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Impact of Goods and Services Tax on the Performance of Small - Scale Textile Manufacturing Units in Uttar Pradesh

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Nidar Singh Pundeer

Research Scholar

MMH College, Ghaziabad

Dr. Sanyam

Research Supervisor

Rajkiya Mahila Mahavidyalaya Nagla Kashi

Dhaulana , Hapur

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Abstract— The Goods and Services Tax (GST), implemented in India since 1st July 2017, can be regarded as an important indirect tax reform which seeks to create a uniform market, overcome the problem of cascading effect and boost tax compliance. While GST has brought some simplicity to the tax system, there are many discussions about how this tax affects Micro, Small and Medium Enterprises (MSMEs), paying special attention to small scale textile industries. There are a lot of small scale textile industries in the state of Uttar Pradesh, India that have significant contribution in generating employment opportunities, industrial growth and economic development. In this research paper the focus will be made on the effect of the Goods and Services Tax on the performance of these manufacturing industries. Quantitative approach is chosen to conduct the research, and the empirical analysis will be done by collecting the primary data by means of structured questionnaire among the owners and managers of selected textile manufacturing industries in Uttar Pradesh. The study will analyze the effect of GST on cost of production, sales, profitability, working capital management, tax compliance and business competitiveness. Descriptive statistics and analytical methods will be used to interpret the results. It is expected that despite the positive effects of GST on improving tax transparency, interstate trade effectiveness and formalization of the business process, there are still many problems with compliance costs, electronic return filing and Input Tax Credit refund that adversely affect the financial performance of small-scale manufacturers.

Keywords— Goods and Services Tax (GST); Small-Scale Textile Manufacturing Units; MSMEs; Business Performance; Tax Compliance; Working Capital Management; Uttar Pradesh.

INTRODUCTION

The textile industry is considered to be one of the oldest and significant segments of the Indian economy, playing an important role in industrial production, employment, exports and rural development. Being one of the top producers of cotton, yarn, and textiles, the sector makes about 2% of GDP, 7% of industrial production, 12% of exports and provides employment directly or indirectly to more than 45 million people. Being characterized by a high share of Micro, Small and Medium Enterprises (MSMEs), the sector plays an important

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role in supporting entrepreneurial activity, industrialization of regions and promoting inclusive economic growth. In India, Uttar Pradesh is regarded as one of the main textile manufacturing states, where many small units produce woven goods, perform dyeing operations, manufacture clothes, handloom and power loom activities.

In order to reform the system of indirect taxes and create unified national market, the Government of India launched the Goods and Services Tax (GST) regime on 1 July 2017. The system subsumed such indirect taxes as Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax, and Octroi and created the system of comprehensive destination-based tax regime. Among the major goals of the new system are improved tax administration, elimination of cascading effects, increased transparency, better tax compliance, simplification of interstate trade and improvement of ease of doing business. Implementation of the system of Input Tax Credit (ITC) along the supply chain should reduce costs and increase the competitiveness of Indian manufacturing sectors.

Despite all these positive features, GST creation has brought many operational and financial challenges for small manufacturing companies. Among them are frequent changes in the system of GST rules, complicated procedure of filing returns, increased compliance costs, accounting in electronic format, delays in refund of ITC, and difficulties in managing working capital. As small enterprises have usually low financial capacity and low technological level, implementation of the GST regime requires considerable financial and organizational efforts. These factors influence such business aspects as production planning, inventory management, profit margins and business performance in general.

