

INTRODUCTION TO GST

INPUT TAX CREDIT_02-PART 1

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Week 06

Lecture 24

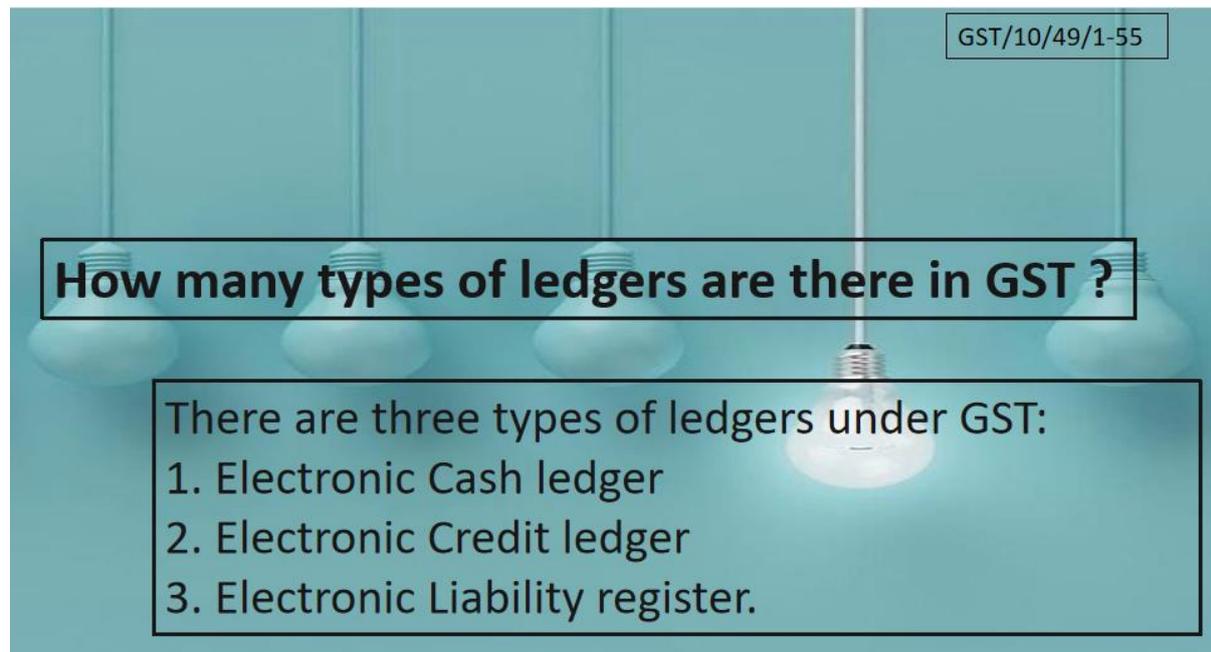
Welcome friends in our previous session we talk about input tax credit and also talk about what is input and what is input tax. So, we all know that input or inputs means whatever material or whatever services I avail or goods purchased for my business. And after processing these products or the goods, I manufacture a final product and when I sell it, I have to pay GST. So, in case of cycle industry, if a cycle manufacturer buys steel, pipes, rubber parts, rubber and all; after processing all these things he manufactures a cycle. So, cycle is a new product which is subject to GST. Its raw material and components or rubber parts which he purchased for manufacture of this cycle are also subject to GST. So whatever amount whatever tax he paid on his purchases means on the purchase of steel, rubber parts or components are the inputs and tax paid on that is input tax and setting off its output liability against these taxes paid on inputs is ITC (input tax credit) available to the manufacturer.

So, friends this concept I told you section 16 and section 17 of CGST act is very relevant from business point of view and also from GST point of view. So, in today's discussions, we will continue with the concept of ITC (input tax credit) and also how finally tax is paid. Because, there is a possibility that my outward liability on my sale i.e. the GST liability is 100 rupees, but taxes I paid on my inputs is only 60 rupees with me. So, 40 rupees is the difference between GST payable and GST I have already paid to my supplier on my inputs there is a gap and that gap of 40 rupees will be paid in cash. So, there is a proper mechanism in that as defined in GST because we all know that GST is IT based tax system where IT played a vital role and GST is a portal where everything is uploaded or where everything is shared with the government agencies or other stakeholders.

