Input Tax Credit

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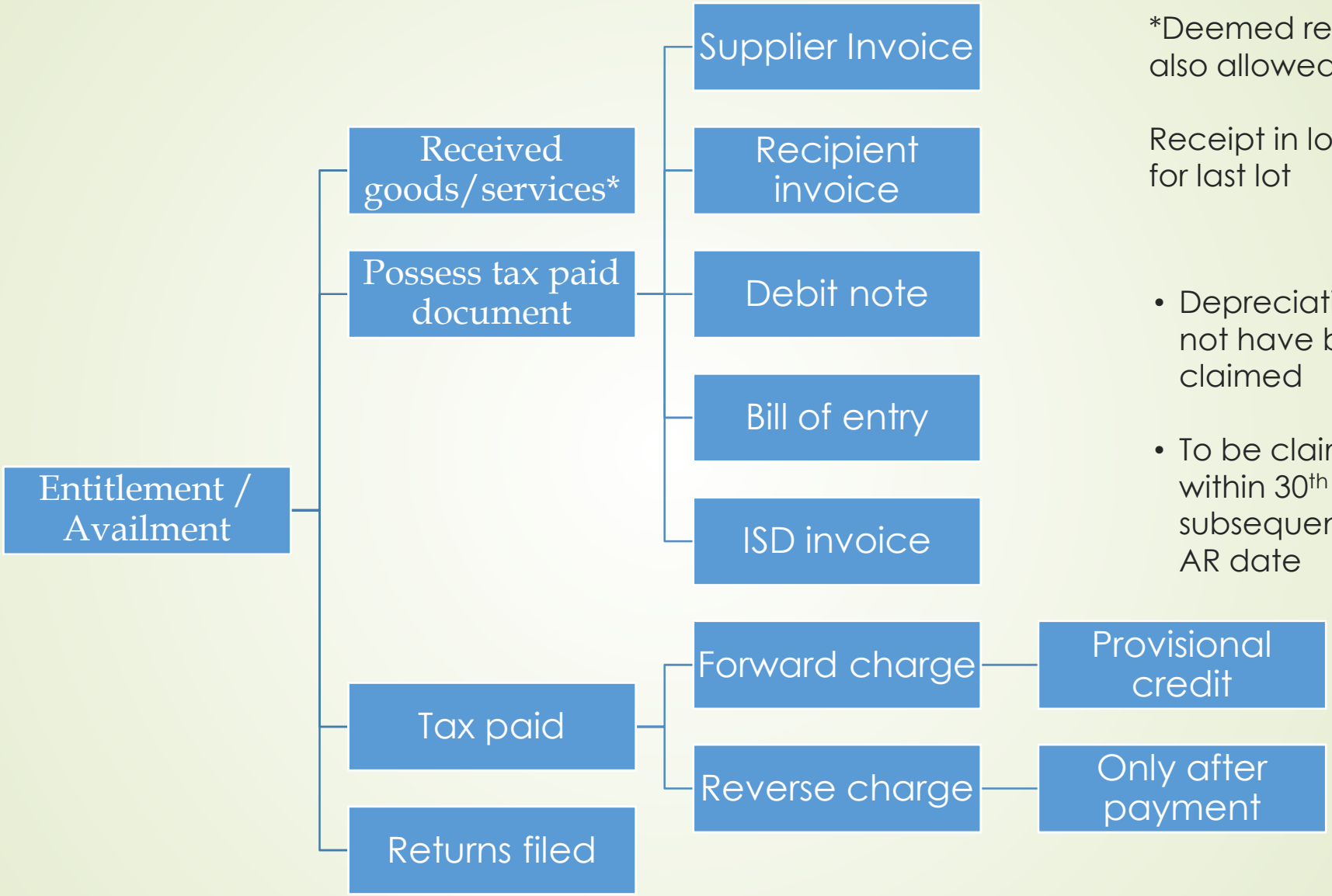
Concept of Input Tax Credit - ITC

- **ITC - Tax paid** on **inputs** available as set-off against **tax payable** on **output**
- Back-bone of value added tax system
- Cascading effect of tax
- ITC allowed only for registered person other than composition supplier
- In the course or furtherance of business



*Deemed receipt also allowed

Receipt in lots – wait for last lot

- Depreciation must not have been claimed
- To be claimed within 30th Sep of subsequent FY or AR date

Payment to supplier within 180 days:

- Both value and tax
- Pay only tax and take full credit?
- What about schedule I supply?
- Interest to be paid on reversal
- Re-availment of reversal – time limit

