



CA CMA Kedarnath



The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

Tax Research Department

Advanced Certificate Course on GST – 5th Batch : Session-VII



Introduction to Input Tax Credit

- ❖ Input Tax Credit or in simple terms ITC is the Tax that a business pays on its
 - ✚ Purchases
 - ✚ Expenses and
 - ✚ Capital Goods
- ❖ ITC can be used to reduce the tax liability on the further sale.
- ❖ In other words, businesses can reduce their tax liability by claiming credit to the extent of GST paid on purchases
- ❖ ITC makes flow of credit across an entire supply chain a seamless process
- ❖ The fundamental aspect under GST regime is tax is charged on value addition at each stage of supply and
- ❖ The supplier is eligible to claim ITC on its purchases and utilize the same by way of setting off while discharging the Output tax in the course of furtherance of business.
- ❖ With the help of ITC the cost of the goods / or services are available at cheaper and effective price

ITC

- ❖ Broadly ITC can be availed on
 - ✚ Inputs
 - ✚ Input services
 - ✚ Capital Goods
- ❖ GST Law does not require 'one to one' co-relation between inputs / input services and final products / services
- ❖ Any eligible ITC can be used for payment of tax on any taxable output supply

Relevant Definitions:

✚ **Input: Sec.2(59)**

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

✚ **Input Services: Sec.2(60)**

“Input Services” means any service used or intended to be used by a supplier in the course or furtherance of business

✚ **Capital Goods: Sec.2(19)**

“Capital goods” means goods, the value of which is capitalised in the books of account of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business;

Relevant Definitions:

✚ **Input Tax: Sec.2(62) of CGST Act, 2017 defines**

“Input tax” in relation to a registered person, means the CGST, SGST, IGST or UTGST charged on any supply of goods or services or both made to him and includes

- (a) the IGST charged on import of goods;
- (b) the tax payable under the provisions of sub-sections (3) and (4) of section 9 of CGST Act, 2017
- (c) the tax payable under the provisions of sub-sections (3) and (4) of section 5 of the IGST Act
- (d) the tax payable under the provisions of sub-sections (3) and (4) of section 9 of the respective SGST Act; or
- (e) the tax payable under the provisions of sub-sections (3) and (4) of section 7 of the UTGST Act.

✚ **Input Tax Credit (ITC): Sec.2(64)**

“Input tax credit” means the credit of input tax;

Relevant Definitions:

✚ **Invoice: Sec.2(66)** : “Invoice” or “tax invoice” means the tax invoice referred to in section 31;

✚ **Inward Supply: Sec.2(67)**

“Inward supply” in relation to a person, shall mean receipt of goods or services or both whether by purchase, acquisition or any other means with or without consideration.

✚ **Return: Sec.2(97)**

“Return” means any return prescribed or otherwise required to be furnished by or under this Act or the rules made thereunder;

✚ **Reverse Charge: Sec.2(98)**

Reverse charge means the liability to pay tax by the **recipient** of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of section 9, or under on (3) or sub section (4) of section 5 of the Integrated Goods and Services Tax Act;

ITC

S.16(1) Eligibility for taking ITC:

- ✚ Registration under GST
- ✚ Goods/Services to be used for business purposes

S.16(2) Conditions for Availing ITC:

The registered person will be entitled to ITC on a supply if **ALL** the following **4** conditions are fulfilled.

- ✚ Possession of Tax Invoice or Debit note
- ✚ Receipt of the goods and / or Services
- ✚ Tax leviable on supply actually paid to **Government**
- ✚ Furnished the return u/s 39 to claim ITC by Filing GSTR-3B

Conditions for Availing ITC

I. Possession of Tax Paying Document [Section 16(2)(a) read with rule 36]

Documentary requirements and conditions for claiming ITC Rule: 36

- ✓ An invoice
- ✓ Debit note
- ✓ Bill of entry for the assessment of integrated tax on imports;
- ✓ Input Service Distributor invoice

Note:

To qualify a document as **Tax Invoice**, it has to satisfy requirements specified in the Rule 46 of CGST Rules, 2017 as follows:

Tax Invoice:

- Name, address and GSTIN of the supplier
- A consecutive serial number not exceeding 16 characters, unique for a financial year
- Date of its issue
- Name, address and GSTIN, if registered of the recipient
- Name and address of the recipient and the address of delivery
- The name of the State and its code
- HSN code for Goods & SAC for Services
- Description of goods or services
- Quantity in case of goods and unit
- Total value of supply of goods or services or both
- Taxable value of the supply of goods or services or both taking into account discount or abatement, if any;
- Rate of tax
- Amount of tax charged in respect of taxable goods or services
- Place of supply along with the name of the State, in the case of a supply in the course of inter-State trade or commerce;
- Address of delivery where the same is different from the place of supply;
- Whether the tax is payable on reverse charge basis; and
- Signature or digital signature of the supplier or his authorised representative:

Tax Invoice:

- ❖ Apart from the above in the case of the export of goods or services, the invoice shall carry an endorsement –

“SUPPLY MEANT FOR EXPORT/SUPPLY TO SEZ UNIT OR SEZ DEVELOPER FOR AUTHORISED OPERATIONS ON PAYMENT OF INTEGRATED TAX”

(or)

“SUPPLY MEANT FOR EXPORT/SUPPLY TO SEZ UNIT OR SEZ DEVELOPER FOR AUTHORISED OPERATIONS UNDER BOND OR LETTER OF UNDERTAKING WITHOUT PAYMENT OF INTEGRATED TAX”,

- as the case may be.

❖ Concept of Debit Note:

The debit note is similar to the tax invoice and it contains all the details similar to the tax invoice but the heading replaces with “Debit Note” instead of tax invoice.

Conditions for Availing ITC

II. Receipt of the goods and / or Services [Section 16(2)(b)]:

- ITC is eligible to claim once the goods or services are received by the recipient
- **Issue:** When the goods are placed order during the end of the month

IV. Recipient has furnished the return u/s 39 [Section 16(2)(d)]:

- ITC can be availed only by Filing GSTR-3B monthly return and no other mechanism is available to the recipient of the goods or services.

Conditions for Availing ITC

III. Tax leviable on supply actually paid to Government

- ❖ Tax should actually have been paid, by cash or through utilization of ITC, on the goods and / or services for which ITC is being taken.
- ❖ Provisional ITC can be taken initially, prior to matching in the common portal, and used for payment of self-assessed tax on outward supply

❖ **Provisional ITC:**

✓ **From 09th Oct 2019 to 31st Dec 2019:**

Invoices not uploaded by supplier then recipient shall not claim in excess of **20%** of Eligible credit reflected in GSTR-2A [vide Notification no. 49/2019 - CT dt. 09.10.2019]

✓ **From 01st Jan 2020 to 31st Dec 2020:**

Invoices not uploaded by supplier then recipient shall not claim in excess of **10%** of Eligible credit reflected in GSTR-2A [vide Notification no. 75/2019 - CT dt.26.12.2019]

