
INPUT TAX CREDIT

PROCESS



SALIENT FEATURES OF INPUT TAX CREDIT

- The registered person shall be entitled to take credit of goods, services or both which are used in the course of or furtherance of business.
- The input tax credit amount shall be credited to the Electronic Credit ledger account of such person.
- The manner of utilization of input tax credit for making payment of output tax payable are allowed in the order described below:

Input Tax	Utilization		
	IGST	CGST	SGST/UTGST
IGST	IGST	CGST	SGST/UTGST
CGST	CGST	IGST	-
SGST	SGST	IGST	-
UTGST	UTGST	IGST	-

CONDITIONS FOR CREDIT ALLOWABILITY

- The registered person must be in **possession with tax paying documents** i.e. tax invoice , debit notes , bill of entry , ISD invoice or invoice issued by the service recipient under reverse charge mechanism.
- The prescribed particulars are mentioned on the invoice and the recipient furnishes relevant information in **FORM GSTR-2**
- He must be in **receipts of the goods / services** or both
- The **tax charged is actually paid** to the government, either in cash or through utilization of Input tax credit admissible in respect of such supply
- The **GSTR-3 return** must have been furnished
- If depreciation is claimed on the **tax component of the Capital good and plant and machinery** under the provisions of Income tax Act then the income tax credit on the said component shall not be allowed
- If the goods are received in lots or installments, then the registered person shall be entitled to take credit upon the receipt of the last lot or installments

CREDIT DISALLOWANCE ON NON PAYMENT

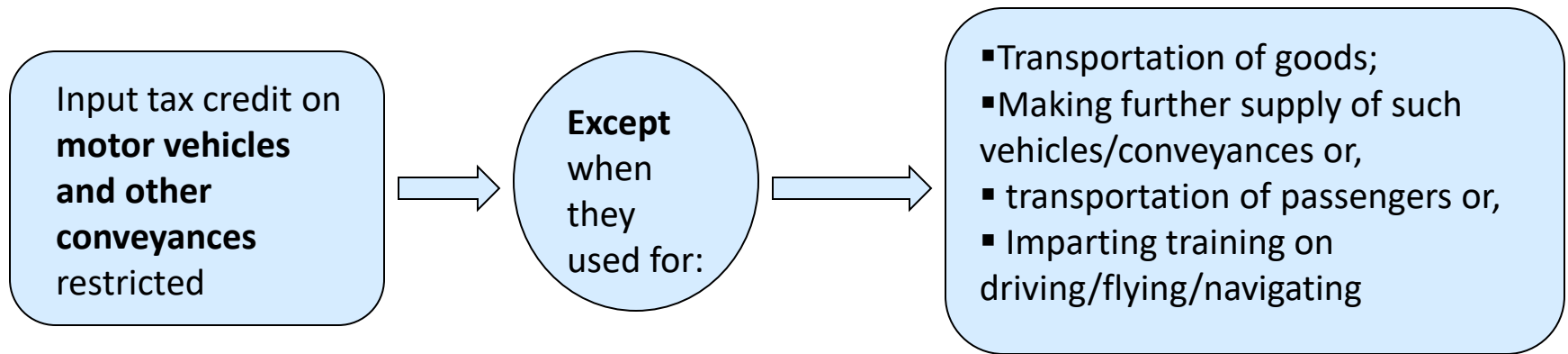
A registered person , who has availed of input tax credit on any inward supply of goods/ services or both , but fails to pay to the supplier the value of such supply along with the tax payable thereon **within a period of 180 days** from the date of issue of invoice by the supplier, shall furnish the details of such supply and the amount of input tax credit availed of in **FORM GSTR-2** for the month **immediately following the period of 180 days from the date issue of invoice.**

The amount of such input tax credit shall be **added back to the output tax liability** of the registered person for the month in which the details are furnished along with interest thereon.

