INTERMEDIATE

Paper 7

INDIRECT TAXATION

Study Notes

SYLLABUS 2022

The Institute of Cost Accountants of India

CMA Bhawan, 12, Sudder Street, Kolkata - 700 016

www.icmai.in

First Edition : August 2022

Revised Edition : March 2024

Revised Edition : January 2025

Revised Edition : February 2026

Price: ₹ 600.00 (Direct and Indirect Taxation - 2 Books)

Published by :

Directorate of Studies

The Institute of Cost Accountants of India

CMA Bhawan, 12, Sudder Street, Kolkata - 700 016

studies@icmai.in

Printed at :

M/s. Print Plus Pvt. Ltd.

212, Swastik Chambers

S. T. Road, Chembur

Mumbai - 400 071

Copyright of these Study Notes is reserved by the Institute of Cost Accountants of India and prior permission from the Institute is necessary for reproduction of the whole or any part thereof.

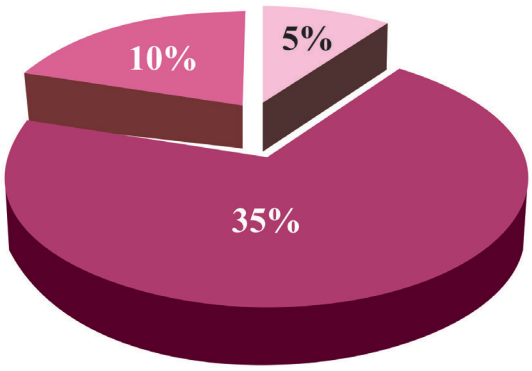
Copyright © 2026 by The Institute of Cost Accountants of India

PAPER 7 - INDIRECT TAXATION
SECTION - B

Syllabus Structure:

The syllabus in this paper comprises the following topics and study weightage:

Module No.	Module Description	Weigh
SECTION B: INDIRECT TAXATION		50%
4.	Concept of Indirect Taxes	5%
5.	Goods and Services Tax (GST) Laws	35%
6.	Customs Act & Rules	10%



LEARNING ENVIRONMENT - PAPER 7

Subject Title	**INDIRECT TAXATION (Section - B)**
Subject Code	**DITX**
Paper No.	**7**
Course Description	This section deals with Goods and Services Tax and Customs Duty. Accordingly, it focuses on explaining the legal provisions associated with levy and collection of CGST and IGST, input tax credit and determination of GST liability. It also discusses, in detail, the basic concepts under Customs Duty and procedure for determining the assessable value and duty liability.
CMA Course Learning Objectives (CMLOs)	1. Interpret and appreciate emerging national and global concerns affecting organizations and be in a state of readiness for business management. a. Identify emerging national and global forces responsible for enhanced/varied business challenges. b. Assess how far these forces pose threats to the status-quo and creating new opportunities. c. Find out ways and means to convert challenges into opportunities 2. Acquire skill sets for critical thinking, analyses and evaluations, comprehension, syntheses, and applications for optimization of sustainable goals. a. Be equipped with the appropriate tools for analyses of business risks and hurdles. b. Learn to apply tools and systems for evaluation of decision alternatives with a 360-degree approach. c. Develop solutions through critical thinking to optimize sustainable goals. 3. Develop an understanding of strategic, financial, cost and risk-enabled performance management in a dynamic business environment. a. Study the impacts of dynamic business environment on existing business strategies. b. Learn to adopt, adapt and innovate financial, cost and operating strategies to cope up with the dynamic business environment. c. Come up with strategies and tactics that create sustainable competitive advantages. 4. Learn to design the optimal approach for management of legal, institutional, regulatory and ESG frameworks, stakeholders' dynamics; monitoring, control, and reporting with application-oriented knowledge. a. Develop an understanding of the legal, institutional and regulatory and ESG frameworks within which a firm operates. b. Learn to articulate optimal responses to the changes in the above frameworks. c. Appreciate stakeholders' dynamics and expectations, and develop appropriate reporting mechanisms to address their concerns.

	5. Prepare to adopt an integrated cross functional approach for decision management and execution with cost leadership, optimized value creations and deliveries. a. Acquire knowledge of cross functional tools for decision management. b. Take an industry specific approach towards cost optimization, and control to achieve sustainable cost leadership. c. Attain exclusive knowledge of data science and engineering to analyze and create value.
Subject Learning Objectives [SLOB(s)]	**Indirect Taxation** 1. To acquire knowledge of legal provisions enshrined in laws related to GST and Customs Duty and appreciate their applicability in business operations. (CMLO 4a) 2. To gather understanding of legal provisions of said two indirect tax laws about matters of compliance while conducting business operations. (CMLO 4 c)
Subject Learning Outcome [SLOC(s)] and Application Skill [APS]	**SLOCs:** 1. Students will attain understanding about various provisions of indirect taxation in areas of GST and Customs Duty. 2. They will be able to ensure compliance of legal provisions related to indirect taxes. **APSs:** 1. Students will attain skill sets for solving computation related issues that may arise while determining levies of GST and Customs Duty on business transactions 2. Students will be able to ensure compliances of indirect taxation related provisions.

Module wise Mapping of SLOB(s)

Module No.	Topics and Sub-topics	Additional Resources (Research articles, case studies, blogs)	SLOB Mapped
4	Concept of Indirect Taxes	For Bare Acts & Rules, refer www.cbic.gov.in	1. To acquire knowledge of legal provisions enshrined in laws related to GST and Customs Duty and appreciate their applicability in business operations. 2. To gather understanding of legal provisions of said two indirect tax laws about matters of compliance while conducting business operations.
5	Goods and Services Tax (GST) Laws	Refer Chapter III, IV, V, VI, VII, IX & X of the CGST Act, 2017	
6	Customs Act	Refer Customs Act, 1962, Customs Tariff Act, 1975, Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 and Customs Valuation (Determination of Value of Export Goods) Rules, 2007	

Contents as per Syllabus

SECTION B: INDIRECT TAXATION 1 - 396

Module 4. Concept of Indirect Taxes 1 - 12

4.1 Concept and Features of Indirect Taxes

4.2 Difference between Direct and Indirect Taxes

4.3 Background of erstwhile Indirect Taxes (Central Excise, VAT etc.)

4.4 Constitutional Validity of GST

Module 5. Goods and Services Tax (GST) Laws 13 - 324

5.1 Introduction to GST Law

5.2 Levy and Collection of CGST and IGST

5.3 Basic concepts of Time, Place and Value of Supply

5.4 Input Tax Credit

5.5 Computation of GST Liability

5.6 Registration

5.7 Tax Invoice – Electronic Way Bill

5.8 Returns and Payment of Taxes

Module 6. Customs Act & Rules 325 - 396

6.1 Customs Act-Basic Concepts and Definitions

6.2 Types of Duties

6.3 Valuation Rules

6.4 Computation of Assessable Value and Duties

SECTION - B

INDIRECT TAXATION

Concept of Indirect Taxes 4

This Module includes -

4.1 Concept and Features of Indirect Taxes

4.2 Difference Between Direct & Indirect Taxes

4.3 Background of erstwhile Indirect Taxes

4.4 Constitutional Validity of GST

Concept of Indirect Taxes

SLOB Mapped against the Module:

1. **To acquire knowledge of legal provisions enshrined in laws related to GST and Customs Duty and appreciate their applicability in business operations.**
2. **To gather understanding of legal provisions of said two indirect tax laws about matters of compliance while conducting business operations.**

Module Learning Objectives:

After studying this module, the students will be able to -

- **Appreciate the difference between direct and indirect taxes**
- **Understand the problems in erstwhile indirect taxes**

Introduction

4

"It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand folds" – ***Kalidas in Raghuvansh eulogizing King Dalip***.

In a Welfare State, the Government takes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment, infrastructure, social security and other development needs. To facilitate these, Government needs revenue. Taxation is the primary source of revenue to the Government for incurring such public welfare expenditure. In other words, Government is taking taxes from the public through its one hand and through another hand; it incurs welfare expenditure for public at large. However, no one enjoys handing over his hard-earned money to the government to pay taxes. Thus, taxes are compulsory or enforced contribution to the Government revenue by public. The government may levy taxes on income, business profits or wealth or add it to the cost of some goods, services, and transactions.

Basic Reasons to impose taxation

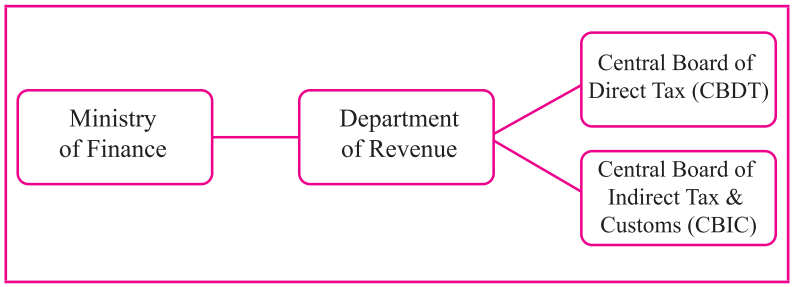
- **To provide basic facilities for every citizen of the country:** Whatever money is received by the government from taxation is spent by it for the welfare of the citizens of the country. Some of the services provided by the government are: health care, electricity, roads, education system, free houses for the poor, water supply, police, firefighters, judiciary system, disaster relief, taking care of bridges and other things of public welfare.
- **To finance multiple governments:** All the local governments of the state like village panchayats, block panchayats and municipal corporations receive funds from the finance commission.
- **Protection of the life:** Taxpayers receive the protection of life and wealth from the government in case of external aggression, internal armed rebellion or any other situation.

Administration of Tax Laws

The administrative hierarchy of tax law is as follows:

Taxpoint :

- Both of the Boards have been constituted under the Central Board of Revenue Act, 1963.
- CBDT deals with levy and collection of all direct tax whereas matters relating to levy and collection of Central indirect tax are dealt by CBIC.



Concept and Features of Indirect Taxes 4.1

- **Tax on goods and services:** Indirect tax is levied at the time of supply or manufacture or purchase or sale or import or export of goods. Further, it is also levied on supply.
- **Burden:** Tax, being indirect tax paid by the seller, shall be recovered by the seller from the buyer. Thus, one can say that burden of indirect tax is shifted from seller to buyer and ultimately borne by consumers of such goods or services.
- **Inflationary in nature:** Cost of goods and services increases due to levy of indirect tax thus indirect taxes promote inflation.
- **Social welfare:** It is useful tool to promote social welfare by checking the consumption of harmful goods or sin goods through higher rate of tax.
- **Wider Tax Base:** Majority of goods and services are liable to indirect tax with very low threshold limits, so tax base is much wider in case of indirect tax in compare to direct tax.
- **Regressive in Nature:** All persons (rich or poor) will bear equal wrath of tax on goods or service consumed by them irrespective of their ability. In other words, indirect tax does not create any difference between rich and poor. Poor people are also required to pay equal percentage of tax on certain goods and service of mass consumption. Thus, it may increase the disparities between rich and poor.
- **No pinch:** Seller (the person on which indirect tax is levied) does not perceive a direct pinch of tax as it is recovered by him from the buyer and then he is paying to the Government. On the other hand, since it is inbuilt in the price of the goods, the ultimate payer (i.e., buyer) pay it without knowing that he is paying any tax to the Government.

Difference Between Direct & Indirect Taxes

4.2

Basis	Direct Tax	Indirect Tax
Meaning	Direct tax is referred to as the tax, levied on person's income and wealth and is paid directly to the government.	Indirect Tax is referred to as the tax, levied on a person who consumes the goods and services and is paid indirectly to the government.
Nature	Progressive in nature i.e., higher tax is levied on a person earning higher income and vice versa.	Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.
Incidence and Impact	Falls on the same person. Assessee, himself bears such taxes. Thus, it pinches the taxpayer.	Falls on different person. Tax is recovered from the assessee, who passes such burden to another person. Thus, it does not pinch the taxpayer.
Example	Income Tax	GST, Custom Duty
Evasion	Tax evasion is possible	Tax evasion is hardly possible because it is included in the price of the goods and services.
Inflation	Direct tax helps in reducing the inflation.	Cost of goods and services increases due to levy of indirect tax thus indirect taxes promote inflation. However, sometimes it is useful tool to promote social welfare by checking the consumption of harmful goods or sin goods through higher rate of tax.
Imposition and collection	Imposed on and collected from the same person	Imposed on and collected from consumers of goods and services but paid and deposited by the assessee.
Burden	Cannot be shifted	Can be shifted
Event	Taxable income of the assessee	Supply of goods and services

Background of Erstwhile Indirect Taxes 4.3

The Constitution of India is the supreme law of India. Any tax law, which is not in conformity with the Constitution, is called ultra vires the Constitution and held as illegal and void. Article 246 read with Schedule VII divides subject matter of law made by legislature into three categories:

List I	Union list (only Central Government has power of legislation on subject matters covered in the list)
List II	State list (only State Government has power of legislation on subject matters covered in the list)
List III	Concurrent list (both Central & State Government can pass legislation on subject matters).

The following major entries in the respective list enable the legislature to make law on the matter:

Union List (List I)	State List (List II)
Entry 82 - Taxes on income other than agricultural income i.e. **Income-tax**	**Entry 54** - Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of entry **92A** of List I i.e., **State Level VAT**
Entry 83 - Duties of customs including export duties i.e., **Customs Act**	**Entry 46** - Taxes on agricultural income.
Entry 84 - Duties of excise on tobacco and other goods manufactured or produced in India except: a. alcoholic liquors for human consumption. b. opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol / opium / Indian hemp / narcotic drugs / narcotics **i.e., Central Excise Act**	**Entry 60** - Taxes on professions, trades, callings and employments i.e., **Professional Tax**
Entry 86 - Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies i.e., **Wealth Tax**	**Entry 51** - Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India: a. alcoholic liquors for human consumption; b. opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal and toilet preparations containing alcohol/opium/ Indian hemp / narcotic drugs / narcotics
Entry 92A - Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce i.e., **Central Sales Tax**	
Entry 92C – Tax on services	
Entry 97 - Any other matter not enumerated in List II or List III including any tax not mentioned in either of those Lists.	

- In pre-GST regime, Indian indirect tax was highly fragmented. Centre and States were separately taxing Goods and services. There were many taxes like excise duty, service tax, VAT, CST, purchase tax, entertainment tax, octroi.
- In addition, there was multiplicity of rates. Law and procedures. This caused heavy compliance burden.
- Imposition of tax on tax was another serious problem. For example, VAT was levied on a value that included excise duty.
- Input tax credit chain broke as goods moved from one state to another, resulting in hidden cost for the business.
- Further, pre-GST, there were tax nakas at every inter-state border, creating bottlenecks in inter-state transport of goods.
- As a result, logistics sector remained inefficient and it adversely impacted the businesses.
- Every state was effectively a distinct market for the industry as well as consumer.
- Industry's choice of locating factories or warehouses was heavily influenced by the prevailing tax regime rather than pure business consideration.
- This made our industry uncompetitive

To curb all these, Goods and Services Tax (GST) was introduced in the system with the idea of One Nation One Tax. Various indirect tax levied by Central and State Government was subsumed into one tax called GST.

Cascading effect of tax (Tax on Tax)

In pre-GST regime, when a manufacturer "A" sold goods ₹ 1,00,000 to dealer "B" from Gujarat to Haryana, he is liable to collect pay Excise Duty and Central Sales Tax at the rate of 12% and 2% respectively, being an inter-state sale. Dealer "B" in turn sells it to Dealer "C" in Haryana after adding ₹ 10,000/- and charges VAT on such sale @ 12%.

The calculation were as follow:

Transaction	Particulars	Amount (₹)	Tax to Government (₹)
Transaction between "A" and "B"	Sale price of goods	1,00,000	
	Add: Excise Duty @ 12%	12,000	12,000
		1,12,000	
	Add: Central Sales Tax	2,240	2,240
	Total Invoice Value	1,14,240	
Transaction between "B" and "C"	Sale price of goods [₹1,14,240 + ₹10,000]	1,24,240	
	Add: VAT @ 12%	14,909	14,909
	Total Invoice Value	1,39,149	
	Total		29,149

In this regime, following are the components of the VAT amount:

-	On actual price	₹ 1,00,000 x 12%	=	₹ 12,000
-	On Excise Duty	₹ 12,000 x 12%	=	₹ 1,440
-	On CST	₹ 2,240 x 12%	=	₹ 269
-	On value added by B	₹ 10,000 x 12%	=	₹ 1,200
	Total VAT			₹ 14,909

Since credit for excise duty and CST was not available to dealer B, excise duty and CST were considered as a cost. Further, he is liable to pay VAT on tax components also. Such tax on tax is known as cascading effect of tax, which leads to inflation.

If the same transactions are executed under GST law and rate of GST is say 12% then calculation would be as under:

Transaction	Particulars	Amount (₹)	Tax to Government (₹)
Transaction between "A" and "B"	Sale price of goods	1,00,000	
	Add: GST @ 12%	12,000	12,000
	Total Invoice Value	1,12,000	
Transaction between "B" and "C"	Sale price of goods [₹ 1,00,000 + ₹ 10,000]	1,10,000	
	Add: GST @ 12%	13,200	
	Total Invoice Value	1,23,200	
	Amount payable to the Government by "B"		
	[₹ 13,200 – ₹ 12,000]		1,200
	Total		13,200

Since credit for GST paid by dealer B to dealer A is available to dealer B, hence the same is not considered as a cost. In this way, GST eliminates the cascading effect of tax and which results in lower prices.

However, fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on sale of goods. In case of inter-State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the originating States. As for services, it is the Centre alone that is empowered to levy service tax. Since the States are not empowered to levy any tax on the sale or purchase of goods in the course of their importation into or exportation from India, the Centre levies and collects this tax as additional duties of customs, which is in addition to the Basic Customs Duty. This additional duty of customs (commonly known as CVD and SAD) counter balances excise duties, sales tax, State VAT and other taxes levied on the like domestic product. Introduction of GST would require amendments in the Constitution so as to concurrently empower the Centre and the States to levy and collect the GST.

Introduction of the GST required amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The assignment of concurrent jurisdiction to the Centre and the States for the levy of GST would require a unique institutional mechanism that would ensure that decisions about the structure, design and operation of GST are taken jointly by the two. For it to be effective, such a mechanism also needs to have Constitutional force.

Quick MCQ:

1. Indirect taxes are often described as "regressive" in nature. What is the primary reason for this classification according to the text?

   a. They are levied only on the luxury goods consumed by the rich.

   b. The tax rate decreases as the value of the goods increases.

   c. All persons bear an equal tax burden on a specific good regardless of their income level.

   d. They are directly paid to the government by the consumer.

   Correct: c

   Reason: Indirect taxes do not differentiate between the rich and the poor; both pay the same tax percentage on goods of mass consumption, which can increase wealth disparities.

2. Under the Pre-GST regime, which entry in the Union List (List I) empowered the Central Government to levy Excise Duty on tobacco manufactured in India?

   a. Entry 82

   b. Entry 84

   c. Entry 92A

   d. Entry 51

   Correct: b

   Reason: Entry 84 of the Union List provides the power to the Centre to levy duties of excise on tobacco and other goods manufactured in India, excluding alcoholic liquors for human consumption.

3. What was a major contributor to the "Cascading Effect" of taxes in the Pre-GST era?

   a. The availability of seamless input tax credit across state borders.

   b. The levy of VAT on a value that already included Central Excise Duty.

   c. The reduction of tax rates by the Finance Commission.

   d. The elimination of tax nakas at state borders.

   Correct: b

   Reason: Cascading effect refers to "tax on tax." In the pre-GST regime, VAT was often calculated on the invoice value inclusive of excise duty and CST because credits for those taxes were not available to the dealer.

4. According to the administrative hierarchy, which body is responsible for the levy and collection of Central Indirect Taxes?

   a. CBDT

   b. Finance Commission

   c. CBIC

   d. Village Panchayats

Correct: c

Reason: While the CBDT deals with direct taxes, the CBIC (Central Board of Indirect Taxes and Customs) handles matters relating to the levy and collection of Central indirect taxes.

5. Which Article of the Constitution, read with Schedule VII, divides the subject matter of laws into the Union, State, and Concurrent Lists?

   a. Article 248

   b. Article 246

   c. Article 265

   d. Article 101

Correct: b

Reason: Article 246, read with Schedule VII, provides the three-fold distribution of legislative powers between the Union and the States.

Constitutional Validity of GST

4.4

4.4.1 Constitution (One Hundred and First) Amendment Act, 2016

Earlier, fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on sale of goods. In case of inter-State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the originating States. As for services, it is the Centre alone that is empowered to levy service tax. Since the States are not empowered to levy any tax on the sale or purchase of goods in the course of their importation into or exportation from India, the Centre levies and collects this tax as additional duties of customs, which is in addition to the Basic Customs Duty. This additional duty of customs (commonly known as CVD and SAD) counter balances excise duties, sales tax, State VAT and other taxes levied on the like domestic product. Introduction of GST would require amendments in the Constitution so as to concurrently empower the Centre and the States to levy and collect the GST.

Introduction of the GST required amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The assignment of concurrent jurisdiction to the Centre and the States for the levy of GST would require a unique institutional mechanism that would ensure that decisions about the structure, design and operation of GST are taken jointly by the two. For it to be effective, such a mechanism also needs to have Constitutional force.

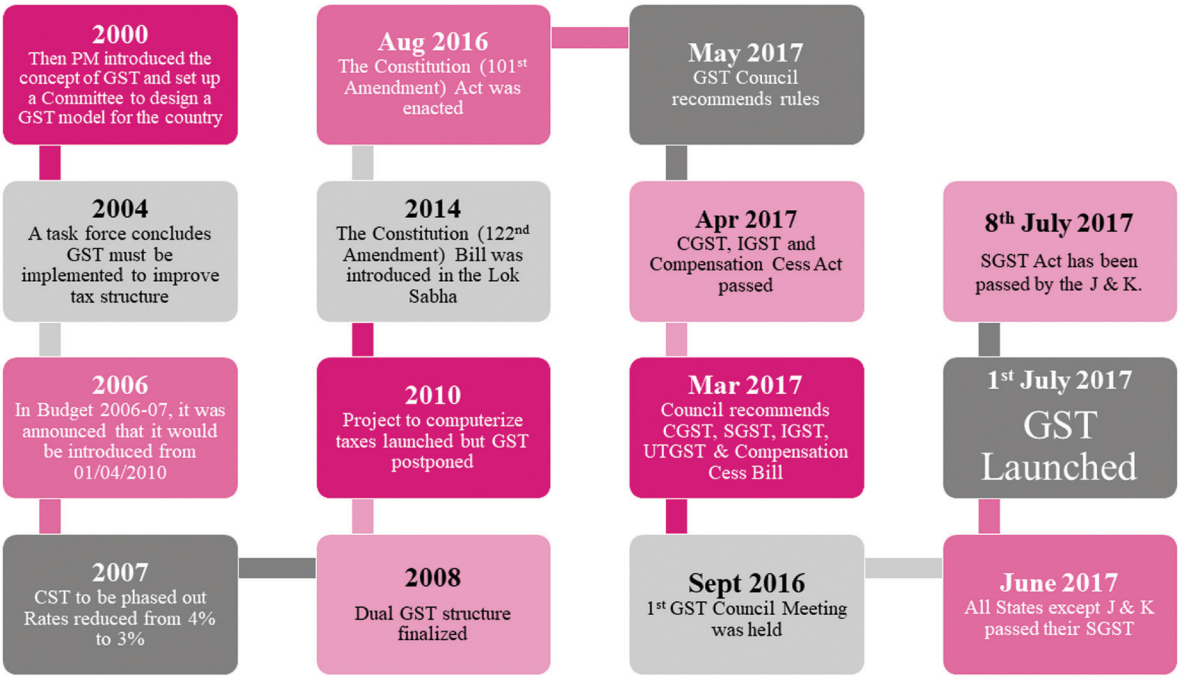
To address all these and other issues, the Constitution (122nd Amendment) Bill was introduced in the 16th Lok Sabha on 19.12.2014. The Bill provides for a levy of GST on supply of all goods or services except for Alcohol for human consumption. The tax shall be levied as Dual GST separately but concurrently by the Union (central tax - CGST) and the States (including Union Territories with legislatures) (State tax - SGST) / Union territories without legislatures (Union territory tax- UTGST). The Parliament would have exclusive power to levy GST (integrated tax - IGST) on inter-State trade or commerce (including imports) in goods or services. The Central Government will have the power to levy excise duty in addition to the GST on tobacco and tobacco products. The tax on supply of five specified petroleum products namely crude, high speed diesel, petrol, air turbine fuel and natural gas would be levied from a later date on the recommendation of GST Council.

A Goods and Services Tax Council (GSTC) shall be constituted comprising the Union Finance Minister, the Minister of State (Revenue) and the State Finance Ministers to recommend on the GST rate, exemption and

thresholds, taxes to be subsumed and other features. This mechanism would ensure some degree of harmonization on different aspects of GST between the Centre and the States as well as across States. One half of the total number of members of GSTC would form quorum in meetings of GSTC. Decision in GSTC would be taken by a majority of not less than three-fourth of weighted votes cast. Centre and minimum of 20 States would be required for majority because Centre would have one-third weightage of the total votes cast and all the States taken together would have two-third of weightage of the total votes cast.

The Constitution Amendment Bill was passed by the Lok Sabha in May, 2015. The Bill was referred to the Select Committee of Rajya Sabha on 12.05.2015. The Select Committee had submitted its Report on the Bill on 22.07.2015. The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by Lok Sabha in August, 2016. Further the bill had been ratified by required number of States and received assent of the President on 8th September, 2016 and has since been enacted as Constitution (101stAmendment) Act, 2016 w.e.f. 16th September, 2016.

The journey is as under:



- **References:**

  https://www.cbic.gov.in/

  https://cbic-gst.gov.in/

  https://gstcouncil.gov.in/

Goods and Services Tax (GST) Laws 5

This Module includes -

5.1 Introduction to GST Law

5.2 Levy and Collection of CGST and IGST

5.3 Basic concepts of Time, Place and Value of Supply

5.4 Input Tax Credit

5.5 Computation of GST Liability

5.6 Registration

5.7 Tax Invoice – Electronic Way Bill

5.8 Returns and Payment of Taxes

Goods and Services Tax (GST) Laws

SLOB Mapped against the Module:

1. **To acquire knowledge of legal provisions enshrined in laws related to GST and Customs Duty and appreciate their applicability in business operations.**
2. **To gather understanding of legal provisions of said two indirect tax laws about matters of compliance while conducting business operations.**

Module Learning Objectives:

After studying this module, the students will be able to -

- **Appreciate the Constitutional Aspects of GST**
- **Understand the basic features of Indian model of GST**
- **Appreciate the meaning of supply**
- **Understand the provision relating to charge, exemption and composition levy**
- **Appreciate the provisions relating to time and value of supply**
- **Appreciate the concepts of input tax credit and its utilisation**
- **Apply the knowledge in computing GST liability**
- **Appreciate the various compliance provisions of the GST laws.**

Introduction

5

Under the earlier taxation system for indirect taxes, number of indirect taxes were being levied and collected at multiple rates both by Central Government and State Governments on different activities undertaken. The international best tax practices in indirect taxes look for, easing out the complications and cumbersome confusing compliances and reduce interaction with different statutory authorities. Similar thought process was started in India to consolidate number of taxes in to one system of taxation uniformly across the country in late 1970s.

The idea of moving towards the GST was first mooted by the then Union Finance Minister in his Budget for 2006-07. Initially, it was proposed that GST would be introduced from 1stApril, 2010. The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a roadmap and structure for the GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of the GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, then First Discussion Paper (FDP) was released on GST in November, 2009. This spell out the features of the proposed GST and has formed the basis for discussion between the Centre and the States so far.

Introduction to GST Law

5.1

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. Introduction of GST would also make Indian products competitive in the domestic and international markets.

5.1.1 Amendments made by the Constitution (101st Amendment) Act, 2016

Constitution of Goods and Services Tax Council [Article 279A]

1. The President shall, within 60 days from the date of commencement of the Constitution (101st Amendment) Act, 2016, by order, constitute a Council to be called the Goods and Services Tax Council. Accordingly, the President has since constituted the GST Council.

2. The GST Council which will be a joint forum of the Centre and the States, shall consist of the following members:

a.	Union Finance Minister	Chairperson
b.	The Union Minister of State, in-charge of Revenue of finance	Member
c.	The Minister In-charge of finance or taxation or any other Minister nominated by each State Government	Members

3. The Members of the Goods and Services Tax Council referred to in clause 2(c) shall, as soon as may be, choose one amongst themselves to be the Vice-Chairperson of the Council for such period as they may decide

4. The Goods and Services Tax Council shall make recommendations to the Union and the States on—

   a. the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;

   b. the goods and services that may be subjected to, or exempted from the goods and services tax;

   c. model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;

   d. the threshold limit of turnover below which goods and services may be exempted from goods and services tax;

e. the rates including floor rates with bands of goods and services tax;

f. any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;

g. special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and

h. any other matter relating to the goods and services tax, as the Council may decide.

5. The Goods and Services Tax Council shall recommend the date on which the goods and services tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

6. One-half of the total number of Members of the Goods and Services Tax Council shall constitute the quorum at its meetings.

7. Every decision of the Goods and Services Tax Council shall be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting, in accordance with the following principles, namely:—

   a. the vote of the Central Government shall have a weightage of onethird of the total votes cast, and

   b. the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast,in that meeting.

8. No act or proceedings of the Goods and Services Tax Council shall be invalid merely by reason of

   a. any vacancy in, or any defect in, the constitution of the Council; or

   b. any defect in the appointment of a person as a Member of the Council; or

   c. any procedural irregularity of the Council not affecting the merits of the case.

Special provision with respect to goods and services tax [Article 246A]

1. Notwithstanding anything contained in articles 246 and 254, Parliament, and, subject to clause (2), the Legislature of every State, have power to make laws with respect to goods and services tax imposed by the Union or by such State.

2. Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

Taxpoint :

- As per Article 366(12A), "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption
- In case of inter-State supply, Central Government have exclusive power to make law and for intra-State supply, both Central and State government has power to make law.
- The provisions of this article, shall, in respect of goods and services tax referred to in Article 279A(5), take effect from the date recommended by the Goods and Services Tax Council (i.e., on this goods: petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel)
- Earlier as per Article 246, power to levy various types of indirect tax was distributed between Central Government and State Government. Article 246A empowered both the Government to levy GST.

5.1.2 Levy and collection of goods and services tax in course of inter-State trade or commerce [Article 269A]

1. Goods and services tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax[1] shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

   Taxpoint: Supply of goods, or of services, or both in the course of import into the territory of India shall be deemed to be supply of goods, or of services, or both in the course of inter-State trade or commerce.

2. The amount apportioned (as aforesaid) to a State shall not form part of the Consolidated Fund of India.

3. Where an amount collected as IGST has been used for payment of the SGST (or vice versa), such amount shall not form part of the Consolidated Fund of India.

4. Parliament may, by law, formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

5.1.3 GST Network (GSTN)

A common portal or platform is needed which could act as a clearing house and verify the claims and inform the respective government to transfer the funds. This is possible with the help of a strong IT infrastructure. Accordingly, Government has established common GST Electronic Portal (www.gst.gov.in), a website managed by Goods and Services Network (GSTN) for the tax payer and common IT infrastructure for Central and States. GSTN (a non-profit Government owned organisation) is a Special Purpose Vehicle. The functions of the GSTN would, inter alia, include:

a. facilitating registration;

b. forwarding the returns to Central and State authorities;

c. computation and settlement of IGST;

d. matching of tax payment details with banking network;

e. providing various MIS reports to the Central and the State Governments based on the tax payer return information;

f. providing analysis of tax payers' profile; and

g. running the matching engine for matching, reversal and reclaim of input tax credit.

The GSTN is developing a common GST portal and applications for registration, payment, return, assessment and MIS/reports.

On registration on the common portal (www.gst.gov.in), each taxpayer will receive 15 alpha numeric PAN based unique Goods and Service Tax Identification Number (GSTIN).

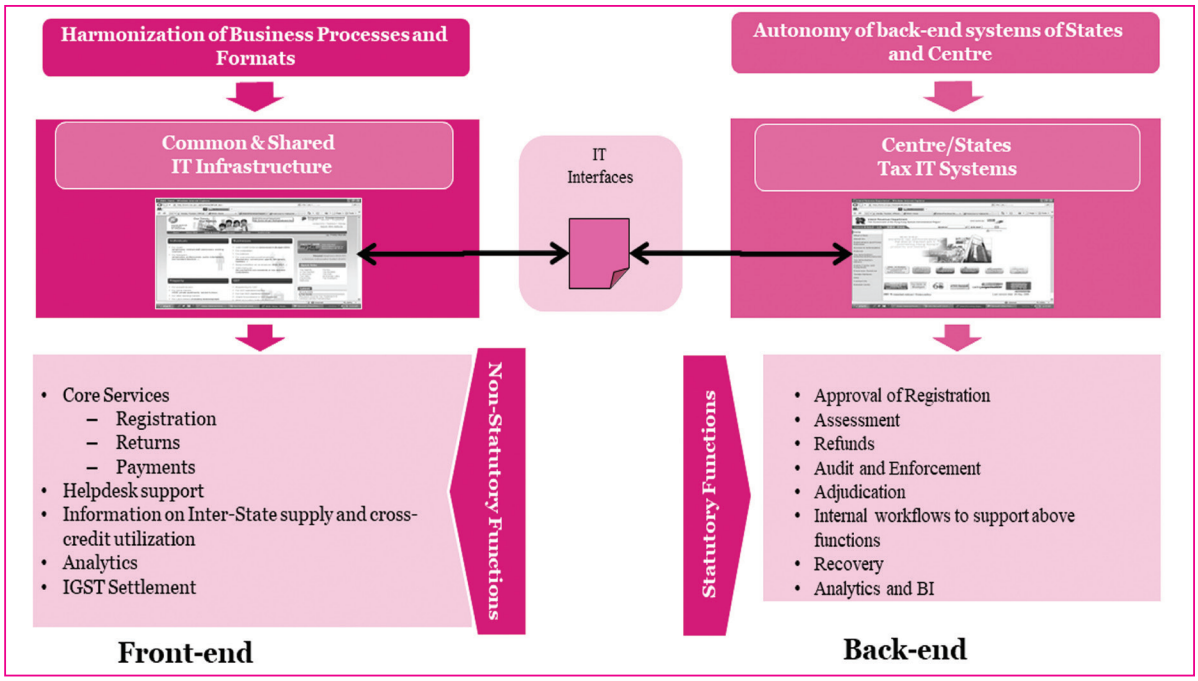
Salient features of GSTN

- Incorporated in March 2013 as sec. 25 100% government owned company with paid up capital of ₹ 10 crore
- To function as a Common Pass-through portal for taxpayers

[1] This tax is termed as the Integrated Goods and Services Tax (IGST).

- Submit registration application
- File returns
- Make tax payments

- To develop back-end modules for States
- Infosys Ltd. appointed as Managed Service Provider (MSP)
- Appointed more than 70 GST Suvidha Providers (GSPs)



5.1.4 Need for GST

Under the pre-GST regime, there are various taxes that have to pay at every stage and differently collected by State and Central Government and rates differ from one state to another. Imposing several taxes on goods and services can lead to high cost and inefficient tax structure. Moreover:

a. Tax levied by one Government was not available for set off against the tax levied by another Government. Even few taxes levied by the Government was not allowed to be set off with another type of tax levied by the same Government.

b. Further, there was cascading effect of taxation (i.e., tax on tax), which leads to inflation. E.g., VAT is levied by the State Government on the excise duty levied by the Central Government.

c. Rate of CST was lower than VAT rate which had been used by the business as tax arbitrage.

d. Each State has separate VAT law which had divided the nation into various economic states.

e. Due to levy of entry tax, octroi, etc. by various State Governments results into a hindrance in free flow of business.

GST removed the inefficiencies and complexities of the erstwhile archaic taxation system and helped in accelerating growth. GST has been enacted with effect from 01-07-2017 with the following benefits:

1. **Tax subsumed in the GST:** Following taxes, levied by different Governments, were subsumed in the GST:



However, it is to be noted that following taxes are not subsumed into the GST:

Central Taxes	State Taxes
Basic Customs Duty	State Excise Duty
Research and Development Cess	Stamp Duty
Export Duty	Profession Tax
Anti-Dumping Duty	Motor Vehicle Tax
Safeguard Duty	

2. **Seamless Flow of Credit:** In the GST regime, the buyer (other than ultimate consumer) will take the credit of tax paid[2] by him at the time of purchase of goods and services, and he can utilize that credit in discharging his tax liability. GST eliminates the multiplicity and cascading of taxes which results into overall reduction in tax incidence
3. **Competitive prices:** GST eliminates all other taxes of indirect nature, and this will effectively mean that the tax amount paid by end consumers will reduce. Lower the prices, more will be demand for that product, which will result in more consumption and will benefit the entities.
4. **Increase in revenue:** One reason behind the need for GST was also to boost the revenue from the indirect taxes in the nation. GST is easy to understand, and a simple tax structure will bring more taxpayers and in return, it will increase the revenue for the Government.
5. **Easy and straightforward tax structure:** Before GST, taxpayers needed to pay a lot of taxes, but with GST, a single tax system, only one tax needs to be paid, which is comparatively easy and convenient to understand. For accounting, business complexities will reduce and result in less paperwork, saving both money and time.
6. **One Nation One Tax:** With uniform tax on supplies of goods and services India turned into one market.

[2] Subject to certain restrictions.

5.1.5 Benefits of GST

The benefits of GST can be summarized as under :

A. For business and industry

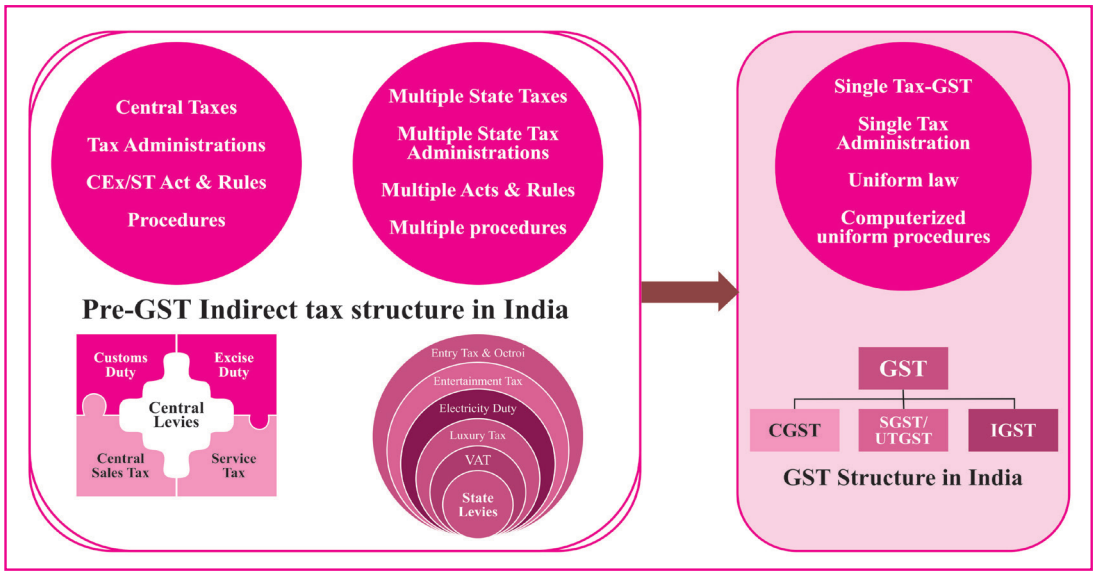
- **Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax-payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
- **Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- **Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

B. For Central and State Governments

- **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.
- **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.
- **Boost to 'Make in India' initiative:** GST will give major boost to the 'Make in India' initiative of government of India by making goods and services produced in India competitive in the national as well as international market.

C. For the consumer

- **Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.



5.1.6 Salient Features of GST

- **Destination Based Tax:** GST is a value added destination-based tax on consumption of goods and services. It is levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer. Benefit of tax (STCG/ UTGST) will accrue to the consuming state which will benefit the poor states.

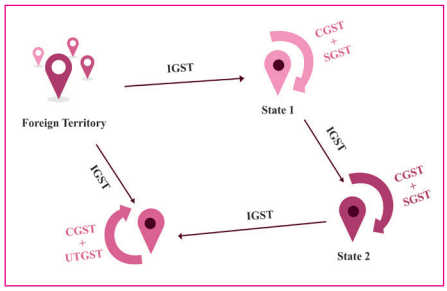
  Example: If A in Gujarat produces the goods and sells the goods to B in Rajasthan, then in such case the tax should be levied and collected and should accrue to the State of Rajasthan and not to the State of Gujarat[3].

- **One Nation One Tax:** GST is levied on supply of goods and services across India (including Jammu and Kashmir). It is a single tax on the supply of goods and services, right from the manufacturer to the consumer.

- **Dual GST Model:** Centre and states will impose tax on goods and services simultaneously.

  a. Intra-State supply of goods and services
     - CGST: Payable to Central Government
     - SGST/ UTGST: Payable to State Government/ Union Territory (as applicable) where they are consumed

  b. Inter-States Supply of goods and services
     - IGST: Payable to Central Government



  Centre will levy and administer CGST and IGST while respective States/ UTs will levy and administer SGST/UTGST

- **Import and Export:** Import will be treated as inter-States supply and IGST will be chargeable along with basic Customs duty. However, in GST Export will be treated as Zero rated supplies and no IGST is payable.

[3] In pre-GST regime which was origin base taxation system, revenue will accrue to the State of Gujarat.

- **Rates of GST:** In general, the rates of GST[4] are 0%, 5%, 18%, and 40%. Very few supply are liable at 0.25% (on rough precious and semi-precious stones) or 3% (on Gold, Silver, and Jewellery) or 1.50% (on silver filigree, handmade imitation jewellery) or 28% (on Pan masala, tobacco products, etc.). In addition, compensation cess will be payable on pan masala, tobacco & tobacco product, coal, lignite, aerated water and motor-cars.
- **Tax on value of supply:** GST will be calculated on value of supply of goods and services, which is transaction value. (subject to some exceptions)
- **Registration:** Under GST, every suppliers who have made taxable supply (subject to certain threshold limits) shall required to get himself registered under GST Law.
- **Input Tax Credit:** A registered person is entitled to take credit (deduction) of input tax paid from the output tax (if any) subject to following restriction:
  - **a. Utilisation of IGST:** First utilized for the payment of IGST then the balance, if any, shall be utilized towards payment of CGST and SGST/UTGST
  - **b. Utilisation of CGST:** First utilized for the payment of CGST then the balance, if any, may be utilized towards payment of IGST.
  - **c. Utilisation of SGST/UTGST:** First utilized for the payment of SGST/UTGST then the balance may be utilized towards payment of IGST.
- **Free flow of the credit:** Under GST regime there is a seamless (without any obstruction) credit flow in case of inter-state supplies, which was not possible in pre-GST period. No credit was available for CST paid by the buyer. Under GST regime the seamless credit will flow as follows:
  - a. The inter-state supplier in exporting state is allowed to set off the available credit in IGST, CGST and SGST/UTGST against the IGST payable on inter-state supply made by him.
  - b. The buyer of importing state in inter-state supply can avail the credit of IGST paid on purchase from the output tax payable.
  - c. The exporting state transfers to the centre the credit of SGST/ UTGST utilised for the payment of IGST.
  - d. The Centre transfers to the importing state the credit of IGST used in payment of SGST/UTGST.
- **Acts and Rules:** For implementation of the GST, following Acts and major Rules are there:

Act	Rules
The Central Goods and Services Tax Act, 2017[5]	Central Goods and Services Tax Rules, 2017
The Integrated Goods and Services Tax Act, 2017	Integrated Goods and Services Tax Rules, 2017
The Goods and Services Tax (Compensation to States) Act, 2017	Goods and Services Tax Compensation Cess Rules, 2017

- **Other features**
  - a. In specified situation, self-supply is also treated as taxable supply and hence liable for tax

[4] These are IGST rates, however where CGST and SGST/UTGST is applicable (i.e., in case of intra-State supply) rate of IGST shall be divided into 2 parts i.e., 50% of rate of IGST shall be treated as rate of CGST and balance 50% shall be treated as SGST/UTGST. E.g. where IGST rate of inter-State supply of goods is 18% then if such goods are supplied in the course of intra-State supply, applicable CGST rate would be 9% (i.e., 50% of 18%) and applicable SGST/UTGST rate would be 9% (i.e., 50% of 18%).

[5] Similar law has been made by States and UT.

b. Even in few cases, supply without consideration is also liable for GST

c. The law has also notified the list of exempted goods and services

d. Alcoholic liquor for human consumption, petroleum crude, high speed diesel, motors spirits (commonly known as petrol), natural gas and aviation turbine fuel has been kept out of the purview of the GST

e. Procedure for collection of GST is uniform across the States.

f. Common return would serve the purpose of both Centre and State Government.

5.1.7 Goods and Services Tax Compensation Cess

- Goods and Services Tax (Compensation to States) Act, 2017 was enacted to levy Compensation cess for providing compensation to the States for the loss of revenue arising on account of implementation of the goods and services tax with effect from the date from which the provisions of the Central Goods and Services Tax Act is brought into force (01/07/2017), for a period of five years or for such period as may be prescribed on the recommendations of the GST Council[6].
- Taxable persons selling notified goods are liable to collect and pay GST Cess. Notified goods are:
  a. Pan masala,
  b. Tobacco & tobacco product,
  c. Cigarettes, cigar
  d. Coal, lignite,
  e. Aerated water; and
  f. Motor-cars
- Cess shall be computed on the value of taxable supply. Cess is levied in addition to CGST + SGST/UTGST in case of intra-state sales and IGST in case of inter-state sales including import of goods.
- Taxpayer can use Input Tax Credit of Cess for payment of Cess liability on outward supply made by him. He cannot use Input Tax Credit of Cess for payment of output CGST, SGST or IGST
- Where a taxpayer is registered under composition levy, Cess is not applicable on outward supplies made by him
- Cess is not levied on export made from India. The exporter can claim a refund of the input tax credit of cess paid on purchases
- The amount of compensation to be distributed to each state shall be calculated as follows:

  Step 1: Base revenue = Tax revenue of the State in financial year 2015-16.

  Step 2: Assume growth rate as 14% and calculate projected revenue for each financial year.

  The implication of projected revenue is that this would be the revenue that a state could have earned if GST were not implemented.

  If the base year revenue for 2015-16 for a concerned State, calculated as per section 5 is one hundred rupees, then the projected revenue for financial year 2018-19 shall be:

  Projected Revenue for 2018-19 = $100\ (1+14/100)^3$

[6] Extended upto 31/03/2026.

Step 3: Calculate the Compensation payable for each FY as follows:

Projected Revenue for that particular financial year	xxx
(–) Actual Revenue earned by the State including share in IGST	xxx
Compensation payable to the State	xxx

- 50% of the amount remaining unutilised in the Fund at the end of the transition period shall be transferred to the Consolidated Fund of India as the share of Centre, and the balance 50% shall be distributed amongst the States in the ratio of their total revenues from the State tax or the Union territory goods and services tax, as the case may be, in the last year of the transition period.

FAQ by CBIC on 15-12-2018

1. What is Goods and Services Tax (GST)?

Answer:

It is a destination based tax on consumption of goods and services. It will be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

2. What exactly is the concept of destination based tax on consumption?

Answer:

The tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

3. Which of the existing taxes were subsumed under GST?

Answer:

The GST would replace the following taxes:

i. taxes currently levied and collected by the Centre:
   a. Central Excise duty
   b. Duties of Excise (Medicinal and Toilet Preparations)
   c. Additional Duties of Excise (Goods of Special Importance)
   d. Additional Duties of Excise (Textiles and Textile Products)
   e. Additional Duties of Customs (commonly known as CVD)
   f. Special Additional Duty of Customs (SAD)
   g. Service Tax
   h. Central Surcharges and Cesses so far as they relate to supply of goods and services

ii. State taxes that would be subsumed under the GST are:
   a. State VAT
   b. Central Sales Tax c. Luxury Tax

d. Entry Tax (all forms)

e. Entertainment and Amusement Tax (except when levied by the local bodies)

f. Taxes on advertisements

g. Purchase Tax

h. Taxes on lotteries, betting and gambling

i. State Surcharges and Cesses so far as they relate to supply of goods and services

The GST Council shall make recommendations to the Union and States on the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed in the GST.

4. What principles were adopted for subsuming the above taxes under GST?

Answer:

The various Central, State and Local levies were examined to identify their possibility of being subsumed under GST. While identifying, the following principles were kept in mind:

a. Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.

b. Taxes or levies to be subsumed should be part of the transaction chain which commences with import/ manufacture/ production of goods or provision of services at one end and the consumption of goods and services at the other.

c. The subsumation should result in free flow of tax credit in intra and inter-State levels. The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST.

d. Revenue fairness for both the Union and the States individually would need to be attempted.

5. Which are the commodities which have been kept outside the purview of GST?

Answer:

Article 366(12A) of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. So alcohol for human consumption is kept out of GST by way of definition of GST in constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out and GST Council shall decide the date from which they shall be included in GST.

6. What is the status in respect of taxation of above commodities after introduction of GST?

Answer:

The existing taxation system (VAT & Central Excise) will continue in respect of the above commodities.

7. What is the status of Tobacco and Tobacco products under the GST regime?

Answer:

Tobacco and tobacco products is leviable to GST. In addition, the Centre has the power to levy Central Excise duty on these products.

8. What type of GST was implemented?

Answer:

It would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States/ Union territory would be called the State GST (SGST)/ UTGST. Similarly, Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

9. Why is Dual GST required?

Answer:

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

10. Which authority will levy and administer GST?

Answer:

Centre will levy and administer CGST & IGST while respective states /UTs will levy and administer SGST/ UTGST.

11. Why was the Constitution of India amended recently in the context of GST?

Answer:

Currently, the fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the States. As for services, it is the Centre alone that is empowered to levy service tax.

Introduction of the GST required amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Constitution of India has been amended by the Constitution (one hundred and first amendment) Act, 2016 for this purpose. Article 246A of the Constitution empowers the Centre and the States to levy and collect the GST.

12. How a particular transaction of goods and services would be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

Answer:

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services made by registered persons except the exempted goods and services, goods and services which are outside the purview of GST. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of CENVAT. While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

Illustration I:

Suppose hypothetically that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say ₹ 100, the dealer would charge CGST of ₹ 10 and SGST of ₹ 10 in addition to the basic price of the goods. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not actually pay ₹ 20 (₹ 10 + ₹ 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his purchases (say, inputs). But for paying CGST he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

Illustration II:

Suppose, again hypothetically, that the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say ₹ 100, the ad company would charge CGST of ₹ 10 as well as SGST of ₹ 10 to the basic value of the service. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not again actually pay ₹ 20 (₹ 10 + ₹ 10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his purchase (say, of inputs such as stationery, office equipment, services of an artist etc.). But for paying CGST he would be allowed to use only the credit of CGST paid on its purchase while for SGST he can utilise the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

13. What are the benefits which the Country will accrue from GST?

Answer:

Introduction of GST would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make our products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. There may also be revenue gain for the Centre and the States due to widening of the tax base, increase in trade volumes and improved tax compliance. Last but not the least, this tax, because of its transparent character, would be easier to administer.

14. What is IGST?

Answer:

Under the GST regime, an Integrated GST (IGST) would be levied and collected by the Centre on inter-State supply of goods and services. Under Article 269A of the Constitution, the GST on supplies in the course of inter- State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

15. Who will decide rates for levy of GST?

Answer:

The CGST and SGST would be levied at rates to be jointly decided by the Centre and States. The rates would be notified on the recommendations of the GST Council.

16. What would be the role of GST Council?

Answer:

A GST Council would be constituted comprising the Union Finance Minister (who will be the Chairman of the Council), the Minister of State (Revenue) and the State Finance/Taxation Ministers to make recommendations to the Union and the States on

a. the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed under GST;

b. the goods and services that may be subjected to or exempted from the GST;

c. the date on which the GST shall be levied on petroleum crude, high speed diesel, motor sprit (commonly known as petrol), natural gas and aviation turbine fuel;

d. model GST laws, principles of levy, apportionment of IGST and the principles that govern the place of supply;

e. the threshold limit of turnover below which the goods and services may be exempted from GST;

f. the rates including floor rates with bands of GST;

g. any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster;

h. special provision with respect to the North- East States, J&K, Himachal Pradesh and Uttarakhand; and

i. any other matter relating to the GST, as the Council may decide.

17. What is the guiding principle of GST Council?

Answer:

The mechanism of GST Council would ensure harmonization on different aspects of GST between the Centre and the States as well as among States. It has been provided in the Constitution (one hundred and first amendment) Act, 2016 that the GST Council, in its discharge of various functions, shall be guided by the need for a harmonized structure of GST and for the development of a harmonized national market for goods and services.

18. How are decisions be taken by GST Council?

Answer:

The Constitution (one hundred and first amendment) Act, 2016 provides that every decision of the GST Council shall be taken at a meeting by a majority of not less than 3/4th of the weighted votes of the Members present and voting. The vote of the Central Government shall have a weightage of 1/3rd of the votes cast and the votes of all the State Governments taken together shall have a weightage of 2/3rd of the total votes cast in that meeting. One half of the total number of members of the GST Council shall constitute the quorum at its meetings.

Quick MCQ:

1. Which Constitutional Amendment Act paved the way for the introduction of GST in India?

   a. 122nd Amendment Act

   b. 101st Amendment Act

   c. 115th Amendment Act

   d. 102nd Amendment Act

   Correct: b

   Reason: It was the 101st Constitutional Amendment Act, 2016, enacted on 8th September 2016, that provided the legal framework for GST.

2. Which Article was newly inserted into the Constitution to grant concurrent powers to both the Centre and States to levy GST?

   a. Article 246

   b. Article 269A

   c. Article 246A

   d. Article 279A

   Correct: c

   Reason: Article 246A was inserted to provide a unique mechanism where both Parliament and State Legislatures have the power to make laws with respect to GST.

3. In the case of Inter-State supply of goods or services, who has the exclusive power to make laws regarding GST?

   a. State Government

   b. Both Centre and State concurrently

   c. Parliament (Central Government)

   d. GST Council

   Correct: c

   Reason: According to Article 246A(2), Parliament has exclusive power to make laws with respect to GST where the supply takes place in the course of inter-State trade or commerce.

4. Under the dual GST model implemented in India, which tax is levied by the Centre on an intra-State supply?

   a. SGST

   b. IGST

   c. UTGST

   d. CGST

   Correct: d

   Reason: India adopted a dual GST model where both the Centre and States tax the same base. CGST (Central GST) is levied by the Centre on intra-State supplies.

5. Which of the following taxes was NOT subsumed into GST at the State level?

   a. State VAT

   b. Luxury Tax

   c. Professional Tax

   d. Entertainment Tax (levied by the State)

   Correct: c

   Reason: While VAT, Luxury Tax, and State Entertainment Tax were subsumed, Professional Tax remains outside the ambit of GST. Note that Entertainment Tax levied by local bodies was also not subsumed.

6. The GST Council is chaired by:

   a. The Prime Minister of India

   b. The Union Finance Minister

   c. The Governor of the RBI

   d. The Union Minister of State in charge of Revenue

   Correct: b

   Reason: Article 279A provides for the constitution of the GST Council, which is headed by the Union Finance Minister as the Chairperson.

7. GST is a value-added tax levied on the _____ of goods and services.

   a. Manufacture

   b. Sale

   c. Supply

   d. Movement

   Correct: c

   Reason: GST is a broad-based tax on the "supply" of goods and services, shifting the taxable event from manufacture or sale to the act of supply.

8. Which of the following taxes levied by the Central Government has been subsumed into GST?

   a. Basic Customs Duty

   b. Central Excise Duty

   c. Property Tax

   d. Income Tax

   Correct: b

   Reason: Central Excise Duty, along with Service Tax and Additional Duties of Customs (CVD/SAD), were the primary Central taxes merged into GST. Basic Customs Duty continues to be levied separately.

9. According to Article 279A, the GST Council must be constituted by the President within how many days of the commencement of the 101st Constitutional Amendment Act?

   a. 30 days

   b. 90 days

   c. 60 days

   d. 120 days

   Correct: c

   Reason: Article 279A(1) mandates that the GST Council shall be constituted by the President within 60 days from the date of commencement of the Amendment Act.

10. What is the primary objective of the "Dual GST" model adopted in India?

   a. To allow the Centre to collect all taxes and distribute them to States at its discretion

   b. To ensure that both the Centre and the States can concurrently levy and collect tax on a common base

   c. To eliminate the need for any State-level tax departments

   d. To apply GST only on the import of goods while keeping domestic sales under VAT

   Correct: b

   Reason: Given the federal structure of India, the Dual GST model was adopted so that the Centre and States could simultaneously exercise the power to tax the supply of goods and services.

Levy and Collection of CGST and IGST

5.2

5.2.1 Application of CGST / IGST Laws

The introduction of Goods and Services Tax (GST) was a significant reform in the field of indirect taxes in our country. Multiple taxes levied and collected by the Centre and states has been replaced by one tax called Goods and Services Tax (GST). GST is a multi-stage value added tax on consumption of goods or services or both. A "dual GST" model has been adopted in view of the federal structure of our country.

A. Intra-State Supply

Centre and States will simultaneously levy GST on every supply of goods or services or both which takes place within a State or Union territory. Thus, there shall be two components of GST as under:

a. Central tax (CGST): (levied & collected under the authority of CGST Act, 2017 passed by the Parliament)

b. State tax (SGST) (levied & collected under the authority of SGST Act, 2017 passed by respective State)

B. Inter-State Supply

Centre will levy Integrated Goods and Services Tax (IGST) on every supply of goods or services or both. However, the levy shall be shared equally between Central and respective State Government.

IGST rate = CGST rate + SGST rate

In the GST, it is very important to determine the nature of supply – whether it is inter-state or intra state, as the kind of tax to be paid (IGST or CGST+SGST) depends on that. A brief note to determine nature of supply are as under:

Intra-State supply	Inter-State supply
1. Supply of goods within the state or union territory.	1. Supply of goods from one state or union territory to other state or union territory
2. Supply of services within the state or union territory	2. Supply of service from one state or union territory to other state or union territory
	3. Import of goods till they cross customs frontier
	4. Import of service
	5. Export of goods or service
	6. Supply of goods/services to/by SEZ
	7. Any other supply in the taxable territory which is not intra state supply

However, sec. 20 of the IGST Act provides that the provisions of Central Goods and Services Tax Act relating to:

a. scope of supply;

b. composite supply and mixed supply;

c. time and value of supply;

d. input tax credit;

e. registration;

f. tax invoice, credit and debit notes;

g. accounts and records;

h. returns, other than late fee;

i. payment of tax;

j. tax deduction at source;

k. collection of tax at source;

l. assessment;

m. refunds;

n. audit;

o. inspection, search, seizure and arrest;

p. demands and recovery;

q. liability to pay in certain cases;

r. advance ruling;

s. appeals and revision;

t. presumption as to documents;

u. offences and penalties;

v. job work;

w. electronic commerce;

x. transitional provisions; and

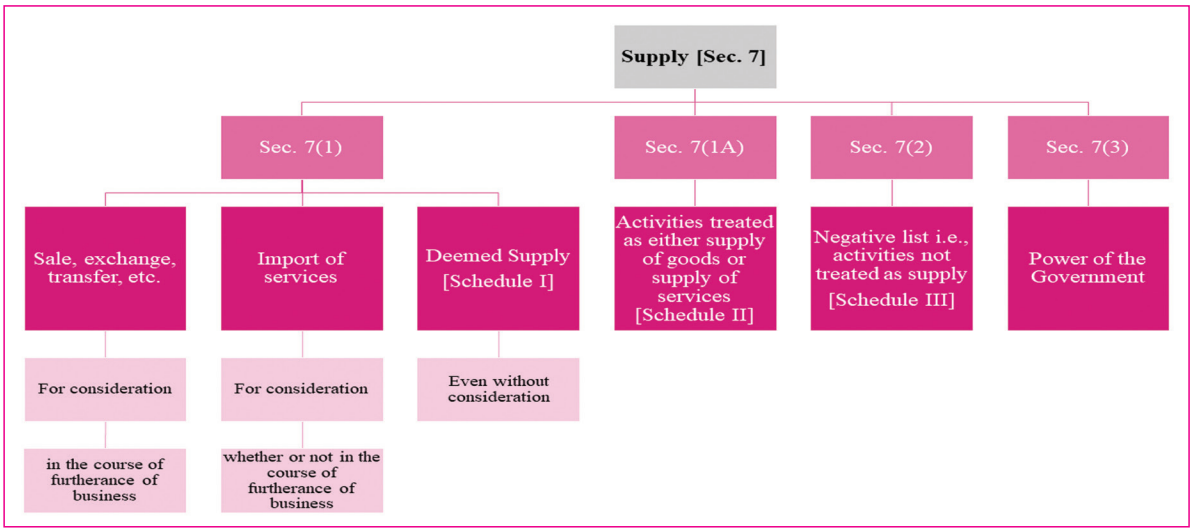
y. miscellaneous provisions including the provisions relating to the imposition of interest and penalty,

shall, mutatis mutandis, apply, so far as may be, in relation to integrated tax as they apply in relation to central tax as if they are enacted under this Act.

5.2.2 Concept of Supply including Composite and Mixed Supplies

The taxable event in GST is supply of goods or services or both. Various taxable events like manufacture, sale, rendering of service, purchase, entry into a territory of State etc. have been done away with in favour of just one taxable event i.e., supply. Thus, it is very important to understand the meaning of supply. The GST law provides

an inclusive definition of "supply".



Supply [Sec. 7(1)]

Supply includes:

a. **all forms** of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a **consideration** by a person **in the course or furtherance of business**

aa. the activities or transactions, by a person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration.

- Notwithstanding anything contained in any other law for the time being in force or any judgment, decree or order of any Court, tribunal or authority, the person and its members or constituents shall be deemed to be two separate persons and the supply of activities or transactions inter se shall be deemed to take place from one such person to another;

b. import of services **for a consideration whether or not** in the course or furtherance of business

c. the activities specified in Schedule I, made or agreed to be made **without a consideration**

All forms of supply of goods or services or both for a consideration by a person in the course or furtherance of business [Sec. 7(1)(a)]

- Supply should be of goods and services. If something else is supplied like money or securities, it is not covered.
- Supply includes all forms of supply (goods and/ or services) and includes agreeing to supply when the supply is for a consideration and in the course or furtherance of business. It specifically provides for the inclusion of the following classes of transactions#:

a. Sale	Sale is a lawful, permanent and absolute transfer of ownership of property in goods for money consideration under a valid contract such that no rights are left behind with the transferor

b. Transfer	Transfer is to lawfully convey property from one person to another. Consent of the transferor and capacity of transferee may not be present although all other ingredients of a lawful contract are involved.
c. Barter	Barter is where the consideration is in the form of goods or services (and not in money) for a sale or transfer. Barter will involve two supplies and not one
d. Exchange	The act of giving or taking one thing in return for another
e. License	To give permission to enter and use the property (movable or immovable) or permission to act
f. Rental	An arrangement to rent something or the amount of money that you pay to rent something
g. Lease	To make a legal agreement by which money is paid in order to use land, a building, a vehicle, or a piece of equipment for an agreed period of time
h. Disposal	The act of getting rid of something, especially by throwing it away

These are illustrative form of supply.

- The supply includes supply of goods or services agreed to made in future. E.g., if Mr. X receives advance payment for providing specific service in future, Mr. X is required to pay GST at the time of receipt of advance money as here he agrees to provide services in future.
- Supply should be made for a consideration (i.e., quid pro quo). Consideration may be money or something else. As per sec. 2(31), **consideration** in relation to the supply of goods or services or both includes:

  a. any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but **shall not include** any subsidy given by the Central Government or a State Government;

  b. the monetary value of any act (doing something) or forbearance (not doing something), in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but **shall not include** any subsidy given by the Central Government or a State Government:

  However, a deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply.

  - It may be monetary or non-monetary.
- For a transaction to qualify as 'supply', it is essential that the same is 'in the course' or 'furtherance of business'. This implies that only such supplies of goods and/ or services by a business entity would be liable to tax, which are 'in the course' or in 'furtherance of business'. Supplies that are not in the course of business or in furtherance of business will not qualify as 'supply' for the purpose of levy of tax.
- As per sec. 2(52), goods means every kind of **movable property** other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

  Taxpoint: Specified actionable claim shall be considered as a supply and taxable under GST. However, actionable Claim other than specified claim (lottery, betting and gambling) is not treated as supply.
- As per sec. 2(102), services means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or

denomination, to another form, currency or denomination for which a separate consideration is charged. It also includes facilitating or arranging transactions in securities;

- As per sec. 2(107) taxable person means a person who is registered or liable to be registered u/s 22 or sec. 24.

  Supply should be made by a taxable person. However, recipient of the supply may or may not be a taxable person.

- As per sec. 2(84), person includes:

  a. an individual;

  b. a Hindu Undivided Family;

  c. a company;

  d. a firm;

  e. a Limited Liability Partnership;

  f. an association of persons or a body of individuals, whether incorporated or not, in India or outside India;

  g. any corporation established by or under any Central Act, State Act or Provincial Act or a Government company as defined in sec. 2(45) of the Companies Act, 2013;

  h. any body corporate incorporated by or under the laws of a country outside India;

  i. a co-operative society registered under any law relating to co-operative societies;

  j. a local authority;

  k. Central Government or a State Government;

  l. society as defined under the Societies Registration Act, 1860;

  m. trust; and

  n. every artificial juridical person, not falling within any of the above;

- As per sec. 2(109), taxable territory means the territory to which the provisions of this Act apply.

- As per sec. 2(108), taxable supply means a supply of goods or services or both which is leviable to tax under this Act;

- As per sec. 2(17), business includes:

  a. any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;

  b. any activity or transaction in connection with or incidental or ancillary to sub-clause (a);

  c. any activity or transaction in the nature of sub-clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction;

  d. supply or acquisition of goods including capital goods and services in connection with commencement or closure of business;

  e. provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members;

  f. admission, for a consideration, of persons to any premises;

g. services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation;

h. activities of a race club including by way of totalisator or a license to book maker or activities of a licensed book maker in such club; and

i. any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities;

The meaning and scope of supply under GST can be understood in terms of following parameters, which can be adopted to characterize a transaction as supply:

- Supply of goods or services or both (Supply of anything other than goods or services does not attract GST).
- Supply should be made for a consideration (subject to certain exceptions)
- Supply should be made in the course or furtherance of business (subject to certain exceptions)
- Supply should be a taxable supply
- Supply should be made in a taxable territory
- Supply is made by a taxable person

Import of service for consideration whether or not in the course or furtherance of business [Sec. 7(1)(b)]

The word 'supply' includes import of a service (not goods), made for a consideration and whether or not in the course or in furtherance of business. This implies that import of paid services even for personal consumption would qualify as 'supply' and, therefore, would be liable to tax.

Activities specified in Schedule I, made or agreed to be made without a consideration [Sec. 7(1)(c)]

As per schedule I, following activities are to be treated as supply even if made without consideration provided such activities are in course or furtherance of business:

1 Permanent transfer or disposal of business assets where input tax credit (ITC) has been availed on such asset shall be treated as supply.

Taxpoint: Where ITC has not been availed at the time of acquisition of asset, disposal of such asset without consideration is not treated as supply.

Example:

- Mr. Ramesh is engaged in the business of beauty products. Few of items on which he has already availed ITC, taken by him for personal use of his family members. Such transaction shall be treated as supply even though there is no consideration involved.
- Mr. Kisan purchased furniture on which he has taken ITC. After 2 years, he donated that furniture to an NGO. This donation is treated as supply under the GST law.

2 Supply of goods or services or both between:

- related persons or
- distinct persons as specified in sec. 25,

when made in the course or furtherance of business, shall be treated as supply (even though without consideration)

Exception

Gifts not exceeding ₹ 50,000 in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.

Taxpoint:

- As per explanation to sec. 15(5), persons shall be deemed to be "related persons" if-
  - i. such persons are officers or directors of one another's businesses;
  - ii. such persons are legally recognised partners in business;
  - iii. such persons are employer and employee;
  - iv. any person directly or indirectly owns, controls or holds 25% or more of the outstanding voting stock or shares of both of them;
  - v. one of them directly or indirectly controls the other;
  - vi. both of them are directly or indirectly controlled by a third person;
  - vii. together they directly or indirectly control a third person; or
  - viii. they are members of the same family;
    - As per sec. 2(49), family means:
      - a. the spouse and children of the person, and
      - b. the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person.
- Though employer-employee are treated as related person but services provided by an employee to his employer in the course of employment is not treated as supply.
- Distinct person [Sec. 25(4)]: A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons
- It is to be noted that providing a Corporate Guarantee to a subsidiary is treated as a supply of service even without consideration (Rule 28(2))

Example

X Ltd. has 3 branches. One at Kolkata, another at Chennai and third one at Mumbai. All these branches are separately registered with GST and treated as distinct persons. Any inter-State transfer (like stock transfer, etc.) among them shall be treated as supply even though there is no consideration.

3. Supply of goods:

a. by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or

b. by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.

Taxpoint:

- This clause is applicable only

- in case of supply of goods
- between principal and agent

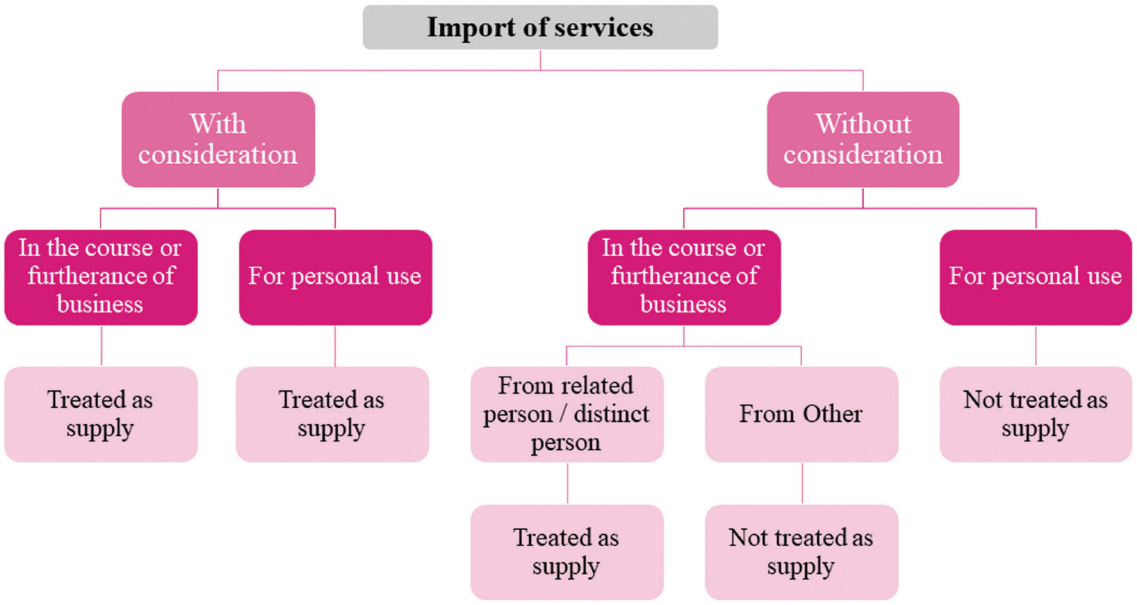
- Transfer of goods between principal and agent shall be treated as supply even though it is without any consideration.
- As per sec. 2(5), agent means a person, including a factor, broker, commission agent, arhatia, del credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business of supply or receipt of goods or services or both on behalf of another.
- As per sec. 2(88), principal means a person on whose behalf an agent carries on the business of supply or receipt of goods or services or both.

Example

1. Mr. Prem, Kolkata, is an agent of Mr. Magan, Mumbai. Mr. Prem is acquiring goods on behalf of Mr. Magan and supply it to Mr. Magan. Here, transaction between Mr. Prem and Mr. Magan is treated as supply even though there is no consideration.
2. Similarly, Mr. Ashok, Surat, is an agent of Mr. Magan, Mumbai. Mr. Magan is sending goods to Mr. Ashok for selling that in Surat. Here, transaction between Mr. Ashok and Mr. Magan is treated as supply even though there is no consideration.

4 Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

Taxpoint: Import of services for a consideration whether or not in the course or furtherance of business is treated as supply u/s 7(1)(b). However, if services are imported by a person from a related person even though without consideration is treated as supply provided such import is in the course of business or furtherance of business.



Buy one get one free offer [Circular No. 92/11/2019-GST dated 07/03/2019

Sometimes, companies announce offers like 'Buy One, Get One free". For example, "buy one soap and get one soap free" or "Get one tooth brush free along with the purchase of tooth paste". As per sec. 7(1)(a), the goods or services which are supplied free of cost (without any consideration) shall not be treated as 'supply' under GST (except in case of activities mentioned in Schedule I). It may appear at first glance that in case of offers like 'Buy One, Get One Free', one item is being 'supplied free of cost' without any consideration. In fact, it is not an individual supply of free goods but a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one.

Activities or transactions to be treated as supply of goods or supply of services [Sec. 7(1A) with Schedule II]

In the earlier tax regime, activities like works contract was treated as both goods and services. Both VAT and service taxes were applicable on it. There were various rates, composition schemes available for works contractors with many complexities thus resulting in litigation. To settle the innumerable complexities and confusion regarding these types of activities, Schedule II is inserted in the GST laws which specifically mention the nature of supply involved in these activities.

As per Schedule II, following activities or transactions shall be treated as either supply of goods or supply of service.

Particulars	Type of activity	Nature of supply	
		Supply of goods	Supply of services
Transfer	a. any transfer of the title in goods Example: Roby Collection sells readymade garments to its customers is a supply of goods	Yes	
	b. any transfer of right in goods or of undivided share in goods without transfer of title thereof Example: Akhil gives his weaving machine to Rahul on rent for two months is a supply of services		Yes
	c. any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed Example: Narayan supplied car to Kunal with a condition that ownership shall be transferred after full and final payment, is treated as supply of goods	Yes	
Land and Building	a. any lease, tenancy, easement, licence to occupy land Example: Vikram, owner of a piece of land in Napasar, Bikaner, leases the same land to Murli for one year at an agreed consideration, is a supply of services		Yes
	b. any lease or letting out of the building including a commercial, industrial or residential complex for business or commerce, either wholly or partly Example: Vikash owns a shop in the market area. Such shop is let out by Vikash to Anil, it is treated as supply of services.		Yes

Particulars	Type of activity	Nature of supply	
		Supply of goods	Supply of services
Treatment or process	Any treatment or process which is applied to another person's goods is a supply of services Example: Job work		Yes
Transfer of business assets	a. where goods forming part of the assets of a business are transferred or disposed of by or under the directions of the person carrying on the business so as no longer to form part of those assets Example: Kunal disposes his business asset being old laptop. This transaction is treated as supply of goods.	Yes	
	b. where, by or under the direction of a person carrying on a business, goods held or used for the purposes of the business are put to any private use or are used, or made available to any person for use, for any purpose other than a purpose of the business Example: Sonam provides her business laptop to his son Mohak for his full-time study is treated as supply of services.		Yes
	c. where any person ceases to be a taxable person, any goods forming part of the assets of any business carried on by him shall be deemed to be supplied by him in the course or furtherance of his business immediately before he ceases to be a taxable person. Example: Due to ill-health, Mr. X shut downs his business. Any business asset left at the time of shut down of the business shall be treated as supply. Exceptions: i. the business is transferred as a going concern to another person; or ii. the business is carried on by a personal representative who is deemed to be a taxable person.	Yes	
Immovable property	Renting of immovable property Taxpoint: Rent of immovable property for any purpose is treated as supply of service. However, vide Notification No. 12/2017-CT(R) dated 28/06/2017, renting of residential dwelling for use as residence to unregistered person is treated as exempted supply [Entry 12].		Yes

Particulars	Type of activity	Nature of supply	
		Supply of goods	Supply of services
Construction	Construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly. Exception: However, where the entire consideration has been received: a. after issuance of completion certificate, where required, by the competent authority; or b. after its first occupation - whichever is earlier. then it is not treated as supply. Taxpoint › Sale of ready flat, where entire consideration is received after aforesaid date, is not a supply. › "Competent authority" means the Government or any authority authorised to issue completion certificate under any law for the time being in force and in case of non-requirement of such certificate from such authority, from any of the following: i. an architect registered with the Council of Architecture constituted under the Architects Act, 1972; or ii. a chartered engineer registered with the Institution of Engineers (India); or iii. a licensed surveyor of the respective local body of the city or town or village or development or planning authority; › "Construction" includes additions, alterations, replacements or remodelling of any existing civil structure		Yes
Intellectual property right	Temporary transfer or permitting the use or enjoyment of any intellectual property right (IPR) Taxpoint: Transfer of ownership in IPR permanently is treated as supply of goods.		Yes
Information technology software	Development, design, programming, customization, adaptation, upgradation, enhancement, implementation of information technology software; Example: Mr. Rahul develops a customized software for X Ltd. It is treated as supply of services		Yes

Particulars	Type of activity	Nature of supply	
		Supply of goods	Supply of services
Non-compete fee	Agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act; Taxpoint: Non-compete agreement is treated as supply of services. Further, charges recovered from the supplier for non-supplying the desired product is treated as supply of services.		Yes
Right to use	Transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration. Example: Hire purchase		Yes
Composite supply	a. works contract; and Taxpoint: As per sec. 2(119), "works contract" means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract.		Yes
	b. supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration.		

Applicability of GST on Liquidated Damages, Compensation, and Penalties

The CBIC has issued Circular No. 178/10/2022-GST dated 03.08.2022 to clarify the taxability of various transactions that were often confused with the service of "agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act" (Para 5(e) of Schedule II).

1. Core Principle: Contractual Nexus is Mandatory

- **Requirement:** For a transaction to be taxable under Para 5(e) of Schedule II, there must be an express or implied agreement/contract to do or abstain from doing something against a consideration.
- **No Presumption:** An agreement to tolerate an act cannot be presumed just because money flows from one party to another. Unless there is a specific promise to tolerate an act in exchange for money, it is not a supply.

2. Transactions Treated as "No Supply" (Not Taxable)

The following payments are considered mere "flow of money" or "penalties" to deter breach, not consideration for any service:

- **Liquidated Damages:** If the liquidated damages are paid strictly to compensate for injury, loss, or damage due to a breach of contract, they are treated as a mere "flow of money" and are not taxable. They are penalties for not tolerating the breach, rather than consideration for tolerating it.

- **Cheque Dishonour Fine:** Penalties imposed for dishonour of cheques are not consideration for tolerating the act but are fines to deter such acts. Hence, not taxable.
- **Penalty for Violation of Laws:** Fines for traffic violations, mining violations, or pollution norm violations are penalties, not consideration for tolerating the violation. Hence, not taxable.
- **Forfeiture of Salary / Employee Bond:** Amounts recovered from employees leaving before a minimum agreed period are penalties to discourage non-serious candidates, not consideration for tolerating premature exit. Hence, not taxable.
- **Forfeiture of Earnest Money:** Forfeiture by a seller (or Govt) due to a bidder failing to act is a penalty for non-serious bidding, not consideration for a supply. Hence, not taxable.

3. Transactions Treated as "Supply" (Taxable)

The following payments are considered consideration for ancillary services naturally bundled with the principal supply:

- **Late Payment Surcharge / Fee:** The facility of accepting late payment with a fee is a service naturally bundled with the main supply (e.g., electricity, telecom). It is taxable at the same rate as the principal supply.
- **Cancellation Charges:** Fees charged (or amounts forfeited) for cancellation of tickets/bookings (hotel, travel) are charges for the facilitation service, which is naturally bundled with the principal supply. It is taxable at the same rate as the principal supply.

Activities neither supply of goods nor supply of services (Negative List) [Sec. 7(2)]

The following activities shall be treated neither as a supply of goods nor supply of services

a. activities or transactions specified in Schedule III; or

b. such activities or transactions undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council,

Taxpoint: Since these activities are neither supply of goods nor supply of services, hence no GST is payable on these activities or transactions.

Activities or transactions specified in Schedule III

1. Services by an employee to the employer in the course of or in relation to his **employment**.

   Taxpoint:

   - Gift up to ₹ 50,000 in value in a financial year by an employer to an employee shall not be treated as supply of goods or service or both
   - However, benefits given by an employer to an employee as part of the employment contract do not attract GST
   - Service provided by an employee to the employer, in some other capacity, is not covered.

2. Services by any court or Tribunal established under any law for the time being in force.

3. a. the functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities

b. the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or

- Duties performed by President of India, Vice-President of India, Prime Minister of India, Chief Justice of India, Speaker of the Lok Sabha, Controller and Auditor General of India (CAG), Chairman of Union Public Service Commission, Chief Election Commissioner, Attorney General of India in that capacity are covered

c. the duties performed by any person as a Chair-person or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.

4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.

5. Sale of land and, subject to clause (b) of paragraph 5 of schedule II, sale of building. (i.e., excluding sale of under-construction premises where the part or full consideration is received before issuance of completion certificate or before its first occupation, whichever is earlier).

Taxpoint: Sale of ready flat is not taxable.

6. Actionable claims, other than specified actionable claim.

Taxpoint:

- Actionable claim means a claim to any debt, other than a debt secured by mortgage of immoveable property or by hypothecation or pledge of moveable property, or to any beneficial interest in moveable property not in the possession, either actual or constructive, of the claimant, which the Civil Courts recognise as affording grounds for relief, whether such debt or beneficial interest be existent, accuring, conditional or contingent. E.g., unsecured loan, bills of exchange, promissory notes, etc.
- Actionable claims, other than specified actionable claims are not subject to GST
  - Specified actionable claim means the actionable claim involved in or by way of—
    - betting;
    - casinos;
    - gambling;
    - horse racing;
    - lottery; or
    - online money gaming – [Sec. 2(102A)]
  - Online gaming means offering of a game on the internet or an electronic network and includes online money gaming [Sec. 2(80A)]
  - Online money gaming means online gaming in which players pay or deposit money or money's worth, including virtual digital assets, in the expectation of winning money or money's worth, including virtual digital assets, in any event including game, scheme, competition or any other activity or process, whether or not its outcome or performance is based on skill, chance or both and whether the same is permissible or otherwise under any other law for the time being in force [Sec. 2(80B)]

7. Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India i.e., merchant trading or Out and Out transactions.

8. a. Supply of warehoused (i.e. customs bonded) goods to any person before clearance for home consumption

   aa. Supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area

   b. Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption i.e., high sea sale

9. Activity of apportionment of co-insurance premium by the lead insurer to the co-insurer for the insurance services jointly supplied by the lead insurer and the co-insurer to the insured in co-insurance agreements, subject to the condition that the lead insurer pays the central tax, the State tax, the Union territory tax and the integrated tax on the entire amount of premium paid by the insured.

10. Services by insurer to the reinsurer for which ceding commission or the reinsurance commission is deducted from reinsurance premium paid by the insurer to the reinsurer, subject to the condition that the central tax, the State tax, the Union territory tax and the integrated tax is paid by the reinsurer on the gross reinsurance premium payable by the insurer to the reinsurer, inclusive of the said ceding commission or the reinsurance commission

Activities or transactions notified for the purpose of sec. 7(2)(b)

As per sec. 7(2)(b), activities or transactions undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council shall be treated neither as supply of goods nor as supply of services. The following activities or transactions are notified:

- Services by way of any activity in relation to a function entrusted to a Panchayat under article 243G of the Constitution or to a municipality under article 243W of the Constitution[7]
- Service by way of grant of alcoholic liquor licence, against consideration in the form of licence fee or application fee or by whatever name it is called[8]

Activities or transactions not considered as supply, clarified through circulars

- Inter-State movement of various modes of conveyance between distinct persons including trains, buses, trucks, tankers, trailers, vessels, containers, aircraft, carrying goods of passengers or both, except in cases where such movement is for further supply of the same conveyance.
- Inter-State movement of rigs, tools and spares, and all goods on wheels (like cranes)

Taxpoint: However, applicable tax shall be levied on repairs and maintenance done for such goods.

Power of Government to specify the nature of supply [Sec. 7(3)]

Subject to the provisions of sec. 7(1), (1A) and (2), the Government may, on the recommendations of the Council, specify, by notification, the transactions that are to be treated as -

a. a supply of goods and not as a supply of services; or

b. a supply of services and not as a supply of goods.

---

7 Notification No. 14/2017-CT(R) dated 28-06- 2017 as amended.

8 Notification No. 25/2019-CT(R) dated 30-09-2019.

Illustration 1: Sec. 7(1)(a): Supply for Consideration (Barter Transaction)

'TechGizmo Ltd.' exchanges 100 old laptops with a dealer for 50 new printers. The open market value of the old laptops is ₹10 Lakhs.

- **Analysis:** This is a form of Barter. Since there is a transfer of title in goods for a consideration (in kind), and it is in the course of business, it qualifies as a Supply of Goods u/s 7(1)(a).

Illustration 2: Section 7(1)(b): Import of Services (Personal -vs.- Business Import)

Mr. Ankit, an architect, imports interior design services from a US-based firm for ₹ 1 Lakh to design his new office. He also imports similar services for ₹ 50,000 to design his personal bedroom.

- **Analysis:**
  - Office Design: Import for consideration in the course of business is a Supply.
  - Bedroom Design: Import for consideration (even if for personal use) is also a Supply u/s 7(1)(b).

Illustration 3: Schedule I: Deemed Supply (Without Consideration) - Permanent Disposal of Business Assets

'Alpha Motors' donates an old delivery van to an NGO. They had claimed Input Tax Credit (ITC) on this van when purchasing it 5 years ago.

- **Analysis:** Since ITC was availed on the business asset, its permanent disposal (even without consideration/ donation) is a Deemed Supply under Schedule I.

Illustration 4: Corporate Guarantee to Subsidiary

'HoldCo Ltd.' issues a corporate guarantee to a bank for a loan taken by its subsidiary 'SubCo Ltd.' No guarantee fee is charged.

- **Analysis:** HoldCo and SubCo are Related Persons. Supply of services between related persons in the course of business is a supply even without consideration. Hence, it is a taxable supply.

Illustration 5: Principal-Agent Supply

Mr. A (Principal in Gujarat) sends goods to his agent Mr. B (in Maharashtra). Mr. B undertakes to sell these goods on behalf of Mr. A and issues the invoice to the final customer in his own name.

- **Analysis:** Since the agent issues the invoice in his own name, he falls under the definition of Agent in Schedule I. The transfer of goods from A to B is a Deemed Supply of goods, liable to GST.

Illustration 6: Schedule II - Software Development

'SoftSolutions' develops a customized ERP software for a client and charges ₹50 Lakhs.

- **Analysis:** As per Schedule II, development, design, programming, or customization of information technology software is treated as a Supply of Services.

Illustration 7: Renting of Immovable Property

Mrs. Mehta rents her commercial shop to a CMA firm. She also rents her residential flat to a registered business entity for use as a guest house.

- **Analysis:**
  - Shop Renting: Supply of Services.

- Residential Renting: Renting of immovable property is a Supply of Service, if it is rented to a Registered Person

Illustration 8: Schedule III - Sale of Land vs. Works Contract

- Case A: Builder sells a flat where the entire consideration was received after the issuance of the Completion Certificate (CC).
- Case B: Builder sells an under-construction flat where part payment was received before CC.

- **Analysis:**
  - Case A: Sale of building after completion is Neither Supply of Goods nor Services (Schedule III). No GST.
  - Case B: This is a Works Contract and treated as a Supply of Service (Schedule II). GST is applicable.

Illustration 9: Actionable Claims

- **Transaction X:** Transfer of an unsecured debt (loan assignment).
- **Transaction Y:** Purchase of a lottery ticket.

- **Analysis**:
  - **Transaction X:** Actionable claims are generally covered in Schedule III (No Supply). Unsecured debt is Not a Supply.
  - **Transaction Y:** Lottery, betting, and gambling (including Online Money Gaming) are exceptions and are treated as Supply of Goods.

Illustration 10: SEZ Warehousing

'Global Importers' warehouses goods in an SEZ. Before clearing them for home consumption, they sell the goods to 'Local Processors Ltd.'

- **Analysis:** As per Schedule III, the supply of warehoused goods in an SEZ to any person before clearance for home consumption is Neither Supply of Goods nor Services. It attracts no GST (though Customs duties apply upon clearance).

Illustration 11: Stock Transfer Between Branches

'Omega Retail Ltd.' has a registered showroom in Mumbai (Maharashtra) and another registered showroom in Surat (Gujarat). They transfer 500 shirts from the Mumbai showroom to the Surat showroom for stock replenishment. No invoice is issued for a sale, just a delivery challan.

- **Analysis:**
  - **Provision:** Under Section 25, branches in different states are treated as "Distinct Persons".
  - **Application:** As per Schedule I, supply of goods between distinct persons in the course or furtherance of business is treated as a Supply even without consideration.
  - **Result:** Omega Retail (Mumbai) must pay IGST on the value of the transfer.

Illustration 12: Agreeing to Tolerate an Act (Schedule II)

A commercial tenant, 'Alpha Traders', wishes to terminate their 5-year lease early. The landlord agrees to the early termination but charges a "Cancellation Fee" or "Early Exit Penalty" of ₹ 2 Lakhs.

- **Analysis:**
  - **Provision:** Schedule II classifies "agreeing to the obligation to refrain from an act, or to tolerate an act or a situation" as a Supply of Services.
  - **Result:** The cancellation fee is a consideration for tolerating the act of early exit. It is a taxable supply of service.

Illustration 13: High Sea Sales (Schedule III - Negative List)

'India Oil Corp' imports crude oil from Saudi Arabia. While the oil tanker is still on the high seas (before crossing the customs frontiers of India), they sell the entire consignment to 'Reliance Industries' by endorsing the documents of title.

- **Analysis:**
  - **Provision:** Schedule III specifically excludes "Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption."
  - **Result:** This is a High Sea Sale. It is Neither Supply of Goods nor Services. No GST is payable on this specific transaction (IGST will be paid by the final buyer when filing the Bill of Entry).

Quick MCQ:

1. Which of the following activities is NOT considered a 'Supply' under GST?

   a) Import of services for a consideration for personal use.

   b) Permanent transfer of business assets where Input Tax Credit (ITC) has been availed.

   c) Services provided by an employee to an employer in the course of employment.

   d) Rental of commercial property.

   Answer:

   c) Services provided by an employee to an employer in the course of employment.

   Reasoning: As per Schedule III, services by an employee to the employer in the course of or in relation to his employment are treated as neither a supply of goods nor a supply of services.

2. Mr. X imports architectural services from his brother (a related person) residing in London to design his new office in Mumbai. Mr. X pays NO consideration for this service. This transaction is:

   a) Not a supply because there is no consideration.

   b) A supply of service under Schedule I.

   c) A supply of goods.

   d) Exempt from GST.

   Answer:

   b) A supply of service under Schedule I.

   Reasoning: Import of services by a person from a related person (brother) outside India, in the course or furtherance of business (office design), is treated as a supply even without consideration [Schedule I].

3. Which of the following "Actionable Claims" is considered a taxable supply of goods under GST?

   a) Unsecured Debts

   b) Bill of Exchange

   c) Lottery, Betting, Gambling, and Online Money Gaming

   d) Promissory Notes

   Answer:

   c) Lottery, Betting, Gambling, and Online Money Gaming

   Reasoning: While most Actionable Claims are in the Negative List (Schedule III), specified claims like Lottery, Betting, Gambling, and Online Money Gaming are exceptions and are treated as a Supply of Goods [Schedule III,].

4. 'Development, design, programming, customization, adaptation, upgradation, enhancement, implementation of information technology software' is treated as:

   a) Supply of Goods

   b) Supply of Services

   c) Both Goods and Services

   d) Neither Goods nor Services

   Answer: b) Supply of Services

   Reasoning: As per Schedule II, any activity involving the development or customization of IT software is specifically classified as a Supply of Services.

5. Gifts exceeding _____ in value in a financial year by an employer to an employee shall be treated as a supply.

   a) ₹ 25,000

   b) ₹ 50,000

   c) ₹ 1,00,000

   d) ₹ 5,000

   Answer: b) ₹ 50,000

   Reasoning: As per the proviso to Schedule I, gifts not exceeding ₹ 50,000 in a financial year by an employer to an employee are not treated as supply. Any amount exceeding this limit is taxable.

6. Which of the following renting activities is a 'Supply of Service'?

   a) Renting of residential dwelling to an unregistered person for residence.

   b) Service provided by an employee to his employer in the course of employment

   c) Renting of commercial complex.

   d) Both (a) and (c).

   Answer: d) Both (a) and (c).

Reasoning: Renting of immovable property is always a Supply of Service (Schedule II).

- While renting a residential dwelling to an unregistered person is Exempt from tax, it still falls under the definition of "Supply". Renting a commercial complex is a Taxable Supply. Therefore, both are supplies.

7. Mr. A transfers his business assets (on which he had NOT availed Input Tax Credit) to his friend Mr. B without consideration. This transaction is:

   a) A Supply of Goods.

   b) A Deemed Supply under Schedule I.

   c) Not a Supply.

   d) A Mixed Supply.

   Answer: c) Not a Supply

   Reasoning: Permanent transfer of business assets without consideration is a deemed supply under Schedule I only if Input Tax Credit (ITC) was availed on such assets. Since ITC was not availed, it is not a supply.

FAQ by CBIC on 15-12-2018

1. What is the taxable event under GST? [FAQ 2]

Answer:

Taxable event under GST is supply of goods or services or both. CGST and SGST/ UTGST will be levied on intra-State supplies. IGST will be levied on inter-State supplies.

2. Whether supplies made without consideration will also come within the purview of supply under GST? [FAQ 3]

Answer:

Yes, but only those activities which are specified in Schedule I to the CGST Act / SGST Act. The said provision has been adopted in IGST Act as well as in UTGST Act also. In cases where the inputs/ capital goods sent for job work are not returned with in the specified time limit, the supplies made by the principal to job worker will also be deemed to be a supply.

3. Who can notify a transaction to be supply of goods or services? [FAQ 5]

Answer:

Central Government or State Government, on the recommendations of the GST Council, can notify an activity to be the supply of goods and not supply of services or supply of services and not supply of goods or neither a supply of goods nor a supply of services.

4. Are all goods and services taxable under GST? [FAQ 8]

Answer:

Supplies of all goods and services are taxable except alcoholic liquor for human consumption. Supply of petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel shall be taxable with effect from a future date. This date would be notified by the Government on the recommendations of the GST Council.

Composite and Mixed Supply [Sec. 7(1)]

The taxable event under GST is "supply of goods or services or both". GST will be payable on every supply of goods or services or both unless otherwise exempted. The rates at which GST is payable for individual goods or services or both is also separately-notified. Classification of any supply (whether as goods or services, the category of goods or services) is essential to determine the applicable rate of GST on the particular supply. The application of rates will pose no problem if the supply is of individual goods or services which is clearly identifiable and the goods or services are subject to a particular rate of tax.

But not all supplies will be such simple and clearly identifiable supplies. Some of the supplies will be a combination of goods or combination of services or combination of goods and services both. Each individual component in a given supply may attract different rate of tax. The determination of rate of tax to be levied on such supplies may pose a problem and would depend upon the classification of such supplies. It is for this reason, that the GST Law identifies composite supplies and mixed supplies and provides certainty in respect of tax treatment under GST for such supplies.

Tax liability on composite and mixed supplies [Sec. 8]

The tax liability on a composite or a mixed supply shall be determined in the following manner:

Case	Applicable GST
A composite supply comprising two or more supplies, one of which is a principal supply	It is treated as a supply of such principal supply and rate of GST on such principal supply shall be applicable
A mixed supply comprising two or more supplies	It is treated as a supply of that particular supply which attracts the highest rate of tax.

Meaning of composite supply [Sec. 2(30)]

"Composite supply" means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.

"Principal supply" means the supply of goods or services which constitutes the predominant element of a composite supply and to which any other supply forming part of that composite supply is ancillary – Sec. 2(90)

Examples:

- Where goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance is a composite supply and supply of goods is a principal supply.
- When a consumer buys a laptop and he also gets warranty, pre-installed windows and microsoft office applications, this supply is a composite supply. Here, supply of laptop is the principal supply and others are ancillary to it.
- Food supplied to the in-patients as advised by the doctor/ nutritionist is a part of composite supply of health care and not separately taxable". Further supplies of food by hospital to patients (not admitted) or their attendants or visitors are taxable.
- In the case of printing of books, pamphlets, brochures, annual reports, and the like, where only content is supplied by the publisher or the person who owns the usage rights to the intangible inputs while the physical inputs including paper used for printing belong to the printer, supply of printing of the content supplied by the recipient of supply is the principal supply.

Taxpoint: A works contracts and restaurant services are classic examples of composite supplies, however the GST Act identifies both as supply of services and chargeable to specific rate of tax mentioned against each of such services (works contract or restaurant).

In respect of composite supplies (other than the two categories mentioned above), the need to determine the supply as a composite one, will arise, so as to determine the appropriate classification of such supply as a supply of goods or supply of services as also the appropriate rate of tax. It will be necessary to determine as to:

a. what constitutes principal supply in such composite supplies; and

b. whether a particular supply is naturally bundled[9] in the ordinary course of business

Examples

- A hotel provides a 4-D/3-N package with the facility of breakfast. This is a natural bundling of services in the ordinary course of business. The service of hotel accommodation gives the bundle the essential character and would, therefore, be treated as service of providing hotel accommodation.
- A 5 star hotel is booked for a conference of 100 delegates on a lump sum package with the following facilities:
  - Accommodation for the delegates
  - Breakfast for the delegates,
  - Tea and coffee during conference
  - Access to fitness room for the delegates
  - Availability of conference room
  - Business centre

As it is evident, a bouquet of services is being provided, many of them chargeable to different effective rates of tax. None of the individual constituents are able to provide the essential character of the service. However, if the service is described as convention service it is able to capture the entire essence of the package. Thus, the service may be judged as convention service and chargeable to full rate. However, it will be fully justifiable for the hotel to charge individually for the services as long as there is no attempt to offload the value of one service on to another service that is chargeable at a concessional rate.

Whether services are bundled in the ordinary course of business would depend upon the normal or frequent practices followed in the area of business to which services relate. Such normal and frequent practices adopted in a business can be ascertained from several indicators some of which are listed below

- The perception of the consumer or the service receiver. If large number of service receivers of such bundle of services reasonably expect such services to be provided as a package, then such a package could be treated as naturally bundled in the ordinary course of business.
- Majority of service providers in a particular area of business provide similar bundle of services. For example, bundle of catering on board and transport by air is a bundle offered by a majority of airlines.
- The nature of the various services in a bundle of services will also help in determining whether the services are bundled in the ordinary course of business. If the nature of services is such that one of the services is the

[9] The rule is – 'If various elements of a bundled service are naturally bundled in the ordinary course of business, it shall be treated as provision of a single service which gives such bundle its essential character'

main service and the other services combined with such service are in the nature of incidental or ancillary services which help in better enjoyment of a main service. For example, service of stay in a hotel is often combined with a service or laundering of 3-4 items of clothing free of cost per day. Such service is an ancillary service to the provision of hotel accommodation and the resultant package would be treated as services naturally bundled in the ordinary course of business.

- Other illustrative indicators, not determinative but indicative of bundling of services in ordinary course of business are -
  - There is a single price or the customer pays the same amount, no matter how much of the package they actually receive or use.
  - The elements are normally advertised as a package.
  - The different elements are not available separately.
  - The different elements are integral to one overall supply
  - if one or more is removed, the nature of the supply would be affected.

"No straight jacket formula can be laid down to determine whether a service is naturally bundled in the ordinary course of business. Each case must be individually examined in the backdrop of several factors some of which are outlined above." The above principles explained in the light of what constitutes a naturally bundled service can be gainfully adopted to determine whether a particular supply constitutes a composite supply under GST and if so what constitutes the principal supply so as to determine the right classification and rate of tax of such composite supply.

