



ITC Credit- GST

Adapted from
Standardised PPT on
Revised Model GST Law
(Nov 2016)

INDIRECT TAXES COMMITTEE

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA



Coverage Today

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Topic - GST Credits- Restrictions Including Transition Provisions

- *Understanding the law with eligibility and availability of credit*
- *Issues thereon*
- *ITC related Transitional Provisions*
- *Issues thereon*
- *Questions.*
- *Black is original ICAI ppt*
- *Blue is additions made by me*



Concept of ITC

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- “Input tax” means IGST (including that on import of goods), CGST and SGST;
- Charged on any supply of goods or services to him and;
- Includes the tax payable under sub-section (3) of section 8,
- Excludes the tax paid under section 9 (reverse charge basis)



What more ? What Less ?- Comparison

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- *Trader – No credit – CST, ST, luxury tax, entry tax*1, CVD + SAD*2 etc*
- *Manufacturer – Luxury tax, entry tax*, entertainment tax..etc*
- *Service Provider – VAT, Luxury tax, etc.*
- *Exclusion: Petroleum, Electricity, Stamp duty.*
- *Matching credit in some States- Full in GST – Mismatch = credit loss + cost.*
- *Under GST - Eligible for central excise on stocks, Post GST no other taxes*
- **1- Some States *2 Normally not done- Red dealer*



Principles on Input Tax Credit

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- System for a seamless flow of credit
- Extends to inter-State supplies
- Credit utilization would be as follows:

Credit of:	Allowed for Payment of		
	IGST	CGST	SGST
IGST	✓ (1)	✓ (2)	✓ (3)
CGST	✓ (2)	✓ (1)	
SGST	✓ (2)		✓ (1)

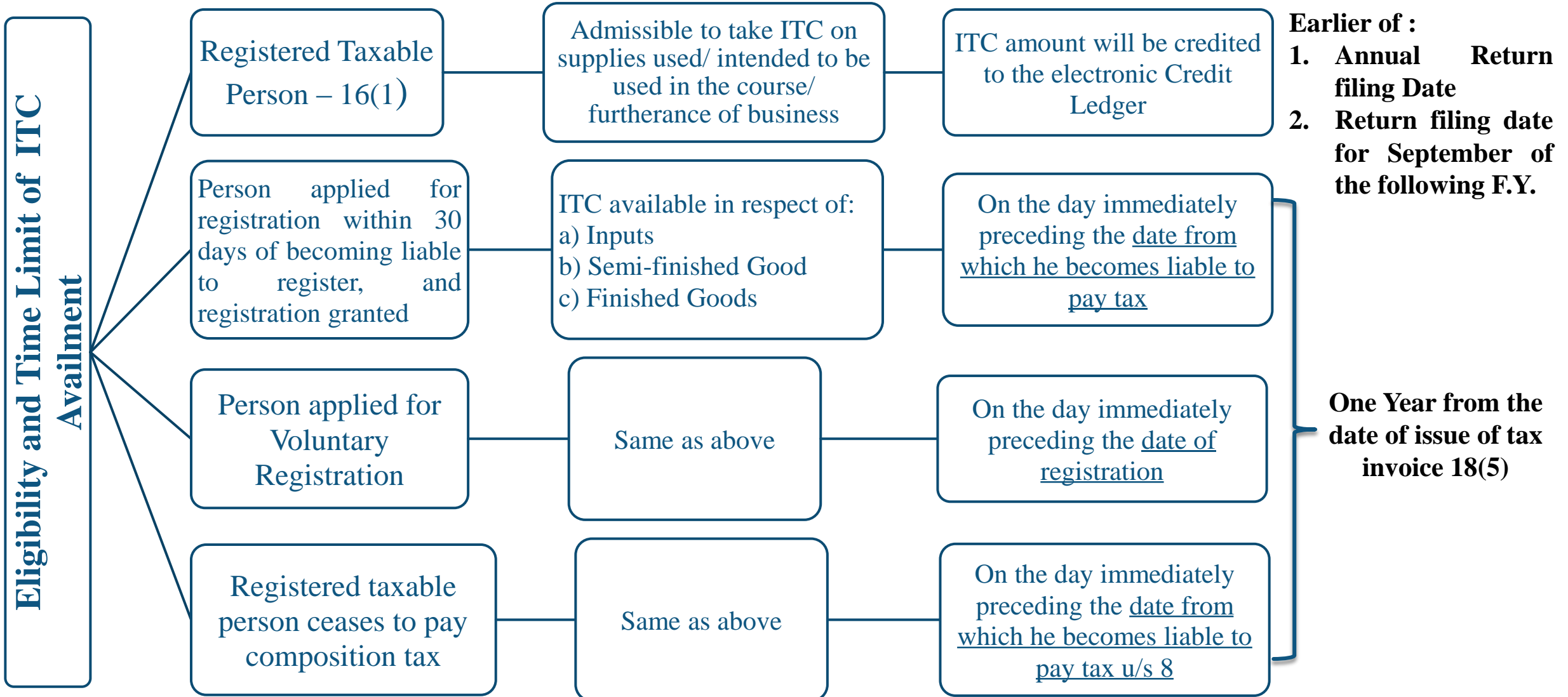
**The numbers represent the order of utilization of credit*

- Expectation: Accumulation of unutilized GST credits would be avoided except in cases of exports



Eligibility & Time Limit for Availing ITC

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Conditions for Availment of ITC by a Registered Taxable Person

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Basis - **tax invoice/debit note issued by a registered supplier**, or other prescribed taxpaying document

Goods and/or services have been received*

Tax actually paid by the supplier to the credit of the appropriate Government, either in cash or by utilization of ITC

