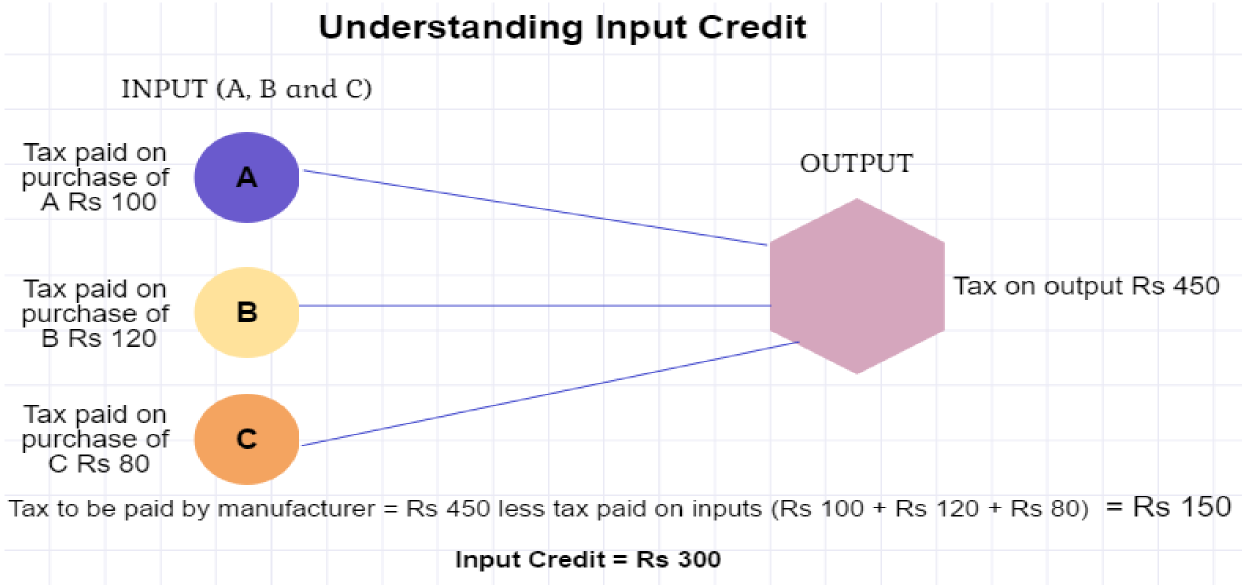
CHAPTER 10 - Input Tax Credit (ITC)

Introduction



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

Say, 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.

Relevent Definition

"Input tax" in relation to a registered person, means the central tax (CGST), State tax (SGST), integrated tax (IGST) or Union territory tax (UTSGT) charged on any supply of goods or services or both made to him and includes--

(a) the integrated goods and services tax charged on import of goods;

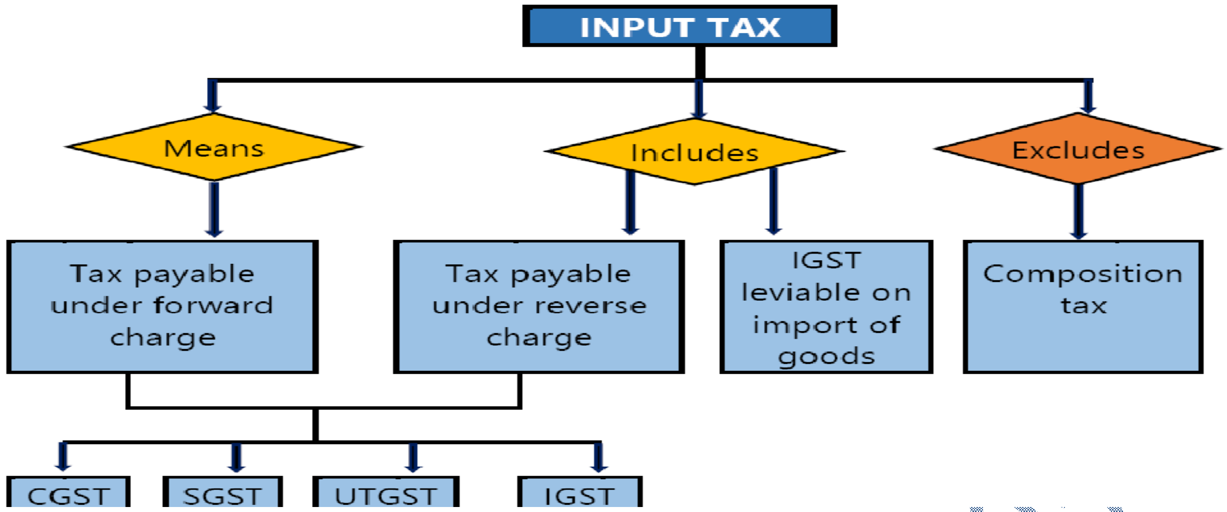
(b) the tax payable under the provisions of sub-sections (3) and (4) of section 9 [reverse charge of CGST]

(c) the tax payable under the provisions of sub-sections (3) and (4) of section 5 of the Integrated Goods and Services Tax Act [reverse charge of IGST]

(d) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 9 of the respective State Goods and Services Tax Act; [reverse charge of SGST] or

(e) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 7 of the Union Territory Goods and Services Tax Act [reverse charge of UTGST]

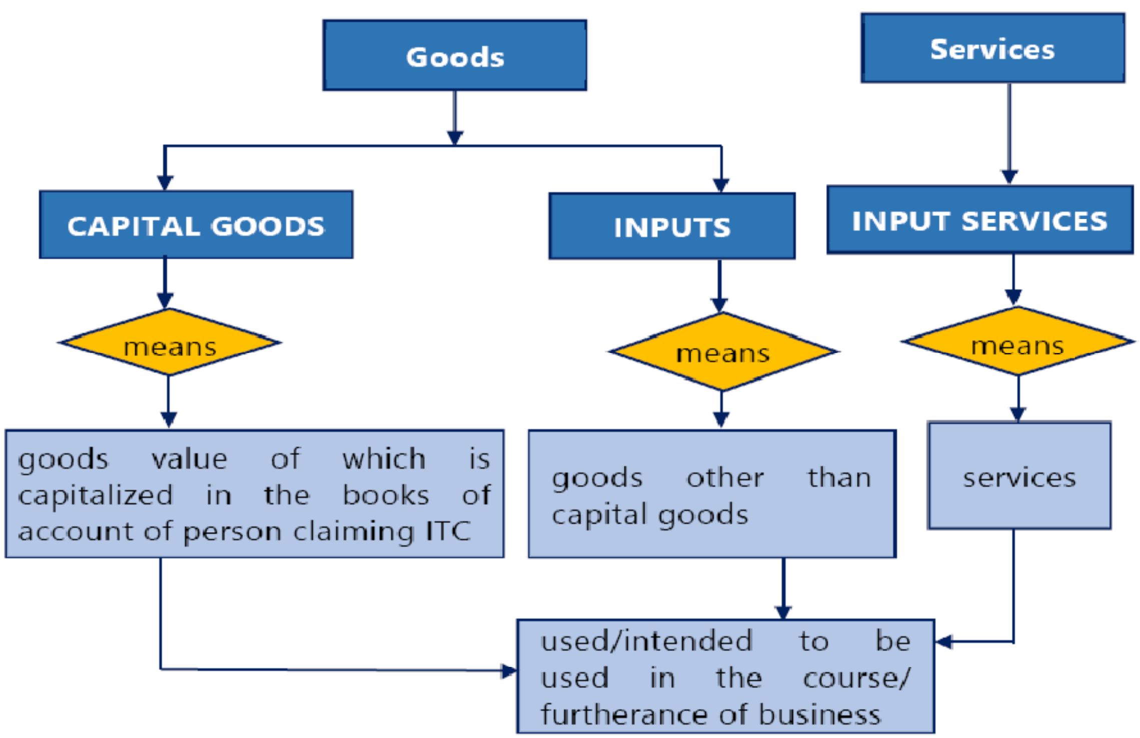
but does not include the tax paid under the composition levy - Section 2(62) of CGST Act



"Input" means any goods other than capital goods, used or intended to be used by a supplier in the course or furtherance of business - section 2(59) of CGST Act.

