

TOPIC – SPECIAL CASES RELATING TO ITC

Question 1

PQR Pvt Ltd, engaged in supplying taxable goods to its customers within the state, is not liable for registration u/s 22 of CGST Act. From 15-02-2018 onwards, it started inter-state supply of taxable goods. Hence, it applied for registration on 25-02-2018 and the same has been granted to it. Its CGST, SGST and IGST liability for the month of February 2018 is Rs 19,500, Rs 19,500 and Rs 40,500 respectively and PQR Pvt Ltd has to make e-payment of tax on the due date, ie on 20-03-2018. PQR Pvt Ltd has provided the following details of stock of input held on 14-02-2018 and tax paid thereon.

Particulars	CGST (Rs)	SGST (Rs)
Input received on 10-01-2018 lying in stock (Invoice dated 11-01-2018)	3,600	3,600
Input received on 25-10-2017 lying in semi-finished stock (Invoice dated 26-10-2017)	7,500	7,500
Inputs received on 15-01-2018 contained in finished goods (Invoice dated 15-01-2018)	9,600	9,600

Briefly explain the tax payable by PQR Pvt Ltd in cash, if any. PQR Pvt Ltd has not opted for the provisions of composition scheme as prescribed u/s 10 of CGST Act.

Answer 1

- As per Section 18 of CGST Act, a person applying for registration within 30 days from the date on which he becomes liable to registration shall be entitled to take credit of input tax in respect of inputs held in stock, or contained in semi-finished or finished goods in stock on the date immediately preceding the date from which he becomes liable to registration (ie, 14th February 2018).
- However, a registered person shall not be entitled to take input tax credit in respect of any supply of goods or services or both after the expiry of 1 year from the date of issue of invoice relating to such supply.
- In view of the above provision, input tax credit available to PQR Pvt Ltd will be computed as follows:

Particulars	CGST (Rs)	SGST (Rs)
Input received on 10-01-2018 lying in stock as on 14-02-2018 (Invoice dated 11-01-2018)	3,600	3,600
Input received on 25-10-2017 lying in semi-finished stock as on 14-02-2018 (Invoice dated 26-10-2017)	7,500	7,500
Inputs received on 15-01-2018 contained in finished goods as on 14-02-2018 (Invoice dated 15-01-2018)	9,600	9,600
Total Eligible Input Tax Credit	20,700	20,700

Computation Of Tax Payable In Cash By PQR Pvt Ltd For February 2018:

Particulars	CGST	SGST	IGST
Output Tax Liability for February 2018	19,500	19,500	40,500
<u>Less:</u> Eligible input tax credit available on inputs in respect of:			
➤ CGST	(19,500)	-	(1,200)
➤ SGST	-	(19,500)	(1,200)
Output Tax Payable In Cash	Nil	Nil	38,100

Question 2

B Ltd is not required to register under CGST Act but it wishes to obtain voluntary registration. So, it applied for voluntary registration on 18th September 2018 and registration has been granted to it on 25th September 2018. The CGST and SGST liability for the month of September 2018 is Rs 21,000 each. B Ltd provides the following information of inputs held in stock on 24th September 2018. It is not engaged in making inter-state outward taxable supplies.

Particulars	Amount (Rs)
Input procured on 02-09-2018 lying in stock: - CGST @ 6% - SGST @ 6%	4,500 4,500
Input received on 21-02-2018 contained in semi-finished goods held in stock: - CGST @ 6% - SGST @ 6%	7,500 7,500
Inputs procured on 19-09-2017 contained in finished goods held in stock: - IGST @ 18% (Invoice issued on same day)	36,000
Inputs procured on 13-09-2018 lying in stock: - IGST @ 18%	9,000
Capital goods procured on 12-09-2018 lying in stock: - CGST @ 6% - SGST @ 6%	12,000 12,000

You are required to determine the amount of tax to be paid in cash by B Ltd for September 2018.

Answer 2

- As per Section 18 of CGST Act, in case of a person obtaining voluntary registration, he shall be entitled to take credit of input tax in respect of inputs held in stock, or contained in semi-finished or finished goods in stock as on the date immediately preceding the date of grant of registration (ie, 24th September 2018).
- A registered person shall not be entitled to take input tax credit in respect of any supply of goods or services or both after the expiry of 1 year from the date of issue of tax invoice relating to such supply.
- In view of the above provision, eligible input tax credit available to B Ltd will be computed as follows:

