

Chapter III

Input Tax Credit (ITC)

FAQ's

Eligibility and Conditions for taking Input Tax Credit (Section 16)

Section 16 of the CGST Act, 2017 made applicable to IGST vide Section 20 of the IGST Act, 2017 and UTGST vide Section 21 of the UTGST Act, 2017

Q 1. Whether capital goods can be considered as inputs?

Ans. No, '*Inputs*' are defined under Section 2(59) of the CGST Act to mean any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business.

'Capital goods' are defined under Section 2(19) of the CGST Act to mean goods, the value of which is capitalized in the books of account of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business.

Q 2. What is Input Tax credit?

Ans. Input tax credit means the credit of central tax, state/ union territory tax and integrated tax available to a registered person on the inward supply of goods or services or both, made to him excluding the tax paid on supplies liable to composite tax. It further includes the integrated tax applicable on import of goods or services and the tax payable under reverse charge mechanism.

Q 3. What are the conditions to be fulfilled for entitlement of input tax credit?

Ans. A registered person will be entitled to claim input tax credit only upon fulfillment of the following conditions:

- He is in possession of tax invoice/ debit note issued by a registered supplier or any other tax paying documents;
- He has received the goods and /or services or both;
- The tax charged on such supply is paid to the Government by the supplier (by way of cash or by utilizing input tax credit)
- He has furnished a valid return.

Q 4. Whether Input tax credit on Inputs and Capital Goods is allowed in one installment?

Ans. Yes. Input tax credit will be available in full with respect to inputs and capital goods, subject to fulfillment of the prescribed conditions under Section 16(2) of the CGST Act.

Even in the case of supply of goods in lots/ instalments, the credit would be available in full on the receipt of the last lot/ installment.

The existing concept of partial credit on purchase of capital goods under the CENVAT Credit Rules, 2004 (i.e. 50% in the year of receipt and 50% in subsequent years) has been done away with.

Q 5. One of the conditions to claim credit is that the receiver is in possession of tax invoice or debit note or any other tax paying documents. What are the tax paying documents?

Ans. The tax paying documents have been prescribed under Rule 36 of the CGST Rules. The ITC shall be availed by a registered person [including the Input Service Distributor (ISD)] on the basis of any of the following documents:

- An invoice issued by supplier of goods or services or both;
- An invoice raised by the recipient in case of inward supplies from unregistered persons or reverse charge mechanism supplies, subject to payment of tax;
- A debit note issued by a supplier of goods or services or both;
- A bill of entry or any similar document prescribed under the Customs Act, 1962 or Rules made thereunder for the assessment of integrated tax on imports;
- An Input Service Distributor (ISD) Invoice or ISD Credit Note or any other document issued by an Input Service Distributor for distribution of credit.

Q 6. What is the time limit within which the recipient of supply is liable to pay the value of supply with taxes to the supplier of services/goods to avail the input tax credit?

Ans. In terms of second proviso to Section 16(2) of the CGST Act, the time limit prescribed is one hundred and eighty days (180 days) from the date of issue of invoice by the supplier of services/goods. If the recipient fails to pay the value of supply (with tax) within 180 days, such input tax credit would be payable by the recipient along with applicable interest.

The above time limit is not applicable to supplies that are liable to tax under reverse charge mechanism.

Q 7. In case the amount is paid partly to the supplier of service, whether full taxes can be adjusted first? If no, then whether it has to be calculated proportionately?

Ans. No, there is no provision under the GST law to allocate part payment of the invoice towards the taxes first so that the input tax credit can be allowed. Second proviso to Section 16(2) of the CGST Act clearly provides that the entire value of supply (with tax) is to be paid within 180 days from the date of issue of invoice. Therefore, as long as the entire payment is made within 180 days, the recipient would be entitled to claim the credit in full.

Assuming that only part payment is made within 180 days, availing of proportionate credit based on such part payment is not provided for under the CGST Act. However,

Rule 37 of the CGST Rules, provides for availability of the amount of input tax credit availed of proportionate to such amount paid to the supplier.

Q 8. One of the conditions to claim credit is that the receiver has received the goods. Is there any provision for deemed receipt of goods in case of transfer of document of title before or during the movement of goods?

Ans. Yes. Explanation to Section 16(2)(b) of the CGST Act provides for deemed receipt of goods where the goods are delivered by the supplier to the recipient or any other person on the direction of the recipient, whether acting as agent or otherwise, before or during movement of goods.

Q 9. Whether the registered person can avail the benefits of input tax credit and depreciation on the tax component of capital goods and plant and machinery?

Ans. No, Section 16(3) provides that input tax credit will not be allowed on the tax component of cost of capital goods/ plant and machinery, if the depreciation on the said tax component is claimed under the provision of Income Tax Act, 1961 by the taxable person. Therefore, the registered person has an option to either claim depreciation (under the Income Tax Act, 1961) or claim credit under the GST law, on the said tax component.

For example:

Cost of Asset= ₹ 1,000/-	
Tax	= ₹ 100/-
Total	= ₹ 1,100/-

If depreciation is charged on ₹ 1,000/-, then credit will be available under the GST law and if depreciation is charged on ₹ 1,100/- then credit will not be available.

Q 10. What is the maximum time limit to claim the Input tax credit?

Ans. In terms of Section 16(4) of the CGST Act, a registered person is not entitled to claim input tax credit in respect of any supply of goods or services after the earlier of following two events:

- (a) Due Date of filing of the return under Section 39 of the Act for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains, i.e. 20th October;
- (b) Furnishing of the annual return. In terms of Section 44, the due date of filing annual return is 31st December following the end of the financial year.

However, in cases of credit in special circumstances like new registration, voluntary registration, etc. the credit will not be available after the expiry of one year from the date of issue of tax invoice.

Apportionment of credit and blocked credits (Section 17)

Section 17 of the CGST Act, 2017 made applicable to IGST *vide* Section 20 of the IGST Act, 2017 and UTGST *vide* Section 21 of the UTGST Act, 2017

Q 11. If certain goods/ services are used partly for business and partly for non-business purposes, will the credits be allowed in full or proportionately?

