Module 5 · Input Tax Credit P19 · topics 5.1–5.3

SM pp. 531–676 (exercise 677–686). **8–18 marks every paper** (expected 12.4). **Q3(b) has been an ITC sum in all 6 papers since Dec'23**: rule 42 common-credit reversal (D23, D25) or the 17(5) list (D24, J26 — same items twice). Q8(b) brings ITC reversal cases (D25) or the "seller did not pay the tax" case law (J24, D24). **D25 Q3(b) = SM Illus. 13 with new figures.**

Paper	Long questions	MCQs
Jun'23	Q8(a)(c),(d) case: ITC on health insurance, partial receipt, works contract, car; net cash tax	180-day reversal · re-availing after late GSTR-3B
Dec'23	**Q3(b) rule 42** common credit · Q8(b) SEZ unit ITC / refund	personal use + stolen material · capital goods to job worker: 3 years
Jun'24	Q3(b) net cash tax + interest u/s 50 on a late return · **Q8(b) ITC denied because the supplier did not pay**	–
Dec'24	**Q3(b) 17(5) list** (calamity, dealer meet food, employee food, telecom towers, account paper, warranty goods) · **Q8(b) seller default**	minimum cash after set-off · job work 3 years
Jun'25	Q3(b) ITC on capital goods when leaving composition	16(4) time limit
Dec'25	**Q3(b) rule 42** (exempt goods, recovery agent, deposits, land) · **Q8(b) reversals**: machine back late from job worker, sale of machine and car, gifts	–
Jun'26	**Q3(b) 17(5) list** (EXW goods damaged, telecom towers, club fees, employee food, account paper, warranty goods)	sale of capital goods: higher of two
ICMAI	MQP Q3(b) **order of using the cash ledger**, Q8(b) **rule 43** · PTP Q3(b) rule 42 · postal Q3(a)	MQP cross-utilisation · PTP apportion common inputs

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q3(b) 7 marks, near-certain**: rule 42 (the December pair) or the 17(5) list (now with "plant and machinery", Supp J26). Unused ICMAI variants: rule 43 capital goods (MQP), utilisation order (MQP).
- **Q8(b)**: reversal cases (job work, sale of capital goods, gifts) or ISD with RCM credit (Supp J26).
- **MCQ (vi)**: 16(4) date, 180 days, 18(6) higher of, job work 1 / 3 years, utilisation order.

MAP OF THIS MODULE

1. Conditions u/s 16; time limits ★★★
2. Blocked credits s.17(5) ★★★ (problems box 1)
3. Rule 42 / rule 43 common credit ★★★ (problems box 2)
4. Special cases s.18; sale of capital goods ★★
5. Job work, ISD, utilisation order, rule 86B, interest s.50 ★★
6. Seller-default case law ⚠ · revision sheet

A Eligibility — section 16

- **s.16(1)**: credit of input tax on goods / services used or intended to be used in the course or furtherance of business, credited to the electronic credit ledger. [SM 536]
- **s.16(2) four conditions**: (a) tax invoice / debit note; (b) **goods or services received** — deemed received when delivered to a third party on the recipient's instructions (incl. transfer of title documents); (c) tax **actually paid** to the Government by the supplier (subject to s.41); (d) return u/s 39 filed. Goods in lots → credit on the **last lot**. [SM 537]
- **Ex-works contracts** (Circular 241/35/2024): ownership passes at the supplier's gate and the goods are handed to the transporter on the recipient's behalf → **deemed received** then; ITC in that month. [SM 539–540]
- **Pay within one hundred and eighty days** of the invoice, else add the ITC to output tax with interest; re-avail on payment (no time bar on re-availing). Schedule I supplies are deemed paid. [SM 537, SM 555]
- **s.16(3)**: no ITC on the tax part if depreciation is claimed on it under the Income-tax Act. [SM 555]
- **s.16(4)**: no ITC on an invoice or debit note after the **30th November** following the end of the financial year (J25 MCQ). [SM 555]
- **Credit note (Supp J26)**: s.34(2) amended w.e.f. 01.10.2025 — no reduction of the supplier's output tax unless the recipient has reversed the ITC on it. [Supp J26 p.31]

