# GST INPUT TAX CREDIT

# INPUT TAX CREDIT

WHAT IS INPUT TAX CREDIT?

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs and pay the balance amount

When you buy a product/service from a registered dealer you pay taxes on the purchase. On selling, you collect the tax. You adjust the taxes paid at the time of purchase with the amount of output tax (tax on sales) and balance liability of tax (tax on sales *minus* tax on purchase) has to be paid to the government. This mechanism is called utilization of input tax credit.

For example- you are a manufacturer:

Tax payable on output (FINAL PRODUCT) is Rs 450

Tax paid on input (PURCHASES) is Rs 300

You can claim INPUT CREDIT of Rs 300 and you only need to deposit Rs 150 in taxes.

# INPUT TAX CREDIT UNDER GST

- Input Tax credit under GST One of the most important pillars of an effective GST is the availability of Input Tax Credit (ITC) to remove the cascading effect of taxes on transactions. In the enactment these important provisions have been mentioned in Sec 16 to 18 of the CGST Act and the respective State Acts.
- Input Tax Credit (ITC) is the backbone of the GST regime. GST is nothing but a value added tax on goods & services combined. It is these provisions of Input Tax Credit that make GST a value added tax i.e., collection of tax at all points after allowing credit for the inputs. The procedures and restrictions laid down in these provisions are important to make sure that there is seamless flow of credit in the whole scheme of transition without any misuse. Thus, the clarity of rules of availment and utilization will have significant impact on making GST a taxpayer-friendly tax.

# ELIGIBILITY FOR GETTING ITC

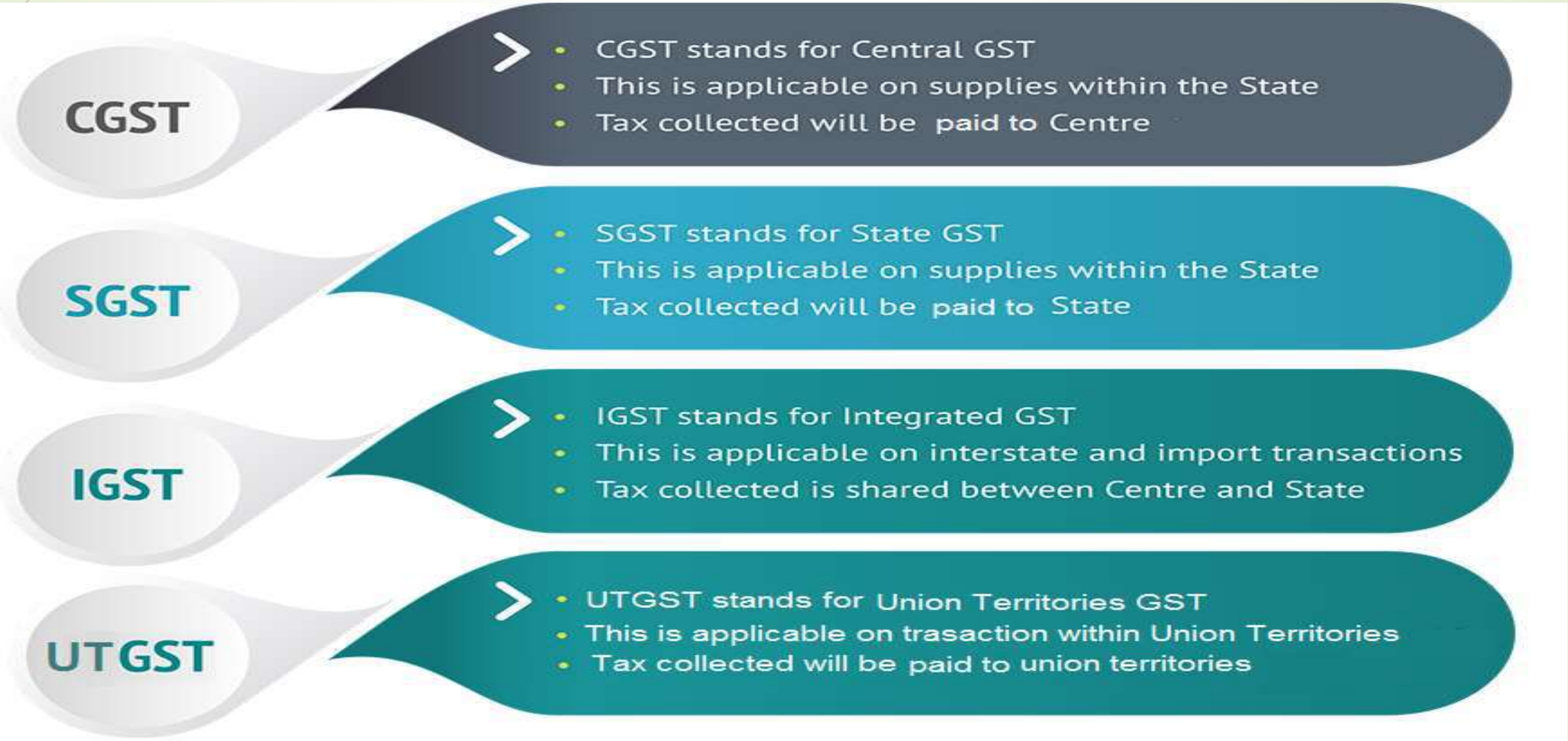
- Tax payers are in possession of a tax invoice or debit note; AND
- The goods or services have been actually received; AND
- The tax on such goods and services has been actually paid to the government by the supplier of goods or services; AND
- Tax payer have to file return; AND
- Such Inputs have not been used for exempt supply (excluding export); AND
- In case of receipt of goods or services in tranches, the last tranche has been actually received

