

Reverse charge under GST model law

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In simple words reverse charge means that when receiver of supply instead of supplier of supply is required to deposit the tax to the government. Reason behind the levy of reverse charge is that when the authorities find it difficult to reach supplier they shift the burden to deposit the tax from supplier to receiver. GST Model law also provide for the reverse charge in section 7(3).

Section 7(3) *“Notwithstanding anything contained in sub-section (2), the Central or a State Government may, on the recommendation of the Council, by notification, specify categories of supply of goods and/or services the tax on which is payable on reverse charge basis and the tax thereon shall be paid by the person receiving such goods and/or services and all the provisions of this Act shall apply to such person as if he is the person liable for paying the tax in relation to such goods and/or services”*

Meaning of Reverse Charge: Section 2(85) defines Reverse Charge as

*“**reverse charge**”, means the liability to pay tax by the person receiving goods and / or services instead of the person supplying the goods and / or services in respect of such categories of supplies as the Central or a State Government may, on the recommendation of the Council, by notification, specify;*

In the erstwhile taxation system there was reverse charge on services only. Purchase tax was another form of reverse charge on Goods but generally there was no reverse charge on Goods. But in GST regime it is proposed that there will be reverse charge on services as well as on Goods.

There is some specific provision regarding reverse charge explained below.

- 1) Supplies on which tax is paid under reverse charge will not be included in "Aggregate Turnover"*

Section 2(6) of Model GET law provide for definition of "Aggregate Turnover" and it specifically exclude the supplies made under reverse charge basis.

- 2) **Liability of registration:** Schedule III of GST Model Law provide for the provisions relating to registration. It requires a person covered under reverse charge to take registration under GST without any threshold limit. Thus a person covered under reverse charge will have to apply for registration irrespective of volume of sale.*

- 3) **Output tax:** Definition of output tax under section 2(72) of GST Model law excludes the tax paid under reverse charge from the definition of Output tax.*

- 4) **Outward supply:** Section 2(73) of GST Model law defines outward supply as: "outward supply" in relation to a person, shall mean supply of goods and/or services, whether by sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made by such person in the course or furtherance of business except in case of such supplies where the tax is payable on reverse charge basis."*

- 5) **Time of supply of Goods under reverse charge:** Section 12(5) covers the provision for time of supply of Goods in case of reverse charge. Earliest of the following will be the time of supply for Goods:*

- a. the date of the receipt of goods ,or*
- b. the date on which the payment is made ,or*
- c. the date of receipt of invoice ,or*
- d. the date of debit in the books of accounts.*

- 6) **Time of supply of services under reverse charge:** Section 13(5) of GST Model Law provides for the time of*

supply for services. According to this provision time of supply of service should be earliest of following.

- a.* the date of receipt of services ,or
- b.* the date on which the payment is made, or
- c.* the date of receipt of invoice, or
- d.* the date of debit in the books of accounts.

7) **Furnishing details of Inward supplies:** Details for the supplies on which tax has been deposited under reverse charge shall be made by the person who has paid tax under reverse charge i.e receiver of Goods.