



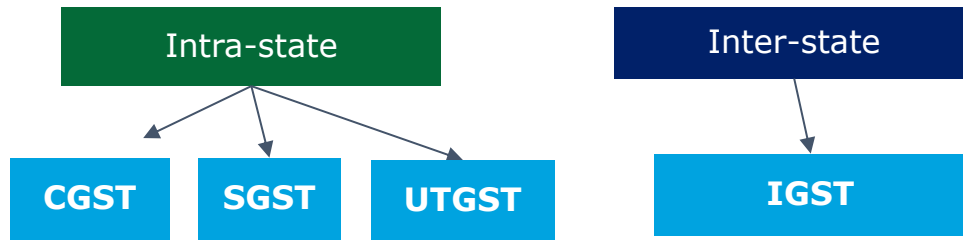
Input tax credit under GST

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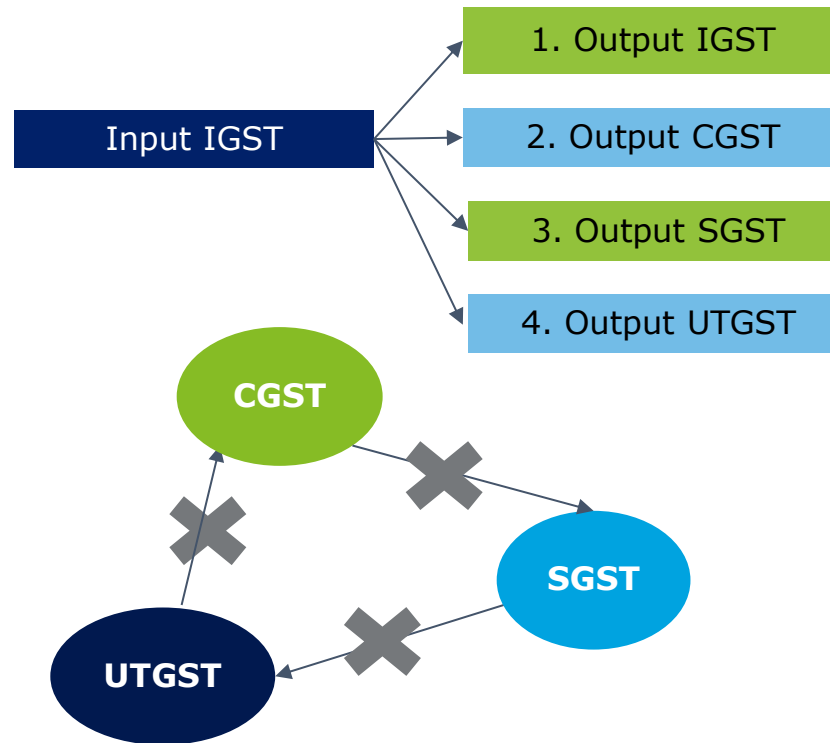
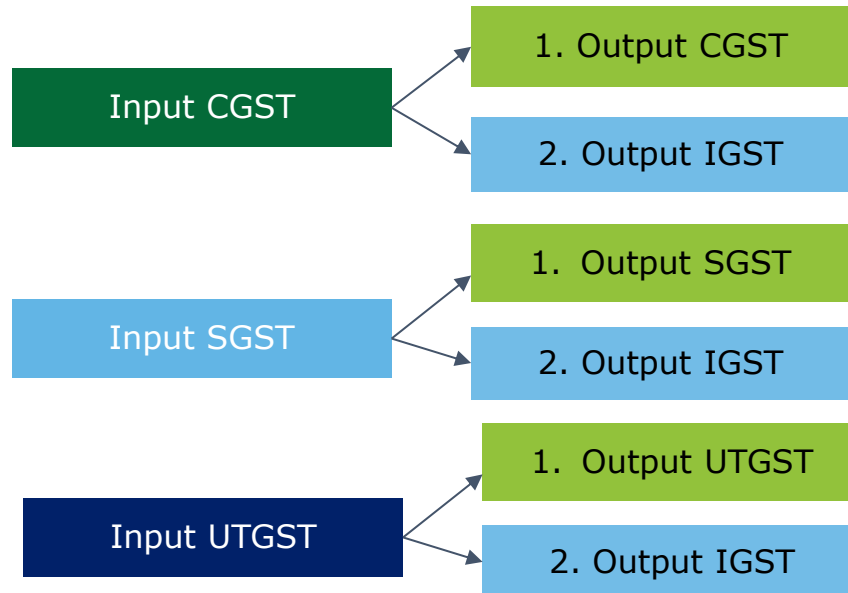
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GST Credit Mechanism

