

GST - Input Tax Credit

by
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May 20, 2017
at
ICAI, Cuffe Parade

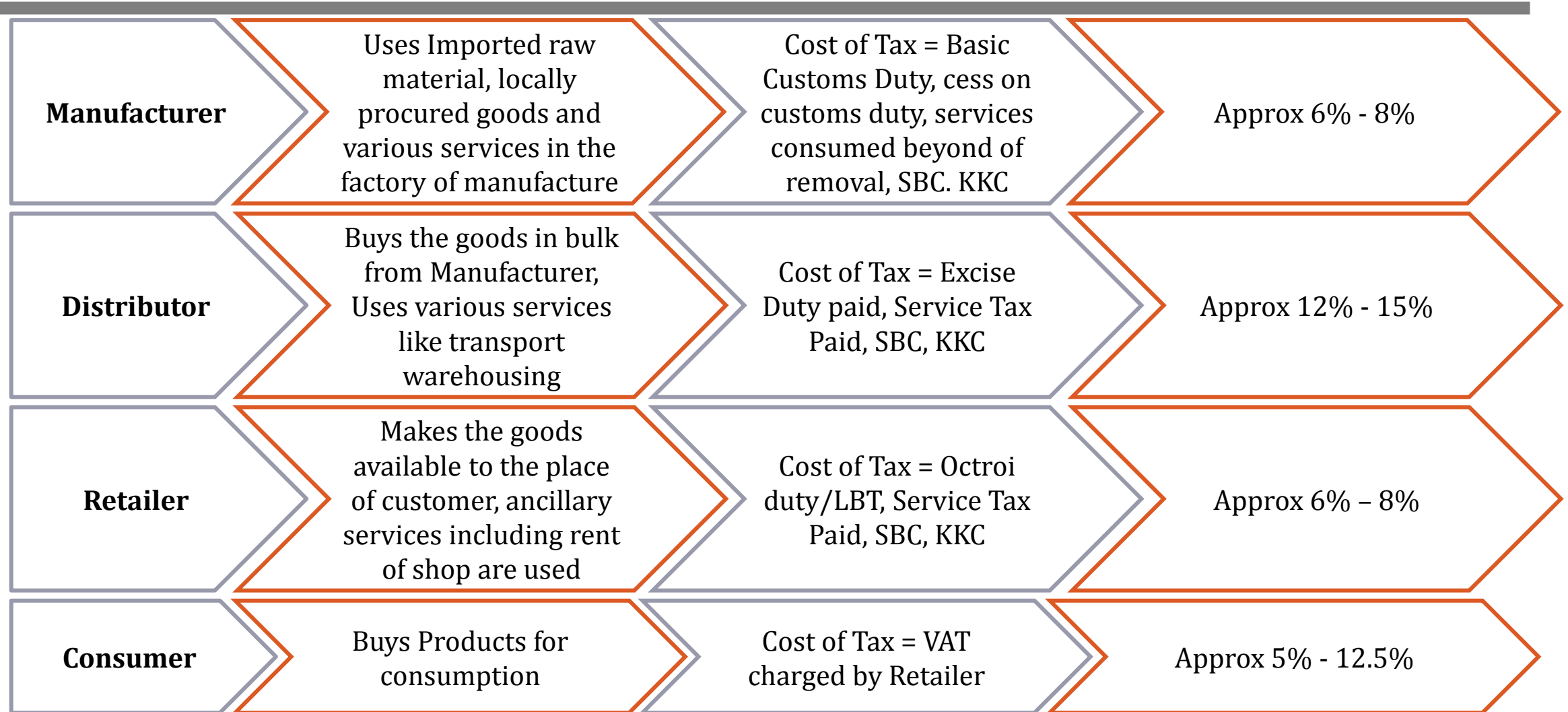


Agenda for the day

- Provisions of Input Tax Credit
- Concept of Input Service Distributor
- Transitional provisions relating to Input Tax Credit
- Documentation under GST
- Refunds under GST



Maze of Taxes resulting in “COST OF TAX”



Meaning of Input Tax Credit

- ❑ Input Tax means the credit of Central tax, State tax, Integrated tax or Union territory tax charged on any supply of goods or services or both made to him.
- ❑ Credits eligible on
 - ❑ Inputs
 - ❑ Capital Goods
 - ❑ Input Services

Basic Definitions

Section	Particulars	Meaning
2(59) of CGST Act, 2017	Inputs	Input means any goods other than Capital Goods used or intended to be used by a supplier in the course or furtherance of business
2(19) of CGST Act, 2017	Capital Goods	Capital Goods means goods, the value of which is capitalized in the books of account of the person claiming input tax credit and which are used or intended to be used in the course or furtherance of business
2(60) of CGST Act, 2017	Input Services	Input Service means any service used or intended to be used by supplier in the course or furtherance of business

Electronic Credit Ledger

- ❑ Input Tax Credit in the form of Electronic Credit Ledger can be visualized as a pass-book system.
 - ❑ Any eligible tax on Input/Capital Goods/Input Services will accumulate in Electronic Ledger Balance (**Availment**)
 - ❑ This balance will be periodically used for payment of taxes (**Utilization**)
 - ❑ In case credit is higher than tax liability, the same shall be carried forward without any lapse



