

GST and Its Effects on Cloth Manufacturing Sector

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Abstract: The implementation of the Goods & Service Tax (GST) in India on July 1, 2017, significantly altered the taxation framework, especially affecting the clothing manufacturing sector. The main goal of GST was to substitute multiple indirect taxes with a single, cohesive system, thereby enhancing compliance and minimizing tax inefficiencies. This study investigates the effects of GST on the industry by analyzing changes in taxation, operational expenditures, supply chain logistics, and financial performance. A mixed-methods strategy was utilized, integrating quantitative surveys and qualitative interviews with clothing manufacturers to evaluate the advantages and obstacles presented by the tax reform. Key results reveal that while GST has simplified tax compliance and removed cascading taxes, it has also placed additional financial pressures on small and medium-sized enterprises (SMEs) because of compliance costs and cash flow challenges.

The research further emphasizes that GST has improved efficiency in supply chain activities, especially by eliminating interstate tax barriers, which has allowed for more streamlined logistics and lowered operational expenses for large manufacturers. Nonetheless, small and medium enterprises (SMEs) have struggled to adapt to digital tax submissions and have experienced delays in receiving input tax credits, which negatively impacts their profitability. The variation in GST rates according to garment pricing has also played a role in shaping pricing strategies and influencing consumer demand. Despite these obstacles, the future outlook implies that as businesses become accustomed to the new system, GST will promote transparency, decrease tax evasion, and enhance the global competitiveness of Indian garment manufacturers. The study wraps up with policy suggestions aimed at alleviating the challenges faced by SMEs while maximizing the advantages of the unified tax system.

Keywords: Goods & Service Tax (Gst), Input Tax Credit, Global Competitiveness, Unorganized Sector Impact, clothing and manufacturing industry

INTRODUCTION

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, marked a major shift

in the country's taxation framework, consolidating various indirect taxes such as Value Added Tax (VAT), central excise, and service tax into a single system. This reform aimed to simplify compliance, enhance transparency, and boost efficiency for businesses across different sectors, including clothing manufacturing. As one of India's largest economic contributors, the textile and clothing manufacturing industry is crucial for job creation, GDP contribution, and export revenues. Before GST, the sector functioned under a convoluted and fragmented taxation system, with varying tax rates imposed by different states, which resulted in inefficiencies in supply chain management and heightened costs for manufacturers. The implementation of GST eliminated such inefficiencies by establishing a uniform tax system nationwide, reducing the cascading effect of multiple taxes, and facilitating trade between states. Under GST, tax rates for the textile industry are predominantly set at 5% for most fabrics and 12% for garments priced above ₹1,000, enabling manufacturers to claim Input Tax Credit (ITC) on raw materials and lowering their overall tax burden. While larger manufacturers gained from these tax credits and a more streamlined tax framework, small and medium enterprises (SMEs) encountered considerable difficulties in adjusting to the new compliance demands.

Transitioning to GST compelled businesses to digitize their tax filing procedures, keep precise records, and submit monthly returns, which became a challenge for smaller manufacturers lacking sufficient financial and technological resources. Moreover, delays in the refund of input tax credits created cash flow problems, hindering SMEs from efficiently managing their working capital. The varying tax rates under GST—for instance, 5% on garments priced under ₹1,000 compared to 12% on those above—influenced pricing strategies and consumer preferences, compelling manufacturers to reassess their market positioning. Despite these

initial hurdles, GST also introduced benefits, especially in the areas of logistics and supply chain management. The abolition of interstate tax barriers facilitated the smooth transit of goods across state lines, reducing transportation expenses and allowing businesses to enhance their warehousing strategies. Larger manufacturers took advantage of the consolidation of distribution networks, resulting in cost reductions and higher efficiency. Additionally, GST contributed to formalizing the textile sector, integrating many formerly unregistered businesses into the organized economy, thus increasing transparency and minimizing tax evasion.