Input Tax Credit (ITC)_Part -II

Utilization of ITC & Payment of Taxes

So, it's a fool proof mechanism, how much ITC I am having in my account for various procurements I did in past and how much sale I have done and how much is my tax liability that I need to pay and if there is a gap between tax payable and ITC I have, it should be paid by cash through a proper mechanism given in GST law. So, we'll see that in our today's presentation, how things move.



GST/10/49/1-55

How many types of ledgers are there in GST ?

There are three types of ledgers under GST:

1. Electronic Cash ledger
2. Electronic Credit ledger
3. Electronic Liability register.

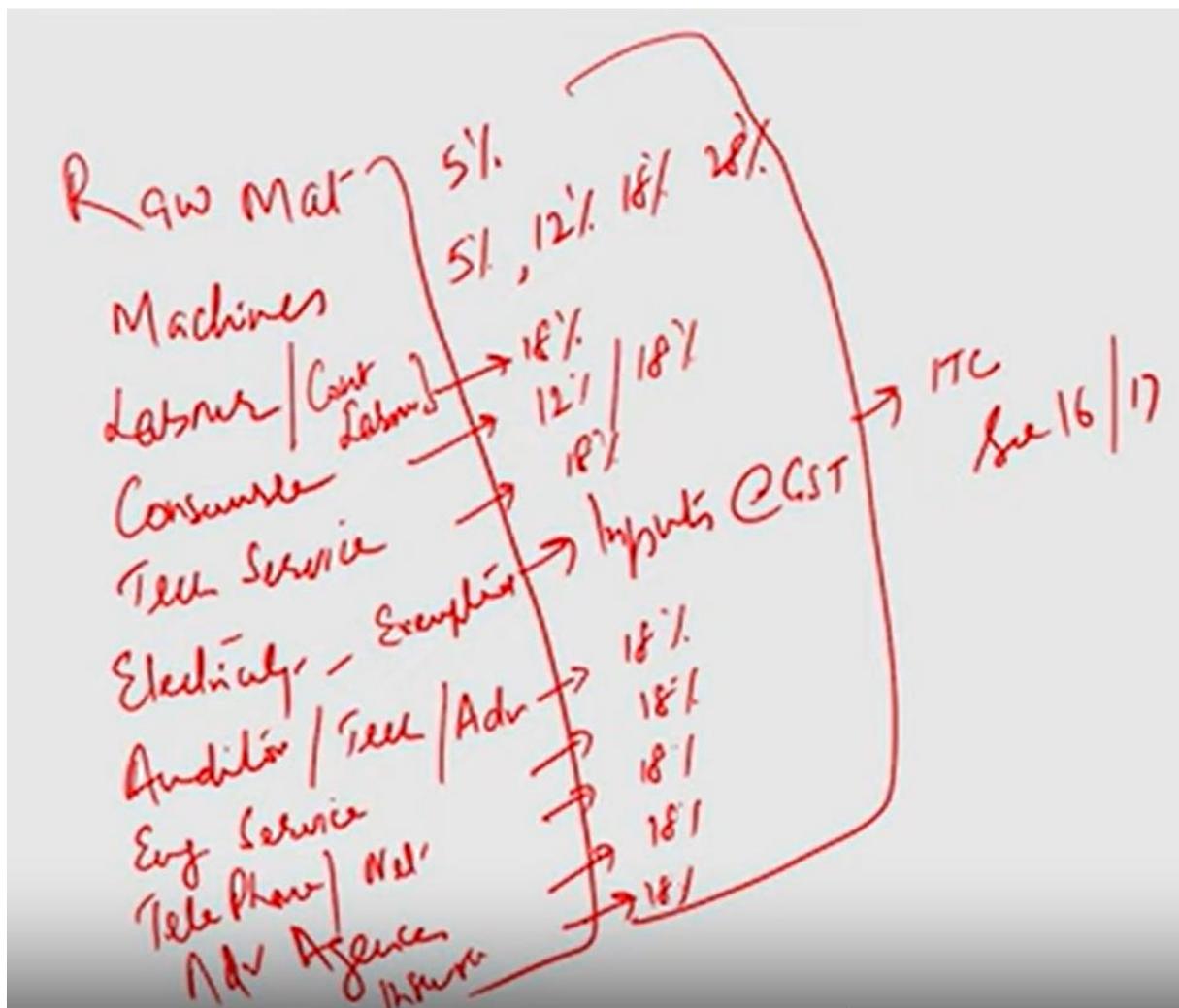
So, friends, in GST, when we talk or when we say that we have ITC with us or input tax credit availability with us, or I need to pay my taxes under GST, different types of ledgers are maintained. In business, we maintain these ledgers in our books of accounts on daily basis and on GST portal it is maintained or taken care by GST portal and their team run by GST Network. GST constituted a company for GST purposes when GST came into picture. Whenever we are submitting details or whenever we are sharing details, uploading details on GST portal, ledgers are maintained there in electronic form and different ledgers give us different information. So,

if we talk about GST and business transactions, these ledgers have been maintained at GST portal and parallelly we also maintain these accounts in our books of accounts.

