



Input Tax Credit under GST

Introduction

1. GST is a **comprehensive value added tax system** that allows uninterrupted flow of credit among different sectors.
2. Tax is levied at each stage of value addition. The tax charged at previous stage is passed on to next stage in form of Input tax credit.
3. A registered person can take the credit of input tax subject to conditions and restrictions as prescribed and elaborated in next section of the presentation.

**Sections to be discussed
with relevant rules**

Section	Details	Rules
16	Availment of ITC	36 & 37
17	Reversal of ITC	42, 43 & 38
18	Special cases	40, 41 & 44
20 & 21	ISD	39

Eligibility of Input Tax Credit

1. *Goods or services whose credit is to be availed are used or intended to be used in the course or furtherance of business. (Section 16(1))*

Example:

A company has taken loan for the higher education of its director's son and has paid tax processing charges of such loan. Whether ITC will be available?

Solution:

Company cannot claim the credit of tax paid on processing charges of the loan.

Eligibility of Input Tax Credit (Section 16(2)(a) read with Rule 36)

2. Possession of tax invoice and other tax paying document.

R
U
L
E

36
(1)

- **An invoice and Debit Note issued by supplier**

- **Invoice issued in case of reverse charge**

- **Bill of Entry**

- **Input Service Distributor Invoice**

Eligibility of Input Tax Credit

Necessary particulars to be present in the document for availing credit* (Proviso to Rule 36(2))

As Per Rule 46	Proviso to Rule 36(2)*
Serial number not exceeding 16 characters	✗
Name, address and GSTIN of the supplier.	✓
Name, address and GSTIN of the recipient.	✓
HSN Code	✗
Description of Goods/Service	✓
Quantity	✗
Total value of supply of goods or services or both	✓
Taxable value of the supply of goods or services or both taking into account discount or abatement	✗
Rate of Tax	✓

* Inserted vide NN 39/2018 dated 04.09.2018

By CA Atul Gupta

Eligibility of Input Tax Credit

Necessary particulars to be present in the document for availing credit* (Proviso to Rule 36(2))

As Per Rule 46	
<i>Amount of tax charged in respect of taxable goods or services</i>	✓
<i>Place of supply along with the name of the State, in the case of a supply in the course of inter-State trade or commerce</i>	✓
<i>Address of delivery where the same is different from the place of supply</i>	✗
<i>Whether the tax is payable on reverse charge basis Code</i>	✗
<i>Signature or digital signature of the supplier</i>	✗
Quick Response Code having embedded Invoice Reference Number (IRN). (Inserted by CGST (Eleventh Amendment rules'2020 w.e.f. 30-09-2020)	Newly Added

* Inserted vide NN 39/2018 dated 04.09.2018

By CA Atul Gupta

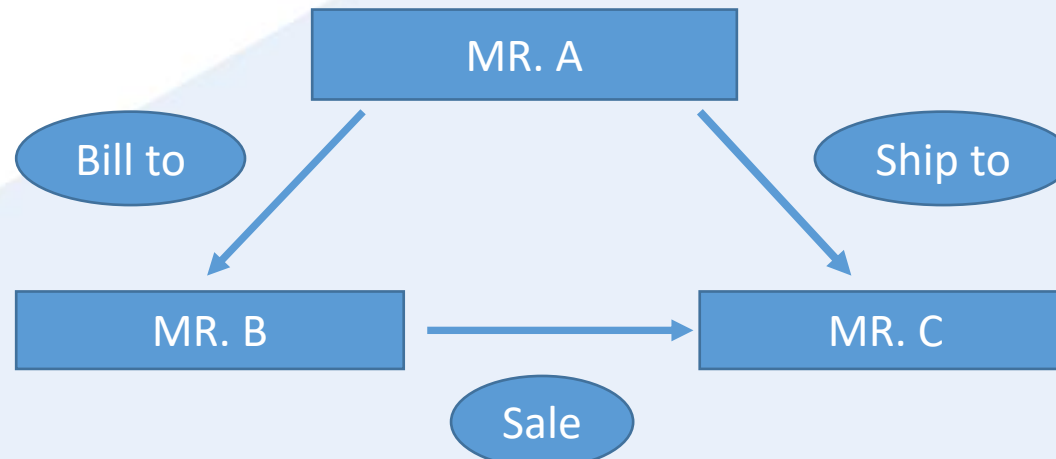
Eligibility of Input Tax Credit

3. *Goods or services have been received by registered person (Section 16(2)(b))*

Exception to the provision

(i) Goods have been delivered under Bill to Ship to Model

EXAMPLE:



Eligibility of Input Tax Credit

(ii) Services have been supplied to third person on the direction of registered person*

***Substituted vide CGST Amendment Act'2018 w.e.f. 01-02-2019.**

Eligibility of Input Tax Credit

- 4. Tax charged on goods and services have been actually paid to the government (16(2)(c)).*
- 5. Return prescribed u/s 39 has been furnished i.e. GSTR-3B (16(2)(d)).*

Eligibility of Input Tax Credit

Goods received in lots and installments (1st Proviso)

- *In the case of goods which are sold in lots or in installments, starting lots are send to the receiver under the cover of delivery challan. Invoice is being sent along with the last lot or installment.*
- *Therefore, ITC on such goods can be availed only when last lot or installment has been received.*

Eligibility of Input Tax Credit

ITC Claimed before the Goods have been received

- *In the case the Invoice has been issued by the vendor and ITC has been claimed correspondingly for such invoice but the material is still in transit then such credit need to be reversed until the compliance is made .*
- *Interest Liability on such credit depends upon the utilization of the Credit .*

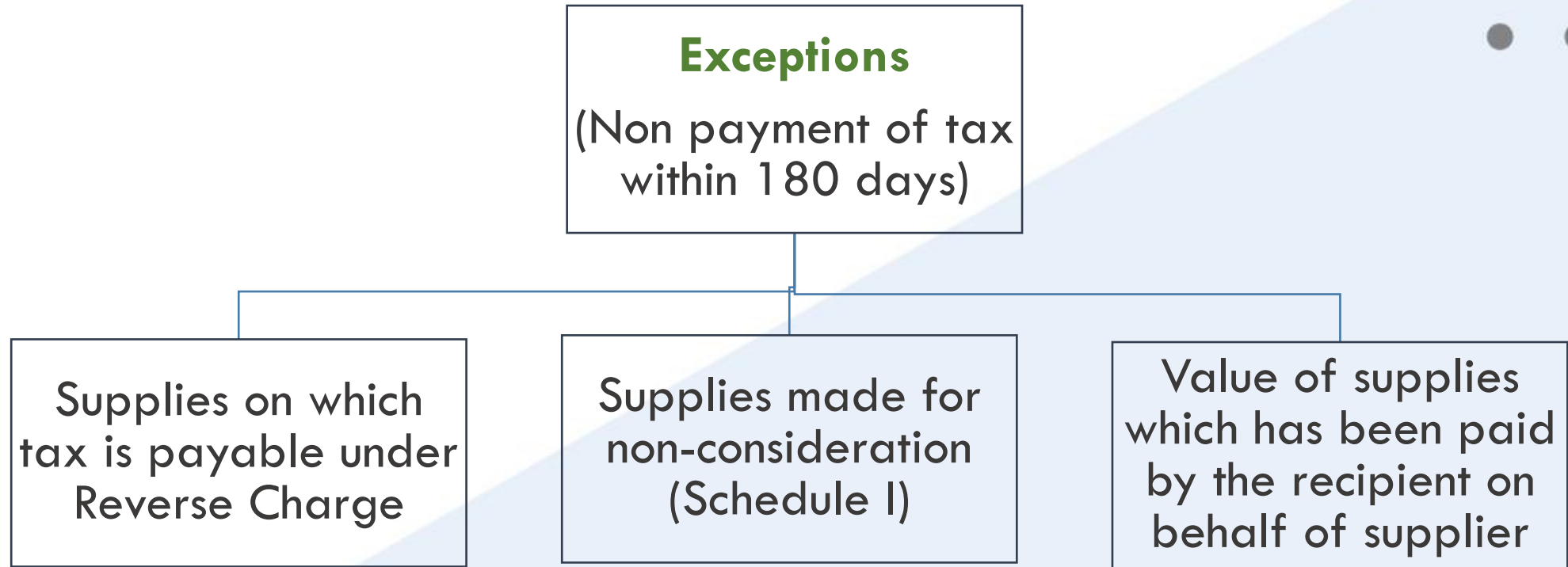
Eligibility of Input Tax Credit

Non payment of tax within 180 days (2nd Proviso)

If the recipient fails to pay the amount towards the value and tax thereon to the supplier of goods or services within 180 days, the amount of credit availed to the non-payment by the recipient will be added to its output tax liability along with interest thereon in the manner as prescribed.

180 days are to be calculated from the date of invoice.

Reversal of credit will be made along with the interest @ 18% and the interest will be applicable from the date of Availment till the date such amount has been reversed.



Lets Explore

Q) Mr. A purchased goods and /or availed services worth Rs 1,18,000 (1,00,000+ 18000 GST) from Mr. Y on 01 Mar 2019 and received invoice on the same date and avail the credit in the month of Mar 2019 He paid to Mr. Y against this bill on 01.12.2019 .

