

Input Tax Credit



Sec 2(59) Input : Means any goods used/ intended to be used by supplier, in the course / furtherance of business.(other than Capital Goods)

Sec 2(60) Input Service : Means any service used/ intended to be used by supplier, in the course / furtherance of business.

Sec 2(19) Capital Goods : Means goods, the value of which is capitalised in the books of accounts of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business

Sec 2(62) "Input Tax":- 1) CGST / SGST / UTGST / IGST charged on any supply of goods or services or both made to him (Inward Supply)
2) the IGST charged on import of goods
3) the tax payable under the RCM but does not include the tax paid under the composition levy

Sec 2(82) "Output Tax":"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.

Sec 16 : Eligibility & Conditions for ITC

1) Eligibility criteria-

⇒ **Person**= Registered,

⇒ **Supply**= Used/Intended to be used in course / furtherance of his business

2) Conditions for availment of ITC:- (Overriding sec 16)

a) He is in possession of a Tax Invoice/ debit note

Rule 36- Documents Requirement :-

- 1) **ITC availed on the basis of following docs.**- Invoice by supplier/ Invoice by recipient (RCM)/ Debit note/ Bill of entry/ Revised Invoice/ Docs. by ISD.
- 2) **Mandatory Requirement in Invoice** - Details of tax, descriptions of goods or service, value of supply, GSTIN & place of supply.
- 3) **No ITC**- if tax has been paid & demand is confirmed because of fraud etc.
- 4) **No ITC** by a RP 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 & **GSTR 1A** or using IFF &
 - (b) the details of **ITC in respect of** such invoices or debit notes have been communicated to the RP in FORM GSTR-2B.
- aa) the details of the invoice or debit note has been furnished by the supplier in GSTR-1/1A and such details have been updated in GSTR - 2B of recipient.
- b) He has received the Goods/Services/Both
(For Bill to Ship to- it shall be deemed to be received)
 - ⇒ Goods- When goods are delivered by supplier
 - ⇒ Services- When services are provided

Cummulative Conditions of 16(2)(a)/(ab)/(b)

Situations	Date of receipt of Invoice	Date of receipt of G/S	Updated in GSTR -2B	Eligibility of ITC
A)	25.04.XX	26.04.XX	April	In April
B)	28.04.XX	03.05.XX	April	In May
C)	05.05.XX	29.04.XX	May	In May
D)	10.04.XX	15.04.XX	July	In July

Whichever is Later

(ba) The details of input tax credit in respect of the said supply communicated to such registered person under section 38 has not been restricted

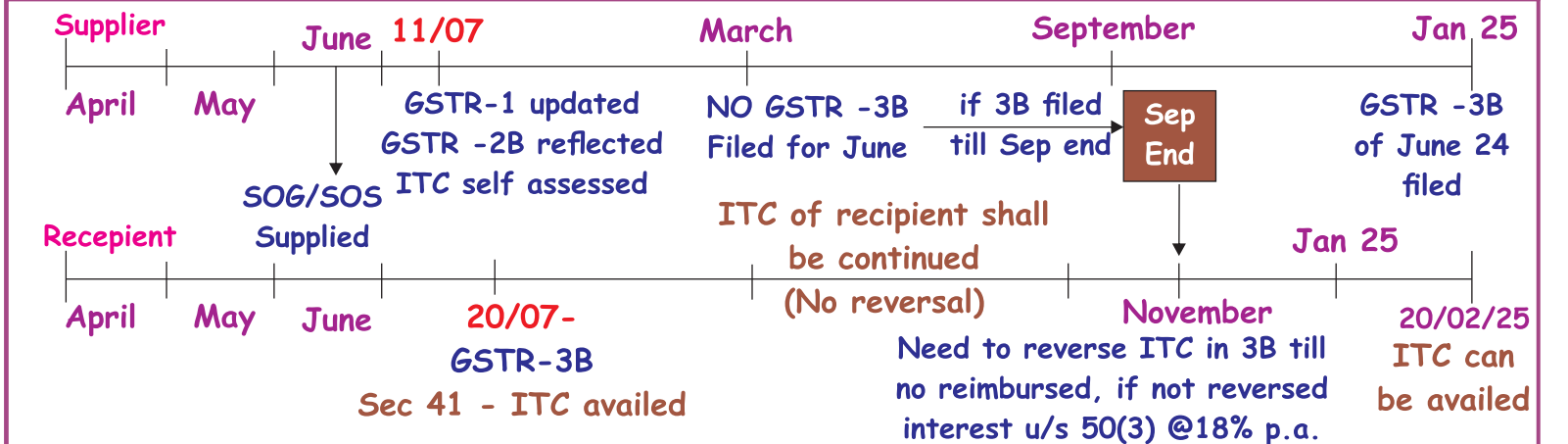
c) Tax charged on such supply= has been actually paid to Govt. by the supplier

Sec 41 :- Claim of ITC and Provisional acceptance thereof

The taxpayer shall self-assess and claim ITC in GSTR 3B. It further provides that in case the taxpayer has claimed ITC of GST which is not paid/ deposited by the corresponding supplier, than the taxpayer / recipient shall reverse the ITC along with interest. The recipient shall be eligible to re-claim the ITC reversed, on payment of GST by the supplier.

Rule 37A: Reversal of ITC in the case of non-payment of tax by the supplier and reavailment thereof:-

- ⇒ If the registered person has availed ITC & supplier furnished his GSTR 1 & **GSTR -1A** & if supplier has not furnished outward supplies in GSTR 3B till the 30th Sep, then the registered person shall reverse ITC in form GSTR 3B on or before 30th Nov following the end of FY.
- ⇒ If ITC is not reversed by Registered person, then amount shall be payable with interest u/s 50
- ⇒ If supplier furnishes GSTR 3B subsequently, registered person may re avail the amount of ITC.