Ans. The credit on goods/ services used partly for business and partly for non-business purposes will be allowed proportionately to the extent it is attributable for business purposes. The manner of calculation of such credit is provided in Rule 42(1) of the CGST Rules, 2017.

Q 12. Credit attributable to exempt supplies is not available to a registered person. What are the supplies that are included in exempt supplies?

Ans. 'Exempt Supplies' for this purposes means all supplies other than taxable and zero rated supplies and specifically include the following:

- Supplies liable to tax under reverse charge mechanism;
- Transactions in securities;
- Sale of land;
- Sale of building.

Q 13. Will compliance of the provisions of Section 17(2) regarding restriction of credits relating to exempt supplies be mandatory to a Banking Company/ Financial Institution engaged in accepting deposits or extending loans or?

Ans. No, a Banking Company/ Financial Institution engaged in supplying services by way of accepting deposits, extending loans or advances has the following options:

- Comply with the provisions of Section 17(2) regarding restriction of credits relating to exempt supplies in the manner prescribed; or
- Avail 50% of the eligible input tax credit every month on inputs, capital goods and input services and the remaining 50% shall not be available.

The option exercised cannot be withdrawn in the same year. The restriction of 50% will not apply to the tax paid on supplies made by one registered person to another registered person having the same PAN.

Q 14. Whether the above option can be withdrawn in between the financial year?

Ans. No. The option once exercised by the Banking Company/ Financial Institution cannot be withdrawn during the remaining part of the financial year.

Q 15. Whether input tax credit will be available on taxable goods which are given by way of gift or free samples under the sales promotion?

Ans. No. Section 17(5) (h) specifically restricts input tax credit on goods disposed of by way of gift or free samples.

Q 16. Whether input tax credit is allowed on inputs which become waste and is sold as scrap?

Ans. In the process of manufacture, if some inputs become waste and are sold as scrap, credit shall not be denied. Further, output tax shall be payable on sale of such waste/scrap. However, Section 17(5) (h) specifically restricts input tax credit on goods lost, stolen, destroyed, written off or disposed by way of gift or free samples. Therefore, if the goods have been destroyed in full, input tax credit will not be available.

Q 17. Whether Input destroyed/pilfered and shortage also is covered?

Ans. Yes. Section 17(5) (h) specifically restricts input tax credit on goods lost, stolen, destroyed, written off or disposed by way of gift or free samples. Therefore, input tax paid on goods which are destroyed/pilfered and shortage will not be eligible.

Q 18. Whether Input tax credit is available in respect of Input tax paid on use of mobile phones/laptops/as given to employees?

Ans. Yes. The mobile phones/ laptops would be covered under the definition of 'inputs' as they are used in the course/ furtherance of business and hence, the input tax paid on such goods will be available as input tax credit.

Q 19. Whether input tax paid on Motor vehicle and other conveyances which is used for courier agency, outdoor catering, pandal and shamiana and tour operator is eligible?

Ans. The restriction of input tax credit on motor vehicles and conveyances provided under Section 17 (5) (a) is on such motor vehicles/ conveyances except when they are used for further supply of vehicles/ conveyances, transportation of passengers, imparting training or for transportation of goods only. Therefore, input tax credit will be available when it is used by courier agency, outdoor catering, pandal and shamiana and tour operator as it covers use of vehicles for transportation of goods/ transportation of passengers.

Q 20. Whether benefit of input tax credit would be available if the company procures health insurance services for benefit of its employees. Procurement of such services is mandatory under Factories Act

Ans. Yes. Section 17(5) (b)(iii) of the CGST Act provides that tax paid w.r.t rent a cab services, life/ health insurance services will be eligible as input tax credit where the Government notifies that such services are obligatory for an employer to provide to its employees under any law for the time being in force.

Q 21. What are the conditions to avail the input tax credit on Rent a cab, life Insurance, Health Insurance?

Ans. Tax paid w.r.t rent a cab services, life/ health insurance services will be eligible as input tax credit subject to the following conditions:

- If the Government notifies that such services are obligatory for an employer to provide to its employees under any law for the time being in force, or
- Such services are 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.

Q 22. Whether taxes paid on change of interiors of service apartment is eligible for input tax credit?

Ans. Input tax credit is not available on goods or services received by a taxable person for construction of an immovable property on his own account other than plant and machinery even when used in course or furtherance of business. The word "construction" includes reconstruction, renovation, additions or alterations or repairs to the extent of capitalization to the said immovable property. If the cost of interiors is capitalized towards the cost of immovable property then it forms part of the cost of immovable property (Service apartment) and accordingly taxes paid on change of interiors of service apartment will not be eligible as input tax credit.

Q 23. What do you mean by 'Plant and Machinery'?

Ans. The expression "plant and machinery" has been defined in Explanation to Section 17 for the purpose of Chapter V or VI of the CGST Act. It 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.

Availability of Credit in special circumstances (Section 18)

Section 18 of the CGST Act, 2017 made applicable to IGST *vide* Section 20 of the IGST Act, 2017 and UTGST *vide* Section 21 of the UTGST Act, 2017

Q 24. Whether input tax credit can be availed on input services and capital goods (lying in stock) when there is application for new registration or during voluntary registration under section 18?

Ans. No. In case of new registrations and voluntary registrations, input tax credit can be availed only on the stock held (inputs, semi-finished goods or finished goods) preceding

the day when he is liable to pay tax or preceding to the date of grant of voluntary registration. Therefore, Input service and capital goods lying in stock shall not be eligible for ITC.

Q 25. What is the difference between the availment of credit in case of Compulsory Registration and Voluntary Registration?

Ans. In case of compulsory registration, the input tax credit can be availed on the stocks held immediately preceding the date from which he becomes liable to pay tax (date of grant of registration may be later) and in case of voluntary registration, the input tax credit can be availed on the stocks held immediately preceding the date of grant of registration.

