



Impact of GST on the Exports of Carpets & Floorings Industry in India

Yogesh Garg, Neeta Anand

Abstract - *This paper focuses on the impact of goods & service tax on the exports of Indian carpets & floorings industry. The GST has not only provided full set off for input tax but also abolished the burden of several existing taxes viz Central Excise Tax, VAT/Sales Tax, Service tax etc. There are many ambiguities about the post GST implementation effect. This study is an attempt to find out the significant impact of GST on the average exports of Carpets & floorings industry for Pre & post two consecutive years. Paired t-test analysis is applied on the data using SPSS Software and results are derived. It is crucial to find out the potentiality and practicability of the transition from VAT to GST (Goods and Service tax). Hence, this study assumes greater significance for academicians and policymakers.*

INDEX TERMS: GST, CARPETS, VAT, CEPC, PRE & POST ANALYSIS, FLOORINGS, EXPORTS & PAIRED T TEST

I. INTRODUCTION

GST is a value added tax imposed on consumption of goods & services. Prior to GST, multiple indirect taxes were levied like CST, VAT, Service tax etc. Now all these taxes have been clubbed under one head GST i.e one nation one tax. GST was introduced on 1st July, 2017 in the 122nd amendment to the Indian constitution. The foremost reason of introducing is to increase the tax base by lowering down the burden of tax rates. The five slashes of the GST bill are 0%, 5%, 12%, 18% and 28%. The structure of GST in India is combination of two taxes within the state- one of the state (SGST) & other of the centre (CGST). For interstate transaction, IGST is charged.

A. International Perspective On VAT/ GST

VAT was introduced to prevent double taxation and cascading effect of multiple taxation at different stages. The main aim of VAT was to reduce tax evasion because tax evaded at one stage will get caught at next stage [1]. But some limitations were also observed in the VAT structure like custom duty, entertainment and luxury taxes were kept out from VAT. Moreover, VAT was only applied on goods not on services. Therefore, an attempt was made to rationalise the Indian tax system by introducing GST.

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The first country to implement GST was France in 1954. At present, GST was implemented in more than 160 countries [2]. The most popular form of VAT/ GST is where taxes paid on inputs are allowed to be adjusted in the liability at the output. The regime of VAT or GST differs from one country to another in technical form. However, at a broader level, it has one common principle; it is a destination based consumption tax.

Kelkar taskforce recommended GST in 2004, according to task force, an all India GST would be in the nature of bringing revolution in indirect tax structure. On July 1, 2017, The Goods and Services Tax (GST) was finally implemented in India, which is considered as a major tax reform since independence. The main objective of adopting & implementing GST is to include all indirect taxes under one head and follow one taxation system all over India i.e one nation, one single indirect tax [3]. GST is extensive & more transparent indirect tax which is charged on final consumption of goods and services. [4]

B. Indian Carpet Industry

The tradition of carpet weaving came to India in the dynasty of Akbar in the 16th century. Today, the industry, has grown tremendously such that Indian became the world's largest producer and exporter of handmade carpets [IBEF]. Indian carpets have huge demand in international market as 70% to 75% of carpets manufactured are exported & around 40% of worldwide export of handmade carpets. Carpet industry is labour intensive employs around 2 million persons / weavers (CEPC). The major carpet manufacturing states include Uttar Pradesh, Rajasthan, Jammu and Kashmir, Haryana and others states.

Types of carpets (<http://www.handicrafts.nic.in/>)

- **Based on Fibre:-** Silk, wool, wool and silk polyester viscose and other fibre carpets.
- **Based on Method:-** Indian Hand-knotted carpets, Indian Hand-woven carpets, Indian Hand Tufted Carpets.
- **Based on Design:-** Mahal Design, Indo Tibetan Carpets, Indo Turkish carpets, Kashmir Carpets etc.

C. Rugs

India is one of the leading producers of rugs in the world. Namda (felted rugs), Gabba (embroidered rugs), wooden pile rugs, cotton rugs are the various forms of rugs produced in India. The Major Rugs Producing areas are Jaipur in Rajasthan, Mirzapur in Uttar Pradesh, Panipat in Haryana, Kashmir in Jammu & Kashmir. (<http://www.handicrafts.nic.in/>)

D. Carpet Export Promotion Council (Cepc) is a non profit organization established by exporters under companies Act in 1982. Its objective is to promote and develop export of Rugs, Handmade Carpets and other floor coverings.



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It is an Apex body which helps exporter to identify new markets, providing financial support and resolving trade disputes.

