



# Research on the GST's Input Tax Credit (ITC)

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## Abstract

Input tax credit is one of the key features of GST. There is an input tax credit available. on each inward supply received subject to conditions prescribed. It is very important for the registered person to understand how he can claim the input tax credit, where he can claim, which he cannot claim etc. the wrong submission of an input tax credit claim may attract penal tax, interest and penalty.

The aspect of claiming 'correct ITC' will reduce cost to the company. I have try to explain this concept in a simple language where you may find out about the input tax credit that suppliers might set off. ITC prevents double taxations. This mechanism in which tax paid on inward supply is adjusted towards tax paid on outward supply is known as input tax credit. The GST laws provide the benefit of ITC not only on input goods/services but also on capital goods. This ITC availability reflects in the electronic credit leader of tax payer maintained at GST common portal. Non-business-related Expenses are not covered by the ITC.

**Key words: Cascading, GSTR, CGST, SGST, IGST, UTGST**



# Input Tax Credit (ITC)



## INTRODUCTION:

Purchase tax credit in association to a liable person means the products and amenities tax imposed on any shipment of goods and or services to a person which are utilized or are meant to be used, during promotion of his venture. Fulfilment of deduction of input under GST- conditions to petition is one of the most vital activities for every business to conclude its tariff liability. Tax offset or ITC is the tax, where a business remits on a transaction and that it can use to lessen its tax liability when it creates a sale, In other words, business can minimize their tax liability by affirming approval to the range of GST paid on procures.

As per section 2 (63) the act of CGST 2017, “input tax rebate” defines the attribution of input tax. Input tax is defined under section 2(62) of CGST act as follows It relates the tax of central, state, integrated and union territory charged on distribution of products.

Here is how:

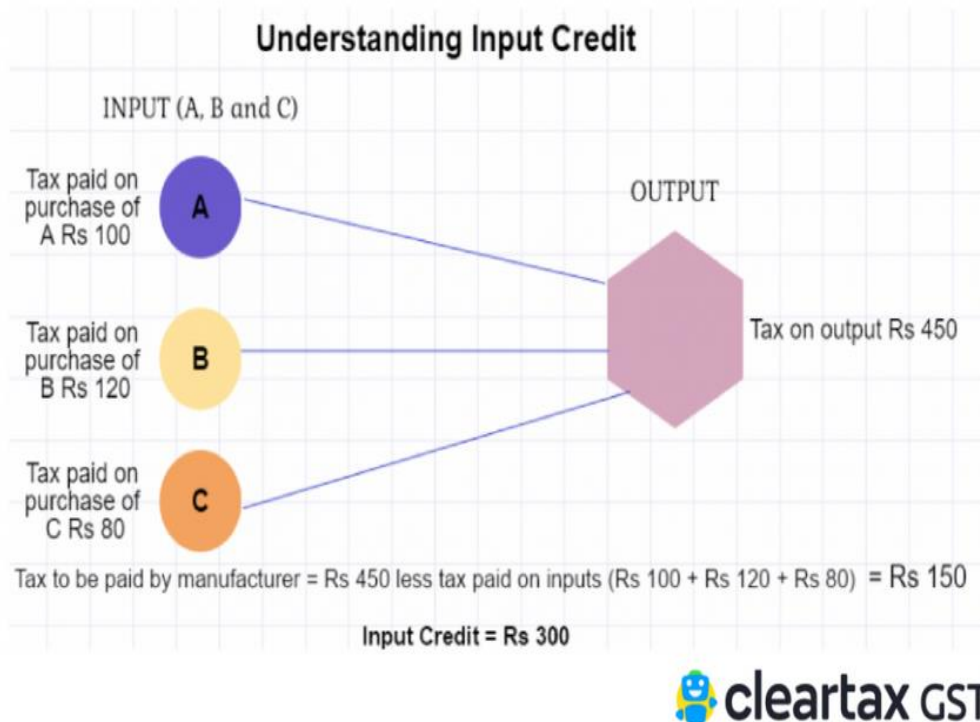
When you purchase a product/services from a authenticated customer by paying taxes for the products. On vending, tax will be collected. Then collected tax is adjusted to the sales amount and balance of tax liability (sales tax — tax on purchased item) has to be remunerated to the government. This process is beneficial for the credit input tax.

