



GST ISSUES TO CONSIDER FOR CLOSURE OF BOOKS OF ACCOUNTS

[UPDATED UPTO 8TH JUNE, 2018]

By CA Tarun Arora



Input Tax Credits



Fixed Assets



Reverse charge



Documents



Related party transactions



Advances



GST Audit



Unreported supplies
(inward/outward both)

MAJOR GST ISSUES TO BE CONSIDERED BEFORE CLOSURE OF BOOKS

Input Tax Credits

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ISSUES IN INPUT TAX CREDITS

**Re-examining eligibility
of ITCs**

**Reconciliation with
GSTR 2A**



Apportionment of ITCs

**Reversal of ITC for non
payment of
consideration**

Reversal of ITC for non payment of consideration

Sec 16(2)
Rule 37

Payment of Consideration



Shall be made within 180 days from the date of issue of invoice and if not paid credit shall be added to the output liability.



Reversed credit shall be re-eligible on payment of consideration

Applicable
to both
goods and
services

Consideration
means value
and tax
both

**If part
payment
reverse the
proportionate
amount.**

**Interest
payable** from
the date of
availment
till reversal

Apportionment of Input Tax Credits

Sec 17(1) to (4)

Apportionment of input tax credits

In case of Input or Input services

Sec 17(1) & (2)
Rule 42

Input or Input services on which taxes have been paid is used for

Wholly Taxable
Supplies including
Zero rated supplies

Fully allowed

Wholly Exempt
Supplies/Non Business
use

Not allowed

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Partly taxable and
partly exempt/non-
business use

**Proportionately
allowed**

Part 1: Apportionment of Input Tax Credits against Exempt Supplies

Apportionment of Input Tax Credits

Calculation of common credits

Total Credits



**Credits relating to
taxable supplies**

**Credits relating to
exempt supplies /
non business
purposes**

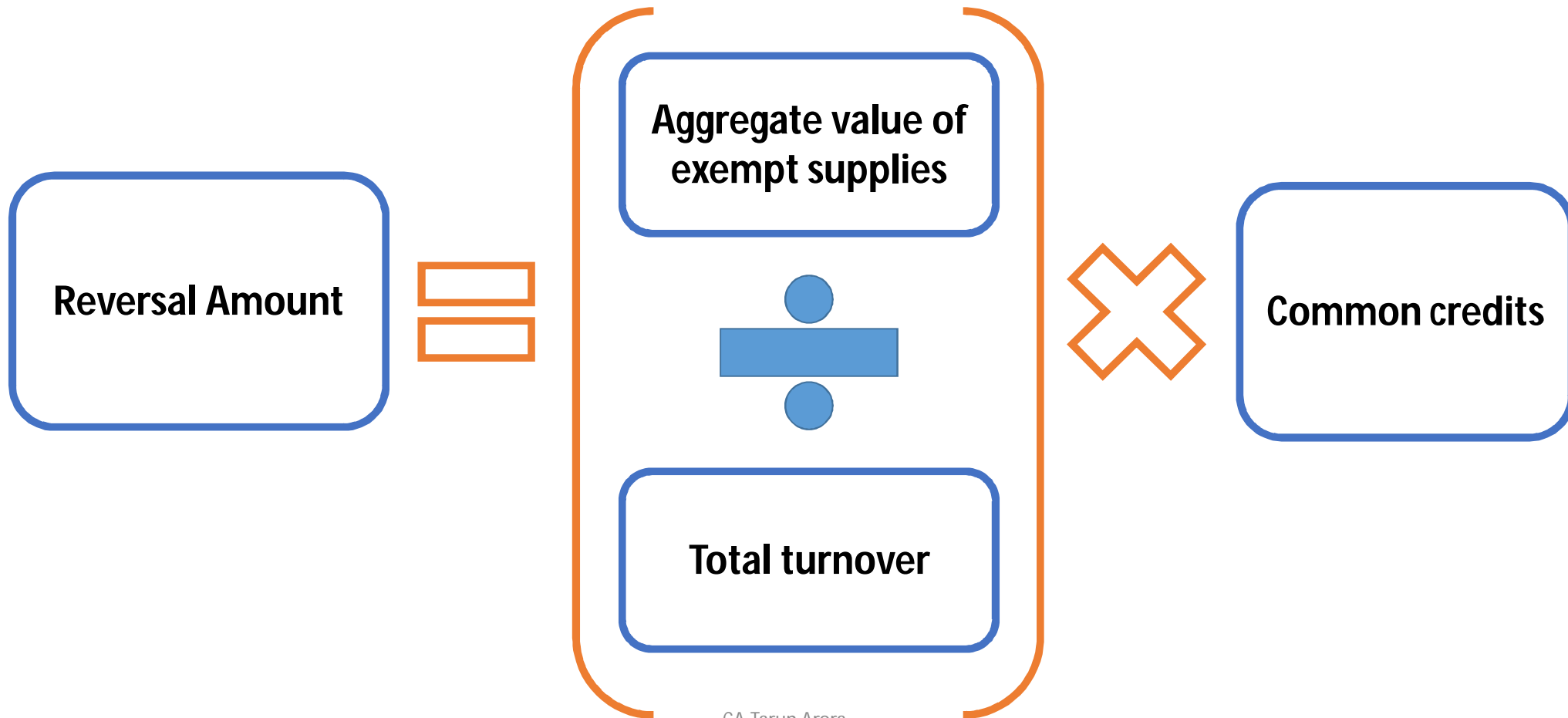
**Ineligible credits
as per Sec 17(5)**



Common credits

Apportionment of Input Tax Credits

Calculation of reversal amount from common credits



Rule 42(2)