Q 26. In case of change of scheme from composition scheme to Regular scheme whether input tax credit on capital goods is eligible.

Ans. Yes. In such a scenario, the registered person will be entitled to claim input tax credit on the stock held (inputs, semi-finished goods or finished goods) and on the capital goods preceding the day when he is liable to pay tax under the regular scheme. The credit of capital goods shall stand reduced by five percentage points for every quarter or part thereof from the date of the issue of the invoice for such goods.

Q 27. When an exempt supply becomes taxable supply then in such case credit on inputs and capital goods exclusively used for such exempted supply is eligible? What about input tax credit pertaining to capital goods used for both taxable and exempt supply?

Ans. In terms of Section 18(1) (d) of the Act, where an exempt supply made by a person becomes taxable supply, such a person will be entitled to claim credit of tax paid on stock held (inputs, semi-finished goods or finished goods) relating to exempt supply and on the capital goods exclusively used for exempt supply preceding the day when the supply becomes taxable. The credit of capital goods shall, however, stand reduced by 5 percentage points for every quarter or part thereof from the date of the issue of the invoice for such goods. However, tax paid on capital goods used for both, taxable and exempt supply will not be eligible as input tax credit.

Q 28. When there is change in the constitution of registered taxable person without specific provision of transfer of liabilities is it possible to transfer unutilized input tax credit?

Ans. No, In terms of Section 18(3) of the Act, transfer of unutilized input tax credit is permissible only when there is change in constitution of the business with the specific provision of transfer of liabilities.

Q 29. Where a supplier transfers a running business as a whole either due to sale, merger, amalgamation of such business, whether the portion of the un-utilized input tax credit by the supplier can be claimed immediately by the recipient?

Ans. There is no specific provision under the Act prohibiting transfer of such unutilized credit. Rather, Section 18(3) specifically provides that when there is a change in constitution of

a registered person on account of sale, merger, or amalgamation of business with specific provision of transfer of liabilities, the registered taxable person shall be allowed to transfer the input tax credit which remains unutilized, provide registered person furnish the details of sale, merger, de-merger, amalgamation, lease or transfer of business, in **FORM GST ITC-02**, electronically on the common portal along with a request for transfer of unutilized input tax credit lying in his electronic credit ledger to the transferee. Therefore, if the recipient is registered under the Act, he should be eligible to claim such unutilized credits. In a situation, where the recipient is not registered under the Act, he may have to make a fresh application for registration and claim such unutilized credits after making an intimation to the department.

Q 30. In case of switchover from taxable to exempt transactions or from Regular to composition whether input tax credit is fully restricted?

Ans Yes, In terms of Section 18(4) of the CGST Act, an amount equal to the credit of tax paid on stock held (inputs, semi-finished goods or finished goods) and capital goods (reduced by percentage points) on the day preceding the date of opting for composition/ effecting exempt supplies will have to be paid. The same can be paid by utilization of credit/ cash payments.

Q 31. Whether Input tax credit availed on capital goods is to be reversed in case of supply of such capital goods?

Ans. Yes, in terms of Section 18(6) of CGST Act, in case of supply of capital goods or plant and machinery on which input tax credit has been taken, the registered person will have to pay an amount equal to:

- Input tax credit taken on the said capital goods/ plant and machinery reduced by the percentage points specified ; or
- the tax on the transaction value of such goods

whichever is higher.

Q 32. Whether Input tax credit availed on refractory bricks, moulds and dies, jigs and fixtures is to be reversed in case of supply of such goods?

Ans. Yes. In terms of proviso to Section 18(6) of CGST Act, in case of supply of such goods as scrap, the registered person is required to pay the tax on the transaction value of such goods. Thus, in this case, unlike section 18(6), no comparison is required to be made between ITC taken on the capital goods/plant and machinery reduced by the specified percentage points and the tax on the transaction value of such goods.

Taking input tax credit in respect of inputs and capital goods sent for job work (Section 19)

Section 19 of the CGST Act, 2017 made applicable to IGST *vide* Section 20 of the IGST Act, 2017 and UTGST *vide* Section 21 of the UTGST Act, 2017

Q 33. What is the time limit beyond which the inputs/capital goods sent for job work shall be treated as supply?

Ans. The time limit prescribed for return of goods sent to job work under the exemption route is 1 year of being sent out (for inputs) and 3 years of being sent out (for capital goods). Therefore, if the inputs/ capital goods are returned to the principal after 1 year/ 3 years (as applicable), then such return of goods to the principal after the said period would be treated as 'supply'. This time limit is not applicable to moulds and dies, jigs, fixtures, and tools.

Q 34. Whether the principal is entitled to take input tax credit even when the principal has not received the goods and directly sent to job worker by the vendor?

Ans. Yes. Section 19(2) and Section 19 (5) allows the principal to take input tax credit of goods not received by him, if the goods are sent directly to the job workers premises by the vendor.

Q 35. Whether time limit of one year or three years in case of goods sent for job work is applicable to moulds and dies, jigs and fixtures or tools sent out to job worker.

Ans. No, the time limit of one year and three years is not applicable to return of moulds and dies, jigs, fixtures, and tools by the job worker to the principal. [Section 19(7)]

Manner of distribution of credit by the Input service distributor (Section 20)

Section 20 of the CGST Act, 2017 made applicable to IGST *vide* Section 20 of the IGST Act, 2017 and UTGST *vide* Section 21 of the UTGST Act, 2017

Q 36. Whether the distributor and the recipient situated in different states can have same PAN or different PAN number?

Ans. It is mandatory that the Input Service Distributor and the recipient of credit are persons having the same PAN, whether or not they are located in the same State.

Q 37. What is the manner in which Input Service Distributor should distribute the credit where distributor and recipient are located in different states?

