

# Input Tax Credit under GST (Shackling the barriers)

Prepared by: Diwakar Jha  
Contact: 9716250484

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# Introduction

- GST is biggest tax reform in country since independence
- Seamless credit flow in the country is a highlighted characteristic of GST
- If implemented, it will remove the cascading effect to almost zero

# Input Tax Credit - Eligibility

- Every RTP can avail credit of input tax charged on any supply received, to be used or intended to be used in business
  
- The credit of input tax of pipelines and telecommunication tower shall not exceed:
  - ▣  $1/3^{\text{rd}}$  of total input for that year
  - ▣  $2/3^{\text{rd}}$  of total input for 1<sup>st</sup> & 2<sup>nd</sup> year
  - ▣ the balance credit for any subsequent year

# Input Tax Credit – contd.

- No credit will be allowed to taxable person unless:
  - He has a tax invoice or debit note
  - He has received the goods and/or services
  - The tax charged for that supply has actually been paid to appropriate govt.
  - He has furnished the return

# Input Tax Credit – contd.

- Where goods against a single invoice is recd. in lots or instalments, the taxable person can take credit upon receipt of last lot or instalment
- If **recipient fails to pay to supplier of services**, the amount for consideration of supply within a period of 3 months from date of invoice, ITC claimed shall be added to output tax liability along with interest

# Input Tax Credit – contd.

- In case of capital goods, taxable person can either claim depreciation or ITC, both are not possible
- If credit not availed for any invoice till filing of return for month of September for next year or annual return, whichever is earlier, then credit shall lapse

# Apportionment of Credits

- When supplies are used partly for business and partly for other purpose, then only proportionate credit will be allowed
- When supplies are used partly for taxable supplies (including zero-rated supplies) and partly for exempt supplies, proportionate credit will be allowed



# Apportionment of Credits – contd.

- Banks or FIs (including NBFCs) shall have additional option to avail 50% of credit in respect of inputs, capital goods and input services recd. for that month
- Option once exercised shall remain valid for remaining part of the year

# Negative list of credits

- Motor vehicles except when used for
  - ▣ making taxable supplies namely
    - further supply of vehicles
    - imparting training on driving
    - transportation of passengers
    - transportation of goods
- Works contract services i.r.o. immovable property (other than P&M), except when it is an input for further supply of works contract services

# Negative list of credits – contd.

- Supply of goods and services, namely
  - ▣ foods and beverages etc.
  - ▣ membership of club
  - ▣ rent-a-cab, life insurance, health insurance
  - ▣ leave travel concessions to employees
  
- Goods or services received by a taxable person for construction of immovable property **for personal use**

# Availability of ITC in special cases

- If a person applies for regn within 30 days from becoming liable for it, and has been granted regn, can avail credit in respect of inputs held in stock on the date immediately preceding the day of becoming liable for registration
- In case of voluntary regn ,person can avail credit in respect of inputs held immediately preceding the day of granting regn

# Availability of ITC in special cases- contd.

- When a person ceases to pay tax in composition scheme, he can avail credit in respect of inputs held as stock and CG immediately preceding the day of becoming liable for mandatory regn
- When an exempt supply of RTP becomes taxable, he can avail credit of inputs and CG held on immediately preceding day of supply becoming taxable

# Availability of ITC in special cases- contd.

- In case of change in constitution, the successor RTP can avail the unutilized credit in books of predecessor RTP
- When a RTP switches to composition scheme, or his supply becomes exempt, he will have to pay an amount equal to credit on inputs and capital goods held on immediately preceding day

# ITC of inputs/CG sent for Job work

- Principal can take credit of inputs/CG sent to job worker (even in case sent directly)
- If inputs/CG not received back by principal after completion of job work or are not supplied from place of business of job worker within 1 year (3years for CG) from date of sending, it shall be deemed that inputs/CG had been supplied by the principal to job worker on the day when they were sent out
- N.A. on moulds, dies, jigs, fixtures and tools

# Manner of credit distribution by ISD

- ISD can distribute the credit of
  - ▣ CGST as CGST,
  - ▣ IGST as IGST or CGST
  - ▣ SGST as SGST or IGSTwhen ISD and recipient are located in different states
  
- ISD can distribute credit of
  - ▣ CGST as CGST or IGST
  - ▣ SGST as SGST or IGSTin case recipient located in same state



# Conditions for distribution

- credit can be distributed against a prescribed document
- amount distributed shall not exceed amount available for distribution
- credit of input service for a particular recipient shall be distributed to him only
- in case more than one recipient are availing services, credit will be distributed to only those, proportionately

# Manner of recovery of credit

- When an ISD distributes credit in excess of the credit it is eligible to distribute, the excess credit distributed shall be recovered from recipients with interest
- When credit has been availed wrongly, same shall be recovered from RTP in accordance with GST law

# Conclusion

- It can be clearly figured out that credit regime under GST will be much simpler as of now
- Credit c/f in return for immediately preceding period before GST being applicable, can also be used under GST
- Credit will be allowed for almost 100% of tax amount paid
- End result, abolition of cascading effect and seamless flow of credit

# THANK YOU



- ▶ To get in touch
- ▶ Name: Diwakar Jha
- ▶ Email:  
diwakarjha4@gmail.com
- ▶ Contact No.: 097-162-50484