells the product to wholesaler.The wholesaler again adds his own profit and then sell to the retailer.The retailer again needs to pay VAT(Value Added Tax-12.5%) for this product.Then he adds some profit margin and again sells it to the customer.Multiple taxes are levied on the same product before reaching to the final consumer and the cost of the product increases significantly.

#### ➤ After GST Implementation

Suppose say the manufacturer after adding his profit sells the product to the wholesaler at ₹ 300.The wholesaler then sells the product to the

retailer at ₹ 330 after adding a profit of 10% margin.The retailer then again adds 10% as profit which makes the cost of the product at ₹ 363 and a 12% CGST + 12% SGST is added to this product which the cost of the product stand at ₹ 450.12.So,the cost of the product can be reduced by the implementation of GST,tax on tax was calculated and the tax was paid by every purchaser including the final consumer.The system of taxation on tax is called the Cascading Effect of Taxes.But GST is payable by the person at the final point of consumption.

#### ➤ Textile Industry In India

Textile industry in India is as old as the Indian civilisation itself.The finding of spinning wheel and spindles while conducting excavation in the Sindhu valley is proof enough of the existence and popularity of the textile industry in the country those days. The textile was an important industry during the Mauryan dynasty as mentioned by the koutilya in his magnumopus arthashastra.The Indian epics Ramayana and Mahabharata even talk about the wide variety of fabrics in ancient India. Centres like Surat,Cambay, Beharanpur,Benaras and Dhaka were important for textile manufacturing in the pre-mughal period.However,the first cotton textile mill in India was established in Calcutta in 1818.It was in 1854 again that a first cotton mill was established in Bombay by a local Parsi merchant engaged in overseas and internal trade.

India is among the world's largest producers of textiles and apparel .The domestic textiles industry contributes 4% to India's Gross Domestic Product (GDP) and accounts for 14 percent of index of industrial production (IIP) and approximately 11 percent of the country's export earnings. The textile industry in India is the second largest employer in the country providing employment to 45 million people. It is expected that this number will increase to 55 million by 2020.Exports in the textile industry are expected to reach \$300 billion by 2024-2025 resulting in a tripling of Indian market share from 5% to 15%.

The textile industry in India has strengths across the entire value chain from fibre, yarn, fabrics to apparel. The textile industry has been divided into two segments. First, the unorganised sector which consists of sericulture, power loom, handloom and handicrafts, which are operated on a small scale and through the traditional methods. The second is the organised sector which consists of garments, spinning and apparel which apply modern 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.

### ➤ Textile Industry Of Surat City

Surat is an emerging city in the Indian state of Gujarat known as the textile city. Surat contributes 12 percent of the nation's total fabric production, 28 per cent of the nation's total man made fiber production and 18 percent of the nation's total man made fiber export. Shopping is never complete without buying a silk saree in Surat.

## II. LITERATUR REVIEW

1). Nishita (2014) [5] examined "Goods and Service Tax: Its 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 tax system. She also stated that the implementation of GST 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.

2). Monika and Upasana (2015) [3] studied "GST In India: A Key Tax Reform", and concluded that implementation of GST provided a simple, user-friendly and transparent tax system. GST is a coherent tax system which will colligate most of current indirect taxes and it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5% in the long term.

3). Poonam (2017) [6] 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. Indian products would become more competitive in the domestic and international market after implementation of the GST. Transparent feature of GST will prove easier to administer.

4). Agarwal Y.K. (2017) [19] studies "Goods and Services Tax and Its Impact on Indian Economy", and concluded that with the introduction of GST there is a condition of chaos and confusion among common man. The aim of that research paper

Vendor of Surat city provide good quality, finely fabricated and different varieties of sarees such as Kinkhab, Tanchoi and Gajji. The city has both private and government emporiums. Surat is also famous for zari manufacturing in the country. And definitely shop garments with the embroidery work of salma, kinari and zari. Surat is used to be a large seaport and is now the commercial and economic center in South Gujarat, which is famous for its textile Industries and as a shopping centre for apparels and accessories. Surat is known as the textile hub of the nation or the Silk City of India. There are over a hundred thousand units and mills in total. There are over 800 cloth wholesalers in Surat. Surat city is the largest manufacturer of clothes in India, and Surti dress material can be found in any state of India. Surat produces 9 million metres of fabric annually, which accounts for 60% of the total polyester cloth production in India. Major part of the city's population is associated with the textile industry. As per recent figures, textile production in Surat has grown by 10% in the last 5 year.

is to explain the mechanism of GST and its effects on Indian economy.

5). Meenakshi Bindal and Dinesh Chand Gupta (2018) [8] studied "Impact of GST on Indian Economy", and concluded that GST is at the initial stage in Indian economy. GST will take some time to experience its effects on Indian economy. GST mechanism is framed in such a way that it is expected to generate good amount of revenue for both Central and State government. Regarding corporate, businessmen and service provider it will be beneficial in long run.

