

# GST - Input Tax Credit

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at  
**Bandra Kurla Complex, WIRC of the ICAI**

**June 30, 2017**



## **Agenda for the day**

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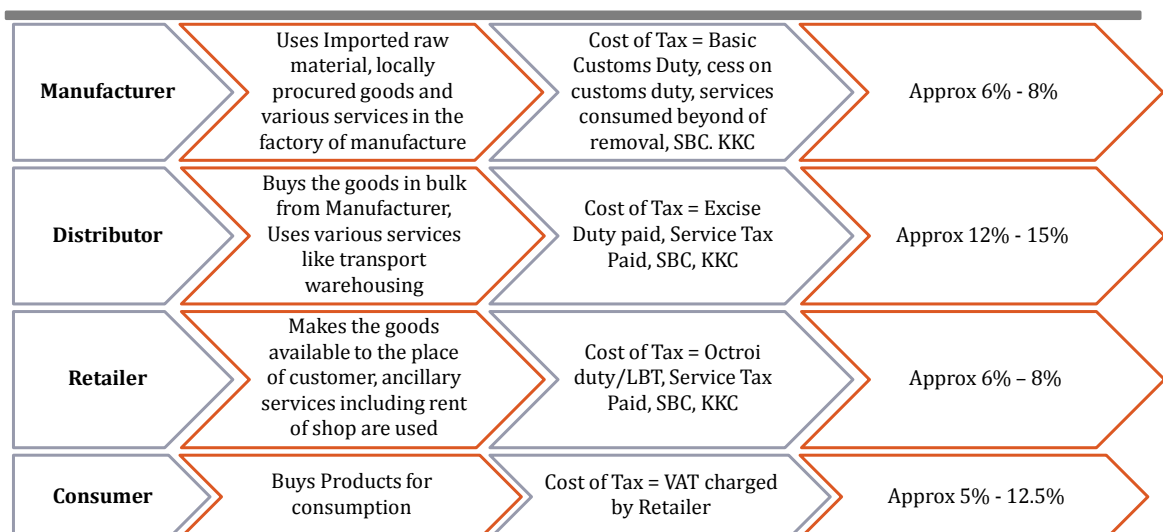
- Provisions of Input Tax Credit
- Concept of Input Service Distributor
- Transitional provisions relating to Input Tax Credit
- Documentation under GST
- Refunds under GST



# Basic understanding of the provisions of Input Tax Credit

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## Maze of Taxes resulting in "COST OF TAX"



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## 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 and includes –
  - ❑ IGST paid on import of goods
  - ❑ Tax payable under reverse charge under CGST, IGST, SGST & UTGST Act
  - ❑ But does not include tax paid under composition levy [Sec. 2(62) – CGST Act]
- ❑ Credits eligible on -
  - ❑ Inputs
  - ❑ Capital Goods
  - ❑ Input Services

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## 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

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## Electronic Credit Ledger

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- ❑ 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

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## Conditions for claim of Credit



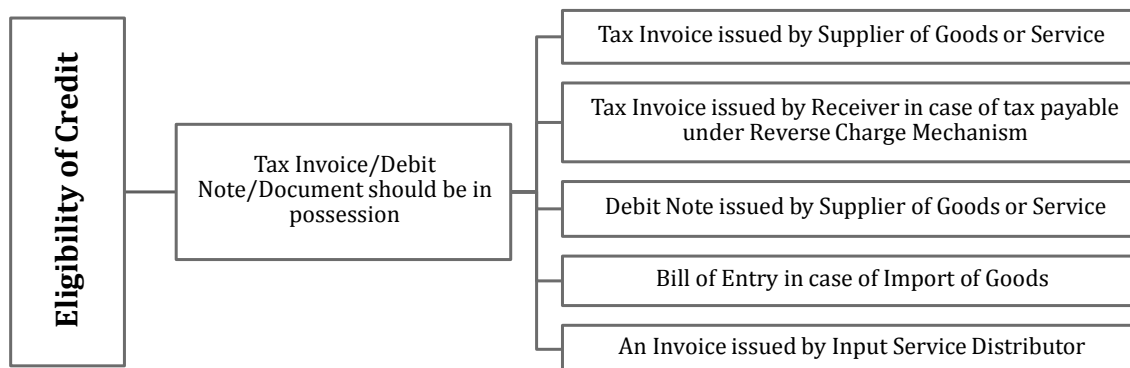
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## Conditions for Eligibility of Input Tax Credit

