

Input Tax Credit Rules under GST Regime – Key 8 Provisions

April 5, 2017

A. ITC Availment – Procedural Requirements [RULE 1]

ITC can be availed only if all particulars as prescribed in Invoice Rules are contained in the document (invoice / debit note / BoE / ISD document) and such relevant information is furnished in Form GSTR-2. However, no ITC can be claimed in respect of tax paid pursuant to any order where demand arises on account of fraud, wilful misstatement or suppression of facts.

B. ITC Treatment in case of failure to pay to supplier [RULE 2]

Where the registered person availing ITC on any inward supplies, fails to pay to the supplier thereof the value + tax payable thereon within 180 days from date of invoice [second proviso to Section 16(2) of CGST Act], he shall furnish such details and amount of ITC in Form GSTR-2 for the month immediately following said period. The amount of ITC shall be added to the output tax liability for the month in which the details are furnished.

C. ITC Treatment in case of Banking Companies [RULE 3]

A banking co. / financial institution including NBFC engaged in supply of services by way of accepting deposits / extending loans / advances that chooses to avail every month, an amount of 50% of eligible ITC on inputs, capital goods and input services in that month.

D. ITC Distribution Procedure [RULE 4]

An Input Service Distributor (ISD) shall distribute ITC as follows

- ITC available shall be distributed in the same month and details thereof shall be furnished in Form GSTR-6
- Amount ineligible as ITC under Section 17(5) and eligible amount shall be distributed separately;
- ITC on account of central tax, State tax, Union Territory tax and integrated tax shall be distributed separately;
- ITC required to be distributed to one of the recipients from amongst the total of all the recipients, including those engaged in making exempt supply, shall be calculated by applying said formula = ratio of the turnover of such recipient during relevant period and aggregate of turnover of all

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recipients during the relevant period, multiplied by amount of credit to be distributed;

- ITC of integrated tax shall be distributed as ITC of integrated to every recipient;
- ITC on account of central tax and State tax shall - (i) be distributed as ITC of central and State tax where recipient is located in same State as ISD; (ii) be distributed as integrated tax and the amount to be so distributed shall be equal to aggregate of amount of ITC of central tax and State tax that qualifies for distribution, where recipient is located in a different State;
- Invoice shall be issued clearly indicating that same is for distribution of ITC only;
- Any ITC to be reduced on account of credit note to ISD by the supplier, shall be apportioned to each recipient in the same ratio in which ITC was originally distributed;

E. ITC Treatment where person ceases to pay tax under composition scheme [RULE 5]

Where person ceases to pay tax under composition scheme under Section 10 and where an exempt supply of goods / services / both becomes taxable, ITC on inputs lying in stock / inputs contained in semi-finished / finished goods lying in stock / credit on capital goods in accordance with Section 18(1)(c) and (d) shall be claimed subject to following conditions

- (i) ITC on capital goods shall be claimed after reducing the tax paid thereon by 5% per quarter / part thereof from date of invoice / such other documents;
- (ii) Registered person shall within 30 days from becoming eligible to ITC, shall make a declaration electronically to said effect in Form GST ITC-01, and same shall be duly certified by Chartered / Cost Accountant if aggregate value of claim on account of central tax, State tax and integrated tax exceeds Rs 2 lakhs;
- (iii) ITC so claimed shall be verified with corresponding details of corresponding supplier in Form GSTR-1 / GSTR-4.

F. ITC Treatment where input / input services partly used for exempted supplies [RULE 7]

Prescribe procedure of attributing ITC to business / taxable supplies, where ITC of inputs and input services is partly used for the purposes of business and partly for other purposes / partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempted supplies.

G. ITC Treatment where ITC of capital goods is partly used for exempted supplies [RULE 8]

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H. ITC Treatment in case of supplies made to Job – Worker [RULE 10]

Inputs and capital goods shall be sent to the job-worker under the cover of challan issued by the principal, including where they are sent directly to job-worker. The details of challans in respect of goods dispatched to a job-worker / received from job-worker shall be included in Form GSTR-1. If the inputs and capital goods are not returned within 1 and 3 years of being sent out respectively, the challan so issued shall be deemed to be an invoice.

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