



Date: 18 April 2021

**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

**INTERMEDIATE LEVEL
PAPER 4B: INDIRECT TAXES
INPUT TAX CREDIT**

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INTRODUCTION

Pre-GST -

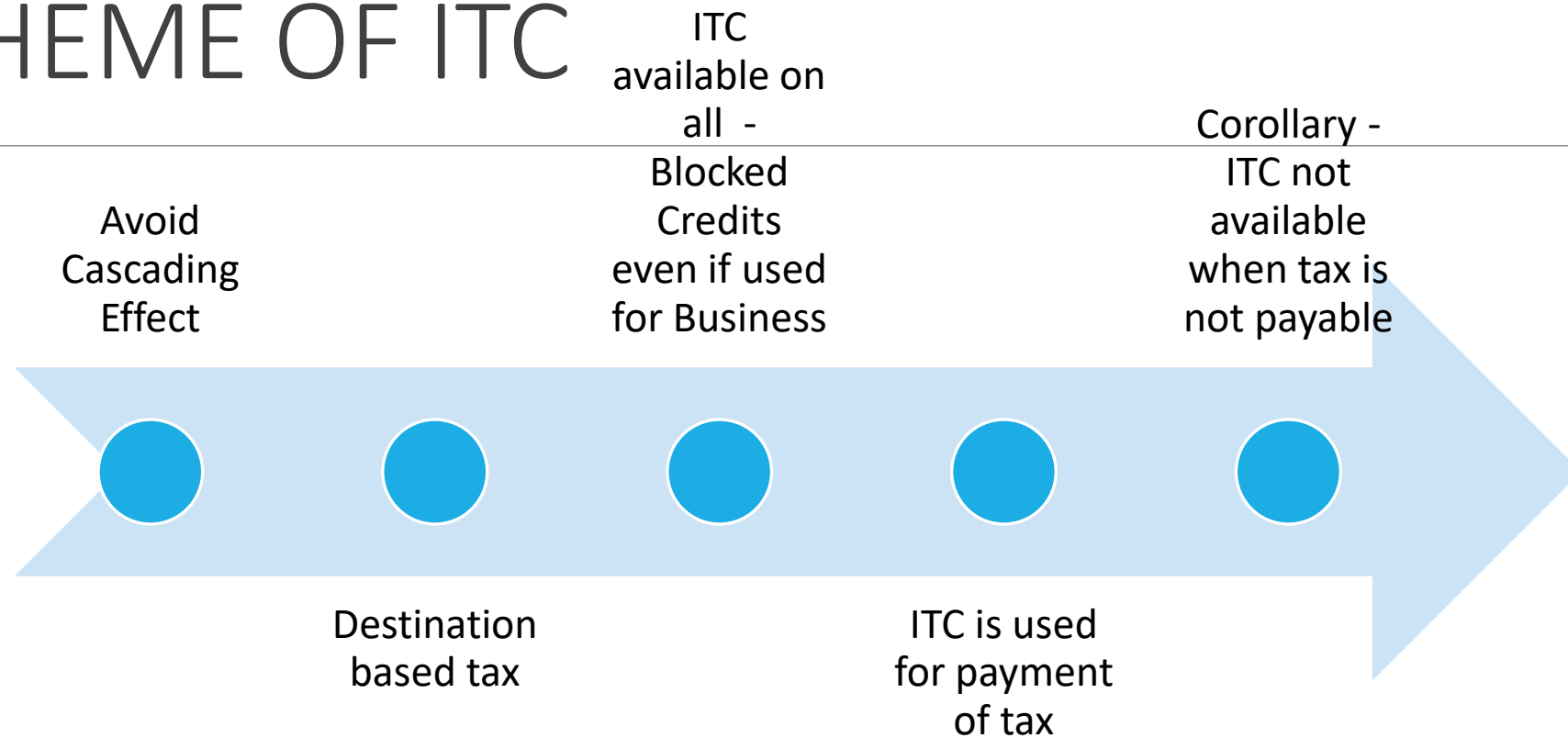
- CENVAT
- VAT

- No Fungibility between CENVAT and VAT
- CST was levied on interstate transactions without Credit

- Under GST, seamless credit on goods & services, exception is supplies charged to tax under Composition scheme and supply of Exempted goods or services

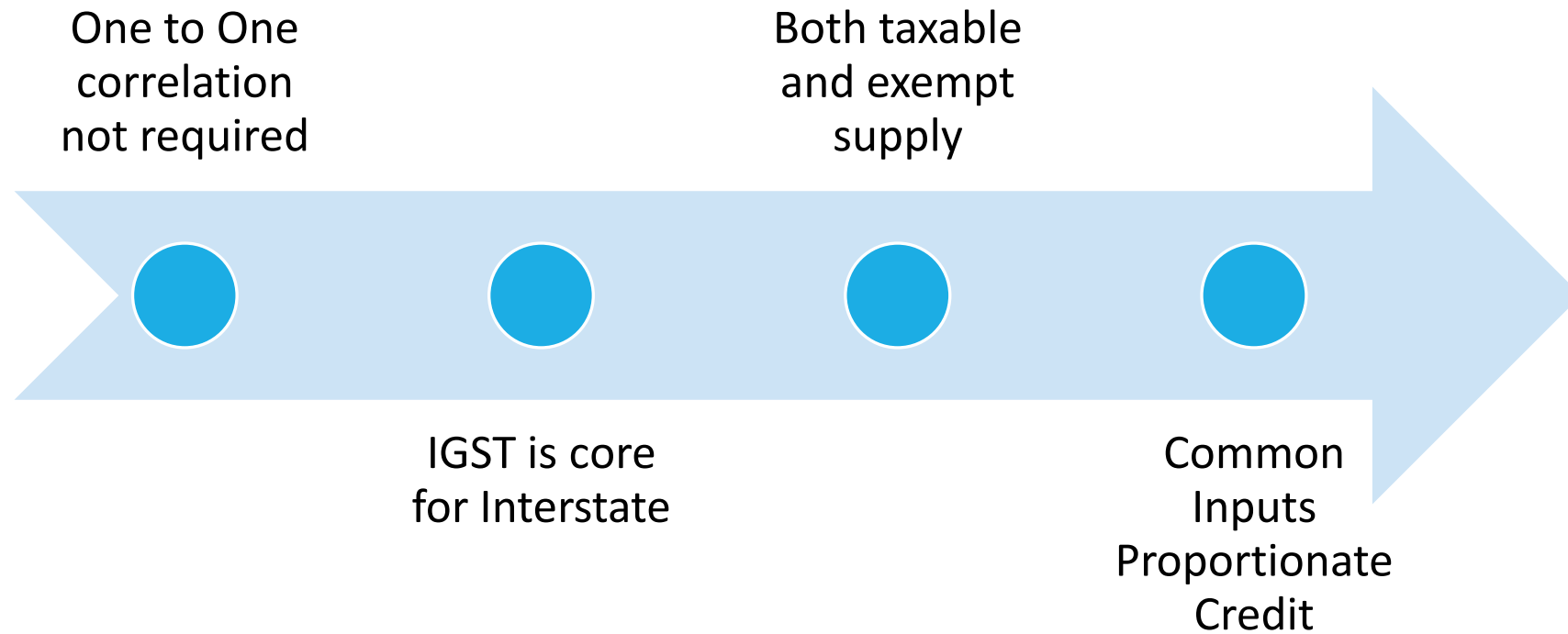


SCHEME OF ITC





SCHEME OF ITC





Important Definitions

Capital Goods 2(19) – Goods, the value of which is capitalized in the books of accounts + used or intended to be used in the course or furtherance of Business

Exempt supply – means

➤ Supply of any goods or services or both **which attracts nil rate of tax or** which may be **wholly exempt from tax** under Section 11 or 6.

Includes ➤ **Non- taxable supply**

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 means any service used or intended to be used by a supplier in the course or furtherance of business;



Important Definitions - Input Tax 2(62)

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 -

- (a) the IGST charged on import of goods;
 - (b) the tax payable under the provisions of sub-sections (3) and (4) of section 9;
 - (c) the tax payable under the provisions of sub-sections (3) and (4) of section 5 of the IGST Act;
 - (d) the tax payable under the provisions of sub-sections (3) and (4) of section 9 of the respective State Goods and Services Tax Act; or
 - (e) the tax payable under the provisions of sub-sections (3) and (4) of section 7 of the UTGST Act,
- but does not include the tax paid under the composition levy.



