

INPUT TAX CREDIT



The section numbers referred to in the Chapter pertain to CGST Act and rule numbers referred to in the Chapter pertain to CGST Rules, unless otherwise specified. For the sake of brevity, input tax credit has been referred to as ITC in this Chapter. Examples/Illustrations/Questions and Answers given in the Chapter are based on the position of GST law existing as on 31.10.2024.

LEARNING OUTCOMES

After studying this Chapter, you will be able to –

- ☐ describe what are inputs, input services, capital goods and other relevant terms in relation to ITC
- ☐ explain the various conditions, timelines and restrictions for taking ITC on goods and services in general and in special circumstances
- ☐ identify the items on which ITC is available as also the blocked items on which ITC is not available
- ☐ explain the concept relating to availing of proportionate ITC when common inputs or input service or capital goods are used or intended to be used for exempted and taxable supplies or business and non-business activities
- ☐ comprehend the concept of an input service distributor and the manner of distribution of credit by him
- ☐ describe the manner of recovery of credit distributed in excess
- ☐ comprehend, analyse and apply all the above provisions as also the provisions relating to utilization of ITC in problem solving
- ☐ compute the GST liability of a registered person.



1. INTRODUCTION

In earlier indirect tax regime, the credit mechanism for indirect taxes levied by the Union Government, (central excise duty and service tax) was governed by the CENVAT Credit Rules, 2004; and the credit mechanism for State-level VAT on sale of goods was governed by the States under their respective VAT laws. The VAT legislations allowed ITC of VAT on inputs and capital goods in transactions within the State, but not on inputs and capital goods coming in the State from outside the State, on which central sales tax was paid. CENVAT Credit Rules, 2004 allowed availing and utilizing credit of duty/tax paid on both goods (capital goods and inputs) and services by the manufacturers and the service providers across the country.



The credit across goods and services was integrated vide the CENVAT Credit Rules, 2004 in the year 2004 to mitigate the cascading effects of central levies namely, central excise duty and service tax. However, the credit chain remained fragmented on account of State-Level VAT as the credit of central taxes could not be set off against a State levy and *vice versa*. The chain further got distorted as ITC was not available on inter-State purchases. This resulted in cascading of taxes leading to increase in costs of goods and services.

The GST regime promises seamless credit on goods and services across the entire supply chain with some exceptions like supplies charged to tax under composition scheme, blocked credits and supply of exempted goods and/or services. ITC is considered to be the lifeline of the GST regime. In fact, it is the provisions of ITC which essentially make GST - a value added tax i.e., collection of tax at all points of supply chain after allowing credit of tax paid at earlier points.

Chapter V of the CGST Act [Sections 16 to 21] & Chapter V: Input Tax Credit of the CGST Rules [Rules 36-45] prescribes the provisions relating to ITC.

Further, section 41 contains provisions for availment of ITC, sections 49(5), 49A, 49B and rule 88A together prescribe the sequence of utilisation of ITC and rules 86A and 86B stipulate the conditions of use of amount available in electronic credit ledger and restrictions on use of amount available in electronic credit ledger. State GST laws also prescribe identical provisions in relation to ITC. First the statutory provisions of these sections together with the relevant rules have been extracted followed by their analysis¹.

Provisions of ITC under CGST Act have also been made applicable to IGST Act vide section 20 of the IGST Act.

Scheme of ITC - At a Glance

Given below are the salient features of the scheme of ITC. The scheme has been discussed in detail in the ensuing pages of this Chapter.

- ☐ The scheme is designed to avoid cascading effect of taxes and make GST a destination-based tax.
- ☐ Broadly, ITC is available on all inputs, input services and capital goods used for purposes of business by a taxable person. The exception is 'blocked credit', where ITC is not available even when these goods or services are used for the purposes of business.
- ☐ ITC is used for payment of tax on taxable output supply to avoid cascading effect of taxes.
- ☐ GST law does not require 'one to one' co-relation between inputs/input services and final products/services. Any eligible ITC can be used for payment of tax on any taxable output supply.
- ☐ IGST is another core aspect of GST. It is a transitory tax to enable transfer of ITC when goods or services move from one State to another. This is a unique feature of Indian GST.

¹ The provisions of section 19 relating to taking ITC on inputs and capital goods sent for job work have been discussed in Chapter 16: Job Work in Module 3 of this Study Material.

- ❑ Since ITC can be availed & utilized for payment of tax on taxable output supply, as a natural corollary, ITC cannot be availed in respect of exempt output supply on which tax is not payable.
- ❑ The exception to the above principle is 'zero rated supply', i.e. exports or supplies to a special economic zone (SEZ) developer/unit for authorised operations, where ITC is available even if no tax is payable on output supply as zero-rated supplies are not exempt supplies. Such ITC can be utilized either for making supplies by paying tax or refund of the unutilized ITC can be obtained. This simple mechanism is used to make exports and supplies to SEZ completely tax free.
- ❑ If a taxable person is making both taxable and exempt supply, he is entitled to avail full credit of ITC in respect of inputs, input services and capital goods exclusively used for taxable supply and no credit at all can be availed for inputs, input services and capital goods exclusively used for exempt supply.
- ❑ If common inputs, input services and capital goods are used for taxable as well as exempt supply, only proportionate ITC attributable to the taxable supply is available. The common ITC is apportioned in the ratio of value of taxable supply and exempt supply. Elaborate provisions have been made in the GST law to prescribe the manner of calculation of proportionate ITC.
- ❑ ITC can be availed on inputs and capital goods sent for job work; ITC is available even if the inputs and capital goods are sent directly to the job worker without being first brought to the place of business of the supplier.²
- ❑ Input services received at head office or branch offices are ultimately indirectly used for supplies made from manufacturing or trading or business premises. ITC of such input services can be availed through mechanism of 'input service distributor'.

Before proceeding to understand the statutory provisions relating to ITC, let us first go through few relevant definitions.

² The provisions relating to taking ITC on inputs and capital goods sent for job work have been discussed in Chapter 16: Job Work in Module 3 of this Study Material.



2. RELEVANT DEFINITIONS

- ❖ **Agent** means a person, including a factor, broker, commission agent, arhatia, del credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business of supply or receipt of goods or services or both on behalf of another [Section 2(5)].
- ❖ **Business** includes
 - (a) any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;
 - (b) any activity or transaction in connection with or incidental or ancillary to sub-clause (a);
 - (c) any activity or transaction in the nature of sub-clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction;
 - (d) supply or acquisition of goods including capital goods and services in connection with commencement or closure of business;
 - (e) provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members;
 - (f) admission, for a consideration, of persons to any premises;
 - (g) services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation;
 - (h) activities of a race club including by way of totalisator or a licence to book maker or activities of a licenced book maker in such club; and
 - (i) any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities [Section 2(17)].
- ❖ **Capital goods** means goods, the value of which is capitalized in the books of account of the person claiming the ITC and which are used or intended to

be used in the course or furtherance of business [Section 2(19)].

- ❖ **Conveyance** includes a vessel, an aircraft and a vehicle [Section 2(34)].
- ❖ **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 IGST Act, and includes non-taxable supply [Section 2(47)].
- ❖ **Input** means any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business [Section 2(59)].
- ❖ **Input service** means any service used or intended to be used by a supplier in the course or furtherance of business [Section 2(60)].
- ❖ **Input service distributor** means an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office [Section 2(61)].
- ❖ **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 integrated goods and services tax 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-section (3) and (4) of section 5 of the IGST Act;
 - (d) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 9 of the respective State Goods and Services Tax Act; or

(e) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 7 of the Union Territory Goods and Services Tax Act,

but does not include the tax paid under the composition levy [Section 2(62)].

- ❖ **Input tax credit** means the credit of input tax [Section 2(63)].
- ❖ **Invoice or tax invoice** means the tax invoice referred to in section 31 [Section 2(66)].
- ❖ **Inward supply** in relation to a person, shall mean receipt of goods or services or both whether by purchase, acquisition or any other means with or without consideration [Section 2(67)].
- ❖ **Motor vehicle** shall have the same meaning as assigned to it in clause (28) of section 2 of the Motor Vehicles Act, 1988 [Section 2(76)].

Motor vehicle or vehicle under the Motor Vehicles Act, 1988 means any mechanically propelled vehicle adapted for use upon roads whether the power of propulsion is transmitted thereto from an external or internal source and includes a chassis to which a body has not been attached and a trailer; but does not include a vehicle running upon fixed rails or a vehicle of a special type adapted for use only in a factory or in any other enclosed premises or a vehicle having less than four wheels fitted with engine capacity of not exceeding 25 cubic centimetres. [Section 2(28) of Motor Vehicles Act, 1988].

- ❖ **Non-resident taxable person** means any person who occasionally undertakes transactions involving supply of goods or services or both, whether as principal or agent or in any other capacity, but who has no fixed place of business or residence in India [Section 2(77)].
- ❖ **Output tax** in relation to a taxable person, means the tax chargeable under this Act on taxable supply of goods or services or both made by him or by his agent but excludes tax payable by him on reverse charge basis [Section 2(82)].
- ❖ **Outward supply** in relation to a taxable person, means supply of goods or services or both, whether by sale, transfer, barter, exchange, licence, rental,

lease or disposal or any other mode, made or agreed to be made by such person in the course or furtherance of business [Section 2(83)].

❖ **Place of business** includes—

- a place from where the business is ordinarily carried on, and includes a warehouse, a godown or any other place where a taxable person stores his goods, supplies or receives goods or services or both; or
- a place where a taxable person maintains his books of account; or
- a place where a taxable person is engaged in business through an agent, by whatever name called [Section 2(85)].

❖ **Quarter** shall mean a period comprising three consecutive calendar months, ending on the last day of March, June, September and December of a calendar year [Section 2(92)].

❖ **Recipient** of supply of goods or services or both, means—

- (a) where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;
- (b) where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and
- (c) where no consideration is payable for the supply of a service, the person to whom the service is rendered,

and any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply and shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied [Section 2(93)].`

❖ **Registered person** means a person who is registered under section 25 of CGST Act but does not include a person having a Unique Identity Number [Section 2(94)]

❖ **Supplier** in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied:

Provided that a person who organises or arranges, directly or indirectly, supply of specified actionable claims, including a person who owns, operates or manages digital or electronic platform for such supply, shall be deemed to be a supplier of such actionable claims, whether such actionable claims are supplied by him or through him and whether consideration in money or money's worth, including virtual digital assets, for supply of such actionable claims is paid or conveyed to him or through him or placed at his disposal in any manner, and all the provisions of this Act shall apply to such supplier of specified actionable claims, as if he is the supplier liable to pay the tax in relation to the supply of such actionable claims [Section 2(105)].

- ❖ **Taxable person** means a person who is registered or liable to be registered under section 22 or section 24 [Section 2(107)].
- ❖ **Taxable supply** means a supply of goods or services or both which is leviable to tax under CGST Act [Section 2(108)].
- ❖ **Turnover in State or turnover in Union territory** means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis) and exempt supplies made within a State or Union territory by a taxable person, exports of goods or services or both and inter-State supplies of goods or services or both made from the State or Union territory by the said taxable person but excludes central tax, State tax, Union territory tax, integrated tax and cess [Section 2(112)].
- ❖ **Works contract** means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract [Section 2(119)].
- ❖ **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 for authorised operations to a Special Economic Zone (SEZ) developer or a Special Economic Zone unit [Section 16(1) of the IGST Act].



3. ELIGIBILITY AND CONDITIONS FOR TAKING INPUT TAX CREDIT [SECTION 16]

	STATUTORY PROVISIONS	
Section 16	<i>Eligibility and conditions for taking input tax credit</i>	
Sub-section	Clause	Particulars
(1)	<i>Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, 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 and the said amount shall be credited to the electronic credit ledger of such person.</i>	
(2)	<i>Notwithstanding anything contained in this section, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless,–</i>	
	(a)	<i>he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;</i>
	(aa)	<i>the details of the invoice or debit note referred to in clause (a) has been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note in the manner specified under section 37;</i>
	(b)	<i>he has received the goods or services or both.</i>

		<i>Explanation.—For the purposes of this clause, it shall be deemed that the registered person has received the goods or, as the case may be, services—</i>
	(i)	<i>where the goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to goods or otherwise;</i>
	(ii)	<i>where the services are provided by the supplier to any person on the direction of and on account of such registered person.</i>
	(ba)	<i>the details of input tax credit in respect of the said supply communicated to such registered person under section 38 has not been restricted;</i>
	(c)	<i>subject to the provisions of section 41, the tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of input tax credit admissible in respect of the said supply; and</i>
	(d)	<i>he has furnished the return under section 39:</i>
		<i>Provided that 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:</i>
		<i>Provided further that where a recipient fails to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of one hundred and eighty days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be paid by him along with interest payable under section 50, in such manner as may be prescribed:</i>
		<i>Provided also that the recipient shall be entitled to avail of the credit of input tax on payment made by him to the supplier of the</i>

	<i>amount towards the value of supply of goods or services or both along with tax payable thereon.</i>
(3)	<i>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 on the said tax component shall not be allowed.</i>
(4)	<i>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 thirtieth day of November following the end of financial year to which such invoice or debit note pertains or furnishing of the relevant annual return, whichever is earlier.</i>
(6)	<i>Where registration of a registered person is cancelled under section 29 and subsequently the cancellation of registration is revoked by any order, either under section 30 or pursuant to any order made by the Appellate Authority or the Appellate Tribunal or court and where availment of input tax credit in respect of an invoice or debit note was not restricted under sub-section (4) on the date of order of cancellation of registration, the said person shall be entitled to take the input tax credit in respect of such invoice or debit note for supply of goods or services or both, in a return under section 39,–</i>
	<i>(i) filed upto thirtieth day of November following the financial year to which such invoice or debit note pertains or furnishing of the relevant annual return, whichever is earlier; or</i>
	<i>(ii) for the period from the date of cancellation of registration or the effective date of cancellation of registration, as the case may be, till the date of order of revocation of cancellation of registration, where such return is filed within thirty days from the date of order of revocation of cancellation of registration,</i>
	<i>whichever is later.</i>

Section 41	Availment of input tax credit	
(1)	Every registered person shall, subject to such conditions and restrictions as may be prescribed, be entitled to avail the credit of eligible input tax, as self-assessed, in his return and such amount shall be credited to his electronic credit ledger.	
(2)	The credit of input tax availed by a registered person under sub-section (1) in respect of such supplies of goods or services or both, the tax payable whereon has not been paid by the supplier, shall be reversed along with applicable interest, by the said person in such manner as may be prescribed. Provided that where the said supplier makes payment of the tax payable in respect of the aforesaid supplies, the said registered person may re-avail the amount of credit reversed by him in such manner as may be prescribed.	
Chapter V: Input Tax Credit of the CGST Rules		
Rule 36	Documentary requirements and conditions for claiming input tax credit	
Sub-rule	Clause	Particulars
(1)	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)	an invoice issued in accordance with the provisions of clause (f) of sub-section (3) of section 31, subject to the payment of tax;
	(c)	a debit note issued by a supplier in accordance with the provisions of section 34;
	(d)	a bill of entry or any similar document prescribed under the Customs Act, 1962 or rules made thereunder for the assessment of integrated tax on imports;

	(e)	an input service distributor invoice or input service distributor credit note or any document issued by an input service distributor in accordance with the provisions of sub-rule (1) of rule 54.
(2)	Input tax credit shall be availed by a registered person only if all the applicable particulars as specified in the provisions of Chapter VI are contained in the said document. Provided that if the said document does not contain all the specified particulars but contains the details of the amount of tax charged, description of goods or services, total value of supply of goods or services or both, GSTIN of the supplier and recipient and place of supply in case of inter-State supply, input tax credit may be availed by such registered person.	
(3)	No input tax credit shall be availed by a registered person in respect of any tax that has been paid in pursuance of any order where any demand has been confirmed on account of any fraud, willful misstatement or suppression of facts under section 74.	
(4)	No input tax credit shall be availed by a registered person in respect of invoices or debit notes the details of which are required to be furnished under subsection (1) of section 37 unless,-	
	(a)	the details of such invoices or debit notes have been furnished by the supplier in the statement of outward supplies in FORM GSTR-1, as amended in FORM GSTR-1A if any , or using the invoice furnishing facility; and
	(b)	the details of <u>input tax credit in respect of</u> such invoices or debit notes have been communicated to the registered person in FORM GSTR-2B under sub-rule (7) of rule 60.
Rule 37	Reversal of input tax credit in the case of non-payment of consideration	
Sub-rule	Particulars	
(1)	A registered person, who has availed of input tax credit on any inward supply of goods or services or both, other than the supplies	

	on which tax is payable on reverse charge basis, but fails to pay to the supplier thereof, the amount towards the value of such supply whether wholly or partly, along with the tax payable thereon, within the time limit specified in the second proviso to sub-section (2) of section 16, shall pay or reverse an amount equal to the input tax credit availed in respect of such supply, proportionate to the amount not paid to the supplier, along with interest payable thereon under section 50, while furnishing the return in FORM GSTR-3B for the tax period immediately following the period of one hundred and eighty days from the date of the issue of the invoice. Provided that the value of supplies made without consideration as specified in Schedule I of the said Act shall be deemed to have been paid for the purposes of the second proviso to sub-section (2) of section 16. Provided further that the value of supplies on account of any amount added in accordance with the provisions of clause (b) of sub-section (2) of section 15 shall be deemed to have been paid for the purposes of the second proviso to sub-section (2) of section 16.
(2)	Where the said registered person subsequently makes the payment of the amount towards the value of such supply along with tax payable thereon to the supplier thereof, he shall be entitled to re-avail the input tax credit referred to in sub-rule (1).
(4)	The time limit specified in sub-section (4) of section 16 shall not apply to a claim for re-availing of any credit, in accordance with the provisions of the Act or the provisions of this Chapter, that had been reversed earlier.
Rule 37A	Reversal of input tax credit in the case of non-payment of tax by the supplier and re-availment thereof
	Where input tax credit has been availed by a registered person in the return in FORM GSTR-3B for a tax period in respect of such invoice or debit note, the details of which have been furnished by the supplier in the statement of outward supplies in FORM GSTR-1, as amended in FORM GSTR-1A if any, or using the invoice

	<i>furnishing facility, but the return in FORM GSTR-3B for the tax period corresponding to the said statement of outward supplies has not been furnished by such supplier till the 30th day of September, following the end of the financial year in which the input tax credit in respect of such invoice or debit note has been availed, the said amount of input tax credit shall be reversed by the said registered person, while furnishing a return in FORM GSTR-3B on or before the 30th day of November following the end of the financial year.</i>
	<i>Provided that where the said amount of input tax credit is not reversed by the registered person in a return in FORM GSTR-3B on or before the 30th day of November following the end of such financial year during which such input tax credit has been availed, such amount shall be payable by the said registered person along with interest thereon under section 50.</i>
	<i>Provided further that where the said supplier subsequently furnishes the return in FORM GSTR-3B for the said tax period, the said registered person may re-avail the amount of such credit in the return in FORM GSTR-3B for a tax period thereafter.</i>



ANALYSIS

(i) Eligibility for taking ITC [Section 16(1)]

(a) Registration under GST

Every registered person shall be entitled to ITC of GST charged on inward supply [See definition of inward supply] of goods and / or services. This is subject to the provisions relating to use of ITC under section 49 and the conditions and restrictions in the rules. [Section 49 prescribes provisions relating to payment of tax, interest, penalty & other amounts. The same has been discussed in detail in Chapter 11: Payment of Tax in this Module of the Study Material. Relevant portion is discussed in this Chapter subsequently.]

(b) Goods/services to be used for business purposes

ITC of GST will be available on goods and/or services which are used or intended to be used in the course or furtherance of the business *[See definition of business]*. The scope of the definition of 'business' is very wide. It is also an inclusive definition. The relation of inputs and input services with business can be direct or indirect.

The "intention to use" the goods and/or services in the course or furtherance of business would also suffice for availing ITC on such goods and/or services. However, if finally, the input goods or services are not utilised for intended purpose, ITC is disallowed, as provided in section 17(5) of CGST Act. *[Section 17(5) specifies the inputs or input services in respect of which ITC is not allowed. Provisions of section 17(5) are discussed in the ensuing pages of this Chapter.]*

Thus, tax paid on goods and or/services which are used or intended to be used for non-business purposes cannot be availed as credit. ITC will be credited to electronic credit ledger. *[Provisions relating to electronic credit ledger have been discussed in detail in Chapter 11: Payment of Tax in this Module of the Study Material.]*

Moulds and dies provided by the original equipment manufacturer (OEM) to component manufacturer on FOC basis – when not considered as being in the course or furtherance of business?

Moulds and dies owned by the original equipment manufacturer (OEM) which are provided to a component manufacturer (the two not being related persons or distinct persons) on free on cost (FOC) basis does not constitute a supply as there is no consideration involved. Further, since the moulds and dies are provided on FOC basis by the OEM to the component manufacturer in the course or furtherance of his business, there is no requirement for reversal of ITC availed on such moulds and dies by the OEM.

However, where the contract between OEM and component manufacturer is for supply of components made by using the moulds/dies belonging to the component manufacturer, but the same have been supplied by the OEM to the component manufacturer on FOC basis, the OEM will be required to reverse the credit availed on

such moulds/ dies, as the same will not be considered to be provided by OEM to the component manufacturer in the course or furtherance of the former's business [Circular No. 47/21/2018 GST dated 08.06.2018³].

(ii) Conditions for taking ITC [Section 16(2)]

This sub-section starts with a non-obstante clause and hence all the conditions specified therein must be fulfilled irrespective of fulfillment of any other conditions given under any other sub-section of section 16 for the purpose of taking of input tax credit. The registered person will be entitled to ITC on an inward supply only if **ALL** the following **six** conditions are fulfilled:

(a) Possession of tax paying document [Section 16(2)(a) read with rule 36]

ITC can be availed on the basis of any of the following documents:

- (i) Invoice or revised invoice⁴ issued by the supplier of goods and/or services
- (ii) Invoice issued by the recipient receiving goods and/or services from unregistered supplier in case of reverse charge, subject to payment of tax
- (iii) Debit note issued by the supplier
- (iv) Bill of entry or similar document prescribed under the Customs Act⁵
- (v) Document issued by input service distributor

The documents on the basis of which ITC is being taken should contain at least the following details:

³ Circular No. 47/21/2018 GST dated 08.06.2018 also clarifies aspects relating to valuation of moulds and dies provided by the OEM to component manufacturer on FOC basis. The same are covered in Chapter 6: Value of Supply in Module 1 of this Study Material.

⁴ Provisions relating to invoice/revised invoice have been discussed in detailed in Chapter 9: Tax Invoice: Credit and Debit Notes in this Module of the Study Material.

⁵ Provisions relating to the Customs Act, 1962 have been discussed in Module 4 of this Study Material.

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

No ITC of tax paid towards demands involving fraud [Rule 36(3)]:

Tax paid in pursuance of any order where any demand has been confirmed on account of any fraud, willful misstatement or suppression of facts **under section 74** cannot be availed as ITC.

(b) Details of invoices/debit notes uploaded by the supplier in his GSTR-1 or using IFF and details communicated in Form GSTR-2B [Section 16(2)(aa) read with rule 36(4)]

ITC in respect of any supply of goods or services or both can be taken by a registered person only if the details of the invoice/debit note in respect of said supply have been furnished by the supplier in the statement of outward supplies (Form GSTR-1, **as amended in FORM GSTR-1A if any**, or using IFF) and such details have been communicated to the recipient of such invoice/debit note in Form GSTR-2B.

GSTR-1 is a monthly/quarterly statement containing details of outward supplies made by a registered supplier. In case where GSTR-1 is furnished quarterly under QRMP (Quarterly Return Monthly Payment) scheme, supplier can furnish such details for 1st two months of the quarter using invoice furnishing facility (IFF). This facility is provided to the taxpayer, to pass on the credit to their recipients.

Such details of outward supplies furnished by the supplier are communicated and made available electronically (auto populated) to the respective recipient(s) in GSTR- 2B. GSTR-2B is an auto-generated ITC statement for every registered person based on details furnished in GSTR-1/using IFF by the supplier⁶.

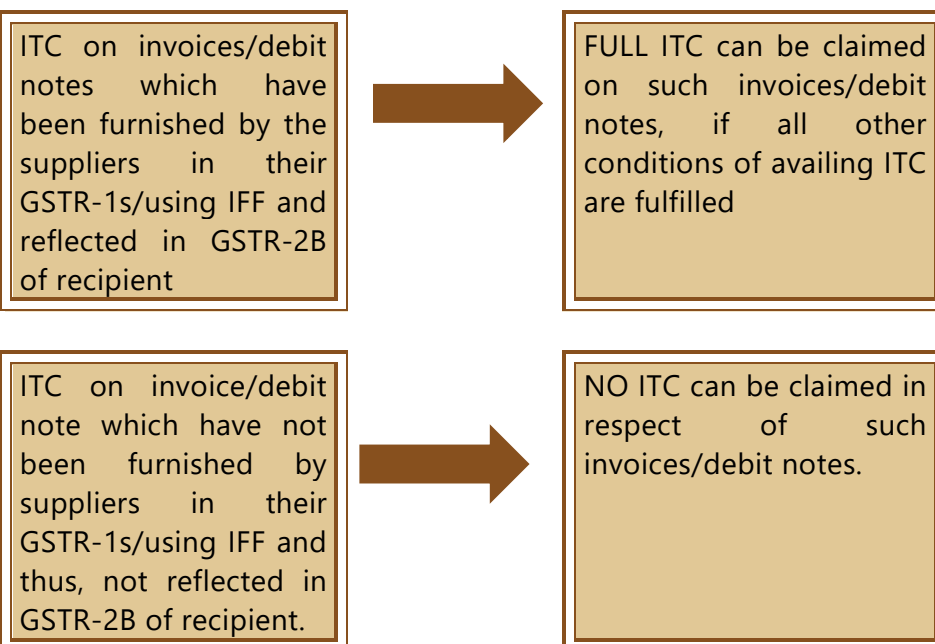
⁶ The provisions relating to QRMP, filing of GSTR-1/IFF and GSTR-2B have been discussed in detail in Chapter 13: Returns in this Module of the Study Material.

GSTR-1A is a form wherein a registered person at his own option, amend or furnish additional details of outward supplies of goods and/or services after furnishing the details of outward supplies of goods and/or service in FORM GSTR-1 for a tax period but before filing of return in FORM GSTR-3B for the said tax period.

Thus, in respect of invoices/debit notes the details of which are not furnished by the suppliers in their GSTR-1s, **as amended in FORM GSTR-1A if any**, or using IFF (and thus they are not visible in GSTR-2B of the recipient), ITC cannot be availed by such recipient.

ITC on such invoices/debit notes, not reflected in GSTR-2B of the current month, may be claimed by the taxpayer in any of the succeeding months when the details of said invoices/debit notes are furnished by the suppliers.

The above concept has been illustrated as follows:





★ *Invoices on which ITC is not available under any of the provisions e.g., under section 17(5), are not to be considered for claiming ITC even though furnished by the suppliers.*

★ *On the other hand, full ITC can be availed in respect of IGST paid on imports, documents issued under reverse charge, credit received from ISD etc., which are outside the ambit of section 37(1).*



(1) Atlas Pvt. Ltd. is a manufacturer of taxable goods. It has received 50 invoices for inputs and input services from various suppliers during the month of September. Invoices involve ITC of ₹ 5 lakh. Suppliers have furnished in their GSTR-1s 40 invoices involving ITC of ₹ 3 lakh as on the due date of furnishing of GSTR-1s **(which are not amended in GSTR-1A)** and are reflected in GSTR-2B of Atlas Pvt. Ltd. ITC that can be claimed by Atlas Pvt. Ltd. in its GSTR-3B for the month of September is ₹ 3 lakh.

(c) **Receipt of the goods and / or services [Section 16(2)(b)]**

The registered person taking the ITC must have received the goods and / or services.

“Bill to Ship to” Model: Under this model, the goods are delivered to a third party - ‘C’ on the direction of the customer (registered person) – ‘B’ who purchases the goods from the vendor (supplier) – ‘A’. In other words, ‘A’ bills to ‘B’ but ships the goods to ‘C’ on direction of ‘B’. In effect, two supplies take place in this scenario viz., from ‘A’ to ‘B’ and from ‘B’ to ‘C’. Thus, under this model, the customer (registered person) who receives such goods does not actually receive the said goods.

For such cases, by virtue of explanation to section 16(2)(b), it is deemed that the registered person (customer) has received the goods. In other words, goods delivered to another person on the direction of the registered person by way of transfer of documents of title or otherwise, either before or during the movement, are deemed to have

been received by such registered person. So, ITC will be available to the registered person, on whose order the goods are delivered to a third person.

Similarly, services may also be provided to a third party by the service provider (supplier) on the direction of the service recipient (registered person). In this case also, though the service recipient (registered person) does not receive the service, by virtue of explanation to section 16(2)(b) it is deemed that the registered person (service recipient) has received the service. In other words, service provided to any person on the direction of and on account of the registered person, is deemed to have been received by such registered person. So, ITC will be available to the registered person, on whose direction the services are provided to a third person.



(2) A is a trader who places an order on B for a consignment of soda ash. A receives a buying order from C for the same quantity of soda ash. A instructs B to deliver the goods directly to C, and in turn A raises an invoice on C. Though the goods are not physically received at the premises of A, section 16(2)(b) allows ITC of such goods to A.

(3) The registered head office (New Delhi) of ABC Pvt. Ltd. enters into a contract with DEF Pvt. Ltd. of New Delhi for repair and maintenance of computers systems installed at its registered branch office in Bengaluru, Karnataka. DEF Pvt. Ltd. issues an invoice on ABC Pvt. Ltd., New Delhi for the services provided by it.

Though the actual services are received by the branch office and not by the head office, section 16(2)(b) allows ITC of such repair and maintenance services to head office.

(d) Details of ITC in respect of the said supply communicated to the registered person under section 38 not restricted [Section 16(2)(ba)]

Section 38 stipulates that the details of outward supplies furnished by the registered suppliers in GSTR-1 **(as amended in FORM GSTR-1A if any)**/using IFF and an auto-generated statement - GSTR-2B -

containing the details of ITC is made available to the recipients of such supplies every month.

GSTR-2B contains the details of inward supplies (i) on which ITC is available to the recipient as well as (ii) on which ITC cannot be availed, whether wholly or partly, by the recipient. Accordingly, ITC will not be available in respect of inward supplies details of which have been furnished by a registered supplier:

- ☐ who is a new registrant. (Specified period from taking registration will be prescribed for this purpose.)
- ☐ who has defaulted in payment of tax for a prescribed period.
- ☐ whose output tax payable as per GSTR-1/IFF exceeds the output tax paid in GSTR-3B for a particular tax period by prescribed limit (Rule 88C).
- ☐ who has availed ITC of an amount that exceeds the credit that can be availed by him as per GSTR-2B during prescribed period and by prescribed limit.
- ☐ who has defaulted in discharging his tax liability in accordance with the provisions of section 49(12) read with rule 86B, i.e. who has discharged more tax liability from electronic credit ledger than prescribed under rule 86B⁷.
- ☐ other specified classes of persons.

(e) Tax leviable on supply actually paid to Government [Section 16(2)(c)]

The supplier should have actually paid the tax charged on the goods and/or services, for which ITC is being taken, either in cash or by utilizing ITC, subject to the provisions of section 41.

⁷ Rule 86B provides that the registered person shall not utilise the amount available in electronic credit ledger to discharge his liability towards output tax in excess of 99% of such tax liability, in cases where the value of taxable supply other than exempt supply and zero-rated supply, in a month exceeds ₹ 50 lakh subject to specified exceptions. It has been discussed subsequently in this chapter.

Availment of self-assessed ITC [Section 41]

A registered person can avail the credit of eligible ITC as self-assessed in his return. Such amount shall be credited to his electronic credit ledger.

Reversal of ITC in the case of non-payment of tax by the supplier and re-availment thereof [Section 41 read with rule 37A]

- (I) **Reversal of ITC:** If the tax payable corresponding to such ITC availed is not paid by the supplier to the Government, ITC so availed shall be reversed by the said person along with applicable interest.

A registered person (recipient) can avail ITC in GSTR-3B for a tax period in respect of such invoice/debit note, the details of which have been furnished by its supplier in the statement of outward supplies (in GSTR-1, **as amended in FORM GSTR-1A if any**/using IFF).

However, if supplier does not furnish return in Form GSTR-3B for the tax period corresponding to the said statement of outward supplies till 30th September following the end of FY in which the ITC in respect of such invoice/ debit note has been availed; the said amount of ITC shall be reversed by the said recipient, while furnishing a return in GSTR-3B on or before 30th November following the end of such FY during which such ITC has been availed.

However, where the said amount of ITC is not so reversed by recipient, such amount shall be payable by the said person along with interest thereon under section 50.

- (II) **Re-availment of reversed ITC:** Where the said supplier makes payment of the tax payable in respect of the aforesaid supplies, the said registered person may re-avail the amount of credit reversed by him.

Thus, where the said supplier subsequently furnishes the return in GSTR-3B for the said tax period, the said registered person may re-avail the amount of such credit in the return in GSTR-3B for a tax period thereafter.



(4) Jhamku, a registered supplier, supplies goods to Chamku valuing ₹ 10,000 on which he charged CGST and SGST of ₹ 900 each in the invoice raised in March, 2024. Jhamku uploaded the details of the said invoice in his GSTR-1 for the said month filed before the due date based on which Chamku availed the said ITC of ₹ 900 each towards CGST and SGST while filing his GSTR-3B for March, 2024 as the said ITC was also reflected in his GSTR-2B. However, Jhamku failed to furnish the corresponding GSTR-3B (for the month of March, 2024) upto 30th September, 2024.

Accordingly, while filing GSTR-3B for the month of October, 2024 on 20th November, 2024, Chamku reversed an amount of ITC earlier availed by him. Subsequently, suppose if Jhamku files GSTR-3B on 20th December, 2024 and pays the said amount of ₹ 900 each towards CGST and SGST alongwith interest, Jhamku can now re-avail the said input tax credit of ₹ 900 towards CGST and SGST which he has reversed earlier.

(f) Filing of return [Section 16(2)(d)]

The registered person taking the ITC must have filed his return in GSTR-3B under section 39. Thus, a taxpayer should file GSTR-3B to avail ITC on eligible inward supplies.

(iii) Goods received in lots: ITC available only on receipt of last lot [First proviso to section 16(2)]

In case the goods covered under an invoice are not received in a single consignment but are received in lots / instalments, ITC can be taken only upon receipt of the last lot / instalment.



(5) XYZ enters into a contract with ABC for supply of 10 MT of a chemical for ₹ 1,18,000 (inclusive of GST of ₹ 18,000) in the month of August. The chemical is to be delivered in lots over a period of three months. ABC raises the invoice for the entire amount in August and XYZ also makes the payment in the same month but the supply is completed in November.

Though XYZ paid the full tax as early as August, it can take the ITC of the same only on receipt of the last lot of the chemical in the month of November.

(iv) Payment for the invoice to be made within 180 days [Second proviso to section 16(2) read with rule 37]

The registered person must pay to the supplier, the value of the goods and/or services along with the tax within 180 days from the date of issue of invoice [Second proviso to section 16(2)].

However, where a registered person, who has availed of ITC on any inward supply fails to pay to the supplier thereof, the amount towards the value of such supply, whether wholly or partly, along with the tax payable thereon, within 180 days from the date of issue of invoice by supplier, **shall pay or reverse an amount equal to the ITC availed in respect of such supply, proportionate to the amount not paid to the supplier, along with interest payable thereon under section 50, while furnishing the return in Form GSTR-3B for the tax period** immediately following the period of 180 days from the date of the issue of the invoice.

Exceptions

This condition of payment of value of supply plus tax within 180 days does not apply in the following situations:

- (a) Supplies on which tax is payable under reverse charge
- (b) Deemed supplies without consideration – Schedule I
- (c) Additions made to the value of supplies on account of supplier's liability, in relation to such supplies, being incurred by the recipient of the supply as per section 15(2)(b).

Under situations given in points (b) & (c), the value of supply is deemed to have been paid.



(6) Due to a quality dispute, PZP Ltd withheld payment on a machine supplied by a vendor till it could be rectified. Over 180 days went by in this dispute. The credit taken by PZP on the invoice needs to be paid / reversed along with interest in GSTR-3B furnished for the relevant month after completion of 180 days. Only after the vendor

rectified the machine and PZP released the payment, could PZP take the credit again.

(v) If depreciation claimed on tax component, ITC not allowed [Section 16(3)]

If the person taking the ITC on capital goods and plant and machinery has claimed depreciation on the tax component of the cost of the said items under the Income-tax Act 1961, the ITC on the said tax component shall not be allowed. Thus, in respect of the tax paid on such items, dual benefit cannot be claimed under Income-tax Act, 1961 and GST law simultaneously. In other words, either depreciation on the tax component can be claimed under Income Tax Act or ITC of such tax paid can be availed under GST law.



(7) A registered supplier purchases machinery for business purpose. The value of the machinery is ₹ 10 lakh and GST paid thereon is ₹ 1.80 lakh. ITC of ₹ 1.80 lakh cannot be availed by the supplier if he has claimed depreciation on such amount under income-tax law.

(vi) Time limit for availing ITC: 30th November of succeeding financial year or date of filing of relevant annual return, whichever is earlier [Section 16(4)]

ITC on invoices pertaining to a financial year or debit notes issued in a financial year can be availed any time till **30th November** of the succeeding **financial year** or the date of filing of the relevant annual return, whichever is earlier.

Here, in case of debit notes, the date of issuance of debit note and not the date of underlying invoice is relevant to determine the relevant financial year⁸.

Financial Year

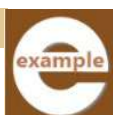
⁸ Circular No. 160/16/2021 GST dated 20.09.2021

Clarification on time limit under Section 16(4) of the CGST Act, 2017 in respect of RCM supplies received from unregistered persons⁹

It is clarified that in cases of supplies received from unregistered suppliers, where tax has to be paid by the recipient under reverse charge mechanism (RCM) and where invoice is to be issued by the recipient of the supplies in accordance with section 31(3)(f) of the CGST Act, 2017 the relevant financial year for calculation of time limit for availment of input tax credit under the provisions of section 16(4) will be the financial year in which the invoice has been issued by the recipient under section 31(3)(f), subject to payment of tax on the said supply by the recipient and fulfilment of other conditions and restrictions of section 16 and 17. In case, the recipient issues the invoice after the time of supply of the said supply and pays tax accordingly, he will be required to pay interest on such delayed payment of tax. Further, in cases of such delayed issuance of invoice by the recipient, he may also be liable to penal action under the provisions of Section 122¹⁰ of the CGST Act, 2017.



(8) A debit note dated 07.07.2023 is issued in respect of the original invoice dated 16.03.2023. As the invoice pertains to F.Y. 2022- 23, the relevant financial year for availment of ITC in respect of the said invoice in terms of section 16(4) shall be FY 2022-23. However, as the debit note has been issued in FY 2023-24, the relevant financial year for availment of ITC in respect of the said debit note shall be FY 2023-24 in terms of section 16(4).



(9) Hercules Machinery delivered a machine to XYZ, a monthly return filer under GST, in the month of January under Invoice no. 49 dated 28th January 2024 for ₹ 4,15,000 plus GST and undertook trial runs and calibration of the machine as per the requirements of XYZ. The amount chargeable for the post-delivery activities was covered in a

⁹ **Circular No. 211/5/2024 GST dated 26.06.2024**

¹⁰ Section 122 of the CGST Act, 2017 has been discussed in detail in Chapter-21 of Module-3 of the Study material.

debit note raised in the month of April 2024 for ₹ 50,000 plus GST. XYZ did not file its annual return for FY 2023-24 till the end of November, 2024.

The time-limit to avail ITC in respect of tax paid on supply for Invoice No. 49 would be 30th November, 2024.

Since the debit note is received in the next financial year, the time limit for taking ITC available on ₹ 50,000 is 30th November 2025, [earlier of the date of filing the annual return for the preceding financial year or 30th of November of the succeeding year.

Exception

The time limit u/s 16(4) does not apply to claim for re-availing of credit that had been reversed earlier.

(vii) Time limit for taking ITC in case of revoked registration cancellation [Section 16(6)]

In case where registration of a taxpayer is cancelled and subsequently, it is revoked, return for the period from date of cancellation/ effective date of cancellation till the date of revocation of cancellation cannot be filed on the portal by the taxpayers till their cancellation of registration is revoked. In such cases, where the recipient has not claimed the ITC in respect of any invoice/debit note pertaining to that financial year and in the meantime, time-limit stipulated in section 16(4) lapses, he would not be able to claim ITC on the said invoice/debit note.

Consequently, relaxation has been given and the time limit to avail ITC under section 16(4) in respect of any invoice/debit note, is extended till the date of filing return in cases where the returns for the period from date of cancellation of registration/effective date of cancellation of registration till the date of revocation of cancellation of registration are filed within 30 days of revocation of cancellation of registration, subject to the condition that the time limit to avail ITC in respect of the said invoice or the debit note under section 16(4) had not already expired on the date of cancellation of registration.

(viii) Restriction of ITC in proportion of (i) taxable supplies (ii) business purposes [Sub-sections (1) and (2) of section 17]

ITC is restricted in proportion of the use of the goods and/or services (i) in the taxable and / or zero-rated supplies (ii) for business purposes. This is elaborated in heading (4) below.

(ix) ITC not allowed on certain supplies [Section 17(5)]

ITC has been blocked for specified goods and services. This is elaborated in heading (4) below.



4. APPORTIONMENT OF CREDIT & BLOCKED CREDITS [SECTION 17]

	STATUTORY PROVISIONS	
Section 17	Apportionment of credit and blocked credits	
Sub-section	Clause	Particulars
(1)		<i>Where the goods or services or both are used by the registered person partly for the purpose of any business and partly for other purposes, the amount of credit shall be restricted to so much of the input tax as is attributable to the purposes of his business.</i>
(2)		<i>Where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.</i>
(3)		<i>The value of exempt supply under sub-section (2) shall be such as may be prescribed, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph</i>

	<i>5 of Schedule II, sale of building.</i> <i>Explanation — For the purposes of this sub-section, the expression “value of exempt supply” shall not include the value of activities or transactions specified in Schedule III, except:</i> <i>(i) the value of activities or transactions specified in paragraph 5 of the said Schedule; and</i> <i>(ii) the value of such activities or transactions as may be prescribed in respect of clause (a) of paragraph 8 of the said Schedule.</i>		
(4)	<i>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 shall have the option to either comply with the provisions of sub-section (2), or avail of, every month, an amount equal to fifty per cent. of the eligible input tax credit on inputs, capital goods and input services in that month and the rest shall lapse:</i> <i>Provided that the option once exercised shall not be withdrawn during the remaining part of the financial year:</i> <i>Provided further 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.</i>		
(5)	<i>Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely:—</i> <table border="1" data-bbox="375 1431 1252 1663"> <tr> <td data-bbox="375 1431 501 1663">(a)</td><td data-bbox="509 1431 1252 1663"><i>motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the following taxable supplies, namely:—</i></td></tr> </table>	(a)	<i>motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the following taxable supplies, namely:—</i>
(a)	<i>motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the following taxable supplies, namely:—</i>		

		(A)	further supply of such motor vehicles; or
		(B)	transportation of passengers; or
		(C)	imparting training on driving such motor vehicles;
	(aa)	vessels and aircraft except when they are used—	
		(i)	for making the following taxable supplies, namely:—
		(A)	further supply of such vessels or aircraft; or
		(B)	transportation of passengers; or
		(C)	imparting training on navigating such vessels; or
		(D)	imparting training on flying such aircraft;
		(ii)	for transportation of goods;
	(ab)	the following supply of goods or services or both:—	
		services of general insurance, servicing, repair and maintenance in so far as they relate to motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa):	
		Provided that the input tax credit in respect of such services shall be available—	
		(i)	where the motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) are used for the purposes specified therein;
		(ii)	where received by a taxable person engaged—
		(I)	in the manufacture of such motor vehicles,

			vessels or aircraft; or
		(II)	in the supply of general insurance services in respect of such motor vehicles, vessels or aircraft insured by him;
	(b)	the following supply of goods or services or both—	
		(i)	food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) except when used for the purposes specified therein, life insurance and health insurance: Provided that the input tax credit in respect of such goods or services or both shall be available where an inward supply of such goods or services or both is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply;
		(ii)	membership of a club, health and fitness centre; and
		(iii)	travel benefits extended to employees on vacation such as leave or home travel concession: Provided that the input tax credit in respect of such goods or services or both shall be available, where it is obligatory for an employer to provide

		<i>the same to its employees under any law for the time being in force¹¹.</i>
	(c)	<i>works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service;</i>
	(d)	<i>goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business</i> <i>Explanation.—For the purposes of clauses (c) and (d), the expression “construction” includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalisation, to the said immovable property</i>
	(e)	<i>goods or services or both on which tax has been paid under section 10;</i>
	(f)	<i>goods or services or both received by a non-resident taxable person except on goods imported by him;</i>
	(fa)	<i>goods or services or both received by a taxable person, which are used or intended to be used for activities relating to his obligations under corporate social responsibility referred to in section 135 of the Companies Act, 2013;</i>
	(g)	<i>goods or services or both used for personal consumption;</i>

¹¹ Circular No. 172/04/2022 GST dated 06.07.2022 clarifies that this proviso is applicable to the whole of section 17(5)(b).