A) 180 days from the date of invoice is 30th Aug 2019 . Since he has not paid to the supplier in 180 days , Rs 18000/- shall be added in his outward liability in GSTR 3B for the month of Sep 2019 along with interest @18% calculated from the date of ITC availed i.e.. 01.03 .2019 to the date of payment 01.12.2019

Days on which interest liability to be calculated = 1st March 2019- 30th Nov 2019

Interest Liability = $18000 \times 18\% \times 9/12 = 2430$

Total Liability = $18000 + 810 = 20430/-$

Re - Availment of Credit

(3rd Proviso to Sec 16)

The credit reversed earlier can be re- claimed once the payment has been made to the supplier.

No time limit has been prescribed to re-claim the credit

Question:

Mr. A has received goods worth Rs. 1,18,000 (inclusive of GST) from Mr. B on 1st February 2018. Invoice date is 31st January, 2018. Credit availed on 2nd February, 2018

Mr. A has paid Rs. 59,000 to Mr. B on 31st March, 2018.

Rest of the payment has not been made till date.
In which return reversal will be made, and what will be the amount of reversal.

Solution

- Reversal will be made in the month of July
- Amount of reversal will be

$$59000 \times 18 / 118 = 9000$$

- Interest amount will be:

$$\text{No. of days} = (2^{\text{nd}} \text{ Feb} - 20^{\text{th}} \text{ Aug}) = 199$$

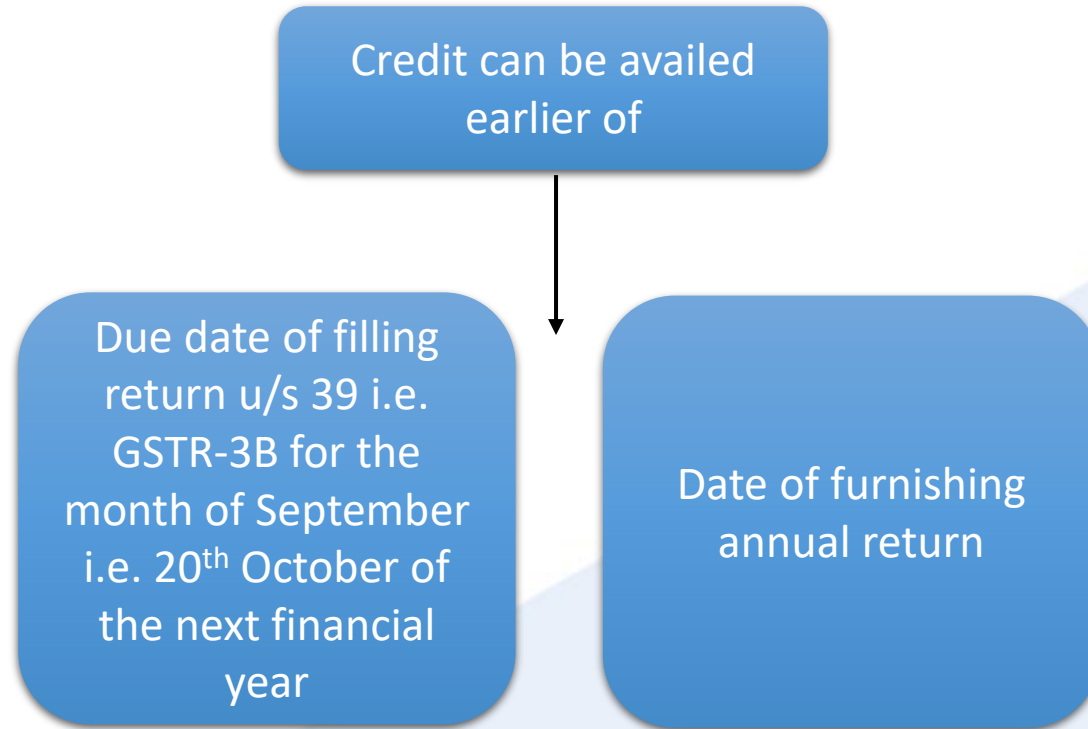
$$\text{Interest} = 9000 \times 199 / 365 \times 18\% = 883.23$$

ITC on Capital Goods

(Section 16(3))

Depreciation claimed on Tax component of the cost of capital goods under IT Act ITC not Available	
Example: Cost of asset = Rs. 1,00,000 <u>Tax-10% = Rs. 10,000</u> Total Cost = Rs. 1 10,000	
If Depreciation charged on Rs.1,00,000	If Depreciation charged on Rs.1,10,000
ITC is available	ITC is not available

Time Limit for availing the credit Section 16(4)



Example:

Invoice dated: 1st August, 2018

Annual Return filled on: 30th October, 2019

Solution:

Credit for the invoice dated 1st August, 2018 can be availed upto the due date of return for the month of September 2019 i.e 20th October.

Lets Explore

Mr. A is supplier registered in Delhi. He is receiving various goods and services. Let us analyze the amount of credit available and the reversal in the month of **September** as per the provisions of Section 16:

- | | | |
|---|-----|-------------------------|
| A. Goods worth Rs. 1,00,000 (GST 18,000) have been directly sent to Mr. A from Mr. B's Premises on the direction of Mr. C. | ✓ | Rs. 18,000 |
| B. Services worth Rs. 2,00,000 (GST 36,000) has been received. HSN has not been mentioned on the invoice. | ✓ | Rs. 36,000 |
| C. Goods worth Rs. 50,000 (GST 9000) has been purchased from Mr. X and is handed over to transporter for bringing it to the place of Mr. A on 28 th September, 2018 and received in the premises on 3 rd October., 2018 | < > | October month's GSTR-3B |
| D. Legal services has been taken from lawyer on 18 th Feb 2018 of Rs. 60,000 and tax paid under RCM on 20 th March, 2018, credit has already been availed on such supplies and its payment has not been made till date. | ✓ | Rs. 10,800 |
| E. Goods worth Rs. 80,000(GST 14,400) has been purchased. Invoice raised on 27 th March, 2018 and the credit availed on 7 th June 2018. Its payment has not been made till date. | ↺ | Rs. -14,400 |

GSTR- 2A/2B –Mandate Requirement

The proposed clause (aa) provides that ITC can be availed only when supplier of the registered person has filed its GSTR-1 showing the details of such invoice or Debit Note against which ITC is to be taken and such detail is reflected in GSTR-2A/2B of such registered person who has to claim ITC (Section 16(2)(aa))

Rule 36(4)

w.e.f 09/10/2019 vide notification no. 49/2019

*ITC to be availed by a registered person in respect of Invoices or Debit Notes, the details of which have not been uploaded by the supplier under GSTR-1, shall not exceed **5%*** of the eligible credit available in respect of Invoices or Debit Notes the details of which have been uploaded by the supplier in GSTR-1*

** w.e.f. 1-1-2021 by the CGST (Fourteenth Amendment) Rules 2020*

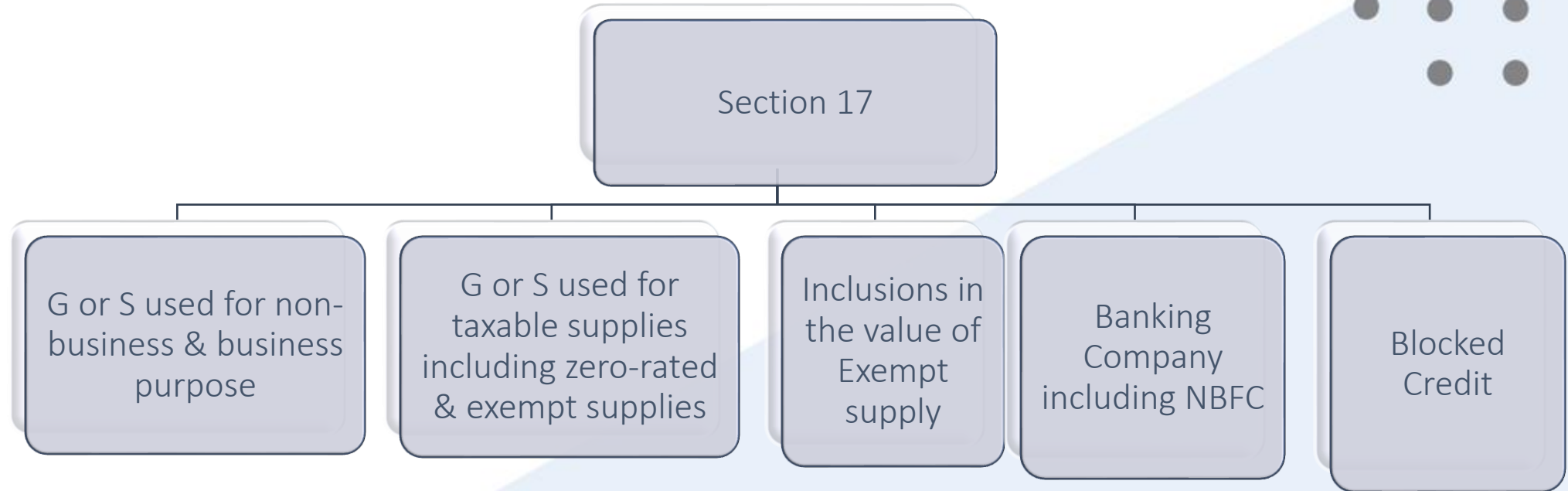
**Earlier at the time of implementation the availment percentage was 20%*

**w.e.f 09/10/2019 ,20% was substituted by 10%*

Restriction on availment of ITC being not part of 2A to the extent of 5% of Eligible ITC being part of 2A

- No facility of matching of invoices or computation of restriction on the portal. Compliance of section 36(4) is required to be complied on self-assessment basis. No tool is available on the GST Portal.
- Procedure of Matching of GSTR2A/2B - Matching of ITC with the GSTR2A/2B would be required to be on overall basis. - No one to one matching of invoice is required. - No matching of ITC on the basis of vendor is required.
- ITC can be availed to the extent of 5% of eligible invoices being part of GSTR 2A/2B. Eligible credit in GSTR 2A/2B would be computed after elimination of blocked ITC u/s 17(5) and other ITC on which ITC is not available.
- Restriction is imposed on CGST, SGST, and IGST separately.