d) He has furnished return u/s 39

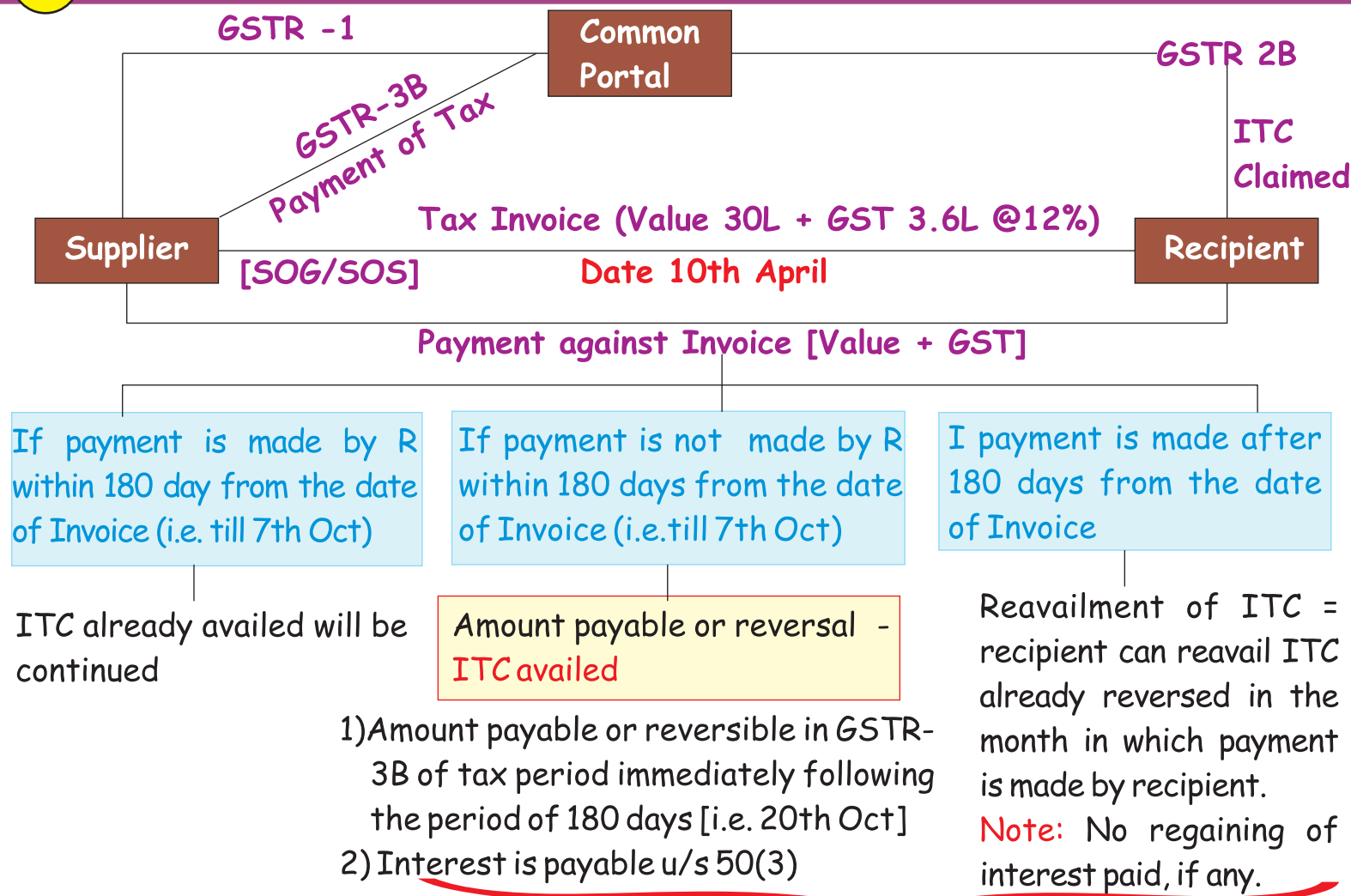
Proviso 1 :- ITC if Goods are received in Lot :- Where the goods against an invoice are received in lots or instalments, the registered person shall be entitled to take credit upon receipt of the last lot or instalment

Proviso 2:- Payment for the invoice to be made within 180 days (Rule 37)

1. **Default :** Failure by Recipient to pay (Wholly or partly) to the supplier the within 180 days from Invoice date.
2. **Consequence :** Amount equal to the ITC availed proportionate to amount not paid to supplier shall be paid by him along with interest payable u/s 50.
3. **Details to be furnished :** Details of defaulted supply, value not paid, ITC availed to be mentioned in FORM GSTR-3B for the month immediately after the expiry of 180 days from Invoice date.
4. **Regain of Credit :** Regain when payment is made to supplier (below time limit N.A. for regaining of ITC)
5. **Non Applicability :** This provision not applicable
 - a) Tax payable under RCM
 - b) Deemed supplies without consideration [Sch.I]
 - c) Value of supplies on account as per sec 15(2)(b)

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2nd Proviso:- Payment to supplier within 180 Days [Rule 37]



Note:- If payment partly made within 180 days then proportionate reversal & after part payment regain that proportionate credit.