"Input Service" means any service used or intended to be used by a supplier in the course or furtherance of business -section 2(60) of CGST Act

"Capital Goods" means goods, the value of which is capitalized in the books of account of the person claiming the ITC and which are used or intended to be used in the course or furtherance of business -Section 2(19) of CGST Act



Section 16- ***Eligibility and conditions for taking input tax credit***

- Subject to condition and restriction specified in Section 49 (*Section 49 prescribes provisions relating to payment of tax, interest, penalty & other amounts)*
- Every **Registered person** shall be entitled to take credit of tax paid on inward supplies of goods and/or services
- used/ intended to be used in the course or furtherance of business
- if the all 4 conditions are fulfilled as below:
  1. He has **valid** tax invoice/debit note/prescribed tax paying document
  2. He has **received** goods and/or services
  3. **Tax** on such supply has been **paid** either in cash or Utilisation of ITC
  4. He has **furnished the return** u/s 39 (i.e. GSTR-3)

Manner of use input tax credit as per section 49

Inward supply	Outward supply			Remarks
	CGST	SGST	IGST	
ITC of CGST	Allowed	Not allowed	Allowed	1st CGST next IGST in that order
ITC of SGST	Not allowed	Allowed	Allowed	1st SGST next IGST in that order
ITC of IGST	Allowed	Allowed	Allowed	1st IGST next CGST and next SGST in that order

Point to be noted:-

1	ITC can be availed if he is in possession of Invoice /debit note/prescribed tax paying documents. issued by a supplier registered under this Act,	Under Rule 36(1) of CGST Rules following tax paying documents has been prescribed- i) Invoice issued by a supplier of goods and/or services ii) Invoice issued by recipient (receiving goods and/or services from unregistered supplier) along with proof of payment of tax (in case of reverse charge) iii) A debit note issued by supplier iv) Bill of entry or similar document prescribed under Customs Act v) Revised invoice vi) Document issued by Input Service Distributor
2	*Input Tax Credit only if invoice complete in all respects*	Input tax credit shall be availed by a registered person only if ✓ all the applicable particulars as prescribed in Invoice Rules are contained in the said document, *and* ✓ the relevant information, as contained in the said document, is furnished in form GSTR-2 by such person - rule 36(2) CGST Rules.
3	The person taking the ITC must have received the goods and / or services here "Bill to Ship to" Model also included.	Goods delivered to third person on the direction of the registered person deemed to be received by the registered person ⇒ ITC available to registered person *Eg. A is a trader who places an order on B for a consignment of soda ash. A receives a buying order from C for the same quantity of soda ash. A instructs B to deliver the goods to C, and in turn he raises an invoice on C. Though the goods are not physically received at the premises of A, the condition of section 16(2)(b) is satisfied, and A is entitled to ITC on the consignment.*
4	*When goods are received in lots or installments*	When goods are received in lots or installments, ITC can be availed only upon receipt of the *last lot or installment*. *Example - XYZ makes an advance payment in August and orders 10 MT of a particular chemical which is in short supply. The supplier of the chemical raises a bill for the entire amount in August and collects GST from XYZ on the advance paid. The chemical is delivered in lots over a period of three months and the supply is completed in November. Though XYZ paid some tax in advance as early as August, he can take the ITC only on receipt of last installment of the chemical in the month of November.*

Example: You are a mobile phone dealer. On 1st August 2017, you purchase 100 mobile phones from a manufacturer, valued at Rs. 5,000 each and invoice was raised on the same day. It is agreed that the mobile phones will be sent by the manufacturer in 2 lots of 50 mobile phones each, on 1st of the following two months. Your inward supplies register appears as shown below-

Inward Supplies Register

Date	Description of goods	Quantity	Rate	Total	CGST		SGST		IGST	
					Rate	Amount	Rate	Amount	Rate	Amount
1st Sept '17	Mobile phones	50	5,000	2,50,000	9%	22,500	9%	22,500	–	–
1st Oct '17	Mobile phones	50	5,000	2,50,000	9%	22,500	9%	22,500	–	–
Total		**100**		**5,00,000**		**45,000**		**45,000**	**–**	**–**

Here, even though a portion of the mobile phones was received on 1st September 2017, you can avail the ITC of Rs. 90,000 only on the receipt of the last lot on 1st October 2017.

5	*On tax component of cost of capital goods, if depreciation has been claimed on the tax component*	ITC cannot be availed on the tax component of cost of capital goods, if depreciation has been claimed on the tax component in Income Tax return. **Example:** Super Cars Pvt Ltd purchases machinery for Rs.50,00,000 to be used for the manufacture of cars. The GST paid on the machinery is Rs.9,00,000. Super Cars Pvt Ltd claims depreciation of Rs.59,00,000 on the machinery under Income Tax, which is including the GST component. In this case, Super Cars Pvt Ltd cannot avail the ITC of Rs.9,00,000 on the machinery.
6	***Reversal of input tax credit if payment not made to supplier within 180 days [Second proviso to section 16(2) read with rule 37 of CGST Rules]***	✓ The registered person must pay the supplier, the value of the goods and/or services along with the tax within 180 days from the date of issue of invoice. This condition of payment of value of supply plus tax within 180 days does not apply in the Supplies on which tax is payable under reverse charge ✓ If value of the goods or/and Services along with the tax of goods and /or services is not paid within 180 days of the issuance of invoice, the details of such supplies and corresponding credits thereon must be furnished in the GSTR 2 of the month immediately following such 180 days. ✓ Such credits availed by the registered person would be added to his output tax liability of the month in which the details are furnished, with interest. ✓ Interest will be paid @ 18% from the **<u>date of availing credit</u>** till the date when the payment is made to the supplier. ✓ However, once the payment is made, the recipient will be entitled to avail the credit again without any time limit. ✓ In case part payment has been made, proportionate credit would be allowed. if (say) 90% amount of supplier's invoice (including tax amount) is paid, only 10% tax amounts should be reversed. *Eg. You have taken auditing and consultancy services from a Chartered Accountant. The value of the service is Rs.50,000 and the GST charged is Rs.9,000 (@18%). If you do not make the payment of Rs.59,000 within 180 days of the invoice date, the ITC of Rs.9,000 availed by you will be added to your liability, along with the interest due.* *Eg. Due to a quality dispute, PZP Ltd withheld payment on a machine supplied by a vendor till it could be rectified. Over 180 days went by in this dispute. The credit taken by PZP on the invoice got added to the output tax liability of PZP and thus, it had to pay back the credit. Only after the vendor rectified the machine and PZP released the payment, could PZP take the credit again.*
7	**Time limit for availing ITC-**	✓ A taxable person shall not be entitled to take input tax credit in respect of any supply of goods and/or services to him after the expiry of one year from

the date of issue of tax **invoice** relating to such supply - section 18(2) of CGST Act.

✓ Further, ITC on invoices pertaining to a financial year or debit notes relating to invoices pertaining to a financial year can be availed any time till the due date of filing of the return for the month of September of the succeeding financial year or the date of filing of the relevant annual return, whichever is earlier.

✓ The time limit u/s 16(4) does not apply to claim for re-availing of credit that had been reversed earlier

Example: Rajesh Apparel Pvt Ltd is a dealer in men's apparel. It purchases apparel for Rs.1,00,000 from the manufacturer on 15th July, 2017. GST paid on the purchase is Rs.18,000 (18%). They have filed their annual return for the year '17-'18 on 31st July 2018, and the return for September 2018 is filed on 20th October 2018.

Here, the dates to be checked are-

Expired Date of one year from the date of issue of tax invoice	14th July, 2018
Date of filing of return for September of the next financial year	20th October 2018
Date of filing of annual return	31st July 2018

As date of filing of annual return is the earliest among the dates above, ITC on the invoice must be availed upto 14th July 2018.

Example - Hercules Machinery delivered a machine to XYZ in January 2018 under Invoice no. 49 dated 28th January, 2018 for Rs. 4,15,000 plus GST, and undertook trial runs and calibration of the machine as per the requirements of XYZ. The amount chargeable for the post-delivery activities was covered in a debit note raised in April 2018 for Rs. 50,000 plus GST. Hercules Machinery did not file its annual return till October, 2018.

