

RJA

Rajput Jain & Associates

Chartered Accountants

**Committed to
Provide
Innovative
Solutions**

Input Tax Credit

Rajput Jain & Associates, Chartered Accountants offers its clients a full range of services. The company has been setup by a group of young, enthusiastic highly skilled and motivated professional who have taken experience from the top consulting firm and are extensively experienced in their chosen fields has providing a wide array of consultancy in the field of accounting , taxation , assurance and business advisory service to various clients and other stakeholders.

We are the exclusive member in India of the association of international tax consultants, an association of independent professional firm represented throughout Europe, US, Canada, South Africa, Australia and Asia.





CONTENT

- **What is Input Tax Credit ?**
- **How to calculate Input Tax Credit**
- **How to claim Input Tax Credit (ITC)**
- **How Input Tax Works Under GST**
- **The documents and forms required to claim Input Tax Credit**

Input Tax Credit



What is Input Tax Credit

The meaning of ITC can be easily understood when we take the words 'input' and 'tax credit'. Inputs are materials or services that a manufacturer purchase in order to manufacture his product or services which is his output. Tax credit means the tax a producer was able to reduce while paying his tax on output.

Input tax credit means that when a manufacturer pays the tax on his output, he can deduct the tax he previously paid on the input he purchased. Here, while paying the tax on his output, he can deduct or take credit for the tax he paid while purchasing inputs.

Example: An example will make things much clear. Suppose that a readymade garment firm buys polyester (input) from a supplier (of input) at Rs 100 and a CGST of Rs 10 is also has to be paid (CGST rate of 10%). The price of polyester input will be Rs 110.

Now the garment manufacturer sells the product at Rs 200 plus tax (means his value addition is Rs 100). Imagine that the GST rate of readymade shirt is 12%. Here, the manufacturer must pay a tax of Rs 24. But he has previously paid a tax of Rs 10 while purchasing the input of polyester. Hence, he can claim this Rs 10 and has to pay only the remaining Rs 14 (of the total Rs 24). The Rs 10 that the manufacturer claimed is the input tax credit.

How to calculate Input Tax Credit

Let's consider an example on how to calculate Input Tax Credit:

Suppose you have a business. The service or product you sell attracts a tax of 18%. You use input services or goods during your business. The tax due from you (of 18%) can be adjusted to the taxes paid already by you on the purchase of such inputs. The manufacturers add taxes only for the value addition done and not on the total product value.

Let's consider an example of a steel utensils manufacturer who manufactures utensils like spoons, plates, etc. Assume that the manufacturer had bought an INR 500 worth of raw steel to make a pressure cooker and INR 100 worth other raw materials. Let's assume that the GST for steel is 18%. Also, assume that the GST he paid is 28% of other raw materials.

Hence, the manufacturer has paid Rs. 28 on other raw materials and Rs. 90 on raw steel which he used as inputs.

So, the total input tax paid was INR 118 by the manufacturer.

Now, after considering the cost of manufacturing steel pressure cooker using the raw materials and including a decent profit, he decided to sell the pressure cooker to a distributor at INR 800 + GST.

Assume that the steel utensil attracts a GST of 18%.

Now the tax on it will be INR 144. So the manufacturer will invoice the pressure cooker for INR 944.

Hence, the manufacturer is collecting INR 144 as GST on sale from the distributor. The manufacturer had paid INR 118 towards GST during the purchase of his input raw materials. Hence, out of INR 144 of GST, the manufacturer can now claim a credit of INR 118 which he already paid towards GST for inputs and deposit the difference of INR 26 with the government.

This tax credit is available at all succeeding stages, retailers and distributors charge GST and can claim the Input Tax Credit.

How to claim Input Tax Credit (ITC)

The following conditions have to be met to be entitled to Input Tax Credit under the GST scheme:

1. One must be a registered taxable person.
2. One can claim Input Tax Credit only if the goods and services received is used for business purposes.
3. Input Tax Credit can be claimed on exports/zero-rated supplies and are taxable.
4. For a registered taxable person, if the constitution changes due to merger, sale or transfer of business, then the Input Tax Credit which is unused shall be transferred to the merged, sold or transferred business.
5. One can credit the Input Tax Credit in his Electronic Credit Ledger in a provisional manner on the common portal as prescribed in model GST law.
6. Supporting documents – debit note, tax invoice, supplementary invoice, are needed to claim the Input Tax Credit.
7. If there is an actual receipt of goods and services, an Input Tax Credit can be claimed.
8. The Input Tax should be paid through Electronic Credit/Cash ledger.
9. All GST returns such as GST-1, 2,3, 6, and 7 needs to be filed

How Input Tax Works Under GST

Suppose Mr. A is a seller. He sells goods to Mr. B. The buyer Mr. B is now eligible to claim the purchase credit using his purchase invoices.

This is how it works:

1. A uploads all his tax invoices details as issued in GSTR-1.
2. The details uploaded by Mr. A is automatically populated or reflected in GSTR-2A. This same data will get reflected when Mr. B files the GSTR-2 returns which are nothing but the details of his purchase.
3. The details of the sale are then accepted and acknowledged for by Mr. B, and subsequently, the purchase tax is credited to Mr. B's 'Electronic Credit'. He can use this to adjust it later for future output tax liability and receive a refund.

