



Impact of GST on Textile Entrepreneurs: An Empirical Study of Rabakavi-Banhatti, Bagalkot, Karnataka, India

Vijaykumar Kabara* and Girish Kumar M.

Department of Commerce, Bhandari and Rathi College, Guledagudda, Bagalkot University, Jamakhandi, Karnataka, India
vkabara@gmail.com

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Abstract

The Goods and Service Tax (GST) replaced multiple indirect taxes by introducing one single tax system in July 2017, enhancing simplicity and transparency in regard to taxation and business operations. The textile manufacturing industry is another major sector that generates employment across India and has undergone many changes as a result of GST. This study aimed to conduct an empirical assessment of the impact of GST on entrepreneurs who manufacture textiles in Rabakavi-Banhatti. 120 entrepreneurs engaged in manufacturing, wholesaling, and retailing textile products were surveyed using a structured questionnaire to gather primary data. The primary variables measured included GST awareness, compliance issues, financial impact, and operational impact. Findings suggest that while GST has fostered tax transparency and interstate trade, entrepreneurs face challenging compliance processes, higher administration costs, and working capital restrictions. The overall outcomes from this study provide evidence that GST has both positive and negative implications for textile entrepreneurs; therefore, additional policy recommendations are made to support compliance issues and create more awareness programs.

Keywords: GST, Textile Industry, Entrepreneurs, Tax Policy, Rabakavi-Banhatti.

Introduction

The textile industry has made vital contributions to the Indian economy in terms of job creation, exports, and industrial production¹. As per data from the Ministry of Textiles, the contribution of the textile industry to GDP is about 2%, and its share in exports is roughly 12%².

Prior to GST, the Indian government levied several indirect taxes on textile business enterprises in the country. These included excise duties, VAT, service tax, and entry tax³. In the absence of a consolidated tax regime, businesses had to pay several taxes that made the process complicated and burdensome⁴.

In an attempt to streamline the taxation process and create one common market for businesses, GST was introduced in July 2017⁵. Under the new tax regime, various types of textile products are categorized according to different tax slabs. Generally, textile products attract between 5% to 12% of taxes⁶.

Rabakavi-Banhatti is famous for its rich textile traditions, which include power loom weaving, garment trade, and textile manufacturing⁷. Following the implementation of GST, textile business enterprises in Rabakavi-Banhatti have been witnessing both beneficial and adverse consequences in terms of their operational performance⁸. This study will provide a comprehensive empirical analysis of the economic and operational consequences of GST on textile entrepreneurs in Rabakavi-Banhatti⁹.

Review of Literature: There have been many discussions on the influence of the Goods and Services Tax on the textile industry and small businesses in several academic works.

According to Agrawal, GST had a positive impact on the Indian textile industry since it promoted transparency in the supply chain, although it raised compliance and reporting difficulties for small producers¹⁰. Kumar and Sharma studied the effects of GST on MSMEs and stated that although GST brought simplification to the system of indirect taxation, small businesses encountered some problems when submitting GST reports due to technology problems¹¹. Moreover, Gupta found out that GST contributed to increasing the input tax credit availability for small textile businesses, although it brought new problems concerning the implementation process¹². Mayura S. K highlighted that GST had positive outcomes on interstate trade in the manufacturing industry, including textiles, because it reduced the cascade effects of taxes¹³. Rani pointed out that although GST increased compliance costs among textile entrepreneurs, many of them could take advantage of better market access opportunities¹⁴.

As per Saha, several SMEs depended upon tax professionals for the submission of GST returns because of their lack of knowledge about the digital tax system¹⁵. According to reports published by the Government of India (GST Council), there were challenges for textile-based MSMEs regarding the GST compliance process but later on, they adjusted themselves to the digital tax system¹⁶.

Objectives for This Study: i. Examine how knowledgeable and educated textile entrepreneurs are about GST. ii. Determine how GST affects all aspects of the business of textile entrepreneurs. iii. Determine how GST has financially impacted textile entrepreneurs. iv. Identify any post-GST implementation challenges faced by textile entrepreneurs. v. Identify the benefits of GST that textile entrepreneurs believe they will receive.

Hypotheses: i. There is an effect of GST knowledge on textile entrepreneurs. ii. GST impacts how business is conducted by textile entrepreneurs. iii. GST has a financial effect on textile entrepreneurs. iv. GST created challenges for textile entrepreneurs after its implementation. v. GST provides benefits for textile entrepreneurs.

