

# Input Tax Credit & Computation of GST Liability

## Lesson 18

### KEY CONCEPTS

■ Goods ■ Services ■ Input ■ Input Service ■ Capital Goods ■ Input Tax ■ Input Tax Credit ■ Input Service Distributor

### Learning Objectives

#### To understand:

- Concept of Input Tax Credit (ITC)
- Eligibility and conditions for taking ITC
- Transitional Provisions in ITC
- Ineligible Credits
- Input Service Distributor (ISD)
- Order of Utilisation of ITC

### Lesson Outline

- Overview
- Eligibility and Conditions for taking Input Tax Credit
- Transitional Provisions in ITC
- Ineligible Credits
- Input Service Distributor (ISD)
- Order of Utilisation of Input Tax Credit
- Lesson Round-Up
- Test Yourself
- List of Further Readings

**REGULATORY FRAMEWORK**

The Central Goods and Services Tax Act, 2017

<b>Section</b>	<b>Deals with</b>
Section 2(59)	Input
Section 2(60)	Input Service
Section 2(61)	Input Service Distributor (ISD)
Section 2(62)	Input Tax
Section 2(63)	Input Tax Credit (ITC)
Section 16	Eligibility and Conditions for taking ITC
Section 17	Apportionment of Credit and Blocked Credits
Section 18	Availability of Credit in Special Circumstances
Section 19	Taking Input Tax Credit in respect of Inputs and Capital Goods sent for Job Work
Section 20	Manner of Distribution of Credit by Input Service Distributor
Section 21	Manner of Recovery of Credit Distributed in Excess
Section 39	Furnishing of Returns
Section 41	Availment of Input Tax Credit
Section 49	Payment of Tax, Interest, Penalty and Other amounts
Section 49 A	Utilisation of input tax credit subject to certain conditions
Section 49 B	Order of utilisation of input tax credit

**OVERVIEW**

Input Tax Credit (ITC) has its origin in the system of VAT (Value Added Tax), which is common in West European Countries. Concept of VAT was developed to avoid cascading effect of taxes. Any tax is related to selling price of product. In modern production technology, raw material passes through various stages and processes till it reach the ultimate stage.

Input Tax Credit is considered as a cornerstone of GST. In the previous tax regime, there was non-availability of credit at various points in supply chain, leading to a cascading effect of tax, i.e., tax on tax and therefore increasing the cost of goods and services. This flaw has been removed under GST and a seamless flow of credit throughout the value chain is therefore available consequently doing away with the cascading effect of taxes.

For example, let us assume that tax paid on a product is 10% of selling price. Manufacturer Amit supplies his output to Barun at Rs. 1000. Thus, Barun got the material at Rs. 1100, inclusive of tax @ 10%. He carried out further processing and sold his output to Chinmay at Rs.1500. While calculating his cost, Barun has considered his purchase cost of material as Rs. 1100 and added Rs. 400 as his conversion charges. While sold product to Chinmay, Barun charged tax again @ 10%. Thus Chinmay got the item at Rs. 1650 (1500+10% tax). As stages of production and/ or sales continue, each subsequent purchase has to pay tax again and again on the material which has already suffered tax. This is called cascading effect.

Taxes paid on inward supply of inputs, capital goods and services are called input taxes. These may be Integrated GST, Central GST, State GST or Union Territory GST. Taxes paid under reverse charge mechanism are also input taxes.

The credit of the above taxes is called input tax credit, that is, the taxes paid on inputs are available as a set off against the taxes payable on outward taxable supplies.

CGST Act, 2017 contains the provisions relating to Input Tax Credit (ITC), its availment, utilization and conditions and restrictions.

### Definitions

The Central Goods and Services Tax Act, 2017

**Section 2(52) “Goods”** means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

**Section 2(102) “Services”** means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

Explanation.– The expression “services” includes facilitating or arranging transactions in securities.

**Section 2(59) “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(60) “Input Service”** means any service used or intended to be used by a supplier in the course or furtherance of business.

**Section 2(19) “Capital goods”** means goods, the value of which is capitalised in the books of accounts of the person claiming the credit and which are used or intended to be used in the course or furtherance of business.

**Section 2(62) “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-sections (3) and (4) of section 5 of the Integrated Goods and Services Tax Act;
- (d) the tax payable under the provisions of sub-sections (3) and (4) of section 9 of the respective State Goods and Services Tax Act; or
- (e) the tax payable under the provisions of sub-sections (3) and (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(63) “Input Tax Credit”** means the credit of input tax.

**Section 2(80A)** “online gaming” means offering of a game on the internet or an electronic network and includes online money gaming;

**Section 2(80B)** “online money gaming” means online gaming in which players pay or deposit money or money’s worth, including virtual digital assets, in the expectation of winning money or money’s worth, including virtual digital assets, in any event including game, scheme, competition or any other activity or process, whether or not

its outcome or performance is based on skill, chance or both and whether the same is permissible or otherwise under any other law for the time being in force;”;

**Section 2(82) “Output tax”** in relation to a taxable person, means the IGST chargeable under the Act on taxable supply of goods and/or services by him or his agent and excludes tax payable by him on reverse charge basis.

**Section 2(102A) “Specified actionable claim”** means the actionable claim involved

in or by way of—

- (i) betting;
- (ii) casinos;
- (iii) gambling;
- (iv) horse racing;
- (v) lottery; or
- (vi) online money gaming;”;

**Section 2(105) “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(117A) “Virtual digital asset”** shall have the same meaning as assigned to it in clause (47A) of section 2 of the Income-tax Act, 1961.

**Section 2(34) “Conveyance”** includes a vessel, an aircraft and a vehicle.

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

To avail the benefit of ITC, it is required that the person availing such benefit is registered under GST. An unregistered person is not eligible to take the benefit of ITC. Section 155 of the CGST Act, 2017 states that where any person claims that he is eligible for input tax credit under this Act, the burden of proving such claim shall lie on such person.

The Registration under GST and goods or services or both to be used for business purpose is mandatory for taking Input Tax Credit.

Every **registered person** shall,

- Subject to such conditions and restrictions as may be prescribed and, in the manner, as 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.

### Conditions for Taking ITC

- (a) 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, - 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;

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

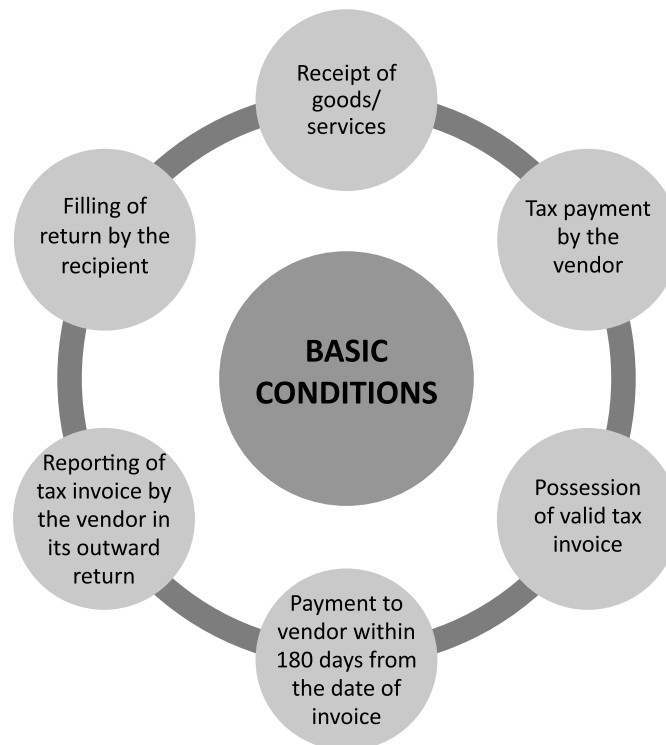
- i) Invoice or revise invoice issued by the supplier of goods and / or services;
- ii) Invoice issued by the recipient receiving goods and/or services from unregistered supplier along with proof of payment of tax, in case of reverse charge;
- iii) Debit note issued by the supplier;
- iv) Bill of entry or similar document prescribed under the Customs Act, 1962;
- v) Document issued by the input service distributor.

#### Content of Document:

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

- 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 to be taken on tax paid towards demand involving fraud, misstatement or suppression of facts [Rule 36(3)].



As per section 16 (2) (aa) 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. Thus, a 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 if the details of the invoice or debit note have been furnished by the supplier in the statement of outward supplies in **FORM GSTR-1, as amended in FORM GSTR-1A if any** and further such details have been communicated to the recipient of such invoices or debit note in form **GSTR-2B**.

Thus, in respect of invoices/debit notes the details of which are not furnished by the suppliers in their GSTR-1s (and thus they are not visible in GSTR-2B of the recipient), ITC cannot be availed by such recipient.

**Example:**

A registered person engaged in the manufacturer of taxable goods received 20 invoices for inputs and input services from various suppliers during the month of June, involving Input Tax Credit (ITC) of ₹3 lakh. As of the due date for furnishing GSTR-3B, suppliers had reported 17 invoices reflecting ITC of ₹2.4 lakh, which are available in GSTR-2B. The eligible ITC that can be claimed in GSTR-3B for the month of September is ₹2.4 lakh.

**“Bill to Ship to” model**

The registered person need not receive the goods himself. It is sufficient even if the goods are delivered to some other person on his direction.

*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.

*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) 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;
  - (ii) where the services are provided by the supplier to any person on the direction of and on account of such registered person.
- (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;

Section 38 stipulates that the details of outward supplies furnished by the registered suppliers in GSTR-1 or as amended in form GSTR-1A and an autogenerated 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, It 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 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 86B'.
- other specified classes of persons.

### CASE LAWS

#### **1. M/s LGW Industries Ltd. vs. Union of India (2021) – Calcutta High Court**

##### **Constitutional validity of Section 16(2)(c) of the CGST Act, 2017**

In this case constitutional validity of Section 16(2)(c) of the CGST Act, 2017 was challenged and petitioner submitted that he paid the price of goods or services including the amount of applicable tax to a supplier of goods or services had no means to verify the fact whether the supplier of goods or services had deposited the GST collected from it and therefore denying ITC to the buyer of goods or services for default of the supplier of goods or services would be arbitrary, irrational and unduly harsh.

Court held that the respondents to consider afresh the cases of the petitioners on the issue of their entitlement of benefit of input tax credit by considering the documents the petitioners want to rely in support of their claim of genuineness of the transactions and shall also consider as to whether payments on purchases in question along with GST were actually paid or not to the suppliers and also as to whether the transactions and purchases were made before or after the cancellation of registration of the suppliers and also consider as to compliance of statutory obligation by the petitioners in verification of identity of the suppliers - If it is found that all the purchases and transactions in question are genuine and supported by valid documents and transactions in question were made before the cancellation of registration of those suppliers, the petitioners shall be given the benefit of input tax credit in question- writ petition is allowed by remand.

#### **2. M/s D.Y.Beathel Enterprises vs. The State Tax Officer (Data Cell) (2021) - Madras High Court**

##### **No GST can be demanded from Buyer for the fault of Seller of non-payment of taxes to the Government.**

In this case it has been held that when it has come out that the seller has collected tax from the purchasing dealers, the omission on the part of the seller to remit the tax in question must have been viewed very seriously and strict action ought to have been initiated against him. That apart in the enquiry in question, the Person who supplied / sold the goods, ought to have been examined.

