

Advisory, Tax & Regulatory Services in India, Singapore & the US

GST – INPUT TAX CREDIT

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What is Input Tax Credit

Input Tax Credit means reducing the taxes paid on inputs from taxes to be paid on output.

- Output tax is a tax charged on sales
- Input tax is the tax paid on purchases

Explanation

- At the time of buying any product/availing any service, we pay tax on it.
- At the time of sale, we charge tax.
- Now we adjust input tax (Tax paid at the time of purchase) against output tax (Tax collected at the time of sale)
- After adjustment ITC we pay the balance liability of tax to the Govt.
- This Mechanism is called Utilization of ITC.

Manufacturer

Sale price	400
Add: IGST @ 18%	<u>72</u>
Total Price to be charged from Wholesaler	<u><u>472</u></u>

He will pay Rs. 72/- to government. Since he is a first stage dealer therefore he will not have benefit of ITC

Wholesaler

(Value Addition @ 20%)	
Sale price (400*120%)	480
Add: IGST @ 18%	<u>86</u>
Total Price to be charged from Retailer	<u><u>566</u></u>

He will pay Rs. 14/- (86-72) to government.

Retailer

(Value Addition @ 20%)	
Sale price (480*120%)	576
Add: IGST @ 18%	<u>104</u>
Total Price to be charged from Consumer	<u><u>680</u></u>

He will pay Rs. 18/- (104-86) to government.

Consumer

Ultimately Consumer will pay GST of Rs. 104/- (72+14+18)



Eligibility and Conditions for taking ITC

Enabling Sec 16

Eligibility

Every Registered person shall be entitled to take credit of goods or services which are used or intended to be used for business.

Time Limit

ITC must be claimed earlier of the following

- a) Furnishing of annual return or
- a) Due date of filing the monthly return for the next financial year's Sep month.

