

Taxability of Vouchers under GST

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A. Background:

In ancient times, trade between persons started by way of barter; people exchanged one article / object for another. The barter system evolved into currencies for purchase and sale of goods. Over a period of time, businesses came up with innovative ideas to market their products by offering vouchers and luring customers which can be used for purchase goods or services. In this article, the taxability of vouchers under Goods and Services Tax Laws is discussed. Before we delve into the topic, some important terms are discussed herein.

B. Pre-paid Instrument (PPI): PPI has not defined under the GST laws. In Master Direction DPSS.CO.PD.No.1164/02.14.006/2017-18, Reserve Bank of India has classified PPI into 3 types as under:

- 1. Closed System PPIs:** These PPIs are issued by an entity for facilitating the purchase of goods and services from that entity only and do not permit cash withdrawal. These instruments cannot be used for payments or settlement for third party services; the issuance and operation of such instruments is not classified as payment systems requiring approval / authorisation by the RBI.
- 2. Semi-closed System PPIs:** These PPIs are used for purchase of goods and services, including financial services, remittance facilities, etc., at a group of clearly identified merchant locations / establishments (including payment aggregator / gateway), which have a specific contract with the issuer to accept the PPIs as payment instruments. These instruments do not permit cash withdrawal, irrespective of whether they are issued by banks or non-banks. Issuance of these PPIs require approval by the RBI.
- 3. Open System PPIs:** These PPIs are issued only by banks and are used at any merchant for purchase of goods and services, including financial services, remittance facilities, etc. Banks issuing such PPIs also facilitate cash withdrawal at ATMs / Point of Sale (PoS) / Business Correspondents (BCs).

C. Money^[1]: means the Indian legal tender or any foreign currency, cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveller cheque, money order, postal or electronic remittance or **any other instrument** recognised by the Reserve Bank of India when used as a consideration to settle an obligation or exchange with Indian legal tender of another denomination but shall not include any currency that is held for its numismatic value.

D. Voucher^[2]: means an **instrument** where there is an obligation to accept it as consideration or part consideration for a supply of goods or services or both and where the goods or services or both to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.

E. Central Goods and Services Tax Act, 2017 (CGST Act):

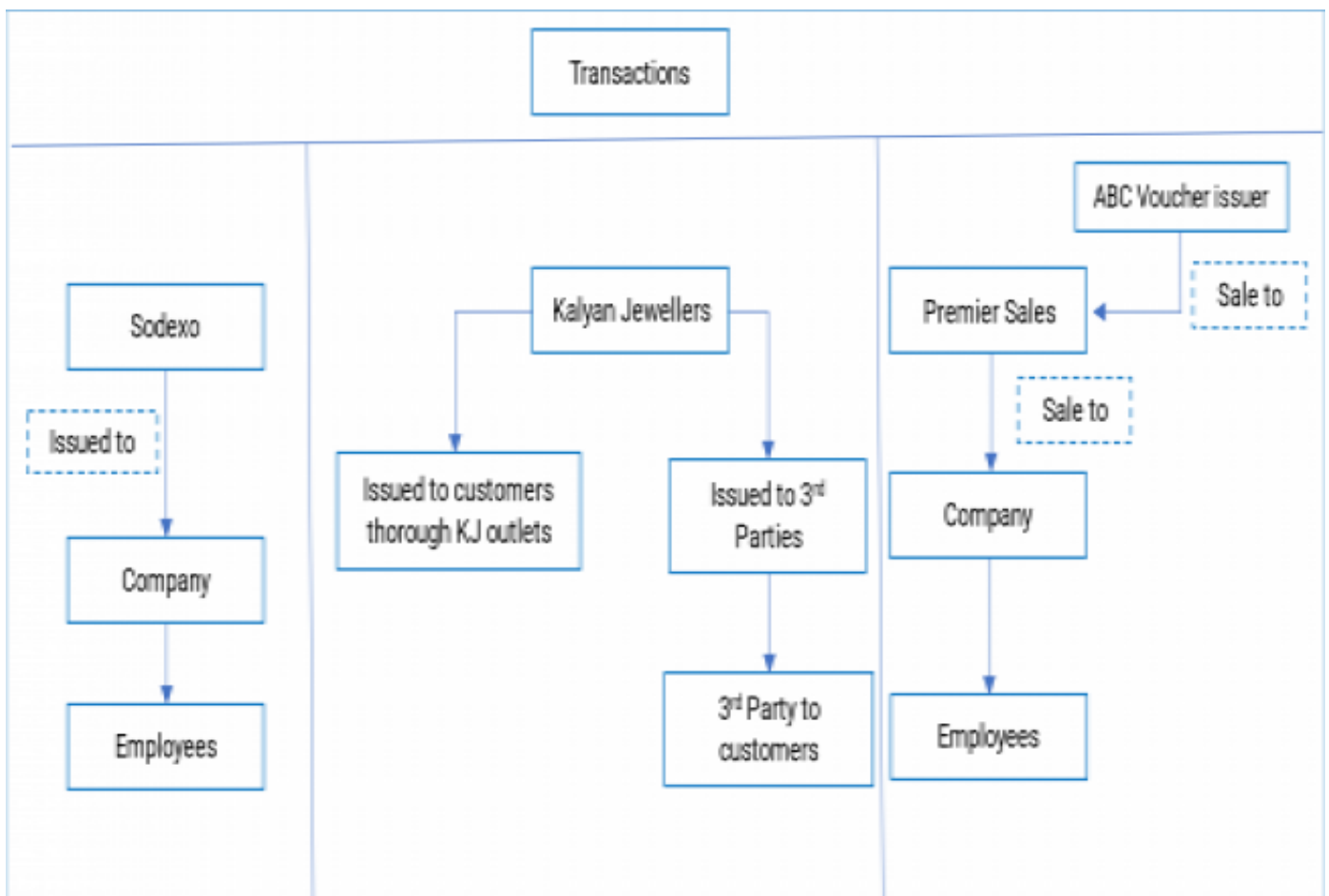
1. Is issuance of voucher a taxable event?

