TEXTILE

TAX CHRONICLE

APRIL 2025

KEY FUTURE FOCUS AREAS:

- Apr to Jun 2025: Construction and Real Estate

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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Institute Motto

From ignorance, lead me to truth From darkness, lead me to light From death, lead me to immortality Peace, Peace, Peace...

असतो मा सद्गमय ।
तमसो मा ज्योतिर्गमय ।
मृत्योर्मा अमृतं गमय ।
ॐ शान्तिः शान्तिः शान्तिः

Vision Statement

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

Mission Statement

The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

From the Desk of the Chairman

CMA ARINDAM GOSWAMI
Chairman, ICMAI-WIRC

Dear Esteemed Members,

It gives me immense pleasure to present the first quarterly edition of Tax Chronicle for the year 2025, focusing on the Textile Industry. The textile sector has been a cornerstone of India's economic fabric, contributing significantly to GDP, employment, and exports. With evolving market dynamics, policy interventions, and taxation reforms, the industry is poised for transformation, presenting new opportunities and challenges for businesses and professionals alike.

Recent Amendments and Tax Reforms:
The Union Budget 2025 has introduced several key amendments impacting the textile sector, aiming to bolster its competitiveness and sustainability:
Rationalization of GST Rates: The government has taken steps to address the longstanding demand for uniformity in GST rates across various textile products, ensuring seamless tax compliance and reducing classification disputes.

PLI Scheme Enhancements: Additional incentives under the Production-Linked Incentive (PLI) Scheme for man-made fiber and technical textiles have been announced to encourage investments in value-added segments.

Custom Duty Revisions: Import duties on specific raw materials have been rationalized to enhance domestic production competitiveness and reduce dependency on imports.

Export Incentives: New tax benefits and credit mechanisms have been introduced under the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme to support textile exporters.

New Policy Initiatives
The government's commitment to 'Make in India' and 'Aatmanirbhar Bharat' continues to influence policy decisions in the textile sector. The recently unveiled National Textile Policy 2025 focuses on:
- Encouraging sustainable and eco-friendly textile production with tax incentives for green energy adoption.
- Strengthening MSMEs in the textile value chain with enhanced credit facilities and tax relief.
- Promoting digital transformation through automation, AI-based supply chain management, and blockchain-enabled traceability.

Role of Cost Accountants in the Textile Sector
The evolving taxation landscape and policy shifts have amplified the need for cost accountants in the textile sector. CMAs can play a pivotal role in:
GST and Compliance Advisory: Ensuring seamless tax compliance and optimizing input tax credit benefits.

Cost Optimization and Tax Planning: Assisting textile enterprises in structuring their cost framework for sustainable profitability.

Sustainability and ESG Reporting: Supporting companies in tracking carbon footprints and integrating cost-effective, eco-friendly production strategies.

Technology-Driven Financial Management: Leveraging data analytics and AI for real-time financial insights and risk mitigation.

New Horizons for Cost Accountants:
With increased emphasis on transparency, compliance, and cost efficiency, the demand for cost accountants is set to grow in the textile industry. The sector is opening avenues in areas like:
- Strategic Consulting in Sustainable Textile Manufacturing
- Tax Structuring for Domestic and International Markets
- Cost and Performance Audits for Textile Clusters
- Financial Modeling for Large-Scale Investments

As we step into a new era of economic transformation, cost accountants must seize the opportunities presented by the evolving textile sector. With policy support, tax reforms, and industry-driven initiatives, this is an opportune moment to contribute to shaping a globally competitive and sustainable textile industry.

I extend my sincere gratitude to all contributors to this edition of Tax Chronicle and encourage members to stay informed, upskill, and actively engage in professional development. Let us continue to add value to the profession and the industries we serve.

Wishing you all a prosperous and fulfilling year ahead!

With warm regards,
CMA Arindam Goswami
Chairman
ICMAI-WIRC

Address by Chairman Task Force of GST & Income Tax

CMA NANTY SHAH
Chairman, WIRC Task Force on Income Tax and GST
Hon. Secretary, WIRC of ICMAI

Dear Professional Colleagues,

The Indian textile industry, one of the oldest and most significant contributors to the nation's economy, continues to evolve under the influence of dynamic taxation policies. As we step into the first quarter of 2025, this edition of the Tax Chronicle delves into the recent developments in Income Tax and GST that impact the textile sector, while also highlighting the vital role of Cost and Management Accountants (CMAs) in navigating these changes effectively.

CMAs serve as strategic advisors and compliance facilitators for businesses in the textile industry, ensuring adherence to tax regulations while optimizing financial efficiency. Some of the critical areas where CMAs contribute include GST Structuring & Optimization, Cost Control & Profitability Analysis, Compliance & Risk Management, Advisory on Government Incentives.

Recent Taxation Updates in the Textile Industry:

The past few months have witnessed notable amendments in taxation laws that directly influence the textile industry. Key highlights include:

GST Rate Revisions – The government has revisited the GST structure for various textile products, ensuring a balanced tax regime that promotes fair competition while addressing revenue concerns. Special emphasis has been placed on input tax credit utilization and compliance streamlining.

E-Invoicing and Digital Compliance – The implementation of mandatory e-invoicing for mid-tier textile enterprises (turnover exceeding INR 5 crore) aims to enhance transparency and prevent tax evasion. CMAs play a crucial role in guiding businesses through this transition smoothly.

Direct Tax Reliefs and Incentives – Recent amendments in income tax provisions, including deductions under sections 80JJAA and 35AD, provide incentives for employment generation and capital investment in textile machinery and infrastructure.

Export-Linked Benefits – The government’s efforts to boost textile exports through tax rebates and enhanced duty drawback schemes ensure greater global competitiveness for Indian manufacturers.

We extend our heartfelt gratitude to all contributors who have enriched this edition with their valuable insights, case studies, and analysis. Your dedication helps make the Tax Chronicle a comprehensive resource for professionals and businesses alike.

As we strive to improve with each edition, we invite our readers to share their ideas, feedback, and suggestions for topics that you would like to see covered in future issues. Your insights are invaluable in shaping a knowledge-driven taxation ecosystem.

With continued reforms and evolving global trade dynamics, the taxation landscape for the textile industry will remain dynamic. CMAs must proactively engage with policy developments and technological advancements to stay ahead of the curve.

Let’s work together to create an informed and compliant textile sector that thrives on strategic tax planning and robust financial management.

With Warm Regards,
CMA Nanty Shah
Hon. Secretary &
Chairman, Task Force for GST & Income Tax
ICMAI-WIRC

GST & THE TEXTILE INDUSTRY : A COMPREHENSIVE ANALYSIS

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Introduction

The **textile sector** plays a crucial role in India's economy, contributing around **2% to GDP,** employing over **45 million** people, and accounting for **12% of total exports.**

Before the introduction of **GST (Goods and Services Tax)** in **2017,** the industry operated under a complex tax system involving multiple indirect taxes such as **Excise Duty, VAT, Entry Tax, and CST.** The GST regime aimed to simplify taxation, improve transparency, and enhance ease of doing business. However, certain challenges, especially related to the **Inverted Duty Structure (IDS)** and **compliance for small businesses,** continue to impact the sector.

The textile industry, which is one of India's largest employment generators and export contributors, has undergone significant changes under GST. This article explores the impact of GST on the textile industry, highlighting its benefits, challenges, recent amendments, and the way forward.

Recently, the existence of an inverted duty structure and recommended GST rate hike in all the products relevant under the textile sector has brought the said sector into the limelight.

GST Rate Structure for the Textile Industry

GST has replaced various taxes like VAT, excise duty, and service tax, creating a single tax regime. The applicable GST rates in the textile industry vary based on product type and value.

Category	Product	GST Rate
Raw Materials	Silk Yarn	5%
	Wool and Animal Hair (Carded or Combed)	5%
	Cotton and Cotton Waste	5%
	Man-made Fiber (MMF)	18%
Yarns	Cotton Yarn (excluding khadi yarn)	5%
	Man-made Fiber Yarn	12%
Fabrics	Woven Fabrics of Silk or Silk Waste	5%
	Woven Fabrics of Wool or Animal Hair	5%
	Woven Fabrics of Cotton	5%
	Woven Fabrics of Synthetic Yarn	12%
Garments & Apparel	For Sale Value up to ₹1,000 per piece	5%
	For Sale Value exceeding ₹1,000 per piece	12%
Other Textile Products	Carpets and Other Textile Floor Covering	12%
	Made-up Textile Articles (e.g., bedsheets, curtains)	12%

Positive Impacts of GST On The Textile Industry

1. **Ease of Doing Business:** Before GST, businesses had to deal with multiple state-wise taxes, leading to inefficiencies and higher compliance costs. GST has introduced a uniform tax structure, reducing complexities in inter-state trade and making the textile industry more organized.

2. **Input Tax Credit (ITC) Benefits:** Under the previous tax regime, textile manufacturers faced a cascading effect of taxes due to excise and VAT. With GST, businesses can claim ITC on input purchases, reducing the overall cost of production.

3. **Boost to Exports:** Exporters in the textile industry can now claim GST refunds, making Indian textiles more competitive in international markets. This has encouraged higher export volumes, especially in ready-made garments and fabrics.

4. **Streamlined Supply Chain and Logistics:** The removal of entry tax and octroi under GST has facilitated smoother inter-state transportation of goods. This has led to cost savings for manufacturers and suppliers, improving efficiency in the supply chain.

Challenges Faced By The Textile Industry Due To GST

1. **Inverted Duty Structure (IDS):** One of the major challenges in the textile industry is the inverted duty structure. The textile sector faces an Inverted Duty Structure (IDS), where the tax on raw materials (inputs) is higher than the tax on finished products (outputs). For example, man-made fiber and yarn attract GST at 18%, while the finished fabric and garments are taxed at a lower rate of 5%. This creates an accumulation of Input Tax Credit (ITC), leading to working capital blockage for businesses. Refunds of accumulated ITC are allowed only for fabrics, whereas garment manufacturers cannot claim such refunds, impacting their cost competitiveness and profitability. This leads to higher input costs and blocked working capital for manufacturers.

2. **Compliance Burden on MSMEs:** The textile sector comprises a significant number of small businesses, including handloom weavers and power loom operators. Many of these businesses struggle with the digital filing of GST returns, leading to compliance issues and additional operational costs. Mandatory e-invoicing for businesses exceeding a specified turnover threshold has added to the complexity, requiring digital infrastructure and training that many small businesses lack. The requirement for E-way bills for the movement of goods further complicates logistics for small traders who often deal with multiple small consignments, leading to additional documentation and operational difficulties.

3. **Impact on the Unorganized Sector:** Before GST, a large portion of the textile industry operated in the unorganized sector with minimal tax compliance. The introduction of GST has forced many small players to register under the tax system, increasing their costs and making survival difficult.

4. **Export Challenges:** The textile industry heavily relies on exports, and under GST, exports are considered zero-rated, meaning no GST is levied on the exported goods. However, exporters can claim refunds on the ITC accumulated on inputs used for production. Refunds on ITC for exports often get delayed, causing cash flow issues and reducing the efficiency of working capital management. The Duty Drawback Scheme, which earlier provided relief to exporters by refunding duties paid on inputs, has been reduced post-GST implementation. This has made Indian textile exports less competitive in the global market as other countries continue to offer tax incentives to their exporters. This affects cash flow and profitability, especially for export-driven textile firms.

Overall, the textile sector under GST continues to face issues related to tax structure, export incentives, and compliance requirements. Addressing these concerns through policy changes and simplifications could enhance the sector's growth and global competitiveness.

GST Amendments & Recent Developments

To address these challenges, the government has taken several steps. Between 2023 and 2025, India's textile industry has witnessed several significant developments concerning the Goods and Services Tax (GST). These changes have been pivotal in shaping the industry's fiscal landscape, influencing pricing, compliance, and overall growth.

1. **Proposed GST Rate Hikes and Industry Response:** The GST Council considered increasing the GST rate on ready-made garments (RMG) priced between ₹1,500 and ₹10,000 from 12% to 18%, and introducing a 28% rate for garments above ₹10,000. This proposal faced strong opposition from industry stakeholders, who argued that such hikes could adversely affect small and medium enterprises (SMEs) and reduce affordability for consumers. Consequently, the GST Council decided to maintain the existing tax structure on RMG, leaving the rates unchanged.

2. **Addressing the Inverted Duty Structure (IDS):** The textile sector has long grappled with an inverted duty structure, particularly in the man-made fiber (MMF) segment, where input materials are taxed at higher rates than finished products. This discrepancy leads to accumulated input tax credits, impacting cash flows for manufacturers. Industry bodies have consistently advocated for rationalizing GST rates across the textile value chain to resolve this issue. While discussions have been ongoing, a definitive resolution is still awaited. The government is considering adjustments in the GST rates for MMF textiles to address the inverted duty structure.

3. **Compliance Enhancements:** The government introduced mandatory multi-factor authentication (MFA) for accessing the GST portal. Initially applicable to taxpayers with an annual aggregate turnover exceeding ₹1 billion, this requirement was extended to all taxpayers in 2025. The move aims to enhance security and reduce fraudulent activities within the GST system. Steps have been taken to ease compliance for small businesses, including the introduction of the Composition Scheme for firms with turnover below ₹1.5 crore.

4. **Faster Refund Processing:** The government is working on improving the processing speed of GST refunds for exporters.

5. **Industry Expectations and Budget Proposals:** In the Union Budget 2025-26 The textile industry has articulated several expectations to the government, including:

   a. **GST Rate Rationalization:** A unified 5% GST rate across the textile value chain to eliminate disparities and enhance competitiveness.

   b. **Support for MSMEs:** Simplified tax regimes and enhanced credit access to bolster small and medium enterprises.

   c. **Incentives for Sustainable Practices:** Encouragement for adopting eco-friendly manufacturing processes through fiscal incentives.

These proposals aim to stimulate growth, attract investments, and align the industry with global sustainability standards.

In summary, the period from 2023 to 2025 has been marked by active deliberations and policy considerations concerning GST in the textile sector. While some proposed changes have been deferred in response to industry feedback, ongoing discussions underscore the dynamic nature of tax policies affecting this vital sector of the Indian economy.

Positive Impacts of GST On The Textile Industry

1. Resolving the Inverted Duty Structure: To reduce financial strain on manufacturers, the government should lower GST rates on MMF raw materials or increase the rates on finished goods to bring balance in the tax structure.

2. Faster GST Refunds for Exporters: A streamlined mechanism should be established to ensure timely disbursement of GST refunds, helping exporters maintain liquidity.

3. Digital Literacy and Awareness for MSMEs: The government should conduct training programs and workshops to help small textile businesses comply with GST regulations efficiently.

4. Promotion of E-Invoicing and Digital Compliance: Encouraging digital invoicing and compliance tools can help reduce errors and ease tax filing for small and medium enterprises.

CASE STUDY: Supreme Court Upholds Restriction On Refund Of GST Input Tax Credit (ITC) Under Inverted Duty Structure

Background: The textile industry often encounters an inverted duty structure under GST, where the tax rate on inputs (raw materials) is higher than that on outputs (finished goods). This situation leads to the accumulation of unutilized Input Tax Credit (ITC). Under Section 54(3) of the Central Goods and Services Tax (CGST) Act, 2017, taxpayers can claim refunds of unutilized ITC. However, Rule 89(5) of the CGST Rules, 2017, restricts such refunds to ITC accumulated on inputs, explicitly excluding input services.

- **Legal Disputes:** Conflicting judgments emerged from different High Courts regarding this restriction:

- **Gujarat High Court:** In the case of VKC Footsteps India Pvt. Ltd. vs. Union of India, the court held that the exclusion of input services from refund under Rule 89(5) was ultra vires (beyond the powers) of the CGST Act. The court directed that refunds should also include ITC on input services.

