A Study On Gst Effect On Branded Apparels With Respect To Bangalore District

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Abstract:

Goods and Services Tax (GST) is collected at the point of sale, and in the apparel industry, the tax rate varies based on price. The threshold value for this variation is INR 1000. The tax obligation also fluctuates with sales. This paper analyses the impact of GST on the retail business across three categories of retailers: unregistered, composite taxpayers, and large retailers. The study is based on exploratory research, with data collected using a structured survey from apparel retailers in Bangalore. Given the large and dispersed population, a sample size of 391 was selected for analysis. Regression analysis and binary logistic analysis were employed to examine the impact of GST on these businesses. The study categorizes retailers into three groups: unregistered businesses, composite taxpayers, and those with a turnover exceeding INR 7.5 million. Businesses with turnover below INR 1.9 million are not required to register and cannot claim input tax credit (ITC), which must be adjusted with GST at the point of sale. Composite taxpayers, with sales up to INR 7.5 million, pay a fixed tax rate of 1% of their total turnover but also cannot claim ITC. Consequently, product prices increase by the amount of tax paid at the input stage. Large retailers with turnover exceeding INR 7.5 million can claim ITC, reducing their effective tax burden. The study finds that GST increases prices, leading to incentives for tax evasion.

Index Terms - Goods and Services Tax, Apparels, Retailers, Input tax credit

INTRODUCTION

The concept of Goods and Services Tax (GST) was first proposed by the Atal Bihari Vajpayee government in 2000 and was implemented in 2017 after multiple amendments. The GST Council was formed in 2016, and the law replaced multiple cascading taxes, including Value Added Tax (VAT), Sales Tax, Service Tax, and Central Sales Tax, to create a unified tax system. The primary advantage of GST is the elimination of the "tax on tax" issue, leading to greater transparency and a simplified tax structure. GST is categorized into three types: Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), and Integrated Goods and Services Tax (IGST). CGST and SGST apply to intra-state transactions, while IGST is levied on inter-state transactions. The benefits of GST include streamlined online processing, e-way bills that eliminate the need for check-post stoppages, and a uniform tax structure across the country. However, challenges include system complexity, multiple compliance requirements, strict tax return filing procedures, and higher tax rates for certain products. Additionally, the implementation of GST is costly due to expensive software and compliance costs.

Impact on Small Enterprises

Small enterprises fall into two categories under GST: those with turnover below INR 2 million and those in the composite tax slab (INR 2 million to INR 7.5 million). Both categories cannot claim ITC, meaning the tax burden is transferred entirely to customers. This creates a price disparity between small and large retailers. Additionally, GST affects business loans, as processing fees (typically 1-2% of the loan amount) and foreclosure fees (2-5% of the outstanding balance) are subject to an 18% GST rate. GST is also applied to overdraft facilities, including processing fees, interest, and foreclosure charges.

Product Classification Under GST

GST uses the internationally accepted Harmonized System of Nomenclature (HSN) to classify products. Developed by the World Customs Organization in 1988, HSN assigns an 8-digit code to each product. It consists of 21 sections, 99 chapters, 1244 headings, and 5224 subheadings, providing a uniform classification system for international trade.

GST on Apparel

Apparel products are categorized under chapters 61, 62, and 63 of the HSN system. Chapter 61 covers knitted or crocheted apparel, Chapter 62 covers non-knitted apparel, and Chapter 63 includes all other textiles. The GST rate varies based on product value:

- Apparel priced below INR 1000 is taxed at 5%.
- Apparel priced above INR 1000 is taxed at 12%.
- Man-made fabrics attract an 18% GST.

India is a leading producer of man-made fibres, particularly polyester, which accounts for 56% of global demand, followed by cotton at 26%. The market share of polyester apparel in India is 47.6%, while cotton apparel holds 38%. The higher GST rate on polyester products results in increased prices, reducing the cost advantage of synthetic fabrics over natural fibres.

Impact of GST on Apparel Retailers

GST affects small retailers in two ways. First, they lose the tax paid at the time of purchase, which is passed on to customers. Second, GST on apparel above INR 1000 is 12%, while fabrics made from man-made materials attract an 18% tax (Sankar, 2017)[1] This increases the overall cost of polyester-based apparel. Retailers registered under the composition scheme are ineligible for ITC and must pay 1% of their turnover as GST. This results in a marginal price increase, affecting lower-income consumers who primarily purchase from these retailers. Retailers with turnover exceeding INR 7.5 million can avail ITC, allowing them to offset input tax. However, the benefit is not transferred to customers, leading to a tendency for tax evasion. The value addition from fabric to finished apparel involves multiple small enterprises, many of which operate as unregistered or composite taxpayers. Under the reverse charge mechanism (RCM), unregistered retailers must charge GST at the applicable rate without benefiting from the composition scheme. This study highlights the challenges faced by apparel retailers under the GST system and the pricing impact on consumers, particularly in the lower-income segment. The findings suggest that the current GST framework incentivizes tax evasion among small retailers and increases product prices, particularly for man-made fabrics.

