



Review Paper

GST 2.0 and the Indian Textile Sector: Analysing Tax Reforms and Industry Competitiveness

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Abstract

Goods and Services Tax (GST) represents a significant milestone in the history of the Indian tax system. It has positively impacted the government by strengthening revenue collection and has broader implications for the country's economic development. The textile industry, being a crucial sector of India's economy, is also influenced by such tax reforms. In this context, the introduction of GST 2.0 plays an important role in shaping the growth and competitiveness of the textile industry. This paper, based on secondary data, analyses the effects of GST 2.0 on India's textile sector. The study found that GST 2.0 has a predominantly mixed (Positive and Negative) impact on the Indian textile industry. The findings provide valuable insights for policymakers, industry stakeholders, and researchers on optimizing the benefits of GST reforms to promote sustained growth in the textile sector.

Keywords: Goods and Service Tax (GST), GST 2.0, Textile Industry, Tax Reforms, Industry Competitiveness, Economic Development.

Introduction

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a significant transformation in the country's indirect taxation system. It replaced the earlier complex tax structure by subsuming multiple indirect taxes into a unified framework, thereby simplifying tax compliance and promoting the free movement of goods and services across states. The primary objectives of GST include the creation of a unified tax system, reduction of cascading taxes, and improvement in compliance, and enhancement of economic growth. GST is considered one of the most important tax reforms in India, as it has far-reaching implications for the country's economic development. Economic development depends on several sectors, among which the textile industry plays a vital role.

The textile industry contributes approximately 2% to India's Gross Domestic Product (GDP) and accounts for around 12% of the country's total industrial output, making it a key driver of employment and industrial growth. In September 2025, the Government of India introduced a new phase of tax reform known as GST 2.0. This reform brought significant changes in tax rates and exemptions, thereby impacting various industries, including textiles.

The impact of GST 2.0 is mixed, consisting of both positive and negative outcomes. On the positive side, GST 2.0 introduced a nil tax rate on essential goods such as dairy products, 33 life-saving drugs, and educational materials. Additionally, individual health and life insurance were exempted.

Essential commodities, agricultural goods, and healthcare equipment were placed under the 5% GST slab, while items such as small cars, motorcycles, and household appliances were taxed at 18%. These changes are expected to increase consumer purchasing power, boost demand, and enhance tax revenue collection for the government. On the negative side, GST 2.0 imposed higher tax rates on sin goods such as pan masala, aerated and caffeinated beverages, and luxury vehicles, increasing the GST rate up to 40%. While this may discourage the consumption of such goods, it could also lead to a decline in tax revenue from these segments.

Overall, GST 2.0 has significantly influenced various sectors of the economy, including the textile industry. Therefore, this study aims to analyse the impact of GST 2.0 on the textile industry, focusing on both its positive and negative implications for industry growth, competitiveness, and economic contribution.

Review of Literature

Priyanka Yadav, Ravi Ranjan, and Kamakshi Mehta examined the impact of the Goods and Services Tax on Raymond Ltd using financial ratio analysis and t-tests. The study found no significant difference in the company's financial performance between pre- and post-GST periods. Despite minor variations in liquidity, profitability, and efficiency ratios, the results were statistically insignificant, indicating that GST had a negligible short-term impact on the firm. The study suggests that large

textile firms are relatively resilient to tax reforms compared to smaller enterprises¹.

Akshitha S analysed the impact of the Goods and Services Tax on India's textile industry using a mixed-methods approach. The study found that GST improved tax structure, reduced cascading effects, and enhanced operational efficiency. However, it created compliance challenges for SMEs and the unorganised sector due to increased documentation and digital requirements. While the input tax credit reduced tax burden, refund delays caused short-term cash flow issues. Overall, GST offers long-term benefits but poses short-term operational and financial challenges, particularly for smaller firms².

