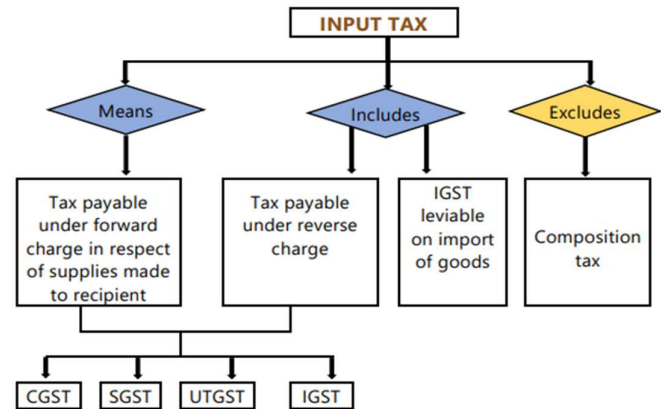
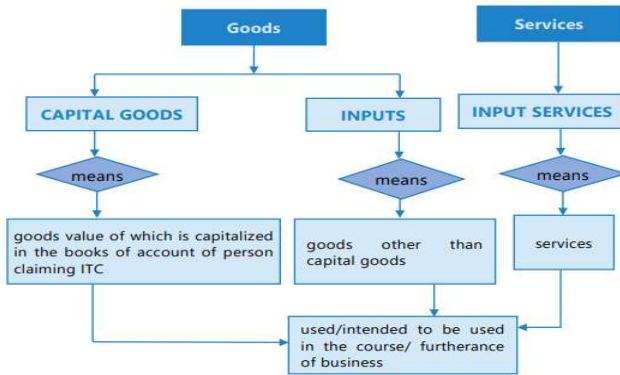


Basics:



Zero-rated supply: Includes **export** of goods/services/both; or **supply to SEZ unit/developer**.

A. Eligibility for taking ITC:

1. Registration under GST
2. Goods/services to be used for business purposes ["intention to use" would also suffice]

B. Conditions for taking ITC: ALL of the following 6 conditions are required to be satisfied:

a) Possession of tax-paying document: ITC can be availed on basis of any of following documents:

- (i) Invoice/revised invoice/debit note issued by supplier
- (ii) Invoice issued by recipient for RCM supplies from unregistered supplier, subject to tax payment
- (iii) Bill of entry/ similar document prescribed under Customs Act
- (iv) Document issued by ISD (input service distributor)

[ITC can be claimed only on documents with key details like tax amount, description of goods/services, VOS, POS (POS for inter-state supply) and GSTIN of supplier & recipient]

b) Details of invoices/debit notes uploaded by supplier in his GSTR-1 (as amended in FORM GSTR-1A if any)/IFF & details communicated in Form GSTR-2B of recipient: ITC on invoices/debit notes not reflected in GSTR-2B of current month, may be claimed in any of the succeeding months when the details are furnished by suppliers.

Note: Full ITC can be availed in respect of IGST paid on imports, documents issued under reverse charge, credit received from ISD etc. even if not reflected in GSTR-2B.

c) Receipt of goods/services: **However**, in "Bill to Ship to" model, ITC is available to regd. person even if they don't receive goods/services directly, as long as they directed delivery or service to a 3rd party, as, in such case, goods/services are deemed to have been received by regd. person.

d) Details of ITC for said supply communicated to regd person u/s 38 not restricted: Sec. 38 requires regd. suppliers to provide details of outward supplies in GSTR-1 & an auto-generated GSTR-2B containing ITC details for recipients. GSTR-2B shows both eligible & non-eligible ITC based on inward supplies. ITC will not be available for supplies from:

- New registrants (during a specified period if prescribed)
- Suppliers defaulting in tax payment
- Suppliers whose output tax in GSTR-1 exceeds tax paid in GSTR-3B by a prescribed limit
- Suppliers claiming excessive ITC beyond limit in GSTR-2B
- Suppliers not meeting tax liability discharge requirements u/s 49(12) & u/R 86B
- Other specified persons.

e) Tax leviable on supply actually paid to Govt: A regd. person can claim eligible ITC as self-assessed in his return. However, if supplier doesn't pay tax in GSTR-3B till 30th Sept. of following FY after declaring supplies in GSTR-1/IFF, recipient must reverse ITC with interest by 30th Nov. If supplier pays tax later, recipient can reclaim reversed ITC in a subsequent return.

f) Filing of return [GSTR-3B by regd person availing ITC]

C. **Goods received in lots:** ITC available only on receipt of last lot

D. **Payment to Supplier for the invoice to be made within 180 days:** If payment is not made within 180 days, ITC availed must be reversed, with interest. Exceptions include:

- RCM inward supplies,
 - Deemed supplies without consideration - **Schedule I supplies**, and
 - Additions made to VOS on account of supplier's liability paid by recipient directly
- } VOS deemed to have been paid
- ITC can be reclaimed once payment is made later.

E. **If depreciation claimed on tax component:** ITC not allowed

F. **Time limit for availing ITC [Sec. 16(4)]:** Earlier of 30th Nov. of FY succeeding FY of invoice issuance or date of filing relevant annual return. For debit notes, date of issuance of debit note & not date of underlying invoice is relevant to determine relevant FY.

