

An Analysis of Total Taxes Paid and Input Tax Credit on Operating Revenues due to implementation of GST on Textile Sector Companies of Mewar Region of Rajasthan

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Abstract:

One of the oldest industries in Indian economy is the Textiles which is dating back several centuries. Textile exports of India during FY 2017-18 stood at US\$ 39.2 billion. Approx. 5% of GDP comes from the Textile Sector. The Indian textiles industry is extremely wide-ranging, with the hand-spun and hand-woven textiles sector on one end and capital intensive sophisticated mills sector on the other end. The easy availability of raw materials like Cotton for the Textile Industry in the home market alone makes the Indian textiles sector unique in comparison to the Textile industries of other countries.

On 1st July 2017, our Prime Minister and his all Team launched Goods and Service Tax commonly known as GST all over India including Jammu and Kashmir which led to the starting of a new united and uniform India.

Textile sector being second largest provider of employment for approximately 60 million of Indians directly and/or indirectly; is also was affected by the immediate implementation of GST on the common working of the Textile Operating Cycle. Credit Period all across the textile industry was approximately doubled to 180 days so as to cope up with the market scenarios. While it has majorly benefitted the Organized sector and that too the integrated units more than any other players in the Textile Industry.

Mewar Region of Rajasthan known for its Suiting Industry around India producing approximately 8 crores meters of textile suitings annually and exporting around Rs. 5,600 crores worth of suiting and denims around the world on an annual basis; is also impacted by such an event and its implementation on an overnight basis.

In this paper we have tried to analyze the pre and post impact of the GST implementation on the total taxes paid and Input Tax Credit (ITC) by selected Listed Companies of Textile Sector in the Mewar Region of Rajasthan.

Key Words:

Operating Revenues, Textile Sector, India, Mewar Region, Total Taxes Paid, ITC, GST.

Introduction:

India is the world's second largest producer of textiles and garments after China. It is the world's third largest producer of cotton after China and the USA and the second largest cotton consumer after China. Indian textile industry currently estimated to be US \$180 billion and expected to reach US \$209 billion in the year 2021. The sector contributed 15 per cent to the export earnings of India in 2017-18. The textiles sector has witnessed a huge inflow in investment during the last five years. The industry (including dyed and printed) attracted Foreign Direct Investment (FDI) worth US\$ 2.97 billion during April 2000 to June 2018.

Mewar Region of Rajasthan Consists of Banswara, Bhilwara, Chittorgarh, Dungarpur Pratapgarh, Rajasamand and Udaipur. Majorly Organised sector in Mewar Region consists of Textile Integrated Units which are primarily located in Bhilwara, Banswara and Udaipur Districts of the Region.

Operating Revenues being the primary factor which determines eligibility for various schemes of Government for any company; it becomes all the more important now as Taxes to be paid in a year now are also being looked into more rigorously with the upcoming of GST in the present scenario.

While the corporate taxes account for 25% now (on fulfilling certain conditions) effective tax rates comes between 1% - 5% only. Nothing much have changed in the Direct Taxes which were paid by the companies since then. The major changes can be seen in the Indirect Taxes which are being paid by the company for its production and sale of Goods/services. With the availability of Input Tax Credit (ITC) for the organised sector it is now more beneficial for Integrated Units to take advantage of such situation in the short run till the market is not stabilized.

Textile sector being divided into Organised and unorganised sector poses an another kind of difficulties; where the former have sophisticated latest machines operations and company set-up the later uses simple machines which are out-dated and uses labour intensive technologies which creates pollution and production is also of low quality because of this.

Considering the mechanics of textile industry, many persons who are under the threshold limit of Rs. 1.5 crores (Notification No.14/2019 Central Tax) effective from 1st April , 2019 may prefer to opt for composition scheme since compliance burden on a person opting composition scheme is relatively less than on a normal tax payer. There will also be small weavers and other players who will not cross the threshold limit of RS. 40 lakhs and will remain as unregistered persons under GST regime.