Petitioner challenged the vires of Section 16(2)(c) being violative of Articles 14, 19(1)(g) and 300A of the Constitution of India.

The Court analyzed the provision of Section 16 of CGST Act, and noted that the assessee must have received the goods and the tax charged in respect of its supply, must have been actually paid to the Government. Therefore, if the tax had not reached the kitty of the Government, then the liability may have to be eventually borne by one party, either the seller or the buyer.

- i. Furnishing of return: he has furnished the return under section 39:

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:

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 (180 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 added to his output tax liability, along with interest thereon, in such manner as may be prescribed:

Provided also that the recipient shall be entitled to avail of the credit of input tax on payment made by him of the amount towards the value of supply of goods or services or both along with tax payable thereon.

### Exceptions

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

### Depreciation claimed on Tax Component, ITC not allowed

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. Thus, in respect of the tax paid on such items, dual benefit cannot be claimed under Income-tax Act, 1961 and GST laws simultaneously.

Further, if Capital goods are used partly for business purpose and partly for effecting exempted supply or other purposes, input tax credit shall be available to the extent that these capital goods are used for business purposes.

### Due date to claim 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 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.

Provided that the registered person shall be entitled to take input tax credit after the due date of furnishing of the return under section 39 for the month of September, 2018 till the due date of furnishing of the return under the said section for the month of March, 2019 in respect of any invoice or invoice relating to such debit note for supply of goods or services or both made during the financial year 2017-18, the details of which have been uploaded by the supplier under sub-section (1) of section 37 till the due date for furnishing the details under sub-section (1) of said section for the month of March, 2019.

\*Substituted (w.e.f., 1st October, 2022 vide Notification No. 18/2022 - CT dated 28.09.2022.) by Section 100 of The Finance Act, 2022 (No. 6 of 2022) for "due date of furnishing of the return under section 39 for the month of September".

At this juncture it is important to understand Provisions of Section 41 of CGST Act, it deals with 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.

**Illustration:**

Mr. A orders 30,000 tonnes of goods which are to be delivered by the supplier via 3 lots of 10,000 each. The lots are sent under a single invoice with the first lot and the payment is made by the recipient for Value of Supply plus GST and the supplier has also deposited the tax with the Government.

The 3 lots are supplied in May, June and July 2020. The ITC is available to Mr. A only after the receipt of the 3rd lot. The reason is simple, one of the conditions to avail ITC is the receipt of goods which is completed only after the last lot is delivered.

**Illustration:**

For an Invoice dated 31st July, 2023, the same pertains to the financial year 2023-24.

Last date of claiming ITC in this example is 30th November 2024 or actual filing of annual return whichever is earlier.

Let's say that the annual return is filed on 12th September, 2024.

Thus, ITC needs to be claimed before 12th September, 2024.

**Sub section (5) and (6) inserted under Section 16 by Finance Act, 2024**

Notwithstanding anything contained in sub-section (4), in respect of an invoice or debit note for supply of goods or services or both pertaining to the Financial Years 2017-18, 2018-19, 2019-20 and 2020-21, the registered person shall be entitled to take input tax credit in any return under section 39 which is filed up to the thirtieth day of November, 2021.

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) filed up to 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

- (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, whichever is later.”

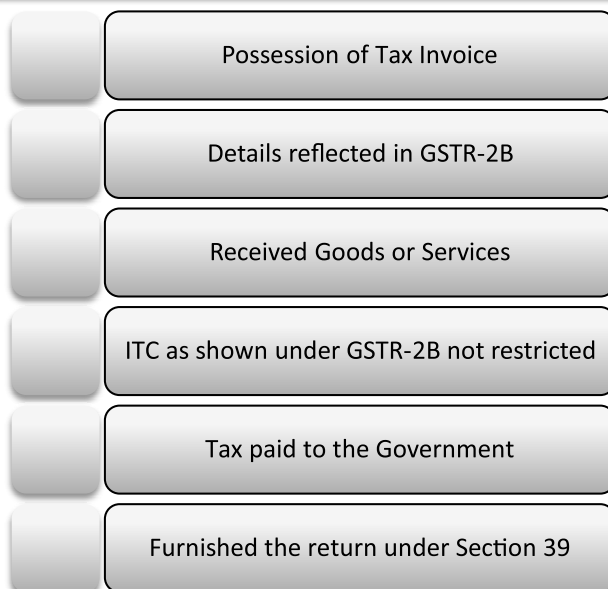
#### Restriction on availment of ITC Rule 36(4)

As per Rule 36(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 sub-section (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 input tax credit in respect of such invoices or debit notes have been communicated to the registered person in **FORM GSTR-2B** under sub-rule (7) of rule 60.

Presently as per Notification No. 40/2021 (Central Tax) dated 29th December 2021, no Input Tax Credit can be availed unless details are populated in **GSTR-2B**. Furnishing of details of invoice/credit note in **GSTR-1** or through IFF by the supplier is now mandatory to take credit. A self-policing mechanism for claiming validated ITC has been introduced. Thus From 1st January 2022, registered person can avail ITC only if it is reported by the supplier in **GSTR-1/IFF** (Invoice Furnishing Facility) and it appears in their **GSTR-2B**.

#### Conditions: Entitlement to credit – Section 16(2)



#### TRANSITIONAL PROVISIONS IN ITC

Transition provisions are incorporated under GST to enable existing taxpayers to migrate to GST in a transparent and exact manner. Elaborate provisions have been made to avail/carry forward the ITC earned under the pre-GST taxes which are subsumed in GST (Central Excise, Service Tax, VAT, etc.). Such credit should be permissible under the GST law subject to conditions and timelines.

The transitional provisions in relation to input tax credit are contained in Section 140 of the CGST Act, 2017 which are reproduced herein below: -

Section 140. Transitional arrangements for input tax credit -

- (1) A registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, the amount of CENVAT credit of **eligible duties** carried forward in the return relating to the period ending with the day immediately preceding the appointed day, furnished by him under the existing law within such time and in such manner as may be prescribed:

**Provided** that the registered person shall not be allowed to take credit in the following circumstances, namely: -

- (i) where the said amount of credit is not admissible as input tax credit under this Act; or
  - (ii) where he has not furnished all the returns required under the existing law for the period of **six months** immediately preceding the appointed date; or
  - (iii) where the said amount of credit relates to goods manufactured and cleared under such exemption notifications as are notified by the Government.
- (2) A registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, credit of the unavailed CENVAT credit in respect of capital goods, not carried forward in a return, furnished under the existing law by him, for the period ending with the day immediately preceding the appointed day within such time and in such manner as may be prescribed:

**Provided** that the registered person shall not be allowed to take credit unless the said credit was admissible as CENVAT credit under the existing law and is also admissible as input tax credit under this Act.

**Explanation.** - For the purposes of this sub-section, the expression “unavailed CENVAT credit” means the amount that remains after subtracting the amount of CENVAT credit already availed in respect of capital goods by the taxable person under the existing law from the aggregate amount of CENVAT credit to which the said person was entitled in respect of the said capital goods under the existing law.

- (3) A registered person, who was not liable to be registered under the existing law, or who was engaged in the manufacture of exempted goods or provision of exempted services, or who was providing works contract service and was availing of the benefit of notification No. 26/2012-Service Tax, dated the 20th June, 2012 or a first stage dealer or a second stage dealer or a registered importer or a depot of a manufacturer, shall be entitled to take, in his electronic credit ledger, credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day, within such time and in such manner as may be prescribed, subject to the following conditions, namely:-
- (i) such inputs or goods are used or intended to be used for making taxable supplies under this Act;
  - (ii) the said registered person is eligible for input tax credit on such inputs under this Act;
  - (iii) the said registered person is in possession of invoice or other prescribed documents evidencing payment of duty under the existing law in respect of such inputs;
  - (iv) such invoices or other prescribed documents were issued not earlier than twelve months (12 months) immediately preceding the appointed day; and
  - (v) the supplier of services is not eligible for any abatement under this Act:

**Provided** that where a registered person, other than a manufacturer or a supplier of services, is not in possession of an invoice or any other documents evidencing payment of duty in respect of inputs,

then, such registered person shall, subject to such conditions, limitations and safeguards as may be prescribed, including that the said taxable person shall pass on the benefit of such credit by way of reduced prices to the recipient, be allowed to take credit at such rate and in such manner as may be prescribed.

- (4) A registered person, who was engaged in the manufacture of taxable as well as exempted goods under the Central Excise Act, 1944 or provision of taxable as well as exempted services under Chapter V of the Finance Act, 1994, but which are liable to tax under this Act, shall be entitled to take, in his electronic credit ledger, -
- (a) the amount of CENVAT credit carried forward in a return furnished under the existing law by him in accordance with the provisions of sub-section (1); and
  - (b) the amount of CENVAT credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day, relating to such exempted goods or services, in accordance with the provisions of sub-section (3).
- (5) A registered person shall be entitled to take, in his electronic credit ledger, credit of eligible duties and taxes in respect of inputs or input services received on or after the appointed day but the duty or tax in respect of which has been paid by the supplier under the existing law, within such time and in such manner as may be prescribed, subject to the condition that the invoice or any other duty or tax paying document of the same was recorded in the books of account of such person within a period of thirty days (30 days) from the appointed day:
- Provided** that the period of thirty days (30 days) may, on sufficient cause being shown, be extended by the Commissioner for a further period not exceeding thirty days (30 days).
- Provided** further that said registered person shall furnish a statement, in such manner as may be prescribed, in respect of credit that has been taken under this sub-section.
- (6) A registered person, who was either paying tax at a fixed rate or paying a fixed amount in lieu of the tax payable under the existing law shall be entitled to take, in his electronic credit ledger, credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day, within such time and in such manner as may be prescribed, subject to the following conditions, namely:-
- (i) such inputs or goods are used or intended to be used for making taxable supplies under this Act;
  - (ii) the said registered person is not paying tax under section 10;
  - (iii) the said registered person is eligible for input tax credit on such inputs under this Act;
  - (iv) the said registered person is in possession of invoice or other prescribed documents evidencing payment of duty under the existing law in respect of inputs; and
  - (v) such invoices or other prescribed documents were issued not earlier than twelve months immediately preceding the appointed day.
- (7) Notwithstanding anything to the contrary contained in this Act, the input tax credit on account of any services received prior to the appointed day by an Input Service Distributor shall be eligible for distribution as credit under this Act, within such time and in such manner as may be prescribed, even if the invoices relating to such services are received prior to, on or after the appointed day.
- (8) Where a registered person having centralised registration under the existing law has obtained a registration under this Act, such person shall be allowed to take, in his electronic credit ledger, credit of the amount of CENVAT credit carried forward in a return, furnished under the existing law by him, in respect of the period ending with the day immediately preceding the appointed day [within such time and in such manner as may be prescribed].

**Provided** that if the registered person furnishes his return for the period ending with the day immediately preceding the appointed day **within three months** of the appointed day, such credit shall be allowed subject to the condition that the said return is either an original return or a revised return where the credit has been reduced from that claimed earlier:

**Provided** further that the registered person shall not be allowed to take credit unless the said amount is admissible as input tax credit under this Act:

**Provided** also that such credit may be transferred to any of the registered persons having the same Permanent Account Number for which the centralised registration was obtained under the existing law.

