

Bad debts GST Implications (Covid 19)

May 2020



Reduction in output tax liability- Section 34 of CGST Act (Legal Text)

- (1) Where one or more tax invoices have been issued for supply of any goods or services or both and the **taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply**, or where the **goods supplied are returned by the recipient**, or **where goods or services or both supplied are found to be deficient**, the registered person, who has supplied such goods or services or both, may issue to the recipient a credit note containing such particulars as may be prescribed.
- (2) Any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which **such credit note has been issued but not later than September following the end of the financial year in which such supply was made**, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed:

Provided that no reduction in output tax liability of the supplier shall be permitted, if the incidence of tax and interest on such supply has been passed on to any other person.

Credit Notes under GST can be raised, if

Taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply

Goods supplied are returned by the recipient

Where goods or services or both supplied are found to be deficient

Generally, on non receipt of payments, credit notes are being raised by taxpayers to avoid the incidence of tax. However, this needs to be seen very cautiously. There has to be supporting documents with every credit notes to evident the above reasons for raising a credit note to claim the benefit under Section 34.

Whether GST is not levied on Bad debts

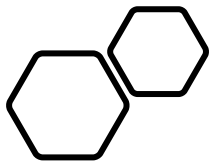
As per the provisions of Section 9 of CGST Act, GST is levied on value of supply which is defined under Section 15;

Section 15 provides that GST shall be levied on value of supply which is paid or **payable** in relation to that Supply;

There is no specific exclusion under Section 15 from value of supply in respect to non-recovery of payments or bad debts;

However, discounts (including post sale discounts) are being specifically dealt with under the provisions of Section 15;

Accordingly, GST is levied on transaction value which is available at the time of supply or other value as may be prescribed under valuation rules but does not exclude value of Bad debts;



How to Handle Bad debts amid Covid Pandemic Situation

It is important to note that bad debts per se is not allowed for reduction in GST liability;

However, the reduction shall be allowed if the reversal of invoice is due to following reasons i.e.

Deficiency in goods and/or services;

Excess rate of units or GST charged;

Re-negotiation of value of contracts;

Goods sent back to the supplier;

Therefore, the businesses has to relook into the positions and prepare the document trail to evident this scenarios before raising any credit notes.

It is also worthwhile to mention here that the credit notes w.r.t. FY 2019-20 should be raised on or before 30 September 2020 to avail the benefit of reduction of liability else the same shall not be allowed even if covered under above categories.

Thank You!

Feel free to reach us at:



info@rapg.in



CA Neeraj Kumar +91 9999 83 6182

CA Deepak Arya +91 9818 44 9179