Volume III ISSUE I **ISSN NO: 2582-6034**

LEGALFOXES LAW TIMES

INPUT TAX CREDIT: A METHOD THAT REMOVE's CASCADING EFFECT

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INTRODUCTION

Reducing the tax that has already been paid on the inputs at the time of paying tax on an output is called as input credit. In relevance to a GST a person who is registered under the GST is eligible to claim Input Credit for the tax paid by him on the purchases he has made. ITC can be claimed in Integrated GST (in the case of interstate movement of goods) and Central GST and State/Union Territory GST (in the case of intra state movement of goods).

The impact of GST on consumers may be divided into two categories. For starters, the direct and immediate consequence of GST will be a new 'effective' tax rate on all products and services. Prices will increase or decrease depending on how different the new 'effective' tax rates are from the pre-GST period.Second, an indirect impact of GST, which is expected to be evident only in the medium to long term, can be seen in changes in manufacturing and supply chain operations.Both potential consequences are explored in further depth in the sections that follow.[1]

ITC is not a totally new concept. As a matter of fact, it had also had its existence in the pre-GST era under the indirect taxes such as service tax, VAT, Excise duty and many more. It is only that the scope of ITC has widened under the GST as earlier ITC could not be claimed for taxes such as the Central sales tax, luxury tax, entry tax, etc. as the benefit of one tax could not be claimed under the head of the other. As GST has brought almost all the taxes under one single umbrella, now it has become a much smoother and easier process for claiming ITC. If a person has paid a tax of Rs 1000 on the final bill and in that the purchase tax paid is Rs. 700, he would be claiming the same as Input credit and finally the taxes would be arriving at Rs. 300 (1000-700)

[1]https://www.cbgaindia.org/wp-content/uploads/2017/08/Removing-Cascading-Effect-of-Taxes-GST.pdf

Conditions necessary for obtaining ITC.

Other than a person, who is paying taxes under the composition scheme, all other registered persons can claim ITC. If the person ceases paying taxes under the composition scheme, then even he is also entitled to take credit of the Input tax. Apart from the fact that the suppliers need to be registered under the GST, there are also certain conditions as stated below, that needs to be satisfied for claiming of ITC on the purchase:

1. there should be a tax invoice in the event of a purchase, or a debit note that has been issued by a registered dealer.
2. The goods or the services should be received by the receiver.
3. The taxes that have been charged on the purchases made has been deposited to the government by the supplier by way of cash or by claiming of input credit.
4. The supplier must have filed the GST returns.

The ITC mechanism is sometimes termed as the backbone of GST and it is also one of the main and important reasons that led to the introduction of the GST. As GST is a single tax and levied across the country from the beginning stage of manufacture till it reaches the end customer, it creates an unbroken chain and as such it benefits everyone in the loop. Initially before GST, there were several forms of indirect taxes and as such it was not possible to claim ITC of one form of tax against another. By the introduction of GST, as there would only be a single indirect tax levied, the process of claiming ITC has become much simpler.

Claiming Input Tax Credit.

Input Tax Credit must be claimed while submitting GSTR-3B for the applicable period (For example- if return is filed for May 21, then the relevant period will be 01 May 2021 to 31 May 2021). The amount of input tax credit acquired from inward supplies made during the relevant period must be declared by the taxpayer.It is important to note that just the amount of ITC may be stated in the GST return, not the quantity of purchases.

Conditions: To claim the Input Tax Credit, the following requirements must be met:

1. He has the Tax Invoice or Debit Note for which the ITC has been claimed.

2. He has received the goods or services described in the invoice or debit note.

3. The tax charged in such invoice has been paid to the government by the provider, either in cash or through the use of Input Tax Credit.

4. The supplier has included such an invoice in the GST return, GSTR-1, and the invoice is reflected in the GSTR 2A of the taxable person claiming the ITC (Condition added in the Budget of 2021)

5. He has submitted the necessary return.

Time Limit

ITC can be claimed in the event all necessary conditions are followed and in the event of invoices not being paid within a period of 180 days, then the ITC would be reversed on pro rata basis, which has to be added to output liability along with interest. But this rule does not apply in the event when the recipient is liable to pay tax on reverse charge basis.

There are several judgments in relation to ITC, but the ruling of the AAR Maharashtra which has ruled against the ITC for the gold schemes offered by companies to its customers towards encouraging them to meet their business target and as well as the ruling of the Delhi High Court that the time limit for the collection of transitional credit or ITC is a directive and not mandatory are landmark ones.

It is crucial to remember that the time restriction refers to the due date of the return in September, not the date of filing. If a taxable person possesses a Purchase Invoice dated 23/05/2020, the ITC for such invoice can be claimed before the due date for submitting the GST return for the month of September 2021 or the date of filing the annual return, whichever is later.

Registered taxable person has claimed depreciation on the tax component of capital goods under provisions of Income Tax Act, 1961

When a final product is made, the Capital goods are not consumed within the same year of production and hence, they cannot be entirely deducted as business expenses in the year of purchase. As they are depreciated over the time during their life, the same is recognized as a part of the cost as depreciation or depletion. As the same is purchased and GST is already made on the purchase, later ITC can be claimed on the GST paid on that purchase. In the event of claiming depreciation on the GST paid while purchasing a product as an asset, input tax credit cannot be claimed.

According to section 16 (3) of the CGST Act, if the registered taxable person has already claimed depreciation on the tax component of the value of capital goods, ITC on the said tax component shall be allowed. Let us consider scenario wherein a person has purchased capital goods worth 10 lakh rupees. He has also paid a GST of 2 lakh rupees on the same. Now depreciation cannot be claimed on the entire 10+2, i.e. 12 lakh rupees. Depreciation can be claimed only for the sum purchased, i.e. Rs. 10 lakhs only and hence, ITC will be available only for the sum of Rs. 10 lakhs and the person should claim depreciation on income tax only for that amount. Hence, ITC will not be allowed if depreciation has already been claimed on tax components of capital goods. A person can either choose to take Input tax credit of GST on capital goods or claim depreciation on tax component.

GST implementation has brought out several positive changes in the field of taxation. It is notable that it has benefitted each and every person in the chain from the beginning till the end. Factors such as ITC has reduced a lot of burden on the persons claiming it and has also resulted in a fair concept which was not possible as earlier the same could not be claimed due to taxes under several heads. But even then, some people are trying to claim benefits unlawfully and this trend has to end as it should not create a trend and result in unwanted effect.

EPILOGUE

GST is being billed as one of the most significant tax reforms in independent India, and there are many grounds to believe it will have far-reaching implications.Lower effective tax rates on a wide range of commodities, the Input Tax Credit, and supply-chain improvements are all expected to lower prices. Increased effective tax rates for services and increased compliance costs, on the other hand, have the potential to raise pricing, particularly for small and medium-sized businesses.The existence of variables on opposing sides makes forecasting the price level in the near future challenging. While it is tempting to draw comparisons with other nations that have already implemented GST, none of them are as varied and multifaceted as India, much alone the complexity of the system being replaced by GST.