Vouchers issued by business entities, are generally of 2 types viz (i) closed PPI and (ii) semi closed PPI. Are Vouchers 'Goods' or 'Services'? On a close reading of the definition of 'money' and 'voucher' under CGST Act, it is clear that Vouchers (whether Closed PPI and Semi-closed PPI) are 'instruments' (akin to 'Money') to be accepted as part / consideration for supply of goods or services. Therefore, 'Voucher' would not be treated as goods or services under the CGST Act.

Semi-closed PPI maybe issued as a gift voucher, cash back voucher and E-voucher. However, the manner in which the Voucher is issued or redeemed varies among business models.

It is worthwhile understanding the [Sodexo judgement](#) (under a erstwhile law) and the [Kalyan Jewellers India Limited](#) as well as [Premier Sales Promotion Private Limited](#) (under the GST laws) in this context.

A pictorial diagram of transaction in case of (i) Sodexo SVC India Private Limited (Sodexo) (ii) Kalyan Jewellers India Limited case (KJ) (iii) Premier Sales Promotion Private Limited (Premier Sales) is provided:



1. **Sodexo SVC India Private Limited** – Under the erstwhile Maharashtra Octroi/Local Body Tax, the Hon'ble Apex Court (Civil Appeal Nos. 4385-4386 of 2015 dated 09.12.2015) held that Sodexo Meal Vouchers are not 'Goods' within the meaning of Section 2(25) of the Act and, therefore, not liable for either Octroi or LBT.

2. **Kalyan Jewellers India Limited** - (TN/AAAR/11/2021(AR), A.R. Appeal No. 01/2020/AAAR dated 30.03.2021) Hon'ble AAAR under GST Laws held as follows:
- Voucher per se is neither a goods nor a service. It is a means or instrument for payment of consideration.
 - Voucher is not classifiable separately but only the supply associated with the voucher is classifiable according to the nature of the goods or services supplied in exchange of the voucher earlier issued to the customer.

The above case was in the context of closed PPI.

3. **Premier Sales Promotion Private Limited** - [WP No. 5569 of 2022 (T-RES)] Karnataka High Court - This case was in the context of semi-closed PPI which came up before the Hon'ble High Court. Relevant events that preceded the Hon'ble High Court judgement are:

The Company had filed an application before the **Authority for Advance Ruling** (AAR), Karnataka seeking ruling on

- Whether the vouchers themselves, or the act of supplying them is taxable, and at what stage, for each of the three categories of transactions undertaken by the applicant?
- What is the rate of tax applicable?

The Hon'ble AAR held that vouchers including e-vouchers are taxable as goods at 18% under Entry No. 453 of Schedule 3 of [Notification No. 1/2017-Central Tax \(Rate\) dated 28.06.2017](#). The time of supply would have to be determined as per Section 12 (4) & (5) of the CGST Act

On an appeal before the **Appellate Authority for Advance Ruling, Karnataka (AAAR)**, the Hon'ble AAAR upheld the order of the AAR.

