GST NOTES

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2026-2027

11/01/26

Chapter 8 : Input tax credit payment of GST

Date: __/__/__

TDS & TCS

Input tax credit

→ ITC - scheme at a glance

a. Sec 16 to 19 deals with the "Availability of ITC". This scheme has been discussed in the coming sections in this chapter. Here's the overview of complete ITC chapter.

b. This scheme is designed to avoid cascading effects of Taxes & make GST a destination based tax.

c. ITC is available on input, input services and capital goods used for the purpose of business (OR) profession by a taxable person.

Note : ITC is used for the payment of output tax to avoid cascading effect.

d. GST law does not require "one to one" correlation between input / input services & final product / service.

Any eligible ITC can be used for the payment of any tax / cess / interest / penalty (taxable).

e. ITC can be availed, utilising the payment of output tax. It means if our supply is exempt then ITC cannot be availed.

If availed then cannot be utilised / utilised, if utilised / utilise and then has to reverse.

f. The exception of above rule is "zero rate supply". In such case, ITC is availed even if there is no tax on our supply [Assume can claim refund of ITC].

If availed then can't be utilised, If utilise then has to Revesse.

F) The Exception of above Rule is "Zero Rated Supply" In such case ITC is available even if there is NO TAX on o/w supply. (Assume can Claim Refund of ITC)

G) If a Taxable Person is making both Taxable and Exempt supply he is entitled to avail Full credit of ITC in Respect of Input / Input service / capital Goods exclusively used for Taxable supply and NO credit of all Input/ Input Service / Capital Goods which are exclusively used for Exempt Supply.

3 main Concept Related to ITC

- **Availment of ITC**
  - **NORMAL ITC AVAILMENT**
    - Section 16
    - Section 17
  - **SPECIAL ITC AVAILMENT**
    - Section - 18
    - Section - 19
  - Sub-Part = Reversal of ITC
- **Utilization of ITC**
  - For Payment of output TAX
    - Section 49, 49 A, 49 B
    - Rule - 88 A
    - & Section 20
- **Refund of ITC**
  - only 2 Situation
    1) Zero Rated Supply
    2) Inverted Duty Structure
    3) Other Specified Cases

Section 16 : Eligibility and condition for taking Input Tax Credit.
Section 17 : Apportionment of credit and Blocked credit.
Section 18 : Availability of credit in special circumstances.
Section 19 : Taking ITC in respect of Inputs and capital Goods sent for JOB work.

Some Important Definition Related to ITC Chapter.

1) Input
2) Input Service
3) Capital Goods
4) Input Tax Credit
5) Input Tax
6) Output Tax
7) Exempted Supply
8) Taxable Supply.
9) Agent
10) Non Taxable Supply

1) 'Input' means
Any goods **other than** capital Goods used or intended to be used by a supplier in the course (or) furtherance of business.

2) 'Input Service' means
Any service used or intended to be used by a supplier in the course or furtherance of Business.

3) 'Capital Goods' means
Goods, the value of **which is capitalised** in the books of account of the person Claiming the ITC and which are used or intended to be used in the course or furtherance of Business.

(4) 'Input Tax Credit' means.
The credit of Input Tax

(5) 'INPUT TAX' means
whether (FCM) or RCM
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.

But Does Not Include the tax Paid under Composition Levy.

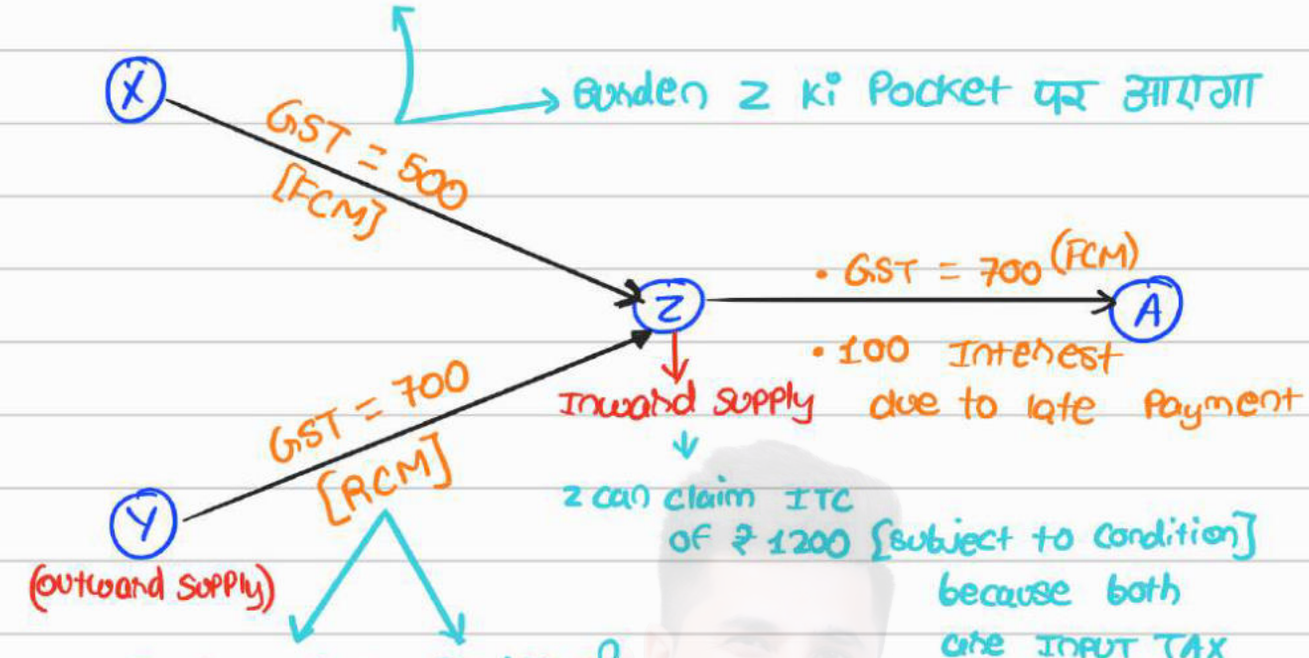
(6) 'OutPut Tax' means
In Relation to a taxable Person means the tax chargeable under this Act on Taxable supply of Goods or Services or Both made by him or by his agent

But excludes tax Payable by him on reverse charge basis.

