

INTRODUCTION TO GST
INPUT TAX CREDIT_01-PART 1

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Welcome friends CMA Anil Sharma here and today we will discuss very important topic under GST that is input tax credit. So, it is very important to know what is input tax credit. If you remember in my first lecture in introduction of GST I talked about cascading effects of taxes. So GST has its importance because it has to an extent eliminated the cascading effects of taxes, mean tax on taxes.

GST/5/16/1

What is Input Tax under Goods and Service Tax?

For a registered person, Input Tax (IT) means:

- CGST/SGST/UTSGST/IGST charged to him on supplies of Goods, including Capital Goods and input Services or both are made by a registered person
- IGST paid on import of goods and services or both
- Tax paid by registered person on inputs under Reverse Charge Mechanism (RCM)

(Tax paid by Composite Dealer on his inputs does not qualify as IT)

So, input tax credit is directly linked with cascading effect. And in our today's this session, we will discuss about input tax credit. This is part one for input tax credit. Friends, if we go by the language of law as defined in CGST Act 2017, it says input tax credit means what? Before going to input tax credit, let's talk about input tax.

Friends in GST this input tax or input tax credit is not a new phenomenon, it's not a new thing. We had this input tax credit in our excise way back in 90s when it was introduced in central exercise as a MODVAT which was later on termed as CENVAT credit. And in VAT also when VAT was introduced in the country during 2003-2004 that we were having concept of input tax credit. So, it's not a new phenomenon for indirect taxes. In GST also we have this input tax credit and main objective of this input tax credit is to eliminate cascading factor of taxes. As I told you that it was first introduced in central exercise and it was limited to central exercise only with some term and conditions and when VAT came to picture during 2003-2004 it was introduced in sales tax also. So, as we know that in pre-GST era central exercise was different from VAT and there was no intimacy between central government and state governments as far as central exercise and VAT or CST is concerned. It is only after introduction of GST with effect from first July 2017 when state governments and central governments were empowered under the amendments in constitution through 122nd Amendment that these two governments central government and state government both were empowered to have taxes for goods and services. So, friends in GST yes input tax credit scope have been enhanced further to eliminate, cascading effects of taxes but still it is not fully eliminated. It has some impact means cascading effects are still there under GST also but to the maximum level it has been abolished and benefit has been given to industry or to the consumer which has indirectly helped the economy to grow.

So, friends, if we go by the language go by the drafting of law CGST we have to understand what is input tax. So as per the slide it says, for a registered person, registered person means a person who is registered under GST who is having GST registration. So, a registered person input tax credit for him is whatever taxes he has paid on his purchases. As written in this slide, for registered person, input tax means CGST, SGST, UTGST, IGST charged to him on supplies of goods or services, including capital goods. Means in GST if any person who is a registered person purchasing something for his business or furtherance of business, he is supposed to pay taxes on that and that tax which he has paid on his purchases or on his inputs is his 'input tax' mean tax paid on inputs. Similarly, when we purchase something, we are supposed to pay taxes, maybe CGST, SGST, IGST, UTGST.

Whatever amount of tax I have paid on my inputs or my purchases, that is my input tax. So, in business, when we purchase raw material, it might be subject to GST. So, the buyer means the manufacturer or the person who is doing business, he is supposed to pay tax on raw material. He may be in a position to have that benefit later on. So, friends, in business, when we purchase raw material, we take any services, we take any services of a technical engineer, we may take

services of accountants, we may take services of advocates or engineers, all these services are subject to GST. Similarly raw material, plant and machinery, capital goods all are subject to GST. So whatever amount of tax I am paying on these purchases for the purpose of businesses, all these taxes are my input tax. So, in the nutshell, whenever I am buying something for my business, I am paying some tax and that tax is an input tax means tax on my purchases.

GST/5/16/2

What is Input Tax Credits (ITC)?

