18% GST on salary paid for services by a firm to its branch offices in other states, rules AAR

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Although the GST charged on such supplies can be claimed as input tax credit (ITC), companies which are exempt from GST will not be able to claim credit.

NEW DELHI: Salary for services like accounting, IT, human resource, provided by the head office of a company to its branch offices in other states will attract 18 per cent GST.

According to an order passed by the Karnataka bench of the Authority for Advance Ruling (AAR), the activities between two offices is treated as supplies under the GST law.

It said the valuation of supply will include all costs, including the employee cost provided by one distinct entity to the other distinct entities.

"The activities performed by the employees at the corporate office in the course of or in relation to employment such as accounting, other administrative and IT system maintenance for the units located in the other states as well i.e. distinct persons as per Section 25(4) of the Central Goods and Services Tax Act, 2017 (CGST Act) shall be treated as supply as per Entry 2 of Schedule I of the CGST Act," the AAR said.

Experts said the ruling will mean that companies, which have offices in multiple states, will have to raise Goods and Services Tax (GST) invoice for functions performed by employees in head office that has helped branches in other states.

Although the GST charged on such supplies can be claimed as input tax credit (ITC), companies which are exempt from GST will not be able to claim credit.

Also this will increase compliance burden for companies as they have to raise invoice for all such inter-state services made.

AMRG & Associates Partner Rajat Mohan said this GST charged would be available as tax credit, except for sectors which are exempt from GST like education, hospitals, alcohol and petroleum.

"This cross charge on account of supply of services is expected to be taxed at rate of 18 per cent, sending shockwaves across conglomerates in India," Mohan said.

Abhishek Jain, Tax Partner, EY says: "This Ruling opens a Pandora box especially for those businesses who are into exempt or non GST supplies; as these companies with this Advance

Ruling may need to charge GST on notional head office employee costs as well with credit of such GST not being available to the recipient branch/ Company".