

## A Study on GST & Its Impact on Pricing of Carpets & Floorings Industry in India

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**Abstract-** The implementation of GST in India was considered to be major tax reform, since Independence. The research paper focuses on the impact of goods & service tax on the pricing of Indian carpet & flooring industry. The GST has not only provide full set off for input tax but also abolish the burden of several existing taxes viz Central Excise Tax, VAT/Sales Tax, Service tax etc. There was fear among the contributors of tax that the cost of goods might go up, harassment would be more and so on. This study is an attempt to examine the pre and post GST regime and, the pros and cons of old as well as the new tax system on the pricing of carpet & flooring industry. There are mixed opinion & response among the manufacturers & traders of carpet industry. Therefore, it is an attempt to compare past tax structure and current GST regime in India.

**Keywords:** GST, Cascading effect, Excise duty VAT, Carpets, Floorings.

### I. INTRODUCTION

The Taxation system in India is entirely imposed & controlled by Central and State governments. In this system, the India taxation system was categorized in two parts- Direct Taxes and Indirect Taxes. Direct Taxes can be defined as fee that is charged on individual on their income whereas Indirect Taxes can be defined as fee that are levied equally upon tax payers irrespective of their Income [1]. Some economists argue that Indirect Taxes lead to an inefficient market place and alter market prices that don't match their equilibrium price.

Over the last two decades, India has witnessed major reforms in indirect taxes like introduction of service tax in 1994, replacement of state sales tax by value added tax in 2005 and now value added tax by good and service tax on 1<sup>st</sup> July, 2017 [2]. Prior to VAT, states were following different tax regimes and multiple tax structure which had created many difficulties and unhealthy environment, which often created confusion and hampered the overall growth of Indian economy. (CBEC).

#### GST law from a constitutional perspective

##### **Definition of GST-**

**Article 366 (12A) "Goods and Services Tax"** means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. (As per CGST ACT 2017)

S.No	Definition	Article	Definition
1.	Goods	366 (12)	Includes all materials, commodities, and articles (Pre Existing Definition)
2.	Service	366 (26 A)	Anything other than goods (Introduced vide 101 <sup>st</sup> Constitutional Amendment Act)
3.	State	366(26B)	With reference to at articles 246A, 268, 269, 269A and Article 279A includes a Union territory with Legislature. (Introduced vide 101 <sup>st</sup> Constitutional Amendment Act)

### II. INDIAN CARPET INDUSTRY

The tradition of carpet weaving came to India in the dynasty of Akbar in the 16<sup>th</sup> century. Today, the industry, has grown tremendously such that India 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 highly labour intensive and provides employment to almost 2 million persons / weavers (CEPC). The major carpet manufacturing states include Uttar Pradesh, Rajasthan, Jammu and Kashmir, Haryana and others states.

### Types of carpets

- **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.

### Different Designs Of Carpet .(<http://www.handicrafts.nic.in/>)

There different designs hold different meanings

- **Circle** - Eternity
- **Swastika** - Guiding light in darkness
- **Meandering line** - Continuity of life
- **Tree** - Bounty
- **Zigzag** - Water and Lightening
- **Entire pattern** - Visible world of change
- **Entire carpet** - Emblem of Eternity

### 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/>)

### 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.

### Need of the study

India is exporting to more than 70 countries in the world. Indian carpets have huge demand in international market as 75% to 80% of carpets manufactured are exported & around 40% of worldwide export of handmade carpets. India is the largest exporter of Carpet in the world, exporting around 40 varieties of Carpets & Rugs but still this industry is still unexplored from the view point of research. (<https://commerce-app.gov.in/>). The present rates of GST on Carpets & Rugs is 12.5% and on Floorings 18%. So, there is a need to study whether GST has significantly impacted the pricing in this industry or not.

## III. LITERATURE REVIEW

- **Kumar (2017)**, studied the concept of GST and compared the past tax structure with present tax structure and concluded that GST has simplified India's Tax structure & the burden of final consumer has reduced as cascading effect of multiple taxes have been eliminated. **Shanti & Murty (2019)** conducted a study in which 200 responses were collected & Analysed and found that GST has a very clear impact on consumer's perception and their purchasing behaviour. **Manoj (2019)** states that GST will give a strong and smart tax system of economic development which expects to raise GDP growth from 1% to 2%. GST will impact all sectors like Manufacturing, textiles, carpet, telecom, automobile etc. He also stated that implementation of GST will be more advantageous to manufacturing sector as compared to service sector. **Nitin Kumar (2014)** studied and concluded that economic distortion in India from current indirect taxes will be removed by the implementation of GST. **Dr. R. Vasanthagopal (2011)** studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that in India, switching from current complicated indirect tax system to seamless GST, will be a positive step to boom Indian economy as more countries in the world has given acceptance to GST. **Kuruvilla, Hari kumar & Alex (2018)** studied the impact of GST in Jewellery business and concluded that with the implementation of GST, gems & jewellery will have more competitive prices and having a simplified input tax credit process even on service will make the system more efficient & transparent.

### Objectives of the study

- To study & Compare the impact of GST on Pricing of Carpets & Flooring Industry with past tax structure.

#### IV. RESEARCH METHODOLOGY

- The study will be based on secondary sources of data which can be obtained from published articles in journal, web articles, websites of Indian Government like Finance Ministry ([finmin.gov.in](http://finmin.gov.in)), GST Council ([gstcouncil.gov.in](http://gstcouncil.gov.in)), ([cbic.gov.in](http://cbic.gov.in)), ([gstgovt.in](http://gstgovt.in)), newspapers and other government official publication. With the help of these secondary sources an attempt can be made to find out the effect of GST on Carpet Industry.