- **Madras High Court:** Conversely, in Tvl. Transtonnelstroy Afcons Joint Venture vs. Union of India, the court upheld the validity of Rule 89(5), agreeing with the restriction of refunds to inputs only and excluding input services.

- **Supreme Court Verdict:** Due to these conflicting judgments, the matter escalated to the Supreme Court. In October 2021, the Supreme Court upheld the validity of Rule 89(5), affirming that the restriction of GST refunds to unutilized ITC on inputs (excluding input services) under the inverted duty structure is constitutionally valid

Implications for the Textile Industry: This ruling has significant implications for the textile sector:

- **Financial Impact:** Manufacturers cannot claim refunds on unutilized ITC accumulated from input services, potentially increasing their operational costs.

- **Cash Flow Challenges:** The inability to obtain refunds on input services may lead to cash flow constraints, especially for businesses heavily reliant on such services.

- **Policy Considerations:** The judgment underscores the need for a comprehensive review of the GST framework concerning the inverted duty structure to alleviate financial burdens on affected industries.

This case exemplifies the complexities within the GST system and the ongoing efforts to address industry-specific challenges through legal and policy reforms.

CONCLUSION

GST has brought both advantages and challenges for the textile industry. While it has streamlined taxation and improved the business environment, issues like the inverted duty structure, compliance burden, and refund delays need to be addressed. The government’s continued focus on simplifying GST norms and providing relief to small businesses will be key to the sustainable growth of the textile sector in India. If these challenges are effectively tackled, GST can serve as a powerful tool in making India a global leader in textiles.

Key Fibers, Emerging Trends, and Policy Support

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What Are Textiles?

Textiles are basically any type of fabric or cloth. They are made by weaving or knitting threads together. These threads can come from natural sources like cotton (plants) or wool (animals), or they can be man-made in factories using chemicals.

Types of Fibers

1. **Natural fibers:** These come from plants or animals.

For example:
Cotton (from cotton plants)
Wool (from sheep)
Silk (from silkworms)
Linen (from flax plants)

2. **Synthetic fibers:** These are man-made, created from chemicals and plastics.

For example:
Polyester
Nylon
Acrylic

The Future of Textiles

The textile industry is changing all the time. Nowadays, there's a big focus on making fabrics in a way that's better for the environment. Companies are creating eco-friendly materials, using less water, and recycling old fabrics into new ones.

Simply put, textiles are more than just fabric—they're a big part of our daily lives. From the clothes we wear to the things in our homes, textiles help us live more comfortably.

Textiles and the Circular Economy: A New Approach

As the world's consumption of textiles continues to grow, there is an increasing focus on transitioning to a circular economy, where waste is minimized, and materials are reused and recycled. Here are some initiatives and innovations driving this shift:

2. Textile Recycling Programs:

textile recycling in India is growing as more companies and organizations focus on reducing waste and promoting sustainability. Here are some key textile recycling programs in India:

A. Government Initiatives

- Extended Producer Responsibility (EPR) – Encourages manufacturers to take responsibility for recycling old textiles.

- Swachh Bharat Mission – Promotes waste management, including textile recycling.

B. Private & NGO-Led Recycling Programs

- **Goonj** – A well-known NGO that collects old clothes and upcycles them into useful products for rural communities.

- **Recykal** – A digital platform connecting businesses and consumers for textile waste collection and recycling.

Why is Textile Recycling Important?

- Reduces waste in landfills.

- Saves water and energy used in fabric production.

- Creates jobs in sustainable fashion and recycling industries.

In simple terms, textile recycling in India is growing, with both big companies and small start-ups working to turn old clothes into new products instead of letting them go to waste.

2. Closed-Loop Manufacturing:

textile recycling in India is growing as more companies and organizations focus on reducing waste and promoting sustainability. Here are some key textile recycling programs in India:

Examples in India

- Arvind Limited – Uses recycled cotton and polyester to make sustainable fabrics.

- Birla Cellulose – Runs a closed-loop system for producing eco-friendly fibers.

- Eco Line Clothing – A start up making clothes from recycled plastic bottles and fabric waste.

Why is It Important?

Reduces textile waste in landfills.
Saves water & energy compared to making new fabrics.
Supports sustainability & eco-friendly fashion.

In simple terms, closed-loop manufacturing in India helps turn old textiles into new fabrics instead of letting them go to waste. It’s a step towards a greener and more sustainable fashion industry!

Taxation on the textile industry in India includes several key components:

2. Goods and Services Tax (GST) on Textiles

The Goods and Services Tax (GST) applies to different types of textiles and clothing in India. The tax rate depends on the type of fabric, yarn, or garment being sold.

GST Rates on Different Textile Products:

Product	**GST Rate**
Raw Cotton & Silk	5%
Natural & Synthetic Fibers (Cotton, Wool, Silk, Polyester)	5%
Yarn (Cotton, Synthetic, Blended)	5%
Fabrics (Knitted, Woven, Embroidered, etc.)	5%
Garments (Price below ₹1,000)	5%
Garments (Price above ₹1,000)	12%
Handloom Products	Exempt (No GST)

Why Does India Have Import Taxes on Textiles?

Protects Indian manufacturers – Higher import duties make imported textiles expensive, encouraging people to buy locally made fabrics.
Reduces cheap imports – Prevents flooding of low-cost fabrics from other countries, especially China and Bangladesh.
Encourages Make in India – Helps Indian textile businesses grow and compete globally.

Recent Changes in Import Duties

- **Increased duty on synthetic fabrics (2024-25)** to protect local industries.
- **Reduction in duty on certain raw materials (like viscose fibers)** to help Indian textile manufacturers lower their costs.
- **Government pushing for Free Trade Agreements (FTAs)** with other countries to reduce duties on Indian textile exports.

Impact on the Industry

Good for local textile businesses as they face less competition from cheap imports.
Can increase the cost of imported raw materials, affecting garment prices.

In simple terms, India imposes customs duties on textile imports to support local manufacturers and reduce dependence on foreign fabrics.

2. Export Incentives & Tax Benefits

To boost textile exports and support businesses, the Indian government provides various incentives and tax benefits to textile manufacturers and exporters. These benefits help reduce costs and increase global competitiveness.

A. Rebate of State and Central Taxes and Levies (RoSCTL)

- Refunds taxes paid on exports, like state taxes and levies.
- Helps make Indian textiles more competitive in international markets.
- Available for garments and made-up textiles (like bedsheets, curtains, etc.).

B. Duty Drawback Scheme

- Refunds customs duty & excise duty paid on imported raw materials used for exports.
- Helps exporters reduce costs and sell at competitive prices globally.

C. Production Linked Incentive (PLI) Scheme

- Provides financial rewards to large-scale textile manufacturers.
- Encourages investment in man-made fiber (MMF) fabrics and technical textiles.
- Aims to make India a global leader in high-value textile products.

D. Interest Equalization Scheme (IES)

- Reduces interest rates on loans for textile exporters.
- Helps small and medium enterprises (SMEs) access cheaper credit.

E. GST Refunds on Exports

- Exported textiles are taxed at zero GST (under LUT/Bond system).
- Businesses can claim refunds on input GST paid for raw materials.

F. Special Economic Zones (SEZ) & Export-Oriented Units (EOU)

- No customs duties, GST, or excise duty for units inside SEZs.
- Businesses get tax benefits & infrastructure support to boost exports.

G. Free Trade Agreements (FTAs)

- India is negotiating FTAs with countries like the UK, EU, and UAE to reduce export taxes.
- This will help Indian textiles reach global markets with lower duties.

Why Are These Benefits Important?

Encourages more textile exports
Reduces costs for manufacturers
Boosts India's global presence in textiles

In simple terms, these incentives and tax benefits help Indian textile businesses export more, reduce costs, and compete better in global markets

2. Other Tax Benefits for MSMEs

Micro, Small, and Medium Enterprises (MSMEs) in the textile industry get special tax benefits and incentives to help them grow and compete with bigger companies.

A. Lower Corporate Tax Rates

- MSMEs pay only 25% corporate tax instead of 30% (if turnover is below ₹400 crore).
- New MSMEs (registered after 2019) get an even lower 15% tax rate under certain schemes.

B. Presumptive Taxation (Section 44AD)

- Small textile businesses (turnover below ₹2 crore) don't need to maintain detailed accounts.
- They can pay tax on a fixed percentage of their total revenue, making tax filing easier.

C. GST Benefits for MSMEs

- Composition Scheme – MSMEs with turnover below ₹1.5 crore can pay only 1% GST instead of regular GST rates.
- GST Exemption – Businesses with turnover below ₹40 lakhs (for goods) and ₹20 lakhs (for services) don't have to register for GST.

D. Interest Subsidy on Loans (Credit Linked Capital Subsidy Scheme - CLCSS)

- MSMEs in textiles can get subsidized loans at lower interest rates to upgrade technology and machinery.

E. Start-up India Benefits

- MSME start-ups can get a 3-year tax holiday (no income tax) if they are recognized under the Start-up India scheme.
- They also get easy loan approvals and funding support.

F. Capital Gains Tax Exemption (u/s 54GB)

- MSMEs reinvesting their profits into new machinery or infrastructure can get exemptions on capital gains tax.

G. Export Tax Benefits

- MSME exporters get refunds on GST and import duties under RoDTEP and RoSCTL schemes.
- Special loans at lower interest rates to support international trade.

Why Are These Benefits Important?

Helps small textile businesses save money on taxes
Makes it easier to manage finances with simple tax rules
Supports growth by reducing loan interest rates and costs

In simple terms, MSMEs in textiles get special tax benefits, lower interest loans, and easier compliance rules to help them grow and compete in the market.

In 2025, India's textile industry is experiencing several emerging tax trends aimed at boosting growth and global competitiveness:

2. Other Tax Benefits for MSMEs

Micro, Small, and Medium Enterprises (MSMEs) in the textile industry get special tax benefits and incentives to help them grow and compete with bigger companies.

1. **Increased Budget Allocation:**
The Union Budget 2025-26 has raised the Ministry of Textiles' allocation by approximately 15%, reaching around ₹5,080 crores. This includes a 33% increase in funds for the Production Linked Incentive (PLI) scheme, promoting domestic manufacturing and exports.

2. **Tax Rationalization and Import Policy Reforms:**
Industry leaders are advocating for the liberalization of import policies and the reduction or elimination of customs duties on man-made fibers (MMF) and essential chemicals. These measures aim to align domestic raw material prices with global rates, enhancing the competitiveness of India's textile sector.

3. **Goods and Services Tax (GST) Adjustments:**
The textile sector is seeking reductions in GST rates on essential products to boost consumer demand and support sustainable practices. Simplifying compliance processes and providing incentives for green initiatives are also key expectations from the industry.

4. **Support for Micro, Small, and Medium Enterprises (MSMEs):**
The government has introduced reforms to support MSMEs, including tax reliefs and incentives for technology upgrades. These initiatives aim to enhance domestic production, exports, and overall competitiveness in the textile industry.

5. **Boost for Cotton Farmers**
A special ₹500 crore "Cotton Mission" has been launched to help farmers grow better-quality cotton. This will reduce the need to import cotton from other countries and strengthen local production.

6. **Help for Small Textile Businesses**
Small and medium textile businesses will get tax benefits and incentives to upgrade their machinery and technology. This will help them produce better quality products and compete with big players in the market.

7. **More Government Support**
   The Indian government has increased its budget for the textile industry to help businesses grow and compete globally. More money is being put into schemes that support new technology and large-scale manufacturing.

8. **Higher Import Taxes on Fabrics**
   To protect Indian textile businesses, the government has increased import taxes on certain fabrics. This makes foreign fabrics more expensive, encouraging people to buy Indian-made materials instead.

These tax trends reflect a concerted effort by the Indian government to address challenges in the textile industry, promote sustainable growth, and position India as a global leader in textile manufacturing and exports.

What This Means for the Industry:

- Indian textile companies can grow faster with government support.
- Farmers will get help to produce better cotton.
- Indian fabrics may become more competitive as imports become pricier.
- Small businesses will get financial support to improve their production.

Overview of Textile Industry & Its GST Implications Basic Overview

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The article is about Textile Industry & GST implications on the same discussed. As we know, textile industry is a significant contributor to India's GDP and employment. It has experienced a transformative change with the introduction of the Goods and Services Tax (GST). This section provides an overview of the textile industry's development post-GST implementation and its objectives.

In the pre-GST era, the textile sector had to go through and deal with various taxes like Central Excise Duty (for some period of time textile was exempted from Central Excise Duty); Value Added Tax (VAT); Central Sales Tax (CST); Entry Tax; etc. However, post-GST regime, subsuming all the taxes into a single tax, made the administration of the textile sector pretty simple. Previously, it had to register under Service Tax Act in order to pay Service Tax under RCM (Reverse Charge Mechanism) in the pre-GST era. The textile sector being one of the strong pillars of the Indian economy, it is important to analyse and understand the impact of GST on Textile industry.

If we explain textile sector it covers various items of textiles such as Yarn, Cotton Yarn, Yarn of wool, Wool and fine or coarse animal hair, carded or combed, Textile fibres (Other than jute fibres, raw or processed but not spun), Real Zari (gold & Silver), Jute Twine, Coir mats, Woven fabrics,Ready-made Garments, Leather Garments etc.

The Textiles are covered under following HSN as per the table provided below:

Category	Product	GST Rate
Raw Materials	Silk Yarn	5%
	Wool and Animal Hair (Carded or Combed)	5%
	Cotton and Cotton Waste	5%
	Man-made Fiber (MMF)	18%
Yarns	Cotton Yarn (excluding khadi yarn)	5%
	Man-made Fiber Yarn	12%
Fabrics	Woven Fabrics of Silk or Silk Waste	5%
	Woven Fabrics of Wool or Animal Hair	5%
	Woven Fabrics of Cotton	5%
	Woven Fabrics of Synthetic Yarn	12%
Garments & Apparel	For Sale Value up to ₹1,000 per piece	5%
	For Sale Value exceeding ₹1,000 per piece	12%
Other Textile Products	Carpets and Other Textile Floor Covering	12%
	Made-up Textile Articles (e.g., bedsheets, curtains)	12%

The Indian textile industry, characterized by its diversity from traditional handloom to modern textiles, plays a crucial role in the economy. It's a major sector for direct and indirect employment and a significant contributor to exports. Textile sector offers employment to both skilled as well as unskilled labour. The basic need for implementation of GST is to simplify tax compliance and promote growth by ensuring a uniform tax regime. GST was introduced to unify the complex tax structure, eliminate the cascading effect of taxes, and make Indian products globally competitive. This was equally applicable to Textile Industries throughout India.

The transition to GST has presented several challenges for the textile industry, particularly for small and medium enterprises and the unorganized sector. Small and medium textile enterprises have faced difficulties in transitioning to the new tax regime, including understanding the new rates, compliance requirements, and availing ITC as well as export procedures. The unorganized sector, which forms a significant part of the textile industry, has struggled with the compliance burden under GST, impacting its competitiveness and sustainability. Hence, the textile industry's adaptation to GST is an ongoing process, with potential for further reforms and improvements in the tax framework. Anticipated changes in GST policies could further simplify the tax regime for the textile industry, promoting growth and making Indian textiles more competitive globally. This needs continuous changes in policies (both in indigenous and export) policies by the Government making Indian textiles more competitive globally.

As there are lot of unorganized establishments consisting of medium & small enterprises operating in Textile sectors they should be in touch about changes made about textile industry from time to time. At the same time it is crucial for clothing businesses to keep up with GST rules to stay compliant and competitive. There have been no major changes in the GST structure in clothing since 2022 however businesses must stay updated as these GST changes affect their finances and operations.

