Goods and Services Tax

Unit 4

Input Tax Credit

Input Tax Credit (ITC) is the core concept of GST as GST is destination-based tax. ITC avoids cascading effect of taxes and ensures that tax is collected in the State in which goods or services, or both are consumed.

"Input tax credit" means credit of 'input tax'- **section 2(56)** of **CGST Act**.

Burden of proof on taxable person availing input tax credit - Where any person claims that he is eligible for input tax credit under this Act, the burden of proving such claim shall lie on such person - **section 155 of CGST Act**.

Input Tax

Section 2(62) of **CGST Act** defines 'input tax' as follows—

"Input tax" in relation to a registered person, means the Central tax (CGST), State tax (SGST), Integrated tax (IGST) or Union territory tax (UTGST) charged on any supply of goods or services or both made to him and includes—

(a) the integrated goods and services tax charged on import of goods
(b) the tax payable under the provisions of sub-sections (3) and (4) of section 9 [reverse charge of CGST]
(c) the tax payable under the provisions of sub-sections (3) and (4) of section 5 of the Integrated Goods and Services Tax Act [reverse charge of IGST]
(d) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 9 of the respective State Goods and Services Tax Act [reverse charge of SGST] or
(e) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 7 of the Union Territory Goods and Services Tax Act [reverse charge of UTGST],

but does not include the tax paid under the composition levy.

Input Tax Credit is eligible only when it is credited to electronic credit ledger of taxable person.

Manner of Taking Input Tax Credit

Every registered taxable person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49 of CGST Act, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person - section 16(1) of CGST Act.

Electronic Credit Ledger means the electronic credit ledger referred to in section 49(2) of CGST Act - section 2(46) of CGST Act.

"Electronic Credit Ledger" is the input tax credit ledger in electronic form maintained at the common portal for each registered taxable person. This credit can be utilized for GST liability as specified in section 49(4) of CGST Act.

"Input" means any goods other than capital goods, used or intended to be used by a supplier in the course or furtherance of business - section 2(59) of CGST Act.

"Input Service" means any service used or intended to be used by a supplier in the course or furtherance of business - section 2(60) of CGST Act.

"Outward supply" in relation to a person, means supply of goods or services, whether by sale, transfer, barter, exchange, licence, rental, lease or disposal or any other mode, made or agreed to be made by such person in the course or furtherance of business - section 2(83) of CGST Act.

Input Service Distributor (ISD) Under GST

An Input Service Distributor (ISD) is a taxpayer that receives invoices for services used by its branches. It distributes the tax paid known as the Input Tax Credit (ITC), to such branches on a proportional basis by issuing ISD invoices. The branches can have different GSTINs but must have the same PAN as that of ISD.

Example: The head office of M/s ABC Limited is located in Bangalore having branches in Chennai, Mumbai and Kolkata. The head office incurred annual software maintenance expense (service received) on behalf of all its branches and received the invoice for the same.

Since the software is used by all its branches, the input tax credit of entire services cannot be claimed in Bangalore. The same has to be distributed to all three locations. Here, the head office at Bangalore is the Input Service Distributor.

Situations where ISD is not applicable:

ISD cannot distribute the input tax credit in the following cases:

- Where ITC is paid on inputs and capital goods. For instance, raw materials and machinery purchased.
- ITC cannot be distributed to outsourced manufacturers or service providers.

Conditions to be fulfilled by ISD:

- **Registration:** Input Service Distributor has to compulsorily register as "ISD" apart from its registration under GST as a normal taxpayer. Such taxpayer has to specify under serial number 14 of the REG-01 form as an ISD. They shall be able to distribute the credit to the recipients only after this declaration.
- **Invoicing:** ISD can distribute the amount of tax credit to recipients as earlier stated by issuing an ISD invoice.
- **Returns:** Amount of tax credit distributed should not exceed the amount of tax credit available with the ISD as at the end of a relevant month to be filed in GSTR-6 by the 13th* of succeeding month by ISD. The ISD can get the information of the ITC from the GSTR-2B return.
  The recipient of the tax credit can view the tax credit so distributed by ISD in GSTR-6A that is auto-populated from the supplier's return. In turn, the recipient branch can claim the same by declaring it in GSTR-3B. An ISD need not file annual returns in form GSTR-9.
- **Restriction in the distribution of input tax credit:** The credit of tax paid under the reverse charge mechanism is not available for distribution to the recipients. So, the ISD has to utilise such credit only as a normal taxpayer.