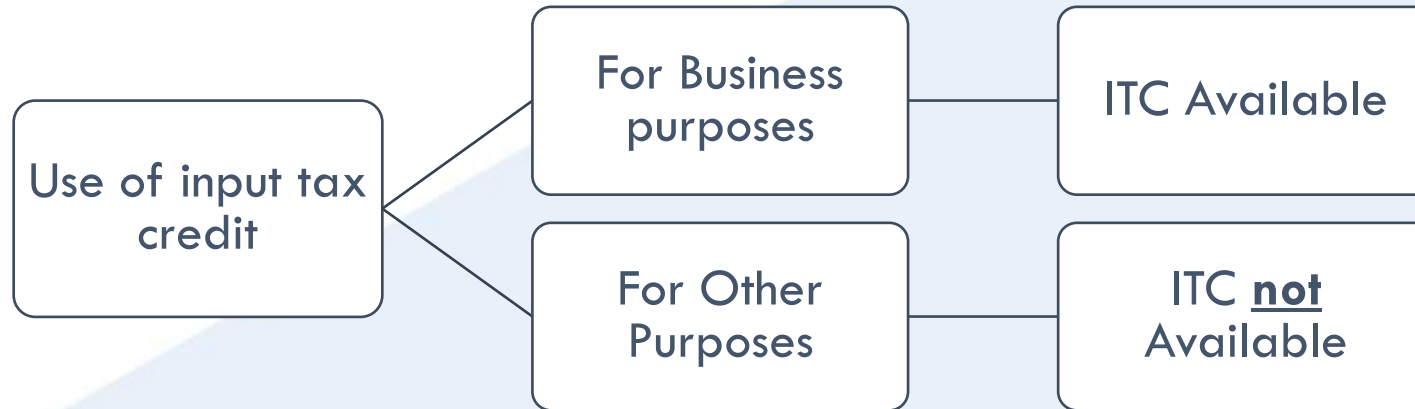
APPORTIONMENT OF INPUT TAX CREDIT



APPORTIONMENT OF CREDIT & BLOCKED CREDIT (Section 17)

Credit admissibility if goods and/or services are used for both business as well as non-business purpose (Section 17(1))

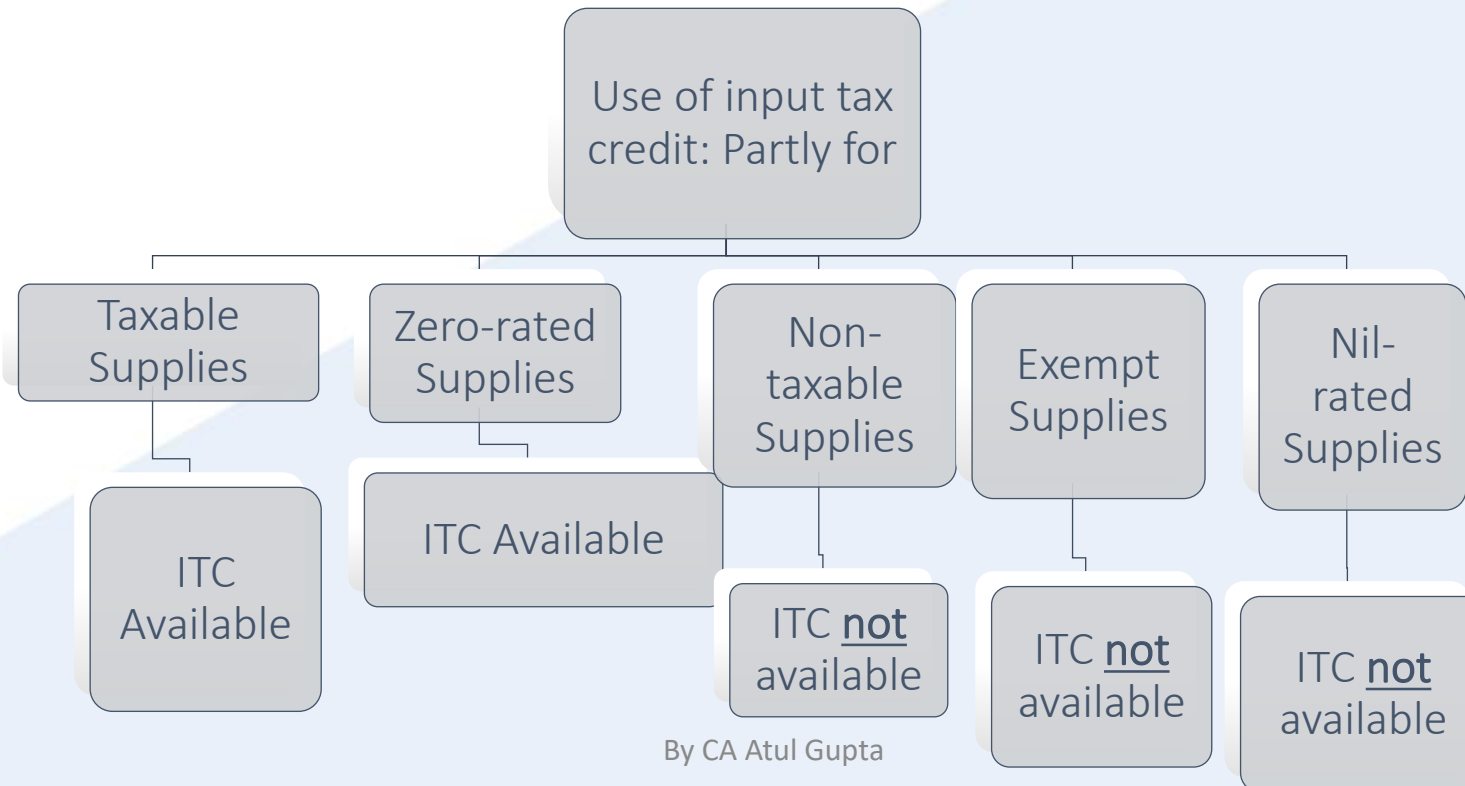
The amount of input tax credit available shall be restricted to so much of the amount as is attributable to the purpose of his business.



APPORTIONMENT OF INPUT TAX CREDIT

Credit admissibility if goods and/or services are used for providing both taxable as well as exempted supplies (Section 17(2) read with Rule 42 & 43)

The amount of input tax credit available shall be restricted to so much of the amount as is attributable to the taxable supplies including zero-rated supplies.



MR. X has the following turnover for the year 2020-21

1. Supply attracting GST @18%	5 Crore
2. Supply attracting GST @0%	2 Crore
3. Export of Supply with Zero Rate	3 Crore
4. Supply Exempted under GST	5 Crore
5. Sale of Stock/Shares	100 Crore
6. Purchase of Stock/Shares	98 Crore
7. Advocate Services	02 Crore

Calculate the Value of Exempted and Taxable Value for the year 2020-21

MR. X has the following turnover for the year 2020-21

1. Supply attracting GST @18%	5 Crore	Taxable
2. Supply attracting GST @0%	2 Crore	Exempted
3. Export of Supply with Zero Rate	3 Crore	Taxable
4. Supply Exempted under GST	5 Crore	Exempted
5. Sale of Stock/Shares	100 Crore	1 Crore Exempted
6. Purchase of Stock/Shares	98 Crore	
7. Advocate Service Provided @18%	02 Crore	Exempted being under RCM

Taxable Turnover : 8 Crore
Exempted : 10 Crore

Inclusions in the value of Exempt Supply (Section 17(3))

- Definition of Exempt Supply:
“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 under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply;
- Valuation of Exempt Supply:
Inclusions in the Value of Exempt supply ((Section 17(3)):
 - a) Outward Supplies on which recipient is liable to pay tax under reverse charge,*
 - b) Transaction in securities (value shall be 1% of sale value),*
 - c) Sale of land (value shall be the same as adopted for the purpose of paying stamp duty)*
 - d) Sale of building subject to para 5(b) of schedule II (value shall be the same as adopted for the purpose of paying stamp duty)*

Exclusions from the value of Exempt supply (Explanation to Rule 42 & 43)

Exclusions from the Value of Exempt Supply:

- a) the value of services by way of accepting deposits, extending loans or advances in so far as the consideration is represented by way of interest or discount, except in case of a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances; and*
- b) the value of supply of services by way of transportation of goods by a vessel from the customs station of clearance in India to a place outside India.*

Apportionment of Credit in case of Banking Company (including NBFC) [Section 17(4)]

- OPTION 1: Comply with the provisions of Section 17(2) read with Rule 42 & 43.
- OPTION 2: Avail an amount equal to fifty per cent of the eligible input tax credit on inputs, capital goods and input services in that month.