Registration

The sale of clothes, whether stitched or unstitched, is taxable under GST as it falls within the scope of supply. All textile businesses exceeding the turnover threshold must register under GST. The turnover for registration under GST is Rs.40.00 lakhs. The registration process involves submitting relevant documents and information on the GST portal. After submission of the relevant documents as required for registration the certificate for registration is issued. No person is authorised to start any business before obtaining registration certificate, although they can do the same up to achieving turnover of Rs. 40.00 lakh for normal category states and 20.00 lakhs for special category states. Additionally, the composition scheme is also available for businesses supplying clothes, provided their annual turnover does not exceed Rs. 1.5 crore (or Rs. 75 lakhs in north-eastern states & Himachal Pradesh).

GST Rates for Textile

The GST council has specified rates for various textile products, impacting the cost structure and pricing strategies of businesses in this sector. In this respect, Apparel Export Promotion Council (AEPC) proposed several changes to the GST structure for the textile industry from time to time. The council also requested for tax incentives, including uniform GST rates for various textile products and to increase interest subsidies, to support domestic manufacturing (indigenous) and boost India's exports. AEPC called for tax concessions for textile manufacturers who adhere to international quality standards and Environmental, Social, and Corporate Governance (ESG) compliance. They also sought budgetary support for branding and marketing Indian products throughout global market.

The GST rates have a differential impact across various segments of the textile industry, from yarn and fabric manufacturers to apparel and garment retailers. Understanding these rates is crucial for businesses to price their products competitively. Basically GST rates applicable for various segments of textile industries are starting from 5% to 18% as per the table given below:-

Sr. No.	Particulars	GST Rates
1	Manmade fabrics	5%
2	Manmade yarn	12%
3	Manmade fibre	18%

At the same time GST on clothes below Rs.1000.00 attracts 5% GST and those priced at Rs.1000.00 or more attract a GST rate of 12%. Readymade Garments are taxed at 12% GST, and synthetic or man-made fibres and fabrics face an 18% GST rate. From the implementation of GST, mostly all of the final products relevant to the textile sector fall under the tax slab of 5% except a few. As seen above, the goods and services tax rate applicable to the textile sector is 5% for most of the products.

GST Returns, E-Invoice, E-way bills & Books of Accounts

To maintain all output taxes the taxpayer has to maintain proper books of accounts. The books of accounts must also speak about ITC availed, payments of taxes made under RCM and ITC availed for the same. The books of accounts so maintained must also have details about all other expenses for the production and sale of goods. GST compliance is a critical aspect for textile businesses, involving registration, tax filing, and maintaining proper records.

Textile businesses are required to file monthly, quarterly, and annual returns known as GSTR01, GSTR03B & GSTR09 (for Turnover of Rs. 2.00 crores) & GSTR09C (for Turnover of Rs. 5.00 crores) on the basis of books of accounts, detailing their sales, tax liability, and ITC claimed. At the same time they are also required to declare the RCM (Reverse Charge Mechanism) figures in their GSTR3B returns. Reverse Charge Mechanism implies the taxpayers has to pay tax on reverse charge basis which may be on Transportation of goods, freight, Security Charges, Cab/taxi fare for hiring of vehicles towards company transport facilities, Sponsorship Services, Individual Advocate fees, Services supplied by a director of a company, payment of rent (since October, 2024) etc. The concept of RCM is that the taxpayer has to pay tax on the above expenses on a specified percentage and avail ITC of the same. This is called payment of tax on RCM basis. On the other hand when the taxes are paid on the output services or sale of goods they are called taxes paid on Forward Charge basis. Compliance with these requirements is essential to avoid penalties and ensure smooth business operations. The taxpayers who are getting the services of job work from other job workers they are also required to maintain records for the same and file ITC04 return half yearly. This return is for those tax payers who are getting their goods produced at any stage of production through job worker(s). Non-filing of ITC04 may attract penalty of Rs.50000.00 to the taxpayer.

The Textile business who have crossed the turnover limit of Rs.5.00 crores in the previous financial year (latest) has to also comply with E-invoice procedure. They have to generate E-Invoice for every transaction of sales they make and also for every debit note & credit note transactions. As of now, only B2C sales are exempted from making E-Invoices. Failure to generate an E-Invoice or issue a valid tax invoice for GST can lead to penalties. The E-invoice mechanism in addition to E-way bill process which is mandatory for transportation of goods. E-Invoice is for conveyance of vehicles and every state may have different rules for e-way bills. The businesses may face huge penalty for non-compliance of E-way bill & E-invoice procedures.

Export & Import Procedures under Textile Business

GST has significant implications for textile exports, with provisions designed to boost international competitiveness and simplify the export process. Exports are treated as zero-rated supplies under GST, allowing exporters to claim refunds on the tax paid on inputs. This provision aims to enhance the competitiveness of Indian textile products in the global market.

For import of any raw materials or capital goods from out of India it has to pay Customs Duty. Additionally in the GST regime the importers pay IGST on the imported goods (Raw Materials & Capital Goods) and they claim ITC of the same. It may be pointed out here that the Customs Duty was not touched while enacting GST law and it was not subsumed with GST.

The Export of textile products can be done either through LUT (Letter of Undertaking) process or through payment of tax. Under LUT process the goods are exported out of India without payment of GST whereas under other method exports are done on payment of GST. Refund of the same is also claimed later. In both the cases ITC is allowed to be availed for all Input Tax (goods, services as well as capital goods). The GST framework provides a streamlined refund mechanism for exporters, facilitating quick reimbursement of taxes paid on inputs used in exported goods. This mechanism is crucial for maintaining cash flow and operational efficiency for exporters.
Under LUT process the exporters have to fetch LUT document before the export process is done. This document is generally obtained from the portal on-line at the beginning of the year for the regular exporters. This can also be

obtained from portal at any time during a financial year for the exporters who are doing exports for the first time. Under the other mode of export the exporters can export the goods by making payment through cash or by payment through ITC and claim the refund of the same as discussed earlier. The refund is an automatic process where the refunds are credited to their mandated bank account. But here it may be noted that, in both the mode of exports, ITC is allowed to be availed by the exporters. Even if, the Exports are made on Zero rated duty, the ITC can be claimed for the same.

Refund of ITC

Continuing the above concepts of export procedures, no refund of unutilised input tax credit shall be allowed in cases where the goods exported out of India are subjected to export duty. Further, no refund of input tax credit shall be allowed, if the supplier of goods or services or both avails of drawback in respect of central tax or claims refund of the integrated tax paid on such supplies.

Refund of accumulated ITC on account of zero- rated supplies without tax payment (Exports & Supplies to SEZs or developers) is calculated by the formula
Amount of Refund=[Net ITC x (Turnover of zero-rated supply of goods + Turnover of zero-rated supply of services)] ÷ Adjusted Total Turnover.

Now, if we discuss about the ITC rates of GST for, Textile industries the GST applicability on the inputs relevant to textiles varied between 5%, 12% and 18% and in some cases to 28% also. Hence there is concept of inverted duty structure arises here. Under the Inverted Duty Structure, GST on raw-material is more than that of GST paid on output tax on finished goods. Hence there is chances of accumulating ITC/GST due to GST payment % is less than GST ITC credit availed. Hence, it is important to note here that around only 15% of the textile sector, dealing in the manmade fabric sector were facing the problem of inverted duty structure. In those cases there is always chances of accumulation of ITC in books of accounts. Refund of accumulated ITC on account of inverted tax structure is calculated by the formula
Amount of Refund={[Net ITC x (Turnover of inverted rated supply of goods and services)] ÷ Adjusted Total Turnover} – Tax liability on inverted rated supply of goods and services x (Net ITC / ITC of input & Input Service) –Rule 89(5)-Amended Formula

Input Tax Credit

In case of GST, uninterrupted Input Tax Credit mechanism is one of its major benefit. An uninterrupted input tax credit chain under GST also benefited the textile sector. Hence, summing up, the idea behind the same to have neutral effect of Goods and Services Tax. The same was also applicable on the textile sector. However, along with GST, the problem of inverted duty structure started hindering a certain portion of the textile sector.

Input Tax Credit is a critical component of GST that allows businesses to reduce their tax liability by claiming credit for the tax paid on inputs. The basic concept behind this is to pay tax on output GST after deducting Input Tax Credit from it. Input Tax Credit (ITC) in GST lets businesses reduce their tax liability by claiming credits on GST paid for business-related purchases. Suppose, a business pays Rs.100000.00 GST on purchases and collects Rs.125000.00 GST from sales, it can claim Rs.100000.00 as ITC, paying only the balance Rs.25000.00 to the government. Textile traders and manufacturers can avail ITC on inputs and input services used in the production process. However, there are specific conditions and restrictions on the utilization of ITC for every business as well as it applies to textile sector also.

As per Section 16(1) of the GST Act, a registered taxable person under GST Act who is paying tax due in the course or furtherance of business can claim and avail ITC credited in electronic ledger. A registered person (including an Input Service Distributor) can claim Input tax credit on the strength of the following conditions:

a. **He must possess a Tax invoice issued by the supplier of goods or services or both or Debit note issued by a supplier;**

b. **He must have received supply of goods or services or both;**

c. **He must have paid the tax for it in cash or as input tax as under section 41 of GST Act; and**

d. **He must have filed proper returns under section 39 of GST Act.**

Also unlike old Excise & Service Tax Act the ITC can be claimed on all the inputs and capital goods in one instalment subject to the conditions under Section 16(2) of the GST. As per Section 16(2) it is not necessary to pay the supplier immediately to claim the ITC but payment must be made within 180 days of such supply made.

In case a registered person is a recipient of goods or services or both and he supplies part of it as taxable supply and part of it as non-taxable supply, then ITC eligible on such supply is calculated proportionately to the extent of its taxable component. A person cannot take ITC with respect to goods lost, stolen, destroyed or written off. In addition, ITC with respect of goods given as gifts or free sample are also not allowed. ITC on goods or services by any registered person for construction of immovable property (other than plant and machinery) on his own account is also not allowed. These are certain important rules which govern claiming of ITC which has to be followed while complying with GST procedures about ITC. Despite the availability of ITC, many textile businesses face challenges in availing it due to compliance issues, documentation requirements, and the gap in the credit chain, especially in the unorganized sector.

Conclusion

The Taxpayers are provided with guidelines from government from time to time to abide by the provisions of GST regulations. The taxpayers are expected to follow them in order to make the business more GST compliant. Non-compliance of the GST provisions by any Businesses may amount to interest and penalty both which should be taken care of by the taxpayers.

Latest Updates on Job Work Under GST

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- **52nd GST Meet** – Job work services for processing barley into malt attract 5% GST instead of 18%.
- **47th GST Meet:**
  - **GST Rate Increased from 5% to 12%:**
    - Job work in the manufacture of **clay bricks.**
    - Works contract services for government projects involving **earthwork and subcontracts.**
  - **GST Rate Increased from 12% to 18%:**
    - Works contracts for **roads, bridges, railways, metro, crematoriums, etc.**
    - Government works contracts for **historical monuments, pipelines, water supply plants, hospitals, etc.**
- **Odisha GST AAR Ruling:** The construction of Hydrogen and Nitrogen Gas Plant using raw materials from IOCL **does not qualify as job work.**

Definition of Job Work Under GST

Section 2(68) of the **CGST Act, 2017** defines job work as: "Any treatment or process undertaken by a person on goods belonging to another registered person."

- **Job Worker:** A person (registered or unregistered) who processes goods for another registered
- person.
- **Principal:** The owner of the goods.

Responsibilities of the Principal

- **Issue a challan** (Rule 10 of GST Invoice Rules) for inputs or capital goods sent to the job
- worker.
- **Maintain records** of inputs and capital goods.
- **Notify the jurisdictional officer** about the details of inputs and nature of job work.

Time Limit for Returning Processed Goods

- Inputs: Must be returned within 1 year.
- Capital Goods: Must be returned within 3 years.
- Exceptions: Tools, fixtures, jigs, moulds, and dies are not subject to return norms under Section 19 of CGST Act.

GST Rates on Job Work

Type of Job Work	Previous GST Rate	Current GST Rate
Engineering Job Work	18%	12%
Diamond Processing Job Work	5%	1.50%
Unregistered Job Workers	18%	18%

Input Tax Credit (ITC) on Job Work

The **Principal Manufacturer** can claim ITC on:

- Capital goods or inputs supplied to job workers.
- Goods sent directly to job workers without first reaching the Principal's premises.

Procedure to Claim ITC on Job Work

A. Methods of Sending Goods to Job Worker:

- From Principal's Business Premises
- Directly from Supplier's Location

B. Goods Must Be Returned Within:

- Capital Goods – 3 years
- Input Goods – 1 year

C. If Not Returned Within Timeframe:

- Goods will be considered supplied, and tax will be payable.
- Challan issued will be treated as tax invoice.

Rules and Restrictions for ITC on Job Work

A. Goods Sent Out on Job Work Must Be Accompanied by a Challan

- **Contents of Challan:**
  - Date and number
  - Name, address, GSTIN of consignor and consignee
  - HSN code, description, and quantity of goods
  - Tax details (CGST, SGST, IGST)
  - Place of supply and signature

B. Reporting in GST Returns:

- **Details of challan to be reported in GSTR-1**
  - ITC-4 Form must be filed for tracking job work transactions.

Transitional Provisions for Job Work

- If inputs were sent for job work before GST and returned **within 6 months from the GST implementation date,** no tax is payable.
- If not returned before **December 31,** tax is applicable.
- **GST TRAN-1 Form** must be filed within 90 days of GST implementation for exemption eligibility.

FAQs on Job Work Under GST

Q1 What is Job Work?

Job work involves **processing raw materials or semi-finished goods** supplied by a principal manufacturer.

Q2 Who is a Principal Manufacturer?

A **Principal Manufacturer** owns the raw materials and outsources their processing to a **Job Worker.**

Q3 Is GST Registration Mandatory for Job Workers?

- **Principal Manufacturer:** Must register under GST.
- **Job Worker:** Registration depends on **Section 22 & 23 of CGST Act.**

Q4 What are the GST Rates for Job Work?

Principal Manufacturer	Job Worker	GST Rate
Registered	Registered	As per Chapter 9988
Registered	Unregistered	Not applicable
Unregistered	Registered	18%

Q5 Are Raw Materials to be Returned to the Principal?

- **Input Goods – Return within 1 year**
- **Capital Goods – Return within 3 years**
- **Exceptions**: No return requirement for **moulds, dies, jigs, fixtures, and tools.**

Q6 What is ITC-4?

ITC-4 is a **quarterly GST return** that records **goods sent to and received from job workers.**

Q7 Is Input Tax Credit Available on Goods Sent to Job Workers?

Yes, the **Principal can claim ITC** on goods sent, even if delivered directly to the job worker's location.

Q8 What GST Returns Must Be Filed for Job Work?

- **GSTR-1:** Outward supplies details
- **GSTR-3B:** Monthly summary return
- **ITC-4:** Tracking job work transactions

Conclusion

Job work plays a crucial role in Indian manufacturing. GST compliance is largely the responsibility of the Principal, who must ensure timely return of goods, proper documentation, and ITC claims. With recent GST rate reductions and clarifications, job workers can benefit from simplified tax structures and better compliance mechanisms.

For seamless compliance, businesses should maintain proper documentation, file ITC-4 returns timely, and ensure adherence to GST norms.

Input Tax Credit on Job Work and ITC-04

Implications of GST and ITC on Goods Sent for Job Work

This article explores the implications of GST and input tax credit (ITC) on goods sent for job work.

