GST: A TAX REFORM FOR SUSTAINABILITY OF INDIAN HANDICRAFTS

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Abstract

Purpose of the study: Taxation is one of a tool, which helps the Government for the achievement of the goal of sustainable development for every sector including handicraft. The objectives of this study are to know about Goods and Services Tax & its inferences on sustainable development of Indian handicrafts and to identify the role of GST as tax reform in the sustainable development of handicrafts sector in India. The Indian handicraft is economically important and it has more potential for exports. This sector places a major role in the Indian economy.

Methodology: The Descriptive method of research has been used to gather information about the existing conditions of GST and Handicraft sector of India. This study is based on secondary data. The data has been taken from different journals, books, magazines, websites, and published data from government institutions. This study is explanatory in nature. The collected data from different sources has been reviewed and data relevant to the handicraft sector further analyzed. The researcher concluded that how GST is helping Indian handicraft sector for sustainable development.

Main Findings: GST brought transparency in the tax system and it also eliminated the multiple taxes, which ultimately increases the final prices. This study revealed that GST would make Indian handicrafts more competitive in the domestic and foreign markets. GST is fiscal tax reform which helps in the sustainable development of Indian handicrafts. This research study found that the handicraft sector of India became more organized, centralized, and regulated after the implementation of Goods and Services Tax.

The implication of the study: GST implemented on July 01, 2017 with the aim of simplification of the tax system, fiscal structure, United Indian Market, and sustainable development in India. It is a comprehensive value-added tax which merged different taxes including VAT, service tax, surcharges, CST, etc. This study can be useful for future researchers, traders, and exporters to know the implication of GST in the handicraft sector. Traders and exporters can get knowledge about the GST, tax rates, and exports under LUT/ bond. This study may be benefited to the Government for further development in GST as per the findings of this study.

Novelty/Originality of this study: GST is new tax reform in India, only a few studies have been done on it. As per the researcher’s best knowledge few studies have been carried out on GST and handicraft sector, but none of the study is carried out on this topic. This study highlights the unrevealed facts and figures about the role of GST in the sustainable development of the handicraft sector.

Keywords: Goods and Services Tax, Handicrafts, Sustainable Development, Tax Reform, ITC

INTRODUCTION

Tax reforms are taken place by the government to upgrade the tax functioning. These reforms also help in the sustainable development of every industry and sector of the Indian economy. It includes making a progressive tax system, simplifying the tax structure, reducing the tax slabs, etc. GST is one of the results of these tax reforms.

GST: This tax brought into force from July 1, 2017, through the implementation of 101st amendment in the Constitution. The composition of indirect taxes (as existing up to 30-6-2017), which includes taxes like VAT, entertainment tax, luxury tax, service tax, surcharge, etc. merged into GST. Goods and Services tax law includes unique principles, influenced by indirect tax law of various countries including European Union, Organization for Economic Corporation and Development Countries, France, Australia, New Zealand, Malaysia, etc. GST slab Structure includes 4 slabs of rates.

Indian Handicraft Sector: India is a country of traditions, history, and culture. In India, Handicraft is one of the important segments of the decentralized sector. Indian handicraft products have a niche market all over the world and it makes a different impact by its innovative patterns, workmanship, designs, colors, and raw material 562 (2019a). This sector is spread all over the country especially in rural areas. Handicraft industry includes various handicraft products, which include mainly textile products, wooden products, ceramic products, and other products.
Area wise detail of Indian Handicrafts: - A wide range of handicraft products is produced in India at various places, which are shown below.

