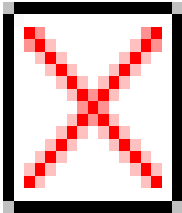


Locked Economy - What GST measures may form part of 'Key'!

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By R Sridhar, Consulting Editor, TIOL



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world and its glory has been denuded in the interim by a virus that is challenging the frontiers of science and bio research. While the world community, including India, and all Governments are trying with everything at their command, to prevent the spread of the virulent virus, the fallouts on Trade and Industry (T&I) whether it be SME, MSME and Large Industries have been devastating. The trade on one side has not been able to complete the supply chain barring what is essential as promulgated by the GOI and the States. We have seen scenes of thousands of litres of milk being emptied on the ground, flowers being strewn all round, food and non-food products being wasted, but the worse is yet to descend on the national scene. When the lockdown ends and science wins over the virus, all will not be the same on the national trade and industry front. The following are the few challenges before every constituent of T&I in India's onward march to growth:

- a) T&I restarting will need a specific stabilization time after commencement
- b) The necessity for a preventive maintenance before P&M springs backs to life
- c) Efforts such as time and costs to re-assimilate migrant labour who mostly have reached their ancestral homes (Important for Stock and forwarding operations, Supply chain activity)
- d) Circumspect consumer behaviour which will defy any economic logic till December 2020
- e) Dull festival demand for August 2020 to Nov 2020. (Due to withdrawal syndrome of virus)
- f) Serious payment problems in the Trade and Industry despite moratorium afforded at various levels by RBI
- g) Expired stocks, returns from markets, need for extra discounts in nature of sustenance discounts
- h) Retail Trade and wholesale trade hand holding which will pose strain on margins on upstream manufacturer.
- i) T&I to gear up for supply chain disruptions at global level due to many countries shutting down
- j) Just in time manufacturing practices not hitherto experienced with dependency upon international and inter-state supply chains which will converge into more proximity and cluster-based co-manufacturing in essential sectors like Food, Pharma, Medical supplies, Textile and Agri based industries.

While the list will balloon with time, my efforts are to bring to the attention of GOI and GST Council, as to what the sovereign can do to ameliorate the suffering of T&I. Recently in the first week the GOI amended the Rule 36(4) of CGST Rules by relaxing compliance of confirmed ITC for the months March 2020 to August 2020 subject to complete compliance by September 2020. While this gesture is well appreciated, I list below a few more issues that the GST Council and GOI with States may consider:

1) Impact of Section 17(5) on Food, Non- Food final products not moving from Shelf at markets and at various supply chain points

Losses of Raw material and inventory are likely to occur due to international, domestic supply chain disruptions and prices touching sky high and making it unviable for local manufacturer

s. This will trigger deep discount for inventory clearance even in luxury and semi-essential goods category like luggage, suitcases, Shoes, Camera, swim suits, gym bags, dining sets, event promotional material, decoration material, luxury garments and leather items etc. Besides perishable goods like ice cream, juices, aerated beverages, cold coffee, tin packed sweets, cut fruits, chocolates, premium biscuits might face low to very low uptake from the shelves causing high cost of stock liquidation.

Consequent to the above, it is expected that by May 15 2020 that final products stock of Food, Non- Food products will exhaust their useful life and this can result in significant write off at market place, supply chain points & factories. In terms of compliance to 17(5) of the CGST Act while there are contentious issues on market returns, it is expected that reversal of ITC will be waived due to impact of the pandemic if the expiry of shelf life at markets and other Supply chain points happen between April 1 to August 31 2020.

Additionally, it is adverted, that many raw materials, packaging materials and consumables will be wasted and be rendered un-useable at the manufacturing point by the time the effect of the pandemic withers away. The relief therefore should be given for all goods irrespective of the fact whether it is inputs or final products.

