

GST 10-point Series

A quick and efficient mode to understand important aspects of the biggest tax reform in India

2016/ Issue 8

01

INPUT TAX CREDIT- CONCEPT

One of the major reasons for introducing GST is making the credit mechanism seamless so that there is no cascading effect of taxes.

02

In the Model GST law provisions relating to input tax credit are majorly covered in Section 16, 16A, 17, 18, 28, 29 and 35 of the CGST Act/ SGST Act. Vide Section 27 of the IGST Act, provisions relating to input tax credit and utilization thereof, as applicable in CGST Act would apply even in respect of IGST.

03

“**Input tax credit**” in relation to **taxable person** means credit of

- {IGST and CGST}/{IGST and SGST}
- charged on
- any supply of goods and/or services to him (includes even importation)
- which are used, or are intended to be used, in the course or furtherance of his business and
- includes the tax payable on reverse charge basis

04

Thus as per the definition of input tax credit there is no need for creating a relationship between the goods or services availed and the output of a taxable person the only requirement is that such goods should be “**used in the furtherance of business**”.

05

The expression “**in the course or furtherance of business**” would cover all activities related to the functioning of a business. For example in relation to a manufacturer, business cannot be restricted only to the activity of manufacturing the final products; rather it would comprise of all the integrated activities comprising of whole of the business operations of the taxable person.

06

Unlike the current Indirect taxes, in the GST regime there is no need to fit the goods and services received, within the four corners of **inputs/ input services/ Capital goods**. Although the terms “inputs”, “inputs services” and “capital goods” are defined in the model GST law, their relevance is kept minimum.

07

Only a **registered taxable person** is allowed to take credit of input tax admissible to him. Thus registration is a pre-requisite for taking credit of input tax.

08

The eligible input tax credit would be credited to the electronic credit ledger and it can be used for payment of taxes under the Act or Rules made thereunder.

09

For newly registered person, ITC is allowed in respect of **inputs held in stock and inputs contained in semi-finished or finished goods held in stock** on the day preceding the date from which the person becomes liable to pay tax provided he applies for registration within 30 days of becoming liable to obtain registration.

10

A taxable person shall not be entitled to take input tax credit in respect of any supply after the earlier of following two events

- a. filing of return under section 27 for the month of September following the end of financial year to which such invoice pertains; or
- b. filing of the relevant annual return

ABOUT THIS PUBLICATION

This publication forms part of 10-point series by Athena Law Associates, to help readers quickly understand key provisions of the Model Goods & Services Tax (GST) law proposed to be implemented in India, starting April 2017.

Refer to our website <http://www.gstlawindia.com/> or contact us for more details about this topic.



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