Literature Review:

My paper tries to investigate the Impact of Taxes and ITC on the Operating Revenue of the Textile Sector of Mewar Region while finding the worth of “GST” in literature and its influence in the working of the society and vice-versa.

Bhadani (1977) stated that the Southern Rajasthan comprising the districts of Banswara, Bhilwara, Chittorgarh, Dungarpur and Udaipur is popularly known as "Mewar". The region of Mewar is basically historic one. The identity of this region could be traced back in its eventful politico-administrative history. The present Southern Rajasthan is the union of those once fragmented princely states and is assumed a territory of Mewar. The Mewar, a historic name still bears the testimony of the eventful and glorious past.

Bikram Pegu (2017) proposed that GST regime is a half-hearted attempt to rationalize multiple indirect tax structure We hope GST leaves a positive impact and helps to boost up Indian economy and a rising Indian economy will help in the financial growth of the common man. The framework of value added tax (VAT), recognized as GST as well in several countries, has been one of the major development in taxation structures worldwide. More than 135 countries adopted the GST/ VAT framework effectively.

Chaurasia et al. (2016) stated that in the “Role of Goods and Services Tax in the growth of Indian economy” and concluded that in overall GST will be helpful for the development and growth of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

Lourdunathan and Xavier (2017) studied “A study on implementation of goods and services tax (GST) in India: Prospectus and challenges” and concluded that GST will bring One Nation and One Tax market. Well-organized formulation of GST will lead to resource and revenue gain for the government through broadening of the tax base and upgrading in tax compliance.

Poonam (2017) explained that major problems in Indian tax system like Cascading effect & tax evasion, alterations of details in invoices can be minimized by implementing GST. A single rate 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. The launch of GST would transform Indian economy into a single market for the first time. **Shakdwipee (2017)** in his paper has inquired about the level of awareness towards GST among the small business owners in Rajasthan state and found that the main areas to be focused for improvement of GST include Trainings for the User of GST and Computer software availability.

Aims & Objectives of the Paper

Aims:

Textile sector being one of the most important sector for employment generation and exports for world as well as for the Indian Economy. My paper aim to highlight the importance of the same keeping the Taxes paid by companies in this new scenario where Indirect Taxes (GST) have become all the more important for the Textile companies to be staying ahead of each other in cut-throat competition by availing the maximum benefit from Government via Subsidies, Input Tax Credit etc.

Objectives:

- 1) To Study the importance of Indian Textile Industry.
- 2) To Study the relevant issues in the GST under the textile industry currently.
- 3) To Study and Analyze the Taxes paid by the company in comparison to the Operating Revenues earned by a company during recent years.
- 4) To Study and Analyze the Input Tax Credit Generated and refunded since when the GST has been implemented in India.

Hypothesis of the Study

- 1) GST was implemented overnight so many lacunas were left, but for the Organized Sector of Textile Industry it has impacted positively towards its growth.
- 2) It has helped in getting rid of Non - Compliances by making the sector a Compliant one as Input Tax Credit system has been put in place so bringing the prices of the product down for the benefit of the end customer.
- 3) It has paved the way for Bulk Production of Goods with many integrated Processes of Textile Product manufacturing under one Roof so that the Company can benefit as well as the end Customer will also get goods at a Lower Price than before.

Research Methodology

Research Design

Research Design is a map or blueprint according to which the research is to be conducted. In the present study, the research design will be Descriptive Research Design. Descriptive research includes survey and fact finding enquiries. The research design specifies the method of data collection and data analysis.

Data Collection Method

It constitutes the blueprint for collection, measurement and analysis of data.

Secondary Data: These are the types of Data which have been already been collected by someone else and which have already been passed through the statistical process.

We have done Qualitative Research by collecting data through sources like published Data (Annual Report of Listed Companies), internet and various Research Paper Published in this regards.