Effective from 1st October 2021, the frequency of filing ITC-04 form has been revised through Central Tax Notification No. 35/2021:

1. **Annual Aggregate Turnover (AATO) above Rs. 5 crore – Half-yearly filing:**
   - **April-September** due on **25th October**
   - **October-March** due on **25th April**

2. **AATO up to Rs. 5 crore – Yearly filing:**
   - FY 2021-22 onwards due on 25th April

What is Job Work?

Job work refers to processing or working on raw materials or semi-finished goods supplied by the **principal manufacturer** to a **job worker.** This may involve completing a part or the entire process to manufacture, finish, or carry out any essential operation on the product.

Example: A shoe manufacturer **(Principal)** sends half-made shoes (upper part) to a **Job Worker** to fit in the soles. The finished shoes are then sent back to the **Principal.**

As per **GST Act,** job work is defined as:

"Any treatment or process undertaken by a person on goods belonging to another registered person. The person performing the job work is called a Job Worker."

For more details, refer to our article on **Impact of GST on Job Work.**

Input Tax Credit (ITC) on Job Work

The **Principal Manufacturer** can claim ITC on tax paid on purchases of goods sent for job work, subject to the following conditions:

Time Limit for Receiving Goods Back

- **Capital Goods:** Must be returned within **3 years.**
- **Input Goods:** Must be returned within **1 year.**

If the goods are not returned within the stipulated period, they will be treated as **deemed supply,** and the **Principal Manufacturer must pay tax** on such supply. The **challan issued** will be treated as an **Invoice** for the supply.

Can the Principal Sell Goods Directly from the Job Worker's Place?

Yes, but only under the following conditions:

1. The Job Worker is registered under GST.
2. The Principal declares the Job Worker's premises as an additional place of business.
3. The Commissioner notifies specific goods that can be supplied directly from the Job Worker's location.

Special Cases: Machinery & Tools

The **time limit for return does not apply** to:

- **Moulds & Dies**
- **Jigs & Fixtures**
- **Tools sent to a Job Worker**

Summary of ITC Conditions for Goods Sent for Job Work

A. **Goods can be sent from:**
- **Principal's place of business**
- **Directly from the supplier's location**
  - ITC is **allowed** in both cases.

B. **Effective Date for ITC Calculation**
- If sent from **Principal's place** → Date of dispatch
- If sent **directly from the supplier** → Date of receipt by Job Worker

C. **Goods Must Be Received Back by the Principal Within:**
- **Capital Goods:** 3 years
- **Input Goods:** 1 year

D. **Consequences of Non-Return**
- If goods are not received within the prescribed period, **tax must be paid** on them as a **deemed supply.**

For **transitional provisions,** refer to our article on **Impact of GST on Job Work.**

Special Provisions for Job Workers & Filing Requirements

1. If a **Job Worker sends goods to another Job Worker,** the same conditions apply as for the Principal.
2. The J**ob Worker must endorse the challan issued by the Principal** when sending goods to another Job Worker.
3. The **Job Worker must file GSTR-1 & GSTR-3B** like any other taxpayer.

Form ITC-04 – Key Compliance Requirement

Form GST ITC-04 must be submitted by the Principal every quarter. It must include details of:

1. **Goods dispatched to a Job Worker**
2. **Goods received from a Job Worker**
3. **Goods transferred from one Job Worker to another**

Due Date for Filing ITC-04

Previously, ITC-04 was a **quarterly form,** with the due date being the **25th of the month succeeding the quarter.**

Revised ITC-04 Filing Frequency (from October 2021)

Annual Aggregate Turnover (AATO)	Filing Frequency	Due Date
More than Rs. 5 crore	Half-Yearly	25th October (Apr-Sep) & 25th April (Oct – March)
Up to Rs. 5 crore	Yearly	25th April

Details to Be Furnished in ITC-04

Part A: Goods Sent to Job Worker

- GSTIN of Job Worker
- Challan number & date
- Taxable value & tax amount
- Description & quantity of goods

Part B: Goods Received Back from Job Worker or Sent to Another Job Worker

- GSTIN of recipient
- Details of goods received back or transferred
- Original challan reference & new challan details

All details must be extracted from challans.

Conclusion

The GST framework for Job Work & ITC-04 compliance ensures transparency in goods movement & ITC claims. Principal Manufacturers must adhere to return timelines to avoid tax liability on deemed supplies. Proper documentation, challan management, and timely ITC-04 filing are essential for compliance.

For seamless GST compliance, consider using automated GST filing software.

Evolving Taxation Policies in India's Textile Sector: A Comparative Analysis with Global Practices

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Introduction

The textile industry is one of the oldest and most significant contributors to India's economy, providing employment to millions and playing a crucial role in exports. With India's push toward global competitiveness, evolving taxation policies in the textile sector have become a focal point for discussion. While taxation reforms, particularly the Goods and Services Tax (GST), have streamlined indirect taxation, challenges such as input tax credit (ITC) restrictions, high GST rates on certain textile categories, and compliance burdens continue to impact the sector.

This article provides a comparative analysis of India's textile taxation framework in comparison with global best practices, focusing on countries like China, Bangladesh, Vietnam, and Turkey, which are major players in textile manufacturing and exports.

India's Taxation Policies in the Textile Sector

1. **Indirect Taxation: GST on Textiles**
   The introduction of GST in July 2017 was a landmark shift, aiming to create a unified tax regime. However, the textile industry has faced mixed impacts:

   - **GST Structure:**
     - 5% GST on natural fibers (cotton, jute, silk) and yarn
     - 12% GST on synthetic fibers and blended fabrics
     - 18% GST on apparel priced above ₹1,000
   - **Input Tax Credit (ITC) Challenges:** The textile industry relies on multiple supply chain intermediaries, and the ITC refund mechanism has led to working capital blockages, especially for MSMEs.
   - **Inverted Duty Structure:** Higher GST on raw materials (synthetic fibers) compared to finished products leads to ITC accumulation.
   - **Compliance Burden:** Small and medium enterprises (SMEs) face difficulties in meeting GST filing requirements due to digital literacy and infrastructure limitations.

2. **Direct Taxation and Incentives**
   - **Corporate Tax:** Textile companies are subject to a 25% corporate tax rate (for businesses with turnover up to ₹400 crore) or 30% for larger firms.
   - **Tax Holidays:** The Indian government offers tax incentives to textile parks under the Scheme for Integrated Textile Parks (SITP).
   - **Export Benefits:** Duty Drawback Scheme, Remission of Duties and Taxes on Exported Products (RoDTEP), and Production-Linked Incentive (PLI) schemes provide tax relief to boost textile exports.

Comparative Analysis: India vs. Global Textile Hubs

1. **China: Heavy Subsidization with Competitive Tax Policies**
   China has dominated the global textile market through a combination of tax benefits and infrastructure support.
   - **VAT and Export Tax Refunds:** China imposes a 13% Value-Added Tax (VAT) on textiles but provides an export tax rebate of up to 13%, making exports effectively tax neutral.
   - **Corporate Tax Rate:** 25%, with tax incentives for technology-driven textile firms.
   - **Low Utility and Compliance Costs:** Subsidized electricity, streamlined compliance systems, and government-backed financial incentives reduce overall tax burdens.

2. **Bangladesh: Duty-Free Benefits and Lower Costs**
   Bangladesh has positioned itself as a global textile leader due to its tax-friendly policies for manufacturers.
   - **Zero Import Duty on Raw Materials:** Unlike India, Bangladesh allows duty-free import of raw materials for export-oriented units.
   - **Tax-Free Export Zones:** Special Economic Zones (SEZs) offer tax holidays of 10+ years.
   - **Corporate Tax:** Textile companies enjoy a 12% tax rate, lower than India's.
   - **No GST Equivalent:** Instead, a direct cash incentive of 4-10% on export value supports competitiveness.

3. **Vietnam: Free Trade Agreements (FTAs) and Investor-Friendly Taxation**
   Vietnam's textile industry benefits from its extensive network of FTAs, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam FTA.
   - **Corporate Tax Incentives:** Standard 20% corporate tax, but textile manufacturers in special zones enjoy tax holidays and reduced rates.
   - **Low Import Duties:** Vietnam's FTAs ensure minimal tariffs on raw material imports.
   - **VAT:** A 10% VAT, with refunds available on exports, ensuring liquidity in the supply chain.

4. **Turkey: Balancing Protectionism with Global Trade**
   Turkey remains a textile powerhouse through a mix of protective tariffs and export incentives.
   - **High Import Tariffs:** To safeguard domestic manufacturers, Turkey imposes 20-30% duties on textile imports.
   - **Corporate Tax:** 22%, slightly lower than India's.
   - **Export Incentives:** The government provides VAT refunds and cash incentives for exporters.
   - Energy Subsidies: Given the high energy consumption in textile manufacturing, Turkey subsidizes electricity costs for textile units.

Key Takeaways for India's Textile Taxation Reforms

Based on the comparative analysis, India can adopt the following global best practices to enhance its textile sector's competitiveness:

1. **Rationalizing GST Rates** – Reducing the GST rate on synthetic fibers from 12% to 5% can correct the inverted duty structure.

2. **Expediting ITC Refunds** – A faster and automated ITC refund mechanism can resolve working capital constraints for MSMEs.

3. **Lower Corporate Tax for MSMEs** – A special corporate tax rate of 15% for textile MSMEs (similar to Bangladesh) can boost domestic manufacturing.

4. **Duty-Free Import of Raw Materials for Exporters** – Implementing a zero-duty import scheme for export-oriented units (EOUs) can level the playing field with Bangladesh and Vietnam.

5. **Strengthening SEZ Benefits** – Extending tax holidays and simplifying compliance in SEZs can attract foreign investment into India's textile sector.

6. **Enhancing Export Incentives** – Expanding RoDTEP rates and introducing cash subsidies (2-5%) for exporters can make Indian textiles more competitive.

Conclusion

India's textile sector stands at a critical juncture, facing both global competition and domestic taxation challenges. While GST has brought transparency, issues such as inverted duty structures, high tax rates on synthetic fabrics, and compliance difficulties remain unresolved. A comparative analysis with China, Bangladesh, Vietnam, and Turkey reveal that India must adopt a mix of rationalized taxation, duty-free imports, and export-friendly policies to stay competitive in global markets.

By implementing progressive tax reforms, India can unlock the true potential of its textile industry, fostering growth, employment, and export-led expansion in the coming years.

A COST & MANAGEMENT ACCOUNTANTS SUGGESTED APPROACH TO IMPROVE ECONOMICS OF TEXTILE INDUSTRY IN INDIA.

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The term 'Textile Industry' is a compound term consisting of Various Processes as mentioned hereunder:

- Cotton Ginning
- Spinning
- Weaving
- Dyeing, Printing and Finishing
- Gaarment Manufacturing

Glossary

Textile: (n) a Woven or Knitted fabric.
Fabric (n): Cloth
Yarn (n): Spun thread
Ginning: A process to separate cotton from its seeds
Lint: Long cotton seeds in the ginning process
Linters: short fibres that are removed from seeds in the ginning process
Ginning out turns: Percentage of weight of lint normally ranges from 30 to 40%.
Spinning: A process to draw out and twist fibres to make yarn
Weaving: A process to convert the yarn to clothing
Garment (n): an item of clothing
Fibres: Thread like structure that are thin, long and flexible. They are classified as Natural Fibres and man-made fibres. Natural Fibres are further classified as -

- Plant Fibres – obtained from the cotton and jute. Some others are from Bamboo, Coconut, Vegetables, Straw, grains etc.

- Animal Fibres – Mainly Wool and Silk. Wool is obtained from Sheep, Rabbits and Yak and other animals. Silk is obtaine from Silk Worms.

- Mineral Fibres – Inorganic materials shaped into fibres, such as Asbestos.

Man-made fibres are artificially synthesized in Polymer industries to make fabrics and are further classified as –

- Regenerated fibres also known as semi-synthetic fibres

- Synthetic fibres

- Inorganic fibres

Some Important Innovations during Industrial Revolution which helped mechanisation of Textile Industry:

1. Steam Engine patented by James Watt in 1769 and by 1774 it found commercial uses to power industries and mills during Industrial Revolution.

2. Eli Whitney developed the cotton gin, which rapidly separate cotton fibre from seeds in 1793. Gin is an abbreviation to Engine or a machine.

3. In 1785, Cartwright patented his design of Power loom and Richard Arkwright improved the design; Key components are 1) The Warp, 2) The Weft and 3) The loom. He combined his Water frame with the Power loom for an efficient and integrated system for mechanisation of textile production.

Introduction

With a swift turn in Civilization immemorial to records,man inherited the knowledge of turning cotton to fibre and thus making cloth to provide basically Privacy/avoiding shame and secondarily to protect himself from the harsh atmospheric conditions such as Moisture and heat.

Cotton is a natural fibre made from cotton plants and people of ancient India were growing cotton to make cloth as early as 3000 B.C.It is also a recorded fact that people of Peru were twisting cotton fibres in to fishing nets and by 1900 B.C. they were weaving it into cloth.

By 1000 A.D. Eastern and Wesern hemispheres were weaving large amounts of cotton cloth.China began growing cotton on a large scale around 1200. England and the American Colonies began to weave cotton in the early 17th century.

There are approximately 39 known species of cotton plants, but only four are grown commerically for their fibres. Upland and Pima are considered New World cottons and native to the America. Tree and Levant are old world cottons that are native to Asia and Africa. Cotton production need Black soil, plenty of water, sunshine and warm temperature and therefore, produced in places most suitable, presently as a Money Crop. With ever increasing population globally and consequent requirement of clothing, the crop alongwith the associated industriesturning this cotton to fibres gained more and more importance, and formed part of G.D.P. of many countries in the world.

It is pertinent to know that Plant fibres or natural fibres have more advantages over semi-synthetic/synthetic fibres as mentioned here under:

1. Natural fibres are biodegradable.

2. They have a low specific weight due to which they possess higher strength.

3. They possess good electrical resistance.

4. They are skin-friendly and cause no irritation.

5. Their production requires less energy and emits low carbon dioxide.

6. Cost-effective.

7. They possess good thermal and insulating properties.

Ginning an important primary process on which depends the growth of Textile Industry

This is the vital process in which clean and gin the seed cotton, clean the lint form a bale. In 2013-14 with an approximate number of 1500 modern and 2500 semi-modern ginneries could able to gin about 38 million bales. Mostly used Ginning Technologies being 1) Saw Ginning (about 55%) and 2) Double Roller Ginning (about 35%), as suitable to a particular seed for optimizing the yarn production. Roller Ginning is economical over Saw Ginning for higher ginning and better retention of fibre length.

The Introduction of Technology Mission on Cotton (TMC) by the Govt. of India and the efforts of Central Insitute for Research on Cotton Technology, Mumbai since the year 2000 brought the modernization in Ginning Sector, which are commendable.

As ginning outturn is in the range of 30 to 40%, there is an enormous scope improving this percentage by continuous studies and thus achieve cost reduction to help grow the Textile Industry.

Seeds when seperated/ginned, forms part of about 60-70% of the Input weight, must be considered as potential joint product which has the following uses:

1. Seed for the future crop
2. Extraction of oil from the seeds to be used as vegetable oil
3. Making Pesticides
4. Making of Skin ointments etc.,
5. Making Cattle feed

A Cost and Management Accountant has a vital role to play in primarily assessing the value of this joint product, applying the principles of Joint Product Costing and By-Product Costing.

Unlike for cotton, cotton seeds don't have an organized market since there is no recognition of cotton seed as a Joint Product, which has substantial value, and the farmer should have a fair share to improve his economy, which fact be recognized.

Cotton seed oil is derived from seeds of cotton plant and oil peercentage being 15-20. Unrefined cotton seed oil contains a toxin called gossypol, which is used in making pesticides.

