

INPUT TAX CREDIT

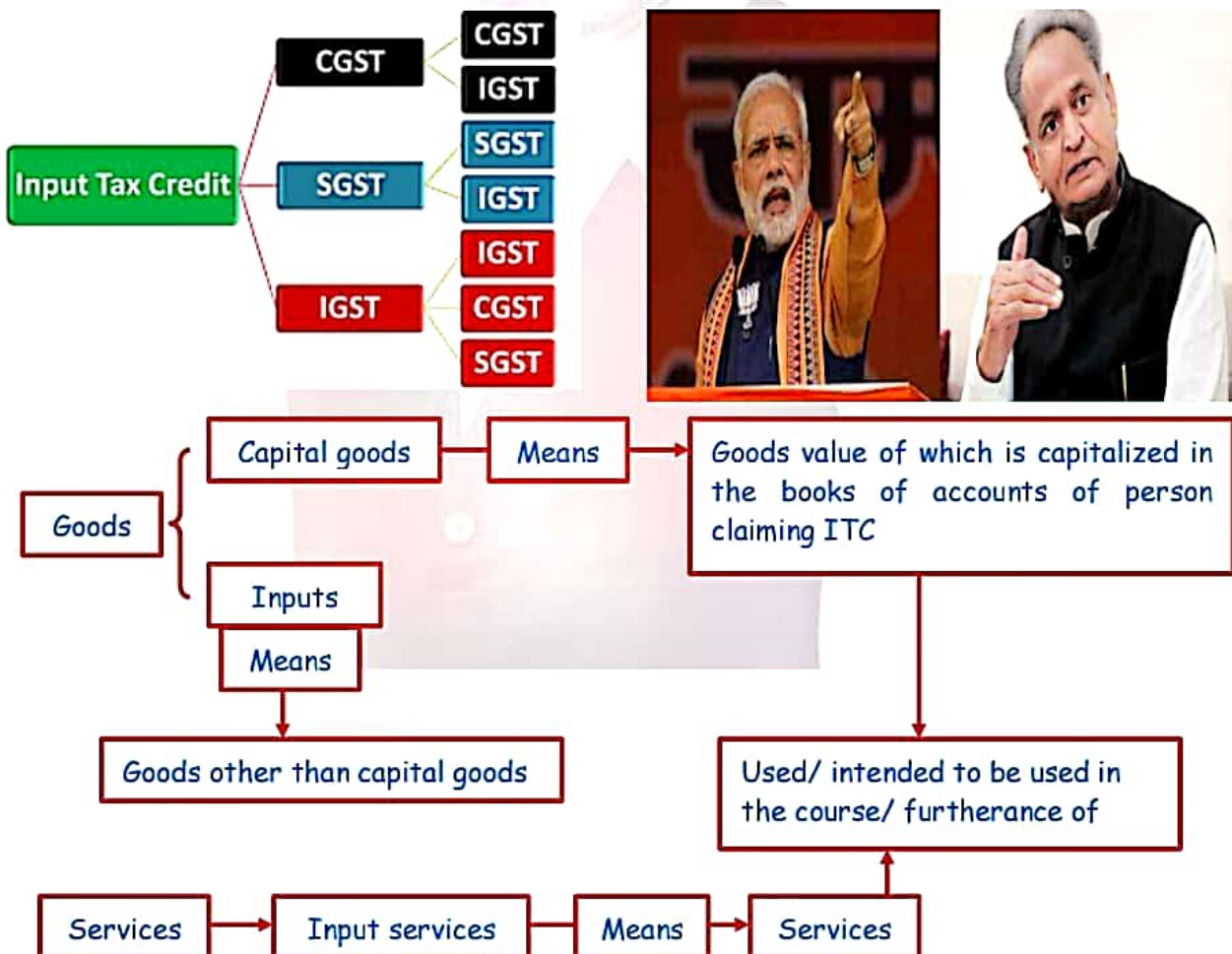
CHAPTER 5

Input Tax Credit or ITC is the tax that a business pays on a **purchase** and that it can use to reduce its tax liability when it makes a sale. In other words, businesses can reduce their tax liability by claiming credit to the extent of **GST paid** on purchases.

In earlier indirect tax regime, the credit mechanism for indirect taxes levied by the Union Government was governed by the CENVAT Credit Rules, 2004; and the credit mechanism for state-level VAT on sale of goods was governed by the States under their respective VAT Acts and Rules.