Example :

500 GST Govt KO X देगा

→ Burden Z की Pocket पर आएगा



Z

Govt se lene hai
(i.e Input Tax Credit)

Govt ko dena hai
[Liability on outward supply and Inward supply due to RCM]

FCM = 500
RCM = 700
ITC = 1200



ITC can be utilised only & only for the Payment of OUTPUT TAX [i.e FCM liab], Not for the Payment of any other dues [ie penalty, Int, GST under RCM e.t.c].

In above Example

- GST [FCM] = 700 (-) 700 = Nil Liab.
  (ITC use)
- Int + GST [RCM] = 100 + 700 = 800 → Payment through Cash ledger can't use ITC.
- ITC Balance = 1200 (-) 700 = 500 → Carry Forward for Next Tax Period

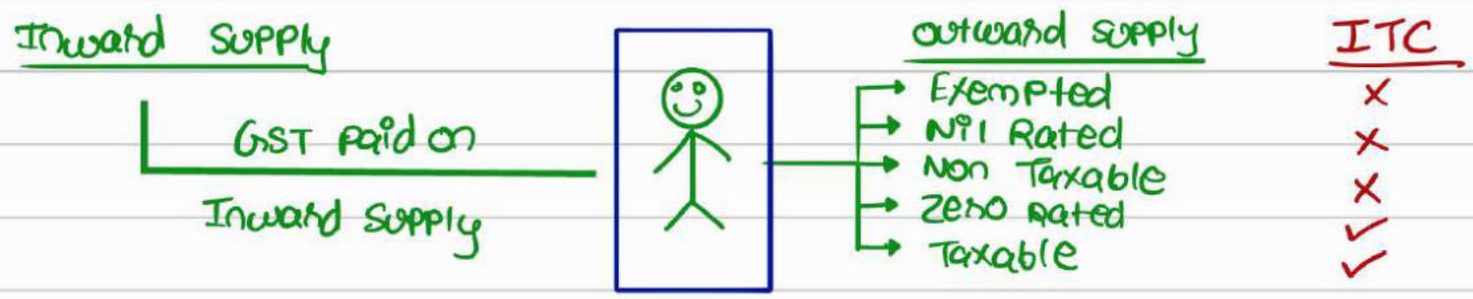
CRUX : ITC मिलेगा पर CLAIM नहीं कर सकते।

7) "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, and includes Non-Taxable Supply.

CRUX

Exempted supply means
- → Nil Rated supply
- → 100% exempted supply
- → Non Taxable supply.

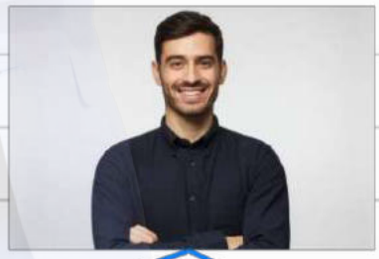


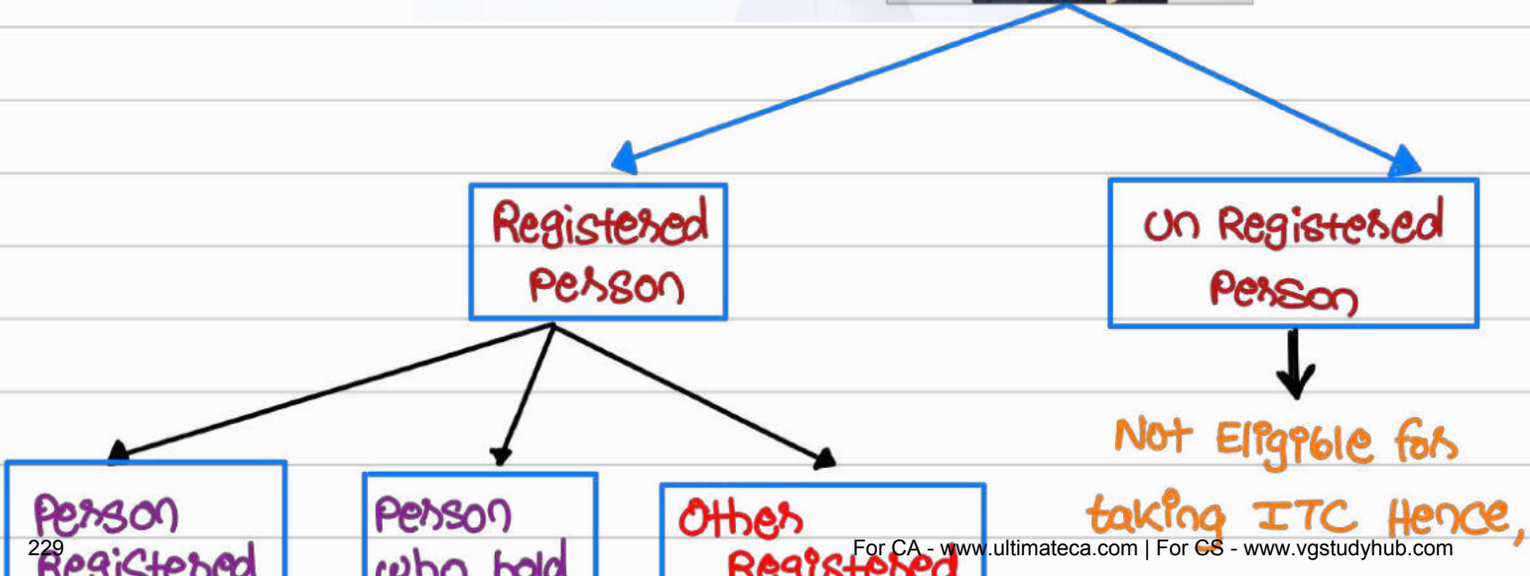
8) "Taxable supply means
A supply of Goods or services or Both which is leviable to tax under this Act.

9) "Non Taxable supply" means
A supply of Goods or services or both which is not leviable to Tax under this Act.

Section 16: Eligibility and conditions for Taking ITC

Analysis of Section 16(1) & 16(2)





UIS | UIN | person

there is no question of ITC utilisation

Not eligible for Taking ITC Hence, there is no question of ITC utilisation.