3) When depreciation is claimed on tax component-

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.**

4) Time limit of availing ITC-

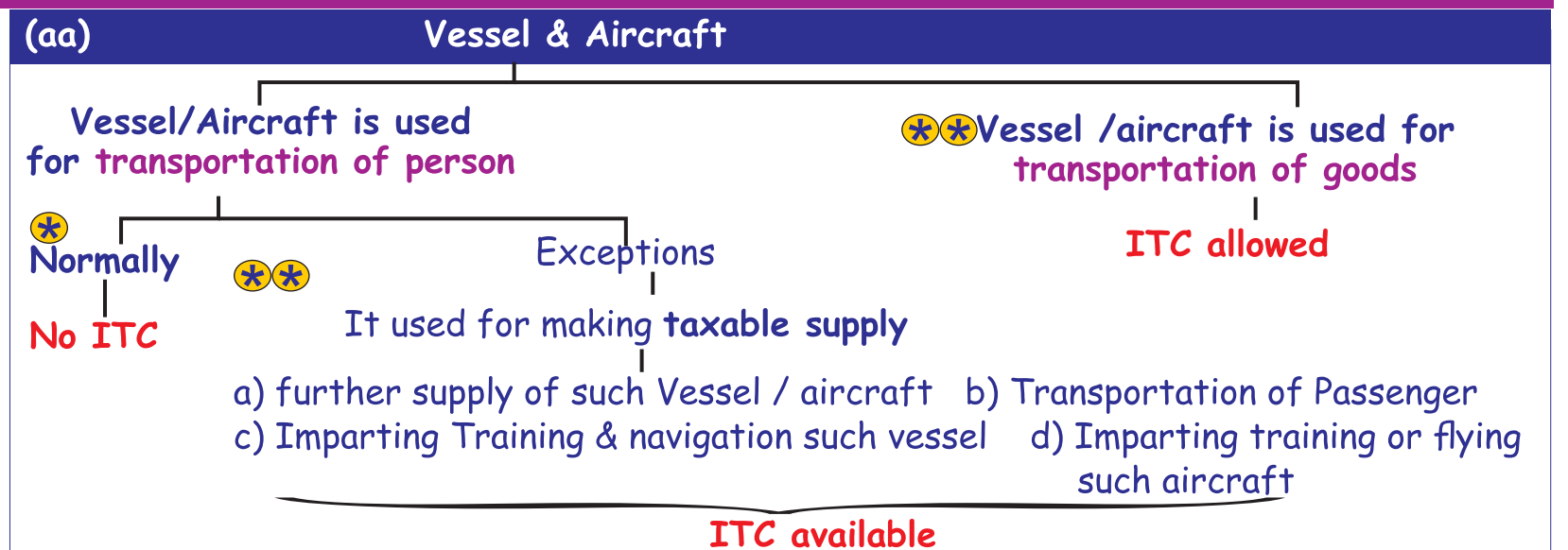
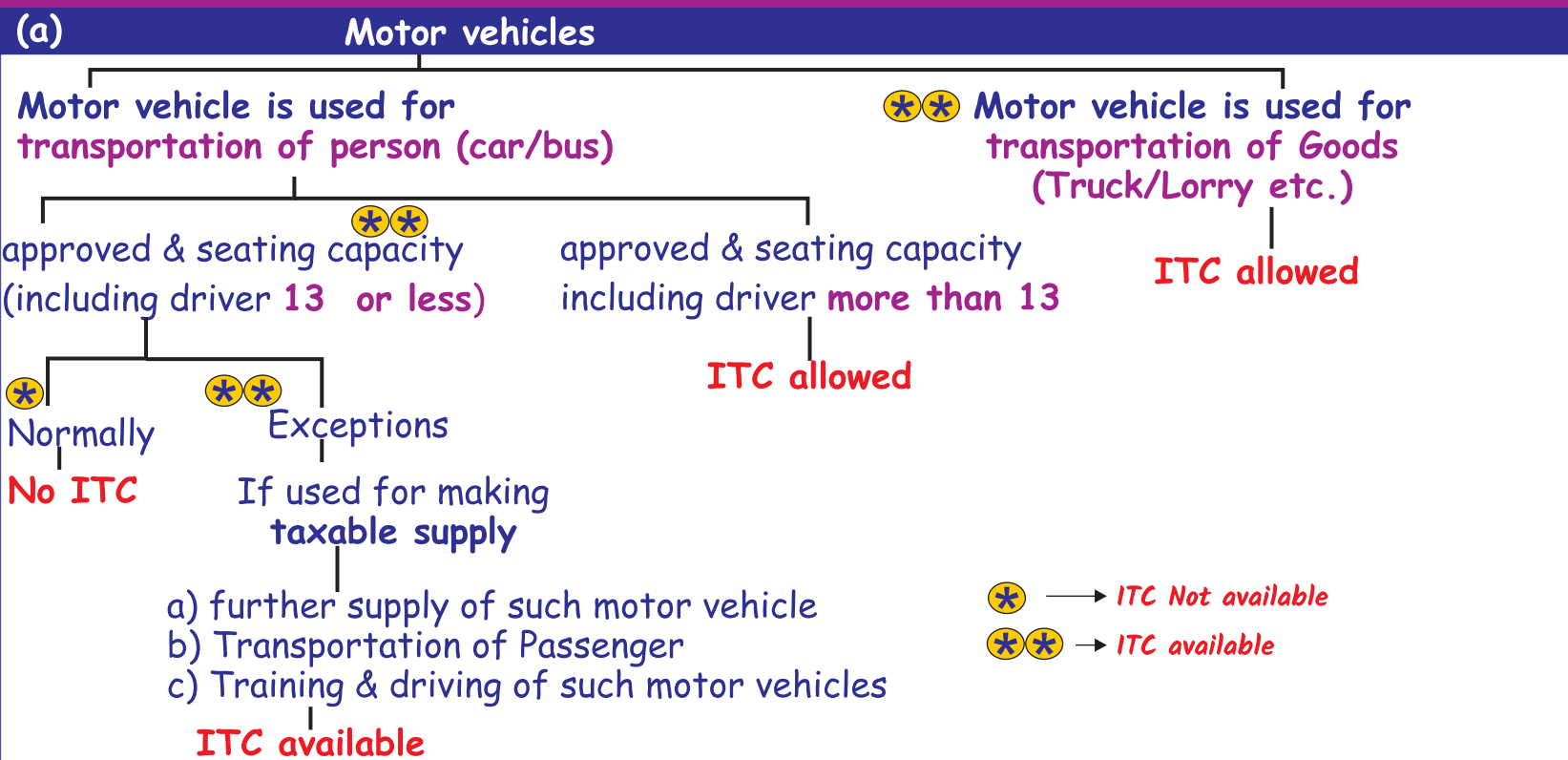
A registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both

- ⇒ after the **30th 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.**

6) Claiming ITC for invoices post revocation of registration cancellation

- ⇒ If RP's registration is cancelled and later revoked, he can claim **ITC for invoices not restricted by Section 16(4)** at the time of cancellation.
- ⇒ ITC can be claimed in the return filed till the **later** of following dates:
 - **Earlier** of 30th Nov of following year or date of furnishing Annual return.
 - The return for the period between cancellation and revocation, if filed **within 30 days** of the revocation order.

Sec - 17(5) Blocked Credit



(ab): General insurance, servicing, repair and maintenance relating to Ineligible:
 ⇒ Motor Vehicles ⇒ Vessels ⇒ Aircraft
 → **No ITC**

(b) Goods /services used in business not eligible for IT (mostly for employee, director, Guest etc.)

(I)

- Food & beverages
- Outdoor catering
- Beauty Treatment
- Healthy Services
- Cosmetic plastic surgery
- Life insurance health insurance
- Leasing, renting, of ineligible MV/vessel/aircraft

Exceptions

- making outward supply of same category of goods/services or both or
- Element of composite or Mixed supply

Note:- If above supplies are provided to employees under any statutory obligation, ITC Allowed

(ii) Membership of a club, health & fitness center
No ITC

(iii) Travels benefits extended to employee on vacation such leave or home travel concession
No ITC

Free Sample and gift treatment under GST

Not a supply as no consideration is included but

- ITC taken on such goods**
It shall be treated as supply
Value - Rule 31
ITC - available
- ITC not taken**
don't take it u/s 17(5)(h)

Buy one, Get One offer

Supplier: GST = 500 → Shirt 1, GST = 500 → Shirt 2

Invoice	
Shirt 1	5000
Shirt 2	Free
	5000

Single price for both shirts, hence No need to reverse ITC

It is clarified that "leasing" referred in **Sec 17(5)(b)(I)** refers to leasing of motor vehicles, vessels & aircrafts only and not to leasing of any other items. Accordingly, availment of ITC is not barred.