LITERATURE REVIEW

Background of the Research

The Indian textile sector is one of the largest and oldest industries, contributing significantly to economic growth, employment generation, gross domestic product (GDP), and exports. It is the second-largest employer after agriculture, providing opportunities for both skilled and unskilled labour. The textile industry accounts for approximately 10% of India's total annual exports, highlighting its crucial role in the nation's economic development (Jayavarthanavelu, 2018)[2] The introduction of the Goods and Services Tax (GST) in India, which was enacted through the 101st Constitutional Amendment in 2016 and implemented on July 1, 2017, was considered one of the most significant tax reforms in the country (Gupta, 2016)[3] The GST aimed to simplify the taxation structure, improve compliance, and enhance economic transparency. It was expected to boost exports and streamline tax administration in the textile industry.

Sehrawat and Dhanda (2015)[4] highlighted GST as a transformative tax reform designed to create a user-friendly, efficient, and transparent tax system. The GST system sought to unify the tax regime under the 'one nation, one tax' principle, reducing the administrative burden on traders, manufacturers, and distributors (Lourdunathan & Xavier, 2017)[5] Unlike the previous tax regime, GST simplifies compliance by integrating various indirect taxes. The mechanism of input tax credit ensures tax collection at every stage of sale or purchase, which is ultimately borne by the final consumer. However, the GST structure has posed challenges for the textile industry, particularly due to the large presence of unorganized sectors, including handlooms, small and medium-scale factories, handicrafts, and family-run businesses. These segments were previously lightly taxed and extensively subsidized, making the transition to GST more complex. Although the GST reform was expected to streamline tax administration, it has faced resistance from traders in the textile sector. Many believe that the government and industry stakeholders need to collaborate more effectively to mitigate the negative impact and promote positive engagement with GST (Khurana & Sharma, 2016)[6]

Ahmad et al. (2016)[7] noted that GST has the potential to reduce overall tax liability by 25–30% through the elimination of entry tax payments and minimal paperwork, facilitating the free movement of goods across state borders. However, the textile supply chain—including ginning, spinning, weaving, processing, and manufacturing—has faced disruptions post-GST implementation. Sehrawat and Dhanda (2015)[4] observed that individual manufacturing units struggle to maintain competitiveness in domestic and international markets. Consequently, the textile industry has demanded a uniform 5% GST slab to ensure stability and encourage voluntary compliance (Joumard et al., 2015)[8] Dani (2016)[9] emphasized the impact of GST on textile imports, noting that reduced import duties have created a more favourable environment for foreign fabrics and apparel, leading to increased competition for domestic manufacturers. Garg (2014)[10] raised concerns that businesses must pay GST at the time of sale, while customers often pay in instalments after a 90-day credit period, compelling businesses to secure loans to meet tax obligations. Gupta, (2016)[3] reported that GST has also affected employment in the textile sector. Several brands have shut down due to compliance difficulties, resulting in job losses. For instance, Assamese craft centres, previously exempt from tax, now fall under GST regulations, increasing the cost of craftsmanship and affecting market competitiveness. Similarly, new cane and bamboo products are subject to a 5% tax, which has further strained small-scale businesses (Rajshekhar et al., 2018)[11] One of the most visible protests against GST was witnessed in Surat, a major textile hub in India. Kant et al. (2015) documented widespread opposition among traders, particularly small and medium enterprises, due to concerns over their survival under the new tax regime. The taxation structure, which imposes a 5% tax on yarn and an 18% VAT on value-added products, has negatively impacted the industry's profitability (Rajshekhar et al., 2018)[11] The

rising costs associated with GST have also deterred innovation and adaptation within the sector. Additionally, higher consumer prices post-GST have shifted consumer preferences towards online shopping, further affecting traditional textile retailers.

RESEARCH METHODOLOGY

The implementation of GST allows traders to claim tax credits, but compliance remains a significant challenge, especially for small-scale traders and manufacturers. Many lack awareness of the new tax regime, and the limited availability of expert chartered accountants makes professional guidance expensive and inaccessible. Sehrawat and Dhanda (2015)[4] argued that while GST was introduced to streamline indirect taxation, textile businesses continue to struggle with multiple tax rates and reporting requirements. For example, the tax rate for cotton fibre is 5%, while synthetic fibre is taxed at 18%. Additionally, silk and jute are entirely exempt from GST, leading to inconsistencies in tax application (Oberoi, 2017). Such disparities disrupt the supply chain and create challenges in tax compliance.

