



## Corporate Taxation Growth of Textile Industry in India

**Mr. D.MURUGAN**

Ph.D (Full Time) Research Scholar, Department of Corporate Secretaryship, School of Management, Alagappa University, Karaikudi - 630 003. Tamil Nadu.

**DR.C.VETHIRAJAN**

Professor, Department of Corporate Secretaryship, School of Management, Alagappa University, Karaikudi - 630 003. Tamil Nadu.

### ABSTRACT

*The Indian textile industry is one of the largest in the world with a massive raw material and textiles manufacturing base. Our economy is largely dependent on the textile manufacturing and trade in addition to other major industries. About 27% of the foreign exchange earnings are on account of export of textiles and clothing alone. The textiles and clothing sector contributes about 14% to the industrial production and 3% to the gross domestic product of the country. Around 8% of the total excise revenue collection is contributed by the textile industry. So much so, the textile industry accounts for as large as 21% of the total employment generated in the economy. Around 35 million people are directly employed in the textile manufacturing activities. Indirect employment including the manpower engaged in agricultural based raw-material production like cotton and related trade and handling could be stated to be around another 60 million. Corporate taxes are paid by the companies to the Government of India and it is levied on the income of the corporate. Apart from the corporate tax, they also have to pay other kinds of taxes. Indian textile industries paid the corporate taxes to the government. In this revenue collected the government and use the various innovative activities to the nation. This paper has been depicts that corporate taxation growth of Textile Industry in India.*

**KEYWORDS : Textile Industry, Corporate Taxation.**

### INTRODUCTION

A textile is the largest single industry in India (and amongst the biggest in the world). It provides direct employment to around 20 million people. Textile and clothing exports account for one-third of the total value of exports from the country. There are 1,227 textile mills with a spinning capacity of about 29 million spindles. While yarn is mostly produced in the mills, fabrics are produced in the powerloom and handloom sectors as well. The Indian textile industry continues to be predominantly based on cotton, with about 65% of raw materials consumed being cotton. The yearly output of cotton cloth was about 12.8 billion. The manufacture of jute products (1.1 million metric tons) ranks next in importance to cotton weaving. Textile is one of India's total value industries and has a formidable presence in the national economy in as much as it contributes to about 14 percent of manufacturing value-addition, accounts for around one-third of our gross export earnings and provides gainful employment to millions of people. They include cotton and jute growers, artisans and weavers who are engaged in the organised as well as decentralized and household sectors spread across the entire country.

Many countries impose corporate tax, also called corporation tax or company tax, on the income or capital of some types of legal entities. A similar tax may be imposed at state or lower levels. The taxes may also be referred to as income tax or capital tax. Entities treated as partnerships are generally not taxed at the entity level. Most countries tax all corporations doing business in the country on income from that country. Many countries tax all income of corporations organized in the country. Company income subject to tax is often determined much like taxable income for individuals. Generally, the tax is imposed on net profits. In some jurisdictions, rules for taxing companies may differ significantly from rules for taxing individuals. Certain corporate acts, like reorganizations, may not be taxed. Some types of entities may be exempt from tax. Many more countries tax corporate entities on income and also tax the owners when the corporation pays a dividend. Where the owners are taxed, a withholding tax may be imposed. Generally, these taxes on owners are not referred to as corporate tax.

### REVIEW OF LITERATURE

Griffith, Miller and O'Connell (2014) also consider the link between corporate tax rates and patent applications, but with a more flexible model which allows tax effects to vary across locations. They find that corporate tax rates are important determinants of location choice and that the unobserved heterogeneity in behavior is important for explaining location choices.

Feld, Heckemeyer and Overesch (2013) provide a recent review of the empirical literature on the impact of CIT on debt financing. They combine 48 previous studies and find a substantial impact, with a predicted marginal tax effect on the debt ratio of about 0.27, which means that a 10 percentage point increase in the marginal tax rate (e.g. from 25% to 35%) increases the debt-to-asset ratio by 2.7 percentage points (e.g. from 0.6 to 0.627). Their study also shows that the estimated effect is typically bigger when using simulated marginal tax rates than when using statutory tax rates.

