

UNIT -III

INPUT TAX CREDIT SETOFF:

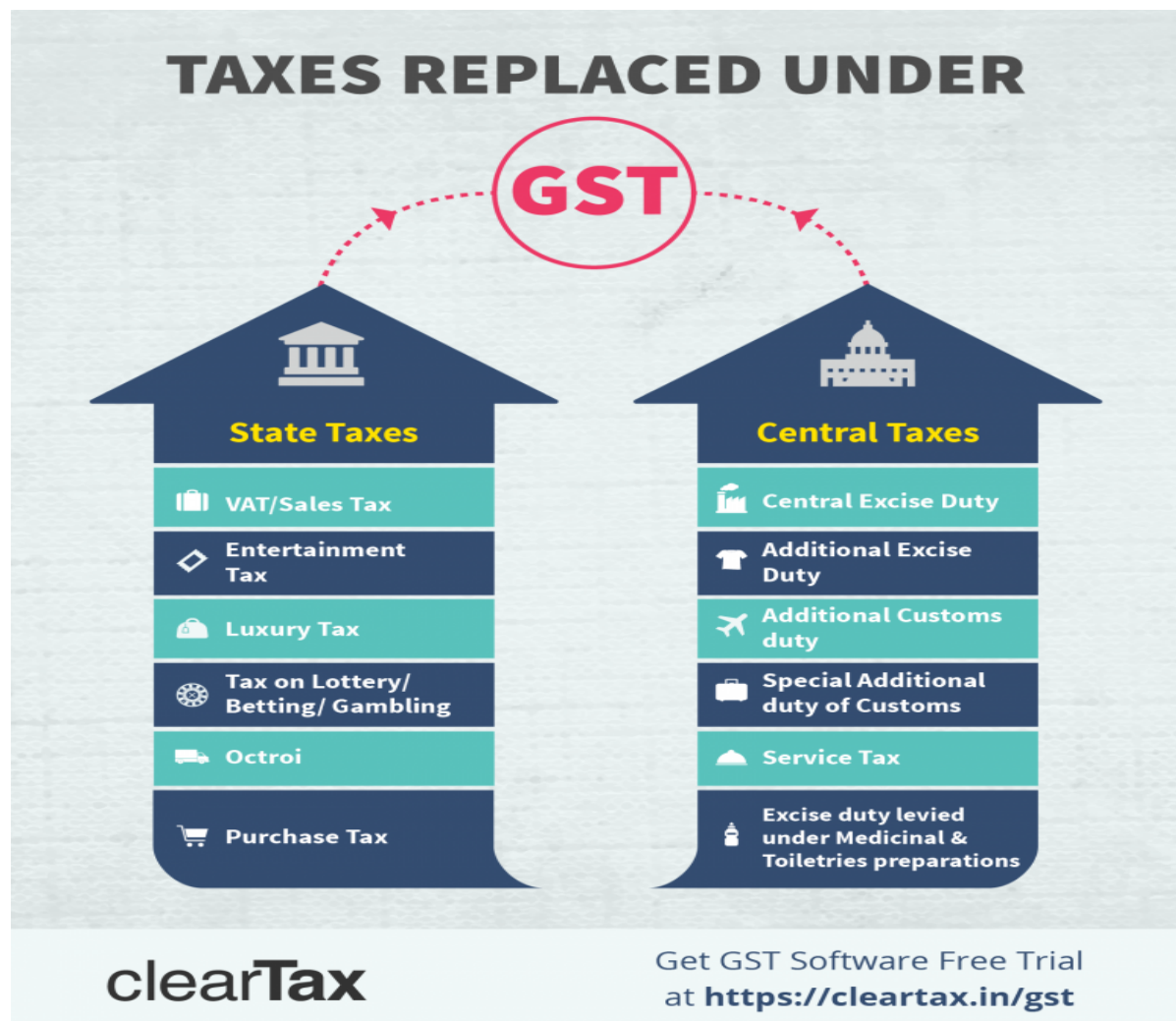
GOODS AND SERVICE TAX:

GST is a destination based tax, an end user consuming any goods or services is liable to pay the Goods and Services Tax. The tax is received by the State in which the goods or services are consumed and not by the state in which such goods are manufactured. In cases of exports, the seller of the goods or services is exempted from paying the tax.

GST removes the cascading effect of tax, i.e., tax on tax

1.The taxes replaced by GST

Unlike earlier when there were multiple taxes such as Central Excise, Service Tax and State VAT etc., under GST, there is just one tax. GST is categorized into CGST, SGST or IGST depending on whether the transaction is Intra-State or Inter-State.



CGST, SGST,IGST

To determine whether Central Goods & Services Tax (CGST), State Goods & Services Tax (SGST) or Integrated Goods & Services Tax (IGST) will be applicable in a taxable transaction, it is important to first know if the transaction is an Intra State or an Inter-State supply.

Intra-State supply of goods or services is when the location of the supplier and the place of supply i.e., location of the buyer are in the same state. In Intra-State transactions, a seller has to collect **both CGST and SGST** from the buyer. The CGST gets deposited with Central Government and SGST gets deposited with State Government.

