GST Alert 11/2017-18
Date 5.08.2017

Reversal of Input Tax Credit in GST

Under Excise and Service Tax law, CENVAT credit was required to be reversed under Rule 6 of the CENVAT Credit Rules. Similar but more elaborate and extensive provisions are prescribed in GST.

GST law prescribes various scenarios for reversal of credits.

1. Reversal of ITC due to Non-Payment of consideration in 180 days.

i. A registered person, who has availed ITC on any goods or services, but does not make payment of the value + tax to the supplier within 180 days from the date of the invoice, will have to reverse the credit taken earlier.

ii. In case of supply of goods or services between 2 registered branches of the same company, it would be deemed that the payment has been made. In other words, there is no need for physical payments to be made between branches of one company. This provision shall further apply to transaction made **without consideration** between related person.

iii. The amount of ITC so reversed shall be added to the output tax liability of the registered person

iv. The registered person shall be liable to pay interest for the intervening period starting from the date of availing credit till the date when the amount is added to the output tax liability.

v. The time limit of 180 days shall not apply for re-availing of any credit that had been reversed earlier.

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2. Reversal of Common ITC of Input and Input Services on proportionate basis

Under GST law, ITC has been categorized under 5 limbs based on their use:

a. Used exclusively for **non-business activity**
b. Used exclusively for providing **exempted supplies**
c. Credits ineligible as per section 17(5) of CGST Act like restaurant or outdoor catering services, etc.
d. Used exclusively for providing **Taxable supplies**
e. Common credits used for taxable as well as exempt supplies

Relevance of above categorization

1. Credits listed at (a) to (c) above will not be available on outright basis, but they will have to be shown in the returns.
2. Credits listed at (d) above will be available on 100% basis.
3. Whereas credits listed at (e) will be available subject to reversal on proportionate basis.
4. **Credits at (d) and (e) will have to be availed on 100% basis in the return**

Reversal Mechanism

Common credits being used for making taxable as well as exempt supplies will have to be reversed on proportionate basis as per following mechanism:

1. Reversal will be required to be done every month based on the turnover of that very month. Eg. For Common credits of July 2017, turnover details of July 17 will have to be taken as base.
2. One will have to work out the taxable and exempt supplies for the month
3. Exempt supplies shall include the following:
    a. Goods or services taxable at nil rate
    b. Goods or services fully exempted from GST
    c. To which GST law doesn’t apply – like Interest Income

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   d. Incomes on which recipient is liable to pay tax (Like Income of GTA svs supplier)
   e. Income from Securities (Like Capital Gains)
   f. Income from Sale of Land
   g. Income from sale of units post BU
4. Taxable Turnover shall include the following:
   a. Supply on which GST is payable
   b. Exports Turnover
   c. Supplies to SEZ units or developer

5. Calculate the exact amount of common credit, taxable turnover and exempted turnover for a month. Now common credits will have to be reversed in proportion to the exempted turnover over total turnover

   Example:

   Common credits – Rs. 1,000

   Exempt Turnover – Rs. 25,000 (25%)

   Taxable Turnover – Rs. 75,000 (75%)

   Hence total Turnover – Rs. 1,00,000 (100%)

   Out of the Common Credits of Rs. 1000 one will have to reverse credit of Rs. 250 (being 25% of Rs. 1000)

   As the entire common credit was availed as ITC, reversal of Rs. 250 will be added to the overall output tax liability.

6. Final reversal will have to be done based on yearly exempt and total turnover figures and if credit is reversed in excess then the same will be available. If credit is short reversed then differential will have to be paid with interest starting from the end of the financial year.

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3. Reversal of Common ITC of Inputs and Input services on deemed basis for use in non-business activity

In case **common ITC of Inputs and Input services** is used for non-business activity (like personal use) then there is provision to do a reversal of 5% of the Common ITC on deemed basis. If one can prove that the ITC taken has not been used in any non-business activity then this deemed reversal is not required to be done. Any reversal done under this provision will have to shown in return and it will be added to the output liability of that month. This deemed reversal is not required to be done on Common Capital Goods ITC.

4. Reversal of credits on Capital Goods (CG)

ITC of Capital Goods has been categorized under 3 limbs based on their use:

a. Used exclusively for providing **exempted supplies**
b. Used exclusively for providing **Taxable supplies**
c. Common credits used for taxable as well as exempt supplies.
   - Example of CG being used for taxable as well as exempt supplies could be Office furniture is used in doing normal taxable business as well as earning income from capital gains or selling of land or FD Interest.

Relevance of above categorization

Credits listed at (a) above will be out rightly not available, but they will have to be shown in the returns.

Credits listed at (b) above will be available on 100% basis.

Whereas credits listed at (c) will be available subject to reversal on proportionate basis.

Credits at (b) and (c) will have to be availed on 100% basis in the return

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Reversal Mechanism

Common CG being used for making taxable as well as exempt supplies will have to be reversed on proportionate basis through following mechanism:

1. Maintain a list of CG which are used for supplying taxable as well as exempt supplies. A master sheet of such capital goods is required to be maintained
2. **Credit of such common CG will be availed on 100% basis in the GST return.**
3. Life of these common capital goods will be taken as 5 years (60 months)
4. Amount of ITC for a month on common CG shall be arrived by dividing the ITC by 60 (months).
5. Amount of ITC, at the beginning of a month, on all common CG whose useful life remains during the tax period, will be totalled.
6. This monthly total of ITC of common CG shall then be subjected to proportionate reversal based on ratio of exempt versus total turnover
7. Resultant figure will be added to the overall output liability and will have to be paid.

In other words, full credit of common CG will be available in first month and then one will have to reverse 1/60th part thereof on proportionate basis every month.

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