



CA CMA Kedarnath

Hyderabad



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-VIII



Input Tax Credit (ITC)

❖ ITC can be availed on

- ✚ Inputs
- ✚ Input services
- ✚ Capital Goods

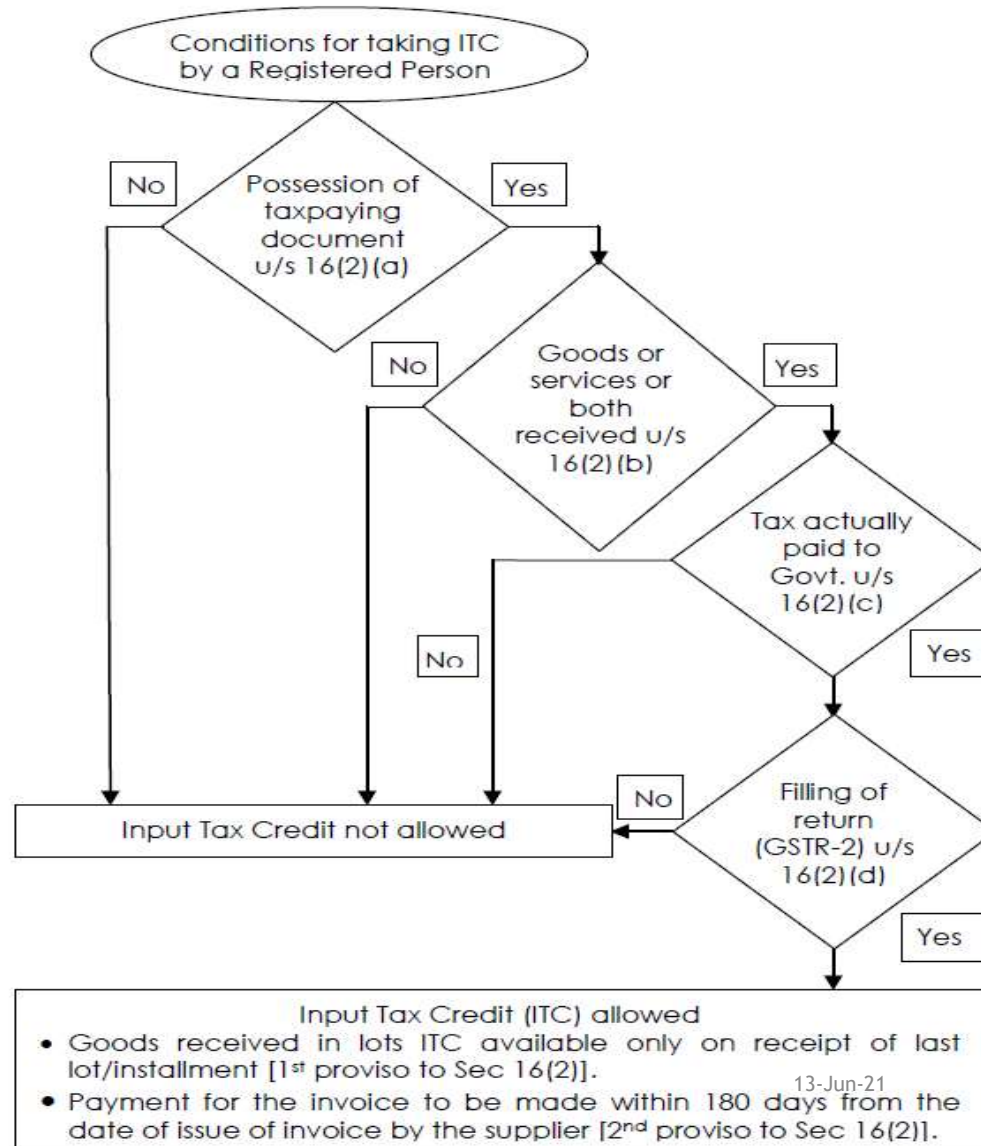
S.16(1) Eligibility for taking ITC:

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

S.16(2) Conditions for Availing ITC: Satisfy **ALL 4** conditions

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

Simplified Approach:



Q&A

- ✓ Mr. X manufacturer of plastic chairs, in the course of manufacture he availed certain design services, whether Mr. X is eligible to claim the ITC?
- ✓ Mr. A apprehension that ITC on capital goods claimed **50%** in current FY and balance in subsequent FY, does the contention of Mr. A is correct?
- ✓ M/s Sai Sandhya driving school purchased brand new Maruti Swift car for Rs 10,00,000 & Paid GST @ 18% Rs 1,80,000 what is the eligible amount of ITC?
- ✓ ABC Ltd paid 50 Lakhs + GST 18% i.e., Rs 9 Lakhs for the purpose of health insurance of its employees, what is the eligible amount of ITC?
- ✓ ABC Ltd orders snacks for the employees who works in evening shift, whether ITC eligible or not??
- ✓ Mr. X undergoes plastic surgery for his face to look more beautiful, whether ITC eligible or not?
- ✓ Reliance industries taken General insurance on its P&M worth Rs 1 Cr and GST Paid on such insurance is Rs 18% i.e., Rs 18,00,000/- whether ITC is eligible to claim or not by the entity?
- ✓ What would be your answer if the same insurance is taken on the life of employees?

