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GST Introduction

Extra provisions for detailed and comprehensive study

8. UNINTERRUPTED CHAIN OF INPUT TAX CREDIT (ITC)

We have noted above that GST is a concurrent dual levy by the Centre and States and it is in the nature of a Value Added Tax. It is useful to understand here that GST is a **destination-based consumption tax**. Tax accrues to the destination place where consumption of goods and/or services takes place. As a result, tax base is shifted from production to consumption. Thus, SGST accrues to the **destination State (importing State)** and not the supplier State (exporting State).

How does this work? The IGST model allows seamless flow of credit in the following manner:

- ↓ Centre levies IGST (which is CGST + SGST) on all inter-State supplies.
- ↓ Inter-State supplier pays IGST on value addition after adjusting available credit of IGST, CGST and SGST on his purchases.
- ↓ Exporting State transfers to the Centre, the credit of SGST used in payment of IGST.
- ↓ The person based in the destination State (importing State) claims credit of IGST while discharging his output tax liability in his own State.
- ↓ The Centre transfers to the importing State, the credit of IGST used in payment of SGST.

The relevant information is also submitted to the Central Agency which acts as a clearing house mechanism, verifies the claims and informs the respective Governments to transfer the funds. Thus, revenue of Inter-State sale does not accrue to the exporting State but to the importing State. The major advantages of this model are:

- a) Maintenance of uninterrupted ITC chain on inter-State transactions.
- b) No upfront payment of tax or substantial blockage of funds for the inter-State supplier or recipient.
- c) No refund claim in exporting State, as ITC is used up while paying the tax.
- d) Self-monitoring model.
- e) Model takes 'Business to Business (B2B)' as well as 'Business to Consumer (B2C)' transactions into account.

ILLUS 8.1: Intra-State Supply – Transaction 1 – P of Uttar Pradesh supplies goods of value ₹ 1 lakh to Q of Uttar Pradesh. GST rate is 18%. P does not have any Input Tax Credit (ITC). This is an intra-State sale on which CGST and SGST will apply.

Particulars	₹
Value of supply	1,00,000
Add: CGST @ 9%	9,000
Add: SGST (Uttar Pradesh) @ 9%	9,000
Price charged from Q	1,18,000

P will remit CGST of ₹ 9,000 to the account of Central Government and SGST of ₹ 9,000 to the account of Government of Uttar Pradesh.

Transaction 2 – Q further supplies these goods to R of Uttar Pradesh after making value addition of 10%. This is an intra-State sale on which CGST and SGST will apply.

Particulars	₹
Value of supply, i.e., 110% of 1,00,000	1,10,000
Add: CGST @ 9%	9,900
Add: SGST (Uttar Pradesh) @ 9%	9,900
Price charged from R	1,29,800

Q will avail ITC of CGST and SGST paid by him on purchase of goods from P and remit the balance to the respective Governments, as under:

Particulars	CGST	SGST
Output tax, i.e., GST on supply to R	9,900	9,900
Less: ITC of CGST and SGST on purchase from P	(9,000)	(9,000)
GST remitted to Central Government (CGST) and Government of Uttar Pradesh (SGST)	900	900

GST revenue will be earned by the respective Governments as under:

Particulars	Central Govt	Govt of UP
On supply of goods by P to Q	9,000	9,000
On supply of goods by Q to R	900	900
Total	9,900	9,900

In effect, Centre and State will share GST revenue equally and SGST will accrue to the destination state (UP) in consonance with the concept of GST being a destination-based consumption tax.

ILLUS 8.2: Inter-State Supply – Transaction 1 - P of Uttar Pradesh supplies goods of value ₹ 1 lakh to Q of Uttar Pradesh. GST rate is 18%. P does not have any Input Tax Credit (ITC). This is an intra-State supply. Hence, CGST and SGST will be levied.

Particulars	₹
Value of supply	1,00,000
Add: CGST @ 9%	9,000
Add: SGST (Uttar Pradesh) @ 9%	9,000
Price charged from Q	1,18,000

P will remit CGST of ₹ 9,000 to the account of Central Government and SGST of ₹ 9,000 to the account of Government of Uttar Pradesh.

Transaction 2 – Q further supplies these goods to R of Bihar after making value addition of 10%. This is an inter-State sale. Hence, IGST will be levied.

Particulars	₹
Value of supply, i.e., 110% of 1,00,000	1,10,000
Add: IGST @ 18%	19,800
Price charged from R	1,29,800

Q will avail ITC of CGST and SGST paid by him on purchase of goods from P and remit the balance of IGST to the Central Government, as under:

Particulars	₹
Output tax, i.e., IGST on supply to R	19,800
Less: ITC of CGST on purchase from P	(9,000)
Less: ITC of SGST on purchase from P	(9,000)
IGST remitted to Central Government	1,800

Government of Uttar Pradesh (exporting State) will transfer to the Central Government, the credit of SGST of ₹ 9,000 used in payment of IGST.

Transaction 3 – R further supplies these goods to S of Bihar after making value addition of 10%. This is an intra-State sale. Hence, CGST and SGST will be levied.

Particulars	₹
Value of supply, i.e., 110% of 1,10,000	1,21,000
Add: CGST @ 9%	10,890
Add: SGST (Bihar) @ 9%	10,890
Price charged from S	1,42,780

R will avail ITC of IGST paid by him on purchase of goods from Q and remit the balance to respective Governments, as under:

Particulars	CGST	SGST
Output tax, i.e., CGST and SGST on supply to S	10,890	10,890
Less: ITC of IGST of ₹ 19,800 on purchase from Q	(10,890)	(8,910)
SGST remitted to Government of Bihar	-	1,980

Central Government will transfer to the Government of Bihar (importing State), the credit of IGST used in payment of SGST, i.e., ₹ 8,910.

GST revenue will be earned by the respective Governments as under:

Particulars	Central Govt	Govt of UP	Govt of Bihar
GST remitted by P on supply by P to Q	9,000	9,000	
GST remitted by Q on supply by Q to R	1,800		
Transfer by Government of Uttar Pradesh to Centre, of credit of SGST used in payment of IGST	9,000	(9,000)	
GST remitted by R on supply by R to S			1,980
Transfer by Central Government to Government of Bihar, the credit of IGST used in payment of SGST	(8,910)		8,910
Total	10,890	Nil	10,890

In effect, Centre and State will share GST revenue equally and SGST will accrue to the destination state (Bihar) in consonance with the concept of GST being a destination-based consumption tax.

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