

Understanding ITC in GST

CA Madhukar N Hiregange

Coverage today

Concept of Credit

Eligibility & Conditions

Blocked Credit

Apportionment of
Credit (CC)

Utilization of Credit

Input Service
Distributors

Concept of Credit – Earlier Tax Vs. GST

Earlier tax

Too many indirect taxes : more than 20

Double taxation: Cascading effect

Cost generally higher

GST

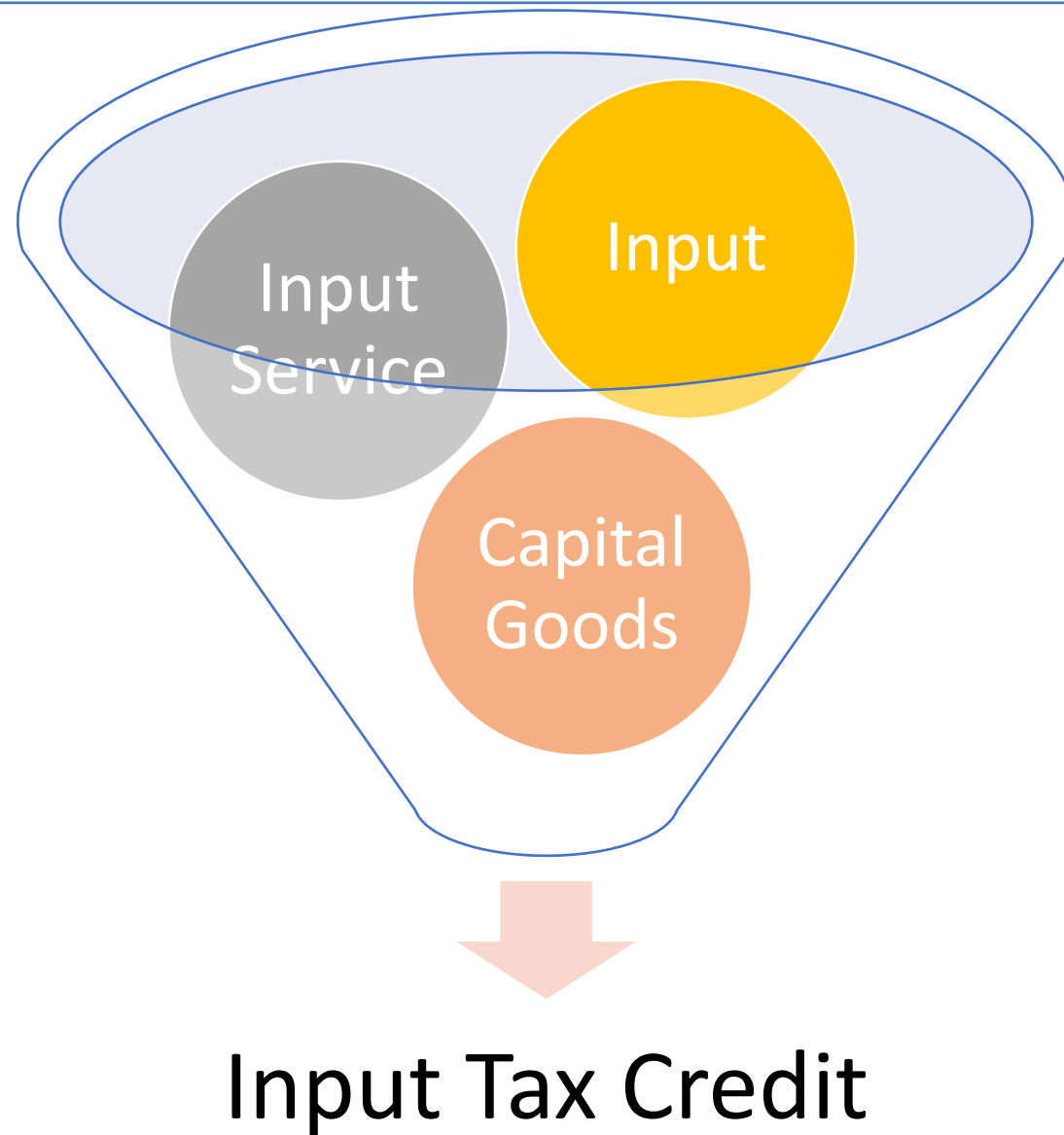
Only 5: CGST, SGST, IGST, UTGST & Compensation Cess

No cascading effect: Input tax credit

Cost generally lower



Concept of Credit – ITC includes



Concept of Credit – CG, I & IS



Capital Goods

means goods, the value of which is capitalised in the books of accounts of the person claiming the credit and which are used or intended to be used in the **course or furtherance** of business;



Inputs

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

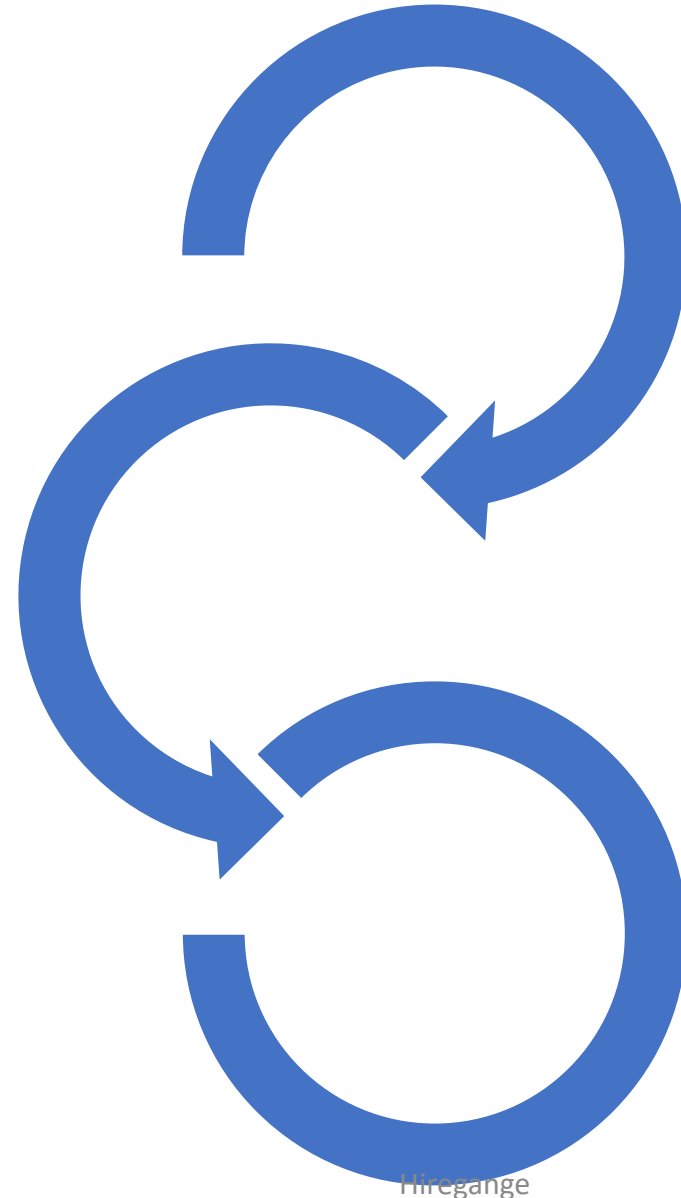


Input service

means any service used or intended to be used by a supplier in the **course or furtherance of business;**

Concept of ITC (Sec 16)