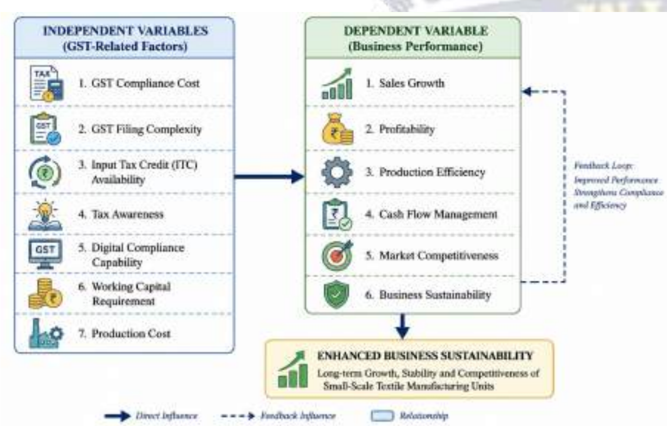

Fig. 1. Conceptual Framework of the Study

Although GST effects on various sectors of the Indian economy are extensively investigated in current literature, there is still a lack of empirical data concerning the effects of GST on small-scale manufacturing enterprises. Moreover, being one of the largest textile producers and having specific features of small manufacturing enterprises, there is a need to assess the impact of GST on the performance of the small-scale textile manufacturers. The current research aims at evaluating the impact of GST on costs of production, sales performance, profitability, tax compliance, management of working capital and competitiveness of small-scale textile manufacturing units in Uttar Pradesh.

Fig. 2. Research Methodology Flowchart

Literature Review

The introduction of Goods and Services Tax (GST) in India on 1st July 2017 is considered an important indirect tax reform

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initiative, substituting several central and state taxes with a unified taxation system. The key objectives of GST include elimination of cascade effect of taxation, tax administration simplification, compliance improvement, and creation of a national market. Analyses carried out by National Council of Applied Economic Research (NCAER) and GST policy reports have confirmed that GST made the tax system more transparent and increased the size of the tax base; however, the effects of this tax have differed according to sectors and enterprise size.

Many authors have attempted to understand the impact of GST on Micro, Small and Medium Enterprises (MSMEs). According to Reserve Bank of India (2018), GST helped in formalization and digitalization of small businesses. Nevertheless, compliance cost and frequent procedures adjustments created initial difficulties for small enterprises. Likewise, studies carried out by the World Bank have highlighted GST as a significant structural reform and identified the compliance complexity and delays in tax refunds as major constraints for MSMEs.

Textile manufacturing industry occupies a unique place due to a wide range of supply chains and small-sized enterprises in it. The Ministry of Textiles informs that the sector makes an important contribution to employment generation and exports in the country. Research conducted by Kumar and Bansal (2018), Garg (2019), and Sharma & Gupta (2021) suggests that GST contributed to better movement of textile products across states and reduction of cascade effect of taxation. At the same time, increased compliance requirements, blockage of working capital due to delays in Input Tax Credit (ITC) and increased dependency on digital accounting systems were revealed among small textile manufacturers.

Literature review concerning the performance of textile companies shows contradictory results. Aggarwal (2020) notes that supply chain performance and inventory management have become better due to the abolition of different state taxes. On the other hand, Singh and Verma (2021) have established that some small manufacturing units suffered from higher compliance cost, increased return filing and accounting expenses resulting in reduced profitability of companies. Similarly, other MSMEs researches show that GST return filing, invoice matching and documentation have become major operational problems for small enterprises.

Working capital management has become a critical area of interest in literature about GST. According to the research performed by Federation of Indian Chambers of Commerce and Industry and Confederation of Indian Industry, delays in claiming ITC and receiving GST refund have negatively influenced the liquidity situation of manufacturing MSMEs. Small-scale textile firms having low financial resources became especially vulnerable to these delays affecting their production and purchasing operations. Current industrial studies still point at delays in refunds and inverted duty structure as critical issues of textile manufacturing industry.

