



An overview of input tax credit practices under GST scenario

Balaji Bhovi

Post-Doctoral Research Fellow, Institute for Social and Economic Change (ISEC), Nagarabhavi, Bangalore, Karnataka, India

Abstract

The aim of input tax credit practices under Goods and Services Tax (GST) scenario was to eliminate the cascading effect completely and provide the encouraging and conducive environment in the indirect taxation system in India. The most unique feature of GST is uninterrupted and seamless flow of input tax credit throughout the country through CGST, SGST or UGST and IGST. The author tries to analyse the provisions relating to 'Eligibility, Conditions and Restrictions for entitling Input Tax Credit (ITC) and its utilization', as per the provisions of the GST Act.

Keywords: input tax credit, GST, cascading, indirect taxation and credit utilization.

1. Introduction

The Goods and Services Tax (GST) is functioning by levying indirect tax on supply of goods and services by sellers to the buyers at each stage of transaction chain from the manufacturer to the consumer and in between the chain there are dealer, wholesaler and retailer etc. The tax paid at every stage the recipients can avail the input tax credit and it would be available as set-off for payment of tax at every subsequent stage. It allows to entitle the input tax credit of Central GST, State GST or Union Territory GST and Integrated GST paid by recipient on procurement of goods and services which are used or intended to be used in the course or furtherance of business subject to certain conditions and restrictions of the GST Act. A continuous and seamless chain of input tax credit (ITC) is one of the special features of Goods and Services Tax regime. The mechanism of ITC is completely avoiding cascading effect in the indirect taxation system. The certain amount of cascading effect was remained in the previous VAT system (First Discussion Paper of Empowered Committee, 2009) the entire cascading effect is wiped out through the faultless chain of input tax credit mechanism in the present GST regime.

2. Objectives of the Study

To know the ITC practices under Indian GST scenario
To recognize the ITC utilization sequential order in GST system

3. Methodology

The literature, the Government reports and articles from professional journals relating to GST and ITC, has been collected from secondary sources. The literature was reviewed and made a notional presentation to know the ITC practices under GST.

4. Eligibility and Conditions to entitle the Input Tax Credit

Generally, to claim the input tax credit under goods and services tax regime, both supplier and recipient must be registered and obtained the Goods and Services Tax Identification Number (GSTIN). The registration in Goods

and Services Tax Network (GSTN) is mandatory for every business firm. The GSTIN is obligatory to mention in every tax invoice and debit note in the every transaction of the business by both the parties of supplier and recipient firms. Every registered recipient could be eligible to take credit of input tax charged on any supply of goods or services, for claiming input tax credit the supplied or transacted goods or services must be taxed and used or intended to be used in the course of business or furtherance of business purpose only. To make use of claimed input tax credit which should be credited to electronic credit ledger of recipient business in GSTN portal through which the entitled input tax credit could be utilized to make payment of tax liability to the tax authorities.

5. The following are the conditions to the recipient for claiming of ITC

- The recipient must be registered under GSTN and obtained GSTIN followed to become an eligible to entitle the input tax credit.
- The recipient should possess the tax invoice or debit note or bill of entry or any other taxpaying document issued by a registered supplier or Input Service Distributer for supplying the goods or services. Tax document must be specified all particulars about supply of goods and services, for instance, date of transaction or supply, description of goods and services in terms of units with price and total value, Harmonized System of Nomenclature (HSN) Code for goods and services, name and address with GSTIN of recipient along with address of delivery, rate of tax and finally, the signature of the supplier.
- The recipient has received the goods or services, in case of goods, where the goods are delivered by the supplier to a recipient or any other person on the direction of such recipient, the transport document or e-way bill during movement of goods which is the evidence for transfer of title goods. In case of services, where the services are provided by the supplier to the recipient or any person on the direction of such recipient.
- The supplier has paid the tax to the Government, the tax has been charged to the recipient in respect of such

supply, either in cash or through utilization of input tax credit, admissible in respect of the said supply.

- To claim the input tax credit the recipient has to furnish the returns, in such form and manner as may be prescribed, on or before the twentieth day of the month succeeding such calendar month for a return, electronically, of inward and outward supplies of goods and services or both, input tax credit availed, tax payable, tax paid and other particulars.
- The recipient shall be entitled to take credit upon receipt of the last lot or installment, where the goods against an invoice are received in lots or installments.
- The availed input tax credit by the recipient should be added to his output tax liability along with interest when the recipient failed to make payment to the supplier on supply of goods or services within a period of one hundred and eighty days from the date of issue of invoice by the supplier.
- Input tax credit should not be allowed when the recipient has claimed depreciation on the tax component of the cost of capital goods and plant and machinery.
- The registered recipient shall not be entitled to take input tax credit in respect of any invoice or debit note on supply of goods or services or both after the due date of furnishing of the return. The recipient is required to furnish a return and shall pay to the Government the tax due as per return not later than last date. No such rectification of any omission or incorrect particulars shall be allowed after the due date for furnishing of returns for the month of September or second half following the end of the financial year. The recipient should not be allowed to furnish a return for a tax period if the return for any of the previous tax periods has not been furnished.
- No ITC shall be availed by a registered person in respect of any tax that has been paid in pursuance of any order where any demand has been confirmed on account of any fraud, willful misstatement or suppression of facts.