- **Exception:** Time limit u/s 16(4) does not apply to claim for re-availing of ITC reversed earlier.
- **For RCM supplies received from unregd persons, time limit for availing ITC u/s 16(4) is based on FY in which recipient issues RCM invoice u/s 31(3). Recipient must pay tax on supply, & if invoice is issued late; interest will apply on delayed tax payment. Also, recipient may face penalties u/s 122.**

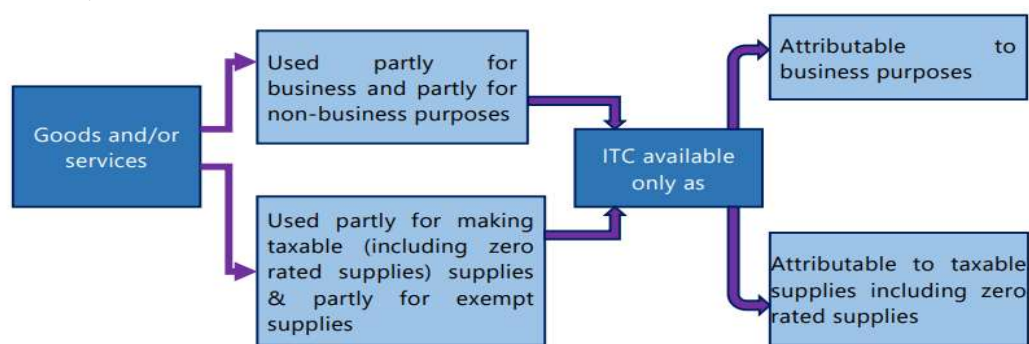
G. **Time limit for taking ITC in case of revoked registration cancellation:** If a taxpayer's regn is canceled & later revoked, he cannot file returns for period b/w cancellation & revocation until their regn is restored. In such cases, if the ITC on any invoice/debit note has not been claimed and time limit u/s 16(4) has expired, he wouldn't be able to claim ITC. However, relaxation is provided, allowing time limit to avail ITC u/s 16(4) to be extended until return is filed, provided return for the period from cancellation to revocation is filed within 30 days of revocation of registration, & ITC time limit hadn't already expired when registration was canceled.

H. **Restriction of ITC:** In proportion of (i) taxable supplies (ii) business purposes [Elaborated later]

I. **Blocked Credit [Sec. 17(5)]:** ITC not allowed on certain supplies [Elaborated later]

Provisions of Section 17 read with relevant rules:

A. Apportionment of ITC



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 Apportionment of ITC for banking companies and NBFCs:

Option 1	Avail proportionate ITC (based on proper calculation)
Option 2	Avail 50% of eligible ITC: <ul style="list-style-type: none"> • Balance will be reversed in GSTR-3B • Restriction of 50% shall not apply to tax paid on supplies recd from same entity's another regn • Option once exercised cannot be withdrawn during remaining part of the year.

Clarification on ITC availability w.r.t. replacement of goods/parts/repair services during warranty period

Issue 1: Whether a manufacturer is required to reverse ITC on replacement of goods/repair services provided during the warranty period, where no additional consideration is charged from the customer.

Clarification: Value of original supply of goods includes the likely cost of warranty-related replacement or repair services, so these warranty supplies are not considered exempt, so no ITC reversal required.

[If add'l consideration charged by manufacturer, then GST will be payable & ITC not reversed]

Issue 2: Is a distributor required to reverse ITC when providing warranty replacement of goods or parts to customers on behalf of manufacturer, without charging separate consideration? Clarification→

Scenario	Clarification
Distributor replaces goods/parts either by using his stock or by purchasing from a 3 rd party & charges consideration from manufacturer	GST is payable by distributor on supply to manufacturer. Manufacturer can avail ITC on this supply. No ITC reversal required by distributor.
Distributor replaces goods/parts without consideration, using goods/ parts supplied by manufacturer on requisition	No GST payable by manufacturer for the replacement. No ITC reversal required by manufacturer.
Distributor replaces goods/parts using supply already received from manufacturer & manufacturer issues a credit note	Manufacturer adjusts tax liability subject to the condition that distributor reverses ITC on the replaced goods/parts.
Distributor replaces goods/parts using his stock and manufacturer then replenishes said goods/ parts without charging separate consideration	No GST payable on replenishment of goods/parts. No ITC reversal required by manufacturer.

[Above are cases for transactions amongst manufacturer & distributor; while for transaction b/w distributor & customer, there will be no GST as no consideration is charged by distributor from customer]

Issue 3: Is ITC available when a distributor provides repair services to a customer on behalf of manufacturer during warranty, charging manufacturer for such services either by invoice/debit note?

Clarification: ITC is available to manufacturer, as the distributor's provision of repair services constitutes a supply, and GST is payable by the distributor for such services.

Issue 4: Is GST applicable when extended warranty is provided at time of original supply or after that?

Clarification:

(a) If extended warranty is acquired at time of original supply, it's part of composite supply & incurs GST.

(b) If provided by a different supplier, it's treated as a separate service and taxable.

(c) If acquired after original supply, it's distinct and incurs GST.

