

Business Standard

GST Council gives firms more flexibility on use of input tax credit

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Abhishek Waghmare | New Delhi April 25, 2019 Last Updated at 01:48 IST



In yet another

simplification, the Goods and Services Tax (GST) Council has added flexibility into the way a company can utilise the available input tax credit. Any company would now be eligible to use credit available against paid integrated GST (IGST) to set off tax liabilities of state GST (SGST) and central GST (CGST) in any proportion and in any order, the GST Council said in a circular sent to field formations on Tuesday.

Previously, the order of using the IGST credit was kept flexible — it was the company's choice to set off CGST or SGST first — in a notification dated March 29. However, it was not clear whether a company would be able to use IGST credit to set off SGST liability and CGST liability partially at the same time. It was construed that if a company chooses to set off SGST liability first, it would have to exhaust the entire SGST liability before using the IGST credit to set off CGST liability.

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But in a circular issued on April 23, the GST Council clarified that the IGST credit can be used in a flexible

manner. The mandatory requirement to set off IGST liability remains as it is.

Industry and observers have welcomed the move. Abhishek Jain, tax partner at EY India, said, “This was a much-needed clarification, and it brings to rest varied interpretations apprehended by industry experts on the utilisation of IGST credit.”

Consider this: If a company has output tax liability of Rs 1,000, Rs 500, and Rs 500 towards IGST, SGST, and CGST, respectively. Let us assume a case where IGST credit of Rs 1,500 is available in the electronic credit ledger for the company at the time of tax payment. According to the GST law, it has to use the IGST credit to pay off the IGST liability first, before using it to discharge SGST or CGST liabilities. This will erase the IGST liability, and reduce the available IGST credit to Rs 500 (Rs 1,500 minus Rs 1,000).

The company can now use this credit (Rs 500) to pay off SGST liability completely, or the CGST liability completely, or both CGST and SGST in any proportion it deems proper. It can use half of the available IGST (Rs 250) credit to set off SGST liability and the remaining half (Rs 250) to set off CGST liability, or it can use Rs 100 to set off SGST liability, and Rs 400 to set off CGST liability, or any other combination.