1) Circular no. 172/04/2022 : Proviso after **Sec 17(5)(b)(iii)** ie ITC of goods or services shall be available, which are obligatory for an employer to provide to its employees is applicable to the whole of **Sec 17(5)(b)**.

2) Circular No. 206/18/2023 : Input services in same line of business include transport of passengers or renting of motor vehicle with operator & not leasing of motor vehicles without operator which attracts GST for sale of motor vehicle

c) & d) Construction Sector

(c) Works Contract (services + Goods)

- Building
- Construction
- fabrication
- completion
- Repairs etc

of any immovable property

(d) Goods/Services or both

Construction of immovable property other than Plant & machinery

Explanation 1

Construction includes

- Reconstruction
- renovation
- addition / alteration
- repairs

to the extent of capitalisation

IMP note:- If as per GAAP they are treated as revenue expenditure - ITC allowed

Note:- If any works contract services or goods or service is purchased for construction & plant & machinery - ITC allowed

Explanation 2 :- Definition of Plant & Machinery

<p>Means</p> <ul style="list-style-type: none"> Apparatus Equipments Machinery 	<p>Includes</p> <p>Such foundation or structural support</p> <p>I/CG/IS : ITC Allowed</p>	<p>Excludes</p> <ul style="list-style-type: none"> Land & Building or other civil Structure Telecommunication Towers Pipelines land outside the Factory <p>Note:- if works contract or goods or services purchased for construction of above = No ITC</p>
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Important Note :-

- If works contract services is availed for providing works contract services - ITC allowed
- If goods or services are purchased for construction of other's but building intended for sale - ITC allowed

Other Points	
Non eligibility of ITC	Explanation
e) Goods or services or both on which tax has been paid under sec 10	अगर composition supplier के composition tax, invoice में लगाकर दे रहा है, जो नहीं देना चाहिये था. So, recipient को उस Tax का credit नहीं मिलेगा
f) Goods or services or both received by NRTP	No ITC (Remark: ITC available on imported goods by NRTP)
fa) Goods &/or services received by taxable person, which are used/intended to be used CSR activities.	No ITC
g) Goods or services or both used for personal consumption	No ITC
h)	<p>Goods → Lost, destroyed, stolen, written off Wholly or Partly → Distributed by way of Gift/sample</p> <p> ↳ No ITC is available ↳ If ITC is availed then it needs to be reversed </p> <p> ↳ If ITC is taken on such goods As per para I Sch I, it is treated as supply GST is payable on value as determined u/r 30 No need to reverse ITC </p> <p> ↳ If ITC is not taken on such goods Then as per sec 17(5) (h) ITC is not allowed </p>
i) Tax paid accordance with the provisions of Sec 74.	

Time limit for availing ITC u/s 16(4) for RCM supplies received from URPs & tax paid under RCM (Circular No. 211/5/2024):- 32

- ⇒ CBIC has **clarified** that the relevant F.Y. for calculation of time limit u/s 16(4) to avail ITC shall be the **F.Y. in which invoice is issued by recipient u/s 31(3)(f)**, subject to specified conditions.
- ⇒ The F.Y. in which the supply was received is **irrelevant** here.
- ⇒ Also, If recipient issues **invoice after its TOS** & pays tax, he has to pay interest on delayed payment of tax & is also liable to **penal action u/s 122**.

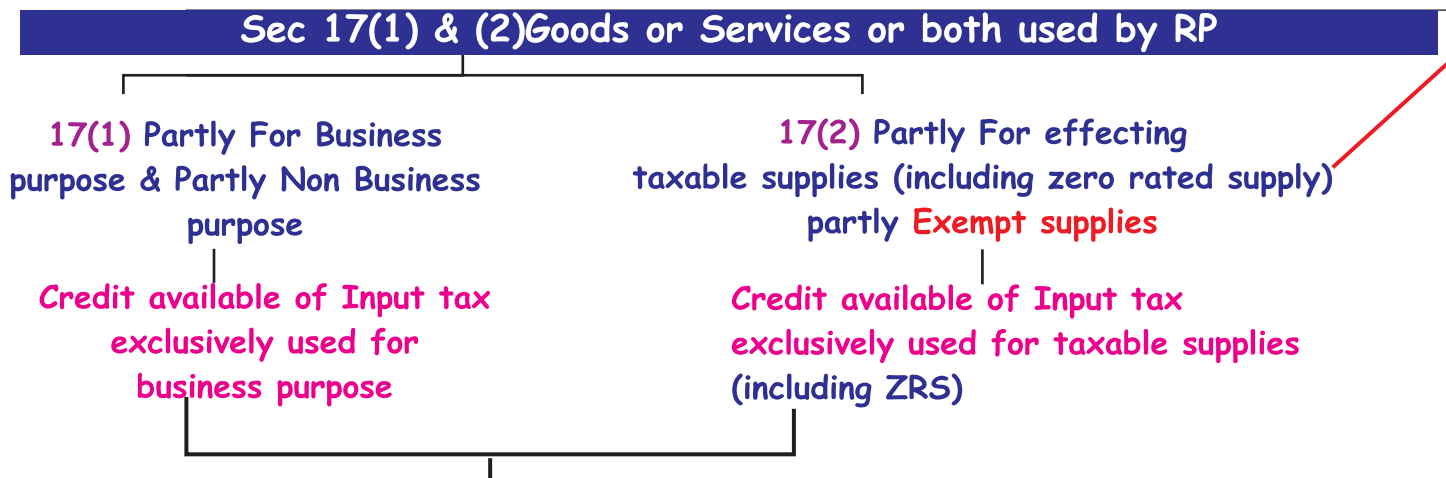
Availability of ITC on ducts & manholes used in the network of optical Fiber cables (OFCs) u/s 17(5) (Circular No. 219/13/2024):

- ⇒ Ducts and manholes are **not classified** as land, buildings, civil structures, telecom towers, or pipelines outside factory premises.
- ⇒ They are considered "plant and machinery" and **eligible for ITC**.

