



Chapter 3

Reverse Charge Mechanism

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01. Sec 9(3): Supply of Services taxable under Reverse Charge

Entry 1: Goods Transport Services by GTA

Q1. Mr. Lala is engaged in supply of tiles and marbles in Telangana. He is not registered under GST. During December, he received a consignment of tiles from Rajasthan through Prompt Carriers, a GTA based in Rajasthan. Goods were dispatched by supplier on 'to-pay' basis for freight. Freight charges were ₹ 50,000 and the said GTA pays GST @ 18%. Mr. Lala paid the invoice amount in December itself. This was an inter-State transaction. What is the tax liability for the freight charges? [ICAI Case 28 Sub-Q3]

- (a) 6000 of IGST under reverse charge
- (b) 6000 of IGST under forward charge
- (c) 3000 each under CGST and SGST under reverse charge
- (d) Nil as it is exempt

[Reason: Refer entry 21A of exemption, service by GTA to unregistered individual is exempt.]

Q2 Poorva Logistics, a registered GTA, did not opt to pay GST itself on services supplied by it

in Preceding Financial Year (PFY). In February of PFY, it provided goods transport services to:

- (a) Kunal Traders– unregistered partnership firm
- (b) Mr. Amar – unregistered CTP
- (c) Small Traders Co-Operative Society – registered under Societies Registration Act.

Which of the following persons are liable to pay GST under reverse charge in respect of the GTA services provided by Poorva Logistics in February of PFY? [ICAI Case 31 Sub-Q1]

- i) Kunal Traders
 - ii) Mr. Amar
 - iii) Small Traders Co-operative society
- (a) i & ii
 - (b) ii & iii
 - (c) i & iii
 - (d) i, ii & iii

[Reason: Refer entry 1 of RCM. Also refer entry 21A of exemption, service by GTA to unregistered CTP (Mr. Amar) is exempt.]

Q3 XX, registered in Delhi, purchased books from PC Traders, registered in Uttar Pradesh. Books are exempt from GST. XX arranged the

transport of these books from a goods transport agency (GTA) which charged a freight of ₹ 9,000 for the same. GST is payable @ 5% on such GTA services as GTA is not opting to pay GST under forward charge. Which of the following statement is correct in the given context: (CA Inter RTP Nov 2020)

- (a) GST of ₹ 450 is payable by XX on reverse charge basis.
- (b) Supply of goods and supply of GTA service is a composite supply wherein supply of goods is the principal supply and since, principal supply is an exempt supply, no tax is payable on freight.
- (c) Since, exempt goods are being transported, service provided by GTA for transporting the same is also exempt.
- (d) GST of ₹ 450 is payable by the GTA.

[Reason : Refer Entry 1 of RCM]

Q4 Sindhu Transporters, an unregistered Goods Transport Agency, provides the services of transportation of goods by road to Bindusaar Manufacturers, registered under GST. GST is payable by.....@....., in the given case

- (a) Sindhu Transporters; 5%



- (b) Sindhu Transporters; 18%
 (c) Bindusaar Manufacturers; 5%
 (d) Bindusaar Manufacturers; 18%
 [Hint: Refer Entry 1 of RCM]

Entry 4: Sponsorship Services

Q5. Purvi, registered under GST in Madhya Pradesh, is engaged in supplying multiple taxable goods & services. During October, Purvi organized a seminar in Indore which was sponsored by WE-WIN Cricket Academy, an LLP. Purvi received a sponsorship fee of ₹1,50,000. Which of the following statements is correct?

[ICAI Case 29 Sub-Q2]

- (a) Tax on sponsorship services is payable by Purvi under forward charge.
 (b) Tax on sponsorship services is payable by WE-WIN Cricket Academy under reverse charge.
 (c) Sponsorship services are exempt from GST since services provided to a sports academy are exempt.
 (d) Tax on sponsorship services is payable by Purvi under reverse charge.

[Reason: Refer **Entry 4** of RCM, Purvi (supplier) is an individual whereas recipient is an LLP

(considered as partnership firm under GST) & hence, covered under RCM.]