6). Niyas A. (2019) [4] examined "Goods and Services Tax- GST", and concluded that GST is value added indirect tax at each stage of the supply of goods and services precisely on the amount of value addition achieved. It seeks to eliminate inefficiencies in the tax system that result in 'tax on tax', known as Cascading of taxes. GST is a destination based tax which means that where the goods or services are actually consumed, at that place GST shall apply.

7). Vikram Sandhu and Heena Atwal (2019) [8] studied "Goods and Services Tax: Issues and challenges in India", and concluded that number of indirect taxes is under one umbrella which simplifies taxation system for services and commodity businesses. The paper focuses on advantages to Indian economy, and various problems, issues and challenges in front of GST.

### NEED OF RESEARCH

Implementation of GST has influenced the textile sector by revamping the previously existing indirect tax slabs. This research will try to elaborate how GST has impacted on textile and brings significant changes in the industry of Surat city.

### III. OBJECTIVES OF THE STUDY

- 1). To evaluate the advantages and disadvantages of GST.
- 2). To examine the impact of GST in the textile industry of Surat.
- 3). To measure the challenges faced by textile industry Surat.

### IV. RESEARCH METHODOLOGY

The study is based on secondary sources of data sources and information from different newspapers, articles, relevant websites and portals, also based on various literature review of journals.

### LIMITATIONS OF THE STUDY

- 1). The research is related to only Surat area.
- 2). The researcher studies the fact from secondary sources only.
- 3). The study focuses only on the GST impact not the other factors.

#### ➤ ADVANTAGES OF GST

- 1). Eliminates of Cascading effect of tax: GST is a comprehensive indirect tax that was designed to bring the indirect taxation under one umbrella. More importantly, it is going to eliminate the tax on tax (cascading effect of tax) that was evident earlier.
- 2). High threshold for registration: Earlier, in the VAT structure, any business with a turnover of more than ₹ 5 lakh (in most states) was liable to pay. Also, service tax was exempted for service provider with a turnover of less than ₹ 10 lakh. Under GST regime, however, this threshold has been increased to ₹ 20 lakh, which exempts many small traders and service providers.
- 3). Composition scheme for small businesses: Under GST, small businesses (with a turnover of ₹ 20 to 75 lakh) can benefit as it gives an option to lower taxes by utilizing the Composition Scheme.
- 4). Simple and easy online procedure: The entire process of GST is made online, and it is very simple.
- 5). The number of compliances is reduced: Before GST, there was Value Added tax and Service tax, each of which had their own returns and compliances. After implementation of GST, the number of returns to be filed has reduced because there is just one, unified return to be file.

6). Improved efficiency of logistics: The goods and service tax is the most crucial economic reform since the Liberalisation, Privatisation and Globalisation reforms in the year 1991. The logistics industry is being significantly benefited by the implementation of the GST and from removal of inter-state check posts. Elimination of state taxes has also lowered down bottlenecks for the transporters.

7). Unorganized sector is regulated under GST. Under GST, there are provisions for online compliances and payments, and for availing of input credit only when the supplier has accepted the amount. This has increased the accountability and regulation in these industries.

#### ➤ DISADVANTAGES OF GST

- 1). The cost is high due to expensive software: Businesses have to either update their existing accounting or ERP software to GST-compliant one or buy a GST software so that they can keep their business going. But both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the billing software.
- 2). Being GST-compliant: Small and medium sized enterprises who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime. They will have to issue GST-compliant invoices, be compliant to digital record keeping, and of course, file timely returns.
- 3). GST came into effect in the middle of the financial year: Businesses may find it hard to get adjusted to the new tax regime, and some of them are running these tax system parallelly, resulting in confusion and compliance issues.
- 4). GST is an online taxation system: Unlike earlier, businesses are now switching from pen and paper invoicing and filing to online return filing and making payment. This might be create the problems for some smaller businesses to adapt to.
- 5). SMEs will have a higher tax burden: Smaller businesses, especially in the manufacturing sector will face difficulties under GST. Earlier, only businesses whose turnover exceeded ₹ 1.5 crore had to pay excise duty. But now any business whose turnover exceeds ₹ 20 lakh will have to pay GST.

#### ➤ IMPACT OF GST ON TEXTILE SECTOR OF SURAT CITY

The days before the GST was implemented-textile traders of Surat city came out on to the street, fiercely opposing the new tax system that is GST. Surat is a hub of fabric and 5 percent tax slab included fabric. The traders of Surat were upset as fabric was never taxed in the

independent India, though yarn-the raw material from which the fabric is prepared was covered by the value-added tax(VAT). For 18 days, the city's textile industry, with 65000 wholesalers spread across 150 markets, stopped work. Surat was one of the main city to see such fierce opposition to the GST.The textile traders obtained support from diamond merchants, who were not happy with the 3 percent GST on cut and polished diamonds. But the anger of the city's diamond industry diminished when the GST council reduced the rate to 0.25%. Surat has about 4,000 diamond factories, directly or indirectly employing seven to eight lakh people. GST council divided the traders of Surat into two parts. On the one side is a diamond industry that remains largely unaffected by the GST due to slashed the rate to 0.25 percent. On the other side is the traders of textile industry, which is crying for help from government.