The VAT legislations allowed ITC of VAT on inputs and capital goods in transactions within the state, but not on inputs and capital goods coming in the State from outside the state, on which central sales tax was paid. CENVAT Credit Rules, 2004 allowed availing and utilization of credit of duty/tax paid on both goods (capital goods and inputs) and services by the manufacturers and the service providers across the country.

Definitions of Input, Input services, Capital goods.



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

(I) ELIGIBILITY FOR TAKING ITC [SECTION 16(1)]

(a) Registration under GST

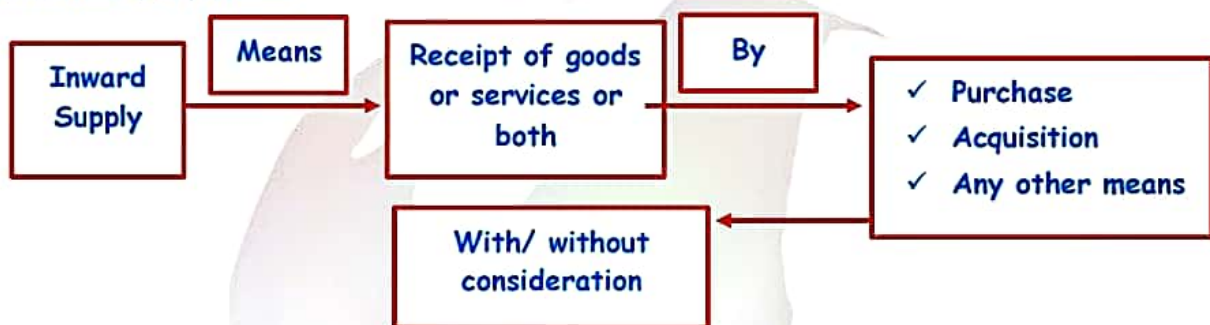
Every registered person shall be entitled to ITC charged on inward supply of goods and / or services. This is subject to the provisions relating to use of ITC under section 49 and the conditions and restrictions in the rules. [Section 49 prescribes provisions relating to payment of tax, interest, penalty & other amounts. The same has been discussed in detail in Chapter 9: Payment of Tax.]

(b) Goods/services to be used for business purposes

ITC will be available on goods and/or services which are used in the course or furtherance of the business [See definition of business]; the "intention to use" the goods and/or services in the course or furtherance of business would also lead to availing of credit on such goods and/or services. Thus, tax paid on goods and or/services which are used or intended to be used for non-business purposes cannot be availed as credit. ITC will be credited in Electronic Credit Ledger.

(II) CONDITIONS FOR TAKING ITC [SECTION 16(2)]

The registered person will be entitled to ITC on a supply only if ALL the following four conditions are fulfilled:



(a) Possession of taxpaying document [Section 16(2)(a) read with rule 36 of the CGST Rules]

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

- i) Invoice issued by a supplier of goods and/or services
- ii) Invoice issued by recipient (receiving goods and/or services from unregistered supplier) along with proof of payment of tax (in case of reverse charge)
- iii) A debit note issued by supplier
- iv) Bill of entry or similar document prescribed under Customs Act
- v) Revised invoice
- vi) Document issued by Input Service Distributor²

The documents basis which ITC is being taken should have all the relevant particulars as prescribed in rule 46 of the CGST Rules. [Rule 46 relating to tax invoice has been discussed in detail in Chapter 7: Tax Invoice, Credit and Debit Notes.]

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(b) Receipt of the goods and / or services [Section 16(2)(b)]

The person taking the ITC must have received the goods and / or services.

"Bill to Ship to" Model also included: Under this model, the goods are delivered to a third party on the direction of the registered person who purchases the goods from the supplier. Receipt of goods u/s 16(2)(b) includes delivery to another person on the direction of the registered person by way of transfer of documents of title to goods or otherwise either before or during the movement of goods.

For Example, A is a trader who places an order on B for a consignment of soda ash. A further sells the same to C. A instructs B to deliver the goods to C, and in turn he raises an invoice on C. here A is entitled to ITC on the consignment though the goods are not physically received at the premises of A.

(c) Tax leviable on supply actually paid to Government [Section 16(2)(c)]

Tax should actually have been paid, by cash or through utilization of ITC, on the goods and / or services for which ITC is being taken. However, provisional ITC can be taken initially, prior to matching in the common portal, and used for payment of self-assessed tax on outward supply.

(d) Filing of return [Section 16(2)(d)]

The registered person taking the ITC must have filed his return under section 39.

Note: The details of inward supplies are to be filed in GSTR - 2 by the 15th of the month succeeding the month in which the supplies were received³. With the furnishing of such details, electronic credit ledger gets credited with the relevant ITC.