- Tax Invoice/Debit Note/Document should be in possession
- Goods or Services should have been received
- Tax should have been paid by the supplier to the Government
- Return should have been filed by the Supplier
- Payment has to be made within 180 days from Invoice

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## Condition 1 - Tax Invoice

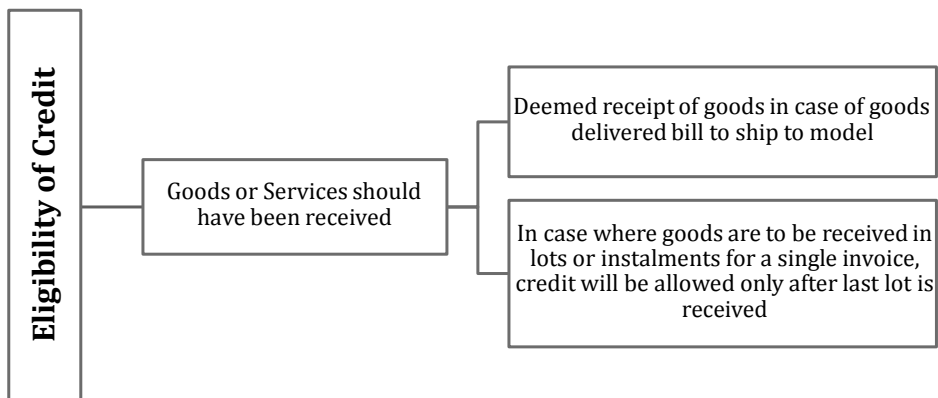


All particulars as prescribed in Invoice Rules should be contained in the above document

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

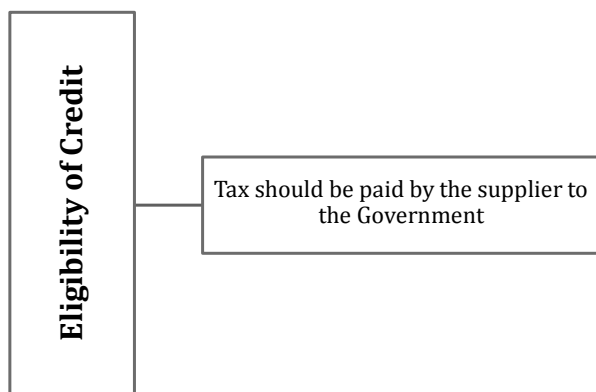
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## Condition 2 – Receipt of Goods/Service



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## Condition 3 – Tax should have been paid by Supplier



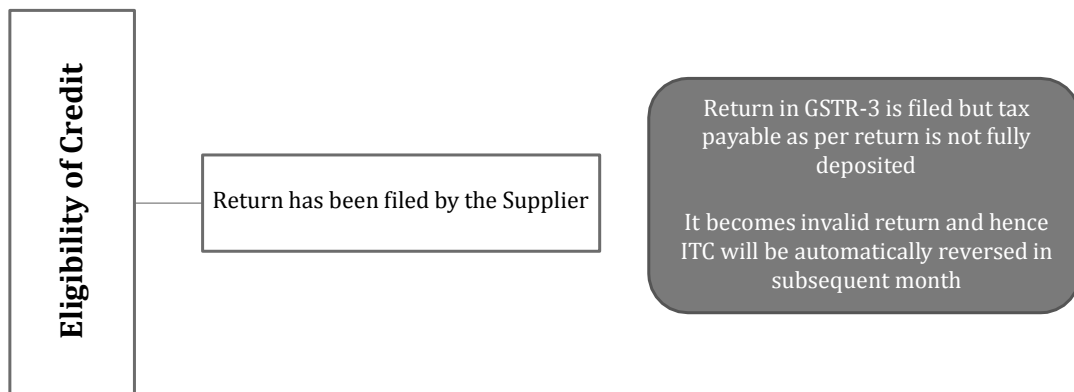
### Concept of Mismatch

1. GSTIN mismatch between outward supplier & inward supplier
2. Value mismatch between outward supplier & inward supplier
3. HSN mismatch outward supplier & inward supplier
4. Mismatch on account of non-filing of valid return by outward supplier

