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Subject: Goods and Services Tax (GST)

Topic: Input Tax Credit (ITC)-2-

How to calculate Input Tax Credit?

Let's consider an example on how to calculate Input Tax Credit:

Suppose you have a business. The service or product you sell attracts a tax of 18%. You use input services or goods during your business. The tax due from you (of 18%) can be adjusted to the taxes paid already by you on the purchase of such inputs. The manufacturers add taxes only for the value addition done and not on the total product value.

Let's consider an example of a steel utensils manufacturer who manufactures utensils like spoons, plates, etc. Assume that the manufacturer had bought an INR 500 worth of raw steel to make a pressure cooker and INR 100 worth other raw materials. Let's assume that the GST for steel is 18%. Also, assume that the GST he paid is 28% of other raw materials. Hence, the manufacturer has paid Rs. 28 on other raw materials and Rs. 90 on raw steel which he used as inputs. So, the total input tax paid was INR 118 by the manufacturer.

Now, after considering the cost of manufacturing steel pressure cooker using the raw materials and including a decent profit, he decided to sell the pressure cooker to a distributor at INR 800 + GST.

Assume that the steel utensil attracts a GST of 18%.

Now the tax on it will be INR 144. So the manufacturer will invoice the pressure cooker for INR 944.

Hence, the manufacturer is collecting INR 144 as GST on sale from the distributor. The manufacturer had paid INR 118 towards GST during the purchase of his input raw materials. Hence, out of INR 144 of GST, the manufacturer can now claim a credit of INR 118 which he already paid towards GST for inputs and deposit the difference of INR 26 with the government.

This tax credit is available at all succeeding stages, retailers and distributors charge GST and can claim the Input Tax Credit.

How to claim Input Tax Credit (ITC)?

The following conditions have to be met to be entitled to Input Tax Credit under the GST scheme:

1. One must be a registered taxable person.
2. One can claim Input Tax Credit only if the goods and services received is used for business purposes.
3. Input Tax Credit can be claimed on exports/zero-rated supplies and are taxable.

4. For a registered taxable person, if the constitution changes due to merger, sale or transfer of business, then the Input Tax Credit which is unused shall be transferred to the merged, sold or transferred business.
5. One can credit the Input Tax Credit in his Electronic Credit Ledger in a provisional manner on the common portal as prescribed in model GST law.
6. Supporting documents – debit note, tax invoice, supplementary invoice, are needed to claim the Input Tax Credit.
7. If there is an actual receipt of goods and services, an Input Tax Credit can be claimed.
8. The Input Tax should be paid through Electronic Credit/Cash ledger.
9. All GST returns such as GST-1, 2,3, 6, and 7 needs to be filed

How Input Tax Works Under GST

Suppose Mr. A is a seller. He sells goods to Mr. B. The buyer Mr. B is now eligible to claim the purchase credit using his purchase invoices.

This is how it works:

1. A uploads all his tax invoices details as issued in GSTR-1.
2. The details uploaded by Mr. A is automatically populated or reflected in GSTR-2A. This same data will get reflected when Mr. B files the GSTR-2 returns which are nothing but the details of his purchase.
3. The details of the sale are then accepted and acknowledged for by Mr. B, and subsequently, the purchase tax is credited to Mr. B's

‘Electronic Credit ‘ He can use this to adjust it later for future output tax liability and receive a refund.

How to utilize the Input tax credit?

In GST we have three types of taxes CGST, IGST, and SGST/UTGST. For the inter-state supply of goods/ services, IGST is charged. and for the intra-state supply of goods/services CGST and SGST/UTGST are charged.

While making payment for the above taxes, input tax credit will be allowed in the following manner-

Credit	1st to be utilized for payment of	Balance if any
CGST	CGST	IGST
IGST	IGST	CGST and then SGST/UTGST
SGST/UTGST	SGST/UTGST	IGST