(III) GOODS RECEIVED IN LOTS: ITC AVAILABLE ONLY ON RECEIPT OF LAST LOT [FIRST PROVISO TO SECTION 16(2)]

In case the goods covered under an invoice are not received in a single consignment but are received in lots / instalments, the ITC can be taken only upon receipt of the last lot / instalment.

Q. Mr. AR placed order for 10,000 qty. from xyz ltd. on 01/08/2017 goods find out ITC eligibility if he received goods on following date:-

-----1. 01/09/2017 - 1000 qty @ ` 100 each (intra state)

-----2. 01/10/2017 - 1000 qty @ ` 100 each (intra state)

-----3. 15/01/2018 - 8000 qty @ ` 100 each (intra state)

Ans:-

(IV) PAYMENT FOR THE INVOICE TO BE MADE WITHIN 180 DAYS [SECOND PROVISO TO SECTION 16(2) READ WITH RULE 37 OF CGST RULES]

ii. In case the payment for an invoice was not made within 180 days of the date of issuance of invoice, then the ITC availed would be added to his output tax liability with interest. Interest will be paid @ 18% from the date of availing credit till the date when the amount added to the output tax liability is paid.

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ITC reversed earlier can be re-availed upon payment of the consideration along with tax, without any time limit. In case part-payment has been made, proportionate credit would be allowed

Exceptions:

The condition of payment of consideration along with tax within 180 days does not apply in the following situations:

- a) Supplies on which tax is payable under RCM
- b) Deemed supplies without consideration
- c) Additions made to the value of supply on account of supplier's liability (Incurred by the recipient).

Note: Situations given in points b) & c), the value of supply is deemed to have been paid.

For Example, Due to a quality dispute, PZP Ltd. withheld payment on a machine supplied by a vendor till it could be rectified. Over 180 days went by in this dispute. The credit taken by PZP Ltd. on the invoice got added to the output tax liability of PZP Ltd. and thus, it had to pay back the credit. Only after the vendor rectified the machine and PZP Ltd. released the payment and the ITC reversed earlier has been re-availed.

(v) If depreciation claimed on tax component, ITC not allowed [Section 16(3)]

If the person taking the ITC on capital goods and plant and machinery has claimed depreciation on the tax component of the cost of the said items under the Income-tax Act 1961, the ITC on the said tax component shall not be allowed.

(vi) Time limit for availing ITC:

Due date of filing of return for the month of September of succeeding financial year or date of filing of annual return, whichever is earlier [Section 16(4)]

ITC on invoices pertaining to a financial year or debit notes relating to invoices pertaining to a financial year can be availed any time till the due date of filing of the return for the month of September of the succeeding financial year or the date of filing of the relevant annual return, whichever is earlier.

For Example, Hercules Machinery delivered a machine to XYZ on 28th January 2019 for Rs 4,15,000 plus GST, and undertook trial runs and calibration of the machine as per the requirements of XYZ. The amount chargeable for the post-delivery activities was covered in a debit note raised in April 2019 for Rs 50,000 plus GST.

Hercules Machinery did not file its annual return till October, 2019. Though the debit note was received in the next financial year, it relates the financial year ending March 2019. Therefore, the time limit for taking ITC available on Rs 50,000 as well as on Rs 4,15,000 is 20th October, 2019; earlier of the date of filing the annual return for 2018-19 or the return for September 2019.

APPORTIONMENT OF & RESTRICTIONS ON ITC [SEC. 17]

(A) APPORTIONMENT OF ITC

1. In a case where the goods/ services/ both are used by the registered person -
 - a) Partly for
 - i. business purpose and
 - ii. other purpose

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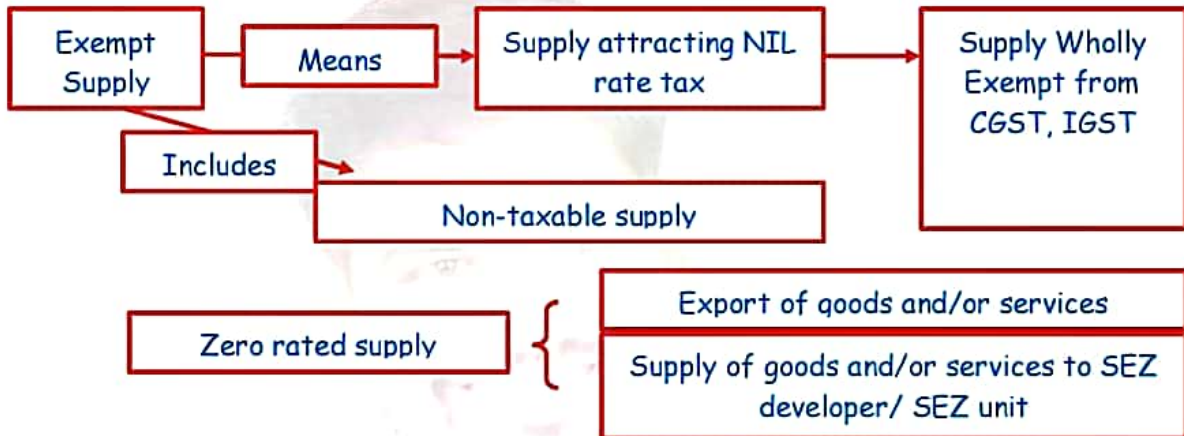
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OR