The input tax credit determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner specified in the said sub-rule and-

- (a) where the aggregate of the amounts calculated finally in respect of __D1' and __D2' exceeds the aggregate of the amounts determined under sub-rule (1) in respect of __D1' and __D2', such **excess shall be added to the output tax liability** of the registered person in the month not later than the month of September following the end of the financial year to which such credit relates **and the said person shall be liable to pay interest on the said excess amount at the rate specified in sub-section (1) of section 50 for the period starting from the first day of April of the succeeding financial year till the date of payment**; or
- (b) where the aggregate of the amounts determined under sub-rule (1) in respect of __D1' and __D2' exceeds the aggregate of the amounts calculated finally in respect of __D1' and __D2', such **excess amount shall be claimed as credit by the registered person in his return for a month not later than the month of September following the end of the financial year to which such credit relates.**

A company manufactures two products

Product A

Taxable under GST

- 1000 units
- @ 250 per unit

Case 1

- Common Input Y was purchased
- Total 2000 units were purchased
- Cost Rs 2,00,000/- plus GST Rs 36000/-
- 800 units used for product A and
 - 1200 units for product B
- How much credit would be reversed

- Per unit input $(36000/2000) = \text{Rs } 18/-$
- Units used for exempt supplies 1200
- Input reversible $= 1200 * 18 = \text{Rs } 21,600/-$

Product B

Exempt under GST

- 2000 units
- @ 200 per unit

A company manufactures two products

Product A

Taxable under GST

- 1000 units
- @ 250 per unit

Case 2

- Common Input Y was purchased
- Total 2000 units were purchased
- Cost Rs 2,00,000/- plus GST Rs 36000/-
 - Input y cannot be apportioned
- How much credit would be reversed

- Taxable turnover = $1000 \times 250 = \text{Rs } 2,50,000$
- Exempt turnover = $2000 \times 200 = \text{Rs } 4,00,000$
 - Total turnover = $\text{Rs } 6,50,000/-$
- Credit reversible = $(36000 / 650000) \times 400000$
 - **Rs 22,154/-**

Product B

Exempt under GST

- 2000 units
- @ 200 per unit

Part 2: Apportionment of Input Tax Credits against Non Business use

5% of common credits

Apportionment of Input Tax Credits

In relation to Capital Goods

Sec 17(1) & (2)
Rule 43

Capital Goods on which taxes have been paid is used for

Wholly Taxable
Supplies including
Zero rated supplies

Fully allowed

Wholly Exempt
Supplies/Non Business
use

Not allowed

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Partly taxable and
partly exempt/non-
business use

