

# Vouchers- Concept and GST Implications Thereon

*Distributor of vouchers involves tricky issues such as RBI master directions, exclusion of part consideration representing discount, etc.*

*Issuance and redemption of vouchers in the form of PPIs are outside the ambit of GST being 'mere transactions in money'/or are 'money'. Vouchers in the form of PPIs are means to an end and not an end in themselves.*

*The ruling of AAR-Tamil Nadu in the application of Kalyan Jewellers that the gift vouchers/cards are taxable as independent supply, apart from supply of jewellery does not seem to be correct and leads to double taxation and is contrary to principles of taxing transactions which involve vouchers, as prevalent in most of the countries.*

*Further, there are instruments which can qualify as vouchers even though not PPIs. Read on...*



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## A. Concept:

Voucher in terms of clause (118) of Section 2 of Central Goods and Services Tax Act, 2017 has been defined as follows:

“voucher” 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.”

In other words, voucher is any **instrument** that is ‘accepted’ as consideration for procuring goods or services, containing its

own terms and conditions for being used *as such*. Obligation to accept the voucher as consideration can be on account of the contractual terms or even by virtue of any operation of law in force.

Following are the factors to determine whether instrument is a voucher or not:

1. Legal obligation to accept as consideration for supply of goods or services *to be affected in future*;
2. Discounts are offered till the voucher changes hands and finally redemption is at the face value.
3. Council Directive 2016/1065 dated 27.06.2016 (“EU Council Voucher Directive”) inserted directives relating to

chargeability of VAT on vouchers by amendment in “EU Council VAT Directives”. Following is relevant to note from these voucher directives:

- It defines voucher exactly in the same words as Section 2(119) and recognizes two types of vouchers viz. ‘single-purpose voucher’ (“SPV”) and ‘multi-purpose voucher’ (“MPV”).
  - **SPV:** Where the VAT treatment attributable to the underlying supply of goods or services can be determined with certainty upon issuance it is considered to be SPV. In that case, VAT should be charged on each transfer. The actual handing over of the goods or the actual provision of the services in return for a SPV should not be regarded as an independent transaction.
  - **MPV:** Vouchers other SPV are considered as MPV. VAT is charged when the goods or services to which the voucher relates is supplied. Any prior transfer of MPV is not subject to VAT.
4. Similar to EU VAT, as per Section 35A of GST Act of Singapore read with regulations issued thereunder, vouchers are classified into Multi-Redemption Vouchers (similar to MPV of EU VAT) and Non-Multi-Redemption

Voucher (similar to SPV of EU VAT)

*Even though Indian GST law doesn't specifically provide for such SPV or MPV type vouchers but the reference for the same can be found in Section 13(4) while determining time of supply.....*

### **B. Vouchers in the form of Pre-paid payment Instruments (“PPIs”) is ‘Money’ and thus not chargeable to GST:**

Money in terms of clause (75) of Section 2 has been defined as follows:

*““money” 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.”*

*It is relevant to note that “Money” is excluded from the definition of both “Goods” and “Services” and hence not chargeable to GST.*

Money includes **instrument** recognised by RBI:

- When used as a consideration to settle an obligation or**
- Exchange with Indian legal tender of another denomination.

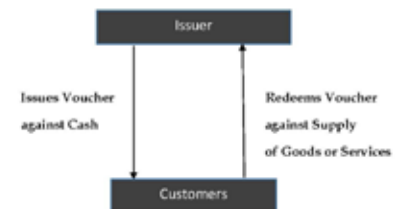
**One such instrument which is used as consideration to settle an obligation & are recognised**

**by RBI are PPIs.** PPIs are payment instruments that facilitate purchase of goods and services *against the value stored on such instruments.*

The value is **already stored** in PPIs at the time of issuance which facilitate purchase of **goods or services.** The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card.

RBI issued RBI (Issuance and Operation of Prepaid Payments Instruments) Directions, 2017 (“**Master Directions**”) dated 11.10.2017, the purpose is to provide a framework for authorisation, regulation and supervision of entities operating payment systems for issuance of PPIs in the country.