On goods or services
or both to him



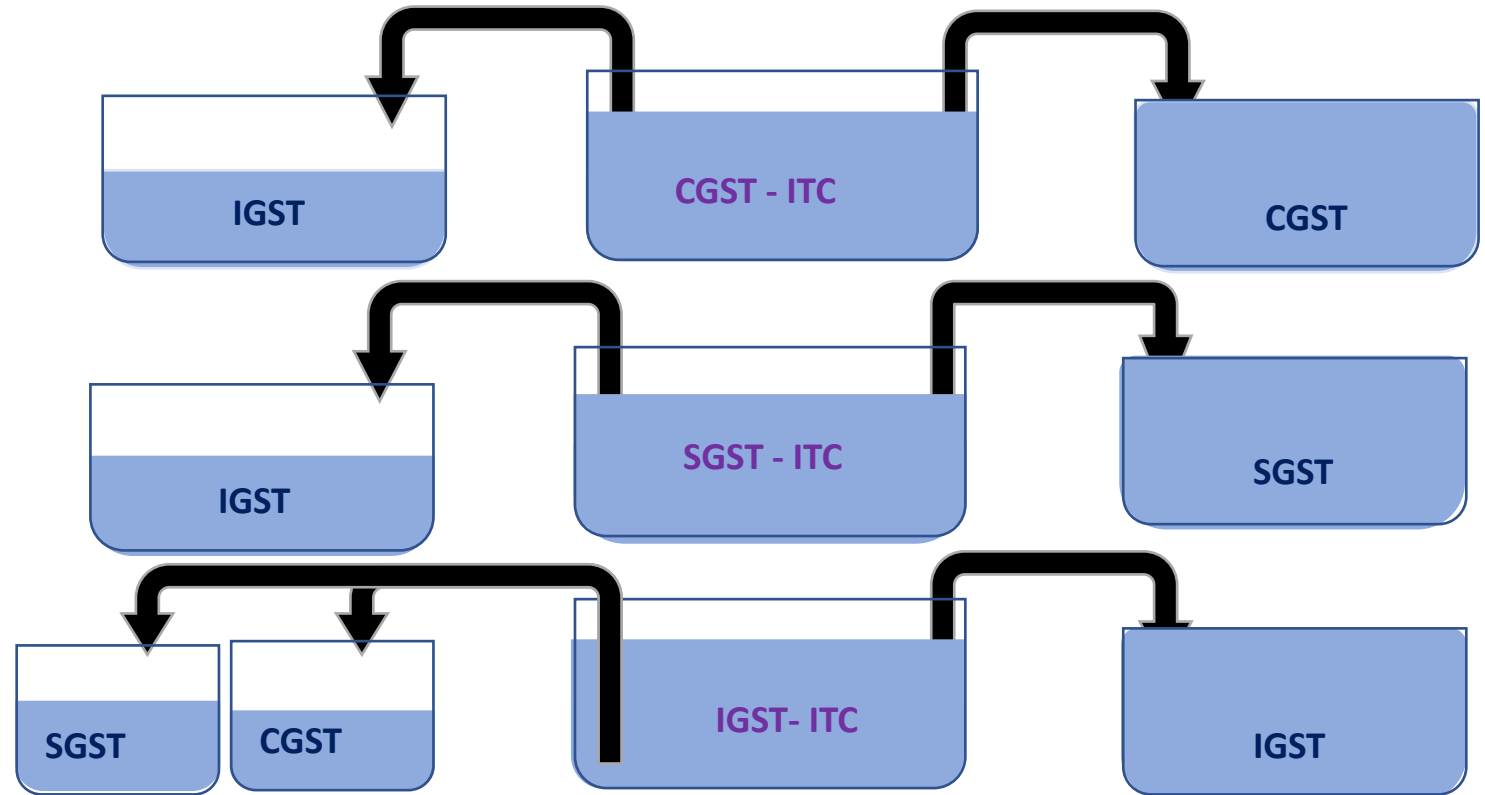
Every registered
persona **shall**,
entitled to take ITC

Used or intended to be
used in the course or
furtherance of **his**
business + credited to
ECL of such person.

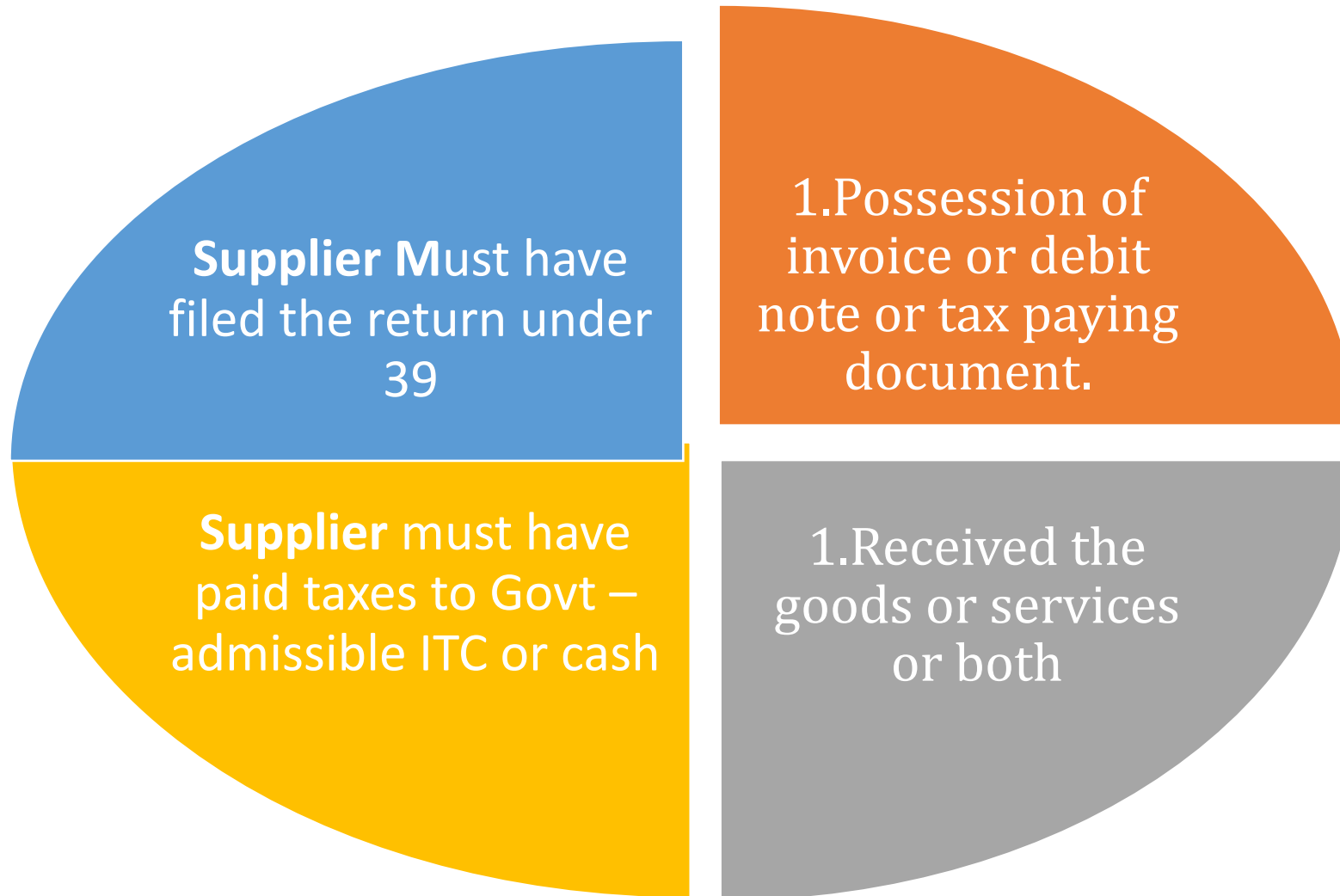
ITC utilization

Important Notes:

1. SGST can't be utilised for CGST
2. CGST Can't be utilised for SGST
3. Compensation Cess to be used only for payment of Compensation Cess