Entry 5A: Renting of immovable property by Govt. or LA

Q6. M/s. Shanky Consultants, a partnership firm, registered under GST in Delhi, is engaged in providing security, manpower & auditing services. The firm paid sponsorship fees of ₹ 70,000 at seminar organized by Banarsidas Private Limited in Delhi. It also pays rent ₹ 6,00,000 for a building owned by Municipal Corporation of Delhi. GST liability paid under reverse charge by Shanky Consultants is? [ICAI Case 43 Sub-Q2]

- (a) CGST: ₹ 60,300, SGST: ₹ 60,300
 (b) CGST: ₹ 6,300, SGST: ₹ 6,300
 (c) CGST: ₹ 54,000, SGST: ₹ 54,000
 (d) CGST: ₹ 2,40,300, SGST: ₹ 2,40,300

[Reason: Refer **Entry 4 & 5A** of RCM. Liability under RCM is 9% of ₹ 6,00,000 = ₹ 54,000 CGST & SGST each. Question asks GST paid under RCM & hence, only inward supply are tested & not outward supply]

Author's Note: ICAI answer has not considered amended Entry 4 RCM, where sponsorship

supplied **BY** body corporate (Co.) is not covered under RCM though recipient is a firm. Ans given by ICAI is (c) is wrong.

Q7. Mr. Mohanraj became liable for registration in May. He applied for registration in the name of Mohanraj & Co., a proprietorship concern and got registered in Kerala. During June:

- (i) He supplied stock valued at ₹ 1,50,000 to an unregistered buyer in Kerala. Out of the said supply, stock valued at ₹ 50,000 was returned to Mohanraj in the month of August.
 (ii) Mohanraj paid ₹ 10,000 towards rent to Local Municipal Corporation for the shop taken on rent at a Bus Terminal in Kerala.
 (iii) He paid a rent of ₹ 20,000 for a residential house property taken on rent in Kerala. This property was used for his personal residence.

Determine the value of outward supply of Mr. Mohanraj for the month of June. [ICAI Case 8 Sub-Q2]

- (a) ₹ 1,60,000 (b) ₹ 1,50,000
 (c) ₹ 1,70,000 (d) ₹ 30,000



[Reason: 1) Supplied stock valued at ₹ 1,50,000 is the only outward supply. Rest are inward supplies. So, tax payable if any under RCM on them then don't consider those for outward supply calculation.

2) Rent paid to Municipal Corporation pertains to inward supply.

3) Residential house property taken on rent is inward supply exempt under **explanation 1 to entry 12** of exemption as recipient is RP – a proprietor but using it for personal purpose.]

Entry SAA: Renting of Residential Dwelling (RRD)

Q8. M/s. Maahi & Co., a registered LLP under GST, is engaged in various types of business activities.

It provided GTA services to Government Department, registered under GST for providing various services. Maahi & Co. did not exercise the option to pay GST.

It also provided service of renting of residential dwelling to the student, Mr. Pawan, an unregistered person.

Which of the following options is completely correct? [ICAI Case 36 Sub-Q1 & 2]

(a) Tax @ 18% on GTA service is payable by Maahi & Co. under forward charge, without restriction of availing ITC by GTA. For renting services, Mr. Pawan is liable to pay GST under RCM.

(b) Tax @ 18% on GTA service is payable by Maahi & Co. under forward charge, but ITC cannot be availed for the same by GTA. For renting services, Mr. Pawan is liable to pay GST under RCM.

(c) Both services are exempt.

(d) Tax @ 5% on GTA service is payable by Government under RCM, but ITC cannot be availed for the same by GTA. For renting services, Maahi & Co is liable to pay GST under forward charge.

[Reason: Refer entry no. 1 & SAA of RCM:-

1) Since Govt. dept. is registered under GST for providing taxable services and not merely for TDS u/s SI, GTA services supplied to it are taxable under RCM @ 5%. As GTA has not opted for forward charge, GST is payable by the recipient @ 5% and GTA cannot avail ITC on goods/services used for such supply.

2) Renting of residential dwelling to a registered person is taxable under RCM whereas in this case, recipient is URP.]

Entry SAB: Renting of any immovable property other than residential dwelling

Q9. Mr. Varun, an unregistered person, owns two commercial shops. Shop 1 in Pune is rented to a partnership firm that is registered under GST & have not opted for composition levy, for running a crockery business. Shop 2 in Mumbai is rented to a proprietorship concern which is paying GST under composition levy. Determine who is liable to pay GST in the following cases:-

(a) Renting of commercial property is exempt from GST.

(b) Partnership Firm is liable to pay tax under RCM for rent of shop 1 & there is no GST payable for rent of shop 2.

(c) Mr. Varun is liable to pay tax under forward charge & accordingly has to get registered under GST.

