

# ITC eligible when consideration for inward supply paid through book adjustments: WB AAR

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## Summary

The West Bengal Authority for Advance Ruling (AAR) in a recent case<sup>1</sup> has held that the GST law does not impose a restriction on Input Tax Credit (ITC) when consideration is paid through book adjustment subject to the conditions and restrictions as may be prescribed and in the manner specified. Thus, the AAR held that ITC is admissible on inward supplies when the consideration is paid by way of settlement of mutual debts through book adjustment.

## Facts of the case

- The Applicant<sup>2</sup> is engaged in the manufacturing and retailing of jewellery and articles made of gold, silver, platinum, diamonds and other precious stones under the brand name 'Senco Gold & Diamonds'.
- Apart from own retail stores, the Applicant also grants franchisee right and license to operate a showroom and to use, in connection therewith, certain proprietary marks and system in accordance with a franchise agreement.
- The Applicant raises tax invoices on the Franchisee for the supply of jewellery and other articles and also for franchise support services in terms of the agreement periodically.

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<sup>1</sup> West Bengal AAR No. 02/WBAAR/2019-20 dated 8 May 2019

<sup>2</sup> Kerala State Screening Committee on Anti-Profiteering

- The Franchisee also raises tax invoices on the Applicant for the supply of old gold, silver, etc., received from the customers. The Applicant intends to settle the mutual debts through book adjustments.
- Therefore, the Applicant has sought an advance ruling on whether the ITC is admissible when the debt settlement is done through book adjustment created on inward supplies from the Franchisee.

### **Applicant's contentions**

- The Applicant contended that nowhere does the GST law make availing of ITC dependent upon the payment to be made for the inward supply. Further, it argued that there is no prescribed mechanism or restriction on the mode in which the payment has to be made.
- The Applicant argued that payment through adjustment in the books of accounts is a prevalent commercial practice.
- Further, the Applicant relied on the provisions<sup>3</sup> of the erstwhile West Bengal VAT laws to contend that restriction placed on claiming ITC under the said law in case of cash payment in excess of INR 20,000 in a day was not present under the current GST regime.

### **West Bengal AAR's observations and ruling**

- The AAR, on perusal of the definition of the term 'consideration' under the GST law<sup>4</sup>, observed that any payment whether in money or otherwise and also the monetary value of any act or forbearance could be classified as a consideration. It thus held that reduction in book debt (an asset in the payer's books of accounts) is a valid 'consideration'.
- Further, the AAR observed that unless the law specifically restricts the recipient from claiming the ITC when consideration is paid through book adjustment, ITC cannot be denied.

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<sup>3</sup> Rule 19(8) of the West Bengal Value Added Tax Rules, 2005,

<sup>4</sup> Section 2(31) of the CGST Act, 2017

- Thus, the AAR held that ITC is admissible for inward supplies from the Franchisee by way of settling-off book debts since the Applicant has paid 'consideration' for inward supplies by way of book adjustment.

### **Our comments**

Settlement of mutual debts is a prevalent business practice where parties settle their mutual debts through book adjustments. The decision by the AAR is a welcome ruling and should help taxpayers claim ITC in such situations. It is pertinent to mention here that while the decision of AAR is binding only on the applicant, it will provide guidance to other taxpayers undertaking similar book adjustments.

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