

# INTRODUCTION TO GST

## INPUT TAX CREDIT\_01-PART 2

CMA ANIL SHARMA

(B.com. (Hons.), M. Com., FCMA, TIOL Awardee, Practising Cost Accountant)

Management

The Institute of Cost Accountants of India, Kolkata

Week 05

Lecture 20

GST/5/16/4

### What are the valid taxable Invoices or documents to avail ITC benefits?

- An invoice** issued by the supplier of goods or services or both in accordance with the provisions of section 31
- A debit note** issued by a supplier in accordance with the provisions of section 34
- A bill of entry** or any similar document prescribed under the Customs Act, 1962
- An Input Service Distributor invoice** or Input Service Distributor credit note or any document issued by an Input Service Distributor in accordance with the provisions of subrule (1) of rule 54

*Input tax credit shall be availed by a registered person only if all the applicable particulars as specified in the provisions are contained in the said document, and the relevant information, as contained in the said document, is furnished in FORM GSTR-2A/2B*

So, friends, I told you that your invoice copy or the bill for the material you purchased is the basic document for availing ITC. And apart from that, if there is any amendment in your bill, means if your bill is amended, maybe because of some quantity difference or maybe some rate difference or maybe some value difference, maybe some total mistake in bill itself. So, either your bill has increased or your bill has reduced with the amount. In either case, whenever there is a change in invoice, then you raise debit note or credit notes. So, these documents, debit notes or credit notes are also supporting document or part and parcel of your invoice for ITC purposes. So, keep this document also intact with you as far as your purchasing is concerned. In case of import of material (imported material) there is a document called bill of entry which

is evidence of your purchasing or importing goods and whatever IGST you will pay on your imported goods that IGST is also available to you as input tax credit.

So, friends, there is another concept of ISD, Input Service Distributor. We will talk about this also later on. So, any bill raised by this Input Service Distributor to the consumer of the goods within the company, this invoice is also important for availing ITC benefits. Further it says, input tax credit shall be availed by registered person only if all applicable particulars as specified in provisions are contained in said documents, means your invoice. If you remember I talked about this thing in invoice presentation that your invoice must be a valid invoice technically. It should be a correct invoice as to the provisions of the law section 31. So, if there is any technical mistake in your invoice copy your ITC will be denied. So, make sure while issuing your invoice to your supplier, receiving you from your supplier, or by sending to your buyer, your invoice must be as per the provisions of the law, must have all such information as listed out in the CGST act. Because invoice is just like a note, is less like a currency if you have any mistake any error in your note or currency, it will be treated as duplicate note.

Same way here in this case, if your invoice is having some missing information or not having information as required by the law, it will be a duplicate invoice. And ITC is not available on duplicate invoice. And all such documents should be contained in your GSTR-2A and GSTR-2B. So, conditions are very harsh but practical. So, you must have to ensure that your conditions must be fulfilled only then you should avail your ITC, otherwise on later stage department will deny your ITC benefit. You will lose that and apart from that there will be interest at the rate of 18 percent to be paid to the department for availing wrong ITC and also penalty will be imposed. So, while availing ITC you must be very careful.

GST/5/16/5

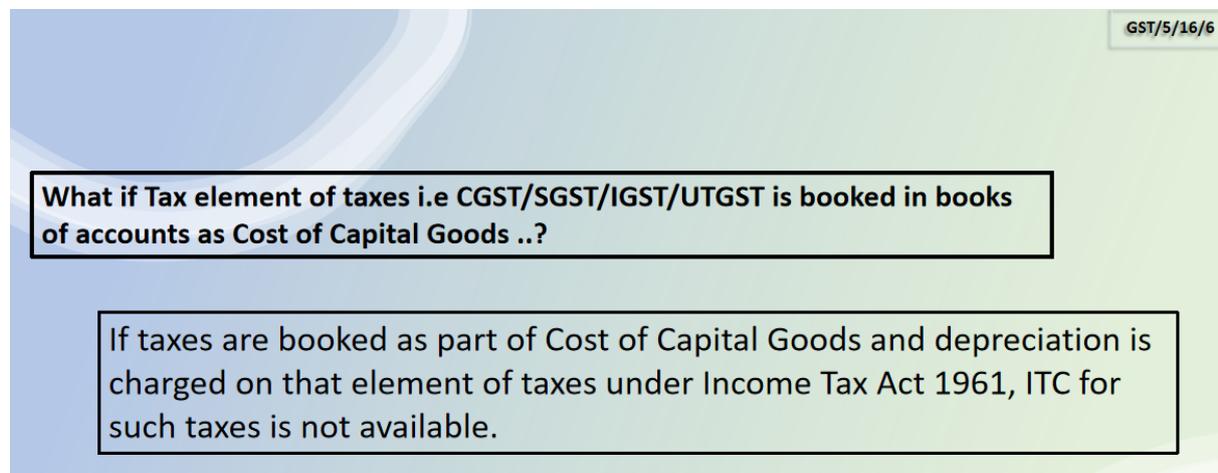
**If Goods received in Installments, Is ITC available to Registered person?**

