

**IMPACT OF GST IN SMALL AND MEDIUM ENTERPRISES WITH SPECIAL  
REFERENCE TO TEXTILE INDUSTRY – A STUDY AMONG RETAILERS**

**Lakshmy Priya M G** Assistant Professor, Naipunnya Institute of Management and Information  
Technolog, Pongam, Thrissur, Kerala

**Bony K Babu** Student, Naipunnya Institute of Management and Information Technolog, Pongam,  
Thrissur, Kerala

**Abstract**

Taxation is one of the most important instruments in generating revenue for a country. History has shown that many countries develop based on tax revenue. Tax-based spending, also known as Goods and Services Tax (GST) or Value Added Tax (VAT) is a consumerism tax posed upon sales of goods and services. A good tax system plays an important role on the economy of a country through their impact on both efficiency and equity. After two years of GST implementation, India faced protest from every part. The society is still unaware about the various aspects of GST and its benefits. The existing studies shows that the government also failed to implement GST in a proper way. So the present study is based on some research questions such as what are the positive and negative impact of GST on SMEs with special reference to Textile industry, how the new tax system help the industry to achieve the growth and what are the problems faced by the SMEs after the implementation of GST. The survey result revealed that there is positive and negative impact of GST on textile industry.

**Keywords: GST, SME, Impact, Textile Industry, Problems, Retailers**

**1. Introduction**

A tax is a compulsory financial charge or some other type of levy imposed upon a taxpayer (an individual or legal entity) by a governmental organization in order to fund various public expenditures. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent. Most countries charge a tax on an individual's income as well as on corporate income. Countries or subunits often also impose wealth taxes, inheritance taxes, estate taxes, gift taxes, property taxes, sales taxes, payroll taxes or tariffs.

Taxation is one of the most important instruments in generating revenue for a country. History has shown that many countries develop based on tax revenue. Tax-based spending, also known as Goods and Services Tax (GST) or Value Added Tax (VAT) is a consumerism tax posed upon sales of goods and services. A good tax system plays an important role on the economy of a country through their impact on both efficiency and equity. The concept of single tax policy in all sales and services first came from the European countries and later this type of tax policy is reformed as GST, which stands for Goods and services Tax. Already 160 countries have implemented GST in their tax regime.

GST is a comprehensive tax system that will subsume almost all the indirect taxes of states and central governments. Although it was considered as the biggest taxation by many countries of the world in many years ago, India roused up around the year 2000 and then the NDA government formed an empowered committee to design GST model for its implementation and since many debates was arise on implementing GST in India. Finally, India Govt. committed to introduce GST by almost July, 2017. Presently, in India also it is supposed to be implemented from 1st July, 2017 through the constitution (One hundred and first amendment) Act, 2016. Under GST, there would be only one tax rate for both goods and services to be levied by states and central governments. GST is applicable in many sectors like Employment sector, Agricultural sector, Manufacturing sector, FMCG sector, IT sector, Small and medium scale sector etc. This project aims to study about the benefits and Impact of GST in small and medium scale enterprises.

### **Statement of the Problem**

GST is being referred to as a single system but in reality it is a dual tax because both the state and central both collect separate tax on a single transaction of sale and services. The tax rate has been increased for many products thus increasing their costs. GST simplifies the entire process of filing and paying taxes. It will also increase the competition between SMEs by unifying the Indian market. In the long run GST is expected to have a positive impact on SMEs and Indian economy as a whole. But after two years of GST implementation, India faced protest from every part. The society is still unaware about the various aspects of GST and its benefits. The existing studies shows that the government also failed to implement GST in a proper way. So the present study is based on some research questions such as what are the positive and negative impact of GST on SMEs with special reference to Textile industry, how the new tax system help the industry to achieve the growth and what are the problems faced by the SMEs after the implementation of GST. So the present study related to this context deserves much significance.

### **II. Review of Literature**

**Lourdunathan F and Xavier P, (2017)** studied “Implementation of goods and services tax (GST) in India: Prospectus and challenges” and observed that GST will make one tax, one nation, will provide relief to producers and consumers through input credit set-off, will result in resource and revenue gain at both Central and State levels.

**R. Vasudhevan, (2017)** studied ‘How will GST impact MSMEs’ mentioned about the unorganized MSMEs (turnover less than 1.5cr), which were advancing faster than the organized peers because of the initial tax avoidance. After the enactment of GST, even these unorganized MSMEs are liable for tax payment, as the Government has decreased the threshold from 1.5 cr. to 20 lakhs.