Entitlement of ITC by insurance co. on expenses incurred for repair of motor vehicles in case of reimbursement mode of insurance claim settlement (Circular No. 217/11/2024):

- ⇒ In reimbursement cases, the insurance company **pays for approved repair costs**, even if the insured initially pays the garage. Therefore, the insurance company is the "recipient".
- ⇒ Thus, The insurance company **can claim ITC** for these repair expenses, as the service is used for their insurance supply.

Sec - 17(1), 17(2) & 17(3) Apportionment of Credit



- 17(3): Value of Exempt Supply**
- 2(47) :-
- 1) Nil rated supply
 - 2) Wholly exempt supply
 - 3) Non-taxable supply
- Additional by 17(3) :-
- 4) Supply under RCM
 - 5) Transaction in Securities (1 % of sale value)
 - 6) Sale of land & Building (Stamp duty Value)
 - 7) Supply of warehoused goods to any person before clearance for home consumption (Value of SOG from Duty Free Shops at arrival terminal in international airports to incoming passengers) (Do not consider other Schedule III activities in ES)
- ES shall not include: -**
- ⇒ Interest / Discount income except in case of bank / FI
 - ⇒ Value of Supply of duty scrips

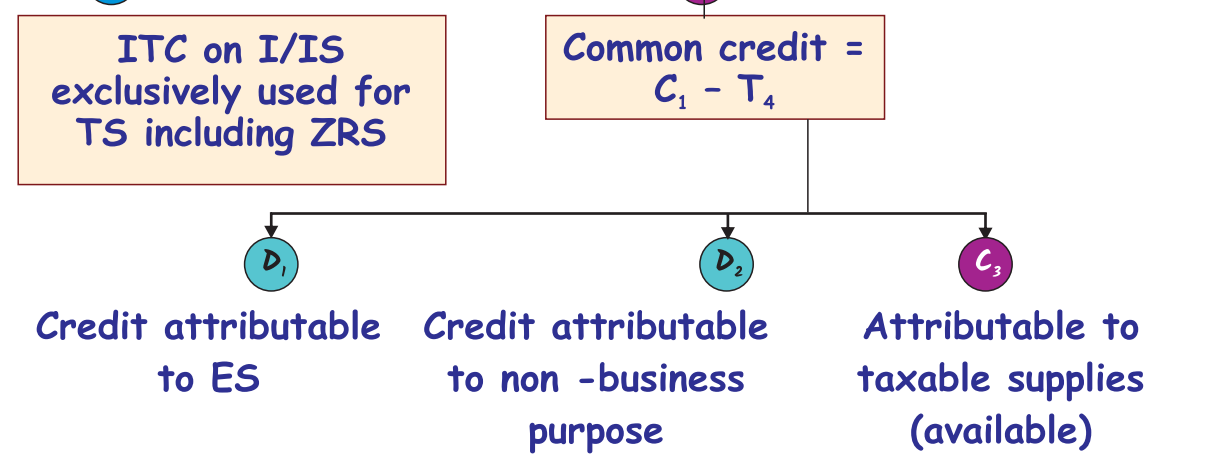
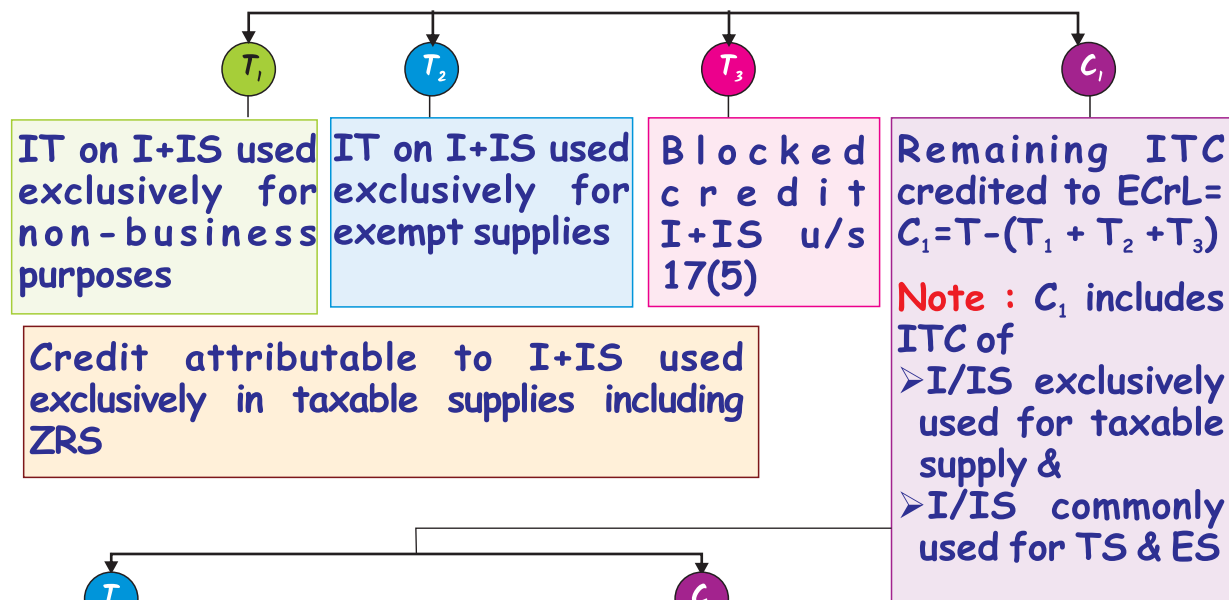
- Sec 17(4) : Special option of ITC to banking and F.I.**
- 1. Availment of Tax Credit :** Banking Company/FI including NBFC's have the following options -
 - (a) **Option 1 :** To comply with the provisions u/s 17(2) (read with rule 42 & 43), or
 - (b) **Option 2 :** To avail of, every month, an amount equal to 50% of the eligible ITC in that month and the balance 50% shall lapse.
 - 2. Conditions on choosing option of 50% availment :**
 - (a) The said Company or Institutions shall not avail the credit of -
 - (i) Inputs and Input Services that are used for non-business purposes, and
 - (ii) the credit attributable to blocked Credits
 - 3. Withdrawal :** Option once exercised, shall not be withdrawn during the remaining part of F.Y.
 - 4. No Restriction :** 50% of ITC Restriction shall not apply when supplies are made between branches