Meaning of Mixed Supply [Sec. 2(74)]

"Mixed supply" means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply.

Example: A supply of a package consisting of canned foods, sweets, chocolates, cakes, dry fruits, aerated drinks and fruit juices when supplied for a single price is a mixed supply. Each of these items can be supplied separately and is not dependent on any other. It shall not be a mixed supply if these items are supplied separately.

In order to identify if the particular supply is a Mixed Supply, the first requisite is to rule out that the supply is a composite supply. A supply can be a mixed supply only if it is not a composite supply. As a corollary it can be said that if the transaction consists of supplies not naturally bundled in the ordinary course of business then it would be a Mixed Supply. Once the amenability of the transaction as a composite supply is ruled out, it would be a mixed supply, classified in terms of a supply of goods or services attracting highest rate of tax.

The following illustration given in the Education Guide of CBIC referred to above can be a pointer towards a mixed supply of services: "A house is given on rent one floor of which is to be used as residence and the other for housing a printing press. Such renting for two different purposes is not naturally bundled in the ordinary course of business. Therefore, if a single rent deed is executed it will be treated as a service comprising entirely of such service which attracts highest liability of service tax. In this case renting for use as residence is a negative list service while renting for non-residence use is chargeable to tax. Since the latter category attracts highest liability of service tax amongst the two services bundled together, the entire bundle would be treated as renting of commercial property."

While there are no infallible tests for such determination, the following guiding principles could be adopted to

determine whether a supply would be a composite supply or a mixed supply. However, every supply should be independently analysed.

Description	Composite Supply	Mixed Supply
Naturally bundled	Yes	No
Each supply available for supply individually	No	Yes / No
One is predominant supply for recipient	Yes	Yes / No
Other supply(ies) is/ are ancillary or received because of predominant supply	Yes	No
Each supply priced separately	Yes / No	No
Supplied together	Yes	Yes
All supplies can be of goods	Yes	Yes
All supplies can be of services	Yes	Yes
A combination of one/ more goods and one/more services	Yes	Yes

Illustration 14

Identify whether the supply is a composite supply or a mixed supply

Case	Nature of supply
A passenger books an air ticket from Delhi to Mumbai which includes on-board meals and insurance	This is a Composite Supply as per sec. 2(30). The transportation of passengers is the principal supply
A dealer sells a refrigerator along with a set of Tupperware bottles and a separate stabilizer for a single price	These items are not naturally bundled in the ordinary course of business. This is a Mixed Supply u/s 2(74).
A dealer sells a "Conference Executive Kit" for a single price of ₹2,500. The kit contains a high-quality leather bag, a premium fountain pen, a 500-page notebook, and a pocket calculator.	These items are not "naturally bundled" nor supplied in the ordinary course of business as a necessity. Since they are supplied for a single price and can be sold separately, it is a mixed supply
A luxury hotel offers a room stay package where the guest is provided with a room and 2 pieces of laundry service per day as part of the room rent. The laundry service cannot be opted out of for a lower room rate.	It is a composite supply. Providing laundry as an incidental service to a hotel stay is a frequent practice and the services are "naturally bundled" in the ordinary course of business. The laundry service helps in the better enjoyment of the main service (stay). The Principal Supply is the hotel accommodation.
An industrialist purchases a specialized machine. The supplier's contract includes the delivery of the machine, its installation at the factory site, and a mandatory three-day technical training session for the operators.	In the trade of heavy machinery, installation and initial training are essential and ancillary to the supply of the machine. They are supplied in conjunction with each other. The Principal Supply is the machine. Hence, it is a composite supply
A sweet shop owner sells a pre-packaged Diwali gift hamper for ₹ 1,200 containing boxes of dry fruits, tinned juices, a pack of chocolates, and a decorative diya.	These items do not constitute a natural bundle; juices, chocolates, and dry fruits are independent taxable supplies that just happen to be sold together for a single price. It is a mixed supply

Case	Nature of supply
A consumer electronics store sells a 55-inch LED TV. As part of the sale, the customer pays a single price that includes a 1-year comprehensive warranty and a 2-year annual maintenance contract (AMC).	It is standard business practice to provide warranties and maintenance services along with high-value electronic goods. The TV is the predominant element. It is a composite supply

Illustration 15

"FitLife Traders" sells a pre-packaged "Starter Fitness Kit" for a single consolidated price of ₹ 20,000 (exclusive of GST). The kit contains the following items:

1. Product A: Market value ₹ 18,300.
2. Product B: Market value ₹ 500.
3. Product C: Market value ₹ 1,200.

Note: The items can be sold separately.

Standard GST Rates: Product A (18%). However, Product B and Product C are subject to 5% GST

Identify the nature of supply and calculate the GST payable.

Solution:

1. **Nature of Supply:**
   - The items are not naturally bundled in the ordinary course of business; they are distinct items sold together for a single price.
   - Classification: Mixed Supply [Section 2(74)].
2. **Rate Determination:**
   - For a Mixed Supply, the tax rate is the highest rate applicable to any of the constituent supplies [Section 8(b)].
   - Product A: 18%
   - Product B: 5%
   - Product C: 5%
   - Applicable Rate: 18%
3. **Calculation:**
   - Taxable Value: ₹ 20,000
   - GST Payable: ₹ 20,000 × 18% = ₹ 3,600

Quick MCQ:

1. Under Section 2(30), a composite supply must consist of taxable supplies that are:
   a) Artificially bundled
   b) Naturally bundled
   c) Sold for different prices
   d) None of the above

   Answer:

   b) Naturally bundled
2. In a mixed supply, the tax rate applicable is:
   a) The rate of the principal supply
   b) The lowest rate among the items
   c) The highest rate among the items
   d) 18% flat

   Answer:

   c) The highest rate among the items
3. Principal supply is defined under which section of the CGST Act?
   a) Section 2(30)
   b) Section 2(74)
   c) Section 2(90)
   d) Section 8

   Answer:

   c) Section 2(90)
4. A supplier provides a "Stay + Breakfast" package in a hotel. This is a case of:
   a) Mixed Supply
   b) Composite Supply
   c) Exempt Supply
   d) Continuous Supply

   Answer:

   b) Composite Supply

FAQ by CBIC on 15-12-2018

1. **What are composite supply and mixed supply? How are these two different from each other? FAQ 6]**

   Answer:

   Composite supply is a supply consisting of two or more taxable supplies of goods or services or both or any combination thereof, which are bundled in natural course and are supplied in conjunction with each other in the ordinary course of business and where one of which is a principal supply. For example, when a consumer buys a television set and he also gets warranty and a maintenance contract with the TV, this supply is a composite supply. In this example, supply of TV is the principal supply, warranty and maintenance service are ancillary.

   Mixed supply is combination of more than one individual supplies of goods or services or any combination thereof made in conjunction with each other for a single price, which can ordinarily be supplied separately. For example, a shopkeeper selling storage water bottles along with refrigerator. Bottles and the refrigerator can easily be priced and sold separately.

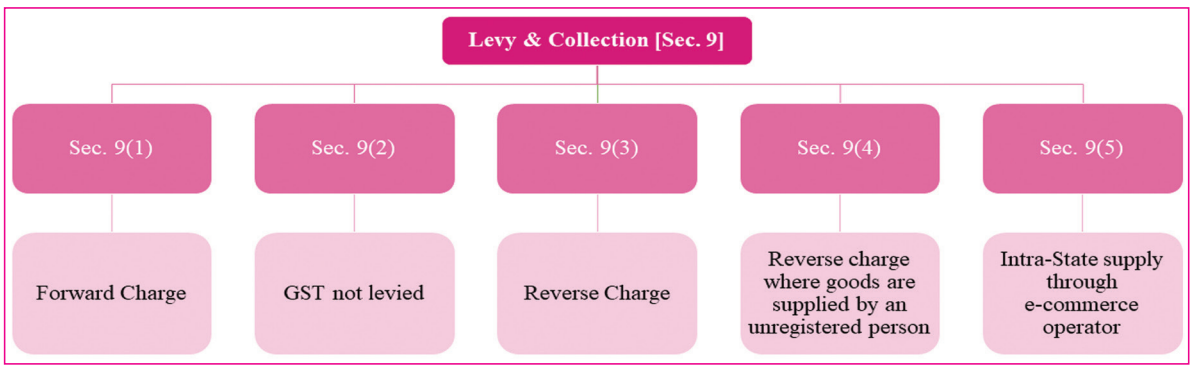
2. **What is the treatment of composite supply and mixed supply under GST?**

   Answer:

   Composite supply shall be treated as supply of the principal supply. Mixed supply would be treated as supply of that particular goods or services which attracts the highest rate of tax.

5.2.3 Charge of Tax including Reverse Charge

Article 265 of the Constitution of India mandates that no tax shall be levied or collected except by the authority of law. The charging section is a must in any tax law for levy and collection of tax. Before imposing any tax, it must be shown that the transaction falls within the ambit of the taxable event and that the person on whom the tax is so imposed also gets covered within the scope and ambit of the charging section. The scope of the taxable event being 'supply' has been discussed in the earlier Chapter. This chapter will provide an insight into the chargeability of tax on a supply. Sec. 9[10] is the charging provision of the CGST Act. It provides the maximum rate of tax that can be levied on supplies leviable to tax under this law, the manner of collection of tax and the person responsible for paying such tax. There are four aspects of levy viz taxable event, tax rate, collection or levy, and the person liable to pay. Sec. 9 of the CGST Act covers all these aspects

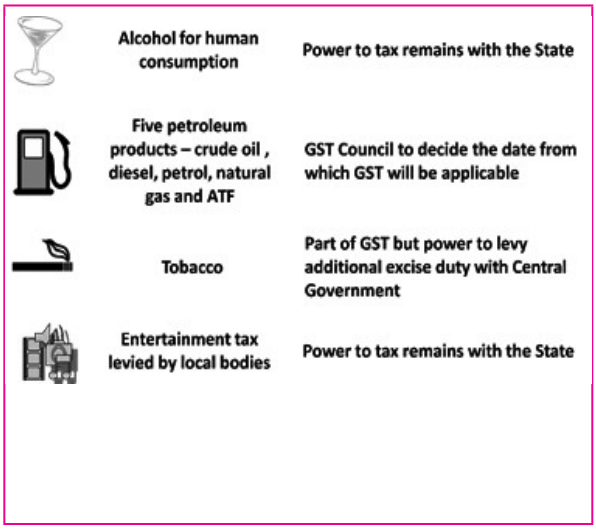


[10] Sec. 5 in case of IGST Act

Tax payable on Forward Charge Basis [Sec. 9(1) and 9(2)]

A tax called the central goods and services tax shall be levied.

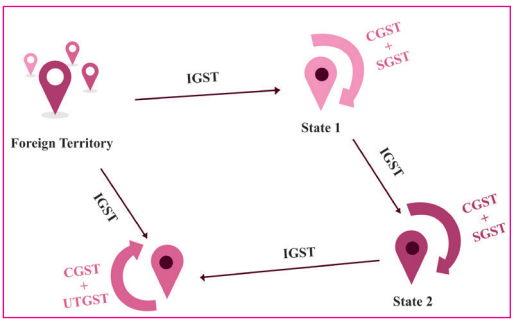
- on all intra-State supplies of goods or services or both,
- except on the supply of alcoholic liquor for human consumption or un-denatured extra neutral alcohol or rectified spirit used for the manufacture of alcoholic liquor, for human consumption,
- on the value determined u/s 15; and
- at such rates, not exceeding 20%, as may be notified by the Government on the recommendations of the Council; and
- collected in such manner as may be prescribed; and
- shall be paid by the taxable person.



Taxpoint:

- As per sec. 5 of the IGST Act, IGST shall be levied on all inter-State supplies and on goods imported into India. In case of IGST, maximum rate of tax would be 40% (20% for CGST + 20% for SGST/UTGST)
- SGST/UTGST shall also be levied on all intra-State supplies
- The central tax on the supply of

  a. petroleum crude,
  b. high speed diesel,
  c. motor spirit (commonly known as petrol),
  d. natural gas and
  e. aviation turbine fuel



shall be levied with effect from such date as may be notified by the Government on the recommendations of the Council. That means, GST is not leviable on aforesaid items. As per sec. 2(78), non-taxable supply means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act;

- As per sec. 2(107), taxable person means a person who is registered or liable to be registered u/s 22 or sec. 24. Even a voluntarily registered person is a taxable person.
- As per sec. 2(105), supplier in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied.

  Further, a person who organises or arranges, directly or indirectly, supply of specified actionable claims, including a person who owns, operates or manages digital or electronic platform for such supply, shall be deemed to be a supplier of such actionable claims, whether such actionable claims are supplied by him or

through him and whether consideration in money or money's worth, including virtual digital assets, for supply of such actionable claims is paid or conveyed to him or through him or placed at his disposal in any manner, and all the provisions of this Act shall apply to such supplier of specified actionable claims, as if he is the supplier liable to pay the tax in relation to the supply of such actionable claims.

- As per sec. 2(108), taxable supply means a supply of goods or services or both which is leviable to tax under this Act;
- GST Act extends to the whole of India. As per sec. 2(56), "India" means
  - the territory of India as referred to in article 1 of the Constitution,
  - its territorial waters[11], seabed and sub-soil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976, and
  - the air space above its territory and territorial waters;

Rate of GST:

0%, 5%, 18% and 40%. Very few supply are liable at different rates like rough precious and semi-precious stones are liable at the rate of 0.25% or Gold, Silver, and Jewellery are liable at the rate of 3% or tobacco product and Pan masala is liable @ 28%.

Taxpoint:

- These rates are IGST rate i.e., combined rate of CGST and SGST/UTGST
- Where services being not covered under any specific heading shall be taxable @ 18%
- Item wise applicable rate of GST are provided at portal of CBIC.

Tax payable on Reverse Charge Basis [Sec. 9(3)]

Generally, the supplier of goods or services is liable to pay GST. However, in specified cases like imports and other notified supplies, the liability may be cast on the recipient under the reverse charge mechanism. Reverse Charge means the liability to pay tax is on the recipient of supply of goods or services instead of the supplier of such goods or services in respect of notified categories of supply.

As per sec. 2(98), reverse charge means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both u/s 9(3) or 9(4), or u/s 5(3) or 5(4) of the Integrated Goods and Services Tax Act.

The Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both 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.

[11] Refer the Customs Law, discussed in later part of this study material

Reverse charge in respect of supply of goods [Notification No. 04/2017-CT(R) dated 28/06/2017 (as amended)

In respect of supply of following goods, GST shall be paid on reverse charge basis i.e., GST shall be payable by the recipient of such goods:

S. No.	Description of supply of Goods	Supplier of goods	Recipient of supply (the person who is liable to pay tax)
1.	Cashew nuts, not shelled or peeled	Agriculturist	Any registered person
2.	Bidi wrapper leaves (tendu)	Agriculturist	Any registered person
3.	Tobacco leaves	Agriculturist	Any registered person
3A.	Following essential oils other than those of citrus fruit: a. Of peppermint (Menthapiperita) b. Of other mints: Spearmint oil (exmenthaspicata), Water mint-oil (exenthaaquatic), Horsemint oil (ex-menthasylvestries), Bergament oil (exmentha citrate)	Any unregistered person	Any registered person
4.	Silk yarn	Any person who manufactures silk yarn from raw silk or silkworm cocoons for supply of silk yarn	Any registered person
4A.	Raw Cotton	Agriculturist	Any registered person
5.	Supply of lottery	State Government, Union Territory or any local authority	Lottery distributor or selling agent. ➢ Lottery distributor or selling agent has the same meaning as assigned to it in Rule 2(c) of the Lotteries (Regulation) Rules, 2010, made under the provisions of sec. 11(1) of the Lotteries (Regulations) Act, 1998.
6.	Used vehicles, seized and confiscated goods, old and used goods, waste and scrap	Central Government, State Government, Union territory or a local authority	Any registered person
7.	Priority Sector Lending Certificate	Any registered person	Any registered person
8	Metal Scrap	Any unregistered person	Any registered person

Reverse charge in respect of supply of services [Notification No. 13/2017-CT(R) dated 28/06/2017 (as amended)

In respect of supply of following services, GST shall be paid on reverse charge basis i.e., GST shall be payable by the recipient of such services:

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
1.	Supply of Services in respect of transportation of goods by road Exception However, RCM shall not apply to services provided by a goods transport agency, by way of transport of goods in a goods carriage by road, to: a. a Department or establishment of the Central Government or State Government or Union territory; b. local authority; c. Governmental agencies, - which has taken registration under the CGST Act, 2017 only for the purpose of deducting tax u/s 51 and not for making a taxable supply of goods or services	Goods Transport Agency (GTA) who has not paid central tax	(a) Any factory registered under or governed by the Factories Act, 1948; or (b) 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 (c) any co-operative society established by or under any law; or (d) any person registered under the GST; or (e) any body corporate established, by or under any law; or (f) any partnership firm whether registered or not under any law including association of persons; or (g) any casual taxable person; - located in the taxable territory
2.	Services provided by an individual Advocate including a Senior Advocate or firm of Advocates by way of legal services, directly or indirectly. ➢ Legal service means any service provided in relation to advice, consultancy or assistance in any branch of law, in any manner and includes representational services before any court, tribunal or authority.	An individual advocate including a senior advocate or firm of advocates.	Any business entity located in the taxable territory.
3.	Services supplied by an arbitral tribunal to a business entity	An arbitral tribunal	Any business entity located in the taxable territory
4.	Services provided by way of sponsorship to any body corporate or partnership firm.	Any person	Any body corporate or partnership firm located in the taxable territory.

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
5.	Services supplied by the Central Government, State Government, 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 and the Ministry of Railways (Indian Railways); 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	Central Government, State Government, Union territory or local authority	Any business entity located in the taxable territory.
5A.	Services supplied by the Central Government [excluding the Ministry of Railways (Indian Railways)], State Government, Union territory or local authority by way of renting of immovable property to a person registered under the Central Goods and Services Tax Act, 2017	Central Government, State Government, Union territory or local authority	Any person registered under the CGST Act
5AA	Service by way of renting residential dwelling to a registered person	Any person	Registered person
5AB	Service by way of renting of any immovable property other than residential dwelling	Any unregistered person	Any registered person (excluding composition scheme)
5B.	Services supplied by any person by way of transfer of development rights or Floor Space Index (FSI) (including additional FSI) for construction of a project by a promoter.	Any person	Promoter
5C.	Long term lease of land (30 years or more) by any person against consideration in the form of upfront amount (called as premium, salami, cost, price, development charges or by any other name) and/or periodic rent for construction of a project by a promoter.	Any person	Promoter
6.	Services supplied by a director of a company or a body corporate (in the capacity of director of that company or body corporate) to the said company or the body corporate.	A director of a company or a body corporate	The company or a body corporate located in the taxable territory.
7.	Services supplied by an insurance agent to any person carrying on insurance business.	An insurance agent	Any person carrying on insurance business, located in the taxable territory.

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
8.	Services supplied by a recovery agent to a banking company or a financial institution or a non-banking financial company.	A recovery agent	A banking company or a financial institution or a non-banking financial company, located in the taxable territory.
9.	Supply of services by a music composer, photographer, artist or the like by way of transfer or permitting the use or enjoyment of a copyright covered u/s 13(1)(a) of the Copyright Act, 1957 relating to original dramatic, musical or artistic works to a publisher, music company, producer or the like.	Music composer, photographer, artist, or the like	Music company, producer or the like, located in the taxable territory.
9A.	Supply of services by an author by way of transfer or permitting the use or enjoyment of a copyright covered u/s 13(1)(a) of the Copyright Act, 1957 relating to original literary works to a publisher.	Author	Publisher located in the taxable territory. Exception The provision of RCM shall not apply where: i. the author has taken registration under the CGST Act, 2017, and filed a declaration, in the form at Annexure I, within the time limit prescribed therein, with the jurisdictional CGST or SGST Commissioner, as the case may be, that he exercises the option to pay central tax on the copyright service supplied by him under forward charge in accordance with sec. 9 (1) of the CGST Act, 2017, and to comply with all the provisions of CGST Act, 2017 as they apply to a person liable for paying the tax in relation to the supply of any goods or services or both and that he shall not withdraw the said option within a period of 1 year from the date of exercising such option; ii. the author makes a declaration, as prescribed in Annexure II on the invoice issued by him in Form GST Inv-I to the publisher.

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
10.	Supply of services by the members of Overseeing Committee to Reserve Bank of India	Members of Overseeing Committee constituted by the Reserve Bank of India	Reserve Bank of India
11.	Services supplied by individual direct selling agents (DSAs) other than a body corporate, partnership or limited liability partnership firm to bank or non-banking financial company (NBFCs).	Individual direct selling agents (DSAs) other than a body corporate, partnership or limited liability partnership firm.	A banking company or a non-banking financial company, located in the taxable territory
12.	Services provided by business facilitator (BF) to a banking company	Business facilitator (BF)	A banking company, located in the taxable territory
13.	Services provided by an agent of business correspondent (BC) to business correspondent (BC)	An agent of Business correspondent (BC)	A business correspondent, located in the taxable territory
14.	Security services (services provided by way of supply of security personnel) provided to a registered person. However, these services shall not be subject to the following recipient: i. (a) a Department or Establishment of the Central Government or State Government or Union territory; or (b) local authority; or (c) Governmental agency; which has taken registration under the CGST Act, 2017 only for the purpose of deducting tax u/s 51 of the said Act and not for making a taxable supply of goods or services; or ii. a registered person paying tax u/s 10 [Composition Levy].	Any person other than a body corporate	A registered person, located in the taxable territory

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
15.	Services provided by way of renting of any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient, provided to a body corporate.	Any person, other than a body corporate who supplies the service to a body corporate and does not issue an invoice charging central tax.	Any body corporate located in the taxable territory
16.	Services of lending securities under Securities Lending Scheme, 1997 of Securities and Exchange Board of India (SEBI), as amended.	Lender i.e., a person who deposits the Securities registered in his name or in the name of any other person duly authorised on his behalf with an approved intermediary for the purpose of lending under the Scheme of SEBI	Borrower i.e. a person who borrows the securities under the Scheme through an approved intermediary of SEBI

Reverse charge in respect of IGST Payable [Notification No. 10/2017-IT(R) dated 28/06/2017

In addition to the above list, following additional categories of supply of services are listed under Notification No. 10/2017-Integrated Tax (Rate) dated 28/06/2017 on which GST shall be paid by the recipient on reverse charge basis:

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
1.	Any service supplied by any person who is located in a non-taxable territory to any person other than non-taxable online recipient	Any person located in a non-taxable territory	Any person located in the taxable territory other than non-taxable online recipient □ Non-taxable online recipient means any Government, local authority, governmental authority, an individual or any other person not registered and receiving online information and database access or retrieval services in relation to any purpose other than commerce, industry or any other business or profession, located in taxable territory. □ Governmental authority means an authority or a board or any other body: i. set up by an Act of Parliament or a State Legislature; or ii. established by any Government,

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
			with 90% or more participation by way of equity or control, to carry out any function entrusted to a municipality under article 243W of the Constitution
2.	Services supplied by a person located in non- taxable territory by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India.	A person located in non-taxable territory	Importer, located in the taxable territory. › Importer, in relation to any goods at any time between their importation and the time when they are cleared for home consumption, includes any owner, beneficial owner or any person holding himself out to be the importer.

Tax payable on Reverse Charge where the supplies are made by unregistered person [Sec. 9(4)]

The Government may, on the recommendations of the Council, by notification, specify a class of registered persons who shall, in respect of supply of specified categories of goods or services or both received from an unregistered supplier, pay the tax on reverse charge basis as the recipient of such supply of goods or services or both, 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 such supply of goods or services or both.

Following are notified:

Category of supply of goods and services	Supplier	Recipient of goods and services
Supply of specified goods and services or both[12] [other than services by way of grant of development rights, long term lease of land or FSI (including additional FSI)] which constitute the shortfall from the minimum value of goods or services or both required to be purchased by a promoter for construction of project, in a financial year (or part of the financial year) till the date of issuance of completion certificate or first occupation, whichever is earlier	Unregistered person	Promoter
Cement required to be purchased by a promoter for construction of project, in a financial year (or part of the financial year till the date of issuance of completion certificate or first occupation, whichever is earlier	Unregistered person	Promoter
Capital goods supplied to a promoter for construction of a project	Unregistered person	Promoter

[12] 80% of value of input and input services used in supplying the service of construction of project shall be received from registered supplier only. However, in computing the aforesaid 80% limit following input services and input shall be excluded:

i. High speed diesel
ii. Motor spirit
iii. Natural gas
iv. Electricity
v. Service by way of grant of development rights
vi. FSI including additional FSI
vii. Services by way of long term lease of land (against upfront payment in the form of premium, salami, development charges)

Tax on intra-State supply through e-commerce operator [Sec. 9(5)]

The Government is empowered to notify categories of services wherein the person responsible for payment of taxes would neither be the supplier nor the recipient of supply, but the e-commerce operator through whom the supply is effected liable to pay tax.

Taxpoint

- As per sec. 2(44), "electronic commerce" means the supply of goods or services or both, including digital products over digital or electronic network.
- As per sec. 2(45), "electronic commerce operator" means any person who owns, operates or manages digital or electronic facility or platform for electronic commerce.
- However, where an electronic commerce operator does not have a physical presence in the taxable territory, any person representing such electronic commerce operator for any purpose in the taxable territory shall be liable to pay tax.
- Further, where an electronic commerce operator does not have a physical presence in the taxable territory and also he does not have a representative in the said territory, such electronic commerce operator shall appoint a person in the taxable territory for the purpose of paying tax and such person shall be liable to pay tax.

The following services are specified:

1. Services by way of transportation of passengers by a radio-taxi, motorcab, maxicab, motorcycle, or any other motor vehicle except omnibus
   - Radio taxi means a taxi including a radio cab, by whatever name called, which is in two-way radio communication with a central control office and is enabled for tracking using Global Positioning System (GPS) or General Packet Radio Service (GPRS).
   - Motor cab means any motor vehicles constructed or adapted to carry not more than 6 passengers, excluding the driver, for hire or reward
   - Maxi cab means any motor vehicle constructed or adapted to carry more than 6 passengers but not more than 12 passengers, excluding the driver, for hire or reward
   - Motorcycle means at two-wheeled motor vehicle, inclusive of any detachable side-car having an extra wheel, attached to the motor vehicle
   - Omnibus means any motor vehicle constructed or adapted to carry more than 6 persons excluding the driver
2. Services by way of transportation of passengers by an omnibus except where the person supplying such service through ECO is a company.
3. Services by way of providing accommodation in hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes, except where the person supplying such service through electronic commerce operator is liable for registration u/s 22(1) of the CGST Act [i.e., where the aggregate turnover in a financial year exceeds ₹20 lakhs (or ₹10 lakhs in case of special category State)]
4. Services by way of house-keeping, such as plumbing, carpentering etc., except where the person supplying such service through electronic commerce operator is liable for registration u/s 22(1) of the CGST Act.
5. Supply of restaurant service other than the services supplied by restaurant, eating joints etc. located at specified premises

- Specified premises means premises providing hotel accommodation service having declared tariff of any unit of accommodation above ₹ 7,500 per unit per day or equivalent.

6. Services by way of local delivery except where the person supplying such services through electronic commerce operator is liable for registration u/s 22(1)

Levy of GST on inter-State and intra-State Supply

For the purpose of levying tax, supply is classified as under:



a. Inter-State Supply
b. Intra-State Supply

In case of inter-State supply, the IGST is required to be collected and paid by the supplier. On the other hand, where supply is intra-State, CGST and SGST/UTGST is applicable. In that case, supplier is required to collect and pay CGST and SGST/UTGST.

Taxpoint:

Intra-State supply of goods [Sec. 8(1) of the IGST Act]	Subject to the provisions of sec. 10[13], supply of goods where the location of the supplier and the place of supply of goods are in the same State or same Union territory shall be treated as intra-State supply. **Exceptions** The following supply of goods shall not be treated as intra-State supply: i. supply of goods to or by a Special Economic Zone developer or a Special Economic Zone unit; ii. goods imported into the territory of India till they cross the customs frontiers of India; or iii. supplies made to a tourist referred to in sec. 15[14].
Intra-State supply of services [Sec. 8(2) of the IGST Act]	Subject to the provisions of sec. 12[15], supply of services where the location of the supplier and the place of supply of services are in the same State or same Union territory shall be treated as intra-State supply. **Exceptions** The intra-State supply of services shall not include supply of services to or by a Special Economic Zone developer or a Special Economic Zone unit.
Inter-State supply of goods [Sec. 7(1) & 7(2) of the IGST Act]	⅄ Subject to the provisions of sec. 10, supply of goods, where the location of the supplier and the place of supply are in: a. two different States; b. two different Union territories; or c. a State and a Union territory, shall be treated as a supply of goods in the course of inter-State trade or commerce. ⅄ Supply of goods imported into the territory of India, till they cross the customs frontiers of India, shall be treated to be a supply of goods in the course of inter-State trade or commerce.

13 Provision relating to place of supply of goods
IGST collected by the Central Government on inter-State supply shall be apportioned between the Central Government and State Government / UT.
14 Tourist means a person not normally resident in India, who enters India for a stay of not more than 6 months for legitimate non-immigrant purposes
15 Provision relating to place of supply of services

Inter-State supply of services [Sec. 7(3) & 7(4) of the IGST Act]	□ Subject to the provisions of sec. 12, supply of services, where the location of the supplier and the place of supply are in- a. two different States; b. two different Union territories; or c. a State and a Union territory, shall be treated as a supply of services in the course of inter-State trade or commerce. □ Supply of services imported into the territory of India shall be treated to be a supply of services in the course of inter-State trade or commerce.
Inter-State supply of goods and services [Sec. 7(5) of the IGST Act]	Supply of goods or services or both,- a. when the supplier is located in India and the place of supply is outside India; b. to or by a Special Economic Zone developer or a Special Economic Zone unit; or c. in the taxable territory, not being an intra-State supply and not covered elsewhere in this section, shall be treated to be a supply of goods or services or both in the course of inter-State trade or commerce.

Zero Rated Supply [Sec. 16 of the IGST Act]

"Zero rated supply" means any of the following supplies of goods or services or both, namely: -

a. export of goods or services or both; or

b. supply of goods or services or both for authorised operations to a Special Economic Zone developer or a Special Economic Zone unit.

Taxpoint :

- Credit of input tax (subject to block credit specified u/s 17(5) of the CGST Act) may be availed for making zero-rated supplies, notwithstanding that such supply may be an exempt supply.
- Refund of unutilized credit: A registered person making zero rated supply shall be eligible to claim refund of unutilised input tax credit on supply of goods or services or both, without payment of integrated tax, under bond or Letter of Undertaking, in accordance with the provisions of sec. 54 of the CGST Act or the rules made thereunder, subject to such conditions, safeguards and procedure as may be prescribed. However, no refund of unutilised input tax credit on account of zero rated supply of goods or of integrated tax paid on account of zero rated supply of goods shall be allowed where such zero rated supply of goods is subjected to export duty.

  The registered person making zero rated supply of goods shall, in case of non-realisation of sale proceeds, be liable to deposit the refund so received along with the applicable interest u/s 50 of the CGST Act within 30 days after the expiry of the time limit prescribed under the Foreign Exchange Management Act, 1999 for receipt of foreign exchange remittances, in such manner as may be prescribed.

- The Government may, on the recommendation of the Council, and subject to such conditions, safeguards and procedures, by notification, specify-
  i. a class of persons who may make zero rated supply on payment of integrated tax and claim refund of the tax so paid;
  ii. a class of goods or services which may be exported on payment of integrated tax and the supplier of such goods or services may claim the refund of tax so paid.

Illustration 16: Extra Neutral Alcohol

M/s Spirit Link supplies un-denatured extra neutral alcohol to a liquor distillery for the manufacture of alcoholic liquor for human consumption. In the same month, it supplies industrial-grade rectified spirit (denatured) to a chemical factory. Examine the applicability of GST.

- **Analysis:** As per sec. 9(1), supply of un-denatured extra neutral alcohol for the manufacture of alcoholic liquor for human consumption is outside the purview of GST. However, industrial-grade spirit is taxable.
- **Conclusion:** GST is not leviable on the supply to the distillery; GST is leviable on the supply to the chemical factory.

Illustration 17: Taxable Event & Forward Charge

A registered wholesaler in Maharashtra supplies 100 units of electric fans to a retailer in Gujarat. Examine the applicability of GST.

- **Analysis:** This is an inter-State supply as per sec. 7 of the IGST Act. U/s 5(1) of the IGST Act (equivalent to Sec 9(1) of CGST), tax is payable on a forward charge basis by the supplier.
- **Conclusion:** The wholesaler is liable to pay IGST at the applicable rate.

Illustration 18: Government Services (RCM)

The Department of Posts provides speed post services to a private corporate entity, M/s Alpha Ltd. Examine the applicability of GST.

- **Analysis:** Generally, services by Government to business entities are under RCM. However, specific services by the Department of Posts (Speed post, express parcel post, life insurance, and agency services) provided to a person other than the Government are under Forward Charge.
- **Conclusion:** The Department of Posts is liable to pay GST under Forward Charge.

Illustration 19: Renting of Residential Dwelling (RCM)

Mr. X, an unregistered individual, rents his residential flat to M/s Zee Ltd. (a registered company) for use as a guest house. Examine the applicability of GST.

- **Analysis:** Entry 5AA of Notification 13/2017-CT(R) states that renting of a residential dwelling to a registered person is under Reverse Charge.

- **Conclusion:** M/s Zee Ltd. (Recipient) is liable to pay GST under RCM.

Illustration 20: GTA Services

M/s Speed-Trucks (a GTA) issues an invoice to a registered factory and pays GST under forward charge and makes a declaration on the invoice to that effect. Examine the applicability of GST.

- **Analysis:** If a GTA opts to pay tax under forward charge and fulfills the declaration requirements, RCM is not triggered.
- **Conclusion:** The GTA (Supplier) is liable to pay tax; the factory cannot pay under RCM.

Illustration 21: Electronic Commerce Operator

Mr. A books a hotel room in Bangalore through "Stay-Easy," an online travel portal (ECO). The hotel is not registered under GST. Examine the applicability of GST.

- **Analysis:** Under Section 9(5), for accommodation services provided through an ECO by an unregistered person, the ECO is deemed the supplier.
- **Conclusion:** "Stay-Easy" (ECO) is liable to pay GST.

Illustration 22: Director's Remuneration

Mr. Kapoor, a director of Shine-Star Ltd., receives sitting fees for attending board meetings. He also receives a monthly salary as a Whole-time Director (WTD). Examine the applicability of GST.

- **Analysis:** Salary to WTD is a "contract of service" (Schedule III - neither supply of goods nor services). Sitting fees are for services provided by a director to the company, which are not in the course of employment.
- **Conclusion:** Sitting fees are taxable under RCM; the Company (Recipient) is liable to pay GST.

Illustration 23: Import of Services (RCM)

M/s Tech-Logic, a registered firm in India, receives legal consultancy services from a law firm based in London for their Indian operations. Examine the applicability of GST.

- **Analysis:** Import of service for a consideration in the course of business is a supply. Services provided by a person located in a non-taxable territory to a person in a taxable territory are under RCM.
- **Conclusion:** M/s Tech-Logic (Recipient) is liable to pay IGST under RCM.

Illustration 24: Specified Actionable Claims (ECO)

A user plays an online money game on "Win-Big," an electronic platform managed by a platform manager. Examine the applicability of GST.

- **Analysis:** The person who organizes or manages the digital platform for specified actionable claims (betting, gambling, online gaming) is deemed as supplier u/s 2(105).
- **Conclusion:** The platform manager is liable to pay GST on the full value of the bets.

Illustration 25: Legal Services by Advocate

Senior Advocate Mr. Mehta provides legal representational services to M/s Heavy-Lift Ltd. (a business entity with an aggregate turnover of ₹ 80 Lakhs in the previous year). Examine the applicability of GST.

- **Analysis:** Services by an advocate to a business entity (whose turnover exceeds the threshold for registration) are covered under RCM.
- **Conclusion:** M/s Heavy-Lift Ltd. (Recipient) is liable to pay GST under RCM.

Illustration 26: Passenger Transport via Uber

Mr. Y books a ride in an air-conditioned motorcab (Uber Premier) through the Uber App for a commute within Mumbai. Examine the applicability of GST.

- **Analysis:** U/s 9(5), for the service of transportation of passengers by a motorcab through an Electronic Commerce Operator (ECO), the ECO is deemed to be the supplier and is liable to pay the tax.
- **Conclusion:** Uber (the ECO) is liable to pay GST; the individual driver is not liable for tax payment or registration for this supply.

Quick MCQ

1. As per sec. 9(1) of the CGST Act, which of the following is specifically excluded from the levy of GST?

   a. Tobacco and tobacco products

   b. Un-denatured extra neutral alcohol used for the manufacture of alcoholic liquor for human consumption

   c. Motor Car

   d. Aerated waters containing added sugar

   Correct: b

   Reason: Sec. 9(1) has been specifically exclude extra neutral alcohol (ENA) used for the manufacture of alcoholic liquor for human consumption from the ambit of GST.

2. Under the Reverse Charge Mechanism (RCM), the liability to pay tax is on:

   a. The Supplier of goods/services

   b. The Recipient of goods/services

   c. The Electronic Commerce Operator

   d. Both Supplier and Recipient in equal proportion

   Correct: b

   Reason: As per sec. 2(98), reverse charge means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier.

3. Which of the following services, when provided through an Electronic Commerce Operator (ECO), makes the ECO liable to pay GST u/s 9(5)?

   a. Supply of food and beverages by a restaurant registered under GST

   b. Transportation of passengers by a radio taxi

   c. Professional consultancy services by a Chartered Accountant

   d. Sale of mobile phones by a registered dealer

   Correct: b

   Reason: U/s 9(5), for passenger transport services provided through an ECO, the ECO is deemed as the supplier and is liable to pay tax.

4. The maximum rate of Central Tax (CGST) that can be prescribed by the Government under Section 9(1) is:

   a. 12%

   b. 18%

   c. 20%

   d. 40%

   Correct: c

   Reason: Section 9(1) of the CGST Act stipulates that the rate of CGST shall not exceed 20%. The 40% limit applies to the total IGST (CGST + SGST).

5. Supply of which of the following items is taxable under GST only from a date to be notified by the Government on the recommendations of the GST Council?

   a. Alcoholic liquor for human consumption

   b. Extra Neutral Alcohol (ENA)

   c. Natural Gas and Aviation Turbine Fuel (ATF)

   d. All of the above

   Correct: c

   Reason: U/s 9(2), five petroleum products (including Natural Gas and ATF) are temporarily outside GST until a future date is notified. Alcoholic liquor is constitutionally outside GST.

6. When a Director provides services to a company in the capacity of an employee (under a contract of service), the tax treatment is:

   a. Outside the ambit of GST (Schedule III)

   b. Taxable under RCM

   c. Taxable under Forward Charge

d. Exempt via Notification

Correct: a

Reason: Services by an employee to the employer in the course of or in relation to his employment are covered under Schedule III and are neither a supply of goods nor services.

7. In case of services provided by a Goods Transport Agency (GTA) to a registered factory, where the GTA has NOT opted to pay tax under Forward Charge:

   a. The GTA is liable to pay tax

   b. The Factory is liable to pay tax under RCM

   c. The transaction is exempt from GST

   d. The Government is liable to pay tax

   Correct: b

   Reason: If a GTA provides services to specified recipients (like a registered factory) and does not opt for forward charge, the recipient is liable to pay tax under RCM u/s 9(3).

8. For the purpose of sec. 9(5), if an ECO does not have a physical presence in the taxable territory:

   a. It is exempt from paying GST

   b. The recipient must pay the tax under RCM

   c. Any person representing such ECO in the taxable territory shall be liable to pay tax

   d. The supplier must register and pay tax

   Correct: c

   Reason: As per the proviso to Section 9(5), if the ECO lacks a physical presence, their representative in the taxable territory is liable. If no representative exists, they must appoint one.

FAQ by CBIC on 15-12-2018

1. Are all goods and services taxable under GST? [FAQ 8]

Answer:

Supplies of all goods and services are taxable except alcoholic liquor for human consumption. Supply of petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel shall be taxable with effect from a future date. This date would be notified by the Government on the recommendations of the GST Council.

2. What is meant by Reverse Charge? [FAQ 11]

Answer:

It means the liability to pay tax is on the recipient of supply of goods and services instead of the supplier of such goods or services in respect of notified categories of supply.

3. **Is the reverse charge mechanism applicable only to services? [FAQ 12]**

Answer:

No, reverse charge applies to supplies of both goods and services, as notified by the Government on the recommendations of the GST Council.

4. **Can any person other than the supplier or recipient be liable to pay tax under GST?[FAQ 16]**

Answer:

Yes, the Government can specify categories of services the tax on which shall be paid by the electronic commerce operator, if such services are supplied through it and all the provisions of the Act shall apply to such electronic commerce operator as if he is the person liable to pay tax in relation to supply of such services.

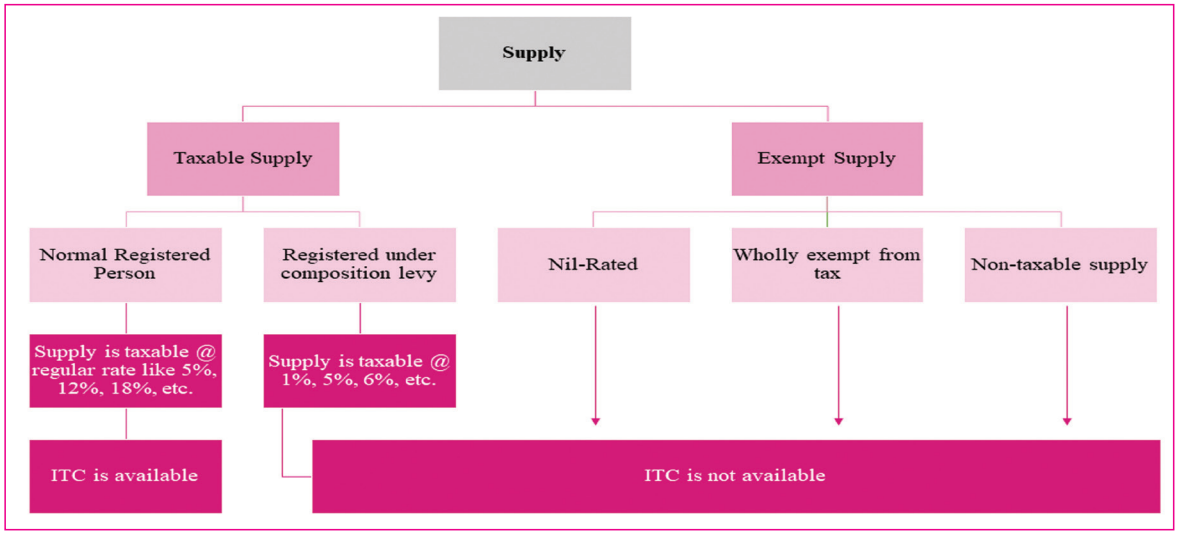
5.2.4 Exemption from Tax

As per sec. 2(47), "exempt supply" means supply of any goods or services or both

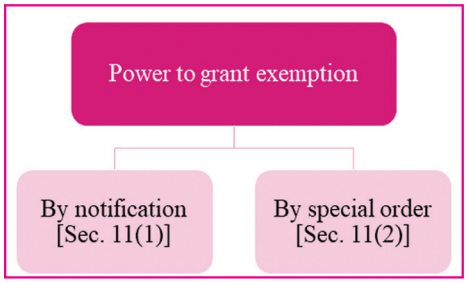
- which attracts nil rate of tax or
- which may be wholly exempt from tax u/s 11, or u/s 6 of the IGST Act,
- and includes non-taxable supply.

Further, as per sec. 2(78), "non-taxable supply" means a supply of goods or services or both which is not leviable to tax under this Act or under the IGST Act.

Supply can be categorized as under:



Power to grant Exemption [Sec. 11 and Sec. 6 of the IGST Act]



1. The Government may, on the recommendations of the Council, by notification, exempt generally, either:
   i. absolutely; or
   ii. subject to such conditions as may be specified therein,

   goods or services or both of any specified description from the whole or any part of the tax leviable thereon with effect from such date as may be specified in such notification.
2. The Government may, on the recommendations of the Council, by special order in each case, under circumstances of an exceptional nature to be stated in such order, exempt from payment of tax any goods or services or both on which tax is leviable.
3. For the purpose of clarifying the scope or applicability of such notification or order, the Government may insert an explanation in such notification or order, as the case may be, by notification at any time within 1 year of issue of the earlier notification or order.

   Further, such explanation shall have effect as if it had always been the part of the such notification or order.

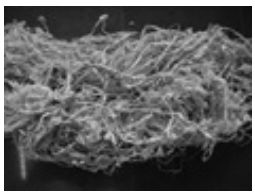
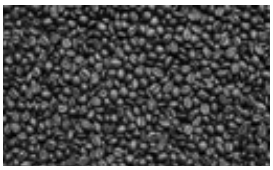
Taxpoint :

- Unconditional exemption is mandatory whereas conditional exemption is optional in nature.
- Where an exemption in respect of any goods or services or both from the whole or part of the tax leviable thereon has been granted absolutely, the registered person supplying such goods or services or both shall not collect the tax, in excess of the effective rate, on such supply of goods or services or both.
- Exemption may be granted on any of the following basis
  a. Exemption based on activities
  b. Exemption based on suppliers
  c. Exemption based on recipients
  d. Exemption based on specified suppliers and specified recipients

Goods Exempt from Tax

Vide Notification No. 10/2025-CT (Rates) dated 17/09/2025 (as amended from time to time) has provided a list of almost 170 items which are exempt from GST. Few of the most common goods which are as under:

			
Cereals	Fish (not frozen or processed)	Fresh fruits and vegetables (Other than frozen or processed)	Edible vegetables roots and tubers

			
Meat (other than in frozen state and put up in unit containers)	Cane Jaggery (Gur) other than pre-packaged and labeled	Tender Coconut Water other than pre-packaged and labelled	Raw Silk
			
Silkworm laying cocoon	Silk Waste	Wool (not carded or combed)	Puja Samagri
			
Coconut coir fibre	Coffee beans (not roasted)	Green Tea Leaves (Unprocessed)	Human Blood and its components
			
Printed books, newspaper & maps	Earthen pot and clay lamps	Agricultural implements (manually operated or animal driven)	Judicial, Non-judicial stamp papers, Court fee stamps when sold by the Government Treasuries or Vendors authorized by the Government
			
Betel Leaves	Firewood or fuel wood	Non-branded organic manure	Wood charcoal

S. No.	Exempted goods (Notification No.10/2025-Central Tax (Rate) Dt. 17-09-2025)
1.	Live animals other than live horses
2.	Meat and edible meat offal (Taxable if frozen & in unit containers).
3.	Fish, crustaceans, molluscs & other aquatic invertebrates (Taxable if frozen & processed in unit containers).
4.	Dairy produce; bird's eggs; natural honey; edible products of animal origin, not elsewhere specified [if not pre-packaged and labelled]
5.	Human hair, unworked, whether or not washed or scoured, waste of human hair
6.	Cut flowers and ornamental foliage
7.	Edible vegetables, roots and tubers • Potatoes, fresh or chilled. • Tomatoes, fresh or chilled. • Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled. • Cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled etc.,
8.	Coconuts, fresh or dried, whether or not shelled or peeled Bananas, including plantains, fresh or dried, Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens, fresh, other fruits, etc.,
9.	Coffee, beans, not roasted. Unprocessed green leaves of tea
10.	Cereals All goods [other than those put up in unit container and bearing a registered brand name]. Fresh ginger, other than in processed form etc.,
11.	Products of milling industry; malt; starches; insulin; wheat gluten
12.	Lac and Shellac,
13	Betel leaves
14	i. Jaggery of all types including Cane Jaggery (gur), Palmyra Jaggery, other than pre-packaged and labeled ii. Khandsari Sugar, other than pre-packaged and labelled iii. Rab, other than pre-packaged and labelled
15.	1. Puffed rice, commonly known as Muri, flattened or beaten rice, commonly known as Chira, parched rice, commonly known as khoi, parched paddy or rice coated with sugar or gur, commonly known as Murki, other than pre-packaged and labelled 2. Pappad, by whatever name it is known 3. Khakhra; Bread (branded or otherwise), Pizza bread, roti, chapathi, paratha, parotta and other Indian breads by any name called

S. No.	Exempted goods (Notification No.10/2025-Central Tax (Rate) Dt. 17-09-2025)
16.	Prasadam supplied by religious places like temples, mosques, churches, gurudwaras, dargahs, etc.
17.	Electrical energy
18.	Salt
19.	Human Blood and its components
20.	Organic manure, other than put up in unit containers and bearing a brand name.
21	Kumkum, Bindi, Sindur, Alta
22.	Municipal waste, sewage sludge, clinical waste
23.	Contraceptives
24.	Wood charcoal Firewood or fuel wood
25.	Printed books, newspapers, pictures and other products of the printing industry, manuscripts, typescripts and plans
26.	Raw Silk
27.	Wool, fine or coarse animal hair; horse hair yarn and woven fabric
28.	Gandhi Topi,
29.	Khadi yarn
30.	Jute fibres, raw or processed but not spun
31.	Coconut, coir fibre
32.	Indian National Flag
33.	Bangles (except those made from precious metals)
34.	Agricultural implements manually operated or animal driven
35.	Handloom [weaving machinery]
36.	Spacecraft (including satellites) and suborbital and spacecraft launch vehicles
37.	Hearing Aids
38.	Indigenous handmade musical instruments
39.	Slates, Slate pencils and chalk sticks
40.	Rakhi

Services exempt from tax

Services exempted through various provisions are as under:

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
1.	Services by an entity registered u/s 12AA or 12AB of the Income-tax Act, 1961 by way of charitable activities. Taxpoint: Charitable activities means activities relating to – i. public health by way of ,- A. care or counseling of I. terminally ill persons or persons with severe physical or mental disability; II. persons afflicted with HIV or AIDS; III. persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or B. public awareness of preventive health, family planning or prevention of HIV infection; ii. advancement of religion , spirituality or yoga; iii. advancement of educational programmes or skill development relating to,- A. abandoned, orphaned or homeless children; B. physically or mentally abused and traumatized persons; C. prisoners; or D. persons over the age of 65 years residing in a rural area; iv. preservation of environment including watershed, forests and wildlife › Rural area means the area comprised in a village as defined in land revenue records, excluding the area under any municipal committee, municipal corporation, town area committee, cantonment board or notified area committee; or any area that may be notified as an urban area by the Central Government or a State Government › Where charitable or religious trust merely provide accommodation or serve food and drink against some consideration in any form like donation etc., such activity will be taxable. Further activities such as holding of fitness camps or classes such as those in aerobics, dance, music, etc will be taxable [Circular No. 66/40/2018 dated 26-09-2018]. Further see entry 80 › College, school, etc. run by a trust is not covered by entry 1 but covered in entry 66 › Hostel accommodation service is covered by entry 14. › Subject to entry 60, religious yatra service is not exempt. › Medical facility is covered in entry 74. › Service provided to charitable or religious trust are taxable unless and until specifically exempted.
2.	Services by way of transfer of a going concern, as a whole or an independent part thereof.
3.	Pure services (excluding works contract service or other composite supplies involving supply of any goods) provided to the Central Government, State Government or Union territory or local authority: - by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution or

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	- by way of any activity in relation to any function entrusted to a Municipality under article 243W of the Constitution. Taxpoint: Government Entity means an authority or a board or any other body including a society, trust, corporation,— (i) set up by an Act of Parliament or State Legislature; or (ii) established by any Government, with 90% or more participation by way of equity or control, to carry out a function entrusted by the Central Government, State Government, Union Territory or a local authority.
3A.	Composite supply of goods and services in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply provided to the Central Government, State Government or Union territory or local authority: - by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution or - by way of any activity in relation to any function entrusted to a Municipality under article 243W of the Constitution.
3B.	Services provided to a Governmental Authority by way of — (a) water supply; (b) public health; (c) sanitation conservancy; (d) solid waste management; and (e) slum improvement and upgradation
4.	Services by Central Government, State Government, Union territory, local authority or governmental authority* by way of any activity in relation to any function entrusted to a municipality under article 243W of the Constitution.
5.	Services by Central Government, State Government, Union territory, local authority or Governmental Authority by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution. Taxpoint: Governmental Authority means an authority or a board or any other body,— (i) set up by an Act of Parliament or a State Legislature; or (ii) established by any Government, with 90% or more participation by way of equity or control, to carry out any function entrusted to a Municipality under article 243W of the Constitution or to a Panchayat under article 243G of the Constitution

* Statutory collections made by the Real Estate Regulatory Authority are also covered under the Sl. No. 4

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
6.	Services by the Central Government, State Government, Union territory or local authority excluding the following services: a. services by the Department of Posts and the Ministry of Railways (Indian Railways); b. services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport; c. transport of goods or passengers; or d. any service, other than services covered under entries (a) to (c) above, provided to business entities.
7.	Services provided by the Central Government, State Government, Union territory or local authority to a business entity with an aggregate turnover of upto such amount in the preceding financial year as makes it eligible for exemption from registration. However, the provisions of this entry shall not be applicable to: a. services,— i. by the Department of Posts and the Ministry of Railways (Indian Railways); ii. in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport; iii. of transport of goods or passengers; and b. services by way of renting of immovable property. Taxpoint: › Business entity means any person carrying out business › Renting in relation to immovable property means allowing, permitting or granting access, entry, occupation, use or any such facility, wholly or partly, in an immovable property, with or without the transfer of possession or control of the said immovable property and includes letting, leasing, licensing or other similar arrangements in respect of immovable property
8.	Services provided by the Central Government, State Government, Union territory or local authority to another Central Government, State Government, Union territory or local authority. However, nothing contained in this entry shall apply to services— i. by the Department of Posts and the Ministry of Railways (Indian Railways); ii. in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport; iii. of transport of goods or passengers
9.	Services provided by Central Government, State Government, Union territory or a local authority where the consideration for such services does not exceed ₹ 5,000: However, nothing contained in this entry shall apply to— i. services by the Department of Posts and the Ministry of Railways (Indian Railways); 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. However, where continuous supply of service, is provided by the Central Government, State Government, Union territory or a local authority, the exemption shall apply only where the consideration charged for such service does not exceed ₹ 5,000 in a financial year.

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
9B	Supply of services associated with transit cargo to Nepal and Bhutan (landlocked countries).
9C.	Supply of service by a Government Entity to Central Government, State Government, Union territory, local authority or any person specified by Central Government, State Government, Union territory or local authority against consideration received from Central Government, State Government, Union territory or local authority, in the form of grants
9D.	Services by an old age home run by Central Government, State Government or entity u/s 12AA of the Income Tax Act, 1961, to residents for consideration upto ₹ 25,000 per month per member provided that the consideration charged is inclusive of charges for boarding, lodging and maintenance
9E	Services provided by Ministry of Railways (Indian Railways) to individuals by way of – a. sale of platform tickets; b. facility of retiring rooms/waiting rooms; c. cloak room services; d. battery operated car services.
9F	Services provided by one zone/division under Ministry of Railways (Indian Railways) to another zone(s)/division(s) under Ministry of Railways (Indian Railways).
9G	Services provided by Special Purpose Vehicles (SPVs) to Ministry of Railways (Indian Railways) by way of allowing Ministry of Railways (Indian Railways) to use the infrastructure built and owned by them during the concession period against consideration and services of maintenance supplied by Ministry of Railways (Indian Railways) to SPVs in relation to the said infrastructure built and owned by the SPVs during the concession period against consideration.
10.	Services provided by way of pure labour contracts of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of a civil structure or any other original works pertaining to the beneficiary-led individual house construction or enhancement under the Housing for All (Urban) Mission or Pradhan Mantri Awas Yojana. Taxpoint: Original works means-all new constructions: i. all types of additions and alterations to abandoned or damaged structures on land that are required to make them workable; ii. erection, commissioning or installation of plant, machinery or equipment or structures, whether pre-fabricated or otherwise
10A.	Services supplied by electricity distribution utilities by way of construction, erection, commissioning, or installation of infrastructure for extending electricity distribution network upto the tube well of the farmer or agriculturalist for agricultural use
11.	Services by way of pure labour contracts of construction, erection, commissioning, or installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex. Taxpoint: › Residential complex means any complex comprising of a building or buildings, having more than one single residential unit › Single residential unit means a self-contained residential unit which is designed for use, wholly or principally, for residential purposes for one family

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
11A.	Service provided by Fair Price Shops to Central Government, State Government or Union territory by way of sale of food grains, kerosene, sugar, edible oil, etc. under Public Distribution System against consideration in the form of commission or margin
12.	Services by way of renting of residential dwelling for use as residence. Taxpoint: However, this entry does not cover the following: a. accommodation services for students in student residences; b. accommodation services provided by Hostels, Camps, Paying Guest accommodations and the like
12A	Supply of accommodation services having value of supply less than or equal to ₹ 20,000 per person per month provided that the accommodation service is supplied for a minimum continuous period of 90 days
13.	Services by a person by way of: a. conduct of any religious ceremony; b. renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a charitable or religious trust u/s 12AA of the Income-tax Act, 1961 or a trust or an institution registered u/s 10(23C)(v) or a body or an authority covered u/s 10(23BBA) of said Act. However, nothing contained in entry (b) of this exemption shall apply to,— i. renting of rooms where charges are ₹ 1,000 or more per day; ii. renting of premises, community halls, kalyanmandapam or open area, and the like where charges are ₹ 10,000 or more per day; iii. renting of shops or other spaces for business or commerce where charges are ₹ 10,000 or more per month. Taxpoint: › General public means the body of people at large sufficiently defined by some common quality of public or impersonal nature › Religious place means a place which is primarily meant for conduct of prayers or worship pertaining to a religion, meditation, or spirituality;
15	Transport of passengers, with or without accompanied belongings, by: a. air, embarking from or terminating in an airport located in the state of— (i) Arunachal Pradesh, (ii) Assam, (iii) Manipur, (iv) Meghalaya, (v) Mizoram, (vi) Nagaland,

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	(vii) Sikkim, (viii)Tripura; or (ix) at Bagdogra located in West Bengal; b. non-airconditioned contract carriage other than radio taxi, for transportation of passengers, excluding tourism, conducted tour, charter or hire; or c. stage carriage other than airconditioned stage carriage. However, nothing contained in items (b) and (c) above shall apply to services supplied through an electronic commerce operator, and notified u/s 9(5) the Act Taxpoint: › Radio taxi means a taxi including a radio cab, by whatever name called, which is in two-way radio communication with a central control office and is enabled for tracking using the Global Positioning System or General Packet Radio Service › Stage carriage means a motor vehicle constructed or adapted to carry more than 6 passengers excluding the driver for hire or just reward at separate fares paid by or for individual passengers, either for the whole journey or for stages of the journey › "Contract carriage" means a motor vehicle which carries a passenger or passenger or passengers for hire or reward and is engaged under a contract, whether expressed or implied, for the use of such vehicle as a whole for the carriage of passengers mentioned therein and entered into by a person with a holder of a permit in relation to such vehicle or any person authorised by him in this behalf on a fixed or an agreed rate or sum: a. on a time basis, whether or not with reference to any route or distance; or b. from one point to another, and in either case, without stopping to pick up or set down passengers not included in the contract anywhere during the journey, and includes-- i. a maxicab; and ii. a motor cab notwithstanding that separate fares are charged for its passengers;
16.	Services provided to the Central Government, by way of transport of passengers with or without accompanied belongings, by air, embarking from or terminating at a regional connectivity scheme airport, against consideration in the form of viability gap funding. However, nothing contained in this entry shall apply on or after the expiry of a period of 3 year from the date of commencement of operations of the regional connectivity scheme airport as notified by the Ministry of Civil Aviation.
17.	Service of transportation of passengers, with or without accompanied belongings, by— a. railways in a class other than— (i) first class; or (ii) an air-conditioned coach;

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	b. metro, monorail or tramway; c. inland waterways; d. public transport, other than predominantly for tourism purpose, in a vessel between places located in India; and e. metered cabs or auto rickshaws (including e-rickshaws). However, nothing contained in item (e) above shall apply to services supplied through an electronic commerce operator, and notified u/s 9(5) the Act Taxpoint: › Metered cab means any contract carriage on which an automatic device, of the type and make approved under the relevant rules by the State Transport Authority, is fitted which indicates reading of the fare chargeable at any moment and that is charged accordingly under the conditions of its permit issued under the Motor Vehicles Act, 1988 and the rules made thereunder (but does not include radio taxi). › e-Rickshaw means a special purpose battery powered vehicle of power not exceeding 4000 watts, having three wheels for carrying goods or passengers, as the case may be, for hire or reward, manufactured, constructed or adapted, equipped and maintained in accordance with such specifications, as may be prescribed in this behalf.
18.	Services by way of transportation of goods: a. by road except the services of: i. a goods transportation agency; ii. a courier agency; b. by inland waterways. Taxpoint: › Nothing contained in this entry shall apply to: (i) local delivery services provided by an Electronic Commerce Operator; or (ii) local delivery services provided through an Electronic Commerce Operator › Goods transport agency' means any person who provides service in relation to transport of goods by road and issues a consignment note by whatever name called, but does not include i. an electronic commerce operator by whom the services of local delivery are provided, ii. an electronic commerce operator through whom the services of local delivery are provided › Courier agency means any person engaged in the door-to-door transportation of time-sensitive documents, goods or articles utilising the services of a person, either directly or indirectly, to carry or accompany such documents, goods or articles
19.	Services by way of transportation of goods by an aircraft from a place outside India upto the customs station of clearance in India

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
19C.	Satellite launch services
20.	Services by way of transportation by rail or a vessel from one place in India to another of the following goods: a. relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap; b. defense or military equipment's; c. newspaper or magazines registered with the Registrar of Newspapers; d. railway equipment's or materials; e. agricultural produce; f. milk, salt and food grain including flours, pulses and rice; and g. organic manure.
21.	Services provided by a goods transport agency, by way of transport in a goods carriage of: a. agricultural produce; b. goods, where consideration charged for the transportation of goods on a consignment transported in a single carriage does not exceed ₹ 1,500; c. goods, where consideration charged for transportation of all such goods for a single consignee does not exceed ₹ 750; d. milk, salt and food grain including flour, pulses and rice; e. organic manure; f. newspaper or magazines registered with the Registrar of Newspapers; g. relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap; h. defense or military equipment's. Taxpoint: Goods carriage means any motor vehicle constructed or adapted for use solely for the carriage of goods, or any motor vehicle not so constructed or adapted when used for the carriage of goods.
21A.	Services provided by a goods transport agency to an unregistered person, including an unregistered casual taxable person, other than the following recipients: a. any factory registered under or governed by the Factories Act, 1948; or b. 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 c. any Co-operative Society established by or under any law for the time being in force; or d. any body corporate established, by or under any law for the time being in force; or e. any partnership firm whether registered or not under any law including association of persons; f. any casual taxable person registered under the Act or the IGST Act or the SGST Act or the UTGST.

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
21B.	Services provided by a goods transport agency, by way of transport of goods in a goods carriage, to: a. a Department or Establishment of the Central Government or State Government or Union territory; or b. local authority; or c. Governmental agencies, which has taken registration under the CGST, 2017 only for the purpose of deducting tax u/s 51 and not for making a taxable supply of goods or services.
22.	Services by way of giving on hire: a. to a state transport undertaking, a motor vehicle meant to carry more than 12 passengers; or b. to a local authority, an Electrically operated vehicle (EOV) meant to carry more than 12 passengers; c. to a goods transport agency, a means of transportation of goods. d. motor vehicle for transport of students, faculty and staff, to a person providing services of transportation of students, faculty and staff to an educational institution providing services by way of pre-school education and education upto higher secondary school or equivalent. Taxpoint: › Educational institution means an institution providing services by way of: i. pre-school education and education up to higher secondary school or equivalent; ii. education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force; iii. education as a part of an approved vocational education course
23.	Service by way of access to a road or a bridge on payment of toll charges.
24.	Services by way of loading, unloading, packing, storage or warehousing of rice.
24A.	Service by way of Services by way of warehousing of minor forest produce
24B.	Services provided by way of storage or warehousing of cereals, pulses, fruits, nuts and vegetables, spices, copra, sugarcane, jaggery, raw vegetable fibres, jute etc. indigo, unmanufactured tobacco, betel leaves, tendu leaves, coffee and tea
24C.	Services by the Department of Posts by way of post card, inland letter, book post and ordinary post (envelopes weighing less than 10 gms)
25.	Transmission or distribution of electricity by an electricity transmission or distribution utility.
25A	Supply of services by way of providing metering equipment on rent, testing for meters/ transformers/capacitors etc., releasing electricity connection, shifting of meters/service lines, issuing duplicate bills etc., which are incidental or ancillary to the supply of transmission and distribution of electricity provided by electricity transmission and distribution utilities to their consumers

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
27.	Services by way of— a. extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services); b. sale or purchase of foreign currency amongst banks or authorized dealers of foreign exchange or amongst banks and such dealers. Taxpoint: › Interest means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) but does not include any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilized › "Penal Interest" falls under this entry and is exempt. However, the "Penal Charges" (as per Circular 245/02/2025 dated 28-01-2025) do not fall under this entry and are taxable.
27A.	Services provided by a banking company to Basic Saving Bank Deposit (BSBD) account holders under Pradhan Mantri Jan Dhan Yojana (PMJDY).
28.	Services of life insurance business provided by way of annuity under the National Pension System regulated by the Pension Fund Regulatory and Development Authority of India under the Pension Fund Regulatory and Development Authority Act, 2013
29.	Services of life insurance business provided or agreed to be provided by the Army, Naval and Air Force Group Insurance Funds to members of the Army, Navy and Air Force, respectively, under the Group Insurance Schemes of the Central Government.
29A.	Services of life insurance provided or agreed to be provided by the Naval Group Insurance Fund to the personnel of Coast Guard under the Group Insurance Schemes of the Central Government.
29B.	Services of life insurance provided or agreed to be provided by the Central Armed Police Forces (under Ministry of Home Affairs) Group Insurance Funds to their members under the Group Insurance Schemes of the concerned Central Armed Police Force
30.	Services by the Employees' State Insurance Corporation to persons governed under the Employees' State Insurance Act, 1948
31.	Services provided by the Employees Provident Fund Organisation to the persons governed under the Employees Provident Funds and the Miscellaneous Provisions Act, 1952
31A.	Services by Coal Mines Provident Fund Organisation to persons governed by the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948
31B.	Services by National Pension System (NPS) Trust to its members against consideration in the form of administrative fee.
34.	Services by an acquiring bank, to any person in relation to settlement of an amount upto ₹ 2,000 in a single transaction transacted through credit card, debit card, charge card or other payment card service. "Acquiring bank" means any banking company, financial institution including non-banking financial company or any other person, who makes the payment to any person who accepts such card.

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
34A.	Services supplied by Central Government, State Government, Union territory to their undertakings or Public Sector Undertakings (PSUs) by way of guaranteeing the loans taken by such undertakings or PSUs from the financial institutions.
35.	Services of general insurance business provided under following schemes: a. Hut Insurance Scheme; b. Cattle Insurance under Swarnajaynti Gram Swarozgar Yojna (earlier known as Integrated Rural Development Programme); c. Scheme for Insurance of Tribals; d. Janata Personal Accident Policy and Gramin Accident Policy; e. Group Personal Accident Policy for Self-Employed Women; f. Agricultural Pumpset and Failed Well Insurance; g. Premia collected on export credit insurance; h. Restructured Weather Based Crop Insurance Scheme, approved by the Government of India and implemented by the Ministry of Agriculture; i. Jan Arogya Bima Policy; j. Pradhan Mantri Fasal Bima Yojana); k. Pilot Scheme on Seed Crop Insurance; l. Central Sector Scheme on Cattle Insurance; m. Universal Health Insurance Scheme; n. Rashtriya Swasthya Bima Yojana; o. Coconut Palm Insurance Scheme; p. Pradhan Mantri Suraksha Bima Yojna; q. Niramaya Health Insurance Scheme implemented by the Trust constituted under the provisions of the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 r. Bangla Shasya Bima
36.	Services of life insurance business provided under following schemes: i. Janashree Bima Yojana; ii. Aam Aadmi Bima Yojana; iii. Life micro-insurance product as approved by the Insurance Regulatory and Development Authority, having maximum amount of cover of ₹ 2,00,000; iv. Varishtha Pension BimaYojana; v. Pradhan Mantri Jeevan Jyoti BimaYojana; vi. Pradhan Mantri Jan DhanYogana; vii. Pradhan Mantri Vaya Vandan Yojana

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
36A.	Services by way of reinsurance (including retrocession) of the insurance schemes specified in serial number 35 or 36 or 40. Taxpoint: 'Retrocession' means a re-insurance transaction whereby a part of assumed reinsured risk is further ceded to another Indian Insurer or a CBR (Cross Border Re-insurer)
36C.	Services of life insurance business provided by an insurer to the insured, where the insured is not a group. Taxpoint: › This exemption shall apply to a contract of insurance where the insured is an individual, or an individual and family of the said individual. › For aforesaid purposes, family shall include all individuals insured as family in the contract of insurance. › 'Group' means group of persons who join together with a commonality of purpose or for engaging in a common economic activity, other than availing insurance, and includes: a. Employer– employee groups, where an employer-employee relationship exists between the master/group policyholder and the members of the group in accordance with the applicable laws; b. Non employer– employee groups, where a clearly evident relationship exists between the master/group policyholder and the members of the group, for services/ activities other than insurance.
36D.	Services of health insurance business provided by an insurer to the insured, where the insured is not a group. Taxpoint: › This exemption shall apply to a contract of insurance where the insured is an individual, or an individual and family of the said individual. For this purpose, family shall include all individuals insured as family in the contract of insurance › Health insurance business means the effecting of contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, whether in-patient or out-patient, travel cover and personal accident cover
36E.	Reinsurance of the insurance services specified in serial numbers 36C or 36D.
37.	Services by way of collection of contribution under the Atal Pension Yojana.
38.	Services by way of collection of contribution under any pension scheme of the State Governments.
39.	Services by the following persons in respective capacities— a. business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch; b. any person as an intermediary to a business facilitator or a business correspondent with respect to services mentioned in entry (a); or c. business facilitator or a business correspondent to an insurance company in a rural area.

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	Taxpoint: Business facilitator or business correspondent means an intermediary appointed under the business facilitator model or the business correspondent model by a banking company or an insurance company under the guidelines issued by the Reserve Bank of India
39A.	Services by an intermediary of financial services located in a multi services SEZ with International Financial Services Centre (IFSC) status to a customer located outside India for international financial services in currencies other than Indian rupees (INR). Taxpoint: The intermediary of financial services in IFSC is a person: i. who is permitted or recognised as such by the Government of India or any Regulator appointed for regulation of IFSC; or ii. who is treated as a person resident outside India under the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015; or iii. who is registered under the Insurance Regulatory and Development Authority of India (International Financial Service Centre) Guidelines, 2015 as IFSC Insurance Office; or iv. who is permitted as such by Securities and Exchange Board of India (SEBI) under the Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015.
40.	Services provided to the Central Government, State Government, Union territory under any insurance scheme for which total premium is paid by the Central Government, State Government, Union territory.
41.	One time upfront amount (called as premium, salami, cost, price, development charges or by any other name) leviable in respect of the service, by way of granting long term (30 years, or more) lease of industrial plots, provided by the State Government Industrial Development Corporations or Undertakings to industrial units. Taxpoint: The Central Government, State Government or Union territory shall have 20% or more ownership in the entity directly or through an entity which is wholly owned by the Central Government, State Government or Union territory. Conditions 1. The leased plots shall be used for the purpose for which they are allotted, that is, for industrial or financial activity in an industrial or financial business area. 2. The State Government concerned shall monitor and enforce the above condition, as per the order issued by the State Government in this regard. 3. In case of any violation or subsequent change of land use, due to any reason whatsoever, the original lessor, original lessee as well as any subsequent lessee or buyer or owner shall be jointly and severally liable to pay such amount of integrated tax, as would have been payable on the upfront amount charged for the long term lease of the plots but for the exemption contained herein, along with the applicable interest and penalty. 4. The lease agreement entered into by the original lessor with the original lessee or subsequent lessee, or sub- lessee, as well as any subsequent lease or sale agreements, for lease or sale of such plots to subsequent lessees or buyers or owners shall incorporate in the terms and conditions, the fact that the integrated tax was exempted on the long term lease of the plots by the original lessor to the original lessee subject to above condition and that the parties to the said agreements undertake to comply with the same.

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
41A.	Service by way of transfer of development rights (TDR) or Floor Space Index (FSI) (including additional FSI) for construction of residential apartments by a promoter in a project, intended for sale to a buyer, wholly or partly, except where the entire consideration has been received after issuance of completion certificate, where required, by the competent authority or after its first occupation, whichever is earlier. The amount of GST exemption available for construction of residential apartments in the project under this notification shall be calculated as under: [GST payable on TDR or FSI (including additional FSI) or both for construction of the project] x (carpet area of the residential apartments in the project + Total carpet area of the residential and commercial apartments in the project) Conditions The promoter shall be liable to pay tax at the applicable rate, on reverse charge basis, on such proportion of value of development rights, or FSI (including additional FSI), or both, as is attributable to the residential apartments, which remain un-booked on the date of issuance of completion certificate, or first occupation of the project, as the case may be, in the following manner – [GST payable on TDR or FSI (including additional FSI) or both for construction of the residential apartments in the project but for the exemption contained herein] x (carpet area of the residential apartments in the project which remain un-booked on the date of issuance of completion certificate or first occupation + Total carpet area of the residential apartments in the project) Provided further that tax payable in terms of the first proviso hereinabove shall not exceed 0.5% of the value in case of affordable residential apartments and 2.5% of the value in case of residential apartments other than affordable residential apartments remaining un-booked on the date of issuance of completion certificate or first occupation The liability to pay central tax on the said portion of the development rights or FSI, or both, calculated as above, shall arise on the date of completion or first occupation of the project, as the case may be, whichever is earlier.
41B.	Upfront amount (called as premium, salami, cost, price, development charges or by any other name) payable in respect of service by way of granting of long term lease of thirty years, or more, for construction of residential apartments by a promoter in a project, intended for sale to a buyer, wholly or partly, except where the entire consideration has been received after issuance of completion certificate, where required, by the competent authority or after its first occupation, whichever is earlier. The amount of GST exemption available for construction of residential apartments in the project under this notification shall be calculated as under: [GST payable on upfront amount (called as premium, salami, cost,price,development charges or by any other name) payable for long term lease of land for construction of the project] x (carpet area of the residential apartments in the project + Total carpet area of the residential and commercial apartments in the project).

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	Conditions The promoter shall be liable to pay tax at the applicable rate, on reverse charge basis, on such proportion of upfront amount (called as premium, salami, cost, price, development charges or by any other name) paid for long term lease of land, as is attributable to the residential apartments, which remain un- booked on the date of issuance of completion certificate, or first occupation of the project, as the case may be, in the following manner – [GST payable on upfront amount (called as premium, salami, cost, price, development charges or by any other name) payable for long term lease of land for construction of the residential apartments in the project but for the exemption contained herein] x (carpet area of the residential apartments in the project which remain un- booked on the date of issuance of completion certificate or first occupation + Total carpet area of the residential apartments in the project); Provided further that the tax payable in terms of the first proviso shall not exceed 0.5% of the value in case of affordable residential apartments and 2.5% of the value in case of residential apartments other than affordable residential apartments remaining un-booked on the date of issuance of completion certificate or first occupation. The liability to pay central tax on the said proportion of upfront amount (called as premium, salami, cost, price, development charges or by any other name) paid for long term lease of land, calculated as above, shall arise on the date of issue of completion certificate or first occupation of the project, as the case may be.
42.	Services provided by the Central Government, State Government, Union territory or local authority by way of allowing a business entity to operate as a telecom service provider or use radio frequency spectrum during the period prior to the 1st April, 2016, on payment of licence fee or spectrum user charges, as the case may be
44.	Services provided by an incubatee upto a total turnover of ₹ 50 lakh in a financial year subject to the following conditions, namely: a. the total turnover had not exceeded ₹ 50 lakh during the preceding financial year; and b. a period of 3 years has not elapsed from the date of entering into an agreement as an incubatee. Taxpoint: Incubatee means an entrepreneur located within the premises of a Technology Business Incubator or Science and Technology Entrepreneurship Park recognised by the National Science and Technology Entrepreneurship Development Board (NSTEDB) of the Department of Science and Technology, Government of India and who has entered into an agreement with the Technology Business Incubator or the Science and Technology Entrepreneurship Park to enable himself to develop and produce hi-tech and innovative products
44A	Research and development services against consideration received in the form of grants supplied by – (a) a Government Entity; or (b) a research association, university, college or other institution, notified u/s 35(1)(ii) or (iii) of the Income-tax Act, 1961.

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	Taxpoint: Such research association, university, college or other institution should be notified at the time of supply of the research and development service
45.	Services provided by— (a) an arbitral tribunal to— i. any person other than a business entity; or ii. a business entity with an aggregate turnover of up to such amount in the preceding financial year as makes it eligible for exemption from registration under the Act, 2017; iii. the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity; (b) a partnership firm of advocates or an individual as an advocate other than a senior advocate, by way of legal services to— i. an advocate or partnership firm of advocates providing legal services; ii. any person other than a business entity; or iii. a business entity with an aggregate turnover of up to such amount in the preceding financial year as makes it eligible for exemption from registration under the Act, 2017; iv. the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity; (c) a senior advocate by way of legal services to— i. any person other than a business entity; or ii. a business entity with an aggregate turnover of up to such amount in the preceding financial year as makes it eligible for exemption from registration under the Act, 2017; iii. the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity. Taxpoint: Legal service means any service provided in relation to advice, consultancy or assistance in any branch of law, in any manner and includes representational services before any court, tribunal or authority
46.	Services by a veterinary clinic in relation to health care of animals or birds.
47.	Services provided by the Central Government, State Government, Union territory or local authority by way of— a. registration required under any law for the time being in force; b. testing, calibration, safety check or certification relating to protection or safety of workers, consumers or public at large, including fire license, required under any law for the time being in force

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
48.	Taxable services, provided or to be provided, by a Technology Business Incubator or a Science and Technology Entrepreneurship Park recognised by the National Science and Technology Entrepreneurship Development Board of the Department of Science and Technology, Government of India or bio-incubators recognised by the Biotechnology Industry Research Assistance Council, under the Department of Biotechnology, Government of India.
49.	Services by way of collecting or providing news by an independent journalist, Press Trust of India or United News of India.
50.	Services of public libraries by way of lending of books, publications or any other knowledge-enhancing content or material. Books but does not include business directories, yellow pages and trade catalogues which are primarily meant for commercial purposes
52.	Services by an organiser to any person in respect of a business exhibition held outside India
52A.	Tour operator service, which is performed partly in India and partly outside India, supplied by a tour operator to a foreign tourist, to the extent of the value of the tour operator service which is performed outside India: › Value of the tour operator service performed outside India shall be such proportion of the total consideration charged for the entire tour which is equal to the proportion which the number of days for which the tour is performed outside India has to the total number of days comprising the tour, or 50% of the total consideration charged for the entire tour, whichever is less › In making the above calculations, any duration of time equal to or exceeding 12 hours shall be considered as one full day and any duration of time less than 12 hours shall be taken as half a day. Example: A tour operator provides a tour operator service to a foreign tourist as follows: Case A: 3 days in India, 2 days in Nepal; Consideration Charged for the entire tour: ₹ 2,00,000/- Lowest of the following: - ₹ 80,000/- (i.e., ₹ 2,00,000 x 2/5, - Total Consideration x No. of days of tour services outside India/Total no. of days of such tour package) - ₹ 1,00,000/- (50% of total consideration charged for such tour package) Hence, ₹ 80,000/- out of ₹ 2,00,000/- charged from the foreign tourist shall be exempted. Case B: 2 days in India,3 nights in Nepal; Consideration charged for the entire tour: ₹ 1,00,000/- Lowest of the following: - ₹ 60, 000/- (i.e., ₹ 1,00,000 x 3/5, - Total Consideration * No. of days of tour services outside India/Total no. of days of such tour package) - ₹ 50,000/- (50% of total consideration charged for such tour package) Hence, ₹ 50,000/- out of ₹ 1,00,000/- charged from the foreign tourist shall be exempted. Case C: 2.5 days in India, 3 days in Nepal; Consideration charged for the entire tour: ₹ 1,00,000/- Lowest of the following: - ₹ 54,545/- (i.e., ₹ 1,00,000 x 3/5.5, - Total Consideration * No. of days of tour services outside India/Total no. of days of such tour package)

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	- ₹ 50,000/- (50% of total consideration charged for such tour package) Hence, ₹ 50,000/- out of ₹ 1,00,000/- charged from the foreign tourist shall be exempted. The days of 2.5 had been rounded off to 3 since any duration of time equal to or exceeding 12 hours shall be considered as one full day.
53.	Services by way of sponsorship of sporting events organised— a. by a national sports federation, or its affiliated federations, where the participating teams or individuals represent any district, State, zone or Country; b. by Association of Indian Universities, Inter-University Sports Board, School Games Federation of India, All India Sports Council for the Deaf, Paralympic Committee of India or Special Olympics Bharat; c. by the Central Civil Services Cultural and Sports Board; d. as part of national games, by the Indian Olympic Association; or e. under the Panchayat Yuva Kreeda Aur Khel Abhiyaan Scheme.
54.	Services relating to cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products or agricultural produce by way of: a. agricultural operations directly related to production of any agricultural produce including cultivation, harvesting, threshing, plant protection or testing; b. supply of farm labour; c. processes carried out at an agricultural farm including tending, pruning, cutting, harvesting, drying, cleaning, trimming, sun drying, fumigating, curing, sorting, grading, cooling or bulk packaging and such like operations which do not alter the essential characteristics of agricultural produce but make it only marketable for the primary market; d. renting or leasing of agro machinery or vacant land with or without a structure incidental to its use; e. loading, unloading, packing, storage or warehousing of agricultural produce; Taxpoint: Aforesaid services for processed product is not exempt. E.g. storage services of green tea leave is exempt but that of black tea is not exempt here*. f. agricultural extension services; Taxpoint: Agricultural extension means application of scientific research and knowledge to agricultural practices through farmer education or training g. services by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce. Taxpoint: - Agricultural produce means any produce out of cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products, on which either no further processing is done or such processing is done as is usually done by a cultivator or producer which does not alter its essential characteristics but makes it marketable for primary market

* Circular No. 16/16/2017-GST dated 15-11-2017

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	Agricultural Produce Marketing Committee or Board means any committee or board constituted under a State law for the time being in force for the purpose of regulating the marketing of agricultural produce h. services by way of fumigation in a warehouse of agricultural produce.
55.	Carrying out an intermediate production process as job work in relation to cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products or agricultural produce Taxpoint: Milling of paddy into rice is not eligible for exemption here*.
55A.	Services by way of artificial insemination of livestock (other than horses)
57.	Services by way of pre-conditioning, precooling, ripening, waxing, retail packing, labelling of fruits and vegetables which do not change or alter the essential characteristics of the said fruits or vegetables.
58.	Services provided by the National Centre for Cold Chain Development under the Ministry of Agriculture, Cooperation and Farmer's Welfare by way of cold chain knowledge dissemination.
59.	Services by a foreign diplomatic mission located in India
60.	Services by a specified organisation in respect of a religious pilgrimage facilitated by the Government of India, under bilateral arrangement [Haj Yatra]
61.	Services provided by the Central Government, State Government, Union territory or local authority by way of issuance of passport, visa, driving licence, birth certificate or death certificate.
61A.	Services by way of granting National Permit to a goods carriage to operate through-out India / contiguous States
62.	Services provided by the Central Government, State Government, Union territory or local authority by way of tolerating non-performance of a contract for which consideration in the form of fines or liquidated damages is payable to the Central Government, State Government, Union territory or local authority under such contract.
63.	Services provided by the Central Government, State Government, Union territory or local authority by way of assignment of right to use natural resources to an individual farmer for cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products
64.	Services provided by the Central Government, State Government, Union territory or local authority by way of assignment of right to use any natural resource where such right to use was assigned by the Central Government, State Government, Union territory or local authority before the 1st April 2016: Provided that the exemption shall apply only to tax payable on one time charge payable, in full upfront or in instalments, for assignment of right to use such natural resource.
65.	Services provided by the Central Government, State Government, Union territory by way of deputing officers after office hours or on holidays for inspection or container stuffing or such other duties in relation to import export cargo on payment of Merchant Overtime charges.
65A.	Services by way of providing information under the Right to Information Act, 2005

* Circular No. 19/19/2017-GST dated 20-11-2017

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
65B.	Services supplied by a State Government to Excess Royalty Collection Contractor (ERCC) by way of assigning the right to collect royalty on behalf of the State Government on the mineral dispatched by the mining lease holders. Taxpoint: Mining lease holder means a person who has been granted mining lease, quarry lease or license or other mineral concession under the Mines and Minerals (Development and Regulation) Act, 1957, the rules made thereunder or the rules made by a State Government u/s 15(1) of the Mines and Minerals (Development and Regulation) Act, 1957. Condition At the end of the contract period, ERCC shall submit an account to the State Government and certify that the amount of goods and services tax deposited by mining lease holders on royalty is more than the goods and services tax exempted on the service provided by State Government to the ERCC of assignment of right to collect royalty and where such amount of goods and services tax paid by mining lease holders is less than the amount of goods and services tax exempted, the exemption shall be restricted to such amount as is equal to the amount of goods and services tax paid by the mining lease holders and the ERCC shall pay the difference between goods and services tax exempted on the service provided by State Government to the ERCC of assignment of right to collect royalty and goods and services tax paid by the mining lease holders on royalty.
66.	Services provided: a. by an educational institution to its students, faculty and staff; b. by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee; c. to an educational institution, by way of, i. transportation of students, faculty and staff; ii. catering, including any mid-day meals scheme sponsored by the Central Government, State Government or Union territory; iii. security or cleaning or housekeeping services performed in such educational institution; iv. services relating to admission to, or conduct of examination by, such institution; v. supply of online educational journals or periodicals; However, nothing contained in sub-items (i), (ii) and (iii) of item (c) shall apply to an educational institution other than an institution providing services by way of pre-school education and education upto higher secondary school or equivalent. Further nothing contained in sub-item (v) of item (c) shall apply to an institution providing services by way of,— i. pre-school education and education upto higher secondary school or equivalent; or ii. education as a part of an approved vocational education course

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	Taxpoint: • Approved vocational education course means, i. a course run by an industrial training institute or an industrial training centre affiliated to the National Council for Vocational Training or State Council for Vocational Training offering courses in designated trades notified under the Apprentices Act, 1961; or ii. a Modular Employable Skill Course, approved by the National Council of Vocational Training, run by a person registered with the Directorate General of Training, Ministry of Skill Development and Entrepreneurship • To exempt subscription of online educational journals/periodicals by educational institutions who provide degree recognized by any law • Educational institution means an institution providing services by way of,- i. pre-school education and education up to higher secondary school or equivalent; ii. education as a part of a curriculum for obtaining a qualification recognised by any law (in India) for the time being in force; iii. education as a part of an approved vocational education course Taxpoint: Training provided by private coaching institute is not exempt.
66A.	Services of affiliation provided by a Central or State Educational Board or Council or any other similar body, by whatever name called, to a school established, owned or controlled by the Central Government, State Government, Union Territory, local authority, Governmental authority or Government entity
68.	Services provided to a recognised sports body by: a. an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organised by a recognized sports body; b. another recognised sports body.
69.	Any services provided by,: a. the National Skill Development Corporation set up by the Government of India; b. the National Council for Vocational Education and Training; c. an Awarding Body recognized by the National Council for Vocational Education and Training; d. an Assessment Agency recognized by the National Council for Vocational Education and Training; e. a Training Body accredited with an Awarding Body that is recognized by the National Council for Vocational Education and Training, in relation to- i. the National Skill Development Programme or any other scheme implemented by the National Skill Development Corporation; or ii. a vocational skill development course under the National Skill Certification and Monetary Reward Scheme; or iii. any National Skill Qualification Framework aligned qualification or skill in respect of which the National Council for Vocational Education and Training has approved a qualification package

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
70.	Services of assessing bodies empanelled centrally by the Directorate General of Training, Ministry of Skill Development and Entrepreneurship by way of assessments under the Skill Development Initiative Scheme.
71.	Services provided by training providers (Project implementation agencies) under Deen Dayal Upadhyaya Grameen Kaushalya Yojana implemented by the Ministry of Rural Development, Government of India by way of offering skill or vocational training courses certified by the National Council for Vocational Education and Training.
72.	Services provided to the Central Government, State Government, Union territory administration under any training programme for which 75% or more of the total expenditure is borne by the Central Government, State Government, Union territory administration.
74.	Services by way of: a. health care services by a clinical establishment, an authorised medical practitioner or para-medics; b. services provided by way of transportation of a patient in an ambulance, other than those specified in (a) above. Taxpoint: • Health care services means any service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicines* in India and includes services by way of transportation of the patient to and from a clinical establishment, but does not include hair transplant or cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma • Clinical establishment means a hospital, nursing home, clinic, sanatorium or any other institution by, whatever name called, that offers services or facilities requiring diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicines in India, or a place established as an independent entity or a part of an establishment to carry out diagnostic or investigative services of diseases • Authorised medical practitioner means a medical practitioner registered with any of the councils of the recognised system of medicines established or recognised by law in India and includes a medical professional having the requisite qualification to practice in any recognised system of medicines in India as per any law for the time being in force • Supply of services other than healthcare services such as renting of shops, auditorium, display of advertisement, etc. will be subject to GST
74A.	Services provided by rehabilitation professionals recognized under the Rehabilitation Council of India Act, 1992 by way of rehabilitation, therapy or counselling and such other activity as covered by the said Act at medical establishments, educational institutions, rehabilitation centers established by Central Government, State Government or Union territory or an entity registered under section 12AA or 12AB of the Income tax Act, 1961

* Allopathy, Yoga, Naturopathy, Ayurveda, Homeopathy, Siddha, Unani and any other system of medicine that may be recognized by Central Government.

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
76.	Services by way of public conveniences such as provision of facilities of bathroom, washrooms, lavatories, urinal or toilets
77.	Service by an unincorporated body or a non- profit entity registered under any law for the time being in force, to its own members by way of reimbursement of charges or share of contribution: a. as a trade union; b. for the provision of carrying out any activity which is exempt from the levy of Goods and service Tax; or c. upto an amount of ₹ 7,500 per month per member for sourcing of goods or services from a third person for the common use of its members in a housing society or a residential complex.
77A.	Services provided by an unincorporated body or a non-profit entity registered under any law for the time being in force, engaged in: i. activities relating to the welfare of industrial or agricultural labour or farmers; or ii. promotion of trade, commerce, industry, agriculture, art, science, literature, culture, sports, education, social welfare, charitable activities and protection of environment, to its own members against consideration in the form of membership fee upto an amount of ₹ 1,000/- per member per year.
78.	Services by an artist by way of a performance in folk or classical art forms of— a. music, or b. dance, or c. theatre, if the consideration charged for such performance is not more than ₹ 1,50,000. However, the exemption shall not apply to service provided by such artist as a brand ambassador. Taxpoint: Brand ambassador means a person engaged for promotion or marketing of a brand of goods, service, property or actionable claim, event or endorsement of name, including a trade name, logo or house mark of any person
79.	Services by way of admission to a museum, national park, wildlife sanctuary, tiger reserve or zoo.
79A.	Services by way of admission to a protected monument so declared under the Ancient Monuments and Archaeological Sites and Remains Act 1958 or any of the State Acts, for the time being in force
80.	Services by way of training or coaching in: a. recreational activities relating to arts or culture, by an individual; or b. sports by charitable entities registered under section 12AA or 12AB of the Income-tax Act
81.	Services by way of right to admission to— a. circus, dance, or theatrical performance including drama or ballet; b. award function, concert, pageant, musical performance or any sporting event other than a recognised sporting event; c. recognised sporting event, d. planetarium,

Entry No.	Exempted services Notification No. 12/2017-Central Tax (Rate), dated 28-06-2017) as amended
	where the consideration for right to admission to the events or places as referred above is not more than ₹ 500 per person. Taxpoint: • "Recognised sporting event" means any sporting event,- i. organised by a recognised sports body where the participating team or individual represent any district, state, zone or country; ii. organised – A. by a national sports federation, or its affiliated federations, where the participating teams or individuals represent any district, state or zone; B. by Association of Indian Universities, Inter-University Sports Board, School Games Federation of India, All India Sports Council for the Deaf, Paralympic Committee of India or Special Olympics Bharat; C. by Central Civil Services Cultural and Sports Board; D. as part of national games, by Indian Olympic Association; or E. under Panchayat Yuva Kreeda Aur Khel Abhiyaan (PYKKA) Scheme; • "Recognised sports body" means i. the Indian Olympic Association; ii. Sports Authority of India; iii. a national sports federation recognised by the Ministry of Sports and Youth Affairs of the Central Government, and its affiliate federations; iv. national sports promotion organisations recognised by the Ministry of Sports and Youth Affairs of the Central Government; v. the International Olympic Association or a federation recognised by the International Olympic Association; or vi. a federation or a body which regulates a sport at international level and its affiliated federations or bodies regulating a sport in India
82.	Services by way of right to admission to the events organised under FIFA U-17 World Cup 2017
82A.	Services by way right to admission to the events organised under FIFA U-17 Women's World Cup 2020
82B.	Services by way of right to admission to the events organised under AFC Women's Asia Cup 2022 exempted from GST.

Following services are exempted under the IGST Act [Notification No. 9/2017-IT (Rate) Dated 28-06-2017]

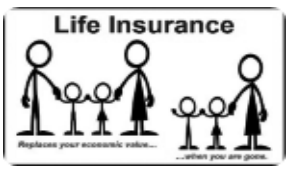
10.	Services received from a provider of service located in a non-taxable territory by – a. the Central Government, State Government, Union territory, a local authority, a governmental authority or an individual in relation to any purpose other than commerce, industry or any other business or profession; b. an entity registered u/s 12AA of the Income-tax Act, 1961 for the purposes of providing charitable activities; or c. way of supply of online educational journals or periodicals to an educational institution other than an institution providing services by way of: i. Pre-school education and education upto higher secondary school or equivalent; or ii. Education as a part of an approved vocational education course d. a person located in a non-taxable territory However, the exemption shall not apply to i. online information and database access or retrieval services received by persons specified in entry (a) or entry (b); or ii. services by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India received by persons specified in the entry
10F.	Services supplied by an establishment of a person in India to any establishment of that any person outside India, which are treated as establishments of distinct persons in accordance with explanation 1 in sec. 8 of the IGST Act, 2017, subject to the condition that the place of supply of the service is outside India
10G.	Import of services by United Nations or a specified international organization for official use of the United nations or the specified international organization
10H.	Import of services by foreign diplomatic mission or consular post in India or diplomatic agents or career consular officers posted therein.
10L	Import of services by an establishment of a foreign company in India, which is an airline company, from a related person or from any of its other establishments outside India, when made without consideration (the exemption is subject to certain restrictions)
12AA.	Services provided by an intermediary when location of both supplier and recipient of goods is outside the taxable territory.
42.	Services received by the Reserve Bank of India, from outside India in relation to management of foreign exchange reserves.
54.	Services provided by a tour operator to a foreign tourist in relation to a tour conducted wholly outside India.

Other Exemptions :

Description of Service
Services imported by unit/developer in SEZ.
Exemption to Central Government's share of profit - petroleum
Services supplied by Asian Development Bank (ADB) and International Finance Corporation (IFC)
Exemption to royalty and licence fee to the extent it is paid on the consideration attributable to royalty and license fee re-included in transaction value on which the appropriate duties of customs have been paid.

Sector-wise summary of exempted services

Sector-wise summary of exempted services are as under :

		
Charitable and Religious Trust Entry 1, 9D, 13, 14, 60, 66, 74 & 80	Agricultural related services Entry 24, 24A, 24B, 53A, 54, 55 & 55A	Health care services Entry 46, 73 & 74
		
Educational services Entry 66 and 80	Services by Government Entry 4, 5, 6, 7, 8, 9, 9C, 9D, 34A, 47, 61, 62, 63, 65, 65B & 74A	Construction service Entry, 10, 10A, 11, 41A & 41B
		
Passenger transportation services Entry 15, 16 & 17	Goods transportation services Entry 18, 20, 21, 21A & 21B	Financial services Entry 26, 27, 27A, 34 & 39A
		
Life insurance business services Entry 28, 29, 29A, 29B & 36	General insurance services Entry 35 & 36A	Pension services Entry 37 & 38
		
Services provided by specified body Entry 30, 31, 31A, 31B, 32 & 33	Business facilitator service Entry 39	Leasing services Entry 41 & 43



Legal Service
Entry 45



Sponsorship service
Entry 53



Right to admission to event service Entry 79, 79A & 81



Skill development services
Entry 69 & 70



Services by artist
Entry 78



Services by un-incorporated body or a non-profit entity
Entry 77 & 77A

Services provided to Government
Entry 3, 3A, 11A, 40, 72 & 51

Other exempted services
Entry 2, 9AA, 9B, 12, 14, 19C, 22, 23, 23A, 25, 44, 47A, 48, 49, 50, 52, 56, 57, 58, 59, 65A, 68, 75, 76, 82A & 82B

Difference between zero-rated supply and exempted supply

Particulars	Zero-Rated Supplies	Nil-Rated Supply	Non-GST Supply	Exempt Supply
Meaning	Supply which is meant for Export or supply of goods or services or both for authorized operations to Special Economic Zone developer or a Special Economic Zone unit.	Supply which attracts 0% GST rate.	Supply which is outside the purview of GST Act.	Supply which attracts nil rate of tax or which are specifically exempt from GST through government notification and includes non-taxable supply
GST Applicability	(i) Supply of good or services without payment GST using LUT and claim a refund of unutilised ITC. (ii) Supply of good or services by paying IGST and claim a refund of such IGST paid.	GST is not applicable on supply.	GST is not applicable on supply.	GST is not applicable on supply.
Input Tax Credit Availability	Input tax credit can be claimed.	No input tax credit is available.	No input tax credit is available.	No input tax credit is available.
Cover under GST Ambit	Yes	Yes	No	Yes (for nil rated and exempt supply) No (for non-taxable supply)

Power not to recover Goods and Services Tax not levied or short-levied as a result of general practice [Sec. 11A]

Section 11A empowers the government to provide exemption from the levy of GST on the basis of prevailing trade practices. This ensures that traders are not burdened with unnecessary taxes. This section will be used especially in cases where taxpayers did not pay GST wrongly but on the basis of normal trade practice. This section also helps to ensure that businesses are not unduly burdened by retrospective tax demands based on practices that were widely accepted and followed within the industry

Illustration 27:

State whether following services are exempted or not :

Services	Remarks
Shri Jagdish Ji, a priest, charged ₹ 21,000/- from Mr. X for carrying out the rituals of his marriage ceremony	Exempt as per Entry 13
Rent of ₹ 19,000 charged for letting out community hall in a temple premises for marriage ceremony	Not Exempt
Temple provides room (in the precincts of the temple) on rent of ₹ 750 per day to the pilgrims	Exempt as per Entry 13

Illustration 28:

Determine taxable value of supply under GST law with respect to each of the following independent services provided by the registered persons:

Particulars	₹
Fees charged for yoga camp conducted by a charitable trust	50,000
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	1,00,000
Amount charged by cord blood bank for preservation of stem cells	5,00,000
Amount charged for service provided by commentator to a recognized sports body	5,20,000

Solution:

Computation of value of taxable supply :

Particulars	Entry	₹
Fees charged for yoga camp conducted by a charitable trust	1	Exempt
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	39	Exempt
Amount charged by cord blood bank for preservation of stem cells	73	Exempt
Amount charged for service provided by commentator to a recognized sports body		5,20,000

Illustration 29:

Mr. Ijas, a performing artist, provides the following information relating to October, 2022:

Receipts from	Amount (₹)
Performing classical dance	1,40,000
Performing in television serial	2,80,000

Services as brand ambassador	12,00,000
Coaching in recreational activities relating to arts	2,10,000
Activities in sculpture making	3,10,000
Performing western dance	90,000

What will be value of taxable supply?