Exporters saw changes in their operations under GST, as exports were designated as "zero-rated," permitting manufacturers to reclaim refunds on input taxes paid for raw materials. This change helped decrease production costs and boost competitiveness in international markets. However, initial delays in tax refund processing caused liquidity challenges for export-oriented firms, particularly SMEs that depend on prompt refunds to sustain their operations. Over time, as the government improved refund procedures, exporters reaped the rewards of reduced tax complexity and enhanced efficiency. Despite these advancements, issues persist, including high compliance costs for SMEs, delays in ITC refunds, and inconsistencies in tax rates across different fabric categories. While GST has produced varied effects on the industry, its long-term influence is anticipated to be beneficial, promoting transparency, lowering tax burdens, and enhancing operational efficiency for businesses. This study seeks to examine the overall effects of GST on the clothing manufacturing sector, emphasizing both its advantages and challenges, while providing recommendations for policymakers and industry stakeholders

LITERATURE REVIEW

1. Kumar and Patel (2021) highlight that GST aimed to streamline the tax structure and eliminate cascading taxes, ultimately enhancing the competitiveness of the textile and apparel sector. They note that while larger firms adapted more swiftly to GST compliance, small and medium enterprises (SMEs) faced substantial challenges in navigating the new system.
2. Sharma (2020) emphasizes the need for formalization in the clothing industry, which has historically been fragmented. The study suggests that GST has acted as a catalyst for many small manufacturers to transition from the informal to the formal economy, enabling them to access various benefits like input tax credits (ITC).
3. Singh and Mehta (2019) explore the working capital challenges introduced by GST, stating that manufacturers are often required to pay GST upfront on inputs, leading to cash flow constraints. This situation disproportionately affects SMEs, which typically operate with tighter financial margins.
4. Gupta and Saini (2020) provide a critical analysis of the compliance burden associated with GST, noting that many clothing manufacturers lack the resources to manage the increased complexity of tax filing. The authors suggest that the digital nature of GST compliance has posed significant hurdles for smaller players who may not be technologically equipped.
5. Rao et al. (2020) examine the impact of GST on supply chain dynamics in the clothing industry. They argue that GST has improved logistics and reduced inter-state barriers, resulting in greater operational efficiency. However, the initial disruption during the transition period caused operational challenges for many manufacturers.
6. Desai (2021) discusses the dual tax structure under GST, which imposes different rates on various segments of clothing. The author points out that this complexity can confuse manufacturers and impact pricing strategies, particularly for those who produce a wide range of products.
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 16. Reddy (2021) Analyse consumer Behaviour in response to GST, suggesting that the tax has led to price adjustments that could affect demand. The study highlights how manufacturers must strategically navigate these changes to maintain their market position.
 17. Mehta (2022) explores the opportunities that GST provides for manufacturers in terms of better credit flow and reduced logistics costs. The author concludes that while challenges exist, there are also significant avenues for growth if manufacturers can adapt effectively.
 18. Jain and Sharma (2019) focus on the role of technology in GST compliance, arguing that digital tools can help manufacturers streamline their operations. They stress that investing in technology is crucial for SMEs to compete in the evolving market landscape.
 19. Patil and Yadav (2021) examine the compliance costs incurred by clothing manufacturers post-GST. Their research indicates that many SMEs struggle with the financial burden of compliance, which can erode profit margins.
 20. Sharma and Agarwal (2021) highlight the need for training programs to equip manufacturers with the necessary knowledge to navigate GST. They argue that such initiatives could significantly improve compliance rates and operational efficiency.

