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Impact of Goods and Services Tax (GST) on the Indian Textile Industry: Opportunities and Challenges

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Abstract
The introduction of Goods and Services Tax (GST) in India marked a significant reform in India's indirect Tax structure. It aims to unify the nation's complex tax system. The Indian textiles Industry, a milestone of the country's economy and one of the second-largest employment-generating sectors, has been significantly affected by this reform. This study explores the dual impact of GST on the textiles Industry, examines both opportunities and Challenges after the implementation of GST. On one hand, the GST simplified the tax structure and lowered compliance burdens by replacing several indirect taxes with a single tax for textile manufacturers, traders, and concerned parties. And also, this simplification reduced administrative costs and increased efficiency in tax management. On the other hand, GST increases several difficulties for SMEs with little technical infrastructure and experience since it requires them to adjust to new digital tax systems and more paperwork.

Keywords: Goods and Services Tax, Textiles Industry, Tax reform.

Introduction:
GST is often hailed as a "Great Step towards Transformation" and "Transparency" in India's economic journey. Like many reforms, it was conceived by one administration and carefully nurtured by another, reflecting a shared commitment to progress. For decades, India wrestled with a tangled web of indirect taxes, leading to inefficiencies and confusion. The introduction of the Goods and Services Tax (GST) was a landmark solution, aimed at merging various indirect levies into one streamlined system. True to its name, GST encompasses both goods and services, serving as a unified tax structure designed to simplify compliance, enhance transparency, and propel the nation toward a more organized and efficient economy. Formally known as the Constitution (One Hundred and First Amendment) Act, 2016, the One Hundred and Twenty-second Amendment Bill of the Indian Constitution established a national goods and services tax that entered into effect on July 1, 2017. One of the largest tax changes, the introduction of this tax into

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the Indian economy, is a tangible move taken by India's government to integrate state economies and promote overall growth. The textile industry's taxation is opaque throughout all of its divisions. Under the federal and state tax regimes, a large number of textile products are either free or subject to comparatively low tax rates. The majority of indirect taxes are concealed because they are imposed on inputs, which include both commodities and services. The textile industry is generally heavily supported and subject to low taxes. Unrebated textile input taxes and other subsidies are used to boost textile exports. Given that it is the second-largest textile industry in the world after China, the GST is now having a detrimental influence on the sector. Apart from providing one of life's most fundamental commodities, fabric, the textile industry accounts for around 14% of the country's industrial production. After agriculture, this industry employs the most people in India, with 35 million people working in it. Furthermore, 46 million individuals are involved in allied activities. The textile industry accounts for around 4% of GDP, 9% of excise collections, 18% of industrial employment, and 16% of total exports. India is the world's largest yarn exporter, accounting for 25% of the total global cotton yarn export market. India accounts for 12% of the global production of textile fibers

Literature Review

Nishita (2014) examined in her study paper "The Impact of GST on the Indian Economy," the author stated that GST is a significant improvement over the former system of VAT and disconnected service tax, and a necessary step forward. She also noted that a single rate will assist maintain simplicity and transparency by treating all goods and services equally, without giving preferential treatment to select "special" commodities and/or services.

Lourdunathan and Xavier (2017) conducted a study titled "A Study on the Implementation of Goods and Services Tax (GST) in India: Prospects and Challenges" and concluded that GST will create a single nation and tax market. An efficient GST design will result in resource and revenue gains for both the Centre and the States, primarily by expanding the tax base and improving tax compliance. They stated in their study paper that the government should educate, implement thorough training, and hold continuous GST seminars and workshops. Therefore, the essential procedures should be taken.

Mishra N. (2018) observed in her study "Impact of GST on Indian Economy" that a unified tax system would attract new businesses and entrepreneurs to the service and manufacturing industries. This eliminates economic differences in taxing among countries, increases goods mobility, and reduces tax complexity. Many positive outcomes can be seen, including lower product prices, increased FDI, the removal of regulatory barriers, an increase in foreign exchange and employment, and so on.

Niyas A. (2019) investigated "Goods and Services Tax- GST" and concluded that GST is a value-added indirect tax levied at each stage of the supply of goods and services based on the amount of value added. It aims to minimize inefficiencies in the tax system that lead to 'tax on tax', often known as cascading taxes. GST is a destination-based tax, which implies that it applies only where the products or services are consumed.

Borate S & et al. (2019) report in their paper titled "Study on the Impact of GST on the Textile Industry" that significant taxes rates have altered, with excise duty increasing from 5 to 6 percent. ED on synthetic textiles increased by 12%. The subsidy (abatement) provided for branded clothing has increased from 55 to 70%. They also highlighted that the overall impact of GST on the textile industry and consumers will be determined by how the available policy options for administering GST in the context of textiles are implemented.

