

FURTHER UPDATES ON INDIA GST

I. Payment process under GST

1. Electronic tax liability ledger (GST PMT1)

Each registered taxpayer under GST has to maintain an electronic tax liability ledger. The electronic tax liability ledger would show the tax due from a regular tax return, and the interest, penalty, demand notice under each of the major heads. Payments can be made using the input tax credit (ITC) available in the electronic credit ledger.

2. Electronic cash ledger (GST PMT5)

Payments would be made under 3 major heads named CGST, SGST, IGST and it is further divided into the different minor heads like tax, interest, penalty, fees and others. The electronic cash ledger would be debited for the total value in case of payments being made from any or combination of the above major/minor head.

The electronic cash ledger will also display the balance available under the various combination of the major-minor head and any refunds received by the taxpayer would reflect in this ledger.

3. Electronic credit ledger (GST PMT2)

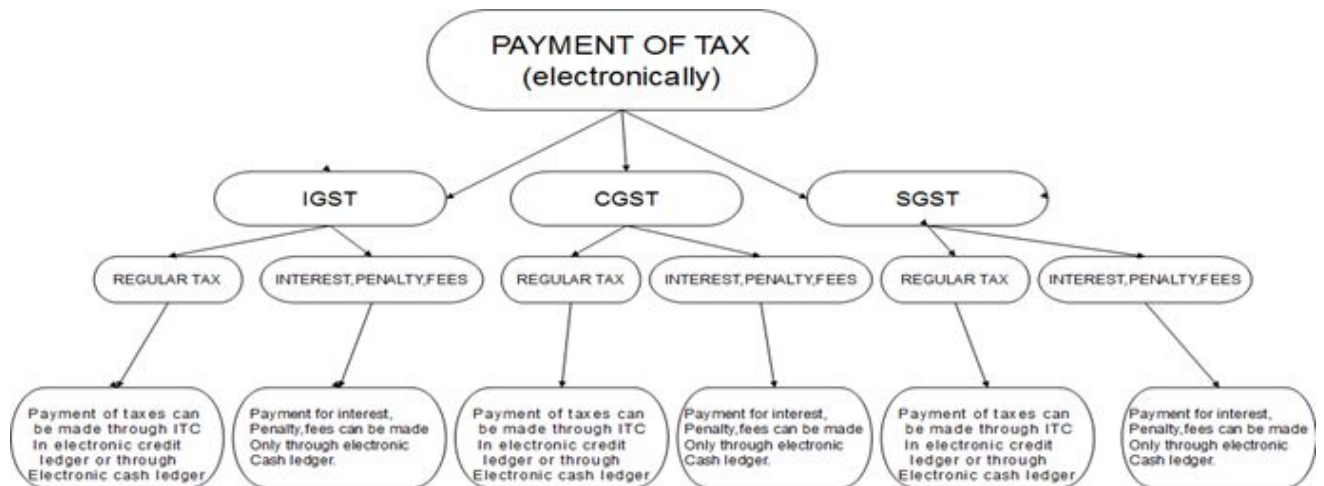
All the taxes paid on the inputs would be recorded in the electronic credit ledger. The input tax credit in each of the cases mentioned below, shall also be transferred to the electronic credit ledger:

- ITC available to the branch for the amount of credit transferred by ISD in accordance with rules laid under Model GST law.
- ITC allowed on input held in stock and the semi-finished or finished goods would be credited to electronic credit ledger if the taxpayer applies for registration within 30 days of becoming liable to pay tax.
- ITC available on the input held in stock and semi-finished or finished goods by a taxpayer in the composition scheme converting to a normal taxpayer shall be transferred to electronic credit ledger.
- ITC available due to the taxes paid under the reverse charge mechanism shall also be transferred to the electronic credit ledger.

- ITC available on goods/services used for the business and other purposes shall only be allowed to the extent applicable for business purposes.

All the payments under GST have to be made by either using the input tax credit available in the electronic credit ledger or through the electronic cash ledger.

The chart below shows the process of tax payment under the major heads of IGST, CGST, SGST:



*Payment for less than Rs 10,000 can be made through cash and cheque can be made at the authorized banks.

Utilizing ITC for the fulfillment of Tax liability:

IGST: After the IGST input tax credit is used for payment of IGST then the remaining ITC can be used to pay tax liability under CGST and SGST.

CGST: The CGST input tax credit cannot be used to pay the SGST liability but can be used to pay the liability under CGST.

SGST: The SGST input tax credit cannot be used to pay the CGST liability but can be used to pay the liability under CGST.

II. Input Credit

Part 1# What is input credit?

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs.

