INDIA FASHION ICON MAGAZINE

GST Shake-Up: India’s Clothing Tax Hits Global Fashion Players

Published on 05 Sep 2025 | By IFI Correspondent

India’s government has rolled out a sweeping GST overhaul—one of the biggest in eight years—boosting taxes on clothing above ?2,500 (~$29) from 12% to 18%, while slashing levies on essentials and consumer goods to 5%.

How It Works

- Garments under ?2,500 now attract just **5% GST**, making daily wear significantly cheaper.
- Apparel above ?2,500 faces a steep **18% GST**, up from 12%, affecting mostly premium and aspirational fashion segments

Winners vs. Losers

Winners

- Essentials, electronics, and luxury vehicles now enjoy tax relief, making everyday items more affordable and boosting auto sales

Losers

- **Premium fashion brands** like Zara, H&M, Levi’s, Nike, Lacoste, Uniqlo, Marks & Spencer, and many others are deeply concerned. This 18% slab hits the expensive segment—about 18% of India’s $70B apparel market—hard
- The **Clothing Manufacturers Association of India (CMAI)** warns this may be a “death knell” for the industry, especially since higher-priced items are staples for the middle class and festive/wedding wear
- With **exporters already reeling** from high U.S. tariffs (up to 50%) on Indian goods, industry players face twin pressures both domestically and globally

What Gucci Will Feel—and What Retailers Fear

- A **foreign retailer executive** highlighted that ?2,500 is the new baseline for everyday clothing—calling it “basic now”—indicating just how much the landscape has shifted

- **Middle-class shoppers**—key to sales volume and growth—are now deciding between price sensitivity and style aspiration.
- **Retailers' margins**, already wafer-thin due to expensive overheads like rent, may evaporate unless costs are passed to consumers, risking volume loss

Domestic Response and Market Shifts

- **Raymond Lifestyle**, one of India's leading apparel firms, plans to reduce prices on items priced under ? 2,500—about two-thirds of their range—to reflect the lower GST and maintain affordability. Items just above the threshold may see minor price adjustments to stay competitive
- **Bengaluru's garment sector**—which fuels 20% of India's apparel output and employs nearly 600,000 workers—has expressed support for the 5% slab but called for a unified tax rate across all price points to promote stability and equity in production chains.

Broader Economic Context

This GST revamp is part of India's broader effort to manage the economic impact of global tension—such as Trump-era tariff hikes—while incentivizing domestic consumption. The move aims to consolidate low-value essentials under a lighter tax bracket, easing pressure on day-to-day buyers. Meanwhile, the luxury SUV segment has benefited from a reduced 40% tax, down from 50%, helping auto brands maintain strong performance—providing contrast to the fashion sector's woes

Impacted Area	Effect & Implications
Premium Fashion Brands	Squeezed by higher GST, risk of reduced demand and profit margin pressure
Middle-Class Consumers	Less accessible premium apparel; potential shift to budget or overseas shopping
Exporters	Facing dual stress from domestic taxes and weak export demand
Domestic Retailers	Trying price cuts on lower-priced lines; fighting margin erosion
Manufacturing Centers	Advocating for uniform tax rates and policy clarity for long-term planning

For more style updates & exclusive fashion stories follow indiafashionicon.com