Table 1: Indian Handicrafts Area Wise

<table>
<thead>
<tr>
<th>Handicrafts</th>
<th>Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woodenware</td>
<td>Kerala, West Bengal, Delhi, Rajasthan, Assam</td>
</tr>
<tr>
<td>Metalware</td>
<td>Rajasthan, Uttar Pradesh, Chennai, Kerala</td>
</tr>
<tr>
<td>Textile</td>
<td>Rajasthan (Jaipur-Sanganeri print, Bagru print, Barmer quilts), Uttar Pradesh, Punjab (Phulkari), Madhya Pradesh (Batik, Tie-dye)</td>
</tr>
<tr>
<td>Embroidery</td>
<td>Gujrat, Himachal Pradesh, J&amp;K</td>
</tr>
<tr>
<td>Jewelry</td>
<td>Delhi, Uttar Pradesh, Rajasthan</td>
</tr>
<tr>
<td>Handmade Paper</td>
<td>Rajasthan (Jaipur), Kashmir</td>
</tr>
<tr>
<td>Ceramic</td>
<td>Delhi, Gujrat, Uttar Pradesh (Khurja)</td>
</tr>
<tr>
<td>Leather</td>
<td>Maharashtra (kolhapur), Madhya Pradesh, West Bengal Rajasthan (Jaipui Jooties, Jodhpuri Mojari)</td>
</tr>
<tr>
<td>Paintings</td>
<td>Bihar (Madhubani /Mithila), Karnataka (Mysore), Rajasthan</td>
</tr>
</tbody>
</table>

Source: Self Constructed

LITERATURE REVIEW

Rekha (2018) found that small sellers have to get registered under GST if they sell inter-state. The structure of the GST rate is depending upon the value. If the cost of cloth exceeds from 1000 INR, then the GST rate is 12% and if it is less than 1000 INR then the GST rate is 5%.

Al-Dalaien and Al-Kasasbeh (2018) discussed the impact of GST on business and suggested that necessary steps should be taken by the Government for the simplification of the GST practices.

Rizvi (2017) classified small enterprises on the basis of threshold limit like below the threshold limit, between the threshold limit, and above the threshold limit. The researcher found that threshold limit for getting the GST is 20 lac in all states except northern states and 10 lac in northern states. This study concluded that GST put mix impact, but startup businesses would benefit in the long run.

Bhika (2017) examined the benefits and the hurdles, which GST will face after its implementation in India. It also stated that the need for GST in India due to cascading effects of taxes, non-uniformity of taxes, double taxation, etc. This study
concluded that the Goods and Services tax will redesign the Indirect tax structure that will bring transparency in the market and it will also reduce the burden of the tax.

562 (2019b) This paper discussed the challenges faced by manufacturer exporters, merchant exporters, buying agents and job workers. This study concluded GST affected the handicraft sector negatively and recommended that the GST rates for Job work (Handicrafts) should be reduced to 5%, like textile job work and tax rate should be 5% for the handicraft products which is exported, exemption will be given in CTP’s (Casual Taxable Person) registration and Free trade sample should not be included in GST.

Kumar (2017) studied the history of GST and its advantages. This study concluded that GST put a positive impact on the Indian economy. It will also help in the creation of the smooth market, in addition to above, GST will help in the economic growth of the country.

Oberoi (2017) identified that the textile industry shifted towards organized sector from the unorganized sector. Goods/Services which are supplied to special Economic zone units and export-oriented units have come under inter-state supplies. These suppliers or exporters will not pay any amount of tax if the above supplies are made under LUT/Bond.

Saurabh et al. (2017) compared India’s GST with other countries on the basis of model, structure, collection of tax, and valuation. This study concluded that GST would be significant reform in the indirect tax system in India, merging of Central and State taxes into a single tax system would remove the effect of double taxation, lead to easier administration, and its enforcement.

. (2016) discussed the strengths, weakness, opportunities, and threats of Goods and Services Tax. Researcher presumed that the GST will reduce the cascading effect of taxes on production, distribution of goods and services by this GDP will increase. This study concluded that GST will help the Government, Exporters, Customers, Importers, etc. GST will reduce the average tax burden of the customer and it will bring transparency to the system.

Ahmad et al. (2016) discussed the implementation of GST, which was introduced in April 2015 in Malaysia. The objectives of the study were to review the perception and acceptance of the taxpayer towards the implementation of GST. The study suggested that the Government should start the educational program, careful planning, and detailed preparation for the successful implementation of GST.

Dani (2016) conducted the study to find out the effect of it on the Indian economy. This study shows the benefit of proposed GST such as transparency in business, ease of doing, and reduction of final prices. The Researcher suggested that India has a strong need for good IT network then only this tax will be flourished.

