

Sponsorships under GST - What Practical Aspects are Not To Be Neglected?

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In the complex landscape of Goods and Services Tax (GST), the treatment of sponsorship contributions has garnered significant attention. Businesses frequently engage in sponsorship activities as part of their marketing strategies, yet the tax implications of these activities under GST are often misunderstood. This guide delves into the specifics of how sponsorship services are treated under GST, including definitions, tax mechanisms, exemptions, and the reversal of Input Tax Credit (ITC).

Defining Sponsorship Services: What Exactly Constitutes Sponsorship?

The GST framework does not explicitly define "sponsorship services" under the CGST Act, 2017. This lack of definition can create ambiguity, but clarity is provided through the Finance Act of 1994. According to Section 65(99a) of the Finance Act, sponsorship services include a variety of promotional activities in exchange for financial support. Here's a closer look at what sponsorship services encompass:

- **Naming Rights:** This is perhaps the most visible form of sponsorship, where an event, venue, or program is named after the sponsor. For instance, a major marathon might be rebranded as the "XYZ Corporation Marathon," ensuring the sponsor's name is prominently associated with the event.
- **Logo Placement:** Another common sponsorship benefit involves the sponsor's logo or trading name being displayed on various event-related materials. This can include posters, banners, websites, tickets, and promotional merchandise, providing the sponsor with extensive brand visibility.
- **Exclusive Booking Rights:** Sponsors may be granted exclusive or priority access to event-related services, such as early or preferential booking of tickets, exhibition spaces, or vendor opportunities. This exclusivity enhances the sponsor's association with the event.
- **Prize Sponsorship:** In many cases, sponsors contribute by providing financial or material support for awards or trophies during competitions. This can range from sports tournaments to academic contests or industry awards, where the sponsor's name is linked to the prizes.

However, not all contributions are considered sponsorship. The following are excluded from the definition:

- **Donations or Gifts:** These refer to voluntary contributions made without any expectation of a

return. For instance, if a company donates funds to an event without seeking any form of promotion or acknowledgement, it is not considered sponsorship.

- **Unconditional Support:** Contributions made without any specific benefits, recognition, or obligations in return are also excluded. This type of support is typically categorized as unrestricted or non-restricted.

The Reverse Charge Mechanism (RCM) and Sponsorship Services

One of the key aspects of GST is the application of the Reverse Charge Mechanism (RCM) on certain transactions, including sponsorship services. Under RCM, the liability to pay tax shifts from the supplier to the recipient of the service. **As per Entry no 4 of notification no. 13/2017-Central Tax (Rate) dated 28.06.2017**, When sponsorship services are received by a body corporate or a partnership firm, including Limited Liability Partnerships (LLPs) they are liable to pay GST under reverse charge basis. The relevant extract of the notification is as follows:

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
(1)	(2)	(3)	(4)
4	Services provided by way of sponsorship to any body corporate or partnership firm.	Any person	Any body corporate or partnership firm located in the taxable territory.

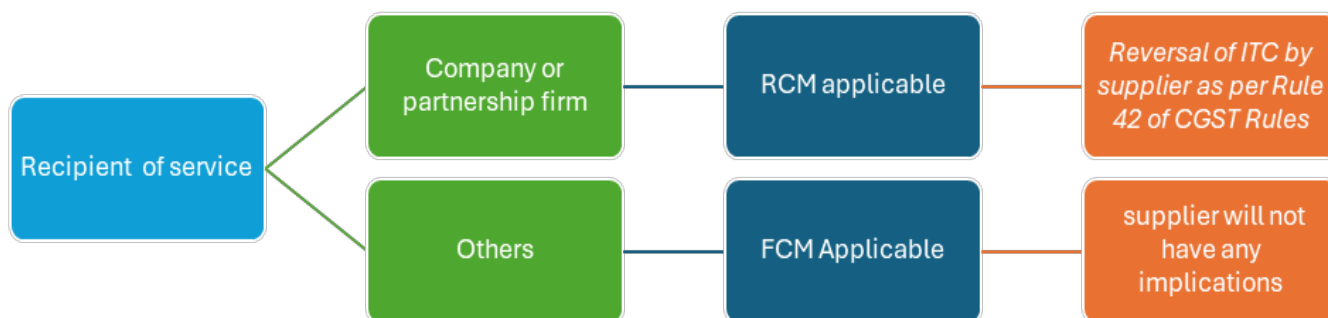
Explanation.- For purpose of this notification,-

(b) "Body Corporate" has the same meaning as assigned to it in clause (11) of section 2 of the Companies Act, 2013.

