A STUDY ON INPUT TAX CREDIT (ITC) UNDER GST

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***Abstract*: ITC Forms the basis of Input Tax structure. It simply means the tax paid for buying some Goods /Services can be used to set-off the Indirect Tax Liability at the time of selling of the produces/ services. This Paper highlights the concept of ITC & also availment of ITC in GST. ITC is one of the key features of GOODS and SERVICES TAX. This article deals with the concept of Input Tax Credit(ITC) ,how it can be claimed, what is the maximum time limit and other related question regarding ITC,I have tried to explain the Concept in simple language for better understanding. ITC is an effective mechanism which avoids Cascading of Tax. Cascading of Taxes Simply Means 'Tax on Tax'. Under the earlier system of taxation, credit of taxes imposed by Central Government is not available for payment of taxes imposed by State Governments and vice versa, But it is possible in present GST system. Input Tax Credit under GST is a credit which is available to suppliers to set off the tax, he has paid on purchase of goods from output tax on sale of such goods. However, ITC avoid double taxation. ITC should be claimed while filling GSTR-3B of the relevant period. Section 16(1) & 16(2) defined eligibility and conditions for taking Input Tax Credit.**

***Keywords*: Input Tax Credit, Eligibility& Condition for taking Input Tax Credit section.(16) Utilization of ITC , Restriction on ITC.**

RESEARCH METHODOLOGY:

Research Design is a map or blueprint according to which the research is to be conducted. In the present study, the research design will be Descriptive Research. This research paper is based on secondary data like magazine journal, internet, website, and article. This research design was adopted to have greater accuracy and in depth analysis of the research study.

INTRODUCTION:

ITC is one of the key features of Goods & Services Tax. ITC is a Mechanism to avoid Cascading of Taxes .Cascading of Taxes , in simple Language, is 'Tax on Tax' under the present system of taxation, credit of taxes being Levied by Central Government is not available as set-off for payment of taxes levied by State Governments, and Vice Versa. One of the most important features of the GST system is that the entire Supply chain would be subject to GST to be levied by Central and State Government Concurrently. As the tax charged by the Central or the State Government would be part of the same tax regime, credit of tax paid at every stage would be available as set-off for payment of tax at every Subsequent stage. Goods & Services Tax (GST) would mitigate such Cascading of taxes, which existed under exercise, VAT & Service Tax. Under this new system most of the Indirect taxes levied by Central &the State Governments on supply of goods or services or both would be combined together under single levy .The major taxes/levies which are going to be clubbed together or subsumed in the GST.

INPUT TAX CREDIT:

'Input Tax' has been defined in section 2(57) of the Model GST LAW. Input The meaning of ITC includes two word 'input' and 'tax credit'. Inputs are material or Services, that a supplier acquires in order to manufacture or provide his product or services which is his output. Tax Credit refers to the amount of tax a supplier or taxable person is able to reduce while paying his Output Tax. Input Tax Credit means that when a supplier or Taxable person pays the tax on his output, he can deduct the tax he previously paid on the input he purchased. Here, while paying the tax on his output, he can deduct or take credit for the tax he paid while purchasing inputs. Simply Input Tax Credit (ITC) means setting-off the amount of Input Tax paid by supplier against the amount of his output tax. Goods and Services Tax (GST) is an integrated tax system where every purchase by a business should be matched with a sale by another business. This makes flow of credit across an entire supply chain a seamless process.

ELIGIBLITY & CONDITION FOR TAKING INPUT TAX CREDIT:

Eligibility and Condition for taking input Tax Credit defined section 16(1) &16(2)

- Notwithstanding anything contained in this section, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or Services or both to him unless:-

(a) He is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or Such other taxpaying document as may be prescribed.,

(aa) The detail of the invoice or debit note referred to in Clause (a) has furnished by the supplier in the in the statement of outward supplier & Such detail have been communicated to the recipient of such invoice or debit note in the manner specified under section 37

Section 16(1)

Every registered person shall subject to such condition and restrictions as may be prescribed and in the in the manner specified in Section 49, be entitled to take Credit of Input Tax charged on any supply of goods and services or both to him

- A Tax invoice or debit note issued by the registered supplier showing the tax amount.
- Goods or Services must have been received.
- Supplier should have filed returns & paid such tax thereon to the government
- Where ITC is included in the cost of capital goods and depreciation on such tax is claimed ,no input tax credit is allowed
- Input Tax Credit will not be allowed if the same has not been claimed with the prescribed time limit.