6. The following are the documentary requirement for entitling the credit

- Invoice issued by a supplier of goods or services or both
- Invoice issued by recipient along with proof of payment of tax
- A debit note issued by supplier
- Bill of entry or similar document prescribed under Customs Act
- Revised invoice
- Document issued by Input Service Distributor

7. Reversal of input tax credit

The input tax credit has been availed by the recipient on supply of goods and services but he fails to make a payment to the supplier on consideration within the time limit which is prescribed in the Act. The prescribed time limit period is one hundred and eighty days from the date of issue of the invoice. The recipient has to clear the value of payment within the given period to supplier for consideration to entitle the input tax credit otherwise he has to reverse the input tax credit.

The availed amount of such input tax credit should be added to the output tax liability of the recipient for the month in which the details are furnished. The recipient should be liable to pay interest at the rate of 18% as notified under the provisions of the act for the period starting from the date of availing input tax credit on such supplies till the date when the amount added to the output tax liability. The recipient can re-avail such input tax credit which is reversed earlier in accordance with the provisions of the act.

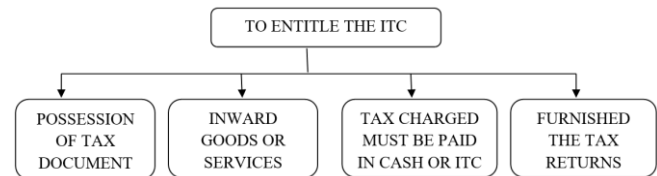


Chart 1: To Entitle the Input Tax Credit

8. Apportionment of Input Tax Credit

In the context of apportionment of credit, the supplied goods and services would be segmented in to two types such as supplied goods and services are used or intended to be used for the course or furtherance of business purposes and non-business purposes. The input tax credit is also apportioned in to two segments as business purpose and non-business purpose. The recipient can avail the input tax credit on supply of goods and services of business purpose only and he is restricted to avail the input tax credit on supply of goods and services of non-business purposes. The registered business enterprises are supplied the goods and services which are received by the recipient and out of total supplied goods and services partly used for the course or furtherance of business purposes and rest are used for non-business purposes. The recipient can entitle the input tax credit only on partly goods and services which are used or intended to be used in the course or furtherance for business purposes. The input tax credit is not allowed on rest of the goods and services which are not used for business purpose. The recipients are not supposed to avail the input tax credit on non-business purpose's goods and services since those are used for other than business purpose.

In another case there is a restricted to entitle the input tax credit on supply of goods and services even though those are used or intended to be used in the course or furtherance of business purposes. At this point, the goods and services are all over again divided in to taxable supplies of goods and services and tax exempted supplies of goods and services. The recipient can claim the input tax credit only on effecting taxable supplies of goods and services including zero rated and there no provision to claim the input tax credit on effecting tax exempted supplies of goods and services. In case the input tax credit is already claimed on effecting tax exempted goods and services due to ignorance as those goods and services are used or intended to be used in the course or furtherance of business purposes in such case the recipient is liable to pay claimed input tax credit on reverse charge basis. Regarding input tax credit, on capital goods which must be used or intended to be used in the course or furtherance of business, there is a provision to entitle input tax credit on exclusively for taxable supplies including zero rated and capital goods for non-business purpose or tax exempted supplies are not allowed to avail input tax credit.

Table 1: The activities of input tax credit admissible or not:

Input Tax Credit Activities	Credit Admissible
Taxable supplies for business purposes	Full Credit
Taxable supplies for non-business purpose	No Credit
Taxable supplies if zero-rated for business purposes	Full Credit
Tax exempted supplies for business purposes	No Credit
Taxable supplies for both business and non-business purposes	Partial Credit

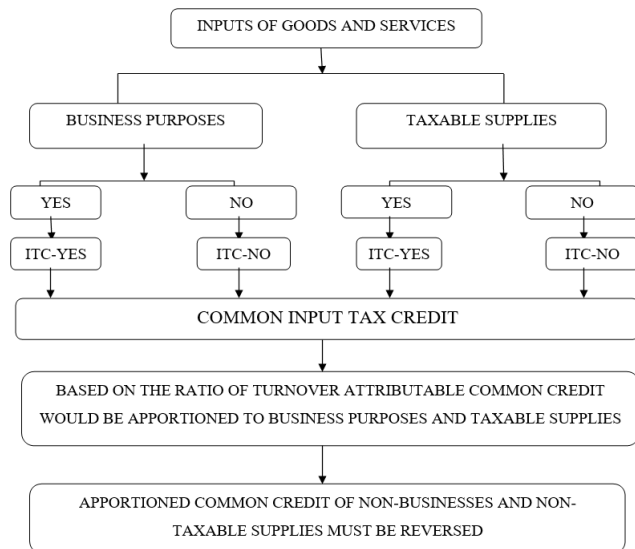


Chart 2: Apportionment of Common Input Tax Credit

9. Blocked Input Tax Credit

As per the provision of the GST Act the input tax credit is blocked on certain things on supply of goods and services which are though used or intended to be used in the course or furtherance of business. In case the input tax credit is claimed on such things of goods and services ignorantly, it is compulsion to reverse input tax credit by the recipient or registered person on such certain goods and services. In some exceptional cases there is a provision to entitle the input tax credit by the recipient when inward supplies of such goods and services or both are used for making an outward supply. Otherwise, there is no provision to claim the credit in normal business. In special circumstances there is a provision to entitle the input tax credit by the registered person when there is an obligation to employer to provide some of such goods and services to the employees under any law for the time being in force in this case even blocked good and services are allowed to claim input tax credit in accordance with the said Act.