He has furnished the monthly return in Form GSTR-3 under Section 34

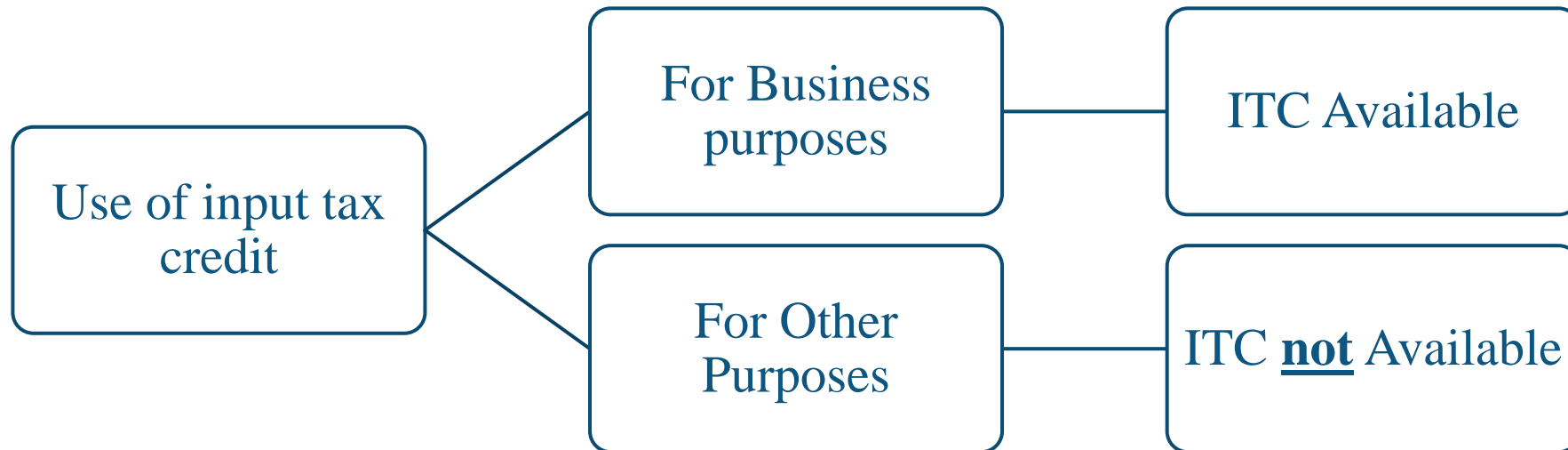
***Note:**

- Credit only upon receipt of the last lot/ instalment in case of goods received in lots/ instalments.
- Goods deemed to be received by a taxable person when the supplier delivers the goods to the recipient/ any other person, on the direction provided by the taxable person to the supplier.
-



ITC on the Basis of use of Inputs

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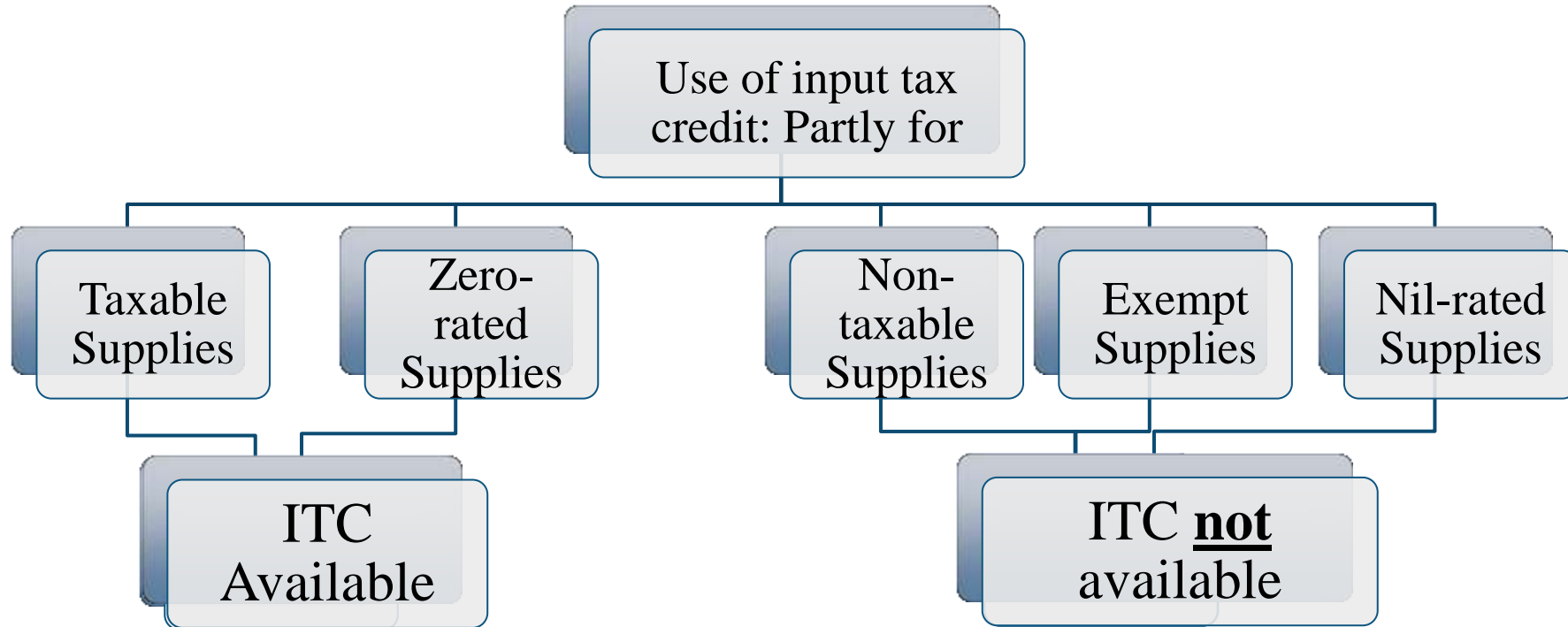


** Attribution of ITC to be made as per the manner prescribed in the notification to be issued by the Govt.*



ITC on the Basis of use of Inputs

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Note: Attribution of ITC to be made as per the manner prescribed in the notification to be issued by the Govt.