Research Objectives

- To identify key challenges faced by textile traders regarding GST registration and compliance.
- To examine the impact of GST on the textile industry and explore collaborative measures to promote positive engagement.
- To assess changes in consumer purchasing behaviour post-GST implementation.

Sampling

The study focuses on apparel retailers in Bengaluru, employing a purposive sampling technique. The sample size consists of 321 respondents, ensuring comprehensive coverage of textile traders and their experiences with GST compliance and its effects on their businesses.

Data Analysis

The age distribution of respondents indicates that 43.7% are above 50 years, while 35.3% fall within the 41-50 age group. This suggests a decline in youth participation in the apparel retail industry, possibly due to low profitability. Additionally, 58.6% of respondents are women, highlighting their involvement in family businesses or entrepreneurship. Furthermore, 83.7% of respondents are from urban areas.

Parameters	B	S.E.	Wald	Df	Sig.	b Exp(B)	Y=a+bx	Exp Y	P
Sales	.390	.424	.847	1	.357	1.478	-1.22	0.29	0.227
GST Registered	.451	.378	1.422	1	.233	1.569	-1.16	0.31	0.238
GST slab	-.690	.535	1.663	1	.197	.501	-2.31	0.10	0.091
Awareness	1.752	.522	11.248	1	.001	5.768	0.14	1.15	0.534
Apparel	1.065	.354	9.081	1	.003	2.902	-0.55	0.58	0.366
ITC	1.113	.360	9.569	1	.002	3.043	-0.50	0.61	0.377
Opinion	-.039	.386	.010	1	.919	.962	-1.65	0.19	0.161
Return filing	.891	.371	5.756	1	.016	2.436	-0.72	0.48	0.326
Price	1.175	.409	8.241	1	.004	3.237	-0.44	0.64	0.392
Constant (a)	-1.615	.532	9.228	1	.002	.199			

Table 1: Binary Logistics Analysis on Implementation

The binary logistic regression model analyses as shown in Table 1 retailers' use and experience with GST. The results indicate that GST commitment increases with sales, GST registration, awareness, apparel, ITC, return filing, and product price, while it decreases with composite slab and opinion. Exp(B) values greater than 1 suggest an increased probability of occurrence, whereas values below 1 indicate a decrease.
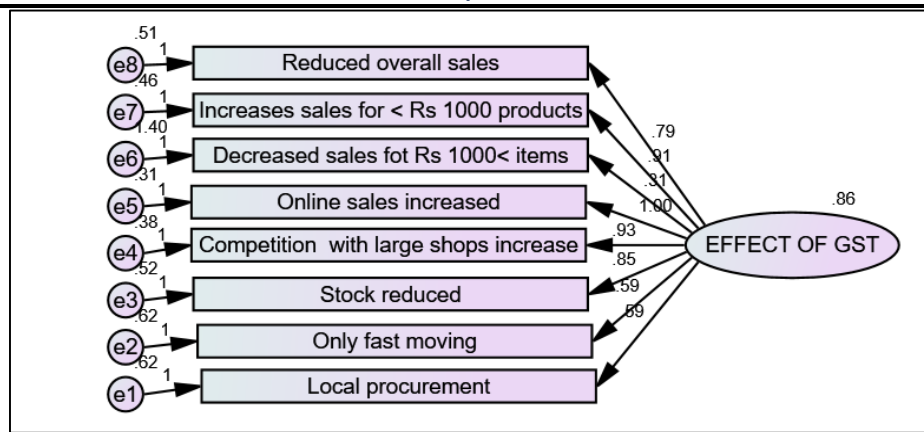
Figure 1: Effect of GST

The findings help identify key factors motivating retailers to comply with GST is as shown in Figure 1. Insignificant variables have a lower probability of impact. All regressions are statistically significant. Table 2 for the impact of GST on Sales, Inventory, and Retail Operations, lower regression values were observed for decreased sales of items priced above Rs.1000 (0.313), inventory being limited to fast-moving items (0.592), and local procurement (0.586). However, these variables exhibited higher mean values, except for decreased sales in the Rs.1000+ category. Retailers frequently procure and sell products without bills. Additionally, lower-priced billing and multiple billing practices are common. Retailers frequently procure and sell products without bills. Additionally, lower-priced billing and multiple billing practices are common.

