

## Input Tax Credit

Q 1. What is input tax?

Ans. Input tax means the central tax (CGST), State tax (SGST), integrated tax (IGST) or Union territory tax (UTGST) charged on supply of goods or services or both made to a registered person. It also includes tax paid on reverse charge basis and integrated tax goods and services tax charged on import of goods. It does not include tax paid under composition levy.

Q 2. Can GST paid on reverse charge basis be considered as input tax?

Ans. Yes. The definition of input tax includes the tax payable under the reverse charge.

Q 3. Does input tax includes tax (CGST/IGST/SGST) paid on input goods, input services and capital goods?

Ans. Yes, it includes taxes paid on input goods, input services and capital goods. Credit of tax paid on capital goods is permitted to be availed in one instalment.

Q 4. Is credit of all input tax charged on supply of goods or services allowed under GST?

Ans. A registered person is entitled to take credit of input tax charged on supply of goods or services or both to him which are used or intended to be used in the course or furtherance of business, subject to other conditions and restrictions.

Q 5. What are the conditions necessary for obtaining ITC?

Ans. Following four conditions are to be satisfied by the registered taxable person for obtaining ITC:

(a) he is in possession of tax invoice or debit note or such other tax paying documents as may be prescribed;

(b) he has received the goods or services or both;

(c) the supplier has actually paid the tax charged in respect of the supply to the government; and

(d) he has furnished the return under section 39.

Q 6. Where the goods against an invoice are received in lots or instalments, how will a registered person be entitled to ITC?

Ans. The registered person shall be entitled to the credit only upon receipt of the last lot or installment.

Q 7. Can a person take input tax credit without payment of consideration for the supply along with tax to the supplier?

Ans. Yes, the recipient can take ITC. But he is required to pay the consideration along with tax within 180 days from the date of issue of invoice. This condition is not applicable where tax is payable on reverse charge basis.

Q 8. What would happen of the ITC taken by the registered person if he has not paid the consideration along with tax within 180 days from the date of issue of invoice?

Ans. The amount of ITC would be added to output tax liability of the person. He would also be required to pay interest. However, he can take ITC again on payment of consideration and tax.

Q 9. Who will get the ITC where goods have been delivered to a person other than taxable person ('bill to'- 'ship to 'scenarios)?

Ans. It would be deemed that the registered person has received the goods when the goods have been delivered to a third party on the direction of such taxable person. So ITC will be available to the person on whose order the goods are delivered to third person.

Q 10. What is the time limit for taking ITC and reasons therefor?

Ans. A registered person cannot take ITC in respect of any invoice or debit note for supply of goods or services after the due date for furnishing the return under section 39 for the month of September following the end of financial year to which such invoice/invoice relating to debit note pertains or furnishing of the relevant annual return, whichever is earlier. So, the upper time limit for taking ITC is 20th October of the next FY or the date of filing of annual return whichever is earlier.

The underlying reasoning for this restriction is that no change in return is permitted after September of next FY. If annual return is filed before the month of September, then no change can be made after filing of annual return.

Q 11. Where the registered taxable person has claimed depreciation on the tax component of the cost of capital goods under the provisions of the Income Tax Act, 1961, will ITC be allowed in such cases?

Ans. The input tax credit shall not be allowed on the said tax component in respect of which depreciation has been claimed.

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Q 12. Is credit of tax paid on every input used for supply of taxable goods or services or both is allowed under GST?

Ans. Yes, except a small list of items provided in the law, the credit is admissible on all items. The list covers mainly items of personal consumption, inputs use of which results into formation of an immovable property (except plant and machinery), telecommunication towers, pipelines laid outside the factory premises, etc. and taxes paid as a result of detection of evasion of taxes.

Q 13. A taxable person is in the business of information technology. He buys a motor vehicle for use of his Executive Directors. Can he avail the ITC in respect of GST paid on purchase of such motor vehicle?

Ans. No. ITC on motor vehicles can be availed only if the taxable person is in the business of transport of passengers or goods or is providing the services of imparting training on motor vehicles.

Q 14. Sometimes goods are destroyed or lost due to various reasons? Can a person take ITC to the extent of such goods?

Ans. No, a person cannot take ITC with respect to goods lost, stolen, destroyed or written off. In addition, ITC with respect of goods given as gifts or free samples are also not allowed.

Q 15. Can a registered person get ITC with respect of goods or services used for construction of a building for business purposes?

Ans. No. ITC on goods or services by a person for construction of immovable property, other than plant and machinery, is not allowed. Plant and machinery cover only apparatus, equipment, and machinery fixed to earth by foundation or structural support, and excludes land and building, among other things.

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Q 16. What is the ITC entitlement of a newly registered person?

Ans. A person applying for registration can take input tax credit 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. If the person was liable to take registration and he has applied for registration within thirty days from the date on which he became liable to registration, then input tax credit of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date on which he became liable to pay tax can be taken.

Q 17. A person becomes liable to pay tax on 1st August, 2017 and has obtained registration on 15th August, 2017. Such person is eligible for input tax credit on inputs held in stock as on:

(a) 1st August, 2017

(b) 31st July, 2017

(c) 15th August, 2017

(d) He cannot take credit for the past period

Ans. 31st July, 2017.