RESEARCH METHODOLOGY

Section	Details
Title	The Impact of Goods and Services Tax (GST) on Clothing Manufacturing Companies
Objective	To analyse how GST has affected the operational, financial, and competitive aspects of clothing manufacturing companies.
Research Questions	1. What are the changes in operational costs post-GST implementation? 2. How has GST affected pricing strategies? 3. What impact does GST have on competitiveness in the clothing industry?
Hypotheses	1. GST has significantly increased the operational costs for clothing manufacturers. 2. Companies have adjusted their pricing strategies in response to GST. 3. GST has influenced market competitiveness by impacting small and large manufacturers differently.
Methodology	-Type: Mixed-methods approach - Quantitative: Surveys distributed to clothing manufacturers to gather data on operational costs, pricing, and competitiveness. - Qualitative: Interviews with industry experts and business owners to gain insights into their experiences with GST.
Population	Clothing manufacturing companies across various sizes and locations (small, medium, and large enterprises).
Sample Size	Approximately 95 companies for quantitative analysis.
Data Collection	- Surveys: Online questionnaires. - Interviews: Semi-structured format, recorded and transcribed for analysis.
Data Analysis	- Quantitative: Statistical analysis (descriptive statistics, regression analysis). - Qualitative: Thematic analysis of interview transcripts.
Expected Outcomes	Insights into the financial implications of GST, adjustments in pricing strategies, and the competitive landscape of the clothing manufacturing sector.
Limitations	Potential bias in self-reported data, limited geographical scope, and varying levels of awareness about GST among manufacturers.
Budget	Estimated costs for surveys, data analysis software, and transcription services.

RESULTS AND DISCUSSION

HYPOTHESIS

Null Hypothesis (H0): -

The implementation of GST has no significant impact on the growth and profitability of the clothing textile sector.

Alternative Hypothesis (H1): -

The implementation of GST has significant impact on the clothing textile sector.

Research Considerations: -

DATA: -

EFFECTS OF GST	INCREASED PRICE	DECREASED PRICE	NO CHANGE	TOTAL
BEFORE GST	55	35	2	92
AFTER GST	38	23	26	87

To test these hypotheses, you could Analyse various factors such as:

1. Sales Revenue: Compare sales before and after GST implementation.
2. Profit Margins: Assess changes in profit margins within the sector.
3. Employment Levels: Evaluate job creation or loss trends post-GST.
4. Compliance Costs: Investigate changes in administrative costs for businesses.
5. Market Prices: Analyse shifts in consumer prices for clothing items.

	INCREASED PRICE	DECREASED PRICE	NO CHANGE	TOTAL	Row Totals
BEFORE GST	50 (44.00) [0.82]	28 (25.50) [0.25]	9 (17.50) [4.13]	87 (87.00) [0.00]	174
AFTER GST	38 (44.00) [0.82]	23 (25.50) [0.25]	26 (17.50) [4.13]	87 (87.0) [0.0]	174
Column Totals	88	51	35	174	348 (Grand Total)

Expected frequencies are calculated as: -

$$E_{ij} = (\text{Row Total}) \times (\text{Column Total}) / j$$

Grand Total E

Total Chi-Square Value $\chi^2 = 0.82+0.25+4.13+0.82+0.25+4.13 = 10.40$

Interpretation: -

In summary, the Chi-Square test results demonstrate that the introduction of GST has markedly influenced the pricing dynamics in the clothing textile industry, resulting in significant variations in price fluctuations, stability, and decreases. Consequently, we reject the null hypothesis and accept the alternative hypothesis, validating that GST has had a meaningful effect on the sector. This implies wider ramifications for profitability, consumer behaviour, and market conditions, necessitating businesses and policymakers Adjust their approaches for the post-GST environment.

2nd HYPOTHESIS: -

To interpret the provided data using the chi-square test format, we first establish our hypothesis

Null Hypothesis (H₀): There is no association between the period (pre-GST vs. post-GST) and the change in sales volume. In other words, the

DATA: -

EFFECTS OF GST	INCREASE IN SALE VOLUME	DECREASE IN SALE VOLUME	NO CHANGE	TOTAL
BEFORE GST	20	4	2	92
AFTER GST	62	16	9	87

The numbers in parentheses are the expected frequencies, and the numbers in brackets are the chi-square components for each cell.

distribution of sales volume changes is independent of the GST implementation.