Particulars	CGST (Rs)	SGST (Rs)	IGST (Rs)
Input procured on 02-09-2018 lying in stock	4,500	4,500	-
Input received on 21-02-2018 contained in semi-finished goods	7,500	7,500	-
Inputs procured on 19-09-2017 contained in finished goods (The invoice has been issued on 19-09-2017, hence one year has elapsed on 18-09-2018. So, input tax credit in respect of such purchases is not admissible after 18-09-2018)	-	-	-
Inputs procured on 13-09-2018 lying in stock	-	-	9,000
Capital goods procured on 12-09-2018 lying in stock (There is no provision u/s 18 which allows availment of ITC on capital goods lying in stock by a person who obtains voluntary registration)	-	-	-
Total Eligible Input Tax Credit	12,000	12,000	9,000

• **Computation Of Tax Payable In Cash By B Ltd For September 2018:**

Particulars	CGST (Rs)	SGST (Rs)
Output Tax Liability for September 2018	21,000	21,000
<u>Less: Set-Off Of Eligible Input Tax Credit Available On Inputs:</u>		
• CGST	(12,000)	(12,000)
• SGST	-	-
• IGST	(9,000)	-
CGST/SGST Payable In Cash	Nil	9,000

Question 3

ABC Traders, paying tax under composition scheme, crosses the applicable threshold and becomes liable to pay tax under regular scheme on 01-04-2018. Can it avail input tax credit and if so, calculate the amount of ITC available. The details of inputs lying in stock and capital goods in possession as on 31-03-2018 are given below:

Particulars	CGST (Rs)	SGST (Rs)
Inputs lying in stock (Invoice dated 12-03-2018)	3,600	3,600
Input lying in semi-finished goods in stock (Invoice dated 12-12-2017)	2,400	2,400
Capital goods procured on 25-09-2017 (Invoice dated 25-09-2017)	7,200	7,200

Answer 3

- As per Section 18 of CGST Act, where any registered person ceases to pay tax u/s 10 of CGST Act, he shall be entitled to take credit of input tax in respect of inputs held in stock, inputs contained in semi-finished or finished goods held in stock and on capital goods held on the day immediately preceding the date from which he becomes liable to pay tax.
- Further, credit can be claimed on such capital goods after reducing the tax paid on such capital goods by 5% per quarter of a year or part thereof from the date of invoice. "Quarter" shall mean a period comprising of three consecutive calendar months ending on the last day of March, June, September and December of a year.
- Input Tax Credit Available To ABC Traders In Respect Of Inputs:**

Particulars	CGST (Rs)	SGST (Rs)
Inputs lying in stock	3,600	3,600
Inputs lying in semi-finished goods in stock	2,400	2,400
Total Input Tax Credit Available	6,000	6,000

• **Input Tax Credit Available To ABC Traders In Respect Of Capital Goods:**

Date of invoice of capital goods	25-09-2017
Date from which ABC Traders became liable to pay tax	01-04-2018
No of quarters from the date of invoice to the day immediately preceding the day on which ABC Traders became liable to pay tax	3
CGST and SGST paid on capital goods procured on 25-09-2017	14,400
Total Credit (CGST and SGST) Available On Capital Goods (Rs 14,400 - 15%)	12,240
CGST - Rs 6,120; SGST - Rs 6,120	

Question 4

M/s XYZ, a registered dealer, is engaged in supplying exempted goods to its customers. On 17-06-2018, the exemption notification was rescinded and goods were made liable to tax. M/s XYZ has to make e-payment of tax on the due date i.e., on 20-07-2018. Determine the eligible credit for the month of June 2018 if the following information is provided:

Particulars	Value (Exclusive of CGST/SGST/IGST)	CGST @ 6%	SGST @ 6%	IGST @ 12%
Value of inputs lying in stock as on 16-06-2018. All inputs were procured after 01-03-2018	1,00,000	-	-	12,000
Value of inputs contained in semi-finished goods lying in stock as on 16-06-2018 but only inputs worth Rs 85,000 in semi-finished goods were procured after 16-06-2017	1,35,000	8,100	8,100	-
Inputs received on 31-01-2018 lying in finished goods in stock on 16-06-2018	1,55,000	9,300	9,300	-
Capital goods procured on 10-12-2017 which are exclusively used in supplying exempted goods	8,00,000	-	-	96,000

Answer 4

- As per Section 18 of CGST Act, where any exempt supplies made by a registered person become taxable, he shall be entitled to take credit of input tax in respect of inputs held in stock, inputs contained in semi-finished or finished goods held in stock and on capital goods held on the day immediately preceding the date from which he becomes liable to pay tax.
- Further, credit can be claimed on such capital goods after reducing the tax paid on such capital goods by 5% per quarter of a year or part thereof from the date of invoice. "Quarter" shall mean a period comprising of three consecutive calendar months ending on the last day of March, June, September and December of a year.
- Input Tax Credit Available To M/s XYZ In Respect Of Inputs:**