Conditions for claim of Credit

Important Conditions to be complied

Eligibility of Credit

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graph TD; A[Eligibility of Credit] --- B[Tax Invoice/Document should be in possession of the Assessee]; A --- C[He should receive the goods or services]; A --- D[Tax should be paid by the supplier to the Government]; A --- E[Return has been filed]; A --- F[Payment has to be made within 180 days from Invoice];
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Tax Invoice/Document should be in possession of the Assessee

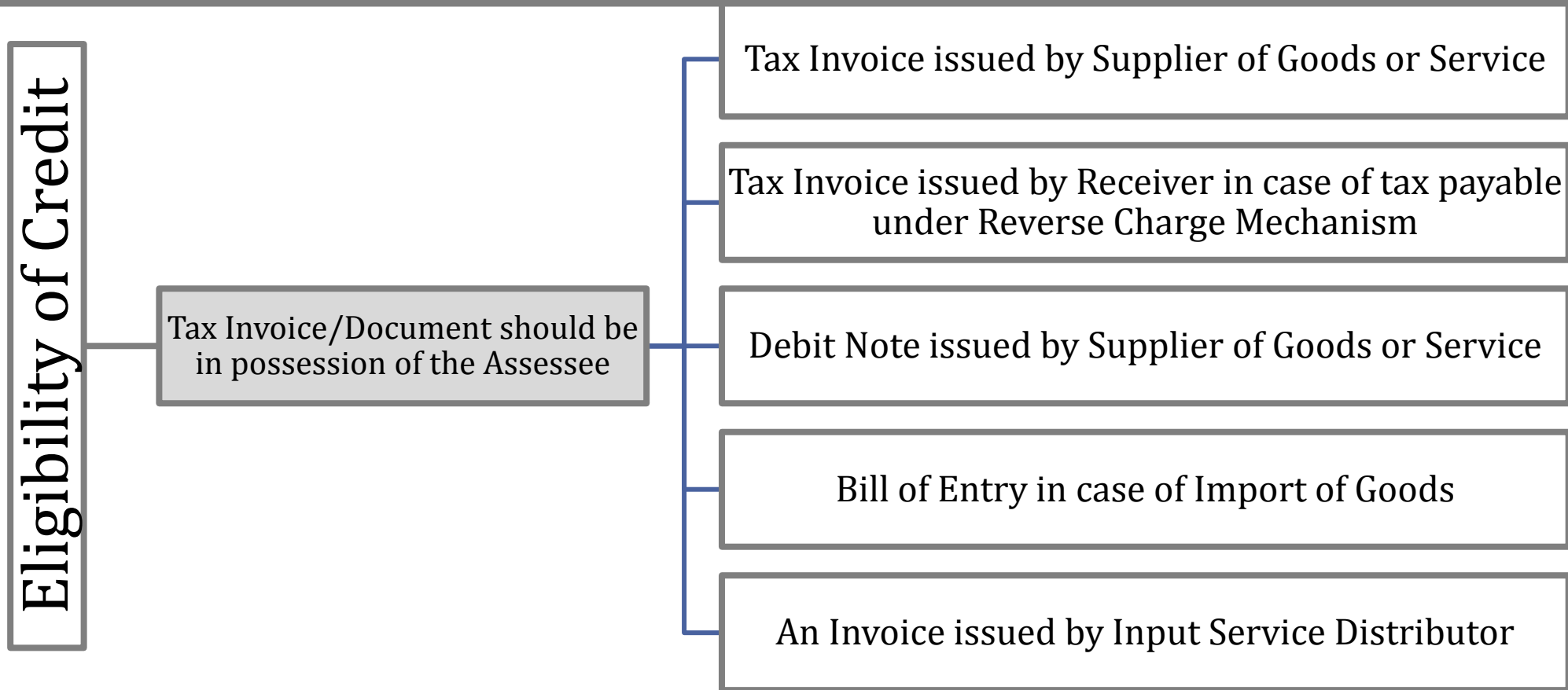
He should receive the goods or services

Tax should be paid by the supplier to the Government

Return has been filed

Payment has to be made within 180 days from Invoice

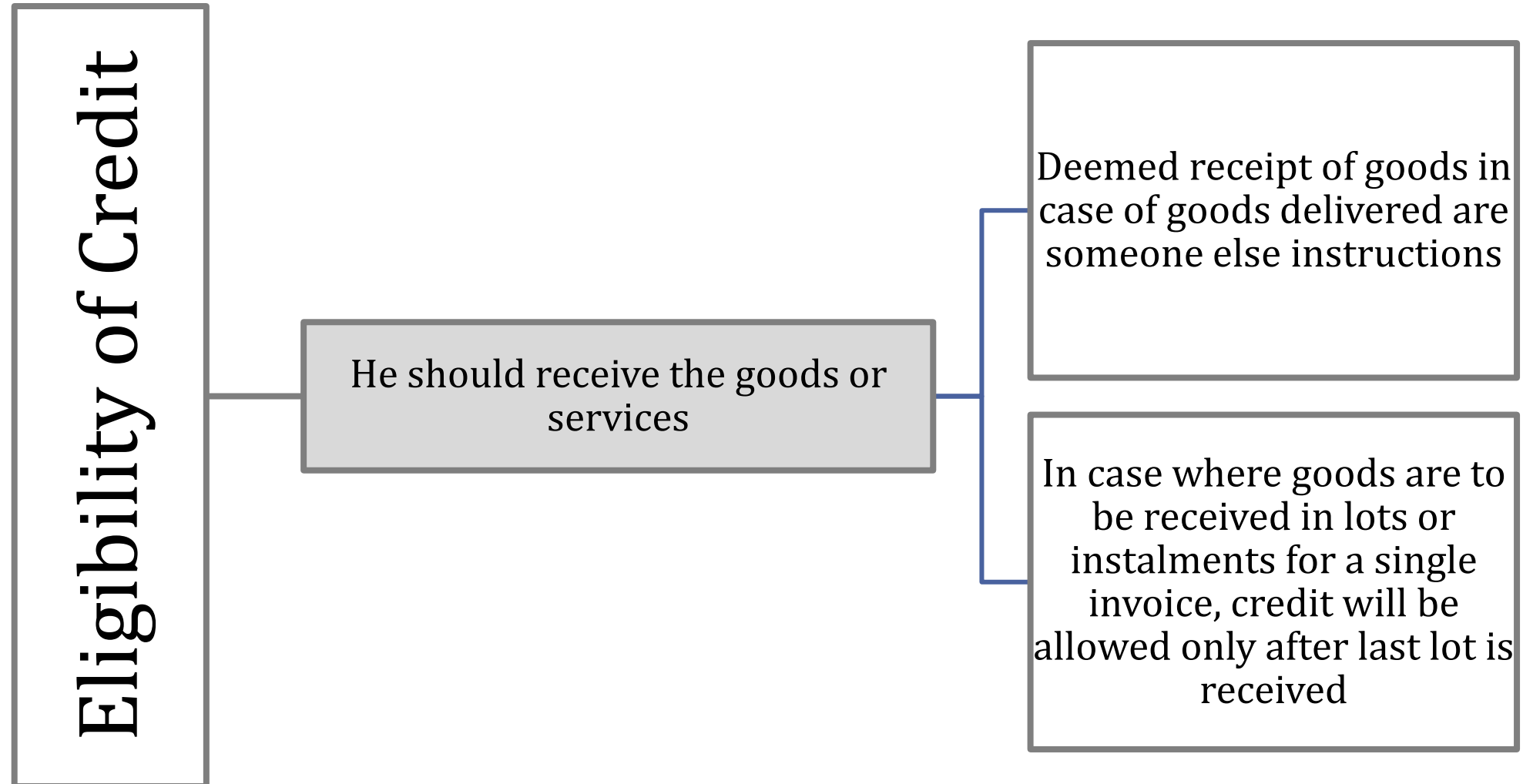
Tax Invoice



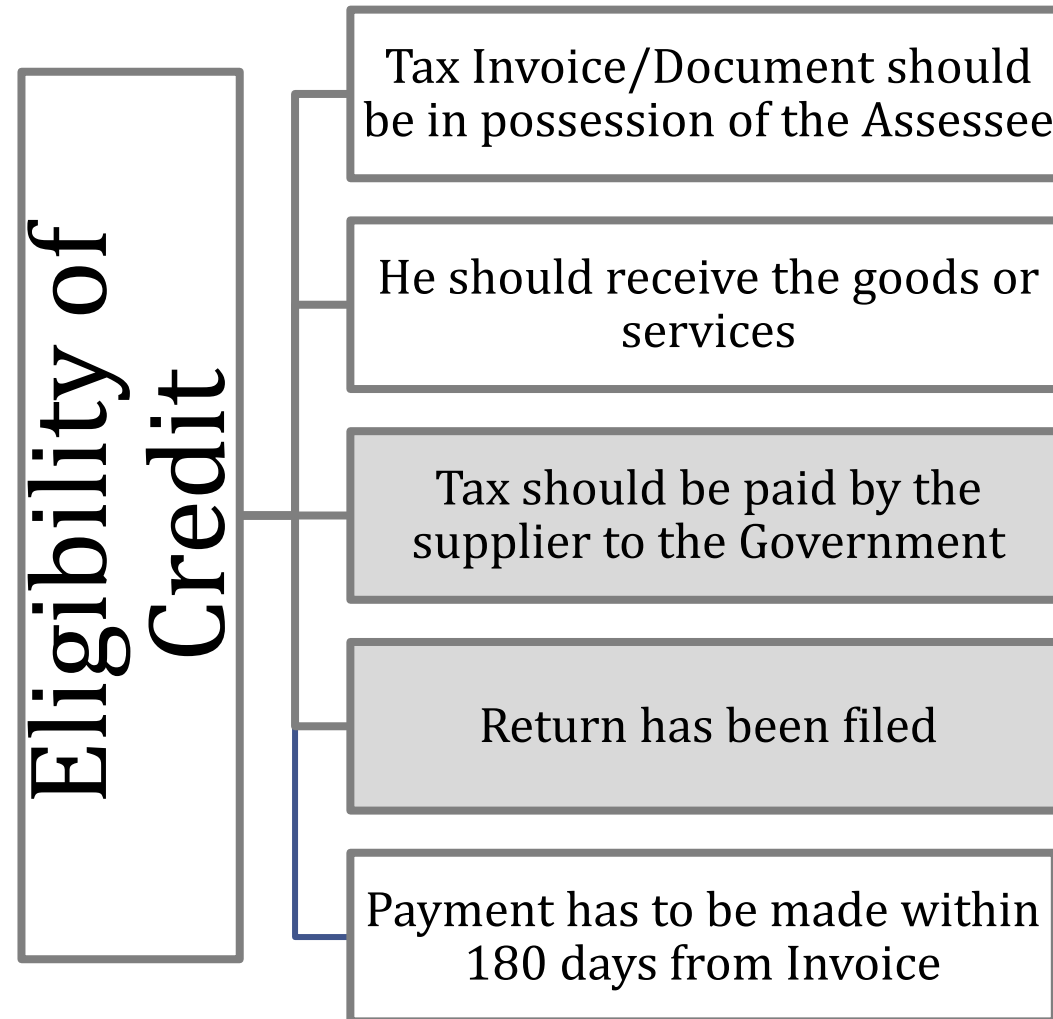
All particulars as prescribed in Invoice Rules should be contained in the above document