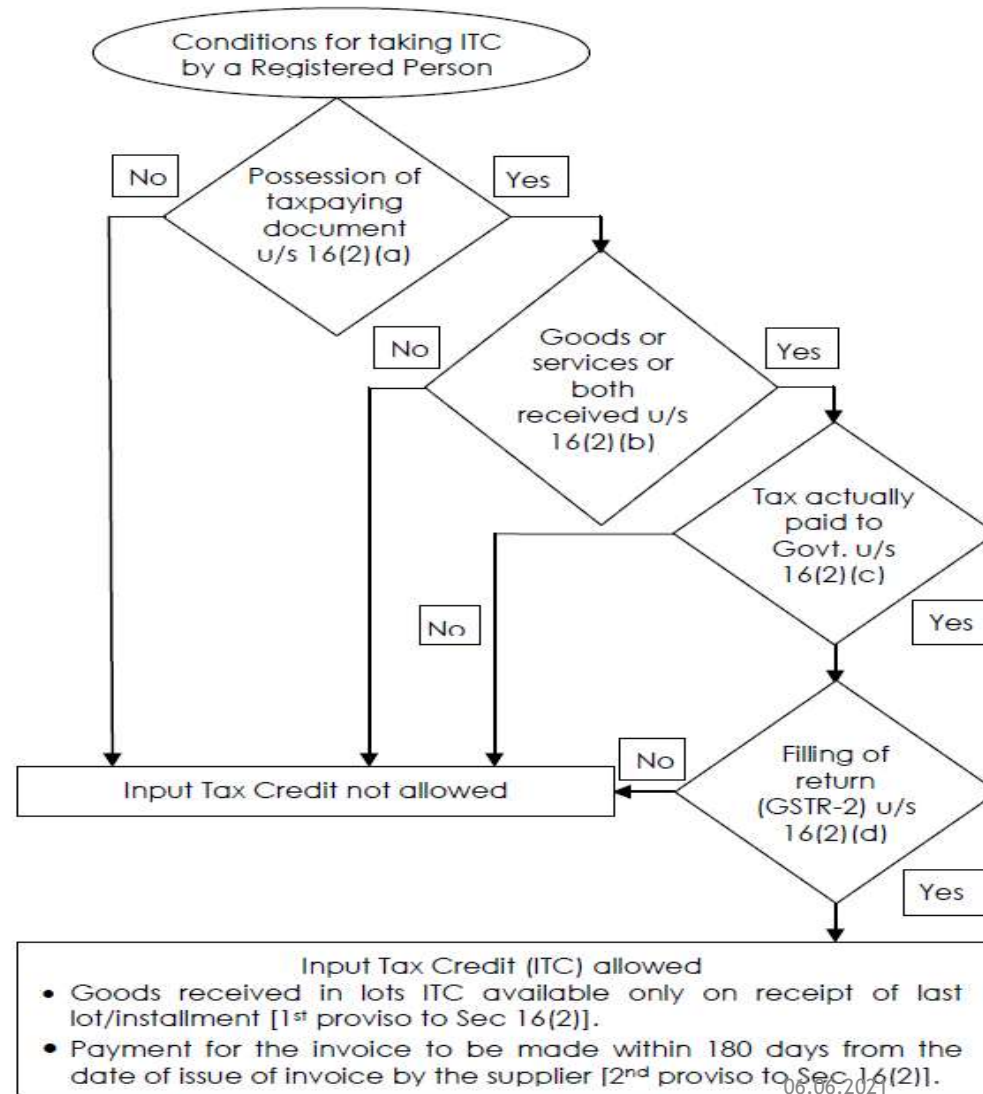
✓ **From 01st Jan 2021 onwards:**

Invoices not uploaded by supplier then recipient shall not claim in excess of **5%** of Eligible credit reflected in GSTR-2A

Special Notes on ITC:

Note 1	In case of Goods received in lots	<p>ITC available only on receipt of last lot / Installment</p> <p>Eg: XYZ makes an advance payment in August and orders 10 MT of a particular chemical which is in short supply. The supplier of the chemical raises a bill for the entire amount in August and collects GST from XYZ on the advance paid. The chemical is delivered in lots over a period of three months and the supply is completed in November. Though XYZ paid some tax in advance as early as August, he can take the ITC only on receipt of last instalment of the chemical in the month of November.</p>
Note 2	<p>Payment for the invoice to be made within 180 days from DOI:</p> <ul style="list-style-type: none"> ◆ The registered person must pay the supplier, the value of the goods and/or services along with the tax within 180 days from the date of issue of invoice. ◆ In the event of failure to do so, Such credits availed by the registered person should be reversed in GSTR - 3B ◆ Interest will be paid @ 18% from the date of availing credit till the date of reversal of credit. ◆ However, once the payment is made to supplier later, the recipient will be entitled to avail the credit again without any time limit 	<p>Exceptions:</p> <p>This condition of payment of value of supply plus tax within 180 days does not apply in the following situations:</p> <p>(i) Supplies on which tax is payable under reverse charge</p> <p>(ii) Deemed supplies without consideration</p> <p>That means in above 2 cases, even though payment is not made to supplier, ITC can be availed</p>
Note 3	If depreciation claimed on tax component, ITC not allowed	<p>Thus, in respect of the tax paid on such items, dual benefit cannot be claimed under Income-tax Act, 1961 and GST laws simultaneously. In other words, either depreciation on the tax component can be claimed under Income Tax Act or ITC of such tax paid can be availed under GST laws.</p>