Sampling Plan

Universe, Geographical Location and Sampling Unit:

The first step in developing any sample design is to clearly define the set of objects, technically called the universe. In present research, universe will be the Respondents of Textile Sector in Mewar Region of Rajasthan.

Sample Size:

The second issue to be decided is 'The Sample Size'. The whole of the universe can't be studied in a single research work. We have to select the relevant fraction of the population or the universe.

However, in our Research work as only 14 companies were listed on recognized stock exchanges of India i.e. NSE and/or BSE. At the time of Applicability of GST all over India in Mewar Region in Textile Sector, i.e. 1st July 2017 we have decided to take 7 listed companies whose Turnover was more than Rs. 100 crores in F.Y. 2015-16 and onwards as the Respondents for the study which covers approx. 98% of the total Turnover of Listed Companies in the Universe. They are as follows:

Places	Number	Name
Banswara	1	Banswara Syntex Limited
Bhilwara	4	Sangam Limited
		Nitin Spinners Limited
		BSL Limited
		RSWM Limited
Udaipur	2	Shree Rajasthan Syntex Limited
		Reliance Chemotex Industries Limited

Data Analysis

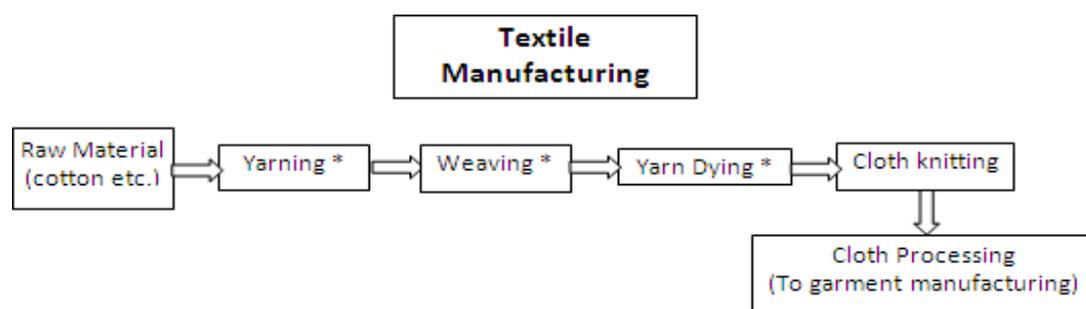
Appropriate statistical tests were used by us for analysing the data.

Time Period Covered for our Research Work:

Pre Period (Before GST Impact Analysis): From 1st April 2015 to 30th June 2017 (27 months)

Post Period (After GST Impact Analysis): From 1st July 2017 to 31st March 2019 (21 months).

Process Involved in Textile Manufacturing:



(The processes marked with * require heat in some form)

Source: <http://www.cliquesolar.com/TextileSolution.aspx>

It can further be classified as per the Output of the processes as under:

Process	Output from the process
Ginning	Man-made Fiber, Cotton, Jute, Silk, Wool
Spinning	Yarn
Weaving/knitting	Fabric
Processing	Processed Fabric
Apparel making	Garment

The above processes were mostly exempted under the pre-GST regime. Previously there was an Option to avail Central Excise Exemption without availing CENVAT Credit which has now done away with. This had an adverse impact on textile industry since it obstructed the flow of credit in the value chain.

Previously various Taxes were levied in the Textile Industry like Excise Duty, VAT/CST, Service Tax, Entry Tax which all has come under GST now.

The operating cycle is the average period of time required for a business to make an initial outlay of cash to produce goods, sell the goods, and receive cash from customers in exchange for the goods/services.

Operating revenues is defined in Companies Act 2013 as a Revenue from operations of a business which is earned via Sale of Products, Sale of Services and/or other operating revenues.

GST has impacted the industry in the ways like:

- 1) Compliances have streamlined and decreased for the better.
- 2) Online Processing of the Documentation and other formalities.
- 3) Standardization of working scenarios all around the Industry.
- 4) Free-flow of Input Tax Credit in a hassle free manner.
- 5) Job-Work Production for the Textile Units can be traced easily.

