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Subject: Goods and Services Tax (GST)
Topic: Input Tax Credit (ITC)

Input Tax Credit (ITC):

Goods and Services Tax (GST) is considered the biggest reforms in India. However, one thing that has become the talking point is – the mechanism of input credit under GST.

In simple words, Input Credit means at the time of paying tax on sales, you can reduce the tax you have already paid on purchases.

Input Tax Credit (ITC):

Input Tax Credit means reducing the taxes paid on inputs from taxes to be paid on output. When any supply of services or goods is supplied to a taxable person, the GST charged is known as Input Tax.

The concept is not entirely new as it already existed under the pre-GST indirect taxes regime (service tax, VAT and excise duty). Now its scope has been widened under GST.

Earlier, it was not possible to claim input tax credit for Central Sales Tax, Entry Tax, Luxury Tax and other taxes. In addition, manufacturers and service providers could not claim the Central Excise duty.

During the pre-GST era, cross-credit of VAT against service tax/excise or vice versa was not allowed. But under GST, since these taxes will be subsumed into one tax, there will not be the restriction of setting off this input tax credit.

The conditions to claim Input Tax Credit under GST is a very critical activity for every business to settle the tax liability.

Input Tax Credit can't be applied to all type of inputs, each state or a country can have different rules and regulations. Input Tax Credit is also viable to a dealer who has purchased good to resale.

Tax Credit is the backbone of GST and for registered persons is a major matter of concern. This is majorly in line with the pre-GST regime. These rules are quite stringent and particular in their approach.

Say for instance that you are a manufacturer. The tax to be paid on the final product is INR 450. The purchase tax paid is INR 300. The input credit you claim is INR 300 and the final taxes you will pay is INR 150.

Time limit to avail GST ITC:

ITC can be availed by a registered taxable person in a specific manner and within a specified time frame. The table below shows the different situations wherein the inputs can be claimed for semi-finished goods or stock or finished goods.

Situation	**ITC claims day for semi-furnished goods/stock/finished goods (held on immediate preceding day)**
If a person has applied for registration or is liable to register or is granted registration	Day from when he is liable to pay taxes
When a person takes voluntary registration	Registration day
When a taxable registered person stops paying taxes in composition levy scheme	Day from when he is liable to pay tax normally u/s 7.

Input tax credit for the above-mentioned situations can be claimed only if it does not exceed one year from the tax invoice date of issue related to supply.

For any other cases, ITC must be claimed earlier of the following-

a) Furnishing of annual return or

b) Due date of filing the monthly return (GSTR-3) for the next financial year's September month.

Example- For the invoice dated 10/11/2017, ITC must be availed earlier of the following dates –
The due date for September 2018 return – 20th October 2018
Annual return filed (assumed) – 10th November 2018
Thus till 20th October 2018, ITC must be availed.