



DEMYSTIFYING 1% GST LIABILITY DISCHARGE IN CASH

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Availing input tax credit seamlessly is one of the major features of Goods and Service Tax. The recipient is entitled to take the input tax credit on goods or services on his inward supplies if the recipient is registered under GST and used for taxable supplies. We have seen many new paper columns and articles talking about fake invoicing and claiming input tax credit wrongly in the recent past. The Director-General of Analytics and Risk Management (DGRAM) has compiled a list of about 13k taxpayers who have availed input tax credit of about Rs 1,00,000 crores from the rollout of GST in India wrongly. Till the first week of December 2020, about 100 people were arrested in this context.

Keeping in view of this rampant misuse of the provisions from taking registration under GST and availing wrong ITC, the Government has started taking a series of measures to curb this menace. As part of it, the GST Registration based on Aadhar authentication has been introduced, reducing the input tax credit on taking it provisionally and expanding the threshold of e-invoicing.

As per the provisions of the input tax credit, the recipient of goods or services or both can claim input tax credit only on meeting the following conditions

1. The recipient must have received the goods and services or both
2. The recipient is in possession of the tax invoice / original tax invoice
3. The goods or services or both have been used for the furtherance or in due course of the business
4. The supplier must have paid the taxes
5. The recipient has filed his returns
6. Matching is mandatory for availing of the input tax credit.

In view of the business needs, the provisional credit has been introduced to the extent of 20% from Oct 2019 and reduced to 10% from Jan 2020, and now the same is reduced to 5% from 1Jan 2021. Apart from this, now the utilization of input tax credit is restricted to a category of taxpayers, and a lot of wrong information is floating in the secondary media on this. As per the new provision, the input tax credit can be utilized only 99%, and the rest 1% has to be discharged in cash. It is introduced in Rule 86B of the CGST Rules 2017 amended through Notification No 94/2020 – Central Tax dated 22nd December 2020.

Is this applicable to all taxpayers?

No, it does not apply to all taxpayers. It applies to taxpayers who are having a turnover above Rs 50 lacs in a month. For determining the turnover, exempted supplies and Zero-rated supplies are not to be considered.

Are there any exemptions available?

Yes, Exemptions are available. The following category of tax persons are exempted from payment of 1% of GST in Cash

1. Registered taxpayers who have paid income tax above Rs 1.00 in Income Tax during the last two years continuously
2. Taxpayers who have zero-rated supplies without payment of duty and claimed refund of more than Rs 1.00 lac
3. Taxpayers who have claimed refund amount more than Rs 1.00 lac on account of inverted duty structure.
4. Taxpayers who have discharged liability in cash more than 1% during the year cumulatively
5. If the registered taxpayer is a Public Sector Unit, or Government Department, Statutory Body or a Local Authority.

Is the above provision going to impact the MSMEs?

No, the provisions of 1% of GST Liability in cash will not impact MSMEs as the above questions have answered the same.

From what date is this provision applicable?

This provision applies to taxpayers from the 1st of Jan 2021.

Can you please explain with a small example?

Example - 1

Supplies	CGST	SGST	IGST
Domestic	45,00,000	45,00,000	
Exports			6,00,000
GST Rate	12%	12%	12%
Tax Liability	5,40,000	5,40,000	72,000
ITC	6,30,000	7,50,000	1,00,000
Cash to be paid	0	0	0

The taxpayer need not discharge his liability in cash as his turnover after reducing the exports is only Rs 45 Lacs.

Example - 2

Supplies	CGST	SGST	IGST
Domestic	64,50,000	64,50,000	
Exempted Sales			5,00,000
GST Rate	12%	12%	
Tax Liability	7,74,000	7,74,000	
ITC	9,54,000	95,40,000	
Cash to be paid	7,740	7,740	

Example - 3

Assuming that the above two months are for the same taxpayer,

Supplies	CGST	SGST	IGST
Domestic	55,70,000	55,70,000	
Exports			12,00,000
GST Rate	12%	12%	
Tax Liability	6,68,400	6,68,400	
ITC	9,54,000	95,40,000	
Cash to be paid	0	0	0

It is not required to be discharged in cash as the taxpayer has claimed a refund amount of more than Rs 1,00,000 in the first month.

Discharging of GST liability in 1% in cash does not significantly impact the working capital as it is a nominal amount and not going to impact all the taxpayers. The 1% is with respect to each Act, which means that the taxpayers have to pay 2% (1% CGST & 1% SGST) in cash. The documentation released by CBIC in social media states that only 0.5% of the registered 1.2 crore taxpayers will be impacted. As the saying goes, "Tiny drops of water make mighty oceans" preventing small amounts of tax evasion will increase in more revenue mop-up of GST collections, and on account of this, we can expect a reduction of tax rates down the line.

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