

# INPUT TAX CREDIT

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## Present Credit System

- **Manufacturers- (M)**
  - Non availability of credit of **CST** paid
- **Traders – (T)**
  - Non availability of credit of **CST** paid
  - don't get credit of **excise duty** and **service tax**
  - don't get credit of **CVD** paid on imports
- **Service Providers – (S)**
  - Non availability of credit of **CST** paid
  - don't get credit of **VAT** paid
  - don't get credit of **SAD** paid on imports

**Cascading effect** of taxes Resulting into higher price of goods /services to consumers

## **Why ITC mechanism is required?**

- To remove the cascading effect of taxes (tax on tax)
- Provisions are for:
  - i. Seamless flow of credit
  - ii. Matching of ITC with IT Systems
  - iii. Allowing credit in a disciplined manner
  - iv. Restricting wrong credits

## **ITC provisions in Chapter V of CGST Act**

- **Eligibility**
- **Conditions**
- **Apportionment**
- **Blocked Credits**
- **Credit in special Circumstances**
- **Job work situations**
- **Distribution by ISD and recovery of excess distributed**

## Eligibility

### Sec 16(1)

- Every registered person
- subject to such conditions and restrictions as in **section 49 (utilisation) and sec 41 (self asst.)**
- **Credit** of **input tax** charged on any supply of goods or services or both
- used or intended to be used **in the course or furtherance of his business**
- Credited to his **ECL**

## Conditions



## Conditions

### **Sec 16(2) - Four conditions**

- a. possession of a tax invoice or debit note issued by a registered supplier
- b. received the goods or services or both (includes constructive delivery)
- c. the tax charged in respect of such supply has been actually paid to the Government
- d. Receiver has furnished the return

## Conditions –ITC on Capital Goods

- Input Tax credit in respect of capital goods is **not allowed** if the registered person has claimed depreciation under Income Tax Act, 1961 on the tax component. **Sec 16(3)**