TIME LIMIT OF AVAILING CREDIT

- The registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both **after the due date of furnishing of the return for the month of September following the end of the FY to which such invoice pertains or furnishing of the 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.

➤ Motor vehicles :



- Goods / services or both on which tax has been paid under composition scheme
- Goods/services or both received by a non resident taxable person except when imported
- Goods/services or both used for personal consumptions
- Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples
- Any taxes paid for erroneous refund, wrong availment of credit, detention , seizures, confiscation of goods and services

RESTRICTION ON INPUT TAX CREDIT

- **Works Contract and Construction of Immovable property :**
 - Works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract
 - Goods / services or both when received by a taxable person for construction (includes re construction, renovation, alterations, repairs to the extent of capitalization) of an immovable property (other than plant and machinery) on his own account including when such goods and services or both are used in the course or furtherance of business.

Note:

“Plant and Machinery” means any apparatus, equipment and machinery fixed to the earth by foundation or structural support that are used for making outward supplies of goods or services or both and includes such foundation and structural supports but **excludes:**

- Land, Building or any other civil structures;
- Telecommunications towers and
- Pipelines laid outside the factory premises.

RESTRICTION ON INPUT TAX CREDIT

➤ The following supply of goods/services or both :

Allowed ONLY if such supply of goods or services or both as listed below are used for making outward supply of the same category

Foods and beverages

Outdoor catering

Beauty treatment

Health services

Cosmetic/ plastic surgery

Allowed ONLY if where the services are notified as obligatory for an employer to provide an employee under any law

Rent a cab

Life insurance

Health insurance

Never allowed

Membership of a club

Health and fitness center

Travel benefits extended to employees on vacation

PROPORTIONATE CREDIT ON INPUTS

When the goods/services are used for partly business and partly for non business purpose or partly for taxable/ exempt supplies then input tax credit to be allowed only for business purpose or partly for taxable supplies in the following manner:

The **total input tax** available be denoted as “**T**”

The amount of input tax used exclusively **for non business purpose** “**T₁**”

The amount of input tax used exclusively **for exempt supplies** “**T₂**”

The amount of input tax used exclusively **for supplies on which credit not admissible** “**T₃**”

The amount of input tax credited to the electronic credit ledger be “**C₁**”

$$\text{where, } C_1 = T - (T_1 + T_2 + T_3)$$

The input tax credit attributable to inputs and input services used exclusively for taxable supplies including zero rated supplies be “**T₄**” #

The common credit attributable be denoted as “**C₂**”

$$\text{where, } C_2 = (C_1 - T_4)$$

Note:

The amount of input tax relating to inputs or inputs services which have been used partly for purposes other than business and partly for effecting exempt supplies has been identified and segregated at invoice level by the registered person, the same shall be included in **T₁** and **T₂** and the remaining amount of such credit to be added to **T₄**

PROPORTIONATE CREDITS ON INPUTS

Then the amount of input tax credit attributable towards exempt supplies be denoted as “ D_1 ” and calculated as:

$$D_1 = (E/F) * C_2$$

Where, “ E ” is the aggregate value of exempt supplies

“ F ” is the total turnover of the registered person during the tax period

The amount of credit attributable to non business purposes from the common inputs be denoted as “ D_2 ” and shall be equal to 5% of C_2

Then , the leftover common credit i.e.,

$C_3 = C_2 - (D_1 + D_2)$ be the amount attributed for the business effecting taxable supplies.

Note:

- ✓ the amount C_3 shall be calculated separately for input tax credit of central tax, state tax, union territory and integrated tax
- ✓ the amount D_1 and D_2 shall be added to the output tax liability of the registered person

PROPORTIONATE CREDITS ON CAPITAL GOODS

The input tax credit in respect of capital goods , being partly used for the purpose of business and partly for other purposes and used for effecting taxable supplies and exempt supplies shall be attributed for the purposes of business or for effecting taxable supplies in the following manner:

The amount of the input tax for capital goods other than those used exclusively for non business purpose/ exempt supplies/ taxable supplies including zero rated supplies be denoted as “**A**” and the useful life of such goods be taken as 5 years.

