



New Rule in GST

 drishtiias.com/printpdf/new-rule-in-gst

Why in News

Recently, the **Central Board of Indirect Taxes and Customs** (CBIC) has made it mandatory for **businesses with a monthly turnover of more than Rs. 50 lakh** to pay at **least 1% of their Goods and Services Tax (GST) liability in cash.**

It will be effective from **1st January 2021.**

Key Points

- The new rule **restricts use of Input Tax Credit (ITC)** for discharging GST liability to 99%.
 - The CBIC has booked **about 12,000 cases of ITC fraud** and arrested 365 persons in such cases so far.
 - The move will **curb tax evasion by way of fake invoicing.**
 - ITC is provided to set off tax paid on the purchase of raw materials, consumables, goods or services that were used in the manufacturing of goods or services. This **helps in avoiding double taxation and the cascading effect of taxes.**
- **However, this restriction will not apply in cases:**
 - Where the managing director or any partner has paid more than Rs. 1 lakh as income tax, or
 - The registered person has received a refund amount of more than Rs. 1 lakh in the preceding financial year on account of unutilised input tax credit.
- This comes to **only 0.37% of the total businesses** registered in the GST system.
 - Of the total GST taxpayer base of 1.2 crore, only about 4 lakh have monthly supply value greater than Rs. 50 lakh.
 - Of these, only about 1.5 lakh pay less than 1% of their GST liability in cash and when exclusions in the rule are applied, around 1.05 lakh taxpayers get further excluded.
 - Thus, the rule would **apply only to 40,000 to 45,000 taxpayers.**

- **Criticism:**

It is feared that the mandatory cash payment will **adversely affect small businesses, increase their working capital requirement** and **make GST a more complex** indirect tax system.

- **Government's Stand:**

- The Department of Revenue has held that these **fears are misplaced** and **“only risky or suspicious dealers and fly-by-night operators” will be affected** by the move.
- Government has arrived at this rule **after detailed deliberations** in the **GST Council's Law Committee** to identify and control only fraudsters involved in fake invoices and input tax credits.

Central Board of Indirect Taxes and Customs

- It is a part of the **Department of Revenue** under the Ministry of Finance.
- The **Central Board of Excise and Customs (CBEC)** was **renamed as the CBIC in 2018** after the roll out of the GST.
- It deals with the tasks of formulation of policy concerning levy and collection of customs, central excise duties, Central GST (CGST) and Integrated GST (IGST).

Source: TH