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Prasanna S,

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No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 94896 71437 - info@iledu.in / Chairman@iledu.in



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Scope of 'Price linked subsidies' under GST valuation provisions and their overlapping with 'Purchase discounts'

Author - KRISH BHATIA, Student at CHANDIGARH UNIVERSITY

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(I) **Abstract**

The scope of "price-linked subsidies" under the Goods and Services Tax (GST) valuation provisions and their overlap with "purchase discounts" is an important issue that needs to be understood by businesses and policymakers.

Price-linked subsidies are a type of financial assistance provided by the government to a manufacturer or supplier, which is linked to the price of the goods or services being supplied. These subsidies are intended to reduce the overall cost of the goods or services for the consumer and can take various forms, such as direct cash payments, tax credits, or reductions in customs duties.

Under GST provisions, price-linked subsidies are considered part of the value of the goods or services being supplied and are therefore subject to GST. However, there may be cases where the value of the subsidies is not clearly defined or is difficult to determine, which can lead to confusion and disputes over the GST liability.

Purchase discounts, on the other hand, are reductions in the price of goods or services that are offered by the supplier to the purchaser. These discounts can be offered for various reasons, such as early payment or volume purchasing, and are not linked to the price of

the goods or services. Purchase discounts are generally not considered part of the value of the goods or services for GST purposes, and are therefore not subject to GST.

(II) **Price linked subsidies**

Under the Goods and Services Tax (GST) system in India, the value of a good or service for GST purposes is determined based on the transaction value, which is the price at which the good or service is sold. However, there are certain situations where the transaction value may not be the correct value to use for GST purposes. In such situations, the GST law provides for the use of other methods to determine the value of a good or service, one of which is the use of "price linked subsidies".

Section 15 of the Central Goods and Services Tax (GST) Act, 2017 defines what constitutes a price-linked subsidy that is linked to the price of goods or services and is provided by the government to certain eligible individuals or entities. These subsidies can have an impact on the value of the goods or services being supplied and must be taken into account while determining the value of the supply for GST purposes.

Price-linked subsidies are financial incentives provided by the government or other authorized bodies to support certain sectors of the economy such as agriculture or small businesses. It is also referred to as a subsidy that is received on the basis that the assessee purchases certain goods/services at a specified rate determined by the government. These subsidies are linked to the price at which goods or services are sold, and are intended to lower the cost of goods or services for consumers. In determining the value of a good or service for GST purposes, any price-linked subsidies received by the supplier must be included in the taxable value of the good or service. This means that the supplier must pay GST on the full value of the good or service, including the value of any subsidies received.

It is important to note that the inclusion of price-linked subsidies in the taxable value of the good or service can have a significant impact on the GST liability of the supplier. For example, if a supplier of agricultural goods receives a price-linked subsidy of INR 100 per unit, and sells 1000 units at INR 1000 per unit, the supplier would be liable to pay GST on INR 1,100,000 (i.e. 1,000 units x INR 1,100), even though the price paid or payable by the buyer is only INR 1,000,000 (i.e. 1,000 units x INR 1,000).

(III) Purchase Discounts

The Goods and Services Tax (GST) law of India entitles a registered dealer to claim input tax credits (ITCs) on goods and services that the dealer uses or intends to use in the course and furtherance of his or her business. The input tax credit is the GST paid on inputs (goods and services used in the course of business) that can be offset against the GST liability on the output (goods and services supplied by the dealer).

"Purchase discounts" are reductions in price that are offered by a supplier to a customer, as an incentive for purchasing a certain quantity or value of goods or services. These discounts can also have an impact on the value of the supply for GST purposes. These discounts may be offered for a variety of reasons, such as for volume purchasing or prompt payment. If GST paid on the purchase is higher than GST payable on supplies, the difference will be refunded to the dealer, it is also called a purchase discount.

To claim the input tax credit, the dealer needs to have the GST invoice or bill from the supplier, and the goods or services must have been received. The dealer also needs to have filed their GST returns for the relevant period, and the input tax credit will be reflected in their GST return.

For GST purposes, purchase discounts are considered as an adjustment of the price of

supply and if already reduced from the transaction value before GST registration, the same can be claimed as an input tax credit. Therefore, purchase discounts do not increase the GST liability of the supplier or decrease input tax credit as GST is levied on transaction value as a whole, after any reduction or adjustments.