C. Apportionment of Common Credit in case of Inputs and Input Services (I+IS):

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 intended to be used exclusively for non-business purposes	(T1)
Less: Input tax on inputs & input services intended to be used exclusively for exempt supplies	(T2)
Less: Input tax on inputs & input services which are ineligible for credit [blocked credits]	(T3)
ITC credited to Electronic Credit Ledger	C1
Less: ITC on inputs & input services intended to be used exclusively for taxable supplies incl. ZRS	(T4)
Common ITC available for apportionment	C2

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

$$D1 = (E/F) \times C2$$

[D1= Credit attributable to exempt supplies; E = Aggregate value of exempt supplies during tax period; F = Total T/O in State during tax period]

Exempt supplies **include**:

- RCM supplies,
- Transactions in securities (1% of the sale value of such security taken),
- Sale of land and sale of building [Schedule III] (Stamp duty value taken) and
- Supply of warehoused goods before clearance for home consumption including VOS of goods from Duty Free Shops at arrival terminal in international airports to incoming passengers.

[Thus, ITC attributable to such supplies will need to be reversed]

But exclude-

- Supply of services by way of accepting deposits, extending loans or advances for interest or discount. [However, such services included in exempt supply when provided by a Banking Co./FI/NBFC]
- Value of Supply of Duty Credit Scrips

➤ Exempt supplies and Total T/O exclude central/state excise duty, central sales tax and VAT

[Note: Calculate D2 only if specific mention of it in question: $D2 = 5\%$ of $C2$ (if amt. not specified)]

Step 3 - Compute eligible credits:

Compute $C3$ attributable to business purposes and taxable supplies including ZRS as under:

$$C3 = C2 - (D1 + D2)$$

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

Step 4 - Restrict ineligible credits: Reverse $D1 + D2$

Step 5 - Annual Check

- Compute $\sum (D1 + D2)$ for whole FY, by taking exempted T/O & aggregate T/O for whole FY, before due date for filing return for September in following FY.
- If $\sum (D1 + D2) >$ cumulative amount already reversed every month, differential amount has to be reversed in any month till September in following FY & interest @ 18% should be paid on such differential amount **from 1st April of succeeding year till date of payment**.
- If amount reversed every month $>$ $\sum (D1 + D2)$, additional amount paid has to be claimed back as credit in return of the month not later than September in next FY.

Clarification on requirement of ITC reversal w.r.t. portion of premium for life insurance policies which is not included in taxable value: 'Life insurance business' u/s 2(11) of the Insurance Act, 1938, includes policies combining investment & insurance components like ULIP.

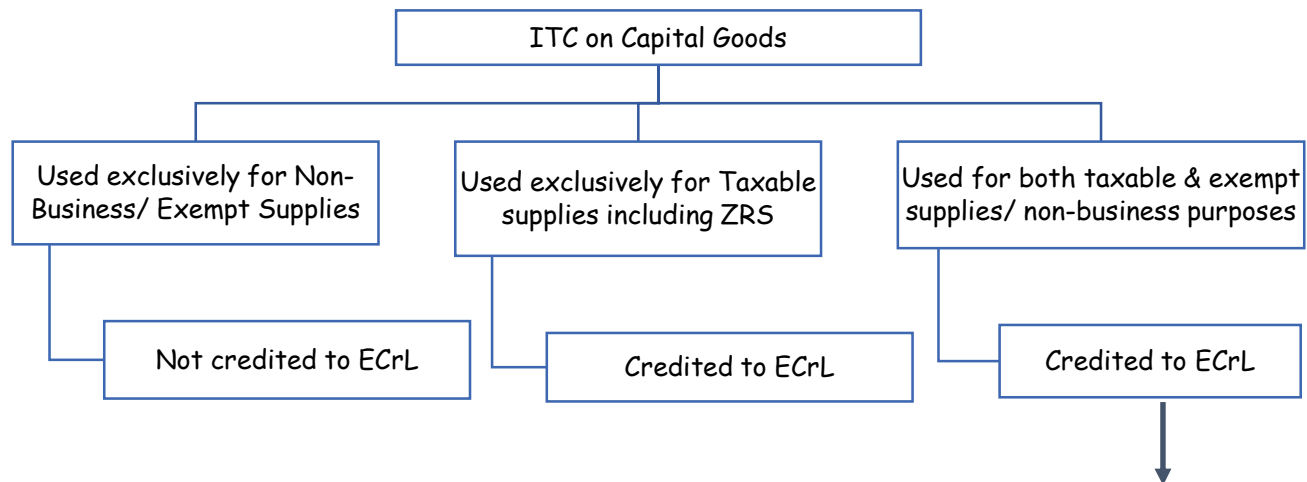
Exempt supply means nil-rated supplies, wholly exempt supplies & non-taxable supplies. Further, non-taxable supply means a supply not leviable to tax under GST.

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

ITC reversal applies only when supplies are used partly for business and personal purposes or for both taxable and exempt supplies.

Thus, amount of premium for taxable LIP, not included in taxable value, cannot be considered as pertaining to non-taxable/exempt supply & therefore, no reversal of ITC is required as per provisions of Rule 42/43.

D. Apportionment of common credit on capital goods



Common credit on CG $\Rightarrow T_c = \sum (A$ i.e. ITC of common CG whose useful life of 5 yrs remains during tax pd)

\Rightarrow If CG under (a) subsequently gets covered under (c), then 'A' = ITC on CG under (a), and 'A' to be credited to ECrL. Tie = 5% of 'A' for every quarter or part thereof when CG was under (a) and Tie to be added to output tax liability of the tax period when 'A' is claimed.