	(h)	goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; and
	(i)	any tax paid in accordance with the provisions of sections 74, 129 and 130.
(6)	The Government may prescribe the manner in which the credit referred to in sub-sections (1) and (2) may be attributed. <i>Explanation.— For the purposes of this Chapter and Chapter VI, the expression “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>	
	(i)	land, building or any other civil structures;
	(ii)	telecommunication towers; and
	(iii)	pipelines laid outside the factory premises.
Chapter V: Input Tax Credit of the CGST Rules		
Rule 38	Claim of credit by a banking company or a financial institution	
	A banking company or a financial institution, including a non-banking financial company, engaged in the supply of services by way of accepting deposits or extending loans or advances that chooses not to comply with the provisions of sub-section (2) of section 17, in accordance with the option permitted under sub-section (4) of that section, shall follow the following procedure, namely,-	
	(a)	the said 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)	<i>the credit attributable to the supplies specified in sub-section (5) of section 17;</i>
	(b)		<i>the said company or institution shall avail the credit of tax paid on inputs and input services referred to in the second proviso to sub-section (4) of section 17 and not covered under clause (a);</i>
	(c)		<i>fifty per cent. of the remaining amount of input tax shall be the input tax credit admissible to the company or the institution and the balance amount of input tax credit shall be reversed in Form GSTR-3B;</i>
Rule 42		<i>Manner of determination of input tax credit in respect of inputs or input services and reversal thereof</i>	
Sub-rule	Clause	<i>Particulars</i>	
(1)		<i>The input tax credit in respect of inputs or input services, which attract the provisions of sub-section (1) or sub-section (2) of section 17, being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies in the following manner, namely,-</i>	
	(a)	<i>the total input tax involved on inputs and input services in a tax period, be denoted as 'T';</i>	
	(b)	<i>the amount of input tax, out of 'T', attributable to inputs and input services intended to be used exclusively for the purposes other than business, be denoted as 'T₁';</i>	
	(c)	<i>the amount of input tax, out of 'T', attributable to inputs and input services intended to be used exclusively for effecting exempt supplies, be denoted as 'T₂';</i>	

	(d)	the amount of input tax, out of 'T', in respect of inputs and input services on which credit is not available under sub-section (5) of section 17, be denoted as 'T ₃ ';
	(e)	the amount of input tax credit credited to the electronic credit ledger of registered person, be denoted as 'C ₁ ' and calculated as- $C_1 = T - (T_1 + T_2 + T_3);$
	(f)	the amount of input tax credit attributable to inputs and input services intended to be used exclusively for effecting supplies other than exempted but including zero rated supplies, be denoted as 'T ₄ ';
	(g)	'T ₁ ', 'T ₂ ', 'T ₃ ' and 'T ₄ ' shall be determined and declared by the registered person at summary level in FORM GSTR-3B ;
	(h)	input tax credit left after attribution of input tax credit under clause (f) shall be called common credit, be denoted as 'C ₂ ' and calculated as- $C_2 = C_1 - T_4;$
	(i)	the amount of input tax credit attributable towards exempt supplies, be denoted as 'D₁' and calculated as- $D_1 = (E \div F) \times C_2$ where, 'E' is the aggregate value of exempt supplies during the tax period, and 'F' is the total turnover in the State of the registered person during the tax period: Provided further that where the registered person does not have any turnover during the said tax period or the aforesaid information is not available, the value of 'E/F' shall be calculated by taking values of 'E' and 'F' of the last tax period for which the details of such turnover

	are available, previous to the month during which the said value of 'E/F' is to be calculated; <i>Explanation: For the purposes of this clause, it is hereby clarified that the aggregate value of exempt supplies and the total turnover shall exclude the amount of any duty or tax levied under entry 84 and entry 92A of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule;</i>
(j)	the amount of credit attributable to non-business purposes if common inputs and input services are used partly for business and partly for non-business purposes, be denoted as 'D ₂ ', and shall be equal to five per cent. of C ₂ ; and
(k)	the remainder of the common credit shall be the eligible input tax credit attributed to the purposes of business and for effecting supplies other than exempted supplies but including zero rated supplies and shall be denoted as 'C₃', where,- $C_3 = C_2 - (D_1 + D_2);$
(l)	the amount 'C ₃ ', 'D ₁ ' and 'D ₂ ' shall be computed separately for input tax credit of central tax, State tax, Union territory tax and integrated tax and declared in FORM GSTR-3B or through FORM GST DRC-03 ;
(m)	the amount equal to aggregate of 'D ₁ ' and 'D ₂ ' shall be reversed by the registered person in FORM GSTR-3B or through FORM GST DRC-03 :
	<i>Provided that where the amount of input tax relating to inputs or input services used partly for the purposes other than business and partly for effecting exempt supplies has been identified and segregated at the invoice level by the registered person, the same shall be included in 'T₁' and 'T₂' respectively, and the remaining</i>

	amount of credit on such inputs or input services shall be included in 'T ₄ '.	
(2)	The input tax credit determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner specified in the said sub-rule and,-	
	(a)	where the aggregate of the amounts calculated finally in respect of 'D ₁ ' and 'D ₂ ' exceeds the aggregate of the amounts determined under sub-rule (1) in respect of 'D ₁ ' and 'D ₂ ', such excess shall be reversed by the registered person in FORM GSTR-3B or through FORM GST DRC-03 in the month not later than the month of September following the end of the financial year to which such credit relates and the said person shall be liable to pay interest on the said excess amount at the rate specified in sub-section (1) of section 50 for the period starting from the first day of April of the succeeding financial year till the date of payment; or
	(b)	where the aggregate of the amounts determined under sub-rule (1) in respect of 'D ₁ ' and 'D ₂ ' exceeds the aggregate of the amounts calculated finally in respect of 'D ₁ ' and 'D ₂ ', such excess amount shall be claimed as credit by the registered person in his return for a month not later than the month of September following the end of the financial year to which such credit relates.
Rule 43	Manner of determination of input tax credit in respect of capital goods and reversal thereof in certain cases	
Sub-rule	Clause	Particulars
(1)		Subject to the provisions of sub-section (3) of section 16, the input tax credit in respect of capital goods, which attract the provisions of sub-sections (1) and (2) of section 17, being partly

used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies in the following manner, namely,-

(a) *the amount of 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 shall be indicated in **FORM GSTR-3B** and shall not be credited to his electronic credit ledger;*

(b) *the amount of 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 shall be indicated in **FORM GSTR-3B** and shall be credited to the electronic credit ledger;*

(c) *the amount of input tax in respect of capital goods not covered under clauses (a) and (b), denoted as 'A', shall be credited to the electronic credit ledger and the useful life of such goods shall be taken as five years from the date of the invoice for such goods:*

Provided that where any capital goods earlier covered under clause (a) is subsequently covered under this clause, input tax in respect of such capital goods denoted as 'A' shall be credited to the electronic credit ledger subject to the condition that the ineligible credit attributable to the period during which such capital goods were covered by clause (a), denoted as 'T_{ie}', shall be calculated at the rate of five 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;

		<i>Provided further that the amount 'T_{ie}' shall be computed separately for input tax credit of central tax, State tax, Union territory tax and integrated tax and declared in FORM GSTR-3B.</i>
	(d)	<i>the aggregate of the amounts of 'A' credited to the electronic credit ledger under clause (c) in respect of common capital goods whose useful life remains during the tax period, to be denoted as 'T_c', shall be the common credit in respect of such capital goods:</i> <i>Provided that where any capital goods earlier covered under clause (b) are subsequently covered under clause (c), the input tax credit claimed in respect of such capital good(s) shall be added to arrive at the aggregate value 'T_c';</i>
	(e)	<i>the amount of input tax credit attributable to a tax period on common capital goods during their useful life, be denoted as 'T_m' and calculated as:-</i> $T_m = T_c \div 60$ <i>Explanation.- For the removal of doubt, it is clarified that useful life of any capital goods shall be considered as five years from the date of invoice and the said formula shall be applicable during the useful life of the said capital goods.</i>
	(f)	<i>the amount of input tax credit, at the beginning of a tax period, on all common capital goods whose useful life remains during the tax period, be denoted as 'T_r' and shall be the aggregate of 'T_m' for all such capital goods.</i>
	(g)	<i>the amount of common credit attributable towards exempted supplies, be denoted as 'T_e', and calculated as:</i>

		$T_e = (E \div F) \times T_r^{12}$ where, 'E' is the aggregate value of exempt supplies, made, during the tax period, and 'F' is the total turnover in the State of the registered person during the tax period: Provided further that where the registered person does not have any turnover during the said tax period or the aforesaid information is not available, the value of 'E/F' shall be calculated by taking values of 'E' and 'F' of the last tax period for which the details of such turnover are available, previous to the month during which the said value of 'E/F' is to be calculated; Explanation: For the purposes of this clause, it is hereby clarified that the aggregate value of exempt supplies and the total turnover shall exclude the amount of any duty or tax levied under entry 84 and entry 92A of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule;
	(h)	the amount T_e along with the applicable interest shall, during every tax period of the useful life of the concerned capital goods, be added to the output tax liability of the person making such claim of credit.
	(i)	The amount T_e shall be computed separately for central tax, State tax, Union territory tax and integrated tax and declared in FORM GSTR-3B .
		Explanation (1):-For the purposes of rule 42 and this rule, it is hereby clarified that the aggregate value of exempt supplies shall exclude:-

¹² Clause (f) of the rule which contained the provisions for computation of ' T_r ' has been omitted vide Notification No. 16/2020 CT dated 23.03.2020. This has rendered the formula given in clause (g) otiose as the term ' T_r ' is now nowhere defined in the amended rule.

(b)	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	
(d)	the value of supply of Duty Credit Scrips specified in Notification No. 35/2017CT (R) dated 13.10.2017	
Explanation 3:- For the purpose of rule 42 and this rule, the value of activities or transactions mentioned in sub-paragraph (a) of paragraph 8 of Schedule III of the Act which is required to be included in the value of exempt supplies under clause (b) of the Explanation to sub-section (3) of section 17 of the Act shall be the value of supply of goods from Duty Free Shops at arrival terminal in international airports to the incoming passengers.		
Explanation.- For the purposes of this Chapter,-		
(1)	the expressions "capital goods" shall include "plant and machinery" as defined in the Explanation to section 17;	
(2)	for determining the value of an exempt supply as referred to in sub-section (3) of section 17-	
	(a)	the value of land and building shall be taken as the same as adopted for the purpose of paying stamp duty; and
	(b)	the value of security shall be taken as one per cent. of the sale value of such security.



ANALYSIS

Section 17 requires apportionment and concomitant restriction of ITC in two situations as also blocking of ITC on specified inward supplies.

A. Apportionment of ITC [Sub-sections (1) and (2) of section 17 read with rule 42 and rule 43 of the CGST Rules]

The fundamental principle of credit scheme under value added tax is that tax paid on inputs, input services and capital goods can be availed as credit only when the output is taxable. Thus, when tax is not payable on output, credit cannot be availed.

Accordingly, ITC under GST can be availed and utilised for payment of tax on output supply. Consequently, ITC cannot be availed when tax is not payable on output supply, i.e. on exempt supply. The only exception to the above principle is 'zero rated supply, where ITC is available even if no tax is payable on output supply as zero rated supply is not an exempted supply.

If a taxable person is making both taxable and exempt supply, he is entitled to full credit of ITC in respect of inputs, input services and capital goods exclusively used for taxable supply and no credit at all for inputs, input services and capital goods exclusively used for exempt supply.

If common inputs, input services and capital goods are used for taxable as well as exempt supply, only proportionate ITC attributable to the taxable supply is available. The common ITC is apportioned in the ratio of value of taxable supply and exempt supply.

Also, in case goods and/or services are used by the taxable person partly for the business purposes and partly for non-business purposes, he is entitled to full credit of ITC in respect of inputs, input services and capital goods exclusively used for business purposes and no credit at all can be availed for goods and/or services exclusively used for non-business purposes.

If common inputs, input services and capital goods are used partly for business and partly for non-business purposes, only proportionate ITC attributable to the business purpose is available.

Elaborate provisions have been made in sub-sections (1) and (2) of section 17 and rules 42 and 43 for calculation of such proportionate ITC. Such provisions are discussed in detail in the ensuing pages.

The situations requiring apportionment are as follows:

- (a) when the goods and / or services are used by the registered person partly for the purpose of business [See the definition of business] and partly for other purposes [Section 17(1)]; and
- (b) when the goods and / or services are used by the registered person partly for making taxable supplies including zero-rated supplies and partly for making exempt supplies [See the definition of exempt supplies] [Section 17(2)].

In both the above situations, full ITC on inward supplies cannot be taken; only proportionate ITC is allowed in such scenarios. Where goods and/or services are used partly for non-business purposes and partly for business purposes, ITC attributable only to business purposes can be taken by the registered person. Similarly, where goods and/or services are partly used for making exempt supplies including zero rated supplies and partly for taxable supplies, ITC attributable to taxable supplies and zero rated supplies can be taken by the registered person.



Section 16(2) of the IGST Act specifies that ITC may be availed on inward supplies for making zero-rated supply, notwithstanding the exempt nature of the zero-rated supply. Zero-rated supply is an expression that covers two kinds of supplies: (i) exports, and (ii) supplies for authorised operations to a SEZ unit or SEZ developer. Therefore, ITC is available on goods and / or services used for supplies made in the course of export or to an SEZ unit or SEZ developer for authorised operations.



(10) A registered person is in the business of manufacturing shoes. He gave 50 pairs of shoes to his friends free of cost. ITC on inputs and input services attributable to such 50 pair of shoes being used for non-business purposes will not be available.



(11) A registered person manufactures a product 'X' chargeable to 18% GST, a product 'Y' chargeable to NIL rate of tax and a product 'Z' which is exported without payment of tax under bond. All the three products are manufactured from common inputs and input

services. ITC on inputs and input services attributable to product 'Y' being an exempt supply, will not be available.

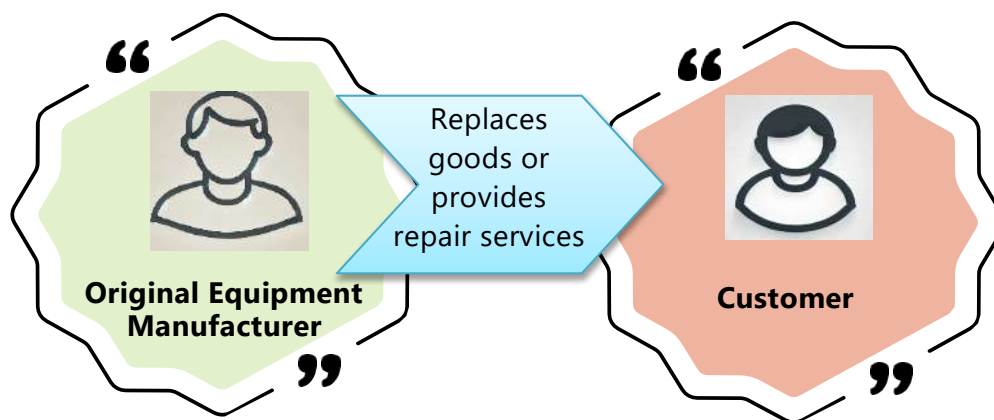
Clarification on availability of ITC in respect of warranty replacement of goods or its parts and/ repair services during warranty period¹³

As a commercial practice, the original equipment manufacturers/ suppliers offer warranty for the goods / services supplied by them to the customers. During the warranty period, goods /services are replaced to the customers (either by manufacturer itself or by the distributor on behalf of the manufacturer) and generally, no separate consideration is charged and received at the time of replacement from the customer.

Following issues have been clarified in respect of warranty replacement of goods or its parts and/ repair services provided during the warranty period:

SCENARIO 1

ORIGINAL EQUIPMENT MANUFACTURER OFFERING REPLACEMENT OF GOODS OR ITS PARTS/ REPAIR SERVICES UNDER WARRANTY TO THE CUSTOMER



¹³ Circular No. 195/07/2023 GST dated 17.07.2023 read with Circular No. 216/10/2024 GST dated 26.06.2024

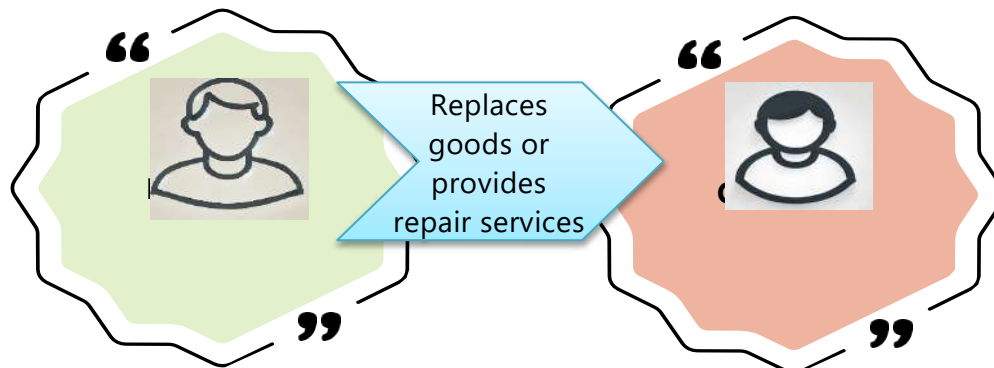
Issue: Where the original equipment manufacturer offers warranty for the goods supplied by him to the customer and provides replacement of goods or its parts and/or repair services to the customer during the warranty period, without separately charging any consideration at the time of such replacement/ repair services, whether in such cases, the **manufacturer is required to reverse ITC** in respect of such replacement of goods or its parts, as the case may be or supply of repair services as part of warranty, in respect of which **no additional consideration is charged from the customer?**



Clarification: The value of original supply of goods (provided along with warranty) by the manufacturer to the customer includes the likely cost of replacement of goods or its parts and / or repair services to be incurred during the warranty period.

- No separate charges for replacement/ repair services-NOT AN EXEMPT SUPPLY
- Thus, NO REVERSAL

Therefore, these supplies cannot be considered as exempt supply and accordingly, the manufacturer, who provides replacement of goods or its parts, as the case may be and/ or repair services to the customer during the warranty period, is **not required to reverse the ITC in respect of the said replacement of goods or its parts, as the case may be or on the repair services provided.**

SCENARIO 2**DISTRIBUTOR PROVIDES WARRANTY REPLACEMENT AND/OR REPAIR SERVICES TO THE CUSTOMER ON BEHALF OF THE MANUFACTURER*****ITC admissibility in case of the transaction/activity undertaken between Distributor and Manufacturer***

Issue 1: Where the distributor provides replacement of GOODS OR ITS PARTS to the customer as part of warranty on behalf of the manufacturer, whether distributor is required to reverse the ITC in case of such replacement?

Clarification: There can be 4 instances as discussed below:-



<i>In case where</i>	<i>In such a case</i>
<i>Distributor replaces the goods or its part(s) to the customer under warranty either by using his stock or by purchasing from a third party and charges the consideration for the goods or its part(s) so replaced from the manufacturer, by issuance of a tax invoice, for the said supply made by him to the manufacturer.</i>	<i>GST would be payable by the distributor on the said supply by him to the manufacturer and the manufacturer would be entitled to avail the ITC of the same, subject to other conditions of the CGST Act, 2017. In such case, no reversal of ITC by the distributor is required in respect of the same.</i>

Distributor raises a requisition to the manufacturer for the goods or its part(s) to be replaced by him under warranty and the manufacturer then provides the said goods or its part(s) to the distributor for the purpose of such replacement to the customer as part of warranty without separately charging any consideration at the time of such replacement.

No GST is payable on such replacement of goods or its part(s) by the manufacturer. Further, no reversal of ITC is required to be made by the manufacturer in respect of the goods or its parts so replaced by the distributor under warranty.

Distributor replaces the goods or its part(s) to the customer under warranty out of the supply already received by him from the manufacturer and the manufacturer issues a credit note in respect of the goods or its part(s) so replaced subject to provisions of section 34(2)¹⁴.

Accordingly, the tax liability may be adjusted by the manufacturer subject to the condition that such distributor has reversed the ITC availed against such goods/parts.

Distributor replaces the goods or its parts to the customer under warranty by using his stock and then raises a requisition to the manufacturer for the goods or the parts. The manufacturer then provides the said goods or the parts to the distributor through a delivery challan, without separately charging any consideration at the time of such replenishment.

No GST is payable on such replenishment of goods or the parts. Further, no reversal of ITC is required to be made by the manufacturer in respect of the goods or its parts so replenished to the distributor.

¹⁴ Provisions of section 34(2) have been discussed in detail in Chapter 10: Tax invoice; Credit and Debit Notes in Module 2 of this Study Material.

Issue 2: Where the distributor provides repair service, in addition to replacement of parts or otherwise, to the customer without any consideration, as part of warranty, on behalf of the manufacturer but charges the manufacturer for such REPAIR SERVICES either by way of issue of tax invoice or a debit note, whether ITC is available on such activity by the distributor?



Clarification: In such scenario, there is a supply of service by the distributor and the manufacturer is the recipient of such supply of repair services in accordance with the provisions of section 2(93)(a) of the CGST Act, 2017.

Distributor provides repair service, in addition to replacement of parts to customer without any consideration, as part of warranty and charges the manufacturer for such repair services.

Hence, GST would be payable on such provision of service by the distributor to the manufacturer and the **manufacturer would be entitled to avail the ITC of the same**, subject to other conditions of the CGST Act, 2017.

(i) Methodology of apportionment of credit on inputs and input services and reversal thereof [Rule 42]

In many situations, the amount of input tax involved in exempt /non-business use is not easily discernible, as common goods and/or services are used for (i) making taxable supplies including zero rated supplies and exempt supplies and (ii) business and non-business purposes.

Rule 42 of the CGST Rules provides the methodology for apportionment of ITC on inputs and input services and reversal of ineligible credit as follows:

Step 1 – Compute common credit

Total input tax involved on inputs & input services in a tax period	T
Less: Input tax on inputs & input services that are intended to be used exclusively for non-business purposes	(T₁)
Less: Input tax on inputs & input services that are intended to be used exclusively for exempt supplies	(T₂)
Less: Input tax on inputs & input services which are ineligible for credit [<i>blocked credits- See discussion under point (B)</i>]	(T₃)
ITC credited to Electronic Credit Ledger	C₁
Less: ITC on inputs & input services that are intended to be used exclusively for taxable supplies including zero rated supplies	(T₄)
Common ITC available for apportionment	C₂

- ✓ T₁, T₂, T₃ and T₄ will be determined and declared by the registered person at the summary level in GSTR-3B.
- ✓ Where ITC on inputs and input services used partly for non-business purposes and exempt supplies can be segregated at invoice level, the same will be added to T₁ and T₂ respectively and the balance credit will be added in T₄.
- ✓ The portion identified as pertaining to taxable supplies in C₂ will be allowed as ITC.

Example on how to arrive at the amount of common credit C₂

Making an assumption that Hawai slippers are exempted, take a case of Eezee Footwear, manufacturer of two varieties of Hawai slippers and five varieties of other sandals and shoes. Dyes are used in the manufacture of all footwears. However, bright pink is used only for one of the Hawai varieties, and black is used only for the sandals and

shoes. Blue and yellow are used for all the varieties. Brown is used for non-business purposes.

In inward supplies during the month -

Input tax on brown dye: ₹ 10,000 (This is T_1)

Input tax on bright pink dye: ₹ 90,000. (This is T_2)

Input tax on black dye: ₹ 40,000. (This is T_4)

Input tax on blue dye: ₹ 1,00,000

Input tax on yellow dye: ₹ 15,000

Total input tax: ₹ 2,55,000 (This is T)

Total input tax reduced by ($T_1 + T_2 + T_4$, i.e., by ₹ 1,40,000) is ₹ 1,15,000.

Amount of common credit (C_2) is ₹ 1,15,000. This has to be apportioned as given below in Step 2.

Step 2 – Compute credit attributable to exempt supplies (ineligible credit) by apportionment of common credit

- ✓ Apportion C_2 into credit attributable to exempt supplies D_1 as under:

$$D_1 = (E/F) \times C_2$$

Where

E = Aggregate value of exempt supplies during the tax period

F = Total turnover in the State during the tax period

Notes:

- (i) If the registered person does not have any turnover during the said tax period, or the above information is not available, the values for the last tax period may be used.
- (ii) Here, exempt supplies include reverse charge supplies, transactions in securities, sale of land and sale of building when entire consideration is received either after issuance of

completion certificate by the competent authority or its first occupation, whichever is earlier and supply of warehoused goods before clearance for home consumption*. Thus, ITC attributable to such supplies will need to be reversed.

The value of supply of warehoused goods before clearance for home consumption **shall include the value of supply of goods from Duty Free Shops at arrival terminal in international airports to the incoming passengers.*

(iii) Here, exempt supplies exclude-

(b) supply of services by way of accepting deposits, extending loans or advances where the consideration is either interest or discount. However, value of such services is included in the exempt supply when the same are provided by a banking company or a financial institution including a NBFC.

(d) value of supply of Duty Credit Scrips specified in Notification No. 35/2017CT (R) dated 13.10.2017

Thus, ITC attributable to such supplies need not be reversed.

(iv) Aggregate value of exempt supplies and total turnover excludes the central excise duty, State excise duty, central sales tax and VAT.

(v) The value of exempt supply in respect of land and building is the value adopted for paying stamp duty and for security is 1% of the sale value of such security.

Presently, (i) central excise duty is leviable on manufacture/production of tobacco, petroleum crude, diesel, petrol, ATF and natural gas (ii) State excise duty is leviable on manufacture/production of alcoholic liquor, opium, Indian hemp and narcotics, and (iii) VAT/CST is leviable on intra-State/inter-State sale of petroleum crude, diesel, petrol, ATF, natural gas

and alcoholic liquor. Petroleum crude, diesel, petrol, ATF, natural gas are presently not taxable under GST and alcoholic liquor is outside the ambit of GST. Thus, supply of both these products (petrol/petroleum products and alcoholic liquor) being non-taxable under GST, will be exempt supplies u/s 2(47) and taxes/duties (as mentioned above) leviable thereon will be excluded from the value thereof for the purpose of apportionment of credit.

Example on how to apportion common credit into credit attributable to exempt supplies

Ezee Footwear, which manufactures two varieties of exempt Hawai slippers and five varieties of taxable sandals and shoes, has the following turnover in October and has ₹ 1,15,000 common credit that has to be apportioned:

Turnover of Hawai 1 plus Hawai 2: ₹ 3 crores (This is 'E')

Turnover of all varieties of taxable shoes and sandals: ₹ 2 crore

Total turnover of all footwear during the month: ₹ 5 crores (This is 'F')

No inputs/input services are used for non-business purposes.

$(3,00,00,000 / 5,00,00,000) \times 1,15,000 = ₹ 69,000$ is the input tax that pertains to exempt supply (D_1).

- ✓ Compute credit attributable to non-business purposes D_2 as under

$$D_2 = 5\% \text{ of } C_2 \text{ (common credit)}$$

Step 3 – Compute eligible credits

Compute C_3 attributable to business purposes and taxable supplies including zero rated supplies as under:

$$C_3 = C_2 - (D_1 + D_2)$$

Step 4 – Restrict ineligible credits

Reverse $D_1 + D_2$.

- ❖ Compute C_3 separately for ITC of CGST, SGST/ UTGST and IGST.
- ❖ Compute $\sum (D_1 + D_2)$ for the whole financial year, by taking exempted turnover and aggregate turnover for the whole financial year, before the due date for filing the return for September in the following financial year.
- ❖ If $\sum (D_1 + D_2) >$ the amount already reversed every month, the differential amount has to be reversed in any month till September in the following financial year and interest rate @ 18% should be paid on such differential amount from 1st April of succeeding year till the date of payment.
- ❖ If the amount reversed every month $> \sum (D_1 + D_2)$, the additional amount paid has to be claimed back as credit in the return of the month not later than September in the next financial year.

(ii) Methodology of apportionment of credit of capital goods and reversal thereof [Rule 43]

Rule 43 provides the methodology for apportionment of ITC on capital goods and reversal of ineligible credit as follows:

Step 1 - Determine common credit 'T_c' on capital goods as under:

- (i) Identify input tax on capital goods used/ intended to be used exclusively for non-business purposes or making exempt supplies. Such amount will not be credited to electronic credit ledger [ECrL].
- (ii) Identify input tax on capital goods used/ intended to be used exclusively for making taxable supplies including zero rated supplies and declare the same in GSTR-3B. Such amount will be credited to ECrL.
- (iii) Identify input tax on capital goods not covered under (i) and (ii) above [i.e. the capital goods which are used/intended to be used

commonly for making taxable and/or zero rated supplies as well as exempt supplies and/or non-business purposes] and denote the same as 'A'. Such amount (as reflected on the invoice) will be credited to ECrL. The useful life of such capital goods will be taken as 5 years from the date of invoice.

- (iv) **Change from exclusive use for non-business purpose/exempt supplies to common use:** Where capital goods which were initially covered under (i) above get subsequently covered under (iii), credit input tax in respect of the same, denoted as 'A', in the ECrL.

Simultaneously, compute the ineligible credit attributable to the period during which such capital goods were used for non-business purpose/making exempt supplies @ 5% per quarter or part thereof and denote the same as 'T_{ie}'. Add such 'T_{ie}' to the output tax liability of the tax period in which credit on such capital goods is claimed.

- (v) Add together the amounts of 'A' credited to ECrL in respect of common capital goods whose useful life remains during the tax period to arrive at common credit 'T_c'.
- (vi) **Change from exclusive use for taxable including zero rated supplies to common use:** Where capital goods which were initially covered under (ii) above get subsequently covered under (iii), add input tax claimed in respect of the same to aggregate value of 'T_c'.

Step 2 - Determine common credit during the useful life of capital goods for a tax period as under and denote the same as 'T_m':

$$T_m = T_c \div 60$$

Step 3 - Apportion common credit attributable to exempt supplies as under:

$$T_e = (E \div F) \times T_r$$

Where

E = Aggregate value of exempt supplies made during the tax period

F = Total turnover in the State during the tax period

Notes:

- (i) *T_m is to be computed during the useful life of capital goods which is five years from the date of invoice.*
- (ii) *If the registered person does not have any turnover during the said tax period, or the above information is not available, the values for the last tax period may be used.*
- (iii) *Here, exempt supplies include reverse charge supplies, transactions in securities, sale of land and sale of building when entire consideration is received either after issuance of completion certificate by the competent authority or its first occupation, whichever is earlier and supply of warehoused goods before clearance for home consumption*. Thus, ITC attributable to such supplies will need to be reversed.*

The value of supply of warehoused goods before clearance for home consumption **shall include the value of supply of goods from Duty Free Shops at arrival terminal in international airports to the incoming passengers.*

- (iv) *Here, exempt supplies exclude-*
 - (b) *supply of services by way of accepting deposits, extending loans or advances where the consideration is either interest or discount. However, value of such services is included in the exempt supply when the same are provided by a banking company or a financial institution including a NBFC.*
 - (d) *value of supply of Duty Credit Scrips specified in Notification No. 35/2017CT (R) dated 13.10.2017*

Thus, ITC attributable to such supplies need not be reversed.

- (v) *Aggregate value of exempt supplies and total turnover excludes the central excise duty, State excise duty, central sales tax and 17VAT.*
- (vi) *Amount of T_{ie} and T_e are to be computed separately for CGST, SGST/UTGST and IGST and declared in GSTR 3B.*
- (vii) *The value of exempt supply in respect of land and building is the value adopted for paying stamp duty and for security is 1% of the sale value of such security.*

Step 4: Restrict ineligible credit

Add T_e to the output tax liability along with applicable interest during every tax period of the useful life of the capital goods concerned.

Clarification on the requirement of reversal of ITC in respect of the portion of the premium for life insurance policies which is not included in taxable value¹⁵

'Life insurance business' as per section 2(11) of the Insurance Act, 1938, includes policies or instruments that combine investment and insurance components. This covers unit-linked insurance policies and similar products, where both investment and life insurance risk coverage are provided by the insurer.

Further, exempt supply means nil-rated supplies, wholly exempt supplies under section 11, or under section 6 of the IGST Act, & includes non-taxable supplies. Further, non-taxable supply means a supply not leviable to tax under CGST Act/IGST Act.

The premium portion not includible in taxable value under Rule 32(4) is neither nil-rated nor wholly exempt from tax and also not a non-taxable supply; hence, same cannot be considered as pertaining to an exempt supply.

¹⁵ **Circular No.-214/8/2024-GST dated 26.06.2024**

ITC reversal is required only for supplies used:-

- (i) partly for business and partly for other purpose [Section 17(1)]
or**
- (ii) partly for taxable supplies including zero rated supplies and partly for exempt supplies. [Section 17(2)]**

It is clarified that the amount of the premium for taxable life insurance policies, not included in the taxable value under rule 32(4), cannot be considered as pertaining to non-taxable/exempt supply & therefore, no reversal of ITC is required as per provisions of Rule 42/43, read with section 17(1) & 17(2), in respect of the said amount.

Amount of life insurance premium not included in taxable value under rule 32(4)

No reversal of ITC required

(iii) Optional method for banks etc. [Section 17(4) read with rule 38]

- ☐ As an alternative to the above method, a banking company or a financial institution including a NBFC, which accepts deposits, or extends loans or advances, has the option to limit its availment of ITC to 50% of the eligible ITC on inputs, capital goods and input services each month and the balance amount of input tax credit shall be reversed in Form GSTR-3B.
- ☐ Credit of tax paid on inputs and input services that are used for non-business purposes and items mentioned u/s section 17(5) [blocked credits] cannot be availed.
- ☐ The restriction of availing 50% ITC shall not apply to the tax paid on supplies procured from another registration within the same entity, i.e. 100% credit of such tax can be availed.
- ☐ The option once exercised cannot be changed during the remaining part of the financial year.

Interest is the main income of banks and NBFCs and the same is exempt from GST. Thus, if rule 42 and 43 are applied strictly, significant portion of ITC of banks and NBFCs will have to be reversed/added to output tax liability. Therefore, banks and NBFCs

have been given the said option of availing 50% of eligible ITC to possibly encourage them as they are required to finance priority sectors, MSME, agriculture etc.

B. Blocked credits [Section 17(5)]

ITC of tax paid on almost every inputs, input services or capital goods used for supply of taxable goods and/or services is allowed under GST except a small list of items provided u/s 17(5). Thus, ITC on such items is not allowed even though the same may qualify as inputs, input services or capital goods and are used in the course or furtherance of business.

The blocked list of credit covers mainly items of personal consumption, inputs and input services use of which results into formation of an immovable property (except plant and machinery), telecommunication towers, pipelines laid outside the factory premises, etc. and taxes paid as a result of detection of evasion of taxes, etc.

The various goods and/or services on which credit is blocked are discussed hereunder:

(i) Motor vehicles and other conveyances and related services (insurance, servicing and repair and maintenance)

Motor vehicles and conveyances have been defined in the CGST Act [See definition under the heading *Relevant Definitions*]. Motor vehicles exclude –

- vehicle running upon fixed rails
- special purpose vehicles for being used in a factory or any enclosed premises
- vehicle with less than 4 wheels fitted with engine capacity of upto 25cc – (Thus, railways, two/three wheelers with engine capacity of upto 25cc, bicycle etc. do not fall in the definition of motor vehicle.)

Broadly, ITC is blocked on motor vehicles, vessels and aircrafts used for passenger transportation with certain exceptions. Further, ITC is also blocked on certain services relating to motor vehicles, vessels and aircrafts namely, general insurance, servicing and repair and maintenance. The basic principle here is that the motor vehicles,

aircrafts and vessels on which ITC is blocked, the ITC on services of insurance, servicing and repair and maintenance pertaining to such motor vehicles, vessels and aircrafts is also blocked.

The blocked credits relating to motor vehicles, vessels, aircrafts and related services are discussed hereunder:

S. No.	Goods and/or services on which credit is blocked	Exceptions to goods and/or services mentioned in column (2) on which credit is allowed	Remarks
(1)	(2)	(3)	(4)
(i)	Motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) – <u>Referred to as ineligible motor vehicle in this table</u>	Ineligible motor vehicles when used for any of the following eligible purposes - - making further taxable supply of such motor vehicles (e.g traders of motor vehicles); <i>[Refer discussion on availability of ITC on demo vehicles given below this table.);</i> - making taxable supply of transportation of passengers (e.g travel operator offering transportation services); - Making taxable supply of imparting	☐ ITC on ineligible motor vehicles used for any purpose other than the eligible purposes is not allowed. ☐ ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed. ITC on motor vehicles other than ineligible motor vehicles

		training on driving such motor vehicles (e.g. motor driving schools).	(e.g. motor vehicle used for transportation of goods, dumpers, tippers etc.) used for any purpose is allowed.
(ii)	Vessels and aircrafts	Vessels and aircraft when used for any of the following eligible purposes- • making further taxable supply of such vessels or aircraft; • making taxable supply of transportation of passengers; • making taxable supply of imparting training on navigating such vessels; • making taxable supply of imparting training on flying such aircrafts; • transportation of goods.	ITC on vessels and aircrafts used for any purpose other than the eligible purposes is not allowed.
(iii)	General insurance, servicing, repair	• Such services relating to ineligible motor	• ITC is not allowed on services of

	and maintenance relating to: • Ineligible motor vehicles • Vessels • Aircraft	vehicles, vessels or aircraft when used for eligible purposes • Such services when received by- ○ Manufacturer of ineligible motor vehicles, vessels or aircraft; or ○ Supplier of general insurance services in respect of ineligible motor vehicles, vessels or aircraft insured by him	general insurance, servicing, repair and maintenance relating to motor vehicles, vessels or aircraft, ITC on which is not allowed. • ITC is allowed on services of general insurance, servicing, repair and maintenance relating to motor vehicles, vessels or aircraft, ITC on which is allowed.
(iv)	Leasing, renting or hiring of motor vehicles, vessels or aircraft on which ITC is not allowed	• Such services when used for making an outward taxable supply of the same category of services or as an element of a taxable composite or mixed supply • Such services when provided by an	• ITC on leasing, renting or hiring of motor vehicles, vessels or aircraft on which ITC is allowed, is also allowed**. • ITC on such

		employer to its employees under a statutory obligation	services is allowed in the case of sub-contracting, i.e. when such services are used by the taxpayer who is in the same line of business.
--	--	--	---



****The term "leasing" referred in above table refers to leasing of motor vehicles, vessels and aircrafts only and not to leasing of any other items.**

Accordingly, availment of ITC is not barred in case of leasing, other than leasing of motor vehicles, vessels and aircrafts¹⁶.

Clarification on ITC availability in respect of demo vehicles which are motor vehicles for transportation of passengers having approved seating capacity of not more than 13 persons (including the driver), in terms of clause(a) of section 17(5)¹⁷

The usage of the words "such motor vehicles" instead of "said motor vehicle", in sub-clause (A) of section 17(5)(a) implies that the intention of the lawmakers was not only to exclude from the blockage of ITC the motor vehicle which is itself further supplied, but also to exclude from the blockage of ITC the motor vehicle which is being used for the purpose of further supply of similar type of motor vehicles.

¹⁶ Circular No. 172/04/2022 GST dated 06.07.2022

¹⁷ Circular No. 231/25/2024 GST dated 10.09.2024

As demo vehicles are used by authorized dealers to provide trial run and to demonstrate features of the vehicle to potential buyers, it helps the potential buyers to make a decision to purchase a particular kind of motor vehicle. Therefore, as demo vehicles promote sale of similar type of motor vehicles, they can be considered to be used by the dealer for making 'further supply of such motor vehicles'.

ITC availment on demo vehicles – Not BLOCKED

Accordingly, ITC in respect of demo vehicles is not blocked under clause (a) of section 17(5) as it is excluded from such blockage in terms of sub-clause (A) of the said clause.

Following issues have also been clarified in respect of ITC availment on demo vehicles:-

Issue	Clarification
<i>Where demo vehicles* are used by an authorized dealer for purposes other than for making further supply of such motor vehicles, say for transportation of its staff employees/ management etc.</i>	<i>In such cases, the same cannot be said to be used for making 'further supply of such motor vehicles' and therefore, ITC in respect of such motor vehicles would not be excluded from blockage in terms of sub-clause (A) of section 17(5)(a).</i>
<i>Where the authorized dealer merely acts as an agent or service provider to the vehicle manufacturer for providing marketing service, including providing facility of vehicle</i>	<i>In such a case, the authorized dealer is merely providing marketing and/or facilitation services to the vehicle manufacturer and is not making the supply of motor vehicles on his own account.</i>

test drive to the potential customers of the vehicle on behalf of the manufacturer and is not directly involved in purchase and sale of the vehicles.

In such cases, the sale invoice for the vehicle is directly issued by the vehicle manufacturer to the customer. For providing facility of vehicle test drive to the potential customers of the vehicle, the dealer purchases demo vehicle from the vehicle manufacturer. The dealer may sell the said demo vehicle to a customer after a specified time or kilometres as per agreement with the vehicle manufacturer on payment of applicable GST.

Therefore, the said demo vehicle cannot be said to be used by the dealer for making further supply of such motor vehicles.

Accordingly, in such cases, ITC in respect of such demo vehicle would not be excluded from blockage in terms of sub-clause (A) of section 17(5)(a) and therefore, ITC on the same would not be available to the said dealer.

Authorized dealer acting as marketing agent- ITC not available

Note: * means motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver).



(12) ITC on cars purchased by a manufacturing company for official use of its employees is blocked.

(13) ITC on cars purchased by a car dealer for sale to customers is allowed.

(14) ITC on cars purchased by a company engaged in renting out cars for transportation of passengers, is allowed.

(15) ITC on cars purchased by a car driving school for imparting training on driving is allowed.

(16) ITC on buses (seating capacity for 24 persons) purchased by a company for transportation of its employees from their residence to office and back, is allowed.

