

Reverse Charge Mechanism under GST

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Abstract: Generally, the supplier of goods or services is liable to pay GST. However, in specified cases like notified goods and services and notified suppliers 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. Firstly, Reverse charge may be applicable in case of supply of notified goods or services or both. Secondly, Reverse charge is also applicable in case of supply by an unregistered person to a registered person, where such supply is of taxable goods or services. The purpose of this charge is to increase tax compliance and tax revenues. Earlier, the government was unable to collect services tax from various unorganized goods transport. Compliances and tax collections will therefore be increased through reverse charge mechanism. The concept of reverse charge mechanism is already present in services tax. In GST regime, reverse charge may be applicable for both services as well as goods.

Keywords: Goods and services tax (GST), Reverse Charge Mechanism (RCM), Input Tax Credit (ITC), Recipients, and suppliers.

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I. Introduction:

GST is an indirect tax. Levied on goods and services. GST is imposed on the supply of goods and services. This helps the govt. for economy development. List of goods and services are specified by GST council to imposed tax. GST is paid by the supplier of goods and services to the govt. in normal

But recipient of goods and services will pay the tax to the govt. this is called Reverse Charge Mechanism (RCM).

Reverse charge is defined as:

According to sec 2(98) of CGST Act, “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 under sub-section (3) or sub-section (4) of section 9, or under sub-section (3) or subsection (4) of section 5 of the Integrated Goods and Services Tax Act

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

1. Dependent on the nature of supply and/or nature of supplier. This scenario is covered by section 9 (3) of the CGST/SGST (UTGST) Act and section 5 (3) of the IGST Act.
2. Taxable supplies by any unregistered person to a registered person. This scenario is covered by section 9 (4) of the CGST/SGST (UTGST) Act and section 5 (4) of IGST Act.

Registration:

Reverse charge has to compulsorily register under GST and the threshold limit of Rs. 20 lakh (Rs. 10 lakh for special category states except J & K) is not applicable to them.

ITC:

A supplier cannot take ITC of GST paid on goods or services used to make supplies on which recipient is liable to pay tax. Because GST is paid by the recipient of goods and services.

Supplies of goods under reverse charge mechanism

Sl/ No.	Description of supply of Goods	Supplier of goods	Recipient of Goods
1	Cashew nuts, not shelled or peeled Any registered person	Agriculturist	Any registered person
2	Bidi wrapper leaves (tendu)	Agriculturist	Any registered person
3	Tobacco leaves Agriculturist	Agriculturist	Any registered person
4	Silk yarn	Agriculturist	Any registered person
5	Supply of lottery	State Government, Union Territory or any local authority	Lottery distributor or selling agent
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

Supplies of services under reverse charge mechanism

Sl/ no.	Description of supply of Service	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 nontaxable online	Any person located in a non-taxable territory	Any person located in the taxable territory other than nontaxable online recipient.
2	GTA Services	Goods Transport Agency (GTA) who has not paid integrated tax at the rate of 12%	Any factory, society, cooperative society, registered person, body corporate, partnership firm, casual taxable person; located in the taxable territory
3	Legal Services by advocate	An individual advocate including a senior advocate or firm of advocates	Any business entity located in the taxable territory
4	Services supplied by an arbitral tribunal to a business entity	An arbitral tribunal	Any business entity located in the taxable territory
5	Services provided by way of sponsorship to anybody corporate or partnership firm	Any Person	Anybody corporate or partnership firm located in the taxable territory
6	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 by way of speed post, express parcel post, life insurance, and agency services provided to a person other than Central Government, State Government or Union territory or local authority; (ii) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport; (iii) transport of goods or passengers	Central Government, State Government, Union territory or local authority	Any business entity located in the taxable territory
7	Services supplied by a director of a company or a 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
8	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
9	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
10	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, as defined in clause (26) of section 2 of the Customs Act, 1962(52 of 1962), located in the taxable territory
11	Supply of services by an author, music composer, photographer, artist or the like by way of transfer or permitting the use or enjoyment of a copyright covered under section 13(1) (a) of the Copyright Act, 1957 relating to original literary, dramatic, musical or artistic works to a publisher, music company, producer or the like	Author or music composer, photograph her, artist, or the like	Publisher, music company, producer or the like, located in the taxable territory
12	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.

EXCEPTION TO REVERSE CHARGE:

The exception of reverse charge is that if exempted or nontaxable goods/services received from an unregistered supplier then registered person shall not be required to pay tax under reverse charge and if the transactions are between unregistered persons meaning thereby if both the supplier and recipient are unregistered then no need for tax.

