CONCEPT NOTE
ON
AGGREGATE TURNOVER UNDER GST

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

NEW DELHI

Concept Note on Aggregate Turnover under GST

The GST law requires a supplier to obtain GST registration when the aggregate turnover in a financial year exceeds the specified threshold limit. Thus, the term aggregate turnover is of high significance inasmuch as the same determines the eligibility of a supplier to obtain registration.

In addition, different thresholds of aggregate turnover have been prescribed in the GST law for determining the eligibility to various other provisions such as for obtaining registration under composition levy, for issuing e-invoice, for reporting HSN/SAC codes in invoices, for filing annual return and reconciliation statement, for monthly/quarterly filing of Form GSTR-1/IFF.

The term aggregate turnover is defined in clause (6) of section 2 of the CGST Act, 2017 as under:

"aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State tax, Union territory tax, integrated tax and cess;

Under the existing provisions, the threshold limit of aggregate turnover for obtaining registration is as under:

States	**Threshold limit for supplier engaged exclusively in supplying goods (Rs.)**	**Threshold for supplier engaged exclusively in supplying services (Rs.)**	**Threshold for supplier engaged in supplying both goods and services (Rs.)**
Manipur, Tripura, Nagaland, Mizoram	10 lakh	10 lakh	10 lakh
Arunachal Pradesh, Meghalaya, Sikkim, Uttarakhand, Puducherry, Telangana	20 lakh	20 lakh	20 lakh
Other States	40 lakh	20 lakh	20 lakh

As per the definition of aggregate turnover under section 2(6) of the CGST Act, 2017, value of exempt supplies is also included in the aggregate turnover. Thus, for computing the turnover threshold of Rs. 10/20/40 lakh for obtaining registration, value of exempt supplies made by the supplier is also taken into account.

Inclusion of exempt supplies in the aggregate turnover is causing genuine hardships to the suppliers whose primary supplies are exempt but who make taxable supplies once in a while or as an exception to their routine business operations. If the value of exempt supplies made by such suppliers is equal to or more than the turnover threshold of Rs. 10/20/40 lakh, they become liable to registration even if they make a single taxable supply. This puts undue burden of undertaking the various GST compliances on such suppliers.

It is pertinent to mention here that any person engaged exclusively in the business of supplying goods or services or both that are not liable to tax or wholly exempt from tax, is not required to obtain registration under section 23(1) of the CGST Act, 2017. However, in practical scenario, businesses do not restrict to providing only one kind of supply (exempt supply) and thus, are deprived of the benefit of this provision if they provide even a stray taxable supply.

To illustrate, education services provided by a school are exempt from levy of GST vide entry 66 of *Notification No. 12/2017 CT (R) dated 28.06.2017*. Section 23(1) of the CGST Act, 2017 exempts any person engaged exclusively in the business of supplying goods or services or both that are not liable to tax or wholly exempt from tax. Thus, a school providing exempt education services is not required to obtain registration. However, the school will invariably make other supplies like sale of used or broken furniture, sale of used vehicle, sale of old newspapers, sale of old library books etc. at some point of time. Being supply of goods, these supplies do not qualify for the exemption provided under entry 66 of *Notification No. 12/2017 CT (R).* Such supplies are classified separately and cannot be construed to be a part of composite supply of education services, which are exempt from tax. Thus, irrespective of the miniscule revenue generated from such supplies undertaken sporadically, the school becomes liable to registration and comply with all the GST procedures. Entities like places of worship, charitable entities, hospital etc. which provide exempt supplies also face the same issue.

This issue can be suitably addressed by removing the value of exempt supplies from the definition of aggregate turnover. This way, only when the value of taxable supplies made by the supplier of exempt supplies (school in the above example) will exceed the turnover threshold, he will be liable to registration.

In fact, a study of relevant provisions of VAT/GST law of select international jurisdictions namely, EU VAT, UK VAT, Australia GST, Singapore GST, Sri Lanka VAT and New Zealand GST clearly shows that under these laws, the value of exempt supplies is not included in the turnover used for determining the eligibility to register. Further, the taxable supplies under these laws categorically exclude exempt supplies. The relevant provisions of these international VAT laws are enclosed as **Annexure-A.**

The inclusion of exempt turnover in aggregate turnover is thus, unique to Indian GST. Revenue considerations seem to be the only probable reason for such inclusion though the revenue generated may not be significant considering that the primary output supply is exempt, and the taxable supply is sporadic and not a part of routine business operations. On the other hand, the undue burden of compliances which the supplier has to undertake on account of such inclusion, adversely affects the Government's objective of enhancing the ease of doing business. If the taxpayer does not obtain registration, he is faced with penal consequences, interest, late fee etc. and quite often, the taxpayers avoid taking registration in such situation leading to corrupt practices.