**A typical transaction flow of Closed PPI system-based transaction is depicted by way of a diagram below:**



**A typical transaction flow of Semi-closed PPI system-based transaction is depicted by way of a diagram below:**



**The two types of PPIs can be issued by non-bank entities are:**

- a. **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.
- b. **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 which have a specific contract with the issuer (or contract through a payment aggregator / payment gateway) 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 Vouchers in the nature of PPIs:

Even though it seems that the issuance of vouchers in the nature of PPIs would not be covered within the meaning of money since issuance of instrument is **not settlement of obligation rather creation of an obligation**, its issuance in essence is a **mere transaction in money** as far as issuer is concerned since money that has been received is for disbursements to merchants (in case of semi-closed payment instrument) and represents as an advance for the future supply of goods or services (in case of closed payment instrument). In the case of **Union of India vs. Delhi Chit Fund Association (W.P. (C) 4512 of 2012)**, Hon'ble Delhi High Court held that "a mere transaction

in money represents the gross value of the transaction. But what is chargeable to service tax is not the transaction in money itself since it can by no means be considered as a service" (affirmed by Hon'ble Supreme Court). Though the case pertains to service tax regime, however it is relevant to note the definition of Money under erstwhile service tax law was essentially same as under GST law. Further as per Master Directions, amount received from holders (customers) is always kept in escrow account and is used strictly only for settlement of vouchers and is not accounted for or used as income in the hands of the PPI issuer.

**Therefore, there would be 'no' GST incidence on vouchers in the nature of PPIs.**

### Redemption of Vouchers in the nature of PPIs:

Holder is the person who actually uses (redeems) PPI for purchase of goods or services. The definition of money under GST law considers instruments **used as a consideration to settle an obligation** as equivalent to money. *It is relevant to note that obligation can be of any person and not necessarily of holder only.*

The above analysis can be summed up by way of below table:

Particulars	GST Chargeable (Yes/No)	Reason in Crux
<b>Issuance of Voucher in the nature of PPI</b>	No	Mere transaction in Money
<b>Receipt of Cash against above</b>	See next column	<b>Closed System PPI:</b> Represents Advance/Taxable in the hands of Issuer

**Therefore, redemption of PPI can be safely considered to be Money.**

The definition under GST law of "Money" is an one step further to the definition of Money as was provided under Section 65B(33) of Finance Act, 1994 (erstwhile Service Tax law) which states that, "money" means legal tender, cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveller cheque, money order, postal or electronic remittance or any such similar instrument but shall not include any currency that is held for its numismatic value". The words "when used as a consideration to settle an obligation" are addition to the definition of money under GST law.

### Supply of Goods or Services against redemption of Vouchers in the nature of PPIs:

**Merchants are the ones who actually supplies goods or services against redemption of PPI. Supply of goods or services against vouchers in the nature of PPIs is chargeable to GST since voucher represents consideration for the said supply of goods or services.**

		<p><b>Semi-Closed System PPI:</b></p> <ol style="list-style-type: none"> <li>1. Not taxable in the hands of Issuer (Received for onward disbursement to Merchants).</li> <li>2. Taxable in the hands of Merchants.</li> </ol>
<b>Supply of Goods or Services by Merchant</b>	Yes	It is taxable supply. Consideration/ Taxable Value will include value of voucher redeemed.

### Vouchers in the nature of PPI- Case Study:

ABC agrees to issue a travel voucher having face value of ₹ 500/- through XYZ (payment aggregator) at the rate of ₹ 400/-. This travel voucher can be redeemed for purchase of travel arrangement related services through ABC website only. XYZ issued this travel voucher through its online application to individual customer at the rate of ₹ 450/-. XYZ disbursed amount of ₹ 400 (after deducting its service charges) to ABC. Customer redeemed (used) this voucher for online booking of travel package of ₹ 5000 from ABC website. Below captures taxability for XYZ and ABC:

- Voucher is in the nature of PPI because it has a value loaded in it and therefore, no GST would be applicable on its issuance by ABC through XYZ.
- There would be no requirement on XYZ to pay GST on the amount collected (₹ 450) or on disbursement to ABC (₹ 400). GST would be paid

by XYZ on ₹ 50 on account of payment aggregator services provided to ABC. This view is also takes it support from the case of **Sodexo SVC India Pvt. Ltd. v. State of Maharashtra, (2015) 16 SCC 479**, wherein Hon'ble Supreme Court observed, *while holding that sodexo meal vouchers are not goods and accordingly no Octroi or Local Body Tax can be levied, as follows:*

*"...Vouchers are not the commodity which are sold. If the face value of the said vouchers is ₹ 50, by giving these vouchers to its customers, the appellant only takes specified service charges from its customers, which is normally ₹ 2 for ₹ 50 voucher."*

*"The intrinsic and essential character of the entire transaction is to provide services by the appellant and this is achieved through the means of said vouchers. Goods belong to the affiliates which are sold by them to the customers' employees on the basis of vouchers given by the customers to its employees. It is these affiliates who are getting the money for those goods and not the appellant, who only gets service*

*charges for the services rendered, both to the customers as well as the affiliates?"*

- Taxability for ABC is *para materia* to taxability of Jubilant discussed in case study given below.