Supply of Goods (OR) Services to him, which is used (OR) Intended to be used in the course (OR) FOB

Not used (OR) Intended to be used in the course (OR) FOB

Now Check Conditions of Section 16(2) - 6 Conditions

Not Eligible for taking ITC, Hence, there is No Question of ITC Utilisation

1) Possesion of Tax Paying Document (i.e Tax Invoice, Debit Note)

2) Details of Invoice / Debit Note uploaded by supplier in his GSTR-1 (OR) using *IFF and details communicated in the form GSTR-2B

* Invoice Furnishish Facility

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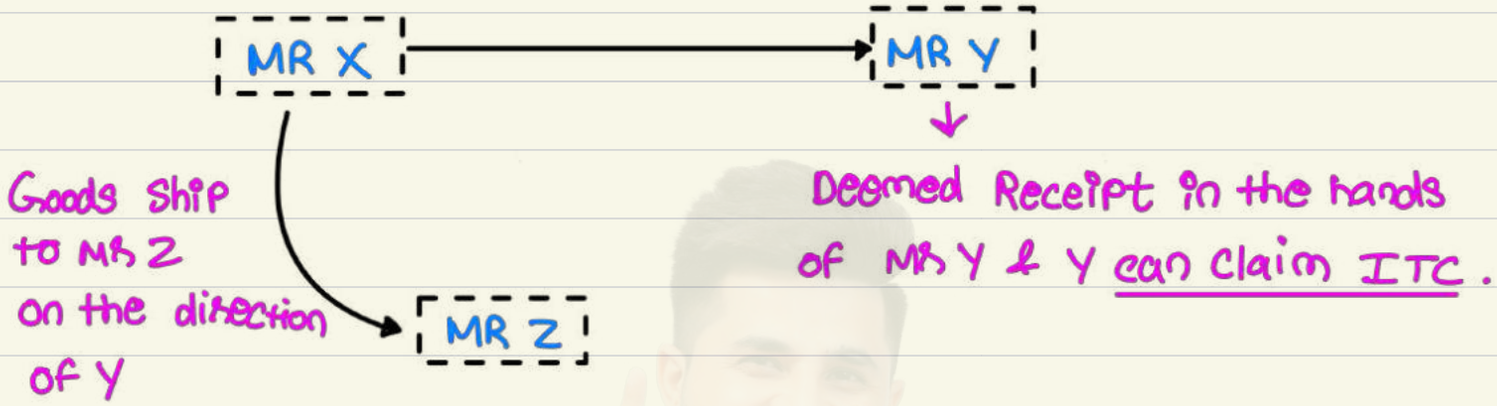
Invoice uploaded in GSTR-1 & communicated in GSTR-2B = Full ITC allowed on such Invoice

Invoice not uploaded in GSTR-1 & communicated in GSTR-2B = NO ITC can be claimed

3) Receipt of Goods (or) Services (or) Both

Imp Point

what about "Bill to Ship to Model"?



4) Details of ITC in respect of the said supply communicated to the Registered Person U/S 38 "NOT RESTRICTED".

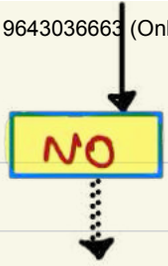
5) Tax leviable on supply actually paid to Govt

- FCM → Suppliers
- RCM → Receivers

(6) The Registered person who is taking ITC must have file his Return in GSTR-3B U/S 39

Whether above transaction covered U/S 17(5) "Blocked ITC"





Can't claim ITC

Finally Taxable Person can claim ITC.

CRUX of Section 16(1) & 16(2)

अगर किसी Taxable person ने ITC claim करना है तो, नीचे दी गई सभी conditions satisfy करनी होगी!

1. Person → Registered under GST except Sec-10 & UIN.
2. Good (or) Services → used (or) intended to used in the courses (or) FOB.
3. Receiver के हाथ मे Tax Invoice / DN होना चाहिए।
4. Factory / office में GIS Receive हो चुकी हो except Bill to Ship to Model
5. Supplier ने GSTR-1 मे Invoice upload कर दिये हों & GSTR-2B में communicate हो चुका हों।
6. Govt को Tax paid कर दिया हो।
7. Receiver ने GSTR-3B file कर दी हो।
8. ITC Restricted ITC ना हो।
9. Section 17(5) में covers ना हो।

If all conditions satisfied then R.P can claim ITC

NOTE 1: Where the Goods against an Invoice are Received in lots (or) installments, the Registered Person shall be Entitle to take credit upon Receipt of Last LOT (or) Installments.

NOTE 2: 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 eight Days from the Date of issue of Invoice by the Supplier, an amount equal to the ITC availed by the Recipient shall be added to his output Tax liability, along with interest thereon.
→ Reversal of Tax
→ 18% P.a (From starting)

Section 16 (3)

The Registered Person has claimed depreciation on the tax component of the cost of capital Goods and Plant and machinery, the Input Tax Credit on the said tax component shall not be allowed.

Example

Cost of Plant & Machinery = 4,00,000
GST @ 28% = 1,12,000
5,12,000

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→ Sec-16(3)

The registered person has claimed depreciation on the tax component of the cost of capital goods & plant & machinery input tax credit on the CG said tax component shall not be allowed.

Example:-

Cost of plants & machinery	=	400000
GST @ 40%	=	160000
		560000

L-21
11/01/26

400000	160000
(Always claim depreciation) u/s 32 of I. Tax Act:1961	(Either claim dep^n on claim ITC [at the option of taxable person]

→ My opinion:-

- If ITC block then dep^n beneficial.
- If " not block " then ITC ! "

→ **Sec-16(4):- Time limit for Availing ITC**

* • ITC on invoices pertaining to a F.Y @ debit note issued in a F.Y can be availed anytime.