B Blocked credits — section 17(5) · Q3(b) list

Clause	ITC NOT available on	Exceptions (ITC allowed)
(a)	**Motor vehicles** for persons, seating **not more than 13** (incl. driver)	further supply of vehicles, transport of passengers, driving training

(aa), (ab)	Vessels, aircraft; general insurance, servicing, repair of (a) / (aa) vehicles	same uses; transport of goods; manufacturers and insurers of such vehicles
(b)(i)	**Food and beverages**, outdoor catering, beauty treatment, health services, cosmetic surgery, renting of (a) vehicles, life and health insurance	used for an outward supply of the **same category** or as part of a taxable composite / mixed supply
(b)(ii), (iii)	**Club, health and fitness centre membership**; leave or home travel concession	where it is **obligatory** for an employer under any law
(c)	**Works contract** for construction of immovable property (other than plant and machinery)	input service for further works contract
(d)	Goods / services for **construction of immovable property on own account** (other than plant and machinery), even if used in business; "construction" includes repairs **to the extent capitalised**	plant and machinery (not land, buildings, **telecommunication towers**, pipelines outside the factory)
(e), (f), (fa)	tax paid under **composition** s.10 · non-resident taxable person (except imports) · **CSR** obligations (from 1st October 2023)	–
(g), (h), (i)	**personal consumption** · goods **lost, stolen, destroyed, written off, gifts, free samples** · tax paid in fraud / seizure cases	–

[SM 589, SM 601, SM 603]

JUN'26 SUPPLEMENTARY · SAFARI RETREATS OVERRULED (17(5)(d))

"plant or machinery" in 17(5)(d) is substituted by "**plant and machinery**" (Finance Act 2025, w.r.e.f 1-7-2017), and Explanation 2 (w.e.f. 01.10.2025) deems every reference to have always meant "plant and machinery", notwithstanding any judgment. So a building used for business (e.g. a mall given on rent) gives **no ITC**. [SM 603, SM 605]

PROBLEMS BOX 1 · THE 17(5) LIST (D24, J26 Q3(b))

WORKED PATTERN · SM ILLUSTRATIONS 44, 45

Raw materials 72,000 · supports for plant and machinery 1,25,000 · capital goods as parts 40,000	allowed
Food and catering in the guest house for new employees	blocked
Illus. 44 ITC	**2,37,000**
Raw material 1,00,000 · captive power 20,000 · **free-warranty goods** 10,000 · light diesel oil 5,000	allowed
High speed diesel (central excise, not GST)	no ITC
Illus. 45 ITC	**1,35,000**

Warranty replacements: no tax on the replacement and no ITC reversal (Circular 216/10/2024). [SM 610–611, SM 640]

D24 / J26 ITEMS (OUR WORKING, NO ICMAI ANSWER)

- Inputs for the final product · account paper for the office photocopier · **warranty** goods → **allowed**.
- Goods destroyed by **natural calamity** → blocked 17(5)(h). **Food** at a dealers' meet / for employees in office hours → blocked 17(5)(b)(i) (not obligatory by law). **Club fees** → 17(5)(b)(ii). **Telecom towers** → 17(5)(d) (not plant and machinery).
- **D24**: 35,000 + 6,000 + 12,000 = **₹53,000**.
- **J26**: EXW equipment deemed received on handover to the transporter (Nov) — but 50% arrived destroyed → blocked on that half (our reading): 65,000 + 6,000 + 18,000 = **₹89,000**.

PRACTISE THESE

SM Illus. 17–50 (SM 594–617) · D24, J26 Q3(b) · J23 Q8(a)(c) · **ICMAI Practice Workbook Ch7 illus. 1–50** (17(5) and set-off sums) · MCQ bank Q41–Q50, Q116–Q119.