Alternative to apportionment between taxable & exempt supplies in case of **banking companies & financial institutions**:

- **Yearly option** to avail a standard rate of 50% of eligible ITC on inputs, capital goods and input services on a **monthly basis**



ITC in case of Capital Goods

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Depreciation claimed on Tax component of the cost of capital goods under IT Act

ITC not Available

Example:

Cost of asset	= Rs. 100
Tax-10%(say)	= <u>Rs. 10</u>
Total Cost	<u>Rs. 110</u>

If Depreciation charged on
Rs.100
ITC Available

If Depreciation charged on
Rs.110
ITC not Available

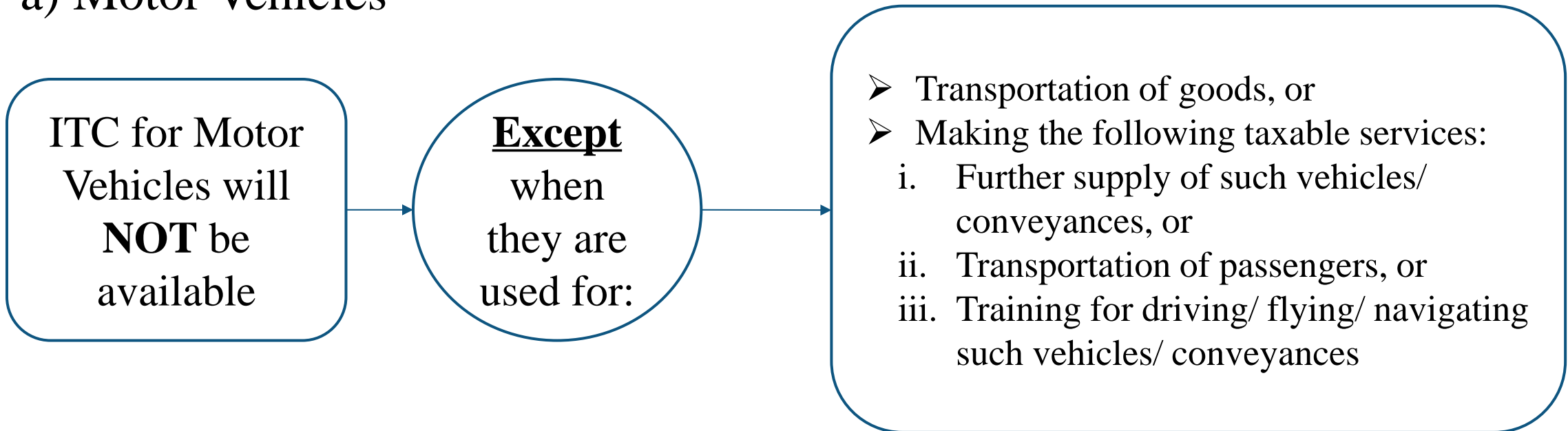


Restrictions on ITC : Sec 17(4)

Blocked credits

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a) Motor Vehicles



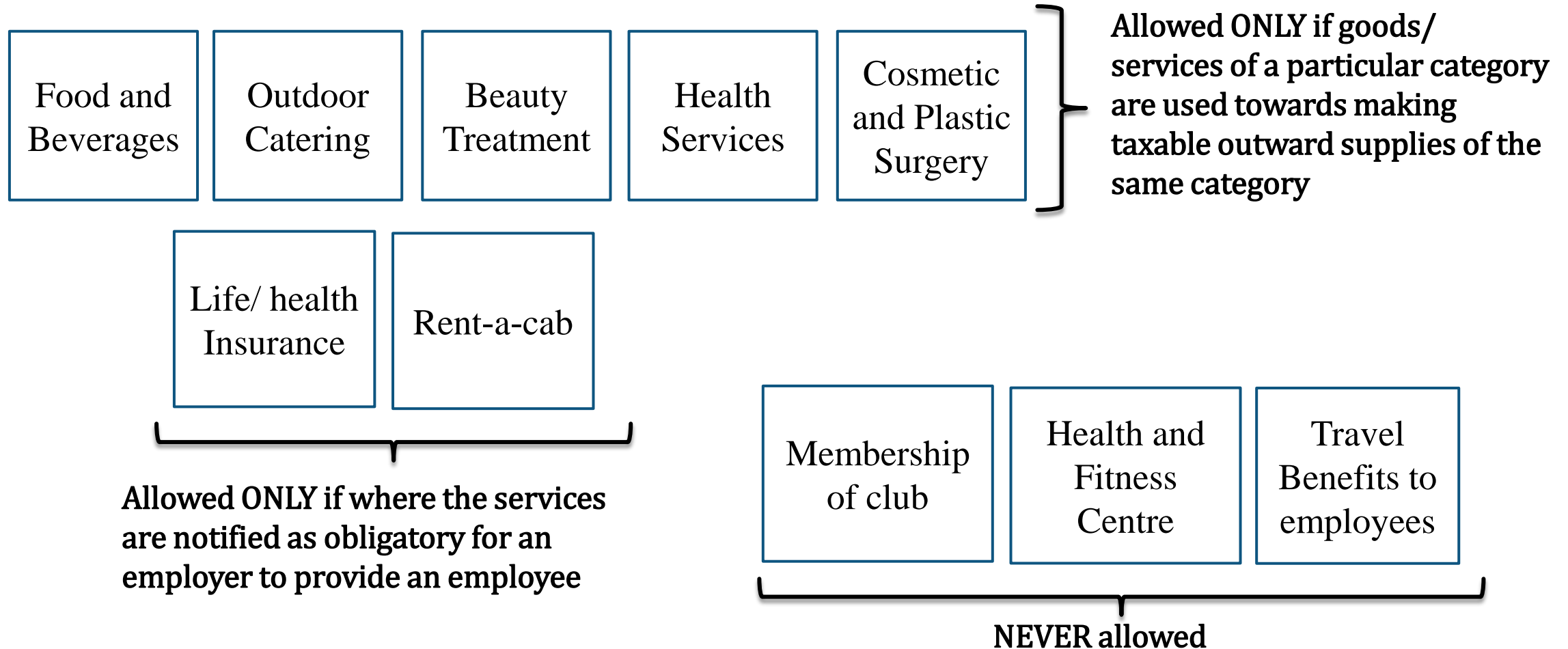
Note: Where any amount has been paid on goods and/or services, in lieu of tax, under composition scheme, no credit on such amount would be allowed.



