

CBIC issues clarification on utilisation of input tax credit under GST

Issued on 24 April 2019

Summary

The provisions with respect to the availability of input tax credit (ITC) of Integrated Goods and Services Tax¹ (IGST) required taxpayers to follow a particular order for utilisation of ITC which, in many instances, resulted in accumulation of ITC. To address various representations received from trade and industry regarding the challenges faced by taxpayers, the government had recently amended the provisions under the CGST Rules, 2017².

The Central Board of Indirect Taxes and Customs (CBIC) has now issued a clarification³ in order to ensure uniformity in the implementation of the provisions and impart the required clarity as regards the order of utilisation of ITC of IGST.

Key clarifications

- **Sequence of utilisation of ITC:** The rule⁴ allows utilisation of ITC of IGST towards payment of Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST) or Union Territory Goods and Service Tax (UTGST)⁵, in any order, subject to the condition that the entire ITC on account of IGST is completely exhausted first before ITC on account of CGST, SGST or UTGST can be utilised.

¹ Section 49A of the Central Goods and Services Tax Act, 2017

² Inserted Rule 88A in CGST Rules 2017 vide Notification No. 16/2019-Central Tax, dated 29 March 2019

³ Circular No. 98/17/2019-GST dated 23 April 2019

⁴ Rule 88A

⁵ i.e. the payment of central tax (CGST) and state tax (SGST), or union territory tax (UTGST)

- **Illustration on order of utilisation**

	IGST	CGST	SGST / UTGST	Total
Output liability	1,000	300	300	1,600
ITC	1,300	200	200	1,700

Option 1

ITC	Discharge of output tax liability on account of			Balance of ITC
	IGST	CGST	SGST / UTGST	
IGST	1,000	200	100	-
CGST	-	100	-	100
SGST / UTGST	-	-	200	-
Total	1,000	300	300	100

Option 2

ITC	Discharge of output tax liability on account of			Balance of ITC
	IGST	CGST	SGST / UTGST	
IGST	1,000	100	200	-
CGST	-	200	-	-
SGST / UTGST	-	-	100	100
Total	1,000	300	300	100

- The CBIC has further clarified that till the new order of utilisation as per the newly inserted rule is implemented on the common portal, taxpayers may continue to utilise their ITC as per the functionality available on the common portal which is in accordance with the provisions before implementation of the CGST Amendment Act⁶.

Our comments

The newly inserted rule, allowing flexibility in the utilisation of ITC of IGST, should facilitate taxpayers in addressing issues around credit blockage and increased cash outflow. The CBIC's clarification on continuation of credit utilisation in accordance with the erstwhile scheme⁶ pending updation of the common portal should enable taxpayers to utilise their ITC in an appropriate manner and also help them avoid future disputes.

⁶ Pre-insertion of Section 49A and 49B of the CGST Act, 2017

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