

# INPUT TAX CREDIT UNDER GST REGIME

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Input Tax Credit can be said to be one of the key element of the entire Goods and Service Tax (GST) framework with one of the major USPs i.e. seamless flow of credit in the entire GST chain. The present indirect taxation system suffers with cascading tax effect due to non-availability of credit at various points in the supply chain. However, under the GST regime, credit of GST is expected to be available at every stage in the entire supply chain. This article focuses on basic concepts and framework of Input Tax Credit under GST regime.

- **Input** –Any goods other than capital goods used/intended to be used by a supplier for business purpose
- **Input Service** – Any service used/intended to be used by a supplier for business purpose
- **Input Tax** – IGST/CGST/SGST/UGST charged on supply of goods/services to a person and includes tax payable on imports and under reverse charge mechanism but excludes tax paid under composition scheme
- **Capital Goods** – capital goods mean goods, the value of which is capitalised in the books of accounts of the person claiming the credit and which are used/intended to be used for business purpose
  
- **Conditions for Credit allowability**  
Input Tax Credit can be availed only if:
  - ✓ Such person possesses Tax Invoice, Debit note, Bill of Entry, ISD Invoice, or Invoice issued by service recipient under Reverse charge mechanism
  - ✓ Prescribed particulars are mentioned on the Invoice and the recipient furnishes relevant information in Form GSTR-2
  - ✓ Goods/Services have been received by such person
  - ✓ Tax charged in respect to such supply has been actually paid to the Government
  - ✓ Return has been furnished
  
- **Blocked Credits**  
Input Tax Credit **shall not be available** in respect of the following:
  - motor vehicles and other conveyances, except when they are used for providing the taxable supplies of further supply of vehicles/conveyances, transportation of passengers/goods, or imparting training on driving, flying, navigating such vehicles/conveyances;

- goods/services provided in relation to food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery except when used for providing similar taxable supplies
  - membership of club, health and fitness center;
  - Rent-a-cab, life insurance, health insurance (except where mandated by Government), except when they are used for providing similar services;
  - Travel benefits extended to employees on vacation
  - Works contract services supplied for construction of immovable property, other than plant and machinery, except when used for similar service;
  - goods/services received for construction of immovable property (excluding plant & machinery) on own account
  - goods/services on which tax has been paid under Composition scheme;
  - goods/services received by a non-resident taxable person except on goods imported by him
  - goods/services used for personal consumption
  - goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples
  - any tax not paid/credit wrongly availed by reasons of fraud/willful misstatement/suppression, etc.
- **Credit Disallowance on non-payment**  
If a recipient fails to pay to the supplier of goods/services (other than supplies taxable under reverse charge mechanism), the amount towards value of supply along tax payable thereon within a period of 180 days from the date of issue of invoice, the availed input tax credit shall be added to the output tax liability of such recipient. Interest shall be liable to be paid from the date of availing credit till the reversal.

Such credit can be availed on payment made later towards the value of supply of goods/services and tax thereon.

### **Credit Restriction**

- Input Tax Credit of goods/services attributable to only supplies effected for business purpose can be availed. Where goods/services are used partly for effecting taxable supplies and partly for effecting exempt supplies, or party used for business and partly for other purposes, the amount of credit shall be restricted as specified in Rule 7 of Input Tax Credit Rules:

#### **Total Input Tax**

Less: Input Tax on inputs/input services used exclusively for non-business/exempt purposes or where credit not allowed specifically

Less: Input Tax Input Tax on inputs and input services used exclusively for taxable supplies including zero rated supplies(T)

