



A STUDY ON IMPACT OF GST ON MSME WITH SPECIAL REFERENCE TO HANDCRAFT INDUSTRIES

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Abstract

Tax is a mandatory financial charge that is imposed upon taxpayers by governmental organisations. It helps government for achieving the target of sustainable development regarding each sector involving handicraft industry. The purpose of this research is to analyse the impact of GST on handicraft industry and objectives of it was to identify challenges of handicraft industry experiencing due to GST implementation. This paper has selected exploratory research that has allowed gathering information on handicraft industry and GST. This paper is based on secondary data, which has been gathered by different data sources, including journals, articles, government websites, published data from government institution and websites. Finally, it has analysed and reviewed the collected data by doing a thematic analysis with the help of relevant data on the handicraft sector and GST. This paper has concluded how GST has influenced handicraft sector regarding their business growth. Findings showed that GST council has supported future growth of handicraft industry by eliminating multiple taxes and enhancing uniformity within financial system of India. Additionally, GST has reduced tax rate of 29 handicraft items and all over tax rate took under 12-18% in case of handicraft items. However, export rate has been drastically dropped due to GST implementation that needs to be increased over time. This paper has concluded that GST implementation has made a huge impact upon handicraft industry by decreasing its export rate. However, the reduced tax rate on several items could help the industry to regain their previous business performance. Thus, in order to improve the business performance the government can follow the provided recommendations.

Keywords: *Handicraft industry, GST, tax rate, ITC, Indian economy*

INTRODUCTION

Research background

Handicraft sector has a significant contribution to the economic development of India in two different ways. It increases employment and creates jobs in different sectors because nowadays handicraft industry is supporting large artisans as employees (Tekwani and Raghuvanshi, 2019). The taxes on handicraft products different and it changes according to material of products. For example, the tax on raw yarn is 5% and it remains the same in yarn products. However, when a supplier provides raw yarn, they charge 5% and by including twisting and wrapping, rate goes to 23% of raw material (Epch.in, 2021). Again, when a customer purchases finished product they need to pay 5% tax for that product. Therefore, the total tax on finished products increases at rate of 28% that highly affects overall cost of that product.

According to information from 25th GST council meeting, they took decision for fixing rate upon 29 handicraft products that will give clarity upon distribution and production of these specific handicraft products under GST scheme (Epch.in, 2018). Reports found that, GST implementation has affected handicraft industry badly because in past, there was 5% VAT and now there is 12%-18% GST on handicraft products (Gsthelplineindia.com, 2019). Due to GST implementation, sales decrease and small and medium businesses experience many issues due to increased tax rate. However, GST also has some positive impacts on Indian economy and this paper is going to discuss them.

Purpose of this study

Research paper aims to analyse the impact of GST on handicraft industry and for this, the paper discusses both positive and negative impact of GST on the selected industry.

Objectives of this study

To understand impact of GST on the handicraft industry of India

To identify the challenges in growth of handicraft sector due to the implementation of GST

LITERATURE REVIEW

According to a report of Clear Tax, GST stands for “Goods and Service Tax” and it is an indirect tax, which replaces several other indirect taxes within India, for example, VAT, excise duty and service taxes (Cleartax.in, 2022). GST was first passed on 29th March 2017 and was effective from 1st July. GST is levied at each point of sale from purchasing raw materials to selling and finished products to consumers. This tax incorporates unique principles that are influenced by indirect tax law of different countries involving, European Union, Malaysia, Australia, France, New Zealand etc. GST is applicable under three systems such as CGST, IGST and SGST (Dor.gov.in, 2018). Therefore, after implementing GST, people now need to pay CGST and SGST for selling within one state and for selling to another state they need to pay IGST.

India’s heritage and cultural diversity offers huge and unique resources to develop craft products and this industry is showing a consistent growth rate of 20% every year (Cleartax.in, 2022). Thus, industry consists of diversified products and a huge variety is available in market. This industry contains products like hand-printed textiles, jute products, wooden and metal items, bronze and marble sculpture, jewellery, painting and leather products (Ghosal *et al.* 2020).

Challenges of handicraft industry due to changes in tax rate

According to Sinha, (2019), negative impact of GST on handcrafted industry is clearly visible and due to GST implementation, growth of handicraft industry has decreased by approximately 53%. Additionally, small sellers need to register their business under GST if they want to inter-sale. If cost of any product exceeds 1000 INR then GST rate will be 12% and below 1000, it will be 5% of GST (Ibef.org, 2022).

