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OVERVIEW OF INPUT TAX CREDIT

GST is set to revolutionize the world of Indian indirect taxation and Input Tax Credit is one of its key features which will help in eliminating cascading effect of taxes. GST is ca comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level.

In simple words, Input Credit means at the time of paying tax on sales, you can reduce the tax you have already paid on purchases.

When you buy a products/services from a registered dealer you pay tax on the purchase. On Selling you Collect the Tax. You adjust the taxes paid at the time of purchase with the amount of output Tax (Tax on Sales) & balance Liability of Tax (Tax on sales minus tax on purchase) has to be paid to the government. This mechanism is called Utilization of Input Tax Credit.

For Example: ABC is a Manufacturing Company having:

1) Tax payable on Output (Final Product) is Rs. 1000/-
2) Tax Paid on input (purchases) is Rs. 500/-
3) ABC Company can claim Input Credit & need to deposit Rs. 500/-in taxes.

Key Terminologies of GST Law in connection with Input Tax Credit under GST are as follows:

What is Input?

Input means any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business.

What is Input Service?

This term denotes any service used or intended to be used by a supplier in the course of furtherance of business.

What is Input Tax?

Input tax in relation to a registered person, means the Central Tax, State Tax, Integrated Tax or Union territory tax charged on any supply of goods or services or both made to him & includes –

a) the integrated goods and services tax charged on import of goods ;
b) the tax payable under the provisions of sub sections (3) and (4) of section 9;
c) the tax payable under the provisions of sub sections (3) and (4) of section 5 of the integrated goods and services tax;

d) the tax payable under the provisions of sub sections (3) and (4) of section 9of the respective State goods and services Tax Act ;or
e) the tax payable under the provisions of sub sections (3) and (4) of section 7of the Union Territory goods and services Tax Act ,

but does not include the tax paid under the composition levy.

What is Electronic Credit Ledger?

This ledger will serve as an electronic wallet. Where the Taxpayer needs to make any payment such as tax, interest, penalty etc and he does not have enough credit in his E-Credit Ledger, he will have to simply add money to the wallet and the money will be utilized to make the payment.

This Ledger will basically reflect all the deposits made in cash using various modes.

What is Electronic Cash Ledger?

The input tax credit that is self assessed in the monthly returns will be reflected here under three categories i.e. IGST, CGST & SGST. The Tax Payer will be able to utilize the balance shown in this account only for payment of Tax as per the credit utilization rules and no other amount such as Interest, Penalty etc.

Pre-Requisites to claim Input Tax Credit (ITC)

The following conditions have to be met to be entitled to Input Tax Credit under the GST scheme:

1. One must be a registered taxable person.
2. One can claim Input Tax Credit only if the goods and services received is used for business purposes.
3. Input Tax Credit can be claimed on exports/zero rated supplies and are taxable.
4. For a registered taxable person, if the constitution changes due to merger, sale or transfer of business, then the Input Tax Credit which is unused shall be transferred to the merged, sold or transferred business.
5. One can credit the Input Tax Credit in his Electronic Credit Ledger in a provisional manner on the common portal as prescribed in model GST law.
6. Supporting documents – debit note, tax invoice, supplementary invoice, are needed to claim the Input Tax Credit.
7. If there is an actual receipt of goods and services, an Input Tax Credit can be claimed.
8. The Input Tax should be paid through Electronic Credit/Cash ledger.
9. Person claiming the ITC has to furnish the returns.
10. Full Credit on capital goods will be allowed in the year of purchase itself.

Input Tax Works Under GST

Suppose Mr. A is a seller. He sells goods to Mr. B. The buyer Mr. B is now eligible to claim the purchase credit using his purchase invoices.

This is how it works:

1. A uploads all his tax invoices details as issued in GSTR-1.
2. The details uploaded by Mr. A is automatically populated or reflected in GSTR-2A. This same data will get reflected when Mr. B files the GSTR-2 returns which are nothing but the details of his purchase.
3. The details of the sale are then accepted and acknowledged for by Mr. B, and subsequently, the purchase tax is credited to Mr. B's 'Electronic Credit Ledger ' He can use this to adjust it later for future output tax liability and receive a refund.

