

# 'Destruction of goods warrants reversal of ITC'



## CHATROOM

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**We have manufactured certain goods against an order from a foreign buyer. Now he does not want the material for some reason, but is agreeing to compensate us for the cost of manufacturing. We have to destroy some raw material (18 per cent GST) and finished goods (12 per cent GST). What**

**should be the treatment under GST? Will the reversal be on input or output? What documents should be provided to the bank for receiving payment?**

As per Section 17(5)(h) of the CGST Act, 2017, input tax credit will not be available on goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples. So, you may reverse the credit taken on inputs used for manufacture of finished goods that you destroy. You may submit copies of correspondence with the buyer to the bank explaining the reasons for the inward remittance.

**In 2019, we imported certain equipment from our US-based wholly-owned subsidiary (WOS). During commissioning, we found**

**certain design mistakes. In July 2021, we are returning the equipment to our WOS under EDF waiver. We will be compensated by the WOS for the equipment cost, import duty and associated costs for imports, installation and re-exports. Though at accounts consolidation stage, common profit elements are knocked off, besides transfer pricing issues, as we will be receiving the amount from our WOS, what precautionary steps (tax/customs/AD-Bank-RBI/regulatory issues) do we need to take? Since you are getting payment against re-export of imported equipment, there is no question of EDF waiver. You raise an invoice, treat the transaction as any other export and receive payment against it. Since you have not used the goods, you**

can claim a drawback of 98 per cent of the duty paid on the imported goods under Section 74 of the Customs Act, 1962. For other compensation, you may raise an invoice for agreeing to tolerate an act (service code 999794) of supplying defective goods. The supply of that service attracts 18 per cent IGST, but you can zero-rate that supply under Section 16 of the IGST Act, 2017.

**We conduct merchanting trade activities, buying from one country and selling to another, with direct shipments not touching Indian territories. Our products are permitted goods, not restricted/banned. We receive advance payment from buyers. Our bankers used to process such transactions**

**earlier, but have now stopped, saying we must take credit facilities from them. Recently, at their insistence, we have taken working capital/overdraft limits and completed the documentation/mortgage formalities. They are still not processing our merchanting trade transactions. What is the remedy?**

I cannot understand the actions of your bankers. I suggest that you peruse Para C.14 in the RBI Master Directions in this link: [https://www.rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=10201#C25](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10201#C25) and examine whether you fulfill all the conditions stipulated there. If you do, you may approach the higher authorities in the bank. If that does not work, you may take up with the Ombudsman of the bank.