Ans. The Input Service Distributor is permitted to distribute the credit as follows:

- Central tax as central tax or integrated tax; and

- Integrated tax as integrated tax or central tax, and
- State tax as State tax or integrated tax [Rule 39(1)(f)]

Q 38. Whether CGST can be distributed as SGST and whether SGST can be distributed as CGST within the states and between the states?

Ans. No. Section 20(1) does not permit distribution of CGST as SGST and *vice versa*. This flows from the fundamentals of the GST law wherein the credit of CGST cannot be utilized against SGST and *vice versa*.

Q 39. What are the conditions applicable to Input service distributor to distribute the credit?

Ans. In terms of Section 20(2) of CGST Act, an Input Service Distributor can distribute the credit subject to the following conditions:

- The credit should be distributed to recipient against a document containing such details as given in Rule 54(1) of the CGST Rules, 2017;
- The amount of credit distributed shall not exceed the amount of credit available for distribution;
- The credit of tax paid on input service attributable to a recipient of credit shall be distributed only to that recipient;
- If credit is attributable to more than one recipient, then it shall be distributed among such recipient(s) to whom the input service is attributable on *pro rata basis* of the turnover in a State of such recipient during the relevant period, to the aggregate of the turnover of all such recipients to whom such input service is attributable.
- If credit is attributable to all recipients, the above method of allocation on *pro rata* may be applied with reference to all recipients.

Manner of Recovery of Credit distributed in excess (Section 21)

Section 21 of the CGST Act, 2017 made applicable to IGST *vide* Section 20 of the IGST Act, 2017 and UTGST *vide* Section 21 of the UTGST Act, 2017

Q 40. Whether recovery provisions can be initiated in case of wrong distribution of credit?

Ans. Yes. In terms of Section 21 of the Act, the recovery provisions can be initiated if the Input Service Distributor distributes credit in contravention of the law resulting in excess distribution of credit to one/ more recipients of credit. Such credit can be recovered from the recipients along with applicable interest and the provisions of section 73 or section 74, as the case may be, shall, *mutatis mutandis*, apply for determination of amount to be recovered.

Chapter V -Input Tax Credit of the CGST Rules, 2017

Q 41. What are the documents for claim of Input Tax Credit by a registered person?

Ans. In terms of Rule 36(1) the ITC shall be availed by a registered person [including the Input Service Distributor (ISD)] on the basis of any of the following documents:

- (a) An invoice issued by supplier of goods or services or both;
- (b) An Invoice raised by the recipient in case of inward supplies from unregistered suppliers or reverse charge mechanism supplies;
- (c) A debit note issued by a supplier of goods or services or both;
- (d) A bill of entry or any similar document prescribed under the Customs Act, 1962 or Rules made thereunder for the assessment of Integrated Tax on imports;
- (e) An ISD Invoice or ISD Credit Note or any other document issued by an Input Service Distributor for distribution of credit.

Q 42. What are the conditions prescribed to avail the Input Tax Credit in relation to documents?

Ans. In terms of Rule 36(2), Input tax credit can be availed by a registered person only if:

- All the applicable particulars prescribed in the Chapter VI [which contain Rule 46 to Rule 55] of the CGST Rules, 2017 are contained in the document; and
- The relevant information contained in the document is furnished in FORM GSTR-2 (Details of inward supply) by the recipient.

Further, in terms of Rule 36(3), Input tax credit cannot be availed on the tax paid in pursuance of any order where the demand has been confirmed on account of any fraud, willful misstatement or suppression of facts.

Q 43. Whether Input Tax credit should be reversed in case of non-payment of consideration to supplier as per Rule 37 of the CGST Rules, 2017?

Ans. Yes, where the value of the supply along with the tax, has not been paid to the supplier within 180 days from the date of issue of invoice, the input tax credit availed by the recipient will be added to the output tax liability of the recipient. The recipient will have to furnish the details of the supply in Form GSTR-2 for the month immediately following the period of 180 days from the invoice date and will be liable to pay interest from the date of availment of credit till the date of addition to the output tax liability.

Q 44. What is the option available to a Banking Company/ Financial Institution (including non-banking financial company) who choose to not opt for proportionate reversal of credits relating to exempt supplies?

Ans. A Banking Company/ Financial Institution engaged in supplying services by way of accepting deposits, extending loans or advances has the following options:

- Option 1: Comply with the provisions of Section 17(2) regarding restriction of credits relating to exempt supplies in the manner prescribed; or
- Option 2: Avail 50% of the eligible input tax credit every month on inputs, capital goods and input services.

A Banking Company/ Financial Institution choosing Option 2 has to follow the following procedure in accordance with Rule 38 of the CGST Rules, 2017:

- The credit of tax paid on inputs and input services used for non-business purposes and those that are not eligible in terms of Section 17(5) should not be availed
- The credit of tax paid on supplies by another person having the same PAN can be availed in full
- 50% of the remaining credit will be admissible and should be claimed in Form GSTR-2
- The eligible credit (as mentioned above) will be credited to the Electronic Credit Ledger

Q 45. Whether ITC available for distribution can be distributed in subsequent months?

Ans. No. In terms of Rule 39(1) (a) of the CGST Rules, 2017, the ITC available for distribution by an ISD should be distributed to the recipients in the same month itself and the details should be furnished in Form GSTR-6.

Q 46. Can the ISD distribute the credit as a consolidated amount to a recipient?

Ans. No, in terms of Rule 39(1) (b) of the CGST Rules, 2017, the ISD is required to distribute the eligible and in-eligible credit separately to a recipient. Further, the integrated tax, central tax and state tax should also be distributed separately.

Q 47. How is the determination of the eligible amount to be distributed calculated?

Ans. In terms of the Rule 39(1) (d) of the CGST Rules, 2017, the eligible amount to be distributed in relation to a recipient is to be calculated in the following way:

$$C_1 = (t_1/T) \times C$$

Where

C_1 = Amount distributed to a recipient

C = Amount of credit to be distributed

t_1 = Turnover of the recipient during the relevant period

T = Aggregate of the turnover of all the recipients during the relevant period

Q 48. How will the integrated tax, central tax and state tax be distributed?

