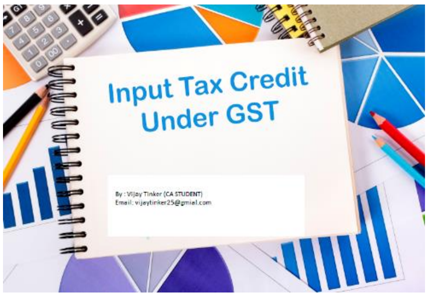
INPUT TAX CREDIT MECHANISM UNDER GST



"Input Tax" in relation to a taxable person, means the Goods and Services Tax charged on any supply of goods and/or services to him which are used or are intended to be used, during furtherance of his business.

In simple terms, Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs.

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.

One of the biggest advantages expected from the implementation of GST Act is that it would remove cascading effect by facilitating seamless flow of credit. This would be given effect by providing for the availment of ITC to the purchasing dealer in respect of the GST paid by the supplying dealer and thus by removing the restrictions placed in the present Cenvat credit rules on availment of credit which lead to break in the credit chain and consequent cascading effect which further leads to increase in cost of goods and services. Thus linking of invoice to invoice would eliminate any ambit for revenue leakage. Chapter V of the model law deals with ITC mechanism provisions. ITC has been defined as credit of IGST/CGST/SGST charged on any supply of goods and or services used or intended to be used in the course or furtherance of business and includes the tax payable under reverse charge. Registered taxable person shall be eligible to avail ITC credited to the e-credit ledger subject to condition prescribed without restrictions of availment (such as 50% of capital goods).

Complied By: **VIJAY TINKER (CA STUDENT)**
Email: vijaytinker25@gmali.com

Conditions for availing of ITC:

- ✓ Taxpaying documents such as tax invoice, debit note etc.,
- ✓ Goods / service should have been received/deemed to be received by the taxable person.
- ✓ Tax charged on the invoice and should have been paid to the credit of government.
- ✓ Return should have been furnished by the tax payer.
- ✓ Credit for goods against an invoice received in lots / installments can be availed only on last lot in installment.
- ✓ The timelines for entitlement of credit against a particular invoice shall lapse on the expiry of one year from date of issue of invoice.

Ways / Manner for availing/payment of ITC by a registered person:

- ✓ Tax credit entitlement on stock held and contained in semi-finished and finished goods-
  - ▪ On the day immediately preceding the date of registration in case person obtaining voluntarily registration.
  - ▪ On the day immediately preceding the date from which the person becomes liable to pay tax, in case person applied for registration within 30 days from the date of liability to pay tax or in case person ceases to pay composition tax and becomes liable to pay tax under normal provision.
- ✓ Proportionate credit in case of goods/services used partially for business use and partially for non-business.
- ✓ Proportionate credit in case goods/services are used partly for effecting taxable supplies and zero rated supplies and partly for effecting non-taxable supplies and exempt supplies.
- ✓ Transfer of unutilized credit allowed in case of change in constitution of person due to sale, merger, de-merger, amalgamation or transfer of business with provision for transfer of liabilities.
- ✓ Switch over from regular scheme to composite scheme by debiting cash ledger of amount equivalent to ITC on stock, semi-finished and finished goods.
- ✓ ITC taken on capital goods when it is supplied should be paid after reduction of prescribed percentage points or tax on actual transactions value whichever is higher.

Complied By: **VIJAY TINKER (CA STUDENT)**

Email: vijaytinker25@gmali.com

Ineligible credit:

The following are the ineligible input credits:

- ✓ Motor vehicles used except when supplied in the usual course of business or for providing taxable service of transportation of passengers, goods and training/driving skills.
- ✓ Goods or services used mainly for the purpose of personal use or consumption of employees.
- ✓ Principal acquiring goods or services in works contract for construction of immovable property except plant & machinery.
- ✓ Principal acquiring goods or services wherein the property is not transferred and are used in construction of immovable property except plant and machinery.
- ✓ Goods or services on which composition tax has been paid.
- ✓ Goods or services used for private or personal consumption.
- ✓ ITC is not eligible on invoice after filing of return for the month of September or filing of annual return for the said year, whichever is earlier.
- ✓ Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples.
- ✓ Goods or services or both received by a non-resident taxable person except for any of the goods imported by him.
- ✓ ITC will not be available in the case of any tax paid due to non-payment or short tax payment, excessive refund or ITC utilized or availed by the reason of fraud or willful misstatements or suppression of facts or confiscation and seizure of goods.
- ✓ Sale of membership in a club, health, fitness center.

Input credit of Job Workers:

Section 16A & 17 of the GST law deals in detail on the manner of taking credit for inputs sent for job-work and on distribution of credit by Input service distributor's respectively.

The existing provisions of ITC on Job work has remained unchanged i.e. in case of inputs sent to job worker by the principal, restriction of 180 days have been placed for the inputs / completed jobs to be returned back and the 2 years in the case of capital goods sent to job-worker. Otherwise, the principal is made to pay the amount of ITC along with interest which he can take the credit upon the actual receipt of such inputs/capital goods. The principal is also allowed to send goods directly to the job worker and also to sell the goods from the job workers door steps.

Complied By: **VIJAY TINKER (CA STUDENT)**

Email: vijaytinker25@gmali.com

Input service distributors (ISD):

The credit of Input received by an Input service Distributor is allowed to be distributed in the prescribed manner:

- ✓ Where the recipient are located in different states:
  - Credit of IGST,CGST and SGST may be distributed as IGST
- ✓ Where the recipient being a business vertical are located in same state:
  - Credit of IGST may be distributed as CGST/SGST
  - Credit of CGST may be distributed as CGST
  - Credit of SGST may be distributed as SGST
- ✓ If the ISD distributes credit in excess of the credit available, the excess credit shall be recovered from such distributor along with interest.

How INPUT CREDIT works under GST:

Let's we understand it by an example:

Suppose there is a seller Mr. A and he sells his goods to Mr. B. Here Mr. B i.e. the buyer will be eligible to claim the credit on purchases based on the invoices. Let's understand how:

Steps on how to claim input credit under GST

Step 1: Mr. A will upload the details of all tax invoices issued in GSTR 1.

Step 2: The details with respect to sales to Mr. B will auto populate/ get reflected in GSTR 2A, the same data will be pulled when Mr. B will file GSTR 2 (i.e. details of inward supply).

Step 3: Mr. B will then accept the details that the purchase has been made and reported by the seller correctly and subsequently the tax on purchases will be credited to 'Electronic Credit Ledger' of Mr. B and he can adjust it against future output tax liability and get the refund.

Thank you

VIJAY TINKER (CA Student)
Vijaytinker25@gmail.com

Goods and Service Tax (GST)

Input Tax Credit

Complied By: **VIJAY TINKER (CA STUDENT)**

Email: vijaytinker25@gmali.com