Tax paid in pursuance of order where demand is raised on account of fraud, suppression....Not Eligible

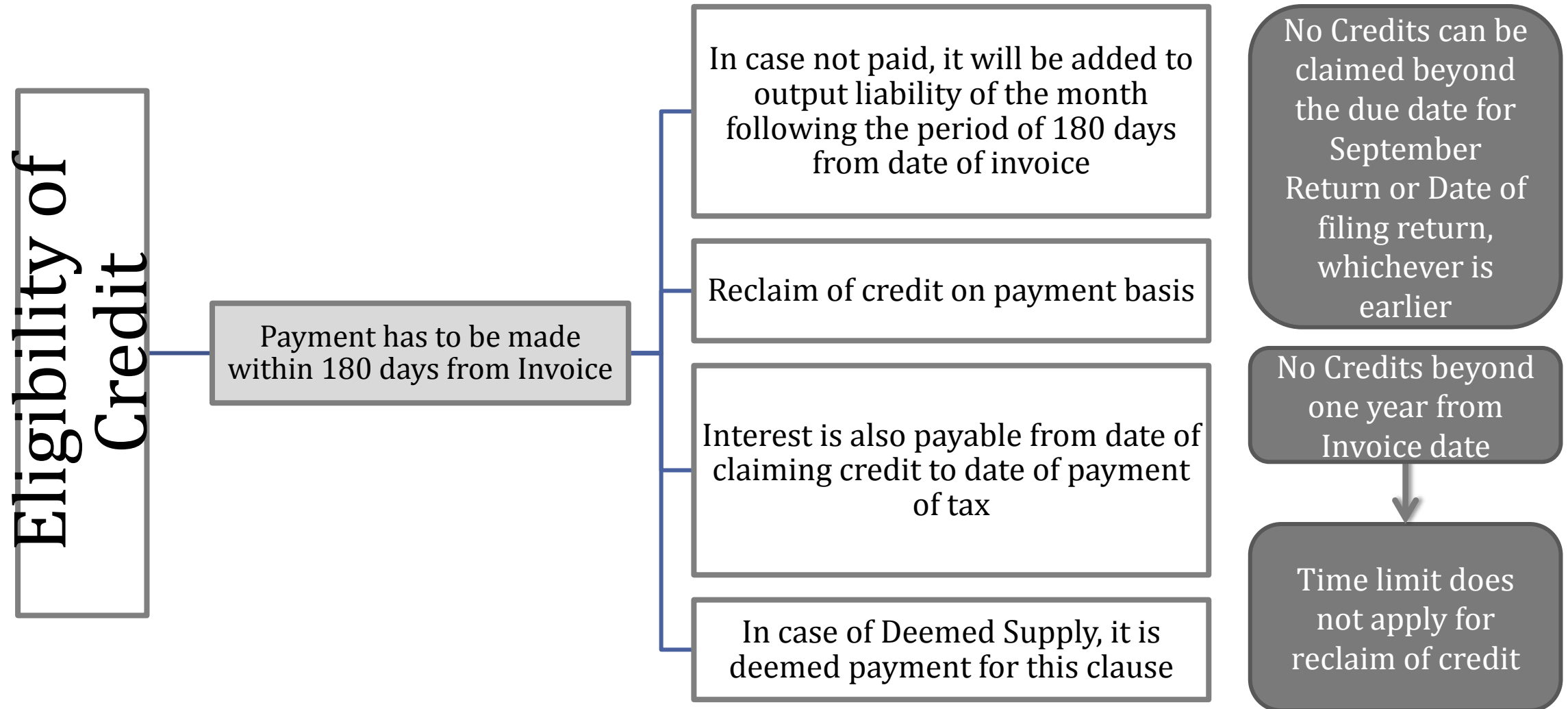
Important Conditions to be complied



Important Conditions to be complied



Important Conditions to be complied





Ineligible Credits

Specific Credits not allowed

Motor Vehicles



Except

Supplier of such Motor Vehicles

Transportation of passengers

Transportation of goods

Training on Driving skills

- **Food & Beverages**
- **Outdoor Catering**
- **Beauty Treatment**
- **Health Service**
- **Cosmetic & Plastic surgery**



Except

Used for making an outward supply of the same category of goods or service or as an element of composite or mixed supply

Specific Credits not allowed

Rent a Cab, Life Insurance,
Health Insurance



Unless

Notified by Government
as Obligatory in Nature

Used for making an
outward supply of the
same category of goods
or service or as an
element of composite or
mixed supply

