

# Gift vouchers are instruments of consideration for future supply: Tamil Nadu AAAR

9 April 2021



## Summary

The Tamil Nadu Appellate Authority for Advance Ruling (AAAR) in a recent case held that vouchers/pre-paid instruments (PPIs) are neither goods nor services but are a means/instrument for payment of consideration. Further held that the supply associated with the voucher (gold in this case) is classifiable according to the nature of goods or services supplied in exchange for the voucher earlier issued to the customer.

## Facts of the case

- The appellant<sup>1</sup> is engaged in the business of manufacturing and trading of jewellery products. As a part of sales promotion, it had introduced a facility of pre-paid instruments (PPIs) generally called as gift vouchers/gift cards.
- It had sought an advance ruling before the Tamil Nadu Authority for Advance Ruling (AAR) to understand whether issue of such PPIs to the customers be treated as a supply of goods or service. If yes, what will be the time of supply and rate of tax applicable on supply of such PPIs.
- The AAR had held that such PPIs are supply of goods and the time of supply of such gift vouchers / cards shall be the date of issue if the vouchers are specific to any particular goods specified against the voucher. If redeemable against any goods, the time of supply shall be the date of redemption<sup>2</sup>. It further held that paper based gift vouchers shall be taxable @ 12% or 18% as per the classification.
- Aggrieved by the above ruling, the appellant filed the present appeal before the Tamil Nadu AAAR.

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<sup>1</sup> M/s Kalyan Jewellers India Limited

<sup>2</sup> Tamil Nadu AAR Order No. 52/ARA/2019 dated 25 November 2019

## Tamil Nadu AAAR's observations and ruling<sup>3</sup>

- **Vouchers are neither goods nor services but instruments of consideration:** Vouchers issued by the appellant are of the nature of actionable claims. Vouchers are neither goods nor services<sup>4</sup> but instruments of consideration for future supply and therefore supply of vouchers per se is not taxable.
- **Vouchers are a means for advance payment:** A voucher is a means for advance payment of consideration for future supply of goods or services.
- **Determination of time of supply:** The gold voucher in the present case representing the underlying future supply of gold jewellery would be taxable at the time of issue of the voucher.

- **No double taxation:** The transfer of gold subsequently will not be subject to tax at the time of redeeming the voucher for gold, as the supply is deemed to have been done at the time of issue of voucher itself<sup>5</sup>.
- **Voucher cannot be classified separately:** Since voucher is only an instrument of consideration and not goods or services, the same is not classifiable separately. Only the supply associated with the voucher is classifiable according to the nature of the goods or services supplied in exchange of the voucher earlier issued to the customer.

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<sup>3</sup> A.R.Appeal no.01/2020/AAAR dated 30 March 2021

<sup>4</sup> Entry No. 6 of Schedule III to the CGST Act, 2017

<sup>5</sup> Section 12(4) of the CGST Act, 2017

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## **Our comments**

The taxability of gift vouchers has always been a matter of litigation under the GST as well as the pre-GST era.

Under the pre-GST era, the apex court in the case of Sodexo had held that such food vouchers are only payment instruments and not goods and they become taxable only when they are redeemed.

The present ruling by Tamil Nadu AAAR also rightly observes that what is taxable is the underlying supply of goods or services against the vouchers and not the vouchers per se.

This is a welcome ruling by the Tamil Nadu AAAR and shall help in providing the required clarity on the taxability of vouchers.

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