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Input Tax Credit

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Concept of Input Tax Credit

1. "Input tax" means

- IGST (including that on import of goods), CGST, SGST and UTGST;
- Charged on any supply of goods or services and;
- Includes the tax payable under sub-section (3) and (4) of section 9,
- Includes the tax payable under sub-section (3) and (4) of section 5 of IGST Act,
- Includes the tax payable under sub-section (3) and (4) of section 9 of SGST Act,
- Includes the tax payable under sub-section (3) and (4) of section 7 of UTGST Act, excludes the tax paid under section 10 (composition levy)

2. Principles on Input Tax Credit

- Credit utilization would be as follows [Sec 49(5)]:

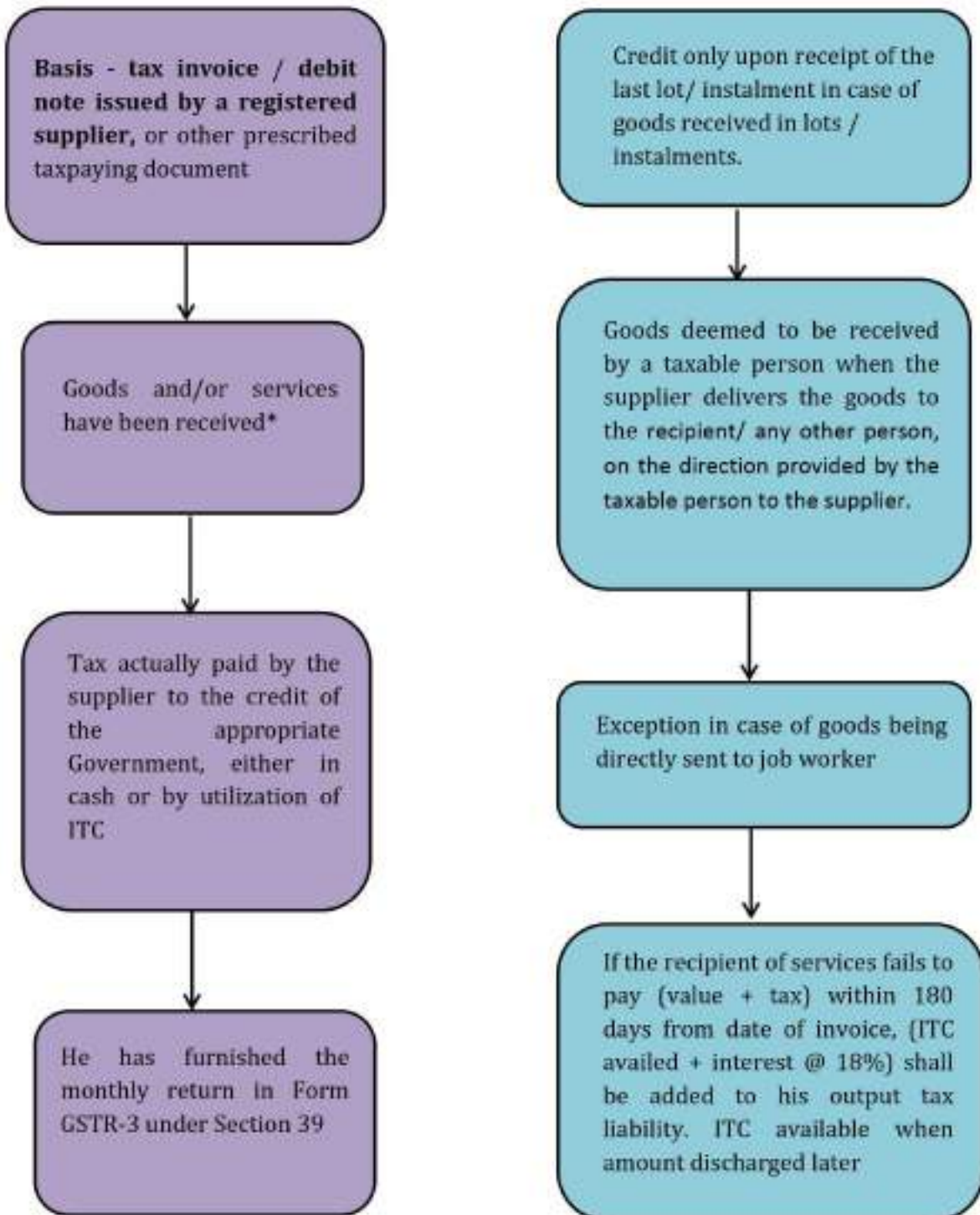
Credit of:	Allowed for Payment of		
	IGST	CGST	SGST
IGST	✓ (1)	✓ (2)	✓ (3)
CGST	✓ (2)	✓ (1)	
SGST	✓ (2)		✓ (1)

The numbers represent the order of utilization of credit

- **Expectation:** Accumulation of unutilized credits would be ignored excluding exports cases

