ALL ABOUT INPUT TAX CREDIT RESTRICTION

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Self-Assessment of the liability and input tax credit are the two business-friendly measures rolled out in GST, and it is being misused by a section of the taxpayers. As a result of it, to curb the tax evasion on the supply side, e-way bills were introduced, and now it is completely operational. On the input tax credit side, the provisions of the act were clear that the buyer/recipient can avail input tax credit only on matching (seller will file his return, and the same will be reflected in the buyers return, and there he was supposed to accept or reject or modify the same) and this was kept on hold based on the feedback received from the trade and industry. But off late, lots of cases of input tax credit frauds and tax evasion are being detected. To put an end to all these, the Government has decided to simplify the return filing process and also start implementing the same from the 1st of Oct 2019, but the same is deferred till the 1st of April 2020 basis of the decisions taken in the 37th GST Council Meeting.

Like a bolt from the blue, on 9th Oct 2019, **Notification No 49/2019 – Central Tax**, dated 9th Oct 2019, was issued stating that matching is mandatory. There were a lot of interpretation issues on the effective date and amount of restricted input tax credit to be derived. To address the same, CBIC has issued a clarification on **Circular No. 123/42/2019– GST dated 11th Nov 2019.** As on date, most of the queries/interpretation issues have been cleared, baring a few. What is the restricted input tax credit, how it works etc., are explained in simple FAQs for the users to understand and comply with the latest GST Provisions.

FAQ's on the restricted input tax credit

1. What is the effective date for matching?

   The effective date of the matching and availing of the 20% restricted input tax credit is 9th Oct 2019, which means it is applicable for filing of the returns for Sep 2019 also.

   The wordings used in the "**Notification No 49/2019 – Central Tax**, **dated 9th Oct 2019**"Save as otherwise provided in these rules, they shall come into force on the date of their publication in the Official Gazette." The same is published in the Official Gazette on 9th Oct 2019, only wide Gazette No REGD. NO. D. L.-33004/99. It is also confirmed wide **Circular No. 123/42/2019– GST dated 11th Nov 2019.**

2. What should I do as I have availed input tax credit without matching while filing the returns for Sep 2019?

   At the time of filing GSTR – 3B for Oct 2019, you have to do the matching for both the months. For the unmatched invoices for the GSTR – 2A of Sep 2019; you have to reverse the same along with interest for the differential days @ 24% as per the provisions of Section 51 of CGST Act 2017.

3. On what basis GSTR – 2A and my purchase register should be matched?

   As per the provisions of Rule 69 of the CGST Rules 2017, matching has between the purchase register and GSTR – 2A has to be carried out for the following
   a) GSTIN of the Supplier
   b) GSTIN of the Recipient / Buyer
   c) Invoice or Debit Note Number
   d) Invoice or Debit Note Date
   e) Tax Amount

   For every document, if any of the above fields do not match, then input tax credit cannot be availed.

4. What could be the reasons for the differences between GSTR – 2A and my purchase register?

   I. The supplier must not have filed the return
   II. The supplier has not uploaded the tax invoice

III. GSTIN wrongly entered by the Supplier
IV. GSTIN wrongly entered in the accounting / ERP Package
V. Tax invoice number wrongly entered by the Supplier
VI. Tax invoice number wrongly entered in the accounting / ERP Package
VII. Tax invoice date wrongly entered by the Supplier
VIII. Tax invoice date wrongly entered in the accounting / ERP Package
IX. The supplier ships goods but they are in transit
X. Goods received but not accounted – in QC/ Bills to reach the Accounts department
XI. The supplier has not entered the invoice amount correctly
XII. Invoice amount wrongly entered in the accounting / ERP Package
XIII. The invoice amount is manually overwritten for shortages/breakages or any other reason
XIV. The supplier has issued the invoice but not shipped the goods
XV. Invoice issued by the supplier but not received by the recipient

5. How is the 20% restricted input tax credit derived?

   20% of the restricted input tax credit is derived basis of the total of the input tax credit available in the GSTR – 2A for the month for which return is being filed. The same is explained in the example given below

   Total purchases in a month where ITC is eligible is Rs 10,00,000& actual purchases on which tax is paid is Rs 12,00,000
   Amount Reflected in GSTR – 2A s Rs 7,00,000 and amount eligible for availing input tax credit is Rs 6,00,000
   What is the provisional credit which can be claimed?
   20% of eligible credit i.e., Rs 6,00,000
   20% of Rs 6,00,000 = Rs 1,20,000
   Total amount of Credit eligible for the month = Rs 6,00,000 + Rs 1,20,000 = Rs 7,20,000

6. Is the 20% input tax credit restriction available for the sum of all the taxes or tax-wise?

   As the same is notified in the Rules and the rules are different for the different taxes, it means the restriction is for each tax, i.e., for CGST, SGST, IGST & Compensation cess.

7. Do I need to consider the input tax credit on account of reverse charge, ISD, import of goods, etc. for computing the restricted input tax credit?

   No, It is not required to considered for determining the restricted input tax credit.