Documents and forms required to claim Input Tax Credit

Each applicant will require the following documents to claim Input Tax Credit under GST:

1. Supplier issued invoice for supplying the services and goods or both according to GST law.
2. A debit note issued by the supplier to the recipient in case of tax payable or taxable value as specified in the invoice is less than the tax payable or taxable value on such supplies.
3. Bill of entry.
4. A credit note or invoice which is to be issued by the ISD (Input Service Distributor) according to the GST invoice rules.
5. An invoice issued like the bill of supply under certain situations instead of the tax invoice. If the amount is lesser than INR 200 or in conditions where the reverse charges are applicable according to the GST law.
6. A supplier issued a bill of supply for goods and services or both as per the GST invoice rules.

The above documents prepared as per the GST invoice rules should be furnished while filing the GSTR-2 form. Failure to present these forms can lead to either rejection or resubmission of the request.

Input tax credit in respect of IGST, CGST, Cess and SGST/UTGST can be utilized in following sequences:

Input Tax Credit	*Tax Credit Utilization Preference*			
IGST	IGST	CGST	SGST	X
CGST	CGST	IGST	X	X
SGST	SGST	IGST	X	X
Cess	X	X	X	Cess

Credit of CGST cannot be setoff with credit of SGST and vice versa. Credit of one state of SGST cannot be set off with SGST of another state. ITC of cess will be utilized for cess only.

Claiming Input Tax Credit Against Inputs Sent for Job Work

As a registered taxable person you can also claim ITC on inputs sent to gob-workers if the following conditions are satisfied:

1. You should receive such input back within 1 year.
2. If the inputs involved are capital goods, then you should get such inputs back within 3 years.
3. If you fail to receive inputs within the above mentioned time period, then you will have to pay an amount equal to ITC claimed along with interest.
4. However, you are still allowed to reclaim ITC if inputs or capital goods are received back from the place of business.

Input Tax Credit on Supply of Capital Goods

1. A registered taxable person is liable to pay tax on such a supply of capital goods on which ITC has already been claimed.
2. This amount should be equal to ITC claimed after reducing it by prescribed percentage points or the tax applicable on the transaction value of such capital goods, whichever is higher.

ITC is Not Available to be Claimed in the Following Cases, u/s17 (5):

1. Motor Vehicles and other conveyances are not eligible for ITC except in some cases;
2. You cannot claim ITC for goods & service for beauty treatment, health mainly used for personal purposes.
3. If you have acquired goods & services under a contract which results in construction of immovable property other than plant & machinery.

4. If you have paid tax on goods & services under GST composition scheme.
5. if goods & services have been used to build immovable property other than plant & machinery & such property is not transferred.
6. Works Contract Services when supplied for construction of an immovable property,(other than plant & machinery) is not eligible ,except where it is an input service for further supply of works contract service
7. If depreciation has been claimed on the cost of capital goods, then they are not eligible for Input Tax credit.
8. Goods or services or both received by a non-resident taxable person are not eligible for input tax credit, except on goods imported by him;
9. Goods or services or both used for personal consumption are not eligible for ITC;
10. Goods Lost, stolen, destroyed, written off or disposed off by way of gift or free samples are not eligible for ITC;
11. No ITC will be allowed if depreciation have been claimed on Tax component of capital goods.

Reversal of Input Tax Credit

1. Proportionate amount of ITC will be reversed if goods or services are used for business or non-business purposes.
2. Where the recipient fails to pay the amount of value of supply along with the tax payable thereon within a period of 180 days from the date of invoice by the supplier, an amount equal to ITC availed by the recipient ;
3. Reversal of ITC if goods or services become wholly exempt or GST registration cancelled;
4. Reversal of ITC if taxable person switches to composition Scheme.

ITC Provided by Input Service Distributor (ISD)

An input service distributor (ISD) can be the head office (mostly) or a branch office or registered office of the registered person under GST. ISD collects the input tax credit on all the purchases made and distribute it to all the recipients (branches) under different heads like CGST, SGST/UTGST, IGST or cess.

Matching Mechanism for ITC Monitoring

1. A matching mechanism has been developed to make sure there is no duplication in claiming ITC.
2. It ensures that inward supplies returns filed by receiver matches outward supplies returns filed by supplier.
3. Matching mechanism also helps in matching ITC claims with customs paid where goods are imported by registered taxable person.
4. Any discrepancy which arises post verification is intimated to both parties so that they can make necessary corrections within the prescribed time frame.

Although, ITC is a key to eliminate cascading effect of taxes. However, there are several conditions & restrictions to avail the credit for which there is a need to comply with the various documents and the other criteria required.