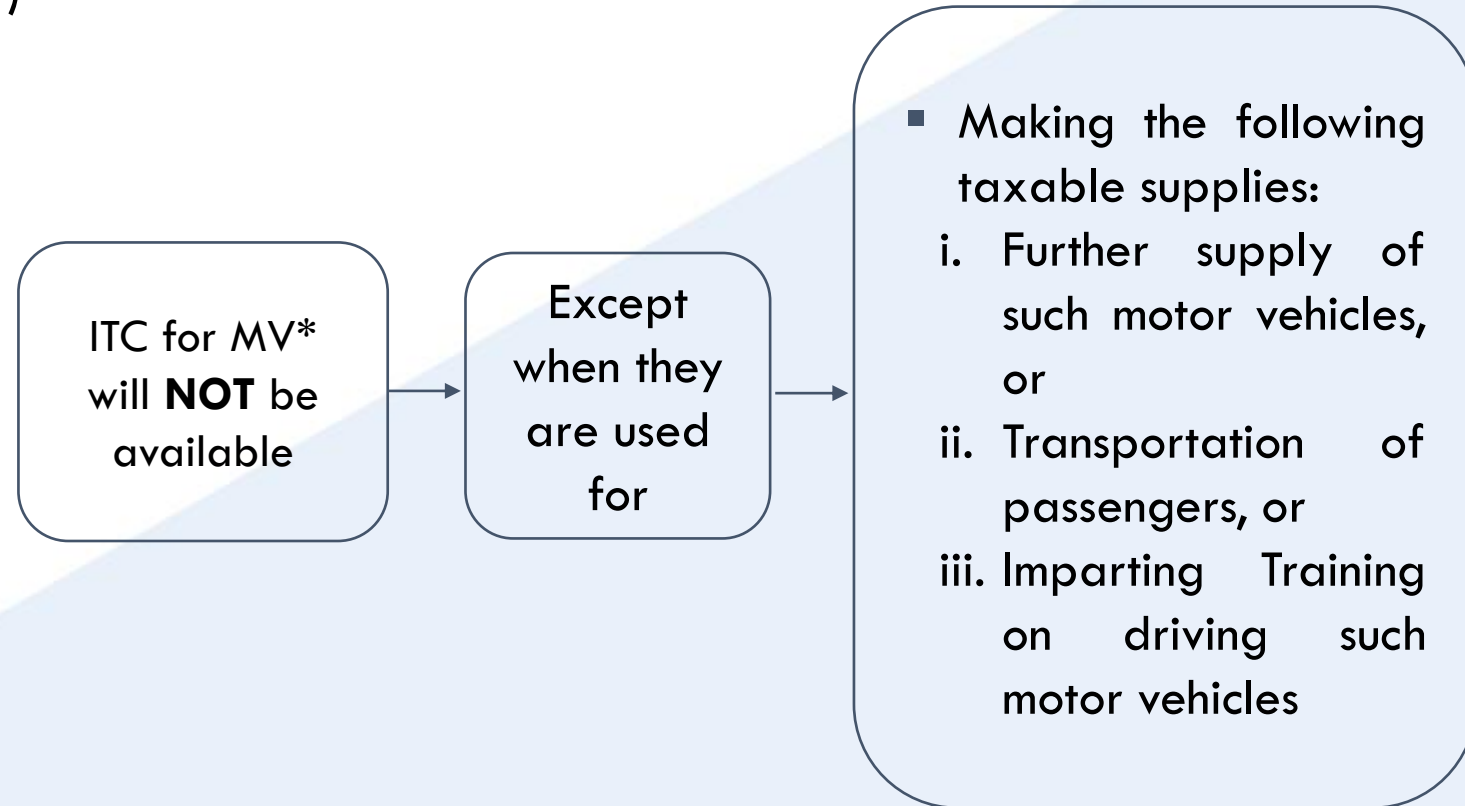
The option once exercised shall not be withdrawn during the remaining part of the financial year. (1st Proviso)

It may be noted that the restriction of fifty per cent. shall not apply to the tax paid on supplies made by one registered person to another registered person having the same Permanent Account Number. (2nd Proviso)

Blocked credit
– Section 17(5)

ITC shall not be available in respect of the following, namely:—

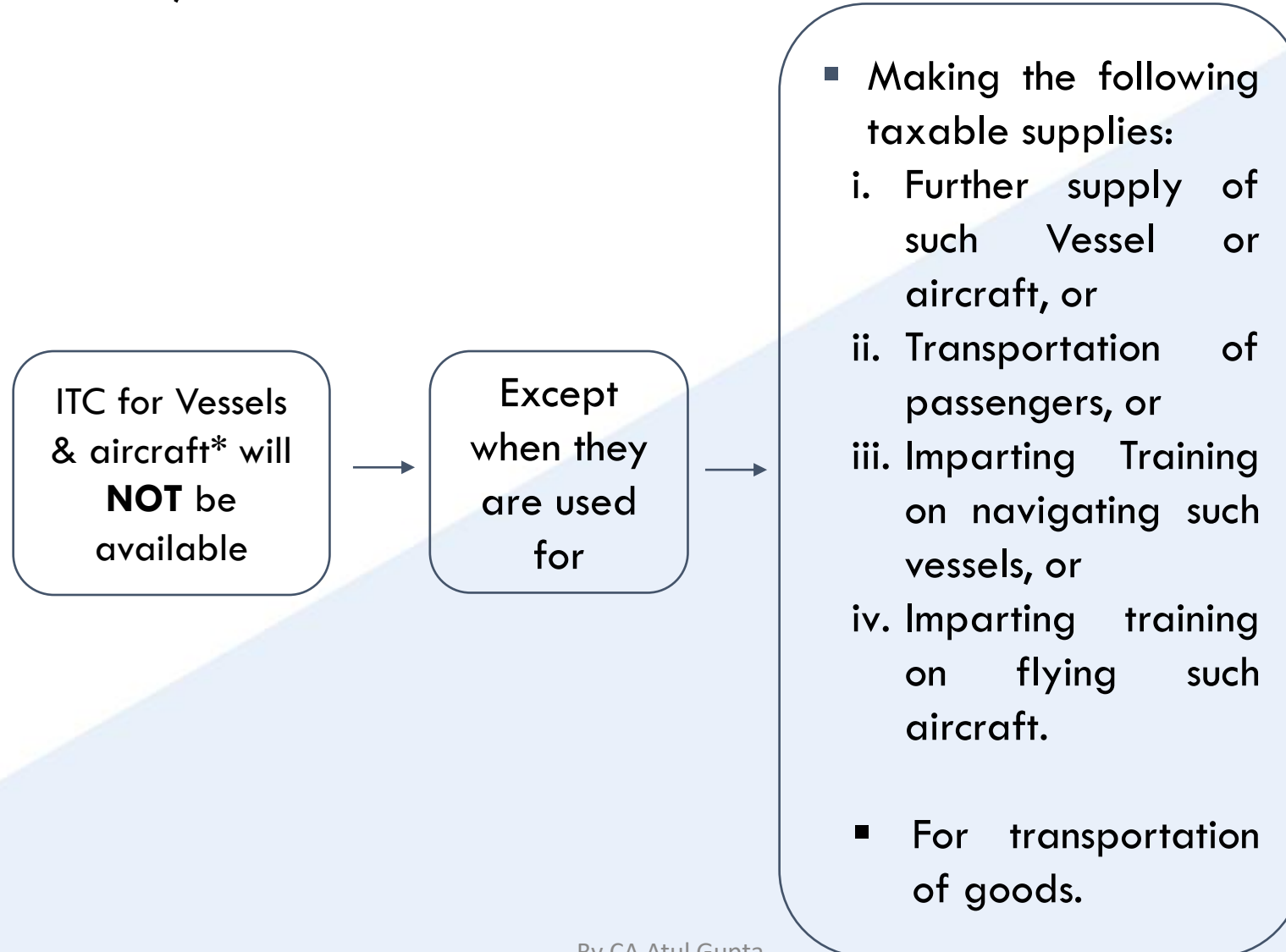
a) Motor Vehicles for transportation of persons having seating capacity up to 13 persons (including driver)*



**Blocked credit
– Section 17(5)**

ITC shall not be available in respect of the following,
namely:—

aa) Vessels & aircrafts*



Blocked credit – Section 17(5)