### C. Vouchers not in the form of Pre-paid payment Instruments ("PPIs"):

There can be other instruments as well which qualifies the definition of voucher since there is obligation to accept it as consideration. However, these instruments does not have value stored in it and thus do not qualify to be PPIs. Also, these does not require recognition by RBI and therefore cannot be construed as Money.

### Vouchers not in the nature of PPI- Case Study:

Reliance entered into an arrangement with Zomato wherein it is agreed that Reliance would be giving away a voucher having face value of ₹ 100 on every purchase of ₹ 1,000 of mobile phone from its store in cash. This voucher can be redeemed using application of Zomato on purchase of Pizza having minimum value of ₹ 500. A customer ordered pizza from Jubilant using application of Zomato of ₹ 600 and redeemed voucher of ₹ 500 and balance of ₹ 100 was paid in cash.

- Reliance paid ₹150 to Zomato (₹100 on account of voucher and ₹50 as fee of Zomato).
- Jubilant issued invoice for ₹600 for sale of pizza but received ₹544 from Zomato (i.e. ₹600 less ₹ 50 on account of Zomato fee less ₹6 as TCS).



### The following GST implications would follow:

**Reliance:** The value of supply of mobile phone can be ₹1,000 or ₹900 for the reasons discussed below.

#### View in favour of ₹900 can be due to the following reasons:

1. Section 15(1) states the transaction value would be the price *actually paid* or payable for the *said supply*. *Actual price paid* is ₹ 900 as amount of ₹100 was never *actually paid* to Reliance for the supply of *mobile phone*. Use of word '*said supply*' would imply *supply of mobile phone* in this case.

Even if one states that the ₹1000 was paid in cash to Reliance, however, ₹100 doesn't pertain to *supply of mobile phones*. ₹100 is for onward disbursement to Zomato. Even from customer's (recipient) point of view actual price paid is ₹900 only. Actual price paid should be true reciprocally as well i.e. *actual amount received* by Reliance.

1. Section 15(3)(b) excludes any discount which is given before or at the time of supply and duly recorded in the invoice issued. Word 'Discount' has not been defined in GST law. Ratio from below cited judgments can be referred:

*Discount is a commercially acceptable measure which may be resorted to by a vendor for a variety of reasons (CC v. J.D. Orgochem Ltd., (2008) 16 SCC 576, 581.*

*Discount means a reduction in sales consideration (Indica Laboratories Pvt. Ltd. v. CCE, 2007 (213) ELT 20 (Tri. - LB).*

From above, it is clear that commercial measures which are

adopted for various business reasons, leading to reduction in sales consideration can be understood to mean discount. In the present case, Discount is a commercial measure which has led to reduced sales consideration.

Therefore, issuance of voucher can qualify as discount and thus, value of supply would be ₹900 (provided duly recorded in the invoice).

#### View in favour of ₹1000 can be due to the following reasons:

1. Reliance may not be supplying mobile phone at the price of ₹ 900 if the customer does not wish to accept voucher. This itself signifies that value of standalone supply of mobile phone remains to be ₹1000 irrespective of the fact whether voucher is given away to customer or not.
2. Voucher is issued by Reliance and which is redeemed by Jubilant. Since reliance has received ₹1000 and has not offered any discount, the same cannot be excluded. Discount should essentially arise out of the agreement between a supplier and recipient and does not require a third party for its effectuation.

It is relevant to note that, as per Ind AS 115, ₹ 900 will recognised as revenue (after netting off ₹100 on account of voucher distributed).

Further, ₹100 remitted to Zomato on account of voucher would not be an inward supply for Reliance.

#### Zomato:

1. ₹ 100 received from Reliance is on account of onward remittance to Jubilant. The same being a

mere transaction in money does not entail any GST implications.

