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INPUT TAX CREDIT

1 What is input tax credit (ITC)?

Input tax credit means the credit available for taxes paid on inputs. For example, you are a supplier selling output worth Rs 1000 and used inputs worth Rs500 on which you have paid input taxes. You shall be able to utilize the input taxes towards discharge of your output tax liability on Rs 1000. This is explained in the table below.

Table 1 – Utilization of Input Tax Credit

Value of output	Rs 1000
Tax Payable on Output@ 18% (Final Product)	Rs 180
Value of inputs	Rs 500
Tax Paid on Input@18% (Purchases)	Rs 90
After claiming ITC of Rs 90, the tax deposited to the Government	Rs 180-Rs 90 =Rs 90

2 What are the Conditions for availing Input Tax Credit?

Under the GST regime, input tax credit can be availed by every registered taxable person (except persons registered under Composition Scheme) on all inputs used in the course of business. The following conditions which must be satisfied to avail input tax credit;

1. You must have a **tax invoice(of purchase) or debit note**;
2. You should have **received the goods/services**;
3. The **tax charged on your purchases** has been **deposited/paid** to the government by the supplier in cash or by claiming input tax credit; and
4. **Supplier has filed GST monthly return (GSTR-3)**

Therefore, to claim input tax credit on taxes paid on Purchases, all your suppliers must be GST compliant as well as only then can they deposit the input tax.

3 What are the Goods or Services that are Ineligible for ITC (Blocked credits)?

ITCs shall not be available in respect of the following payments under GST Regime:

1. **Motor vehicles and other conveyances except under specified circumstances**
2. **Goods and/or services provided in relation to**
   - Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, except under specified circumstances;
   - Membership of a club, health and fitness center;
   - Rent-a-cab, life insurance, health insurance except where it is obligatory for an employer under any law;
   - Travel benefits extended to employees on vacation such as leave or home travel concession.
3. Works contract services when supplied for construction of immovable property, other than plant & machinery, except where it is an input service for further supply of works contract
4. Goods or services received by a taxable person for construction of immovable property on his own account, other than plant & machinery, even when used in course or furtherance of business
5. Goods and/or services on which tax has been paid under composition scheme
6. Goods and/or services used for private or personal consumption, to the extent they are so consumed
7. Goods lost, stolen, destroyed, written off, gifted, or free samples
8. Any tax paid due to short payment on account of fraud, suppression, mis-declaration, seizure, detention

4 What happens if I use inputs (i.e. goods and/or services) partly for non-business/ personal purpose?

When goods and/or services are used partly for business and partly for other than business purpose, ITC can be availed only on the portion used for the purpose of business.

Example: Say , you are a garment dealer and you purchased garments for Rs. 5,00,000 from a manufacturer, on which GST of Rs. 90,000 (@18%) has been paid. Out of the garments purchased, garments worth Rs. 1,00,000 were taken by you for your personal use. The remaining garments were sold to customers. In this case, ITC can be availed only on the portion used for business, i.e. Rs. 4,00,000. Hence, eligible ITC here is Rs. 72,000 (4,00,000*18%) only.

5 What happens if I use inputs (i.e. goods and/or services) partly for exempt supplies?

When goods and/or services are used partly for taxable supplies and partly for exempt supplies, ITC can be availed only on the portion used for making taxable supplies and zero rated supplies. ITC is not allowed on the portion used for making exempt supplies.

Example: You are a manufacturer. You purchased raw materials for Rs. 1,00,000, on which GST paid is Rs. 18,000 (@18%). These raw materials have been used partly for manufacturing Item A which is taxable and Item B, which is exempt. The details are shown below-

Input	Value (Rs.)	Portion used to manufacture Item A (Taxable) (Rs.)	Portion used to manufacture Item B (Exempt) (Rs.)	GST paid on Input (Rs.)	Proportionate GST paid on portion used to manufacture Item A (Taxable) (Rs.)	Proportionate GST paid on portion used to manufacture Item B (Exempt) (Rs.)
Raw material	1,00,000	60,000	40,000	18,000	10,800	7,200

You can avail ITC of Rs. 10,800 on the portion of raw materials used to manufacture Item A which is taxable. The ITC of Rs. 7,200 on the portion used to manufacture Item B cannot be availed as Item B is exempt.