Q 18. What is the eligibility of input tax credit on inputs in stock for a person who obtains voluntary registration?

Ans. The person who obtains voluntary registration is

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entitled to take the input tax credit of input tax on inputs in stock, inputs in semi-finished goods and finished goods in stock, held on the day immediately preceding the date of registration.

Q 19. What would be input tax eligibility in cases where there is a change in the constitution of a registered person?

Ans. The registered person shall be allowed to transfer the input tax credit that remains unutilized in its electronic credit ledger to the new entity, provided that there is a specific provision for transfer of liabilities.

Q 20. Where goods or services or both received by a taxable person are used for effecting both taxable and non-taxable supplies, whether the input tax credit is available to the registered taxable person?

Ans. The input tax credit of goods or services or both attributable only to taxable supplies can be taken by registered person. The manner of calculation of eligible credit would be provided by rules.

Q 21. If input tax credit is allowed only in respect of goods or services or both for effecting taxable supplies, would it not lead to loss of input tax credit on exempt supplies when exported?

Ans. Zero-rated supplies have been covered within taxable supplies for the purpose of allowing input tax credit. The scope of zero-rated supply is provided in the Integrated Goods and Services Tax Act which includes even exempt supplies.

Q 22. Which of the following is included for computation of taxable supplies for the purpose of availing credit?

(a) Zero-rated supplies

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(b) Exempt supplies

(c) Both

Ans. Zero rated supplies.

Q 23. Where goods or services received by a registered person are used partly for the purpose of business and partly for other purposes, whether the input tax credit is available to the person?

Ans. The input tax credit of goods or services or both attributable only to the purpose of business can be taken by registered person. The manner of calculation of eligible credit would be provided by rules.

Q 24. A person paying tax under compounding scheme crosses the compounding threshold and becomes a regular taxable person. Can he avail ITC and if so from what date?

Ans. He can avail ITC 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 prescribed percentage points) on the day immediately preceding the date from which he ceases to be eligible for composition scheme. The manner of calculation of eligible credit would be provided by rules.

Q 25. Are there any special provisions in respect of banking companies?

Ans. A banking company or a financial institution including a non-banking financial company engaged in supply of specified services would either avail proportionate credit or avail 50% of the eligible input tax credit.

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Q 26. Mr. A, a registered person was paying tax under composition scheme up to 30th July, 2017. However, w.e.f 31st July, 2017, Mr. A becomes liable to pay tax under regular scheme. Is he eligible for ITC?

Ans. Mr. A is eligible for input tax credit on inputs held in stock and inputs contained in semi-finished or finished goods held in stock and capital goods (reduced by such percentage points as may be prescribed) as on 30th July, 2017.

Q 27. Mr. B applies for voluntary registration on 5th June, 2017 and obtained registration on 22nd June, 2017. Mr. B is eligible for input tax credit on inputs in stock as on.....

Ans. Mr. B is eligible for input tax credit on inputs held in stock and inputs contained in semi-finished or finished goods held in stock as on 21st June, 2017. Mr. B cannot take input tax credit in respect of capital goods.

Q 28. What would happen to the input tax credit availed by a registered person who opts for composition scheme or where the goods or services or both supplied by him become wholly exempt?

Ans. The registered person has to pay an amount equal to the input tax credit in respect of stocks held on the day immediately preceding the date of exercise of option or date of exemption. In respect of capital goods, the payable amount would be calculated by reducing by a prescribed percentage point. The payment can be made by debiting electronic credit ledger, if there is sufficient balance in the credit ledger, or by debiting electronic cash ledger. If any balance remains in the credit ledger, it would lapse.

Q 29. Is there any restriction on period for availment of ITC?

Ans. In cases of new registration, change from composition to normal scheme, from exempt to taxable supplies, the concerned person cannot avail ITC after the expiry of one year from the date of issue of tax invoice relating to such supply.

Q 30. What happens where the details of inward supplies furnished by the recipient do not match with the outward supply details furnished by the supplier in his valid return?

Ans. In case of mismatch, the communication would be made to the both parties. If the mismatch is not rectified, then the amount will be added to the output liability of recipient in the return for the month succeeding the month in which discrepancy is communicated.

Q 31. Is input tax credit allowed only after matching?

Ans. No, input tax credit is allowed provisionally for two months. The supply details are matched by the system and discrepancies are communicated to concerned supplier and recipient. In case mismatch continues, the ITC taken would be reversed automatically.

Q 32. Can provisionally allowed ITC be used for payment of all liabilities?

Ans. No, provisionally allowed ITC can be used only for the payment of self-assessed output tax in the return.

Q 33. What will be the tax impact when capital goods on which ITC has been taken are supplied by taxable person?

Ans. 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 the percentage points as may be specified in this behalf or the tax on the transaction value of such capital goods, whichever is higher.

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Q 34. What is the tax implication of supply of capital goods by a registered person who had taken ITC on such capital goods?

Ans. The registered person would pay an amount equal to ITC reduced by prescribed percentage point or tax on the transaction value, whichever is higher. But in case of refractory bricks, moulds and dies, jigs and fixtures when these are supplied as scrap, the person can pay tax on the transaction value.

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