Important Definitions

Taxable Supply – means a supply of goods or services or both which is leviable to tax under this Act.

Zero rated supply means any of the following supplies of goods or services or both, namely:—

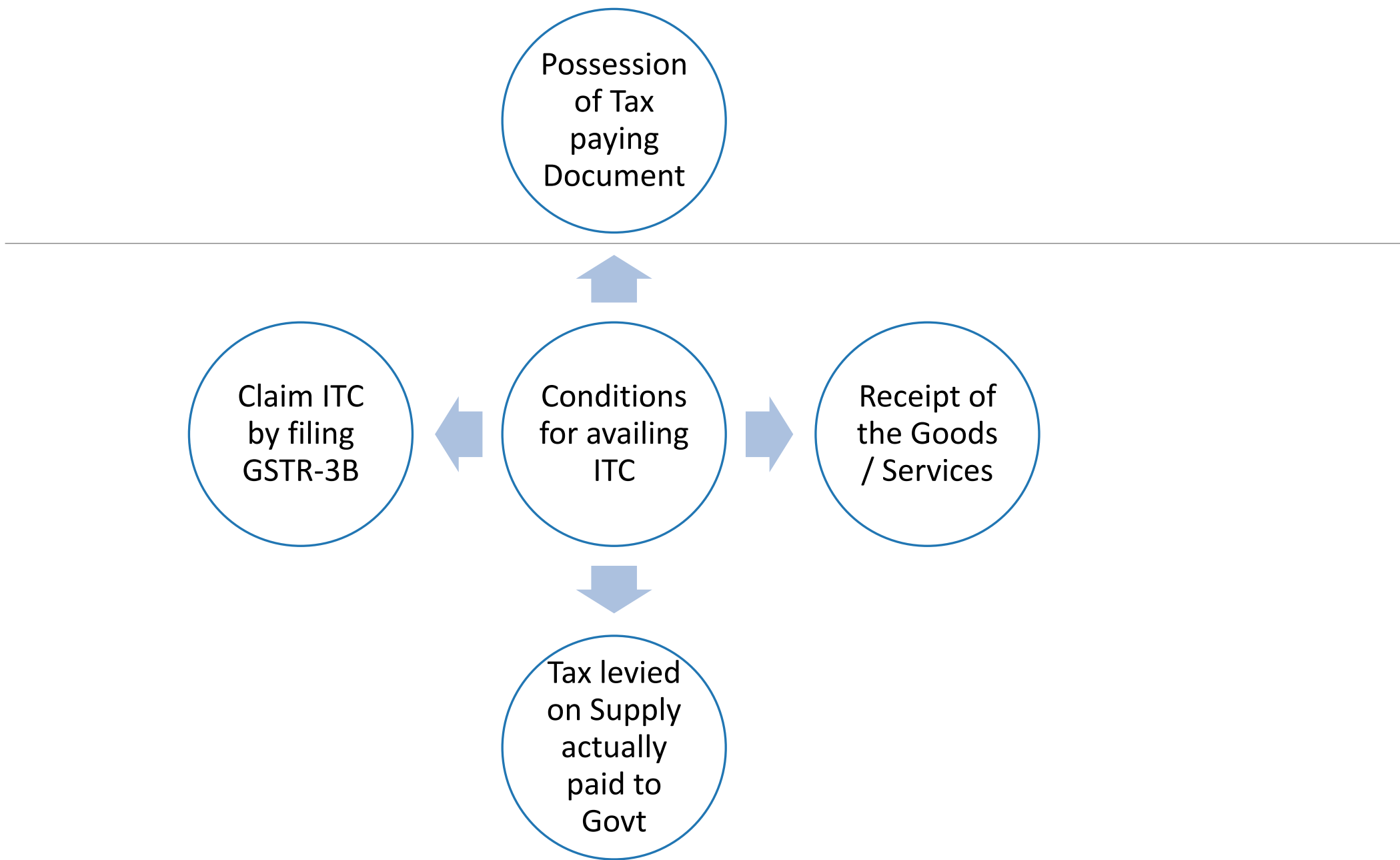
- (a) export of goods or services or both; or
- (b) supply of goods or services or both to a SEZ developer or a SEZ unit.



Eligibility for taking ITC - 16(1)



Such ITC is credited in Electronic Credit ledger





Condition 1: Tax paying Document

- Invoice issued by the supplier of goods or services
- Invoice issued by the recipient receiving goods / services from unregistered supplier along with proof of payment of tax
- Debit Note issued by the supplier
- Bill of Entry
- Revised Invoice
- Document issued by an Input Service Distributor

No ITC of tax paid towards demands involving fraud

Minimum Requirements in the Document

- **GSTIN** of the supplier and recipient.
- **Description** of goods or services
- **Total value** of supply of goods and/or services
- Amount of **tax charged**.
- **Place of supply** in case of inter-State supply.



GSTIN : 24HDE7487RE5RT4 **TAX INVOICE** **ORIGINAL FOR RECIPIENT**

Customer Detail		Invoice No.	GST112020	Invoice Date	04-Mar-2020
M/S	Kevin Motors	Challan No.	865	Challan Date	03-Mar-2020
Address	Chandani Chok, New Delhi, Opposite Statue, New Delhi, Delhi - 110014	P.O. No.	66	DELIVERY DATE	04-Mar-2020
PHONE	9372346666	L.R. No.	958	Reverse Charge	No
GSTIN	07AOLCC1206D1ZG	E-Way No.	EWB54864584	Due Date	19-Mar-2020
Place of Supply	Delhi (07)				

Sr. No.	Name of Product / Service	HSN / SAC	Qty	Rate	Taxable Value	IGST		Total
						%	Amount	
1	Automatic Saw	8202	1.00 PCS	586.00	586.00	9.00	52.74	638.74
2	Stanley Hammer Claw Hammer Steel Shaft (Black and Chrome)	8205	1.00 PCS	568.00	568.00	9.00	51.12	619.12
Total			2.00		1,154.00		103.86	1,257.86

Total in words	Taxable Amount	1,154.00
ONE THOUSAND TWO HUNDRED AND FIFTY-EIGHT RUPEES ONLY	Add : IGST	103.86
	Total Tax	103.86

Bank Details		Total Amount After Tax	₹ 1,258.00
Bank Name	State Bank of India	(E & O.E.)	
Branch Name	RAF CAMP	GST Payable on Reverse Charge	N.A.
Bank Account Number	200000004512	Certified that the particulars given above are true and correct.	
Bank Branch IFSC	SBIN0000488	For Gujarat Freight Tools	

Terms and Conditions	For Gujarat Freight Tools
1. Subject to Ahmedabad Jurisdiction. 2. Our responsibility ceases as soon as the goods leave our premises. 3. Goods once sold will not be taken back. 4. Delivery ex-premises.	This is computer generated invoice no signature required.
	Authorised Signatory



GSTR-2A & Rule 36(4)

ITC on invoices/debit notes which have been uploaded by the suppliers in their GSTR-1s



100% ITC can be claimed on such invoices/debit notes, if all other conditions of availing ITC are fulfilled