**In all the above circumstances outward supply & inward supply should first be reconciled, return to be filed & full tax as per return must be paid to avail ITC**

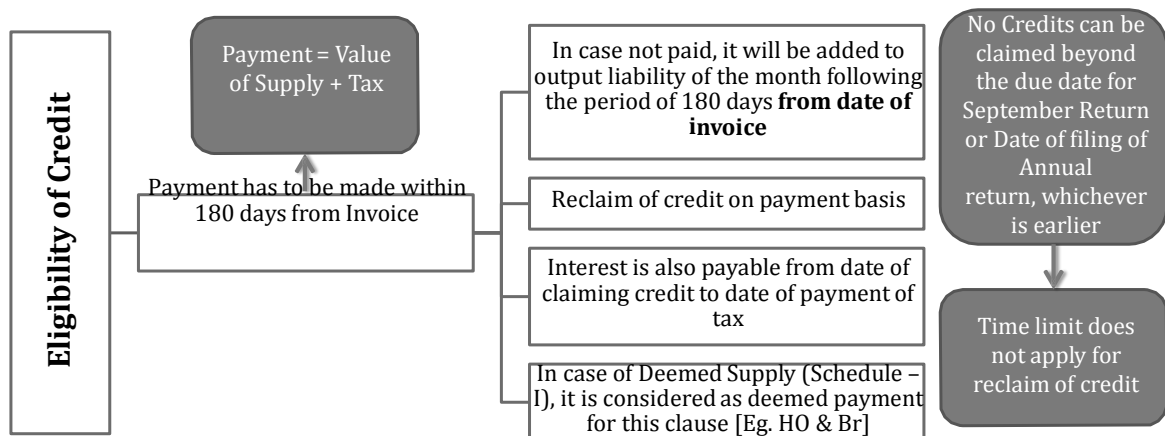
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## Condition 4 – Return is filed by Supplier



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## Condition 5 – Payment is made within 180 days



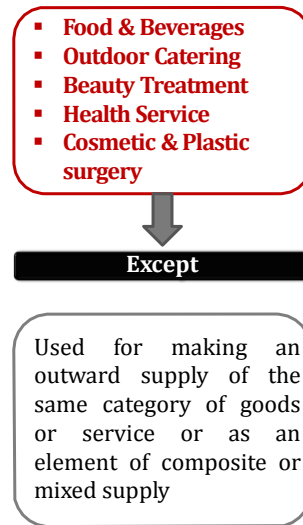
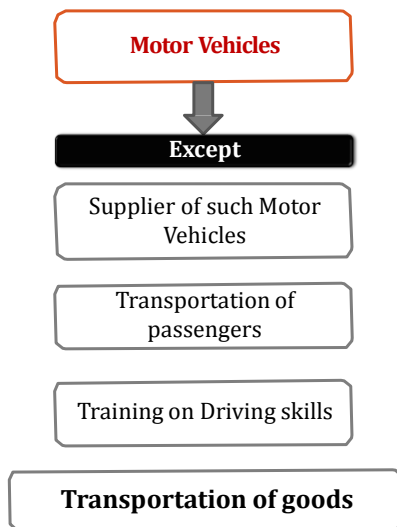
Not applicable to credit taken on RCM

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# Ineligible Credits

## Specific Credits not allowed





## 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 (other  
than P&M) 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 (other  
than P&M) on his own account

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## Other specific credits not allowed

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

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# Apportionment of Credit & Blocked Credits

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# Taxable & Exempt Supplies

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## Reversal of credit of input and input services

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- When goods and services are used partly for affecting taxable supplies and partly for exempt supplies OR partly for the purpose of any business and partly for other purposes, the amount of credit shall be restricted to so much of input tax as is attributable to taxable supplies OR as is attributable to the purposes of his business
  
- Exempted supplies shall include
  - Services on which tax is payable under RCM – Transaction Value
  - Sale of Land / Completed Buildings – Value for Payment of Stamp Duty
  - Sale of Securities – 1% of Sale Value

