Evaluating the Impact and Service Compliance of Goods and Services Tax (GST) on Organized Textile Retailers: Empirical Evidence from Erode District

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Abstract
The introduction of the Goods and Services Tax (GST) stands as one of the most significant fiscal reforms in modern India, fundamentally altering the operational dynamics of supply chains. This paper examines the empirical impact and service compliance of GST on organized textile retailers within the Erode district of Tamil Nadu, a prominent hub for powerloom, handloom, and readymade garments. Utilizing a descriptive and analytical research framework, primary data was gathered from a sampled population of 481 organized textile retailers using structured questionnaires. The empirical findings reveal a dual perception: while an overwhelming majority (76.7%) of retailers acknowledge that GST is a transparent tax, a significant portion (45.5%) view the prevailing tax brackets as excessively high for the textile sector. Furthermore, a Henry Garrett Ranking analysis indicates that the "cost of compliance" and "cumbersome procedures and documentation" serve as the primary operational bottlenecks for businesses. The study concludes that while software integration and e-portal transitions are highly prevalent (70.1%), targeted state interventions and rationalized tax structures are crucial to sustaining retail growth without imposing a working capital burden.

Keywords: GST Compliance, Organized Retailing, Textile Industry, Erode District, Cost of Compliance, E-portal.

1. Introduction

The retail business landscape has undergone a dramatic transformation, driven by rapid urbanization, shifting demographic patterns, and changing consumer habits in developing economies. In India, organized retailing has transitioned from a localized phenomenon into a core pillar of economic infrastructure. Within this macro-environment, the textile retail sector occupies a highly sensitive position, representing a massive contributor to both industrial output and direct employment. Tamil Nadu holds a dominant share of this market, with major production and distribution concentrations clustered in districts like Coimbatore, Tirupur, Karur, and Erode. Erode district, in particular, is universally recognized for its vast market footprint in handloom products, powerloom fabrics, and mass readymade garment processing. The long-term sustainability of these organized textile formats relies heavily on their capacity to handle regulatory adjustments and macro-policy shifts. The most disruptive fiscal transition in recent history took place with the implementation of the unified Goods and Services Tax (GST) framework. Designed to eliminate the cascading effects of multiple indirect taxes and plug systemic revenue leakages, GST altered how raw materials are sourced, processed, and taxed at the final point of sale.

1.1 Statement of the Problem

While the theoretical structure of GST promises a seamless input tax credit flow, its micro-level implementation has triggered substantial friction for traditional textile retailers. Organized retailing in Tamil Nadu faces severe competition from emerging global and national retail conglomerates. To survive, local firms must redraft their marketing strategies while simultaneously complying with rigid digital taxation systems. The sudden shift from manual or basic bookkeeping to compulsory digital e-filing systems has created operational bottlenecks. Textile retailers in Erode face distinct challenges regarding compliance costs, server downtime on the GSTN portal, and complicated documentation updates. This scenario raises critical research questions: How effectively are textile retailers handling the digital e-portal systems? Do they view the tax as a fair mechanism or an operational burden? What are the precise systematic problems they encounter during monthly and annual tax filings?

1.2 Objectives of the Study

The primary objectives of this empirical investigation are outlined as follows: To explore the business and operational profile of selected organized textile retailers in the Erode district. To evaluate the perceptions, fairness assessment, and transparency ratings of retailers toward the current GST framework. To identify the primary modes of tax payment and determine the readiness of existing retail software infrastructures. To scientifically rank the operational problems and compliance grievances faced by retailers under the GST regime. To formulate actionable suggestions for policy makers and retail managers to improve overall compliance satisfaction.

2. Review of Literature

The transition of the retail industry from unorganized formats to highly structured, modern ecosystems has been a subject of extensive global and national research. To fully grasp the operational and systemic impacts of policy changes like the Goods and Services Tax (GST) on textile retailing, it is essential to evaluate the existing body of literature concerning retail transformations, taxation friction, and localized market dynamics.