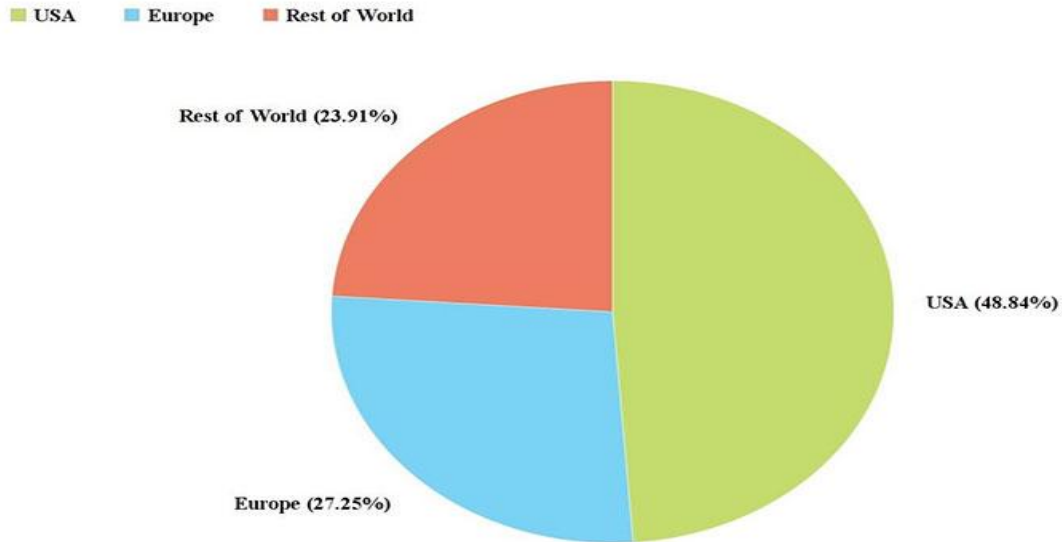
80% of carpets manufactured are exported & around 40% of worldwide export of handmade carpets.

India's major exports to USA followed by Europe (Germany, UK, France). India also started exporting to China.

E. Exports Of Carpets From India

Currently, India exports in more than 70 countries. Indian carpets have huge demand in international market as 75% to

India's Share of Exports (in percentage)



Figures as per 2017-18 (Source: <http://www.cepc.co.in/industry-at-a-glance>)

Total Exports in US\$ Million



(Source: <http://www.cepc.co.in/industry-at-a-glance>)

This bar diagram shows total exports by India in past few years. India exports around 40 varieties of carpets.

G. Status Of Carpet Industry In The Era Of Excise & VAT

Before GST, Excise duty (duty imposed at the time of manufacturing, if the aggregate turnover is more than ₹1.5 cr) and VAT were charged on Carpet, Rugs & Floorings. Excise duty was imposed at 12.5%. and then VAT was also charged at 12.5% on carpets & floorings which further adds to the cost of production.

H. GST on Exports

GST on export of goods & services is zero rate supply i.e GST is not chargeable & exporter can claim input tax credit on exported goods [5]. There was a criticism that Indian Carpets exports declined after the implementation of GST.

Therefore, this study is an attempt to find out the significant impact of GST on the average exports of Carpets & floorings industry for Pre & post two consecutive years.

II. LITERATURE REVIEW

- Kumar (2018)**, explained the concept of GST and compared the past tax structure with present tax structure. He also concluded that GST has simplified India's Tax structure & cascading effect of multiple taxes have been eliminated, which ultimately, reduced the burden on final consumer. The Report for the Consulate General of India, New York (2017) stated the reasons for the expansion of exports of Indian. Hand-woven carpets to USA. The Report also laid down the challenges faced by foreign importer, while exporting from India (like delayed delivery, quality etc.). **Manoj (2019)** study states that GST will provide an efficient tax system for economic development and rise in GDP. He further stated that GST will impact all sectors like Manufacturing, textiles ,carpet, telecom, automobile etc but implementation of GST would be more advantageous to manufacturing sector as compared to service sector. **Dr. R. Vasanthagopal (2011)** concluded that, shifting from current puzzling indirect tax system to seamless GST can be a conclusive step to boom the Indian economy as more countries in the world has given acceptance to GST. **Nitin Kumar (2014)** concluded that economic distortion in India from current indirect taxes can be removed by the implementation of GST and anticipated to have fair and unbiased tax structure. **Shanti & Murty (2019)** conducted a study & found that GST has a very clear impact on consumer's perception and their buying behaviour. **Ehtisham Ahmed and Satya Poddar (2009)** studied and found that GST will provide simple, easier and transparent indirect tax system which will enhance productivity of Indian economy. However, benefits of implementing GST will depend on rational design of GST. Carpet Export Promotion council (CPEC) states that India exports to more than 70 countries and the highest share of export to USA (48.84%) followed by Europe 27.25% and 23.91% to rest of the world. As per one of the articles published in TOI "Handmade Carpet Industry seeks lower GST rates (2018) CEPC chairman urged government to give meaningful relief to bring carpet sector on right growth path by raising duty drawback to 5.5% and to reduce GST from 12% to 5%. **Chaurasia et al. (2016)** Studied and concluded that implementation of GST will help to improve India's GDP

Results and Discussion

Table 1 Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
EXPORT1517	150406.4215	40	390246.61126	61703.40704
EXPORT1719	150710.7778	40	388873.81943	61486.34959

and will also leads to development of the economy. **Kuruvilla, Hari kumar & Alex (2018)** explained the impact of GST in jewellery business and concluded that gems & jewellery prices will become more competitive after the implementation of GST. They also expressed that having a simplified input tax credit process on goods & services will make the system more efficient & transparent.