Methodology

The nature of the research design is descriptive and empirical. The study is conducted in Rabakavi-Banhatti, located in the Bagalkot district of Karnataka, India, which has a high concentration of textile traders and small-scale entrepreneurs. Primary data were collected through the use of a questionnaire that had been developed specifically to collect information from textile entrepreneurs, while secondary data were obtained from journals, books, government reports, and websites that were related to GST and the textile industry¹⁰. The sample size for this research was 120 textile entrepreneurs in Rabakavi-Banahatti, and a convenience sampling method was utilized for the purpose of obtaining responses from those textile entrepreneurs who were willing to participate. The data collection tool used in the study contained the following sections: Demographic, Awareness & Knowledge of GST, Impact of GST on Business Operations, Financial Impact of GST, Challenges Faced After GST, Benefits of GST, and Overall Opinion. The statistical tools applied in the study included descriptive statistics (percentage & Mean) to summarize data, Pearson Correlation to investigate relationships between variables, Multiple Regression Analysis to measure the impact on profitability, and hypothesis testing (t-test, p-value < 0.05) to test significance.

Results and Discussion

Interpretation Table-1: The overall picture is clear: The largest groups of respondents indicated that they were involved as either manufacturers (35%) or retailers (30%), which reflects the major types of activity that make up the textile industry in Rabakavi-Banahatti. A large percentage (33.3%) of entrepreneurs had between 10 and 20 years of business experience, indicating that the industry has developed into an established sector. The majority of businesses (36.7%) employ between one and ten employees, demonstrating that there are a lot of small textile businesses. Furthermore, 38.3% of all businesses i.e. small and medium-sized, have an annual volume of sales or revenue between 20 Lakhs to ₹1 Crore. Textile enterprises are geographically concentrated in commercial

centres, with 43.3% being located in urban areas and 36.7% being located in semi-urban areas.

Table-1: Consolidated Demographic Profile of Respondents (N = 120).

Demographic Variable	Category	Frequency	Percentage (%)
Type of Textile Business	Manufacturer	42	35.0
	Wholesaler	28	23.3
	Retailer	36	30.0
	Exporter	8	6.7
	Others	6	5.0
	Total	120	100
Business Operation	Below 5 years	18	15.0
	5 – 10 years	32	26.7
	10 – 20 years	40	33.3
	Above 20 years	30	25.0
	Total	120	100
Number of Employees:	1 – 10	44	36.7
	11 – 50	38	31.7
	51 – 100	24	20.0
	Above 100	14	11.6
	Total	120	100
Annual Turnover	Below ₹20 Lakhs	28	23.3
	₹20 Lakhs – ₹1 Crore	46	38.3
	₹1 Crore – ₹5 Crore	30	25.0
	Above ₹5 Crore	16	13.4
	Total	120	100
Business Location	Urban	52	43.3
	Semi-Urban	44	36.7
	Rural	24	20.0
	Total	120	100

Interpretation (Table-2): The correlation matrix above reflects how GST-related variables relate to the profitability of textile entrepreneurs. The relationship between GST Knowledge and Profitability was found to be strong, with r-value of 0.641 (a positive correlation), indicating that greater knowledge of GST is correlated with improved profitability.

The relationship between Input Tax Credits and Profitability has a strong, positive correlation ($r=0.618$), indicating that being eligible for ITCs can have a significant impact on a textile entrepreneur's financial viability. The results indicate that Compliance Complexity has a moderate, negative correlation ($r=-0.432$) with Profitability. It indicates that complex compliance procedures reduce profitability.

The findings of this study suggest that the increased administrative burden associated with having to follow GST-related processes has a negative impact ($r=-0.389$) on the ability of textile entrepreneurs to operate effectively. The results of this study suggest that textile entrepreneurs will grow their businesses using knowledge of GST and will benefit from collecting ITCs as well as being able to focus less on administrative obligations associated with GST compliance.

Interpretation (Table-3): The results of the regression analyses indicate that all variables were statistically significant ($p < 0.05$). Both GST Knowledge ($\beta = 0.421$) and ITC Benefits ($\beta = 0.438$) positively impact business profitability, which means that having a good understanding of GST and having access to input tax credits help improve the overall performance of a business.