2.1 The Evolution and Dynamics of Modern Retailing

Retailing has evolved from a primitive exchange mechanism into a sophisticated sector that acts as a core pillar of economic infrastructure. Deepika Jhamb and Ravi Kiran (2012) observed that rapid urbanization, economic growth, changing demographics, and evolving consumer preferences are the chief drivers of organized retail formats in India. Modern retail environments—comprising hypermarkets, supermarkets, and specialty brand outlets—rely heavily on structural efficiency to thrive. However, as noted by Werner Reinartz et al. (2011), the globalization and modernization of retail spaces simultaneously introduce unique regulatory, industrial, and compliance challenges that necessitate continuous operational innovation. In the specific context of the textile and apparel sector, the retail landscape is highly dynamic and price-sensitive. Amrita Pani and Mahesh Sharma (2012) highlighted that fashion and textile marketing formats require robust supply chain integration and predictable cost environments to maintain competitive brand equity. Consequently, any external shock, such as a major fiscal or tax overhaul, can alter the pricing models and margins of these retail enterprises.

2.2 Indirect Taxation Reforms and Small Trader Sustainability

The implementation of a single-point unified tax structure like GST is theoretically designed to optimize market transactions. Jyotsna Oberoi (2017) conducted a dedicated analysis of the impact of GST on the Indian textile sector, noting that the introduction of a unified tax code helps plug revenue leakages, eliminate cascading tax layers, and ensure a seamless flow of input tax credits across state boundaries, eventually stimulating economic development. However, empirical literature also highlights a significant execution gap between policy design and micro-level retail management. Traditional and medium-sized organized retailers often bear the brunt of transitional friction. Research by Vetrivel (2017) on the financial challenges of retailers emphasized that restricted working capital, limited fixed assets, and sudden administrative changes frequently result in bad debts and cash flow imbalances. Furthermore, studies focusing on localized hubs, such as those by Rajesh K. Yadav et al. (2016), demonstrated that while corporate-backed macro retail structures adapt swiftly to electronic tracking, smaller neighborhood retailers experience an escalation in operational costs trying to meet modernized service quality expectations.

2.3 Research Gap and the Erode Textile Hub

While global and national studies extensively discuss the theoretical benefits of macro tax updates, there is a distinct lack of empirical research mapping the precise field realities of centralized textile hubs under the digital GST portal framework. Erode district represents a highly specialized market cluster in Tamil Nadu, heavily dependent on decentralized powerloom production and subsequent organized trading networks. This paper addresses this gap by investigating exactly how 481 organized textile retailers in Erode balance the administrative demands of tax compliance against standard market pressures.

2. Research Methodology

3.1 Research Design and Sampling Framework

The study is descriptive and analytical in nature, combining secondary theoretical insights with a robust quantitative primary survey. The population for this research consists of organized textile retail store operators located across the Erode district of Tamil Nadu. The baseline population directory was obtained from the Erode Textile Association, which registered a total universe of 2,429 organized textile retailers in the study area.

To determine a statistically representative sample size from this known population, a standard scientific sampling formula was applied, yielding a target sample size of 481 respondents. Primary data collection was executed successfully across eight taluks using a proportionate distribution method to prevent geographical bias. The final sample distribution is presented in Table I:

TABLE I.

S. No	**Geographical Distribution of Sample Size**			
	Taluk Name	***Total Population***	***Sample Size***	***Percentage (%)***
1	Erode	1,926	381	79.3%
2	Perundurai	38	8	1.6%
3	Modakurichi	13	3	0.5%
4	Kodumudi	17	4	0.7%
5	Gobichettipalayam	89	18	3.7%

S. No	Geographical Distribution of Sample Size			
	Taluk Name	***Total Population***	***Sample Size***	***Percentage (%)***
6	Sathyamangalam	169	33	7.0%
7	Bhavani	146	29	6.0%
8	Anthiyur	31	6	1.2%
	Total	**2,429**	**481**	**100.0%**

3.2 Data Collection Tools and Reliability

Primary data was accumulated through a specially structured questionnaire containing closed-ended and open-ended operational metrics. To ensure data validity, a preliminary draft was reviewed by academic experts and research scholars, followed by a pre-test conducted among forty (40) independent textile retailers.