Input tax credit **<u>not eligible</u>** on following:-

- Motor vehicles and conveyances (only in specified cases eligible)
- Food and beverages, outdoor catering
- Beauty treatment, health services, cosmetic and plastic surgery
- Membership of club, health and fitness centre etc.
- Rent a cab, life insurance, health insurance.
- Travel benefits extended to employees on vacation such as leave
- Works contract services for construction of immovable property Other than plant and machinery
- Goods / services used for construction of immovable property Other than plant & machinery

# UTILISATION OF INPUT TAX CREDIT UNDER GST

## GST HAS 3 COMPONENTS: CGST, SGST AND IGST



- CGST, IGST and SGST can be used against each other
  - CGST against IGST
  - SGST against IGST
  - IGST against CGST and then SGST
  - UTGST can be used against UTGST, CGST and IGST
- ITC can be utilized :

  By crediting the "Electronic Credit Ledger" of the taxpayer maintained

  on the Common Portal with the GST administration department.
- ITC can't be utilized :

  If the business is for nontaxable supplies/exempt supplies/nil rated supplies and for the Taxable supplies/zero rated supplies.
- The unutilized balance can be refunded only in 2 cases:
  - If the taxpayer is in the business of exports
  - If the GST rate of output supplies is less than the rate applicable on input supplies

# CLAIMING OF ITC

- Step 1 for taking ITC
  - As per Section 28, every taxable person shall be entitled to take credit of input tax,
    - as self assessed, in his return and
    - such amount shall be credited, on a provisional basis,to his electronic credit ledger to be maintained in the manner as may be prescribed

• Provided that a taxable person who has not furnished a valid return under section 27 of the Act shall not be allowed to utilize such credit till he discharges his self-assessed tax liability

*STEP 2 FOR TAKING ITC (SECTION 29) MATCHING OF CLAIM OF ITC*

- The details of inward supply furnished by taxable person (“recipient”) for a tax period be matched

  – With the corresponding details of outward supply furnished by the corresponding taxable person (“Supplier”) in his valid return for the same tax period or any preceding tax period

  – With the additional duty of customs paid under Section 3 of the Customs Tariff Act, 1975

- The claim of input tax credit be finally accepted and shall be communicated to the recipient where

  – Invoices and/ or debit notes relating to inward supply matches with the details of corresponding outward supply or with the additional duty of customs paid

Where ITC claimed by recipient in respect of inward supply is in excess of tax declared by the supplier for the same supply or the outward supply is not declared by supplier in his valid return then:

– The discrepancy shall be communicated to both i.e. the recipient and the supplier

– If such discrepancy is not rectified by the supplier in his valid return for the month in which discrepancy is communicated then the amount of discrepancy shall be added to the output tax liability of the recipient for the month succeeding the month in which discrepancy is communicated

– The recipient is also required to pay interest on said addition of output liability at the rate specified under Section 36(1)

– Interest from date of availing : till date it is treated as output liability

# *Excess of ITC on account of duplication of claim*

- The duplication of claim of ITC shall be communicated to the recipient
- The amount of claim of ITC that is found to be in excess on account of duplication of claim shall be added to the output tax liability of the recipient - for the month in which duplication is communicated
- In such case recipient is also required to pay interest at the rate specified in Section 36(1)
- If vendor declares detail of invoice in his return- then recipients liability received. But vendor must declares with respect of the time allowed for revised return

# Manner of taking Input Tax Credit in respect of Jobwork (Section 16A)

- The principal could claim input tax credit on inputs or capital goods sent to job worker or directly delivered by vendor to job worker.
- The said inputs after processing shall have to be returned within 180 days from date of supply. Capital goods shall have to returned within 2 years from the date of supply.
- The principal is the person who is responsible for accountability of goods and payment of tax as per section 43A
- If not received back within time prescribed, credit attributable to such inputs or capital goods shall be paid and on receipt can reclaim input tax credit and interest.

# RESTRICTION  FOR CLAIMING ITC

TIME LIMIT FOR CLAIMING CREDIT

A taxable person shall not be entitled to take input tax credit in respect of any supply after the earlier of following two events

- 1. filing of return under section 27 for the month of September following the end of financial year to with such invoice pertains; or
- 2. filing of the relevant annual return

• Where the registered taxable person has claimed depreciation on the tax component of the cost of capital goods under the provisions of the Income Tax Act 1961, the input tax credit shall not be allowed on the said tax component.

THANK YOU