

One concept, One question

Input Tax Credit

Section 16

Question 1

XYZ Ltd, registered under GST, in M.P. is engaged in manufacture of taxable goods. Compute the ITC available with XYZ Ltd for the month of October from the following particulars:

S. No	Inward supplies	GST (₹)	Remarks
(i)	Input 'A'	1,00,000	One invoice on which GST payable was ₹ 10,000, is missing
(ii)	Input 'B'	50,000	Inputs are to be received in two instalments. First instalment has been received in October
(iii)	Input 'C'	20,000	This input has been purchased in October but recipient has not furnished the information of it in GSTR-3B as his accountant forgot to take that entry.
(iv)	Input 'D'	10,000	XYZ Ltd. In may had reversed ITC of 10,000 for not making payment to Vendors within the time prescribed under CGST Act, 2017. This pending payment was cleared in the month of October.
(v)	Input 'Y'	15,000	Advance has been given in October month for this input service and has got receipt voucher from the supplier.
(vi)	Input 'Z'	10,000	Supplier has not filed GSTR-1
(vii)	Capital goods	1,20,000	XYZ Ltd. has capitalised the capital goods at full invoice value inclusive of GST as it will avail depreciation on the full invoice value.
(viii)	Input services	2,25,000	One invoice dated 20th January on which GST payable was 50,000 has been received in October

NOTE:

- Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.
- The annual return for the previous financial year was filed on 15th September.

Answer:

Inward supplies	ITC AVAILABLE (₹)	Reason
Input A	90,000	ITC of ₹ 10,000 shall not be allowed as XYZ does not have invoice for the same & he does not satisfy Sec 16(2)(a).
Input B	-----	ITC shall not be allowed because when goods are sent in lots, ITC is available only in the last instalment & in October month, first instalment is received.
Input C	-----	To avail ITC, recipient has to furnish such info in GSTR-3B as per Sec 16(2)(d).
Input D	10,000	ITC can be re availed when pending payment of value & tax amount is paid to the supplies that was reversed earlier
Input Y	-----	Recipient has not received goods/service yet & neither do they have tax invoice, thereby not satisfying Sec.16(2)(a) & 16(2)(b).
Input Z	-----	As per 16(2) (aa) recipients can avail ITC only if supplier reflects outward supply in his GSTR-1 and the same information is auto populated as inward supply in recipient's GSTR-2B
Capital Goods	-----	Since the tax amount is capitalized, depreciation shall be taken on tax component. Therefore, ITC shall not be allowed.
Input Service	1,75,000	ITC for invoice dated January last year will not be allowed in October because XYZ Ltd. is availing ITC Beyond its time limit u/s 16(4). i.e., 15th September or 30th November, w.i.e. =15th September.

Question 2

Out of purchases made and ITC availed during earlier months, the alongside information is made available as on October with regards to payment to the supplier. Compute the ITC that is to be reversed in month of Oct.

Supplier name	Payment is due for (Number of days)	Related ITC component
Input 'F' - LMN	165 days	13,000
Input 'G' - ABC	199 days	15,000
Input 'H' - PQR	99 days	20,000
Input 'I' - XYZ (Delhi Branch)	200 days	5,000

Additional Information:

In case of 'Input I' stock was transferred from its Delhi branch to M.P Branch

Answer:

Supplier name	Payment is due for (Number of days)	Related ITC component
Input 'G' - ABC	199 days	15,000

Note 1: ITC already availed after satisfying all the conditions of sec 16(2) shall be confirmed only once payment of value of goods/supply & tax is paid to supplies within 180 Days from date of invoice. If the same is not done then the ITC already availed shall be reversed. In this case since the Payment is not made to Supplies ABC of Input G within 180 days, ITC to that extent is 15,000 shall be reversed.

Note 2: This transaction falls under the exception of Proviso to Sec 16(2) as it falls under activity covered Schedule I deemed supply.

u/s 17(5)-Blocked credit

Question 3.

Particulars	ITC blocked u/s 17(5)?
Purchase of cars for employees for official use	Blocked u/s 17(5)
Purchased of bus (seating capacity consists of 13 passengers and one driver)for employees for official use	Avail ITC
Purchased of bus (seating capacity consists of 12 passengers and one driver) for employees for official use	Blocked
Purchased of bus (seating capacity consists of 10 passengers and one driver) for employees for official use	Blocked
Purchased truck for transporting goods	Avail
Purchased car by car driving school	Avail
Purchased buses of 10 seater meant for transportation of passenger service	Avail
Purchased car for providing car renting service	Avail
Purchased aircraft by airline providing transportation of passenger service	Avail
Procured repairs and maintenance service by a company for its truck	Avail
Procured general insurance service taken on cars purchased by car manufacturing companies	Avail
Procured servicing service for a car used by a motor driving school that imparts driving skills	Avail
Outdoor catering service availed by a company as per company policy	Blocked
Outdoor catering service availed by a company as per Factories act,1948	Avail
Dmart purchased food and beverages to supply it to its customers	Avail