\Rightarrow If CG under (b) subsequently gets covered under (c), then ITC claimed on CG under (b) is added to T_c

Monthly Common credit of CG for a tax period: $T_m = T_c/60$

Common credit towards exempted supplies: $T_e = T_m * E/F$

Blocked Credit [Sec. 17(5)]:

1. Motor vehicles and other conveyances and related services:

S.No.	Goods/Services on Which Credit is Blocked	Exceptions to Such Blocked Credit i.e. Cases where ITC is Allowed
1	Motor vehicles* for transportation of persons with seating capacity \leq 13 persons (including the driver) [i.e. Ineligible motor vehicles]	Ineligible motor vehicles when used for any of the following eligible purposes: - Making further taxable supply of such MV (e.g., MV traders). - Making taxable supply of transportation of passengers (e.g., travel operator offering transportation services). - Making taxable supply of imparting training on driving such motor vehicles (e.g., motor driving schools).

*Motor vehicles **exclude** -

- vehicle running upon fixed rails
- special purpose vehicles for being used in a factory/any enclosed premises
- vehicle with < 4 wheels fitted with engine capacity of up to 25CC

Key Points:

- ITC allowed on MV for transportation of persons with **seating capacity > 13 persons** (incl. driver) used for any purpose.

-ITC allowed on motor vehicles other than ineligible motor vehicles (e.g., motor vehicles used for **transportation of goods, dumpers, tippers**, etc.) used for any purpose.

2	Vessels and aircraft	<p>Vessels and aircraft when used for any of the following eligible purposes:</p> <ul style="list-style-type: none"> - 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 aircraft. - Transportation of goods.
3	General insurance, servicing, R&M w.r.t. ineligible motor vehicles/ vessels/aircrafts	<p>Such services when received by:</p> <ul style="list-style-type: none"> - Manufacturer of ineligible motor vehicles, vessels, or aircraft; - Supplier of general insurance services in respect of ineligible motor vehicles, vessels, or aircraft insured by him.
4	Leasing, renting, or hiring of ineligible MV/ vessels/aircrafts	<p>Such services when:</p> <ul style="list-style-type: none"> - Used for making an outward taxable supply of same category of services/part of taxable composite or mixed supply (E.g.: sub-contracting) - Provided by an employer to its employees under a statutory obligation.

Clarification on ITC Availability for Demo Vehicles: **ITC on demo vehicles [motor vehicles for transportation of passengers having approved seating capacity ≤ 13 persons (including driver)], which are motor vehicles used by authorized dealers for trial runs and demonstrations to potential buyers, is not blocked u/s 17(5) of CGST Act because demo vehicles are considered to be used for making further supply of similar motor vehicles.**

- **Demo Vehicles not used for Further Supply Purposes:** If demo vehicles are used for purposes other than for making further supply of motor vehicles (e.g., transportation of staff), ITC is not available.
- **Authorized Dealer Acts as an Agent for Vehicle Manufacturer:** If authorized dealer only provides marketing services and not directly involved in sale or purchase of vehicles (e.g., facilitating test drives on behalf of manufacturer), ITC cannot be claimed on demo vehicle. This is because the dealer is not making a further supply of the vehicle on their own account.

2. Food & beverages, outdoor catering, health services and other services

S.No.	Goods/Services on Which Credit is Blocked	Exceptions to Such Blocked Credit i.e. Cases where ITC is Allowed
1	Food & beverages, Outdoor Catering, Beauty treatment, Health services, Cosmetic & plastic surgery, Life insurance, Health insurance	<ul style="list-style-type: none"> Such services when used by a regd. person for making outward taxable supply of same category/part of a taxable composite or mixed supply [E.g.: sub-contracting] Such services when provided by an employer to employees under statutory obligation.
2	Membership of a club, health and fitness centre	Such services when provided by employer to employees under statutory obligation
3	Travel benefits to employees on vacation (leave/home travel concession)	Such services when provided by employer to employees under statutory obligation

3. Works contract services (WCS) for construction of immovable property: ITC of construction services is not available when expenses are capitalized in BOA but available for R&M, renovation, etc. which are expensed off. Capitalization of an expense does not depend on whether taxpayer intends to avail ITC, but on the basis of Accounting Standards and GAAP.

[Immovable Property: Includes land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth]

EXCEPTION:

- It is an input service for further supply of works contract service (sub-contracting);
- Immovable property is Plant & Machinery [P&M affixed permanently to earth constitutes an immovable property. However, ITC on WCS of such P&M is allowed as an exception.]

Note:

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

[Summary: ITC is available on WCS in following 3 cases only:

(a) Works Contractor's Input (b) Eligible P&M (regardless of business type/exp. capitalization) (c) Non-Capitalized Expense (irrespective of business line)]

4. Self-construction of Immovable Property: ITC on goods and services used for constructing immovable property (other than plant or machinery) by a taxpayer on his own account is blocked, even if used for business purposes.

[Summary: ITC on goods/services for constructing immovable property is allowed only if:

(a) construction is not on own account (b) Eligible P&M (c) Non-Capitalized Cost]

Key Points:

- SC Judgment on "Plant and Machinery" (Point 3 above) vs. "Plant or Machinery" (Point 4 above): In case of Chief Commissioner of CGST v. Safari Retreats Pvt. Ltd. (2024), SC highlighted distinction b/w "plant and machinery" and "plant or machinery" u/s 17(5) of CGST Act. Term "plant and machinery" appears at several places & is specifically defined in explanation to Sec. 17, while "plant or machinery" is only used in Sec. 17(5)(d) & remains undefined. So, these terms can't be given same meaning. In clause (c), ITC is allowed if construction is for "plant and machinery" as defined, while in clause (d), ITC is available if construction is for a "plant or machinery". "Plant or machinery"

has a different connotation. It can be **either a plant or machinery**. Sec. 17(5) (d) deals with construction of an immovable property other than "plant or machinery" which shows that there could be **a plant that is an immovable property**. As 'plant' has not been defined under CGST Act/Rules, its ordinary meaning in commercial terms will have to be attached to it.