- (9) Where any CENVAT credit availed for the input services provided under the existing law has been reversed due to non-payment of the consideration **within a period of three months**, such credit can be reclaimed within such time and in such manner as may be prescribed, subject to the condition that the registered person has made the payment of the consideration for that supply of services **within a period of three months** from the appointed day.
- (10) The amount of credit under sub-sections (3), (4) and (6) shall be calculated in such manner as may be prescribed.

**Explanation 1.** - For the purposes of sub-sections (1), (3), (4)] and (6), the expression “eligible duties” means-

- (i) the additional duty of excise leviable under section 3 of the Additional Duties of Excise (Goods of Special Importance) Act, 1957;
- (ii) the additional duty leviable under sub-section (1) of section 3 of the Customs Tariff Act, 1975;
- (iii) the additional duty leviable under sub-section (5) of section 3 of the Customs Tariff Act, 1975;
- (iv) the duty of excise specified in the Second Schedule to the Central Excise Tariff Act, 1985; and
- (v) the National Calamity Contingent Duty leviable under section 136 of the Finance Act, 2001

in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day.

**Explanation 2.** - For the purposes of sub-section (1) and (5), the expression “eligible duties and taxes” means-

- (i) the additional duty of excise leviable under section 3 of the Additional Duties of Excise (Goods of Special Importance) Act, 1957;
- (ii) the additional duty leviable under sub-section (1) of section 3 of the Customs Tariff Act, 1975;
- (iii) the additional duty leviable under sub-section (5) of section 3 of the Customs Tariff Act, 1975;
- (iv) the duty of excise specified in the Second Schedule to the Central Excise Tariff Act, 1985;
- (v) the National Calamity Contingent Duty leviable under section 136 of the Finance Act, 2001; and
- (vi) the service tax leviable under section 66B of the Finance Act, 1994 (32 of 1994), in respect of inputs and input services received on or after the appointed day.

**Explanation 3.** - For removal of doubts, it is hereby clarified that the expression “eligible duties and taxes” excludes any cess which has not been specified in Explanation 1 or Explanation 2 and any cess which is collected as additional duty of customs under sub-section (1) of section 3 of the Customs Tariff Act, 1975 in respect of input services received on or after the appointed day.

### Operational Mechanism under CGST Rules, 2017 to give effect to the Transitional provisions relating to ITC

Rule 117. Tax or duty credit carried forward under any existing law or on goods held in stock on the appointed day -

- (1) Every registered person entitled to take credit of input tax under section 140 shall, within ninety days (90 days) of the appointed day, submit a declaration electronically in **FORM GST TRAN-1**, duly signed, on the common portal specifying therein, separately, the amount of input tax credit of eligible duties and taxes, as defined in *Explanation 2* to section 140, to which he is entitled under the provisions of the said section:

**Provided** that the Commissioner may, on the recommendations of the Council, extend the period of ninety days (90 days) by a further period not exceeding ninety days (90 days):

**Provided** further that where the inputs have been received from an Export Oriented Unit or a unit located in Electronic Hardware Technology Park, the credit shall be allowed to the extent as provided in sub-rule (7) of rule 3 of the CENVAT Credit Rules, 2004.

- (1A) Notwithstanding anything contained in sub-rule (1), the Commissioner may, on the recommendations of the Council, extend the date for submitting the declaration electronically in **FORM GST TRAN-1** by a further period not beyond 31st March, 2020, in respect of registered persons who could not submit the said declaration by the due date on account of technical difficulties on the common portal and in respect of whom the Council has made a recommendation for such extension.
- (2) Every declaration under sub-rule (1) shall -
- (a) in the case of a claim under sub-section (2) of section 140, specify separately the following particulars in respect of every item of capital goods as on the appointed day -
    - (i) the amount of tax or duty availed or utilized by way of input tax credit under each of the existing laws till the appointed day; and
    - (ii) the amount of tax or duty yet to be availed or utilized by way of input tax credit under each of the existing laws till the appointed day.
  - (b) in the case of a claim under sub-section (3) or clause (b) of sub-section (4) or sub-section (6) or sub-section (8) of section 140, specify separately the details of stock held on the appointed day;
  - (c) in the case of a claim under sub-section (5) of section 140, furnish the following details, namely:-
    - (i) the name of the supplier, serial number and date of issue of the invoice by the supplier or any document on the basis of which credit of input tax was admissible under the existing law;
    - (ii) the description and value of the goods or services;
    - (iii) the quantity in case of goods and the unit or unit quantity code thereof;
    - (iv) the amount of eligible taxes and duties or, as the case may be, the value added tax or entry tax charged by the supplier in respect of the goods or services; and
    - (v) the date on which the receipt of goods or services is entered in the books of account of the recipient.
- (3) The amount of credit specified in the application in **FORM GST TRAN-1** shall be credited to the electronic credit ledger of the applicant maintained in **FORM GST PMT-2** on the common portal.
- (4) (a) (i) A registered person who was not registered under the existing law shall, in accordance with the proviso to sub-section (3) of section 140, be allowed to avail of input tax credit on goods

(on which the duty of central excise or, as the case may be, additional duties of customs under sub-section (1) of section 3 of the Customs Tariff Act, 1975, is leviable) held in stock on the appointed day in respect of which he is not in possession of any document evidencing payment of central excise duty.

- (ii) The input tax credit referred to in sub-clause (i) shall be allowed at the rate of sixty per cent (60%) on such goods which attract Central tax at the rate of nine per cent (9%) or more and forty per cent (40%) for other goods of the Central tax applicable on supply of such goods after the appointed date and shall be credited after the Central tax payable on such supply has been paid:

Provided that where integrated tax is paid on such goods, the amount of credit shall be allowed at the rate of 30% and 20% respectively of the said tax;

- (iii) The scheme shall be available for six tax periods from the appointed date.

(b) The credit of Central tax shall be availed subject to satisfying the following conditions, namely:-

- (i) such goods were not unconditionally exempt from the whole of the duty of excise specified in the First Schedule to the Central Excise Tariff Act, 1985 or were not nil rated in the said Schedule;
- (ii) the document for procurement of such goods is available with the registered person;
- (iii) the registered person availing of this scheme and having furnished the details of stock held by him in accordance with the provisions of clause (b) of sub-rule (2), submits a statement in **FORM GST TRAN 2** by 31st March, 2018, or within such period as extended by the Commissioner, on the recommendations of the Council, for each of the six tax periods during which the scheme is in operation indicating therein, the details of supplies of such goods effected during the tax period;

**Provided** that the registered persons filing the declaration in **FORM GST TRAN-1** in accordance with sub-rule (1A), may submit the statement in **FORM GST TRAN-2** by 30th April, 2020.

- (iv) the amount of credit allowed shall be credited to the electronic credit ledger of the applicant maintained in **FORM GST PMT-2** on the common portal; and
- (v) the stock of goods on which the credit is availed is so stored that it can be easily identified by the registered person.

**Rule 118. Declaration to be made under clause (c) of sub-section (11) of section 142.** - Every person to whom the provision of clause (c) of sub-section (11) of section 142 applies, shall within the period specified in rule 117 or such further period as extended by the Commissioner, submit a declaration electronically in **FORM GST TRAN-1** furnishing the proportion of supply on which Value Added Tax or Service Tax has been paid before the appointed day but the supply is made after the appointed day, and the Input Tax Credit admissible thereon.

**Rule 119. Declaration of stock held by a principal and job worker.** - Every person to whom the provisions of section 141 apply shall, within [the period specified in rule 117 or such further period as extended by the Commissioner, submit a declaration electronically in **FORM GST TRAN-1**, specifying therein, the stock of the inputs, semi-finished goods or finished goods, as applicable, held by him on the appointed day.

**Rule 120. Details of goods sent on approval basis.** - Every person having sent goods on approval under the existing law and to whom sub-section (12) of section 142 applies shall, within the period specified in rule 117 or such further period as extended by the Commissioner, submit details of such goods sent on approval in **FORM GST TRAN-1**.

**Rule 120A. Revision of declaration in FORM GST TRAN-1.** - Every registered person who has submitted a declaration electronically in **FORM GST TRAN-1** within the time period specified in Rule 117, Rule 118, Rule 119 and Rule 120 may revise such declaration once and submit the revised declaration in **FORM GST TRAN-1** electronically on the common portal within the time period specified in the said rules or such further period as may be extended by the Commissioner in this behalf.

**Rule 121. Recovery of credit wrongly availed.** - The amount credited under sub-rule (3) of rule 117 may be verified and proceedings under section 73 or, as the case may be, section 74 shall be initiated in respect of any credit wrongly availed, whether wholly or partly.

## INELIGIBLE CREDITS

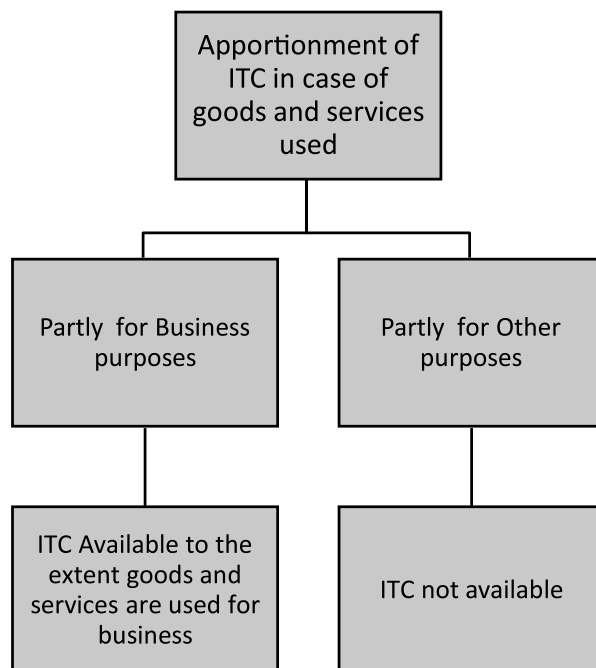
### Apportionment of credit and blocked credits [Section 17]

Goods and Services Tax aims at providing seamless flow of credit throughout the supply chain.

However, there are certain situations as mentioned in section 17 of Central GST Act, 2017 where input tax credit will not be available.

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

(1) 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.



### Meaning of Business

As per Section 2(17) of CGST Act, 2017 “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;

**Examples**

- i. Bank providing financial services to its customers.
- ii. Company manufacturing turbines for export and local sale.
- iii. CS providing GST consultancy.
- iv. An artist earning income for dance performances.
- v. Gambling in a Derby.
- vi. Charitable hospital providing free medicines to farmers.

**Note:** pecuniary benefit means monetary benefits. It's a benefit or compensation that is quantifiable in monetary terms. The primary significance of this term is economic gain by the entity.