2. Further, ₹ 50 received each from Reliance and Jubilant represents value of services rendered and liable to GST.
3. It qualifies to be an E-commerce operator. TCS at the rate of 1% needs to be collected in compliance with the provisions of Section 52.

#### Jubilant:

Taxable value would be ₹600 (₹500 received from customer directly and ₹100 against issue of voucher determined as per Rule 32(6)). Recipient for Jubilant would be the customer for entire value (Refer Section 2(93)(a)).

As per Rule 32(6), value of voucher is considered to be equal to money value of goods or services redeemable against such voucher. It is relevant to note that there is no GST on vouchers per se since voucher in the present case are in the nature of PPI. GST is on the goods or services which are to be supplied against this voucher. *Rule 32(6) states of valuation methodology and doesn't determines GST chargeability.*

It is relevant to note that applicability of rule 32(6) is at the option of supplier. Suppose if Jubilant agreed for a discounted price of ₹ 80 for issuance of this voucher having face value (redemption value) of ₹ 100 through Zomato, in that case **taxable value if determined as per the provisions of Section 15(1) would be ₹ 580/- (₹ 500 received from customer directly and ₹ 80 i.e. actual price received against issue of voucher). ₹ 580/- is transaction value which is the price actually paid for the supply of aforesaid pizza.**

It is relevant to note that ₹ 50 being fee of Zomato cannot be

reduced from this transaction value as the same pertain to payment aggregator services provided by Zomato and arises a result of independent transaction

having no relation whatsoever with supply of pizza to customer.

**PS:** For the sake of simplicity GST implications arising due

to involvement of multiple GSTINs of Reliance/Jubilant/Zomato are not being considered. Complexities can multiply in such cases.

#### D. Illustrations:

Type	Voucher in the form of	Remarks
Amazon Gift Vouchers	PPI	Gift vouchers represents loaded value. Amazon has approval from RBI.
'10% discount coupon issued on account of first purchase of ₹ 1000, to be applied against second purchase' or 'credit card reward points' Or 50% discount coupon on first ride offered by Rapido	Discount Coupons	Discount on account of points accrued on first purchase <b>or</b> Discount on account of installing application and using it for the first time (Discounts linked to positive action by beneficiary). These coupons are issued by the same entity and are non-transferrable. Not includible in value of supply. (See note 2 and 3)
PayTM Wallet PayTM Wallet linked RFID Tag	PPI	Wallet is loaded value. Linking to RFID Tag is irrelevant for determination.
Train Tickets/Movie Tickets	Neither Voucher nor PPI	These are invoice cum receipt for the services to be provided or are being provided.
Google Pay Cashback	Neither Voucher nor PPI	Cashback is Indian Legal Tender
Meal Vouchers	PPI	Meal Vouchers represents loaded value

#### Notes:

- Any convenience charges recovered in respect of any of the above cases (such as for issuance of RFID tag) is liable to GST.
- Issuance of loyalty points that can be redeemed in next (second) transaction can qualify as discount provided the same has been specially recorded in the invoice raised for first transaction or established in terms of prior agreement. In that case, value of supply of second transaction should not include monetary value of loyalty points by virtue of Section 15(3). Further, any upfront discount offered by way of coupon codes would also be not includible in value of supply.
- Remarks are on the understanding that issuance and redemption of voucher is by same GSTIN. Otherwise, it can entail GST implications arising out of distinct persons transactions.
- Vouchers can qualify to be actionable claim and/ or Crypto Currency as well. Author does not wish to delve into the analysis of Vouchers w.r.t. actionable claim/ crypto currency in this article since it is a separate subject altogether.*

#### Conclusion

Taxing vouchers cannot be understood solely from the provisions contained in GST law. It is essential to look into foreign legislation and jurisprudence already available on the subject. Need of the hour is to note that

in Indian context, vouchers has cross-linkage to RBI master directions apart from the relevant contractual terms. GST law becomes unique and needs unravelling by astute readers. Whether its money or it's a voucher and merely a discount coupon needs to critically examined.

Money ought not to be confused with Voucher. Definition of Voucher does not attempt of overlap with definition of Money.

Discount coupons are neither money nor vouchers if privately issued. Discount coupons issued for cash is advance liable to tax upfront. And if it is issued without cash, then it is nothing in the eyes of law except a promise *in presenti* to allow a discount *in future!* ■