



GST

(GOODS AND SERVICES TAX)

Input Tax Credit Mechanism

सत्यमेव जयते

Uninterrupted and seamless chain of input tax credit (hereinafter referred to as, "ITC") is one of the key features of Goods and Services Tax. ITC is a mechanism to avoid cascading of taxes. Cascading of taxes, in simple language, is 'tax on tax'. Under the earlier system of taxation, credit of taxes being levied by Central Government was not available as set-off for payment of taxes levied by State Governments, and vice versa. One of the most important features of the GST system is that the entire supply chain would be subject to GST to be levied by Central and State Government concurrently. As the tax charged by the Central or the State Governments would be part of the same tax regime, credit of tax paid at every stage would be available as set-off for payment of tax at every subsequent stage.

Let us understand how 'cascading' of taxes used to take place in the earlier tax regime. Central excise duty charged on inputs used for manufacture of final product could be availed as credit for payment of Central Excise Duty on the final product. For example, to manufacture a pen, the manufacturer requires, plastic granules, refill tube, metal clip, etc. All these 'inputs' were chargeable to central excise duty. Once a 'pen' was manufactured using these inputs, the pen was also chargeable to central excise duty. Let us assume that the cost of all the above mentioned inputs is say, Rs. 10/- on which central excise duty @10% is paid, means Rs. 1/-. The cost of the manufactured pen was say Rs. 20/-, the central excise duty payable on the pen @10% will be Rs. 2/-. Now the manufacturer of the pen could use the duty paid on inputs, i.e. Rs. 1/- for payment of duty on the pen. So he will use Rs. 1/- paid on inputs and he will pay Rs. 1/- through cash (1+1=2), the price of the pen becomes Rs. 22/-. In effect he actually pays duty on the 'value added' over and above the cost of the inputs. This mechanism eliminates cascading of taxes. However, when the pen was sold by the manufacturer to a trader he was required to levy VAT on such sale. But under the earlier system, the manufacturer could not use the credit of central excise duty paid on the pen for payment of VAT, as the two were being levied by Central and State government respectively with no statutory linkage between the two. Hence he was required to pay VAT on the entire value of the pen, i.e. Rs. 22/-, which actually includes the central excise duty to the tune of Rs. 2/-. This was cascading of taxes or tax on tax as VAT was not only paid on the value of pen i.e. Rs.20/- but also on the central excise duty i.e. Rs. 2/-.

Goods and Services Tax (GST) has mitigated such cascading of taxes. Under the present system most of the indirect taxes levied by Central and the State Governments on supply of goods or services or both are subsumed under a single levy. The major taxes/levies which are clubbed together or subsumed in the GST regime are as under:

Central Tax	State Tax
Central Excise duty	VAT / Sales Tax
Additional Duties of Excise (Goods of Special Importance)	Central Sales Tax
The Excise duty levied under Medicinal & Toilet Preparation (Excise Duties) Act, 1995	Purchase Tax
Additional duties of Customs (commonly known as CVD)	Entertainment and Amusement Tax (other than those levied by local bodies)
Special Additional Duty of Customs (SAD)	Luxury Tax
Service Tax	Octroi and Entry Tax (All forms)
Surcharges & Cesses	Taxes on lotteries, betting & gambling
	Taxes on advertisements
	State Cesses and Surcharges

GST comprises of the following levies:

- Central Goods and Services Tax (CGST) [also known as Central Tax] on intra-State or intra-Union territory (without legislature) supply of goods or services or both
- State Goods and Services Tax (SGST) [also known as State Tax] on intra-State supply of goods or services or both
- Union Territory Goods and Services Tax (UTGST) [also known as Union territory Tax] on intra-Union territory (without legislature) supply of goods or services or both
- Integrated Goods and Services Tax (IGST) [also known as Integrated Tax] on inter-State supply of goods or services or both. IGST is also levied on import of goods or services, as the same is regarded as inter-State supply

The protocol to avail and utilise the credit of these taxes is as follows:

Credit of CGST cannot be used for payment of SGST/UTGST and credit of SGST/UTGST cannot be utilised for payment of CGST. It may be mentioned that only after the credit of IGST has been fully utilised the credit of CGST or SGST/UTGST, lying in balance in Electronic Credit Ledger, can be utilized in any order.

Some of the technical aspects of the scheme of Input Tax Credit are as under:



Directorate General of Taxpayer Services

CENTRAL BOARD OF INDIRECT TAXES & CUSTOMS

www.cbic.gov.in



GST

(GOODS AND SERVICES TAX)

Input Tax Credit Mechanism

Credit of	To be utilised first for payment of	May be utilised further for payment of
CGST	CGST	IGST
SGST/UTGST	SGST/UTGST	IGST
IGST	IGST	CGST, then SGST/UTGST

- A. Any registered person can avail credit of tax paid on the inward supply of goods or services or both which is used or intended to be used in the course or furtherance of business.
- B. The pre-requisites for availing credit by registered person are:
- He is in possession of tax invoice or any other specified tax paying document
 - He has received the goods or services. "Bill to ship to" scenarios also included
 - Tax is actually paid by the supplier
 - He has furnished the return
 - If the inputs are received in lots, he will be eligible to avail the credit only when the last lot of the inputs is received
 - He should pay the supplier the value of the goods or services along with the tax within 180 days from the date of issue of invoice, failing which the amount of credit availed by the recipient would be added to his output tax liability, with interest [rule 37(1) & (2) of CGST Rules, 2017]. However, once the amount is paid, the recipient will be entitled to avail the credit again. In case part payment has been made, proportionate credit would be allowed