(IV) Legal Provisions for GST on Discounts

Suppliers typically offer discounts to increase sales or encourage buyers to pay on time. Discounts are defined in **Section 15(3) of the CGST Act, 2017**. The section states that - Before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply; and After the supply has been effected, if—

- (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.

(V) Competition

There is an overlapping between the two, as both are affecting the price of goods and services. However, GST valuation provisions treat both differently, price linked subsidies are an element of cost and are considered as a reduction from the price of goods or services. While Purchase discounts, are given as incentives by the supplier and are considered a reduction from the taxable value. However, it is important to note that purchase discounts and price-linked subsidies are distinct. Purchase discounts are offered by the supplier to the buyer to incentivize purchase, while price-linked subsidies are typically provided by the government or other authorized bodies to support certain sectors of the economy. Therefore, they are treated differently under GST laws and regulations.

It's important to note that GST laws also include provisions for record-keeping, and availing of credit in case of subsidies and discounts

received, which are required to be tracked separately and reported in the GST return.

This is done to avoid any revenue loss to the government as the subsidies reduce the taxable base. Also, it ensures that the GST paid by the end consumer remains the same irrespective of the subsidies received.

The GST law also recognizes the concept of purchase discounts. Purchase discounts are reductions in price offered by a supplier to a buyer as an incentive to purchase a good or service. These discounts may be offered for a variety of reasons, such as volume purchasing or prompt payment. They are considered as an adjustment of the price of supply and if already reduced from the transaction value before GST registration, the same can be claimed as an input tax credit.

(VI) Case laws

(a) M/s Megha Agrotech Private Limited decided on 23rd March 2020

Citation: 2020 (3) TR 1212

Issues to be Raised:

Is the subsidy amount given to the farmer by the Horticulture, Agriculture, and Sericulture Department of the Government of Karnataka under the PMKSY scheme or any other Central or State Government approved schemes but disbursed to the supplier to be treated as a "subsidy" in the hands of the supplier and to be excluded when determining the "transaction value" under section 15(2)(e) of the CGST Act for calculating "value of taxable supply"?

If the subsidy is not affecting the transaction value, which is the price paid or payable for the supplying of goods by the customer, in this case, farmers, and when the subsidy is disbursed by the government, would the question of inclusion or exclusion of the subsidy amount in the value of taxable supply arise under Section 15(2) of the CGST Act?

The Karnataka Authority of Advance Ruling noted in this document that:

Regarding the subject of subsidies, it is very apparent that they must be excluded from government-provided subsidies and be included in the value of supply. The government offers the farmer financial aid so that he can afford the facility; nevertheless, the government does not pay the applicant vendor, and neither does the amount that the farmer is due to receive have any influence on the cost of the supply.

If the government's subsidies are directly related to the cost, they would be deducted from the value of the taxable supply. In the present instance, the farmer receives the amount due or paid from the Government.

In this case, the farmer receives the amount receivable or received from the government, which may be received directly by him in option 1, by the bank in option 2, or by the applicant in option 3. The farmer has the option of selecting option 1, option 2, or option 3, with no effect on the price of the supply of goods and/or services.

Furthermore, the farmer's liability to the applicant for the supply received by him will be extinguished only when the applicant receives the consideration, and it is immaterial from whom he receives the amount and the amount received in only one case.

As a result, the method of payment has no bearing on the price of the supply, and any payment received by the applicant from a bank or a government department (with the authorization of the farmer concerned) is for the farmer's account only. As a result, the price is unrelated to the assistance amount and would not be covered by clause (e) of sub-section (2) of section 15 of the CGST Act.

The Authority determined that the amount of assistance received by the farmer or on behalf of the farmer from the Government Department

has no bearing on the price and thus the value of supply made by the applicant to the farmer, and thus is not covered by section 15(2)(e) of the Act.

(VII) Conclusion

In conclusion, under GST laws, the value of goods and services is determined based on the transaction value. However, there are situations where this value may not be the correct value to use for GST purposes. In such situations, GST law provides for the use of other methods such as the use of price-linked subsidies. It is important to understand the scope of price-linked subsidies under GST valuation provisions and their overlap with purchase discounts. Businesses and policymakers should be aware of this issue and take steps to clarify the scope and treatment of these subsidies under GST provisions. These subsidies are financial incentives provided by the government or other authorized bodies to support certain sectors of the economy, such as agriculture or small businesses, and are included in the taxable value of goods and services for GST purposes. Additionally, purchase discounts, which are reductions in price offered by suppliers as an incentive to buyers, are also considered in GST and can be claimed as an input tax credit.

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