

INPUT TAX CREDIT

Input Tax Credit

**Input Tax Credit
under GST**



Input Tax Credit

Section 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;

Section 2(60)

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

Section 2(61)

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

Input Tax Credit

Section 2(62)

“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 and include

- (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-section (3) and (4) of section 5 of the Integrated Goods and Services Tax Act;
- (d) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 9 of the respective State Goods and Services Tax Act; or
- (e) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 7 of the Union Territory Goods and Services Tax Act, but does not include the tax paid under the composition levy;

Input Tax Credit



Section 16 – 21 of CGST Act 2017

Rules – 36 to 45 of CGST Act 2017

Forms ITC 01 – 04

Input Tax Credit

Section 16 – Conditions for Availing input tax credit of CGST Act 2017



In possession of the tax invoice or debit note

Received goods or services or both

Supplier has paid the taxes

Filed returns

If goods are received in lots or instalment, can be claimed only on receipt of final lot

Input Tax Credit

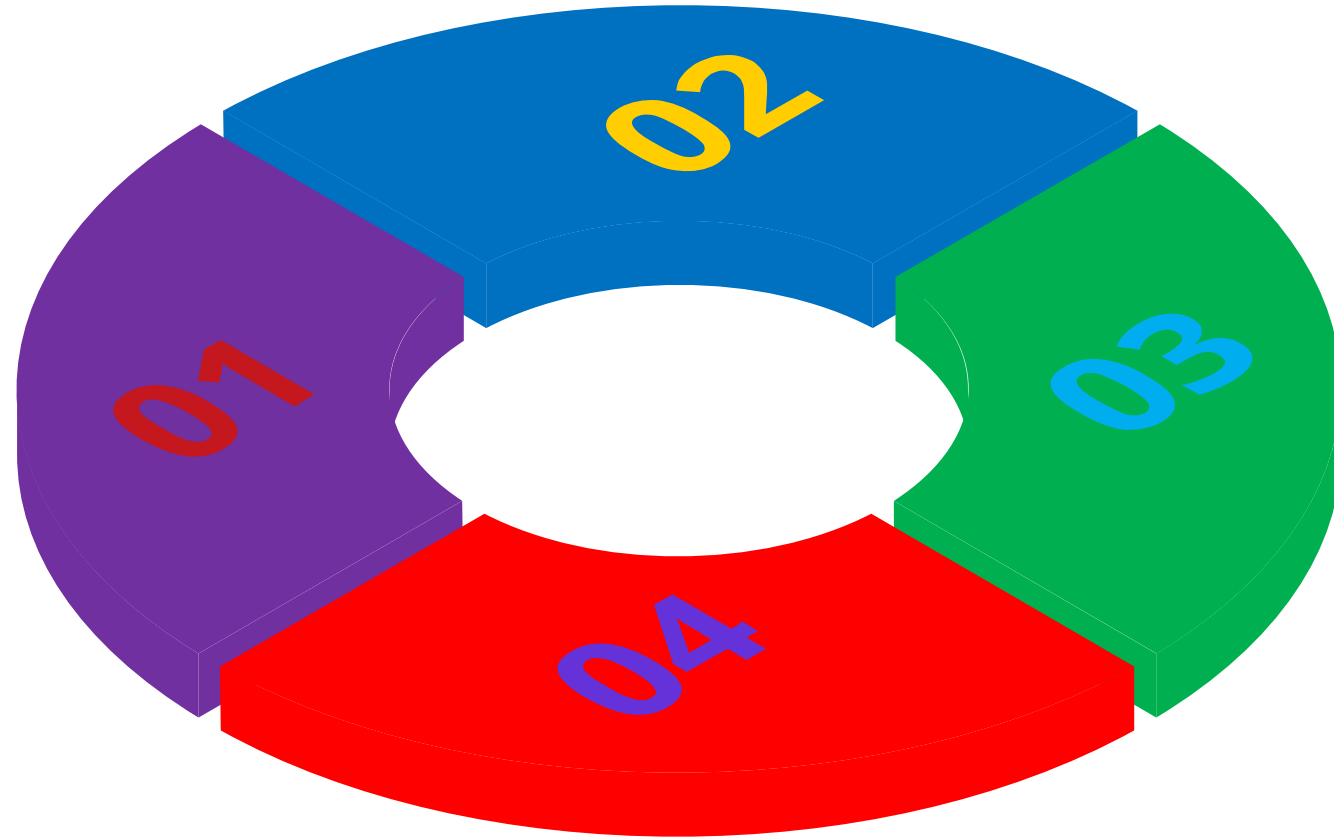
Section 16 – Reversal of ITC if supplier is not paid in 180 days

01. Input tax credit claimed has to be reversed

02. Can be claimed again only on payment to supplier

03. If paid partially, input tax credit has to be taken on pro rata basis

04. Time limit for availing ITC will not be applicable



Input Tax Credit

Section 16 – Other provisions

On capital goods, if ITC is claimed, then depreciation cannot be claimed on it

Section 16(3) ITC on Capital Goods

ITC can be availed
a) Due date of September month return
b) Filing of the annual return
Which ever is earlier

Section 16(4) – time limit for availing ITC

Input Tax Credit

Section 17 - Apportionment of credit and blocked credits

Section 17(1) – input tax credit can be claimed only if they are used for the purpose of business and if used for non business purpose then not eligible to claim ITC

Section 17(2) – if goods and services or both used for taxable and exempted supplies, then input tax credit is required to be reversed

Section 17(4) – banks have a facility of availing input tax credit on 100% and reverse on pro rata basis for the services used for exempted supplies or take only 50% of the eligible input tax credit.