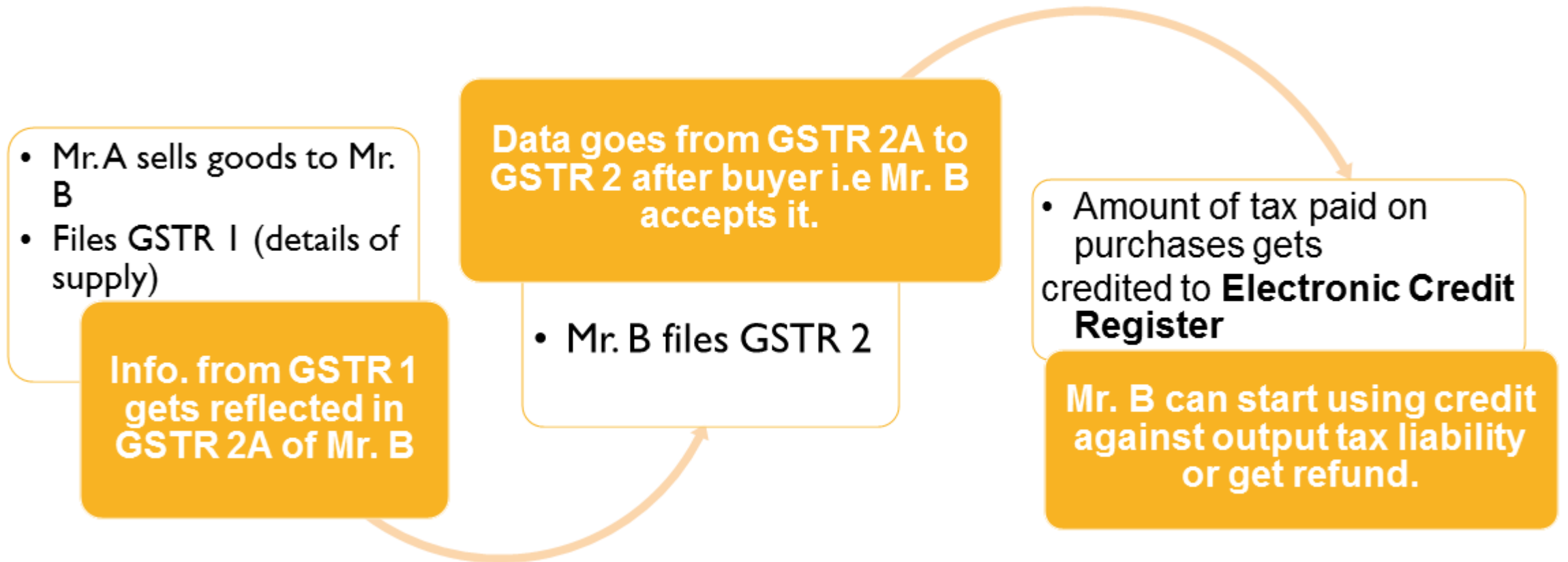
ITC on invoice/debit note which have not been uploaded by suppliers in their GSTR-1s



10% of the eligible ITC available on invoices/debit notes uploaded by suppliers in their GSTR-1s can be claimed on such invoices/debit notes.

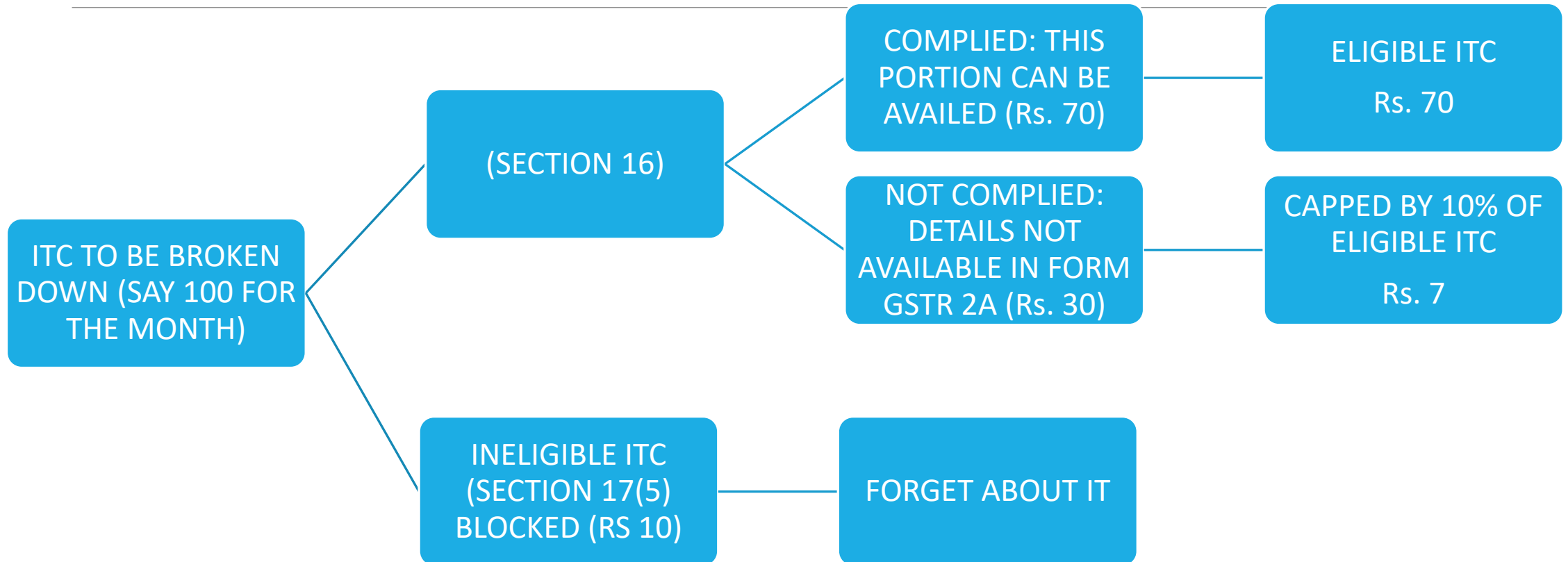


GSTR-2A & Rule 36(4)





GSTR-2A & Rule 36(4)



Case <u>Purchase as per Books</u> <u>Rs 9 lakhs</u>	Details of supplier's invoices reflecting in GSTR-2A for which Recipient is eligible to take ITC	10% of eligible credit where invoices are uploaded	Eligible ITC to be taken in GSTR - 3B to be filed by 20th of next month
Case 1	Suppliers have furnished in FORM GSTR-1 80 invoices involving ITC of Rs. 6 lakhs as on the due date of furnishing of the details of outward supplies by the suppliers	Rs 60,000/-	Rs. 6,00,000 (i.e., amount of eligible ITC available, as per details uploaded by the suppliers) Rs. 60,000 (i.e., 10% of amount of eligible ITC available, as per details uploaded by the suppliers) = Rs. 6,60,000/-
Case 2	Suppliers have furnished in FORM GSTR-1 80 invoices involving ITC of Rs. 7 lakhs as on the due date of furnishing of the details of outward supplies by the suppliers	Rs 70,000/-	Rs. 7,00,000 + Rs. 70,000= Rs. 7,70,000
Case 3	Suppliers have furnished in FORM GSTR-1 75 invoices involving ITC of Rs. 8.5 lakhs as on the due date of furnishing of the details of outward supplies	Rs 85,000/-	Rs. 8,50,000 + Rs. 85,000= Rs. 9,35,000 Rs. 8,50,000 + Rs. 50,000= Rs. 9,00,000 The additional amount of ITC availed shall be limited to ensure that the total ITC availed does not exceed the total eligible ITC