(17) ITC on trucks purchased by a company for transportation of its finished goods is allowed.

(18) ITC on aircraft purchased by a manufacturing company for official use of its CEO is blocked.

(19) ITC on aircraft purchased by an Aviation School providing training on flying aircrafts, is allowed.

(20) ITC on general insurance taken on a car used by employees of a manufacturing company for official purposes, is blocked.

(21) A business jet purchased for the official travel of the company's directors is blocked.

(22) ITC on maintenance & repair services availed by a company for a truck used for transporting its finished goods, is allowed.

(23) ITC on general insurance services taken on cars manufactured by a car manufacturing company is allowed.

(ii) Food & beverages, outdoor catering, health services and other services

S. No.	Goods and/or services on which credit is blocked	Exceptions to goods and/or services mentioned in column (2) on which credit is allowed	Remarks
(1)	(2)	(3)	(4)
(i)	- Food and beverages - Outdoor	Such goods and/or services when used by a	ITC on such goods and/or services is

	catering • Beauty treatment • Health services • Cosmetic and plastic surgery • Life insurance and health insurance	registered person for making an outward taxable supply of the same category of goods and/or services or as an element of a taxable composite or mixed supply • Such goods and/or services when provided by an employer to its employees under a statutory obligation	allowed in the case of sub-contracting, i.e. when such goods and/or services are used by the taxpayer who is in the same line of business, e.g. outdoor catering service availed by another outdoor caterer. • When such goods and/or services are provided by the employer to its employees without any statutory obligation, ITC thereon is blocked.
(ii)	Membership of a club, health and fitness centre	Such services when provided by an employer to its employees under a statutory obligation	When such goods and/or services are provided by the employer to its employees without any statutory obligation, ITC

			thereon is blocked.
(iii)	Travel benefits extended to employees on vacation such as leave or home travel concession	Such services when provided by an employer to its employees under a statutory obligation	When such goods and/or services are provided by the employer to its employees without any statutory obligation, ITC thereon is blocked.



(24) A manufacturing company purchases food items for being served to its customers, free of cost. ITC on such goods is blocked.

(25) AB & Co., a caterer of Amritsar, has been awarded a contract for catering in a marriage to be held at Ludhiana. The firm has given the contract for supply of snacks, to be served in the marriage, to CD & Sons, a local caterer of Ludhiana. ITC on such outdoor catering services availed by AB & Co. from CD & Sons, is allowed.

(26) ITC on outdoor catering services availed by a garment exporter for a marketing event organised for its prospective customers, is blocked.

(27) Outdoor catering service is availed by a company to run a free canteen in its factory for its employees. The Factories Act, 1948 requires the company to set up a canteen in its factory. ITC on such outdoor catering is allowed.

(28) The Managing Director of a company has taken membership of a club, the fees for which is paid by the company. ITC on such service is blocked.

(29) A company avails services of a travel agency for organizing a free vacation for its top performing employees. ITC on such services is blocked.

(iii) Works contract services for construction of immovable property [Clause (c) of section 17(5)]

One major input service, ITC on which is blocked is input service relating to construction activity like construction of office building, factory building etc. (except in case of persons like builders, developers and contractors who are undertaking construction for others). However, ITC is available for routine construction related services like repairs, maintenance, renovation etc. of office and factory building. Thus, broadly, ITC of construction services is not available when the expenses are capitalised in the books of account. Here, it needs to be noted that capitalisation of an expense does not depend on whether the taxpayer intends to avail ITC, but on the basis of Accounting Standards and GAAP.

Works contract has been defined in the CGST Act [See definition under the heading *Relevant Definitions*]. Essentially works contract is a composite supply involving both goods and services. Under the erstwhile laws, definition of works contract included work in relation to both movable and immovable properties. However, under GST law, the ambit of works contract has been **confined only to immovable property**.

Meaning of immovable property

Immovable property has not been defined under the GST law. Therefore, we will have to look for the definition of immovable property in other laws. Section 3(26) of the General Clauses Act, 1897, defines the term immovable property to include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth.

The term "attached to the earth" is defined in section 3 of the Transfer of Property Act, 1882 to mean:

- (a) *rooted in the earth, as in the case of trees and shrubs; [However, the term "immovable property" under the Transfer of Property Act does not cover standing timber, growing crops or grass.]*
- (b) *embedded in the earth, as in the case of walls or buildings.*
- (c) *attached to what is so embedded for the permanent beneficial enjoyment of that to which it is attached.*

Under GST law, a composite supply of works contract is treated as supply of services in terms of para 6(a) of Schedule II to the CGST Act.

ITC on works contract services for construction of an immovable property is blocked **EXCEPT WHEN**

- It is an input service for further supply of works contract service (sub-contracting);
[ITC on works contract services can be availed only by that taxpayer who is in the same line of business, i.e. only a works contractor can avail ITC on works contract services received by him.]
- Immovable property is plant and machinery
[Plant and machinery affixed permanently to the earth constitutes an immovable property. However, ITC on works contract services used for construction of such plant and machinery is allowed as an exception.]

Meaning of construction

"Construction" includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalization, to the said immovable property.

Thus, if re-construction, renovation, additions or alterations or repairs are not capitalized, it would not tantamount to construction under GST law. Consequently, ITC on works contract services availed for such construction (which is not capitalized) whether for any immovable property or for any plant and machinery, would be allowed to all the recipients irrespective of their line of business.

Meaning of plant and machinery

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

but excludes

land, building or other civil structures, telecommunication towers, and pipelines laid outside the factory premises.

Thus, ITC on works contract services availed for construction of eligible plant and machinery is allowed to the recipient irrespective of the line of business of such recipient and irrespective of whether expense is capitalized or not by the recipient.

For instance, ITC on works contract services for construction of machinery fixed to earth by a foundation, would be allowed. However, ITC on works contract services for construction of telecommunication tower(s), would be blocked.



ITC on works contract services for construction of immovable property is available only in the following three situations:

- (i) When the works contract service is availed by a works contractor for being used in providing the works contract service.***
- (ii) For construction of eligible plant and machinery. In this case, ITC is allowed to all recipients irrespective of their line of business and whether expense capitalized or not.***
- (iii) When the value of works contract service is not capitalized. In this case, ITC is allowed to all recipients irrespective of their line of business.***



(30) ITC on works contracts services availed by a software company for construction of its office, is blocked.

(31) CD & Co., a works contractor of Noida, has been awarded a contract for construction of a commercial complex in Lucknow. The firm avails services of EF & Co., a local works contractor of Lucknow, for the construction of complex. ITC on such works contract services availed by CD & Co., is allowed.

(32) ITC on works contract services availed by an automobile company for construction of a foundation on which a machinery (to be used in the production process) is to be mounted permanently, is allowed.

(33) ITC on works contract services availed by a manufacturing company for construction of pipelines to be laid outside its factory, is blocked.

(34) A consulting firm has availed services of a works contractor for repair of its office building. The company has booked such expenditure in its profit and loss account. ITC on such services is allowed.

(35) A telecommunication company has availed services of a works contractor for repair of its office building. The company has capitalized such expenditure. ITC on such services is blocked.

(iv) Self-construction of immovable property [Clause (d) of section 17(5)]

So now we know that ITC on works contract services availed by a taxpayer, other than a works contractor, for construction of immovable property (other than **plant and machinery**) is not available. But what happens if a taxpayer procures goods and services and constructs an immovable property, for being used in the course or furtherance of business, without availing services of a works contractor? Will ITC be allowed in such a case?

The answer is No. ITC is not allowed on goods and/or services received by a taxable person for construction of an immovable property (other than **plant or machinery**) **on his own account** even though such goods and/or services are used in the course or furtherance of business. Thus, ITC on goods and/or services used in

the construction of an immovable property is blocked only in those cases where the taxable person constructs the immovable property for his own use even if the immovable property being constructed is used in the course or furtherance of his business.

The discussion on terms, 'construction' for works contract services [Elaborated in point (iii) above] applies to construction on own account also.



ITC on goods and/or services used in construction of immovable property is available only in the following three situations:

- (i) For construction of eligible plant or machinery**
- (ii) When the value of goods and/or services is not capitalized**
- (iii) When the construction is not on own account**



(36) A company buys cement, tiles etc. and avails the services of an architect for construction of its office building. ITC on such goods and services is blocked.

(37) MN & Constructions procures cement, paint, iron rods and services of architects and interior designers for construction of a commercial complex for one of its clients. ITC on such goods and services is allowed to MN & Co.

(38) A company buys cement, tiles etc. and avails the services of an architect for renovation of its office building. The company has booked such expenditure in its profit and loss account. ITC on such goods and services is allowed.

Note: It is important to note here that the term used in clause (c) above is "plant **AND** machinery" whereas the term used in clause (d) above is "plant **OR** machinery". The expression "plant **AND** machinery" used in clause (c) has been defined in explanation to section 17 while expression "plant **OR** machinery" used in clause (d) has not been defined under the CGST Act.

This distinction was addressed in Supreme Court in the case of Chief Commissioner of CGST v. Safari Retreats Pvt. Limited (2024) 23 Centax 62 (SC). Further, in this case, the constitutional validity of clauses (c) and (d) of section 17(5) and section 16(4) was also challenged.

The Apex Court observed that the explanation to section 17 which defines "plant and machinery" seeks to define said expression used in Chapter V and Chapter VI. In Chapter VI, the expression "plant and machinery" appears at several places, but the expression "plant or machinery" is found only in section 17(5)(d). This implies that legislature did not intend to give the expression "plant or machinery" the same meaning as "plant and machinery" and thus, has made this distinction consciously. Therefore, the Court held that the expression "plant and machinery" and "plant or machinery" cannot be given the same meaning.

Consequently, in case of clause (c), if the construction is of "plant and machinery" as defined, the benefit of ITC will accrue. Similarly, under clause (d), if the construction is of a "plant or machinery", ITC will be available.

Further, while trying to analyse the meaning of the expression "plant or machinery", the Court observed that the expression "plant or machinery" has a different connotation. It can be either a plant or machinery. Section 17(5)(d) deals with the construction of an immovable property. The very fact that the expression "immovable property other than "plant or machinery" is used shows that there could be a plant that is an immovable property. As the word 'plant' has not been defined under the CGST Act or the rules framed thereunder, its ordinary meaning in commercial terms will have to be attached to it.

Thus, the Supreme Court held that the question as to whether a mall, warehouse or any building other than a hotel or a cinema theatre can be classified as a plant within the meaning of the expression "plant or machinery" is a factual question which has to be determined keeping in mind the business of the registered person and the role that building plays in the said business. If the construction of a building was essential for carrying out the activity of supplying services, such as renting or giving on lease or other transactions in respect of the

building or a part thereof, which are covered by clauses (2) and (5) of Schedule II of the CGST Act, the building could be held to be a plant. Then, it is taken out of the exception carved out by clause (d) of section 17(5) to sub-section (1) of section 16.

Further, the Court upheld the constitutional validity of clauses (c) and (d) of section 17(5) and section 16(4).

Clarification on availability of ITC on ducts and manholes used in network of optical fiber cables (OFCs) in terms of section 17(5)¹⁸

Issue: *Whether ITC on the ducts and manholes used in network of optical fiber cables (OFCs) for providing telecommunication services is barred in terms of clauses (c) and (d) of section 17(5) read with Explanation to section 17?*

Clarification: *Ducts and manholes are basic components for the optical fiber cable (OFC) network used in providing telecommunication services. The OFC network is generally laid with the use of PVC ducts/sheaths in which OFCs are housed and service/connectivity manholes, which serve as nodes of the network, and are necessary for not only laying of optical fiber cable but also their upkeep and maintenance.*

In view of the Explanation in section 17, it appears that ducts and manholes are covered under the definition of “plant and machinery” as they are used as part of the OFC network for making outward supply of transmission of telecommunication signals from one point to another.

Moreover, ducts and manholes used in network of optical fiber cables (OFCs) have not been specifically excluded from the definition of “plant and machinery” in the explanation to section as they are neither in nature of land, building or civil structures nor are in nature of telecommunication towers or pipelines laid outside the factory premises.

Ducts & manhole used in network of OFCs —

- Covered under the definition of “plant and machinery”
- ITC not restricted

¹⁸ Circular No. 219/13/2024 GST dated 26.06.2024

Accordingly, it is clarified that availment of input tax credit is not restricted in respect of such ducts and manhole used in network of optical fiber cables (OFCs) under clause (c)/(d) of section 17(5)¹⁹.

(v) Inward supplies charged to tax under composition levy [Clause (e) of section 17(5)]

A supplier registered under composition scheme cannot collect tax from its customers. Thus, such supplier issues bill of supply and not a tax invoice. A composition supplier pays a lumpsum tax at a specified rate on its quarterly turnover.

Tax paid on goods and/or services under composition scheme is not available as ITC for the recipient.

Since a composition supplier cannot collect any tax on its supplies, from the recipient of its supplies, it is obvious that no ITC can be availed in respect of such supplies by the recipients. Nevertheless, section 17(5)(e) specifically blocks the ITC on inward supplies received by a taxable person from a composition supplier.

(vi) Inward supplies received by a non-resident taxable person [Clause (f) of section 17(5)]

Non-resident taxable person has been defined in the CGST Act [See the definition under the heading *Relevant Definitions*]. Essentially, a non-resident taxable person has no fixed place of business in India but he sporadically supplies goods or services in India.

Tax paid on goods and/or services received by such non-resident taxable person, is not available as ITC. However, tax paid by him on **imported goods** is allowed as ITC.

¹⁹ ***It may be noted that Supreme Court in the case of Chief Commissioner of CGST v. Safari Retreats Pvt. Limited (2024) 23 Centax 62 (SC) held that the expression "plant and machinery" and "plant or machinery" cannot be given the same meaning.***



Whereas ITC on goods imported by a non-resident taxable person is allowed, ITC on services imported by him is blocked.

(vii) Inward supplies used/intended to be used for purpose of CSR [Clause (fa) of section 17(5)]

ITC shall not be available in respect of goods or services or both received by a taxable person, which are used or intended to be used for activities relating to his obligations under corporate social responsibility (CSR) referred to in section 135 of the Companies Act, 2013.

CSR is a strategy undertaken by companies to not just grow profits, but to take an active and positive social role in the world around them. Corporate social responsibility programs aim to give structure to a company's efforts to give back to the community, participate in philanthropic causes, and



provide positive social value. Businesses increasingly turn to CSR to make a difference and build a positive brand around their company.



(39) ABC Manufacturing Pvt. Ltd. purchased and distributed 1,000 educational kits (including school bags, notebooks, and stationery) to a government school in a rural area as part of its CSR obligations under the Companies Act, 2013. It purchased school bags, notebooks, and stationery from XYZ Stationery Suppliers (registered under GST) by making total payment of ₹ 5,50,000 (inclusive of GST amounting to ₹ 50,000). Since the ITC on goods/services used for fulfilling CSR obligations is blocked. Hence, ₹ 50,000 GST paid on the educational kits cannot be claimed as ITC by ABC Manufacturing Pvt. Ltd.

(viii) Inward supplies used for personal consumption [Clause (g) of section 17(5)]

One of the foremost conditions laid down in section 16 for availing ITC on goods and/or services is that such goods and/or services should be used in the course or furtherance of business. Further, where goods and/or services are used partly for the purpose of any business and partly for other purposes, section 17(1) restricts the credit to so much of the ITC as is attributable to business purposes.

Furthermore, section 17(5)(g) also specifically blocks the ITC on goods and/or service used for personal consumption.

The term 'personal consumption' has not been defined in the GST law. Thus, it may be understood in the general sense which would mean non-business use.



(40) Mr. X owns a retail showroom of tyres and tyre tubes. He takes 4 tyres from the showroom for his personal car. Being used for personal consumption, ITC on such 4 tyres is blocked.

(ix) Free samples, gifts, goods lost/stolen etc. [Clause (h) of section 17(5)]

ITC in respect of goods that are disposed of by way of gift or free samples is not available. Also, ITC is blocked on lost goods, stolen goods, destroyed goods and goods that are written off. This is because principally, ITC is available only for payment of tax on output supply. If no tax is payable on output supply, ITC on inputs/input services/capital goods relating to such output supply is not eligible. Hence, ITC on gifts and free samples is blocked as no tax is payable on its outward supply. In case of lost/destroyed/stolen written off goods also, ITC is not available as these goods cannot be said to have been used for making a taxable supply.

Meaning of 'gift'

The term gift has not been defined in the GST law. Therefore, we will have to look for the definition of gift in other laws. Section 122 of the Transfer of Property Act, 1882, defines gift as transfer of certain existing moveable or immovable property made voluntarily and without consideration, by one person, called the donor, to another, called the donee, and accepted by or on behalf of the donee.

In common parlance, gift is made without consideration, is voluntary in nature and is made occasionally. It cannot be demanded as a matter of right.

Meaning of 'sample'

Sample is also not defined in the GST law. The dictionary meaning of sample is "a small part or quantity intended to show what the whole is like". In commercial parlance, samples are given to prospective customers to enable them to test the quality of the item before making a decision to buy the same.



ITC is blocked in respect of the goods mentioned above.

ITC in the hands of the supplier in respect of sales promotional schemes

Circular No. 92/11/2019 GST dated 07.03.2019 has clarified the entitlement of ITC in the hands of supplier in respect of various sales promotional schemes as under [Taxability of such schemes has been discussed at relevant places in Chapter 1: Supply Under GST and Chapter 6: Value of Supply in Module 1 of the Study Material.]

A. Samples and free gifts

Samples which are supplied free of cost, without any consideration, do not qualify as "supply" under GST, except where the activity falls within the ambit of Schedule I of the CGST Act.

ITC shall not be available to the supplier on the inputs, input services and capital goods to the extent they are used in relation to the gifts or free samples distributed without any consideration. However, where the activity of distribution of gifts or free samples falls within the scope of "supply" on account of the provisions contained in Schedule I of the said Act, the supplier would be eligible to avail the ITC.

B. Buy one get one free offer

This is not an individual supply of free goods, but a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one.

Taxability of such supply will be dependent upon as to whether the supply is a composite supply or a mixed supply and the rate of tax shall be determined as per the provisions of section 8.

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 part of such offers.

C. Discounts including 'Buy more, save more' offers

Discounts offered by the suppliers to customers (including staggered discount under "Buy more, save more" scheme and post supply / volume discounts established before or at the time of supply) shall be excluded to determine the value of supply provided they satisfy the parameters laid down in 15(3), including the reversal of ITC by the recipient of the supply as is attributable to the discount on the basis of document (s) issued by the supplier.

However, the supplier shall be entitled to avail the ITC for such inputs, input services and capital goods used in relation to the supply of goods or services or both on such discounts.

D. Secondary discounts

These are the discounts which are not known at the time of supply or are offered after the supply is already over. Such discounts shall not be excluded while determining the value of supply. There is no impact on availability or otherwise of ITC in the hands of supplier in this case.

ITC reversal when return of time expired medicines/drugs are treated as fresh supply

The common trade practice in the pharmaceutical sector is that the drugs or medicines (hereinafter referred to as "goods") are sold by the manufacturer to the wholesaler and by the wholesaler to the retailer on the basis of an invoice/bill of supply as case may be. Such goods have a defined life term which is normally referred to as the date of expiry. Such goods which have crossed their date of expiry are colloquially referred to as **time expired goods** and are returned back to the manufacturer, on account of expiry, through the supply chain.

Circular No. 72/46/2018 GST dated 26.10.2018 has clarified that the retailer/ wholesaler can return the time expired goods, **either by treating the same as fresh supply or by issuing credit notes**²⁰.

Return of time-expired goods by treating the same as fresh supply

In case the person returning the time expired goods is a registered person (other than a composition taxpayer), he may, at his option, return the said goods by treating it is as a fresh supply and thereby issuing an invoice for the same (hereinafter referred to as the, "return supply"). The value of the said goods as shown in the invoice on the basis of which the goods were supplied earlier may be taken as the value of such return supply. The wholesaler or manufacturer, as the case may be, who is the recipient of such return supply, shall be eligible to avail ITC of the tax levied on the said return supply subject to the fulfillment of the conditions specified in section 16.

In case the person returning the time expired goods is a composition taxpayer, he may return the said goods by issuing a bill of supply and pay tax at the rate applicable to a composition taxpayer. In this scenario there will not be any availability of ITC to the recipient of return supply. In case the person returning the time-expired goods is an unregistered person, he may return the said goods by issuing any commercial document without charging any tax on the same.

Where the goods returned by the retailer/wholesaler as a fresh supply, are destroyed by the manufacturer, he/she is required to reverse the ITC availed on the return supply in terms of section 17(5)(h). It is pertinent to mention here that the ITC which is required to be reversed in such scenario is the ITC availed on the return supply and not the ITC that is attributable to the manufacture of such time expired goods.

The clarification may also be applicable to return of goods for reasons other than being time expired.

²⁰ The procedure for return of time expired drugs or medicines by issuing credit note is covered in Chapter 9: Tax Invoice, Credit and Debit Note in this Module of the Study Material.



(41) If a manufacturer has availed ITC of ₹ 10 at the time of manufacture of medicines valued at ₹ 100. At the time of return of such medicine on the account of expiry, the ITC available to the manufacturer on the basis of fresh invoice issued by wholesaler is ₹ 15. So, when the time expired goods are destroyed by the manufacturer, he would be required to reverse ITC of ₹ 15 and not of ₹ 10.

(x) Tax paid in fraud cases, detention, confiscation etc. [Clause (i) of section 17(5)]

Tax paid under sections 74, 129 and 130 is not available as ITC. These sections prescribe the provisions relating to tax paid as a result of evasion of taxes, or upon detention of goods or conveyances in transit, or towards redemption of confiscated goods/conveyances.

Clarification in respect of entitlement of ITC by the insurance companies on the expenses incurred for repair of motor vehicles in case of reimbursement mode of insurance claim settlement²¹

Insurance companies engaged in providing general insurance services in respect of insurance of motor vehicles (MV) settle claims - either in cashless or reimbursement mode. Under both modes, the insurance company accounts for repair liability and is responsible for making payment of the approved repair charges to the garage. Invoices are generally issued by the garages in the name of the insurance company.

Under reimbursement mode of claim settlement, the insured avails repair services from non-network garages with which the insurance companies do not have routine business relationship. The said garages issue the invoice in the name of the insurance company while not extending credit facility for the repair costs.

Accordingly, the policy holder/ insured makes payment of such repair services, and subsequently, the insurance company reimburses the approved claim cost to the insured.

²¹ **Circular No. 217/11/2024 GST dated 26.06.2024**

Further, irrespective of the fact that the payment of the repair services to the garage is first made by the insured, which is then reimbursed by the insurance company to the insured to the extent of the approved claim cost, the liability to pay for the repair service for the approved claim cost lies with the insurance company, and thus, the same is covered in the definition of "recipient" under section 2(93), to the extent of approved repair liability.

'Consideration' includes payment related to supply by the recipient or by any other person in terms of section 2(31).

ITC is available to insurance companies for MV repair expenses incurred under the reimbursement mode

Conditions

- (i) Invoices are issued in the name of the insurance company and**
- (ii) ITC is claimed solely for the amount reimbursed to the insured.**

Moreover, availment of ITC on motor vehicle repair services received by the insurance company for outward supply of insurance services for such MV is not barred under section 17(5).

Section 17(5) provides that ITC in respect of services of repair of MVs is available where received by a taxable person engaged in the supply of general insurance services in respect of MVs insured by him.

Accordingly, it is clarified that ITC is available to Insurance Companies in respect of MVs repair expenses incurred by them in case of reimbursement mode of claim settlement.

Following issues have been clarified in respect of ITC availment by insurance companies in case of reimbursement mode of claim settlement.

Issue	Clarification
What is the extent of ITC available to the insurer in case of issue of two separate invoices by the garage for	ITC is available to insurance company only on the invoice issued to it subject to

<i>repair service - one to the insurance company for the approved claim cost & another to the customer for any excess amount?</i>	<i>reimbursement of said amount by insurance company to customer.</i>
<i>What is the extent of ITC available to the insurer in case of issue of single invoice by the garage - covering the full amount for repair service & the insurance company reimburses only the approved claim cost.</i>	<i>ITC is available to the insurance company only to the extent of the reimbursement of the approved claim cost to the insured, and not on the full invoice value.</i>
<i>Whether ITC is available to the insurer if invoice for vehicle repair is not in insurance company's name?</i>	<i>ITC is not available to the insurance company as it does not meet the requirements of section 16(2)(a) and 16(2)(aa).</i>



5. CREDIT IN SPECIAL CIRCUMSTANCES [SECTION 18]

 STATUTORY PROVISIONS		
Section 18	Availability of credit in special circumstances	
Sub-section	Clause	Particulars
(1)	<i>Subject to such conditions and restrictions as may be prescribed—</i>	
	(a)	<i>a person who has applied for registration under this Act within thirty days from the date on which he becomes liable to registration and has been granted such registration shall be entitled to take credit of input tax in</i>

		<i>respect of inputs held in stock and inputs contained in semi-finished or 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;</i>
	(b)	<i>a person who takes registration under sub-section (3) of section 25 shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date of grant of registration;</i>
	(c)	<i>where any registered person ceases to pay tax under section 10, he shall be entitled to take credit of input tax in respect of inputs held in stock, inputs contained in semi-finished or finished goods held in stock and on capital goods on the day immediately preceding the date from which he becomes liable to pay tax under section 9:</i> <i>Provided that the credit on capital goods shall be reduced by such percentage points as may be prescribed;</i>
	(d)	<i>where an exempt supply of goods or services or both by a registered person becomes a taxable supply, such person shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relatable to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable:</i> <i>Provided that the credit on capital goods shall be reduced by such percentage points as may be prescribed.</i>
(2)	<i>A registered person shall not be entitled to take input tax credit under sub-section (1) in respect of any supply of goods or services or both to him after the expiry of one year from the date of issue</i>	

	<i>of tax invoice relating to such supply.</i>
(3)	<i>Where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provisions for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilised in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed.</i>
(4)	<i>Where any registered person who has availed of input tax credit opts to pay tax under section 10 or, where the goods or services or both supplied by him become wholly exempt, he shall pay an amount, by way of debit in the electronic credit ledger or electronic cash ledger, equivalent to the credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock and on capital goods, reduced by such percentage points as may be prescribed, on the day immediately preceding the date of exercising of such option or, as the case may be, the date of such exemption:</i> <i>Provided that after payment of such amount, the balance of input tax credit, if any, lying in his electronic credit ledger shall lapse.</i>
(5)	<i>The amount of credit under sub-section (1) and the amount payable under sub-section (4) shall be calculated in such manner as may be prescribed.</i>
(6)	<i>In case of supply of capital goods or plant and machinery, on which input tax credit has been taken, the registered person shall pay an amount equal to the input tax credit taken on the said capital goods or plant and machinery reduced by such percentage points as may be prescribed or the tax on the transaction value of such capital goods or plant and machinery determined under section 15, whichever is higher:</i> <i>Provided that where refractory bricks, moulds and dies, jigs and</i>

	fixtures are supplied as scrap, the taxable person may pay tax on the transaction value of such goods determined under section 15.	
Chapter V: Input Tax Credit of CGST Rules		
Rule 40	Manner of claiming credit in special circumstances	
Sub-rule	Clause	Particulars
(1)		The input tax credit claimed in accordance with the provisions of sub-section (1) of section 18 on the inputs held in stock or inputs contained in semi-finished or finished goods held in stock, or the credit claimed on capital goods in accordance with the provisions of clauses (c) and (d) of the said sub-section, shall be subject to the following conditions, namely -
	(a)	the input tax credit on capital goods, in terms of clauses (c) and (d) of sub-section (1) of section 18, shall be claimed after reducing the tax paid on such capital goods by five percentage points per quarter of a year or part thereof from the date of the invoice or such other documents on which the capital goods were received by the taxable person.
	(b)	the registered person shall within a period of thirty days from the date of becoming eligible to avail the input tax credit under sub-section (1) of section 18, or within such further period as may be extended by the Commissioner by a notification in this behalf, shall make a declaration, electronically, on the common portal in FORM GST ITC-01 to the effect that he is eligible to avail the input tax credit as aforesaid: Provided that any extension of the time limit notified by the Commissioner of State tax or the Commissioner of Union territory tax shall be deemed to be notified by the Commissioner.
	(c)	the declaration under clause (b) shall clearly specify the

		details relating to the inputs held in stock or inputs contained in semi-finished or finished goods held in stock, or as the case may be, capital goods—
	(i)	on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of the Act, in the case of a claim under clause (a) of sub- section (1) of section 18;
	(ii)	on the day immediately preceding the date of the grant of registration, in the case of a claim under clause (b) of sub-section (1) of section 18;
	(iii)	on the day immediately preceding the date from which he becomes liable to pay tax under section 9, in the case of a claim under clause (c) of sub-section (1) of section 18;
	(iv)	on the day immediately preceding the date from which the supplies made by the registered person becomes taxable, in the case of a claim under clause (d) of sub- section (1) of section 18;
	(d)	the details furnished in the declaration under clause (b) shall be duly certified by a practicing chartered accountant or a cost accountant if the aggregate value of the claim on account of central tax, State tax, Union territory tax and integrated tax exceeds two lakh rupees;
	(e)	the input tax credit claimed in accordance with the provisions of clauses (c) and (d) of sub-section (1) of section 18 shall be verified with the corresponding details furnished by the corresponding supplier in FORM GSTR-1 and in FORM GSTR-1A, if any , or as the case may be, in FORM GSTR- 4 , on the common portal.
(2)	The amount of credit in the case of supply of capital goods or plant and machinery, for the purposes of sub-section (6) of section 18, shall be calculated by reducing the input tax on the said goods at	

	the rate of five percentage points for every quarter or part thereof from the date of the issue of the invoice for such goods.
Rule 41	Transfer of credit on sale, merger, amalgamation, lease or transfer of a business
Sub-rule	Particulars
(1)	A registered person shall, in the event of sale, merger, de-merger, amalgamation, lease or transfer or change in the ownership of business for any reason, furnish the details of sale, merger, de-merger, amalgamation, lease or transfer of business, in FORM GST ITC-02, electronically on the common portal along with a request for transfer of unutilized input tax credit lying in his electronic credit ledger to the transferee: Provided that in the case of demerger, the input tax credit shall be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme. Explanation: - For the purpose of this sub-rule, it is hereby clarified that the "value of assets" means the value of the entire assets of the business, whether or not input tax credit has been availed thereon.
(2)	The transferor shall also submit a copy of a certificate issued by a practicing chartered accountant or cost accountant certifying that the sale, merger, de-merger, amalgamation, lease or transfer of business has been done with a specific provision for the transfer of liabilities.
(3)	The transferee shall, on the common portal, accept the details so furnished by the transferor and, upon such acceptance, the unutilized credit specified in FORM GST ITC-02 shall be credited to his electronic credit ledger.
(4)	The inputs and capital goods so transferred shall be duly accounted for by the transferee in his books of account.

Rule 41A	Transfer of credit on obtaining separate registration for multiple places of business within a State or Union territory	
(1)	A registered person who has obtained separate registration for multiple places of business in accordance with the provisions of rule 11 and who intends to transfer, either wholly or partly, the unutilised input tax credit lying in his electronic credit ledger to any or all of the newly registered place of business, shall furnish within a period of thirty days from obtaining such separate registrations, the details in FORM GST ITC-02A electronically on the common portal, either directly or through a Facilitation Centre notified in this behalf by the Commissioner:	
	Provided that the input tax credit shall be transferred to the newly registered entities in the ratio of the value of assets held by them at the time of registration.	
	Explanation.- For the purposes of this sub-rule, it is hereby clarified that the 'value of assets' means the value of the entire assets of the business whether or not input tax credit has been availed thereon.	
(2)	The newly registered person (transferee) shall, on the common portal, accept the details so furnished by the registered person (transferor) and, upon such acceptance, the unutilised input tax credit specified in FORM GST ITC-02A shall be credited to his electronic credit ledger.	
Rule 44	Manner of reversal of credit under special circumstances	
Sub-rule	Clause	Particulars
(1)	The amount of input tax credit relating to inputs held in stock, inputs contained in semi-finished and finished goods held in stock, and capital goods held in stock shall, for the purposes of sub-section (4) of section 18 or sub-section (5) of section 29, be determined in the following manner, namely,-	

	(a)	<i>for inputs held in stock and inputs contained in semi-finished and finished goods held in stock, the input tax credit shall be calculated proportionately on the basis of the corresponding invoices on which credit had been availed by the registered taxable person on such inputs;</i>
	(b)	<i>for capital goods held in stock, the input tax credit involved in the remaining useful life in months shall be computed on pro-rata basis, taking the useful life as five years.</i>
(2)	<i>The amount, as specified in sub-rule (1) shall be determined separately for input tax credit of central tax, State tax, Union territory tax and integrated tax.</i>	
(3)	<i>Where the tax invoices related to the inputs held in stock are not available, the registered person shall estimate the amount under sub-rule (1) based on the prevailing market price of the goods on the effective date of the occurrence of any of the events specified in sub-section (4) of section 18 or, as the case may be, sub-section (5) of section 29.</i>	
(4)	<i>The amount determined under sub-rule (1) shall form part of the output tax liability of the registered person and the details of the amount shall be furnished in FORM GST ITC-03, where such amount relates to any event specified in sub-section (4) of section 18 and in FORM GSTR-10, where such amount relates to the cancellation of registration.</i>	
(5)	<i>The details furnished in accordance with sub-rule (3) shall be duly certified by a practicing chartered accountant or cost accountant.</i>	
(6)	<i>The amount of input tax credit for the purposes of sub-section (6) of section 18 relating to capital goods shall be determined in the same manner as specified in clause (b) of sub-rule (1) and the amount shall be determined separately for input tax credit of central tax, State tax, Union territory tax and integrated tax:</i>	

*Provided that where the amount so determined is more than the tax determined on the transaction value of the capital goods, the amount determined shall form part of the output tax liability and the same shall be furnished in **FORM GSTR-1**.*



ANALYSIS

Section 18 provides for

- (1) entitlement of ITC on inputs in stock and inputs contained in finished goods or work-in-progress, and in last two cases in respect of capital goods as well
 - (i) at the time of registration/voluntary registration, (ii) on coming into regular tax-paying status by exiting composition levy, (iii) on coming into tax-paying status on account of exempt supply becoming taxable supply for a registered person
- (2) reversal of ITC on inputs in stock and inputs contained in finished goods or work-in-progress and capital goods
 - (i) at the time of exit from regular tax-paying status by opting for composition levy, (ii) at the time of exit from tax-paying status on account of taxable supply becoming exempt supply for a registered person
- (3) amount payable on supply of capital goods or plant and machinery on which ITC has been taken
- (4) transfer of ITC on account of change in constitution of the registered person
- (i) Entitlement of ITC at the time of registration/voluntary registration or switching to regular tax paying status or coming into tax-paying status [Sub-sections (1) and (2) of section 18 read with rule 40]**

The credit on inputs held in stock and contained in semi-finished goods or finished goods held in stock and capital goods at the time of registration/voluntary registration or coming into regular tax/tax-paying status is available in the following manner:

S. No.	Persons eligible to take credit	Goods entitled to ITC		Restriction/conditions
		Inputs held in stock/capital goods	As on	
(1)	(2)	(3)	(4)	(5)
1.	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	Inputs held in stock and inputs contained in semi-finished or finished goods held in stock	The day immediately preceding the date from which he becomes liable to pay tax	→ ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier.
2.	Person who is not required to register, but obtains voluntary registration	Inputs held in stock and inputs contained in semi-finished or finished goods held in stock	The day immediately preceding the date of registration	
3.	Registered person who ceases to pay composition tax and	Inputs held in stock and inputs contained in semi-finished or finished	The day immediately preceding the date from which he becomes	→ ITC on capital goods will be reduced by 5% per quarter of a year or part of the year from the date of invoice.

	switches to regular scheme	goods held in stock and capital goods	liable to pay tax under regular scheme	
4.	Registered person whose exempt supplies become taxable supplies	Inputs held in stock and inputs contained in semi-finished or finished goods held in stock relatable to such exempt supply and capital goods exclusively used for such exempt supply	The day immediately preceding the date from which such supply becomes taxable	→ ITC claimed shall be verified with the corresponding details furnished by the corresponding supplier. → ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier.

In all the above cases, the registered person has to make an electronic declaration in the prescribed form²² on the common portal, clearly specifying the details relating to the inputs held in stock, inputs contained in semi-finished or finished goods held in stock and capital goods on the days mentioned in column (4) of table above. The declaration is to be filed within 30 days (extendable by Commissioner/Commissioner of State GST/Commissioner of UTGST) from the date when the registered person becomes eligible to avail ITC. If the claim of ITC pertaining to CGST, SGST/UTGST, IGST put together exceeds ₹ 2,00,000, the declaration needs to be certified by a practicing Chartered Accountant/Cost Accountant.

²² Declaration is to be filed in Form GST ITC-01 where a registered person ceases to pay composition tax and switches to regular scheme or his exempt supplies become taxable supplies.



(42) 'Z' becomes liable to pay tax on 1st August and has obtained registration on 15th August w.e.f. 1st August. 'Z' is eligible for ITC on inputs held in stock and as part of semi-finished goods or finished goods held in stock as on 31st July. 'Z' cannot take ITC on capital goods.

(43) 'A' applies for voluntary registration on 5th June and obtains registration w.e.f. 22nd June. 'A' is eligible for ITC on inputs held in stock and as part of semi-finished goods or finished goods held in stock as on 21st June. 'A' cannot take ITC on capital goods.

(44) 'B', a registered taxable person, was paying tax under composition scheme upto 30th July. However, w.e.f. 31st July, 'B' becomes liable to pay tax under regular scheme. 'B' will be eligible for ITC on inputs held in stock and inputs contained in semi-finished or finished goods held in stock and on capital goods as on 30th July. ITC on capital goods will be reduced by 5% per quarter or part thereof from the date of the invoice.

(ii) Reversal of ITC on switching to composition levy or exit from tax-paying status [Section 18(4) read with rule 44]

- ☐ Section 18(4) requires reversal of ITC when a registered person who has availed ITC switches to composition levy or when his supplies get wholly exempted from tax.
- ☐ ITC on **inputs** should be reversed proportionately on the basis of corresponding invoices on which credit had been availed on such inputs. If invoices are not available, ITC can be reversed on the basis of the prevailing market price of such goods on the date of switch over/exemption. The details furnished on the basis of prevailing market value need to be duly certified by a practicing Chartered Accountant/ Cost Accountant.
- ☐ ITC involved in the remaining useful life (in months) of the **capital goods** should be reversed on *pro-rata* basis, taking the useful life as 5 years.



(45) Capital goods have been in use for 4 years, 6 month and 15 days.

The useful remaining life in months = 5 months ignoring a part of the month.

ITC taken on such capital goods = C

ITC attributable to remaining useful life that should be reversed

= C x 5/60

- ❑ The registered person has to debit the electronic credit or cash ledger by the reversal amount in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock and capital goods on the day immediately preceding the date of switch over/ date of exemption. *[Provisions relating to electronic cash ledger have been discussed in detail in Chapter 11: Payment of Tax in this Module of the Study Material.]*
- ❑ Balance of ITC, if any, lying in the electronic credit ledger lapses.
- ❑ Cancellation of registration also requires reversal of ITC on inputs held in stock/ contained in semi-finished goods or finished goods held in stock, capital goods or plant and machinery on the day immediately preceding the cancellation date. The amount to be reversed on inputs and capital goods is computed in the manner as applicable for sub-sections (4) and (6) of section 18 (discussed above). Such amount is then compared with the output tax payable on such goods, and the higher of the two amounts is finally paid by the registered person.
- ❑ ITC to be reversed on inputs and capital goods is calculated separately for ITC of CGST, SGST/UTGST and IGST.
- ❑ The reversal amount is added to the output tax liability of the registered person.

(iii) Amount payable on supply of capital goods or plant and machinery on which ITC has been taken [Section 18(6) read with rule 40(2) & rule 44(6)]

- ❑ If capital goods or plant and machinery on which ITC has been taken are supplied outward by the registered person, he must pay an amount that is the **higher of the following:**
 - ✓ ITC taken on such goods reduced by 5% per quarter of a year or part thereof from the date of issue of invoice for such goods [i.e., ITC pertaining to remaining useful life of the capital goods (in quarters)]*, or
 - ✓ tax on transaction value of such capital goods/plant & machinery
- ❑ ITC pertaining to remaining useful life of the capital goods should be computed separately for ITC of CGST, SGST/UTGST and IGST.
- ❑ Where the amount of ITC remaining so determined exceeds the tax payable on the transaction value of the capital goods, such amount need to be paid and thus, should be added to the output tax liability.
- ❑ If refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, the taxable person may pay tax on the transaction value.

***Note:** Under rule 44(6), ITC involved in the remaining useful life (in months) of the capital goods is reversed on *pro rata* basis, taking the useful life as 5 years.

Clarification on ITC availability on demo vehicles in cases where such vehicles are capitalized in the books of account by the authorized dealers²³

As per provisions of section 16(1), every registered taxpayer is entitled to take ITC charged on any supply of goods and services made to him, where such goods/services are used in the course or furtherance of business of such person.

²³ **Circular No. 231/25/2024 GST dated 10.09.2024**

Also, as per section 2(19), "capital goods" means goods, the value of which is capitalized in the books of account of the person claiming the ITC and which are used or intended to be used in the course or furtherance of business.

Since the demo vehicles are used by the authorized dealers to promote further sale of motor vehicles of the similar type and therefore, such vehicles appear to be used in the course or furtherance of business of the authorized dealers.

ITC availment on demo vehicles – Not affected by way of capitalisation

Where such vehicles are capitalized in the books of accounts by the authorized dealer, the said vehicle falls in the definition of "capital goods". As per provision of section 16(1), a recipient of goods is entitled to take ITC in respect of tax charged on the inward supply of any goods, which as per definition of "goods" under section 2(52) of CGST Act, includes even capital goods.

Accordingly, availability of ITC on demo vehicles is not affected by way of capitalization of such vehicles in the books of account of the authorized dealers, subject to other provisions of the Act.