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## Reversal of credit of input and input services - Method

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- Identification of credits on Invoice level basis whether used for the following –
  - Exclusively non-business use
  - Exclusively exempted use
  - Ineligible credits
  - Exclusively used for other than exempt supplies but 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

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## Reversal of credit of input and input services - Method

- ❑ 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 1<sup>st</sup> April till the date of payment

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## Example

- ❑ SEBI Ltd is broker engaged in broking of securities and pro-trade of securities. The inward supplies for the company are as follows -

Details of Invoice	Value	GST	Remarks
Sub-broker Charges	1,00,000/-	18,000/- (CGST+SGST)	Specific
Analyst Fee (Professional Service)	10,00,000/-	1,80,000/- (CGST+SGST)	Common
Personal Tour of Director	2,50,000/-	40,000/- (CGST+SGST)	Non-business
Lease Charges for Computers	1,00,000/-	18,000/- (CGST+SGST)	2 computers are dedicated for pro-trade out of 10
Mobile Charges (Senior Management)	1,00,000/-	18,000/- (CGST+SGST)	Allowed to make personal calls

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## Example

- ❑ SEBI Ltd's income for tax period stood at –

Nature of Income	Amount	Ratio Purpose T/O	Proportion
Brokerage Revenue	40,00,000/-	40,00,000/-	80%
Sales Value of Securities – Pro-trade	10,00,00,000/-	10,00,000/-	20%

- ❑ Input Tax Credit to be added to Electronic Credit Ledger –

Nature of Income	Amount	Remarks
Specific Credits	18,000/-	Sub-broker
Common Credit	2,16,000/-	Analyst, Leasing & Mobile

- ❑ Proportion of Input tax be reversed by way of addition to Output tax –

Nature of Income	Amount	Remarks
Non-business	10,800/-	Mobile (5% ad-hoc of 2,16,000/-)
Common Credit	43,200/-	Analyst & Leasing (20% of 2,16,000/-)

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## Reversal of credit of Capital Goods - Method

- ❑ Identification of credits on Invoice level basis whether used for the following –
- ❑ Exclusively non-business use and exempted use
  - ❑ Exclusively used for other than exempt supplies including zero rated supplies
  - ❑ Balance will be common credits – useful life will be taken as 5 years
- ❑ The common credit be credited to electronic credit ledger at the beginning of tax period
- ❑ Proportion of common credit ineligible (ratio of exempt supply ÷ aggregate supply) will be added as output tax in 60 months i.e. useful life of asset
- ❑ Each month reversal to be made based on monthly turnover

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## Example

- ❑ ING Pvt Ltd is a manufacturer engaged in supply of taxable as well as exempted goods.

The turnover for the tax period is as below –

Nature of Income	Amount	Proportion
Taxable Goods	60,00,000/-	60%
Exempted Goods	40,00,000/-	40%

- ❑ ING Pvt Ltd has purchased capital goods worth 50,00,000/- by paying IGST 14,00,000/- in July 2017 which are used towards overall business of ING Pvt Ltd
- ❑ In July 2017 ING Pvt Ltd's electronic credit ledger will reflect input tax of 14,00,000/-
- ❑ The above credit needs to be reversed in proportion of taxable & exempt supply in 60 months =  $23,333/- \times 40\% = 9,333/-$  [to be added to output tax liability every month]

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## Banking Companies, FIs & NBFCs

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## Banking & Financial Co's including NBFCs

- ❑ Banking Co, Financial Institutions including NBFC shall have the option to choose between proportionate calculation as per earlier workings or choose ad-hoc 50% availment of eligible credit
- ❑ Ineligible credits and credits exclusively used for non-business 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

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## Credits in Special Circumstances

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## Miscellaneous Provisions

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- ❑ Transfer of Business – Credit to be transferred to new unit
- ❑ Person opting for composition scheme/product gets wholly 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
- ❑ Supply of Capital goods will require reversal of credit based on use of capital asset considering the reversal of 5% of input tax for every quarter or output tax on transaction value, whichever is higher