A Credit available to a registered person for GST taxes paid on inputs i.e goods consumed, services received/consumed, expenses incurred for business for the following purposes:

- To set off his Outward tax liabilities
- To get refunds of taxes not utilized to set off his Outward Tax liabilities*

(* Conditions applies)

So, what is input tax credit. Friends in previous slide we talked about input taxes mean taxes paid on my purchases. When we talk about input tax credit it means what? It means there is a credit to my account for some taxes which I paid on my purchases. Credit means I am getting some benefit out of it. Whenever you are depositing some money into your bank account, bank gives credit on that amount to you. So, if you have any saving account, you deposited that amount in the bank, that amount will be credited to your account. Means it is your account, your balance and your money. Similarly, when you are purchasing something and you are paying some tax on that and if that tax is credited to your account, it means you have benefit of that particular tax which you have paid on your inputs means on your purchases. So as per the law definition or as per the language under CGST Act, it says a credit is only available to a registered person for GST taxes paid on inputs. That means and includes raw material (means the goods I have purchased for raw material purposes), services I have received from different professionals, then expenses I incurred to run my business. So, if any telephone bill I am paying to any telephone operator they charge me GST at the rate of 18 percent. So, in today's scenario without telephone business may not be possible, so for that telephone services or internet services, I am paying GST at the rate of 18%. That 18% is my input tax as well as input tax credit when this tax which I paid on telephone bill is credited to my account. Because expenses

are also subject to GST and telephone or internet expenses are one of them and whatever tax I am paying on that, that is available for me in form of input tax, as a benefit of input tax credit.

So, what are the benefits of this input tax credit. As I told you that it's a benefit available to me to set-off my tax liability when I will sell my own products. So, in business, I purchase something, I process that particular thing and then made a new product and sell it in the market. And if I am a trader, I buy some final product and I sell it as it is in the market with some margin. So, when I buy some product, I pay taxes and when I sell products, I pay taxes. But when I buy any product, I pay tax to my supplier and when I sell my product, I collect tax from my consumer and pay to the government. So, input tax credit is a benefit wherein I need not to pay taxes again to the amount equivalent to whatever I have paid to my supplier.

Manufacturer - steel mfg (16m)

Steel (Raw) SAIL = 100 ✓
 GST @ 10% = 10 ✓
 Landed Cost / Inv Val = 110 ✓

Inv Trng = 20 ✓
 = GST @ 10% = 20 ✓
 Inv Val = 22 ✓
 Value added 10%

Raw Mat A/c Dr 100 ✓
 ITC A/c Cr 10 ✓ (CA)
 SAIL A/c 110 ✓

Cash A/c Dr 220 (✓)
 To Sale A/c 200 (✓)
 → To GST A/c = 20 (✓) outwards Tax
 Inwards

GST A/c Dr 20 ✓
 To ITC A/c 10 ✓
 To Cash A/c ✓ 10 ✓ → Balance

So, let's understand this concept of input tax credit with some examples in mathematical form. So, friends in business let's have example, such that in that example, I am a manufacturer. So, if I am a steel manufacturer means I am manufacturing some steel items so what will be happening in my business. I will be buying steel in raw form from Steel Authority of India (SAIL) for rupees hundred and this steel is subject to GST. Let's say for the calculation purposes 10 percent GST is applicable on this steel. My invoice value will be 110. So basic value of the steel I have purchased is 100 rupees, GST is applicable on this purchase at the rate of 10, my landed cost or invoice value will be 110. So, whenever I will go for my accounting, in my books of accounts, my cost of raw material as per GST rules will be 100 rupees not 110. So, in my books of accounts, I will pass an entry, Raw Material Account Debit for Rs. 100, Input tax

credit account debited 10, and the party Steel Authority of India account 110. This is the basic entry or general entry in books of accounts when I purchase my raw material. The item I have purchased, the tax I have paid on that, and the amount payable to my supplier. So, in this case, Steel Authority of India is my supplier. I am supposed to pay 110.