Proportionately
allowed

Apportionment of input tax credits

In relation to capital goods

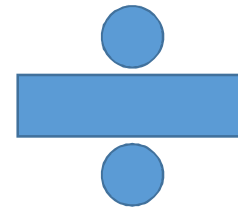
Life of capital goods
assumed to be

5 year or 60 months

Monthly Credit to
be apportioned



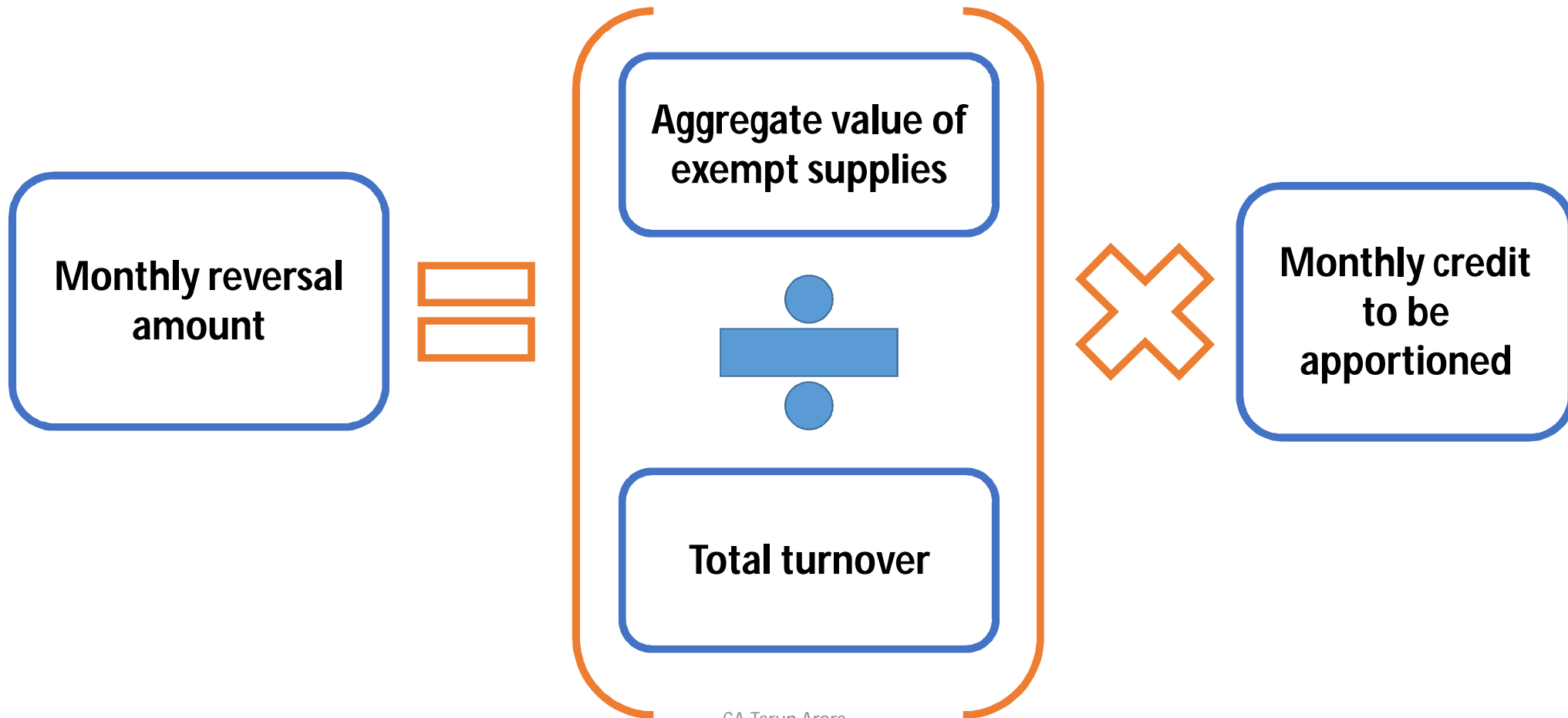
Total Credit on
capital goods



60

Apportionment of input tax credits

Calculation of reversal amount



Apportionment of Input Tax Credits



on account of Interest Income



**Change in Rule 42/43 vide notification
3/2018 CGST Non Rate dated 23.01.2018
to exclude Interest income from exempt
supplies**

Fixed Assets



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ISSUES IN FIXED ASSETS

**Claiming credit
on purchase of
fixed assets**

DONE



**Payment of
output tax on
sale/disposal of
fixed assets**



SALE/DISPOSAL OF FIXED ASSETS

Purchased before GST

**ITC taken in
old law**

**ITC not taken
in old law**

Tax payable on transaction value

Purchased after GST

**ITC not taken
in GST**

**ITC taken in
GST**

Tax payable is higher of
a) Tax on transaction value, or
b) Input tax credit relating to unexpired life (Rule 44(6))
[Sec 18(6)]

SEC 18(6) SALE/DISPOSAL OF FIXED ASSETS



Purchase Price: 30,000/-

GST @ 18% : Rs 5,400/-

Total Amount: Rs 35,400/-

Deemed life is 60 months

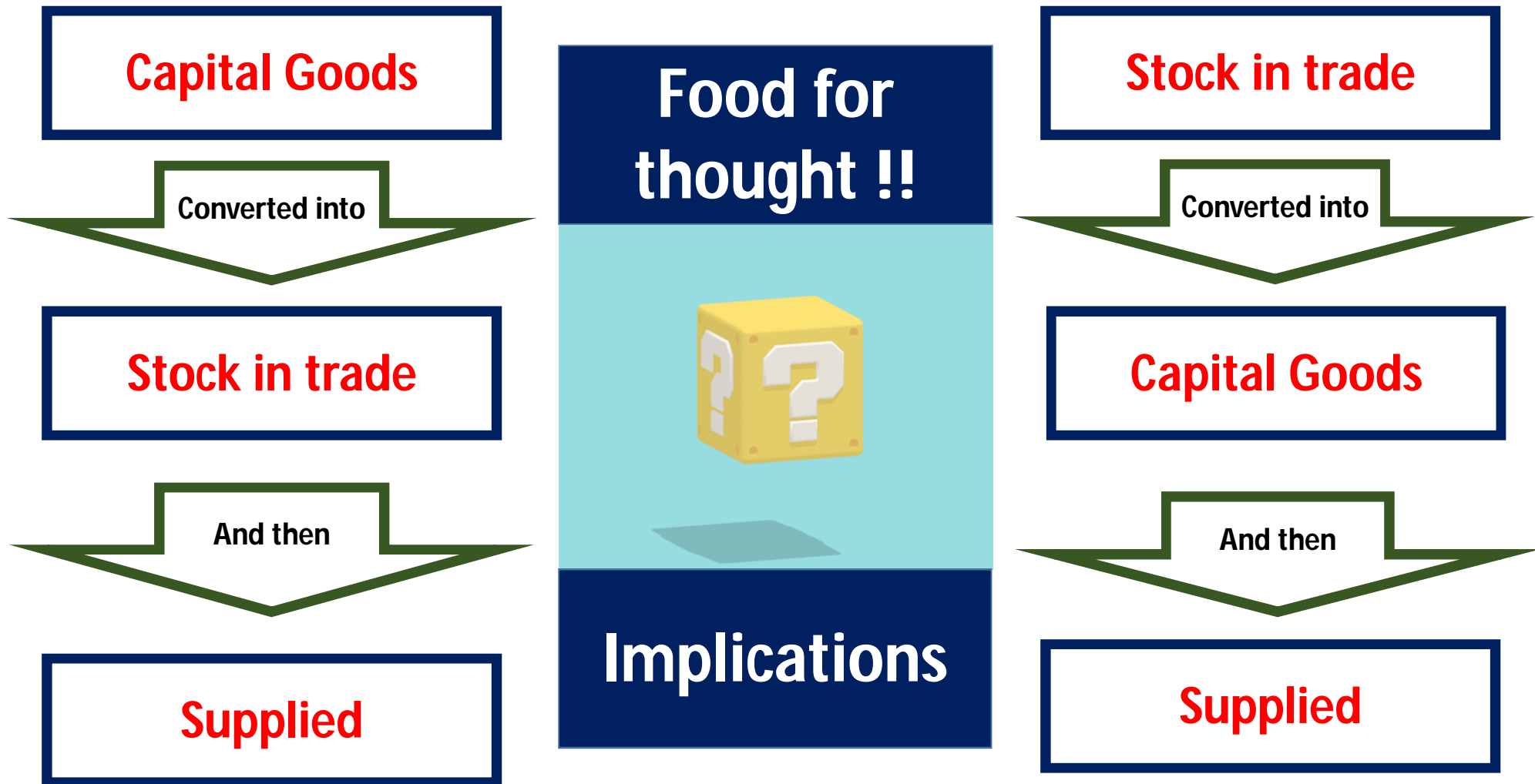
Credit per month
= Rs 5400 / 60 months
= Rs 90 per month

