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on
Input Tax Credit

1. What is Input Tax Credit under GST?

GST is a value added tax where the tax paid by a supplier on all goods or services procured for further supply of goods or services by him shall be available as input tax credit (ITC), which shall be used to pay the GST collected on goods or services supplied by him. The difference between the GST collected and the ITC shall be paid in cash. ITC is defined to mean CGST, SGST and IGST paid including tax paid under reverse charge on supplies received by a tax payer.

2. What are the conditions to be satisfied to claim input tax credit?

In general, ITC can be claimed by a registered tax payer on GST paid on all goods or services procured for use or intended to be used in the course or furtherance of business. The amount claimed shall be credited to the electronic credit ledger maintained in GST portal upon satisfaction of the following conditions;

- a) The registered tax payer claiming ITC should be in possession of tax invoice, debit note issued by supplier or such other documents as may be prescribed.
- b) He should have received the goods or services. In case the goods are received in lots or instalments, ITC can be claimed only upon the receipt of last lot or instalment
- c) He has furnished the return under section 39 i.e. GSTR3/GSTR3B
- d) The amount claimed as ITC shall be allowed on provisional basis to the tax payer which shall be finalised upon the corresponding supplier declaring this supply as his outward supply in his return (GSTR-1) and paid the respective tax amount

3. What are the documents on the basis of which ITC can be claimed?

Apart from invoice and debit notes, the other documents on the basis of which ITC can be claimed are bill of entry to claim IGST paid on import of goods, invoice issued by recipient to supplier under section 31(3)(f) for supplies covered under reverse charge and invoice issued by an input service distributor.

4. What is the time limit claim ITC on an invoice?

The ITC relating to invoices dated in a particular financial year(FY) can be claimed on or before the due date for filing GSTR-3 for the month of September of succeeding FY (i.e. 20th October) or before furnishing the annual return (due by 31st Dec of succeeding FY) whichever is earlier.

5. What are the supplies on which input tax credit cannot be availed?

Section 17(5) provides list of supplies on which input tax credit cannot be availed. These include the following;

- a) Motor vehicles except when used for further supply of such vehicles, transport of goods or passengers or imparting driving skills.
- b) Food, beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery services except when used to provide similar outward supply
- c) Membership of club, health and fitness centre
- d) Travel benefits extended to employees on vacation such as leave or home travel concession
- e) Rent-a-cab, life insurance services except when used to provide outward supply or Government notified such services are obligatory for employer to provide to his employees under any law.



- f) Works contracts except when used to supply similar works contract outward supplies and towards plant and machinery
- g) Goods or services received for construction of immovable property other than plant and machinery
- h) Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples

6. Can GST paid under reverse charge be availed as ITC? If yes, at what point of time?

Yes. GST paid on inward supplies attracting reverse charge shall be claimed as ITC for the month in which such inwards supplies are received. Eg: XYZ Ltd has received legal services from an Advocate vide invoice dated 20.08.2017. The payment has also been made on 25.08.2017. XYZ Ltd is required to pay GST under reverse charge on or before filing GSTR-3/3B (i.e. on or before 20th of September). The GST paid can be claimed as ITC in the month of August and can be used for set-off against GST payable on outward supplies of August month.

7. What is the manner in which the availed ITC can be used in payment of GST on outward supplies?

ITC is required to be claimed separately for CGST, SGST and IGST. Such accumulated ITC can be used for payment of GST on outwards supplies in the following sequential manner;

- a) CGST credit can be used for payment of CGST and balance if any shall be used for payment of IGST
- b) SGST credit can be used for payment of SGST and balance if any shall be used for payment of IGST
- c) IGST credit can be used for payment of IGST, the balance if any shall be used for payment of CGST and SGST in that order
- d) CGST credit cannot be used for payment of SGST and vice-versa

It is important to note that credit accumulated on one taxable business can be used for payment of GST on other taxable business.

8. Are there any other conditions to be satisfied in claiming ITC on Capital Goods? Can credit relating to capital goods be claimed in the same financial year?

Capital goods under GST are defined to mean goods the value of which is capitalised in the books of account of the person claiming ITC and which are used or intended to be used in the course or furtherance of business. Full ITC can be claimed in the same financial year in which the said goods are procured. However, no depreciation under income tax shall be claimed on GST paid on these goods.

9. Are there any restrictions in availing ITC if goods or services received are used partly for taxable supplies and partly for exempt supplies and other purposes?

ITC shall not be claimed on goods or services exclusively used for exempt supplies and those used for non-business purposes. In case where ITC is claimed on goods or services commonly used for undertaking both taxable and exempt supplies, then portion of ITC claimed as attributable to the turnover of exempt supplies shall be foregone.



10. What is the concept of Input Service Distributor?

ISD is an office of the person engaged in supply of goods or services or both which receives tax invoices towards input services received by various business establishments of such person and issues a prescribed document for distributing the credit of CGST, SGST and IGST. To act as ISD, the office of the person engaged in supply of goods or services shall be required to take registration as ISD in addition to registration that is required as taxable person. ISD may distribute the credit subject to the following documents;

- a) The amount of credit distributed shall not exceed the amount of credit available for distribution.
- b) The credit of tax paid on input services attributable to a recipient of credit shall be distributed only to that recipient
- c) The credit of tax paid on input services attributable to more than one recipient shall be distributed on pro-rata on the basis of turnover in a State of particular recipient during the relevant tax period to aggregate turnover of all such recipients located in different states to whom such input service is attributable, and which are operational in the current year during the relevant period.