Condition to avail ITC

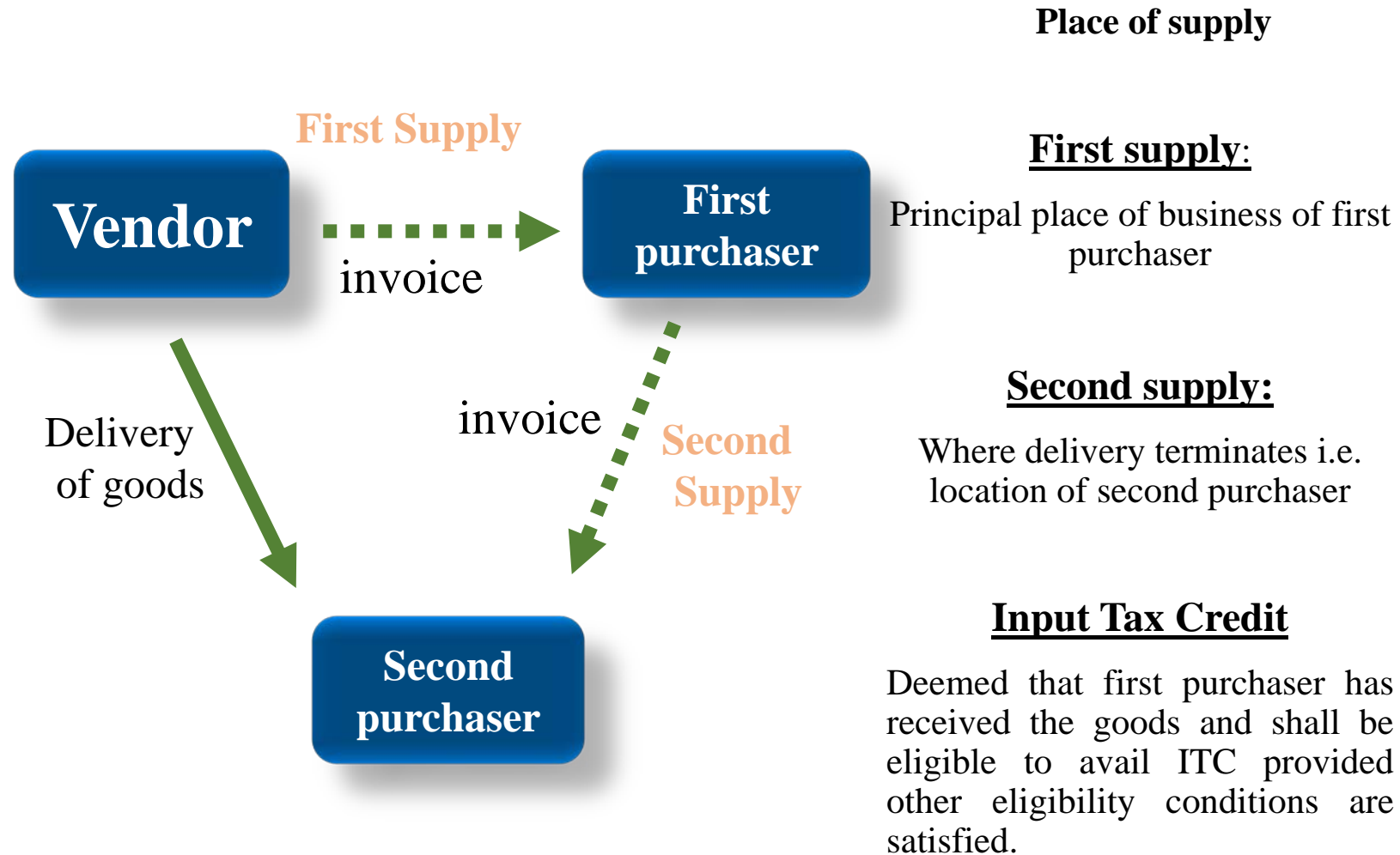


Condition to avail ITC

Note:


- Credit only upon receipt of the last lot/ instalment in case of goods received in lots / instalments.
- Goods deemed to be received by a taxable person when the supplier delivers the goods to the recipient/ any other person, on the direction provided by the taxable person to the supplier.
- Goods deemed to be received if the goods are directly delivered to job worker premises

Place of supply and ITC : Bill-to/ Ship-to Model

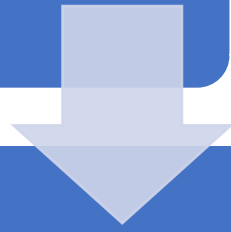


Reversal of ITC – Sec 16(2) – Rule 37

Added to the output tax liability - if consideration not paid – within 180 days along with interest of 18% from the date of availment till when the amt added



Re-eligible for ITC – consideration paid post reversal – ITC can be reclaimed, interest will become cost and time limit of 16(4) is not applicable



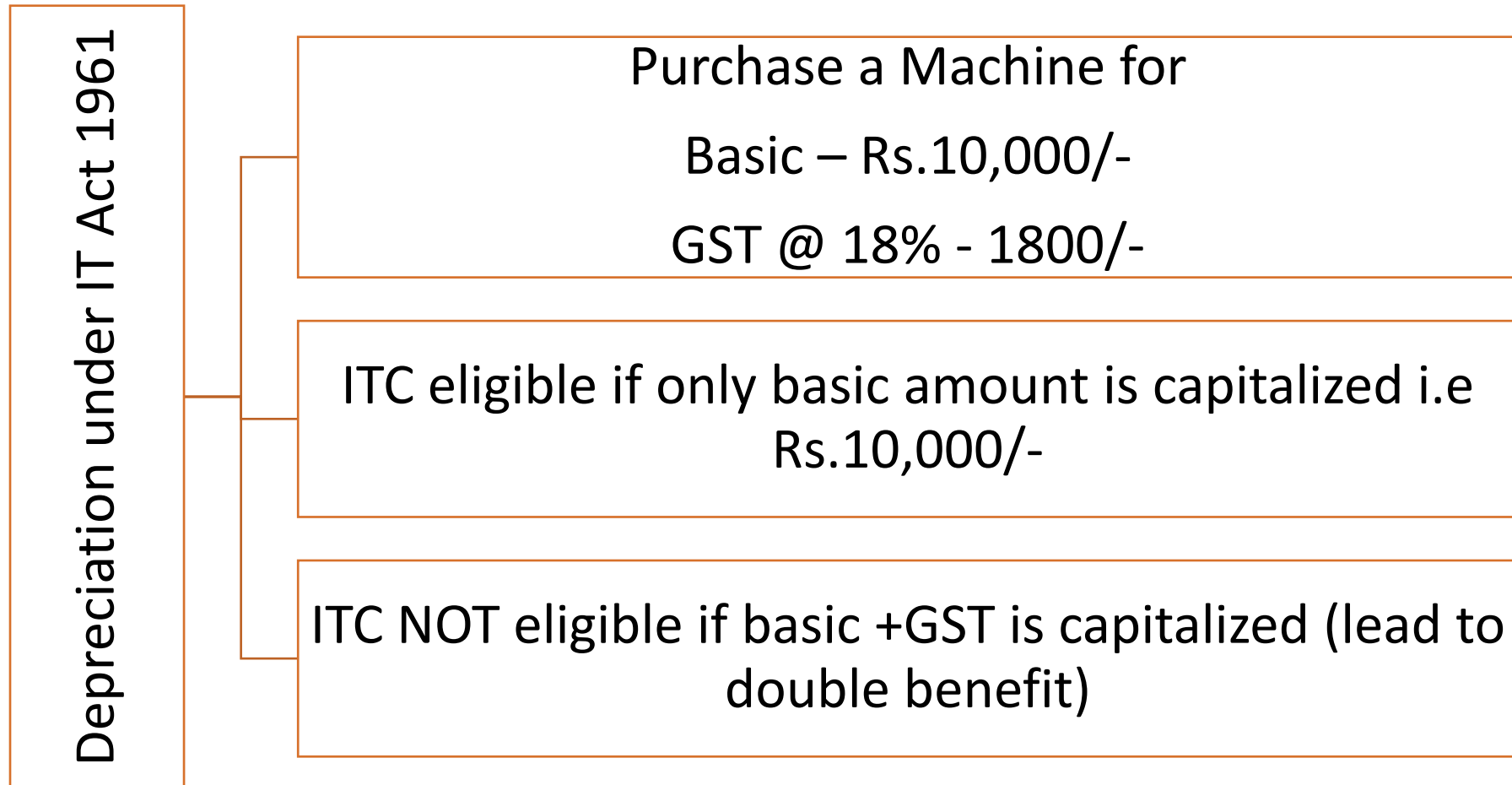
In case proportionate consideration is paid - reverse ITC to the extent of consideration not paid.

Reversal of ITC – Not applicable if

- Value of supplies made without consideration as specified in schedule I of CGST Act.
- Any amount added under section 15(2)(b) – free supply of material supplied by the recipient – deemed to have been paid.
- RCM

Condition to avail ITC on CG

No credit if IT depreciation claimed on tax portion.