- b. any activity or transaction in connection with or incidental or ancillary to (a) above;

**Examples**

- i. Bank providing lockers for rent to customers in the Bank premises as Banks have high security.
- ii. Turbine Manufacturing company letting out R&D facilities to research units towards improvement of product and expansion.
- c. any activity or transaction in the nature of (a) above, whether or not there is volume, frequency, continuity or regularity of such transaction;

**Examples**

- i. Mr. X gambles for the first time in Derby and wins.
- ii. Sale of mangoes by a farmer during summer in flea market.
- iii. Sale of old newspapers by a CS firm.
- d. supply or acquisition of goods including capital assets and services in connection with commencement or closure of business;

**Examples**

- i. Services rendered by a Company Secretary to incorporate a Company.
- ii. Real estate agent helping Company to acquire factory godown for a commission.
- 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, as the case may be;

**Examples**

- i. Cooperative society formed for supply of milk.
- ii. Recreation club formed by apartment owners.
- f. admission, for a consideration, of persons to any premises; and

**Examples**

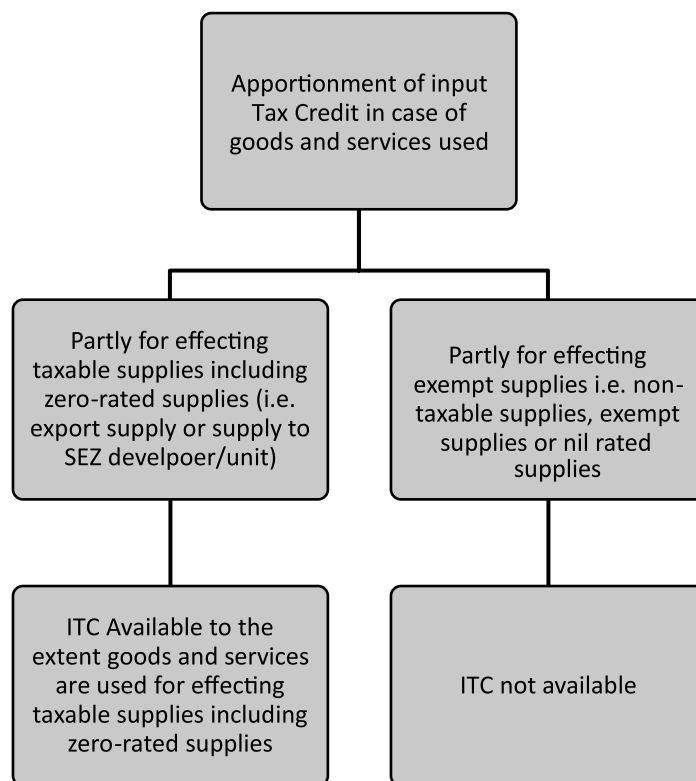
- i. PVR selling movie tickets.
- ii. entry / Admission fee collected by Art exhibitions to display artifacts, paintings and sculptures made by artists.

- iii. Museums run by Governments for an entry fee to public to display objects of historical significance.
- 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;

**Example**

- i. Director of the company providing specialized technical consultancy.
- h. services provided by a race club by way of totalisator or a licence to bookmaker in such club;
- 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;

(2) 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.

**Meaning of Taxable Supply:**

As per section 2(108) of CGST Act "taxable supply" means a supply of goods or services or both which is leviable to tax under this Act;

**Meaning of Exempt Supply:**

As per Section 2(47) of CGST Act "exempt supply" means supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply;

**Meaning of Zero-rated Supply:**

As per section 16(1) of IGST Act “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 **to a Special Economic Zone (SEZ) developer or a Special Economic Zone (SEZ) unit.**

(3) 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 5 of **Schedule II**, sale of building.

*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

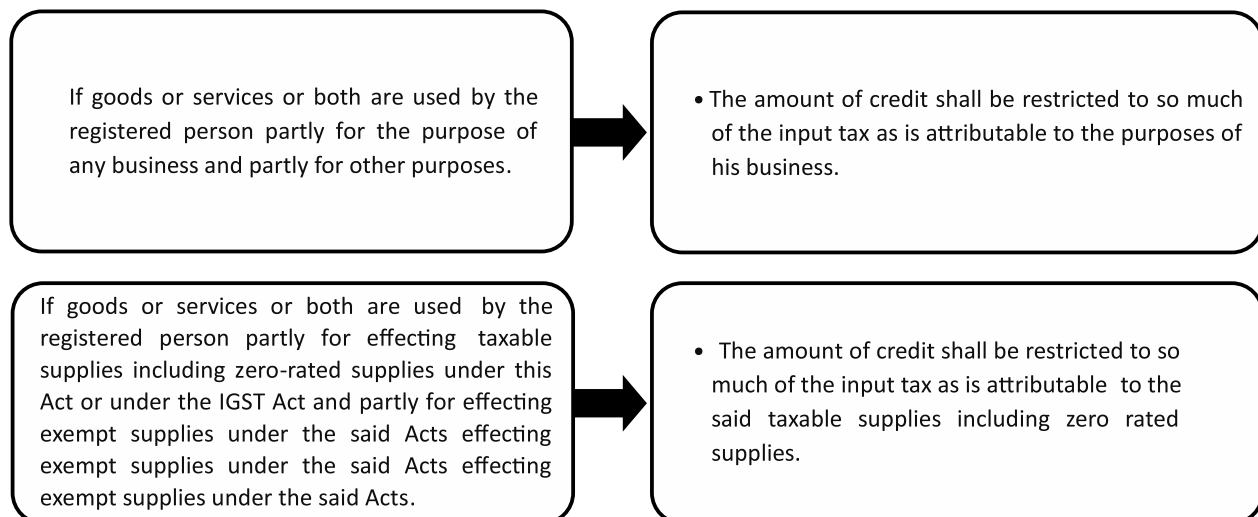
- (i) those specified in paragraph 5 of the said Schedule.
- (ii) The value of such activities or transactions as may be prescribed in respect of clause (a) of paragraph 8 of the said schedule.

(4) **A banking company or a financial institution including a Non-Banking Financial Company (NBFC)**, 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 50 % of the eligible input tax credit on inputs, capital goods and input services in that month and the rest shall be lapse.

Provided that the option once exercised shall not be withdrawn during the remaining part of the financial year:

Provided further that the restriction of 50% shall not apply to the tax paid on supplies made by one registered person to another registered person having the same Permanent Account Number (PAN).

Input Tax Credit is available only on those goods and services used for business. Exports and supplies to SEZ fall under the category of zero-rated supplies. ITC is available on zero rated supplies and taxable supplies but not on exempt supplies.

**Note:**

**Illustration**

Input X is used to produce and supply output Y which is exempt, no ITC is available on input X because it was used for exempt supply.

In the above example if the output Y is exported or supplied to an SEZ unit, ITC is available on Input X as the out-ward supply is zero rated.

**Blocked Credits [Section 17(5)]**

Notwithstanding anything contained in sub-section (1) of section 16 and subsection (1) of section 18, input tax credit shall not be available in respect of the following, namely:

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

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: –

- (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

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

- (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;

*Example:* Pooja is running a unisex saloon in Delhi for providing Beauty Treatment Services to males and females. During the month of November due to marriage seasons in Delhi she availed the beauty treatment services from her friend Garima. Garima raised invoice for the services provide to Pooja with applicable GST on it. Pooja used the services provided by Garima for making outward supply of services of the same category of services. Pooja shall be eligible to avail Input Tax Credit (ITC) of the Beauty treatment services.

- (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 the same to its employees under any law for the time being in force.

(c) **Works contract services for construction of immovable property**

Works contract services for construction of immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service;

(d) **Self-construction of immovable property**

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.

*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 capitalization, to the said immovable property;

- (e) goods or services or both on which tax has been paid under section 10; (Composition Supply Scheme)  
 (f) goods or services or both received by a non-resident taxable person except on goods imported by him;  
 (fa) 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;  
 (g) goods or services or both used for personal consumption;  
 (h) goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples.  
 (i) No credit for any tax paid in accordance with the provisions of sections 74.

These sections prescribe the provisions relating to the 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.

**Illustration:**

A taxable person is in the business of Chemicals. He buys a car (maximum seating capacity – 7 persons) for use of his Executive Directors.

Can he avail the ITC in respect of GST paid on purchase of such car?

**Solution:**

No. ITC on motor vehicles for transportation of persons with approved seating capacity of up to 13 persons (including driver), can be availed only if the taxable person is in the business of transport of passengers or is providing the services of imparting training on driving such motor vehicles or is in the business of further supply of such motor vehicles. Also, ITC can be availed on motor vehicles used for transportation of goods.

**Illustration:**

ABC 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 DEF Pvt. Ltd. for providing such meals to its customers.

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

**Solution:**

As per section 17(5), 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, ABC 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, ABC 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).

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

Circular No. 92/11/2019 GST dated 28.03.2019 has clarified the entitlement of ITC in the hands of supplier in respect of various sales promotional schemes as under:

**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 sub-section (3) of section 15, 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.

#### A. 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.

- (i) any tax paid in accordance with the provisions of sections 74, 129 and 130.

Section 17(6) The Government may prescribe the manner in which the credit referred to in sub-sections (1) and (2) may be attributed.

*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) land, building or any other civil structures;
- (ii) telecommunication towers; and
- (iii) pipelines laid outside the factory premises.

### CASE LAW

***M/s ARS Steels & Alloy International Pvt. Ltd. vs. The State Tax Officer, (W.P. No. 2885 of 2021) Madras High Court***

**Loss of inputs inherent to manufacturing Process: Is reversal of ITC required under section 17(5)(h)?**

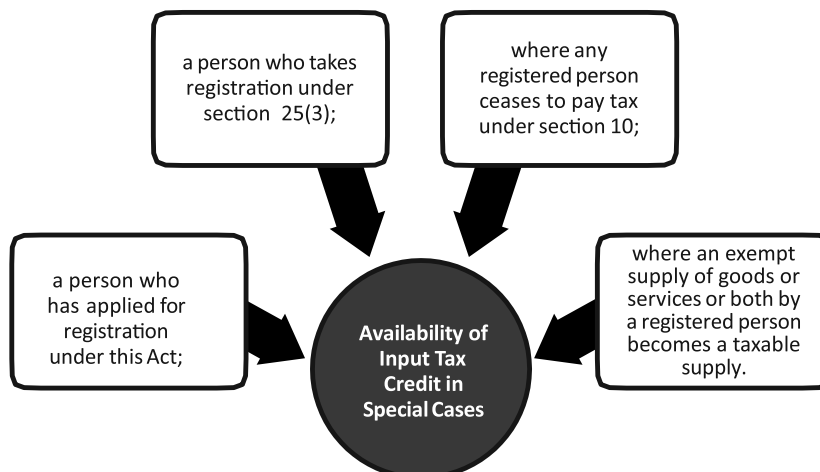
**Facts of the Case:** The petitioners are engaged in the manufacture of MS Billets and Ingots. MS scrap is an input in the manufacture of MS Billets and the latter, in turn, constitutes an input for manufacture of TMT/CTD Bars. There is a loss of a small portion of the inputs, inherent to the manufacturing process. The impugned orders seek to reverse a portion of the ITC claimed by the petitioners, proportionate to the loss of the input, referring to the provisions of Section 17(5)(h) of the GST Act.

**Decision:**

- To say that what is contained in finished product is only a quantity of all the inputs of the same weight as that of the finished product would presuppose that all manufacturing processes would never have an inherent loss in the process of manufacture. The expression 'inputs of such finished product', 'contained in finished products' cannot be looked at theoretically with its semantics. It has to be understood in the context of what a manufacturing process is. If there is no dispute about the fact that every manufacturing process would automatically result in some kind of a loss such as evaporation, creation of by-products, etc., the total quantity of inputs that went into the making of the finished product represents the inputs of such products in entirety.'
- The reversal of ITC involving Section 17(5)(h) by the revenue, in cases of loss by consumption of input which is inherent to manufacturing loss is misconceived, as such loss is not contemplated or covered by the situations adumbrated under Section 17(5)(h).

