

ITC can be availed on distribution of promotional products to distributors/franchisees free of cost as a promotional activity, rules AAR

Fact of the Case

- The applicant, M/s Paper Industries Ltd. is engaged in the manufacture, distribution marketing of Knitted and Woven Garments under the brand name of “Jockey”, Swim-wears and Swimming Equipments under the brand name of “SPEEDO”. The applicant also gets the said garments manufactured from their job workers.

The applicant has sought the advance ruling on the issue whether the promotional products or Materials and Marketing Items used by the Applicant in promoting their brand and marketing their products can be considered as “inputs” as defined under section 2(59) of the CGST Act, 2017 and GST paid on the same can be availed as input tax credit in terms of section 16 of the CGST Act, 2017.

Decision of the Case

- The coram ruled that the ITC on GST paid on the procurement of the “distributable” products which are distributed to the distributors, franchisees is allowed as the said distribution amount to supply to the related parties which is exigible to GST.
- The AAR, further clarified that the distribution to the retailers for their use cannot be claimed as gifts to the retailers or to their customers free of cost and hence ITC of GST paid on such procurement is not allowed as per Section 17(5) of the GST Acts.
- The Authority also said that the GST paid on the procurement of “non-distributable” products qualify as capital goods and not as “inputs” and the applicant is eligible to claim the input tax credit on their procurement, but in case if they are disposed of by writing off or destruction or lost, then the same needs to be reversed under Section 16 of the CGST Act, 2017 read with Rule 43 of the CGST Rules, 2017.

The Karnataka Authority of Advance Ruling (AAR) held that the Input Tax Credit (ITC) can be availed on the distribution of promotional products to distributors or franchisees free of cost as a promotional activity.