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A STUDY OF INPUT TAX CREDIT IN GOODS AND SERVICE TAX AND ITS IMPACT ON BUSINESSES

Rameshwar Prashad Karal*

ABSTRACT

Seamless flow of Input Tax Credit was the major concern which was missing in pre GST era and because of that there were so many disadvantages which were Indian economy was facing in the local market as well as international market too. VAT implementation was the first step towards improvement in indirect taxes in India which showed that Government was working in right direction to allowing the credit of Input Tax at state and CENVAT at centre level. But still it is not possible to flow the credit of Input Tax from manufacturer to retailers. These results in cascading that means tax charged on tax which result in increased price of the product. This makes Indian manufacturer less competitive in domestic and international market. To overcome this problem and to allow the credit from manufacturer to retailers India has implemented Goods and Services Tax from July 1, 2017. It's really a great tax reform since independent. This paper is an attempt to study the Credit of Input Tax mechanism under goods and services tax laws and how its frequent amendments are impacting the businesses at large, its challenges and suggestion for growth of Government revenue and Indian economy.

***KEYWORDS**: CENVAT, VAT, Input Tax Credit, GST, Indian Economy.*

Introduction

Seamless flow of credit of Input Tax is one of the majorfeatures of the Goods and Services Taxes. Input Tax Credit is allowed supply made under GST under prescribed conditions. It is equally important to have sufficient knowledge that how to claim credit of input tax under GST. Every registered person has to assure that whatever ITC he has claim has correct and eligible. The ineligible availment of input tax credit may attract interest and penalty. In this research paper we will try to understand Input Tax Credit, eligibility and conditions for availing input tax credit, time limit for availing Input Tax Credit under section 16(4) of CGST Act, eligibility of Input Tax credit in special circumstances and the new rule 36(4) effecting from 09-10-2019 i.e. restrictions on availement of ITC of the tax invoices which are not uploaded by the supplier.

Input Tax Credit

Input Tax Credit has been defined in section 2(63) as "Input Tax Credit means credit of input tax". So now to understand the meaning of input tax credit we have to understand the definition of Input Tax which has been defined under section 2(62) as "Input Tax" means taxes charged on any supply of goods or services or both made under this laws to a registered person in the course or furtherance of his business and includes such tax payable on reverse charge basis. Input tax does not includesany tax paid under composition scheme.

Conditions for Claiming for Input Tax Credit

Section 16 of the CGST Act, 2017 explain all the conditions and eligibility criteria on which a registered person can claim credit of input tax which he has paid on his inward supply of goods and services and the same must be used or intended to be used in the course or furtherance of his business. Further the same amount of tax shall be credited to the electronic credit ledger of such person.

* Research Scholar, Department of Accounting, Faculty of Commerce and Management Studies, Jai Narain Vyas University, Jodhpur, Rajasthan, India.

An unregistered person under GST laws and a registered person who does not use the supply of goods or services in the course or furtherance of business, he will not be eligible to claim credit of input tax. Further credit of input tax will not be available to a person registered as composition dealer. Further in order to claim credit of input tax a registered person has to fulfil the following conditions:

- He must have in his possession of tax invoice, debit note or such other tax paying documents.
- Goods or services have been received.
- Tax on supply is actually paid to the Government.
- The recipient shall furnish the return under section 39.

The recipient of inward supply of goods or services has to make the payment within a period of 180 days from the date of issue of invoice by the supplier otherwise he has to reverse the credit of input tax earlier taken by him. He can re-claim the ITC reversed by him whenever he make the payment at a future date. As per section 16(3), If a registered person has capitalized the input tax included in capital asset or plant and machinery and also avail depreciation on the total amount he will not be eligible to claim ITC on the said tax amount. Further ITC pertaining to particular invoice can be claimed up to the due date of furnishing of return u/s 39 for the month of September, following the end of the financial year to which such invoice relates OR the Actual date filing of annual return, whichever is earlier. The due date for the month of September is 20^{th}.

Blocked Credit under GST

As per GST laws there are some specific cases are prescribed in GST where credit of input tax credit shall not be available to the applicant, these are as under:

- Tax paid on purchases of motor vehicles and other conveyances
- Tax paid on food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery. Input tax credit will be available only if such supply of goods or services of each category is used for making an outward taxable supply of the particular category of goods or services.
- Tax paid for civil construction, other than plant and machinery, available only if it is for further supply of works contract service.
- Tax paid on for construction of an immovable property on his own account, other than plant and machinery, even though it is used in course or furtherance of business.
- Tax paid on services like rent-a-cab, life insurance, health insurance. ITC will be allowed only if it is notified by the Government as obligatory for an employer to provide to its employees.