Method of apportionment incase of I, CG & IS commonly used

↓

Rule 42 :- Manner of distribution of ITC w.r.t. I/IS

T = Total Input tax Credit on I/IS



$D_1 = \frac{E}{F} \times C_2$ $D_2 = 5\% \text{ of } C_2$ $D_3 = C_2 - (D_1 + D_2)$

E = Aggregate Value of ES
F = T/o in State
To be calculated only if I/IS is commonly used for business/non-business

- If E/F is not available for a tax period, then E & F at last tax period to be considered
- Value of T/O does not include Excise/VAT/CST

Reversed by the register person in GSTR 3B or in prescribed form

- C₃ will be computed separately for ITC of CGST, SGST/ UTGST and IGST.
- Σ(D1 + D2) 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 added to output tax liability every month, the differential amount will be added to the output tax liability 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 added to output tax liability every month, the additional amount paid has to be claimed back as credit in GSTR 3B or any month till September of the succeeding year.

Case 1
I, CG, IS Exclusively used in Taxable supply are eligible for ITC
Registered person: I, IS, CG, O.S. Taxable [chargeable] or zero rated supply or SEZ (Special Economic Zone)

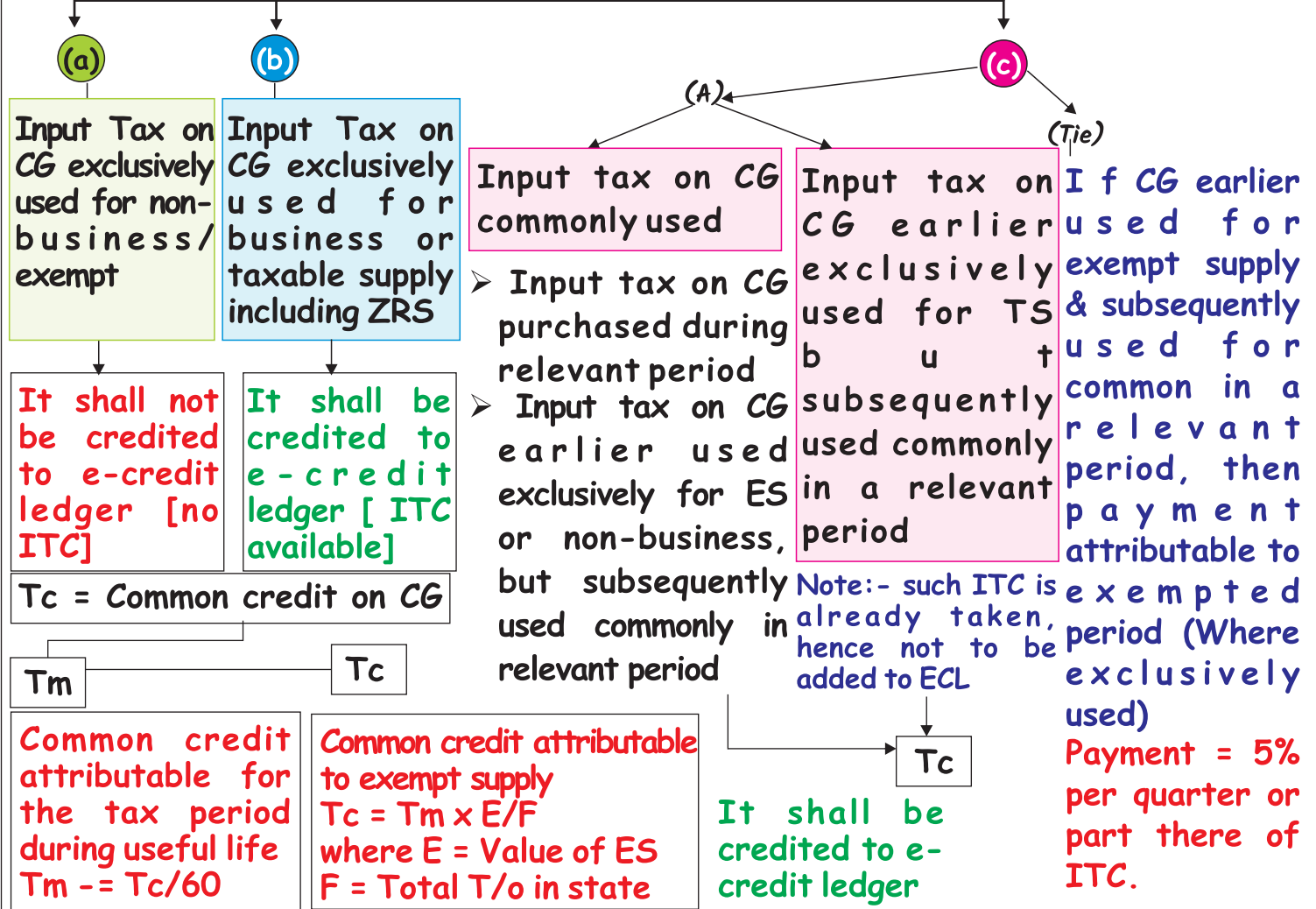
Case 2
I, CG, IS Exclusively used in Exempt non business purpose no ITC is available
Registered person: I, IS, CG, O.S. Exempt [wholly exempt+Nil rate + Non-taxable] or supply for non business purpose

Case 3
I, CG, IS Exclusively used in Taxable supply are eligible for ITC
Registered person: I, IS, CG, O.S. Taxable Supply or zero rated supply
I3/IS3/CG3 commonly used for taxable & exempt apporportion the ITC as per rule 42 & 43

I, CG, IS Exclusively used in Exempt non business purpose no ITC is available
Registered person: I, IS, CG, O.S. Exempt supply or supply for non business purpose

Rule 43:- Manner of distribution of ITC w.r.t CGs

Total input tax (IT) on capital goods (CG)



