



PIONEER ONE

JUST A MINUTE (JAM)

Learn GST | October 2022

COMMON CREDIT IN GST (RULE 42 & 43 OF THE CGST RULES, 2017)

Reversal of Input tax credit

At the outset, we need to understand that the input tax credit that is availed by any registered person should be reversed in the following cases,

1. If payment is not made to the supplier within 180 days of the date of invoice.
2. Sale return.
3. ITC in respect of goods, services or capital goods used partly for making taxable supply and partly for making exempt supply or fully for making exempt supply.
4. ITC in respect of goods, services or capital goods used partly for business purpose and partly for personal purpose or fully for personal purpose.

What is Common credit?

The concept of Common credit arises in situations no 3 and 4 as mentioned above.

Either of these situations require proportionate/total reversal of ITC, this is because, ITC on inputs and input services can be availed only if they are acquired for business purpose or only if they are used to make taxable supplies.

This article deals with the treatment of Common ITC under rule 42 of the CGST Rules, 2017 in respect of **inputs/input services**

- a) being,
 - i. Partly used for business purpose; and
 - ii. Partly for other purpose
- OR**
- b) being,
 - i. Partly used for making taxable supplies including Zero rated supply; and
 - ii. Partly for making exempt supplies

The above mentioned ITC shall be apportioned in the following manner,

Step 1	• Computation of Common Credit
Step 2	• Computation of credit attributable to Exempt supplies
Step 3	• Computation of credit attributable to non-business purpose
Step 4	• Computation of Eligible credit
Step 5	• Reversal of Ineligible credit

Step 1: Computation of Common Credit

Total ITC attributable to inputs and input services during the year	XXX
Less ITC on inputs and input services used exclusively for NON-BUSINESS purpose	(XXX)
Less ITC on inputs and input services used exclusively for making exempt supplies	(XXX)
Less Ineligible ITC u/s 17(5) – Blocked credit	(XXX)
Less ITC on inputs and input services used exclusively for taxable supplies including zero rated supplies	(XXX)
Common Credit (C)	XXXX

Step 2: Computation of Input attributable to Exempt supplies

$$\text{Input attributable towards exempt supplies (D1)} \equiv \frac{\text{Agg. value of exempt supplies during the tax period}}{\text{Total State turnover of the registered person during the tax period}}$$

Step 3: Computation of Input attributable to Non-business purpose

$$\text{Input attributable to Non-business purpose (D2)} \equiv \text{Common Credit (C)} * 5 \%$$

Step 4: Computation of Eligible credit

$$\text{Eligible Credit (C1)} \equiv \text{Total Common Credit (C)} - \text{Input attributable towards exempt supplies (D1)} - \text{Input attributable to non-business purpose (D2)}$$

Step 5: Reversal of Ineligible credit

- **Ineligible Input** = Input attributable to Exempt supplies (D1) + Input attributable to Non-business purpose (D2).
- Reverse the ineligible input, such reversal shall be done through GSTR 3B of the same or subsequent month or through GST DRC -03.

FAQ's relating to Common Credit:

1. What is the legal provision requiring such reversal?

- Such reversal is mandated by rule 42 of the CGST Rules, 2017.
- Rule 43 in case of capital goods (not covered in this newsletter)

2. Where should the reversal be shown in GSTR 3B?

- The ITC reversed as per the aforementioned process should be disclosed in table 4B of GSTR 3B under "ITC reversed as per Rule 42 & 43 of CGST Rules".

3. Should the ITC reversed under this rule be disclosed in GSTR 9?

- Yes, the ITC reversed as per this rule should be disclosed in GSTR 9
- In practical scenarios, 90% of the information in a GSTR 9 will be prefilled from the GSTR 3B details. So the ITC reversed under this rule will be prefilled if already given in GSTR 3B. However, the details given in GSTR 9 can be modified.

4. In rule 42, is it mandatory to calculate D2, i.e., 5% as non-business purpose, even if the company has not entered into any non-business transactions?

- There is no requirement to apportion D2 as 5% for non-business purpose where the registered person is able to establish the fact that common credit is not used for non-business purposes.

5. Should the reversal under Rule 42 be done on a month on month basis?

- The reversal can be done on a month on month basis or on an annual basis.
- If the registered person wishes to avoid interest at 18%, such input should be reversed on/before filing GSTR 3B for the month of March of that financial year.

6. I wrongly reversed a huge amount as ineligible under rule 42, can I avail it again?

- Yes, such credit should be availed before the time limit for claiming credit of that financial year expires
- i.e. before 30th November of the succeeding financial year.

7. Should the credit be reversed separately for CGST, SGST/UTGST or IGST?

- Yes, the ITC reversal should be made for each head separately.

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