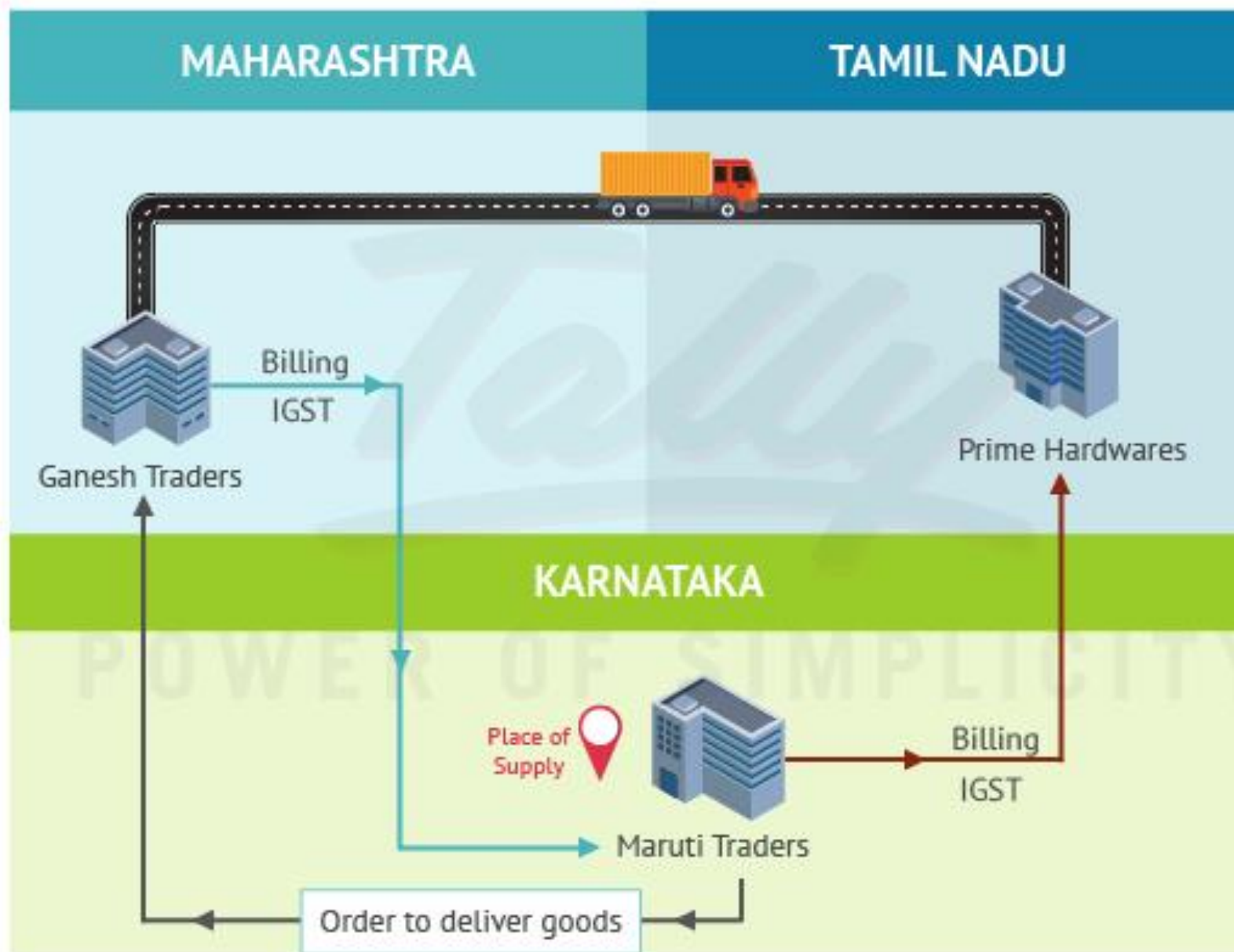
GSTR-2A & Rule 36(4)

- The Eligible Amount of ITC as per Books cannot exceed the Credit admissible i.e. amount uploaded by the supplier + 10%.
- Invoice on which ITC is not available, i.e blocked credits should not be considered for the calculation of 10%.
- Full ITC can be availed on –
 - Imports
 - Credit on Reverse Charge
 - Credit from Input Service Distributor (ISD)
- Restriction is calculated on consolidated basis.



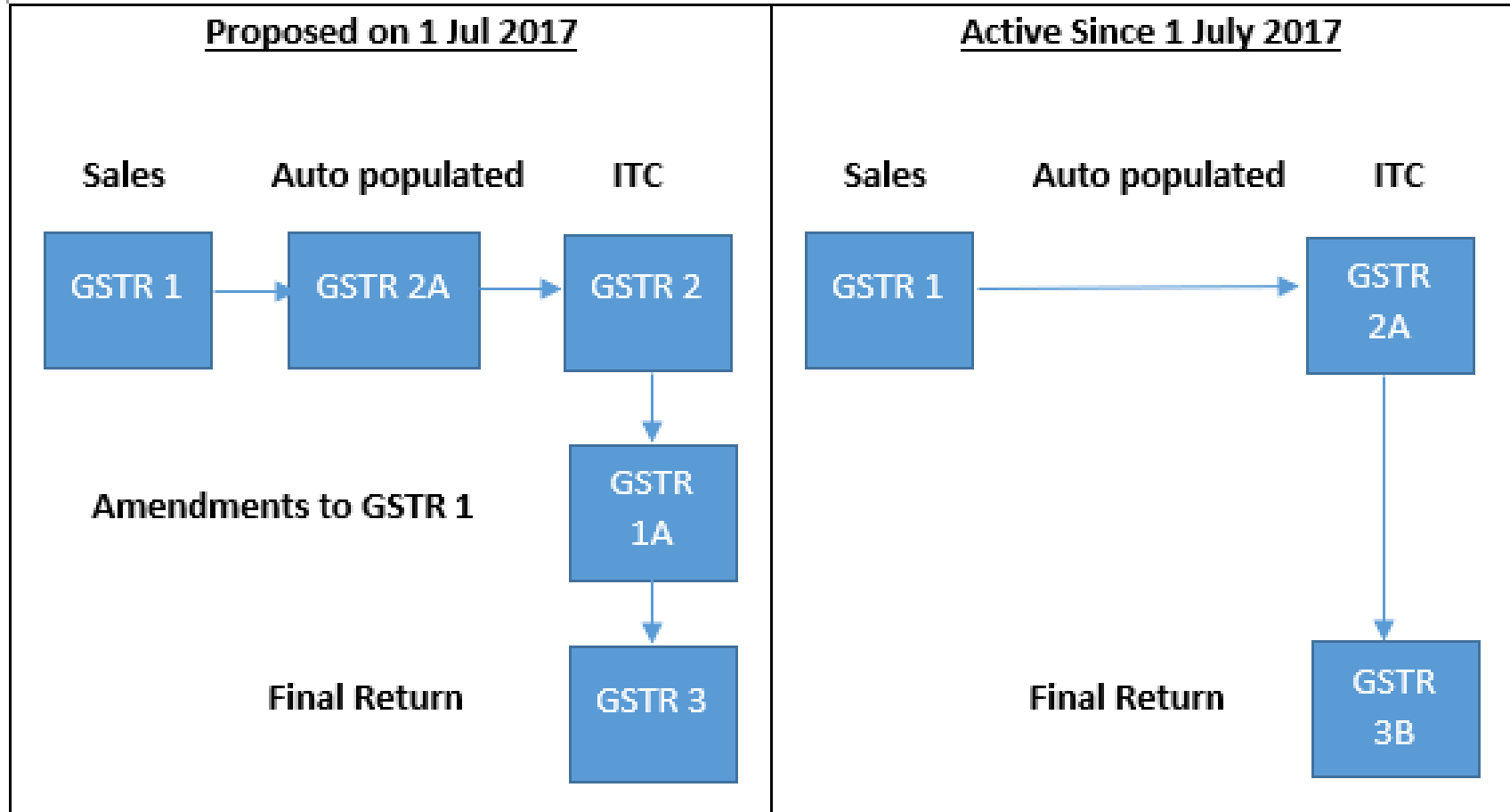
Condition 2: Actual Receipt of Goods/Services

- Recipient shall have received the goods by own or by his agent or other person on his behalf to claim ITC.
- If recipient has paid advance to supplier for supply in future date, then ITC shall not be allowed on such advance payment by recipient
- Bill to Ship To transactions permitted for Goods and/or Services