Solution:

Computation of value of taxable supply :

Particulars	Amount (₹)
Performing classical dance [Exempt as per entry 78]	Exempt
Performing in television serial	2,80,000
Services as brand ambassador	12,00,000
Coaching in recreational activities relating to arts [Exempt as per entry 80]	Exempt
Activities in sculpture making	3,10,000
Performing western dance	90,000
Value of taxable supply	18,80,000

Illustration 30:

On the basis of following information, you are requested to compute value of taxable supply and GST:

	Particulars	₹
a)	Advertisement through hoardings	1,00,000
b)	Performances as folk-dance artist	80,000
c)	Hotel room @ ₹ 2,500/- per room	1,50,000
d)	Rent received for residential dwelling use as residence per month to an unregistered person	20,000
e)	Received by a professional training centre	1,80,000
f)	Received from service by way of transportation of passengers by inland waterways	50,000
Assuming GST @ 18% i.e. CGST - 9% & SGST - 9%		

Solution:

Computation of value of taxable supply and tax liability :

	Particulars	₹
a)	Advertisement through hoardings	1,00,000
b)	Performances as folk-dance artist [Exempt as per entry 78]	Exempt
c)	Hotel room @ ₹ 2,500/- per room	1,50,000
d)	Rent received for residential dwelling use as residence per month	Exempt
e)	Received by a professional training centre	1,80,000
f)	Received from service by way of transportation of passengers by inland waterways [Exempt as per entry 17]	Exempt
	Value of taxable supply	4,30,000

	Tax on above	
	- CGST [₹ 4,30,000 x 9%]	38,700
	- SGST [₹ 4,30,000 x 9%]	38,700

Illustration 31:

Compute the taxable value of supply of service of A Ltd. for the month of June 2025 from the following information:

S.N.	Particulars	₹
(1)	Entry fees received for cultural programme organised in open theatre where the ticket price is ₹ 200	5,00,000
(2)	Receipts on account of stand alone ride in a mall	2,00,000
(3)	Receipts of video parlours for exhibiting movies	2,00,000
(4)	Auxiliary services provided in capacity of an event manager for organising an event	15,00,000
(5)	Receipts from running Natraj Circus	8,00,000
(6)	Receipts on account of admission to award function where the consideration for admission is ₹ 400 per person	5,00,000
(7)	Receipts on account of admission to musical performance where the consideration for admission is ₹ 1,000 per person	10,00,000
(8)	Receipts on account of admission to recognised sporting event where the consideration for admission is ₹ 1,000 per person	10,00,000
(9)	Receipts on account of admission to non recognised sporting event where the consideration for admission is ₹ 1,000 per person	10,00,000
(10)	Receipts of amusement park	15,00,000

Solution:

Computation of value of taxable supply:

S.N.	Particulars	₹
(1)	Entry fees received for cultural programme organised in open theatre [Entry 81]	Exempt
(2)	Receipts on account of stand alone ride in a mall	2,00,000
(3)	Receipts of video parlours for exhibiting movies	2,00,000
(4)	Auxiliary services provided in capacity of an event manager for organising an event	15,00,000
(5)	Receipts from running Natraj Circus	Exempt
(6)	Receipts on account of admission to award function where the consideration for admission is ₹ 400 per person	Exempt
(7)	Receipts on account of admission to musical performance where the consideration for admission is ₹ 1,000 per person	10,00,000
(8)	Receipts on account of admission to recognised sporting event where the consideration for admission is ₹ 1,000 per person	10,00,000

(9)	Receipts on account of admission to non recognised sporting event where the consideration for admission is ₹ 1,000 per person	10,00,000
(10)	Receipts of amusement park	15,00,000
	Value of taxable supply	64,00,000

Illustration 32:

Agro Farm Limited registered under GST furnishes the following details with respect to the activities undertaken by them in the month of May, 2025 –

S.N.	Particulars	₹
(1)	Receipts from Supply of farm labour	85,000
(2)	Charges for seed testing	65,000
(3)	Charges for soil testing of farm land	35,000
(4)	Charges for warehousing of potato chips	85,000
(5)	Commission received on sale of wheat	75,000
(6)	Charges for training of farmers on use of new pesticides and fertilizers developed through scientific research	10,000
(7)	Renting of vacant land to a stud farm	1,85,000
(8)	Leasing of vacant land to a cattle farm	83,500
(9)	Charges for warehousing of rice	1,50,000
(10)	Charges for warehousing of cotton fabrics	2,00,000
(11)	Retail packing and labelling of fruits and vegetables	5,00,000

Compute the value of taxable supply of Agro Farm Limited for the month of May, 2022 if all the above amounts are exclusive of GST.

Solution:

Computation of value of taxable supply:

S.N.	Particulars	₹
(1)	Receipts from Supply of farm labour [Entry 54]	Exempt
(2)	Charges for seed testing [Entry 54]	Exempt
(3)	Charges for soil testing of farm land [Entry 54]	Exempt
(4)	Charges for warehousing of potato chips	85,000
(5)	Commission received on sale of wheat [Entry 54]	Exempt
(6)	Charges for training of farmers on use of new pesticides and fertilizers developed through scientific research [Entry 54]	Exempt
(7)	Renting of vacant land to a stud farm	1,85,000
(8)	Leasing of vacant land to a cattle farm [Entry 54]	Exempt
(9)	Charges for warehousing of rice [Entry 24]	Exempt
(10)	Charges for warehousing of cotton fabrics	2,00,000

(11)	Retail packing and labelling of fruits and vegetables [Entry 57]	Exempt
	Value of taxable Supply	4,70,000

Illustration 33:

Mr. Dev a famous cricketer furnishes you with the following information of the various receipts for the month ended 30-09-2025. You are required to compute value of taxable supply:

S.N.	Particulars	₹
(1)	Receipts from Sports Authority of India for participation in recognised sport	50 lakh
(2)	Receipts from franchisee of Indian Premier league (not a recognised sports body)	75 lakh
(3)	Receipts from acting as brand ambassador for corporate client	22 lakh
(4)	Receipts of sports training academy to coach young players	15 lakh

Solution:

Computation of value of taxable supply:

S.N.	Particulars	₹
(1)	Receipts from Sports Authority of India for participation in recognised sport [Entry 68]	Exempt
(2)	Receipts from franchisee of Indian Premier league (not a recognised sports body)	75 lakh
(3)	Receipts from acting as brand ambassador for corporate client	22 lakh
(4)	Receipts of sports training academy to coach young players	15 lakh
	Value of taxable supply	112 lakh

Illustration 34:

M/s. D Bank Limited, a Scheduled Commercial Bank has furnished the following details for the month of August, 2025:

Particulars	₹ in Crores (Excluding GST)
Extended Housing Loan to its customers	200
Processing fees collected from its customers on sanction of loan	40
Commission collected from its customers on bank guarantee	60
Interest income on credit card issued by the bank	80
Interest received on housing loan extended by the bank	50
Minimum balance charges collected from current account & saving account holder	02

Compute the value of taxable supply.

Solution:

Computation of value of taxable supply :

Particulars	₹ in Crores
Extended Housing Loan to its customers [Money is not considered as goods hence, extending loan is not a supply]	-
Processing fees collected from its customers on sanction of loan	40
Commission collected from its customers on bank guarantee	60
Interest income on credit card issued by the bank	80
Interest received on housing loan extended by the bank [Interest on loan is exempt]	-
Minimum balance charges collected from current account & saving account holder	02
Value of taxable supply	182

Illustration 35:

"Help-All Foundation," a charitable trust registered under Section 12AB of the Income-tax Act, 1961, furnishes the following details with respect to activities undertaken by them in the month of August, 2025:

S.N.	Particulars	₹
(1)	Fees charged for Yoga and Meditation camp for general well-being	1,20,000
(2)	Rent received from shops owned by the trust (Rent ₹ 8,000 per month)	96,000
(3)	Rent received from community hall for a marriage function (Rent ₹ 11,000 per day)	22,000
(4)	Receipts from running a hospital for general public	45,00,000

Solution

Computation of value of taxable supply

S.N.	Particulars	₹
(1)	Fees charged for Yoga and Meditation camp [Exempt as per Entry 1]	Exempt
(2)	Rent received from shops owned by the trust (Rent ₹ 8,000 per month) [Exempt as per Entry 13 since rent is < ₹ 10,000/month]	Exempt
(3)	Rent received from community hall [Taxable as rent is ₹ 10,000 or more per day]	22,000
(4)	Receipts from running a hospital for general public [Exempt as Healthcare Services - Entry 74]	Exempt
	Value of taxable supply	22,000

Illustration 36:

Mr. Nyaya, a Senior Advocate, provides the following services during the month of September, 2025:

S.N.	Particulars	₹
(1)	Legal advice to Mr. A, an individual (not a business entity)	1,50,000
(2)	Legal representation services to M/s Small Traders (Partnership Firm with turnover ₹ 15 Lakhs in preceding FY)	2,00,000

(3)	Legal services to M/s Big Corp Ltd. (Company with turnover ₹ 5 Crores in preceding FY)	10,00,000
(4)	Legal services to the Central Government	5,00,000

Solution

Computation of value of taxable supply

S.N.	Particulars	₹
(1)	Legal advice to Mr. A [Exempt as per Entry 45]	Exempt
(2)	Legal representation services to M/s Small Traders [Exempt as per Entry 45 - Small Business Entity]	Exempt
(3)	Legal services to M/s Big Corp Ltd. [Taxable under RCM - Liability on Recipient]	-
(4)	Legal services to the Central Government [Exempt as per Entry 45]	Exempt
	Value of taxable supply (in hands of Mr. Nyaya)	Nil
(Item 3 is taxable but liability is on M/s Big Corp Ltd under Reverse Charge. Hence taxable value for forward charge for Mr. Nyaya is Nil).		

Illustration 37:

The Department of Posts, Government of India, provides the following services in October, 2025:

S.N.	Particulars	₹
(1)	Sale of Postal Stationery (Post cards, Inland letters)	50,000
(2)	Services of Speed Post provided to a business entity	2,50,000
(3)	Services of Express Parcel Post provided to individuals	1,00,000

Solution

Computation of value of taxable supply

S.N.	Particulars	₹
(1)	Sale of Postal Stationery [Exempt as per Entry 24C]	Exempt
(2)	Services of Speed Post [Taxable as per Entry 6]	2,50,000
(3)	Services of Express Parcel Post [Taxable as per Entry 6]	1,00,000
	Value of taxable supply	3,50,000

Illustration 38:

Mr. House-Lord furnishes the following details regarding rent received during November, 2025:

S.N.	Particulars	₹
(1)	Rent from residential house let out to Mr. X (Unregistered) for residence	25,000
(2)	Rent from residential house let out to M/s AB Ltd. (Registered) for use as guest house	40,000
(3)	Rent from commercial shop let out to a small trader	15,000
(4)	Rent from vacant land used for agriculture	10,000

Solution

Computation of value of taxable supply

S.N.	Particulars	₹
(1)	Rent from residential house let out to Mr. X for residence [Exempt as per Entry 12]	Exempt
(2)	Rent from residential house let out to M/s AB Ltd. [Taxable under RCM - Liability on Recipient]	-
(3)	Rent from commercial shop [Taxable supply]	15,000
(4)	Rent from vacant land used for agriculture [Exempt as per Entry 54]	Exempt
	Value of taxable supply	**15,000**

Illustration 39:

"Safe Journey Travels" provides the following transport services in December, 2025:

S.N.	Particulars	₹
(1)	Transport of passengers by air-conditioned stage carriage	4,00,000
(2)	Transport of passengers by non-air-conditioned stage carriage	2,00,000
(3)	Transport of passengers by metered cabs (not through ECO)	1,50,000
(4)	Transport of passengers by inland waterways	80,000

Solution

Computation of value of taxable supply

S.N.	Particulars	₹
(1)	Transport of passengers by air-conditioned stage carriage [Taxable]	4,00,000
(2)	Transport of passengers by non-air-conditioned stage carriage [Exempt as per Entry 15]	Exempt
(3)	Transport of passengers by metered cabs [Exempt as per Entry 17]	Exempt
(4)	Transport of passengers by inland waterways [Exempt as per Entry 17]	Exempt
	Value of taxable supply	**4,00,000**

Illustration 40:

Global Bank Ltd. furnishes the following details for the month of January, 2026:

S.N.	Particulars	₹ (in Lakhs)
(1)	Interest on Term Loans extended to corporate clients	500
(2)	Interest on credit card outstanding balances	40
(3)	Discount earned on bill discounting services	20
(4)	Processing fees on loan sanction	10

Solution

Computation of value of taxable supply

S.N.	Particulars	₹ (in Lakhs)
(1)	Interest on Term Loans [Exempt as per Entry 27]	Exempt
(2)	Interest on credit card outstanding balances [Taxable as specifically excluded in Entry 27]	40
(3)	Discount earned on bill discounting services [Exempt as per Entry 27]	Exempt
(4)	Processing fees on loan sanction [Taxable - Not covered in interest definition]	10
	Value of taxable supply	50

Illustration 41:

Ms. Kala, a performing artist, provides the following information regarding her receipts in February, 2026:

S.N.	Particulars	₹
(1)	Consideration for performance in Classical Dance	1,45,000
(2)	Consideration for performance in Classical Music	1,60,000
(3)	Consideration for performance in a modern art form (Western Dance)	80,000
(4)	Consideration for acting as a Brand Ambassador for a saree brand	2,00,000

Solution

Computation of value of taxable supply

S.N.	Particulars	₹
(1)	Performance in Classical Dance [Exempt as per Entry 78 - Amount ≤ ₹ 1.5 Lakhs]	Exempt
(2)	Performance in Classical Music [Taxable - Amount > ₹ 1.5 Lakhs]	1,60,000
(3)	Performance in Western Dance [Taxable - Not a folk/classical art form]	80,000
(4)	Acting as Brand Ambassador [Taxable - Specifically excluded from Entry 78]	2,00,000
	Value of taxable supply	4,40,000

Quick MCQ

1. Services by an entity registered u/s 12AA/12AB of the Income Tax Act are exempt from GST if they are by way of:

   a. Any activity listed in the trust deed

   b. Advancement of any object of general public utility

   c. Charitable activities as defined in the Notification

   d. Running a school or college only

   Correct: c

   Reason: Entry 1 of Notification 12/2017-CT(R) exempts services only if they fall within the specific definition of "charitable activities" given in the notification (e.g., public health, advancement of religion, etc.).

2. Mr. A rents his residential dwelling to Mr. B (a registered person) for use as a guest house for Mr. B's company staff. The rent is ₹ 50,000 per month. The taxability is:
   a. Exempt, as it is renting of residential dwelling
   b. Taxable under Forward Charge
   c. Taxable under Reverse Charge Mechanism (RCM)
   d. Exempt since the value is below ₹ 20 Lakhs

   Correct: c

   Reason: Renting of residential dwelling for use as residence is exempt only if provided to an unregistered person. If provided to a registered person (Mr. B), it is taxable under RCM.
3. Which of the following services provided by the Department of Posts is exempt from GST?
   a. Speed Post
   b. Express Parcel Post
   c. Life Insurance Option
   d. Post cards and Inland letters

   Correct: d

   Reason: Entry 24C exempts services by the Department of Posts by way of post card, inland letter, book post, and ordinary post (envelopes < 10g). Speed post and insurance are taxable.
4. Services provided by a Senior Advocate to a business entity with an aggregate turnover of ₹ 15 Lakhs in the preceding financial year are:
   a. Taxable under Forward Charge
   b. Taxable under Reverse Charge
   c. Exempt from GST
   d. Taxable @ 18%

   Correct: c

   Reason: Entry 45 exempts legal services provided to a business entity with an aggregate turnover up to such amount in the preceding FY as makes it eligible for exemption from registration (i.e., small business entities).
5. Transportation of passengers by which of the following modes is not exempt from GST?
   a. Metro, Monorail, or Tramway
   b. Inland Waterways
   c. Air conditioned stage carriage
   d. Non-air conditioned contract carriage (other than radio taxi)

   Correct: c

   Reason: Entry 15 exempts stage carriage other than air-conditioned stage carriage. Therefore, AC stage carriage is taxable.
6. Under Entry 12A, supply of accommodation services is exempt if the value of supply is less than or equal to _____ per person per month and is supplied for a minimum continuous period of _____.
   a. ₹ 1,000; 30 days
   b. ₹ 20,000; 90 days

c. ₹ 5,000; 60 days

d. ₹ 25,000; 180 days

Correct: b

Reason: Entry 12A exempts accommodation services if the value is ≤ ₹ 20,000 per person per month, provided the stay is for a minimum continuous period of 90 days.

7. Interest earned on which of the following is Taxable under GST?

   a. Interest on Housing Loan extended by a Bank

   b. Interest on Fixed Deposit

   c. Interest on Credit Card outstanding balance

   d. Interest on Savings Bank Account

   Correct: c

   Reason: Entry 27 exempts interest or discount on loans, deposits, or advances, but explicitly excludes interest involved in credit card services, which is taxable.

8. Services by an artist by way of a performance in folk or classical art forms of music, dance, or theatre are exempt if the consideration charged for such performance is not more than:

   a. ₹ 50,000

   b. ₹ 1,00,000

   c. ₹ 1,50,000

   d. ₹ 2,50,000

   Correct: c

   Reason: Entry 78 exempts performance by an artist in folk/classical art forms if the consideration does not exceed ₹ 1,50,000. Brand ambassador services are excluded.

9. Services of life insurance business provided by the Naval Group Insurance Fund to the personnel of the Coast Guard are:

   a. Taxable @ 18%

   b. Exempt

   c. Taxable under RCM

   d. Zero Rated

   Correct: b

   Reason: Entry 29A specifically exempts services of life insurance provided by the Naval Group Insurance Fund to Coast Guard personnel.

10. Admission to which of the following is not covered under the exemption Entry 81 (upto ₹ 500)?

    a. Circus

    b. Planetarium

    c. Movie in a Multiplex Option

    d. Recognized Sporting Event

    Correct: c

    Reason: Entry 81 covers circus, dance, theatre, award functions, concerts, pageants, sporting events, and planetariums. It does not cover admission to cinema/multiplexes.

5.2.5 Composition Levy

The composition levy is an alternative method of levy of tax designed for small taxpayers whose turnover is up to prescribed limit. The objective of composition scheme is to bring simplicity, ease compliance burden and reduce cost of compliance for the small taxpayers. The scheme is optional. It essentially provides for a turnover tax regime for such tax-payers, with facility of less compliance.

An eligible person opting to pay tax under the composition scheme shall, instead of paying tax on every invoice at the specified rate, pay tax at a prescribed percentage of his turnover.

Advantages of Composition Scheme

The following are the advantages of registering under composition scheme:

- Lesser compliance (returns, maintaining books of record, issuance of invoices)
- Limited tax liability
- High liquidity as taxes are levied at a lower rate

Disadvantages of Composition Scheme

The disadvantages of registering under GST composition scheme are as under:

- A limited territory of business. The dealer is barred from carrying out inter-state transactions
- No Input Tax Credit available to composition dealers
- The taxpayer will not be eligible to supply non-taxable goods under GST such as alcohol.
- The taxpayer will not be eligible to supply goods through an e-commerce portal.
- No ITC to the buyer of goods from the supplier under composition scheme, which will lead to increase in cost.

Composition Levy [Sec. 10]

A registered person, whose aggregate turnover in the preceding financial year did not exceed threshold limit, may opt to pay, in lieu of the tax payable by him u/s 9(1), an amount of tax calculated at such rate as may be prescribed.

Threshold limit [Notification No. 14/2019-CT dated 07-03-2019]

The limit are as under:

Case	Limit	
	Location	Threshold Limit
Supply of goods and restaurant service (restaurant, mandap keeper, and outdoor caterer who made supplies, by way of or as a part of any service of goods, being food or any other article for human consumption or any drink other than alcoholic liquor for human consumption)	1. Arunachal Pradesh, 2. Manipur, 3. Meghalaya, 4. Mizoram, 5. Nagaland, 6. Sikkim, 7. Tripura, 8. Uttarakhand	₹ 75 lakh
	Other States / UT	₹ 1.5 crore

Taxpoint: The person is allowed to opt for consumption scheme in the current financial year if his turnover of the preceding financial year did not exceed aforesaid limit.	
Manufacturers and Traders are allowed to supply of services with supply of goods and/or restaurant service	Higher of the following is allowed: a. 10% of turnover in a State or UT in the preceding financial year b. ₹ 5,00,000
Supplier of service other than restaurant services	₹ 50 lakh

Taxpoint:

- Manufacturer of
  - a ice cream and other edible ice, whether or not containing cocoa; or
  - b Pan masala; or
  - c Tobacco and manufactured tobacco substitutes; or
  - d aerated water; or
  - e fly ash bricks, fly ash aggregate with 90% or more fly ash content; Fly ash blocks; or
  - f Bricks of fossil meals or similar siliceous earths; or
  - g Building bricks; or
  - h Earthen or roofing tiles,

  are not eligible for composition scheme.
- The value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount shall not be taken into account for determining the value of turnover in a State or Union territory

Rates of GST for the supplier under composition scheme [Read with Rule 7]

The rate are as under:

Case	Rate of GST
Manufacturers other than manufacturer of ice cream, pan masala, tobacco or aerated water, etc.	1% (i.e. 0.5% CGST + 0.5% SGST) of the turnover* in State or turnover in Union territory
Traders	1% (i.e. 0.5% CGST + 0.5% SGST) of the turnover of taxable supplies of goods and services in the State or Union territory
Restaurant Services	5% (i.e. 2.5% CGST + 2.5% SGST) of the turnover* in State or turnover in Union territory
Services other than restaurant services	6% (i.e. 3% CGST + 3% SGST) of the turnover of supplies of goods and services in the State or Union territo-ry

The composition supplier shall be liable to make payment at the rate applicable on the supply in respect of every inward supply liable to tax under the reverse charge mechanism, regardless of the rate of tax that is applicable on him on the outward supplies effected by him. It may be noted that the value of such inward supplies would not be included in the aggregate turnover of the composition taxpayer although the liability is discharged by him on such inward supplies.

* Exempted as well as taxable

Restriction on the supplier of goods and restaurant services opting for composition scheme [Sec. 10(2)]

The registered person shall be eligible to opt for composition scheme, if:

a. he is not engaged in the supply of services (however, upto certain limit as mentioned above, supply of service is allowed);

b. he is not engaged in making any supply of goods or services which are not leviable to tax under this Act (however, he may deal in exempt supply);

c. he is not engaged in making any inter-State outward supplies of goods or services;

d. he is not engaged in making any supply of services through an electronic commerce operator who is required to collect tax at source u/s 52;

Taxpoint: The restriction is on the supply of services through e-commerce operator

e. he is not a manufacturer of notified goods i.e., ice cream and other edible ice, whether or not containing cocoa, or Pan masala or Tobacco and manufactured tobacco substitutes or aerated water, etc.

f. he is neither a casual taxable person nor a non-resident taxable person

Taxpoint: Where more than one registered persons are having the same PAN, the registered person shall not be eligible to opt for the scheme unless all such registered persons opt to pay tax under the scheme. i.e., all registered person having same PAN must opt for composition scheme.

Example:

A company has the following businesses separately registered:

- Sale of mobile devices (registered in Kerala)
- Franchisee of branded restaurant (registered in Goa)

The scheme would be applicable for the said two units. The company cannot opt for composition scheme for the registration in Kerala and opt to pay taxes under the regular scheme for the registration in Goa.

Restriction on the supplier of services opting for composition scheme [Sec. 10(2A)]

The registered person, being supplier of services, are eligible to composition scheme if:

a. he is not engaged in making any supply of goods or services which are not leviable to tax under this Act;

b. he is not engaged in making any inter-State outward supplies of goods or services;

c. he is not engaged in making any supply of services through an electronic commerce operator who is required to collect tax at source u/s 52;

d. he is not a manufacturer of notified goods* or supplier of notified services; and

e. he is not a casual taxable person or a non-resident taxable person:

Taxpoint: Where more than one registered persons are having the same PAN, the registered person shall not be eligible to opt for the scheme unless all such registered persons opt to pay tax under the scheme. i.e., all registered person having same PAN must opt for composition scheme.

* manufacturer of notified goods i.e., ice cream and other edible ice, whether or not containing cocoa, or Pan masala or Tobacco and manufactured tobacco substitutes or aerated water, etc.

Aggregate Turnover and turnover for the purpose of computing tax

- As per sec. 2(6), aggregate turnover means the aggregate value of:

  a. all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis),

  b. exempt supplies (excluding exempted services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount),

  c. exports of goods or services or both; and

  d. inter-State supplies of persons having the same PAN (i.e., stock transfer between branches, etc.)

  to be computed on all India basis but excludes

  - central tax, State tax, Union territory tax, integrated tax and cess.
  - the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount

- For the purposes of computing aggregate turnover of a person for determining his eligibility to pay tax under this section, the expression "aggregate turnover" shall include the value of supplies made by such person from the 1st day of April of a financial year up to the date when he becomes liable for registration under this Act, but shall not include the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

- Further, for the purposes of determining the tax payable by a person under this section, the expression "turnover in State or turnover in Union territory" shall not include the value of following supplies:

  i. supplies from the first day of April of a financial year up to the date when such person becomes liable for registration under this Act; and

  ii. exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

Lapse of options [Sec. 10(3)]

The option availed of by a registered person for composition scheme shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the threshold limit.

Person not eligible to collect tax [Sec. 10(4)]

A taxable person, who opts for composition levy, shall not collect any tax from the recipient on supplies made by him nor shall he be entitled to any credit of input tax.

Taxpoint: The composition supplier is required to pay tax from his own pocket.

Penalty in case of wrongfully availing the scheme [Sec. 10(5)]

If the proper officer has reasons to believe that a taxable person has paid tax under composition levy, despite not being eligible, such person shall, in addition to any tax that may be payable by him under any other provisions of this Act, be liable to a penalty and the provisions of sec. 73 or 74 or 74A shall, mutatis mutandis, apply for determination of tax and penalty.

Other Rules

Intimation for composition levy [Rule 3]

1. Any person who applies for registration under rule 8(1) may give an option to pay tax u/s 10 in Part B of Form GST REG-01, which shall be considered as an intimation to pay tax under the said section.
2. Any registered person who opts to pay tax u/s 10 shall electronically file an intimation in Form GST CMP-02, duly signed or verified through electronic verification code, on the common portal, either directly or through a Facilitation Centre, prior to the commencement of the financial year for which the option to pay tax under the aforesaid section is exercised.
3. He shall also furnish the statement in Form GST ITC-03 in accordance with the provisions of rule 44(4) within a period of 60 days from the commencement of the relevant financial year.
4. Any intimation in respect of any place of business in any State or Union territory shall be deemed to be an intimation in respect of all other places of business registered on the same PAN.

Effective date for composition levy [Rule 4]

The intimation shall be considered only after the grant of registration to the applicant and his option to pay tax u/s 10 shall be effective from the following date:

Where the application for registration has been submitted within a period of 30 days from the date of his becoming liable to registration	The registration shall be effective from the date on which the person becomes liable to registration.
Where an application for registration has been submitted by the applicant after the expiry of 30 days from the date of his becoming liable to registration	The date of grant of registration

Conditions and restrictions for composition levy [Rule 5]

The person exercising the option to pay tax u/s 10 shall comply with the following conditions:

a. he is neither a casual taxable person nor a non-resident taxable person;

b. the goods held in stock by him have not been purchased from an unregistered supplier and where purchased, he pays the tax under sec. 9(4) i.e., reverse charge;

c. he shall pay tax u/s 9(3) or (4) on inward supply of goods or services or both;

d. he was not engaged in the manufacture of notified goods* during the preceding financial year;

e. he shall mention the words "composition taxable person, not eligible to collect tax on supplies" at the top of the bill of supply issued by him; and

f. he shall mention the words "composition taxable person" on every notice or signboard displayed at a prominent place at his principal place of business and at every additional place or places of business.

Taxpoint: The registered person paying tax u/s 10 may not file a fresh intimation every year and he may continue to pay tax under the said section subject to the provisions of the Act and these rules.

* ice cream and other edible ice, whether or not containing cocoa, or Pan masala or Tobacco and manufactured tobacco substitutes or aerated water, etc.

Validity of composition levy [Rule 6]

1. The option exercised by a registered person to pay tax u/s 10 shall remain valid so long as he satisfies all the conditions mentioned in the said section and under these rules.
2. Such person shall be liable to pay tax u/s 9(1) from the day he ceases to satisfy any of the conditions mentioned in sec. 10 or the provisions of this Chapter and shall issue tax invoice for every taxable supply made thereafter and he shall also file an intimation for withdrawal from the scheme in Form GST CMP-04 within 7 days of the occurrence of such event.
3. The registered person who intends to withdraw from the composition scheme shall, before the date of such withdrawal, file an application in Form GST CMP-04, duly signed or verified through electronic verification code, electronically on the common portal.
4. Where the proper officer has reasons to believe that the registered person was not eligible to pay tax u/s 10 or has contravened the provisions of the Act or provisions of this Chapter, he may issue a notice to such person in Form GSTCMP-05 to show cause within 15 days of the receipt of such notice as to why the option to pay tax under section 10 shall not be denied.
5. Upon receipt of the reply to the show-cause notice from the registered person in Form GST CMP-06, the proper officer shall issue an order in Form GST CMP-07 within a period of 30 days of the receipt of such reply, either accepting the reply, or denying the option to pay tax u/s 10 from the date of the option or from the date of the event concerning such contravention, as the case may be.
6. Every person who has furnished an intimation or filed an application for withdrawal or a person in respect of whom an order of withdrawal of option has been passed in Form GST CMP-07, may electronically furnish at the common portal, either directly or through a Facilitation Centre, a statement in Form GST ITC-01 containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn or denied, within a period of 30 days from the date from which the option is withdrawn or from the date of the order passed in FORM GST CMP-07, as the case may be.
7. Any intimation or application for withdrawal or denial of the option to pay tax u/s 10 in respect of any place of business in any State or Union territory, shall be deemed to be an intimation in respect of all other places of business registered on the same PAN.

Illustration 42:

Mr. Ritesh of Assam, provides the following information for the preceding financial year 2024-25. You are required to find out the aggregate turnover for the purpose of eligibility of composition levy scheme and determine whether he is eligible for composition levy scheme or not, for the F.Y. 2025-26.

Particulars	₹ in lakh
Value of taxable outward supplies (out of above, ₹ 10 lakh was in course of inter-state transactions)	75.00
Value of exempt supplies (which include ₹ 30 lakh received as interest on loans & advances)	70.00
Value of inward supplies on which he is liable to pay tax under reverse charge	15.00
Value of exports	7.00

All the amounts are exclusive of GST. Further, he assured that in F.Y. 2025-26, no inter-State supply will be executed by him.

Solution

Computation of aggregate turnover of Mr. Ritesh for F.Y. 2024-25 for the purpose of eligibility of composition levy scheme

Particulars	₹ in lakh
Value of taxable outward supplies [All taxable supplies including inter-State supplies]	75
Value of exempt supplies [excluding value of supply of services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount]	40
Value of inward supplies on which Mr. Ritesh is liable to pay tax under reverse charge	Nil
Value of exports	7
Aggregate turnover for determining eligibility for composition scheme	122

A registered person of Assam is eligible to opt for composition levy if his aggregate turnover does not exceed ₹ 1.5 crore in the preceding financial year. Therefore, in the given case, Mr. Ritesh is eligible to opt for composition levy for F.Y. 2025-26.

Illustration 43:

M/s. Bharat & Sons, a partnership firm based in Lucknow, Uttar Pradesh, is a registered trader of electronic goods. Their aggregate turnover for F.Y. 2024-25 was ₹ 1.20 Crores. For the F.Y. 2025-26, they provide the following details of their outward supplies:

1. Intra-state supplies of taxable goods: ₹ 80,00,000
2. Intra-state supplies of goods through an E-commerce Operator (ECO): ₹ 15,00,000
3. Intra-state supplies of exempt goods: ₹ 5,00,000
4. Interest received on bank deposits: ₹ 2,00,000

Additionally, they made an inward supply (purchase) of ₹ 2,00,000 from an unregistered person on which GST is payable under Reverse Charge Mechanism (RCM) at 18%.

Required:

1. Determine the eligibility of M/s. Bharat & Sons for the Composition Scheme for F.Y. 2025-26.
2. Compute the total GST liability for F.Y. 2025-26, assuming they opted for the scheme.

Solution

1. Determination of Eligibility

- **Threshold Limit:** Since Uttar Pradesh is not a "Special Category State" for GST thresholds, the limit for a trader is ₹ 1.5 Crores.
- **Preceding Year Turnover:** The turnover of ₹ 1.20 Crores is within the limit.
- **E-commerce Nuance:** Under Notification No. 36/2023-CT, a composition dealer can now make intra-state supply of goods through an ECO.
- **Interest Exclusion:** Interest received on deposits is excluded from "Aggregate Turnover" for eligibility purposes.
- **Status:** Eligible to opt for the Composition Scheme u/s 10(1).

2. Computation of GST Liability (F.Y. 2025-26)

Particulars	Value (₹)	Rate	CGST (₹)	SGST (₹)
Taxable Goods (Normal)	80,00,000	1%	40,000	40,000
Goods supplied through ECO	15,00,000	1%	7,500	7,500
Exempt Goods (Traders pay on taxable turnover only)	5,00,000	0%	Nil	Nil
Interest on Deposits (Excluded)	2,00,000	--	--	--
Total Outward Tax Liability			**47,500**	**47,500**
Add: Tax on RCM Inward Supplies	2,00,000	18%	18,000	18,000
Total GST Liability to be paid in Cash			**65,500**	**65,500**

Illustration 44:

Mr. Amit, a trader of hardware goods in Bhopal, Madhya Pradesh, opted for the composition scheme in F.Y. 2025-26. His turnover in the preceding F.Y. (2024-25) was ₹ 80 Lakhs. During the first quarter of F.Y. 2025-26, he provides the following data:

1. Taxable supply of hardware goods: ₹ 15,00,000
2. Exempt supply of goods: ₹ 2,00,000
3. Repairing services provided (not restaurant): ₹ 1,50,000
4. Interest received on personal savings bank account: ₹ 40,000

Calculate the GST payable for the quarter and determine if the supply of services affects his eligibility.

Solution

1. **Eligibility for Services:** As a trader, Mr. Amit can provide services other than restaurant services up to 10% of turnover in the preceding year or ₹ 5 Lakhs, whichever is higher.
   - 10% of ₹ 80 Lakhs = ₹ 8,00,000.
   - Since his current service supply (₹ 1.50 Lakhs) is within the limit, he remains eligible.
2. **GST Calculation:** Traders pay 1% only on the taxable supplies of goods and services.
   - Taxable Turnover = ₹ 15,00,000 (Goods) + ₹ 1,50,000 (Services) = ₹ 16,50,000.
   - Interest income and exempt goods are excluded for a trader's tax payment calculation.
   - GST Payable: ₹ 16,50,000 × 1% = ₹ 16,500 (₹ 8,250 CGST + ₹ 8,250 SGST).

Illustration 45:

M/s. Himalayan Delights operates a restaurant in Kolkata, West Bengal. Their aggregate turnover for F.Y. 2024-25 was ₹ 72 Lakhs. In F.Y. 2025-26, they anticipate a turnover of ₹ 90 Lakhs.

Required:

1. Is the restaurant eligible to opt for the composition scheme for F.Y. 2025-26?
2. What would be the answer if the restaurant was located in Gangtok, Sikkim?

Solution:

1. **West Bengal Eligibility:** For West Bengal, the threshold limit is ₹ 1.5 Crores (similar to other states).

   Therefore, in West Bengal, they would be well within the limit and eligible.

2. **Sikkim Eligibility:** Sikkim is a special category state where the threshold limit for composition eligibility is ₹ 75 Lakhs.

Since the preceding year's turnover (₹ 72 Lakhs) did not exceed ₹ 75 Lakhs, they are eligible.

3. **Tax Rate:** In either state, as a restaurant service provider, they will pay GST at 5% on their turnover.

Illustration 46:

XYZ Pvt Ltd has two units:

- Unit A (Jaipur): Engaged in the manufacture of textile (Aggregate turnover ₹ 40 Lakhs).
- Unit B (Delhi): Engaged in the manufacture of Ice Cream (Aggregate turnover ₹ 20 Lakhs). The company wants to opt for the composition scheme for Unit A while keeping Unit B under the regular scheme.

Required: Discuss the eligibility with reference to the "Same PAN" rule and the impact of the manufactured product.

Solution

1. **Same PAN Rule:** All registered persons having the same PAN must opt for the composition scheme together. The company cannot choose the scheme for only one unit.
2. **Product Restriction:** A manufacturer of Ice Cream is explicitly not eligible for the composition scheme.
3. **Conclusion:** Since Unit B (Ice Cream manufacturer) is ineligible for the scheme, and all units under the same PAN must opt in together, Unit A is also disqualified from opting for the composition scheme. The entire company must pay tax under the regular scheme u/s 9(1).

Illustration 47:

M/s. Tasty Bites, a restaurant in Shimla, Himachal Pradesh, opted for the composition scheme. Their turnover for the Financial Year 2025-26 is as follows:

- Intra-state supply of food and drinks: ₹ 60,00,000
- Intra-state supply of non-taxable (alcohol) items: ₹ 10,00,000

Determine the tax liability under the composition scheme.

Solution

1. **Eligibility Note**: A composition dealer cannot supply non-taxable items like alcohol, the presence of such supply in a restaurant disqualifies the person from composition scheme.
2. **Computation of Tax Liability:**
   - Restaurant services are taxed at 5% of the turnover in the State.
   - Turnover for Tax: ₹ 60,00,000
   - CGST (2.5%): ₹ 1,50,000
   - SGST (2.5%): ₹ 1,50,000

Illustration 48:

M/s. Bharat Electronics, a partnership firm based in Lucknow, Uttar Pradesh, is a registered manufacturer of electronic components. Their aggregate turnover for the Financial Year 2024-25 was ₹1.35 Crores. For the first quarter of the Financial Year 2025-26, they provided the following details of their outward supplies:

Particulars	Amount (₹)	Applicable Rate
Intra-State taxable supply of electronic components	40,00,000	5%
Intra-State supply of components exempt from GST	5,00,000	Nil
Repairing services provided (incidental)	12,50,000	18%
Interest received on bank fixed deposits	1,50,000	Nil

Additionally, they made an inward supply (purchase) of ₹ 3,00,000 from an unregistered person, which is liable to GST under the Reverse Charge Mechanism (RCM) at 18%.

Required:

1. Determine the eligibility of M/s. Bharat Electronics for the Composition Scheme for FY 2025-26.
2. Calculate the total GST liability for the first quarter of FY 2025-26, showing CGST and SGST separately.

Solution

1. Determination of Eligibility

- **Threshold Limit**: The turnover limit for composition eligibility in Uttar Pradesh is ₹ 1.5 Crores.
- **Aggregate Turnover (FY 2024-25)**: Since their preceding year's turnover was ₹ 1.35 Crores, they are eligible to opt for the composition scheme.
- **Service Limit**: Manufacturers can supply incidental services up to ₹ 13.50 lakhs (i.e., 10% of FY 2024-25 turnover) or ₹ 5 Lakhs, whichever is higher. In this case, their repair service of ₹ 12.50 Lakhs is well within the permissible limit.
- **Interest Exclusion**: Interest earned on bank deposits is excluded when calculating the aggregate turnover for eligibility purposes.

2. Computation of GST Liability (Q1 FY 2025-26)

Transaction Type	**Taxable Value (₹)**	**Rate**	**CGST @ 0.5% / 9%**	**SGST @ 0.5% / 9%**
Outward Supplies				
Taxable Components	40,00,000	1%	20,000	20,000
Exempt Components	5,00,000	1%	2,500	2,500
Incidental Services	12,50,000	1%	6,250	6,250
Bank Interest	1,50,000	Exempt	Nil	Nil
Inward Supplies				
RCM Purchases	3,00,000	18%	27,000	27,000
Total Liability			**55,750**	**55,750**

Taxpoint:

A manufacturer under the composition scheme pays 1% (0.5% CGST + 0.5% SGST) on the total turnover in the state, which includes both taxable and exempt supplies of goods.

- **RCM Liability**: GST on inward supplies under RCM must be paid at the normal rates (not the composition rate) and cannot be offset by any Input Tax Credit (ITC).
- **Bank Interest**: Value of exempt supply of services provided by way of extending deposits/loans where consideration is interest is not taken into account for determining the value of turnover in a State for tax payment purposes.

Illustration 49:

How shall your answer differ if the aggregate turnover of the financial year 2024-25 was only ₹ 1,20,00,000.

Solution

1. Determination of Eligibility

- **Threshold Limit**: The turnover limit for composition eligibility in Uttar Pradesh is ₹ 1.5 Crores.
- **Aggregate Turnover (FY 2024-25)**: Since their preceding year's turnover was ₹ 1.20 Crores, they are eligible to opt for the composition scheme.
- **Service Limit**: Manufacturers can supply incidental services up to ₹ 12 lakhs (i.e., 10% of FY 2024-25 turnover) or ₹ 5 Lakhs, whichever is higher. In this case, their repair service of ₹ 12.50 Lakhs which exceed the prescribed limit. Consequently, the taxpayer becomes ineligible for the composition scheme for the FY 2025-26 and must register as a regular taxpayer.
- **Interest Exclusion**: Interest earned on bank deposits is excluded when calculating the aggregate turnover for eligibility purposes.

2. Computation of GST Liability (Q1 FY 2025-26)

Transaction Type	Taxable Value (₹)	Rate	CGST	SGST
Outward Supplies				
Taxable Components	40,00,000	5%	1,00,000	1,00,000
Exempt Components	5,00,000	Exempt	Nil	Nil
Incidental Services	12,50,000	18%	1,12,500	1,12,500
Bank Interest	1,50,000	Exempt	Nil	Nil
Inward Supplies				
RCM Purchases	3,00,000	18%	27,000	27,000
Gross GST Liability			**2,39,500**	**2,39,500**

Taxpoint

- The taxpayer can claim ITC on all inward supplies.
- The taxpayer must issue a Tax Invoice and can collect GST from customers.

Illustration 50:

Mr. Gupta, a trader dealing in electronic accessories in Pune, Maharashtra, provides the following estimates for the Financial Year 2025-26. He wants to decide whether to opt for the Composition Scheme or continue under the Regular Scheme.

The estimated figures are as follows:

1. Total Purchase of Goods: ₹ 50,00,000 (exclusive of GST @ 18%).
2. Total Sales (at fixed selling price inclusive of all taxes): ₹ 78,40,000.
3. GST Rate on Sales: 18% (if under Regular Scheme).
4. Estimated Administrative/Compliance Cost per year:
   - Under Regular Scheme: ₹ 1,20,000
   - Under Composition Scheme: ₹ 40,000

Assumption: The selling price to the final consumer remains fixed at ₹ 78,40,000 regardless of the scheme chosen.

Required: Determine which scheme is more beneficial for Mr. Gupta by comparing the Net Profit.

Solution

Statement of Comparative Net Profit (FY 2025-26)

Particulars	Regular Scheme (₹)	Composition Scheme (₹)
A. Revenue		
Sales Value (Inclusive of Taxes)	78,40,000	78,40,000
Less: GST Component included in Sales	(11,95,932) [Note 1]	--
Less: Composition Tax (1% on Turnover)	--	(78,400) [Note 2]
Net Revenue (A)	**66,44,068**	**77,61,600**
B. Cost of Goods Sold		
Purchase Price of Goods	50,00,000	50,00,000
Add: GST Paid on Purchases (18%)	-- [Note 3]	9,00,000 [Note 4]
Total Cost of Goods (B)	**50,00,000**	**59,00,000**
C. Gross Profit (A - B)	**16,44,068**	**18,61,600**
D. Administrative Cost	(1,20,000)	(40,000)
E. Net Profit (C - D)	**15,24,068**	**18,21,600**

Conclusion: Mr. Gupta should opt for the Composition Scheme, as it yields a higher Net Profit by ₹ 2,97,532.

Working Notes:

1. **GST Component (Regular Scheme):**
   Since the selling price is inclusive of 18% GST, the tax portion is back-calculated:
   GST = ₹ 78,40,000 x 18 / 118 = ₹ 11,95,932
   The taxable value of supply is ₹ 66,44,068 [i.e., ₹ 78,40,000 - ₹ 11,95,932]

2. **Composition Tax:**

   The dealer pays 1% on the total turnover from his own pocket.

   GST = ₹ 78,40,000 x 1% = ₹ 78,400

3. **ITC in Regular Scheme:**

   GST paid on purchases (₹ 50,00,000 x 18% = ₹ 9,00,000 is available as Input Tax Credit. It is not a cost; it is set off against the output liability of ₹ 11,95,932.

4. **Cost in Composition Scheme:**

   Input Tax Credit is blocked. The GST paid on purchases (₹ 9,00,000) is added to the cost of purchase, significantly increasing the Cost of Goods Sold.

Illustration 51:

M/S Samrat & Co., a registered entity located in Ahmedabad, Gujarat, has opted for the composition scheme for the current financial year. You are required to determine the Total GST Payable by the entity for the quarter under two independent scenarios:

1. If M/S Samrat & Co. is a Manufacturer.
2. If M/S Samrat & Co. is a Trader.

Details of supplies for the quarter are as follows:

Particulars	Amount (₹)
Intra-State supplies of Goods A (Taxable @ 18%)	15,00,000
Intra-State supplies of Goods B (Taxable @ 5%)	10,00,000
Intra-State supplies of Goods C (Exempt from GST)	5,00,000
Intra-State supplies of Goods D (Nil Rated)	2,00,000
Inward supplies liable to Reverse Charge (RCM) @ 18%	4,00,000
Interest on deposit	50,000

Solution

Statutory Provisions Reference

- **For Manufacturers:** A manufacturer pays tax at 1% (0.5% CGST + 0.5% SGST) of the "Turnover in the State/UT." This includes taxable, exempt, and nil-rated supplies.
- **For Traders:** A trader pays tax at 1% (0.5% CGST + 0.5% SGST) of the "Taxable Turnover" of supplies of goods and services in the State/UT. Exempt and Nil-rated supplies are excluded.
- **Reverse Charge:** Tax on inward supplies liable to RCM must be paid at applicable rates (not composition rates) and must be paid in cash.

Particulars	Manufacturer (₹)	Trader (₹)
Intra-State taxable supplies (₹ 15L + ₹ 10L)	25,00,000	25,00,000
Exempt & Nil Rated supplies (₹ 5L + ₹ 2L)	7,00,000	*Excluded*
Interest on deposit	*Excluded*	*Excluded*

Total Turnover for Composition Tax	32,00,000		25,00,000	
	CGST	SGST	CGST	SGST
(A) Composition Tax @ [CGST: 0.5% + SGST: 0.5%]	16,000	16,000	12,500	12,500
(B) Tax on Inward RCM [CGST: ₹ 4,00,000 x 9% + SGST: ₹ 4,00,000 x 9%]	36,000	36,000	36,000	36,000
Total GST Payable (A + B)	**52,000**	**52,000**	**48,500**	**48,500**

Illustration 52:

Mr. K was registered under the composition scheme during the preceding financial year. For the first quarter of the current financial year, he provides the following data. You are required to compute his total GST liability and determine if his eligibility for the composition scheme remains intact.

Activity	Turnover (₹)	Rate of GST (Standard Rate)
Manufacturing of Taxable Goods	12,00,000	18%
Trading of Taxable Goods	18,00,000	18%
Supply of Services (related to business)	4,00,000	18%
Export of Goods	40,00,000	

Solution

1. **Analysis of Eligibility**

   Under Section 10 of the CGST Act, a person opting for the composition scheme is not permitted to make any inter-state outward supply of goods or exports (as exports are treated as inter-state supplies).

   - **Observation**: Mr. K has engaged in the "Export of goods" amounting to ₹40,00,000.
   - **Conclusion**: By making an export, Mr. K becomes ineligible for the composition scheme from the date of such supply. He must pay tax under the regular scheme at the applicable standard rates for the entire quarter.

2. **Computation of GST Liability (Regular Scheme)**

   Since he is ineligible for composition due to exports, the tax is calculated on the individual transaction values at the standard rate of 18%.

Activity	Turnover (₹)	GST Rate	CGST (₹)	SGST (₹)
Manufacturing	12,00,000	18%	1,08,000	1,08,000
Trading	18,00,000	18%	1,62,000	1,62,000
Services	4,00,000	18%	36,000	36,000
Export of Goods	40,00,000	0% (Zero-rated)	Nil	Nil
Gross Tax Liability			**3,06,000**	**3,06,000**

FAQ by CBIC on 15-12-2018

1. **A person availing composition scheme during a financial year crosses the turnover of ₹ 150 Lakhs/₹ 75 Lakhs during the course of the year i.e. say he crosses the turnover of ₹ 150 Lakhs / ₹ 75 Lakhs in December? Will he be allowed to pay tax under composition scheme for the remainder of the year i.e. till 31st March? [FAQ 23 (amended)]**

   Answer:

   No. The option availed shall lapse from the day on which his aggregate turnover during the financial year exceeds threshold limit. Once he crosses the threshold, he shall file an intimation for withdrawal from the scheme in Form GST CMP-04 within 7 days of the occurrence of such event. Every person who has furnished such an intimation, may electronically furnish at the common portal, a statement in Form GST ITC-01 containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn, within a period of 30 days from the date from which the option is withdrawn.

2. **How will aggregate turnover be computed for the purpose of composition scheme? [FAQ 24]**

   Answer:

   It will be computed on the basis of turnover on all India basis. "aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same PAN, to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess.

   However, a person suppling any exempt services including services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, not be ineligible for the composition scheme. In computing his aggregate turnover in order to determine his eligibility for composition scheme, value of supply of the exempt services including services by way of extending deposits, loans or advances shall not be taken into account.

3. **Can a person who has opted to pay tax under the composition scheme avail Input Tax Credit on his inward supplies? [FAQ 25]**

   Answer:

   No. A taxable person opting to pay tax under the composition scheme is out of the credit chain. He cannot take credit on his input supplies.

4. **Can a registered person, who purchases goods from a taxable person paying tax under the composition scheme, take credit on purchases made from the composition dealer? [FAQ 26]**

   Answer:

   No.

5. **Can a person paying tax under the composition scheme issue a tax invoice under GST? [FAQ 27]**

   Answer.

   No.

6. **Is monthly return required to be filed by the person opting to pay tax under the composition scheme? [FAQ 28 (amended)]**

   Answer:

   No. Such persons need to file annual returns in Form GSTR-4 by 30th April of the following year. Further, he is required to file CMP-08 by 18th of the month succeeding the quarter.

7. **Can a person who has already obtained registration, opt for payment under the composition levy? If so, how? [FAQ 39]**

   Answer:

   Yes. Such persons need to give intimation electronically in Form GST CMP-02. But the same must be done prior to commencement of financial year.

8. **In case a person has registration in multiple states? Can he opt for payment of tax under composition levy only in one state and not in other state? [FAQ 41]**

   Answer:

   No. Any intimation under rule 3(3)(1) in respect of any place of business in any State or Union territory shall be deemed to be an intimation in respect of all other places of business registered on the same Permanent Account Number.

9. **Can a person paying tax under composition levy, withdraw voluntarily from the scheme? If so, how? [FAQ 45]**

   Answer:

   Yes. The registered person who intends to withdraw from the composition scheme shall, before the date of such withdrawal, file an application in Form GST CMP-04, duly signed or verified through electronic verification code, electronically on the common portal.

   Every person who has filed an application for, may electronically furnish at the common portal, either directly or through a Facilitation Centre notified by the Commissioner, a statement in Form GST ITC-01 containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn, within a period of 30 days from the date from which the option is withdrawn.

Others

1. **Can the Composition scheme be availed if the taxable person has inter -State inward supplies?**

   Answer:

   Yes. The Composition scheme is applicable subject to the condition that the taxable person does not engage in making inter-State outward supplies (subject to Notification No. 2/2019-Central Tax (Rate) dated 07th March, 2019), while there is no restriction on making any inter-State inward supplies.

2. **What does the term "person having the same PAN" mean?**

   Answer:

   "Person having the same PAN" means all the units across India having the same PAN as is issued under the Income Tax Law.

3. What happens if a taxable person who has opted to pay taxes under the composition scheme crosses the threshold limit of ₹ 1.50 crores during the year?

Answer

In such case, from the day, the taxable person crosses the threshold, the permission granted earlier is deemed to be withdrawn and he shall be liable to pay taxes under the regular scheme i.e., section 9, from such day.

Quick MCQ

1. For a supplier located in Uttarakhand, what is the aggregate turnover threshold limit to be eligible for the composition scheme?

   a. ₹ 1.5 Crore

   b. ₹ 1 Crore

   c. ₹ 75 Lakhs

   d. ₹ 50 Lakhs

   Correct: c) ₹ 75 Lakhs

   Reason: As per the table under "Threshold limit", Uttarakhand is listed among the Special Category States where the limit is ₹ 75 lakh.

2. What is the applicable rate of GST for a trader under the composition scheme?

   a. 1% of Total Turnover

   b. 1% of Taxable Turnover of goods and services

   c. 5% of Turnover

   d. 0.5% of Total Turnover

   Correct: b) 1% of Taxable Turnover of goods and services

   Reason: The rate table specifies that for traders, the rate is 1% (0.5% CGST + 0.5% SGST) of the turnover of taxable supplies of goods and services in the State/UT.

3. How is the interest received on extending deposits, loans, or advances treated when calculating Aggregate Turnover for determining eligibility for the composition scheme?

   a. It is included in the turnover.

   b. It is excluded from the turnover.

   c. It is taxable at 18%.

   d. It is included only for manufacturers.

   Correct: b) It is excluded from the turnover.

   Reason: The file states that for determining eligibility, the value of exempt supply of services provided by way of extending deposits, loans, or advances (represented by interest/discount) shall not be taken into account.

4. Which of the following manufacturers is eligible to opt for the composition scheme?

   a. Manufacturer of Pan Masala

   b. Manufacturer of Ice Cream

   c. Manufacturer of Furniture

   d. Manufacturer of Tobacco

   Correct: c) Manufacturer of Furniture

   Reason: Manufacturers of ice cream, pan masala, tobacco, aerated water, fly ash bricks, etc., are specifically listed as not eligible for the composition scheme. A furniture manufacturer is not on this negative list.

5. A composition dealer receives inward supplies liable to tax under Reverse Charge Mechanism (RCM). How should the tax be paid?

   a. At the composition rate (e.g., 1%).

   b. No tax is payable by composition dealers on RCM.

   c. At the normal applicable rates for that supply.

   d. It is exempt.

   Correct: c) At the normal applicable rates for that supply.

   Reason: The composition supplier is liable to pay tax on RCM at the rate applicable on the supply (normal rate), regardless of the composition rate applicable to their outward supplies.

6. If a person has different business verticals registered under the same PAN in different states, can one unit opt for the composition scheme while the other remains under the regular scheme?

   a. Yes, if they are in different states.

   b. Yes, if the turnover of each unit is below ₹ 1.5 Crore.

   c. No, all registered persons with the same PAN must opt for the scheme.

   d. Yes, with the permission of the Commissioner.

   Correct: c) No, all registered persons with the same PAN must opt for the scheme.

   Reason: The file clarifies that where more than one registered person has the same PAN, the scheme is not available unless all such registered persons opt to pay tax under the scheme.

7. What specific text must a composition dealer mention on the top of the Bill of Supply issued by them?

   a. “Composition dealer, tax paid by me”

   b. “Composition taxable person, not eligible to collect tax on supplies”

   c. “Taxable person paying nominal tax”

   d. “GST paid under Section 10”

   Correct: b) “Composition taxable person, not eligible to collect tax on supplies”

   Reason: As per the conditions under Rule 5, the dealer shall mention the words “composition taxable person, not eligible to collect tax on supplies” at the top of the bill of supply.

8. Which statement is true regarding ITC for a composition dealer?

   a. They can avail ITC on capital goods only.

   b. They can avail 50% of ITC.

   c. They cannot avail any ITC, nor can the buyer claim ITC on supplies from them.

   d. They can transfer ITC to the buyer.

   Correct: c) They cannot avail any ITC, nor can the buyer claim ITC on supplies from them.

   Reason: The disadvantages section states "No Input Tax Credit available to composition dealers" and "No ITC to the buyer of goods from the supplier under composition scheme".

9. Which form is prescribed for filing the return by a person paying tax under the composition scheme?

   a. GSTR-1

   b. GSTR-3B

   c. GSTR-9

   d. GSTR-4

   Correct: d) GSTR-4

   Reason: Such persons need to file annual returns in Form GSTR-4 by 30th April of the following year.

10. A trader or manufacturer (eligible for composition) can supply services (other than restaurant) up to what limit?

    a. ₹ 5 Lakhs only.

    b. 10% of turnover in the State in the preceding FY or ₹ 5 Lakhs, whichever is higher.

    c. 20% of turnover.

    d. They are strictly prohibited from supplying any services.

    Correct: b) 10% of turnover in the State in the preceding FY or ₹ 5 Lakhs, whichever is higher.

    Reason: The table under "Threshold limit" mentions that manufacturers and traders are allowed to supply services up to Higher of: 10% of turnover or ₹ 5,00,000.

Basic Concepts of Time, Place and Value of Supply

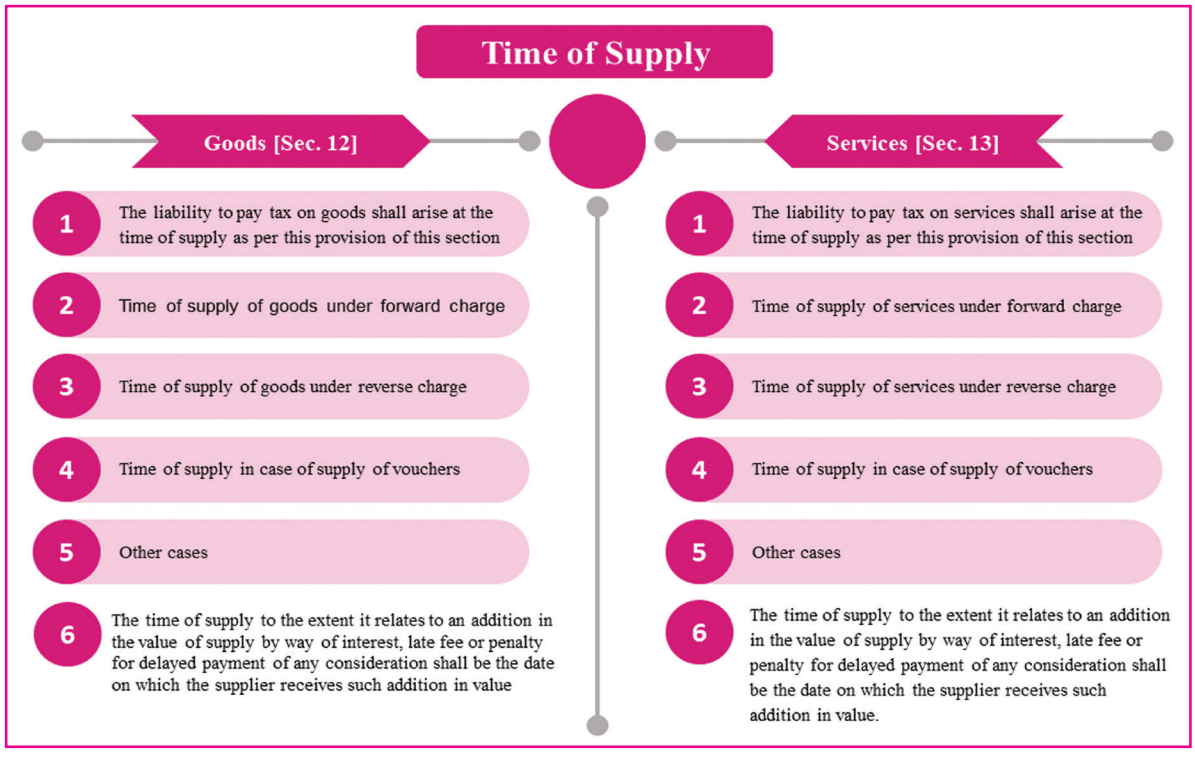
5.3

5.3.1 Time of Supply

Introduction

In order to calculate and discharge tax liability it is important to know the date when the tax liability arises i.e. the date on which the charging event has occurred. In GST law, it is known as Time of Supply. Time of supply means the point of time when goods/services are considered as supplied. If the seller knows the time of supply, then it will help him to recognize the due date for the payment of taxes.

GST law has provided separate provisions to determine the time of supply of goods and time of supply of services. The schema of the provisions is enumerated here in below:



Time of Supply of Goods – Forward Charge [Sec. 12(2)]

The time of supply of goods shall be the earlier of the following dates:

a. the date of issue of invoice by the supplier; or

b. the last date on which he is required to issue the invoice with respect to the supply u/s 31; or

c. the date on which the supplier receives the payment with respect to the supply [Not relevant]

Taxpoint

- The registered person who did not opt for the composition levy u/s 10 shall pay the Central tax on the outward supply of goods at the time of supply as specified in section 12(2)(a) (i.e. the date of issue of invoice by the supplier or the last date on which he is required, u/s 31(1), to issue the invoice with respect to the supply). Therefore, no GST is payable on advances received against supply of goods. (Notification No. 66/2017-CT dated 15/11/2017). However, benefit of this notification is not available in case of supply of service and specified actionable claims.
- Where the supplier of taxable goods receives an amount up to ₹ 1,000 in excess of the amount indicated in the tax invoice, the time of supply to the extent of such excess amount shall, at the option of the said supplier, be the date of issue of invoice in respect of such excess amount. However, this provision is also subject to aforesaid notification.
- "The date on which the supplier receives the payment" shall be the date on which the payment is entered in his books of account or the date on which the payment is credited to his bank account, whichever is earlier.
- Supply shall be deemed to have been made to the extent it is covered by the invoice or, as the case may be, the payment.

Tax Invoice [Sec. 31]

1. A registered person supplying taxable goods shall issue a tax invoice, **before or at the time of:**

Where the supply involves movement of goods	Removal of goods for supply to the recipient
Where the supply does not involve movement of goods	Delivery of goods or making available thereof to the recipient

2. In case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice shall be issued before or at the time each such statement is issued or, as the case may be, each such payment is received [Sec. 31(4)]

3. Where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued before or at the time of supply or 6 months from the date of removal, whichever is earlier [Sec. 31(7)]

In nutshell, in case of supply of goods, time of supply is as under:

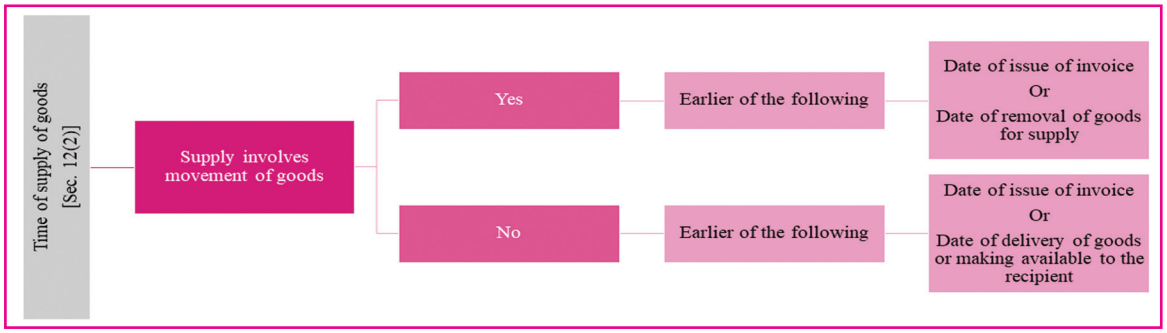


Illustration 53:

Determine the time of supply in following cases :

Case	Invoice Issued on	Removal of goods for supply on	Goods made available on	Payment received on	Time of Supply
1	15/04/2025	20/04/2025	20/04/2025	19/04/2025	15/04/2025
2	15/05/2025	20/04/2025	20/04/2025	19/04/2025	20/04/2025
3	15/04/2025	NA	20/04/2025	27/04/2025	15/04/2025
4	15/05/2025	NA	20/04/2025	30/05/2025	20/04/2025
5	15/06/2025	20/06/2025	20/06/2025	19/03/2025	15/06/2025

Illustration 54:

Ramesh issues an invoice of ₹54,200 for supply of goods as on 10/04/2025 and received ₹55,000 in his bank account through NEFT on the same date which was credited into his books of account on 11/04/2025. Determine the time of supply of goods and the time of supply of excess receipt. How shall your answer differ, if he received ₹75,000 instead of ₹55,000?

Solution

a. Time of supply in case of supply of goods shall be 10/04/2025. Date of receipt of payment is not relevant for determining time of supply in view of the Notification No. 66/2017-CT dated 15/11/2017.

b. Ramesh has received ₹ 800 in excess. He will adjust the excess amount against the next supply. The time of supply of such excess amount shall be the date of issuance of next invoice.

c. In alternate situation, he has received ₹ 20,800 in excess. Even in this situation, the time of supply of such excess amount shall be the date of issuance of next invoice assuming that this excess will be adjusted in the said invoice.

Illustration 55:

Certain goods are sent by Mr. X on sale on approval or return basis to Mr. Y on 22nd April 2025. The supply gets confirmed and invoice is issued on:

Case 1: 20th August 2025

Case 2: 22nd November 2025

Payment in each of the cases is made on 23rd November 2025.

Determine time of supply.

Solution

Date of receipt of payment is immaterial for the purpose of calculating time of supply u/s 12 of the CGST Act 2017. Therefore, 23rd November 2025 should be ignored altogether. The time of supply should be earlier of the date of issuance of invoice or the last date of issuance of invoice. The last date of issuance of invoice will be the earlier of the confirmation of supply or 6 months from the date of removal.

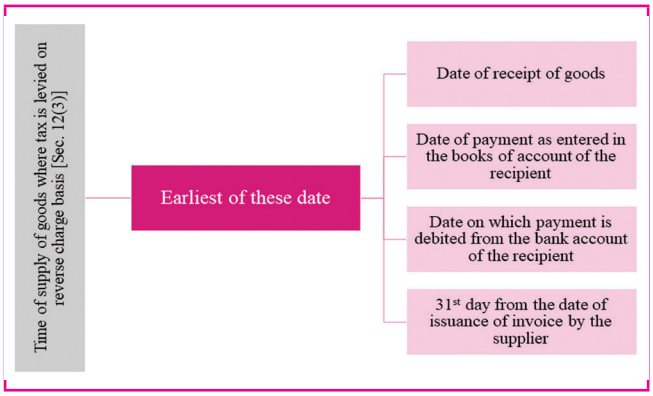
In case 1, the confirmation of supply occurred before 6 months from the date of removal. Thus, the last date of issuance of invoice was 20th August 2025. On this date, the invoice was issued. Hence, the time of supply will be 20th August 2025.

In case 2, the confirmation of supply happened after 6 months from the date of removal. The period of 6 months expired on 21st October 2025. Hence, the invoice was required to be issued by this date. Since the invoice was issued on 22nd November 2025, the actual date of issue of invoice will be considered as falling after the last date of issuance of invoice. The time of supply will be the last date of issuance of invoice i.e., 21st October 2025.

Time of Supply of Goods in case of reverse charge [Sec. 12(3)]

In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earliest of the following dates:

a. the date of the receipt of goods; or
b. the date of payment as entered in the books of account of the recipient; or
c. the date on which the payment is debited in his bank account; or
d. the date immediately following 30 days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier.



Taxpoint :

- Where it is not possible to determine the time of supply as per aforesaid rule, the time of supply shall be the date of entry in the books of account of the recipient of supply.
- Please note that in case of reverse charge, benefit of notification no. 66/2017-CT dated 15/11/2017 is not available.

Illustration 56:

Mr. Amar supplies goods (liable under reverse charge) to Mr. Nath. You are required to determine time of supply considering following details:

01.04.2025	Mr. Nath approaches Mr. Amar and places an order
10.04.2025	Mr. Nath receives the goods
15.04.2025	Mr. Amar issues an invoice
20.04.2025	Mr. Nath makes a payment by cheque and accordingly records it in his books of accounts.
25.04.2025	The payment gets debited from Mr. Nath's bank account

How shall your answer differ if the goods were received by Mr. Nath on 30.04.2025 instead of 10.04.2025

Solution:

The time of supply shall be the earlier of the following dates:

a. the date of receipt of goods i.e. 10.04.2025
b. the date of payment as recorded in the books of Mr. Nath i.e. 20.04.2025
c. the date when the payment gets debited from the bank of Mr. Nath i.e. 25.04.2025
d. the date immediately following 30 days from the date of issue of invoice by Mr. Amar, i.e. 15.04.2025 + 30

days + 1 day = 16.05.2025

Therefore, the time of supply will be 10.04.2025.

Alternate case

The time of supply shall be the earlier of the following dates:

a. the date of receipt of goods i.e. 30.04.2025

b. the date of payment as recorded in the books of Mr. Nath i.e. 20.04.2025

c. the date when the payment gets debited from the bank of Mr. Nath i.e. 25.04.2025

d. the date immediately following 30 days from the date of issue of invoice by Mr. Amar, i.e. 15.04.2025 + 30 days + 1 day = 16.05.2025

Therefore, the time of supply will be 20.04.2025.

Time of Supply of goods in residual cases [Sec. 12(5)]

Where it is not possible to determine the time of supply under any of the aforesaid provisions, the time of supply shall be:

Where a periodical return has to be filed	The date on which such return is to be filed
In any other case	The date on which the tax is paid.

Example

A raid/investigation detects removal of goods where no invoice was issued and no accounts were maintained. Since no return is filed for this specific transaction, the Time of Supply is the date of payment of tax (i.e., when the penalty/tax is finally paid).

Time of Supply in case of enhancement in value on account of interest, late fee, etc. [Sec. 12(6)]

The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.

Illustration 57:

Mr. Viswa enters into a contract for supply of goods worth ₹ 10, 00,000 with Mr. Nath on 10th April 2025. Such goods are removed with an invoice dated 12th April 2025 on 13th April 2025 for delivery to Mr. Nath. The terms of the contract demanded the payment against such supply to be made within 60 days beyond which a late payment charge of ₹ 20,000 will have to be paid by Mr. Nath. Mr. Nath makes the payment of ₹ 10,00,000 along with the late payment charges on 15th July 2025. What will be the time of supply in respect of the entire amount?

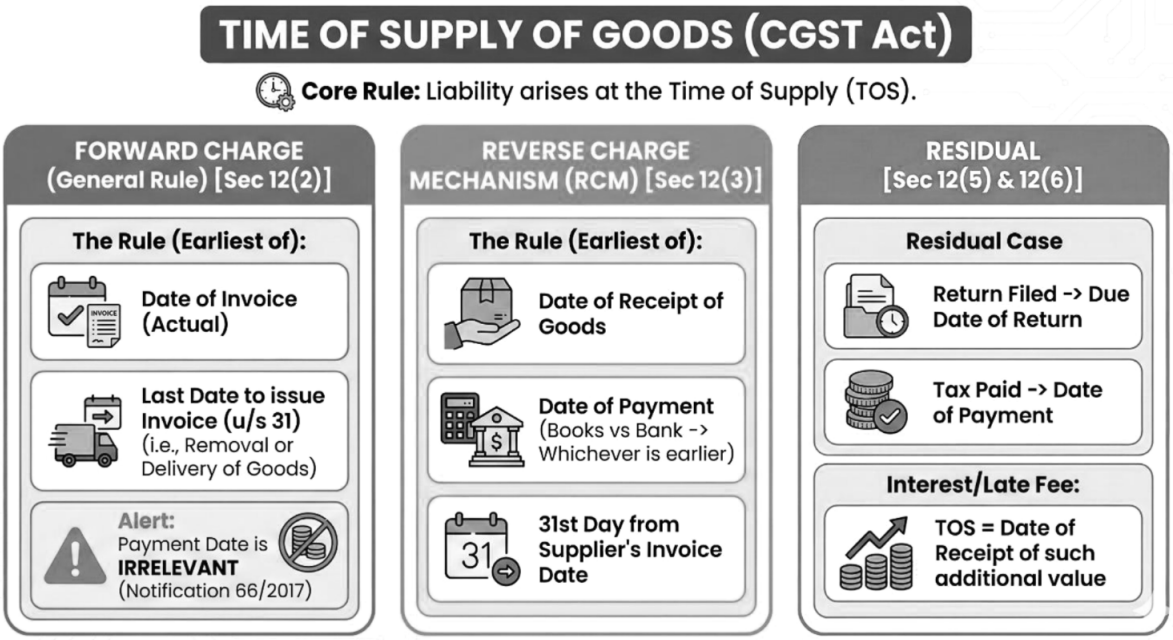
Solution

In sec. 12(2), the time of supply in respect of ₹ 10, 00,000 will be the date of issuance of invoice or last date of issuance of invoice. Last date of issuance of invoice will be the date of removal where supply involves movement of goods.

- Date of issuance of invoice: 12th April 2025
- Last date of issuance of invoice: 13th April 2025 (date of removal)
- The date of payment is immaterial as per Notification no. 66/2017-CT dated 15th November 2017.

So, the time of supply will be 12th April, 2025 in respect of ₹ 10, 00,000.

However, in respect of the time of supply for the amount of ₹ 20,000 paid as late payment charges, time of supply as per sec. 12(6) has been stated to be the date on which the supplier receives the addition in value. Here, the additional amount of ₹ 20,000 is received on 15th July 2025. Hence, the time of supply for this amount will also arise on 15th July 2025.



Time of Supply of Services – Forward Charge [Sec. 13(2)]

The time of supply of services shall be the earliest of the following dates, namely:

Situation	Time of Supply
If the invoice is issued within the period prescribed u/s 31	a. The date of issue of invoice by the supplier; b. The date of receipt of payment - whichever is earlier
If the invoice is not issued within the period prescribed u/s 31	a. The date of provision of service; b. The date of receipt of payment - whichever is earlier
In any other case	The date on which the recipient shows the receipt of services in his books of account

Taxpoint

- "The date of receipt of payment" shall be the date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.

- The supply shall be deemed to have been made to the extent it is covered by the invoice or, as the case may be, the payment.
- Where the supplier of taxable service receives an amount up to ₹1,000 in excess of the amount indicated in the tax invoice, the time of supply to the extent of such excess amount shall, at the option of the said supplier, be the date of issue of invoice relating to such excess amount.

Example:

A telephone company receives ₹ 4,000 on 27th July 2025 against an invoice of ₹ 3,800 on 23rd July 2025 in respect of the services provided. The excess amount of ₹ 200 can be adjusted against the invoice to be issued in the next month. Time of supply will arise only for ₹ 3,800 on 23rd July 2025. For the balance amount of ₹ 200, the time of supply may not arise on 27th July 2025 at the option of the supplier and may be adjusted against the next month's invoice.

If the payment received was ₹ 5000 instead of ₹ 4000

Since, the amount exceeds ₹ 1000 in terms of the excess payment received, there is no option with the supplier. Here, the supply will be deemed to have been made to the extent of the invoice of ₹ 3,800 on 23rd July 2025 and the balance amount of ₹ 1,200 will be liable to tax on 27th July 2025.

- Time limit for issuance of invoice u/s 31 r.w. r. 47:

Situation	Time limit for issuance of invoice
General cases	Within 30 days from the date of the supply of service (45 days in case of insurance/banking company or a financial institution, including NBFC)
In a case where the supply of services ceases before the completion of the supply	At the time when the supply ceases. • Such invoice shall be issued to the extent of the supply made before such cessation
In case of continuous supply of services	
• Where the due date of payment is ascertainable from the contract	On or before the due date of payment;
• Where the due date of payment is not ascertainable from the contract	Before or at the time when the supplier of service receives the payment;
• Where the payment is linked to the completion of an event	On or before the date of completion of that event

In case of an insurance / banking company or a financial institution (including NBFC), or a telecom operator, or any other class of notified supplier of services, making taxable supplies of services between distinct persons as specified in sec. 25 • A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons [Sec. 25(4)]	Before or at the time such supplier records the same in his books of account or before the expiry of the quarter during which the supply was made.

Illustration 58:

Case	Date of Supply of service	Date of issue of invoice	Date of entering payment in books	Date of credit of payment in bank	Time of Supply
1	15/04/2025	20/04/2025	22/04/2025	24/04/2025	20/04/2025
2	15/04/2025	20/05/2025	20/04/2025	20/04/2025	15/04/2025
3	15/04/2025	20/04/2025	18/04/2025	17/04/2025	17/04/2025
4	15/04/2025	20/04/2025	02/04/2025	03/04/2025	02/04/2025
5	15/04/2025	20/05/2025	02/04/2025	01/04/2025	01/04/2025

Illustration 59:

Mr. Kedar provides consultancy services to Mr. Nath worth ₹ 50,000.

08.04.2025	An advance of ₹ 10,000 is received from Mr. Nath
10.04.2025	The consultancy services are provided
16.05.2025	Mr. Kedar receives balance payment of ₹ 40,000 and records it in his books.

What will be the time of supply assuming Mr. Kedar issues the invoice on:

Situation 1 - 15.04.2025

Situation 2 – 15.05.2025

Solution

Situation 1

In the given case,

Date of issue of invoice (which is within 30 days of the supply of service)	15.04.2025
– Date of payment	
– ₹ 10,000	08.04.2025
– ₹ 40,000	16.05.2025

If the invoice is issued within the prescribed time period, the time of supply will be the date of receipt of payment or date of issue of invoice whichever is earlier. Hence, for ₹ 10,000, the time of supply will be 08.04.2025 which is the date of receipt of advance payment. For the balance amount, the time of supply will be 15.04.2025 which is earlier of 15.04.2025 (date of invoice) and 16.05.2025 (date of receipt of payment).

Situation 60:

If invoice is not issued within the prescribed time period, the time of supply will be the earlier of the date of completion of service and the date of receipt of payment. Here, invoice is issued on 15.05.2025 which is after the prescribed time period. So, for ₹ 10,000, the time of supply will be 08.04.2025 which is the date of receipt of advance payment. For the balance amount, the time of supply will be 10.04.2025 which is earlier of 10.04.2025 (date of completion of service) and 16.05.2025 (date of receipt of payment).

Illustration 61:

During investigation, it was found that Mr. X had provided catering services of ₹ 1,00,000 to Mr. Y during his business convention. The payment for these services was made in cash. Mr. X had neither issued any invoice nor recognised the payment in his books of accounts. Mr. Y recorded the payment of ₹ 1,00,000 in cash in his books on 28th April 2025. What will be the time of supply in this case?

Solution

Since, the date of receipt of payment or the date of invoice is not available in case of Mr. X, the date when the payment is recorded in the books of the recipient becomes relevant. Since, Mr. Y recorded this on 28th April, the time of supply for such supply will also be considered as 28th April 2025.

Illustration 62:

A contract for supply of professional services was entered for ₹ 10,00,000 for the period of 3 months on 20th July 2025. However, on 16th August 2025, the recipient informed the supplier that he is not willing to receive any more services under the contract. Both of them mutually agree that the services provided till date can be valued at ₹ 3,50,000. The invoice for this was issued on 20th August 2025 and the payment was made by the recipient on 25th August 2025.

Solution

In the instant case, the cessation of supply of services occurs on 16th August 2025. The date by which the invoice should have been raised was also 16th August 2025. However, the invoice was issued on 20th August 2025 which is after the prescribed time period. Therefore, the time of supply will be the earlier of the date of completion of service (16th August 2025) and the date of payment (25th August 2025) which will be 16th August 2025.

Time of Supply of Services – Reverse Charge [Sec. 13(3)]

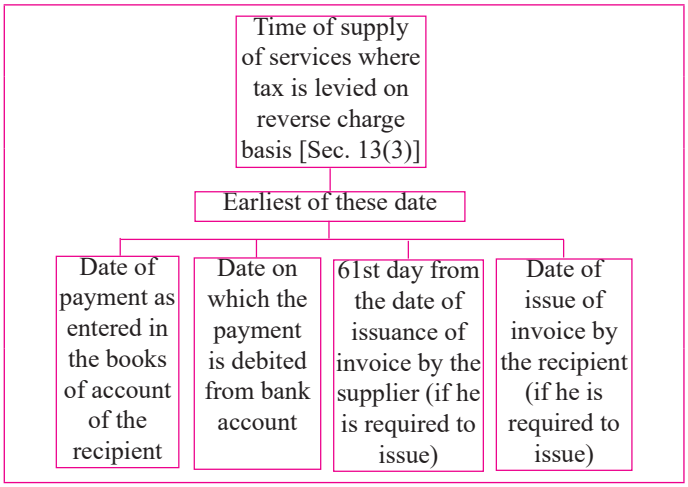
In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earlier of the following:

a. the date of payment as entered in the books of account of the recipient; or

b. the date on which the payment is debited in his bank account; or

c. the date immediately following 60 days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier, in cases where invoice is required to be issued by the supplier.

d. the date of issue of invoice by the recipient, in cases where invoice is to be issued by the recipient.



Taxpoint :

- Where it is not possible to determine the time of supply as per aforesaid rule, the time of supply shall be the date of entry in the books of account of the recipient of supply.
- In case of supply by associated enterprises, where the supplier of service is located outside India, the time of supply shall be the date of entry in the books of account of the recipient of supply or the date of payment, whichever is earlier.
- "Associated Enterprises" shall have the same meaning as assigned to it in sec. 92A of the Income-tax Act, 1961.

Illustration 63:

Mr. Ram provides certain services to Mr. Nath which fall under reverse charge basis:

10.04.2025	The services are provided to Mr. Nath
12.04.2025	Mr. Ram issues an invoice to Mr. Nath
10.07.2025	The payment is made by Mr. Nath through a cheque and recorded in his books of accounts
15.07.2025	The payment gets debited from Mr. Nath's bank account

What will be the time of supply?

Solution:

The time of supply shall be earlier of the following dates:

The date of payment	10.07.2025
The date on which payment is debited from bank account	15.07.2025
The date immediately following 60 days from the date of issue of invoice (12.04.2025 + 60 days + 1 day)	12.06.2025

Therefore, the time of supply shall be 12.06.2025.

Illustration 64:

Mr. Rajendra provides certain services to Mr. Nath which fall under reverse charge basis.

10.10.2025	The services are provided to Mr. Nath
12.10.2025	Mr. Rajendra issues an invoice to Mr. Nath
10.03.2026	The payment is made by Mr. Nath through a cheque and recorded in his books of accounts
15.03.2026	The payment gets debited from Mr. Nath's bank account

What will be the time of supply?

Solution:

The time of supply shall be earlier of the following dates :

The date of payment	10.03.2026
The date on which payment is debited from bank account	15.03.2026
The date immediately following 60 days from the date of issue of invoice (12.10.2025 + 60 days + 1 day)	12.12.2025

Therefore, the time of supply shall be 12.12.2025

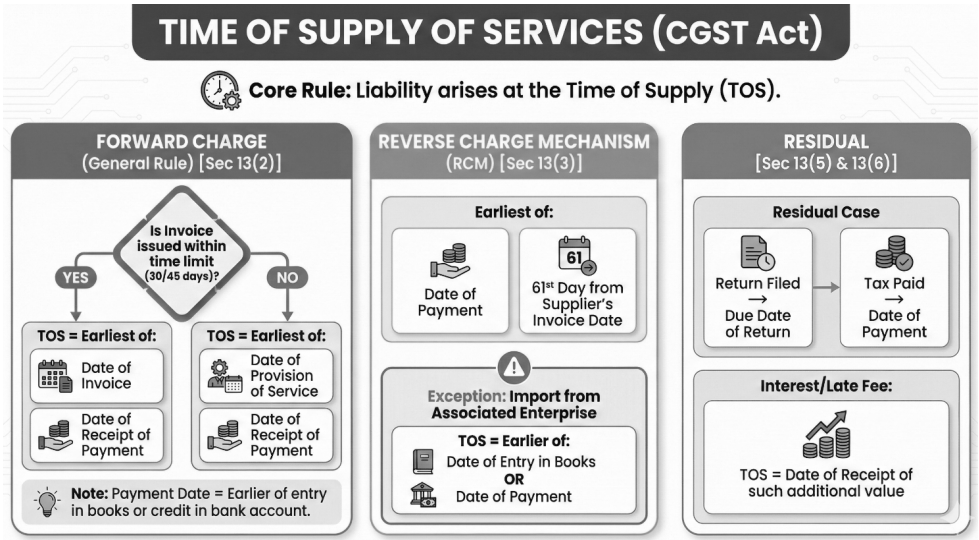
Time of Supply of Services – Residual Cases [Sec. 13(5)]

Where it is not possible to determine the time of supply of service under any of the aforesaid provisions, the time of supply shall be:

Where a periodical return has to be filed	The date on which such return is to be filed
In any other case	The date on which the tax is paid.

Time of Supply in case of enhancement in value on account of interest, late fee, etc. [Sec. 13(6)]

The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.



Change in rate of tax in respect of supply of goods or services [Sec. 14]

The time of supply, where there is a change in the rate of tax in respect of goods or services or both, shall be determined in the following manner:

1. In case the goods or services or both have been supplied before the change in rate of tax:
   a. where the invoice for the same has been issued and the payment is also received after the change in rate of tax, the time of supply shall be the date of receipt of payment or the date of issue of invoice, whichever is earlier; or
   b. where the invoice has been issued prior to the change in rate of tax but payment is received after the change in rate of tax, the time of supply shall be the date of issue of invoice; or
   c. where the payment has been received before the change in rate of tax, but the invoice for the same is issued after the change in rate of tax, the time of supply shall be the date of receipt of payment;
2. In case the goods or services or both have been supplied after the change in rate of tax:
   a. where the payment is received after the change in rate of tax but the invoice has been issued prior to the change in rate of tax, the time of supply shall be the date of receipt of payment; or
   b. where the invoice has been issued and payment is received before the change in rate of tax, the time of supply shall be the date of receipt of payment or date of issue of invoice, whichever is earlier; or
   c. where the invoice has been issued after the change in rate of tax but the payment is received before the change in rate of tax, the time of supply shall be the date of issue of invoice

In nutshell, the time of supply, where there is a change in the rate of tax in respect of goods or services or both, shall be determined in the following manner

Invoice issued	Payment received	Time of Supply	Applicable Rate
A. Where the goods or services or both have been supplied before the change in rate of tax.			
After	After	a. Date of receipt of payment; or b. Date of issue of invoice – whichever is earlier	New Rate
Before	After	Date of issue of invoice	Old Rate
After	Before	Date of receipt of payment	Old Rate
B. Where the goods or services or both have been supplied after the change in rate of tax.			
Before	After	Date of receipt of payment	New Rate
Before	Before	a. Date of receipt of payment; or b. Date of issue of invoice – whichever is earlier	Old Rate
After	Before	Date of issue of invoice	New Rate

Taxpoint :

- "The date of receipt of payment" shall be the date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.

- However, the date of receipt of payment shall be the date of credit in the bank account if such credit in the bank account is after 4 working days from the date of change in the rate of tax.
- It is to be noted that in respect of supply of goods, notification no. 66/2017-CT dated 15/11/2017 is applicable.
- **Rate applicability rule:** There are three events viz. (a) supply; (b) issuance of invoice; (c) receipt of payment. Out of these 3 events, atleast two events are occurred after change of rate of tax, new rate is applicable. On the other hand, any of the 2 events are occurred before change of rate of tax, old rate is applicable.
- **Time of supply rule:**

Supply	Events being issuance of invoice or receipt of payment	Time of supply	Rate
Before	Any of the events occurred before change	Occurrence of 1st event	Old
After	Any of the events occurred before change	Occurrence of 2nd event	New
Before	Both of the events occurred after change	a. Date of receipt of payment; or b. Date of issue of invoice – whichever is earlier	New
After	Both of the events occurred before change		Old

Illustration 65:

Rate of GST shall be 12% (instead of existing rate of 18%) w.e.f. 01-04-2025. In that case, time of supply and applicable rate of tax shall be determined as under:

Situations	Service Provided	Invoice Raised	Payment Received	Time of Supply	Rate
1	25-03-2025	03-04-2025	10-04-2025	03-04-2025	12%
2	25-03-2025	29-03-2025	12-04-2025	29-03-2025	18%
3	25-03-2025	03-04-2025	31-03-2025	31-03-2025	18%
4	05-04-2025	29-03-2025	07-04-2025	07-04-2025	12%
5	05-04-2025	29-03-2025	31-03-2025	29-03-2025	18%
6	05-04-2025	07-04-2025	31-03-2025	07-04-2025	12%

Illustration 66:

Law Point Publications, a registered dealer in India, paid an advance of ₹ 5,00,000 to Mr. Vikash, an author, for the copyright covered u/s 13(1)(a) of the Copyright Act, 1957, of his original literary work on 5-9-2025 (through RTGS). It made the balance payment of ₹ 2,50,000 on 12-12-2025 (through RTGS). You are required to determine the time of supply, if Mr. Vikash raised the invoice on:

(i) 6-10-2025; or

(ii) 17-12-2025

Solution

Supply of services by an author by way of transfer or permitting the use or enjoyment of a copyright covered u/s 13(1)(a) of the Copyright Act, 1957 relating to original literary works to a publisher is liable for tax under reverse charge i.e. Law Point Publications are required to pay

The time of supply of service, on which GST is payable under reverse charge, is earlier of the following:

a. Date of payment as entered in the books of account of the recipient or date on which payment is debited from the bank account, whichever is earlier. Or

b. 61st day from the date of issue of invoice by the supplier.

The time of supply shall be earlier of the following dates:

Particulars	Case (i)	Case (ii)
First Payment of ₹ 5,00,000		
The date of payment	05-09-25	05-09-25
The date on which payment is debited from bank account	05-09-25	05-09-25
The date immediately following 60 days from the date of issue of invoice (06-10-2025 + 60 days + 1 day) (17-12-2025 + 60 days + 1 day)	06-12-25	16-02-26
Time of supply shall be	05-09-25	05-09-25
For Payment of ₹ 2,50,000		
The date of payment	12-12-25	12-12-25
The date on which payment is debited from bank account	12-12-25	12-12-25
The date immediately following 60 days from the date of issue of invoice (06-10-2025 + 60 days + 1 day) (17-12-2025 + 60 days + 1 day)	06-12-25	16-02-26
Time of supply shall be	06-12-25	12-12-25

Illustration 67: Time of Supply of Goods (Forward Charge)

M/s. ABC Manufacturers (Registered in Pune) supplies heavy machinery to XYZ Ltd. (Nasik).

- 01-Oct-2025: Machinery removed from the factory.
- 15-Oct-2025: Invoice issued by M/s. ABC Manufacturers.
- 25-Sep-2025: An advance payment of ₹ 2,00,000 was received.
- 20-Oct-2025: Balance payment received.

Determine the Time of Supply for the advance and the balance amount.

Solution

As per sec. 12(2) read with Notification No. 66/2017-CT, the time of supply for goods is the earlier of:

1. Date of Issue of Invoice.
2. Last date to issue invoice (Date of Removal u/s 31).

Note: Date of Payment is irrelevant for goods.

Analysis

- Actual Invoice Date: 15-Oct-2025.
- Last Date (Removal): **01-Oct-2025**.
- Comparison: 01-Oct is earlier than 15-Oct.

Conclusion: The Time of Supply for the entire amount (including the advance of ₹ 2,00,000) is 01-Oct-2025. No tax is payable at the time of receiving the advance on 25-Sep.

Illustration 68: Time of Supply of Services (Forward Charge & Advances)

Mr. Consultant (CA) provides auditing services to Client A.

- Provision of Service: Completed on 10-Nov-2025.

- Payment Details:
  - ₹ 50,000 received as advance on 30-Oct-2025.
  - Balance ₹ 1,50,000 received on 20-Dec-2025.
- Case A: Invoice issued on 25-Nov-2025.
- Case B: Invoice issued on 15-Dec-2025.

Determine the Time of Supply (TOS) for both cases.

Solution

If Invoice is issued within 30 days of supply (i.e., by 10-Dec-2025).

- Case A (Invoice on 25-Nov - Within Time):

  Rule: Earliest of Invoice Date or Payment Date.
  - For Advance (₹ 50k): Earlier of 25-Nov and 30-Oct. TOS = 30-Oct-2025.
  - For Balance (₹ 1.5L): Earlier of 25-Nov and 20-Dec. TOS = 25-Nov-2025.
- Case B (Invoice on 15-Dec - Late):

  Rule: Earliest of Provision of Service or Payment Date.
  - For Advance (₹ 50k): Earlier of 10-Nov and 30-Oct. TOS = 30-Oct-2025.
  - For Balance (₹ 1.5L): Earlier of 10-Nov (Provision) and 20-Dec. TOS = 10-Nov-2025.

Illustration 69: Change in Rate of Tax [Section 14]

The GST rate on a service has been changed from 12% to 18% w.e.f. 01-Nov-2025.

- Supply: Services actually provided on 28-Oct-2025 (Before Change).
- Invoice: Issued on 05-Nov-2025 (After Change).
- Payment: Received on 10-Nov-2025 (After Change).

Determine the Time of Supply and the Applicable GST Rate.

Solution

- **Analysis of Events:**
  1. Supply: Before (28-Oct).
  2. Invoice: After (05-Nov).
  3. Payment: After (10-Nov).
- **Rule Application:**
  - Since the Supply is Before the change, but both Invoice and Payment are After the change, the New Rate applies.
  - Time of Supply: Earliest of Invoice or Payment.
- Conclusion:
  - Time of Supply: 05-Nov-2025 (Date of Invoice).
  - Applicable Rate: 18% (New Rate).

Illustration 70: Reverse Charge (GTA Service)

Alpha Traders receives a services which is liable for reverse charge on 15-Jan-2026.

- Invoice Date: 15-Jan-2026.
- Payment: Made by Alpha Traders on 20-Mar-2026.

Determine the Time of Supply.

Solution

- **Provision:** For RCM (Services), TOS is the earlier of:
  1. Date of Payment (20-Mar-2026).
  2. 61st Day from Invoice Date.
- **Calculation of 61st Day:**
  - Invoice: 15-Jan.
  - Jan (rem): 16 days + Feb: 28 days + Mar: 17 days = 61 days.
  - Date: 17-Mar-2026.
- **Conclusion:**
  - Compare 20-Mar (Payment) vs 17-Mar (61st Day).
  - Time of Supply: 17-Mar-2026.

Quick MCQ

1. What is the time of supply for a registered person for the outward supply of goods under forward charge?

a. The date of receipt of payment or date of invoice, whichever is earlier.

b. The date of issue of invoice or the last date on which the invoice is required to be issued under section 31.

c. The date of delivery of goods only.

d. The date of entry in the books of account of the supplier.

Correct: b

Reason: According to Notification No. 66/2017-CT dated 15.11.2017, GST on the outward supply of goods is payable only at the time of issue of invoice or the last date by which the invoice should have been issued under section 31. Advances received for goods are not taxable at the time of receipt.

2. For a supply of services, if the invoice is issued within 30 days from the date of supply, the time of supply shall be:

a. Date of issue of invoice or date of receipt of payment, whichever is earlier.

b. Date of completion of service or date of payment, whichever is earlier.

c. Date of entry in the books of the recipient.

d. Date of filing the return.

Correct: a

Reason: Under Section 13(2) of the CGST Act, if the invoice is issued within the prescribed period (30 days), the time of supply is the earlier of the date of invoice or date of payment.

3. If a supplier receives an advance of ₹ 800 in excess of the invoice value for a supply of services, what is the time of supply for this excess amount?

a. Must be the date of receipt of payment.

b. At the option of the supplier, the date of issue of invoice for such excess or receipt of payment.

c. Always the 30th day of the next month.

d. No GST is payable on excess amounts below ₹ 1,000.

Correct: b

Reason: As per the proviso to Section 13(2), if a supplier receives up to ₹ 1,000 in excess of the invoice value, they have the option to treat the time of supply for that excess as the date of the invoice issued for that excess.

4. What is the "Date of receipt of payment" defined as for GST purposes?

a. Date of realization in the bank.

b. Date of entry in the books of account of the supplier or the date of credit in the bank, whichever is earlier.

c. Date on the cheque.

d. Date of filing the return.

Correct: b

Reason: Explanation 2 to Section 12(2) and Section 13(2) defines the date of receipt of payment as the earlier of the date of entry in the books of account or the date of credit in the bank account.

5. For goods sent on "approval for sale or return," the invoice must be issued at the latest by:

a. 3 months from the date of removal.

b. 6 months from the date of removal.

c. 1 year from the date of removal.

d. The end of the financial year.

Correct: b

Reason: Under Section 31(7), for goods sent on approval, the invoice must be issued before or at the time of supply or 6 months from the date of removal, whichever is earlier.

6. Mr. A, a registered dealer, supplies taxable goods to Mr. B. The goods are removed from the factory on 20th October 2025. Mr. A issues the invoice on 25th October 2025. Mr. B had already made an advance payment for these goods on 15th October 2025. What is the Time of Supply in this scenario?

a. 15th October 2025 (Date of Payment)

b. 20th October 2025 (Date of Removal)

c. 25th October 2025 (Date of Invoice)

d. 20th October 2025 for the goods and 15th October 2025 for the advance payment.

Correct: b) 20th October 2025

Reason: The time of supply of goods under forward charge is the earlier of the date of issue of invoice or the last date on which the invoice is required to be issued (i.e., date of removal). Furthermore, Notification No. 66/2017-CT clarifies that no GST is payable on advances received against the supply of goods; therefore, the date of payment is irrelevant. Since the removal date (20th Oct) is earlier than the invoice date (25th Oct), the time of supply is the date of removal.

7. **A Cost Accountant completes the provision of services on 10th November 2025. The invoice for this service is issued on 15th De**cember 2025. The payment for the service is received on 20th December 2025. What is the Time of Supply?

   a. 15th December 2025

   b. 20th December 2025

   c. 10th November 2025

   d. 10th December 2025 (30 days from completion)

   Correct: c) 10th November 2025

   Reason: The general time limit for issuing an invoice for services is within 30 days from the date of supply. Here, the invoice was issued on 15th December, which is beyond 30 days from the completion of service (10th November). When the invoice is not issued within the prescribed period, the time of supply is the date of provision of service or the date of receipt of payment, whichever is earlier. Comparing 10th November (provision) and 20th December (payment), the earlier date is 10th November.

8. **Mr. X supplied goods to Mr. Y on credit. Due to a delay in payment, Mr. X charged a penalty/late fee of ₹ 5,000. Mr. Y paid the penalty amount on 15th July 2025. When does the Time of Supply arise for this ₹ 5,000 penalty?**

   a. The date of the original supply of goods.

   b. The date the penalty was agreed upon

   c. 15th July 2025 (Date of receipt of penalty).

   d. The last day of the financial year.

   Correct: c) 15th July 2025

   Reason: As per Section 12(6) and Section 13(6), the time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee, or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.

FAQ by CBIC on 15-12-2018

1. **What is time of supply?**

   Answer:

   The time of supply fixes the point when the liability to charge GST arises. It also indicates when a supply is deemed to have been made. The CGST/SGST Act provides separate time of supply for goods and services.

2. **When does the liability to pay GST arise in respect of supply of goods?**

   Answer:

   Section 12 of the CGST/SGST Act provides for time of supply of goods. The time of supply of goods shall be the earlier of the following namely,

a. the date of issue of invoice by the supplier or the last date on which he is required u/s 31, to issue the invoice with respect to the supply; or

b. the date on which the supplier receives the payment with respect to the supply.

However, vide Notification No. 66/2017-Central Tax dated 15.11.2017, liability to pay tax at the time of receipt of advance has been relaxed in case of goods.