Q&A

- ✓ Repairs and maintenance expenses incurred for motor car used by the MD of the company, can company claim ITC on such repairs?
- ✓ Suppose if such repairs and maintenance expenses incurred by the Sri Sai Ram Driving School?
- ✓ ABC Ltd incurred construction cost of Rs 10 Lakhs for new office building for its employees and GST included in the said cost is Rs 1,00,000/- does ABC Ltd claim such ITC?
- ✓ Infosys provides club membership & fitness membership to its employees. For this Infosys pays Rs 1,000/- plus 18% GST to third party for one employee, can Infosys eligible to claim the ITC on such membership fees?
- ✓ Mr. A who is a retailer, his godowns caught fire and lost 1000 articles and he already claimed ITC on such articles to the tune of Rs 1,00,000/- does he required to take any further action on this?
- ✓ Mr. A Gold merchant on 01st Jan 2021 he purchased gold biscuits and sent to a gold smith who is called as a job worker, the job worker made the ornaments and send back the ornaments to Mr. A on 31st Mar 2021. When shall Mr. A can claim ITC on the gold biscuits?

i) 01st Jan 2021

ii) 31st Mar 2021

iii) Proportionate in each month

iv) ITC not eligible

Taking ITC in respect of Inputs and CG sent for Job work (Section 19)

- a) Principal can take credit on goods (inputs and capital goods) sent for job work.
- b) Credit can be taken even if the said goods are sent directly to job worker without being first brought to the principal's place of business

Time limit for return of goods sent for job work/supply from job worker's place of business

◆ Inputs - 1 year

◆ Capital goods - 3 years

from the date of sending the same for job work / direct receipt by Job worker

On failing to comply with the timelines, the goods will be deemed to have been supplied to the job worker on the day they were sent out.

- a) It should be declared in GSTR 1
- b) Principal is liable to pay tax along with applicable interest on such supply.
- c) Subsequent return of the goods by the job worker will be treated as a separate supply

Time-lines do not apply to moulds and dies, jigs and fixtures or tools sent out for job work.

Taking ITC in respect of Inputs and CG sent for Job work (Section 19)

Other Conditions:

- a) Delivery challan to be issued by the principal under Rule 55
- b) The challan needs to be issued for the inputs or capital goods sent directly to the job worker.
- c) The responsibility for keeping proper accounts for the inputs or capital goods lies with the principal.
- d) The details of various challans relating to goods sent to /received from job worker or sent from one job worker to another job worker are to be included in quarterly Form GST ITC 04 submitted by 25th day of the month succeeding the relevant quarter.
- e) Details of goods sent by one jobworker to another jobworker need not uploaded in GST ITC-04

	Original Time limit	Extension on approval by commissioner
Inputs	1 year from date of sending goods to Job worker	One more year
Capital goods	3 years from date of sending goods to Job worker	2 more years

Lets Discuss

- ✓ Mr. X who is engaged in manufacturer of both taxable supplies and exempted supplies, does he eligible to claim the **entire** ITC on inputs & input services?
- ✓ Can he claim FULL ITC on capital Goods?
- ✓ Mr. A is retail dealer purchased 10 mobiles for his shop for Rs 1,00,000 and paid GST Rs 10,000/-, out of 10 mobiles **1** mobile he has taken for his personal use. Can he eligible to claim entire Rs 10,000 as ITC in his GSTR-3B return?
- ✓ Mr. K purchased Rs 10,000/- worth of stationery for his business purpose and paid GST Rs 1,800/-, out of the office stationery his son daily comes and takes certain stationery and uses for his school/tuition home work. Can Mr. K eligible to claim Rs 1,800/- as ITC in his books and returns?

S.17 Apportionment of Credit

- ❖ ITC is available when the Inward Supply is
 - Used for Outward supply of Taxable Goods and Services
 - Used as Capital Goods
 - Used for Business purpose
 - Used for Zero rated supplies notwithstanding exempt nature

Note:

Zero Rated Supplies: Covers two kinds of supplies

- (i) Export of Goods or Services, and
- (ii) Supplies to a SEZ or SEZ developer

Therefore, ITC is available on goods and / or services used for supplies made in the course of export or to an SEZ unit or SEZ developer.

Why the concept of Apportionment of ITC

The situations requiring apportionment are as follows:

Situation-I: When the goods and / or services are used by the registered person for the purpose of

- ✓ Partly for business and
 - ✓ partly for Non business purpose
- (&)

Situation-II: When the goods and / or services are used by the registered person for making

- ✓ Partly taxable supplies and
- ✓ Partly exempt supplies (here taxable supply includes zero-rated supplies)

In both the situations, full ITC on inward supplies cannot be taken; only proportionate ITC is allowed in such scenarios.