This shall also include-

1. The Integrated sales tax which is assessed on supply of goods
2. The tax payable as per Section 9(3) and 4 act of CGST
3. The tax payable as per Section 5(3) also 4 of IGST act
4. The tax payable as per Section 9(3) and 4 of respective GST

For example: you are a manufacturer;

1. Tax payable on output(final product)is ₹450
2. Tax paid on input (purchases) is ₹300
3. You can claim input credit of ₹300 and deposit only ₹150 in taxes



## ELIGIBILITY TO EMPLOY INPUT TAX CREDIT

Input Tax Rebate in connection to a taxable person, means the Goods/Services Tax charges on any distribution of goods and or services to him which are benefited or used, during interest of his business.

The major concern for registered persons, conditions for eligibility to ITC and eligible ITC have been prescribed which in majority according to pre GST regime.

## CONDITIONS TO CLAIM

- **Debit note document payment:**  
You must have a valid tax and invoice or debit note proceeded by a registered supplier. This document serves as proof of the transaction.
- **Receipt of goods and or services:**  
The goods/services for which ITC must have been cleaned upon receipt. This condition ensure that ITC is claimed only for actual business inputs.
- **Goods and services used for business:**  
The products/services for which ITC is claimed to be applied to the advancement of a company. Personal consumption or non-business-related costs are not provided for ITC
- **Payment of tax to the government:**  
The supplier is required to have paid the government tax and levy. This ensures that the tax credit is accessible only when the government has received the corresponding tax.
- **Filing of valid return:**  
You must file the necessary GST RETURN (such as GSTR-1 and GSTR-3B) regular filing ensures that the ITC is matched and validated against the supplier's return.

## EXCEPTION

Certain goods and services are not included from claiming ITC. These include

- **Motor vehicle:** except when used for specific purpose, such as the transportation of passengers or products.
- **Food and beverage:** catering beauty treatment, health services cosmetics and plastic surgery.
- **Membership fees:** health club, fitness centre, and membership of clubs
- **Personal use:** services that are used for individual usage are called goods.
- **Works contract services:** For building real estate other than machinery and plants, unless it is utilized to fulfil additional work contract requirements.
- **Goods lost or stolen:** goods lots, taken, ruined, wiped out, or disposed of by way of present or gratis sample.

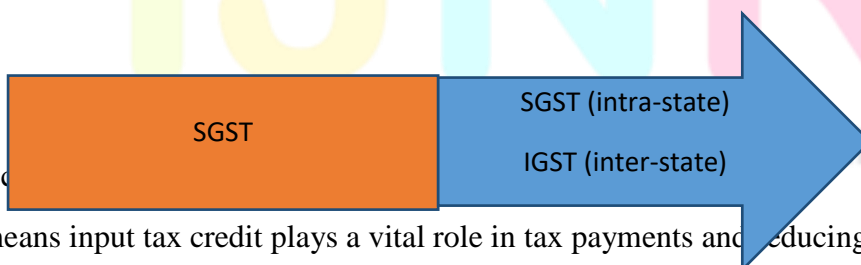
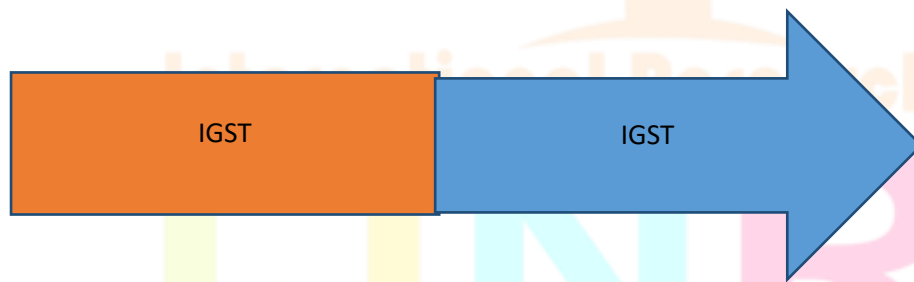
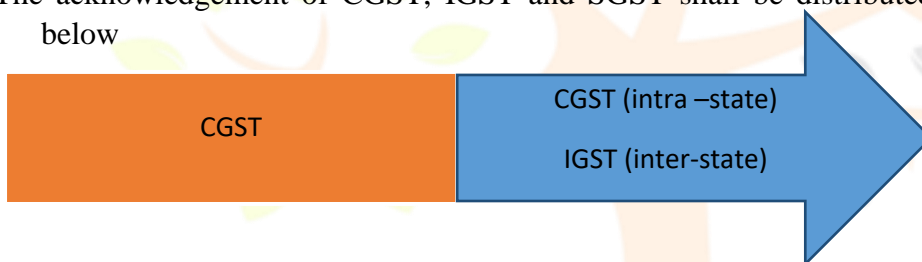
## Steps to claim ITC