3. When does the liability to pay GST arise in respect of supply of services?

Answer:

Section 13 of the CGST/SGST Act provides for time of supply of services. The time of supply of services shall be the earlier of the following namely,

a. the date of issue of invoice by the supplier if the invoice is issued within the period prescribed under section 31 or the date of receipt of payment whichever is earlier; or

b. the date of provision of service, if the invoice is not issued within the period prescribed under section 31 or the date of receipt of payment whichever is earlier.

c. the date on which the recipient shows the receipt of services in his books of account, in case where the provisions of clause (a) and (b) do not apply.

4. Where it is not possible to determine the time of supply in terms of sub-section 2, 3, 4 of Section 12 or that of Section 13 of CGST/SGST Act, how will time of supply be determined?

Answer:

There is a residual entry in Section 12(5) as well as 13 (5) which says that if periodical return has to be filed, then the due date of filing of such periodical return shall be the time of supply. In other cases, it will be the date on which the CGST/SGST/IGST is actually paid.

5. What does "date of receipt of payment" mean?

Answer:

It is the earliest of the date on which the payment is entered in the books of accounts of the supplier or the date on which the payment is credited to his bank account.

6. Suppose, part advance payment is made or invoice issued is for part payment, whether the time of supply will cover the full supply?

Answer:

No. The supply of services shall be deemed to have been made to the extent it is covered by the invoice or the part payment. However, for goods payment of tax will need to be made upon date of issue of invoice, irrespective of the fact whether or not advance or part payment is received.

7. What is the time of supply of goods in case of tax payable under reverse charge?

Answer:

The time of supply will be the earliest of the following dates:

a) date of receipt of goods; or

b) date on which payment is made; or

c) the date immediately following 30 days from the date of issue of invoice by the supplier.

Where it is not possible to determine the time of supply under the above three clauses, the time of supply shall be the date of entry in the books of account of the recipient of supply.

8. What is the time of supply of service in case of tax payable under reverse charge?

Answer:

The time of supply will be the earlier of the following dates:

a) date on which payment is made; or

b) the date immediately following sixty days from the date of issue of invoice by the supplier.

9. What is the time of supply applicable with regard to addition in the value by way of interest, late fee or penalty or any delayed payment of consideration?

Answer:

The time of supply with regard to an addition in value on account of interest, late fee or penalty or delayed consideration shall be the date on which the supplier received such additional consideration.

10. Is there any change in time of supply, where supply is completed prior to or after change in rate of tax?

Answer:

Yes. In such cases provisions of Section 14 will apply.

11. What is the time of supply, where supply is completed prior to change in rate of tax?

Answer:

In such cases time of supply will be

i. where the invoice for the same has been issued and the payment is also received after the change in rate of tax, the time of supply shall be the date of receipt of payment or the date of issue of invoice, whichever is earlier; (However, for supply of goods payment of tax need to be made only at the time of issue of invoice in terms of notification 66/2017-Central Tax dated 15.11.2017) or

ii. where the invoice has been issued prior to change in rate of tax but the payment is received after the change in rate of tax, the time of supply shall be the date of issue of invoice; or

iii. where the payment is received before the change in rate of tax, but the invoice for the same has been issued after the change in rate of tax, the time of supply shall be the date of receipt of payment; (However for supply of goods payment of tax need to be made only at the time of issue of invoice in terms of notification 66/2017-Central Tax dated 15.11.2017)

12. What is the time of supply, where supply is completed after the change in rate of tax?

Answer:

In such cases time of supply will be

i. where the payment is received after the change in rate of tax but the invoice has been issued prior to the change in rate of tax, the time of supply shall be the date of receipt of payment; (However for supply of goods payment of tax need to be made only at the time of issue of invoice in terms of notification 66/2017-Central Tax dated 15.11.2017) or

ii. where the invoice has been issued and the payment is received before the change in rate of tax, the time of supply shall be the date of receipt of payment or date of issue of invoice, whichever is earlier; or; (However for supply of goods payment of tax need to be made only at the time of issue of invoice in terms of notification 66/2017-Central Tax dated 15.11.2017)

iii. where the invoice has been issued after the change in rate of tax but the payment is received before the change in rate of tax, the time of supply shall be the date of issue of invoice

13. Let's say there was increase in tax rate from 18% to 20% w.e.f.1.9.2017. What is the tax rate applicable when services provided and invoice issued before change in rate in July, 2017, but payment received after change in rate in September, 2017?

Answer:

The old rate of 18% shall be applicable as services are provided prior to 1.9.2017.

14. Let's say there was increase in tax rate from 18% to 20% w.e.f. 1.9.2017. What is the tax rate applicable when goods are supplied and invoice issued after change in rate in September, 2017, but full advance payment was already received in July, 2017?

Answer:

The new rate of 20% shall be applicable as goods are supplied and invoice issued after 1.9.2017

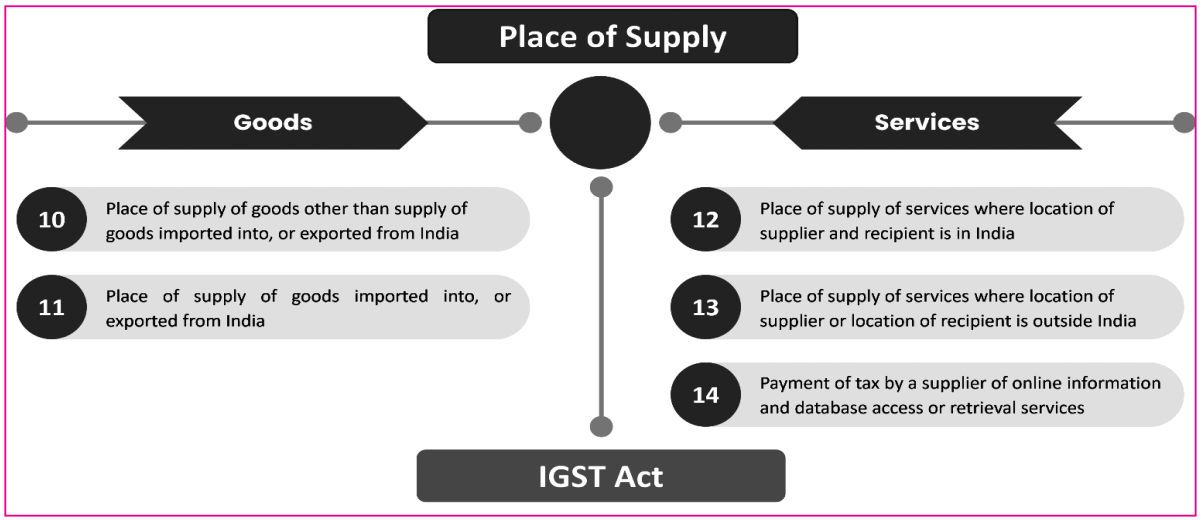
5.3.2 Place of Supply

Introduction

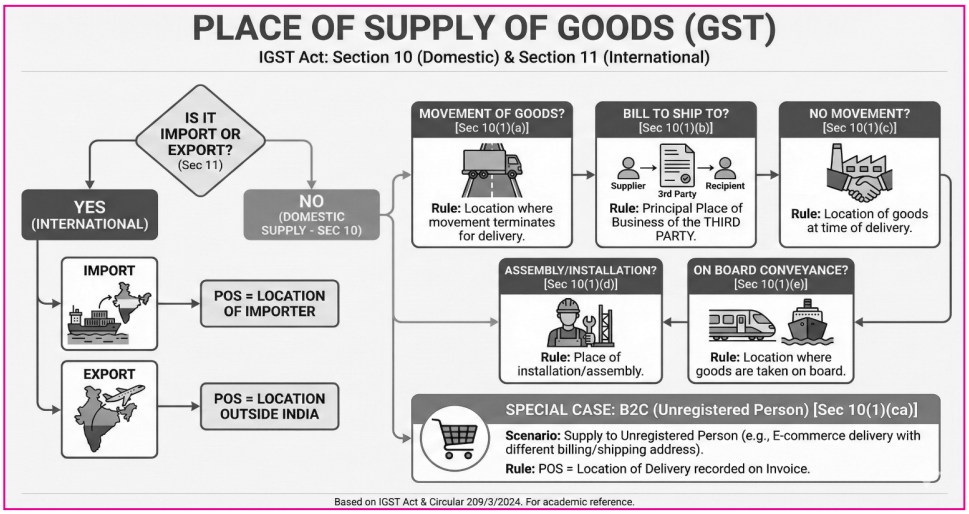
Place of supply is important to determine the kind of tax that is to be charged. As per sec. 7 of the IGST Act, when the location of supplier and the place of supply are in two different States (or Union territory), then it will be an inter-State supply and IGST would be chargeable. And when they are in the same State (or Union territory), then it will be an intra-State supply and CGST/ SGST would be chargeable.

'Place of supply' is not a phrase of common understanding, it is a legal term and as in the cases of all legal terms, their common understanding must not be applied but the meaning assigned to them in the law must be followed. Place of supply, similar to time of supply, is that which the legislature has appointed.

Place of supply determines the State or Union Territory to which the SGST portion of the revenue accrues.



Place of supply of goods other than supply of goods imported into, or exported from India [Sec. 10 of the IGST Act]



Place of supply of goods (not services) other than supply of goods imported into, or exported from India shall be determined as under:

Situation	Place of Supply
Where the supply involves movement of goods, whether by the supplier or the recipient or by any other person [Sec. 10(1)(a)]	The place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient E,g. A supplier located in Kolkata supplies goods to the recipient in Delhi. In this case place of supply shall be Delhi
Where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods by way of transfer of documents of title to the goods or otherwise. [Sec. 10(1)(b)]	The place of supply of such goods shall be the principal place of business of third person E.g., Burman of West Bengal supplied goods to Raman of Tamilnadu. When goods start moving, Raman instructs the supplier i.e. Mr. Burman to deliver the goods to Chaman at Kerala on his behalf. The place of supply will be Tamilnadu
Where the supply does not involve movement of goods [Sec. 10(1)(c)]	The place of supply will be the location of the goods at the time of its delivery to the recipient E.g., Ramesh took a building on rent from Raja. He installed the centralized AC in the building. After three years, Ramesh vacated the building but agreed with Raja to leave behind the AC without dismantling it. The supply of AC by Ramesh to Raja does not involve movement of goods and the place of supply shall be where the AC is fixed.

Situation	Place of Supply
Supply of goods purchased Over the Counter in one State and transported to another State by the unregistered buyer [Sec. 10(1)(ca)]	The place of supply shall be the location as per the address of the said person recorded in the invoice issued in respect of the said supply and the location of the supplier where the address of the said person is not recorded in the invoice. Taxpoint: Recording of the name of the State of the said person in the invoice shall be deemed to be the recording of the address of the said person. **Case** Mr. A (unregistered person) located in X State places an order on an e-commerce platform for supply of a mobile phone, which isto be delivered at an address located in Y State. Mr. A, while placing the order on the e-commerce platform, provides the billing address located in X state. In such a scenario, what would be the place of supply of the said supply of mobile phone, whether the State pertaining to the billing address i.e. State X or the State pertaining to the delivery address i.e. State Y? **Clarification** It is clarified that in such cases involving supply of goods to an unregistered person, where the address of delivery of goods recorded on the invoice is different from the billing address of the said unregistered person on the invoice, the place of supply of goods shall be the address
	of delivery of goods recorded on the invoice i.e. State Y in the present case where the delivery address is located. Also, in such cases involving supply of goods to an unregistered person, where the billing address and delivery address are different, the supplier may record the delivery address as the address of the recipient on the invoice for the purpose of determination of place of supply of the said supply of goods – [Circular No. 209/3/2024-GST]
Where the goods are assembled or installed at site [Sec. 10(1)(d)]	The place of supply will be the location of such installation or assembly E.g., X Ltd., Karnataka, purchases a lift to be installed in their Chennai office from a vendor located in Karnataka. In this case, the place of supply would be considered as Chennai as the lift has been installed in Chennai.
Where goods are supplied on-board a conveyance	The place of supply will be the location at which the goods are taken on-board. E.g., Mr. Jain boarded the train at Kolkata for its destination Bhopal, MP. He is carrying certain goods with him for the purpose of sale during the journey. When the train reaches Tatanagar, Jharkhand, he sells certain goods. Now, in this case the place of supply of such goods will be Kolkata (the location at which the goods are taken on board).

Place of supply of goods imported into, or exported from India [Sec. 11 of the IGST Act]

Place of supply of goods imported into, or exported from India shall be determined as under:

Case	Place of Supply
Import	The place of supply of goods imported into India shall be the location of the importer
Export	The place of supply of goods exported from India shall be the location outside India

Place of supply of services where location of supplier and recipient is in India [Sec. 12 of the IGST Act]

Place of supply of services where location of supplier and recipient is in India shall be determined as under:

Case	Place of Supply
In general	The place of supply of services: a) made to a registered person shall be the location of such person; b) made to any person other than a registered person shall be, — i. the location of the recipient where the address on record exists; and ii. the location of the supplier of services in other cases.

Examples

- Mr. Aman, Mumbai provides architect services to a Company located in Bangaluru. The recipient company is a registered person. In this case, the location of the recipient, i.e., the location of the company shall be treated as place of supply.
- A beauty parlor provides services to many customers, but they do not record names and addresses of the customers. The place of supply will be the location of such beauty parlor. However, where such parlor keeps the address of their customers on their records, then place of supply would be location of the recipient of the service.

Immovable property	
a. directly in relation to an immovable property, including services provided by architects, interior decorators, surveyors, engineers and other related experts or estate agents, any service provided by way of grant of rights to use immovable property or for carrying out or co-ordination of construction work; or b. by way of lodging accommodation by a hotel, inn, guest house, home stay, club or campsite, by whatever name called, and including a house boat or any other vessel; or	The place of supply of services shall be the location at which the immovable property or boat or vessel, as the case may be, is located or intended to be located. However, where the immovable property or boat or vessel is located in more than one State or Union territory, the supply of services shall be treated as made in each of the respective States or Union territories, in proportion to the value for services separately collected or determined in terms of the contract or agreement entered into in this regard or, in the absence of such contract or agreement, on such other basis as may be prescribed.

c. by way of accommodation in any immovable property for organizing any marriage or reception or matters related thereto, official, social, cultural, religious or business function including services provided in relation to such function at such property; or d. any services ancillary to the services referred to in clauses (a), (b) and (c),	
If the location of the immovable property or boat or vessel is located or intended to be located outside India.	The place of supply shall be the location of the recipient
Restaurant and catering services, personal grooming, fitness, beauty treatment, health service including cosmetic and plastic surgery	The place of supply shall be the location where the services are actually performed
Training and performance appraisal	The place of supply of services in relation to training and performance appraisal to, – a. a registered person, shall be the location of such person; b. a person other than a registered person, shall be the location where the services are actually performed.
Admission to a cultural, artistic, sporting, scientific, educational, entertainment event or amusement park or any other place and services ancillary thereto	The place of supply of services shall be the place where the event is actually held or where the park or such other place is located.
Services provided by way of, — a. organization of a cultural, artistic, sporting, scientific, educational or entertainment event including supply of services in relation to a conference, fair, exhibition, celebration or similar events; or b) services ancillary to organization of any of the events or services referred to above; or c) assigning of sponsorship to such events	The place of supply of service shall be i. to a registered person, shall be the location of such person; ii. to a person other than a registered person, shall be the place where the event is actually held and if the event is held outside India, the place of supply shall be the location of the recipient. Where the event is held in more than one State or Union territory and a consolidated amount is charged for supply of services relating to such event, the place of supply of such services shall be taken as being in each of the respective States or Union territories in proportion to the value for services separately collected or determined in terms of the contract or agreement entered into in this regard or, in the absence of such contract or agreement, on such other basis as may be prescribed.
Transportation of goods, including by mail or courier	The place of supply of services by way of transportation of goods, including by mail or courier to, — (a) a registered person, shall be the location of such person;

	(b) a person other than a registered person, shall be the location at which such goods are handed over for their transportation.
Passenger transportation service	The place of supply of passenger transportation service to, — (a) a registered person, shall be the location of such person; (b) a person other than a registered person, shall be the place where the passenger embarks on the conveyance for a continuous journey The return journey shall be treated as a separate journey, even if the right to passage for onward and return journey is issued at the same time.
Services on board a conveyance, including a vessel, an aircraft, a train or a motor vehicle	The place of supply of services shall be the location of the first scheduled point of departure of that conveyance for the journey
Telecommunication services including data transfer, broadcasting, cable and direct to home television services	
- Services by way of fixed telecommunication line, leased circuits, internet leased circuit, cable or dish antenna	The place of supply of services shall be the location where the telecommunication line, leased circuit or cable connection or dish antenna is installed for receipt of services
- Mobile connection for telecommunication and internet services provided on post-paid basis - Mobile connection for telecommunication, internet service and direct to home television services are provided on pre-payment basis through a voucher or any other means	The place of supply of services shall be the location of billing address of the recipient of services on the records of the supplier of services a. through a selling agent or a re-seller or a distributor of subscriber identity module card or re-charge voucher, Address of the selling agent or re-seller or distributor as per the record of the supplier at the time of supply; or b. by any person to the final subscriber, be the location where such prepayment is received or such vouchers are sold
Banking and other financial services including stock broking services to any person	The place of supply shall be the location of the recipient of services on the records of the supplier of services
Insurance services	The place of supply shall, — i. to a registered person, be the location of such person; ii. to a person other than a registered person, be the location of the recipient of services on the records of the supplier of services.
Advertisement services to: • Central Government • State Government • Statutory Body • Local Authority	The place of supply shall be located in each of such states and the value of such supplies specific to each state shall be in proportion to amount attributable to service provided by way of dissemination in the respective states.

Place of supply of service where location of Supplier of Service or Location of Recipient of service is outside India [Sec. 13(1) of the IGST Act]

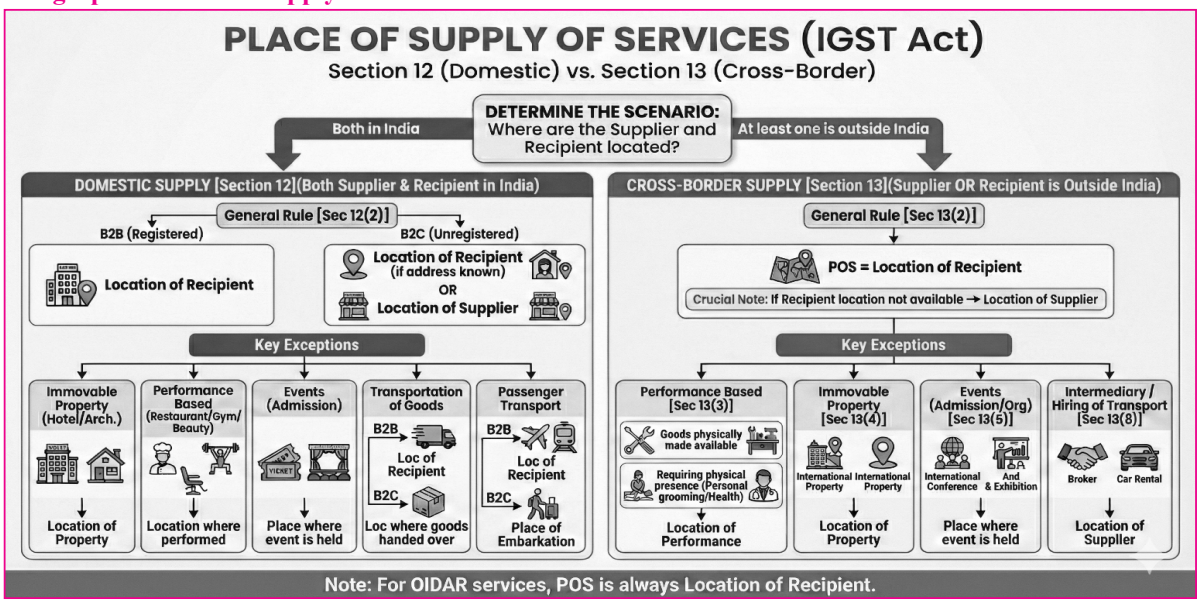
Situation	Place of Supply
In general	Where Location of service receiver is available in the ordinary course of business, place of supply shall be location of the service recipient.
	Where Location of service receiver is not available in the ordinary course of business, place of supply shall be location of the supplier of services
Where in respect of goods that are made physically available, by the receiver to the service provider in order to provide the service [Sec. 13(3)(a)]	Place of supply of service shall be location where the services are actually performed.
Where services provided by way of electronic means in relation to tangible goods [Sec. 13(3)(a)].	Place of supply of service shall be the actual location of goods
Where services supplied to an Individual, represented either as the service receiver or a person acting on behalf of the receiver, which require physical presence of the recipient or the person acting on his behalf, with the supplier for the supply of services. [Sec. 13(3) (b)].	Place of supply of service shall be location where the services are actually performed.
Where services supplied directly in relation to an Immovable property, such as: • Lease or a right to use, occupation enjoyment or provision of hotel accommodation by a hotel, guest house, club • Construction service • Architects • Interior decorators • Renting of immovable property • Real estate agents • Auctioneers, engineers and similar experts or professional people, relating to land, buildings or civil engineering works etc., [Sec. 13(4)]	Place of supply of service shall be where immovable property is located or intended to be located
Where services supplied by way of admission to, or organization of Cultural, Artistic, Sporting, Scientific, Educational, Entertainment event, Celebration, Conference, Fair, Exhibition, Similar events and Services ancillary to such admission or organisation. [Sec. 13(5)]	Place of supply of service shall be where event is actually held.
Where any service stated in sub-Sec. 3, 4, or 5 of Sec. 13 is provided at more than one location, including a location of taxable territory. [Sec. 13(6)]	Place of supply shall be the location in the taxable territory.

Situation	Place of Supply
Where Services performed as per Sec. 13(3) or (4) or (5) in more than one State or Union Territory, [Sec. 13(7)]	Place of supply of such services shall be taken as deemed in each of the State or Union Territories in proportion to the value of services so provided
In case of Specified Services which includes: a. Services provided by a banking company, or financial company, or a NBFC to account holders b. Intermediary services c. Services consisting of hiring of means of transport, other than — (i) aircrafts, and (ii) vessels except yachts upto a period of one month [Sec. 13(8)]	
Passenger Transportation Services [Sec. 13(10)]	Place of supply of service will be where the passenger embarks on the conveyance for a continuous journey.
Where any service provided on board a conveyance (aircraft, vessel, rail, or roadways bus)	Place of supply of services shall be the first scheduled point of departure of that conveyance for the journey.
In case of online information and database access or retrieval services	Place of supply of services shall be the location of the recipient of service

Circular No. 242/36/2024-GST dated 31-12-2024

If a supplier provides online services to an unregistered person, the Place of Supply is the location of the recipient. The supplier must record the name of the recipient's State on the invoice. This State is deemed to be the recipient's address.

Infographics: Place of supply – Services



Inter-State supply [Sec. 7]

1. Subject to sec. 10, supply of goods, where the location of the supplier and the place of supply are in:
   a. two different States;
   b. two different Union territories; or
   c. a State and a Union territory,

   shall be treated as a supply of goods in the course of inter-State trade or commerce.
2. Supply of goods imported into the territory of India, till they cross the customs frontiers of India, shall be treated to be a supply of goods in the course of inter-State trade or commerce.
3. Subject to sec. 12, supply of services, where the location of the supplier and the place of supply are in-
   a. two different States;
   b. two different Union territories; or
   c. a State and a Union territory,

   shall be treated as a supply of services in the course of inter-State trade or commerce.
4. Supply of services imported into the territory of India shall be treated to be a supply of services in the course of inter-State trade or commerce.
5. Supply of goods or services or both,-
   a. when the supplier is located in India and the place of supply is outside India;
   b. to or by a Special Economic Zone developer or a Special Economic Zone unit; or
   c. in the taxable territory, not being an intra-State supply and not covered elsewhere in this section,

   shall be treated to be a supply of goods or services or both in the course of inter-State trade or commerce.

Intra-State supply [Sec. 8]

1. Subject to sec. 10, supply of goods where the location of the supplier and the place of supply of goods are in the same State or same Union territory shall be treated as intra-State supply.

   However, following supply of goods shall not be treated as intra-State supply namely:-
   i. supply of goods to or by a Special Economic Zone developer or a Special Economic Zone unit;
   ii. goods imported into the territory of India till they cross the customs frontiers of India; or
   iii. supplies made to a tourist referred to in sec. 15.
2. Subject to the provisions of sec. 12, supply of services where the location of the supplier and the place of supply of services are in the same State or same Union territory shall be treated as intra-State supply.

   However, the intra-State supply of services shall not include supply of services to or by a Special Economic Zone developer or a Special Economic Zone unit.

Taxpoint:

- Where a person has,-
  i. an establishment in India and any other establishment outside India;

ii. an establishment in a State or Union territory and any other establishment outside that State or Union territory; or

iii. an establishment in a State or Union territory and any other establishment registered within that State or Union territory, then such establishments shall be treated as establishments of distinct persons.

- A person carrying on a business through a branch or an agency or a representational office in any territory shall be treated as having an establishment in that territory.

Supplies in territorial waters [Sec. 9]

Notwithstanding anything contained in this Act,-

a. where the location of the supplier is in the territorial waters, the location of such supplier; or

b. where the place of supply is in the territorial waters, the place of supply, shall, for the purposes of this Act, be deemed to be in the coastal State or Union territory where the nearest point of the appropriate baseline is located.

Illustration 71: Bill-to-Ship-to Model (Goods)

Mr. Alpha (Registered in Maharashtra) places an order with Mr. Beta (Registered in Gujarat) for the supply of 100 laptops. Mr. Alpha instructs Mr. Beta to deliver the laptops directly to his client, Mr. Gamma, in Karnataka.

Determine the Place of Supply and the nature of tax for the supply between Mr. Beta and Mr. Alpha.

Solution

As per Section 10(1)(b) of the IGST Act, where goods are delivered by the supplier to a recipient (Gamma) on the direction of a third person (Alpha), it is deemed that the third person has received the goods.

Place of Supply: The principal place of business of the third person (Mr. Alpha).

Location: Maharashtra.

Nature of Supply: Supplier (Beta) = Gujarat.

Place of Supply (Alpha) = Maharashtra.

Result: Inter-State Supply (IGST).

Illustration 72: Immovable Property Services (Architect)

Mr. Design (an Architect registered in New Delhi) provides professional consultancy services to Global Hotels Ltd. (Registered in Mumbai) for their new hotel project located in Goa.

Identify the Place of Supply.

Solution

As per sec. 12(3) of the IGST Act, for services directly in relation to immovable property (including Architects), the place of supply is the location where the immovable property is located or intended to be located.

Analysis:

Location of Supplier (Mr. Design): New Delhi.

Location of Recipient (Global Hotels): Mumbai (Irrelevant here).

Location of Property: Goa.

Conclusion: The Place of Supply is Goa. Since Supplier is in Delhi and POS is Goa, IGST is applicable.

Illustration 73: Supply to Unregistered Person

Mr. John (an unregistered student in Odisha) buys a study table online from Furniture World (Registered in West Bengal). While placing the order, Mr. John mentions his billing address as Odisha but requests the table be delivered to his hostel in Jharkhand.

Determine the Place of Supply.

Solution

As per Section 10(1)(ca) of the IGST Act (and Circular No. 209/3/2024), where goods are supplied to an unregistered person and the address of delivery is different from the billing address, the Place of Supply shall be the location of delivery recorded on the invoice.

Analysis:

Supplier: West Bengal.

Billing Address: Odisha.

Delivery Address recorded: Jharkhand.

Conclusion: The Place of Supply is Jharkhand. IGST (West Bengal to Jharkhand) will be charged.

Illustration 74: Event Management (Admission vs Organization)

Case A: Rock Events (Delhi) sells tickets to Mr. X (Unregistered, Punjab) for a music concert held in Haryana.

Case B: Rock Events (Delhi) organizes a business conference for Tech Solutions Ltd. (Registered in Bangalore) held in Goa.

Solution

Case A (Admission): As per sec. 12(6), for admission to an event, POS is where the event is actually held.

POS: Haryana. (IGST applicable).

Case B (Organization - B2B): As per sec. 12(7), for organization services provided to a Registered Person, POS is the location of such person.

POS: Bangalore (Location of Tech Solutions). (IGST applicable).

Illustration 75: Telecommunication & Internet Services

Mr. Fast (Registered in Karnataka) is a distributor for Connect Telecom. He sells a pre-paid voucher to a customer, Mr. Slow (Unregistered resident of Tamil Nadu), at his shop in Bangalore. Separately, Connect Telecom provides a post-paid connection to Tech Startups Pvt. Ltd. (Registered in Hyderabad). The billing address of the company is Hyderabad.

Determine the Place of Supply for both transactions.

Solution

- **Case 1 (Pre-paid Voucher):**

As per sec. 12(11)(b), for mobile connections on a pre-payment basis sold through a distributor, the place of supply is the address of the distributor on the record of the supplier.

Analysis: Distributor (Mr. Fast) is in Karnataka.

POS: Karnataka. (CGST + SGST applicable if Supplier is also in Karnataka).

- **Case 2 (Post-paid Connection):**

  As per sec. 12(11)(a), for post-paid connections, the place of supply is the location of billing address of the recipient on record.

  Analysis: Billing address is Hyderabad.

  POS: Telangana (Hyderabad). (IGST applicable if Supplier is in different state).

Illustration 76: Goods Supplied on Board a Conveyance

The Rajdhani Express departs from New Delhi (Station A) traveling to Mumbai.

- Food packets are loaded onto the train at Kota (Rajasthan).
- Mr. Passenger boards the train at Vadodara (Gujarat) and purchases a food packet during the journey.

Determine the Place of Supply for the food packet.

Solution

As per sec. 10(1)(e) of the IGST Act, where goods are supplied on board a conveyance, the place of supply shall be the location at which such goods are taken on board.

- **Analysis:**
  - Point of Sale: Inside the moving train (somewhere between Vadodara and Mumbai).
  - Point of Loading: Kota (Rajasthan).
- **Conclusion:** The Place of Supply is Rajasthan (where goods were taken on board), regardless of where the passenger bought or consumed it.

Illustration 77: Architect Service - Property Outside India

Global Architects (Registered in Chennai) is hired by Resort Chains Ltd. (Registered in Kerala) to design a new luxury resort to be constructed in Dubai (UAE).

Determine the Place of Supply. Is this an export of service?

Solution

Generally, for immovable property, the POS is the location of the property. However, sec. 12(3) contains a specific proviso, if the location of the immovable property is outside India and both supplier and recipient are in India, the Place of Supply shall be the location of the recipient.

- **Analysis:**
  - Supplier: Chennai (India).
  - Recipient: Kerala (India).
  - Property: Dubai (Outside India).

- **Conclusion:** The Place of Supply is Kerala (Location of Recipient).
- **Taxability:** This is NOT an export of service (since POS is in India). It is an Inter-State supply, and IGST is applicable.

Illustration 78: Telecommunication Services (Prepaid vs Postpaid)

Connect India Ltd. (Registered in Karnataka) provides the following services during the month of January 2026:

1. **Postpaid:** Issued a bill of ₹25,000 to SoftTech Solutions (Registered in Hyderabad, Telangana).
2. **Prepaid:** Sold bulk pre-paid vouchers worth ₹10,000 to Mr. Kumar (a distributor registered in Kerala).
3. **Prepaid (Internet):** Sold an internet pack worth ₹2,000 online to Mr. Raj (Unregistered person in Karnataka).

Determine the Place of Supply (POS) and calculate the GST liability, if IGST rate is 18%.

Solution

Computation of place of supply and GST liability

Transaction	Value (₹)	Place of Supply (POS) & Reason	Nature of Supply	GST Calculation
Postpaid Bill	25,000	Telangana (Billing Address of Recipient - Sec 12(11)(a))	Inter-State (Karnataka to Telangana)	IGST @ 18%: ₹ 4,500
Prepaid Vouchers	10,000	Kerala (Address of Selling Agent/ Distributor - Sec 12(11)(b))	Inter-State (Karnataka to Kerala)	IGST @ 18%: ₹ 1,800
Online Internet	2,000	Karnataka (Location of Recipient on record - Sec 12(11)(d))	Intra-State (Karnataka to Karnataka)	CGST @ 9%: ₹ 180 SGST @ 9%: ₹ 180
Total Tax Liability				IGST: ₹ 6,300 CGST: ₹ 180 SGST: ₹ 180

Illustration 79:

M/s. Universal Traders, a registered supplier located in Mumbai (Maharashtra), furnishes the following details of various independent transactions undertaken during the month of February 2026.

Determine the Place of Supply (POS), Nature of Tax (IGST or CGST+SGST), and calculate the GST amount (assuming GST Rate @ 18%).

S.N.	Transaction Details	Value (₹)
(1)	Sold goods to Alpha Ltd. (Registered in Gujarat). The goods were removed from the Mumbai factory and delivered to Gujarat.	5,00,000
(2)	Sold goods to Mr. X (Unregistered student in Pune, Maharashtra). Goods were delivered to him in Pune.	50,000
(3)	Bill-to-Ship-to: Received an order from Beta Traders (Registered in Jaipur, Rajasthan) to deliver goods directly to their job-worker in Nasik (Maharashtra).	2,00,000

S.N.	Transaction Details	Value (₹)
(4)	Provided Hotel Accommodation service for a corporate meet in their resort located in Goa. The client is Gamma Ltd. (Registered in Mumbai, Maharashtra).	1,50,000
(5)	Organized a Business Conference in New Delhi. The service was provided to Delta Inc. (An Unregistered entity based in Bangalore, Karnataka).	1,00,000
(6)	Provided Technical Consultancy (Service) to Global Inc. based in New York (USA). Universal Traders received payment in Convertible Foreign Exchange.	10,00,000
(7)	Sold a Laptop to Mr. Arjun (Unregistered person). The Invoice Billing Address is Maharashtra, but on his request, it was delivered to his friend in Gujarat.	80,000

Solution

Legal Analysis & Determination of Place of Supply (POS)

S. N.	Analysis & Reasoning	Sec. Ref. (IGST Act)	Place of Supply	Nature of Supply
(1)	Movement of Goods: Where the supply involves movement, POS is the location where movement terminates for delivery.	10(1)(a)	Gujarat	Inter-State
(2)	Intra-State Supply: Supplier (Mumbai) and Place of Supply (Pune) are in the same State.	10(1)(a)	Maharashtra	Intra-State
(3)	Bill-to-Ship-to: Deemed supply to the third person (Beta Traders). POS is the principal place of business of such third person.	10(1)(b)	Rajasthan	Inter-State
(4)	Immovable Property: POS is the location where the immovable property (Hotel) is located.	12(3)	Goa	Inter-State
(5)	Event Organization (Unregistered): For supply to an unregistered person, POS is the location where the event is actually held.	12(7)(b)	New Delhi	Inter-State
(6)	Export of Service: Supplier is in India, Recipient is outside India. POS is the location of the Recipient.	13(2)	Outside India	Zero-Rated*
(7)	Unregistered (Bill vs Ship): New Amendment. Where the delivery address recorded on the invoice is different from billing address, POS is the Delivery Address.	10(1)(ca)	Gujarat	Inter-State

*Zero-Rated Supply under Section 16 of IGST Act (Export of Service)

Computation of GST Liability

S. N.	Taxable Value (₹)	GST Type	Rate	Tax Amount (₹)		
				IGST	CGST	SGST
1	5,00,000	IGST	18%	90,000		
2	50,000	CGST + SGST	9% + 9%		4,500	4,500
3	2,00,000	IGST	18%	36,000		

4	1,50,000	IGST	18%	27,000		
5	1,00,000	IGST	18%	18,000		
6	10,00,000	Export	0%	Nil		
7	80,000	IGST	18%	14,400		
Total	**20,80,000**			**1,85,400**	**4,500**	**4,500**

Notes:

1. Bill-to-Ship-to (Goods): Always look at who is giving the direction (The Third Party). Their location determines the tax, not the physical delivery location.
2. Hotel Services: The location of the property is supreme. Even if the Supplier and Recipient are in the same city, if the hotel is in another state, IGST applies.
3. Unregistered B2C: Watch out for the delivery address on the invoice. If Mr. Arjun (Unregistered) asks for delivery in Gujarat, GST goes to Gujarat.

Quick MCQ

1. Mr. A (Kolkata) orders a laptop from a supplier in Delhi. The supplier ships the goods to Mr. A's branch in Mumbai. What is the Place of Supply?

a. Delhi

b. Kolkata

c. Mumbai

d. Either Delhi or Kolkata

Correct: c

Reasoning: As per Section 10(1)(a), where movement terminates for delivery to the recipient, the POS is that location (Mumbai).

2. U/s 10(1)(ca), if an unregistered person's delivery address is recorded on the invoice, the POS is:

a. Location of the Supplier

b. Location of the Recipient's billing address

c. The delivery address recorded on the invoice

d. The State where the goods were manufactured

Correct: c

Reasoning: Sec. 10(1)(ca) clarifies that for supplies to unregistered persons, the delivery address on the invoice determines the POS.

3. For the purposes of sec. 10(1)(ca), what is deemed to be the "recording of the address"?

a. Full postal address with Pincode

b. Recording the name of the State

c. Mentioning the PAN of the buyer

d. Mentioning the Aadhaar of the buyer

Correct: b

Reasoning: Recording the name of the State on the invoice is deemed sufficient for recording the address of an unregistered person.

4. X (Tamil Nadu) instructs Y (Karnataka) to deliver goods to Z (Gujarat). Y bills X. What is the POS?

a. Karnataka

b. Gujarat

c. Tamil Nadu

d. No GST is applicable

Correct: c

Reasoning: This is a "Bill-to-Ship-to" scenario u/s 10(1)(b). The POS is the principal place of business of the "Third Person" (X), which is Tamil Nadu.

5. A hotel in Goa provides accommodation to a guest from Delhi. The POS is:

a. Delhi

b. Goa

c. Maharashtra (Nearest Hub)

d. Union Territory

Correct: b

Reasoning: U/s 12(3), for services in relation to immovable property (hotels), the POS is the location of the property.

6. An event organizer in Delhi organizes a corporate seminar in New Delhi for a company registered in Haryana. The POS is:

a. New Delhi

b. Haryana

c. Chandigarh

d. Mumbai

Correct: b

Reasoning: U/s 12(7)(a), if the service is provided to a registered person, the POS is the location of such person (Haryana).

7. An event organizer in Delhi organizes a corporate seminar in New Delhi for an unregistered person in Haryana. The POS is:

a. Haryana

b. New Delhi

c. Location of the Organizer

d. Exempt from GST

Correct: b

Reasoning: u/s 12(7)(b), for unregistered recipients, the POS is where the event is actually held (New Delhi).

8. For Export of Services, if the recipient is outside India and the supplier is in India, the POS is generally:

a. Location of the Supplier

b. Location of the Recipient

c. Customs Frontier

d. Port of Exit

Correct: b

Reasoning: As per sec. 13(2), the POS is the location of the recipient of the service.

9. If a supplier fails to record the address of an unregistered person on the invoice, the POS becomes:

a. The recipient's home state (if known)

b. The location of the supplier

c. The nearest GST Suvidha Kendra

d. Always Delhi (Central Registry)

Correct: b

Reasoning: The default provision of sec. 10(1)(ca) states that if no address is recorded, the POS is the location of the supplier.

10. "Place of Supply" is primarily determined to decide:

a. The date of payment of tax

b. Whether the supply is Intra-state or Inter-state

c. The valuation of the goods

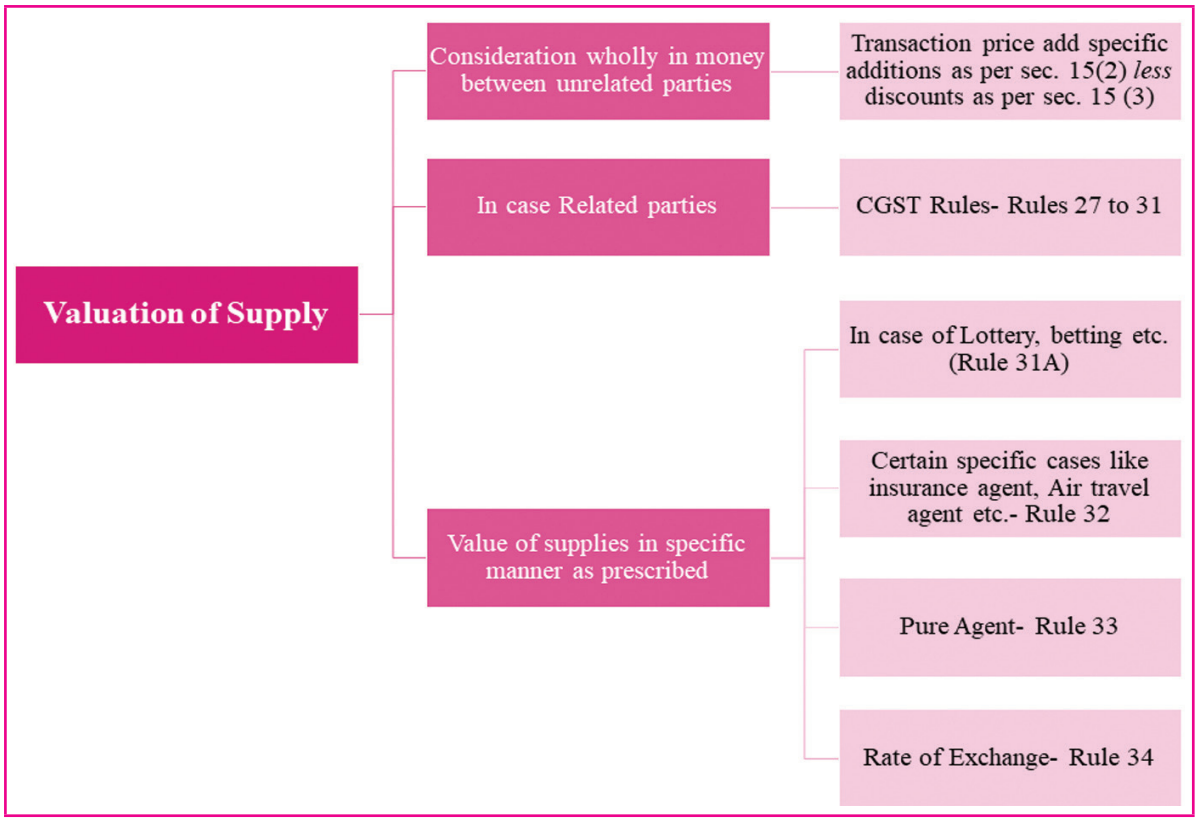
d. The eligibility of ITC for the supplier

Correct: b

Reasoning: As per sec. 7 and 8 of the IGST Act, the location of the supplier and the POS together determine the nature of the supply (Inter-state vs Intra-state).

5.3.3 Value of Supply

GST is computed as a certain percentage of the value of taxable supply. Thus, valuation of such supply is utmost important aspect for determining the liability.



Value of taxable supply [Sec. 15(1)]

The value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply – Sec. 15(1)

In other words, transaction value shall be considered as a value of taxable supply provided following conditions are satisfied:

a. the supplier and the recipient of the supply are not related; and

b. the price is the sole consideration for the supply.

Taxpoint:

- If aforesaid conditions are fulfilled, the transaction value, subject to certain adjustments, shall be considered as value of taxable supply.
- As per sec. 2(75) "money" means the Indian legal tender or any foreign currency, cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveller cheque, money order, postal or electronic remittance or any other instrument recognised by the RBI when used as a consideration to settle an obligation or exchange with Indian legal tender of another denomination but shall not include any currency that is held for its numismatic value.

- Persons shall be deemed to be "related persons" if:
  a. such persons are officers or directors of one another's businesses;
  b. such persons are legally recognised partners in business;
  c. such persons are employer and employee;
  d. any person directly or indirectly owns, controls or holds 25% or more of the outstanding voting stock or shares of both of them;
  e. one of them directly or indirectly controls the other;
  f. both of them are directly or indirectly controlled by a third person;
  g. together they directly or indirectly control a third person; or
  h. they are members of the same family;
- Person also includes legal persons;
- Persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other, shall be deemed to be related.
- As per sec. 2(31) "consideration" in relation to the supply of goods or services or both includes-
  a. any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government;
  b. the monetary value of any act or forbearance, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government:

  However, a deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply;
- As per sec. 2(84) "person" includes:
  a. an individual;
  b. a Hindu Undivided Family;
  c. a company;
  d. a firm;
  e. a Limited Liability Partnership;
  f. an association of persons or a body of individuals, whether incorporated or not, in India or outside India;
  g. any corporation established by or under any Central Act, State Act or Provincial Act or a Government company as defined in sec. 2(45) of the Companies Act, 2013;
  h. any body corporate incorporated by or under the laws of a country outside India;
  i. a co-operative society registered under any law relating to co-operative societies;
  j. a local authority;
  k. Central Government or a State Government;
  l. society as defined under the Societies Registration Act, 1860;
  m. trust; and
  n. every artificial juridical person, not falling within any of the above

Determination of Value

Value of taxable supply = Transaction Value + Certain Inclusions – Certain Exclusions

Particulars	Amount	Amount
The price actually paid or payable for the said supply of goods or services or both		xxx
Add: Inclusions as per sec. 15(2)		
⊙ **Taxes & Duties:** Any taxes, duties, cesses, fees and charges levied under any law (excluding GST), if charged separately by the supplier **Taxpoint:** TCS under the Income-tax Act shall not be considered as it is an interim levy and not the final tax.	xxx	
⊙ **Third-Party Payments:** Any amount the supplier was liable to pay, but the recipient paid on their behalf.	xxx	
⊙ **Incidental Expenses:** Charged by supplier before delivery (e.g., Packing, Commission, Inspection, Freight).	xxx	
⊙ **Interest/Penalty:** For delayed payment of consideration	xxx	
⊙ **Subsidies:** Only those received from Non-Government bodies directly linked to the price. **Taxpoint:** • The amount of subsidy shall be included in the value of supply of the supplier who receives the subsidy. • Subsidies provided by the Central Government and State Governments shall not to be included	xxx	xxx
		xxx
Less: Exclusions as per sec. 15(3)		
⊙ **Pre-Supply Discount:** Given before/at the time of supply and recorded in the invoice ⊙ **Post-Supply Discount:** Given after supply, only if: (a) Agreed upon before supply; (b) Linked to specific invoices; and (c) Recipient has reversed the proportionate Input Tax Credit (ITC)*		

Taxpoint : No GST on interest free refundable deposits received by the supplier

* Till the time a functionality/facility is made available on the common portal to enable the suppliers as well as the tax officers to verify whether the input tax credit attributable to such discounts offered through tax credit notes has been reversed by the recipient or not, the supplier may procure a certificate from the recipient of supply, issued by the Chartered Accountant (CA) or the Cost Accountant (CMA), certifying that the recipient has made the required proportionate reversal of input tax credit at his end in respect of such credit note issued by the supplier. However, where the amount of tax (CGST+SGST+IGST and including compensation cess, if any) involved in the discount given by the supplier to a recipient through tax credit notes in a Financial Year is not exceeding ₹ 5,00,000, then instead of CA/CMA certificate, the said supplier may procure an undertaking / certificate from the said recipient that the said input tax credit attributable to such discount has been reversed by him.

Clarification on Secondary Discounts (Cir 251/08/2025 dated 12-09-2025)

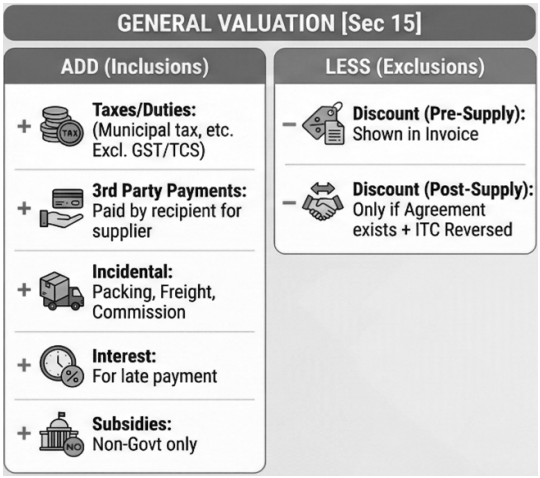
1. **ITC Eligibility on "Financial Credit Notes":**
   - **Issue:** If a supplier offers a post-sale discount (e.g., "Cash Discount" or "Commercial Credit Note") without adjusting the GST amount (i.e., a Financial Credit Note is issued), can the buyer claim full ITC?
   - **Clarification:** Yes. The buyer is entitled to full ITC of the tax charged on the original invoice.
   - **Condition:** The buyer must pay the reduced value (Original Value - Discount) plus the full tax amount to the supplier.
2. **Are Discounts treated as "Consideration" for Service?**
   - **Scenario:** A manufacturer gives a discount to a dealer to boost sales. Is this discount actually a "commission" paid to the dealer for providing a service?
   - **Clarification:** NO. Post-sale discounts given to boost sales (e.g., target incentives) are pure discounts. They are not payment for any service provided by the dealer.
   - **Exception:** If the dealer is explicitly required to run a specific advertisement campaign or sales drive (co-branding) for the manufacturer, only then is it a separate service.

Concept clarity: When to reverse ITC on discounts?

Feature	Scenario A [Sec. 15(3)(b)]	Scenario B (Circular 251)
Type of Discount	Section 15(3)(b) Discount (e.g., Cash Discount with Pre-Agreement)	Financial / Commercial Discount (e.g., Target Incentive / No Pre-Agreement)
Document Issued	GST Credit Note (With Tax Adjustment)	Financial Credit Note (Without Tax Adjustment)
Supplier's Tax Liability	Reduced (Supplier pays less tax)	Not Reduced (Supplier pays full tax)
Recipient's Action	Must Reverse ITC (Proportionate to discount)	No Reversal Required (Can claim full ITC)
Legal Authority	Section 15(3)(b)	Circular No. 251/08/2025-GST

Examples

1. If the value inclusive of tax is ₹ 100/- and applicable GST tax rate is 18% then Tax amount = (100 x 18) / (100 + 18) = 1800 / 118 = ₹ 15.25
2. Mr. X is selling a product for ₹ 1,000 to Mr. B. In this example value of supply will be consideration charged i.e. ₹ 1,000 provided Mr. X and Mr. B are not related and price is the sole consideration.
3. The supplier supplies goods worth ₹ 5,00,000 to the recipient. Against this supply, ₹ 3,00,000 is paid by the recipient directly and balance ₹ 2,00,000 is paid by the recipient's debtor. Both the payments will be included in the price for the purpose of valuation under GST.



4. Mr. A is sold goods to Mr. B for ₹ 20,000. Mr. A is charging packing charges of ₹ 1,000. Mr. A is also paying freight of ₹ 3,000 from Mr. A's premises to Mr. B's premises. In this case, taxable value shall be ₹ 24,000 i.e., taxable value shall include packing charges and freight.

5. A cafeteria in X Ltd (a corporate office) provides lunch at ₹ 120 per plate to the employees of the company. However, the vendor in the cafeteria receives an amount of ₹ 70 per plate in the form of subsidy from X Ltd for providing the food at a lower rate. Here, value of ₹ 70 will be added to the taxable value of ₹ 120 for the purpose of charging GST. Had this subsidy been provided by the Government to the company against mid-day meals, such amount of ₹ 70 would not have been includible in the taxable value.

6. Mr. X enters into a contract for supply of goods worth ₹ 2,00,000 on 15th March 2026. As per the said contract, the payment of the said amount was required to be made within 2 months of the sale. If the complete payment is not made within this time period, a late penalty of ₹ 10,000 will be chargeable. Let us assume that the payment is not made within the said period. In this situation, ₹ 10,000 will be includible in the taxable value. If GST is not separately charged on this interest amount then, ₹ 10,000 shall be treated as inclusive of GST and accordingly value shall be computed.

7. M/s Nanda Bakery sells a special type of fruit cake for New Year with MRP ₹ 200/- per pound. The customer being offered a discount @ 10% per cake. In the month of Dec. 2025, M/s Nanda Bakery sold 600 nos cakes to that customer. In this case, value of supply would be ₹ 1,08,000/- i.e., 90% of (₹ 200 x 600)

8. Mr. Ram sold goods to Mr. Lakshman for ₹ 2,50,000. As per the contract of sale, Mr. Ram is required to deliver the goods in the premises of Mr. Lakshman. Mr. Ram hires transporter for transportation for delivery of goods. However, the freight paid by Mr. Lakshman to transporter. Freight paid ₹ 2,500. In this case, value of taxable supply is ₹ 2,52,500 as obligation of the seller is discharged by the buyer.

Example

RG Pvt. Ltd. provides the following particulars relating to goods sold by it to GK Pvt. Ltd.:

Particulars	Amount in (₹)
List price of the goods (exclusive of taxes and discounts)	10,00,000
Tax levied by Municipal Authority in the sale of such goods	1,00,000
CGST and SGST chargeable on the goods	2,00,880
Packing charges (not included in price above)	20,000

G Pvt. Ltd. received ₹ 40,000 as a subsidy from a NGO on sale of such goods. The price of ₹ 10,00,000 of the goods is after considering such subsidy. RG Ltd. offers 2% discount on the list price of the goods which is recorded in the invoice for the goods.

Determine the value of the taxable supply made by RG Pvt. Ltd.

Answer

Computation of value of taxable supply

Particulars	₹	₹
List price of the goods (exclusive of taxes and discounts)		10,00,000
Add:		

Particulars	₹	₹
i. Tax levied by Municipal Authority on the sale of such goods [Includible in the value as per section 15(2)(a)]	1,00,000	
ii. CGST and SGST chargeable on the goods [Not includible in the value as per section 15(2)(a)]	-	
iii. Packing charges [Includible in the value as per section 15(2)(c)]	20,000	
iv. Subsidy received from a non-Government body [Since subsidy is received from a non-Government body, the same is included in the value in terms of section 15(2)(e)]	40,000	1,60,000
Total		11,60,000
Less: Discount @ 2% on ₹ 10,00,000		20,000
Value of taxable supply		11,40,000

Clarification on issues related to treatment of sales promotion schemes under GST [Circular No. 92/11/2019 dated 07.03.2019

Discounts including 'Buy more, save more' offers

a. Sometimes, the supplier offers staggered discount to his customers (increase in discount rate with increase in purchase volume). For example - Get 10 % discount for purchases above ₹ 5,000/-, 20% discount for purchases above ₹ 10,000/- and 30% discount for purchases above ₹ 20,000/-. Such discounts are shown on the invoice itself.

b. Some suppliers also offer periodic / year ending discounts to their stockists, etc. For example - Get additional discount of 1% if you purchase 10000 pieces in a year, get additional discount of 2% if you purchase 15000 pieces in a year. Such discounts are established in terms of an agreement entered into at or before the time of supply though not shown on the invoice as the actual quantum of such discounts gets determined after the supply has been effected and generally at the year end. In commercial parlance, such discounts are colloquially referred to as "volume discounts". Such discounts are passed on by the supplier through credit notes.

c. It is clarified that discounts offered by the suppliers to customers (including staggered discount under "Buy more, save more" scheme and post supply / volume discounts established before or at the time of supply) shall be excluded to determine the value of supply provided they satisfy the parameters laid down in sec. 15(3), including the reversal of ITC by the recipient of the supply as is attributable to the discount on the basis of document (s) issued by the supplier.

d. It is further clarified that the supplier shall be entitled to avail the ITC for such inputs, input services and capital goods used in relation to the supply of goods or services or both on such discounts.

Secondary Discounts

i. These are the discounts which are not known at the time of supply or are offered after the supply is already over. For example, M/s A supplies 10000 packets of biscuits to M/s B at ₹ 10/- per packet. Afterwards M/s A re-values it at ₹ 9/- per packet. Subsequently, M/s A issues credit note to M/s B for ₹ 1/- per packet.

ii. The provisions of sec. 34(1) provides as under:

"Where one or more tax invoices have been issued for supply of any goods or services or both and the

taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient one or more credit notes for supplies made in a financial year containing such particulars as may be prescribed."

iii. Representations have been received from the trade and industry that whether credit notes(s) u/s 34(1) can be issued in such cases even if the conditions laid down in sec. 15(3)(b) are not satisfied. It is hereby clarified that financial / commercial credit note(s) can be issued by the supplier even if the conditions mentioned in sec. 15(3)(b) are not satisfied. In other words, credit note(s) can be issued as a commercial transaction between the two contracting parties.

iv. It is further clarified that such secondary discounts shall not be excluded while determining the value of supply as such discounts are not known at the time of supply and the conditions laid down in sec. 15(3)(b) are not satisfied.

v. In other words, value of supply shall not include any discount by way of issuance of credit note(s) as explained above or by any other means, except in cases where the provisions contained in sec. 15(3)(b) are satisfied.

vi. There is no impact on availability or otherwise of ITC in the hands of supplier in this case

Clarification on Secondary Discounts (Cir 251/08/2025 dated 12-09-2025)

1. ITC Eligibility on "Financial Credit Notes":

- Issue: If a supplier offers a post-sale discount (e.g., "Cash Discount" or "Commercial Credit Note") without adjusting the GST amount (i.e., a Financial Credit Note is issued), can the buyer claim full ITC?
- Clarification: Yes. The buyer is entitled to full ITC of the tax charged on the original invoice.
- Condition: The buyer must pay the reduced value (Original Value - Discount) plus the full tax amount to the supplier.

2. Are Discounts treated as "Consideration" for Service?

- Scenario: A manufacturer gives a discount to a dealer to boost sales. Is this discount actually a "commission" paid to the dealer for providing a service?
- Clarification: NO. Post-sale discounts given to boost sales (e.g., target incentives) are pure discounts. They are not payment for any service provided by the dealer.
- Exception: If the dealer is explicitly required to run a specific advertisement campaign or sales drive (co-branding) for the manufacturer, only then is it a separate service.

Concept clarity: When to reverse ITC on discounts?

Feature	Scenario A [Sec. 15(3)(b)]	Scenario B (Circular 251)
Type of Discount	Section 15(3)(b) Discount (e.g., Cash Discount with Pre-Agreement)	Financial / Commercial Discount (e.g., Target Incentive / No Pre-Agreement)
Document Issued	GST Credit Note (With Tax Adjustment)	Financial Credit Note (Without Tax Adjustment)
Supplier's Tax Liability	Reduced (Supplier pays less tax)	Not Reduced (Supplier pays full tax)

Feature	Scenario A [Sec. 15(3)(b)]	Scenario B (Circular 251)
Recipient's Action	Must Reverse ITC (Proportionate to discount)	No Reversal Required (Can claim full ITC)
Legal Authority	Section 15(3)(b)	Circular No. 251/08/2025-GST

Value of supply of goods or services where the consideration is not wholly in money [Rule 27]

Where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall:

Case	Value of supply
a. Where the open market value of the supply is available	**Open market value** **Taxpoint:** "Open market value" of a supply of goods or services or both means the full value in money, excluding the integrated tax, central tax, State tax, Union territory tax and the cess payable by a person in a transaction, where the supplier and the recipient of the supply are not related and price is the sole consideration, to obtain such supply at the same time when the supply being valued is made.
b. Where the open market value of the supply is not available	The sum total of consideration in money + any such further amount in money as is equivalent to the consideration not in money, if such amount is known at the time of supply
c. Where the value is not determined under (a) or (b) above	The value of supply of goods or services or both of like kind and quality **Taxpoint:** "Supply of goods or services or both of like kind and quality" means any other supply of goods or services or both made under similar circumstances that, in respect of the characteristics, quality, quantity, functional components, materials, and reputation of the goods or services or both first mentioned, is the same as, or closely or substantially resembles, that supply of goods or services or both.
d. Where the value is not determinable under (a) or (b) or (c),	The sum total of consideration in money and such further amount in money that is equivalent to consideration not in money as determined by the application of rule 30 or rule 31 in that order.

- Where a new phone is supplied for ₹ 20,000 along with the exchange of an old phone and if the price of the new phone without exchange is ₹ 24,000, the open market value of the new phone is ₹ 24,000.
- Where a laptop is supplied for ₹ 40,000 along with the barter of a printer that is manufactured by the recipient and the value of the printer known at the time of supply is ₹ 4,000 but the open market value of the laptop is not known, the value of the supply of the laptop is ₹ 44,000.
- Jaya purchases a Samsung television set costing ₹ 85,000 from an electronic shop, in exchange of her existing TV set. After an hour of bargaining, the shop manager agrees to accept ₹ 78,000 instead of his quote of ₹ 81,000, as he would still be in a profitable position (the old TV can be sold for ₹ 8,000). In this case, where the price is not the sole consideration for the supply, the 'open market value' would be the value of the supply. Therefore, ₹ 85,000 would be the value of the supply.

Value of taxable supply – other cases [Sec. 15(3)]

Where the value of the supply of goods or services or both cannot be determined u/s 15(1), the same shall be determined in such manner as may be prescribed.

Value of supply of goods or services or both between distinct or related persons, other than through an agent [Rule 28]

The value of the supply of goods or services or both between distinct persons or where the supplier and recipient are related, other than where the supply is made through an agent, shall:

Case	Value of supply
Where the open market value of the supply is available and	
⊙ Where the recipient is not eligible for full ITC	**Open market value** Clarification: In cases where the foreign affiliate is providing certain services to the related domestic entity, and where full input tax credit is available to the said related domestic entity, the value of such supply of services declared in the invoice by the said related domestic entity may be deemed as open market value. Further, in cases where full input tax credit is available to the recipient, if the invoice is not issued by the related domestic entity with respect to any service provided by the foreign affiliate to it, the value of such services may be deemed to be declared as Nil, and may be deemed as open market value.
⊙ Where the recipient is eligible for full ITC	The value declared in the invoice shall be deemed to be the open market value of the goods or services. Taxpoint: In such case transaction is tax neutral.
Where the open market value of the supply is not available and	
Where the goods are not intended for further supply as such by the recipient	The value of supply of goods or services or both of like kind and quality
Where the goods are intended for further supply as such by the recipient	The value shall, at the option of the supplier, be a. The value of supply of goods or services or both of like kind and quality b. an amount equivalent to 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person.

Taxpoint

- ⊙ If the value is not determinable in aforesaid manner, then the value shall be determined by the application of rule 30 or rule 31, in that order.
- ⊙ A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons [Sec. 25(4)]
- ⊙ Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act – [Sec. 25(5)]

- However, the value of supply of services by a supplier to a recipient who is a related person located in India, by way of providing corporate guarantee to any banking company or financial institution on behalf of the said recipient, shall be deemed to be 1% of the amount of such guarantee offered per annum, or the actual consideration, whichever is higher. Note that, it overrides the general valuation rules for related parties. Even if the recipient is eligible for full Input Tax Credit (ITC), the value for Corporate Guarantee must be determined as per Rule 28(2) (i.e., 1%), and the "Invoice Value" cannot be deemed as the Open Market Value.
- Where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the value of said supply of services
- "Agent" means a person, including a factor, broker, commission agent, arhatia, del credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business of supply or receipt of goods or services or both on behalf of another [Sec. 2(5)].

Value of supply of goods made or received through an agent [Rule 29]

The value of supply of goods between the principal and his agent shall:

Case	Value of supply
Where the open market value of the supply of goods is available	The value shall, at the option of the supplier, be a. Open market value b. 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person, where the goods are intended for further supply by the said recipient.
Where the value of a supply is not determinable as above	The value shall be determined by the application of rule 30 or rule 31 in that order

Example:

A principal supplies groundnut to his agent and the agent is supplying groundnuts of like kind and quality in subsequent supplies at a price of ₹ 5,000 per quintal on the day of the supply. Another independent supplier is supplying groundnuts of like kind and quality to the said agent at the price of ₹ 4,550 per quintal. The value of the supply made by the principal shall be ₹ 4,550/- per quintal or where he exercises the option, the value shall be 90% of ₹ 5,000 i.e., ₹ 4,500 per quintal.

Value of supply of goods or services or both based on cost [Rule 30]

Where the value of a supply of goods or services or both is not determinable by any of the preceding rules, the value shall be 110% of the cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services.

Residual method for determination of value of supply of goods or services or both [Rule 31]

Where the value of supply of goods or services or both cannot be determined under rules 27 to 30, the same shall be determined using reasonable means consistent with the principles and the general provisions of sec. 15 and the provisions of this Chapter.

However, in the case of supply of services, the supplier may opt for this rule, ignoring rule 30.

Value of supply in case of lottery, betting, gambling and horse racing [Rule 31A]

Notwithstanding anything contained in the provisions of this Chapter, the value in respect of supplies specified below shall be determined in the manner provided hereinafter.

Deemed Value of supply of lottery [Rule 31A(2)]

The deemed value of supply of lottery shall be higher of the following:

a. 100/140 of the face value of ticket; or

b. 100/140 of the price as notified in the Official Gazette by the Organising State

Lotteries are sold as goods and can be of following two types:

- "Lottery run by State Governments" means a lottery not allowed to be sold in any State other than the organizing State.
- "Lottery authorised by State Governments" means a lottery which is authorised to be sold in State(s) other than the organising State also.

Example

State Government authorize a lottery whose particulars are as under

a. Face value per ticket: ₹ 1000,

b. The price as notified by official gazette: ₹ 600.

Compute value of supply

Further, how shall your answer differ if the price mentioned in (b) is ₹ 1,050 instead of ₹ 600

Answer

Higher of the following shall be considered as value of supply

Particulars	When notified price is ₹ 600	When notified price is ₹1,050
100/140 of face value of ticket i.e., ₹ 1,000 x 100 / 140	714.28	714.28
100/140 of notified price i.e., - ₹ 600 x 100 / 140 - ₹ 1,050 x 100 / 140	 428.57	 750.00
Value of supply (being higher of the above)	**714.28**	**750.00**

Value of supply of actionable claim in the form of chance to win in betting, gambling or horse racing in a race club [Rule 31A(3)]

The value of supply of actionable claim in the form of chance to win in betting, gambling or horse racing in a race club shall be 100% of the face value of the bet or the amount paid into the totalisator.

Value of supply in case of online gaming including online money gaming [Rule 31B] [Notification No. 51/2023 dated 29-09-2023 w.e.f. 01-10-2023]

The value of supply of online gaming, including supply of actionable claims involved in online money

gaming, shall be the total amount paid or payable to or deposited with the supplier by way of money or money's worth, including virtual digital assets, by or on behalf of the player.

However, any amount returned or refunded by the supplier to the player for any reasons whatsoever, including player not using the amount paid or deposited with the supplier for participating in any event, shall not be deductible from the value of supply of online money gaming.

Value of supply of actionable claims in case of casino [Rule 31C] [Notification No. 51/2023 dated 29-09-2023 w.e.f. 01-10-2023]

The value of supply of actionable claims in casino shall be the total amount paid or payable by or on behalf of the player for –

i. purchase of the tokens, chips, coins or tickets, by whatever name called, for use in casino; or

ii. participating in any event, including game, scheme, competition or any other activity or process, in the casino, in cases where the token, chips, coins or tickets, by whatever name called, are not required.

However, any amount returned or refunded by the casino to the player on return of token, coins, chips, or tickets, as the case may be, or otherwise, shall not be deductible from the value of the supply of actionable claims in casino.

Taxpoint:

- For the purpose of rule 31B and rule 31C, any amount received by the player by winning any event, including game, scheme, competition or any other activity or process, which is used for playing by the said player in a further event without withdrawing, shall not be considered as the amount paid to or deposited with the supplier by or on behalf of the said player.
- Online gaming means offering of a game on the internet or an electronic network and includes online money gaming [Sec. 2(80A)]
- Online money gaming means online gaming in which players pay or deposit money or money's worth, including virtual digital assets, in the expectation of winning money or money's worth, including virtual digital assets, in any event including game, scheme, competition or any other activity or process, whether or not its outcome or performance is based on skill, chance or both and whether the same is permissible or otherwise under any other law for the time being in force [Sec. 2(80B)]
- Specified actionable claim means the actionable claim involved in or by way of—
  - i. betting;
  - ii. casinos;
  - iii. gambling;
  - iv. horse racing;
  - v. lottery; or
  - vi. online money gaming

Value of notified supplies [Sec. 15(5)]

The value of notified supplies shall be determined in such manner as may be prescribed.

Determination of value in respect of certain supplies [Rule 32]

Notwithstanding anything contained in the provisions of this Chapter, the value in respect of supplies specified below shall, at the option of the supplier, be determined in the manner provided hereinafter.

Value of supply of services in relation to the purchase or sale of foreign currency, including money changing [Rule 32(2)]

The value of supply of services in relation to the purchase or sale of foreign currency, including money changing, shall be determined by the supplier of services in the following manner, namely:-

<table>
<tr><td colspan="3">Option 1
Where one of the currency exchanged is INR</td></tr>
<tr><td>Value of supply =</td><td colspan="2">(Difference between buying rate or the selling rate and RBI reference rate for that currency at that time) x Total units of currency
However, where the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money
Example
1. US$ 100 are sold by a customer at the rate of ₹ 78 per US$. RBI reference rate for US$ is Rs.77 for that day. The taxable value shall be ₹ 100 i.e., (₹ 78 – ₹ 77) x 100
2. INR 90,000 is changed into Great Britain Pound (GBP) and the exchange rate offered is ₹ 90, thereby giving GBP 1,000. RBI reference rate for that day for GBP is ₹ 89. The taxable value shall be ₹ 1,000. However, if RBI reference rate is not available then, taxable value is ₹ 900 i.e., 1% of ₹ 90,000</td></tr>
<tr><td colspan="3">Where none of the currency exchanged is INR</td></tr>
<tr><td>Value of supply =</td><td colspan="2">1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at RBI reference rate</td></tr>
<tr><td rowspan="4">Option 2
Value of supply =</td><td>Amount Exchanged</td><td>Value of supply</td></tr>
<tr><td>Gross amount of currency exchanged up to ₹ 1,00,000</td><td>a. 1% of the gross amount of currency exchanged; or
b. ₹ 250
- whichever is higher</td></tr>
<tr><td>Gross amount of currency exchanged exceeds ₹ 1,00,000 but does not exceed ₹ 10,00,000/-</td><td>₹1,000 + 0.5% of the gross amount of currency exchanged in excess of ₹ 1,00,000</td></tr>
<tr><td>Gross amount of currency exchanged exceeds ₹ 10,00,000</td><td>a. ₹ 5,500 + 0.1% of the gross amount of currency exchanged in excess of ₹ 10,00,000
b. ₹ 60,000
- whichever is lower</td></tr>
</table>

Examples

1. USD 100 is sold to a customer at the rate ₹ 65 per USD. The gross amount of currency exchanged is ₹ 6,500/- Taxable value of supply = ₹ 250 being higher of ₹ 250 and 1% of ₹ 6,500/-
2. USD 1000 is sold to a customer at the rate ₹ 65 per USD. The gross amount of currency exchanged is ₹ 65,000/- Taxable value of supply = ₹ 650 i.e., [₹ 65,000 x 1%]
3. USD 3000 is sold to a customer at the rate ₹ 65 per USD. The gross amount of currency exchanged is ₹ 1,95,000/- Taxable value of supply = ₹ 1,000 + [(1,95,000 - 1,00,000) x 0.5%] = ₹ 1,475/-
4. USD 20000 is sold to a customer at the rate ₹ 65 per USD. The gross amount of currency exchanged is ₹ 13,00,000/- Taxable value of supply = ₹ 5,500 + [(13,00,000 - 10,00,000) x 0.1%] = ₹ 5,800/-

Taxpoint: A person supplying the services may exercise the option to ascertain the value in terms of this clause for a financial year and such option shall not be withdrawn during the remaining part of that financial year.

Value of the supply of services in relation to booking of tickets for travel by air by an air travel agent [Rule 32(3)]

The deemed value of the supply of services in relation to booking of tickets for travel by air provided by an air travel agent shall be

Case	Value of supply
In case of domestic booking	5% of the basic fare
In case of international booking	10% of the basic fare

Taxpoint: "Basic fare" means that part of the air fare on which commission is normally paid to the air travel agent by the airlines.

Example

Mr. Ram is a travel agent. The following particulars are furnished by him.

Particulars	Basic Fare	Other charges and fee	Taxes	Total Ticket Value
Domestic bookings	₹ 1,00,000	₹ 5,000	₹ 4,000	₹ 1,09,000
International bookings	₹ 3,00,000	₹ 20,000	₹ 15,000	₹ 3,35,000

Answer

Computation of taxable value

Particulars	Basic Fare	Prescribed %	Value of supply
For Domestic Booking	1,00,000	5%	5,000
For International Booking	3,00,000	10%	30,000
Total			35,000

Value of supply of services in relation to life insurance business [Rule 32(4)]

The value of supply of services in relation to life insurance business shall be:

Case	Value of supply
Where policy also have features of investment and such an amount is intimated to the policy holder at the time of supply of service	Gross premium charged from a policy holder less The amount allocated for investment, or savings on behalf of the policy holder Example: If the gross premium is ₹ 60,000, of which ₹ 55,000 is invested in funds, then the value of supply shall be ₹ 5,000.
Single premium annuity policies not covered above	10% of single premium charged from the policy holder
In all other case	First year 25% of the premium charged from the policy holder Subsequent year 12.5% of the premium charged from the policy holder in subsequent years

Taxpoint: Nothing contained in this sub-rule shall apply where the entire premium paid by the policy holder is only towards the risk cover in life insurance.

Value of supply in buying and selling of second hand goods [Rule 32(5)]

Where a taxable supply is provided by a person dealing in buying and selling

- of second hand goods i.e., used goods as such or after such minor processing which does not change the nature of the goods; **and**
- where no input tax credit has been availed on the purchase of such goods,

then, the value of supply shall be the difference between the selling price and the purchase price and where the value of such supply is negative, it shall be ignored:

Taxpoint: The purchase value of goods repossessed from a defaulting borrower, who is not registered, for the purpose of recovery of a loan or debt shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by 5% for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.

Example

M/s Hariharan is dealer of old car and engaged in purchase and sale of old cars in Bihar, furnishes the details of following transactions for the month of August 2025

1. Purchased old car for ₹ 80,000/- and sold for ₹ 1,20,000/- in Bihar
2. Purchased old car for ₹ 75,000/- and sold for ₹ 65,000/- in Bihar
3. Purchased old car for ₹ 90,000/- but unable to sell during the month of August' 25
4. Purchased old car for ₹ 1,00,000/- and sold for ₹ 1,30,000/- in Orissa

Determine the value of taxable supply

Answer:

Computation of taxable value of supply

Sl. No	Particulars		Profit
	Purchase	Sale	
1	80,000	1,20,000	40,000
2	75,000	65,000	Note (i)
3	90,000	-	Note (ii)
4	1,00,000	1,30,000	30,000
Taxable value of supply			70,000

Notes

(i) As per Rule 32(5), no GST is payable in negative margin

(ii) No GST is payable on unsold goods

(iii) In case of sale of car in Orissa, IGST is applicable.

Example

Mr. X took a car loan of ₹ 3,00,000 from ABC Bank Ltd. on 1st September 2022 which was entirely used for the purchase of car worth the same amount. Mr. X defaults on the loan balance and thereby his car is repossessed by the bank on 1st Jan. 2023. This car is sold on 30th March 2023 by the bank for ₹ 2,50,000. Determine the valuation under GST.

How shall your answer differ if the car is sold for ₹ 2,70,000/-

Solution

The purchase value to be taken will be the purchase price in the hands of the borrower – 5% per quarter or part thereof (September – March) i.e., 3,00,000 – (5% x 3 x 300,000) = ₹ 2,55,000.

As the sale value of the car is below ₹ 2,55,000, the margin will be ignored for the charging of GST.

In the alternate solution, ₹ 15,000 i.e., ₹ 2,70,000 – ₹ 2,55,000, shall be treated as taxable value of supply.

Value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply of goods or services or both [Rule 32(6)]

The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply of goods or services or both shall be equal to the money value of the goods or services or both redeemable against such token, voucher, coupon, or stamp.

Example: Mr. X had purchased a voucher for ₹ 200 which was redeemable against purchase of a wallet worth ₹ 500 from Shopping Stop. Here, the valuation that should be taken is the redemption value of ₹ 500 in respect of the voucher and not the purchase value of ₹ 200.

Value of taxable services provided by notified class of service providers [Rule 32(7)]

The value of taxable services provided by notified class of service providers, as referred to in paragraph 2 of

Schedule I between distinct persons as referred to in section 25, where input tax credit is available, shall be deemed to be NIL.

Value of supply of services in case of pure agent [Rule 33]

Notwithstanding anything contained in the provisions of this Chapter, the expenditure or costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply, if all the following conditions are satisfied:

a. the supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorisation by such recipient;

b. the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the pure agent to the recipient of service; and

c. the supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account

Taxpoint

"Pure agent" means a person who-

a. enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure or costs in the course of supply of goods or services or both;

b. neither intends to hold nor holds any title to the goods or services or both so procured or supplied as pure agent of the recipient of supply;

c. does not use for his own interest such goods or services so procured; and

d. receives only the actual amount incurred to procure such goods or services in addition to the amount received for supply he provides on his own account.

Example

Corporate services firm A is engaged to handle the legal work pertaining to the incorporation of Company B. Other than its service fees, A also recovers from B, registration fee and approval fee for the name of the company paid to the Registrar of Companies. The fees charged by the Registrar of Companies for the registration and approval of the name are compulsorily levied on B. A is merely acting as a pure agent in the payment of those fees. Therefore, A' s recovery of such expenses is a disbursement and not part of the value of supply made by A to B.

Rate of exchange of currency, other than Indian rupees, for determination of value [Rule 34]

1. The rate of exchange for determination of value of **taxable goods** shall be the applicable rate of exchange as notified by the Board u/s 14 of the Customs Act, 1962 for the date of time of supply of such goods in terms of sec. 12 of the Act.

2. The rate of exchange for determination of value of **taxable services** shall be the applicable rate of exchange determined as per the generally accepted accounting principles for the date of time of supply of such services in terms of sec. 13 of the Act.

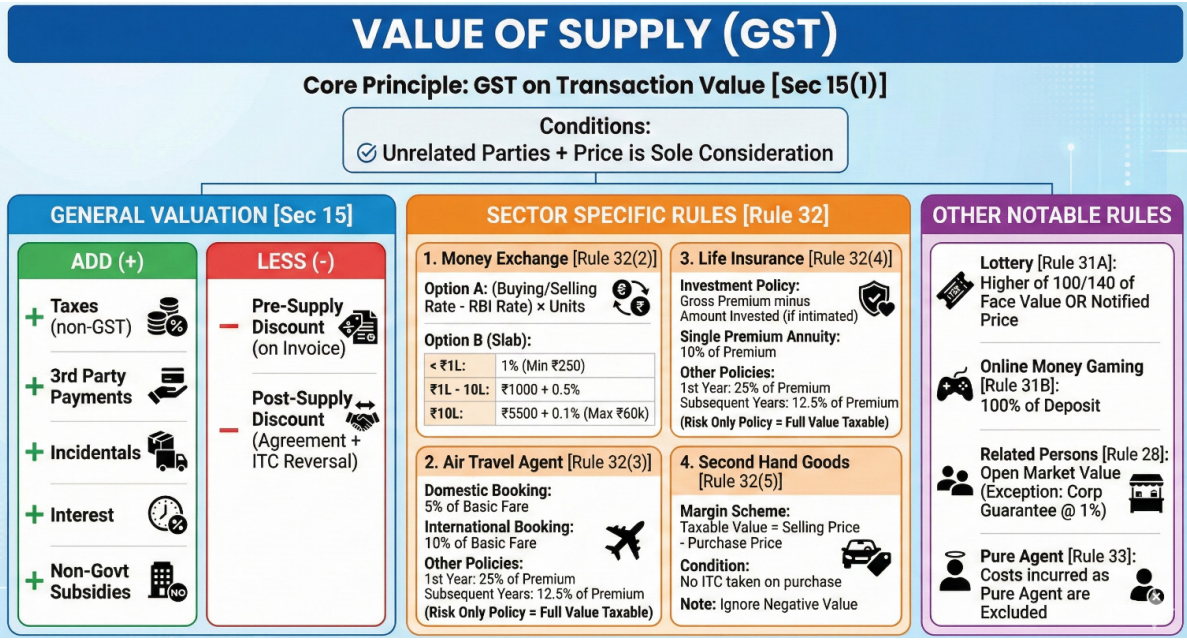


Illustration 88:

Following are the particulars, relating to one of the machine sold by S Ltd. to A Ltd. in the month of February 2026 at list price of ₹ 8,50,000. (exclusive of taxes and discount) Further, following additional amounts have been charged from A Ltd:

S.N.	Particulars	₹
(i)	Municipal taxes chargeable on the machine	55,000
(ii)	Outward freight charges (Contract was to deliver machine at A Ltd.'s factory i.e. F.O.R. contract)	75,000

Additional information:

a. S Ltd. normally gives an interest-free credit period of 30 days for payment, after that it charges interest @ 1% p.m. or part thereof on list price. A Ltd. paid for the supply after 45 days, but S Ltd. waived the interest payable.

b. S Ltd. received ₹ 50,000 as subsidy, from one non-government organization (NGO) on sale of such machine. This subsidy was not linked to the price of machine and also not considered in list price of ₹ 8,50,000.

c. A Ltd. deducted discount of ₹ 15,000 at the time of final payment, which was not as per agreement.

d. S Ltd. collected ₹ 8,500 as TCS (tax collected at source) under the provisions of the Income Tax Act, 1961.

Compute the value of taxable supply as per the provision of GST laws, considering that the price is the sole consideration for the supply and both parties are unrelated to each other.

Solution

Computation of taxable value of supply

Particulars	₹
List Price (exclusive of tax and discount)	8,50,000
Municipal taxes chargeable on the machine [Only GST is required to be excluded]	55,000
Outward freight charges (Contract was to deliver machine at A Ltd.'s factory i.e. F.O.R. contract)	75,000
Interest on delayed payment [as the same is waived by S Ltd.]	-
Receipt of subsidy from NGO [as it is not directly linked with the machine]	-
Discount [as it is post supply discount]	-
TCS [as it is an interim levy not having the characteristics of tax]	-
Taxable value of supply	**9,80,000**

Illustration 89:

Ms. Sonam, a registered supplier in Mumbai has provided the following details in respect of her supplies made Intra-State for the month of March 2026:

Particulars	₹
List price of goods supplied intra-state (without considering following items)	3,30,000
Packing expenses charged separately in the invoice	10,800
Discount of 1% on list price of goods was provided (recorded in the invoice of goods)	

Compute the value of taxable supply.

Solution

Computation of value of taxable supply

Particulars	₹
List price of goods supplied intra-state	3,30,000
Packing expenses charged separately in the invoice	10,800
Discount of 1% on list price of goods was provided (recorded in the invoice of goods)	(3,300)
Value of taxable supply	3,37,500

Illustration 90:

Y Ltd., Mumbai, a registered supplier, is manufacturing Chocolates and Biscuits. It provides the following details of taxable inter-state supply made by it for the month of October, 2025.

Particulars	₹
List price of goods supplied inter-state	12,40,000
Items already adjusted in the list price	
Subsidy from Central Government for supply of biscuits to Government School	1,50,000
Subsidy from Trade Association for supply of quality biscuits	50,000
Items not adjusted in the list price	

Particulars	₹
Tax levied by Municipal Authority	25,000
Packing Charges	20,000
Late fee paid by the recipient of supply for delayed payment of invoice	5,000

Calculate the value of taxable supply made by Y Ltd. for the month of October, 2025.

Solution

Computation of value of taxable supply

Particulars	₹
List price of goods supplied inter-state	12,40,000
Subsidy from Central Government for supply of biscuits to Government School	-
Subsidy from Trade Association for supply of quality biscuits	50,000
Tax levied by Municipal Authority	25,000
Packing Charges	20,000
Late fee paid by the recipient of supply for delayed payment of invoice	5,000
Value of taxable supply	**13,40,000**

Illustration 91:

M/s. PQR Heavy Engineering (Mumbai) supplied a machine to ABC Ltd. (Pune) on 10-Jan-2026.

- List Price of Machine: ₹ 15,00,000 (Exclusive of taxes and discounts).
- Additional Charges:
  1. Municipal Tax levied on the machine: ₹ 25,000.
  2. Packing Charges (Special crate): ₹ 12,000.
  3. Design & Engineering Charges (Pre-delivery): ₹ 40,000.
  4. TCS collected under Income Tax Act: ₹ 15,000.
  5. GST charged on the invoice: ₹ 2,70,000.

Determine the Value of Taxable Supply.

Solution

Computation of Taxable Value

Particulars	Treatment [Sec 15(2)]	Amount (₹)
List Price	Base Value	15,00,000
Add: Municipal Tax	Include (Tax other than GST)	25,000
Add: Packing Charges	Include (Incidental expense)	12,000
Add: Design Charges	Include (Anything done before delivery)	40,000
Add: TCS (Income Tax)	Exclude (Interim levy, not tax on supply)	Nil
Add: GST	Exclude (Tax under GST Act)	Nil
Value of Taxable Supply		**15,77,000**

Illustration 92:

Solaris Power Ltd. sells solar panels. The list price is ₹ 2,00,000.

- **Subsidy A:** ₹ 50,000 received from the Central Government (Green Energy Scheme). The list price is after considering this subsidy.
- **Subsidy B:** ₹ 30,000 received from "Clean Earth NGO". The list price is after considering this subsidy.
- **Liability:** Solaris Power was liable to pay ₹ 10,000 to a raw material transporter, but the buyer paid this amount directly on behalf of Solaris Power.

Determine the Value of Taxable Supply.

Solution

Computation of Taxable Value

Particulars	Treatment [Sec 15(2)]	Amount (₹)
List Price (After Subsidies)	Transaction Value	2,00,000
Add: Govt. Subsidy	Not to be added (Already deducted & Excluded by law)	Nil
Add: NGO Subsidy	Add Back (Already deducted but Taxable)	30,000
Add: 3rd Party Payment	Add (Recipient paid supplier's liability)	10,000
Value of Taxable Supply		2,40,000

Illustration 93:

Tech Wholesalers supplies 100 Laptops to a retailer on 15-Oct-2025.

- **Price per Laptop:** ₹ 40,000.
- **Discount Policy:**
  1. **Trade Discount:** 5% given on the invoice date.
  2. **Cash Discount:** 2% given of the price if payment is made within 10 days. The retailer paid on 20-Oct-2025 and received the credit note.

Note: The agreement for cash discount existed before supply, and the retailer has reversed the proportionate ITC.

Determine the Value of Supply.

Solution

Computation of Taxable Value

Particulars	Amount (₹)
Gross Price (100 x 40,000)	40,00,000
Less: Trade Discount (5%) (Allowed as recorded in Invoice at time of supply)	(2,00,000)
Less: Cash Discount (2%) (Allowed as Post-Supply discount conditions met: Agreement + ITC Reversal)	(80,000)
Value of Taxable Supply	**37,20,000**

Illustration 94:

Alpha Motors sold spare parts worth ₹ 1,00,000 to Beta Garage on 01-Feb-2026.

- **Payment term:** 30 days.
- Beta Garage delayed the payment and paid ₹ 1,11,800 (inclusive of ₹ 10,000 penalty/interest + GST @ 18%) on 05-Apr-2026.
- **Applicable GST Rate:** 18%.

Calculate the Value of Supply for the original invoice and the interest invoice.

Solution

1. **Original Invoice (Feb 2026):**
   - Value = ₹ 1,00,000.
   - GST = ₹ 18,000.
2. **Interest Invoice (Apr 2026):**
   - The interest/penalty received is considered inclusive of GST.
   - Amount Received: ₹ 11,800.
   - Taxable Value of Interest = ₹ 11,800 x 100 / 118 = ₹ 10,000.
   - GST on Interest = ₹ 1,800.
   - Interest is taxable only when received [Sec 12(6)] i.e. in Apr 2026.

Illustration 95:

M/s. Vintage Wheels, a registered used car dealer in Delhi, purchases and sells old cars. They have not availed Input Tax Credit (ITC) on the purchase of these cars. The details of transactions for the month of January 2026 are as follows:

Item	Purchase Price (₹)	Selling Price (₹)
Car A (Maruti Swift)	2,00,000	2,60,000
Car B (Honda City)	3,50,000	3,30,000
Car C (Toyota Innova)	5,00,000	5,50,000

Determine the Value of Taxable Supply for each car.

Solution

As per Rule 32(5), where no ITC is availed on purchase, the value of supply is the difference between the selling price and the purchase price. If the value is negative, it shall be ignored.

Computation of Taxable Value

Item	Calculation (Selling Price - Purchase Price)	Taxable Value (₹)	Remarks
Car A	₹ 2,60,000 - 2,00,000 = ₹ 60,000	60,000	Positive margin is taxable.
Car B	₹ 3,30,000 - 3,50,000 = (₹ 20,000)	Nil	Negative margin is ignored.
Car C	₹ 5,50,000 - 5,00,000 = ₹ 50,000	50,000	Positive margin is taxable.

Total Taxable Value for Jan 2026: ₹ 1,10,000 (60,000 + 50,000)

Quick MCQ

1. Under Section 15(1), the transaction value is accepted as the value of taxable supply only if which of the following conditions are met?

a. The supplier and recipient are related, and price is the sole consideration.

b. The supplier and recipient are not related, and the price is the sole consideration.

c. The price is the sole consideration, regardless of the relationship.

d. The supplier and recipient are distinct persons.

Correct: b

Reasoning: As per sec. 15(1), the value of supply is the transaction value (price actually paid or payable) provided two conditions are satisfied: (1) the supplier and the recipient are not related, and (2) the price is the sole consideration for the supply.

2. How is a subsidy received from a Non-Government NGO treated in the valuation of supply?

a. It is excluded from the value of supply.

b. It is included in the value of supply only if the Government approves it.

c. It is included in the value of supply if it is directly linked to the price.

d. It is excluded if it is passed on to the customer.

Correct: c

Reasoning: Subsidies provided by the Central or State Governments are not included in the value. However, subsidies provided by non-Government bodies (like NGOs) that are directly linked to the price must be included in the value of the supply.

3. M/s Alpha delays payment to a supplier and is charged ₹ 10,000 as a late fee. If the GST rate is 18% and the supplier has not charged GST separately on this interest, what is the taxable value of this late fee?

a. ₹ 10,000

b. ₹ 11,800

c. ₹ 8,475

d. ₹ 0 (Interest is exempt)

Correct: c (Rounded from ₹ 8,474.57)

Reasoning: Interest or penalty for delayed payment is includible in the taxable value. If GST is not separately charged on the interest amount, the amount received is treated as inclusive of GST. Therefore, the taxable value is calculated as: (approx ₹ 8,475).

4. In the case of a corporate guarantee provided to a banking company on behalf of a related recipient located in India, what is the deemed value of supply per annum?

a. Open Market Value.

b. 1% of the amount of such guarantee or the actual consideration, whichever is higher.

c. 90% of the price charged to a non-related customer.

d. Nil, if the recipient is eligible for full ITC.

Correct: b

Reasoning: A specific provision overrides the general valuation rules for corporate guarantees. The value is deemed to be 1% of the amount of such guarantee offered per annum, or the actual consideration, whichever is higher. This applies even if the recipient is eligible for full ITC.

5. A used car dealer (under Margin Scheme Rule 32(5)) purchases a car for ₹ 3,50,000 and sells it for ₹ 3,30,000. He has not availed ITC on the purchase. What is the value of taxable supply?

a. ₹ 3,30,000

b. ₹ 20,000

c. Nil

d. ₹ 3,50,000

Correct: c

Reasoning: Under Rule 32(5) for second-hand goods, the value of supply is the difference between the selling price and purchase price. However, if this value is negative (i.e., a loss), it shall be ignored, resulting in a Nil taxable value.

6. Under Rule 31B, what is the value of supply for online money gaming?

a. The platform fee charged by the gaming company.

b. The total amount paid or deposited with the supplier by the player.

c. The total amount deposited less any winnings refunded.

d. The face value of the bet.

Correct: b

Reasoning: The value of supply of online money gaming is the total amount paid or payable to or deposited with the supplier, including virtual digital assets. Any amount returned or refunded to the player is not deductible from the value.

7. Which of the following expenses incurred by a supplier can be excluded from the value of supply under Rule 33?

a. Expenses incurred as a Pure Agent.

b. Incidental expenses like packing and freight.

c. Pre-delivery inspection charges.

d. Any taxes other than GST.

Correct: a

Reasoning: Expenditure or costs incurred by a supplier as a Pure Agent of the recipient are excluded from the value of supply, provided conditions such as no title to goods/services and recovery of actual amounts are met. Packing, freight, and other taxes are inclusions under Section 15(2).

8. An Air Travel Agent books an international flight ticket with a Basic Fare of ₹ 3,00,000. What is the deemed value of supply under Rule 32(3)?

a. ₹ 15,000 (5% of Basic Fare)

b. ₹ 30,000 (10% of Basic Fare)

c. ₹ 3,00,000 (100% of Basic Fare)

d. ₹ 18,000 (Standard commission rate)

Correct: b

Reasoning: For an air travel agent, the deemed value of supply in the case of international bookings is 10% of the basic fare. (Note: For domestic bookings, it is 5%).

9. Post-supply discounts can be excluded from the value of supply only if:

a. They are shown in the invoice at the time of supply.

b. They are established by an agreement entered into before supply, linked to invoices, and proportionate ITC is reversed by the recipient.

c. They are given as a commercial credit note without any prior agreement.

d. The supplier issues a financial credit note.

Correct: b

Reasoning: Post-supply discounts are excluded only if (a) they are established in terms of an agreement entered into at or before the time of supply, (b) they are linked to specific invoices, and (c) the recipient has reversed the proportionate Input Tax Credit (ITC).

10. If the value of supply cannot be determined by Open Market Value or value of like kind and quality, and the goods are not for pure agency or specific sector rules, what is the immediate next method (Rule 30)?

a. Residual Method (Rule 31).

b. 110% of the cost of production/acquisition.

c. 90% of the price charged by the recipient.

d. The price declared by the supplier.

Correct: b

Reasoning: Where the value cannot be determined by preceding rules (Rule 27-29), the value shall be 110% of the cost of production, manufacture, or acquisition of such goods or services (Rule 30). The Residual method (Rule 31) is applied only if Rule 30 is not applicable.

Input Tax Credit

5.4

Uninterrupted and seamless chain of input tax credit (hereinafter referred to as, "ITC") is one of the key features of Goods and Services Tax. ITC is a mechanism to avoid cascading of taxes. Cascading of taxes, in simple language, is 'tax on tax'. Under the earlier system of taxation, credit of taxes being levied by Central Government is not available as set-off for payment of taxes levied by State Governments, and vice versa. One of the most important features of the GST system is that the entire supply chain would be subject to GST to be levied by Central and State Government concurrently. As the tax charged by the Central or the State Governments would be part of the same tax regime, the credit of tax paid at every stage would be available as set-off for payment of tax at every subsequent stage.

Before moving ahead, we are required to understand the meaning of following terms:

Sec.	Term	Definition
2(17)	Business	Business includes - i. any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit; ii. any activity or transaction in connection with or incidental or ancillary to sub-clause (a); iii. any activity or transaction in the nature of sub-clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction; iv. supply or acquisition of goods including capital goods and services in connection with commencement or closure of business; v. provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members; vi. admission, for a consideration, of persons to any premises; vii. services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation; viii. activities of a race club including by way of totalisator or a license to book maker or activities of a licensed book maker in such club; and ix. any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities;

Sec.	Term	Definition
2(19)	Capital Goods	Capital goods means goods, the value of which is capitalised in the books of account of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business;
2(34)	Conveyance	Conveyance includes a vessel, an aircraft and a vehicle;
2(59)	Input	Input means any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business;
2(60)	Input service	Input service means any service used or intended to be used by a supplier in the course or furtherance of business;
2(61)	Input Service Distributor	Input Service Distributor means an office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax u/s 9(3) or 9(4), for or on behalf of distinct persons referred to in sec. 25, and liable to distribute the input tax credit in respect of such invoices in the manner provided in sec. 20
2(62)	Input tax	Input tax in relation to a registered person, means the central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes- a. the integrated goods and services tax charged on import of goods; b. the tax payable under the provisions of sec. 9(3) and (4) [i.e., reverse charge]; c. the tax payable under the provisions of sec. 5(3) and (4) of the Integrated Goods and Services Tax Act; d. the tax payable under the provisions of sec. 9(3) and (4) of the respective State Goods and Services Tax Act; or e. the tax payable under the provisions of sec. 7(3) and (4) of the Union Territory Goods and Services Tax Act, but does not include the tax paid under the composition levy;
2(63)	Input tax credit	Input tax credit means the credit of input tax;
2(66)	invoice or tax invoice	Invoice or tax invoice means the tax invoice referred to in section 31;
2(67)	Inward supply	Inward supply in relation to a person, shall mean receipt of goods or services or both whether by purchase, acquisition or any other means with or without consideration;
2(92)	Quarter	Quarter shall mean a period comprising three consecutive calendar months, ending on the last day of March, June, September and December of a calendar year;
2(93)	Recipient	Recipient of supply of goods or services or both, means- a. where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration; b. where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and

Sec.	Term	Definition
		c. where no consideration is payable for the supply of a service, the person to whom the service is rendered, and any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply and shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied;
2(94)	Registered person	Registered person means a person who is registered u/s 25 but does not include a person having a Unique Identity Number;
2(105)	Supplier	Supplier in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied;
2(108)	Taxable supply	Taxable supply means a supply of goods or services or both which is leviable to tax under this Act
2(119)	Works contract	Works contract means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract;

Eligibility and conditions for taking input tax credit [Sec. 16]

Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in sec. 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person.

Taxpoint

- The person is entitled for ITC if:
  a. The person is a registered person
  b. Goods or services or both are supplied to him are used or intended to be used in the course or furtherance of his business
  c. He satisfies prescribed conditions
  d. He claims for ITC in the manner prescribed u/s 49

Conditions to be satisfied [Sec. 16(2)]

No registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless,-

(a)	he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;
(aa)	the details of the invoice or debit note referred to in clause (a) has been furnished by the supplier in the statement of outward supplies [i.e., GSTR 1] and such details have been communicated to the recipient of such invoice or debit note in the manner specified u/s 37;

(b)	he has received* the goods or services or both Taxpoint: Goods received in installment: Where the goods against an invoice are received in lots or instalments, the registered person shall be entitled to take credit upon receipt of the last lot or instalment. Example A consignment of coal is to be dispatched from Kolkata to Mumbai using 5 trucks. An invoice was issued to the recipient on March 30, 2026. Four trucks reached the claimant by March 30, 2026 but the truck carrying the final lot of the consignment reached the recipient only on April 2, 2026. In this case, input tax credit for the entire consignment can be availed only in the month of April 2026. No ITC on advance payment: ITC shall not be available on advance payment without receipt of goods. In case of advance payment, ITC shall be available in the month in which goods (or final lot of goods) is actually received. Effect of non-payment of invoice: Where a recipient fails to pay to the supplier of goods or services or both (other than the supplies on which tax is payable on reverse charge basis), the amount towards the value of supply along with tax payable thereon within a period of 180 days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be added to his output tax liability, along with interest thereon, in such manner as may be prescribed [Rule 37]. Re-availment of ITC on payment to supplier: However, the recipient shall be entitled to avail of the credit of input tax on payment made by him to the supplier of the amount towards the value of supply of goods or services or both along with tax payable thereon. Bill to ship to Model: Tt shall be deemed that the registered person has received the goods or, as the case may be, services: i. where the goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to goods or otherwise; ii. where the services are provided by the supplier to any person on the direction of and on account of such registered person. Such cases are termed as bill to ship to cases wherein the supplier sends the invoice to the buyer and the goods to the recipient on the direction of the buyer. Even though the goods are not received by the buyer, it is presumed that he has received the goods and he is able to take the input tax credit. The buyer may further issue his invoice to the actual recipient of goods. Thus, it is a tripartite arrangement wherein there are usually three parties and two transactions. Example: H Traders, a dealer in furniture, located in Maharashtra, receives an order from R Traders, also located in Maharashtra. The order is for the supply of 50 tables, with an instruction to ship the tables to P Hardwares, located in Kolkata. P Hardwares is a customer of R Traders. There are two parts to this transaction:

* In an Ex-Works contract, the property in goods passes to the buyer at the supplier's factory gate. When the goods are handed over to the transporter (arranged by the buyer), it is treated as "Deemed Receipt" of goods by the buyer. The buyer can claim ITC immediately upon such handover, even if the goods physically reach their premises later - Circular No. 241/35/2024-GST dated 31-12-2024

	• First part of the transaction – between H Traders and R Traders: H Traders is the supplier of tables, and R Traders is the buyer. Accordingly, H Traders bills the transaction to R Traders, and as per the instruction, ships the goods to P Hardwares in Kolkata. ITC is available to the R Traders though goods were not received by it. • The second part of the transaction – between R Traders and P Hardwares: R Traders is the supplier, and P Hardwares is the buyer. R Traders bills the transaction to P Hardwares.
(c)	subject to the provisions of sec. 41, the tax charged in respect of such supply has been actually paid to the Government, either: - in cash or - through utilisation of input tax credit admissible in respect of the said supply Example Mr. Vikram acquired a laptop of ₹ 1,00,000 + GST @ 18% [i.e., 9% CGST and 9% SGST] for his professional use from X Ltd. ITC of ₹ 9,000 each in CGST and SGST is not available to Vikram if X Ltd fails to pay GST to the Government. X Ltd. may discharge his liability by following way: a. by utilizing balance of ITC available with X Ltd. b. by paying amount to the credit of the Government c. by any combination of aforesaid way
(d)	he has furnished the return u/s 39 [GSTR 3B]

Taxpoint

⊙ **No ITC if depreciation is claimed:** Where the registered person has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the Income tax Act, 1961, the input tax credit on the said tax component shall not be allowed.