Examples:

- ▶ Out of 10 containers purchased by a registered person engaged in taxable supply of goods, 5 are used for storing non-taxable goods (exempt supply) such as petroleum (petroleum is out of GST gamut). ITC on 5 containers used for non-taxable goods cannot be availed.
- ▶ A registered person (partnership firm) purchases 5 laptops but one of the laptop is being used by the son of one of the partners of the firm. ITC will not be available on such laptop as it is used for personal purposes.

Rule-42: Manner of determination of ITC on inputs and input services and reversal of ineligible credit:

Step 1 – Compute common credit

Total input tax involved on inputs & input services in a tax period	T
Less: Input tax on inputs & input services that are intended to be used exclusively for non-business purposes	(T ₁)
Less: Input tax on inputs & input services that are intended to be used exclusively for exempt supplies	(T ₂)
Less: Input tax on inputs & input services which are ineligible for credit [<i>i.e., blocked credits – Refer Next Topic</i>]	(T ₃)
ITC credited to Electronic Credit Ledger	C ₁
Less: ITC on inputs & input services that are intended to be used exclusively for taxable supplies including zero rated supplies	(T ₄)
Common ITC available for apportionment	(C ₂)

Rule-42: Manner of determination of ITC on inputs and input services and reversal of ineligible credit:

Step 2 – Compute credit attributable to exempt supplies (ineligible credit) by apportionment of common credit

a) **Calculate D_1** : Apportion C_2 into credit attributable to exempt supplies D_1 as under:

$$D_1 = (E/F) \times C_2$$

Where

E = Aggregate value of exempt supplies during the tax period

F = Total turnover in the State during the tax period

b) **Calculate D_2** : Compute credit attributable to non-business purposes D_2 as under

$$D_2 = 5\% \text{ of } C_2 \text{ (common credit)}$$

Rule-42: Manner of determination of ITC on inputs and input services and reversal of ineligible credit:

Step 3 – Restrict ineligible credits

Add $D_1 + D_2$ to the output tax liability.