Rakesh and Kulkarni (2012) analyzed the Gujarat textile industry working capital evaluation on selected five company for the eleven years and performed ratio analysis, descriptive statistics etc. The study concluded with all the company financial performance with sound effective as well as current and quick ratio, current asset on total asset, sales, turnover etc. are analyzed with the help of hypothesis and used ANOVA. In this research also researcher followed this attributes. Zahid and nanik (2011) concludes the overall performance of the textile sector was adversely affected by crisis through analysis of income statement, debt payment ability, management and inventory sales, receivables, productivity, fixed assets, etc.

### RESEARCH METHODOLOGY

The present research paper is mainly based on secondary data obtained from the annual reports of the sample units. To supplement the data different publications, various books, journals, CMIE Database and different websites related in textile industry have been used for better reliability.

### OBJECTIVES

1. To study the strengths and weakness of textile industry in India.
2. To evaluate the number of textile industry in India and Tamil Nadu.
3. To analyze the corporate tax growth of textile industries in India.

### TEXTILE INDUSTRY

The Indian textile industry is in a stronger position now than it was in the last six decades. The industry which was growing at 3 – 4 percent during the last six decades has now accelerated to an annual growth rate of 9 – 10 percent. There is a sense of optimism in the industry and textiles sector has now become a 'sunrise' sector. Considering the domestic availability of cloth, the per capita availability of cloth is projected at 62.23 sq. mtrs. by the end of the Eleventh Plan period, as against 39.17 sq. mtrs. in 2006-07, registering an annual rate of growth of 9.70 percent per annum. The per capita availability is esti-

mated based on the projected population and expected export trend.

**STRENGTHS**

- Third largest producer of cotton in the world.
- Fifth largest producer of man-made fibre and yarn in the world.
- Vertical and horizontal integrated textile value chain.
- Strong presence in entire textile value chain from raw material to finished goods.
- Globally competitive spinning industry
- Average cotton yarn spinning cost at US\$ 2.5 per kg. Which is lower than all the countries including China?
- Low wages: rate at 0.75 US\$ per operator hour as compared to US\$ 1 of China and US\$ 3 of Turkey.
- Unique strength in traditional handlooms and handicrafts.
- Flexible production system.
- Diverse design base.

**WEAKNESS**

- Structural weaknesses in weaving and processing.
- 2 percent of shuttle less looms as percentage of total looms as against world average of 16 percent and China, Pakistan and Indonesia 15 percent, 9 percent and 10 percent respectively.
- Highly fragmented and technology backward textile processing sector.
- Highly fragmented garment industry.
- Except spinning, all other segments are predominantly in decentralized sector.
- The rigid labor laws : proving a bottleneck particularly to the garment sector. Large seasonal orders cannot be taken because the labour strength cannot be reduced during the slack season.
- Inadequate capacity of the domestic textile machinery manufacturing sector.
- Big demand and supply gap in the training facilities in textile sector.

**TABLE 1  
PROFILE OF TEXTILE INDUSTRY IN INDIA AND TAMIL NADU**

ITEM	ALL INDIA	TAMILNADU
<b>SPINNING SECTOR</b>		
No. of Spinning Mills	3069	1889
Workers (in lakh)	8.94	2.40
Spindles (in Million)	39.27	18.92
<b>POWERLOOM SECTOR</b>		
Powerlooms (in lakhs)	19.03	3.66
Workers (in lakhs)	47.57	9.14
<b>HANDLOOM SECTOR</b>		
Handlooms (in lakhs)	34.86	4.13
Weavers (in lakhs)	65.50	6.08
<b>HANDLOOMCLOTH</b>		
Production(Bn. Sq. Mt)	6.00	0.70
Value(Rs.in Crore)	18000	1700
<b>OTHER SECTOR</b>		
Power processing Units	2510	985
Hand Processing Units	10397	2614
Knitwear and Garment units	8000	4000

Source: These sources collected from the Tamil Nadu Textile Industry Website.

Table 1 shows that the Textile Industry of Tamil Nadu has its significant presence in the National and State economy. It is the forerunner in Industrial development. Handloom, Powerloom, Spinning, Processing, Garment and Hosiery are the various sectors of the Textile Industry in Tamil Nadu and known for the largest economic activity next only to Agriculture in providing direct and indirect employment.