Travel benefits to
Employees on
Vacation,
Membership of
Clubs, Health &
Fitness Centre



Not Eligible

Construction Related



Works contract services when supplied for
construction of immovable property except
where it is input service for further supply of
works contract service

Goods or Services received by a taxable person
for construction of immovable property on his
own account

Other specific credits not allowed

- ❑ Goods or Services on which tax is paid under Composition Scheme
- ❑ Goods or Service received by a NON-RESIDENT taxable person except for import of goods
- ❑ Goods or Services used for personal consumption
- ❑ Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples
- ❑ Tax paid with respect to demand on account of fraud, willful misstatement or suppression of facts



Composite Supplies

Other specific credits not allowed

- ❑ When goods and services are used partly for affecting taxable supplies and partly for exempt supplies, the amount of credit shall be restricted to so much of input tax as is attributable to taxable supplies
- ❑ Exempted supplies shall include
 - ❑ Services on which tax is payable under RCM
 - ❑ Sale of Land
 - ❑ Sale of Securities

Method of Calculating Proportionate Credit.. Inputs and Input Services

- Identification of credits on Invoice level basis whether used for the following:**
 - Exclusively non-business use
 - Exclusively exempted use
 - Ineligible credits
 - Other than exempt supplies including zero rated supplies
 - Balance will be common credits
- Proportionate credit based on exempted turnover ratio to be identified**
- 5% Ad hoc – Credits attributable to non-business use should be identified**
- Above two will be added to output liability**

Method of Calculating Proportionate Credit.. Inputs and Input Services

- ❑ Calculation to be done on a monthly basis for credits pertaining to the said month
- ❑ After the year end a final calculation for proportionate credit needs to be identified and the following impact needs to be taken by the September return of the next financial year
 - ❑ In case credits already claimed are less than the credits eligible in the final working – to take differential credits
 - ❑ In case credits already claimed are more than the credits eligible in the final working – to consider difference as output liability and pay the same along with interest from 1st April till the date of payment

Method of Calculating Proportionate Credit .. Capital Goods

- Identification of credits on Invoice level basis whether used for the following:**
 - Exclusively non-business use and exempted use
 - Other than exempt supplies including zero rated supplies
 - Balance will be common credits – useful life will be taken as 5 years
- The common credit will be divided in 60 parts and claimed in 60 months i.e. useful life of asset**
- Asset Schedule required to be prepared**
- Each month reversal to be made based on monthly turnover**

Banking & Financial Co's including NBFC

- ❑ Banking Co, Financial Institutions including NBFC shall have the option to choose between proportionate calculation as per earlier workings or choose ad-hoc 50% reversal of credit
- ❑ Ineligible credits and credits exclusively used for non-business and exempted use shall be removed
- ❑ Option once chosen to be applied for whole financial year
- ❑ 50% reversal is not required in case of inter-branch billings