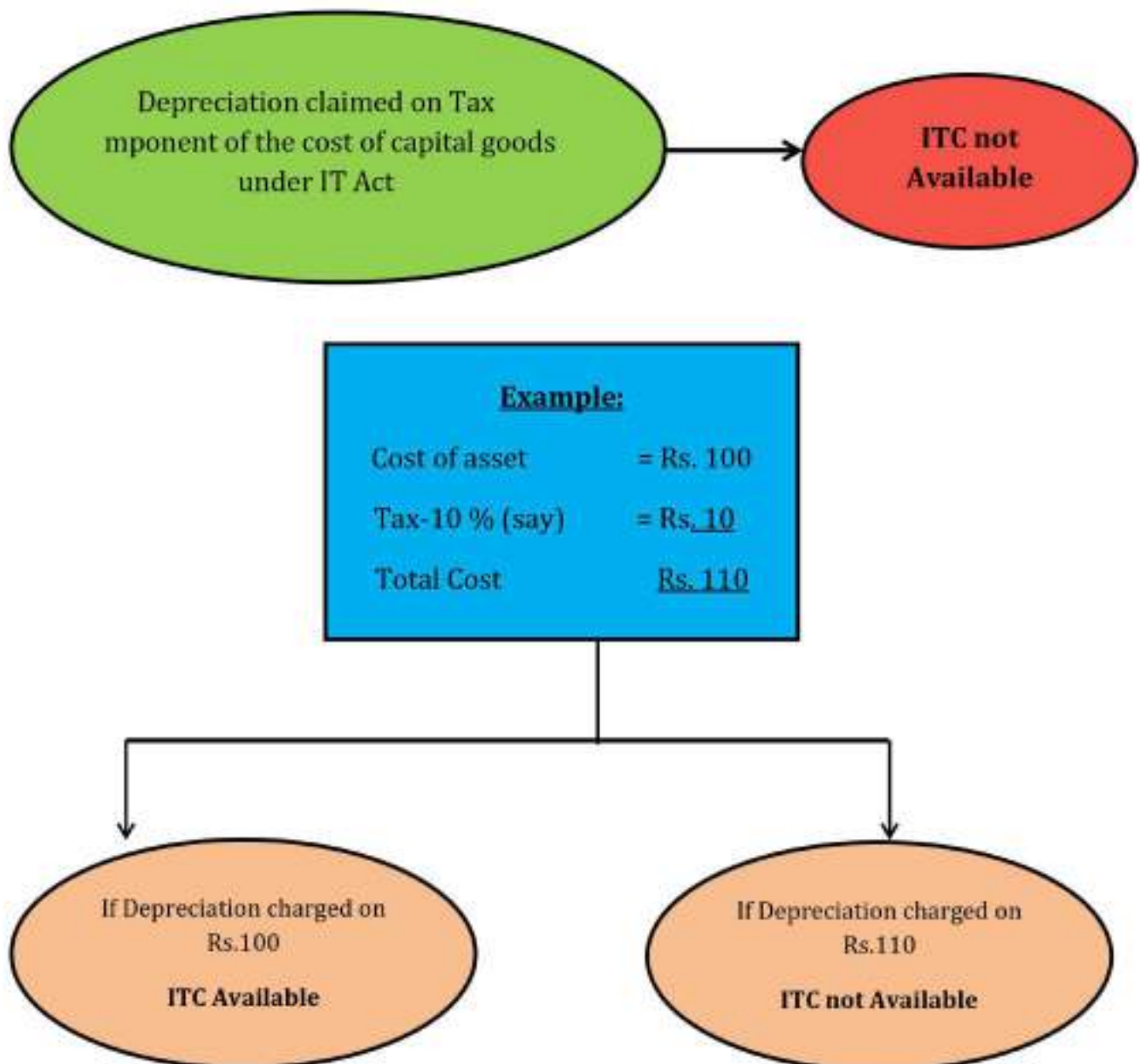
3. Conditions for Availment of ITC by a Registered Taxable Person

Section 16



4. Input tax credit in case of Capital Goods

"Capital goods" means those items, the value of which is capitalized in the books of accounts of the assessee who is claiming the credit and which are used or intended to be used in the course or furtherance of the business.

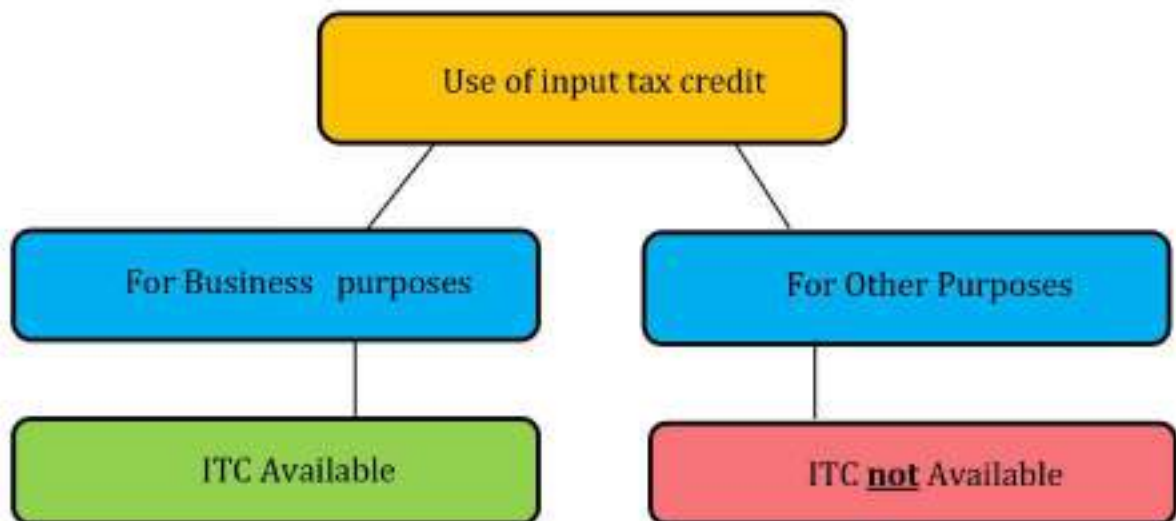


5. Input tax credit using Inputs

Section 17

"Input" means any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business.

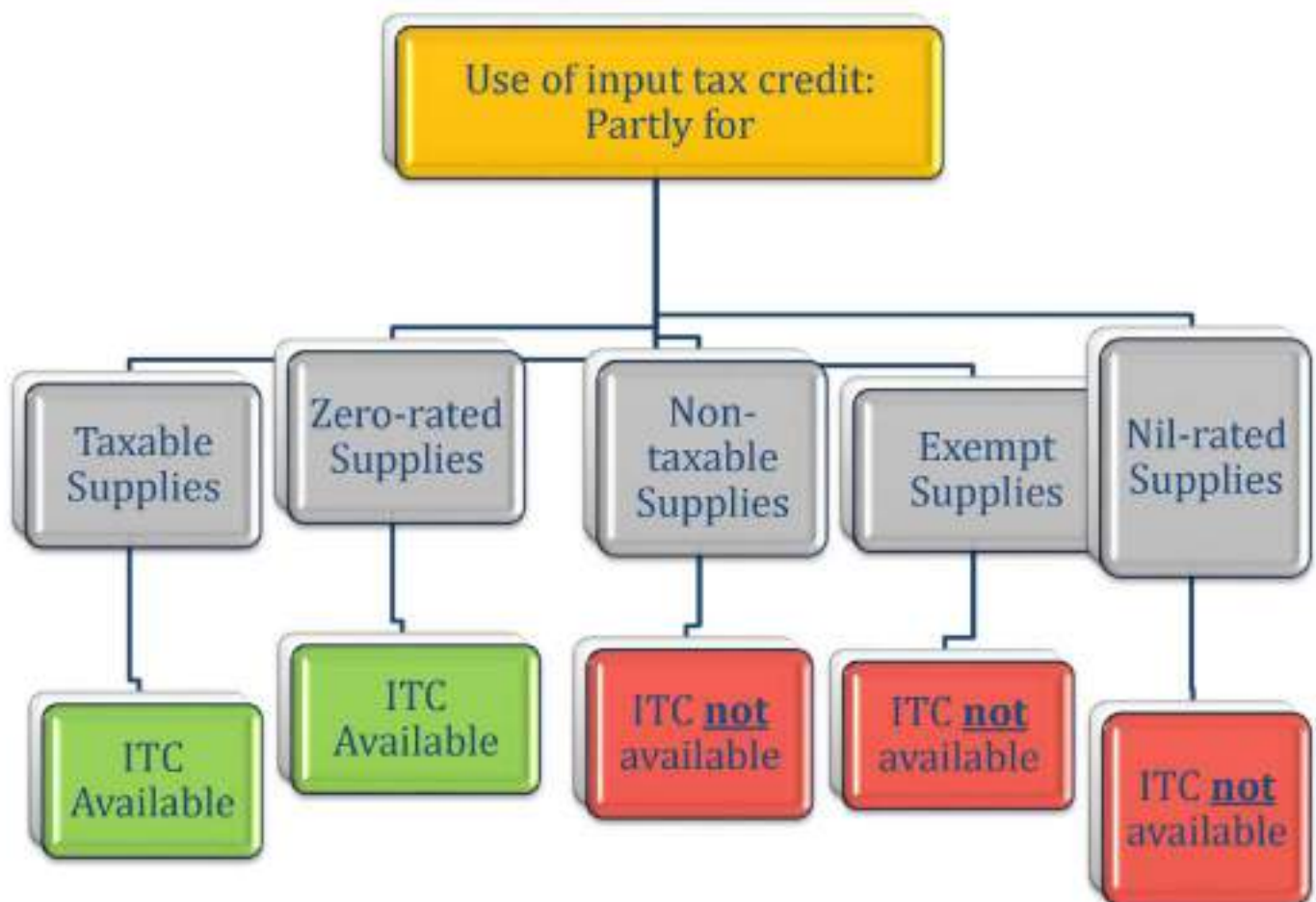
"Input service" means any service used or intended to be used by a supplier in the course or furtherance of business.



