

Job Work under GST Regime – Emerging Issues and Challenges

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Abstract: GST has been introduced with a view to remove cascading effect and to simplify the tax structures, systems and processes. Job work is the major area on which existence of many small and medium enterprises depend. GST law has brought about paradigm shift in the scheme of taxation relating to job work. It has tried to plug in the loop holes and confusions existed under the earlier indirect tax laws. This paper has been written with a view to clarify the provisions contained in the GST Acts and Rules regarding job work and to make a comparison between GST law and earlier indirect tax laws relating to job work.

Keywords: CST, VAT, Cascading, Input, Manufacture

I. INTRODUCTION

GST is going to be implemented with effect from 1st July, 2017. It has made paradigm shift in taxation issues of job work. The provisions have been made clear, Rules have been simplified and cascading effect has been removed. Job work in normal terminology implies working upon material or semi finished goods belonging to others. The owner of the material or semi finished goods is called principal and the person who performs treatments or processes on material or semi finished goods belonging to principal is called job worker. Job work is an inevitable part in Indian manufacturing sector. Most of big organizations including Government depend on the job worker as part and parcel of their manufacturing chain. Further job work provides revenue to the small and medium enterprises in India for their survival. Thus, job work also fulfills the mission of Government of India regarding Skill India. Earlier indirect tax laws in India have been creating a lot of confusions and litigations regarding the taxation of job work. Treatments or processes resulting in manufacture was supposed to be the prime criteria to decide whether Excise duty is to be levied on job work or it is liable to Service tax and VAT/CST. Now the GST law has completely changed the scheme and philosophy of taxing the job work.

II. OBJECTIVES OF THE STUDY

The two main objectives of this paper are;

- a) To clarify the provisions contained in the GST Acts and Rules regarding job work;
- b) To make a comparison between GST law and earlier indirect tax laws relating to job work.

III. LITERATURE REVIEW

Dr. R. Rupa (2017) focused on overall GST model and added that GST model even though effective for our economy but State Governments will face a lot of issues and challenges in initial days.

Girish Garg (2014), stated that GST is a logical step of Government to divide the overall tax burden and lower the tax rates.

Raj Kumar (2016), viewed that GST model will bring improvements in different sectors of our Economy, by simplifying the tax structures and removing the cascading effect

Research department, The institute of Cost Accountants of India (2015) concluded that provisions of GST should be clear to avoid any confusion and further added that Government should device effective mechanism for settlements of litigation

Monika Sehrawat and Upasana Dhanda (2015), came to a conclusion that effective implementation of GST will be a great challenge.

Akanksha Khurana and Aastha Sharma (2016), suggested that all sectors of Indian economy will be benefitted by GST but its implementation needs concentrated efforts of all stake holders

Jaspreet Kaur (2016) regarded GST as a positive change but added that it will have different impacts on prices of different commodities.

Lourdunathan F and Xavier P (2017), concluded that GST will provide relief to both producers and consumers and at the same time will result in revenue gain to the Government.

IV. PROVISIONS RELATING TO JOB WORK UNDER EARLIER INDIRECT TAX LAWS

The Excise duty, Service tax and VAT/CST were the major statutes in earlier indirect tax laws that contained provisions regarding taxation of job work. Rule 2(n) of Cenvat Credit Rules 2004 defines job work as processing or working upon of raw material or semi-finished goods supplied to the job worker, so as to complete a part or whole of the process resulting in the manufacture or finishing of an article or any operation which is essential for aforesaid process and the expression "job worker" shall be construed accordingly. If the processes and treatments performed by the job worker amounted to manufacture, there was a system of levying the Excise duty by virtue of section 2(f) of Central Excise Act 1944. However once Excise duty was payable, there were exemptions from the liability of service tax by way of notification number 214/86 dated 25-03-1986 and due to subsequently putting the clause into negative list under Finance Act 1994. For availing this exemption it was necessary that job worker was not already availing the exemption available to SSI unit. When the treatments or processes performed by the job worker did not amount to manufacture, there was liability to pay service tax provided it did not fall within the definition of Business Auxiliary Service by virtue of notification number 8/205 of service tax.