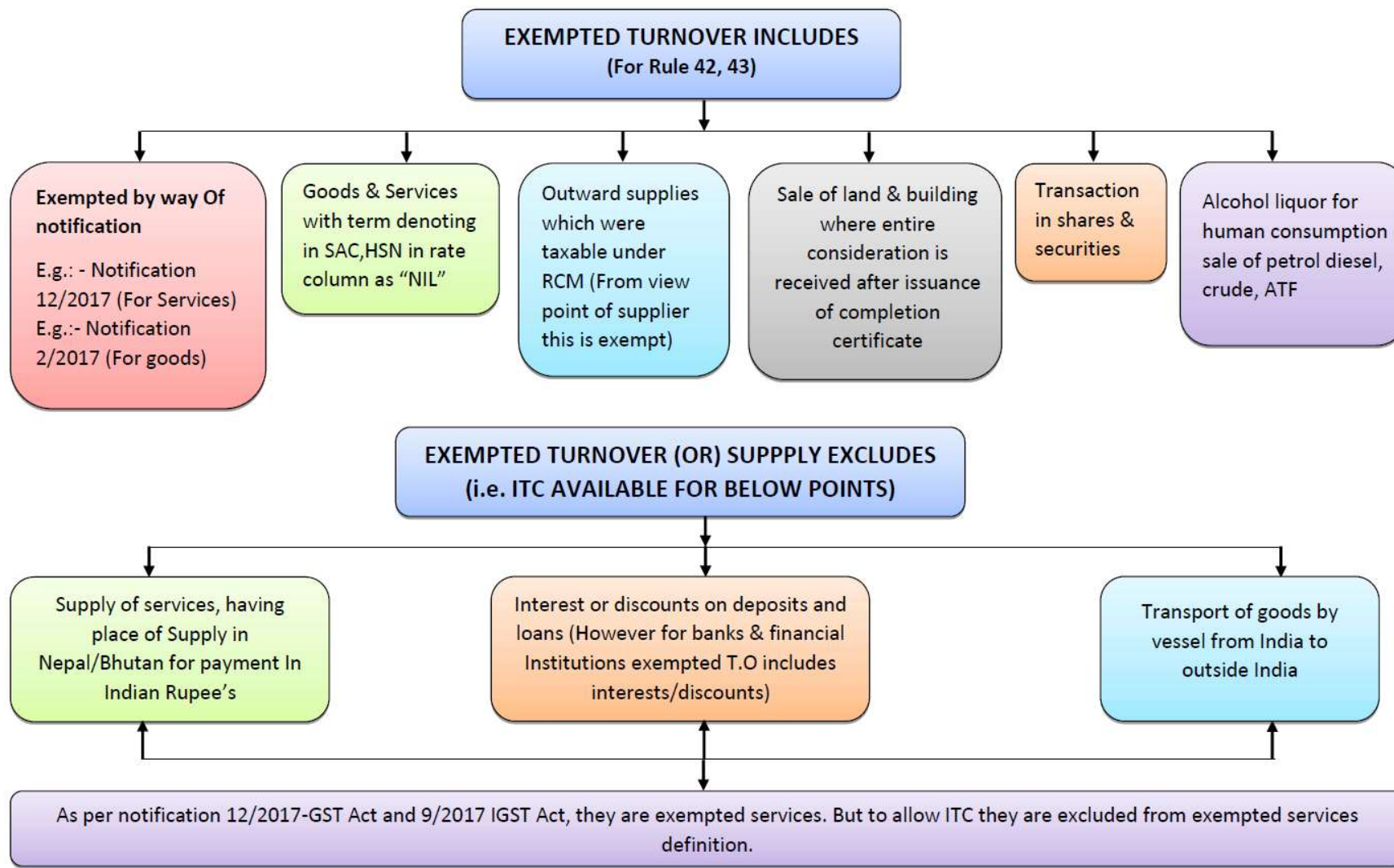
Important points

Compute C3 separately for ITC of CGST, SGST/ UTGST and IGST.

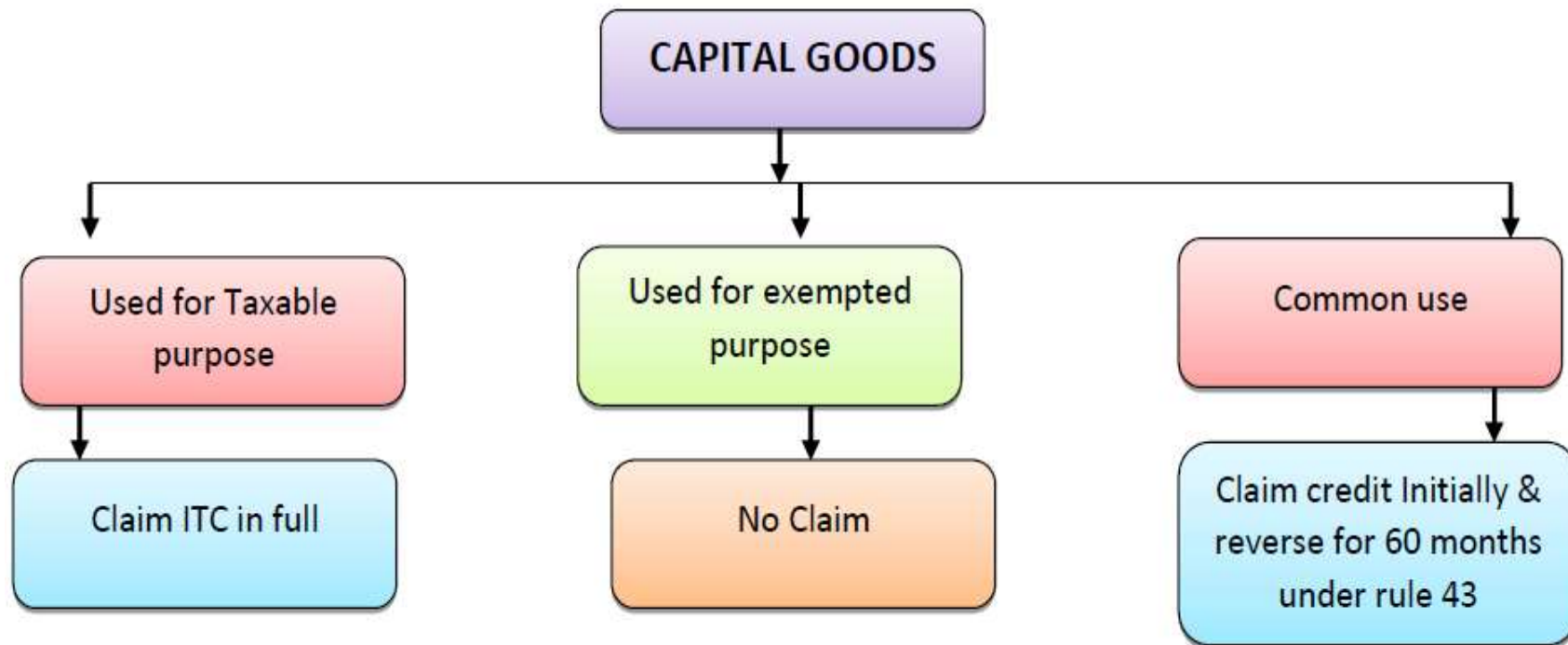
Compute $\Sigma (D_1 + D_2)$ for the whole financial year, by taking exempted turnover and aggregate turnover for the whole financial year, before the due date for filing the return for September in the following financial year.

If $\Sigma (D_1 + D_2) >$ the amount already added to output tax liability every month, the differential amount has to be added to the output tax liability of any month till September in the following financial year and interest @ rate 18% should be paid on such differential amount from 1st April of succeeding year till the date of payment.

