

What is RCM under GST?

Understanding the Goods and Services Tax (GST) is crucial for business owners to ensure compliance and avoid penalties. One important aspect of GST is the Reverse Charge Mechanism (RCM), where the liability to pay GST shifts from the supplier to the recipient of goods or services. This mechanism mandates compulsory GST registration for those liable under RCM, regardless of the standard threshold limits of ₹20 lakhs (₹10 lakhs for special category states, except Jammu and Kashmir). In this article, we have given a detailed information regarding RCM under GST, time of supply, input tax credit applicability, and more.

Brief Overview of Reverse Charge Mechanism (RCM) under GST

The Reverse Charge Mechanism (RCM) under GST is a unique provision where the responsibility to pay and deposit GST shifts from the supplier to the recipient of goods or services. Typically, in a standard GST scenario, the supplier collects the tax from the recipient and remits it to the government. However, under RCM, the recipient directly pays GST to the government on behalf of the supplier. RCM applies to both goods and services and impacts registered and unregistered businesses alike. This mechanism is particularly applicable in cases where the supplier is an unregistered dealer or where the value of goods or services exceeds a specified threshold.

GST Reverse Charge on Goods under Section 9 (3)

In the following table, key goods under Section 9(3) of GST are listed, highlighting cases where tax liability shifts to the recipient.

Sr. No.	Description of Goods	Supplier of Goods	Recipient of Supply
1	Cashew nuts, unshelled or unpeeled	Agriculturist	Any registered person
2	Bidi wrapper leaves (Tendu)	Agriculturist	Any registered person
3	Tobacco leaves	Agriculturist	Any registered person
4	Silk yarn	Manufacturers of silk yarn from silk cocoons	Any registered person

5	Supply of lottery	State Government or Local Authority	Lottery distributor or selling agent
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GST Reverse Charge on Services under Section 9 (3)

We have given below the supplies of services under GST reverse charge mechanism,

Sr. No.	Description of Services	Supplier of Services	Recipient of Services
1	Transportation of goods by road services provided by a Goods Transport Agency (GTA).	Goods Transport Agency (GTA)	Registered person, body corporate, partnership firm, cooperative society, factory, or casual taxable person.
2	Legal services provided by individual advocates or firms of advocates.	Individual Advocate or Firm of Advocates	Any business entity located in the taxable territory.
3	Services provided by an arbitral tribunal.	Arbitral Tribunal	Any business entity located in the taxable territory.
4	Sponsorship services.	Any Person	Any body corporate or partnership firm located in the taxable territory.
5	Services supplied by government entities excluding certain exceptions.	Central Government, State Government, Union Territory, or Local Authority	Any business entity located in the taxable territory.
5A	Renting of immovable property by government entities to registered persons.	Central Government, State Government, Union Territory, or Local Authority	Any person registered under the GST Act, 2017.

5B	Transfer of Development Rights (T.D.R.) or Floor Space Index (F.S.I.) for residential property construction.	Any Person	Promoter, builder, or developer.
5C	Long-term lease of land (30 years or more) with upfront premium or periodic rent.	Any Person	Promoter, builder, or developer.
6	Services provided by a director to their company or body corporate.	Director of a company or body corporate	Company or body corporate located in the taxable territory.
7	Services by an insurance agent to an insurance company.	Insurance Agent	Any person carrying on insurance business.
8	Services provided by recovery agents to financial entities.	Recovery Agent	Banking company, financial institution, or NBFC.
9	Use of copyright (literary, musical, artistic works, etc.) by authors, composers, or artists.	Author, composer, photographer, or artist	Publisher, music company, or producer located in the taxable territory.
10	Services by Overseeing Committee members to the Reserve Bank of India.	Members of the Overseeing Committee	Reserve Bank of India.
11	Services by individual Direct Selling Agents (DSAs) to banks or NBFCs.	Individual DSAs (excluding corporates, partnerships, or LLPs)	Banking company or NBFC located in the taxable territory.