* Till 30th nov of the succeeding year

iii. Date of filing of relevant Annual Return (w.e. is earlier.
↳ (Actual date)

→ **Example:-** Invoice issued - 16/03/2026 - F.Y:-25-26
Value = 1000000 @ 5% GST
GST = 50000

1. 20000 ITC not availed as invoice was not uploaded @ on any other reason

→ Can he avail ITC after that ? what is the last date to claim ITC if :- yes, he can claim up to 30/11/26

→ Clarification u/s 16(4) - In case of RCM
Sec-15(4) + R-47A

Supplier (URP) → Supply under RCM → Reverse (RP) → taxable person shall issue self invoice

The time-limit of ITC availment - will start from the time the relevant raises the self invoice. } within 30 days of receipt of supply

→ **Sec-16(6):- Time limit for taking ITC** in case of revocation of cancelled registration

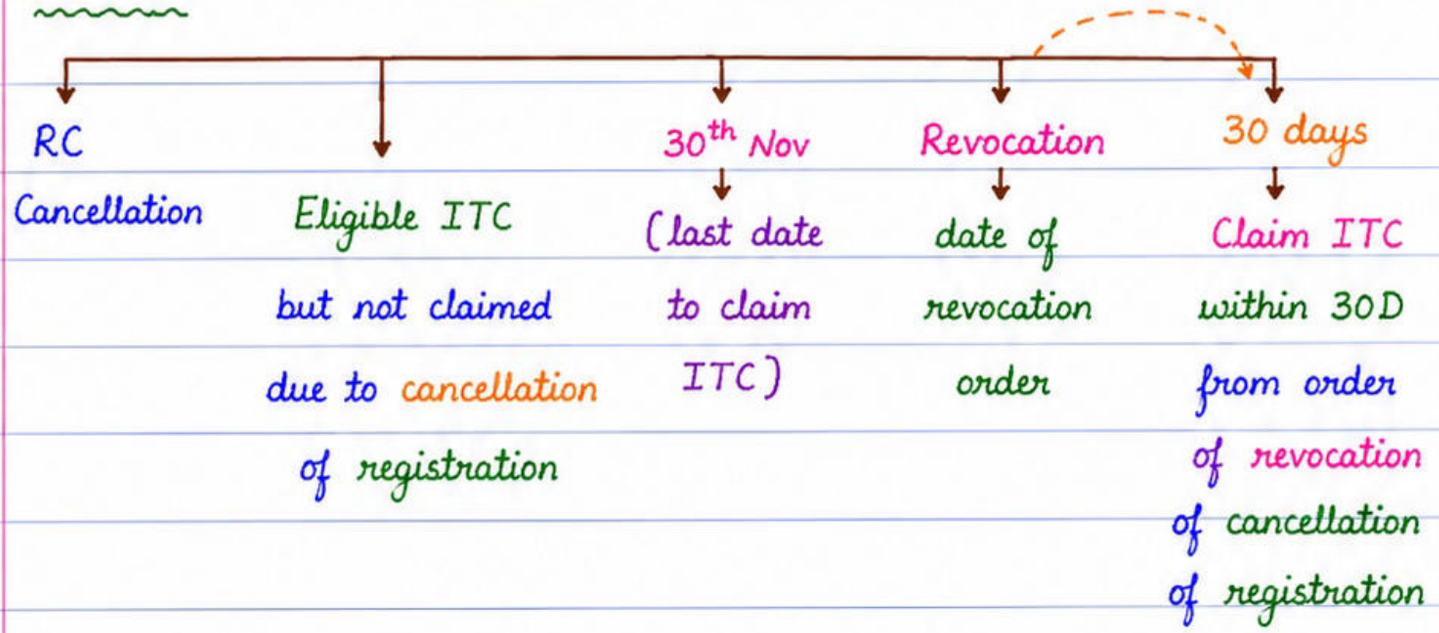
1. In case of cancellation of registration & subsequent revocation then, on, within from the period from the date of cancellation till the date of revocation of cancellation cannot be filed in partai by the tax payer till the time of passing of revocation of order.

2. In such case, where the recipient has not claimed the ITC in respect of any invoice / debit note on the date of cancellation of registration & the time limit stipulated u/s -16(4) lapsed during the course of revocation proceeding he would not be able to claim ITC on the said invoice / DN

3. Consequently, relaxation has been given & the time limit to avail ITC u/s 16(4) in such cases has been extended. The revised time limit runs till the date of filing return post the passing of revocation order provided the return for the period from the date of cancellation of registration till the date of revocation of cancellation of registration are filed within 30days of revocation of cancellation of registration

→ Availment of ITC is subject to the condition that the time limit to avail ITC in respect of the said invoice/ debit note u/s 16(4) had not already expired on the date of cancellation of registration