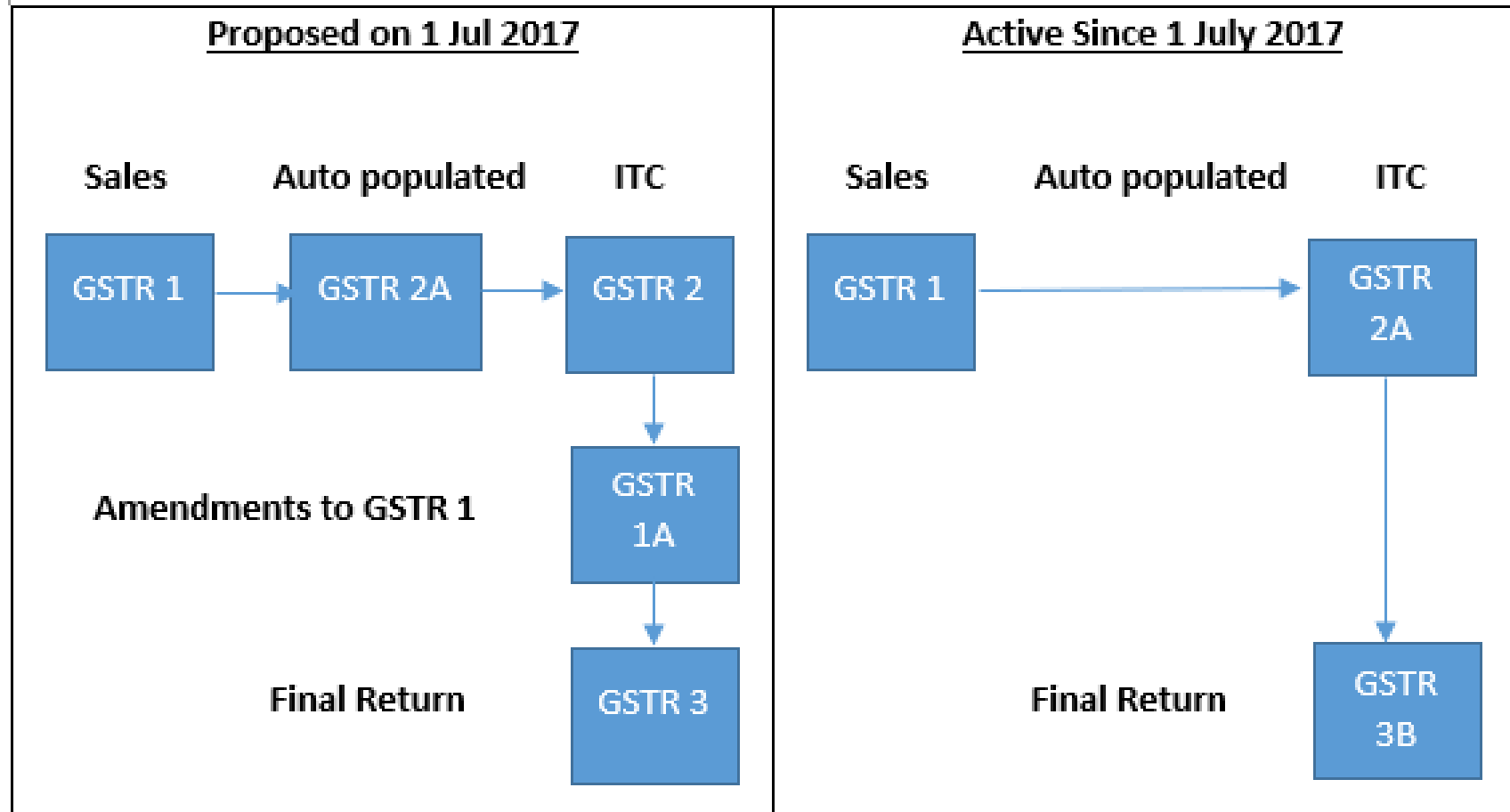


Condition 3: Tax leviable on supply actually paid to Government





Condition 4: Filing of return





Other Points relating to ITC - Conditions

- Where the **goods** against an invoice are **received in lots** or instalments, the registered person shall be entitled to **take credit upon receipt of the last lot** or instalment.

- Payment to be made to the supplier within 180 days from the date of issue of Invoice - Value of Goods / Service and Tax.
- If paid later then reverse the credits (i.e add in output tax liability) and pay interest @ 18% from date of availing till date of reversal.
- On Payment reclaim it without any time limit.
- Exceptions:
 1. RCM
 2. Deemed Supplies without Consideration
 3. Addition made to suppliers liability being incurred by the recipient of the supply.



ITC on Depreciation and Time Limit

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,
- **Input tax credit** on the said tax component **shall not be allowed.**

A registered person **shall not be entitled to take input tax credit** in respect of any invoice or debit note for supply of goods or services or both **after the**

- **due date of furnishing of the return under section 39 for the month of September following the end of financial year** to which such invoice or invoice relating to such debit note pertains,
or
- **date of furnishing of the relevant annual return,**
whichever is earlier.



Question – Credit on Debit Note

Super Star Ltd. delivered a machine to Little Super Star Ltd. In January 2019 under Invoice No.640 dated 28th January 2019 for Rs.10,00,000 plus GST @ 18%, and undertook trial runs and calibration of the machine as per the requirements of Little Super Star Ltd. The amount chargeable for the post-delivery activities was covered in a debit note raised in April 2019 for Rs.1,00,000 plus GST @ 18%. The company has filed its Annual Return for Financial Year 2018-19 on 10th November 2019. Determine the time limit for taking ITC for the amount of tax covered in debit note as well as original invoice.

Though the debit note was received in the next Financial Year i.e. Financial Year 2019-20, it relates to an invoice received in the Financial Year 2018-19. Therefore, the time limit for taking ITC of tax on invoice and on debit note amounting is 20th October 2019; being earlier of the actual date of filing the Annual Return for 2018-2019 (10th November 2019) or the due date of filing of return for September 2019 (20th October 2019)



Question - Registered Person

Mr. Manish is Chartered accountant whose turnover exceeds 20 lakhs on 10th August'2018 and becomes liable to get registration under GST. He applies for the registration on 25th August'18 and gets registration certificate (REG06) on 28th August'18.

Mr. Manish purchases one laptop of ₹47,200 (Including GST of ₹7,200) on 16th August'18 Whether Mr. Manish is eligible to take ITC for ₹7200 paid on laptop?

A. He gets REG06 on 28th August'18 but effective date of registration shall be 10th August'18 as per section 25 of CGST act and he shall be deemed to be registered person from 10th August'18, hence inward supply on 16th August'18 will be eligible for ITC under section 16.

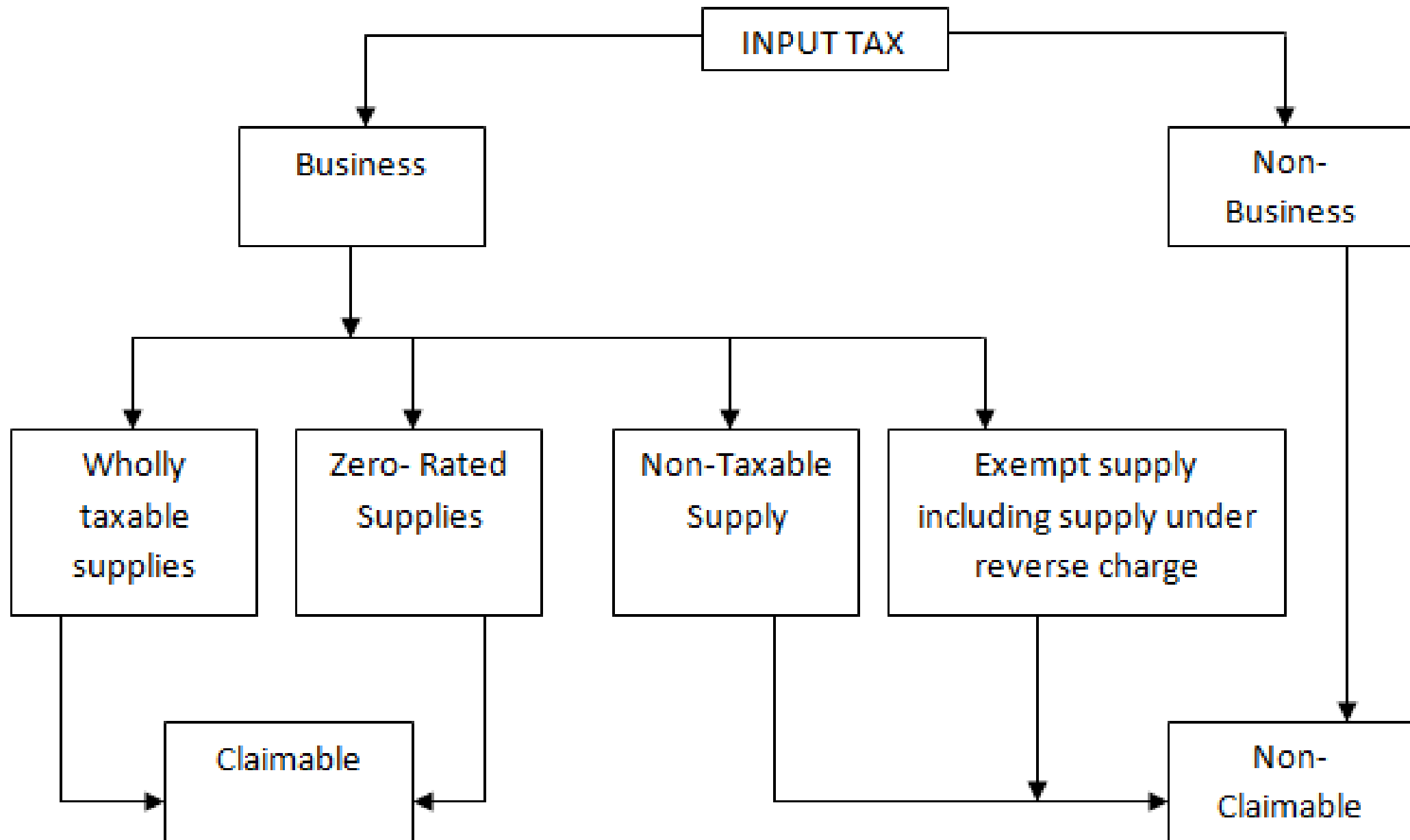


Question - Used or intended to be used

ABC Ltd. Purchased 10 computers for its office for ₹590000 (including IGST of ₹90000) on 8th august'18. Out of 10 computers, 2 computers have not been put to use and kept for a new branch which is going to be opened in next 6 months.