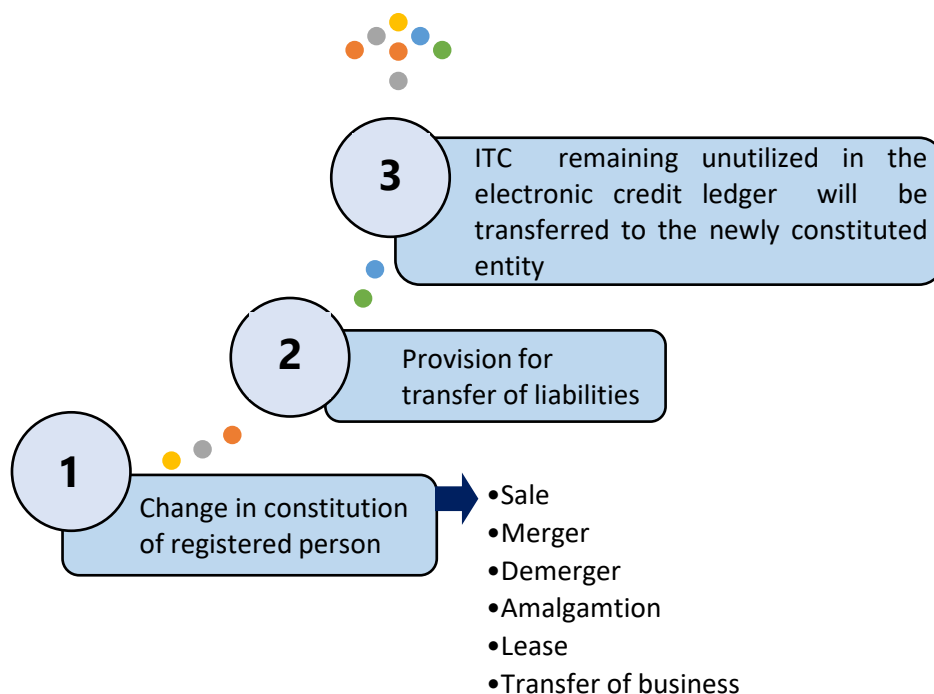
Following issues have also been clarified in respect of ITC availment on capitalized demo vehicles

<i>Issue</i>	<i>Clarification</i>
<i>Where the registered person has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the Income-tax Act, 1961</i>	<i>In case of capitalization of demo vehicles, availability of ITC would be subject to provisions of section 16(3), thus, ITC on the said tax component shall not be allowed.</i>
<i>In case demo vehicle, which is capitalized, is subsequently sold by the authorized dealer</i>	<i>The authorized dealer shall have to pay an amount or tax as per provisions of section 18(6) read with rule 44(6).</i>

(iv) Transfer of ITC on account of change in constitution of registered person [Section 18(3) read with rule 41]

In case of sale, merger, demerger, amalgamation, lease, transfer or change in ownership of business etc., the ITC that remains unutilized in the electronic credit ledger of the registered person can be transferred to the new entity, provided there is a specific provision for transfer of liabilities in such change of constitution. *Circular No. 96/15/2019 GST dated 28.03.2019* has clarified that transfer or change in the ownership of business includes transfer or change in the ownership due to death of the sole proprietor.

The above provisions have been explained with the help of the diagram given below:



In the case of demerger, ITC will be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme. *Circular No. 133/3/2020 GST dated 23.03.2020* has clarified that the said formula for apportionment of ITC shall be applicable for all forms of business re-organization that results in partial transfer of business assets along with liabilities and not just demerger. Here, **“value of assets”** means the value

of the entire assets of the business irrespective of whether ITC has been availed thereon or not.

The registered person should furnish the details of change in constitution in the prescribed form (ITC - 02) on the common portal and submit a certificate from practicing Chartered Account/Cost Accountant certifying that the change in constitution has been done with a specific provision for transfer of liabilities. Upon acceptance of such details by the transferee on the common portal, the unutilized ITC gets credited to his electronic credit ledger. The transferee should record the inputs and capital goods so transferred in his books of account.

Circular No. 133/3/2020 GST dated 23.03.2020 has clarified the following in relation to apportionment of ITC in cases of business reorganization:

- (1) For the purpose of apportionment of ITC pursuant to a demerger, the value of assets of the new units is to be taken at the State level (at the level of distinct person) and not at the all-India level. The transferor would be required to file Form GST ITC-02 only in those States where both transferor and transferee are registered.



(46) Company XYZ, registered in both Madhya Pradesh (MP) and Uttar Pradesh (UP), holds assets valued at ₹100 crore: ₹60 crore in MP and ₹40 crore in UP. A portion of XYZ's business is being demerged into Company ABC. As part of this demerger, assets worth ₹30 crore from MP and ₹10 crore from UP, totaling (at all-India level) ₹40 crore, are transferred from XYZ to ABC.

The unutilized ITC of XYZ in State of M.P. shall be transferred to ABC on the basis of ratio of value of assets in State of M.P., i.e. $30/60 = 0.5$ and not on the basis of all-India ratio of value of assets, i.e. $40/100 = 0.4$. Similarly, unutilized ITC of XYZ in State of U.P. will be transferred to ABC in ratio of value of assets in State of U.P, i.e. $10/40 = 0.25$.

- (2) The ratio of value of assets shall be applied to the total amount of unutilized ITC of the transferor, i.e. sum of CGST, SGST/ UTGST and IGST credit. The said formula need not be applied separately in respect of each heads of ITC (CGST/ SGST/ IGST). Further, the said

formula shall also be applicable for apportionment of cess between the transferor and transferee.



(47) The ITC balances of transferor A in the State of Maharashtra under CGST, SGST and IGST heads are 5 lakh, 5 lakh and 10 lakh respectively. Pursuant to a scheme of demerger, A transfers 60% of its assets to transferee B.

Accordingly, the amount of ITC to be transferred from A to B shall be 60% of 20 lakh (total sum of CGST, SGST and IGST credit) i.e. 12 lakh.

- (3) The total amount of ITC to be transferred to the transferee (i.e. sum of CGST, SGST/ UTGST and IGST credit) should not exceed the amount of ITC to be transferred [Refer point (2) above]. However, the transferor shall be at liberty to determine the amount to be transferred under each tax head (IGST, CGST, SGST/ UTGST) within this total amount, subject to the ITC balance available with the transferor under the concerned tax head.



(48)

(1)	(2)	(3)	(4)	(5)	(6)
State	Asset Ratio of Transferee	Tax Heads	ITC balance of Transferor (pre-apportionment) as on the date of filing GST ITC-02)	Total amount of ITC transferred to the Transferee under GST ITC-02	ITC balance of Transferor (post-apportionment) after filing of GST ITC-02) [Col (4) – Col (5)]
Delhi	70%	CGST	10,00,000	10,00,000	0
		SGST	10,00,000	10,00,000	0
		IGST	30,00,000	15,00,000	15,00,000
		Total	50,00,000	35,00,000	15,00,000
M.P.	40%	CGST	25,00,000	3,00,000	22,00,000
		SGST	25,00,000	5,00,000	20,00,000

	IGST	20,00,000	20,00,000	0
	Total	70,00,000	28,00,000	42,00,000

- (4) The apportionment formula shall be applied on the ITC balance of the transferor as available in electronic credit ledger on the date of filing of Form GST ITC – 02 by the transferor.
- (5) For the purpose of apportionment of ITC, the ratio of the value of assets should be taken as on the “appointed date of demerger” as specified in the respective scheme for demerger. Thus, for the purpose of apportionment of ITC, the ratio of the value of assets taken as on the “appointed date of demerger” should be applied on the ITC balance of the transferor on the date of filing Form GST ITC – 02.

(v) Transfer of ITC on obtaining separate registrations for multiple places of business within a State/ Union Territory [Rule 41A]

Section 25 enables a taxpayer to obtain separate registrations for multiple places of business within a State/ Union territory *[Provisions of section 25 are discussed under Chapter 8: Registration in this Module of the Study Material]*. The registered person (transferor), having separate registrations for multiple places of business within a State/Union Territory, can transfer the unutilised ITC (wholly or partly) lying in his electronic credit ledger to any or all of the newly registered place(s) of business in the ratio of the value of assets held by them at the time of registration. Here, the ‘value of assets’ means the value of the entire assets of the business irrespective of whether ITC has been availed thereon or not.

The registered person should furnish the prescribed details on the common portal within a period of 30 days from obtaining such separate registrations. Upon acceptance of such details by the newly registered person (transferee) on the common portal, the unutilised ITC gets credited to his electronic credit ledger.



6. DISTRIBUTION OF CREDIT BY INPUT SERVICE DISTRIBUTOR [SECTIONS 20 & 21]

	STATUTORY PROVISIONS	
Section 20	<i>Manner of distribution of credit by input service distributor</i>	
Sub-section	Clause	Particulars
(1)		The inputs service distributor shall distribute the credit of central tax as central tax or integrated tax and integrated tax as integrated tax or central tax, by way of issue of a document containing the amount of input tax credit being distributed in such manner as may be prescribed.
(2)		The Input Service Distributor may distribute the credit subject to the following conditions, namely:–
	(a)	the credit can be distributed to the recipients of credit against a document containing such details as may be prescribed;
	(b)	the amount of the credit distributed shall not exceed the amount of credit available for distribution;
	(c)	the credit of tax paid on input services attributable to a recipient of credit shall be distributed only to that recipient;
	(d)	the credit of tax paid on input services attributable to more than one recipient of credit shall be distributed amongst such recipients to whom the input service is attributable and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all such recipients to

		<i>whom such input service is attributable and which are operational in the current year, during the said relevant period;</i>
	(e)	<i>the credit of tax paid on input services attributable to all recipients of credit shall be distributed amongst such recipients and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all recipients and which are operational in the current year, during the said relevant period.</i>
<i>Explanation.—For the purposes of this section,—</i>		
(a)	<i>the “relevant period” shall be—</i>	
	(i)	<i>if the recipients of credit have turnover in their States or Union territories in the financial year preceding the year during which credit is to be distributed, the said financial year; or</i>
	(ii)	<i>if some or all recipients of the credit do not have any turnover in their States or Union territories in the financial year preceding the year during which the credit is to be distributed, the last quarter for which details of such turnover of all the recipients are available, previous to the month during which credit is to be distributed;</i>
(b)	<i>the expression “recipient of credit” means the supplier of goods or services or both having the same Permanent Account Number as that of the Input Service Distributor;</i>	
(c)	<i>the term ‘turnover’, in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under entries 84 and 92A of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule.</i>	

Section 21	Manner of recovery of credit distributed in excess	
	Where the input service distributor distributes the credit in contravention of the provisions contained in section 20 resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from such recipients along with interest, and the provisions of section 73 or section 74, as the case may be, shall, mutatis mutandis, apply for determination of amount to be recovered.	
Chapter V: Input Tax Credit of CGST Rules		
Rule 39	Procedure for distribution of input tax credit by Input Service Distributor	
Sub-rule	Clause	Particulars
(1)		<i>An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely, -</i>
	(a)	<i>the input tax credit available for distribution in a month shall be distributed in the same month and the details thereof shall be furnished in FORM GSTR-6 in accordance with the provisions of Chapter VIII of these rules;</i>
	(b)	<i>the input service distributor shall, in accordance with the provisions of clause (d), separately distribute the amount of ineligible input tax credit (ineligible under the provisions of sub-section (5) of section 17 or otherwise) and the amount of eligible input tax credit;</i>
	(c)	<i>the input tax credit on account of central tax, State tax, Union territory tax and integrated tax shall be distributed separately in accordance with the provisions of clause (d);</i>
	(d)	<i>the input tax credit that is required to be distributed in</i>

		accordance with the provisions of clause (d) and (e) of sub-section (2) of section 20 to one of the recipients 'R₁', whether registered or not, from amongst the total of all the recipients to whom input tax credit is attributable, including the recipient(s) who are engaged in making exempt supply, or are otherwise not registered for any reason, shall be the amount, "C₁", to be calculated by applying the following formula - $C_1 = (t_1 \div T) \times C$ where, "C" is the amount of credit to be distributed, "t₁" is the turnover, as referred to in section 20, of person R₁ during the relevant period, and "T" is the aggregate of the turnover, during the relevant period, of all recipients to whom the input service is attributable in accordance with the provisions of section 20;				
	(e)	the input tax credit on account of integrated tax shall be distributed as input tax credit of integrated tax to every recipient;				
	(f)	the input tax credit on account of central tax and State tax or Union territory tax shall- <table><tr><td>(i)</td><td>in respect of a recipient located in the same State or Union territory in which the input service distributor is located, be distributed as input tax credit of central tax and State tax or Union territory tax respectively;</td></tr><tr><td>(ii)</td><td>in respect of a recipient located in a State or Union territory other than that of the input service distributor, be distributed as integrated tax and the amount to be so distributed shall be equal to the aggregate of the amount of input tax credit of central tax and State tax or Union territory tax that qualifies for distribution to such recipient in accordance with clause (d);</td></tr></table>	(i)	in respect of a recipient located in the same State or Union territory in which the input service distributor is located, be distributed as input tax credit of central tax and State tax or Union territory tax respectively;	(ii)	in respect of a recipient located in a State or Union territory other than that of the input service distributor, be distributed as integrated tax and the amount to be so distributed shall be equal to the aggregate of the amount of input tax credit of central tax and State tax or Union territory tax that qualifies for distribution to such recipient in accordance with clause (d);
(i)	in respect of a recipient located in the same State or Union territory in which the input service distributor is located, be distributed as input tax credit of central tax and State tax or Union territory tax respectively;					
(ii)	in respect of a recipient located in a State or Union territory other than that of the input service distributor, be distributed as integrated tax and the amount to be so distributed shall be equal to the aggregate of the amount of input tax credit of central tax and State tax or Union territory tax that qualifies for distribution to such recipient in accordance with clause (d);					

	(g)	the input service distributor shall issue an input service distributor invoice, as prescribed in sub-rule (1) of rule 54, clearly indicating in such invoice that it is issued only for distribution of input tax credit;
	(h)	the input service distributor shall issue an input service distributor credit note, as prescribed in sub-rule (1) of rule 54, for reduction of credit in case the input tax credit already distributed gets reduced for any reason;
	(i)	any additional amount of input tax credit on account of issuance of a debit note to an input service distributor by the supplier shall be distributed in the manner and subject to the conditions specified in clauses (a) to (f) and the amount attributable to any recipient shall be calculated in the manner provided in clause (d) and such credit shall be distributed in the month in which the debit note is included in the return in FORM GSTR-6 ;
	(j)	any input tax credit required to be reduced on account of issuance of a credit note to the input service distributor by the supplier shall be apportioned to each recipient in the same ratio in which the input tax credit contained in the original invoice was distributed in terms of clause (d), and the amount so apportioned shall be-
	(i)	reduced from the amount to be distributed in the month in which the credit note is included in the return in FORM GSTR-6 ; or
	(ii)	added to the output tax liability of the recipient where the amount so apportioned is in the negative by virtue of the amount of credit under distribution being less than the amount to be adjusted.
(2)	if the amount of input tax credit distributed by an input service distributor is reduced later on for any other reason for any of the recipients, including that it was distributed to a wrong recipient by	

	<i>the input service distributor, the process specified in clause (j) of sub-rule (1) shall apply, mutatis mutandis, for reduction of credit.</i>
(3)	<i>Subject to sub-rule (2), the input service distributor shall, on the basis of the input service distributor credit note specified in clause (h) of sub-rule (1), issue an input service distributor invoice to the recipient entitled to such credit and include the input service distributor credit note and the input service distributor invoice in the return in FORM GSTR-6 for the month in which such credit note and invoice was issued.</i>



ANALYSIS

(i) Role of an input service distributor (ISD)

Companies may have their Head Office at one place and units at other places which may be registered separately. The Head Office would be procuring certain services which would be for common utilization of all units across the country.

The bills for such expenses would be raised on the Head Office but the Head Office itself would not be providing any output supply so as to utilize the credit which gets accumulated on account of such input services.

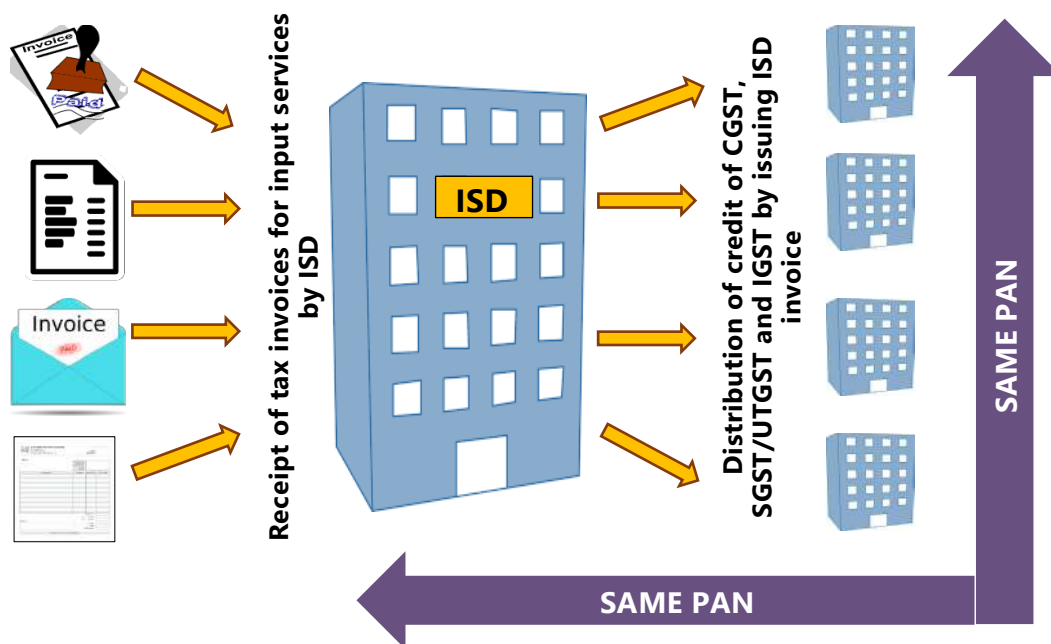
Since the common expenditure is meant for the business of all units, it is but natural that the credit of input services in respect of such common invoices should be apportioned between all the consuming units.

ISD mechanism enables proportionate distribution of credit of input services amongst all the consuming units. The concept of

ISD under GST is a legacy carried over from the service tax regime.



ISD is an office of a business which receives tax invoices for input services and distributes available ITC to other branch offices of the same business.



Thus, the concept of ISD is a facility made available to business having a large share of common expenditure and where billing/payment is done from a centralized location. The mechanism is meant to simplify the credit taking

process for entities and the facility is meant to strengthen the seamless flow of credit under GST.



It is important to note that the ISD mechanism is meant only for distributing the credit on common invoices pertaining to INPUT SERVICES and not goods (inputs or capital goods).

(ii) **Separate registration for an ISD**

An ISD is compulsorily required to obtain a separate registration as an ISD even though it may be separately registered. There is no threshold limit for registration for an ISD. The other locations may be registered

**Compulsory
separate
registration for
ISD**

separately. Since the services relate to other locations the corresponding credit should be transferred to such locations (having separate registrations) as the output services are being provided there.



Can a company have multiple ISDs?

Yes, different offices of a company like marketing division, security division etc. may apply for separate ISD registration.

(iii) Manner of distribution of credit by an ISD [Section 20 read with rule 39 of the CGST Rules]

The ISD is required to maintain arithmetical accuracy and ensure that the credit distributed does not exceed the credit available with it for distribution. Further, in distributing the credit among different locations of the entity -

which are supplying goods and/or services and have same PAN as that of the ISD ('recipients') - it must follow these principles:

ITC of input services is distributed ONLY amongst those registered persons who have used the input services in the course or furtherance of business.

- (a) The credit connected to an input service must be distributed only to the particular recipient to whom that input service is attributable.
- (b) If the input service is attributable to more than one recipient, the relevant ITC is distributed to such recipients in the ratio of turnover of the recipient in a State / Union Territory [See definition of turnover in State or turnover in Union Territory] to the aggregate turnover [See definition of aggregate turnover] of all the recipients to whom the input service is attributable and which are operational during the current year.
- (c) ITC pertaining to input services which are common for all units, is distributed to all the recipients in the ratio of turnover as described in (b) above.

- (d) Both ineligible and eligible ITC are distributed separately.
- (e) ITC of CGST, SGST/UTGST and IGST are distributed separately.

Proportionate distribution of credit to more than one recipient/all the recipients

- ❑ For working out such *pro rata* distribution (as mentioned in (b) and (c) above), the turnover **during the relevant period** is to be considered, both for turnover of the recipient in a State / Union Territory as well as for aggregate turnover of all recipients.
- ❑ **"Relevant period"** for working out the above distribution is the previous financial year, if all the recipients of credit had turnover in their State / Union Territory during that year.

If some or all the recipients did not have turnover in their State / Union territory during the previous financial year, then the last quarter for which details of turnover of all the recipients is available, prior to the month for which credit is to be distributed, will be the "relevant period".

- ❑ If there are two or more locations of a recipient in a State / Union territory, the sum of their turnover is to be considered in working out the proportion of the credit that will be distributed to that registration. (This is because a PAN number will have a single registration for all its locations within a business vertical in a State / Union territory – *Refer Chapter 9: Registration in this Module of the Study Material for more details.*)
- ❑ The credit attributable to a recipient is distributed even if such recipient is unregistered or is making exempt supplies.
- ❑ Where both taxable and non-taxable goods are supplied, the **"turnover"** excludes central excise duty, State excise duty, central sales tax and VAT.

❑ **Formula for distribution of credit**

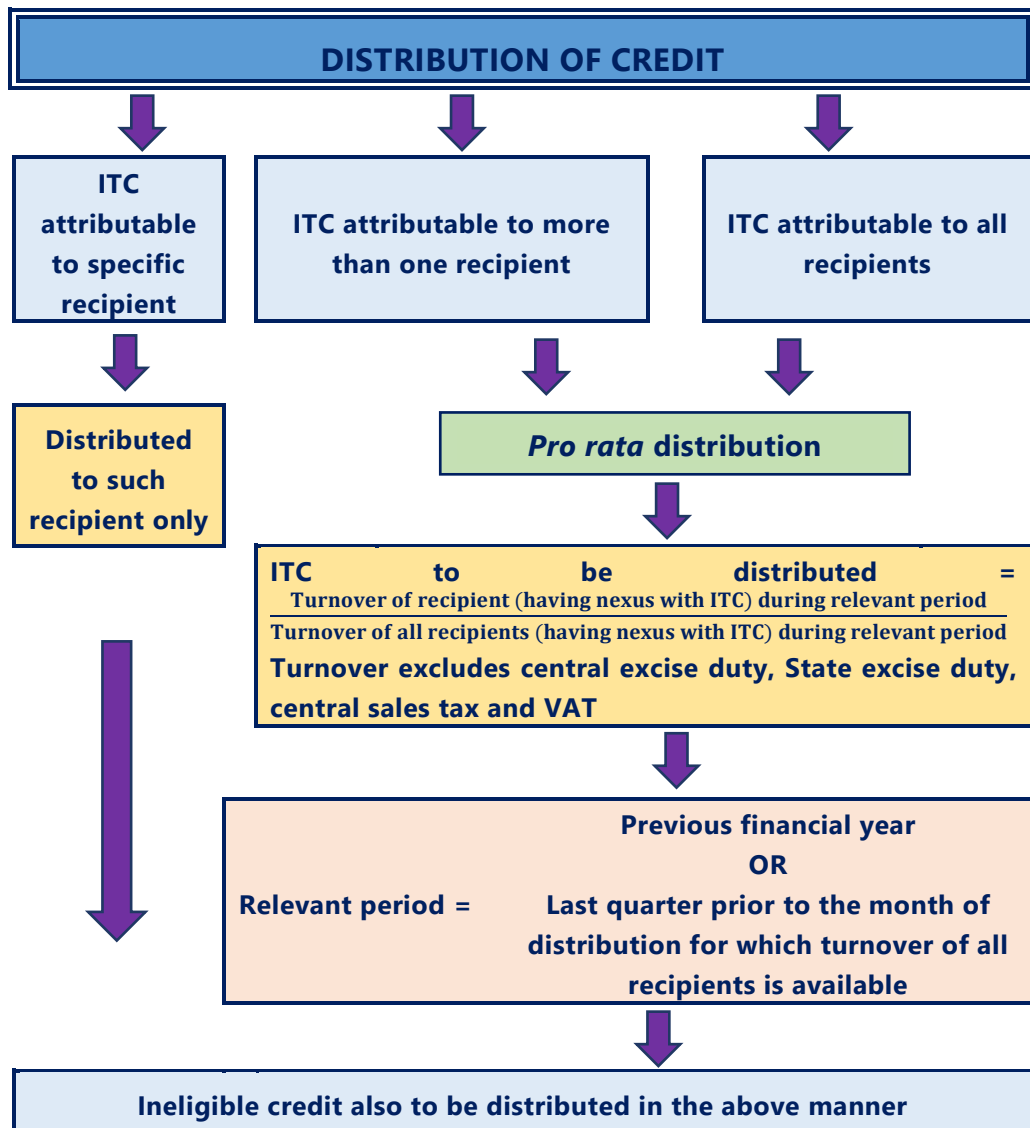
$$C1 = (t1 \div T) \times C$$

where,

"C" is the credit to be distributed,

"t₁" is the turnover of the recipient during the relevant period, and

"T" is the aggregate of the turnover, during the relevant period, of all recipients to whom the input service is attributable



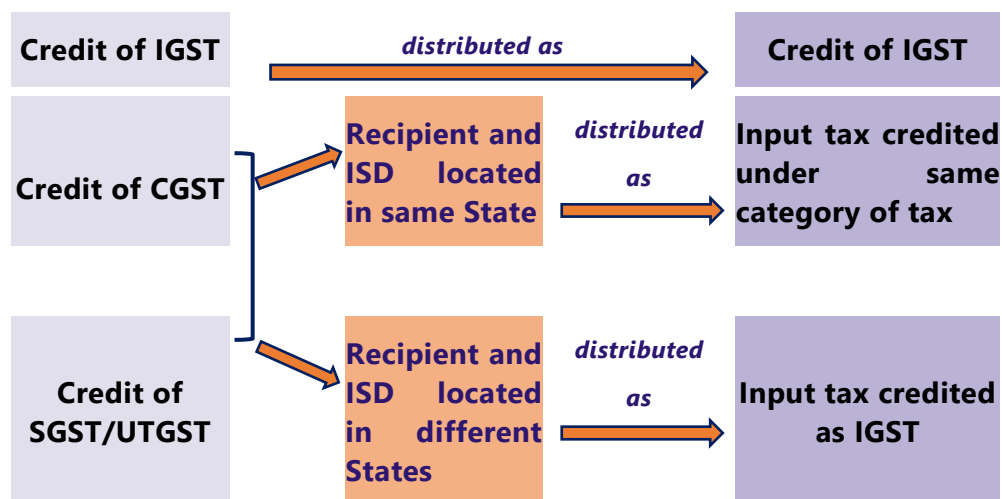


(48) ABC Ltd, a confectionary manufacturer, has paid bills of an advertising company amounting to ₹ 24 lakh for advertising campaigns for two varieties of cakes, which are manufactured at separate locations in Pune and Bangalore. The company had a total turnover of ₹ 112 crores in the previous financial year. During relevant period, the turnover of the Pune unit was ₹ 5 crores, and the turnover of the Bangalore unit was ₹ 10 crores. The aggregate turnover here is taken as ₹ 15 crores, as advertising was for cakes, which are manufactured at these two units only.

The ITC is to be distributed between Pune and Bangalore units in the ratio 1:2. Therefore, Pune unit will be given ITC of ₹ 8 lakhs, and Bangalore unit will be given ITC of ₹ 16 lakhs from the advertising bills.

Distribution of taxes

- ❑ ITC of CGST, SGST/UTGST in respect of recipient located in the same State/Union Territory is distributed as CGST and SGST/UTGST respectively.
- ❑ ITC of CGST and SGST/UTGST, in respect of a recipient located in a different State/Union territory, is distributed as IGST (total of ITC of CGST and SGST/UTGST which were to be distributed to such recipient).
- ❑ ITC on account of IGST is distributed as IGST.



Note: Section 20 provides that credit of integrated tax be distributed as "integrated tax or central tax". However, rule 39 of CGST Rules provides that "input tax credit on account of integrated tax shall be distributed as input tax credit of integrated tax to every recipient." The above diagram is based on the position as stated in rule 39.



(49) The Corporate office of ABC Ltd. is at Bangalore, with its business locations of selling and servicing of goods at Bangalore, Chennai, Mumbai and Kolkata. Software license and maintenance is used at all the locations, but invoice for these services (indicating CGST and SGST) are received at Corporate Office. Since the software is used at all the four locations, the ITC of entire services cannot be claimed at Bangalore. The same has to be distributed to all the four locations. For that reason, the Bangalore Corporate office has to act as ISD to distribute the credit.

If the corporate office of ABC Ltd, an ISD situated in Bangalore, receives invoices indicating ₹ 4 lakh of CGST, ₹4 lakh of SGST and ₹ 7 lakh of IGST, it can distribute the ITC of CGST, SGST as well as IGST of ₹ 15 lakh amongst its locations at Bangalore, Chennai, Mumbai and Kolkata through an ISD invoice containing the amount of credit distributed.

ILLUSTRATION 1

XYZ Ltd, having its head Office at Mumbai, is registered as ISD. It has three units in different cities situated in different States namely 'Mumbai', 'Jabalpur' and 'Delhi' which are operational in the current year.

M/s XYZ Ltd furnishes the following information for the month of July:

- (i) CGST paid on services used only for Mumbai Unit: ₹ 3,00,000
- (ii) IGST, CGST & SGST paid on services used for all units: ₹ 12,00,000

Total turnover of the units for the previous financial year are as follows: -

Unit	Turnover (₹)
Total Turnover of three units	₹ 10,00,00,000

Turnover of Mumbai unit	₹ 5,00,00,000
Turnover of Jabalpur unit	₹ 3,00,00,000

Determine the credit to be distributed by XYZ Ltd. to each of its three units.

Answer

Particulars	Credit distributed to all units (₹)			
	Total credit available	Mumbai	Jabalpur	Delhi
CGST paid on services used only for Mumbai Unit	300000	300000	0	0
IGST, CGST & SGST paid on services used for all units Distribution on <i>pro rata</i> basis to all the units which are operational in the current year	12,00,000	6,00,000	3,60,000	2,40,000
Total	15,00,000	9,00,000	3,60,000	2,40,000

Note 1: Credit distributed *pro rata* on the basis of the turnover of all the units is as under: -

- (a) Unit Mumbai: $(₹ 5,00,00,000 / ₹ 10,00,00,000) * ₹ 12,00,000 = ₹ 6,00,000$
- (b) Unit Jabalpur: $(₹ 3,00,00,000 / ₹ 10,00,00,000) * ₹ 12,00,000 = ₹ 3,60,000$
- (c) Unit Delhi: $(₹ 2,00,00,000 / ₹ 10,00,00,000) * ₹ 12,00,000 = ₹ 2,40,000$

Note 2: Distribution of IGST, CGST & SGST paid on services for all units would be as follows:

- (a) Unit Mumbai: Distribution of IGST, CGST & SGST as IGST, CGST & SGST, respectively.
- (b) Unit Jabalpur: Distribution of IGST, CGST & SGST as IGST only
- (c) Unit Delhi: Distribution of IGST, CGST & SGST as IGST only

(iii) Procedural aspects of distribution of credit [Rule 39]

- ☐ The ISD has to issue an ISD invoice, as prescribed in rule 54(1) of the CGST Rules, for distributing ITC. It should be clearly indicated in such invoice that it is issued only for distribution of ITC.
- ☐ The ISD needs to issue a ISD credit note, as prescribed in rule 54(1) of the CGST Rules, for reduction in credit if the distributed credit gets reduced for any reason.
- ☐ The ISD invoice and ISD credit note must contain the following information:
 - Name, address and GSTIN of the ISD and recipient of credit;
 - A consecutive serial number up to 16 characters, containing alphabets or numerals or special characters or any combination thereof, for a financial year;
 - Date of issue;
 - Amount of the credit distributed;
 - Signature of the ISD or his authorized representative.

Relaxation for banks & FIs: If the ISD is a banking company/ financial institution including NBFC, the document for distributing credit need not be serially numbered.

- ☐ ITC available for distribution in a month is to be distributed in the same month.

- ❑ Details of distribution of credit and all ISD invoices issued should be furnished by ISD in monthly GSTR-6 within 13 days after the end of the month. The details in the returns are made available to the respective recipients in their GSTR 2A. An ISD is not required to file annual return. *[Refer Chapter 13: Returns in this Module of the Study Material for detailed discussion on GSTR-6].*
- ❑ An ISD cannot accept any invoices on which tax is to be discharged under reverse charge mechanism. This is because the ISD mechanism is only to facilitate distribution of credit of taxes paid. The ISD itself cannot discharge any tax liability (as person liable to pay tax) and remit tax to Government account. If ISD wants to take reverse charge supplies, then in that case ISD has to separately register as normal taxpayer.

(iv) Issue of debit note and credit note on ISD [Rule 39 of the CGST Rules]

Issue of a debit note

- ❑ The additional ITC on account of issue of a debit note to the ISD is distributed by the ISD, in accordance with the provisions discussed above, in the month in which such debit note is included in GSTR-6.

Issue of a credit note

- ❑ If a credit note is issued to the ISD, the ITC to be reduced is apportioned amongst the relevant recipients in the same ratio in which the original credit was distributed.
- ❑ Such apportioned credit is reduced from the credit to be distributed in the month in which the credit note is included in GSTR-6. If the apportioned credit exceeds the credit to be distributed, the same is added to the output tax liability of the recipient.
- ❑ This process is also followed in case of reduction of credit already distributed for any other reason e.g., when the credit is distributed to a wrong recipient.

Clarification regarding availment of ITC in respect of common input services procured from a third party but attributable to both HO and BOs or exclusively to one or more BOs

The following clarification has been issued:

Issues	Clarification
Whether HO can avail the ITC in respect of common input services procured from a third party but attributable: (i) to both HO and BOs or (ii) exclusively to one or more BOs, Where HO issue tax invoices under section 31 to the said BOs for the said input services and the BOs can then avail the ITC for the same or whether is it mandatory for the HO to follow the Input Service Distributor (ISD) mechanism²⁴ for distribution of ITC in respect of such common input services?	It is clarified that in such a case, as per the present provisions of the law, it is not mandatory for the HO to distribute such ITC by ISD mechanism. HO has an option to: (i) distribute ITC in respect of such common input services by following ISD mechanism, or (ii) issue tax invoices under section 31 to the concerned BOs in respect of common input services procured from a third party by HO but attributable to the said BOs and the BOs can then avail ITC on the same subject to the provisions of sections 16 and 17. ISD mechanism can be opted only if the said input services are attributable to the said BO or have actually been provided to the said BO. In case ISD mechanism is opted, HO is required to get itself registered mandatorily as an ISD²⁵.

²⁴ ISD mechanism is laid down in section 20 read with rule 39

²⁵ in accordance with section 24(viii)

Similarly, the HO can issue tax invoices under section 31 to the concerned BOs, only if the common input services have actually been provided to the concerned BOs.

[Circular No. 199/11/2023 GST dated 17.07.2023]

(v) Recovery of excess credit distributed to a recipient [Section 21]



Excess credit distributed can be recovered along with interest only from the recipient and not from ISD.

If the ISD has distributed excess credit to any recipient, the excess will be recovered from the recipient with interest as if it was tax not paid by initiating action under section 73 or 74 [Refer Chapter 19 : Demands and Recovery in Module 3 of this Study Material for detailed discussion on sections 73 and 74]. Penalties may be applicable depending on the circumstances. Circular No. 71/45/2018 GST dated 26.10.2018 has clarified that the ISD would also be liable to a general penalty under section 122(1)(ix).



7. HOW ITC IS UTILISED

	STATUTORY PROVISIONS	
Section 49	<i>Payment of tax, interest, penalty and other amounts (Relevant extract)</i>	
Sub-section	Clause	Particulars
(5)		<i>The amount of input tax credit available in the electronic credit ledger of the registered person on account of—</i>
	(a)	<i>integrated tax shall first be utilised towards payment of integrated tax and the amount remaining, if any, may be utilised towards the payment of central tax and State tax, or as the case may be, Union territory tax, in that order;</i>
	(b)	<i>the central tax shall first be utilised towards payment of central tax and the amount remaining, if any, may be utilised towards the payment of integrated tax;</i>
	(c)	<i>the State tax shall first be utilised towards payment of State tax and the amount remaining, if any, may be utilised towards payment of integrated tax;</i> <i>Provided that the input tax credit on account of State tax shall be utilised towards payment of integrated tax only where the balance of the input tax credit on account of central tax is not available for payment of integrated tax;</i>
	(d)	<i>the Union territory tax shall first be utilised towards payment of Union territory tax and the amount remaining, if any, may be utilised towards payment of integrated tax;</i>

		<i>Provided that the input tax credit on account of Union territory tax shall be utilised towards payment of integrated tax only where the balance of the input tax credit on account of central tax is not available for payment of integrated tax;</i>
	(e)	<i>the central tax shall not be utilised towards payment of State tax or Union territory tax; and</i>
	(f)	<i>the State tax or Union territory tax shall not be utilised towards payment of central tax.</i>
Section 49A	Utilisation of input tax credit subject to certain conditions	
	<i>Notwithstanding anything contained in section 49, the input tax credit on account of central tax, State tax or Union territory tax shall be utilised towards payment of integrated tax, central tax, State tax or Union territory tax, as the case may be, only after the input tax credit available on account of integrated tax has first been utilised fully towards such payment.</i>	
Section 49B	Order of utilisation of input tax credit	
	<i>Notwithstanding anything contained in this Chapter and subject to the provisions of clause (e) and clause (f) of sub-section (5) of section 49, the Government may, on the recommendations of the Council, prescribe the order and manner of utilisation of the input tax credit on account of integrated tax, central tax, State tax or Union territory tax, as the case may be, towards payment of any such tax.</i>	
Chapter IX: Payment of Tax of the CGST Rules		
Rule 86A	Conditions of use of amount available in electronic credit ledger	
(1)	(a)	<i>the credit of input tax has been availed on the strength of tax invoices or debit notes or any other document prescribed under rule 36-</i>

		i.	issued by a registered person who has been found non-existent or not to be conducting any business from any place for which registration has been obtained; or
		ii.	without receipt of goods or services or both; or
	(b)	the credit of input tax has been availed on the strength of tax invoices or debit notes or any other document prescribed under rule 36 in respect of any supply, the tax charged in respect of which has not been paid to the Government; or	
	(c)	the registered person availing the credit of input tax has been found non-existent or not to be conducting any business from any place for which registration has been obtained; or	
	(d)	the registered person availing any credit of input tax is not in possession of a tax invoice or debit note or any other document prescribed under rule 36,	
	may, for reasons to be recorded in writing, not allow debit of an amount equivalent to such credit in electronic credit ledger for discharge of any liability under section 49 or for claim of any refund of any unutilised amount.		
(2)	The Commissioner, or the officer authorised by him under sub-rule (1) may, upon being satisfied that conditions for disallowing debit of electronic credit ledger as above, no longer exist, allow such debit.		
(3)	Such restriction shall cease to have effect after the expiry of a period of one year from the date of imposing such restriction.		
Rule 86B	Restrictions on use of amount available in electronic credit ledger		
	Notwithstanding anything contained in these rules, the registered person shall not use the amount available in electronic credit		

ledger to discharge his liability towards output tax in excess of ninety-nine per cent. of such tax liability, in cases where the value of taxable supply other than exempt supply and zero-rated supply, in a month exceeds fifty lakh rupees:

Provided that the said restriction shall not apply where -

- | | | | |
|------------|--|------------|---------------------------|
| (a) | the said person or the proprietor or karta or the managing director or any of its two partners, whole-time Directors, Members of Managing Committee of Associations or Board of Trustees, as the case may be, have paid more than one lakh rupees as income tax under the Income-tax Act, 1961(43 of 1961) in each of the last two financial years for which the time limit to file return of income under subsection (1) of section 139 of the said Act has expired; or | | |
| (b) | the registered person has received a refund amount of more than one lakh rupees in the preceding financial year on account of unutilised input tax credit under clause (i) of first proviso of sub-section (3) of section 54; or | | |
| (c) | the registered person has received a refund amount of more than one lakh rupees in the preceding financial year on account of unutilised input tax credit under clause (ii) of first proviso of sub-section (3) of section 54; or | | |
| (d) | the registered person has discharged his liability towards output tax through the electronic cash ledger for an amount which is in excess of 1% of the total output tax liability, applied cumulatively, upto the said month in the current financial year; or | | |
| (e) | the registered person is - | | |
| | <table border="1"> <tr> <td style="vertical-align: top;">(i)</td> <td>Government Department; or</td> </tr> </table> | (i) | Government Department; or |
| (i) | Government Department; or | | |

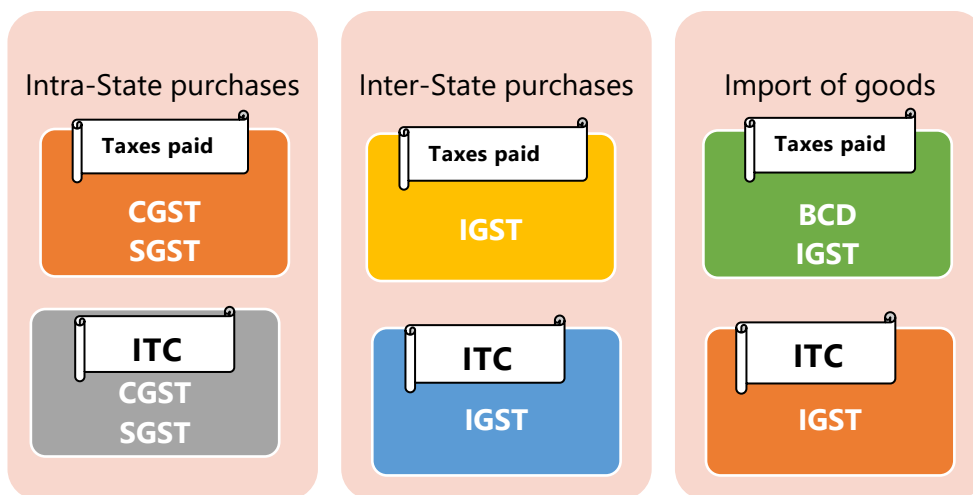
		(ii)	a Public Sector Undertaking; or
		(iii)	a local authority; or
		(iv)	a statutory body:
		Provided further that the Commissioner or an officer authorised by him in this behalf may remove the said restriction after such verifications and such safeguards as he may deem fit	
Rule 88A	Order of utilization of input tax credit		
	Input tax credit on account of integrated tax shall first be utilised towards payment of integrated tax, and the amount remaining, if any, may be utilised towards the payment of central tax and State tax or Union territory tax, as the case may be, in any order.		
	Provided that the input tax credit on account of central tax, State tax or Union territory tax shall be utilised towards payment of integrated tax, central tax, State tax or Union territory tax, as the case may be, only after the input tax credit available on account of integrated tax has first been utilised fully.		



ANALYSIS

ITC is credited to a registered person's electronic credit ledger. A taxable person is entitled for ITC of CGST, SGST/UTGST and IGST depending upon the nature of supplies received by him.

To illustrate, a supplier making purchases intra-State, inter-State and via import (of goods) is eligible for ITC as under:



The person may use the ITC to pay his output tax liability. As we know that Indian GST is a dual GST wherein two taxes viz, CGST and SGST/UTGST are levied concurrently on a supply transaction. While the CGST revenue accrues to Central Government, SGST and UTGST revenue accrue to respective State Government and Union Territory respectively. Hence, ITC of CGST and SGST/UTGST is not inter-changeable and thus, cross utilisation of CGST and SGST/UTGST is not permissible.

IGST is a transitory tax. IGST paid by taxpayer initially goes to the Central Clearing Authority. ITC of IGST can be utilised for payment of CGST or SGST/UTGST (or *vice versa*). Thus, cross utilization of IGST and CGST, SGST/UTGST is permissible. Flexibility has been provided to the taxpayer to utilise ITC of IGST (after payment of IGST first) for payment of CGST and/or SGST/UTGST in any proportion and in any order subject to the condition that the entire input tax credit of Integrated tax is completely exhausted before the input tax credit of Central Tax or State/Union territory tax can be utilized. If ITC of IGST is used for payment of SGST/UTGST (or *vice versa*), corresponding debit/credit is made to respective State Government/Union Territory.

