



An Overall Concept of Pure Agent in GST



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Along with the consideration for the supply of Goods and/or services, a lot of reimbursement of expenditure occurs. Tax is levied on such expenditures, except in case a pure agent incurs the tax, it will not be chargeable to tax. According to **section 2(5) of the CGST Act 2017**, an agent is a person who carries on the business of supply and/or reception of goods or services on behalf of another like a broker, factor, del credere agent, commission agent, mercantile agent or an auctioneer. However, some agents supply goods or services to and from the principal place of business, without having any intention to gain benefit from the transaction or to hold any title on the goods or services, such agents are known as pure agents. The pure agent only takes the supply of goods/services on behalf of the principal and thus claims reimbursement on the same.

Who is a Pure Agent?

A pure agent is a registered person who communicates with other suppliers on behalf of his client. According to this theory, while providing services to the client, the pure agent also undertakes to receive some additional services from other service providers and incurs expenditure on behalf of his client. The actual expenditure incurred by a pure agent is later on claimed by him as reimbursement. For instance, an importer authorizing his direct supplier who is a customs broker, to obtain services from third party supplier such as transporter.

Who can be defined as a Pure Agent under GST?

The GST Valuation Rules 2017 specifies Pure Agent as a person who:

- Signs off the contractual agreement with the receiver of supply to act as his pure agent and to incur expenditure or costs in the course of supply of goods or services or both;
- Neither has any intention to hold nor holds any title on the goods and/or services, so attained or provided as a pure agent of the recipient of the supply. The pure agent does not have any personal interest on such goods or services so attained.

- Receives only the definite amount incurred to acquire such goods or services in addition to the amount received for supply he provides on his own account.

Some Examples of Pure Agent in GST

- A person hired a company secretary for the incorporation of a company. The company secretary pays registration fees and other fees needed to the Registrar of Companies (ROC). The person reimburses the paid fees to the [company secretary](#); this fees received are not part of the value of services provided by such company secretary.
- The Expenses incurred by customs and freight agent are reimbursed by the principal for such freight and godown charges.
- In case, a family tour is booked through a tour company, the charges of the hotel are also included in the tour package. Such hotel charges cannot be considered as reimbursement of expenses as they are not separately indicated in an invoice. Hence this is not a case of a pure agent.
- An individual charges Rs. 10,000 for his services and Rs. 20,000 as pure agent for transportation expenses. GST is payable on Rs. 10,000 only and not on Rs. 20,000.

Who is a Principal in the Concept of Pure Agent in GST?

According to the definition given in the GST law, the term “Principal” means a person or individual on whose behalf an agent carries on the business of supply or receipt of goods or services, or both.

What is the Valuation Rule for Pure Agent in GST?

The expenditure incurred as a pure agent in GST applies in determining the value of a supply for the purpose of taxability. The [CGST Rules](#) provides that the expenditure induced as a pure agent, will be excluded from:

- the value of supply and
- from the aggregate turnover

However, the exclusion rules will apply to the pure agent only if he fulfills all the criteria to be considered as a pure agent. And, also in case the supplier must satisfy the conditions specified in the rules.

The supplier must satisfy the following conditions for exclusion from value as under:

- When the supplier makes payment to the third party on the consent of the recipient, he acts as a pure agent of the receiver of the supply.
- The third party provides services to the recipient procured by the pure agent.
- The receiver of supply is responsible to make payment to third party.
- It is clear to the recipient of the supply that the third party is providing the services, for which the payment has been made by the pure agent.
- The invoice issued by the agent must separately show that the payment made by the pure agent on behalf of the recipient of supply.
- Only the payment made to the third party is recovered by the pure agent from the recipient of supply.
- The services obtained by the pure agent from the third party are in addition to the supply or service he supplies on his own.

How to calculate the Pure Agent value in GST?

A Pure Agent in GST usually incurs the costs on behalf his client and later the actual amount can be claimed as reimbursement. Thus, it should be clear as to whether this value mentioned in the invoice of the pure agent in GST, should be included or excluded in determining the taxable value of supplies made by the pure agent to his client.

While assessing the value of taxable supply, any expenditure made by the supplier as a pure agent of the recipient shall be excluded from the value of supply. Henceforth, the pure agent concept in [GST](#) becomes more significant from the point of determining the taxable value on which GST needs to be levied.

Conclusion

The concept of a pure agent in GST has got direct implications on the value of supply to be taxed. It also affects the amount of GST to be charged on a particular supply. It also affects the aggregate turnover of the supplier which is essential for calculating the threshold limit for registration. The conditions that are specified for pure agents and also that are mentioned in the valuation rules must be met so that only real value is subjected to GST.





Thank You

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