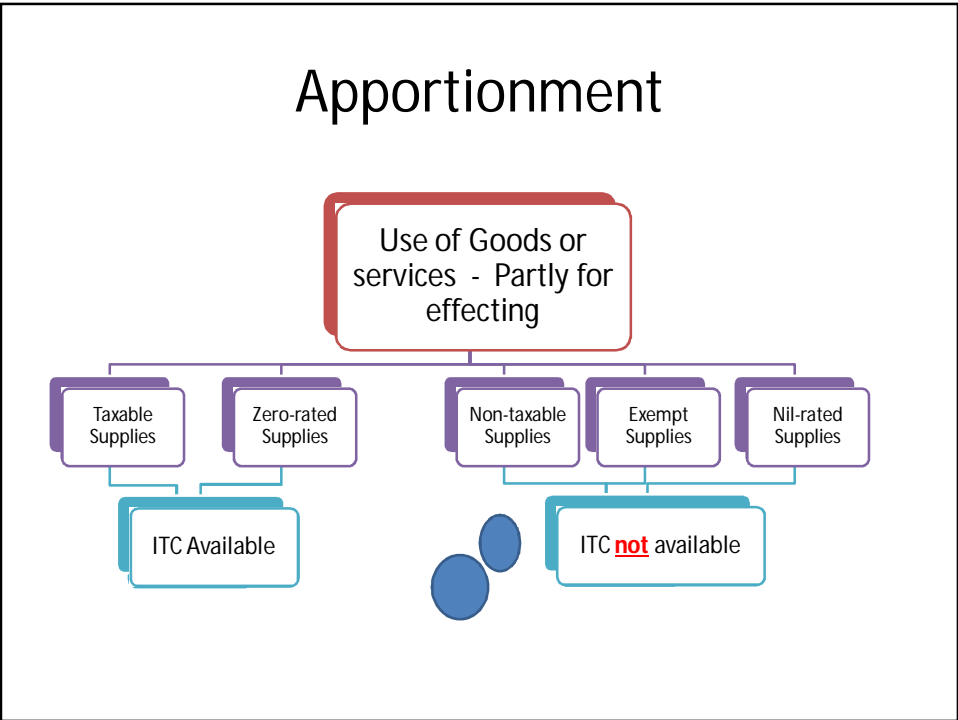
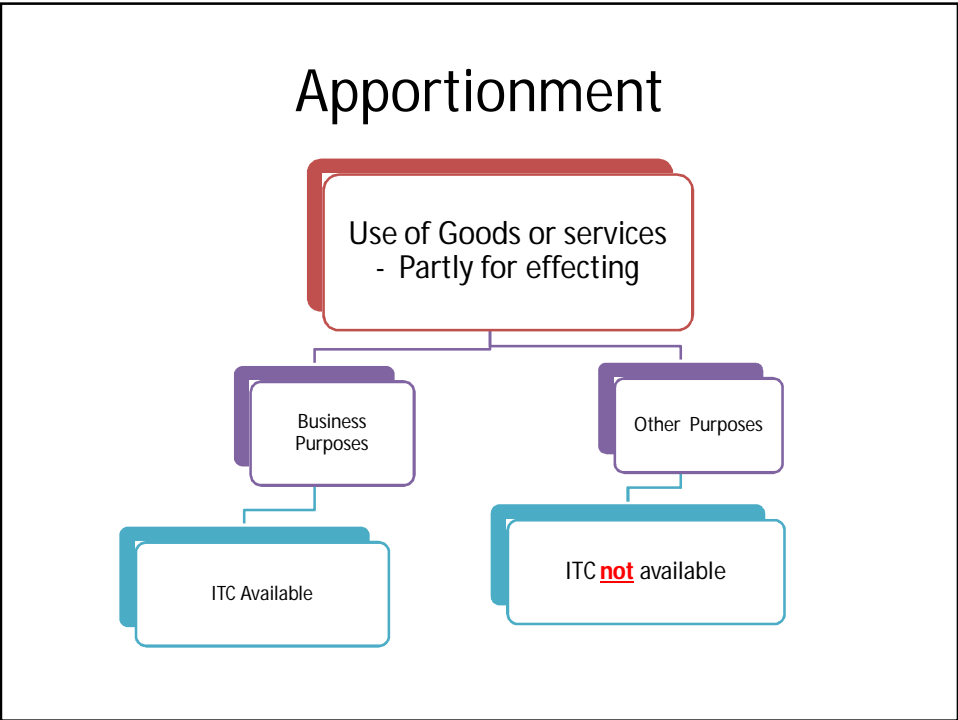
## Conditions - Time limit

### Sec 16(4)

- FY to which the invoice / debit note relates
- **Earlier of :**
  - i) Due date of filing of return for the month of **September** of next FY (i.e. 20<sup>th</sup> Oct of next FY)
  - ii) Date or following of furnishing of **annual return** of current FY (Due date is 31 Dec of next FY)

## Apportionment





## Apportionment

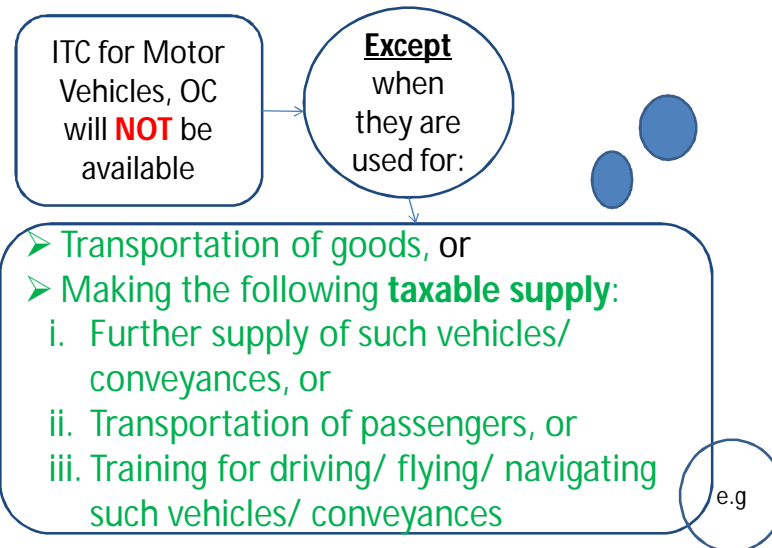
A **banking company** has got 2 options:

- Utilise ITC as per apportionment rule as above  
OR
- Utilise 50% ITC on inputs and Capital Goods every month and the balance 50% shall lapse

## Blocked Credits (Negative List)



## a) Motor Vehicles & Other Conveyances



## b) Supply of goods and services being:

i)



**Allowed ONLY if**  
**goods/ services of a particular category**  
**are used towards making taxable outward**  
**supplies of the same category**  
**Or**  
**as an element of mixed or composite**  
**taxable supply**



ii)

Life/ health  
Insurance

Rent-a-cab

**Allowed ONLY if :**  
where the services are notified as  
**obligatory for an employer to provide to an  
employee OR**

are used towards making **taxable outward  
supplies of the same category Or**  
as an element of **mixed or composite  
taxable supply**

iii)

Membership  
of clubHealth and  
Fitness  
CentreTravel  
Benefits to  
employees  
on vacation**NEVER allowed**

c) & d) Construction of Immovable Property  
(other than plant & machinery)

Works contract services,  
except **where it is an input  
service for further supply of  
works contract service**

Goods or services received by a  
taxable person for construction of an  
immovable property on his own  
account even when used in course or  
furtherance of business;

**ITC not Available**

- e) goods and/ or services on which tax is paid under **composition**
- f) goods or services or both received by a **non-resident** taxable person except on goods imported by him.
- g) goods and/or services used for **personal consumption**.
- h) goods **lost, stolen, destroyed**, written off or disposed of by way of **gift or free samples**
- i) any tax paid in terms of:-
  - section 74 (under **fraud and misrepresentation**) ,
  - section 129 (**detention seizure and release of goods or conveyance in transit**) or
  - section 130 (**confiscation of goods and or conveyance**)

## Credit in Special Circumstances

Sr. No.	Situation	Allowable ITC
1	When registration is applied <b>within 30 days from liability</b>	stock, semi-finished goods and finished goods in opening stock as on <b>date of liability</b>
2	When registration is applied <b>voluntarily</b>	stock, semi-finished goods and finished goods in opening stock as on <b>date of grant of registration</b>
3	When a taxable person converts <b>from composition to regular taxation</b>	stock, semi-finished goods and finished goods in opening stock and <b>capital goods</b> (subject to restrictions of % point basis) as on date of such conversion
4	When an exempt supply of goods or services <b>becomes taxable</b>	stock, semi-finished goods and finished goods in opening stock and <b>capital goods</b> exclusively used for such exempt supply (subject to restrictions of % point basis) as on date on which this supply becomes taxable