C Common credit — rule 42 (inputs) and rule 43 (capital goods)

RULE 42 STEPS

1. Total ITC − non-business only − exempt only − blocked u/s 17(5) − taxable only (incl. zero-rated) = **C2 common credit**. [SM 569]
2. **D1 = E ÷ F × C2** (E exempt supplies, F total turnover in the State, for the tax period). [SM 569]
3. **D2 = 5% of C2** if common inputs are partly for non-business use. [SM 570]
4. **C3 = C2 − (D1 + D2)**, separately for CGST / SGST / IGST; D1 + D2 added to output tax. Year-end true-up by the **September** return; excess reversal carries interest u/s 50 from 1st April. [SM 570–571]

RULE 43 — CAPITAL GOODS

- Exclusive non-business or exempt use → no credit; exclusive taxable (incl. zero-rated) → full credit; **common** → credited to the ledger, and per tax period **common credit ÷ 60** (useful life five years from the invoice), of which E/F is reversed. [SM 582–583]
- Change of use: exempt-only → common: credit allowed less 5% points per quarter used; taxable-only → common: already taken, joins the pool. [SM 583]
- SM Illus. 14 (= MQP Q8(b) Praja Industries): common 5,76,000 ÷ 60 = **₹9,600** a month; × 12,00,000 / 24,00,000 = **₹4,800** reversed; ledger credit B + C + D = **₹3,26,400**. [SM 583–584]

WHAT GOES INTO "E" (s.17(3))

- **In**: exempt supplies, supplies on which the **recipient pays under RCM**, transactions in **securities**, **sale of land** and (subject to Sch. II para 5(b)) building. [SM 567]
- **Out**: Schedule III items (except land / building and duty-free shop sales); **interest on deposits, loans, advances** (except banks / NBFCs); ocean freight for exports. [SM 567–568, SM 570]

BANKS (s.17(4))

Option: s.17(2) apportionment or **50%** of eligible ITC each month (rest lapses), for the whole year; not on supplies from the same PAN. (25,00,000 − 5,00,000 non-business − 7,00,000 own branches) × 50% = ₹6,50,000 + ₹7,00,000 = ₹13,50,000 (Illus. 16). [SM 584]

PROBLEMS BOX 2 · RULE 42 SUM (D23, D25 Q3(b); PTP Q3(b))

WORKED PATTERN · SM ILLUSTRATION 13 (RAM & CO., GST 28%) = D25 Q3(b) TEMPLATE

E: exempt goods 5,00,000 + sale of land 12,50,000 + recovery agent to a bank (RCM) 2,50,000	20,00,000
F: total turnover incl. taxable 20,00,000 and deposits 2,00,000	42,00,000
Reversal 2,00,000 × 20 L / 42 L	95,238
Output tax 20,00,000 × 28%	5,60,000
Add ITC reversed · Less common ITC	+95,238 −2,00,000
Net GST liability	**4,55,238**

"Interest on deposits should not be included in exempted supply. However, it is included in total turnover." [SM 580–581]

D25 Q3(b) SURAJ (OUR WORKING, SAME METHOD, 18%)

E = 6,00,000 + 3,00,000 + 10,50,000 = 19,50,000; F = 46,00,000 → reversal 3,00,000 × 19.5 / 46 = **₹1,27,174**; output 25,00,000 × 18% = 4,50,000 → net **₹2,77,174**.

SECOND PATTERN · ILLUS. 10 (D1 + D2)

Exempt ₹30,00,000 of ₹90,00,000 (SEZ and export sales are zero-rated, not exempt) → D1 ₹1,00,000; D2 5% × 3,00,000 = ₹15,000; eligible ₹1,85,000; output 1,80,000 + 1,15,000 − 3,00,000 → excess ₹5,000 c/f. [SM 578–579]

PRACTISE THESE

SM Illus. 8–16 (SM 576–584) · D23, D25 Q3(b) · PTP Q3(b), Q8(b) · postal Q3(a) · MQP Q8(b) (rule 43) · **ICMAI Practice Workbook Ch7** (rule 42 / 43 sums) · SM M5 MCQs (SM 677–681).