The structural reliability and internal consistency of the multi-item scales were verified mathematically via Cronbach's alpha (α). The testing yielded an overall alpha coefficient of 0.879 for the combined study variables, while specific sub-dimensions like "Perception towards textile business" registered a highly dependable reliability rating of 0.893, clearing the traditional standard threshold of 0.70.

4. Data Analysis and Empirical Results

4.1Retailers' Perception towards GST Implementation

A core focus of this study was evaluating how retail firm operators perceive the fairness, structural pricing impacts, and structural transparency of the GST regime. The primary data was aggregated and subjected to basic percentage analysis, as detailed in Table II:

TABLE II.

S. No	Retailer Opinions on Crucial GST Dimensions			
	Empirical Variable / Statement	***Response Option***	***Frequency (n=481)***	***Percentage (%)***
1	Implementation of GST causes a higher price of goods & services	Yes	376	78.2%
		No	105	21.8%
2	Do you perceive GST as an operational burden to your business?	Burden	219	45.5%
		Not Burden	262	54.5%
3	Current service tax compliances are easier than direct tax compliances	Yes	328	68.2%
		No	153	31.8%
4	Overall assessment of GST execution in your retail business	Easier	224	46.6%
		Difficult	178	37.0%
		Don't Know	79	16.4%
5	Firm has a concrete policy/plan in place to cope with the GST regime	Yes	362	75.3%
		No	119	24.7%
6	Current software system is fully equipped to handle proposed GST	Yes	337	70.1%
		No	144	29.9%
7	Ethical Fairness Evaluation: Do you consider GST to be a fair tax?	Yes	319	66.3%
		No	162	33.7%
8	Rating of prevailing GST tax percentages within textile retailing	Too High	219	45.5%
		Just Right	148	30.8%
		Too Low	114	23.7%
9	Transparency Evaluation: Do you consider GST a transparent tax?	Yes	369	76.7%
		No	112	23.3%

The empirical results show that while 76.7% of organized retailers view GST as a highly transparent tax model, 78.2% note that its implementation has increased the baseline prices of retail goods and services. Despite 45.5% considering the textile tax percentages "too high", a majority of 54.5% state that the unified tax structure does not function as an absolute operational burden to their enterprise or final consumers.

4.2 Compliance Systems and Tax Payment Channels

Modern compliance mandates complete alignment with digital interfaces. The survey checked the actual operational compliance channels used by textile operators to settle their tax liabilities, which revealed the following distribution:

- Self-Payment via E-Portal: Used by a dominant majority of 54.9% of the respondents (n=264).
- Advance Tax Settlement Method: Selected regularly by 28.7% of the sample group (n=138).
- CA-Driven Consultation & Advice: Relied upon by 16.4% of retail merchants (n=79).

Importantly, 70.1% (n=337) of the organized retailers report that their store level point-of-sale (POS) and inventory accounting software systems are fully modified and equipped to process GST-compliant invoices and returns.

4.3 Ranking of Grievances using Henry Garrett Technique

To determine exactly which bottlenecks cause the most severe operational distress during GST management, primary responses were evaluated via the Henry Garrett Ranking Technique. This mathematical mechanism calculates total and mean scores to order problems clearly. The results are displayed in Table III:

TABLE III.

