



Review Paper

Impact of GST 2.0 on the Textile Industry in India: Evidence from Ministry of Textiles and CBIC-GST Portal Data

Nikita Bedare^{1*} and Chetan B. Daga²

¹Department of PG Studies and Research in Commerce, Bagalkot University, Jamkhandi, Karnataka, India

²Department of Studies in Commerce, GFGC, Rabakavi Banahatti, Karnataka, India

nikitabedarephd@gmail.com

Available online at: www.isca.in, www.isca.me

Received 9th April 2026, revised 15th June 2026, accepted 21st July 2026

Abstract

The implementation of the Goods and Services Tax (GST) in 2017 represented a crucial step in the framework of India's indirect taxation system; however, the textile sector persisted in encountering fundamental discrepancies, including inverted duty structures and rate-induced distortions between the cotton and man-made fibre (MMF) segments. With the initiation of the Next-Generation GST (GST 2.0) reforms in the fiscal period of 2025–26, the Government undertook the rationalization of GST rates throughout the textile value chain, with particular emphasis on man-made fibres, yarns, fabrics, and ready-made garments, thereby aiming to diminish the incidence of input taxation and strengthen competitive dynamics. This article analyses the impact of GST 2.0 on India's textile industry by drawing evidence from official notifications and data published by the Ministry of Textiles and the Central Board of Indirect Taxes and Customs (CBIC-GST) portal. The study focuses on changes in GST-rate structures, shifts in input-tax burdens, formalization of the sector, and broader implications for domestic consumption, export competitiveness, and India's goal of a USD 350 billion textile economy by 2030.

Keywords: Goods and Services Tax (GST), Textile Sector, Tax Reforms, Central Board of Indirect Taxes and Customs (CBIC-GST).

Introduction

On July 1, 2017, India experienced a significant paradigm shift in its economic policy, marking the boldest reform in recent decades. On that fateful monsoon morning, the introduction of the Goods and Services Tax (GST) supplanted a plethora of 17 distinct taxes and 13 cesses, thereby instituting a singular, cohesive framework that fundamentally altered the fiscal architecture of the nation. This initiative transcended mere tax reform; it indicated the commencement of India's ambitious trajectory towards the principles of One Nation, One Tax, One Market¹⁻³.

In the ensuing eight years, this transformation has been remarkably profound. Tax revenues have escalated from ₹7.19 lakh crore during the fiscal year 2017-2018 to an unprecedented three-fold increase, achieving a record of ₹22.08 lakh crore in 2024-2025. The taxpayer demographic has seen a twofold increase, expanding from 65 lakh to 1.5 crore, effectively integrating countless small enterprises into the formal economic structure.

Building upon this robust foundation, India has now transitioned into the Next Gen GST Era as of September 22, 2025, optimizing the taxation framework into two distinct slabs of 5% and 18%, with a substantial 40% allocated for luxury and demerit goods.

The textile industry in India is massive, shaping livelihoods and exports alike. Today, the industry size is \$179 billion and gives jobs to over 4.6 crore people, most of them women. The government now aims to almost double this size to \$350 billion by 2030, creating even more employment and income opportunities for families across the country⁴⁻⁶.

India's organised domestic textile market is worth around \$142-145 billion and when we include the largely unorganized sector, it's closer to \$155-160 billion. With the introduction of Next-Gen GST reforms like tax rationalization and a fibre-neutral regime, manufacturers can now pass on savings directly to buyers. For consumers, especially middle-class families who are expected to make up 60% of India's targetable consumer base by 2047, these reforms will bring the greatest benefits. Together with lower-income groups, they are estimated to save \$8-10 billion every year making essential clothing more affordable while supporting local industry. These reforms go beyond lowering prices, they represent a true fashion democratization.

Objectives of the study: To evaluate changes in GST rate structures across the textile value chain under GST 2.0. To assess the implications of GST 2.0 reforms on production capacity and domestic consumption the sector's growth toward a \$350 billion economy by 2030.