The Basic Rates of Taxes for Textile Sector are:

5 % - For Traders, Wholesalers, Weaving Units, Processing Units.

12% - For Spinning Units.

18%- Yarn Purchases Units.

As can be seen above that if we purchase Yarn we are paying 18% of GST whereas if we are selling suitings and final products we are paying just 5% GST. This scenario has created much confusion and strong dissent was seen in the market. However by allowing ITC on the same the government has tried to reduce the burden of GST on the Industry and various notifications regarding the same have come in recent times which is keeping the overall Textile Industry competitive in a positive way only.

The GST Council in meeting held on 5th August 2017, decided to decrease the tax rate for textile subcontracting- 'job work' from 18% to 5% so as to boon the textile sector working as Job Work basis.

Input Tax Credit (ITC):

ITC forms the basis of Indirect tax structure. It simply means the tax paid for buying some product/services can be used to set-off the Indirect tax liability at the time of selling of that product/services. The ultimate tax burden is borne by the end consumer and it creates an

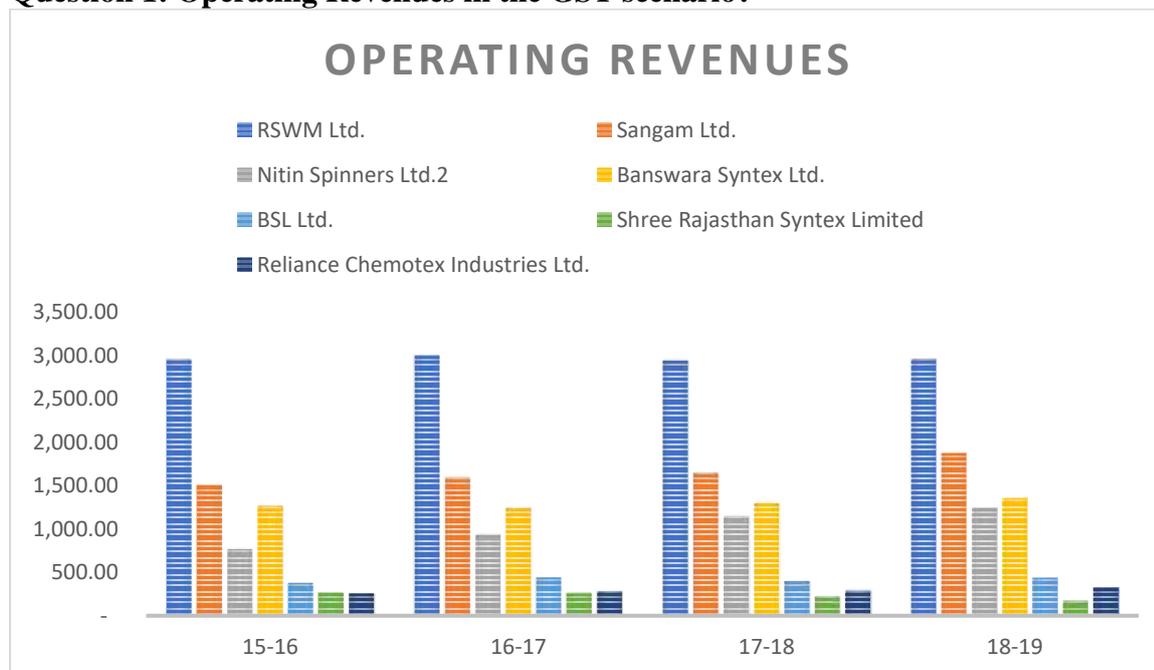
Invoice Chain in the process which helps in keeping track of the Taxes and other basic details in the process.