Though the debit note was received in the next financial year, it relates to an invoice received in the financial year ending March 2018. Therefore, the time limit for taking ITC available on Rs. 50,000 as well as on Rs. 4,15,000 is 20th October, 2018; earlier of the date of filing the annual return for 2017-18 or the return for September 2018.

Section 17- ***Apportionment of credit and blocked credits***

A. Blocked Credit [Section 17(5)]:- Input tax credit shall not be available in respect of the following, as per section 17(5) of GST Act.

1. Motor vehicles and other conveyances	Motor vehicles and other conveyances are not eligible for ITC **except** when they are used— (i) for making the following taxable supplies, namely— (A) further supply of such vehicles or conveyances (B) transportation of passengers (C) imparting training on driving, flying, navigating such vehicles or conveyances (ii) for transportation of goods **Example (further supply of such vehicles or conveyances)** M/s A Ltd. a registered person under GST law and purchased 10 cars for Rs.45 lakh plus 28% GST. M/s A Ltd sold 8 cars for Rs. 55 Lakh plus28% GST. Find the GST liability in the following two independent cases: (a) M/s A Ltd is a dealer of motor vehicles

	(b) M/s A Ltd is not a dealer of motor vehicles Solution:- (a) (55 lakh x28%)-(45 lakh x 28%) = 2.80 lakh (b) (55 lakh x28%)-ITC not Allowed = 2.80 lakh **Example (transportation of passengers)** M/s MR Ltd. manufacturer of motor vehicles. Company purchased passenger motor vehicle for Rs.20 lacs plus GST 28% for transportation of their employees from their residence to factory and from factory to their residence. M/s MR Ltd. is eligible to avail the credit on purchase motor vehicle? Answer: No. M/s MR Ltd. is not in the business of transporting passengers and hence credit on purchase of motor vehicle is not allowed. Note: If the taxable person transports its own employees free of cost it will not be covered by the aforesaid clause and hence he will not be able to claim benefit of input tax credit in respect of the same. Let us look at another scenario. Mukesh Travels, a tour operator, purchased a Tempo Traveler for the purpose of transporting tourists during their package tours. Here, Mukesh Travels can avail ITC on the Tempo Traveler, as it is used for transporting passengers – a business activity for Mukesh Travels. **Example (imparting training on driving, flying, navigating such vehicles or conveyances)** M/s Maruti Driving School Pvt. Ltd. supplied taxable services in the month of October 2017 for Rs.15 lacs (plus GST 18%) to provide training on driving. Company purchased two vehicles for this purpose namely passenger vehicle for Rs. 20 lacs plus GST 28% and goods vehicle for Rs. 33 lacs plus GST 28%. Find the net GST liability of M/s Maruti Driving School Pvt. Ltd. Answer :- Net Excess ITC 2,70,000-560000-924000=1214000 **Example:** A car dealer is allowed ITC on cars purchased for resale; a cab service is allowed ITC on cars purchased for use as cabs; a driving school is allowed ITC on cars purchased for use in teaching driving. **Example:** Course completion certificate/training offered M/s Sky Ltd. (Flying Training Institute) purchased aircraft for Rs. 22 crores plus GST 28%. Whether the flying institute is eligible for input tax credit on purchase of air craft. Answer: Yes. M/s Sky Ltd. (Flying Training Institute) is eligible to avail ITC. **<u>Analysis on Motor Vehicle for transportation of goods</u>** Credit of GST paid on motor vehicle and other conveyance will be available when motor vehicle and other conveyance are used for transportation of goods. The motor vehicle and other conveyance can be used for (a) making outward supply of transportation of goods; (b) transporting own goods. Note: if the vehicle is used for supplying own goods if those goods are taxable supplies the taxable person will be entitled to avail credit of such input tax paid on such vehicle.
2.Goods and services for food, beauty treatment, health mainly for personal consumption	Following supply of goods and services or both are **not eligible** for input tax credit (i) Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery **except** where an inward supply of goods or services or both of a particular category is used by a registered person ✓ for making an outward taxable supply of the same category of goods or services or both or ✓ as an element of a taxable composite or mixed supply; **Example 1:** Super Cars Pvt Ltd take the services of a caterer, Rakesh Caterers, for Diwali Celebration event for its employees. Super Cars Pvt Ltd cannot avail ITC on the catering service, as their business activity is not catering service.

Example 2: Guideline Academy organizes parents meeting and provides meal during meeting to students and their parents. The supplier of food charged Rs. 72,500 plus GST 18%, under the category of outdoor catering. Explain Guideline Academy being provider of taxable supply of services namely commercial training and coaching services is eligible to avail the credit of GST paid on outdoor catering service.

Answer:

GST paid on outdoor catering is not allowed as ITC even though such services are used for business purpose. Since, it is specifically mentioned under Section 17(5)(b)(i) of the CGST Act, 2017 where credit is not allowed.

Example 3: Annapoorna caterings supply outdoor catering services to its customers by sub-contracting the same. Subcontractor supplied food items like ice creams, North Indian Meals, South Indian Meals and so on to Annapoorna caterings. Sub-contractor raised invoice on Annapoorna caterings for supply of outdoor catering services Rs. 2,00,000 plus GST 18%. Annopoorna caterings supplied outdoor catering to its customers for Rs. 2,10,000 plus GST 18%. Find the Net GST liability of Annapoorna caterings.

Answer

Statement showing net GST liability of Annapoorna caterings:

GST on outward supply (210000x18%)	= 37,800
Less: ITC from similar line of business(200000x18%)	= 36,000
Net GST liability	=1800

Example 4: Sky Ltd. is engaged in supply of transport of passengers by air services. The company avails outdoor catering services of M/s Anna Caterers in order to provide food and beverages to the passengers. M/s Anna Caterers raises an invoice on Sky Ltd charging GST.

Sky Ltd. wants to avail the ITC on outdoor catering services supplied by M/s Anna Caterers. Advise.

Answer:

ITC shall be available where an inward supply of goods or services or both of a particular category is used by a registered person as an element of a taxable composite or mixed supply.

Advise: In the given case, Sky Ltd will be entitled to avail the ITC of the GST paid to M/s Anna Caterers since outdoor catering services forms part of taxable composite supply of passengers by air services.

(ii) **membership of a club**, health and fitness centre,

Example: if you have taken any subscription of the gym, yoga classes, or membership of any club for any sport or for anything else, the ITC credit shall not be allowed.

Example: Mukesh Travels, a tour operator, takes an annual membership of a fitness centre, Pratham Fitness Centre, for the use of its employees. Here, Mukesh Travels cannot avail ITC on the GST paid on membership charges.

(iii) rent-a-cab, life insurance and health insurance **except where**

(A) the Government **notifies** the services which are obligatory for an employer to provide to its employees under any law for the time being in force or

(B) such inward supply of goods or services or both of a particular category is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as part of a taxable composite or mixed supply;

Example: Wipro Pro Ltd is a BPO which works on night shift basis. As per the Government Notification, it has to provide rent a cab facilities to its employees who work on night shifts.

Whether, Wipro Pro is eligible to avail ITC on rent a cab services.

Answer:

Yes. Wipro pro Ltd can claim ITC on the GST paid on such rent-a-cab services.

Example: Hotel King Pvt Ltd. provider of short-term accommodation services and also provides picking up guest from airport. Accordingly, Hotel King Pvt. Ltd availed rent-a-cab services from M/s X & Co.

Rent-a-cab services provided by M/s X & Co to Hotel King Pvt Ltd. during Nov 2017 for Rs. 2,00,000 plus GST 18%.

Hotel King Pvt Ltd. provided short-term accommodation services to its customers (i.e. guests) during Nov 2017 for Rs. 15,75,250 plus GST 18%.

Find the Net GST liability of Hotel King Pvt Ltd. during the month of November 2017.