ITC on Capital Goods

What are capital goods?

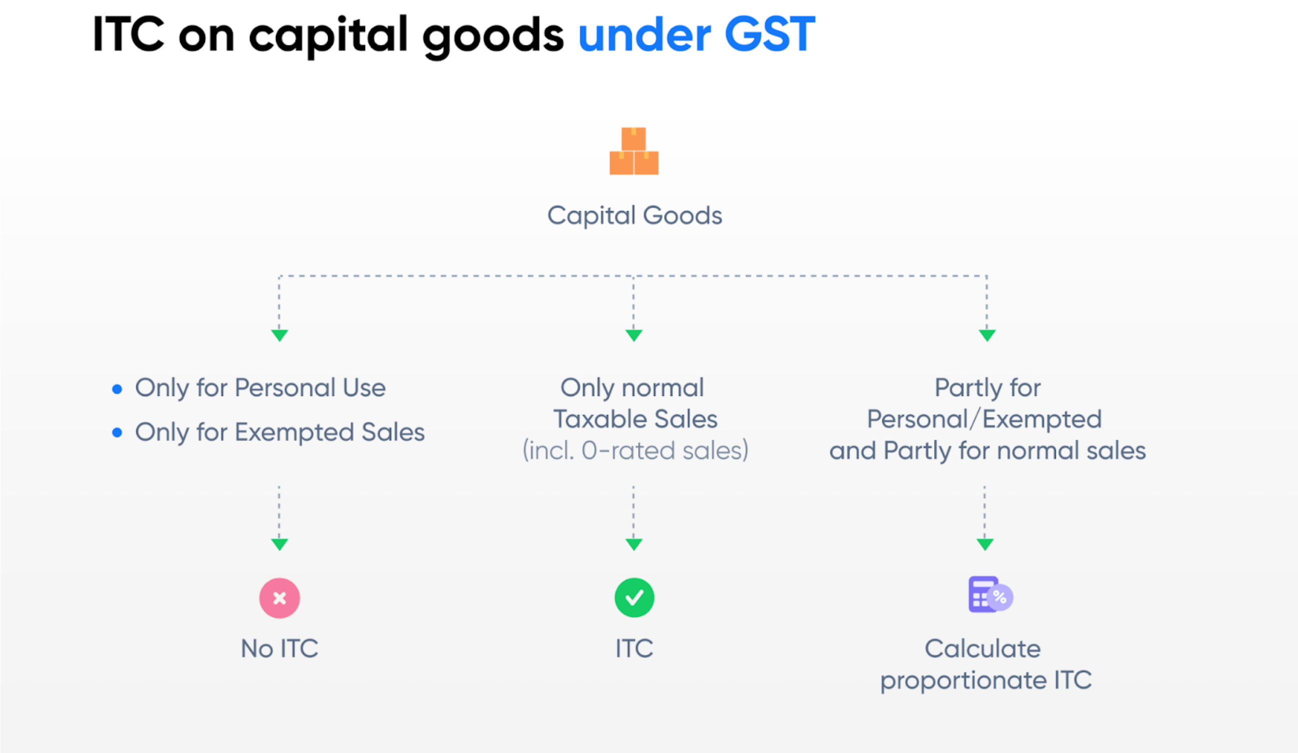
Capital goods are assets such as buildings, machinery, equipment, vehicles and tools that an organization uses to produce goods or services. For example, a blast furnace used in the iron and steel industry is a capital asset for the steel manufacturer.

Difference between capital goods & other inputs

Capital goods are not consumed when the final product is made. They are not consumed in a single year of production. Therefore, they cannot be entirely deducted as business expenses in the year of their purchase. Instead, they are depreciated over the course of their useful lives. The business recognises part of the cost each year through accounting techniques as depreciation, amortization and depletion.

What is credit on capital goods?

When you purchase anything, you are required to pay GST on it. Later, you can claim input tax credit on the GST paid on your purchases. Similarly, when you are purchasing any machinery for your factory, you will pay the applicable GST rate. This GST paid can be claimed as credit in the same way as inputs. However, if you claim depreciation on the GST paid while purchasing the capital asset, you cannot claim input tax credit.



Capital goods used only for personal use or for exempted sales.