(e) A "Limited Liability Partnership" formed and registered under the provisions of the Limited Liability Partnership Act, 2008 (6 of 2009) shall also be considered as a partnership firm or a firm.

To illustrate how RCM works in practice, consider the following examples:

- **Example 1:** An event management Company A, a business entity, provides sponsorship services to Company B, a body corporate. The sponsorship is valued at INR 100,000. Under the RCM, Company B, as the recipient, is required to pay the applicable GST on this transaction, rather than Company A.
- **Example 2:** Suppose the same company provides similar sponsorship services to B&T Traders, a business entity that is neither a body corporate nor a partnership firm. In this scenario, the Forward Charge Mechanism (FCM) applies, meaning Company A must collect and pay the GST to the government.



Exemptions for Sponsorship of Specified Sporting Events

GST law provides certain exemptions for sponsorship services related to specified sporting events. These exemptions are intended to promote sports and related activities by reducing the tax burden on sponsors. Notable exemptions are outlined in Entry No. 53 of Notification No. 12/2017-Central Tax (Rate). The following sporting events qualify for GST exemptions:

- Events organized by a national sports federation or its affiliated federations where the participants represent a district, state, zone, or country.
- Competitions overseen by the Association of Indian Universities, Inter-University Sports Board, School Games Federation of India, All India Sports Council for the Deaf, Paralympic Committee of India, or Special Olympics Bharat.
- Events conducted by the Central Civil Services Cultural and Sports Board.
- National Games organized by the Indian Olympic Association.
- Events under the Panchayat Yuva Kreedha Aur Khel Abhiyaan Scheme.

These exemptions are significant as they alleviate the financial burden on sponsors, encouraging more robust support for grassroots and national-level sporting events.

Distinguishing Sponsorship from Advertising: A Comparative Analysis

While both sponsorship and advertising aim to enhance brand visibility, they differ significantly in execution, intent, and tax treatment under GST. Here's a detailed comparison:

- **Tax Collection Mechanism:** Advertising services fall under the Forward Charge Mechanism, where the supplier collects and remits the tax. In contrast, sponsorship services, when provided to a body corporate or partnership firm, are taxed under the Reverse Charge Mechanism, shifting the tax payment responsibility to the recipient.
- **Purpose and Strategy:** Advertising is typically a direct approach to promoting a product or service, aiming to drive immediate consumer action, such as making a purchase. Sponsorship, however, is more about building long-term brand visibility and a positive image by associating with an event or cause that aligns with the sponsor's values.
- **Ownership and Exclusivity:** Advertisements generally do not confer any form of ownership or exclusivity. Sponsorships, on the other hand, often include elements of exclusivity, such as the right to be the sole sponsor of an event, which can prevent competitors from participating.
- **Tax Exemptions:** While advertisements do not enjoy any tax exemptions, certain sponsorships, particularly those related to specified sporting events, can be exempt from GST, as discussed earlier.

Major comparison - Advertisement vs Sponsorship:

S.No.	Advertisement	Sponsorship
1	The advertisement aims to get immediate attention and drive consumer action, like buying a product	The sponsor gets visibility and a positive image by supporting something they care about
2	It's a more direct and transactional approach compared to sponsorship	The sponsored event or organization benefits from the support, which can help them achieve their goals
3	Advertisement is about directly promoting a product or service to encourage people to buy or use it	Sponsorship is about supporting an event or organization to build a positive image
4	Advertisements don't provide a part of ownership.	Sponsorship can be thought of as a part of little ownership for example, sponsors are being able to exclude their competitors from being a part of an event.

