



*Clarification to the queries of Members of Indian Corrugated Box Manufacturers Association, Mumbai on GST dated 10.07.2017*

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| To      | Members of Indian Corrugated Box Manufacturers Association, Mumbai    |
| From    | Rohit Kumar Singh, Dipak Tiwary - Karvy Data Management Services Ltd. |
| Date    | July 11, 2017   |
| Subject | Impact of GST on corrugated box industry                              |

**Query 3: From: P S R Prasad, Jayaraj Fortune Packaging Pvt. Ltd.**

**This is in reference to GST and migration. May I request you to clarify on the below:**

**We have accumulated CENVAT and SAD input credit. Under which head it would be transferred. CGST or IGST?**

**Suppose my ITC and payables are as below, what is my tax liability at the end of month?**

|         | CGST   | SGST   | IGST   |
|---------|--|--------|--------|
| ITC     | 3,00,000 (due to CENVAT & SAD carry forward) | ----   | 60,000 |
| Payable | 50,000                                       | 50,000 | 80,000 |

**I was told that CENVAT & SAD gets forwarded to CGST instead of IGST. Is this correct?**

**We were told that , when we are calculation tax liability at the end of the month, the following sequence needs to be followed**

**First IGST ITC needs to be utilized against IGST, CGST and SGST in the same manner.**

**So, in the above example IGST ITC and Payable gets offset and 20,000 Payable would remain.**

Second, CGST ITC need to be utilized against CGST and IGST. As we have lot of CGST ITC, CGST and IGST balance payable gets offset.

Now as there is no SGST ITC and IGST ITC (it was there, but got offset in the first step) we can't offset SGST. So, SGST 50,000 would be our liability to pay at the end of month.

Is the above explanation correct?

For the same above example, if we change the sequence of calculation to CGST, SGST and IGST the calculation gets changed as below:

- i. Against CGST ITC both CGST and IGST payable gets offset.
- ii. So, against IGST ITC we can offset SGST. So, there is no tax liability.

Kindly advise which of the above scenarios is correct.

**Answer:** Section 140 of CGST Act 2017 narrates transitional provision of input tax credit from previous tax regime to the GST regime. Upon successful submission of Form GST TRAN-1 by a registered person within 90 days from 1<sup>st</sup> July 2017, CENVAT credit of Excise Duty, CVD, SAD, and Service Tax shall get carried forward as CGST under GST regime. Simultaneously, input tax credit of VAT amount shall get carried forward as SGST under GST regime. Such carried forwarded input tax credit shall automatically reflect in the electronic credit ledger of the registered person maintained in Form GST PMT-02 on the common portal.

Below mentioned is the sequence of utilisation of input tax credit under GST regime:

- Input credit of CGST to be first adjusted against output CGST liability and then with output IGST liability. Input credit of CGST cannot be utilised against output SGST liability.
- Input credit of SGST/UTGST to be first adjusted against output SGST/UTGST liability and then with output IGST liability. Input credit of SGST/UTGST cannot be utilised against output CGST liability.
- Input credit of IGST to be first adjusted against output IGST liability, then with output CGST liability and finally with output SGST/UTGST liability. Input credit of IGST can be utilised against all three output tax liability in a sequence: IGST-CGST-SGST/UTGST.

| Particulars  | CGST ITC | SGST / UTGST ITC | IGST ITC |
|--------------|----------|------------------|----------|
| Output CGST  | 1        | -                | 2        |
| Output SGST  | -        | 1                | 2        |
| Output UTGST | -        | 1                | 2        |
| Output IGST  | 2        | 3                | 1        |

Referring to the ITC summary and output tax liability mentioned in your question, below are the steps by which the output tax liability will have to be discharged:

**Summary of Input Tax Credit and Output Tax Liability:**

| Input Tax Credit Summary |                      |   | Output Tax Liability Summary      |                             |          |
|--------------------------|----------------------|---|-----------------------------------|-----------------------------|----------|
| ITC Head                 | ITC Available Amount | Comments  | Output Tax Liability Head         | Output Tax Liability Amount | Comments |
| CGST                     | 3,00,000             | CENVAT carried forwarded from previous tax regime as CGST | CGST                              | 50,000                      |          |
| SGST                     | -                    | -   | SGST                              | 50,000                      |          |
| IGST                     | 60,000               | -   | IGST                              | 80,000                      |          |
| <b>Total ITC</b>         | <b>3,60,000</b>      |   | <b>Total Output Tax Liability</b> | <b>1,80,000</b>             |          |

**Steps towards adjustment of output tax liability:**

| Step:1                                  |          |                                       |
|---|----------|---------------------------------------|
| Adjustment of CGST output tax liability |          |                                       |
| Particulars                             | Amount   | Comments                              |
| CGST Output Tax                         | 50,000   | -                                     |
| Less: CGST ITC                          | -50,000  | CGST ITC available as per ITC summary |
| Less: IGST ITC                          | -        | -                                     |
| <b>Balance liability</b>                | <b>-</b> |                                       |

|                                   |                 |                       |
|-----------------------------------|-----------------|-----------------------|
| <b>Balance CGST ITC available</b> | <b>2,50,000</b> | <b>(300000-50000)</b> |
| <b>Balance IGST ITC available</b> | <b>60,000</b>   | <b>(60000-0)</b>      |
| <b>Balance SGST ITC available</b> | <b>-</b>        |                       |

| Step:2                                  |          |  |
|---|----------|--|
| Adjustment of IGST output tax liability |          |  |
| Particulars                             | Amount   | Comments   |
| IGST Output Tax                         | 80,000   | -  |
| Less: IGST ITC                          | -60,000  | IGST ITC available as per ITC summary  |
| Less: CGST ITC                          | -20,000  | CGST ITC balance available after utilising of CGST ITC against output CGST liability above in step-1 |
| Less: SGST ITC                          | -        | -  |
| <b>Balance liability</b>                | <b>-</b> |  |

|                                   |                 |                             |
|-----------------------------------|-----------------|-----------------------------|
| <b>Balance CGST ITC available</b> | <b>2,30,000</b> | <b>(300000-50000-20000)</b> |
| <b>Balance IGST ITC available</b> | <b>-</b>        | <b>(60000-60000)</b>        |
| <b>Balance SGST ITC available</b> | <b>-</b>        |                             |

| <b>Step:3</b>                                  |               |  |
|--|---------------|--|
| <b>Adjustment of SGST output tax liability</b> |               |  |
| <b>Particulars</b>                             | <b>Amount</b> | <b>Comments</b>  |
| SGST Output Tax                                | 50,000        |  |
| Less: SGST ITC                                 | -             | NIL SGST ITC as per ITC summary  |
| Less: IGST ITC                                 | -             | NIL IGST ITC after utilisation of IGST ITC against output IGST liability above in step-2 |
| <b>Balance liability</b>                       | <b>50,000</b> | <b>Balance SGST liability needs to be paid in cash</b>                                   |

|                                   |                 |                             |
|-----------------------------------|-----------------|-----------------------------|
| <b>Balance CGST ITC available</b> | <b>2,30,000</b> | <b>(300000-50000-20000)</b> |
| <b>Balance IGST ITC available</b> | <b>-</b>        | <b>(60000-60000)</b>        |
| <b>Balance SGST ITC available</b> | <b>-</b>        |                             |

*“For the same above example, if we change the sequence of calculation to CGST, SGST and IGST the calculation gets changed as below:*

- i. Against CGST ITC both CGST and IGST payable gets offset.*
- ii. So, against IGST ITC we can offset SGST. So, there is no tax liability.*

*Kindly advise which of the above scenarios is correct.”*

The above mentioned sequence of adjustment of ITC is not in order.

Output IGST needs to be first adjusted against available input IGST and if any balance of output IGST remains outstanding on account of input IGST getting exhausted, balance of input CGST (if any) will then be utilised. Even after such adjustment, if there is still any output IGST liability, input SGST (if any) will then be utilised.

In your case, as computed above in step 3, you would need to pay output SGST of INR 50,000/- in cash even though you have balance input CGST of INR 230000/- in your ledger.