

Input Tax Credit

– Reversal – Rule 42 and 43



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Good and Simple Tax???

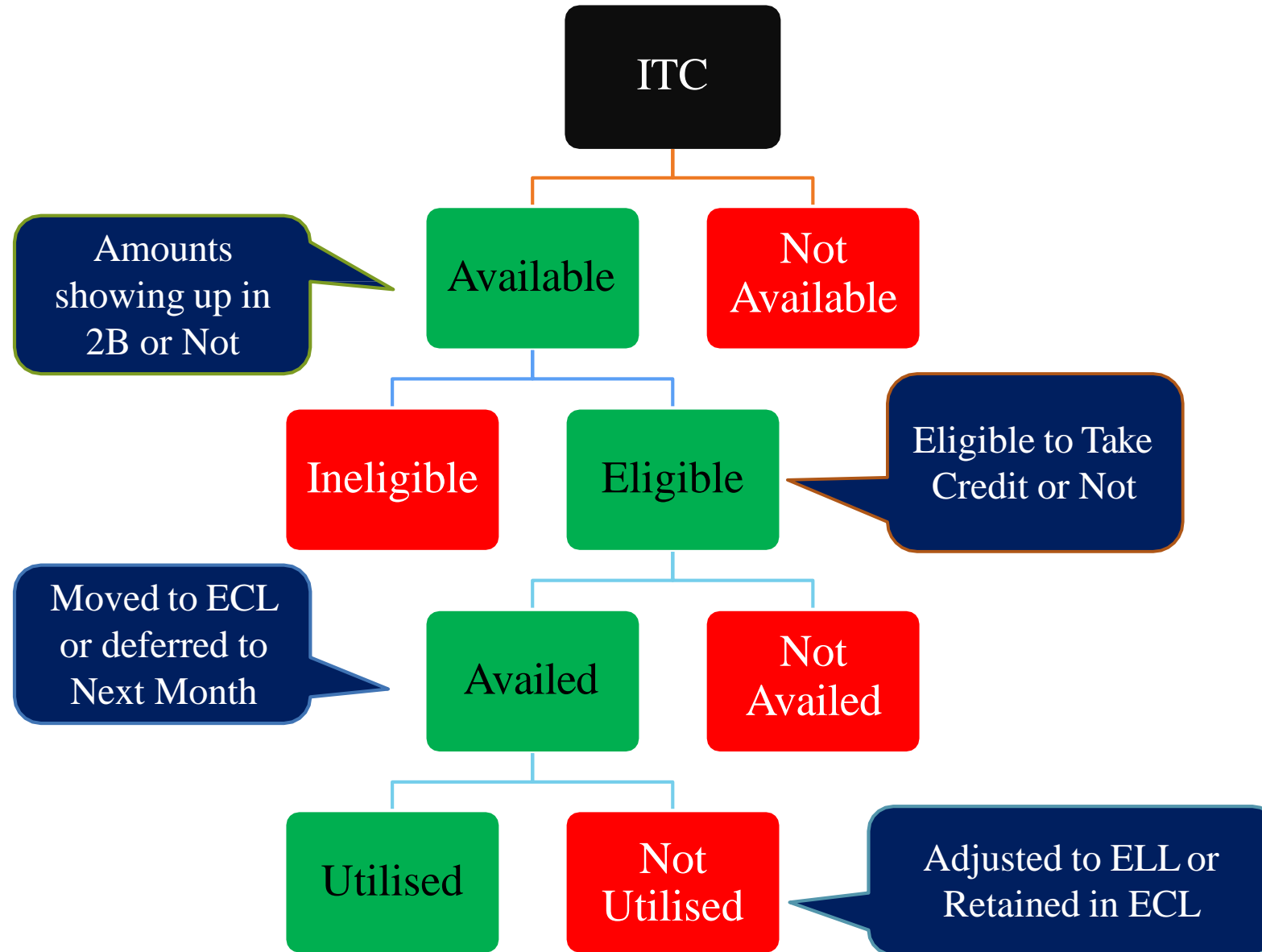
Input Tax Credit - Introduction



Concept of ITC

- “Input tax” means IGST (including that on import of goods), CGST, SGST and UTGST;
- Charged on any supply of goods or services and;
- Includes the tax payable under sub-section (3) and (4) of section 9,
- Includes the tax payable under sub-section (3) and (4) of section 5 of IGST Act,
- Includes the tax payable under sub-section (3) and (4) of section 9 of SGST Act,
- Includes the tax payable under sub-section (3) and (4) of section 7 of UTGST Act, excludes the tax paid under section 10 (composition levy)