2) Impact of special discounts to be given for selling existing stock to prevent Write offs

It is expected that there will be many industries where the primary sale has been completed but the supply chain stocks exist with various points in trade prior to March 5, 2020. In these circumstances an ad hoc extra discount would have to be given to secondary trade failing which the impact of losses will be significant. In these circumstances the requirement of matching discounts with Invoice as adumbrated in section 15(3) of CGST Act for secondary discounts should be waived for full financial year 2020-21, especially from March 2020 to March 2021 as many trace back systems of the Trade and Industry would have been suspended or processes suspended due to lack of market inspection activities. Any disallowance of secondary discounts will create avoidable distrust between Tax Payer and Tax Collectors, if return based matching is picked up for issuing notices

3) Subsidy for seasonal goods - Industries like Summer Textiles

In addition to the above, there would stocks in the market meant for seasonal selling e. g. Summer Wear of textiles in all States of India which experience severe summer, which will require special efforts at the market place for sale to ultimate consumer. To illustrate this, it is self-evident that last week of Feb 2020, a bulk of summer stocks of textiles would have been purchased by the Traders. It is expected that disaster support, for these kinds of goods over and above special discounts should be provided as a subsidy. This subsidy will assist the Trade to support special schemes to be launched in the market. This subsidy will have to be given over and above the Area based Exemption support currently being given and the state Incentives of the local Governments.

4) Payments to Suppliers -Section 16 of CGST Act requirements

Considering the overall sluggish markets, the suppliers in many sectors, may not be paid dues for supplies made through GST Invoices and the cut off period of 6 months may well be exceeded for supplies received in Jan and Feb 2020. It is expected that there will also be a spill over effect for supplies to received in June, July 2020. Hence the Council and the Government of India should invoke powers under the recently promulgated section 168A and extend the payment limitations date to 9 months instead of 6 months for all supplies received and to be received between Feb 2020 and August 2020.

5) Export Realisation - Refunds of ITC to Exporters

Considering that the overall environment across the world is under stress, the chances that Export receivables are received within the time limit mandated under FEMA read with its Rules are remote. The consequent implication for non -receipt of the receivables would be on refunds of ITC on Exports and hence appropriate extension is required to be made so that export refunds are not delayed or recovered from exporters. Exporters should be allowed to claim refund in auto-mode by submitting complete details of their input purchases, so that they are not forced to loose the credit integration which will dent their competitiveness in export market, going to be very selective for semi-essential, luxury and technical services, IT exports for

next 1-2 years to come.

6) Losses in Conversion activities -Intermediate goods, Final Products

Across sectors, ancillary industries mainly assist in conversion activities. These are SME and MSME in size. Considering the lockdown period in question, there will be conversion losses, that may be due to lack of manpower or due to ill timing of material coming in to the convertors. From a planning perspective, the T&I did not have adequate time to phase out inventory at all conversion points with the onset of pandemic lockdown. As losses on conversion, involving inputs etc will have ITC implications as regards reversal of credit to the Principal manufacturer, it is expected that appropriate relaxations will be made for conversion losses (all inputs and FG) so that there is no implication for credit reversal at a time when the industry is struggling to find its footing. The relaxation can be for all inputs given for conversion between Dec 2019 to March 2020 and the time limit for return of inputs post conversion should be extended to 18 months for all inputs sent between Dec2019 to Feb 2020.

7) Application of section 168A by suitable insertion in SGST enactments

Considering that the CGST Act has inserted a new section to extend compliances, corresponding amendments must also be made in SGST enactments and this must be done immediately. This section can be used to widely study all similarly placed compliances in the entire spectrum of the law and recommendation obtained from GST Council at the earliest for all relaxations. Reference is placed on the [article](#) written by Mr Shailendra Kumar in the column "[The Cob\(Web\)-705](#)" on April 2, 2020.

8) Integration of expenditure incurred by Corporates through CSR for pandemic relief

While necessary amendments to the Companies Act as regards CSR expenditure incurred for pandemic relief work has been issued, it must be ensured that all expenses incurred by Corporates are allowed for ITC credits through appropriate amendments at the earliest. The expenses are definitely incurred for the purposes of business and also has inextricable nexus to the existence of business in current working conditions

Conclusion

The above is just an indicative list of issues that need immediate attention and further suggestions will be made depending upon the actual span of the crisis after the lockdown is undone.

[The views expressed are strictly personal.]

Also See today's Cob(Web) Column - [Lockdown - Life vs Livelihood - Trade-off going to be 'Coronically' painful, politically!](#)

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