

As per the provision of GST, value of supply of service includes reimbursement of expenses. In other words, if any consideration is received as reimbursement from the customer, the GST liability would attract and to be charged on the invoice raised by the service provider.

However, reimbursement of expenses can be exempt in one case that is pure agent. We need to understand the meaning of pure agent wherein law provides that value of expenditure of costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply. ~~shall be excluded from the value of supply~~ subject to certain conditions. The extract of rule 33 of CGST Rule 2017 is reproduced as under:

1. The supplier acts as a pure agent ~~on~~ ~~behalf~~ of the recipient of supply ~~has been~~ ~~separately~~ ~~indicated~~ ~~in the~~ ~~invoice~~ ~~issued~~ ~~by the~~ ~~pure~~ ~~agent~~ ~~to the~~ ~~recipient~~ ~~of~~ ~~service~~.
2. When he makes the payment to the third party on authorization by such recipient.

ii) The payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the pure agent to the recipient of service.

iii) The supplies procured by the pure agent from the 3rd party as a pure agent of the recipient of supply are in addition to the service to supplies on his own account.

③

For the purposes of this rule, the expression — pure agent means a person who

(a) Enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure or costs in the course of supply of goods or services or both.

(b) Neither intends to hold nor holds any title to the goods or service or both so procured or supplied as pure agent of the recipient of supply.

(c) Does not use for his own interest such goods or services so procured.

(d) Receives only the actual amount incurred to procure such goods or services in addition to the amount received to supply he provides on his own account.

②

For example

(3)

Payment of statutory fees i.e. filing fee court fees, etc are not liable to GST.

Hence, GST is applicable on reimbursement of expenses except reimbursement is in nature of pure agency.

Example.

An chartered Accountant takes up income tax appeal services to recipient represent his client in the tribunal. On completion of his service, he issues an invoice for his supply with reimbursement of expenses incurred during rendering the service.

SN NO	components charged in the invoice.	Amount in Rs.
1	Representation charge	15000
2.	Tribunal charge (Actual)	1500
3.	Travelling expenses	2000
4.	Certificate from an expert on behalf of the recipient.	5000
TOTAL		<u>23500</u>

In the above explanation, the important thing to consider is, the pure agent does not use the goods/services he procures during his supply for his own interest and this condition needs to be determined from the terms of the contract. ~~Event~~ Even when the supplier mentions about the out of pocket expenses which he may incur during his supply as extra in his engagement letter, such expenses / supply should be an addition to the services he supplies on his own account.

In the above example available the expert's service recipient behalf is an additional supply. Whereas travelling expenses incurred by the CA to represent his client shall be part of his responsibility to make himself available at the venue and procuring such service for his own interest shall not be construed as an addition to the service he agreed to render.

Another important aspect is when a pure agent procures any goods / services from the 3rd party, he shall collect the actual expenses he has incurred.

(4)

(5)

Any margin charged on the amount as awarded from the 3rd party shall disqualify to be called as pure agent transaction. In the above example if the CA charges extra for the certificate he obtain on behalf of his client then such transaction shall be subject to GST.

Example of pure Agent

1. Corporate services firm: A is engaged to handle all legal work pertaining to the incorporation of company B. Other than its fees, A also recovers from B, registration fee and approval fee for the name of the company paid to the Registrar of companies. The fees charged by the Registrar of Companies for the registration & approval of the name are compulsorily levied on B. A is merely acting as a pure agent in the payment of those fee. Hence, A's recovery of such expenses is a disbursement and not part of the value supply made by A to B. ~~Expense~~
2. Expenses incurred by clearing & forwarding agent & reimbursed by principal such as freight, godown charges
3. Income tax - paid to the government on behalf of the client and collect subsequently

(6)

Conditions

Sec 9(1) of CGST - subject to the provisions of sub sec (2) there shall be levied a tax called CGST on all intrastate supply of goods & services or both except on the supply of alcoholic liquor; on the value determined u/s 15 and ~~generally~~ not exceeds 20%. There are two types of charge UNDER GST (1) Forward charge (2) - see 9(1)

(2) Reverse charge - 9(3) & (9(4) and also discuss about sec 15 - Value of Taxable supply - transaction value is very important but 15(2) a list of items which should be included in value of supply.

Pure Agent services are common and important for business as it eases the way business are conducted; it is also ~~an~~ important to bear in mind about GST implications while planning. Whenever such an act. The transaction should be undertaken to adhere the conditions specified for such pure agents.