Ans. In terms of Rule 39(1) (f) of the CGST Rules, 2017, the distribution is to be made by an ISD as follows:

- (a) Integrated tax as integrated tax.
- (b) Central tax as central tax (if the recipient and ISD are located in the same State) and as integrated tax (if the recipient and ISD are not located in the same State).
- (c) State tax as state tax (if the recipient and ISD are located in the same State) and as integrated tax (if the recipient and ISD are not located in the same State).
- (d) In case of distribution of central/ state tax as integrated tax, it should be ensured that the amount distributed equals the amount of credit of central and state tax put together.

Q 49. What are the documents to be issued by an ISD?

Ans. In terms of Rule 39(1)(g) of the CGST Rules, 2017, an ISD is required to issue an ISD invoice as prescribed in Rule 54(1) indicating that the invoice is issued only for distribution.

Similarly, in terms of Rule 39(1)(h) of the CGST Rules, 2017, an ISD is required to issue a credit note as prescribed in Rule 54(1) for reduction of credit (if already distributed).

Q 50. How will the input credit already distributed reversed on issuance of an ISD credit note?

Ans. In terms of Rule 39(1) (j) of the CGST Rules, 2017, the credit reduced by issuance of an ISD credit note will be apportioned to each recipient in the same ratio in which the credit of the original invoice was distributed.

Q 51. How any ITC required to be reduced on account of issuance of a credit note to the ISD by the supplier shall be dealt with?

Ans. In terms of Rule 39(1) (j) of the CGST Rules, 2017 any ITC required to be reduced on account of issuance of a credit note to the ISD by the supplier shall be

- reduced from the amount to be distributed in the month in which the credit note is included in the return in FORM GSTR-6; and
- Added to the output tax liability of the recipient and where the amount so apportioned is in the negative by virtue of the amount of credit to be distributed is less than the amount to be adjusted.

Q 52. What are the conditions for claim of credit w.r.t. inputs/ capital goods lying in stock in case new registration, voluntary registration, change of the scheme from Composition to Regular scheme?

Ans. The conditions prescribed under Rule 40 of the CGST Rules, 2017 are as under:

- (a) The credit on capital goods can be claimed after reduction of 5 percentage points per quarter from the tax paid on such capital goods from the date of invoice or such other documents on which the capital goods were received by the taxable person
- (b) The registered person shall within a period of 30 days from the date of his becoming eligible to avail the input tax credit under section 18(1) shall make a declaration, electronically, on the common portal in **FORM GST ITC-01** to the effect that he is eligible to avail the input tax credit as aforesaid. The declaration shall clearly specify the details relating to the inputs held in stock or inputs contained in semi-finished or finished goods held in stock, or as the case may be, capital goods–
 - (i) on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of the Act, in the case of a claim under section 18(1)(a);
 - (ii) on the day immediately preceding the date of the grant of registration, in the case of a claim under section 18(1)(b);
 - (iii) on the day immediately preceding the date from which he becomes liable to pay tax under section 9, in the case of a claim under section 18(1)(c);
 - (iv) on the day immediately preceding the date from which the supplies made by the registered person becomes taxable, in the case of a claim under section 18(1)(d);
- (c) The details furnished should be certified by a practicing Chartered/ Cost Accountant if the aggregate value of claim of credit on account of Central Tax, State Tax, Union territory Tax and Integrated Tax exceeds Rs. 2 Lakh.
- (d) The credit details furnished will be matched and verified with the corresponding details furnished by the supplier in FORM GSTR-1 or Form GSTR-4 on the common portal.

Q 53. How will transfer of credit on account of sale, merger, amalgamation etc. be effected?

Ans. In terms of Rule 41(1) of the CGST Rules, 2017, the registered person is required to furnish the details of sale, merger, amalgamation, de-merger, lease, transfer of business in **Form GSTR ITC-02** electronically with a request to transfer the unutilized credit to the transferee.

Q 54. How will transfer of credit on account of de-merger be apportioned?

Ans. In terms of proviso to Rule 41(1) of the CGST Rules, 2017, in case of demerger, the credit will be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme.

Q 55. What are the conditions for transfer of credit on account of sale, merger, amalgamation, de-merger, lease, transfer of business?

Ans. The conditions prescribed under Rule 41 of the CGST Rules, 2017 are:

- (a) The details of the sale, merger, amalgamation, de-merger, lease, transfer of business should be furnished in **Form GSTR ITC-02**.
- (b) A certificate issued by a practicing Chartered/ Cost Accountant should be furnished certifying that the sale, merger, amalgamation, de-merger, lease, transfer of business has been done along with a provision for transfer of liabilities.
- (c) Upon acceptance of the details by the transferee, the credit specified in **Form GSTR ITC-02** will be credited to the electronic credit ledger.
- (d) The inputs and capital goods so transferred are to be accounted in the transferee's books.

Q 56. How to determine the credit attributable to exempt supplies in cases where the inputs/ input services are used for effecting exempt supplies in addition to taxable supplies?

Ans. The credit attributable to exempt supplies in such cases are determined as under in terms of Rule 42 of the CGST Rules, 2017:

$$D_1 = (E/F) \times C_2$$

Where

D_1 = Credit attributable to exempt supplies

E = aggregate value of exempt supplies (all supplies other than taxable and zero rated supplies)

F = total turnover of the person in the tax period

C_2 = Common Credit i.e. Total input tax in a period reduced by:

- Tax attributable exclusively for non-business purpose
- Tax attributable exclusively for exempt supplies
- Ineligible credits as per Section 17(5)
- Tax attributable exclusively for taxable supplies (including zero rated supplies)

Q 57. How to determine the credit attributable to non-business purposes in cases where the common inputs/ input services are used for non-business purposes and business purposes?

