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GST Reforms: Impact on Textile Industry in Ballari

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Abstract

The implementation of the Goods and Services Tax (GST) in India marked a transformative shift in the indirect taxation system, particularly affecting traditionally unorganized sectors such as textiles. This study examines the impact of GST reforms on the textile industry in Ballari district, Karnataka, a region characterized by small-scale enterprises, garment manufacturing units, and job-work-based production systems. Drawing upon secondary data from research journals, policy reports, and industry analyses between 2017 and 2025, the paper evaluates both the short-term disruptions and long-term structural changes brought about by GST.

The findings indicate that GST has significantly contributed to the formalization of textile enterprises, with nearly 80–88% of units registering under the tax regime. Key reforms such as the rationalization of tax rates, reduction in GST on job work services, and availability of Input Tax Credit (ITC) have improved transparency and reduced cascading tax effects. However, the transition phase posed considerable challenges, including compliance burdens, digital literacy constraints, working capital blockages due to inverted duty structures, and declining profitability among small and medium enterprises (SMEs).

The study highlights that while large-scale units adapted relatively quickly, small-scale and handloom sectors experienced operational strain, including reduced turnover and idle capacity. Nonetheless, recent reforms—especially the correction of inverted duty structures and reduced GST rates on man-made fibers—indicate a positive trajectory. The paper concludes that GST reforms, despite initial disruptions, have the potential to enhance efficiency, competitiveness, and integration of Ballari's textile sector into the national and global value chain.

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Introduction

The introduction of GST in India in 2017 represented a landmark reform aimed at unifying the country's complex indirect tax system into a single, streamlined structure. Prior to GST, the textile industry operated under a fragmented tax regime involving excise duty, value-added tax (VAT), entry tax, and other levies, which led to cascading tax effects and inefficiencies. The textile sector, being one of the largest contributors to employment and GDP, particularly in regions like Ballari district of Karnataka, has been significantly influenced by these reforms.Ballari district hosts a diverse textile ecosystem consisting of small-scale garment units, powerloom clusters, handloom units, and job-work-based manufacturing systems. The predominance of informal and semi-formal enterprises made the sector vulnerable to policy shifts such as GST. The reform aimed not only to simplify taxation but also to bring transparency, improve compliance, and integrate local industries into a formal economic framework.Recent GST reforms, especially those implemented up to 2025, have focused on rationalizing tax rates, correcting inverted duty structures, and reducing the burden on job work services. These measures are particularly relevant for Ballari, where a significant proportion of textile production relies on outsourcing and small-scale operations.

Research Problem

Despite the intended benefits of GST, the textile industry in Ballari district has experienced mixed outcomes. While the reform has enhanced formalization and transparency, it has also imposed significant compliance burdens and operational challenges, particularly for small-scale enterprises and job workers. The research problem, therefore, is to critically examine whether GST reforms have effectively supported the growth and sustainability of the textile sector in Ballari, or whether they have disproportionately affected smaller players within the industry.

Objectives of the Study

1.To analyze the key GST reforms affecting the textile industry in India.
2.To examine the impact of GST on small and medium textile enterprises in Ballari district.
3.To assess the role of GST in promoting formalization and transparency.

4.To evaluate the challenges faced by job workers and small-scale units.
5.To study the effect of GST on profitability, turnover, and employment.
6.To provide policy suggestions for improving GST implementation in regional textile clusters.

Importance

This study is significant as it provides a comprehensive understanding of the impact of GST reforms on the textile industry, particularly in a region like Ballari district, where small-scale enterprises and informal economic activities dominate. By focusing on a localized context, the study bridges the gap between national policy intentions and ground-level realities, offering valuable insights into how large-scale reforms affect regional economies. It highlights the role of GST in promoting formalization, transparency, and integration of small units into the broader economic framework, which is crucial for inclusive development.

At the same time, the study brings attention to the challenges faced by micro, small, and medium enterprises (MSMEs), such as compliance burden, digital literacy issues, and working capital constraints, thereby emphasizing the need for supportive administrative mechanisms. The importance of this study also lies in its relevance to employment generation, as the textile sector is a major source of livelihoods in Ballari. Furthermore, it contributes to academic discourse in public administration and economic policy by evaluating governance reforms through an implementation perspective. Overall, the study serves as a valuable reference for policymakers, researchers, and stakeholders aiming to improve the effectiveness and inclusiveness of GST reforms.

Research Methodology

This study adopts an economic analytical approach using secondary data to examine the impact of GST reforms on the textile industry in Ballari district. The research is based on data collected from government reports, economic surveys, research journals, policy documents, and industry analyses published between 2017 and 2025. Sources include reports on MSMEs, textile sector performance, GST policy changes, and district-level industrial studies.

From an economic perspective, the study focuses on key variables such as cost of production, tax incidence, working capital flow, profitability, and turnover trends. The methodology involves descriptive and comparative analysis, where pre-GST and post-GST conditions are compared to assess changes in economic efficiency, market behavior, and resource allocation. Concepts such as tax incidence, input-output linkages, and market formalization are used as analytical tools.

The study also applies a sectoral analysis, examining different segments like garment manufacturing, job work, and handloom units to understand varied economic impacts. Secondary data is interpreted to identify patterns such as changes in demand, pricing, and competitiveness.

