Input Tax Credit (ITC)

September 15, 2021

In news– Recently, The Supreme Court said that refunds of tax credit cannot be claimed for input services under the Goods and Services Tax regime's inverted duty structure.

What is the Supreme Court's judgment on ITC?

- The apex Court of the country **confirmed a Madras High Court judgment which upheld a fiscal formula included in the Central Goods and Service Tax Rules to execute refund of unutilised Input Tax Credit (ITC)** accumulated on account of input services.
- The apex court Bench passed the judgment in the face of **two contradicting judgments of Gujarat and Madras High Courts on the validity of Rule 89(5) of the Central Goods and Service Tax Rules, 2017.**
- **Rule 89(5) provides a formula for the refund of ITC**, in a case of refund on account of inverted duty structure.

What is Input Tax Credit (ITC)?

- ITC is a mechanism to avoid cascading of taxes. Cascading of taxes, in simple language, is 'tax on tax'.
- Input Tax Credit **refers to the tax already paid by a person at time of purchase of goods or services and which is available as deduction from tax payable .**
- Input tax credit in relation to GST to a registered person means, the CGST, SGST/UTGST or IGST charged on any supply of goods or services or both made to him.
- It includes IGST charged on imports & tax payable under reverse charge mechanism.
- When one buys a product/service from a registered dealer we pay taxes on the purchase.
- On selling, we collect the tax.
- We adjust the taxes paid at the time of purchase with the amount of output tax (tax on sales) and balance

liability of tax (tax on sales minus tax on purchase) has to be paid to the government.

- This mechanism is called **utilization of input tax credit.**
- If the tax paid on inputs is higher than the tax on the output, the excess can be claimed as a refund.