So first is cash ledger: It is maintained on GST portal for whatever amount of cash or whatever hard cash we will deposit with our bankers and upload this deposit of cash to GST portal. It will be reflected in cash ledger maintained at GST portal. Why it is so? Why it is maintained? That we will discuss later on.

Then there is another ledger on GST portal that is credit ledger which means whatever credits I have available, means my ITC available to me on my procurement that will be reflected in this electronic credit ledger.

Then another is electronic liability ledger means whenever I am selling my products or my goods I have to pay GST on the sale of these goods so that is my liability. So that liability is maintained or recorded in this liability ledger at GST portal.



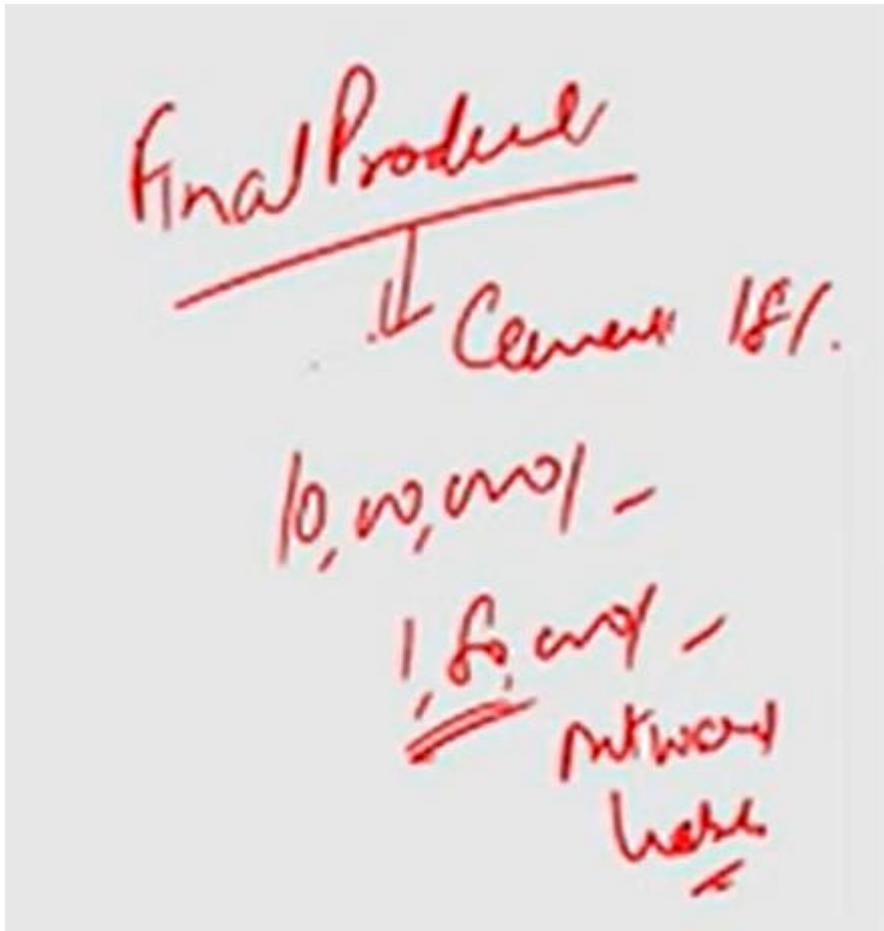
So, friends whenever we are doing business, if I am a manufacturer, I purchase raw material. To process this raw material, I use machines and to run these machines I deploy labour or for other works also. Apart from this I need consumables, I need some technical services, I need electricity, I need help of auditors, technicians from outside or maybe advocates. I also need engineers' services as consultants or I also use telephones network, telephones, net, internet; I also use advertisement agencies, services and so on. All these are my inputs.