Sections 49(5), 49A, 49B, rule 88A and *Circular No. 98/17/2019 GST dated 23.04.2019* together prescribe the sequence of utilisation of ITC. A combined reading of such provisions shows that the order of utilization of ITC is as per the order (of numerals) given below:

ITC of	Output IGST liability	Output CGST liability	Output SGST/ UTGST liability
IGST	(I)	(II) – <u>In any order and in any proportion</u>	
(III) ITC of IGST to be completely exhausted mandatorily			
CGST	(V)	(IV)	Not permitted
SGST/UTGST	(VII) Only after ITC of CGST has been utilized fully	Not permitted	(VI)
The numerals given above can be further explained in the following manner:			
(I)	IGST credit should be first utilized towards payment of IGST.		
(II)	Remaining IGST credit, if any, can be utilized towards payment of CGST and SGST/UTGST in any order and in any proportion, i.e. remaining ITC of IGST can be utilized – • first towards payment of CGST and then towards payment of SGST; or • first towards payment of SGST and then towards payment of CGST; or • towards payment of CGST and SGST simultaneously in any proportion e.g. 50: 50, 30: 70, 40: 60 and so on.		
(III)	Entire ITC of IGST should be fully utilized before utilizing the ITC of CGST or SGST/UTGST.		
(IV) & (V)	ITC of CGST should be utilized for payment of CGST and IGST in that order. ITC of CGST cannot be utilized for payment of SGST/UTGST		
(VI) & (VII)	ITC of SGST /UTGST should be utilized for payment of SGST/UTGST and IGST in that order. However, ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully. ITC of SGST/UTGST cannot be utilized for payment of CGST.		

- Cross-utilization of credit is available only between CGST - IGST and SGST/UTGST - IGST.
- CGST credit cannot be utilized for payment of SGST/UTGST and SGST/UTGST credit cannot be utilized for payment of CGST.
- ITC of IGST need to be exhausted fully before proceeding to utilize the ITC of CGST and SGST/UTGST in that order.



(50) Amount of ITC available and output tax liability under different tax heads

Head	Output tax liability (₹)	ITC (₹)
IGST	1000	1300
CGST	300	200
SGST/UTGST	<u>300</u>	<u>200</u>
Total	1600	1700

Option 1

ITC of	Discharge of output IGST liability (₹)	Discharge of output CGST liability (₹)	Discharge of output SGST/UTGST liability (₹)	Balance of ITC (₹)
IGST	1000	200	100	0
ITC of IGST has been completely exhausted				
CGST	0	100	-	100
SGST/UTGST	0	-	200	0
Total	1000	300	300	100

Option 2

ITC of	Discharge of output IGST liability (₹)	Discharge of output CGST liability (₹)	Discharge of output SGST/UTGST liability (₹)	Balance of ITC (₹)
IGST	1000	100	200	0
ITC of IGST has been completely exhausted				
CGST	0	200	-	0
SGST/UTGST	0	-	100	100
Total	1000	300	300	100

Option 3

ITC of	Discharge of output IGST liability (₹)	Discharge of output CGST liability (₹)	Discharge of output SGST/UTGST liability (₹)	Balance of ITC (₹)
IGST	1000	150	150	0
ITC of IGST has been completely exhausted				
CGST	0	150	-	50
SGST/UTGST	0	-	150	50
Total	1000	300	300	100

There can be other options also for utilization of ITC of IGST against CGST and SGST liabilities. In this example, three options for utilizing ITC of IGST against CGST and SGST liabilities are shown.

Restrictions on utilisation of ITC [Rule 86A]

The Commissioner/ an officer (not below the rank of an Assistant Commissioner) authorised by him is empowered to impose restrictions on utilization of ITC available in the electronic credit ledger if he has **reasons to believe** that such ITC has been fraudulently availed or is ineligible.

The restrictions can be imposed in the following circumstances:

- (i) ITC has been availed by the registered person on the basis of tax invoices/debit notes/prescribed documents -
 - issued by a non-existent registered person (supplier) or by a supplier not conducting any business from the place declared in registration; or
 - without actual receipt of goods or services or both; or
 - in respect of any supply the tax in respect of which has not been paid to the Government
- (ii) the registered person availing ITC has been found non-existent or not to be conducting any business from the registered place of business; or
- (iii) the registered person availing ITC is not in possession of tax invoice/ debit note or any other prescribed valid document for it.

If the ITC is so availed, the restrictions can be imposed by not allowing such ITC to be used for discharging any liability under section 49 or not allowing refund of any unutilised amount of such ITC. Such restrictions can be imposed for a period up to 1 year from the date of imposing such restrictions. However, the Commissioner/officer authorised by him, can withdraw such restriction if he is satisfied that conditions for imposing the restrictions no longer exist.

Proper authority for the purpose of rule 86A

The Commissioner/Principal Commissioner is the proper officer for the purpose of exercising powers under rule 86A. The Commissioner/Principal Commissioner may authorize any officer subordinate to him, not below the rank of Assistant Commissioner to be the proper officer for exercising powers under rule 86A based on the following monetary limits as mentioned below:

Total amount of ineligible or fraudulently availed ITC	Officer to disallow debit of amount from electronic credit ledger under rule 86A
Not exceeding ₹ 1 crore	Deputy Commissioner/ Assistant Commissioner
Above ₹ 1 crore but not exceeding ₹ 5 crore	Additional Commissioner/ Joint Commissioner
Above ₹ 5 crore	Principal Commissioner/Commissioner

The Additional Director General /Principal Additional Director General of DGGI can also exercise the powers assigned to the Commissioner under rule 86A. The monetary limits for authorization for exercise of powers under rule 86A to the officers of the rank of Assistant Director and above of DGGI by the Additional Director General /Principal Additional Director General may be same as mentioned for equivalent rank of officers in the table above¹⁴.

Restrictions on the use of amount available in electronic credit ledger [Rule 86B]

Rule 86B restricts the use of ITC available in the electronic credit ledger for discharging output tax liability. The aforesaid rule starts with a non-obstante clause and thus, has an over-riding effect on any other provisions of the CGST Rules.

□ Applicability of rule 86B

- ❖ Rule 86B is applicable to the registered person having value of taxable supply (other than exempt supply and zero-rated supply) in a month exceeding ₹ 50 lakh.
- ❖ Therefore, in cases wherein value of taxable supply in a month is upto ₹ 50 lakh, then this restriction would not be applicable.

□ Nature of restriction imposed

The registered person to whom the said rule is applicable cannot use ITC to discharge the output tax liability in excess of 99% of such tax liability. In other words, amount available in electronic credit ledger shall be utilized only to the extent of 99% of the output tax liability while discharging such tax liability. Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.

Minimum 1% of the output tax liability be discharged using electronic cash ledger

The above restriction can be explained with the help of numerical example:

¹⁴ CBIC - 20/16/05/2021 GST/1552 dated 02.11.2021



(51) The total value of inter-State supply of Raman & Sons for the month of February is of ₹ 100 lakh. Said supply is taxable @ 18% IGST. Thus, total output tax liability of Raman & Sons is ₹ 18 lakh. Amount available in electronic credit ledger is ₹ 20 lakh (IGST).

In terms of restriction imposed by rule 86B, Raman & Sons can discharge 99% of its output tax liability, i.e. ₹ 17,82,000 (99% of ₹ 18,00,000) from the amount available in electronic credit ledger. However, it has to mandatorily discharge the balance 1% of the output tax liability i.e. ₹ 18,000 (1% of ₹ 18,00,000) through electronic cash ledger only.

❑ **Exceptions to rule 86B**

In order to strike a balance between restricting potential misuse of ITC and providing relief to compliant taxpayers, few exceptions to rule 86B have been carved out. They take into account different circumstances and ensure that taxpayers who have fulfilled certain criteria are not unduly burdened by the restrictions imposed by rule 86B.

➤ **Payment of income tax of more than ₹ 1 lakh**

Restriction under rule 86B is not applicable in cases where the below mentioned person(s) have paid a sum of more than ₹ 1 lakh as income tax (under the Income -tax Act, 1961) in each of the last 2 FYs for which the time limit to file return of income under section 139(1) of the Income-tax Act has expired:

- ❖ Registered person/Karta/proprietor/managing director/ any of its two partners
- ❖ Whole-time directors,
- ❖ Members of Managing Committee of Associations
- ❖ Board of Trustees

➤ **Receipt of refund of input tax credit of more than ₹ 1 lakh**

Rule 86B is not applicable where the registered person has received a refund amount of more than ₹ 1 lakh on account of unutilized ITC under:

- ❖ zero-rated supplies made without payment of tax

- ❖ inverted duty structure

It is pertinent to note that refund should have been received in preceding FY.

➤ **Payment of output tax liability through electronic cash ledger in excess of 1% of total output tax liability in current FY**

If the registered person has discharged his output tax liability through the electronic cash ledger for an amount in excess of 1% of the total output tax liability, applied cumulatively, upto the said month in the current financial year, the restrictions under rule 86B shall not apply.

This exception provides relief to registered persons who have consistently made substantial cash payments towards their GST liabilities. The total cash payment of GST made by the registered person is considered cumulatively for all preceding months of the current FY. The cumulative approach ensures that the registered person is given credit for its consistent cash payments throughout the year, rather than assessing each month in isolation.



(52) Assuming a scenario wherein in the current FY upto August month, the total output tax liability payable is ₹ 30 lakh and such registered person has paid ₹ 1 lakh through electronic cash ledger and balance through electronic credit ledger. Rule 86B would not be applicable in the September month even if the taxable turnover during this month exceeds ₹ 50 lakh, since cumulative payment of tax made in cash is more than 1% of total output tax liability (1% of ₹ 30 lakh is ₹ 30,000).

It is pertinent to note that GST liability paid under reverse charge mechanism should not be taken into account while calculating the total output liability paid through electronic cash ledger.

➤ **Specified registered persons**

Rule 86B is not applicable in case of below-mentioned registered person:

- ❖ Government Department; or
- ❖ a Public Sector Undertaking; or
- ❖ a local authority; or

❖ a statutory body.

However, Commissioner or an officer authorised by him in this behalf may remove the said restriction after such verifications and such safeguards as he may deem fit

ILLUSTRATION 1

Vijay Sales, a registered supplier, receives 100 invoices (for inward supply of goods/ services) involving GST of ₹ 10 lakh, from various suppliers during the month of October.

*Out of 100 invoices, details of 80 invoices involving GST of ₹ 6 lakh have been furnished by the suppliers in their respective GSTR-1s **(which are not amended in GSTR-1A)** filed on the prescribed due date therefor and are reflected in GSTR-2B of Vijay Sales.*

Compute the ITC that can be claimed by Vijay Sales in its GSTR-3B for the month of October to be filed by 20th November assuming that GST of ₹ 10 lakh is otherwise eligible for ITC.

ANSWER

ITC to be claimed by Vijay Sales in its GSTR-3B for the month of October to be filed by 20th November will be computed as under-

Invoices	Amount of ITC involved in the invoices (₹)	Amount of ITC that can be availed (₹)
80 invoices furnished in GSTR-1	6 lakh	6 lakh [Refer Note 1]
20 invoices not furnished in GSTR-1	4 lakh	Nil [Refer Note 2]
Total	10 lakh	6 lakh

Notes:

- (1) 100% ITC can be availed on invoices furnished by the suppliers in their GSTR-1s and reflected in GSTR-2B of Vijay Sales.
- (2) As per rule 36(4), the ITC in respect of invoices not furnished by the suppliers in their GSTR-1s and thus, not being reflected in GSTR-2B of recipient, cannot be claimed. Thus, in respect of 20 invoices which are not furnished in GSTR-1s of

suppliers and are not reflected in GSTR-2B of Vijay Sales, no ITC can be availed¹⁵.

ILLUSTRATION 2

PQR Company Ltd., a registered supplier of Bengaluru (Karnataka), is a manufacturer of goods. The company provides the following information pertaining to GST paid on inward supplies during the month of April (current financial year):

S. No.	Items	GST paid in (₹)
(i)	Life Insurance premium paid by the company for the life insurance of factory employees as per the policy of the company. There is no legal obligation for such insurance for employees.	1,50,000
(ii)	Raw materials purchased for which invoice is missing but delivery challan is available	38,000
(iii)	Raw materials purchased which are used for zero rated supply	50,000
(iv)	Works contractor's service used for repair of factory building which is debited in the profit and loss account of company	30,000
(v)	Company purchased the capital goods for ₹ 4,00,000 and claimed depreciation of ₹ 44,800 (@ 10%) on the full amount of ₹ 4,48,000 under Income Tax Act, 1961	48,000

Other information:

- (1) *In the month of September of previous financial year, PQR Company Ltd. availed ITC of ₹ 2,40,000 on purchase of raw material which was directly sent to job worker's premises under a challan on 25th September (previous*

¹⁵ Let us suppose, subsequently, the suppliers of these 20 invoices furnish the details of said invoices in their GSTR-1s for the month of November, the details shall be reflected in GSTR-2B of Vijay Sales of November month and Vijay Sales can take credit of such invoices in its GSTR-3B for the month of November.

financial year). The said raw material has not been received back from the job worker up to 30th April (current financial year).

- (2) All the above inward supplies except at S. No. (iii) above have been used in the manufacture of taxable goods. Inward supplies at S. No. (iii) above have been used in the manufacture of exempt goods.

Compute the amount of net ITC that can be availed by PQR Company Ltd. for the month of April with necessary explanations for the treatment of various items as per the provisions of the CGST Act. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

ANSWER

Computation of ITC available with PQR Company Ltd. for the month of April

Particulars	ITC (₹)
Life Insurance premium paid by the company on the life of factory employees [Note 1]	Nil
Raw materials purchased [Note 2]	Nil
Raw materials used for zero rated supply [Note 3]	50,000
Work contractor's service [Note 4]	30,000
Capital goods purchased in respect of which depreciation is claimed on the tax component [Note 5]	Nil
Goods sent to job worker's premises [Note 6]	=
Total ITC available	<u>80,000</u>

Notes:

- (1) ITC on life insurance service is available only when it is obligatory for an employer to provide said services to its employees under any law for the time being in force. Since it is not obligatory for the employer in the instant case and thus, the ITC thereon is blocked [Second proviso to section 17(5)(b)].
- (2) ITC cannot be taken since invoice is missing and delivery challan is not a valid document to avail ITC [Section 16(2)(a)].

- (3) ITC can be availed for making zero-rated supplies, notwithstanding that such supply may be an exempt supply [Section 16(2) of the IGST Act].
- (4) ITC is blocked on works contract services when supplied for construction of an immovable property. However, "construction" includes only that repairs which are capitalized along with the said immovable property.

In this case, since repairs of building is debited to P & L Account, the same does not amount to 'construction' and hence ITC thereon is available [Section 17(5)(c)].

- (5) ITC is not available when depreciation has been claimed on the tax component of the cost of capital goods under the Income-tax Act [Section 16(3)].
- (6) The principal is entitled to take ITC of inputs sent for job work even if the said inputs are directly sent to job worker. However, where said inputs are not received back by the principal within a period of 1 year of the date of receipt of inputs by the job worker, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when the said inputs were received by the job worker [Sub-sections (2) and (3) of section 19¹⁶].

Hence, the ITC taken by PQR Company Ltd. in the month of September last year is valid and since one year period has yet not lapsed in April, there will be no tax liability on such inputs.

ILLUSTRATION 3

Siddhi Ltd. is a registered manufacturer engaged in taxable supply of goods. Siddhi Ltd. purchased the following goods during the month of January. The following particulars are provided by the company:

S. No.	Particulars	GST (₹)
1.	Capital goods purchased on which depreciation has been taken on full value including GST paid thereon	15,000

¹⁶ Provisions of section 19 have been discussed in Chapter 16 – Job work in Module 3 of this Study Material.

2.	Goods purchased from Ravi Traders (Invoice of Ravi Traders is received in month of January but goods were received after two months in the month of March)	20,000
3.	Car purchased for making further supply of such car. Such car is destroyed in accident while being used for test drive by potential customers.	30,000
4.	Truck purchased for delivery of finished products	80,000

Determine the amount of ITC that can be availed by Siddhi Ltd. for the month of January by giving necessary explanations for treatment of various items as per the provisions of the CGST Act. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

ANSWER

Computation of ITC available with Siddhi Ltd. for the month of January

Particulars	GST (₹)
Capital goods [Note 1]	Nil
Goods purchased from Ravi Traders [Note 2]	Nil
Cars purchased for making further supply [Note 3]	Nil
Trucks purchased for delivery of output goods [Note 4]	80,000
Total ITC available with Siddhi Ltd.	80,000

Notes:

- (1) Since depreciation has been claimed on the tax component of the value of the capital goods, ITC of such tax cannot be availed in terms of section 16(3).
- (2) ITC in respect of goods not received cannot be availed in terms of section 16(2)(b).

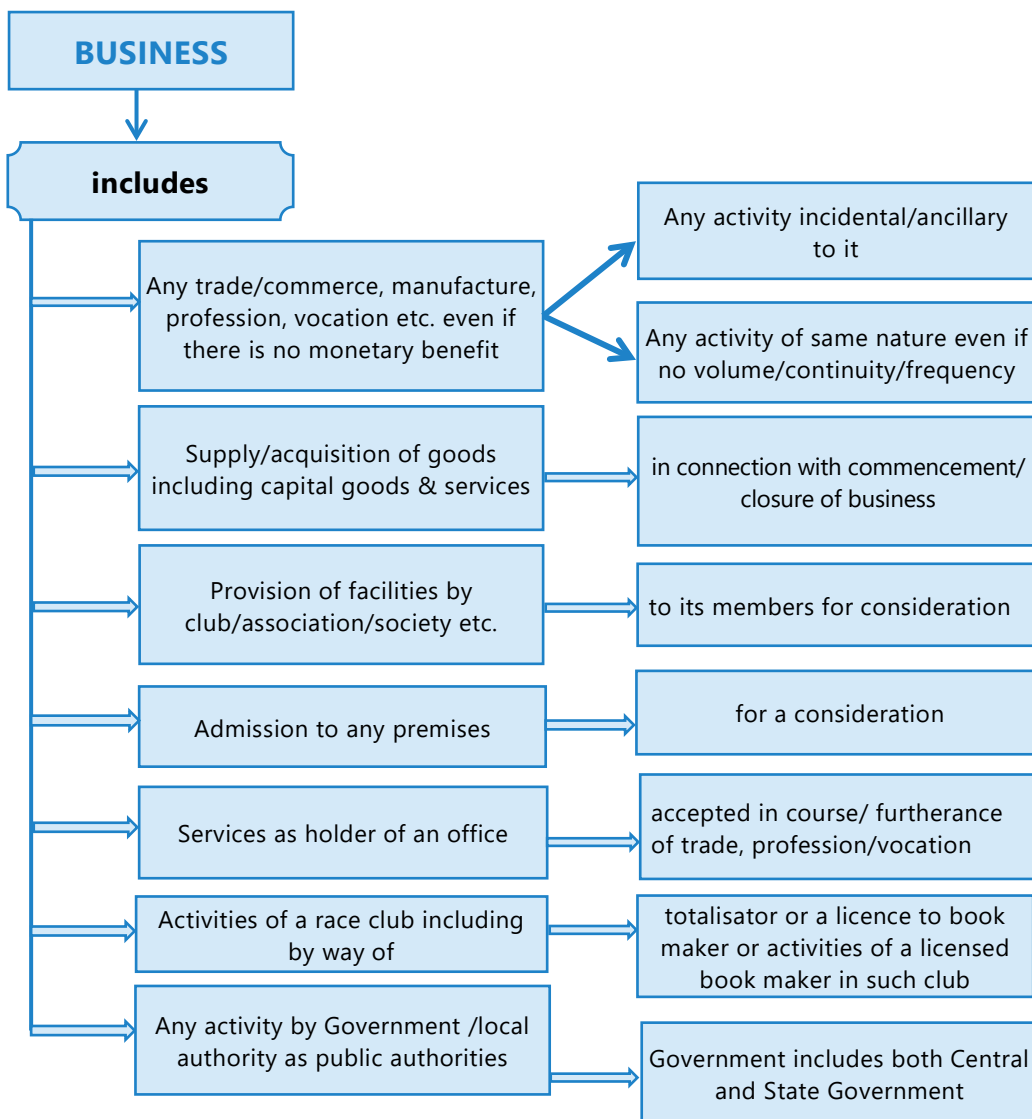
Since the goods have been received in the month of March, ITC thereon can be availed in the month of March and not in the month of January even though the invoice for the same has been received in the month of January.

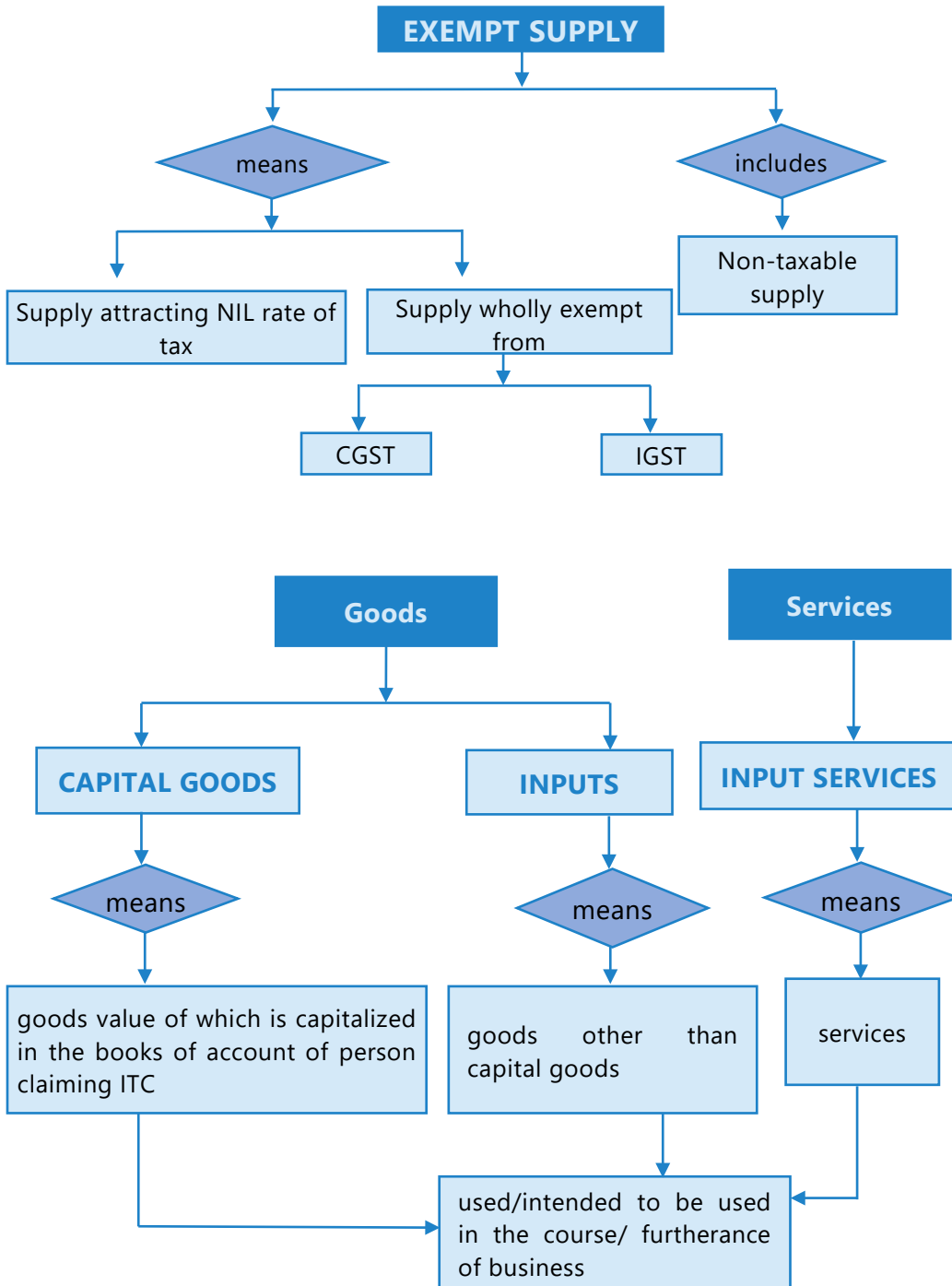
- (3) Though ITC on motor vehicles used for further supply of such vehicles is not blocked, ITC on goods destroyed for whatever reason is blocked [Clauses (a) and (h) of section 17(5)].
- (4) Section 17(5)(a) blocks ITC in respect of only those motor vehicles which are used for transportation of persons albeit with certain exceptions. Thus, ITC on motor vehicles used for transportation of goods is allowed.

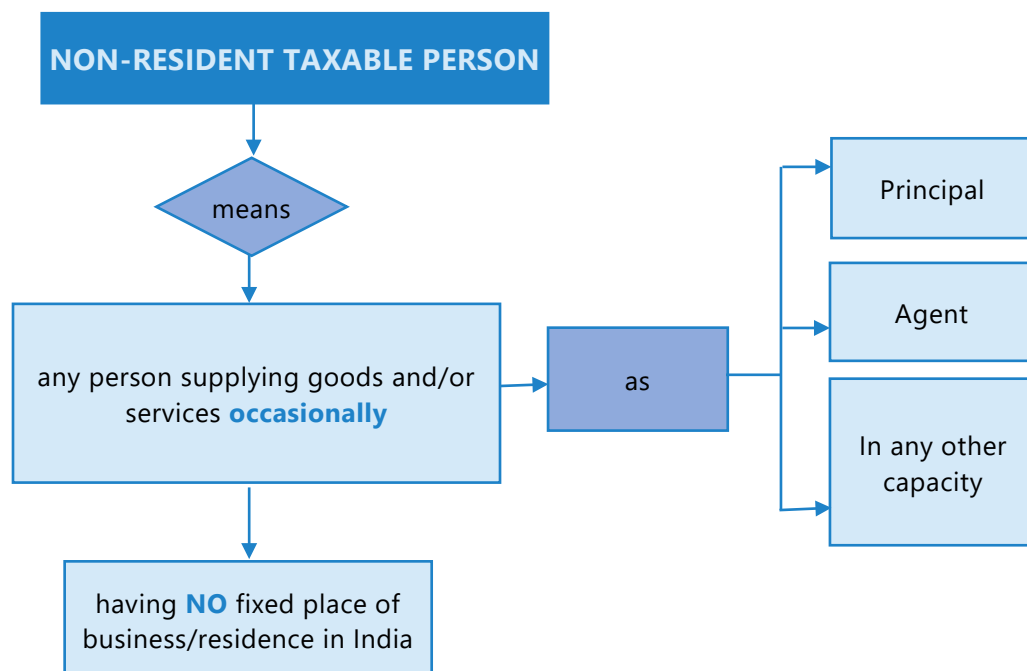
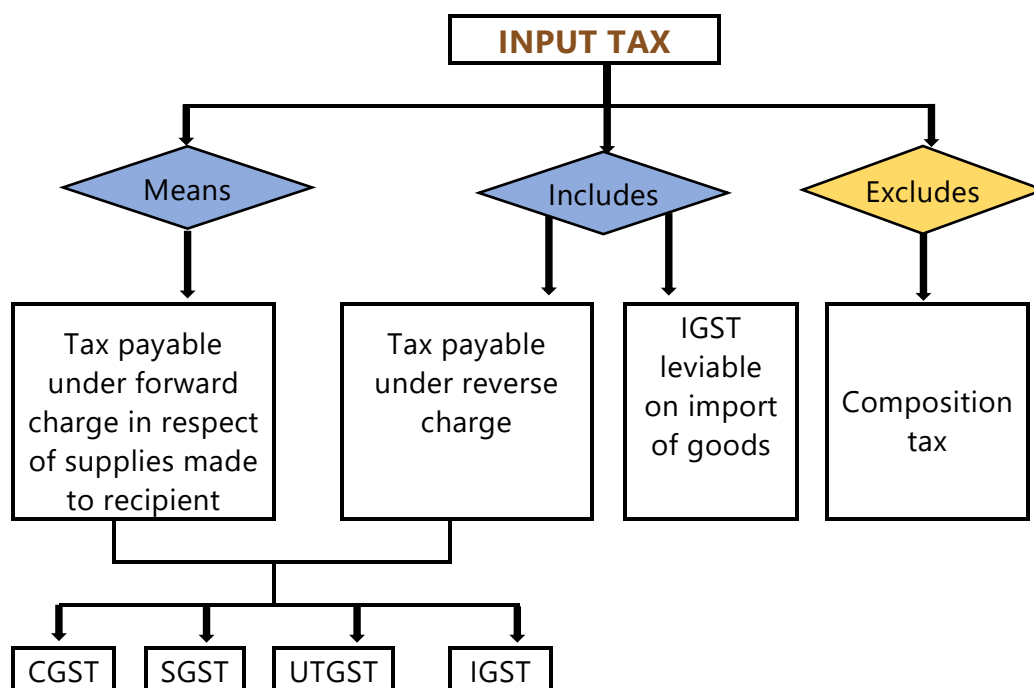


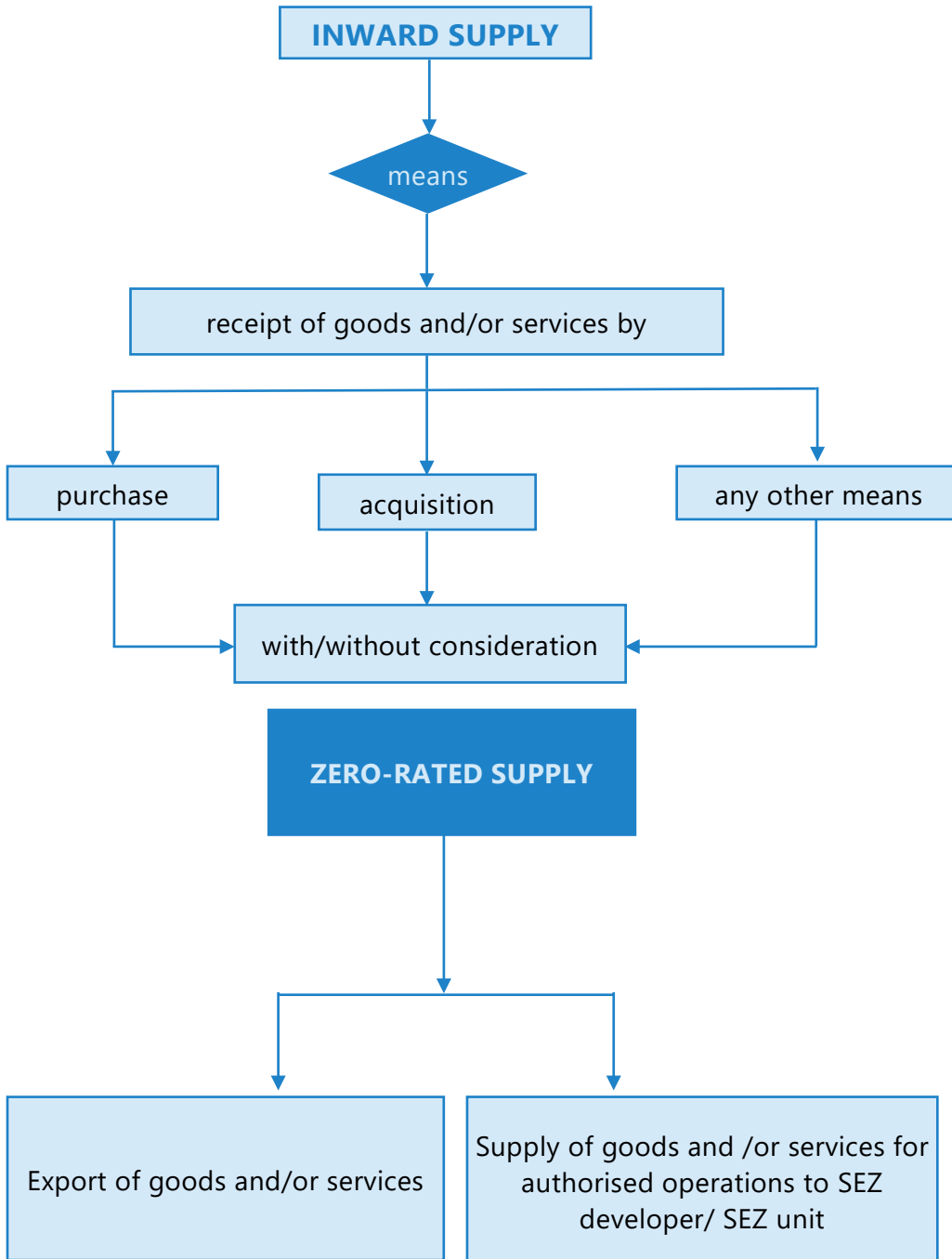
LET US RECAPITULATE

I. Definitions of certain key terms are summarized by way of diagrams as under:

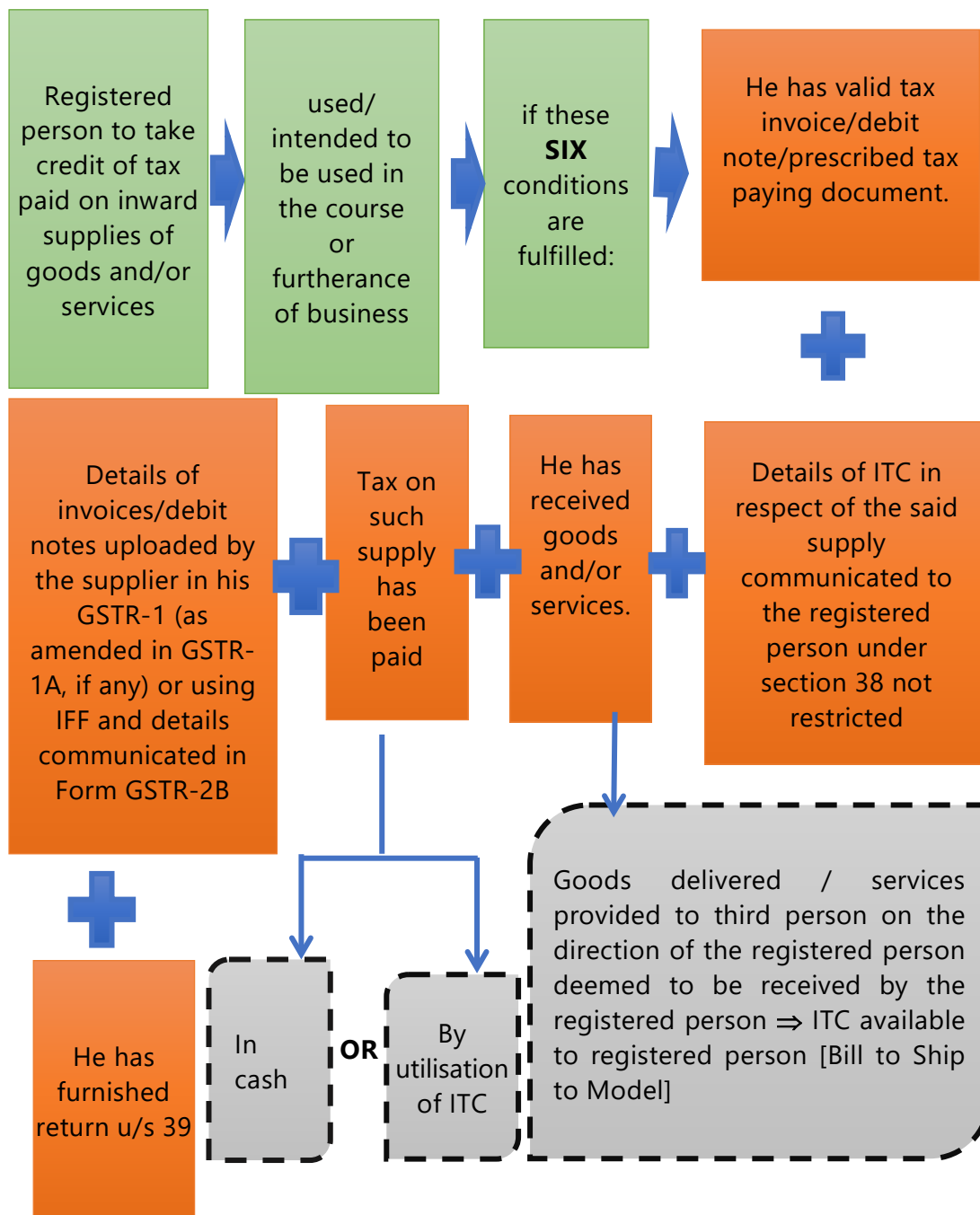


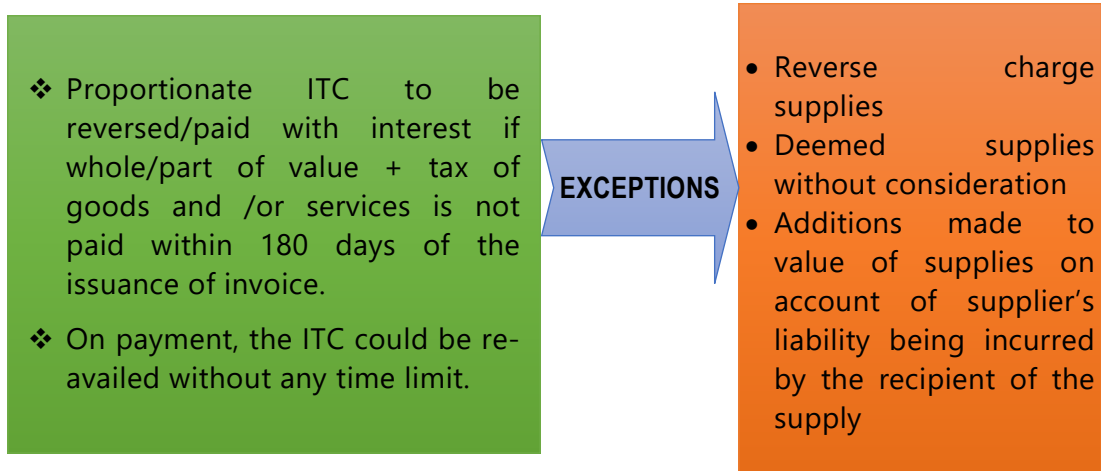
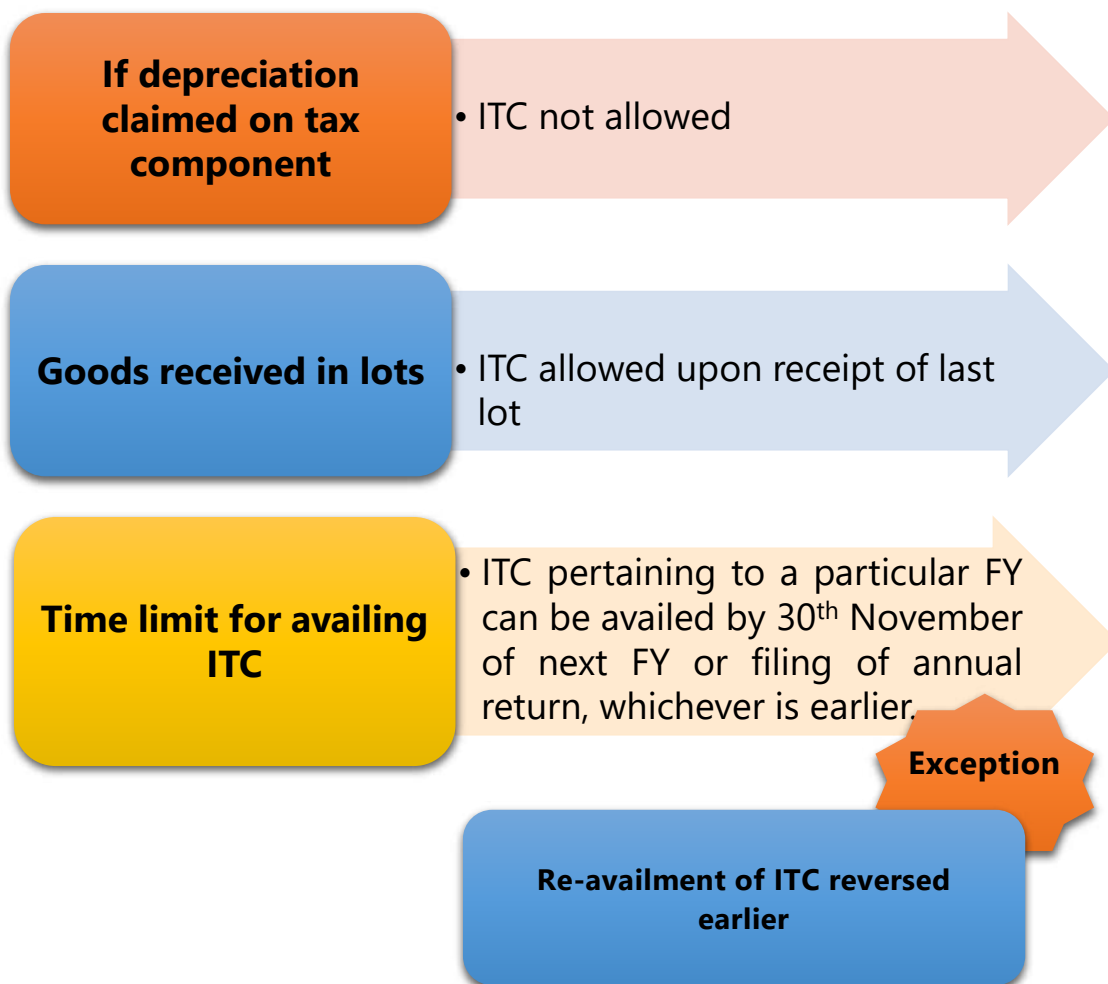






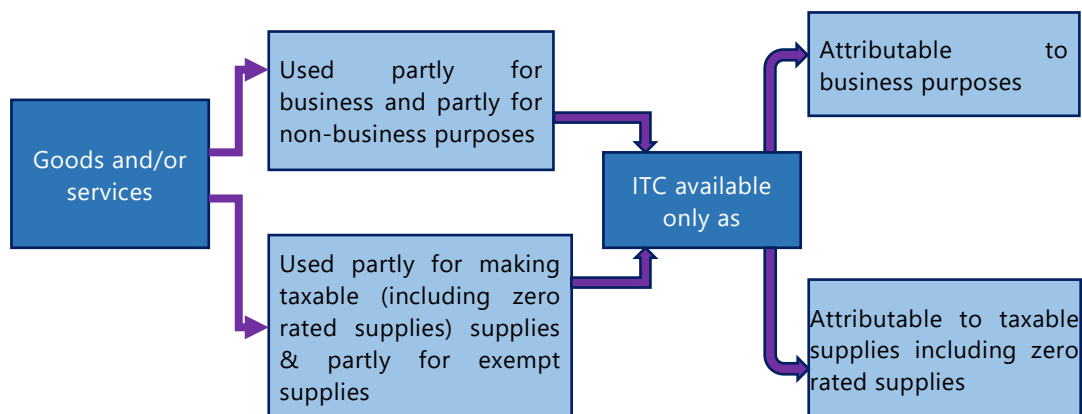
II. Provisions of section 16 relating to eligibility and conditions for taking ITC read with relevant rules are summarized below:





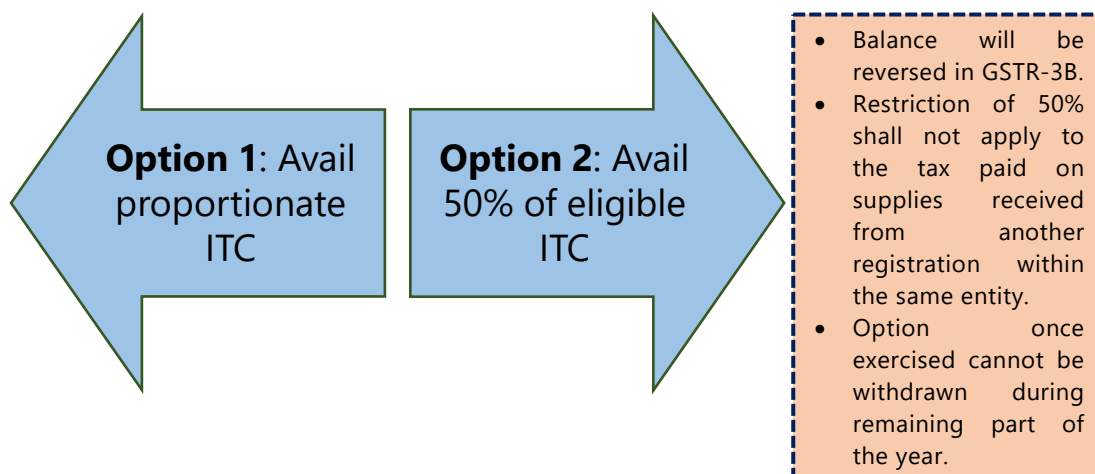
III. Provisions of section 17 relating to apportionment of credit and blocked credits read with relevant rules are summarized as under:

A. Apportionment of credit

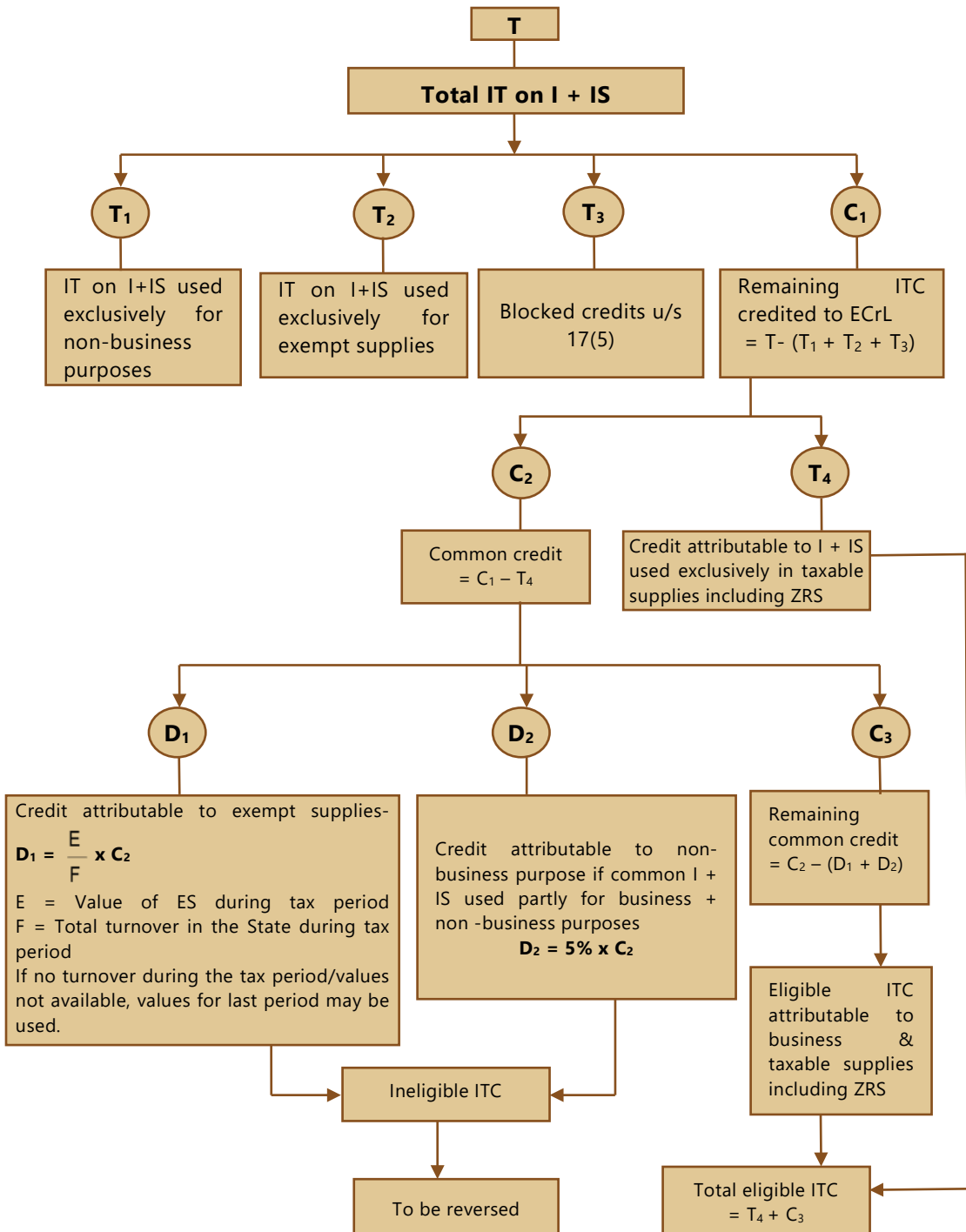


Exempt supplies include reverse charge supplies & transactions in securities and exclude activities specified in Schedule III except sale of land and sale of building when entire consideration is received post completion certificate/first occupation, whichever is earlier and the value of such activities/transactions as may be prescribed in respect of clause (a) of paragraph 8 of the said Schedule.