**Availability of Input Tax Credit in Special Cases [Section 18]**

This section deals with eligibility of credit in special cases.



- (1) Subject to such conditions and restrictions as may be prescribed –
- a person who has applied for registration under this Act **within thirty days (30 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 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;
  - 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;
  - 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:

Provided that the credit on capital goods shall be reduced by such percentage points as may be prescribed;

- (d) 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 relating 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:

Provided that the credit on capital goods shall be reduced by such percentage points as may be prescribed.

#### **Time Limit to claim ITC**

- (2) 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 of tax invoice relating to such supply.

*Note:* Here, the maximum time limit for availing ITC is **one year**. Invoices more than one year old are not eligible for taking credit.

#### **ITC in case of sale, merger, demerger, amalgamation, lease or transfer of the business**

- (3) 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, or due to the death of the sole proprietor, 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.

#### **Note:**

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.

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

- (4) 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 [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)], on the day immediately preceding the date of exercising of such option or, as the case may be, the date of such exemption:

Provided that after payment of such amount, the balance of input tax credit, if any, lying in his electronic credit ledger shall **lapse**.

- (5) 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.

#### **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) of CGST Rules]**

- (6) 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 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

- the tax on the transaction value of such capital goods or plant and machinery determined under section 15, whichever is higher:

Provided that where refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, the taxable person may pay tax on the transaction value of such goods determined under section 15.

**The table below summarizes the entitlement of Input Tax Credit (ITC):**

Case	Persons eligible	Goods entitled as on	Conditions
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.	He can claim the ITC on inputs held in the form of Raw Materials / WIP / Finished Goods as on the day immediately preceding the date from which he becomes liable to pay tax.	ITC must be availed within 1 year from the date of issue of tax invoice by the supplier.
2.	Person who isn't liable to register <i>per se</i> , but obtains voluntary registration.	He can claim the ITC on inputs held in the form of Raw Materials/ WIP/ Finished Goods as on the day immediately preceding the date of registration.	ITC must be availed within 1 year from the date of issue of tax invoice by the supplier.
3.	Registered person who ceases to be under composition levy and switches to the regular scheme.	He can claim the ITC on inputs held in the form of Raw Materials/ WIP / Finished Goods & Capital Goods as on the day immediately preceding the date from which he becomes liable to pay tax under the regular scheme.	ITC on Capital Goods will be reduced by 5% per quarter of year / part thereof of usage from the date of invoice.
4.	Registered person whose exempt supplies become taxable.	He can claim the ITC on inputs held in the form of Raw Materials/WIP/ Finished Goods & Capital Goods relating to such exempt supply as on the day immediately preceding the date from which the supply becomes taxable.	ITC on Capital Goods will be reduced by 5% per quarter of year / part thereof of usage from the date of invoice.

**Illustration:**

Mr. B becomes liable to pay tax on 1st August 2024 and has obtained registration on 17th August 2024.

He will hence be entitled to take ITC effective 31st July 2024 in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock.

It must be noted that if the application is not made within 30 days, then he will be able to claim ITC effective the date of grant of such registration.

**Illustration:**

Mr. C acquired a Capital Asset on 1st April, 2023 and used it for production of exempt supplies only. Now, in November 2024, his supplies become taxable. The cost of the asset was INR 2,50,000 and GST 18% were charged on it.

Hence the ITC applicable is  $\text{INR } 250,000 \times 18\%$ , which is INR 45,000.

Now, number of quarters of usage that have elapsed between April 2023 to November 2024 are seven. Hence, there would be a reduction of 5% per quarter for 7 quarters, that is 35%.

Therefore, ITC available would be as under.

Total ITC	45,000
Less: Reduction for 7 quarters	15,750
Net ITC available	29,250

Note that this ITC would be available from the date immediately preceding the date from which the supply becomes taxable.

Rule 40(2) of Rules, 2017, states that the amount of credit shall be calculated by reducing the input tax @ 5% for every quarter or part thereof. It shall be calculated from the date of issue of invoice for the capital goods.

**Illustration:**

Mr. Z applies for voluntary registration on 1st September and is granted such registration on 9th September. He will hence be entitled to take ITC effective 8th September on inputs (Raw Material/Work in process / Finished Goods).

### Clarification in respect of Input Tax Credit in case of change of Constitution of registered person/ death of sole proprietor

S. No.	Issue / Question	Clarification
1.	In case of demerger, proviso to rule 41(1) of the CGST Rules provides that 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. However, it is not clear as to whether the value of assets of the new units is to be considered at State level or at all-India level.	Proviso to sub-rule (1) of rule 41 of the CGST Rules provides for apportionment of the input tax credit in the ratio of the value of assets of the new units as specified in the demerger scheme. Further, the explanation to sub-rule (1) of rule 41 of the CGST Rules states that "value of assets" means the value of the entire assets of the business, whether or not input tax credit has been availed thereon. Under the provisions of the CGST Act, a person/ company (having same PAN) is required to obtain separate registration in different States and each such registration is considered a distinct person for the purpose of the Act. Accordingly, for the purpose of apportionment of ITC pursuant to a demerger under sub rule (1) of rule 41 of the CGST Rules, 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.

S. No.	Issue / Question	Clarification
		<p><b>Illustration:</b> A company XYZ is registered in two States of M.P. and U.P. Its total value of assets is worth Rs. 100 crores, while its assets in State of M.P. and U.P are Rs. 60 crores and Rs. 40 crores respectively. It demerges a part of its business to company ABC. As a part of such demerger, assets of XYZ amounting to Rs. 30 crores are transferred to company ABC in State of M.P, while assets amounting to Rs. 10 crores. only are transferred to ABC in State of U.P. (Total assets amounting to Rs. 40 crores at all-India level 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., <math>30/60 = 0.5</math> and not on the basis of all-India ratio of value of assets, i.e., <math>40/100=0.4</math>. 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., <math>10/40 = 0.25</math>.</p>
2.	Is the transferor required to file <b>FORM GST ITC-02</b> in all States where it is registered?	No, the transferor is required to file <b>FORM GST ITC-02</b> only in those States where both transferor and transferee are registered.
3.	The proviso to rule 41 (1) of the CGST Rules explicitly mentions 'demerger'. Other forms of business reorganization where part of business is hived off or business is transferred as a going concern etc. have not been covered in the said rule. Wherever business reorganization results in partial transfer of business assets along with liabilities, whether the proviso to rule 41(1) of the CGST Rules, 2017 shall be applicable to calculate the amount of transferable ITC?	Yes, the formula for apportionment of ITC, as prescribed under proviso to sub-rule (1) of rule 41 of the CGST Rules, shall be applicable for all forms of business re-organization that results in partial transfer of business assets along with liabilities.
4.	Whether the ratio of value of assets, as prescribed under proviso to rule 41 (1) of the CGST Rules, shall be applied in respect of each of the heads of input tax credit viz. CGST/ SGST/ IGST/ Cess?	No, the ratio of value of assets, as prescribed under proviso to sub-rule (1) of rule 41 of the CGST Rules, shall be applied to the total amount of unutilized Input Tax Credit (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.

S. No.	Issue / Question	Clarification
		<p><b>Illustration:</b> The ITC balances of transferor X 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, X 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.</p>
5.	How to determine the amount of ITC that is to be transferred to the transferee under each tax head (IGST/CGST/SGST) while filing of FORM GST ITC- 02 by the transferor?	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, as determined under sub-rule (1) of rule 41 of the CGST Rules [refer 3 (c) (i) 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.
6.	In order to calculate the amount of transferable ITC, the apportionment formula under proviso to rule 41(1) of the CGST Rules has to be applied to the unutilized ITC balance of the transferor. However, it is not clear as to which date shall be relevant to calculate the amount of unutilized ITC balance of transferor.	According to sub-section (3) of section 18 of the CGST Act, “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 unutilized in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed.”
7.	Which date shall be relevant to calculate the ratio of value of assets, as prescribed in the proviso to rule 41 (1) of the CGST Rules, 2017?	<p>According to section 232 (6) of the Companies Act, 2013, “The scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date”. The said legal provision appears to indicate that the “appointed date of demerger” is the date from which the scheme for demerger comes into force and it is specified in the respective scheme of demerger. Therefore, for the purpose of apportionment of ITC under rule sub-rule (1) of rule 41 of the CGST Rules, the ratio of the value of assets should be taken as on the “appointed date of demerger”.</p> <p>In other words, for the purpose of apportionment of ITC under sub-rule (1) of rule 41 of the CGST Rules, while the ratio of the value of assets should be taken as on the “appointed date of demerger”, the said ratio is to be applied on the ITC balance of the transferor on the date of filing <b>FORM GST ITC-02</b> to calculate the amount to transferable ITC.</p>

The registered person should furnish the details of change in constitution 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. Transfer of ITC on obtaining separate registrations for multiple places of business within a State/ Union Territory [Rule 41A of CGST Rules].

Section 25 enables a taxpayer to obtain separate registrations for multiple places of business in a State/ union territory. 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.

**Illustration:**

Baani Agro Traders located at Jaipur and engaged in the business as retail traders provides the following details of its inward and outward supplies made during the month of July, 2024:

Sr. No.	Items	(Amount in Rupees)	
		Inward Supply	Outward Supply
(i)	Sugar Candies	1,00,000	1,20,000
(ii)	Chocolate Bars	80,000	1,00,000
(iii)	Wafers Packets	75,000	60,000
(iv)	Biscuits	50,000	50,000

The rate of tax under IGST on the items are 5%, 12%, 12% and 18% respectively. You are required to calculate the amount of IGST payable and the date by which the due tax is to be paid by the trader for the month of July, 24 after availing the Input Credit.

**Note:**

Since GST statutes require that GST is to be charged separately, hence, all prices are taken as ex-tax values.

It is assumed that both purchase and sales are inter-state transactions.

**Solution:**

**Calculation of outward tax payable by Baani Agro Traders on the sales during July, 2024.**

Item	Value in Rs.	Rate	Tax in Rs.
Sugar Candies	1,20,000	5%	6,000
Chocolates Bars	1,00,000	12%	12,000
Wafers Packets	60,000	12%	7,200
Biscuits	50,000	18%	9,000
			34,200

### Calculation of Input Tax available on Inward Supplies

<i>Item</i>	<i>Value in Rs.</i>	<i>Rate</i>	<i>Tax in Rs.</i>
Sugar Candies	1,00,000	5%	5,000
Chocolates Bars	80,000	12%	9,600
Wafers Packets	75,000	12%	9,000
Biscuits	50,000	18%	9,000
Total Input Tax Credit			32,600

Total tax payable - Rs. 34,200

#### Mode of payment

By debiting electronic credit ledger - Rs. 32,600 and by debiting electronic cash ledger Rs. 1600

Due date for payment of tax shall be 20th of August 2024.

### Goods sent to Job Worker

A large number of industries depend upon outside support for completing manufacturing activity.