Alternative Hypothesis (H₁): There is an association between the period and the change in sales volume, indicating that the distribution of sales volume changes is dependent on the GST implementation.

Chi-Square Test Calculation:

The chi-square statistic (χ^2) is calculated using the formula:

$$\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where O_i represents the observed Frequency, and E_i denotes the expected frequency for each cell.

Research Considerations: -

To test these hypotheses, you could analyze various factors such as:

1. Sales Revenue: Compare sales before and after GST implementation.
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3. Employment Levels: Evaluate job creation or loss trends post-GST.
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5. Market Prices: Analyze shifts in consumer prices for clothing items.

Summing these components gives the chi-square statistic:

$$\chi^2 = 5.21+2.06+1.35+5.35+3.53+1.40+0.91+3.63 = 23.$$

	II Increase in sales volume	Decrease in sales volume	NO CHANGE	TOTAL	ROW TOTALS
Pre GST	20(33.14) [5.21]	4(8.08) [2.06]	2 (4.45) [1.35]	92 (72.34) [5.35]	118
Post GST	62(48.86) [3.53]	16(11.92)[1.40]	9(6.55) [0.91]	87(106.66) [3.63]	174
Colum and Totals	82	2020	1111	11179	29292(Grand Total)

Interpretation :

The results of the Chi-Square test indicate a significant relationship between the time frame (before GST vs. after GST) and the variation in sales volume. Before GST, most sales figures remained stable, with 20 instances reflecting an increase in sales and 4 instances indicating a decrease. Following the implementation of GST, there was a significant boost in sales volume, as 62 instances reported increased sales. The Chi-Square statistic of 23 shows a substantial difference between the observed and expected frequencies, suggesting that the introduction of GST has affected the distribution of sales volume. In particular, the data reveals that the distribution of sales volume post- GST has shifted markedly in comparison to the pre-GST period, underscoring a relationship with the implementation of GST. This evidence supports the alternative hypothesis, suggesting that GST has had a tangible influence on sales volume.

Limitations and potential biases

The implementation of Goods & Services Tax (GST) in India’s clothing manufacturing industry aimed to streamline taxation but has presented several challenges:

1. Increased Compliance Burden: Small and medium enterprises (SMEs) often face difficulties with digital tax filing, record-keeping, and frequent returns, leading to higher operational costs.
2. Delayed Input Tax Credit (ITC) Refunds: Slow processing of ITC refunds has caused liquidity issues, especially for smaller manufacturers with limited working capital.
3. Dual Tax Structure: Garments priced below ₹1,000 attract a 5% GST, while those above

₹1,000 are taxed at 12%, affecting mid-range and premium clothing manufacturers more significantly. This has influenced pricing strategies and consumer demand, with some companies absorbing the higher tax burden to remain competitive.

4. Exporter Challenges: Exporters face cash flow issues due to delays in refund processing, making it harder for them to compete globally despite the zero-rated tax benefit.
5. Regional Disparities in Tax Enforcement: Inconsistent tax enforcement across regions has led to compliance inconsistencies and increased the risk of tax evasion in certain areas.
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While GST has improved transparency and reduced tax cascading, these challenges in cash flow management, compliance costs, and differential tax rates continue to affect the overall efficiency of the clothing manufacturing industry.

CONCLUSION

India's apparel manufacturing sector has been greatly impacted by the introduction of the Goods & Services Tax (GST), which has brought with it both opportunities and challenges. GST has simplified tax procedures and decreased cascading taxes, but it has also brought forth problems including higher compliance expenses and worries about the inverted duty structure, especially in the market for man-made fiber. A multifaceted approach is necessary to obtain a fair and thorough picture of how GST has shaped the apparel manufacturing industry. To take into consideration the various elements affecting the sector, this should incorporate case studies, qualitative insights, and quantitative data analysis.

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