12	Services provided by a business facilitator (BF) to a banking company.	Business Facilitator (BF)	Banking company located in the taxable territory.
13	Services by agents of business correspondents (BCs) to business correspondents.	Agent of a Business Correspondent (BC)	Business Correspondent (BC) located in the taxable territory.
14	Security services (supply of security personnel) provided to a registered person.	Any person (excluding body corporates)	Registered person located in the taxable territory.

Time of Supply of Goods and Services under RCM

The Time of Supply under Reverse Charge Mechanism (RCM) is a critical aspect to determine the point at which GST liability arises. It varies for goods and services and is governed by specific provisions under the GST law.

Time of Supply of Goods under RCM

Under RCM for goods, the time of supply is determined as the earliest of the following:

- Date of Receipt of Goods
- Date of Payment
- Date Immediately After 30 Days

Time of Supply of Services under RCM

For services under RCM, the time of supply is determined as the earliest of the following:

- Date of Payment
- Date Immediately After 60 Days.

Input Tax Credit in RCM under GST

Under the Reverse Charge Mechanism (RCM) in GST, the recipient of goods or services is liable to pay the applicable tax. However, the recipient is eligible to avail of Input Tax Credit (ITC) on the tax amount paid, subject to specific conditions:

- **Eligibility for ITC**
 - The recipient can claim ITC on the tax paid under RCM if the goods or services procured are used or intended to be used for business purposes or the furtherance of business operations.
 - Proper documentation, such as a self-generated payment voucher or an invoice from the supplier, is essential to substantiate the ITC claim.
- **Restriction on ITC Utilization**
 - ITC cannot be used to offset the tax liability under RCM. Instead, the tax amount payable under RCM must be paid in cash.
 - Once the tax is paid, ITC can be utilized to discharge output tax liability on other taxable supplies.

By adhering to these provisions, businesses can ensure compliance while optimizing their tax liabilities under GST.

RCM Applicability on e-Commerce Operators

Under the Reverse Charge Mechanism (RCM), the government has specified certain categories of services where the e-commerce operator, instead of the actual service provider, is responsible for paying GST on intra-state supplies. This provision ensures streamlined tax collection and accountability in the rapidly growing e-commerce sector.

Services Covered Under RCM for e-Commerce Operators

- **Transportation of Passengers**
 - Services provided by radio taxis, motor cabs, minicabs, and motorcycles fall under this category. When these services are supplied through an e-commerce platform, the e-commerce operator is liable to pay the GST.
- **Accommodation Services**
 - This includes accommodation in hotels, inns, guest houses, clubs, and similar establishments. However, RCM applies only if the person providing the accommodation service through the e-commerce operator is not already liable for GST registration.
- **Housekeeping Services**
 - Services like plumbing, carpentering, and similar activities are included under RCM. Again, the e-commerce operator is liable to pay the GST unless the individual service provider is already required to register under the GST Act.

Self-invoicing & Reverse Charge Mechanism (RCM)

- Effective from 1st November 2024, self-invoicing under the Reverse Charge Mechanism (RCM) becomes mandatory for businesses liable to pay tax under RCM.
- Businesses must raise self-invoices to claim Input Tax Credit (ITC) on the tax paid under RCM.
- The tax invoice must be generated within 30 days from the receipt of service to comply with RCM requirements.
- A copy of the self-invoice must be maintained for future reference and as part of proper documentation for GST compliance.

Conclusion

In conclusion, the Reverse Charge Mechanism (RCM) under GST is an essential provision that shifts the responsibility of tax payment from the supplier to the recipient in certain specified cases. Businesses must ensure compliance with RCM by understanding its applicability on goods, services, and specific sectors like e-commerce operators. It is crucial for businesses to maintain proper documentation, including self-invoices, to claim Input Tax Credit (ITC) and meet the tax obligations under RCM.