The first and foremost task for you, as a business registered under the current law, is transiting to GST. While it is important to know the fundamentals of GST, it is also very critical for you to understand GST transition provisions available, and take the necessary actions to ensure a smooth transition to GST and leverage on transition benefits. You will need to review your accounting and reporting procedures, procurement, logistic decisions, and so on in advance to avail the appropriate **GST input tax credit.**

Today, the manufacturing, sales and service activity are governed by a separate indirect tax system. The manufacturing activity is covered by Central Excise, sales is covered under State VAT/CST, and the services activity is covered under the Service Tax Act.

For better and ease of understanding, we have categorised the transition provisions for each of the below tax types:

- Central Excise
- VAT
- Service Tax

Some questions you may have:

- What will happen to the balance input tax credit available on the last day, before GST to be implemented?
- What will happen to the input tax credit on capital goods which is yet be availed?

We will answer these questions scenario-wise.

Scenario 1: Availed CENVAT and Input VAT Credit

Central Excise

Manufacturer

A manufacturer can carry forward the balance CENVAT credit available on the last day, prior to date on which GST is implemented, as input credit.

What does this mean?

- The closing balance of CENVAT credit should reflect in the last return filed by you, and
- It should be allowed as input tax credit under GST

Today, a manufacturer other than the Small Scale Industries (SSI- whose turnover does not exceed 4 crores) should file their monthly returns in Form ER-1, and SSI quarterly returns in Form ER-3. The amount of CENVAT carried forward in Form ER-1 or Form ER-3 as on the last day i.e., the day before GST is implemented will be allowed to be carried forward as CGST input tax credit.

Let's understand this with an example

ABC Pvt Ltd, a car manufacturer located in Karnataka is registered under Excise and Karnataka VAT. As on 31st March, 2017, the **Form ER-1** of ABC Pvt Ltd showing a closing CENVAT balance of Rs 25,000.

Can ABC Pvt Ltd. carry forward the CENVAT credit?

Yes, the closing CENVAT balance of Rs 25,000 is fully eligible to be carried forward by ABC Pvt Ltd. This is because ABC Pvt Ltd satisfies all the conditions explained below:

- The CENVAT of Rs 25,000 should reflect in the return, and
- In GST, the same is allowed as Input Tax Credit.

Now, for ABC Pvt Ltd, CENVAT will be a CGST credit. This can be utilized to set-off the liabilities in the order prescribed.

Excise Dealer

As a dealer, you are liable for registration under Central Excise if you trade in excisable goods. Today, the excise duty you pay will not be available as credit. As a first stage or second stage dealer, the excise duty paid get s added to the price of the product. If it is sold to a manufacturer, the excise duty passed on will be claimed as CENVAT credit by the buying manufacturer.

On the date of transitioning to GST, the excise duty paid in respect of closing stock held by you, will be allowed to be carry forward as CGST Input Tax credit.

VAT

A business registered under VAT needs to file monthly or quarterly VAT return forms, as prescribed by their respective states. The input VAT credit in VAT return forms will be carried forward as **SGST** input tax credit.

Let's understand this with an example

ABC Pvt Ltd, a car manufacturer located in Karnataka is registered under Karnataka VAT. As on 31st March, 2017, the VAT Form 100 (monthly return form for Karnataka) of ABC Pvt Ltd is as given below:

Form VAT 100 (See rule 138)

RETURN

Tax period (month/quarter)	March, 2017
Credit/excess payment carried forward	5,000.00

As per the VAT Form 100 of March 2017, ABC Pvt Ltd has an input VAT credit balance of Rs 5,000.

Can ABC Pvt Ltd. carry forward the input VAT credit?

Yes, the closing input VAT of Rs. 5,000 can be fully carried forward by ABC Pvt Ltd. This is because ABC Pvt Ltd. satisfies all the conditions explained below:

- The input VAT of 5,000 is reflected in the return, and
- In GST, the same is allowed as Input Tax Credit.