- b) Partly for making
- taxable supplies (including zero-rated) and
 - exempt supplies

Then the amount of credit restricted to the input tax that is attributable to supplies used for business purpose only.

What do you mean by an exempt supply & a zero rated supply?



FOCUS POINTS:

- In situation 1(a) above, the person claiming ITC, can only claim that portion of ITC, which is attributable to supplies used for business purposes. In other words, No ITC which is attributable to the supplies used for other than business purpose shall be claimed.
- In situation 1(b), the person claiming ITC, can only claim that portion of ITC, which is attributable to supplies used for taxable supplies including zero-rated supplies (See (iii) below). In other words, No ITC, which is attributable to the supplies used for exempted supplies, shall be claimed.
- Zero-rated supply is an expression that covers -**
 - exports and
 - Supplies to a SEZ or SEZ developer.
- Exempt supply includes**
 - Supplies charged to tax under RCM;
 - Transactions in securities;
 - Sale of land and sale of building when entire consideration is received either after issuance of completion certificate or its first occupation, whichever is earlier.
- Exempt supply excludes**
 - Transactions/ Activities specified in Schedule III except sale of land and sale of building.
 - Supply of services by way of accepting deposits, extending loans or advances where the consideration is either interest or discount, except in case of a banking company or a financial institution including a NBFC.

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- Transportation of goods by a vessel from the customs station of clearance in India to a place outside India.

Examples:

- A registered person engaged in taxable supply of goods purchased 10 containers out of which 5 are used for storing petroleum. ITC on 5 containers used for storing petroleum being non-taxable good, cannot be availed.
- A registered person (partnership firm) purchases 5 laptops but one of the laptop is being used by the son of one of the partners of the firm ITC will not be available on such laptop as it is used for personal purposes.

2. AN OPTIONAL SCHEME FOR A BANKING COMPANY INCLUDING AN NBFC TO AVAIL 50% OF ELIGIBLE ITC



- A banking company including an NBFC is allowed to avail 50% of eligible ITC on inputs, capital goods, input services each month.
- Remaining balance of ITC will be lapsed.
- Credits of tax paid on inputs, input services that are used for
 - Non-business purposes or
 - Restricted items for claiming ITC under The Act.
Cannot be availed.

FOCUS POINTS:

- Restriction of availment of 50% eligible ITC shall not apply to the tax paid on supplies made to another registration within the same entity.

Option of availing 50% credit once exercised cannot be withdrawn during remaining part of the year.

(B) RESTRICTED CREDITS (BLOCKED/ INELIGIBLE CREDITS) [SEC. 17(5)]:

ITC would be allowed on most of the inputs, input services, capital goods except on goods/ services/ both specified under this sub section 5 of section 17.

The following items are covered under restricted items

1. Motor Vehicles and Conveyances

- Motor Vehicles:** Motor vehicles for transaction of persons with seating capacity \leq 13 persons (including driver).

Exception: Making the taxable supplies or

- Further supply of such motor vehicles; or
- Transportation of passengers; or
- Imparting training on driving such vehicles.

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Note:

- ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including driver) used for any purpose is allowed.
- ITC on any other motor vehicle (e.g. motor vehicle used for transportation of goods, dumpers, tippers etc.) used for any purpose is allowed.

Examples

1. ITC on cars purchased by a manufacturing company for official use of its employees is?
2. ITC on cars purchased by a car dealer for sale to customers is?
3. ITC on cars purchased by a company engaged in renting out cars for transportation of passengers, is?
4. ITC on cars purchased by a car driving school is?
5. ITC on buses purchased by a company for transportation of its employees from their residence to office and back, is?
6. ITC on trucks purchased by a company for transportation of its finished goods is?

b) Vessels and Aircrafts:

Exception: Making the taxable supplies of

- Further supply of such vessels or aircraft; or
- Transportation of passengers; or
- Imparting training on navigating such vessels; or
- Imparting training on flying such aircrafts; or
- Transportation of goods.

