

# Input Tax Credit Management in GST

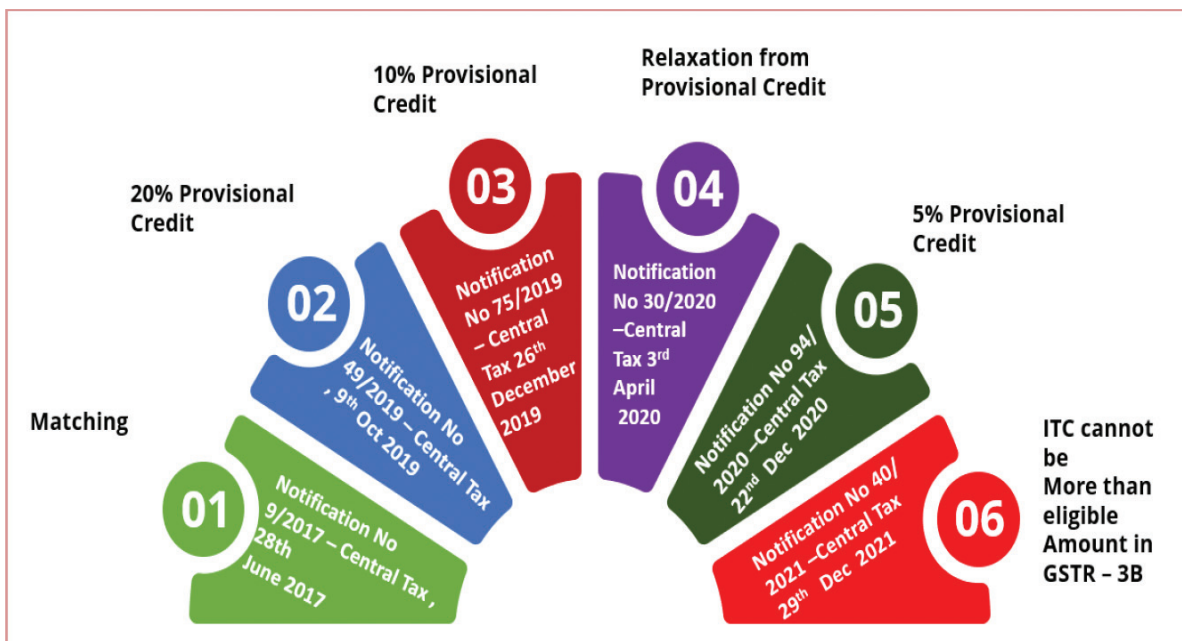


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**G**oods and Service Tax has seen a lot of changes after its rollout from 1st July 2017. Some of the changes are made on account of the past experiences, recommendations from the trade and industry or based on the current fragile economic conditions on account of the pandemic. Whatever may be the reason for the change, the professionals and taxpayers have to be attentive always and be on their toes to understand and make necessary changes to the business process to make it GST compliant and safeguard

from the hefty and harsh provisions in the law.

Availability of Input Tax Credit seamlessly across the supply chain cycle is one of the major benefits of GST. Unlike in the erstwhile tax regimes, the input tax credit availment process has changed and it has undergone changes in GST from time to time. More restrictions have been placed for availing input tax credit from 1st Jan 2022. To implement these restrictions, there is a necessity to change the business process and accounting process in the organization to be GST compliant.





The above are some of the important notifications on the input tax credit from the inception of GST in India. Matching is mandatory for availing input tax credit in India from 1st July 2017 but the necessary infrastructure was provided from Oct 2018. There are couple of press releases which discussed about the matching and stated that it is not mandatory for the first two years. We cannot rely on press releases as they cannot overwrite the provisions of the law.

