

Textile units under lens for GST evasion

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CENTRAL GOODS AND services tax (CGST) officials have recently investigated more than two dozen textile manufacturing companies across the country for misclassifying processing activities, and subsequently paying lesser tax.

According to official sources, the CGST department has observed that several textile manufacturers are recording activities which involve 'changing the nature of cloth' as 'washing and dyeing', and therefore are paying lower tax on those incomes.

Under GST laws, washing and dyeing are considered as 'job work services' in the textile industry, and attract a GST rate of 5%; while processes that significantly transform the fabric, such as bleaching, printing or other treatments that alter its essential characteristics, attract a GST rate of 18%.

"Textile manufacturers are knowingly misclassifying the services... and paying 5% tax, where they should pay 18%. CGST officials are investigating units of all kinds of firms (corporates, small & medium companies) across India," said an official.

Authorities feel the shortfall in tax payment is to the tune of hundreds of crores, causing a substantial loss of revenue to the government.

Tax experts say the GST misclassification in the textile industry arises from ambiguity in tax slabs. "Some manufacturers have allegedly misclassified transformative processes under the 5% category. The issue stems from multiple GST rates, unclear definitions and potential misuse," noted Sivakumar Ramjee, executive director, Nangia Andersen.

Krishan Arora, partner, Grant Thornton Bharat, said: "This appears to be a clear case of misinterpretation, with the department's



PROBE UNDERWAY

- Several textile manufacturers are recording activities which involve 'changing the nature of cloth' as 'washing & dyeing'
- Therefore, they are paying lower tax on those incomes
- Washing and dyeing are 'job work services', attracting 5% tax
- Processes such as bleaching, printing attract a GST rate of 18%

■ GST misclassification in the textile industry arises from ambiguity in tax slabs, say experts

stance contradicting the GST legislation's original intent. In this regard, a definitive resolution is essential to provide a much-needed clarity to the industry."

Since the inception of GST in 2017, the textile industry has witnessed profound shifts, with job work services being integral to this transformation.

A major point of contention has been the GST classification of textile processing activities like dyeing and printing, say experts.

Initially, tax authorities argued that these processes, which substantially alter fabrics' essential characteristics, should be taxed at 18%, instead of the current 5%, to safeguard government revenues.

Building on this, during the 45th GST Council meeting, a proposal to increase the rate of dyeing and printing services to 12% was deliberated upon. However, it was ultimately dismissed.