

## **Applicability and Compliance of TDS on Metal Scrap under GST Framework from October 2024**

### **1. Overview of the Notification:**

- The government, through Notification No. 25/2024-CT dated October 9, 2024, has introduced a TDS provision under GST on supplies of metal scrap falling under Chapters 72 to 81 of the Customs Tariff Act, 1975.
- The effective date of this change is 10<sup>th</sup> October 2024.
- The notification mandates that any registered recipient of these goods is required to deduct TDS at a rate of 2% if the taxable value of the transaction exceeds ₹2,50,000.
- This notification introduces stringent TDS requirements, thereby requiring all registered persons dealing in metal scrap to adhere to these regulations for smooth compliance under GST.

### **2. Scope of Applicability:**

- The TDS compliance requirement applies specifically to metal scrap supplies under Chapters 72 to 81, which include the following categories of metals and related articles:
  - Chapter 72: Iron and Steel
  - Chapter 73: Articles of Iron and Steel
  - Chapter 74: Copper and Articles thereof
  - Chapter 75: Nickel and Articles thereof
  - Chapter 76: Aluminium and Articles thereof
  - Chapter 78: Lead and Articles thereof
  - Chapter 79: Zinc and Articles thereof
  - Chapter 80: Tin and Articles thereof
  - Chapter 81: Other Base Metals; Cermets; Articles thereof
- The wide range of products covered under these chapters indicates that this provision targets the entire metal scrap industry to improve compliance and streamline the collection of taxes on these transactions.

### **3. Registration Requirements for the Deductor:**

- The recipient of the metal scrap, who is required to deduct TDS, must obtain a separate GST registration for TDS purposes.
- The registration must be made in Form REG-07 on the common GST portal.

- According to the advisory issued on October 22, 2024, the taxpayer is required to:
  - Select "Others" under the "Constitution of Business" section (Part B of Table 2)
  - Enter "Metal Scrap Dealers" in the accompanying mandatory text box.
- This distinct classification ensures the separation of TDS compliance from regular GST activities.

#### **4. Monthly TDS Return and Compliance:**

- The recipient (deductor) is required to:
  - i. File a monthly TDS return in Form GSTR-7.
  - ii. Issue TDS certificates to the suppliers (deductees) in Form GSTR-7A.
- The filing of GSTR-7 is a crucial step for reporting the amount of TDS deducted, and failure to file this return may lead to non-compliance penalties.
- Additionally, GSTR-7A acts as proof of TDS deducted and must be provided to the supplier.

#### **5. TDS Credit to the Supplier (Deductee):**

- The supplier, or the deductee, will receive the TDS credit reflected in their GSTR-2A form under the "TDS Credit Received" tab.
- The amount will be credited to the electronic cash ledger once the return is filed by the deductor.
- This arrangement ensures the timely reconciliation of the TDS amount with the supplier's tax liabilities.

#### **6. Significance / impact of this notification:**

- While this notification does introduce additional compliance obligations, it brings transparency and traceability into recipients' transactions, which can build stronger supplier relationships and avoid disputes over tax credits.
- However, recipients may face the immediate need for administrative adjustments. Extra resources may be required to monitor compliance and avoid penalties or interest due to late filings or incorrect reporting.

#### **7. Legal Considerations and Potential Implications:**

- This notification introduces a specific compliance mechanism for metal scrap dealers, enhancing traceability and transparency in the metal scrap industry.
- However, the deductors must remain vigilant about:

- i. Registration Requirements: Failure to obtain or maintain separate TDS registration could lead to penalties under GST law.
- ii. Timely Filing of GSTR-7: The deductor must file the GSTR-7 return by the due date, failing which penalties or interest under GST may apply. The deductee's ability to claim TDS credit is also contingent on the timely filing of this return.
- iii. Issuance of TDS Certificates: Failure to issue GSTR-7A certificates may lead to disputes and complications in claiming TDS credits.

## **8. Recommendations**

- i. For Recipients (Deductors): Ensure timely registration under GST for TDS purposes and designate appropriate personnel to oversee compliance with GSTR-7 filing and issuance of certificates.
- ii. For Suppliers (Deductees): Monitor the accuracy of TDS credits in your GSTR-2A form and verify that the credits reflect correctly in the electronic cash ledger.
- iii. Advisory on Notification Compliance: Entities dealing in metal scrap must review existing contracts and invoices to include a provision for TDS under the new GST framework.

## **9. Our perspective:**

- On balance, while this regulatory shift could increase administrative work, it also aligns with improved tax compliance, which could benefit your business in the long run.
- Our advice is to treat this as an opportunity to review your internal processes, set up clear communication with suppliers, and assign a dedicated resource to manage these new TDS obligations.

## **DISCLAIMER**

The contents of this document, pertaining to Notification No. 25/2024-CT dated October 9, 2024, reflect our perspective and interpretation. While we have endeavoured to ensure the accuracy of the information presented, it is intended solely for informational purposes. We strongly recommend that users exercise their discretion and seek professional advice before applying any of the information to specific circumstances before taking any action based on this information.