Bano (2016) identified that in 2011–12 carpet export was Rs. 3853.54 cores and share of India was 35% of the world market for carpets in the year 2015. This study also showed various regions of the carpet industry in India like Uttar Pradesh, Kashmir, Rajasthan, Punjab, Andhra Pradesh, and Himachal Pradesh.

Khurana and Sharma (2016) focused on the advantages of GST for different stakeholders (Central and State Government, industries and traders). These benefits are a reduction in prices, ITC (Input Tax Credit), simple and easy compliance. This study found that GST will abolish double taxation and bring transparency in the system.

Monika and Upasana (2015) discussed that GST is user-friendly and transparent tax system. Researchers presumed that the GST would give India a world-class tax system by grabbing different treatment to the manufacturing and service sector with the reduced prices. This study also forecasted that domestic goods would be more competitive in an international market, which will result in increased export and help the country to reduce the current account deficit.

Khurana and Paliwal (2014) discussed the handicraft, culture, tradition of Jaipur city, and also described the history of handicraft. This study concludes that the government needs to start the promotional and skill development program and also avail the infrastructure facilities (raw-material, water, electricity, etc.) for the upliftment of the handicraft sector in Jaipur, Rajasthan.

Mawuli (2014) discussed the impact of GST on individuals, businesses, companies, small-medium enterprises, grassroots businesses, least developed provinces, national, and provincial Governments. This paper is based on the economy of Papua New Guinea (PNG). The researcher suggested that low-income countries require a low-rated-GST.

562 (2012) This report stated various textile outputs were exempted and taxes paid on purchases got blocked, but with the implementation of it, ITC will be set off with the liability or excess ITC will be refunded. The report founds such that the textile industry of India is undergoing the transformation and facing the competition with other textile producers in the world.
Ahmad and Poddar (2009) have discussed the Dual GST, Taxation of the cross-border transaction, tax base, and tax rates. They discussed the proposed Goods and Services Tax in India. This paper suggested that Tax should be levied on the basis of the final place of supply and ITC (Input Tax Credit) should be fully creditable for avoiding the cascading effect.

Summary of Literature Review

After reviewing the various research papers, the researcher summarized that tax reforms play a very important role in the development of the economy. As per the researcher’s best knowledge few studies have been carried out on GST and handicraft sector, but none of the studies is carried out in this area. Therefore, this area of research has been selected to know the role of GST as a tax reform for sustainable development of Indian handicrafts. The researcher wants to bridge the gap and explore this area of research.

METHODOLOGY

This study is Descriptive and explanatory in nature. The Descriptive method of research has been used to gather information about the present existing conditions of GST and Handicraft sector of India. This research study used secondary data, which has been gathered from books, websites, reports, journals, conference papers, magazines, and other published data from government and non-government institutions. Secondary data has also been collected from Export Promotion Council of Handicrafts (EPCH- India). The researcher analyzed and interpreted the secondary data to validate the objectives of the study. After the interpretation of data, the researcher has concluded that how GST is supporting the handicraft sector towards sustainable development.

DISCUSSION / ANALYSIS

Tax structure and its policies are the supreme part of any economy. This tax is an inclusive & uniform tax; it is imposed across India. This paper shows a vision towards it and its role in the sustainable development of Indian handicrafts.

Indian Handicrafts pre and post GST

Before the implementation of GST, the prior system of taxes was complicated including various taxes. GST made various changes in Indian Handicrafts including levy of taxes, exports of handicraft products, the shift of the handicraft sector from unorganized to organized sector, and working capital. These changes are explained below.

1. Levy of taxes:

Previously various indirect taxes were in India but with the implementation of GST, all these taxes merged into a single one. Some handicrafts were prior attracted to CST, VAT, Entry Tax, and Purchase Tax, which increased the final price of goods, but now handicrafts are attracted toward GST only and it reduces ultimately final prices of goods. If supply is made to a different state, then IGST is levied but if the supply is made within the same state then CGST and SGST are levied.

2. Exports

Under GST all exports are deemed as interstate supply and treated as zero-rated supply. The exporters have the option either to export under Letter of Undertaking without paying any IGST (Notification no. 16/2017 dated 7th July 2017) or with payment of IGST. In this new tax reform export become easier and transparent. Exporters can get the refund of Input Tax Credit (ITC) and IGST (Integrated Goods and Services Tax) online.

