Reverse Charge Mechanism

Why in news?

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The GST legislation also includes reverse charge provisions.

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What is Reverse Charge Mechanism?

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- In Normal Charge Mechanism, generally service tax is payable by the provider of Service.
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- For eg:- When a service is provided by an Accountant to his client then in this case the service provider i.e the Accountant is liable to pay Service tax
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- The accountant collects the tax from the client and compensates. But nevertheless only the accountant is liable to pay Service tax and comply with other general provisions of return filing etc.
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- Similarly the GST has to be typically paid by the supplier of goods and services.
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- But in some cases, the liability to pay the tax falls on the buyer.
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- This reverse charge is applicable only under certain circumstances. Some are-
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1. The most common instance is when a business buys goods or services from a supplier who is not registered to pay GST.
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- e.g Let’s assume that business A that buys goods worth Rs.100 from business B that is not registered to pay GST.
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- If the GST on the goods supplied is Rs.5, then business A, instead of business B, will have to pay Rs.5 to the Government.
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- Business A can, however, claim input tax credit of the GST payment of Rs.5, when it sells the goods to its client.
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2. An importer is also liable to pay the GST under the reverse charge mechanism.
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3. Also government departments making payments to vendors above a specified limit (Rs.2.5 lakh under one contract) are required to deduct tax (TDS) and e-commerce operators are required to collect tax (TCS) on the net value goods or services supplied through them.
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Why is it important?

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- The seamless flow of input tax credit is possible only when all the suppliers of a business pay GST.
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- So each business will make sure that its suppliers have paid the GST so that they can take input tax credit.
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- Reverse charge is an additional check.
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- By putting the burden of paying the tax on the buyer, in cases where the supplier does not pay GST, the Government is gently coercing all businesses to sign up for GST.
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- It is a kind of **self-policing mechanism.**
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- If one runs a business, he needs to ensure that all the entities who supply him goods and services are registered for GST.

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- If they aren't, then he has to pay the GST on their behalf.
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- This will increases the paper-work of the buyer and can cause cash-flow issues as well.
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- So the buyer companies would prefer to deal with only those entities who are registered for GST.
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How will it be helpful?

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- The major hindrance for the tax department in going after tax evaders is shortage of man-power.
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- It is difficult to check the small evaders.
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- So the self-policing mechanism is expected to help the government to grow the tax base as well as make tax collection efficient.
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Source: Business Line

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