Input tax credit system in India

November 25, 2020

In news

The Centre is considering to amend laws to check fraudulent claims of input tax credit (ITC) through bogus bills

What is the Input tax credit system?

- It is the tax paid by the buyer on the purchase of goods or services.
- Such tax which is paid at the purchase when reduced from liability payable on outward supplies is known as an input tax credit.
- In simple terms, the input tax credit is tax reduced from output tax payable on account of sales.

Input tax credit system in India

- The input tax credit is one of the key features of Goods and Services Tax.
- It is a mechanism to avoid the cascading of taxes. Cascading of taxes, in simple language, is 'tax on tax'.
- So, to avoid double taxation on items used as inputs to make other items, credit of taxes paid on the inputs can be taken by the maker of the next item while paying tax on the output.
- If the tax paid on inputs is higher than the tax on the output, the excess can be claimed as a refund.

Examples of Input tax credit

Currently, the input tax credit is available for taxes such as excise duty, VAT (Value Added Tax), CST (Central Sales Tax), and service tax.

Its significance

- Seamless availability of input tax credit for goods and services will also help shareholders.
- It will ease up cash flows and result in better efficiencies for businesses
- It will aid savings and more effective deployment of resources.