

Input Tax Credit*

*in continuation of Previous ITC PPT

ITC when capital goods and inputs are sent to job worker Section 19

- This is briefly covered in PPT given earlier on job worker. Therefore, not included in this presentation

E-ledgers

- Are electronic statements of cash, input tax credit and liability in respect of each registered taxpayer. These are displayed on every registered taxpayer's dashboard and updated on real time basis.
- Types of E-ledgers:
 - Electronic liability ledger
 - Electronic cash ledger
 - Electronic credit ledger

Electronic liability ledger

- It reflects the total tax liability of a taxpayer for a particular month in the Form GST PMT-01.
- It is maintained for each person who is liable to pay tax, interest, penalty, late fee or any other amount on the common portal and all amounts payable by him shall be debited to the said register.
- Payment of every liability by a registered person shall be made by either debiting the electronic cash ledger or electronic credit ledger and accordingly, electronic liability register will be credited. With every decrease/ discharge of liability, electronic liability register gets credited.
- Order of discharge of liability of taxable person:- Following order must be followed while discharging liability:-

Self-assessed tax and other dues such as interest, penalty, fees or any other amount **for the previous tax periods** must be discharged first. In the Second order, self-assessed tax and other dues of **current period** must be discharged. And finally, any other amount payable under section 73 (demand notice) or Section 74 (adjudication proceedings) to be discharged.

Electronic Cash ledger

- It is a statement where records of deposits and disposal of liabilities are maintained in the Form GST PMT-05.
- Every deposit made by a person will be credited to the electronic cash ledger. The amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable.
- The deposit can be made through any of the following modes, namely:
 - (i) Internet Banking through authorised banks;
 - (ii) Credit card or Debit card through the authorised bank;
 - (iii) NEFT or RTGS from any bank;
 - or (iv) Over the Counter payment through authorised banks for deposits up to Rs 10,000/- per challan per tax period, by cash, cheque or demand draft. (Restriction of Rs. 10,000 is not applicable in special cases)

- A challan in FORM GST PMT-06 is required to be generated on the common portal in which the details of the amount to be deposited towards tax, interest, penalty, fees or any other amount is to be entered. This challan will be valid for a period of fifteen days
- IN case the payment is required to be made by an unregistered person, it can be done on the basis of a temporary identification number generated through the common portal.
- In the electronic cash ledger, information is displayed under major heads such as IGST, CGST, SGST/UTGST and Cess. Each major heads have minor heads such as tax, interest, penalty, fee and others. Cross utilisation across MAJOR AND MINOR heads is not permitted.

Electronic Credit ledger

- It reflects the ITC claimed by a registered taxpayer and is maintained in Form GST PMT-02. Every claim of ITC made by a registered person gets credited to electronic credit ledger.
- **It is used to make payment towards output tax ONLY. It can't be used to make payment towards interest, penalty, fess, etc. Therefore, if an output tax liability is discharged using electronic credit ledger, then this ledger gets debited by the respective amount.**
- If any claim for refund of unutilised ITC is made and approved, then electronic credit ledger gets debited by that amount.

Manner of making payment towards liability

The liability of a registered taxpayer as reflected in electronic liability register can be discharged :-

1. By way of debit in electronic credit ledger. However, **electronic credit ledger can be used to make payment of output tax only. Electronic credit ledger cant be used to make payment towards interest, penalty, fees, etc.**

Or

2. By way of debit in electronic cash ledger. Electronic cash ledger can be used to discharge all types of liabilities including output tax, interest, penalty, or any other payment.

Method of Utilisation of ITC

- **IGST credit:** It should be utilised first for payment of IGST. If any balance is left, then it can be utilised towards payment of CGST and SGST/UTGST in any order.
- **CGST credit:** First utilise towards CGST and balance, if any, for payment of IGST (**CGST credit can be utilised for IGST payment only after IGST credit is fully utilised**). CGST credit can't be utilised for payment of SGST/UTGST.
- **SGST CREDIT:** first, utilise towards SGST and balance, if any, to be utilised towards IGST payment (**Most importantly, SGST credit can be utilised for IGST payment only when ITC on account of IGST and CGST are fully utilised.**) SGST credit can't be utilised for payment of CGST.