Restrictions on ITC : Sec 17(4)

Blocked credits

b) Supply of goods and services being:



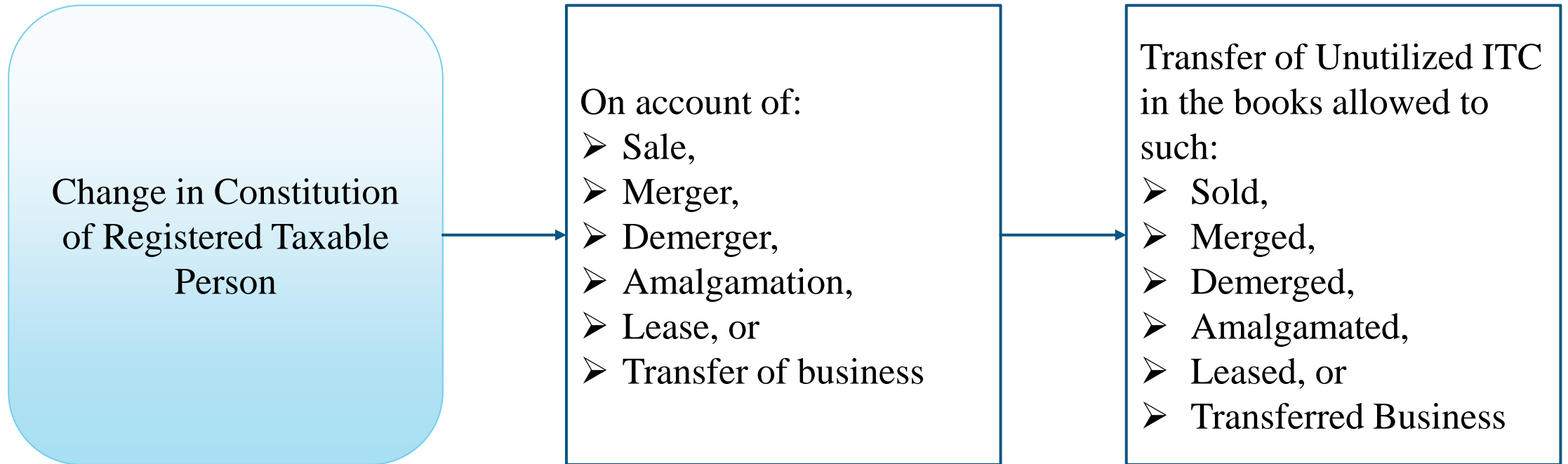


c) Construction of Immovable Property (other than plant & machinery)

Works contract services, except where it is an input service for further supply of works contract service

Goods or services received by a taxable person for construction of an immovable property on his own account *even when used in course or furtherance of business;*

ITC not Available





Switching from regular to over composition- Pay and Exit

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Eligible credit under earlier law carried forward in the return

Amount equivalent to the credit of input tax in respect of input held in stock or input contained in semi-finished goods or finished goods held in stock as on appointed day

Such amount shall be payable by debiting the electronic credit ledger or cash ledger

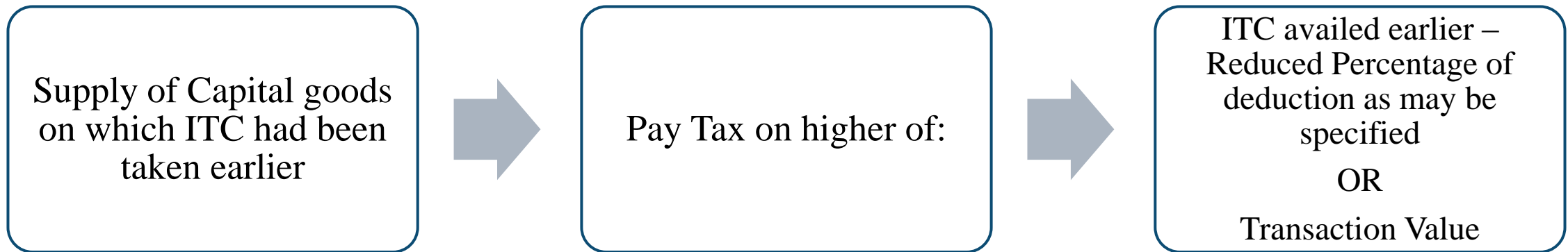
Balance in electronic credit ledger shall lapse



Supply of Capital goods on which ITC already taken

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- If the **recipient of services** fails to pay (**value + tax**) within **3 months** from date of invoice, (**ITC availed + interest**) shall be added to his output tax liability

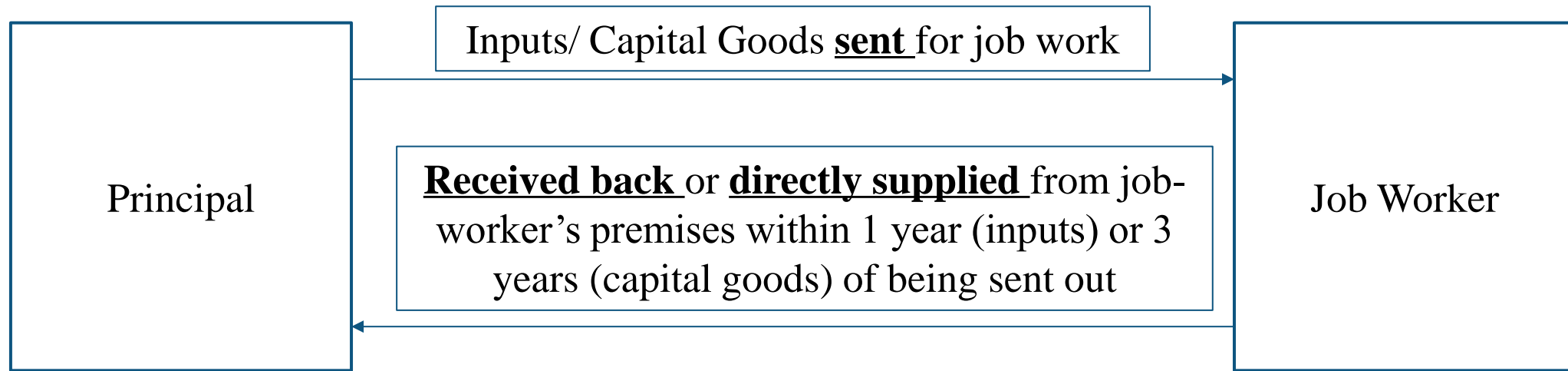


Note: Any credit wrongly taken shall be subjected to the recovery provisions



ITC in respect of goods sent for job work- Sec. 20

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ITC available if the conditions and restrictions under job work are satisfied

If not received/directly supplied in time: Principal to pay ITC availed + **Interest**.
He can reclaim this ITC on receiving back such inputs/ capital goods.