Average cotton lint production (over 2-3 years) being 340 lakh bales (App. 170 kg each bale) and the availability of cotton seed is 108 to 115 MT for processing, stressing the need to consider the Cotton seed as a Joint Product and not a mere by product or waste.The more the revenue earned by processing the cotton seeds improve the economy of the industry as a whole.

March 12, 2025 edition of 'The Hitavada' a pioneering News Paper in its Business section mentioned 'CAI cuts cotton output projection to 295.3 lakh bales on lower yield' for 2024-25, necessitating imports for the season at 30 lakh bales. (CAI denotes Cotton Association of India).

The above factor obviously increase the Cost of Garment Industry and see a reduction in profits. Also higher imports lead to burden on balance of payments.

A Cost and Management Accountant's approach in the present scenerio is to match the prodution of cotton to the Garment Industry's production to scale down and avoid the burden of imports to its lowest ebb by conducting suitable Cost-benefit analysis.

The Institute of Cost Accountants of India must help the Industry by conducting studies by an expert committee formed of its Members having specialization in the Industry.
The avaialbility of Ginned cotton is based on –

1. Quality of the Seeds which at times fail to germinate, resulting apathy to farmers.
2. Whether conditions purely dependent on monsoon.

3. Pests

4. Depleting soil condition

Quality of seeds must be tested before they are put to use and the seller of seeds must compensate the farmer for low/no yield.

Soil testing before sowing the crop must be made mandatory.

Pest Control must be from the funds available with Corporate Social Responsibility of the Companies in and around the districts of farming. Satellite mapping of the crop helps production planning of subsequent process after cotton ginning.

Agronomists of nearby Agricultural Colleges/Universities must help the farmers by their visit and appropriate advise.

Spinning

The Raw Material Cost (RMC) in Spinning industry is in the range of 60-70%, which is the major component of cost.With a Critical Cost Approach in Cotton Ginning process, there is lot of scope for reduction in cost. As per studies only 67% of oil is extracted from the cotton seeds leaving a huge margin of about 33%. If, the extraction percentage by 5% each year is increased till it reaches the optimum, the RMC in Spinning Industry can be achieved considerably.For the purpose adequate studies by the Agricultural/Agricultural Engineering Institutes shall be of immense use.

The Spinning process transforms raw cotton fibres into yarn suitable for different end products and it also refers to the fibre extrusion process, which turns polymer filaments into a material that resembles yarn.

The spinning process costs often depends on capacity utilization. The availability of Ginned cotton to the industry must be assessed precisely and must try for optimum capacity utilization. Where it is predicted that Plant fibre is not adequate to achieve the optimum capacity utilization, synthetic fibre be used for making synthetic yarn.

Weaving

It is a process in which two sets of yarn are interlaced so that they cross each other at right angles.

Large scale weaving is the output of Power looms, which enable high speed production, reducing the waste and drastic reduction in labour costs.

Key components of a power loom are

- The Warp, longitudinal set of yarns and held under tension on a beam

- The Weft, the X-wise yarn, is inserted through the Warp by shuttle or other mechanisms

- The Loom, operated by a series of mechanical devices and power sources such as belts, pulleys and gears which control the movement of the Warp and Weft threads.

In the early 20th Century, James H. Northrop developed Northrop Loom which further improved the efficiency and automation. Modern Power Looms are highly advanced , computer controlled offering efficiency, precision and automation in Textile Industry and are capable to handle besides cotton, Wool, Silk, Synthetic fibres and blends. The blends give the advantage to keep the cost of production to its optimum.

Dyeing, Printing and Finishing

Before resorting to Garment manufacturing, Dying, Printing and Finishing are important and associated process.

There is ample scope of Cost Reduction in the above processes with the use of computer aided designs and finding substitute material for Dyeing etc.

Garment Industry

India is having 4% of the Global Textile and Apparal market

The Industry is contributing :

- Approximately 7% to Industrial Output
- Approximately 2% to the G.D.P.
- Approximately 15% to the country's export earnings
- Provides Direct Employment to 45 million people
- WTO in its Trade Statistics Review 2018, India is ranked 5th largest exporter of Ready Made Garments (RMG) in the World.

The above highlights the importance of Textile Industry and its growth.

Factors influenced for growth of Textile Industry

Govt. of India, Ministry of Textiles launched Comprehensive Schemes for Powerloom Sector Development and the following schemes have further augmented growth of the Industry, viz.,

- In-situ upgradation of Plain Power Looms
- Yarn Bank Scheme
- Common Facility Centre
- Pradhan Mantri Credit S cheme for Powerlooms Facilitation, IT Awareness, Market Development and Publicity for Powerloom schemes
- Tex Venture Capital
- Grant-in-aid and Modernization & Upgradation of Powerloom Service Centres (PSCs)
- Ammended Technology Upgradation Fund Scheme (ATUFS)
- Modified Comprehensive Powerloom Cluster Development Scheme (MCPCDS)
- Universal Insurance Coverage Scheme
- Integrated Skill Development Scheme

Subsidy for Upgradation is available as per the following Table:

S.No	Type of Upgradation	Quantum of Subsidy per loom		
		General (50%)	SC (75%)	ST (90%)
1	From Plain loom to Semi-Automatic Shuttle loom	Rs. 20000	Rs. 30000	Rs. 36000
2	From Semi-Automatic Shuttle loom to Shuttleless Rapier loom	Rs. 25000	Rs. 37500	Rs. 45000
3	From Plain loom to Shuttleless Rapier loom	Rs. 45000	Rs. 67b500	Rs. 81000

Other Factors which enable boost to the growth of Industry:

1. Setting up of 7 (seven) PM Mega Integrated Textile Region and Apparel (PM MITRA) Parks with an outlay of Rs.4445 Crores for a period of 7 years, upto 2027-28, with world class infrastructure for making India a global textile hub. Apart from this, with a view to increasing investments, generating employment opportunities and boosting exports in textile sector, the Ministry implemented Scheme for Integrated Textile Park (SITP).
2. Online marketing of Garments both branded and non-branded is playing a very vital role to provide at the most affordable price since lot of reduction in Selling & Distribution overhead.
3. Advertisement through Social Network Platforms enable users connect, share product information and resulting in improved sales and increased revenue to the marketing companies.
4. Unified Payment Interface (UPI) platforms provide transfer of funds enabling a strong Working Capital Management to augment the growth of a company/industry.

Conclusion

The industry has witnessed tremendous growth over the past few decades in Spinning, Weaving and Garment making compatable to international standards and earning valuable foreign exchange. Some more efforts to improve the yield of Cotton Production and effective use of Cotton Seeds to give optimum production of Vegetable oil and cattle feed, the farmer at large shall be benefited. An Incentive for improved yield of cotton production shall definitely help farmers to see farming of cotton a lucrative activity. In future it is visualised that Artificial Intelligence shall play a very vital role in Production Planning, Resource Mobilization and ease of marketing. The Cost and Management Accountants and the Institute of Cost Accountants of India shall help Cost Reduction possible in every process/sub-process associated with Ginning, Spinning, Weaving and Garment Production, which is of paramount importance.

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SUMMARY

India is the Second Largest Cotton producing country in the world after marginally behind China, and substantially contributing to the GDP by over 2%, Textile Industry be regarded as vital and important industry and its perpetual growth is desired. The Industry presently providing Direct employment to about 45 million people. Ministry of Textiles, Government of India implemented many schemes to facilitate modernization of Power loom sector. This is crucial for turning yarn to Cloth and providing Raw Material for Garment Industry. Presently Textile and Garment Export Earnings are about 15% of the total earnings which must be regarded as potential earnings. The Cotton Ginning Sector needs improvements and for Cost Reduction, in all the sectors of Textile and Apparel Industry, Cost and Management Accountants have a pivotal role to play.

"CROSS-VERIFYING DEBIT AND CREDIT SIDES FOR TAX COMPLIANCE"

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INTRODUCTION

Tax compliance is an essential part of any healthy economy, with direct implications on government revenue and the stability of the financial system. For tax systems to be fair, transparent, and efficient, accuracy in tax returns is the top priority. One of the best ways to check for accuracy is cross-matching of debit and credit entries among various taxpayers. This exercise helps tax authorities detect discrepancies, validate information, and prevent fraud, ensuring trust in the tax administration. The older means of checking these transactions are usually inefficient, prone to errors, and time-consuming. New technologies can overcome such challenges and help in more precise, transparent, and efficient cross-verification of tax entries.

OLD METHODS OF CROSS-VERIFICATION

Earlier, cross-verification of debit and credit sides of tax returns was done through manual methods. This typically comprised matching entries manually to verify if one taxpayer's debit was equal to another's credit. While this process insured compliance, it was inefficient and often susceptible to human error. Traditional methods used to sample populations enabled only a minor proportion of the returns to be tested thoroughly, while much remained unchecked. This would see gaps and disparities evade detection and, consequently, render the system itself susceptible to malfunctions in terms of the truth.

LIMITATIONS OF CONVENTIONAL SAMPLING SYSTEMS

The conventional cross-verification process was beset with many challenges, most of which could be addressed through contemporary technologies:

1. **Manual Errors:** Cross-checking and manual entry of returns are susceptible to errors, which can result in erroneous conclusions about compliance and inaccurate tax liability assessments.

2. **Time-Consuming:** Reconciling the debit and credit entries manually is a tiresome exercise that consumes precious time and resources. It may lead to the slowing of the tax assessment and refunding process.

3. **Limited Coverage:** Sampling methodology implies that not all but just a few percentages of the tax returns are validated, which could leave big voids in validation.

4. **Lack of Transparency:** Conventional approaches are usually opaque to tax administrations as well as to taxpayers. Without transparent knowledge of the process, taxpayers might perceive that there is no fairness and accountability in the system.

ROLE OF TECHNOLOGY IN ENHANCING TAX COMPLIANCE

With the evolution of new technology, tax administrations now have the chance to make tax compliance checks more accurate and efficient. Utilizing new and innovative tools, tax administrations are able to make time-consuming activities automated, flag patterns and discrepancies, and make tax systems overall more transparent and reliable. Most important technologies, which are most significantly contributing towards tax compliance, are:

1. **Artificial Intelligence (AI):** AI can process huge amounts of data much faster and with greater accuracy than human beings, thus making it an asset when used to automate the reconciliation of debit and credit entries. AI is also able to detect irregularities, alerting them for review.

2. **Machine Learning (ML):** ML algorithms learn from data patterns, enabling them to identify fraudulent activity and discrepancies that might otherwise be missed. Through CROSS-VERIFYING DEBIT AND CREDIT SIDES FOR TAX COMPLIANCE - BY CMA SHIRISH SHAH Page 3 of 8 ongoing improvement as more data is analyzed, ML enables tax authorities to target resources on high-risk cases.

3. **Blockchain:** Blockchain offers a secure and transparent mechanism of recording transactions, facilitating easy verification of tax-related information. Blockchain's distributed ledger technology ensures data's tamper-proof nature and real-time accessibility by the concerned parties.

4. **Data Analytics:** Data analytics software enables large amounts of tax data to be analyzed, providing insights on compliance patterns and pinpointing areas potentially needing intervention or policy revision.

INNOVATIVE SOLUTIONS FOR CROSS-VERIFICATION

There have been several new solutions designed that combine AI, ML, blockchain, and data analytics in order to enhance the cross-verification process. These technologies have helped increase the capability to recognize differences promptly and effectively.

1. **Automated Matching:** Leveraging AI and ML programs, automated matching products can match debit and credit entries in real-time, virtually eliminating the likelihood of human error. These programs can be configured to match entries between various tax returns in a split second, assisting authorities in detecting discrepancies at the earliest moment possible.

2. **Real-Time Verification:** Blockchain and data analytics have facilitated real-time verification of tax transactions. Since each transaction is being recorded on a blockchain ledger, tax authorities can track and verify the transaction while it is being made, facilitating instant corrective action in case discrepancies are found.

3. **Predictive Analytics:** Predictive analytics, driven by ML algorithms, can be applied to detect high-risk tax returns using patterns from historical data. Such solutions are capable of anticipating potential tax evasion and anomalies ahead of time so that authorities may concentrate their efforts more efficiently.

4. **Transparent Ledger:** Blockchain may be employed to establish a secure and transparent tax transaction ledger, enabling taxpayers to monitor in real time whether they are in compliance or not. Transparency between tax authorities and the public raises confidence levels and promotes increased compliance.

ADVANTAGES OF INNOVATIVE SOLUTIONS

The application of innovative cross-verification solutions provides important advantages to tax authorities, companies, and citizens as follows:

1. **Better Accuracy:** AI and ML-driven automated solutions minimize the risk of human mistakes in the cross-checking process, leading to more precise tax determinations.

2. **Better Efficiency:** Automation accelerates the verification process, enabling tax agencies to verify more returns within shorter periods. The efficiency results in faster assessments, refunds, and adjustments.

3. **Increased Transparency:** Real-time confirmation and open ledgers allow taxpayers to track their tax compliance, increasing transparency and confidence in the system.

4. **Improved Risk Assessment:** Predictive analytics assists tax administrations in determining high-risk cases at an early stage, such that enforcement efforts are focused on those most likely to offend. This enhances the overall effectiveness of tax enforcement.

IMPLEMENTATION ROADMAP

To put innovative cross-verification solutions into practice, tax authorities need to create an overarching roadmap. The following are steps to a recommended approach:

1. **Evaluate Current Processes:** Tax authorities should start by evaluating their existing tax compliance processes to see where inefficiencies exist and how technology can be leveraged to enhance accuracy and speed.

2. **Choose Innovative Solutions:** With the evaluation in mind, the most appropriate technologies should be chosen by tax authorities, considering the long-term objective and purpose of the organization. CROSS-VERIFYING DEBIT AND CREDIT SIDES FOR TAX COMPLIANCE - BY CMA SHIRISH SHAH Page 5 of 8

3. **Develop and Design Solutions:** Having identified the correct solutions, tax authorities need to team up with providers of technology and design systems compatible with existing infrastructure.

4. **Test and Pilot:** After the solutions are formulated, pilot programs must be initiated to try out the systems under real-world conditions. This makes it possible to determine any existing flaws before a large-scale implementation.

5. **Implement and Roll Out:** On successful testing, the solutions must be implemented into all the tax procedures. There will be a need for communication with stakeholders and widespread training of tax officials to facilitate a seamless transition.

6. **Monitor and Evaluate:** Lastly, ongoing monitoring and evaluation are necessary to make sure the solutions are effective and adapt to shifting compliance needs.

CHALLENGES AND LIMITATIONS OF IMPLEMENTING INNOVATIVE SOLUTIONS

Although the advantages are apparent, the implementation of innovative solutions for cross-verifying debit and credit sides has a number of challenges:

1. **Technical Infrastructure:** New technologies require substantial investment in technical infrastructure, such as new hardware, software, and network facilities.

2. **Data Quality:** High-quality data is necessary for accurate verification. In developing nations, where data collection and management systems are not as mature, the adoption of these solutions can be hindered.

3. **Change Management:** The introduction of new technologies requires extensive change management. Training tax officials and making them comfortable with new tools is crucial to success.

4. **Cybersecurity:** Using AI, ML, and blockchain, tax authorities have to spend on adequate cybersecurity to protect sensitive taxpayer information and avoid cyberattacks.

BEST PRACTICES FOR IMPLEMENTING INNOVATIVE SOLUTIONS

o achieve the highest success rate in implementing innovative solutions, tax authorities should adhere to these best practices:

1. **Perform a Comprehensive Needs Assessment:** Authorities should first perform a comprehensive needs assessment and objective determination prior to implementing any technology. This will ensure that the solutions selected are in line with the intended outcomes.
2. **Create a Clear Implementation Plan:** A clear plan with timelines, milestones, and resource allocation is essential to a successful implementation process.
3. Give Comprehensive Training: Proper training and capacity development programs are essential in ensuring that tax administrators are well-equipped to deal with new technologies and systems.
4. Monitor and Evaluate: There should be ongoing monitoring of the implemented solutions in order to gauge performance and effect necessary corrections.