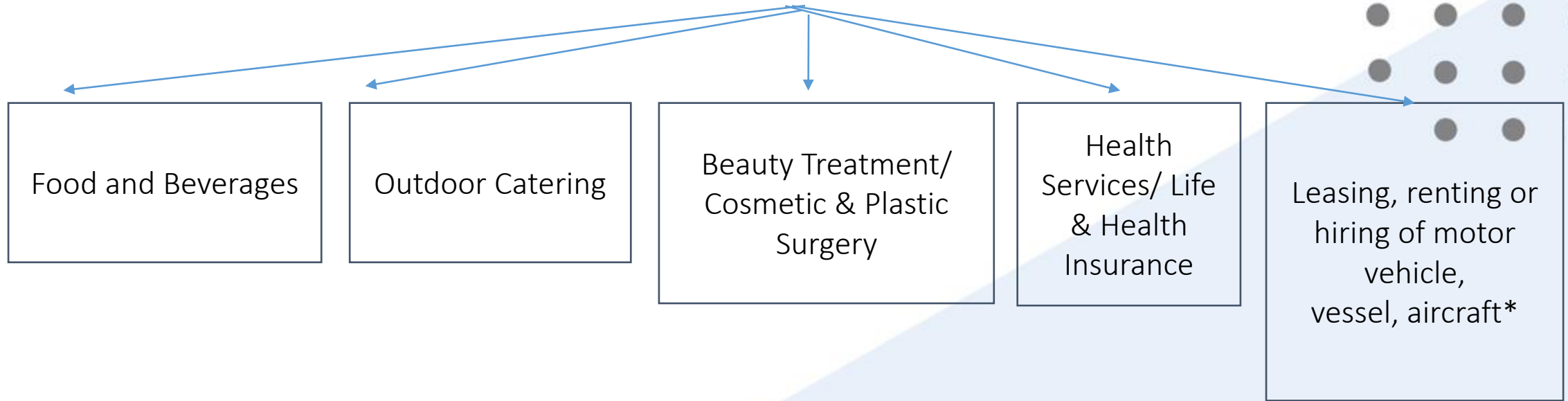
ITC shall not be available in respect of the following, namely:—

ab) services of general insurance, servicing, repair & maintenance so far as they relate to clause (a) &(aa)

Provided the ITC shall be available for the following:

1. Where the motor vehicle, vessel or aircraft are used for the purposes specified in above clauses.
2. Where such services are received by taxable person engaged in:
 - Manufacture of such vessel, vehicle or aircraft, or
 - Supply of general insurance in respect of such vehicle, vessel or aircraft insured by him.

b) Supply of goods and services being:



- Allowed ONLY if goods / services of a particular category are used towards making taxable outward supplies of the same category, or as an element of composite & mixed supply.

*except when used for the purposes specified in clause (a) & (aa) above.

Blocked credit – Section 17(5)

ii) Membership of a club, health & fitness centre and

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

- Allowed ONLY where the services are notified as obligatory for an employer to provide to an employee.

Blocked credit – Section 17(5)

c & d) Construction of Immovable Property (other than plant and machinery)

Works contract services, except where it is an input service for further supply of works contract service

Goods or services received by a taxable person for construction of an immovable property on his own account even when used in course or furtherance of business;

ITC not Available

Where construction includes re-construction, renovation, additions or alterations or repairs to the extent of capitalisation.

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.*

Blocked credit – Section 17(5)

- e) Taxes on supply of goods or services paid u/s 10*
- f) Goods or services or both received by a non-resident taxable person except on goods imported by him, shall not be allowed*
- g) Goods or services or both used for personal consumption*
- h) Goods lost, stolen, destroyed, written off or disposed of by way of gift or free supplies and*
- i) Any tax paid in accordance with the provisions of sections 74, 129 and 130*

Important Judgments/Rulings

- ITC not deniable where purchaser proves that seller has collected tax from him and issued invoice (***Assistant Commissioner (CT) v. Infiniti Wholesale Ltd. — (2017) 99 VST 341 (Mad.)***)
- For calculation of reversal of ITC on wastage assessing officer was required to ascertain as to what would be quantum of loss and uniform or ad hoc percentage cannot be adopted. (***SRI RANGANATHAR VALVES PVT. LTD. v. ASSTT. COMM. (CT), COIMBATORE 2020 (42) G.S.T.L. 326 (Mad.)***)
- Medicine supply to inpatients as part of Health Care service – not eligible for ITC. (***IN RE : AMBARA 2020 (42) G.S.T.L. 314 (A.A.R. - GST - Kar.)***)
- Co-operative housing society is not eligible to claim ITC of GST paid on replacement of existing lift/elevator. (***IN RE : LAS PALMAS CO-OP. HOUSING SOCIETY 2020 (41) G.S.T.L. 548 (App. A.A.R. - GST - Mah.)***)
- Builder can claim ITC on expense incurred after receipt of completion certificate adhering to manner in terms of section 16 & 17 read with rule 42 & 43. (***IN RE : V 2 REALTY 2020 (41) G.S.T.L. 208 (A.A.R. - GST - Guj.)***)
- ITC related to bus hire used for transportation of employees to and from work place allowed w.e.f. 01.02.2019 (***IN RE : TATA MOTORS LTD. 2020 (41) G.S.T.L. 35 (A.A.R. - GST - Mah.)***)
- ITC of GST paid on “Lease premium charges”, “annual lease rentals” and “maintenance charges” related to land is not allowed where land is acquired for construction of own building. (***IN RE : DAICEL CHIRAL TECHNOLOGIES (INDIA) PVT. LTD. 2020 (40) G.S.T.L. 201 (A.A.R. - GST - Telangana)***)

Rule 42 of CGST Rules

	Total credit	T
<i>Less:</i>	Exclusive Non business	T1
<i>Less:</i>	Exclusively for exempt	T2
<i>Less:</i>	Blocked credit	T3
	Credited to E-Cr ledger	C1
<i>Less:</i>	Exclusively for taxable	T4
	Common	C2
<i>Less:</i>	Proportional to exempt ($C2 * E / F$)	D1
<i>Less:</i>	Non business (5% of C2 if C2 contains Non business)	D2
	Credit to be taken	C3

Rule 42 of CGST Rules

Step 1	Calculate Total Input Tax in a tax period, which should be the total of all type of taxes paid on inward supplies and is denoted as "T"
Step 2	Taxes paid for supplies used exclusively for purposes other than business, denoted as "T1".
Step 3	Taxes paid for supplies used exclusively for effecting Exempted supplies, denoted as "T2"
Step 4	Taxes paid for supplies on which credit is not available under Section 17(5), denoted as "T3"
Step 5	Amount of ITC credited to Electronic Credit Ledger of Registered Person, denoted as "C1" i.e. $C1 = T - (T1 + T2 + T3)$
Step 6	ITC on supplies other than Exempted but including Zero-rated supplies, denoted as "T4". This credit purely for business purposes and fully eligible as ITC.
Step 7	Common Input Tax Credit on inward supplies used for taxable as well as exempted outward supplies denoted as "C2" i.e. $C2 = C1 - T4$
Step 8	ITC attributable towards exempted supplies, denoted as "D1" i.e. $D1 = (E/F) * C2$

Rule 42 of CGST Rules

Step-9	If common ITC [C2] is used for both Business as well as Non-Business purposes then ITC attributable to Non-Business purpose shall be 5% of Common Credit and is denoted as D2 i.e. $D2 = C2 \times 5\%$
Step-10	The balance of the common credit shall be the eligible credit out of the common credit deemed as used for business purposes and is denoted as C3 i.e. $C3 = C2 - (D1 + D2)$
Step-11	The amounts of T1, T2, T3 are ineligible credits.
Step-12	C3 to be computed separately for CGST, SGST, UTGST and IGST

where- E = Aggregate value of Exempted Supplies during the Tax Period & F = Total Turnover in the state of the Registered person during the Tax period

By CA Atul Gupta

Rule 42 of CGST Rules

–

Calculation
to be done
at the end
of the
financial
year

- Credit calculated on provisional basis shall be computed finally before due date of filing returns for the month of September following the end of the FY to which credit relates;
- In case amount calculated exceeds the provisional calculation the differential amount shall be added to the output tax liability
- interest from the month of April of next FY till the date of payment to be paid
- In case amount finally calculated is short of the provisional calculation, the differential amount shall be taken as credit in the month of September
- It is to be noted that the reversal to be done at the end of the financial year is only applicable for Rule 42.

Case Study on Rule 42

XYZ is having Turnover of Rs.10 cr. out of which Rs.7 cr. is taxable supply and Rs.3 cr. is exempted supply. Total Input Tax Credit available is Rs.80 Lakh. It includes:

- 5 Lakh for services availed for personal consumption.
- Input Credit of Rs.5 Lakh is available on warehousing of agriculture produce.
- XYZ paid Rs.20 lakh. as tax for purchase of building materials and services for construction of building on his own account for furtherance of business.
- Rs.10 lakhs for procuring works contract service for further supply of works contract service for construction of immovable property and use for office.
- XYZ purchased Motor Vehicle for transportation of passengers and self use and Input Credit available on it is Rs.2 Lakh.
- XYZ paid for Food and Beverages for staff on which Input Tax of Rs.1 Lakh is available.
- XYZ Paid For Service of Motor Vehicle purchased by Company for which 1 Lakh paid as GST
- Goods on which tax of Rs.6 lakhs was paid were stolen from the site.
- Credit balance of Rs 20 Lakh is available exclusively for taxable

Solution

- *Total input tax ('T'): 80 Lakhs*

Tax paid in respect of:

- *Inputs and input services to be used exclusively for purposes other than business ('T1'): 5 lakh*
- *Inputs and input services intended to be used for effecting exempt supplies ('T2'): 5 lakh*
- *Inputs on which credit is not available under section 17(5) ('T3'):
20+1+1+6=28 lakhs*
- *Input tax credit credited to the electronic credit ledger ('C1'):
 $C1 = 80 - (5 + 5 + 28) = 42$ lakhs*
- *Inputs and input services used exclusively for taxable supply ('T4'): 20 lakhs*

Solution

- Common credit for taxable as well as exempt supply ('C2'):
 $C2 = 42 - 20 = 22 \text{ lakhs}$
 - Amount of input tax credit attributable towards exempt supplies i.e. 'D1':
 $D1 = (E \div F) \times C2$
 - Exempt turnover: 3 cr. Total turnover: 10 cr.
 $D1 = (3/10) * 22 \text{ lakhs} = 6,60,000/-$
 - Amount of credit attributable to non-business purposes: $D2 = C2 * 5\% = 22 * 5/100 = 1,10,000/-$
 - Amount of common credit available for utilization:
 - $C2 - (D1 + D2) = 22 \text{ lakhs} - (6.6 + 1.1 \text{ lakhs}) = 14.30 \text{ lakhs} = C3$
- Total amount available for utilization: $20 + 14.30 = 34.30 \text{ lakhs}$

Apportionment of Input Tax Credit in case of Capital Goods

Where the registered person has not claimed depreciation on the tax component of the cost of capital goods & plant and machinery and decides to claim the credit of input taxes paid, where such capital goods are used partly for the purpose of business and partly for other purposes or partly for effecting taxable supplies including zero-rated supplies and partly for effecting taxable supplies, the input tax credit available shall be calculated as per the provisions of Rule 43.