6 Are there any different types of ITCs under GST?

Yes, the different types of ITCs under GST are explained below.

Input Tax Credit	Nature
CGST (Central GST)	Tax credit for Central Goods and Services Tax
SGST (State GST)/ UTGST (Union Territory GST)	Tax Credit for State Goods and Services Tax or for Union Territory Goods and Services Tax
IGST (Integrated GST)	Tax Credit for Integrated Goods and Services Tax

7 Is there any specific order in which I need to utilize my Input Tax Credits?

The order in which input tax credit needs to be set off is explained in the table below:

Input Tax Credit	Set off against output tax liability
CGST (Central GST)	Against CGST and IGST (in that order)
SGST (State GST)	Against SGST and IGST (in that order)
IGST (integrated GST)	Against IGST, CGST, SGST (in that order)
CGST cannot be offset against SGST and vice versa.	

8 Can you claim ITCs on fresh registration?

A person who has applied for registration within 30 days of becoming liable for registration is entitled to claim ITCs in respect of goods held in stock (inputs, semi-finished or finished goods) on the day immediately preceding the date from which he becomes liable to pay tax.

9 Can you claim ITC on voluntary registration?

A person who has taken voluntary registration is entitled to claim ITCs in respect of goods held in stock (inputs, semi-finished or finished goods) on the day, immediately preceding the date of registration.

10 Are you entitled to ITC while switching over to normal scheme from composition scheme?

A person switching over to normal scheme from composition scheme is entitled to claim ITCs in respect of goods held in stock (inputs, semi-finished or finished goods) and capital goods on the day immediately preceding the date from which he becomes liable to pay tax as normal taxpayer.

11 Are you entitled to ITCs while switching over to taxable supply from exempt supply?

Where an exempt supply of goods or services or both become taxable, the person making such supplies shall be entitled to claim ITCs in respect of goods held in stock (inputs, semi-finished or finished goods) relatable to exempt supplies on the day immediately preceding the date from which such supply becomes taxable. He shall also be entitled to take credit on capital goods used exclusively for such exempt supply, subject to certain prescribed reductions.

12 In above cases, is there any timeline for claiming ITCs?

Yes, in above cases, ITCs should be availed (i.e. fed into GST return) within 1 year from the date of issue of invoice by the supplier.

13 Are ITCs available on mergers and demergers?

In case of change of constitution of a registered person on account of sale, merger, demerger etc, the unutilized ITC shall be allowed to be transferred to the transferee.

14 Are you entitled to ITC while switching over to normal scheme from composition scheme?

A person switching over from composition scheme to normal scheme can claim ITCs in respect of goods held in stock (inputs, semi-finished or finished goods) as well as capital goods as on the day immediately preceding the date from which he becomes liable to pay tax under normal scheme.

15 Can you claim ITC on Advance Payment?

There may be transactions where payment is received (either in part or in whole) before the supply of goods/ services, i.e. in advance. On receipt of advance payment, the supplier is required to issue a receipt voucher to the recipient, as an evidence of receipt of payment.
GST has to be paid to the extent advance payment is received (with receipt voucher as reference document). However, Input tax credit cannot be claimed by the recipient on the basis of receipt voucher

16 When can you claim ITC on Advance Payment for Procurement of Goods?

If advance payment is made for purchase of goods, input tax credit cannot be taken immediately. However, ITC can only be taken on receipt of such goods (i.e. once goods have been delivered to the recipient).