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# Job Work

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## Provision

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- ❑ Principal be allowed to take input tax credit on inputs sent to job work
  - ❑ Goods should be received back/directly dispatched within 1 year from goods sent
- ❑ Principal be allowed to take input tax credit on capital goods sent to job work
  - ❑ Capital Goods should be received back within 3 years from capital goods sent
- ❑ Principal to declare premise of job worker as his additional place of business
- ❑ If goods/capital goods are not received back in stipulated time, it shall be deemed as supply on the day when it was sent to job worker
- ❑ Capital Goods in the form of moulds, dies, jigs and fixtures, or tools need not be brought back

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## Input Service Distributor

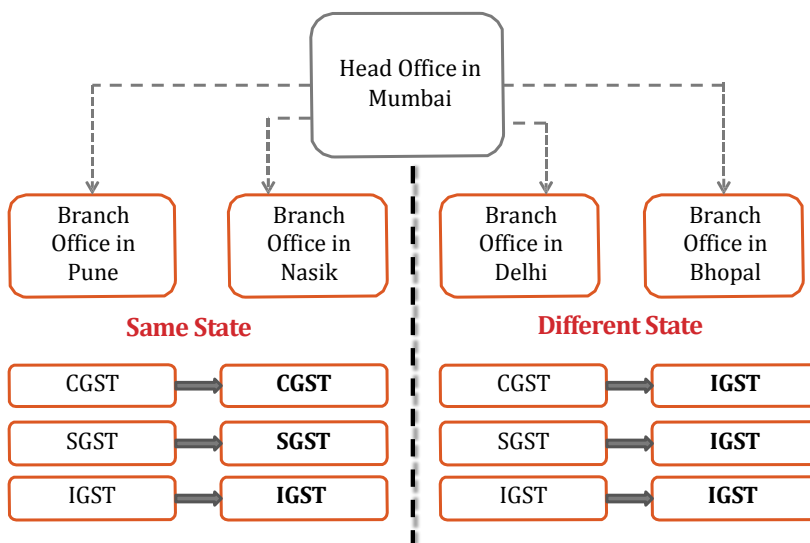
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## Relevant Definition

- ❑ “Input Service Distributor” means an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the **receipt of input services** and issues a prescribed document for the purposes of distributing the credit of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office  
*[Sec. 2(61)-CGST Act]*

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## 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 credit attributable to more than one unit, then distribution to all such units.

Credit to be distributed based on proportionate turnover.

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## Other relevant 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 tax 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

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## Example

- ❑ CNB Ltd has 3 branches (Pune, Delhi & Chennai) and a Head Office (Mumbai) with centralized accounting system where all its service suppliers sends invoices for processing. The HO of the company is in receipt of following invoices for July 2017 –

Details of Invoice	Value	GST	Remarks
Stock Audit Verification	1,00,000/-	18,000/- (IGST)	Relates to Pune Unit
Auditor Invoice	10,00,000/-	1,80,000/- (CGST+SGST)	Common
Rent-a-cab Service	10,00,000/-	50,000/- (CGST+SGST)	Common

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## Example

- ❑ The details of turnover in previous FY is as follows –

Details of Invoice	Turnover	Specific Credit	Common Credit Distribution
Head Office	1 Cr	Nil	15,333/- (2,30,000 x 1/15) [CGST + SGST]
Pune	5 Cr	18,000/- (IGST)	76,667/- (2,30,000 x 5/15) [CGST + SGST]
Delhi	7 Cr	Nil	1,07,333/- (2,30,000 x 7/15) [IGST]
Chennai	2 Cr	Nil	30,667/- (2,30,000 x 2/15) [IGST]
<b>TOTAL</b>	<b>15 Cr</b>	<b>18,000/-</b>	<b>2,30,000 /-</b>

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## Transition Provisions

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

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

Eligible Assessee	Eligible Credits (CGST)
<ul style="list-style-type: none"> <li>▪ Assessee who was not liable to be registered under the earlier law</li> <li>▪ Manufacturer of Exempted Goods</li> <li>▪ Provision of Exempted Services</li> <li>▪ Works Contract Service provider claiming abatement under Notification No -26/2012 – ST</li> <li>▪ First Stage Dealer</li> <li>▪ Second Stage Dealer</li> <li>▪ Registered Importer/Depot of Manufacturer</li> </ul>	<ul style="list-style-type: none"> <li>▪ Duties of Excise</li> <li>▪ Additional Duties (Textiles &amp; Textiles Articles)</li> <li>▪ Additional Duties (Goods of Special Importance)</li> <li>▪ NCCD</li> <li>▪ Addition Duty of Customs (CVD)</li> <li>▪ Addition Duty of Customs (SAD)</li> <li>▪ Service Tax</li> </ul>

