

*GST ki गणित*

# Understanding Section 16 of CGST Act, 2017

Section 16 of the CGST Act, 2017 is an important provision that governs Input Tax Credit (ITC) under GST and is essential to build a robust tax system. Let's dive deep and understand various aspects of this section.

# Overview of Section 16

## What is ITC?

Input Tax Credit (ITC) is the credit an assessee receives for taxes paid on inputs against the output tax liability. Section 16 lays down the provisions related to ITC.



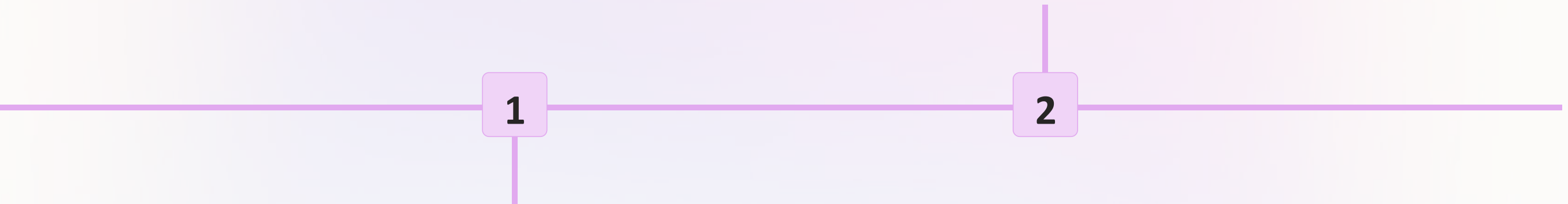
## Eligibility for claiming ITC [Section 16(1)]

Any person registered under GST, who makes purchases of inputs or input services to be used for business purposes, can claim the ITC of the tax paid on such purchases.

# Meaning of inputs and input services

## Input services

Includes any service used or intended to be used in the course or furtherance of business. E.g. Transportation, accounting services, legal services etc.



## Inputs

Includes all goods, other than capital goods, used or intended to be used in the course or furtherance of business. E.g. Raw material, chemicals, stationery etc.

# Conditions for claiming ITC [Section 16(2)]

## (a) Possession of Invoice

Input tax credit can only be claimed if the recipient possesses a tax invoice or debit note issued by a registered supplier.

## (aa) Input Reflecting in Return

The details of the tax invoice or debit note have been furnished by the supplier in his GSTR-1 and same have been communicated to the recipient in GSTR-2B.

## (b) Receipt of Goods/ Services

The recipient has received the goods or services or both.

## (ba) No Restrictions on ITC

The input tax credit in respect of the said supply has not been restricted.

## (c) Payment of Tax

Supplier has paid the tax in respect of the said supply to the Government.

## (d) Filing of Return

The recipient has filed all the relevant returns in respect of the said supply (as per section 39).

# Other Issues concerning ITC

## 1 ITC in case of Instalments [1<sup>st</sup> proviso to section 16(2)]

Where the goods are received in instalments, ITC can be claimed only after receipt of **the last instalment**.

## 2 Payment within 180 Days [2<sup>nd</sup> proviso to section 16(2)]

If the recipient fails to make payment to the supplier within **180 days**, then the ITC claimed has to be reversed.

## 3 ITC or Depreciation [Section 16(3)]

ITC cannot be claimed on tax component of the cost of **capital goods**, if **depreciation** on them has already been claimed under the Income Tax Act, 1961.

## 4 Time Limit for Availing ITC (Section 16(4))

ITC in respect of any supply cannot be availed after **30<sup>th</sup> November** following the end of the Financial Year or date of furnishing the **Annual return**, whichever is earlier.

# Impact of Section 16 on businesses

## 1 Compliance

Businesses need to ensure that they comply with the provisions laid down under Section 16 of the GST Act to avoid any disputes and legal hassles.

## 3 Transparent supply chain

ITC ensures that the entire supply chain is transparent, as every supplier down the chain needs to ensure that their counterparts have correctly availed and utilized ITC.

## 2 Cost savings

Correctly availing ITC can lead to substantial cost savings for businesses, through increased working capital or reduced prices of goods/services supplied.



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