COMPANIES WILL HAVE TO REVERSE TAX CREDIT AVAILED ON GOODS DESTROYED DUE TO COVID-19 Lockdown

Many FMCG and pharma companies that had paid Goods and Services Tax (GST) on raw materials and services used to manufacture perishable goods are staring at a situation where they will have to reverse input tax credit (ITC) availed, as these goods could never be sold before their expiry date due to the nationwide lockdown.

As per the GST framework, companies have to first pay GST on raw materials or services used to make a product. Companies can avail the credit once the final product is sold to distributor or wholesaler. The wholesaler or the distributor could get the GST credit when they sell the product to the retailer.

The problem now is, in many cases, the retailers are coming back and saying they are unable to sell the products as their shelf life has passed. This will lead to a situation where companies, wholesalers and in some cases even retailers will have to reverse the input tax credit availed.

Tax experts say that the situation gets even more complicated, as some raw materials don’t fall under the perishable bracket and then there is the issue of input services, so this would mean companies will have to proportionately calculate and reverse the input tax credit. Tax experts say that there could be two ways to deal with the situation.

Either the goods are returned by the retailer back to the wholesaler and then to the manufacturer and credit is reversed (subject to timelines provided under the law), or a post sale price discount is given to compensate for losses.

Source: The Economic Times