However, in the Indian scenario post GST this process is quite complex and government is delaying the process of paying ITC to the claimant. The process involves maintain of Invoices/debit notes, Bill of Entry or similar documents issues by the Authorities, Time limit for claiming the ITC, lack of possibility of revision, confusion regarding Tax rate slabs, exports refunds etc. All this has led to the accumulation of ITC in the Books of Accounts of assesses which are being delayed from the government end. This lead to a slowdown in the cash flow positions of the companies as most of the Textile market is Credit driven only.

Under GST, synthetic yarn and man-made fiber is taxable @ 18% whereas the output fabric is taxable at a lower rate of 5%. This would lead to issue of inverted duty structure and accumulation of credit. You may be aware there is a provision of claiming refund of unutilized input tax credit in case of inverted duty structure. However, in case of specified woven fabrics and knitted fabrics, the refund of unutilized input tax credit has been disallowed. This would result in accumulation of huge input tax credit and working capital blockages.

Data Analysis and Interpretations (Amount in Crores of Rupees):

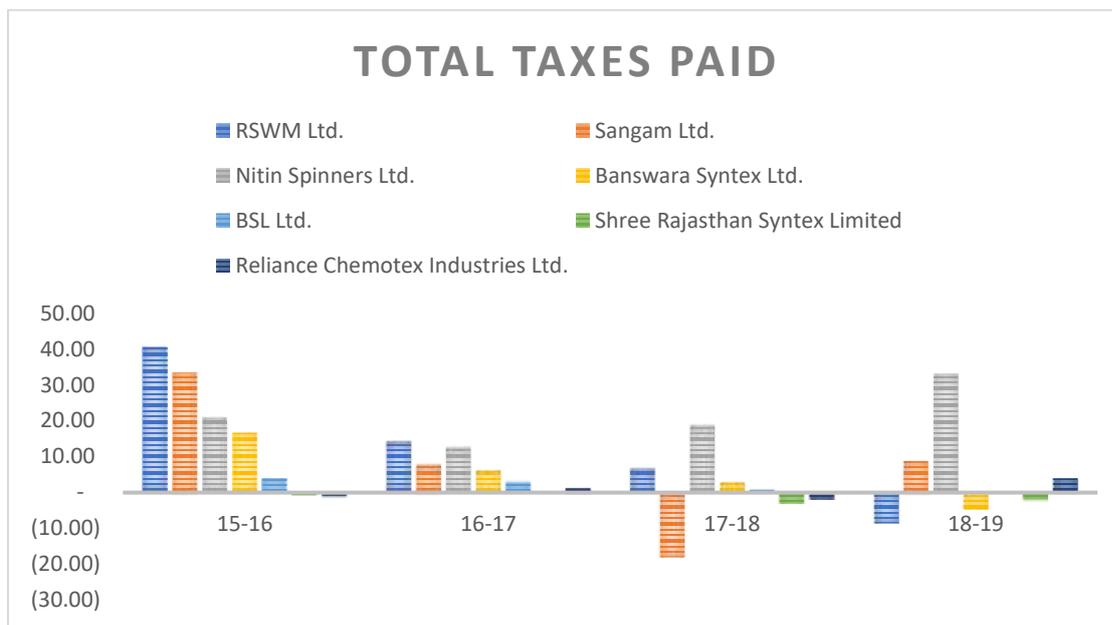
Question 1: Operating Revenues in the GST scenario?



Interpretation:

As can be seen from the graph that the Textile Sector Company’s Turnover has negligible impact due to the implementation of GST. Mainly it is due to the stream line of the Invoice system and the integrated units working in a single company which has led to the negligible impact of implementation of GST in the organized sector of Mewar Region.