Recommendation

Taking cue from the international best practices, the definition of aggregate turnover be amended to exclude the value of exempt supplies therefrom.

OR

Registration be not required for the suppliers whose value of taxable supplies is up to 10% of the value of exempt supplies or if the taxable supply is a result of one-time event etc.

OR

An explanation be inserted in section 22(1) of the CGST Act, 2017 to exclude the value of 'exempt supply' as defined in section 2(47) of the CGST Act, 2017 from the aggregate turnover. It may be highlighted here that while computing the turnover threshold of Rs. 1.5 crore for composition levy under section 10, the value of exempt supply of services provided by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount is excluded from the aggregate turnover. Therefore, since aggregate turnover has been used in GST law at many places, instead of amending its definition which may impact many provisions, an explanation may be inserted in section 22(1) of the CGST Act, 2017 (as is done under section 10 to remove the difficulties in giving effect to its provisions), to exclude exempt supply from the aggregate turnover for the limited purpose of section 22(1).

Implementing any of the above recommendations will go a long way in improving the ease of doing business and making the GST law simple and taxpayer friendly.

Annexure-A

Relevant Extracts of VAT/GST laws of select international jurisdictions

1. EU VAT

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006L0112-20210701

Section 1

Simplified procedures for charging and collection

Article 281

Member States which might encounter difficulties in applying the normal VAT arrangements to small enterprises, by reason of the activities or structure of such enterprises, may, subject to such conditions and limits as they may set, and after consulting the VAT Committee, apply simplified procedures, such as flat-rate schemes, for charging and collecting VAT provided that they do not lead to a reduction thereof.

Article 288

The turnover serving as a reference for the purposes of applying the arrangements provided for in this Section shall consist of the following amounts, exclusive of VAT:

(1) the value of supplies of goods and services, in so far as they are taxed;

(2) the value of transactions which are exempt, with deductibility of the VAT paid at the preceding stage, pursuant to Articles 110 or 111, Article 125(1), Article 127 or Article 128(1);

(3) the value of transactions which are exempt pursuant to Articles 146 to 149 and Articles 151, 152 or 153;

(4) the value of real estate transactions, financial transactions as referred to in points (b) to (g) of Article 135(1), and insurance services, unless those transactions are ancillary transactions.

However, disposals of the tangible or intangible capital assets of an enterprise shall not be taken into account for the purposes of calculating turnover.

Article 289

Taxable persons exempt from VAT shall not be entitled to deduct VAT in accordance with Articles 167 to 171 and Articles 173 to 177, and may not show the VAT on their invoices.

Article 290

Taxable persons who are entitled to exemption from VAT may opt either for the normal VAT arrangements or for the simplified procedures provided for in Article 281. In this case, they shall be entitled to any graduated tax relief provided for under national legislation.

2. United Kingdom VAT

https://www.legislation.gov.uk/ukpga/1994/23/schedule/1

https://www.legislation.gov.uk/ukpga/1994/23/section/4

Liability to be registered

1(1) Subject to sub-paragraphs (3) to (7) below, a person who makes taxable supplies but is not registered under this Act **becomes liable to be registered under this Schedule—**

(a)at the end of any month, if [the person is UK-established and] the value of his taxable supplies in the period of one year then ending has exceeded [£85,000]; or

(b)at any time, if **[**the person is UK-established and**]** there are reasonable grounds for believing that the value of his taxable supplies in the period of 30 days then beginning will exceed **[**£85,000**]**.

Scope of VAT on taxable supplies.

(1) VAT shall be charged on any supply of goods or services made in the United Kingdom, where it is a taxable supply made by a taxable person in the course or furtherance of any business carried on by him.

(2) A taxable supply is a supply of goods or services made in the United Kingdom other than an exempt supply.

3. Australian GST

https://www.ato.gov.au/business/gst/registering-for-gst/

https://www.ato.gov.au/business/gst/registering-for-gst/#WorkingoutyourGSTturnover

A NEW TAX SYSTEM (GOODS AND SERVICES TAX) ACT 1999

SECT 23.5 - Who is required to be registered

You are required to be registered under this Act if:

(a) you are carrying on an enterprise; and

(b) your GST turnover meets the registration turnover threshold.

Note: It is the entity that carries on the enterprise that is required to be registered (and not the enterprise).

SECT 23.15 - The registration turnover threshold

(1) Your registration turnover threshold (unless you are a non-profit body) is:

(a) $50,000; or

(b) such higher amount as the regulations specify.

(2) Your registration turnover threshold if you are a non-profit body is:

(a) $100,000; or

(b) such higher amount as the regulations specify.

SECT 188.15 - Current GST turnover

General

(1) Your current GST turnover at a time during a particular month is the sum of the **values of all the supplies that you have made, or are likely to make, during the 12 months ending at the end of that month, other than**:

(a) supplies that are input taxed; or

(b) **supplies that are not for consideration (and are not taxable supplies under section 72-5)**; or

(c) supplies that are not made in connection with an enterprise that you carry on.