#### **Common Input Tax Credit**

Less: Input Tax Credit attributable to exempt/non-business supplies

**Eligible Common Input Tax Credit(C)**

## Eligible Total Input Tax Credit = T+ C

### Credit on Capital Goods

- Input Tax Credit on capital goods used exclusively for effecting taxable/zero rated supplies shall be available
- Credit on common capital goods used partly for business and partly for other purposes or partly for effecting taxable supplies and partly for non-taxable/exempt supplies shall be calculated as specified in Rule 8 of Input Tax Credit Rules
- A banking company/financial institution shall have option to comply with aforesaid provisions or to avail 50% of eligible input tax credit in that month, with the balance being lapsed. This option once exercised cannot be withdrawn during the same financial year.
- Where depreciation is claimed on the tax component of the cost of capital goods under the provisions of the Income Tax Act, 1961, the input tax credit shall not be allowed on the said tax component

### Credit of input tax in stocks/capital goods on new registrations, etc.

S. N.	Eligible persons	Credit entitled	As on	Restriction/conditions
1	Person applied for registration within 30 days from the date of liability to pay tax and registered	Inputs held in stock and inputs contained in semi-finished or finished goods held in stock	The day immediately preceding the date from which he becomes liable to pay tax	<input type="checkbox"/> Cannot avail credit of goods and / or services after 1 year from tax invoice date  The amount of credit calculated in the manner prescribed in Input Tax Credit rules  Credit on capital goods shall be <b>reduced by five percent per quarter or part thereof</b> from the
2	Person applied for registration after 30 days from the date of liability to pay tax	Nil	NA	
3	Person who is not required to register, but obtains voluntary registration	Inputs held in stock and inputs contained in semi-finished or finished goods	The day immediately preceding the date of grant of registration	
4	Switching over from composition scheme to regular taxation or where exempt supply becomes taxable	Inputs held in stock and inputs contained in semi-finished or finished goods and <b>on the capital goods</b>	The day immediately preceding the date of switchover or when supplies become taxable	

				date of invoice/other relevant document
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### **Time Limit of availing Credit**

- Input tax credit in respect of any invoice/debit note for supply of goods/services, shall not be available after the due date of filing of the return for the month of September following the end of financial year to which such invoice pertains or relevant annual return, whichever is earlier
- However, in cases of credit in special circumstances on inputs in stock, credit shall not be available after the expiry of one year from the date of issue of tax invoice

### **Procedure for claiming credit of inputs in stocks/capital goods**

- A declaration in Form GST ITC-01 shall be made by the registered person within thirty days of from the date of credit entitlement
- Details of inputs and capital goods on which credit is being availed to be specified
- Details shall be duly certified by a practicing Chartered Accountant or Cost Accountant if the aggregate credit claim exceeds Rs.2 lakhs
- Input Tax Credit claimed by the person in specified cases shall be verified with corresponding details furnished in the supplier's outward supply return

### **Credit Reversal under Special Circumstances**

In specified cases where Input Tax Credit is required to be reversed, the same shall be calculated as below:

- For inputs in stock, the input tax credit reversal amount shall be calculated proportionately on the basis of corresponding invoices on which credit had been availed
- Where aforesaid tax invoices are not available, credit reversal amount shall be based on the prevailing market price of the goods on the date of relevant event, based on which reversal is required.
- For capital goods, the input tax credit involved in the remaining residual life in months shall be computed on pro-rata basis, taking the residual life as five years

**Illustration** - Capital goods have been in use for 4 years, 6 month and 15 days.  
The residual remaining life in months= 5 months (60 – 55 months) ignoring a part of the month

Input tax credit taken on such capital goods = 12000

Input tax credit attributable to remaining residual life=  $12000 \times \frac{5}{60} = 1000$

## **Conclusion**

The mal practices of fake bills, CENVAT / VAT being made to one by way of only billing and supply to another in cash would certainly be curbed. We have seen lot of litigation pertaining to eligibility/ availability of Cenvat Credit with a large proportion in Rule 6 reversals.

We were expecting a seamless credit mechanism under proposed GST regime. However, the carry forward / presence of blocked credits goes against the principle of having a seamless GST credit scenario.

Nevertheless, with the rough edges being fairly dealt with and the expectation of limited exemptions coupled with entire credit mechanism to be system driven along with real time matching through the GSTN, it is hoped that the GST regime would simplify the entire credit availment process curbing future litigations.

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- Indirect Taxes Committee