- Purchase date 1st May, 2018
- Credit of Rs 5400 taken in the month of May

Asset sold on 15th Sep, 2018 i.e. after using 5 months @ Rs 5000/- plus GST of Rs 900/-

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- Credit relating to unexpired life (60-5=55 months)
- $55 \times 90 = \text{Rs } 4950$



**What will be the
deemed useful
life**

**Goods purchased on
09.06.2018 as stock in trade**

**What will be the
implications of
Sec 18(6) when
the goods are
finally disposed**

**Goods were unsold till
09.06.2020**

**Impact on
reversals of
common ITC
(Rule 42 and 43)**

**Taxpayers converted them as
capital goods**

**What will be the
implications of
Sec 17(5)(h).**

Input Tax Credit shall not be available in respect of the following, namely:

Sec 17(5)(h)



Goods lost, stolen



Goods destroyed



**Written off or disposed off
by way of free gifts or
samples**

What will be the GST impact on Capital Goods



Which are Lost / stolen /destroyed etc

Within

Five years

Sec 18(6)

Not Applicable

As there is No Supply

After

Five years

How much credit would be required to be reversed?

VALUE AND RATE IN CASE OF SALE OF MOTOR VEHICLE

(Cases where Input Tax Credit is not taken)



13.10.2017
[37/2017 CGST
RATE]

25.01.2018
[08/2018 CGST
RATE]

If
negative
ignore

TIME LINE (1ST JULY, 2017 - TILL DATE)

Taxable value

Amount received

65% of Amount
received

Amount Received
– WDV as per
Income Tax

Tax Rate

28% plus cess

28% plus cess

18% or 12%
(No cess)

Reverse Charge

TYPES

OF

REVERSE

CHARGE

**Specified
categories**

Sec 9(3) CGST | Sec 5(3) IGST

**No exemption i.e.
RCM payable**

**Supplies from
unregistered
suppliers**

Sec 9(4) CGST | Sec 5(4) IGST

- **Upto 12th Oct, 2017
exemption upto Rs
5000/- per day.**
- **Wef 13th Oct, 2017
complete exemption**

SPECIFIED SUPPLIES ON WHICH RCM IS APPLICABLE

10/2017 IGST RATE
(Amended by 22/2017 & 34/2017)



Goods Transport Agency



Lawyers/Advocates



**Supplier of
service located
in non-taxable
territory**

Import of services

Director of a company

Arbitral Tribunal

Author, music composer, photographer etc

Sponsorship

Insurance agent

Specified supplies by government

**Vessel Freight in case of
Import**

Recovery agent

**Services to RBI by members of Overseasing
Committee**

SPECIFIED SUPPLIES ON WHICH RCM IS APPLICABLE

4/2017 CGST RATE
(Amended by 36/2017 | 43/2017 | 11/2018)

S. No.	Description of supply of Goods	Supplier of goods	Recipient of supply
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
4.	Silk yarn	Any person who manufactures silk yarn from raw silk or silk worm cocoons for supply of silk yarn	Any registered person
2[4A	Raw cotton	Agriculturist	Any registered person]