Thus, SC 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 meaning of expression "plant or machinery" is a **factual question** which has to be determined keeping in mind business of registered person and the role that building plays in said business.

If construction of a building was essential for carrying out activity of supplying services, like renting/leasing/other transactions for building as covered by Sch. II, building could be a plant and thus in such case, **ITC will not be blocked** i.e. ITC will be allowed.

- Clarification on ITC for OFC Network Components: **Regarding ducts and manholes used in optical fiber cable (OFC) networks for telecommunication services**, it has been clarified that these components qualify as "plant and machinery." Since they are integral to the OFC network's functioning, facilitating transmission of telecommunication signals, they fall within the scope of plant and machinery. Additionally, they are neither land, building, civil structures, nor excluded items like telecommunication towers or pipelines outside factory premises. Thus, ITC on ducts and manholes is not restricted under Sections 17(5)(c) or (d).
5. Inward supplies charged to tax under Composition Levy: ITC is blocked on inward supplies from a composition supplier, as they cannot collect tax and issue only a bill of supply.
 6. Inward supplies received by NRTP: ITC is not available to a NRTP on goods/services received in India, except for tax paid on **imported goods**.
 7. Inward supplies for CSR purposes u/s 135 of Companies Act, 2013: ITC is not available on goods/services for CSR, as CSR aims on creating social value rather than business-related activities.
 8. Inward supplies used for personal consumption
 9. Free samples, gifts, goods lost/stolen/written off/ destroyed: ITC is blocked as no tax is payable on outward supply of such goods.

ITC entitlement in respect of sales promotional schemes [I/IS/CG= inputs/input services/capital goods]:

- Samples and Free Gifts: ITC is **blocked** on goods used for free samples/gifts **except** distribution falls under Schedule I of CGST Act, where ITC can be availed as GST also paid on outward supply.
- Buy 1 Get 1 Free: ITC is **available** on I/IS/CG goods used in supply of goods as part of such offers, depending on it's a composite/mixed supply, as this is nothing but supply of 2 for price of 1
- Discounts including 'Buy More, Save More' Offers: ITC is available on I/IS/CG used for supply, even if discounts are given, provided Sec. 15(3) conditions satisfy including recipient reverses ITC.
- Secondary Discounts: Such discounts, offered after supply, do not affect ITC availability.

ITC Reversal on Return of Time Expired Medicines: Retailer/ wholesaler can return time expired goods, either by treating the same as **fresh supply** or by **issuing credit notes**. When time-expired goods are returned treating as fresh supplies by regd person (other than Composition taxpayer), GST invoice is issued & recipient can avail ITC on such return supply. Now when returned goods are destroyed by manufacturer, ITC which is required to be reversed is ITC availed on return supply & not ITC that is attributable to manufacture of such time-expired goods. Composition taxpayer may return said goods by issuing BoS & then there is no Q. of ITC availability.

ITC Reversal on moulds & dies provided by OEM to CoM on FOC basis: Moulds & dies provided by OEM to CoM on FOC basis are not considered a supply as no consideration is involved. Since, moulds & dies are provided by OEM to CoM for OEM's business purposes; there is no need for OEM to reverse ITC. However, if contract is for supply of components made using CoM's moulds & dies, and

then also OEM supplies moulds/ dies FOC, then OEM will need to reverse the ITC available on those moulds/dies as it's supplied for free & is not considered in course or furtherance of OEM's business.]