REQUIRED DOCUMENT FOR CLAIMING ITC:

A registered dealer can claim input tax credit on the basis of following documents

1) A tax invoice issued by registered supplier.
2) A debit note issued in respect of earlier issued tax invoice by the registered supplier.
3) An invoice issued by the recipient of goods and services who has paid tax under reverse charge Mechanism.
4) A bill of entry or similar document in case of import
5) An invoice or credit note issued by an Input Service Distributor (ISD).

REVERSE OF INPUT TAX CREDIT:

Input Tax Credit may be reversed under certain circumstances as mentioned below

- Failure to pay supplier within 180 days from the date of invoice.
- Goods & Service whether input or capital goods used for personal purpose.
- Goods and Services utilized for producing or supplying exempted goods or services
- Sale of Capital goods or plant and machinery on which input tax credit was claimed.
- Credit Note issued by Input Service Distributor (ISD)
- Supplies ineligible under section 17(5) of the Act.
- Transition from registered regular dealer to composite dealer.

TIME LIMIT FOR CLAIMING INPUT TAX CREDIT (ITC):

Input Tax Credit can be claimed against an invoice/debit or credit note before the end of the following dates, whichever is earlier –

1) Due date of GST returns filling for the month of September of the next financial year.

2) Date of filling annual return for that financial year. For the FY.2019- 2020, period to be claimed ITC was extended to March 2021.

However, if no credit has been claimed till filling returns of March 2021, any such credit will lapse and cannot be claimed even through GSTR 9 annual returns.

INELIGIBLE INPUT TAX CREDIT

Though ITC can be claimed by a person registered under GST for most inputs some type of goods and services are not eligible for Input Tax Credit claim .we look at such goods and services which are not eligible for input tax credit under GST.

Motor Vehicles or Conveyances

- Input Tax Credit can be claimed for motor vehicles or conveyance only when they are used for making a further supply of such vehicles or conveyances or transportation of passengers or imparting training or for transportation of goods

.Hence expense related the normal use of motor vehicles for office purpose cannot be claimed as an input tax credit.

- Food, Beverages and outdoor Catering

Expense relating to food, beverages and outdoor Catering can be claimed as input tax credit only when inward supply of goods or services or both of a particular category is used by registered person for making an outward taxable supply of the same category of goods or services or both or as on.

- ITC on Beauty treatment, health service, cosmetic and plastic surgery.
- Sale of Membership of health and fitness centre,clubs.
- ITC on rent a cab Life Insuranc, health insurance, Travel benefit extended to employee.
- ITC on works contracts services availed for construction of immovable property, including goods and services used for construction for immovable property (except plant & machinery)
- ITC on Purchase by registered person opting for Composition Scheme.
- Goods or Services used for personal consumption
- ITC on goods stolen,lost,destroyed, written off or given as free sample.
- ITC on tax paid due fraud cases.