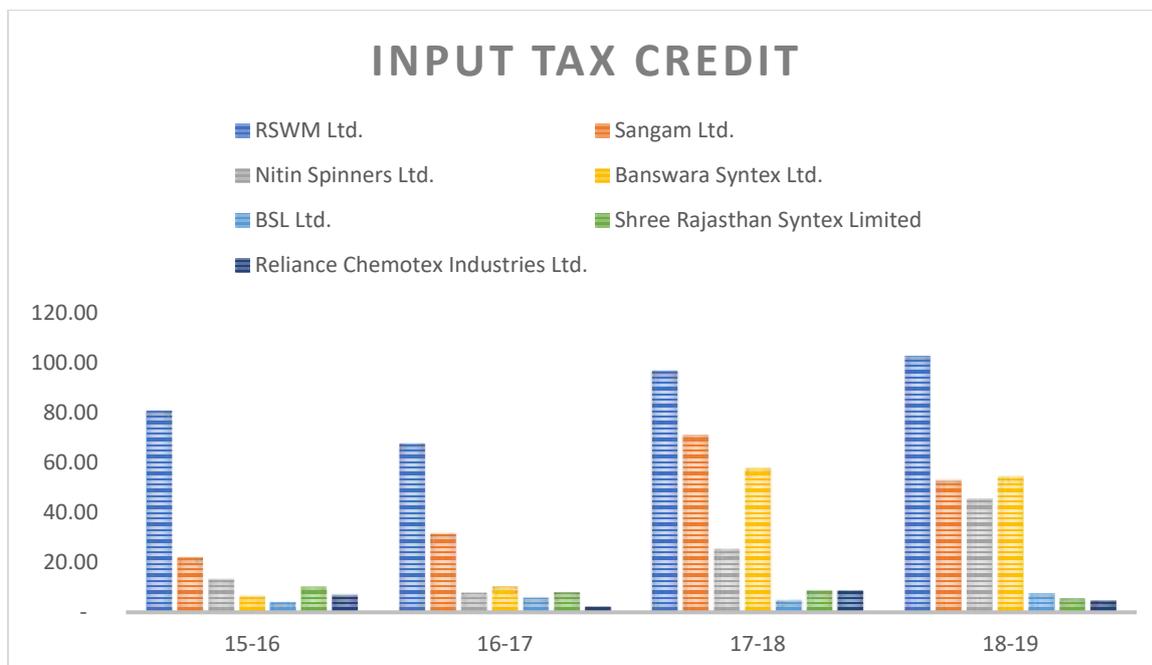
Question 2: Amount of Total Taxes paid in the GST Scenario?



Interpretation:

As can be seen from the above graph that Total Taxes paid have become less and less after 16-17 and even negative (meaning credit of already paid taxes) for some companies due to the MAT Credit availability and other Taxations benefits available to the organized sector of Textile Companies in Mewar Region which has led to the benefit of the companies in the post GST scenario.

Question 3: Amount of Input Tax Credit (ITC) to be claimed from the Government Authority?



Interpretation:

As can be seen from the graphs the claim of ITC by the Textile companies have increased after the implementation of GST from 16-17 onwards. This is mainly because of the government incentives for the sector as well as export benefits which are being claimed by the companies but the government has not been able to pay the ITC as claimed by the companies due to the various reasons as stated above. This has negatively impacted the market as cash flow position has deteriorated for the companies over the period of time.

Conclusions:

Implementation of GST without the support of the proper database and computer knowledge among the common people have led to the negative impact of it. However, when we see the organized sector which have integrated units the picture is quite different. They have been able to thrive and prosper in the GST scenario as systematic working culture has been developed. Taxes have minimized and there have been issues of delayed ITC refund payments by the government and increase in formalities for the GST payments for the Organized Textile sector of Mewar Region. However, long term picture will be a Win-Win situation for the concerned parties as Revenues have not been affected even in such a competitive and credit market.

Recommendations and Suggestions:

- Government should provide free training and awareness sessions to the public at large as well as for professionals for the mutual benefit in understanding of GST Provisions.
- Companies also want to have a simple and transparent GST for achieving the motive of One Nation One Tax.
- ITC should be hassle free for the companies to receive on a timely basis so that flow of Money is maintained.

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