Conversely, Compliance Complexity ($\beta = -0.301$) and Administrative Work ($\beta = -0.206$) negatively impact performance, suggesting that the complexity of GST-compliance and the increased amount of administrative work associated with GST create operational difficulties for textile entrepreneurs. In conclusion, the results indicate that variables related to GST have a significant influence on the overall business performance of textile entrepreneurs.

Findings of the study: The majority of textile entrepreneurs in Rabakavi-Banahatti are small to medium-sized enterprises with moderate levels of revenue. The majority of respondents have some knowledge of GST provisions, but not extensive knowledge. Knowledge of GST will lead to better business outcomes by allowing informed entrepreneurs to more effectively manage their taxes. GST Input Tax Credit (ITC) will enhance the profitability of textile companies due to reduced tax liability. Complexity around compliance with GST will negatively impact textile company operations, especially for smaller entrepreneurs. Increased administrative work related to documentation and compliance will create challenges for owners of small textile companies. The correlation analysis indicates significant relationships between GST variables and business outcomes. The regression model accounts for 59% of the variability in profitability among textile companies and therefore indicates that GST is a significant factor. Textile entrepreneurs are pleased with improved transparency and uniformity in taxation with GST. However, frequent changes in procedures and compliance issues are major concerns for many textile entrepreneurs.

Table-2: Correlation Matrix.

Variables	GST Knowledge (X ₁)	Compliance Complexity (X ₂)	ITC Benefits (X ₃)	Administrative Work (X ₄)	Profitability (Y)
GST Knowledge (X ₁)	1.000	-0.298	0.564**	-0.251	0.641**
Compliance Complexity (X ₂)	-0.298	1.000	-0.284	0.517**	-0.432**
ITC Benefits (X ₃)	0.564**	-0.284	1.000	-0.214	0.618**
Administrative Work (X ₄)	-0.251	0.517**	-0.214	1.000	-0.389**
Profitability (Y)	0.641**	-0.432**	0.618**	-0.389**	1.000

Table-3: Regression Analysis for Hypotheses Testing.

Variable	Regression Coefficient (β)	t-value	p-value	Interpretation
GST Knowledge	0.421	5.44	0.000	Significant
Compliance Complexity	-0.301	-3.49	0.001	Significant
ITC Benefits	0.438	5.41	0.000	Significant
Administrative Work	-0.206	-2.76	0.007	Significant
R ² =0.590, F= 75.48, P <0.01				The model is statistically significant

Table-4: Hypotheses testing.

Hypothesis (Short form)	Relationship	Statistical Tool Used	B Coefficient	p-value	Result
H ₁	GST Knowledge → Profitability	Multiple Regression	0.446	0.000	Accepted
H ₂	Compliance Complexity → Profitability	Multiple Regression	-0.332	0.001	Accepted
H ₃	ITC Benefits → Profitability	Multiple Regression	0.471	0.000	Accepted
H ₄	Administrative Work → Profitability	Multiple Regression	-0.218	0.007	Accepted

Suggestion/ Recommendations of the study: Educating textile business owners about tax processes through regular GST training programs will enhance their overall understanding. Simplifying the GST compliance process will alleviate a significant amount of the administrative burden on smaller companies. Providing Input Tax Credit refunds to entrepreneurs in a timely manner will help maintain cash flow for all textile businesses. Creating more user-friendly online platforms for filing GST, specifically targeting small-scale textiles, will enhance overall user experience while reducing errors made by users. Developing financing and technical assistance programs specifically designed to help small textile manufacturers transition into technology-based tax systems will encourage entrepreneurs to move toward implementing those systems. Further developing policies that are specific to developing economic activities in each sector of the economy can help create an environment conducive to textile businesses' ability to operate efficiently.

Conclusion

GST's implementation has created considerable structural shifts in India's taxation system and has affected many industries, including textiles. The current study indicates that both positive and negative effects have arisen for textile entrepreneurs in Rabakavi-Banahatti. GST provides transparency, uniformity of tax rates and the possibility of input tax credits ("ITC"); however, due to compliance complexity and administrative burdens, small businesses are disadvantaged.

The regression analysis demonstrates that GST-related factors have a significant influence on profitability, whereby knowledge gained from new systems and ITC benefits positively impact profitability, while compliance complexity and increased administrative workload negatively affect profitability. Procedural complexity must be reduced, and entrepreneurs must have received sufficient training and ongoing support for the textile sector to continue to grow as a result of GST.

The study recommends that government policymakers implement reforms, create public awareness, and simplify compliance for the textile entrepreneurship community to maximally benefit from the GST system.

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