And all these inputs are subject to GST at different rates. My raw material may be subject to GST at the rate of 5%. My different machines may be having different rate of GST from 5%, 12%, 18%, 28%. My labour is my employees. So, there is no applicability of GST on employee services because where there is employer-employee relationship, GST is not available and it is out of the preview of GST. But if I have contracted labour, this is again subject to GST may be at the rate of 18%. Then consumables. Many times, I use many chemicals or oils and lubrications that may be subject to GST 18% or 12%. Then technical services from different category of professionals, is subject to 18% GST. Electricity, I told you, it is exempted under GST, so no tax on electricity. Auditors, technical services, advocate services, GST is applicable to them at the rate of 18%, engineer services at the rate of 18%, telephone 18%, advertisement agencies 18% & insurance again 18%.

So, I have so many inputs and have hundreds and hundreds of invoices on daily basis or monthly basis to my inputs. So, it is difficult to keep a track of each and every transaction. In big company invoices are in the range of thousands or even lakhs of rupees in numbers. So, keep proper track of each and every tax because all these taxes what I have paid on my inputs are available to me as ITC (Input Tax Credit) which is subject to the conditions of section 16 and restrictions of section 17 and also other restrictions. So that there is a proper system to record these transactions, so that tomorrow when you will sell your goods, you have to pay GST and when your liability comes, it is subject to set-off against all these taxes you have already paid to your suppliers. So, we need a proper and transparent system of recording these transactions.

That is why at GST, we have cash ledger. We have liability ledger against my sale. I have credit ledger for all my inputs available to me. So, this way we record each and every transaction in our books of accounts and also at GST portal. So, friends, when I procured all these things, I process my raw material through machines, I manufacture my final product may be cycle or may be cement. So if it is cement, GST is 18%. So, if during any month I have sold cement

worth rupees 10 lakh rupees, 18% GST is applicable on it for which 1,80,000 rupees is my outward liability.



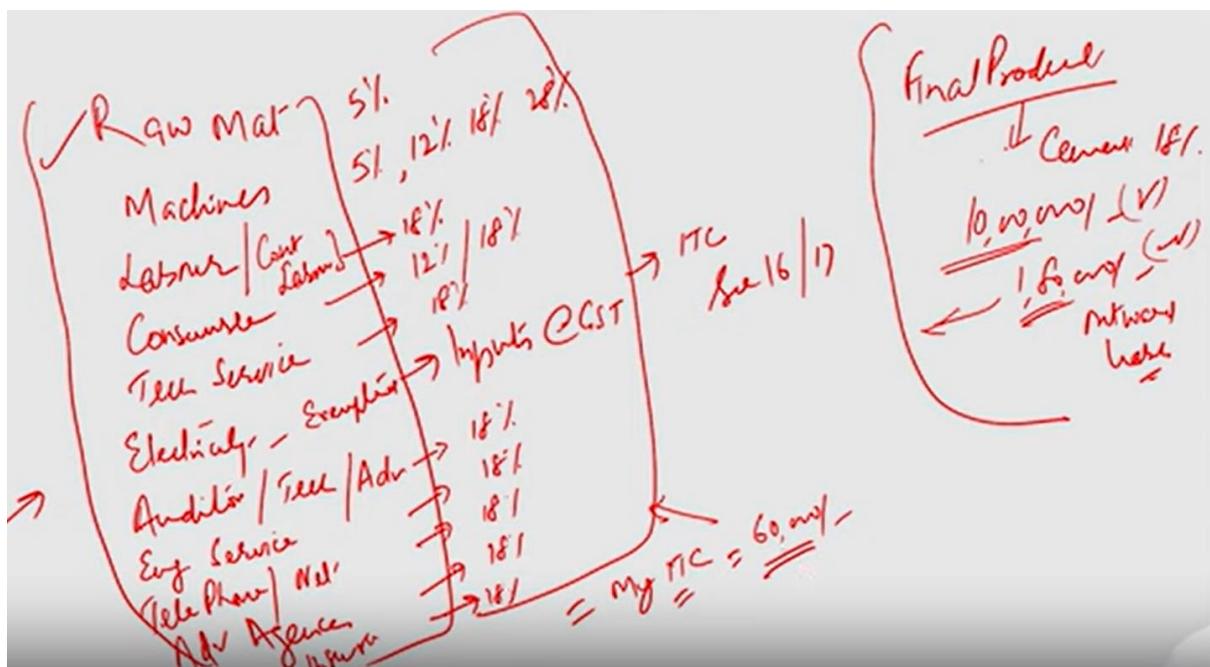
Outward liability. So, when I send the information to upload on GST portal, my outward liability will be depicted in my liability ledger because this is my liability I have to pay to the government. I have collected this GST from my consumers or from my buyers and because there is a law that once I have collected the taxes, I cannot keep these taxes with me/ I cannot retain these taxes: it's a crime if I don't pay to the government. Whatever amount of tax, may be an income tax, maybe GST, maybe sale tax, may be local area development tax, maybe municipal tax or whatever taxes are there, if I am collecting these taxes from consumers/ citizens of the country I have to pay to the government. I cannot retain any tax with me it's a crime. So, friends here also whatever amount of tax I have received from my consumer I need to pay to the government this is my liability which will be depicted on GST portal under liability ledger because mandatorily I am supposed to upload my sale data to GST portal.