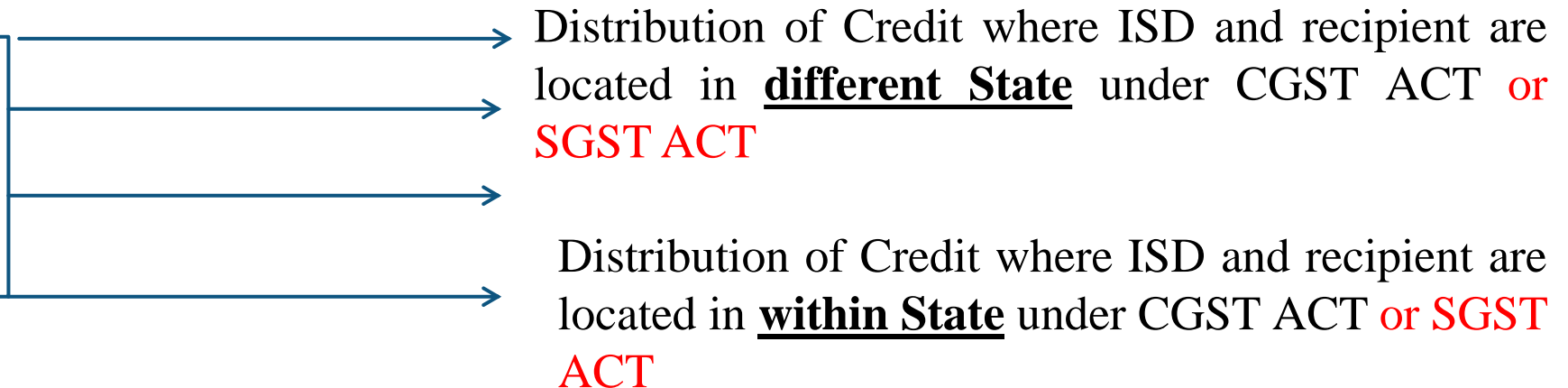


Input Service Distributor – Sec. 21

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- ITC is distributed to supplier of goods and/or services of same entity having the same PAN
- Deemed as ISD is a supplier of Service for distributing credit
- Common Services used at for

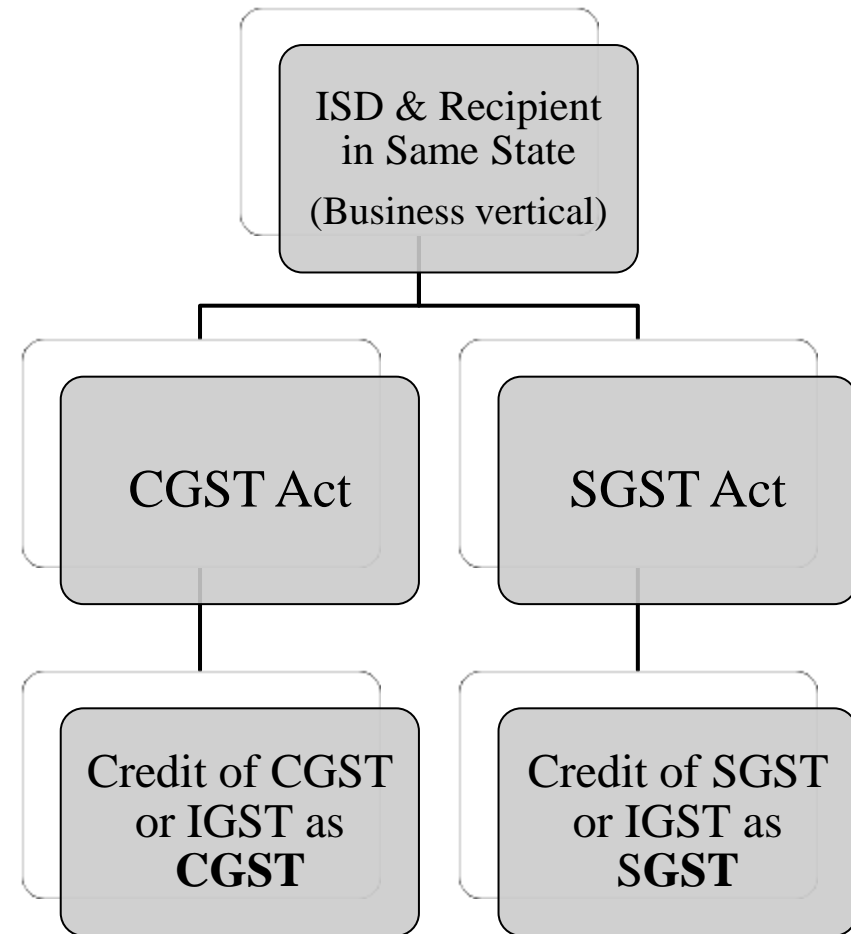
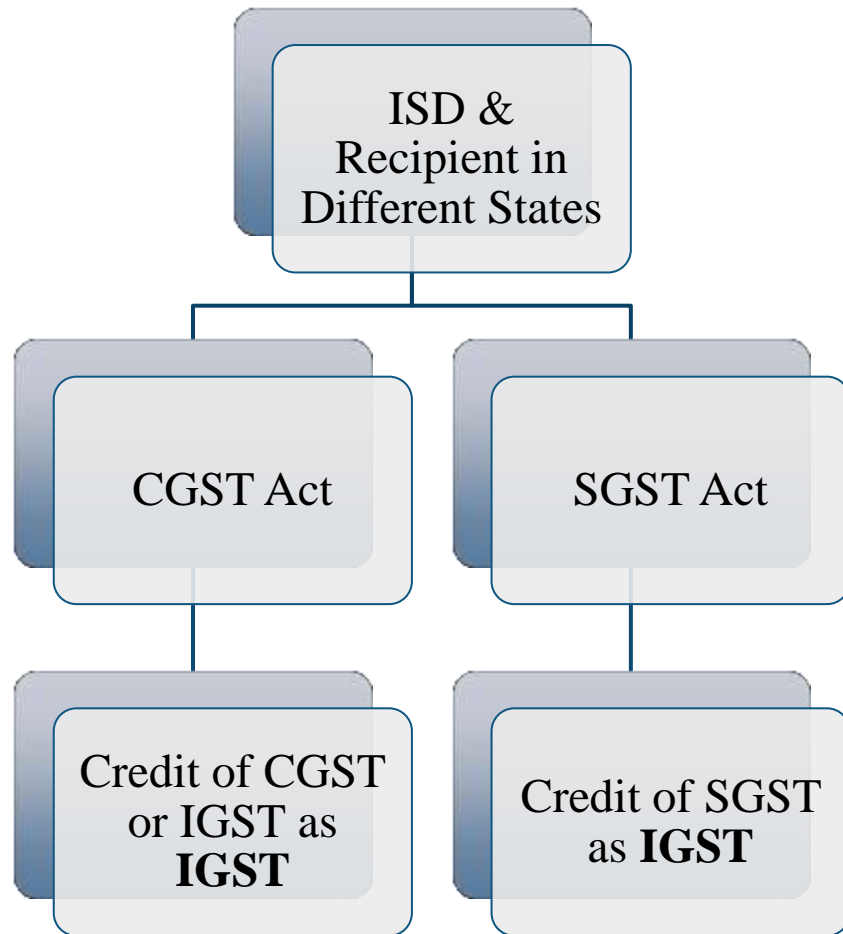
Office /
Corporate
office of
Supplier





