

# 8

## CHAPTER

# INPUT TAX CREDIT

### INPUT TAX [SEC. 2(62) OF CGST ACT]

“Input tax” in relation to a registered person, means the 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 charged on import of goods
- Tax payable on reverse charge basis under IGST Act/SGST Act/CGST Act/UTGST Act.
- But excludes tax paid under composition levy.

Therefore, ‘Input tax credit’ is the tax paid by a registered person under the Act whether on forward charge or reverse charge for the use of such goods or services or both in the course or furtherance of his business.

### Capital Goods [Sec. 2(19) of CGST Act]

Capital Goods means goods, the value of which is capitalized in the books of account of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business.

### Input [Sec. 2(59) of CGST Act]

“Input” means

- Any goods,
- Other than capital goods,
- Used or intended to be used by a supplier,
- In the course or furtherance of business

### Input Service [Sec. 2(60) of CGST Act]

“Input service” means

- Any service

- Used or intended to be used by a supplier
- In the course or furtherance of business

### **Eligibility and Conditions for taking Input Tax Credit [Sec. 16 of CGST Act]**

- (a) Registered person to take credit:** Every registered person subject to Section 49, shall be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business. The input tax credit is credited to the electronic credit ledger.
- (b) Conditions for availment of credit by registered person:** Subject to section 41, input tax credit is available only if -
- (i) He has received goods or services or both. The goods and or services must be used **by him** in the course or furtherance **of his** business.
  - (ii) The input tax credit shall be availed by a registered person, including the Input Service Distributor, on the basis of any of the following documents, namely:
    - (a) An invoice issued by the supplier of goods or services or both in accordance with the provisions of section 31;
    - (b) A debit note issued by a supplier in accordance with the provisions of section 34;
    - (c) A bill of entry;
    - (d) An invoice issued in accordance with the provisions of section 31(3)(f);
    - (e) A document issued by an input Service Distributor in accordance with the provisions of sub-rule (1) of rule invoice 7;
    - (f) A document issued by an Input Service Distributor, as prescribed in clause (g) of sub-rule (1) of rule 4.
  - (iii) The said document must contain all the prescribed particulars specified in the Invoice Rules. It may be noted that Invoice or such other document can contain additional details other than those prescribed but no less.
  - (iv) Supplier of goods and/or services must upload the details of such document in the common portal *i.e.* GSTN.
  - (v) The supplier has paid the said amount of tax (as charged in the invoice) to appropriate Government in cash or by way of utilization of input tax credit, as admissible;
  - (vi) He (claimant of input tax credit) has furnished return under section 39 in FORM-GSTR 2;

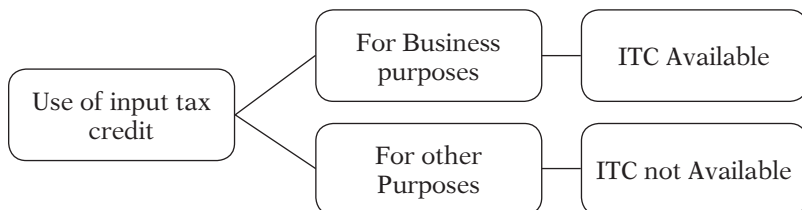
- (vii) **Goods received in Instalments:** If goods are received in instalments against a single invoice, credit can be taken upon receipt of last instalment of goods.
- (viii) **Failure to pay to supplier of goods or service or both, the value of supply and tax thereon:** If recipient of goods or service or both has not paid the supplier within 180 days from date of invoice, the amount equal to input tax credit availed will be added to output liability of the recipient. Such non-payment of the value of invoice must be admitted in the return filed in FORM-GSTR 2 (Rule 2) for the month immediately following the period of 180 days from the date of issue of invoice. The said input tax credit can be re-availed on payment of value of supply and tax payable thereon.
- (ix) **Tax component of Capital goods on which depreciation is claimed:** Where the registered person has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income Tax Act, 1961, the input tax credit shall not be allowed on the said tax component.
- (x) **Time limit to avail the input tax credit:** A registered person is not entitled to take input tax credit on invoice/debit notes after due date of furnishing of the return under section 39 for the month of September of the subsequent financial year or furnishing of the relevant annual return, whichever is earlier.
- (xi) No registered person is permitted to avail any input tax credit pursuant to an order of demand on account of fraud, wilful misstatement, or suppression of fact.

### Apportionment of Credit and Blocked Credit [Sec. 17]

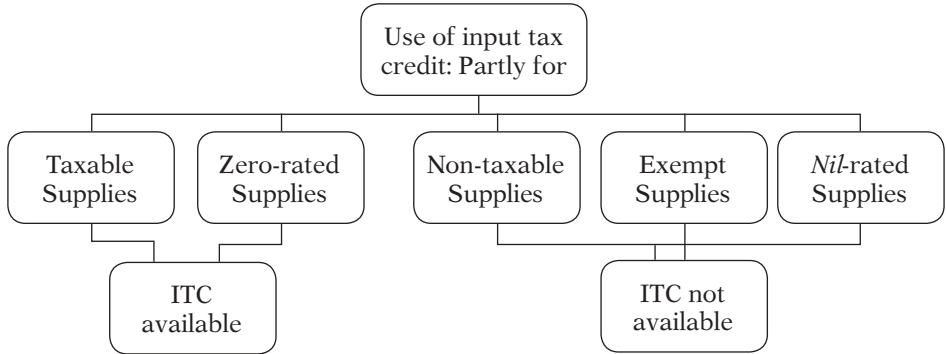
The input tax credit eligibility is based on whether the same is used for taxable supplies or zero rated supplies. Where the goods or service is used for both taxable and exempted supplies, only proportionate credit is eligible for registered person. Further, a list of ineligible input tax credit is also provided.

### Proportionate Credit

#### ITC based on usage in Business



## ITC based on use of Inputs



The value of **exempt supplies shall include** supply on which tax is paid under Reverse Charge, transaction in securities, sale of land and sale of building. Supplies in respect of which the outward supplier is not liable to pay tax but the recipient is made liable to pay the tax, then due to section 17(3), for the limited purpose of restricting input tax credit to the supplier (who is not made responsible to pay tax due to RCM provisions) the value of these supplies will be regarded as 'exempt supplies' while arriving at the net available input tax credit. Doubts have been raised whether such supplies should be included as exempt supplies by the recipient who pays the tax (on RCM basis). This is not the case, as the recipient has not made such supply.

### Banking Company or financial institution including NBFC engaged in accepting deposits, extending loans or advances

There is an option allowed as detailed in Rule 3 as follows:

- (i) Refrain from availing input tax credit relatable to 'non-business purposes' and not avail any credit restricted u/s 17(5) and make this election known in FORM-GSTR 2 or
- (ii) Avail full extent of credit on inter-branch supply of services of the banking or NBFC company and also avail 50% of 'all other' input tax credits. 'All other' credits refer to input tax credit that would have been available u/s 16 before administering the restriction in this section.

### Restrictions on ITC [Sec. 17(5)]

Blocked credits