Purchases made from unregistered supplier of goods or services. Purchases are made below Rs. 5000/- per day then that supply is exempted. If such purchase exceeds Rs. 5,000/- on that day, then exemption even up to Rs. 5,000/- is not available at that day.

Time of Supply

The Time of supply is the point when the supply is liable to GST. One of the factor relevant for determining time of supply is the person who is liable to pay tax. In reverse charge, recipient is liable to pay GST. Thus time of supply for supplies under reverse charge is different from the supplies which are under forward charge.

In case of supply of goods,

Time of supply is earliest of

- a) Date of receipt of goods; or
- b) Date of payment as per books of account or date of debit in bank account, whichever is earlier; or
- c) The date immediately following thirty days from the date of issue of invoice or similar other document.

In case of supply of services,

Time of supply is earliest of

- a) date of payment as per books of account or date of debit in bank account, whichever is earlier; or b) the date immediately following sixty days from the date of issue of invoice or similar other document. Where it is not possible to determine time of supply using above methods, time of supply would be date of entry in the books of account of the recipient.

1.2 Review of literature

1.Tharaini S and Saleem Ahmed(2017) made a study on” Reverse Charge Mechanism under GST for Goods and Services in India” in this article quoted that 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. From this two things are clear: Firstly, Reverse charge may be applicable in case of supply of notified goods or services or both. Secondly, Reverse charge is also applicable in case of supply by an unregistered person to a registered person, where such supply is taxable goods or services.

1.3 Objectives of study

1. To know about the Reverse charge mechanism under GST.
2. To know the benefit and Features of RCM.
3. To identify the suppliers and recipients under RCM.
4. To know the tax liability under RCM.

1.4 Methodology

This study is based on Primary and secondary information/data. In order to make the study the data is gathered from different journals, newspapers, books and relevant websites have been consulted. The present study is an attempt to know the information, features, benefit of Reverse Charge Mechanism under GST.

1.5 Discussions and differences

Difference between the normal tax and reverse charge

Sl.no.	Particulars	Forward charge	Reverse Charge
1.	Liability to pay tax	Supplier of goods/services	Receiver of goods
2.	GST Registration	Required once a supplier meets the threshold. Threshold: Turnover in a financial year exceeds Rs. 20 lakhs (Rs. 10 lakhs for north-eastern and hill states).	All persons who are required to pay tax under reverse charge have to register for GST irrespective of the threshold.
3.	Time of supply of goods/services	The time of supply shall be the earliest of the following dates. Goods: · The date on which the supplier issues the invoice · The last date on which the supplier is required to issue the invoice with respect to the supply of goods. For supply of goods involving the movement goods, the invoice needs to be issued at the time of removal. In other cases, at the time of delivery of goods to the recipient	The time of supply shall be the earliest of the following dates. Goods: The date of receipt of goods The date on which payment is made. The earliest of the date on which the payment is accounted for in the books of accounts of the recipient or the date on which the payment is credited to his bank account The date immediately after 30 days from the date

		<ul style="list-style-type: none"> · The date on which payment is received. The point of taxation, in this case, will be the earliest of the date on which payment is accounted for in the books of accounts of the recipient or the date on which payment is credited to his bank account Services: · The date on which the supplier issues the invoice · The last date on which the supplier is required to issue the invoice is 30 days from the date of supply of services. In case of a banking company, the invoice has to be issued within 45 days from the date of supply of services · The date on which payment is received. The earliest of the date on which the payment is accounted for in the books of accounts or the date on which the payment is credited to his bank account 	<p>of issue of invoice by the supplier</p> <p>Services:</p> <p>The date of payment entered in the books of accounts or the date on which payment is credited to the bank account</p> <ul style="list-style-type: none"> · In case payment is not made by the recipient to service providers within three months, the point of taxation will be the date immediately following the expiry of three months <p>Overall, the steps taken by the government to bring goods into the ambit of reverse charge under GST is a wise move, as it will bring about an increase in tax revenue.</p>
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1.6 Conclusion

GST is an indirect tax paid on goods and services through the consumers. As it tax is to be paid by the recipient of supply to the govt. in Rcm. As there are notified goods and services and notified suppliers which comes under RCM. By this no goods and services can be avoided from tax. It can bring all the goods and services in tax preview. So, GST is a good concept introduced by Govt. it also helps in increase the revenue to govt.

Reference:

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