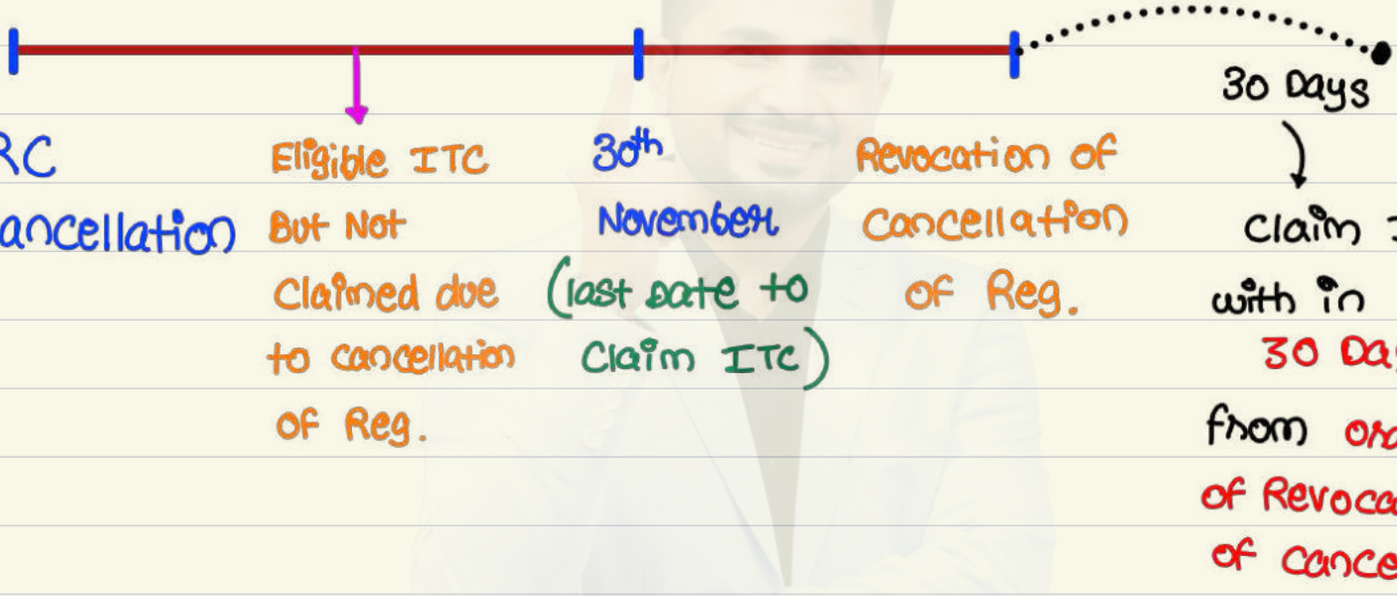
→ CRUX



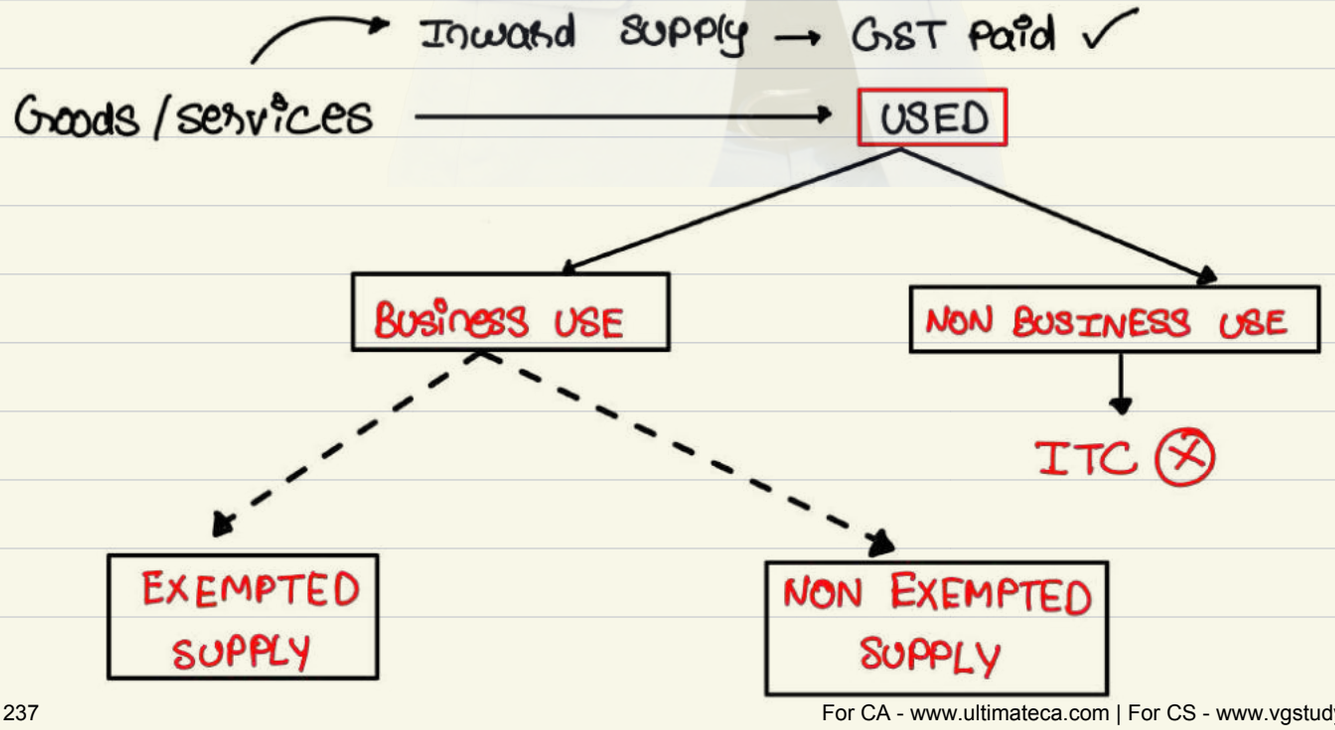
Cancellation of Registration.

Vailment of ITC is subject to the conditions that the time limit to avail ITC in Respect of the said Invoice / Debit Note U/S 16(4) had NOT ALREADY EXPIRED on the date of cancellation of Registration.

CRux of Section 16(6)



Analysis of Section 17(1) + 17(2) + 17(3)



Actual Exempt → 2 (47)
- Nil Rated
- 100% Exempted
- Non Taxable

Deemed Exempt → 17(3)
- RCM
- Transaction in Securities
- Sale of Land & Building.

→ ITC ✗

- Taxable supply
- zero Rated supply

→ ITC ✓

SECTION 17(5)

Analysis of Section 17(5)(a)/(aa)/(ab)

Conveyance
- Motor vehicle
  - Person MV
  - Goods MV → ITC Allowed
- vessel/ Aircraft → ITC Blocked → Except 4 specified cases

Sitting capacity upto 13 Passenger (including Driver)

Not covered under 3 specified cases

ITC Blocked

Covered under 3 specified cases.

ITC Allowed

Sitting capacity MORE THAN 13 Passenger

ITC Allowed

3 case

- F - Further supply
- I - Importing / Training
- T - Transportation of Passenger

1 Case

Transportation of Goods

ITC Allowed

ITC on Tax paid on

- Services also Allowed

ITC on Tax Paid on

- Service not allowed

Except

- Manufactures
- General Insurance

ITC Allowed

- Service
  - General service
  - Insurance service
  - Repair & Maintainance

CRUX

→ जहाँ - जहाँ MV/V/A का ITC मिलेगा, वहाँ - वहाँ उसकी service का भी ITC मिलेगा !

→ जहाँ - जहाँ MV/V/A का ITC नहीं मिलेगा, वहाँ - वहाँ उसकी service का भी ITC नहीं मिलेगा !

Clarification

Demo CAR, Test drive CAR
Trial Run Car

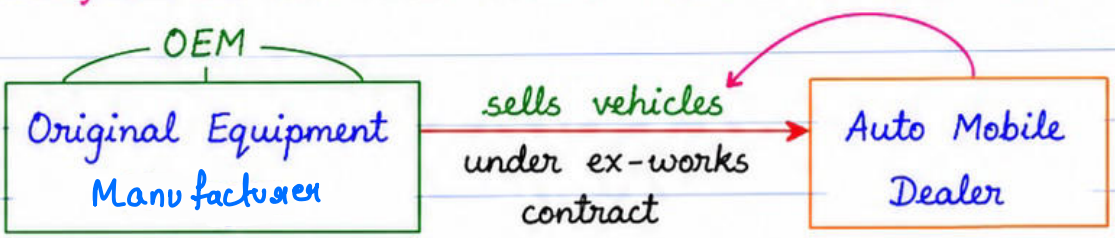
↓

ITC cannot Blocked

L-22
13/02/26

Date: __/__/____

→ **Clarification on ITC under ex-works contract**



- Property in goods (i.e. ownership) passes to the dealer at the factory gate of the OEM.
- Once goods are handed over to the transporter, the delivery by OEM is complete.
- Dealer is responsible for arranging the transportation & insurance & bear the risk thereafter.

question arise

→ Whether the dealer can avail ITC?

i. On the date when goods physically received at dealer premises?

ii. On the "goods handed over at factory gate"?

