

# Input Tax Credit under GST

## ***What is Input Tax Credit (ITC)***

Input tax credit (ITC) means at the time of paying tax on output, you can reduce the tax you have already paid on inputs and pay the balance amount.

Here's how-

When you buy a product/service from a registered dealer you pay taxes on the purchase. On selling, you collect the tax. You adjust the taxes paid at the time of purchase with the amount of output tax (tax on sales) and balance liability of tax (tax on sales *minus* tax on purchase) has to be paid to the government. This mechanism is called utilization of input tax credit.

For example- you are a manufacturer: a. Tax payable on output (FINAL PRODUCT) is Rs 450 b. Tax paid on input (PURCHASES) is Rs 300 c. You can claim INPUT CREDIT of Rs 300 and you only need to deposit Rs 150 in taxes.

## ***Eligibility And Conditions To Obtain ITC***

To become eligible for claiming ITC, section 16 of the CGST Act lays down **conditions** that you must meet as a supplier of goods or services:

1. Firstly, you must be registered under the GST law.
2. Then, you have the tax invoice or the debit note issued to you by the supplier of inputs or input services.

3. You must receive the goods or services or both.
4. Your inputs supplier must have paid government the GST charged in respect of such a supply.
5. As per section 39, you should have filed the returns.
6. In case you receive goods in lots or installments, you can claim ITC when the last lot is received.
7. If you have claimed depreciation on the tax part of the cost of your capital goods, then you cannot avail ITC on the said tax component.
8. You shall not be entitled to take ITC if the same is not claimed within the time limit.

### ***Documents Required For Claiming GST***

As a registered taxable person, you can claim ITC on the basis of the following documents:

1. An Invoice issued by your supplier of goods or services.
2. Invoice issued by you as a recipient of goods and services supplied by an unregistered dealer. Such a supply comes under the reverse charge mechanism. This mechanism involves supplies made by an unregistered person to a registered person.
3. A Debit note issued by your supplier in case the tax charged in an invoice is less than the tax payable in respect of such a supply.
4. A Bill of Entry or any similar document as required for an integrated tax on imports.
5. An Invoice or Credit Note issued by an Input Service Distributor as per the rules under GST.

6. A Bill of Supply issued by a dealer opting for composition scheme or an exporter or supplier of exempted goods.

### ***Reversal of Input Tax Credit***

There are certain situations where the Input Tax Credit availed needs to be reversed. This happens if you:

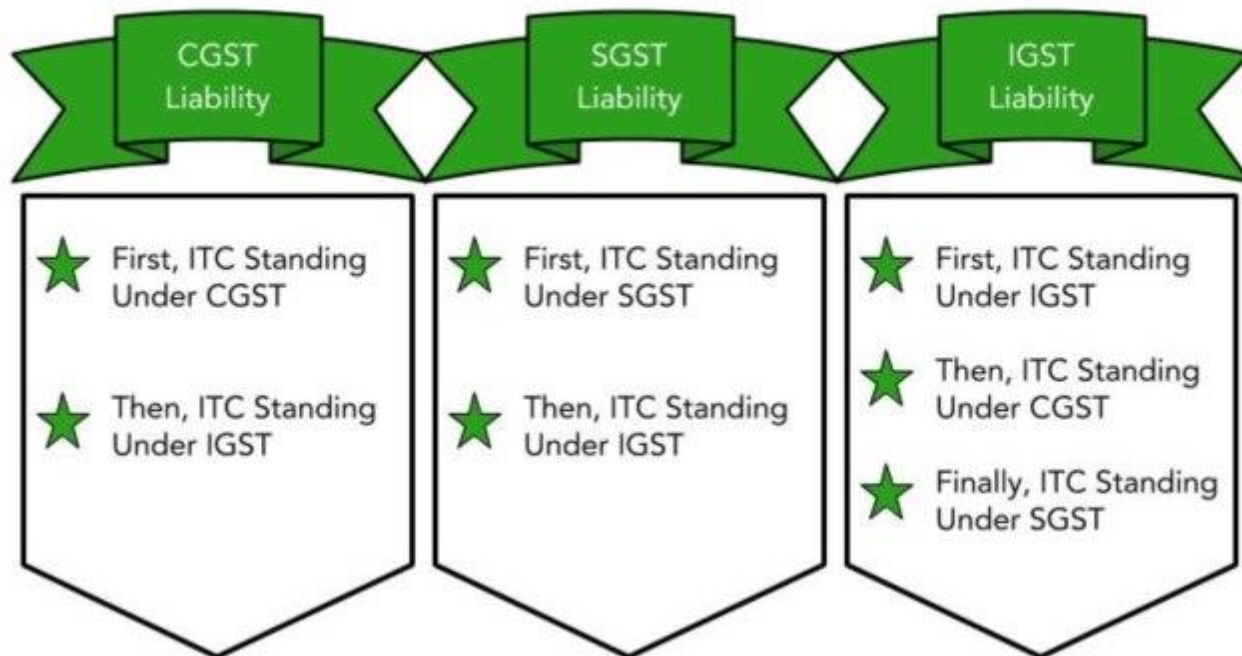
1. Fail to pay your supplier within 180 days from the date of issue of invoice by the supplier.
2. Use goods and services for personal use
3. Utilize goods and services for producing exempt supplies
4. Make use of capital goods for personal use
5. Sell capital goods and plant and machinery
6. Switch from normal GST to composite Levy

#### **The ITC also gets reversed if:**

1. Your registration is canceled
2. Credit Note is issued to Input Service Distributor (ISD)
3. ITC on inputs used for exempted or non-business purpose is more than ITC reversed during the year
4. ITC reversed is more than the ITC on inputs used for an exempted or non-Business purpose

## ***Utilization of ITC***

ITC is credited to your electronic ledger. Such ITC can be used by you as a registered taxable person to pay your output tax liability. Therefore, ITC can be utilized in the following manner:



CGST liability can be extinguished by first utilizing ITC standing under CGST and then under IGST. Similarly, SGST liability can be terminated by first using ITC standing under SGST and then under IGST. Finally, IGST liability can be exhausted by first using ITC standing under IGST. Then, you can utilize ITC existing under CGST and lastly the ITC standing under SGST.