Input Credit

Budget 2021 update : Section 16 amended to allow taxpayers' claim of the input tax credit based on GSTR-2A and GSTR-2B. Henceforth, the input tax credit on invoice or debit note may be availed only when the details of such invoice or debit note have been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note.

A significant change that GST introduced was the mechanism of input credit under GST.

1. Following are the changes in Rule 36(4) from 1st January 2021:

   1. The ITC shall be available as per the invoices uploaded by respective suppliers either in their GSTR-1 or by using the Invoice Furnishing Facility (IFF).
   2. The recipients can claim provisional input tax credit in GSTR-3B to the extent of 5% instead of earlier 10% of the total ITC available in GSTR-2B for the month.

2. Certain taxpayers cannot make payment from their electronic credit ledger in excess of 99% of the total tax liability for the tax period as per a new rule 86B.

3. GST Registration can be canceled if the conditions laid down under Section 16 of the CGST Act are not complied with.

Update as on 3rd April 2020

The CBIC has notified that taxpayers can claim input tax credit in the GSTR-3B return from February 2020 to August 2020, without applying the rule of capping provisional ITC claims at 10% of the eligible ITC as per GSTR-2A.

While filing the GSTR-3B of September 2020, the taxpayers must cumulatively adjust ITC as per the above rule from February 2020.

Update as on 1st Jan 2020

The CBIC has revised the extent of provisional input tax credit claims from 20% to 10%.

Update as on 9th October 2019

The CBIC has notified that the input tax credit that can be availed by a registered person in respect of invoices or debit notes, will be restricted to 20% of of the eligible credit available in respect of invoices or debit notes as per details uploaded by the suppliers.

Part 1# What is input credit?

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs.

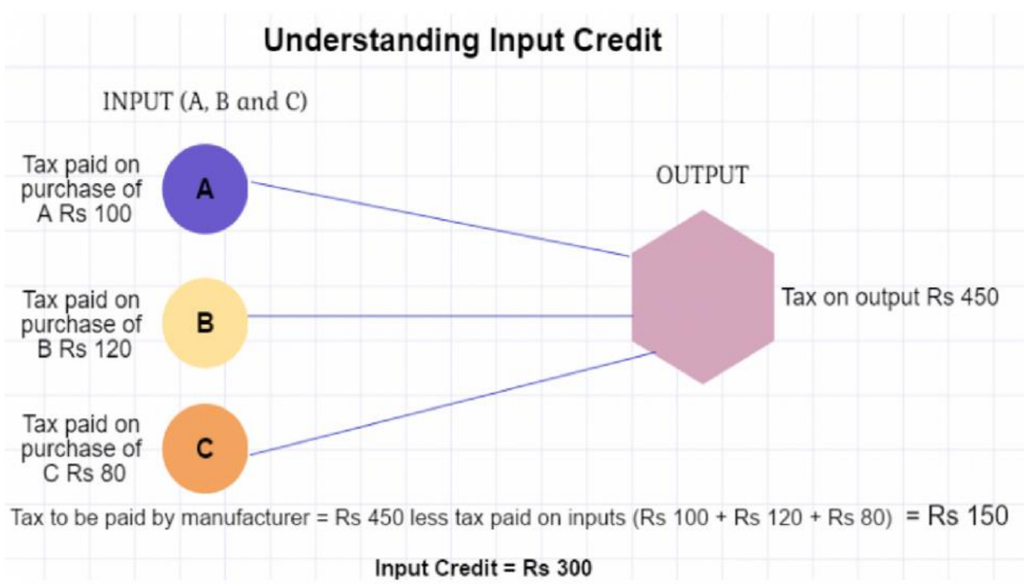
Say, you are a manufacturer –

tax payable on output (FINAL PRODUCT) is Rs 450

tax paid on input (PURCHASES) is Rs 300

You can claim INPUT CREDIT of Rs 300 and you only need to deposit Rs 150 in taxes.

See here:



Input Credit in GST

Input Credit Mechanism is available to you when you are covered under the GST Act.

Which means if you are a manufacturer, supplier, agent, e-commerce operator, aggregator or any of the persons mentioned here, registered under GST, You are eligible to claim INPUT CREDIT for tax paid by you on your PURCHASES.