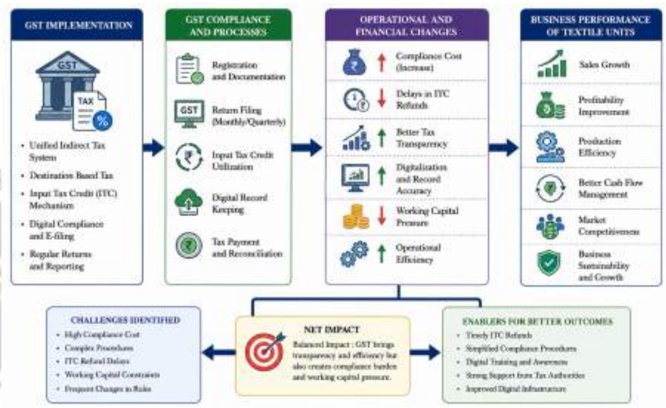

Fig. 3. Impact of GST on Small Scale Textile Manufacturing Units

Digital compliance within GST framework has attracted considerable interest among academics. Researches carried out by PwC India, Deloitte India and EY India prove that GST led to better use of digital bookkeeping, electronic invoicing and cloud accounting among enterprises. Even though technological changes resulted in better transparency and tax administration in the long term, many small textile entrepreneurs had serious difficulties in adapting to new technological environment due to their low digital literacy and infrastructure constraints.

Modern research increasingly connects GST with business competitiveness and sustainable development. According to Das (2025), digital transformation and regulatory compliance are becoming essential elements for improving the resilience and competitiveness of Indian textile industry as small textile manufacturers should introduce digital systems and efficient tax compliance tools to be competitive in changing markets.

In general, it can be concluded that current literature identifies both positive and negative consequences of GST reform for small-scale textile units. On one hand, the reform helped to make the tax system more transparent, improve supply chain integration and market formalization; on the other hand, some negative aspects such as compliance burden, working capital constraints, delays in refunds, and lack of digital readiness were pointed out. Moreover, the majority of empirical studies focus

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on MSMEs at the national level and there is a lack of evidence concerning small-scale textile manufacturing units in Uttar Pradesh. Therefore, the current study can be justified geographically and sectorally.

Research Gap and Objectives

Even though many studies have been conducted on GST since the year of its implementation, 2017, most of them focused on the macroeconomic impact of GST, taxation issues, consumer market or the overall performance of MSMEs. At the same time, empirical studies that focus on the sector-specific impact of GST on small-scale textile manufacturing units are scarce, especially in the state of Uttar Pradesh. While the existing studies highlight the influence of GST on the compliance procedure, taxation policies and supply chains efficiency, they provide little information on the impact of GST on the profitability, production cost, working capital management, sales growth and operational competitiveness of enterprises. In addition, small textile manufacturers, which operate in semi-urban and rural industrial areas, are not sufficiently investigated. Having in mind that the textile industry in Uttar Pradesh contributes significantly to the number of jobs and economic development, the assessment of GST's impact on these enterprises is extremely important.

Research Objectives

This research intends to reach the following objectives:

1. To analyze the impact of GST on the overall performance of small-scale textile manufacturing units in the state of Uttar Pradesh.
2. To examine the impact of GST on the production costs, sales, profitability and working capital management of textile manufacturers.
3. To identify the GST compliance issues in small-scale textile manufacturing units.
4. To determine the relationship between GST implementation and the operational competitiveness of textile manufacturing units.
5. To recommend the measures for improving GST implementation and sustainable development of small-scale textile manufacturing units in the state of Uttar Pradesh.

Research Methodology

The present research adopts a quantitative and descriptive research design in order to examine the effects of the Goods and Services Tax (GST) on the performance of small-scale textile manufacturing units in Uttar Pradesh. The aim of this research is to find out the impact of GST on several dimensions of business performance like cost of production, sales growth, profitability, working capital, tax compliance, and competitiveness of the organization. Quantitative research is considered appropriate in this regard as it facilitates the measurement of the relationship between GST-related variables and performance through statistical methods.

For the purpose of gathering primary data, a structured questionnaire was designed which was administered to the owners, managers, and accountants of small-scale textile manufacturing units functioning in the prominent textile cluster of Uttar Pradesh including Kanpur, Varanasi, Meerut, Noida, Ghaziabad, Agra, and Bareilly. This was done as the chosen textile clusters in Uttar Pradesh have emerged as the hub of the textile industry and involve various activities such as manufacture of garments, weaving, dying, printing, and power-loom work.