S. No	Henry Garrett Ranking of Retailer GST Problems			
	Core GST Compliance Problem / Grievance	***Total Score***	***Mean Score***	***Assigned Rank***
1	**Cost of Compliance** (Software updates, computer hardware, accounting overheads)	27,234	56.6	**I**
2	**Cumbersome Procedures and Documentation** (Complex multi-stage online filing templates)	25,224	52.4	**II**
3	**Lack of IT Infrastructure** (Poor regional network access and lack of local technical support)	23,836	49.6	**III**
4	**Technical Issues with the GSTN Portal** (Server lag, systemic verification delays, upload errors)	19,906	41.4	**IV**

The mathematical output indicates that the financial investment required to maintain digital bookkeeping—the Cost of Compliance—is the single most significant grievance among organized retailers (Mean Score = 56.6), followed immediately by Cumbersome Procedures and Documentation (Mean Score = 52.4).

5. Discussion and Strategic Implications

The empirical results of this study highlight a significant paradox in how organized textile retailers in the Erode district perceive the execution of the Goods and Services Tax (GST). On one hand, a major strength of the reform is its transparency, with 76.7% of surveyed retailers recognizing GST as a clear and transparent tax model. This transparency has minimized the systemic cascading effect of previous indirect tax structures and streamlined inter-state supply chains. Furthermore, the fact that 70.1% of retailers have successfully upgraded their billing and accounting software indicates strong technological resilience within the regional retail network.

On the other hand, serious systemic challenges remain at the micro-enterprise level. While 54.5% of respondents state that GST is not an absolute structural burden to long-term business survival, a considerable 78.2% point out that it has caused a direct increase in the baseline price of goods and services. This price inflation is particularly challenging for the textile sector, where consumers are highly price-sensitive.

The Henry Garrett Ranking results show that the main issue is not resistance to tax compliance itself, but rather the heavy financial and operational pressure it creates. The Cost of Compliance ranks as the top grievance (Mean Score = 56.6). Small and medium organized retailers, especially sole proprietorship formats which make up 68.6% of the local market, face high overhead costs for regular software updates, IT infrastructure maintenance, and professional accounting fees. This is compounded by Cumbersome Procedures and Documentation (Mean Score = 52.4), showing that the current multi-stage monthly and quarterly digital return templates place a heavy administrative demand on traditional retail merchants.

6. Suggestions and Conclusion

6.1 Actionable Suggestions

Based on the empirical findings and the specific problems raised by the respondents, the following suggestions are proposed to improve tax compliance satisfaction and boost retail performance:

- Rationalization of Tax Brackets: Since 45.5% of retailers view the current textile tax percentages as too high, policy makers should consider rationalizing and reducing GST rates on essential and mass-consumed textile garments to prevent retail price inflation.
- Compliance Cost Subsidies: To reduce the financial burden on smaller retail formats (such as sole proprietorships and partnerships), the government should provide subsidized accounting software updates and setup incentives.
- Targeted Working Capital Financial Support: Retailers who earn lower daily incomes (69.0% earning below ₹1 lakh daily) often experience temporary cash flow gaps due to input tax credit timing. The state or commercial banks should provide short-term and medium-term working capital loans to support these financially vulnerable retailers.
- Simplification of the GSTN Portal Interface: Simplifying online submission forms and stabilizing the GSTN portal architecture will reduce documentation errors and lower administrative costs for businesses.
- Local Technical Training Hubs: Setting up institutionalized, cost-free technical training programs through local trade bodies like the Erode Textile Association will help retailers manage digital e-portals independently, without relying excessively on external consultants.

6.2 Conclusion

This study provides clear insights into the real-world impact and compliance requirements of the GST regime on the organized textile retail market in the Erode district. The textile industry remains a key economic driver for Tamil Nadu, and Erode's retail sector is well-positioned to step up as a major modernized marketplace.

The findings confirm that while the implementation of GST has successfully introduced transparency and structural order into the retail trade, it has also created new financial and administrative challenges. High compliance costs and complex documentation procedures continue to create operational pressure.

To help the organized textile retail market transition successfully into a high-growth sector, state monitors and policy makers must actively address these localized struggles. Optimizing digital infrastructure, simplifying tax returns, and ensuring affordable financial support will create a more balanced environment. This approach will allow local textile retailers to remain competitive, manage compliance without undue burden, and fully capitalize on the emerging retail boom.

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