



## Tax Insights

13 February 2023

### Vouchers in the form of 'PPIs' are 'money' and thus not chargeable under GST law – Karnataka High Court

#### In brief

The Karnataka High Court in a recent decision<sup>1</sup> has dealt with the taxability of pre-payment instruments (PPIs) or vouchers. The court has held that a voucher is similar to a pre-deposit, it does not qualify as goods or services and is a mere instrument that is covered under the definition of 'money'. Therefore, supply of a voucher is not taxable under the GST law.

#### In detail

##### Background

The taxability of vouchers in various forms has always been a contentious issue from an indirect-tax perspective. One major question that arises in relation to vouchers is whether they qualify as goods or services and whether they are taxable under the GST law. The GST law has specific provisions for taxability of vouchers.

##### Facts

- The taxpayer is engaged in procuring PPIs of gift vouchers, cash back vouchers and e-vouchers from the issuers and supplying them to their clients for specified face value. These vouchers do not disclose the goods and services at the time of issuance. The clients issue them to their employees in the form of incentive or to other beneficiaries under promotional schemes for use as consideration for purchase of goods or services or both as specified therein. The voucher would remain only as an instrument till it is redeemed and used for discharging obligation towards the supply of goods or services.
- The taxpayer had sought an advance ruling from the Karnataka bench of the Authority for Advance Ruling<sup>2</sup> (AAR) to understand whether the issue of such PPIs is to be treated as a supply of goods or services. If yes, what is the time of supply and rate of tax applicable on such supplies?
- The Karnataka bench of the AAR held that the supply of these vouchers by the taxpayer are taxable as

<sup>1</sup> 2023-VIL-67-KAR

<sup>2</sup> 2021 (8) TMI 350

'goods' and chargeable to GST. The time of supply in all three cases is governed by section 12(5) of the Central Goods and Services Tax Act, 2017 (CGST Act), and the rate of tax on the supply of vouchers is 18% of GST as per entry no. 453 of Schedule III of the Central Tax (Rate) Notification<sup>3</sup>.

- Aggrieved by the AAR's ruling, the appellant filed an appeal<sup>4</sup> against this order and the Appellate Authority for Advance Ruling (AAAR) upheld the ruling of the AAR.
- The taxpayer filed a writ petition against the order of the AAAR before the Karnataka High Court primarily on the grounds that (i) vouchers are recognised by the RBI as a 'payment instrument' to be accepted as consideration or part-consideration for supply of goods and services; (ii) the vouchers do not have any intrinsic value and they represent the value of future goods or services to be redeemed; and (iii) the vouchers themselves cannot be treated as 'goods or services'.

### High Court's decision

- The Karnataka High Court held that these vouchers (gift vouchers, cash back vouchers and e-vouchers) are not covered under the category of goods and services and thus not taxable under the GST law. Accordingly, the order passed by the AAR and affirmed by the AAAR was quashed. The High Court analysed the relevant provisions and principles laid down in various judgements and observed as follows:

### Nature of the vouchers

The underlying vouchers are semi-closed PPIs in which the goods or services to be redeemed are not identified at the time of issuance. These PPIs can be issued only with prior approval of the RBI and cannot be used for cash withdrawal. The value printed on the vouchers can be transacted only at the time of the voucher's redemption and not its delivery.

### Vouchers are 'money'

- The CGST Act excludes 'money' from the definition of goods and services. Therefore, money is not leviable to GST. Section 2(75) of the CGST Act defines 'money' to include 'any other instrument recognised by the RBI when used as a consideration'.
- The definition of 'vouchers' under section 2(118) of the CGST Act makes it clear that vouchers are mere instruments accepted as consideration for the supply of goods or services. They have no inherent value of their own. As vouchers are considered instruments, they would be covered under the definition of 'money', as defined under the CGST Act.
- In substance, the transaction between the taxpayer and its clients are procurement of printed forms and their delivery. The printed forms are like currency. The value printed on the form can be transacted only at the time of redemption of the voucher and not at the time of delivery of vouchers to the taxpayer's client.
- Based on the above, the High Court has observed that issuance of vouchers is similar to a pre-deposit and not a supply of goods or services; thus, vouchers cannot be taxed.

### The takeaways

The taxation of vouchers, codes and coupons is an evolving law and still far from settling down. This is an important decision in the context of taxability of PPIs issued to the customers where the supply is not identifiable at the time of issuance of the voucher. This decision, holding vouchers to be money, is noteworthy and taxpayers need to analyse the impact of this decision on the tax positions taken by them and also the defence documentation under any pending GST proceedings on the taxability of such vouchers.

<sup>3</sup> Notification No. 01/2017-Central Tax (R) dated 28 June 2017

<sup>4</sup> 2021 (12) TMI 1299

## About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 156 countries with over 295,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

© 2023 PwC. All rights reserved.

## Follow us on

[Facebook](#), [LinkedIn](#), [Twitter](#) and [YouTube](#).

## **pwc.in**

In this document, "PwC" refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.

©2023 PricewaterhouseCoopers Private Limited. All rights reserved.