Further, there was also a provision of Cenvat Credit under Cenvat Credit Rules 2004, if the goods were received back within 180 days from the date of sending it to the job worker. However to avail benefit of Cenvat Credit, it was necessary to send the goods to the job worker under the cover of challan and to maintain complete records. If the inputs or capital goods were not returned within 180 days, there was a system of paying Cenvat Credit attributable to the inputs or capital goods being sent for job work. However Cenvat Credit was again allowed when the inputs or capital goods were received back after 180 days. If job worker supplies any material to the principal, VAT/CST liability will arise. If the nature of work of job worker tantamount to pure service, there will be service tax liability without any confusion. However, if job work also involves applying of certain materials along with service on the goods of principal, it will be classified as works contract subject to conditions and accordingly under service tax regime, service tax was payable @ 40% on original work, 70% on maintenance work and all other works contract.

V. TAXATION OF JOB WORK UNDER GST REGIME

GST law has changed the whole scheme of taxation relating to job work. As per section 1(68) of the central goods and services tax act, 2017, job work has been defined in an exhausted manner. The job work now includes any treatment or process undertaken by a person on goods belonging to another registered taxable person. Now if specified conditions and procedures are followed, the materials and semi finished goods sent by registered principal to job worker will not fall within the ambit of supply and accordingly the same shall not be liable to GST.

a) Conditions and procedures for sending goods to job work without payment of duty

GST law mentions the following conditions and procedures for sending goods and materials without payment of duty to the job worker:

- The principal must be a registered person
- The inputs should be received back within one year and capital goods within 3 years of their being sent. However condition of being received back does not apply to moulds, dies, jigs and fixture or tools.
- The principal is required to maintain proper records of inputs and capital goods which are sent to the job worker.
- The benefit of sending goods and materials without payment of duty to the job worker will be available in both intra-state and inter-state transfers for job work
- At the time of removal and for the purpose of transportation, goods should be issued under the cover of a challan serially numbered. Three copies of delivery challan should be prepared, original for job worker, duplicate for transporter and triplicate for principal.
- When the goods are sent through delivery challan, the same needs to be declared in form GST INS – 01.
- The principal may send the inputs and capital goods directly to the premises of job worker without bringing to the premises of principal
- The input tax credit can be availed by the principal on inputs or capital goods sent to job worker.
- If inputs are not received back within one year and capital goods within 3 years of their being sent, would be treated as supply and accordingly principal should be liable to pay GST
- The provisions and relaxations relating to job work will be applicable only if principal is a registered person and he sends taxable goods for job work. Thus, if either the principal is not registered or the goods to be sent to job work are non taxable or exempted, the provisions and relaxations relating to job work will not apply.

b) Relaxations to job worker under GST law

The job worker under the GST law has been given the following relaxations:

- The job worker is not required to obtain registration unless his aggregate turnover exceeds the threshold limit of 20 lakhs/10 lakhs
- If the principal declares premises of unregistered job worker as his additional place of business or if the job worker is a registered person or if goods are notified by the principal, principal may supply the goods directly from the premises of job worker without bringing back to his own premises and this will not be included in the aggregate turnover of job worker.
- However, only value of goods or services used by the job worker for carrying out the job work will be included in the turnover of job worker.
- If the job worker is a registered person, waste and scrap generated during the job work can be supplied by job worker directly from his place of business on payment of tax. However, if job worker is not a registered person the same is required to be supplied by the principal on payment of tax.
- Further only principal is required to maintain proper accounts related to job work.

VI. CONCLUSIONS

The GST law has removed many of the confusions and litigations existed in earlier tax laws relating to job work. The cascading effect and multiplicity of tax structures has been abolished under the GST law which will lower the overall tax burden on goods and services. The processes and systems for sending the inputs and capital goods to job worker for further processing has been made simpler and effective. Now the input tax credit can be claimed by the principal without any delay for any inputs or capital goods sent to the job worker for further processing. The job worker has been exempted from registration, returns and maintenance of records subject to conditions. This is expected to provide a great relief to SSI enterprises in India.

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