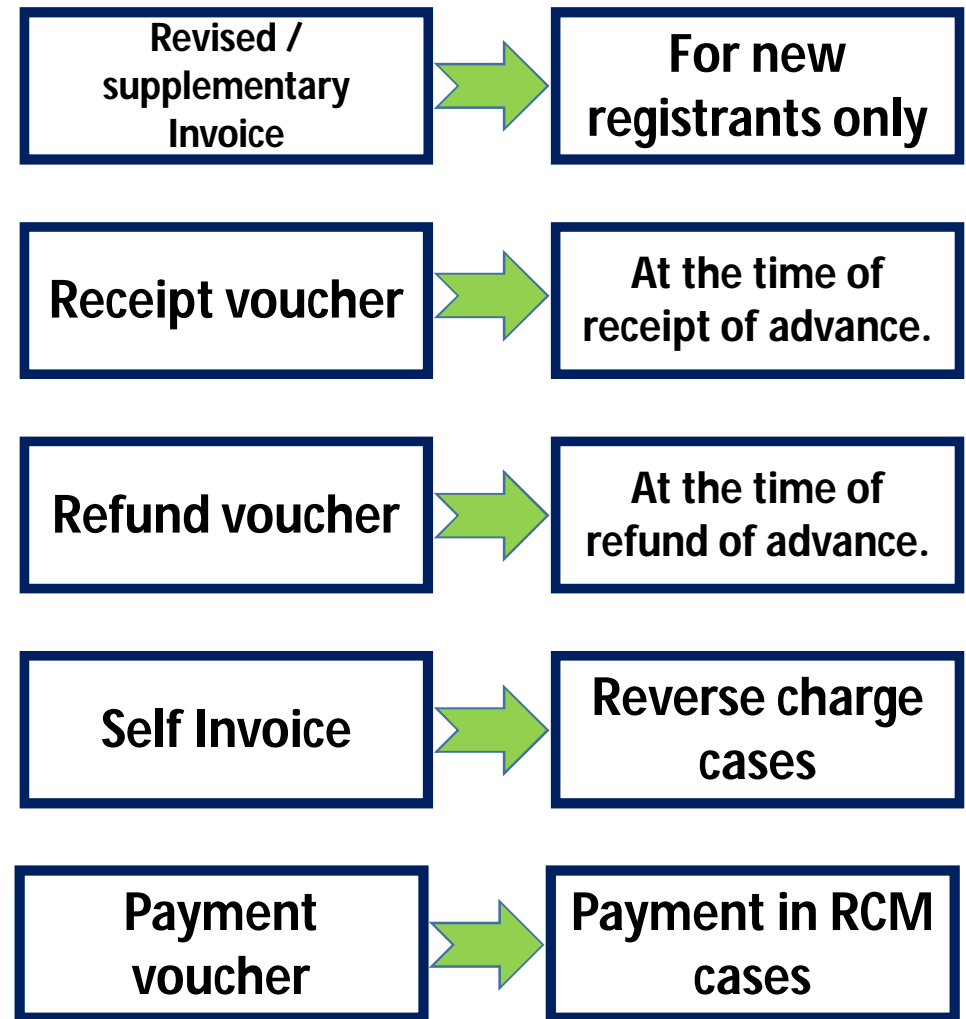
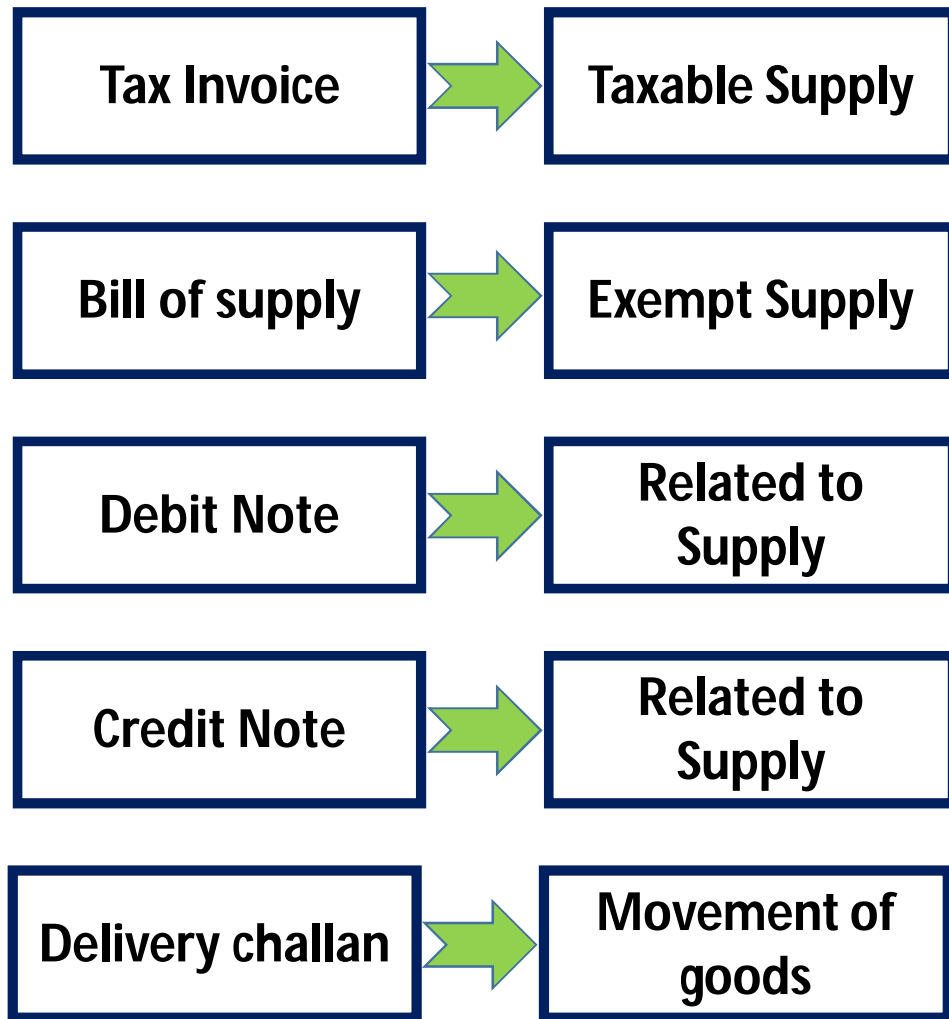
SPECIFIED SUPPLIES ON WHICH RCM IS APPLICABLE