Restriction of ITCon Invoices not Uploaded by Suppliers

Government inserted a rule 36(4) effecting from 01.01.2020 to restrict credit of input tax for those tax invoices which are not uploaded by the suppliers. Under this rule registered person can claim the credit of input tax up to 10 per cent of input tax which have been uploaded. For example in January 2020 total input tax shown in books is Rs.10,00,000.00the invoices are uploaded by the Suppliers for input tax of Rs.8,00,000.00 and invoices for input tax Rs.2,00,000.00 are not uploaded. The registered person is eligible to avail input tax credit of Rs.8,80,000.00 in January, 2020. Calculation is as under:

- Eligible Input Tax Credit is – 8,00,000.00
- Input Tax Credit allowed for which invoices not uploaded – 10% of 8,00,000 = Rs.80,000.00
- Total Input Tax Credit can be availed of Rs.8,80,000.00 (8,00,000+80,000) in place of Rs.10,00,000.00 available input tax in books of account.

Objectives of the this Research Paper

The study has the following objectives:

- To study the Concept of Credit of input tax under GST
- To study the impact of changes in credit of input tax on businesses.

Research Methodology

This research is based on the exploratory research, keeping in view the objective of research, as GST is still emerging in India and still there are so many frequent amendments since its implementation therefore this research paper focuses on extensive study of secondary data.

Impact of Amendments in Input Tax Credit

The seamless flow and eligibility criteria credit of input tax was major factor between industries and authorities from pre-GST era. There are many judgements which made is clear that Input Tax Credit mechanism should be indefeasible right of assesse. The small procedural errors should not hamper the basic idea of seamless flow of credit of input tax. GST provisions should not be used to extract money from the assesse. The condition for rejecting credit of input tax if supplier not pays GST orfile returns is a very harsh provision and needs to be improvised. Frequent amendments in the provisions of availing the credit of input tax have adversely affected the trade and industries at large. Further even after insertion of new restrictions for availing credit of input tax does not help the Government in increasing the revenue, instead the revenue has decreased from GST. These new changes in input tax credit are reported to have disrupted the business environment and the stakeholders are facing multitude of challenges in conducting their routine business operations.

Before insertion of rule 36(4) taxpayers were availing ITC on a self-declaration basis in GSTR-3B. This means that they were declaring the summary figure of eligible tax credits. There was no need to check the ITC with the GSTR-2A. Earlier even if GSTR-2A reflected an ITC amount less than the books of accounts, taxpayers could still avail ITC in full in the GSTR-3B, and the difference was treated as provisional credit. After insertion of this rule, provisional ITC will be restricted to 10% of the eligible ITC reflected in the GSTR-2A for that period. Apart from the 10% of eligible ITC which a taxpayer can claim as provisional credit, the balance tax liability will need to be paid in cash. This new rule are affecting the working capital of a registered person because inspite of he has already paid to supplier but as his supplier has not uploaded the invoice, he again has pay the tax to government, which means he is paying two time. This amendment again will require more capital to be infuse into the businesses which increase the interest expenses. Further if we analysis the situation, registered person first paid the full amount of tax to supplier while making purchases and now because the supplier has not file return or does not paid the tax then registered person again has to pay the tax to government which is not justifiable at all.

These restrictions will increase the compliance cost and wastage of productive time of trade and industries. Every time dealers need to monitor:

- Whether the suppliers are uploading their returns on regular basis.
- Most Companies are likely to feel the pinch of the amendment.
- The amendment has introduced another set of compliance on a monthly basis

Conclusions and Suggestions

Government should take immediate steps so that seamless credit of input tax can flow can takes place without too many hurdles or road block in the ITC system. The system should be run without manual intervention. Further Government shall improve GST system so that it works perfectly and making it more conveniently instead of putting lot of restriction on ITC. Revenue collection can improve only by increasing the seamless credit flow and not by putting hindrances in the system. Further trades and industries are also expecting some clarification from Government that how to take credit of input tax if supplier files his GSTR-1 on quarterly basis and registered person filing his return on monthly basis.

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