Whether ABC Ltd. Is eligible to take full ITC of ₹90000 for all 10 computers in the month of august'2018 return?

A. 2 computers which have not been put to use in the business but **they are intended to be** used in the new branch.





Rule 42

ITC for Goods & Services

Total ITC
Rs 5,00,000

T1 Exclusively for
Non Business
Rs 40,000

T2 Exclusively for
Exempt
Rs 48,000

T3 Blocked credits
Rs 32,000

$C1 = T - T1 - T2 - T3$
ITC credited to ECrL
Rs 3,80,000

Eligible Credits $C3 = C2 - D1 - D2$

Output Tax liability = $D1 + D2$
 $1,12,000 + 14,000$

Total eligible credit shall be =
AppORTioned credit + ITC exclusively
for Taxable for taxable supply
C3 + T4

T4 Exclusively for
Taxable + Zero rated
Rs 1,00,000

$C2 = C1 - T4$
Common Credit
Rs 2,80,000

(i) Exempt
 $D1 = C2 \times E/F$
 $2.8 \text{ L} * 20\% / 50\% =$
1.12 L

(ii) Non- Business
 $D2 = C2 \times 5\%$
 $2.8 \text{ L} * 5\% = 14,000$



Rule 42 - Year end calculation

Compute C3 separately for ITC of CGST, SGST/UTGST and IGST

Compute total of (D1 + D2) for the whole financial year, by taking exempt Turnover and aggregated Turnover for the whole Financial year

Before the due date of filing the return for September in the following financial year

If Annual D1 + D2 > Monthly D1 + D2 -> Reverse before September of next FY with 18 % Interest

If Annual D1 + D2 < Monthly D1 + D2 -> claim back as credit before September of next FY



Rule 43

ITC for Capital Goods

Capital Goods
T

Exclusively for Non
Business & Exempt
Supply

Exclusively for Taxable
& Zero rated Supply

Both taxable or
exempt supply
Tc
+ Tc on Conversion

Not credited to
ECrL

ECrL

Useful life shall be
taken as 5 yrs
 $T_m = T_c / 60$

Old CG $T_m + T_m = T_r$
 $T_e = (E / F) * T_r$



Rule 43

Rule 43						
Apr-18						
Total Turnover	25 Lakh					
Exempt	10 Lakh					
				Tc		60,000
	Machine 1	Machine 2	Machine 3	Tm	(60000 / 60)	1,000
	Exempt	Taxable	Common	Tr		-
Value	3,00,000	4,00,000	5,00,000	Te	(1000 * 10 / 25)	400
ITC	36,000	48,000	60,000			
	X	✓	✓			
	Ineligible	E Cr L	E Cr L			
Apr-19						
Total Turnover	35 Lakh			Tc	(28800+38400)	67,200
Exempt	20 Lakh			Tm	(67200 / 60)	1,120
				Tm (Old)	(60000 / 60)	1,000
	Machine 1	Machine 2	Machine 3	Tr	(1,120 + 1,000)	2,120
	Common	Common	Common	Te	(2120 * 20 / 35)	1,211
	3,00,000	4,00,000	5,00,000			
	36,000	48,000	60,000			
	(4Q * 5%) = 20%	(4Q * 5%) = 20%				
	(36,000 - 20%)	(48,000 - 20%)				
	28800	38400				
	Tc	Tc				



Exempt Supplies for Rule 42/43



Inclusions

- 1) Supplies on which the recipient is liable to pay tax on reverse charge basis,
- 2) Transactions in securities,
- 3) Sale of land and,
- 4) Sale of building, when entire consideration is received after issuance of CC or first occupation.

Exclusions

1. Transactions specified in Schedule III,
2. Interest on Deposits, loans or advances,
3. Transportation of goods by a vessel from the customs station in India to a place outside India (Outward Freight)



Optional for Banks/FIs/ NBFC – Rule 38

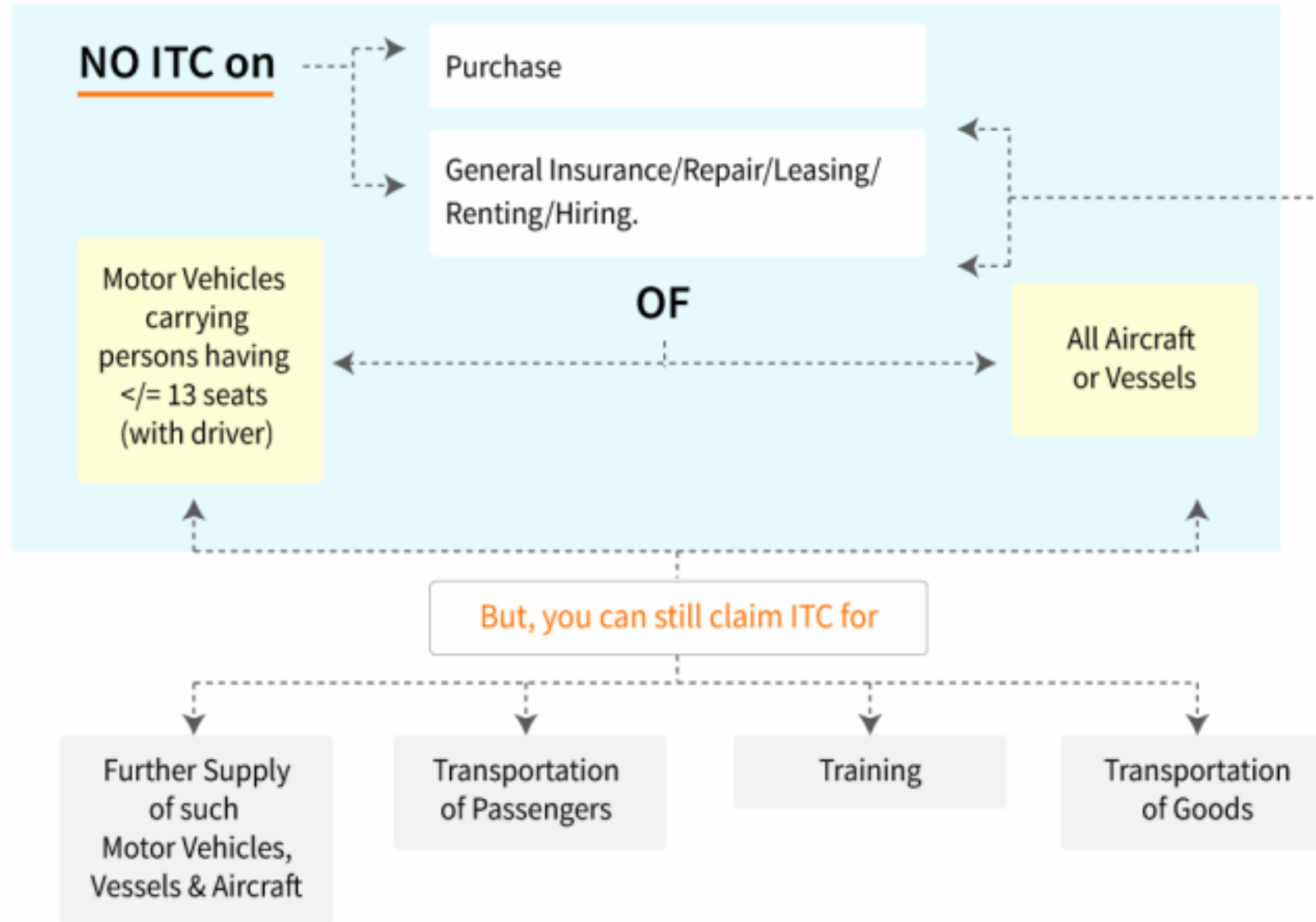
1. Either go to option 1 – Apportionment based on Rule 42 and Rule 43
2. Or Avail 50% of the ITC in each month for eligible ITC on (Inputs + Input Services + Capital Goods)
 - Rest 50% shall lapse
 - ITC on Inputs/Input Services for Non Business & Blocked → Not Available
 - 100% credit for tax paid on supplies from another registration with the same entity
 - Option Once Exercised cannot be changed for the remaining year