17 What happens when goods are procured in instalments?

In case of purchase of goods in bulk or instalments, ITCs can be taken only on receipt of last instalment or lot of goods.
For example, 'XYZ' places an order to purchase furniture on 1st January 2018 and makes advance payment for full amount on the same day. However, XYZ receives the goods in monthly instalments spread over three months. In such scenario, XYZ can claim ITCs on full amount only after the receipt of last lot. This is explained with the help of illustration provided below:

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EVENT	DATE
Advance payment for 100% value (Receipt voucher issued)	1st January, 2018
Issuance of Tax Invoice for full amount	15th January, 2018
Receipt of first lot	31st January, 2018
Receipt of second lot	28th February, 2018
Receipt of last/ third lot of goods	31st March, 2018
Availment of ITC on the entire value	ITC can be availed in the monthly return filed on 20th April, 2018 (or in any subsequent return but within the time limit for claiming ITC)

18 What are Continuous Supply of Goods and Services?

Continuous supply of goods **(whether or not by means of a wire, cable, pipeline or other conduit)** implies a supply of goods under a contract, on a recurrent basis for which supplier invoices recipient on a regular or periodic basis. Telephone and Internet services are a common example of a continuous supply of goods/ services.

19 When can I claim ITC on such goods/ services?

In case of telephone and internet services, the payments are normally made after receipt of goods for a specified period. Hence, ITCs can be claimed in the monthly returns since the condition for receipt of goods is satisfied.

20 When can I claim ITC on Capital Goods?

GST Regime allows full and immediate **ITC** on Capital goods in the year of acquisition as opposed to previous availability of 50% of tax credit in the year of purchase.

21 Can I claim depreciation on Input Tax component and still utilize the input taxes?

If depreciation is claimed on tax component of capital good(s) and plant and machinery under Income Tax Act, ITC shall not be allowed on the tax component.

The Input taxes (GST) paid on capital goods should not be capitalized in books of accounts. The input taxes on capital goods should be claimed as input tax credits as this shall lead to higher tax savings. For example price of capital goods is Rs. 1,18,000/- (including tax @18%).

22 Should I claim depreciation on input taxes on capital goods or should I utilize the input taxes – what is more beneficial?

Consider two different situations where input taxes paid on capital goods are capitalized in books of account and where they are not. Tax savings under both the situations vary significantly. This can be understood as follows:

PARTICULARS	DIRECT TAX	GST
Method of claiming tax	Capitalized in books of accounts	Not capitalized in books of accounts
Input tax paid	18,000	18,000
Type of output tax	Corporate tax	GST
Rate of tax	30%	18%
Base on which tax is levied	Profit	Transaction value
Claim allowed in current year	1800 (Straight line method @ 10% of 18000)	18,000 (100% in current year)
Saving in current year	540 (30% of 1800)	18,000
Effective savings (present value of money@ 10% interest rate)	3318.06	18,000

Tax savings on claiming ITCs are higher and hence, ITCs on capital goods should be availed.

23 Can I get Refund of Input Tax Credits?

As a general rule, refund of Unutilized Input Tax Credits cannot be claimed under GST Regime. Refund of unutilized Input Tax Credits can be claimed only under the following circumstances:

(i) In case of exports without payment of IGST; and

(ii) In case the credit has accumulated on account of tax rate on inputs being more than the rate applicable on outputs (i.e. inverted tax structure)

24 Is there any timeline for claiming Input Tax Credits?

You are entitled to take **input tax credit** in respect of any supply of goods or services or both to him before occurrence of any of the following events, whichever is earlier:

i. Filing of monthly return under section 39 for September of next Financial year, or

ii. Furnishing of annual return for the relevant Financial year.

Example

For example, ITCs for invoice (dated 1st January, 2018) pertaining to FY 2017-18, shall be claimed before earlier of the following two dates:

(1) 20th October, 2018 (i.e. monthly return for September of FY 2018-19)

OR

(2) Date of Filing of Annual Return for FY 2017-18

For FY 2017-18, the time limit for filing of Annual return is December 31st, 2018. However, the return can be filed earlier also. Hence, if the Annual return is filed on May 31st, 2018, the time limit for claim of ITCs shall be earlier of the two dates i.e. May 31st, 2018.