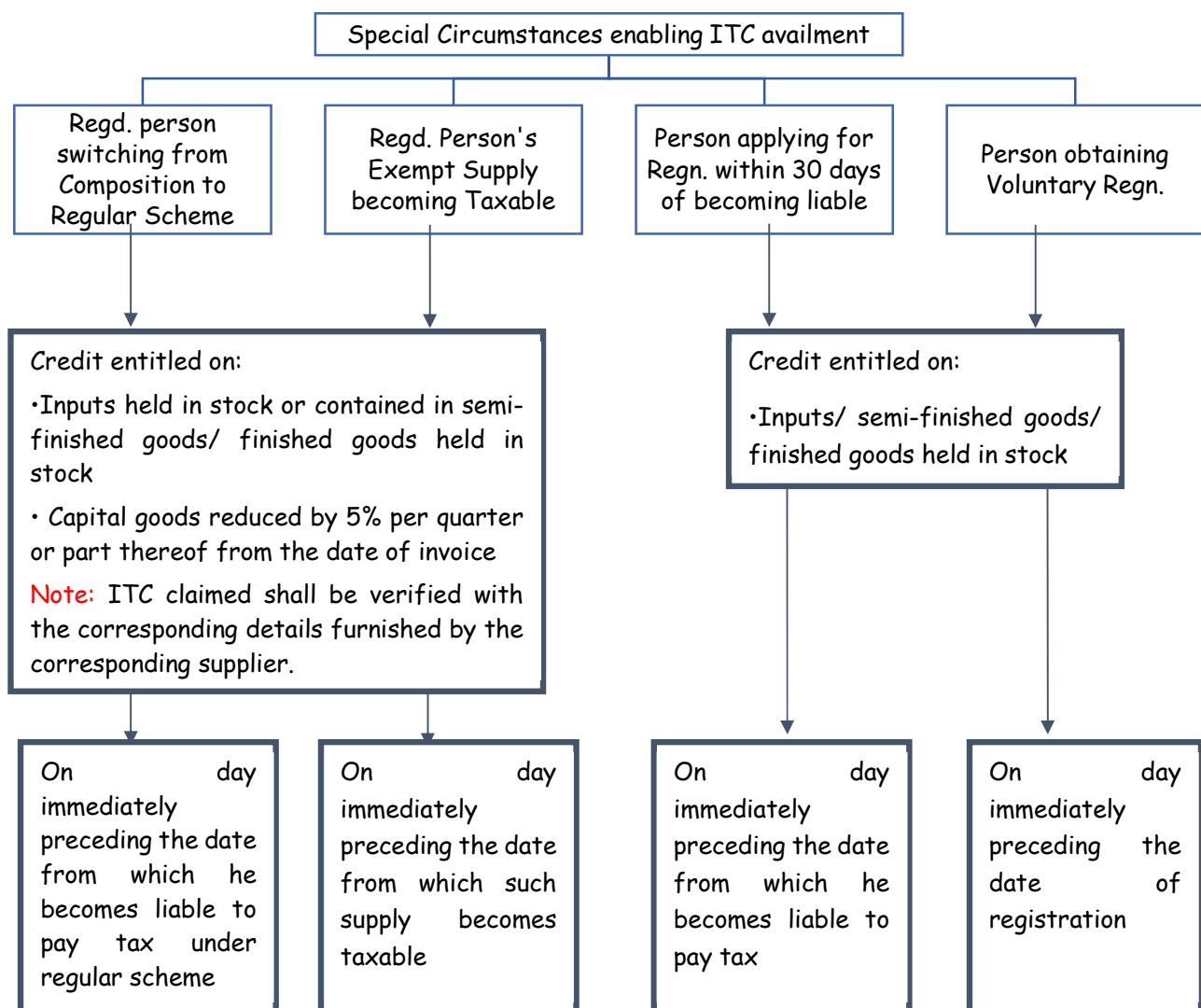
10. Tax paid in fraud cases/detention/confiscation: Tax paid u/s 74, 129 and 130 is not available as ITC. **[Amendment from Nov'24: Above provision has been amended, so as to restrict non-availability of ITC for tax paid u/s 74 only for demands up to FY 2023-24. It also removes reference to sections 129 and 130 in said sub-section.]**

Entitlement of ITC by Insurance Companies on Motor Vehicle repair expenses incurred under reimbursement mode: **ITC is available subject to 2 conditions:**

- (i) Invoices are issued in the name of insurance company and
- (ii) ITC is claimed solely for amt. reimbursed to insured (whether there are separate invoices for approved & excess amt. or single invoice for both) i.e. ITC available only on approved claim cost.

Credit in Special Circumstances [Provisions of Section 18 read with relevant rules]:

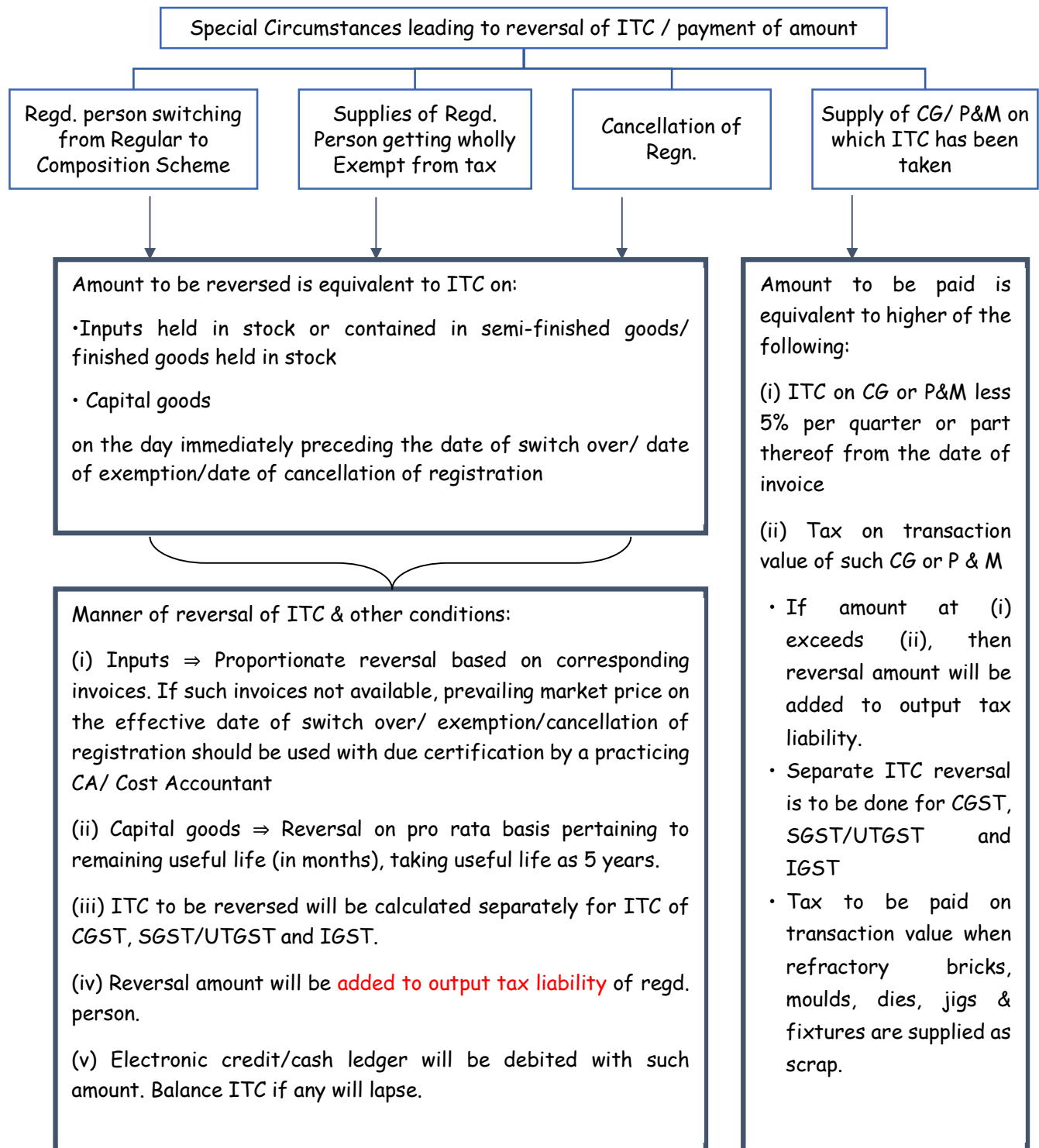
A. Special Circumstances enabling Availing of Credit:



Conditions for availing above credit:

- (i) ITC, in all above cases, is to be availed within 1 year from date of issue of invoice by supplier.
- (ii) Filing of electronic declaration within 30 days from becoming eligible to avail credit, giving details of inputs held in stock/contained in semi-finished goods and finished goods held in stock and capital goods.
- (iii) Details in (ii) above to be certified by a CA/ Cost Accountant if agg. claim > Rs. 2,00,000

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



Clarification on ITC availability on demo vehicles in cases where such vehicles are capitalized in authorized dealers' BOA: **ITC on demo vehicles is available to authorized dealers even when such vehicles are capitalized in their BOA. ITC is not allowed if depreciation is claimed on GST component. Further, upon sale, the dealer must pay requisite tax as u/R 44.**

Clarification for Rule 42 and 43: **For the purpose of Rule 42 and 43, supply of warehoused goods to any person before clearance for home consumption, which must be included in value of exempt supplies, refers to value of goods supplied at Duty Free Shops in arrival terminals of international airports to incoming passengers.**

C. Transfer of ITC on account of change in constitution of Regd. Person:

- In cases of sale, merger, amalgamation, lease, or business transfer, unutilized ITC can be transferred to new entity if liabilities are also transferred, & transferee duly accounts for inputs & capital goods in its BOA.
- For demergers, ITC is apportioned based on ratio of value of all assets (incl. those without ITC) as per demerger scheme.
 - ITC is apportioned based on asset ratio of new units on "appointed date of demerger" as per the demerger scheme at the State level (distinct person) and not at the all-India level.
E.g.: ITC transfer in MP = Total ITC x Value of assets transferred in MP / Total assets in MP.
 - Apportionment formula applies to total combined ITC balance (CGST, SGST/UTGST, IGST) in transferor's electronic credit ledger on filing date of GST ITC-02.
 - The total ITC transferred should not exceed the calculated amount, but the transferor can decide the ITC distribution under each tax head.
 - Transferor would be required to file Form GST ITC-02 only in those States where both transferor and transferee are registered.
- Details of the change in constitution must be furnished on the portal, along with a CA/Cost Accountant certificate confirming the transfer of liabilities. Upon acceptance by the transferee on the portal, the unutilized ITC is credited to their Electronic Credit Ledger.

D. Transfer of ITC on obtaining separate regn. for multiple places of business within a State/UT:

- Regd. person having separate regn. for multiple places of business can transfer unutilized ITC to any or all the newly regd. POB(s) in ratio of value of assets held by them at time of registration.
- Value of assets means value of entire assets of business irrespective of whether ITC has been availed thereon or not.
- Regd. person should furnish prescribed details on common portal within a period of 30 days from obtaining such separate registrations.
- Upon acceptance of such details by newly regd person (transferee) on common portal, unutilized ITC is credited to his ECrL (electronic credit ledger).

Distribution of Credit by Input Service Distributor (ISD):

- ISD is an office of a business which receives tax invoices for **input services (not goods)** & distributes available ITC to other branch offices of same business.
- Compulsory separate regn. is required for ISD (no threshold applicable).
- Conditions:
 - ISD must ensure credit distributed does not exceed the available credit.
 - Credit for an input service is distributed only to recipient attributable to that service.
 - If an input service relates to multiple recipients, ITC is distributed based on ratio of recipient's turnover to aggregate turnover of all recipients.
 - Common input service ITC is distributed among all recipients in turnover ratio.
 - Eligible & ineligible ITC are distributed separately.
 - ITC of CGST, SGST/UTGST, and IGST are distributed separately.
- Manner of Distribution:

ITC attributable to specific recipient	Distributed to such recipient only
ITC attributable to >1/ all recipients	Pro rata distribution [ITC to be distributed x Turnover of recipient having nexus with ITC during relevant period*/Turnover of all recipients having nexus with ITC during relevant period*]