10/2017 IGST RATE
(Amended by 22/2017 & 34/2017)

S. No.	Description of supply of Goods	Supplier of goods	Recipient of supply
5.	Supply of lottery.	State Government, Union Territory or any local authority	Lottery distributor or selling agent. Explanation.- For the purposes of this entry, lottery distributor or selling agent has the same meaning as assigned to it in clause (c) of Rule 2 of the Lotteries (Regulation) Rules, 2010, made under the provisions of sub section 1 of section 11 of the Lotteries (Regulations) Act, 1998 (17 of 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



VARIOUS TYPES OF DOCUMENTS UNDER GST



“Related”



Party Transactions

ISSUES IN RELATED PARTY TRANSACTIONS

Who is related person?

Definition
provided in
Explanation to
Sec 15

**Which transactions
between related
parties require
special attention?**

**How to value
related party
transactions?**

Valuation in case of related party transactions/distinct persons

Rule 28 Related Party Method

Option 1

Value of supply shall be

Open market value

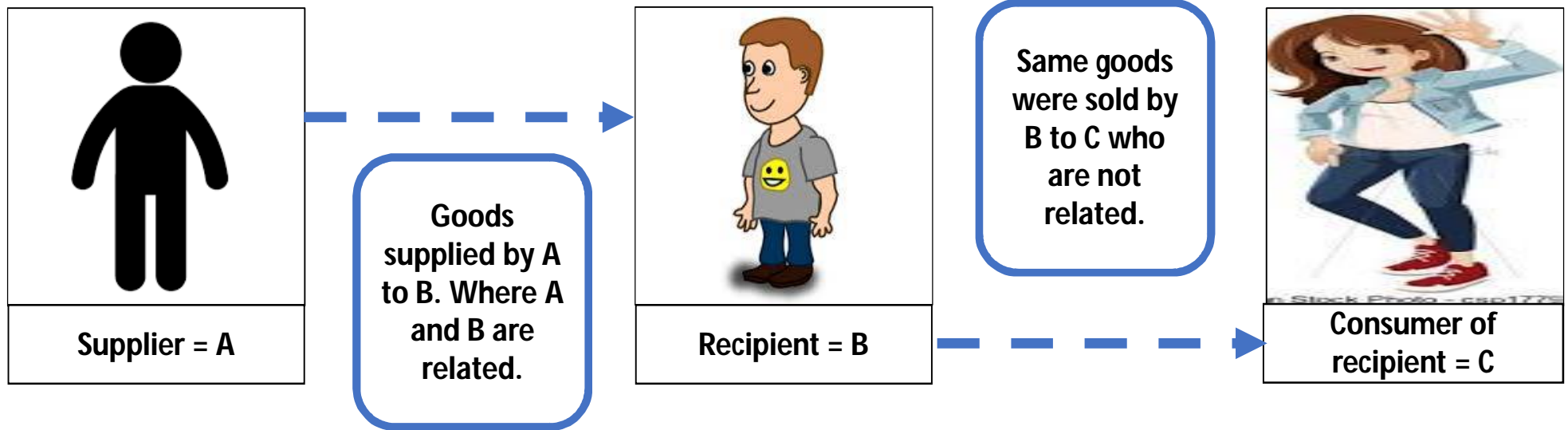
If above is not possible value of like kind and quality goods/services.

If above too is also not possible apply Rule 30 and 31 sequentially

Rule 28 Related Party Method

Option 2

Applicable only for goods

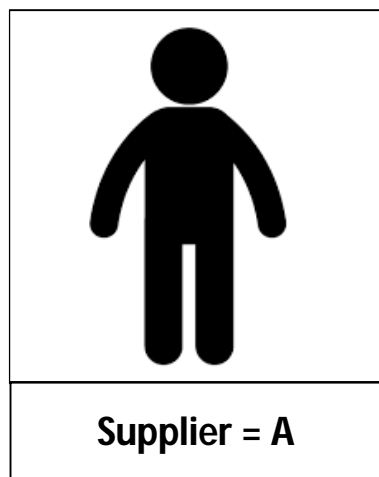


What will be the value of supply?