Input Service Distributor

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Conditions to distribute credit: Input Service Distributor

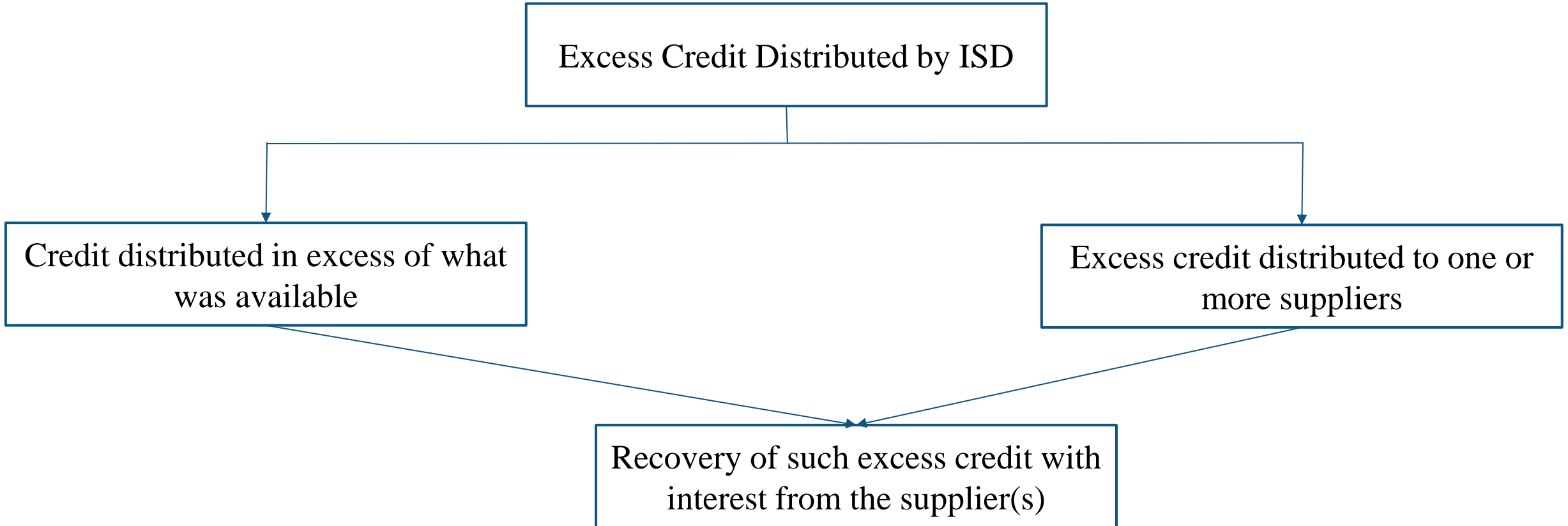
20

- Credit distributed to recipient through prescribed documents containing prescribed details. Such document should be issued to each of the recipient of credit.
- Credit distributed should not exceed the credit available for distribution
- Tax paid on input services used by a particular location (registered as supplier) has to be distributed only to that location.
- Credit of tax paid on input service used by more than one location who are operational is to be distributed to all of them based on the pro rata basis of turnover of each location in a State to aggregate turnover of all such locations who have used such services



Excess Credit distributed by Input Service Distributor

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Transitional Provisions



Carry forward of CENVAT Credit

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Registered taxable person other than composition dealer

Allowed carry forward of Input tax/ CENVAT credit – through a return

Such credit must be eligible under earlier law and GST law

Credit can be taken in the electronic credit ledger (CGST)