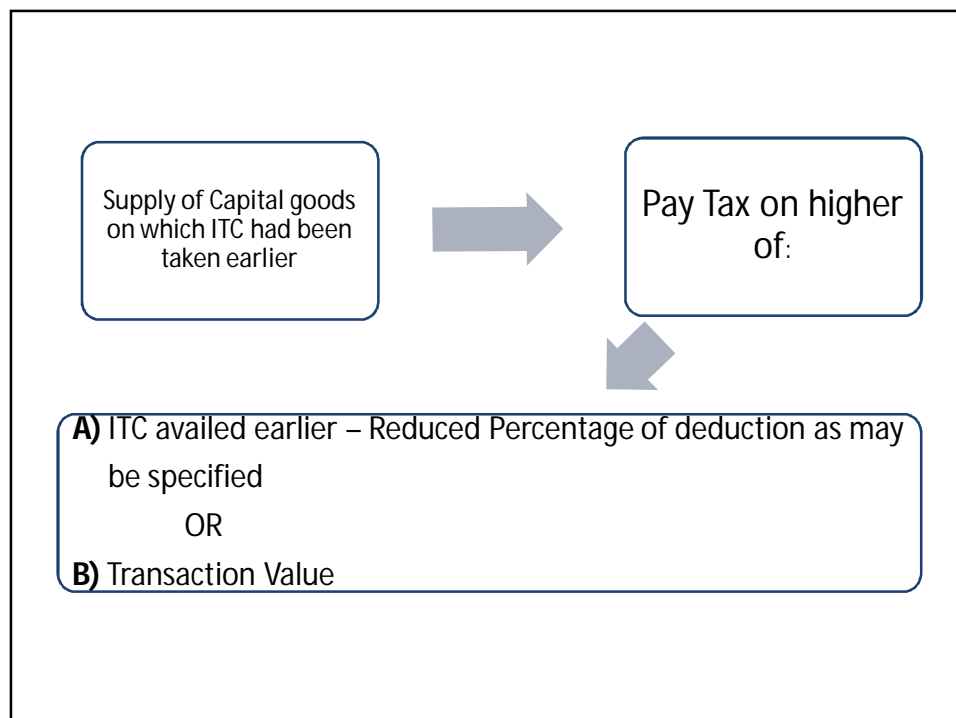
Invoice within  
1 year

## Sale, merger, amalgamation, lease or transfer of business

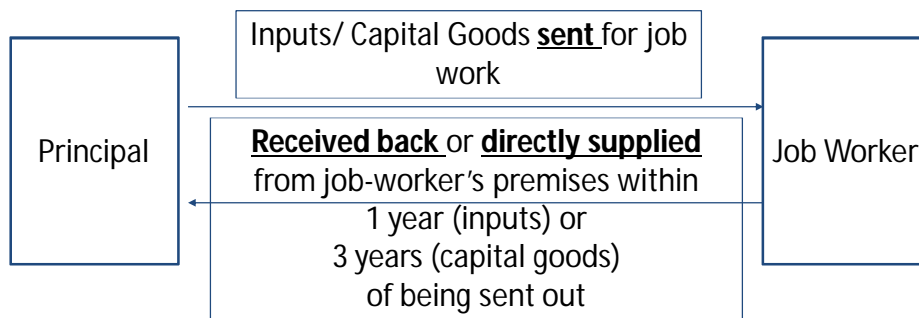
- change in the constitution on account of sale, merger, demerger, amalgamations, lease or transfer of business **with the specific provisions for transfer of liabilities**
- allowed to transfer the input tax credit which remains **unutilized** in his electronic ledger to such sold, merged, demerged, amalgamated, leased, or transferred business

## Lapse of Credit on opting to pay tax under Composition

- **Pay** equivalent to the credit of input tax in respect of inputs held in stock
- **Pay** on capital goods, reduced by such percentage as may be prescribed, on the day immediately preceding the date of exercising of such option or, as the case may be, the date of such exemption
- Provided that after payment of such amount, the **balance of input tax credit, if any, lying in his ECL shall lapse.**



## Inputs/CG issued for Job Work



- If **not** received/directly supplied **in time**:  
Principal to pay **ITC availed + Interest**.
- He can reclaim this ITC on receiving back such inputs/ capital goods.

## Input Tax – Sec 2 (62)

- CGST, IGST, SGST, UTGST charged on any supply of goods or services to a registered person and includes :
  - IGST paid on import of goods
  - Tax payable under Reverse Charge Basis under CGST, SGST, IGST, UTGST.
  - But dose NOT include tax paid on composition basis

- **Input tax credit:** Section 2(63)  
Input tax credit means credit of input tax
- **Electronic credit ledger:** Section 2(46)  
Electronic credit ledger means the credit ledger maintained with government (GSTN) in electronic form in the manner as may be prescribed.

## Utilization of Credit: 49(5)

SGST Input - utilization	CGST Input - utilization	IGST Input - utilization
SGST Output	CGST Output	IGST Output
IGST Output	IGST Output	CGST Output
		SGST Output

## Proviso to Sec 16(2)

- goods against an invoice are received in **lots or instalments**, - credit available upon receipt of the **last lot or instalment**
- recipient fails to pay to the supplier of goods or services or both - **value of supply + tax** within a period of **180 days** from invoice date, then the ITC utilised shall be added to Output tax liability + Interest will be payable.
- Such credit will be re - available on above payment to the supplier.

## Exempt supply value for Apportionment

- For this purpose value of Exempt **outward supply** includes:
  - a. o/w supply on reverse charge basis*
  - b. transactions in securities*
  - c. sale of land*
  - d. sale of building after issuance of completion certificate.*

## Zero rated Supply

- Sec 17 (1) of IGST Act
  - a) export of goods or services
  - b) supply to SEZ developer or SEZ Unit

*Thank  
you*



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