**Manasi Shah, (2017)** studied, ”Impact analysis of GST on Indian Hospitality Industry” concluded that The GST of 18 percent will thus lead to banquets becoming reasonable consequently offering a huge haul to the hospitality industry. In a nutshell, the GST is going to have a neutral impact on the Indian hospitality industry.

**Poonam, (2017)** 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. The paper has tried to relinquish information concerning GST system. She additionally quoted in her research paper that Consumer’s tax burden can just about scale back to 25% to 30%. Indian manufactured products would become a lot more competitive in the domestic and international markets. This taxation system would instantly encourage economic growth. GST with its transparent mode will prove easier to administer.

### **Objectives of the Study**

1. To study the positive and negative impact of GST in small and medium enterprises with special reference to Textile Industry.
2. To understand the problems faced by the retailers after the implementation of GST.

### **Hypothesis**

1. There is a significant association between size of the industry and problems faced by the retailers.
2. There is a significant association between working experience in the Textile industry and problems faced by the retailers.

### **Research Methodology**

#### **Sources of Data**

Both primary and secondary data are used for the study. The primary data are obtained from the retailers doing textile business. A well-structured questionnaire is used for collecting the data. The first part of the questionnaire includes socio- economic profile of the respondents and second part includes the questions related to the objectives formulated for the study.

The secondary data are collected from papers, published articles in journals, newspapers, magazines and websites covering wide collection of academic literature on GST etc. With the help of these primary & secondary sources, an attempt has been made to study about the “Impacts of GST in small scale and medium enterprises with special references to Textile Industry – A Study among Retailers”.

#### **Sampling Size**

The sample size of the study is 100 retailers running textile business in Ernakulum District.

#### **Sampling Method**

The sampling method used for the study is convenient sampling method.

#### **Tools Used for Data Analysis**

The collected data were tabulated and analysed with the help of SPSS 21.0. The statistical techniques used for analysis include simple percentage and Chi-square test.

#### **Limitations of the study**

- From the numbers of SMEs the study is only focused on the impact of GST in textile industry.
- As GST is a newly implemented concept it is not possible to understand concept of GST completely with all these data available.

### **III. Impact of GST on Textile Industry**

For smooth taxation, the textile Industry has been divided into some broad categories like: cotton, Silk, Woollen, Khadi and Handloom, Synthetic fibre, carpet weaving, artificial silk, Jute, Hemp and Mesta textiles, readymade garments and miscellaneous textile products etc. The present taxes vary based on these categories. Moreover, Textile sector is dominated by unorganized players who are given tax exemption on size basis of their operation. The key concern for textile industry includes the followings on the basis of these factors:

- Different taxation is for cotton and manmade fibre.
- Dispute over fabric vs. garments classification
- Zero duty for cotton fibres as compared to high Excise duty structure on man-made fibre segment.
- Composite milks are taxed at higher rate in comparison to power looms.

However, as the current taxation system is production based, it leads to block input taxes which results in higher cost of production. But, as GST is consumption based Tax, after its implementation it will eliminate block input taxes for its uniform role of tax.

It is expected that the tax rate in GST would be higher in textile industry as per the current tax rate. Cotton and wool fibre which are currently exempted from tax would come under tax in GST but the textile industry may be beneficial from GST as manufacturing costs ,may be reduced due to subsume of various taxes like Octroi, entry tax, luxury tax etc. There will be few drawbacks also but GST will support the industry in long run.

**Table 1 Size of the Textile Business**

<b>Options</b>	<b>No of Respondents</b>	<b>Percentage</b>
Small Scale	40	80
Medium Scale	10	20
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 1 shows the classification of the size of the business. From the analysis it is clear that out of 50 respondents 40 (80%) are working under small scale sectors and the rest 10 (20%) of the respondents are working under medium scale. So the majority of the respondents in this study belong to small scale sector.

**Table 2 Respondents Working Experience in the Textile Business**

<b>Options</b>	<b>No of Respondents</b>	<b>Percentage</b>
Less than 1 year	0	0
1-5 Years	0	0
5-10 Years	25	50

10-15 Years	15	30
More than 15 Years	10	20
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 2 shows the working experience of the respondents in the textile industry. From the analysis it is clear that out of 50 respondents 25 (50%) of the respondent are worked between 5-10 years, Other 15 (30%) of the respondents are worked between 10-15 years and the rest 10 (20%) of the respondents are worked more than 15 years. So the majority of the respondents in this study have worked between 5-10 years.