Excess credit taken will be recovered as arrears of tax under GST law

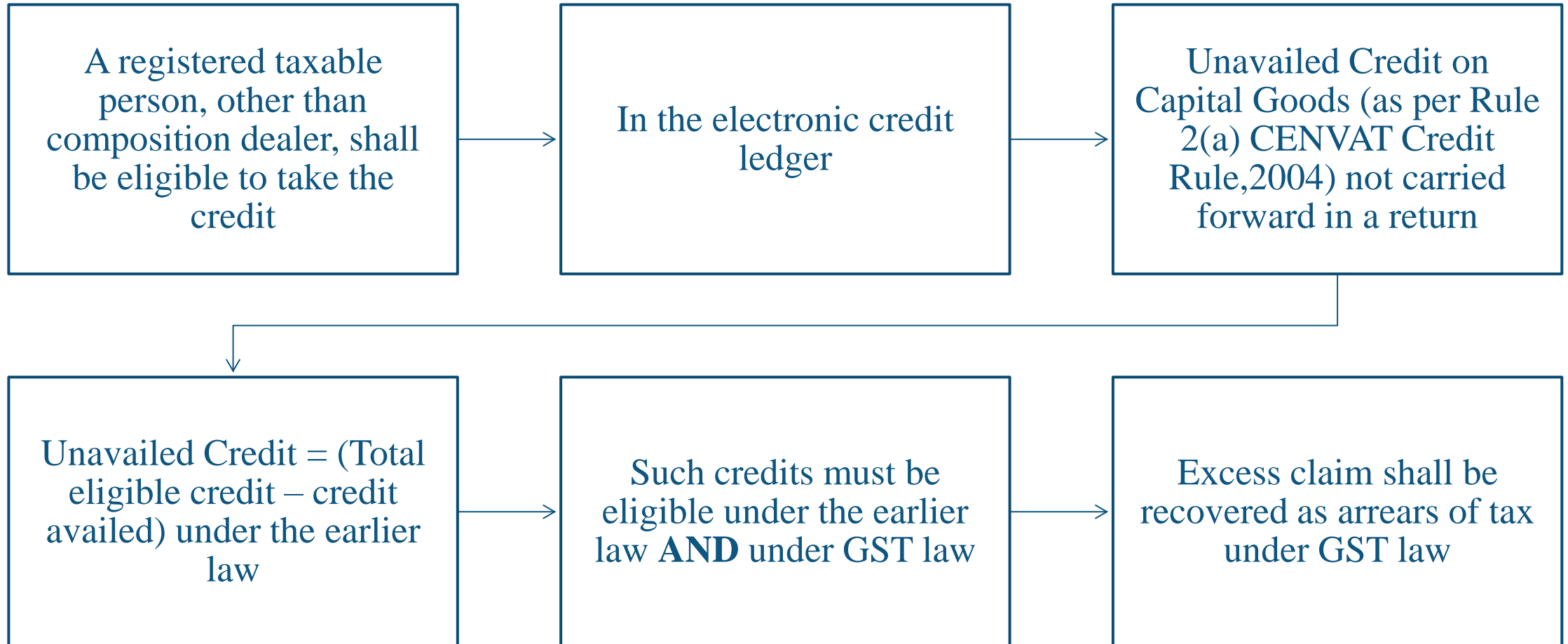


Possible Issues

- *VAT credit to Service Provider, ST + ED credit for trader, CST credit for all not available.*
- *Partial rebating not available.*
- *Can we return all goods and get under GST?*
- *Article 14 – Equal treatment of those who get less credit against those who get full credit – is a challenge possible?*
- *If found ineligible in VAT/ CE/ST then double demand?*



Unavailed CENVAT Credit on Capital goods





Credit of eligible duties and taxes on input held in stock

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Person eligible for input tax credit

- Person not liable to be registered under the earlier law
- Person engaged in manufacture/ sale of exempted goods, provision of exempted services
- Person providing works contract service and availing abatement under notification no. 26/2012
- First/ Second stage dealer, importer

Credit available on

- Inputs held in stock and inputs contained in semi-finished goods or finished goods held in stock as on appointed day
 - ✓ Above benefit not available for input services
- Such credit can be taken in the electronic credit ledger

Conditions

- Goods must be used or intended to be used for taxable supply
- The taxable person passes on the benefit of such credit to recipients by way of reduced prices
- Eligible to take the credit under GST law
- Such person should be in possession of invoice or other prescribed document
- Invoice or other document should be within 12 months from the appointed day
- Excess claims will be recovered as arrears of tax under GST law



Credit of eligible duties and taxes on input held in stock

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A registered taxable person who was engaged in the **manufacture of exempted and non-exempted goods under Central Excise** will be entitled to take the following amounts of CENVAT credit in his electronic credit ledger:-

- Amount c/f in return furnished under earlier law
- Amount of eligible duties contained in inputs held in stock and inputs contained in semi-finished goods/ finished goods held in stock on the appointed day relating to exempted goods/ services



Possible Issues

- Stocks with registered persons would also contain taxes which were earlier not available but available under GST- 3 situations
- Should one start getting invoices with details- hoping for change in law?
- Stocks procured over 1 year back
- WIP/ FG/ RM total worked backwards on FIFO? Some Inv. with details some not



Stocks ST eligible?

- ST eligible as per explanation
- GTA, Storage & Warehousing charges, Rent, Security, C&F charges borne-credit available pro rata.
- If 2m stocks then 1/6 th of such credits available
- AS 2- Inventories – does it help?



Credit of eligible duties and taxes on inputs/ input services during transit

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CGST

- A registered taxable person is entitled to take credit in electronic credit ledger of eligible duties and taxes on inputs/ input services **received on/ after the appointed day** but the **duty/ tax has been paid before the appointed day**
 - Condition: Invoice/ any other duty/tax paying document recorded in the books of accounts within 30 days from the appointed day

SGST

- A registered taxable person shall be entitled to take credit in his electronic credit ledger of VAT and Entry tax on inputs **received on/ after the appointed day** but **tax has been paid before the appointed day**
 - Condition: Invoice/ other tax paying document recorded in the books of accounts within 30 days from the appointed day



Credit of duties and taxes on inputs held in stock on switching over from composition scheme

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Person eligible for input tax credit

- A registered taxable person who was paying tax under composition scheme

Credit available on

- Inputs held in stock and inputs contained in semi-finished goods or finished goods held in stock as on appointed day
 - ✓ Above benefit not available for input services
- Such credit can be taken in the electronic credit ledger

Conditions

- Person not paying taxes under composition scheme under GST law
- Goods must be used for taxable supply
- Otherwise eligible to take the credit under earlier law and under GST law
- Such person should be in possession of invoice/ other prescribed document
- Invoices/ other prescribed document was not issued earlier than 12 months preceding appointed day