How to claim input credit under GST?

To claim input credit under GST –

- You must have a tax invoice(of purchase) or debit note issued by registered dealer

Note: Where goods are received in lots/installments, credit will be available against the tax invoice upon receipt of last lot or installment.

- You should have received the goods/services

Note: Where recipient does not pay the value of service or tax thereon within 3 months of issue of invoice and he has already availed input credit based on the invoice, the said credit will be added to his output tax liability along with interest.

- The tax charged on your purchases has been deposited/paid to the government by the supplier in cash or via claiming input credit
- Supplier has filed GST returns

Possibly the most path breaking reform of GST is that input credit is ONLY allowed if your supplier has deposited the tax he collected from you. So every input credit you are claiming shall be matched and validated before you can claim it.

Therefore, to allow you to claim input credit on Purchases all your suppliers must be GST compliant as well.

There's more you should know about input credit –

- It is possible to have unclaimed input credit. Due to tax on purchases being higher than tax on sale. In such a case, you are allowed to carry forward or claim a refund.

If tax on inputs > tax on output –> carry forward input tax or claim refund

If tax on output > tax on inputs –> pay balance

No interest is paid on input tax balance by the government

- Input tax credit cannot be taken on purchase invoices which are more than one year old. Period is calculated from the date of the tax invoice.
- Since GST is charged on both goods and services, input credit can be availed on both goods and services (except those which are on the exempted/negative list).
- Input tax credit is allowed on capital goods.
- Input tax is not allowed for goods and services for personal use.
- No input tax credit shall be allowed after GST return has been filed for September following the end of the financial year to which such invoice pertains or filing of relevant annual return, whichever is earlier.

Part # 2 Type of Taxes under GST

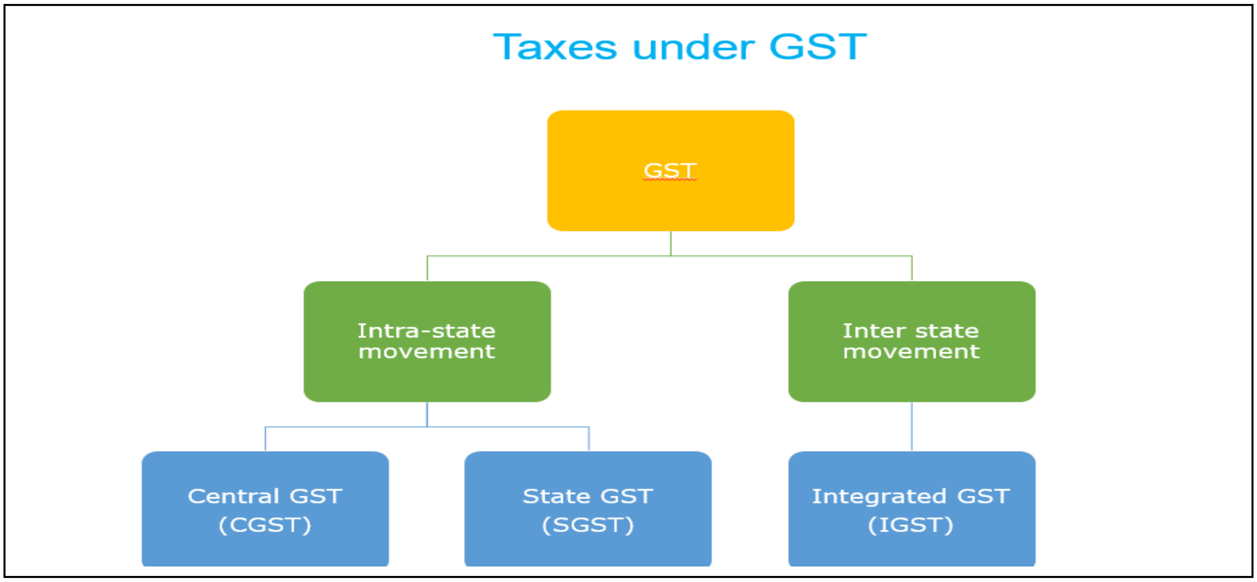
All existing taxes such as VAT, CST, Excise Duty, Service Tax, Entertainment Tax shall go away and GST will replace them.

