



**GOVERNMENT OF KARNATAKA
(Department of Commercial Taxes)**

No.KSA.GST.CR-108/2018-19

Office of the
Commissioner of Commercial Taxes
VTK-1, Gandhinagar, Bengaluru-09,
Dated: 26/02/2019

COMMISSIONER OF COMMERCIAL TAXES CIRCULAR NO.GST-15/2018-19

Sub: Certification of amounts eligible as Interest free Loan under the Karnataka Goods and Services Tax Act 2017 as incentives to the Industrial Units under Industrial Policies.

Ref: (1) Proceedings of the Government of Karnataka vide G.O.No.CI 162 SPI 2017, Bengaluru dated 13-03-2018.

(2) Commissioner of Commercial Taxes Circular No. 30/2013-14 dated 22.03.2014.

Under the Industrial Policy 2009-14 (IP09-14) and 2014-19 (IP14-19), the Government of Karnataka offered some or all of the following tax related incentives and concessions to the new/ existing industries which have undertaken expansion or diversification.

- (a) *Entry tax exemption on specified goods and for specified periods;*
- (b) *Interest free loan to extent of specified percent of the assessed eligible Gross VAT/Net VAT for specified period and up to specified limit;*
- (c) *Reimbursement of specified percent of CST on interstate sales of the end products.*

2. The Goods and Services Tax System has been implemented in the State of Karnataka with effect from July 01, 2017 along with all other State Governments/UTs and Government of India. The Karnataka Value Added Tax Act 2003, Central Sales Tax Act 1956 and Karnataka Tax on Entry of Goods Act 1979 have been subsumed in the Karnataka Goods and Services Tax Act 2017.

3. The State Government had extended interest-free VAT loan for large and mega / ultra-mega/super-mega enterprises under Industrial Policy 2009-14, Industrial Policy 2014-2019,

Aerospace Policy 2013-2023 and reimbursement of VAT to MSME & Category A,B,C enterprises under Agribusiness and Food Processing Policy, 2015.

4. All the industrial units that had been sanctioned interest-free loans for the eligibility period falling under the VAT regime, after the implementation of Goods and Services Tax (GST) from 01-07-2017 shall continue to get the loan to the extent of State Goods and Services Tax (SGST) component for the remaining eligibility period from 01-07-2017 as per the terms and conditions issued in the Eligibility Certificate by Industries and Commerce Department.

5. It is considered necessary to prescribe a standard procedure for guiding the CTD officers to verify the incentive requests and certify the eligible amounts. This circular seeks to provide details of the process to be followed by the CTD officers and pre requisites that should be met by the industrial unit while making request for certification of the eligible amount.

6. In view of the above, the Government vide G.O under reference (1) has given approval for extending interest free loan on State Goods and Services Tax (SGST) instead of interest free VAT loan on VAT as per the Industrial Policy 2009-2014, Industrial Policy 2014-2019, Aerospace Policy 2013-2023 and further reimbursement of SGST under Agribusiness and Food Processing Policy, 2015. The details are reproduced here under:

I. Industrial Policy 2009-14

VAT Incentives	GST Incentives	Remarks
25-50% of assessed Gross VAT for initial 5-12 years subject to maximum of 50%- 100% of total value of fixed assets with a repayment period from 5-12 years based on the range of investment of fixed assets.	25-50% of assessed Gross SGST for initial 5-12 years subject to maximum of 50%-100% of total value of fixed assets with a repayment period of 5-12 years based on the range of investment on fixed assets.	Gross VAT shall be replaced by Gross SGST component in Industrial Policy 2009-14 from 01.07.2017.

II. Industrial Policy 2014-19 and Aerospace Policy 2013-23

VAT Incentives	GST Incentives	Remarks
100% of net VAT + CST as interest free loan for 7-14 years subject to maximum of 40%-100% VFA (Value of fixed assets) from the date of commencement of commercial production.	100% of net SGST as interest free loan for 7-14 years subject to maximum of 40%-100% VFA from the date of commencement of commercial production.	100% of Net VAT shall be replaced by 100% of Net SGST component in Industrial Policy 2014-19 and Aerospace Policy 2013-23 from 01.07.2017.