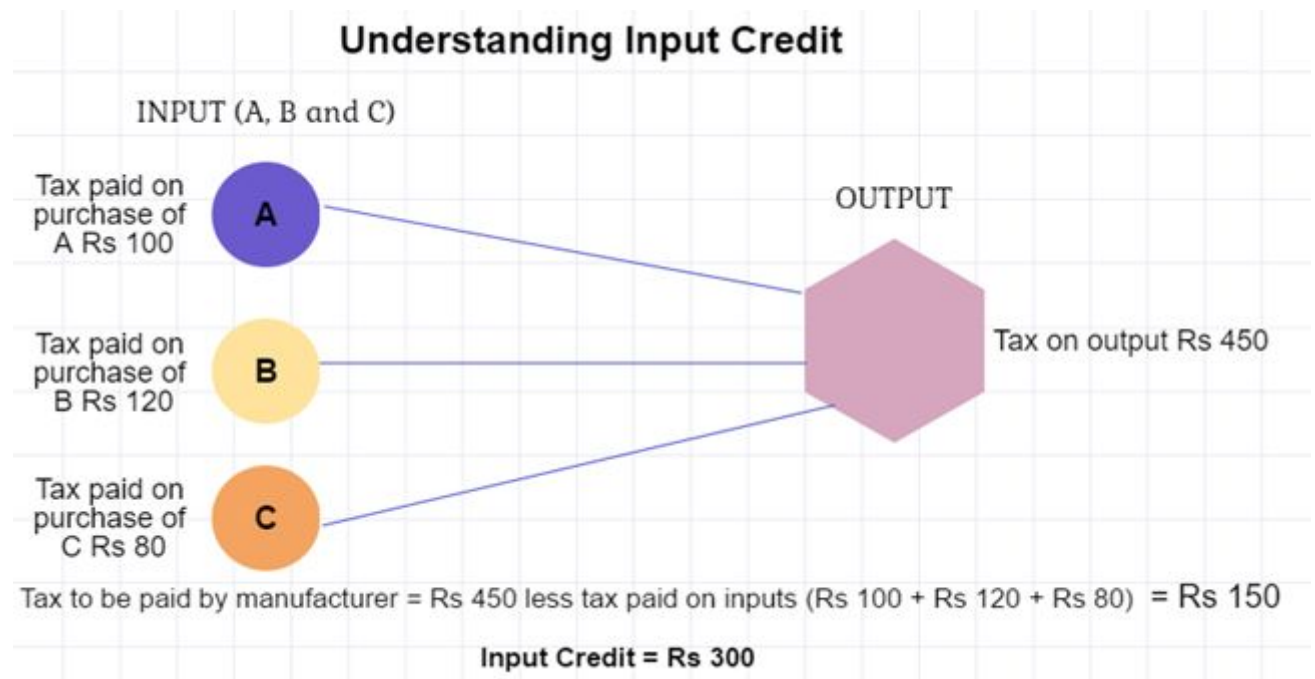
Say, if you are a manufacturer –

tax payable on output (FINAL PRODUCT) is Rs 450

tax paid on input (PURCHASES) is Rs 300

You can claim INPUT CREDIT of Rs 300 and you only need to deposit Rs 150 in taxes.

See here:



Input Credit in GST

Input Credit Mechanism is available to you when you are covered under the GST Act.

Which means if you are a manufacturer, supplier, agent, e-commerce operator, aggregator or any of the persons mentioned [here](#), registered under GST, You are eligible to claim INPUT CREDIT for tax paid by you on your PURCHASES.

How to claim input credit under GST?

To claim input credit under GST –

- You must have a **tax invoice(of purchase) or debit note** issued by registered dealer

Note: Where goods are received in lots/installments, credit will be available against the tax invoice upon receipt of last lot or installment.

- You should have **received the goods/services**

Note: Where recipient does not pay the value of service or tax thereon within 3 months of issue of invoice and he has already availed input credit based on the invoice, the said credit will be added to his output tax liability along with interest.

- The **tax charged on your purchases** has been **deposited/paid** to the government by the supplier in cash or via claiming input credit
- **Supplier has filed GST returns**

Possibly the most path breaking reform of GST is that input credit is ONLY allowed if your supplier has deposited the tax he collected from you. So every input credit you are claiming shall be matched and validated before you can claim it.

Therefore, to allow you to claim input credit on Purchases all your suppliers must be GST compliant as well.

There's more you should know about input credit –

- It is possible to have unclaimed input credit. Due to tax on purchases being higher than tax on sale. In such a case, you are allowed to carry forward or claim a refund.

If tax on inputs > tax on output → carry forward input tax or claim refund

If tax on output > tax on inputs → pay balance

No interest is paid on input tax balance by the government

- Input tax credit cannot be taken on purchase invoices which are more than one year old. Period is calculated from the date of the tax invoice.
- Since GST is charged on both goods and services, input credit can be availed on both goods and services (except those which are on the exempted/negative list).
- Input tax credit is allowed on capital goods.
- Input tax is not allowed for goods and services for personal use.
- No input tax credit shall be allowed after GST return has been filed for September following the end of the financial year to which such invoice pertains or filing of relevant annual return, whichever is earlier.

