

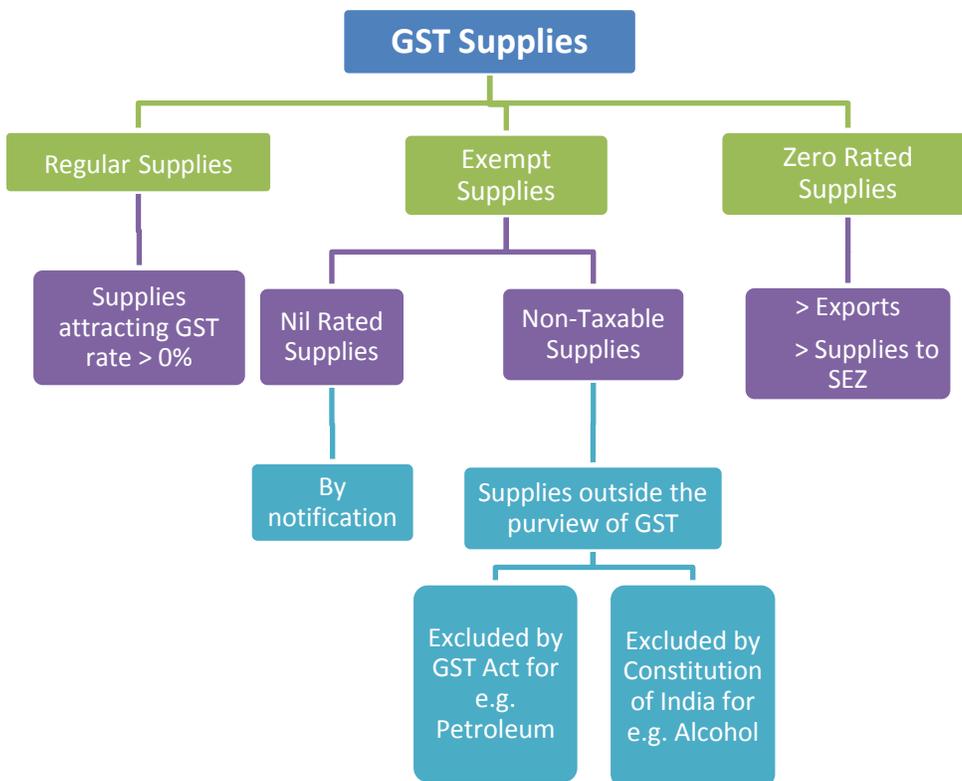
GST RETURN FILINGS

staying ahead in compliances...

GST Supply Categories and Tax Implications

This alert delves upon a fundamental but important taxonomical issue. Several terms such as 'nil rated', 'non-GST' and 'exempt supplies' are often used interchangeably in tax jargon and literature. Though some of the terms have similar meaning, yet correct classification is important as each term has specific and different tax implications. In this alert we examine various 'supply' categories and briefly discuss their implications.

Apart from regular GST supplies, there are other supplies which must be reported in GST Returns. The chart given below captures different types of supplies:



- 1) Regular Supplies:** Though regular supplies are not defined, these are supplies other than 'exempt' and 'zero rated supplies' and attract a positive rate of tax.

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2) **Exempt Supplies¹**: By definition, exempt supply is a broad term which includes nil rated supplies, non-taxable supplies and specific supplies which are notified as exempt from tax. For example, goods such as fruits, walnuts, almonds, etc.

(a) **Nil Rated Supplies**: Goods or services on which nil rate of GST is applicable (listed in Schedule 1 of the GST rate schedule). For example, supply of accommodation services in hotel with tariff below Rs. 1,000 per day.

(b) **Non-taxable or Non-GST Supplies²**: Goods or services on which GST is not leviable (these goods or services have been kept out of the purview of GST). For example, supply of alcohol for human consumption, petroleum products, etc.

An important point to note in this regard is the constitutional exclusion of alcohol from levy of GST. Therefore, unlike other non GST supplies like petroleum, natural gas, etc. bringing alcohol within the ambit of GST would necessitate a Constitutional amendment.

3) **Zero-rated Supplies³**: Any of the following supplies of goods/ services/ both:

(a) Exports; or

(b) Supplies to Special Economic Zone (SEZ) Unit or SEZ Developer

Taxonomical Significance

- **ITC Reversal**

While input tax credits for regular and zero rated supplies can be claimed subject to prescribed conditions, ITCs cannot be claimed for nil rated, exempted and non-taxable supplies. Therefore, taxpayers supplying taxable as well as nil rated, exempted or non-taxable goods/services are required to reverse ITCs on proportionate basis⁴.

- **Reporting in Returns**

One should also note that apart from reporting regular supplies and zero-rated supplies in GST returns, taxpayers have to report nil rated, exempted and non GST supplies in both outward and inward returns under the heads specified in the following table:

Type of Return	Particulars
GSTR-1 (Outward Supplies)	Table 8 for nil rated, exempted and Non GST outward supplies
GSTR-2 (Inward Supplies)	Table 7 for nil rated, exempted and Non GST inward supplies
GSTR-3B (Monthly Return on self-assessment)	Table 3.1 for nil rated, exempted and Non GST outward supplies Table 5 for nil rated, exempted and Non GST inward supplies
GSTR-3 (Monthly Return)	Details shall get auto-populated from GSTR-1 and GSTR-2

¹ Section 2 (47) of CGST Act

² Section 2 (78) of CGST Act

³ Section 16 (1) of IGST Act

⁴ Section 17 of CGST Act r.w. Rule 42 and 43 of CGST Rules

- **Filing of Annual Return**

Annual return, which is to be filed on or before 31st of December following the end of the relevant financial year, is expected to be the summation of all the GST monthly returns of the relevant financial year. For taxpayers having more than Rs. 2 cr of revenue (in the relevant financial year), this annual return is to be reconciled in GSTR-9C with the audited accounts. Keeping this in mind, taxpayers should identify and report all types of GST supplies correctly in the monthly GST returns to avoid mismatches later.

Keeping the above implications in view, it is important for taxpayers to correctly identify and categorize the inward and outward supplies while filing GST returns and thereby ensure robust compliance.

The information contained in this newsletter is solely intended to provide general guidance on matters of interest. Nothing herein constitutes professional or legal advice, nor does any information herein constitute a comprehensive or complete statement of the issues discussed. It is recommended that you seek a professional advice to confirm your understanding on the issues dealt above.