The common credit for a tax period be “**T_c**”

where, **T_c**= the aggregate of the amount of **A**

The amount of tax credit attributable on common capital goods during their residual life be “**T_M**”

where , **T_M** = **T_c/60**

The amount of the input tax credit, at the beginning of a tax period, on all common capital goods whose residual life remains during the tax period, be denoted as “**T_R**”

where, **T_R**= aggregate of **T_M** of all such capital goods

PROPORTIONATE CREDITS ON CAPITAL GOODS

The amount of common credit attributable towards exempted supplies, be denoted as “ T_E ”
where, $T_E = (E/F) * T_R$

Where, “ E ” is the aggregate value of exempt supplies
and “ F ” is the total turnover of the registered person

NOTE:

- ✓ Where the registered person does not have any turnover during the said tax period , then the value of E/F shall be calculated by taking the values of the last tax period for which details of such turnover are available
- ✓ The amount of T_E along with applicable interest shall be added to the output tax liability of the person making such claim of credit
- ✓ The amount of T_E shall be computed separately for central tax/ state tax/ integrated tax and union territory

- A banking or financial institution, including NBFC's engaged in supply of services by way of accepting deposits or extending loans and advances has option :
 - to either distinguish between the taxable and exempt supplies and claim credit of the taxable supplies as per section 17(2) or,
 - avail of , every month , an amount equal to 50% of the eligible input tax credit on inputs , capital goods and Input services in that month .

- In case the banking company opts to avail credit equal to 50% of the eligible input tax credit then the following procedure needs to be followed:

The credit of taxes paid on input/ input services used for non business purposes and the items on which the credit is restricted shall not be allowed

50% of the remaining credit shall be the input tax credit admissible to the company and credited to the electronic credit ledger

The restriction of 50 % shall not be applicable on supplies between business verticals under the same PAN

ELIGIBILITY OF CREDIT IN SPECIAL CIRCUMSTANCES

Eligible person	Credit entitled	As on	Conditions
Person applied for registration within 30 days from the date on which he is liable to register	Inputs held in stock and semi finished / finished goods held in stock	The day immediately preceding the date on which he becomes taxable	Cannot avail credit of goods and /or services after 1 year from tax invoice date
Person who is not required to register, but obtains voluntary registration		The day immediately preceding the date of voluntary registration	Cannot avail credit of goods and /or services after 1 year from tax invoice date
Persons ceases to pay composition tax	Inputs held in stock and semi finished / finished goods held in stock and on capital goods	The day immediately preceding the date from which he becomes liable to pay tax under regular scheme	Capital goods credit I reduced by certain percentage
Exempt supplies becomes taxable		The day immediately preceding the date from which supply becomes taxable	* The manner of calculation as specified in the rules to be followed

- The input tax credit on capital goods shall be claimed after reducing the tax paid on such capital goods by **5% points per quarter** of a year or part thereof from the date of invoice
- A declaration in **FORM GST ITC-01** shall be made by the registered person within 30 days of from the date of credit entitlement
- The declaration shall specify the details relating to inputs lying in stock or inputs contained in semi finished or finished goods or as the case may be capital goods.
- The declaration so furnished along with details of the stock shall be duly certified by a practicing Chartered accountant or cost accountant , if the aggregate value of claims **exceed Rs.2 lakhs.**
- In cases where the person ceases to pay tax under composition scheme or where the registered person switches from exempt supplies to taxable supplies the input tax credit shall be verified with the corresponding details furnished by the corresponding supplier outward return i.e. in **FORM GSTR-01/04** on the common portal.