D Special cases, job work, ISD, utilisation, interest

- **s.18(1)** stock (and capital goods where stated) on: registration applied within **thirty days** of liability; voluntary registration; **leaving composition** (inputs in stock + capital goods, capital goods less % points — J25 Q3(b)); exempt supply becoming taxable. Not on invoices more than **one year** old. [SM 618]
- **s.18(4)**: opting for composition / supplies becoming exempt → pay back ITC on stock and capital goods; balance lapses. [SM 618]
- **s.18(6) sale of capital goods**: pay the **higher** of ITC taken less 5% per quarter, or tax on the transaction value (J26 MCQ). [SM 592, SM 618]
- **Job work s.143**: inputs back within **one year**, capital goods within **three years** of being sent (else deemed supply on the day sent, with interest); extendable by one year / two years. [SM 626, SM 628]
- **ISD (s.20)**: distributes credit of input services to the units of the same PAN — to the unit it belongs to, else **pro rata on State turnover** of the relevant period. [SM 632]

JUN'26 SUPPLEMENTARY · ISD NOW ALSO DISTRIBUTES RCM CREDIT

s.2(61) amended by the Finance Act, 2025, w.e.f. 01.04.2025: ISD receives invoices for input services incl. those taxed under **s.9(3) / 9(4)** (and IGST s.5(3) / 5(4)) and distributes that credit; rule 39(1A) amended likewise. [Supp J26 p.13]

- **Utilisation order (s.49(5), s.49A, rule 88A)**: **IGST credit first** — against IGST, then CGST / SGST in any order or proportion; then CGST credit against CGST, then IGST; SGST credit against SGST, then IGST. CGST never for SGST and vice versa. [SM 647]
- **Rule 86B**: taxable supplies above **₹50 lakhs** in a month → at most **99%** of output tax from the credit ledger, 1% in cash (₹18,00,000 → ₹17,82,000 + ₹18,000). Not if income tax paid above ₹1 lakh in each of 2 years, refunds above ₹1 lakh, cash already above 1%, or Government / PSU / statutory body. [SM 587–588]
- **Rule 86B clause (f)** (w.e.f. 01-02-2026): a person other than a manufacturer is exempt from 86B for goods under rule 31D on which the supplier paid tax on the retail sale price. [Supp D26 p.12]
- **Interest s.50**: late tax **18% p.a.** on the net cash portion; wrongly availed **and utilised** ITC 24% p.a. (SM chart). [SM 667]

⚠ J24 / D24 Q8(b) · ITC DENIED ONLY BECAUSE THE SELLER DID NOT PAY (NOT IN THE SM)

From case law, not the SM — verify before writing names: the High Courts protect a **bona fide purchaser** who paid the tax to a registered seller and holds the invoice and proof of movement (Arise India v. Commissioner of Trade and Taxes, Delhi HC, under DVAT — upheld by the SC; Suncraft Energy, Calcutta HC 2023: the Department must first proceed against the defaulting supplier). But the SC (Ecom Gill Coffee, 2023) put the burden of proving the genuine purchase on the buyer. Answer: s.16(2)(c) condition → case law → depends on genuineness and proof → conclude.

⚠ D25 Q8(b) TRAP (OUR READING)

The question says the machine came back "after 1 year" — but **capital goods** have **three years**: back within 3 years → no deemed supply. Sale of the machine after 12 quarters: ITC 7,20,000 less 60% = 2,88,000 v tax on ₹25 lakh = 4,50,000 → pay ₹4,50,000. Car: ITC blocked by 17(5)(a). Gifts to agents: blocked 17(5)(h).

R Revision sheet · ITC numbers

Rule	Number	SM
Pay the supplier or reverse ITC	**180 days** from invoice	[SM 537]
Last date to take ITC (s.16(4))	**30th November** after the FY	[SM 555]
Motor vehicles blocked	seating **13** or fewer incl. driver	[SM 589]
Rule 42 non-business share D2	**5%** of C2	[SM 570]
Rule 43 capital goods life	**60** months (five years from invoice)	[SM 582–583]
Sale of capital goods (s.18(6))	higher of ITC less **5%** a quarter / tax on value	[SM 592]
Job work return	inputs **1** year · capital goods **3** years (+1 / +2)	[SM 626, SM 628]
s.18(1) old invoices	not after **one year**	[SM 618]
Bank option s.17(4)	**50%** of eligible ITC	[SM 584]
Rule 86B	turnover above **₹50 lakhs** a month → **99%** cap	[SM 587]

MEMORY HOOK · 17(5)

"Cars, Food, Clubs, Buildings, Composition, Non-residents, CSR, Personal, Lost" — then ask the exception for each: same-category supply? obligatory by law? plant and machinery?