The option can be changed at the beginning of the financial year only

Input Tax Credit

Section 17(5) - Blocked input tax credit – ITC not available in certain cases

Section 17(5)(a) – Motor vehicles with not more than 13 persons seating capacity will be allowed only in the following cases

- i) If they are sold again**
- ii) Used for transportation of passengers**
- iii) Used by driving schools for providing training**

Section 17(5)(aa) – vessels and aircrafts ITC be allowed only in the following cases

- i) If they are sold again**
 - ii) Used for transportation of passengers**
 - iii) Imparting training on navigation of such vessels**
 - iv) Imparting training on flying such aircraft**
- & for transportation of goods**

Input Tax Credit

Section 17(5) - Blocked input tax credit – ITC not available in certain cases

Section 17(5)(ab) – services of general insurance, servicing, repair and maintenance in so far as they relate to motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa):

Provided that the input tax credit in respect of such services shall be available—

(i) where the motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) are used for the purposes specified therein;

(ii) where received by a taxable person engaged—

(I) in the manufacture of such motor vehicles, vessels or aircraft; or

(II) in the supply of general insurance services in respect of such motor vehicles, vessels or aircraft insured by him

Input Tax Credit

Section 17(5) - Blocked input tax credit – ITC not available in certain cases

Section 17(5)(b) – the following supply of goods or services or both—

(i) food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) except when used for the purposes specified therein, life insurance and health insurance:

Provided that the input tax credit in respect of such goods or services or both shall be available where an inward supply of such goods or services or both is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply;

(ii) membership of a club, health and fitness center; and

(iii) travel benefits extended to employees on vacation such as leave or home travel concession:

Provided that the input tax credit in respect of such goods or services or both shall be available, where it is obligatory for an employer to provide the same to its employees under any law for the time being in force

Input Tax Credit

Section 17(5) - Blocked input tax credit – ITC not available in certain cases

(c) works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service;

(d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.

Explanation.—For the purposes of clauses (c) and (d), the expression “construction” includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalisation, to the said immovable property;

Input Tax Credit

Section 17(5) - Blocked input tax credit – ITC not available in certain cases

- (e) goods or services or both on which tax has been paid under section 10;
- (f) goods or services or both received by a non-resident taxable person except on goods imported by him;
- (g) goods or services or both used for personal consumption;
- (h) goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; and
- (i) any tax paid in accordance with the provisions of sections 74, 129 and 130.

Input Tax Credit

Section 17(6) - Blocked input tax credit – ITC not available in certain cases

The Government may prescribe the manner in which the credit referred to in sub-sections (1) and (2) may be attributed.

Explanation.— For the purposes of this Chapter and Chapter VI, the expression “plant and machinery” means apparatus, equipment, and machinery fixed to earth by foundation or structural support that are used for making outward supply of goods or services or both and includes such foundation and structural supports but excludes—

- (i) land, building or any other civil structures;
- (ii) telecommunication towers; and
- (iii) pipelines laid outside the factory premises.

Input Tax Credit

ITC in special cases

- From the effective date of registration

ITC in special cases

- Merger, Amalgamation or sale of business
 - o Balance in the electronic credit ledger as on the date of merger, amalgamation or sale of business will be transferred to the new entity
- De-merger
 - o Balance in the electronic credit ledger as on the date of de-merger will be prorated based value of the assets

ITC in special cases

- Merger, Amalgamation or sale of business
 - Balance in the electronic credit ledger as on the date of merger, amalgamation or sale of business will be transferred to the new entity
- De-merger
 - Balance in the electronic credit ledger as on the date of de-merger will be prorated based value of the assets

ITC in special cases

Company A has two divisions, soft drinks and furniture manufacturing. Value of the assets is ₹ 100 crores in total and value of the assets for furniture division is ₹ 30 crores and soft drinks division is ₹ 70 crores. Input tax credit in the books of the combined entity is ₹ 10 crores. What is the amount of input tax credit that has to be transferred to the furniture division that got de-merged or hived off into a separate company?