Simplified Approach:



Time Limit for availing ITC S.16(4):

ITC on invoices pertaining to a financial year or debit notes relating to invoices pertaining to a financial year can be availed any time till the

a) **Due date** of filing of the return **for the month of September** of the succeeding FY



b) The **date of filing of the relevant annual return**,

- It may be noted that the return for the month of September is to be filed by the 10th October
- Annual return of a F.Y is to be filed by 31st December of the succeeding FY
- The time limit u/s 16(4) does not apply to claim for re-availing of credit that had been reversed earlier.



Blocked Credits u/s 17(5):

In the following cases ITC is not available at all		
S.N	Name	Exception (i.e., ITC is available)
1.	Motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver)	<p>When used for making the following taxable supplies:</p> <ul style="list-style-type: none"> • Further supply of such vehicles or conveyances; or • Transportation of passengers; or • Imparting training on driving such motor vehicles <p>Eg: A car dealer is allowed ITC on cars purchased for resale; a cab service is allowed ITC on cars purchased for use as cabs; a driving school is allowed ITC on cars purchased for use in teaching driving.</p> <p>Note: ITC is available on Motor vehicles with seating capacity of more than 13 persons (Blocked credit is only for vehicles with seating capacity \leq 13 persons)</p>
2.	Vessels and aircraft	<p>(i) for making the following taxable supplies, namely:—</p> <ul style="list-style-type: none"> (A) further supply of such vessels or aircraft; or (B) transportation of passengers; or (C) imparting training on navigating such vessels; or (D) imparting training on flying such aircraft; <p>(ii) for transportation of goods;</p>
3.	Services of general insurance, servicing, repair and maintenance in so far as they relate to motor vehicles, vessels or aircraft referred to in 1 & 2 points above	If ITC is eligible (as per Exception 1 & 2), then these services also eligible as ITC;