The Company filed a writ against the order of the AAAR which had upheld order of the AAR that voucher is goods. The Hon'ble High Court held that issuance of pre-paid payment instrument namely gift voucher, cash back voucher and E-voucher is similar to pre-deposit **and not supply of goods or services**. Hence, vouchers are neither goods nor services and therefore cannot be taxed under the CGST Act.

Thus, it can be concluded that issuance of PPIs such as gift voucher, cash back voucher and E-voucher is not taxable under the CGST Act.

2. What is taxable?

As Voucher is only an instrument of consideration and not goods or services, the same is not classifiable separately as goods or service but only the supply associated with the voucher is classifiable according to the nature of the goods or services supplied in exchange for the voucher. Accordingly, it would be apt to now discuss the time of supply, rate of tax and place of supply of goods or services associated with voucher.

- **Time of supply of goods or services associated with voucher**^[3]: Time of supply shall be:

(a) the date of issue of voucher if the supply is identifiable at that point; or

(b) the date of redemption of voucher, in all other cases.

- **Rate of Tax**: Rate of tax would be the applicable rate of tax to the goods or services supplied.
- **Place of supply**: Place of supply in case of goods will have to be determined in accordance with Section 10 of the Integrated Goods and Services Tax Act, 2017 (IGST ACT). Place of supply of service will have to be determined in accordance with Section 12 / Section 13 of the IGST ACT.

3. Following illustrations are provided for ease of understanding:

1. A voucher is issued on an outlet which has an underlying supply for a mobile phone:
 - **Time of supply** - would be the date of issue of voucher as the supply of mobile phone is

identifiable i.e. the date when voucher is issued to end customer by the final supplier of voucher. Issuer of voucher when issuing to intermediary will not mention the date on the voucher and the date on the voucher is mentioned by the final supplier of the voucher in the supply chain to the customer.

Extending the above situation, if the time of supply is determined on the date issue of voucher and tax is remitted and at a later date, the customer redeems the voucher in another State, the question that would arise is on whether the tax should once again be remitted in the destination State when tax has already been remitted on the date of issuance of voucher by the outlet issuing the voucher to the customer. Keeping in line with the one of the first principles of GST, viz., there cannot be a tax on tax or double tax, it follows that no tax should be payable in the destination State; however, this the modus would largely depend on the business models.

- **Rate of tax** – would be the rate applicable to the mobile phone on the date of issue of voucher to the end customer.
- **Place of supply and nature of tax-**
 - If the customer purchases the voucher in an outlet by visiting the outlet, the place of supply would be the outlet and as the location of the supplier and place of supply would be within the State, the supply would tantamount to intra-State sale and liable to CGST and SGST.
 - If the voucher is purchased online, the place of supply would be place of the recipient. If the location of supplier and recipient is within the same State, the supply will tantamount to intra-State sale and be liable to CGST and SGST; whereas if the supplier and recipient are located in different States, the supply would tantamount to inter-State sale and be liable to IGST.

2. A voucher is issued on an outlet which has an underlying supply for mobile, watch or garment:
 - **Time of supply** - would be the date when the voucher is redeemed by end customer.
 - **Rate of tax** - would be the rate applicable to the goods which are redeemed on the date of redemption voucher by the end customer.
 - **Place of supply and nature of tax** – Same as discussed in previous illustration.

4. Trading of voucher and Commission on facilitation to procure vouchers:

Alternatively, where the vouchers are traded (i.e. when the issuer of voucher with a value of Rs. 100/- issues it to distributor say for Rs. 90/- and the retailer for Rs. 95/- and the retailer issues it to end customer for Rs. 100/-), the trading cycle of voucher would not be liable to GST since the Hon'ble Karnataka High Court in the case of Premier Sales Promotion Private Limited [WP No. 5569 of 2022 (T-RES)] has held that gift voucher etc. is **not supply of goods or services**. However, one may note that there would be requirement to reverse common input tax credit attributable to the value of vouchers traded.

If an intermediary facilitates the procurement of vouchers from an issuer of voucher to a another person for a commission, the commission earned by the intermediary would be a taxable service and liable to GST.

5. Expiry of vouchers:

1. Vouchers have a validity period. Where vouchers are not redeemed within the validity period, there would be no supply of goods or service against the underlying voucher. A question arises as to whether the issuer or aggregator would be liable to GST on expired vouchers. The value of unclaimed vouchers is generally recognised as income in the books of accounts of issuer / aggregator.
2. As vouchers are neither goods nor service as discussed supra, in paper writers view, there is no liability for GST on unclaimed vouchers although their value is recognised as income in the books of account.

[1] Section 2 (75) of the CGST Act

[2] Section 2 (118) of the CGST Act

[3] Sections 12(4) and 13 (4) of the CGST Act, 2017 respectively.