There are 3 types of taxes under GST

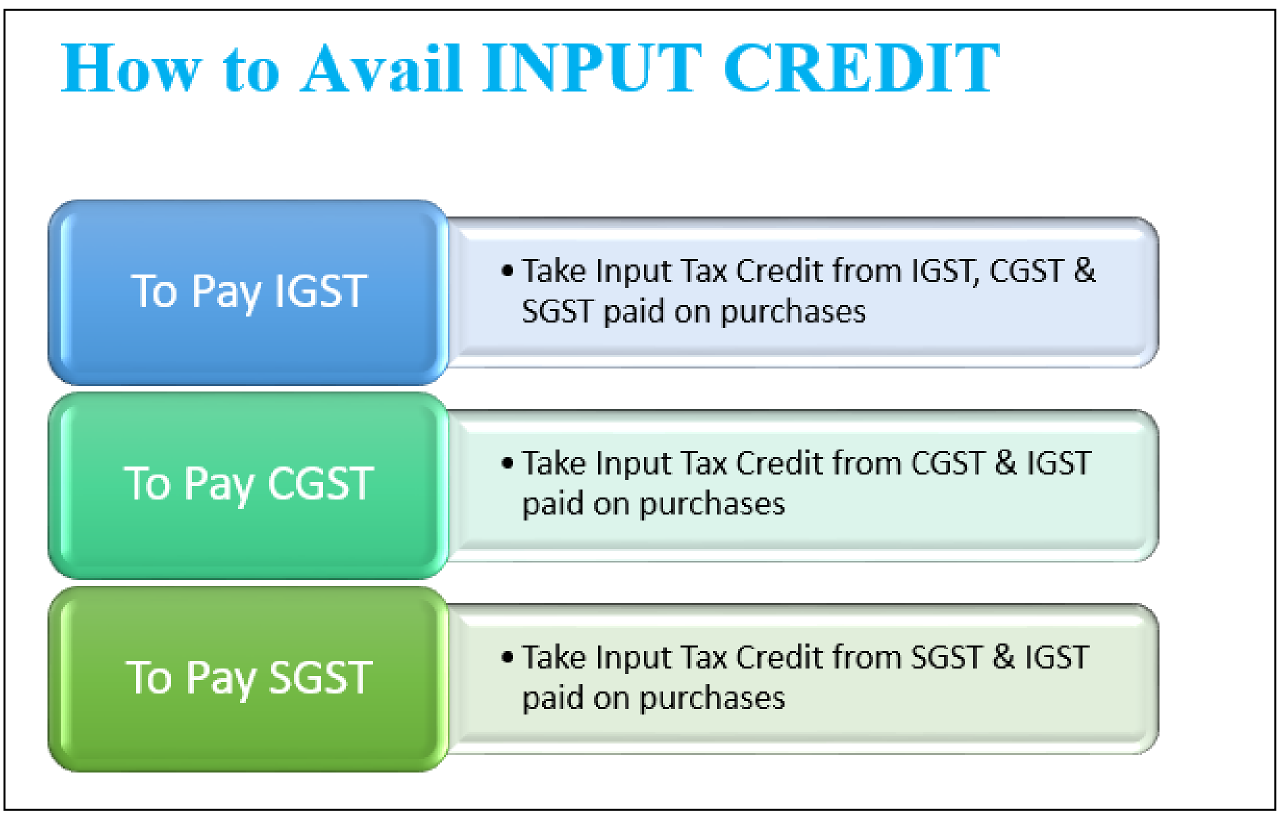
SGST – State GST

CGST – Centre GST

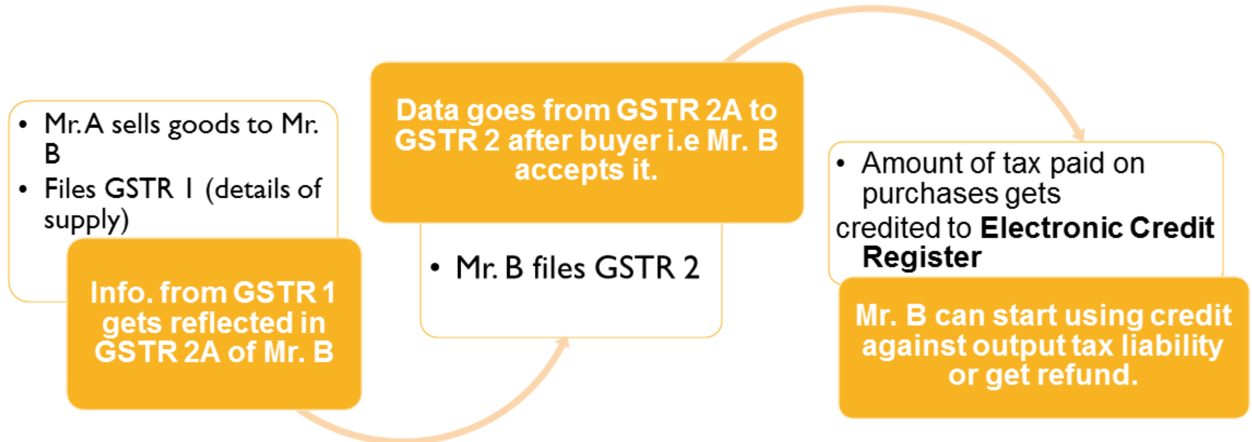
IGST – Integrated GST



Now let's understand how INPUT CREDIT works under GST



Suppose there is a seller Mr A and he sells his goods to Mr B. Here Mr B i.e the buyer will be eligible to claim the credit on purchases based on the invoices. Let's understand how:



Step 1: Mr A will upload the details of all tax invoices issued in GSTR 1.

Step 2. The details with respect to sales to Mr B will auto populate/ get reflected in GSTR 2A, the same data will be pulled when Mr B will file GSTR 2 (i.e details of inward supply).

Step 3: Mr B will then accept the details that the purchase has been made and reported by the seller correctly and subsequently the tax on purchases will be credited to 'Electronic Credit Ledger' of Mr B and he can adjust it against future output tax liability and get the refund.

REMEMBER:

- **CGST: CGST ITC availed against CGST but cannot be used to pay SGST liability**
- **SGST: SGST ITC availed against SGST but cannot be used to pay CGST liability**
- **CGST & SGST ITC CANNOT BE USED TO PAY EACH OTHER**

2. Who can claim ITC?

ITC can be claimed by a person registered under GST only if he fulfills ALL the conditions as prescribed.

a. The dealer should be in possession of tax invoice

b. The said goods/services have been received