**Table 3 Demand of Products Before the GST Implementation**

Options	No of Respondents	Percentage
Increased	0	0
Decreased	20	40
Stable	30	60
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 3 shows that the classification of the demand of products before GST implementation. From the analysis it is clear that out of 50 respondents 20 (40%) of the respondents says that the demand of products was increased before GST implementation and the rest 30 (60%) of the respondents says that the demand was stable. So the majority of the respondents in this study says that the demand of the products before GST implementation was stable.

**Table 4 Demand of Products After the GST Implementation**

Options	No of Respondents	Percentage
Increased	0	0
Decreased	45	90
Stable	5	10
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 4 shows that the classification of the demand of products after GST implementation. From the analysis it is clear that out of 50 respondents 5 (10%) of the respondents says that the demand of products is stable after the GST implementation and the rest 45 (90%) of the respondents says that the demand is decreased. So the majority of the respondents in this study say that the demand of the products after the GST implementation is decreased.

**Table 5 Supply of Products After the Implementation of GST**

Options	No of Respondents	Percentage
Increased	0	0
Decreased	15	30
Stable	35	70
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 5 shows that the classification of the supply of products after GST implementation. From the analysis it is clear that out of 50 respondents 15 (30%) of the respondents says that the supply of products is decreased after GST implementation and the rest 35 (70%) of the respondents says that the supply is stable. So the majority of the respondents in this study says that the supply of the products after GST implementation is stable.

**Table 6 GST Affected the Value Chain**

Options	No of	Percentage
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	Respondents	
Strongly Agree	0	0
Agree	30	60
Neutral	20	40
Disagree	0	0
Strongly Disagree	0	0
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 6 shows that the classification of the GST affects the value chain. From the analysis it is clear that out of 50 respondents 30 (60%) of the respondents agreed that the GST affect the value chain and the rest 20 (40%) of the respondents neither agree nor disagreeing that the GST affect the value chain. So the majority of the respondents in this study agreed that the GST affect the value chain.

**Table 7 Monthly Revenue Increased After GST Implementation**

Options	No of Respondents	Percentage
Yes	0	0
No	35	70
Maybe	15	30
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 7 shows that the classification of the Monthly revenue increased after GST implementation. From the analysis it is clear that out of 50 respondents 35 (70%) of the respondents says that the monthly revenue has not increased after GST implementation and the rest 15 (30%) of the respondents says that the monthly revenue maybe increased after GST implementation. So the majority of the respondents in this study says that monthly revenue has not increased after GST implementation.

**Table 8 GST Affect the Small & Medium Scale Business Very Badly**

Options	No of Respondents	Percentage
Strongly Agree	40	80
Agree	0	0
Neutral	0	0
Disagree	10	20
Strongly Disagree	0	0
Total	50	100

(Source: Primary Data)

**Interpretation:** The table 8 shows that the classification of the GST affects the small & medium scale business very badly. From the analysis it is clear that out of 50 respondents 40 (80%) of the respondents are strongly agreed that the GST affect the small & medium scale business very badly, and the rest 10 (20%) of the respondents are disagreed with this statement. So the majority of the respondents in this study are strongly agreed with this statement that the GST affect the small & medium scale business very badly.

**Table 9 Problems Faced by Retailers at the Time of GST Implementation**

Options	No of Respondents	Percentage
Increase the rate of products	10	20
Preparation of documents (E-way bill & Invoice)	30	60
Delay in contract work	5	10
Delay in supply of products	5	10

Total	50	100
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(Source: Primary Data)

**Interpretation:** The table 8 shows that the classification of the problems faced by the retailers at the time of GST implementation. From the analysis it is clear that out of 50 respondents 10 (20%) of the respondents says that increase in the rate of products, 30 (60%) of the respondents says that Preparation of documents like E-way bill and Invoice, 5 (10%) of the respondents says that Delay in contract work and the rest 5 (10%) of the respondent says that Delay in supply of products were the problems faced at the time of GST implementation. So the majority of the problem faced by the respondents in this study is the preparation of documents like E-way bill & Invoice.

**Chi square test result**

	value	df	Asymp.Sig (2-sided)
Pearson Chi - Square	70.609	20	0.000

The Chi- Square result shows the association between size of the industry and problems faced by the retailers. From the result it is seen that the Pearson Chi – Square value is 70.609, p value = 0.000 i.e the chi square test result is less than the alpha level of significance of 0.05. This tells that there is a statistically association between size of the industry and problems faced by the retailers . Hence, the first hypothesis there is a significant association between size of the industry and problems faced by the retailers is accepted.

