

GOODS & SERVICE TAX ACT

January 27

GST – ITC

2018

With this brief newsletter we have attempted to make a synopsis cum ready reference on the new updates, amendments and changes in Input Tax Credit of the Goods & Service Tax Act as on January, 2018 which is commonly applicable in day to day business. Here we will only attempt to target the issues faced in day to day business. For detailed understanding we strongly recommend to refer the GST Act or consult us. The words and sentences used in the newsletter are simple so as to enable us to address the issue efficiently.

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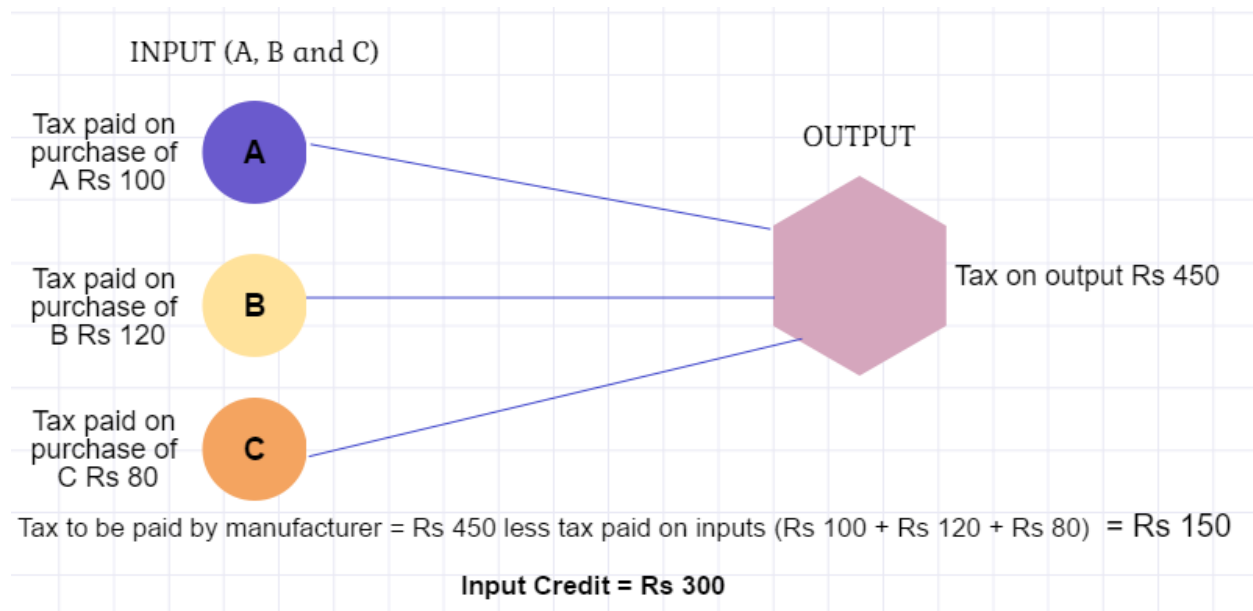
TURNING KNOWLEDGE INTO VALUE

INPUT TAX CREDIT

NOTHING TO WORRY, WHEN WE ARE WITH YOU!

- Q) What is Input Credit under GST? And how to claim it?
- A) One thing that completely stands out about this new tax, it is – the mechanism of input credit under GST.

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs.



- Q) How to claim it?
- A) To claim input credit under GST –

You must have a tax invoice(of purchase) or debit note issued by registered dealer

Note: Where goods are received in lots/installments, credit will be available against the tax invoice upon receipt of last lot or installment.

You should have received the goods/services

The tax charged on your purchases has been deposited/paid to the government by the supplier in cash or via claiming input credit

Supplier has filed GST returns

Possibly the most path breaking reform of GST is that *input credit is ONLY allowed if your supplier has deposited the tax he collected from you*. So every input credit you are claiming shall be matched and validated before you can claim it.

PLASE PAY ATTENTION!

Where recipient does not pay the value of service or tax thereon within 3 months of issue of invoice and he has already availed input credit based on the invoice, the said credit will be added to his output tax liability along with interest

To allow you to claim input credit on Purchases all your suppliers must be GST compliant as well.

- Q) Who can claim ITC?
- A) ITC can be claimed by a person registered under GST only if he fulfills ALL the conditions as prescribed.
- The dealer should be in possession of tax invoice
 - The said goods/services have been received
 - Returns have been filed.
 - The tax charged has been paid to the government by the supplier.
 - When goods are received in installments ITC can be claimed only when the last lot is received.
 - No ITC will be allowed if depreciation has been claimed on tax component of a capital good

A person registered under composition scheme in GST cannot claim ITC.

Q) What can be claimed as ITC?

A) **ITC can be claimed only for business purposes.**

ITC will not be available on goods or services exclusively used for:

- Personal use
- Exempt supplies
- Supplies for which ITC is specifically not available

Q) When can ITC be reversed?