→ As per CBIC circular dealer can claim ITC from the date of goods handed over at factory gate of OEM, even if the goods physically reach later.

CROX:

ITC:- Allowed when OEM hands over goods to transporter at the factory gate. Even if dealer goods physically at later date.

ITC not allowed:- If goods are used for non-business purpose.

If goods are lost, gift, stolen, destroyed or free sample etc.

Following supply of goods / service on both:-

(i)

- Food & beverages
- outdoor catering
- Beauty treatment
- Health services
- cosmetic & plastic surgery
- leasing, renting or hiring of mv
- vessels or aircraft referred in clause (a) on (aa)
- life insurance & health insurance

* ITC allowed in following cases:-

1. Inward supply & outward supply are same.
2. Provide such goods / services as composite / mix supply.
3. Membership of club, health & fitness center.
4. Travel benefits extended to employees on vacations such as leave or home Travel concession.

Date: ___/___/___

b. Proviso to section - 17(5)(b) i.e complete clause(b):
ITC in respect of such goods/services on both shall be available, where it is obligatory for an employee to provide the same to its employees under any law.

c. Goods / services / both on which tax has been paid u/s 10

d. Goods / services on both received by a non-resident taxable person except on goods imported by him.

e. Goods / services on both used for personal consumption

f. Goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample.

g. Any tax paid in accordance with the provision of section 74, 129 & 130.

h. Goods / service provided for CSR activity.

iii. Works contracts (Labour, material → supplier ki) & construction contract (Labour, material → receiver ki)

- Construction of land & building
  - Re-construction
  - Renovation
  - Addition
  - Repair, etc
    - expenditure capitalised → ITC blocked
    - expenditure not capitalised → ITC allowed
- Construction of plant & machinery
  - Addition
  - Renovation
  - Repair
  - Alteration, etc → ITC allowed

whether Exp. Capitalised or not.

Plant & Machinery does not include

1. land & building & civil structure.
2. Telecommunication towers.
3. Pipelines laid outside the Factory premises.





Note:- ITC on motorbikes is generally blocked u/s 17(5) regardless of engine capacity, unless used for 3 specified cases. But ITC only available for vehicles with < 4 wheels & < 25cc engine capacity, as they do not qualify as "motor vehicle".

→ CRUX

- General Rules:- Motor cycles, scooters, & electric 2-wheeler have capacity > 25cc making them motor vehicle vehicles & blocking ITC, only small electric (e-vehicles) scooters or low capacity vehicles (up to 25cc) are excluded from the definition of motor vehicles hence ITC allowed.

→ Section-18: Availability of credit in special circumstances

Section 18 : Availability of Credit in Special Circumstances

Concept of Effective Date of Registration :

(GST में किस दिन से Effective Registered माना जायगा)



Person

- **Liable for Registration**
  - Apply within 30 days → Effective Date of Registration → From the date of liab of Reg.
  - Not apply within 30 days from liable → Effective Date of Registration → From the date of Register certificate.
- **Not Liable for Registration** → Effective Date of Registration → From the date of grant of Regn certificate.

Example 1

18/7/2025

Liable for Registration = [redacted]
Applied for Registration = 2/08/2025
Regn certificate granted = 14/08/2025

Ans: Effective Date of Reg = 18/7/25

what if apply for Registration = 20/08/2025
and RC granted on 26/08/2025

Ans: Effective Date of Regn = 26/8/2025

Example : 02

Applied for Registration voluntarily = 27/7/2025
Regn certificate granted = 8/08/2025

Ans: Effective Date of Regn = 08/08/2024

→ Effective Date of Regn means इस दिन से supply पर GST charge किया जाएगा और इस दिन से हम Purchase पर ITC Claim करेंगे।

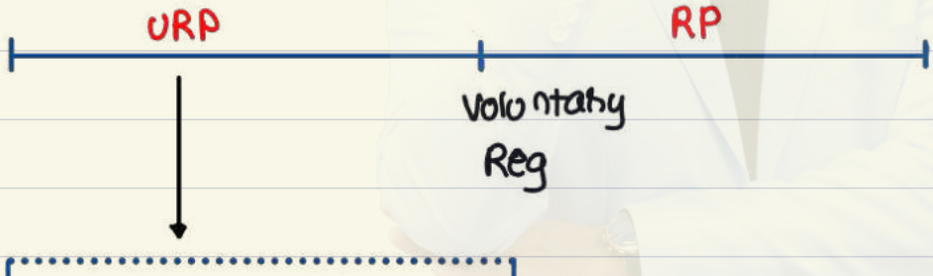
* Analysis of section 18(1) & 18(2) :

a)