In goods are received in installments, than ITC is available after receipt of last installment or lot.

Friends, I told you that whenever goods are coming to you, they must be supported by some documents. That is invoice or chalan along with e-way bill. So, minimum these three

documents, invoice or delivery chalan along with e-way invoice. These documents are mandatory to be supported by Supply of goods. Sometimes it happens that you got big consignment and it is not possible for anyone to take the whole consignment in one lot. Because whenever we are issuing invoice or whenever we are issuing E-way bill It is truck wise or train wise or ship wise. But when we import, we transport goods from port or from railway yard it is not possible for us to carry all these documents these goods in single truck to our factory. So, we need more than one trucks maybe two three four five six even ten trucks also. So, every truck must carry valid documents otherwise law does not permit you transportation of goods.

So, there is a set procedure for such type of cases under GST so that your ITC should be protected. Law says if there is such type of cases where you are transporting goods in instalments; ITC is available after you have received all the instalments. So, when you will get the whole consignment in your factory only after that you should avail your ITC. Means it happens sometimes that your consignment will be given to you over months of time means maybe in two months three months or four months. So, when you got all goods or all instalments only after that you should avail ITC otherwise it is not allowed and if you have you done that you are supposed to reverse with interest.



GST/5/16/6

**What if Tax element of taxes i.e CGST/SGST/IGST/UTGST is booked in books of accounts as Cost of Capital Goods ..?**

If taxes are booked as part of Cost of Capital Goods and depreciation is charged on that element of taxes under Income Tax Act 1961, ITC for such taxes is not available.

So, friends here the question comes what if the tax element of taxes is booked in books of accounts as cost of capital goods. If you remember my second slide where I explained you my purchasing entry in my books of accounts I don't book tax part in my value of the goods means if i purchase goods worth rupees 100 and if there is a GST on that for rupees 10 then my goods cost is 100 not 110 because 10 is a tax which I have paid to my buyer, to my supplier, is available to me as ITC. But if it happens sometime that I book my taxes to the cost of my goods,

if that is the case, then ITC is not available to me. Then ITC is not available to me. But I can claim depreciation under income tax on the total amount.

GST/5/16/7

### What is relevance of payment to supplier and ITC availed?

**As per law, if recipient does not pay consideration to supplier for supply of goods and /or services within 180 days from the date of invoice and/or Debit Note, recipient needs to reversed such ITC availed against said Invoice and or Debt Note by adding said liability to his Output liability and also needs to pay interest @18% on such amount.**

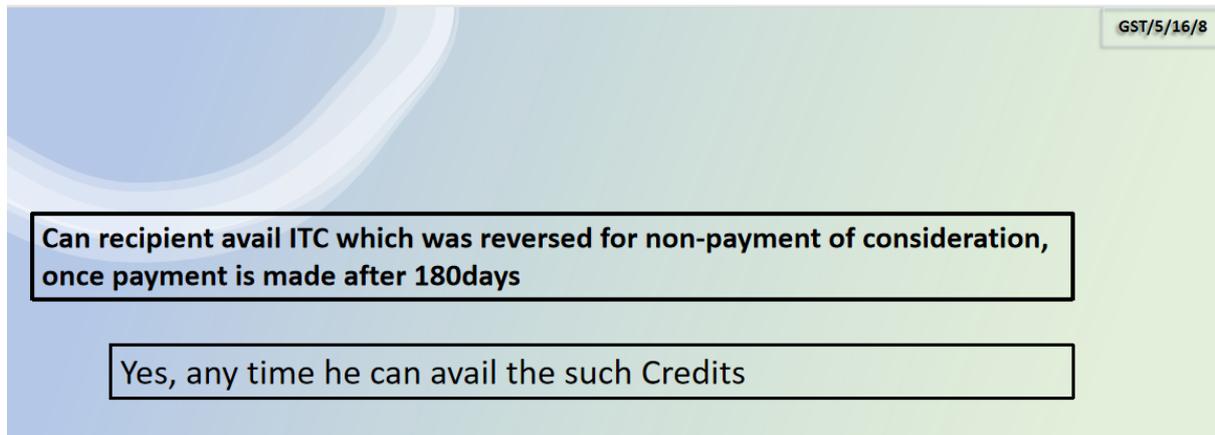
*In GSTR-9, para-7(a) talks about reversal of such ITC under Rule 37, by deducting such amount of ITC from total ITC availed, whereas section 16(2) says to pay such liability by adding to Output liability. So, need to be corrected.*