Shilpa K. P., Umaprabha S., and Dinesh N. evaluated the impact of the Goods and Services Tax on rural textile industries in India. The study found that GST promoted formalization and market access but increased compliance burdens, input costs, and disparities between organized and unorganized sectors. It also highlighted issues such as inverted duty structure, limited ITC access, and poor digital infrastructure, affecting rural artisans and small producers. Overall, GST provides structural benefits but creates socio-economic challenges, requiring targeted policy support³.

Urvashi Gupta examined the impact of the Goods and Services Tax on India's textile industry. The study found that GST simplifies the tax structure, reduces cascading effects, and promotes a unified market, thereby improving efficiency and competitiveness, especially in exports. However, it noted mixed stakeholder perceptions and emphasized that effective implementation is crucial for achieving these benefits⁴.

Sunil Kumar C and A. Mohamed Siddique explained the impact of the Goods and Services Tax on textile entrepreneurs in Trivandrum. The study found a mixed impact, with improvements in transparency and tax structure, but challenges such as increased compliance and higher costs. It also affected pricing, supply chain, and competitiveness. Overall, GST has both positive and negative effects, requiring further simplification⁵.

Rajan Maidan and Priyanka Garg examined the role of the Goods and Services Tax in the Indian textile sector. The study found that GST simplified the tax system, reduced cascading effects, and improved competitiveness. However, SMEs faced challenges such as higher compliance costs and adaptation difficulties. Overall, GST offers structural benefits but creates short-term challenges, especially for smaller firms⁶.

Vivek Tailor and Narender Singh Chauhan analysed the impact of the Goods and Services Tax on textile companies in Himachal Pradesh. The study found that GST simplified the tax system, reduced tax burden, and improved efficiency. However, issues such as delayed ITC refunds, complex compliance, and difficulties for small firms were observed. Overall, GST is more effective than the previous system but needs simplification to

benefit small businesses⁷.

Research Gap

The literature indicates that while the Goods and Services Tax has improved tax efficiency and market integration, there remains a significant gap in comprehensive, long-term, and inclusive studies capturing its differential impact across firm sizes, regions, and socio-economic groups within the textile sector. Therefore, there is a need for further research on GST 2.0 and the Indian textile sector to analyse on-going tax reforms and their impact on industry competitiveness.

Objectives of the study

To understand the concept of the Goods and Services Tax. To understand the overview of the textile industry in India. To analyse the provisions of GST 2.0 related to the textile industry. To examine the impact of GST 2.0 on the textile industry

Research Methodology

The present study follows a descriptive research design and is based on secondary data. The required information has been collected from reliable sources such as research articles, government reports, academic journals, and earlier studies related to GST, the textile industry, and GST 2.0. The collected data has been systematically analysed to evaluate the impact of GST 2.0 on the Indian textile industry.

Statement of the Problem

The Indian textile industry is a key contributor to GDP and employment but faces challenges like high production costs, compliance burdens, and global competition. The introduction of GST 2.0 in September 2025 brought significant changes in tax rates, exemptions, and compliance requirements, affecting various segments of the industry. While the reforms offer opportunities such as simplified taxation and increased consumer demand, they also pose challenges due to higher taxes on certain goods. This study seeks to analyse the mixed impact of GST 2.0 on the growth, competitiveness, and economic contribution of the Indian textile sector.

Scope of the Study

The present study focuses on analysing the impact of the Goods and Services Tax 2.0 on the Indian textile industry. It covers various aspects such as tax structure, compliance requirements, cost implications, pricing, and overall industry competitiveness. The study is limited to secondary data collected from research articles, government reports, and academic journals. It primarily examines the effects of GST reforms on different segments of the textile sector, including large firms, SMEs, and unorganized units. The scope is confined to India and focuses on recent developments under GST 2.0, without involving primary data

collection or field surveys.

Conceptual framework

Goods and service tax: It is an indirect tax that is imposed on the supply of services and goods sold inside India.

Key Features of GST in India: Comprehensive Indirect Tax: GST is a multi-stage tax applied at every stage of the supply chain, from production to final sale. It ensures tax is collected at each point where value is added, creating a continuous taxation system.