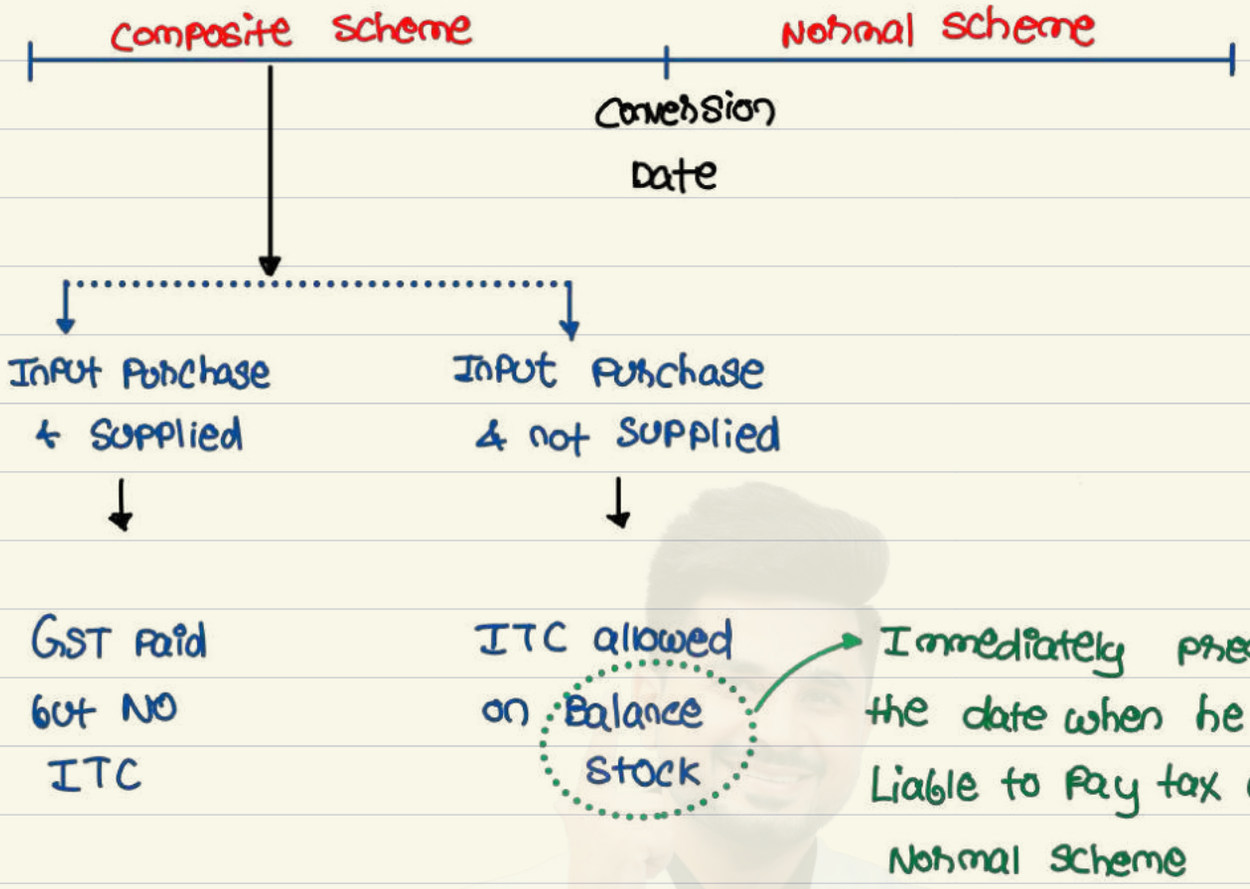
Stock Purchase & Consume	Stock Purchase & not consume
GST Paid but NO ITC	ITC allowed on Balance Stock → Immediately preceeding the date of liable to Regn

b)

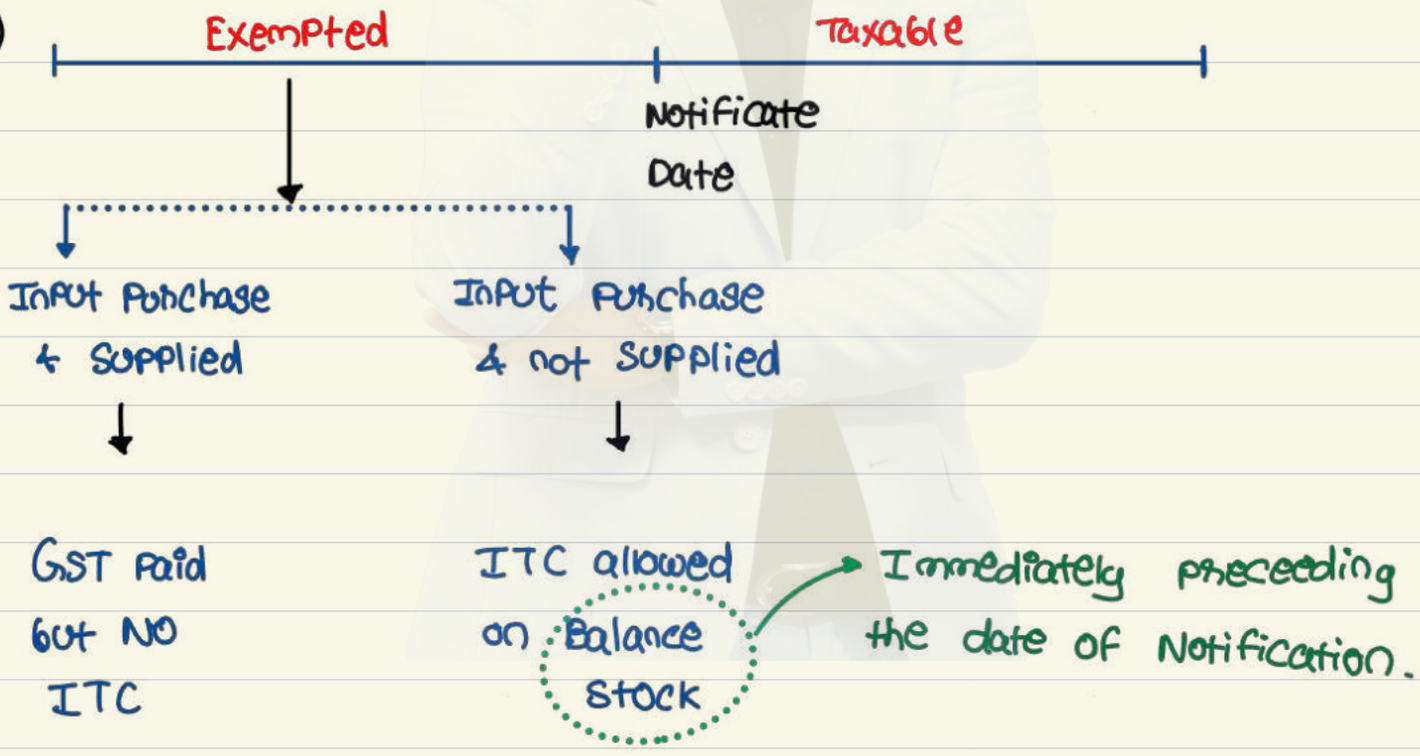


Stock Purchase & Consume	Stock Purchase & not consume
GST Paid but NO ITC	ITC allowed on Balance Stock → Immediately preceeding the date of Grant of RC

c)



d)



For (a) & (b) clause, Stock means only Input Stock and not Capital Goods For (c) & (d) clause, Stock means only Input Stock and Capital Goods.