SECT 9.5 - Taxable supplies

You make a taxable supply if:

(a) you make the supply for consideration; and

(b) the supply is made in the course or furtherance of an enterprise that you carry on; and

(c) the supply is connected with the indirect tax zone; and

(d) you are registered, or required to be registered.

However, the supply is not a taxable supply to the extent that it is GST-free or input taxed.

4. Singapore GST

https://sso.agc.gov.sg/Act/GSTA1993?ProvIds=Sc1-#Sc1-

Goods and Services Tax Act 1993 - Singapore Statutes Online (agc.gov.sg)

FIRST SCHEDULE

Sections 2(1), 9, 11A(2), 11C(1), 14(1)(a)(i)(B), 30(4)(d), 33(3), 38, 49(1)(f), 51(9), 61, 91, 92(2)(b) and (5)(b) and 93(3)(b)

REGISTRATION

Liability to be registered

1.—(1) **A person who makes taxable supplies but is not registered is liable to be registered in accordance with any of the following:**

(a) either —

(i) at the end of any quarter the last day of which is a day before 1 January 2019, if the total value of all the person's taxable supplies made in Singapore in that quarter and the 3 quarters immediately preceding that quarter has exceeded $1 million; or

(ii) at the end of the year 2019 or a subsequent calendar year, if the total value of all of the following in that calendar year has exceeded $1 million:

(A) the person's taxable supplies made in Singapore;

(B) if the subsequent calendar year is 2022 or later and the person belongs in Singapore, the person's taxable supplies under paragraph 3(2)(b)(ii) and (3A) of the Seventh Schedule;

[Act 34 of 2021 wef 01/01/2022]

Scope of tax

8.—(1) (2A) A taxable supply is —

(a) for subsection (1), a supply of goods or services made in Singapore other than an exempt supply; and

(b) for subsection (1A), a Seventh Schedule supply.

5. Sri Lanka VAT

http://www.ird.gov.lk/en/publications/Value%20Added%20Tax_Acts/VAT_Act_No_14[E]_2002_(Consolidation_2014).pdf

CHAPTER II

REGISTRATION

10. (1) **Every person who,**

………..

(iii) on or after January 1,2013 carries on or carries out any taxable activity in Sri Lanka shall be required to be registered under this Act, if –

(a) at the end of any taxable period of one month or three months, as the case may be, the **total value of the taxable supplies of goods or services or goods and services of such person**, made in Sri Lanka in that taxable period of one month or three months, as the case may be, has three million rupees ; or

(b) in the twelve months period then ending, the total value of the taxable supplies of goods or services or goods and services of such person, made in Sri Lanka has exceeded twelve million rupees; or

(c) at any time, there are reasonable grounds to believe that the total value of the taxable supplies of goods or services or goods and services of such person in Sri Lanka, in the succeeding one month or three months taxable period, as the case may be, is likely to exceed three million rupees or in the succeeding twelve months period is likely to exceed twelve million rupees:

Provided however, where the Commissioner-General is of opinion that the supply of goods relate to a single isolated transaction, the value of such supply may be excluded in calculating the total value of taxable supplies for the purposes of this section.

6. New Zealand GST

https://www.legislation.govt.nz/act/public/1985/0141/latest/whole.html#DLM84824

Part 8

Registration

51 Persons making supplies in course of taxable activity to be registered

(1) Subject to this Act, every person who, on or after 1 October 1986, carries on any taxable activity and is not registered, becomes liable to be registered—

(a) **at the end of any month where the total value of supplies made in New Zealand in that month and the 11 months immediately preceding that month in the course of carrying on all taxable activities has exceeded $ 60,000** (or such larger amount as the Governor-General may, from time to time, by Order in Council declare (*see* subsection (8))):

provided that a person does not become liable to be registered by virtue of this paragraph where the Commissioner is satisfied that the value of those supplies in the period of 12 months beginning on the day after the last day of the period referred to in the said paragraph will not exceed that amount:

(b) at the commencement of any month where there are reasonable grounds for believing that the total value of the supplies to be made in New Zealand in that month and the 11 months immediately following that month will exceed the amount specified in paragraph (a):

provided that any such person shall not become liable where the Commissioner is satisfied that that value will exceed that amount in that period solely as a consequence of—

(c) any ending of, including a premature ending of, or any substantial and

permanent reduction in the size or scale of, any taxable activity carried on by that person; or

(d) the replacement of any plant or other capital asset used in any taxable activity

carried on by that person; or

(e) the supply, to persons who are non-residents but are physically present in New Zealand, of telecommunications services that are treated as being supplied in New Zealand under sections 8(6) and 8A.