This distinction is crucial for businesses in deciding their promotional strategies, as each approach offers different benefits and tax implications.

Determining the Place of Supply for Sponsorship Services

The place of supply under GST is a critical factor that determines where the tax will be levied. For

sponsorship services, the place of supply is guided by Section 12(7) of the GST Act:

- **Registered Recipient:** If the recipient of the sponsorship services is a registered person under GST, the place of supply is the location of the recipient.
- **Unregistered Recipient:** For recipients not registered under GST, the place of supply is the location where the event takes place.
- **International Events:** If the event is held outside India, the place of supply is the location of the recipient, which can have significant implications for cross-border sponsorship arrangements.

Understanding the place of supply rules helps businesses ensure compliance and accurately determine their tax liabilities.

Reversal of Input Tax Credit (ITC) for Sponsorship Services

The provision of sponsorship services under the Reverse Charge Mechanism affects the eligibility for Input Tax Credit (ITC). According to Section 17(3) of the CGST Act read with Rule 42 of the CGST Rules, services provided under RCM are treated as exempt supplies, which necessitates the reversal of ITC on inputs used for these services.

The relevant extract of Section 17 of the CGST Act is as follows:

“(2) Where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

(3) The value of exempt supply under sub-section (2) shall be such as may be prescribed, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.”

Case Study: ITC Reversal Calculation

Let's consider a scenario where Company A provides both taxable consultancy services and exempt sponsorship services:

- Taxable Supplies: Consultancy Services worth INR 750,000
- Exempt Supplies: Sponsorship Services worth INR 250,000
- Total Input GST Paid: INR 45,000
- Input GST Directly Related to Sponsorship Services: INR 15,000

Step-by-Step Calculation:

1. Total Supplies:

- Taxable Supplies: INR 750,000
- Exempt Supplies: INR 250,000
- Total: INR 1,000,000

2. Proportion Calculation:

- Proportion of Taxable Supplies: $\text{INR } 750,000 / \text{INR } 1,000,000 = 0.75$ (75%)
- Proportion of Exempt Supplies: $\text{INR } 250,000 / \text{INR } 1,000,000 = 0.25$ (25%)

3. Apportionment of ITC:

- Total Input GST Paid: INR 45,000
- ITC for Taxable Supplies: $\text{INR } 45,000 \times 0.75 = \text{INR } 33,750$
- ITC for Exempt Supplies: $\text{INR } 45,000 \times 0.25 = \text{INR } 11,250$

4. Adjusting ITC for Exempt Supplies:

- Since INR 11,250 of proportionate input GST is directly related to exempt sponsorship services, it is restricted under Section 17(3) and as per Rule 42 cannot be claimed.

- Further, the ITC of INR 15,000 which is directly related to sponsorship is completely restricted under Section 17(3).
- The remaining INR 33,750 apportioned ITC is also restricted, ensuring compliance with the proportionate ITC reversal rules.

Thus, the total ITC claimable by Company A for taxable supplies is INR 33,750. The restricted ITC on exempt supplies totals INR 26,250, reflecting the complexity of managing ITC in businesses that provide both taxable and exempt services.

Organizations offering sponsorship services experience a negative impact on their Input Tax Credit (ITC) because they must reverse ITC under Rule 42 of the CGST Rules, 2017. This reversal is required in proportion to the exempt supplies when goods or services are used partially for taxable supplies (including zero-rated supplies) and exempt supplies.

Conclusion:

Sponsorship services under GST present a nuanced area of tax compliance, requiring businesses to carefully consider definitions, tax mechanisms, and exemptions. By understanding the distinctions between sponsorship and non-sponsorship services, particularly in the context of RCM and ITC reversal, businesses can better manage their tax liabilities and make informed decisions that align with their marketing and financial strategies. This guide aims to clarify the complexities and provide a comprehensive overview to help businesses navigate the GST landscape effectively.