III. Special Incentives sanctioned under 2009-14 / 2014-19 Industrial Policy

VAT Incentives and CST Reimbursement	GST Incentives	Remarks
The Empowered Cabinet Sub-committee under the Chairmanship of Hon'ble Chief Minister has sanctioned special incentives, which includes VAT loan and CST reimbursement to mega projects under Industrial Policy 2009-14 & Industrial Policy 2014-19.	The VAT loan shall be replaced by loan on SGST component from 01/07/2017. For the remaining eligibility period, the CST reimbursement shall be only for the transaction upto 30/06/2017 and CST / IGST shall not be eligible for the transactions after 01/07/2017.	Gross VAT shall be replaced by Gross SGST component where projects have been considered special package under Industrial Policy 2009-14 from 01.07.2017. 100% of Net VAT shall be replaced by 100% of Net SGST component where projects have been considered special package under Industrial Policy 2014-19 from 01.07.2017.

IV. Agri-Business and Food Processing Policy 2015

VAT incentive	GST Incentives	Remarks
MSME: 75% of net VAT reimbursement for a period of 5 years subject to maximum of 100% VFA. ABC Enterprises: 60%, 70%, 80% of net VAT reimbursement respectively for a period of 5 years subject to maximum of 100% VFA.	MSME: 75% of net SGST reimbursement for a period of 5 years subject to maximum of 100% VFA. ABC Enterprises: 60%, 70%, 80% of net SGST reimbursement respectively for a period of 5 years subject to maximum of 100% VFA.	Net VAT shall be replaced by Net SGST component in Agribusiness & Food Processing Policy 2015 from 01.07.2017.

No compensatory incentive will be considered in case SGST rate is less than VAT rate.

7. Under Section 59 of the KGST Act, 2017 every registered person shall self- assess the taxes payable by him under the said Act and furnish a return for each tax period or specified under section 39 of the said Act. While the construct of Self-assessment envisaged under section 59 of the said Act is the norm of the tax administration, the incentive by way of interest free loan to the extent of specified percentage of eligible gross SGST / net SGST has to be provided out of the Consolidated Fund of the State. Such payments out of the Consolidated Fund cannot be based on self-assessment.

8. **Eligible Gross SGST:** The term Eligible Gross SGST, for the incentive under the Industrial Policy 2009-14, is to be computed in the following manner-

- (1) In the monthly return in Form GSTR 3B, in table 3.1 under the heading “Details of Outward Supplies and Inward Supplies liable to Reverse Charge, the State Tax Specified in column no. 5, relating to item (a): “Outward taxable supplies (other than zero rated, nil rated and exempted)” has to be considered.

The above mentioned computation may be made clearer by referring to the boxes marked as ‘X’ in the Table 3.1 of Form GSTR 3B reproduced below:

3.1 Details of Outward Supplies and inward supplies liable to reverse charge

	Nature of supplies	Total Taxable value	Integrated Tax	Central Tax	State/UT Tax	Cess
	1	2	3	4	5	6
(a)	Outward taxable supplies (Other than zero rated, nil rated and exempted)				X	
(b)	Outwards taxable supplies (Zero rated)					
(c)	other outward supplied (Nil rated, exempted)					
(d)	Inward supplies (liable to reverse charge)					
(e)	Non-GST outward supplied					

- (2) The term “eligible gross SGST” though not specified in IP09-14 is to be computed in the following manner-

- (a) *For supplies made by the industrial unit meant for final consumer within the State, the Gross SGST on such transactions will be eligible for incentive of Gross SGST.*
- (b) *For supplies made by the Industrial unit to other taxpayers within the State who in turn make inter-state supplies or export sales, the buying taxpayer(s) would be eligible to claim ITC equivalent to the Gross SGST on this turnover. The SGST on such turnover shall not be eligible for the loan incentive by the beneficiary industrial unit.*
- (c) *Any outward supplies or inward supplies between the company and its ancillary units or downstream units will be eligible for the SGST loan in the hands of one entity only. The same transaction shall not be considered for the SGST loan more than once in case both seller and purchaser having incentive packages.*
- (d) *Supplies of goods manufactured or produced by the industrial unit or processed after procurement from other units/ taxpayers will qualify for the eligible gross SGST.*

(e) *The goods obtained from other units, including its own related units located in other States, and sold without processing in the industrial unit shall not qualify for eligible gross SGST;*

(f) *The basic guiding principle will be that the goods should have been processed by the industrial unit and finally consumed in the State and only such turnovers would be reckoned to arrive at the eligible Gross SGST.*

9. In addition to the above formulation for computation of the eligible gross SGST, the following additional or unit specific conditions may have been specified in the Government Order or the eligibility certificate-

(a) Sales pertaining to specified but not all end products may qualify for eligible gross SGST;

(b) For expansion units, the eligible gross SGST may be the amount over and above the specified base level of gross SGST with or without indexing to inflation rate, or in the alternative the eligible gross SGST may pertain to the sales attributable to the incremental production in the expanded unit.