Note: Attribution of ITC to be made as per the manner prescribed in the ITC Rules

Apportionment of Input tax credit between taxable and exempt supplies in case of banking companies and financial institutions:

- Yearly option to avail a standard rate of 50% of eligible ITC on inputs, capital goods and input services on a monthly basis
- Exception of 50%: Not applicable on tax paid on supplies made by one registered person to another registered person having same PAN

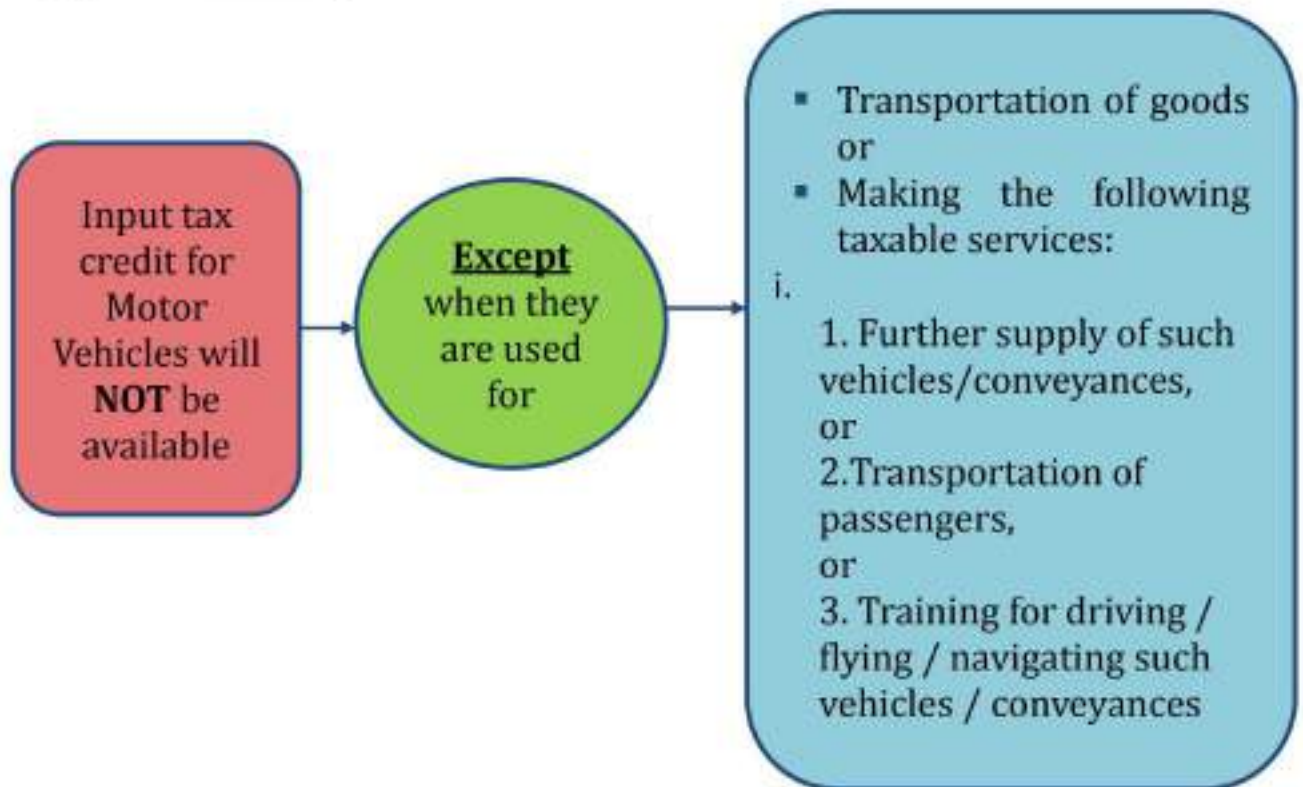


Note: Attribution of Input tax credit to be made as per the manner prescribed in the ITC Rules