Ans. In terms of Rule 42(j) of the CGST Rules, 2017, the credit attributable to non-business purpose (D_2) will be equal to 5% of C_2 [Common Credit]' (Refer Answer to Q56)

Q 58. How to determine the net eligible credit in cases where the common inputs/ input services are used for non-business purposes and for effecting exempt supplies?

Ans. The eligible credit in such cases are determined as under in terms of Rule 42 (k) of the CGST Rules, 2017:

$$\text{Net eligible credit } [C_3] = C_2 - (D_1 + D_2)$$

D_1 = Credit attributable to exempt supplies

D_2 = Credit attributable to non-business purposes (5% of C_2 i.e. Common Credit)

Q 59. Should the apportionment towards exempt supplies/ non-business purposed be done only on a monthly basis?

Ans. No. The recipient is required to do the apportionment on an annual basis also before the due date of filing the return of the September month of the following year. The differentials will be liable to be paid with interest (if the annual disallowance is higher) and will be eligible as credit (if the annual disallowance is lesser).

Q 60. How to determine the credit attributable to exempt supplies in cases where the capital goods are used for effecting exempt supplies in addition to taxable supplies?

Ans. The credits are determined in terms of Rule 43 of the CGST Rules, 2017 are as under:

- (a) Input tax in respect of capital goods used or intended to be used exclusively for non-business purposes or used or intended to be used exclusively for effecting exempt supplies shall be indicated in FORM GSTR-2 and shall not be credited to his electronic credit ledger
- (b) Input tax in respect of capital goods used or intended to be used exclusively for effecting taxable supplies including zero-rated supplies shall be indicated in FORM GSTR-2 and shall be credited to the electronic credit ledger
- (c) Out of the total input tax credit on capital goods, the amount of input tax credit in (a) and (b) shall be deducted from total input tax credit and shall be credited to the electronic credit ledger and the useful life of such good shall be taken as five years.
- (d) The common input tax credit attributable to exempt supplies shall be calculated as a ratio of the aggregate value of exempt supplies to the total turnover of the person in the tax period.
- (e) In case if the turnover details are not available then the values for the preceding tax period shall be taken for calculation.

Q 61. How to determine the reversals of credit in case of special circumstances i.e. change of the scheme from Composition to Regular scheme, supplies becoming taxable which were earlier exempt and cancellation of registration?

Ans. In terms of Rule 44(1) (a) of the CGST Rules, 2017, the reversal of input tax credit relating to inputs lying in stock will be calculated proportionately on the basis of

corresponding invoices on which credit had been availed. Further, in terms of Rule 44(1)(b) of the CGST Rules, 2017, for capital goods, the input tax credit relating to the remaining residual life in months shall be computed on pro-rata basis, taking the useful life as five years. (Part of the month shall be ignored while calculation)

Q 62. How to determine the reversals of credit in case of such special circumstances if the tax invoices are not available?

Ans. In terms of Rule 44(3) of the CGST Rules, 2017 if the invoices relating to inputs in stock are not available, the prevailing market price of goods on the effective date of occurrence of the events i.e. change of the scheme from Composition to Regular scheme, supplies becoming taxable which were earlier exempt and cancellation of registration, should be considered for estimation.

Q 63. What are the conditions prescribed in respect of inputs/ capital goods sent for job work?

Ans. The conditions prescribed in respect of inputs/ capital goods sent for job work are set out in Rule 45 of the CGST Rules, 2017 as under:

- (a) The inputs, semi-finished goods or capital goods are to be sent to the job worker under the cover of a challan issued by the principal including cases where the inputs, semi-finished goods or capital goods are sent directly to job worker;
- (b) The challan issued by the principal should contain the details as specified in Rule 55 of the CGST Rules, 2017
- (c) The details of challan in respect of goods dispatched to/ received from a job worker or sent from one job worker to another during a quarter shall be included in Form GST ITC-04 furnished for that period on or before the 25th day of the month succeeding the said quarter.
- (d) If the inputs/ capital goods are not returned within the 1 year/ 3 years, respectively, it shall be deemed that such inputs or capital goods had been supplied by the principal to the job worker on the day when the said inputs or capital goods were sent out and the said supply shall be declared in **FORM GSTR-1**. Further, the principal shall be liable to pay the tax along with applicable interest.

Q 64. For the purpose of determining exempt supply under Section 17(2) and Section 17(3), how should the value of land and building be determined?

Ans. In terms of Explanation 2(a) to Chapter V of the CGST Rules, 2017, the value of land and building adopted for the purpose of paying stamp duty should be considered.

Q 65. For the purpose of determining exempt supply under Section 17(2) and Section 17(3), how should the value of security be determined?

Ans. In terms of Explanation 2(b) to Chapter V of the CGST Rules, 2017, the value of security should be considered as 1% of the sale value of such security.

MCQ's

Q 1. Whether definition of Inputs includes capital goods.

- (a) Yes
- (b) No
- (c) Certain capital goods only
- (d) None of the above

Ans. (a) No

Q 2. Is it mandatory to capitalize the capital goods in books of Accounts?

- (a) Yes
- (b) No
- (c) Optional
- (d) None of the above

Ans. (a) Yes

Q 3. Whether credit on capital goods can be taken immediately on receipt of the goods?

- (a) Yes
- (b) No
- (c) After usage of such capital goods
- (d) After capitalizing in books of Accounts

Ans. (a) Yes

Q 4. The term "used in the course or furtherance of business" means?

- (a) It should be directly co-related to output supply
- (b) It is planned to use in the course of business
- (c) It is used in the course of business
- (d) It is used in the course of business for making outward supply

Ans. (c) *It is used in the course of business*

Q 5. Under section 16(2) of CGST Act how many conditions are to be fulfilled for the entitlement of credit?