Value Added Taxation: Under GST, tax is levied only on the value added at each stage of production or distribution. This is possible due to the input tax credit system, which avoids double taxation.

Destination-Based Tax: GST is collected by the state where goods or services are consumed, not where they are produced. This ensures that revenue benefits the consuming state.

Unified and Uniform Tax Rates: GST provides uniform tax rates for goods and services across all states in India. This promotes the concept of one nation, one tax and reduces complexity in taxation.

Digital Compliance System: GST is fully technology-driven, with online registration, return filing, and tax payments. This increases transparency, efficiency, and ease of doing business.

Types of GST: CGST (Central GST): CGST is the tax levied by the central government on intra-state transactions and is collected by the Centre. SGST (State GST): SGST is the tax levied by the state government on intra-state transactions and is collected by the respective state. IGST (Integrated GST): IGST is the tax levied by the central government on inter-state transactions and is later shared between the Centre and the destination state.

Objectives of GST: Streamlining the tax system. Lowering the cost of goods. Expanding the taxpayer base. Establishing a unified national market. Reducing tax evasion. Improving business efficiency. Removing the cascading tax effect. Unifying indirect taxes. Enhancing tax administration. Optimising supply chains

Textile Sector Overview

India's textile sector, one of the oldest and most diverse industries, employs over 45 million people and spans traditional handlooms to modern mills. The domestic market is growing 10–12% annually, with exports projected to reach US\$ 100 billion and the market valued at US\$ 2.3 billion by 2030. Contributing ~2% to GDP and 11% to manufacturing GVA, India ranks among the top five global exporters.

Globally, the textile market is projected to grow from US\$ 1,114.9 billion in 2024 to US\$ 1,612.3 billion by 2033, driven by rising incomes, urbanization, population growth, and retail expansion.

Categories of Textiles: The Indian textile industry can be broadly classified into following major types based on production focus, technology, and market orientation.

Cotton Textile Industry: India is the largest cotton producer (5.2 million tons, ~33% global share), contributing 50% of textile output, employing over 20 million people, generating US\$ 12.3 billion in exports, with key hubs in Coimbatore and Ahmedabad.

Man-Made Fibre (MMF) and Synthetic Textile Industry: This segment focuses on synthetic and semi-synthetic fibres, with India producing about 3.1 million tons of polyester annually, achieving self-sufficiency and accounting for around 30% of the textile market.

Woollen Textile Industry: The woollen segment produces shawls, carpets, and sweaters, contributing about 5% of the textile market, employing nearly 1 million people, generating US\$ 1.7 billion in exports, and centered on Ludhiana.

Silk Textile Industry: India is the second-largest silk producer (30,600 tons), known for premium varieties, employing about 8 million people, generating US\$ 0.3 billion in exports, with key clusters in Varanasi and Mysore.

Linen Textile Industry: The country's linen segment processes high-value fabrics into apparel and home furnishings, reaching a market size of US\$ 621 million in FY 2024, driven by demand for sustainable and breathable luxury textiles.

Technical Textile Industry: Technical textiles are the fastest-growing segment, producing non-apparel products for industrial and medical use, contributing about 10% of the market and generating US\$ 2.3 billion in exports.

GST 2.0 (New Tax Reform in Indirect Tax)

The GST 2.0 reform bill, approved by the GST Council, represents the most significant overhaul of India's indirect tax system since the original GST was introduced in July 2017. Scheduled to roll out on September 22, 2025, these reforms are designed to simplify compliance, reduce the tax burden on common citizens, and give businesses especially MSMEs greater ease of operation. At its core, GST 2.0 introduces a simplified two-slab structure (5% and 18%), replacing the earlier four-tier system of 5%, 12%, 18%, and 28%. Essentials like food, medicines, and education items move to the Nil or 5% category, while household goods and consumer durables see major rate cuts. On the other end of the spectrum, a 40% rate is

introduced for luxury and sin goods such as tobacco, pan masala, aerated drinks, luxury cars, yachts, and private aircraft. Beyond tax rationalisation, GST 2.0 is also about transparency and technology-first compliance. Features like mandatory HSN code mapping, AI-driven return checks, real-time invoice matching, and faster refunds are aimed at making GST more robust, fair, and citizen-friendly.