The impact of the GST can be seen on the fragmented synthetic textile industry, which attracts different rates of GST at different stages of production and sale. The power looms have been hit the hardest as they are barred under the GST from seeking any input tax credit Textile traders have also taken a hit. From being out of the tax net in the pre-GST era, textile trading now attracts a 5 percent GST. And it is the small and medium traders, who constitute the 90% of Surat's 75,000 textile traders, who are affected the most. Their business has dropped by 40-45 percent, points out Champalal Bothra, general secretary of the Federation of Surat Textile Traders Association. Many traders have gone into the employ of bigger traders or joined them to try and weather the GST storm.The statistics(data) tell the capacity utilisation in textile industry of Surat city, especially in jobs such as sizing, twisting, processing, and weaving, is down from 75 to 85 percent in the pre -GST period to 40-50 percent now. Of the 6,50,000 power looms in Surat,1,00,000 have already been sold as scrap. Payment cycles have gone up from three -five months to six -eight months.

From nil taxes, Surat's textile industry is subject to 5-12% percent GST which increase the cost of product. The Federation of Surat Textile Traders Association (FOSTA) is crying for help due to the implementation of GST. The federation is claiming that due to the applicability of GST it resulted in job loss for over 4 lakh employees and workers.Also, it is said that many of the textile units are running far below the installed capacity i.e.2.5 crore metres instead of daily production capacity of over 4 crore metres. Past 18 months from the

implementation of GST, the sales had seen a decline of around 30 to 40 percent along with delayed payments. It is stated that Surat textile industries offers more than 1.2 million workers a job to sustain but after the coming of GST, around 30 to 40 percent jobs are been lost.It's been three year since GST was introduced but the textile sector still has issues with the tax regime as they claim that it has drastically affected their revenue. Before GST in Surat where we consider the Diwali business for 60 days where 50 days of trading happens, which is around ₹ 12000 crores of business including 450 trucks loaded with goods daily. After GST, last year our business came down to ₹ 6,000 crore and the number of trucks came down to 275-300.So all in all,40% of the business loss will be recorded during Diwali.Our revenue is down by 50 percent when compared to the last year. When GST was implemented, we saw a 25 percent fall but this time the recession has pushed us down to 50 percent,” said Rajesh Agarwal, Treasurer, Federation of Surat Textile Traders Association.

#### ➤ CHALLENGES FACED BY SURAT TEXTILE SECTOR DUE TO IMPLEMENTATION OF GST

1. There are about 350 textile processing units in Sachin, Palsana, Kadodara and Sachin employing over 2.5 lakh textile workers. The grey and unfinished fabrics manufactured by power looms weavers are sent for finishing at the textile dyeing and printing mills for final finishing. Sources said demand for polyester fabrics is on lower side in the country for a very long time. Issues related to GST, filings of returns, ITC-04, and refund of input tax credit (ITC) have been pending for last many months.
2. After GST over 1 lakh power loom machines were scrapped and 6000 power loom factories shut down, while over 4 lakh power loom workers had become jobless. The existing power loom units were operating at 50 percent capacity. The daily production of grey fabric in Surat was 4 crore meter before GST but after implementation of GST the daily production of grey fabric come down to 2.5 crore meter.The power loom industry faces problems of costliest yarn even after reduction of GST from 18 percent to 12 percent.
3. Zari, which goes into making expensive Banaras and Kanchipuram sarees have also been burned by GST. The industry which is indigenous to Surat, was taxed 12 percent and the tax was kept uniform for both genuine and imitation zari. After several sittings, the GST council reduced the tax from 12% to 5% GST on genuine gold and silver zari. But the manufacturer still has to pay ₹ 2000 as

GST on 1 kg of zari which costs roughly ₹ 40,000.

4. With goods and service tax(GST) on job-work, labourers and workers who never created a receipt in their lives now have to calculate and pay GST according to the goods he produces. Since these labourers don't even have a GST number and their turnover is nowhere near ₹ 20 lakh a year, we bear the tax burden and pay less to the labourer who does job-work. They are phasing out of the business due to poor returns.

5. The textile industry of Surat city employs about 1.3 million workers, but 30-50 percent of the employees have lost their jobs after GST. A majority of the textile and other related units in Surat are unorganised and are thus facing problem in implementing the structure of the new tax regime. This is leading to a decline in production as well as demand.

#### V. CONCLUSION

The study concludes that there is negative impact of GST on textile sector of Surat City. The effect of this tax structure is mostly experienced by threads manufacturers and traders. After implementation of GST the cost of products increase in the textile sector which is harmful for the textile traders as well as Indian economy. Compare to the other sectors textile sector is most affected due to GST.

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