If the amount added to output tax liability every month $> \Sigma (D_1 + D_2)$, the additional amount paid has to be claimed back as credit in the return of the month not later than September in the next financial year.



Rule-43 Methodology of apportionment of credit of Capital Goods and reversal there of



Rule-43 Methodology of apportionment of credit of Capital Goods and reversal there of

Step-1: Determine common credit 'Tc' on capital goods as under

(i) Identify input tax on capital goods which are used/intended to be used commonly for making

- ✓ Taxable Supplies as well as
- ✓ Exempt supplies and
- ✓ Business Purpose and
- ✓ Non-Business purposes and

- denote the same as 'A'. Such amount will be credited to Electronic Credit Ledger (ECL)

(ii) The useful life of such capital goods will be taken as 5 years from the date of invoice. (i.e., 60 months)

Step-2: Determine common credit during the useful life of capital goods for a tax period as under and denote the same as 'Tm'

$$T_m = T_c \div 60$$

Rule-43 Methodology of apportionment of credit of Capital Goods and reversal there of

Step-3: Apportion common credit attributable to exempt supplies as under

$$T_e = (E \div F) \times T_m$$

Where

E = Aggregate value of exempt supplies made during the tax period

F = Total turnover during the tax period

Step-4: Restrict ineligible credit

Add 'Te' to the output tax liability along with applicable interest @ 18% p.a during every tax period of the useful life of the capital goods concerned.

Note: If the registered person does not have any turnover during the said tax period, or the above information is not available, the values for the last tax period may be used.

Rule-38: Claim of credit by a banking company or a financial institution: Optional

Rule 38 of the CGST Rules provides the optional methodology

- As an alternative of Rule 42 & 43, a banking company or a financial institution including a NBFC, which accepts deposits, or extends loans or advances, has the option to limit its availment of ITC to 50% of the eligible ITC on inputs, capital goods and input services each month and the remaining ITC shall lapse.
- Credit of tax paid on inputs and input services that are used for nonbusiness purposes and items mentioned u/s section 17(5) [blocked credits] cannot be availed.
- The restriction of availing 50% ITC shall not apply to the tax paid on supplies procured from another registration within the same entity i.e., 100% credit of such tax can be availed.
- The option once exercised cannot be changed during the remaining part of the financial year.

Credit in Special Circumstances [Section 18]

I. Entitlement of ITC:

- ❖ New Registration
- ❖ Voluntary registration
- ❖ Composition tax to Regular scheme
- ❖ Exempt supplies become Taxable supplies

Conditions: Section 18 read with Rule 40 of CGST rules:

- ❑ ITC is allowed to claim on the “Stock” i.e., Inputs held in stock / semi-finished / F.G
- ❑ The registered person has to make an electronic declaration in **GST ITC-01**
- ❑ Time Limit: Within **30 days** from the date when the registered person becomes eligible to avail ITC
- ❑ If the claim of ITC pertaining to CGST, SGST/UTGST, IGST put together **exceeds ₹ 2,00,000**, the declaration needs to be certified by a practicing CA/CMA.

Credit in Special Circumstances [Section 18]

II. Reversal of ITC [Section 18(4) read with rule 44 of CGST Rules]

CASE 1 : Conversion from Regular to Composition scheme

CASE 2 : Taxable supplies become Exempted supplies

a) In respect of Inputs held in Stock

If invoices available: ITC on inputs will be reversed proportionately on the basis of corresponding invoices on which credit had been availed on such inputs.

If invoices are not available: If invoices are not available, the ITC to be reversed will be based on the prevailing market price of such goods on the date of switch over/exemption.

Note:

The details furnished on the basis of prevailing market value will be duly certified by a practicing CA/CMA.

Credit in Special Circumstances [Section 18]

b) In respect of Capital Goods

ITC involved in the remaining useful life (in months) of the capital goods will be reversed on pro-rata basis, taking the useful life as 5 years.

Ex: Capital goods have been in use for 4 years, 6 month and 15 days.

The useful remaining life in months = 5 months ignoring a part of the month.

ITC taken on such capital goods = C

ITC attributable to remaining useful life = $C \times 5/60$

c) Details of the amount payable / ITC reversed must be furnished in FORM **GST ITC-03** (This form is to be filed with **60 days** from the date of CASE 1/ 2 above)

d) Credit Ledger shall be reversed to the extent of Tax on ITC -03. Balance of ITC, if any, lying in the electronic credit ledger shall lapse.

e) The ITC to be reversed on inputs and capital goods will be calculated separately for ITC of CGST, SGST and IGST.

