

REVERSE CHARGE MECHANISM (RCM)

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.

There are two type of reverse charge scenarios provided in law.

Specified Category of Goods & Services

First is dependent on the nature of supply and/or nature of supplier. This scenario is covered by section 9 (3) of the CGST Act and section 5 (3) of the IGST Act.

As per the provisions of section 9(3) of CGST/SGST (UTGST) Act, 2017/section 5(3) of IGST Act, 2017, the Government may, 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. The supplier or such goods & services need not be registered under GST if they are making supplies where tax is leviable wholly on RCM basis only.

Please refer to the following link for specified category of services on which RCM is applicable, irrespective of the fact whether the supplier is registered or unregistered –

<http://www.cbec.gov.in/resources//htdocs-cbec/gst/Notification13-CGST.pdf>

Please refer to the following link for specified goods on which RCM is applicable (no relevance for our industry though) –

<http://www.cbec.gov.in/resources//htdocs-cbec/gst/Notification-for-reverse-charge-CGST.pdf>

Goods & Services Received From Unregistered Dealer (URD)

Second scenario is covered by section 9 (4) of the CGST/SGST (UTGST) Act and section 5 (4) of the IGST Act where taxable supplies by any unregistered person to a registered person is covered.

Section 9(4) of CGST/SGST (UTGST) Act, 2017/section 5(4) of IGST Act, 2017 provides that the tax in respect of the supply of taxable goods or services or both by a supplier, who is not registered, to a registered person shall be paid by such person on reverse charge basis as the recipient and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both. Accordingly, whenever a registered person procures supplies from an unregistered supplier, he needs to pay GST on reverse charge basis, provide the goods or services are taxable (Not Exempted or Nil Rated or Non GST Goods)

Exemption: The Government has exempted goods or services received from unregistered persons in the course of intra state supply, covered under section 9(4), provided that the aggregate value of such supplies of goods or services or both received in a day, from any or all suppliers, does not exceed Rs. 5,000 in a day. Therefore –

- a) This exemption is only applicable in cases of supplies received from unregistered person & **not** on supplies received of specified categories of goods or services.
- b) This exemption is available in the case of intra state supplies only
- c) The exemption will not be available if the total supplies received in a day from unregistered person or persons exceeds Rs. 5,000/- The supply of specified services or goods as notified by the government will not be taken in the calculation of Rs. 5,000, even if the supplier is not registered. If the total value of such supplies exceed Rs. 5,000/- in a day, there is no exemption, GST is payable on the full amount. (Perhaps exempted/non taxable supplies from unregistered person will not be considered in exemption limit of Rs. 5,000/-)

Please refer to exemption notification at the following link –

<http://www.cbec.gov.in/resources//htdocs-cbec/gst/Exemption-from-reverse-charge-upto-Rs5000-per-day-CGST.pdf>

Time of Supply

The time of supply is the point when the supply is liable to GST.

The **Time of Supply of Goods in case of tax payable under Reverse Charges**, will be 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 supplier

If it is not possible to determine the time of supply under (a), (b) or (c), the time of supply shall be the date of entry in the books of account of the recipient.

The **Time of Supply of Services in case of tax payable under Reverse Charges**, will be earliest of the following dates –

- a) the date on which payment is made; or
- b) the date immediately following sixty days from the date of issue of invoice by supplier.

Hence, even advance payments made to supplier are liable to RCM!

Compliances

The recipients of goods & services received in the case of specified categories or from unregistered persons have to issue **Tax Invoice & Payment Vouchers**.

a) If specified goods or services are received, self - invoice has to be issued on the date of receipt of such goods & services.

b) In case of supplies from unregistered persons & not specified category by Government, one consolidated invoice for all supplies can be issued at the end of month covering the supplies which exceed Rs. 5,000/- per day. (There is no restriction of issuing invoices on a daily basis)

The recipient is required to mention on Tax Invoice, that tax is payable on reverse charges.

(Invoice level information in respect of all supplies attracting reverse charge, rate wise, are to be furnished separately in the table 4B of GSTR-1.)

e) Every registered person is required to keep and maintain records of all supplies attracting payment of tax on reverse charge

c) Payment voucher has to be issued in both kinds of supplies received

52. Payment voucher.- A payment voucher referred to in clause (g) of sub-section (3) of section 31 shall contain the following particulars, namely:-

- (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.

Payment of Tax

Any amount payable under reverse charge shall be paid by debiting the electronic cash ledger. In other words, reverse charge liability cannot be discharged by using input tax credit.