The sampling technique used for this research is stratified random sampling. In this research, a total of 250 respondents have been taken into consideration, which is adequate for statistical analysis of the findings of this study. For testing the reliability and validity of the questionnaire, a pilot survey was done in which 20 respondents were involved.

There are two sections in this questionnaire. Section I involves the gathering of demographic and business-related information from the respondents. This includes the details about the age of the enterprise, annual turnover, the number of employees, years of operation, and designation of the respondents. Section II deals with GST related variables including the costs associated with GST compliance, ease of filing returns, availability of Input Tax Credit (ITC), digital compliance, working capital, cost of production, sales, profitability, and competitiveness. For section II, a five-point Likert scale with 1 (Strongly Disagree) and 5 (Strongly Agree) as end points is used.

The data obtained in this way will be analyzed through IBM SPSS Statistics (Version 29). Descriptive statistics like frequency distribution, percentage, mean, and standard deviation will be used to summarize respondent characteristics and business perceptions. There will also be an inferential statistical analysis that will comprise of Cronbach's Alpha to measure the reliability of the measurement scale and Pearson correlation to measure the relationship between the variables. Thereafter, there will be multiple regression analysis to determine the effect of GST-related variables on the performance of the business. Independent sample t-test and one-way Analysis of Variance (ANOVA) will also be carried out wherever needed.

Conceptual Framework

The conceptual framework developed in this study outlines the interrelation between GST-related variables and the performance of small-scale textile manufacturing units in Uttar Pradesh. It assumes that GST implementation influences the performance of enterprises through a range of aspects related to operational and financial sides of its operation. Independent variables include the cost of GST compliance, GST filing complexity, input tax credit, digital compliance ability, tax knowledge, need for working capital, and cost of production. They have a direct effect on the dependent variable, i.e., the performance of small-scale textile manufacturing units measured in terms of sales growth, profitability, production efficiency, cash flow management, competitiveness, and sustainability. According to the framework, successful GST compliance and efficient tax management can positively affect the business performance, whereas high costs of compliance, complexity, and delays in tax payments may negatively affect operations and financial results of enterprises.

Results and Discussion

The results of the survey conducted among 250 owners/managers of textile manufacturing units in small-scale sector in the state of Uttar Pradesh are presented in this chapter. The study analyzes the demographic profile of the respondents, their compliance with GST and its effects on different performance indicators of businesses.

Demographic Profile of Respondents

Table 1. Demographic Characteristics of Respondents (n = 250)

Variable	Category	Frequency	Percentage (%)
Age	Below 35 Years	68	27.2
	35–45 Years	91	36.4
	46–55 Years	59	23.6
	Above 55 Years	32	12.8
Education	Graduate	87	34.8
	Postgraduate	103	41.2
	Diploma/Professional	60	24.0
Business Experience	Below 10 Years	81	32.4
	10–20 Years	106	42.4
	Above 20 Years	63	25.2

