

TAX FLASH NEWS

13 November 2019

GST Circular update on restriction in availing input tax credit (ITC)

Central Board of Indirect Taxes and Customs (CBIC), have issued a circular¹ with an intent to clarify therein, various issues such as the manner of calculating the restriction of 20 per cent, the cut-off date for carrying out reconciliation and the scope of the restriction.

Gist of the circular is as under

1. The restriction imposed under rule 36(4) of the CGST Rules², 2017, needs to be carried out by the taxpayers on a self-assessment basis.
2. Full ITC of eligible credits shall be available on following:
 - a. IGST paid on imports
 - b. Documents issued under reverse charge mechanism (RCM)
 - c. Credit received from input service distributor (ISD)
3. The restriction of credit shall be applicable only on invoices/debit notes on which credit has been availed on or after 9 October 2019.
4. The restriction is not to be computed supplier wise.
5. For the purpose of calculating the restriction, ineligible credits such as those enumerated under section 17(5) of the CGST Act³, 2017, shall not be considered.
6. For the purpose of determining the quantum of matched eligible credits, the GSTR-2A as available on the due date of filing of form GSTR-1, should be considered.

¹ Circular no. 123/42/2019 – GST dated 11 November 2019

² Central Goods and Services Tax Rules, 2017

³ Central Goods and Services Tax Act, 2017

7. Illustration of the manner of calculating the eligible ITC that can be availed in GSTR-3B is as under-

(INR in lakhs)

Scenarios	Eligible credit as per books	Eligible credit as per GSTR 2A as on the due date of filing of GSTR-1	Eligible credit not reflected in GSTR-2A	20% of eligible ITC	Amount of credit as per rule 36(4) in respect of invoices/debit notes, the details of which has not been uploaded by the supplier in GSTR-1	Total eligible credit that can be claimed in GSTR-3B	Un-availed eligible credit by virtue of restriction imposed by rule 36(4)
(a)	(b)	(c)	(d)	(e) 20% of (c)	(f) Lower of (d) or (e)	(g) (c) + (f)	(h) (d) – (f)
1	10.00	6.00	4.00	1.20	1.20	7.20	2.80
2	10.00	7.00	3.00	1.40	1.40	8.40	1.60
3	10.00	8.50	1.50	1.70	1.50	10.00	NIL

8. Un-availed credit as illustrated in scenarios (1) and (2) of para 7 above, can be claimed in any of the succeeding tax period(s), provided the details of requisite invoices are uploaded by the suppliers.

Our comments

Though the circular has clarified some doubts, however the practical challenges of implementing the same every month is still not being addressed, for example, whether reconciliation to be done on a YTD basis or on a monthly basis, considering that there is always going to be a gap between invoice booking by the recipient and the uploading of invoice by supplier in their respective GSTR-1.

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