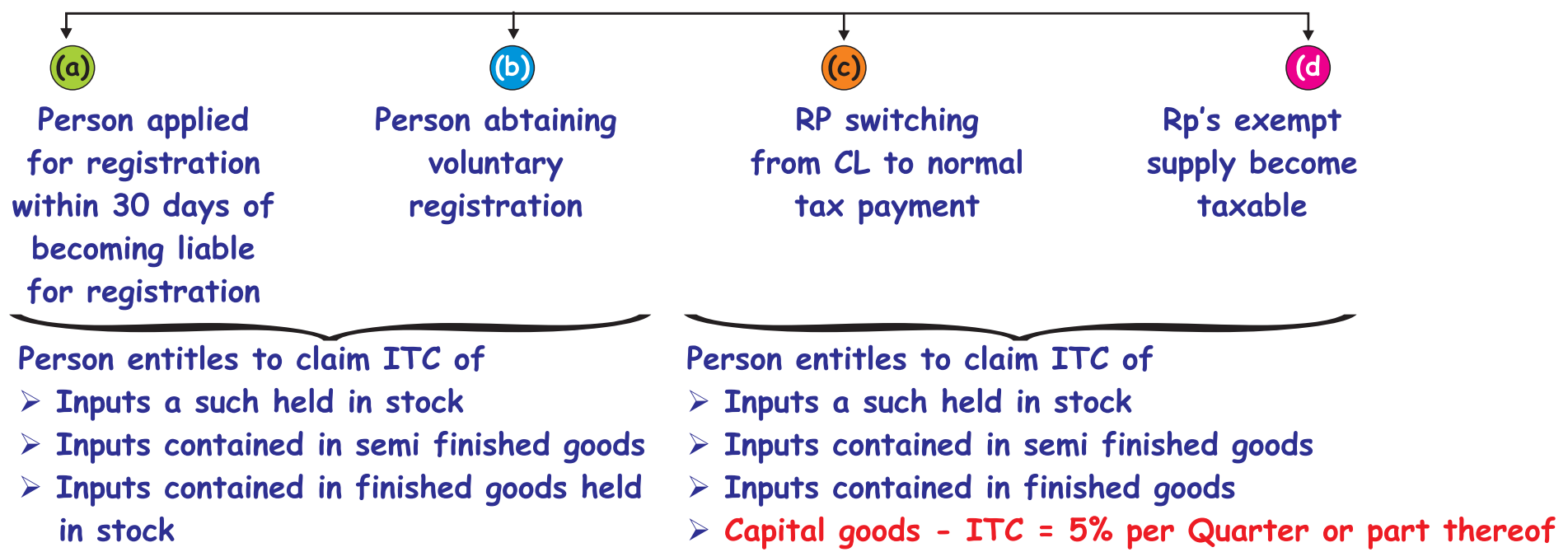
Example :- Apportionment of ITC under rule 43

Timeline: April (Date=10-4-20), May (Date=20-5-20), June, July, August (T/O E.S. = 30L, T.S. = 80L, Total = 110L), September, October, November.

Cases (Eligibility of ITC under rule 43)

- Cases -1**
1) Common Cg1 purchased in the month of August
ITC shown in Invoice [A] = 6,00,000
Tr. E-credit ledger [avail] = 6,00,000
2) Tr. to E-credit ledger [avail] ITC ₹ 6,00,000] & useful life of C.G.1 is 5 years
3) Tc = 6,00,000
4) Tm = 6,00,000 / 60 = 10,000
5) Te = Tm x E/F = 10,000 x 30L / 110L = 2727
Reversal = Show above Amt. ₹ 2727 as Reversal from ITC in GSTR - 3B
- Cases -2**
C.G.1 [Common] purchased in August & CG2 now used for common supply in the month of August
1) ITC of C.G.1 [A] = 6,00,000
ITC of C.G.2 [A] = 4,00,000
Tr. E-credit ledger 10,00,000 (i.e. avail full ITC)
2) Tc (CG1) = 6,00,000
Tc (CG2) = 4,00,000
3) Tm (CG1) = 6,00,000/60 = 10,000
Tm (CG2) = 4,00,000/60 = 6667
4) Te (CG1) = 10,000 x 30L/110L = 2727
Te (CG2) = 6667 x 30L/110L = 1818
Reversal for next 60 months from the date of Invoice according to E/F of respective month
Reversal for next 56 month from the month August according to E/F of respective month
- Cases -3**
C.G.1 [Common] purchased in August & Cg3 now used for common supply in the month of August
1) ITC of C.G.1 [A] = 6,00,000
Tr. E-credit ledger 6,00,000 (i.e. avail ITC)
Note: Don't avail ITC of CG3 because it was already taken in the month of May.
2) Tc (CG1) = 6,00,000, Tc (CG2) = 3,00,000
3) Tm (CG1) = 6,00,000/60 = 10,000
Tm (CG3) = 3,00,000/60 = 5,000
4) Te (CG1) = 10,000 x 30L/110L = 2727
Te (CG3) = 5000 x 30L/110L = 1363
Reversal for next 57 month from the month August according to E/F of respective month

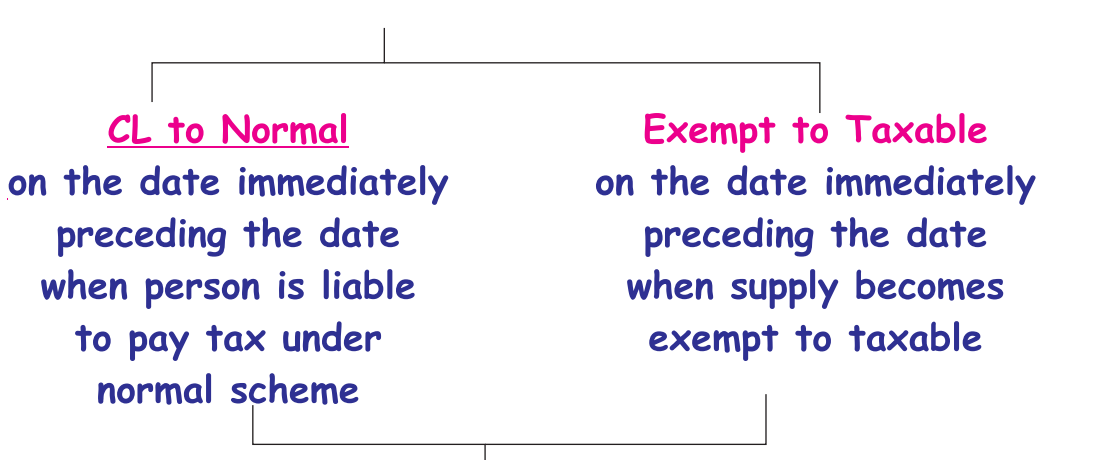
Sec 18(1) Availment of Credit



Person liable to registration
on the date immediately preceding the date when he becomes liable for registration