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## 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 60% or 40% of central tax applicable (Other than manufacturer or service provider)

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## Eligible duties and taxes on inputs in stock

### 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

### Eligible Credits (CGST)

- Value Added Tax
- Entry Tax

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## Other Provisions

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- ❑ 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
  - ❑ 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

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## Other Provisions

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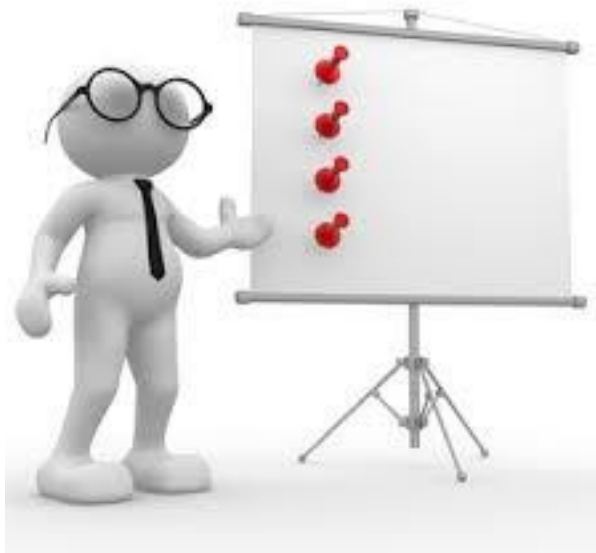
- ❑ Person opted for Composition under earlier law (CGST law and SGST law)
  - ❑ Credit eligible for eligible duties/VAT paid under earlier law
  - ❑ Credits eligible only on inputs used or intended to be used for making taxable supplies under GST
  - ❑ Should not opt for composition under GST law
  - ❑ 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

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## 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"> <li>• Return has to be filed within 3 months from appointed date</li> <li>• 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</li> <li>• Credit should be eligible in terms of GST Law</li> <li>• CENVAT Credit can be transferred to any of the registered taxable person under same PAN.</li> </ul>
Re-claim of CENVAT Credit reversed due to non-payment of input services within 3 months	<ul style="list-style-type: none"> <li>• Payment for supply of service should be made within 3 months from the appointed day</li> </ul>

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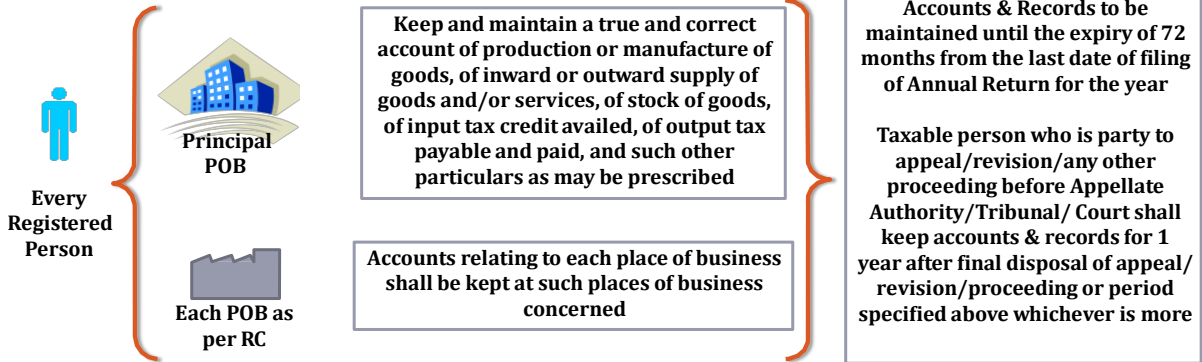
## Accounts & Records

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# 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

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## 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

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## 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

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# Q & A

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# Thank You 😊

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