TRANSFER OF CREDIT ON SALE/MERGER

- ✓ A registered person shall , on account of sale, merger, demerger, amalgamation, lease or transfer or change in ownership of business with the specific provisions for transfer of liabilities shall be allowed to transfer the input tax credit which remains unutilized in his electronic credit ledger to such sold, merger, demerged, amalgamated, leased or transferred business
- ✓ A registered person shall furnish details in **FORM GST ITC-02** electronically on the common portal along with a request to transfer the unutilized input tax credit lying in his electronic credit ledger to the transferee
- ✓ In case of demerger, the input tax credit shall be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme
- ✓ The transferee shall **submit a copy of certificate duly** issued by a practicing Chartered accountant or cost accountant
- ✓ The transferee shall , on the common portal accept the details so furnished by the transferor and upon acceptance the unutilized credit specified in **FORM GST ITC -02** shall be credited to his Electronic credit ledger
- ✓ The inputs and capital goods so transferred shall be duly accounted for by the transferee in his books of accounts.

CREDIT REVERSAL UNDER SPECIAL CIRCUMTANCES

- In case any registered person who has availed of input tax credit opts to pay tax under composition scheme or when the goods/services supplied become wholly exempt he shall debit the electronic cash/credit ledger equal to the amount of credit utilized in respect of the inputs held in stock/ semi finished/ finished goods or capital goods in the manner so prescribed
- 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 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 residual life as 5 years**
- Illustration: in case capital goods have been used for 4 years, 6 months 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 = $12000 \times \frac{5}{60} = 1000$.

- The principal shall, subject to such conditions and restrictions be allowed input tax credit on inputs/capital goods sent to a job worker for job work
- The inputs/ capital goods shall be sent to the job worker under **the cover of a challan** issued by the principal, including where the inputs/capital goods are sent directly to job worker
- The principal shall be entitled to take credit of input tax on inputs and capital goods even if the inputs and capital goods are directly sent to a job worker for job work without being first bought to his place of business
- Where the inputs/ capital goods sent for job work are not received back by the principal after completion of job work or otherwise or not supplied from the place of business of the job worker within one year/ three years respectively of being sent out, it shall be deemed that such inputs/capital goods had been supplied by the principal to the job worker on the day when the said inputs/ capital goods were sent out
- The details of challan in respect of goods dispatched to a job worker or received from a job worker during a tax period shall be included in **FORM GSTR-01**
- The challan issued shall be deemed to be an invoice in case the inputs/ capital goods are not returned to the principal within the stipulated time

DISTRIBUTION OF CREDIT BY ISD

- The Input Service Distributor shall distribute credit of integrated tax as integrated tax to every recipient
- The input tax credit on account of Central / State tax shall :
 - In respect of a recipient and ISD located in **same state**, be distributed as input tax credit of Central/ State tax respectively
 - In respect of a recipient and ISD located in **different state** , be distributed as integrated tax and the amount so distributed shall be equal to the aggregate of the amount of input tax credit of central tax/ state tax that qualifies for distribution
- Credit shall be distributed to the recipients of credits **against ISD invoice** which clearly indicates that is issued only for distribution of Input Tax Credit
- The amount of credit distributed shall not exceed the amount of the credit available for distribution
- The credit of tax paid on input services attributable to a recipient of credit shall be distributed to that recipient only
- The ITC available for distribution in a month shall be distributed in the same month and the details thereof shall be furnished in **FORM GSTR-06**

DISTRIBUTION OF CREDIT BY ISD

- In case the credit of the tax paid is attributable to more than one recipient or all of the recipients the credit shall be distributed amongst such recipients to whom the input service is attributable and such distribution shall be on pro rata basis
- The manner of calculation of distribution of credit on **pro rata basis** is as follows:
- The input tax credit that 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 recipients who are engaged in making exempt supply, shall be the amount, "**C₁**" to be calculated as

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

"**C**" - is the amount of credit to be distributed

"**t₁**" - is the turnover of person R₁ during the relevant period and

"**T**" - is the aggregate of the turnover of all recipients during the relevant period



 **THANK
YOU**