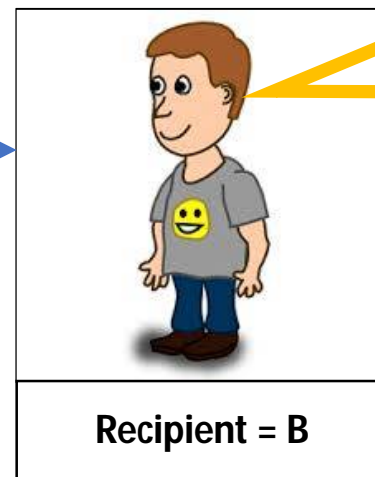
90% of price charged from C by B

Rule 28 Related Party Method

Option 3



Goods/Services supplied
by A to B. Where A and B
are related.



CONDITION
HE is
eligible for
full ITC on
this supply

What will be the value of supply?

Price charged on Supply by A to B

**Food for
thought !!**



**Implications of
Sec 18(6)**

**Supply of capital
goods between
related parties.**

**Supply of capital
goods between
distinct persons
(having same pan).**


Related party transactions requiring special attention



**Branch/stock
transfer**



**Employer and
employee**



**Services by HO to
its branches (Cross
charge)**



**Services by
directors etc**

Advances

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SERVICES

**Taxability of
advances in
relation to**

GOODS

13.10.2017
[40/2017 CGST
NON RATE]

15.11.2017
[66/2017 CGST
NON RATE]

TAXABLE

NO EXEMPTION

TIME LINE (1ST JULY, 2017 - TILL DATE)

TAXABLE

NO EXEMPTION

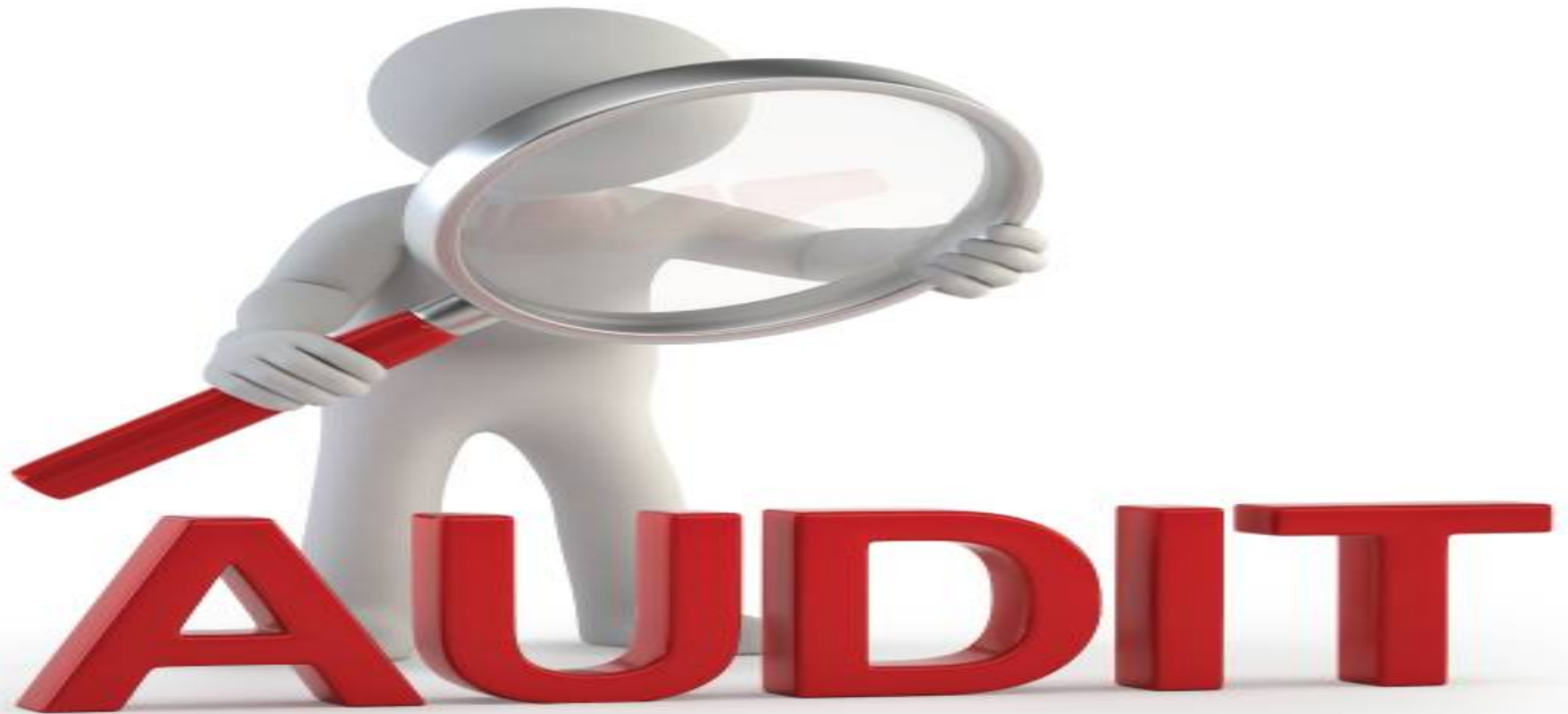
EXEMPTION TO
SUPPLIERS HAVING
**TURNOVER LESS
THAN 1.5 CR.** FOR
OTHERS TAXABLE

EXEMPTION TO ALL
ADVANCES IN
RELATION TO GOODS
IRRESEPECTIVE OF
SUPPLIERS TURNOVER

How Tax Will be paid on advances?

