Chapter 5

S.16

Eligibility and conditions for taking input tax credit.

S.17

Apportionment of credit and blocked credits.

S.18

Availability of credit in special circumstances.
Read with Rule 40

S.19

Taking input tax credit in respect of inputs and capital goods sent for job work.

S.20

Manner of distribution of credit by Input Service Distributor.

S.21

Manner of recovery of credit distributed in excess.

Section 16 of CGST Act

16(1)

Who can avail ITC, of what

-Registered person
-used/Intended to be used.
-in course or furtherance of business

16(2)& Exp 1

Basic conditions for ITC

16.2.a Tax Document
16.2.aa Statement of outward supply
16.2.b Receipt of supply
Exp.1 deemed receipt
16.2.c Payment of tax
16.2.d FIling of return

Proviso 1,2&3

Proviso 1-
Lots/installment , ITC on last one
Proviso 2- Payment with 180 days either, pay ITC with OTL Read with Rule 37
Proviso 3- Reavail ITC if paid

16(3)

Depreciation

On amount without tax

16(4)

Time limit to take ITC
Upto ***due date*** of GSTR 3b of September of FY.

Proviso to 16(4)

Time limit extended for first year upto 31st March 2019 via ROD.

Section – 16(1)

Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person

Illustration:1

A is a manufacturer of plastic bottles and his cost is Rs. 80. He paid Rs.10 in form of tax on his purchases. Other expenses related to labour and the heads not liable for tax. He decides to keep a margin of Rs. 20 and sell it in Rs. 100.

As per the value added feature of Tax. He will collect tax on sale from the customer.

Amount collected= Rs. 100 of sale price and Rs. 18 of tax. At the time of payment he will be liable to deposit Rs. 18 to the account of the government. But he also paid tax of Rs. 10 on purchases which was deposited to the account of the government by his seller. So now Mr. A is required to pay Rs. 18 after adjustment of tax paid on purchase.His liability to pay via cash ledger is Rs. 18-Rs.10 = Rs. 8

This right to adjust the tax paid on purchase form the tax payable at the time of sales is called Input tax credit.

You create an asset at the time of purchase and use it at the time of sale.

Let us understand the journal entries of this transaction.

At the time of purchase.

Purchases ……………….Dr	100	
CGST/SGST/IGST recoverable a/c …Dr	10	
To Vendor		110

We have created a recoverable with the tax paid at the time of purchase.

At the time of sale:

Customer………………………………..Dr	118	
To CGST /SGST/IGST payable		18
To sales		100

Now we can check that all ledgers are correct.

A liability to pay for purchase is there for Rs. 110. Vendor account will be paid by Bank/cash. Total cash burn is Rs. 110. Amount of tax recoverable as tax is Rs. 10. Value of purchase is Rs. 100.
In case of entry of sales: Customer will pay Rs. 118. Tax payable for this particular transaction is Rs. 18. Price charged for sales of the item is Rs. 100.

At the time of filing of return and adjustment of tax.

CGST/SGST/IGST Payable ……………….Dr.	18	
To CGST /SGST/IGST recoverable		10
To cash Ledger		8