Flow of Credit – System Track



Principles on Input Tax Credit

- System for a seamless flow of credit
- Extends to inter-State supplies
- Credit utilization would be as follows [Sec 49(5)]:

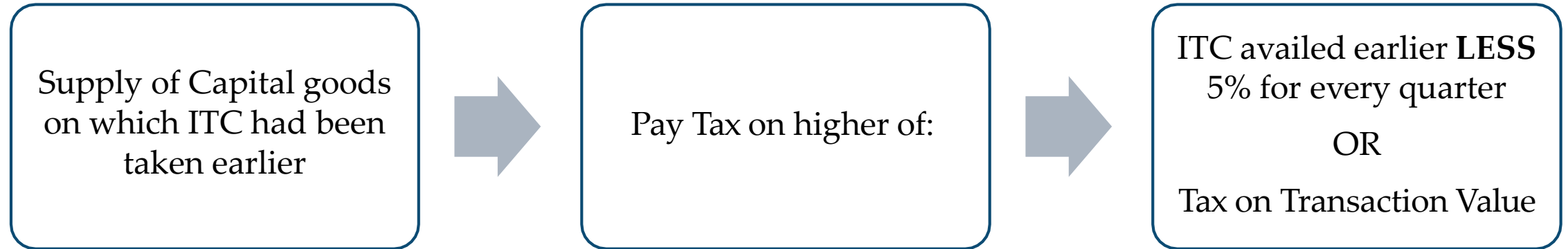
Credit of:	Allowed for Payment of		
	IGST	CGST	SGST
IGST	✓ (1)	✓ (2/3)	✓ (3/2)
CGST	✓ (2)	✓ (1)	
SGST	✓ (2)		✓ (1)

*The numbers represent the order of utilization of credit

- Expectation: Accumulation of unutilized GST credits would be avoided except in cases of exports

Supply of Capital goods on which ITC already taken

– Sec 18(6)



Note: Any credit wrongly taken shall be subjected to the recovery provisions

Purchase Date of Laptop	Jan 01, 2018
Purchase Price	50,000
Taxes Paid	9,000
Sale Date	May 05, 2020
Sale Value of Laptop	10,000

Particulars	Amount
Sale Value of Laptop	10,000
IGST @ 18%	1,800

Particulars	Amount
Input Tax Credit Availed	9,000
Less: 5% per quarter (For 10 quarters)	4,500
Higher of Tax – Rs 1800 or Total ITC availed less 5% per Quarter i.e. Rs 4,500	4,500

Input Credits – Reversal of ITC – Common Credit- Rule 42 & 43

Input Tax Credit (T)

T1

Used Exclusively
for Other than
Business

No ITC

T2

Used for sale of
Exempted
Products

No ITC

T3

Restricted Credits
(Sec 17(5) + Rate
Restriction

No ITC

T4

Exclusively used
for Taxable & '0'
Rated

100% ITC

C2

Common Supplies {
 $T - (T1 + T2 + T3 + T4)$ }

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ITC Rules (Rule 36-45) – Manner of Reversal