Example

Mr. Vikram acquired a laptop of ₹ 1,00,000 + GST @ 18% [i.e., 9% CGST and 9% SGST] for his professional use. He has following options:

Option 1		Option 2	
Particulars	**Amount**	**Particulars**	**Amount**
Computation of depreciation u/s 32 of the Income-tax Act			
Asset acquired during the year (without considering GST)	1,00,000	Asset acquired during the year (with GST)	1,18,000
Depreciation @ 40%	40,000	Depreciation @ 40%	47,200
Closing WDV	60,000	Closing WDV	70,800
Effect of aforesaid computation in GST			
Input tax credit available		*Input tax credit available*	
- CGST	9,000	- CGST	Nil
- SGST	9,000	- SGST	Nil

- **Maximum time limit for claiming ITC:** A registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both after

  a. the 30th November following the end of financial year to which such invoice or debit note pertains; or

  b. Actual date of furnishing of the relevant annual return [i.e., GSTR 9]

  - whichever is earlier.

  However, the aforesaid time limit is not applicable in case of re-availment of the ITC, which had been reversed due to non-payment to the supplier within 180 days from the date of issue of the invoice.

- Where registration of a registered person is cancelled and subsequently the cancellation of registration is revoked and where availment of input tax credit in respect of an invoice or debit note was not time barred on the date of order of cancellation of registration, the said person shall be entitled to take the input tax credit in respect of such invoice or debit note for supply of goods or services or both, in a return u/s 39:

  i. filed up to 30th November following the financial year to which such invoice or debit note pertains or furnishing of the relevant annual return, whichever is earlier; or

  ii. for the period from the date of cancellation of registration or the effective date of cancellation of registration, as the case may be, till the date of order of revocation of cancellation of registration, where such return is filed within 30 days from the date of order of revocation of cancellation of registration,

  - whichever is later

Documentary requirements and conditions for claiming input tax credit [Rule 36]

1. The input tax credit shall be availed by a registered person, including the Input Service Distributor, on the basis of any of the following documents, namely,-

   a. an invoice issued by the supplier of goods or services or both in accordance with the provisions of sec. 31;

   b. an invoice issued in accordance with the provisions of s. 31(3)(f), subject to the payment of tax;

   c. a debit note issued by a supplier in accordance with the provisions of sec. 34;

   d. a bill of entry or any similar document prescribed under the Customs Act, 1962 or rules made thereunder for the assessment of integrated tax on imports;

   e. an Input Service Distributor invoice or Input Service Distributor credit note or any document issued by an Input Service Distributor in accordance with the provisions of rule 54(1).

2. Input tax credit shall be availed by a registered person only if all the applicable particulars as specified in the provisions of Chapter VI are contained in the said document, and the relevant information, as contained in the said document, is furnished in FORM GSTR-2 by such person:

   However, if the said document does not contain all the specified particulars but contains the details of the amount of tax charged, description of goods or services, total value of supply of goods or services or both, GSTIN of the supplier and recipient and place of supply in case of inter-State supply, input tax credit may be availed by such registered person.

3. No input tax credit shall be availed by a registered person in respect of any tax that has been paid in pursuance of any order where any demand has been confirmed on account of any fraud, willful misstatement or suppression of facts.

4. No input tax credit shall be availed by a registered person in respect of invoices or debit notes the details of which are required to be furnished u/s 37(1) unless:

   a. the details of such invoices or debit notes have been furnished by the supplier in the statement of outward supplies in Form GSTR-1 as amended in GSTR 1A, or using the invoice furnishing facility (IFF); and

   b. the details of such invoices or debit notes have been communicated to the registered person in Form GSTR-2B under rule 60(7).

   Taxpoint: ITC shall not be available if the same is not reflected in Form GSTR 2B of the registered person.

Reversal of input tax credit in the case of non-payment of consideration [Rule 37]

1. A registered person, who has availed of input tax credit on any inward supply of goods or services or both, but fails to pay to the supplier thereof, the value of such supply along with the tax payable thereon, within 180 days from the date of issue of invoice by the supplier, shall furnish the details of such supply, the amount of value not paid and the amount of input tax credit availed of proportionate to such amount not paid to the supplier in Form GSTR-2 for the month immediately following the period of 180 days from the date of the issue of the invoice.

   The value of supplies made without consideration as specified in Schedule I shall be deemed to have been paid for this purpose.

   The value of supplies on account of any amount added in accordance with the provisions of sec. 15(2)(b) shall be deemed to have been paid for this purpose.

2. The amount of aforesaid input tax credit shall be added to the output tax liability of the registered person for the month in which the details are furnished.

3. The registered person shall be liable to pay interest at the rate not exceeding 18% for the period starting from the date of availing credit on such supplies till the date when the amount added to the output tax liability, as mentioned above, is paid.

4. The time limit specified u/s 16(4) shall not apply to a claim for re-availing of any credit that had been reversed earlier.

Clarification on issues related to treatment of sales promotion schemes under GST [Circular No. 92/11/2019 dated 07.03.2019

Buy one get one free offer

i. Sometimes, companies announce offers like 'Buy One, Get One free" For example, "buy one soap and get one soap free" or "Get one tooth brush free along with the purchase of tooth paste". As per sec. 7(1)(a), the goods or services which are supplied free of cost (without any consideration) shall not be treated as 'supply' under GST (except in case of activities mentioned in Schedule I). It may appear at first glance that in case of offers like 'Buy One, Get One Free', one item is being 'supplied free of cost' without any consideration. In fact, it is not an individual supply of free goods but a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one.

ii. It is also clarified that ITC shall be available to the supplier for the inputs, input services and capital goods used in relation to supply of goods or services or both as part of such offers

Discounts including 'Buy more, save more' offers

a. Sometimes, the supplier offers **staggered discount** to his customers (increase in discount rate with increase in purchase volume). For example - Get 10 % discount for purchases above ₹ 5,000/-, 20% discount for

purchases above ₹ 10,000/- and 30% discount for purchases above ₹ 20,000/-. Such discounts are shown on the invoice itself.

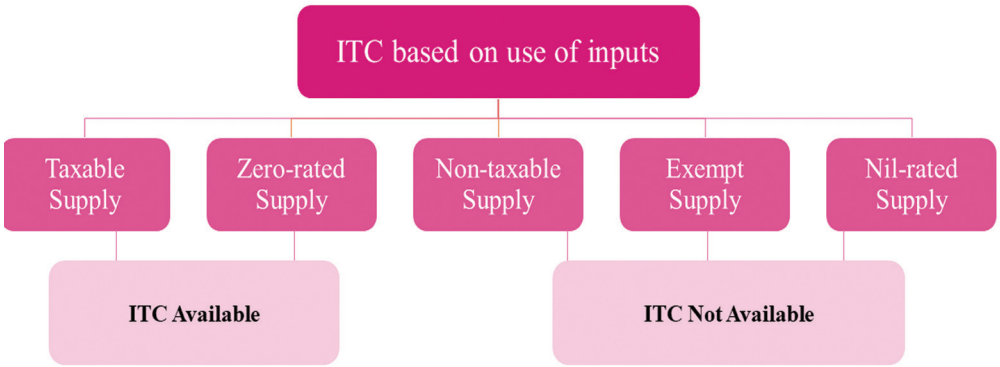
b. Some suppliers also offer periodic / year ending discounts to their stockists, etc. For example - Get additional discount of 1% if you purchase 10000 pieces in a year, get additional discount of 2% if you purchase 15000 pieces in a year. Such discounts are established in terms of an agreement entered into at or before the time of supply though not shown on the invoice as the actual quantum of such discounts gets determined after the supply has been effected and generally at the year end. In commercial parlance, such discounts are colloquially referred to as "**volume discounts**". Such discounts are passed on by the supplier through credit notes.

c. It is clarified that discounts offered by the suppliers to customers (including staggered discount under "Buy more, save more" scheme and post supply / volume discounts established before or at the time of supply) shall be excluded to determine the value of supply provided they satisfy the parameters laid down in sec. 15(3), including the reversal of ITC by the recipient of the supply as is attributable to the discount on the basis of document (s) issued by the supplier.

d. It is further clarified that the supplier shall be entitled to avail the ITC for such inputs, input services and capital goods used in relation to the supply of goods or services or both on such discounts.

Apportionment of credit [Sec. 17(1) / (2) / (3)]

The input tax credit eligibility is based on the fact as to whether the goods or services or both are used for taxable supplies or exempt supplies. Where the goods or services or both are used for both taxable and exempt supplies, only proportionate credit is allowed to a registered person.



1. ***Goods or services are used partly for business purpose and partly for other purpose***: Where the goods or services or both are used by the registered person partly for the purpose of any business and partly for other purposes, the amount of credit shall be restricted to so much of the input tax as is attributable to the purposes of his business.

2. ***Goods or services are used partly for effecting taxable supply and partly for effecting exempted supply***: Where the goods or services or both are used by the registered person partly for effecting taxable supplies (including zero-rated supplies) and partly for effecting exempt supplies, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies (including zero-rated supplies).

Taxpoint: The value of exempt supply shall be such as may be prescribed, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building. It is to be noted that value of exempt supply shall not include the value of activities or transactions specified in Schedule III, except

a. the value of activities or transactions specified in paragraph 5* of the said Schedule; and

b. the value of such activities or transactions as may be prescribed in respect of clause (a) of paragraph 8 of the said Schedule**

Circular No. 240/34/2024-GST dated 31-12-2024

An Electronic Commerce Operator (ECO) who pays tax on restaurant services (or other notified services) under Section 9(5) is not required to reverse its own Input Tax Credit (ITC) for inputs/services used to facilitate such supplies. However, the ECO cannot use its ITC to pay the tax liability under Section 9(5); that must be paid in Cash.

Example

Mr Akhil registered person provides the following information for the month of March 2026

Particulars	Amount
Input tax credit in respect of inward supply	₹2,00,000
Taxable supply (Excluding zero rated supply)	₹10,00,000
Export i.e., zero-rated supply	₹ 5,00,000
Exempt supplies	₹ 3,00,000
Inward supplies on which he is liable to pay tax on reverse charge basis	₹ 2,00,000

In this case computation of ITC available to Mr. Akhil are as under:

Particulars		**Amount**
Taxable supply (Excluding zero rated supply)		₹10,00,000
Export i.e., zero-rated supply		₹ 5,00,000
Exempt supplies		₹ 3,00,000
Inward supplies on which he is liable to pay tax on reverse charge basis		₹ 2,00,000
Total Supply	A	₹ 20,00,000
Out of this taxable supply including zero rated supplies [₹ 10,00,000 + ₹ 5,00,000]	B	₹ 15,00,000
Input tax credit in respect of inward supply	C	₹2,00,000
ITC available [C x B/A] for the month of March 2026		**₹ 1,50,000**

Block Credit (ITC not available on certain goods or services) [Sec. 17(5)]

Input tax credit shall not be available in respect of the following:

a.	motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for making the following taxable supplies: A. further supply of such motor vehicles (including demo vehicle for trial run, etc.); or B. transportation of passengers; or C. imparting training on driving such motor vehicles.

* Sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building

** Supply of warehoused goods to any person before clearance for home consumption

	Taxpoint: □ ITC is available for any motor vehicles for transportation of persons having approved seating capacity of more than 13 persons (including the driver). However, seating capacity is not more than 13 persons, then ITC shall be available only if the said motor vehicle are used for making aforesaid supply. □ Motor vehicle means any mechanically propelled vehicle used on roads but does not include • a vehicle running on fixed rails or • a special vehicle used in a factory or an enclosed premises • vehicle having less than four wheels with engine capacity not exceeding 25 cc
aa	vessels and aircraft except when they are used- i. for making the following taxable supplies: A. further supply of such vessels or aircraft; or B. transportation of passengers; or C. imparting training on navigating such vessels; or D. imparting training on flying such aircraft; ii. for transportation of goods.
ab	services of general insurance, servicing, repair and maintenance in so far as they relate to motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa). However, the input tax credit in respect of such services shall be available: i. where the motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) are used for the purposes specified therein; ii. where received by a taxable person engaged- I. in the manufacture of such motor vehicles, vessels or aircraft; or II. in the supply of general insurance services in respect of such motor vehicles, vessels or aircraft insured by him
b	the following supply of goods or services or both: i. food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) except when used for the purposes specified therein, life insurance and health insurance. The input tax credit in respect of such goods or services or both shall be available where an inward supply of such goods or services or both is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply. Example A Corporate party is organized by hiring an event manager. Event manager is contracted to ensure all arrangements relating to food, guests, lighting, decoration, cab services for pick up and drop etc. Event manager uses the services of a caterer to serve food at the party and engages a rent-a-cab operator to pick-up and drop guests.

	Credit to event manager for food and rent-a-cab services available since inward supplies have been used for making outward supplies ii. membership of a club, health and fitness centre; and iii. travel benefits extended to employees on vacation such as leave or home travel concession: The input tax credit in respect of such goods or services or both [all types of goods or services mentioned in (b)] shall be available, where it is obligatory for an employer to provide the same to its employees under any law for the time being in force.
c	works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service □ Construction includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalisation, to the said immovable property. □ Plant and machinery means apparatus, equipment, and machinery fixed to earth by foundation or structural support that are used for making outward supply of goods or services or both and includes such foundation and structural supports but excludes: i. land, building or any other civil structures; ii. telecommunication towers; and iii. pipelines laid outside the factory premises.
d	goods or services or both received by a taxable person for construction* of an immovable property (other than plant and machinery**) on his own account including when such goods or services or both are used in the course or furtherance of business.
e	goods or services or both on which tax has been paid u/s 10 i.e. composition levy
f	goods or services or both received by a non-resident taxable person except on goods imported by him;
fa	goods or services or both received by a taxable person, which are used or intended to be used for activities relating to his obligations under corporate social responsibility referred to in sec. 135 of the Companies Act, 2013
g	goods or services or both used for personal consumption;
h	goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; and
i	any tax paid in accordance with the provisions of sec. 74 in respect of any period upto financial year 2023-24

Availability of credit in special circumstances [Sec. 18]

1 Subject to such conditions and restrictions as may be prescribed [Rule 40]

a. a person who has applied for registration within 30 days from the date on which he becomes liable to registration and has been granted such registration shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which he becomes liable to pay tax under this Act;

* As defined in aforesaid clause i.e., sec. 17(5)(c)

** As defined in aforesaid clause i.e., sec. 17(5)(c)

b. a person who takes registration u/s 25(3) [i.e., voluntarily registration] shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date of grant of registration (capital goods are not covered);

c. where any registered person ceases to pay tax u/s 10 [i.e., composition levy], he shall be entitled to take credit of input tax in respect of inputs held in stock, inputs contained in semi-finished or finished goods held in stock and on capital goods on the day immediately preceding the date from which he becomes liable to pay tax u/s 9.

However, credit on capital goods shall be reduced by such % as may be prescribed;

d. where an exempt supply of goods or services or both by a registered person becomes a taxable supply, such person shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relatable to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable

However, credit on capital goods shall be reduced by such % as may be prescribed;

2 Time-limit: A registered person shall not be entitled to take input tax credit in respect of any supply of goods or services or both (in aforesaid cases) to him after the expiry of 1 year from the date of issue of tax invoice relating to such supply.

3 Change in the constitution: Where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provisions for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilised in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed.

4 Composition levy: Where

- any registered person who has availed of input tax credit opts to pay tax u/s 10; or
- the goods or services or both supplied by him become wholly exempt,

he shall pay an amount, by way of debit in the electronic credit ledger or electronic cash ledger, equivalent to the credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock and on capital goods, reduced by such percentage points as may be prescribed, on the day immediately preceding the date of exercising of such option or, as the case may be, the date of such exemption:

After payment of such amount, the balance of input tax credit, if any, lying in his electronic credit ledger shall lapse.

5 The amount of credit under sub-section (1) and the amount payable under sub-section (4) shall be calculated in such manner as may be prescribed.

6 In case of supply of capital goods or plant and machinery, on which input tax credit has been taken, the registered person shall pay an amount equal to the input tax credit taken on the said capital goods or plant and machinery reduced by such percentage points as may be prescribed or the tax on the transaction value of such capital goods or plant and machinery determined u/s 15, whichever is higher.

However, where refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, the taxable person may pay tax on the transaction value of such goods determined u/s 15.

Taxpoint: It is to be noted that in case of supply of metal scrap by an unregistered person to a registered person, reverse charge mechanism is applicable.

Manner of claiming credit in special circumstances [Rule 40]

1 The input tax credit claimed in accordance with the provisions of sec. 18(1) on the inputs held in stock or inputs contained in semi-finished or finished goods held in stock, or the credit claimed on capital goods in accordance with the provisions of clauses (c) and (d) of the said sub-section, shall be subject to the following conditions:

a. the input tax credit on capital goods, in terms of sec. 18(1)(c) and (d), shall be claimed after reducing the tax paid on such capital goods by 5% per quarter of a year or part thereof from the date of the invoice or such other documents on which the capital goods were received by the taxable person

b. the registered person shall within a period of 30 days from the date of becoming eligible to avail the input tax credit u/s 18(1), or within such further period as may be extended by the Commissioner by a notification in this behalf, shall make a declaration, electronically, on the common portal in Form GST ITC-01 to the effect that he is eligible to avail the input tax credit as aforesaid.

Any extension of the time limit notified by the Commissioner of State tax or the Commissioner of Union territory tax shall be deemed to be notified by the Commissioner

c. aforesaid declaration shall clearly specify the details relating to the inputs held in stock or inputs contained in semi-finished or finished goods held in stock, or as the case may be, capital goods-

i. on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of the Act, in the case of a claim u/s 18(1)(a);

ii. on the day immediately preceding the date of the grant of registration, in the case of a claim u/s 18(1)(b);

iii. on the day immediately preceding the date from which he becomes liable to pay tax u/s 9, in the case of a claim u/s 18(1)(c);

iv. on the day immediately preceding the date from which the supplies made by the registered person becomes taxable, in the case of a claim u/s 18(1)(d);

d. the details furnished in the declaration shall be duly certified by a practicing chartered accountant or a cost accountant if the aggregate value of the claim on account of central tax, State tax, Union territory tax and integrated tax exceeds ₹ 2,00,000

e. the input tax credit claimed in accordance with the provisions of sec. 18(1)(c) and (d) shall be verified with the corresponding details furnished by the corresponding supplier in Form GSTR-1 and GSTR-1A or as the case may be, in Form GSTR- 4, on the common portal.

2. The amount of credit in the case of supply of capital goods or plant and machinery, for the purposes of sec. 18(6), shall be calculated by reducing the input tax on the said goods @ 5% for every quarter or part thereof from the date of the issue of the invoice for such goods.

Transfer of credit on sale, merger, amalgamation, lease or transfer of a business [Rule 41]

1. A registered person shall, in the event of sale, merger, demerger, amalgamation, lease or transfer or change in the ownership of business for any reason, furnish the details of sale, merger, demerger, amalgamation, lease or transfer of business, in Form GST ITC-02, electronically on the common portal along with a request for transfer of unutilized input tax credit lying in his electronic credit ledger to the transferee.

   In the case of demerger, the input tax credit shall be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme.

   "Value of assets" means the value of the entire assets of the business, whether or not input tax credit has been availed thereon.
2. The transferor shall also submit a copy of a certificate issued by a practicing chartered accountant or cost accountant certifying that the sale, merger, demerger, amalgamation, lease or transfer of business has been done with a specific provision for the transfer of liabilities.
3. The transferee shall, on the common portal, accept the details so furnished by the transfer or and, upon such acceptance, the un-utilized credit specified in Form GST ITC-02 shall be credited to his electronic credit ledger
4. The inputs and capital goods so transferred shall be duly accounted for by the transferee in his books of account.

Transfer of credit on obtaining separate registration for multiple places of business within a State or Union territory [Rule 41A]

1. A registered person who has obtained separate registration for multiple places of business in accordance with the provisions of rule 11 and who intends to transfer, either wholly or partly, the unutilised input tax credit lying in his electronic credit ledger to any or all of the newly registered place of business, shall furnish within a period of 30 days from obtaining such separate registrations, the details in Form GST ITC-02A electronically on the common portal, either directly or through a Facilitation Centre notified in this behalf by the Commissioner.

   The input tax credit shall be transferred to the newly registered entities in the ratio of the value of assets held by them at the time of registration.

   'Value of assets' means the value of the entire assets of the business whether or not input tax credit has been availed thereon.
2. The newly registered person (transferee) shall, on the common portal, accept the details so furnished by the registered person(transferor) and, upon such acceptance, the unutilised input tax credit specified in Form GST ITC-02A shall be credited to his electronic credit ledger.

Manner of reversal of credit under special circumstances [Rule 44]

1 The amount of input tax credit relating to inputs held in stock, inputs contained in semi-finished and finished goods held in stock, and capital goods held in stock shall, for the purposes of sec. 18(4) or sec. 29(5) [relating to cancellation of registration], be determined in the following manner
   a. for inputs held in stock and inputs contained in semi-finished and finished goods held in stock, the input tax credit shall be calculated proportionately on the basis of the corresponding invoices on which credit had been availed by the registered taxable person on such inputs;

b. for capital goods held in stock,the input tax credit involved in the remaining useful life in months shall be computed on pro-rata basis, taking the useful life as 5 years.

Example:

Capital goods have been in use for 4 years, 6 month and 15 days.

The useful remaining life in months = 5 months ignoring a part of the month

Input tax credit taken on such capital goods = ₹ 60,000

Input tax credit attributable to remaining useful life = ₹ 60,000 x 5/60 = ₹ 5,000

2 The aforesaid amount shall be determined separately for input tax credit of central tax, State tax, Union territory tax and integrated tax.

3 Where the tax invoices related to the inputs held in stock are not available, the registered person shall estimate the amount under rule 44(1) based on the prevailing market price of the goods on the effective date of the occurrence of any of the events specified in sec. 18(4) or sec. 29(5)

4 The amount determined under rule 44(1) shall form part of the output tax liability of the registered person and the details of the amount shall be furnished in Form GST ITC-03, where such amount relates to any event specified in sec. 18(4) and in Form GSTR-10, where such amount relates to the cancellation of registration.

5 The details furnished in accordance with rule 44(3) shall be duly certified by a practicing chartered accountant or cost accountant.

6 The amount of input tax credit for the purposes of sec. 18(6) relating to capital goods shall be determined in the same manner as specified in rule 44(1)(b) and the amount shall be determined separately for input tax credit of Central tax, State tax, Union territory tax and integrated tax.

However, where the amount so determined is more than the tax determined on the transaction value of the capital goods, the amount determined shall form part of the output tax liability and the same shall be furnished in Form GSTR-1

Taking input tax credit in respect of inputs and capital goods sent for job work [Sec. 19]

1 The principal shall, subject to such conditions and restrictions as may be prescribed, be allowed input tax credit on inputs sent to a job worker for job work.

2 The principal shall be entitled to take credit of input tax on inputs even if the inputs are directly sent to a job worker for job work without being first brought to his place of business.

3 Where the inputs sent for job work are not received back by the principal after completion of job work or otherwise or are not supplied from the place of business of the job worker in accordance with sec. 143(1)(a) or (b) within 1 year of being sent out, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when the said inputs were sent out.

However, where the inputs are sent directly to a job worker, the period of 1 year shall be counted from the date of receipt of inputs by the job worker.

As per sec. 143, a registered person (hereafter in this section referred to as the "principal") may under intimation and subject to such conditions as may be prescribed, send any inputs or capital goods, without payment of tax, to a job worker for job work and from there subsequently send to another job worker and likewise, and shall,-

3 a. bring back inputs, after completion of job work or otherwise, or capital goods, other than moulds and dies, jigs and fixtures, or tools, within 1 year and 3 years, respectively, of their being sent out, to any of his place of business, without payment of tax;

b. supply such inputs, after completion of job work or otherwise, or capital goods, other than moulds and dies, jigs and fixtures, or tools, within 1 year and 3 years, respectively, of their being sent out from the place of business of a job worker on payment of tax within India, or with or without payment of tax for export, as the case may be.

4 The principal shall, subject to such conditions and restrictions as may be prescribed, be allowed input tax credit on capital goods sent to a job worker for job work.

5 The principal shall be entitled to take credit of input tax on capital goods even if the capital goods are directly sent to a job worker for job work without being first brought to his place of business.

6 Where the capital goods sent for job work are not received back by the principal within a period of 3 years of being sent out, it shall be deemed that such capital goods had been supplied by the principal to the job worker on the day when the said capital goods were sent out.

However, where the capital goods are sent directly to a job worker, the period of 3 years shall be counted from the date of receipt of capital goods by the job worker.

7 However, period of 1 year / 3 years shall not apply to moulds and dies, jigs and fixtures, or tools sent out to a job worker for job work.

Conditions and restrictions in respect of inputs and capital goods sent to the job worker [Rule 45]

1 The inputs, semi-finished goods or capital goods shall be sent to the job worker under the cover of a challan issued by the principal, including where such goods are sent directly to a job-worker, and where the goods are sent from one job worker to another job worker, the challan may be issued either by the principal or the job worker sending the goods to another job worker.

The challan issued by the principal may be endorsed by the job worker, indicating therein the quantity and description of goods where the goods are sent by one job worker to another or are returned to the principal.

Further, the challan endorsed by the job worker may be further endorsed by another job worker, indicating therein the quantity and description of goods where the goods are sent by one job worker to another or are returned to the principal.

2 The challan issued by the principal to the job worker shall contain the details specified in rule 55.

3 The details of challans in respect of goods dispatched to a job worker or received from a job worker during the specified period shall be included in Form GST ITC-04 furnished for that period on or before the 25th day of the month succeeding the said period or within such further period as may be extended by the Commissioner by a notification in this behalf.

Any extension of the time limit notified by the Commissioner of State tax or the Commissioner of Union territory tax shall be deemed to be notified by the Commissioner.

"Specified period" shall mean -

a. the period of 6 consecutive moths commencing on the 1st day of April and the 1st day of October in respect of a principal whose aggregate turnover during the immediately preceding financial year exceeds ₹ 5 crore; and

b. a financial year in any other case

4 Where the inputs or capital goods are not returned to the principal within the time stipulated in sec. 143, it shall be deemed that such inputs or capital goods had been supplied by the principal to the job worker on the day when the said inputs or capital goods were sent out and the said supply shall be declared in Form GSTR-1 and the principal shall be liable to pay the tax along with applicable interest.

- **For determining the value of an exempt supply as referred to in sec. 17(3):**
  a. the value of land and building shall be taken as the same as adopted for the purpose of paying stamp duty; and
  b. the value of security shall be taken as 1% of the sale value of such security

Input Service Distributor

Input Service Distributor (ISD) means an office of the supplier of goods or services or both which receives tax invoices towards receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax (CGST), State tax (SGST)/ Union territory tax (UTGST) or integrated tax (IGST) paid on the said services to a supplier of taxable goods or services or both having same PAN as that of the ISD.

It is important to note that the ISD mechanism is meant only for distributing the credit on common invoices pertaining to input services only and not goods (inputs or capital goods). Companies may have their head office at one place and units at other places which may be registered separately. The Head Office would be procuring certain services which would be for common utilization of all units across the country. The bills for such expenses would be raised on the Head Office. But the Head Office itself would not be providing any output supply so as to utilize the credit which gets accumulated on account of such input services.

Since the common expenditure is meant for the business of all units, it is but natural that the credit of input services in respect of such common invoices should be apportioned between all the consuming units. ISD mechanism enables such proportionate distribution of credit of input services amongst all the consuming units.

Let's take an example to understand this concept. The corporate office of ABC Ltd., is at Bangalore, with its business locations of selling and servicing of goods at Bangalore, Chennai, Mumbai and Kolkata. Software license and maintenance is used at all the locations, but invoice for these services (indicating CGST and SGST) are received at Corporate Office. Since the software is used at all the four locations, the input tax credit of entire services cannot be claimed at Bangalore. The same has to be distributed to all the four locations. For that reason, the Bangalore Corporate office has to act as ISD to distribute the credit. If the corporate office of ABC Ltd, an ISD situated in Bangalore receives invoices indicating ₹ 4 lakh of Central tax, ₹ 4 lakhs of State tax and ₹ 7 lakh of integrated tax, it can distribute central tax, State tax as well as integrated tax of ₹ 15 lakh as credit of integrated tax amongst its locations at Bangalore, Chennai, Mumbai and Kolkata through an ISD invoice containing the amount of credit distributed.

The credit has to be distributed only to the unit to which the supply is directly attributable to. If input services are attributable to more than one recipient of credit, the distribution shall be in the pro-rata basis of turnover in the State/Union Territory.

For example, if an ISD has 4 units across the country. However, if a particular input service pertains exclusively to only one unit and the bill is raised in the name of ISD, the ISD can distribute the credit only to that unit and not to other units. If the input services are common for all units, then it will be distributed according to the ratio of turnover of all the units.

Manner of distribution of credit by Input Service Distributor [Sec. 20]

- Any office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax u/s 9(*3*) or 9(*4*) of the CGST Act sec. 5(3) 5(4) of the IGST Act, or for or on behalf of distinct persons referred to in sec. 25, shall be required to be registered as Input Service Distributor u/s 24(*viii*) and shall distribute the input tax credit in respect of such invoices.
- The Input Service Distributor shall distribute the credit of tax charged on invoices received by him, including the credit of tax in respect of services subject to levy of tax u/s 9(*3*) or 9(*4*) of the CGST Act sec. 5(3) 5(4) of the IGST Act, paid by a distinct person registered in the same State as the said Input Service Distributor, in such manner, within such time and subject to such restrictions and conditions as may be prescribed.
- The credit of central tax shall be distributed as central tax or integrated tax and integrated tax as integrated tax or central tax, by way of issue of a document containing the amount of input tax credit, in such manner as may be prescribed.

Example

M/s XYZ Ltd, having its head Office at Mumbai, is registered as ISD. It has three units in different states namely 'Mumbai', 'Jabalpur' and 'Delhi' which are operational in the current year. M/s XYZ Ltd furnishes the following information for the month of May, 2025 & asks for permission to distribute the below input tax credit to various units.

i. CGST paid on services used only for Mumbai Unit: ₹ 3,00,000/-

ii. IGST, CGST & SGST paid on services used for all units: ₹ 12,00,000/-

Total Turnover of the units are as follows: -

Unit	Turnover (₹)
Total Turnover of three units	₹ 10, 00, 00,000
Turnover of Mumbai unit	₹ 5, 00, 00,000 (50%)
Turnover of Jabalpur unit	₹ 3, 00, 00,000 (30%)
Turnover of Delhi unit	₹ 2, 00, 00,000 (20%)

Computation of Input Tax Credit Distributed to various units is as follows:

Particulars	Credit distributed to all units			
	Total credit available	Mumbai	Jabalpur	Delhi
CGST paid on services used only for Mumbai Unit	3,00,000	3,00,000	-	-
IGST, CGST & SGST paid on services used in all units [Distribution on pro rata basis to all the units which are operational in the current year]	12,00,000	6,00,000	3,60,000	2,40,000
Total	15,00,000	9,00,000	3,60,000	2,40,000

Credit distributed pro rata basis on the basis of the turnover of all the units is as under:

a) Unit Mumbai: (₹ 5,00,00,000 / ₹ 10,00,00,000) x ₹ 12,00,000 = ₹ 6,00,000

b) Unit Jabalpur: (₹ 3,00,00,000 / ₹ 10,00,00,000) x ₹ 12,00,000 = ₹ 3,60,000

c) Unit Delhi: (₹ 2,00,00,000 / ₹ 10,00,00,000) x ₹ 12,00,000 = ₹ 2,40,000

Manner of recovery of credit distributed in excess [Sec. 21]

Where the Input Service Distributor distributes the credit in contravention of the provisions contained in sec. 20 resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from such recipients along with interest, and the provisions of sec. 73 or 74, as the case may be, shall, mutatis mutandis, apply for determination of amount to be recovered.

Availment of input tax credit [Sec. 41]

1. Every registered person shall, subject to such conditions and restrictions as may be prescribed, be entitled to avail the credit of eligible input tax, as self-assessed, in his return and such amount shall be credited to his electronic credit ledger.

2. The credit of input tax availed by a registered person in respect of such supplies of goods or services or both, the tax payable whereon has not been paid by the supplier, shall be reversed along with applicable interest, by the said person in such manner as may be prescribed.

However, where the said supplier makes payment of the tax payable in respect of the aforesaid supplies, the said registered person may re-avail the amount of credit reversed by him in such manner as may be prescribed.

Illustration 96:

P Ltd. a registered manufacturer of Jaipur entered in a contract with a supplier for supply of Input 'Z' in October, 2025. As per contract it was agreed that 10,000 kgs of Input 'Z' will be supplied for ₹ 7,67,000 (inclusive of CGST and SGST @ 9% each) in 4 lots. Invoice of ₹ 7,67,000 has been issued with supply of first lot of Input 'Z'. Following further information has been provided regarding supply of Input received in subsequent lots. Briefly explain whether P Ltd. eligible to take credit on proportionate basis.

Input 'X' (in lots)	Quantity in Kgs	Date of Receipt of Supply
First Lot	2,500	19-10-2025
Second lot	3,000	21-10-2025
Third Lot	1,500	12-11-2025
Fourth Lot	3,000	01-12-2025

Solution

No, P Ltd. is not eligible to take credit on proportionate basis. As per first proviso to sec. 16(2), where the goods against an invoice are received in lots or instalments, the registered person shall be entitled to take credit upon receipt of the last lot or instalment. Therefore, in the given case Input 'Z' has been received in lots hence, the credit of tax of ₹ 1,17,000 i.e. (₹ 7,67,000 x 18 ÷ 118) paid on such input shall be taken by P Ltd. only after receipt of fourth lot i.e., 01-12-2025.

Illustration 97:

Compute the Input tax credit available with MS Motors Ltd., manufacturer of cars, in respect of the following services availed by it in the month of October, 2025

S.N.	Particulars	₹
1)	Accounting and Auditing Services	17,200
2)	Health insurance services for employees (Services are not provided under Government obligation)	6,200
3)	Routine maintenance of the cars manufactured by MS Motors Ltd.	28,000
4)	Repair services for office building (Cost of repairs is charged to Profit & loss Account)	28,400
5)	Hotel accommodation and conveyance facility to employees on vacation	13,360
6)	Testing services availed for car engines	19,000

Solution

Computation of Input tax credit available with MS Motors Ltd.

S.N.	Particulars	₹
1)	Accounting and Auditing Services	17,200
2)	Health insurance services for employees (Services are not provided under Government obligation)	Nil
3)	Routine maintenance of the cars manufactured by MS Motors Ltd.	28,000
4)	Repair services for office building (Cost of repairs is charged to Profit & loss Account)	28,400
5)	Hotel accommodation and conveyance facility to employees on vacation	Nil
6)	Testing services availed for car engines	19,000
	Total credit available	92,600

Note: Item 2 and 5 are covered under sec. 17(5) i.e., block credit hence credit is not available.

Illustration 98:

Compute the amount of Input tax credit admissible to Sonam Ltd. in respect of various inputs purchased during the month of September, 2025.

Particulars	₹
Goods purchased without invoice	75,000
Goods purchased from Akhil Ltd. (Full Payment is made by Sonam Ltd. to Akhil Ltd. against such supply but tax has not been deposited by Akhil Ltd.)	2,20,000
Purchases of goods not to be used for business purposes	38,000
Purchases of goods from Komal Ltd. (Invoice of Komal Ltd. is received in month of September 2025, but goods were received in month of October 2025)	44,000
Goods purchased against valid invoice from Vikram Ltd. Sonam Ltd. has made payment to Vikram Ltd. for such purchases in the month of October 2025	38,000

Solution

Computation of Input tax credit available with Sonam Ltd. for the month of Sept 2025

Particulars	Note	₹
Goods purchased without invoice	As document are not available	Nil
Goods purchased from Akhil Ltd. (Full Payment is made by Sonam Ltd. to Akhil Ltd. against such supply but tax has not been deposited by Akhil Ltd.)	As tax is not paid by the Akhil Ltd	Nil
Purchases of goods not to be used for business purposes	Non business purpose	Nil
Purchases of goods from Komal Ltd. (Invoice of Komal Ltd. is received in month of September 2025, but goods were received in month of October 2025)	Good yet not received	Nil
Goods purchased against valid invoice from Vikram Ltd. Sonam Ltd. has made payment to Vikram Ltd. for such purchases in the month of October 2025		38,000
Total credit available for the month of Sept 2025		38,000

Illustration 99:

W Ltd., a registered supplier, is engaged in the manufacture of Tanks. The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of January 2026:

Particulars	GST Paid (₹)
Purchase of Machinery where debit note is issued	2,15,000
Input purchased was directly delivered to Mr. X, a job worker and a registered supplier	1,00,000
Computers purchased (Depreciation was claimed on the said GST portion under the Income-Tax Act, 1961)	5,000
Works Contract services availed for construction of Staff quarters within the company premises	2,25,000

Determine the amount of ITC available to the company for the month of January 2026. Subject to the information given above, all the conditions necessary for availing the ITC have been fulfilled.

Solution

Computation of ITC available to the company for the month of Jan 2026

Particulars	₹
Purchase of Machinery where debit note is issued	2,15,000
Input purchased was directly delivered to Mr. X, a job worker and a registered supplier	1,00,000
Computers purchased (As depreciation was claimed on the said GST portion under the Income-Tax Act, 1961)	-
Works Contract services availed for construction of Staff quarters within the company premises [Block credit u/s 17(5)]	-
Available ITC for the month of Jan 2026	3,15,000

Illustration 100:

From the following information, compute the Net GST payable for the month of March, 2026:

	Output GST	Opening ITC as per credit ledger
CGST	2,000	Nil
SGST	15,000	1,000
IGST	24,000	37,000

Solution

Computation of net GST liability

Particulars	IGST	CGST	SGST
Opening balance of ITC	37,000	-	1,000
Less: Output GST Payable	24,000	2,000	15,000
Balance ITC / (Payable)	13,000	(2,000)	(14,000)
Adjustment of ITC of IGST	13,000	2,000	11,000
Balance Payable	-	-	3,000

It is to be noted that before adjusting ITC on account of CGST/SGST, ITC of IGST should be exhausted.

Illustration 101:

X Private Limited, a registered supplier is engaged in the manufacture of taxable goods. The company provides the following information of GST paid on the purchases made/input services availed by it during the month of September 2025:

Particulars	GST paid (₹)
Purchase of cabs used for the transportation of its employees	1,00,000
Inputs consisting of four lots, out of which second lot was received during the month	2,25,000
Capital Goods (out of three items, invoice for one item was missing and GST paid on that item was ₹ 50,000)	2,50,000
Outdoor catering service availed on Women's day	72,000

Determine the amount of input tax credit available with M/s X Private Limited for the month of September, 2025. All the conditions necessary for availing the input tax credit have been fulfilled.

Solution

Computation of ITC available to the company for the month of Sept 2025

Particulars	₹
Purchase of cabs used for the transportation of its employees [Block credit u/s 17(5)]	-
Inputs consisting of four lots, out of which second lot was received during the month [available on receipt of last lot]	-
Capital Goods (out of three items, invoice for one item was missing and GST paid on that item was ₹ 50,000) [Documents are not available for ₹ 50,000]	2,00,000
Outdoor catering service availed on Women's day	-
ITC available	2,00,000

Illustration 102:

BA Pvt. Ltd. purchased machinery worth ₹ 10,00,000 (excluding GST) on 20-07-2025 on which it paid GST @ 18% and availed the ITC. On 05-03-2026, it sold the machinery for ₹ 8,00,000 (excluding GST) to HA Pvt. Ltd. The GST rate on sale is 18%. What will be the course of action for BA Pvt. Ltd. to follow under CGST Act, 2017?

Solution

Where capital goods or plant and machinery on which input tax credit (ITC) has been taken are supplied outward by a registered person, he must pay an amount that is higher of the following:

a. ITC taken on such goods reduced by 5% per quarter of a year or part thereof from the date of issue of invoice for such goods; or

b. tax on transaction value.

Accordingly, the amount payable on supply of machinery by BA Pvt. Ltd. shall be computed as follows:

Particulars	₹
ITC taken on acquisition of such machine [₹ 10,00,000 x 18%]	1,80,000
Time gap in quarters between date of purchase and outward supply of such machine	3 quarters
Total reduction in tax paid [5% for each quarter x 3 quarter]	15%
Amount of reduction in tax paid [₹ 1,80,000 x 15%]	27,000
Amount of GST to be Paid [being higher of the following]	
a. ₹ 1,80,000 – ₹ 27,000	1,53,000
b. GST on transaction value [₹ 8,00,000 x 18%]	1,44,000
Hence, liability of GST is	**1,53,000**

Illustration 103:

M/s. Drive Safe Ltd., a registered supplier, provides the following information regarding GST paid on inward supplies for the month of November, 2025. Determine the ITC available.

S.N.	Particulars	GST Paid (₹)
(1)	Purchase of a sedan car (seating capacity 5 persons) for official use by the Managing Director	2,50,000
(2)	Purchase of a bus (seating capacity 25 persons) for transportation of employees	4,00,000
(3)	General Insurance service availed for the sedan car mentioned in (1)	15,000
(4)	Repair and maintenance services availed for the bus mentioned in (2)	25,000
(5)	Purchase of a truck for transportation of raw materials	1,80,000

Solution

Computation of ITC available to M/s. Drive Safe Ltd. for November 2025

S.N.	Particulars	₹
(1)	Purchase of a sedan car (seating capacity 5 persons) [**Note 1**]	Nil
(2)	Purchase of a bus (seating capacity 25 persons) [**Note 2**]	4,00,000
(3)	General Insurance service availed for the sedan car [**Note 3**]	Nil
(4)	Repair and maintenance services availed for the bus [**Note 4**]	25,000
(5)	Purchase of a truck for transportation of goods [**Note 5**]	1,80,000
	Total ITC Available	**6,05,000**

Notes

1. **Blocked Credit:** ITC on motor vehicles for transportation of persons with approved seating capacity of not more than 13 persons (including driver) is blocked u/s 17(5)(a).
2. **Allowed Credit:** ITC is available for motor vehicles having approved seating capacity of more than 13 persons.
3. **Blocked Service:** ITC on general insurance, servicing, repair and maintenance is blocked if it relates to motor vehicles on which ITC is not available (i.e., the sedan car).
4. **Allowed Service:** ITC is allowed on repair services for motor vehicles on which ITC is available (i.e., the bus).
5. **Allowed Credit:** ITC is available on motor vehicles used for transportation of goods.

Illustration 104:

M/s. Generous Traders furnishes the following details of GST paid on various inward supplies during December, 2025. Calculate the eligible Input Tax Credit.

S.N.	Particulars	GST Paid (₹)
(1)	Purchase of raw materials used for manufacturing taxable goods	1,50,000
(2)	Goods purchased for distribution as free gifts to employees on Diwali	20,000
(3)	Expenses incurred on Corporate Social Responsibility (CSR) activities as per Companies Act, 2013	45,000
(4)	Goods purchased for personal consumption by the partner	12,000
(5)	Goods stolen from the factory premises	30,000

Solution

Computation of eligible ITC for M/s. Generous Traders

S.N.	Particulars	₹
(1)	Purchase of raw materials for manufacturing taxable goods	1,50,000
(2)	Goods distributed as free gifts [Note 1]	Nil
(3)	Expenses incurred on CSR activities [Note 2]	Nil
(4)	Goods used for personal consumption [Note 3]	Nil
(5)	Goods stolen from factory [Note 4]	Nil
	Total Eligible ITC	**1,50,000**

Notes

1. **Gifts:** ITC is blocked on goods disposed of by way of gift or free samples u/s 17(5)(h).
2. **CSR:** ITC is blocked on goods/services used for obligations under Corporate Social Responsibility referred to in sec. 135 of the Companies Act, 2013 u/s 17(5)(fa).
3. **Personal Use:** ITC is blocked on goods/services used for personal consumption u/s 17(5)(g).
4. **Stolen Goods:** ITC is blocked on goods lost, stolen, destroyed, or written off u/s 17(5)(h).

Illustration 105:

M/s. BuildWell Manufacturers incurred the following expenses (GST portion only) in January, 2026. Determine the amount of ITC admissible.

S.N.	Particulars	GST Paid (₹)
(1)	Works contract services used for construction of an administrative office building (Capitalized in books)	5,00,000
(2)	Works contract services for foundation and structural support of a new large Plant & Machinery (Capitalized in books)	2,00,000
(3)	Purchase of materials for routine repairs of factory building (Debited to P&L Account)	40,000
(4)	Construction of a telecommunication tower within factory premises	1,00,000

Solution

Computation of Admissible ITC for M/s. BuildWell Manufacturers

S.N.	Particulars	₹
(1)	Construction of administrative office building [**Note 1**]	Nil
(2)	Foundation and structural support for Plant & Machinery [**Note 2**]	2,00,000
(3)	Routine repairs of factory building (Revenue Expenditure) [**Note 3**]	40,000
(4)	Construction of telecommunication tower [**Note 4**]	Nil
	Total Admissible ITC	**2,40,000**

Notes

1. **Blocked:** ITC is blocked for works contract services for construction of immovable property (other than plant and machinery) to the extent of capitalization u/s 17(5)(c).
2. **Allowed:** The definition of "Plant and Machinery" includes foundation and structural supports used for making outward supplies. Hence, ITC is allowed.
3. **Allowed:** ITC is blocked only to the extent of capitalization. Routine repairs charged to P&L are eligible for ITC.
4. **Blocked:** The definition of "Plant and Machinery" specifically excludes telecommunication towers.

Illustration 106:

Mr. Raghav, a registered person, provides the following details for February, 2026. Determine the ITC available.

S.N.	Particulars	GST Paid (₹)
(1)	Purchase of Machine 'A' (Invoice received in Feb 2026, machine received in 3 lots: 1st lot in Feb, 2nd in March, 3rd in April 2026)	90,000
(2)	Purchase of Machine 'B' (Capitalized in books, and depreciation claimed on the tax component under Income Tax Act)	45,000
(3)	Goods purchased from a supplier where goods were delivered directly to a job worker on Raghav's direction (Bill-to-Ship-to model)	35,000
(4)	Advance payment made for goods to be received in May 2026	10,000

Solution

Computation of Available ITC for Mr. Raghav for Feb 2026

S.N.	Particulars	₹
(1)	Machine 'A' received in lots [Note 1]	Nil
(2)	Machine 'B' (Depreciation claimed on tax) [Note 2]	Nil
(3)	Goods delivered to job worker (Bill-to-Ship-to) [Note 3]	35,000
(4)	Advance payment for goods [Note 4]	Nil
	Total Available ITC	35,000

Notes

1. **Lots:** Where goods are received in lots, ITC is available only upon receipt of the last lot (April 2026).
2. **Depreciation:** If depreciation is claimed on the tax component of capital goods, ITC shall not be allowed.
3. **Deemed Receipt:** In a "Bill to Ship to" model, goods delivered to a third party (job worker) on the direction of the registered person are deemed to be received by the registered person.
4. **Advance:** ITC is not available on advance payment without receipt of goods.

Illustration 107:

M/s. Diversified Ltd. is engaged in supplying both taxable and exempt goods. For the month of January 2026, the company provides the following data:

- Total Turnover: ₹ 50,00,000
- Turnover of Taxable Goods: ₹ 40,00,000
- Turnover of Exempt Goods: ₹ 10,00,000
- Total Input Tax on common inputs used for both supplies: ₹ 2,00,000

Calculate the amount of common ITC admissible to M/s. Diversified Ltd.

Solution

Computation of Admissible Common ITC

S.N.	Particulars	Amount
A	Total Input Tax on common inputs	₹ 2,00,000
B	Total Turnover	₹ 50,00,000
C	Turnover of Taxable Goods	₹ 40,00,000
D	Eligible ITC attributable to Taxable Supplies (A x C / B)	₹ 1,60,000

Where goods/services are used partly for effecting taxable supplies and partly for effecting exempt supplies, the amount of credit is restricted to so much of the input tax as is attributable to the taxable supplies.

Illustration 108:

Mr. X, a registered trader, received an invoice dated 1st April, 2025 from M/s. Supplier Ltd. for ₹ 1,00,000 plus GST ₹ 18,000. Mr. X availed the ITC of ₹ 18,000 in his GSTR-3B for April 2025. However, due to a dispute,

Mr. X did not make the payment to M/s. Supplier Ltd. until 31st Oct, 2025. Explain the course of action for Mr. X with respect to the ITC availed.

Solution

Analysis under Rule 37

1. **Condition:** A registered person who has availed ITC must pay the supplier the value of supply plus tax within 180 days from the date of issue of invoice.
2. **Calculation of 180 Days:**
   - Invoice Date: 01-04-2025
   - 180 days expire on: 27th Sept, 2025
3. **Status on expiry:** As of 28th Sept 2025, the payment was pending.
4. **Implication:**
   - Mr. X must add the ITC of ₹ 18,000 to his output tax liability in the return for the month following the expiry of 180 days (i.e., Return for Sept 2025).
   - He is also liable to pay Interest @ 18% from the date of availing credit (April 2025) till the date of addition to output liability.
5. **Re-availment:** Since Mr. X finally made the payment on 31st Oct 2025, he is entitled to re-avail the credit of ₹ 18,000 in the return for Oct 2025 (or subsequent month). However, the interest paid cannot be reclaimed.

Illustration 109:

M/s. Trusty Traders received an invoice dated 1st July, 2025 from a supplier, M/s. Vendor & Co., for the supply of taxable goods.

- Taxable Value: ₹ 4,00,000
- GST @ 18%: ₹ 72,000
- Total Invoice Value: ₹ 4,72,000

M/s. Trusty Traders availed the full ITC of ₹ 72,000 in their GSTR-3B for the month of July 2025 (filed on 20th August, 2025).

Payment Details:

1. On 25th September, 2025, they made a partial payment of ₹ 2,36,000 (i.e., 50% of the total invoice value) to the supplier.
2. The remaining balance was pending as of 1st January, 2026.
3. The balance payment of ₹ 2,36,000 was finally made on 15th March, 2026.

Determine the GST implications for M/s. Trusty Traders.

Solution

1. **Identification of Non-Compliance (180 Days Rule):** As per Rule 37, if the recipient fails to pay the supplier the value of supply along with tax within 180 days from the date of issue of invoice, the proportionate ITC must be added to the output tax liability.
   - Date of Invoice: 01-07-2025

- 180 Days expire on: 27th December, 2025
- Status on Expiry: Only 50% payment was made. Balance 50% is unpaid.

2. **Reversal of ITC (Addition to Output Liability):** Since the balance was unpaid after 180 days, M/s. Trusty Traders must reverse the proportionate ITC in the return for the month immediately following the expiry of 180 days (i.e., January 2026).
   - Total ITC Availed: ₹ 72,000
   - Unpaid Ratio: 50%
   - ITC to be Reversed: ₹ 72,000 × 50% = ₹ 36,000
3. **Interest Liability:** Interest @ 18% p.a. is payable on the reversed amount from the date of availing ITC till the date of addition to output liability.
   - Period: From 21st August, 2025 (Date of Availment) to 20th February, 2026 (assume Date of Reversal/ Return filing for Jan 2026).
   - Interest Calculation: ₹ 36,000 × 18% × (184/365) = ₹ 3,264
4. **Re-availment of Credit** The registered person is entitled to re-avail the credit on payment made to the supplier.
   - Date of Balance Payment: 15th March, 2026.
   - Action: M/s. Trusty Traders can re-avail the credit of ₹ 36,000 in the GSTR-3B for March 2026.
   - The time limit of 30th November [Sec. 16(4)] does not apply to re-availment of reversed credit.

Illustration 110:

Mr. Start-Up applies for Voluntary Registration on 10th June, 2025 and the registration is granted on 20th June, 2025. On the day immediately preceding the date of grant of registration (i.e., 19th June, 2025), he holds the following stock:

S.N.	Particulars	GST Paid (₹)	Invoice Date
(1)	Raw materials in stock (Lot A)	40,000	25-05-2025
(2)	Raw materials in stock (Lot B)	20,000	10-04-2024
(3)	Semi-finished goods (Input content only)	15,000	01-06-2025
(4)	Capital Goods (Machinery)	2,50,000	25-05-2025

Determine the eligible ITC available to Mr. Start-Up u/s 18(1)(b).

Solution

Computation of Eligible ITC on Voluntary Registration

S.N.	Particulars	Eligible ITC (₹)	Reason
(1)	Raw materials (Lot A)	40,000	Allowed u/s 18(1)(b) as inputs held in stock.

(2)	Raw materials (Lot B)	Nil	**Blocked u/s 18(2):** ITC is not allowed if the invoice is more than 1 year old from the effective date (19th June 2025). Invoice date 10-04-2024 is > 1 year.
(3)	Semi-finished goods (Inputs)	15,000	Allowed u/s 18(1)(b) as inputs contained in semi-finished goods.
(4)	Capital Goods	Nil	**Not Allowed:** Section 18(1)(b) (Voluntary Reg) allows credit only on Inputs, not on Capital Goods. (Credit on Capital goods is allowed only in cases of Exempt-to-Taxable or Composition-to-Regular conversion).
	Total Eligible ITC	55,000	

Illustration 111:

M/s. Precision Works Ltd. (Principal) sent raw materials worth ₹ 5,00,000 (GST paid ₹ 90,000) to a Job Worker, Mr. Fixit, on 10th July, 2025. The company provides the following details regarding the movement of these inputs:

S.N.	Particulars	Value of Goods (₹)
(1)	Goods returned by Mr. Fixit to the Principal on 15th December, 2025	2,00,000
(2)	Goods supplied directly from Mr. Fixit's premises to a customer on 20th June, 2026 (Mr. Fixit's premises is declared as additional place of business)	1,00,000
(3)	Balance goods remaining with Mr. Fixit as on 11th July, 2026	2,00,000

Determine the ITC implication and any tax liability for M/s. Precision Works Ltd. for the inputs not received back.

Solution

Analysis of ITC Validity and Tax Liability

1. **ITC Eligibility:** M/s. Precision Works Ltd. is entitled to take full ITC of ₹ 90,000 at the time of sending goods to the job worker (July 2025) [Section 19(1)].
2. **Conditions for Return:** Inputs sent for job work must be returned to the principal or supplied from the job worker's premises within 1 year of being sent out [Section 19(3)].
   - **Deadline:** 1 year from 10th July, 2025 expires on 10th July, 2026.
3. **Treatment of Goods:**
   - **Returned (₹ 2L):** Returned on 15th Dec 2025 (within 1 year). **Compliant**.
   - **Direct Supply (₹ 1L):** Supplied on 20th June 2026 (within 1 year). **Compliant**.
   - **Balance (₹ 2L):** Not returned by 10th July, 2026.
4. **Consequence for Balance:**
   - Since goods worth ₹ 2,00,000 were not received back within 1 year, it shall be deemed that such inputs had been supplied by the Principal to the Job Worker on the day they were sent out (i.e., 10th July, 2025).
   - M/s. Precision Works Ltd. must declare this as a supply in the return for July 2026 (when the time limit expires).
   - **Liability:** They must pay GST on ₹2,00,000 along with applicable interest calculated from 10th July, 2025 till the date of payment.

Illustration 112:

M/s. Heavy Mech Ltd. (Principal) sent the following capital goods to a Job Worker, M/s. Worker & Co., on 1st July, 2025.

S.N.	Particulars	Value (₹)	GST Paid (₹)
(1)	Heavy Machine 'X'	10,00,000	1,80,000
(2)	Moulds and Dies	2,00,000	36,000
(3)	Heavy Machine 'Y'	5,00,000	90,000

Status of Return:

- **Machine 'X':** Returned to Principal on 25th May, 2028.
- **Moulds and Dies:** Returned to Principal on 10th August, 2029.
- **Machine 'Y':** Returned to Principal on 1st September, 2028.

Determine the ITC validity and any tax implications for M/s. Heavy Mech Ltd.

Solution

Analysis of ITC Eligibility u/s 19

1. **Initial Claim:** M/s. Heavy Mech Ltd. is allowed to take full ITC on all capital goods sent for job work at the time of sending (July 2025).
2. **Time Limit:** Capital goods must be returned within 3 years of being sent out.
   - *Deadline:* 3 years from 01-07-2025 expires on 01-07-2028.
3. **Machine 'X' (Valid):** Returned on 25-05-2028 (within 3 years). ITC is valid. No further action required.
4. **Moulds and Dies (Valid - Exception):** The time limit of 3 years does not apply to moulds and dies, jigs and fixtures, or tools. Hence, return in 2029 is valid. ITC is allowed.
5. **Machine 'Y' (Deemed Supply):** Returned on 01-09-2028 (after 3 years).
   - It is deemed that such capital goods had been supplied by the Principal to the Job Worker on the day they were sent out (i.e., 01-07-2025).
   - **Action:** M/s. Heavy Mech Ltd. must declare this as a supply in the return for the month in which the time limit expired (July 2028) and pay GST of ₹ 90,000 along with applicable interest from 01-07-2025.

Illustration 113:

M/s. Corporate Solutions, having its Head Office in Mumbai, is registered as an Input Service Distributor (ISD). It has three operational units in Mumbai, Delhi, and Bangalore. For the month of January 2026, the Head Office received the following invoices:

S.N.	Particulars	GST Paid (₹)
(1)	Invoice for Software Maintenance services used by all three units	3,00,000
(2)	Invoice for Security Services used exclusively for the Mumbai Unit	50,000
(3)	Invoice for Legal Consultancy services used jointly by Delhi and Bangalore units	1,20,000

Turnover Details for the preceding financial year:

- Mumbai Unit: ₹ 2 Crores
- Delhi Unit: ₹ 3 Crores
- Bangalore Unit: ₹ 5 Crores

Determine the amount of ITC to be distributed to each unit.

Solution

Statement showing Distribution of ITC by ISD

Particulars	Total Credit (₹)	Mumbai Unit (₹)	Delhi Unit (₹)	Bangalore Unit (₹)
Security Services (Exclusively for Mumbai)	50,000	50,000	-	-
Software Services (Common for all)	3,00,000	60,000	90,000	1,50,000
Legal Consultancy (Shared by Delhi & Bangalore)	1,20,000	-	45,000	75,000
Total ITC Distributed	4,70,000	1,10,000	1,35,000	2,25,000

Working Notes:

1. **Exclusive Use:** Credit attributable to a specific unit (Security) is distributed only to that unit.
2. **Common Use (All):** Distributed pro-rata based on turnover of all units.
   - Ratio: Mumbai:Delhi:Bangalore = 2:3:5.
   - Mumbai: 3,00,000 x (2/10) = 60,000.
3. **Joint Use (Specific):** Distributed pro-rata based on turnover of the beneficiary units only.
   - Ratio: Delhi:Bangalore = 3:5.
   - Delhi: 1,20,000 x (3/8) = 45,000.

Quick MCQ

1. **Input Tax Credit (ITC) is not available if the depreciation is claimed on the _____ component of the cost of capital goods under the Income Tax Act.**

   a. Base Value

   b. Tax

   c. Total Value (Base + Tax)

   d. Installation Charges

   Correct: Option b

   Reason: Sec. 16(3) provides that if the registered person has claimed depreciation on the tax component of the cost of capital goods, the ITC on the said tax component shall not be allowed.

2. What is the time limit for a registered person to avail ITC in respect of an invoice or debit note for a financial year?

a. 31st December of the next financial year

b. Date of filing Annual Return

c. 30th November following the end of the financial year or the date of filing relevant Annual Return, whichever is earlier

d. 30th November following the end of the financial year or the date of filing relevant Annual Return, whichever is later

Correct: Option c

Reason: Sec. 16(4) restricts the availment of ITC after the 30th November following the end of the financial year or the actual date of furnishing the relevant annual return, whichever is earlier.

3. In case of supply of goods received in lots or instalments, ITC can be availed upon receipt of:

a. First lot

b. Any lot

c. Last lot

d. 50% of the lots

Correct: c

Reason: As per the first proviso to sec. 16(2), where goods are received in lots or instalments, the registered person shall be entitled to take credit upon receipt of the last lot or instalment.

4. Which of the following conditions must be satisfied to avail ITC?

a. Possession of Tax Invoice

b. Receipt of Goods/Services

c. Tax charged has been paid to the Government

d. All of the above

Correct: Option d

Reason: Section 16(2) lists the conditions: possession of invoice, receipt of goods/services, payment of tax to the government, and furnishing of return.

5. ITC is BLOCKED u/s 17(5) on motor vehicles for transportation of persons having approved seating capacity of:

a. More than 13 persons (including driver)

b. Not more than 13 persons (including driver)

c. Any capacity if used for personal purpose

d. Both (b) and (c)

Correct: d

Reason: ITC is blocked on motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including driver) unless used for specific purposes. It is also blocked if used for personal consumption.

6. A principal sending inputs to a job worker must receive them back within _____, failing which it shall be deemed as a supply on the date of sending out.

a. 3 years

b. 1 year

c. 180 days

d. 6 months

Correct: b

Reason: Section 19(3) stipulates that inputs sent for job work must be received back within 1 year. For capital goods, the limit is 3 years.

7. If a recipient fails to pay the supplier the value of supply along with tax within _____ from the date of issue of invoice, the ITC availed must be added to output liability.

a. 90 days

b. 3 months

c. 180 days

d. 1 year

Correct: c

Reason: As per Rule 37, non-payment of consideration within 180 days requires reversal of ITC along with interest.

8. ITC is not available for goods lost, stolen, destroyed, or written off. This restriction is provided under:

a. Section 16(2)

b. Section 17(5)(h)

c. Section 19

d. Rule 42

Correct: b

Reason: Sec. 17(5)(h) specifically blocks credit for goods lost, stolen, destroyed, written off, or disposed of by way of gift.

9. Which of the following is true regarding the utilization of ITC?

a. CGST credit can be used to pay SGST liability

b. SGST credit can be used to pay CGST liability

c. IGST credit must be exhausted first before using CGST/SGST credit

d. CGST credit can be used to pay IGST liability only after SGST credit is exhausted

Correct: c

Reason: Sec. 49A mandates that ITC on account of integrated tax (IGST) must be utilized fully towards payment of IGST, CGST, or SGST/UTGST before utilizing central or state tax credit.

10. In case of supply of capital goods or plant and machinery on which input tax credit has been taken, the registered person shall pay an amount equal to:

a. Tax on the transaction value of such capital goods

b. Input tax credit taken on such capital goods reduced by percentage points as prescribed (5% per quarter)

c. Higher of (a) or (b)

d. Lower of (a) or (b)

Correct: c

Reason: Sec. 18(6) provides that the registered person shall pay an amount equal to the input tax credit taken on the said capital goods reduced by such percentage points as may be prescribed or the tax on the transaction value of such capital goods determined u/s 15, whichever is higher.

Computation of GST Liability

5.5

Order of utilization of ITC [Sec. 49(5) r.w.r. 88A]

The amount of ITC available in the electronic credit ledger of the registered person on account of:

ITC available on account of	Utilisation thereof
IGST	a. First towards payment of IGST b. Then remaining credit, if any, towards payment of CGST / SGST / UTGST
CGST ITC on account of CGST shall be utlised only after exhausting ITC on account of IGST fully	a. First towards payment of CGST b. Then remaining credit, if any, towards payment of IGST ***Taxpoint***: ➢ ITC on account of CGST shall be utilised towards payment of IGST before utilizing ITC on account of SGST towards payment of integrated tax ➢ ITC of CGST shall not be utilised towards payment of SGST / UTGST
SGST / UTGST ITC on account of SGST / UTGST shall be utlised only after exhausting ITC on account of IGST fully	a. First towards payment of SGST b. Then remaining credit, if any, towards payment of IGST ***Taxpoint***: ➢ ITC on account of SGST shall be utilised towards payment of IGST only where the balance of the ITC on account of CGST is not available for payment of integrated tax ➢ ITC of SGST / UTGS shall not be utilised towards payment of CGST

Taxpoint

Summarized position is as under

Input tax Credit on account of	Output liability on account of Integrated tax	Output liability on account of Central tax	Output liability on account of State tax / Union Territory tax
Integrated tax	(I)	(II) – In any order and in any proportion	
(III) Input tax Credit on account of Integrated tax to be completely exhausted mandatorily			
Central tax	(V)	(IV)	Not permitted
State tax / UTGST	(VII)	Not permitted	(VI)

Utilisation of input tax credit subject to certain conditions [Sec. 49A]

The input tax credit on account of central tax, State tax or Union territory tax shall be utilised towards payment of integrated tax, central tax, State tax or Union territory tax, as the case may be, only after the input tax credit available on account of integrated tax has first been utilised fully towards such payment.

Example

Amount of Input tax Credit available and output liability under different tax heads

Head	Output Liability	Input tax Credit
Integrated tax	1000	1300
Central tax	300	200
State tax / Union Territory tax	300	200
Total	1600	1700

Option 1:

Input tax Credit on account of	Discharge of output liability on account of Integrated tax	Discharge of output liability on account of Central tax	Discharge of output liability on account of State tax / Union Territory tax	Balance of ITC
Integrated tax	1000	200	100	0
Input tax Credit on account of Integrated tax has been completely exhausted				
Central tax	0	100	-	100
SGST / UTGST	0	-	200	0
Total	1000	300	300	100

Option 2:

Input tax Credit on account of	Discharge of output liability on account of Integrated tax	Discharge of output liability on account of Central tax	Discharge of output liability on account of State tax / Union Territory tax	Balance of ITC
Integrated tax	1000	100	200	0
Input tax Credit on account of Integrated tax has been completely exhausted				
Central tax	0	200	-	0
SGST / UTGST	0	-	100	100
Total	1000	300	300	100

Example

From the following details, show the utilization of ITC in an optimum way:

Nature of Tax	Tax liability	ITC available
IGST	100	200 (a)
CGST	100	50 (b)
SGST	100	50 (c)

Answer

Statement showing utilization of ITC

Nature of tax	Tax liability	Option 1			Option 2		
		Paid through ITC	Paid through Cash	Balance credit	Paid through ITC	Paid through Cash	Balance credit
IGST	100	100 (a)	0	0	100 (a)		
CGST	100	50 (a) 50 (b)	0	0	100 (a)		50 (b)
SGST	100	50 (a) 50 (c)	0	0	50 (c)	50	

From the above Illustration, we can conclude that Option – 1 does not result in any cash flow issue. On the contrary, In Option 2 the registered person pays the SGST liability in cash and accumulates the ITC under the head CGST. This is because the registered person had not carried out the adjustment as per rule 88A i.e., ITC left after setting off the IGST liability can be utilized in any order.

Example

From the following details, show the utilization of ITC in an optimum way:

Nature of Tax	Tax liability	ITC available
IGST	100	500 (a)
CGST	100	50 (b)
SGST	100	50 (c)

Answer

Statement showing utilization of ITC

Nature of tax	Tax liability	Paid through ITC	Paid through Cash	Balance credit
IGST	100	100 (a)	0	200
CGST	100	100 (a)	0	50
SGST	100	100 (a)	0	50

ITC on account of IGST is required to be adjust first before utilizing other ITCs

Example

From the following details, show the utilization of ITC in an optimum way:

Nature of Tax	Tax liability	ITC available
IGST	100	150 (a)
CGST	100	175 (b)
SGST	100	150 (c)

Answer

Statement showing utilization of ITC

Nature of tax	Tax liability	Option 1	Option 2	Option 3 (Wrong way)
		Paid through ITC	Paid through ITC	Paid through ITC
IGST	100	100 (a)	100 (a)	100 (a)
CGST	100	50 (a) 50 (b)	100 (b)	100 (b)
SGST	100	100 (c)	50 (a) 50 (c)	100 (c)

In option 1, ITC on account of CGST ₹ 125 and SGST ₹ 50 shall be carried forward

- In option 2, ITC on account of CGST ₹ 75 and SGST ₹ 100 shall be carried forward
- In option 3, ITC on account of IGST ₹ 50, CGST ₹ 75 and SGST ₹ 50 shall be carried forward. **Option 3 is wrong way to utilize ITC. In this case, ITC on account of IGST is not fully exhausted before utilizing any other ITC.**

Example

M/s. Tech Corp attempts to save IGST credit for future import liabilities.

- Output Liability: CGST ₹ 1,00,000; SGST ₹ 1,00,000.
- ITC Available: IGST ₹ 2,00,000; CGST ₹ 50,000; SGST ₹ 50,000.

Solution

Statement showing Utilization of ITC

Particulars	Correct Way (As per Sec 49A)	Wrong Way (Saving IGST)
Step 1:	Use IGST Credit (2L) to pay CGST (1L) and SGST (1L).	Use CGST Credit (50k) for CGST & SGST Credit (50k) for SGST.
Step 2:	Use CGST/SGST Credits? No need.	Use IGST Credit for balance.
Result:	IGST Credit: 0 CGST Credit c/f: 50,000 SGST Credit c/f: 50,000	Violates Law. Sec 49A mandates IGST credit must be exhausted first.

The registered person cannot utilize CGST/SGST credits to pay their respective liabilities until the IGST credit is fully exhausted.

Illustration 114:

M/s. Smart Solutions has the following tax liabilities and available credits for May 2025. Show the optimal utilization to ensure minimum cash payment:

- Output Liability: IGST ₹ 1,00,000; CGST ₹ 1,00,000; SGST ₹ 1,00,000.
- ITC Available: IGST ₹ 2,00,000; CGST ₹ 50,000; SGST ₹ 50,000.

Solution

Statement showing Utilization of ITC

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Output Tax Liability	1,00,000	1,00,000	1,00,000
(1) Less: ITC-IGST (Used for IGST)	(1,00,000)	-	-
Balance ITC-IGST Available: ₹ 1,00,000			
(2) Less: ITC-IGST (Allocated to CGST & SGST)	-	(50,000)	(50,000)
Note: ITC-IGST can be used in any proportion.			
(3) Less: ITC-CGST (Used for remaining CGST)	-	(50,000)	-
(4) Less: ITC-SGST (Used for remaining SGST)	-	-	(50,000)
Net Tax Payable in Cash	Nil	Nil	Nil

Illustration 115:

M/s. Global Traders has a huge inter-state liability but limited IGST credit.

- Output Liability: IGST ₹ 4,00,000.
- ITC Available: IGST ₹ 1,00,000; CGST ₹ 2,00,000; SGST ₹ 2,00,000.

Solution

Statement showing Utilization of ITC

Particulars	IGST Liability (₹)	Remarks
Total Output IGST	4,00,000	
(1) Less: ITC-IGST	(1,00,000)	IGST credit must be exhausted first.
Balance Liability	3,00,000	
(2) Less: ITC-CGST	(2,00,000)	CGST can be used for IGST liability.
Balance Liability	1,00,000	
(3) Less: ITC-SGST	(1,00,000)	SGST can be used for IGST liability.
Net Tax Payable in Cash	Nil	
Balance ITC Carried Forward	SGST: 1,00,000	(2L Available - 1L Utilized)

Illustration 116:

M/s. Local Dealers has surplus CGST credit but a liability in SGST.

- Output Liability: CGST ₹ 50,000; SGST ₹ 50,000.
- ITC Available: IGST ₹ Nil; CGST ₹ 1,50,000; SGST ₹ Nil.

Solution

Statement showing Utilization of ITC

Particulars	CGST (₹)	SGST (₹)
Output Tax Liability	50,000	50,000
Less: ITC-CGST	(50,000)	-
Less: ITC-SGST	-	-
Net Tax Payable in Cash	Nil	50,000
Balance ITC Carried Forward	1,00,000 (CGST)	-

ITC on account of CGST cannot be utilized towards payment of SGST. Hence, SGST must be paid in cash despite the surplus in CGST.

Illustration 117:

Kunal Ltd., a registered supplier of Kanpur is a manufacturer of heavy machines. Its outward supplies (exclusive of GST) for the month of January, 2026 are as follows:

S.N.	Particulars	₹
(i)	Inter-State	85,00,000
(ii)	Intra-State	15,00,000

Applicable rate of CGST, SGST and IGST on outward supply are 9%, 9% and 18% respectively. Details of GST paid on inward supplies during the month of January, 2026 are as follows:

S.N.	Particulars	CGST paid (₹)	SGST paid (₹)
(i)	Raw material A (of which 70% of inputs procured were used and 30% were in stock at the end of the January, 2026)	80,000	80,000
(ii)	Raw material B (of which 90% material received in factory and remaining material completely damaged due to a road accident on the way to factory. There was no negligence on the part of the Kunal Ltd.)	50,000	50,000
(iii)	Construction of pipelines laid outside the factory premises	40,000	40,000
(iv)	Insurance charges paid for trucks used for transportation of goods	55,000	55,000

Additional Information:

a. There is no opening balance of any input tax credit and all the conditions necessary for availing the input tax credit (ITC) have been fulfilled.

b. Details of GST paid on inward supplies are available in GSTR-2B except for item (i) i.e. Raw Material A, for which supplier has not filed its GSTR-1 for the month of January 2026, hence corresponding input tax credit (ITC) is not reflecting in GSTR-2B of Kunal Ltd. in January, 2026.

Compute the following:

a. Amount of eligible input tax credit (ITC) available for the month of January, 2026.

b. Minimum net GST payable in cash, for the month of January, 2026 after using available input tax credit.

Solution

Computation of eligible ITC

Particulars	CGST (₹)	SGST (₹)
Raw material A (as not reflected in GSTR-2B)	-	-
Raw material B (as 90% material is received)	45,000	45,000
Construction of pipelines laid outside the factory premises (Block Credit)	-	-
Insurance charges paid for trucks used for transportation of goods	55,000	55,000
Eligible ITC	1,00,000	1,00,000

Computation of tax payable on outward supplies

S.N.	Particulars	Taxable Value	CGST @ 9%	SGST @ 9%	IGST @ 18%
(i)	Inter-State	85,00,000	-	-	15,30,000
(ii)	Intra-State	15,00,000	1,35,000	1,35,000	-
	Total		1,35,000	1,35,000	15,30,000

Computation of GST payable in cash

Particulars	CGST @ 9%	SGST @ 9%	IGST @ 18%
Total GST payable	1,35,000	1,35,000	15,30,000
Less: ITC	1,00,000	1,00,000	-
GST payable in cash	**35,000**	**35,000**	**15,30,000**

Illustration 118:

M/s. VMA, a registered taxable person under regular scheme provides following information in respect of supplies made by it during the month of April, 2025:

Particulars	₹
Inter-state supply of goods	2,00,000
Intra-state supply of 1000 packets of detergent @ ₹ 400 each alongwith a plastic bucket worth ₹ 100 each with each packet (Rate of GST on detergent is 5% and on plastic bucket is 18%)	
Supply of online educational journals to M/s XYZ, a private coaching centre providing tuitions to students of Class X-XII, being intra-state supply	4,00,000
M/s. VMA has also received the following inward supplies:	
Inter-state supply of goods (out of which invoice for goods worth ₹ 40,000 is missing and no other tax paying document is available)	1,40,000
Repairing of bus with seating capacity of 20 passengers used to transport its employees from their residence, being intra-state supply	1,00,000
Details of opening balances of ITC as on 1-4-2025 are as follows:	
- CGST	10,000
- SGST	10,000
- IGST	80,000

Following additional information is provided:

a. Rate of GST in respect of all inward and outward supplies except item (ii) above is 18%. i.e. CGST and SGST @ 9% and IGST @ 18%.

b. All figures mentioned above are exclusive of taxes.

c. All the conditions for availing the ITC have been fulfilled except specifically given and M/s. VMA is not eligible for any threshold exemption.

Compute the minimum net GST payable in cash by M/s. VMA for the month of April, 2025.

Solution

Computation of available ITC

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Opening balance	80,000	10,000	10,000
ITC on Inter-state purchase of goods (excluding missing invoice) [₹ 1,00,000 x 18%]	18,000	-	-
ITC on Repairing of bus [₹ 1,00,000 x 9%]	-	9,000	9,000
Available ITC	**98,000**	**19,000**	**19,000**

Computation of tax payable on outward supplies

S.N.	Particulars	Taxable Value	CGST @ 9%	SGST @ 9%	IGST @ 18%
(i)	Inter-State supply of goods	2,00,000	-	-	36,000
(ii)	Intra-state mixed supply	4,00,000	36,000	36,000	-
(ii)	Intra-State supply of services	4,00,000	36,000	36,000	-
	Total		**72,000**	**72,000**	**36,000**

Computation of GST payable in cash

Particulars	CGST @ 9%	SGST @ 9%	IGST @ 18%
Total GST payable	72,000	72,000	36,000
Less: ITC-IGST	(31,000)	(31,000)	(36,000)
Less: ITC-CGST / SGST	(19,000)	(19,000)	-
GST payable in cash	**22,000**	**22,000**	**-**

Note: Balance credit of IGST may be first utilized in the discharging CGST of ₹62,000. In that case, SGST of ₹53,000 would be payable and ITC of CGST ₹9,000 shall be carried forward to next tax period.

Illustration 119:

M/s. Alpha Tech, a registered manufacturer in Pune (Maharashtra), provides the following details regarding its operations for the month of May, 2025.

S.N.	Particulars	₹(Exclusive of Taxes)
(A)	Outward Supplies:	
(i)	Intra-State supply of taxable goods	25,00,000
(ii)	Inter-State supply of taxable goods	5,00,000
(B)	Inward Supplies:	
(i)	Raw Material 'X' purchased from Gujarat (Inter-State)	10,00,000
(ii)	Raw Material 'Y' purchased within Pune (Intra-State)	4,00,000
(iii)	Purchase of Air Conditioner for office use (Intra-State)	50,000
(iv)	Life Insurance Premium for employees (Statutory obligation under a law for the time being in force)	1,00,000
(C)	Opening Balance of ITC (as on 01-05-2025):	
	IGST	20,000
	CGST	5,000
	SGST	5,000

Additional Information:

- Applicable GST rates: CGST 9%, SGST 9%, IGST 18%.
- All conditions for availing ITC are fulfilled.

Solution

1. Computation of Eligible ITC

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Opening Balance	20,000	5,000	5,000
Raw Material 'X' [₹ 10,00,000 × 18%]	1,80,000	-	-
Raw Material 'Y' [₹ 4,00,000 × 9%]	-	36,000	36,000
Air Conditioner [Allowed as used for business]	-	4,500	4,500
Life Insurance [Allowed as it is obligatory under law - Sec 17(5)(b)]	-	9,000	9,000
Total Available ITC	**2,00,000**	**54,500**	**54,500**

Note: If an individual buys a life insurance policy for themselves or their family, no GST is charged. However, if a company buys a group life policy for its employees, GST is applicable.

2. Computation of Output Tax Liability

Particulars	Value (₹)	IGST (₹)	CGST (₹)	SGST (₹)
Intra-State supply [₹ 25L × 9%]	25,00,000	-	2,25,000	2,25,000
Inter-State supply [₹ 5L × 18%]	5,00,000	90,000	-	-
Total Output Liability		**90,000**	**2,25,000**	**2,25,000**

Computation of Net GST Payable in Cash

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Total Output Liability	90,000	2,25,000	2,25,000
Less: ITC-IGST (First for IGST)	(90,000)	-	-
Balance ITC-IGST Available: ₹ 1,10,000			
Less: ITC-IGST (utilized for CGST & SGST)	-	(55,000)	(55,000)
Note: Split equally or as needed to minimize cash			
Less: ITC-CGST (Available: ₹ 54,500)	-	(54,500)	-
Less: ITC-SGST (Available: ₹ 54,500)	-	-	(54,500)
Net GST Payable in Cash	Nil	1,15,500	1,15,500

Illustration 120:

Mr. Beta, a registered trader, furnishes the following information for the month of June, 2025.

S.N.	Particulars	₹
(A)	Supplies Made (Outward):	
(i)	Supply of Goods within the State	40,00,000
(B)	Supplies Received (Inward):	
(i)	Goods 'P' purchased from Inter-State supplier (Invoice received, goods received)	30,00,000
(ii)	Goods 'Q' purchased Intra-State (Invoice missing, not reflected in GSTR-2B)	2,00,000
(iii)	Membership fees for a business club (Intra-State)	1,00,000
(iv)	Renting of motor vehicle (Seating capacity 10) for transportation of employees (Intra-State)	50,000
(C)	Opening Balance of ITC:	Nil

Assume that rate of GST is 18%

Solution

1. **Computation of Eligible ITC**

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Goods 'P' [₹ 30,00,000 × 18%]	5,40,000	-	-
Goods 'Q' [Blocked - Invoice missing/Not in 2B - Sec 16(2)]	Nil	Nil	Nil
Membership fees [Blocked - Sec 17(5)(b)]	-	Nil	Nil
Renting of Motor Vehicle [Blocked - Capacity < 13 & not obligatory]	-	Nil	Nil
Total Available ITC	5,40,000	Nil	Nil

2. **Computation of Output Tax Liability**

Particulars	Value (₹)	IGST (₹)	CGST (₹)	SGST (₹)
Intra-State Supply [₹ 40,00,000 × 9%]	40,00,000	-	3,60,000	3,60,000
Total Output Liability		-	3,60,000	3,60,000

3. **Computation of Net GST Payable in Cash**

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Total Output Liability	Nil	3,60,000	3,60,000
Less: ITC-IGST (Available: ₹ 5,40,000)	-	(3,60,000)	(1,80,000)
Fully utilized against CGST first, then balance against SGST			
Less: ITC-CGST	-	-	-
Less: ITC-SGST	-	-	-
Net GST Payable in Cash	Nil	Nil	1,80,000
IGST credit is exhausted. CGST is paid fully by ITC. Balance SGST is required to be paid in cash.			

Illustration 121:

M/s. Gamma Logistics provides the following details for July, 2025.

S.N.	Particulars	₹
(A)	**Outward Supplies:**	
(i)	Inter-State Supply of Services	2,00,000
(ii)	Intra-State Supply of Services	20,00,000
(B)	**Inward Supplies:**	
(i)	Purchase of Capital Goods (Inter-State)	15,00,000
(ii)	Repair Services for Office (Intra-State)	2,00,000
(C)	**Opening Balance:**	
	IGST	50,000
	CGST	10,000
	SGST	10,000

Assume that rate of GST on all supply is 18%

Solution

1. **Computation of Eligible ITC**

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Opening Balance	50,000	10,000	10,000
Capital Goods [₹ 15,00,000 × 18%]	2,70,000	-	-
Repair Services [₹ 2,00,000 × 9%]	-	18,000	18,000
Total Available ITC	3,20,000	28,000	28,000

2. **Computation of Output Tax Liability**

Particulars	Value (₹)	IGST (₹)	CGST (₹)	SGST (₹)
Inter-State Supply [₹ 2,00,000 × 18%]	2,00,000	36,000	-	-
Intra-State Supply [₹ 20,00,000 × 9%]	20,00,000	-	1,80,000	1,80,000
Total Output Liability		36,000	1,80,000	1,80,000

3. Computation of Net GST Payable in Cash

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Total Output Liability	36,000	1,80,000	1,80,000
Less: ITC-IGST (Set off against IGST)	(36,000)	-	-
Balance ITC-IGST Available: ₹ 2,84,000			
Less: ITC-IGST (Split utilization)	-	(1,52,000)	(1,32,000)
Remaining Liability	-	28,000	48,000
Less: ITC-CGST (Available: ₹ 28,000)	-	(28,000)	-
Less: ITC-SGST (Available: ₹ 28,000)	-	-	(28,000)
Net GST Payable in Cash	**Nil**	**Nil**	**20,000**

Quick MCQ

1. As per Rule 88A, Input Tax Credit (ITC) on account of Integrated Tax (IGST) shall first be utilised towards payment of Integrated Tax, and the amount remaining, if any, may be utilised towards the payment of:

a. Central Tax only

b. State Tax only

c. Central Tax and State Tax/Union Territory Tax in that order mandatorily

d. Central Tax and State Tax/Union Territory Tax in any order and in any proportion

Correct: d

Reason: The file states that ITC on account of Integrated Tax (IGST) can be utilized towards payment of CGST / SGST / UTGST in any order and in any proportion after paying IGST liability.

2. Mr. X has ITC balance in CGST ledger. He can utilize this credit for payment of:

a. CGST and SGST

b. CGST and IGST

c. IGST, CGST and SGST

d. CGST only

Correct: b

Reason: ITC on account of CGST shall be utilized first towards payment of CGST and then remaining towards IGST. It **cannot** be utilized towards payment of SGST/UTGST.

3. Sec. 49A mandates that ITC on account of Central Tax (CGST) or State Tax (SGST) can be utilized towards payment of IGST, CGST, or SGST only after:

a. The output liability of IGST is fully paid

b. The ITC available on account of Integrated Tax (IGST) has first been utilised fully

c. The output liability of CGST is fully paid

d. The ITC on account of SGST is utilized fully

Correct: b

Reason: Sec. 49A states that credit of CGST/SGST/UTGST shall be utilized only after the ITC available on account of Integrated Tax has first been utilised fully.

4. When utilizing ITC to pay off liability, which of the following set-off is Prohibited?

a. IGST Credit □ CGST Liability

b. CGST Credit □ IGST Liability

c. SGST Credit □ CGST Liability

d. SGST Credit □ IGST Liability

Correct: c

Reason: The file explicitly mentions under the summarized position that "Output liability on account of Central Tax" cannot be paid using "Credit on account of State Tax / UTGST" (Not Permitted).

Registration

5.6

In any tax system registration is the most fundamental requirement for identification of tax payers ensuring tax compliance in the economy. Registration of any business entity under the GST Law implies obtaining a unique number from the concerned tax authorities for the purpose of collecting tax on behalf of the government and to avail Input tax credit for the taxes on his inward supplies. Without registration, a person can neither collect tax from his customers nor claim any input tax credit of tax paid by him.

Need and advantages of registration

Registration will confer the following advantages to a taxpayer:

- He is legally recognized as supplier of goods or services.
- He is legally authorized to collect tax from his customers and pass on the credit of the taxes paid on the goods or services supplied to the purchasers / recipients.
- He can claim input tax credit of taxes paid and can utilize the same for payment of taxes due on supply of goods or services.
- Seamless flow of Input Tax Credit from suppliers to recipients at the national level.

Nature of Registration

The registration in GST is PAN based and State / UT specific. Supplier has to register in each of such State or Union territory from where he effects supply. In GST registration, the supplier is allotted a 15-digit GST identification number called "GSTIN" and a certificate of registration incorporating therein this GSTIN is made available to the applicant on the GSTN common portal.

- First 2 digits of the GSTIN is the State code,
- Next 10 digits are the PAN of the legal entity,
- Next 2 digits are for entity code, and
- Last digit is checksum number.

Example of GSTIN: 19AAICM1234K1Z2 or 06AAICM1234K1ZT

19	AAICM1234K	1	Z	2
State Code	Income tax PAN	Entity number of the same PAN holder in the state	By default	Checksum digit

Registration under GST is not tax specific which means that there is single registration for all the taxes i.e. CGST, SGST/UTGST, IGST and cesses.

Generally, a given PAN based legal entity would have one GSTIN per State, that means a business entity having its branches in multiple States will have to take separate State wise registration for the branches in different States. But within a State an entity with different branches would have single registration wherein it can declare one place as principal place of business and other branches as additional place of business. A supplier is not liable to obtain registration in those State from where he makes an exempt or non-taxable supply.

Persons liable for registration [Sec. 22]

Every supplier shall be liable to be registered under this Act in the State or Union territory, other than special category States, from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds specified threshold limits

However, where such person makes taxable supplies of goods or services or both from any of the special category States, he shall be liable to be registered if his aggregate turnover in a financial year exceeds ₹ 10 lakhs.

Taxpoint:

Special Category States as per article 279A(4)(g) of the Constitution are:

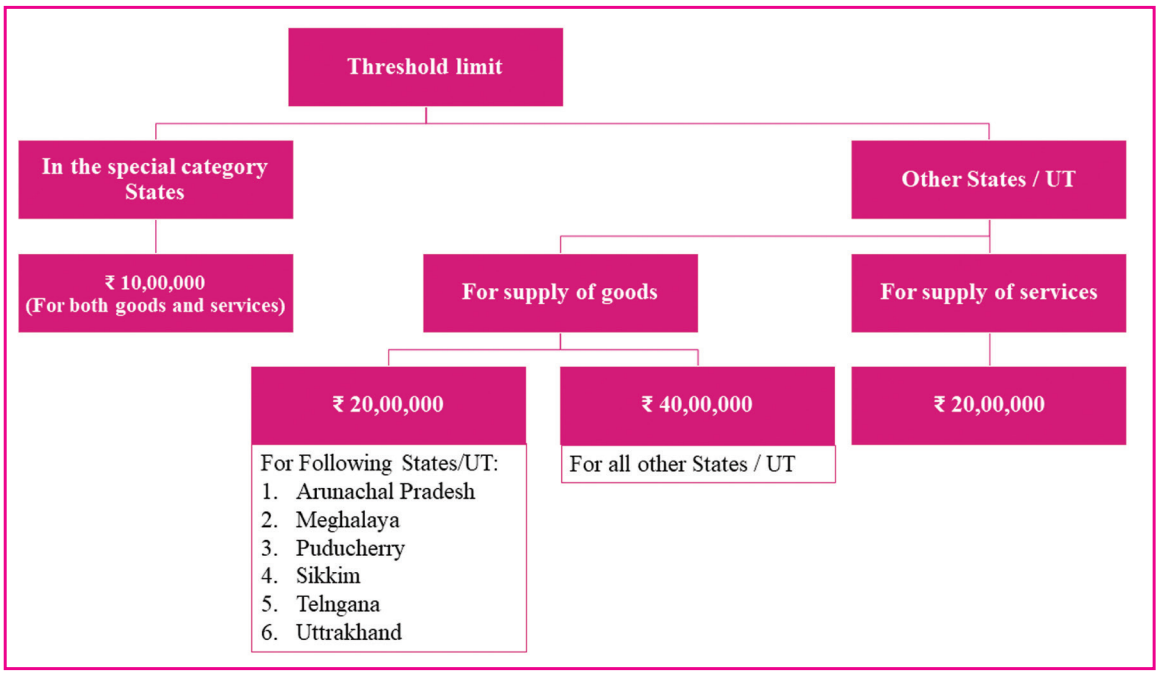
a. Arunachal Pradesh	b. Assam	c. Manipur	d. Meghalaya	e. Mizoram	f. Nagaland
g. Himachal Pradesh	h. Sikkim	i. Tripura	j. Uttarakhand	k. Jammu and Kashmir	

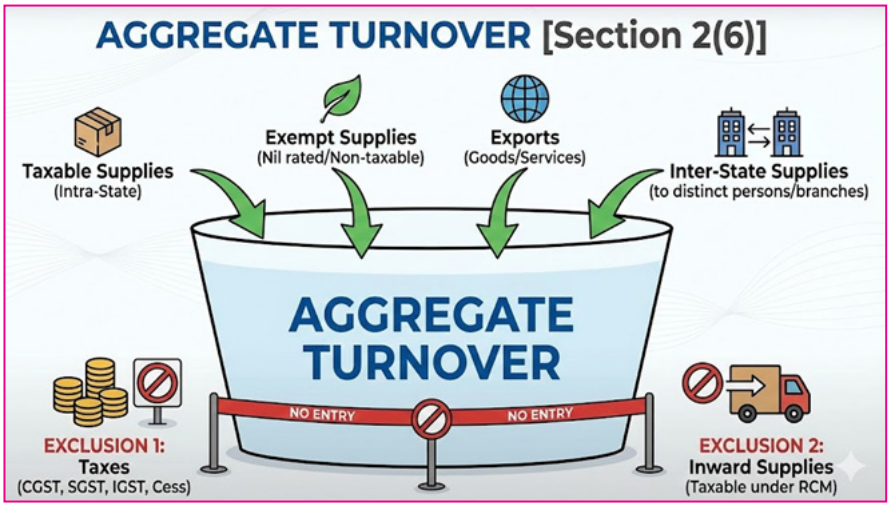
However, for the purpose of registration under GST, following States are considered as special category States:

1. Manipur	2. Mizoram	3. Nagaland	4. Tripura

Threshold limit for registration

Threshold limit for registration for supplier of goods and services are as under:





Taxpoint:

- The aforesaid limit is for aggregate turnover. As per sec. 2(6), aggregate turnover means the aggregate value of

  a. all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis),

  b. exempt supplies (excluding exempted services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount),

  c. exports of goods or services or both; and

  d. inter-State supplies of persons having the same PAN (i.e., stock transfer between branches, etc.)

  to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess.

  - "Aggregate turnover" shall include all supplies made by the taxable person, whether on his own account or made on behalf of all his principals.
  - The supply of goods, after completion of job work, by a registered job worker shall be treated as the supply of goods by the principal referred to in sec. 143, and the value of such goods shall not be included in the aggregate turnover of the registered job worker

"Exempt supply" means supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply – Sec. 2(47)

"Non-taxable supply" means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act – Sec. 2(78)

- For the purpose of GST, Delhi and Puducherry are considered as States.
- In few cases, registration is compulsory, irrespective of size of turnover (Sec. 24)
- The limit of ₹ 40,00,000 is applicable only to a supplier who is engaged exclusively in the supply of goods.

However, a person shall be considered to be person engaged exclusively in supply of goods even if he is engaged in supply of exempted services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

- A supplier may obtain voluntary registration, even though his turnover does not exceed applicable threshold limit. In this case, he is required to pay tax without considering aforesaid limit.
- In case of supplier of
  - Ice-cream and other edible ice, whether or not containing cocoa
  - Pan Masala
  - Tobacco and manufactured tobacco substitutes
  - fly ash bricks, fly ash aggregate with 90% or more fly ash content; Fly ash blocks; or
  - Bricks of fossil meals or similar siliceous earths; or
  - Building bricks; or
  - Earthen or roofing tiles

  The threshold limit is ₹ 20,00,000 (₹ 10,00,000 in case of special category States) is applicable.

Persons not liable for registration [Sec. 23]

The following persons shall not be liable to registration:

a. any person engaged exclusively in the business of supplying goods or services or both that are not liable to tax or wholly exempt from tax under this Act or under the Integrated Goods and Services Tax Act;

b. an agriculturist, to the extent of supply of produce out of cultivation of land.

- An agriculturalist is required to register himself if he is supply other products and value of turnover exceeds applicable threshold limit.
- As per sec. 2(7), 'agriculturist' means an individual or HUF who undertakes cultivation of land:
  a. By own labour, or
  b. By the labour of family, or
  c. By servants on wages payable in cash or kind or by hired labour under personal supervision or personal supervision of any member of the family.

Taxpoint: The Government may, on the recommendations of the Council, by notification, specify the category of persons who may be exempted from obtaining registration under this Act. From various notification following are listed:

3. Persons engaged in rendering taxable services, who are liable to GST under reverse charges, are not required to take registration.
4. Job-workers engaged in making inter-State supply of services to a registered person except
   a. He is liable to be registered u/s 22(1); or
   b. He is opting for voluntary registration or persons engaged in making supply of services in relation to jewellery, goldsmiths' and silversmiths' wares and other articles
5. Persons effecting inter-State supplies of taxable services – where the aggregate value of supplies on PAN-

India basis does not exceed ₹ 20 Lakhs in a year (₹ 10 Lakhs for special category States- Manipur, Mizoram, Nagaland and Tripura)

6. Categories of persons effecting inter-State taxable supplies of handicraft goods – where the aggregate value of supplies on PAN-India basis does not exceed ₹ 20 Lakhs in a year (₹ 10 Lakhs for special category States-Manipur, Mizoram, Nagaland and Tripura)

7. Persons providing services through e-commerce mode who is required to collect tax at source, provided their aggregate turnover does not exceed ₹ 20 lakh (₹ 10 lakh in special category States-Manipur, Mizoram, Nagaland and Tripura)

   As per sec. 2(45), "electronic commerce operator" means any person who owns, operates or manages digital or electronic facility or platform for electronic commerce

8. Categories of casual taxable persons making taxable supplies of handicraft goods- where the aggregate value of supplies on PAN-India basis does not exceed ₹ 20 Lakhs in a year (₹ 10 Lakhs for special category States-Manipur, Mizoram, Nagaland and Tripura)

   As per sec. 2(20), "casual taxable person" means a person who occasionally undertakes transactions involving supply of goods or services or both in the course or furtherance of business, whether as principal, agent or in any other capacity, in a State or a Union territory where he has no fixed place of business.

9. The basic limit, beyond which obtaining registration becomes mandatory, has been increased from ₹ 20 lakhs to ₹ 40 lakhs for certain categories of persons i.e., any person, who is engaged in exclusive supply of goods and whose aggregate turnover in the financial year does not exceed ₹ 40 lakh, except,

   a. persons required to take compulsory registration u/s 24

   b. persons engaged in making supplies of the following goods,

      - Ice cream and other edible ice, whether or not containing cocoa
      - Pan masala
      - Aerated water
      - All goods, i.e. Tobacco and manufactured tobacco substitutes
      - fly ash bricks, fly ash aggregate with 90% or more fly ash content; Fly ash blocks; or
      - Bricks of fossil meals or similar siliceous earths; or
      - Building bricks; or
      - Earthen or roofing tiles

   c. persons engaged in making intra-State supplies in the States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura, Uttarakhand; and

   d. persons exercising option u/s 25(3) i.e., voluntary registration or such registered persons who intend to continue with their registration

Transfer of Business [Sec. 22(3) / (4)]

- Where a business carried on by a registered taxable person registered is transferred, whether on account of succession or otherwise, to another person as a going concern, the transferee or the successor, as the case may be, shall be liable to be registered with effect from the date of such transfer or succession.
- In a case of transfer pursuant to sanction of a scheme or an arrangement for amalgamation or, as the case

may be, demerger of two or more companies pursuant to an order of a High Court, Tribunal or otherwise, the transferee shall be liable to be registered, with effect from the date on which the Registrar of Companies issues a certificate of incorporation giving effect to such order of the High Court or Tribunal.