FUTURE RESEARCH DIRECTIONS

1. **AI and ML in Tax Compliance**: Future studies may examine the use of sophisticated AI methods like natural language processing to enhance tax compliance validation. AI and ML may also be employed to develop more predictive models for the identification of prospective tax evaders.

2. **Blockchain and Smart Contracts:** More research has to be done to see how blockchain technology may be applied for tax compliance verification, particularly using smart contracts and decentralized identity verification.

3. **IoT and Sensor Technology:** IoT and sensor technologies have potential tax compliance applications like RFID tags and GPS tracking being used to track the movement of goods for taxation purposes.

4. **Human-Centered Design:** Studies may examine the application of human-centered design to enhance user experience in tax compliance procedures, with benefits to both taxpayers and tax authorities.

CONCLUSION

Cross-verifying debit and credit sides through innovative solutions provides a route toward enhancing the accuracy, efficiency, transparency, and risk management of tax compliance systems. With the help of technologies like AI, ML, blockchain, and data analytics, tax authorities can make their processes efficient and provide an improved overall experience for taxpayers and authorities alike. While deploying these technologies also raises challenges, careful planning, infrastructure investment, and successful change management can bring out the maximum benefits.

RECOMMENDATIONS

1. **Automated Matching Solutions:** The tax authorities need to adopt automated matching solutions fueled by AI and ML to cut down on errors and enhance efficiency.

2. **Real-Time Verification:** Real-time verification technologies, including blockchain, will enable the authorities to identify discrepancies in real time and act on them.

3. **Predictive Analytics:** Authorities need to apply predictive analytics to detect high-risk cases and nip tax evasion in the bud.

4. **Transparent Ledger Solutions:** The adoption of blockchain-based transparent ledgers will foster increased confidence in the tax system by enabling taxpayers to monitor their compliance status.

Through further research and development, these technologies will be the foundation of a more efficient, transparent, and fair tax system globally.

The Impact of Increasing GST Compliance and Litigation on the Textile Industry

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The textile industry in India is one of the oldest and most significant sectors of the economy, contributing substantially to employment and exports. However, in recent years, rising Goods and Services Tax (GST) compliance requirements and litigation have posed considerable challenges to businesses operating in this sector.

Mandatory e-invoicing, the e-way bill (EWB) system, and increasing cases of fake billing and blocked Input Tax Credit (ITC) have created an environment of uncertainty and financial burden. While GST was introduced to simplify the indirect tax structure, the growing regulatory requirements are proving to be a double-edged sword for the textile industry.

Understanding GST Compliance in the Textile Sector

The textile industry, being a mix of large-scale manufacturers and small-scale traders, has always faced challenges in tax compliance. Many players in this industry operate within unorganized or semi-organized structures, making it difficult to transition smoothly into a highly regulated GST regime.

The introduction of GST in 2017 aimed to unify multiple taxes and create a seamless input credit system. However, compliance requirements have been progressively increasing, creating significant operational burdens.

1. E-Invoicing and Its Impact on Textile Businesses

E-invoicing was introduced to curb tax evasion by ensuring that every transaction is recorded electronically. While this is a positive step for transparency, its mandatory implementation has affected textile businesses in the following ways:

- **Technological Adaptation:** Many small and medium enterprises (SMEs) in the textile sector lack the technical know-how and infrastructure to comply with e-invoicing requirements. The cost of upgrading systems and training employees adds to their financial burden.

- **Operational Challenges:** Since e-invoicing is integrated with GSTN (GST Network), any error in compliance leads to rejection or penalties. Small traders and manufacturers often struggle with these complexities.

- **Cash Flow Issues:** The requirement to generate e-invoices in real-time delays transactions and payments, affecting liquidity.

2. E-Way Bill and Its Burden on Textile Transport

The e-way bill system was implemented to track the movement of goods and prevent tax evasion. However, textile businesses, especially those involved in inter-state trade, face significant difficulties due to this system:

- **Logistical Challenges:** The textile supply chain involves multiple stages of movement, from raw material procurement to finished goods distribution. Ensuring e-way bill compliance at each step increases paperwork and delays.

- Penalties and Seizures: Any discrepancy in the e-way bill can lead to heavy fines or even confiscation of goods. This creates anxiety among small traders who may unintentionally commit minor errors.

- Impact on Small Traders: Many textile traders rely on informal transport networks that do not have the necessary compliance infrastructure, making it difficult for them to adapt to the e-way bill system.

Rising Litigation in the Textile Industry

Apart from compliance burdens, litigation cases related to GST violations have surged in the textile sector. Two major issues causing legal disputes are fake billing , blocked ITC & System Generate Notices

1. Fake Billing Cases

Fake billing refers to the issuance of invoices without actual supply of goods or services to fraudulently claim ITC. Due to the involvement of multiple intermediaries in the textile industry, the sector has been under scrutiny for such fraudulent practices.

- **Government Crackdown:** Authorities have intensified investigations into fake billing, leading to frequent raids and arrests of textile traders and manufacturers.

- **Unintended Harassment:** While curbing fraud is necessary, many genuine businesses get caught in legal battles due to inadvertent errors in documentation or unverified supplier transactions.

- **Reputational Damage:** Even if a company is later found innocent, the mere involvement in a fake billing case can damage its reputation and lead to loss of business.

2. System-Generated Notices and Their Burden

With the growing reliance on automation in tax administration, many GST notices are issued automatically based on data mismatches or perceived discrepancies in filings. While automation aims to improve efficiency, it has led to unintended litigation due to the following reasons:

- **Mismatches in GST Returns:** Notices are frequently issued when there is a mismatch between GSTR-1 (outward supplies), GSTR-2B (ITC claim), and GSTR-3B (summary return). Even the same has already been adjusted in subsequent year or their annual returns and minor discrepancies trigger notices, forcing businesses to justify their filings repeatedly.

- **Erroneous Notices:** Due to system errors or delays in data processing, businesses often receive incorrect notices, demanding additional tax, interest, or penalties. Responding to such notices requires significant time and legal resources.

- **Increased Compliance Costs:** Textile businesses, particularly SMEs, need to hire legal experts to respond to GST notices, increasing their financial burden.

- **Risk of Penalties:** If system-generated notices are not responded to in a timely manner, businesses may face heavy penalties, even if the discrepancy is unintentional.

The Cumulative Effect on the Textile Industry

With increasing compliance requirements and litigation, the textile industry is facing a host of challenges:

1. **Higher Compliance Costs:** Businesses need to invest in accounting software, hire tax consultants, and train employees, all of which add to operational expenses.

2. **Reduced Profit Margins:** Delays in ITC refunds, penalties for e-way bill violations, and legal expenses lead to shrinking profit margins.

3. Loss of Business Confidence: Small textile traders and manufacturers struggle to keep up with regulations, leading to business closures or reduced competitiveness in the market.

4. Disruption in Supply Chain: The industry relies on multiple suppliers and traders, but compliance failures at any level disrupt the entire supply chain.

The Way Forward

To address these challenges, the government and industry stakeholders must work together on solutions that balance compliance with ease of doing business. Some key measures include:

1. **Faster ITC Verification and Refunds**
   - Introducing an automated ITC verification system to prevent unnecessary blocking of credit and Fake billing scam.
   - Creating a fast-track dispute resolution mechanism for genuine taxpayers.

2. **Stronger but Fair Enforcement Against Fraud**
   - While fake billing must be eliminated, authorities should ensure that honest businesses are not harassed due to minor compliance errors.
   - Establishing industry advisory panels to guide businesses on GST compliance.

3. **Digitization and Awareness Programs**
   - Conducting GST awareness drives to educate textile traders on proper documentation and compliance.
   - Encouraging digital payments and real-time GST reconciliation to prevent fake billing.

A recent case of litigation under GST highlights how disputes arise in this tax regime.

A recent case of litigation under GST that highlights how disputes arise involves the issue of **GST on leasehold rights.** This matter is particularly relevant across various industries and has significant implications in states like Gujarat and Maharashtra, especially for the textile sector. The case serves as an example of how GST-related disputes evolve and are contested under the legal framework.

Gujarat Chamber of Commerce and Industry & Ors. Vs Union of India & Ors. (Gujarat High Court); R/Special Civil Application No. 11345 of 2023; 03/01/2025

Background of the case

The Gujarat Industrial Development Corporation (GIDC) was established under the **Gujarat Industrial Development Act, 1962,** to promote industrial growth by developing industrial estates. Similar industrial development corporations exist in other states, such as **MIDC in Maharashtra.** GIDC leases plots to industrial entities for **99 years** under agreements that specify lease rent, premium, and other terms. These agreements also permit lessees to assign their **leasehold rights** to third parties, subject to GIDC's approval. This assignment transfers all rights and obligations to the assignee.

In simpler terms, when a plot in **GIDC, MIDC, or any other industrial area governed by a State Industrial Development Act** is acquired, it is typically under a **99-year lease.** Many perceive such transactions as **equivalent to land sale and purchase,** with deeds executed at the **Sub-Registrar's office** and attracts the stamp duty too.

However, since these transactions involve the **transfer of leasing rights,** tax authorities have issued **show cause notices** to lessees, contending that the **assignment of leasehold rights qualifies as a 'supply of services'** under **Section 7(1)(a) of the CGST Act** and is subject to **18% GST.** Additionally, authorities have challenged the **eligibility of Input Tax Credit (ITC)** on such transactions, arguing that it falls under **blocked credit provisions** as per **Section 17(5) of the CGST Act.**

Subsequently, the **Gujarat Chamber of Commerce and Industry** and various industries challenged these **show cause notices** before the **Hon'ble Gujarat High Court.** They argued that **leasehold rights constitute an interest in immovable property** and, therefore, do not qualify as a **supply of goods or services** under GST.

The petitioners contended that **land rights are not meant to be taxed under the GST framework,** just as they were exempt under the **erstwhile service tax regime.** Furthermore, they emphasized that **taxing such transactions results in double taxation**, as **stamp duty is already paid** on the assignment of leasehold rights.

High Court's Findings & Ruling

The **Hon'ble Gujarat High Court** held that the **assignment or sale of leasehold rights** involves more than just the physical plot of land and building. It includes **incorporeal ownership rights,** such as the **right to possess, earn income, alienate, or recover ownership** from an improper titleholder. The Court emphasized that **immovable property encompasses not only ownership rights but also a bundle of rights protected by agreements between the owner and lessee.**

Accordingly, the Court rejected the **Revenue Department's contention** that the **transfer of leasehold rights constitutes a supply of services** under GST. It ruled that such an **assignment is an absolute transfer of rights and interests in land,** which qualifies as a **sale of immovable property.** Since **GST does not apply to the sale of immovable property**, the transaction **cannot be classified as a service under the GST Act.**

The **Hon'ble Gujarat High Court** observed that **immovable property comprises a bundle of rights**, one of which is the right to lease it. The Court noted that the **transfer of the right to occupy or possess the property continues to be a supply of service.** This **characterization does not change** merely because the **lessee of GIDC executes an absolute transfer** of leasehold rights in favour of an assignee, thereby relinquishing all rights over the leased land and building and further if these transactions are not subject to GST, then question of ITC on the same does not arise.

In conclusion, the **assignment, sale, or transfer of leasehold rights** for a plot of land allotted by **GIDC** to a lessee, when transferred to a third-party assignee for consideration, constitutes the **transfer of benefits arising out of immovable property**. As a result, such a transaction **does not qualify as a supply of goods or services under GST and is not liable for GST.**

However, the government may seek to **circumvent this ruling** either by challenging it before the **Apex Court** or by introducing **retrospective amendments** to the GST law. A **notable precedent** for such an approach is the **Safari Retreats case,** where the government took a **backdoor route** to counter a taxpayer-friendly judgment. Given this pattern, **resolving GST-related litigation is not straightforward,** and businesses must remain vigilant about potential legal and policy changes in the GST era.

Conclusion

The textile industry is a crucial pillar of India's economy, but increasing GST compliance requirements and litigation are creating significant challenges. While e-invoicing and e-way bills aim to enhance transparency, their implementation needs to be more business-friendly. The rise in fake billing cases and blocked ITC further adds to financial stress, especially for small and medium enterprises.

To ensure the growth and stability of the textile sector, the government must strike a balance between regulation and business ease. Simplifying compliance procedures, speeding up ITC verification, and adopting a fair approach to enforcement will go a long way in addressing industry concerns. By taking proactive steps, India can maintain the competitiveness of its textile industry while ensuring tax compliance.

Jharkhand HC: Tax Authorities Must Follow Due Process; Penalized for Violating Natural Justice

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Introduction: A Reaffirmation of Procedural Fairness

In a landmark judgment reinforcing the fundamental principles of natural justice, the **Jharkhand High Court** has pulled up the State Tax Department for bypassing mandatory procedural safeguards during adjudication. The case, Limra Traders vs. The State of Jharkhand, exposed glaring lapses in compliance with the provisions of the **Jharkhand Goods and Services Tax Act, 2017 (JGST Act).**

The Division Bench comprising **Chief Justice Ramachandra Rao** and **Justice Deepak Roshan** issued a stern reminder to state authorities: *"Despite directions issued by the Court, it appears that State Tax authorities are continuing to conduct adjudication proceedings in utter disregard to the mandatory provisions of the Act and in violation of the principles of natural justice."*

Background of the Case

The petitioner, Limra Traders, received a **show cause notice (SCN)** dated **April 4, 2024,** which required a response by **May 3, 2024.** However, **no hearing occurred on the scheduled date,** and instead, the first and only proceeding was held on **June 5, 2024,** on which date an **ex-parte adjudication order was passed under Section 74 of the JGST Act, 2017.**

This order was passed **without granting the petitioner an opportunity for a personal hearing,** prompting a writ petition challenging the legality of the process.

Violation of Natural Justice and Legal Provisions

The High Court meticulously examined the order sheets and adjudication records. It found that the adjudication order had been passed on the very first date without observing the statutory safeguards provided under:

- **Section 75(4)** – which mandates a reasonable opportunity of being heard if the adverse decision is contemplated.

- **Section 75(5)** – which requires the recording of reasons in writing if a hearing is not granted.

Despite the department's claim that inspections were carried out, spot summons issued, and a **DRC-01A** notice served before the SCN, the Court held that **pre-SCN steps cannot substitute for a post-SCN hearing,** which is a legal and constitutional requirement.

Observations by the Bench

The Court's observations carried a broader message beyond the individual case:

"Due to procedure not being followed by State Tax authorities in the conduct of adjudication proceedings, huge revenue of the State is otherwise lost, which could have been protected if due procedure is followed."

In a noteworthy reference, the Bench cited its **2022 judgment in the case of M/s Godavari Commodities Ltd. vs. State of Jharkhand,** where it had **already directed the Commissioner of State Tax to issue proper guidelines, circulars, or notifications** to ensure uniform procedure in issuing SCNs, conducting hearings, and completing adjudications.

The Court found that these earlier directions had not been implemented, highlighting systemic non-compliance by the department.

Outcome: Petition Allowed, Penalty Imposed

In conclusion, the High Court allowed the writ petition and **quashed the adjudication order.** Additionally, it imposed a **cost of ₹1,00,000** on the State Tax Department **per writ petition,** payable to the petitioner, to account for the prejudice and inconvenience caused due to violation of legal rights.

Implications for Tax Administration

This judgment serves as a **cautionary precedent** for tax officials across the country. It emphasizes that **natural justice is not a technicality, but a fundamental right.** Any denial of opportunity to be heard—even in cases of alleged tax evasion—can render proceedings invalid and expose authorities to penalties.