Denying ITC to a buyer of goods or services for default of the supplier of goods or services would amount to shifting the incidence of tax from the supplier to the buyer, where the buyer does not have any control. This can be violative of the Article 14, Article 19(1)(g) and Article 300A of the Constitution of India. The Hon'ble Madras High Court in case of M/s. D. Y. Beathel Enterprises vs. The State Tax Officer (Data Cell) Non-Payment of GST – ITC availed by Buyer- HC Quashes notice to Buyer as seller not questioned Section 16 of CGST Act, 2017 provides that Input Tax Credit (ITC) could be availed by the buyer if GST is paid by the seller. Thus, in case of non-payment of GST, who should be questioned, the seller or the buyer? It can be seen therefrom that the assesses must have received the goods and the tax charged in respect of its supply, must have been actually paid to the Government either in cash., It has been mentioned that recovery action has to be first initiated against the seller and if we see the notices issued by the department for reversal of Input Tax Credit on account of supplier not filing or depositing the tax amount for the FY 2017-18 and 2018-19 and 2019-20 is not in the direction of the High Cour observations. Off late only the action on errant taxpayers who are not filing GSTR – 1 and GSTR -3B has been introduced.

Even the Honorable Delhi, Rajasthan and Orissa High Courts have issued Notices to the Centre questioning the validity of Section 16(2)(c) and Section 16(2)(d) of the CGST Act, 2017 with respect to the provision of ITC denial to the recipient on account of supplier's default. Now the matter is pending with the judiciary but if we take a clue from the recent judgement of the Honorable Supreme Court of India in the Case of Bharti Airtel it clearly says that provisions of the Act cannot be questioned once the law is passed. Keeping aside all the judgements and legal stand it is recommend for the taxpayers to make certation change in the business process to avoid payment of interest and reversal of input tax credit and also to avoid litigation.

GST is being defined as business process reform apart from being it called as a tax reform. This was echoed clearly by the CBIC Board Member Shri D.P. Nagendra Kumar. In his address to our members has a advised the trade and industry to do business transactions with only GST

Compliant taxpayers as it will avoid hassles of reversal of input tax credit or payment of interest and reply to notices.

Going forward the taxpayers are required to do the compliance check for GST also while evaluating the suppliers along with the other parameters like price, quality, timely delivery, post supply service, consistency in supplies etc., if they are not doing it. Many of the large taxpayers have started doing this and they are not facing such challenges.

Apart from the above points, the taxpayers are also advised to change their business process of releasing the payment to suppliers with either of the approaches

- a) Release the GST Amount immediately on receipt of the goods or services as it will provide funds for the supplier to make timely GST Payments and filing of returns.
- b) Release the GST amount only after reflecting in the GSTR – 2B, this will ensure that the recipient does not have any challenges of cash flows and reversals.

In either of the cases, there will be an increase in the work load and payment process procedures.

Changes in Accounting is also highly recommended as it will ensure that there is no wrong availing of input tax credit and also proper internal controls are in place for the senior management.

The accounting change recommend is to park the input tax credit till matching is done in an interim account and then transfer to input tax credit availed account after matching. This will ensure that input tax credit is availed only after matching.

To address this, the taxpayers have to create new ledger or incorporate new accounts in the Chart of Accounts

- ITC Interim Recovery Account – CGST A/c
- ITC Interim Recovery Account) – SGST A/c
- ITC Interim Recovery Account – IGSTA/c
- ITC Interim Recovery Account – UTGSTA/c
- ITC Interim Recovery Account – GST Cess A/c

These accounts hve to be create shate wise and if the taxpayer has a system of accounting ITC for the following account separately

- Inputs



- Services
- Capital Goods
- Imported Capital Goods
- Imported Inputs
- Import of Services

These additional accounts will ensure that there is no challenge in filling of Table 6 of GSTR – 9, as on date filling this information is not mandatory but in future it may be made mandatory.

This account can be updated when the input tax credit is reflected in the Electronic Credit Ledger Account and for this accounting or ERP being used should be supporting it.

- ITC Recovery – CGST A/c
- ITC Recovery – SGST A/c
- ITC Recovery – IGSTA/c
- ITC Recovery – UTGSTA/c
- ITC Recovery – GST Cess A/c

Corresponding recovery accounts are also to be created as per the requirements for Table 6 of GSTR – 9.

Under GST, there is legal requirement to reverse the input tax credit if the supplier of the goods and services or both is not paid within 180 days, in such cases when the input tax credit account is reversed, it will be parked in this recovery account. The same will be reversed when the supplier is paid at a subsequent date.