GST Credit Mechanism

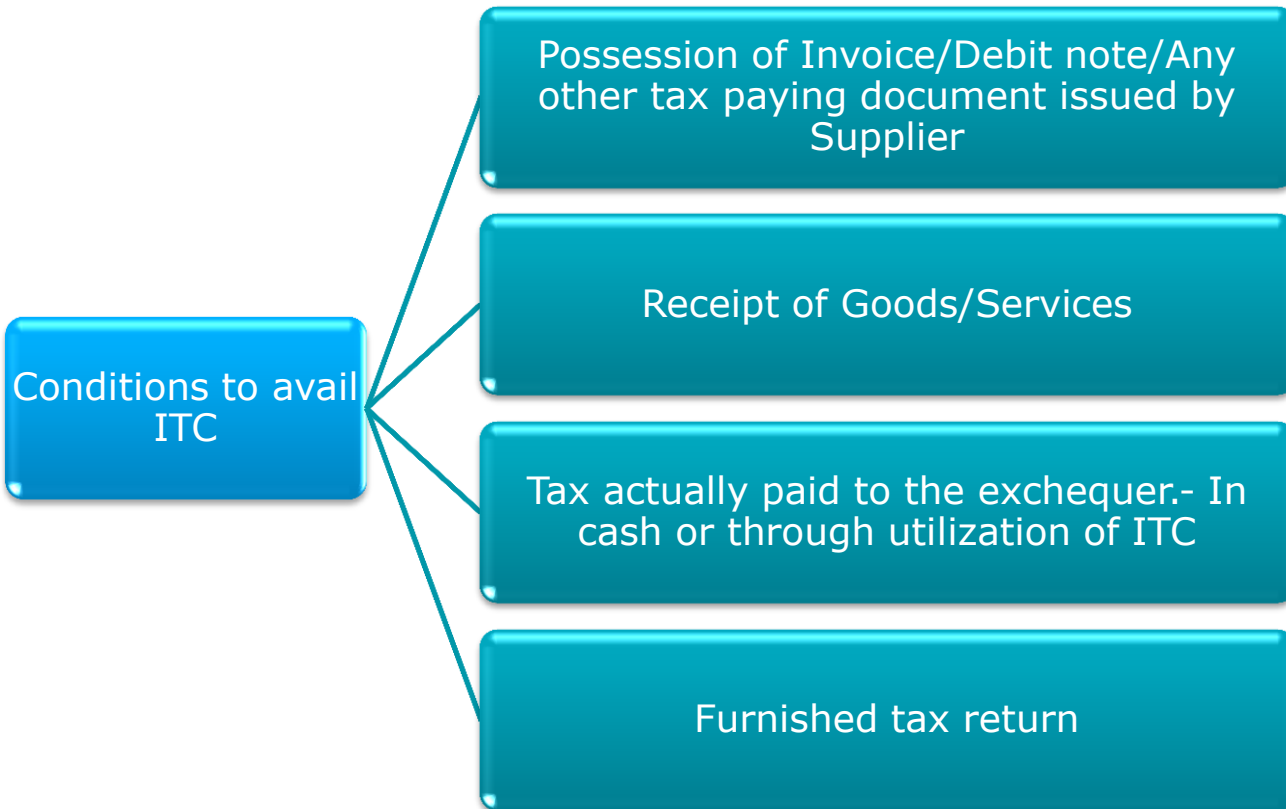


GST Credit Mechanism



Conditions to avail Input GST Credit

Conditions to avail Input GST Credit



- In case goods against an invoice are received in lots or installments, ITC shall be entitled on receipt of last lot / instalment
- If recipient fails to pay suppliers of goods and / or services, the amount (value + Tax) towards supply within 180 days from the date of issue of invoice, amount of ITC availed by recipient shall be added to his output tax liability **with interest**, in prescribed manner, in proportion to unpaid amount. Such credit can be re-availed once payment is made to the supplier
- In case where goods move to third person from vendor on directions of taxable person, conditions mentioned vide S. 16(2) would not be applicable. For eg.
 - Transactions between agent & principal
 - Transactions between job worker & principal
 - Direct supply to customer by vendor on direction of taxable person
- No ITC on depreciation component
- No ITC shall be available in respect of invoice / debit note for supply of goods / services after furnishing return for September of the following year or annual return, whichever is earlier