Particulars	CGST (Rs)	SGST (Rs)	IGST (Rs)	Total Eligible Credit (Rs)
ITC on the value of inputs lying in stock (Since all inputs were acquired within 1 year prior to the effective date on which the goods became taxable, entire ITC would be allowed)	-	-	12,000	12,000
ITC on the value of inputs contained in semi-finished goods (Out of the total stock of Rs 1,35,000, inputs amounting to Rs 50,000 are older than 1 year from the effective date on which the goods became taxable. Therefore, ITC to this extent stands disallowed. ITC on inputs contained in stock of Rs 85,000 would be eligible. Eligible credit each in respect of CGST and SGST = Rs 85,000 * 6% = Rs 5,100)	5,100	5,100	-	10,200
ITC on value of inputs lying in stock of finished goods (Since all inputs were acquired within 1 year prior to the effective date on which the goods became taxable, entire ITC would be allowed)	9,300	9,300	-	18,600

Credit (IGST) available on capital goods (WN 1)	-	-	81,600	81,600
Total Input Tax Credit Available	14,400	14,400	93,600	1,22,400

WN 1: Credit Available In Respect Of Capital Goods:

Date of invoice of capital goods	10-12-2017
Date from which the exempt goods became taxable	17-06-2018
No of quarters or part thereof from the date of invoice to the day immediately preceding the day on which goods became taxable	3
IGST paid on the capital goods used exclusively in relation to goods exempted	96,000
IGST Available On Capital Goods (Rs 96,000 - 15%)	81,600

Question 5

The goods manufactured by Royal Ltd have been exempted from GST with effect from 01-05-2018. Earlier these goods were liable to CGST and SGST @ 6% respectively. The inputs used in manufacturing these goods were also liable to CGST and SGST @ 6% respectively. Following information is available on 30-04-2018:

- Inputs costing Rs 1,12,000 (inclusive of CGST & SGST) are lying in stock.
- Inputs costing Rs 80,640 (inclusive of CGST & SGST) are held in process.
- Finished goods valuing Rs 5,60,000 are in stock, the input cost (inclusive of CGST and SGST) is 50% of the value.
- Input tax credit on capital goods lying in stock is Rs 72,000. These goods were purchased on 1-8-2017.
- Balance in electronic credit ledger is Rs 1,52,000.

Discuss input tax credit implications in the hands of Royal Ltd.

What would your answer be if the balance in electronic credit ledger as on 30-04-2018 is Rs 1,00,000?

Answer 5

Amount payable by Royal Ltd has been calculated below:

Particulars	Amt (Rs)
Tax on inputs lying in stock (Rs 1,12,000 × 12/112)	12,000
Tax on inputs held in process (Rs 80,640 × 12/112)	8,640
Tax on inputs contained in finished goods lying in stock (Rs 5,60,000 × 50% × 12/112)	30,000
Proportionate tax on capital goods taking total life as 5 years (Rs 72,000 × 51/60) (Capital goods used for 9 months, thus remaining useful life shall be taken as 51 months)	61,200
Amount To Be Paid By Royal Ltd (CGST + SGST)	1,11,840

The aforesaid amount can be paid by utilizing the balance in electronic credit ledger. The remaining credit of Rs 40,160 (Rs 1,52,000 - Rs 1,11,840) in electronic credit ledger shall lapse.

If Balance In Electronic Credit Ledger Is Rs 1,00,000:

If the balance in electronic credit ledger as on 01-05-2018 is Rs 1,00,000, then Royal Ltd will have to pay an amount of Rs 11,840 (Rs 1,11,840 - Rs 1,00,000) in cash.

Question 6

PQR Ltd, a registered person supplying taxable goods in Jaipur, has opted to pay tax as per composition scheme prescribed u/s 10 of CGST Act with effect from 28-02-2018. It provides the following information relating to balance of input tax credit lying as on 27-02-2018:

- Inputs lying in stock as such valued at Rs 1,68,000 (inclusive of CGST & SGST @ 12%)
- Inputs contained in finished goods where tax invoice is not available relating to such inputs but it is known that market price of such inputs (inclusive of CGST & SGST @ 12%) on 28-02-2018 is Rs 89,600.
- Input tax on capital goods purchased on 25-10-2017 is Rs 72,000.
- Balance in electronic credit ledger is Rs 1,10,000.

Discuss input tax credit implications in the hands of PQR Ltd.

