

GST RETURN FILINGS

staying ahead in compliances...

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HSN codes under GST Returns – An Overview

Harmonized System of Nomenclature (HSN) is an international classification system of commodities developed by the World Customs Organization (WCO). India has been a member of the WCO since 1971 and has been using HSN codes since 1986 to classify commodities under customs and central excise law. Based on HSN codes, GST rates have been fixed for goods under five slabs namely 0%, 5%, 12%, 18% and 28%.

HSN Code Reporting in Invoice

Under GST regime suppliers need to mention HSN code on the invoices for supply of goods. Thus, businesses need to be aware of HSN codes for all supplies subject to GST. The determination of correct HSN codes is one of the biggest challenges faced by traders and small businesses today. While manufacturers (paying excise and customs duties) were using HSN codes earlier, for traders the determination and furnishing of HSN codes is a new concept.

Realizing the immense difficulty faced by taxpayers in determining HSN codes, Government relaxed the requirement based on turnover. Under GST, majority of dealers will need to adopt two or four digit HSN codes depending on the annual turnover for preceding financial year. The following table prescribes the number of digits for HSN code based on annual turnover:

S.no.	Annual Turnover in the preceding Financial Year	Number of Digits of HSN Code
1	Turnover < 1.5 cr	Nil (HSN Code not required)
2	1.5 cr < Turnover < 5 cr	2
3	Turnover > 5 cr	4
4	However, imports and exports require full eight digit HSN codes	

HSN Code Reporting in Returns

Currently, GSTR-2 (i.e. details of inward supplies) requires furnishing of HSN wise summary of inward supplies. This information does not get auto-populated but has to be filed manually by each taxpayer. This would cause significant hardship in return filing as recipients cannot always be expected to know HSN codes for goods supplied, especially when the supplier is not legally bound to disclose the same in invoice. For example, where a taxpayer with turnover less than Rs. 1.5 cr supplies goods to a recipient (with turnover higher than Rs. 5 cr), no HSN code is required to be mentioned in invoice, but the recipient must still provide an HSN-wise summary in GSTR-2.

Keeping in view above difficulties, Government has set up an advisory panel for recommending

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changes for making compliance easier for traders and small businesses. Inter alia, the panel has recommended doing away with HSN code requirement in the invoice for easier return filing (especially when no such requirement exists for services). Such a relaxation shall be welcome as it would remove an unnecessary hurdle in smooth and timely filing of returns.

The information contained in this newsletter is solely intended to provide general guidance on matters of interest. Nothing herein constitutes professional or legal advice, nor does any information herein constitute a comprehensive or complete statement of the issues discussed. It is recommended that you seek a professional advice to confirm your understanding on the issues dealt above.