No ITC is available for personal purchases or for capital goods used in exempted sales. This will be indicated in GSTR-3B and shall not be credited to the electronic credit ledger.

Reversal of credit under certain circumstances

In the following circumstances the proportionate ITC will be reversed i.e. added to output tax liability in GSTR-3B:

- Where a normal taxpayer opts to pay tax under composition scheme or goods/services supplied by him become exempt
- In case of supply of capital goods or plant and machinery, on which input tax credit has been taken
- Every registered person whose registration is cancelled

Input tax credit involved in the remaining useful life in months shall be computed on a pro-rata basis, taking the useful life as five years.

Payment of tax under GST

- Under GST regime, CGST, SGST, UTGST, CESS, interest, late fee, penalty, TDS, TCS, etc., are required to be paid to government.
- Electronic Ledgers or E-Ledgers are a unique feature under GST regime which are of 2 types:
  - 1st set is prepared & updated by Taxpayer- Electronic Cash Ledger & Electronic Credit Ledger.
  - 2nd set is prepared & updated based on returns furnished by Registered person or Tax authority i.e., Electronic Liability register.
- Once, a person is registered under GST, these 3 E-Ledgers are automatically opened & displayed on his dashboard on common portal at all times.

Key features of Payment Process:

1. Electronically generated challan from GSTN common portal in all modes of payment and no use of manually prepared challan.
2. Facilitation for the taxpayer by providing hassle free, anytime, anywhere mode of payment of tax.
3. Convenience of making payment online.
4. Real time data for tax collection in electronic format.
5. Faster remittance of tax revenue to the Government Account.
6. Paperless transactions.
7. Speedy Accounting and reporting.
8. Electronic reconciliation of all receipts.
9. Simplified procedure for banks.
10. Warehousing of Digital Challan.

Benefits of New Payment Systems for the Taxpayer and the Commercial Tax Department

1. No more queues and waiting for making payments as payments can be made online 24×7.
2. Instant online receipts for payments made online.
3. Tax Consultants can make payments on behalf of the clients.
4. Single challan form to be created online, replacing the three or four copy challans.
5. Revenue will come earlier into the Government Treasury as compared to the old system.
6. Greater transparency.
7. Online payments made after 8 pm will be credited to taxpayer’s account on the same day.

Ledgers and register

- Electronic Cash Ledger
- Electronic Credit Ledger
- Electronic Liability register

Electronic Cash Ledger

- Cash payment to be made through banking channels including internet banking / credit card / debit cards / NEFT/ RTGS / other prescribed modes such as over the counter - Cash/DD/Cheque etc.
- Cash payment can be of tax / interest/ penalty / fee / other amounts.

- Date of credit to government account to be deemed to be the date of deposit in electronic cash ledger.
- Balance in cash ledger to be used for making payment towards tax / interest/ penalty / fee / other amounts.
- Balance in cash ledger after payment refundable in terms of Section 54 (after debit of equivalent amount)
- Balance in cash ledger transferable from one head to another (IGST, CGST, SGST etc.)
- Proposal in GST Council's 45th meeting on 17.09.2021 - Balance in cash ledger transferable between GST registrations under same PAN number

Electronic Credit Ledger

- Transitional credit carried forward from previous regime also credited to electronic credit ledger.
- Balance in credit ledger to be used for making payment towards output tax.
- Balance in credit ledger after payment refundable in terms of Section 54 (after debit of equivalent amount): only in specific situations provided under Section 54.
- In case of rejection of refund, amount to be recredited.
- Rule 86A: Blocking of electronic credit ledger:
    - Reasons to believe
    - Fraudulent ITC
    - Blocking to be in force for maximum of one year
- Rule 86B: balance in electronic credit ledger to be utilized for payment of output tax liability up to maximum of 99% of such output tax liability, where value of taxable supply (excluding exempt supply and zero-rated supply) exceeds 50 Lakh rupees.

Electronic Liability Register

- To record and maintain all liabilities of a taxable person.
- Tax and other dues to be discharged in following manner:
    - Self-assessed tax and other dues, related to returns of previous tax periods.
    - Self-assessed tax and other dues, related to returns of current tax period.
    - Any other amount payable including demand under Section 73 / 74
- Register to be debited by:
    - Amount payable as tax / interest/ penalty/ late fee/ other amount as per return.
    - Amount payable as tax / interest/ penalty/ late fee/ other amount pursuant to any proceedings.
    - Amount of tax / interest payable due to mismatch under Section 42/ 43 or Section 50
    - Amount of interest accruing otherwise
- Liability in register to be credited by debiting electronic credit ledger/ cash ledger.
- Any demand debited in the register to be reduced to the extent of any relief given by appellate forums.
- Person paying tax deemed to have passed on incidence of such tax to recipient: unjust enrichment.