You might be knowing accounting principles because raw material is my inward supply. It is coming to my business, to my house. That's why I am debiting it. And ITC is again an asset for me because this is something (a tax) which I have paid to my supplier and my supplier has paid to the government. That's why it is indirect tax. So, this ITC which I have paid, it is basically a GST which I have paid to my supplier so it is input tax and when it is credited to my account it becomes input tax credit because this is an asset sort of thing for me when I set-off this tax which I have already paid against my outward liability. So, friends with this steel of 100 rupees I processed it and I made some iron toys, I made some iron toys out of this steel sheets. And with the value of 100 rupees of steel which I purchased I made iron/steel toys which are having value of 200 rupees now in the market. Because this steel I processed, I employed my machines, I employed my labour, I employed my electricity, I did some designing, painting, heating treatment, like that. so out of this 100 rupees I created a products for the value of rupees 200. So, this 200 rupees product which I manufacture now in the form of iron toys are also subject to GST when I will sell it into the market, let's say at the rate of 10 percent. So, when I will sell this product in the market these will be sold for rupees 220, because the basic value is 200 and GST rate on these items is 10%, i.e. 20 rupees. Invoice value is 220. So, when I'll sell this product in the market, my accounting entry will be (a debit), because I am selling these items in cash.

So, if I am selling these items in cash, cash is coming to me, so Cash Account Debit to Sale Account and sale is of rupees 200 to GST which is my liability 20 rupees. So, I am collecting cash from my consumer/buyers, 220 rupees because ultimately tax is to be paid by the consumer only. So, in this case, I am getting 220 rupees as a cash by selling my product. 200 is my actual sale based upon the basic value of product because taxes are not part of sale, are not part of my revenue. And 20 rupees is my liability, which is known as outward liability, outward tax liability, which I need to pay to the government. So, this 20 rupees I am supposed to pay to the government after collecting tax from my buyers. So now friends for these 20 rupees, this 10 rupees, which is ITC available to me, input tax credit given to me by GST law will be set off against this liability of 20 rupees. So, when I will pay this liability, at the end of the

month or whatever the tax period it is, I will pass entry in my books of account. This is also known as GST outward tax.

So, GST outward account debit with 20 rupees because 20 is my liability. I am supposed to pay 20 rupees. So, this entry will be contra in the books of accounts. Means after meeting this or passing this entry, this entry will be nullified. So, GST account, that is my outward liability for rupees 20 to ITC account. This ITC account is debited over here, I am crediting it here, means this tax which I have already paid I created it as a current asset in my liability I mean my balance sheet I will use this amount of payment which I have made to my supplier here to set up my outward liability. So, ITC account will be credited over here and to cash because now ITC is exhausted. So, cash rupees 10 will be paid to meet my outward liability of 20 rupees on my sale item. So, friends, with this example, it is very clear that whatever tax I will pay on my purchases is my input tax credit. And when I will pay my own liability on my sale, which is 20 rupees over here, when I pay this 20 rupees, instead of paying 20 rupees in cash, I will adjust this ITC first and then balance amount will be paid in cash. So, in this way, 100 rupees raw material was processed and after value addition, it becomes 200 rupees.

So, I when manufacture this, because this 100 rupees is my raw material. So, I have not done anything on this. But when I purchase it and process it, it becomes for rupees 200. So, here I am having a value addition of 100 rupees. So, value addition from my side is 100 rupees. So GST is value addition tax. So whatever value addition I have done. I will pay tax accordingly. So, if GST rate is 10%. So, I have done value addition of 100 rupees. I will pay from my pocket 10 percent of this value addition. That is 10 rupees. On this 100 rupees. I paid 10 rupees to my supplier. I did value addition of 100 rupees. This I am paying after collecting it from my customer.

So, whatever amount I have paid here need not to pay again to the government and it has eliminated the tax burden also because here I have already paid here, I am paying 10 rupees only. So in total transaction of 200 rupees in which 100 rupees was raw material, total value of the final product/finished product is 200 rupees on 200 rupees GST is rupees 20 and government will get 20 rupees 10 rupees here and 10 rupees here. So, this way input tax credit is managed in GST. Means for all my raw materials all my inputs or all my input services I am paying some tax and that tax is input tax and that input tax is available for me to set-off my liability of outward tax which I am having on my sales. And after set-off if there is something

pending to be paid to the government, I will pay it in cash. So, this is basically input tax credit concept how it is being dealt in GST.

GST/5/16/3

If there are any conditions to avail the Input Tax Credits (ITC)?