- ITC Reversal – CGST A/c
- ITC Reversal – SGST A/c
- ITC Reversal – IGSTA/c
- ITC Reversal – UTGSTA/c
- ITC Reversal – GST Cess A/c

Corresponding Reversal accounts are also to be created as per the requirements for Table 6 of GSTR – 9.

Separate ledger accounts are also recommended to be created for availing the input tax credit if the supplier is paid after 180 days post reversal of input tax credit.

- ITC Re-availed – CGST A/c

- ITC Re-availed – SGST A/c
- ITC Re-availed – IGSTA/c
- ITC Re-availed – UTGSTA/c
- ITC Re-availed – GST Cess A/c

Accounting entry to be passed at the time of purchase invoice entry or creation of Goods Receipt Note or Material Receipt Note.

Purchase within in the state

Accounting Entry	Debit/Credit
Inputs/Capital Goods/Services – A/c	Dr
ITC Interim Recovery – CGST A/c	Dr
ITC Interim Recovery – SGST A/c	Dr
Creditors – A/c	Cr

Purchase from suppliers outside the state

Accounting Entry	Debit/Credit
Inputs/Capital Goods/Services/ Imported Inputs/Imported Capital Goods – A/c	Dr
ITC Interim Recovery – IGST A/c	Dr
Creditors – A/c	Cr

After matching, availing Input Tax Credit for purchases within in the state

Accounting Entry	Debit/Credit
ITC Recovery – CGST A/c	Dr
ITC Recovery – SGST A/c	Dr
ITC Interim Recovery – CGST A/c	Cr
ITC Interim Recovery – SGST A/c	Cr

After matching, availing Input Tax Credit for purchases outside the state

Accounting Entry	Debit/Credit
ITC Recovery – IGST A/c	Dr
ITC Interim Recovery – IGST A/c	Cr



Accounting Entry for Reversal of Input Tax Credit is supplier within the state not paid within 180 days

Accounting Entry	Debit/Credit
ITC Reversed – CGST A/c	Dr
ITC Reversed – SGST A/c	Dr
ITC Recovery – CGST A/c	Cr
ITC Recovery – SGST A/c	Cr
Interest – A/c	Dr
ITC Reversal Interest Payable – CGST A/c	Cr
ITC Reversal Interest Payable – SGST A/c	Cr

Accounting Entry for Reversal of Input Tax Credit is supplier outside the state not paid within 180 days

Accounting Entry	Debit/Credit
ITC Reversed – IGST A/c	Dr
ITC Recovery – IGST A/c	Cr
Interest – A/c	Dr
ITC Reversal Interest Payable – IGST A/c	Cr

Accounting Entry for availing Input Tax Credit is supplier within the state is paid after 180 days

Accounting Entry	Debit/Credit
ITC Re-availed – CGST A/c	Dr
ITC Re-availed – SGST A/c	Dr
ITC Reversed – CGST A/c	Cr
ITC Reversed – SGST A/c	Cr

Accounting Entry for availing Input Tax Credit is supplier outside the state is paid after 180 days

Accounting Entry	Debit/Credit
ITC Re-availed – IGST A/c	Dr
ITC Reversed – IGST A/c	Cr

If the scheme of above accounting entries is followed there will be a complete control for the management and they can come to know which suppliers have not filed the returns on time or for which suppliers input tax credit has been reversed.

Ideally at the month end the balances in the Interim Recovery accounts should be zero in case if the supplier has not filed his GST Returns the amount will not be knocked off and the user have to take action on such suppliers accordingly.

If the above ledgers are created and accounting is modified from 1st of April 2022, it will ensure that the taxpayer will have complete control on his GST Input Tax Credit Management and at the same time ensure that there is no room for reversal of input tax credit along with interest for the non-filing of supplier return. The trail balance can be used for filing of the GST Returns and also helps in having proper internal controls across the organization. Though it is a time consuming and lengthy process but the above scheme of accounting entries is highly recommended. For the supplier payments, most of the large taxpayers will be using a scheduler for processing the payments based on the due date and the scheduler can be customized or the parameters can be changed to meet the requirements if the standard ERP supports it.

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