The input tax credit shall not be available in the business on certain items those are motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons including driver and also ship and aircrafts. Even input tax credit is allowed on repair and maintenance, servicing and general insurance on such certain items of motor vehicles, ships and aircrafts. The input tax credit is allowed in respect of such items except those are further used for making an outward supply, it suggests that those certain items are being manufactured or bought and making taxable supply as a sale of the similar business. The input tax credit is blocked on following things like food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, leasing, renting or

hiring of motor vehicles, vessels or aircrafts. Here also same like previous, the input tax credit is allowed in respect of mentioned things when particularly an inward supply of such goods and services are used for making an outward taxable supply of the same category. The input tax credit is blocked on membership of a club, health and fitness centre and also travel benefits extended to employees on vacation such as leave or home travel concession. In this case the input tax credit is allowed only when it is obligatory for any employee to provide the same to its employees under any law for the time being in force.

The works contract services and goods and services received by taxable person for construction of immovable property, the input tax credit is restricted on said construction or reconstruction, renovation, alteration, or repairs to the extent of capitalisation to the immovable property even though it is used for the purpose of business except when it is an input service for further taxable supply of the same business. But there is a provision to claim input tax credit on installation of plant and machinery for the course of business purposes. The input tax credit is prohibited on goods and services, which are paid the tax and bought from the scheme of composition dealers or traders. The goods and services are received by nonresident taxable person, is not allowed to entitle the input tax credit by recipient, except goods are imported by him. There is a ban of input tax credit on goods and services used for the personal consumption. There is forbid of input tax credit on goods lost, stolen, destroyed written off or disposed of by way of as gifts or free samples and the goods which are detention, seizure, confiscation or conveyances and levy penalty, wilful misstatement or suppression of facts etc.

10. Conclusion

The recipient could utilize the entitled input tax credit on inputs of goods and services with capital goods. Initially, claimed input tax credit should be credited to the electronic credit ledger of GSTN from there then credited input tax credit could be utilized for payment of output tax liability in the following manner which is prescribed as per provision of the GST Act. The credited input tax credit must be utilized in a prescribed manner for payment of tax liability with effect from financial year 2019-20.

- For payment of IGST Tax Liability = Input Tax Credit of IGST, CGST and SGST.
- For payment of CGST Tax Liability = Input Tax Credit of IGST and CGST.
- For payment of SGST Tax Liability = Input Tax Credit of IGST and SGST.

Table 2: Sequential order for utilization of ITC

Tax Liability	Input Tax Credit Utilization Order		
	1 st Adjustment	2 nd Adjustment	3 rd Adjustment
IGST	IGST	CGST	SGST
CGST	IGST	CGST	NA
SGST	IGST	SGST	NA

11. References

1. Ashok TN. "Creating a Unified Taxation Regime" Yojana, A Development Monthly. 2017; 61(8):12-15.
2. Bhovi Balaji. "Indian Indirect Tax Reforms through Goods and Service Tax" International Journal of Business and Administration Research Review. 2017; 2(18):143-147.

3. Dasgupta Asim Kumar. "First Discussion Paper on Goods and Services Tax in India" The Empowered Committee of State Finance Ministers, 2009, 1-53.
4. Goods and services Tax and related topics at Clear Tax retrieved from <https://cleartax.in/s/gst-law-goods-and-services-tax>
5. Government Report 'GST-Input Tax Credit Mechanism' Directorate General of Taxpayer Services, Central Board of Excise and Customs, Government of India, 2017.
6. Government Report 'Goods and Services Tax Rules', Department of Revenue, Ministry of Finance, Government of India, 2018.
7. Government Reports 'Goods and Services Tax Acts', Department of Revenue, Ministry of Finance, Government of India, 2018.
8. Luthai Rajive, Maru Jinal. 'Input Tax Credit – Eligibility and Conditions for taking ITC and utilization', The Chamber of Tax Consultant Journal. 2017; 6(3):22-25.
9. Shah Ashit. 'Refund of Input Tax Credits', the Chamber of Tax Consultant Journal. 2017; 6(3):71-76.
10. Shah R Jinit. 'Matching Concept under ITC', the Chamber of Tax Consultant Journal. 2017; 6(3):63-70.
11. Sheth Naresh, Jain Piyush. 'Apportionment of Credit and Blocked Credit under Goods and Services Tax', the Chamber of Tax Consultant Journal. 2017; 6(3):26-33.