Other provisions for Credits

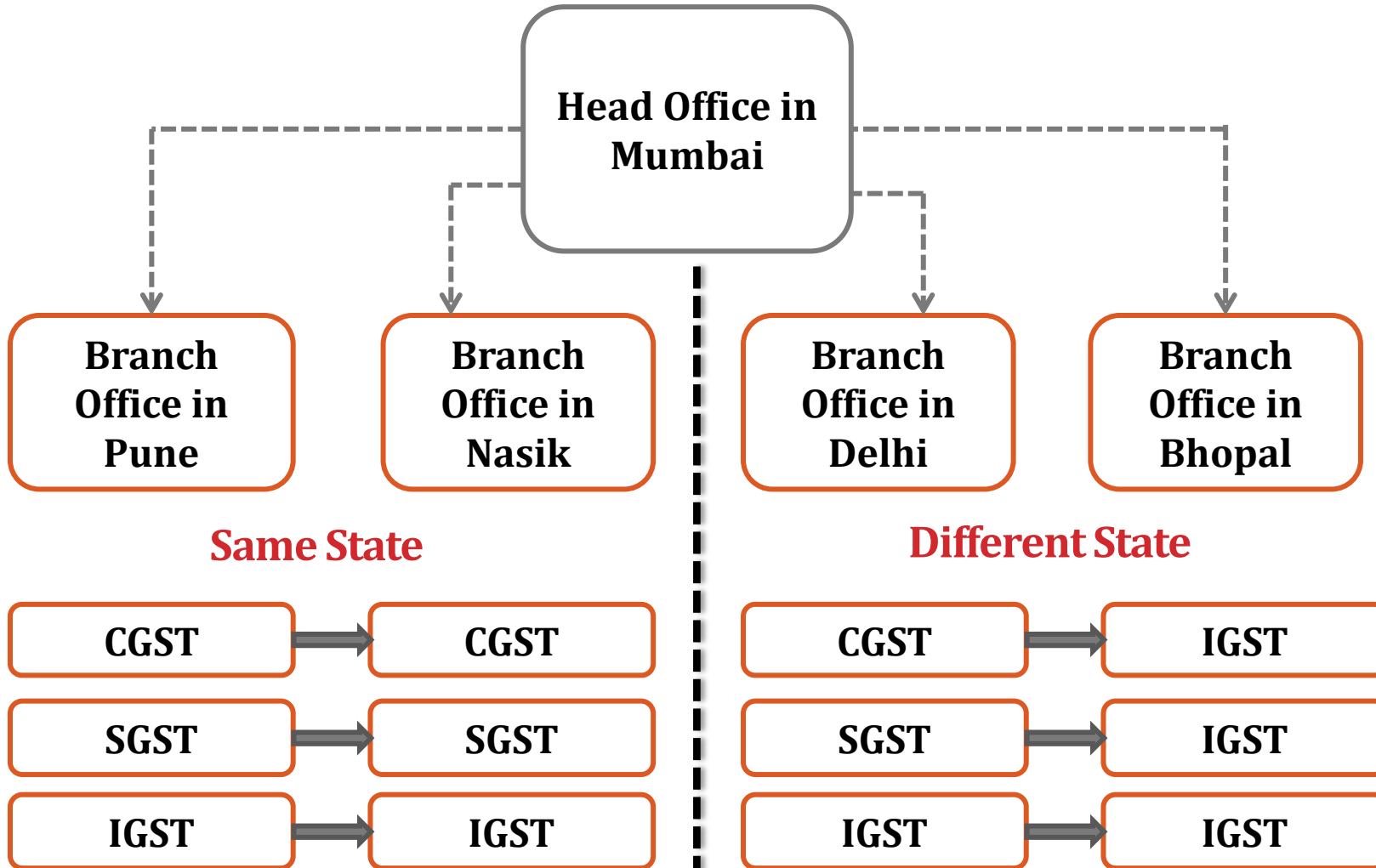
Miscellaneous Provisions

- ❑ Transfer of Business – Credited to be transferred to new unit
- ❑ Person opting for composition scheme/product gets exempted – credit attributable to inputs held in stock or semi-finished goods or finished goods needs to be reversed. Any balance of credit thereafter will lapse
- ❑ Person opting out of composition scheme/product gets taxable – credit attributable to inputs held in stock or semi-finished goods or finished goods will be eligible
- ❑ Capital Goods credits in transition will be based on the balance useful life of asset
- ❑ Supply of Capital goods will require reversal of credit based on use of capital asset considering the useful life as 5 years or actual transaction value, whichever is higher



Input Service Distributor

ISD Concept



Conditions

Invoice shall be raised by ISD

Distribution restricted to credit available

Credit Attributable to one unit to be distributed to the same unit. If more credit attributable to than one unit, then distribution to all such units.
Credit to be distributed based on proportionate turnover

ISD Provisions

- ❑ Credits available for distribution shall be distributed in the same month based on turnover for previous financial year
- ❑ Credits for Central, State, Union and Integrated shall be distributed separately
- ❑ Ineligible credits also to be transferred
- ❑ In case of reduction in any credit on account of credit note, the same shall be apportioned to each unit in the ratio in which the credit was taken
 - ❑ The same will be adjusted in the month in which credit note is taken



Transition Provisions

Input Tax Credit of Existing law

CGST	Conditions	SGST	Conditions
Amount of CENVAT Credit carried forward in Excise & Service Tax Return	<ul style="list-style-type: none"> • Credit should be eligible under GST. • Products are not exempted under GST • Returns for last 6 months in old law must be furnished 	VAT & Entry Tax carried forward in the Return	<ul style="list-style-type: none"> • Return to be filed within 90 days • Credit should be eligible under GST. • Products are not exempted under GST • Returns for last 6 months in old law must be furnished • Differential tax liability on account of pending forms under CST not eligible for carried forward
Un-availed CENVAT Credit on Capital Goods	<ul style="list-style-type: none"> • Should not opt for Composition in GST • Capital Goods as defined in Rule 2(a) of CENVAT Credit Rules, 2004 	Un-availed input tax credit in respect of capital goods as per respective VAT law	<ul style="list-style-type: none"> • Should not opt for Composition in GST • Un-availed means eligible ITC less ITC already availed (does not apply for ITC Retained)

Eligible duties and taxes on inputs in stock – Section 140(3)

Eligible Assessee

- Assessee who was not liable to be registered under the earlier law
- Manufacturer of Exempted Goods
- Provision of Exempted Services
- Works Contract Service provider claiming abatement under Notification No -26/2012 – ST
- First Stage Dealer
- Second Stage Dealer
- Registered Importer/Depot of Manufacturer

Eligible Credits (CGST)

- Duties of Excise
- Additional Duties (Textiles & Textiles Articles)
- Additional Duties (Goods of Special Importance)
- NCCD
- Addition Duty of Customs (CVD)
- Addition Duty of Customs (SAD)
- Service Tax

Conditions

- ❑ Inputs held in stock or Inputs held in semi-finished or finished goods
 - ❑ Credits eligible only on inputs used or intended to be used for making taxable supplies under GST
 - ❑ Invoice or prescribed document for claiming credit should be available
 - ❑ Invoice or prescribed document should not be earlier than 12 months
 - ❑ Supplier is not eligible for abatement under the current act
- ❑ In case documents are not available, credit is eligible to the tune of 40% of central tax applicable

Eligible duties and taxes on inputs in stock – Section 169

Eligible Assessee

- Assessee who was not liable to be registered under the earlier law
- Sale of Exempted Goods/Taxfree Goods/First Point Sale