Voluntary Registration
on the date immediately preceding the date of RC

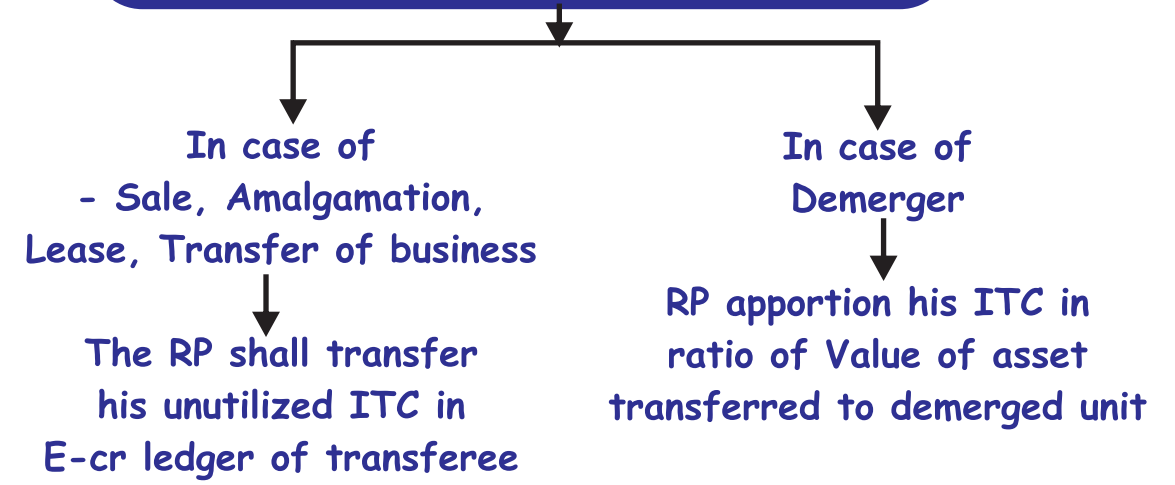
if person fails to apply for registration within 30 days, then he is not eligible to claim such ITC



IMP Notes:

a) Declaration in prescribed form within 30 days of switching
 b) If aggregate claim amount > ` 2L, then it should be certified by CA/CMA (above applicable in all situations)

Sec 18 (3) Transfer of ITC



"Value of assets" means the value of the entire assets of the business, whether or not input tax credit has been availed thereon

- Conditions**
- 1) There is a specific provision for transfer of liabilities
 - 2) Conditions of Rule 41
 - (a) declaration of details in the form GST ITC 02 for transfer of credit .
 - (b) Certification of transfer of liabilities from CA/CMA
 - (c) Acceptance of transferred credit by transferee on common portal
 - (d) inputs & capital goods so transferred are duly accounted by transferee in his books of A/c

Section 18(2) : Person is not entitled to take ITC of I/CG after expiry of one year from the date of invoice.

Reversal of Credit

Sec 18(4) Reversal of credit in Special Cases

<p>Registered person switching from normal scheme of payment of tax to composition Scheme</p> <p>1) Amt to be reversed is equivalent to ITC on</p> <ul style="list-style-type: none"> - Input as such held in stock - Inputs contained in semi finished goods - Inputs contained in finished goods held in stock - Capital goods [reversal on prorata basis pertaining to remaining useful life in a month (taking useful life as 5 yrs. <p><u>After reversal balance if any in Ecr. ledger shall lapse</u></p>	<p>Taxable supply becomes exempt Supply</p> <p>Illustration: 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 Input tax credit taken on such capital goods= C Input tax credit attributable to remaining useful life= C multiplied by 5/60</p>	<p>Cancellation of Registration</p> <p>Rule 44 : Procedure & conditions</p> <ol style="list-style-type: none"> 1) Reversal of inputs shall be determined with corresponding invoices. If invoice is not available then reversal is based on prevailing market price of inputs. 2) Reversal of ITC shall be calculated separately for CGST, SGST & IGST. 3) Reversal amt. will be added in output tax liability & details to be furnished in GST ITC-03
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Sec 18 (6) : Reversal of credit on supply of Capital Goods/ Plant & Machinery on which ITC has been taken

- 1) If capital goods or plant & machinery on which ITC has been taken are supplied [Removed as such by way of sale transfer barter etc.] then registered person shall pay **higher** of the following
 - a) **Payment = ITC - 5% per Qtr. or part thereof** OR
 - b) **GST on transaction value**
- 2) In case of refractory bricks, moulds & dies, jigs & fixtures supplied as a scrap then person may pay tax on transaction value instead of above 2 options.

Reverse Switching [Section 18(4)]

(1) Normal Tax

	1/04							
	I	CG	IS	31/3	I	CG	IS	
ITC	✓	✓	✓	ITC	X	X	X	

Case 1 **ECL Balance** **preceding Day**

reversal 12,00,000 | ITC 10,00,000
 Extra 2,00,000 payable

- ♦ Inputs
- ♦ Lying stock
- ♦ semi finished goods
- ♦ finished goods
- ♦ capital goods as per formula

Calculate ITC
 Lets assume
 case 1 = 12,00,000 (I + CG)
 Case 2 = 6,00,000

Case 2 **ECL**

reversal 16,00,000 | ITC 10,00,000
 Lapsed 4,00,000

5 year **Remaining useful ITC** **5 months**

Reversal = c X 5/60
 = 10 X 5/60
 = 0.83

Example in Rule 44
 4 years 6 months 15 days
 = 4 years 7 months

Section 18(6)

Supply of CG

<p>CG</p> <p>Date of invoice 4th April Value - 50L GST = 6L</p>	<p>28%</p> <p>OS</p> <p>April</p> <p>O/W/ supply value = 60L GST = 16.8 L</p>	<p>May</p> <p>CG</p> <p>Sold (Second Hand) Section 18(6) Payment = higher of following</p> <ol style="list-style-type: none"> 1) GST on TV = 1,20,000 2) ITC taken- 5% per quarter = 6,00,000 - 5% X 1 Qtr. X 6L = 5,70,000
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<p>Statement of net GST Payable (April)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Output Tax</td> <td style="width: 40%; text-align: right;">16,80,000</td> </tr> <tr> <td>Less ITC</td> <td style="text-align: right;">6,00,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">10,80,000</td> </tr> </table>	Output Tax	16,80,000	Less ITC	6,00,000		10,80,000	
Output Tax	16,80,000						
Less ITC	6,00,000						
	10,80,000						