Order of utilization of ITC

- IGST ITC against IGST Liability.
- Remaining IGST ITC against CGST liability
- Remaining IGST ITC against SGST/ UTGST liability

- Thereafter (i.e. after complete exhaustion of IGST ITC):
  - CGST ITC first against IGST liability, if any
  - Remaining CGST ITC against CGST liability
  - SGST/ UTGST ITC first against IGST liability, if any
  - Remaining SGST/ UTGST ITC against SGST/ UTGST liability
- Cross-utilization of ITC of CGST & SGST/ UTGST not permitted.

Interest on delayed payment of tax

- Interest payable for failure to pay tax within the prescribed period.
- Interest to be calculated for the period of delay, starting from the next day of due date till actual date of payment.
- Interest to be recovered at notified rate, not exceeding 18% (currently notified as 18% only)
- Interest also payable for ITC mismatch under Section 42(10) or Output liability mismatch under Section 43(10)
- In such mismatch case, interest to be recovered at notified rate, not exceeding 24%(currently notified as 24% only)

Tax deduction at source – Section 51

- Applicable, when supplies made to specified persons including government departments, local authorities, government agencies, governmental authorities, societies established by government/ local authorities, PSUs.
- Not applicable when supplies are between the specified persons.
- TDS @ 2%, where total value of supply (excluding GST taxes) under a contract exceeds Rs. 2.5 Lakhs.
- Amount deducted at source by a person (deductor) making payment to supplier (deductee)
- Amount deducted to be paid to Government by deductor within 10 days after end of month of deduction.
- Deductor to give a certificate of deduction to deductee, within 5 days of payment to Government (delay to attract late fee)
- Amount deducted to be credited to electronic cash ledger of deductee
- Amount deducted in excess refundable to deductor/ deductee in terms of Section 54

S. No.	Contravention	Consequences
1	TDS not deducted	Interest to be paid along with the TDS amount; else the amount shall be determined and recovered as per the law
2	TDS certificate not issued or delayed beyond the prescribed period of five days	Late fee of Rs. 100/- per day subject to a maximum of Rs. 5000/-
3	TDS deducted but not paid to the government or paid later than 10th of the succeeding month	Interest to be paid along with the TDS amount; else the amount shall be determined and recovered as per the law.
4	Late filing of TDS returns	Late fee of Rs. 100/- for every day during which such failure continues subject to a maximum of Rs. 5000/-

Tax collection at source – Section 52

- Applicable, when supplies made through an e-commerce operator and consideration for such supplies to be collected by the operator.
- Operator to collect tax at source at notified rate, not exceeding 1%.

- Amount collected to be paid to Government by operator within 10 days after end of month of collection.
- Within the same period, a statement to be submitted by the operator, in respect of outward supplies made through it.
- Amount collected and reflected in the statement to be credited to electronic cash ledger of supplier.
- Details in statement furnished by operator to be matched with details furnished by supplier and discrepancy, if any, to be rectified by both parties.

E-Way Bill

An E-Way Bill is a document electronically generated on the GST portal evidencing the movement of goods. It was introduced under the GST regime to facilitate the seamless tracking of goods movement, curb tax evasion, and ensure that goods being transported comply with GST laws.

Key Features:

- It contains details of the goods being transported, the consignor, consignee, transporter, and the route.
- An E-Way Bill is mandatory for the movement of goods with a value more than Rs. 50,000 (can vary based on state-specific regulations).
- It is required for both supply (sale) and for reasons other than supply (returns, transfer of branch, etc.).

Preparation of E-Way Bill

Who Should Generate it:

- Suppliers and businesses must generate the E-Way Bill when the value of the consignment exceeds Rs. 50,000.
- In cases where a supply is not made by a registered person, the transporter of goods will have to generate the E-Way Bill.