Methodology

The study employed a descriptive research design to examine the impact of GST 2.0 on Textile industry. Secondary data were collected using Ministry of Textiles and CBIC-GST Portal Data⁷. The collected data were analysed and interpreted. The study was conducted in emerging trends in pricing and cost and their impact on textile industry setting.

Literature Review

The practical implications of GST for the Indian textile industry involve a dual focus: businesses must adapt to the new tax regime by leveraging its benefits like ITC and simplified compliance while actively managing challenges such as the inverted duty structure and increased digital demands. Concurrently, policymakers need to refine GST implementation to support SMEs, rectify structural issues, and foster a more integrated and competitive textile sector⁸.

Shilpa, K. P., Umprabha, S., & Dinesh, N.⁹ examines how GST has affected rural textile industries in India, especially khadi, handloom, handicrafts, and small-scale power loom units. The authors find that GST created both benefits and serious difficulties: it improved formalization and market access for some compliant units, but also increased compliance burden, input costs, and working-capital stress for many rural and unorganized producers. The study argues that the biggest problems are the inverted duty structure, inability of many rural units to claim input tax credit, and weak digital infrastructure for GST compliance. It also highlights employment vulnerability, especially for women and marginalized workers in artisan clusters, because rising costs and compliance pressures can reduce production and jobs. The article concludes that GST policy for textiles should be more inclusive and rural-friendly. It recommends lower GST rates for rural producers, simpler filing procedures, digital literacy training, public-private support systems, and correction of inverted duty structures so that rural textile units can integrate into formal markets without losing competitiveness.

Karthik, P., Rachana, R., & Ramya Ranjitha¹⁰ argues that GST 2.0 has made essential textiles and garments more affordable by cutting GST on man-made fibres, yarns, and garments priced up to ₹2,500, while also improving MSME liquidity, profit margins, domestic demand, and export competitiveness; at the same time, it notes that smaller textile units still face compliance and digital challenges, so further policy support is needed for inclusive growth.

Mansi D. Khatik¹¹ investigates the impact of GST on the performance of selected textile companies in India, focusing on Vardhman Limited, Orbit Expo Limited, and Raymond Limited over the financial years 2019-20 to 2023-24. The research objectives include analyzing the growth patterns of these companies, assessing their profitability post-GST

implementation, and determining any significant differences in performance before and after GST. A comprehensive analysis of financial metrics such as closing prices, Earnings Per Share (EPS), Price-to-Earnings (P/E) ratios, and total returns was conducted. The findings reveal that while there were fluctuations in these metrics over the analyzed period, the paired samples t-test indicated no statistically significant difference in closing prices before and after GST implementation. This suggests that, at an aggregate level, GST did not have a uniform impact on the performance of these textile companies.

Akshitha, S.¹² explains that GST has had both positive and negative effects on India's textile industry: it simplified the indirect tax system, reduced transport and tax cascading costs, and improved transparency, but it also created compliance burdens, cash-flow problems, pricing complexity, and challenges for SMEs and the unorganised sector; overall, the paper concludes that GST can support long-term efficiency and competitiveness in textiles if rates are simplified, refunds are faster, and policy support is strengthened for smaller firms.

GST 2.0 Reforms in the Textile Sector: Under GST 2.0, the 56th meeting of the GST Council recommended a series of rate-rationalisation measures for textiles aimed at removing long-standing distortions and cost penalties. Key reforms include: Reduction of GST on man-made fibres from 18% to 5% and on man-made yarn from 12% to 5%, thereby aligning both with the 5% slab applicable to man-made fabrics and most finished garments. Extension of the 5% GST slab to readymade garments priced up to ₹2,500 per piece, replacing the earlier 12% slab triggered above ₹1,000. Clarification and simplification of GST rate schedules for textile products through the CBICGST portal, which now lists uniform 5% rates for most apparel and MMF based value chain products.