**Section 2(68): “Job Work”** means any treatment or process undertaken by a person on goods belonging to another registered person and the expression “**job worker**” shall be construed accordingly.

The person who undertakes the job of treatment or process for another person is called job worker. The owner of the goods who engages the job worker is called principal. Inputs and capital goods can be sent to a job worker and the principal can avail ITC on them. The goods can be sent directly from the job worker’s place without bringing them to the premises of the principal.

Inputs should be brought back to the principal **OR** alternatively sold from the job worker’s premises on behalf of the principal:

- within one year in case of normal goods;
- and within 3 years in case of capital goods.

The period of **1 year and 3 years** may, on sufficient cause being shown, be extended by the commissioner for a further period not exceeding **1 year and 2 years** respectively.

If the goods are not sold / brought back within the stipulated time, the supply between the principal and the job worker is treated as “deemed supply” and tax is payable thereon by the principal.

*Notes:* Moulds and dies, jigs and fixtures, or tools sent out to a job worker for job work need not be brought within 3 years’ time (Capital Goods excludes moulds and dies, jigs and fixtures, or tools.)

Section 143 of CGST Act, 2017 states that a principal under intimation and subject to such conditions as may be prescribed can send inputs or capital goods to a job worker without payment of tax for further process or treatment and from there subsequently to another job worker(s) and shall either bring back such inputs/capital goods after completion of job work or otherwise, within **1 year / 3 years** of their being sent out, or supply such

inputs / capital goods after completion of job work or otherwise within **1 year / 3 years** of their being sent out, from the place of business of a job worker on payment of tax within India or with or without payment of tax for export.

Provided that the principal shall not supply the goods from the place of business of a job worker in accordance with the provisions of this clause unless the said principal declares the place of business of the job worker as his additional place of business except in a case –

- (i) where the job worker is registered under section 25; or
- (ii) where the principal is engaged in the supply of such goods as may be notified by the Commissioner.

“Provided further that the period of **one year and three years** may, on sufficient cause being shown, be extended by the Commissioner for a further period not exceeding **one year and two years** respectively.”

The responsibility for keeping proper accounts for the inputs or capital goods shall lie with the principal.

Any waste and scrap generated during the job work may be supplied by the job worker directly from his place of business on payment of tax, if such job worker is registered, or by the principal, if the job worker is not registered.

For the purposes of job work, input includes intermediate goods arising from any treatment or process carried out on the inputs by the principal or the job worker.

### Taking ITC in respect of inputs and capital goods sent for job work [Section 19]

Section 19 of the CGST Act, 2017 states that the principal shall, subject to such conditions and restrictions as may be prescribed, be allowed input tax credit on inputs sent to a job worker for job work.

Although Section 16 of the CGST Act, 2017 specifically states that ITC will be provided only when goods are actually received, but under Job work this condition is not applicable and ITC can be availed even if inputs or capital goods are directly sent to the job worker without being first brought to the place of business of principal.

Taking ITC in respect of inputs and capital goods sent on job work:

- (1) The principal shall, subject to such conditions and restrictions as may be prescribed, be allowed input tax credit on inputs sent to a job worker for job work.
- (2) Notwithstanding anything contained in clause (b) of sub-section (2) of section 16, the principal shall be entitled to take credit of input tax on inputs even if the inputs are directly sent to a job worker for job work without being first brought to his place of business.
- (3) Where the normal goods sent for job work are not received back by the principal after completion of job work or otherwise or are not supplied from the place of business of the job worker in accordance with clause (a) or clause (b) of sub-section (1) of section 143 **within one year** of being sent out, 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 sent out:

Provided that where the inputs are sent directly to a job worker, the period of one year shall be counted from the date of receipt of inputs by the job worker.

- (4) The principal shall, subject to such conditions and restrictions as may be prescribed, be allowed input tax credit on capital goods sent to a job worker for job work.

- (5) Notwithstanding anything contained in clause (b) of sub-section (2) of section 16, the principal shall be entitled to take credit of input tax on capital goods even if the capital goods are directly sent to a job worker for job work without being first brought to his place of business.
- (6) Where the capital goods sent for job work are not received back by the principal within a period of **three years** of being sent out, it shall be deemed that such capital goods had been supplied by the principal to the job worker on the day when the said capital goods were sent out.

Provided that where the capital goods are sent directly to a job worker, the period of **three years** shall be counted from the date of receipt of capital goods by the job worker.

- (7) Nothing contained in sub-section (3) or sub-section (6) shall apply to moulds and dies, jigs and fixtures, or tools sent out to a job worker for job work.

*Explanation.* –For the purpose of this section, “principal” means the person referred to in section 143.

It is imperative to note that the principal can claim ITC in Inputs / Capital Goods and can send these to the Job Worker for further processing without payment of GST under the cover of a prescribed challan but where these are not either sold by the job worker **OR** returned by the job worker **within 1 or 3 years** as above, then the supply between them is construed as Deemed Supply and tax with interest has to be discharged by the supplier.

### Input Tax Credit Rules

Rule 36: Documentary requirements and conditions for claiming input tax credit

- (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, and the relevant information, as contained in the said document.

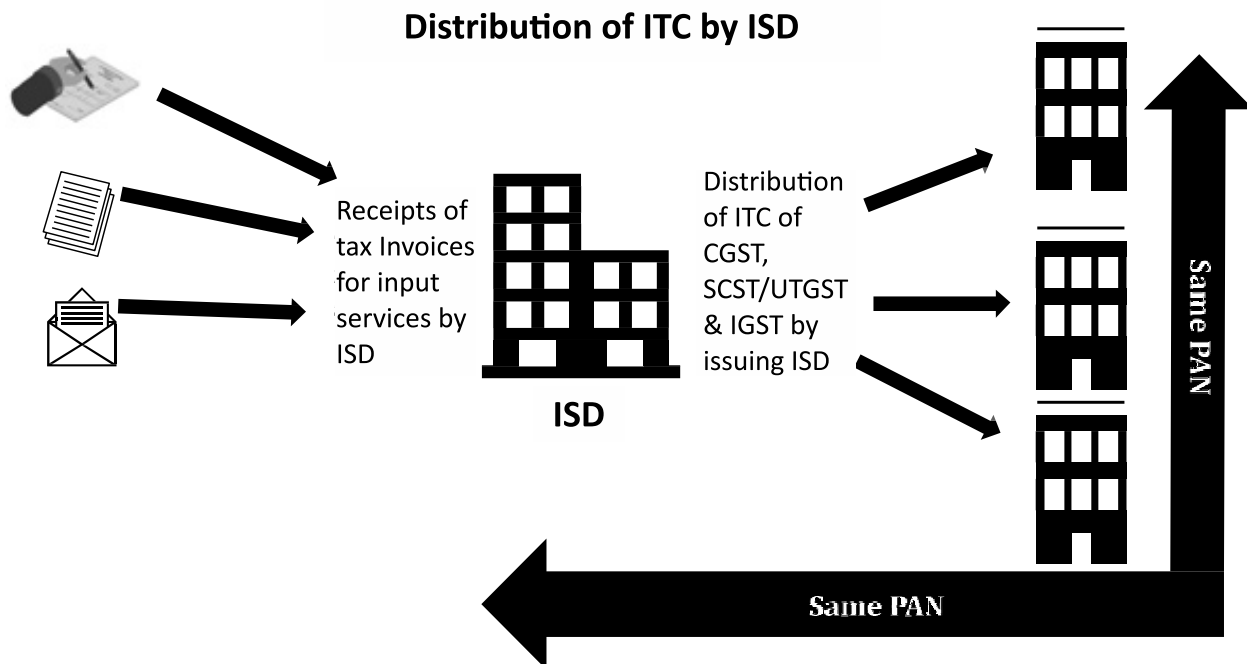
Provided that if the said document does not contain all the specified particulars but contains the details of the amount of tax charged, description of goods or services, total value of supply of goods or services or both, GSTIN of the supplier and recipient and place of supply in case of inter-State supply, input tax credit may be availed by such registered person.

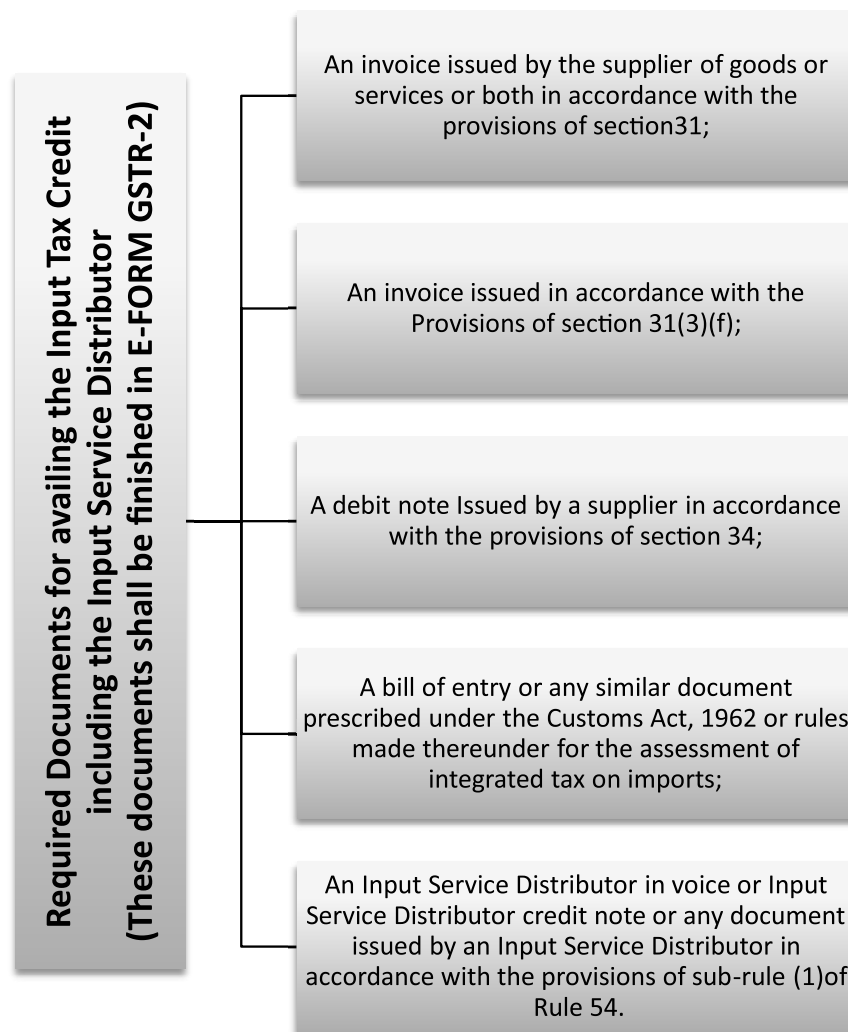
- (3) No input tax credit shall be availed by a registered person in respect of any tax that has been paid in pursuance of any order where any demand has been confirmed on account of any fraud, willful misstatement or suppression of facts.
- (4) No input tax credit shall be availed by a registered person in respect of invoices or debit notes the details of which are required to be furnished under subsection (1) of section 37 unless,-
- 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
  - the details of input tax credit in respect of such invoices or debit notes have been communicated to the registered person in **FORM GSTR-2B** under sub-rule (7) of rule 60.