- (a) All the conditions
- (b) Any two conditions
- (c) Conditions not specified
- (d) None of the above

Ans. (a) *All the conditions*

Q 6. Whether credit on inputs should be availed based on receipt of documents or receipt of goods

- (a) Receipt of goods
- (b) Receipt of Documents
- (c) Both
- (d) Either receipt of documents or Receipt of goods

Ans. (c) *Both*

Q 7. In case supplier has deposited the taxes but the receiver has not received the documents, is receiver entitled to avail credit?

- (a) Yes it will be auto populated in recipient monthly returns
- (b) No as one of the conditions of 16(2) is not fulfilled
- (c) Yes if the receiver can prove later that documents are received subsequently
- (d) None of the above

Ans. (b) *No as one of the conditions of 16(2) is not fulfilled*

Q 8. Input tax credit on capital goods and Inputs can be availed in one installment or in multiple installments?

- (a) In thirty six installments
- (b) In twelve installments
- (c) In one installment
- (d) In six installments

Ans. (c) *In one installment*

Q 9. The tax paying documents in section 16(2) is

- (a) Bill of entry, Invoice raised on RCM supplies, etc.
- (b) Acknowledged copy of tax paid to department
- (c) Supply invoice by the recipient
- (d) Any of the above

Ans. (a) *Bill of entry, Invoice raised on RCM supplies, etc.*

Q 10. The time limit to pay the value of supply with taxes to avail the input tax credit?

- (a) Three months
- (b) Six Months
- (c) One hundred and eighty days
- (d) Till the date of filing of Annual Return

Ans. (c) *One hundred and eighty days*

Q 11. What is the time limit for taking input tax credit by a registered taxable person

- (a) No time limit
- (b) 1 year from the date of invoice
- (c) Due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains
- (d) Due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains or furnishing of the relevant annual return, whichever is earlier

Ans. (d) *Due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains or furnishing of the relevant annual return, whichever is earlier*

Q 12. Can the recipient avail the Input tax credit for the part payment of the amount to the supplier within one hundred and eighty days?

- (a) Yes on full tax amount and partly value amount
- (b) No he can't until full amount is paid to supplier
- (c) Yes but proportionately to the extent of value and tax paid
- (d) Not applicable is eligible to claim refund in respect of exports of goods

Ans. (c) *Yes but proportionately to the extent of value and tax paid*

Q 13. Whether credit can be availed without actual receipt of goods where goods are transferred through transfer of document of title before or during the movement of goods?

- (a) Yes
- (b) No
- (c) Yes, in specific instances
- (d) Can be availed only after transfer of document of title after movement of goods

Ans. (c) *Yes, in specific instances*

Q 14. Whether depreciation on tax component of capital goods and Plant and Machinery and whether input tax credit is Permissible?

- (a) Yes
- (b) No
- (c) Input tax credit is eligible if depreciation on tax component is not availed
- (d) None of the above

Ans. (c) *Input tax credit is eligible if depreciation on tax component is not availed*

Q 15. What is the maximum time limit to claim the Input tax credit?

- (a) Till the date of filing annual return
- (b) Due date of September month which is following the financial year
- (c) Earliest of (a) or (b)
- (d) Later of (a) or (b)

Ans. (c) *Earliest of (a) or (b)*

Q 16. Proportionate credit for capital goods is allowed

- (a) for business and non-business purpose
- (b) for business or non- business purpose
- (c) both of the above
- (d) none of the above

Ans. (a) *for business and non-business purpose*

Q 17. Exempt supplies under Section 17 (apportionment of credit) includes

- (a) Only exempted supplies
- (b) Reverse charge supplies and sale of land
- (c) Exempted supplies, reverse charge supplies, Transaction in securities, sale of land, sale of building
- (d) None of the above

Ans. (c) *Exempted supplies, reverse charge supplies, Transaction in securities, sale of land, sale of building*

Q 18. Banking company or Financial Institution have an option of claiming:

- (a) Eligible Credit or 50% credit
- (b) Only 50% Credit
- (c) Only Eligible credit
- (d) Eligible credit and 50% credit

Ans. (a) *Eligible Credit or 50% credit*

Q 19. Can Banking Company or Financial Institution withdraw the option of availing actual credit or 50% credit anytime in the financial year?

- (a) Yes
- (b) No
- (c) Yes with permission of Authorized officer
- (d) Not applicable

Ans. (b) No

Q 20. Any input tax paid on purchase of goods or services by an assessee for employees is eligible?

- (a) No
- (b) Yes
- (c) Yes, on the services notified which are obligatory for an employer to provide to its employees under any law for the time being in force
- (d) Not applicable

Ans. (c) Yes, on the services notified which are obligatory for an employer to provide to its employees under any law for the time being in force

Q 21. A supplier of goods or services pays tax under section 74,129 and 130 (fraud, willful misstatement etc.). Receiver of goods can avail its credit:

- (a) Yes
- (b) No
- (c) Yes, after receipt of goods or services
- (d) Yes, after receipt of invoice for goods or services

Ans. (b) No

Q 22. An assessee obtains new registration, voluntary registration, change of scheme from composition to regular scheme and from exempted goods/services to taxable goods/services. It can avail credit on inputs lying in stock. What is the time limit for taking said credit

- (a) 1 year from the date of invoice
- (b) 3 year from the date of invoice
- (c) 5 year from the date of invoice
- (d) None of the above

Ans. (a) 1 year from the date of invoice

Q 23. Credit on Input services or capital goods held in stock can be availed in case of new Registration/Voluntary Registration

- (a) Yes
- (b) No
- (c) Yes on Input services only
- (d) Yes on capital goods only

Ans. (b) No

Q 24. In case of Compulsory registration, input tax credit can be availed on

- (a) on stocks held on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act, provided application for registration is filed within 30 days from the due date
- (b) on stocks held on the day immediately preceding the date of grant of registration under the provisions of this Act.
- (c) on stocks held on the day immediately preceding the date of application of registration under the provisions of this Act.
- (d) None of the above

Ans. (a) *on stocks held on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act, provided application for registration is filed within 30 days from the due date*

Q 25. In case of Voluntary registration input tax credit can be availed

- (a) on stocks held on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act
- (b) on stocks held on the day immediately preceding the date of grant of registration under the provisions of this Act.
- (c) on stocks held on the day immediately preceding the date of application of registration under the provisions of this Act.
- (d) None of the above

Ans. (b) *on stocks held on the day immediately preceding the date of grant of registration under the provisions of this Act.*

Q 26. Eligibility of credit on capital goods in case of change of scheme from Composition scheme to Regular scheme

- (a) Eligible during application for Regular scheme
- (b) Not eligible

- (c) Yes Immediately before the date from which he becomes liable to pay tax under the Regular scheme
- (d) None of the above

Ans. (c) *Yes Immediately before the date from which he becomes liable to pay tax under the Regular scheme*

Q 27. Can the unutilized input tax credit be transferred in case of change in constitution of business?