Answer:-

	Statement showing Net GST liability of Hotel King Pvt. Ltd for the month of Nov 2017 GST on outward supplies (15,75,250 x 18%) = 2,83,545 Less: ITC on rent-a-cab service (2,00,000 x 18%) = (36,000) Net GST liability = 2,47,545 Note: In the given case Hotel King Pvt. Ltd. providing a composite supply of rent-a-cab and accommodation service. The principal supply of service is accommodation service. Hence, GST paid on rent-a-cab will be available as a credit to Hotel King Pvt. Ltd. **Example:** Infosys Ltd. being a registered person under GST Law paid insurance premium for its employees along with GST thereon. Infosys Ltd. is can avail the ITC of GST paid on insurance premium? Answer: No. Infosys Ltd cannot avail the ITC benefit in the given case. ***Example:-*** M/s MRFL Ltd. being a manufacturer of taxable goods paid general insurance premium to cover loss of stock of finished goods. Company wants to avail the GST paid on such premium as input tax credit. Advise. Answer: GST paid on general insurance premium to cover loss of stock of finished goods is well allowed as input tax credit. Hence, M/s MRFL Ltd. is eligible to avail the tax paid on general insurance premium as ITC. (iv) **travel benefits extended to employees on vacation** such as leave or home travel concession. **Example:** Super Cars Pvt Ltd reimburses its senior employees on travel expenses as part of LTA (Leave Travel Allowance). Super Cars Pvt Ltd cannot avail ITC on the GST component of the travel fare reimbursed. This restriction is absolute and no exception has been provided.
***3.* Works contract services**	Works contract services for construction of an immovable property is not eligible, **EXCEPT WHEN** ✓ It is input service for further supply of works contract service ✓ Immovable property is plant and machinery
***4.* Construction of an immovable property**	Inward supplies received by a taxable person for construction of an immovable property on his own account is not eligible, even when such supplies are used in the course or furtherance of business **EXCEPT WHEN** ✓ Construction of Plant & Machinery ✓ Construction of immovable property for Others. **Example -** A company buys material and hires a contractor to construct an office building to house the plant supervisory staff. The input tax paid on such goods and services is not allowed as credit. **Meaning of construction and plant and machinery** **"Construction",** both in this clause and the previous one, includes reconstruction, renovation, additions or alterations or repairs, to the extent of capitalization, to the said immovable property; **"Plant and machinery"** means apparatus, equipment, and machinery fixed to earth by foundation or structural supports but excludes land, building or other civil structures, telecommunication towers, and pipelines laid outside the factory premises.
5. GST paid under composition scheme	Goods or services or both on which tax has been paid under section 10 (composition scheme) are not eligible. **Example:** Laxmi Kirana Stores is registered as a composition tax payer under GST. It purchases grocery items from the manufacturer for Rs.20,000 and GST is charged @ 12% amounting to Rs.2,400. As Laxmi Kirana Stores is registered as a composition tax payer, it cannot avail ITC of Rs.2,400 on the purchase. This GST paid will become part of their material cost
6. Goods or services or both received by a non-resident taxable person	Goods or services or both received by a non-resident taxable person are not eligible for input tax credit, *except* on goods imported by him **Example:-** Mr. A of USA being technician came to India to assemble parts of machinery. He also imported goods worth Rs.10,00,000 and paid following customs

	duties: (i) Basic customs duty is Rs. 1,00,000. (ii) Education Cess 2% plus 1% Secondary and Higher Education Cess together it is Rs. 3,000. (iii) Integrated Goods and Services Tax (IGST) of Rs. 1,98,540. In India Mr. A wants to register as non-resident taxable person and his estimated liability is Rs. 2,50,000. How much Mr. A is liable to pay as advance tax? Answer: Mr. A of USA is liable to pay advance tax of Rs. 51,460. (i.e. Rs. 2,50,000 – 1,98,540)
7. Goods and services used for personal consumption	Goods or services or both used for personal consumption are not eligible for input tax credit **Example:-** M/s X Ltd. purchased shoes for their employee's personal consumption by paying GST thereon. ITC not allowed on such goods. **Example:-** M/s Y Ltd. for safety reasons purchased hand gloves and shoes for workers as mandatory. Hence, ITC on such goods cannot be considered as used for personal purpose. Therefore, ITC allowed. **Example:** Rajesh Apparel Pvt Ltd purchased apparel for Rs.50,000 from the manufacturer. GST paid on the purchase is Rs.9,000. Out of the apparel purchased, apparel worth Rs.2,000 is taken by the owner for his personal use. The remaining apparel are sold to customers. Here, the ITC to be availed on the purchase is Rs.8,640 (48,000 *18%).
8. Lost, stolen or destroyed goods and free samples	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples are not eligible for input tax credit **Example:** You are an electronic goods dealer. On 1st Nov, 2017, you purchase 20 computers @ Rs. 25,000 each from the manufacturer. GST charged is Rs.90,000 (@18%). On 2nd Nov, 2017, 1 of the computers gets destroyed completely and cannot be used any more. You cannot avail the ITC on that computer, i.e., Rs. 4,500.
9. GST paid after detection of fraud or suppression or goods removed in contravention of GST Act	Any tax paid under sections 74, 129 and 130 of CGST Act are not eligible for input tax credit. This covers GST paid after detection of fraud or suppression or goods removed in contravention of GST Act **Example: -** M/s X Ltd. sold goods to M/s Y Ltd. for Rs. 2,00,000 plus GST Rs. 36,000. M/s X Ltd. remitted the GST on or before the due date. During the audit of M/s X Ltd. books by the Central Tax Department quantified the GST liability Rs. 72,000 and demanded to pay differential duty of Rs. 36,000 u/s 74 of the CGST Act, 2017. Finally, M/s X Ltd. paid the differential GST of Rs. 36,000. M/s Y Ltd. wants to avail the input tax credit of differential amount of GST, advise. Answer: Since, the differential GST paid by M/s X Ltd. against show cause notice u/s 74 of the CGST Act, 2017, will not be available as credit to M/s Y Ltd. in view of clause (i) of section 17(5) of the CGST Act, 2017.

B. Apportionment of ITC

Partly Business purpose & Partly other purpose [Sec. 17(1)]	Where the goods or services or both are used by the registered taxable person partly for business purpose and partly for non business purposes, ITC attributable only to business purposes can be taken by the registered person - section 17(1) of CGST Act. Eg. A registered person (partnership firm) purchases 5 laptops but one of the laptop is being used by the son of one of the partners of the firm. ITC will not be available on such laptop as it is used for personal purposes.
Partly Taxable Supply & Partly Exempt Supply [Sec. 17(2)]	Where the goods and/or services are used by the registered person partly for making taxable supplies including zero rated supplies under CGST or IGST Act and partly for exempt supplies, ITC attributable to taxable supplies and zero rated supplies can be taken by the registered person - section 17(2) of CGST Act. Eg. Out of 10 containers purchased by a registered person engaged in taxable supply of goods, 5 are used for storing non-taxable goods (exempt supply) such as petroleum (petroleum is out of GST gamut till the time the GST Council takes a decision in this regard). ITC on 5 containers used for non-taxable goods cannot be availed.
Meaning of exempt supply	The value of Exempt supplies shall include

for the purpose Sec. 17(2) [Sec. 17(3)]	✓ supplies charged to tax under reverse charge, ✓ transactions in securities, ✓ sale of land and sale of building when entire consideration is received after completion certificate issued by the competent authority.
Manner of determination of input tax credit in respect of inputs or input services or capital goods and reversal thereof.	In many situations, the amount of input tax involved in exempt /non business use is not easily discernible, as common goods and/or services are used for (i) making taxable supplies including zero rated supplies and exempt supplies and (ii) business and non-business purposes. To Overcome these situation Rule 42 & Rule 43 has been provided.

Manner of determination of input tax credit in respect of inputs or input services and reversal thereof [Rule 42 of the CGST Rules, 2017]:

Rule 42 of the CGST Rules provides the methodology for apportionment of Common ITC on inputs and input services and reversal of ineligible credit as follows:
This is pertaining to **11.A.(c) – Amount in terms of rule 42(1)(m).**

The ITC used for exempt supplies and personal purpose has to be reversed in GSTR 2.