Time limit to avail ITC



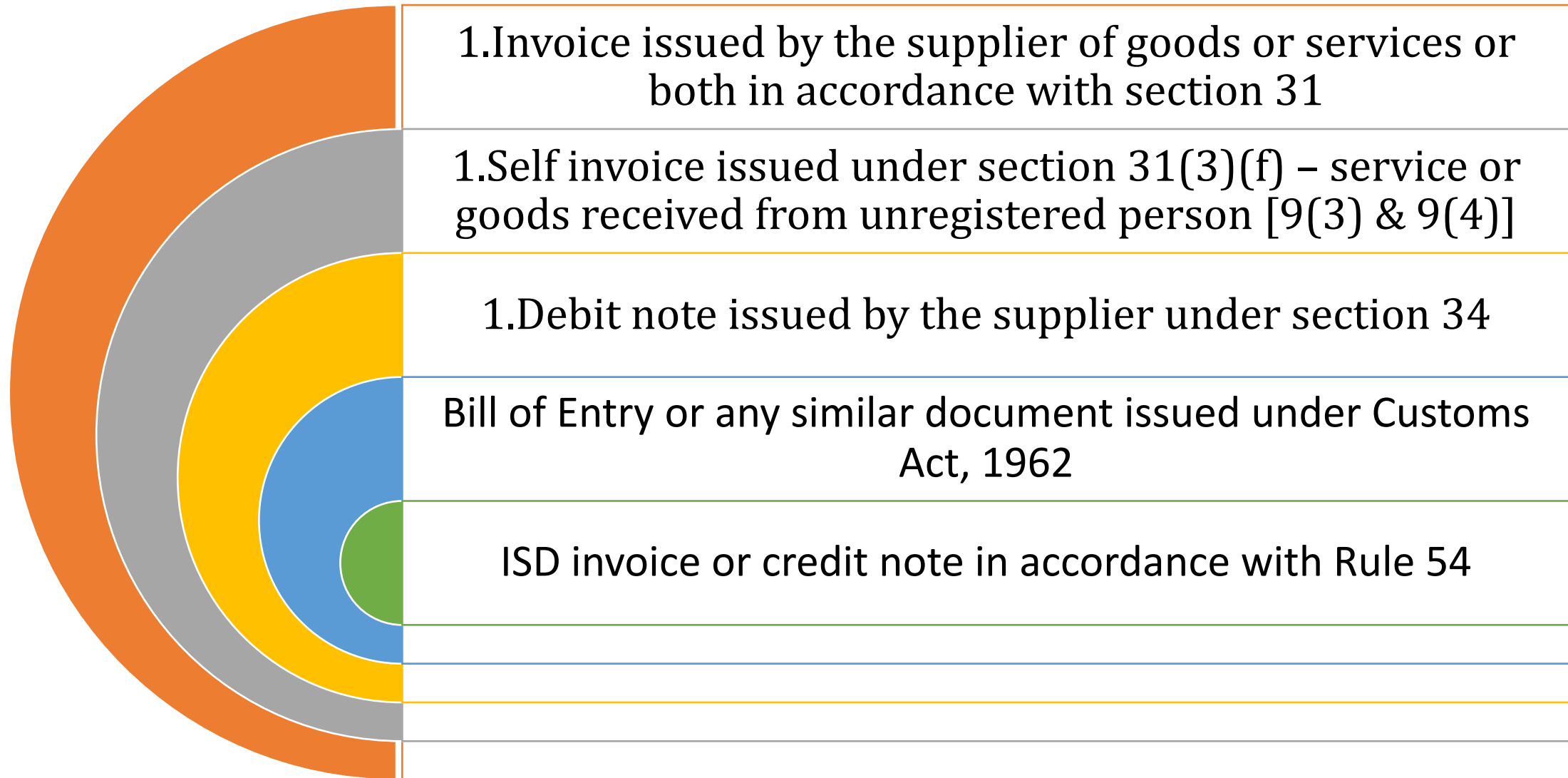
1. Limitation for claiming ITC shall **be earliest of the following:**

1. Last Date of filing of return for the month of September (**i.e., 20th Oct**) following the end of Financial Year.

2. Order No. 02/2018-CT – extended time limit to avail ITC for the FY 17-18

Date of filing of Annual return for the relevant current Financial Year **i.e., 31st December**

Documentary evidence



Availment of ITC- Mandatory Info

Rule 36(2):

- Input tax credit shall be availed by a registered person only if all the applicable **particulars as specified in the provisions of Chapter VI** (Tax Invoice, Credit Note and Debit Note) are contained in the said document and is furnished in FORM GSTR- 2

Proviso to 36(2):

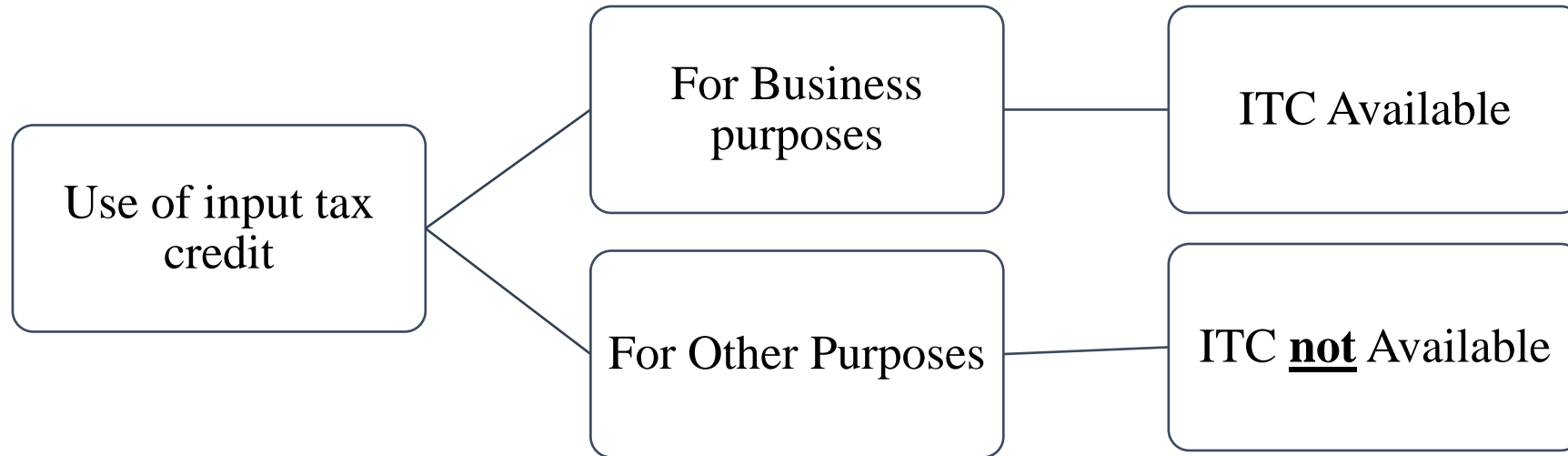
- If details of – ITC available:
 - Amount of tax charged
 - Description of goods or services or both
 - Total value of supply of goods or service
 - GSTIN of supplier
 - GSTIN of recipient
 - POS

Availment of ITC- Not available if:

Rule 36(3):

- ITC not available:
 - In respect of Amount of any tax paid has been in pursuance of any order, where any demand has been confirmed on account of tax charged
 - Fraud, suppression of facts etc.,