c. Returns have been filed.

d. The tax charged has been paid to the government by the supplier.

e. When goods are received in installments ITC can be claimed only when the last lot is received.

f. No ITC will be allowed if depreciation has been claimed on tax component of a capital good

A person registered under composition scheme in GST cannot claim ITC.

3. What can be claimed as ITC?

ITC can be claimed only for business purposes. ITC will not be available for goods or services exclusively used for: a. Personal use b. Exempt supplies c. Supplies for which ITC is specifically not available

4. How to claim ITC?

All regular taxpayers must report the amount of input tax credit(ITC) in their monthly GST returns of Form GSTR-3B. The table 4 requires the summary figure of eligible ITC, Ineligible ITC and ITC reversed during the tax period. The format of the Table 4 is given below:

4. **Eligible ITC**

Details	Integrated Tax	Central Tax	State/UT Tax	Cess
1	2	3	4	5
(A) ITC Available (whether in full or part)				
(1) Import of goods				
(2) Import of services				
(3) Inward supplies liable to reverse charge (other than 1 & 2 above)				
(4) Inward supplies from ISD				
(5) All other ITC				
(B) ITC Reversed				
(1) As per rules 42 & 43 of CGST Rules				
(2) Others				
(C) Net ITC Available (A) – (B)				
(D) Ineligible ITC				
(1) As per section 17(5)				
(2) Others				