Yes, and are as under:

- A registered person must have ORIGINAL and valid TAXABLE INVOICE /DEBIT NOTE in his favor for goods purchased and/or Service received/consumed.
- The details of said original invoice must be available in GSTR-2A /GSTR-2B
- He has taken delivery of such goods and /or consumed such services for which invoice is received and depicted in GSTR-2A/2B
- Supplier of such goods/services must has paid taxes charged on such goods and/or services to government accounts
- Recipient of such goods and /or services must have filed his returns i.e GSTR-1 and GSTR-3B

If I say I purchase goods worth rupees 1000 and I pay GST at the rate of 18%. So 'whole' amount of tax I paid on 1000 rupees that is 180 rupees is available to me as input tax credit. Yes. Friends sometimes the whole amount is available, but sometimes the whole amount is not available as an ITC, input tax credit. So, there are conditions under the law to avail input tax credit. If you are in textile business, you are buying yarn, processing it, converting it into fabric. Whatever tax you have paid on yarn will be available to you as input tax credit and you can use this input tax credit against your outward liability.

But sometimes it happens in the business that whatever amount you have paid to your supplier as input tax may not be available to you as input tax credit and you are not in a position to set off this input tax credit against your outward liability. It happens. There are so many conditions. There are so many situations where input tax credit cannot be used, cannot be availed for paying your outward liability. So, we'll discuss these cases one by one. But yes, in general, input tax credit is available to me for my outward liability. Simple and general rule of the law is whatever inputs you are buying for your business purposes, whatever tax you are paying on that is available to you as input tax credit.

But there are some conditions also. So, friends, if we go by section 16 of CGST Act, which deals with the concept of input tax credit, availment of input tax credit, eligibility of input tax credit and conditions for availing input tax credit So section 16 of CGST act is very important

in GST law while dealing with input tax credit. If you remember I mentioned in one of my slides that input tax credit is a concept or the fact which hit my working capital in the business. Why? Because if in any company, any big company if you are procuring goods worth rupees 100 crore, and if your raw materials are subject to GST at the rate of 18 percent, see the volume of input tax credit that is available to you. 100 crores goods or raw material subject to 18% GST. So, 18 crore rupees is of your ITC which is a huge amount for any organization. If a company is having procurement of 1000 crore and if its input tax credits or its inputs are subject to GST at the rate of 5%, 12%, 18%, 28%. It has huge impact. Huge impact.

So, friends, in business practically, we need to understand ITC, its conditions, its restrictions, its uses, its accounting, its reconciliation and its availment. Because it is impacting my working capital and my finances and if I misused or if I mishandle this concept or this part of business it means I am unnecessarily increasing my finance cost. So, we have to be very careful while recording the transactions related with the ITC in my books of accounts. It is important. It is important. So, friends, Section 16 says yes, there are conditions.

Section 17 also says some restrictions. Impose some restrictions while availing ITC. And what it says? It says a registered person must have original and valid taxable invoice in his favour for goods purchased. As I told you friends, whenever you are buying your inputs, you are placing order with your supplier, your supplier will send goods to you along with invoice. If you remember my presentation on invoices, I mentioned that whenever goods are being supplied from supplier to buyer or buyer is taking delivery from supplier, the goods must be accompanied with invoice, must accompany with document of e-way bill or delivery chalan also. So, there are some documents prescribed under law which must be there along with the movement of goods. So, whenever you are availing input tax credit you must have in your possession, in your office the original invoice of that particular bill for that particular purchase. If you have goods but you don't have the document which supports your purchase, your ITC will be denied. You will not be able to avail ITC. So, it means whenever you are buying your raw material, whenever you are having input services, whenever you are having any expenditure like telephone bill, internet bill, you must have its invoice with you. Because that invoice is evidence which says, yes, you have purchased this material, you have availed this service. So that document will help you to avail ITC. If that document is not with you, your ITC will be denied by the law. That's why one first and the foremost condition for availing ITC is that a registered person who has purchased goods must have invoice in original copy from

supplier in his custody, otherwise you will not be in a position to avail ITC because this is documentary evidence of your purchases.

