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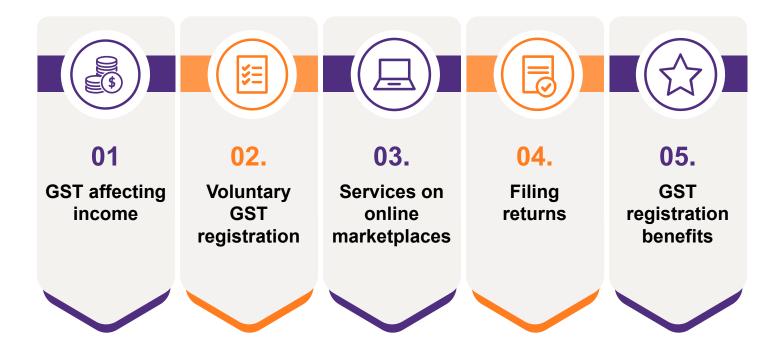
### 5 things freelancers

#### must know about GST

The outbreak of the COVID-19 pandemic has accelerated the adoption of technology and transformed the gig economy. Owing to the mounting uncertainty, people have switched over to freelancing. At present, India has the largest freelance workforce after the US.

A freelancer is a person who works independently and earns an income on a per-job or per-task basis. It could also be contractual, usually for short-term work. Freelancers work on multiple projects simultaneously for different clients. A freelancer is not an employee of any organisation and hence is not on pay-roll or entitled to any company benefits or perks.

Under the current Goods and Services Tax (GST) laws, any person supplying taxable services must be registered at the start from where they are providing such services. GST rate, as applicable to any other service provider (which is typically 18%), would also apply to such freelancers, based on the nature of services being provided.





## GST affecting income

For registered freelancers, GST liability which is required to be deposited by them with the government is usually collected from the service recipient. This is over and above the value of services rendered by freelancers. While the same may result in slight working capital/cash flow issues with the time difference in payment to department viz-a-viz collection of their payments from customers, however, there would not be any other impact on freelancer's income. This holds true in most cases unless the customers do not agree to pay GST over and above their value of service i.e. when the value of services are contractually agreed to be inclusive of GST.

In addition to the same, freelancers may be eligible to claim an **input tax credit** of GST paid to suppliers/vendors on procurement of goods or services, which are used in their freelancing business, subject to conditions. Hence, typically GST is not a cost to them if applicable.

For an unregistered freelancer, while there would not be any liability to pay GST, any GST paid on procurements to vendors would be a cost as they would not be eligible to claim input credit for the same. Accordingly, in such cases, the same would have an impact resulting in an upward increase in the overall cost of services rendered by freelancers to their customers.



#### Voluntary GST registration

When a person is not mandatorily required to obtain registration under GST law (usually when it does not cross the threshold limit), they can register by choice even if the turnover is less than the prescribed threshold.

If a freelancer obtains voluntary GST registration, they will have to abide by the provisions of the GST law. Also, they would be required to undertake all the related compliances and pay the applicable GST. However, obtaining voluntary registration may increase the overall compliance burden. This is seen as a preferred option while dealing with B2B customers, as they usually deal with registered persons. Obtaining GST registration would also help to reduce the input GST costs which a person may incur on procurements which would then be available as credit to such freelancers.



## Services on online marketplaces

GST is generally applicable in both scenarios, i.e., where services are provided via online marketplaces like Upwork, Freelancer, etc. or directly to clients. The liability to collect/deposit the same with the IT department would remain with the ultimate service provider in both scenarios, as per criteria mentioned earlier.

In addition to the same, in case of online marketplaces like Upwork, Freelancer etc., an analysis may be required to examine if the same would qualify as an 'e-commerce operator' under GST law. In such a case, additional GST compliances would have to be undertaken by such online marketplaces. Online marketplaces qualifying as e-commerce operators, would also be required to collect TCS @ 1% from persons, including freelancers who are supplying their goods and services through their electronic platform. Credit for such TCS would be available to such persons, subject to conditions.

In addition, depending on the exact nature of services being provided through online marketplaces, GST implications would have to be determined from such service providers.



### Filing returns

Freelancers are required to comply with the prescribed compliances like other registered GST assessees. They would be required to undertake filing of monthly/quarterly (depending on turnover) returns, i.e., return of outward supplies (GSTR-1) and summary return for outward and inward supplies (GSTR-3B). In addition, annual compliance in the form of GSTR-9 is also required to be undertaken depending on the prescribed turnover.

In case the freelancer's turnover exceeds INR 5 crore, annual reconciliation statement in the form of GSTR-9C is also required to be filed. Multiple penalties for non-compliances (registration, documents, invoices, etc.) of various provisions have been provided under the law, however, in case of delay in filing of monthly/quarterly returns, a late fee of INR 50 per day per return has been prescribed.



## GST registration benefits

One may argue that obtaining GST registration would result in additional compliance burden on small service providers like freelancers, however, it may be noted that GST has provided a very simplified compliance process for taxpayers.

There are various benefits in obtaining GST registration such as availability of GST credit for tax paid on procurements, which in case of unregistered freelancers would be a cost. Same can also be utilized for discharging output GST liability of services, by the freelancer, thereby passing minimal burden on the end consumer.

Further, obtaining GST registration also helps service recipients gain more trust and deal more transparently with freelancers. Even the government encourages larger businesses to deal with GST compliant service providers.

