GST rule change to limit input tax credits

A rule change cleared by the federal indirect tax body, the Goods and Services Tax (GST) Council, last week shows the government's intention to restrict input tax credits to businesses,
The Council had said a rule relating to input tax credits would be amended to align it with a new legal provision introduced in the CGST Act by way of Finance Act 2021, once it is notified.

The amendment to the CGST Act says that a buyer can avail of tax credits due to him only when details of taxes collected by the vendor have been reported in his sales return and such details have been communicated to the buyer.

GST being a technology-driven tax system, the government's idea has been to match the sales details reported by the seller and the buyer for allowing tax credits to the buyer. This would ensure that tax credits claimed by a buyer is honoured only when his suppliers have deposited the taxes collected form the buyer to the exchequer. Due to pressure from the industry and trade, this was implemented in phases.

Since October 2019, the government has reduced the extent of tax credits available to businesses where vendors have not uploaded details. Now it is capped at 5% compared to 20% in October 2019.

The announcement on aligning rule 36(4) of CGST Rules with section 16(2)(aa) of the CGST Act throws light on the government's clear intent to restrict input tax credit availability to matched credit, PwC said.

The emphasis on tightening of rules comes at a time central and state governments are not in a position to raise tax rates to boost revenue receipts. Denial of input tax credit for the fault of vendors would force businesses to transact only with law abiding suppliers.

Source : Live Mint