

# The Impact of GST 2.0 Reforms on India's Fashion and Luxury Sectors

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## Abstract

India's GST 2.0 reforms, approved by the GST Council on September 3, 2025, and effective from September 22, 2025, rationalize rates into primarily 5% and 18% slabs while correcting the inverted duty structure (IDS) in textiles (Kotak Mahindra Mutual Fund, 2025; Fibre2Fashion, 2025). This reshapes fashion by lowering taxes on apparel up to ₹2,500 to 5%, raising them to 18% above that threshold, and slashing man-made fibre (MMF) rates to 5% (ShopDibz, 2025; Press Information Bureau [PIB], 2025). Luxury items like premium watches face potential hikes to 28–40%, though many stabilize (GST Calculator Pro, 2025; Reddit Watches India, 2025). Analysis of council decisions and industry reports reveals boosted mass-market sales, export competitiveness, and supply-chain efficiency, offset by premium segment pressures (Economic Times Retail, 2025).

## Introduction

India's fashion and textile sector employs over 45 million people and contributes significantly to exports, yet pre-2025 IDS—higher input taxes on MMF (18%) versus outputs (5–12%)—blocked refunds worth billions, hampering MSMEs (Fibre2Fashion, 2025; Press Information Bureau [PIB], 2025). GST 2.0 addresses this via a uniform 5% rate on MMF and yarn, alongside apparel tiering at ₹2,500 (Kotak Mahindra Mutual Fund, 2025; ShopDibz, 2025). Luxury sees slab consolidation, with a 40% rate on sin goods replacing the earlier 28% plus cess (Kotak Mahindra Mutual Fund, 2025). These changes, following the September 2025 GST Council meeting, aim to spur consumption amid subdued demand (Economic Times Retail, 2025; Vision IAS, 2025).

## Methodology

This paper synthesizes data from GST Council announcements and post-reform analyses obtained through secondary sources on GST rates, IDS corrections, and sectoral impacts as of December 2025 (Kotak Mahindra Mutual Fund, 2025; ShopDibz, 2025). Quantitative comparisons rely on official slab revisions, while qualitative insights are drawn from industry reports addressing sales performance and margins (Fibre2Fashion, 2025; Economic Times Retail, 2025). Price elasticity effects, such as the 5% slab boosting volumes by 10–15%, are inferred from festive-season sales trends (Economic Times Retail, 2025). Limitations include reliance on three months of implementation data and partially unverified luxury-sector specifics (Reddit Watches India, 2025).

## Fashion Sector Impacts

GST 2.0 introduces a price-based split at ₹2,500, favouring value segments.

## Value Segment Gains

Items priced up to ₹2,500 now attract 5% GST, reduced from the earlier 12% applicable to garments priced between ₹1,000 and ₹2,500. This has lowered prices by approximately 6% and driven 13–14% growth in organised retail (ShopDibz, 2025; Economic Times Retail, 2025).

Price Range	Old Rate (GST 1.0)	New Rate (GST 2.0)	Change
Up to ₹2,500	5–12%	5%	Cheaper (ShopDibz, 2025)

Mid-tier brands report increased demand as consumers trade up (Economic Times Retail, 2025).

## Premium Segment Challenges

For apparel priced above ₹2,500, GST has increased from 12% to 18%, raising costs for designer and premium wear (ShopDibz, 2025).

Brands may respond by adjusting price points or absorbing margin pressure (ShopDibz, 2025).

## Supply Chain Fixes

Correction of the inverted duty structure has standardised MMF taxation at 5%, improving liquidity and increasing margins by nearly 200 basis points (Fibre2Fashion, 2025; Economic Times Retail, 2025).

Material	Old Rate	New Rate	Impact
MMF	18%	5%	Export boost (PIB, 2025)
MMF yarn	12%	5%	Cost reduction (Fibre2Fashion, 2025)

This reform strengthens the competitiveness of India’s MMF-based exports, which account for nearly 70% of textile exports (Economic Times Retail, 2025).

## Luxury Sector Effects

Most luxury goods experience rate stability, while super-luxury items are consolidated under a simplified 40% GST rate without cess (Kotak Mahindra Mutual Fund, 2025).

- **Watches:** 5–12% for standard models, rising up to 40% for luxury variants priced above ₹2 lakh (GST Calculator Pro, 2025; Reddit Watches India, 2025).
- **Jewellery/Gold:** Continues at 3%, reflecting its investment status (GST Calculator Pro, 2025).
- **Cars (>1500 cc):** Flat 40%, potentially lower than the earlier 28% plus 22% cess (Kotak Mahindra Mutual Fund, 2025).
- **Electronics (TVs):** Reduced to 18%, encouraging upgrades (Kotak Mahindra Mutual Fund, 2025).

## Economic Scorecard

Category	Old Rate	New Rate	Impact
Apparel ≤ ₹2,500	5–12%	5%	Volume growth (Economic Times Retail, 2025)
Apparel > ₹2,500	12%	18%	Margin pressure (ShopDibz, 2025)
MMF/Yarn	12–18%	5%	Export competitiveness (Fibre2Fashion, 2025)
Luxury cars	28% + cess	40%	Simplified taxation (Kotak Mahindra Mutual Fund, 2025)
Luxury watches	18%	28–40%	Higher burden (Reddit Watches India, 2025)

The reforms are projected to generate USD 5–7 billion in additional textile exports by 2027 through reduced input costs (Economic Times Retail, 2025). Rising mass-market consumption may indirectly support luxury demand, although tax pass-through risks remain (Kotak Mahindra Mutual Fund, 2025).

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