### INPUT SERVICE DISTRIBUTOR

The concept of Input Service Distributor is not new in taxation law. It was existing under the erstwhile service tax law which was brought to cater the situations where a registered person receives goods and services at its head offices, branch offices which are not providing any output service or goods directly but does through its factories or other premises located elsewhere. In order to avoid loss of input tax credit, the concept of input service distributor was established wherein such Head Office, etc. as permitted to take registration as Input Service Distributor and avail and distribute input tax credit to its taxable units for utilizing such credit.

*Section 2(61):* "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 invoices in the manner provided in section 20:





### Manner of distribution of credit by Input Service Distributor [Section 20]

- (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.
- (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 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.]

**(4) Rule 39. Procedure for distribution of input tax credit by Input Service Distributor**

An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions:

- (a) 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;
- (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 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 aggregate of the turnover of all recipients and which are operational in the current year, during the said relevant period;
- (f) the input tax credit that is required to be distributed in accordance with the provisions of clause (d) and (e) 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 recipients 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-

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

where,

"C" is the amount of credit to be distributed,

"t1" is the turnover, as referred to in clause (d) and (e), 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 clause (d) and (e);

- (g) the Input Service Distributor shall, in accordance with the provisions of clause (d) and (e), 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;
- (h) 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) and (e);

- (i) the input tax credit on account of integrated tax shall be distributed as input tax credit of integrated tax to every recipient;
  - (j) the input tax credit on account of central tax and State tax or Union territory tax shall—
    - (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 as referred to in clause (d) and (e);
  - (k) the Input Service Distributor shall issue an Input Service Distributor invoice, as provided in sub-rule (1) of rule 54, clearly indicating in such invoice that it is issued only for distribution of input tax credit;
  - (l) the Input Service Distributor shall issue an Input Service Distributor credit note, as provided in sub-rule (1) of rule 54, for reduction of credit in case the input tax credit already distributed gets reduced for any reason;
  - (m) 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 (j) and the amount attributable to any recipient shall be calculated in the manner provided in clause (f) and such credit shall be distributed in the month in which the debit note is included in the return in FORM GSTR-6;
  - (n) 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 (f), 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.
- (1) For the distribution of credit in respect of input services, attributable to one or more distinct persons, subject to levy of tax under sub-section (3) or (4) of section 9, a registered person, having the same PAN and State code as an Input Service Distributor, may issue an invoice or, as the case may be, a credit or debit note as per the provisions of sub-rule(1A) of rule 54 to transfer the credit of such common input services to the Input Service Distributor, and such credit shall be distributed by the said Input Service Distributor in the manner as provided in sub-rule (1).
- (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 the Input

Service Distributor, the process specified in clause (n) of sub-rule (1) shall apply, mutatis mutandis, for reduction of credit.

- (3) Subject to sub-rule (2), the Input Service Distributor shall, on the basis of the Input Service Distributor credit note specified in 1[clause (j)] 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.

[Explanation:

- (i) the term “relevant period” shall be-
  - (a) 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
  - (b) 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;
- (ii) 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;
- (iii) 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 entries 51 and 54 of List II of the said Schedule.

**Clarification regarding taxability of services provided by an office of an organisation in one State to the office of that organisation in another State, both being distinct persons [Circular No. 199]**

Various representations have been received seeking clarification on the taxability of activities performed by an office of an organisation in one State to the office of that organisation in another State, which are regarded as distinct persons under section 25 of Central Goods and Services Tax Act, 2017 (hereinafter referred to as ‘the CGST Act’). The issues raised in the said representations have been examined and to ensure uniformity in the implementation of the law across the field formations, the Board, in exercise of its powers conferred under section 168(1) of the CGST Act hereby clarifies the issue in succeeding paras.

Let us consider a business entity which has Head Office (HO) located in State-1 and a branch office (BOs) located in other States. The HO procures some input services e.g. security service for the entire organisation from a security agency (third party). HO also provides some other services on their own to branch offices (internally generated services).

The issues that may arise with regard to taxability of supply of services between distinct persons in terms of sub-section (4) of section 25 of the CGST Act are being clarified in the Table below: -

S. No	Issues	Clarification
1.	<p>Whether HO can avail the input tax credit (hereinafter referred to as '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, 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 (hereinafter referred to as 'ISD') mechanism for distribution of ITC in respect of common input services procured by them from a third party but attributable to both HO and BOs or exclusively to one or more BOs?</p>	<p>It is clarified that in respect of common input services procured by the HO from a third party but attributable to both HO and BOs or exclusively to one or more BOs, HO has an option to distribute ITC in respect of such common input services by following ISD mechanism laid down in Section 20 of CGST Act read with rule 39 of the Central Goods and Services Tax Rules, 2017 (hereinafter referred to as 'the CGST Rules'). However, as per the present provisions of the CGST Act and CGST Rules, it is not mandatory for the HO to distribute such input tax credit by ISD mechanism. HO can also issue tax invoices under section 31 of CGST Act 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 section 16 and 17 of CGST Act.</p> <p>In case, the HO distributes or wishes to distribute ITC to BOs in respect of such common input services through the ISD mechanism as per the provisions of section 20 of CGST Act read with rule 39 of the CGST Rules, HO is required to get itself registered mandatorily as an ISD in accordance with Section 24(viii) of the CGST Act.</p> <p>Further, such distribution of the ITC in respect a common input services procured from a third party can be made by the HO to a BO through ISD mechanism only if the said input services are attributable to the said BO or have actually been provided to the said BO. Similarly, the HO can issue tax invoices under section 31 of CGST Act to the concerned BOs, in respect of any input services, procured by HO from a third party for on or behalf of a BO, only if the said services have actually been provided to the concerned BOs.</p>

S. No	Issues	Clarification
2.	<p>In respect of internally generated services, there may be cases where HO is providing certain services to the BOs <b>for which full input tax credit is available to the concerned BOs</b>. However, HO may not be issuing tax invoice to the concerned BOs with respect to such services, or the HO may not be including the cost of a particular component such as salary cost of employees involved in providing said services while issuing tax invoice to BOs for the services provided by HO to BOs. Whether the HO is mandatorily required to issue invoice to BOs under section 31 of CGST Act for such internally generated services, and/ or whether the cost of all components including salary cost of HO employees involved in providing the said services has to be included in the computation of value of services provided by HO to BOs <b>when full input tax credit is available to the concerned BOs</b>.</p>	<p>The value of supply of services made by a registered person to a distinct person needs to be determined as per rule 28 of CGST Rules, read with sub-section (4) of section 15 of CGST Act. As per clause (a) of rule 28, the value of supply of goods or services or both between distinct persons shall be the open market value of such supply. The <b>second proviso to rule 28</b> of CGST Rules provides that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services. Accordingly, in respect of supply of services by HO to BOs, the value of the said supply of services declared in the invoice by HO shall be deemed to be open market value of such services, <b>if the recipient BO is eligible for full input tax credit</b>.</p> <p>Accordingly, in cases <b>where full input tax credit is available to a BO</b>, the value declared on the invoice by HO to the said BO in respect of a supply of services shall be deemed to be the open market value of such services, irrespective of the fact whether cost of any particular component of such services, like employee cost etc., has been included or not in the value of the services in the invoice.</p> <p>Further, in such <b>cases where full input tax credit is available to the recipient</b>, if HO has not issued a tax invoice to the BO in respect of any particular services being rendered by HO to the said BO, the value of such services may be deemed to be declared as Nil by HO to BO, and may be deemed as open market value in terms of second proviso to rule 28 of CGST Rules.</p>
3.	<p>In respect of internally generated services provided by the HO to BOs, in cases where <b>full input tax credit is not available to the concerned BOs</b>, whether the cost of salary of employees of the HO involved in providing said services to the BOs, is mandatorily required to be included while computing the taxable value of the said supply of services provided by HO to BOs.</p>	<p>In respect of internally generated services provided by the HO to BOs, the cost of salary of employees of the HO, involved in providing the said services to the BOs, is not mandatorily required to be included while computing the taxable value of the supply of such services, even in cases where full input tax credit is not available to the concerned BO.</p>

**Illustration:** Aqua Limited has taken registration as an Input Service Distributor and has received following invoices of input services in relation to its three locations (A, B & C) wherein IGST charge is as follows:

Invoice no. 1: Rs. 10,00,000 (IGST) attributable solely to A location

Invoice no. 2: Rs. 6,00,000 (IGST) attributable solely to B & C location

Invoice no. 3: Rs. 12,00,000 (IGST) attributable solely to all locations

The Turnover of each location is as follows:

Turnover of A: Rs. 80,00,000

Turnover of B: Rs. 70,00,000

Turnover of C: Rs. 50,00,000

Compute the amount of ITC attributable to each location.

**Solution:**

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>
Turnover	80,00,000	70,00,000	50,00,000
ITC Distributed of Invoice no. 1	10,00,000	0	0
ITC Distributed of Invoice no. 2 Location B: Rs. 6,00,000*70,00,000/1,20,00,000 Location C: Rs. 6,00,000*50,00,000/1,20,00,000	0	3,50,000	2,50,000
ITC Distributed of Invoice no. 3 Location A: Rs. 12,00,000*80,00,000/2,00,00,000 Location B: Rs. 12,00,000*70,00,000/200,00,000 Location C: Rs. 12,00,000*50,00,000/2,00,00,000	4,80,000	4,20,000	3,00,000
<b>Total ITC Distributed</b>	<b>14,80,000</b>	<b>7,70,000</b>	<b>5,50,000</b>

### Manner of recovery of credit distributed in excess [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 or section 74A, as the case may be, shall, *mutatis mutandis*, apply for determination of amount to be recovered.

**Illustration:**

M/s X Ltd., a registered supplier from Maharashtra is engaged in the manufacturing of passenger auto. The company provides the following details of purchase made/services availed by it during the month of March 2025:

S. No.	Particulars	Amount (Rs.)
i)	Purchase of iron which is used as a raw material (Goods were received in two instalments, first on in March 2025 and the second instalment was received in April 2025).	2,50,000
ii)	Purchase of accessories which were delivered directly to the dealers of the company. Only invoice was received by X Ltd.	90,000
iii)	Purchase of Bus (seating capacity 15) for the transportation of employees from their residence to company and back.	1,97,000
iv)	Input tax credit on general insurance taken on a car used by Executives of the company for official purposes.	5,200
v)	Payment made to M/s XYZ Caterers for providing daily breakfast & lunch to the employees of the company, as voluntary staff welfare measure.	54,700

You are required to determine the eligible Input Tax Credit available to M/s X Ltd. for the month of March 2025, by giving brief explanations for treatment of various items.

Subject to the information given above, all the other conditions necessary for availing input tax credit have been fulfilled.