How to **Calculate ITC reversal on Exempt and Non Business Supplies** –

Step 1:

PARTICULARS	Value in Rs.	CGST Rules, 2017
Total ITC on inputs and input services "T"	Xxx	As per rule 42(1)(a)
Less: ITC on supplies exclusively used for the purpose other than business ("T1")	(xx)	As per rule 42(1)(b)
Less: ITC on supplies exclusively used for providing exempted supplies ("T2")	(xx)	As per rule 42(1)(c)
Less: ITC not available u/s 17(5) of the CGST Act, 2017 ("T3")	(xx)	As per rule 42(1)(d)
Input tax credit which are used to supply taxable as well as exempted output supplies "C1"	Xxx	As per rule 42(1)(e)
Less: ITC on supplies used exclusively for taxable supply including Zero rated supply (i.e. ITC on normal supplies) ("T4")	(xx)	As per rule 42(1)(f)
Common ITC, which are used to supply taxable as well as exempted output supplies (denoted as "C2")	Xx	As per rule 42(1)(h)

Step 2	Amount of reversal of input tax credit attributable to inputs partly used for Exempt supplies D1 =E/F x C2 E = Value of ES during tax period F = Total turnover during tax period If no turnover during the tax period/values not available, values for last period may be used.
Step 3	Credit attributable to non business purpose if common Input Supplies used partly for business + non -business purposes D2 = 5% x C2
Step 4	Both these ITC amounts as Calculated in Step-2 & Step 3 have to be reversed in the GSTR 2 filed by the dealer and ITC to be reversed has to be added to output liability. Remaining common credit ,"C3" = C2 – (D1 + D2) will be attributable to business & taxable supplies including ZRS Note:- ✓ A per **Rule 42(1)(m) of the CGST Rules, 2017, (**D1 + D2) to be added to the output tax liability on monthly basis and the registered person should pay the amount. Same will be reported in table number 11 of GSTR-2 ✓ C3 will be computed separately for ITC of CGST, SGST/ UTGST and IGST.

<table>
<tr>
<td>Adjustment at the year end [Rule 42(2)]

If you check the table 11 of GSTR-2 format, we need to report two more detail in point (e) & (f) with respect to rule 42 what are these lets discuss.</td>
<td>✓ The input tax credit determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner specified in the said sub-rule and
✓ Compute Σ (D1 + D2) for the whole financial year, by taking exempted turnover and aggregate turnover for the whole financial year, before the due date for filing the return for September in the following financial year.
<table>
<tr><td>If Σ (D1 + D2) > the amount already added to output tax liability every month</td><td>The differential amount has to be added to the output tax liability of any month till September in the following financial year and interest @ rate 18% should be paid on such differential amount from 1st April of succeeding year till the date of payment as per rule 42(2)(a)</td></tr>
<tr><td>If the amount added to output tax liability every month > Σ (D1 + D2)</td><td>The additional amount paid has to be claimed back as credit in the return of the month not later than September in the next financial year as per rule rule 42(2)(b)</td></tr>
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Point To Be Noted:-

- ✓ Exempt supplies include reverse charge supplies, transactions in securities, sale of land and sale of building when entire consideration is received after CC.
- ✓ Aggregate value of exempt supplies and total turnover exclude the CED, SED & VAT.
- ✓ T1, T2, T3 and T4 will be determined and declared by the registered person at the invoice level in GSTR 2.

Practical/Numerical

Alpha Limited is a registered taxpayer engaged who supplies both taxable and exempted supplies. It has the following data on records:

- Taxable Turnover is Rs. 8.0 Crores
- Exempted Turnover is Rs. 2.0 Crore
- Total available Credit is Rs. 10 Lacs
- Input Credit attributable to exclusively Non business purpose = Rs. 50,000/-
- Input Credit attributable to exclusively exempted business purpose = Rs. 1,00,000/-
- Input Credit attributable to exclusively for Blocked Credit = Rs. 50,000/-
- Input Credit attributable to exclusively for Business purposes = Rs. 5,00,000/-

Compute the quantum of ITC available to Alpha Limited and amount to be credited on Electronic Credit Ledger.

Calculation

		Rs.
Total ITC available, **T**	=	10,00,000
Input Credit attributable to exclusively Non business purpose, **T_1**	=	50,000
Input Credit attributable to exclusively exempted business purpose **T_2**	=	1,00,000
Input Credit attributable to exclusively for Blocked Credit **T_3**	=	50,000
Input Credit attributable to exclusively for business purpose T_4	=	5,00,000
Exempted Turnover, **E**	=	2,00,00,000
Total Turnover, F	=	8,00,00,000 + 2,00,00,000 =10,00,00,000
amount to be credited on Electronic Credit Ledger, **C_1 = T- (T_1+T_2+T_3);**	=	8,00,000
Common Credit, C_2 =C_1-T_4	=	8,00,000-5,00,000 = 3,00,000/-
Total ITC available to Alpha Limited = **T_4** + **C_2(19/20 - E/F)**	= = =	5,00,000 + 3,00,000(19/20- 2,00,00,000/10,00,00,000) 5,00,000+3,00,000(0.95- 0.20)
Thus Total ITC available to Alpha Limited		**Rs. 7,25,000/-**

11. Input Tax Credit Reversal / Reclaim

Description for reversal of ITC	To be added to or reduced from output liability	Amount of ITC			
		Integrated Tax	Central Tax	State/UT Tax	CESS
1	2	3	4	5	6
A. Information for the current tax period					
(a) Amount in terms of rule 37(2)	To be added				
(b) Amount in terms of rule 39(1)(j)(ii)	To be added				
(c) Amount in terms of rule 42 (1) (m)	To be added				
(d) Amount in terms of rule 43(1) (h)	To be added				
(e) Amount in terms of rule 42 (2)(a)	To be added				
(f) Amount in terms of rule 42(2)(b)	To be reduced				
(g) On account of amount paid subsequent to reversal of ITC	To be reduced				
(h) Any other liability (Specify)	……				
B. Amendment of information furnished in Table No 11 at S. No A in an earlier return					
Amendment is in respect of information furnished in the Month					
Specify the information you wish to amend (Drop down)					

Example

Here let's suppose the total eligible credit differs from the above calculations in the following manner:

Example 1: ITC as per annual return of 2017-18 is more than actually claimed

At year-end, total eligible credit is Rs. 7,75,000/-

Here (Rs. 7,75,000 – Rs. 7,25,000) = Rs. 50,000/- will be allowed to be claimed as credit for any month before September 2018.

Example 2: ITC as per annual return of 2017-18 is less than actually claimed

At year-end total eligible credit is Rs. 6,30,000

Here (Rs.7,25,000 – Rs. 6,30,000) = Rs. 95,000/- will be added to output tax liability and interest @ 18% would be payable from 1st April 2018 till date of actual payment.

Manner of determination of input tax credit in respect of capital goods and reversal thereof in certain case [Rule 43 of the CGST Rules, 2017]:

Rule 43 of the CGST Rules provides the methodology for apportionment of ITC on capital goods and reversal of ineligible credit as follows:

This is pertaining to **11.A.(d) – Amount in terms of rule 43(1)(h).**

ITC on capital goods used for the supply of exempt supplies and non-business purposes will also be reversed.

