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## Issue 6: Cash Preservation

### Concerns of Industry

The unending lockdown, with no respite, has had a devastating impact on the global economy. Business are amidst the existential crisis of survival. The disrupted supply chain leading to market collapse & monies stuck with the hanging sword of mandatory pay-outs is a grave concern. The biggest challenge for business is to stay afloat by maximizing cash preservation & maintaining liquidity.

### ELP's Insights

- An effective GST management on account of deferred GST outflows, minimizing ITC accumulation with effective utilization & ensuring timely refunds would be key in alleviating the cash flow for the business.

#### Deferment of GST Outflow

- Under the current scheme, GST is on an 'accrual basis' irrespective of receipt from the customers. Absent the relief *qua* GST on 'receipt basis', business is in quandary. Although the option of deferment albeit with 9% interest may provide a temporary respite, the determination of the event of accrual assumes significance to arrest GST outflow.
- Fortunately, on advances for the supply of goods or any receipt towards a refundable deposit, business need not pay GST. Given the uncertainties hovering around receipt from customers for continuous supply contracts, redefining the payment milestones will impact GST pay-outs.

#### Minimizing ITC accumulation

- As Government aims to inject liquidity in the cash-starved economy, a one-time measure of granting refund of accumulated ITC is most desirable.
- Yet, as things stand today, the business ought to aggressively strategize on minimizing ITC accumulation. Option such as refund of inverted duty supplies, hitherto not examined or availed, could be explored. Although claim of GST on inputs remains interpretational & before Courts, legal alternatives may be explored by business. If a rightful action is not taken urgently, business risks losing out an opportunity to address ITC accumulation.
- Revised sourcing strategy with the least GST outlay is essential. Direct procurement of inputs could be replaced with job work which could result in 12% GST on value addition as compared to 18% on the total purchase value. Similarly, current

classification under the GST rate schedule may critically be examined. Re-negotiating delivery terms to optimize GST should be explored as an ex-works structure attracts only 5% GST under RCM, as against 18% GST under the FOR model. The feasibility of supplying raw material / capital goods (such as moulds, dies, etc.) to vendors / job-workers can be looked at, if it aids in addressing GST accumulation.

#### Timely refund

- A timely refund is the need of the hour. It is a lifeline for a cash-starved business. In fact, mindful of its relevance, the Government has taken steps to expeditiously clear refund claims. Yet, concern remains on the smooth realization of refund owing to various restrictions introduced by recent amendments.
- The norm that export value be lower of actual value & 1.5 times of domestically supplied '*like goods*' is fraught with interpretational challenges & may be a deterrent in the smooth processing of refund. In these times, when the prices of export are highly volatile & market-driven, such a method may not be prudent. Business may need to shift from the scheme of refund to rebate.
- Business is equally grappling with the requirement of ITC matching as per the recently issued Circular for exports resulting in a lower refund. It remains a matter of debate if at all such restriction could be introduced through a Circular, when matching criteria is otherwise suspended under the Rules.

### Practical Pointers for Industry

- Timely booking of invoices for inward supply to maximise ITC
- Evaluate GST outflow on account of current relaxation & position *qua* ITC accumulation
- Detailed scrutiny of accumulation along with available options for reduction & avoiding ongoing accumulation
- Re-work sourcing strategy to optimize GST impact with an objective of cash preservation
- Prioritize robust documentation for smooth processing of refund

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