1. What if I **don't know which good/service would be supplied** or against which goods/services that amount would be utilized?
2. What if I don't know the **nature of supply** i.e. whether it will be an intra-state or inter-state?

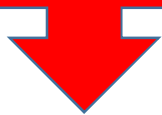




UNDER GST

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INCOME TAX ACT

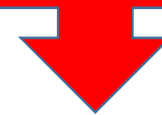


Form 3CA / Form 3CB

&

Form 3CD

GOODS AND SERVICES TAX ACT (Draft)



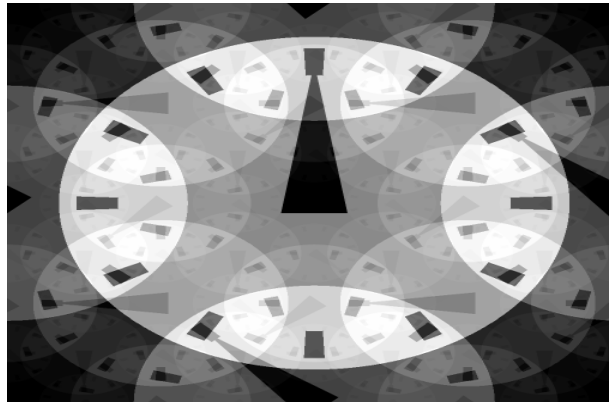
Form 9C

&

Form 9D



**Appoint GST
Auditor**



**Obtain Audit
Report**



SOME CONENTS OF DRAFT FORM 9D

Details of exempt supplies/non gst supplies/ non-supplies

Details in relation to composite and mixed supplies

Reverse charge liability details both 9(3) and 9(4)

Detail of transactions valued through valuation rules

**28 Annexures
In total**

Details of pure agent transactions

Input tax credit details bifurcated in Input, Input services and capital goods

Identification of credit from related parties

Detail of taxes payable, date of filing of returns.

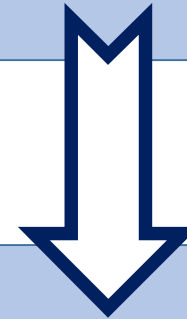
Unreported Supplies



What should we do with unreported

- **Outward supplies or**
- **Inward supplies**

**Submit information in
annual return.**



But will it be sufficient?

How to prepare a reconciliation?

Impact in GSTR 3B

Final value as per books

LESS

Amount reflected in GSTR 3B OF
Jul,17 to Mar, 18.

=

Balance amount that needs to be
reported

Impact in GSTR 1

Final value as per books

LESS

Amount already reflected in GSTR
1 OF Jul,17 to Mar,18.

=

Balance amount that needs to be
reported

IN WHICH PERIOD
IS THIS
RECTIFICATION
TO BE MADE

A person wearing a black hoodie with the hood pulled up, obscuring their face. The background is a smooth green gradient. The text "Ghost provisions" is written in red across the chest area.

Ghost provisions

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BUSINESS IDEA !!!!
Supply of goods/services
through use of IT

Website created !!
Business started !!

**Any
problem?**

- ☐ No RCM liability
- ☐ No inter-state supply
- ☐ Turnover < 20 lakhs

CASE 1

(44) 'electronic commerce' means the supply of goods or services or both, including digital products over digital or electronic network;



Sec 24 read with Sec 2(44) and 2(45)

Section 24: Compulsory registration in certain cases.

(x) every electronic commerce operator;

(45) 'electronic commerce operator'

means any person who

- owns,
- operates or
- manages
- digital or electronic facility or
- platform for electronic commerce;

CASE 1

Impact of Interest Income on return filing

Reporting of interest income as exempt supplies

Issuing Bill of supply and reporting the sequence of the same in GSTR-1

Section 122: Penalty for certain offences.

- (1) Where a taxable person who
- (i) supplies any goods or services or both without issue of any invoice or issues an incorrect or false invoice with regard to any such supply;

CASE 2

he shall be liable to pay a penalty of ten thousand rupees

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Job Worker Related issues

Sec 2(68) 'job work'

means any treatment or process undertaken by a person on goods belonging to another registered person and

the expression 'job worker' shall be construed accordingly;

1. Filing of Form ITC 04

Details of goods/capital goods sent to job worker and received back

2. If there is inter-state movement of goods from principal to job-worker then E-way bill is required and the limit of Rs 50,000/- is not applicable.



My Laptop is not working. Kindly send it to computer person for repairs.

Issue 1

Whether ITC 04 would be required?



Your laptop is repaired. Will deliver it.

Issue 2

Whether E-way Bill required?

CASE 3



**It would mean wherever there is
MOTOR VEHICLE in books and it is
sent to service station then ITC 04
is required to be filed.**

CASE 3

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Purchase booked for Goods having value more than Rs 50,000/-



But no E-way bill was generated?

CASE 3

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Section 122: Penalty for certain offences

Sub Sec 1 Where a taxable person who

(xiv) transports any taxable goods without the cover of documents as may be specified in this behalf;

Shall pay penalty higher of

Rs 10,000/-

OR

Amount equivalent to
the tax evaded

CASE 3

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*Thank
you*



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