**. Chi square test result**

	value	df	Asymp.Sig (2-sided)
Pearson Chi - Square	44.498	16	0.000

The Chi- Square result shows the association between year of experience in the industry and problems faced by the retailers. From the result it is seen that the Pearson Chi – Square value is 44.498, p value = 0.000 i.e the chi square test result is less than the alpha level of significance of 0.05. This tells that there is a statistically association between year of experience in the industry and problems faced by the retailers, Hence the second hypothesis, there is a significant association between year of experience in the industry and problems faced by the retailers is accepted.

**V.FINDINGS**

- Majority of the respondents in the study are belongs to the age group above 30 (90%)
- Majority of the respondents 40 (80%) are working in the small scale industries
- Majority of the respondents 25 (50%) have been working in the industry in between 5-10 years
- Majority of the respondents 20 (40%) are earning an income between 15000-20000
- 30 (60%) of the respondents revealed that Demand of products before GST implementation was stable
- 45 (90%) of the respondents revealed that Demand of products after GST implementation was decreased
- 35 (70%) of the respondents revealed that Supply of products and services is stable after GST implementation
- 25 (50%) of the respondents revealed that GST compliances are easier than the direct tax compliances
- 35 (70%) of the respondents revealed that GST is a fair tax compared to other taxes
- 30 (60%) of the respondents revealed that GST has affected the value chain (starting from the farmers to the manufacturer) after its implementation
- 25 (50%) of the respondents revealed that GST makes the business and industry more competitive
- 45 (90%) of the respondents revealed that GST will improve the tax revenue in addition to improving the economy

- 30 (60%) of the respondents revealed that GST improve the tax administration and reduces the litigation
- Majority of the respondents 20 (40%) revealed that GST has increased various legal formalities
- Majority of the respondents 25 (50%) revealed that GST has increased the tax burden on businessmen
- Majority of the respondents 40 (80%) revealed that GST has affected the small & medium scale business very badly
- Majority of the respondents 45 (90%) revealed that GST will reduce the cost of doing business
- Majority of the respondents 25 (50%) revealed that Textile, Media, Pharmacy sectors bearing the brunt of a higher tax after the GST implementation
- Majority of the respondents 30 (60%) revealed that GST on readymade garments will create a huge difference in the current consumption
- Majority of the respondents 25 (50%) revealed that GST impacts the customer purchasing power effectively
- Majority of the respondents 35 (70%) revealed that GST is a good method to replace sales and service tax
- Majority of the respondents 40 (80%) revealed that GST implementation has increased the rate of product & services
- Majority of the respondents 30 (60%) revealed that GST will reduce the corruption in textile industries after implementation
- Majority of the respondents 30 (60%) revealed that Majority of the troubles are associated with GST implementation is the Registration process
- Majority of the respondents 25 (50%) revealed that GST implementation reduced the profit in the small and medium scale industries
  - Majority of the respondents 30 (60%) revealed that GST will increase the tax collection of the government
  - Majority of the respondents 35 (70%) revealed that Monthly revenue of the small and medium scale industries has not increased after GST implementation.
  - Majority of the respondents 45 (90%) revealed that Monthly turnover of the small and medium scale industries has decreased after GST implementation.
  - The Chi- Square result shows the association between size of industry and problems faced by the retailers (Pearson Chi – Square value is 70.609, p value = 0.000).
  - The Chi- Square result shows the association between year of experience in the industry and problems faced by the retailers (Pearson Chi – Square value 44.498, p value = 0.000).

## **VI .Conclusion**

This study was embarked with the aim to understand the “Impact of GST in SME with special reference to the Textile industries”. From this study it is clear that improper implementation of GST, the lack of awareness about the GST, the higher tax rate and removal of benefits under cotton value chain etc. is the major drawbacks for the successful implementation of GST in the Textile industry. But it is safe to say that GST will help this industry in the long run by getting more registered taxpayers under a well-regulated system.

The present study revealed that GST has significant impact on textile industry. The monthly revenue of the small and medium industries has not increased after GST implementation. The turnover of the textile industries belongs to small and medium categories also decreased. Ultimately the GST implementation reduced the profit in the small and medium scale industries. This study can be conclude by saying that it can also be hoped that GST will help the textile industry to get more competitive in both the global and domestic markets and create opportunities for sustainable, long-term growth.

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