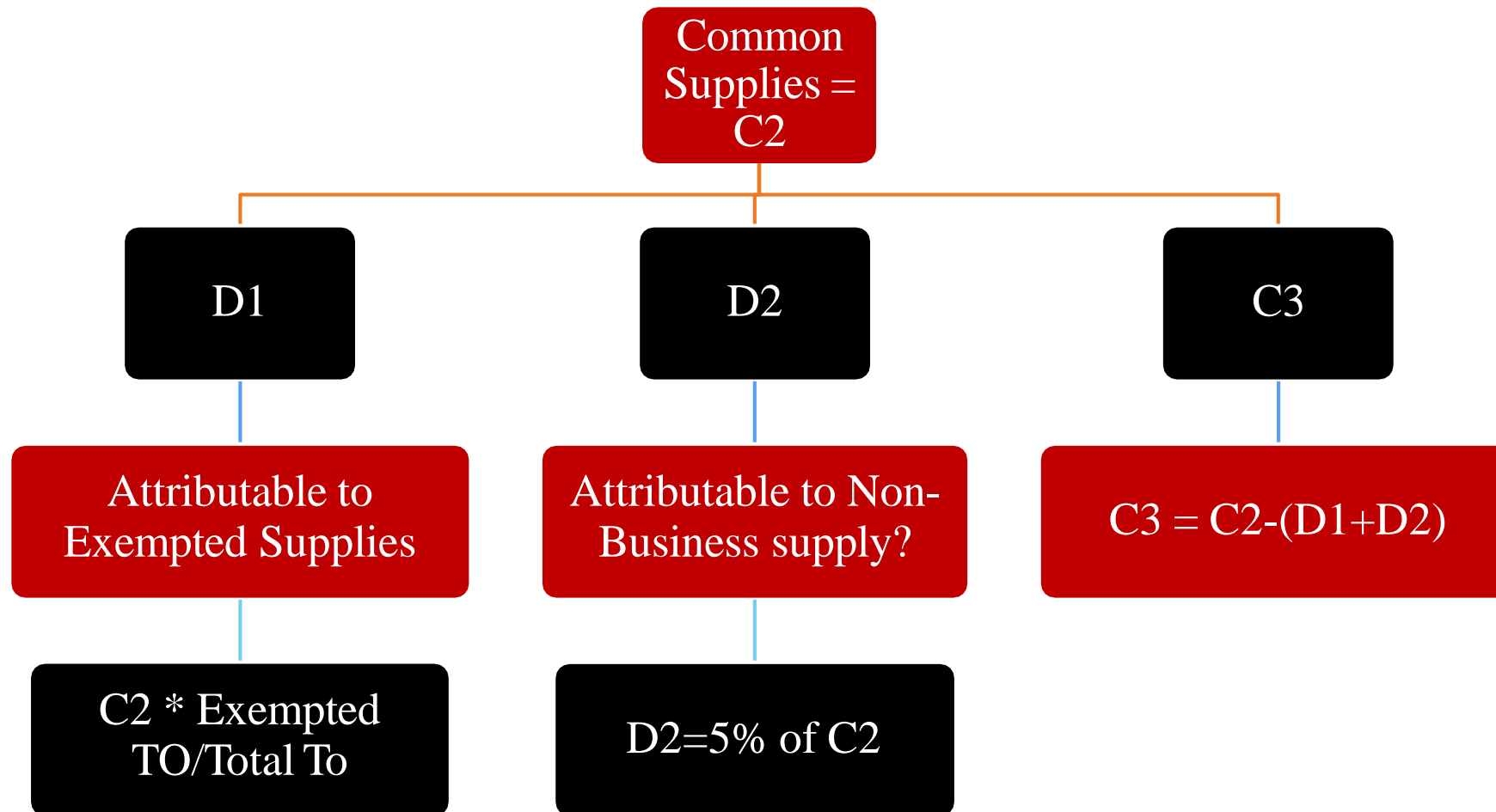
I. Reversal of credit where inputs or input services are used partly for business purposes or partly for effecting exempt supplies –

- Total input tax in a tax period to be denoted as 'T'
- Amount of input tax used exclusively for the purposes other than business 'T1'
- Amount of input tax used exclusively for effecting exempt supplies 'T2'
- Amount of blocked credit as per Section 17 (5) 'T3'
- Amount of input tax to be credited to electronic credit ledger ' $C1 = T - (T1 + T2 + T3)$ '
- Amount of input tax used exclusively for effecting taxable and zero rated supplies 'T4'
- T1, T2, T3, T4 to be determined at invoice level in GSTR-2
- Common Credit " $C2 = C1 - T4$ "
- Credit attributable towards exempt supplies " $D1 = C2 * (E/F)$ "

where

- 'E' is the aggregate value of exempt supplies, that is, all supplies other than taxable and zero rated supplies, during the tax period, and
- 'F' is the total turnover of the registered person during the tax period:
- Credit attributable towards non business purpose " $D2 = C2 * 5\%$ "

ITC Reversal – Rule 42



The amount equal to 'D1' and 'D2' shall be added to the output tax liability

ITC Rules – Manner of Reversal

- Remaining credit available for business purpose and for taxable and zero rated supplies “ $C3 = C2 - (D1 + D2)$ ”;
- C3 to be computed separately for CGST, SGST, UTGST and IGST;
- D1 and D2 shall be added to output tax liability provided invoice wise segregation has been made;
- Credit calculated on provisional basis shall be computed finally before due date of filing returns for the month of September following the end of the FY to which credit relates;
- In case amount calculated exceeds the provisional calculation the differential amount shall be added to the output tax liability and interest from the month of April of next FY till the date of payment to be paid;
- In case amount finally calculated is short of the provisional calculation, the differential amount shall be taken as credit in the month of September.