B. Special provisions for banking companies and NBFCs



C. Apportionment of common credit in case of inputs and input services

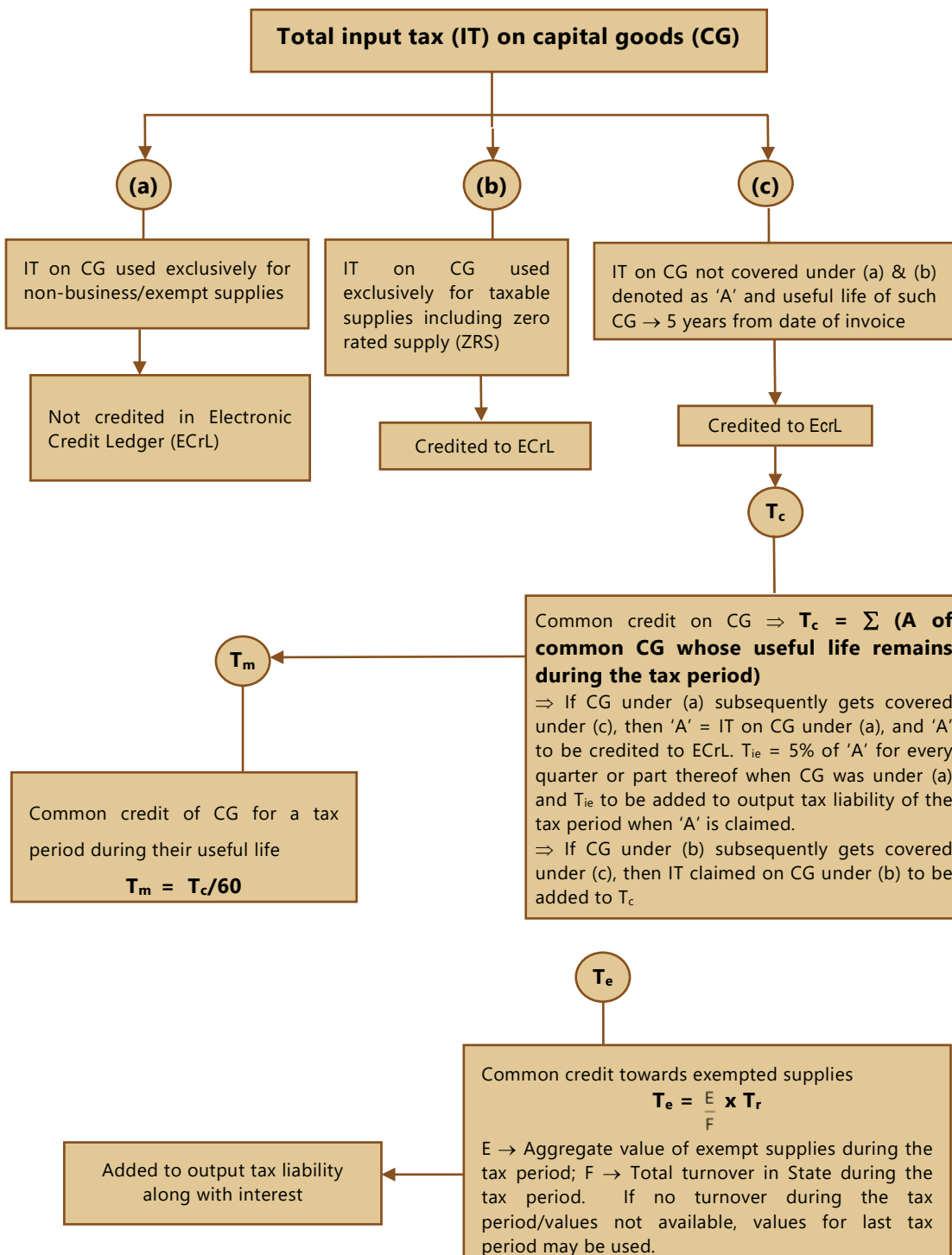


- C_3 will be computed separately for ITC of CGST, SGST/ UTGST and IGST.
- $\sum (D_1 + D_2)$ will be computed for the whole financial year, by taking exempted turnover and aggregate turnover for the whole financial year. If this amount is more than the amount already reversed every month, the differential amount will be reversed in any of the month till September of succeeding year along with interest @ 18% from 1st April of succeeding year till the date of payment.
- If this amount is less than the amount reversed every month, the additional amount paid has to be claimed back as credit in the return of any month till September of the succeeding year.

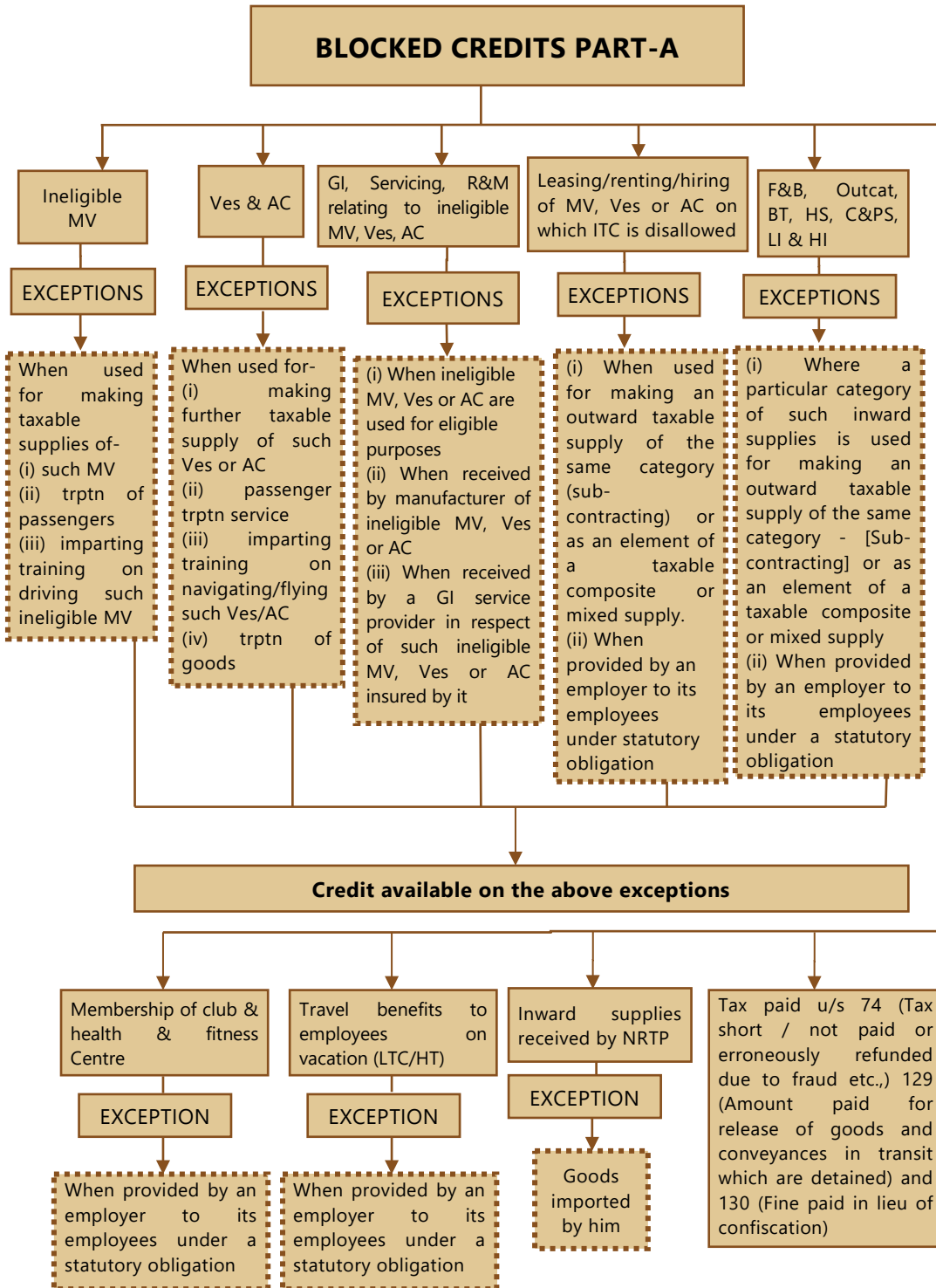
- Exempt supplies include reverse charge supplies & transactions in securities.
- Exempt supplies exclude (i) activities specified in Schedule III except sale of land and sale of building when entire consideration is received post completion certificate/first occupation, whichever is earlier, *and* supply of warehoused goods before clearance for home consumption* (ii) services of accepting deposits, extending loans/advances where the consideration is interest/discount and the same are provided by persons other than banking company/financial institution including NBFC, and (iii) the value of supply of Duty Credit Scrips specified in *Notification No. 35/2017 CT (R) dated 13.10.2017*
*Value of supply of warehoused goods before clearance for home consumption includes the value of supply of goods from Duty Free Shops at arrival terminal in international airports to the incoming passengers.
- Aggregate value of exempt supplies and total turnover exclude central excise duty, state excise duty, central sales tax and VAT.
- Value of exempt supply in respect of land and building is the stamp duty value and for security is 1% of the sale value of such security.

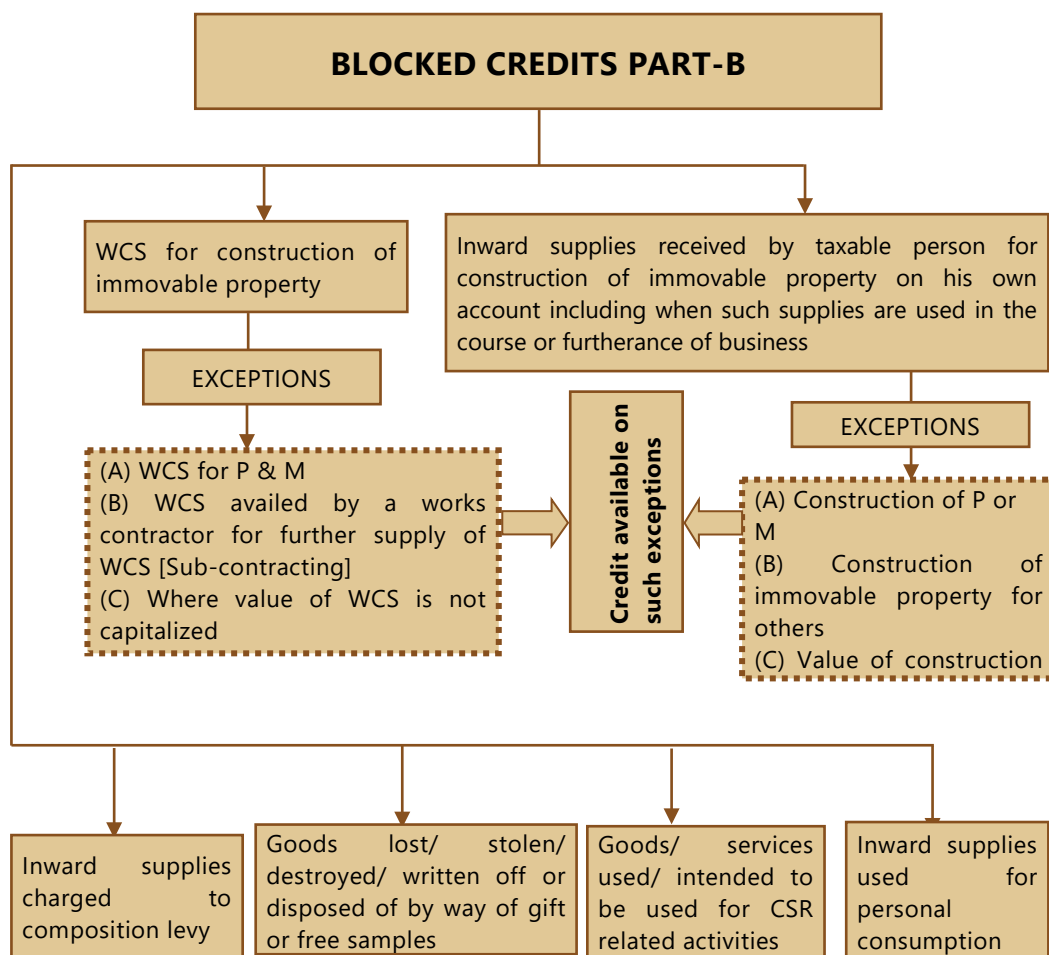
IT	=	Input tax
I	=	Inputs
IS	=	Input services
ECrI	=	Electronic Credit Ledger
ZRS	=	Zero rated supply
ES	=	Exempt supplies

D. Apportionment of common credit on capital goods



- T_m is to be computed during the useful life of capital goods which is five years from the date of invoice.
 - T_{ie} and T_e are to be computed separately for ITC of CGST, SGST/UTGST and IGST and declared in GSTR-3B
 - Exempt supplies include reverse charge supplies & transactions in securities.
 - Exempt supplies exclude:
 - (i) activities specified in Schedule III except sale of land and sale of building when entire consideration is received post completion certificate/first occupation, whichever is earlier, and supply of warehoused goods before clearance for home consumption*
 - (ii) services of accepting deposits, extending loans/advances where the consideration is interest/discount and the same are provided by persons other than banking company/financial institution including NBFC, and
 - (iii) the value of supply of Duty Credit Scrips specified in *Notification No. 35/2017CT (R) dated 13.10.2017*
- *Value of supply of warehoused goods before clearance for home consumption includes the value of supply of goods from Duty Free Shops at arrival terminal in international airports to the incoming passengers.
- Aggregate value of exempt supplies and total turnover exclude central excise duty, state excise duty, central sales tax and VAT.
 - Value of exempt supply in respect of land and building is the stamp duty value and for security is 1% of the sale value of such security.



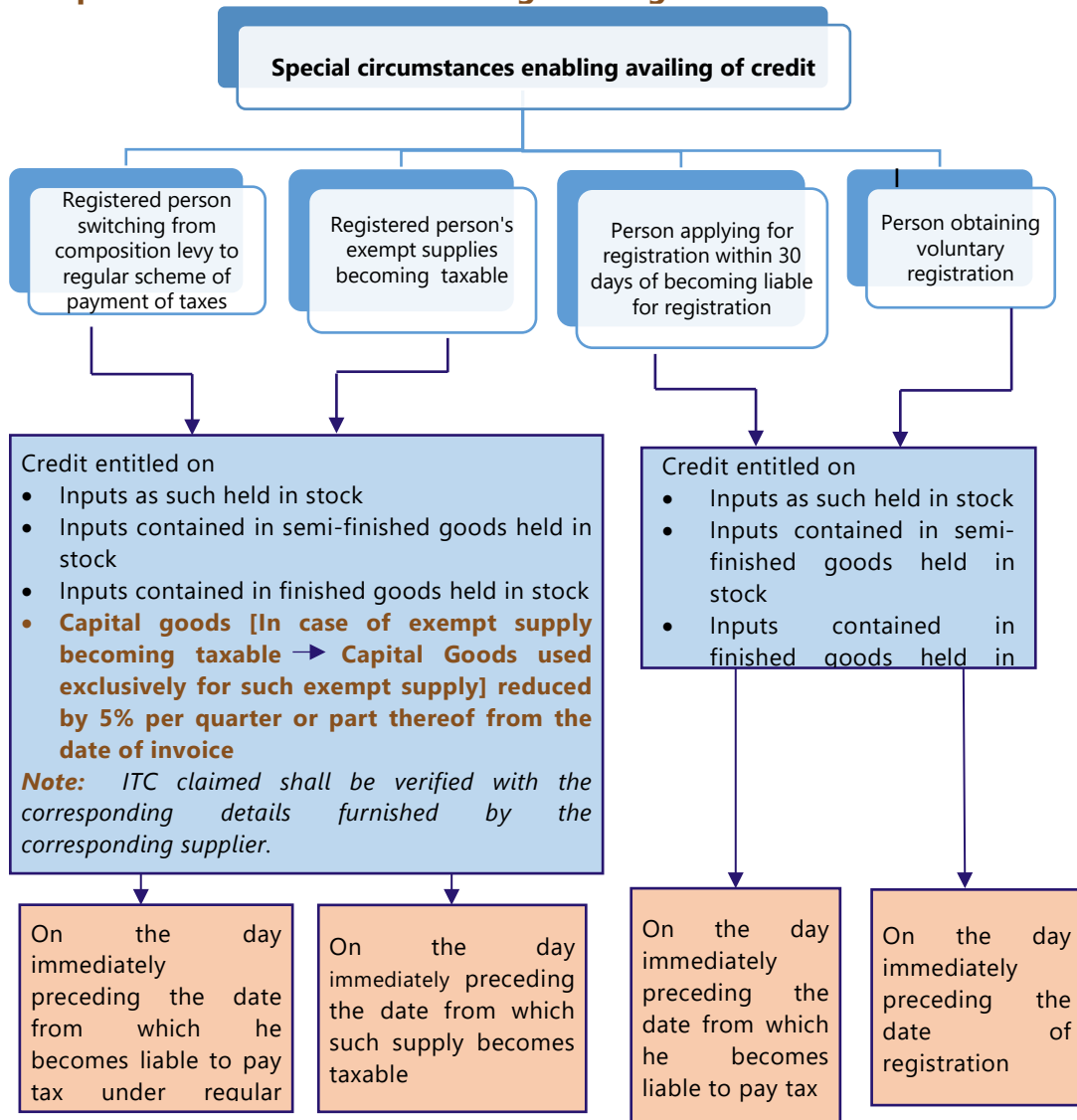


Ineligible MV-Motor vehicle for transportation of persons with seating capacity of ≤ 13 persons (including driver); Ves & AC-Vessel & Aircraft; GI-General insurance; R&M-Repairs & maintenance; F&B-Food & beverages; Outcat-Outdoor catering; BT-Beauty treatment; HS-Health services; C&PS-Cosmetic & plastic surgery; LI-Life insurance; HI-Health insurance; NRTP-Non-resident taxable person; WCS-Works contract service; LTC-Leave Travel Concession; HT-Home town; trptn-transportation; P & M-Plant & machinery; ,P or M-Plant or machinery

(A) Construction includes re-construction/ renovation/ addition/ alterations/ repairs to the extent of capitalisation to said immovable property.
(B) P & M means apparatus, equipment, & machinery fixed to earth by foundation or structural supports but excludes land, building/ other civil structures, telecommunication towers, and pipelines laid outside the factory premises.

IV. Provisions of section 18 read with relevant rules are summarized as under:

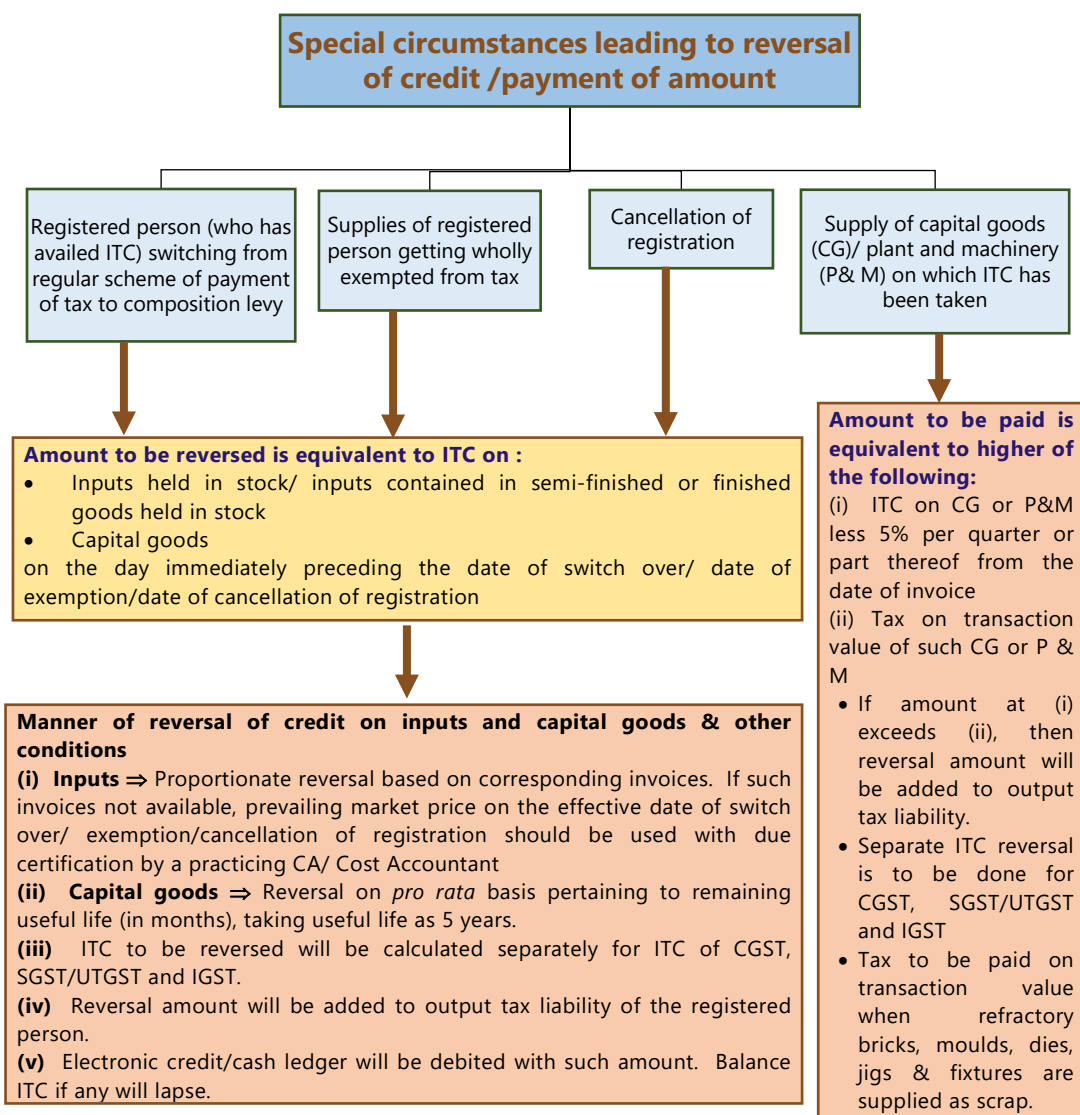
A. Special circumstances enabling availing of credit



ITC, in all the above cases, is to be availed within 1 year from the date of issue of invoice by the supplier.

Conditions for availing above credit:

- (i) Filing of electronic declaration giving details of inputs held in stock/contained in semi-finished goods and finished goods held in stock and capital goods on the days immediately preceding the day on which credit becomes eligible.
- (ii) Declaration has to be filed within 30 days from becoming eligible to avail credit.
- (iii) Details in (i) above to be certified by a CA/ Cost Accountant if aggregate claim

B. Special circumstances leading to reversal of credit/payment of amount

Transfer of unutilised ITC on account of change in constitution of registered person

In case of sale, merger, amalgamation, lease or transfer of business, unutilised ITC can be transferred to the new entity if there is a specific provision for transfer of liabilities to the new entity. The inputs and capital goods so transferred should be duly accounted for by the transferee in his books of accounts.

In case of demerger, ITC is apportioned in the ratio of value of entire assets (including assets on which ITC has not been taken) of the new units as per the demerger scheme.

Details of change in constitution are to be furnished on common portal along with request to transfer unutilised ITC. CA/Cost Accountant certificate is to be submitted certifying that change in constitution has been done with specific provision for transfer of liabilities.

Upon acceptance of such details by the transferee on the common portal, the unutilized ITC is credited to his Electronic Credit Ledger.

Transfer of unutilised ITC on obtaining separate registrations for multiple places of business within a State/UT

Registered person having separate registrations for multiple places of business can transfer the unutilised ITC to any or all of the newly registered place(s) of business in the ratio of the value of assets held by them at the time of registration.

Value of assets means the value of the entire assets of the business irrespective of whether ITC has been availed thereon or not.

The registered person should furnish the prescribed details on the common portal within a period of 30 days from obtaining such separate registrations.

Upon acceptance of such details by the newly registered person (transferee) on the common portal, the unutilised ITC is credited to his electronic credit ledger.

V. Provisions of section 20 and 21 read with relevant rules are summarized as under:

ISD is basically an office meant to receive tax invoices towards receipt of input services and distribute the credit of taxes paid on such input services to supplier units (having the same PAN) proportionately



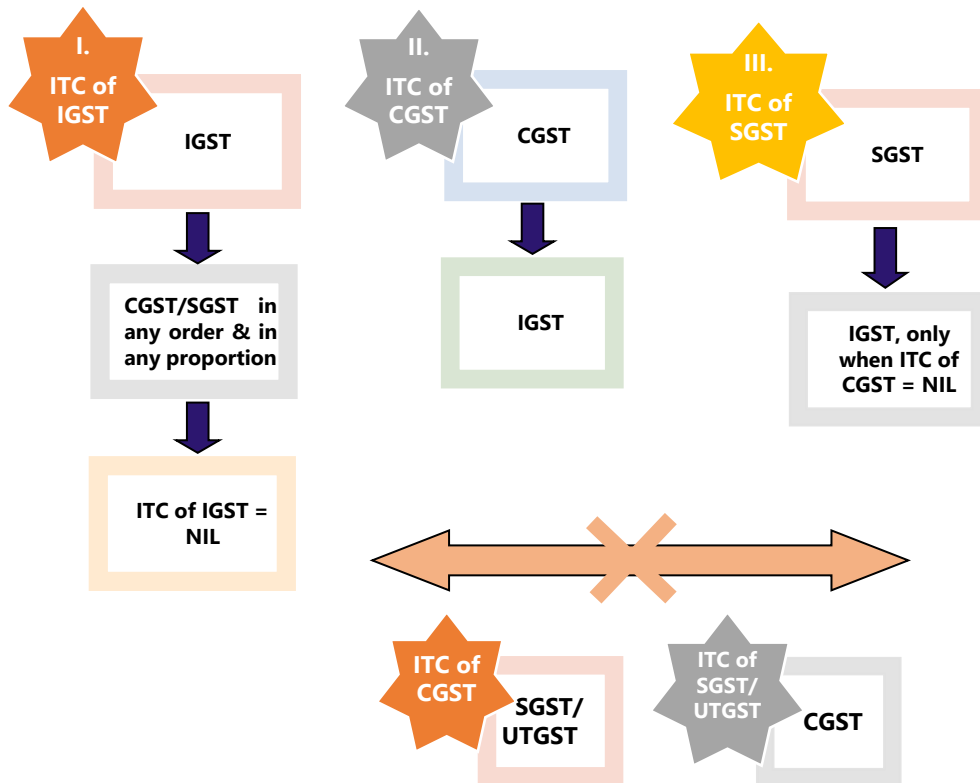
An ISD is required to obtain a separate registration even though it may be separately registered. The threshold limit of registration is not applicable to ISD.

- ISD should issue an ISD invoice for distributing ITC. It should be clearly indicated in such invoice that it is issued only for distribution of ITC.
- The ISD needs to issue a ISD credit note, for reduction in credit if the distributed credit gets reduced for any reason.
- ITC available for distribution in a month is to be distributed in the same month.
- Details of distribution of credit and all ISD invoices issued should be furnished by ISD in monthly GSTR-6 within 13 days after the end of the month.

- ITC of input services is distributed only amongst those recipients to whom the input services are attributable.
- ITC is distributed amongst the operational units only **and in the ratio of turnover in a State/UT of the recipient during the relevant period to the aggregate of turnover of all recipients during the relevant period to whom input service being distributed is attributable.**
- Relevant period is previous FY or last quarter prior to the month of distribution for which turnover of all recipients is available.
- Distributed ITC should not exceed the credit available for distribution.

If the ISD has distributed excess credit to any recipient, the excess will be recovered from the recipient with interest as if it was tax not paid.

VI. Provisions relating to utilization of ITC are summarized as under:





TEST YOUR KNOWLEDGE

1. *Xenon Pvt. Ltd., a registered supplier in Agra, is engaged in the manufacture of taxable goods. Goods valued at ₹ 10,50,000 were supplied by the company to Freshbite Pvt. Ltd., a registered supplier located at Firozabad, without the cover of an invoice with a fraudulent intent on 20th March 2024. Since the company evaded tax by not issuing the invoice for the supply, a show cause notice was issued by the proper officer under section 74 requiring the company to pay tax @ 12% [₹ 1,26,000] and applicable interest and penalty. The company paid the tax, interest and penalty after the order was passed by the proper officer.*

Examine the ITC entitlement of Freshbite Pvt. Ltd. in respect of tax of ₹ 1,26,000 paid by Xenon Pvt. Ltd.

2. *Flamingo Ltd. is an airline providing passenger transportation services by air. The company offers meals of premium quality to passengers on board the aircraft. The value of such meals is compulsorily included in the price of the air ticket. The company avails outdoor catering services of Dhaniram Pvt. Ltd. for providing such meals to its customers.*

Examine whether Flamingo Ltd. can avail ITC on such outdoor catering service availed by it.

3. *Jumbo Sales Pvt. Ltd., a supplier of readymade garments, announced 'Buy One get Two free' offer on Men's T-Shirts on Diwali to boost its sales.*

You are required to advise the company on the availability of ITC in respect of inward supplies used in relation to such supply.

4. *A garment factory receives a Government order for making uniforms for a commando unit. This supply is exempt from tax under a notification issued under section 11 of the CGST Act. The fabric is exclusively procured for such supply, but thread and lining material for the collars are the ones which are used for other taxable products of the factory as well.*

The turnover (exclusive of taxes) of the other products of the factory and exempted uniforms in July is ₹ 4 crore and ₹ 1 crore respectively, the ITC on thread and lining material procured in July is ₹ 5000 and ₹ 15000 respectively.

Calculate the amount of eligible ITC in respect of procurement of thread and lining material.

5. *Ceramity Ltd. has following units:*

A: *Factory in Tumkur, Karnataka; turnover of ₹ 27 crores in F.Y. 2023-24;*

B: *Service centre in Hyderabad, Telangana; turnover of ₹ 1 crore in F.Y. 2023-24;*

C: *Service centre in Chennai, Tamil Nadu; turnover of 2 crores in F.Y. 2023-24;*

Ceramity Ltd.'s corporate office functions as an ISD. It has to distribute ITC of ₹ 9 lakh for May, 2024. Of this, an invoice involving tax of ₹ 3 lakh pertains to technical consultancy for Tumkur unit.

Explain in brief in what manner should the ITC be distributed?

6. *A registered supplier of taxable goods supplied goods valued at ₹ 2,24,000 (inclusive of CGST ₹ 12,000 and SGST ₹ 12,000) to Mohan Ltd. under forward charge on 15th August for which tax invoice was also issued on the same date. The inputs were received by Mohan Ltd. on 15th August. Mohan Ltd. availed credit of ₹ 24,000 on 20th September by filing Form GSTR-3B for August month. However, Mohan Ltd. did not make any payment towards such supply along with tax thereon to the supplier. Is Mohan Ltd. eligible to avail ITC on such supply?*

Discuss ITC provisions if Mohan Ltd. makes the payment of ₹ 2,24,000 to the supplier on 18th March of next calendar year.

7. *State the conditions that need to be followed by an input service distributor for distribution of credit.*

8. *With reference to the provisions of section 17, examine the availability of ITC in the following independent cases:*

(i) *MBF Ltd., an automobile company, has availed works contract service for construction of a foundation on which a machinery (to be used in the production process) is to be mounted permanently.*

(ii) *Shah & Constructions procured cement, paint, iron rods and services of architects and interior designers for construction of a commercial complex for one of its clients.*

(iii) *ABC Ltd. availed maintenance & repair services from "Jaggi Motors" for a truck used for transporting its finished goods.*

9. On 25th August, M/s Agarwal & Agarwal, a registered supplier of taxable goods located in Bengaluru (Karnataka), purchased one machine for ₹ 12,39,000 (including IGST) from one supplier of Maharashtra who issued the invoice on the same date. M/s Agarwal & Agarwal received the machinery on the same day and availed ITC for the eligible amount.

M/s Agarwal & Agarwal used the machine in the process of manufacture of taxable goods. However, M/s Agarwal & Agarwal sold this machine to Mr. Suresh Kumar of Andhra Pradesh on 20th August of next year for ₹ 7,50,000 (excluding IGST).

With reference to section 18(6), determine the amount payable, if any, by M/s Agarwal & Agarwal at the time of sale of the machine.

Note: The applicable rate of IGST is 18%.

10. Krishna Motors is a car dealer selling cars of an international car company. It also provides maintenance and repair services of the cars sold by it as also of other cars. It seeks your advice on the availability of ITC in respect of the cars purchased from the manufacturer for making further supply of such cars. Two of such cars are destroyed in accidents while being used for test drive by potential customers.
11. With the help of information given below in respect of a manufacturer for the month of September, compute the ITC credited to the Electronic Credit Ledger, for the month. Also, compute the amount of ITC to be added to the output tax liability for the month of September. Ignore interest, if any.

Particulars	Amount (₹)
Outward supply of taxable goods (exclusive of taxes)	70,000
Outward supply of exempt goods	40,000
Total turnover	1,10,000
Inward supplies	GST paid (₹)
Capital goods used exclusively for taxable outward supply	2,000
Capital goods used exclusively for exempt outward supply	1,800
Capital goods used for both taxable and exempt outward supply	4,200

Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

12. X, a manufacturer of roofing sheets, is having ₹ 1,60,000 as opening balance of ITC for June month. He provides the following information pertaining to the goods and services procured during the month of June:

- (1) Input tax on raw materials is ₹ 40,000. The raw material is used for making both taxable and exempt supplies.
- (2) Input tax on catering services procured from 'Harvest Caterers' in connection with his housewarming ceremony is ₹ 10,000.
- (3) Input tax on raw materials used exclusively in manufacture of exempt supplies of ₹ 2 lakh is ₹ 20,000.
- (4) Input tax on cosmetic and plastic surgery of manager of the factory is ₹ 30,000.

Total taxable turnover for the month of June is ₹ 60 lakh exclusive of tax.

Compute the ITC credited for the month of June to the Electronic Credit Ledger and net GST payable from Electronic Cash Ledger by X for the month of June. Rate of GST is 18% (Ignore CGST, SGST or IGST and provisions of rule 86B for the sake of simplicity).

Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled. All the purchases are made from registered suppliers.

13. Sarani Weavers, at Pune, Maharashtra is a registered input service distributor and intends to distribute ITC for the month of March. The following are the details available for such distribution:

Branch	Turnover of the last quarter (₹)	ITC specifically attributable to the branch (₹)
Ganganagar Branch (Rajasthan)	10,00,000	IGST – ₹ 12,000 CGST – ₹ 3,000 SGST – ₹ 3,000
Madhugiri Branch (Karnataka)	5,00,000	Nil

Kosala Branch (UP)	15,00,000	Nil
Mumbai Branch (Maharashtra)	20,00,000	IGST – ₹ 1,50,000 CGST– ₹ 15,000 SGST– ₹ 15,000

ITC available on input services used commonly for all branches is as under:

CGST - ₹ 60,000

SGST - ₹ 60,000

IGST - ₹ 1,20,000

ITC (IGST) of ₹ 10,000 pertaining to March (last year) was inadvertently not distributed. Whether the same can be considered for distribution in March this year?

Madhugiri, Karnataka branch uses input services to manufacture exempted products. Turnover excludes duties & taxes payable to Central and State Government.

Determine the manner of input tax distribution.

14. George Pvt. Ltd., a registered supplier of goods at Kerala who pays GST under regular scheme, has made the following transactions (exclusive of tax) during a tax period:

Purchases (₹)	Sales (₹)	Tax Rate
5,00,000 [Purchases made from registered person in New Delhi]	10,00,000 [Sale made to registered person in New Delhi]	IGST - 18% CGST – 9% SGST- 9%
2,50,000 [Purchases made from registered person in Trivandrum, Kerala]	8,00,000 [Sales made to registered person in Trivandrum, Kerala]	

The company has complied with all the conditions for availing the ITC. The following further information regarding various opening balances available with it for the tax period, is provided by the company:

CGST (₹)	SGST (₹)	IGST (₹)
50,000	30,000	1,00,000

Compute the net CGST, SGST and IGST payable from the Electronic Cash Ledger by George Pvt. Ltd. for the tax period as also ITC to be carried forward to next tax period, if any.

15. Quanto Enterprises is not required to register under CGST Act. However, it applied for voluntary registration on 17th September. Registration certificate has been granted to the firm on 25th September. The CGST and SGST liability of the firm for the month of September is ₹ 24,000 each. The firm is not engaged in making inter-State outward taxable supplies.

Quanto Enterprises provides the following information regarding capital goods and inputs held in stock by it as on 24th September:

Particulars	Amount (₹)
Inputs procured on 2 nd September lying in stock	
- CGST @ 6%	4,500
- SGST @ 6%	4,500
Input received on 21 st July contained in semi-finished goods held in stock:	
- CGST @ 6%	7,500
- SGST @ 6%	7,500
Value of inputs contained in finished goods held in stock- ₹ 2,00,000 [Such inputs were procured on 19 th September last year. Invoice for the goods was also issued on the same day]	
- IGST @ 18%	36,000
Inputs valued at ₹ 50,000 procured on 13 th September lying in stock:	
- IGST @ 18%	9,000

Capital goods procured on 12 th September	
-CGST @ 6%	12,000
-SGST @ 6%	12,000

You are required to compute the net GST payable from Electronic Cash Ledger by Quanto Enterprises for the month of September assuming that conditions for availing ITC are fulfilled subject to the information given above.

You are also required to mention reasons for treatment of all above items.

16. B & D Company, a partnership firm, registered in Nagpur, Maharashtra is a wholesaler of taxable product 'P' and product 'Q' exempted by way of a notification. The firm supplies these products only in the eastern part of Maharashtra. All the procurements (both goods and services) of the firm are from the suppliers registered under regular scheme in the State of Maharashtra. The firm pays tax under composition scheme.

B & D Company has furnished the following details with respect to its turnover (exclusive of taxes) and stock (exclusive of taxes):

Particulars	Turnover for the quarter ended 30 th June (₹)	Turnover for the quarter ended 30 th September (₹)
'P'	60,00,000	50,00,000
'Q'	17,65,000	17,00,000

Particulars	Stock as on 30 th June (₹)	Stock as on 30 th September (₹)	Stock as on 31 st October (₹)
'P'	25,00,000	10,00,000	3,60,000
'Q'	10,00,000	2,00,000	1,20,000

The entire stock of the product's 'P' and 'Q' available with the firm as on 30th September is purchased during the said half year except a consignment of product 'P' valuing ₹ 3,00,000, which was purchased in the April month of the preceding financial year. The said stock could not be sold during the month of

October. In the current financial year, in the month of October, no purchases were made, and the products were sold with a profit margin of 20% on sales value [exclusive of taxes].

