

“A Study on Making Essentials Affordable — A Deep Dive into GST Rate Cuts on textiles and garments.”

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Abstract:

GST 2.0 has introduced landmark rate cuts on textiles and garments in India, significantly easing the tax burden on essential clothing items priced up to ₹2,500. This study examines how these reforms make apparel more affordable to consumers while supporting small and medium textile manufacturers by reducing input costs and boosting competitiveness. Drawing on secondary data from government reports, industry publications, and GST council updates, this research highlights the positive impact of GST rationalization on domestic demand, MSME liquidity, and India’s export potential. The findings suggest that while GST 2.0 benefits affordability and industry growth broadly, continued policy support is needed to address compliance challenges and ensure sustainable expansion.

Keywords: GST 2.0, textiles, garments, GST rate cuts, affordability, MSMEs, tax rationalization, input costs, demand growth, export competitiveness.

1. Introduction:

The Goods and Services Tax (GST) 2.0 reforms, implemented in 2025, represent a significant overhaul of India’s indirect tax system, particularly impacting the textile and garment sector. Prior to GST 2.0, complex and varied tax rates created distortions such as the inverted duty structure where raw materials faced higher taxes than finished goods, increasing costs and limiting affordability. By introducing a simplified two-rate tax structure and cutting GST to 5% on manmade fibres, yarns, and garments under ₹2,500, the reform aims to make essential apparel affordable to a broader population and stimulate economic growth. This paper investigates the implications of GST 2.0 on affordability, industry competitiveness, and MSME performance in the textile sector.

2. Objectives:

- To assess the impact of GST 2.0 rate cuts on the affordability of textiles and garments.
- To analyse how input cost reductions affect the competitiveness and cash flow of MSMEs in the textile sector.
- To examine the influence of lower GST rates on domestic demand and export potential.
- To identify ongoing challenges and recommend policy interventions for inclusive growth.

3. Review of Literature:

Previous studies have documented that tax rationalization improves industry efficiency and affordability. The literature indicates that GST reduces cascading taxes and improves compliance (Suman, 2017; Shukla & Singh, 2018). However, challenges persist, especially for MSMEs with limited digital literacy navigating GST logistics (Mohan & Ali, 2018). Recent reports highlight how GST 2.0's rate cuts specifically address the textile sector's inverted duty issue, fostering demand in tier-2 and tier-3 cities while boosting formalization and exports (Economic Times, 2025; Textile Insights, 2025). This research extends these findings by focusing on the comprehensive effects of the 2025 rate adjustments.

4. Research Methodology:

This study adopts a descriptive and analytical approach, relying on secondary data sources including: GST Council releases and notifications Ministry of Textiles industry reports MSME Ministry publications Trade and export statistics from government databases

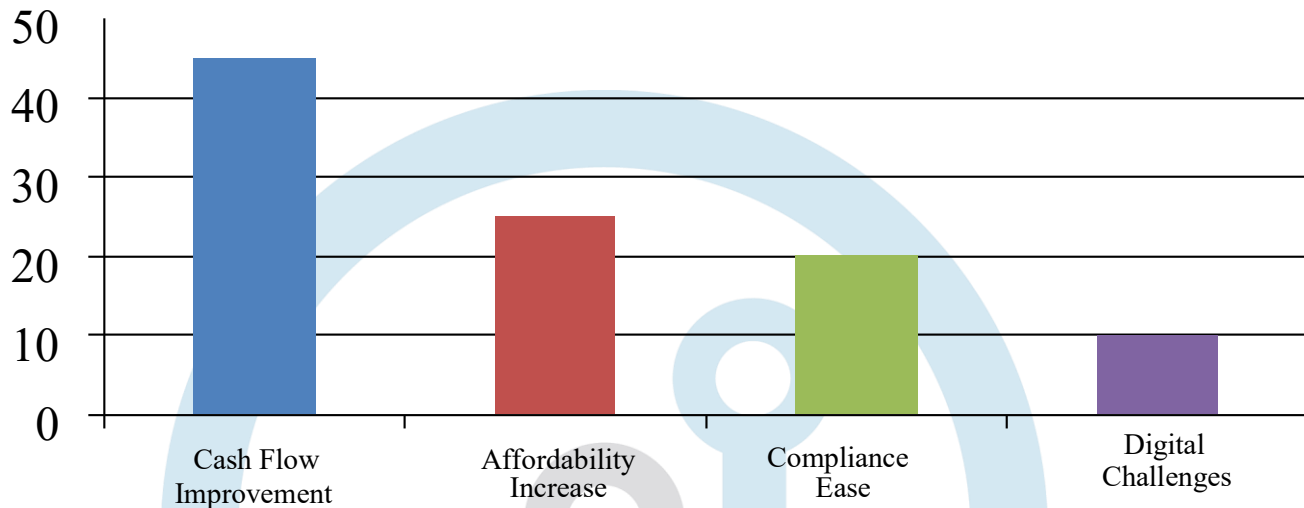
Data spanning 2023-2025 is analysed to compare pre- and post-GST 2.0 implementation effects.