8. Can i take the input tax credit if the supplier has not paid the taxes in the subsequent months?

   If the supplier has not paid the taxes or filed the return of uploaded your invoice in the subsequent returns, then you have to reverse the input tax credit claimed on those invoices and pay interest on the same.

9. How to take the input tax credit if the supplier has filed and paid the taxes in the subsequent months?

   If all the suppliers have filed and paid the taxes, then the differential amount of tax can be claimed in the month during which the supplier has filed or paid the taxes or uploaded the invoice.

10. How much input tax credit I can avail if the sum of the restricted credit and eligible credit is more than the amount showing in GSTR – 2A?

    If the 20% restricted or provisional credit is more than the eligible amount, then the taxpayer has to avail on the eligible amount only. The same is explained in the example below

    Total purchases in a month where ITC is eligible is Rs 1,00,000 & actual purchases during the month is Rs 15,00,000
    Amount Reflected in GSTR – 2A s Rs 12,00,000 and amount eligible for availing input tax credit is Rs 90,000
    What is the provisional credit which can be claimed?
    20% of eligible credit i.e., Rs 12,00,000 i.e., is Rs 2,40,000
    Eligible credit is only Rs 1,00,000, so the taxpayer can avail max of Rs 10,000 (Rs 1,00,000 – Rs 10,000).

11. Are there any changes required in my accounting practices?

Yes, if the accounting practices are changed, it will give complete control and visibility for tracking the errant suppliers. The general practice is whatever are the amounts available in the ledger are considered for the return filing. So, it is recommended to change the accounting policy also.

For this, new ledger accounts have to be created at each registration level if multiple registrations exist. The new ledgers to be created are

Sl.No	Ledgers
1	Interim / Suspense / Provisional ITC – SGST
2	Interim / Suspense / Provisional ITC – CGST
3	Interim / Suspense / Provisional ITC – IGST
4	Interim / Suspense / Provisional ITC – GST Cess

The existing accounting entry, which is passed/ generated at the time of GRN/ MRN creation or booking of the purchase invoice, also has to be changed. The existing accounting entry is

Ledgers	Debit / Credit
Inventory/Services/ Expenses A/c	Dr
ITC – SGST A/c	Dr
– CGST A/c	Dr
To Suppliers A/c	Cr

The new accounting entry which is to be passed or generated at the time of the creation of GRN / MRN or booking the purchase invoice should be

Ledgers	Debit / Credit
Inventory / Services / Expenses A/c	Dr
Interim / Suspense / Provisional ITC – SGST A/c	Dr
Interim / Suspense / Provisional ITC – CGST A/c	Dr
To Suppliers A/c	Cr

The accounting entry to be passed or generated at the time of matching is

Ledgers	Debit / Credit
ITC – SGST A/c	Dr
ITC – CGST A/c	Dr
Interim / Suspense / Provisional ITC – SGST A/c	Cr
Interim / Suspense / Provisional ITC – CGST A/c	Cr

As the revised accounting entries are at the supplier level, it will give complete visibility on the suppliers who have not filed the returns and also helps in follow up with the suppliers more effectively.

12. How should I do the reconciliation?

Reconciliation has to be carried out for each invoice and every month. The challenge is if the supplier files the GSTR Returns in the subsequent tax periods, then the same will be updated in the GSTR – 2A for the period in which the invoice is generated. The taxpayers have to check the GSTR – 2A of the previous months till the supplier files the returns or till filing of the September months return or filing of the annual return whichever is earlier. The reconciliation statement has to be maintained for each month, along with a consolidated statement.

13. Can I adopt technology to address the same?

Yes, there are a lot of tools available for the reconciliation, and also most of the ERP's support the availing of the input tax credit on a provisional basis and availing the same only at the time of matching. If the existing accounting software or ERP provides the same, it should be implemented immediately as it will save a lot of time and effort.

14. Is it mandatory to avail the restricted input tax credit?

No, it is not mandatory to avail the restricted input tax credit; the option is given to the taxpayers to avail or not.

15. What are the other alternatives I have if I do not like to avail the restricted or provisional credit?

    There are other options like while awarding the contract or purchase order to the suppliers, who are filing the GST Returns in time. The supplier's tax filing compliance also has to be verified along with the price, quality, after supply service, along with the previous track record.

Now it clear that the matching is mandatory and also the process on how to derive the restricted 20% input tax credit. Now the taxpayers have to follow the same from the 9th of Oct 2019, but due to interpretation issues, many of the tax professionals have concluded that it is effective for the filing of Oct 2019 returns. The taxpayers have to take a clear decision on to avail the 20% of the restricted credit along with the eligible input tax credit or avail only the eligible input tax credit after considering the following points

a) Borrowing cost for the restricted 20%
b) Cost of time and efforts required for deriving the 20% restricted credit
c) Training the respective stakeholders
d) Cost of automation – if the same is provided in their existing accounting or ERP or separate software is required.

Unless and the taxpayers do a cost-benefit analysis for availing the 20% restricted credit or not based on the above-discussed points, it would be difficult to ascertain the same. It is typically required for large corporates where they have 1000’s of purchase invoices monthly. Whatever is the decision, it will be applicable from the next month's transactions and for filing of the returns for Oct 2019, they have to do reconciliation if the decision is not taken.

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