(a) Capital Goods used only for Personal Use or for Exempted Sales Identify input tax on capital goods used/ intended to be used exclusively for non-business purposes or making exempt supplies and declare the same in GSTR 2. Such amount will not be credited to Electronic Credit Ledge [ECrL]. **Example 1: Personal Purchases** Ms. Anita has purchased a fridge. Since this is not required for her business, i.e., a purely personal purchase, she will not be able to claim any ITC on the GST paid for the fridge. **Example 2: Capital Goods used for exempted sales** Mr. Avinash has purchased a small flour mill in his grocery shop to grind wheat grains to flour. Since he is producing unbranded flour it is exempted from GST. As it is an exempted sales, he cannot claim any ITC on the GST paid for the mill.	Not Eligible
(b) Capital Goods used only for taxable sales including ZRS. Identify input tax on capital goods used/ intended to be used exclusively for making taxable supplies including zero rated supplies and declare the same in GSTR 2. Such amount will be credited to ECrL. Example:1 XYZ has purchased machinery to manufacture shoes. Since, shoes are normal taxable supplies, the GST included paid while purchasing machinery will be completely available as ITC. This shall be indicated in FORM GSTR-2 and shall be credited to the <u>electronic credit ledger</u>.	Fully Eligible
(c) Common use for partly personal/ exempted and partly Taxable sales Identify input tax on capital goods not covered under (i) and (ii) above (i.e., the capital goods which are used/intended to be used commonly for making taxable as well as exempt supplies & business & non business purposes] and denote the same as ‘A’. Such amount will be credited to ECrL. The useful life of such capital goods will be taken as 5 years from the date of invoice. **Adjustment due to Inter change** ✓ Change from exclusive use for non-business purpose/exempt supplies to common use: Where capital goods which were initially covered under (i) above get subsequently covered under clause (iii), compute ‘A’ by reducing ITC @ 5% per quarter or part thereof. Such reduced amount will be credited to ECrL. Add together the amounts of ‘A’ credited to ECrL to arrive at common credit ‘Tc’. ✓ Change from exclusive use for taxable including zero rated supplies to common use: Where capital goods which were initially covered under (ii) above get subsequently covered under clause (iii), compute ‘A’ by reducing ITC @ 5% per quarter or part thereof and add such value to Tc.	Tc
(d) Determine common credit during the useful life of capital goods for a tax period as under and denote the same as ‘T_m’:	***T_m= T_c÷60***
(e) Determine common credit at the beginning of a tax period for all capital goods whose useful life remains during the tax period as under:	***Tr=Tm for such capital goods***
(f) Apportion common credit attributable to exempt supplies as under: Where E = Aggregate value of exempt supplies made during the tax period F = Total turnover during the tax period	T_e = (E ÷ F) x T_r

Point to be noted *(i) If the registered person does not have any turnover during the said tax period, or the above information is not available, the values for the last tax period may be used.* *(ii) Aggregate value of exempt supplies and total turnover excludes the central excise duty, State excise duty and VAT.* *(iii) Exempt supplies include supplies charged to tax under reverse charge, transactions in securities, sale of land and sale of building when entire consideration is received after completion certificate issued by the competent authority.* *(iv)Amount of Te has to be computed separately for CGST, SGST/UTGST and IGST.* *(v) The value of exempt supply in respect of land and building is the value adopted for paying stamp duty and for security is 1% of the sale value of such security.*	
(g) Restrict ineligible credit Add T_e to the output tax liability along with applicable interest during every tax period of the useful life of the capital goods concerned.	

Example:-

Mr. A purchased three machineries i.e. Machine -1, Machine -2 and Machine -3 in April 2017.

Machine -1 is exclusively used for effecting exempted supplies

Machine -2 is exclusively used for making taxable supplies

Machine -3 is used for exempted as well as taxable supplies

Further, aggregate value of supplies including exempt supplies during April 2017 is Rs. 18 Crore.

Additionally, value of exempt supplies during April 2017 is Rs. 5 Crore.

Necessary detail of three machines are as follows.

	Machine -1	Machine -2	Machine -3
	Exclusively for exempt supply	Exclusively for taxable supply	For exempt as well as taxable supply
Date of Purchase	01.04.2017	01.04.2017	01.04.2017
Price	4,00,000/-	5,00,000/-	6,00,000/-
IGST@12%	48,000/-	60,000/-	72,000/-
Invoice Value	4,48,000/-	5,60,000/-	6,72,000/-

With effective from 1st April 2018, Mr A Started using Machine 1 & 2 also for effective taxable as well as exempt supplies.

Aggregate value of supplies including exempt supplies during April 2018 is Rs. 35 Crore.

Value of exempt supplies during April 2018 is Rs. 10 Crore.

Compute

(1) The amount of Input Tax Credit to be transferred to ECL in April 2017.

(2) The amount of Output Tax Liability that needed to add during month of April 2017

(3) The amount of Input Tax Credit to be transferred to ECL in April 2018.

(4) The amount of Output Tax Liability that needed to add during month of April 2018

Solution

	April 2017	**April 2018**
Total Turnover (F)	18 Crore	35 Crore
Exempted Turnover (E)	5 Core	10 Crore
Taxable Turnover	13 Crore	25 Crore

ITC on Total Capital Purchase	1,80,000	
Less:-ITC on Capital Goods used for Exempted Supplies	(48,000)	-
ITC on Capital Goods exclusively used for making taxable supplies & used for exempted as well as taxable supplies (60,000+72,000) Amount Transferred to ECrL in Month of April 2017	1,32,000	-
Inter Change Adjustment **M-1 From Exempt Use to Common Use** **ITC reduced by 5% for each quarter and transferred to ECrL.** **(48,000-5% for 4 Quarters)**	-	38400
ITC on Capital Goods used for exempted as well as taxable supplies as Tc	72,000	-
Inter Change Adjustment **Machine -1 Rs. 38,400** **Machine -2 (60000-20%) Rs. 48,000**		86,400
Common Credit $T_m = T_c \div 60$	1200	1,440
Aggregate Common Credit	1,200	2,640
$T_e = (E \div F) \times T_r$	333	754

Claim of Credit by a Banking Company or a Financial Institution [Section 17(4) read with rule 38]

1. A banking company *or a financial institution including a nonbanking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances shall have the* ***option*** *to either*

A) comply with the provisions of section 17(2) of CGST Act, (i.e. Avail Proportionate ITC) or

B) avail of, every month, an amount equal to 50% of the ***eligible*** *input tax credit on inputs, capital goods and input services in that month and the remaining ITC shall lapse:*

2. The methodology is summarised below,

Identify,

The total tax on purchase of goods & services	xxx	
Reduce the total tax credit by following		
Ineligible credit as per Section 17 (5)	(xxx)	
ITC on Non Business Purpose	(xxx)	
Balance		xxx

50% of balance credit will eligible to Banking & Financial Institute

3. The option once exercised cannot be changed during the remaining part of the financial year. (1st Provisio)
4. The restriction of availing 50% ITC shall not apply to the tax paid on supplies procured from another registration within the same entity i.e., 100% credit of such tax can be availed. (2nd Provisio)

Example:- X Bank of India has corporate office in Mumbai and branches in Chennai, Delhi and Kolkata. Mumbai office provided services to Chennai office accordingly IGST paid. Office of Chennai will avail the credit of IGST. Chennai office is required to reverse such credit? Explain.
Answer:
As per Section 17(4) of the CGST Act, 2017 that reversal of 50% shall not be made for the credit availed by Chennai office on services provided by corporate office. Thus, no credit reversal shall be made for the credit availed on input services provided by one registered person to another registered person holding same PAN.

Example: - OK Bank has availed credit of Rs. 25,00,000 lacs in the month of December 2017. Total credit, out of which Rs. 5,00,000 pertains to non-business purpose and Rs. 7,00,000 pertains to credit availed under 2nd proviso of section 17(4). Find the total input tax credit eligible to OK Bank.
Note: OK Bank opted to avail ITC an amount equal to 50% of eligible credit.
Answer:

Statement showing eligible ITC to OK Bank for the month of December 2017:

Input tax credit attributable to non-business purpose	nil
ITC from its other establishment	7,00,000
Other ITC (25,00,000 – 5,00,000 – 7,00,000) x 50%	6,50,000
Total ITC allowed in Form GSTR-2	13,50,000

Section 18-

CREDIT IN SPECIAL CIRCUMSTANCES [SECTION 18]

(i) Entitlement of ITC at the time of registration/voluntary registration or switching to regular tax paying status or coming into tax-paying status [Sub-sections (1) and (2) of section 18 read with rule 40 of CGST Rules]