6. Restrictions on Input tax credit – Sec 17(5)

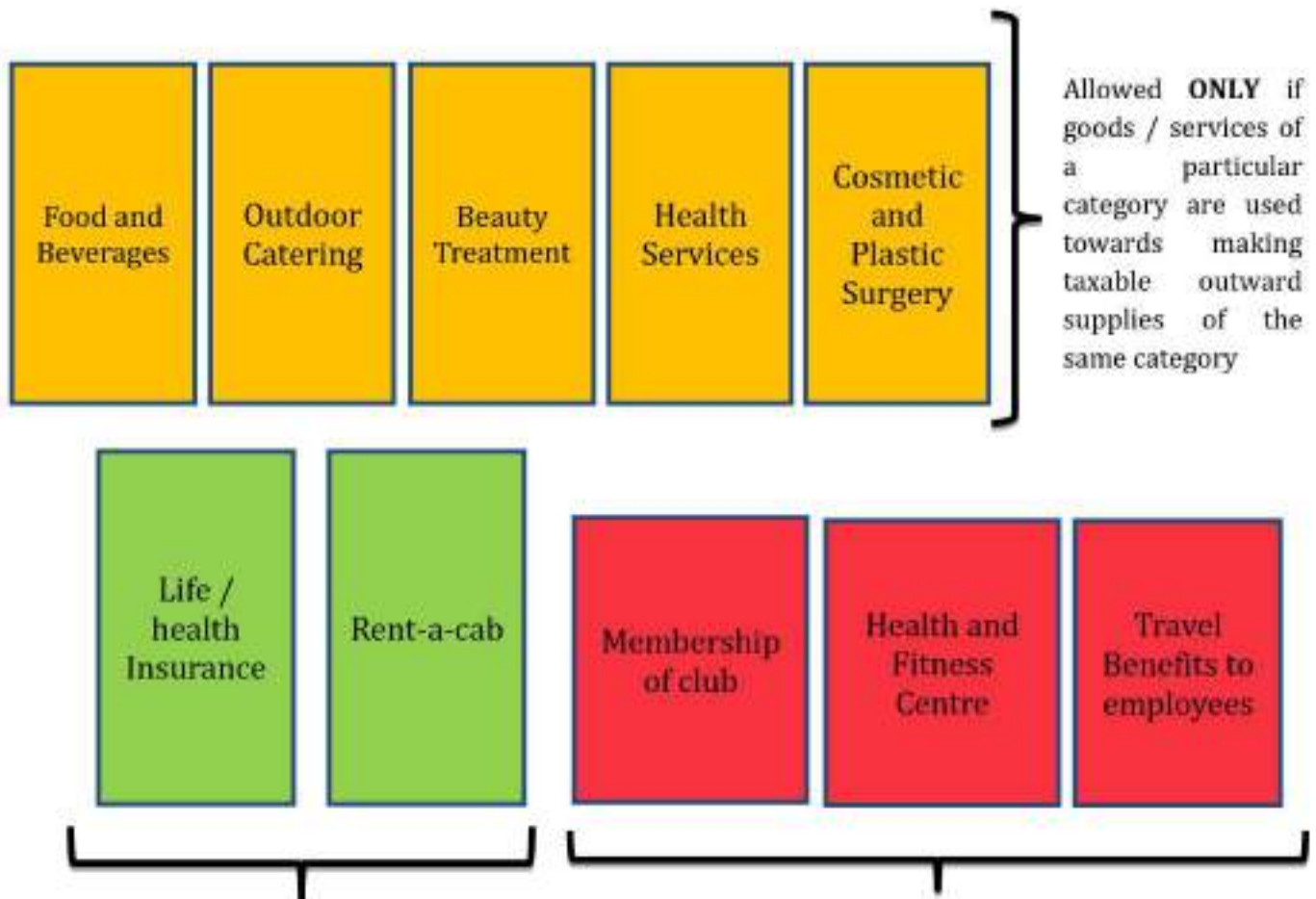
Blocked credits

a) Motor Vehicle



Note: Where any amount has been paid on goods and / or services, in place of tax under composition scheme, no credit on such amount would be allowed.

b) Supply of goods and services being:



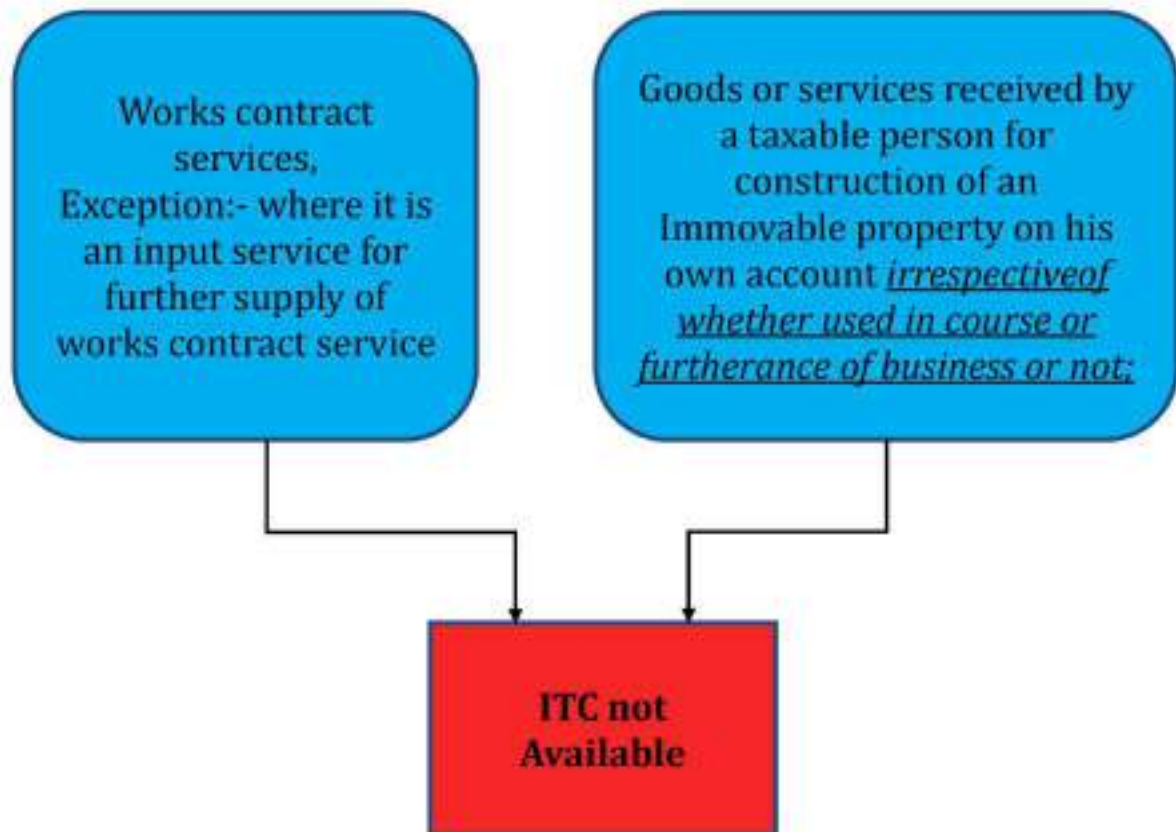
Allowed **ONLY** if where such services are compulsory for an employer to provide an employee

Or

Services of a particular category are used towards making taxable outward supplies of the same category