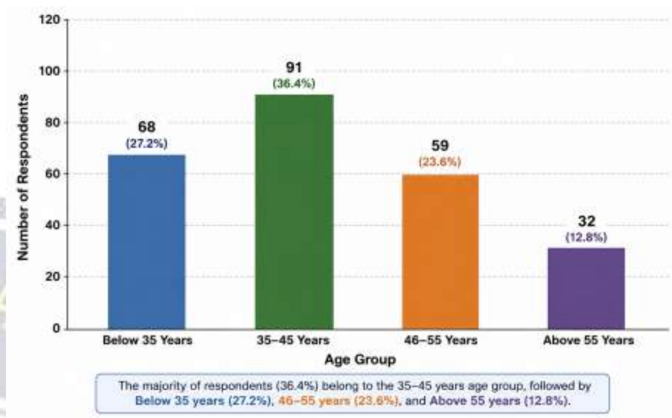

Fig. 4. Age Distribution of Respondents

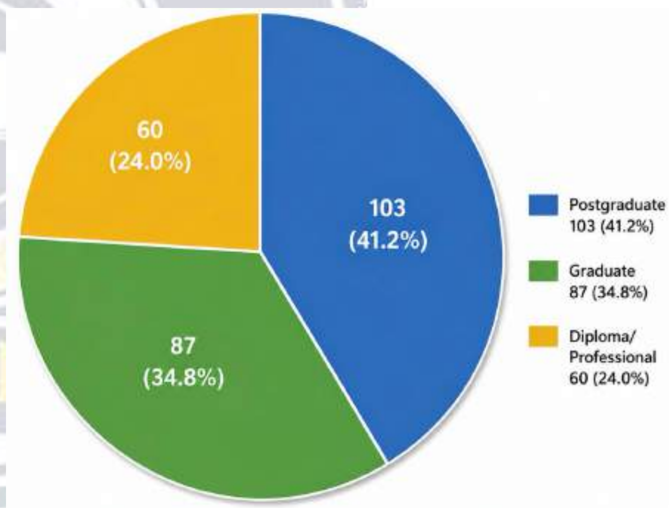

Fig. 5. Educational Qualification of Respondents

These findings show that 36.4% of participants belong to the 35-45 age group, showing that middle-age entrepreneurs are taking part in textiles production activities. 41.9% have postgraduate education, implying that there is some improvement in the level of education among the businessmen, hence it will be easier for them to adopt digital compliance of GST. 42% of the firms have been operating for 10-20 years.

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GST Compliance Characteristics

Table 2. GST Compliance Practices

Variable	Category	Frequency	Percentage (%)
GST Registration	Registered	250	100.0
Return Filing	Monthly	188	75.2
	Quarterly	62	24.8
Accounting Software	Digital Software	176	70.4
	Manual/Hybrid	74	29.6
Input Tax Credit Utilization	Regular	196	78.4
	Occasional	54	21.6

All the chosen firms had GST registration, which revealed a trend of formalization among textile manufacturing firms. About 75.2% made their GST returns monthly, while more than 70% used computerized accounting software. Over 78.4% made claims for the Input Tax Credit (ITC) regularly, suggesting that they were aware of the GST policies amid all difficulties.

The Impact of GST on Business Performance

The respondents were asked to rate a number of GST statements on a five-point Likert scale.

Table 3. Mean Scores of GST Impact Variables

Variable	Mean	Standard Deviation
Improved Tax Transparency	4.18	0.72
Ease of Interstate Trade	4.02	0.81
Digital Record Keeping	3.94	0.77
Increased Compliance Cost	4.11	0.75
Working Capital Pressure	3.98	0.83
Delayed ITC Refunds	3.89	0.84
Overall Business Competitiveness	3.74	0.79
Sales Performance	3.69	0.82
Profitability	3.58	0.88

The highest mean score (4.18) was achieved by enhanced tax transparency, meaning that respondents viewed GST as one of the factors making the tax system more transparent. Similarly, respondents agreed that GST enabled easy interstate transactions (Mean = 4.02) and supported electronic record keeping (Mean = 3.94). However, compliance costs (Mean = 4.11) and working capital challenges (Mean = 3.98) were among the top issues. The lower mean scores in profitability (Mean = 3.58) and sales (Mean = 3.69) show that despite the positive effects of GST on operational efficiency, the financial gains of the tax system for small textile producers are relatively small.

Reliability Analysis

Table 4. Reliability Statistics

Scale	Cronbach's Alpha
GST Impact Scale	0.891

The overall Cronbach's Alpha value of **0.891** indicates excellent internal consistency of the measurement instrument, confirming that the questionnaire reliably measures GST-related business performance variables.