Examples

1. ITC on aircraft purchased by a manufacturing company for official use of its CEO is?
2. ITC on aircraft purchased by an Aviation School providing training on flying aircrafts is?

c) General Insurance, Servicing, Repair and Maintenance relating to:

- ✓ Motor vehicles for transportation of persons with seating capacity \leq 13 persons (including driver),
- ✓ Vessels
- ✓ Aircraft

Exception:

- 1) Such services are used for purpose of making the taxable supplies of -
 - Further supply of such motor vehicles or vessels or aircraft; or
 - Transportation of passengers or
 - Imparting training on driving, flying, navigating such vehicles or vessels or aircraft; or
 - Transportation of goods;
- 2) Such services when received by a taxable person engaged
 - In the manufacture of such motor vehicles, vessels or aircraft; or
 - In the supply of general insurance services in respect of such motor vehicles, vessels or aircraft insured by him.

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NOTE:

- ITC is not allowed on services of general insurance, servicing, repair and maintenance relating to motor vehicles, vessels or aircraft, ITC on which is not allowed.
- ITC is allowed on services of general insurance, servicing, repair and maintenance relating to motor vehicles, vessels or aircraft, ITC on which is allowed.

Examples

1. ITC on general insurance taken on a car used by employees of a manufacturing company for official purposes, is?
2. ITC on maintenance & repair services availed by a company for a truck used for transporting its finished goods, is?

2. FOODS AND BEVERAGES, OUTDOOR CATERING, BEAUTY TREATMENT, HEALTH CARE SERVICES, COSMETIC AND PLASTIC SURGERY, LEASING, RENTING OR HIRING OF MOTOR VEHICLES, VESSELS OR AIRCRAFT ON WHICH ITC IS NOT ALLOWED, LIFE INSURANCE AND HEALTH INSURANCE.

Exception:

- Used for making an outward taxable supply of the same category or as an element of a taxable composite or mixed supply.
- Such goods and/or services are provided by an employer to its employees under a statutory obligation.

Examples

1. AB & Co., a caterer of Amritsar, has been awarded a contract for catering in a marriage to be held at Ludhiana. The firm has given the contract for supply of snacks, to be served in the marriage, to CD & Sons, a local caterer of Ludhiana. ITC on such outdoor catering services availed by AB & Co., is?

2. ITC on outdoor catering services availed by a company, for a team development event organised for its employees, is blocked.

ITC on outdoor catering service availed by a company to run a canteen in its factory. The Factories Act, 1948 requires the company to set up a canteen in its factory. ITC on such outdoor catering is ?

3. MEMBERSHIP OF A CLUB, HEALTH AND FITNESS CENTRE

Exception: such services are provided by an employer to its employees under a statutory obligation.

4. TRAVEL BENEFITS EXTENDED TO EMPLOYEES ON VACATION SUCH A LEAVE OR HOME TRAVEL CONCESSION.

Exception:

- Received as an inward supply for further supply of work contract service
- Being a plant & machinery

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5. WORKS CONTRACT SERVICES FOR CONSTRUCTION OF AN IMMOVABLE PROPERTY

Exception:

- Received as an inward supply for further supply of works contract service
- Being a plant & machinery

6. Inward supplies received by a taxable person for construction of an immovable property on his own account even when such supplies are used in the course or furtherance of business.

For Example, a company buys material and hires a contractor to construct an office building for the residence of the plant supervisory staff. The input tax paid on such goods and services is not allowed as credit.

7. Inward supplies on which tax has been paid under the composition scheme.

8. Inward supplies received by a non-resident taxable person (NRTP).

Exception: Inward supplies of goods received by a non-resident taxable person when such person imports such goods.



9. Goods and/ or services used for personal consumption.

10. Goods that are lost, stolen, destroyed, written off or disposed of by way of gift or free samples.

11. Tax paid U/S. 74 (Tax short/ not paid or erroneously refunded due to fraud etc.,) U/S 129 (Amount paid for release of goods and conveyances in transit which are detained) and U/S. 130 (Find paid in lieu of confiscation).

SPECIAL CASES WITH RESPECT TO ITC [SEC. 18]

(A) SPECIAL CIRCUMSTANCES ENABLING AVAILING OF CREDIT

1. Registered person switching from composition levy to regular scheme of payment of taxes

a) Credit in respect of inputs:

- i. Inputs as such held in stock
- ii. Inputs contained in semi-finished goods held in stock
- iii. Inputs contained in finished goods held in stock

b) Credit in respect of capital goods: ITC will be reduced by 5% per quarter of a year or part of the year from the date of invoice.

c) The credit availment shall be made of the input & capital goods on the day immediately preceding the date from which he becomes liable to pay tax under regular scheme.