NEVER allowed

c) Construction of Immovable Property (other than plant and machinery)

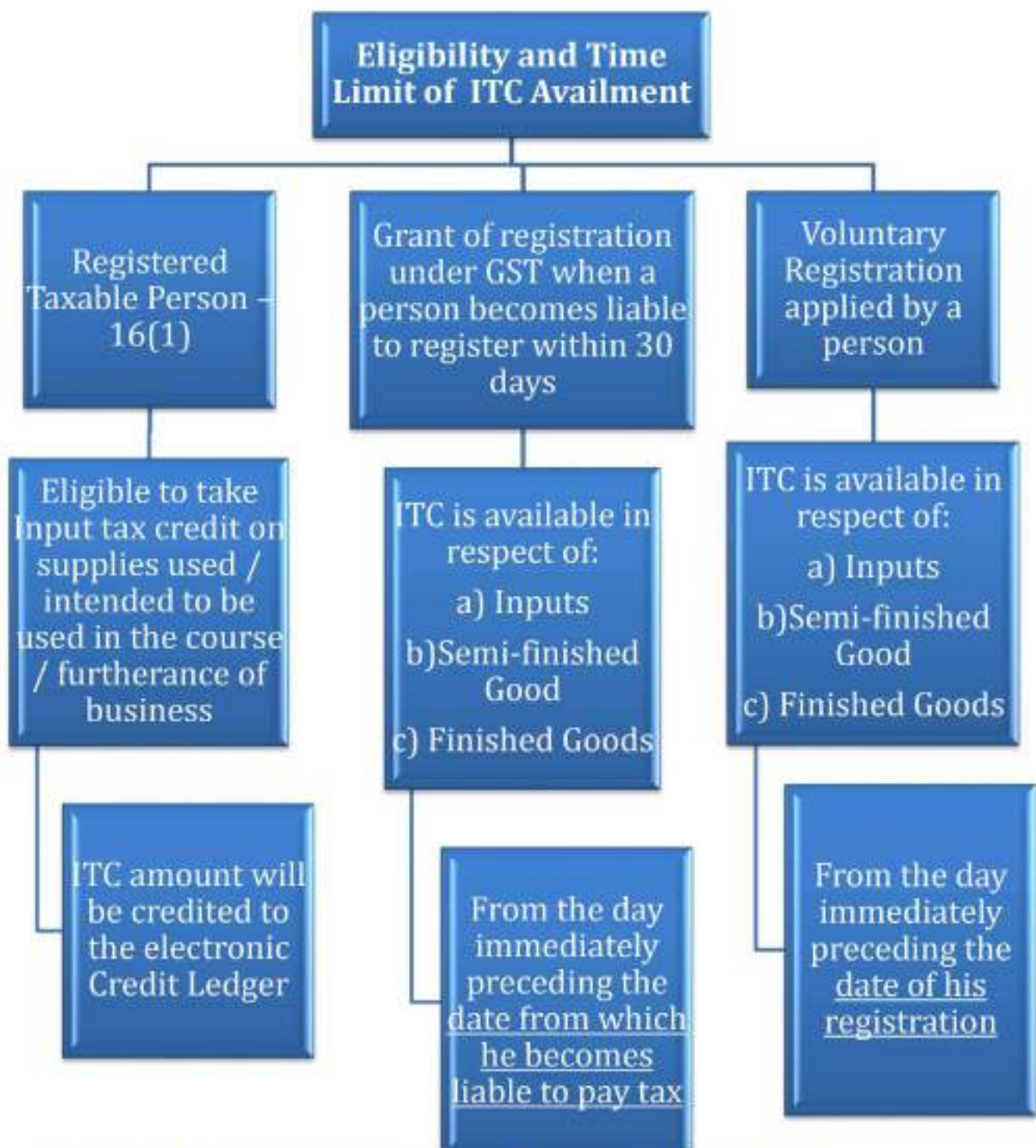


***** Construction includes re-construction, renovation, additions or alterations or repairs to the extent of capitalisation***

Other blocked credits

- Taxes on supply of goods or services paid u/s 10
- When a non-resident taxable person receives Goods or services or both shall not be allowed, except on goods imported by him.
- Personal consumption of Goods or services or both.
- Goods lost, stolen, destroyed, written off or disposed of by way of gift or free supplies and
- Any tax paid in accordance with the provisions of sections 74, 129 and 130.

Plant and machinery means*means apparatus, equipment, and machinery fixed to earth by foundation or structural support that are used for making outward supply of goods or services or both and includes such foundation and structural supports but excludes—(i) land, building or any other civil structures; (ii) telecommunication towers; and (iii) pipelines laid outside the factory premises.*



7. Eligibility and Time Limit for Availing ITC

Eligibility and Time Limit for Availing the Input tax credit

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graph TD; A[Eligibility and Time Limit for Availing the Input tax credit] --> B[When a Registered taxable person ceases to pay tax under Composition Scheme]; A --> C[Where exempt supply become taxable supply]; B --> D["ITC is available in respect of:  
a) Inputs/ Capital Goods  
b) Semi-finished Good  
c) Finished Goods"]; C --> E["ITC available in respect of:  
a) Inputs/ Capital Goods  
b) Semi-finished Good  
c) Finished Goods"]; D --> F["From the day immediately preceding the date from which he becomes liable to pay tax u/s 8"]; E --> G["From the day immediately preceding the date on which supply becomes taxable"];
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When a Registered taxable person ceases to pay tax under Composition Scheme

ITC is available in respect of:
a) Inputs/ **Capital Goods**
b) Semi-finished Good
c) Finished Goods

From the day immediately preceding the date from which he becomes liable to pay tax u/s 8

Where exempt supply become taxable supply

ITC available in respect of:
a) Inputs/ **Capital Goods**
b) Semi-finished Good
c) Finished Goods

From the day immediately preceding the date on which supply becomes taxable

8. Conditions to be fulfilled for claiming credit

Sec 18(1)