#### Impact of GST on pricing of Carpets and Rugs as compared to past tax structure

Excise Duty was charged under old tax structure, if the Annual turnover is more than ₹1.5cr but after implementation of GST, it has been abolished. The following Illustration will show impact with and without GST in relevance to saving of a customer on one item.

#### Split up of prices before GST and after GST

#### Case1- When Annual Turnover is less than ₹1.5 cr (No Excise Duty charged)

#### Manufacturer to wholesaler/ retailer

Particulars	Without GST (₹)	With GST (₹)
Cost of production	1000	1000
(+) Profit 10%	100	100
	1100	1100
(+) Excise Duty 0%	-	-
Total	1100	1100
(+) VAT 12.5%	137.50	-
	1237.50	
(+) CGST - 6%		66
SGST - 6%		66
Invoice Value	1237.50	1232

#### Wholesaler/ retailer to consumer

Particulars	Without GST (₹)	With GST (₹)
Cost of Goods to wholesaler	1100	1100
(+) Profit → 10%	110	110
Total	1210	1210
VAT 12.5%	151.25	-
	1361.25	1210
(+) CGST - 6%	-	72.60
(+) SGST - 6%	-	72.60
Invoice Value	1361.25	1355.20
Cost saving in (₹)		6.05

#### Case 2- When Annual Turnover is Above than ₹1.5 cr (Excise duty charged)

#### Manufacturer to wholesaler retailer

Particulars	Without GST (₹)	With GST (₹)
Cost of production	1000	1000
(+) Profit 10%	100	100
Total	1100	1100
(+) Excise Duty 12.5%	137.5	-
Total	1237.50	1100
(+) VAT 12.5%	154.70	-
	1392.20	1100
(+) CGST - 6%		66
SGST - 6%		66

Invoice Value	1392.20	1232
<b>Wholesaler/ retailer to consumer</b>		
<b>Particulars</b>	<b>Without GST (₹)</b>	<b>With GST (₹)</b>
Cost of goods to wholesaler	1237.50	1100
(+) Profit 10%	123.75	110
Total	1361.25	1210
(+) VAT 12.5%	170.15	-
Total	1531.40	1210
(+) CGST – 9%		72.60
SGST - 9%		72.60
Invoice Value	1531.40	1355.20
Cost saving in (Rs)		176.20

**Impact of GST on pricing of Wooden & PVC Floorings**

Under old Tax structure, VAT was levied on Wooden & PVC Floorings at 12.5% but under GST, rate has been increased to 18%.

**Case3- When Annual Turnover is less than ₹1.5 cr (No Excise Duty charged)****Manufacturer to wholesaler retailer**

Table 3

Particulars	Without GST (₹)	With GST (₹)
Cost of production	1000	1000
(+) Profit 10%	100	100
	1100	1100
(+) Excise Duty 0%	-	-
Total	1100	1100
(+) VAT 12.5%	137.50	-
	1237.50	1100
(+) CGST - 9%		99
SGST - 9%		99
	1237.50	1298

**Wholesaler/ retailer to consumer**

Particulars	Without GST (₹)	With GST (₹)
Cost of Goods to wholesaler	1100	1100
(+) Profit → 10%	110	110
Total	1210	1210
VAT 12.5%	151.25	-
	1361.25	1210
(+) CGST - 9%	-	108.9
(+) SGST - 9%	-	108.9
	1361.25	1427.8
Cost Saving (₹)		-66.55

**Case 4- When Annual Turnover is Above than ₹1.5 cr (Excise Duty charged)****Manufacturer to wholesaler/ retailer**

Table 4

Particulars	Without GST (₹)	With GST (₹)
Cost of production	1000	1000
(+) Profit 10%	100	100
	1100	1100
(+) Excise Duty 12.5%	137.5	-
Total	1237.50	1100
(+) VAT 12.5%	154.70	-

	1392.20	
(+) CGST - 9%		99
SGST – 9%		99
Invoice Value	1392.20	1298

**Wholesaler/ retailer to consumer**

Particulars	Without GST (₹)	With GST (₹)
Cost of goods to wholesaler	1237.50	1100
(+) Profit 10%	123.75	110
	1361.25	1210
(+) VAT 12.5%	170.15	-
Total	1531.40	1210
(+) CGST – 9%		108.9
SGST – 9%		108.9
Invoice Value	1531.40	1427.8

**Analysis of the Study**

- **Table 1** shows that there is a saving of ₹6.05 on one item i.e 0.5% tax (Vat 12.5% - GST 12%).
- **Table 2** shows that is a cost saving of ₹176.20 i.e saving of excise duty 12.5% & 0.5% tax (VAT 12.5% - GST 12%).
- **Table 3** shows that there is negative saving (Dissaving) of ₹66.55 as the GST rate on Wooden & PVC flooring is 18% whereas VAT rate was only 12.5%.
- **Table 4** shows that there is a saving of ₹103.60 under GST even though GST rate on Wooden & PVC flooring is 18% as compared to 12.5 % VAT.

Overall impact of GST on pricing of Carpets can be considered favourable but on Floorings, if the Annual turnover is more than ₹1.5 cr then only, it will be a saving to a customer as compared to past tax structure.

**V. CONCLUSION**

During the initial stage of implementation of GST, there are mixed opinions & responses among the manufacturers & traders that price would become more competitive. GST has reduced the cascading effect as various Indirect taxes like excise duty gets subsumed in GST. GST has bring one Nation under one tax[8]. The above study shows that after the implementation of GST, the cost of carpet has reduced which will help this industry to grow and attract domestic as well as foreign demand. Reduction in cost would also help Indian carpet industry to compete with new current competitors like Iran, China & Turkey.(CPEC)

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