Parameters		Estimate	Estimate	S.E.	C.R.	P	Mean	Std. Deviation
Reduced overall sales	<---	EFFECT	0.794	0.056	14.122	***	3.48	1.025
Increases sales for < Rs 1000 products	<---	EFFECT	0.912	0.057	15.937	***	3.33	1.083
Decreased sales for Rs 1000< items	<---	EFFECT	0.313	0.078	3.995	***	2.71	1.219
Online sales increased	<---	EFFECT	1				3.48	1.082
Competition with large shops increase	<---	EFFECT	0.931	0.055	16.917	***	3.55	1.062
Stock reduced	<---	EFFECT	0.853	0.058	14.721	***	3.49	1.070
Only fast moving	<---	EFFECT	0.592	0.056	10.485	***	3.67	.960
Local procurement	<---	EFFECT	0.586	0.056	10.385	***	3.87	.957

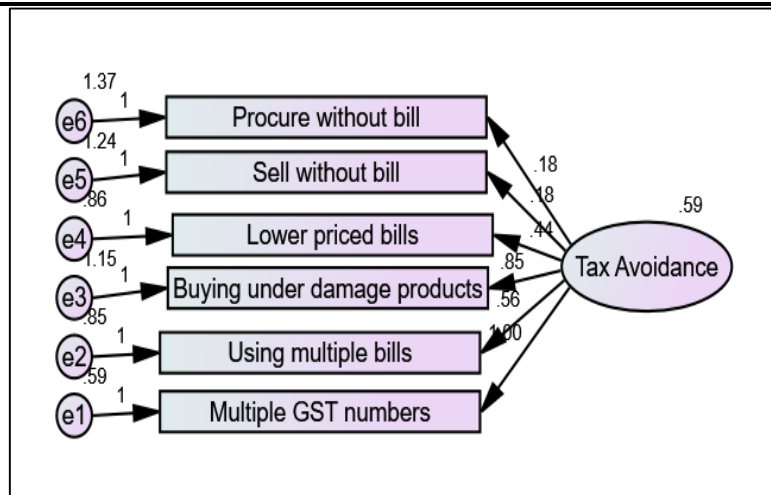Table 2: Impact of GST on Sales, Inventory, and Retail Operations

Figure 2: Structural Model of Tax Avoidance Practices Among Retailers

The Figure 2 illustrates a structural equation model (SEM) depicting various tax avoidance practices among retailers and their impact on the latent variable **"Tax Avoidance."** It highlights key methods such as procuring and selling without a bill, issuing lower-priced bills, purchasing damaged products, using multiple bills, and holding multiple GST numbers. The regression weights indicate that "Buying under damage products" (0.85) and "Using multiple bills" (0.56) have the strongest influence on tax avoidance. With an overall factor loading of 0.59, the model suggests that these practices significantly contribute to reducing tax liability, likely due to GST compliance challenges. The Table 3 presents the structural equation model (SEM) estimates for different tax avoidance practices, highlighting their relationship with the latent variable "Tax Avoidance." The highest standardized estimate is observed for "Buying under damage products" (0.845, $p < 0.001$), indicating a strong contribution to tax avoidance. "Using multiple bills" (0.56) and "Lower priced bills" (0.441) also have significant positive effects. The baseline variable, "Multiple GST numbers," is set to 1.0 for comparison. All predictors show significant critical ratios (CR), confirming their impact on tax avoidance behavior. The mean values suggest these practices are prevalent, with "Using multiple bills" (Mean = 4.20) being the most common.

Variable		Latent	Estimate	SE	CR	Sig	Mean	Std Devn
Procure without bill	<---	Avoidance	0.18	0.059	3.051	0.023	3.03	1.179
Sell without bill	<---	Avoidance	0.18	0.054	3.333	0.031	3.31	1.124
Lower priced bills	<---	Avoidance	0.441	0.111	3.973	***	4.09	.987
Buying under damage products	<---	Avoidance	0.845	0.177	4.781	***	3.55	1.254
Using multiple bills	<---	Avoidance	0.56	0.125	4.489	***	4.20	1.018
Multiple GST numbers	<---	Avoidance	1				3.81	1.085

Table 3: Structural Equation Model Estimates for Tax Avoidance Practices

CONCLUSION

The findings indicate that small retailers, particularly those under the composite slab, are less inclined to prefer GST, despite being required to pay only 1% tax. However, taxation at the input level leads to price increases, reducing their competitiveness compared to large retailers who can claim input tax credit. Large businesses benefit from input tax credit, eliminating additional tax liabilities at their level. Consequently, small retailers struggle to compete with both online and large retail stores. This highlights the need for modifications in GST norms to support small retailers, who primarily serve as necessity retailers. A clear example is polyester material, which is subject to an 18% input tax. Although polyester products are generally affordable, the high input tax results in increased prices, making it challenging for small retailers to sustain profitability.

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