Vistara airlines purchased food and beverages and supplied it to its customers bundled it with transportation of passengers service	Avail
Mukesh ambani took catering service from Balaji caterers for her daughters marriage	Blocked
Zoom car procured renting of car service for providing renting of car service	Avail
Mr.KS procured renting of car service in Goa with his friends for tourism	Blocked
Max life procured life insurance service from Bajaj allianz to provide the same to RIL Ltd	Avail
Mr. Modi procured life insurance service from LIC	Blocked
Tata ltd procured health insurance service from Reliance insurance for its employees as per Labour law	Avail
Tata ltd procured health insurance service from Reliance insurance for its employees as per Company law	Avail ITC
Zomato procured fitness service from a gym for its employees as per company policy	Blocked
Swiggy procured fitness service from a gym for its employees as per statutory obligation	Avail
HUL purchased travel package for its employyes from club mahindra holidays as per company policy	Blocked
Colgate purchased travel package for its employyes from club mahindra holidays as per statutory obligation	Avail
Dmart Procured works contract service from oberoi builders to construct its warehouse	Blocked
Tata motors procured works contract service for construction of a foundation on which machinery is to be mounted permanently	Avail
Mahindra procured works contract service for construction of pipelines laid inside the factory	Avail
Mahindra procured works contract service for construction of pipelines laid outside the factory	Blocked
A consuting firm has availed works contract service for repairing its office building and such expense was booked a expense in its profit and loss	Avail
A consuting firm has availed works contract service for repairing its office building and such amount was capitalized.	Blocked
A telecom company availed works contract service for construction of telecom towers	Blocked
A company purchases cement,tiles,architect service for constructing their own factory shed	Blocked
A company purchases cement,tiles,architect service for constructing their own plant and machinery	Avail
NRTP has imported diamonds from Dubai and paid BCD and IGST on the same	Avail ITC of IGST

NRTP has imported service from USA	Blocked
NRTP has purchased a laptop from Croma, a retail outlet in Mumbai	Blocked
A dealer registered under normal scheme has purchased goods from a composition taxpayer	Blocked
Marico purchased goods for distributing it as free samples	Blocked
Lexi pen purchased pencils and offered a bundle for its customers with an offer of BUY PEN, GET ONE PENCIL FREE, will it get the ITC of pencil?	Avail ITC of Pencils
Xenon Pvt. Ltd., a registered supplier in Agra is engaged in the manufacture of taxable goods. Goods valued at ₹ 10,50,000 were supplied by the company to Freshbite Pvt. Ltd., a registered supplier located at Ferozabad, without the cover of an invoice with a fraudulent intent. Since the company evaded tax by not issuing the invoice for the supply, a show cause notice was issued by the proper officer under section 74 requiring the company to pay tax @ 12% [₹ 1,26,000] and applicable interest and penalty. The company paid the tax, interest and penalty after the order was passed by the proper officer. Examine the ITC entitlement of Freshbite Pvt. Ltd. in respect of tax of ₹ 1,26,000 paid by Xenon Pvt. Ltd.	Blocked

Section 18(1) r.w 18(2)

Question 4.

VIP Ltd. becomes liable to register w.e.f. 1/4/21 as it exceeds Rs. 20 lacs and it applies for registration within 30 days. Following are details as on 31/3/21:

DOI 1/1/21 - inputs contained in stock = 13 lacs (GST @ 30% inclusive)

DOI 1/2/20 inputs contained in WIP = 12.80 lacs (GST @ 28% inclusive)

DOI 1/10/20 inputs contained in FG = 16 lacs (GST @ 10% exclusive)

CG purchase for 100 lacs+ GST @ 20%, exclusive on 1/10/20.

→ Computation of ITC to be availed by VIP Ltd.:

Answer

ITC of Inputs

$$\text{Inputs contained in stock} = 3\text{L} \left(\frac{131}{130} \times 30 \right)$$

$$\text{Inputs contained in FG} = 1.6\text{L} \quad (10\text{L} \times 10\%)$$

$$\text{Total ITC of inputs} = \underline{4.6\text{L}}$$

$$\text{Total ITC u/s 18 (1) (a)} = 4.6\text{L}$$

Will your answer be different if on 1/4/21 if his composition scheme lapses and he starts to pay tax as per normal schemes.