Credit in Special Circumstances [Section 18]

III. Cancellation of registration:

Same as Case 1 & 2 given above but Tax payable in this case is

a) Tax computed as per above provision

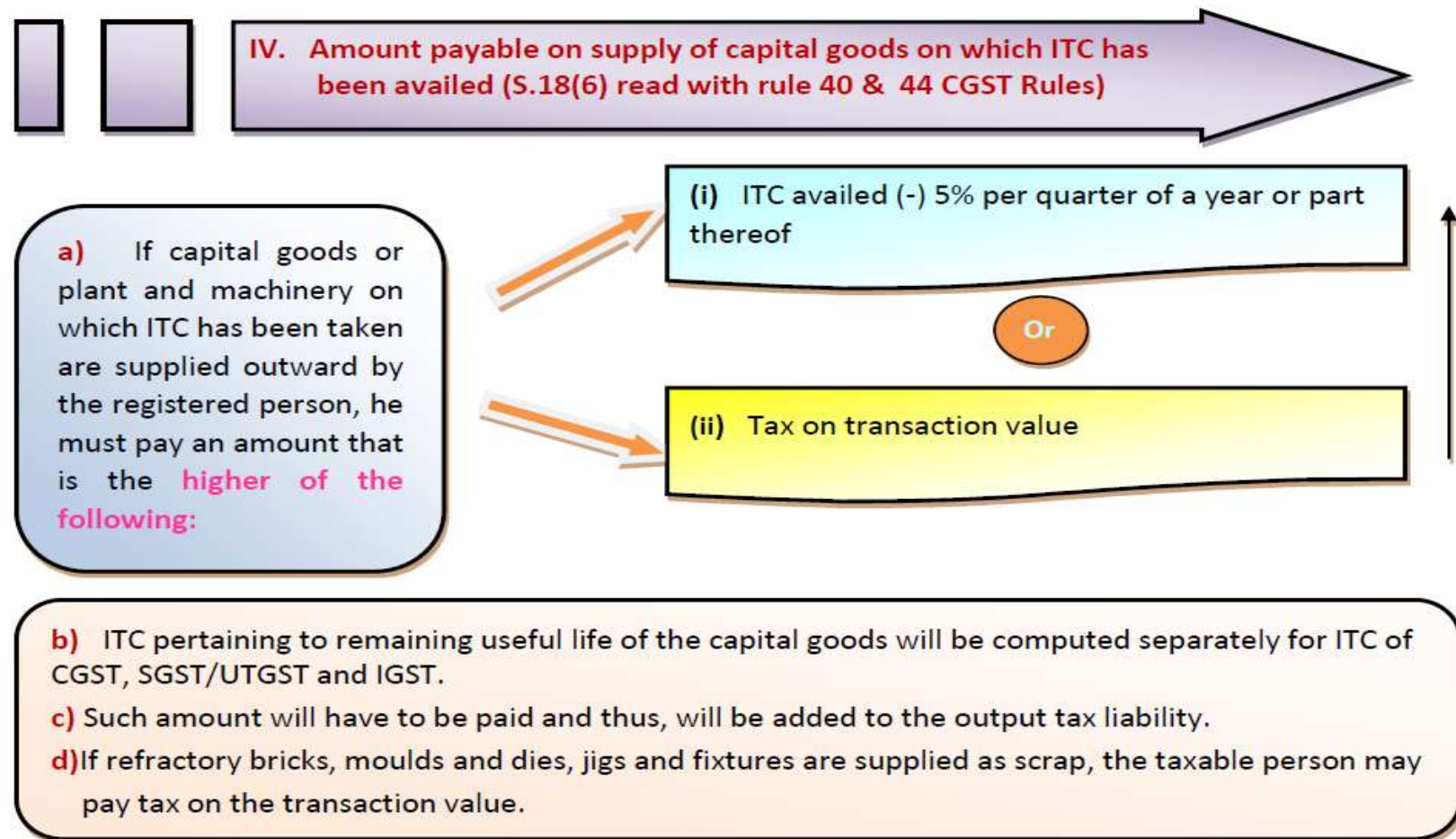
(or)