- UTGST credit: first, utilise towards UTGST and balance, if any, to be utilised towards IGST (**Most importantly, UTGST credit can be utilised for IGST payment only when ITC on account of IGST and CGST are fully utilised**). UTGST credit can't be utilised for payment of CGST.
- GST compensation cess credit: Can be utilised only for payment of GST compensation cess.

Order of utilisation of ITC

Rule 88A

Steps given in the next slide must be followed.

ITC	Output tax liability of IGST	Output tax liability of CGST	Output tax liability of SGST/UTGST
ITC in respect of IGST	<p>Step1 First, Utilise to discharge output tax liability on account of IGST</p>	<p>Step2 If any IGST credit balance is left , it is to be utilised towards discharging payment of CGST or SGST/ UTGST, in any order.</p> <p>After Step 2, if any IGST credit is left, then it is to be carried forward.</p>	<p>(Same Step 2 as mentioned in 3rd column) If any balance is left on account of IGST credit, it is to be utilised against payment of CGST or SGST/ UTGST, in any order.</p> <p>After Step 2, if any IGST credit is left, then it is to be carried forward.</p>
ITC in respect of CGST	<p>Step 4: CGST credit can be utilised against discharging payment of IGST (if any balance is left after Step-1) . Do note that this step is applied only when entire IGST credit is fully exhausted.</p> <p>Any balance of CGST credit, of left after point 4 can be</p>	<p>Step 3: Utilise CGST credit to discharge output tax liability on account of CGST. But, do remember this step can be applied only when IGST credit is fully exhausted.</p>	<p>-----</p>

**ITC in respect of
SGST/ UTGST**

**Step 6: If any SGST/
UTGST credit
balance is left after
step-5, then it can be
utilised against IGST
payment (if any
balance left after
applying step-4).
However, this step is
applicable only when
IGST credit and
CGST credit is fully
exhausted.**

**Step 5: ITC on
account of SGST/
UTGST to be utilised
against payment of
output tax liability
on account of
SGST/UTGST. But,
this step can be
applied only when
IGST credit is fully
exhausted i.e. after
applying step-1 and
step-2.**

Matching, reversal and reclaim of ITC

Section 42

1.

- Matching of inward supply details filed by recipient with the details of outward supply furnished by the supplier during a tax period. If the details match, then claims are accepted and acceptance is communicated to recipient in the Form GST MIS-1 through common portal

2.

- Discrepancy is communicated to both recipient as well as supplier if ITC claimed is higher than what is reported by supplier or if outward supply is not declared by the supplier in his GSTR-1. Discrepancy due to duplication of ITC is communicated to recipient only.

3.

- Discrepancy should be rectified by supplier in the statement of outward supplies return for the month in which it is communicated. Correction for duplication of ITC must be made by recipient in the statement of inward supplies for the month in which discrepancy is communicated.

4.

- If the discrepancy is not rectified by the supplier, then it is added to the output tax liability of recipient in his GSTR-3b for the month succeeding the month in which discrepancy is communicated. Also, if rectification of duplication of ITC is not made by recipient then it is added to the output tax liability of recipient of the month in which duplication is communicated.

5.

- Reclaim of ITC is possible once supplier makes the necessary rectifications within the prescribed time limits.

References and further readings

Books:

- CA K.M. Bansal, GST & Customs Laws, Taxmann
- Dr. V.K. Singhania, GST and Customs Laws, Taxmann

E-resources:

<http://www.cbic.gov.in/resources//htdocs-cbec/gst/Electronic%20Cash%20Ledgers.pdf;jsessionid=629586CF4F470284A303C1F07C8C45F2>

http://cbic.gov.in/resources//htdocs-cbec/gst/ITC%20_Mechanism.pdf