The extract of the only bill book maintained by the firm showed the following details-

Bill No.	Date	Value of products (exclusive of taxes)		
		'P' (₹)	'Q' (₹)	Total (₹)
2306	1 st October	2,00,000	3,000	2,03,000
2307	1 st October	1,33,000	5,250	1,38,250
2308	2 nd October	67,000	39,250	1,06,250
2309	3 rd October	58,750	33,750	92,500
2310	5 th October	1,00,000	-	1,00,000
2311	6 th October	94,000	6,000	1,00,000
2312	6 th October	-	17,000	17,000
2313	8 th October	50,000	6,000	56,000
2314	9 th October	60,000	9,000	69,000
2315				
.....				

All the above amounts are exclusive of taxes, wherever applicable

Compute the ITC to be credited to the Electronic Credit Ledger of the B & D Company, when it exits composition scheme and becomes liable to pay tax under regular scheme, in accordance with the provisions of section 18(1)(c).

Note: Make suitable assumptions wherever required. Stock is valued at cost price.

- XYZ Pvt. Ltd. is a manufacturing company registered under GST in the State of Uttar Pradesh. It manufactures two taxable products 'Alpha' and 'Beta' and one exempt product 'Gama'. On 1st October, while product 'Beta' got exempted

through an exemption notification, exemption available on 'Gama' got withdrawn on the same date. The turnover (exclusive of taxes) of 'Alpha', 'Beta' and 'Gama' in the month of October was ₹ 9,00,000, ₹ 10,00,000 and ₹ 6,00,000 respectively.

XYZ Pvt. Ltd. has furnished the following details:

S. No.	Particulars	Price (₹)	GST (₹)
(a)	Machinery 'U' purchased on 1 st October for being used in manufacturing all the three products	2,00,000	36,000
(b)	Machinery 'V' purchased on 1 st October for being used in manufacturing product 'Alpha' and 'Gama'	1,00,000	18,000
(c)	Machinery 'W' purchased on 1 st October for being exclusively used in manufacturing product 'Beta'	3,00,000	54,000
(d)	Machinery 'Y' purchased on 1 st October four years ago for being exclusively used in manufacturing product 'Beta'. From 1 st October, such machinery will also be used for manufacturing product 'Gama'.	4,00,000	72,000
(e)	Machinery 'Z' purchased on 1 st October two years ago for being used in manufacturing all the three products	3,00,000	54,000
(f)	Raw Material used for manufacturing 'Alpha' purchased on 5 th October	1,50,000	27,000
(g)	Raw Material used for manufacturing 'Beta' purchased on 10 th October	2,00,000	36,000
(h)	Raw Material used for manufacturing 'Gama' purchased on 15 th October	1,00,000	18,000

Compute the following:

- (i) Amount of ITC to be credited to Electronic Credit Ledger, for the month of October
- (ii) Amount of aggregate value of common credit (T_2)
- (iii) Common credit attributable to exempt supplies, for the month of October
- (iv) GST liability of the company payable through Electronic Cash Ledger, for the month of October if opening balance of ITC is nil.

Note: Assume that all the procurements made by the company are from States other than Uttar Pradesh. Similarly, the company sells all its products in States other than Uttar Pradesh. Rate of IGST is 18%. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled. Ignore interest, if any and make suitable assumptions wherever required.

18. 'All-in-One Store' is a retail chain of departmental store having presence in almost all metro cities across India. Both exempted as well as taxable goods are sold in such Stores. The Stores operate in rented properties. All-in-One Stores pay GST under regular scheme.

In Mumbai, the Store operates in a rented complex, a part of which is used by the owner of the Store for personal residential purpose.

All-in-One Store, Mumbai furnishes following details for a month:

- (i) Aggregate value of various items sold in the Store:
 Taxable items – ₹42,00,000
 Items exempted vide a notification – ₹12,00,000
 Items not leviable to GST – ₹3,00,000
- (ii) Mumbai Store transfers to another All-in-One Store located in Goa certain taxable items for the purpose of distributing the same as free samples. The value declared in the invoice for such items is ₹5,00,000. Such items are sold in the Mumbai Store at ₹8,00,000.
- (iii) Aggregate value of various items procured for being sold in the Store:

Taxable items – ₹ 55,00,000

Items exempted vide a notification – ₹ 15,00,000

Items not leviable to GST – ₹ 5,00,000

- (iv) Freight paid to goods transport agency (GTA) for inward transportation of taxable items – ₹ 1,00,000*
- (v) Freight paid to GTA for inward transportation of exempted items – ₹ 80,000*
- (vi) Freight paid to GTA for inward transportation of non-taxable items – ₹ 20,000*
- (vii) Monthly rent payable for the complex – ₹ 5,50,000 (one third of total space available is used for personal residential purpose).*
- (viii) Activity of packing the items and putting the label of the Store along with the sale price has been outsourced. Amount paid for packing of all the items – ₹ 2,50,000*
- (ix) Salary paid to the regular staff at the Store – ₹ 2,00,000*
- (x) GST paid on inputs used for personal purpose – ₹ 5,000*
- (xi) GST paid on rent a cab services availed for transportation of employees, which is not obligatory under any law – ₹ 4,000*
- (xii) GST paid on items given as free samples – ₹ 4,000*

Given the above available facts, you are required to compute the following:

- A. Input tax credit (ITC) credited to the Electronic Credit Ledger*
- B. Common Credit*
- C. ITC attributable towards exempt supplies out of common credit*
- D. Eligible ITC out of common credit*
- E. Net GST payable from Electronic Cash Ledger for the month if opening balance of ITC is nil.*

Note:

- (1) GTA has not exercised the option to pay tax itself. Tax is payable on such services @ 5%. Rate of GST in all other cases is 18% (Ignore CGST, SGST or IGST for the sake of simplicity).
 - (2) All the inward supplies are procured from registered suppliers.
 - (3) Wherever applicable, the amounts given are exclusive of taxes.
 - (4) Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.
19. Vansh Shoppe is a retail supplier of both taxable and exempted goods, registered under GST in the State of Rajasthan. Vansh Shoppe has furnished the following details for a month:

		(₹)
(1)	Details of sales:	
	Supply of taxable goods	50,00,000
	Supply of goods not leviable to GST	10,00,000
(2)	Details of goods purchased for being sold in the shop:	
	Taxable goods	45,00,000
	Goods not leviable to GST	4,00,000
(3)	Details of expenses:	
	Monthly rent payable for the shop	3,50,000
	Telephone expenses paid (₹ 30,000 for bills of land line phone installed at the shop and ₹ 20,000 towards mobile phone bills of the employees – Mobile phones are also given to employees for official use)	50,000
	Audit fees paid to a Chartered Accountant (₹ 35,000 for the statutory audit of preceding financial year and ₹ 25,000 for certification work)	60,000

Premium paid on health insurance policies taken for specified employees of the shop as per company policy.	10,000
Freight paid to goods transport agency (GTA) [service taxable @ 5%] for inward transportation of goods not leviable to GST	50,000
Freight paid to goods transport agency (GTA) [service taxable under reverse charge @ 5%] for inward transportation of taxable goods	1,50,000
Goods given as free samples (Not included in taxable goods value of 45,00,000)	5,000

All the above amounts are exclusive of all kinds of taxes, wherever applicable.

All the inward and outward supplies made by Vansh Shoppe are from/to registered suppliers within Rajasthan.

Assume, wherever applicable, for purpose of reverse charge payable by Vansh Shoppe, the CGST, SGST and IGST rates as 2.5%, 2.5% and 5% respectively. CGST, SGST and IGST rates to be 6%, 6% and 12% respectively in all other cases.

There is no opening balance in the electronic cash ledger or electronic credit ledger. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

You are required to compute the following:

- (1) Input Tax Credit (ITC) credited to Electronic Credit Ledger
 - (2) Common credit available for apportionment
 - (3) ITC attributable towards exempt supplies out of common credit
 - (4) Net GST payable from Electronic Cash Ledger for the month
20. Mr. Rajesh Surana has a proprietorship firm in the name of Surana & Sons in Jaipur. The firm, registered under GST in the State of Rajasthan, manufactures three taxable products 'M', 'N' and 'O'. Tax on 'N' is payable under reverse charge. The firm also provides taxable consultancy services.

The firm has provided the following details for a tax period:

Particulars	(₹)
Turnover of 'M' (excluding export sales)	14,00,000
Turnover of 'N'	6,00,000
Turnover of 'O' (excluding export sales)	10,00,000
Export of 'M' with payment of IGST (not eligible to avail benefit of merchant exports under Notification No. 41/2017)	2,50,000
Export of 'O' under letter of undertaking	10,00,000
Consultancy services provided to unrelated clients located in foreign countries. In all cases, the consideration has been received in convertible foreign exchange	20,00,000
Sale of building (excluding stamp duty of ₹ 2.50 lakh, being 2% of value) [Entire consideration is received post issuance of completion certificate; building was occupied thereafter]	1,20,00,000
Interest received on investment in fixed deposits with a bank	4,00,000
Sale of shares (Purchase price ₹ 2,40,00,000/-)	2,50,00,000
Legal services received from an advocate in relation to product 'M'	3,50,000
Common inputs and input services used for supply of goods and services mentioned above [Inputs - ₹ 35,00,000; Input services - ₹ 15,00,000]	50,00,000

With the help of the above-mentioned information, compute the net GST liability of Surana & Sons, payable from Electronic Credit Ledger and/or Electronic Cash Ledger, as the case may be, for the tax period.

Note: Assume that rate of GST on goods and services are 12% and 18% respectively (Ignore CGST, SGST or IGST for the sake of simplicity). Subject to the information given above, assume that all the other conditions necessary for

availing ITC have been fulfilled. Turnover of Surana & Sons was ₹ 85,00,000 in the preceding financial year.

21. M/s XYZ, a registered supplier, supplies the following goods and services for construction of buildings and complexes -

- excavators for required period at a per hour rate
- manpower for operation of the excavators at a per day rate
- soil-testing and seismic evaluation at a per sample rate.

The excavators are invariably hired out along with operators. Similarly, excavator operators are supplied only when the excavator is hired out.

M/s XYZ receives the following services:

- Maintenance services for excavators;
- Health insurance for operators of the excavators;
- Scientific and technical consultancy for soil testing and seismic evaluation.

For a given month, the receipts (exclusive of GST) of M/s XYZ are as follows:

- Hire charges for excavators - ₹ 18,00,000
- Service charges for supply of manpower for operation of the excavator - ₹ 20,000
- Service charges for soil testing and seismic evaluation at three sites - ₹ 2,50,000

The GST paid during the said month on services received by M/s XYZ is as follows:

- Maintenance for excavators - ₹ 1,00,000
- Health insurance for excavator operators - ₹ 11,000
- Scientific and technical consultancy for soil testing and seismic evaluation - ₹ 1,00,000

Compute the net GST payable by M/s XYZ from Electronic Cash Ledger for the given month.

Assume the rates of GST to be as under:

Hiring out of excavators – 12%

Supply of manpower services and soil-testing and seismic evaluation services – 18%

(Ignore CGST, SGST or IGST for the sake of simplicity).

Note: - Opening balance of ITC of GST is nil.

22. V-Supply Pvt. Ltd. is a registered manufacturer of auto parts in Kolkata, West Bengal. The company has a manufacturing facility registered under Factories Act, 1948 in Kolkata. It procures its inputs indigenously from both registered and unregistered suppliers located within as well as outside West Bengal as also imports some raw material from China.

The company reports the following details for a tax period:

Payments	(₹) (in lakh)	Receipts	(₹) (in lakh)
Raw material	3.5	Sales	15
Consumables	1.25		
Transportation charges for bringing the raw material to factory	0.70		
Salary paid to employees on rolls	5.0		
Premium paid on life insurance policies taken for specified employees	1.60		
Audit fee	0.50		
Telephone expenses	0.30		
Bank charges	0.10		

All the above amounts are exclusive of all kinds of taxes, wherever applicable. However, the applicable taxes have also been paid by the company.

Further, following additional details are furnished by the company in respect of the payments and receipts reported by it:

- (i) *Raw material amounting to ₹ 0.80 lakh is procured from Bihar and ₹ 1.5 lakh is imported from China. Basic customs duty of ₹ 0.15 lakh, social welfare surcharge of ₹ 0.015 lakh and integrated tax of ₹ 0.2997 lakh are paid on the imported raw material.*

Remaining raw material is procured from suppliers located in West Bengal. Out of such raw material, raw material worth ₹ 0.30 lakh is procured from unregistered suppliers; the remaining raw material is procured from registered suppliers.

Further, raw material worth ₹ 0.05 lakh purchased from registered supplier located in West Bengal has been destroyed due to seepage problem in the factory and thus, could not be used in the manufacturing process.

- (ii) *Consumables are procured from registered suppliers located in Kolkata and include diesel worth ₹ 0.25 lakh for running the generator in the factory.*
- (iii) *Transportation charges comprise of ₹ 0.60 lakh paid to Goods Transport Agency (GTA) in Kolkata and ₹ 0.10 lakh paid to horse pulled carts. GST applicable on the services of GTA is 5% payable under reverse charge.*
- (iv) *Life insurance policies for specified employees have been taken by the company to fulfill a statutory obligation in this regard. The life insurance service provider is registered in West Bengal.*
- (v) *Audit fee is paid to M/s Goyal & Co., a firm of Chartered Accountants registered in West Bengal, for the statutory audit of the preceding financial year.*
- (vi) *Telephone expenses pertain to bills for landline phone installed at the factory and mobile phones given to employees for official use. The telecom service provider is registered in West Bengal.*
- (vii) *Bank charges are towards company's current account maintained with a Private Sector Bank registered in West Bengal.*
- (viii) *The breakup of sales is as under:*
- Sales in West Bengal – ₹ 7 lakh*
- Sales in States other than West Bengal – ₹ 3 lakh*
- Export under LUT – ₹ 5 lakh*

(ix) The opening balance of ITC with the company for the tax period is:

CGST - ₹ 0.15 lakh

SGST - ₹ 0.08 lakh

IGST - ₹ 0.09 lakh

Compute (i) Total ITC available with V-Supply Pvt. Ltd. for the tax period; and (ii) Net GST payable [CGST, SGST or IGST, as the case may be] from Electronic Cash Ledger by V-Supply Pvt. Ltd. for the tax period.

Note-

- (i) CGST, SGST & IGST rates to be 9%, 9% and 18% respectively, wherever applicable.
- (ii) The necessary conditions for availing ITC have been complied with by V-Supply Pvt. Ltd., wherever applicable.

You are required to make suitable assumptions, wherever necessary.

23. ABC Company Ltd. of Bengaluru is a manufacturer and registered supplier of machineries. It has provided the following details for a tax period:

Inward supplies	GST paid (₹)
Health insurance of factory employees as required by the Factories Act, 1948	20,000
Raw materials for which invoice has been received and GST has also been paid for full amount but only 50% of material has been received, remaining 50% will be received in next month	18,000
Work contractor's service used for installation of plant and machinery	12,000
Purchase of manufacturing machine sent directly to job worker's premises under delivery challan	50,000
Purchase of car used by director exclusively for the purpose of business meetings	25,000
Outdoor catering service availed for business meetings	8,000

ABC Company Ltd. also provides service of hiring of machines along with manpower for operation. As per trade practice, machines are always hired out along with operators and also operators are supplied only when machines are hired out.

Outward supply (exclusive of GST) for the tax period are as follows:

Particulars	Value (₹)
Hiring receipts for machine	5,25,000
Service charges for supply of manpower operators	2,35,000

Assume the rates of GST to be as under:

- (i) Service of hiring of machine 12%
 - (ii) Supply of manpower operator service 18%
- (Ignore CGST, SGST or IGST for the sake of simplicity)

Compute the amount of ITC available as also the net GST payable from the Electronic Cash Ledger for the tax period by giving necessary explanations for treatment of various items.

Note: Opening balance of ITC is Nil.

24. Pari Ltd. of Jodhpur (Rajasthan) is a registered manufacturer of cosmetic products. Pari Ltd. has furnished following details for a tax period:

Particulars	(₹)
Details of Outward supplies	
(i) Supplies in Rajasthan	8,75,000
(ii) Supplies in States other than Rajasthan	3,75,000
(iii) Export under LUT	6,25,000
Details of expenses	
(i) Raw materials purchased from registered suppliers located in Rajasthan	1,06,250

(ii)	Raw materials purchased from unregistered suppliers located in Rajasthan	37,500
(iii)	Raw materials purchased from Punjab from registered supplier	1,00,000
(iv)	Integrated tax paid on raw materials imported from USA	22,732
(v)	Consumables purchased from registered suppliers located in Rajasthan including high speed diesel (Excise and VAT paid) valuing ₹31,250 for running the machinery in the factory	1,56,250
(vi)	Monthly rent for the factory building to the owner in Rajasthan	1,00,000
(vii)	Salary paid to employees on rolls	6,25,000
(viii)	Premium paid on life insurance policies taken for specified employees. Life insurance policies for specified employees have been taken by Pari Ltd. to fulfill a statutory obligation in this regard. The life insurance service provider is registered in Rajasthan.	2,00,000
All the above amounts are exclusive of all kinds of taxes, wherever applicable. However, the applicable taxes have also been paid by Pari Ltd.		
The opening balance of ITC with Pari Ltd. for the given tax period is- CGST ₹20,000 SGST ₹15,000 IGST ₹15,000		

Assume CGST, SGST and IGST rates to be 9%, 9% and 18% respectively, wherever applicable.

Assume that all the other necessary conditions to avail the ITC have been complied with by Pari Ltd., wherever applicable.

Compute (i) ITC available with Pari Ltd. for the tax period; and (ii) Net GST payable [CGST, SGST or IGST, as the case may be] from Electronic Cash Ledger by Pari Ltd. for the tax period.

25. Flowchem Palanpur (Gujarat) has entered into a contract with R Refinery, Abu Road (Rajasthan) on 1st July to supply 10 valves on FOR basis. The following information is provided in this regard:

- (1) List price per valve is ₹ 1,00,000, exclusive of taxes.
- (2) One of the conditions of the contract is that Flowchem should ensure a two stage third party inspection for the valves during the manufacturing process. Cost of two stage inspection of ₹ 15,000 (for 10 valves) is directly paid by R Refinery to testing agency.
- (3) R Refinery requires a special packing for the valves. Cost of special packing is ₹ 10,000 (for 10 valves).
- (4) Flowchem arranges for erection and testing of the valves supplied by it at R Refinery's site. Cost of erection etc. is ₹ 15,000 (for 10 valves).
- (5) Goods are dispatched with tax invoice on 20th July and they reach the destination at Abu-Road on 21st July. Lorry freight of ₹ 5,000 has been paid by R Refinery directly to the lorry driver.

Assume CGST and SGST rates to be 9% each and IGST rate to be 18%. Opening balance of ITC of IGST is Nil, CGST is ₹ 20,000 and SGST is ₹ 20,000. All the given amounts are exclusive of GST, wherever applicable.

Flowchem has also undertaken following local transactions during the month of July on which it has paid CGST and SGST as under:

S. No.	Particulars	Amount paid CGST (₹)	Amount paid SGST (₹)
1.	Availed services of works contractor to erect foundation for fixing the machinery to earth, in the factory.	5,000	5,000
2.	It has entered into an agreement with a travel company to provide home travel facility to its employees when they are on leave.	2,500	2,500

3.	<i>It has entered into an agreement with a fitness center to provide wellness services to its employees after office hours</i>	2,000	2,000
----	--	-------	-------

Work out the net GST [CGST, SGST or IGST, as the case may be] payable from Electronic Cash Ledger of Flowchem, Palanpur (Gujarat) for the month of July after making suitable assumptions, if any.



ANSWERS

1. As per section 17(5), tax paid under sections 74 is not available as ITC. Further, rule 36(3) also lays down that tax paid in pursuance of any order where any demand has been confirmed on account of any fraud, willful misstatement or suppression of facts cannot be availed as ITC by a registered person.

In the given case, Xenon Pvt. Ltd. has paid tax in pursuance of an order issued under section 74. Therefore, Freshbite Pvt. Ltd. cannot avail ITC of such tax.

2. As per section 17(5)(b)(i), ITC on supply of *inter alia* food and beverages and outdoor catering is blocked. However, ITC in respect of such goods or services or both shall be available where an inward supply of such goods or services or both is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply.

In the given case, Flamingo Ltd. is availing outdoor catering service to provide outdoor catering (meals) to the passengers on board the aircraft. Since ITC in respect of outdoor catering is available if the same is used for making an outward taxable supply as an element of a taxable composite or mixed supply, Flamingo Ltd. can avail ITC on outdoor catering service procured by it as it will be considered as supply of an ancillary service to the passenger transportation services supplied by it (principal supply).

3. It may appear at first glance that in case of offers like "Buy One, Get One Free", one item is being "supplied free of cost" without any consideration.

As per clause (a) of section 7(1) read with clause (c) thereof, goods or services which are supplied free of cost (without any consideration) shall not be treated as supply except in case of activities mentioned in Schedule I.

Circular No. 92/11/2019 GST dated 07.03.2019 has clarified the entitlement of ITC in the hands of supplier in respect of sales promotional scheme like 'buy one get one free'. Such promotional offers are not individual supplies of free goods, but a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one.

Taxability of such supply will be dependent upon as to whether the supply is a composite supply or a mixed supply and the rate of tax shall be determined as per the provisions of section 8.

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 part of such offers.

Therefore, the given case is not the case of individual supplies of free goods, but a case of three individual supplies where a single price is being charged for the entire supply. Thus, Jumbo Sales Pvt. Ltd. will be entitled to avail ITC on inputs, input services and capital goods used in relation to supply of T-Shirts as part of such offer.

4. Thread and lining material are inputs which are used for making taxable as well as exempt supplies. Therefore, credit on such items will be apportioned and credit attributable to exempt supplies will be reversed in terms of rule 42.

Credit attributable to exempt supplies = Common credit x (Exempt turnover/ Total turnover)

Common credit = ₹ 15,000 + ₹ 5,000 = ₹ 20,000

Exempt turnover = ₹ 1 crore

Total turnover = ₹ 5 crore [₹ 1 crore + ₹ 4 crore]

Credit attributable to exempt supplies = (₹ 1 crore / ₹ 5 crore) x ₹ 20,000 = ₹ 4,000.

Ineligible credit of ₹ 4,000 will be reversed in Form GSTR-3B. Credit of ₹ 16,000 will be eligible credit for the month of July.

5. As per rule 39(d) relating to ITC, -

- ₹ 3 lakh is attributable to Tumkur unit, and will be transferred to Tumkur unit only.
- ₹ 6 lakh have to be distributed among Tumkur unit and the service centres in Hyderabad and Chennai in proportion of their turnover in the previous FY, that is, in 2023-24
 - o Tumkur unit will get (27 crore / 30 crore) x 6 lakh = ₹ 5.4 lakh;
 - o Hyderabad service centre will get (1 crore / 30 crore) x 6 lakh = ₹ 20,000; and
 - o Chennai service centre will get (2 crore / 30 crore) x 6 Lakh = ₹ 40,000.

Ceramity Ltd. should issue ISD invoices (from GSTN obtained separately for ISD) for distributing ITC (as calculated above) to its units. It should be clearly indicated in the invoices that the same are issued only for distribution of ITC.

6. As per section 16, Mohan Ltd. is eligible to avail ITC of the tax paid on inputs received by it on the basis of the invoice issued by the supplier provided other conditions for availing ITC are fulfilled.

Payment of value of the goods along with the tax to the supplier is not a pre-requisite at the time of availing credit, but Mohan Ltd. has to pay the said amount within 180 days from the date of issue of invoice. If Mohan Ltd. fails to do so, Mohan Ltd. shall pay an amount equal to the ITC availed in respect of such supply (ITC of ₹ 24,000), proportionate to the amount not paid to the supplier, along with interest payable thereon under section 50, while furnishing the return in Form GSTR-3B for the tax period immediately following the period of 180 days from the date of the issue of the invoice.

If Mohan Ltd. makes the payment of ₹ 2,24,000 (Value + tax) to the supplier on 18th March of next calendar year, i.e. after the expiry of 180 days from date

of issue of invoice, Mohan Ltd. can avail the credit of ₹ 24,000 while filing form GSTR-3B for the month of March.

7. The following conditions need to be followed by an input service distributor (ISD) for distribution of credit:
- (i) The ISD is required to obtain a separate registration for distribution of credit.
 - (ii) The credit can be distributed to the recipients of credit against an ISD invoice containing prescribed details.
 - (iii) The amount of the credit distributed shall not exceed the amount of credit available for distribution.
 - (iv) The credit related to an input service must be distributed only to the particular recipient to whom that input service is attributable.
 - (v) If the input service is attributable to more than one recipient, the relevant ITC is distributed pro rata to such recipients in the ratio of turnover of the recipient in a State/ Union Territory to the aggregate turnover of all the recipients to whom the input service is attributable and which are operational during the current year.
 - (vi) ITC pertaining to input services which are common for all units, is distributed to all the recipients in the ratio of turnover in the prescribed manner.
 - (vii) ITC available for distribution in a month shall be distributed in the same month and the details thereof shall be furnished in the prescribed form.
 - (viii) Both ineligible and eligible ITC are to be distributed separately.
 - (ix) ITC of CGST, SGST/UTGST and IGST are to be distributed separately.
 - (x) ITC of CGST, SGST/UTGST in respect of recipient located in the same State/Union Territory is distributed as CGST and SGST/UTGST respectively.
 - (xi) ITC of CGST and SGST/UTGST, in respect of a recipient located in a different State/Union territory, is distributed as IGST (total of ITC of CGST and SGST/UTGST which were to be distributed to such recipient).
 - (xii) ITC on account of IGST is distributed as IGST.

8. (i) Section 17(5)(c) blocks input tax credit in respect of works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service.

Further, the term “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 and/or services **and includes such foundation or structural support** but excludes land, building or other civil structures, telecommunication towers, and pipelines laid outside the factory premises.

Thus, in view of the above-mentioned provisions, ITC is available in respect of works contract service availed by MBF Ltd. as the same is used for construction of plant and machinery which is not blocked under section 17(5)(c). It is assumed that the expenditure incurred towards works contract service is capitalised in the books of MBF Ltd. and no depreciation has been claimed on the tax component.

- (ii) Section 17(5)(d) blocks ITC on goods and/or services received by a taxable person for construction of an immovable property (other than plant or machinery) **on his own account** including when such goods and/or services are used in the course or furtherance of business. Thus, ITC on goods and/or services used in the construction of an immovable property is blocked only in those cases where the taxable person constructs the immovable property for his own use notwithstanding the fact that the immovable property being constructed will be used in the course or furtherance of his business.

In the given case, Shah & Constructions has used the goods and services for construction of immovable property for some other person and not on its own account. Hence, ITC in this case will be allowed.

- (iii) On a conjoint reading of section 17(5)(a) and 17(5)(ab), it can be concluded that ITC is allowed on repair and maintenance services relating to motor vehicles, which are eligible for input tax credit. Further, as per section 17(5)(a) ITC is allowed on motor vehicles which are used for transportation of goods.

Thus, ITC on maintenance & repair services availed from “Jaggi Motors” for a truck used for transporting its finished goods is allowed to ABC Ltd.

9. As per section 18(6), if capital goods/ plant and machinery on which ITC has been taken are supplied (outward) by a registered person, he must pay an amount that is higher of the following:
- ITC taken on such goods reduced by 5% per quarter or part thereof from the date of issue of invoice for such goods or
 - tax on transaction value of such outward supply determined under section 15.

Accordingly, the amount payable on supply of machinery by M/s Agarwal & Agarwal shall be computed as follows:

Particulars	Amount (₹)
ITC taken on the machinery ($₹ 12,39,000 \times 18/118$)	1,89,000
Less: Input tax credit to be reversed @ 5% per quarter for the period of use of machine	
(i) For the previous year = $(₹ 1,89,000 \times 5\%) \times 3$ quarters	28,350
(ii) For the current year = $(₹ 1,89,000 \times 5\%) \times 2$ quarters	<u>18,900</u>
Amount required to be paid by adding the reversal amount to the output tax liability) (A) **	1,41,750
Duty leviable on transaction value ($₹ 7,50,000 \times 18\%$) (B)	1,35,000
Amount payable towards disposal of machine is higher of (A) and (B)	1,41,750
Thus, M/s Agarwal & Agarwal is required to pay an amount of ₹ 1,41,750 at the time of sale of machinery by adding the same to the output tax liability.	

** In the above solution, amount payable towards disposal of machine has been computed on the basis of rule 40(2), i.e. ITC to be reversed for the period of use of capital goods/machine has been computed @ 5% for every quarter or part thereof from the date of the issue of invoice.

However, the said amount can also be computed in accordance with rule 44(6), i.e. ITC involved in the remaining useful life (in months) of the capital

goods/ machine can be reversed on *pro-rata* basis, taking the useful life as 5 years.

10. As per section 16(1), every registered person can 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. However, section 17(5) specifies certain goods and services on which the input tax credit is not available.

Section 17(5)(a) specifically blocks ITC on motor vehicles for transportation of passengers having approved seating capacity of not more than thirteen persons. However, the same is allowed when the motor vehicles are used, *inter alia*, for further supply of such vehicles. Thus, ITC on cars purchased from the manufacturer for making further supply of such cars will be allowed.

However, ITC on the cars fully destroyed in accident will not be allowed as the ITC on goods destroyed for whichever reason is specifically blocked under section 17(5)(h).

11. **Computation of ITC credited to Electronic Credit Ledger and amount of ITC to be added to the output tax liability for the month of September**

Particulars	ITC (₹)
Capital goods used exclusively for taxable supply [Since used exclusively for taxable supply, full ITC is available under rule 43(1)(b)]	2,000
Capital goods used exclusively for exempt supply [Since used exclusively for exempt supply, ITC is not available under rule 43(1)(a)]	Nil
Capital goods used for both taxable and exempt supply - Common credit (T _c) [Commonly used for taxable and exempt supplies – Rule 43(1)(c)]	4200
Total ITC credited to Electronic Credit Ledger for the month of September	6,200

Common credit for the month of September (T_m) = $T_c \div 60 = 4,200 \div 60$ [Rule 43(1)(e)]	70
Common credit attributable to exempt supplies in a month (T_e) = $(E \div F) \times T_r$ ¹⁴ where, 'E' is the aggregate value of exempt supplies, made, during the tax period, and 'F' is the total turnover in the State of the registered person during the tax period [Rule 43(1)(g)] = $(40,000/1,10,000) \times ₹ 70$ (rounded off)	25.45
Amount to be added to the output tax liability for the month of September¹⁵ [Rule 43(1)(h)]	25.45

12. Computation of ITC available and net GST payable from Electronic Cash Ledger for the month of June

Particulars	Amount (₹)
GST on taxable turnover for the month of June [₹ 60,00,000 × 18%]	10,80,000
Less: ITC available for June month in terms of rule 42	
Opening balance of ITC available in the Electronic Credit Ledger	₹ 1,60,000

¹⁴ Prior to the amendment vide Notification No. 16/2020 CT dated 23.03.2020 clause (f) of rule 43(1) provided that the amount of ITC, at the beginning of a tax period, on all common capital goods whose useful life remains during the tax period, be denoted as ' T_r ' and shall be the aggregate of ' T_m ' for all such capital goods. However, clause (f) has been omitted vide the said notification. Consequently, the term " T_r " becomes redundant in the formula provided in rule 43(1)(g). However, for the sake of computation of common credit attributable to exempt supply, value of ' T_m ' has been used here. It may be noted that as per the erstwhile clause (f) of rule 43(1) value of ' T_r ' was the aggregate of ' T_m '.

¹⁵ Practically while filing GSTR-3B, ITC attributable to exempt supplies as per rule 42 and rule 43 are reversed.

Add: ITC credited to the Electronic Credit Ledger for the month of June [Refer working note below]	₹ 40,000	
Less: ITC out of common credit attributable to exempt supply [Refer working note below]	(₹ 1,290)	<u>1,98,710</u>
Net GST payable from Electronic Cash Ledger		8,81,290

Working Note:**Computation of ITC (out of common credit) attributable to exempt supplies**

Particulars	Amount (₹)
Input tax on raw materials [Note 1]	40,000
Input tax on catering for housewarming [Note 2]	Nil
Input tax on inputs contained in exempt supplies [Note 3]	Nil
Input tax on cosmetic and plastic surgery of CEO of company [Note 4]	Nil
ITC credited to the Electronic Credit Ledger in terms of rule 42 in the month of June	40,000
Common credit [Note 5]	40,000
ITC attributable towards exempt supplies to be reversed [Note 6]	1,290

Notes:

- (1) Being used in the course or furtherance of business, input tax on raw materials is available as ITC and is credited to the Electronic Credit Ledger [Section 16(1)].
- (2) ITC on outdoor catering is blocked in terms of section 17(5) if the same is not used for making an outward supply of outdoor catering or as an

element of a taxable composite/mixed supply. Hence, the same is not credited to the Electronic Credit Ledger [Rule 42].

- (3) Input tax on inputs used exclusively for making exempt supplies is not available as ITC and thus, not credited to the Electronic Credit Ledger in terms of rule 42.
- (4) ITC on cosmetic and plastic surgery is blocked in terms of section 17(5) if the same are not used for making the same category of outward supply or as an element of a taxable composite/ mixed supply. Hence, the same is not credited to the Electronic Credit Ledger [Rule 42].
- (5) Since there are no inputs and input services which are used exclusively for effecting taxable supplies, the entire ITC credited to Electronic Credit Ledger, i.e. ₹ 40,000 will be the common credit [Rule 42].
- (6) ITC attributable towards exempt supplies = Common credit $\times$ (Aggregate value of exempt supplies during the tax period / Total turnover in the State during the tax period)
$$= ₹ 40,000 \times ₹ 2,00,000 / ₹ 62,00,000 - (\text{rounded off})$$
$$= ₹ 1,290 (\text{rounded off})$$

13. As per section 20 read with rule 39:

- (i) Total GST credit (CGST+ SGST + IGST) of ₹ 18,000 specifically attributable to Ganganagar Branch, Rajasthan will be distributed as IGST credit of ₹ 18,000 only to Ganganagar Branch, Rajasthan [Since recipient and ISD are located in different states].
- (ii) IGST credit of ₹ 1,50,000, CGST credit of ₹ 15,000 and SGST credit of ₹ 15,000 specifically attributable to Mumbai Branch, Maharashtra will be distributed as IGST credit of ₹ 1,50,000, CGST credit of ₹ 15,000 and SGST credit of ₹ 15,000 respectively, only to Mumbai Branch, Maharashtra [Since recipient is located in the same State in which ISD is located].
- (iii) CGST credit of ₹ 60,000, SGST credit of ₹ 60,000 and IGST credit of ₹ 1,20,000 have to be distributed among the three branches and Mumbai Branch, Maharashtra in proportion of their turnover of the last quarter.

- Ganganagar Branch, Rajasthan will get: ₹ 48,000 [₹ 2,40,000 x (₹ 10,00,000/ ₹ 50,00,000)] as IGST credit.
 - Madhugiri Branch, Karnataka will get: ₹ 24,000 [₹ 2,40,000 x (₹ 5,00,000/ ₹ 50,00,000)] as IGST credit.
 - The credit attributable to a recipient is distributed even if such recipient is making exempt supplies.
 - Kosala Branch, UP will get: ₹ 72,000 [₹ 2,40,000 x (₹ 15,00,000/ ₹ 50,00,000)] as IGST credit.
 - Mumbai Branch, Maharashtra will get:
 ₹ 24,000 [₹ 60,000 x (₹ 20,00,000/ ₹ 50,00,000)] as CGST credit,
 ₹ 24,000 [₹ 60,000 x (₹ 20,00,000/ ₹ 50,00,000)] as SGST credit and
 ₹ 48,000 [₹ 1,20,000 x (₹ 20,00,000/ ₹ 50,00,000)] as IGST credit.
- (iv) ITC of ₹ 10,000 of March (last year) cannot be distributed in March this year as ITC available for distribution in a month is to be distributed in the same month.

14. Computation of net CGST, SGST and IGST payable from the electronic cash ledger by George Pvt. Ltd. for the tax period

Particulars	Amount (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Sales made outside Kerala (New Delhi) – [Being inter-State sale, the same is liable to IGST]	10,00,000			1,80,000
Sales made in Trivandrum [Being intra-State sale, the same is liable to CGST & SGST]	8,00,000	72,000	72,000	
Less: ITC available during the tax period for set off		(72,000) CGST	(10,000) IGST	(1,80,000)

[Refer Working Note Below]			(52,500) SGST	
Net tax liability payable in cash		Nil	9,500	Nil
ITC to be carried forward to next tax period		500 (72,500-72,000)	Nil (52,500-52,500)	Nil (1,90,000-1,90,000)
Working Note: ITC available during the tax period is computed as under:				
Opening balance of ITC		50,000	30,000	1,00,000
Purchases from New Delhi [Being inter-State purchase, IGST would have been paid on it.]	5,00,000			90,000
Purchases from Trivandrum	2,50,000	22,500	22,500	
Total input tax credit		72,500	52,500	1,90,000
Note: Since sufficient balance of ITC of CGST is available for paying CGST liability and cross-utilization of ITC of CGST and SGST is not allowed, ITC of IGST has been used to pay SGST (after paying IGST liability) as credit of CGST and SGST can be utilized only after IGST credit has been fully utilized.				

15. Computation of net GST payable from Electronic Cash Ledger by Quanto Enterprises for the month of September

Particulars	CGST (Rs)	SGST (Rs)
Output tax liability for the month	24,000	24,000
Less: ITC [Notes 1 & 2]	9,000 (IGST)	12,000 (SGST)
	12,000 (CGST)	

Net GST payable (from electronic cash ledger)	3,000	12,000
--	--------------	---------------

Notes:

1. Credit of IGST is first utilized towards payment of IGST and thereafter for CGST and SGST in any order and in any proportion. Credit of CGST and SGST can be utilized only after IGST credit has been fully utilized [Rule 88A read with sections 49(5), 49A and 49B].

Since Quanto Enterprises does not make any inter-State supply, in the above answer, entire credit of IGST has been utilized towards payment of CGST. Credit of IGST can also be utilised against SGST liability or against both CGST and SGST liabilities in any proportion and thus, the final answer will change accordingly.

2. As per section 18(1)(b) a person who takes voluntary registration is entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished/ finished goods held in stock on the day immediately preceding the date of grant of registration.

However, he cannot take ITC in respect of capital goods held on the day immediately preceding the date of grant of registration.

ITC on inputs needs to be availed within 1 year from the date of issue of the invoice by the supplier [Section 18(2)].

In this case, since Quanto Enterprises has been granted voluntary registration on 25th September, it will be entitled to ITC on inputs held in stock and inputs contained in semi-finished/ finished goods held in stock, on 24th September. In view of the said provisions, eligible ITC for Quanto Enterprises is computed as follows:

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Inputs held in stock since 2 nd September	4,500	4,500	
Inputs received on 21 st July contained in semi-finished goods held in stock	7,500	7,500	

Inputs contained in finished goods held in stock which were procured on 19 th September last year [Invoice issued prior to one year, hence ITC cannot be availed]			Nil
Inputs held in stock since 13 th September			9,000
Capital goods procured on 12 th September	<u>Nil</u>	<u>Nil</u>	
Total ITC	12,000	12,000	9,000

16. As per section 10(3) read with *Notification No.14/2019 CT dated 07.03.2019* as amended, the option availed of by a registered person to pay tax under composition scheme shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds ₹ 1.5 crore [₹ 75 lakh in case of Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir].

As per section 2(6), aggregate turnover means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same PAN, to be computed on all India basis but excludes CGST, SGST/UTGST, IGST and GST Compensation Cess.

In the given case, the firm is registered under the composition scheme in the State of Maharashtra. The aggregate turnover of the firm exceeds ₹ 1.5 crore on 3rd October [aggregate of both taxable and exempt turnover from 1st April to 3rd October, i.e. ₹ 1,50,05,000 (₹ 1,44,65,000 + ₹ 2,03,000 + ₹ 1,38,250 + ₹ 1,06,250 + ₹92,500)].

Thus, the firm will pay tax under regular scheme (Section 9) from 3rd October.

As per section 18(1)(c) read with rule 40, where any registered person ceases to pay tax under section 10, he shall be entitled to take credit of input tax in respect of inputs held in stock, inputs contained in semi-finished or finished

goods held in stock and on capital goods on the day immediately preceding the date from which he becomes liable to pay tax under section 9.

Further, ITC on supplies of inputs and capital goods shall not be available after the expiry of one year from the date of issue of tax invoice [Section 18(2)].

In the light of the above-mentioned provisions, the ITC credited to the Electronic Credit Ledger of the B & D Company on inputs held in on **2nd October** will be computed as under:

Particulars	Amount (₹)
Stock of taxable inputs as on 30 th September [Since no tax is paid on exempt purchases, there does not arise any question of availing ITC on the same. Hence, stock of only taxable inputs is considered]	10,00,000
Add: Purchases [No purchases are made in October]	Nil
Less: Cost of taxable goods sold from 1 st October to 2 nd October [(2,00,000 + 1,33,000 + 67,000) x 80%]	<u>3,20,000</u>
Stock of taxable inputs as on 2 nd October [Since the bill numbers are in continuation, it can be concluded that no sales are missing from the extract]	6,80,000
Less: Stock with invoice issued prior to one year	<u>3,00,000</u>
Stock of inputs on which ITC can be claimed	3,80,000
ITC of CGST @ 9% [Since all purchases are intra-State and from the suppliers registered under regular scheme]	34,200
ITC of SGST @ 9%	34,200

17.

S. No.	Particulars	ITC (₹)
(i)	Amount of ITC credited to Electronic Credit Ledger, for the month of October	

	Machinery 'U' - 'A' [Note 1]	36,000
	Machinery 'V' [Note 2]	18,000
	Machinery 'W' [Note 3]	-
	Machinery 'Y' [Note 4]	-
	Machinery 'Z' [Note 5]	-
	Raw Material used for manufacturing 'Alpha' [Note 6]	27,000
	Raw Material used for manufacturing 'Beta' [Note 6]	-
	Raw Material used for manufacturing 'Gama' [Note 6]	<u>18,000</u>
	Amount of ITC credited to Electronic Credit Ledger, for the month of October	99,000
(ii)	Aggregate value of common credit (T_c) – Note 7	
	Value of 'A' for Machinery 'U' purchased on 1 st October	36,000
	Value of 'A' for Machinery 'Z' purchased on 1 st October 2 years ago for effecting both taxable and exempt supplies	54,000
	Input tax claimed on Machinery 'Y' purchased on 1 st October 4 years ago for effecting taxable supplies but used for effecting both taxable and exempt supplies from 1 st October in the current year [Note 8]	<u>72,000</u>
	Aggregate value of common credit (T_c)	1,62,000
(iii)	Common credit attributable to exempt supplies, for the month of October	
	Common credit for the month of October (T _m) [Note 9]	2,700

	Common credit attributable to exempt supplies, for the month of October (T_e) – Note 10	1,080
(iv)	Computation of GST liability of the company for October payable through Electronic Cash Ledger	
	IGST payable on 'Alpha' [₹ 9,00,000 x 18%]	1,62,000
	IGST payable on 'Beta' [Exempt]	Nil
	IGST payable on 'Gama' [₹ 6,00,000 x 18%]	<u>1,08,000</u>
	Total IGST payable on outward supply	2,70,000
	Common credit attributable to exempt supplies for the month of October [Note 11]	<u>1,080</u>
	Total output tax liability of October	2,71,080
	Less: ITC available in the Electronic Credit Ledger	<u>99,000</u>
	IGST payable from Electronic Cash Ledger	1,72,080

Notes:

- (1) ITC in respect of capital goods used commonly for effecting taxable supplies and exempt supplies denoted as 'A' shall be credited to the electronic credit ledger [Rule 43(1)(c)].
- (2) ITC in respect of capital goods used or intended to be used exclusively for effecting supplies other than exempted supplies but including zero rated supplies shall be credited to the electronic credit ledger [Rule 43(1)(b)].
- (3) ITC in respect of capital goods used or intended to be used exclusively for effecting exempt supplies shall not be credited to electronic credit ledger [Rule 43(1)(a)].
- (4) Machinery 'Y' is being used for effecting both taxable and exempt supplies from 1st October. Prior to that it was exclusively used for

effecting taxable supplies. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.