Compulsory registration in certain cases [Sec. 24]

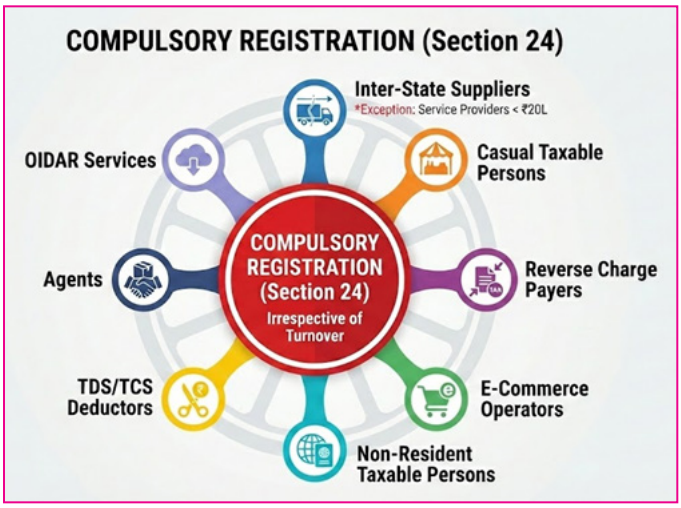
The following categories of persons shall be required to be registered, irrespective of size of their turnover:

Category of Persons	Subject to following exemption
Persons making any inter-State taxable supply	a. Inter State supplies of taxable services b. Inter State supplies of handicraft goods when their turnover does not exceed ₹ 20 lakhs (or ₹ 10 lakhs)
Casual taxable persons making taxable supply	Casual taxable persons making taxable supplies of handicraft goods if the aggregate turnover does not exceed ₹ 20 lakhs (or ₹ 10 lakhs)
Persons who are required to pay tax under reverse charge	
Persons who are required to pay tax u/s 9(5) i.e., e-commerce operator in respect of intra-State supplies of specified categories of services supplied through it	
Non-resident taxable persons making taxable supply As per sec. 2(77), "non-resident taxable person" means any person who occasionally undertakes transactions involving supply of goods or services or both, whether as principal or agent or in any other capacity, but who has no fixed place of business or residence in India	
Persons who are required to deduct tax u/s 51	
Persons who supply goods or services or both on behalf of other registered taxable persons whether as an agent or otherwise	
Input service distributors	

Category of Persons	Subject to following exemption
Persons who supply goods and/or services, other than supplies specified u/s 9(5), through such electronic commerce operator who is required to collect tax at source u/s 52	Persons providing services through e-commerce mode who is required to collect tax at source, provided their aggregate turnover does not exceed ₹ 20 lakh (₹ 10 lakh in special category States- Manipur, Mizoram, Nagaland and Tripura) Taxpoint: A person making supplies of goods through an electronic commerce operator (who is required to collect tax at source u/s 52) and having an aggregate turnover in the preceding financial year and in the current financial year not exceeding the threshold limit of above which a supplier is liable to be registered in the State or Union territory in accordance with the provisions of sec. 22(1) shall be exempted from obtaining registration under the said Act, subject to the following condition,: i. such persons shall not make any inter-State supply of goods; ii. such persons shall not make supply of goods through electronic commerce operator in more than one State or Union territory; iii. such persons shall be required to have a Permanent Account Number issued under the Income Tax Act, 1961; iv. such persons shall, before making any supply of goods through electronic commerce operator, declare on the common portal their Permanent Account Number issued under the Income Tax Act, 1961, address of their place of business and the State or Union territory in which such persons seek to make such supply, which shall be subjected to validation on the common portal; v. such persons have been granted an enrolment number on the common portal on successful validation of the Permanent Account Number declared as per clause (iv); vi. such persons shall not be granted more than one enrolment number in a State or Union territory; vii. no supply of goods shall be made by such persons through electronic commerce operator unless such persons have been granted an enrolment number on the common portal; and viii. where such persons are subsequently granted registration u/s 25, the enrolment number shall cease to be valid from the effective date of registration.
Every electronic commerce operator who is required to collect tax at source u/s 52	

Category of Persons	Subject to following exemption
Every person supplying online information and database access or retrieval services (OIDAR) from a place outside India to a person in India, other than a registered taxable person	
Such other notified person	

Special procedure to be followed by the electronic commerce operators in respect of supplies of goods through them by unregistered persons [Notification No. 37/2023 dated 04-08-2023]



The electronic commerce operator who is required to collect tax at source u/s 52 notified as the class of persons who shall follow the following special procedure in respect of supply of goods made through it by the persons exempted from obtaining registration (hereinafter referred to as the said person) in accordance with the notification issued u/s 23(2) vide notification number 34/2023- Central Tax, dated 31-07-2023 namely:

i. the electronic commerce operator shall allow the supply of goods through it by the said person only if enrolment number has been allotted on the common portal to the said person;

ii. the electronic commerce operator shall not allow any inter-State supply of goods through it by the said person;

iii. the electronic commerce operator shall not collect tax at source u/s 52(1) in respect of supply of goods made through it by the said person; and

iv. the electronic commerce operator shall furnish the details of supplies of goods made through it by the said person in the statement in FORM GSTR-8 electronically on the common portal.

However, where multiple electronic commerce operators are involved in a single supply of goods through electronic commerce operator platform, "the electronic commerce operator" shall mean the electronic commerce operator who finally releases the payment to the said person for the said supply made by the said person through him.

Special procedure to be followed by the electronic commerce operators in respect of supplies of goods through them by composition taxpayers [Notification No. 36/2023 dated 04-08-2023]

The electronic commerce operator who is required to collect tax at source u/s 52 are notified as the class of persons who shall follow the following special procedure in respect of supply of goods made through it by the persons paying tax u/s 10 [i.e., composition levy] namely:

i. the electronic commerce operator shall not allow any inter-State supply of goods through it by the said person;

ii. the electronic commerce operator shall collect tax at source u/s 52(1) in respect of supply of goods made through it by the said person and pay to the Government as per provisions of sec. 52(3); and

iii. the electronic commerce operator shall furnish the details of supplies of goods made through it by the said person in the statement in FORM GSTR-8 electronically on the common portal.

Procedure for registration [Sec. 25]

(1)
- Every person who is liable to be registered u/s 22 or 24 shall apply for registration in every such State or Union territory in which he is so liable within 30 days from the date on which he becomes liable to registration, in such manner and subject to such conditions as may be prescribed.
- A casual taxable person or a non-resident taxable person shall apply for registration at least 5 days prior to the commencement of business.
- A person having a SEZ unit or being a Special Economic Zone developer shall have to apply for a separate registration, as distinct from his place of business located outside the Special Economic Zone in the same State or Union territory.
- Every person who makes a supply from the territorial waters of India shall obtain registration in the coastal State or Union territory where the nearest point of the appropriate baseline is located.

Refer Rule 8

(2) A person seeking registration under this Act shall be granted a single registration in a State or Union territory.

A person having multiple places of business in a State or Union territory may be granted a separate registration for each such place of business, subject to such conditions as may be prescribed.

(3) A person, though not liable to be registered u/s 22 or 24 may get himself registered voluntarily, and all provisions of this Act, as are applicable to a registered person, shall apply to such person.

(4) A person who has obtained or is required to obtain more than one registration, whether in one State or UT or more than one State or UT shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act.

(5) Where a person who has obtained or is required to obtain registration in a State or UT in respect of an establishment, has an establishment in another State or UT, then such establishments shall be treated as establishments of distinct persons.

(6) Every person shall have a PAN issued under the Income- tax Act, 1961 in order to be eligible for grant of registration.

A person required to deduct tax u/s 51 may have, in lieu of a PAN, a Tax Deduction and Collection Account Number (TAN) issued under the said Act in order to be eligible for grant of registration.

(6A) Aadhaar number authentication for existing person

Every registered person shall undergo authentication, or furnish proof of possession of Aadhaar number, in such form and manner and within such time as may be prescribed.

If an Aadhaar number is not assigned to the registered person, such person shall be offered alternate and viable means of identification

In case of failure to undergo authentication or furnish proof of possession of Aadhaar number or furnish alternate and viable means of identification, registration allotted to such person shall be deemed to be invalid and the other provisions of this Act shall apply as if such person does not have a registration.

(6B) Aadhaar number authentication for new individual registrant

Every individual shall, in order to be eligible for grant of registration, undergo authentication, or furnish proof of possession of Aadhaar number.

If an Aadhaar number is not assigned to an individual, such individual shall be offered alternate and viable means of identification in specified manner

(6C) Every person, other than an individual, shall, in order to be eligible for grant of registration, undergo authentication, or furnish proof of possession of Aadhaar number of the Karta, Managing Director, whole time Director, such number of partners, Members of Managing Committee of Association, Board of Trustees, authorised representative, authorised signatory and such other class of persons, in such manner, as specify.

However, where such person or class of persons have not been assigned the Aadhaar Number, such person or class of persons shall be offered alternate and viable means of identification in such manner as specify

(6D) The provisions of Aadhar authentication shall not apply to such person or class of persons or any State or UT or part thereof as specified.

Following are specified:

- A person who is not a citizen of India; or
- A class of person other than (a) individual; (ii) authorized signatory of any types; (iii) managing and authorized partner; and (iv) karta of a HUF

(7) A non-resident taxable person may be granted registration on the basis of such other documents as may be prescribed i.e., without PAN

(8) Where a person who is liable to be registered fails to obtain registration, the proper officer may, without prejudice to any action which may be taken, proceed to register such person in such manner as may be prescribed [Refer Rule 16]

(9) Following person shall be granted registration / UID:

a. any specialised agency of the United Nations Organisation (UNO) or any Multilateral Financial Institution and Organisation notified under the United Nations (Privileges and Immunities) Act, 1947, Consulate or Embassy of foreign countries; and

b. any other person or class of persons, as may be notified by the Commissioner, shall be granted a Unique Identity Number [Rule 17]

(10) The registration or the Unique Identity Number shall be granted or rejected after due verification in such manner and within such period as may be prescribed [Rule 9]

(11) A certificate of registration shall be issued in such form and with effect from such date as may be prescribed [Rule 10, 10A and 10B]

(12) A registration or a Unique Identity Number shall be deemed to have been granted after the expiry of the period prescribed u/s 25(10), if no deficiency has been communicated to the applicant within that period.

Application for registration [Rule 8]

1. Every person who is liable to be registered u/s 25(1) and every person seeking registration u/s 25(3) (hereafter referred to as "the applicant") shall, before applying for registration, declare his Permanent Account Number, mobile number, e-mail address, State or Union territory in Part A of Form GST REG-01 on the common portal, either directly or through a Facilitation Centre notified by the Commissioner.

   However, this sub-rule is not applicable in case of the following:

   - A non-resident taxable person,
   - A person required to deduct tax at source u/s 51,
   - A person required to collect tax at source u/s 52;
   - A person supplying online information and database access or retrieval services (OIDAR) from a place outside India to a non-taxable online recipient referred to in sec. 14 of the IGST, 2017
   - A person supplying online money gaming from a place outside India to a person in India

   Taxpoint: Every person being an Input Service Distributor shall make a separate application for registration as such Input Service Distributor.

2. The PAN shall be validated online by the common portal from the database maintained by the Central Board of Direct Taxes and shall also be verified through separate one-time passwords sent to the mobile number and e-mail address linked to the Permanent Account Number

3. On successful verification of aforesaid details, a temporary reference number shall be generated and communicated to the applicant on the said mobile number and e-mail address.

4. Using the reference number generated, the applicant shall electronically submit an application in Part B of Form GST REG-01, duly signed or verified through electronic verification code, along with the documents specified in the said Form at the common portal, either directly or through a Facilitation Centre notified by the Commissioner.

5. Where an applicant, other than a person notified u/s 25(6D), opts for authentication of Aadhaar number, he shall, while submitting the application, undergo authentication of Aadhaar number and the date of submission of the application in such cases shall be the date of authentication of the Aadhaar number, or 15 days from the submission of the application in Part B of FORM GST REG-01, whichever is earlier.

   However, every application made by a person, other than a person notified u/s 25(6D), who has opted for authentication of Aadhaar number and is identified on the common portal, based on data analysis and risk parameters, shall be followed by biometric-based Aadhaar authentication and taking photograph of the applicant where the applicant is an individual or of such individuals in relation to the applicant as notified u/s 25(6C) where the applicant is not an individual, along with the verification of the original copy of the

documents uploaded with the application in FORM GST REG-01 at one of the Facilitation Centres notified by the Commissioner and the application shall be deemed to be complete only after completion of the process.

Further, every application made by a person, other than a person notified u/s 25(6D), who has not opted for authentication of Aadhaar number, shall be followed by taking photograph of the applicant where the applicant is an individual or of such individuals in relation to the applicant as notified u/s 25(6C) where the applicant is not an individual, along with the verification of the original copy of the documents uploaded with the application in FORM GST REG-01 at one of the Facilitation Centers notified by the Commissioner and the application shall be deemed to be complete only after successful verification

6. On receipt of an application, an acknowledgement shall be issued electronically to the applicant in Form GST REG-02.

7. A person applying for registration as a casual taxable person shall be given a temporary reference number by the common portal for making advance deposit of tax in accordance with the provisions of sec. 27 and the acknowledgement shall be issued electronically only after the said deposit.

Verification of the application and approval [Rule 9]

1. The application shall be forwarded to the proper officer who shall examine the application and the accompanying documents and if the same are found to be in order, approve the grant of registration to the applicant within a period of [1][seven] working days from the date of submission of the application:

   However where -

   a. a person, other than a person notified u/s 25(6D), fails to under go authentication of Aadhaar number as specified in rule 8(4A) or does not opt for authentication of Aadhaar number; or

   aa. a person, who has undergone authentication of Aadhaar number as specified in rule 8(4A), is identified on the common portal, based on data analysis and risk parameters, for carrying out physical verification of places of business; or

   b. the proper officer, with the approval of an officer authorised by the Commissioner not below the rank of Assistant Commissioner, deems it fit to carry out physical verification of places of business,

   the registration shall be granted within 30 days of submission of application, after physical verification of the place of business, in the manner provided under rule 25 and verification of such documents as the proper officer may deem fit.

2. Where the application submitted under rule 8 is found to be deficient, either in terms of any information or any document required to be furnished under the said rule, or where the proper officer requires any clarification with regard to any information provided in the application or documents furnished therewith, he may issue a notice to the applicant electronically in Form GST REG-03 within a period of 7 working days from the date of submission of the application and the applicant shall furnish such clarification, information or documents electronically, in Form GST REG-04, within a period of 7 working days from the date of the receipt of such notice.

   However where -

   a. a person, other than a person notified u/s 25(6D), fails to undergo authentication of Aadhaar number as specified in rule 8(4A) or does not opt for authentication of Aadhaar number; or

aa. a person, who has undergone authentication of Aadhaar number as specified in rule 8(4A), is identified on the common portal, based on data analysis and risk parameters, for carrying out physical verification of places of business; or

b. the proper officer, with the approval of an officer authorised by the Commissioner not below the rank of Assistant Commissioner, deems it fit to carry out physical verification of places of business,

the notice in Form GST REG-03 may be issued not later than 30 days from the date of submission of the application.

The expression "clarification" includes modification or correction of particulars declared in the application for registration, other than Permanent Account Number, State, mobile number and e-mail address declared in Part A of Form GST REG-01.

3. Where the proper officer is satisfied with the clarification, information or documents furnished by the applicant, he may approve the grant of registration to the applicant within a period of 7 working days from the date of the receipt of such clarification or information or documents.

4. Where no reply is furnished by the applicant in response to the notice or where the proper officer is not satisfied with the clarification, information or documents furnished, he may, for reasons to be recorded in writing, reject such application and inform the applicant electronically in Form GST REG-05.

5. If the proper officer fails to take any action, -

a. within a period of 7 working days from the date of submission of the application in cases where the person is not covered under proviso to sub-rule (1); or

b. within a period of 30 days from the date of submission of the application in cases where a person is covered under proviso to sub-rule (1); or

c. within a period of 7 working days from the date of the receipt of the clarification, information or documents furnished by the applicant, the application for grant of registration shall be deemed to have been approved.

Grant of Registration Electronically [Rule 9A]

Notwithstanding the verification procedures under Rule 9, a person applying under Rule 8 (General), Rule 12 (TDS/TCS), or Rule 17 (OIDAR) may be granted registration electronically based on data analysis and risk parameters:

1. Eligibility Threshold: This fast-track option applies to taxpayers whose monthly output tax liability towards registered persons (B2B supplies) does not exceed ₹ 2,50,000.

2. Fast-Track Approval: If the applicant opts for Aadhaar authentication and is identified as low-risk, registration shall be granted within 3 working days of the application.

3. Withdrawal from this Option [Rule 14A]:

- Mandatory Withdrawal: If the taxpayer's monthly output tax liability (B2B) exceeds ₹ 2,50,000, they must apply for withdrawal from this option using FORM GST REG-32.
- Condition: All pending returns (minimum 3 months or one tax period) must be furnished before filing for withdrawal. [Notification No. 18/2025 – Central Tax]

Issue of registration certificate [Rule 10]

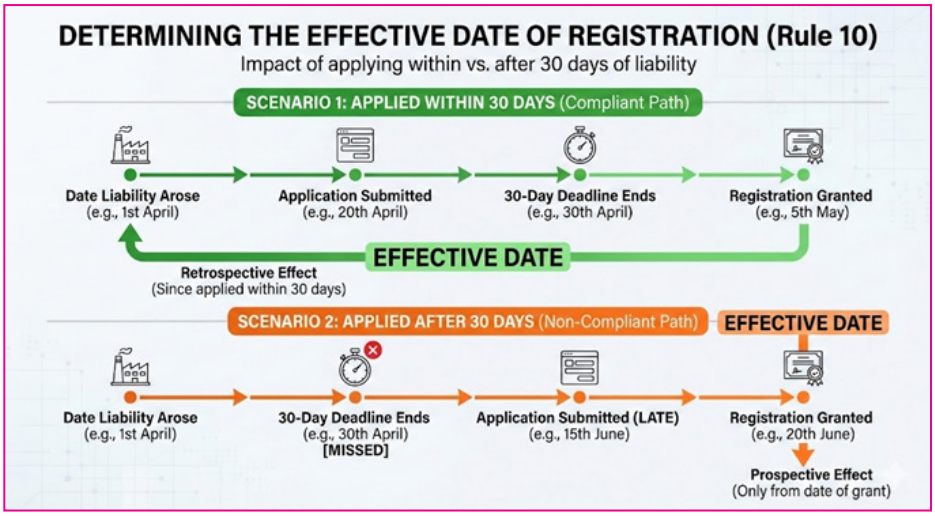
1. Where the application for grant of registration has been approved under rule 9 / rule 14A, a certificate of registration in Form GST REG-06 showing the principal place of business and additional place or places of business shall be made available to the applicant on the common portal and a Goods and Services Tax Identification Number shall be assigned subject to the following characters:

   a. 2 characters for the State code;

   b. 10 characters for the PAN or the TAN;

   c. 2 characters for the entity code; and

   d. 1 checksum character.



2. The registration shall be effective from the date on which the person becomes liable to registration where the application for registration has been submitted within a period of 30 days from such date.

3. Where an application for registration has been submitted by the applicant after the expiry of 30 days from the date of his becoming liable to registration, the effective date of registration shall be the date of the grant of registration.

4. Every certificate of registration shall be duly signed or verified through electronic verification code by the proper officer under the Act.

5. Where the registration has been granted, the applicant shall be communicated the registration number, and the certificate of registration, duly signed or verified through electronic verification code, shall be made available to him on the common portal, within a period of 3 days after the expiry of the period specified in rule 9(5).

Furnishing of Bank Account Details [Rule 10A]

The registered person (except TDS deductor or TCS collector), after obtaining certificate of registration and a GSTIN, is allowed to furnish information with respect to details of bank account on the common portal, within a period of 30 days from the date of grant of registration, or before furnishing the details of outward supplies of goods or services or both u/s 37 i.e., GSTR 1 or IFF, whichever is earlier.

Aadhaar authentication for registered person [Rule 10B]

The registered person, other than a person notified u/s 25(6D), who has been issued a certificate of registration under rule 10 shall, undergo authentication of the Aadhaar number of the proprietor, in the case of proprietorship firm, or of any partner, in the case of a partnership firm, or of the karta, in the case of a Hindu undivided family, or of the Managing Director or any whole time Director, in the case of a company, or of any of the Members of the Managing Committee of an Association of persons or body of individuals or a Society, or of the Trustee in the Board of Trustees, in the case of a Trust and of the authorized signatory, in order to be eligible for the following purposes:

a. For filing of application for revocation of cancellation of registration in Form GST REG-21 under Rule 23

b. For filing of refund application in Form RFD-01 under rule 89

c. For refund under rule 96 of the integrated tax paid on goods exported out of India

However, if Aadhaar number has not been assigned to the person required to undergo authentication of the Aadhaar number, such person shall furnish the following identification documents:

(a) her/his Aadhaar Enrolment ID slip; and

(b) (i) Bank passbook with photograph; or

(ii) Voter identity card issued by the Election Commission of India; or

(iii) Passport; or

(iv) Driving license issued by the Licensing Authority under the Motor Vehicles Act, 1988 (59 of 1988):

Such person shall undergo the authentication of Aadhaar number within a period of 30 days of the allotment of the Aadhaar number.

Physical verification of business premises in certain cases [Rule 25]

- Where the proper officer is satisfied that the physical verification of the place of business of a person is required after the grant of registration, he may get such verification of the place of business done and the verification report along with the other documents, including photographs, shall be uploaded in FORM GST REG-30 on the common portal within a period of 15 working days following the date of such verification.
- Where the physical verification of the place of business of a person is required before the grant of registration in the circumstances specified in rule 9, the proper officer shall get such verification of the place of business done and the verification report along with the other documents, including photographs, shall be uploaded in FORM GST REG-30 on the common portal at least 5 working days prior to the completion of the time period specified in the said rule

Separate registration for multiple places of business within a State or a Union territory [Rule 11]

1. Any person having multiple places of business within a State or a Union territory, requiring a separate registration for any such place of business u/s 25(2) shall be granted separate registration in respect of each such place of business subject to the following conditions:

   a. such person has more than one place of business as defined in sec. 2(85);

   b. such person shall not pay tax u/s 10 for any of his places of business if he is paying tax u/s 9 for any other place of business;

c. all separately registered places of business of such person shall pay tax under the Act on supply of goods or services or both made to another registered place of business of such person and issue a tax invoice or a bill of supply, as the case maybe, for such supply.

For the purposes of clause (b), it is hereby clarified that where any place of business of a registered person that has been granted a separate registration becomes ineligible to pay tax u/s 10, all other registered places of business of the said person shall become ineligible to pay tax under the said section.

2. A registered person opting to obtain separate registration for a place of business shall submit a separate application in FORM GST REG-01 in respect of such place of business.

3. The provisions of rule 9 and rule 10 relating to the verification and the grant of registration shall, mutatis mutandis, apply to an application submitted under this rule.

Grant of Temporary Identification Number [Rule 16A]

A "Temporary Identification Number" is distinct from the Temporary Reference Number (TRN) used during application.

- Applicability: The proper officer may grant this number to a person who is not liable to obtain registration under the Act but is required to make a payment (e.g., payment of penalties or dues by an unregistered person).
- Process: The officer will issue an order in Part B of FORM GST REG-12 assigning this temporary ID to facilitate the payment. [Notification No. 07/2025 – Central Tax]

Assignment of Unique Identity Number to certain special entities [Rule 17]

1. Every person required to be granted a Unique Identity Number in accordance with the provisions of sec. 25(9) may submit an application electronically in Form GST REG-13, duly signed or verified through electronic verification code, in the manner specified in rule 8 at the common portal, either directly or through a Facilitation Centre notified by the Commissioner.

2. The Unique Identity Number granted to a person shall be applicable to the territory of India.

3. The proper officer may, upon submission of an application in Form GST REG-13 or after filling up the said form or after receiving a recommendation from the Ministry of External Affairs, Government of India, assign a Unique Identity Number to the said person and issue a certificate in Form GST REG-06 within a period of 3 working days from the date of the submission of the application.

Display of registration certificate and Goods and Services Tax Identification Number on the name board [Rule 18]

1. Every registered person shall display his certificate of registration in a prominent location at his principal place of business and at every additional place or places of business.

2. Every registered person shall display his GSTIN on the name board exhibited at the entry of his principal place of business and at every additional place or places of business.

Deemed registration [Sec. 26]

- The grant of registration or the Unique Identity Number under the SGST Act or the UTGST Act shall be deemed to be a grant of registration or the Unique Identity Number under this Act subject to the condition that the application for registration or the Unique Identity Number has not been rejected under this Act within the time specified in sec. 25(10).

- Similarly, any rejection of application for registration or the Unique Identity Number under the SGST Act or the UTGST Act shall be deemed to be a rejection of application for registration under this Act.

Special provisions relating to casual taxable person and non-resident taxable person [Sec. 27]

1. The certificate of registration issued to a casual taxable person or a non-resident taxable person shall be valid for
   - the period specified in the application for registration; or
   - 90 days from the effective date of registration,

   whichever is earlier.

   Taxpoint:

   - Such person shall make taxable supplies only after the issuance of the certificate of registration.
   - The proper officer may, on sufficient cause being shown by the said taxable person, extend the said period of 90 days by a further period not exceeding 90 days.
2. A casual taxable person or a non-resident taxable person shall, at the time of submission of application for registration, make an advance deposit of tax in an amount equivalent to the estimated tax liability of such person for the period for which the registration is sought.

   Where any extension of time is sought, such taxable person shall deposit an additional amount of tax equivalent to the estimated tax liability of such person for the period for which the extension is sought.

   Taxpoint: A person applying for registration as a casual taxable person shall be given a temporary reference number by the common portal for making advance deposit of tax and the acknowledgement shall be issued electronically only after the said deposit.
3. The deposited amount shall be credited to the electronic cash ledger of such person and shall be utilised in the manner provided u/s 49.

A casual taxable person has to apply for registration at least 5 days prior to the commencement of business. There is no special form to register as a casual taxable person. The normal FORM GST REG-01 which is used by other taxable persons can be used for obtaining registration by casual taxable person also. A casual taxable person, before applying for registration, should declare his Permanent Account Number, mobile number, e-mail address, State or Union territory in Part A of FORM GST REG-01on the common portal, either directly or through a Facilitation Centre notified by the Commissioner.

The Permanent Account Number shall be validated online by the common portal from the database maintained by the Central Board of Direct Taxes. The mobile number declared shall be verified through a one-time password sent to the said mobile number; and the e-mail address shall be verified through a separate one-time password sent to the said e-mail address. On successful verification of the Permanent Account Number, mobile number and e-mail address, a temporary reference number shall be generated and communicated to the applicant on the said mobile number and e-mail address.

Amendment of registration [Sec. 28]

- Every registered person and a person to whom a Unique Identity Number has been assigned shall inform the proper officer of any changes in the information furnished at the time of registration or subsequent thereto, in such form and manner and within such period as may be prescribed.

- The proper officer may, on the basis of information furnished or as ascertained by him, approve or reject amendments in the registration particulars in such manner and within such period as may be prescribed. The proper officer shall not reject the application for amendment in the registration particulars without giving the person an opportunity of being heard.
- However, approval of the proper officer shall not be required in respect of amendment of such particulars as may be prescribed
- Any rejection or approval of amendments under the SGST Act or the UTGST Act, as the case may be, shall be deemed to be a rejection or approval under this Act.

Taxpoint

Once the applicant is registered under GST, the need for amendments in registration may arise due to several factors such as a change in address, change in contact number, change in business details and so on. In order to amend any information post registration, the taxpayer needs to file an Application for Amendment of Registration. Application for Amendment of Registration, can be categorized in two types:

a. Application for Amendment of Core fields in Registration like name of the Business, legal name (if there is no change in PAN), Addition / Deletion of Stakeholders, Principal Place of Business (other than change in State) or Additional Place of Business (other than change in State)

b. Application for Amendment of Non-Core fields in Registration like e-mail ID, mobile number, etc.

No approval is required from the Tax Official if any amendments are made to these non-core fields. However, in case of change in core field, the taxpayer is required to apply for the amendments within 15 days of the event necessitating the change. If everything is in order, the tax officer will approve in the next 15 days.

Cancellation or suspension of registration [Sec. 29]

i. The proper officer may, either on his own motion or on an application filed by the registered person or by his legal heirs, in case of death of such person, cancel the registration, in such manner and within such period as may be prescribed, having regard to the circumstances where:

   a. the business has been discontinued, transferred fully for any reason including death of the proprietor, amalgamated with other legal entity, demerged or otherwise disposed of; or

   b. there is any change in the constitution of the business; or

   c. the taxable person is no longer liable to be registered u/s 22 or 24 or intends to optout of the registration voluntarily made u/s 25(3)

   During pendency of the proceedings relating to cancellation of registration filed by the registered person, the registration may be suspended for such period and in such manner as may be prescribed.

ii. The proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where:

   a. a registered person has contravened such provisions of the Act or the rules made thereunder as may be prescribed; or

   b. a person paying tax u/s 10 has not furnished the return for a financial year beyond 3 months from the due date of furnishing the said return; or

   c. other registered person has not furnished returns for a such continuous tax period as may be prescribed*; or

* 6 months

d. any person who has taken voluntary registration u/s 25(3) has not commenced business within 6 months from the date of registration; or

e. registration has been obtained by means of fraud, wilful misstatement or suppression of facts

However, the proper officer shall not cancel the registration without giving the person an opportunity of being heard.

During pendency of the proceedings relating to cancellation of registration, the proper officer may suspend the registration for such period and in such manner as may be prescribed.

iii. The cancellation of registration shall not affect the liability of the person to pay tax and other dues under this Act or to discharge any obligation under this Act or the rules made thereunder for any period prior to the date of cancellation whether or not such tax and other dues are determined before or after the date of cancellation.

iv. The cancellation of registration under the SGST Act or the UTGST Act, as the case may be, shall be deemed to be a cancellation of registration under this Act.

v. Every registered person whose registration is cancelled shall pay an amount, by way of debit in the electronic credit ledger or electronic cash ledger, equivalent to the

- credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock or capital goods or plant and machinery on the day immediately preceding the date of such cancellation or
- the output tax payable on such goods,

whichever is higher, calculated in such manner as may be prescribed.

In case of capital goods or plant and machinery, the taxable person shall pay an amount equal to the input tax credit taken on the said capital goods or plant and machinery, reduced by such % points as may be prescribed or the tax on the transaction value of such capital goods or plant and machinery u/s 15, whichever is higher.

vi. The aforesaid payable amount shall be calculated in such manner as may be prescribed.

Registration to be cancelled in certain cases [Rule 21]

The registration granted to a person is liable to be cancelled, if the said person, -

a. does not conduct any business from the declared place of business; or

b. issues invoice or bill without supply of goods or services or both in violation of the provisions of this Act, or the rules made thereunder; or

c. violates the provisions of sec. 171 (Anti-profiteering measures) or the rules made thereunder.

d. violates the provision of rule 10A (Furnishing of bank account details)

e. avails input tax credit in violation of the provisions of sec. 16 or the rules made thereunder; or

f. furnishes the details of outward supplies in Form GSTR-1 as amended in GSTR 1A u/s 37 for one or more tax periods which is in excess of the outward supplies declared by him in his valid return u/s 39 for the said tax periods; or

g. violates the provision of third or fourth proviso to rule 23(1) or rule 86B

* Rule 86B: The registered person shall not use the amount available in electronic credit ledger to discharge his liability towards output tax in excess of 99% of such tax liability, in cases where the value of taxable supply other than exempt supply and zero-rated supply, in a month exceeds ₹ 50 lakhs

Suspension of registration [Rule 21A]

- Where a registered person has applied for cancellation of registration under rule 20, the registration shall be deemed to be suspended from the date of submission of the application or the date from which the cancellation is sought, whichever is later, pending the completion of proceedings for cancellation of registration under rule 22.
- Where the proper officer has reasons to believe that the registration of a person is liable to be cancelled u/s 29 or under rule 21, he may, suspend the registration of such person with effect from a date to be determined by him, pending the completion of the proceedings for cancellation of registration under rule 22.
- Where,
  a. a comparison of the returns furnished by a registered person u/s 39 with the details of outward supplies furnished in FORM GSTR-1 as amended in FORM GSTR-1A if any, or the details of inward supplies derived based on the details of outward supplies furnished by his suppliers in their FORM GSTR-1 or in FORM GSTR-1A of the previous tax period, if any, or such other analysis, as may be carried out on the recommendations of the Council, show that there are significant differences or anomalies indicating contravention of the provisions of the Act or the rules made thereunder, leading to cancellation of registration of the said person, or
  b. there is a contravention of the provisions of rule 10A by the registered person, the registration of such person shall be suspended and the said person shall be intimated in FORM GST REG - 31, electronically, on the common portal, or by sending a communication to his e-mail address provided at the time of registration or as amended from time to time, highlighting the said differences, anomalies or non-compliances and asking him to explain, within a period of 30 days, as to why his registration shall not be cancelled.
- A registered person, whose registration has been suspended shall not make any taxable supply (i.e., the registered person shall not issue a tax invoice and, accordingly, not charge tax on supplies made by him during the period of suspension) during the period of suspension and shall not be required to furnish any return u/s 39
- A registered person, whose registration has been suspended shall not be granted any refund u/s 54, during the period of suspension of his registration.
- The suspension of registration shall be deemed to be revoked upon completion of the proceedings by the proper officer under rule 22 and such revocation shall be effective from the date on which the suspension had come into effect. The suspension of registration under this rule may be revoked by the proper officer, anytime during the pendency of the proceedings for cancellation, if he deems fit.

Taxpoint:

Where the registration has been suspended for non filing of GST returns or non of rule 10A (and the compliance registration has not already been cancelled by the proper officer), the suspension of registration shall be deemed to be revoked upon furnishing of all the pending returns or on compliance of rule 10A.

Cancellation of registration [Rule 22]

1. Where the proper officer has reasons to believe that the registration of a person is liable to be cancelled u/s 29, he shall issue a notice to such person in Form GST REG-17, requiring him to show cause, within a period of 7 working days from the date of the service of such notice, as to why his registration shall not be cancelled.

2. The reply to the show cause notice shall be furnished in Form REG-18 within the said period.

3. Where a person who has submitted an application for cancellation of his registration is no longer liable to be registered or his registration is liable to be cancelled, the proper officer shall issue an order in Form GST REG-19, within a period of 30 days from the date of application submitted under rule 20 or, as the case may be, the date of the reply to the show cause issued under this rule or under rule 21A(2A) cancel the registration, with effect from a date to be determined by him and notify the taxable person, directing him to pay arrears of any tax, interest or penalty including the amount liable to be paid u/s 29(5).

4. Where the reply furnished in response to the notice under this rule or in response to the notice issued under rule 21(2A) is found to be satisfactory, the proper officer shall drop the proceedings and pass an order in Form GST REG -20

   Where the person instead of replying to the notice served for contravention of the provisions contained in sec. 29(2), furnishes all the pending returns and makes full payment of the tax dues along with applicable interest and late fee, the proper officer shall drop the proceedings and pass an order in Form GST-REG 20]

5. The provisions shall, mutatis mutandis, apply to the legal heirs of a deceased proprietor, as if the application had been submitted by the proprietor himself.

Revocation of cancellation of registration [Sec. 30]

1. Subject to such conditions as may be prescribed, any registered person, whose registration is cancelled by the proper officer on his own motion, may apply to such officer for revocation of cancellation of the registration in such manner, within such time and subject to such conditions and restrictions, as may be prescribed

2. The proper officer may, in such manner and within such period as may be prescribed, by order, either revoke cancellation of the registration (subject to prescribed conditions and restrictions) or reject the application.

   The application for revocation of cancellation of registration shall not be rejected unless the applicant has been given an opportunity of being heard.

3. The revocation of cancellation of registration under the SGST Act or the UTGSTAct, as the case may be, shall be deemed to be a revocation of cancellation of registration under this Act.

Revocation of cancellation of registration [Rule 23]

1. A registered person, whose registration is cancelled by the proper officer on his own motion, may subject to the provisions of rule 10B submit an application for revocation of cancellation of registration, in Form GST REG-21, to such proper officer, within a period of 90 days from the date of the service of the order of cancellation of registration or within such time period as extended (not exceeding 180 days) by the Additional Commissioner or the Joint Commissioner or the Commissioner, as the case may be, at the common portal, either directly or through a Facilitation Centre notified by the Commissioner

   No application for revocation shall be filed, if the registration has been cancelled for the failure of the registered person to furnish returns, unless such returns are furnished and any amount due as tax, in terms of such returns, has been paid along with any amount payable towards interest, penalty and late fee in respect of the said returns:

   All returns due for the period from the date of the order of cancellation of registration till the date of the order of revocation of cancellation of registration shall be furnished by the said person within a period of 30 days from the date of order of revocation of cancellation of registration.

   Where the registration has been cancelled with retrospective effect, the registered person shall furnish all

returns relating to period from the effective date of cancellation of registration till the date of order of revocation of cancellation of registration within a period of 30 days from the date of order of revocation of cancellation of registration.

2. (a) Where the proper officer is satisfied, for reasons to be recorded in writing, that there are sufficient grounds for revocation of cancellation of registration, he shall revoke the cancellation of registration by an order in Form GST REG-22 within a period of 30 days from the date of the receipt of the application and communicate the same to the applicant.

   (b) The proper officer may, for reasons to be recorded in writing, under circumstances other than above, by an order in Form GST REG-05, reject the application for revocation of cancellation of registration and communicate the same to the applicant.

3. The proper officer shall, before passing the order, issue a notice in Form GST REG-23 requiring the applicant to show cause as to why the application submitted for revocation should not be rejected and the applicant shall furnish the reply within a period of 7 working days from the date of the service of the notice in Form GST REG-24.

4. Upon receipt of the information or clarification in Form GST REG-24, the proper officer shall proceed to dispose of the application within a period of 30 days from the date of the receipt of such information or clarification from the applicant.

Illustration 122:

Explain the registration requirements under GST law in the following independent cases:

a. Mr. Khan of West Bengal engaged in the business of supplying tobacco based Pan Masala with an aggregate turnover of ₹ 24 lacs.

b. Mr. Tipati of Mizoram is engaged in the supply of papers with an aggregate turnover of ₹ 13 lacs.

Will your answer be different if Mr. Tipati is located in Meghalaya?

Solution

a. In case of supply of pan masala, tobacco and manufactured tobacco substitutes, etc., the threshold limit for registration is ₹ 20 lakhs (i.e., the enhanced limit of ₹ 40 lakhs is not applicable). Hence, he is liable for registration mandatorily

b. In case of Mizoram, the threshold limit for registration is ₹10 lakhs, hence he is liable for registration.

However, if he is located in the State of Meghalaya where the threshold limit for registration is ₹ 20 lakhs, hence he is not liable for registration.

Illustration 123:

Determine the effective date of registration in the following instances:

a. The aggregate turnover of M Ltd., engaged in taxable supply of services in the state of Karnataka, exceeded ₹ 20 lakh on 25th August, 2025. It applies for registration on 15th September, 2025 and is granted registration certificate on 30th September, 2025.

b. What will be your answer, if in the above scenario, M Ltd. submits the application for registration on 28th September, 2025 and is granted registration on 6th October, 2025?

Solution

Where the application for registration is submitted within the 30 days from the date of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

a. In this case, application for registration has been made within 30 days as mentioned above, hence effective date of registration shall be 25-08-2025

b. In this case, application for registration has not been made within 30 days as mentioned above, hence effective date of registration shall be 06-10-2025

Illustration 124:

Mr. Vishnu, who has started a business for supply of goods and services in Tamil Nadu, furnishes the following information pertaining to the period commencing on 01-04-2024 and ended on 31-03-2025:

S.N.	Particulars	₹
(i)	Sale of diesel on which Sale Tax (VAT) is levied by Tamil Nadu Government	7,00,000
(ii)	Supply of goods, after completion of job work, from the place of Mr. Vishnu, directly by his principal under whom he is registered as job worker	4,20,000
(iii)	Export supply to Dubai	6,00,000
(iv)	Supply to its own additional place of business in Tamil Nadu, under same registration	5,00,000
(v)	Supply of goods exempt from GST	8,20,000

You are required to help him in deciding whether he has to go for registration under CGST law

Solution

Computation of aggregate turnover for CGST registration

S.N.	Particulars	₹
(i)	Sale of diesel on which Sale Tax (VAT) is levied by Tamil Nadu Government (As per sec. 2(47), non-taxable supply of goods like diesel, to be also included	7,00,000
(ii)	Supply of goods, after completion of job work, from the place of Vishnu, directly by his principal (This will be treated as the supply of goods by the principal in terms of explanation (ii) to sec. 22)	Nil
(iii)	Export supply to Dubai (Specifically includible in the aggregate turnover in terms of sec. 2(6))	6,00,000
(iv)	Supply to its own additional place of business in Tamil Nadu (Supply made without consideration to units within the **same State** (under same registration) is a not a supply and hence not includible in aggregate turnover)	Nil
(v)	Supply of goods exempt from GST (As per sec. 2(47), supply of exempt goods shall also be included)	8,20,000
	Aggregate turnover for CGST registration purposes	**21,20,000**

Since the aggregate turnover exceeds ₹ 20 lakh, Vishnu has to get himself registered. He should be advised accordingly.

Note: as Mr. Vishnu makes export supply, he is a person making interstate taxable supply and is liable for compulsory registration u/s 24, irrespective of whether his turnover exceeds the threshold limit of ₹ 20 lakhs or not.

Illustration 125: Electronic Registration & Withdrawal

Mr. Arjun, a Cost Accountant starting his practice in Pune, applies for GST registration. He opts for Aadhaar authentication and is identified as a "Low Risk" applicant. His estimated monthly output tax liability towards registered persons (B2B) is ₹ 1,80,000.

1. What is the time limit for the grant of registration to Mr. Arjun?
2. Six months later, his practice grows, and his monthly B2B output tax liability reaches ₹ 3,00,000. What compliance action is required?

Solution

1. Grant of Registration: Since Mr. Arjun has opted for Aadhaar authentication, is low risk, and his monthly B2B output tax liability (₹ 1.8 Lakhs) is below the threshold of ₹ 2,50,000, he is eligible for the Electronic Registration mechanism under Rule 9A.
   - Result: Registration shall be granted within 3 working days of the application.
2. Withdrawal Requirement: The option under Rule 9A is conditional upon the B2B tax liability not exceeding ₹ 2,50,000.
   - Action: Since his liability (₹ 3 Lakhs) has exceeded the limit, Mr. Arjun must mandatorily withdraw from this option by filing FORM GST REG-32.
   - Pre-condition: He must ensure all pending returns (minimum 3 months or one tax period) are furnished before filing for withdrawal.

Illustration 126: Temporary Identification Number vs. TRN

a. Mr. X is applying for fresh GST registration. He verifies his mobile and email on the portal.

b. Mr. Y is an unregistered trader who was caught transporting goods without documents. He is not liable for regular registration but wishes to pay the penalty of ₹ 50,000 to release his goods. Identify the type of "Number" generated in both cases.

Solution

a. The number generated after mobile/email verification during the standard application process is the Temporary Reference Number (TRN). This is used solely to access and fill Part-B of the application.

b. Mr. Y is not liable for standard registration but needs to make a payment under the Act. The Proper Officer shall grant him a Temporary Identification Number (distinct from TRN).
   - Process: The officer will issue an order in Part B of FORM GST REG-12 assigning this ID to facilitate the payment of the penalty.

Illustration 127: Comparison of Timelines

Determine the time limit for the grant of registration in the following independent cases (assuming all applications are error-free):

1. Case A: Applicant opts for Aadhaar authentication but has a monthly B2B tax liability of ₹ 5,00,000.

2. Case B: Applicant opts for Aadhaar authentication, is Low Risk, and has a monthly B2B tax liability of ₹1,00,000.
3. Case C: Applicant fails to undergo Aadhaar authentication.

Solution

1. Case A (Standard Procedure): Since the liability exceeds ₹ 2.5 Lakhs, Rule 9A does not apply.
   - Timeline: Registration is granted within 7 working days under the standard Rule 9.
2. Case B (Fast Track): The applicant meets the criteria for Rule 9A (Low risk + Liability ≤ ₹ 2.5 Lakhs).
   - Timeline: Registration is granted within 3 working days.
3. Case C (Physical Verification): Since Aadhaar authentication was not performed, physical verification may be required.
   - Timeline: Registration is granted within 30 days after verification.

Illustration 128: Aggregate Turnover & Exemption Threshold

"Healthy Foods," a proprietorship firm in Assam (Special Category State for Registration?), is engaged exclusively in the supply of:

- Exempted Agro-products: ₹ 22 Lakhs
- Taxable Processed Food: ₹ 11 Lakhs
- Export of Processed Food: ₹ 5 Lakhs

Determine if they are liable to register.

Solution

1. Status of State: Assam is not a Special Category State for the purpose of registration threshold (It is a special category state under the Constitution, but for GST registration limits, it follows the general category).
2. Aggregate Turnover Calculation:
   - Exempt Supplies: ₹ 22 Lakhs
   - Taxable Supplies: ₹ 11 Lakhs
   - Exports: ₹ 5 Lakhs

   Total Aggregate Turnover: ₹ 38 Lakhs.
3. Threshold Limit: For a supplier of goods in Assam, the threshold is ₹ 40 Lakhs (assuming not engaged in ice cream/tobacco/pan masala/bricks).
4. Conclusion: Since the Aggregate Turnover (₹ 38 Lakhs) does not exceed the threshold of ₹ 40 Lakhs, "Healthy Foods" is not liable to register.

Illustration 129: Inter-State Supply of Services

Mr. Mehta (Mumbai) provides consultancy services to a client in Bangalore. His annual turnover is only ₹15 Lakhs.

(i) Is he liable to register?

(ii) Would your answer change if he was supplying Handicraft goods inter-state instead of services?

Solution:

i. Service Provider:

- Generally, Section 24 mandates compulsory registration for inter-state suppliers.
- Exception: Notification No. 10/2017-IT exempts service providers making inter-state supplies if their turnover is up to ₹ 20 Lakhs.
- Conclusion: Mr. Mehta is not liable to register as his turnover (₹ 15 Lakhs) is below ₹ 20 Lakhs.

ii. Handicraft Goods Supplier:

- Inter-state suppliers of goods generally require compulsory registration.
- Exception: Notification No. 32/2017-CT exempts inter-state suppliers of handicraft goods if turnover is up to ₹ 20 Lakhs (and they have a PAN + generate E-way bills).
- Conclusion: If he complies with the conditions (PAN/E-way bill), he is not liable to register. Otherwise, compulsory registration applies u/s 24.

Illustration 130: Bank Account Compliance & Automatic Suspension

M/s. Alpha Traders (Proprietorship) was granted GST registration on 1st November 2025. Due to administrative delays, they could not open a current bank account immediately.

1. They plan to file their first return (GSTR-1) for the month of November on 11th December 2025. Determine the last date by which they must furnish their bank account details on the portal.
2. What is the immediate consequence if they fail to update the details by this deadline?
3. How can M/s. Alpha Traders resolve the situation if their registration is suspended?

Solution

1. Deadline for Furnishing Bank Details [Rule 10A]: A registered person is required to furnish information regarding their bank account on the common portal within the earlier of the following two dates:
   - 30 days from the date of grant of registration (i.e., 1st December 2025); or
   - Before furnishing the details of outward supplies in Form GSTR-1 or IFF (i.e., 11th December 2025).

   Conclusion: M/s. Alpha Traders must furnish the bank details by 1st December 2025 (being the earlier date).
2. Consequence of Non-Compliance [Rule 21A(2A)]: If the bank account details are not furnished within the prescribed time:
   - The registration of the person shall be suspended by the proper officer (often automated by the system).
   - An intimation in FORM GST REG-31 will be issued electronically to the taxpayer.
3. Remedy/Revocation [Rule 21A(4) Proviso]
   - The suspension of registration for this specific non-compliance shall be deemed to be revoked immediately upon furnishing the bank account details on the portal.
   - No separate application for revocation is required in this specific case.

Quick MCQ

1. **Under Rule 9A (Grant of Registration Electronically), the "Fast-Track" approval within 3 working days is available only if the applicant's monthly output tax liability towards registered persons (B2B) does not exceed:**

   a. ₹ 1,00,000

   b. ₹ 2,50,000

   c. ₹ 5,00,000

   d. ₹ 10,00,000

   Correct: b.

   Reason: Rule 9A explicitly sets the eligibility threshold for this fast-track option at a monthly B2B output tax liability not exceeding ₹ 2,50,000.

2. **Which of the following numbers is granted to a person who is not liable to obtain registration but is required to make a payment (e.g., penalty) under the Act?**

   a. Temporary Reference Number (TRN)

   b. Unique Identity Number (UIN)

   c. Temporary Identification Number

   d. GSTIN

   Correct: c.

   Reason: As per Rule 16A, a "Temporary Identification Number" is distinct from TRN and is granted by the proper officer to an unregistered person solely to facilitate payments like penalties.

3. **A registered person must furnish their Bank Account details (Rule 10A) on the common portal within:**

   a. 45 days from the date of grant of registration.

   b. 30 days from the date of grant of registration or before filing GSTR-3B, whichever is earlier.

   c. 30 days from the date of grant of registration or before furnishing details of outward supplies (GSTR-1/ IFF), whichever is earlier.

   d. Before the filing of the first Annual Return.

   Correct: c.

   Reason: Rule 10A mandates furnishing bank details within 30 days of the grant of registration OR before filing GSTR-1/IFF, whichever is earlier.

4. **Calculate the "Aggregate Turnover" for Mr. X based on the following:**

   - Taxable supplies: ₹ 10 Lakhs
   - Exempt supplies: ₹ 5 Lakhs
   - Exports: ₹ 5 Lakhs
   - Inward supplies under Reverse Charge: ₹ 2 Lakhs

a. ₹ 15 Lakhs

b. ₹ 20 Lakhs

c. ₹ 22 Lakhs

d. ₹ 10 Lakhs

Correct: b

Reason: Aggregate turnover includes taxable supplies, exempt supplies, and exports. It excludes inward supplies on which tax is payable under reverse charge. Calculation: 10 + 5 + 5 = ₹ 20 Lakhs.

5. Which of the following persons is exempt from compulsory registration u/s 24 even if they make inter-state supplies?

a. A Casual Taxable Person making taxable supplies.

b. An Input Service Distributor.

c. A person making inter-state supplies of taxable services with an aggregate turnover of ₹ 15 Lakhs.

d. A person required to pay tax under Reverse Charge.

Correct: c.

Reason: While sec. 24 generally mandates compulsory registration for inter-state suppliers, a specific notification exempts persons making inter-state supplies of taxable services if their aggregate turnover does not exceed ₹ 20 Lakhs.

6. If an applicant submits their registration application 45 days after becoming liable to register, the "Effective Date of Registration" will be:

a. The date on which they became liable to registration.

b. The date of submission of the application.

c. The date of grant of registration.

d. The date of 30 days after liability arose.

Correct: c

Reason: If the application is submitted after the expiry of 30 days from the date of liability, the effective date is the date of the grant of registration.

7. Registration of a taxpayer can be suspended under Rule 21A if:

a. They fail to furnish bank account details under Rule 10A.

b. There are significant differences between GSTR-1 and GSTR-3B.

c. There are significant differences between GSTR-3B and GSTR-2B (Input Tax Credit).

d. All of the above.

Correct: d

Reason: Registration can be suspended for contravention of Rule 10A (Bank details) or for significant anomalies/differences in returns (GSTR-1 vs 3B or inward supply mismatches).

8. A "Casual Taxable Person" must apply for registration at least _____ days prior to the commencement of business and the certificate is valid for _____ days initially.

a. 5 days; 90 days

b. 7 days; 60 days

c. 30 days; 90 days

d. 5 days; 180 days

Correct: a

Reason: A casual taxable person must apply at least 5 days prior to business commencement, and the certificate is valid for 90 days.

9. If a registered person wishes to change their "Principal Place of Business" (a Core Field) within the same State, they must submit an application for amendment within:

a. 30 days of the change.

b. 15 days of the change.

c. 7 days of the change.

d. No approval is required for this change.

Correct: b

Reason: For changes in core fields (like Principal Place of Business), the taxpayer must apply for amendment within 15 days of the event.

10. Which state is considered a "Special Category State" for the purpose of the reduced ₹ 10 Lakhs registration threshold under GST?

a. Assam

b. Himachal Pradesh

c. Mizoram

d. Uttarakhand

Correct: c

Reason: Only Manipur, Mizoram, Nagaland, and Tripura are considered Special Category States for the specific purpose of the ₹ 10 Lakhs threshold under GST registration. (Assam, HP, and Uttarakhand have higher limits).

Tax Invoice – Electronic Way Bill

5.7

Generally speaking, an invoice is a commercial instrument issued by a seller to a buyer. It identifies both the trading parties and lists, describes, and quantifies the items sold, shows the date of shipment and mode of transport, prices and discounts, if any, and delivery and payment terms. In certain cases, (especially when it is signed by the seller or seller's agent), an invoice serves as a demand for payment and becomes a document of title when paid in full. An invoice does not bring into existence an agreement but merely records the terms of a pre-existing agreement (oral or written). An invoice can be understood as a document that is meant to serve a particular purpose.

Under GST a tax invoice is an important document.

- It not only evidences supply of goods or services, but is also an essential document for the recipient to avail Input Tax Credit (ITC). A registered person cannot avail input tax credit unless he is in possession of a tax invoice or a debit note.
- GST is chargeable at the time of supply. Invoice is an important indicator of the time of supply. Broadly speaking, the time of supply of goods or services is the date of issuance of invoice or receipt of payment whichever is earlier. However, a special procedure for payment of tax has been prescribed for registered persons (other than composition dealers) supplying goods. Such category of persons (suppliers of goods other than composition dealers) need to pay GST only at the time of issue of invoice irrespective of when they receive payment.

Suffice it to say, the tax invoice is the primary document evidencing the supply and vital for availing input tax credit.

The GST Law requires that an invoice – tax invoice or bill of supply – is issued on the occurrence of certain event, being a supply, within the prescribed timelines. Therefore, an invoice, among other documents is required to be issued for every form of supply such as sale, transfer, barter, exchange, license, rental, lease or disposal. This chapter provides an understanding of the various documents required to be issued under the GST law, timelines to issue such document and the contents of every such document. It is to be noted that GST Law does not prescribe any specific format of invoice but mandates that certain field or information should be incorporated in the invoice.

Tax Invoice [Sec. 31(1) / (2)]

Time of issue of tax invoice for:

A. Supply of Goods

1. A registered person supplying taxable goods shall issue a tax invoice, before or at the time of:

Where the supply involves movement of goods	Removal of goods for supply to the recipient
Where the supply does not involve movement of goods	Delivery of goods or making available thereof to the recipient

2. In case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice shall be issued before or at the time each such statement is issued or, as the case may be, each such payment is received [Sec. 31(4)]

3. Where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued before or at the time of supply or 6 months from the date of removal, whichever is earlier [Sec. 31(7)]

Taxpoint: The Government may, on the recommendations of the Council, by notification, specify the categories of goods or supplies in respect of which a tax invoice shall be issued, within such time and in such manner as may be prescribed.

B. Supply of Services

Situation	Time limit for issuance of invoice
General cases	Within 30 days from the date of the supply of service (45 days in case of insurance/banking company or a financial institution, including NBFC)
In a case where the supply of services ceases before the completion of the supply	At the time when the supply ceases. • Such invoice shall be issued to the extent of the supply made before such cessation
In case of continuous supply of services	
□ Where the due date of payment is ascertainable from the contract	On or before the due date of payment;
□ Where the due date of payment is not ascertainable from the contract	Before or at the time when the supplier of service receives the payment;
□ Where the payment is linked to the completion of an event	On or before the date of completion of that event
In case of an insurance / banking company or a financial institution (including NBFC), or a telecom operator, or any other class of notified supplier of services, making taxable supplies of services between distinct persons as specified in sec. 25 □ A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons [Sec. 25(4)]	Before or at the time such supplier records the same in his books of account or before the expiry of the quarter during which the supply was made.

Taxpoint:

In case of supply of taxable services, The Government may, on the recommendations of the Council, by notification,-

a. specify the categories of services or supplies in respect of which a tax invoice shall be issued, within such time and in such manner as may be prescribed;

b. subject to the condition mentioned therein, specify the categories of services in respect of which:

   i. any other document issued in relation to the supply shall be deemed to be a tax invoice; or

   ii. tax invoice may not be issued

e-Invoice

The taxpayers must comply with e-invoicing if the turnover exceeds ₹ 5 crore in any of the financial year from 2017-18. Also, the aggregate turnover will include the turnover of all GSTINs under a single PAN across India. However, irrespective of the turnover, e-Invoicing shall not be applicable to the following categories of registered persons for now, as notified in CBIC Notification No.13/2020 – CT:

a. An insurer or a banking company or a financial institution, including an NBFC

b. A Goods Transport Agency (GTA)

c. A registered person supplying passenger transportation services

d. A registered person supplying services by way of admission to the exhibition of cinematographic films in multiplex services

e. An SEZ unit (excluded via CBIC Notification No. 61/2020 – CT)

f. A government department and Local authority (excluded via CBIC Notification No. 23/2021 – CT)

e-Invoice is not required to be issued in multiple copies.

Taxpoint: Taxpayers with a turnover of ₹ 10 Crores and above are restricted from reporting invoices to the IRP that are older than 30 days from the date of issue.

Time limit for issuing tax invoice in cases where recipient is required to issue invoice [Rule 47A]

Where an invoice is required to be issued u/s 31(3)(f) by a registered person, who is liable to pay tax u/s 9(3) or (4), he shall issue the said invoice within a period of 30 days from the date of receipt of the said supply of goods or services, or both, as the case may be.

Consolidated Invoice [Sec. 31(3)(b) and Proviso to Rule 46]

A registered person may not issue a tax invoice if the value of the goods or services or both supplied is less than ₹ 200. However, such registered person [other than the supplier engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens,] shall issue a consolidated tax invoice for such supplies at the close of each day in respect of all such supplies provided:

a. the recipient is not a registered person; and

b. the recipient does not require such invoice

Revised Invoice after Registration [Sec. 31(3)(a) r.w.r. 53(2)]

A registered person may, within 1 month from the date of issuance of certificate of registration and in such manner as may be prescribed, issue a revised invoice against the invoice already issued during the period beginning with the effective date of registration till the date of issuance of certificate of registration to him.

Rule 53(2)

- Every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue revised tax invoices in respect of taxable supplies effected during the period starting from the effective date of registration till the date of the issuance of the certificate of registration:
- The registered person may issue a consolidated revised tax invoice in respect of all taxable supplies made to a recipient who is not registered under the Act during such period.
- However, in the case of inter-State supplies, where the value of a supply does not exceed ₹ 2,50,000, a consolidated revised invoice may be issued separately in respect of all the recipients located in a State, who are not registered under the Act.

Bill of Supply [Sec. 31(3)(c)]

- A registered person supplying exempted goods or services or both or paying tax under the provisions of sec. 10 (i.e., composition levy) shall issue, instead of a tax invoice, a bill of supply containing such particulars and in such manner as may be prescribed.
- However, the registered person may not issue a bill of supply if the value of the goods or services or both supplied is less than ₹ 200 subject to such conditions and in such manner as may be prescribed.
- Supplier under composition levy shall mention the words "composition taxable person, not eligible to collect tax on supplies" at the top of the bill of supply issued by him.
- The registered supplier of service opting for paying tax at concessional rate under Notification No. 2/2019-CT(R) shall mention at the top of the bill of supply 'taxable person paying tax in terms of notification No.2/2019-Central Tax (Rate) dated 07.03.2019, not eligible to collect tax on supplies'

Receipt Voucher on receipt of advance [Sec. 31(3)(d)]

A registered person shall, on receipt of advance payment with respect to any supply of goods or services or both, issue a receipt voucher or any other document, containing such particulars as may be prescribed, evidencing receipt of such payment.

Refund Voucher [Sec. 31(3)(e)]

Where, on receipt of advance payment with respect to any supply of goods or services or both the registered person issues a receipt voucher, but subsequently no supply is made and no tax invoice is issued in pursuance thereof, the said registered person may issue to the person who had made the payment, a refund voucher against such payment.

Invoice in case of Reverse Charge [Sec. 31(3)(f) / (g)]

A registered person who is liable to pay tax u/s 9(3) or (4) shall issue an invoice, within the prescribed time, in respect of goods or services or both received by him from the supplier who is not registered on the date of receipt of goods or services or both.

A registered person who is liable to pay tax u/s 9(3) or (4) shall issue a payment voucher at the time of making payment to the supplier.

Taxpoint: "Supplier who is not registered" shall include the supplier who is registered solely for the purpose of deduction of tax u/s 51

Facility of digital payment to recipient [Sec. 31A]

The Government may, on the recommendations of the Council, prescribe a class of registered persons who shall provide prescribed modes of electronic payment to the recipient of supply of goods or services or both made by him and give option to such recipient to make payment accordingly, in such manner and subject to such conditions and restrictions, as may be prescribed.

Taxpoint: While Section 31A is an enabling provision in GST, a parallel mandate exists u/s 269SU of the Income-tax Act, 1961, requiring businesses with turnover > ₹ 50 Crore to provide digital payment modes. This ensures consistency across both Direct and Indirect tax frameworks.

Prohibition of unauthorised collection of tax [Sec. 32]

- A person who is not a registered person shall not collect in respect of any supply of goods or services or both any amount by way of tax under this Act.
- No registered person shall collect tax except in accordance with the provisions of this Act or the rules made thereunder.

Amount of tax to be indicated in tax invoice and other documents [Sec. 33]

Where any supply is made for a consideration, every person who is liable to pay tax for such supply shall prominently indicate in all documents relating to assessment, tax invoice and other like documents, the amount of tax which shall form part of the price at which such supply is made.

Credit and debit notes [Sec. 34]

Credit Note

- Where
  - one or more tax invoices have been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or
  - the goods supplied are returned by the recipient, or
  - goods or services or both supplied are found to be deficient,

  the registered person, who has supplied such goods or services or both, may issue to the recipient one or more credit notes for supplies made in a financial year containing such particulars as may be prescribed.
- Any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return (GSTR-1) for the month during which such credit note has been issued.

  Maximum time limit for such adjustment:

  a. 30th November following the end of the financial year in which such supply was made, or

  b. the date of furnishing of the relevant annual return,

  - whichever is earlier and the tax liability shall be adjusted in such manner as may be prescribed.

  However, no reduction in output tax liability of the supplier shall be permitted, if the–

  i. input tax credit as is attributable to such a credit note, if availed, has not been reversed by the recipient, where such recipient is a registered person; or

  ii. incidence of tax on such supply has been passed on to any other person, in other cases

Debit Note

- Where one or more tax invoices have been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to be less than the taxable value or tax payable in respect of such supply, the registered person, who has supplied such goods or services or both, shall issue to the recipient one or more debit notes for supplies made in a financial year containing such particulars as may be prescribed.
- Any registered person who issues a debit note in relation to a supply of goods or services or both shall declare the details of such debit note in the return (GSTR 1) for the month during which such debit note has been issued and the tax liability shall be adjusted in such manner as may be prescribed.

Taxpoint: "Debit note" shall include a supplementary invoice.

Tax invoice [Rule 46]

Content of the invoice

Subject to rule 54, a tax invoice referred to in sec. 31 shall be issued by the registered person containing the following particulars:

a. name, address and Goods and Services Tax Identification Number of the supplier;

b. a consecutive serial number not exceeding 16 characters, in one or multiple series, containing alphabets or numerals or special characters- hyphen or dash and slash symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year.

c. date of its issue;

d. name, address and Goods and Services Tax Identification Number (GSTIN) or Unique Identity Number (UIN), if registered, of the recipient;

e. name and address of the recipient and the address of delivery, along with the name of the State and its code, if such recipient is un-registered and where the value of the taxable supply is ₹ 50,000 or more;

f. name and address of the recipient and the address of delivery, along with the name of the State and its code, if such recipient is un-registered and where the value of the taxable supply is less than ₹ 50,000 and the recipient requests that such details be recorded in the tax invoice;

   Taxpoint: In cases involving supply of online money gaming or in cases that where any taxable service is supplied by or through an electronic commerce operator or by a supplier of online information and database access or retrieval services to a recipient who is un-registered, irrespective of the value of such supply, a tax invoice issued by the registered person shall contain the name of the state of the recipient and the same shall be deemed to be the address on record of the recipient

g. Harmonised System of Nomenclature code for goods or services;

h. description of goods or services;

i. quantity in case of goods and unit or Unique Quantity Code thereof;

j. total value of supply of goods or services or both;

k. taxable value of the supply of goods or services or both taking into account discount or abatement, if any;

l. rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

m. amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

n. place of supply along with the name of the State, in the case of a supply in the course of inter-State trade or commerce;

o. address of delivery where the same is different from the place of supply;

p. whether the tax is payable on reverse charge basis; and

q. signature or digital signature of the supplier or his authorised representative; and

r. Quick Response (QR) code, having embedded Invoice Reference Number (IRN) in it, in case e-invoice has been issued in the manner prescribed under rule 48(4).

Taxpoint

- The Board may, on the recommendations of the Council, by notification, specify:

  i. the number of digits of Harmonised System of Nomenclature code for goods or services that a class of registered persons shall be required to mention; or

  ii. a class of supply of goods or services for which specified number of digits of Harmonised System of Nomenclature code shall be required to be mentioned by all registered taxpayers; and

  iii. the class of registered persons that would not be required to mention the Harmonised System of Nomenclature code for goods or services

  A taxpayer, whose turnover is upto ₹ 5 crore in the preceding financial year, is mandatorily required to mention HSN code of 4 digits on invoice in all B2B transactions and whereas in case turnover exceeds ₹ 5 crore in the preceding financial year, he is required to mention HSN code of 6 digits on invoice in all transactions.

- Further, in the case of the export of goods or services, the invoice shall carry an endorsement "SUPPLY MEANT FOR EXPORT/SUPPLY TO SEZ UNIT OR SEZ DEVELOPER FOR AUTHORISED OPERATIONS ON PAYMENT OF INTEGRATED TAX" or "SUPPLY MEANT FOR EXPORT/SUPPLY TO SEZ UNIT OR SEZ DEVELOPER FOR AUTHORISED OPERATIONS UNDER BOND OR LETTER OF UNDERTAKING WITHOUT PAYMENT OF INTEGRATED TAX", as the case maybe, and shall, in lieu of the details specified in clause (e), contain the following details:

  i. name and address of the recipient;

  ii. address of delivery; and

  iii. name of the country of destination

- In the case of issuance of an electronic invoice in accordance with the provisions of the Information Technology Act, 2000, the signature or digital signature of the supplier or his authorised representative shall not be required.

- Invoice-cum-bill of supply: Where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single "invoice-cum-bill of supply" may be issued for all such supplies [Rule 46A]

Manner of issuing invoice [Rule 48]

1. The invoice shall be prepared in triplicate, in the case of supply of goods, in the following manner:
   a. the original copy being marked as ORIGINAL FOR RECIPIENT;
   b. the duplicate copy being marked as DUPLICATE FOR TRANSPORTER; and
   c. the triplicate copy being marked as TRIPLICATE FOR SUPPLIER.
2. The invoice shall be prepared in duplicate, in the case of the supply of services, in the following manner:
   a. the original copy being marked as ORIGINAL FOR RECIPIENT; and
   b. the duplicate copy being marked as DUPLICATE FOR SUPPLIER.
3. The serial number of invoices issued during a tax period shall be furnished electronically through the common portal in Form GSTR-1 or GSTR-1A.
4. The invoice shall be prepared by such class of registered persons as may be notified by the Government, on the recommendations of the Council, by including such particulars contained in Form GST INV-01 after obtaining an Invoice Reference Number by uploading information contained therein on the Common Goods and Services Tax Electronic Portal in such manner and subject to such conditions and restrictions as may be specified in the notification [i.e., e-invoice]
   - However, the Commissioner may, on the recommendations of the Council, by notification, exempt a person or a class of registered persons from issuance of e-invoice for a specified period, subject to such conditions and restrictions as may be specified in the said notification.
   - Every invoice issued by a person, to whom provision of e-invoicing is applicable, in any manner other than the manner specified in the aforesaid sub-rule shall not be treated as an invoice.
   - The provisions of sub-rules (1) and (2) shall not apply to an invoice prepared in the manner specified in sub-rule (4).

Bill of supply [Rule 49]

A bill of supply referred to in sec. 31(3)(c) shall be issued by the supplier containing the following details:

a. name, address and Goods and Services Tax Identification Number of the supplier;

b. a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters - hyphen or dash and slash symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year;

c. date of its issue;

d. name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;

e. Harmonised System of Nomenclature Code for goods or services;

f. description of goods or services or both;

g. value of supply of goods or services or both taking into account discount or abatement, if any; and

h. signature or digital signature of the supplier or his authorised representative:

Taxpoint

- The provisos to rule 46 shall, mutatis mutandis, apply to the bill of supply issued under this rule.
- Any tax invoice or any other similar document issued under any other Act for the time being in force in respect of any non-taxable supply shall be treated as a bill of supply for the purposes of the Act.
- The signature or digital signature of the supplier or his authorised representative shall not be required in the case of issuance of an electronic bill of supply in accordance with the provisions of the Information Technology Act, 2000.
- The Government may, by notification, on the recommendations of the Council, and subject to such conditions and restrictions as mentioned therein, specify that the bill of supply shall have Quick Response (QR) code.

Receipt voucher [Rule 50]

A receipt voucher referred to in sec. 31(1)(d) shall contain the following particulars:

a. name, address and Goods and Services Tax Identification Number of the supplier;

b. a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters-hyphen or dash and slash symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year;

c. date of its issue;

d. name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;

e. description of goods or services;

f. amount of advance taken;

g. rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

h. amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

i. place of supply along with the name of State and its code, in case of a supply in the course of inter-State trade or commerce;

j. whether the tax is payable on reverse charge basis; and

k. signature or digital signature of the supplier or his authorised representative:

Taxpoint:

Where at the time of receipt of advance,-

i. the rate of tax is not determinable, the tax shall be paid at the rate of eighteen per cent.;

ii. the nature of supply is not determinable, the same shall be treated as inter State supply.

Refund voucher [Rule 51]

A refund voucher referred to in sec. 31(3)(e) shall contain the following particulars:

a. name, address and Goods and Services Tax Identification Number of the supplier;

b. a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters-hyphen or dash and slash symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year;

c. date of its issue;

d. name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;

e. number and date of receipt voucher issued in accordance with the provisions of rule 50;

f. description of goods or services in respect of which refund is made;

g. amount of refund made;

h. rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

i. amount of tax paid in respect of such goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

j. whether the tax is payable on reverse charge basis; and

k. signature or digital signature of the supplier or his authorised representative.

Payment voucher [Rule 52]

A payment voucher referred to in sec. 31(3)(g) shall contain the following particulars:

a. name, address and Goods and Services Tax Identification Number of the supplier if registered;

b. a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters-hyphen or dash and slash symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year;

c. date of its issue;

d. name, address and Goods and Services Tax Identification Number of the recipient;

e. description of goods or services;

f. amount paid;

g. rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

h. amount of tax payable in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

i. place of supply along with the name of State and its code, in case of a supply in the course of inter-State trade or commerce; and

j. signature or digital signature of the supplier or his authorised representative

Tax invoice in special cases [Rule 54]

Input Service Distributor

An Input Service Distributor invoice or, as the case may be, an Input Service Distributor credit note issued by an Input Service Distributor shall contain the following details:

a. name, address and Goods and Services Tax Identification Number of the Input Service Distributor;

b. a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters- hyphen or dash and slash symbolised as -"-", "/" respectively, and any combination thereof, unique for a financial year;

c. date of its issue;

d. name, address and Goods and Services Tax Identification Number of the recipient to whom the credit is distributed;

e. amount of the credit distributed; and

f. signature or digital signature of the Input Service Distributor or his authorised representative:

Goods Transport Agency (GTA)

Where the supplier of taxable service is a goods transport agency supplying services in relation to transportation of goods by road in a goods carriage, the said supplier shall issue a tax invoice or any other document in lieu thereof, by whatever name called, containing

- the gross weight of the consignment,
- name of the consigner and the consignee,
- registration number of goods carriage in which the goods are transported,
- details of goods transported,
- details of place of origin and destination,
- Goods and Services Tax Identification Number of the person liable for paying tax whether as consigner, consignee or goods transport agency, and
- other information as mentioned under rule 46.

Passenger Transportation Service

Where the supplier of taxable service is supplying passenger transportation service, a tax invoice shall include ticket in any form, by whatever name called, whether or not serially numbered, and whether or not containing the address of the recipient of service but containing other information as mentioned under rule 46.

The signature or digital signature of the supplier or his authorised representative shall not be required in the case of issuance of ticket in accordance with the provisions of the Information Technology Act, 2000.

Admission to exhibition of cinematograph films in multiplex screens

A registered person supplying services by way of admission to exhibition of cinematograph films in multiplex screens shall be required to issue an electronic ticket and the said electronic ticket shall be deemed to be a tax invoice for all purposes of the Act, even if such ticket does not contain the details of the recipient of service but contains the other information as mentioned under rule 46:

The supplier of such service in a screen other than multiplex screens may, at his option, follow the above procedure.

E-Way Bill

As per sec. 68, the person in charge of a conveyance carrying any consignment of goods of value exceeding such amount as may be specified to carry with him such documents and such devices as may be prescribed.

Where such conveyance is intercepted by the proper officer at any place, he may require the person in charge of the said conveyance to produce the documents prescribed and devices for verification, and the said person shall be liable to produce the documents and devices and also allow the inspection of goods.

Rules 138 to 138E of the CGST Rules lay down, in detail, the provisions relating to e-way bills.

E-way bill (Form GST EWB-01) is an electronic document (available to consignor (i.e. supplier) / consignee (i.e. recipient) / transporter) generated on the common portal evidencing movement of goods of consignment value more than ₹ 50,000/-.

It has two Components –

(i) Part A comprising of details of GSTIN of supplier and - recipient, place of despatch (indicated by PIN code), place of delivery (indicating PIN Code also), document (Tax invoice, Bill of Supply, Delivery Challan or Bill of Entry) number and date, value of goods, HSN code, and reasons for transportation; and

(ii) Part B –comprising of transport details - transport document number (Goods Receipt Number or Railway Receipt Number or Airway Bill Number or Bill of Lading Number) and Vehicle number for road.

A waybill is a receipt or a document issued by a carrier giving details and instructions relating to the shipment of a consignment of goods and the details include name of consignor, consignee, the point of origin of the consignment, its destination, and route. Electronic Way Bill (E-Way Bill) is basically a compliance mechanism wherein by way of a digital interface the person causing the movement of goods uploads the relevant information prior to the commencement of movement of goods and generates e-way bill on the GST portal. Rule 138 of the CGST Rules, 2017 provides for the e-way bill mechanism and in this context it is important to note that "information is to be furnished prior to the commencement of movement of goods" and "is to be issued whether the movement is in relation to a supply or for reasons other than supply".

Benefits of e-way bill

Following benefits are expected from e-way bill mechanism

a. Physical interface to pave way for digital interface resulting in elimination of state boundary check-posts.

b. It will facilitate faster movement of goods.

c. It will improve the turnaround time of trucks and help the logistics industry by increasing the average distances travelled, reducing the travel time as well as costs.

d. The consignor needs to give details of consignee also. This would ensure more transparency among all stakeholders of the system.

When should e-way Bill be generated?

e-Way bill will be generated when there is a movement of goods in a vehicle / conveyance of value more than ₹ 50,000 (either each Invoice or in aggregate of all invoices in a vehicle / conveyance):

- In relation to a 'supply'
- For reasons other than a 'supply' (say a return)
- Due to inward 'supply' from an unregistered person

For this purpose, a supply may be either of the following:

a. A supply made for a consideration (payment) in the course of business

b. A supply made for a consideration (payment) which may not be in the course of business

c. A supply without consideration (without payment)

In simpler terms, the term 'supply' usually means

- Sale – sale of goods and payment made
- Transfer – branch transfers for instance
- Barter/Exchange – where the payment is by goods instead of in money

Therefore, e-way bills must be generated on the common portal for all these types of movements. For following goods, the e-way bill needs to be generated mandatorily even if the value of the consignment of Goods is less than ₹ 50,000:

a. Inter-State movement of goods by the Principal to the Job-worker by Principal / registered job-worker

b. Inter-State transport of Handicraft goods by a dealer exempted from GST registration

Who should Generate an e-way Bill?

Registered Person – e-way bill must be generated when there is a movement of goods of more than ₹ 50,000 in value to or from a registered person. A Registered person or the transporter may opt to generate and carry e-way bill even if the value of goods is less than ₹ 50,000.

Unregistered Persons – Unregistered persons are also required to generate e-way Bill. However, where a supply is made by an unregistered person to a registered person, the receiver will have to ensure all the compliances are met as if they were the supplier.

Transporter – Transporters carrying goods by road, air, rail, etc. also need to generate e-way Bill if the supplier has not generated an e-way Bill. Unregistered transporters will be issued Transporter ID on enrolling on the e-way bill portal after which e-way bills can be generated.

Generation of e-way bill

Who	When	Part	Form
Every Registered person under GST	Before movement of goods	Fill Part A	Form GST EWB-01
Registered person is consignor or consignee (mode of transport may be owned or hired) or is recipient of goods	Before movement of goods	Fill Part B	Form GST EWB-01
Registered person is consignor or consignee and goods are handed over to transporter of goods	Before movement of goods	Fill Part B	The registered person shall furnish the information relating to the transporter in Part B of Form GST EWB-01
Transporter of goods	Before movement of goods		Generate e-way bill on basis of information shared by the registered person in Part A of FORM GST EWB-01

Who	When	Part	Form
An unregistered person under GST and recipient is registered	Compliance to be done by Recipient as if he is the Supplier.		1. If the goods are transported for a distance of fifty kilometers or less, within the same State/Union territory from the place of business of the consignor to the place of business of the transporter for further transportation, the supplier or the transporter may not furnish the details of conveyance in Part B of FORM GST EWB-01. 2. If supply is made by air, ship or railways, then the information in Part A of FORM GST EWB-01 has to be filled in by the consignor or the recipient

However, if a transporter is transporting multiple consignments in a single conveyance, they can use the form GST EWB-02 to produce a consolidated e-way bill, by providing the e-way bill numbers of each consignment. If both the consignor and the consignee have not created an e-way bill, then the transporter can do so by filling out PART A of FORM GST EWB-01 on the basis of the invoice/bill of supply/delivery challan given to them.

When e-way bill is not required

In the following cases it is not necessary to generate e-Way Bil:

a. where the goods being transported are specified in Annexure [Subject to Rule 138F*]:

Taxpoint

- Liquefied petroleum gas for supply to household and Non domestic exempted category (NDEC) customers
- Kerosene oil sold under PDS
- Postal baggage transported by Department of Posts
- Natural or cultured pearls and precious or semi-precious stones; precious metals and metals clad with precious metal (Chapter 71)
- Jewellery, goldsmiths' and silversmiths' wares and other articles (Chapter 71)
- Currency
- Used personal and household effects
- Coral, unworked (0508) and worked coral (9601)

b. where the goods are being transported by a Non-motorised conveyance;

c. where the goods are being transported from the customs port, airport, air cargo complex and land customs station to an inland container depot or a container freight station for clearance by Customs;

d. in respect of movement of goods within such areas as are Notified under clause (d) of sub-rule (14) of rule 138 of the State or Union territory Goods and Services Tax Rules in that particular State or Union territory;

* Where the value of supply exceeds ₹ 2,00,000, Part A of FORM GST EWB-01 is required to be furnished before commencement of movement.

e. where the goods, other than de-oiled cake, being transported, are specified in the Schedule appended to Notification No 2/2017- Central tax (Rate) dated the 28th June, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 674 (E) dated the 28th June, 2017 as amended from time to time;

f. where the goods being transported are alcoholic liquor for human consumption, petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas or aviation turbine fuel;

g. where the supply of goods being transported is treated as No supply under Schedule III of the Act;

h. where the goods are being transported-

   i. under customs bond from an inland container depot or a container freight station to a custom sport, airport, air cargo complex and land customs station, or from one customs station or customs port to another customs station or customs port, or

   ii. under customs supervision or under customs seal;

i. where the goods being transported are transit cargo from or to Nepal or Bhutan;

j. where the goods being transported are exempt from tax under Notification No 7/2017-Central Tax(Rate), dated 28th June 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 679(E)dated the 28th June, 2017 as amended from time to time and Notification No 26/2017 Central Tax(Rate), dated the 21st September, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 1181(E)dated the 21st September, 2017 as amended from time to time;

k. any movement of goods caused by defence formation under Ministry of defence as a consignor or consignee;

l. where the consignor of goods is the Central Government, Government of any State or a local authority for transport of goods by rail;

m. where empty cargo containers are being transported; and

n. where the goods are being transported upto a distance of twenty kilometers from the place of the business of the consignor to a weighbridge for weighment or from the weighbridge back to the place of the business of the said consignor subject to the condition that the movement of goods is accompanied by a delivery challan issued in accordance with rule 55.

o. where empty cylinders for packing of liquefied petroleum gas are being moved for reasons other than supply.

Taxpoint: Part B of e-Way Bill is not required to be filled where the distance between the consigner or consignee and the transporter is less than 50 Kms and transport is within the same state.

Validity of e-way Bill

An e-way bill is valid for periods as listed below, which is based on the distance travelled by the goods. Validity is calculated from the date and time of generation of e-way bill:

Type of conveyance	Distance	Validity of EWB
Other than Over dimensional cargo	Less Than 200 Kms	1 Day
	For every additional 200 Kms or part thereof	additional 1 Day
For Over dimensional cargo	Less Than 20 Kms	1 Day
	For every additional 20 Kms or part thereof	additional 1 Day

Documents or Details required to generate e-way Bill

- Invoice/ Bill of Supply/ Challan related to the consignment of goods
- Transport by road – Transporter ID or Vehicle number
- Transport by rail, air, or ship – Transporter ID, Transport document number, and date on the document

Bill To- Ship To/ Bill From-Dispatch From Model

Sometimes, the tax payer raises the bill to somebody and sends the consignment to somebody else as per the business requirements. There is a provision in the e-way bill system to handle this situation, called as 'Bill to' and 'Ship to'.

Sometimes, the supplier prepares the bill from his business premises to consignee, but moves the consignment from some others' premises to the consignee as per the business requirements. This is known as 'Billing From' and 'Dispatching From'.

Cancellation of E-way bill

The e-way bill once generated cannot be deleted. However, it can be cancelled by the generator within 24 hours of generation. If a particular e-way bill has been verified by the proper officer, then it cannot be cancelled. Further, e-way bill can be cancelled if either goods are not transported or are not transported as per the details furnished in the e-way bill.

Taxpoint: The facility of generation, cancellation, updation and assignment of e-way bill shall be made available through SMS to the supplier, recipient and the transporter, as the case may be

Documents and devices to be carried by a person-in-charge of a conveyance [Rule 138A]

1. The person in charge of a conveyance shall carry-

   a. the invoice or bill of supply or delivery challan, as the case may be; and

   b. a copy of the e-waybill in physical form or the e-way bill number in electronic form or mapped to a Radio Frequency Identification Device embedded on to the conveyance in such manner as may be Notified by the Commissioner:

   However, clause (b) is not applicable in case of movement of goods by rail or by air or vessel.

   Further, in case of imported goods, the person in charge of a conveyance shall also carry a copy of the bill of entry filed by the importer of such goods and shall indicate the number and date of the bill of entry in Part A of Form GST EWB-01.

2. In case, invoice is issued in the manner prescribed under rule 48(4), the Quick Response (QR) code having an embedded Invoice Reference Number (IRN) in it, may be produced electronically, for verification by the proper officer in lieu of the physical copy of such tax invoice.

3. The Commissioner may, by Notification, require a class of transporters to obtain a unique Radio Frequency Identification Device and get the said device embedded on to the conveyance and map the e-way bill to the

Radio Frequency Identification Device prior to the movement of goods.

4. However, where circumstances so warrant, the Commissioner may, by Notification, require the person-in-charge of the conveyance to carry the following documents instead of the e-way bill

   a. tax invoice or bill of supply or bill of entry; or

   b. a delivery challan, where the goods are transported for reasons other than by way of supply.

Verification of documents and conveyances [Rule 138B]

1. The Commissioner or an officer empowered by him in this behalf may authorize the proper officer to intercept any conveyance to verify the e-way bill in physical or electronic form for all inter-State and intra-State movement of goods.

2. The Commissioner shall get Radio Frequency Identification Device readers installed at places where the verification of movement of goods is required to be carried out and verification of movement of vehicles shall be done through such device readers where the e-way bill has been mapped with the said device.

3. The physical verification of conveyances shall be carried out by the proper officer as authorised by the Commissioner or an officer empowered by him in this behalf.

On receipt of specific information on evasion of tax, physical verification of a specific conveyance can also be carried out by any other officer after obtaining necessary approval of the Commissioner or an officer authorised by him in this behalf.

Inspection and verification of goods [Rule 138C]

1. A summary report of every inspection of goods in transit shall be recorded online by the proper officer in Part A of Form GST EWB-03 within 24 hours of inspection and the final report in Part B of Form GST EWB-03 shall be recorded within 3 days of such inspection.

   Where the circumstances so warrant, the Commissioner, or any other officer authorised by him, may, on sufficient cause being shown, extend the time for recording of the final report in Part B of FORM EWB-03, for a further period not exceeding 3 days.

   The period of 24 hours or, as the case may be, 3 days shall be counted from the midnight of the date on which the vehicle was intercepted.

2. Where the physical verification of goods being transported on any conveyance has been done during transit at one place within the State or Union territory or in any other State or Union territory, no further physical verification of the said conveyance shall be carried out again in the State or Union territory, unless a specific information relating to evasion of tax is made available subsequently.

Facility for uploading information regarding detention of vehicle [Rule 138D]

Where a vehicle has been intercepted and detained for a period exceeding 30 minutes, the transporter may upload the said information in Form GST EWB-04 on the common portal.

Quick MCQ

1. **A registered person supplying taxable goods must issue a tax invoice when the supply involves the movement of goods:**

   a. At the time of delivery to the recipient.

   b. Before or at the time of removal of goods for supply.

   c. Within 30 days of removal.

   d. At the close of the financial year.

   Correct: b

   Reason: As per sec. 31(1), where a supply involves the movement of goods, the invoice must be issued before or at the time of removal of goods for supply to the recipient.

2. **What is the time limit for issuing a tax invoice for the supply of taxable services in general cases?**

   a. Within 45 days from the date of supply.

   b. Before the expiry of the quarter.

   c. Within 30 days from the date of the supply of service.

   d. At the time of receipt of payment only.

   Correct: c

   Reason: Under the general provisions for the supply of services, the invoice must be issued within 30 days from the date of the supply of service.

3. **Under Rule 47A, if a registered person is liable to pay tax under Reverse Charge (RCM), they must issue an invoice within:**

   a. 15 days from the date of receipt of supply.

   b. 30 days from the date of receipt of supply.

   c. 45 days from the date of receipt of supply.

   d. The same day the supply is received.

   Correct: b

   Reason: Rule 47A specifically mandates that a recipient liable under RCM must issue the invoice within 30 days from the date of receipt of the goods or services.

4. **A registered person is not required to issue a tax invoice if the value of goods/services supplied is less than ₹ 200, provided:**

   a. The recipient is a registered person.

   b. The recipient is unregistered and does not require such an invoice.

   c. The supply is an inter-state supply.

   d. The supplier is a multiplex.

Correct: b

Reason: Section 31(3)(b) allows for the non-issuance of a tax invoice for values under ₹ 200 if the recipient is unregistered and does not require the invoice.

5. **For taxpayers with an aggregate turnover exceeding ₹ 5 crore in any financial year from 2017-18, which of the following is mandatory?**

   a. Bill of Supply for all B2B transactions.

   b. E-invoicing.

   c. Receipt Voucher for all sales.

   d. 8-digit HSN code for all products.

   Correct: b

   Reason: The file states that taxpayers must comply with e-invoicing if their turnover exceeds ₹ 5 crore in any financial year from 2017-18 onwards.

6. **Which document is issued when a registered person receives an advance payment for a supply of services?**

   a. Tax Invoice.

   b. Payment Voucher.

   c. Receipt Voucher.

   d. Refund Voucher.

   Correct: c

   Reason: According to Section 31(3)(d), a registered person shall issue a receipt voucher evidencing the receipt of advance payment.

7. **If a registered person's turnover in the preceding financial year was ₹ 10 crore, how many digits of the HSN code must they mention on their invoices?**

   a. 2 digits.

   b. 4 digits.

   c. 6 digits.

   d. 8 digits.

   Correct: c

   Reason: The file specifies that if the turnover exceeds ₹ 5 crore in the preceding financial year, the taxpayer is required to mention a 6-digit HSN code on the invoice for all transactions.

8. An E-way bill is mandatorily required for the movement of goods of consignment value exceeding:

   a. ₹ 10,000.

   b. ₹ 20,000.

c. ₹ 50,000.

d. ₹ 1,00,000.

Correct: c

Reason: Rule 138 provides that an E-way bill is generated for the movement of goods where the consignment value exceeds ₹ 50,000.

9. What is the validity of an E-way bill for a distance of 150 km for cargo other than "Over Dimensional Cargo"?

a. 1 day.

b. 2 days.

c. 5 days.

d. 15 days.

Correct: a

Reason: For conveyances other than over-dimensional cargo, the validity is 1 day for a distance of less than 200 km.

10. In the case of an "Invoice-cum-bill of supply," it can be issued when:

a. A registered person supplies taxable goods to another registered person.

b. A registered person supplies taxable as well as exempted goods to an unregistered person.

c. A composition dealer supplies goods to a registered person.

d. An unregistered person supplies goods to a registered person.

Correct: b

Reason: Rule 46A allows for a single "invoice-cum-bill of supply" when a registered person supplies both taxable and exempted goods or services to an unregistered person.

Returns and Payment of Taxes

5.8

The basic features of the return mechanism in GST include electronic filing of returns, uploading of invoice level information, auto-population of information relating to input tax credit from returns of supplier to that of recipient, invoice level information matching and auto-reversal of input tax credit in case of mismatch. The returns mechanism is designed to assist the taxpayer to file returns and avail ITC.

A return is required to be filed for the following purposes:

a. Mode for transfer of information to tax administration;

b. Compliance verification program of tax administration;

c. Finalization of the tax liabilities of the taxpayer within stipulated period of limitation; to declare tax liability for a given period;

d. Providing necessary inputs for taking policy decision;

e. Management of audit and anti-evasion programs of tax administration.

Under GST, a regular taxpayer needs to furnish monthly returns and one annual return. There are separate returns for a taxpayer registered under the composition scheme, non-resident taxpayer, taxpayer registered as an Input Service Distributor, a person liable to deduct or collect the tax (TDS/TCS), a person granted Unique Identification Number. It is important to note that a taxpayer is not required to file all the types of returns. In fact, taxpayers are required to file returns depending on the activities they undertake. The GST Council has however recommended to ease the compliance requirements for small tax payers by allowing taxpayers to file details of outward supplies in Form GSTR-1 on a quarterly basis. All the returns are to be filed online. Returns can be filed using any of the following methods:

1. GSTN portal (www.gst.gov.in)

2. Offline utilities provided by GSTN

3. GST Suvidha Providers (GSPs).

Returns under GST Laws

Form	Particulars	Due Date	Applicable to
GSTR-3B	Monthly/ Quarterly summary return As per sec. 2(92), "quarter" shall mean a period comprising three consecutive calendar months, ending on the last day of March, June, September and December of a calendar year;	To be filed as under*: • Registered persons, who are not under QRMP Scheme – 20th of the next month. • Registered persons, who have opted for QRMP Scheme - a. Aggregate turnover up to ₹5 Cr. in the previous financial year and registered in category 1** States – **22nd** of the next month following the quarter. b. Aggregate turnover up to ₹5 Cr. in the previous financial year and registered in category 2*** States – **24th** of the next month following the quarter • pay the tax due in each of the first two months of the quarter by depositing the due amount in Form GST PMT-06, by 25th day of the month succeeding such month under the head "Monthly payment for quarterly taxpayer"	All registered persons other than: 1. Input service distributor (ISD), 2. Non-resident taxable person, 3. Person paying tax u/s: a. 10 – Composition levy b. 51 – Tax deduction at source c. 52 - Collection of tax at source
GSTR-1 / IFF	Statement for furnishing details of outward supplies	To be filed by either of the following persons on or before the below given dates: • Registered person, who are not under QRMP Scheme - 11th of the next month • Registered persons, who have opted for QRMP Scheme - 13th of the subsequent quarter However, such persons can furnish details of outward supplies using IFF for the first 2 months of the quarter as under: - 1st month of the quarter – on or before 13th of the subsequent month (max value = ₹50 Lakhs)	Normal / regular taxpayer

* A late fee of ₹ 50/- per day (₹ 20/- per day in case of Nil Return) is charged for filing GSTR-3B of a tax period after the due date

** Category – 1: States of Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana, Andhra Pradesh, the Union Territories of Daman and Diu and Dadra and Nagar Haveli, Puducherry, Andaman and Nicobar Islands or Lakshadweep

*** Category – 2: States of Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, West Bengal, Jharkhand or Odisha, the Union territories of Jammu and Kashmir, Ladakh, Chandigarh or Delhi

Form	Particulars	Due Date	Applicable to
		- 2nd month of the quarter - on or before 13th of the subsequent month (max value = ₹ 50 Lakhs) ⅄ Invoices furnished using the said facility in the first two months are not required to be furnished again in Form GSTR-1.	
GSTR-1A	Amend or furnish additional details in GSTR 1	A registered person may, after furnishing Form GSTR-1 but *before* filing the Form GSTR-3B for the said tax period, at his own option	Normal / regular taxpayer
GSTR-4	Return by composition tax payers	CMP-08 by 18th of the month succeeding the quarter. GSTR-4 Annually by 30th June* following the end of a financial year.	Composition taxpayer
GSTR-5	Return by non-resident tax payers	13th of the next month or within 7 days after expiry of registration, whichever is earlier	Non-resident taxpayer
GSTR-5A	Monthly return by online information and database access or retrieval services (supply to a person other than a registered person i.e., online non-taxable recipient)	20th of the next month	Online information and database access or retrieval services
GSTR-6	Monthly return by input service distributors	13th of the next month	Input service distributors
GSTR-7**	Monthly return for TDS	10th of the next month	Tax Deductor
GSTR-8	Monthly return (statement) for collection of tax at source	10th of the next month	E-commerce operator
GSTR-9/9A/9C	Annual return	31st December of the next financial year	Various person (Covered in Final)
GSTR-10	Final Return	Within 3 months of the date of cancellation or date of receipt of order of cancellation, whichever is later	Registered person whose registration has been cancelled

* In case of delayed filing of GSTR 4, a late fee of ₹ 50 per day is charged up to a maximum of ₹ 2,000. However, where the tax liability is nil, the maximum late fee is ₹ 500.

** Registered person shall furnish a return for every calendar month whether or not any deductions have been made during the said month

Form	Particulars	Due Date	Applicable to
GSTR-11	Return to be filed by a person having UIN (Unique Identity Number) w.r.t inward supplies received by him to file refund of the taxes paid by him on inward supplies.		Person having UIN

Furnishing details of outward supply [Sec. 37]

Every registered person (including casual registered person) shall furnish electronically, subject to certain conditions and restrictions, in GSTR 1 the details of outward supplies of goods or services or both effected during a tax period on or before the 10th day of the month succeeding the said tax period.

Taxpoint

- E.g. details of outward supplies pertaining to the month of September is required to be furnished in GSTR-1 on or before 10th of October (presently extended to 11th).
- "Details of outward supplies" shall include details of invoices, debit notes, credit notes and revised invoices issued in relation to outward supplies made during any tax period.
- **Exceptions:** Sec. 37 is not applicable in case of the following:
  a. Input Service Distributor,
  b. Non-resident taxable person*; and
  c. Person paying tax under the provisions of sec. 10 (i.e., composition scheme) or sec. 51 (i.e., TDS) or sec. 52 (i.e., TCS)
- **Communication to the recipient of the supply:** Details furnished in the GSTR 1 shall, subject to such conditions and restrictions, be communicated (in auto drafted) to the recipient of the said supplies in GSTR 2A (if the recipient is the normal registered person), GSTR 4A (if the recipient is registered under composition scheme) and GSTR 6A (if the recipient is an input service distributor)
- "Tax period" means the period for which the return is required to be furnished – sec. 2(106)
- **Extension of due date:** The Commissioner may, for reasons to be recorded in writing, by notification, extend the time limit for furnishing such details for such class of taxable persons as may be specified therein. Any extension of time limit notified by the Commissioner of State tax or Commissioner of Union territory tax shall be deemed to be notified by the Commissioner.
- **Rectification of the return [Sec. 37(3)]:** Any registered person, who has furnished the details for any tax period, shall, upon discovery of any error or omission therein, rectify such error or omission in such manner as may be prescribed, and shall pay the tax and interest, if any, in case there is a short payment of tax on account of such error or omission, in the return to be furnished for such tax period.

  However, no rectification of error or omission in respect of the details furnished shall be allowed after 30th November following the end of the financial year to which such details pertain, or furnishing of the relevant annual return, whichever is earlier.

* As per sec. 2(77) "non-resident taxable person" means any person who occasionally undertakes transactions involving supply of goods or services or both, whether as principal or agent or in any other capacity, but who has no fixed place of business or residence in India;

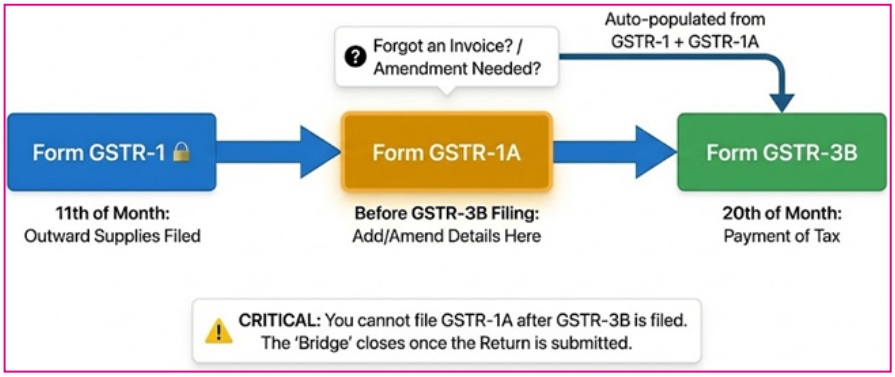
- **Restriction on furnishing return [Sec. 37(4)]:** A registered person shall not be allowed to furnish GSTR-1/ IFF for a tax period if the GSTR-1 for any of the previous tax periods has not been furnished. Additionally, GSTR-1 is now blocked if the GSTR-3B for the preceding month has not been furnished.

The Government may, on the recommendations of the Council, by notification, subject to such conditions and restrictions as may be specified therein, allow a registered person or a class of registered persons to furnish the details of outward supplies, even if he has not furnished the details of outward supplies for one or more previous tax periods.

Maximum Time limit for furnishing return: A registered person shall not be allowed to furnish the details of outward supplies [i.e., GSTR 1] for a tax period after the expiry of a period of 3 years from the due date of furnishing the said details. However, subject to certain conditions and restrictions, for a registered person or a class of registered persons, the said time limit may be extended.

- A Nil GSTR-1 can be filed through SMS using the registered mobile number of the taxpayer.
- Small taxpayers covered under Quarterly Return Monthly Payment Scheme (QRPM Scheme) may opt for quarterly filing of GSTR-1. QRPM Scheme shall be discussed in later in this chapter.

Form and manner of furnishing details of outward supplies [Rule 59]



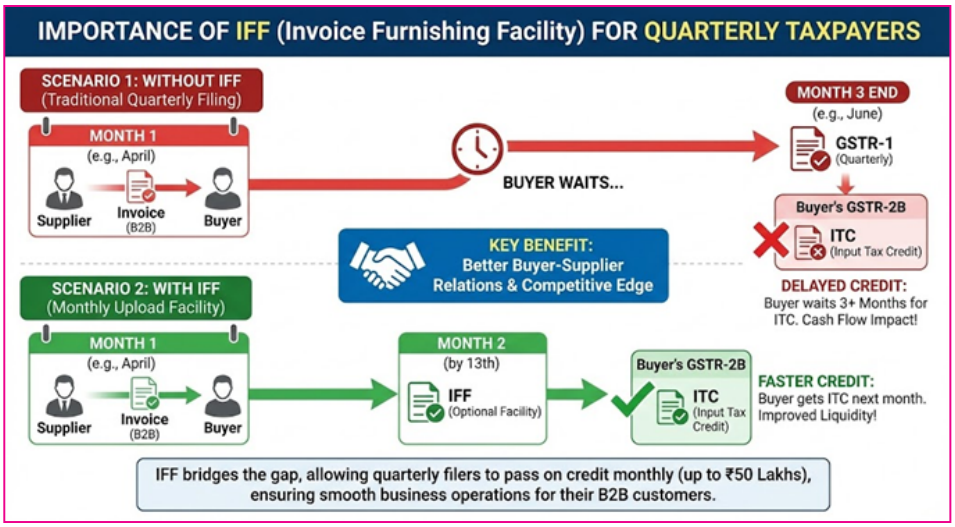
Every registered person, other than a person referred to in section 14 of the IGST Act, 2017, required to furnish the details of outward supplies of goods or services or both u/s 37, shall furnish such details in Form GSTR-1 for the month or the quarter, as the case may be, electronically through the common portal, either directly or through a Facilitation Centre as may be notified by the Commissioner.