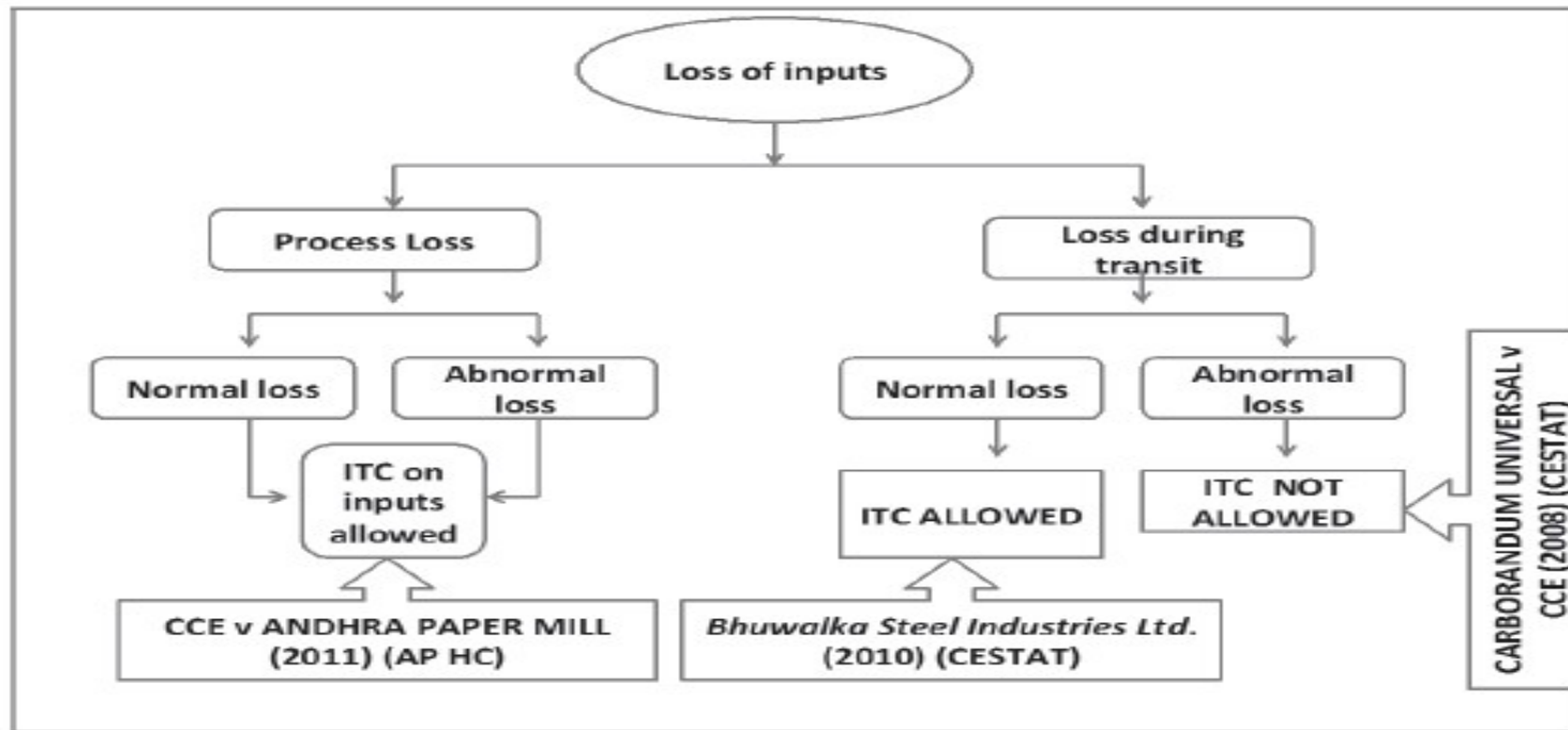
Blocked Credits u/s 17(5):

4.	Foods and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery	<p>a) An inward supply of these is used for making an outward taxable supply of the same category or as an element of a taxable composite or mixed supply. Eg : A caterer for a wedding gets the sweet dish course supplied by a specialist in desserts. He is allowed ITC of the tax paid by him to the specialist.</p> <p>b) The Government has made it obligatory for an employer to provide any of these services to its employees</p>
5.	Leasing, renting or hiring of motor vehicles, vessels or aircraft, life insurance and health insurance	<p>a) The Government has made it obligatory for an employer to provide any of these services to its employees; or</p> <p>b) Inward supply of these services is used for making an outward taxable supply of the same category or as an element of a taxable composite or mixed supply.</p>
6.	Works contract services for construction of an immovable property	<p>a) It is input service for further supply of works contract service</p> <p>b) Immovable property is plant and machinery</p>
7.	Membership of a club, health and fitness centre	When such services are provided by an employer to its employees under a statutory obligation
8.	Travel benefits to employees on vacation such as LTC	The Government has made it obligatory for an employer to provide any of these services to its employees under any law;

Blocked Credits u/s 17(5):

