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On input tax credit

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Analysing the central feature of GST

Input tax credit (ITC) is one of the core concepts of the GST framework. ITC is the credit of the GST into the account of the buyer of goods or services. It equals the amount already charged by the supplier from the buyer as tax and paid to the Government. This tax paid by the seller makes the buyer eligible to claim input tax credit of an equal amount.

To understand how the ITC works, consider a simple buy-sell transaction. Firm A buys fabric of worth ₹100 from Firm B for making, say, a shirt. GST on the fabric is 5 per cent. Firm A pays ₹105 to Firm B. Firm B has to pay ₹5 to the Government as GST. When Firm B has paid the GST, firm A will get the input tax credit of ₹5. Firm A can use this credit to pay GST on the shirt.

Essential conditions

Here, both the supplier and the recipient should be registered under GST. Every registered firm is entitled to take ITC on inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which he becomes liable to pay tax.

A firm can take credit of input tax on inputs even if the inputs or capital goods are directly sent to a job worker for job-work without their being first brought to its place of business. ITC cannot be claimed by a firm registered as a composition tax payer.

If goods and/or services are used by a firm partly for the purpose of any business and partly for other purposes, the amount of credit will be restricted to so much of the input tax as is attributable to the purposes of his business.

ITC can be availed on the taxable and zero-rated supplies. It is not available on non-taxable supplies, exempt supplies and nil-rated supplies. ITC is also not available on many types of specific supplies.

These include: (I) Supplies made after one year from the date of issue of tax invoice relating to such supply; (II) supply of motor vehicles except when for commercial purposes; (IV) supply of food and beverages, outdoor catering, beauty treatment, health services except where such supplies are used by a GT-registered firm for making an outward taxable supply of the same category of goods or services; (V) membership to a club, health and fitness centre; (VI) goods or services received by a taxable person for construction of an immovable property on his own account.

Core concerns

What is the core concern of many firms on ITC?

There will always be cases where the seller charges a price from the buyer that includes the GST. But the seller does not pay this tax to the Government. In such cases, the buyer will suffer as he cannot claim input credit even though he has paid full price that includes the tax.

So, post-GST, a buyer has to worry not only about his business but also ensure that his business partners pay tax and file returns on time. For the Government, this self-policing policy ensures that the tax is paid by someone in the value chain.

The writer is from the Indian Trade Service. The views are personal. Adapted from his book, 'The GST Nation: A Guide for Business Transformation'

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