Role of GST in Indian economy and its impacts on handicraft sector

Besides some limitations of, several benefits of GST have significantly made a positive impact upon Indian economy. GST implementation, Suresh (2021) discussed that with help of GST, India has become a unified market as well as foreign investment has been increased in India. Goods, which are produced in India due to reduced costs, have become competitive within international market, which has led to growth within export sector. GST brings

transparency within business, reduces final prices of products and eases business purposes. Besides some negative consequences of GST implementation, it brings several benefits for handicraft business, for example, under GST, a few handicraft items were manufactured that are not required for paying any tax as well as not required for complying with regulations and rules of any other statute and Acts. Moreover, Zvarivadza (2018) stated that handmade items including wooden products and dresses are not liable for registration under “GST” if their “Aggregate value of Taxable Supplies” do not exceed 20 lakhs INR.

Literature gap

The paper has found there are a very limited number of studies that highlight area of GST and its impact upon handicraft industry. Due to lack of sufficient data, this paper might not address the research problem appropriately and that is why it has been considered as a major literature gap.

METHODOLOGY

Research paradigm

This research paper selects a deductive approach so that it can use existing information to analyse the research aim. This approach allows formulating some objectives to give the research a direction and based on those objectives, it considers relevant existing resources to get best possible outcomes. Additionally, this paper considers an interpretivism research philosophy that helps in conducting in-depth research on the basis of qualitative data (Nayak and Singh, 2021). Interpretivism philosophy is good for in-depth investigation, where qualitative data is considered. Finally, this research paper selects exploratory research design for gathering information on existing conditions of handicraft industry to implementation of GST. Another reason for considering this research design is that it offers a lot of flexibility and it is a cost effective approach.

Data collection

Furthermore, in order to understand current condition of handicraft industry of changes in tax rate, this research paper considers a secondary data collection method. This data collection method allows the paper to easily access existing resources, saves a lot of time and money, and helps in generating new insights from previous analysis and data (Pandey and Pandey, 2021). Additionally, due to secondary data collection method, the paper works with a variety of data from different sources that highlights different perspectives of selected research topic.

The research gathers data from existing journals, magazines, published data from government institutions, books and websites.

Data analysis

Finally, this paper analyses collected data with help of thematic analysis by reviewing information from present research on handicraft industry (Kumar, 2018). It divides collected data into different themes to understand data pattern and gives best possible outcomes.

DISCUSSION

In 2018, GST council determined to decrease tax rates of twenty-nine items in handicraft industry. These items would not attract any tax, which effectively protects more employment scope in handicraft industry. The Indian handicraft industry exports approximately rupees 4000 crore of handicraft items each year, involving handmade carpets (Financialexpress.com, 2018). Currently, handmade items are under 12% to 18% tax slab. According to present information, tax rates of handicraft items belong to 12% to 18%, where 6% is GST tax rate for handcrafted candles, handbags, wood products (vats, barrels, and casks), wooden frames regarding paintings, Statuettes and wooden ornaments, cork-based artwork. Handmade products under 2.5% GST rate are mats, coir articles, doorway decoration, toran, woollen yarn, handmade carpets and lace, hand-woven tape tapestries ornamental trimming and hand embroidered shawls. In handicraft industry, the lowest GST rate is 1.5% and that is for Silver filigree work (Indianexpress.com, 2018).

In GST council meeting, products that's GST rate have been reduced are handcrafted candles, wood products, worked articles of tortoise shell, hand painting, bamboo furniture, wooden dolls or tools, bells, gongs and ornaments.

CONCLUSION

The Indian handicraft industry plays a remarkable and crucial role within the country's economy. It offers employment towards a vast segment of craft persons within semi urban and rural areas. This research paper aimed to analyse the impact of "goods and services tax" on the Indian handicraft industry. In order to achieve the research aim and objectives, this paper has conducted a literature review, where it provided a brief discussion on the GST and Indian handicraft industry, challenges that are present in the handicraft industry and impact of

GST on this industry. This research paper helps to understand the changes because of GST and sheds light on the ways GST is changing the handicraft industry. Therefore, from this information, it can be concluded that GST has made a significant impact on the handicraft industry in both positive and negative form. However, due to GST implementation, the handicraft industry got reduced taxes from many handicraft products, which increased the scope of employment.

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