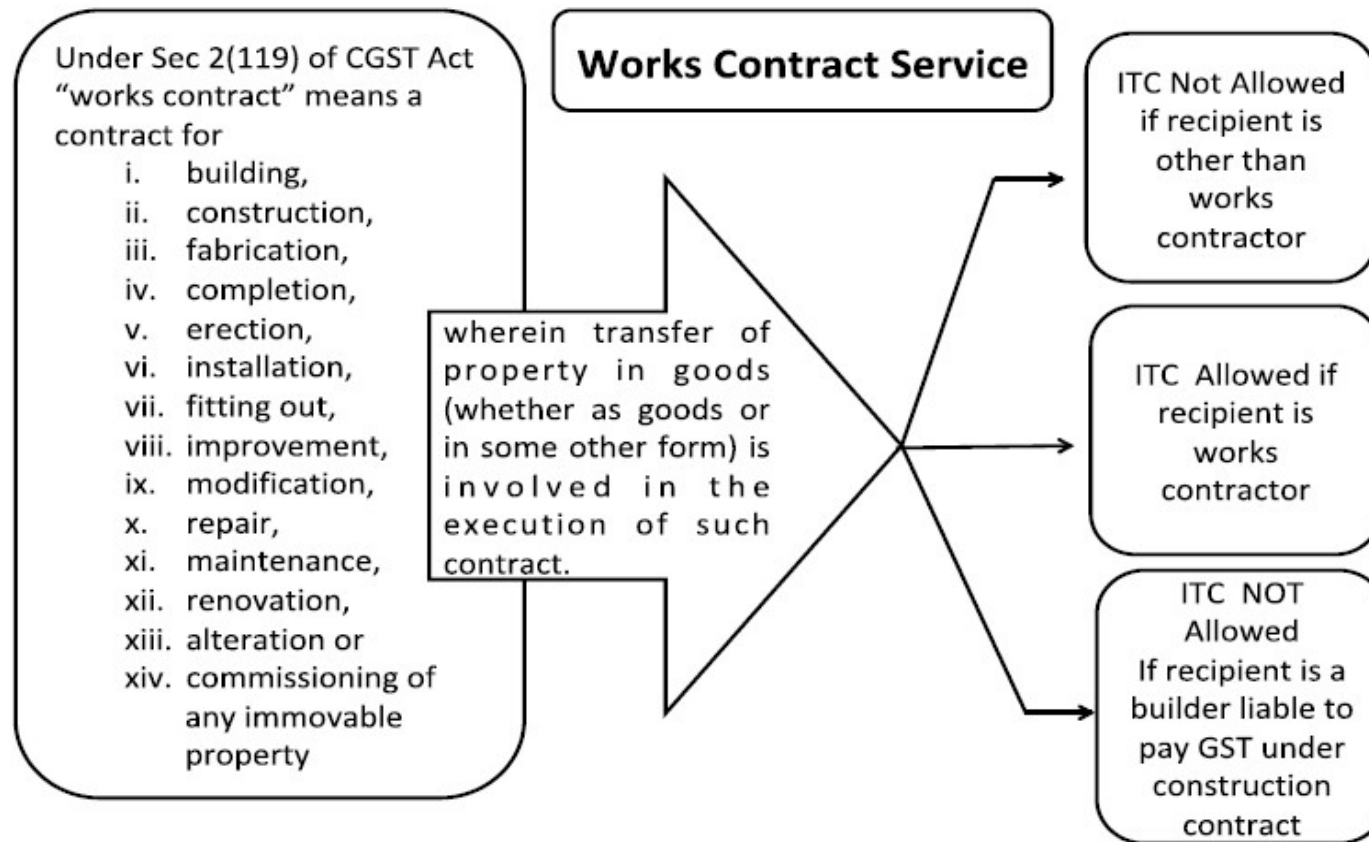
9.	<p>Inward supplies received by a taxable person for construction of an immovable property (other than plant and machinery) on his own account even when such supplies are used in the course or furtherance of business</p> <p>Eg : - A company buys material and hires a contractor to construct an office building to house the plant supervisory staff. The input tax paid on such goods and services is not allowed as credit.</p> <p>Meaning of construction and plant and machinery</p> <p>"Construction", both in this clause and the previous one, includes reconstruction, renovation, additions or alterations or repairs, to the extent of capitalization, to immovable property;</p> <p>"Plant and machinery" means apparatus, equipment, and machinery fixed to earth by foundation or structural supports but excludes land, building or other civil structures, telecommunication towers, and pipelines laid outside the factory premises.</p>
10.	Inward supplies on which tax has been paid under the composition scheme
11.	Inward supplies received by a non-resident taxable person except goods imported by him
12.	Goods and / or services used for personal consumption
13.	Goods that are lost, stolen, destroyed, written off or disposed of by way of gift or free samples
14.	Tax paid under sections 74, 129 and 130. (These sections prescribe the provisions relating to tax paid as a result of evasion of taxes, or upon detention of goods or conveyances in transit, or towards redemption of confiscated goods/conveyances.)

