

Input Tax Credit

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The concept of input tax credit is the core of GST and there is seamless credits available meaning thereby whether you are buying inter state or intra state you can set off your output tax liability with the input tax credit available. Similarly tax paid for goods can be set off against the output tax payable on services and vice versa. This is a major shift in the GST era where all the inputs used for the business can be used to set off the output tax of the same business, though there are few exceptions to that. Before understanding the concept it is important for us to understand few definitions under GST law:

What is Input?

Section 2(59) of the CGST Act defines it as "Goods other than capital goods, used or intended to be used, by a supplier in the course or furtherance of business."

What is Input Service?

Section 2(60) of the CGST Act defines it as "any service used or intended to be used, by a supplier in the course or furtherance of business."

What is Input Tax?

Section 2(62) of the CGST Act says any CGST, SGST, IGST, UTGST charged on any supply of goods or services or both by a registered person and includes,

- ◆ IGST charged on import of goods
- ◆ tax payable on reverse charge basis
- ◆ but does not include tax paid on composition levy
- ◆ Input tax credit is eligible only when it is credited to the electronic credit ledger of taxable person.

Documentary requirements for claiming input tax credit

Every registered person shall be entitled to take Input Tax Credit only if:

- ⇒ he is in possession of Tax invoice or Debit note or any other tax paying documents issued by registered supplier.
- ⇒ he has received the goods or services or both.
- ⇒ the tax charged for such supply has been paid to the Government, through cash or utilization of credit available for the same. (by the supplier)
- ⇒ Furnish the required Returns. (by the supplier)

Points to note:

- If the goods are received for an invoice in lots or instalments, the credit can be availed only upon the receipt of the last lot or instalment.
- If the recipient fails to pay to the supplier the amount towards the value of supply (except in cases of Reverse charge) within 180 days from the date of invoice, then an amount equal to value of ITC will be added to the output liability along with interest.
- The recipient shall be entitled to take the credit back once the payment is made to the supplier along with the Tax.
- In case of capital goods and plant & machinery, if depreciation is charged on the tax component, then the ITC shall not be allowed on such tax component.
- A registered person shall not be entitled to take the input tax credit for the financial year after the due date of furnishing of the return for the month of September following the end of the financial year or filing of annual returns for that financial year whichever is earlier. E.g., for the financial year ending 31st March 2018 you can take the input tax credit for that year up to the returns for September 2018 i.e. up to 20th October 2018 due date to file September 2018 return and if the annual return for that year is filed after September 2018.

How the credit is to be apportioned

Where goods or services or both are used by registered person, partly for the purpose of business and partly for other purposes	Credit is restricted to the amount of input tax attributable for business
Where goods or services or both are used by registered person, partly for zero rated and partly for exempted	Credit is restricted to the amount of input tax attributable to the Zero rated supplies.

No input tax credit available on the below

Motor vehicles and other conveyances	<p>Except if used for:</p> <ul style="list-style-type: none">• Transportation of passengers• Transportation of goods• Imparting training on driving, flying, navigating.• Dealer in such vehicles <p>**In my view repairs expenses of motor vehicles also will not be allowed as input credit because the term used is "in respect of" motor vehicle, which covers taxes paid in respect of motor vehicles which includes repairs & insurance. So I doubt whether such expenses also will be ineligible for ITC.</p>
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No input tax credit available on the below

Food & Beverages, outdoor catering, beauty treatment, Health services & plastic surgery	Except if : Such services are received to give similar output services
Membership of a club, Health and Fitness Centre	No exceptions
Rent-a-cab, Health & Life insurance	ITC allowed only if Government notifies such services to be mandatory to be provided by the employer to the employee Inward supply is used to provide same category of outward supply
Travel benefits extended to employees like LTC etc.,	No exception
Works contract services for construction of an immovable property other than Plant & Machinery	Except when such works contract is an input service for another works contract i.e. sub contract
Goods or services or both received for construction of an immovable property other than Plant & Machinery for own purpose	No exception, any goods or service used for construction of an immovable property for own purpose—ITC cannot be claimed. If the immovable property is for the purpose of sale then input can be claimed. Construction includes—reconstruction, renovation, addition or alteration or repairs to the extent capitalised.
Goods lost or stolen, destroyed, written off or disposed off by way of gift or free samples	In such cases if the input credit has been taken, has to be reversed in the month in which this incident or event happens.

Capital Goods

Term 'capital goods' is defined in section 2(19) of the CGST Act as follows:

“Capital goods” means any goods the value of which is capitalised in the books of account of the person claiming credit and which are used or intended to be used in the course or furtherance of business.

- ◆ Input tax paid on capital goods shall be eligible for credits and can be off set against the output tax liability immediately.
- ◆ Credits of input tax in respect of pipelines laid outside the factory and telecommunication towers fixed to earth by foundation or structural support are not eligible for input tax credit.

Input Service Distributor (ISD)

A supplier of goods and services may have head office / regional offices at different places. The services may be received by the head office or regional office but these services may be used by the factories or units of the taxable person. The tax invoice also will be raised by these factories / units. The head office / regional offices may not be able to use these inputs received in their offices, in such situations the head office / regional offices can register themselves as input service distributors and can distribute the credits available with them to the respective factories or manufacturing units on a prescribed basis.

Inputs sent for Job work

Input tax credit is available in respect of goods sent for job work and brought back for further use. Suppose the goods are delivered directly from the supplier to the job worker, then the principal can take the input credit as soon as the job worker receives the goods.

Cross utilization of taxes

IGST—first adjust against IGST then against CGST & balance with SGST in that order

CGST—first adjust against CGST and balance against IGST if any

SGST—first adjust against SGST and balance with IGST if any

CGST cannot be offset against SGST and SGST cannot be offset against CGST

THANK YOU