

REFORMING THREADS: THE ROLE OF GST IN INDIA'S TEXTILE SECTOR

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ABSTRACT:

The Indian textile industry, a cornerstone of the country's economy, contributes significantly to employment, GDP, and exports. Historically characterized by a complex and fragmented taxation structure, the sector has faced challenges such as tax cascading, compliance burdens, and lack of uniformity across states. The introduction of the Goods and Services Tax (GST) in July 2017 marked a pivotal reform aimed at unifying indirect taxes under a single, streamlined system. This report provides an in-depth analysis of the impact of GST on India's textile sector. It examines the pre-GST taxation environment dominated by multiple levies including excise duty, Value Added Tax (VAT), and Central Sales Tax (CST), which resulted in inefficiencies and increased costs. The study then explores how GST has transformed this landscape by implementing uniform tax rates, facilitating seamless input tax credit, and simplifying interstate trade. Through comparative analysis, stakeholder feedback, and secondary data review, the report highlights both the benefits and challenges of GST implementation. While GST has enhanced transparency and encouraged formalization, it has also introduced new complexities—especially for small-scale and unorganized textile producers struggling with compliance and multiple GST slabs applicable to different textile products. The report further assesses GST's effect on export competitiveness, noting improvements due to streamlined tax credits, yet recognizing ongoing issues such as refund delays and operational bottlenecks. Finally, it offers policy recommendations to optimize GST's impact, including rationalizing tax rates, easing compliance for micro-enterprises, and providing targeted support for traditional textile sectors. Overall, this study concludes that GST is a transformative tool that has begun to reform the intricate threads of India's textile industry. However, continued policy attention and adaptive reforms are essential to ensure inclusive growth, enhance global competitiveness, and preserve the sector's deep-rooted heritage.

Keywords: GST Impact on Textiles, Indirect Tax Reform, Input Tax Credit (ITC), GST Compliance Challenges, Tax Rate Rationalization, Formalization of Textile Sector.

1. INTRODUCTION:

India's textile industry, often referred to as the backbone of the Indian economy, has a rich heritage that dates back centuries. As one of the largest employers in the country after agriculture, and a key contributor to exports, the textile sector plays a critical role in both rural and urban economic development. However, despite its significance, the sector has historically operated in a fragmented and largely unorganized manner particularly among small-scale manufacturers, handloom weavers, and cottage industries. In July 2017, India introduced one of the most ambitious tax reforms in its history the **Goods and Services Tax (GST)**. Designed to unify the nation's indirect tax system under a single umbrella, GST replaced a complex network of central and state taxes. For the textile industry, this marked a major transition. The sector, which had previously enjoyed partial or complete tax exemptions in certain segments, was now brought under a uniform tax structure.

The implementation of GST in the textile industry has been met with mixed responses. On one hand, it has introduced greater transparency, streamlined tax compliance, and allowed for the seamless flow of input tax credit. On the other hand, it has also introduced new challenges, particularly for micro and small enterprises that now face increased compliance costs and confusion over varied GST rates. This research aims to explore how GST has restructured the landscape of India's textile sector. By examining the pre- and post-GST taxation frameworks, analyzing its economic impact, and evaluating government responses and industry feedback, we seek to understand whether GST has truly reformed the "threads" of this vital sector or merely entangled them further.

2. STATEMENT OF THE PROBLEM:

The Indian textile industry, while being a crucial pillar of the country's economy, has long grappled with issues stemming from a complex and fragmented indirect tax structure. Before the implementation of GST, multiple taxes such as excise duty, VAT, and CST led to cascading taxation, increased production costs, and compliance difficulties especially affecting small-scale and unorganized players. Although GST was introduced to simplify taxation, unify tax rates, and improve transparency, the textile sector continues to face challenges. These include confusion over multiple GST rates for different textile products, compliance burdens on micro and small enterprises, and uncertainty regarding the impact on exports and profitability. This study seeks to investigate how effectively GST has addressed the taxation problems within the textile industry and to identify the ongoing issues that hinder its smooth adoption. Understanding these challenges is vital to recommend solutions that can help the sector fully benefit from GST reforms while sustaining growth and inclusivity.

