Senco Gold Ltd

Authority for Advance Ruling — West Bengal

02/WBAAR/2019-20 dated 08/05/2019. The order's header is partly garble… Dated **08.05.2019**

Q Questions Before the Authority

- Whether input tax credit is admissible to the applicant when it settles, through book adjustment, the debt created by inward supplies from its franchisee.

F Facts

The applicant manufactures and retails jewellery under the "Senco Gold & Diamonds" brand and runs franchisee-operated showrooms under a Franchise Agreement. It invoices the franchisee for jewellery and for franchise support services, while the franchisee invoices the applicant for old gold and silver bought from customers. The applicant proposes to settle these mutual debts through book adjustment rather than through bank payment.

H Ruling

Whether input tax credit is admissible where the applicant settles, by book adjustment, the debt arising from inward supplies from its franchisee	****Yes.** The applicant can pay the consideration for inward supplies by setting off book debt, and the GST Act does not deny input tax credit on that ground alone.**	Subject to the conditions and restrictions in sections 16 and 49 of the GST Act and the rules. The ruling does not address the tax payment itself, which must still be made through the modes in section 49(1).

The Authority held that the applicant can pay the consideration for inward supplies by setting off book debt, because "consideration" under section 2(31) is wide enough to cover a reduction in a debt owed by the supplier. It further held that the GST Act and the rules do not bar input tax credit merely because payment is made by book adjustment. The credit remains subject to the conditions in sections 16 and 49.

R Reasoning

The Authority accepted the Revenue's point that tax must be deposited through the modes in section 49(1), but found that section 49 does not govern how the recipient pays the supplier. It read the third proviso to section 16(2), which ties credit to payment of the consideration, together with the definition of consideration in section 2(31), which covers any payment "whether in money or otherwise". On that basis, reduction of a book debt owed by the payee was held to be valid consideration. Since the West Bengal VAT rule restricting credit to account payee instruments (rule 19(8) of the WB VAT Rules, 2005) has no counterpart in the GST Act, no such restriction could be read in.

Prepared as a reading aid. Where this summary and the original order differ, the order governs.

P Provisions Relied On

- Section 16(1) CGST/WBGST Act, 2017 (as cited by the Revenue)
- Section 16(2) second proviso (reversal where payment is not made within 180 days)
- Section 16(2) third proviso (credit on payment of consideration with tax)
- Section 49(1) and Explanation (a) (modes of deposit of tax and deemed date of deposit)
- Section 49(2) (credit to electronic credit ledger)
- Section 2(31) (definition of consideration)
- Section 97(2)(d) (admissibility of question for advance ruling)
- Section 103 and Section 104(1) (binding effect of ruling and declaration of void)
- Rule 19(8) West Bengal Value Added Tax Rules, 2005 (cited by applicant and considered)
- Indian Accounting Standard 32, para 42 (cited by applicant; offsetting of financial assets and liabilities)

! For the Practitioner

The ruling is useful for group and franchise businesses that settle intercompany or franchisee invoices by set-off, because it holds that book adjustment is valid consideration and does not by itself defeat input tax credit. A practitioner can cite it against a Revenue objection based only on the mode of payment. It does not decide whether the set-off is actually effected within the 180-day limit in section 16(2), whether the underlying supply and invoices are valid, or how the tax component is paid in cash. It is an advance ruling binding only on the applicant.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> 02_wbaar_2019-20-senco_gold_ltd.pdf

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