- (a) Not possible
- (b) No, it will be exhausted
- (c) Yes, It will be transferred only if there is provision for transfer of liabilities
- (d) It will be transferred only if it is shown in books of Accounts of transferor

Ans. (c) *Yes, It will be transferred only if there is provision for transfer of liabilities*

Q 28. Is Input tax fully restricted in case of switchover from taxable to exempt supplies

- (a) Yes
- (b) No
- (c) Proportionately restricted
- (d) Not restricted

Ans. (a) Yes

Q 29. Is Input tax to be paid in case of switchover from taxable to exempt supplies

- (a) Yes equivalent to the credit in respect of inputs held in stock (including semi-finished and finished) and on capital goods held in stock
- (b) No
- (c) Yes full credit
- (d) No should be debited to electronic credit ledger

Ans. (a) *Yes equivalent to the credit in respect of inputs held in stock (including semi-finished and finished) and on capital goods held in stock*

Q 30. Is Input tax to be reversed in case of supply of capital goods

- (a) Yes fully
- (b) No
- (c) Yes, to extent of credit taken as reduced by prescribed percentage or tax on transaction value whichever is higher
- (d) Yes to the extent of transaction value of such goods

Ans. (c) *Yes, to extent of credit taken as reduced by prescribed percentage or tax on transaction value whichever is higher*

Q 31. The time limit beyond which if goods are not returned, the inputs sent for job work shall be treated as supply

- (a) One year
- (b) Five years
- (c) Six months
- (d) Seven years

Ans. (a) *One year*

Q 32. The time limit beyond which if goods are not returned, the capital goods sent for job work shall be treated as supply

- (a) One year
- (b) Five years
- (c) Three Years
- (d) Seven years

Ans. (c) *Three Years*

Q 33. Principal entitled for input tax credit on inputs sent for job work

- (a) If goods sent are returned within one year
- (b) If goods sent are returned within three years
- (c) If goods sent are returned within six months
- (d) If goods sent are returned within nine months

Ans. (a) *If goods sent are returned within one year*

Q 34. Principal entitled for input tax credit on capital goods if sent for job work

- (a) If goods sent are returned within one year
- (b) If goods sent are returned within three years
- (c) If goods sent are returned within six months
- (d) If goods sent are returned within nine months

Ans. (b) *If goods sent are returned within three years*

Q 35. Is the principal entitled for credit of goods though he has not received the goods and has been sent to job worker directly by vendor

- (a) Yes

- (b) No
- (c) Yes vendor should be located in same place
- (d) None of the above

Ans. (a) Yes

Q 36. In case of ISD whether distributor and recipient should have same PAN

- (a) Yes
- (b) No
- (c) Yes if in same state and different in other state
- (d) None of the above

Ans. (a) Yes

Q 37. Can the credit distributed by an ISD exceed the amount available for distribution

- (a) Yes
- (b) No
- (c) Partly correct
- (d) None of the above

Ans. (b) No

Q 38. If credit applicable to more than one recipient, then it shall be distributed

- (a) Equally
- (b) On Pro rata basis to the aggregate turnover of such recipients
- (c) Proportionately
- (d) As per Adhoc Ratio

Ans. (b) *On Pro rata basis to the aggregate turnover of such recipients*

Q 39. The credit attributable to a particular recipient shall be distributed to

- (a) Only to that recipient
- (b) To all the recipients
- (c) To few recipients
- (d) None of the recipients

Ans. (a) *Only to that recipient*

Q 40. A person is entitled to take credit of input tax as self-assessed in the return and credited to Electronic credit ledger on

- (a) Final basis
- (b) Provisional basis
- (c) Partly Provisional and partly final basis
- (d) None of the above

Ans. (b) *Provisional basis*

Q 41. Provisional Input tax credit can be utilized against

- (a) Any Tax liability
- (b) Self-Assessed output Tax liability
- (c) Interest and Penalty
- (d) Fine

Ans. (b) *Self Assessed output Tax liability*

Q 42. Matching of Input Tax credit on inward supply by recipient is undertaken with

- (a) Monthly return filed by the supplier
- (b) Outward supply filed by the supplier
- (c) Invoices maintained by the supplier
- (d) None of the above

Ans. (b) *Outward supply filed by the supplier*

Q 43. Is it mandatory that the tax on the supply has to be paid by the supplier so that the recipient can claim credit?

- (a) No
- (b) Yes
- (c) Optional
- (d) Not Applicable

Ans. (b) *Yes*

Q 44. If there is Mis-match of supplier's outward supply and recipient's claim for Input Tax credit on the same transaction

- (a) It shall be added as output tax liability in the hands of receiver.

- (b) It shall be reduced as output tax liability in the hands of receiver
- (c) It shall be increased as input tax credit in the hands of receiver
- (d) It shall be decreased as input tax credit in the hands of supplier

Ans. (a) *It shall be added as output tax liability in the hands of receiver.*

Q 45. Input Tax credit as credited in Electronic Credit ledger can be utilized for

- (a) Payment of Interest
- (b) Payment of penalty
- (c) Payment of Fine
- (d) Payment of Taxes

Ans (d) *Payment of Taxes*