**Solution:****Computation of eligible tax credit to M/s X Ltd. for the month of March, 2025**

S. No.	Particulars	Amount (Rs.)
i)	Purchase of iron which is used as a raw material (Refer Note (i))	Nil
ii)	Purchase of accessories which were delivered directly to the Dealers of the company. Only invoice was received by X Ltd. (ITC is allowed)	90,000
iii)	Purchase of Bus (seating capacity 15) for the transportation of employees from their residence to company and back (ITC is allowed) (Refer Note (ii))	1,97,000
iv)	Input tax credit on general insurance taken on a car used by Executives of the company for official purposes.	Nil

v)	Payment made to M/s XYZ Caterers for providing daily breakfast & lunch to the employees of the company, as voluntary staff welfare measure. [Refer Note (iii)]	Nil
	<b>Total</b>	<b>2,87,000</b>

**Notes:**

- (i) As per Section 16(2) of the CGST Act, 2017, If the goods are received in instalments, tax credit shall be allowed only when last instalment has been received. In the given case last instalment is received in April 2021 hence credit shall be allowed in the month of April.
- (ii) As per Section 17(5) of the CGST Act, 2017, ITC of motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver) is not allowed in the given case bus is of 15 seating capacity.
- (iii) As per Section 17(5) of the CGST Act, 2017, ITC of 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 is not allowed.

**ORDER OF UTILISATION OF INPUT TAX CREDIT**

Input Tax Credit (ITC) is credited to a person's electronic credit ledger. The person may use this to pay his output tax liability.

**Section 49A****Utilisation of input tax credit subject to certain conditions**

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.

**Section 49B****Order of utilisation of input tax credit**

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.

**Payment of Tax of the CGST Rules 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.

### Utilization of Input Tax Credit

Input Tax Credit (ITC) is credited to a person's electronic credit ledger. The person may use this to its output tax liability.

Input tax credit on account of Integrated tax	Input tax credit on account of CGST to be utilised only after exhausting all the credit on account of IGST	Input tax credit on account of SGST/ UTGST to be utilised only after exhausting all the credit on account of IGST
First for the payment of IGST	First for the payment of CGST	First for the payment of SGST/UTGST
Section 49A seeks to specify that a taxpayer would be able to utilise the input tax credit on account of Central tax, State tax or Union territory tax <b>only after exhausting all the credit on account of Integrated tax available to him towards payment or Integrated Tax, Central Tax, State Tax or Union territory Tax</b>	Then payment for IGST	Then payment for IGST
---	In case there is further balance it shall not be utilised for payment of SGST/UTGST	In case there is further balance it shall not be utilised for payment of CGST

Therefore, it is clear that there is no offset available between the CGST and the SGST.

**Clarification of CBIC:** *The CBIC has now clarified that the IGST credit can be used in payment of CGST or SGST in any order or proportion.*

So, After setting off the payment of IGST from IGST credit, remaining IGST credit, if any, can be utilised towards payment of CGST and SGST/UTGST in any order and in any proportion, i.e. remaining ITC of IGST can be utilised:

- 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.

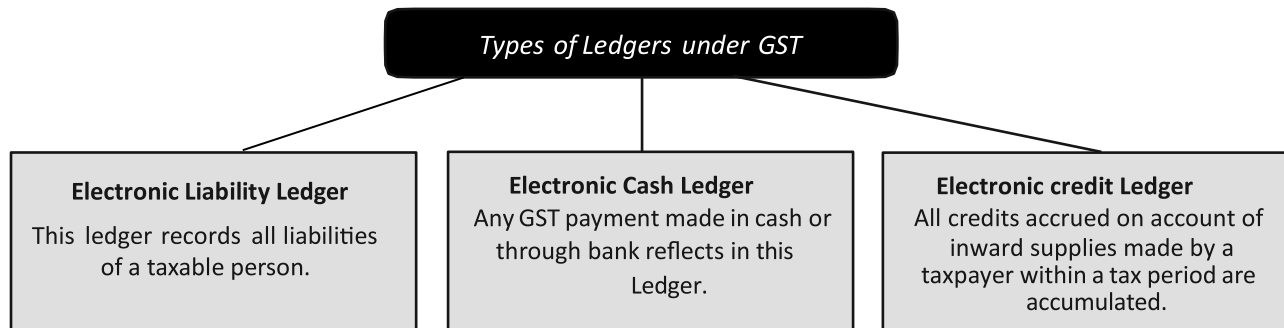
### Computation of GST Liability

Every registered person is required to compute his tax liability on a monthly basis by setting off the Input Tax Credit (ITC) against the Outward Tax Liability. If there is any balance tax liability the same is required to be paid to the government.

For the **calculation of GST**, the taxpayer should know the GST rate applicable to various categories.

Example: If goods or services are sold at Rs. 1,000 and the GST rate applicable is 12%, then the net price calculated will be =  $1,000 + (1,000 \times (12/100)) = 1,000 + 120 = \text{Rs. } 1,120$

There are 3 ledgers prescribed under GST Act/Rules that is required to be maintained by every tax payer –



### 1. Electronic Liability Ledger

The electronic liability register specified under sub-section (7) of section 49 shall be maintained in **FORM GST PMT-01**

This ledger records all liabilities of a taxable person including:

- The tax, interest, late fees, or any other amount payable per the return furnished by the taxpayer or per any proceedings;
- The tax and interest payable arising out of any mismatch of ITC or output tax liability;
- Any interest that may accrue from time to time;
- The reversal of ITC or interest.

Tax payers should settle their liabilities in the following order:

- (i) Self-assessed tax and other dues, such as interest, penalty, fees, or any other amount relating to previous tax period returns;
- (ii) Self-assessed tax and other dues relating to the current tax period return;
- (iii) Any other amount payable under the act/rules (liability arising out of demand notice, proceedings, etc.)

### 2. Electronic Cash Ledger

The electronic liability register specified under sub-section (7) of section 49 shall be maintained in **FORM GST PMT-05**.

Any amount paid by the taxpayer will be reflected in the electronic cash ledger. The amount available in this ledger may be used for making any payment towards tax, interest, penalty, fees, or any other amount due under the Act/ Rules in the time and manner prescribed. (It is reiterated that any credit in the electronic credit ledger can be utilized only for payment of output tax.

To initiate a payment, taxpayers should generate a challan online using form **GST PMT-06**, which will be valid for a period of **15 days**. Payment can then be remitted through any of the following modes:

- Internet banking (authorized banks only);
- Unified Payment Interface (UPI) from any bank;
- Immediate Payment Services (IMPS) from any bank;
- Credit or debit card (authorized banks only);

- National Electronic Fund Transfer (NEFT) or real-time gross settlement (RTGS) (any bank, authorized or unauthorized);
- Over-The-Counter (OTC) payment (authorized banks only) for deposits up to ten thousand rupees per challan and per tax period by cash, cheque or demand draft.

The payment date shall be recorded as the date the payment is credited to the appropriate Government account.

### 3. Electronic Credit Ledger

The electronic liability register specified under Section 49 shall be maintained in **FORM GST PMT-02**.

Every claim of Input Tax Credit self-assessed by the taxpayer shall be credited to this ledger. The amount available in this ledger may be used for payment towards output tax only. Under no circumstance can an entry be made directly in the electronic credit ledger.

This ledger may include the following:

- ITC on inward supplies from registered tax payers;
- ITC available based on distribution from input services distributor (ISD);
- ITC on input of stock held/semi-finished goods or finished goods held in stock on the day immediately preceding the date on which the taxpayer became liable to pay tax, provided he applies for registration **within 30 days** of becoming liable;
- permissible ITC on inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day of conversion from composition scheme to regular tax scheme;
- ITC eligible on a payment made on a reverse charge basis.

#### LESSON ROUND-UP

- Taxes paid on inward supply of inputs, capital goods and services are called input taxes which include Integrated GST, Central GST, State GST or Union Territory GST.

The credit of these taxes is called input tax credit.

- Under GST, a seamless flow of credit throughout the value chain is available removing the cascading effect of taxes.
- The office of the company which distributes the credit to the beneficiary units on the basis of their previous year turnover is called input service distributor.
- Input Tax Credit (ITC) is a provision of reducing the tax already paid on inputs, to avoid the cascading effect of taxes.
- It is one of the cutting-edge features available under the GST Law, unavailable in previous regime of indirect taxation.
- Certain conditions need to be fulfilled in order to avail the Input Tax Credit.
- Basic condition for availing Input Tax Credit amounts to payment of GST by the supplier.

- When another person (job worker) undertakes the work of a manufacturer, to whom the goods belong (principal), is known as job work.
- GST law lays down the conditions for ITC in the case of a job worker.
- There is no offset of ITC available between the CGST and the SGST.
- General exemption is granted by notification and is available to all persons which may be absolute or conditional and may be total or partial.
- Specific, also known as ad hoc exemption is granted to persons under circumstances of an exceptional nature by a special order communicated to the party seeking exemption.

### TEST YOURSELF

*(These are meant for re-capitulation only. Answers to these questions are not to be submitted for evaluation.)*

#### Multiple Choice Questions (MCQs)

1. Input Tax Credit is not available in respect of .....
  - a) Free samples,
  - b) Services on which tax has been paid under composition levy,
  - c) Goods used for personal consumption,
  - d) All of the above
2. Inputs should be either brought back to the principal OR alternatively sold from the Job-worker's premises within ----- in case of capital goods.
  - a) 36 months
  - b) 18 months
  - c) 24 months
  - d) 12 months
3. Which section of CGST Act 2017 deals with eligibility and conditions for taking ITC?
  - a) Section 39
  - b) Section 16
  - c) Section 10
  - d) Section 20
4. The biggest benefit of ITC is:
  - a) Eliminating the cascading effect of taxes
  - b) Reducing the cost of goods and services
  - c) Paradigm shift from individuals paying more taxes to more individuals paying taxes
  - d) All of the above

5. A shirt manufacturing company sends semi-finished shirts (without collars and pockets) to job workers who will complete the remaining work. In such a situation, the ..... would be allowed to take the credit of the tax paid on purchases of the goods sent for job work.
- Job Workers
  - Principal Manufacturer
  - Both of the Above
  - None of the Above

**Answers:** 1 (d), 2 (a), 3 (b), 4 (d), 5 (b)

### Descriptive Questions

- Reeta is engaged in providing Beauty Treatment Services. On a particular day, with a view to cater to the demand of large number of customers, she availed the Beauty Treatment Services from Geeta. Accordingly, Geeta raised an invoice on Reeta for Rs. 20,000 along with applicable GST.  
Will Reeta be allowed Input Tax Credit?
- Pratham has a sum of Rs. 3,60,000 on account of Input Tax Credit of CGST in the electronic credit ledger, He has to pay the following tax liability:

<i>Particulars</i>	<i>Amount (Rs.)</i>
CGST payable for the month of November, 2023	1,31,400
IGST payable for the month of November, 2023	1,72,800
SGST payable for the month of November, 2023	54,000

Determine, how would you utilize ITC on account of CGST available in the Electronic Credit Ledger.

- Explain the following terms;
  - Blocked Credit
  - Electronic Liability Ledger
  - Ineligible Credits
- What do you understand by Zero Rated Supply? How it is different from Exempt supply? Explain.
- What is Input Service Distributer (ISD)? Explain the manner of Distribution of credit by ISD.

### LIST OF FURTHER READINGS

- Goods & Services Tax, Laws, Concepts and Impact Analysis-Bloomsbury – Dr. Sanjiv Agarwal & Sanjeev Malhotra
- GST Ready Reckoner- Taxmann – V.S. Datey
- A complete guide to Goods & Services Tax Ready Reckoner in Q & A Format- Bloomsbury – Dr. Sanjiv Agarwal & Sanjeev Malhotra
- Website: [www.cbic.gov.in](http://www.cbic.gov.in)