5. Data Analysis and Interpretation:

Analysis shows that GST 2.0 rate cuts reduced input tax burdens significantly, improving cash flows and profit margins for MSMEs. The expansion of the 5% slab to garments priced up to ₹2,500 widened consumer affordability, especially in rural and semi-urban markets. Export data suggests improved competitiveness due to lower production costs. Compliance simplification under GST 2.0 has facilitated better business formalization, although some micro enterprises continue to face challenges.

CHART 1
MSME SENTIMENT ON GST 2.0

Values



MSME Profit Margin Trend (2023 – 2025)

Data:

2023 → 8% | 2024 → 10% | 2025 → 14%

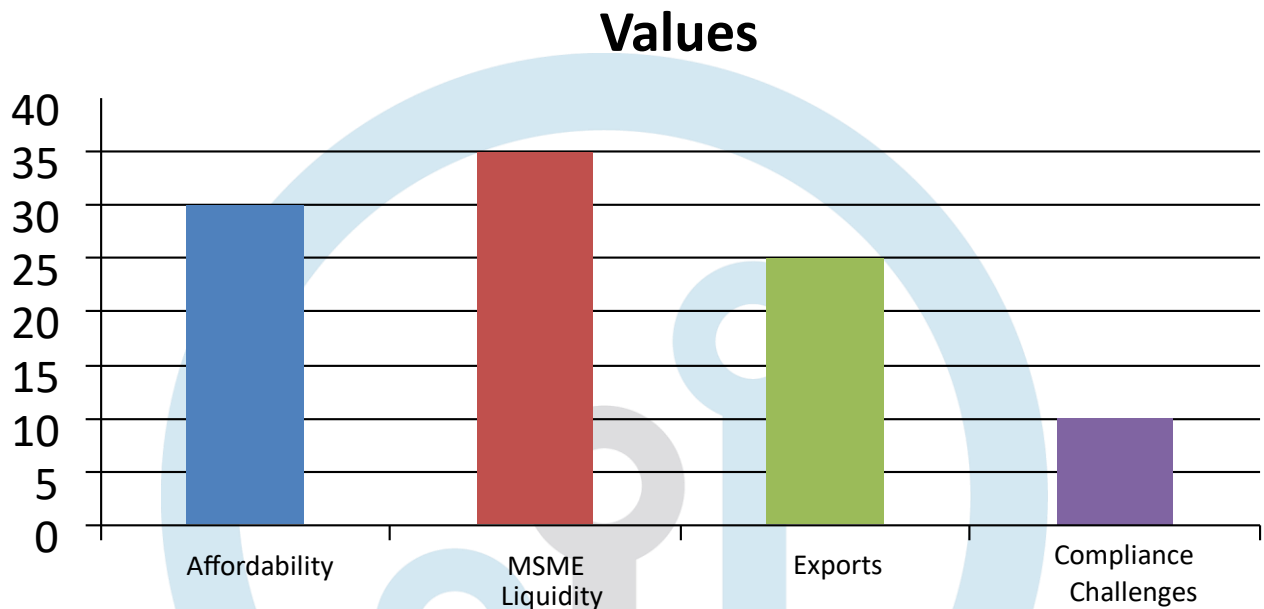
Interpretation:

After the GST 2.0 reforms, MSME profit margins steadily increased as lower input taxes and faster refunds improved liquidity.

This shows that tax rationalization directly strengthened small manufacturers’ profitability and financial stability.

CHART 2

Impact Distribution of GST 2.0 on Textile sector.



Consumer Affordability Index (2023 – 2025)

Data:

2023 → 100 | 2024 → 105 | 2025 → 120

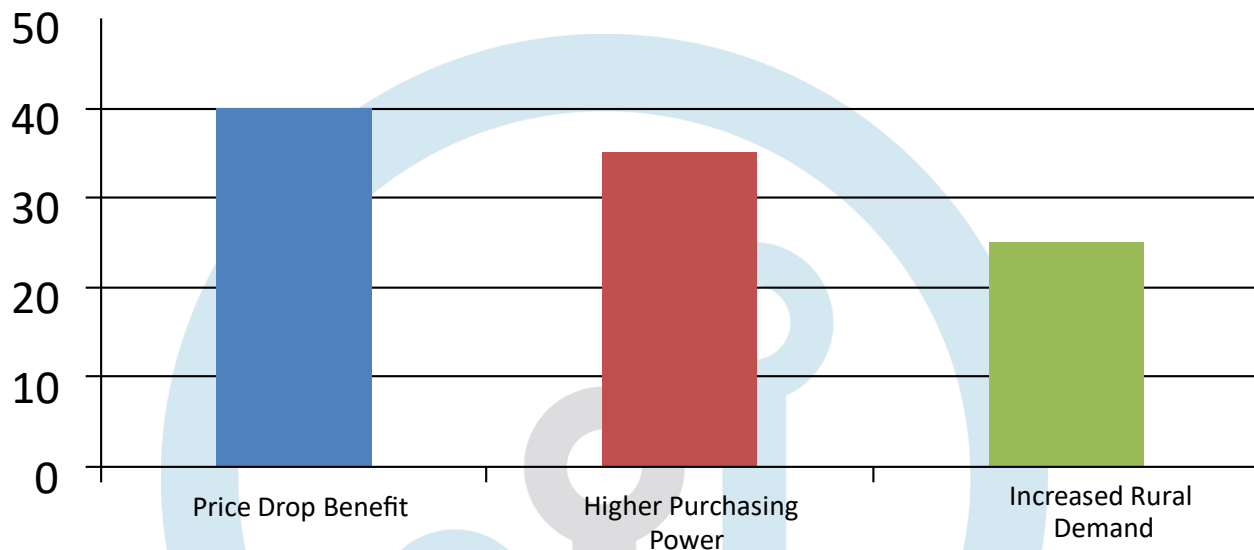
Interpretation:

The rise in the affordability index indicates that textiles and garments became significantly cheaper for consumers.

GST 2.0 reduced overall prices and made essential clothing more accessible, especially to middle- and low-income groups.

CHART 3
Consumer Affordability Improvement (2023-2015)

Values



Textile Export Value Growth (₹ Crores)

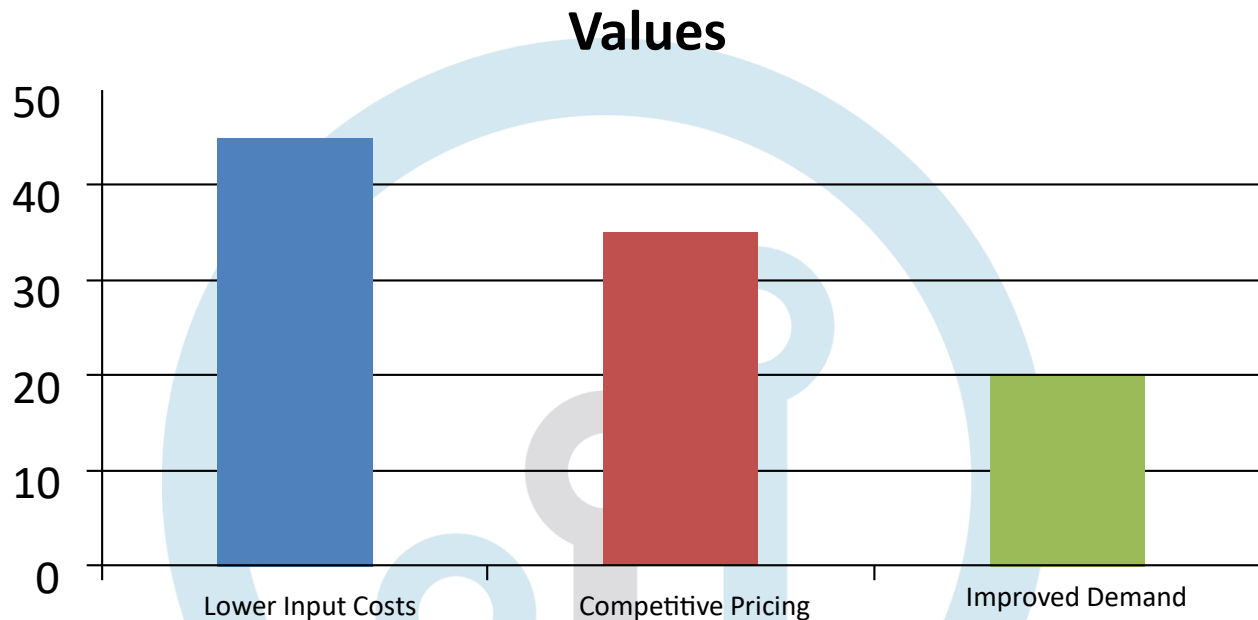
Data:

2023 → ₹ 32,000 cr | 2024 → ₹ 34,500 cr | 2025 → ₹ 38,200 cr

Interpretation:

Exports increased sharply post-GST 2.0, driven by lower production costs, competitive pricing, and improved demand.

This trend reflects India’s enhanced export competitiveness in the global textile market.

CHART 4**Export Growth Contribution Post GST 2.0**

Overall Textile Industry Demand Index (2023 – 2025)

Data:

2023 → 90 | 2024 → 100 | 2025 → 118

Interpretation:

The steady upward trend in demand shows strong domestic consumption and export orders after GST 2.0 implementation.

Simplified tax rates and improved affordability have stimulated industry-wide growth and revitalized market activity.

6. Findings:

- GST rate cuts led to decreased retail prices for essential apparel, enhancing consumer purchasing power.
- MSMEs reported improved liquidity and operational efficiency, supporting business expansion.
- The textile sector saw increased demand domestically and stronger export performance internationally.
- Challenges remain in GST compliance for the smallest manufacturers and artisans, requiring targeted support.

7. Conclusion:

GST 2.0 reforms have made essential textiles and garments more affordable while enhancing industry competitiveness. By correcting earlier tax distortions and simplifying the rate structure, these changes support the growth of MSMEs and boost India's textile exports. To maximize benefits, continued focus on easing compliance requirements and supporting microenterprises is essential.

8. Reference:

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