The said person may, after furnishing the details of outward supplies of goods or service or both in FORM GSTR-1 for a tax period but before filing of return in FORM GSTR-3B for the said tax period, at his own option, amend or furnish additional details of outward supplies of goods or services or both in FORM GSTR-1A for the said tax period electronically through the common portal, either directly or through a Facilitation Centre as may be notified by the Commissioner.

IFF for small taxpayer covered under QRPM Scheme [Rule 59(2)]

The registered persons required to furnish return for every quarter under proviso to sec. 39(1) may furnish the details of such outward supplies of goods or services or both to a registered person, as he may consider necessary, for the first and second months of a quarter, up to a cumulative value of ₹ 50 lakhs in each of the months,- using invoice furnishing facility (hereafter referred to as the "IFF") electronically on the common portal, duly authenticated in the manner prescribed under rule 26, from the 1st day of the month succeeding such month till

the 13th day of the said month.



Taxpoint

A small taxpayer covered under QRPM Scheme is required to file following in lieu of monthly GSTR-1

Invoice Furnishing Facility (IFF)	In first two month of the quarter Time limit for filing: Within 13th day of the following month
GSTR-1	For the entire quarter within 13th day of the following quarter. However, the details of outward supplies furnished using the IFF, for the first & second months of a quarter, shall not be furnished again in FORM GSTR-1 for the said quarter.

Details to be given in GSTR-1/1A [Rule 59(4)/(4A)]

The details of outward supplies of goods or services or both furnished in Form GSTR-1 shall include the:

a. invoice wise details of all -

   i. inter-State and intra-State supplies made to the registered persons; and

   ii. inter-State supplies with invoice value more than ₹ 1,00,000 made to the unregistered persons;

b. consolidated details of all -

   i. intra-State supplies made to unregistered persons for each rate of tax; and

   ii. State wise inter-State supplies with invoice value upto ₹ 1,00,000 made to unregistered persons for each rate of tax;

c. debit and credit notes, if any, issued during the month for invoices issued previously.

Details to be given in IFF [Rule 59(5)]

The details of outward supplies of goods or services or both furnished using the IFF shall include the -

a. invoice wise details of inter-State and intra-State supplies made to the registered persons;

b. debit and credit notes, if any, issued during the month for such invoices issued previously.

Restriction on furnishing GSTR-1 or IFF [Rule 59(6)]

Notwithstanding anything contained in this rule, -

a. a registered person shall not be allowed to furnish the details of outward supplies of goods or services or both u/s 37 in Form GSTR-1, if he has not furnished the return in Form GSTR-3B for the preceding month

b. a registered person, required to furnish return for every quarter under the proviso to sec. 39(1), shall not be allowed to furnish the details of outward supplies of goods or services or both u/s 37 in Form GSTR-1 or using the invoice furnishing facility (IFF), if he has not furnished the return in Form GSTR-3B for preceding tax period.

c. a registered person, to whom an intimation has been issued on the common portal under rule 88C* in respect of a tax period, shall not be allowed to furnish the details of outward supplies of goods or services or both u/s 37 in Form GSTR-1 or using the invoice furnishing facility for a subsequent tax period, unless he has either deposited the amount specified in the said intimation or has furnished a reply explaining the reasons for any amount remaining unpaid, as required under said rule.

d. a registered person, to whom an intimation has been issued on the common portal under rule 88D** in respect of a tax period or periods, shall not be allowed to furnish the details of outward supplies of goods or services or both u/s 37 in FORM GSTR-1 or using the invoice furnishing facility for a subsequent tax period, unless he has either paid the amount equal to the excess input tax credit as specified in the said intimation or has furnished a reply explaining the reasons in respect of the amount of excess input tax credit that still remains to be paid, as required under said rule

e. a registered person shall not be allowed to furnish the details of outward supplies of goods or services or both u/s 37 in FORM GSTR-1 or using the invoice furnishing facility, if he has not furnished the details of the bank account as per the provisions of rule 10A

Manner of furnishing of return or details of outward supplies by short messaging service facility [Rule 67A]

Notwithstanding anything contained in this Chapter, for a registered person who is required to furnish a Nil return u/s 39 in Form GSTR-3B or a Nil details of outward supplies u/s 37 in Form GSTR-1 or a Nil statement in Form GST CMP-08 for a tax period, any reference to electronic furnishing shall include furnishing of the said return or the details of outward supplies or statement through a short messaging service (SMS) using the registered mobile number and the said return or the details of outward supplies or statement shall be verified by a registered mobile number based One Time Password (OTP) facility.

A nil return or nil details of outward supplies or nil statement shall mean a return u/s 39 or details of outward supplies u/s 37 or statement under rule 62, for a tax period that has nil or no entry in all the Tables in Form GSTR-3B or Form GSTR-1 or Form GST CMP-08, as the case may be.

Communication of details of inward supplies and input tax credit [Sec. 38]

1. The details of outward supplies furnished by the registered persons u/s 37(1) and of such other supplies as may be prescribed, and an auto-generated statement containing the details of input tax credit shall be made available electronically to the recipients of such supplies in such form and manner, within such time, and subject to such conditions and restrictions as may be prescribed.

2. The auto-generated statement shall consist of:

* If tax liability in GSTR-1 exceeds GSTR-3B by a specified percentage, the taxpayer must pay the difference or explain it within 7 days, or face blocking of subsequent GSTR-1 filings.

** If ITC availed in GSTR-3B exceeds ITC available in GSTR-2B, an intimation is sent for payment or explanation

a. details of inward supplies in respect of which credit of input tax may be available to the recipient; and

b. details of supplies in respect of which such credit cannot be availed, whether wholly or partly, by the recipient, on account of the details of the said supplies being furnished u/s 37(1):

   i. by any registered person within such period of taking registration as may be prescribed; or

   ii. by any registered person, who has defaulted in payment of tax and where such default has continued for such period as may be prescribed; or

   iii. by any registered person, the output tax payable by whom in accordance with the statement of outward supplies furnished by him during such period, as may be prescribed, exceeds the output tax paid by him during the said period by such limit as may be prescribed; or

   iv. by any registered person who, during such period as may be prescribed, has availed credit of input tax of an amount that exceeds the credit that can be availed by him in accordance with clause (a), by such limit as may be prescribed; or

   v. by any registered person, who has defaulted in discharging his tax liability in accordance with the provisions of sec. 49(12) subject to such conditions and restrictions as may be prescribed; or

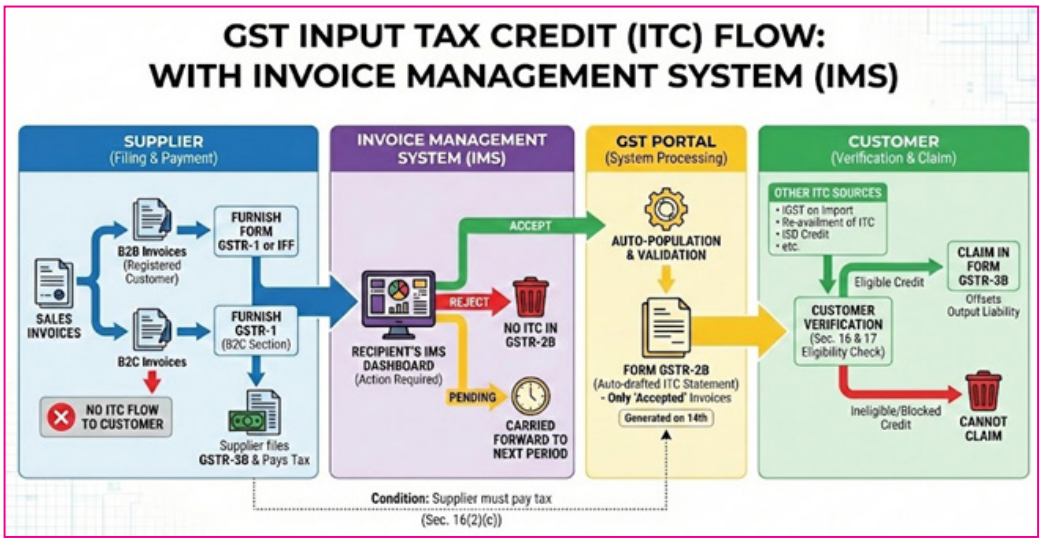
   vi. by such other class of persons as may be prescribed.

Linkage with Invoice Management System (IMS)

It is pertinent to note that the generation of the auto-drafted statement (Form GSTR-2B) is now inextricably linked to the Invoice Management System (IMS) on the GST Portal.

- Recipients can now exercise options such as 'Accept', 'Reject', or 'Pending' against the invoices furnished by their suppliers in GSTR-1/IFF/GSTR-1A.
- Only those invoices which are 'Accepted' (or deemed accepted if no action is taken) will populate in Form GSTR-2B as eligible Input Tax Credit (ITC).
- Invoices marked as 'Rejected' will not form part of eligible ITC, and those marked as 'Pending' will be carried forward to the next tax period.

Furnishing of returns [Sec. 39(1)]



Every registered person shall, for every calendar month or part thereof, furnish, a return, electronically, of inward and outward supplies of goods or services or both, input tax credit availed, tax payable, tax paid and such other particulars, in such form and manner, and within such time, as may be prescribed.

Taxpoint:

- Exceptions: Sec. 39(1) is not applicable in case of the following:
  a. Input Service Distributor as he is required to file return in GSTR-6,
  b. Non-resident taxable person as he is required to file return in GSTR-5; and
  c. Person paying tax under the provisions of sec. 10 (i.e., composition scheme as he is required to file return in GSTR-4) or sec. 51 (i.e., TDS as it is required to be filed in return in GSTR-7) or sec. 52 (i.e., TCS as it is required to be filed in return in GSTR-8)
- The Government may, on the recommendations of the Council, notify certain class of registered persons who shall furnish a return for every quarter or part thereof, subject to such conditions and restrictions as may be specified therein.
- Even Nil return is also required to be filed.

Maximum Time limit for furnishing return: A registered person shall not be allowed to furnish a return for a tax period after the expiry of a period of 3 years from the due date of furnishing the said return. However, subject to certain conditions and restrictions, for a registered person or a class of registered persons, the said time limit may be extended.

Form and manner of furnishing of return [Rule 61]

Every registered person (excluding above) shall furnish a return in Form GSTR-3B, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner, on or before following time limit:

- For each month, or part thereof, on or before the 20th day of the month succeeding such month:
- For each quarter, or part thereof, in terms of proviso to sec. 39(1), for the class of registered persons mentioned below

Class of registered persons	Due Date
Registered persons whose principal place of business is in the States of Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana, Andhra Pradesh, the Union territories of Daman and Diu and Dadra and Nagar Haveli, Puducherry, Andaman and Nicobar Islands or Lakshadweep.	22nd day of the month succeeding such quarter.
Registered persons whose principal place of business is in the States of Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam, West Bengal, Jharkhand or Odisha, the Union territories of Jammu and Kashmir, Ladakh, Chandigarh or Delhi.	24th day of the month succeeding such quarter.

Discharge of liability before filing return [Rule 61(2)]

Every registered person required to furnish return discharge his liability towards tax, interest, penalty, fees or any other amount payable by debiting the electronic cash ledger or electronic credit ledger and include the details in the return in Form GSTR-3B.

Monthly Payment for Quarterly Return filer [Rule 61(3)/(4)]

Every registered person required to furnish return, every quarter shall pay the tax due for each of the first 2 months of the quarter, by depositing the said amount in Form GST PMT-06, by the 25th day of the month succeeding such month.

However, the Commissioner may, on the recommendations of the Council, by notification, extend the due date for depositing the said amount.

Further, while making a deposit in Form GST PMT-06, such a registered person may -

a. for the 1st month of the quarter, take into account the balance in the electronic cash ledger.

b. for the 2nd month of the quarter, take into account the balance in the electronic cash ledger excluding the tax due for the first month.

The amount deposited by the registered persons in first two months of the quarter shall be debited while filing the return for the said quarter in Form GSTR-3B, and any claim of refund of such amount lying in balance in the electronic cash ledger, if any, out of the amount so deposited shall be permitted only after the return in Form GSTR-3B for the said quarter has been filed.

Furnishing of returns by person under Composition Scheme [Sec. 39(2)]

A registered person paying tax under the provisions of sec. 10 (i.e., under composition scheme), shall, for each financial year or part thereof, furnish a return, electronically, of turnover in the State or Union territory, inward supplies of goods or services or both, tax payable, tax paid and such other particulars in such form and manner, and within such time, as may be prescribed.

Form and manner of submission of statement and return [Rule 62]

- Every registered person paying tax u/s 10 shall:
  a. furnish a statement, every quarter or, as the case may be, part thereof, containing the details of payment of self-assessed tax in Form GST CMP-08, till the 18th day of the month succeeding such quarter; and
  b. furnish a return for every financial year or, as the case may be, part thereof in Form GSTR-4, till the 30th day of June following the end of such financial year, electronically through the common portal, either directly or through a Facilitation Centre notified by the Commissioner.
- Every registered person furnishing the statement shall discharge his liability towards tax or interest payable under the Act or the provisions of this Chapter by debiting the electronic cash ledger.
- The return shall include the:
  a. invoice wise inter-State and intra-State inward supplies received from registered and un-registered persons; and
  b. consolidated details of outward supplies made.

Furnishing of returns by Input Service Distributor [Sec. 39(4)]

Every taxable person registered as an Input Service Distributor shall, for every calendar month or part thereof, furnish, in Form GSTR-6 and manner as may be prescribed, a return, electronically, within 13th days after the end of such month.

Furnishing of returns by Non-Resident Taxable Person [Sec. 39(5)]

Every registered non-resident taxable person shall, for every calendar month or part thereof, furnish, in Form GSTR-5 and manner as may be prescribed, a return, electronically, within 13th days after the end of a calendar month or within 7 days after the last day of the period of registration specified u/s 27(1), whichever is earlier.

The Commissioner may, for reasons to be recorded in writing, by notification, extend the time limit for furnishing the returns.

Rectification of mistake [Sec. 39(9)]

Where any registered person after furnishing a return u/s 39 discovers any omission or incorrect particulars therein, other than as a result of scrutiny, audit, inspection or enforcement activity by the tax authorities, he shall rectify such omission or incorrect particulars in the return to be furnished for the month or quarter during which such omission or incorrect particulars in such form and manner as may be prescribed, subject to payment of interest under this Act.

Time-limit: No such rectification of any omission or incorrect particulars shall be allowed

a. after the 30th day of November following the end of the financial year to which such details pertain, or

b. the actual date of furnishing of relevant annual return,

- whichever is earlier.

Restriction on Filing Return [Sec. 39(10)]

A registered person shall not be allowed to furnish a return for a tax period if the return for any of the previous tax periods or the details of outward supplies u/s 37(1) for the said tax period has not been furnished by him.

However, the Government may, on the recommendations of the Council, by notification, subject to such conditions and restrictions as may be specified therein, allow a registered person or a class of registered persons to furnish the return, even if he has not furnished the returns for one or more previous tax periods or has not furnished the details of outward supplies u/s 37(1) for the said tax period.

First return [Sec. 40]

Every registered person who has made outward supplies in the period between the date on which he became liable to registration till the date on which registration has been granted shall declare the same in the first return furnished by him after grant of registration.

Availment of input tax credit [Sec. 41]

Every registered person shall, subject to such conditions and restrictions as may be prescribed, be entitled to avail the credit of eligible input tax, as self-assessed, in his return and such amount shall be credited to his electronic credit ledger.

The credit of input tax availed by a registered person in respect of such supplies of goods or services or both, the tax payable whereon has not been paid by the supplier, shall be reversed along with applicable interest, by the said person in such manner as may be prescribed.

However, where the said supplier makes payment of the tax payable in respect of the aforesaid supplies, the said registered person may re-avail the amount of credit reversed by him in such manner as may be prescribed.

Final return [Sec. 45]

Every registered person who is required to furnish a return u/s 39(1) and whose registration has been cancelled shall furnish a final return within 3 months of the date of cancellation or date of order of cancellation, whichever is later, in Form GSTR-10 and manner as may be prescribed.

Quarterly Return, Monthly Payment of Taxes (QRMP) Scheme

Quarterly Return, Monthly Payment of Taxes (QRMP) Scheme is a scheme to simplify compliance for small taxpayers. Under this scheme, taxpayers having an aggregate turnover at PAN level up to ₹ 5 crore in the preceding financial year can opt for quarterly GSTR-1 (however, for first two months he can file IFF by 13th of the next month) and GSTR-3B filing. Payment can be made in the first 2 months by a simple challan in Form GST PMT-06. For the ease of taxpayers, system has assigned quarterly frequency to small taxpayers automatically.

Taxpoint

- In case the aggregate turnover exceeds ₹ 5 crores during any quarter in the current financial year, the registered person shall not be eligible for the Scheme from the next quarter.
- The option to avail the QRMP Scheme is GSTIN wise. Therefore, some GSTINs for a PAN might be eligible for the QRMP Scheme, and the remaining GSTINs might not be able to opt for the Scheme.

Eligibility of QRMP Scheme

In Case of New Registration

A newly registered taxpayer whose aggregate turnover is up to ₹ 5 crores can opt for the QRMP scheme based on the following conditions:

- If the registration is granted on any date during the first month of a quarter, the registered person will be able to opt for the QRMP scheme from the beginning itself.
- If the registration is granted on any of the dates during the latter two months of a quarter, then the registered person will be able to opt for the QRMP scheme only from the next quarter onwards.

In Case of Other

A registered person can opt-in for any quarter from the first day of the second month of the preceding quarter to the last day of the first month of the quarter. However, there is no requirement to opt for the Scheme each quarter separately. Once the Scheme is exercised, it would be valid for future tax periods also.

Details of Outward Supply to be furnished through Invoice Furnishing Facility (IFF)

- The registered persons opting for the Scheme would be required to furnish the details of an outward supply in Form GSTR-1 every quarter. However, the supplier has been given an option to furnish the details monthly. For this, the Invoice furnishing facility ('IFF'), which is optional in nature, has been introduced for furnishing the details of invoices of supply made to registered persons for the first two months of the quarter.
- It is to be noted that the taxpayer can upload a maximum of ₹ 50 lakhs invoices in each of the two months of the quarter. The invoices may be uploaded at once or continuously in IFF from the 1st day of the month till the 13th day of the succeeding month.
- The details uploaded in the IFF shall be duly reflected in the Form GSTR-2A and Form GSTR-2B of the concerned recipient.

Quarterly Filing of Form GSTR-3B

The registered persons opting for the QRMP Scheme would be required to furnish Form GSTR-3B, for each quarter, on or before the 22nd or 24th day of the month succeeding such a quarter for the category 1 States and the category 2 States respectively or such notified date. Any excess payment may either be claimed as a refund after filing Form GSTR-3B of that quarter or may be used for any other purpose in subsequent quarters.

Monthly Payment of Tax

The registered person under the QRMP Scheme would be required to pay the tax due in each of the first 2 months of the quarter by depositing the due amount in Form GST PMT-06. The amount shall be deposited by the 25th day of next month.

The amount deposited by the registered person in the first two months shall be utilized for offsetting the liability furnished in that quarter's Form GSTR-3B.

Discharge of liability in first two months of the quarter

In first two months of the quarter, payment of liability can be made by either of the following two methods:

a. Fixed Sum Method: Portal will generate a pre-filled challan in Form GST PMT-06. The system generated pre-filled challan in this case is commonly also known as 35% challan.

b. Self-Assessment Method: The actual tax due is to be paid through challan, in Form GST PMT-06, by considering the tax liability on inward and outward supplies and the input tax credit available for the period as per law.

Illustration 131:

Mr. Sharma, a registered dealer, furnishes his GSTR-1 for the month of October 2025 on 11th November. On 15th November, he realizes he forgot to include a high-value B2B invoice of ₹ 5 Lakhs issued to M/s. Alpha Ltd. He has not yet filed his GSTR-3B for October.

Can he add this invoice now, or must he wait for the November GSTR-1?

Solution

- Analysis: Under the proviso to Rule 59(1), a registered person can amend or furnish additional details in Form GSTR-1A after furnishing GSTR-1 but before filing GSTR-3B for the same tax period.
- Mr. Sharma does not need to wait for the next month. He can voluntarily file Form GSTR-1A to add the missed invoice. This ensures M/s. Alpha Ltd. sees the credit in their GSTR-2B immediately, and the liability is correctly auto-populated into Mr. Sharma's GSTR-3B before he pays the tax.

Illustration 132:

XYZ Pvt. Ltd. has filed its GSTR-1 for November 2025 on time. However, due to a cash flow crunch, they have not filed their GSTR-3B for November 2025. On 11th January 2026, they attempt to file GSTR-1 for December 2025. Will the portal allow them to file the December GSTR-1?

Solution

- Analysis: As per sec. 37(4) and Rule 59(6), a registered person is not allowed to furnish GSTR-1 for a tax period if the GSTR-3B for the preceding month has not been furnished.

- The filing of GSTR-1 for December is blocked. XYZ Pvt. Ltd. must first file the pending GSTR-3B for November (and pay the tax/interest) to "unlock" the facility to file GSTR-1 for December.

Illustration 133:

During a year-end audit in December 2026, the accountant of "Beta Enterprises" notices that an invoice pertaining to Financial Year 2025-26 was entered with the wrong GSTIN. Can they rectify this error in the GSTR-1 of December 2026?

Solution

- Analysis: According to sec. 37(3), no rectification of errors for a financial year is allowed after the 30th November following the end of that financial year or the actual date of filing Annual Return, whichever is earlier. Since Annual return for FY 2025-26 is not furnished earlier, the deadline was 30th November 2026.
- The rectification is time-barred as the deadline (30th Nov 2026) has passed. They cannot correct the GSTIN in GSTR-1.

Illustration 134:

M/s. Gamma Tech filed GSTR-1 showing a tax liability of ₹ 10 Lakhs but filed GSTR-3B declaring only ₹ 2 Lakhs (without any valid reason). They received an intimation under Rule 88C on the portal but ignored it. Ten days later, they try to file their GSTR-1 for the next month. What is the consequence of ignoring the intimation?

Solution

- Analysis: Under Rule 59(6)(c), if a registered person receives an intimation under Rule 88C (Liability mismatch) and fails to either deposit the difference or furnish a satisfactory reply within 7 days, their GSTR-1 for the subsequent period is blocked.
- M/s. Gamma Tech cannot file the next GSTR-1. They must first resolve the intimation issued under Rule 88C by either paying the differential amount of ₹ 8 Lakhs (with interest) or filing a reply explaining why the difference exists (e.g., "Correction of previous error").

Illustration 135:

M/s. Delta Traders, a registered partnership firm, filed their GSTR-3B for December 2025. In this return, they availed an Input Tax Credit (ITC) of ₹ 10,00,000. However, the auto-generated GSTR-2B for the same period showed available ITC of only ₹ 2,00,000. On 25th January 2026, they received an electronic intimation under Rule 88D asking for an explanation for the excess ITC of ₹ 8,00,000. M/s. Delta Traders believed the intimation was a system error and did not respond or pay the amount. On 11th February 2026, they attempted to file their GSTR-1 for January 2026.

Will the Common Portal allow M/s. Delta Traders to file the GSTR-1 for January 2026?

Solution

- Analysis:
  - Rule 88D mandates that if the ITC availed in GSTR-3B exceeds the ITC available in GSTR-2B by a prescribed limit, an intimation is sent to the taxpayer.
  - Rule 59(6)(d) states that a registered person to whom an intimation has been issued under Rule 88D shall not be allowed to furnish the details of outward supplies in Form GSTR-1 (or IFF) for a subsequent tax

period unless they have either:

1. Paid the amount equal to the excess ITC; or
2. Furnished a reply explaining the reasons for the unpaid amount.

- The filing of GSTR-1 for January 2026 will be blocked. To restore filing rights, M/s. Delta Traders must immediately respond to the Rule 88D intimation. They must either pay the differential amount (if the credit was wrongly taken) or file a satisfactory explanation (e.g., "ITC pertains to re-availment of earlier reversed credit" or "Bill of Entry details missing in 2B but valid") on the portal.

Quick MCQ

1. A registered person has furnished GSTR-1 for the month of October but notices an error before filing GSTR-3B. Which form can be used to rectify this error within the same tax period?

a. Form GSTR-1 (Amendment)

b. Form GSTR-1A

c. Form GSTR-3B (Correction Window)

d. Form GSTR-9

Correct: b. Form GSTR-1A

Reason: A registered person may, after furnishing GSTR-1 but before filing GSTR-3B, amend or furnish additional details in Form GSTR-1A at their own option.

2. What is the maximum time limit allowed for furnishing details of outward supplies in Form GSTR-1?

a. 2 years from the end of the financial year

b. 3 years from the due date of furnishing the said details

c. 5 years from the date of registration

d. Until the filing of the Annual Return

Correct: b. 3 years from the due date of furnishing the said details

Reason: A registered person shall not be allowed to furnish details in GSTR-1 for a tax period after the expiry of 3 years from the due date of furnishing said details.

3. A taxpayer is blocked from filing GSTR-1 for the current month. Which of the following scenarios is a valid reason for this blocking u/s 37(4) and Rule 59(6)?

a. They have not furnished GSTR-3B for the preceding month.

b. They have not filed their Income Tax Return for the previous year.

c. They have an outstanding demand of ₹ 100.

d. They have not filed GSTR-9 for the previous financial year.

Correct: a. They have not furnished GSTR-3B for the preceding month.

Reason: GSTR-1 is blocked if the GSTR-1 for previous periods is missing or if the GSTR-3B for the preceding month has not been furnished.

4. **For a small taxpayer under the QRMP Scheme using the Invoice Furnishing Facility (IFF), what is the maximum cumulative value of invoices that can be uploaded per month?**

   a. ₹ 20 Lakhs

   b. ₹ 50 Lakhs

   c. ₹ 1 Crore

   d. No limit

   Correct: b. ₹ 50 Lakhs

   Reason: QRMP taxpayers can furnish outward supplies for the first and second months of a quarter up to a cumulative value of ₹ 50 lakhs in each month.

5. **What is the deadline for rectifying any omission or error in GSTR-1 or GSTR-3B for a particular financial year?**

   a. 31st December of the next financial year.

   b. 30th September of the next financial year.

   c. 20th October of the next financial year.

   d. 30th November following the end of the financial year or actual date of annual return, whichever is earlier.

   Correct: d. 30th November following the end of the financial year or actual date of annual return, whichever is earlier.

   Reason: Sec. 37(3) and 39(9) provides the deadline as 30th November following the end of the financial year to which such details pertain, or furnishing of the relevant annual return, whichever is earlier

6. **If a registered person receives an intimation under Rule 88C regarding a mismatch where GSTR-1 liability exceeds GSTR-3B, what is the consequence of not responding within the specified time?**

   a. Their GST registration will be cancelled immediately.

   b. They will be liable to a fixed penalty of ₹ 50,000.

   c. They will not be allowed to furnish GSTR-1/IFF for the subsequent tax period.

   d. Their bank account will be attached.

   Correct: c. They will not be allowed to furnish GSTR-1/IFF for the subsequent tax period.

   Reason: If an intimation under Rule 88C is issued and not responded to (by payment or explanation), the person shall not be allowed to furnish GSTR-1/IFF for a subsequent tax period.

7. **A composition taxpayer (paying tax u/s 10) must file their annual return in which form and by what date?**

   a. GSTR-9 by 31st December

b. GSTR-4 by 30th April

c. GSTR-4 by 30th June following the end of the financial year

d. CMP-08 by 30th June

Correct: c. GSTR-4 by 30th June following the end of the financial year

Reason: Composition taxpayers must file GSTR-4 annually by 30th June following the end of the financial year.

8. Under the QRMP scheme, if a taxpayer chooses the "Fixed Sum Method" for monthly tax payment, what amount is generated in the pre-filled challan?

a. 35% of the tax paid in the previous quarter.

b. 50% of the tax liability estimated for the current month.

c. 100% of the tax paid in the previous quarter.

d. The actual tax liability calculated on self-assessment basis.

Correct: a. 35% of the tax paid in the previous quarter.

Reason: In Fixed Sum Method, the portal generates a pre-filled challan, commonly known as the "35% challan".

9. When is a "Final Return" in Form GSTR-10 required to be furnished?

a. Annually by all registered persons.

b. Within 3 months of the date of cancellation or order of cancellation, whichever is later.

c. Within 6 months of closing the business.

d. Upon expiry of the GST registration certificate.

Correct: b. Within 3 months of the date of cancellation or order of cancellation, whichever is later.

Reason: GSTR-10 is the Final Return to be filed by a person whose registration has been cancelled, within 3 months of the relevant date.

10. A registered person required to deduct tax at source (TDS) under Section 51 must file which return and by when?

a. GSTR-7 by the 10th of the next month.

b. GSTR-8 by the 10th of the next month.

c. GSTR-3B by the 20th of the next month.

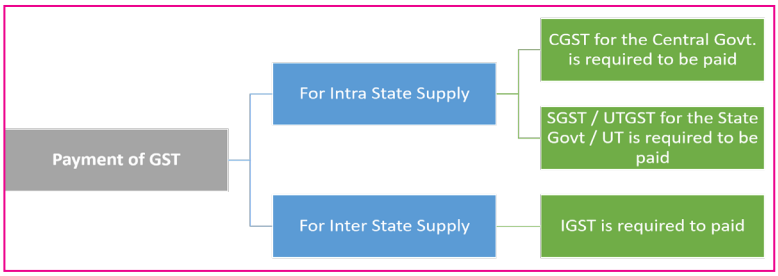
d. GSTR-6 by the 13th of the next month.

Correct: a. GSTR-7 by the 10th of the next month.

Reason: "Monthly return for TDS" should be filed in GSTR-7 and the due date for the same is 10th of the next month.

Payment of Tax

In the GST regime, for any intra-state supply, taxes to be paid are the Central GST (CGST), going into the account of the Central Government) and the State/UT GST (SGST, going into the account of the concerned State Government). For any inter-state supply, tax to be paid is Integrated GST (IGST) which will have components of both CGST and SGST.



In addition, certain categories of registered persons will be required to pay to the government account Tax Deducted at Source (TDS) and Tax Collected at Source (TCS). Further, Interest, Penalty, Fees and any other payment will also be required to be made.

Person liable to pay

Following persons are liable to pay GST to the Government:

- The supplier of goods or services is liable to pay GST.
- In specified cases like imports and other notified supplies, the liability may be cast on the recipient under the reverse charge mechanism.
- In some notified cases of intra-state supply of services, the liability to pay GST may be cast on e-commerce operators through which such services are supplied.
- Government Departments making payments to vendors above a specified limit [₹ 2.5 lakh under one contract as per sec. 51(1)(d)] are required to deduct tax (TDS) and
- E-commerce operators are required to collect tax (TCS) on the net value [i.e. aggregate value of taxable supplies of goods and/or services but excluding such value of services on which the operator is made liable to pay GST u/s 9(5)] of supplies made through them and deposit it with the Government.

When does liability arise?

Liability to pay arises at the time of supply of Goods as explained in sec. 12 and at the time of supply of services as explained in sec. 13.

The time is generally the earliest of one of the three events, namely receiving payment, issuance of invoice or completion of supply. Different situations envisaged and different tax points have been explained in the aforesaid sections.

e-Ledger and Register

On the common portal (i.e. gst.gov.in) each registered taxpayer has:

- one electronic register called the Electronic liability register; and
- two electronic ledgers namely Electronic Cash Ledger and Electronic Credit Ledger.

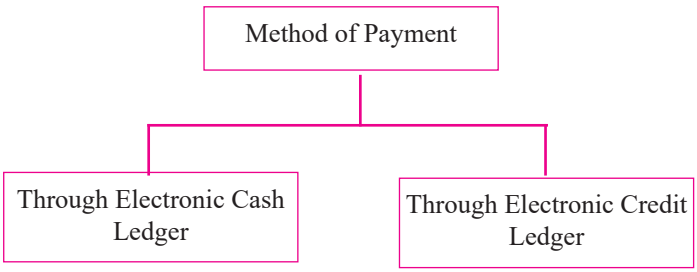
These register and ledgers reflect the liability of the taxpayer and the cash and input tax credit balance available to settle such liability. This is a handy tool provided in the GST system wherein the registered taxpayer can have information about his liabilities, cash and credits at a single location which can be viewed by him from any place by simply logging into the common portal. In case of any discrepancy in his electronic liability ledger, electronic cash ledger or electronic credit ledger the registered person has to communicate the same to the jurisdictional officer, through the common portal in FORM GST PMT-04.

Taxpoint: Each ledger or register have separate sub ledgers for:

(a) CGST (b) SGST (c) UTGST (d) IGST (e) Cess

Electronic cash ledger

Every deposit made by a person by internet banking or by using credit or debit cards or National Electronic Fund Transfer (NEFT) or Real Time Gross Settlement (RTGS) or by over the counter deposit on account of tax, interest, penalty, fee or any other amount is credited to the respective electronic cash ledger. The amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable.



The electronic cash ledger is maintained in Form GST PMT-05 for each registered person, liable to pay tax, interest, penalty, late fee or any other amount, on the common portal for crediting the amount deposited and debiting the payment therefrom towards tax, interest, penalty, fee or any other amount. The payment required to be made by an unregistered person, can be made on the basis of a temporary identification number generated through the common portal.

A challan* in Form GST PMT-06 can be generated on the common portal in which the details of the amount to be deposited towards tax, interest, penalty, fees or any other amount is to be entered. This challan is valid for a period of 15 days.

The deposit can be made through any of the following modes, namely:

a Internet Banking through authorised banks;

b Credit card or Debit card through the authorised bank;

c NEFT or RTGS from any bank; or

d Over the Counter payment through authorised banks for deposits up to ₹ 10,000/- per challan per tax period, by cash, cheque or demand draft.

When the payment is made by way of NEFT or RTGS mode from any bank, the mandate form is generated along with the challan on the common portal and the same has to be submitted to the bank from where the payment is to be made. The mandate form remains valid for a period of 15 days from the date of generation of challan.

On successful credit of the amount to the concerned government account maintained in the authorised bank, a

* There is a single challan prescribed for all tax, fees, penalty, interest and other payments to be made under GST. Further, manual challan is not allowed. It is mandatory to generate challan on GST portal

Challan Identification Number (CIN) is generated by the collecting bank and the same is indicated in the challan. On receipt of the CIN from the collecting bank, the said amount gets credited to the electronic cash ledger of the registered person on whose behalf the deposit has been made and the common portal makes available a receipt to this effect.

In case the bank account is debited but CIN has not been generated or generated but not communicated to the common portal, then the said person has to represent electronically in Form GST PMT-07 through the common portal to the bank or electronic gateway through which the deposit was initiated.

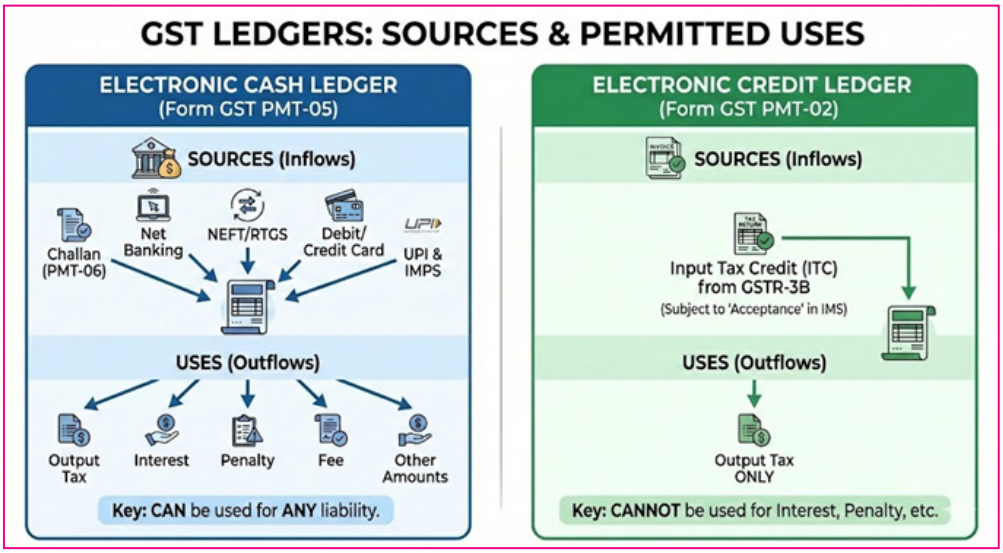
The amount deducted u/s 51 or collected u/s 52, as the case may be shall be credited to the electronic cash ledger of the registered person from whom the said amount was deducted or, as the case may be, collected.

The amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable under the provisions of CGST/SGST/UTGST/ IGST Act(s).

Refund from cash ledger can only be claimed only when all the return related liabilities for that tax period have been discharged. A registered person, claiming refund of any balance in the electronic cash ledger can claim such refund u/s 54.

Electronic credit ledger

The electronic credit ledger is maintained in Form GST PMT-02 for each registered person on the common portal and every claim of input tax credit is to be credited to this ledger. The input tax credit as self-assessed in the return by a registered person is credited to his electronic credit ledger. The only way the electronic credit ledger can be credited is through filing of returns. The amount available in the electronic credit ledger can be used for making any payment towards output tax (only tax) under the CGST/SGTS/UTGST/IGST/Cess Acts.



In case a registered person has claimed refund of any unutilized amount from the electronic credit ledger in accordance with the provisions of sec. 54, the amount to the extent of the claim is debited in the said ledger.

If there's any discrepancy in electronic liability ledger, electronic cash ledger or electronic credit ledger, the registered person can communicate the same to the officer exercising jurisdiction in the matter, through the common portal in Form GST PMT-04.

If the refund so filed is rejected, either fully or partly, the amount debited to the extent of rejection, is re-credited to the electronic credit ledger by the proper officer by an order made in Form GST PMT-03.

Unless otherwise allowed, entries are not allowed to be made directly in the electronic credit ledger under any circumstance.

Taxpoint: It is pertinent to note that the input tax credit (ITC) credited to the Electronic Credit Ledger is now subject to the recipient's action on the Invoice Management System (IMS). Only those invoices which are 'Accepted' (or deemed accepted) by the recipient on the IMS dashboard will be available for utilization towards payment of output tax.

Payment of tax, interest, penalty and other amounts [Sec. 49]

Payment

A. Electronic Cash Ledger [Sec. 49(1)]

- Every deposit made towards tax, interest, penalty, fee or any other amount by a person by internet banking, Unified Payment Interface (UPI), Immediate Payment Services (IMPS) or by using credit or debit cards or National Electronic Fund Transfer (NEFT) or Real Time Gross Settlement (RTGS) or by such other mode and subject to such conditions and restrictions as may be prescribed, shall be credited to the electronic cash ledger of such person to be maintained in such manner as may be prescribed.
- The amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable under the provisions of this Act or the rules made thereunder in such manner and subject to such conditions and within such time as may be prescribed.

Taxpoint

- The date of credit to the account of the Government in the authorised bank shall be deemed to be the date of deposit in the electronic cash ledger;
- "Tax dues" means the tax payable under this Act and does not include interest, fee and penalty;
- "Other dues" means interest, penalty, fee or any other amount payable under this Act or the rules made thereunder

B. Electronic Credit Ledger [Sec. 49(2)]

- The input tax credit as self-assessed in the return of a registered person shall be credited to his electronic credit ledger, in accordance with sec. 41, to be maintained in such manner as may be prescribed.
- The amount available in the electronic credit ledger may be used for making any payment towards output tax (only tax) under this Act or under the Integrated Goods and Services Tax Act in such manner and subject to such conditions and restrictions within such time as may be prescribed.

Order of utilization of ITC [Sec. 49(5) r.w.r. 88A]

The amount of ITC available in the electronic credit ledger of the registered person on account of:

ITC available on account of	Utilisation thereof
IGST	a. First towards payment of IGST b. Then remaining credit, if any, towards payment of CGST / SGST / UTGST

CGST ITC on account of CGST shall be utlised only after exhausting ITC on account of IGST fully	a. First towards payment of CGST b. Then remaining credit, if any, towards payment of IGST ***Taxpoint***: ➢ ITC on account of CGST shall be utilised towards payment of IGST before utilizing ITC on account of SGST towards payment of integrated tax ➢ ITC of CGST shall not be utilised towards payment of SGST / UTGST
SGST / UTGST ITC on account of SGST / UTGST shall be utlised only after exhausting ITC on account of IGST fully	a. First towards payment of SGST b. Then remaining credit, if any, towards payment of IGST ***Taxpoint***: ➢ ITC on account of SGST shall be utilised towards payment of IGST only where the balance of the ITC on account of CGST is not available for payment of integrated tax ➢ ITC of SGST / UTGS shall not be utilised towards payment of CGST

Taxpoint

Summarized position is as under

Input tax Credit on account of	Output liability on account of Integrated tax	Output liability on account of Central tax	Output liability on account of State tax / Union Territory tax
Integrated tax	(I)	(II) – In any order and in any proportion	
(III) Input tax Credit on account of Integrated tax to be completely exhausted mandatorily			
Central tax	(V)	(IV)	Not permitted
State tax / UTGST	(VII)	Not permitted	(VI)

Utilisation of input tax credit subject to certain conditions [Sec. 49A]

The input tax credit on account of central tax, State tax or Union territory tax shall be utilised towards payment of integrated tax, central tax, State tax or Union territory tax, as the case may be, only after the input tax credit available on account of integrated tax has first been utilised fully towards such payment.

Refund [Sec. 49(6)]

The balance in the electronic cash ledger or electronic credit ledger after payment of tax, interest, penalty, fee or any other amount payable under this Act or the rules made thereunder may be refunded in accordance with the provisions of sec. 54.

Recording of liability [Sec. 49(7)]

All liabilities of a taxable person under this Act shall be recorded and maintained in an electronic liability register in such manner as may be prescribed.

The electronic liability register is maintained in Form GST PMT-01 for each person liable to pay tax, interest, penalty, late fee or any other amount on the common portal and all amounts payable by him shall be debited to the said register.

Order of discharge of tax and other dues [Sec. 49(8)]

Every taxable person shall discharge his tax and other dues in the following order, namely:-

a. self-assessed tax, and other dues related to returns of previous tax periods;

b. self-assessed tax, and other dues related to the return of the current tax period;

c. any other amount payable under this Act or the rules made thereunder including the demand determined u/s 73 or 74 or 74A.

Other Points

- Deemed Pass on of incidence of GST [Sec. 49(9): Every person who has paid the tax on goods or services or both under this Act shall, unless the contrary is proved by him, be deemed to have passed on the full incidence of such tax to the recipient of such goods or services or both.
- Inter-Act Transfer [Sec. 49(10)]: A registered person may, on the common portal, transfer any amount of tax, interest, penalty, fee or any other amount available in the electronic cash ledger under the CGST Act, to the electronic cash ledger for,:

  a. integrated tax, central tax, State tax, Union territory tax or cess; or

  b. integrated tax or central tax of a distinct person as specified in sec. 25(4) or (5), in such form (Form GST PMT-09) and manner and subject to such conditions and restrictions as may be prescribed and such transfer shall be deemed to be a refund from the electronic cash ledger under the CGST Act.

  However, no such transfer under clause (b) shall be allowed if the said registered person has any unpaid liability in his electronic liability register.

  Where any amount has been transferred to the electronic cash ledger under the CGST Act, the same shall be deemed to be deposited in the said ledger – Sec. 49(11)

- Usage of Cash Ledger [Sec. 49(12)]: Notwithstanding anything contained in this Act, the Government may, on the recommendations of the Council, subject to such conditions and restrictions, specify such maximum proportion of output tax liability under this Act or under the Integrated Goods and Services Tax Act, 2017 which may be discharged through the electronic credit ledger by a registered person or a class of registered persons, as may be prescribed.

  Restrictions on use of amount available in electronic credit ledger [Rule 86B]

  Notwithstanding anything contained in these rules, the registered person shall not use the amount available in electronic credit ledger to discharge his liability towards output tax in excess of 99% of such tax liability, in cases where the value of taxable supply other than exempt supply and zero-rated supply, in a month exceeds ₹ 50 lakhs.

  The said restriction shall not apply where -

  a. the said person or the proprietor or karta or the managing director or any of its two partners, whole-time Directors, Members of Managing Committee of Associations or Board of Trustees, as the case may be, have paid more than ₹ 1 lakh as income tax under the Income-tax Act, 1961 in each of the last two financial years for which the time limit to file return of income u/s 139(1) of the said Act has expired; or

  b. the registered person has received a refund amount of more than ₹ 1 lakh in the preceding financial year on account of unutilised input tax credit under first proviso of sec. 54(3)(i); or

c. the registered person has received a refund amount of more than ₹ 1 lakh in the preceding financial year on account of unutilised input tax credit under first proviso of sec. 54(3)(ii); or

d. the registered person has discharged his liability towards output tax through the electronic cash ledger for an amount which is in excess of 1% of the total output tax liability, applied cumulatively, upto the said month in the current financial year; or

e. the registered person is -

i. Government Department; or

ii. a Public Sector Undertaking; or

iii. a local authority; or

iv. a statutory body:

The Commissioner or an officer authorised by him in this behalf may remove the said restriction after such verifications and such safeguards as he may deem fit

Interest on delayed payment of tax paid through electronic cash ledger [Sec. 50]

Every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding 18% (present rate), as may be notified by the Government on the recommendations of the Council.

Taxpoint

- In general, interest is payable on that portion of the tax that is paid by debiting the electronic cash ledger (i.e., Net Tax Liability). Interest is not payable on the portion of tax discharged by utilizing Input Tax Credit (ITC). However, in case of proceeding u/s 73 and 74A, this relaxation is not available.
- The interest shall be calculated, in such manner as may be prescribed, from the day succeeding the day on which such tax was due to be paid.
- Where ITC has been wrongly availed and utilised, the registered person shall pay interest on such input tax credit wrongly availed and utilised, at such rate not exceeding 24% as may be notified by the Government, on the recommendations of the Council, and the interest shall be calculated, in such manner as may be prescribed
- The Board hereby clarifies the issue as under:

S.N.	Issue	Clarification
1	In the cases of wrong availment of IGST credit by a registered person and reversal thereof, for the calculation of interest under rule 88B of CGST Rules, whether the balance of input tax credit available in electronic credit ledger under the head of IGST	Since the amount of input tax credit available in electronic credit ledger, under any of the heads of IGST, CGST or SGST, can be utilized for payment of liability of IGST, it is the total input tax credit available in electronic credit ledger, under the heads of IGST, CGST and SGST taken together, that has to be considered for calculation of interest under rule 88B of CGST Rules and for determining as to whether the balance in the electronic credit ledger has fallen below the amount of wrongly availed input tax credit of IGST, and to what extent the balance in electronic credit ledger has fallen below the said amount of wrongly availed credit.

	only needs to be considered or total input tax credit available in electronic credit ledger, under the heads of IGST, CGST and SGST taken together, has to be considered.	Thus, in the cases where IGST credit has been wrongly availed and subsequently reversed on a certain date, there will not be any interest liability u/s 50(3) of CGST Act if, during the time period starting from such availment and up to such reversal, the balance of input tax credit (ITC) in the electronic credit ledger, under the heads of IGST, CGST and SGST taken together, has never fallen below the amount of such wrongly availed ITC, even if available balance of IGST credit in electronic credit ledger individually falls below the amount of such wrongly availed IGST credit. However, when the balance of ITC, under the heads of IGST, CGST and SGST of electronic credit ledger taken together, falls below such wrongly availed amount of IGST credit, then it will amount to the utilization of such wrongly availed IGST credit and the extent of utilization will be the extent to which the total balance in electronic credit ledger under heads of IGST, CGST and SGST taken together falls below such amount of wrongly availed IGST credit, and will attract interest as per sec. 50(3) of CGST Act, read with sec. 20 of Integrated Goods and Services Tax Act, 2017 and rule 88B(3) of CGST Rules
2.	Whether the credit of compensation cess available in electronic credit ledger shall be taken into account while considering the balance of electronic credit ledger for the purpose of calculation of interest under rule 88B(3) of CGST Rules in respect of wrongly availed and utilized IGST, CGST or SGST credit.	As per proviso to sec. 11 of Goods and Services Tax (Compensation to States) Act, 2017, input tax credit in respect of compensation cess on supply of goods and services leviable u/s 8 of the said Act can be utilised only towards payment of compensation cess leviable on supply of goods and services. Thus, credit of compensation cess cannot be utilized for payment of any tax under CGST or SGST or IGST heads and/ or reversals of credit under the said heads. Accordingly, credit of compensation cess available in electronic credit ledger cannot be taken into account while considering the balance of electronic credit ledger for the purpose of calculation of interest under rule 88B(3) of CGST Rules in respect of wrongly availed and utilized IGST, CGST or SGST credit.

Illustration 136:

M/s. ABC Ltd. filed its GSTR-3B for the month of November 2025 on 15th January 2026 (Due date was 20th December 2025).

- Total Tax Liability: ₹ 10,00,000.
- Input Tax Credit (ITC) available & utilized: ₹ 8,00,000.
- Balance paid through Electronic Cash Ledger: ₹ 2,00,000.

On what amount is interest payable for the delay of 26 days?

Solution

- Analysis: According to the proviso to sec. 50(1), interest is payable only on that portion of the tax that is paid by debiting the electronic cash ledger (i.e., Net Tax Liability), provided the return is filed after the due date. Interest is not payable on the portion discharged by utilizing ITC.

- Interest is calculated only on the cash component (₹ 2,00,000).
  - Calculation: ₹ 2,00,000 × 18% × 26/365 = ₹ 2564
  - No interest is payable on the ₹ 8,00,000 paid via ITC.

Illustration 137:

M/s. Zenith Ltd. wrongly availed IGST credit of ₹ 1,00,000 in January 2025. They reversed this credit in June 2025.

- During the period Jan to June, the balance in their Electronic Credit Ledger (IGST+CGST+SGST combined) never fell below ₹ 5,00,000.

Are they liable to pay interest on this wrong availment?

Solution

- Analysis: Interest u/s 50(3) is payable only when ITC is wrongly availed and utilized. The CBIC clarification states that if the combined balance in the credit ledger never falls below the amount of wrongly availed ITC, it means the wrong ITC was not utilized.
- Since the balance (₹ 5L) was always sufficient to cover the wrong ITC (₹ 1L), there was no "utilization" of the wrong credit. Interest is triggered only to the extent the balance falls below the wrong availment amount.

Illustration 138:

"Global Traders" has two GST registrations (Distinct Persons): one in Maharashtra and another in Gujarat.

- The Maharashtra branch has an excess balance of ₹ 50,000 in its Electronic Cash Ledger (CGST Head).
- The Gujarat branch has a pending liability of ₹ 40,000 (IGST Head) and no cash balance.

Can the Maharashtra branch help the Gujarat branch pay its dues without claiming a refund?

Solution

- Analysis: U/s 49(10), a registered person can transfer any amount available in the electronic cash ledger to the electronic cash ledger of a distinct person (same PAN, different GSTIN). This transfer is done using Form GST PMT-09.
- The Maharashtra branch can file Form GST PMT-09 on the common portal to transfer ₹ 40,000 from its CGST Cash Ledger to the IGST Cash Ledger of the Gujarat branch. This will be deemed as a deposit in the Gujarat branch's ledger.
  - Note that the Maharashtra branch must not have any unpaid liability in its own Electronic Liability Register.

Quick MCQ

1. **Which of the following is NOT a valid mode for depositing tax into the Electronic Cash Ledger under the updated Section 49(1)?**
   a. Unified Payment Interface (UPI)
   b. Immediate Payment Services (IMPS)
   c. Over the Counter (OTC) payment of ₹ 25,000 per challan
   d. National Electronic Fund Transfer (NEFT)

Correct: c. Over the Counter (OTC) payment of ₹ 25,000 per challan

Reason: OTC payment is limited to a maximum of ₹ 10,000 per challan per tax period. UPI and IMPS are now valid modes.

2. Interest u/s 50(1) for delayed filing of return is calculated on:

a. Gross Tax Liability

b. Input Tax Credit availed

c. Net Tax Liability (paid by debiting Electronic Cash Ledger)

d. Total Turnover

Correct: c. Net Tax Liability (paid by debiting Electronic Cash Ledger)

Reason: Interest is payable only on that portion of the tax that is paid by debiting the electronic cash ledger, provided the return is filed.

3. A registered person can transfer the balance available in their Electronic Cash Ledger to the Electronic Cash Ledger of a "distinct person" using which form?

a. Form GST PMT-06

b. Form GST PMT-09

c. Form GST PMT-04

d. Form GST PMT-01

Correct: b. Form GST PMT-09

Reason: Section 49(10) allows a registered person to transfer amounts to a distinct person (same PAN, different GSTIN) using Form GST PMT-09.

4. Rule 86B restricts the use of the Electronic Credit Ledger to discharge more than 99% of output tax liability if the value of taxable supply (other than exempt/zero-rated) in a month exceeds:

a. ₹ 20 Lakhs

b. ₹ 50 Lakhs

c. ₹ 1 Crore

d. ₹ 5 Crores

Correct: b. ₹ 50 Lakhs

Reason: The restriction applies where the value of taxable supply (excluding exempt and zero-rated supply) in a month exceeds ₹ 50 lakhs.

5. A challan generated in Form GST PMT-06 is valid for a period of:

a. 7 days

b. 15 days

c. 30 days

d. 45 days

Correct: b. 15 days

Reason: A challan in Form GST PMT-06 is valid for a period of 15 days from the date of generation.

6. **Interest u/s 50(3) is applicable when Input Tax Credit is:**

   a. Reflected in GSTR-2B but not claimed

   b. Wrongly availed

   c. Wrongly utilized

   d. Wrongly availed and utilized

   Correct: d. Wrongly availed and utilized

   Reason: Interest is payable only on input tax credit that has been wrongly availed and utilized.

7. **With the linkage of the Invoice Management System (IMS), which invoice status allows ITC to be available for utilization?**

   a. Accepted (or deemed accepted)

   b. Pending

   c. Rejected

   d. Flagged

   Correct: a. Accepted (or deemed accepted)

   Reason: Only those invoices which are 'Accepted' (or deemed accepted) by the recipient on the IMS dashboard will be available for utilization towards payment of output tax.

8. **The Electronic Liability Register is maintained in which form on the common portal?**

   a. Form GST PMT-01

   b. Form GST PMT-02

   c. Form GST PMT-05

   d. Form GST PMT-09

   Correct: a. Form GST PMT-01

   Reason: All liabilities of a taxable person are recorded and maintained in the electronic liability register in Form GST PMT-01.

➢ References:

https://www.cbic.gov.in/

https://cbic-gst.gov.in/

https://gstcouncil.gov.in/

Customs Act & Rules 6

This module includes :

6.1 Customs Act-Basic Concepts and Definitions

6.2 Types of Duties

6.3 Valuation Rules

6.4 Computation of Assessable Value and Duties

Customs Act & Rules

SLOB Mapped against the Module:

1. **To acquire knowledge of legal provisions enshrined in laws related to GST and Customs Duty and appreciate their applicability in business operations.**
2. **To gather understanding of legal provisions of said two indirect tax laws about matters of compliance while conducting business operations.**

Module Learning Objectives:

After studying this module, the students will be able to –

- **Appreciate the Constitutional power**
- **Understand the basic concepts of the Customs Act**
- **Appreciate the different types of duties**
- **Understand the provision relating to determination of assessable value**
- **Apply the knowledge in computing duty liability.**

Introduction

6

Customs, as a major source of revenue, plays a very important role in the economy of our country. The terms 'customs' derives its colour and essence from the term 'custom', which means a habitual practice or course of action that characteristically repeated in like circumstances. The collection of revenue through Customs is known in India, from the time immemorial. Laws for collection of revenue and punishments for violation thereof are indicated as early as in Kautilya's "Arthasasthra". The modern system of taxation is, however, a British legacy. It was in England, during the days of King John, in the 13th Century, the 'customary dues' that were till then collected by local sheriffs and chieftains as protection money for the police service rendered to foreign traders came to be collected as revenue to the state . The other major forms of revenue viz. the Excise and Income Tax came to be conceived much later during the 17th Century.

In India, the "Customs" in the modern form was introduced soon after the consolidation of British rule. The trade in this country was then mainly by sea and with England and other European countries and an enactment known as Sea Customs Act, 1878, was brought forth for collection of revenue and control on the movement of goods. This was followed about 50 years later by an act known as Land Customs Act, 1924, to cover the goods coming by land routes. The Indian Aircraft Act, 1934, covered the export/import by air, which, by then, had made a beginning. The laws then, had however been designed with an eye to protect the British interests only, but independent India allowed these statutes to continue in force, till 1963, when the Customs Act, 1962, repealing all the earlier enactment was passed.

Customs Act – Basic Concepts and Definitions

6.1

Entry No. 83 of the List I to the Schedule VII of the Constitution empowers the Union Government to legislate and collect duties on imports and exports. Accordingly, the Customs Act, 1962, effective from 1-2-1963 provides vide its section 12 for the levy of duties on goods imported into or exported from India. The items and the rates of duties leviable thereon are specified in two Schedules to the Customs Tariff Act, 1975. The First Schedule specifies the various import items in systematic and well considered categories, in accordance with an international scheme of classification of internationally traded goods known as 'Harmonized System of Commodity Classification' and specifies the rates of import duties thereon, as prescribed by the legislature. The duties on imported items are usually levied either on specific or ad-valorem basis, but in few cases specific-cum-ad valorem duties are also levied. The Second Schedule incorporates items that are subject to exports duties and the rates of duties thereof.

Levy of duties on ad-valorem (i.e., with reference to value) basis is the predominant mode of levy. For this purpose the value of the imported goods is required to be determined as per provisions of Section 14 of the Customs Act, 1962 read with the Customs Valuation (Determination of Prices of Imported Goods) Rules, 2007. These provisions are essentially the adoption of GATT based valuation system (now termed WTO Valuation Agreement) that is followed internationally. Likewise, in respect of export of the goods, the value is to be determined as per provisions of Section 14 of the Customs Act, 1962 read with the Customs Valuation (Determination of Value of Export Goods) Rules, 2007.

Source of Customs Law

Customs Act. 1962

The Customs Act contains the provisions governing the import and export duty imposed on imports and exports of goods.

Customs Tariff Act. 1975

It contains rate of customs duty levied on imports or exports of a goods.

Rules & Regulation

There are various rules and regulation has been issued. Few of them are Customs Valuation (Determination of Value of Export Goods) Rules, 2007; Customs Valuation (Determination of Value of Imported Goods) Rules, 2007; Baggage Rules, 2016; Re-export of Imported Goods (Drawback of Customs Duties) Rules, 1995; etc.

Levy of Customs Duty

Applicability

The Customs Act, 1962 extends to whole of India*.

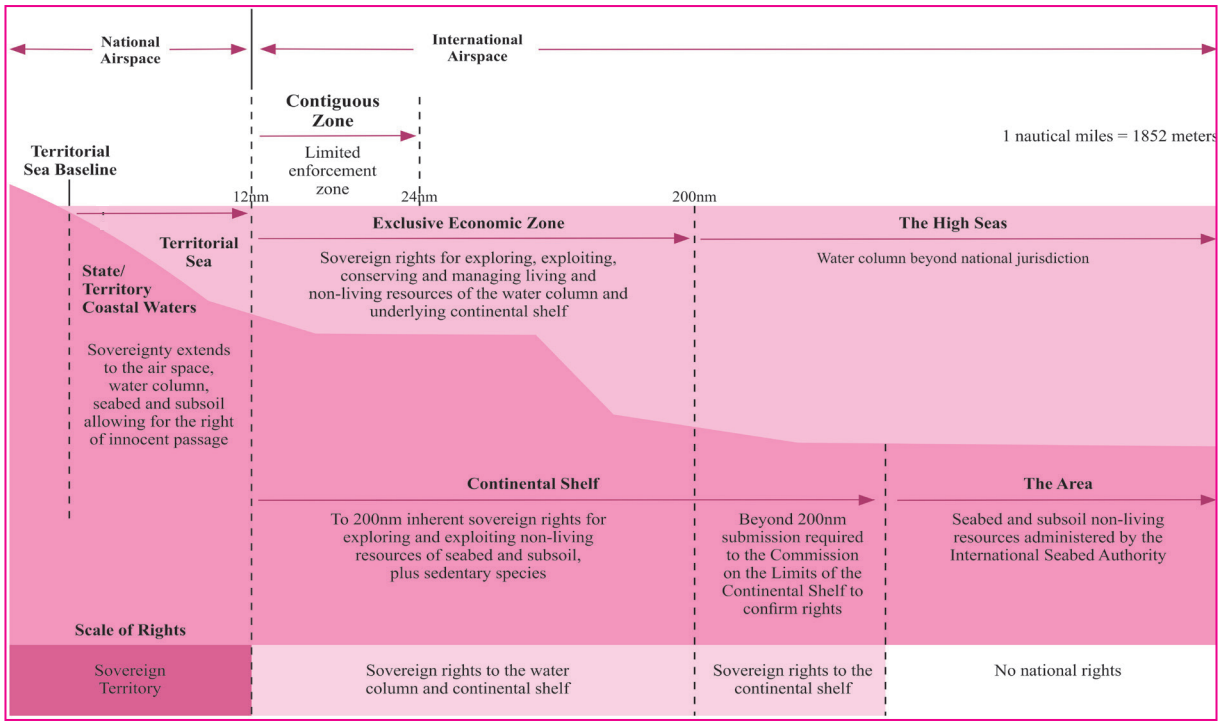
* Save as otherwise provided in this Act, it applies also to any offence or contravention thereunder committed outside India by any person.

Taxpoint

- India includes the territorial waters of India [Sec. 2(27)]
- As per sec. 3 of the Territorial Water, Continental Shelf, Exclusive Economic Zone and Other Maritime Zone Act, 1976, territorial water extends to 12 nautical miles (1 nautical miles = 1.1515 miles = 1.852 km) into the sea from the base line on the coast of India and include any bay, gulf, harbour, creek or tidal river. Further note that, India includes not only the surface of sea but also to the seabed and subsoil underlying, and the air space over, such waters.
- India has sovereignty in its territorial waters. That means all the provisions of the Customs Act and rules and regulations are applicable in Indian Territorial Waters.

Meaning of terms

- **Baseline:** It is lower water mark along the coast.
- **Exclusive Economic Zone of India (EEZI):** The exclusive economic zone of India is an area beyond and adjacent to the territorial waters, and the limit of such zone is 200 nautical miles from the baseline.
- **Continental Shelf of India (CSI):** The continental shelf of India comprises the seabed and subsoil of the submarine areas that extend beyond the limit of its territorial waters throughout the natural prolongation of its land territory to the outer edge of the continental margin or to a distance of 200 nautical miles from the baseline, where the outer edge of the continental margin does not extend up to that distance.



Extension of the Customs Act, 1962 and the Customs Tariff Act, 1975 to EEZ and Continental Shelf

i. The **notified designated areas** in the Continental Shelf of India (CSI) and Exclusive Economic Zone of India (EEZI); and

ii. **Whole** of the EEZ and Continental Shelf of India for following purposes:

a. the prospecting for extraction or production of mineral oils (including petroleum and natural gas) in the Continental Shelf and EEZ of India, and

b. the supply of any goods in connection with any of the aforesaid activities.

Taxpoint

Implication of the extension of the Act to whole of CSI and EEZI is that bringing of any goods from any other country to any place in EEZ or Continental Shelf of India in connection with any activity related to extraction or production of mineral oils shall be treated as import under the Customs Act, 1962 and would be charged to duty accordingly. Further, mineral oils produced in the EEZ or Continental Shelf of India would be deemed to be produced in India and subject to levy of central excise duties under the Central Excise Act, 1944.

Indian Customs Waters [Sec. 2(28)]

It means the water extending into the sea upto the limit of Exclusive Economic Zone u/s 7 of the Territorial Water, Continental Shelf, Exclusive Economic Zone and Other Maritime Zone Act, 1976 and includes any bay, gulf, harbour, creek or tidal river.

Taxpoint

- In the exclusive economic zone, the Union has,—
  a. sovereign rights for the purpose of exploration, exploitation, conservation and management of the natural resources, both living and non-living as well as for producing energy from tides, winds and currents;
  b. exclusive rights and jurisdiction for the construction, maintenance or operation of artificial islands, off-shore terminals, installations and other structures and devices necessary for the exploration and exploitation of the resources of the zone or for the convenience of shipping or for any other purpose;
  c. exclusive jurisdiction to authorise, regulate and control scientific research;
  d. exclusive jurisdiction to preserve and protect the marine environment and to prevent and control marine pollution; and
  e. such other rights as are recognised by International Law.
- The Union has in the continental shelf:
  a. sovereign rights for the purposes of exploration, exploitation, conservation and management of all resources;
  b. exclusive rights and jurisdiction for the construction, maintenance or operation of artificial islands, off-shore terminals, installations and other structures and devices necessary for the exploration and exploitation of the resources of the continental shelf or for the convenience of shipping or for any other purpose;
  c. exclusive jurisdiction to authorise, regulate and control scientific research; and
  d. exclusive jurisdiction to preserve and protect the marine environment and to prevent and control marine pollution

Chargeability [Sec. 12]

Duties of customs shall be levied at the rate specified under the Customs Tariff Act, 1975 or any other law for the time being in force on goods imported into or exported from India.

Taxpoint:

- Duty of custom is leviable on goods and not on the person importing / exporting it.

- The goods shall be such as are imported to or exported from India.
- The duty shall be at such rate as may be specified under the Customs Tariff Act, 1975.

Notes

1. Goods [Sec. 2(22)]: It includes –
   a) vessels, aircraft and vehicles;
   b) stores;
   c) baggage;
   d) currency and negotiable instrument; and
   e) any other kind of movable property
2. Import means bringing into India from a place outside India [Sec. 2(23)]
3. Imported goods means any goods brought into India from a place outside India but does not include goods, which have been cleared for home consumption [Sec. 2(25)]
4. Dutiable goods means any goods which are chargeable to duty and on which duty has not been paid. [Sec. 2(14)]
5. Importer in relation to any goods at any time between their importation and the time when they are cleared for home consumption includes any owner or any person holding himself out to be the importer [Sec. 2(26)]
   - Taxpoint: The term importer also include a person who cleared the goods from warehouse even though he is not the actual importer.
6. Export means taking out of India to a place outside India. [Sec. 2(18)]
7. Export goods means any goods which are to be taken out of India to a place outside India. [Sec. 2(19)]
8. Exporter in relation to any goods at any time between their entry for export and the time when they are exported includes -
   - owner; or
   - any person holding himself out to be the exporter. [Sec. 2(20)]
9. The provision shall also apply in respect of goods belonging to the Government. However, imports by Indian Navy, specific equipment required by police, Ministry of Defence, Costal Guard, etc. are fully exempt from duty by virtue of specific notification. Such exemption is subject to fulfillment or conditions and / or procedure set out in the said notifications.
10. Taxable Event in case of imports: Import of goods will commence when they cross the territorial waters but continues and is completed when they become part of the mass of goods within the country [Garden Silk Mills Ltd. vs UOI (1999) 113 ELT 358 (SC)]

    In case of goods cleared for home consumption*: The taxable event being reached at the time when the goods reach the customs barriers and bill of entry for home consumption is filed

    In case of goods cleared for warehousing**: If imported goods are taken into warehouse, goods continue to be in custom bond. Thus in case of warehouse also, import take place when the goods are cleared for home consumption.

* Clearance for home consumption implies that customs duty on imported goods has been paid and goods can be taken out by importer for utilization or consumption within the country.

** If the goods are cleared to be stored in warehouse, payment of duty is required at the time of clearance of goods from warehouse. That means, payment of duty is deferred till the time of clearance from warehouse.

11. **Taxable Event in case of exports:** Export of goods is complete when they cross the territorial waters. That means, if goods sinks within the territorial water, export is not complete.

12. The object of the Act is to tax only those goods which gets mixed up with the mass of goods in India – [M. Jamal Co. vs Union of India (1985) 21 ELT 369 (Mad.)]

13. The rate of import duty is specified in the First Schedule to the Customs Tariff Act, 1975 and the rate of export duty is specified in the Second Schedule to the said Act.

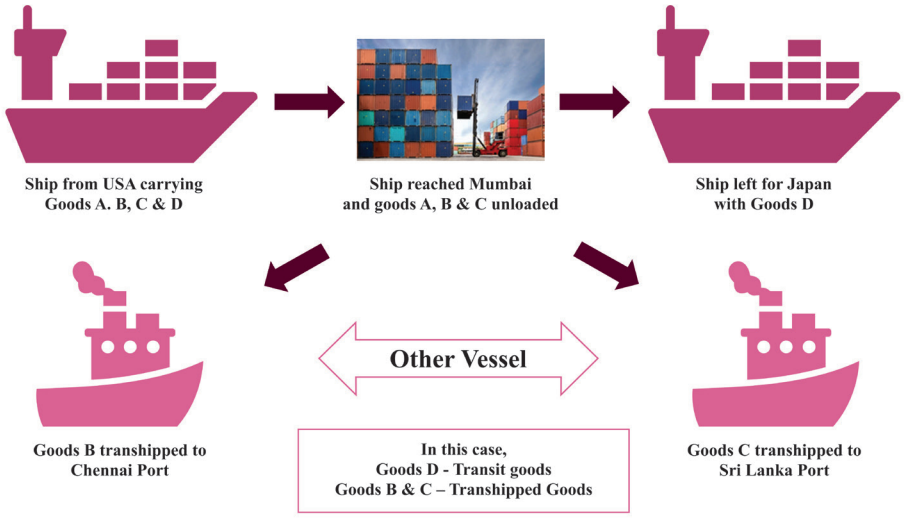
Some Important Definitions

Sec.	Term	Definition
2(1)	Adjudicating authority	Adjudicating authority means any authority competent to pass any order or decision under this Act, but does not include i. the Board, ii. Commissioner (Appeals) or iii. Appellate Tribunal
2(2)	Assessment	Assessment means determination of the dutiability of any goods and the amount of duty, tax, cess or any other sum so payable, if any, under this Act or under the Customs Tariff Act, 1975 or under any other law for the time being in force, with reference to: a. the tariff classification of such goods as determined in accordance with the provisions of the Customs Tariff Act; b. the value of such goods as determined in accordance with the provisions of this Act and the Customs Tariff Act; c. exemption or concession of duty, tax, cess or any other sum, consequent upon any notification issued therefor under this Act or under the Customs Tariff Act or under any other law for the time being in force; d. the quantity, weight, volume, measurement or other specifics where such duty, tax, cess or any other sum is leviable on the basis of the quantity, weight, volume, measurement or other specifics of such goods; e. the origin of such goods determined in accordance with the provisions of the Customs Tariff Act or the rules made thereunder, if the amount of duty, tax, cess or any other sum is affected by the origin of such goods; f. any other specific factor which affects the duty, tax, cess or any other sum payable on such goods, and includes provisional assessment, self-assessment, re-assessment and any assessment in which the duty assessed is nil ;
2(3)	Baggage	Baggage includes unaccompanied baggage but does not include motor vehicles;
2(3A)	Beneficial owner	Beneficial owner means any person on whose behalf the goods are being imported or exported or who exercises effective control over the goods being imported or exported;

Sec.	Term	Definition
2(4)	Bill of entry	Bill of entry means a bill of entry referred to in sec. 46. Sec. 46 provides that the importer of any goods, other than goods intended for transit or transhipment, shall make entry thereof by presenting electronically on the customs automated system to the proper officer a bill of entry for home consumption or warehousing in such form and manner as may be prescribed.
2(5)	Bill of export	Bill of export means a bill of export referred to in sec. 50. Sec. 50 provides that the exporter of any goods shall make entry thereof by presenting electronically on the customs automated system to the proper officer in the case of goods to be exported in a vessel or aircraft, a shipping bill, and in the case of goods to be exported by land, a bill of export in such form and manner as maybe prescribed.
2(6)	Board	Board means the Central Board of Indirect Taxes and Customs (CBIC) constituted under the Central Boards of Revenue Act, 1963
2(7)	Coastal Goods	Coastal goods means goods, other than imported goods, transported in a vessel from one port in India to another
2(9)	Conveyance	Conveyance includes a vessel (for sea), an aircraft (for air) and a vehicle (for land) *Taxpoint*: Vehicle means conveyance of any kind used on land and includes a railway vehicle – sec. 2(42)
2(13)	Customs Station	Customs station means any customs port, customs airport, international courier terminal, foreign post office or land customs station
2(10)	Customs Airport	Customs airport means any airport appointed u/s 7(a) to be a customs airport and includes a place appointed u/s 7(aa) to be an air freight station
2(11)	Customs Area	Customs area means the area of a customs station or a warehouse and includes any area in which imported goods or export goods are ordinarily kept before clearance by Customs Authorities;
2(12)	Customs Port	Customs port means any port appointed u/s 7(a) to be a customs port and includes a place appointed u/s 7(aa) to be an inland container depot;
2(21)	Foreign-going vessel or aircraft	Foreign-going vessel or aircraft means any vessel or aircraft for the time being engaged in the carriage of goods or passengers between any port or airport in India and any port or airport outside India, whether touching any intermediate port or airport in India or not, and includes - i. any naval vessel of a foreign Government taking part in any naval exercises; ii. any vessel engaged in fishing or any other operations outside the territorial waters of India; iii. any vessel or aircraft proceeding to a place outside India for any purpose whatsoever

<table>
<tr><th>Sec.</th><th>Term</th><th>Definition</th></tr>
<tr><td>2(24)</td><td>Arrival manifest or import manifest or import report</td><td>Arrival manifest or import manifest or import report means the manifest or report required to be delivered u/s 30.
Sec. 30 provides that the person-in-charge (or any other notified person) of-
(i) a vessel; or
(ii) an aircraft; or
(iii) a vehicle,
carrying imported goods or export goods shall deliver following document (in the prescribed form and manner) to the proper officer:
<table>
<tr><th>In the case of</th><th>Document</th></tr>
<tr><td>a vessel or an aircraft</td><td>an arrival manifest or import manifest (in case of export, departure manifest or export manifest) by presenting electronically prior to the arrival (in case of export, before departure) of the vessel or the aircraft</td></tr>
<tr><td>a vehicle</td><td>an import report (in case of export, export report) within 12 hours after its arrival in the customs station (in case of export, before departure)</td></tr>
</table></td></tr>
<tr><td>2(31)</td><td>Person-in-charge</td><td>Person-in-charge means:
a. in relation to a vessel, the master of the vessel;
b. in relation to an aircraft, the commander or pilot-in-charge of the aircraft;
c. in relation to a railway train, the conductor, guard or other person having the chief direction of the train;
d. in relation to any other conveyance, the driver or other person-in-charge of the conveyance</td></tr>
<tr><td>2(33)</td><td>Prohibited goods</td><td>Prohibited goods means any goods the import or export of which is subject to any prohibition under this Act or any other law for the time being in force but does not include any such goods in respect of which the conditions subject to which the goods are permitted to be imported or exported have been complied with;</td></tr>
<tr><td>2(38)</td><td>Stores</td><td>Stores means goods for use in a vessel or aircraft and includes fuel and spare parts and other articles of equipment, whether or not for immediate fitting;</td></tr>
<tr><td>53</td><td>Transit of goods</td><td>Where any goods imported in a conveyance and mentioned in the arrival manifest or import manifest or the import report, as the case may be, as for transit in the same conveyance to any place outside India or to any customs station, the proper officer may allow the goods and the conveyance to transit without payment of duty, subject to such conditions, as may be prescribed.</td></tr>
<tr><td>54</td><td>Transshipment of goods</td><td>Where any goods imported into a customs station are intended for transshipment, a bill of transshipment shall be presented to the proper officer in such form and manner as may be prescribed.</td></tr>
</table>

Sec.	Term	Definition



Determination of duty where goods consist of articles liable to different rate [Sec. 19]

Where the goods consist of a set of articles, duty shall be calculated on the following basis:

Articles	Basis of chargeability
1. Articles liable to duty on the basis of quantity	Such articles shall be chargeable on the basis of quantity
2. Articles liable to duty on the basis of value:	
• If they are liable to duty at same rate	Such articles shall be chargeable at that rate
• If they are liable to duty at different rates	Such articles shall be chargeable at the highest of such rates
3. Articles not liable to duty	Such articles shall be chargeable on the basis mentioned in (2) above.

Other points

1. Accessories of and spare parts or maintenance and repairing implements for, any article shall be chargeable at the same rate of duty as that article. E.g. where a machine is chargeable at the rate of 30%, then repairing implements with that machine shall also be charged at the rate of 30%.
2. Where the importer produces evidence to the satisfaction of the proper officer (or the evidence is available) regarding the value of any of the articles liable to different rates of duty, such article shall be chargeable to duty separately at the rate applicable to it.

Re-importation of goods [Sec. 20]

If goods are imported into India after exportation therefrom, such goods shall be liable to duty and be subject to all the conditions and restrictions, if any, to which goods of the like kind and value are liable or subject, on the importation thereof.

Taxpoint: In case of goods exported for repairs abroad and re-imported, duty is not charged on the full value, but only on the (Fair cost of repairs + insurance and freight both ways), provided the ownership of the goods has not changed

Duty on Goods derelict, wreck, jetsam and flotsam [Sec. 21]

Meaning

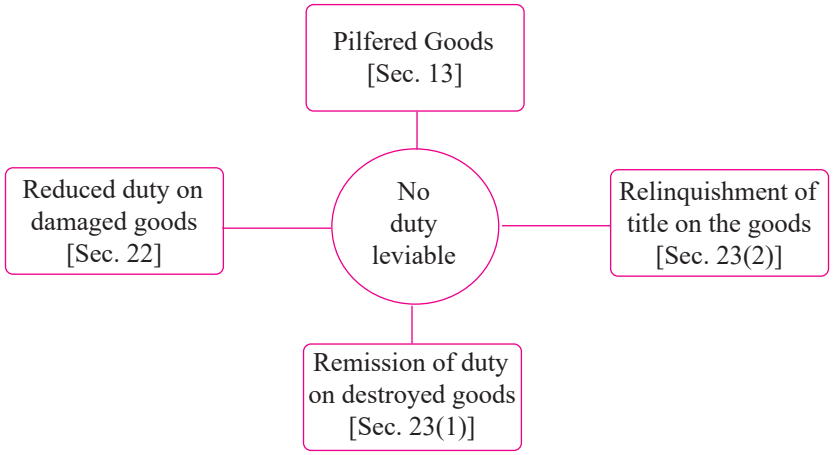
Derelict	Derelict means property abandoned at sea without hope of recovering.
Wreck	Wreck is the property cast ashore by tide after shipwreck.
Jetsam	Where goods are cast into the sea for lighten the ship to prevent it from sinking.
Flotsam	Goods separated from ship by some peril, which continue to float on sea.

Treatment

Goods being derelict, wreck, jetsam and flotsam brought or coming into India shall be dealt with as if they were imported into India. However, where it is shown to the satisfaction of the proper officer that they are entitled to be admitted duty-free, then proper officer may admit it as duty-free.

Customs Duty not leviable in certain cases

In following cases, duty is not leviable or leviable at reduced amount:



No Duty on pilfered goods [Sec. 13]

Conditions

a. Imported goods are pilfered

b. Such goods are pilfered after the unloading thereof and before the proper officer has made an order for clearance for home consumption or deposit in a warehouse

c. The pilfered goods are not re-stored

Treatment

The importer shall not be liable to pay the duty leviable on such pilfered goods*.

Taxpoint

➢ Pilfer means to steal something, typically of small value or in small quantities; petty theft. It does not mean total destruction or complete lost.

* in case any imported goods which are pilfered while in custody, the custodian is required to pay duty on such goods.

- If such goods are re-stored to the importer after pilferage, the importer becomes liable to pay duty.
- The principle governed this provision is that "when the goods are not in the control of the importer; he is not liable to pay duty thereon".
- Sec. 13 does not deal in the situation
  a. where goods are lost or destroyed.
  b. Where goods are pilfered before unloading thereof (The importer must prove pilferage occurred before the clearance order; once proved, no burden to pay duty)
  c. Where goods are pilfered after the order for clearance for home consumption or deposit in a warehouse, sec. 13 is not applicable.
- Where sec. 13 is applicable, sec. 23(1) is not applicable.

Abatement of duty on damaged or deteriorated goods [Sec. 22]

Circumstances

Where it is shown to the satisfaction of Assistant Commissioner of Customs or Deputy Commissioner of Customs –

1. That any imported goods had been damaged or had deteriorated at any time before or during the unloading of goods in India; or
2. That any imported goods (other than warehoused goods) had been damaged at any time after the unloading of goods in India but before its examination on account of any accident not due to any wilful act, negligence or default of the importer, his employee or agent; or
3. That any warehoused goods had been damaged at any time before clearance for home consumption on account of any accident not due to any wilful act, negligence or default of the owner, his employee or agent.

Treatment

The duty to be charged on the goods shall bear the same proportion to the duty chargeable on the goods before the damage or deterioration, which the value of the damaged or deteriorated goods bears to the value before the damage or deterioration.

Mathematically,

$$\textbf{Duty on damaged goods} = \frac{\textbf{Value of damage / deteriorated goods} * \textbf{Duty on goods before damage}}{\textbf{Value of goods before damage / deterioration}}$$

Note

The value of damaged or deteriorated goods may be ascertained by either of the following methods at the option of the owner -

a. The value of such goods may be ascertained by the proper officer; or
b. Such goods may be sold by the proper officer by public auction or by tender or with the consent of the owner in any other manner and the gross sale proceeds shall be deemed to be the value of such goods.

Taxpoint

- "Damage" denotes physical damage i.e., goods are not fit for the purpose for which they are intended.
- "Deterioration" denotes reduction in the quality of goods due to natural cause.

Example

Value of goods before damage	₹ 1,00,000
Duty liability before damage	₹ 10,000
Value of goods after damage	₹ 40,000
Revised Duty liability after damage	₹ 4,000 [i.e., ₹ 10,000 * ₹ 40,000 / ₹ 1,00,000]

Remission of duty on lost or destroyed goods [Sec. 23(1)]

Where it is shown to the satisfaction of the Assistant Commissioner or Deputy Commissioner that any imported goods have been lost (otherwise than as a result of pilferage) or destroyed at any time before clearance for home consumption, then the Assistant Commissioner or Deputy Commissioner shall remit the duty on such goods.

Taxpoint

- The remission of duty is permissible only when there is total loss or loss is forever and beyond recovery. E.g., imported goods is destroyed before clearance for home consumption destroyed due to fire in the warehouse.
- In case of pilferage, sec. 13 is applicable.

Distinction between sec. 13 and sec. 23(1)

In Hindustan Petroleum Corporation –vs.- CC 1984 (18) ELT 358 (Tri Mumbai), following essential difference between the situations contemplated u/s 13 & 23(1) are stated:

Point of difference	Pilferage of goods u/s 13	Loss or destruction of goods u/s 23(1)
Meaning	Pilferage denotes stealing in small quantities i.e., petty theft	Lost or destruction denotes total loss or loss is forever and beyond recovery
Duty liability	The importer is not made liable to pay the duty on pilfered imported goods. However, if goods are restored, importer is liable to pay the duty.	The duty paid on the goods shall be remitted to the importer.
Time of occurrence	The imported goods must have been pilfered after the unloading, but before the proper officer has made an order for clearance for home consumption	Imported goods have been lost or destroyed at any time before physical clearance of the goods for home consumption
Warehoused goods	Sec. 13 is not applicable where goods are pilfered after warehousing	The provision is applicable on warehoused goods also
Burden to prove	No such burden is cast on the importer u/s 13	U/s 23(1) the burden is cast on the importer to satisfy the Assistant / Deputy Commissioner that imported goods have been lost or destroyed at any time before physical clearance of the goods for home consumption

Remission of duty on relinquishment of title to the goods [Sec. 23(2)]

The owner of any imported goods may, before an order for clearance of the goods for home consumption or an order for permitting the deposit of goods in a warehouse, relinquish his title to the goods and thereupon he shall not be liable to pay the duty thereon.

Taxpoint

- Relinquish literally means 'to withdraw from' or 'to abandon' or 'to give up any thing or any right' or 'to cease to hold' or 'to surrender' or 'to give over the possession or control of, to leave off'.
- Such relinquishment should be unconditional
- It is open to the importer to exercise the above option at any time before the passing of the order for clearance for home consumption or before order permitting the deposit of goods in a warehouse.
- However, the owner of any such imported goods shall not be allowed to relinquish his title to such goods regarding which an offence appears to have been committed under this Act or any other law.
- Few situations where importer in unwilling or unable to take delivery of imported goods:
  a. The imported goods are not according to the specifications
  b. The goods is so damaged during voyage and as such may not be useful to the importer
  c. There may be breach of contract

Power to make rules for denaturing or mutilation of goods [Sec. 24]

The Central Government may make rules for permitting at the request of the owner the denaturing or mutilation of imported goods which are ordinarily used for more than one purpose so as to render them unfit for one or more of such purposes; and where any goods are so denatured or mutilated they shall be chargeable to duty at such rate as would be applicable if the goods had been imported in the denatured or mutilated form.

Exemption from Customs Duty

Power to grant exemption from duty [Sec. 25]

If the Central Government is satisfied that it is necessary in the public interest so to do -

a. It may by notification in the Official Gazette exempt generally (either absolutely or subject to certain conditions), goods of any specified description from the whole (or any part) of duty.

b. It may by special order exempt from the payment of duty under circumstances of an exceptional nature (being stated in such order) any goods on which duty is leviable.

Notes

1. An exemption from duty in respect of any goods may be granted by providing for the levy of the duty at a rate expressed in a form or method different from the form or method in which duty is leviable. Such duty shall in no case exceed the original duty.

   Form or method means the basis, namely, valuation, weight, number, length, area, volume or other measure with reference to which the duty is leviable.

2. Duty shall not be collected where the amount of duty leviable does not exceed ₹ 100.

3. Such exemption shall, unless otherwise specified or varied or rescinded, be valid upto 31st day of March falling immediately after 2 years from the date of such grant or variation

Classification of imported / export goods

Import and export of goods are required to be assessed to duty which may include an assessment of nil duty. For this purpose, it is necessary to determine the classification of the goods, which basically means the categorization of the goods in a specific heading or sub-heading of the Schedules to the Customs Tariff Act, 1975.

Why Classification

Following is the importance of correct classification:

i. For determining rate of duty;

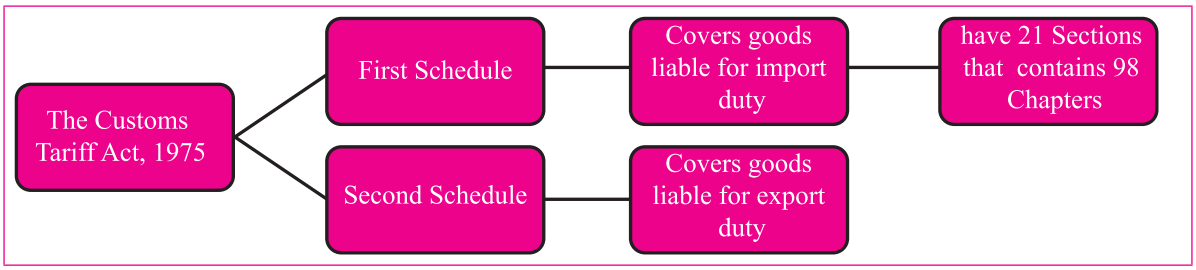
ii. For determining the eligibility of exemption notification, which are with reference to the tariff heading or sub headings. Wrong classification would either cause loss of revenue to the Central Government or impose unjustifiable loss to assessee.

iii. For applicability of other duties on goods like anti-dumping duty, safeguard duty, etc.

iv. For applicability of any restriction and control on import or export of goods

Scheme of Classification

In the Tariff Schedule, commodities/products are arranged in a fixed pattern with the duty rates specified against each of them. It contains 2 Schedules:



- **First Schedule:** The First Schedule contains description of goods chargeable to import duty. It specifies the nomenclature that is based on the Harmonized Commodity Description and Coding System generally referred to as "Harmonized System of Nomenclature" or simply "HSN", developed by the World Customs Organization (WCO) which is applied uniformly by more than 137 countries the world over. The First Schedule has 21 Sections and 98 Chapters. A Section is a group consisting of a number of Chapters which codify a particular class of goods. The Section notes explain the scope of chapters / headings, etc. The Chapters consist of chapter notes, brief description of commodities arranged at four digit, six digit and eight digit levels*. Every four-digit code is called a 'heading' and every six digit code is called a 'subheading' and 8-digit code is called a 'Tariff Item'.
- **Second Schedule:** The Second Schedule contains description of goods chargeable to export duty.

Illustration 1:

ABC Ltd. imported a consignment of chemicals. Upon arrival, they discovered that the chemicals were chemically degraded and not suitable for their industrial use. The duty assessed on these goods is ₹ 2,00,000.

- The goods have not yet been cleared for home consumption.
- ABC Ltd. does not want to pay the duty or take delivery.
- The Customs Officer insists that since the goods were imported, duty must be paid.

Can ABC Ltd. avoid paying the duty?

* First 2 digits: Chapter; Next 2 digits: Heading; Next 2 digits: Sub-heading; Last 2 digits: Tariff Item.

Solution

ABC Ltd. can avoid paying the duty.

- **Provision:** U/s 23(2), the owner of any imported goods may, at any time before the order for clearance for home consumption is passed, relinquish his title to the goods.
- **Condition:** The relinquishment must be unconditional, and no offense should have been committed regarding the goods.
- **Conclusion:** If ABC Ltd. formally relinquishes the title to the Customs authorities before the clearance order, they shall not be liable to pay the duty thereon.

Illustration 2:

M/s. Safe Imports Ltd. imported a consignment of high-grade glass sheets valued at ₹ 10,00,000. The applicable Basic Customs Duty (BCD) is 10%.

- During the unloading of goods at the port (before examination by the proper officer), a crane accident occurred, and the glass sheets were heavily damaged.
- The accident was not due to any negligence or willful act of the importer or his agent.
- The Proper Officer assessed the value of the damaged goods (scrap value) at ₹ 2,00,000.

Calculate the actual customs duty payable by M/s. Safe Imports Ltd.

Solution

- **Provision:** U/s 22, if imported goods are damaged or deteriorated at any time before or during unloading, or before examination (provided it's not the importer's fault), the duty is reduced proportionately.
- **Formula:** Duty on Damaged Goods = (Value of Damaged Goods / Value of Goods before Damage) × Total Duty Leviable
- **Calculation:**
  1. **Original Duty Liability:** ₹ 10,00,000 × 10% = ₹ 1,00,000
  2. **Proportion of Damage:**
     - Value before damage: ₹ 10,00,000
     - Value after damage: ₹ 2,00,000
  3. **Revised Duty:**
     - (₹ 2,00,000 / ₹ 10,00,000) × ₹ 1,00,000
     - 0.2 × 1,00,000 = ₹ 20,000

  Conclusion: The importer is liable to pay only ₹ 20,000 as customs duty.

Illustration 3:

Mr. Kumar imports a "Professional Grooming Kit" from the USA valued at ₹ 5,000. The kit is a single retail package containing the following items, which are otherwise liable to duty at different rates if imported separately:

1. **Electric Trimmer:** Rate 20%
2. **Shaving Gel:** Rate 10%

3. **After-Shave Cologne:** Rate 30%
4. **Plastic Comb (Exempt):** Rate Nil

Mr. Kumar contends that since the comb is exempt and the gel is at 10%, the average rate should apply.

Determine the rate of duty applicable to the "Grooming Kit" and explain the relevant provision.

Solution

- **Provision:** U/s 19 of the Customs Act, 1962, where goods consist of a set of articles liable to duty at different rates:
  a. Articles liable to duty at the same rate are charged at that rate.
  b. Articles liable to duty at different rates are chargeable at the highest of such rates.
- **Analysis:** Since the items are imported as a set and have different rates (Nil, 10%, 20%, 30%), the entire value of the set will be taxed at the highest rate applicable to any of the ingredients.
- **Conclusion:** The entire "Grooming Kit" valued at ₹ 5,000 will be chargeable to duty at 30% (the rate applicable to the After-Shave Cologne).

Quick MCQ

1. U/s 2(28), "Indian Customs Waters" extends up to which limit from the baseline?
   a. 12 Nautical Miles
   b. 24 Nautical Miles
   c. 100 Nautical Miles
   d. 200 Nautical Miles (Limit of Exclusive Economic Zone)

   Correct: (d)

   Reason: Indian Customs Waters means the waters extending into the sea up to the limit of the Exclusive Economic Zone (EEZ), which is 200 nautical miles from the baseline.
2. Unless otherwise rescinded or varied, a conditional exemption notification issued u/s 25 is valid up to:
   a. 1 year from the date of issue
   b. 31st March falling immediately after 2 years from the date of grant
   c. 5 years from the date of issue
   d. It remains valid indefinitely until specifically withdrawn

   Correct: (b)

   Reason: As per the sec. 25, conditional exemptions are valid up to the 31st day of March falling immediately after 2 years from the date of such grant or variation.
3. In the case of goods cleared for home consumption, the "Taxable Event" is achieved when:
   a. The goods cross the territorial waters of India
   b. The goods are unloaded at the port
   c. The goods reach the customs barriers and the Bill of Entry for home consumption is filed

d. The goods are loaded onto the vessel at the foreign port

Correct: (c)

Reason: While import commences upon crossing territorial waters, the taxable event is reached when the goods reach the customs barriers and the bill of entry for home consumption is filed.

4. When goods are exported for repairs and subsequently re-imported, customs duty is payable on:

   a. The full value of the goods as if they were fresh imports

   b. The Fair cost of repairs + Insurance + Freight (both ways)

   c. Only the cost of materials used in repairs

   d. No duty is payable if re-imported within 1 year

   Correct: (b)

   Reason: For goods exported for repairs and re-imported, duty is charged only on the (Fair cost of repairs + insurance and freight both ways), provided ownership has not changed.

5. The importer is not liable to pay duty on pilfered goods u/s 13 only if the pilferage occurs:

   a. Before the goods are unloaded

   b. After the order for clearance for home consumption is passed

   c. After unloading but before the proper officer makes an order for clearance

   d. While the goods are on the high seas

   Correct: (c)

   Reason: Sec. 13 applies when goods are pilfered after the unloading thereof and before the proper officer has made an order for clearance for home consumption.

6. In the First Schedule to the Customs Tariff Act, 1975, the 8-digit code is specifically referred to as:

   a. Heading

   b. Sub-heading

   c. Tariff Item

   d. Chapter Note

   Correct: (c)

   Reason: A 4-digit code is a 'heading', a 6-digit code is a 'subheading', and an 8-digit code is called a 'Tariff Item'.

7. Remission of duty u/s 23(1) applies to goods that are lost or destroyed at any time before:

   a. Clearance for home consumption

   b. Unloading

   c. Assessment of duty

   d. Warehousing

   Correct: (a)

   Reason: Remission is granted if goods are lost or destroyed at any time before clearance for home consumption.

8. The Customs Act, 1962 came into force on:

   a. 1st April 1962

   b. 1st February 1963

   c. 1st January 1962

   d. 15th August 1947

   Correct: (b)

   Reason: The Customs Act, 1962 became effective from 1-2-1963.

9. U/s 22, if imported goods are damaged, the duty is reduced:

   a. By 50% of the standard rate

   b. To Nil

   c. In proportion to the value of the damaged goods relative to their original value

   d. Based on the weight of the damaged portion

   Correct: (c)

   Reason: The duty to be charged shall bear the same proportion to the duty chargeable before damage, which the value of the damaged goods bears to the value before damage.

10. An importer can relinquish his title to the goods and avoid paying duty, provided:

    a. The goods have been pilfered

    b. The relinquishment is conditional

    c. An offense appears to have been committed regarding the goods

    d. The order for clearance for home consumption has not yet been passed

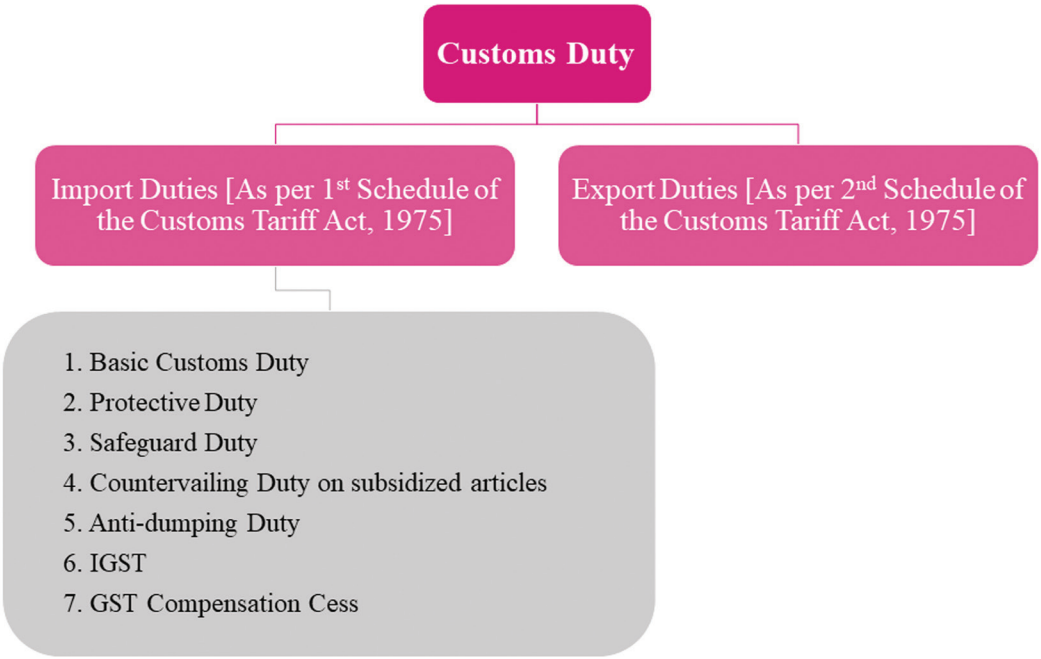
    Correct: (d)

    Reason: The owner may relinquish title before an order for clearance for home consumption is passed. However, this is not allowed if an offence appears to have been committed regarding the goods.

Types of Duties

6.2

Types of Customs Duty



Taxpoint

➢ Apart from that, Social Welfare Surcharge (SWS) @ 10%* of total customs duties (excluding few) is also applicable on imported goods. Such surcharge is not levied on export.

Example: Goods of ₹ 1,00,000 has been imported and the applicable rate of basic customs duty is 10%. Then customs duty shall be:

Assessable Value	₹ 1,00,000
Basic Customs Duty @ 10%	₹ 10,000
Add: Social Welfare Surcharge @ 10% of aforesaid	₹ 1,000
Total duty payable	**₹ 11,000**

➢ However, for the purpose of computing SWS following are not to be considered:

* 3% in case of goods being gold, silver including that plated with platinum unwrought or in semi-manufactured form or in powder form.

- Safeguard Duty
- Countervailing duty on subsidized article
- Anti-dumping duty
- IGST
- GST Compensation cess
- Agriculture Infrastructure and Development Cess (AIDC)

➢ Similarly, Government imposes certain surcharge or cess on specific goods from time to time. Example, Road and Infrastructure cess on motor spirit and high speed diesel, Health cess on medical equipment, etc.