Utilization of ITC

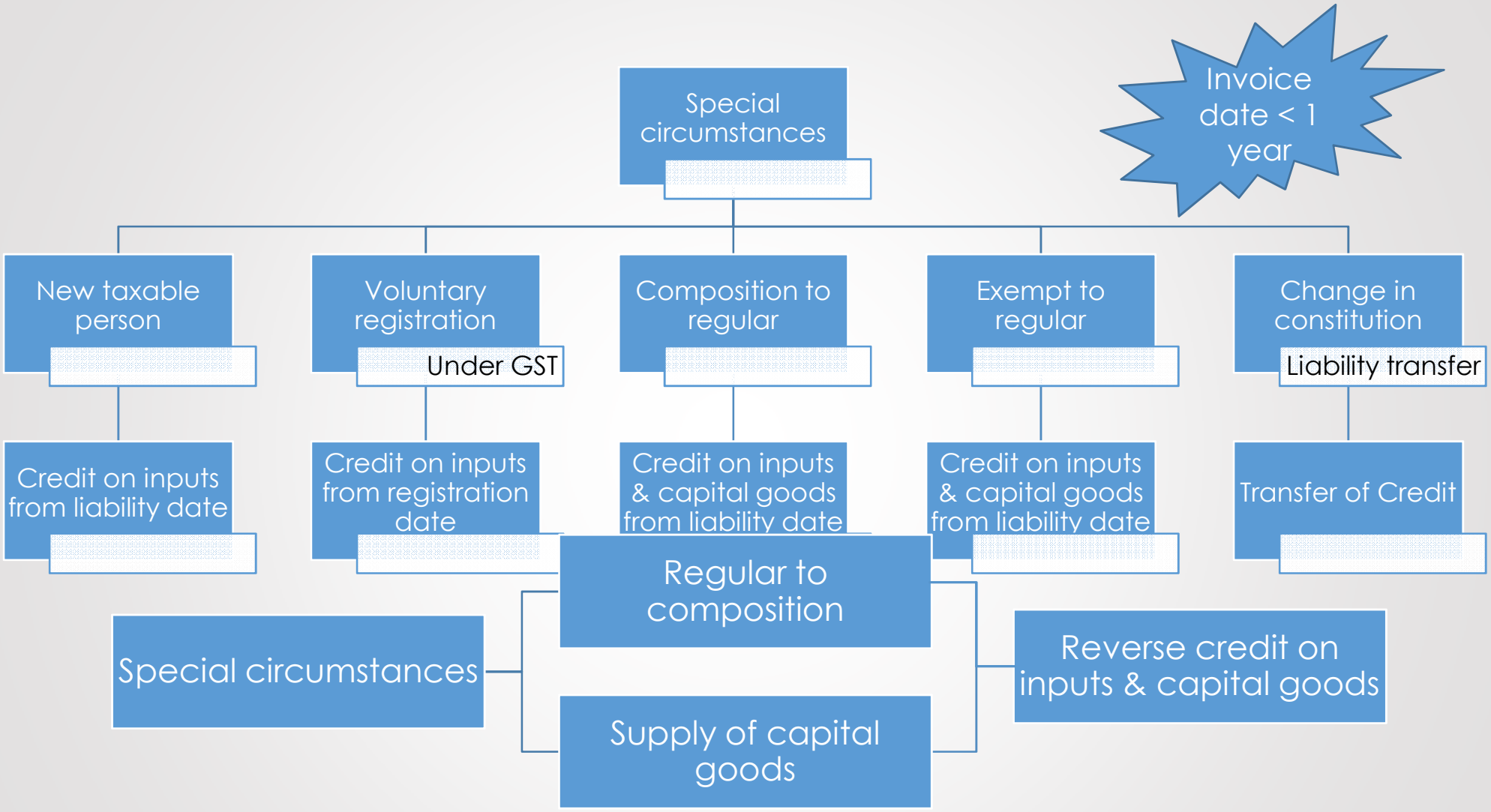
- Utilize towards payment of output tax
- Provisional credit – only towards self assessed output tax [Sec 41(2)]
- Matched credit – Towards any **output tax** liability

Restricted credits

- Credit restricted on exempted supply
- Exempted supply includes ‘Non-supply’ and ‘Non-taxable supply’
- Reversal – basis procedure prescribed
- Special procedure for Banking industry – not applicable for transaction between distinct person as per Sec 25 (4)

Blocked credits

- Motor vehicles and other conveyance
- Staff-welfare expenses
- Works contract service
- Construction of Immovable property
- Composition supply
- Non-resident taxable person expect of goods imported
- Personal consumption
- Lost, stolen, destroyed, written off or disposed off as gift or free sample


Special circumstances
Invoice date < 1 year
New taxable person
Voluntary registration
Under GST
Composition to regular
Exempt to regular
Change in constitution
Liability transfer
Credit on inputs from liability date
Credit on inputs from registration date
Credit on inputs & capital goods from liability date
Credit on inputs & capital goods from liability date
Transfer of Credit
Regular to composition
Special circumstances
Supply of capital goods
Reverse credit on inputs & capital goods

ITC on Job-work

- Principle entitled to ITC on inputs & capital goods sent to job-worker
- Available even on direct supply to job-worker
- Processed goods to be sent back or supplied within 1 year
- Capital goods to be sent back within 3 years – exclusion to moulds & dies, jigs & fixtures, or tools
- If not returned or supplied, tax payable with interest from the day goods were received by job-worker

Distribution of ISD credits

- ISD to distribute available credits to recipients – in the same month
- Specific credits – transfer to specific recipient
- Common credits – transfer on pro rata basis
- Excess credit distributed – to be recovered from recipient

Questions!

Thank You