b) Tax on Transaction value

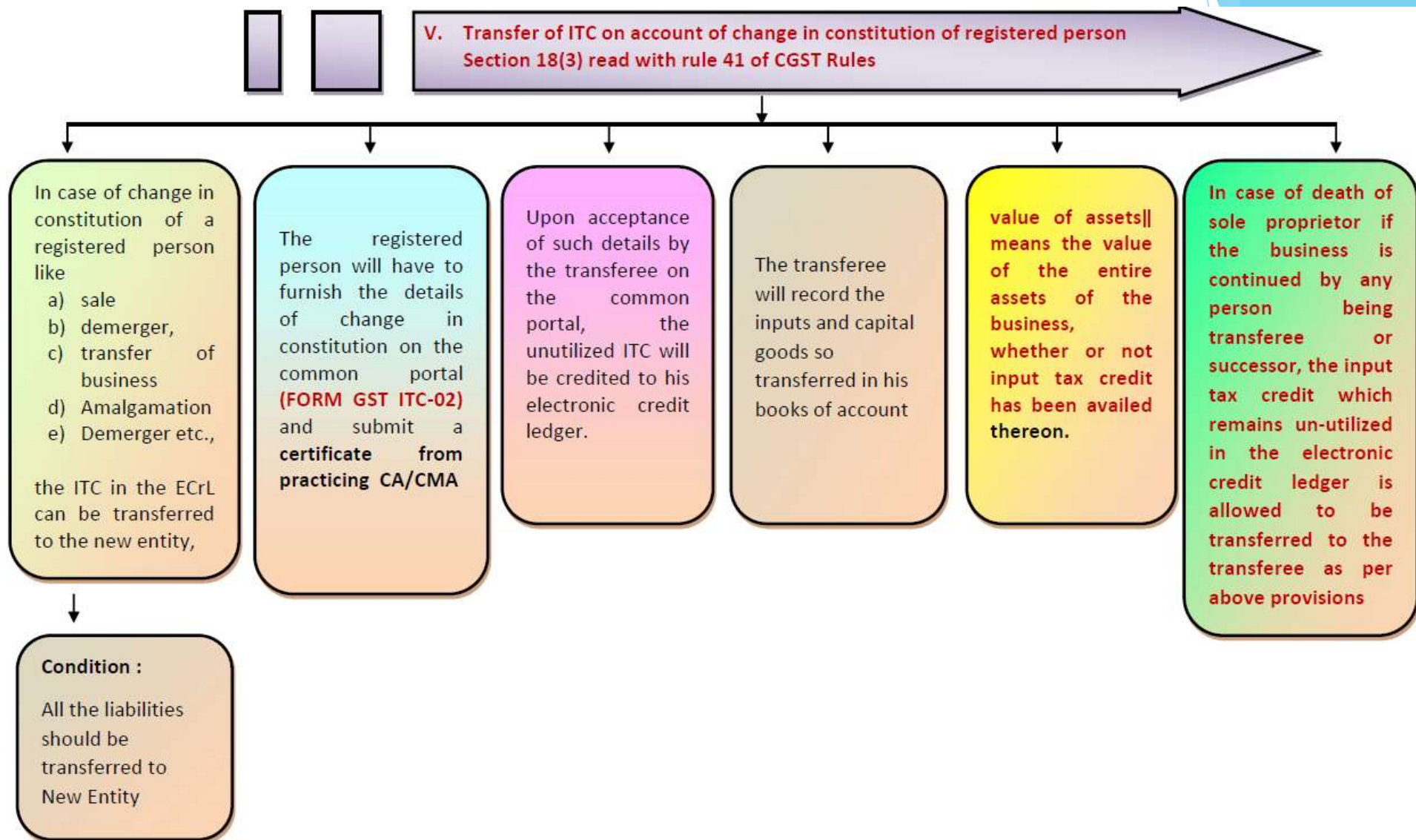
Note:

- This tax shall be paid in GST REG -16 itself (Application for Cancellation of Registration)
- As soon as the cancellation application is filed, it will convert into suspend mode
- Later the cancellation request will be approved by proper officer, once he satisfies
- Final Return in GSTR-10 should also be submitted within 3 months from date of Cancellation

Credit in Special Circumstances [Section 18]



Credit in Special Circumstances [Section 18]



Credit in Special Circumstances [Section 18]