How we will upload or how we upload under GST? That we will discuss in our return session when we'll talk about filing of returns under GST. So, this way when I sold this much of

cement, I have declared to the government that I have sold this much of cement. So, I have declared to the government that I have this much of liability of taxes to be paid through GST portal.

Similarly, if I am selling cement and all these items which I have purchased from market, my supplier is also declaring to the government of my supplies because when they declare to the government it is their liability, so I am their consumer, I am their buyer, so I will pay taxes to them and they are supposed to deposit to the government the way I am doing here.

So here I am buyer, some other one is a supplier, Here I am supplier some other one is a buyer. So, this way market runs and circle goes on.



So here my liability is one lakh eighty thousand rupees for a particular month or a particular tax period. So, friends during this tax period for which my liability is one lakh eighty thousand rupees, I have to work out all these things, how much is my ITC, out of these procurements? So, my ITC let's say out of these procurements is 60,000 rupees. So, in my credit ledger maintained on GST portal this amount will be depicted. So, it means I have declared my liability, means outward liability I have declared 1,80,000 rupees whereas my input is only 60,000 rupees and it is net ITC after considering section 16 and section 17 conditions.

So may be the gross amount is higher than this, let's say it's 1,00,000 rupees. So out of these 1,00,000 rupees which is my gross ITC, 40000 rupees ITC is not available to me for any other reasons as per the section 16 and section 17 conditions. So net ITC available to me is 60,000

rupees. So before paying this one lakh eighty thousand rupees in cash to the government because I have collected it from my customers which they have paid me along with my sale value in my banks or through cheques. So, when I will pay this amount to the government through GST portal, I will check how much is my ITC available to me in my ITC credit ledger. So, difference is here 1 lakh 20,000 rupees which I need to pay in cash through GST portal to the government So this is my total liability. This much of ITC available to me and the balance I will pay to the government in cash. So, in the total transaction of 10 lakh rupees, I manufacture goods worth rupees 10 lakh rupees which includes my margin also and my profit also.



I procure different inputs worth rupees 7 lakh. So, after processing the values, goods and services for the value 7 lakh, I made a final product of 10 lakh. So, 3 lakh is my value addition. So, in this way GST plays its role of giving ITC or giving ITC benefit to you and asking you to pay your taxes on your final product. So, whenever you are determining your tax liability, it means your value of goods must be correct enough. So, you must calculate the value of your products very carefully because on these values GST will be calculated and to be paid to the government. If your goods are overvalued, means you are unnecessarily paying tax and if your goods are undervalued, you are evading tax. Government will be after you for recovery.

So, taxes depend on the value of the products and product's costing and product's value should be determined very technically or very accurately so that there should not be any dispute in future. So, friends, as I mentioned you that there are different types of ledgers maintained at GST portal. I will show you these ledgers also in our coming presentations.