ITC on the Basis of use of Inputs – Sec 17 + Rule 42

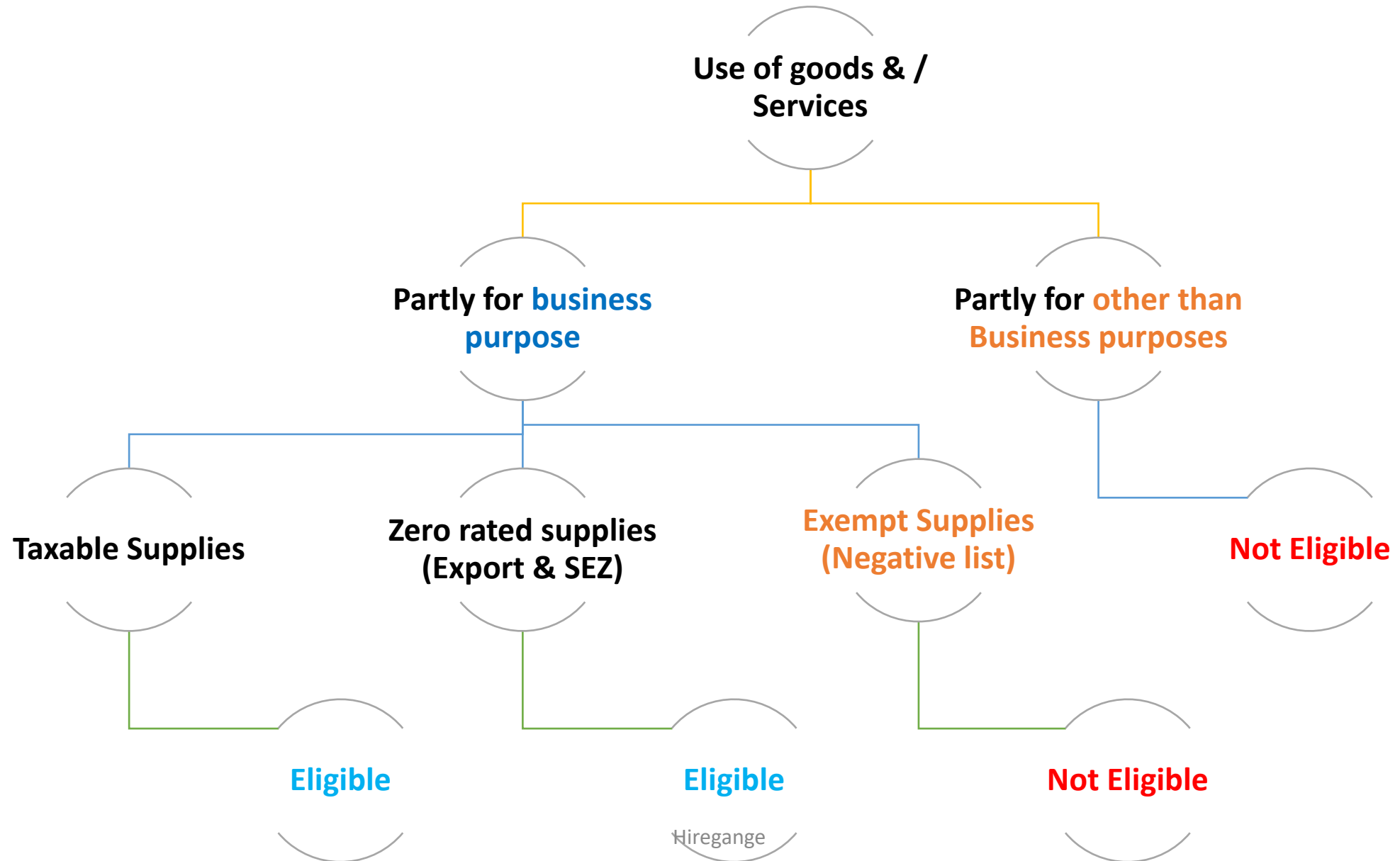


Note: partly for business + partly other purposes
Attribution of ITC to be made as per the manner prescribed in the ITC Rules

“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

Apportionment of ITC

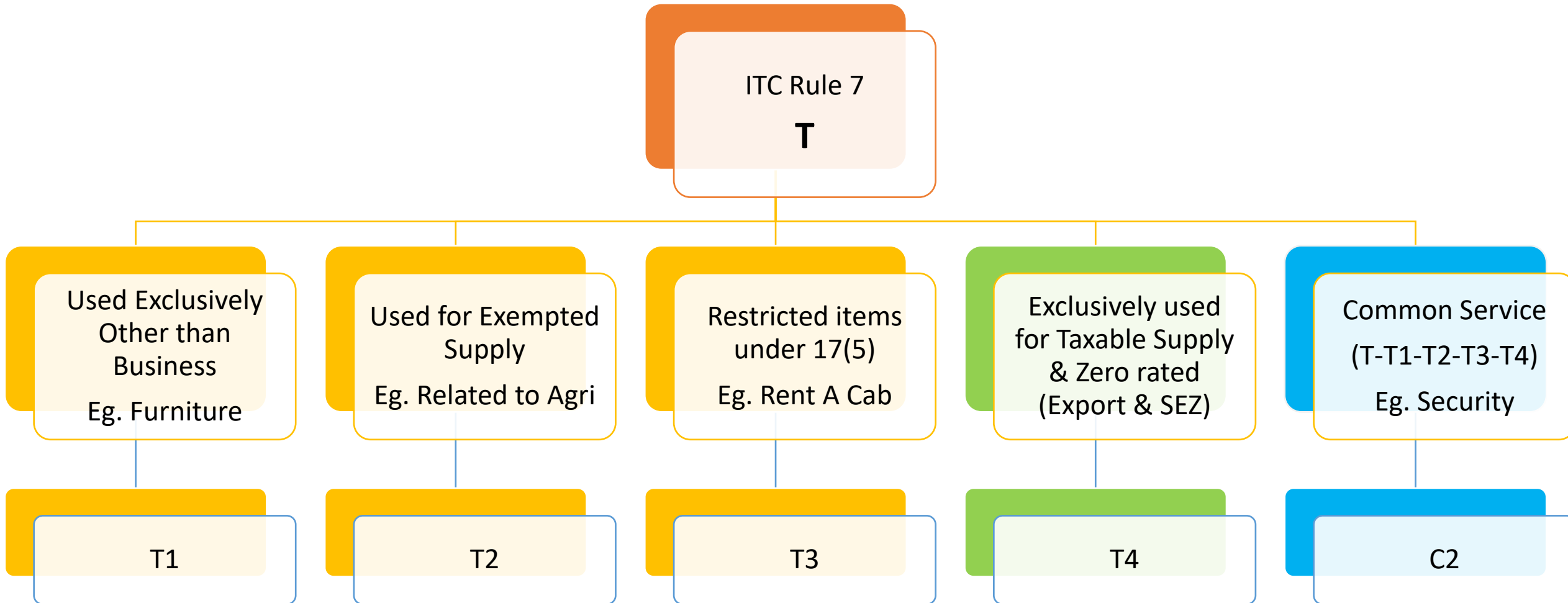


Apportionment of ITC

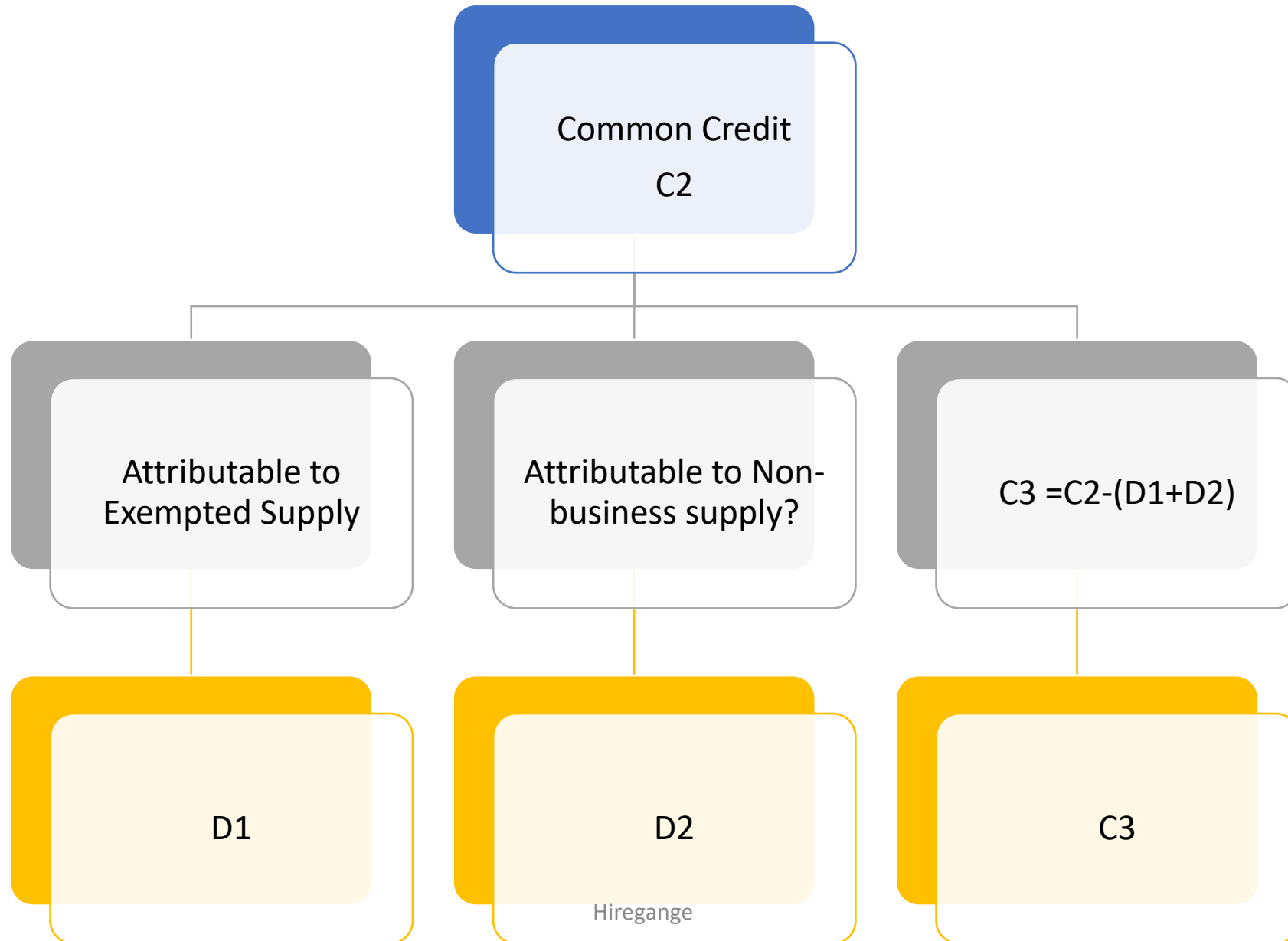
Important Notes:

1. This is applicable for both Inputs & input services
2. Eligibility / ineligibility required to be identified each invoice wise
3. Complicated formula to determine eligible common credit (T1, T2, T3, C etc)
4. Notion 5% Credit to be reversed – if any common exps used for business as well as non-business
5. Value of exempt supply shall include:
 1. Supplies on which recipient is liable to pay tax under RCM
 2. Transaction in securities
 3. Sale of land
 4. Sale of building

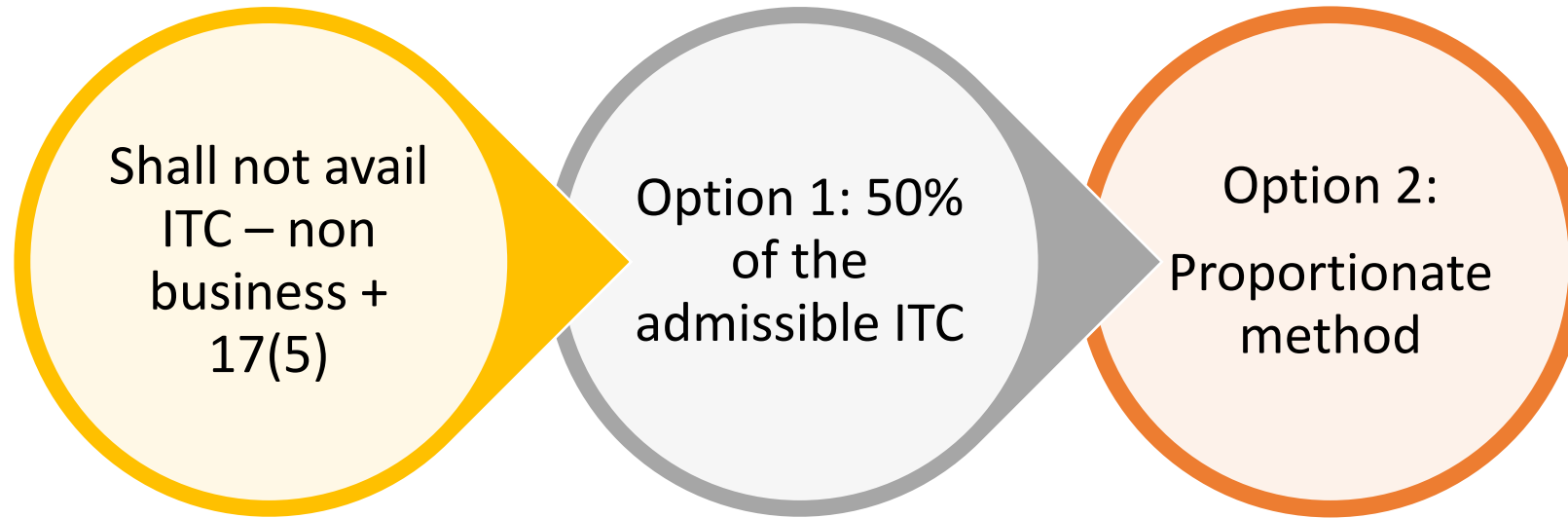
Apportionment of ITC



Apportionment of ITC



ITC by banking company



Provided, the restriction of fifty per cent. **shall not apply to the tax paid on supplies made by one registered person to another registered person having the same Permanent Account Number.**

ITC on Capital Goods (Common) – Rule 43

- Total amount of input tax involved in a Capital goods – Rs. 1,60,000
- Total input tax relating to non business purpose – Rs. 50,000
- Total input tax relating to taxable supplies – Rs. 50,000
- Common Credit [Denoted as Tc] = Rs. 60,000 (1,60,000-50,000-50,000)
- Common credit of a capital good for each tax period during the residual life of 5 years/ 60 months [Denoted as Tm] :
 - $T_m = T_c / 60$
 - $T_m = 60,000 / 60 = \text{Rs. } 1000$

Blockage / ineligibility of ITC



1. Motor vehicles and other conveyances

- Eligible only if used for
- Transportation of passengers,
- Transportation of goods, or
- Imparting training on motor driving skills
- further supply of such vehicles or conveyances

Blockage / ineligibility of ITC

Food and
beverages

Outdoor
catering

Beauty
treatment

Health Services

Cosmetic and
plastic surgery

Life / Health
Insurance

Rent – A-
Cab

Eligible if used for providing same category of outward taxable supply as a taxable composite or mixed supply

Eligible:

- If obligatory for employer to provide such services to employee
- Notified as obligatory for an employer

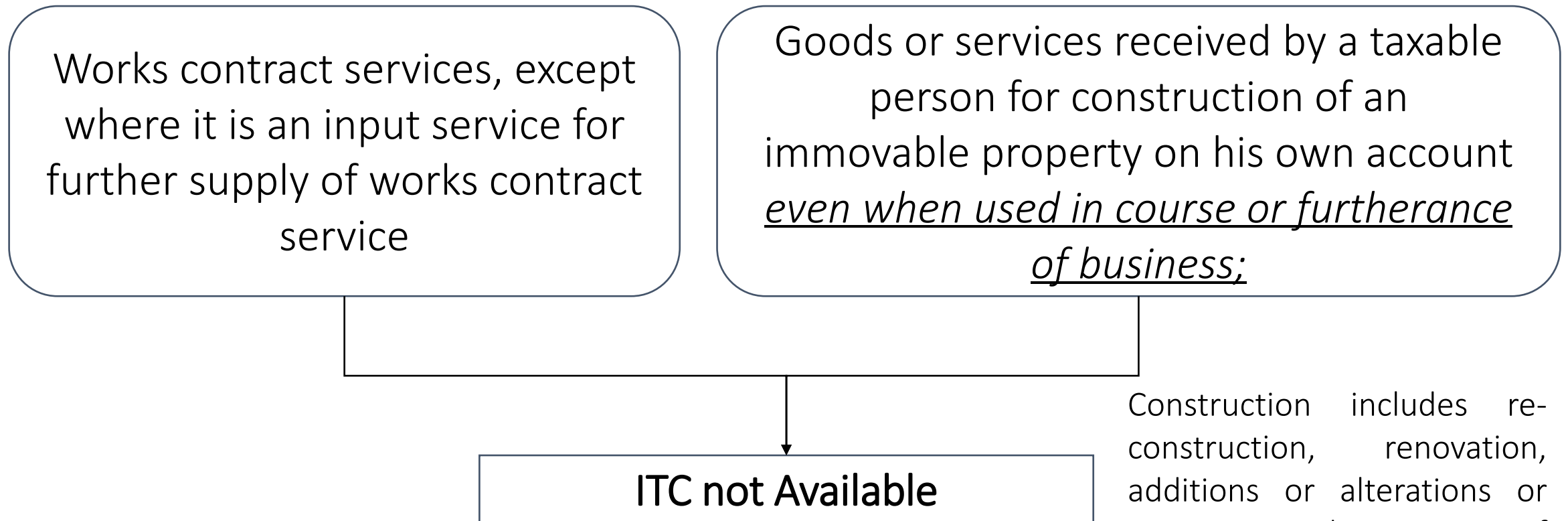
Blockage / ineligibility of ITC

Ineligible Credit

- Membership of a club, health and fitness centre
- Travel benefits to employees– leave or home travel concession
- Goods – used for personal consumption
- Goods- lost, stolen, destroyed, written off or disposed by way of gift or free samples
- Tax paid in terms of sections 74, 129 and 130
- Taxes paid under section 10

Blockage / ineligibility of ITC

- 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

Manner of Taking Credit - Provisional

GSTR-1

- Upload details of outward supply on 10th of subsequent month

GSTR-2A

- Data will be auto populated
- Make additions, modifications and deletions from 11th to 15th

GSTR-2

- Additions, modifications and deletion by recipient will be made available to supplier and submitted on 15th

GSTR-1A

- Corrections in Form GSTR-2 will be made available to supplier
- Supplier has to accept or reject adjustments by 17th

GSTR-3

- Auto-populated return will be available for submission along with the payment on 20th

Sec 42: ITC & provisional adj.