A taxpayer can claim ITC on a provisional basis in the GSTR-3B to an extent of 20% of the eligible ITC reported by suppliers in the auto-generated GSTR-2A return. Hence, a taxpayer should cross-check the GSTR-2A figure before proceeding to file GSTR-3B. A taxpayer could have claimed any amount of provisional ITC until 9 October 2019. But, the CBIC has notified that from 9 October 2019, a taxpayer can only claim not more than 20% of the eligible ITC available in the GSTR-2A as provisional ITC. This means taht the amount of ITC reported in the GSTR-3B from 9 October 2019 will be the total of the actual ITC in GSTR-2A and the provisional ITC being 20% of the actual eligible ITC in the GSTR-2A. Hence, matching of the purchase register or expense ledger with the GSTR-2A becomes crucial.

5. Reversal of Input Tax Credit

ITC can be availed only on goods and services for business purposes. If they are used for non-business (personal) purposes, or for making exempt supplies ITC cannot be claimed . Apart from these, there are certain other situations where ITC will be reversed.

ITC will be reversed in the following cases-

1) Non-payment of invoices in 180 days– ITC will be reversed for invoices which were not paid within 180 days of issue.

2) Credit note issued to ISD by seller– This is for ISD. If a credit note was issued by the seller to the HO then the ITC subsequently reduced will be reversed.

3) Inputs partly for business purpose and partly for exempted supplies or for personal use – This is for businesses which use inputs for both business and non-business (personal) purpose. ITC used in the portion of input goods/services used for the personal purpose must be reversed proportionately.

4) Capital goods partly for business and partly for exempted supplies or for personal use - This is similar to above except that it concerns capital goods.

5) ITC reversed is less than required- This is calculated after the annual return is furnished. If total ITC on inputs of exempted/non-business purpose is more than the ITC actually reversed during the year then the difference amount will be added to output liability. Interest will be applicable.

The details of reversal of ITC will be furnished in **GSTR-3B.** To find out more about the segregation of ITC into business and personal use and subsequent calculations, please visit our article.

6. Reconciliation of ITC

ITC claimed by the person has to match with the details specified by his supplier in his GST return. In case of any mismatch, the supplier and recipient would be communicated regarding discrepancies after the filling of GSTR-3B. Learn how to go about reconciliation through our article on GSTR-2A Reconciliation. Please read our article on the detailed explanation of the reasons for mismatch of ITC and procedure to be followed to apply for re-claim of ITC.

7. Documents Required for Claiming ITC

The following documents are required for claiming ITC:

1. Invoice issued by the supplier of goods/services
2. The debit note issued by the supplier to the recipient (if any)
3. Bill of entry
4. An invoice issued under certain circumstances like the bill of supply issued instead of tax invoice if the amount is less than Rs 200 or in situations where the reverse charge is applicable as per GST law.
5. An invoice or credit note issued by the Input Service Distributor(ISD) as per the invoice rules under GST.
6. A bill of supply issued by the supplier of goods and services or both.

8. Special cases of ITC

a. ITC for Capital Goods

ITC is available for capital goods under GST.

However, ITC is not available for- i. Capital Goods used exclusively for making exempted goods ii. Capital Goods used exclusively for non-business (personal) purposes ***Note: No ITC will be allowed if depreciation has been claimed on tax component of capital goods.***

b. ITC on Job Work

A principal manufacturer may send goods for further processing to a job worker. For example, a shoe manufacturing company sends half-made shoes (upper part) to job workers who will fit the soles. In such a situation the principal manufacturer will be allowed to take credit of tax paid on the purchase of such goods sent on job work.

ITC will be allowed when goods are sent to job worker in both the cases:

1. From principal's place of business
2. Directly from the place of supply of the supplier of such goods

However, to enjoy ITC, the goods sent must be received back by the principal within 1 year (3 years for capital goods).

c. ITC Provided by Input Service Distributor (ISD)

An input service distributor (ISD) can be the head office (mostly) or a branch office or registered office of the registered person under GST. ISD collects the input tax credit on all the purchases made and distribute it to all the recipients (branches) under different heads like CGST, SGST/UTGST, IGST or cess.

d. ITC on Transfer of Business

This applies in cases of amalgamations/mergers/transfer of business. The transferor will have available ITC which will be passed to the transferee at the time of transfer of business.