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GST Input Tax Credit Eligibility: Section 16 Guide



In-Depth Analysis of Input Tax Credit under the GST Act: Section 16 Understanding Input Tax Credit (ITC) Eligibility under GST

Input Tax Credit (ITC) is a crucial mechanism under the GST regime that allows businesses to reduce their tax liability by claiming credit for GST paid on purchases used in the course of business. However, to avail of ITC, taxpayers must fulfill several conditions outlined under Section 16 of the Central Goods and Services Tax (CGST) Act.

This guide simplifies the provisions of Section 16 for easier understanding.

Section 16(1): Basic Eligibility

A **registered person** is eligible to claim input tax credit on the **GST paid on goods or services** that are used or intended to be used in the course or furtherance of business.

? The eligible credit gets added to the **electronic credit ledger** as per the rules.

Section 16(2): Conditions to Claim ITC

A registered person **cannot claim ITC** unless the following conditions are satisfied:

Section 16(2)(a): Possession of Tax Document

? The buyer must possess a **valid tax invoice or debit note** issued by a registered supplier.

Section 16(2)(aa): Invoice Matching

? The supplier **must report the invoice details** in their **GST returns**, and

? These details must be **communicated to the buyer** through the GST portal.



Section 16(2)(b): Receipt of Goods or Services

? The buyer must have **received the goods or services**.

Explanation of 'Receipt':

A buyer is deemed to have received goods/services in the following cases:

(i) The supplier delivers goods to a third party on the buyer's instructions.

(ii) The supplier provides services to another person on behalf of the buyer.

Section 16(2)(ba): ITC Not Blocked

? The ITC related to the supply must **not be restricted or blocked** under Section 38 (as communicated through the GST portal).

Section 16(2)(c): Tax Paid to Government

? The **tax charged** on the supply must be **actually paid to the government** by the supplier, either in **cash** or through **utilized ITC**.

Section 16(2)(d): Return Filing

? The buyer must have **filed the relevant GST return** under **Section 39.**

Provisos to Section 16(2): Special Situations

1st Proviso: Multiple Lots

If goods are received in **installments** against a single invoice, **ITC can only be claimed after the last lot or installment is received.**

2nd Proviso: Non-Payment to Supplier

If the buyer **fails to pay** the supplier (value + tax) within **180 days** from the invoice date: ITC must be **reversed along with interest** under Section 50.

3rd Proviso: Reclaiming ITC

Once payment is made to the supplier:

? The reversed ITC can be reclaimed by the buyer.

Section 16(3): ITC Restriction for Depreciated Assets

If a taxpayer claims **depreciation** on the GST component of **capital goods** under the Income Tax Act:

? ITC **cannot be claimed** on that component under GST.

Section 16(4): Time Limit to Claim ITC

A registered person **cannot claim ITC:**

? After **30th November** following the end of the financial year to which the invoice pertains, **OR**

? After filing the **annual return** for that year, **whichever is earlier.**

Proviso to Section 16(4): FY 2017–18

For invoices relating to **Financial Year 2017–18**, ITC could be claimed **till the return filing for March 2019.**

Section 16(5): Transition Period for ITC (FY 2017–18 to 2020–21)

For invoices dated **FY 2017–18 to FY 2020–21**, ITC could be claimed:

? Up to **30th November 2021**.

Section 16(6): Credit after Registration Restoration

If a taxpayer's **GST registration is cancelled and later restored**, ITC may still be claimed:

? Subject to specified timelines and conditions.

Summary of Key Conditions to Claim ITC

Condition	Requirement
Valid Document	Tax Invoice or Debit Note
Invoice Reporting	Supplier has filed return and invoice is visible in buyer's GSTR-2B
Receipt of Supply	Goods/services received physically or as per instructions
Tax Payment	Tax paid to government by supplier
Return Filing	Buyer has filed GSTR-3B
Payment to Supplier	Within 180 days from invoice date
Time Limit	Before 30th Nov of next FY or before filing annual return, whichever earlier

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Thank You for Reading

Thank you for taking the time to read this article. I appreciate your attention and interest in the topic. I hope the insights shared here prove valuable in your professional endeavours. Your feedback or perspective is always welcome—please feel free to connect or continue the conversation.

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