3. OBJECTIVES OF THE STUDY:

- To understand the structure and scope of the Indian textile industry
- To examine the framework and objectives of the Goods and Services Tax (GST)
- To compare the pre-GST and post-GST taxation scenarios in the textile industry
- To provide recommendations for making GST more inclusive and effective for the textile sector

4. LITERATURE REVIEW:

Several researchers have examined the implications of indirect taxation on textiles prior to the implementation of GST.

CITI (2021), The Confederation of Indian Textile Industry's white paper detailed the challenges small and medium textile enterprises face with GST compliance, particularly digital filing requirements, multiple tax slabs, and the cost of compliance, suggesting the need for simplified procedures.

Economic Survey of India (2020-21), this survey analyzed GST's contribution to the textile sector's performance, emphasizing formalization gains but noting that benefits were uneven across large manufacturers and small-scale producers due to compliance challenges.

Gupta and Rao (2020) investigated the benefits of Input Tax Credit (ITC) under GST, emphasizing how it enabled seamless tax credit flow across the supply chain, thereby reducing the overall tax burden on manufacturers and exporters. Nevertheless, the authors pointed out that the compliance requirements and digital filing systems posed challenges for small and rural textile businesses lacking technological access.

Kumar and Singh (2015) highlighted the multiplicity of taxes such as excise duty, Value Added Tax (VAT) and Central Sales Tax (CST), which created cascading effects and compliance complexities. This fragmented tax system often resulted in higher costs and reduced competitiveness for textile producers.

Ministry of Textiles (2020), the report provided comprehensive data on the textile industry's growth, highlighting GST's role in increasing tax collections and improving export procedures but also pointed to issues like refund delays and rate inconsistencies.

Sharma (2018) analyzed the simplification of tax processes and how GST's unified structure helped reduce tax cascading. However, Sharma also noted that the presence of multiple GST rates (ranging from 5% to 18%) for different textile products caused confusion among stakeholders.

Textile Association of India (TAI) (2022), this review underscored the impact of GST on traditional and cottage industries, such as handloom and handicrafts. It discussed how compliance demands and lack of awareness among artisans limited their ability to benefit fully from GST reforms.

World Bank (2019), this report offered a macroeconomic perspective on GST's implementation, pointing out the tax's potential to formalize informal sectors like textiles, while recommending government support for technology adoption and training to overcome compliance barriers.

5. METHODOLOGY:

This study adopts a qualitative research approach to analyze the impact of the Goods and Services Tax (GST) on the Indian textile sector. The methodology involves the following steps:

❖ Secondary Data Collection:

- Extensive review of government reports, GST Council notifications, textile industry publications, and research papers related to GST and textile taxation.

- Analysis of statistical data from sources such as the Ministry of Textiles, Central Board of Indirect Taxes and Customs (CBIC), and textile export bodies.

❖ Comparative Analysis:

- Examination of the pre-GST and post-GST tax regimes affecting the textile sector, focusing on changes in tax rates.

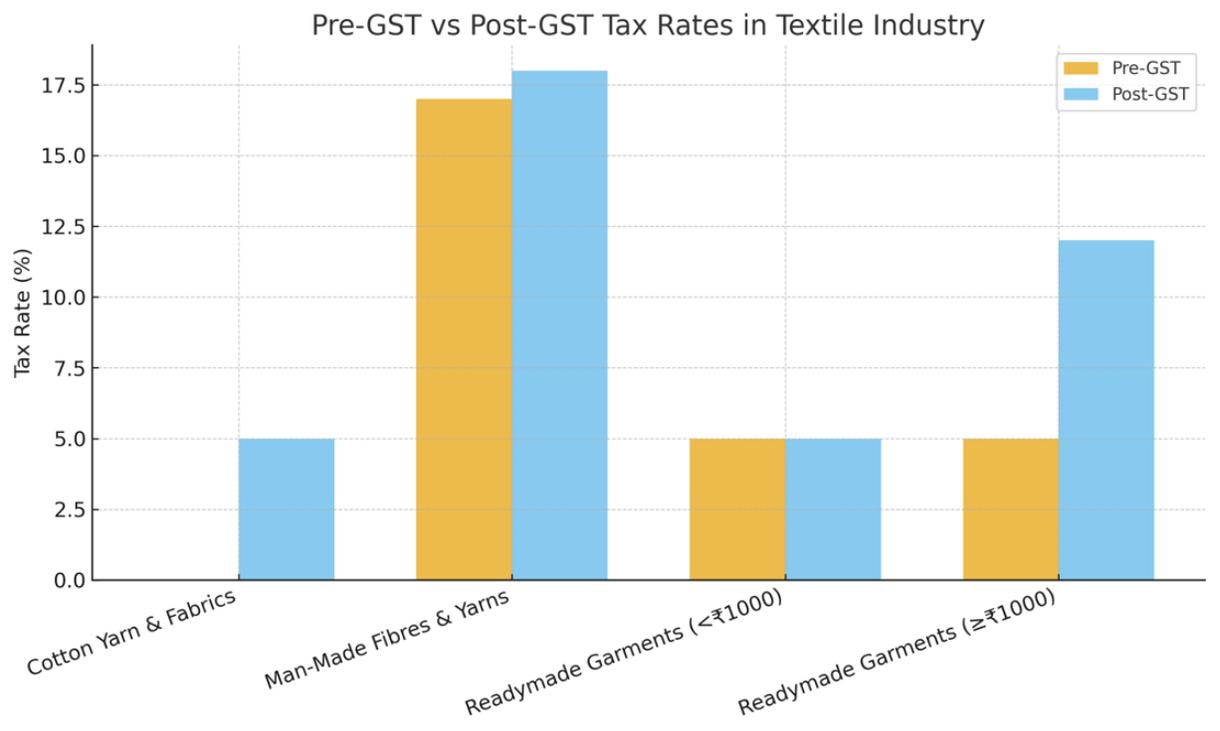
6. LIMITATIONS OF THE STUDY:

