

Impact of 20% ITC in books of accounts

As we know CBIC notifies Central Goods and Services Tax (Sixth Amendment) Rules, 2019 vide Circular No. 123/42/2019- GST dated 11th November 2019.

Circular No. 123/42/2019 - Restriction in availment of input tax credit in terms of sub-rule (4) of rule 36 of CGST Rules, 2017.

Sub-rule (4) to rule 36 of the Central Goods and Services Tax Rules, 2017 (hereinafter referred to as the CGST Rules) has been inserted vide notification No. 49/2019-Central Tax, dated 09.10.2019. The said sub-rule provides restriction in availment of input tax credit (ITC) in respect of invoices or debit notes, the details of which have not been uploaded by the suppliers under sub-section (1) of section 37 of the Central Goods and Services Tax Act, 2017 (hereinafter referred to as the CGST Act).

Notification No. 49/2019 - Central Tax dated 09-10-2019 and made some important changes.

1. Rule 36(4) inserted in the CGST Rules, 2017- Input tax credit to be availed by a registered person in respect of invoices or debit notes, the details of which have not been uploaded by the suppliers in their GSTR-1 under section 37(1), shall not exceed 20 % of the eligible credit available in respect of invoices or debit notes the details of which have been uploaded by the suppliers under section 37(1). Effectively ITC shall not exceed 20% of the eligible credit reflected in GSTR-2A.

2. Rule 61(5): Sub-rule 5 substituted in Rule 61 w.e.f 1st July, 2017

Where the time limit for furnishing of details in FORM GSTR-1 under section 37 or in FORM GSTR-2 under section 38 has been extended, the return specified in section 39(1) shall, in such manner and subject to such conditions as the Commissioner may, by notification, specify, be furnished in FORM GSTR-3B electronically through the common portal, either directly or through a Facilitation Centre notified by the Commissioner:

Where a return in FORM GSTR-3B is required to be furnished by a person then such person shall not be required to furnish the return in FORM GSTR-3

The restriction imposed is not supplier wise. The credit available under sub-rule (4) of rule 36 is linked to total eligible credit from all suppliers against all supplies whose details have been uploaded by the suppliers. Further, the calculation would be based on only those invoices which are otherwise eligible for ITC. Accordingly, those invoices on which ITC is not available under any of the provision (say under sub-section (5) of section 17) would not be considered for calculating 20 % of the eligible credit available.

Let's discuss the practical process/journal entries of availing ITC restricted to 20% in our books of accounts.

Let's take an example to understand the impact in our books of accounts.

Particulars	Month Nov'19	Month Dec'19
Purchases Base Value	10000	20000
Total GST	1800	3600
GST Eligible	1200	3000
GST Ineligible	600	600
GST Payable	2500	5000

Entries in our Books –

Particulars	Month Nov'19	Month Dec'19
For Purchases	Purchase A/cDr 10000 GST Receivable A/c.....Dr 1200 Expenses A/cDr 600 To Creditors A/c 11800	Purchase A/cDr 20000 GST Receivable A/c.....Dr 3000 Expenses A/cDr 600 To Creditors A/c 23600
For Sales	Customer A/c.....Dr. 16388 To Sales A/c 13888 To GST Payable A/c 2500	Customer A/c.....Dr. 32777 To Sales A/c 27777 To GST Payable A/c 5000
Uploaded by Supplier as eligible ITC	900	2500 (Rs. 300 related to Nov'19)
Not-uploaded by Supplier in GST portal	GST Deferred Input A/c.....Dr. 120 To GST Receivable A/c 120 (1200-(900+(900*20%))	GST Deferred Input A/c.....Dr. 360 To GST Receivable A/c 360 (3000-(2200+(2200*20%))
	GST Payable A/c.....Dr 2500 To GST Receivable A/c 1080 To Bank A/c 1420	GST Payable A/c.....Dr 5000 To GST Receivable A/c 2640 To GST Deferred Input A/c 120 To Bank A/c 2240

In this scenario, monthly reconciliation is required.

Source courtesy : CAclubIndia