*Payment of consideration is matter of concern between supplier and recipient of goods and /or services. Recipient has all rights to stop payments to suppliers for various reasons. Is it logical and valid point in the eyes of law to ask for Interest @18% and to be paid to government?*

I told you that there are so many conditions that have been imposed by law on the buyer to avail ITC. And under section 16, basic five conditions I explained you. And apart from that, and over and above these five conditions, law further says, and what it says, it says, as per law, if recipient means buyer, does not pay consideration of the goods he purchases from the supplier within 180 days. So, GST says whenever you are buying something from your supplier, you must pay him within 180 days. And if you do not pay to your supplier within 180 days, your ITC will be denied. You will not be eligible for ITC if you do not pay to your supplier within 180 days from that date of invoice. So, this is another condition imposed on buyer over and above five basic conditions.

So, whenever you are entering into a contract with any supplier, on payment terms, also take this into consideration that you are supposed to release payment to supplier within 180 days. Otherwise, your ITC will be denied. Yes, whenever, if in any case you have not paid within 180 days, but later on you have paid, means maybe after 200 days or so, whenever you will pay it, you will be eligible for that and you can claim ITC. But if you have not paid to the supplier within 180 days, but you have already exhausted your ITC, whole ITC will be reversed along with interest. And interest will be applicable at the rate of 18%.

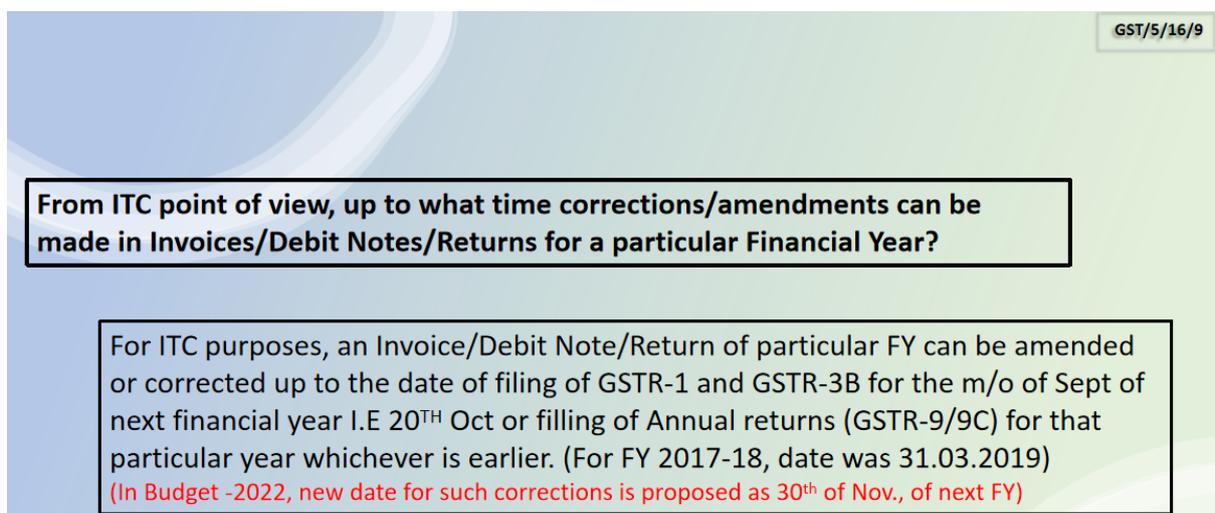
So, friends, I again pointing out here, whenever you are availing ITC, you must be very, very careful, any small mistake will increase your finance cost. Wrong availment of ITC is subject to interest at the rate of 18% and penalty also. So, on the one side, you will not get your ITC and on the other side, you are supposed to pay interest and penalty over and above the ITC amount. So, you have to be very careful.