*Relevant period = PFY (if all recipients of ITC had T/O during that year) OR Last qtr prior to month of distribution

• Distribution of taxes:

Credit Type	Distributed as	
Credit of IGST	Credit of IGST	
Credit of CGST/ SGST/UTGST	Recipient & ISD located in same State	ITC credited under same category
	Recipient & ISD located in diff. States	Credit of IGST

• Procedural Aspects of distribution of credit by ISD:

- ISD must issue an ISD invoice for distributing ITC, indicating it is issued solely for ITC distribution.
- If distributed credit gets reduced, ISD must issue an ISD credit note for the reduction.
- ISD invoices and credit notes must include details like the ISD's and recipient's name, address & GSTIN, serial number, date, ITC distributed, and ISD's signature.
- Banks and financial institutions (FIs) are exempt from serially numbering ISD invoices.
- ITC available for distribution in a month **must be distributed within the same month**.
- ISD must report details of credit distribution in monthly GSTR-6 within 13 days from month end.
- ISD cannot accept invoices where tax is to be paid under RCM, & must separately register if it wants to take RCM inward supplies.

• Issue of debit note and credit note on ISD:

- Additional ITC on account of issue of a debit note to ISD is distributed by ISD like a new invoice.
- When a credit note is issued to ISD, reduced ITC is apportioned among the relevant recipients as per the original distribution ratio. Reduced ITC is deducted from credit distributed for the month, and if it exceeds the available credit, excess is added to the recipient's output tax liability. Same process applies if credit is reduced for any other reason, viz. incorrect distribution to a recipient.
- Excess credit distributed can be recovered along with interest only from recipient & not from ISD and provisions of Sec.73/74* apply for determining amt. to be recovered. ISD would be liable to a general penalty u/s 122(1)(ix). **[*Amendment from Nov' 25: Sec.74A reference also added]**
- **HO has option to either distribute ITC using ISD mechanism or issue tax invoices u/s 31 for common input services procured from a 3rd party & attributable to its Branch Offices (BOs), provided services have been actually provided to BOs. If ISD mechanism is chosen, HO must register as an ISD.**

Utilization of ITC:

- IGST credit should be first utilized towards payment of IGST.
- Remaining IGST credit, if any, can be utilized towards payment of CGST & SGST/UTGST in any order and in any proportion.
- Entire ITC of IGST should be fully utilized before utilizing ITC of CGST or SGST/UTGST.
- ITC of CGST should be utilized for payment of CGST & IGST in that order.
- ITC of SGST /UTGST should be utilized for payment of SGST/UTGST & IGST in that order. But, ITC of SGST/UTGST should be utilized for IGST payment, only after ITC of CGST is utilized fully.
- ITC of CGST cannot be utilized for payment of SGST/UTGST & vice-versa.

Restrictions on utilization of ITC [Rule 86A]:

Commissioner/officer (not below an Assistant Commissioner) authorized by him is empowered to impose restrictions on utilization of ITC available in ECrL if he has reasons to believe that such ITC has been fraudulently availed or is ineligible. The restrictions can be imposed in **any** of the following cases:

- (i) ITC has been availed by regd. person on basis of tax invoices/debit notes/prescribed documents -
- issued by a **non-existent regd. person (supplier)** or by a supplier not conducting any business from place declared in registration; or
 - **without actual receipt** of goods/services/both; or
 - in respect of any supply the **tax for which has not been paid to Govt.**

- (ii) regd. person availing ITC found **non-existent/ not to be conducting any business** from regd. POB
 (iii) regd. person availing ITC is **not in possession of tax invoice/debit note/other valid document** for it.

If the ITC is so availed, restrictions can be imposed by:

- Not allowing such ITC to be used for discharging any liability u/s 49 or
- Not allowing refund of any unutilized amount of such ITC.

Such restrictions can be imposed for a period **up to 1 year** from date of imposing such restrictions. However, Commissioner/officer authorized 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:

Total Ineligible/Fraudulent ITC	Officer to Disallow Debit of Amount from ECrL U/R 86A
Up to ₹1 crore	Deputy Commissioner/Assistant Commissioner
Above ₹1 cr but up to ₹5 cr	Additional Commissioner/Joint Commissioner
Above ₹5 crore	Principal Commissioner/Commissioner

Restrictions on use of amount available in Electronic Credit Ledger [Rule 86B]:

- Rule 86B is applicable to regd. person having value of taxable supply (other than exempt supply and zero-rated supply) in a month **exceeding Rs. 50 lakh**.
- Amount available in ECrL shall be utilized only to the extent of 99% of output tax liability; balance 1% of output tax liability needs to be discharged from electronic cash ledger (ECL).
- Exceptions to rule 86B: No restriction u/R 86B if:
 - Regd person, Karta, proprietor, partners, MD, WTD, managing committee members, or trustees have paid **> ₹1 lakh income tax** in each of the last 2 FYs.
 - Regd person has **received > ₹1 lakh as a refund of unutilized ITC** for ZRS or inverted duty structure (IDS) in PFY.
 - Regd person has **paid >1%** of their total output tax liability **through ECL** cumulatively in current FY.
 - Specified Regd Persons i.e. Govt. Departments, PSUs, LA, or statutory bodies.
- Commissioner may remove restrictions u/R 86B after verification and safeguards.