

*For every input, there's an equal and
opposite output.*

- Anonymous

INPUT TAX CREDIT



- Krishnan R (SIES ASCS)

Input Tax Credit?

A mechanism to avoid cascading of taxes.

A system where the output tax liability is reduced against set off with input tax, thereby paying only the balance amount.

Can be claimed only for wholly taxable and zero rated supplies.

Cannot be claimed for non-taxable, exempt, RCM and composition supplies.

Regular taxpayers must report the amount of Input Tax Credit (ITC) in their monthly GST returns of Form GSTR-3B.

Who can claim ITC?

- a. Any registered person can avail ITC on goods and services used or intended to be used in the course or furtherance of business.
- b. The dealer possessing tax invoice.
- c. The transacted goods/services should have been received.
- d. Returns should have been filed.
- e. The tax charged should have been paid by the supplier.
- f. When goods are received in installments, ITC can be claimed only when the last lot is received.
- g. Amount should be paid to the supplier within 180 days from the date of issue of invoice. (If not, then credit is reversed, with interest)
- h. No ITC will be allowed if depreciation has been claimed on tax component of a capital goods.

Who cannot claim ITC?

- Motor vehicles and other conveyances except under specified circumstances.
- goods and / or services provided in relation to
 - i. food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, except under specified circumstances;
 - ii. membership of a club, health and fitness center;
 - iii. Rent-a-cab, life insurance, health insurance except where it is obligatory for an employer under any law;
 - iv. travel benefits extended to employees on vacation such as leave or home travel concession;
- Works contract services when supplied for construction of immovable property, other than plant & machinery, except where it is an input service for further supply of works contract.

- Goods or services received by a taxable person for construction of immovable property on his own account, other than plant & machinery, even when used in course or furtherance of business.
- Goods and/or services on which tax has been paid under composition scheme.
- Goods and/or services used for private or personal consumption, to the extent they are so consumed.
- Goods lost, stolen, destroyed, written off, gifted, or free samples.
- Any tax paid due to short payment on account of fraud, suppression, mis-declaration, seizure, detention

Reversal of Input Tax Credit

- 1) **Non-payment of invoices in 180 days** - ITC will be reversed for invoices which were not paid within 180 days of issue.
- 2) **Credit note issued to ISD by seller** - This is for ISD. If a credit note was issued by the seller to the HO then the ITC subsequently reduced will be reversed.
- 3) **Inputs partly for business purpose and partly for exempted supplies or for personal use** - This is for businesses which use inputs for both business and non-business (personal) purpose. ITC used in the portion of input goods/services used for the personal purpose must be reversed proportionately.
- 4) **Capital goods partly for business and partly for exempted supplies or for personal use** - This is similar to above except that it concerns capital goods.
- 5) **ITC reversed is less than required** - This is calculated after the annual return is furnished. If total ITC on inputs of exempted/non-business purpose is more than the ITC actually reversed during the year then the difference amount will be added to output liability. Interest will be applicable.

Order of ITC Set Off [Sec 49(5)]

	IGST CREDIT	CGST CREDIT	SGST CREDIT
IGST	1	2	3
CGST	2	1	NOT PERMITTED
SGST	2	NOT PERMITTED	1

Order of ITC Set Off [Sec 49B] [Rule 88A] [CGST Act, 2017]

Notification No. 16/2019

ITC Account	IGST CREDIT	CGST CREDIT	SGST CREDIT
IGST	1	2 (IN ANY PROPORTION FULLY)	
CGST	4	3	NOT PERMITTED
SGST	6	NOT PERMITTED	5

1. ITC of IGST can be used and exhausted to set off IGST and then CGST and SGST in any order.
2. ITC of CGST can be used to set off CGST and then IGST.
3. ITC of SGST can be used to set off SGST and then IGST.

Illustration

Head	Tax liability	ITC available	Original set-off provision		After introduction section 49A		Rule 88A	
			Discharge of liability	ITC balance	Discharge of liability	ITC balance	Discharge of liability	ITC balance
IGST	NIL	800	NIL	NIL	NIL	NIL	NIL	NIL
CGST	800	500	CGST – 500	NIL	IGST - 800	500	IGST – 300	NIL
			IGST – 300		CGST – NIL		CGST – 500	
			Cash - NIL		Cash - NIL		Cash - NIL	
SGST	800	200	SGST – 200	NIL	IGST – NIL	NIL	IGST – 500	NIL
			IGST – 500		SGST – 200		SGST – 200	
			Cash - 100		Cash - 600		Cash - 100	

M/s Bingo submits the following information for the month of March 2019. Applicable rate of GST is 18%.

Intra-state Sale	Rs. 70,00,000
Inter-state Sale	Rs. 80,00,000
Intra-state Purchases	Rs. 1,45,00,000
Inter-state Purchases	Rs. 1,20,00,000

Compute Net Tax Payable applying Rule 88A.

Particulars	Value of Supply	Rate of GST	IGST	CGST	SGST
GST on o/w Supply (Intra)	70,00,000	18%		6,30,000	6,30,000
GST on o/w Supply (Inter)	80,00,000	18%	14,40,000		
Total O/w GST			14,40,000	6,30,000	6,30,000
GST on i/w Supply (Intra)	1,45,00,000	18%		13,05,000	13,05,000
GST on i/w Supply (Inter)	1,20,00,000	18%	21,60,000		
Utilization of ITC of IGST			(14,40,000)		
Utilization of IGST ITC for CGST and SGST				(3,60,000)	(3,60,000)
Utilization of CGST ITC (1)				(2,70,000)	
Utilization of SGST ITC (1)					(2,70,000)
Final Tax Payable / (Excess ITC)			NIL	NIL	NIL

Thank You