This economic lens helps in evaluating whether GST has improved allocative efficiency, reduced transaction costs, and enhanced competitiveness, while also identifying short-term disruptions such as liquidity constraints and compliance costs faced by small-scale units.

Analysis

1.Formalization of Enterprises:

Around 80–88% of textile units in Ballari registered under GST. This indicates a significant shift from informal to formal economic structures. GST registration has enabled businesses to become part of the formal economy, improving access to credit, government schemes, and broader markets. However, the transition required adjustments in documentation and compliance practices.

2.Impact of Rationalized Tax Rates:

GST rates on man-made fibers reduced to 5%. Threshold for garments increased to ₹2,500. These reforms corrected the inverted duty structure and made affordable apparel more competitive. This has increased consumer demand and reduced tax-related inefficiencies.

3.Input Tax Credit (ITC) Benefits:

ITC allowed on raw materials, packaging, and capital goods. ITC has eliminated cascading taxes and reduced production costs. However, delays in refunds initially created working capital issues for small businesses.

4.Relief to Job Work Sector:

GST on job work reduced from 18% to 5%. Since a large portion of Ballari's textile production is outsourced, this reform significantly lowered costs and supported small job workers.

5.Digitalization and Compliance:

GST introduced an online filing system. While digitalization improved transparency and efficiency, many small-scale entrepreneurs faced challenges due to lack of technical knowledge and infrastructure.

6.Working Capital Challenges:

Inverted duty structure caused tax accumulation. Higher taxes on raw materials compared to finished goods blocked working capital, affecting liquidity and production cycles.

7.Compliance Costs:

Increased reliance on accountants and software. Small businesses incurred additional costs for maintaining GST compliance, which reduced their profit margins.

8.Impact on Profitability and Turnover:

Many units reported reduced or stagnant turnover. Initial disruptions, high compliance costs, and adjustment difficulties contributed to lower profitability in the short term.

9.Impact on Handloom and Rural Units:

Increase in idle looms observed. Higher input costs and compliance difficulties led to reduced production activity in traditional sectors.

10.Long-Term Structural Benefits:

Improved supply chain integration and transparency. Over time, GST has enhanced efficiency, reduced logistics costs, and created a more organized market environment.

Limitations of the Study

1.The study relies on secondary data, which may lack real-time accuracy.

2.Limited availability of district-specific data restricts detailed analysis.

3.The study does not include primary survey data from entrepreneurs.

4.Findings may not be generalizable beyond Ballari district.

Findings

1.GST has significantly formalized the textile sector in Ballari.

2.Small-scale enterprises faced major challenges during the transition phase.

3.Compliance and digital literacy remain key issues.

4.ITC and rate rationalization have improved long-term efficiency.

5.Job work sector benefited from reduced GST rates.

6.Handloom sector experienced negative short-term impacts.

7.Recent reforms indicate a positive growth trajectory.

Recommendations

1.Simplification of GST Compliance Procedures:

The government should simplify return filing processes, especially for small and micro textile units. Introducing quarterly filing options and reducing documentation requirements can ease the compliance burden on MSMEs in Ballari.

2.Capacity Building and Digital Training:

Special training programs should be organized for small entrepreneurs and job workers to improve digital literacy. Awareness campaigns and workshops at the district level can help them understand GST portals, invoicing, and return filing systems.

3.Timely Refund of Input Tax Credit (ITC): Delays in ITC refunds should be minimized by strengthening administrative efficiency. Faster refund mechanisms will improve working capital availability and ensure smooth business operations.

4.Addressing Inverted Duty Structure:

The government should continue rationalizing tax rates to eliminate inverted duty structures in remaining textile segments. This will prevent accumulation of tax credits and reduce financial stress on manufacturers.

5.Financial Support for MSMEs:

Provision of low-interest loans, subsidies, and credit support schemes should be enhanced for small textile units facing liquidity constraints due to GST compliance costs.

6.Strengthening Job Work Sector Support:

Given the importance of job work in Ballari, policies should further reduce compliance complexity for job workers and provide incentives to sustain this segment.

7.Decentralized Help Desks and Support Centers:

Establish GST facilitation centers at the district level to assist small businesses with registration, filing, and grievance redressal.

8.Encouraging Formalization through Incentives:

Provide tax incentives or benefits for newly registered units to encourage more informal enterprises to join the formal economy.

9.Integration with Skill Development Programs:

Link GST compliance awareness with skill development initiatives to ensure that workers and entrepreneurs are better equipped to adapt to reforms.

10.Continuous Policy Review and Feedback Mechanism:

Establish a system for regular feedback from local textile units and industry stakeholders in Ballari to ensure that GST policies remain responsive and inclusive.

Conclusion

The GST reform has fundamentally transformed the textile industry in Ballari district by promoting formalization, transparency, and efficiency. While the transition phase posed significant challenges—especially for small-scale enterprises and traditional sectors—the long-term benefits are becoming increasingly evident. Policy measures such as rate rationalization, improved ITC mechanisms, and support for digital compliance are crucial for sustaining this progress.

For the textile sector in Ballari to fully realize the benefits of GST, targeted interventions focusing on capacity building, financial support, and simplified compliance procedures are essential. Overall, GST represents a progressive reform with the potential to strengthen the competitiveness and sustainability of the textile industry in regional economies.

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