- The study primarily relies on secondary data sources such as government reports, industry publications, and research articles. The absence of primary data collection like surveys or interviews may limit the depth of insights from stakeholders directly affected by GST.

▪ Given the relatively recent implementation of GST (since 2017), some long-term impacts on the textile sector may not be fully observable within the study period.

▪ GST rules and rates have undergone frequent revisions, which may affect the consistency of analysis and the applicability of findings over time.

7. COMPARITON OF THE PRE-GST AND POST-GST TAXATION SCENARIOS IN THE TEXTILE INDUSTRY:



The introduction of GST transformed taxation in India's textile industry from a fragmented system of excise, VAT, CST, and entry taxes into a unified structure, reducing cascading effects and improving supply chain efficiency. Cotton, earlier largely exempt, came under a 5% GST slab, while man-made fibres faced a higher 18% rate, maintaining their relative cost disadvantage in global markets. Readymade garments benefited at the mass-market level with a 5% rate on items below ₹1000, but premium apparel attracted 12%, raising consumer prices. Unlike the pre-GST regime, where incomplete tax refunds hampered export

competitiveness, GST's zero-rating allowed full input tax credit refunds, strengthening India's export position. Though compliance became more demanding for small weavers and traders, GST fostered formalization, transparency, and smoother interstate trade, positioning the textile sector for long-term efficiency and competitiveness despite continued challenges in synthetic textiles.

8. RECOMMENDATIONS:

- ✚ Simplify and reduce the number of GST slabs applicable to textile products to minimize confusion and improve ease of compliance.

- ✚ Introduce simplified filing procedures, digital literacy programs, and tax advisory services specifically targeting small-scale and unorganized textile units.

- ✚ Streamline the refund process for exporters to improve cash flow and enhance international competitiveness.

- ✚ Provide subsidies, credit access, and training programs to help traditional handloom and cottage industries transition smoothly into the formal GST regime.

- ✚ Encourage digital invoicing, record-keeping, and GST filing through government-supported initiatives to facilitate compliance.

- ✚ Maintain regular dialogue with industry bodies, exporters, and artisans to address emerging issues and adapt policies accordingly.

9. CONCLUSION:

The implementation of the Goods and Services Tax (GST) has undeniably brought significant reforms to India's textile sector. By replacing a complex web of multiple taxes with a unified tax structure, GST has enhanced transparency, reduced cascading taxes, and facilitated better input tax credit management. These changes have contributed to increased production, improved compliance, and formalization within the industry. However, the sector continues to face

challenges, particularly for small-scale and unorganized players who struggle with compliance complexities and varied GST rates. Additionally, delays in GST refunds have affected exporters' liquidity and competitiveness. The mixed impact on exports suggests that while GST is a positive step, it cannot alone address all structural issues affecting the textile sector's global performance. For GST to fully realize its potential in strengthening the textile industry, continuous refinement of tax policies and focused support for vulnerable stakeholders are imperative.

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