“capital goods” means the goods, the value of which are capitalized in the books of accounts of the person claiming the credit and which are used or intended to be used in the course or furtherance of the business

Depreciation claimed on Tax component of the cost of capital goods under IT Act

ITC not Available

Example:

Cost of asset	= Rs. 100
Tax-18%(say)	= <u>Rs. 18</u>
Total Cost	<u>Rs. 118</u>

If Depreciation charged on Rs.100
ITC Available

If Depreciation charged on Rs.118
ITC not Available

Rule 43

Input tax in respect of capital goods used or intended to be used exclusively for non-business purposes or used or intended to be used exclusively for effecting exempt supplies

Not-eligible
(shall not be credited to the Electronic credit Ledger)

Input tax in respect of capital goods used or intended to be used exclusively for effecting supplies other than exempted supplies but including zero-rated supplies

Fully eligible
(Shall be credited to the electronic credit ledger)

Input tax credit in relation to capital goods other than the above (amount of tax as reflected on the invoice) (Useful life=5 years from the date of invoice)

A
(Shall be credited to the electronic credit ledger)

Aggregate of A: common credit in respect of capital goods credited to electronic credit ledger

T_c

Amount of common ITC attributable to a tax period ($T_m = T_c/60$)

T_m

Common ITC at the beginning of a tax period pertaining to CG whose useful life remains during the tax period (aggregate of T_m)

T_r

Amount of common credit attributable towards exempted supplies

$$T_e = (E/F) * T_r$$

T_e

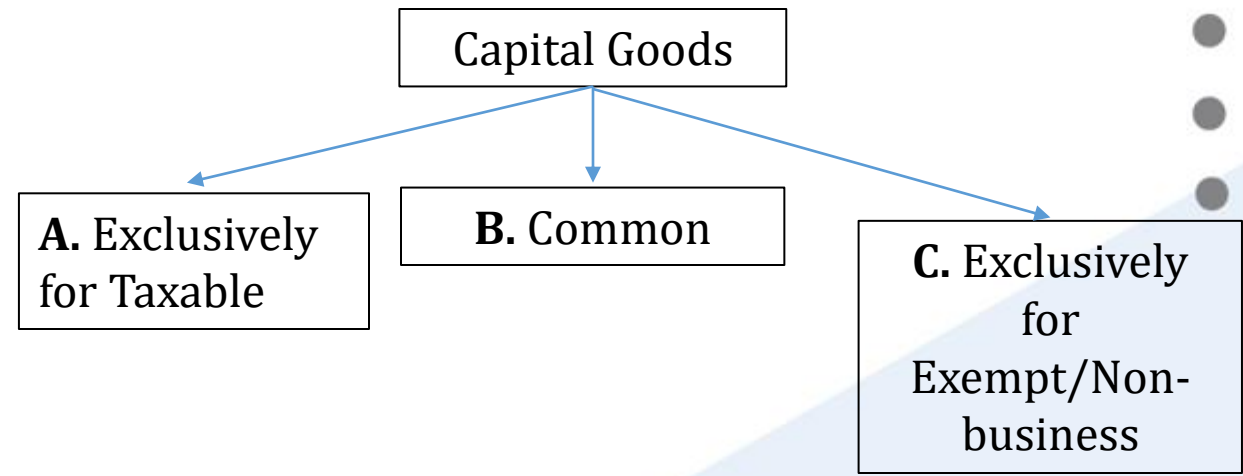
Where, 'E' is the aggregate value of exempt supplies, made, during the tax period, and 'F' is the total turnover of the registered person during the tax period

Additional
points to be
noted with
respect to
reversal
pertaining to
capital goods

- *Where capital goods earlier used for non-business purpose or for effecting exempt supplies are now being used for effecting both taxable as well as exempt supplies, the value of common ITC 'A' shall be credited to the Electronic credit ledger subject to the condition that the ineligible credit denoted as 'Tie' shall be calculated at the rate of 5 percentage points for every quarter or part thereof and added to the output tax liability of the tax period in which such credit is claimed.*
- *Where capital goods earlier used for effecting supplies (including zero-rated supplies) other than exempt supplies are now being used for effecting both taxable as well as exempt supplies, the ITC claimed in respect of such goods shall be added to arrive at the aggregate value 'Tc'.*

“

Rule 43



	Total common credit during (new credit) month	A
<i>Add:</i>	Converted from C to B (ineligible portion 5% per quarter, added to the output tax liability= Te)	A
	Common credit to be availed in ledger	Tc
<i>Add:</i>	Converted from A to B	xx
	Aggregate Common credit	Tc
	Calculation of monthly (Tc/60)	Tm
<i>Add:</i>	Tm of previous tax periods	xx
	Total monthly credit	Tr
	Credit to be reversed (Tr*E/F)	Te

Case Study on Rule 43

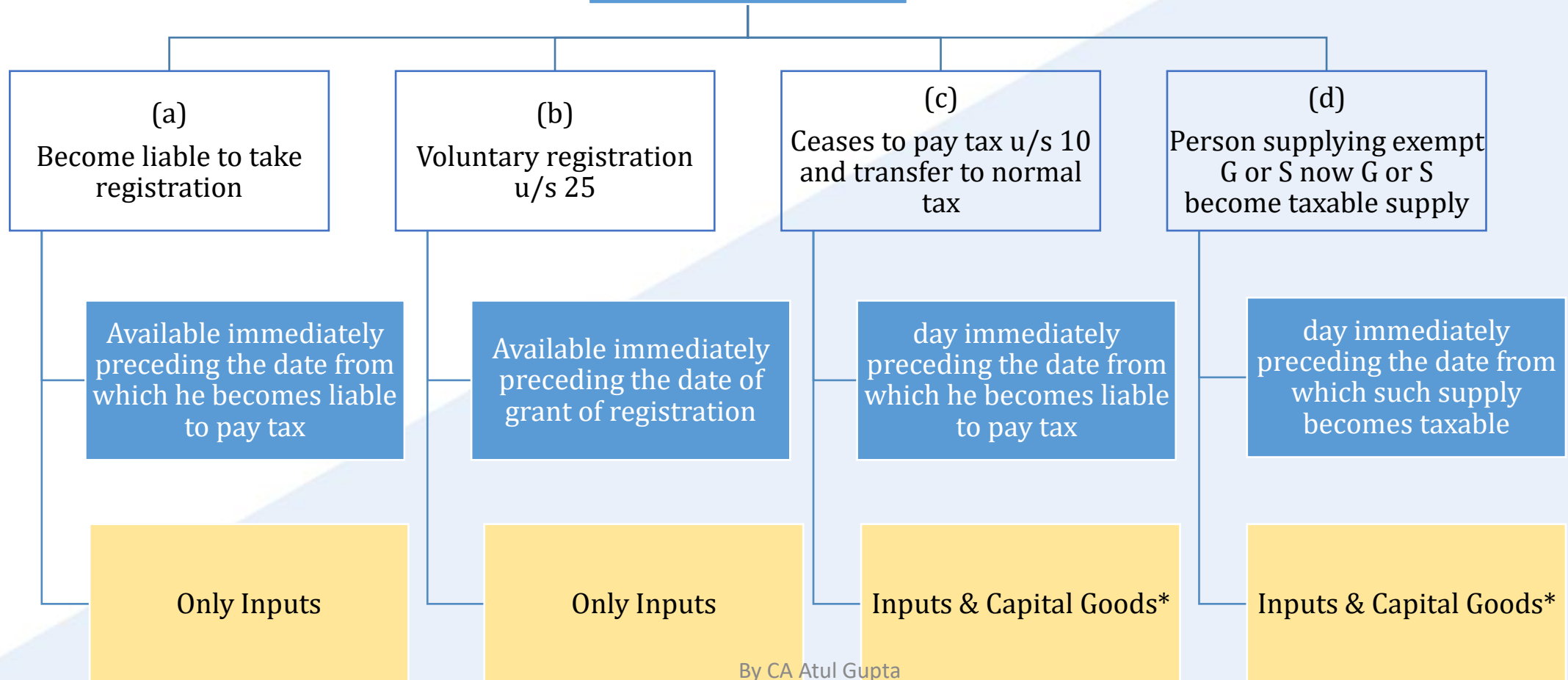
1. Credit relating to capital goods that is used for effecting exempt supplies as well as taxable supplies = Rs. 20000
2. Credit of Capital goods that were earlier used for effecting exempt or non business supplies but now used for both taxable as well as exempt supplies = Rs. 10000 (Machinery purchased on 1st April 2018) =C to B
3. Credit of capital goods that were earlier used for effecting taxable supplies are now used for both taxable as well as exempt supplies = Rs. 5000 (Machinery purchased on 1st Nov 2019) =A to B
4. Carried forward common credit of the previous months (T_m)= 1,000
5. Total turnover 30 lakhs out of which 10 lakhs pertains to exempted turnover
6. Calculate the eligibility of credit for April 2021