**Can recipient avail ITC which was reversed for non-payment of consideration, once payment is made after 180days**

Yes, any time he can avail the such Credits

So, friends, if you have not paid within 180 days, after 180 days, what will be your next return? You are supposed to reverse, means pay to the government ITC and interest and when you will pay it then you can reclaim it. That is the provision of law and it is over and above the five basic conditions that I explained you. As far as ITC is concerned yes it can be claimed, as I have explained you already. So, friends in business practically, it happens many times that whatever invoice you have raised might get changed, maybe because of quantity issue, maybe because of some rate issue, maybe because of some discount issue or maybe some clerical error.



**From ITC point of view, up to what time corrections/amendments can be made in Invoices/Debit Notes>Returns for a particular Financial Year?**

For ITC purposes, an Invoice/Debit Note/Return of particular FY can be amended or corrected up to the date of filing of GSTR-1 and GSTR-3B for the m/o of Sept of next financial year I.E 20<sup>TH</sup> Oct or filling of Annual returns (GSTR-9/9C) for that particular year whichever is earlier. (For FY 2017-18, date was 31.03.2019)  
**(In Budget -2022, new date for such corrections is proposed as 30<sup>th</sup> of Nov., of next FY)**

So, if you have received an invoice of Rs. 100 in original along with the goods. And these goods are supposed to be subject to GST at the rate of 10%, you have paid 110 rupees to your supplier. But later on, it is noticed either by supplier or from your side that this invoice of 100 rupees plus 10% GST has some issue and it needs to be revised, and there is a correction required. And law also permits you such corrections.

So, law also says that such corrections must be addressed by a certain period and by certain period means for any financial year the maximum time allowed is up to 30th November of next year. Means if we are in financial year 2023-24, the year closing is on 31st March 2024, so any bill raised during first April 2023 till 31st March 2024 (in one financial year) can be amended either way. Can be amended, can be revised by 30th November 2024. This was brought into picture during budget 2022 and prior to that it was up to September 2000 i.e. September return.

This concept will be clear to you more when we will discuss about returns because returns are supposed to be filed under GST periodically. But yes, any invoice raised during financial year can be amended and accordingly its ITC can be availed by November of the next financial year. So, because when any invoice gets amended maybe value is increased or decreased. If value is increased, then GST liability will be increased and ITC amount will also be increased.

Suppose if you have an invoice of 100 rupees in original and later on supplier asks you to revise rate and it was revised retrospectively, such that this invoice of 100 rupees becomes invoice for rupees 110. So, you need to pay tax on 110. So, you will pay more tax and if you will pay more tax, definitely you will get more ITC also. And on the other side, if your bill of 100 rupees is reduced to 90 rupees, you will pay less GST and accordingly you will get less ITC. So, if anything has happened like this, you are supposed to do necessary corrections in your books of accounts as well in your GST records. So that amendments, that revision is permitted for any financial year up to 30th of November of financial year next to the actual financial year. You have to keep this thing in mind. And it is permitted under law. And once your November 30th is gone, you will not be in a position to amend your bills or revise your GST liability or revise your ITC credit under GST.

So, you have enough time after 31st March till 30th of November that you can reconcile your books of accounts and you can check your all invoices, all credit notes, all debit notes and accordingly you can correct and pay your GST and also avail and correct your ITC. Because ITC directly related with your bills, purchase of goods.

If ITC is available for any tax that has been paid in pursuance of any order or demand?

No input tax credit shall be availed by a registered person in respect of any tax that has been paid in pursuance of any order or demand notice has been confirmed on account of any fraud, willful misstatement or suppression of facts

Friends, sometimes it happens that you need to pay tax because of some court order. As I told you that ITC is a tax paid by you to your buyer, to your supplier on your purchases. So means you are paying taxes on your purchases, on your inputs.