ITC Rules – Manner of Reversal- Illustration

Terms used in Rule	Particulars	Amount
T	Total Input Tax of Input and Input Services	500.00
T1	ITC for Non Business	100.00
T2	ITC for Exempt Supply	50.00
T3	ITC of Blocked Credits (Inputs Only)	25.00
C1	Valid ITC in ECL	
T4	ITC for Taxable Supply	200.00
C2	Common ITC	
E	Value of Exempt Supplies	2000.00
F	Aggregate Turnover	5000.00
D1	Value of ITC for Exempt Supply (From Common ITC)	
D2	Value of ITC for Non Business Purpose (From Common ITC)	
C3	Eligible ITC from Common ITC	
T4+C3	Total Eligible ITC for Use	

ITC Rules – Manner of Reversal- Illustration

Terms used in Rule	Particulars	Amount
T	Total Input Tax of Input and Input Services	500.00
T1	ITC for Non Business	100.00
T2	ITC for Exempt Supply	50.00
T3	ITC of Blocked Credits (Inputs Only)	25.00
$C1 = T - (T1 + T2 + T3)$	Valid ITC in ECL	325.00
T4	ITC for Taxable Supply	200.00
$C2 = C1 - T4$	Common ITC	125.00
E	Value of Exempt Supplies	2000.00
F	Aggregate Turnover	5000.00
$D1 = E / F * C2$	Value of ITC for Exempt Supply (From Common ITC)	50.00
$D2 = C2 * 5\%$	Value of ITC for Non Business Purpose (From Common ITC)	6.25
$C3 = C2 - (D1 + D2)$	Eligible ITC from Common ITC	68.75
$T4 + C3$	Total Eligible ITC for Use	268.75

Practice Sets



Practice Valuation of sale of Capital Goods

Purchase Date of Asset	Jul 01, 2017
Purchase Price	10,00,000
Tax rate	18%
Date of Sale	Jan 05, 2022
Sale Value of Asset	6,00,000

Particulars	Amount
Input Tax Credit Availed	1,80,000
Number of Quarters	19
Rate % for use	5%*1,80,000 = 9,000
Tax to be paid/reversed – Higher of	6,00,000*18% - 1,08,000 or 9,000 Output – 1,08,000

Purchase Date of Asset	Jan 10, 2019
Purchase Price	2,00,000
Tax rate	18%
Date of Sale	Dec 05, 2021
Sale Value of Machine	50,000

Particulars	Amount
Input Tax Credit Availed	36,000
Number of Quarters	12
Rate % for use	40% Rev – 14,400
Tax to be paid/reversed – Higher of	50,000*18% - 9,000 or 14,400 Output – 9000 Rev – 5,400

ITC Reversal- Illustration

Terms used in Rule	Particulars	Amount
T	Total Input Tax of Input and Input Services	750
T1	ITC for Non Business	50.00
T2	ITC for Exempt Supply	100.00
T3	ITC of Blocked Credits (Inputs Only)	10.00
Find C1	Valid ITC in ECL	590

ITC Rules – Manner of Reversal- Illustration

Terms used in Rule	Particulars	Amount
T	Total Input Tax of Input and Input Services	1000.00
T1	ITC for Non Business	200.00
T2	ITC for Exempt Supply	100.00
T3	ITC of Blocked Credits (Inputs Only)	100.00
C1	Valid ITC in ECL	600.00
T4	ITC for Taxable Supply	400.00
Find C2	Common ITC	200.00

$$C2 - C1 - T4$$
$$T - (T1 + T2 + T3 + T4)$$

ITC Rules – Manner of Reversal- Illustration

Terms used in Rule	Particulars	Amount
C2	Common ITC	500.00
E	Value of Exempt Supplies	2,000.00
F	Aggregate Turnover	10,000.00
Find D1	Value of ITC for Exempt Supply (From Common ITC)	100.00
Find D2	Value of ITC for Non Business Purpose (From Common ITC)	25.00
Find C3	Eligible ITC from Common ITC	500-100-25 = 375
Find Eligible ITC	Total Eligible ITC for Use	375.00

Thank you