However, the value of supplies in respect of following shall be deemed to have been paid and ITC shall not be reversed in such cases:

- Value of supplies made without consideration as specified in Schedule-I
- Value of supplies on account of any amount added in accordance with the provisions of section 15(2) (b), i.e. any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both (Notification No. 26/2018-Central Tax, dated 13.06.2018)
- Value representing discount for which financial credit notes have been issued by the supplier

- C. Documents on the basis of which credit can be availed are:
- Tax Invoice issued by a supplier of goods or services or both
 - Tax Invoice issued by recipient along with proof of payment of tax
 - A debit note issued by supplier
 - Bill of entry or similar document prescribed under the Customs Act
 - Revised invoice
 - Document issued by Input Service Distributor
- D. No ITC can be availed on any invoice or debit note beyond due date of furnishing of return for the month of September following the

end of financial year to which such invoice or debit note pertaining to such invoice pertains or date of filing of annual return, whichever is earlier

- E. The Input Service Distributor (ISD) may distribute the credit available for distribution in the same month in which it is availed. The credit of CGST, SGST, UTGST and IGST shall be distributed as per the provisions of Rule 39(1) (d) of CGST Rules, 2017. ISD shall issue invoice in accordance with the provisions made under Rule 54(1) of CGST Rules, 2017.
- F. ITC is not available in some cases as mentioned in section 17(5) of CGST Act, 2017. Some of them are as follows:
- Motor vehicles and other conveyances, having seating capacity of more than 13 persons (including driver), except under specified circumstances.
 - Goods and/or services provided in relation to:
 - food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, except under specified circumstances;
 - membership of a club, health and fitness centre;
 - Rent-a-cab, life insurance, health insurance except where it is obligatory for an employer under any law;
 - travel benefits extended to employees on vacation such as leave or home travel concession;
 - Works contract services when supplied for construction of immovable property, other than plant & machinery, except where it is an input service for further supply of works contract;
 - Goods or services received by a taxable person for construction of immovable property on his own account, other than plant & machinery, even when used in course or furtherance of business;
 - goods and/or services on which tax has been paid under composition scheme;
 - goods and/or services used for private or personal consumption, to the extent they are so consumed;
 - Goods lost, stolen, destroyed, written off, gifted, or free samples;
 - Any tax paid due to short payment on account of fraud, suppression, mis-declaration, seizure, detention.
- G. Special circumstances under which ITC is available:
- A person who has applied for registration within 30 days of becoming liable for registration is entitled to ITC of input tax in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) on the day immediately preceding the date from which he becomes liable to pay tax.
 - A person who has taken voluntary registration under section 23(3) of the CGST Act, 2017 is entitled to ITC of input tax in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) on the day immediately preceding the date of registration.

Prepared by: National Academy of Customs, Indirect Taxes & Narcotics

Follow us on:



@CBIC_India



cbicindia



सत्यमेव जयते

GST

(GOODS AND SERVICES TAX)

Input Tax Credit Mechanism

- b. A person who has taken voluntary registration under section 23(3) of the CGST Act, 2017 is entitled to ITC of input tax in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) on the day immediately preceding the date of registration.
 - c. A person switching over to normal scheme from composition scheme under section 10 of the CGST Act, 2017 is entitled to ITC in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) and capital goods on the day immediately preceding the date from which he becomes liable to pay tax as normal taxpayer.
 - d. Where an exempt supply of goods or services or both become taxable, the person making such supplies shall be entitled to take ITC in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) relating to exempt supplies. He shall also be entitled to take credit on capital goods used exclusively for such exempt supply subject to reductions for the earlier usage as prescribed in the rules.
 - e. ITC, in all the above cases, is to be availed within 1 year from the date of issue of invoice by the supplier.
 - f. In case of change of constitution of a registered person on account of sale, merger, demerger etc., the unutilised ITC shall be allowed to be transferred to the transferee.
 - g. A person switching over from composition scheme under section 10 of the CGST Act, 2017 to normal scheme or where a taxable supply becomes exempt, the ITC availed in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) as well as capital goods will have to be paid.
 - h. In case of supply of capital goods or plant and machinery, on which ITC is taken, an amount equivalent to ITC availed minus the reduction as prescribed in rules (5% for every quarter or part thereof shall have to be paid). However, in case the tax on transaction value of the supply is more than the ITC payable, the same would have to be paid.
 - i. Input tax credit is allowed on inputs and Capital goods sent to a job worker for job work. Input tax credit can be taken on inputs and capital goods even if they are directly sent to a job worker for job work without being first brought to his place of business. However, the same are required to be brought back or cleared on payment of tax, within the time-limit specified in section 143 of the CGST Act, 2017.
- H. Where goods and/or services are used partly for business purposes and partly for other purposes: Input Tax Credit is eligible on the goods or services or both, which are used or intended to be used in the course of furtherance of business by the registered person. However, some times, the registered person may utilize the goods or services or both, partly for the purposes of business and partly for other purposes or partly for taxable supplies and partly for exempt/non-taxable supplies. In such cases, the input tax credit cannot be allowed in full and has to be restricted to so much of the input tax that is attributable to the purposes of business/taxable supplies by the registered person. The quantum of the available ITC in such cases has to be worked out as prescribed in the rules.



Prepared by: National Academy of Customs, Indirect Taxes & Narcotics

Follow us on:



@CBIC_India



cbicindia