

## RCM UNDER GST ON IMMOVABLE RENTAL PROPERTY

As the Goods and Services Tax (GST) continues to streamline indirect taxation in India, the **Reverse Charge Mechanism (RCM)** remains a crucial yet often misunderstood component. Especially relevant in the context of renting immovable property, RCM plays a vital role in ensuring tax compliance when the supplier is unregistered or otherwise outside the tax ambit.

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### What is Reverse Charge Mechanism (RCM)?

Under the GST regime, the general rule is that the supplier of goods or services is responsible for collecting and remitting the tax. However, under **Section 9(3)** and **9(4)** of the *Central Goods and Services Tax Act, 2017*, the government has the authority to notify specific categories where this responsibility is shifted to the **recipient of the supply**—a concept known as the Reverse Charge Mechanism.

RCM is primarily aimed at bringing transactions involving **unregistered suppliers** or certain notified services into the tax net, thereby preventing revenue leakage.

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### RCM and Renting of Immovable Property

With the issuance of **Notification No. 09/2024 – Integrated Tax (Rate)** dated 8th October 2024, the government clarified the applicability of RCM to **renting of immovable property** in certain scenarios.

Under this notification, **RCM applies when an unregistered person rents out commercial or residential property (used for business purposes) to a registered person.**

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Landlord	Tenant	Property Use	RCM Applicable?	Remarks
Registered	Registered	Commercial	No	Forward charge applies

Unregistered	Registered	Commercial (for business use)	Yes	RCM applies
Unregistered	Registered	Residential (used for business purposes)	Yes	RCM applies
Unregistered	Registered	Residential (used for business purposes)	Yes	RCM applies
Unregistered	Unregistered	Any	No	Outside GST scope

The GST rate applicable to renting of commercial property under RCM remains **18%** (i.e., 9% CGST + 9% SGST or 18% IGST for interstate supply).

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### Legal and Compliance Requirements

As per **Rule 46 of the CGST Rules**, in cases under RCM, the **recipient must issue a self-invoice** in the absence of a tax invoice from the unregistered supplier. Additionally, compliance includes:

1. **Payment of GST in cash** (ITC cannot be used to discharge RCM liability).
2. **Reporting in GSTR-3B**, under Table 3.1(d).
3. **Eligibility to claim Input Tax Credit (ITC)** if the rented property is used for furtherance of business.
4. **Maintenance of proper documentation**, including agreements and self-invoices.

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### Is GST Registration Mandatory for Landlords?

As per **Section 22 of the CGST Act**, landlords must register under GST if their aggregate turnover exceeds the threshold:

State Category	Threshold for GST Registration
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Normal States (e.g., Gujarat, Maharashtra)	₹20 lakhs
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Special Category States (e.g., Nagaland, Mizoram)	₹10 lakhs
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Failing to register when required may lead to penalties under **Section 122**, which include payment of due tax, interest, and a monetary penalty.

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### Exemptions from GST on Renting

Not all renting transactions attract GST. Key exemptions include:

- **Renting of residential property for personal use.**
- **Rent received by charitable or religious trusts** registered under **Section 12AA of the Income Tax Act**, provided it is used for charitable purposes.
- Renting for **hostel accommodation or educational institutions**, subject to specific conditions and notifications.

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### Conclusion: A Shift of Responsibility

The Reverse Charge Mechanism, while shifting tax liability from supplier to recipient, ensures greater transparency and accountability in transactions involving unregistered suppliers. Particularly in the leasing of immovable property, RCM ensures that **no revenue is lost**, even when landlords are outside the formal tax net.

However, this also places a compliance burden on the tenant, who must:

- Generate self-invoices.
- Deposit tax via cash.
- Claim ITC where eligible.
- Maintain accurate records and report transactions diligently in GST returns.

With increased awareness and proper compliance, businesses can not only avoid penalties but also optimize their tax planning under GST.

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