

From	Karvy Data Management Services Ltd.
Date	March 09, 2019
Subject	Clarification on treatment of sales promotion schemes under GST
Category	Circular
Reference	Circular No. 92/11/2019-GST dated 07.03.2019
Series	Karvy/GST/104

Representations were made to the Government, requesting to clarify the issues with respect to the treatment of sales promotion schemes under GST – Aspects of taxability, Valuation, Availability of Input tax Credit (ITC) in the hands of the supplier. Central Board of Indirect Taxes and Customs (CBIC) has issued Circular No. 92/11/2019-GST dated 07.03.2019 clarifying such issues.

Gist of the clarifications given by CBIC has been tabulated below:

Type of Sales Promotion Scheme - Free samples and gifts (Ex. Pharmaceutical companies which often provide drug samples to their stockists, dealers, medical practitioners, etc. without charging any consideration.)	
Treatment of transaction as "Supply" under GST	Eligibility to claim Input Tax Credit (ITC) in the hands of the Supplier
<p>Transaction not to be treated as Supply - Goods or services or both which are supplied free of cost (without any consideration) shall not be treated as "supply" under GST (except in case of activities mentioned in Schedule I of the CGST Act 2017 i.e. supplies made to distinct and related persons) - Sec. 7 of CGST Act 2017.</p>	<p>Supplier not eligible to claim ITC - Input Tax Credit shall not be available to the supplier on the inputs, input services and capital goods to the extent they are used in relation to the gifts or free samples distributed without any consideration - Clause (h) of sub-section (5) of Sec. 17 of CGST Act 2017.</p> <p>Supplier eligible to claim ITC - Where the activity of distribution of gifts or free samples falls within the scope of "supply" on account of supplies made to distinct and related persons in accordance with Schedule I of the CGST Act 2017, the supplier would be eligible to avail of the ITC.</p>

Type of Sales Promotion Scheme - Buy one get one free offer (Ex. Buy one soap and get one soap free or Get one tooth brush free along with the purchase of tooth paste)	
Treatment of transaction as "Supply" under GST, its Valuation & Taxability	Eligibility to claim Input Tax Credit (ITC) in the hands of the Supplier
<p>Transaction to be treated as Supply - In this type of transaction, it will be a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one.</p> <p>Taxability - Taxability of such supply will be dependent upon as to whether the supply is a composite supply or a mixed supply and the rate of tax shall be determined as per the provisions of Sec. 8 of the CGST Act 2017.</p>	<p>Supplier eligible to claim ITC - Input Tax Credit shall be available to the supplier for the inputs, input services and capital goods used in relation to supply of goods or services or both as part of such offers.</p>

Type of Sales Promotion Scheme - Discounts including 'Buy more, save more' offers

Type of discount and the manner of passing such discounts	Treatment of discounts in the value of the transaction as "Supply" under GST	Eligibility to claim Input Tax Credit (ITC) in the hands of the Supplier
<p>Staggered discount to customers: For example - Get 10 % discount for purchases above Rs. 5000/-, 20% discount for purchases above Rs. 10,000/- and 30% discount for purchases above Rs. 20,000/-.</p> <p>Manner of passing such discount: Such discounts are shown on the invoice itself.</p>	<p>Discounts to be excluded from the value of supply subject to satisfaction of few conditions: Discounts offered by the suppliers to customers (including staggered discount under "Buy more, save more" scheme and post supply / volume discounts established before or at the time of supply) shall be excluded to determine the value of supply provided they satisfy the parameters laid down in sub-section (3) of section 15 of the CGST Act 2017.</p> <p>The parameters to be satisfied are:</p> <p>(a) Such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and</p> <p>(b) Input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.</p>	<p>Supplier eligible to claim ITC - Supplier shall be entitled to avail the ITC for such inputs, input services and capital goods used in relation to the supply of goods or services or both on such discounts</p>
<p>Periodic / year ending discounts (Volume discounts): For example - Get additional discount of 1% if you purchase 10000 pieces in a year, get additional discount of 2% if you purchase 15000 pieces in a year.</p> <p>Manner of passing such discount: Such discounts are established in terms of an agreement entered into at or before the time of supply though not shown on the invoice as the actual quantum of such discounts gets determined after the supply has been effected and generally at the year end. Such discounts are passed on by the supplier through credit notes.</p>		

Type of Sales Promotion Scheme - Secondary Discounts

Type of discount and the manner of passing such discounts	Treatment of discounts in the value of the transaction as "Supply" under GST	Eligibility to claim Input Tax Credit (ITC) in the hands of the Supplier
<p>Discounts not known at the time of supply or are offered after the supply is already over: For example – M/s A supplies 10000 packets of biscuits to M/s B at Rs. 10/- per packet. Afterwards, M/s A re-values it at Rs. 9/- per packet.</p> <p>Manner of passing such discount: M/s A, issues credit note to M/s B, for Rs. 1/- per packet.</p>	<p>Discounts NOT to be excluded from the value of supply: Such secondary discounts shall not be excluded while determining the value of supply as such discounts are not known at the time of supply and the conditions laid down in clause (b) of sub-section (3) of section 15 of the CGST Act are not satisfied.</p> <p>Issuance of commercial / financial Credit Notes - Financial / commercial credit note (s) can be issued by the supplier even if the conditions mentioned in clause (b) of sub-section (3) of section 15 of the said Act are not satisfied. Such Credit Note shall not have GST applicability.</p>	<p>Supplier eligible to claim ITC - There is no impact on availability of ITC in the hands of supplier in this case. Supplier shall be eligible to claim ITC.</p>

Link to download the Circular No. 92/11/2019-GST dated 07.03.2019 – <http://www.cbic.gov.in/resources/htdocs-cbec/gst/circular-cgst-92.pdf;jsessionid=BA4499C23440EE49C553FAD786731825>

About KARVY DATA MANAGEMENT SERVICES LTD.

Karvy Data Management Services Limited (KDMSL), a GST Suvidha Provider which has developed ASP Solution for easing GST compliance for tax payers. Easy to use interfaces are made available at the disposal of the tax payers to simplify their compliances in terms of dashboards, MIS, returns, payments, refunds and other compliance process. So, 'HELP US HELP YOU' we offer following services for GST - GSP & ASP Services (on cloud or on premises) with ERP Integration and Vendor Management Solution. We also offer managed services for Outsourced GST Compliance which will take care of end to end compliances.

In India, GST Team of KDMSL are located in following cities: Hyderabad, Mumbai, Bangalore, New Delhi, Chennai, Pune and Kolkata. For more information about KDMSL service offerings, visit www.karvygst.com

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