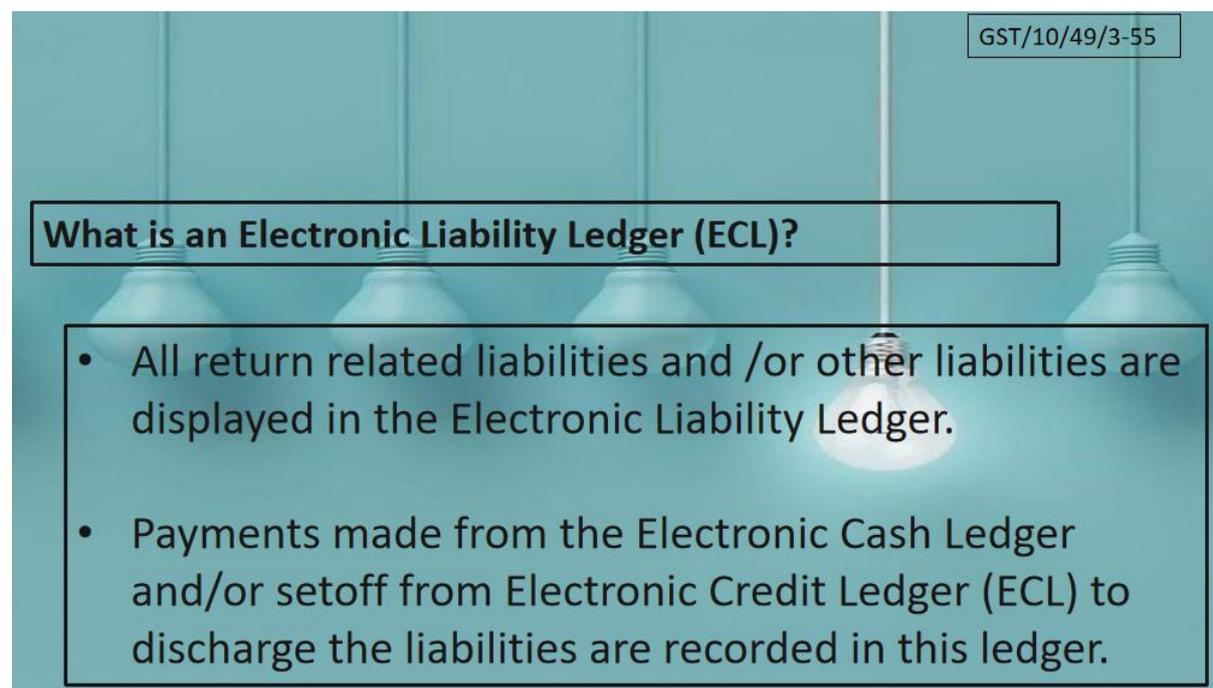
What is an Electronic Credit Ledger (ECL)?

- In the Electronic Credit Ledger (ECL) , all credits accrued or assessed on account of inward supplies of a taxpayer/buyer within a tax period (say month) are credited.
- This ledger is maintained at GST portal.
- An Electronic Credit Ledger can be viewed only by the taxpayers themselves or by the concerned Jurisdictional Officer (JO).
- The amount available in the electronic credit ledger may be used for making any payment towards outward tax liability under this Act or under the Integrated Goods and Services Tax Act

So electronic credit ledger. Before going into credit ledger, I told you that section 49 of CGST Act deals with payment of taxes. So, payment of taxes includes payment of taxes by setting off my ITC as well as payment of cash. So, in electronic credit ledger as I told you that the credit is available to me. Credit of what? It's Credit of ITC accrued or assessed on account of inward supplies. And inward supplies are, raw material, machines, contracted labour, consumables, technical services like this. So, all inward supplies are subject to GST and whatever tax I have paid on my inward supplies is available to me as ITC, within tax period that is for one month. Means if we are in June so during June whatever items I have procured that is my ITC and it will be reflected in electronic ledger when I will declare things to GST portal.

This ledger is being maintained by GST portal based on the information uploaded on that. Maybe by me as a manufacturer or maybe by my supplier who has supplied goods to me and has declared his liability to GST portal. Then the electronic credit ledger can be viewed only by taxpayers. So, any individual cannot assess credit ledger of anyone unless you are having proper login id password at GST portal and you have GST number (you are registered person) on GST portal, only then you will be able to assess your credit ledger. Or by the officers of your area. Means wherever you have business there always be a GST department over there, maybe state government or central government. And the officer who is dealing with your cases or he is the one under whose jurisdiction you are working, that officer is also having access to credit ledger of yours. He can view how much credit is available to you and how much you have declared in your GST portal.

Then amount available in this electronic credit ledger may be used for making payment towards outward tax liability. I told you that in GST whenever I am selling my goods, if I sold cement worth rupees 10 lakh rupees there is tax liability on me at the rate of 18%. This amount available in my credit ledger is available to me to adjust against my outward tax liability under this Act or under IGST Act. Means, in case of interstate supply or in case of intrastate supply. We have talked about these two concepts during our place of supply and point of time for taxation purpose. So, this way electronic ledger is used by registered person and government authorities to determine how much credit ledger is available to you because of your input procurements.