Eligibility and Conditions for taking ITC

Enabling Sec 16

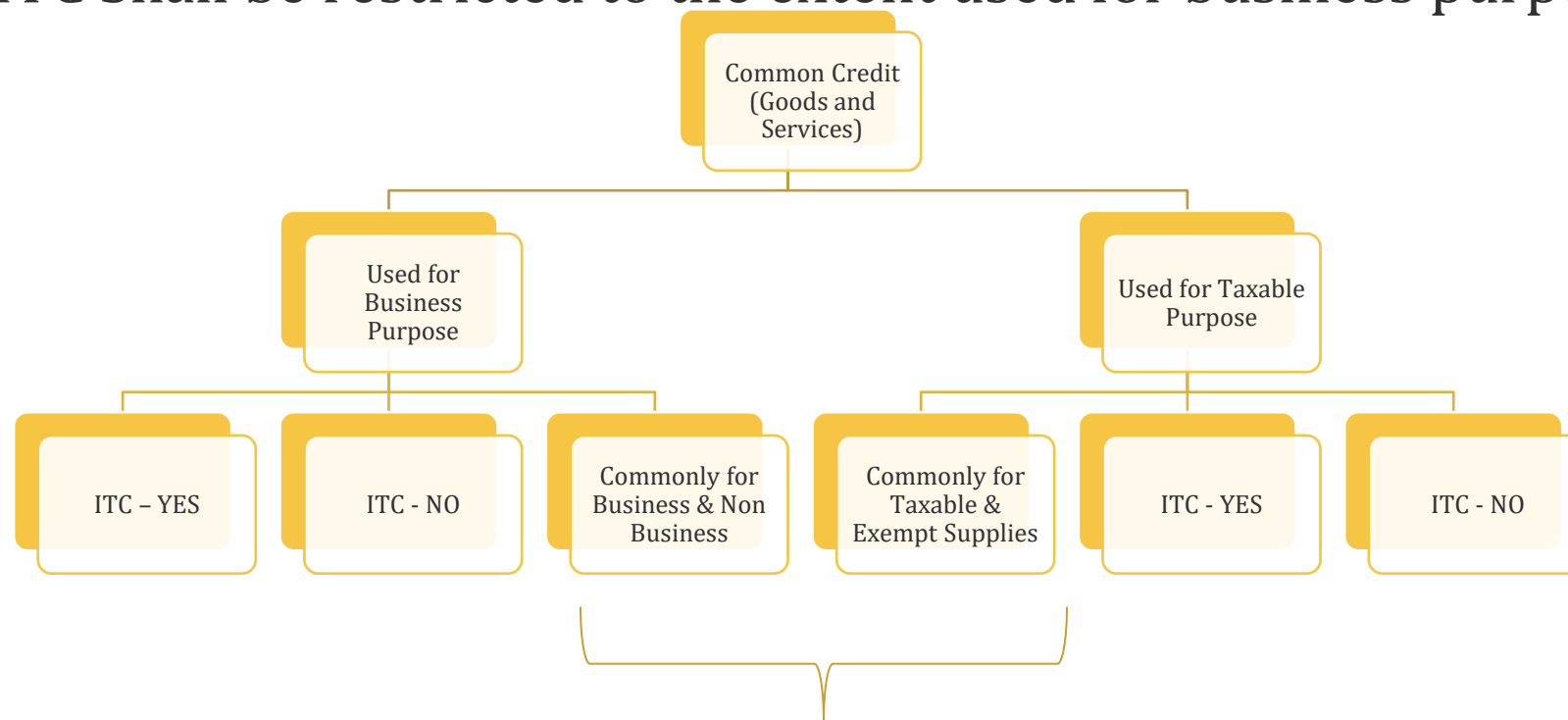
Conditions

1. One must be a registered taxable person.
2. One can claim Input Tax Credit only if the goods and services received is used for business purposes.
3. Input Tax Credit can be claimed on exports/zero-rated supplies and are taxable.
4. For a registered taxable person, if the constitution changes due to merger, sale or transfer of business, then the Input Tax Credit which is unused shall be transferred to the merged, sold or transferred business.
5. One can credit the Input Tax Credit in his Electronic Credit Ledger in a provisional manner on the common portal as prescribed in model GST law.
6. Supporting documents – debit note, tax invoice, supplementary invoice, are needed to claim the Input Tax Credit.
7. All GST returns prescribed under the act needs to be filed.

Apportionment of credit and blocked credits

Enabling Sec 17

When the goods or services are partly for – business purpose & Non business purpose, ITC Shall be restricted to the extent used for business purpose



On the basis of ratio of turnover attributable to common credit

Blocked Credits

There are some inputs/Input services/ Capital goods on which the credit is not allowed even if the same is used for the purposes of, or furtherance of business. They are as follows

1. Motor Vehicle

ITC for Motor Vehicle will not be available

Except
when used
for

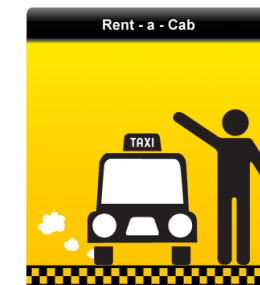
- Transportation of goods
- Making the following services
 1. Further supply of such vehicle/conveyance
 2. Transportation of Passengers
 3. Training for driving/flying/navigating such vehicles/conveyances



Blocked Credits

2. Supply of Goods and Services Such as

Membership Fees	ITC NEVER ALLOWED
Health and Fitness Centre	
Travel Benefits to Employees	
Life/Health Insurance	ALLOWED IF THE SERVICES ARE OBLIGATORY FOR EMPLOYER TO PROVIDE AN EMPLOYEE
Rent a Cab	



Blocked Credits

Food and Beverages	ALLOWED IF USED FOR PROVIDING SAME CATEGORY OF GOODS AND SERVICES AS AN ELEMENT OF TAXABLE COMPOSITE OR MIXED SUPPLY
Outdoor Catering	
Beauty Treatment	
Health Services	
Cosmetics and Plastic Surgery	



Blocked Credits

3. Works Contract

ITC Shall not be available for any work contract services. ITC for the construction of an Immovable Property cannot be availed, except where the input service is used for further work contract services.

For example, XYZ Contractors are constructing an immovable property. They cannot claim any ITC on the works contract. However, XYZ hires ABC Contractors for a portion of the works contract. XYZ can claim ITC on the GST charged by ABC Contractors.

4. Constructing an Immovable property on own account

No ITC is available for goods/services for construction of an immovable property on his own account. Even if such goods/services are used in the course or furtherance of business, ITC will not be available.

But this rule does not apply to plant or machinery. ITC is available on inputs used to manufacture plant and machinery for own use.

Example-

Ajay Steel Industries constructs an office building for its headquarters. ITC will not be available.

Ajay Steel Industries also constructs a blast furnace to manufacture steel. ITC is available since it is a plant.

Blocked Credits

5. Composition Scheme

No ITC would be available to the person who has made the payment of tax under composition scheme in GST law.

6. No ITC for Non Residents

ITC cannot be availed on goods/services received by a non-resident taxable person. ITC is only available on any goods imported by him.

7. No ITC for Personal Use

No ITC will be available for the goods/ services used for personal purposed and not for business purposes.

8. Free Samples and Destroyed Goods

No ITC is available for goods lost, stolen, destroyed, written off or given off as gift or free samples.

Manner of distribution of credit by ISD

Enabling Sec 20

A Centralized office which takes input services for the organization as whole & then distribute ITC among its branches

How it is distributed – Through ISD Invoice

Conditions for distributing ITC

If the ITC is attributable to –

1. Single Recipient then distributed only to that recipient.
2. More than 1 recipient then distribute in PRO Rata Basis
3. All the recipient then ITC distributed on PRO Rata basis on the basis of turnover.

Manner of Distribution of Credit by Input service Distributor (ISD)

Inter-State Transfer	
Head Office (ISD) can transfer	Branch Office (Tax Payer)
CGST	IGST
IGST	IGST
SGST	IGST

Manner of Distribution of Credit by Input service Distributor (ISD)

Intra-State Transfer	
Head Office (ISD) can transfer	Branch Office (Tax Payer)
CGST	CGST
IGST	CGST, SGST
SGST	SGST

Manner of recovery of credit distributed in excess

Enabling Sec 21

Where the Input Service Distributor distributes the credit in contravention of the provisions contained in section 20 resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from such recipients along with 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.

Other Relevant Points



2. GST Set off Rules

Credit of	To be utilized first payment of	To be utilized further payment of
IGST	IGST	CGST, then SGST/UTGST
CGST	IGST	CGST
SGST/UTGST	IGST	SGST/UTGST

3. For advance payment, the supplier is required to pay tax on such advance receipt but in case of the recipient, he can avail the ITC only when tax invoice is issued and goods/services are received.

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