1. Know what input tax credits can be claimed.

For example

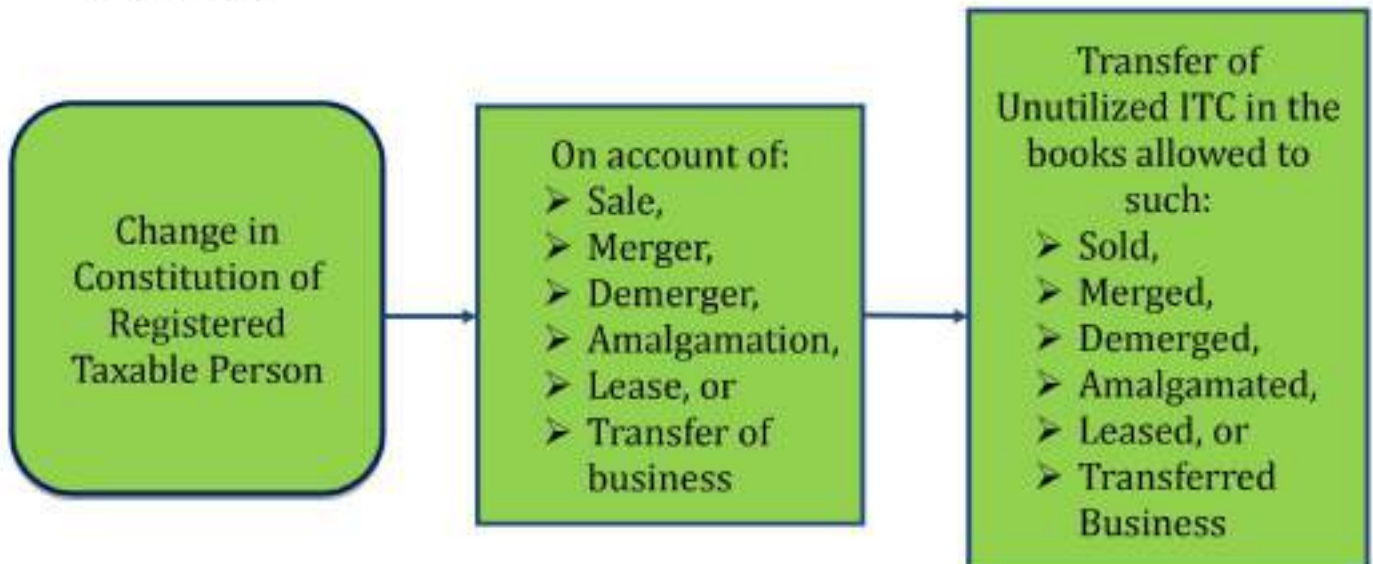
The ITC in respect of services cannot be claimed in Form ITC 01.

ITC in respect of capital goods can only be claimed in case composition dealer ceases to pay tax under such scheme and where exempted supply becomes taxable supply.

2. Details of ITC on purchases as on the cut-off date should be available invoice wise.
3. In case of registration/migration to a regular scheme, Form ITC 01 should be filed within 30 days from the date of such registration/migration.
4. In case of inputs ITC can be claimed on Invoices up to one year old and up to five years in case of capital goods.
5. Chartered Accountant certificate or Cost Accountant certificate must be uploaded in case the ITC claim is more than INR 2 lakhs.

9. Input tax credit – Change in Constitution of Taxable Person

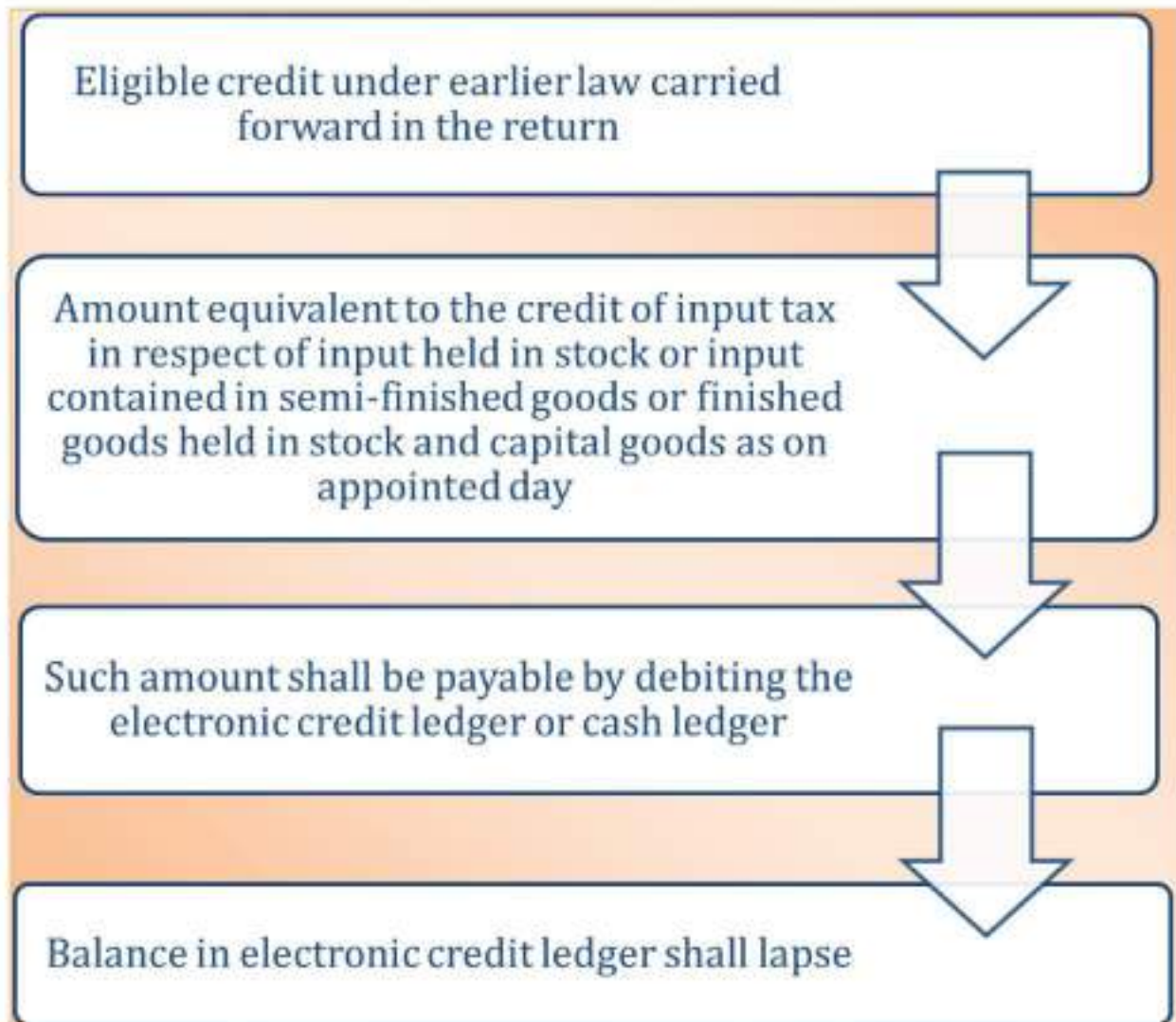
Sec 18(3)



- In case of demerger scheme, ITC shall be apportioned in the ratio of value of assets of the new units
- Transferor is required to submit certificate from a practicing Chartered Accountant certifying in case of sale / merger / de-merger / amalgamation / lease / transfer which has been done with specific provision for transfer of liabilities
- Details of credit available in Form GST ITC-02 have to furnish by Transferee.