Inter-State supply of goods or services is when the location of the supplier and the place of supply are in different states. Also, in cases of export or import of goods or services or when the supply of goods or services is made to or by a SEZ unit, the transaction is assumed to be Inter-State. In an Inter-State transaction, a seller has to collect **IGST** from the buyer.

CGST is a tax levied on Intra State supplies of both goods and services by the Central Government and will be governed by the CGST Act. SGST will also be levied on the same Intra State supply but will be governed by the State Government.

This implies that both the Central and the State governments will agree on combining their levies with an appropriate proportion for revenue sharing between them. However, it is clearly mentioned in Section 8 of the GST Act that the taxes be levied on all Intra-State supplies of goods and/or services but the rate of tax shall not be exceeding 14%, each.

SGST is a tax levied on Intra State supplies of both goods and services by the State Government and will be governed by the SGST Act. As explained above, CGST will also be levied on the same Intra State supply but will be governed by the Central Government.

Note: Any tax liability obtained under SGST can be set off against SGST or IGST input tax credit only.

IGST is a tax levied on all Inter-State supplies of goods and/or services and will be governed by the IGST Act. IGST will be applicable on any supply of goods and/or services in both cases of import into India and export from India.

Note: Under IGST,

- Exports would be zero-rated.
- Tax will be shared between the Central and State Government

INPUT TAX CREDIT:

Input tax credit (ITC) is the tax paid by the buyer on purchase of goods or services. Such tax which is paid at the purchase when reduced from liability payable on outward supplies is known as input tax credit.

In other words, input tax credit is tax reduced from output tax payable on account of sales.

Example –

Mr. A purchased goods worth Rs. 18,000 on which GST @ 18% was Rs. 3240. He sold goods worth Rs. 22,000. GST payable @ 18% is Rs. 3960. Let us calculate and understand net GST payable and input GST credit.

Outward GST payable -	Rs. 3960
Less- GST paid on purchases	Rs. 3240

- Thus, net GST payable through cash Rs. 720
- From Rs 3240 reduced is input tax credit availed that had been paid on purchases.

SET OFF RULES OF IGST SGST AND CGST:

It is mandatory to utilise the entire IGST available in electronic credit ledger before utilising ITC on CGST or SGST. The order of setting off ITC of IGST can be done in any proportion and any order towards setting off the CGST or SGST output after utilising the same for IGST output.

<i>Input tax credit on account of</i>	<i>Output liability on account of Integrated tax</i>	<i>Output liability on account of Central tax</i>	<i>Output liability on account of State tax</i>
<i>Integrated tax</i>	(I)	(II) – In any order in any proportion	
(III) Input tax credit on account of Integrated tax to be completely exhausted mandatorily			
<i>Central tax</i>	(V)	(IV)	<i>Not permitted</i>
<i>State tax/Union Territory tax</i>	(VII)	<i>Not permitted</i>	(VI)

the impact of New Rule with the help of an illustration:

Suppose, Mr. X has the following liability and input tax credit for the period are as follows:

(all figures in INR)

Type of GST	Output Liability	Input Tax Credit
IGST	500	1,000
CGST	500	300
SGST/ UTGST	500	300
Total	1500	1600

Let's see how the ITC of IGST can be utilized in different ways from the following 2 scenarios:

Scenario 1: Set-off of unutilized IGST credit completely towards CGST

(all figures in INR)

Type of GST	Liability	Credit available	Set-off of liability	Balance to be paid in cash	Balance credit available
IGST	500	1,000	500 (From IGST)	-	-
CGST	500	300	500* (From IGST)	-	300
SGST/ UTGST	500	300	300 (From SGST/ UTGST)	200	-

Scenario 2: Set-off of unutilized IGST credit partly towards CGST and SGST liability

(all figures in INR)

Type of GST	Liability	Credit available	Set-off of liability	Balance to be paid in cash	Balance credit available
IGST	500	1,000	500 (From IGST)	-	-
CGST	500	300	250* (From IGST) 250 (From CGST)	-	50
SGST/ UTGST	500	300	250* (From IGST) 250 (From SGST)	-	50

*Note: In this illustration, we came up with only two scenarios whereas the law does not place any strict rule of attributing entire unutilized IGST credit wholly to either CGST or SGST liability. A taxpayer can utilize IGST credit in any proportion and in any order, but the condition is to completely utilize the IGST credit before using CGST or SGST credit.

with new system of ITC utilisation. ITC can be utilised in the manner described below.



- IGST credit should be fully utilised first.
 - In case of CGST liability, CGST credit is to utilised first and then IGST credit. It should be noted no IGST credit is pending
- In case of SGST liability, SGST credit is to utilised first and then IGST credit. or that no IGST credit is pending

- CGST credit cannot be utilised against setting off SGST liability and vice versa, SGST credit cannot be utilised to set off CGST liability.
 - The main aim while setting off input tax credit against tax liability is to have minimum tax pay-out after complying with all provisions of the act.
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