Input Tax Credit

ITC in special cases

Regular person switches to Composition Scheme

- ☐ ITC has to be reversed on the closing stock, capital goods, semi finished goods
- ☐ The balance in the electronic credit ledger as on the date of conversion has to be paid by way of debit
- ☐ ITC on the capital goods also has to be reversed on percentage as specified.
- ☐ Form ITC – 03 has to be filed

When composition taxpayer switches to regular scheme

- ☐ ITC can be claimed on the goods held in stock as on the date of conversion from composition to regular scheme

Input Tax Credit

ITC in special cases

Treatment on stock when exemption is withdrawn

- ITC as on the date of exemption withdrawn can be claimed

Input Tax Credit

ITC in special cases

➤ Form ITC – 01

➤ Form ITC – 02

➤ Form ITC – 03

➤ Form ITC – 04

Input Tax Credit

ITC in special cases

Input Service Distributor – ISD

Input Service Distributor means an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office;

Input Service Distributor

Manner of distribution of ITC by ISD

- ITC can be distributed based on prescribed document – Tax Invoice or Credit Note
- The amount of ITC distributed shall not be more than the credit available
- It shall be distributed to the recipient only if the same is identified directly
- If shall be distributed based on the turnover on pro rata basis if it is common expenses
- Have to file monthly return called GSTR – 6A

Why?

Don't play with fire: Experts caution taxpayers, professionals on fake GST bills

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Tax

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COMMENT

Is Matching Notified?

Yes

Notification No 9/2017 – Central Tax Dated 28th June 2017 with effective from 1st July 2017

What does Rule 36(4) say?

Notification No 49/2019 – Central Tax Dated 9th Oct 2019

3. In the said rules, in rule 36, after sub-rule (3), the following sub-rule shall be inserted, namely:-

“(4) Input tax credit to be availed by a registered person in respect of invoices or debit notes, the details of which have not been uploaded by the suppliers under sub-section (1) of section 37, shall not exceed 20 per cent. of the eligible credit available in respect of invoices or debit notes the details of which have been uploaded by the suppliers under sub-section (1) of section 37.”.

Notification No 75/2019 – Central Tax Dated 26th Dec 2019 – 20% to 10%

Notification No 94/2020 – Central Tax Dated 22nd Dec 2020 – 10% to 5%

What does Rule 36(4) say?

Notification No 49/2019 – Central Tax Dated 9th Oct 2019

Example – total purchases in a month where ITC is eligible is Rs 10,00,000

Amount Reflected in GSTR – 2A is Rs 6,00,000

What is the provisional credit which can be claimed?

20% of Rs 6,00,000 or Rs 4,00,000 (not in GSTR – 2A) ?

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

☐ What will happen to the balance amount of Rs = 2,80,000?

☐ What will happen to the provisional credit of Rs 1,20,000?

Implications

Notification No 49/2019 – Central Tax Dated 9th Oct 2019

- What will happen to the balance amount of Rs = 3,80,000?

Can be claimed as and when the supplier files his GSTR – 1

- What will happen to the provisional credit of Rs 1,20,000?

If the same is uploaded by the supplier in the next tax period, balance amount can be availed.

Reasons for differences

- o Supplier must have not filed the return
- o GSTIN is wrongly entered by the Supplier / in the purchase register
- o Goods shipped but not received
- o Goods received but not accounted – in QC/ Bills to reach the Accounts department
- o Mismatch between the tax amounts / invoice amount
- o Supplier has issued the invoice but not shipped the goods

Do I need to change my accounting?

- ✓ Recommended practice is to change the accounting or tweaking the business process.
- ✓ Creations of new ledgers
- ✓ What are the new ledgers to be created?
 - Interim / Suspense / Provisional ITC – SGST
 - Interim / Suspense / Provisional ITC – CGST
 - Interim / Suspense / Provisional ITC – IGST
 - Interim / Suspense / Provisional ITC – GST Cess

Is there any method for addressing the blocking of ITC ?

- o Yes, while placing orders of purchasing carefully evaluate the supplier apart from the quality, price, after sale service etc.,
- o Also check for the GST Compliance i.e., is the supplier filing the returns on time or not.
- o Have an activity to weed out the errant suppliers before placing new orders
- o This requires change in business process
- o This may not be possible in all cases, in such cases alternative mechanism should implemented

Matching is simple or complex process?

- o It is a simple process if technology is adopted / embraced
- o Most of the ERP's have the built in process for matching and generating the accounting entries automatically, thereby saving lot of time and human involvement.
- o Alternatively you can explore the reconciliation solutions offered by various GSP's ASP's software providers.
- o Adoption of technology makes matching simple and being GST Complaint.

Input Tax Credit

GSTR – 2A

****NOTE:** You can only view details of inward supplies in GSTR-2A

PART-A

**** Important Notice:** If the invoices are more than 500, please check [here](#)

B2B Invoices

Credit/Debit Notes

Amendments to B2B Invoices

Amendments to Credit/Debit Notes

PART-B

ISD Credits

Amendments to ISD Credits

PART-C

TDS Credits

Amendments to TDS Credits

TCS Credits

PART-D

Import of goods from overseas on bill of entry

Import of goods from SEZ units / developers on bill of entry

Please share your valuable feedback to enable me
to improve and communicate more effectively