Blocked Credits u/s 17(5): Serial No.13



Blocked Credits u/s 17(5): Serial No.6

Concept of Input Tax Credit in Real Estate Industry:



Blocked Credits u/s 17(5): Serial No.6 & 9

This concept further elucidated in the following table:

Nature of service	ITC	Remarks
Cement is used for construction of administration building	Not allowed	Building is not plant and machinery.
Cement is used for foundation of pillars supporting a boiler	Allowed	As such structural support for plant and machinery is included in definition of plant and machinery.
Works contract services is provided by sub-contractor to a contractor	Allowed	Works contracts service is excluded except when used for providing work contract service
Steel and other structural supports are used for Land, building or any other civil structures; or setting up a telecommunication tower; or pipelines laid outside the factory premises	Not allowed	These are specifically excluded from the term plant and machinery. Note: Credit of tax paid on goods and services used for construction of immovable property including work contract service has been allowed only if such immovable property is in the nature of "plant and machinery".
GST paid on parts of telecommunication towers or parts of pipelines.	Not Allowed	GST paid on any inputs or capital goods used for construction of telecommunication towers, pipeline laid outside the factory, will not be available as input tax credit.

Lets have Q&A

- ✓ ITC on cars purchased by a manufacturing company for official use of its employees and directors
- ✓ ITC on cars purchased by a car dealer for sale to customers
- ✓ ITC on cars purchased by a company engaged in renting out cars for transportation of passengers
- ✓ ITC on cars purchased by a car driving school
- ✓ ITC on buses purchased by a company for transportation of its employees from their residence to office and back
- ✓ ITC on trucks purchased by a company for transportation of its finished goods
- ✓ ITC on aircraft purchased by a manufacturing company for official use of its CEO
- ✓ ITC on aircraft purchased by an Aviation School providing training on flying aircrafts
- ✓ ITC on general insurance taken on a car used by employees of a manufacturing company for official
- ✓ ABC Ltd orders snacks for the employees who works in evening shift
- ✓ Mr. X undergoes plastic surgery for his face to look more beautiful

Lets have Q&A

- ✓ ITC on maintenance & repair services availed by a company for a truck used for transporting of its finished goods?
- ✓ AB & Co., a caterer of Amritsar, has been awarded a contract for catering in a marriage to be held at Ludhiana. The firm has given the sub-contract for supply of snacks, to be served in the marriage, to CD & Sons, a local caterer of Ludhiana. ITC on such outdoor catering services availed by AB & Co.,?
- ✓ ITC on outdoor catering services availed by a company, for its Annual day event organized for its employees and family members?
- ✓ ITC on outdoor catering service availed by a company to run a canteen in its factory. The Factories Act, 1948 requires the company to set up a canteen in its factory. ITC on such outdoor catering is ?
- ✓ M/s Jay Ltd. being a manufacturer purchased machinery worth Rs 10,00,000 on which GST Rs 1,80,000 is paid. What are the options manufacturer ?
- ✓ Repairs and maintenance expenses incurred for motor car used by the MD of the company, can company claim ITC on such repairs?



*{Arise, awake and stop not until the goal is reached}
- Swami Vivekananda*



By
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