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Conditions:

- a) ITC claimed shall be verified with the corresponding details furnished by the corresponding supplier.
- b) ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier.

For Example, Mr. B, a registered taxable person, was paying tax at composition rate up to 30th July and he becomes liable to pay tax under regular scheme w.e.f. 31st July. Mr. B will be eligible for ITC on inputs held in stock and inputs contained in semi-finished or finished goods held in stock and on capital goods as on 30th July. ITC on capital goods will be reduced by 5% per quarter from the date of the invoice.

2. Registered person's exempt supplies becoming taxable supply

- a) Credit in respect of inputs:
 - i. Input as such held in stock
 - ii. Inputs contained in semi-finished goods held in stock
 - iii. Inputs contained in finished goods held in stock. Relatable to such exempt supply.
- b) Credit in respect of capital goods: Capital goods used exclusively for such exempt supply, then the ITC will be reduced by 5% per quarter of a year or part of the year from the date of invoice.
- c) The credit availment shall be made of the inputs & capital goods on the day immediately preceding the date from which such supply becomes taxable.

Conditions:

- i. ITC claimed shall be verified with the corresponding details furnished by the corresponding supplier.
- ii. ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier.

3. Person applying for registration within 30 days of becoming liable for registration

- a) Credit in respect of inputs:
 - i. Inputs as such held in stock
 - ii. Inputs contained in semi-finished goods held in stock
 - iii. Inputs contained in finished goods held in stock
- b) The credit availment shall be made of the inputs on the day immediately preceding the date from which he becomes liable to pay tax.

Conditions: ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier.

For Example, Mr. Z becomes liable to pay tax on 1st August and has obtained registration on 15th August. Mr. Z is eligible for ITC on inputs held in stock and as part of semi-finished goods or finished goods held in stock as on 31st July. Mr. Z cannot take ITC on capital goods.

4. Person obtaining voluntary registration

- a) Credit in respect of inputs:
 - i. Inputs as such held in stock
 - ii. Inputs contained in semi-finished goods held in stock

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- iii. Inputs contained in finished goods held in stock
- b) The credit availed shall be made of the inputs on the day immediately preceding the date of registration.

Condition: ITC to be availed within 1 year from the date of the issue of the tax invoice by the supplier.

For Example, Mr. A applies for voluntary registration on 5th June and obtains registration on 22nd June. Mr. A is eligible for ITC on inputs held in stock and as part of semi-finished goods or finished goods held in stock as on 21st June. Mr. A cannot take ITC on capital goods.

Conditions for availing above credit (Common for all the above 4 cases):

- i. Filing of electronic declaration giving details of inputs held in stock/ contained in semi-finished goods and finished goods held in stock and capital goods on the days immediately preceding the day on which credit becomes eligible.
- ii. The declaration has to be filed within 30 days (Extendable by Commissioner / Commissioner of State GST/ Commissioner of UTGST) from becoming eligible to avail ITC.
- i. Details in (i) above to be certified by a CA/ Cost Accountant if aggregate claim of CGST, SGST/ IGST credit is more than Rs 2,00,000.

(B) SPECIAL CIRCUMSTANCES LEADING TO REVERSAL OF CREDIT OR PAYMENT OF AMOUNT:

1. In the following cases ITC reversal in respect of inputs, capital goods shall be made:
 - a) Registered person (who has availed ITC) switching from regular scheme to composition levy.
 - b) Taxable supplies of a registered person became wholly exempted from tax.
 - c) Cancellation of registration

How much amount of ITC to be reversed?

- i. Amount equivalent to ITC taken on
 - Inputs held in stock
 - Semi-finished goods held in stock or
 - Finished goods held in stock
- ii. Capital goods or plant and machinery

When the ITC shall be reversed?

In the case where -	the ITC shall be reversed -
A registered taxable person (who has availed ITC) switching from regular scheme to composition levy	On the day immediately preceding the date of switch over.
Taxable supplies of a registered person became wholly exempted from tax	On the day immediately preceding the date of exemption.
Cancellation of registration	On the day immediately preceding the date of cancellation.

FOCUS POINTS:

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i. In respect of inputs, ITC shall be reversed proportionately on the basis of -

- Corresponding invoices or

The prevailing market value of such goods on the date of switch over/exemption will be duly certified by a practicing CA/ CWA (If invoices are not available).

ii. In respect of capital goods, ITC shall be reversed on pro rate pertaining to remaining useful life (in months), taking useful life as 5 years.