- ✓ Every person can take self assessed ITC
- ✓ Once GSTR-2 submitted- ITC shall be credited in electronic credit ledger on provisional basis
- ✓ Utilized such credit for payment of self assessed output tax liability

Manner of Taking Credit - Mismatch

Sec 42 – Matching, reversal & reclaim of ITC

Credit claimed –

1. Outward supply not declared by supplier
2. Credit claimed is excess of tax declared by supplier

Discrepancy communicated to both.

Rectified

Not rectified

Recipient allowed to reduce output liab

Supplier declares invoice/debit note in his valid return.

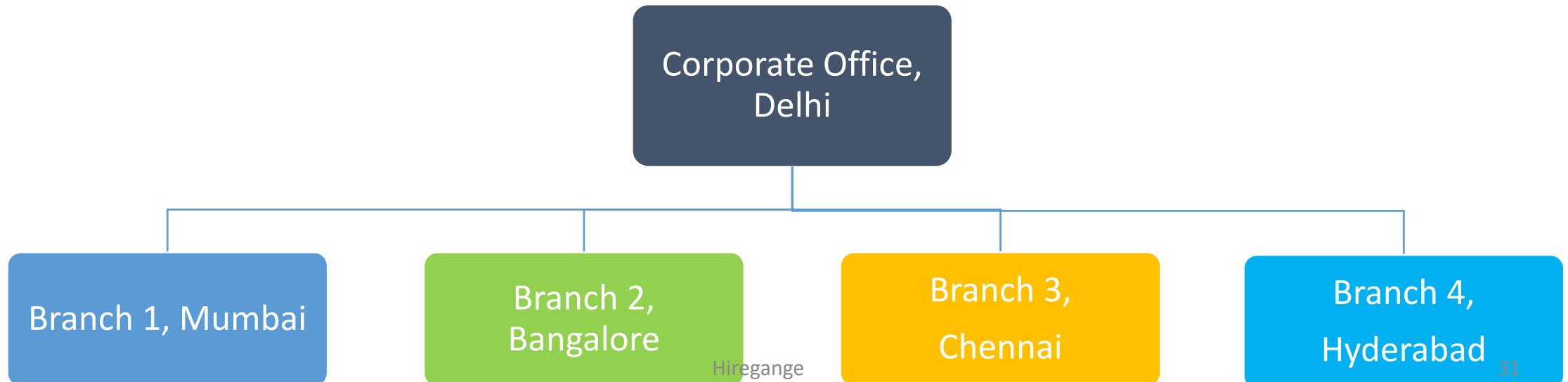
Credit - added to credit register
Interest - added in electronic cash ledger