- **Receive a tax invoice:** valid tax invoice should be receive from the vendor
- **Invoice should be verify:** is supplier has uploaded the invoice in GSTR-1
- **Match with GSTR-2B :** details with GSTR-2B to ensure the bill is reflected
- **Filing returns :** claim ITC while filing GSTR-3B

Proper compliance with GST rules and regulations is essential to effectively claim and utilize to credit for input taxes

Credit input service distribution

The acknowledgement of CGST, IGST and SGST shall be distributed, in the prescribed way as per below



How does c

ITC that means input tax credit plays a vital role in tax payments and reducing cascading effects.

tax liability	input tax credit availability
pay IGST	IGST, CGST and SGST on purchase
pay SGST	IGST and IGST on purchase
pay CGST	IGST and IGST on purchases

Suppose Mr. A sells goods to Mr. B as the buyer, can claim on purchases based on invoices.

Over view of process

- **Recording the invoice:** seller like Mr. A record tax invoices in GSTR-1
- **Auto-population:** details of purchases by Mr. B FROM Mr. A reflects in GSTR-2A or GSTR-2B
- **Acceptance:** Mr. B verifies and accepts the purchase details in GSTR-2. Conforming the accuracy of seller-reported data.
- **Allocation of credit :** the tax amount on purchases are given to Mr. B’s digital credit ledger
- **Refund and adjustment:** Mr.B can use their credit to offset against future expenses, thus reducing the amount payable. Excess credit can be as refunded as claim amount.

**ITC in GST returns**

- **GSTR 1:** form GSTR-1 is a monthly/ quarterly file returned by the taxpayer for sales summary stating details invoice wise. ITC is not impacted here in this return.
- **GSTR -2A:** 2A is an auto-populated form generated in the recipients login, covering all the outward supplies (from GSTR-1) declared by his suppliers. The details of input tax credit can be cross verified and needs to be reconciled with the actual input tax credit.
- **GSTR3B:** from GSTR-3B is a maturity summary return of all the transactions during the month filed by the taxpayer which has been bought in temporarily instead of GSTR2and GSTR3. Taxpayers are allowed to take the input tax credit (ITC) based on the details declared from the taxpayer in table 4 of form GSTR-3B
- **Gstr7/8:** tax payer can avail GST TDS/TCS and for availing GST TDS/TCS deducted by the detectors/collectors all the deductee need to file TDS/TCS credit received on portal. The deducted amount will appear in cash ledger which can be used for payment of balance amount tax after setting off with the input tax credit.
- **GSTR9:** the ITC availed in current financial year but pertaining to invoices belonging to previous financial year can be declared in table 8C of the GSTR-9 further, it would require reporting in table 13 of GSTR-9 As well if the similar is reported in the books of accounts but credited was claimed in current financial year.

Recipient of credit and ISD and the bill of credit are located in different states/union territory , the input tax credit of IGST,CGST,SGST and UTGST should be distributed to the recipient of credit in the following manner.

Input tax credit with ISD	Distribution to recipient of credit
IGST	IGST
CGST	
SGST	
UTGST	

**GST ISD**

For example, top-in-town home appliance ltd (HO) receives an invoice of ₹100,000 with a GST of ₹18000 (CGST ₹9000+SGST₹9000) towards advertisement services provided exclusive to the Chennai unit

= the credit of CGST ₹9000, and SGST ₹9000 will be distributed to the Chennai unit as IGST ₹18000

## Return forms under GST

Return type	frequency	Due date	Details to be furnished
Form GSTR-6A	monthly	11 <sup>th</sup> of succeeding month	inward supplies made available to the ISD recipient on the foundation of FORM GSTR-1 outfitted by the provider
Form GSTR-6	monthly	13 <sup>th</sup> of succeeding month	It specifics of the input credit distributed

**Conclusion:**

Businesses can leverage Input Tax Credit (ITC) to optimize their tax efficiency and maintain compliance with GST regulations, ultimately supporting financial health and operational efficiency.

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