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AAR allows input tax credit by debt settlement under GST regime

AAR ruled that the applicant could pay the consideration for inward supplies by way of setting off book debt

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Companies can claim input tax credit (ITC) under the goods and services tax (GST) regime even if the liability to pay for inputs between them, including tax, is discharged through adjustments in their books, ruled an authority for advance rulings (AAR).

The Bengal wing of AAR made the ruling while hearing a case relating to Senco Gold, a supplier of jewellery. The firm also operates a network of franchisee-operated stores.

Explaining the case, Harpreet Singh, partner at KPMG, said the applicant raised tax invoices on the franchisee for the supply of jewellery and for providing of franchisee support services.

Correspondingly, the franchisee also raised tax invoices on the applicant for supply of old jewellery received from customers. The applicant intended to settle the mutual debts through book adjustments.

However, for the purpose of availing ITC, section 16 of the CGST Act mandates the recipient to pay to the supplier the amount towards value of the supply, along with tax payable thereon within 180 days from the

date of invoice.

As such, the applicant sought an advance ruling on whether the input tax credit was admissible if he settled through book adjustment the debt created on inward supplies from the franchisee.

AAR allowed the applicant to do that. It ruled that the applicant could pay the consideration for inward supplies by way of setting off book debt.

It said a payment is a transfer of an asset to the payee for discharging an obligation arising out of transactions involving goods, services or other legal obligations.

The most common asset class used for such payments is money, although other assets — unless specifically excluded by law — may be used, provided the payee accepts such a form of payment.

Singh said: “While the ruling seems to provide a big relief to taxpayers, it needs to be seen whether the same would apply in cases where the supplier reduces its debt liability by offering discounts to its client, without corresponding reduction in tax liability.”