Steps to Generate an E-Way Bill:

1. **Registration:** Register on the E-Way Bill portal (ewaybillgst.gov.in) if you are a transporter, supplier, or recipient.
2. **Login:** Enter your credentials to log in to the portal.
3. **Enter Details in Form EWB-01:** This form is divided into two parts:
    a. **Part A:** To be filled with details of the consignment, typically the GSTIN of recipient, place of delivery, invoice or challan number, value of goods, HSN code, and reasons for transportation.
    b. **Part B:** Includes transporter details like the transporter ID, vehicle number, and other transport details.
4. **Generate E-Way Bill:** Upon submission, a unique E-Way Bill Number (EBN) is generated, which is available to the supplier, recipient, and the transporter.

Important Points for Transporters

1. **Transporter ID:** Every transporter must obtain a Transporter ID by registering on the E-Way Bill portal.
2. **Validity:** The validity of the E-Way Bill depends on the distance the goods are transported. Generally, it is valid for 24 hours for every 100 kilometers.

3. **Updating Vehicle Details:** If the vehicle transporting the goods changes during transit (due to transshipment or any other reason), the transporter must update the vehicle details on the E-Way Bill portal.
4. **Multiple Consignments:** If a single vehicle carries multiple consignments, the transporter needs to consolidate these into a single E-Way Bill using the 'Consolidated E-Way Bill' option on the portal.
5. **Document Carrying:** The person in charge of conveyance must carry a copy of the E-Way Bill or the E-Way Bill number along with the invoice/bill of supply/delivery challan.
6. **Cancellation:** An E-Way Bill can be cancelled if goods are not transported or are not transported as per the details provided in the E-Way Bill. This cancellation must be done within 24 hours of generating the bill.
7. **Non-compliance:** Non-compliance with the E-Way Bill rules can lead to penalties and the seizure of goods and vehicle.

GST Portal

The GST Portal (gst.gov.in) is the official online platform developed by the Goods and Services Tax Network (GSTN), which facilitates numerous services for taxpayers under the GST regime in India. The portal offers functionalities ranging from GST registration, return filing, application for refunds, and cancellation of GST registration to payment of taxes and compliance tracking.

GST Ecosystem

The GST ecosystem consists of various components designed to ensure the smooth implementation, management, and enforcement of GST across India:

- **GSTN (Goods and Services Tax Network):** It is the backbone of the GST portal, providing IT infrastructure and services to central and state governments, taxpayers, and other stakeholders. The GSTN is responsible for maintaining and upgrading the system, handling the database, and ensuring cybersecurity.
- **CBIC and State Tax Departments:** The Central Board of Indirect Taxes and Customs (CBIC) and the respective state tax departments work collaboratively under the GST regime to administer tax compliance, manage registrations, audits, and adjudications.
- **Authorized Banks:** These are the financial institutions integrated with the GST portal to facilitate tax payments and processing.
- **GSPs (GST Suvidha Providers):** They are third-party service providers who develop applications to interface with the GSTN for providing various GST compliance-related services.

GST Suvidha Provider (GSP)

GST Suvidha Providers are entities recognized by the GSTN to provide innovative and convenient methods to taxpayers and other stakeholders to comply with the GST laws through their web platform. GSPs facilitate services such as:

- Registration and migration to the GST system.
- Uploading invoice data and other required documents.
- Filing of returns and various forms under GST.
- Payment of taxes and tracking the status.
- Assistance in reconciliation of mismatched invoices.
- Providing customer support for GST-related queries and technical issues.

Uploading Invoices

Uploading invoices onto the GST portal is a critical task for compliance, especially for generating e-way bills and filing accurate returns. Here's how it generally works:

1. **Login to GST Portal:** Access the GST portal using your credentials.
2. **Navigate to the Services Menu:** Choose the appropriate option for invoice upload under the 'Services' menu.
3. **Enter Invoice Details:** Input the details of the invoices such as GSTIN of the supplier and recipient, invoice number, date, taxable value, tax amount, etc.
4. **Bulk Upload Facility:** For businesses with a large volume of transactions, the portal supports bulk uploads using a specific format (usually CSV or Excel) provided by the GSTN. This requires preparation of the invoice data in the prescribed format.
5. **Validation:** Once uploaded, the portal validates the data for any errors or mismatches. Correct any issues identified during this validation.
6. **Integration with GSPs:** Businesses can also use the services of a GSP to upload invoices. GSPs often provide more user-friendly interfaces and additional services such as validation tools and bulk upload features.
7. **Final Submission:** After successful validation, the invoices are submitted and become part of the taxpayer's record for return filing.