Basic Customs Duty (BCD) [Sec. 12 of the Customs Act r.w.s. 2 of the Customs Tariff Act]

Duty is levied as per sec. 12 of the Customs Act. Sec. 2 of the Customs Tariff Act, 1975 provides the rate at which duties of customs shall be charged. First schedule to Customs Tariff Act enlists the goods liable to duty on importation whereas second schedule enlists the goods liable to duty on exportation. The duty charged by this system may be specific duty (i.e. duty based on measures like quintal, meters, etc.) or ad valorem (i.e. duty based on certain percentage of assessable value*). Further, Customs Tariff Act provides two types of basic rate -

a) Standard rate of duty: Generally, all goods are liable to duty at this rate. This rate is higher than preferential rate of duty. This rate is mentioned in fourth column of the schedule.

b) Preferential rate of duty: Where goods are imported from notified preferential area, then preferential rate of duty is applicable. It is a concessional rate (given in column 5 of the schedule) for importation from preferential area. Importer should make a specific claim for this concessional rate and satisfy specified conditions. If importer fails to satisfy those conditions, then goods shall be liable to standard rate even if such goods are imported from preferential area.

Integrated Goods and Services Tax (IGST) [Sec. 3(7) of Customs Tariff Act, 1975]

➢ Any article which is imported into India shall, in addition, be liable to integrated tax.

➢ IGST shall be levied at such rate as leviable u/s 5 of the Integrated Goods and Services Tax Act, 2017 on a like article on its supply in India.

➢ For the purpose of levying IGST, value of the imported article shall be determined as under:

- The value of the imported article determined u/s 14(1) of the Customs Act, 1962 or the tariff value of such article fixed u/s 14(2), as the case may be;
- Any duty of customs chargeable on that article u/s 12 of the Customs Act, 1962;
- Any sum chargeable on that article under any law for the time being in force as an addition to, and in the same manner as, a duty of customs like anti-dumping duty, safeguard duty, etc.;
- but does not include this IGST and the Compensation cess;

Example:

Goods of ₹ 1,00,000 have been imported and the applicable rate of basic customs duty is 10%. On such goods applicable rate of IGST is 18%. Then, the computation of duty shall be as under:

* Assessable value is transaction value u/s 14(1) / tariff value determined u/s 14(2).

Assessable Value [A]	₹ 1,00,000
Basic Customs Duty [B = 10% of A]	₹ 10,000
Add: Social Welfare Surcharge [C = 10% of B]	₹ 1,000
Value for computing IGST [D = A + B + C]	₹ 1,11,000
Add: IGST [E = D x 18%]	₹ 19,980
Total Duty payable [B + C + E]	₹ 30,980

For aforesaid payment of IGST, ITC under GST law is available.

Taxpoint

Where the goods deposited in a warehouse under the provisions of the Customs Act, 1962 are sold to any person before clearance for home consumption or export under the said Act, the value of such goods for the purpose of calculating the integrated tax shall be,-

Where the whole of the goods are sold	the value determined as per aforesaid provision or the transaction value of such goods, whichever is higher
Where any part of the goods is sold	the proportionate value of such goods as per aforesaid provision or the transaction value of such goods, whichever is higher.
However, where the whole of the warehoused goods or any part thereof are sold more than once before such clearance for home consumption or export, the transaction value of the last such transaction shall be the transaction value for the aforesaid purposes	

GST Compensation Cess [Sec. 3(9) of Customs Tariff Act, 1975]

Under GST regime, Compensation Cess will be charged on luxury products like high-end cars and demerit commodities like pan masala, tobacco and aerated drinks for the period of 5 years in order to compensate states for loss of revenue (now extended upto 31-03-2026)

Any article which is imported into India shall, in addition, be liable to the goods and services tax compensation cess at such rate, as is leviable u/s 8 of the Goods and Services Tax (Compensation to States) Cess Act, 2017 on a like article on its supply in India.

Where such cess is leviable at any percentage of its value, the value of the imported article shall be the aggregate of the following:

- the value of the imported article determined u/s 14(1) of the Customs Act, 1962 or the tariff value of such article fixed u/s 14(2), as the case may be;
- any duty of customs chargeable on that article u/s 12 of the Customs Act, 1962;
- any sum chargeable on that article under any law for the time being in force as an addition to, and in the same manner as, a duty of customs like anti-dumping duty, safeguard duty, etc.;
- but does not include the IGST or this cess

Taxpoint: In respect of warehoused goods, similar provision is applicable as applicable in case of levying IGST.

Example:

Goods of ₹ 1,00,000 has been imported and the applicable rate of basic customs duty is 10%. On such goods applicable rate of IGST is 18% and GST Compensation cess is 22%. Then computation of duty shall be as under:

Assessable Value [A]	₹ 1,00,000
Basic Customs Duty [B = 10% of A]	₹ 10,000
Add: Social Welfare Surcharge [C = 10% of B]	₹ 1,000
Value for computing IGST [D = A + B + C]	**₹ 1,11,000**
Add: IGST [E = D x 18%]	₹ 19,980
Add: Compensation Cess [F = D x 22%]	₹ 24,420
Total Duty payable [B + C + E + F]	**₹ 55,400**

For aforesaid payment of IGST and compensation cess, ITC under GST law is available.

Agriculture Infrastructure and Development Cess (AIDC)

An Agriculture Infrastructure and Development Cess (AIDC) is levied on the import of specified goods at notified rates to finance the improvement of agriculture infrastructure and other development expenditures. Examples of such notified goods include apples, kabuli chana, urea, various types of coal, and precious metals like gold and silver (including imports by eligible passengers). The cess is calculated on the value of goods determined u/s 14 of the Customs Act, 1962. Crucially, AIDC is levied in addition to other customs duties chargeable on the goods. All provisions of the Customs Act, 1962, and related rules regarding assessment, refund, exemptions, interest, appeals, and penalties apply mutatis mutandis to the levy and collection of AIDC.

Other Customs Duties

Safeguard Duty [Sec. 8B of Customs Tariff Act]

Condition to impose

Where the Central Government is satisfied that -

a) An article is imported into India in increased quantities; and

b) Such article is imported so as to cause or threaten to cause serious injury to the domestic industry,

- then it may apply such safeguard measures on that article, as it deems appropriate.

Taxpoint

1. The safeguard measures shall include imposition of safeguard duty, application of tariff-rate quota or such other measure, as the Central Government may consider appropriate, to curb the increased quantity of imports of an article to prevent serious injury to domestic industry.
2. If the following conditions are satisfied then safeguard duty shall not be imposed –
   (a) Such article is originating from a developing country or countries; and
   (b) Aggregate import from country or countries shall not exceed –

Where the article is originating from one developing country	The share of imports of that article from that country does not exceed 3% of the total imports of that article into India
Where the article is originating from more than one developing country	The aggregate of the imports from all such countries does not exceed 9% of the total imports of that article into India

However, the Central Government may exempt such quantity of any article, when imported from any country or territory into India, from payment of the whole or part of the safeguard duty leviable thereon.

4. Where tariff-rate quota is used as a safeguard measure, the Central Government shall not fix such quota lower than the average level of imports in the last 3 representative years for which statistics are available, unless a different level is deemed necessary to prevent or remedy serious injury.
5. The Central Government may allocate such tariff-rate quota to supplying countries having a substantial interest in supplying the article concerned, in such manner as may be provided by rules.
6. Provisional Safeguard Duty: The Central Government may, pending the determination of safeguard measures, apply provisional safeguard measures on the basis of a preliminary determination that increased imports have caused or threatened to cause serious injury to a domestic industry. However, any provisional safeguard measure shall not remain in force for more than 200 days from the date on which it was applied.

   Further, where, on final determination, the Central Government is of the opinion that increased imports have not caused or threatened to cause serious injury to a domestic industry, it shall refund the safeguard duty so collected.
7. Duration of imposition: Safeguard duty shall be ceased to have effect on the expiry of 4 years (unless revoked earlier) from the date of its imposition. However, the Central Government may extend the period of levy to 10 years.
8. Safeguard duty or provisional safeguard duty shall not apply to articles imported by a 100% export-oriented undertaking or a unit in a special economic zone unless:
   a. it is specifically made applicable in such notification or to such undertaking or unit; or
   b. such article is either cleared as such into the domestic tariff area or used in the manufacture of any goods that are cleared into the domestic tariff area, in which case, safeguard measures shall be applied on the portion of the article so cleared or used, as was applicable when it was imported into India.
9. The safeguard duty is product specific and it is in addition to any other duty imposed under this Act or under any other law for the time being in force.
10. Developing country means a country notified by the Central Government in the Official Gazette;
11. Domestic industry means the producers:
    a. as a whole of the like article or a directly competitive article in India; or
    b. whose collective output of the like article or a directly competitive article in India constitutes a major share of the total production of the said article in India;
12. Serious injury means an injury causing significant overall impairment in the position of a domestic industry
13. Threat of serious injury means a clear and imminent danger of serious injury.
14. The provisions of the Customs Act, 1962 and all rules and regulations made thereunder shall be applicable on this duty also

Countervailing Duty on Subsidized articles [Sec. 9 of the Customs Tariff Act, 1975]

Condition to impose

a. Any country or territory pays, or bestows, directly or indirectly, any subsidy upon the manufacture or production therein or the exportation therefrom of any article including any subsidy on transportation of such article;

b. Such article is imported into India;

c. Such article is imported directly / indirectly from the country of manufacture, production; and

d. The article is imported in the same condition as when exported from the country of manufacture or production or has been changed in condition by manufacture, production or otherwise.

Quantum of duty

The Central Government may impose a countervailing duty not exceeding the amount of such subsidy.

Taxpoint

- Duration of imposition: Such duty shall be in force for 5 years (unless revoked earlier) from the date of its imposition. However, it can be further extended for another 5 years.

  However, where a review initiated before the expiry of the aforesaid period of 5 years has not come to a conclusion before such expiry, the countervailing duty may continue to remain in force pending the outcome of such a review for a further period not exceeding 1 year. Further, if the said duty is revoked temporarily, the period of such revocation shall not exceed 1 year at a time.

- Such countervailing duty shall be in addition to any other duty imposed under this Act or any other law.

- A subsidy shall be deemed to exist if -

  a. there is financial contribution by a Government, or any public body in the exporting or producing country or territory, that is, where -

     i. a Government practice involves a direct transfer of funds (including grants, loans and equity infusion), or potential direct transfer of funds or liabilities, or both;

     ii. Government revenue that is otherwise due is foregone or not collected (including fiscal incentives);

     iii. a Government provides goods or services other than general infrastructure or purchases goods;

     iv. a Government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions specified in clauses (i) to (iii) above which would normally be vested in the Government and the practice in, no real sense, differs from practices normally followed by Governments; or

  b. a Government grants or maintains any form of income or price support, which operates directly or indirectly to increase export of any article from, or to reduce import of any article into, its territory, and a benefit is thereby conferred.

- Where the Central Government, on such inquiry as it considers necessary, is of the opinion that circumvention of imposed countervailing duty has taken place, either by altering the description or name or composition of the article on which such duty has been imposed or by import of such article in an unassembled or disassembled form or by changing the country of its origin or export or in any other manner, whereby the countervailing duty so imposed is rendered ineffective, it may extend the countervailing duty to such other article also from such date, not earlier than the date of initiation of the inquiry, as specified – Sec. 9(1A)

- Where the Central Government, on such inquiry as it considers necessary, is of the opinion that absorption of countervailing duty imposed has taken place whereby the countervailing duty so imposed is rendered ineffective, it may modify such duty to counter the effect of such absorption, from such date, not earlier than the date of initiation of the inquiry, as specifies. – Sec. 9(1B)
  - Absorption of countervailing duty is said to have taken place:
    a. if there is a decrease in the export price of an article without any commensurate change in the resale price in India of such article imported from the exporting country or territory; or
    b. under such other circumstances as may be provided by rules.

- The Central Government may, pending the determination in accordance with the provisions of this section and the rules made thereunder of the amount of subsidy, impose a countervailing duty not exceeding the amount of such subsidy as provisionally estimated by it and if such countervailing duty exceeds the subsidy as so determined, -

  a. the Central Government shall, having regard to such determination and as soon as may be after such determination, reduce such countervailing duty; and

  b. refund shall be made of so much of such countervailing duty which has been collected as is in excess of the countervailing duty as so reduced. – Sec. 9(2)

- A notification issued or any countervailing duty imposed shall not apply to article imported by a 100% export-oriented undertaking or a unit in a special economic zone, unless, -

  i. it is specifically made applicable in such notification or to such undertaking or unit; or

  ii. such article is either cleared as such into the domestic tariff area or used in the manufacture of any goods that are cleared into the domestic tariff area, in which case, countervailing duty shall be imposed on that portion of the article so cleared or used, as was applicable when it was imported into India.

- Further, the countervailing duty shall not be levied unless it is determined that -

  a. the subsidy relates to export performance;

  b. the subsidy relates to the use of domestic goods over imported goods in the export article; or

  c. the subsidy has been conferred on a limited number of persons engaged in manufacturing, producing or exporting the article unless such a subsidy is for -

    i. research activities conducted by or on behalf of persons engaged in the manufacture, production or export;

    ii. assistance to disadvantaged regions within the territory of the exporting country; or

    iii. assistance to promote adaptation of existing facilities to new environmental requirements.

- Levy from retrospective effect: If the Central Government, is of the opinion that the injury to the domestic industry which is difficult to repair, is caused by massive imports in a relatively short period, of the article benefiting from subsidies paid or bestowed and where in order to preclude the recurrence of such injury, it is necessary to levy countervailing duty retrospectively, the Central Government may levy countervailing duty from a date prior to the date of imposition of countervailing duty but not beyond 90 days from the date of such notification

- The amount of any such subsidy shall, from time to time, be ascertained and determined by the Central Government, after such inquiry as it may consider necessary and the Central Government may make rules for the identification of such article and for the assessment and collection of any countervailing duty imposed upon the importation thereof under this section.

- Taxpoint: The provisions of the Customs Act, 1962 and all rules and regulations made thereunder shall be applicable on this duty also

Anti-Dumping duty [Sec. 9A of Customs Tariff Act]

Dumping is said to occur when the goods are exported by a country to another country at a price lower than its normal value. This is an unfair trade practice which can have a distortive effect on international trade. Anti dumping

is a measure to rectify the situation arising out of the dumping of goods and its trade distortive effect. Thus, the purpose of anti dumping duty is to rectify the trade distortive effect of dumping and re-establish fair trade. The use of anti dumping measure as an instrument of fair competition is permitted by the WTO. In fact, anti dumping is an instrument for ensuring fair trade and is not a measure of protection per se for the domestic industry. It provides relief to the domestic industry against the injury caused by dumping.

Condition to impose

a. Any article is exported by an exporter or producer from any country or territory to India at less than its normal value; and

b. Such article is imported into India;

Quantum of Anti-Dumping Duty

The Central Government may impose an anti-dumping duty not exceeding the margin of dumping in relation to such article.

- Margin of dumping = Normal Value less Export Price
- Export price, in relation to an article, means
  a. the price of the article exported from the exporting country or territory; and
  b. in cases where there is no export price or where the export price is unreliable because of association or a compensatory arrangement between the exporter and the importer or a third party, the export price may be constructed on the basis of the price at which the imported articles are first resold to an independent buyer or if the article is not resold to an independent buyer, or not resold in the condition as imported, on such reasonable basis as may be determined in accordance with the rules made u/s 9A(6);
- Normal value, in relation to an article, means -
  i. the comparable price, in the ordinary course of trade, for the like article when destined for consumption in the exporting country or territory as determined in accordance with the rules made u/s 9A(6); or
  ii. when there are no sales of the like article in the ordinary course of trade in the domestic market of the exporting country or territory, or when because of the particular market situation or low volume of the sales in the domestic market of the exporting country or territory, such sales do not permit a proper comparison, the normal value shall be either:
    a. comparable representative price of the like article when exported from the exporting country or territory to an appropriate third country as determined in accordance with the rules made u/s 9A(6); or
    b. the cost of production of the said article in the country of origin along with reasonable addition for administrative, selling and general costs, and for profits, as determined in accordance with the rules made u/s 9A(6)

  However, in the case of import of the article from a country other than the country of origin and where the article has been merely transhipped through the country of export or such article is not produced in the country of export or there is no comparable price in the country of export, the normal value shall be determined with reference to its price in the country of origin

Taxpoint

- Duration of imposition: Such duty shall be in force for 5 years (unless revoked earlier) from the date of its imposition. However, if the Central Government, in a review, is of the opinion that the cessation of such duty is likely to lead to the continuation or recurrence of dumping and injury, it may, from time to time, extend the

period of such imposition for a further period upto 5 years and such further period shall commence from the date of order of such extension.

Where a review initiated before the expiry of the aforesaid period of 5 years has not come to a conclusion before such expiry, the anti-dumping duty may continue to remain in force pending the outcome of such a review for a further period not exceeding 1 year.

If the said duty is revoked temporarily, the period of such revocation shall not exceed 1 year at a time.

- Such countervailing duty shall be in addition to any other duty imposed under this Act or any other law.
- Where the Central Government, on such inquiry as it may consider necessary, is of the opinion that circumvention of anti-dumping duty imposed has taken place, either by altering the description or name or composition of the article subject to such anti-dumping duty or by import of such article in an unassembled or disassembled form or by changing the country of its origin or export or in any other manner, whereby the anti-dumping duty so imposed is rendered ineffective, it may extend the anti-dumping duty to such article or an article originating in or exported from such country, as the case may be, from such date, not earlier than the date of initiation of the inquiry, as the Central Government may, specify.
- Where the Central Government, on such inquiry as it may consider necessary, is of the opinion that absorption of anti-dumping duty imposed has taken place whereby the anti-dumping duty so imposed is rendered ineffective, it may modify such duty to counter the effect of such absorption, from such date, not earlier than the date of initiation of the inquiry, as the Central Government may specify.

  Absorption of anti-dumping duty is said to have taken place,-

  a. if there is a decrease in the export price of an article without any commensurate change in the cost of production of such article or export price of such article to countries other than India or resale price in India of such article imported from the exporting country or territory; or

  b. under such other circumstances as may be provided by rules.

- **Provisional anti-dumping duty:** The Central Government may, pending the determination of the normal value and the margin of dumping in relation to any article, impose on the importation of such article into India an anti-dumping duty on the basis of a provisional estimate of such value and margin and if such anti-dumping duty exceeds the margin as so determined :-

  a. the Central Government shall, having regard to such determination and as soon as may be after such determination, reduce such anti-dumping duty; and

  b. refund shall be made of so much of the anti-dumping duty which has been collected as is in excess of the anti-dumping duty as so reduced.

- A notification issued or any anti-dumping duty imposed shall not apply to articles imported by a 100% export-oriented undertaking or a unit in a special economic zone, unless,-

  i. it is specifically made applicable in such notification or to such undertaking or unit; or

  ii. such article is either cleared as such into the domestic tariff area or used in the manufacture of any goods that are cleared into the domestic tariff area, in which case, anti-dumping duty shall be imposed on that portion of the article so cleared or used, as was applicable when it was imported into India.

- **Retrospective effect:** If the Central Government, in respect of the dumped article under inquiry, is of the opinion that -

  i. there is a history of dumping which caused injury or that the importer was, or should have been, aware that the exporter practices dumping and that such dumping would cause injury; and

ii. the injury is caused by massive dumping of an article imported in a relatively short time which in the light of the timing and the volume of imported article dumped and other circumstances is likely to seriously undermine the remedial effect of the anti-dumping duty liable to be levied,

the Central Government may levy anti-dumping duty retrospectively from a date prior to the date of imposition of anti-dumping duty but not beyond 90 days from the date of notification under that sub-section, and such duty shall be payable at such rate and from such date as may be specified in the notification.

- The provisions of the Customs Act, 1962 and all rules and regulations made thereunder shall be applicable on this duty also

Illustration 4:

A commodity is imported into India from a country covered by a notification issue by the Central Government u/s 9A of the Customs Tariff Act, 1975. The following particulars are made available:

- Assessable Value for levying Basic Customs Duty: ₹ 12,62,500
- Quantity imported: 500 kgs.
- Basic customs duty: 10%
- IGST: 18%

As per the notification, the anti-dumping duty will be equal to the difference between the cost of commodity calculated @ US$ 40 per kg (Exchange Rate is 1 USD = INR 90) and the landed value of the commodity as imported

Appraise the liability on account of normal duties and the anti-dumping duty.

Solution

Computation of Customs Duty, SWS, anti-dumping duty and IGST

Particulars	Details	₹
Assessable Value		12,62,500
Basic Customs Duty @ 10% on ₹ 12,62,500 [A]		1,26,250
Add: SWS @ 10% [B]		12,625
Landed value of imported goods [C]		14,01,375
Rate of commodity as per Anti Dumping Notification per kg.	US$ 40	
Quantity Imported	500 Kg	
Value as per notification (500 x 50)	US$ 20,000	
Exchange rate 1US$	₹ 90	
Market Value in ₹ [D]	18,00,000	
Add: Anti-dumping Duty [E = D - C]		3,98,625
Value for levying IGST [F]		18,00,000
Add: IGST @ 18% of [F]		3,24,000
Total Customs Duty Payable [A + B + E + F]		8,61,500

Refund of anti-dumping duty in certain cases [Sec. 9AA]

1. Where upon determination by an officer authorised in this behalf by the Central Government, an importer proves to the satisfaction of the Central Government that he has paid anti-dumping duty imposed u/s 9A on any article, in excess of the actual margin of dumping in relation to such article, the Central Government shall,

as soon as may be, reduce such anti-dumping duty as is in excess of actual margin of dumping so determined, in relation to such article or such importer, and such importer shall be entitled to refund of such excess duty

Such importer shall not be entitled to refund of so much of such excess duty which is refundable u/s 9A(2).

2. The Central Government may make rules to-

   i. provide for the manner in which and the time within which the importer may make application for this purposes;

   ii. authorise the officer of the Central Government who shall dispose of such application on behalf of the Central Government within the time specified in such rules; and

   iii. provide the manner in which the excess duty shall be -

      A. determined by such officer; and

      B. refunded by the Deputy Commissioner of Customs or Assistant Commissioner of Customs, as the case may be, after such determination.

No levy under section 9 or section 9A in certain cases [Sec. 9B]

1 Notwithstanding anything contained in sec. 9 or 9A:

   (a) no article shall be subjected to both countervailing duty and anti-dumping duty to compensate for the same situation of dumping or export subsidization;

   (b) the Central Government shall not levy any countervailing duty or anti-dumping duty -

      i. u/s 9 or 9A by reasons of exemption of such articles from duties or taxes borne by the like article when meant for consumption in the country of origin or exportation or by reasons of refund of such duties or taxes;

      ii. under sub-section (1) of each of these sections, on the import into India of any article from a member country of the World Trade Organisation or from a country with whom Government of India has a most favoured nation agreement (hereinafter referred as a specified country), unless in accordance with the rules made under sub-section (2) of this section, a determination has been made that import of such article into India causes or threatens material injury to any established industry in India or materially retards the establishment of any industry in India; and

      iii. under sub-section (2) of each of these sections, on import into India of any article from the specified countries unless in accordance with the rules made under sub-section (2) of this section, a preliminary findings has been made of subsidy or dumping and consequent injury to domestic industry; and a further determination has also been made that a duty is necessary to prevent injury being caused during the investigation:

   Nothing contained in sub-clauses (ii) and (iii) shall apply if a countervailing duty or an anti-dumping duty has been imposed on any article to prevent injury or threat of an injury to the domestic industry of a third country exporting the like articles to India;

   (c) the Central Government may not levy -

      i. any countervailing duty u/s 9, at any time, upon receipt of satisfactory voluntary undertakings from the Government of the exporting country or territory agreeing to eliminate or limit the subsidy or take other measures concerning its effect, or the exporter agreeing to revise the price of the article and if the Central Government is satisfied that the injurious effect of the subsidy is eliminated thereby;

ii. any anti-dumping duty u/s 9A, at any time, upon receipt of satisfactory voluntary undertaking from any exporter to revise its prices or to cease exports to the area in question at dumped price and if the Central Government is satisfied that the injurious effect of dumping is eliminated by such action.

2 The Central Government may, by notification in the Official Gazette, make rules for the purposes of this section, and without prejudice to the generality of the foregoing, such rules may provide for the manner in which any investigation may be made for the purposes of this section, the factors to which regard shall be at in any such investigation and for all matters connected with such investigation.

Apart from these, additional duty, countervailing duty or special additional duty is also applicable on certain goods. Generally, these duties are subsumed in the GST, however, these duties are still applicable in case of goods which are outside the purview of GST like alcoholic liquor for human consumption.

Export Duty [Second Schedule of the Customs Tariff Act, 1975]

In general, no duty is payable on export. However, Government has imposed export duty on certain goods like leather goods, ferrous waste and scrap, snake skins, etc.

Quick MCQ

1. The levy of GST Compensation Cess has been extended up to which date?

   a. 30th June 2022

   b. 31st March 2025

   c. 31st March 2026

   d. It is now a permanent levy

   Correct: (c) 31st March 2026

   Reason: The levy of GST Compensation Cess has been extended beyond the initial 5-year period (which ended in June 2022) up to 31-03-2026 to service borrowing and debt repayment.

2. When calculating the IGST on imported goods, the value must include which of the following components?

   a. Assessable Value + BCD only

   b. Assessable Value + BCD + SWS

   c. Assessable Value + BCD + IGST

   d. Assessable Value + GST Compensation Cess

   Correct: (b) Assessable Value + BCD + SWS

   Reason: The value for IGST includes the value determined u/s 14 plus any duty of customs chargeable (like BCD, SWS, AIDC, Anti-dumping), but excludes the IGST itself and the GST Compensation Cess.

3. The Agriculture Infrastructure and Development Cess (AIDC) is levied on which of the following specified goods?

   a. Electronic Goods and Mobile Phones

   b. Gold , Silver, and Apples

c. Textiles and Garments

d. Plastic and Rubber products

Correct: (b) Gold, Silver, and Apples

Reason: Examples of notified goods for AIDC include apples, kabuli chana, urea, coal, and precious metals like gold and silver.

4. Safeguard Duty is imposed when the Central Government is satisfied that:

a. Goods are being dumped at less than normal value

b. Goods are subsidized by the exporting country

c. Goods are imported in increased quantities causing serious injury to domestic industry

d. Goods are imported in violation of Intellectual Property Rights

Correct: (c) Goods are imported in increased quantities causing serious injury to domestic industry

Reason: Safeguard measures are applied when an article is imported into India in increased quantities so as to cause or threaten to cause serious injury to the domestic industry.

5. If imported goods are liable to Anti-Dumping Duty (ADD), what is the maximum duration for which this duty can be imposed initially?

a. 200 days

b. 1 year

c. 5 years

d. 10 years

Correct: (c) 5 years

Reason: Anti-dumping duty shall be in force for 5 years (unless revoked earlier) from the date of its imposition.

6. What is the formula for the 'Margin of Dumping' used to calculate Anti-Dumping Duty?

a. Export Price minus Normal Value

b. Normal Value minus Export Price

c. Landed Value minus Export Price

d. Normal Value minus Cost of Production

Correct: (b) Normal Value minus Export Price

Reason: Margin of dumping = Normal Value less Export Price.

7. In which schedule of the Customs Tariff Act, 1975 are the rates of Export Duty specified?

a. First Schedule

b. Second Schedule

c. Third Schedule

d. Section 12 of the Customs Act

Correct: (b) Second Schedule

Reason: The Second Schedule enlists the goods liable to duty on exportation.

8. Safeguard Duty shall NOT be imposed on an article originating from a developing country if the share of imports from that country does not exceed:

   a. 3% of total imports of that article

   b. 5% of total imports of that article

   c. 7% of total imports of that article

   d. 9% of total imports of that article

   Correct: (a) 3% of total imports of that article

   Reason: Safeguard duty is not imposed if the article originates from a developing country and the share of imports from that country does not exceed 3% of the total imports of that article into India.

9. Which section of the Customs Tariff Act, 1975 provides for the levy of Integrated Goods and Services Tax (IGST)?

   a. Section 3(1)

   b. Section 3(7)

   c. Section 3(9)

   d. Section 12

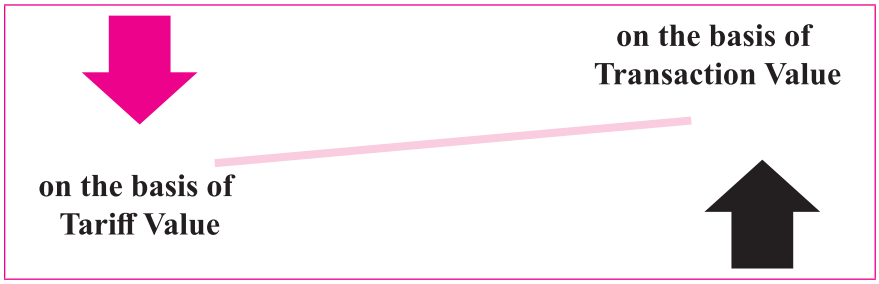
   Correct: (b) Section 3(7)

   Reason: IGST is levied under Section 3(7) of the Customs Tariff Act, 1975.

Valuation Rules

6.3

The rate of customs duty leviable on imported or exported goods are either specific or *ad valorem basis (i.e., as a percentage of the value of goods) or at times on specific cum ad valorem. In case of ad valorem duty, the valuation of the goods may be determined in any of the following manner:*



Valuation on the basis of Transaction Value [Sec. 14(1)]

1. **Valuation of Imported Goods:** The value of the imported goods shall be the transaction value of such goods, that is to say,
   - the price actually paid or payable for the goods;
   - when sold for export to India;
   - for delivery at the time and place of importation;
   - where the buyer and seller of the goods are not related; and
   - price is the sole consideration for the sale

   subject to such other conditions as may be specified in the rules* made in this behalf.

   Taxpoint

   - Such transaction value in the case of imported goods shall include, in addition to the price as aforesaid, any amount paid or payable for costs and services, including
     - commissions and brokerage (excluding buying commission);
     - engineering, design work;
     - royalties and licence fees;
     - costs of transportation to the place of importation;
     - insurance;
     - loading, unloading and handling charges

* The Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 have been specified.

to the extent and in the manner specified in the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007

2. ***Valuation of Export Goods:*** The value of the exported goods shall be the transaction value of such goods, that is to say,
   - the price actually paid or payable for the goods;
   - when sold for export from India;
   - for delivery at the time and place of exportation;
   - where the buyer and seller of the goods are not related; and
   - price is the sole consideration for the sale

   subject to such other conditions as may be specified in the rules* made in this behalf.

Valuation on the basis of Tariff Value [Sec. 14(2)]

CBIC may fix tariff values for any class of imported or export goods (having regard to the trend of value of such or like goods) and where any such tariff values are fixed, the duty shall be chargeable with reference to such tariff value. At present, tariff value has been fixed in respect of import for crude palm oil, crude palmolein, crude soyabean oil, brass scrap, poppy seeds, etc.

Date Relevant for Determination of Rate of Exchange

Rate of Exchange

The price shall be calculated with reference to the rate of exchange as in force on the date on which a bill of entry is presented u/s 46, or a shipping bill of export, as the case may be, is presented u/s 50.

Taxpoint

- The price shall be calculated with reference to the rate of exchange as in force on the date

In case of Import	Date on which a bill of entry is presented u/s 46,
In case of export	Date on which a shipping bill of export is presented u/s 50.

- Rate of exchange means the rate of exchange:
  i. determined by the Board (i.e., CBIC), or
  ii. ascertained in such manner as the Board may direct, for the conversion of Indian currency into foreign currency or foreign currency into Indian currency [Explanation to sec. 14]
- The rate of exchange is notified by (i) CBIC; (ii) RBI; and (iii) Foreign Exchange Dealers' Association of India. For the purpose of customs, rate notified by **CBIC** shall be considered. Selling Rate shall be considered for import and buying rate shall be considered for export.

Example

Determine the rate of exchange for the purpose of computation of customs duty in the following cases:

* The Customs Valuation (Determination of Value of Export Goods) Rules, 2007 have been specified.

Case	Date of Bill of entry / Shipping bill of export	Date of entry inward/outward	Exchange rate notified by CBIC (INR per USD)		Exchange Rate notified by RBI (INR per USD)	
			(IV)		(V)	
(I)	(II)	(III)	On the date given on col. (II)	On the date given on col. (III)	On the date given on col. (II)	On the date given on col. (III)
Import	20-10-2025	15-10-2025	82	83	80	81
Export	25-11-2025	25-11-2025	81	81	83	83

Solution

Exchange rate notified by the CBIC on the date of presentation of bill of entry (in case of import) or shipping bill (in case of export) shall be considered, thus:

- In case of import, exchange rate of ₹ 82 per USD shall be considered.
- In case of export, exchange rate of ₹ 81 per USD shall be considered.

Note that rate notified by RBI is irrelevant for computation of customs duty.

Customs Valuation (Determination of price of imported goods) Rules, 1988

Methods to be followed (in hierarchal order) for determination of price of imported goods

- Primary Method: Transaction value [Rule 3]
- Secondary Method
  1. Transaction value of identical goods [Rule 4]
  2. Transaction value of similar goods [Rule 5]
  3. Deductive value [Rule 7]
  4. Computed value [Rule 8]
  5. Residual method [Rule 9]

Note: On the request of importer, the order of application of rules 7 (i.e. Deductive value) and 8 (i.e. Computed value) shall be reversed.

Transaction Value [Rule 3]

Transaction value shall be accepted as price, provided following conditions are satisfied –

1. The sale is in the ordinary course of trade under fully competitive conditions;
2. There are no restriction as to the disposition or use of the goods by the buyer other than restrictions which –
   a. are imposed or required by law or by public authorities in India; or
   b. limit the geographical area in which the goods may be resold; or
   c. do not substantially affect the value of the goods;
3. The sale or price is not subject to condition or consideration for which a value cannot be determined;
4. Any part of the proceeds of subsequent resale, disposal or use of the goods by the buyer will not be shared with the seller unless an appropriate adjustment is made;
5. The buyer and seller are not related.

Note

Meaning of related person

Person shall be deemed to be related if –

1. *they are officers or directors of one another's businesses;*
2. *they are legally recognized partners in business;*
3. *they are employer and employee;*
4. *any person owns, controls or holds 5% or more of the voting right of both of them;*
5. *one of them controls the other;*
6. *both of them are controlled by a third person;*
7. *together they control a third person;*
8. *they are members of the same family.*

a. Person also includes legal persons.

b. Persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other shall be deemed to be related for the purpose of these rules, if they fall within the criteria of this sub-rule.

Transaction value can be accepted though sale is made to related buyer

In the following cases, the transaction value shall be accepted even if the buyer and seller are related:

a) the examination of the circumstances of the sale of the imported goods indicates that relationship did not influence the price.

b) the importer demonstrates that the value of the goods being valued, closely approximates to one of the following values ascertained at or about the same time:

   i. the transaction value of identical goods, or of similar goods, in sales to unrelated buyers in India;

   ii. the deductive value for identical goods or similar goods;

   iii. the computed value for identical goods or similar goods:

Note

- While comparing prices, due account shall be taken of difference in commercial levels, quantity levels and cost incurred by the seller in sales to an unrelated buyer. E.g. price of 1000 units are not comparable with the price of 100000 units.
- While determining value of identical or similar goods, substitute value shall not be taken.

Computation of transaction value of imported goods

The transaction value of imported goods shall be the price actually paid or payable for the goods when sold for export to India adjusted in accordance with the provisions of rule 10.

As per rule 10, while determining transaction value, following cost or value (being not included in the price) shall be added with the price actually paid or payable -

1. the following cost and services, to the extent they are incurred by the buyer –

a) Commission and brokerage, except buying commissions;

b) The cost of containers;

c) The cost of packing whether for labour or materials;

2. the appropriate value of the following goods and services supplied by the buyer free of charge or at reduced cost for use in the production and sale for export of imported goods –

   a) materials, components, parts & similar items incorporated in the imported goods;

   b) tools, dies, moulds & similar items used in the production of the imported goods;

   c) materials consumed in the production of the imported goods;

   d) engineering, development, art work, design work, plans and sketches undertaken elsewhere than in India and necessary for the production of the imported goods;

3. royalties and licence fees related to the imported goods that the buyer is required to pay as a condition of the sale of such goods;

4. the value of any part of proceeds of any subsequent resale, disposal or use of such goods accrues to the seller;

5. all other payments actually paid or payable by the buyer to the seller or by the buyer to the third party to satisfy an obligation of the seller.

Additions to the price actually paid or payable shall be made under this rule on the basis of objective and quantifiable data

Price for delivery at the time and place of importation [Rule 10(2)]

The value of imported goods shall be the price for delivery at the time and place of importation. Hence, it includes –

a) The cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation;

b) The cost of insurance to the place of importation

Note

i) Where the above cost is not ascertained then following shall be added –

In case of	Amount to be added
Cost of transport	20% of free on board (FOB) value of goods
Cost of insurance	1.125% of FOB value of goods

ii) Where goods are imported by **air**, then cost of transport (whether ascertained or not) shall be restricted to 20% of FOB value of goods.

iii) FOB value = Cost of production + Profit of the manufacturer + Freight in foreign country + Local taxes + Loading charges + Export duty and cess.

In nutshell, valuation shall be determined as under:

	₹
Value of material (ex-factory price)	xxx

	₹
Carriage / Freight / insurance upto the port of shipment in the exporter's country	xxx
Charges for loading on to the ship at the shipping port in the exporter's country	xxx
Free on Board (FOB)	xxx
Add: if not included above	xxx
• Commission and brokerage (except buying commission)	xxx
• Packing cost (except cost of durable and returnable packing)	xxx
• Cost of engineering, development and plan or sketches (undertaken outside India)	xxx
• Royalties and Licence Fee	xxx
• Value of subsequent re-sale if payable to foreign supplier	xxx
• Value of material supplied by the buyer free of cost	xxx
FOB value as per Customs	xxx
Actual Cost of freight (if not specified, then @ 20% of FOB value as per customs) [in case of air transport max. 20%]	xxx
Ship demurrage charges on chartered vessels, lighterage or barge charges	xxx
Actual Insurance charges (if not specified, then @ 1.125% of FOB value as per customs)	xxx
Cost, Insurance and Freight (CIF) i.e., Assessable Value	xxx

Taxpoint

- Place of importation means the customs station, where the goods are brought for being cleared for home consumption or for being removed for deposit in a warehouse
- Unloading charges or landing charges at the place of importation shall not be considered.
- Buying commission means fees paid by an imported to his agent for the services of representing him abroad in the purchase of goods being valued.
- When ship is not brought upto jetty because deep draught at port or ports are busy or any other reason, in this case cargo shall be discharged at anchorage. Charges for bringing goods from outer anchorage to the jetty is called barging / lighterage charges.
- Demurrage charges payable to port trust authorities for delay in clearing goods are not to be added.
- However, following cost shall **not** to be included:
  - Duties and tax paid in India
  - Cost of erection charges in India
  - Cost of transport and insurance from port to factory of importer in India
  - Cost of development charges in connection with imported machinery
  - Port demurrage charges and unloading charges in India
  - Any other charges incurred after importation like post shipment charges unless such charges are pre-condition for importation (e.g. inspection)

Illustration 5:

Compute the value of the imported goods for customs purpose with the following information –

Particulars	Case 1	Case 2	Case 3
Price actually payable to the seller	10,000	20,000	30,000
Cost of packing materials	1,000	Nil	500
Labour charges for packing	200	Nil	300
Price of material supplied to seller by buyer free of cost	1,000	500	2,000
Cost of transport	1,000	Unascertained	12,000
Insurance	Unascertained	Unascertained	500
Local transport in India	500	400	600
Mode of transport	Sea	Sea	Air

Solution

Computation of assessable value of goods for customs purpose

Particulars	Case 1	Case 2	Case 3
Price actually payable to the seller	10,000	20,000	30,000
Cost of packing materials	1,000	Nil	500
Labour charges for packing	200	Nil	300
Material supplied to seller by buyer free of cost	1,000	500	2,000
Free on Board Value [A]	12,200	20,500	32,800
Add:			
Cost of transport [B]	1,000	4,100[1]	6,560[2]
Insurance (1.125% of A) [C]	137	231	500
Assessable value	13,337	24,831	39,860

Notes

1. When cost of transportation is not certain then 20% of FOB value shall be considered as cost of transport.
2. When goods are transported through airways then, cost of transportation shall be restricted to 20% of FOB value.

Illustration 6:

From the particulars given below, find out the assessable value of the imported goods under the Customs Act, 1962:

	Particulars	US$
(i)	Cost of the machine at the factory of the exporting country	20,000
(ii)	Transport charges incurred by the exporter from his factory to the port for shipment	1,000
(iii)	Handling charges paid for loading the machine in the ship	100
(iv)	Buying commission paid by the importer	100
(v)	Freight charges from the exporting country to India	2,000
(vi)	Exchange Rate to be considered 1$ = ₹ 85	

Solution

Computation of assessable value of goods for customs purpose

	Particulars	Value (US $)
(i)	Cost of the machine at the factory of the exporting country	20,000.00
(ii)	Transport charges incurred by the exporter from his factory to the port for shipment	1,000.00
(iii)	Handling charges paid for loading the machine in the ship	100.00
	FOB Value of Exporter	21,100.00
(iv)	Buying commission paid by the importer [Not includible]	-
(v)	Cost of insurance [@ 1.125% of FOB]	237.38
(vi)	Freight charges from exporting country to India	2,000.00
(vii)	CIF Value/ Assessable value	23,337.38
	Assessable value (in INR) [$ 23,337.38 x ₹ 85]	19,83,677

Illustration 7:

XYZ Industries Ltd., has imported certain equipment from Japan at an FOB cost of 4,00,000 Yen (Japanese). The other expenses incurred by M/s. XYZ Industries in this connection are as follows:

- Freight from Japan to Indian Port 40,000 Yen
- Insurance paid to Insurer in India ₹ 20,000
- Designing charges paid to Consultancy firm in Japan 60,000 Yen
- M/s. XYZ Industries had expended ₹ 2,00,000 in India for certain development activities with respect to the imported equipment
- XYZ Industries had incurred road transport cost from Mumbai port to their factory in MP ₹ 1,30,000
- The CBIC had notified exchange rate of 1 Yen = ₹ 0.69. The inter bank rate was 1 Yen = ₹ 0.70
- M/s XYZ Industries had effected payment to the Bank based on exchange rate 1 Yen = ₹ 0.71
- The commission payable to the agent in India was 5% of FOB cost of the equipment in Indian Rupees.

Compute assessable value

Solution

Computation of assessable value of goods for customs purpose

Particulars	Amount in Yen
Free on Board (FOB)	4,00,000
Designing charges	60,000
Development charges [as it is post shipment expenses]	—
Road transport charges [as it is post shipment expenses]	—
Commission [4,00,000 x 5%]	20,000
FOB value of the Customs	4,80,000

	Amount in ₹
FOB value of the Customs [by using exchange rate of the CBIC] [4,80,000 x 0.69]	3,31,200
Insurance	10,000
Freight [40,000 x 0.69]	27,600
Total CIF value/ Assessable Value	3,68,800

Illustration 8:

How shall your answer differ, if the information regarding freight and insurance are not available.

Solution

Computation of assessable value of goods for customs purpose

Particulars	Amount in Yen
Free on Board (FOB)	4,00,000
Designing charges	60,000
Development charges [as it is post shipment expenses]	—
Road transport charges [as it is post shipment expenses]	—
Commission [4,00,000 x 5%]	20,000
FOB value of the Customs	4,80,000
	Amount in ₹
FOB value of the Customs [by using exchange rate of the CBIC] [4,80,000 x 0.69]	3,31,200
Insurance [₹ 3,31,200 x 1.125%]	3,726
Freight [₹ 3,31,200 x 20%]	66,240
Total CIF value/ Assessable Value	4,01,166

Illustration 9:

BSA and Company Ltd. have imported a machine from U.K. from the following particulars furnished by them, arrive at the assessable value for the purpose of customs duty payable:

(i)	F.O.B. cost of the machine	10,000 U.K. Pounds
(ii)	Freight (air)	3,000 U.K. Pounds
(iii)	Engineering and design charges paid to a firm in U.K.	500 U.K. Pounds
(iv)	License fee relating to imported goods payable by the buyer as a condition of sale	20% of F.O.B. Cost
(v)	Materials and components supplied by the buyer free of cost valued	₹ 20,000
(vi)	Insurance paid to the insurer in India	₹ 6,000
(vii)	Buying commission paid by the buyer to his agent in U.K.	100 U.K. Pounds

Other Particulars:

a. Inter-bank exchange rate as arrived at by the authorized dealer: ₹ 102.50 per U.K. Pound.

b. CBIC had notified for purpose of Section 14 of the Customs Act, 1962, exchange rate of ₹ 100.25 per U.K. Pound.

c. Importer paid ₹ 5,000 towards demurrage charges for delay in clearing the machine from the Airport.

Solution

Computation of assessable value of goods for customs purpose

Particulars	UK Pounds
FOB Value	10,000
Add: Engineering and Design charges (Paid in (UK)	500
Add: License fee (20% on 10,000 UKP)	2,000
	12,500
	Value in ₹
Sub-total (12,500 UKP x ₹ 100.25)	12,53,125
Add: Material supplied by the buyer freely	20,000
FOB Value as per customs	12,73,125
Add: Air freight (₹ 12,73,125 × 20%)	2,54,625
Add: Insurance	6,000
CIF Value / Assessable value	15,33,750

Buying commission shall not be considered.

Illustration 10:

X Ltd. imported goods from Switzerland 400 units @ $ 110. Following further information is also needs to be considered:

(i) Freight (Vessel) – $ 5000

(ii) Demurrage charges paid to port authority – $ 1000

(iii) Insurance – $ 50

(iv) Royalty for use of Patent – $ 1,000

(v) Royalty as a condition of Sale – $ 20,000

Assuming exchange rate is ₹ 82.00. Compute assessable value

Solution

Computation of Assessable Value

Particulars	Amount
Purchase Value	$ 44,000
Royalty for use of Patent	$ 1,000
Royalty as a condition of Sale	$ 20,000
FOB Value	$ 65,000
Add: Freight	$ 5,000
Add: Insurance Charges	$ 50
Assessable Value	$ 70,050
Assessable Value in INR [$ 70,050 x ₹ 82]	₹ 57,44,100

Note

a. Demurrage charges payable to port trust authorities for delay in clearing goods are not to be added

b. Royalties and license fees relating to imported goods that buyer is required to pay, directly or indirectly, as a condition of sale of goods being valued are required to be added

Illustration 11:

C Ltd, an importer, has imported a machine from USA at FOB Cost of $ 10000.

(i) Freight from port in USA to Indian port was $ 700.

(ii) Insurance was paid to insurer in India ₹ 6,000.

(iii) Design and development charges of $ 2000 were paid to a consultancy firm in USA.

(iv) The importer also spent an amount of ₹ 50,000 in India for development work connected with the machinery.

(v) ₹ 10,000 were spent in transporting the machinery from India port to the factory of Importer

(vi) Rate of exchange as announced by RBI was : ₹ 84.70 = 1 US $

(vii)Rate of exchange as announced by CBIC: ₹ 85.60 = 1 US $.

(viii)Rate which bank recovered the amount from importer: ₹ 85.30 = 1 US $

(ix) Foreign exporters have an agent in India. Commission is payable to the agent in Indian Rupees @ 5% of FOB price.

Find the assessable value

Solution

Computation of Assessable Value

Particulars	Amount
FOB Value	$ 10,000
Add: Design and Development Charges	$ 2,000
Add: Ocean Freight	$ 700
Total	$ 12,700
In INR [US $ 12,700 x ₹ 85.60]	₹ 10,87,120
Add: Insurance	₹ 6,000
Add: Commission [500 US $ x ₹ 85.60]	₹ 42,800
Assessable Value (Rounded off)	₹ 11,35,920

Note: Design and development work in India and transport cost incurred in India shall not be considered for ascertaining assessable value.

Transaction value of identical goods [Rule 4]

The value of imported goods shall be the transaction value of identical goods sold for export to India and imported at or about the same time as the goods being valued.

Taxpoint

1. *Identical goods means imported goods –*

a) *which are same in all respects, including physical characteristics, quality and reputation as the goods being valued except for minor differences in appearance that do not affect the value of goods;*

b) *produced in the country in which the goods being valued were produced; and*

c) *produced by the same person who produced the goods or where no such goods are available, then goods produced by a different manufacturer.*

However, identical goods do not include goods where engineering, development, art work, design work, plan or sketch was done by the buyer in India free of charge or at a reduced cost.

2. Such identical goods shall be sold at the same commercial and quantity level. Where no such sale is found, the transaction value of identical goods sold at a different commercial level or in different quantity or both shall be used with certain adjustment.

3. Where more than one transaction value of identical goods is found, then the lowest of such value shall be used for determining the value of imported goods.

Transaction value of similar goods [Rule 5]

The value of imported goods shall be the transaction value of similar goods sold for export to India and imported at or about the same time as the goods being valued.

Notes

1. *Similar goods means imported goods –*

   a) *which although not alike in all respect, have like characteristics and like component materials which enable them to perform the same function. Such goods shall be commercially interchangeable with the goods being valued having regard to the quality, reputation and the existence of trade-mark.*

   b) *produced in the country in which the goods being valued were produced; and*

   c) *produced by the same person who produced the goods or where no such goods are available, then goods produced by a different manufacturer.*

   However, similar goods do not include goods where engineering, development, art work, design work, plan or sketch was done by the buyer in India free of charge or at a reduced cost.

2. Such similar goods shall be sold at the same commercial and quantity level. Where no such sale is found, the transaction value of similar goods sold at a different commercial level or in different quantity or both shall be used with certain adjustment.

3. Where more than one transaction value of similar goods is found, then the lowest of such value shall be used for determining the value of imported goods.

Determination of value where value can not be determined under rules 3, 4 and 5 [Rule 6]

If the value of imported goods cannot be determined under the provisions of rules 3, 4 and 5, the value shall be determined under the provisions of rule 7 or, when the value cannot be determined under that rule, under rule 8.

However, at the request of the importer, and with the approval of the proper officer, the order of application of rules 7 and 8 shall be reversed.

Deductive Value [Rule 7]

Where the goods being valued or identical or similar imported goods are sold in India at or about the time of determination of value, then the value of imported goods shall be based on the unit price at which such goods are sold in the *greatest aggregate quantity* to the *unrelated* person in India as reduced by -

a) the commission usually paid or payable or the additions usually made for profits and general expenses for sales in India;

b) the cost of transport and insurance and other cost incurred within India;

c) the customs duty and other taxes payable in India by reason of importation or sale of the goods.

Notes

1. Where such goods are not sold at or about the same time of importation of the goods being valued, then the value of imported goods shall be based on the unit price at which the imported goods or identical or similar imported goods are sold in India at the earliest date after importation but before the expiry of 90 days after such importation.

2. Where such goods are sold in India after further processing, then the value shall be based on the unit price at which the imported goods after processing are sold in the greatest aggregate quantity to unrelated person in India as reduced by processing and other cost (as referred above) incurred in India.

Provision Illustrated

Following are the sale details of product X (being 12000 units imported from Japan on 1-1-2026), you are required to compute assessable value of product X for customs duty by applying deductive method –

Date of Sale	Quantity Sold (in units)	Price per unit
01-1-2026	1000	₹ 100
10-1-2026	2000	₹ 98
19-1-2026	500	₹ 101
27-2-2026	1500	₹ 100
03-3-2026	1000	₹ 98
13-3-2026	1500	₹ 99
30-3-2026	1000	₹ 98
07-5-2026	2000	₹ 100

Assume the expenditure incurred in India (including profit) is ₹ 18 per unit. Duty is charged on such article @ 25% (including SWS) *ad valorem.*

Solution

Quantity sold at different prices are summarized below –

Price per unit	Quantity sold
₹ 100	1000 + 1500 = 2500 units
₹ 98	2000 + 1000 + 1000 = 4000 units
₹ 101	500 units
₹ 99	1500 units

Note: Sale made on 7/5/2026 is not considered as it is made after 90 days from importation thereof.

The greatest number of units sold at a particular price is 4000 units, therefore, the unit price in the greatest aggregate quantity is ₹ 98.

Computation of assessable value

Assessable value + Customs duty = Unit sale price as computed above - Expenditure incurred in India

Assessable value + 25% of Assessable value = ₹ 98 – ₹ 18

125% of Assessable value = ₹ 80

Assessable value = ₹ 64 per unit

Assessable value of 12000 units = ₹ 7,68,000

Duty on above = ₹ 1,92,000

Computed value [Rule 8]

The value of imported goods shall consist of –

a) The cost or value of materials and fabrication or other processing employed in producing the imported goods;

b) An amount for general expenses and profit made by producers in the country of exportation for export to India;

c) The cost of transport, insurance, etc. as referred in rule 10(2).

This method is normally possible when the importer in India and foreign exporter are closely associated and the foreign exporter is willing to give necessary costing.	
Cost of Materials and General expenses for producing the imported goods	xx
Add: profit of the exporter	xx
Add: all expenditure as per Rule 10	xx
Assessable Value	xx

Residual method [Rule 9]

Where the value of imported goods shall not be determined as per any preceding rules, then the value shall be determined using -

- reasonable means consistent with the principles;
- general provisions of these rules; and
- data available in India.

Taxpoint:

➢ However, the value so determined shall not exceed the price at which such or like goods are ordinarily sold or offered for sale for delivery at the time and place of importation in the course of international trade, when the seller or buyer has no interest in the business of other and price is the sole consideration for the sale or offer for sale.

➢ Further, no value shall be determined on the following basis –

a) The selling price in India of the goods produced in India;

b) A system, which provides acceptance of value being highest of two alternative values;

c) The price of the goods on domestic markets of the country of exportation;

d) The cost of production (other than computed value) for identical or similar goods;

e) The price of the goods for export to a country other than India;

f) Minimum customs values;

g) Arbitrary or fictitious values

Cost and Services [Rule 10]

Already discussed in Rule 3

However, following are to be noted:

Where the FOB value of the goods is not ascertainable but the sum of FOB value of the goods and insurance cost is ascertainable	the transport cost shall be 20% of such sum
Where the FOB value of the goods is not ascertainable but the sum of FOB of the goods and the transport cost is ascertainable	the insurance cost shall be 1.125% of such sum

Taxpoint:

- Where CIF value is given but transport cost is not available, then transportation cost would be:

Cost of transport = CIF Value x 20/120

- Where CIF value is given but insurance cost is not available, then transportation cost would be:

Cost of insurance = CIF Value x 1.125/101.125

Other points

Declaration by the importer [Rule 11]

The importer or his agent shall furnish –

a) A declaration disclosing full and accurate details relating to the value of imported goods; &

b) Any other statement, information or documents including an invoice of the manufacturer or producer of the imported goods (where the goods are exported by a person other than the manufacturer or producer) as considered necessary by the proper officer for determination of the value of imported goods.

Notes

1. Declaration by importer, inter alia, includes –
   - Relationship between buyer and seller;
   - The basis of the declared value;
   - Conditions and restriction attached with sale;
   - Costs not included in the invoice.
2. The provision of the Customs Act, 1962 relating to confiscation, penalty and prosecution shall apply to the cases where wrong statement, information, documents or declaration are furnished under these rules.

Rejection of declared value [Rule 12]

When the proper officer has reason to doubt the truth or accuracy of the value declared in relation to any imported goods, he may ask the importer of such goods to furnish further information including documents or other evidence.

Where even after receiving such further information or in the absence of a response from such importer, the proper officer has reasonable doubt about the truth or accuracy of the value so declared, then it shall be deemed that the value of such imported goods cannot be determined under transaction value.

At the request of an importer, the proper officer shall intimate the importer in writing the grounds for doubting the truth and accuracy of the value declared by such importer and provide a reasonable opportunity of being heard before taking a final decision.

Taxpoint

- This rule by itself does not provide a method for determination of value, it provides a mechanism and procedure for rejection of declared value in cases where there is reasonable doubt that the declared value does not represent the transaction value; where the declared value is rejected, the value shall be determined by proceeding sequentially in accordance with rules 4 to 9.
- The declared value shall be accepted where the proper officer is satisfied about the truth and accuracy of the declared value after the said enquiry in consultation with the importers.
- The proper officer shall have the powers to raise doubts on the truth or accuracy of the declared value based on certain reasons which may include -
  a. the significantly higher value at which identical or similar goods imported at or about the same time in comparable quantities in a comparable commercial transaction were assessed;
  b. the sale involves an abnormal discount or abnormal reduction from the ordinary competitive price;
  c. the sale involves special discounts limited to exclusive agents;
  d. the misdeclaration of goods in parameters such as description, quality, quantity, country of origin, year of manufacture or production;
  e. the non declaration of parameters such as brand, grade, specifications that have relevance to value;
  f. the fraudulent or manipulated documents.

Interpretative notes [Rule 13]

The interpretative notes specified in the schedule to these rules shall apply for the interpretation of these rules.

Interpretative Notes

General Note

Use of generally accepted accounting principles

1. "Generally accepted accounting principles" refers to the recognized consensus or substantial authoritative support within a country at a particular time as to which economic resources and obligations shall be recorded as assets and liabilities, which changes in assets and liabilities should be recorded, how the assets and liabilities and changes in them should be measured, what information should be disclosed and how it should be disclosed and which financial statements should be prepared. These standards may be broad guidelines of general application as well as detailed practices and procedures.

Notes to rules

Note to rule 2

In rule 2(2)(v), for the purposes of these rules, one person shall be deemed to control another when the former is legally or operationally in a position to exercise restraint or direction over the latter.

Note to rule 3

Price actually paid or payable

The price actually paid or payable is the total payment made or to be made by the buyer to or for the benefit of the seller for the imported goods. The payment need not necessarily take the form of a transfer of money. Payment may be made by way of letters of credit or negotiable instruments. Payment may be made directly or indirectly. An example of an indirect payment would be the settlement by the buyer, whether in whole or in part, of a debt owed by the seller.

Activities undertaken by the buyer on his own account, other than those for which an adjustment is provided in rule 10, are not considered to be an indirect payment to the seller, even though they might be regarded as of benefit to the seller. The costs of such activities shall not, therefore, be added to the price actually paid or payable in determining the value of imported goods.

The value of imported goods shall not include the following charges or costs, provided that they are distinguished from the price actually paid or payable for the imported goods:

a. Charges for construction, erection, assembly, maintenance or technical assistance, undertaken after importation on imported goods such as industrial plant, machinery or equipment;

b. The cost of transport after importation;

c. Duties and taxes in India.

The price actually paid or payable refers to the price for the imported goods. Thus, the flow of dividends or other payments from the buyer to the seller that do not relate to the imported goods are not part of the customs value.

Rule 3(2)(a) (iii)

Among restrictions which would not render a price actually paid or payable unacceptable are restrictions which do not substantially affect the value of the goods. An example of such restrictions would be the case where a seller requires a buyer of automobiles not to sell or exhibit them prior to a fixed date which represents the beginning of a model year.

Rule 3(2)(b)

If the sale or price is subject to some condition or consideration for which a value cannot be determined with respect to the goods being valued, the transaction value shall not be acceptable for customs purposes. Some examples of this include-

a. The seller establishes the price of the imported goods on condition that the buyer will also buy other goods in specified quantities;

b. the price of the imported goods is dependent upon the price or prices at which the buyer of the imported goods sells other goods to the seller of the imported goods;

c. the price is established on the basis of a form of payment extraneous to the imported goods, such as where the imported goods are semifinished goods which have been provided by the seller on condition that he will receive a specified quantity of the finished goods.

However, conditions or considerations relating to the production or marketing of the imported goods shall not result in rejection of the transaction value. For example, the fact that the buyer furnishes the seller with engineering and plans undertaken in India shall not result in rejection of the transaction value for the purposes of rule 3. Likewise, if the buyer undertakes on his own account, even though by agreement with the seller, activities relating to the marketing of the imported goods, the value of these activities is not part of the value of imported goods nor shall such activities result in rejection of the transaction value.

Rule 3(3)

1. Rule 3(3)(a) and rule 3(3)(b) provide different means of establishing the acceptability of a transaction value.

2. Rule 3(3)(a) provides that where the buyer and the seller are related, the circumstances surrounding the sale shall be examined and the transaction value shall be accepted as the value of imported goods provided that the relationship did not influence the price. It is not intended that there should be an examination of the circumstances in all cases where the buyer and the seller are related. Such examination will only be required

where there are doubts about the acceptability of the price. Where the proper officer of customs has no doubts about the acceptability of the price, it should be accepted without requesting further information from the importer. For example, the proper officer of customs may have previously examined the relationship, or he may already have detailed information concerning the buyer and the seller, and may already be satisfied from such examination or information that the relationship did not influence the price.

3. Where the proper officer of customs is unable to accept the transaction value without further inquiry, he should give the importer an opportunity to supply such further detailed information as may be necessary to enable him to examine the circumstances surrounding the sale. In this context, the proper officer of customs should be prepared to examine relevant aspects of the transaction, including the way in which the buyer and seller organize their commercial relations and the way in which the price in question was arrived at, in order to determine whether the relationship influenced the price. Where it can be shown that the buyer and seller, although related under the provisions of rule 2(2), buy from and sell to each other as if they were not related, this would demonstrate that the price had not been influenced by the relationship. As an example of this, if the price had been settled in a manner consistent with the normal pricing practices of the industry in question or with the way the seller settles prices for sales to buyers who are not related to him, this would demonstrate that the price had not been influenced by the relationship. As a further example, where it is shown that the price is adequate to ensure recovery of all costs plus a profit which is representative of the firm's overall profit realized over a representative period of time (e.g. on an annual basis) in sales of goods of the same class or kind, this would demonstrate that the price had not been influenced.

4. Rule 3(3)(b) provides an opportunity for the importer to demonstrate that the transaction value closely approximates to a "test" value previously accepted by the proper officer of customs and is therefore acceptable under the provisions of rule 3. Where a test under rule 3(3)(b) is met, it is not necessary to examine the question of influence under rule 3(3)(a). If the proper officer of customs has already sufficient information to be satisfied, without further detailed inquiries, that one of the tests provided in rule 3(3)(b) has been met, there is no reason for him to require the importer to demonstrate that the test can be met. In rule 3(3)(b) the term "unrelated buyers" means buyers who are not related to the seller in any particular case.

Rule 3(3)(b)

A number of factors must be taken into consideration in determining whether one value "closely approximates" to another value. These factors include the nature of the imported goods, the nature of the industry itself, the season in which the goods are imported, and whether the difference in values is commercially significant. Since these factors may vary from case to case, it would be impossible to apply a uniform standard such as a fixed percentage, in each case. For example, a small difference in value in a case involving one type of goods could be unacceptable while a large difference in a case involving another type of goods might be acceptable in determining whether the transaction value closely approximates to the "test" values set forth in rule 3(3)(b).

Notes to rule 4

1. In applying rule 4, the proper officer of customs shall, wherever possible, use a sale of identical goods at the same commercial level and in substantially the same quantities as the goods being valued. Where no such sale is found, a sale of identical goods that takes place under any one of the following three conditions may be used:

   a. a sale at the same commercial level but in different quantities; or

   b. a sale at a different commercial level but in substantially the same quantities; or

   c. a sale at a different commercial level and in different quantities.

2. Having found a sale under any one of these three conditions adjustments will then be made, as the case may be, for :

a. quantity factors only;

b. commercial level factors only; or

c. both commercial level and quantity factors.

3. For the purposes of rule 4, the transaction value of identical imported goods means a value, adjusted as provided for in rule 4(l)(b) and (c) and rule 4(2) which has already been accepted under rule 3.

4. A condition for adjustment because of different commercial levels or different quantities is that such adjustment, whether it leads to an increase or a decrease in the value, be made only on the basis of demonstrated evidence that clearly establishes the reasonableness and accuracy of the adjustment, e.g. valid price lists containing prices referring to different levels or different quantities. As an example of this, if the imported goods being valued consist of a shipment of 10 units and the only identical imported goods for which a transaction value exists involved a sale of 500 units, and it is recognized that the seller grants quantity discounts, the required adjustment may be accomplished by resorting to the seller's price list and using that price applicable to a sale of 10 units. This does not require that a sale had to have been made in quantities of 10 as long as the price list has been established as being bona fide through sales at other quantities. In the absence of such an objective measure, however, the determination of a value under the provisions of rule 4 is not appropriate.

Note to rule 5

1. In applying rule 5, the proper officer of customs shall, wherever possible, use a sale of similar goods at the same commercial level and in substantially the same quantities as the goods being valued. For the purpose of rule 5, the transaction value of similar imported goods means the value of imported goods, adjusted as provided for in rule 5(2) which has already been accepted under rule 3.

2. All other provisions contained in note to rule 4 shall mutatis mutandis also apply in respect of similar goods.

Note to rule 7

1. The term "unit/price at which goods are sold in the greatest aggregate quantity" means the price at which the greatest number of units is sold in sales to persons who are not related to the persons from whom they buy such goods at the first commercial level after importation at which such sales take place.

2. As an example of this, goods are sold from a price list which grants favorable unit prices for purchases made in larger quantities.

Sale quantity	Unit price	Number of sales	Total quantity sold at each price
1-10 units	100	10 sales of 5 units, 5 sales of 3 units	65
11-25 units	95	5 sales of 11 units	55
Over 25 units	90	1 sale of 30 units, 1 sale of 50 units	80

The greatest number of units sold at a price is 80, therefore, the unit price in the greatest aggregate quantity is 90.

3. As another example of this, two sales occur. In the first sale 500 units are sold at a price of 95 currency units each. In the second sale 400 units are sold at a price of 90 currency units each. in this example, the greatest number of units sold at a particular price is 500, therefore, the unit price in the greatest aggregate quantity is 95.

4. A third example would be the following situation where various quantities are sold at various prices.

(a) Sales

Sale quantity	Unit price
40 units	100
30 units	90
15 units	100
50 units	95
25 units	105
35 units	90
5 units	100

(b) Totals

Total quantity sold	Unit price
65	90
50	95
60	100
25	105

In this example, the greatest number of units sold at a particular price is 65, therefore, the unit price in the greatest aggregate quantity is 90.

5. Any sale in India, as described in paragraph 1 above to a person who supplies directly or indirectly free of charge or at reduced cost for use in connection with the production and sale for export of the imported goods any of the elements specified in rule10(l)(b), should not be taken into account in establishing the unit price for the purposes of rule 7.

6. It should be noted that "profit and general expenses" referred to in rule 7(1) should be taken as a whole. The figure for the purposes of this deduction should be determined on the basis of information supplied by or on behalf of the importer unless his figures are inconsistent with those obtaining in sales in India, of imported goods of the same class or kind. Where the importer's figures are inconsistent with such figures, the amount for profit and general expenses may be based upon relevant information other than that supplied by or on behalf of the importer.

7. The "general expenses" include the direct and indirect costs of marketing the goods in question.

8. Local taxes payable by reason of the sale of the goods for which a deduction is not made under the provisions of rule 7(l)(iii) shall be deducted under the provisions of rule 7(l)(i).

9. In determining either the commissions or the usual profits and general expenses under the provisions of rule 7(1), the question whether certain goods are "of the same class or kind" as other goods must be determined on a case-by-case basis by reference to the circumstances involved. Sales in India, of the narrowest group or range of imported goods of the same class or kind, which includes the goods being valued, for which the necessary information can be provided, should be examined. For the purposes of rule 7 goods of the same class or kind" includes goods imported from the same country as the goods being valued as well as goods imported from other countries.

1. For the purposes of rule 7(2) the "earliest date" shall be the date by which sales of the imported goods or of identical or similar imported, goods are made in sufficient quantity to establish the unit price.

2. Where the method in rule 7(3) is used, deductions made for the value added by further processing shall be based on objective and quantifiable data relating to the cost of such work. Accepted industry formulas, recipes, methods of construction, and other industry practices would form the basis of the calculations.

3. It is recognized that the method of valuation provided for in rule 7(3) would normally not be applicable when, as a result of the further processing, the imported goods lose their identity. However there can be instances where, although the identity of the imported goods is lost, the value added by the processing can be determined accurately without unreasonable difficulty. On the other hand, there can also be instances where the imported goods maintain their identity but form such a minor element in the goods sold in the country of importation that the use of this valuation method would be unjustified. In view of the above, each situation of this type must be considered on a case-by-case basis.

Note to rule 8

1. As a general rule, value of imported goods is determined under these rules on the basis of information readily available in India. In order to determine a computed value, however, it may be necessary to examine the costs of producing the goods being valued and other information which has to be obtained from outside India. Furthermore, in most cases, the producer of the goods will be outside the jurisdiction of the proper officer. The use of the computed value method will generally be limited to those cases where the buyer and seller are related, and the producer is prepared to supply to the proper officer the necessary costings and to provide facilities for any subsequent verification which may be necessary.

2. The "cost or value" referred to in clause (a) of rule 8 is to be determined on the basis of information relating to the production of the goods being valued supplied by or on behalf of the producer. It is to be based upon the commercial accounts of the producer, provided that such accounts are consistent with the generally accepted accounting principles applied in the country where the goods are produced.

3. The "cost or value" shall include the cost of elements specified in clauses (1)(a)(ii) and (1)(a)(iii) of rule 10. It shall also include the value, apportioned as appropriate under the provisions of the relevant note to rule 10 , of any element specified in rule 10(l)(b) which has been supplied directly or indirectly by the buyer for use in connection with the production of the imported goods. The value of the elements specified in rule 10(l) (b)(iv) which are undertaken in India shall be included only to the extent that such elements are charged to the producer. It is to be understood that no cost or value of the elements referred to in this paragraph shall be counted twice in determining the computed value.

4. The "amount for profit and general expenses" referred to in clause(b) of rule 8 is to be determined on the basis of information supplied by or on behalf of the producer unless the producer's figures are inconsistent with those usually reflected in sales of goods of the same class or kind as the goods being valued which are made by producers in the country of exportation for export to India.

5. It should be noted in this context that the "amount for profit and general expenses" has to be taken as a whole. It follows that if, in any particular case, producer's profit figure is low and his general expenses are high, the producer's profit and general expenses taken together may nevertheless be consistent with that usually reflected in sales of goods of the same class or kind. Such a situation might occur, for example, if a product were being launched in India and the producer accepted a nil or low profit to offset high general expenses associated with the launch. Where the producer can demonstrate a low profit on his sales of the imported goods because of particular commercial circumstances, his actual profit figures should be taken into account provided that he has valid commercial reasons to justify them and his pricing policy reflects usual pricing policies in the branch of industry concerned. Such a situation might occur for example, where producers have been forced to lower prices temporarily because of an unforeseeable drop in demand, or where they sell goods to complement a range of goods being produced in India and accept a low profit to maintain competitivity. Where the producer's

own figures for profit and general expenses are not consistent with those usually reflected in sales of goods of the same class or kind as the goods being valued which are made by producers in the country of exportation for export to India, the amount for profit and general expenses may be based upon relevant information other than that supplied by or on behalf of the producer of the goods.

6. The "general expenses" referred to in clause (b) of rule 8 covers the direct and indirect costs of producing and selling the goods for export which are not included under clause (a) of rule 8.

7. Whether certain goods are "of the same class or kind" as other goods must be determined on a case-by-case basis with reference to the circumstances involved. In determining the usual profits and general expenses under the provisions of rule 8, sales for export to India of the narrowest group or range of goods, which includes the goods being valued, for which the necessary information can be provided, should be examined. For the purposes of rule 8 "goods of the same class or kind" must be from the same country as the goods being valued.

Note to rule 9

1. Value of imported goods determined under the provisions of rule 9 should to the greatest extent possible, be based on previously determined customs values.

2. The methods of valuation to be employed under rule 9 may be those laid down in rules 3 to 8, inclusive, but a reasonable flexibility in the application of such methods would be in conformity with the aims and provisions of rule 9.

3. Some examples of reasonable flexibility are as follows:

a. Identical goods. - The requirement that the identical goods should be imported at or about the same time as the goods being valued could be flexibly interpreted; identical imported goods produced in a country other than the country of exportation of the goods being valued could be the basis for customs valuation; customs values of identical imported goods already determined under the provisions of rules 7 and 8 could be used.

b. Similar goods. - The requirement that the similar goods should be imported at or about the same time as the goods being valued could be flexibly interpreted; similar imported goods produced in a country other than the country of exportation of the goods being valued could be the basis for customs valuation; customs values of similar imported goods already determined under the provisions of rules 7 and 8 could be used.

c. Deductive method. - The requirement that the goods shall have been sold in the "condition as imported" in rule 7(1) could be flexibly interpreted; the ninety days requirement could be administered flexibly.

Note to rule 10

In rule 10(l)(a)(i), the term "buying commissions" means fees paid by an importer to his agent for the service of representing him abroad in the purchase of the goods being valued.

Rule 10(l)(b)(ii)

1. There are two factors involved in the apportionment of the elements specified in rule 10(l)(b)(ii) to the imported goods - the value of the element itself and the way in which that value is to be apportioned to the imported goods. The apportionment of these elements should be made in a reasonable manner appropriate to the circumstances and in accordance with generally accepted accounting principles.

2. Concerning the value of the element, if the importer acquires the element from a seller not related to him at a given cost, the value of the element is that cost. If the element was produced by the importer or by a person related to him, its value would be the cost of producing it. If the element had been previously used by the importer, regardless of whether it had been acquired or produced by such importer, the original cost of acquisition or production would have to be adjusted downward to reflect its use in order to arrive at the value of the element.

1. Once a value has been determined for the element it is necessary to apportion that value to the imported goods. Various possibilities exist. For example, the value might be apportioned to the first shipment if the importer wishes to pay duty on the entire value at one time. As another example, the importer may request that the value be apportioned over the number of units produced up to the time of the first shipment. As a further example, he may request that the value be apportioned over the entire anticipated production where contracts or firm commitments exist for that production. The method of apportionment used will depend upon the documentation provided by the importer.
2. As an illustration of the above, an importer provides the producer with a mould to be used in the production of the imported goods and contracts with him to buy 10000 units. By the time of arrival of the first shipment of 1000 units, the producer has already produced 4,000 units. The importer may request the proper officer of customs to apportion the value of the mould over 1,000 units, 4,000 units or 10,000 units.

Rule 10(l)(b)(iv)

1. Additions for the elements specified in rule 10(l)(b)(iv) should be based on objective and quantifiable data. In order to minimize the burden for both the importer and proper officer of customs in determining the values to be added, data readily available in the buyer's commercial record system should be used in so far as possible.
2. For those elements supplied by the buyer which were purchased or leased by the buyer, the addition would be the cost of the purchase or the lease. No addition shall be made for those elements available in the public domain, other than the cost of obtaining copies of them.
3. The case with which it may be possible to calculate the values to be added will depend on a particular firm's structure and management practice, as well as its accounting methods.
4. For example, it is possible that a firm which imports a variety of products from several countries maintains the records of its design center outside the country of importation in such a way as to show accurately the costs attributable to a given product. In such cases, a direct adjustment may appropriately be made under the provisions of rule 10.
5. In another case, a firm may carry the cost of the design center outside the country of importation as a general overhead expense without allocation to specific products. In this instance, an appropriate adjustment could be made under the provisions of rule 10 with respect to the imported goods by apportioning total design center costs over total production benefiting from the design center and adding such apportioned cost on a unit basis to imports.
6. Variations in the above circumstances will, of course, require different factors to be considered in determining the proper method of allocation.
7. In cases where the production of the element in question involves a number of countries and over a period of time, the adjustment should be limited to the value actually added to that element outside the country of importation.

Rule 10(l)(c)

1. The royalties and license fees referred to in rule 10(l)(c) may include among other things, payments in respect to patents, trademarks and copyrights. However, the charges for the right to reproduce the imported goods in the country of importation shall not be added to the price actually paid or payable for the imported goods in determining the customs value.
2. Payments made by the buyer for the right to distribute or resell the imported goods shall not be added to the price actually paid or payable for the imported goods if such payments are not a condition of the sale for export to the country of importation of the imported goods.

Rule 10(3)

Where objective and quantifiable data do not exist with regard to the additions required to be made under the provisions of rule 10, the transaction value cannot be determined under the provisions of rule 3. As an illustration of this, a royalty is paid on the basis of the price in a sale in the importing country of a liter of a particular product that was imported by the kilogram and made up into a solution after importation. If the royalty is based partially on the imported goods and partially on other factors, which have nothing to do with the imported goods (such as when the imported goods are mixed with domestic ingredients and are no longer separately identifiable, or when the royalty cannot be distinguished from special financial arrangements between the buyer and the seller), it would be inappropriate to attempt to make an addition for the royalty. However, if the amount of this royalty is based only on the imported goods and can be readily quantified, an addition to the price actually paid or payable can be made.

Valuation of exported goods

The value of export goods shall be deemed to be the price at which such or like goods are ordinarily sold or offered for sale for delivery at the time and place of exportation in the course of international trade.

The above price is taken into consideration only when following conditions are satisfied -

a) The seller and the buyer have no interest in the business of each other;

b) One of them has no interest in the business of other; and

c) The price is the sole consideration for the sale or offer for sale.

Notes

1. Price shall be calculated with reference to the rate of exchange as in force on the date on which a shipping bill or bill of export is presented. It is to be noted that rate determined by the Board shall be considered.
2. Generally, free on board value shall be considered as price for export. If the export sale contract is a CIF contract, then post exportation elements like insurance, freight are required to be adjusted.

Customs Valuation (Determination of Value of Export Goods) Rules, 2007

Rule 1 **Short title, commencement and application:**

1. These rules may be called the Customs Valuation (Determination of Value of Export Goods) Rules, 2007.
2. They shall come into force on the 10th day of October, 2007
3. They shall apply to the export goods.

Rule 2 **Definitions**

a. Goods of like kind and quality means export goods which are identical or similar in physical characteristics, quality and reputation as the goods being valued, and perform the same functions or are commercially interchangeable with the goods being valued, produced by the same person or a different person; and

b. Transaction Value means the value of export goods within the meaning of sec. 14(1) of the Customs Act, 1962

Rule 3 **Determination of the method of valuation**

1. Subject to rule 8, the value of export goods shall be the transaction value.
2. The transaction value shall be accepted even where the buyer and seller are related, provided that the relationship has not influenced the price.
3. If the value cannot be determined under the provisions of sub-rule (1) and sub-rule (2), the value shall be determined by proceeding sequentially through rules 4 to 6.

Rule 4 **Determination of export value by comparison**

1. The value of the export goods shall be based on the transaction value of goods of like kind and quality exported at or about the same time to other buyers in the same destination country of importation or in its absence another destination country of importation adjusted in accordance with the provisions of sub-rule (2).
2. In determining the value of export goods under sub-rule (1), the proper officer shall make such adjustments as appear to him reasonable, taking into consideration the relevant factors, including-
   i. difference in the dates of exportation,
   ii. difference in commercial levels and quantity levels,
   iii. difference in composition, quality and design between the goods to be assessed and the goods with which they are being compared,
   iv. difference in domestic freight and insurance charges depending on the place of exportation.

Rule 5 **Computed value method**

If the value cannot be determined under rule 4, it shall be based on a computed value, which shall include the following:-

a. cost of production, manufacture or processing of export goods;

b. charges, if any, for the design or brand;

c. an amount towards profit.

Rule 6 **Residual method**

1. Subject to the provisions of rule 3, where the value of the export goods cannot be determined under the provisions of rules 4 and 5, the value shall be determined using reasonable means consistent with the principles and general provisions of these rules provided that local market price of the export goods may not be the only basis for determining the value of export goods

Rule 7 **Declaration by the exporter**

The exporter shall furnish a declaration relating to the value of export goods in the manner specified in this behalf.

Rule 8 **Rejection of declared value**

1. When the proper officer has reason to doubt the truth or accuracy of the value declared in relation to any export goods, he may ask the exporter of such goods to furnish further information including documents or other evidence and if, after receiving such further information, or in the absence of a response of such exporter, the proper officer still has reasonable doubt about the truth or accuracy of the value so declared, the transaction value shall be deemed to have not been determined in accordance with sub-rule (1) of rule 3.
2. At the request of an exporter, the proper officer shall intimate the exporter in writing the ground for doubting the truth or accuracy of the value declared in relation to the export goods by such exporter and provide a reasonable opportunity of being heard, before taking a final decision under sub-rule (1).

Explanation - (1) For the removal of doubts, it is hereby declared that-

i. This rule by itself does not provide a method for determination of value, it provides a mechanism and procedure for rejection of declared value in cases where there is reasonable doubt that the declared value does not represent the transaction value; where the declared value is rejected, the value shall be determined by proceeding sequentially in accordance with rules 4 to 6.

ii. The declared value shall be accepted where the proper officer is satisfied about the truth or accuracy of the declared value after the said inquiry in consultation with the exporter.

iii. The proper officer shall have the powers to raise doubts on the declared value based on certain reasons which may include-

   a. the significant variation in value at which goods of like kind and quality exported at or about the same time in comparable quantities in a comparable commercial transaction were assessed.

   b. the significantly higher value compared to the market value of goods of like kind and quality at the time of export

   c. the declaration of goods in parameters such as description, quality, quantity, year of manufacture or production.

Computation of Assessable Value and Duties

6.4

Date for determination of rate of duty and tariff valuation of imported goods [Sec. 15]

The rate of duty and tariff valuation (if any) applicable to any imported goods shall be rate and valuation in force –

Case	Rate and Tariff Value, if any, in force on
Goods entered for home consumption u/s 46	Date on which bill of entry is presented
Goods cleared from warehouse for home consumption	Date on which bill of entry for home consumption is presented
In any other case	Date on which duty is paid

Taxpoint

1. *Where a bill of entry has been presented before the date of -*

• Entry inwards of the vessel	The bill of entry shall be deemed to have been presented on the date of such entry inwards
• Arrival of the aircraft or vehicle	The bill of entry shall be deemed to have been presented on the date of arrival of aircraft or vehicle
It is to be noted that for determining assessable value, rate of exchange in force on actual submission of bill of entry shall be taken.	

Example

If Bill of entry is presented on 10-10-2025 and the aircraft arrived on 20-10-2025, in this situation, relevant date for determination of rate of duty and tariff valuation (if any) is 20-10-2025. Though the bill of entry is presented on 10-10-2025 for procedural purpose, but for the purpose of determination of rate of duty and tariff valuation, bill of entry will be deemed to have been filed on 20-10-2025.

2. *The provision of this section shall not apply to baggage and goods imported by post.*
3. *Further, Social welfare surcharge @ 10% of the basic customs duty is also applicable.*
4. *Moreover, integrated tax (IGST) is also payable at applicable rate on assessable value + basic duty + social welfare surcharge. Import is considered as inter-State supply under GST laws and liable for reverse charge.*

Illustration 12:

Assessable value of an item imported is ₹ 2,00,000. Basic customs duty is 10%, integrated tax is 18%, and social welfare surcharge is 10% on duty. Compute the amount of total customs duty and integrated tax payable. Ignore GST Compensation Cess.

Solution

Computation of customs duty

	Particulars	₹
1.	Assessable Value	2,00,000
2.	Basic customs duty @ 10%	20,000
3.	*Add*: Social Welfare surcharge @ 10% on ₹ 20,000	2,000
4.	Sub-total	2,22,000
5.	Integrated tax @ 18% of ₹ 2,22,000	39,960
6.	**Total customs duty and integrated tax payable [(2) + (3) + (5)]**	**61,960**

Illustration 13:

X & Co. imported some goods from USA for being used in manufacture of its final product. Determine the exchange rate to be considered for computation of import duty from the following information:

Date	Particulars	Rate of exchange for 1 US$ notified	
		By CBIC	By RBI
10.10.25	Import general manifest was submitted by master of vessel	₹ 84.20	₹ 83.20
15.10.25	Entry Inwards was granted by the customs officer	₹ 84.30	₹ 85.30
22.10.25	X & Co. presented the Bill of Entry	₹ 84.50	₹ 82.50
31.10.25	Goods were allowed to be cleared from the customs port	₹ 84.60	₹ 83.60

Solution

The relevant rate of exchange for the purpose of valuation of imported goods is the rate of exchange (being notified by CBIC) as in force on the date on which a bill of entry in relation to imported goods is presented, i.e. 1 US $ = ₹ 84.50. Further, rate of exchange notified by CBIC is relevant. Rate notified by RBI is not relevant.

Date for determination of rate of duty and tariff valuation of export goods [Sec. 16]

The rate of duty and tariff valuation (if any) applicable to any export goods shall be rate and valuation in force –

Case	Rate and Tariff Value, if any, in force on
When goods entered for export u/s 50	Date on which the proper officer makes an order permitting clearance and loading of the goods for exportation u/s 51
In any other case	Date on which duty is paid

Note: The provision of this section shall not apply to baggage and goods imported by post.

Illustration 14:

Malya Internationals Ltd., has imported a machinery by air from Germany. Bill of Entry is presented on 20.01.2026. However, entry inwards is granted on 25.01.2026. Relevant information of the transaction are provided hereunder:

(i)	CIF Value of Machine	5,500 USD
(ii)	Air Freight Paid	1250 USD
(iii)	Insurance Charges Paid	100 USD
(iv)	Rate of Exchange on 20.01.2026	As per RBI 1 USD = ₹ 85.50 As per CBIC 1 USD = ₹ 86

(v)	Rate of Exchange on 25.01.2026	As per RBI 1 USD = ₹ 86.50 As per CBIC 1 USD = ₹ 87
(vi)	Basic Customs Duty Rate	10%
(vii)	IGST Rate	18%

Calculate the assessable value in INR for the purposes of levy of customs duty as well as total customs duty.

Solution

Computation of assessable value

Particulars	Amount in $
CIF Value	5,500
Less: Air Freight	1250
Less: Insurance	100
FOB Value	4,150
Add: Air Freight [Since actual air freight is more than 20% of FOB, 20% of FOB shall be considered (4150 x 20% = 830)]	830
Add: Insurance	100
Assessable Value (in US $)	**5,080**
Assessable Value in ₹	**4,36,880**

Computation of customs duty

Particulars	Details	Amount
Assessable Value	4,36,880	
Add: Basic Customs Duty @ 10%	43,688	43,688
Add: Social Welfare Surcharge @ 10% on BCD	4,369	4,369
Total [A]	4,84,937	
Add: IGST @ 18% [A x 18%]	87,289	87,289
Total duty payable		1,35,346

Illustration 15:

Compute the total duty and integrated tax payable under the Customs Law on an imported equipment based on the following information:

- Assessable value of the imported equipment US $ 10,100
- Date of bill of entry is 25th April. Basic customs duty on this date is 10% and exchange rate notified by the Central Board of Indirect taxes and Customs is US $ 1 = ₹ 85.
- Date of entry inwards is 21st April. Basic customs duty on this date is 20% and exchange rate notified by the Central Board of Indirect taxes and Customs is US $ 1 = ₹ 90.
- Integrated tax: 18%
- Social Welfare surcharge 10%

Solution

Computation of customs duty

Particulars	₹
Assessable value ($ 10,100 x 85)	8,58,500
Add: Basic custom duty @ 10% [A]	85,850
Add: Social Welfare Surcharge @ 10% on ₹ 85,850 [B]	8,585
Value for computing IGST	9,52,935
Add: Integrated tax @ 18% [C]	1,71,528
Total Customs duty and integrated tax payable [A + B + C]	**2,65,963**

Illustration 16:

RPG Ltd. imported 125 units of minerals from High Seas for sale in India. Selling price is exclusive of duties and taxes. Freight from port to depot in India is ₹ 2,530 and insurance ₹ 310.

Sale quantity	Unit price (₹)
80	105
60	90
30	105
100	100
50	95
70	90
10	105

Basic Customs Duty - 12%. Assume there is no IGST applicable for the product.

You are required to calculate total customs duty as per Rule 7 of customs valuation (Determination of value of imported goods) Rules 2017.

Solution

First of all, we are required to determine the price at which greatest quantity of the product is sold

Total quantity (Unit)	Unit price (₹)
130	90
50	95
100	100
120	105

The greatest number of units sold at a particular price is 130 units. Therefore, the unit price in the greatest aggregate quantity is ₹ 90.

Particulars	₹
Selling price (125 x ₹ 90)	1,1250
Less: Freight (post shipment)	(2,530)
Less: Insurance (Post shipment)	(310)
Assessable value	8,410
Custom duty [(12% + 10% SWS of BCD) = 13.20%]	1,110

Illustration 17:

From the undermentioned relating to import made on 12.10.2025 of product 'Minic' from New York, USA, to the Kochi Airport, by Mr. Prahalad, the importer:

FOB value of the product	$ 10,000
Cost of transport	$3,500
Insurance	$ 1,000
Unloading charges at Kochi Airport	₹ 24,800
Basic customs duty	10%
IGST	18%
Exchange rate notified by RBI	1$ = ₹ 84.50
Exchange rate notified by CBIC	1$ = ₹ 84

Ascertain the assessable value and total tax and duty payable by Mr. Prahalad.

Solution

Computation of assessable value and customs duty

Particulars	Amount ($)
FOB value of the product	10,000
Cost of transport [restricted to 20% of FOB]	2,000
Insurance (Actual) [if actual amount of insurance is known, the same is to be taken]	1,000
CIF Value	13,000
	Amount (₹)
Assessable value (13,000 × 84)	10,92,000
Basic customs duty at 10% [A]	1,09,200
Add: Social Welfare Surcharge @ 10% of custom duty [B]	10,920
Value for the purpose of levying integrated tax	12,12,120
Add: Integrated tax @ 18% [C]	2,18,182
Total duty & tax payable [A + B + C]	3,38,302

ITC of ₹ 2,18,182/- is available against payment of IGST.

Illustration 18:

Compute the Assessable Value of a machine imported from Germany by RLI Ltd., under Customs Act, 1962. Also determine the duty liability of RLI Ltd.

Particulars	USD $
FOB Value	30,000
Air Freight Paid	7,250
Insurance Cost	Not Known
Designing Charges incurred in India	₹ 15,000
Indian Agent's Commission	₹ 20,000

Particulars	USD $
Transport Charges from port to factory in India	₹ 15,000
Rate of duty	10%
IGST	18%
Rate of exchange notified by CBEC	₹ 85 per USD

Solution

Computation of assessable value and customs duty

Particulars	Amount
FOB Value	$ 30,000.00
Add: Insurance @ 1.125% of FOB Value	$ 337.50
Add: Air Freight (restricted to 20% of FOB)	$ 6,000.00
	$ 36,337.50
Value in INR @ ₹ 85	₹ 30,88,688
Add: Local Agent's Commission	₹ 20,000
Assessable Value for Customs	₹ 31,08,688
Basic customs duty at 10% [A]	3,10,869
Add: Social Welfare Surcharge @ 10% of custom duty [B]	31,087
Value for the purpose of levying integrated tax	34,50,644
Add: Integrated tax @ 18% [C]	6,21,116
Total duty & tax payable [A + B + C]	9,63,072

Illustration 19:

Informatics Ltd., imported a photography printer by air from Best Inc., of USA, as per following details.

Particulars	US $
CIF Value	4,500
Air Freight Paid	1,000
Insurance Cost	250
Rate of exchange notified by CBIC	₹ 84.50 per USD
Inter Bank Selling Rate	₹ 85 per USD.
Basic Customs Duty	10% ad valorem.
IGST	18%

You are required to compute the Assessable Value and Import Duty payable by Informatics Ltd.

Solution

Computation of assessable value and customs duty

Particulars	Amount in $
CIF Value	4,500
Less: Air Freight	1,000

Particulars	Amount in $
Less: Insurance	250
FOB Value	3,250
Add: Air Freight [Since actual air freight is more than 20% of FOB, 20% of FOB shall be considered (3,250 x 20% = 650)]	650
Add: Insurance	250
Assessable Value (in US $)	**4,150**
Assessable Value in ₹ [US $ 4,150 x ₹ 84.50]	**3,50,675**

Computation of customs duty

Particulars	Details	Amount
Assessable Value	3,50,675	
Add: Basic Customs Duty @ 10%	35,068	35,068
Add: Social Welfare Surcharge @ 10% on BCD	3,507	3,507
Total [A]	3,89,250	
Add: IGST @ 18% [A x 18%]	70,065	70,065
Total duty payable		1,08,640

Illustration 20:

R Ltd. has imported one machine from England. It has given the following particulars:

- Price of machine 8,000 UK Pounds
- Freight paid (air) 2,500 UK Pounds
- Design and development charges paid in UK 500 UK Pounds
- Commission payable to local agent of exporter @ 2% of price of machine, in Indian Rupees
- Date of bill of entry: 24th October (Rate BCD 10%; Exchange rate as notified by CBIC ₹ 100 per UK Pound)
- Date of arrival of aircraft: 20th October (Rate of BCD 15%; Exchange rate as notified by CBIC ₹ 97 per UK Pound)
- Integrated tax is 18%
- Insurance charges have been actually paid but details are not available.

Compute the total customs duty and integrated tax payable

Solution

Computation of assessable value and customs duty

Particular	Amount (UK P)
Price of machine	8,000
Add: Design and development charges	500
Total	8,500

	Amount in ₹
Total in rupees @ ₹ 100 per pound	8,50,000
Add: Local agency commission [(2% of 8,000 UK pounds) × ₹ 100]	16,000
FOB value as per Customs	8,66,000
Add: Air freight (₹ 8,66,000 x 20%)	1,73,200
Add: Insurance @ 1.125% of customs FOB	9,743
CIF Value / Assessable value	10,48,943
Add: Basic custom duty @ 10% [A]	1,04,894
Add: Social Welfare Surcharge @ 10% on ₹ 1,04,894 [B]	10,489
Value for computing IGST	11,64,326
Add: Integrated tax @ 18% [C]	2,09,579
Total duty & integrated tax payable [A + B + C]	3,24,962

Illustration 21:

ABC Industries Ltd. of Mumbai imported one machine through vessel from Japan, in the month of November. The following particulars are made available for computation of customs duty:

S.N	Particulars	Amount in JPY (¥)
(i)	Cost upto port of exportation incurred by exporter	6,00,000
(ii)	Loading charges at port of exportation	25,000
(iii)	Freight charges from port of export to port of import in India.	1,00,000
Following additional amounts paid by ABC Industries Ltd:-		
(i)	Designing charges, necessary for the machine, paid to consultancy firm in Delhi	8,00,000
(ii)	Commission paid (not buying commission) to the local agent of exporter	1,25,000
(iii)	Actual landing charges paid at the place of importation.	15,000
(iv)	Actual insurance charges paid to the place of importation is not ascertainable	
(v)	Lighterage charges paid at the port of importation	20,000
Other information		
(i)	Rate of basic customs duty	10%
(ii)	Rate of social welfare surcharge	10%
(iii)	Integrated tax	18%
(iv)	Ignore GST compensation cess.	
(v)	Rate of exchange to be taken 1 Japanese Yen (¥) =	₹ 0.71

Solution

Computation of assessable value and customs duty

	Amount in JPY (¥)
Cost upto port of exportation	6,00,000
Add: Loading charges at the port of exportation	25,000
Total in Japanese Yen	6,25,000

	Amount in JPY (¥)
	In ₹
Total in Indian rupees @ ₹ 0.71 per Japanese Yen	4,43,750
Add: Commission paid to local agent of exporter	1,25,000
FOB value as per customs	5,68,750
Add: Freight charges from port of export to port of import in India [1,00,000 JPY × 0.71 = ₹ 71,000]	71,000
Add: Lighterage charges paid by the importer at port of importation	20,000
Add: Insurance charges @ 1.125% of FOB [₹ 5,68,750 × 1.125%]	6,398
CIF value / Assessable Value	6,66,148
Add: Basic customs duty @ 10% of ₹ 6,66,148	66,615
Add: Social welfare surcharge @ 10% of ₹ 66,615	6,662
Value for computing IGST	7,39,425
Add: Integrated tax @ 18% of ₹ 7,39,425	1,33,097
Total custom duty and integrated tax payable [(A) +(B) + (C)]	2,06,374

Quick MCQ

1. For the purpose of valuation of imported goods u/s 14, the rate of exchange shall be the rate notified by the CBIC as in force on:

a. The date of filing the Import General Manifest (IGM)

b. The date of Entry Inwards of the vessel

c. The date on which the Bill of Entry is presented u/s 46

d. The date of payment of duty

Correct: (c) The date on which the Bill of Entry is presented under Section 46

Reason: The price is calculated with reference to the rate of exchange in force on the date on which the bill of entry is presented u/s 46.

2. In case of importation of goods by Air, the cost of transport to be added to the assessable value shall not exceed:

a. Actual cost of transport

b. 1.125% of FOB value

c. 20% of FOB value

d. 15% of CIF value

Correct: (c) 20% of FOB value

Reason: Where goods are imported by air, the cost of transport (whether ascertained or not) shall be restricted to 20% of the FOB value of the goods.

3. Which of the following is not includible in the transaction value of imported goods?

a. Commission and brokerage (excluding buying commission)

b. Cost of packing (labor and materials)

c. Engineering and design work undertaken elsewhere than in India

d. Buying commission paid by the importer to his agent

Correct: (d) Buying commission paid by the importer to his agent

Reason: Transaction value includes commissions and brokerage but specifically excludes buying commission.

4. Which of the following design and development charges are includible in the assessable value of imported goods?

a. Charges for design work undertaken in India

b. Charges for design work undertaken elsewhere than in India and necessary for production

c. Charges for research conducted in India after importation

d. None of the above

Correct: (b) Charges for design work undertaken elsewhere than in India and necessary for production

Reason: Rule 10 requires the addition of the value of engineering, development, artwork, and design work undertaken elsewhere than in India and necessary for the production of the imported goods.

5. If the actual cost of insurance is not ascertainable, what percentage of the FOB value should be added to determine the value?

a. 1%

b. 1.125%

c. 20%

d. Actual cost of insurance of similar goods

Correct: (b) 1.125%

Reason: Where the cost of insurance is not ascertained, 1.125% of the FOB value of the goods shall be added.

6. Under Rule 7 (Deductive Value), the unit price is determined based on sales made in the:

a. Smallest aggregate quantity

b. Greatest aggregate quantity to unrelated persons

c. Greatest aggregate quantity to related persons

d. Average quantity sold over a year

Correct: (b) Greatest aggregate quantity to unrelated persons

Reason: The value shall be based on the unit price at which such goods are sold in the greatest aggregate quantity to unrelated persons in India.

7. If a Bill of Entry for home consumption is presented before the date of Entry Inwards of the vessel, the rate of duty applicable is the rate in force on:

a. The date of presentation of the Bill of Entry

b. The date of Entry Inwards of the vessel

c. The date of payment of duty

d. The date of shipment

Correct: (b) The date of Entry Inwards of the vessel

Reason: If the bill of entry has been presented before the date of entry inwards, the bill of entry shall be deemed to have been presented on the date of such entry inwards. Thus, the rate in force on that later date applies.

8. Which two valuation rules can be reversed in their order of application at the request of the importer?

a. Rule 4 (Identical Goods) and Rule 5 (Similar Goods)

b. Rule 7 (Deductive Value) and Rule 8 (Computed Value)

c. Rule 3 (Transaction Value) and Rule 9 (Residual Method)

d. Rule 5 (Similar Goods) and Rule 6 (Deductive Value)

Correct: (b) Rule 7 (Deductive Value) and Rule 8 (Computed Value)

Reason: On the request of the importer, the order of application of Rules 7 (Deductive value) and 8 (Computed value) shall be reversed.

9. For the valuation of export goods, the relevant exchange rate is the one notified by the CBIC on:

a. The date of Let Export Order

b. The date on which the Shipping Bill of export is presented u/s 50

c. The date of actual export

d. The date of realization of export proceeds

Correct: (b) The date on which the Shipping Bill of export is presented under Section 50

Reason: In case of export, the price shall be calculated with reference to the rate of exchange as in force on the date on which a shipping bill of export is presented u/s 50.

10. If more than one transaction value of identical goods is found at the same commercial level and quantity, which value shall be used?

a. The highest value

b. The average value

c. The lowest of such values

d. The latest value

Correct: (c) The lowest of such values

Reason: Where more than one transaction value of identical goods is found, then the lowest of such value shall be used for determining the value of imported goods.