- (5) Machinery 'Z' is being used for effecting both taxable and exempt supplies from 1st October two years ago. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (6) ITC in respect of inputs used for effecting taxable supplies will be credited in Electronic Credit Ledger. ITC in respect of inputs used for effecting exempt supplies will not be credited in the electronic credit ledger [Rule 42].
- (7) The aggregate of the amounts of 'A' credited to the electronic credit ledger in respect of common capital goods whose useful life remains during the tax period, to be denoted as 'T_c', shall be the common credit in respect of such capital goods [Rule 43(1)(d)].
- (8) Where any capital goods which were used exclusively for effecting taxable supplies are subsequently also used for effecting exempt supplies, the ITC claimed in respect of such capital goods shall be added to arrive at the aggregate value of common credit 'T_c' [Proviso to rule 43(1)(d)].
- (9) ITC attributable to a month on common capital goods during their useful life (T_m) shall be computed in accordance with rule 43(1)(e) as under:

$$= T_c \div 60$$

$$= ₹ 1,62,000 \div 60$$

$$= ₹ 2,700$$

The useful life of any capital goods shall be considered as five years from the date of invoice and the said formula shall be applicable during the useful life of the said capital goods

- (10) The amount of common credit attributable towards exempted supplies, be denoted as 'T_e', and shall be calculated as:

$$T_e = (E \div F) \times T_r \text{ where,}$$

'E' is the aggregate value of exempt supplies, made, during the tax period, and

'F' is the total turnover in the State of the registered person during the tax period [Rule 43(1)(g)].

$$= T_r \times \frac{\text{Turnover of exempt supplies during the month of October}}{\text{Total turnover of XYZ Pvt. Ltd. during the month of October}}$$

$$= ₹ 2,700 \times \frac{10,00,000}{25,00,000} = ₹ 1,080$$

- (11) Common credit attributable to the exempt supplies (T_e) along with the applicable interest (which is to be ignored in this case) shall, during every tax period of the useful life of the concerned capital goods, be added to the output tax liability of the person making such claim of credit [Rule 43(1)(h)].

**Prior to the amendment vide Notification No. 16/2020 CT dated 23.03.2020 clause (f) of rule 43(1) provided that the amount of ITC, at the beginning of a tax period, on all common capital goods whose useful life remains during the tax period, be denoted as ' T_r ' and shall be the aggregate of ' T_m ' for all such capital goods. However, clause (f) has been omitted vide the said notification. Consequently, the term " T_r " becomes redundant in the formula provided in rule 43(1)(g). However, for the sake of computation of common credit attributable to exempt supply, value of ' T_m ' has been used here. It may be noted that as per the erstwhile clause (f) of rule 43(1) value of ' T_r ' was the aggregate of ' T_m .'*

18. A. Computation of ITC credited to Electronic Credit Ledger

As per rule 42, the ITC in respect of inputs or input services being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies.

ITC credited to the electronic credit ledger of registered person [C_1] is calculated as under-

$$C_1 = T - (T_1 + T_2 + T_3)$$

Where,

- T** = Total input tax involved on inputs and input services in a tax period.
- T₁** = Input tax attributable to inputs and input services intended to be used exclusively for non-business purposes
- T₂** = Input tax attributable to inputs and input services intended to be used exclusively for effecting exempt supplies
- T₃** = Input tax in respect of inputs and input services on which credit is blocked under section 17(5)

Computation of total input tax involved [T]

Particulars	(₹)
GST paid on taxable items [₹ 55,00,000 x 18%]	9,90,000
Items exempted vide a notification [Since exempted, no GST is paid]	Nil
Items not leviable to tax [Since non-taxable, no GST is paid]	Nil
GST paid under reverse charge on freight paid to GTA for inward transportation of taxable items - [₹ 1,00,000 x 5%]	5,000
GST paid under reverse charge on freight paid to GTA for inward transportation of exempted items - [₹ 80,000 x 5%]	4,000
GST paid under reverse charge on freight paid to GTA for inward transportation of non-taxable items - [₹ 20,000 x 5%]	1,000
GST paid on monthly rent - [₹ 5,50,000 x 18%]	99,000
GST paid on packing charges [₹ 2,50,000 x 18%]	45,000
Salary paid to staff at the Store [Services by an employee to the employer in the course of or in relation to his employment is not a supply in	Nil

terms of para 1 of the Schedule III and hence, no GST is payable thereon].	
GST paid on inputs used for personal purpose	5,000
GST paid on rent a cab services availed for business purpose	4,000
GST paid on items given as free samples	4,000
Total input tax involved during the month [T]	11,57,000

Computation of T₁, T₂, T₃

Particulars	(₹)
GST paid on monthly rent attributable to personal purposes [1/3 of ₹ 99,000]	33,000
GST paid on inputs used for personal purpose	<u>5,000</u>
Input tax exclusively attributable to non-business purposes [T₁]	<u>38,000</u>
GST paid under reverse charge on freight paid to GTA for inward transportation of exempted items [As per section 2(47), exempt supply means, <i>inter alia</i> , supply which may be wholly exempt from tax by way of a notification issued under section 11. Hence, input service of inward transportation of exempt items is exclusively used for effecting exempt supplies.]	4,000
GST paid under reverse charge on freight paid to GTA for inward transportation of non-taxable items [Exempt supply includes non-taxable supply in terms of section 2(47). Hence, input service of inward transportation of non-taxable items is exclusively used for effecting exempt supplies.]	<u>1,000</u>
Input tax exclusively attributable to exempt supplies [T₂]	<u>5,000</u>

GST paid on rent a cab services availed for business purpose [ITC on rent a cab service is blocked under section 17(5)(b)(i) as the same is not used by All-in-One Store for providing the rent a cab service or as part of a taxable composite or mixed supply.]	4,000
GST paid on items given as free samples [ITC on goods <i>inter alia</i> , disposed of by way of free samples is blocked under section 17(5)(h)].	<u>4,000</u>
Input tax for which credit is blocked under section 17(5) [T3] **	8,000

**Since GST paid on inputs used for personal purposes has been considered while computing T_1 , the same has not been considered again in computing T_3 .

ITC credited to the electronic credit ledger

$$C_1 = T - (T_1 + T_2 + T_3)$$

$$= ₹ 11,57,000 - (₹ 38,000 + ₹ 5,000 + ₹ 8,000) = ₹ 11,06,000$$

B. Computation of Common Credit

$$C_2 = C_1 - T_4$$

where C_2 = Common Credit

T_4 = Input tax credit attributable to inputs and input services intended to be used exclusively for effecting taxable supplies

Computation of T_4

Particulars	(₹)
GST paid on taxable items	9,90,000
GST paid under reverse charge on freight paid to GTA for inward transportation of taxable items	5,000

Input tax exclusively attributable to taxable supplies [T₄]

<u>9,95,000</u>

Common Credit $C_2 = C_1 - T_4$

= ₹ 11,06,000 – ₹ 9,95,000 = ₹ 1,11,000

C. Computation of ITC attributable towards exempt supplies out of common credit

ITC attributable towards exempt supplies is denoted as 'D₁' and calculated as-

$$D_1 = (E \div F) \times C_2$$

where,

'E' is the aggregate value of exempt supplies during the tax period, and

'F' is the total turnover in the State of the registered person during the tax period

Aggregate value of exempt supplies during the month

= ₹ 15,00,000 (₹ 12,00,000 + ₹ 3,00,000)

Total turnover in the State during the tax period

= ₹ 65,00,000 (₹ 42,00,000 + ₹ 12,00,000 + ₹ 3,00,000 + ₹ 8,00,000)

Note: Transfer of items to Store located in Goa is inter-State supply in terms of section 7 of the IGST Act, 2017 and hence includible in the total turnover. Such supply is to be valued as per rule 28. However, the value declared in the invoice cannot be adopted as the value since the recipient Store at Goa is not entitled for full credit because the goods are to be distributed as free samples, ITC on which is blocked. Therefore, open market value of such goods, which is the value of such goods sold in Mumbai Store, is taken as the value of items transferred to Goa Store.

$$D_1 = (15,00,000 \div 65,00,000) \times 1,11,000$$

= ₹ 25,615 (rounded off)

D. Computation of Eligible ITC out of common credit

Eligible ITC attributed for effecting taxable supplies is denoted as 'C₃', where-

$$\begin{aligned}
 C_3 &= C_2 - D_1 \\
 &= ₹ 1,11,000 - ₹ 25,615 \\
 &= ₹ 85,385
 \end{aligned}$$

E. Computation of Net GST liability for the month

Particulars	GST (₹)
<i>GST liability under forward charge</i>	
Taxable items sold in the store [₹ 42,00,000 x 18%]	7,56,000
Taxable items transferred to Goa Store [₹ 8,00,000 x 18%]	1,44,000
Total output tax liability under forward charge	9,00,000
Less: ITC credited to the electronic ledger	10,80,385
ITC carried forward to the next month	1,80,385
Net GST payable [A]	Nil
<i>GST liability under reverse charge</i>	
Freight paid to GTA for inward transportation of taxable items [₹ 1,00,000 x 5%]	5,000
Freight paid to GTA for inward transportation of exempted items [₹ 80,000 x 5%]	4,000
Freight paid to GTA for inward transportation of non-taxable items [₹ 20,000 x 5%]	<u>1,000</u>
Total tax liability under reverse charge [B]	10,000
Net GST liability to be paid in cash [A] + [B]	10,000
As per section 49(4), amount available in the electronic credit ledger may be used for making	

payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82). Therefore, tax payable under reverse charge cannot be set off against the ITC and thus, will have to be paid in cash.

Note: While computing net GST liability, ITC credited to the electronic ledger can alternatively be computed as follows:

Particulars	(₹)
GST paid on taxable items [₹ 55,00,000 x 18%]	9,90,000
Items exempted vide a notification [Since exempted, no GST is paid]	Nil
Items not leviable to tax [Since non-taxable, no GST is paid]	Nil
GST paid under reverse charge on freight paid to GTA for inward transportation of taxable items [₹ 1,00,000 x 5%]	5,000
GST paid under reverse charge on freight paid to GTA for inward transportation of exempted items [₹ 80,000 x 5%] [As per section 2(47), exempt supply means, <i>inter alia</i> , supply which may be wholly exempt from tax by way of a notification issued under section 11. Hence, input service of inward transportation of exempt items is exclusively used for effecting exempt supplies. Input tax exclusively attributable to exempt supplies is to be excluded]	Nil
GST paid under reverse charge on freight paid to GTA for inward transportation of non-taxable items [₹ 20,000 x 5%] [Exempt supply includes non-taxable supply in terms of section 2(47). Hence, input service of inward	Nil

transportation of non-taxable items is exclusively used for effecting exempt supplies. Input tax exclusively attributable to exempt supplies is to be excluded]	
GST paid on monthly rent – for business purposes [(₹ 5,50,000 x 18%) – 1/3 of [(₹ 5,50,000 x 18%)]]	66,000
GST paid on packing charges [₹ 2,50,000 x 18%]	45,000
Salary paid to staff at the Store [Services by an employee to the employer in the course of or in relation to his employment is not a supply in terms of para 1 of the Schedule III to CGST Act and hence, no GST is payable thereon]	Nil
GST paid on inputs used for personal purpose [ITC on goods or services or both used for personal consumption is blocked under section 17(5)(g)]	Nil
GST paid on rent a cab services availed for business purpose [ITC on rent a cab service is blocked under section 17(5)(b)(i) as the same is not used by All-in-One Store for providing the rent a cab service or as part of a taxable composite or mixed supply.]	Nil
GST paid on items given as free samples [ITC on goods <i>inter alia</i> , disposed of by way of free samples is blocked under section 17(5)(h)]	Nil
Total ITC credited to the electronic ledger	11,06,000
Less: ITC reversal [ITC of common credit, attributable to exempt supplies]	(25,615)
Net ITC available for credit	10,80,385

19. (1) Computation of ITC credited to Electronic Credit Ledger

ITC of input tax attributable to inputs and input services intended to be used for business purposes is credited to the electronic credit ledger. Input tax attributable to inputs and input services intended to be used exclusively for non-business purposes, for effecting exclusively exempt supplies and on which credit is blocked under section 17(5) is not credited to electronic credit ledger [Sections 16 and 17].

In the light of the aforementioned provisions, the ITC credited to electronic credit ledger of Vansh Shoppe is calculated as under:

Particulars	Amount (₹)	CGST @ 6% (₹)	SGST @ 6% (₹)
GST paid on taxable goods	45,00,000	2,70,000	2,70,000
Goods not leviable to GST [Since non-taxable, no GST is paid]	4,00,000	Nil	Nil
GST paid on monthly rent for shop	3,50,000	21,000	21,000
GST paid on telephone expenses	50,000	3,000	3,000
GST paid on Chartered Accountant Fee	60,000	3,600	3,600
GST paid on premium of health insurance policies as per company policy [ITC on health insurance service is allowed only if it is obligatory for employers to provide such services to its employees under any law for the time being in force-Proviso to section 17(5)(b)].	10,000	Nil	Nil
Taxable Goods given as free samples	5,000	Nil	Nil

[ITC on goods disposed of by way of free samples is blocked under section 17(5)(h)]			
---	--	--	--

Particulars	Amount (₹)	CGST @ 2.5% (₹)	SGST @ 2.5% (₹)
Freight paid to GTA for inward transportation of non-taxable goods under reverse charge [Since definition of exempt supply under section 2(47) specifically includes non-taxable supply, the input service of inward transportation of non-taxable goods is being exclusively used for effecting exempt supplies.]	50,000	Nil	Nil
Freight paid to GTA for inward transportation of taxable goods under reverse charge	1,50,000	3,750	3,750
ITC credited to the electronic ledger		3,01,350	3,01,350
Less: ITC reversal [ITC out of common credit, attributable to exempt supplies] (Refer point no. 2 & 3 below)		(4,600)	(4,600)
Net ITC available		2,96,750	2,96,750

(2) Computation of common credit available for apportionment

Common Credit = ITC credited to Electronic Credit Ledger – ITC attributable to inputs and input services intended to be used exclusively for effecting taxable supplies [Section 17 read with rule 42].

Particulars	CGST (₹)	SGST (₹)
ITC credited to Electronic Credit Ledger	3,01,350	3,01,350
Less : ITC on taxable goods	2,70,000	2,70,000
Less: ITC on freight paid to GTA for inward transportation of taxable goods	3,750	3,750
Common credit	27,600	27,600

(3) Computation of ITC attributable towards exempt supplies out of common credit

ITC attributable towards exempt supplies = Common credit x (Aggregate value of exempt supplies during the tax period/ Total turnover during the tax period)[Section 17 read with rule 42].

Particulars	CGST (₹)	SGST (₹)
ITC attributable towards exempt supplies [₹ 27,600 x (₹ 10,00,000/₹ 60,00,000)]	4,600	4,600

(4) Computation of net GST liability for the month

Particulars	CGST (₹)	SGST (₹)
<i>GST liability under forward charge</i>		
Supply of taxable goods [₹ 50,00,000 x 6%]	3,00,000	3,00,000
Total output tax liability under forward charge	3,00,000	3,00,000
Less: ITC	2,96,750	2,96,750
Net GST payable [A]	3,250	3,250
<i>GST liability under reverse charge</i>		
Freight paid to GTA for inward transportation of taxable goods	3,750	3,750

[₹ 1,50,000 x 2.5%]		
Freight paid to GTA for inward transportation of non-taxable goods [₹ 50,000 x 2.5%]	1,250	1,250
Total tax liability under reverse charge [B]	5,000	5,000
Net GST liability [A] + [B]	8,250	8,250
Note: Amount available in the electronic credit ledger may be used for making payment towards output tax [Section 49]. However, tax payable under reverse charge is not an output tax in terms of definition of output tax provided under section 2(82). Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.		

20. Computation of net GST liability of Surana & Sons for the tax period

Particulars	(₹)
GST payable on outward supply [Refer Working Note 1]	3,18,000
Less: Input tax credit (ITC) [Refer Working Note 3]	2,78,180
GST payable from Electronic Cash Ledger [A]	39,820
Add: GST payable on legal services under reverse charge [₹ 3,50,000 X 18%] [B] [Tax on legal services provided by an advocate to a business entity, is payable under reverse charge by the business entity in terms of <i>Notification No. 13/2017 CT (R) dated 28.06.2017</i> . Further, such services are not eligible for exemption provided under <i>Notification No. 12/2017 CT (R) dated 28.06.2017</i> as the turnover of the business entity (Surana & Sons) in the preceding financial year exceeds ₹ 20 lakh.]	63,000
Total GST paid from Electronic Cash Ledger [A] + [B] [As per section 49(4) amount available in the electronic credit ledger may be used for making payment towards	1,02,820

output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82). Therefore, input tax credit cannot be used to pay tax payable under reverse charge and thus, tax payable under reverse charge will have to be paid in cash.]

Working Note 1

Computation of GST payable on outward supply

Particulars	Value (₹)	GST (₹)
Turnover of 'M' [liable to GST @ 12%]	14,00,000	1,68,000
Turnover of 'N' [Tax on 'N' is payable under reverse charge by the recipient of such goods]	6,00,000	Nil
Turnover of 'O' [liable to GST @ 12%]	10,00,000	1,20,000
Export of 'M' with payment of IGST @ 12%	2,50,000	30,000
Export of 'O' under letter of undertaking (LUT) [Export of goods is a zero rated supply in terms of section 16(1)(a) of the IGST Act, 2017. A zero rated supply can be supplied without payment of tax under a LUT in terms of section 16(3)(a) of that Act.]	10,00,000	Nil
Consultancy services provided to independent clients located in foreign countries. [The activity is an export of service in terms of section 2(6) of the IGST Act, 2017 as- - the supplier of service is located in India; - the recipient of service is located outside India; - place of supply of service is outside India (in terms of section 13(2) of the IGST Act, 2017); - payment for the service has been received in convertible foreign exchange or in Indian rupees wherever permitted by the Reserve Bank of India; and	20,00,000	Nil

supplier of service and recipient of service are not merely establishments of distinct person. [Export of services is a zero rated supply in terms of section 16(1)(a) of the IGST Act, 2017. A zero rated supply can be supplied without payment of tax under a LUT in terms of section 16(3)(a) of that Act.] It is assumed that export has been made under LUT		
Sale of building [Sale of building is neither a supply of goods nor a supply of services in terms of para 5 of Schedule III to the CGST Act, provided the entire consideration has been received after issue of completion certificate by the competent authority or after its occupation, whichever is earlier. Hence, the same is not liable to GST]	1,20,00,000	Nil
Interest received on investment in fixed deposits with a bank [Exempt vide <i>Notification No. 12/2017 CT (R) dated 28.06.2017</i>]	4,00,000	Nil
Sale of shares [Shares are neither goods nor services in terms of section 2(52) and 2(102). Hence, sale of shares is neither a supply of goods nor a supply of services and hence, is not liable to any tax.]	2,50,00,000	Nil
Total GST payable on outward supply		3,18,000

Working Note 2**Computation of common credit attributable to exempt supplies during the tax period**

Particulars	(₹)
Common credit on inputs and input services [Tax on inputs - ₹ 4,20,000 (₹ 35,00,000 x 12%) + Tax on input services - ₹ 2,70,000 (₹ 15,00,000 x 18%)]	6,90,000
Common credit attributable to exempt supplies (rounded off) = Common credit on inputs and input services x (Exempt turnover during the period / Total turnover during the period) = ₹ 6,90,000 x ₹ 1,33,50,000 / ₹ 1,94,00,000 Exempt turnover = ₹ 1,33,50,000 and total turnover = ₹ 1,94,00,000 [Refer note below]	4,74,820

Note:

As per section 17(3), value of exempt supply includes supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building. As per explanation to Chapter V of the CGST Rules, the value of exempt supply in respect of land and building is the value adopted for paying stamp duty and for security is 1% of the sale value of such security.

Further, as per explanation to rule 42, the aggregate value of exempt supplies *inter alia* excludes 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.

Therefore, value of exempt supply in the given case will be the sum of value of output supply on which tax is payable under reverse charge (₹ 6,00,000), value of sale of building (₹ 2,50,000 / 2 x 100 = ₹ 1,25,00,000) and value of sale of shares (1% of ₹ 2,50,00,000 = ₹ 2,50,000), which comes out to be ₹ 1,33,50,000.

Total turnover = ₹ 1,94,00,000 (₹ 14,00,000 + ₹ 6,00,000 + ₹ 10,00,000 + ₹ 2,50,000 + ₹ 10,00,000 + ₹ 20,00,000 + ₹ 1,25,00,000 + ₹ 4,00,000 + ₹ 2,50,000)

Working Note 3

Computation of ITC available in the Electronic Credit Ledger of the Surana & Sons for the tax period

Particulars	(₹)
Common credit on inputs and input services	6,90,000
Legal services used in the manufacture of taxable product 'M'	63,000
ITC available in the Electronic Credit Ledger	7,53,000
Less: Common credit attributable to exempt supplies during the tax period [Refer Working Note 2]	4,74,820
Net ITC available	2,78,180

21. Computation of net GST payable by M/s XYZ

Particulars	GST payable (₹)
Gross GST liability [Refer Working Note 1 below]	2,63,400
Less: ITC [Refer Working Note 2 below]	2,00,000
Net GST payable from Electronic Cash Ledger	63,400

Working Notes

(1) Computation of gross GST liability

Particulars	Value received (₹)	Rate of GST	GST payable (₹)
Hiring charges for excavators	18,00,000	12%	2,16,000

Service charges for supply of manpower for operation of excavators [Refer Note 1]	20,000	12%	2,400
Service charges for soil testing and seismic evaluation [Refer Note 2]	2,50,000	18%	45,000
Gross GST liability			2,63,400

Notes:

- (i) Since the excavators are invariably hired out along with operators and excavator operators are supplied only when the excavator is hired out, it is a case of composite supply under section 2(30) wherein the principal supply is the hiring out of the excavator.

As per section 8(a), the composite supply is treated as the supply of the principal supply. Therefore, the supply of manpower for operation of the excavators (ancillary supply) will also be taxed at the rate applicable for hiring out of the excavator (principal supply), which is 12%.

- (ii) Soil testing and seismic evaluation services being independent of the hiring out of excavator will be taxed at the rate applicable to them, which is 18%.

(2) Computation of ITC available for set off

Particulars	GST paid (₹)	ITC available (₹)
Maintenance services for excavators [Refer Note 1]	1,00,000	1,00,000
Health insurance for excavator operators [Refer Note 2]	11,000	-
Scientific and technical consultancy [Refer Note 1]	1,00,000	1,00,000
Total ITC available		2,00,000

Notes:

- (i) Section 17(5)(d) blocks credit on goods/ or services received by a taxable person for construction of an immovable property on his own account. Here, though the excavators are used for building projects, the same are not used by M/s. XYZ on its own account for construction of immovable property instead they are used for outward taxable supply of hiring out of machinery. Further, excavators are special purpose vehicles whose credit is not restricted under section 17(5)(a), therefore, ITC on maintenance service for excavators shall be allowed.

Therefore, the maintenance service for the excavators does not get covered by the bar under section 17 and the credit thereon will be available. The same applies for scientific & technical consultancy for construction projects because in this case also, the service is used for providing the outward taxable supply of soil testing and seismic evaluation service and not for construction of immovable property.

- (ii) Section 17(5)(b)(i) allows input tax credit on health insurance only where an inward supply of such services is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply or where it is obligatory for an employer to provide the same to its employees under any law for the time being in force.

In the given case, it is assumed that it is not obligatory for employer to provide health insurance to its employees under any law for the time being in force, therefore the credit thereon will not be allowed.

22. Computation of ITC available with V-Supply Pvt. Ltd. for the tax period

S. No.	Particulars	ITC			
		CGST* ₹	SGST* ₹	IGST* ₹	Total ₹
1.	Opening balance of ITC	15,000	8,000	9,000	32,000
2.	Raw Material				
	Raw material purchased from Bihar [Refer Note 1(i)]			14,400	14,400
	Raw material imported from China [Refer Note 1(ii)]			29,970	29,970
	Raw material purchased from unregistered suppliers within West Bengal [Refer Note 1(iii)]	Nil	Nil		Nil
	Raw material destroyed due to seepage [Refer Note 1(iv)]	Nil	Nil		Nil
	Remaining raw material purchased from West Bengal [Refer Note 1(i)] [₹ 3.5 - ₹ 1.5 - ₹ 0.80 - ₹ 0.30 - ₹ 0.05] = ₹ 0.85]	7,650	7,650		15,300
	Total ITC for raw material	7,650	7,650	44,370	59,670

3.	Consumables [Refer Note 2]	9,000	9,000		18,000
4.	Transportation charges for bringing the raw material to factory [Refer Note 3]	1,500	1,500		3,000
5.	Salary paid to employees on rolls [Refer Note 4]	Nil	Nil	Nil	Nil
6.	Premium paid on life insurance policies taken for specified employees [Refer Note 5]	14,400	14,400	-	28,800
7.	Audit fee [Refer Note 6]	4,500	4,500	-	9,000
8.	Telephone expenses [Refer Note 6]	2,700	2,700		5,400
9.	Bank charges [Refer Note 6]	900	900		1,800
Total ITC available for the tax period		55,650	48,650	53,370	1,57,670

Computation of net GST payable

Particulars	CGST* ₹	SGST* ₹	IGST* ₹	Total ₹
On Intra-state sales in West Bengal	63,000	63,000		1,26,000
On Inter-state sales other than West Bengal			54,000	54,000

On exports under LUT [Note 7]	Nil	Nil	Nil	Nil
Total output tax liability	63,000	63,000	54,000	1,80,000
Less: ITC available for being set off [Note 8 and Note 9]	(55,650)	(48,650)	(53,370)	(1,57,670)
Net GST payable from Electronic Cash Ledger [A]	7,350	14,350	630	22,330
GST payable on inward supply of GTA services under reverse charge through Electronic Cash Ledger [Note 3 and 10] [B]	1,500	1,500		3,000
Net GST payable through Electronic Cash Ledger [A] + [B]	8,850	15,850	630	25,330

Notes:

- (1) (i) Credit of input tax (CGST & SGST/ IGST) paid on raw materials used in the course or furtherance of business is available in terms of section 16(1).
 - (ii) IGST paid on imported goods qualifies as input tax in terms of section 2(62)(a). Therefore, credit of IGST paid on imported raw materials used in the course or furtherance of business is available in terms of section 16(1).
 - (iii) Tax on intra-State procurements made by a registered person from an unregistered supplier is levied only on notified categories of goods and services. [Section 9(4)].
 - (iv) ITC is not available on destroyed inputs in terms of section 17(5)(h).
2. Consumables, being inputs used in the course or furtherance of business, input tax credit is available on the same in terms of section 16(1). However, levy of CGST on diesel has been deferred till such date

as may be notified by the Government on recommendations of the GST Council [Section 9(2)]. Hence, there being no levy of GST on diesel, there cannot be any ITC.

3. GST is payable under reverse charge on transportation service received from GTA. Tax payable under section 9(3) of the CGST/SGST Act qualifies as input tax in terms of clauses (b) and (d) of section 2(62). Thus, input tax paid under reverse charge on GTA service will be available as ITC in terms of section 16(1) as the said service is used in course or furtherance of business.

Furthermore, intra-State services by way of transportation of goods by road except the services of a GTA and a courier agency are exempt from CGST vide *Notification No. 12/2017 CT (R) dated 28.06.2017*. Therefore, since no GST is paid on such services, there cannot be any ITC on such services.

4. Services by employees to employer in the course of or in relation to his employment is not a supply in terms of section 7 read with para 1 of Schedule III to the CGST Act. Therefore, since no GST is paid on such services, there cannot be any ITC on such services
5. ITC on supply of life insurance service is not blocked if it is obligatory for an employer to provide such service to its employees under any law for the time being in force. [Proviso to section 17(5)(b)]. Therefore, GST paid on premium for life insurance policies will be available as ITC in terms of section 16(1) as the said service is used in the course or furtherance of business.
6. Audit fee, telephone expenses and bank charges are all services used in the course or furtherance of business and thus, credit of input tax paid on such service will be available in terms of section 16(1).
7. Export of goods is a zero rated supply in terms of section 16(1)(a) of the IGST Act. A zero rated supply under LUT is made without payment of integrated tax [Section 16(3)(a) of the IGST Act].
8. Since export of goods is a zero rated supply, there will be no apportionment of ITC and full credit will be available [Section 16 of the IGST Act read with section 17(2) of the CGST Act].

9. As per section 49(5) read with rule 88A, ITC of-
- (i) IGST is utilised towards payment of IGST first and then CGST and SGST in any proportion and in any order.
 - (ii) CGST is utilised towards payment of CGST and IGST in that order. ITC of CGST shall be utilized only after ITC of IGST has been utilised fully.
 - (iii) SGST is utilised towards payment of SGST and IGST in that order. ITC of SGST shall be utilized only after ITC of IGST has been utilised fully.
10. Section 49(4) lays down that the amount available in the electronic credit ledger may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82). Therefore, tax payable under reverse charge cannot be set off against the ITC and thus, will have to be paid in cash.
- *11. CGST and SGST are chargeable on intra-State inward and outward supplies and IGST is chargeable on inter-State inward and outward supplies.

23. Computation of net GST payable by ABC Company Ltd.

Particulars	GST payable (₹)
Gross GST liability [Refer working note (2) below]	91,200
Less: Input tax credit [Refer working note (1) below]	<u>82,000</u>
Net GST payable from Electronic Cash Ledger	9,200

Working Notes:

(1) Computation of ITC available with ABC Company Ltd.

Particulars	GST (₹)
Health insurance of factory employees [Note – 1]	20,000
Raw material received in factory [Note – 2]	Nil

Work's contractor's service used for installation of plant and machinery [Note -3]	12,000
Manufacturing machinery directly sent to job worker's premises under challan [Note -4]	50,000
Purchase of car used by director for business meetings only [Note -5]	Nil
Outdoor catering service availed for business meetings [Note -6]	<u>Nil</u>
Total ITC available	82,000

Notes:

1. ITC of health insurance is available in the given case in terms of proviso to section 17(5)(b) since it is obligatory for employer to provide health insurance to its employees under the Factories Act, 1948. -
2. Where the goods against an invoice are received in lots/ installments, ITC is allowed upon receipt of the last lot/ installment vide first proviso to section 16(2). Therefore, ABC Company Ltd. will be entitled to ITC of raw materials on receipt of second installment in next month.
3. Section 17(5)(c) provides that ITC on works contract services is blocked when supplied for construction of immovable property (other than plant and machinery) except when the same is used for further supply of works contract service.

Though in this case, the works contract service is not used for supply of works contract service, ITC thereon will be allowed since such services are being used for installation of plant and machinery.
4. ITC on capital goods directly sent to job worker's premises under challan is allowed in terms of section 19(5) read with rule 45(1).
5. Section 17(5)(a) provides that motor vehicle for transportation of persons having approved seating capacity of not more than 13

persons (including the driver), except when they are used for making taxable supply of-

- (i) further supply of such vehicles,
- (ii) transportation of passengers,
- (iii) imparting training on driving, flying, navigating such vehicles and

Since ABC Company Ltd is a supplier of machine and it does not use the car for transportation of passengers or any other use as specified, ITC thereon will not be available.

6. Section 17(5)(b)(i) provides that ITC on outdoor catering is blocked except where the same is used for making further supply of outdoor catering or as an element of a taxable composite or mixed supply.

Since ABC Company Ltd is a supplier of machine, ITC thereon will not be available.

(2) Computation of gross GST liability

	Value received (₹)	Rate of GST	GST payable (₹)
Hiring receipts for machine	5,25,000	12%	63,000
Service charges for supply of manpower operators	2,35,000	12%	28,200
Gross GST liability			91,200

Note:

Since machine is always hired out along with operators and operators are supplied only when the machines are hired out, it is a case of composite supply, wherein the principal supply is the hiring out of machines [Section 2(30) read with section 2(90)]. Therefore, service of supply of manpower operators will also be taxed at the rate applicable

for hiring out of machines (principal supply), which is 12%, in terms of section 8(a).

24. Computation of ITC available with Pari Ltd.

S. No.	Particulars	Eligible input tax credit		
		CGST (₹)	SGST (₹)	IGST (₹)
1.	Raw Material			
	Purchased from local registered suppliers [Note 1(i)] (₹ 1,06,250 x 9%)	9,562.50	9,562.50	
	Purchased from local unregistered suppliers [Note 1(ii)]	Nil	Nil	
	Purchased from Punjab from registered supplier [Note 1(i)] (₹ 1,00,000 x 18%)			18,000
	Raw material imported from USA [Note 1(iii)]			22,732
2.	Consumables [Note 2] (₹ 1,56,250- ₹ 31,250) x 9%]	11,250	11,250	
3.	Monthly rent for the factory building to the owner in Rajasthan [Note 3]	9,000	9,000	
4.	Salary paid to employees on rolls [Note 4]	Nil	Nil	Nil
5.	Premium paid on life insurance policies taken for specified employees [Note 5] (₹ 2,00,000 x 9%)	18,000	18,000	-
Total		47,812.50	47,812.50	40,732

Add: Opening balance of ITC	20,000	15,000	15,000
Total ITC [Note 7]	67,812.50	62,812.50	55,732

Computation of net GST payable

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Intra-State supply	78,750	78,750	
Inter-State supply			67,500
Exports under LUT [Note 6]	Nil	Nil	Nil
Total output tax liability	78,750	78,750	67,500
Less: ITC	67,812.50	62,812.50	55,732
Net GST payable (rounded off)	10,938	15,938	11,768

Notes:

- Credit of input tax (CGST & SGST/ IGST) paid on raw materials used in the course or furtherance of business is available in terms of section 16.
 - Tax on procurements made by a registered person from an unregistered supplier is levied only in case of notified goods and services in terms of section 9(4). Therefore, since no GST is paid on such raw material purchased, there does not arise any question of ITC on such raw material.
 - IGST paid on imported goods qualifies as input tax in terms of section 2(62). Therefore, credit of IGST paid on imported raw materials used in the course or furtherance of business is available in terms of section 16.
- ITC on consumables, being inputs used in the course or furtherance of business, is available. However, since levy of GST on high speed diesel has been deferred till a date to be notified by Government, there cannot be any ITC of the same.
- ITC on monthly rent is available as the said service is used in the course or furtherance of business.

4. Services by employees to employer in the course of or in relation to his employment is not a supply in terms of section 7 read with Schedule III to the CGST Act. Therefore, since no GST is paid on such services, there cannot be any ITC on such services.
5. ITC on life insurance service is available if the same is obligatory for an employer to provide to its employees under any law for the time being in force as per proviso to section 17(5)(b).
6. Export of goods is a zero rated supply in terms of section 16(1)(a) of the IGST Act. A zero rated supply under LUT/bond is made without payment of IGST in terms of section 16(3)(a).
7. Since export of goods is a zero rated supply, there will be no apportionment of ITC and full credit will be available as per section 17(2).

25. Computation of net GST payable by Flowchem for the month of July

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Output tax liability [Working Note 1]			1,88,100
Less: ITC of CGST [Working Note 2]			(25,000)
Less: ITC of SGST has been utilized only after ITC of CGST has been utilized fully in terms of proviso to section 49(5)(c) [Working Note 2]			(25,000)
Net GST payable from Electronic Cash Ledger			1,38,100

Working Note 1

Computation of output tax liability of Flowchem for the month of July

Particulars	Amount (₹)
List price of 10 valves (₹ 1,00,000 x 10)	10,00,000
Add: Amount paid by R Refinery to testing agency [Note 1]	15,000
Add: Special packing [Note 2]	10,000

Add: Erection and testing at site [Note 2]	15,000
Add: Freight [Note 3]	<u>5,000</u>
Value of taxable supply	10,45,000
IGST @ 18% [Note 4]	1,88,100

Notes:

- (1) As per section 15(2), any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods shall be included in the value of supply.

Since, in the given case, arranging inspection was the liability of the supplier, the same should be included in the value of supply charges for the same, however, have been paid directly to the third party service provider by the recipient. Therefore, the value shall be included in taxable value.

- (2) As per section 15(2), any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods shall be included in the value of supply.
- (3) As per section 15(2), any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods shall be included in the value of supply.

Since, in the given case, the supply contract is on FOR basis, payment of freight is the liability of supplier but the same has been paid by the recipient and thus, should be included in the value of supply.

- (4) As per section 10(1) of the IGST Act, 2017, where the supply involves movement of goods, the place of supply is the location of the goods at the time at which the movement of goods terminates for delivery to the recipient, which in the given case is Abu Road (Rajasthan). Since the location of the supplier (Gujarat) and the place of supply (Rajasthan) are in two different States, the supply is an inter-State supply liable to IGST.

Working Note 2**Computation of ITC available with Flowchem for the month of July**

Particulars	CGST (₹)	SGST (₹)
Opening ITC	20,000	20,000
Work contract services availed for erecting foundation for fixing the machinery to the earth in the factory [Note 1]	5,000	5,000
Services of travel company to provide home travel facility to employees Note 2]	Nil	Nil
Services of fitness center to provide wellness services to employees [Note 2]	Nil	Nil
Total ITC	25,000	25,000

Notes:

- (1) As per section 17(5), ITC on works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service, is blocked. Further, plant and machinery includes foundation and structural supports used to fix the machinery to earth.
- (2) As per section 17(5), ITC on travel benefits extended to employees on home travel concession and membership of health and fitness center is blocked unless it is obligatory for an employer to provide the same to its employees under any law for the time being in force.

AMENDMENTS MADE VIDE THE FINANCE ACT, 2024

The Finance Act, 2024 came into force from 15.02.2024. However, most of the amendments made under the CGST Act and the IGST Act vide the Finance Act, 2024 became effective subsequently from the date notified by the Central Government in the Official Gazette.

In the table given below, the amendments in section 2 and section 20 by the Finance Act, 2024 have been elaborated. **Since these amendments have become effective from 01.04.2025, said amendments are not applicable for May 2025 examinations. However, said amendments are applicable for November 2025 examinations.** Therefore, students appearing in November 2025 examination should read the amended provisions given hereunder in place of the related provisions discussed in the chapter.

Section No.	Existing provisions	Provisions as amended by the Finance Act, 2024	Remarks
2(61)	"Input Service Distributor" means an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account	<i>"Input Service Distributor" means an office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax under sub-section (3) or sub-section (4) of section 9, for or on behalf of distinct persons referred to in section 25, and liable to distribute the input tax credit in respect of such</i>	Definition of Input service distributor and section 20 have been substituted so that ITC on account of input services received from a third party, where such input services are liable to tax on reverse charge basis, should also be required to be distributed through ISD route.

	Number as that of the said office;'	<i>invoices in the manner provided in section 20;</i>	
20	(1) The inputs service distributor shall distribute the credit of central tax as central tax or integrated tax and integrated tax as integrated tax or central tax, by way of issue of a document containing the amount of input tax credit being distributed in such manner as may be prescribed. (2) The Input Service Distributor may distribute the credit subject to the following conditions, namely:— (a) the credit can be distributed to the recipients of credit against a document containing such details as may be prescribed; (b) the amount of the credit distributed shall not exceed the amount of credit available for distribution; (c) the credit of tax paid on input services attributable to a recipient of credit shall be	<i>(1) Any office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax under sub-section (3) or sub-section (4) of section 9, for or on behalf of distinct persons referred to in section 25, shall be required to be registered as Input Service Distributor under clause (viii) of section 24 and shall distribute the input tax credit in respect of such invoices.</i> <i>(2) The Input Service Distributor shall distribute the credit of central tax or integrated tax charged on invoices received by him, including the credit of central or integrated tax in</i>	

distributed only to that recipient;

(d) the credit of tax paid on input services attributable to more than one recipient of credit shall be distributed amongst such recipients to whom the input service is attributable and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all such recipients to whom such input service is attributable and which are operational in the current year, during the said relevant period;

(e) the credit of tax paid on input services attributable to all recipients of credit shall be distributed amongst such recipients and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the

respect of services subject to levy of tax under sub-section (3) or sub-section (4) of section 9 paid by a distinct person registered in the same State as the said Input Service Distributor, in such manner, within such time and subject to such restrictions and conditions as may be prescribed.

(3) The credit of central tax shall be distributed as central tax or integrated tax and integrated tax as integrated tax or central tax, by way of issue of a document containing the amount of input tax credit, in such manner as may be prescribed.

aggregate of the turnover of all recipients and which are operational in the current year, during the said relevant period.

Explanation.—For the purposes of this section,—

(a) the “relevant period” shall be—

(i) if the recipients of credit have turnover in their States or Union territories in the financial year preceding the year during which credit is to be distributed, the said financial year; or

(ii) if some or all recipients of the credit do not have any turnover in their States or Union territories in the financial year preceding the year during which the credit is to be distributed, the last quarter for which details of such turnover of all the recipients are available, previous to the month during which credit is to be distributed;

(b) the expression “recipient of credit” means the supplier of

	goods or services or both having the same Permanent Account Number as that of the Input Service Distributor; (c) the term 'turnover', in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under entries 84 and 92A of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule.	
--	---	--

AMENDMENTS MADE VIDE THE FINANCE (NO. 2) ACT, 2024

The Finance (No. 2) Act, 2024 came into force from 16.08.2024. However, most of the amendments made under the CGST Act and the IGST Act vide the Finance (No. 2) Act, 2024 became effective subsequently from the date notified by the Central Government in the Official Gazette.

In the table given below, the amendments in section 17(5)(i) and section 21 by the Finance (No. 2) Act, 2024 have been elaborated. **Since these amendments have become effective from 01.11.2024, said amendments are not applicable for May 2025 examinations. However, said amendments are applicable for November 2025 examinations.** Therefore, students appearing in November 2025 examination should read the amended provisions given hereunder in place of the related provisions discussed in the chapter.

Section No.	Existing provisions	Provisions as amended by the Finance (No. 2) Act, 2024	Remarks
17(5)(i)	any tax paid in accordance with the provisions of sections 74, 129 and 130.	any tax paid in accordance with the provisions of section 74 in respect of any period up to Financial Year 2023-24.	Section 17(5) of the CGST Act, 2017 has been amended, so as to restrict the non-availability of input tax credit in respect of tax paid under section 74 of the said Act only for demands upto Financial Year 2023-24. It also removes reference to sections 129 and 130 in the said sub-section.

21	Where the Input Service Distributor distributes the credit in contravention of the provisions contained in section 20 resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from such recipients along with interest, and the provisions of section 73 or section 74, as the case may be, shall, mutatis mutandis, apply for determination of amount to be recovered.	Where the Input Service Distributor distributes the credit in contravention of the provisions contained in section 20 resulting in excess distribution of credit to one or more recipients of credit, the excess credit so distributed shall be recovered from such recipients along with interest, and the provisions of section 73 or section 74 or section 74A, as the case may be, shall, mutatis mutandis, apply for determination of amount to be recovered.	Section 21 of the CGST Act, 2017 has been amended, so as to incorporate a reference to the new section 74A in the said section. Section 74A introduces a uniform timeframe for issuing notices, tax demands, and granting penalty relief for any tax liability, whether arising from honest mistakes or deliberate actions like fraud or concealment. This provision, applicable from FY 2024-25, overrules the previous Sections 73 and 74.
----	--	--	--