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Impact Of Goods and Service Tax on the Financial Performance: An Empirical Study of Indian Textile Sector

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Abstract:

Goods and Services tax is one of the important taxation reforms in India introduced. GST helps unified indirect taxation system in India. GST implemented in India 1 July, 2017. GST replaced multiple indirect taxes such as value-added tax (VAT), service tax, excise duty, and central sales tax, thereby simplifying the tax structure. The primary objective of GST is to remove cascading effects of taxation, improve transparency, and promote ease of doing business in the country. The study analyzed the impact of GST (Goods & Services Tax) on the profitability of Indian Textile sector. The data has been collected from prowess database. The data has been collected from the period of ranging 2017-2018 to 2025-2026. In this study is taken three variables, GST is independent variable, Size is control variable and Profitability is dependent variable. The study found that the GST is negatively Strongly associated with the profitability. Whereas, Size is used as control variable. Size is not associated with the profitability.

Keywords: GST, Financial Performance, tax, value added tax

Section1: Introduction

Taxes represent the amount of money Which we pay to the Government at predefined rates. Tax can be defined in very simple words as the government's revenue or source of income. The money collected under the taxation system is put into use for the country's development through several projects and schemes. In India there are two types of Tax.

Direct and Indirect Tax. Direct tax is those which we pay directly to the government without the interference of intermediates. Whereas, Indirect tax are those which we pay to government but with the help of some intermediators like whole seller and retailer etc.

Now a days, In India only one Indirect tax that is called GST (Goods and Service Tax). GST came in India 1 July, 2017. Before GST(Goods and Services tax) in India, there are 17 Indirect tax(Like Value added tax, Service tax and Central sale tax etc.).

After implication of GST removes the cascading effect and multiple taxation system. But in Current tax rate of GST(Goods and Services Tax) is higher as compare to past rate when implication of GST. Natural Goods relate cotton, wool which are currently exempt from tax, would be taxed under GST.

Issues and Challenges facing in Implementation of GST. Goods and servies tax came in India in middle of year. In the mid of year facing number challenges such as compliance burden, technical issues, sorting disputes, and frequent rate revisions. Therefore, evaluating the impact of GST on different sectors, businesses, and consumers has become an important area of research. This study attempts to review existing literature and analyze the implications of GST in India.

Section 2: Literature Review

Several researchers have examined the impact and implications of GST on the Indian economy.

Nayyar and Singh (2018) described GST as a major tax reform introduced to subsume various indirect taxes into a single system. Their study highlighted that GST improves transparency, reduces tax evasion, and may contribute to GDP growth. However, the authors also pointed out implementation challenges and the need for improved compliance mechanisms.

Khan (2018) analyzed the basic concepts and features of GST and concluded that the new tax system eliminates cascading effects of taxes and promotes economic integration. The study emphasized that GST simplifies the tax structure and creates a unified national market.

Agrawal (2019) conducted a literature-based study on the impact of GST on leading sectors of the Indian economy. The findings indicated both positive and negative effects during the initial phase of implementation, including compliance difficulties and operational challenges for businesses.

Kumar (2025) examined the impact of GST on industrial development and observed that GST created a more transparent and efficient tax system. The study reported improvements in manufacturing and service sectors, while small and medium enterprises faced initial compliance-related issues.

Halder and Vijaykarthige conducted a cost–benefit analysis of GST on the manufacturing sector and found that GST improved supply chain efficiency and reduced logistics costs, although short-term adjustment costs were observed.

Recent research also indicates that GST has contributed to increased tax base, better compliance, and improved revenue collection. However, studies suggest the need for rate rationalization, simplification of return filing procedures, and technological improvements to enhance GST effectiveness.

Section 3: Problem Statement

Now a days, GST is important concept. There are many studies found in the literature which Shows the impact GST in many sectors. But no study found in the literature which shows the impact of GST on the financial performance of the textile sector. The study focusses on the impact of GST on the financial performance an empirical study of Indian textile sectors.

Section4: Research Objective And Hypothesis

The present study is focused on the impact of GST on the financial performance an empirical study of Indian Textile sector. The study aims to find out the impact of GST on the financial performance.

H01: There is significant association between GST (Goods & Services Tax) and Profitability (Profit after tax).

