

TAX FLASH NEWS

5 April 2019

Notification update – Order of utilisation of input tax credit

Central Board of Indirect Taxes and Customs (CBIC) has introduced new rule 88A¹ in the Central Goods and Services Tax (CGST) Rules, 2017. The new rule provides relaxation in the sequence prescribed for utilisation of integrated tax credit against the output tax liability in section 49A of the CGST Act.

The inserted Rule 88A has clarified that input tax credit (ITC) of IGST shall first be utilised against output liability of IGST and thereafter balance in IGST credit can be utilised for payment of CGST and SGST/UTGST output tax liability, as the case may be in any order.

The relaxation in the order is subject to condition that credit on account of IGST is utilised in full.

Illustration 1:

Head	Tax liability	ITC available	Original set-off provision		After introduction section 49A		Rule 88A	
			Discharge of liability	ITC balance	Discharge of liability	ITC balance	Discharge of liability	ITC balance
IGST	NIL	800	NIL	NIL	NIL	NIL	NIL	NIL
CGST	800	500	CGST – 500	NIL	IGST - 800	500	IGST – 300	NIL
			IGST – 300		CGST – NIL		CGST – 500	
			Cash - NIL		Cash - NIL		Cash - NIL	
SGST	800	200	SGST – 200	NIL	IGST – NIL	NIL	IGST – 500	NIL
			IGST – 500		SGST – 200		SGST – 200	
			Cash - 100		Cash - 600		Cash - 100	

¹ Notification 16/2019-Central Tax dated 29 March 2019

Illustration 2 -

Head	Tax liability	ITC available	Original set-off provision		After introduction section 49A		Rule 88A	
			Discharge of liability	ITC balance	Discharge of liability	ITC balance	Discharge of liability	ITC balance
IGST	400	800	IGST - 400	NIL	IGST - 400	NIL	IGST - 400	NIL
			Cash - NIL		Cash - NIL		Cash - NIL	
CGST	800	500	CGST – 500	NIL	IGST - 400	100	IGST – 300	NIL
			IGST – 300		CGST – 400		CGST – 500	
			Cash - NIL		Cash - NIL		Cash - NIL	
SGST	800	200	SGST – 200	NIL	IGST – NIL	NIL	IGST – 100	NIL
			IGST – 100		SGST – 200		SGST – 200	
			Cash – 500		Cash – 600		Cash – 500	

Notes

1. Original set-off provision was applicable for tax period July 2017 to January 2019
2. Section 49A was made effective from 1 February 2019 and accordingly was applicable for tax period February 2019
3. Provisions of Rule 88A shall be applicable for tax period March 2019 onwards

Our comments

The manner prescribed by insertion in the CGST rules, should bring in relief for businesses as after the introduction of section 49A, businesses were compelled to pay output tax in cash in spite of having balance in tax credit account. However, we will have to wait and see the manner in which the GSTN portal adopts the said change.

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