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L&S Update

an e-update to clients from
Lakshmikumaran & **Sridharan**

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Revised Model GST Law - Input Tax Credit

Input Tax Credit

It may be recalled that a draft Model GST law was released earlier on the website of the Ministry of Finance (Department of Revenue), Government of India on June 14, 2016 inviting comments. A revised Model GST law has now been released on November 26, 2016.

The modifications in the revised Model GST law in respect of Input Tax Credit are summarised below.

Changes relating to Capital Goods

- The definition of capital goods has been amended and the said expression now covers all goods which are capitalised in the books of accounts of the person claiming the credit and these goods are used or intended to be used in the course or furtherance of business.
- Credit of input tax in respect of pipelines and telecommunication tower fixed to earth by foundation or structural support including foundation and structural support thereto will be available only to the extent of one-third of the credit amount in the year of receipt.

- The credit of motor vehicle has been extended for situations where such motor vehicle itself is being supplied and also in situations where the same is used for transportation of goods.

B. <u>Changes relating to Input Services</u>

- A new proviso has been inserted to disable the supplier of such goods/ services on which tax is payable on reverse charge basis from taking input tax credit.

- A provision similar to the present Rule 4(7) of the Cenvat Credit Rules, 2004 has been introduced providing that payment of the amount towards value of input services and tax payable thereon must be paid to the supplier of services within three (3) months failing which the credit amount shall be required to be paid as an output tax liability alongwith interest.

- The credit on activities relating to employee welfare like life insurance, Outdoor catering, etc. have been allowed subject to the condition that the such benefits are notified by the Government as obligatory for employer to provide to employees under a law for the time being in force.

- Like the present Cenvat Credit Rules, 2004, the credit of works contract service and supplies received from construction of immovable property has been restricted.

C. Transitional Provisions

- Credit on inputs in stock, in work in progress or in finished goods lying in stock and capital goods has been allowed in a situation where the exempted supplies are subsequently made taxable and when the assessee opts out of composition scheme. However, the credit on capital goods will be reduced by prescribed percentage points.

D. Job Work Related Provisions

- The period for receipt back of inputs & capital goods given to the job worker has been increased to one (1) year and three (3) years respectively.

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