RCM- Reverse Charge Mechanism

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In India, the concept of reverse charge under GST is being introduced which is already present in service tax. Currently, there is reverse charge mechanism in supply of services only. But in GST RCM applicable for both services and goods.

Meaning of RCM under GST:

As per 2 (98) **"Reverse charge"** means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of section 9, or under sub-section (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act.

Applicabilty:

All persons who are required to pay tax under reverse charge have to register for GST irrespective of the threshold **Threshold:- turnover in a financial year exceeds Rs 20lakhs (Rs 10 lakhs for North eastern states).**

Situations under where reverse charge applied:

1. Unregistered dealer selling to a registered dealer (In such cases, the **registered dealer** is required to pay GST on RCM basis for such supply.)
2. Services through an e-commerce operator
3. **CBEC** has notified a list of 12 services on which GST paid by the recipient on **100% reverse charge** basis: the Services are

   - Non-resident service provider
   - Goods Transport Agencies
   - Legal service by an Advocate/ Firm of Advocates
   - Arbitral Tribunal
   - Sponsorship Services
   - Specified Services provided by Government or Local Authority to Business entity
   - Services of a director to a company
   - Insurance agent
   - Recovery Agent of Bank/FI/ NBFC
   - Transportation Services on Import
   - Permitting use of Copyright
   - Radio Taxi services to E-commerce aggregator (eg: Ola, Uber, etc.)

Time of Supply for Goods Under Reverse Charge:

In case of reverse charge, the time of supply shall be the **earliest** of the following dates -:

- the date of receipt of goods or
- the date of payment or
- the date immediately after 30 days from the **date of issue of invoice by the supplier** (60 days for services)

If it is not possible to determine the time of supply under (a), (b) or (c), the time of **supply will be the date of entry in the books of account** of the recipient

Eg:

Date of receipt of goods 2nd July 2017
Date of payment 7th July 2017
Date of invoice 1st August 2017
Date of entry in books of receiver 18th July 2017
Time of supply of goods 2nd July 2017

Invoicing rules:

Every service recipient, who is paying tax on the basis of **reverse charge** has to mention fact in his **GST invoice that is being issued**. A registered person who is liable to pay tax under reverse charge i.e., the **buyer** has to mandatorily issue an invoice in respect of goods or services received by him from the supplier who is not registered.

Input Tax Credit under RCM:

- The service recipient can avail Input Tax credit on the Tax amount that is paid under reverse charge on goods and services.
- The **condition** is that the goods and services are used or will be used for business.
- ITC in RCM cannot be used to pay output tax, it means payment mode only in **cash.**

Composition Scheme under GST

Taxpayers with the aggregate turnover of Rs. 50 lakhs in a financial year are eligible to pay tax under composition scheme. But, taxpayers paying tax on the basis of reverse charge under GST are not eligible for composition scheme.