When a Person apply for registration under GST, on becoming liable to register Sec. 18(1)(a)	Persons eligible to take credit:- Person who has applied for registration within 30 days from the date on which he becomes liable to registration and has been granted such registration Goods eligible for ITC:- Inputs held in stock and inputs contained in semi-finished or finished goods held in stock other than capital goods as on the day immedicately preceding the date from which he becomes liable to pay GST. Restriction/conditions:- ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier. **Example:** You are a manufacturer of apparel and have crossed the threshold limit for registration on 2nd October 2017. You have stock of raw materials worth Rs. 5,00,000 on 1st October and have paid GST @ 18% (Rs 90,000) on them. You must ensure that you apply for registration **within 30 days** from 2nd October 2017. If not, you will lose the eligible ITC of Rs 90,000 on the raw materials in stock. Example:- Mr. Z becomes liable to pay tax on 1st August and has obtained registration on 15th August. Mr. Z is eligible for ITC on inputs held in stock and as part of semi-finished goods or finished goods held in stock as on 31st July. Mr. Z cannot take ITC on capital goods.
When a person voluntarily apply for registration Sec. 18(1)(b)	Persons eligible to take credit:- Person who is not required to register, but obtains voluntary registration Goods eligible for ITC:- Inputs held in stock and inputs contained in semi-finished or finished goods held in stock other than capital goods as on the day immediately preceding the date of grant of registration Restriction/conditions:- ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier. **Example:** You are a dealer of electronic products and due to your business operations, you voluntarily apply for registration, 2nd September even though the threshold limit has not been crossed. You have been granted registration on 10th September 2017 and you have electronic products worth Rs 2,00,000 in stock as on 9th Septmeber 2017, on which GST @ 18% (Rs 36,000) has been paid. You can avail the ITC of Rs 36,000 on the electronic products in stock. However you cannot take ITC on capital goods.
When A person leave the composition scheme and become a regular dealer Sec. 18(1)(c)	Persons eligible to take credit:- Registered person who ceases to pay composition tax and switches to regular scheme Goods eligible for ITC:- Inputs held in stock and inputs contained in semi finished or finished goods held in stock and capital goods as on the day immediately preceding the date from which he becomes liable to pay tax under regular scheme Restriction/conditions:- • ITC on capital goods will be reduced by 5% per quarter of a year or part of the year from the date of invoice. • ITC claimed shall be verified with the corresponding details furnished by the corresponding supplier. • ITC to be availed within 1 year from the date of the issue of the tax invoice

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by the supplier.
Example: You have been registered as a composition dealer under GST and your turnover has now crossed Rs 75 lakhs. Hence, you leave the composition scheme and become a regular dealer. Your turnover has crossed Rs. 1 Crore on 10th October 2017 and your stock on 9th October 2017 contains the following inputs-
<table>
<tr><th>Type of input</th><th>Value (Rs.)</th><th>GST Paid @18% (Rs.)</th></tr>
<tr><td>Raw materials</td><td>1,00,000</td><td>18,000</td></tr>
<tr><td>Inputs in semi- finished goods</td><td>50,000</td><td>9,000</td></tr>
<tr><td>Inputs in finished goods</td><td>1,50,000</td><td>27,000</td></tr>
<tr><td colspan="2">Total input tax paid</td><td>54,000</td></tr>
</table>
You can avail the full ITC of Rs 54,000 and ITC on capital goods (reduced by 5% per quarter or part thereof from the date of invoice).
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<tr>
<td>When exempted goods or services become taxable Sec. 18(1)(d)</td>
<td>
Persons eligible to take credit:- Registered person whose exempt supplies become taxable supplies
Goods eligible for ITC:- Inputs held in stock and inputs contained in semi-finished or finished goods held in stock relatable to such exempt supply and capital goods exclusively used for such exempt supply as on the day immediately preceding the date from which such supply becomes taxable
Restriction/conditions:-

ITC on capital goods will be reduced by 5% per quarter of a year or part of the year from the date of invoice.
ITC claimed shall be verified with the corresponding details furnished by the corresponding supplier.
ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier.

Example: You manufacture an exempt good. This exempt good is made taxable on 5th December 2017. You have the following inputs (used to manufacture the exempt good) in stock on 4th December 2017-
<table>
<tr><th colspan="3">Closing stock- 4.12.2017</th></tr>
<tr><th>Inputs</th><th>Value (Rs.)</th><th>GST paid on inputs @ 18% (Rs.)</th></tr>
<tr><td>Raw material A</td><td>3,00,000</td><td>54,000</td></tr>
<tr><td>Raw material B</td><td>30,000</td><td>5,400</td></tr>
<tr><td>Total</td><td>3,30,000</td><td>59,400</td></tr>
</table>
You can avail the full ITC of Rs. 59,400 on the inputs used to manufacture the exempt good which has been made taxable. You can also avail ITC on capital goods exclusively used for the exempt supply, reduced by 5% per quarter or part thereof from the date of invoice.
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<tr>
<td>Conditions for availing above credit (Rule-40)</td>
<td>
(i) Filing of electronic declaration in form ITC-01 giving invoice wise details of inputs held in stock/contained in semi-finished goods and finished goods held in stock and capital goods on the days immediately preceding the day on which credit becomes eligible.
(ii) Declaration has to be filed within 30 days from becoming eligible to avail credit.
(iii) Details in (i) above to be certified by a CA/ Cost Accountant if aggregate claim of CGST, SGST/ IGST credit is more than Rs. 2,00,000.
(iv) Such credits are subject to verification of details furnished by the supplier in GSTR – 1 or GSTR – 4 on the common portal.
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</table>

(ii) Reversal of ITC on switching to composition levy or exit from tax-paying status [Section 18(4) read with rule 44 of CGST Rules

When a regular dealer who has availed ITC switches to the composition scheme

- When a regular dealer (who has availed ITC) switches to the composition scheme,
- the person must pay back the ITC availed on inputs in stock, inputs in semi-finished state, finished goods in stock and capital goods (**5% per quarter or part thereof from the date of invoice**)
- by way of debit in the electronic credit ledger or electronic cash ledger
- **on the day before the date of switching to the composition scheme**.

Example: You are registered as a regular dealer. You switch to the composition scheme on 1st September 2017 as your turnover does not exceed Rs.75 Lakhs. On 31st August 2017, you have the following inputs in stock on which ITC has already been availed-

Closing stock- 31.8.2017		
Inputs	**Value (Rs.)**	**GST paid on inputs @ 18% (Rs.)**
Raw material A	1,50,000	27,000
Raw material B	20,000	3,600
Total	**1,70,000**	**30,600**

On switching to the composition scheme, you have to pay back the ITC of Rs.30,600 availed on the inputs in stock.

When taxable goods and/or services become exempt

- When taxable goods and/or services supplied by a person are notified as exempt,
- the person must pay back the ITC availed on inputs in stock, inputs in semi-finished or finished goods in stock and capital goods (reduced by the prescribed percentage points)
- by way of debit in the electronic credit ledger or electronic cash ledger
- **on the day before the date of exemption**.

Example: You manufacture a taxable good, which is notified to be exempt from GST with effect from 15th September 2017. On 14th September 2017, you have the following inputs in stock on which GST has already been availed-

Closing stock- 14.9.2017		
Inputs	**Value (Rs.)**	**GST paid on inputs @ 18% (Rs.)**
Raw materials	1,00,000	18,000
Inputs in semi-finished goods	50,000	9,000
Total	**1,50,000**	**27,000**

The ITC availed on the inputs in stock, ie. Rs.27,000 will have to be paid back.

Cancellation of Registration	Every registered person whose registration is cancelled shall pay an amount equivalent to the ITC • in respect of inputs held in stock on the day immediately preceding the date of such cancellation or the output tax payable on such goods, whichever is higher. • taken on capital goods or plant and machinery, reduced by 5% or part thereof or the tax on the transaction value of such **capital goods** or plant and machinery under section 15, whichever is higher.
Manner of reversal of credit on inputs and capital goods & other conditions [Rule 44]	(i) Inputs ⇒ ITC on inputs will be reversed proportionately on the basis of corresponding invoices on which credit had been availed on such inputs. If invoices are not available, the ITC to be reversed will be based on the prevailing market price of such goods on the date of switch over/exemption. The details furnished on the basis of prevailing market value will be duly certified by a practicing Chartered Accountant/ Cost Accountant. (ii) Capital goods ⇒ITC involved in the remaining useful life (in months) of the capital goods will be reversed on pro-rata basis, taking the useful life as 5 years. E.g. Capital goods have been in use for 4 years, 6 month and 15 days. The useful remaining life in months = 5 months ignoring a part of the month. ITC taken on such capital goods = C ITC attributable to remaining useful life = C x 5/60 (iii) ITC to be reversed will be calculated separately for ITC of CGST, SGST/UTGST and IGST. (iv) Reversal amount will be added to output tax liability of the registered person. (v) Electronic credit/cash ledger will be debited with such amount. Balance ITC if any will lapse.