These modifications mitigate the inverted-duties framework in which raw materials (such as fibres and yarns) were subjected to elevated tax rates compared to finished apparel, consequently diminishing the effective input tax burden for producers and augmenting liquidity. The Ministry of Textiles has clearly articulated that these adjustments will stimulate domestic consumption, strengthen export activities, and improve India's competitive stance within the global textile market^{1,4,7}.

Impact of GST 2.0 on Prices of Textile Items: The 56th meeting of the GST Council, held on 3 September 2025 under the chairmanship of Union Finance Minister Nirmala Sitharaman, introduced comprehensive rate rationalization reforms commonly referred to as GST 2.0⁸.

For the textile sector, these reforms marked the first major structural correction since GST's introduction in 2017, specifically addressing the inverted duty structure (IDS) in the man-made fibre (MMF) segment and revising price thresholds for garments.

Table-1: Comparative GST Rates: GST 1.0 vs GST 2.0 for Textile Items^{1,8}.

Segment	HSN Chapter	GST Rate 1.0	GST Rate 2.0	Price Threshold_Rs	Rate Change	Impact
Man-made fibres (MMF)	54	18%	5%	N/A	-13%	Cheaper
Man-made fibres (MMF)	55	12%	5%	N/A	-7%	Cheaper
Man-made Yarn	54	12%	5%	N/A	-7%	Cheaper
Man-made Yarn	55	12%	5%	N/A	-7%	Cheaper
Cotton Yarn	52	5%	5%	N/A	0%	No Change
Cotton Yarn	52	5%	5%	N/A	0%	No Change
Fabrics (woven/knitted)	50	5%	5%	N/A	0%	No Change
Fabrics (woven/knitted)	52	5%	5%	N/A	0%	No Change
Garments (up to 2,500)	61	5%	5%	≤2500	0%	No Change
Garments (up to 2,500)	62	12%	5%	≤2500	-7%	Cheaper
Garments (above 2,500)	61	12%	18%	>2500	6%	Costlier
Garments (above 2,500)	62	12%	18%	>2500	6%	Costlier
Handmade Carpets	57	5%	5%	N/A	0%	No Change
Handmade Carpets	57	12%	5%	N/A	-7%	Cheaper
Hand-embroidered Shawls	61	5%	5%	N/A	0%	No Change
Hand-embroidered Shawls	62	12%	5%	N/A	-7%	Cheaper
Sewing Machines (Industrial/Domestic)	84	12%	5%	N/A	-7%	Cheaper
Sewing Machines (Industrial/Domestic)	84	12%	5%	N/A	-7%	Cheaper
Technical Textiles	59	5%	5%	N/A	0%	No Change
Technical Textiles	59	12%	5%	N/A	-7%	Cheaper
Non-wovens	56	5%	5%	N/A	0%	No Change
Non-wovens	56	12%	5%	N/A	-7%	Cheaper
Quilted Textiles/Cotton Quilts	58	12%	5%	N/A	-7%	Cheaper
Quilted Textiles/Cotton Quilts	58	12%	18%	>2500	6%	Costlier

The following is a detailed interpretation of the shifts in the textile market: Strengthening the Man-Made Fiber (MMF) Value Chain: The most significant change is the drastic reduction in GST for Man-made fibers and yarns.

Correction of Inverted Duty Structure: Previously, MMF was taxed at 18%, while downstream products like yarn were at 12%. By bringing both down to a uniform 5%, the government has eliminated the "inverted duty" problem (where taxes on inputs are higher than on finished goods), which often led to blocked input tax credits.

Global Competitiveness: Since the global textile market is shifting heavily toward MMF (polyester, viscose, etc.), reducing these rates by 7% to 13% makes Indian synthetic textiles significantly cheaper and more competitive against major exporters like China and Vietnam.