Inputs means your consumables, your spare parts. And input services mean your advocate service, your accountant services, your engineer services, your technical services, your telephone services, your insurance services, your transport services like anything. So, whenever you are buying something, you are availing something you are paying tax and you are eligible for ITC subject to the conditions we have already discussed. But sometimes it happens that some dispute has arisen among the business holders, maybe supplier versus buyer. Or sometimes it happens that there is a dispute between you and the GST department. And out of that dispute, court has given an order that you need to pay more tax.

So, in that situation where you are paying more tax because of court orders, because of litigation orders, law says no input tax credit shall be availed by registered person in respect of any tax that has been paid in pursuance of order or demand notice that has been confirmed by court for some fraud, wilful misstatement and suppression of facts. If you have not given the fact figures to the department and department has filed complaint or case against you and you lost that case and out of that decision of the court, you are supposed to pay more tax; and whatever amount of more tax you are paying is not available for ITC, you cannot avail ITC on that. So, make sure, as I told you, whenever you are paying or whenever you are availing ITC, you must have clarity in your mind about Section 16. Section 16 conditions and Section 17 restrictions we will discuss that also.

## What are Block Credits under GST?

ITC related with taxes paid on purchases of inputs, goods, input services, capital goods etc. which are not otherwise available to registered person are known as Block Credits.

In other words, manufacturer, trader, service provider is not allowed to avail and utilize ITC on certain items or expenses used for business purposes.

So, friend till now whatever we have discussed was section 16 of CGST act which impose some conditions for availing ITC. And ITC I told you is a benefit available to me under GST, for taxes that I paid on my procurements or on my input services or on my capital goods. Because when I start business, when I do business, I need plant and machinery, I need buildings, I need manpower, I need raw material, I need electricity, I need services and I need packing material and so on. So, all these items are subject to GST. And whatever amount of GST I am paying, I have paid to my supplier, I am eligible for ITC to take the benefit of that. Because whatever amount I have already paid to my suppliers, I need not to pay again to the government. So, when I will pay my output liability, I will deduct the amount I already paid to the government through my supplier and balance I will pay from my own pocket. So, section 16, talk about the conditions for availing ITC.

And now section 17. Section 17 of CGST Act. It gives/imposes some restrictions. In section 16, I told you whatever amount, whatever procurement, whatever services you will, buy or purchase or avail for your business purposes, ITC is available. But section 17, impose some restrictions for your availment of ITC. It says, though you have procured the services/ though you have procured the raw material for the purpose of your business, but still, it may not be available to you. What does it mean? It talks about block credits. There are some ITC credits which has been blocked straight away, which has been denied straight away that though you have spent it for the business purposes, but this ITC is not available to you. This ITC is not available to you. You cannot avail this ITC. So, in business, we have 100 types of procurements, 100 types of inputs or input services. But Section 17 says all inputs are available to ITC. It's not like that.

So, what are these? Let's see. First, understand what is block credits under Section 17 of CGST Act. ITC related with the taxes paid on purchases of inputs, goods, input services, capital goods, which are not otherwise available to registered person are known as block credits. Means manufacturer, trader or businessman has purchased inputs, some goods, input services or some capital goods for business purposes and has paid GST on these items to his suppliers. But Section 17 has put them under the category of block credits.

Block credit means ITC on such item's procurements, such services availed or such goods purchased is not available. In other words, manufacturer, trader, service provider is not allowed to avail and utilize ITC on certain items expensive use for business purposes. They are clear cut. Clearly refused to give the credit on these items. And what are these items? We will see that also. So, all items covered under block credit list, whenever you are buying, forget about ITC. You cannot avail ITC. If you have availed, then you are supposed to reverse it. Means you have to pay back to the government along with interest and maybe penalty. So, take that thing in your mind.