Priya L. and colleagues (2020) in their study titled "Impact of GST on Small and Medium Enterprises: A Special Focus on the Textile Industry" highlighted the significant challenges faced by the textile sector following the implementation of the Goods and Services Tax (GST). The study revealed that the textile industry, particularly businesses in the mid-size category, experienced a considerable decline in turnover post-GST. This downturn was attributed to the complex tax structure and the burden of compliance requirements. As a result, many small and medium-sized enterprises (SMEs) saw a reduction in their profit margins. The researchers emphasized that while the intent of GST was to streamline tax processes, its introduction negatively impacted the financial health and operational efficiency of these businesses, which are typically more vulnerable to such shifts in policy.

Objectives:

- To explore the opportunities for growth, formalization, and enhanced transparency brought by GST in the textile sector.
- To identify the key challenges textile manufacturers, dealers, and exporters face under the GST regime.

Research Methodology:

The present article is descriptive and relies entirely on secondary data sources. To conduct a systematic review of the literature, the researchers examined a wide array of published articles, policy papers, and government documents related to GST, as well as the opportunities and challenges associated with implementing the Goods and Services Tax (GST) in the textiles sector. In pursuit of the research objectives, secondary data have been gathered from diverse sources, including financial websites, official government reports, surveys by NITI Aayog, newspapers, magazines, and other credible publications.

Implementation of GST in the Textiles industry:

The textile industry holds a vital and irreplaceable position in an emerging economy like India, serving as a significant source of employment for both skilled and unskilled labor, particularly in rural regions. Given its expansive reach and socio-economic importance, any fundamental shift in the tax framework, such as the implementation of the Goods and Services Tax (GST), is bound to influence its operations. Therefore, it becomes imperative to critically examine the key opportunities and challenges that GST presents to the textile sector. The Goods and Services Tax (GST) has had a comprehensive impact on the entire cotton value chain, encompassing a wide range of apparel, including shirts, trousers, sarees, footwear, and more. Previously, many small and medium-sized enterprises (SMEs) favoured cotton-based textiles due to exemptions under the optional Central Sales Tax (CST) regime. However, the introduction of GST brought significant changes to the tax structure, influencing pricing strategies, production processes, and overall market behaviour.

GST-Induced Changes in India's Textile Industry:

The implementation of the Goods and Services Tax (GST) has brought substantial structural and operational changes to India's textile industry. One of the most significant reforms has been the establishment of a unified tax system, replacing multiple indirect taxes with a more streamlined and uniform control structure across the sector. This transformation has created greater consistency in taxation and simplified the regulatory environment. A notable advantage under the GST regime is the availability of Input Tax Credit (ITC), which allows textile manufacturers to offset the tax paid on raw materials against the final tax liability. This has helped reduce the overall tax burden and enhance the sector's cost efficiency and competitiveness.

Figure 1: Applicable GST rates for different types of products

PARTICULARS	CGST	SGST	IGST
Man Made Garments for retail sale	6%	6%	12%
Synthetic Yarn	6%	6%	12%
Most types of fabric	6%	6%	12%
Cotton	2.5%	2.5%	5%
Cotton Yarn	2.5%	2.5%	5%
Readymade Garments <Rs. 1000	2.5%	2.5%	5%
Readymade Garments >Rs. 1000	6%	6%	12%
Silk Waste	0%	0%	0%
Jute	2.5%	2.5%	5%

Source: https://images.app.goo.gl/qFvcFE6LFMvxnQow7

The Goods and Services Tax (GST) system in India classifies different textile products under varied tax slabs depending on the type of material and product. The above figure presents the applicable GST rates under **CGST** (Central GST), **SGST** (State GST), and **IGST** (Integrated GST) for various textile and garment items. Additionally, GST introduced revised tax rates for different textile products: man-made fibers are now taxed at 18%, cotton fibers and fabrics at 5%, and readymade garments at 12%. These revisions have reshaped the pricing landscape, particularly making synthetic fiber products more cost-effective. The 5% GST on cotton items has also encouraged cotton production, providing incentives for farmers and strengthening the cotton value chain. However, GST has introduced higher compliance demands, requiring businesses to upgrade their systems for digital tax registration, record-keeping, and timely filing of returns, which has posed challenges for smaller enterprises.

Table 1: Comparison of Pre and Post Implementation of GST in India's Textiles Industry

Aspect	Before the implementation of GST	After the implementation of GST
Tax Structure	Various indirect taxes like VAT, Excise, and Service Tax were levied separately	A single, unified Goods and Services Tax (GST) replaced multiple taxes
Input Tax Credit (ITC)	Limited input credit, leading to higher production costs	Full credit available on inputs, reducing overall cost of production
Exports	Refunds were delayed due to multiple tax layers	Exported goods are zero-rated with quicker refund mechanisms
SME Compliance	Many small players operated outside the formal tax system	Registration under GST is compulsory, increasing transparency and compliance
Logistics Cost	Inter-state taxes raised transportation expenses	Uniform taxation across states lowered logistics and transport costs
Pricing Impact	Some textile products were tax-free	Synthetic and man-made fabrics are now taxed at higher GST rates

Source:https://getswipe.in/blog/article/gst-and-the-textile-industry-key-impacts-and challenges#:~:text=Simplified%20Tax%20Structure%20%2D%20GST%20replaced,investments%20into%20the%20textile%20sector

The above table presents the comparative analysis of the textile industry before and after the implementation of GST and reflects the various aspects of the industry, including input tax credit, compliance, logistic cost, etc.

