



Press Information Bureau

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Economy

Frequently Asked Questions (FAQs) on refund of ITC accumulated on account of inward supply of input services and capital goods

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S.No.	Question	Answer
1.	What is the change being proposed in respect of refund of unutilised input tax credit (ITC) on input services and capital goods?	At present, under rule 89 of the CGST Rules, 2017, "Net ITC" excludes ITC availed on capital goods in the case of refund of unutilized ITC on account of zero-rated supplies made, and excludes ITC availed on both input services and capital goods in the case of refund on account of inverted duty structure. It has now been recommended by the GST Council to: - include ITC availed on input services (availed on or after 01.11.2026) in "Net ITC" for computation of refund on account of inverted duty structure under rule 89(5) of the CGST Rules, 2017; and - include ITC availed on capital goods (availed on or after 01.04.2027) to the extent attributable to the relevant period, in "Net ITC" for computation of refund on account of zero-rated supplies under rule 89(4) and inverted duty structure under rule 89(5) of the CGST Rules, 2017. This will ease the blockage of working capital for businesses.

2.	From which date would such ITC be available for refund?	The refund of ITC on input services and capital goods shall be available in respect of: • ITC on input services availed on or after 1st November, 2026, and • ITC on capital goods availed on or after 1st April, 2027.
3.	Whether refund of accumulated ITC will be available, even if the	No. The existence of inverted duty structure shall continue to be determined by comparing the rate of tax on inputs with the rate of tax on

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	inverted duty structure is on account of rate of input services being higher than the rate of outward supplies?	output supplies only. Only where such inversion is established, ITC on eligible input services, along with ITC on capital goods attributable to the relevant period, shall be included in "Net ITC" for computation of the refund amount. The proposal does not expand the class of persons eligible for refund under clause (ii) of the first proviso to section 54(3) of the CGST Act, 2017. For instance, the following two scenarios can be considered to understand the difference: Case A: A manufacturer procures inputs taxed at 18% and makes output supplies taxed at 5%. He also avails ITC on input services such as professional services taxed at 18%. As the rate of tax on inputs is higher than the rate of tax on output supplies, inverted duty structure exists. ITC on input services availed on or after 1st November, 2026 shall be included in "Net ITC" for computation of refund. Case B: A supplier procures inputs taxed at 5% and makes output supplies taxed at 5%, but avails input services taxed at 18%. As there is no inversion between the rate of tax on inputs and the rate of tax on output supplies, the supplier is not eligible for refund on account of inverted duty structure merely because the rate of tax on input services is higher.
4.	In which categories of refund will ITC on capital goods be considered?	ITC on capital goods shall be considered in the following categories:

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		• refund of unutilised ITC on account of zero-rated supplies made without payment of tax under bond or LUT under rule 89(4), and • refund of unutilised ITC on account of inverted duty structure under rule 89(5). The change does not affect zero-rated supplies made on payment of integrated tax, as there is no restriction on utilization of ITC on capital goods for payment of tax on such supplies.
5.	Will I get refund of the entire ITC on capital goods in the tax period in which it is availed?	No. Capital goods are utilised over an extended period. Accordingly, ITC on capital goods shall be considered for refund in equal proportion over a period of sixty months, i.e., one-sixtieth for each month, commencing from the month in which such ITC is availed. Further, the refund will only be available in respect of such ITC on capital goods available on or after 01.04.2027. This releases capital locked up in capital-intensive sectors while distributing the revenue outgo over a longer period.
6.	How will the ITC on capital goods attributable to the relevant period be computed?	Capital goods attributable to the relevant period are those capital goods on which ITC has been availed on or after 1st April, 2027, in any of the months not earlier than fifty-nine months from the last month of the relevant period. ITC on such capital goods shall be calculated as per the formula prescribed in Rule 89. .
7.	Which ITC on capital goods can be included in the refund claim?	Only eligible ITC availed on capital goods can be included. ITC blocked under section 17(5) of the CGST Act, 2017, or otherwise not admissible, cannot form part of the claim. Further, any reversal of ITC required under the Act or the

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		Rules in respect of such capital goods, including under rule 43 of the CGST Rules, 2017, attributable to the months in the relevant period shall be deducted.

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