Part # 2 Type of Taxes under GST

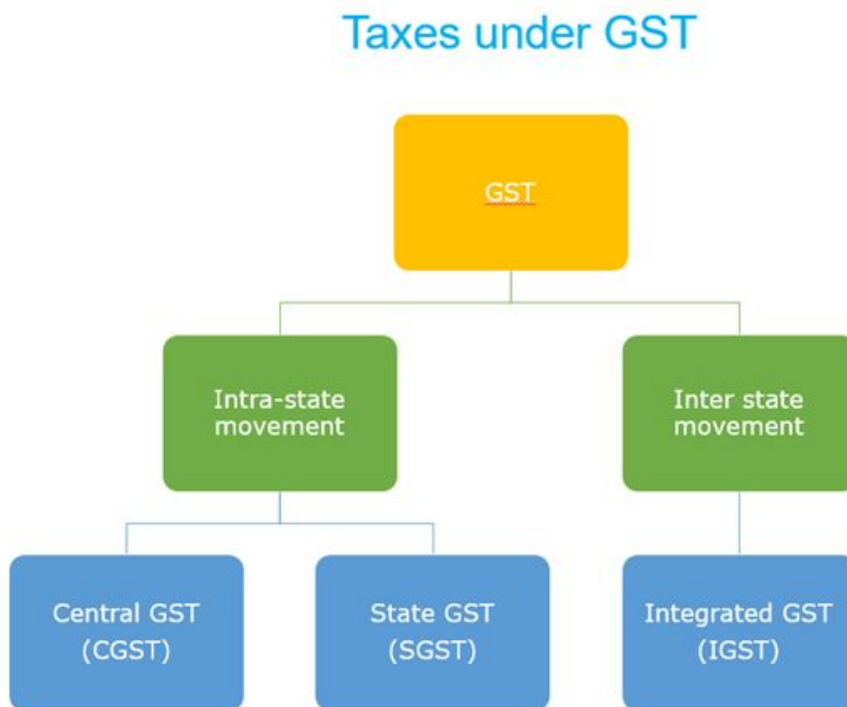
All existing taxes such as VAT, CST, Excise Duty, Service Tax, Entertainment Tax shall go away and GST will replace them.

There are 3 types of taxes under GST

SGST – State GST

CGST – Centre GST

IGST – Integrated GST

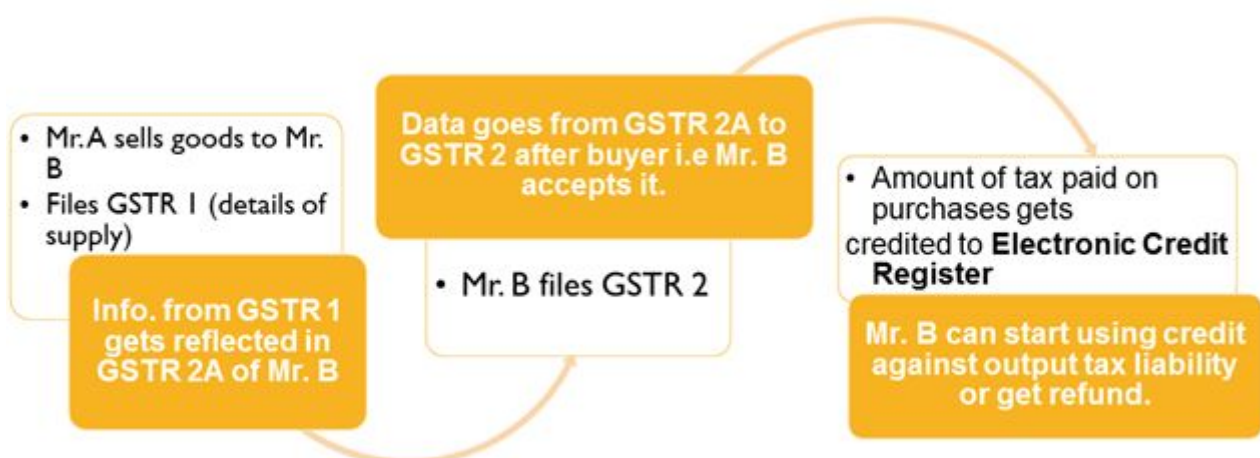


Now let's understand how INPUT CREDIT works under GST:

How to avail INPUT CREDIT



Suppose there is a seller Mr A and he sells his goods to Mr B. Here Mr B i.e the buyer will be eligible to claim the credit on purchases based on the invoices. Let's understand how:



Step 1: Mr A will upload the details of all tax invoices issued in GSTR 1.

Step 2. The details with respect to sales to Mr B will auto populate/ get reflected in GSTR 2A, the same data will be pulled when Mr B will file GSTR 2 (i.e details of inward supply).

Step 3: Mr B will then accept the details that the purchase has been made and reported by the seller correctly and subsequently the tax on purchases will be credited to 'Electronic Credit Ledger' of Mr B and he can adjust it against future output tax liability and get the refund.