Now, for ABC Pvt Ltd, the input VAT will be carried forwarded as SGST credit. This can be utilized to set-off the liabilities in the order prescribed.

Service Tax

Today, a service provider is liable for registration, if his aggregate value of taxable services exceeds 10 lakhs. The following are type of service tax levied on the taxable services:

Tax	Rate of Tax	Input Credit Available?	Set off Against?
Service Tax	14%	Yes	Service Tax and Excise Liability
Swachh Bharat Cess	0.5%	No	—
Krishi Kalyan Cess	0.5%	Yes	Only Against Krishi Kalyan Cess liability

As a service provider, you need to file half yearly return in Form ST-3. The closing balance of service tax input credit will be carried forward as CGST Input Tax credit.

Let us understand this with an example.

ABC Pvt Ltd is a car manufacturing unit in Karnataka. They also have service units located in Karnataka. As on 31st March, 2017, ST-3 return form of ABC Pvt Ltd is given below:

GOVERNMENT OF INDIA
CENTRAL BOARD OF EXCISE AND CUSTOMS
Ministry of Finance - Department of Revenue
Form ST-3

(Return under Section 70 of the finance Act, 1994 read with Rule 7 of Service Tax Rules, 1994)

A4	Financial Year	2016-2017	A5	Return for the period	October-March
13-14	Closing Balance of CENVAT			0	30,000

As per Form ST-3 of March 2017, ABC Pvt Ltd has a closing CENVAT (Service Tax Input Credit) balance of Rs 30,000.

Can ABC Pvt Ltd carry forward the CENVAT credit?

Yes, the closing CENVAT balance of Rs. 30,000 is fully eligible to be carried forward by ABC Pvt Ltd. This is because ABC Pvt Ltd. satisfies all the conditions explained below:

- The CENVAT of Rs 30,000 is reflected in the return and
- In GST, the same is allowed as Input Tax Credit.
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Now, for ABC Pvt Ltd, CENVAT will be a CGST credit. This can be utilized to set-off the liabilities in the order prescribed.

Scenario 2: Un-availed CENVAT credit and Input VAT on capital goods

Currently, under Central Excise, CENVAT credit should be availed to the extent of 50% in the current year, and the remaining should be availed in the subsequent year. Similarly, VAT paid on purchase of capital goods will not be fully available as Input VAT immediately. Depending upon the state VAT laws, and the type of capital goods purchased, the Input VAT can be availed,

- In instalments spread over different financial years
- As credit after commencement of commercial production and so on.

Due to this prevailing restriction for availing CENVAT credit on capital goods, there could be some un-availed CENVAT and Input VAT on the date of transitioning to GST.

Let us discuss with an example to understand better

ABC Pvt Ltd purchased machinery on the 1st February, 2017. The details of the transaction are shown below:

Particulars	Amount (Rs)
Machinery	1,00,000
Excise Duty@12.5%	12,500
VAT 14.5%	16,313

As per the current CENVAT provisions, ABC Pvt Ltd is allowed to avail CENVAT up to 50% in the current year, and the remaining during the subsequent years. And according to the VAT provisions of Karnataka, input VAT credit can be availed only after commencement of commercial production. Let's assume that commercial production was to begin in the month of June'17.

Considering the scenario – ABC Pvt Ltd availed

- 50% CENVAT i.e. Rs 6,250 in the current year (2016-17).
- Remaining CENVAT of Rs 6,250 in the subsequent year (2017-18).
- Input VAT credit after commencement of commercial production, eligible in 2017-18.

Will ABC Pvt Ltd. be allowed to carry forward the un-availed CENVAT of Rs 6,250 and input VAT credit of Rs 16,313 on transition to GST?

Yes, ABC Ltd.is allowed to carry forward the un-availed CENVAT credit on capital goods, provided these conditions are satisfied:

- Under the current statute, CENVAT and input VAT are allowed as input tax credit.
- It is admissible as input tax credit in GST.

ABC Pvt Ltd satisfies all the conditions, and they are eligible to carry forward the CENVAT and input VAT credit.