Furthermore, it reiterates the need for **departmental accountability and proper training** of officers involved in adjudication under GST laws.

Case Snapshot

- **Case Title:** Limra Traders vs. The State of Jharkhand
- **Citation:** W.P.(T) No. 6027 of 2024
- **Date of Judgment:** March 4, 2025
- **Petitioner Counsel:** Mr. Sumeet Gadodia, Ms. Shruti Shekhar
- **Respondent Counsel:** Mr. Mukesh Kumar Sinha, Mr. Nisith Kumar Sahani
- **Bench:** Chief Justice Ramachandra Rao and Justice Deepak Roshan
- **Key Provision:** Section 74, Section 75(4) & 75(5) of the JGST Act, 2017
- **Penalty Imposed:** ₹1,00,000 cost per writ petition

KPIs AND COSTING METHONDS & TECHNIQUES OF THE TEXTILE INDUSTRY

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A. KPIs OF TEXTILE INDUSTRIES:

Key Performance Indicators (KPIs) are measured to assess where the factory currently stands and to find key focus areas that management needs to look into. The top 9 KPIs have been listed and explained below that are measured by garment manufacturers (export houses) in the apparel industry.

Normally, in a garment production unit, production team and industrial engineers prepare the KPI report on monthly basis

Some of the significant KPIs are summarized in the table given below out of which 5 are detailed as follows:

#	KPI Name	KPI Average (Benchmark)
I	Production Efficiency Rate	85%
ii	Fabric Yield Percentage	92%
iii	On-time Delivery Rate	95%
iv	Waste Reduction Ratio	30%
v	Energy Consumption per Unit	2.5 kWh
vi	Customer Satisfaction Score	88%
vii	Employee Turnover Rate	10%
viii	Cost per Unit Produced	$5.00
ix	Compliance with Sustainability Standards	80%
(Apart from these, Man to Machine Ratio (MMR), Order to Ship Ratio, Average Style change over time, Right First Time quality, Quality of Production, Downtime percentage etc. are the most used KPIs in the Textile Industry.)		

1. Production Efficiency Rate:

1.1 Definition: The Production Efficiency Rate is a critical KPI metric for textile manufacturing that measures how effectively a manufacturing process converts raw materials into finished products. It is expressed as a percentage of the actual production output compared to the maximum potential output over a specific period.

1.2 Advantages: Tracking the Production Efficiency Rate offers several advantages:

1.2.1. Identifies production bottlenecks and inefficiencies.
1.2.2. Helps in resource allocation and operational planning.
1.2.3. Enhances profitability by reducing costs through improved processes.

1.3 Disadvantages: Despite its usefulness, there are drawbacks to relying solely on this metric:

1.3.1. May not account for quality issues that affect production.
1.3.2. Can create pressure to increase output, potentially compromising safety.
1.3.3. Does not provide insights into downtime reasons.

1.4 Industry Benchmarks: Industry standard KPIs for textiles typically set the Production Efficiency Rate benchmark between 80% and 90%. High-performing companies often achieve rates over 90%.

1.5 How to Improve: To enhance production efficiency in textiles, consider implementing the following strategies:

1.5.1. Invest in employee training to improve skill levels,
1.5.2. Employ advanced machinery to speed up production processes,
1.5.3. Regularly maintain equipment to minimize downtime.

1.6 How to Calculate: To calculate the Production Efficiency Rate, the following formula can be employed:
Production Efficiency Rate = (Actual Output / Maximum Potential Output) x 100
Example of Calculation:
For a textile company that has an actual output of 8,000 meters of fabric with a maximum potential output of 10,000 meters, the calculation would be:
Production Efficiency Rate = (8,000 / 10,000) x 100
This results in a Production Efficiency Rate of 80%.

1.7 Tips and Tricks :

1.7.1. Regularly review and analyze production data to identify trends.
1.7.2. Engage employees in problem-solving to enhance processes.
1.7.3. Utilize lean manufacturing techniques to streamline operations.

2. FABRIC YIELD PERCENTAGE:

2.1 Definition: The fabric yield percentage is a critical metric in textile manufacturing that measures the amount of usable fabric produced from the raw materials. It quantifies how effectively the raw fabric is converted into finished goods, helping manufacturers identify efficiency levels in production. This KPI is particularly important for assessing performance within the realm of textile production efficiency metrics.

2.2 Advantages: Tracking the Production Efficiency Rate offers several advantages:

2.2.1. Identifies production bottlenecks and inefficiencies.
2.2.2. Improved cost management by minimizing waste.
2.2.3. Enhanced sustainability through better resource utilization.
2.2.4. Better forecasting of raw material needs.

2.3 Disadvantages: Despite its usefulness, there are drawbacks to relying solely on this metric:

2.3.1. It may not capture all aspects of production efficiency.
2.3.2. Requires accurate data collection, which can be resource-intensive.
2.3.3. Overemphasis on yield may lead to quality compromises.

2.4 Industry Benchmarks: In the textile industry, the average fabric yield percentage can vary significantly. Industry benchmarks typically range from 75% to 90% based on the type of fabric and production processes used. Sustainable manufacturers like Eco-Weave Creations may aim for a yield above 85% to align with eco-friendly practices.

2.5 How to improve: Improving fabric yield percentage can be achieved through:

2.5.1. Investing in advanced cutting technologies to reduce fabric waste.
2.5.2. Training staff on efficient handling and processing techniques.
2.5.3. Implementing lean manufacturing practices.
2.5.4. Regular audits to identify inefficiencies in the production process
2.5.5. Monitor fabric remnants and regularly assess your cutting patterns to maximize utilization.
2.5.6. Engage in continuous improvement practices and gather feedback from employees on production efficiency.

2.6 How to Calculate: Calculating the fabric yield percentage involves determining the ratio of usable fabric produced to the total fabric used in production. To calculate the Production Efficiency Rate, the following formula can be employed:

Fabric Yield Percentage = (Usable Fabric Produced / Total Fabric Used) x 100

Example of Calculation: For instance, if a textile manufacturer uses 1,000 yards of fabric and ends up with 850 yards of usable fabric after production:

Fabric Yield Percentage = (850 / 1000) x 100 = 85%

This example indicates a fabric yield percentage of 85%, which is in line with sustainability goals.

2.7 Tips and Tricks:

2.7.1. Invest in high-quality materials to reduce defects.
2.7.2. Utilize CAD (Computer-Aided Design) software for more precise cutting layouts.
2.7.3. Regularly evaluate and adjust your production processes based on yield data.

3. ON-TIME DELIVERY RATE:

3.1 Definition: The On-time Delivery Rate (OTDR) is a critical KPI metric for textile manufacturing that measures the percentage of orders delivered on or before their scheduled due dates. In the competitive landscape of textile production, maintaining a high OTDR is vital for satisfying customer demands and reinforcing the brand's reliability.

3.2 Advantages: Tracking the On-time Delivery Rate offers numerous advantages, including:

3.2.1. Enhanced Customer Satisfaction: Timely deliveries lead to happier customers, fostering loyalty and repeat business.
3.2.2. Improved Reputation: A consistent OTDR enhances the reputation of a textile manufacturing company as a reliable partner.
3.3.3. Operational Efficiency: Monitoring delivery times can help identify inefficiencies in the supply chain, prompting improvements.

3.3 Disadvantages: Despite its benefits, there are some disadvantages associated with focusing on the On-time Delivery Rate:

3.3.1. Oversimplification: Relying solely on OTDR may overlook other important performance indicators, such as product quality and customer service.
3.3.2. Pressure on Employees: High expectations for timely deliveries can create stress and pressure within the workforce.
3.3.3. Potential for Cost Increases: Focusing on speed may lead to additional costs, such as expedited shipping or overtime labor.

3.4 Industry Benchmarks: Typically, a strong On-time Delivery Rate in the textile manufacturing industry hovers around 95%. Companies achieving or exceeding this benchmark can be considered leaders in customer service and operational reliability.

3.5 How to Improve: Improving the On-time Delivery Rate involves several strategic steps:

3.5.1. Optimize Inventory Management: Implement just-in-time (JIT) inventory practices to reduce delays.
3.5.2. Enhance Supply Chain Collaboration: Foster closer relationships with suppliers to streamline processes and improve coordination.
3.5.3. Utilize Technology: Leverage ERP systems to track orders and create real-time visibility into delivery statuses.

3.6 How to Calculate: Calculating the On-time Delivery Rate is straightforward. The formula is as follows:

OTDR = (Number of On-time Deliveries / Total Deliveries) x 100

Example of Calculation
To illustrate this, consider a textile manufacturing company that made 500 deliveries in a month, of which 475 were delivered on time. The calculation would be:

OTDR = (475 / 500) x 100

In this case, the On-time Delivery Rate would be 95%, indicating strong performance in meeting delivery deadlines.

3.7 Tips and Tricks:

3.7.1. Regularly review your delivery processes to identify bottlenecks and develop strategies to address them.

3.7.2. Conduct surveys with clients to gather feedback related to delivery performance and adjust processes accordingly.

3.7.3. Invest in tracking tools that provide real-time updates on shipment status to keep customers informed.

4. ENERGY CONSUMPTION PER UNIT:

4.1 Definition: Energy Consumption per Unit is a critical KPI that measures the amount of energy used in producing a single unit of fabric. It helps textile manufacturers like Eco Weave Creations to assess their energy efficiency and sustainability practices. By tracking this metric, businesses can gauge the impact of energy consumption on operational costs and environmental footprints.

4.2 Advantages:

4.2.1. Identifies energy-intensive processes, facilitating targeted improvements.

4.2.2. Promotes sustainability by lowering carbon emissions associated with energy use.

4.3.3. Helps in cost analysis by revealing how energy consumption affects overall production expenses. Enhances energy management strategies, leading to potential cost savings.

4.3 Disadvantages:

4.3.1. Requires continuous monitoring, which can incur additional costs.

4.3.2. May not capture the entire energy consumption picture if some energy sources are not tracked.

4.3.3. Fluctuations in energy prices can make it challenging to maintain consistent metrics.

4.4 Industry Benchmarks: Industry benchmarks for energy consumption in textile manufacturing typically range from 1.5 to 4.0 kWh per unit produced. Companies that focus on energy efficiency often report figures below the lower end of this range, indicating superior performance. For instance, sustainable textile manufacturers have set ambitious goals to reduce energy consumption by as much as 20% over five years.

4.5 How to Improve

4.5.1. Invest in energy-efficient machinery and technologies.

4.5.2. Implement regular maintenance schedules to keep equipment running optimally.

4.5.3. Train staff on energy-saving practices during production.

4.5.4. Conduct energy audits to identify areas for improvement.

4.6 How To Calculate: To calculate Energy Consumption per Unit, the following formula is used:

Energy Consumption per Unit = Total Energy Used (kWh) / Total Units Produced

Example of Calculation:

For example, if Eco Weave Creations uses 10,000 kWh to produce 2,000 units of fabric in a month, the calculation would be:

Energy Consumption per Unit = 10,000 kWh / 2,000 units

Resulting in an energy consumption rate of 5 kWh per unit, which is above the industry benchmark and indicates a need for improvement.

4.7 Tips and Tricks:

4.7.1. Monitor energy consumption regularly to spot trends and anomalies.
4.7.2. Engage in staff training to promote energy conservation practices.
4.7.3. Consider adopting renewable energy sources to lower costs and enhance sustainability.

5. COMPLIANCE WITH SUSTAINABILITY STANDARDS:

5.1 Definition: Compliance with sustainability standards refers to adherence to various regulations and guidelines aimed at minimizing the environmental impact of textile manufacturing processes. These standards may include certifications such as Global Organic Textile Standard (GOTS), OEKO-TEX, and other eco-labels that ensure environmentally friendly practices are employed throughout the production cycle.

5.2 Advantages: Meeting sustainability standards in textile manufacturing offers multiple advantages:

5.2.1. Enhances brand reputation by aligning with eco-conscious consumer values.
5.2.2. Opens up new market opportunities, especially with businesses prioritizing sustainability.
5.2.3. Reduces waste and energy consumption, leading to cost savings in the long term.
5.2.4. Facilitates compliance with regulatory frameworks, minimizing legal risks.

5.3 Disadvantages: However, there are also challenges associated with compliance:

5.3.1. Initial investment in sustainable technologies and practices may be substantial.
5.3.2. Continuous monitoring and reporting can strain resources.
5.3.3. Failure to meet standards can lead to loss of certification and reputational damage.

5.4 Industry Benchmarks: Industry benchmarks for sustainability compliance vary but generally include:

5.4.1. A minimum of 50% of materials sourced from organic or recycled content.
5.4.2. Certification with at least one recognized sustainability standard.
5.4.3. Reduction in water and energy usage by at least 20% over five years.

5.5 How to Improve: Improving compliance with sustainability standards can be achieved through several strategies:

5.5.1. Investing in training programs to educate employees about sustainable practices.
5.5.2. Conducting regular audits to identify areas of non-compliance.
5.5.3. Setting measurable sustainability goals and tracking progress.
5.5.4. Collaborating with suppliers committed to sustainability.

4.6 How to Calculate: To quantify compliance with sustainability standards, a business can create an index based on various metrics, such as percentage of certified materials and reduction in resource consumption. A basic formula might be:

Sustainability Compliance Index = (Certified Materials Percentage + Resource Reduction Percentage/2

Example of Calculation: For example, if a manufacturer uses 70% certified organic materials and has reduced energy consumption by 30%, the calculation would be: Sustainability Compliance Index = (70 + 30) / 2 = 50

This would result in a Sustainability Compliance Index of 50%, indicating room for improvement.

B. COSTING OF TEXTILE INDUSTRIES:

Understanding different garment costing methods and techniques is essential for accurately calculating the cost of production and ensuring profitability. Here are some of the key techniques used in the fashion industry:

1. **Direct Costing:** Direct costing, also known as variable costing, involves calculating only the variable costs directly associated with the production of garments. This method focuses on the costs that vary with the level of output, such as raw materials and direct labor.

   1.1 Advantages: Simplifies cost calculation by focusing only on variable costs. It also provides a clear picture of the contribution margin, helping in decision-making.

1.2 Disadvantages: Ignores fixed costs, which can lead to an incomplete understanding of total expenses. Is is not suitable for long-term financial planning as it overlooks overheads.

2. Absorption Costing: Absorption costing, or full costing, includes all costs associated with manufacturing a product, both fixed and variable. This method allocates a portion of fixed overhead costs to each unit produced, ensuring that all costs are accounted for.

2.1 Advantages: Provides a comprehensive view of total production costs. Useful for long-term pricing and profitability analysis**.**

2.2 Disadvantages: It is more complex to calculate due to the inclusion of fixed costs. It can sometimes distort cost per unit if production levels fluctuate.

3. Variable Costing: Variable costing, like direct costing, focuses only on variable costs. However, this method is used primarily for internal decision-making and management control rather than external financial reporting.

3.1 Advantages: Helps in understanding the impact of variable costs on profitability, and aids in short-term decision-making and cost control.

3.2 Disadvantages: Excludes fixed costs, which can lead to an incomplete cost structure. Not accepted under generally accepted accounting principles (GAAP) for external reporting.

4. Activity-Based Costing (ABC): Activity-based costing assigns costs to products based on the activities required to produce them. This method identifies all activities in the production process and assigns costs based on the resources each activity consumes.

4.1 Advantages: Provides a more accurate cost per product by identifying specific cost drivers. It helps in identifying inefficiencies and areas for cost reduction.

4.2 Disadvantages: Can be time-consuming and complex to implement. Also, it requires detailed data collection and analysis.