(d) None of the above

[Reason: Refer Entry no SAB- Rent of shop 1 is covered under RCM whereas shop 2 is under



forward charge but supplier is URP – hence, no GST till threshold]

Entry 6: Services by Director

Q10. Nilanchol Chamber of Commerce organised a business summit. Safal Private Limited, a registered manufacturer of readymade garments, sponsored the summit and paid a sponsorship fee of ₹ 1,50,000 to Nilanchol Chamber of Commerce. Mr. Godbole, an independent director of Safal Private Limited, provided the taxable services worth ₹ 40,000 to the Safal Private Limited in the capacity of director in this regard. The total value on which Safal Private Limited is liable to pay GST is ----- [Sept 25 Exam]

- (a) ₹ 1,50,000 (b) ₹ 1,90,000
(c) ₹ 40,000 (d) NIL

[Reason: As per sec 9(3) sl no. 4, Nilanchol Chamber of Commerce (supplier) is Non-Body Corporate whereas recipient Safal pvt. Ltd is a body corporate, hence-RCM applies. & Also, here directorship service is taxable under RCM under sl. no. 6. Total taxable value = ₹1,50,000 + ₹ 40,000 = ₹1,90,000]

Entry 11: Service provided by Direct Selling Agents (DSAs)

Q11. Safe Bank Ltd. is a small finance bank & registered under GST. It received software support services free of cost from its Head Office situated in UK for business in April. To secure business, bank appointed 'Quick Loan Providers LLP,' a direct selling agent, on PAN India basis. It also appointed 'Fast Recovery Services Pvt. Ltd.', a recovery agent, on PAN India basis for various retail and personal loans granted by its branches.

The bank shall pay tax under reverse charge for which of the following services availed by it? [ICAI Case 27 Sub-Q2]

- (a) Service availed from 'Quick Loan Providers LLP'
(b) Service availed from 'Fast Recovery Services Pvt. Ltd.'
(c) Both (a) and (b)
(d) None of the services availed attracts RCM

[Reason: Refer Entry 8 & 11 of RCM. Here, Quick Loan Providers LLP is a LLP & hence, said service is not taxable under RCM. But recovery services provided by any recovery agent are liable to GST under RCM. Software support service imported is

supply as per para 4 of Sch 1, but it is not there in any option, so no need to look for this under RCM]

Q12. Sarabhai & Sarabhai Associates is a partnership firm registered under GST & engaged in various taxable business activities.

- 1) It transported goods in a goods carriage by road for Fisheries Department of Govt. of India, which is registered under GST only for TDS. It charged ₹1,20,000 for the said services.
- 2) It provided services of Direct Selling Agent to an NBFC in Mumbai for ₹50,000.
- 3) The firm organized a business exhibition and received sponsorship fees of ₹3,00,000 from Dhara Ltd.

Determine the value of outward supplies made by Sarabhai & Sarabhai Associates on which tax is payable under reverse charge. [ICAI Case 30 Sub-Q3]

- (a) ₹1,20,000
(b) ₹50,000
(c) ₹1,70,000
(d) ₹3,00,000



[Reason: Refer Entry 1, 4 & 11 of RCM. DSA services provided by partnership firm are taxable under forward charge, while GTA services to Fisheries Dept. are not liable under RCM but are exempt under Entry 21B of Exemption. Sponsorship services provided to a body corporate by firm are taxable under RCM.]

Entry 14: Security Services

Q13. M/s. Visali & Co., a partnership firm registered under GST in Kerala, is engaged in manufacturing of equipment's. The firm received sponsorship services from "Leisure Treat Bay Pvt. Ltd." for a business expo. It received a consignment from M/s. Safe Logistics, a GTA, which charged 9% for each CGST and SGST for their services. It also received security services from Prompt Security Agency Pvt. Ltd.

Amongst the services availed by M/s. Visali & Co, which of the following services are taxable under RCM? [ICAI Case 47 Sub-Q2]

- (i) Sponsorship services received from Leisure Treat Bay Pvt. Ltd. Co.
- (ii) GTA Services received from Safe Logistics.

(iii) Security Services received from Prompt Security Agency Pvt. Ltd.

- (a) i
- (b) i & ii
- (c) i & iii
- (d) None of the above

[Reason: Refer Entry 1, 4 & 14 of RCM.

1) Sponsorship provided by body corporate (Co.) is **not liable** to GST under RCM.

2) GTA services are **not liable** to GST under RCM, if the service provider is paying tax @ 18%.

3) Security services are **not liable** to GST under RCM, if the services are provided by a body corporate (Co.)]

Author's Note: ICAI answer has not considered amended Entry 4 RCM, where sponsorship supplied **BY** body corporate (Co.) is **not covered** under RCM though recipient is a firm. Ans given by ICAI is (a) is wrong.

