

GOODS

AND

SERVICES

TAX

GST
UPDATES

INPUT TAX CREDIT (ITC)

ACCUMULATION UNDER GST

A DEEPER DIVE INTO THE REASONS FOR ITC ACCUMULATION

UNDER GST

Several factors can contribute to an accumulation of Input Tax Credit (ITC) under the GST regime. Here's a more detailed breakdown of the reasons:

1. Output Tax Liability Lower than Input Tax Paid:

- **Zero-Rated (Export of Goods & Services):** Businesses making supplies without **GST** (i.e. zero-rated) cannot utilize their ITC against their output tax liability. This leads to ITC accumulation.
- **Inverted Duty Structure:** This occurs when the **GST rate on inward supplies is higher than the rate on your outward supply**. This creates excess ITC that cannot be fully utilized.

2. Slow Business Activity or Closure:

- **Reduced Sales:** When a business experiences a slowdown or closure, its **outward supply and output tax liability decrease**. This leaves unutilized ITC since there's less output tax to offset.

- **Inventory Management:** Holding onto excessive inventory also ties up input taxes paid, leading to accumulation.

3. Head Office Availing ITC While Branches Make Supplies:

- **Centralized Purchasing:** If a head office avails ITC on inward supplies used by different branches across India, but those branches **make the actual outward supplies**, there's an **ITC mismatch**. These branches cannot utilize the head office's ITC.

4. Supplying at Lower Rates for Market Capture:

- **Strategic Pricing:** Offering **discounted prices** can lead to lower output tax collection compared to the input tax paid. This creates unutilized ITC.

Accumulated ITC can block working capital, as it represents money paid out for taxes that cannot be immediately offset against output tax liabilities. It is advised that businesses should actively manage their ITC to minimize accumulation and ensure its timely liquidation. It's important to clarify that accumulated ITC doesn't directly impact the profit and loss statement, but its inefficient utilization can affect cash flow and profitability.

Benefits of Addressing Accumulated ITC

Improved Cash Flow: Liquidation of accumulated ITC into cash directly boosts available working capital. This can be crucial for business growth and operational efficiency.

Enhanced Financial Health: Efficiently managing ITC demonstrates responsible financial management and can improve investor confidence.

Managing or Liquidation of Accumulated ITC

In cases where ITC remain unutilized under above-mentioned circumstances, there are legitimate legal tools and techniques to help businesses manage or liquidate such ITC. This is a strategic approach to optimize ITC utilization and improve cash flow. However, professional support plays an important role for navigating the complexities involved.


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CONTACT US

NOIDA OFFICE

DPNC GLOBAL LLP

 Windsor Grand, 15th Floor,
Plot No. 1C, Sector-126,
Noida-201303, Uttar Pradesh

 +91.120.6456990

 dpnc@dpncglobal.com

 <https://dpncglobal.com/>

GURGAON OFFICE

DPNC GLOBAL LLP

120, Vipul Business Park,
Sector-48, Sohna Road,
Gurugram, Haryana-122018

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