GST/5/17/07

**Can we have list of expenses, goods including capital good and/or input services covered under Block Credits?**

Input Goods <small>(ITC not allowed)</small>	Capital Goods <small>(ITC not allowed)</small>	Input Services <small>(ITC not allowed)</small>
<ul style="list-style-type: none"> <li>▪ goods or services or both received by a taxable person for construction of an immovable property IN HIS ON NAME,</li> <li>▪ Goods or services or both on which tax has been paid under section 10</li> <li>▪ Goods or services or both received by a non-resident taxable person except on goods imported by him</li> <li>▪ Goods or services or both used for personal consumption</li> <li>▪ goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples</li> <li>▪ Any tax paid in accordance of sections 74, 129 and 130</li> </ul>	<ul style="list-style-type: none"> <li>▪ Motor Vehicle, used for transportation of passengers having seating capacity less than 13, including driver.</li> <li>▪ <i>If registered person is in business of such vehicles, services of transportation of passengers i.e Bus, taxi hiring, cab and providing training for driving and repair of such vehicles, ITC is allowed.</i></li> <li>▪ Vessels, Air crafts. But if are used for business of sale-purchase, services like passengers tpt, training related with etc. <b>ITC is allowed</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Insurance, repair and maintenance of Vehicles, Vessels, Aircraft <b>if not used for</b> sales-purchase, tpt of passengers, any training purposes.</li> <li>▪ food and beverages,</li> <li>▪ outdoor catering,</li> <li>▪ beauty treatment,</li> <li>▪ health services,</li> <li>▪ cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft other than purposes defined,</li> <li>▪ life insurance and health insurance</li> <li>▪ Membership of a club,</li> <li>▪ health and fitness center</li> <li>▪ Travel benefits extended to employees on vacation <i>other than where it is obligatory for an employer to provide</i></li> <li>▪ Works contract services when supplied for construction of an immovable property,</li> </ul>

So, friends, under Section 17 of CGST Act, there is a long list of the items on which ITC cannot be availed, though it is used for business purposes only. And we have divided these items into these three categories. Input goods mean your raw materials or consumables. Capital goods mean your plant and machinery, your buildings, which convert your raw material into final product. And input services, services like chartered engineers, chartered accountants, cost accountants, management accountants, advocates, directors, your transporters, insurance like

that. So CGST Act Section 17, has that list on which ITC is not available to all business holders or all businessmen.

**Input Goods** (ITC not allowed)

- goods or services or both received by a taxable person for construction of an immovable property IN HIS ON NAME,
- Goods or services or both on which tax has been paid under section 10
- Goods or services or both received by a non-resident taxable person except on goods imported by him
- Goods or services or both used for personal consumption
- goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples
- Any tax paid in accordance of sections 74, 129 and 130

And it says input goods means your consumables or your raw materials on which ITC is not available. It says goods or services or both received by taxable person for construction of immovable property. Meaning thereby if you are constructing some building for your factory, boundary wall of your plant, building for your warehouse, building for the storage of your raw material, that building material means cement, steel used for that building, sand, aggregate used for that building or any other product, goods directly fitted to that building, whatever, GST you have paid on it, ITC is not available.

So, in the nutshell any item you have purchased for the construction of the building may be by your own or through your contractor who is constructing that building your ITC is not available on that. So, in all type of businesses including hotel business whatever amount of taxes you have paid for procurement of your construction material ITC is not available. It is a very strange

thing under GST for any building you constructed in factory for production purposes for warehouse purposes for boundary wall ITC is not available. Just imagine without building how hotel industry will work how rooms will be constructed but yes to hotel industry though it is used for business purposes ITC on building is not available.

Further goods services or both on which tax has been paid under section 10 Section 10 is composite dealer. If you remember I mentioned in one of my presentations that composite dealer doesn't charge GST to the customer. Rather pay GST on his total turnover. So, whenever he is procuring goods for further sale and he is under composition dealer, he cannot avail ITC on his procurement because he is not charging GST to his customer in his bills. So composite dealer cannot avail ITC of any amount whatever he has procured. Further, goods, services or both received by non-resident taxable person, except goods imported by him. So, non-resident taxable person if he procures something, ITC is not available. Goods and services though used, procured by business or for business but out of that some quantity is consumed for personal purposes, personal consumption, to that extent ITC is not available. So if you procure the goods worth Rs. 100, paid GST at the rate of Rs. 10, you used Rs. 10 goods for your personal consumption, your ITC will be reduced to Rs. 9. In the same proportion, ITC will be reduced.

Goods lost, stolen, destroyed, written off, disposed of by way of gift or free sample. It happens in business. Sometimes you have procured raw material but it is lost in transit or otherwise, it is stolen during transportation or otherwise, it is destroyed by a fire or something else. Because of its deterioration you have written off in the books of accounts. You have given gift to your employer or otherwise of that material or you have distributed free samples of your finished product. If that is the case, whatever ITC you have availed on these items or for this quantity, you are supposed to pay back to the government. You have to reverse it. So, you have to reduce your ITC. To that extent ITC is not available. As mentioned in last slides, taxes paid out of some penalty, out of some court order, out of some non-compliance of GST laws, that tax is not available for ITC. That is your fine/penalty. Cannot be used as ITC.