Example:-
M/s X Ltd. becomes liable to pay tax on 1st December and has obtained registration on 15th December. The GST paid goods lying in the premises of M/s X Ltd. as on 30th November are as follows:

Particulars	Value in Rs. (Excluding tax)	GST Rs.
Raw material	2,00,000	36,000
Capital goods	5,00,000	1,40,000
Raw material lying work in progress	3,00,000	54,000
Raw material lying in Finished Goods	12,00,000	2,16,000

You are required to answer the following:
(a) Eligible amount of input tax credit.
(b) Time limit to submit declaration on common portal.
(c) Whether any certification required while availing the credit, if so from whom.
Answer:
(a) Eligible input tax credit is Rs. 3,06,000/-
(b) Declaration in Form GST ITC-01 on or before 14th January should be summited on common portal of GSTN.
(c) Declaration regarding inputs tax credit shall be duly certified by a practicing Chartered Accountant or a Cost Accountant if the aggregate value of the claim on account of central tax, State tax, Union territory tax and integrated tax exceeds Rs. 2,00,000.
In the give case, since, input tax credit declared is Rs. 3,06,000. Therefore, certificate from a practicing Chartered Accountant or a Cost Accountant is required.
Note: M/s X Ltd. cannot take ITC on capital goods.

Example:-
Mr. A applies for voluntary registration on 22nd November and obtained registration on 25th November.
Mr. A has stock on the following two dates:

Date	Opening balance (units)	Purchased (units)	Sold (units)
21st November	12,000	20,000	8,000

On 24th November, Mr. A purchased 5,000 units and sold 15,000 units.
On 24th November, Mr. A is also purchased plant and machinery for Rs. 2,00,000 plus GST 28%.
Mr. A purchased good at uniform rate through out the year at Rs. 100 per unit plus GST paid 18%.
You are required to find the eligible input tax credit to Mr. A.

Answer:
Stock as on 24th November = 14,000 units
Value of stock = Rs. 14,00,000
(i.e. 14,000 units x Rs. 100 per unit).
Input tax credit eligible is Rs. 2,52,000/-.
Note: ITC on capital goods not allowed.

Example:-
Mr. C a registered taxable person, was paying tax at composition scheme upto 30th July. However, w.e.f. 31st July, Mr. C becomes liable to pay tax under regular scheme.
Other information:
(a) Input as on 30th July for Rs. 3,54,000 (inclusive of GST paid @18%).
(b) Capital goods purchased for Rs. 5,00,000 (invoice date 22nd April 2017, GST 18%)
Find the eligible ITC to Mr. C.
Note: Mr. C not availed depreciation on the GST paid on capital goods.
Answer:
ITC allowed on inputs = Rs. 54,000
ITC allowed on capital goods
ITC on capital gods(allowed) = Rs. 85,500
less 5% p.q = - 4,500 = Rs. (Rs. 90,000 x 5% x 1)
Total ITC allowed to Mr. C as on 31st July= Rs.1,39,500

Example:-

The goods manufactured by Royal Ltd. have been exempted from GST with effect from 15th November 2017. Earlier these goods were liable to tax @18%. Its inputs were liable to GST @12%. Following information is supplied on 15th November 2017:

(i) The inputs costing Rs.1,44,720 are lying in stock.
(ii) The inputs costing Rs.77,184 are in process.
(iii) The finished goods valuing Rs.4,82,400 are in stock, the input cost is 50% of the value.
(iv) The balance in electronic credit ledger account shows credit balance of Rs.2,79,104.
(v) Royal Ltd. also purchased capital goods for Rs. 2,00,000 by paying GST 28% (invoice dated 10th July 2017)
The department has asked Royal Ltd. to reverse the credit taken on inputs referred above. However, Royal Ltd. contends that credit once validly taken is indefeasible and not required to be reversed. Decide.
What would be your answer if the balance in electronic credit ledger receivable account as on 15th November 2017 were Rs. 29,104?
Answer:-

Statement showing amount to be paid by Royal Ltd. as on 15th November 2017			
S.No.	Particulars	Amount to be paid (Rs.)	Workings
(i)	Inputs lying in stock	17,366	Rs. 1,44,720 x 12/100 = Rs.17,366
(ii)	Inputs in process (i.e. Work in Progress)	9,262	Rs.77,184 x 12/100 = Rs.9,262
(iii)	Inputs contained in finished goods lying in stock	28,944	Rs.4,82,400 x 50% x 12/100 = Rs.28,944
(iv)	Capital goods	51,333	Useful life as per rule 44(1)(b) = 5 years (i.e. 60 months). No. of months capital goods have been in use = 4months 5 days (i.e. 5 months) The useful remaining life in months = 55 months 2,00,000 x28%x 55/60 = Rs. 51,333
	Amount to be paid by Royal Ltd.	1,06,906	

Amount payable by Royal Ltd. = Rs. 1,06,906
Less: ITC Receivable = Rs. (2,79,104)

Excess ITC = Rs. (1,72,198)

Excess ITC in electronic credit ledger of Rs.1,72,198 shall lapse as 15th November 2017.

If the balance in electronic credit ledger as on 15th November 2017 is Rs.29,104, then amount payable is as follows:

Amount payable by Royal Ltd. = Rs. 1,06,906

Less: ITC Receivable = Rs. (29,104)

Amount payable = Rs. 77,802

(iii) Removal of Capital Goods after use on which ITC has been taken [Section 18(6) read with rule 40(2) & rule 44(6) of CGST Rules]

- If capital goods or plant and machinery on which ITC has been taken are supplied outward by the registered person, he must pay an amount that is the higher of the following:
    - ITC taken on such goods reduced by 5% per quarter of a year or part thereof from the date of issue of invoice for such goods (i.e., ITC pertaining to remaining useful life of the capital goods), or
    - tax on transaction value
- ITC pertaining to remaining useful life of the capital goods will be computed separately for ITC of CGST, SGST/UTGST and IGST.
- Where the amount so determined exceeds the tax payable on the transaction value of the capital goods, such amount will have to be paid and thus, will be added to the output tax liability.
- If refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, the taxable person may pay tax on the transaction value.

Example

M/s A Ltd. sold plant and machinery after being used in the manufacture of taxable goods for Rs. 4,00,000 on 1st November 2018. GST is payable on transaction value of pant and machinery 18%. M/s A Ltd. was purchased this machine vide invoice dated 22nd November 2017 for Rs. 5,50,000/- plus GST 18%.

M/s A Ltd. availed the credit on said plant and machinery. Find the amount payable by M/s A Ltd. under section 18(6) of the CGST Act, 2017.

Answer:-

Particulars	Amount in Rs.	Working note
ITC taken on capital goods	99,000	5,50,000 x 18%
Less: 25% reduction	(24,750)	No. of quarters = 5
5% x 5 = 25% reduction		
Balance ITC	74,250	
Tax on Transaction value	72,000	4,00,000 x 18%

Note: M/s A Ltd. shall pay amount equal to the input tax credit taken on the said capital goods reduced by 5% per quarter or part thereof from the date of the issue of the invoice for such goods or the tax on the transaction value of such capital goods u/s 15 of the CGST Act, 2017 whichever is higher.

Therefore, M/s A Ltd. is liable to pay an amount of Rs. 74,250/-

(iv) Transfer of ITC on account of change in constitution of registered person [Section 18(3) read with rule 41 of CGST Rules]

- In case of sale, merger, amalgamation, lease or transfer of business, unutilised ITC can be transferred to the new entity if there is a specific provision for transfer of liabilities to the new entity. The inputs and capital goods so transferred shall be duly accounted for by the transferee in his books of accounts.
- In case of demerger, ITC will be apportioned in the ratio of value of assets of new unit as per the demerger scheme.
- Details of change in constitution will have to be furnished on common portal along with request to transfer unutilised ITC. CA/Cost Accountant certificate will have to be submitted certifying that change in constitution has been done with specific provision for transfer of liabilities.

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