□ Conditions

- Credits eligible only on inputs used or intended to be used for making taxable supplies under GST
- Invoice or prescribed document for claiming credit should be available
- Invoice or prescribed document should not be earlier than 12 months
- In case documents are not available, credit is eligible to the tune of 40% of state tax applicable

Eligible Credits (CGST)

- Value Added Tax
- Entry Tax

Other Provisions

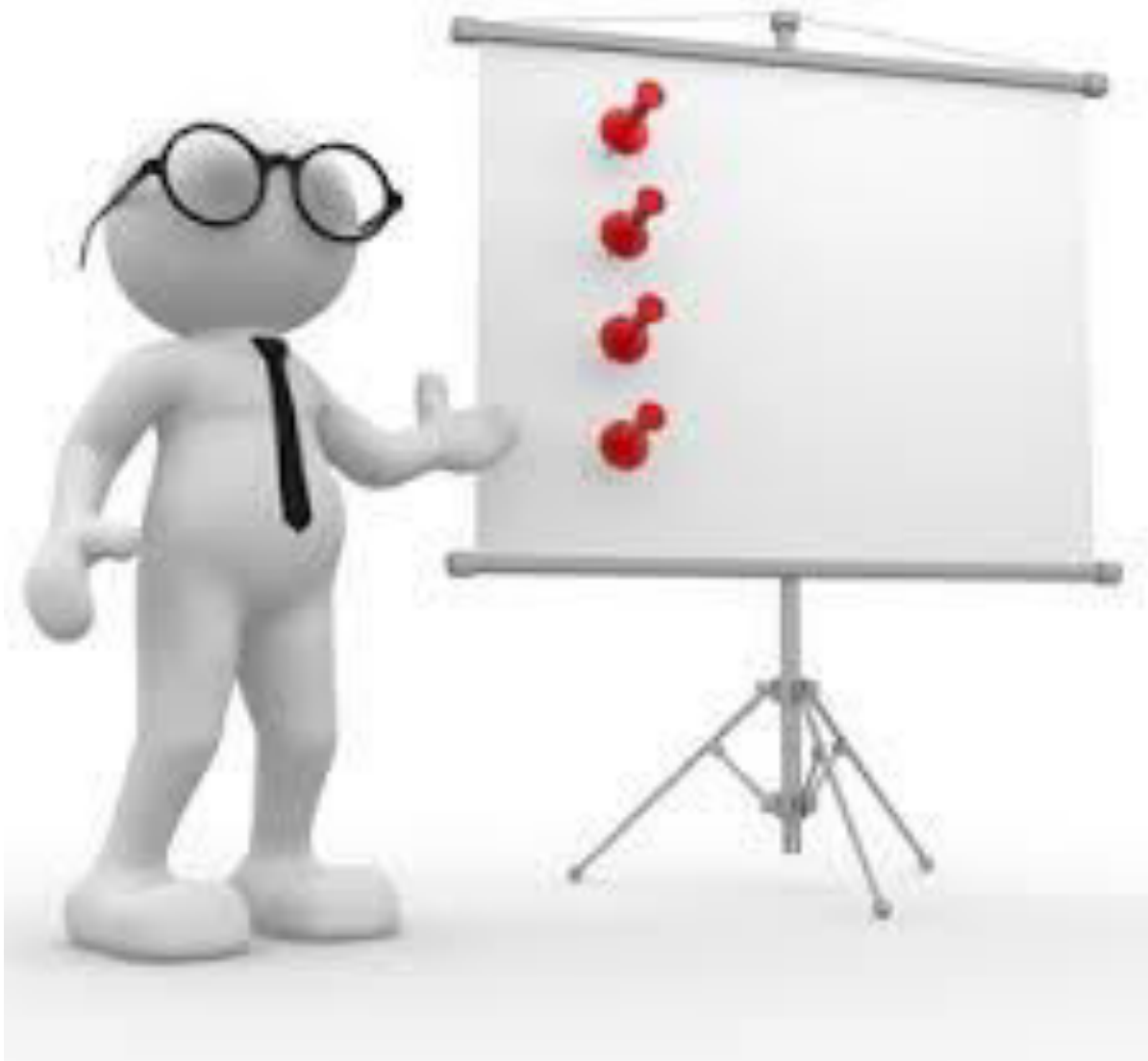
- ❑ Inputs held by a manufacturer or service provider who is claiming proportionate credit/identified credit shall be allowed (**CGST as well as SGST**)
 - ❑ CENVAT Credit as carried forward in Return (Section 167)
 - ❑ CENVAT credit of eligible duties in respect of inputs held in stock (semi-finished or finished), relating to exempted goods or services
- ❑ Inputs or Input Services in transit (**CGST as well as SGST**)
 - ❑ Tax paid under earlier law and Invoice raise under earlier law
 - ❑ Invoice received after appointed day and accounted within 30 days
 - ❑ Eligible for credit under GST

Other Provisions

- ❑ Person opted for Composition under earlier law (CGST law and SGST law)
 - ❑ Credit eligible for eligible duties/VAT paid under earlier law
 - ❑ Credits eligible only on inputs used or intended to be used for making taxable supplies under GST
 - ❑ Should not opt for composition under GST law
 - ❑ ITC is eligible under GST
 - ❑ Invoice or prescribed document for claiming credit should be available
 - ❑ Invoice or prescribed document should not be earlier than 12 months