Key objectives of GST 2.0: Simplification: Simplifies tax compliance for MSMEs by reducing return filing complexities, streamlining input tax credit, and introducing user-friendly digital systems, saving time and costs.

Transparency: Enhances transparency through stricter reporting, mandatory HSN code mapping, and standardized systems, ensuring accuracy and clear visibility of tax benefits.

Fair taxation: Ensures fair taxation by rationalizing tax slabs, lowering rates on essentials and healthcare, and balancing costs for both consumers and businesses.

Technology-first: Adopts a technology-first approach with real-time invoice matching, AI-driven checks, and automated filing, ensuring faster, accurate, and efficient tax processes while reducing evasion.

Provisions of GST 2.0 to textile industry

The GST rationalisation in textiles removes structural anomalies, reduces costs, boosts demand, supports exports, and sustains jobs. GST on man-made fibres (MMF) reduced from 18% to 5%. GST on man-made yarns cut from 12% to 5%. GST on ready-made apparel up to ₹2,500 per piece (earlier limit was ₹1,000) is set at 5%. GST on carpets and other floor covering has also been reduced from 12% to 5%.

GST 2.0 Rate Revisions across Textile Value Chain: Fibre and Yarn: GST rates on synthetic fibres and yarns have been reduced from 12% or 18% to 5%, aligning them with cotton and eliminating the cost imbalance between natural and man-made textiles.

Fabrics and Intermediates: GST on nonwoven and related fabrics has been reduced to 5% from 12%, helping remove the inverted duty structure at the fabric stage.

Garments and Apparel: A major policy change was the revision of garment slabs: Garments and apparel with a sale value up to INR 2,500 per piece will attract 5% GST (earlier threshold INR 1,000). Apparel above INR 2,500 per piece will now be taxed at 18% (up from 12%).

Carpets, Rugs, and Shawls: GST on handmade carpets, mats, and hand-embroidered shawls has been reduced to 5%, supporting the traditional and cottage sector.

Cotton and Raw Inputs: Raw cotton continues to be taxed under reverse charge (RCM), ensuring credit chain continuity. The rate cut will make Indian MMF-based garments more price-competitive in global markets, supporting India's ambition to become a global textile hub. It will support the budding and young exporters.

Analysis of the change of GST rate

GST cuts ease costs for small and medium MMF units, improve cash flow, and make Indian synthetic garments more globally competitive. GST on carpets and floor coverings has been reduced from 12% to 5%, boosting exports, supporting traditional crafts, and enhancing domestic affordability. GST on 36 handicraft items, handloom cotton rugs, and hand-woven carpets (HS 5705) has been cut from 12% to 5%, benefiting artisans, supporting rural livelihoods, and preserving India's craft heritage. The simplification of the refund process in the case of both zero-rated supply and inverted duty structure, based on system-driven risk evaluation. The removal of the Rs 1,000 threshold for small consignments using courier/postal mode is a very positive step, along with a simplified GST Registration Scheme for small and low-risk businesses.

Removal of Inverted Duty Structure (IDS): Alignment of fibre, yarn, and fabric at 5% improves input tax credit (ITC) flow and reduces working capital blockage.

New Inversion Issues: Higher tax (12–18%) on inputs like dyes, chemicals, and accessories creates fresh cost pressure.

Pressure on Mid/Premium Segment: Increased tax (18%) on higher-value garments may reduce demand and shift buyers to unbranded markets.

Cotton Supply Challenges: Continued reverse charge mechanism (RCM) discourages small buyers and adds compliance burden.

Limited Support for Khadi/Handloom: No full exemption; 5% GST still impacts traditional sectors.

Classification Disputes: Bundled products may face ambiguity between 5% and 18% tax rates.