CLAIMING ITC WITH AN EXAMPLE

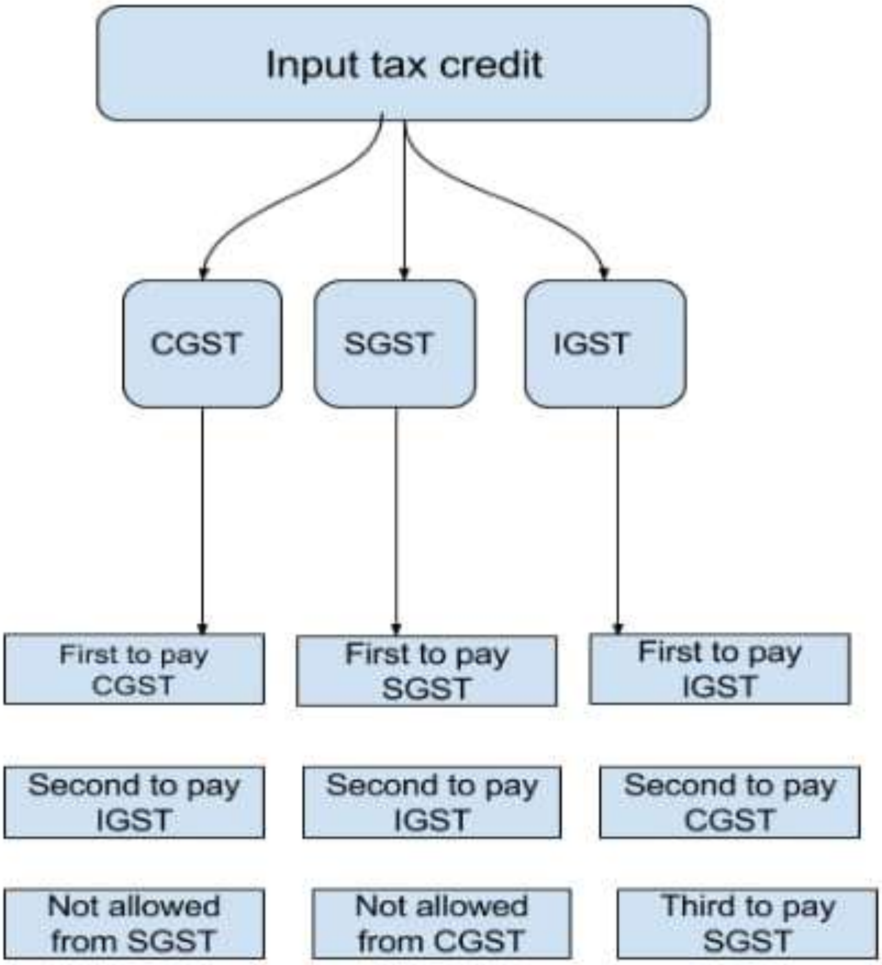
Assume that there is a seller S and he sold his goods to B. Now, B who is a buyer will be eligible to claim the input tax credit on purchase based on the invoices. So-

- According S will upload the detail of all the tax invoices issued in GSTR-1
- All the details in accordance with the sales to B will auto -populate in GSTR-2A and the same data will be taken when B will file GSTR-2 (i.e detail of inward supply)
- B will then accept the detail that the purchase has been made and reported by the seller accurately and subsequently the tax on purchases will be credited to ‘ Electronic Credit Ledger; of B and he can adjust it against future output tax liability and get the refund

SET OFF INPUT TAX CREDIT UNDER GST:
There are three categories of taxes under GST-

SGST – State GST
CGST- Centre GST
IGST- Integrated GST

- To pay IGST -input tax credit is taken from CGST, SGST & IGST paid on purchases.
- To pay CGST- input tax credit is taken from CGST & IGST paid on purchases.
- To pay on SGST -input tax credit is taken from SGST & IGST paid on purchases.



EXAMPLE FOR CLAIMING OF INPUT TAX CREDIT

Particulars	ITC of IGST	Output CGST	Output IGST	Output SGST
Amounts	5,00,000	1,00,000	3,00,000	2,00,000
Adjust. of IGST	(3,00,000)		(3,00,000) – 1st	
Adjust. of CGST	(1,00,000)	(1,00,000) – 2nd		
Adjust. of SGST	(1,00,000)			(1,00,000) - 3rd
Balance of ITC c/f	0			
Output tax payable in cash		0	0	1,00,000

CONCLUSION:

Input tax credit mechanism is available to you when you are covered under the GST Act. This means if you are a manufacture of products, suppliers of products, agents of selling or purchaser of product, e-commerce operator for product distribution registered under GST, you are eligible to claim input Tax Credit under GST for tax paid by you on your purchases.

Thus we can say that supplier can reduce its output tax liability through input tax credit (ITC).

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