Example:

Capital goods have been in use for 4 years, 6 months and 15 days.

The useful remaining life in months = 5 months ignoring a part of the month.

ITC taken on such capital goods = C (say)

ITC attributable to remaining useful life = $C \times 5/60$

iii. ITC to be reversed will be calculated separately for ITC of CGST, SGST/UTGST and IGST.

iv. ITC reversal amount will be added to output tax liability of the registered person.

v. Electronic credit/ cash ledger of the registered person will be debited with such amount. If any balance ITC after adjusting the above will lapse.

vi. Value of exempt supply for the purpose of ITC reversal shall not include the value of activities or transactions specified in Schedule III, except sale of land and building. Therefore, for all other items of Schedule III, ITC will not be required to be reversed. In case of sale of land and building, ITC will need to be reversed.

2. Amount of reversal on supply of capital goods or plant and machinery on which ITC has been taken:

How much amount of ITC to be reversed?

Amount to be paid is equivalent to higher of -

- ITC given on capital goods or plant & machinery from the date of invoice as reduced by 5% per quarter or part thereof.
- Actual tax paid on transaction value of such capital goods or plant & machinery.

Note: If the amount determined under (i) above exceeds (ii) above, then the ITC reversal amount will be added to output tax liability.

FOCUS POINTS:

- ITC reversal has to be made separately in respect of CGST, SGST/UTGST and IGST.
- Tax to be paid on transaction value. In case the capital goods such as refractory bricks, moulds, dies, jigs & fixtures are supplied as scrap.

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(C) TRANSFER OF ITC ON ACCOUNT OF CHANGE IN CONSTITUTION OF REGISTERED PERSON:



amalgamation, lease or transfer of business, unutilized ITC can be transferred to the new entity if there is a specific provision for transfer of liabilities to the new entity. The inputs and capital goods so transferred shall be duly accounted for by the transferee in his books of accounts.

2. In case of demerger, ITC will be apportioned in the ratio of value of assets of new unit as per the demerger scheme.
3. Value of assets means the value of the entire assets of the business, whether or not ITC has been availed thereon.
4. Details of change in constitution will have to be furnished on common portal along with request to transfer unutilized ITC. CA/ Cost Accountant certificate will have to be submitted certifying that the change in constitution has been done with specific provision for transfer of liabilities.
5. Upon acceptance of such details by the transferee on the common portal, the unutilized ITC will be credited to his Electronic Credit Ledger.
6. A registered person who has obtained separate registration for multiple places of business and who intends to transfer, either wholly or partly, the unutilized ITC lying in his Electronic Credit Ledger to any or all the newly registered place of business. Should furnish the prescribed details within a period of 30 days from obtaining such separate registrations. Upon acceptance of such details by the transferee, the utilized ITC would get credited to his Electronic Credit Ledger.
7. Transfer or change in the ownership of business will include transfer or change in the ownership of business due to death of the sole proprietor.

UTILIZATION OF ITC

1. ITC on account of SGST/ UTGST can be utilized towards payment of IGST only where the balance of the ITC on account of CGST is not available for payment of IGST.
2. ITC of CGST, SGST/ UTGST should be utilized towards payment of IGST, CGST, SGST/ UTGST only after the ITC of IGST has first been utilized fully towards such payment.
3. The Government may, on the recommendations of the Council, prescribe the order and manner of utilization of the ITC of IGST, CGST, SGST/ UTGST towards payment of any such tax.
4. Manner of utilization:

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INPUT TAX CREDIT

- ITC of IGST should first be utilized towards payment of IGST.
- Remaining ITC of IGST, if any, can be utilized towards the payment of CGST and SGST/UTGST in ANY ORDER AND IN ANY PROPORTION i.e. remaining ITC of IGST can be utilized -
 - First towards payment of CGST and then towards payment of SGST; or
 - First towards payment of SGST and then towards payment of CGST; orTowards payment of CGST and SGST simultaneously in any proportion

CIRCULARS/ NOTIFICATIONS

1. SALES PROMOTIONAL SCHEMES:

- a) **Free samples and gifts:** ITC shall not be available 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. If falls within the scope of Schedule I, supplier would be eligible to avail the ITC.
- b) **Buy one get on free offer:** ITC shall be available 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:** 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.
- d) **Secondary discounts:** These are the discounts which are not known at the time of supply or are offered after the supply is already over. There is no impact on availability or otherwise of ITC in the hands of supplier.