Blocked Credit 17(5)

1. Credits are not available even if it is used for Business

Ineligible ITC on Vehicles, Planes & ships at a glance



You can still claim ITC on expenses

1

2

3

Manufacturer of Motor Vehicles, Vessels & Aircraft

Supplier of General Insurance

+ Leasing, renting or hiring of motor vehicles, vessels or Aircraft exception
- used for output of same category
- where it is obligatory



Food and beverages

Outdoor catering

Beauty treatment

Health services

Cosmetic and plastic surgery

Life Insurance & Health Insurance

- Such services are used for making Taxable Outward Supply of same category
- Statutory Obligation of Employer to provide to Employee



Membership of a club, health, fitness centre

Travel benefits extended to employees on vacation such as leave or home travel concession

- Statutory Obligation of Employer to provide to Employee



Works contract services for construction of Immovable Property

- If it is an input service for further supply of works contract services.
 - Builders, Developers & Contracts undertaking construction for others
- For construction of plant & machinery
- ITC in respect of construction services, which is not capitalised, whether for immovable property or plant and machinery allowed to all recipients
 - Routine Construction rated services like repairs, maintenance, renovation etc of office and factory building

“Plant and machinery” means apparatus, equipment and machinery fixed to earth by foundation or structural support that are used for making outward supply of goods or services or both and includes such foundation and structural supports,

- but excludes
 - (i) Land, building or any other civil structures
 - (ii) Telecommunication towers and
 - (iii) Pipelines laid outside the factory premises.



Constructing an immovable property on own account

- For construction of plant & machinery
- ITC in respect of construction services, which is not capitalised, whether for immovable property or plant and machinery allowed to all recipients
- Whn the construction is not on own account



Inward supplies charged to tax under Composition levy

Inward supplies received by a non-resident taxable person

- Tax paid on imported Goods only is allowed

Goods or services or both used for personal consumption

Lost goods, Stolen goods, Destroyed goods,, Goods that are written off, Goods disposed of by way of gift or free sample

Tax paid inn fraud cases, detention, and confiscation.



ITC in the hands of Supplier for Sales Promotion schemes

Samples and free gifts

ITC shall be available to supplier if the activity of distribution of **gifts or free samples falls within the scope of “supply” in Schedule I.**

Buy one get one free offer

ITC shall be available to the supplier for the inputs, input services and capital goods used in relation to supply of goods or services or both as **such offer is treated as mixed supply or composite supply.**

Discounts including ‘buy more, save more’ offers

Supplier shall be entitled to avail ITC

Secondary Discounts

Such discounts are not known at the time of supply.

Since such discounts are not reduced from sales price, ITC need not be reversed.



ITC reversal on return of time expired medicines

Return can be made by retailer / wholesales to the manufacturer either by raising Credit Note or treating the same as fresh supply

Registered Person

- Raise an Invoice for return based on original invoice received
- The wholesales or manufacturer shall be eligible to avail ITC

Composition taxpayer

- Issue a Bill of Supply and pay tax
- The wholesales or manufacturer shall not be eligible to avail ITC

Unregistered person

- Issue a commercial document without charging any tax

Manufacturer

- On destroying the medicines, Reverse the ITC availed on return supply



Availability of credit in special circumstances

Section 18 of GST Act

Section 18(1)(a)

ITC on opening stock of inputs at the time of **new registration**

A person who has **applied for registration** within 30 days from the date on which he becomes liable to registration and has been granted such registration shall, subject to such conditions and restrictions as may be prescribed, be entitled to take credit of input tax in r/o;

- i) *inputs held in stock, and*
- ii) *inputs contained in semi finished goods held in stock, or*
- iii) *finished goods held in stock*

on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act.

Section 18(1)(b)

ITC on opening stock of inputs in case of **voluntary registration**

A person who obtains **voluntary registration** is entitled to take credit of input tax in r/o;

- i) *inputs in stock, and*
- ii) *inputs contained in semi finished goods held in stock, or*
- iii) *finished goods held in stock,*

held on the day immediately preceding the date of registration.

Availability of credit in special circumstances

Section 18(1)(c)

ITC on opening stock of inputs/capital goods if taxable person switching from **composition scheme**

A registered taxable person ceases to pay tax under **Section 10 i.e. Composition Scheme**, shall, be entitled to take credit of input tax in r/o,

- i) *inputs held in stock, and*
- ii) *inputs contained in semi-finished goods held in stock, or*
- iii) *finished goods held in stock, and*
- iv) *Capital goods*

on the day immediately preceding the date from which he becomes liable to pay tax under section 9(i.e. Regular dealer).

Section 18(1)(d)

ITC on exempt supply becoming taxable

A registered taxable person shall, subject to such conditions and restrictions as may be prescribed, be entitled to take credit of input tax in r/o,

- i) *inputs held in stock, and*
- ii) *inputs contained in semi-finished goods held in stock, or*
- iii) *finished goods held in stock, and*
- iv) *Capital goods exclusively used for such exempt supply*

on the day immediately preceding the date from which such supply becomes taxable.

SECTION 18



Credit on Capital Goods shall be reduced by 5% per quarter and part thereof

Supplier	Inputs	Input Services	Capital Goods	Stock to be considered as on
Liable for registration (crosses the turnover of Rs 20 Lakhs) – Applies for registration within 30 days of becoming liable for registration and obtains registration	Available	Not Available	Not Available	Day immediately preceding the date from which he becomes liable to pay tax
Voluntary Registration	Available	Not Available	Not Available	Day immediately preceding the date of grant of registration
Composition Scheme to Regular Scheme	Available	Not Available	Available	Day immediately preceding the date from which supplier is liable to pay tax under regular scheme
Exempt Supplies become Taxable	Available	Not Available	Available (Only for capital goods used exclusively for exempt supplies)	Day immediately preceding the date from which exempt supplies become taxable

However the Tax Invoice should not be older than **1 year from the date of issue**



Section 18(4)
Reversal of ITC

Where registered person opt to pay tax under composition scheme.

Where taxable supply become wholly exempt supply.

He shall pay an amount by debit in the electronic credit/cash ledger equivalent to the credit in respect of:

- Input held in stock
- Input contained in WIP, finished goods & capital goods

On immediately preceding the date of occurrence of such event.



Reversal of ITC on switching from Regular Tax payer to Composition levy or from Taxable to Exempt

Reversal of ITC on Inputs

ITC on inputs should be reversed proportionately on the basis of Invoice.

If Invoices are not available, ITC can be reversed on the basis of prevailing Market rate - This should be certified by a Chartered Accountant / Cost Accountant.