Section4.1: Research Methodology

	GST	PAT	SIZE
Mean	300	**727**	100070
Median	**320**	**497**	**8746**
Maximum	448	2055	45800
Minimum	112	-95	1755
Std. Dev.	74.5541	477.858	9555.43
Skewness	0.95901	1.47144	2.50398
Kurtosis	3.44414	4.69202	8.28068
Observations	100	100	100

To Study the impact of GST and profitability (Profit after tax). The Scope of study is restricted to the top ten textile industries which is listed in the NSE (National Stock Exchange) on the bases of market capitalization. The data has been collected from the prowess database maintained by CMIE. The reference period for annual data pertaining ranges 2017-2018 to 2025-2026. The study is empirical in nature. The data is secondary in nature. For analysis purpose descriptive statistics, Correlation matrix and regression analysis has been used. Descrptive statistics has been used to describe and presenting the data and correlation matrix has been used to found the multiple correlates between the variables.

S. No.	Variables Name	Variable Name used in Study	Definition/ Measurement
1	Goods & Services Tax (Independent Variable)	GST	**GST (Goods and Services Tax)** is an indirect tax applied on the supply of goods and services in India. It replaces multiple taxes and is based on a value-added system.
2.	Size (control variable)	Size	Log of Total Assets
3.	Profitability (Dependent Variable)	PAT	Profit after tax

Section4.2: Descriptive Statistics

The study shows the impact of GST on the profitability an empirical study of Indian Textile sectors. Descriptive statistics has been used to presenting data. The average value of Goods and services tax is 216.36 crores. The mean value of the Profitability is 525.32. the descriptive statistics shows that the PAT(Profitability) and GST (Goods and Services Tax) mean value is higher to their median it means the positively skewness distribution. The Standard deviation shows the variance in the data.

Table 1 : Descriptive Statistics Of The Textile Sectors

	GST	PAT	SIZE
Mean	216.36	525.32	10063.1
Median	198	397	7385
Maximum	448	2055	45800
Minimum	112	-95	1755
Std. Dev.	74.5541	477.858	9555.43
Skewness	0.95901	1.47144	2.50398
Kurtosis	3.44414	4.69202	8.28068
Observations	100	100	100

Section4.3: Correlation Matrix

The correlation matrix shows the multi- collinearity between the variables. Table 2 shows the all the value of correlation matrix less than 0.8. Its means that no multi- collinearity exist between the variables. The rang of the correlation coefficient is between the 0.745 to 0.852. It means that the no multi-collinearity exists between the variables.

Table 2 : Correlation Matrix Of The Textile Sectors

Observations	GST	PAT	SIZE
GST	1		

PAT	-0.745	1	
SIZE	0.771	0.852	1

Section4.3: Panel Regression Model

Table 3 represents the regression result GST is highly associated with the profitability. In the table 3 shows that the p-value is 0. It means that GST is negatively significantly associated with the profitability.

The Durbin Watson test is less than 2. It means that model is good fit. In this OLS (Ordinary least Square) Model Shows that Adjusted R-Square value is 0.8069. It means that GST explains the Profitability more than 80 Percent.

There is a negative association between GST and profitability (PAT) when an increase in GST leads to higher costs or tax burden, reducing net profit, especially when businesses are unable to pass the tax fully onto customers.

Table 3 Panel Regression Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	142.435	4.935	28.857	0
PAT	-0.139	0.0132	10.5265	0
SIZE	0.012	0.0065	0.1708	0.865
R-squared	0.8108		Mean dependent var	216.36
Adjusted R-squared	0.8069		S.D. dependent var	74.554
F-statistic	207.944		Durbin-Watson stat	0.4174
Prob(F-statistic)	0			

Section 5: Conclusion And Discussion

Table 3 Shows the impact of GST on the Profitability with the help of Panel regression model. This study found that the GST is negatively significantly associated with Profitability. This study examined the relationship between Goods and Services Tax (GST) and profitability of selected companies. The empirical results reveal that GST is negatively and significantly associated with profitability. This indicates that an increase in GST burden leads to a decline in firms' profitability. The findings suggest that higher tax liability increases operating costs, reduces net earnings, and ultimately affects overall financial performance. Therefore, GST plays a crucial role in influencing corporate profitability, particularly for firms with higher tax exposure.

Overall, the study concludes that GST has a statistically significant negative impact on profitability, implying that effective tax planning and efficient cost management are essential for firms to maintain profitability under the GST regime.

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