2. TIME EXPIRED DRUGS OR MEDICINES:

- a) **As fresh supply:**
 - ❖ A registered person (other than a composition taxpayer):
 - ✓ Condition - Returning said goods by issuing an invoice for the same
 - ✓ Value - As shown in the invoice/ bill etc. on the basis of which the goods were supplied earlier
 - ✓ ITC - Recipient is eligible to avail ITC.
 - ❖ A composition taxpayer:
 - ✓ Condition - Issue a bill of supply and pay tax at the rate applicable
 - ✓ Value - As shown in the invoice invoice/bill etc. on the basis of which the goods were supplied earlier
 - ✓ ITC - No ITC available to recipient
 - ❖ An unregistered person:
 - ✓ Condition - Issue any commercial document without charging any tax on the same
 - ✓ Value - As shown in the invoice invoice/bill etc. on the basis of which the goods were supplied earlier
 - ✓ ITC - Not applicable

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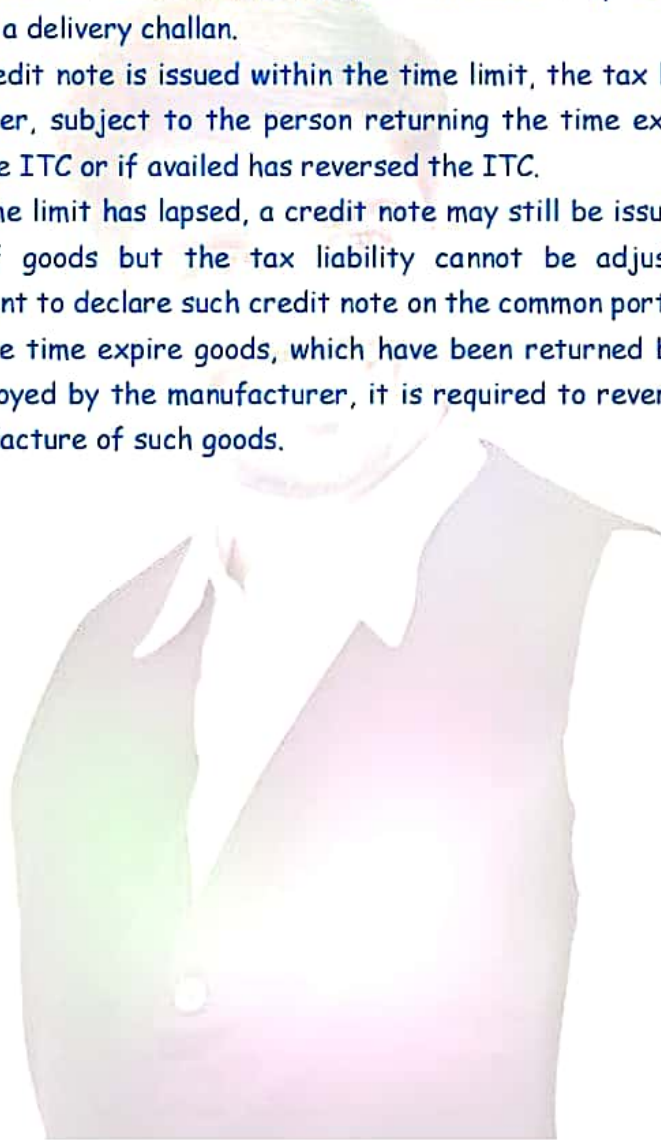
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INPUT TAX CREDIT

- ❖ **NOTE:** Where the time expired goods which have been returned are destroyed by the manufacturer, it is required to reverse the ITC availed on the return supply. ITC which is required to be reversed is the ITC availed on the return supply and not the ITC that is attributable to the manufacture of such time expired goods.
- b) Issuing credit note:
- ❖ The manufacturer/ wholesaler who has supplied the goods to the wholesaler/ retailer has the option to issue a credit note a relation to the time expired goods returned by the wholesaler or retailer. The retailer/ wholesaler may return the time expired goods by issuing a delivery challan.
 - ❖ If the credit note is issued within the time limit, the tax liability may be adjusted by the supplier, subject to the person returning the time expired goods has either not availed the ITC or if availed has reversed the ITC.
 - ❖ If the time limit has lapsed, a credit note may still be issued by the supplier for such return of goods but the tax liability cannot be adjusted by him. There is no requirement to declare such credit note on the common portal.
 - ❖ Where the time expire goods, which have been returned by the retailer/ wholesaler, are destroyed by the manufacturer, it is required to reverse the ITC attributable to the manufacture of such goods.



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