Solution

Total Common credit (A)	20,000
+ Converted from Non-business to common ($\{12 \text{ Quarters} \times 5\% \} \times 10,000 = 6,000$ output tax)	10,000
Credit to be transferred to Electronic Credit Ledger	30,000
+ Converted from Taxable to common	5,000
Total common credit (Tc)	35,000
Amount Of aggregate common credit for a tax period ($35,000/60$)	583
Common credit of the previous months	1000
Total common credit for the month	1583
Apportionment of common credit attributable towards exempted supply ($1583 \times \{10 \text{ lakhs}/30 \text{ lakhs}\}$)	527.66
Net Credit available (30,000-527.66)	29,472

Availability of credit in special circumstances

Section 18



*Calculation of claim in capital goods (Rule 40)

(Section 10 > Normal)

(Exempt Supply > Taxable Supply)

Input tax credit on capital goods to be calculated by reducing the tax paid by 5% for per quarter or part thereof from the date of invoice.

Lets take an example to understand the situation

- Say, Mr. X is a registered person and engaged in supply of cotton seed oil(exempt) and other oils(taxable).
- He has purchased a machinery to be used exclusively in extraction of cotton seed oil on 1/08/2017 and paid GST Rs.120000.
- On 16/10/2018, exemption on those supplies was withdrawn by govt., rendering them taxable from 17/10/2018 onwards.

Solution

- No. of quarter for which goods used for exempt supply = 6 quarter
- Percentage of reversal= $6 \times 5\% = 30\%$
- Total Reversal= $1,20,000 \times 30\% = 36,000$
- Credit allowed = $1,20,000 - 36,000 = 84,000$

Availability of credit in special circumstances

- Person will not be eligible to claim the credit in respect of inputs and capital goods after the expiry of one year from the date of invoice. (Section 18(2))
- Registered person will be required to file the details in ITC-01 within 30 days or other extended period. (Rule 40)
- The details shall be certified by CA or CWA if the aggregate value of tax exceeds Rs. 2 lakhs. (Rule 40)

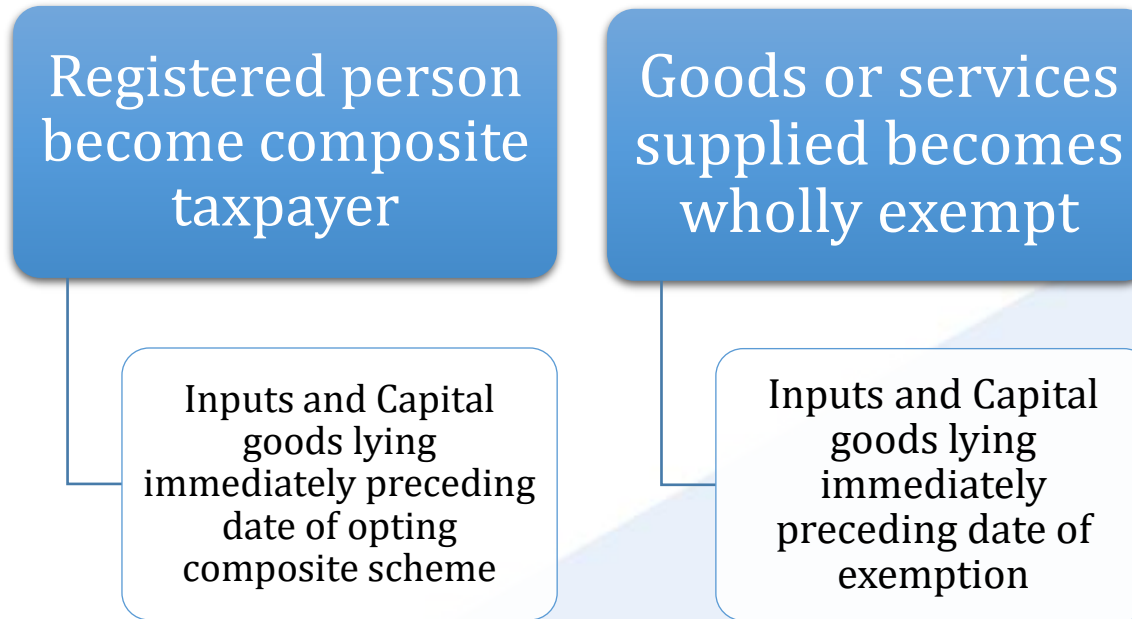
Transfer of Credit in case of Sale, Merger, Demerger, Amalgamation. Or Transfer of business

(Section 18(3) read
with Rule 41)

- Transferor will be allowed to transfer the unutilized input tax credit lying in the electronic credit ledger.
- Transferor shall furnish the details in FORM ITC-02.
- Transferor will also be required to submit the copy of certificate issued by CA or CWA.
- The transferee will accept the details furnished in ITC-02 and after the acceptance such details will reflect in electronic credit ledger of transferee.

Reversal of credit

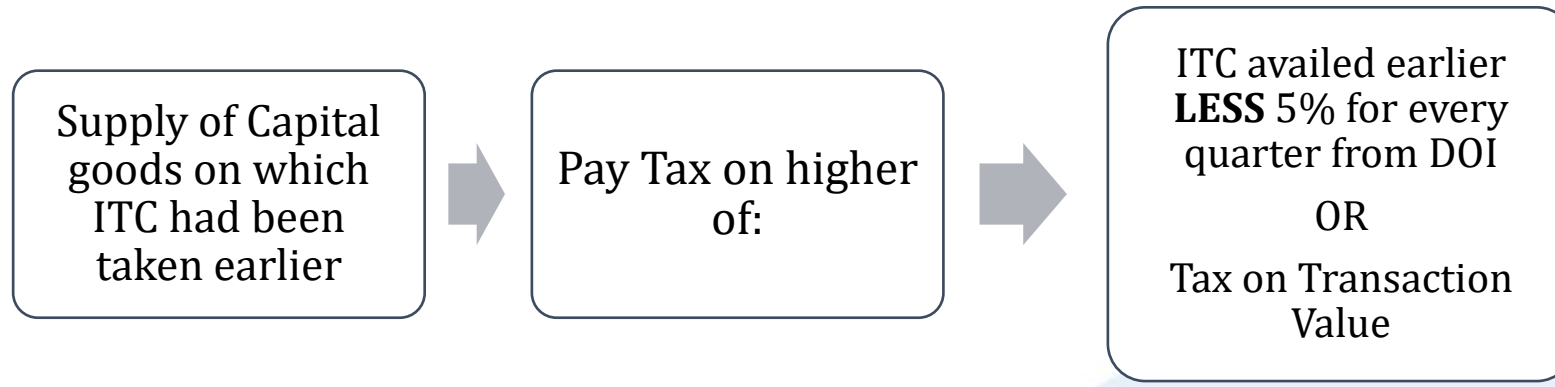
(When supplies become exempt or person becomes composite taxpayer
– Section 18(4) read with Rule 44)



- Reversal of capital goods to be made on pro rata basis for the remaining months taking useful life to be 5 years.
- Reversal shall be made either by debiting electronic credit ledger or electronic cash ledger.
- The details of reversal will be shown in ITC-03
- If tax invoices related to stock are not available amount shall be estimated on market prices on the effective date of the occurrence of the event. Such details to be certified by CA and CWA.

Supply of Capital goods on which ITC taken

(Sec 18(6) r/w R(40(2))



Purchase Date of Machinery	Jan 01, 2018
Purchase Price	500,000
Taxes Paid	50,000
Sale Date	May 05, 2020
Sale Value of Machinery	60,000

Supply of
Capital
goods on
which
ITC taken

(Sec 18(6) r/w
R(40(2)))

Particulars	Amount
Sale Value of Machinery	60,000
IGST @ 18%	10,800

Particulars	Amount
Input Tax Credit Availed	50,000
Less: 5% per quarter (For 10 qtrs)	25,000

Tax Payable is Rs. 10,800 or Rs. 25,000, WEH

Exception:

Refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, taxable person **may** pay tax on transaction value.