Reversal of ITC on Capital Goods

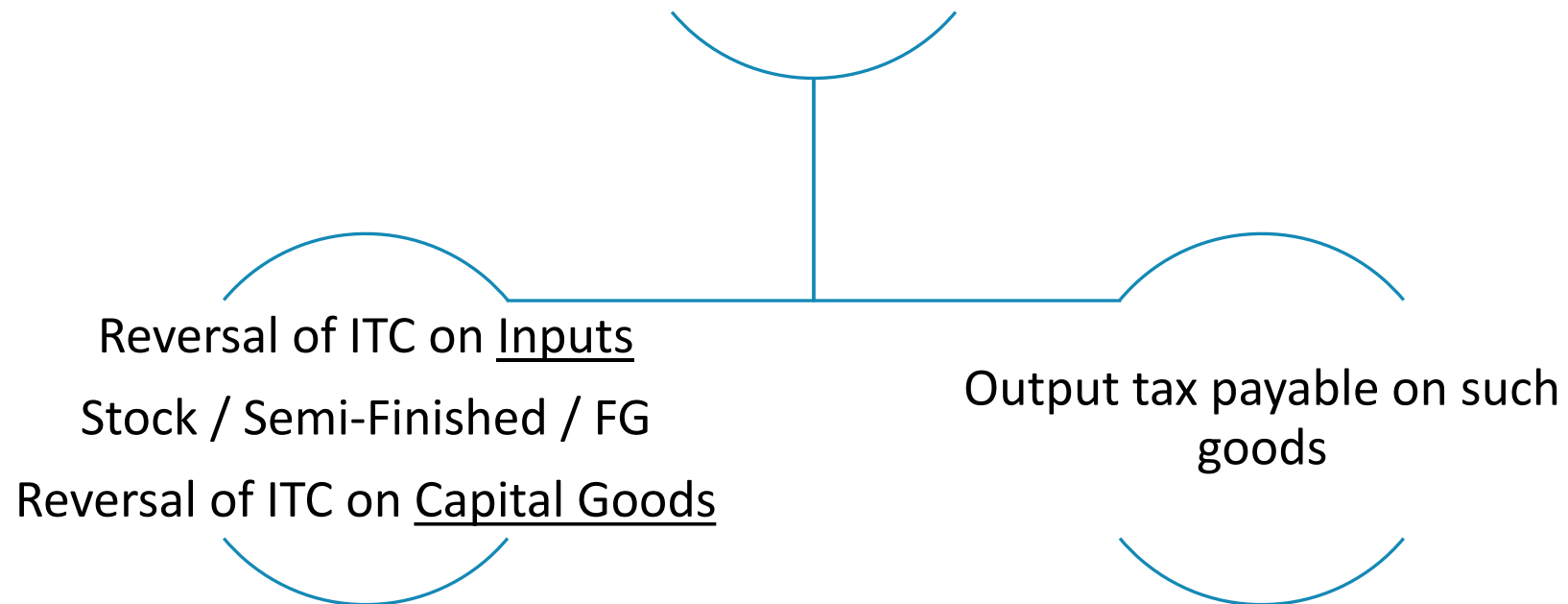
ITC involved in remaining useful life (in months) reduced **on pro-rata basis taking useful life as 5 years.**

Debit the ECrL or ECL by the amounts as determined above

Balance of ITC, if any in ECrL, shall lapse.



Cancellation of Registration





Sale of Capital Goods or P&M

1. ITC should have been availed on purchase.
2. Tax payable is higher of the two -

ITC taken on Capital Goods reduced by 5% per quarter of a year or part thereof

Tax on Transaction (Sale) Value

3. In case of refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, tax may be paid on transaction value and no comparison with Input reversal.



ITC – Change in Constitution of Taxable Person Sec 18(3)

21



- ITC shall be apportioned in the ratio of value of assets of the new units in case of demerger scheme
- Transferor to submit certificate from a practicing Chartered Accountant certifying whether the sale / merger / de-merger / amalgamation / lease / transfer has been done with specific provision for transfer of liabilities
- Transferee to furnish details of credit available in Form GST ITC-02

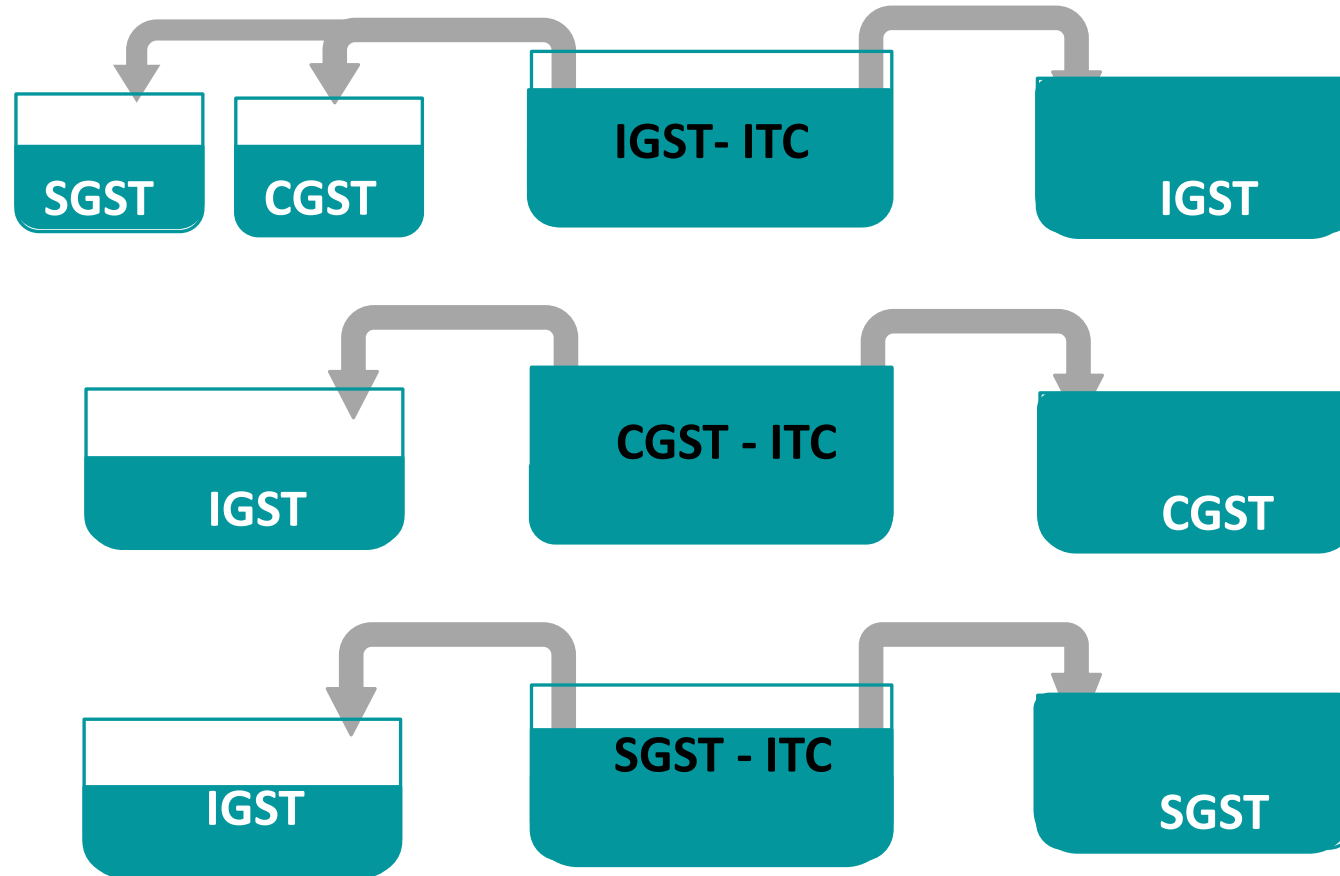


Transfer of ITC on obtaining separate Registrations for multiple places within a State

1. The Transferor, can transfer the unutilized ITC (wholly or partly) lying in ECrL to any or all Transferee (i.e Newly Registered places of Business) in the ratio of value of Assets held by them at the time of Registration.
2. Value of Assets means entire assets irrespective of whether ITC is availed or not.
3. The Transferor shall furnish prescribed details on Common Portal within a period of 30 days from obtaining separate Registration.
4. The Transferee (i.e Newly Registered places of Business) shall accept and the unutilized ITC gets credited to his ECrL



ITC Utilization Rules





Restriction on Utilization of ITC (Rule 86A)

“reasons to believe” that credit of input tax available in the electronic credit ledger has been fraudulently availed or is ineligible

The credit of input tax has been availed on the strength of tax invoices /valid document issued by a non-existent supplier or by a person not conducting any business at the registered place of Business

without receipt of goods or services or both



Restriction on Utilization of ITC (Rule 86A)

“reasons to believe” that credit of input tax available in the electronic credit ledger has been fraudulently availed or is ineligible

The tax in relation to which has not been paid to the Government

the registered person availing the credit of ITC has been found non-existent or not to be conducting any business from the registered place of Business

the registered person availing ITC is not in possession of a tax invoice / valid document

Restriction can be imposed for a period of 1 year



THANK YOU