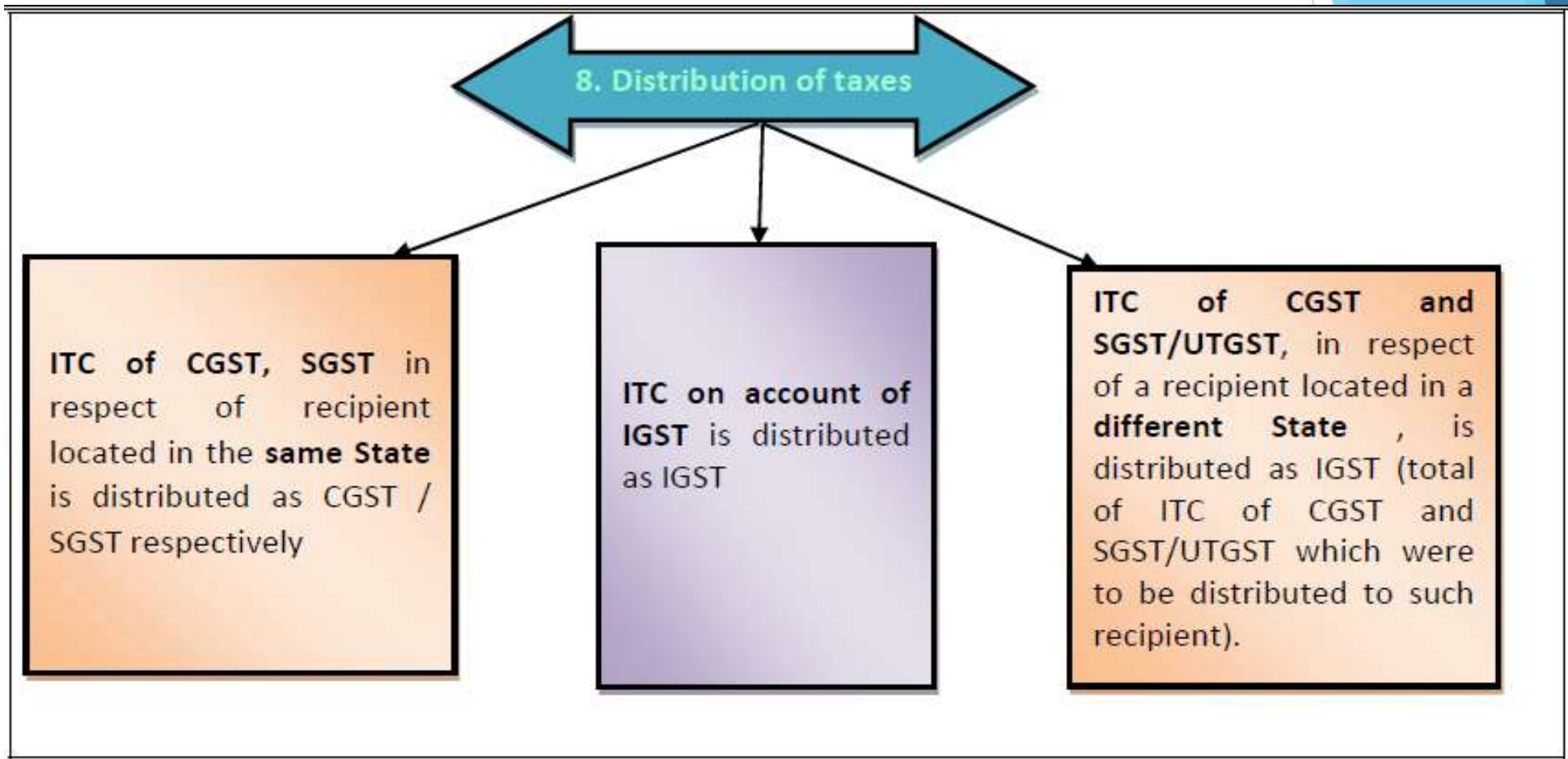
VI. Rule 41A Transfer of credit on obtaining separate registration for multiple places of business within a State or Union territory

- a) A registered person taking multiple registration in State if intends to transfer the ITC to the newly registered entity then he shall file the details of ITC to be transferred in FORM **GST ITC 02A** (newly inserted in Forms) **within 30 days** of obtaining separate registration.
- b) ITC shall be transferred in the ratio of value of assets held by those multiple entities at the time of registration.

Distribution of Credit by ISD (Section 20 & 21)

- ❖ ISD is an office of a business which receives tax invoice for input service and distributes available ITC to other branch offices of the same business
- ❖ Since the common expenditure is meant for the business of all units, it is but natural that the credit of input services in respect of such common invoices should be apportioned between all the consuming units. ISD mechanism enables proportionate distribution of credit of input services amongst all the consuming units. The concept of ISD under GST is a legacy carried over from the service tax regime.
- ❖ An ISD is compulsorily required to obtain a separate registration as an ISD even though it may be separately registered. There is no threshold limit for registration for an ISD. The other locations may be registered separately.
- ❖ Since the services relate to other locations the corresponding credit should be transferred to such locations (having separate registrations) as the output services are being provided there.
- ❖ Can a company have multiple ISDs?
- ❖ Yes, different offices a company like marketing division, security division etc. may apply for separate ISD registration.

Distribution of Credit by ISD (Section 20 & 21)



Distribution of Credit by ISD (Section 20 & 21)

9. Procedural aspects of distribution of credit [Rule 39 of CGST Rules]

The ISD has to issue an ISD invoice for distributing ITC. Indicate in such invoice that it is issued only for distribution of ITC.

The ISD needs to issue a **ISD credit note**, for reduction in credit if the distributed credit gets reduced for any reason.

- ♣ Furnish monthly GSTR-6 within 13 days.
- ♣ The details in the returns are made available to the recipients in their GSTR 2A.
- ♣ The recipients may include these in its GSTR- 3B for ITC

An ISD cannot accept any invoices on which tax is to be discharged under reverse charge mechanism.

ITC available for distribution in a month is to be distributed in the same month.

An ISD is not required to file annual return.

Recovery of excess credit distributed to a recipient [Section 21]

Shall be recovered from the recipient but not from ISD

8. How ITC is availed & Utilised (Section 49)

Changes in Availment of ITC- New section 49B & New rule 88A

The new rule provides as under

➡ ITC of IGST should first be utilized towards payment of IGST

➡ Remaining ITC of IGST, if any, can be utilized towards the payment of CGST and SGST/UTGST in any order, i.e. ITC of IGST can be first utilized either against CGST or SGST.

➡ ITC of CGST, SGST/UTGST can be utilized towards payment of IGST, CGST, SGST/UTGST only after the ITC of IGST has first been utilized fully.



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