ITC availed to be paid along with interest

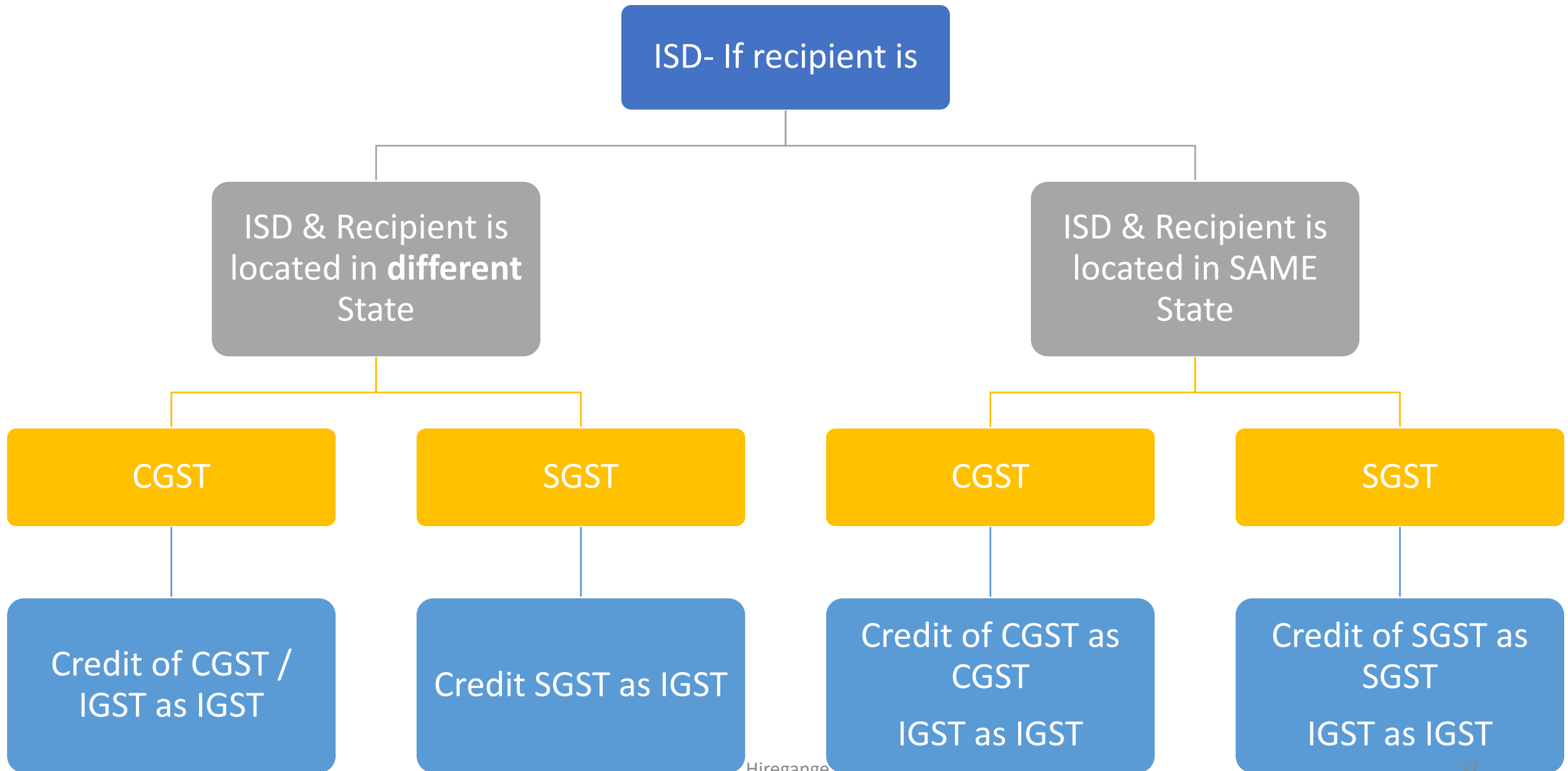
Input Service Distributor - Meaning

2 (61) “Input Service Distributor” means an

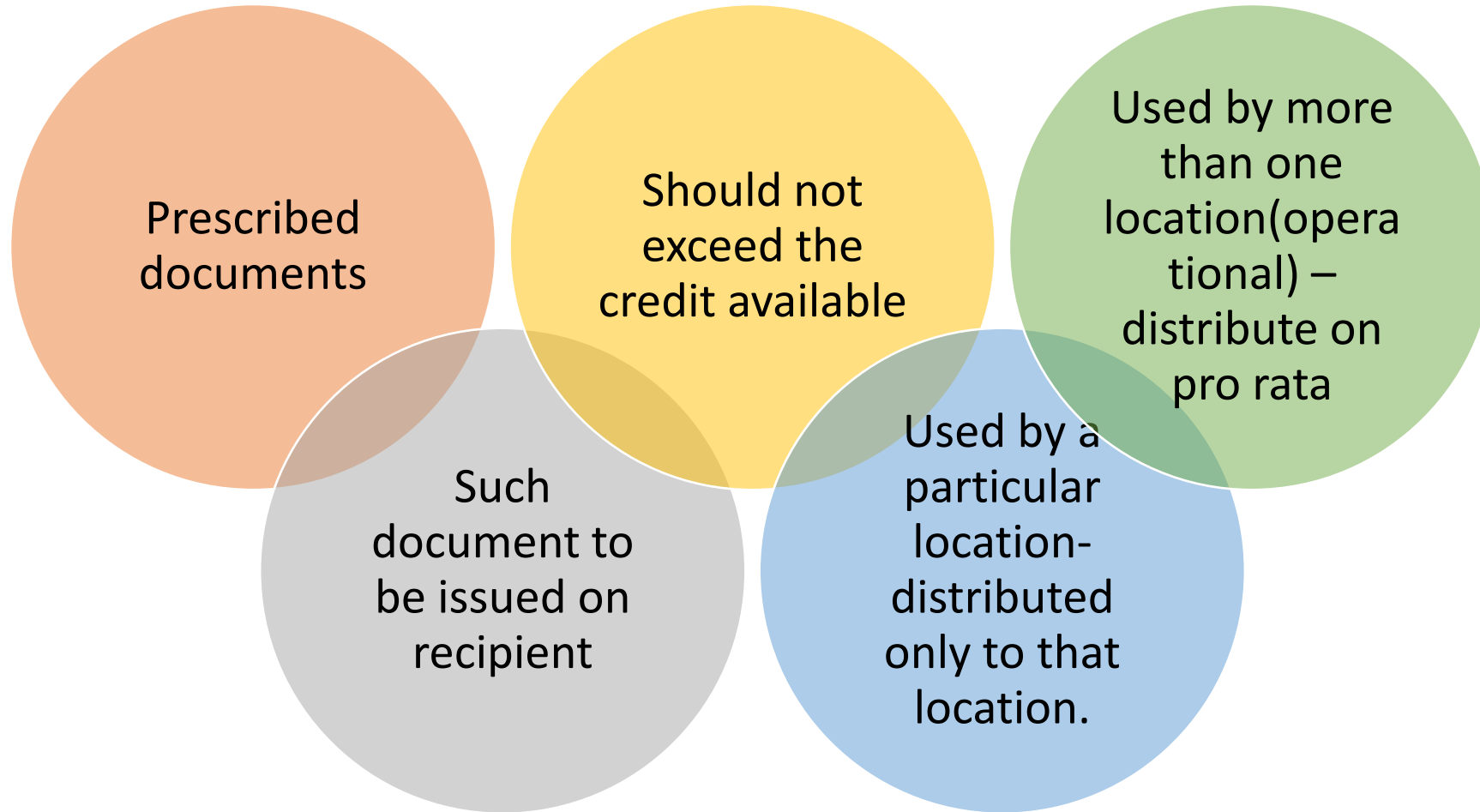
- **Office** of the supplier of goods or services or both
- which **receives tax invoices** issued under section 31 towards the receipt of input services and
- **issues** a prescribed document
- for the purposes of **distributing the credit** of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both
- having the same **Permanent Account Number** as that of the said office;



Input Service Distributor - Manner



Input Service Distributor - Conditions



Base for distribution:

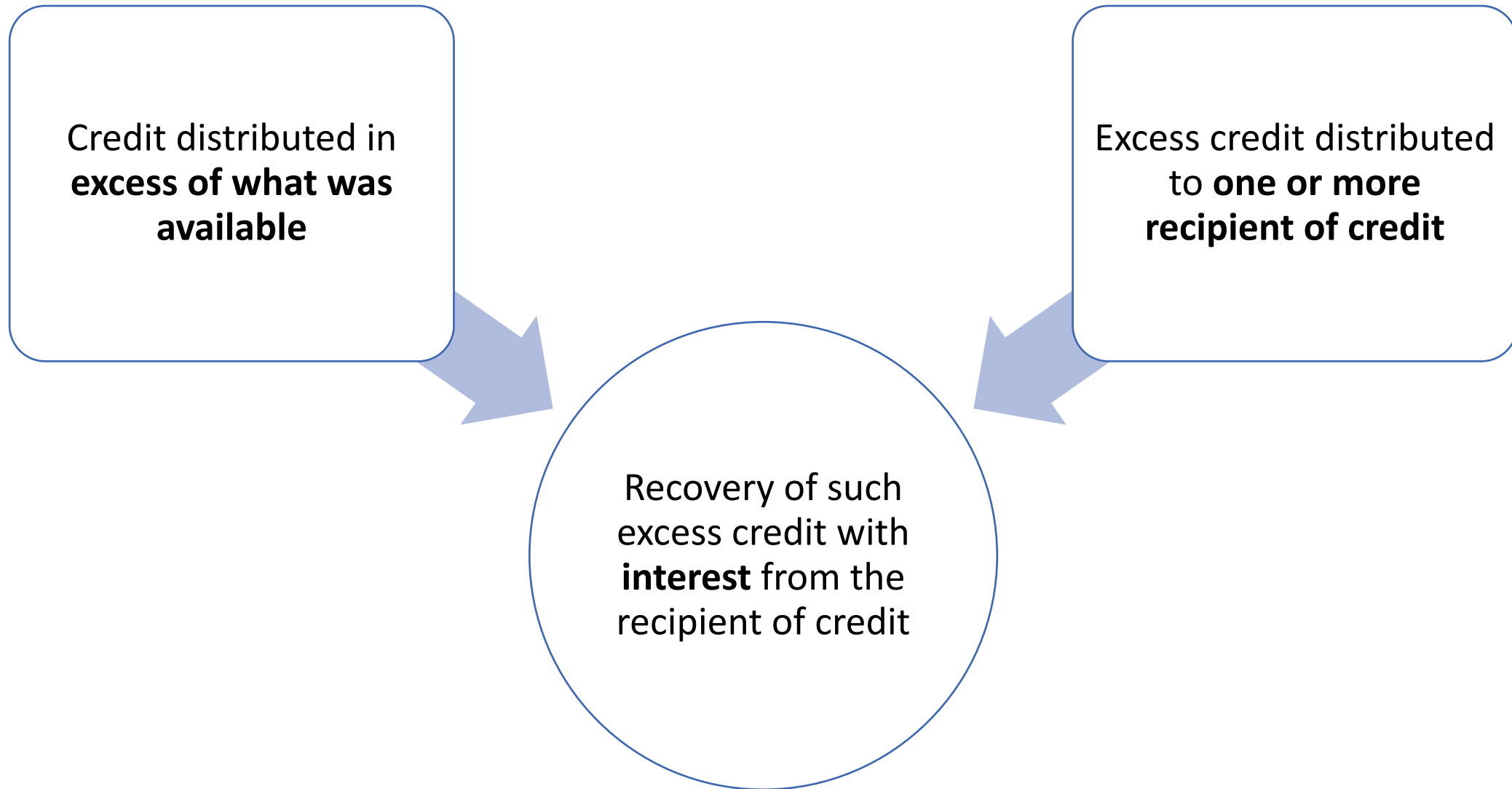
Turnover of each location in a State to aggregate turnover of all such locations who have used such services.

Period

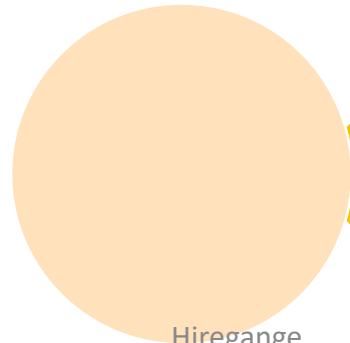
The period to be considered for computation is the **previous financial year** of that location.

If it does not have any turnover in the previous financial year, then **previous quarter of the month** to which the credit is being distributed.

Input Service Distributor – Excess Credit



Thank You



Hiregange

madhukar@hiregange.com