Input Tax Credit

Tax paid on reverse charge basis will be available for input tax credit if such goods and/or services are used in the course or furtherance of business and eligible as per ITC Rules (even though payment is not made to the supplier within 180 days, unlike in the case of supplies received from registered person). **The recipient can avail input tax credit after making payment of the tax through e- cash ledger.**

CASES WHEN ITC IS UNAVAILABLE UNDER GST

ITC is not available on the following on GST paid either on forward charges or on RCM -

a) ITC is not available for motor vehicles and conveyances except when:

- the vehicle is used for the supply of other vehicles or conveyances
- the rule shall not apply if the vehicle is used for transportation of passengers
- the vehicle is used for imparting training on driving, flying, navigating such vehicle or conveyances
- the motor vehicle is used for transportation of goods.

b) No ITC is available for the supply of following goods or services or both:

- food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery except where the category of Inward and outward supply is same or the component belongs to a mixed or composite supply under GST
- sale of membership in a club, health, fitness centre
- ITC would not be available for rent-a-cab, health insurance and life insurance except the following
 - any services which are made obligatory for an employer to provide its employee by the Indian Government under any current law in force
 - where the category is same for the inward supply and outward supply or it is a part of the mixed or composite supply
 - in the case of travel, benefits extended to employees on vacation such as leave or home travel concession.

c) ITC shall not be available for any work contract services. ITC for the construction of an immovable property cannot be availed, except where the input service is used for further work contract services.

d) No ITC will be provided for materials used in the construction of immovable property or for furtherance of business. ITC will not be available for the goods or services or both provided to a taxable person used in the construction of an immovable property on his own account including when such goods or services or both are used in the course or furtherance of business.

- g) No ITC shall be available for the goods and services or both used for personal consumption and not for business purposes.
- h) Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples are not available for claiming ITC under GST.
- i) ITC will not be available in the case of any tax paid due to non or short tax payment, excessive refund or ITC utilised or availed by the reason of fraud or willful misstatements or suppression of facts or confiscation and seizure of goods.

SOME SERVICES WITH SAC CODE & GST RATE (CGST + SGST) - RCM

	SAC	Description	Rate	Condition
			%	
1	996111	Services Provided for A fees Or commission or on contract basis on wholesale trade	18	
2	996511	Services of Goods Transport Agency (GTA has been explained as –“goods transport agency” means any person who provides service in relation to transport of goods by road and issues consignment note, by whatever name called.) (Exemption of Rs. 1,500/- on a full consignment transported in a single carriage & Rs. 750/- exemption for single consignment for multiple consignments in a single carriage is allowed)	5	ITC Not Availed By Supplier On Inputs, Services & Capital Goods (Declaration Should Be Taken From GTA)
3	997212	Rental or Leasing Services involving own or leased non - residential property	18	
4	998221	Financial Auditing Services	18	
5	998397	Sponsorship & Brand Promotion Services	18	
6	998519	Other Employment & Labour Supply Services nowhere else classified (Contract Labour)	18	
7	998525	Guard Services	18	
8	998717	Maintenance & Repair (except construction) services - commercial & industrial machinery	18	
9	998832	Manufacturing Services On Physical Inputs (goods) owned by others - Paper & Paper Product Manufacturing Services (Job Work)	18	
10	999511	Service furnished by business & employee organisations (Example Associations & Chambers of Commerce)	18	

Accounting Entries – Suggestive

Name of Recipient – ABC Co. - Name of Un Registered Supplier – XYZ Co.
Purchase of Stationary & Printing – Rs. 10,000, GST Rate – Say 18%

In The Books of ABC Co.

A Expense Booking On Receipt of Stationary

			Rs.	Rs.
15.07.17	Stationary & Printing A/c	Dr.	10000	
	To Sundry Creditor - XYZ Co.	Cr.		10000
			10000	10000

Entry On Payment to Supplier

18.07.17	Sundry Creditor - XYZ Co.	Dr.	10000	
	To Bank or Cash A/c	Cr.		10000
			10000	10000

B Tax Invoice - Issue On Self

			Rs.	Rs.
30.07.17	ABC Co. A/c	Dr.	11800	
	To Stationary & Ptg. A/c	Cr.		10000
	To CGST. Payable	Cr.		900
	To SGST. Payable	Cr.		900
			11800	11800

Journal Entries After Issue Of Invoice

30.07.17	Stationary & Ptg. A/c	Dr.	10000	
	To ABC Co. A/c	Cr.		10000
			10000	10000

C On Payment of Tax

			Rs.	Rs.
20.08.17	E-Cash Ledger A/c	Dr.	1800	
	To Bank A/c	Cr.		1800
			1800	1800
20.08.17	CGST. Payable	Dr.	900	
	SGST. Payable	Dr.	900	
	To E- Cash Ledger A/c	Cr.		1800
			1800	1800

Journal Entry To Claim ITC

			Rs.	Rs.
20.08.17	CGST ITC	Dr.	900	
	SGST ITC	Dr.	900	
	To ABC Co. A/c	Cr.		1800
			1800	1800

REVERSE CHARGE MECHANISM

Net Effect of All Entries Above

Ledgers	Dr/Cr.	Rs.	Rs.	Net Effect
Stationary & Printing A/c	Dr.	10000		Profit & Loss Account - Expense
CGST ITC	Dr.	900		Balance Sheet - Current Asset
SGST ITC	Dr.	900		Balance Sheet - Current Asset
To Bank A/c	Cr.		11800	Balance Sheet - Bank Balance Reduced