![Exports of Handicrafts from India (in crores)](source: Export Promotion Council of Handicrafts)

According to the Export Promotion Council of Handicrafts (EPCH), the exports of Handicrafts have shown an increase of...
Rs. 2835.27 crores in the year of 2016-2017. After the implementation of GST, exports have been decreased by 5.59% in the year 2017-18. As it is a new tax reform, implemented in India on July 01, 2017 affected the export of handicrafts but GST will be benefited to exports of handicrafts in the long run.

3. A shift of the handicraft sector from unorganized to organized sector

Previously handicraft industry was unorganized because most of the handicraft products were exempted. Now, this sector became organized. This leads to proper documentation and billing of each and every handicraft product, it brings transparency in the system.

4. Working Capital

GST structure is based totally on IT. Goods and Services Tax provides a faster refund of an unutilized ITC (Input Tax Credit) which does not block the working capital (This capital is available in cash for day to day operations of an organization) as compared to the previous tax regime. If Handicraft producers have an unutilized credit in its GST ledger account, then they get the refund of ITC by filling an online application form (GST RFD-01).

Role of GST in sustainable development

Goods and Services Tax will help to increase the transparency, efficiency, consistency, and uniformity of the Indian financial system. GST eliminates the multiple taxes, which ultimately increased the final prices. In preceding tax jurisdiction, various taxes were levied, if goods are sold interstate then ITC on that good was not there which means producer could not offset liabilities with interstate ITC but with the implementation of it, interstate ITC is available. It provides a higher threshold limit to get register under GST (20 Lakh and 10 Lakh- Manipur, Mizoram, Nagaland, and Tripura). It also regulates the unorganized sector in India like textile were previously largely unregulated and unorganized. All section of the economy including importers, exporters, manufacturers, intermediaries, etc. will be benefited in future by this tax reforms.

Changes made by GST Council

With the implementation of GST, the tax rate of handicraft products shifted from 12% to 5%, 18% to 12%, as per the suggestion of traders of it. 5% tax is levied if the price of footwear is below 500 rs. and apparel and cotton quilts below 1000 rs. If the values of these products are more than the given limit then it is attracted to 12% tax.

<table>
<thead>
<tr>
<th>Shift in Rates of GST</th>
<th>Handicraft Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>18% to 12%</td>
<td>Handbags • Jewelry boxes • Wooden frames for painting, photographs • Art ware of cork, iron, brass, copper/ copper alloys, Aluminum art wares, Glass art wares, Stone art wares, and stone inlay work Handcrafted lamps</td>
</tr>
<tr>
<td>12% to 5%</td>
<td>Handmade laces • Hand-woven tapestries • Hand-made braids • Hand-made carpets • Handmade textile floor coverings • Handloom diaries</td>
</tr>
</tbody>
</table>

Source: Self Constructed

CONCLUSION

India has been a developing economy. Taxation is a major source of revenue for the sustainable development of the country. The Tax structure of India is very complex. Government is constantly changing the taxation structure of India and creating efficiencies in tax administration. GST is the result of all these changes made by the Government. GST is an essential and logical step toward fiscal tax reform. Handicraft sector was previously unorganized and unregulated sector but with this implementation of GST, it falls in an organized and regulated sector. For the sustainable development of each and every sector, it is necessary that it should be organized and regulated. As it is a new indirect tax, GST Council is making changes as per the recommendation of handicraft producer, exporters, and suppliers. These changes are made in tax rates, registration, and returns.

LIMITATION OF THE STUDY

This research study has not covered any other sector except handicraft. This study focuses only on the GST and its role in sustainable development. The Researcher has not covered any other taxes including direct taxes. This research study is general in nature; it does not cover the state-wise handicraft sector. Due to the time constraint researcher used secondary data for the study.
Future Scope of the study

The future researcher can do this study on other sectors including IT, service, real-estate, FMCG, etc. This research study can also be done state wise or region-wise in India. Further research can also be done on the impact of GST on handicraft exporters. Another research study can also be done in the handicrafts sector in India as compared to other countries in the world.

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REFERENCES