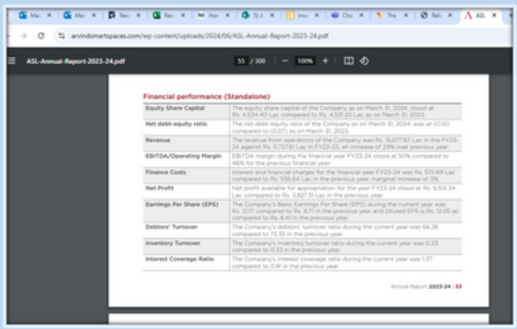
5. Standard Cost Accounting: Standard cost accounting involves using pre-determined costs for materials, labor, and overhead to calculate the cost of production. These standards are based on historical data and industry benchmarks.

5.1 Advantages: Provides a more accurate cost per product by identifying specific cost drivers. It helps in identifying inefficiencies and areas for cost reduction.

5.2 Disadvantages: Can be time-consuming and complex to implement. Also, it requires detailed data collection and analysis.

Selecting the appropriate costing method will depend on various factors, including the nature of your business, the complexity of production processes, and your specific financial goals—all of which will affect the total manufacturing cost calculation.

C. FINANCIAL DATA FROM LEADING TEXTILES COMPANIES OF INDIA: (Arvinds Marts, Reliance Clothing, Raymonds)



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Financial performance (Standalone)

Equity Share Capital	The equity share capital of the Company as on March 31, 2024, stood at Rs. 4,534.40 Lac compared to Rs. 4,531.20 Lac as on March 31, 2023.
Net debt-equity ratio	The net debt equity ratio of the Company as on March 31, 2024, was at (0.10) compared to (0.07) as on March 31, 2023.
Revenue	The revenue from operations of the Company was Rs. 15,077.87 Lac in the FY23-24 against Rs. 11,727.81 Lac in FY22-23, an increase of 29% over previous year.
EBITDA/Operating Margin	EBITDA margin during the financial year FY23-24 stood at 50% compared to 46% for the previous financial year.
Finance Costs	Interest and financial charges for the financial year FY23-24 was Rs. 572.69 Lac compared to Rs. 556.64 Lac in the previous year, marginal increase of 3%.
Net Profit	Net profit available for appropriation for the year FY23-24 stood at Rs. 5,513.34 Lac compared to Rs. 3,827.31 Lac in the previous year.
Earnings Per Share (EPS)	The Company's Basic Earnings Per Share (EPS) during the current year was Rs. 12.17 compared to Rs. 8.71 in the previous year and Diluted EPS is Rs. 12.05 as compared to Rs. 8.41 in the previous year.
Debtors' Turnover	The Company's debtors' turnover ratio during the current year was 66.26 compared to 73.35 in the previous year.
Inventory Turnover	The Company's inventory turnover ratio during the current year was 0.23 compared to 0.33 in the previous year.
Interest Coverage Ratio	The Company's interest coverage ratio during the current year was 1.37 compared to 0.91 in the previous year.

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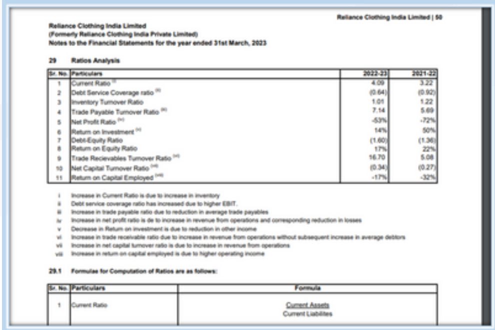


Reliance Clothing India Limited | 50

Reliance Clothing India Limited
(Formerly Reliance Clothing India Private Limited)
Notes to the Financial Statements for the year ended 31st March, 2023

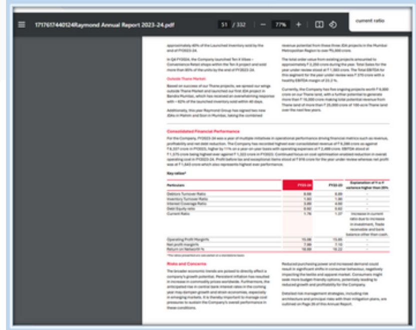
29 Ratios Analysis

Sr. No.	Particulars	2022-23	2021-22
1	Current Ratio (i)	4.09	3.22
2	Debt Service Coverage ratio (ii)	(0.64)	(0.92)
3	Inventory Turnover Ratio	1.01	1.22
4	Trade Payable Turnover Ratio (iii)	7.14	5.69
5	Net Profit Ratio (iv)	-53%	-72%
6	Return on Investment (v)	14%	50%
7	Debt-Equity Ratio	(1.60)	(1.36)
8	Return on Equity Ratio	17%	22%
9	Trade Recievables Turnover Ratio (vi)	16.70	5.08
10	Net Capital Turnover Ratio (vii)	(0.34)	(0.27)
11	Return on Capital Employed (viii)	-17%	-32%

i Increase in Current Ratio is due to increase in inventory
ii Debt service coverage ratio has increased due to higher EBIT.
iii Increase in trade payable ratio due to reduction in average trade payables
iv Increase in net profit ratio is de to increase in revenue from operations and corresponding reduction in losses
v Decrease in Return on investment is due to reduction in other income
vi Increase in trade receivable ratio due to increase in revenue from operations without subsequent increase in average debtors
vii Increase in net capital turnover ratio is due to increase in revenue from operations
viii Increase in return on capital employed is due to higher operating income

29.1 Formulae for Computation of Ratios are as follows:

Sr. No.	Particulars	Formula
1	Current Ratio	Current Assets / Current Liabilites



Tax Bites

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Capital gain on transfer of immovable property -taxability in hands of RESIDENT Individuals / Hindu Undivided Family (HUF) - the way forward

The Finance Bill (No. 2) of 2024 introduced key changes in the taxability of transactions involving the transfer of immovable property by discontinuing the indexation benefit for long-term capital gains (LTCG) earned on or after July 23, 2024.

Currently, LTCG on immovable property is taxed at 20%, with gains computed using the indexed cost of acquisition and improvement. The Bill amends Section 112, reducing the LTCG tax rate to 12.5% while withdrawing the indexation benefit for transfers occurring on or after July 23, 2024

The proposed amendment faced significant criticism, particularly from lower and middle-income groups, as the removal of indexation could substantially increase the taxable capital gains, affecting affordability and investment incentives.

Indexation, as traditionally understood, is a method of adjusting the purchase cost of an asset for inflation, thereby reducing the taxable capital gains and overall tax burden on investments. Let's delve deeper into when the provisions of indexation were first introduced. In 1991, the Tax Reforms Committee, chaired by Dr. Raja J. Chelliah, advocated for incorporating indexation in capital gains computation.

Subsequently, in his Budget speech on February 29, 1992, Finance Minister Dr. Manmohan Singh endorsed this recommendation and said-

"The present tax treatment of long-term capital gains has been criticised on the ground that the deduction allowed in computing taxable gain is not related to the period of time for which the asset has been held. It does not take into account the inflation that may have occurred over time. The Chelliah Committee has suggested a system of indexation to take care of the problem and I propose to accept its recommendation. Taxable capital gains will be computed by allowing the cost of the asset to be adjusted for general inflation before deducting from the sale proceeds. The adjustment factor for each year will be notified by the Central Government." Following widespread opposition to the removal of indexation in the Finance Bill (No. 2) of 2024, partial roll back was announced and benefit was restored in a limited manner for the purpose of computing long term capital gains tax liability .The corresponding amendment to Section 112 of the Income Tax Act was done by inserting second proviso to Section 112 which provide if a Resident Individual / HUF transfers any immovable property acquired before 23rd July, 2024 and the tax calculated on LTCG at the new rate (12.5% without indexation) is higher than the tax calculated at the old rate (20% with indexation), then the excess tax is ignored. In other words, the assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower.

Let's analyse the provision through an illustration-

Assessee	**Resident Individual**	
Financial Year	2024-25	
Property	FLAT	
Sale Date	01-01-2025	
Sales Consideration	1,10,00,000	
Purchase date – 30/08/2012	30-08-2012	
Cost of Acquisition (COA)	75,00,000	
Besides , the income from salary is Rs 24 Lakh and income from other sources Is Rs 2 lakh		
Calculation of Capital Gain Tax		
Option-1 Without Indexation- Tax Rate on LTCG -@ 12.5%		
Sales Consideration	1,10,00,000	
Less – COA	75,00,000	
Long Term Capital Gain	**35,00,000**	
Tax @ 12.5%	4,37,500	
Option-II With Indexation- Tax Rate on LTCG -@ 20%		
Sales Consideration	1,10,00,000	
Less - Indexed Cost of Acquisition (7500000*363/200)	1,36,12,500	
Long Term Capital Gain @	**NIL**	
Tax @ 20%	**NIL**	
Option -II is more beneficial as LTCG tax is NIL		
Note: @ No carry forward or set-off of capital loss on sale of immovable property		
COMPUTATION OF TOTAL INCOME FY 2024-25		
SALARY	24,00,000	
LTCG ON SALE OF FLAT	35,00,000	
OTHER SOURCES	2,00,000	
TOTAL INCOME	**61,00,000**	
TOTAL LIABILITY	Old Regime	New Regime
TAX ON LTCG	0	0
TAX ON OTHER	5,77,500	4,47,500
TOTAL TAX	5,77,500	4,47,500
SURCHARGE @ 10%	57,750	44,750
HEALTH AND EDU CESS @4%	25,410	19,690
	6,60,660	**5,11,940**
Financial Year	Cost Inflation Index	
2024-25	363	
2012-13	200	

As evident from the illustration above, the way amendment has been effected, the following challenges still remain since the grandfathering provision does not fully preserve taxpayers' previous position on land and buildings acquired before July 23, 2024.

- No carry, forward or set-off of de facto capital loss on sale of immovable property considering inflation and time-value of money

- The indexation benefit is to be given only while calculating tax on LTCG u/s 112 on transfer of land or building or both to a resident individual or HUF. However, for total income computation, capital gains are calculated without indexation, potentially pushing the taxpayer into a higher tax bracket and triggering an additional surcharge, even if the LTCG tax is ultimately nil.

- With the withdrawal of the indexation benefit, individuals or HUFs seeking exemption under Section 54 of the Income Tax Act on or after July 23, 2024, will need to invest a higher amount in the new asset.

- The relief is limited to resident individuals and HUFs. Non-residents, companies, and LLPs cannot avail of this benefit.

Mandatory ISD Registration under GST from April 1, 2025: A Comprehensive Insights

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Introduction

In a landmark shift to tighten the compliance mechanism under Goods and Services Tax (GST), the Central Board of Indirect Taxes and Customs (CBIC) has made **ISD (Input Service Distributor) registration mandatory** from **April 1, 2025,** for entities receiving common input services used across multiple GST registrations under the same PAN.

This amendment is aligned with **Circular No. 199/11/2023-GST along with Notification No. 16/2024-CT** and is seen as a step toward greater transparency, standardization, and disciplined credit utilization. The change is expected to impact a wide range of medium and large-scale businesses, particularly those operating with centralized procurement models or shared service structures.

Understanding Input Service Distributor (ISD)

An **Input Service Distributor (ISD)** is defined under **Section 2(61)** of the CGST Act, 2017 as an office of the supplier of goods or services that receives tax invoices for input services and issues **ISD invoices** to distribute the eligible input tax credit (ITC) to its branches/units registered under the same PAN.

ISD Essentials:

- ISD is only applicable to **input services,** not goods or capital goods.
- Credit is distributed to other branches based on their **turnover ratio** in a state-wise manner.
- No outward supply is involved; ISD is purely a mechanism to distribute ITC.

Why This Change Matters Now

Until now, businesses often adopted a "cross charge" method or claimed ITC centrally, sometimes leading to compliance gaps. The government observed misuse and misreporting in such allocations, particularly where:

- One unit availed ITC meant for multiple branches;
- ITC was availed at the head office without proper cross charge or ISD;
- RCM credits were wrongly claimed centrally without reallocation.

To curb this, the **mandatory ISD requirement** has been introduced, ensuring:

- **Uniformity** in ITC distribution;
- **Audit trail** for input services consumed across locations;
- **Avoidance of duplicate or wrong claims.**

Legal and Regulatory Framework

Particulars	ISD Mechanism
Legal Basis	Section 2(61) and Section 20 of CGST Act
Relevant Notification	Notification No. 16/2024-CT
Clarification Circular	Circular No. 199/11/2023-GST
Effective Date	1st April 2025
Mandatory For	Entities with multiple GSTINs under one PAN using shared input services

ISD vs. Cross Charge: Conceptual Clarity

Understanding the distinction between ISD and cross charge is essential for correct GST compliance.

Criteria	ISD	Cross Charge
Nature	Distribution of ITC on common input services	Supply of services between branches
Tax Involvement	No GST payable (only ITC distribution)	GST payable on supply
Document Type	ISD Invoice (non-taxable)	Tax Invoice
Applicable To	Input services only	Goods, services, and capital goods
Registration Needed	Separate ISD GSTIN required	No separate registration needed
Return to be Filed	GSTR-6	GSTR-1 and GSTR-3B
Distribution Basis	Turnover ratio among recipient branches	Based on value of service rendered

ITC Distribution Through ISD – A Practical Example

Let's take a practical scenario to illustrate the mechanism.

Case:

ABC Ltd. has its head office in Mumbai and branches in Delhi and Chennai. The head office procures a ₹9,00,000 cloud service (tax ₹1,62,000 including 18% GST) used across all locations.

Turnover of locations:

- Mumbai – ₹5 Cr
- Delhi – ₹3 Cr
- Chennai – ₹2 Cr
- Total – ₹10 Cr

Now, ITC of ₹1,62,000 will be distributed as follows:

Location	Turnover %	ITC Amount
Mumbai	50%	₹ 81,000
Delhi	30%	₹ 48,600
Chennai	20%	₹ 32,400

ABC Ltd. (ISD) will issue ISD invoices to each branch reflecting their share of ITC.

RCM and ISD – Recent Update

A major clarification in Circular 199/11/2023-GST permits the distribution of ITC on services under Reverse Charge Mechanism (RCM) through the ISD route, provided:

- The liability under RCM is discharged by the ISD unit;
- ITC is eligible and correctly distributed as per Section 20.

This simplifies compliance for companies receiving centralized legal consultancy that fall under RCM.

ISD Registration Process – Step-by-Step

1. Visit GST Portal: https://www.gst.gov.in
2. New Registration: Select "ISD" as the reason under Form GST REG-01.
3. PAN Verification: Ensure the ISD location has a valid PAN and address.
4. Submission of Application: Furnish required documents like authorization letter, proof of business address, etc.
5. Allotment of ISD GSTIN: A separate GSTIN will be issued upon successful verification.

GSTR-6 Filing and Other Compliance

The ISD must file **Form GSTR-6** on a **monthly basis by the 13th** of the subsequent month. It includes:

- Inward services received on common input services;
- ISD invoices issued to distribute ITC;
- Corrections, if any, to previous returns.

Additionally, ISD must reconcile distributed credits with the recipient branches to avoid duplication or mismatch in GSTR-2B.

Common Mistakes to Avoid

- Claiming common ITC at the head office without ISD registration.
- Using ISD for goods or capital goods – not permitted.
- Issuing tax invoices instead of ISD invoices.
- Failure to distribute RCM credits properly through ISD.

Conclusion

The transition to **mandatory ISD registration from April 1, 2025,** signifies a maturing GST regime where accurate credit distribution is essential for audit trail and fiscal responsibility. Businesses should revisit their procurement policies, realign their accounting software, and **immediately initiate ISD registration** if common input services are being availed across multiple branches.

The time for voluntary compliance is over—**ISD is now a statutory necessity.**

Disclaimer

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