Tiered Impact on the Apparel Segment: The data shows a clear distinction based on price thresholds for garments:

Mass Market Support (≤ Rs 2,500): Garments in this bracket either saw no change or became 7% cheaper (falling from 12% to 5%). This supports domestic consumption and the affordability of essential clothing for the general population.

Premium/Luxury Segment (>Rs 2,500): Conversely, higher-end garments saw a 6% rate hike (from 12% to 18%). This indicates a shift toward taxing luxury consumption more heavily to offset the revenue losses from the MMF rationalization.

Boosting Technical and Industrial Textiles: The reduction in rates for Technical Textiles (HSN 59), Non-wovens (HSN 56),

Table-2: Textile Production Capacity and Output Metrics in India: Pre- and Post-GST 2.0 ^{4,6}.

Metric	Value	Year/Period	Growth/Change
Cotton production (2022–23)	648 lakh bales	2022–23	Baseline
Cotton production (2023–24)	684 lakh bales	2023–24	+5.5% YoY
Cotton production (projected 2030)	7.2 million tonnes (~43M bales)	2030	+70% from 2023– 24
MMF yarn production	1,86,000 MT	2023–24	Baseline
Technical textiles market size	\$23.3 billion	2024	Baseline
Technical textiles market size (projected 2027)	₹2,16,760 crore turnover	2027	+58% from 2024
Textile manufacturing GVA growth	3% CAGR	FY14–FY23	3% CAGR
Textile & apparel exports	\$34.8 billion	2024–25	Baseline
Textile economy target	\$350 billion	2030	+900% from 2024–25

and Sewing Machines (HSN 84) from 12% to 5% is a strategic move to modernize the industry. competitiveness, export production, and investment flows into the sector¹.

Industrialization: Cheaper sewing machines reduce the capital expenditure for Small and Medium Enterprises (SMEs).

Future Growth: Technical textiles are a high-growth area used in automotive, healthcare, and infrastructure. Reducing their cost by 7% encourages innovation and domestic production in these high-value segments.

Stability for the Cotton and Traditional Sectors

Cotton Continuity: Cotton yarn and fabrics remained stable at 5%. Since India is already a global leader in cotton, the policy maintains the status quo while focusing reform efforts on the synthetic sector.

Handmade and Artisanal Goods: The reduction in GST for certain carpets, shawls, and quilts (down from 12% to 5%) provides relief to the artisanal sector, making traditional Indian handicrafts more accessible to global and domestic buyers.

Impact of GST 2.0 on Textile Production: The Indian textile sector has undergone significant structural transformation following introduction of the Goods and Services Tax (GST) in July 2017, with the 56th GST Council meeting (3 September 2025) and subsequent GST 2.0 reforms marking a watershed moment for production dynamics in the industry. The reforms directly addressed long-standing distortions in the man-made fibre (MMF) value chain, corrected the inverted duty structure (IDS), and introduced production supporting measures aligned with the Ministry of Textiles' vision of a USD 350 billion textile economy by 2030.

This section analyses the impact of GST (particularly GST 2.0) on textile production parameters including capacity expansion, input tax credit flow, working capital efficiency, MSME

Key observations from Table-2: Cotton production increased from 648 lakh bales (2022–23) to 684 lakh bales (2023–24), demonstrating steady growth in the natural fibre segment. Technical textiles market is projected to grow from \$23.3 billion (2024) to ₹2,16,760 crore (~\$26 billion) by 2027, driven by increased awareness, higher disposable incomes, and government promotion of GI products and technical textile applications.

Textile manufacturing GVA grew at 3% CAGR from FY14 to FY23, indicating slow but steady growth in the pre-GST-2.0 period. Total textile economy target of \$350 billion by 2030 represents a 900% increase from the 2024–25 export base of \$34.8 billion, requiring significant capacity expansion and production scale up.