Answer 6

Amount payable by PQR Ltd has been calculated below:

Particulars	Amt (Rs)
Tax on inputs lying in stock (Rs 1,68,000 × 12/112)	18,000
Tax on inputs contained in finished goods lying in stock (Rs 89,600 × 12/112) (Where tax invoices related to inputs lying in stock are not available, reversals have to made on the basis of prevailing market price of goods on the date of opting for composition scheme)	9,600
Proportionate tax on capital goods taking total life as 5 years (Rs 72,000 × 55/60) (Capital goods used for 4 months & 2 days, thus remaining useful life shall be taken as 55 months)	66,000
Amount To Be Paid By PQR Ltd (CGST + SGST)	93,600

The aforesaid amount can be paid by utilizing the balance in electronic credit ledger. The remaining credit of Rs 16,400 (Rs 1,10,000 – Rs 93,600) in electronic credit ledger shall lapse.

Question 7

XYZ Ltd, a supplier of goods, has purchased capital goods under the cover of an invoice dated 01-10-2017 for Rs 4,13,000 (inclusive of CGST @ 9% and SGST @ 9%). After using the capital goods for business use, the same were supplied for Rs 2,85,000 on 26-04-2018. Explain input tax credit treatment in this case.

Answer 7

As per Section 18 of CGST Act, in case of supply of capital goods on which input tax credit has been taken, the registered person is required to pay higher of the following two amounts:

- Input tax credit taken on the said capital goods reduced by an amount calculated @ 5% for every quarter or part thereof from the date of issue of invoice of such goods; or
- Tax on transaction value of supply of such capital goods.

Computation Of Amount Of Tax Payable By XYZ Ltd:

CGST and SGST paid on purchase of capital goods (Rs 4,13,000 × 18/118)	63,000
Date of invoice of purchase of capital goods	01-10-2017
Date of supply of capital goods after being used	26-04-2018
No of quarters or part thereof from the date of issue of invoice for such goods	3
Proportionate Credit To Be Reversed (Rs 63,000 – 15%)	53,550
Tax On Transaction Value Of Supply Of Such Capital Goods (Rs 2,85,000 × 18%)	51,300
Amount To Be Payable (Higher Of Above Two Figures)	53,550

Question 8

What would be your answer in Question 7 if the capital goods in question are refractory bricks which are removed as scrap at a transaction value of Rs 25,000 on 09-03-2018?

Answer 8

- As per Section 18 of CGST Act, where refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, there shall be no requirement for reversal of input tax credit. The taxable person may pay tax on the transaction value of such goods determined u/s 15 of CGST Act.
- In the given case, refractory bricks are cleared as scrap. The manufacturer shall pay on amount equal to the tax leviable on transaction value {ie, CGST of Rs 2,250 (+) SGST of Rs 2,250}.

Question 9

R Ltd, a registered person engaged in supplying taxable goods, is being sold to X Ltd, with specific provision for transfer of liability. The unutilized credit in respect of CGST and SGST is Rs 48,000 and Rs 48,000 respectively. Now X Ltd wants to utilize such credit remaining unutilized. Discuss its eligibility.

Answer 9

- As per Section 18 of CGST Act, where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provision for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilized in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed.
- Therefore, X Ltd is entitled to utilize the unutilized credit on input and capital goods lying in accounts of R Ltd, provided R Ltd furnishes details of such transaction on sale of business electronically on GST Common Portal with request to transfer unutilized tax credit to electronic credit ledger of X Ltd.
- A certificate of Chartered Accountant/Cost Accountant is to be furnished and the transfer details have to be accepted by the transferee.

Question 10

R Ltd, a registered manufacturer, demerged its entity into RX Cement Ltd and RY Steel Ltd. The total value of assets of R Ltd is Rs 25,00,000 and unutilized credit on account of CGST SGST and IGST amounted to Rs 60,000, Rs 45,000 and Rs 84,600 respectively. The value of assets of RX Cement Ltd and RY Steel Ltd is Rs 12,00,000 and Rs 13,00,000 respectively obtained as per the scheme. Discuss the eligibility of credit transferred to new units on account of demerger.

Answer 10

- As per Section 18 of CGST Act, where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provision for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilized in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed.
- In case of demerger, input tax credit shall be apportioned in the ratio of value of assets of new unit as specified in demerger scheme. In the given case, credit transferred to both the new units would be:

Particulars	R Ltd (Rs)	RX Cement Ltd (Rs)	RY Steel Ltd (Rs)
Value of assets	25,00,000	12,00,000	13,00,000
Unutilized credit to be apportioned in ratio of value of assets of RX Cement Ltd and RY Steel Ltd			
• CGST	60,000	28,800	31,200

• SGST	45,000	21,600	23,400
• IGST	84,600	40,608	43,992
Total Apportioned Credit	1,89,600	91,008	98,592