10. Switching from regular scheme to composition scheme - Pay and Exit

Sec 18(4)



Declaration for input tax reversed to be submitted in Form GST ITC-3

11. Supply of Capital goods on which ITC already taken



Sec 18(6)

Purchase Date of Laptop	01 Jan 2015
Purchase Price	50,000
<i>Note: Any credit wrongly taken shall be subjected to the recovery provisions</i>	
Sale Date	05 May 2017
Sale Value of Laptop	10,000

Particulars	Amount
Sale Value of Laptop	10,000

Input Tax Credit Availed	10,000
Less: 5% per quarter (For 10 quarters)	5,000
Net Amount	5,000

EXAMPLE:

12.Manner of Reversing Input tax credit

1. Reversal of credit where inputs or input services are used partly for business purposes or partly for effecting exempt supplies –

- Total input tax in a tax period to be denoted as 'T'
- Amount of input tax used exclusively for the purposes other than effecting exempt supplies 'T2'

Conclusion: So the higher amount is 5,000

- Amount of blocked credit as per Section 17 (5) 'T3'
- Amount of input tax to be credited to electronic credit ledger 'C1 = T - (T1+T2+T3)'
- Amount of input tax used exclusively for effecting taxable and zero rated supplies 'T4'
- T1, T2, T3, T4 to be determined at invoice level in GSTR-2
- Common Credit "C2 = C1-T4"
- Credit attributable towards exempt supplies "D1 = C2*(E/F)

Where

- 'E' is the aggregate value of exempt supplies, that is, all supplies other than taxable and zero rated supplies, during the tax period, and
- 'F' is the total turnover of the registered person during the tax period:
- Credit attributable towards non business purpose "D2 = C2*5%
- Remaining credit available for business purpose and for taxable and zero rated supplies "C3 = C2 - (D1+D2)";

- C3 to be computed separately for CGST, SGST, UTGST and IGST;
- D1 and D2 shall be added to output tax liability provided invoice wise segregation has been made;
- Credit calculated on provisional basis shall be computed finally before due date of filing returns for the month of September following the end of the FY to which credit relates;
- In case amount calculated exceeds the provisional calculation the differential amount shall be added to the output tax liability and interest from the month of April of next FY till the date of payment to be paid;
- In case amount finally calculated is short of the provisional calculation, the differential amount shall be taken as credit in the month of September.

EXAMPLE:

Terms used in Rule	Particulars	Amount
T	Total Input Tax of Input and Input Services	500.00
T1	ITC for Non Business	100.00
T2	ITC for Exempt Supply	50.00
T3	ITC of Blocked Credits (Inputs Only)	25.00

$C1 = T - (T1 + T2 + T3)$	Valid ITC in ECL	325.00
T4	ITC for Taxable Supply	200.00
$C2 = C1 - T4$	Common ITC	125.00
E	Value of Exempt Supplies	2000.00
F	Aggregate Turnover	5000.00
$D1 = E/F * C2$	Value of ITC for Exempt Supply (From Common ITC)	50.00
$D2 = C2 * 5\%$	Value of ITC for Non Business Purpose (From Common ITC)	6.25
$C3 = C2 - (D1 + D2)$	Eligible ITC from Common ITC	68.75
T4 + C3	Total Eligible ITC for Use	268.75

II. Reversal of credit where capital goods are used partly for business purposes or partly for effecting exempt supplies:

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

Step 1 – Calculate Common Credit –

Common Credit = ITC on Capital Goods

(Less) ITC on capital goods put to personal use

(Less) ITC on capital goods used for exempted goods

(Less) ITC on capital goods used in supplies other than exempted but including zero rated supplies (ITC on normal supplies)

Step 2 – Amount of ITC reversal attributable to capital goods partly used for Exempt supplies and Personal use

= (Value of Exempt Supplies * Common Credit)/Total Turnover in the State

Step 3 – This reversal of input tax credit has to be done on a monthly basis. The life of any asset is considered as 5 years. So the amount of ITC reversal every month will be

= Amount arrived at in **Step 2** / 60 (months)

The ITC to be reversed has to be added to output liability. This has to be mentioned in column 2.

Also, amount of ITC to be reversed should be further segregated into IGST, CGST, SGST and Cess and entered in column 3, 4, 5 and 6.

13. ITC for goods sent for job work

Sec 19

A. Goods can be sent to job worker:

1. From principal's place of business
2. Directly from the place of supply of the supplier of such goods

ITC will be allowed in both the cases.

B. Effective date for goods sent depends on place of business:

1. Sent from principal's place of business- Date of goods sent out
2. Send directly from the place of supply of the supplier of such goods- Date of receipt by job worker