Supplies on which credit is not eligible (Negative list)

Supplies on which credit is not eligible (Negative list)

Negative list

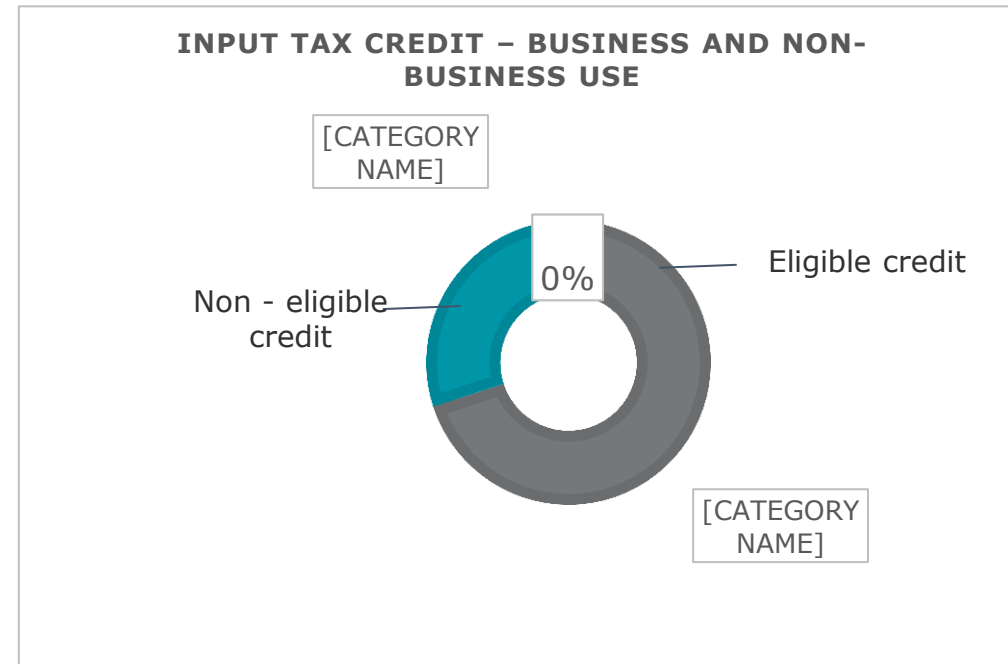
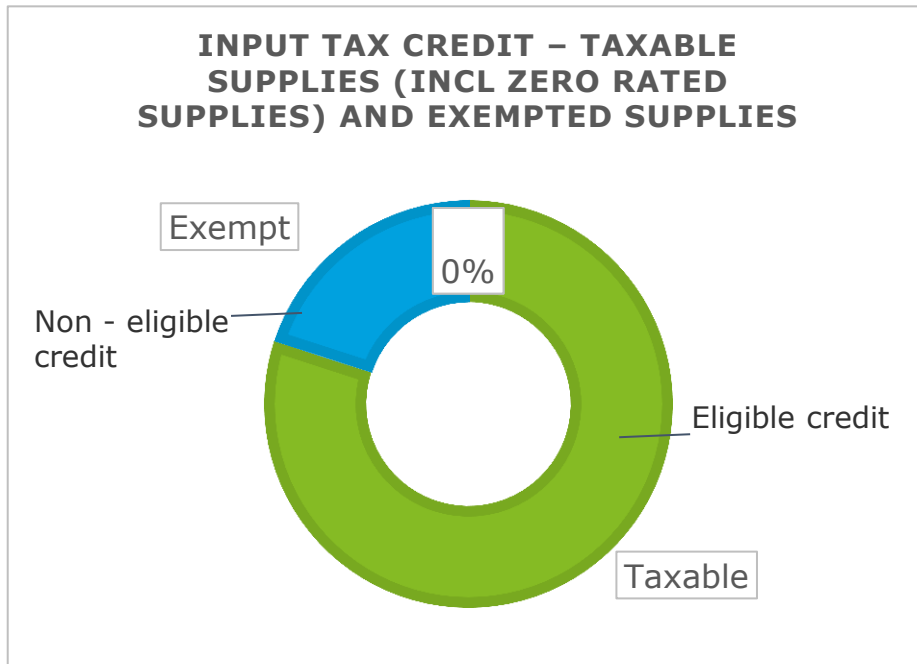
No ITC in following situations:

- Motor vehicles and other conveyances, except when they are used for transportation of goods
- Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, except when such inward supplies are used by taxable person engaged in rendering same category of goods / services
- Membership of a club, health and fitness centre
- Rent-a-cab, life insurance, health insurance except where Government notifies services which are obligatory for an employer to provide to its employees under any law
- Travel benefits extended to employees on vacation such as leave or home travel concession
- Works contract services when supplied for construction of immovable property, other than plant and machinery, except where it is an input service for further supply of works contract service;
- Goods or services received by a taxable person for construction of an immovable property on his own account, other than plant and machinery, even when used in course or furtherance of business
- Goods/services on which tax has been paid under composition scheme
- Goods / services for personal consumption
- Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples

Blocking / Reversal of ITC

Blocking/Reversal of ITC

- Credit of tax paid on inputs, input services and capital goods used solely for output supplies which are exempted would not be eligible
- Credit pertaining to inputs and input services used commonly for taxable and exempted supplies would be available proportionately to the extent of usage for taxable supplies
- Exempted supply would also include such output supplies on which GST is payable by the recipient of supplies
- Credit of tax paid on inputs, input services used solely for non business purposes would not be eligible
- Credit pertaining to inputs and input services used commonly for business and non business purposes would be available proportionately to the extent of usage for business purposes



ITC – Benefits and Challenges

ITC- Benefits

Benefits

- Free flow of credit and cross utilization against one another
- No deferment of credit with respect to taxes paid for procurement of capital goods
- Time limit for payment to vendors increased from 90 days to 180 days
- Eligibility to claim credit of taxes paid under reverse charge in the same month
- Reduction of credit on movement without sale (stock transfer) done away with
- Increased base of inputs / input services / capital goods on which credit was allowed (eg. Motor vehicles, outward transportation, etc.)

ITC - Challenges

- Interest on payment beyond 180 days
- Retaining amount for suppliers, credit reversal
- Subject to supplier's compliance
- Matching concept and interest implications on account of erroneous Form GSTR-2 filed by the supplier (as and when mandated) the credit of which is taken today
- Reversal of credit in case of capital goods used for taxable as well as exempted supplies
- Reversal of credit pertaining to other supplies used for taxable as well as exempted supplies (for instance non-GST supplies such as petrol, diesel)
- Non fungibility of credit between CGST and SGST
- GST to be paid on advance received for services
- Non eligibility of credit on capitalized cost of immovable property

ITC – Specific industry issues

Oil and Gas

- For midstream – output attracts VAT / CST, hence inputs / input services attracting GST is cost
- For downstream – inputs attracting VAT /CST, hence credit not available on the same under GST
- Generic – mandatory credit reversal on inputs / input services commonly used for extraction / manufacture of the 5 exempted products.
- ITC on pipelines laid outside factory, credit cannot be claimed

Real estate

- Registration compulsory in the state where project is ongoing, or else immovable property related credit would not be available
- Unorganized vendors, problem with credit matching and compliance with reverse charge mechanism (deferred upto 31 March 2018)

Telecom

- No ITC on inputs / capital goods used to construct telecom towers.
- With Electricity and petroleum products out of GST, will lead to increase in the overall cost for operating telecom towers.
- Transfer of inter-unit credit by raising ISD invoice, which increases compliances

ITC – Specific Industry issues

Financial services

- 50% of credit availed against capital goods to be reversed as against no reversal in earlier tax regime
- State wise assessment would require justification by each registered branch of banks and NBFCs on its position on chargeability in the respective state and basis for utilizing input tax credit in the states.
- Transfer of inter-unit credit by raising ISD invoice, which increases compliances

Manufacturing

- Reversal of input tax credit on free samples
- Blockage of working capital on account of taxability of interstate stock transfer
- Reversal of credit claimed on capital goods used for taxable as well as exempted supplies
- With electricity and petroleum products out of GST, will lead to increase in the overall cost of operations.
- Movement of goods to job worker resulting into deemed supply if not received back within prescribed time limit

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