How can I claim ITC in case of capital goods:

Input Tax Paid on Capital Goods = XXX
(-) 5% each quarter (or) Part thereof = (XXX)
∴ Balance amount XXX
↳ Can claim ITC.

Example: Person opt composition scheme = 1/4/25
He purchase 100kg input at 100/kg on same date & GST paid @ 18%. He purchase a machine worth 12,00,000 on 1/4/25 and paid GST @ 5% on 15/01/26 he shifted into Normal scheme.
Stock in Hand on 14/01/26 = 15 kg
Compute eligible ITC of Input & capital Goods.

Ans: Input on 14/01/24 = 15 kg x 100 = 1500
= 1500 x 18% = 270

Capital Goods = 12,00,000 x 5% = 60,000
(-) 5% Each quarter
x 4 Quarter = 20% = (12,000)
(60,000 - 20%)
= 48,000

Example: Mr VG purchase a capital Goods of ₹25 lakh on 5/4/24 and paid GST @ 12%, at the time of purchase outward supply was exempt. But on 18/08/25 after Govt. notification such supply became Taxable. whether he is eligible to claim ITC of GST paid on capital Goods, if yes then compute the Amount?

Ans:- Total GST Paid on Purchase of capital Goods = 3,00,000
(-) 5% of Each Quarter (Total Quarter = 6) i.e 30% = 90,000

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= 2,10,000

Section 18(2) → Time limit to claim ITC u/s 18

UPTO 1 YEAR FROM THE DATE OF ISSUANCE of TAX INVOICE

CRUX of Time limit of Normal ITC vs Special ITC

Normal ITC u/s 16/17	Special ITC u/s 18
i) 30th / 11 of next F.Y (or) ii) Actual Date of filing Annual Return Earlier	UPTO 1 Year from the Date of Issuance of Tax Invoice

Section 18(3)

In case of Amalgamation, Mergers, demergers, Succession of company unutilised ITC can be carry forward to Successor company (i.e Amalgamated company, Resulting company, e.t.c)

Section 18 (4)

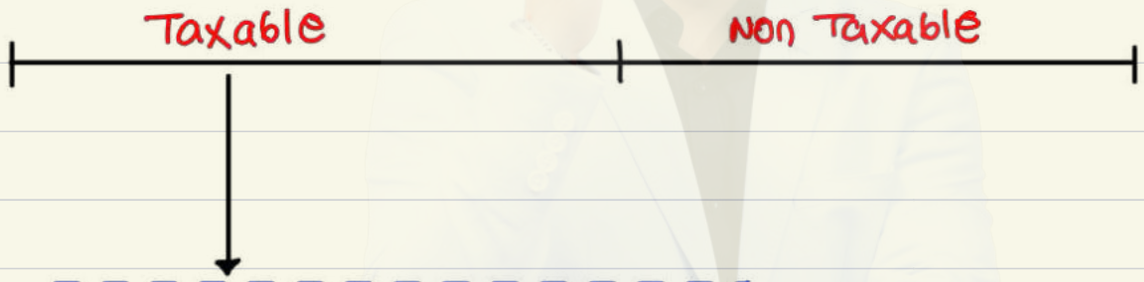
a)



Input Purchased & Supplied → ITC Allowed

Input Purchase & Not Supplied → ITC Not allowed on Balance Stock → Reversal of ITC

b)



Input Purchased & Supplied → ITC Allowed

Input Purchase & Not Supplied → Reversal of ITC

In both of the above cases, stock means Input and capital Goods.

Reversal of capital Goods ITC.

$$\text{ITC Reversal} = \frac{\text{ITC claimed}}{60 \text{ month}} \times \text{Remaining useful life (in months)}$$

Reversal of ITC (OR) Availment of ITC in case of capital Goods.

Section 18(1) : Availment of ITC	Section 18(4) : Reversal of ITC
Composite Scheme → Normal Scheme	Normal Scheme → Composite Scheme
Exempt → Taxable	Taxable → Exempt
Total ITC Paid on capital Goods = XXX	Total ITC / 60 month × Remaining useful Life
(-) 5% of each quarters or part thereof = XXX	= ITC Reversal
ITC Availed = XXX	

Question : Goods manufactured by VB ltd. have been exempted from GST w.e.f 1/8/25. Earlier these Goods were liable to GST @ 12% and following information are provided as on 31/7/25

① Input costing 1,12,000 (incl. GST) are in stock.
② ITC on capital Goods lying in stock = 72,000

These Goods were purchased on 1/09/24.
compute Reversal of ITC u/s 18(4)?

Solution :- In case of Input

$$\frac{1,12,000}{112} \times 12 = 12,000 = \text{ITC Reverse.}$$

In case of capital Goods

$$\frac{72,000}{60} \times 49 \text{ Months} = 58,800/-$$

↓

Reversal of ITC

Section 18(6)

In case of Supply of capital goods (or) Plant and Machinery on which ITC has been taken, The Registered Person shall Pay an amount equal to ITC taken on said CG (or) P/M Reduced by 5% each quarter (or) Part thereof (or) Tax on Transaction value of such CG (or) P/M, whichever is Higher.

Example :- VG ltd. Purchased a machine on 5/06/2020 from PG ltd. for ₹12,00,000 (excl of GST), Paying GST @ 18% and ITC Availed. The machine was sold on 18/10/24 for ₹4,00,000 and charged GST @ 12%

Compute the amount of Reversal of ITC U/S 18(6)?

Solution :- Reversal of ITC

(i) Transaction value × GST Rate

(or)

(ii) IIC Availed – 5% each Quarter (or) Part

→ Higher of (i) & (ii)

(i) 4,00,000 × 12% = 48,000

(ii) 2,16,000 – 55% (11 Quarter) = 97,200 → Reversal

(H)

Section 19 ⇒ ITC in case of Job-work

Not in Syllabus.



Supplier



Receipient



Job-worker

*Goods sent directly to the premise of Job-worker on the Direction given by Receipient

After Processing.

* Goods → Capital Goods
→ Input

Although Section 16(2) provides that ITC will be allowed only when Goods are actually Received but under Job work this Condition is Exempt.

Therefore, ITC can be claimed even if Input / CG directly sent to Job-worker without being first Received to the place of principle Business.