Results and Findings

GST 2.0, announced in the 56th GST Council meeting (September 2025), reduced rates on man-made fibres (MMF) from 18% to 5%, yarns from 12% to 5%, and garments up to ₹2,500 from 12% to 5%, eliminating input tax credit blockages and boosting liquidity for MSMEs.

This fibre-neutral approach supports MMF competitiveness against global rivals like China, stabilizes cotton at 5%, and lowers costs for technical textiles, sewing machines, and artisanal goods, while raising rates to 18% for premium garments above ₹2,500.

Production metrics show cotton output rising 5.5% YoY to 684 lakh bales (2023-24), technical textiles projected to grow 58% by 2027, and exports at \$34.8 billion (2024-25), with annual consumer savings of \$8-10 billion enhancing affordability.

Conclusions

GST 2.0 reforms mark a structural shift, promoting formalization, cost efficiency, and inclusive growth in textiles by addressing distortions and aligning with national targets.

Policymakers should prioritize MSME digital support and rural compliance to sustain gains, ensuring the sector doubles to \$350 billion by 2030 while benefiting middle-class consumers.

References

1. Maurya, S. K. and Singh, M. (2025). Impact of Goods and Services Tax (GST) on the Indian textile industry: Opportunities and challenges. *International Journal for Multidisciplinary Research*, 7(4).
2. Central Board of Indirect Taxes and Customs (2026). GST goods and services rates. <https://cbic-gst.gov.in/gst-goods-services-rates.html>. Accessed 21/04/2026.
3. CBICGST News Desk (2026). GST collections Dec-24, Dec-25 & % growth (Monthly GST data for publishing).
4. DD News (2026). GST reforms to help textiles sector reach 350 billion dollars by 2030. <https://ddnews.gov.in/en/gst-reforms-to-help-textiles-sector-reach-350-billion-by-2030-govt/>. Accessed 21/04/2026.
5. India Brand Equity Foundation (2026). Textile industry and market growth in India. <https://www.ibef.org/industry/textiles>. Accessed 21/04/2026.
6. Schultz S. (2025). GST 2.0: Cheaper clothes under ₹2,500 and a boost for India's textile industry. *Times of India*.
7. Press Information Bureau (2026). PM MITRA parks gain strong momentum. Ministry of Textiles, Government of India. <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2233958>. Accessed 21/04/2026.
8. GST Council (2026). Recommendations of the 56th meeting of the GST Council held at New Delhi. https://gstcouncil.gov.in/sites/default/files/2025-09/press_release_press_information_bureau_0.pdf. Accessed 21/04/2026.
9. Shilpa, K. P., Umaprabha, S. and Dinesh, N. (2025). Impact of GST on rural textile industries in India: A descriptive analysis. *International Journal of Management*, 16(3), 383-397.
10. Karthik, P., Rachana, R. and Ramya Ranjitha (2026). A study on making essentials affordable: A deep dive into GST rate cuts on textiles and garments. *International Journal for Research Trends and Innovation*, 11(2), a167-a173.
11. Khatik, M. D. (2025). A study on impact of GST on performance of selected textile companies in India. *International Journal of Management, Public Policy and Research*, 4(2).
12. Akshitha, S. (2024). Impact of GST on the textiles industry. *TIJER International Research Journal*, 11(5), b76-b86.
13. Clear Tax (2026). Impact of GST on textile industry. <https://cleartax.in/s/impact-gst-textile>. Accessed 21/04/2026.
14. Annual report (2026). Ministry of Textiles, Government of India. Annual report 2024-2025. <https://www.texmin.gov.in/static/uploads/2025/12/c865d599cae0c357c02d247a8a82d24e.pdf>. Accessed 21/04/2026.
15. TaxGuru (2026). Impact of rate rationalization in GST 2.0 regime on textile sector. <https://taxguru.in/goods-and-service-tax/impact-rate-rationalization-gst-2-0-regime-textile-sector.html>. Accessed 21/04/2026.