**Handlooms :** Tamil Nadu occupies a pride place in handloom sector with maximum number of handlooms in the Country. Handloom weaving is one of the largest economic activities in Tamil Nadu. There are 4.13 lakh handlooms located in the State in which 2.32 lakh handlooms are functioning with 1130 Handloom Weavers Cooperative Societies and the remaining 1.81 lakh looms are outside the Cooperative fold, thus providing employment to 6.08 lakh weavers.

**Powerlooms :** The Powerloom Sector in Tamil Nadu provides employment to around 9.14 lakh workers. As against 19.03 lakh registered powerlooms in India, 3.66 lakh are located in Tamilnadu and of that 42,566 are covered under 164 Powerloom Weavers Co-operative Societies. During the year 2008–09, these Societies have produced 1487.50 lakh metres of cloth worth around Rs. 246.09 Crores and the turnover was around Rs.253.50 Crores.

**Textile and Spinning Mills:** The Textile Mills are the backbone of Tamil Nadu's industrial development and are providing massive employment in the State predominantly spinning oriented. The State textile industry has a significant presence in the national economy also. There are 3069 large, medium and small spinning mills in India, of which, 1889 are located in Tamilnadu. The spinning mills in the State comprise 18 Cooperative Spinning Mills (5 functioning), 17 National Textile Corporation Mills (7 functioning) and 1854 Private Mills (including 23 Composite Mills). Those spinning mills provide employment for around 2.40 lakh persons. The capacity of the spinning mills in the State is around 18.92 million spindles. The State produces about 1612 million kg. of spun yarn per year and this is about 40% of the spun yarn produced per year in the entire nation.

**Garment and Hosiery:** The Garment Sector in Tamil Nadu is one of the fast growing sectors in the textile industry. It is located substantially around Chennai City, with specialization in cotton fibre garments. The Hosiery Units in Tamil Nadu are located at Tiruppur and are manufacturing Knitwear Garments to the tune of Rs.11000 Crores per annum. There are around 4000 knitwear and woven garment production units in the State providing employment to around 5 lakh persons.

**Processing :** The processing sector determines the core product value, product quality and has tremendous scope for innovations and control over the final output. Processing is an important value added segment in the Textile Industry. There are about 10397 Hand Processing Units and 2510 Power Processing Units in India, out of which 2614 Hand Processing Units and 985 Power Processing Units are located in Tamil Nadu.

**TABLE 2  
CORPORATE TAXATION GROWTH IN INDIAN TEXTILE INDUSTRY (Rs. Million)**

Industry	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Textiles	7,017.50	6,959.80	14,099.20	27,481.50	17,816.50	18,028.80	22,205.80
Cotton & blended yarn	660.4	649.7	2,177.60	6,785.20	1,082.20	2,573.00	4,542.80
Cloth	1,880.70	1,357.70	2,614.70	4,453.80	3,938.10	2,685.80	Nil
Man-made filaments & fibres	1,020.00	620.3	1,909.30	7,592.80	4,720.90	4,211.90	3,385.90
Textile processing	459.7	545.4	727.9	705.2	244.6	167.6	192.9
Ready-made garments	1,263.30	1,860.40	2,497.80	2,005.10	2,212.90	1,730.80	2,086.40
Diversified cotton textile	586.6	362.4	800.7	1,764.50	2,075.40	3,526.40	3,612.20
Other textiles	1,146.80	1,563.90	3,371.20	4,174.90	3,542.40	3,133.30	6,387.60

Source: CMIE DATA BASE

Table 2 portray that every year textile industry corporate tax growth is increased. To compare the financial year 2007-2008 to 2013 -2014 most of the Indian textile unit corporate taxation is to be increased. Sometimes corporate tax rate is affected the Textile industries corporate taxation growth.

## CONCLUSION

To conclude that majority of the government revenue came from textile industry through corporate taxation. The Government of India have been utilized revenue generations by means of various dimensional activities and substantially increasing trends of textile industry in India. The recent Union budget on 28th February 2015 proposed cutting basic rate of corporate tax to 25% from current 30% over the next four years, accompanied by fewer exemptions. The Honorable Finance Minister Mr. Arun Jaitley said a high rate with too many exemptions had led to a situation in which "we neither get revenues nor investments". This will lead higher level of investment accelerate growth and more jobs" He added.

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