Correlation Analysis

Table 5. Correlation between GST Variables and Business Performance

Variable	Correlation (r)	p-value
GST Compliance Cost	-0.48	<0.001
Input Tax Credit Availability	0.56	<0.001
Digital Compliance	0.49	<0.001
Tax Awareness	0.44	<0.001
Working Capital Requirement	-0.41	<0.001

It can be observed from the above results that input tax credit shows the highest positive relationship with business performance ($r = 0.56$). This clearly indicates that timely use of ITC is conducive for increasing efficiency and profits in a business organization. Compliance cost ($r = -0.48$) and working capital limitations ($r = -0.41$) have a negative relationship with business performance.

Multiple Regression Analysis

Table 6. Regression Results

Predictor	Beta	t-value	p-value

GST Compliance Cost	-0.291	-5.18	<0.001
ITC Availability	0.364	6.42	<0.001
Digital Compliance	0.229	4.01	<0.001
Tax Awareness	0.173	3.29	0.001

Model Summary

- **$R^2 = 0.582$**
- **Adjusted $R^2 = 0.571$**
- **$F = 56.83$**
- **$p < 0.001$**

The model explains 58.2% of the variation in firm performance, reflecting a good level of power. Out of all the variables, the variable "Input Tax Credit" appears to be the most positively significant predictor of firm performance ($\beta = 0.364$), followed by digital compliance ($\beta = 0.229$) and tax awareness ($\beta = 0.173$). On the other hand, GST compliance cost shows a significant negative effect ($\beta = -0.291$).

Discussion

The results show that GST has created favorable as well as unfavorable consequences for small-scale textile manufacturing firms in Uttar Pradesh. The favorable aspects include increased tax transparency, digitalization of accounting, and inter-state trading activities, which are in line with previous literature that finds GST to be one of the critical reforms, which helped create a common national market. The prevalence of the digital accounting system along with the continuous utilization of ITC shows that most of the firms have been able to adapt to GST.

On the other hand, some issues remain prevalent for the firms, including compliance costs, return filing frequency, and delay in ITC refunds, creating difficulties in managing their working capital, especially those that have scarce financial resources. Regression results also show that while ITC availability and digitalization improve the performance of the businesses, compliance costs create a negative impact on their profit levels. This is consistent with earlier research, which highlights the operational complexity faced by MSMEs in implementing GST.

Thus, it can be said that GST has led to increased transparency and formalization of the textile industry. However, there is a need for more policies, such as simplified compliance procedures and fast processing of refunds, among others, in order to make full use of the benefits of GST and make small-scale textile manufacturing firms more competitive.

Conclusion

The introduction of the Goods and Services Tax (GST) has brought significant transformation in the indirect tax regime of India and created major consequences for the performance of small-scale textile manufacturing firms in Uttar Pradesh. Based on the results obtained during the study, it can be concluded that GST has positively affected the level of tax transparency, digitalization of accounting practices, smoothness of interstate trade and formalization of business processes in the textile manufacturing industry.

Nevertheless, the study reveals the existence of certain issues which have been negatively affecting the performance of small-scale textile firms. Namely, increased costs of compliance with the regulatory framework, need to file returns regularly, delay in the payment of Input Tax Credit (ITC) and lack of working capital have been creating additional problems for some firms. Moreover, based on the statistical analysis, it was found out that timeliness of ITC receipt, digital compliance and knowledge about the tax significantly contribute to the improvement of business performance, while increased compliance costs adversely affect this indicator.

Based on the results obtained during the study, it can be concluded that in order for GST to be efficient in the long run for the textile MSME sector, it is necessary to make additional improvements in terms of simplification of compliance procedures, quick processing of refunds and improving the level of digitalization among small producers. It is necessary for the government bodies to increase the number of awareness programs and provide technical support in relation to GST compliance. It should be noted that although the present study provides important insights in relation to the effect of GST on small-scale textile manufacturing firms in Uttar Pradesh, the scope of the study is rather limited since it is focused only on selected districts and uses the cross-sectional research design.

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