Apportionment of Credit in case of Banking Company (including NBFC) [Section 17(4)]- Rule 38

- *Where the banking company (including NBFC) opts to avail 50% of the eligible input tax credit, the following procedure shall be adopted:*
 - a) *The banking company or institution shall not avail the credit of,-*
 - (i) *the tax paid on inputs and input services that are used for non-business purposes; and*
 - (ii) *the credit attributable to the supplies specified in sub-section (5) of section 17*
 - (iii) *Fifty per cent of the remaining amount of input tax shall be the input tax credit admissible to the company or the institution.*

Case Study

- a) *The banking company or institution has the total ITC of Rs. 80,000, Calculate the availability of credit-*
- (i) Inputs and Input services that are used for non-business purposes amounting to Rs. 1,00,000 (GST Rs. 18,000)*
 - (ii) the credit attributable to the supplies specified in sub-section (5) of section 17 amounting to Rs. 15000*
 - (iii) supplies made by one registered person to another registered person having the same Permanent Account Number amounting to Rs. 200000 (GST Rs. 36,000)*

Solution:

- a) Calculation of ITC available to the banking company:
- (i) Inputs and Input services that are used for non-business purposes
GST Rs. 18,000 – Not Available
 - (ii) the credit attributable to the supplies specified in sub-section (5) of section 17 amounting to Rs. 15000 – Not available
 - (iii) supplies made by one registered person to another registered person having the same Permanent Account Number GST Rs. 36,000 – Fully eligible
 - (iv) remaining ITC = $80,000 - (18,000 + 15,000 + 36,000) = 11,000$
 - (v) ITC available = 50% of 11,000 i.e. 5,500 plus 36,000 = 41,500

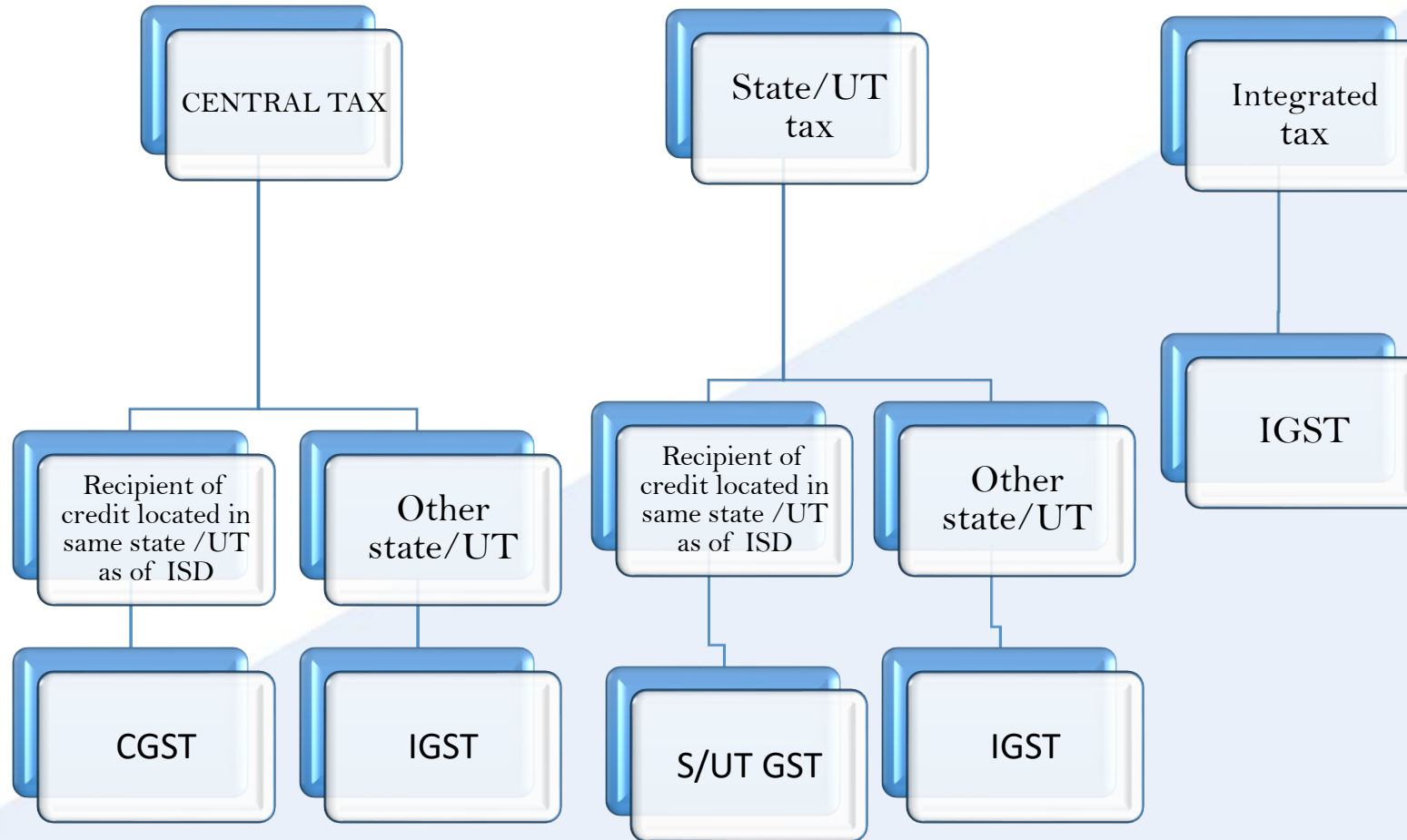
Input Service Distributor

- *Meaning of Input Services Distributor?*
 1. *Office of the supplier which receives tax invoice*
 2. *Issues prescribed documents for distributing the credit of input services*
 3. *To the taxable person having same PAN*

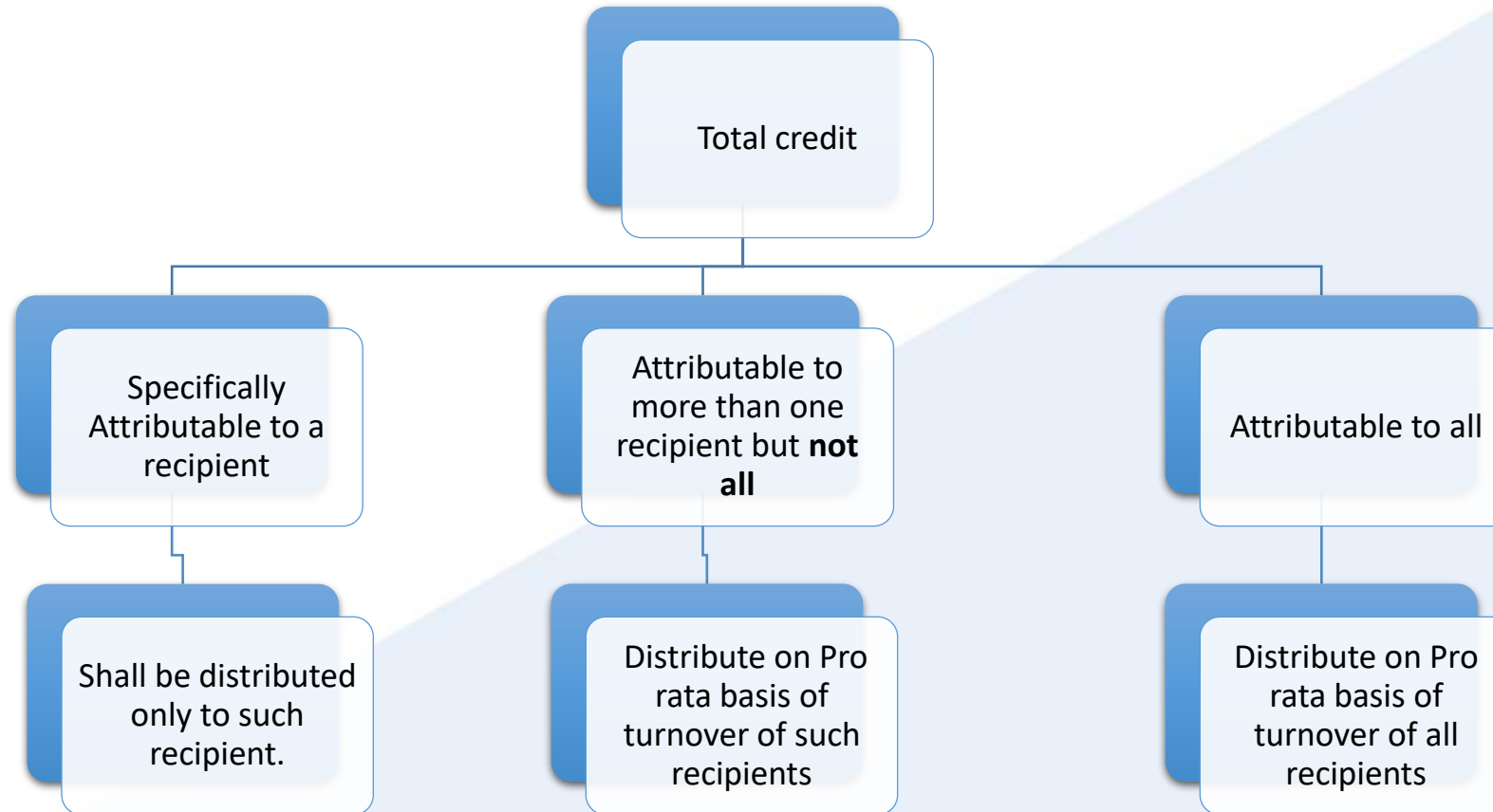
Manner of distribution of Credit

- *Input tax credit available for distribution shall be distributed in same month and to be shown in GSTR-6*
- *Ineligible and eligible credit to be distributed separately and even the each tax component to be distributed separately.*
- *ISD shall issue a ISD Invoice, bearing endorsement or otherwise but clearly specifying that the Invoice is only for distribution of credit. It shall contain the particulars prescribed under Rule 54(1).*
- *Where the supplier raises debit note or credit note to ISD, such excess credit available can be distributed in same manner in the month of disclosure in GSTR-6.*

Manner of Distribution (Rule 39)



Calculation of amount attributable to recipient:



THANK YOU

CA Atul Kumar Gupta
9810103611
atul@servicetax.net