

# **Impact analysis: CBIC puts turnover cap for allowing refund of accumulated ITC**

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## Background

The Goods and Service Tax (GST) Council in its 39th Meeting held on 14 March 2020 had recommended capping the turnover value of zero-rated supply of goods for arriving at the refund amount of input tax credit (ITC) in case of zero-rated supply of goods/services/both without the payment of tax under bond or letter of undertaking<sup>1</sup>.

Pursuant to the recommendation, the Central Board of Indirect Taxes and Customs (CBIC) had recently introduced amendment<sup>2</sup> - a ceiling of **1.5 times the value of like goods domestically supplied by the same or similarly placed supplier** on the turnover of zero rated supply of goods.

**The amended definition of turnover of zero-rated supply of goods reads as under<sup>3</sup>:**

*“Turnover of zero-rated supply of goods means the value of zero-rated supply of goods made during the relevant period without payment of tax under bond or letter of undertaking or **the value which is 1.5 times the value of like goods domestically supplied by the same or, similarly placed supplier**, as declared by the supplier, whichever is less, other than the turnover of supplies in respect of which refund is claimed under sub-rules (4A) or (4B) or both”*

## Impact analysis/way forward:

As per the amended provision, the turnover of zero rated supply of goods shall be the actual transaction value of zero rated supplies made under letter of undertaking (LUT) or the value which is 1.5 times the value of like goods domestically supplied by the same or similarly placed supplier as declared by the supplier, **whichever is less.**

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<sup>1</sup> in accordance with the provisions of sub-section (3) of section 16 of the Integrated Goods and Services Tax Act, 2017

<sup>2</sup> in the Central Goods and Services Tax Rules, 2017

<sup>3</sup> vide Notification No. 16/2020-Central Tax dated 23 March 2020

**Illustration:**

Turnover of zero rated supply of goods		Valuation (A or B whichever is less)
(A)	Actual value of zero rated supplies as per LUT	INR 155
(B)	Value of like goods supplied domestically by same/similarly placed supplier	INR 100
	1.5 times of INR 100	INR 150
	Turnover of zero rated supply of goods <i>(A or B whichever is less)</i>	INR 150

Hence, as per the said formula, the value of exports for calculating the eligible refund amount of accumulated ITC shall be INR 150 and not the actual amount of export.

The most important aspect that needs to be evaluated is to the value of like goods supplied domestically by the supplier or similarly placed supplier.

- **In a scenario where the supplier undertakes both domestic as well as export supplies:** Valuation may be relatively easy to determine/derive. However, in those cases also, it is advisable that due supporting/back-up documents are maintained by the supplier seeking the refund to avoid litigations/blockage of refunds.
- **In other cases:** It remains to be seen whether the valuation declared will be accepted by the authorities or refunds will be delayed for the want of information/documents by the authorities.

At this juncture, it is imperative that the business concerns evaluate this aspect/amended provision carefully and undertake due valuation exercise along with strong supporting documents so that the refunds are not being held back/delayed by the authorities.

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