Entry 15: Renting of Motor Vehicle

Q14. M/s. PQR Ltd. has availed rent-a-cab service from M/s ABC Travels (Proprietor) service, where GST is not charged @18% in the invoice, then which one of the following is true?

- (a) Reverse charge is applicable as this is a notified service.
- (b) Reverse charge is applicable if, ABC Travels is not registered.
- (c) Joint charge is applicable
- (d) None of the above

[Reason: Refer Entry 15 of RCM]

Q15. Sandeep (registered in Pune) is engaged in providing training services. Sandeep hired a bus (with capacity of 20 trainees) from Ravi (registered in Maharashtra) at ₹ 50,000 for 30 days to transport trainees. Cost of fuel is included in the consideration paid to Ravi. Sandeep also received security services from Protect You Security Limited for ₹ 35,000. Both amounts are exclusive of GST @18%.

Amount on which Sandeep is required to pay tax under RCM is: [ICAI Case 6 Sub-Q2]

- a) Nil
- b) ₹35,000
- c) ₹50,000
- d) ₹85,000

[Reason: Refer Entry 14 & 15 of RCM. Bus rental service is not covered under passenger transport RCM, which applies only to services provided to a



body corporate. Security service RCM is inapplicable since the supplier is a body corporate (Co.)]

Q16. Vidhula Impex Ltd. is engaged in supplying sports goods & registered under GST. It availed the following services for its business:-

- i. Renting of motor vehicles from Blue Taxi Pvt. Ltd. where GST was charged @ 5%.
- ii. Appointed Mr. Rajesh as Technical Director for advisory role in business & payment was made based on the contract entered. He was not covered under any employment contract with the company.

Which of the following input services are liable to GST under reverse charge in the hands of company? [ICAI Case 25 Sub-Q2]

- (a) Renting of Motor Vehicles
- (b) Directorship services
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

[Reason: Refer Entry 6 & 15 of RCM, RCM is N.A. for renting of motor vehicles, if supplier is a body corporate. Also, director (not being an employee) providing any service to Co. is liable to GST under RCM.]

Q17. KBC Insurance Ltd. is an insurance company providing life and non-life insurance products across India.

It secures its business through various licensed insurance agents including individuals, firms, LLPs and private limited companies.

Further, it availed renting of motor vehicle services from RR Travels Private Limited for transportation of employees PAN India. Fuel cost is included in the consideration charged. The supplier charged GST @ 5% and informed the Company that it is claiming ITC only in respect of the same line of business.

Determine the services on which the company is liable to pay tax under reverse charge? [ICAI Case 39 Sub-Q1]

- (a) Service availed from insurance agents
- (b) Service availed from RR Travels Private Limited
- (c) None of the services availed attracts RCM
- (d) Both (a) & (b)

[Reason: Refer Entry 7 & 15 of RCM. Services availed from insurance agent is covered under RCM. Renting of motor vehicle is not covered under RCM as the service is provided by a body corporate.]

02. Sec 9(4): GST in real Estate & RCM

Q18. M/s ABC Pvt. Ltd. a small builder & promoter registered under GST, made purchases of cement from a supplier Mr. Ravi (an unregistered Person). The volume of purchases made from an unregistered supplier does not exceeds 20% of the total purchases i.e. the purchases made from registered supplier is more than 80% of the total purchases.

You are required to identify the person who is liable to pay tax under GST in the above given case.

- (a) M/s ABC Pvt. Ltd.
- (b) Mr. Ravi
- (c) Supplier who is registered under GST
- (d) No person shall be liable to pay GST

[Reason:- Refer entry 2 of sec 9(4)], [No limit of 80% is applicable in case of cement.]

03. Sec 9(5)/5(5): Tax payable by ECO on notified services

Q19. Which supply of service is specified under section 9(5).

- (a) Supply through ECO - transportation of passengers any motor vehicle except omnibus.



- (b) Supply through ECO - renting of accommodation by unregistered hotels
- (c) Supply through ECO - service by unregistered plumber, housekeeper etc.
- (d) Supply through ECO - Restaurant service other than the service supplied by restaurant, eating joints etc. located at specified premises
- (e) Supply through ECO - Local delivery services by unregistered delivery person/ supplier
- (f) All of the above

[Reason: Refer services notified u/s 9(5)]

Answers:

1	d
2	c
3	a
4	c
5	b
6	c
7	b
8	d
9	b
10	b
11	b
12	d
13	d
14	a
15	a
16	b
17	a
18	a
19	f