GST/10/49/3-55

What is an Electronic Liability Ledger (ECL)?

- All return related liabilities and /or other liabilities are displayed in the Electronic Liability Ledger.
- Payments made from the Electronic Cash Ledger and/or setoff from Electronic Credit Ledger (ECL) to discharge the liabilities are recorded in this ledger.

Further, all return related liabilities means whenever we are doing any business, whenever we are selling goods or whenever we are procuring something we are supposed to file returns under GST. We will talk about the returns in our next sessions. So, when we file our returns, returns are being filed on GST portal, they are linked to my electronic credit ledger. Similarly, like credit ledger, we have liability ledger. So, when I declare my sale to GST portal, it is depicted in my electronic liability ledger, how much liability I am having. Payments made from electronic cash ledger and/or set-off from electronic credit ledger to discharge liability are recorded in this ledger. How much is my liability and how I have made or how I meet this liability; either by cash or by having amount from my credit ledger, this way my liability is met.

In which FORM the electronic credit ledger (ECL) is maintained?

The electronic credit ledger shall be maintained in **FORM GST PMT-02** for each registered person eligible for input tax credit and every claim of input tax credit shall be credited to this ledger.

In GST everything is maintained properly with full transparency in a set system. For electronic credit ledger we have set format, what information is to be mentioned over there and how it should look like? So, this is predetermined form available on GST portal and it is in form GST PMT-02 (format is given there); it is prescribed format. In case of invoices there is no prescribed invoice format but information is mentioned there in the law what is to be carried by your invoices? But here it says electronic credit ledger must be maintained in prescribed format and format name is PMT 02. It is to be maintained by each registered person at GST portal. And whatever credit will be available to him it will be credited to this ledger so that he can use this credit benefit ITC against his output liability.

When to debit the electronic credit ledger (ECL)?

1. ECL shall be debited to the extent of discharge of any tax liability.
2. While claiming the refund of any unutilized amount from the ECL, the amount to the extent refunded shall be debited.

So far, we know that ITC is a benefit to any businessman for the taxes already paid by him to his supplier. This benefit will be available to him in electronic credit ledger. Amount will be credited to his electronic credit ledger and whenever we want to reduce this balance, because whenever we are using this amount for the payment of taxes, this amount gets reduced.

For example, if at any point of time, if in this credit ledger, I have one lakh rupees, it will be shown as credit balance as it is shown in your bank book/ passbooks. Whenever you are depositing money to bank, bank show it as a credit balance in your passbook. If it is debit balance, then it means you have taken loan from bank. In bank, whenever you are depositing your money in saving account or even current account, it will be shown as credit balance to you. Here also, whenever any ITC is accrued to you on your procurement, it will be shown as credit balance in electronic credit ledger. So, when you are going to pay out of this 1 lakh rupees to meet your output liability and suppose your output liability is 50,000 rupees, so this electronic credit ledger will be debited to you means government has paid to you because you have used this amount for your own liability. So electronic credit ledger shall be debited to the extent of discharge of your tax liability. So, you have sold your goods now, you have tax liability to pay to the government, so you have option either to use your electronic credit ledger balance or you pay through cash. So, if you have credit ledger balance definitely you will use this credit ledger balance first because this amount you have already spent on your procurement so you will exhaust this balance and discharge your liability. So, in this case if my outward liability is fifty thousand rupees definitely, I will use this one lakh rupees and it will be debited by fifty thousand rupees and my balance remains there fifty thousand rupees as credit balance after meeting my tax liability for that particular month, while claiming the refund of any unutilized amount of electronic credit ledger.

So, friends it happens many times when at this point of time you are having tax liability you use this balance of one lakh rupees and afterwards something has happened and gone wrong that you decided to close your business. Sometimes you export the things, so when you are exporting; because export is not subject to GST, so you have exported the things, your goods, and GST liability is not there, so you are eligible to get refund in your account, in your bank account. So, this amount of 50,000 rupees, which is lying in credit ledger, unutilized, because you know that in future this will not be used because you have now exported only.