A) ITC can be availed only on goods and services for business purposes. If they are used for non-business (personal) purposes, or for making exempt supplies ITC cannot be claimed. Apart from these, there are certain other situations where ITC will be reversed.

ITC will be reversed in the following cases-

1) Non-payment of invoices in 180 days– ITC will be reversed for invoices which were not paid within 180 days of issue.

2) Credit note issued to ISD by seller– This is for ISD. If a credit note was issued by the seller to the HO then the ITC subsequently reduced will be reversed.

3) Inputs partly for business purpose and partly for exempted supplies or for personal use – This is for businesses which use inputs for both business and non-business (personal) purpose. ITC used in the portion of input goods/services used for the personal purpose must be reversed proportionately.

4) Capital goods partly for business and partly for exempted supplies or for personal use – This is similar to above except that it concerns capital goods.

5) ITC reversed is less than required- This is calculated after the annual return is furnished. If total ITC on inputs of exempted/non-business purpose is more than the ITC actually reversed during the year then the difference amount will be added to output liability. Interest will be applicable.

The details of reversal of ITC will be furnished in **GSTR-2**.

Q) What are the documents required?

A) The following documents are required for claiming ITC:

1. Invoice issued by the supplier of goods/services
2. The debit note issued by the supplier to the recipient (if any)
3. Bill of entry

4. An invoice issued under certain circumstances like the bill of supply issued instead of tax invoice if the amount is less than Rs 200 or in situations where the reverse charge is applicable as per GST law.
5. An invoice or credit note issued by the Input Service Distributor (ISD) as per the invoice rules under GST.
6. A bill of supply issued by the supplier of goods and services or both.

All these documents are to be furnished at the time of filing form GSTR-2.

FROM OUR DESK: SOME SPECIAL CASES YOU SHOULD KNOW.

ITC for Capital Goods

ITC is available for capital goods under GST.

However, ITC is not available for-

- i. Capital Goods used exclusively for making exempted goods
- ii. Capital Goods used exclusively for non-business (personal) purposes

No ITC will be allowed if depreciation has been claimed on tax component of capital goods.

ITC on Job Work

A principal manufacturer may send goods for further processing to a job worker. For example, a shoe manufacturing company sends half-made shoes (upper part) to job workers who will fit the soles. In such a situation the principal manufacturer will be allowed to take credit of tax paid on the purchase of such goods sent on job work.

ITC will be allowed when goods are sent to job worker in both the cases:

1. From principal's place of business
2. Directly from the place of supply of the supplier of such goods

However, to enjoy ITC, the goods sent must be received back by the principal within 1 year (3 years for capital goods).

ITC Provided by Input Service Distributor (ISD)

An input service distributor (ISD) can be the head office (mostly) or a branch office or registered office of the registered person under GST. ISD collects the

input tax credit on all the purchases made and distribute it to all the recipients (branches) under different heads like CGST,SGST/UTGST, IGST or cess.

ITC on Transfer of Business

This applies in cases of amalgamations/mergers/transfer of business. The transferor will have available ITC which will be passed to the transferee at the time of transfer of business.

SPECIFIC CASES WHERE GST INPUT NOT AVAILABLE.

1. Motor vehicles & conveyances

Exceptions to ITC on motor vehicles

- a) Supply of other vehicles or conveyances
- b) Transportation of passengers
- c) Imparting training on driving, flying, navigating such vehicle or conveyances
- d) Transportation of goods

2. Food, beverages, club memberships and others

ITC is not for the supply of following goods or services or both:

- Food and beverages
- Outdoor catering
- Beauty treatment
- Health services
- Cosmetic and plastic surgery
- **However, ITC will be available if the category of inward and outward supply is same or the component belongs to a mixed or composite supply under GST.**

3. Sale of membership in a club, health, fitness centre

4. Rent-a-cab, life insurance, health insurance

- a. Any services which are made obligatory for an employer to provide its employee by the Indian Government under any current law in force
- b. If the category is same for the inward supply and outward supply or it is a part of the mixed or composite supply

5. Travel – Vacations, Leave travels

6. Works contract

ITC shall not be available for any work contract services. ITC for the construction of an immovable property cannot be availed, except where the input service is used for further work contract services.

7. Constructing an immovable property on own account

No ITC is available for goods/services for construction of an immovable property on his own account. Even if such goods/services are used in the course or furtherance of business, ITC will not be available.

But this rule does not apply to plant or machinery. ITC is available on inputs used to manufacture plant and machinery for own use.

8. Composition Scheme

9. No ITC for Non-residents

10. No ITC for personal use

11. Free samples and destroyed goods

12. No ITC in fraud cases

THANKS
For Reading!

For any further information or queries please feel free to revert.

We will be happy to serve you !!