### Capital Goods (ITC not allowed)

- Motor Vehicle, used for transportation of passengers having seating capacity less than 13, including driver.
- *If registered person is in business of such vehicles, services of transportation of passengers i.e Bus, taxi hiring, cab and providing training for driving and repair of such vehicles, ITC is allowed.*
- Vessels, Air crafts. But if are used for business of sale-purchase, services like passengers tpt, training related with etc. **ITC is allowed**

Similarly, friends, in case of capital goods, as I told you, all items are not available for ITC purposes. So, law says if you have purchased car in your factory for your directors or some other senior officials and car is subject to GST at the rate of 28% plus CESS. So, general phenomenon is that it is asset for the business because without car, without vehicle, business cannot be run. Since you have purchased cars for your employee's senior management or MD, director like that, but that GST which you have paid on your car or CESS you paid on car, is not available for ITC though you have fulfilled all conditions of section 16. So, motor car or car having sitting capacity less than 13.

Any vehicle you purchase in company which is having capacity less than 13 including driver, ITC is not available. You purchase a bus for your employee's transportation, you purchase a truck for transportation of your goods or raw material, ITC is available. But if you have purchased car or the vehicle having capacity less than 13, ITC is not available. But if you are into the business of driving school and if you are in the business of cab, you are a taxi operator, you are a transporter, then this ITC is available. But if you are a steel manufacturer, you are a textile manufacturer, you are a yarn manufacturer, you are a Maruti car manufacturer, if I use some cars for its own purposes, ITC is not available. But if you are into transportation, into cab business, driving school, ITC will be available.

Next, if a registered person is in business of such vehicles, as I told you, if they are into the business of taxi, sort of thing, ITC is available. Similarly, friends, vessels, aircrafts, but if they

are used for business of sale purchase, if you are a trader, means dealer of cars, who is buying car from manufacturer and selling it to the customer. So, when he is buying cars for trading purposes, the car dealer, whatever amount of tax he will pay to the supplier, to the manufacturer, ITC is available. So, when you are as a businessman, as a textile manufacturer buying car, ITC is not available on car. But if you are in driving business or you are into the trading of that particular vehicle, ITC is available. So, for car dealers, ITC is available. But for manufacturer, yarn manufacturer, ITC is not available.

### Input Services (ITC not allowed)

- Insurance, repair and maintenance of Vehicles, Vessels, Aircraft **if not used for** sales-purchase, tpt of passengers, any training purposes.
- food and beverages,
- outdoor catering,
- beauty treatment,
- health services,
- cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft other than purposes defined,
- life insurance and health insurance
- Membership of a club,
- health and fitness center
- Travel benefits extended to employees on vacation *other than where it is obligatory for an employer to provide*
- Works contract services when supplied for construction of an immovable property,

Input services. There are some input services on which ITC is not available or restricted under section 17. It says insurance, repair, maintenance of vehicle, vessels, aircraft, if not used for sale purposes, transportation of passengers, etc, ITC is not available. So whatever motor vehicle you have purchased over here, if you are a yarn manufacturer and you have purchased car, and ITC is not available on car, then whatever amount you will spend on your insurance of that car, repair of that car, maintenance of that car, ITC is not available. Because when ITC on asset

purchase is not available, ITC on the services taken for that particular asset, is also not available. But if you are car dealer, you are taking insurance of that, ITC is available.

Similarly, friends, if you are providing services of food and beverages to your employee, ITC is not available. For food items or beverage items supplied by employer to its employee, ITC is not available. Similarly, as a manufacturer, as a steel manufacturer, car manufacturer, textile manufacturer, cement manufacturer, you have availed catering services of some caterer, ITC is not available. Beauty treatment services to your employees ITC is not available, health services for your employees ITC, is not available, cosmetic/plastic surgery services taken by you for your employee health and otherwise ITC is not available, life insurance health insurance it is not available, membership of a club taken by you for your employees it is not available. Means GST paid on all these items, travel, benefits, works, contract services it is not available because I told you that on immovable property whatever amount you would procure, ITC is not available. Similarly, for immovable property means building, boundary wall, whatever you call it. If you have taken services of any contractor, ITC is not available.