III. OBJECTIVES OF THE STUDY

- To analyse the significant impact of GST on exports of Carpets & Floorings Industry in the years 2017-18 & 2018-19, i.e total exports from 2017-2019.

IV. HYPOTHESIS

- Null Hypothesis: $\mu_1 = \mu_2$ (There is no significant difference between the average exports by India in 2015-17 and 2017-19.
- Alternate Hypothesis: $\mu_1 < \mu_2$ (Average exports of pre GST year is lower than the Average exports of post GST Year)

V. RESEARCH METHODOLOGY

Research Design: Descriptive

This study is intended to identify the present status of GST on Carpet & Flooring Industry. The objectives of the study is defined and research design is prepared which is highly descriptive in nature.

Sources of Data

The study will be based on secondary sources of data which are obtained from published articles in journal. Relevant carpets & export information have been obtained from the websites of Indian Government like cbic.gov.in, indiantradeportal.in. In GST Council (gstcouncil.gov.in), newspapers and other government official publication. The commodity wise exports data of Indian carpets has been taken from Ministry of commerce & industry (<https://commerce-app.gov.in>). With the help of these secondary sources, the significant effect of GST on Carpet Industry exports is studied & analysed.

A. Statistical Tools

Paired t-test analysis is applied on the data using SPSS Software.

T-TEST PAIRS=EXPORT1517 WITH EXPORT1719 (PAIRED) /CRITERIA=CI(.9500)

Table 2 Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	EXPORT1517 & EXPORT1719	40	.997	.000

Table 3 Paired Samples Test

		Paired Differences				t	df	Sig. (2-tailed)	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower				Upper
Pair 1	EXPORT1517 - EXPORT1719	304.35625	31775.15415	5024.09301	-10466.54355	9857.83105	-.061	39	.952

VI. ANALYSIS OF THE STUDY

- Table 1 represents the average of exports pre and post GST which are, Rs. 150406.4215 for pre GST year 2015-17 and Rs. 150710. 7778 for post GST Year 2017-19. Total number of Varieties of carpets which India is exporting to other countries.
- Table 2 represents Paired Sample Correlation. Because the study is conducted on the same varieties and, therefore there is a change of constancy in results. For this data, there is fairly large correlation between the exports of pre and post GST years i.e. 0.997 and since the p value of same is less than the critical value therefore, it also supports the high correlation among average year’s exports.
- Table 3 is the most important table from the point of view of analysis, which tells us whether the difference between the average exports of pre and post years was large enough or may be a result of any chance element. The SPSS by default provides two-tailed results, but in this study the alternate hypothesis is that the post GST exports are more than the pre GST exports, therefore one-tailed probability is reported here.

The negative t-value of -0.061 states that the 2015-17 exports had a smaller mean than the 2017-19 exports. Therefore, we conclude that the average exports of post GST Financial year are more than average exports of pre GST Financial Year. Also since the p-value (.952/2=0.476) is more than 0.05, therefore we accept the null hypothesis of equal average exports of pre and post GST Years against the alternate hypothesis of higher average exports after implementation of GST. Therefore, we can conclude that, there is increase in exports after GST implementation but the change is only due to chance and not because of GST.

A. Reasons For Increase In Exports

The following could be the possible steps taken by government to make carpet industry more competitive and to increase the exports:-

- 1) In 2018, to boost the hand woven carpets, the government has elongated the ‘export excellence’ tag. Under this tag, financial assistance will be given by central government to carpet makers for using modern machines and to

organise fairs & exhibitions, all over the world to attract foreign buyers.[26]

- 2) To regain its position as leading exporter of carpets in the world, the textile ministry has developed certain quality standards to create a brand for Indian handmade carpets.

VII. CONCLUSION AND FUTURE SCOPE

In Indian Taxation system, the institution of GST can be considered to be a historical development. It has merged wide ranging central & state taxes. GST has a major or minor effect on all goods & services except on alcohol for human consumption & Petroleum products. As *exportare* zero rated i.e no tax is levied, still, GST has no significant impact on the exports of Carpets & Floorings Industry in India, it may be due to chance or other factors. In future, GST has potential to attract international corporate and thereby encouraging investment & exports.

A. Limitations Of The Study

- GST is still in initial stage, tax reforms and notifications are daily in nature.
- Final conclusions may vary considering other factors affecting exports.

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Mr. Yogesh Garg, a Research Scholar, Department of Commerce, Maharaja Surajmal Brij University & Working in the capacity of Assistant professor, department of commerce, University of Delhi. He has been awarded a certificate of appreciation for exemplary efforts in teaching by non Collegiate Women's Education Board (NCWEB) University of Delhi. He has published several research papers in leading journals. He has also presented a paper

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