Input Tax Credit of Existing law

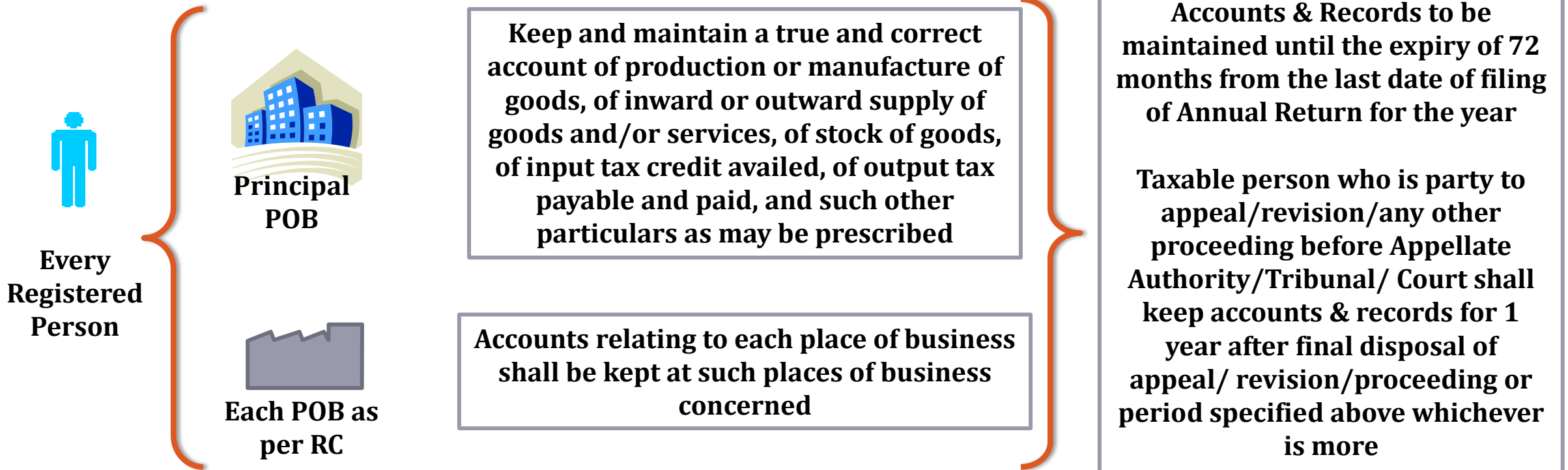
CGST	Conditions
CENVAT Credit of ISD can be distributed as credit under this Act if invoices are received after appointed date	
CENVAT Credit carried forward in the Service Tax return (Centralized Registration)	<ul style="list-style-type: none">• Return has to be filed within 3 months from appointed date• Eligible credit should be as per amount carried forward in original return. However, in case revised return is filed, carried forward will be allowed in maximum to the extent of original return• Credit should be eligible in terms of GST Law• CENVAT Credit can be transferred to any of the registered taxable person under same PAN.
Re-claim of CENVAT Credit reversed due to non-payment of input services within 3 months	<ul style="list-style-type: none">• Payment for supply of service should be made within 3 months from the appointed day



Accounts & Records

Accounts & Records and Audit

Section 35 & 36 –



Every registered taxable person whose turnover during FY exceeds prescribed limit, shall get his accounts audited by a Chartered Accountant /Cost Accountant and shall submit a copy of the audited statement of accounts, the reconciliation statement along with Annual Return and such other documents in the form and manner as may be prescribed



Refunds

Refund of tax

REFUND FROM CASH LEDGER

- Any person claiming
- Refund of any tax, interest or any other amount
- Shall apply before expiry of 2 years from relevant date (no time limit for payment of tax, interest or any other amount under protest)

REFUND FROM CREDIT LEDGER

- Taxable person may claim
- Refund of unutilized ITC at the end of ANY tax period
 - ITC for zero rated suppliers
 - ITC accumulation on account of inverted duty structure
- Refund subject to all returns should be filed
- Refund can be adjusted against outstanding tax, interest or penalty
- Claim of unjust enrichment necessary for refund above ₹2 lacs

Refund Claims before appointed date

Refund claim filed before appointed date (CGST)

- Any refund filed before appointed date, shall be governed by provisions of earlier law
- Any amount of CENVAT Credit rejected, whether partially or in full shall lapse
- No refund claim shall be allowed where the amount is carried forward in the returns

Refund claim filed before appointed date (SGST)

- Any refund filed before appointed date, shall be governed by provisions of earlier law
- Any amount of Input Tax Credit rejected, whether partially or in full shall lapse
- No refund claim shall be allowed where the amount is carried forward in the returns

Refund Claims after appointed date

Refund claim filed after appointed date (CGST)

- ❑ Goods cleared or Services exported before appointed date and refund claim is filed after appointed date
- ❑ Refund claim shall be disposed of in accordance with provisions of earlier law
- ❑ Any amount of CENVAT Credit rejected, whether partially or in full shall lapse
- ❑ No refund claim shall be allowed where the amount is carried forward in the returns

Refund claim filed after appointed date (SGST)

- ❑ Any refund filed after appointed date, shall be governed by provisions of earlier law
- ❑ Any amount of Input Tax Credit rejected, whether partially or in full shall lapse
- ❑ No refund claim shall be allowed where the amount is carried forward in the returns

*Thank
you*