How to utilize the Input tax credit?

In GST we have three types of taxes CGST, IGST, and SGST/UTGST.

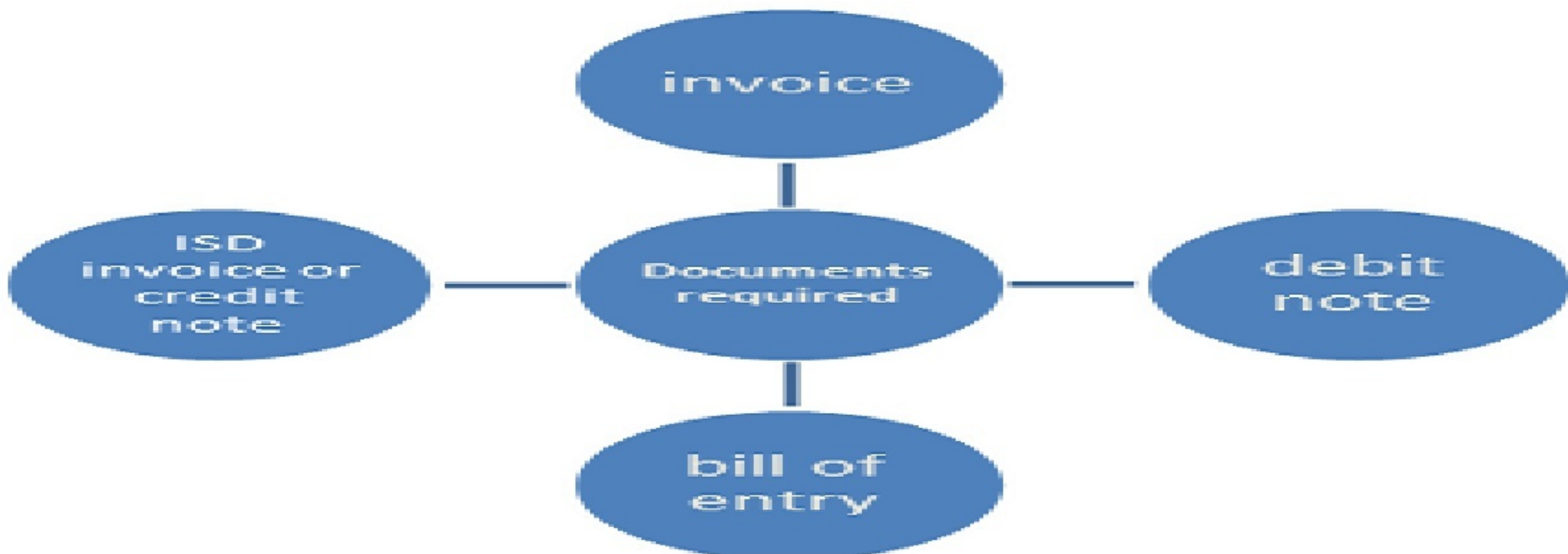
For the inter-state supply of goods/ services, IGST is charged.

And for the intra-state supply of goods/services CGST and SGST/UTGST are charged.

While making payment for the above taxes, input tax credit will be allowed in the following manner-

Credit	1st to be utilized for payment of	Balance if any
CGST	CGST	IGST
IGST	IGST	CGST and then SGST/UTGST
SGST/UTGST	SGST/UTGST	IGST

The documents and forms required to claim Input Tax Credit



Each applicant will require the following documents to claim Input Tax Credit under GST:

1. Supplier issued invoice for supplying the services and goods or both according to GST law.
2. A debit note issued by the supplier to the recipient in case of tax payable or taxable value as specified in the invoice is less than the tax payable or taxable value on such supplies.
3. Bill of entry.
4. A credit note or invoice which is to be issued by the ISD (Input Service Distributor) according to the GST invoice rules.
5. An invoice issued like the bill of supply under certain situations instead of the tax invoice. If the amount is lesser than INR 200 or in conditions where the reverse charges are applicable according to the GST law.
6. A supplier issued a bill of supply for goods and services or both as per the GST invoice rules.

The above documents prepared as per the GST invoice rules should be furnished while filing the GSTR-2 form. Failure to present these forms can lead to either rejection or resubmission of the request.

Reach Us



DISCLAIMER

No part of this article may be reproduced, reprinted or utilized in any form or by any means electronic or mechanical without prior permission of the publisher. While every care is taken in compilation of information contained herein, the publisher cannot accept any responsibility for error or omission or for the use of trademark, copyrights, brand name, logos or other identifying symbols provided in supporting and participating companies and organizations. However all possible and reasonable care has been taken to ensure that the information in this newsletter is as accurate and up-to-date at the time of printing. This newsletter is for internal use only.

RAJPUT JAIN & ASSOCIATES

www.carajput.com

P-6/90, Connaught Circus
Connaught Place
New Delhi 110001 INDIA
Mobile No.: 9811322785, 955555480

E-mail: info@carajput.com



We are the exclusive member of in India of the **Association of International Tax Consultants**, an association of independent professional firms represented throughout worldwide.