Uneven Growth in Technical Textiles: Partial rate rationalisation creates imbalance within the segment and export disadvantage.

Impact of GST 2.0 on the Textile Industry

Positive Impacts: Cost Relief for MMF Units: GST cut eases cost pressures, strengthens cash flows, and enhances global price competitiveness of synthetic textile garments. Boost to Carpets and Handicrafts: Goods and Service Tax reduction from

12 % to 5 % on carpets, floor coverings, and handicraft items supports exports, domestic affordability, and artisan livelihoods. Simplified Refunds and Compliance: Streamlined refund process for zero-rated supplies and IDS, removal of ₹1,000 threshold for small consignments, and simplified registration for small/low-risk businesses improve efficiency. Elimination of Inverted Duty Structure (IDS): Alignment of fibres, yarns, and fabrics at 5% reduces cascading taxes and improves input tax credit flow. Support for Mass-Market Apparel: Higher 5% GST threshold (₹2,500) benefits the majority of consumers, boosting affordable apparel demand.

Negative Impacts: New Inversion Issues: Inputs such as dyes, chemicals, and accessories still taxed at 12–18 %, creating fresh cost pressures. Pressure on Mid/Premium Segment: 18 % GST on higher-value garments may reduce demand for branded products and shift consumers to unorganized markets. Cotton Supply Challenges: Reverse charge mechanism (RCM) on cotton adds compliance burden and discourages small buyers. Limited Support for Khadi/Handloom: No full exemption continues to impact traditional sectors. Classification Disputes: Bundled products (garment + accessories) may face ambiguity in tax rate (5 % vs 18 %). Uneven Growth in Technical Textiles: Partial rate rationalisation creates internal imbalance and disadvantages exporters.

Results and Discussion

Cost Relief and Competitiveness: Goods and Service Tax cuts on synthetic fibres; yarns, fabrics, and apparel up to ₹ 2,500 reduce costs, improve cash flow, and make Indian garments more globally competitive. Support for Traditional and Rural Sectors: Goods and Service Tax reduction on carpets, hand-woven rugs, and handicrafts boosts artisan income, supports rural livelihoods, and strengthens exports. Simplified Compliance: Removal of ₹ 1,000 (rupees one thousand) threshold for small consignments, simplified registration, and streamlined refund processes ease compliance for MSMEs. Elimination of Inverted Duty Structure: Alignment of fibres, yarns, and fabrics at 5 % improves input tax credit flow and reduces working capital blockage. Cost Pressure on Inputs and Mid/Premium Apparel: Inputs like dyes, chemicals, trims remain taxed at 12–18 %, and higher Goods and Service Tax on premium garments may reduce demand, pushing consumers to unbranded markets. Challenges for Cotton, Khadi, and Technical Textiles: RCM on cotton adds compliance burden; 5 % Goods and Service Tax still affects handloom/khadi; uneven rates in technical textiles create internal imbalance and reduce export competitiveness.

Suggestions: Give full Goods and Service Tax exemption or zero-rating for khadi and handloom to help traditional artisans. Support mid-range and branded apparel to prevent market shift to unorganized sectors. Simplify cotton supply chain by reducing RCM burden. Clarify rules for bundled products to avoid disputes. Keep improving technology-based compliance

for faster, easier tax processes.

Conclusion

GST 2.0 represents a transformative reform for India's textile industry, driving cost reduction, improved cash flow, and global competitiveness across synthetic fibres, yarns, fabrics, apparel, carpets, and handicrafts. Simplified compliance, technology-driven processes, and elimination of the inverted duty structure enhance efficiency, particularly for MSMEs and small businesses. While these measures support exports, rural livelihoods, and the mass-market segment, challenges remain—higher taxes on inputs, limited support for khadi and handloom sectors, RCM burdens on cotton, and uneven rates in technical textiles may affect mid- and premium-segment demand and create potential compliance disputes. Overall, GST 2.0 lays a strong foundation for sustainable growth, but further rationalization and targeted support are needed to ensure balanced benefits across all segments of the industry.

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