10. The exact scope of the eligible gross SGST and related conditions should be ascertained from the Government order and related eligibility certificate issued by Commissioner, Industries and Commerce.

11. **Net SGST:** To arrive at the exact amount of Net SGST eligible for incentive under other Industrial policies, it is hereby clarified that the **Net SGST Component** means sum of the following sub-paras (1) & (2);

(1) **SGST paid in cash: [A]**

i.e., the amount declared in Form GSTR 3B in Table 6.1 (State Tax) corresponding to column 8 i.e., [6.1(c)(8)] marked as 'A' in the Table and

(2) **SGST settlement: [B-C]**

Formula: 6.1(c)(3) marked as 'B' in the Table minus 6.1(a)(5) marked as 'C' in the Table.

i.e., IGST credit used for payment of SGST liability *minus* SGST credit used for payment of IGST liability.

The above mentioned computation may be made clearer by referring to the boxes marked as 'A' 'B' and 'C' in the Table 6.1 of Form GSTR 3B reproduced below:

6.1 Payment of Tax

	Description	Tax payable	Paid through ITC				Tax paid TDS / TCS	Tax / Cess paid in cash	Interest	Late Fee
			Integrated Tax	Central Tax	State / UT Tax	Cess				
	1	2	3	4	5	6	7	8	9	10
a	Integrated Tax				C					
b	Central Tax									
c	State/ UT Tax		B					A		
d	Cess									

12. The CST reimbursement provided by Commerce and Industries Department is to be limited up to 30.06.2017 i.e., date prior to implementation of Goods and Services Tax as the Central Sales Tax has been subsumed under GST. [only petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and alcoholic liquor for human consumption are liable to CST.]

13. Returns, documents and other information to be submitted by the industrial unit:

- (a) The industrial unit should file tax return in Form GSTR 3B and GSTR 1 every month as required under Karnataka Goods and Services Tax Act. The unit may claim certification of the eligible incentive amounts once in every quarter. An existing unit which has undertaken expansion, diversification or modification should however claim certification only after the end of financial year. Such claim should be filed with the jurisdictional Local Goods and Services Tax Officer (LGSTO). The LGSTO shall verify the claim with reference to the documents produced in support of the claim and quantify the eligible amount. He shall submit a report to the jurisdictional DGSTO, who shall after satisfying himself the correctness of the quantification, submit a report to the Commissioner of Commercial Taxes in this behalf.
- (b) In case, the Unit is found to have availed incentive in excess of its eligibility, then the excess amount availed shall be reduced in the entitlements of the subsequent periods.
- (c) Along with the quarterly claims or annual claim for certification of the eligible incentive amounts, the industrial unit should provide **declarations** from each of its registered buyers within the State that they have not made any interstate supplies/exports/ of products purchased or products made from products purchased from the industrial unit from the industrial unit. In case the registered customer

have done any interstate supply/export, the details should be obtained and submitted along with certification request by the industrial unit.

- (d) In case any of the registered buyers of the industrial unit within the State has also done any interstate supply/export, the industrial unit should ensure that all those registered taxpayers have filed returns in Form GSTR 3B and GSTR 1.

14. **Eligible Gross SGST:** The primary check should be to verify overall SGST liability and input tax credit availability, and payment of net SGST liability by the industrial unit claiming incentive with reference to the details declared in the Form GSTR 1 and GSTR 3B and Certificates obtained from the registered buyers to the effect that they in turn have not effected any inter-state supplies/export during the period of the request. If any of the registered customers are found to have done inter-state supplies/exports, the related turnover and SGST should be excluded from the intra-state outward supplies declared by the industrial unit for computing the eligible gross SGST.

15. **Eligible Net SGST:** The quantum of incentive on the basis of Net SGST has to be arrived at on the basis of the formula prescribed in para 11 of this Circular.

16. The proper officer (jurisdictional LGSTO) through the DGSTO should make a recommendation to the Commissioner of Commercial Taxes for certification of the eligible incentive amount.

17. Since the issue relates to grant of incentives to industrial units under the Industrial Policies of the State, LGSTO / DGSTO shall quantify the incentive amount in all cases irrespective of the fact whether the industrial unit falls in the Central jurisdiction or State jurisdiction.

18. All LGSTOs with whom such industrial units are registered and the DGSTOs concerned should follow these instructions scrupulously. It is expected that the requests received from the industrial units for certification of the eligible incentives should be completed within 3 months from receipt of the requests along with submission of the documents and information as mentioned in para 13 above. If any further clarifications are required, the same may be sought from the Additional Commissioner (Policy & Law).



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To,
All the Officers of the Commercial Taxes Department.
