



# Clarification on Change in GST ITC Set off Rules

May 2019

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## AGENDA

- Previous Law on Setoff rules
- Revised Law on Setoff rules – I
- Revised Law on Setoff rules - II
- Clarificatory Example
- Clarification on Portal Issues

# Previous Provision

Every assessee shall be entitled to take credit of input tax paid on any supply of goods or services which are used or intended to be used in the course or furtherance of business.

Input credit should be availed in the same order as below:

Output GST	Order of Input GST Utilization
IGST	IGST, CGST, SGST
CGST+SGST	CGST-CGST, IGST SGST-SGST, IGST
CGST+SGST+IGST	IGST-IGST, CGST, SGST CGST- <b>CGST, IGST</b> SGST- <b>SGST, IGST</b>

# New Provision - I

As we know, CGST amendment act had earlier inserted the following rule relating to set-off of ITC:

***"Input IGST must be first utilized against Output IGST, the balance (if any) shall be fully adjusted against Output CGST and then towards Output SGST. "***

**The new Provision was made applicable from 01.02.2019**

Input credit should be availed in the same order as below:

Output GST	Order of Input GST Utilization
IGST	IGST, CGST, SGST
CGST+SGST	CGST- <b>IGST, CGST</b> SGST- <b>IGST, SGST</b>
CGST+SGST+IGST	IGST-IGST, CGST, SGST CGST- <b>IGST, CGST</b> SGST- <b>IGST, SGST</b>

**Effect:** Using IGST Credit on priority towards CGST and SGST liability before to the use of CGST and SGST credit leads to blockage of working capital. For an instance.....

# Clarificatory Example

**Example 1:**

Particulars	IGST	CGST	SGST	Total
Output Tax	1,000	10,000	10,000	21,000
Input Tax	11,000	6,000	6,000	23,000

## Set-off (Before New Provision-II):

Particulars	IGST	CGST	SGST	Total
Input Tax Credit	11,000	6,000	6,000	23,000
Output Tax	1,000	10,000	10,000	21,000
Utilize Input IGST	-1,000	-10,000	0	-11,000
Utilize Input SGST			-6,000	-6,000
Pay Cash	0	0	-4,000	-4,000
Balance ITC	-	6,000	-	6,000

**Effect:** In the above example, the assessee paid tax of **Rs.4000/- in cash** even after having a credit of **Rs.6,000/-** as CGST Credit. Which in turn leads to blockage of working capital.

## New Provision - II

**In order to overcome the above problem and to save blockage of working capital for assesses New Provision - I has been revised as:**

**" Input IGST must be first utilized against Output IGST. However, the balance (if any) can be adjusted against Output CGST and Output SGST in any order / proportion."**

**The new Provision was made applicable from 01.04.2019**

Output GST	Order of Input GST Utilization
IGST	IGST, CGST, SGST
CGST+SGST	CGST- IGST, CGST* Or SGST- IGST, SGST*
CGST+SGST+IGST	IGST-IGST, CGST, SGST CGST- IGST, CGST* Or SGST- IGST, SGST*

\* In any proportion IGST credit can be used. i.e Part IGST Credit can be used for CGST and rest for SGST and VICE VERSA

# Clarificatory Example

**Example2:**

Particulars	IGST	CGST	SGST	Total
Output Tax	1,000	10,000	10,000	21,000
Input Tax	11,000	6,000	6,000	23,000

## Set-off (New Provision-II):

Particulars	IGST	CGST	SGST	Total
Input Tax Credit	11,000	6,000	6,000	23,000
Output Tax	1,000	10,000	10,000	21,000
Utilize Input IGST	-1,000	-6,000	-4,000	-11,000
Utilize Input CGST	0	-4,000	0	-4,000
Utilize Input SGST	0	0	-6,000	-6,000
Pay Cash	0	0	0	0
Balance ITC	-	2,000	-	2,000

**Effect:** In the above example, the assessee hasn't paid any tax and the balance credit of 2,000/- has been carried forward to next month.

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## Brief Summary and Clarification on GST Portal Issues:

**Summary :** Before amendment , there was an outflow of Rs.4,000 cash but the entity had **Rs.6,000/-** as Input Tax Credit. After the amendment, in same circumstances, there will not be any outflow of cash and still there will be a balance of Rs.2,000 as Input Tax Credit.

### **Clarification on Portal Issues:**

However the GST portal does not support the revised mode of set-off (I and II). So, the government has issued a circular on 23/04/2019 and advised the taxpayers to continue to utilize their input tax credit as per the functionality available on the GST portal till the new order of utilization is implemented in the online portal.

We will update once the new functionality comes into live.



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