

Legal Compliance Workshop

GST- Reverse Charge Mechanism

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Reverse Charge Mechanism

- When recipient of Goods or Services or both is required to pay tax as if he is the supplier
- General provision – taxable supplies by unregistered person to registered person
- Specified Goods
- Specified Services
- Exemptions

General Provisions

- Tax in respect of the supply of **taxable** goods or services or both
- by a supplier, who is **not registered**,
- to a **registered** person
- shall be paid by such person on reverse charge basis as the recipient, and
- all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

{CGST Sec- 9 (4) and IGST Sec-5(4)}

Exemption from General Provision of RCM

- Where the aggregate value of such supplies of goods or service or both received by a registered person from any or **all** the suppliers,
- who is or are not registered,
- does not exceed Rs. 5000/- in a day.

{ Notification No.8/2017-Central Tax (Rate) 28th June, 2017 }

Specific Goods and Services

- Govt. on recommendations of GST Council
- may specify categories of supply of goods or services or both
- tax on which shall be paid on reverse charge basis
- by the recipient of such goods or services or both
- all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

{CGST Sec- 9 (3) and IGST Sec-5(3)}

Specific Goods under RCM

- Supply by Agriculturist to any Regd. Person -
 - Cashew nuts, not shelled or peeled
 - Bidi wrapper leaves (tendu)
 - Tobacco leaves
- Supply of Silk Yarn to any Regd. Person, by any person who manufactures silk yarn from raw silk or silk worm cocoons for supply of silk yarn
- Supply of lottery by State or UT Govt. or any local authority to Lottery distributor or selling agent.

{Notification No.4/2017-Central Tax (Rate) dated 28th June, 2017}

Intra State Services under RCM

- Supply of Services by a goods transport agency (GTA) in respect of transportation of goods by **Road To:-**
 - any factory registered under or governed by the Factories Act, 1948; or
 - any **society** registered under the Societies Registration Act, 1860 or under any other law for the time being in force in any part of India; or
 - any co-operative society established by or under any law; or
 - any person registered under the CGST or IGST or SGST or UTGST Act; or

Specific Services under RCM-2

- any body corporate established, by or under any law; or
- any partnership firm whether registered or not under any law including association of persons; or
- any casual taxable person.
- Services supplied by an individual advocate or by a firm of **advocates** by way of representational services before any court, tribunal or authority, directly or indirectly, to any business entity; or by way of legal services, to a business entity

Specific Services under RCM-3

- Services supplied by an **arbitral tribunal** to a business entity.
- Services provided by way of **sponsorship** to any body corporate or partnership firm.
- Services supplied by the Central or State Govt., Union territory or local authority to a business entity excluding, -
 - (1) renting of immovable property, and
 - (2) services specified below-
 - (i) services by the Department of Posts by way of speed post, express parcel post, life insurance, and

Specific Services under RCM-4

- agency services provided to a person other than Central Government, State Government or Union territory or local authority;
- (ii) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;
- (iii) transport of goods or passengers.
- Services supplied by a director of a company or a body corporate to the said company or the body corporate.
- Services supplied by an insurance agent to any person carrying on insurance business.

Specific Services under RCM-5

- Services supplied by a recovery agent to a banking company or a financial institution or a non-banking financial company.
- Supply of services by an author, music composer, photographer, artist or the like by way of transfer or permitting the use or enjoyment of a copyright covered under clause (a) of sub-section (1) of section 13 of the Copyright Act, 1957 relating to original literary, dramatic, musical or artistic works to a publisher, music company, producer or the like.

{ Notification No. 13/2017- Central Tax (Rate) 28th June, 2017 }

IGST-RCM

- In addition to Specific Intra State Services listed in previous slides.
- Any service supplied by any person who is located in a non-taxable territory to any person other than non-taxable online recipient (Import of services).

{ Notification No. 10/2017- Integrated Tax (Rate) sated 28th June, 2017 }

E-Commerce Operator

- Govt. on recommendations of GST Council,
- may specify categories of services
- the tax on intra-State supplies of which
- shall be paid by the electronic commerce operator
- if such services are supplied through it, and
- all the provisions of this Act shall apply to such electronic commerce operator as if he is the supplier liable for paying the tax in relation to the supply of such services

{CGST Sec- 9 (5) and IGST Sec-5(5)}

Other Provisions

- No Exemption to Recipient of Supply who is liable to reverse charge
- Reverse charge to be paid only through electronic cash ledger
- Credit of reverse charge paid available for set-off against Output tax
- Value of supplies received on reverse charge basis excluded from Aggregate turnover of Recipient
- Tax payable under Reverse charge excluded from Output tax

Likely Consequences of RCM

- Impact - Threshold limit for exemption (Rs. 10 /20 lakh) is essentially meant only for supplies of goods and services from one unregistered person to another unregistered person.
- Business entities may prefer dealing only with registered persons, to avoid hassles of additional compliance burden

Exempted Persons

- Persons who are only engaged in making supplies of taxable goods or services or both,
- the total tax on which is liable to be paid on reverse charge basis by the recipient
- Such persons are exempted from obtaining registration under the aforesaid Act.

(Notification No. 5/2017 – Central Tax dated 19th June, 2017)

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