

GST UPDATES

November 26, 2024



Re-validation of
1% mandatory
cash payment
rule from Nov
2024.

Relevant provision for F Y 2024-25

1% mandatory cash payment rule for monthly /
Quarterly GSTR 3B returns.

With the aims to address instances of misuse of ITC while maintaining fairness and transparency in the tax system. Government has introduced Rule 86B in CGST Rule 2017, and this rule is effective from January 01,2021.

Mechanism of this rule is designed to curb tax evasion and ensure compliance in the GST framework. This rule restricts the use of input tax credit (ITC) for the payment of GST liability, mandating that certain taxpayers must discharge at least 1% of their GST liability in cash, and balance 99% can be discharged through Credit ledger (ITC)

History of Relevant Applicable Law

The Rule is introduced by insertion of Rule 86B in CGST Rules 2017 as amended by Central Goods and Services Tax (Fourteenth Amendment) Rules, 2020 vide Notification no Notification No. 94/2020 dated December 22,2020.

Applicability of the Rule

Applicable to every registered person having value of **taxable supply other than exempt supply and zero-rated supply**, in a month exceeds fifty lakh rupees for the month.

However, this rule is not applicable in case of,
(i) Government Department; or
(ii) a Public Sector Undertaking; or
(iii) a local authority; or
(iv) a statutory body:

Relaxation in Rule

This Rule is not applicable in case, where
a. Value of Domestic Supply (excluding Exempt Supply) for a GSTN is below 50 Lac, for current Month.
b. Income tax Paid is more than 1 Lac for last Two financials Year,

for which due date under **Sec 139(1) of Income tax act 1961**, is expired by,

- i. In case of Proprietorship: - By the Proprietor.
- ii. In case of Firm / LLP: - Any Two partners.
- iii. In case of Company: - Any Two Whole time directors.
- iv. In case of AOP/ Trust:- Any two members of the Managing committee/ Board of Trustee.
- v. In case of HUF:- The Karta.
- c. Received a refund of GST for Rs 1 lac or above for Export under LUT or Inverted duty structure.
- d. Discharged monthly output tax liability through the electronic cash ledger for an amount which is in excess of 1% of the total output tax liability, applied cumulatively, up to the said month in the current financial year;

Analysis of the Provision.

For filing income tax returns u/s 139(1) of Income tax Act 1961, July 31, 2024 (for non-Tax Audit (44AB) Taxpayer), whereas November 15, 2024 was the due date for Tax audit taxpayers and partner of the firms having applicability of Tax Audit under Income tax Act 1961.

As one of the exemption from the rule is require to make the payment of Income tax above Rs 1 Lac for specified person (as mention above). The due date was expired by November 15, 2024. And considering the status of Income tax payment for F Y 2023-24 (A Y 2024-25), It's time to revalidate the provision of 1% cash payment again for the F Y 2024-25 and modify the procedure in case exemptions as mentioned above are not qualified.

Summery.

The rationale behind the introduction of Rule 86B is to curb the misuse of ITC and Improves the integrity of the GST system. However, another side of the coin is, this rule is not only increase the compliances burden but also affect businesses with tight cash flows, as it mandates cash payments irrespective of ITC availability for genuine tax payers.

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