C. The goods sent must be received back by the principal manufacturer within the following period:

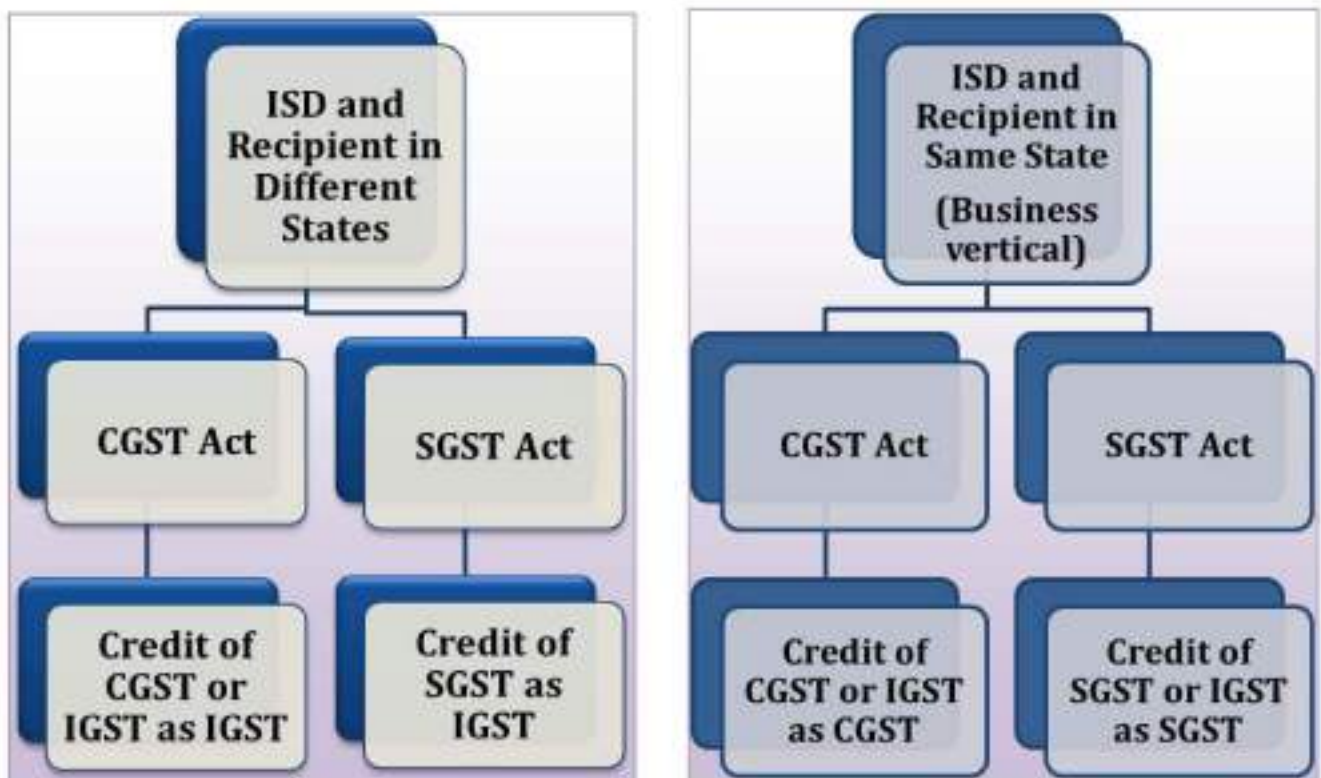
1. Capital Goods- 3 years
2. Input Goods- 1 year

D. In case goods are not received within the period mentioned above, such goods will be treated as supply from the effective date and tax will be payable.

14. Input Service Distributor

Section 20

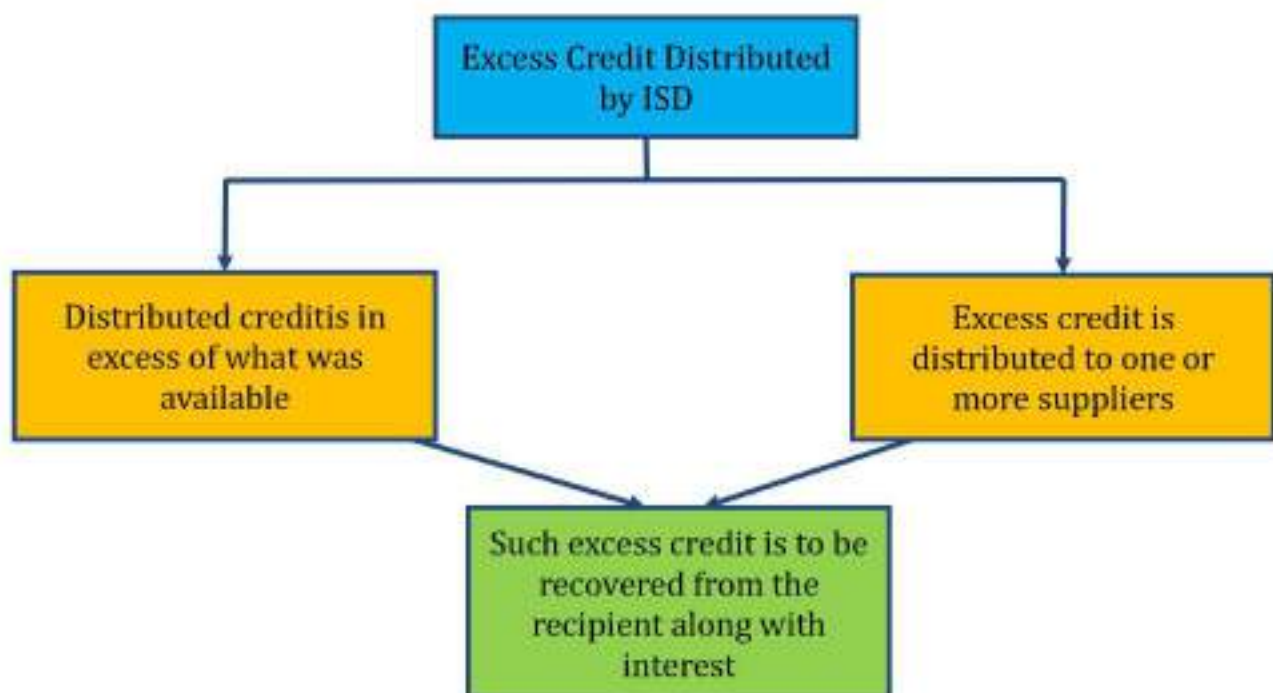
As per sub- section (1) of Section 20, the **Input Service Distributor** shall distribute the credit.



15. Conditions to be fulfilled to distribute credit by Input Service Distributor

- Prescribed documents containing prescribed details are required to distribute credits to recipient. Such document should be issued to each of the recipient of credit.
- Distributed credits should not exceed the credit available for distribution.
- Tax paid on input services used by a particular location (registered as supplier) has to be distributed only to that location.
- When Credit of tax paid on input service is used by more than one location who are operational then such credit is to be distributed to all of them based on the pro rata basis of turnover of each location in a State to aggregate turnover of all such locations who have used such services

17. Excess Credit distributed by Input Service Distributor – Sec 21



18. Credit Distribution Procedure in case of Input Service Distributor

Distribution Formula:

ITC is required to be distributed to one of the recipients 'R1', whether registered or not, from amongst the total of all the recipients to whom input tax credit is attributable, including the recipient(s) who are engaged in making exempt supply, or are otherwise not registered for any reason, shall be the amount, "C1", to be calculated by applying the following formula:

$$C_1 = (t_1/T) * C$$

Where,

"C" is the amount of credit to be distributed,

"t₁" is the turnover, as referred to in section 20, of person R1 during the relevant period, and

"T" is the aggregate of the turnover, during the relevant period, of all recipients to whom the input service is attributable.

(Calculation Simply by Proportioned method taking the consideration of turnover)

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A large, stylized, cursive script reading "Thank You". The letters are thick and black, with elegant flourishes and loops. The word "Thank" is on the top line and "You" is on the bottom line, with the two words overlapping. The background is a light gray square with a subtle grid pattern.