

# TAX FLASH NEWS

10 May 2019

## Reduction in book debt is a valid consideration – AAR, West Bengal

Authority for Advance Ruling, West Bengal<sup>1</sup> has recently held that where a payee owes the payer a debt and accepts reduction in such debt liability as a valid form of payment, such reduction in debt liability should also be regarded as a valid consideration.

### Facts of the case

Senco Gold Ltd. (the applicant) is the supplier of jewellery and also operates a network of franchisee-operated stores. The applicant raises tax invoices on the franchisee for the supply of jewellery and for providing of franchisee support services. Correspondingly, the franchisee also raises an invoice on the applicant for the supply of old jewellery received from the customers.

For the purpose of availing input tax credit (ITC), section 16 of the Central Goods and Services Tax Act, 2017 (CGST Act), mandates the recipient to pay to the supplier, the amount towards the value of supply along with the tax payable thereon within 180 days from the date of the invoice.

In light of the above, the applicant had made an application to seek ruling on whether the input tax credit would be admissible when the settlement of dues are done by way of book adjustment.

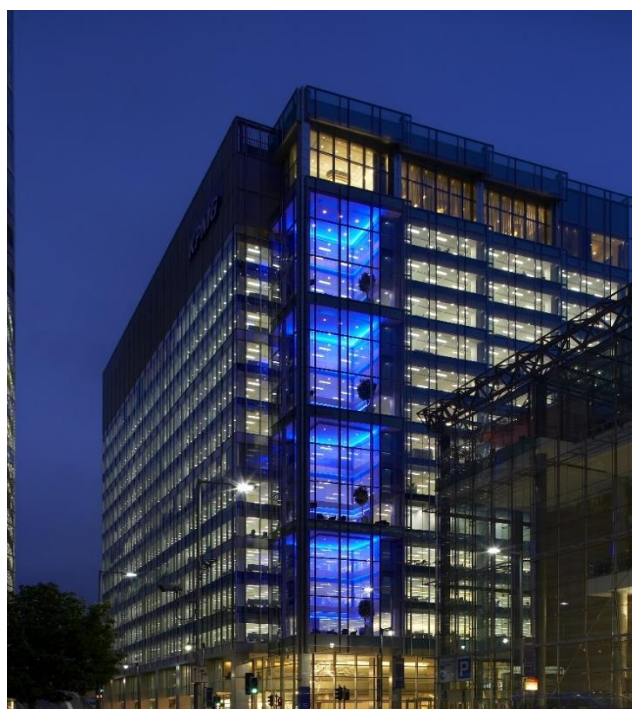
### AA ruling

Payment is a transfer of an asset to the payee for discharging an obligation arising out of a transaction. The most common asset class used for such payment is money, although other assets unless specifically excluded by law, may also be used provided the payee accepts payment by such assets.

The definition of 'consideration' in the CGST Act, is wide to include all forms of payment e.g. mix of money and monetary value of the goods offered with it, is a valid consideration. Similarly, if the payee owes the payer a debt and accepts reduction in such debt liability as a valid form of payment, that should also be regarded as a valid consideration. Thus, a recipient can pay the supplier consideration by way of setting off book debt.

### Our comments

An important observation made in the ruling is that the consideration would include mutual acceptance by concerned parties to reduce the debt liability. Though the ruling pronounced is a big relief to taxpayers, it needs to be seen whether the same would also apply in cases where the supplier reduces its debt liability by offering discounts to its clients without corresponding decrease in tax liability.



<sup>1</sup> Senco Gold Ltd [2019-VIL-133-AAR]

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