Second condition friends it says the details of said original invoice must be available in GSTR-2A and GSTR-2B. Friends in GST, because it is IT based tax structure, so when your supplier sending goods to you, your supplier is supposed to file his return in GSTR 1. We will talk about these things when we will discuss about returns. So, every supplier who is selling goods is supposed to declare these sales on GST portal in form GSTR 1. And when he will declare his sale on GST portal, it will become purchase in GSTR-2B or GSTR-2A form for buyer. So, supplier has declared his sale and GST portal will convert it into GSTR-2A or 2B and 2A or 2B will be available to the buyer. So, in future or tomorrow at any point of time supplier can't deny that he has not supplied the goods or buyer cannot say that he has not purchased the goods. So, it means very first condition is that, the supplier must have raised the bill and purchaser/the buyer must have that invoice copy in his custody.

Number two: Second condition of availing ITC is that this transaction must appear in GSTR-2A and 2B. If it is not their department may say there is some mismatch and there is something fishy in the transaction, so they may deny your ITC. So that is your second condition if you want to establish if you want to avail your ITC. Friends, third condition for availing ITC for having this benefit because you have already paid to your supplier this tax and now you want benefit of this tax. Otherwise, it will be a double taxation. It will be a double taxation because on one side you have paid 18% to your supplier and on the consumer side you are supposed to pay to the government 18% after collecting from customer. So, you will not be in a position to set off the taxes if you don't have fulfilled these conditions. And you need to fulfil all these conditions not only one or two.

So, third condition is, he has taken delivery of such goods and consumed such services for which invoice is received and depicted, means when you have purchased goods for your business these goods must have been consumed by you. If your record your process is not showing that you have not consumed these goods your availability or your claim for ITC may be denied.

Next condition friends, the supplier means your supplier who has sold goods to you. Supplier of such goods or services must have paid taxes charged on such goods. Means if your supplier has sent you goods worth Rs. 100 and he has charged GST at the rate of 10%, he has taken from you Rs. 110. So, law says when he has taken from you Rs. 110 in which Rs. 100 is the

value of the goods and Rs. 10 is the GST he has charged to you, that Rs. 10 GST must have gone to government. If he has collected that tax from you but has not deposited it to the government, your ITC is not available. It is very important. You will not be able to avail this benefit you will be denied for this benefit because your supplier has not paid tax to the government which he has collected from you. So, it means indirectly it's your responsibility to make it sure that whenever you are paying tax to the supplier, he must have paid it to the government only then you will be able to avail ITC. Otherwise, your ITC will be denied and it will be your loss. Because when you will sell your products, there will be a GST liability and you will not be able to set off this much of amount which you have paid to your supplier. And you will be at loss.

Further friends, last condition is the recipient of such goods or the services must have filed returns. Means the buyer who has purchased these goods and when he is selling these goods he is supposed to file his own return; monthly return in form of GSTR-3B. And if the buyer who has processed the goods and has sold the goods to the consumer in open market if he has not filed his 3B and means monthly return, his credit will be denied. He will not be in a position to avail the credit.

So, friends whenever you are buying something whenever you are paying tax to your supplier and you want to avail this benefit of tax whatever you have paid to your supplier you have to fulfil all these conditions mentioned in law otherwise any condition if you have not fulfilled your tax benefit will be gone. So, you must have invoice copy with you that invoice copy must have been depicted in your 2A or 2B you must have consumed these taxes your supplier must have paid tax to the government and you must have filed your own return your monthly return or quarterly return as the case may be. So, after fulfilling all these conditions you will be eligible for availing this benefit of ITC otherwise not.

So, make sure whenever you are buying something from the market, your supplier should be genuine enough. He must be a regular compliance dealer. He should have filed his returns and should have paid tax to the government in time. If he is a defaulter, your ITC will be gone. You will not be in a position to avail ITC. So, that is the importance of ITC in GST because I told you if you are procuring 100 crore rupees material in a year from market which is subject to GST at the rate of 5%, 12%, 28% or 18% that much of tax you have already paid to the supplier or to the government and it is available to you to be set-off against your output liability but because you have not fulfilled all these conditions your benefit is gone.

So, you have to be very careful if you are employee of a company and dealing with GST or if you are a consultant of any company while giving consultancy to the market to your client. Make sure doing compliance as per the provisions of the law. So, this is section 16 of CGST Act.