Claim of CENVAT Credit to be disposed off under the earlier law

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Proceedings of appeal revision, review or reference relating to claim of input tax / CENVAT credit will be disposed of in accordance with earlier law;

Inadmissible Credit to be recovered as arrears of tax under GST law

Not eligible for claim of input tax credit under GST law

Admissible CENVAT credit to be refunded in cash (CGST)

Admissible input tax credit to be refunded in accordance with provision earlier law (SGST)



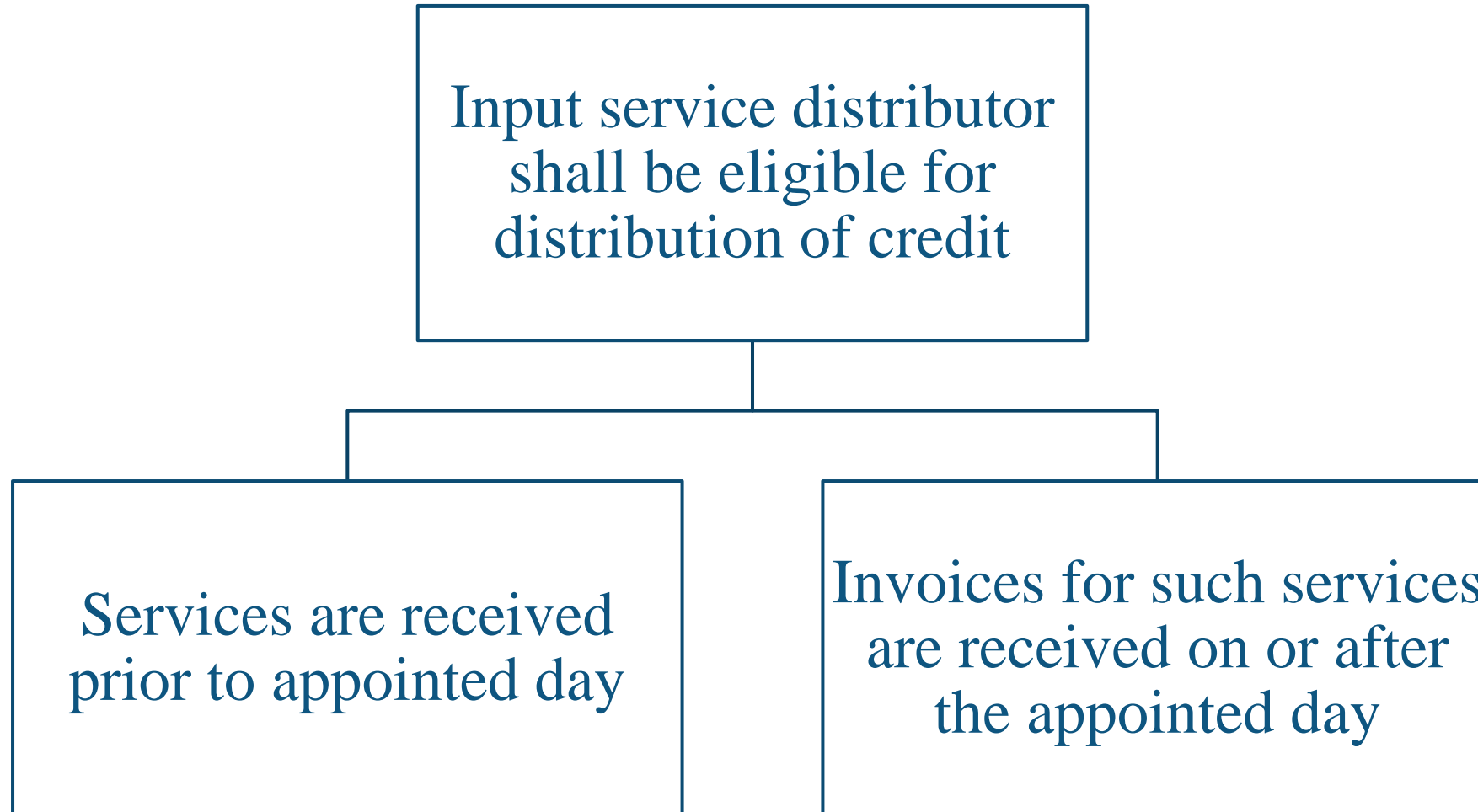
Possibilities?

- *Ensure a review of credits for past done in detail to see missed credits due to clerical error or dept. force or lack of awareness- claim under VAT as well as CCR.*
- *Relook at all the reversals made in past years*
- *Bifurcate into within 1 year and more than 1 year*
- *Make a refund claim before 31st march 2017.*



Credit distribution of service tax by ISD (CGST)

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Transfer of unutilised Cenvat credit by a person having centralised registration

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For the period ending with the day immediately preceding the appointed day

- If the taxable person files an original/ revised return within 3 months of the appointed day
- Credit will be allowed if credit amount is reduced from that claimed earlier

Note:

1. Only those credits which are admissible under GST laws will be allowed
2. Credit may be transferred to any registered taxable person having the same PAN for which centralised registration was obtained under earlier law



Tax paid on goods/ capital goods lying with agent to be allowed as credit (SGST)

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Person eligible for input tax credit

Agent is eligible for taking credit on tax paid goods

Credit available on

Any goods/ capital goods belonging to the Principal; and

Such goods are lying at the premises of Agent as on the appointed day

Conditions

Agent must be a registered taxable person under GST

Details of goods lying must be declared by the Agent and Principal

Invoices pertaining to such goods must be within twelve months from the appointed day; and

Principal either reversed or **should not** have availed credit



- *Publications [BGM, FAQs, ppt, booklets, articles.*
- *IDT net – IDT Updates – fortnightly – please join for alerts*
- *Videos of Model Law- as relevant (due to revision)*
- *Web cast of Revised Model law*
- *FIP- Training program*
- *1-3 days Awareness + procedurally focused program*
- *..many others*

Thank You



For any Clarification, Please Contact

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