Employment in the textile industry has also seen varied effects post-GST. While some segments have adapted well, others, particularly labour-intensive areas, have experienced disruptions and workforce-related challenges. Furthermore, ongoing discussions between industry stakeholders and government bodies have led to calls for policy refinements, aiming to resolve existing issues and leverage the potential benefits of the GST framework more effectively. According to data from the Ministry of Textiles, India's total textile exports stood at $33.16 billion during 2011–2012, while the domestic production of textile machinery reached a value of ₹528 billion. With the rollout of GST, the textile sector has encountered a mix of challenges and opportunities, each shaping the industry's trajectory in terms of growth and global competitiveness.

Challenges Faced by the Textile Industry after Implementation of GST

The introduction of the Goods and Services Tax (GST) brought sweeping reforms to the Indian textile industry, aiming to simplify taxation and promote transparency. However, these changes have also created considerable disruption across the sector. One of the most prominent challenges is the inverted duty structure, where inputs such as raw materials are often taxed at higher rates than the finished goods themselves. This mismatch has inflated manufacturing costs and squeezed margins, particularly for small and medium-sized enterprises (SMEs) that operate with limited financial buffers. While GST was expected to enhance operational efficiency, leading textile companies like Raymond Ltd. did not report notable improvements in their financial performance post-GST, signaling that the intended benefits have been unevenly distributed.

Adding to the complexity, the textile industry in India is composed of both organized and unorganized segments that are deeply intertwined and interdependent. Many small producers and weavers remain outside the GST framework altogether because they do not meet the minimum turnover requirements for registration. Conversely, a substantial portion of eligible businesses have opted for the composition scheme, drawn by its relatively simpler compliance obligations compared to the regular GST regime. Although this option reduces administrative burdens, it also creates inconsistencies in tax treatment and accountability across different scales of operation (Dixit, 2018).

The fragmented and uneven nature of the textile supply chain further compounds these challenges. The sector depends on multiple interlinked processes ginning, spinning, weaving, processing, and garment manufacturing that often operate in silos. This lack of integration inhibits economies of scale and prevents Indian manufacturers from matching the competitiveness of global peers (Sehrawat & Dhanda, 2017). Moreover, GST has introduced a multi-layered taxation structure that differentiates products by fiber type, branding, and price points. For example, garments valued below ₹1,000 are taxed at 5%, while those above this threshold attract a 12% rate (Sankar, 2017). Such disparities not only complicate pricing strategies but also distort market dynamics and consumer purchasing patterns.

The industry's stakeholders, including associations like the Confederation of Indian Textile Industry (CITI), have raised concerns about potential rate hikes, warning that higher GST slabs could suppress consumer demand and trigger job losses. To mitigate these issues, the sector has consistently advocated for a uniform 5% GST rate across all textile and garment categories. A single rate could encourage voluntary compliance and create a predictable tax environment that supports business planning and investment. However, while such simplification appears attractive, it also poses the risk of encouraging tax evasion and necessitating more exemptions, underlining the need for a carefully balanced policy approach that promotes growth without undermining revenue integrity.

Conclusion

From the above discussion, it is clear that the introduction of GST has brought several significant changes to India's textile industry, most of which are positive. The implementation of GST supports the government's efforts to simplify business processes, making India's tax system more transparent and business-friendly.

One of the major benefits of GST is that it has merged many complicated indirect taxes into a single, unified tax system. This change has not only made the process of taxation simpler but has also helped boost India's textile exports. Businesses that comply with GST will find their products more competitive in the market. Moreover, the textile sector is expected to contribute more towards tax revenues, job creation, and social welfare.

GST has introduced a world-class tax framework in India by removing the earlier difference in treatment between the manufacturing and service sectors. However, the actual benefits will depend on how logically it is designed, how effectively it is implemented, and whether it is regularly reviewed and updated.

Overall, GST has helped reduce revenue losses and provided relief to taxpayers by lowering the tax burden, removing the cascading effect of taxes, and allowing easy input tax credit claims. These advantages were not available under the previous VAT system. As a result, GST is likely to bring commercial benefits and drive India's economic growth.

Although the textile sector may face some challenges like higher tax rates and loss of some previous exemptions (especially in the cotton value chain), in the long term, GST is expected to improve regulation by increasing the number of registered taxpayers. It is also hoped that GST will make the Indian textile industry more competitive in both domestic and global markets, supporting steady and sustainable growth.

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