Answer

ITC of Inputs

$$\text{Inputs contained in stock} = 3\text{L} \left(\frac{131}{130} \times 30 \right)$$

$$\text{Inputs contained in FG} = 1.6\text{L} \quad (10\text{L} \times 10\%)$$

$$\text{Total ITC of inputs} = \underline{4.6\text{L}}$$

ITC of CG

$$= 20\text{L} \quad (-) \quad [5\% \times 2\text{Q}]$$

$$= \underline{20\text{L}} \quad (-) \quad 10\%$$

$$= \underline{18\text{L}}$$

$$\text{Total ITC u/s 18(1) (c)}$$

$$= 4.6\text{L} + 18\text{L}$$

$$= \underline{22.6\text{L}}$$

No of Quarters

$$\text{Date of Invoice} = 1/10/20$$

$$\text{Date when he starts paying tax} = 1/4/21$$

as per normal scheme

$$\text{No. of Quarters} = 2 \text{ Quarters}$$

Question 5.

Babla Enterprises is exclusively engaged in making exempt supply of goods and is thus, not registered under GST. On 1st October, the exemption available on its goods gets withdrawn. On that day, the turnover of Babla Enterprises was ₹ 50 lakh. Examine the eligibility of Babla Enterprises for availing ITC, if any.

Solution:

Since the exemption available on goods being supplied by Babla Enterprises gets withdrawn, it becomes liable to registration as its turnover has crossed the threshold limit on the day when the exemption is withdrawn.

Assuming that Babla Enterprises applies for registration within 30 days of 1st October and it obtains such registration, it will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which it becomes liable to pay tax, i.e. 30th September [Section 18(1)(a)]. Input tax paid on capital goods will not be available as ITC in this case.

Question 6.

Mamta Trade Links trades in exempt goods and provides taxable services. It is registered under GST. On 1st October, the exemption available on its goods gets withdrawn.

Analyze the scenario and determine the eligibility of Mamta Trade Links for availing ITC, if any, on inputs and/or capital goods used in the supply of exempt goods.

Solution:

If the exempt supply made by a registered person becomes a taxable supply, provisions of section 18(1)(d) become applicable. In the given case, since Mamta Trade Links is a registered person, section 18(1)(d) will be applicable.

As per section 18(1)(d), Mamta Trade Links will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relating to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable, i.e. 30th September. ITC on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

Section 18(6)**Question 7.**

On 25th August, M/s Agarwal & Agarwal, a registered supplier of taxable goods located in Bengaluru (Karnataka), purchased one machine for ₹ 12,39,000 (including IGST) from one supplier of Maharashtra who issued the invoice on the same date. M/s Agarwal & Agarwal received the machinery on the same day and availed ITC for the eligible amount.

M/s Agarwal & Agarwal used the machine in the process of manufacture of taxable goods. However, M/s Agarwal & Agarwal sold this machine to Mr. Suresh Kumar of Andhra Pradesh on 20th August of next year for ₹ 7,50,000 (excluding IGST).

Answer:

As per section 18(6), if capital goods/ plant and machinery on which ITC has been taken are supplied (outward) by a registered person, he must pay an amount that is higher of the following:

- (a) ITC taken on such goods reduced by 5% per quarter or part thereof from the date of issue of invoice for such goods or
- (b) tax on transaction value of such outward supply determined under section 15.

Accordingly, the amount payable on supply of machinery by M/s Agarwal & Agarwal shall be computed as follows:

Particulars	Amount (₹)
ITC taken on the machinery (₹ 12,39,000 × 18/118)	1,89,000
Less: Input tax credit to be reversed @ 5% per quarter for the period of use of machine	
(i) For the previous year = (₹ 1,89,000 × 5%) × 3 quarters	28,350
(ii) For the current year = (₹ 1,89,000 × 5%) × 2 quarters	<u>18,900</u>
Amount required to be paid by adding the reversal amount to the output tax liability (A) **	1,41,750
Duty leviable on transaction value (₹ 7,50,000 × 18%) (B)	1,35,000
Amount payable towards disposal of machine is higher of (A) and (B)	1,41,750
Thus, M/s Agarwal & Agarwal is required to pay an amount of ₹ 1,41,750 at the time of sale of machinery by adding the same to the output tax liability.	

** In the above solution, amount payable towards disposal of machine has been computed on the basis of rule 40(2), i.e. ITC to be reversed for the period of use of capital goods/machine has been computed @ 5% for every quarter or part thereof from the date of the issue of invoice.

However, the said amount can also be computed in accordance with rule 44(6), i.e. ITC involved in the remaining useful life (in months) of the capital goods/ machine can be reversed on pro-rata basis, taking the useful life as 5 years.

Will your answer be different if the above CG are moulds, dies ?

Answer:

$$\begin{aligned} &= \text{TV} \times \text{rate} \\ &= 7.5\text{L} \times 18\% \\ &= \boxed{1,35,000} \end{aligned}$$