So anytime when you have refund amount from the government, it will again be debited by 50,000 rupees (will be debited to you); now the balance is nil. So, this way this credit ledger

depicts information on GST portal because every time when you are doing any action you have to declare on GST portal through set mechanism and accordingly your ledgers will be depicted there and your balances will be shown in your ledgers. So, whenever you are having any refund, you can claim refund as per section 54 of CGST act and this ledger will be debited and amount will be transferred to your bank account. So, it will help you in your working capital.

In business many things happen on daily basis if you are procuring or buying things online through e-commerce operators. We have so many e-commerce operators, Amazon, Flipkart, etc. It happens many times that you place an order on Amazon for a mobile and you pay amount online and mobile will be delivered to you at given address in 3-5 days and you can track the transaction also. So, when the actual delivery is given to you on a given time, you open it and you find that the mobile had some problem or it is not that particular model which was ordered by you. What you will do? You will return it by uploading the information on their respective portal on amazon portal. So, it means you have returned that particular mobile.

From company's/supplier's point of view, when the supplier supplied this mobile to you on your order he will raise invoice in your favour as you have already made payment to him online. So, he will book his sale of mobile and if this mobile is for one lakh rupees, 18% GST is there then the tax liability for that particular supplier is eighteen thousand rupees (18000 rupees) on that one lakh rupees of mobile which he will pay to the government. But after some time when you reject this material this mobile you will send it back to the supplier. Their people will come, they will collect it from you as you have already posted on their portal that it is rejected/it is not accepted to me. So, when the mobile is rejected by you, you posted the information on portal, it is the sale return for supplier. 'Sale Return' is material rejected by customer. Then what will happen in case there is no sale and supplier has already paid tax to the government.

Let's take example. He has already paid tax to the government and tax was paid because sale was there. Now sale is rejected and sale is returned now. Material is returned by customer, so there is no sale. So, what the supplier will do? He will reduce his sale because his sales have come down as this material is not sold now and accordingly his tax liabilities will also come down. He will create similar system with government that his sale is not there, so he will take back the material, so his liability is reduced, so tax should not be paid to the government. These things happen on daily basis in the business and accordingly we have to record our transactions and same is the case with GST also. So, if your credit ledger was debited once upon a time because of payment of your taxes it can be recredited also. Credit was given when procurement

was done and debit was done when you pay taxes out of it and there are possibilities there are cases when recredit is required and recredit happens. How? If refund so filed is rejected.

GST/10/49/6-55

When to re-Credit the electronic credit ledger ?

1. If the refund so filed is rejected, either fully or partly, to the extent of rejection, shall be re-credited to the electronic credit ledger.
2. Where a registered person has claimed refund of any amount paid as tax wrongly paid or paid in excess for which debit has been made from the electronic credit ledger, the said amount, if found admissible, shall be re-credited to the electronic credit ledger.

I told you if you have exported the things, you will get amount balance back so at the time of claiming your refund out of this amount when you will file your application of refund your credit ledger will be debited automatically, when you file your refund application. And if this refund application is rejected, if officer concerned rejects your application, then what will happen? So, when you applied for refund your credit ledger is debited, when officer will reject it will be reversed, so it will be recredited. So here again your balance will remain 50,000 rupees as a credit balance in your ledger. It shall be re-credited in electronic credit ledgers.

Where a registered person has claimed refund of any amount paid as tax, wrongly paid. It happens many times because of some clerical mistake or because of some accountant mistake or otherwise, that you paid wrong tax /excess tax; or maybe because there is change in invoice value or the quantity or the rate, that your tax gets amended and you came to know that you paid excess tax. If tax is paid in excess for which debit has already been made then when you are going to pay taxes, if ITC credit ledger balance is there, you will use that balance first and your credit ledger will be debited.

So, in given case, if your liability was 100 rupees and your balance available in your credit ledger was 1000 rupees, you paid this tax of 100 rupees your remaining balance is 900 rupees in credit ledger. But later you came to know that these 100 rupees is actually wrong figure, it was 85 rupees. It means you have paid 15 rupees excess. It means your balance should be 1000

minus 85 and your balance should be 915. So, 15 rupees will be recredited to your credit ledger because you paid excess tax. Later you came to know that 15 rupees has been paid excess, so it will be recredited to your account, so that you should have actual amount so shall be recredited in electronic credit ledger.

It will happen only when you declare the things on GST portal through your returns because to interact with GST portal returns are the media or the medium through which you are connected with your GST portal with all this credit ledger, cash ledger or liability ledger. We'll see everything in our next slides but here I am just trying to make a clear picture for you that how things happen in GST and at GST portal.