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GST: New rules allow firms to take input tax credit on stocks unsold before rollout

Draft credit transfer document released

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Giving significant relief to car and consumer durables manufacturers, the Finance Ministry on Wednesday released the final rules for transition provisions under the Goods and Services Tax (GST), allowing them to carry forward input tax credit for 90 days, against the earlier provision of 60 days.

The new rules by the Central Board of Excise and Customs (CBEC) also allow dealers and makers of such goods to claim as much as 60 per cent of the input tax credit on stocks lying unsold up to June 30. Higher credit will be allowed for goods that attract GST at 18 per cent or more. For other goods, credit of 40 per cent will be available.

In the case of goods where Integrated GST (IGST) is paid, a credit of 30 per cent will be given for those taxed at 18 per cent or above and 20 per cent for items taxed at lower rates. The rules were finalised by the GST Council at its meeting on June 3, and are expected to give some relief to dealers and companies concerned about the status of inventories at the time of GST rollout.

Eligible and registered assessees are expected to submit a declaration within 90 days — of the amount of input tax credit they are entitled to.

Credit transfer draft

Additionally, the CBEC released the draft credit transfer document to pass on full credit of excise duty to a dealer for unsold stocks before the end of the month. However, this facility will be available only for high-end goods priced over ₹25,000 that "are identifiable as a distinct number, such as chassis or engine number of a car". The document has to be issued within 30 days of July 1, the planned GST rollout date.

The facility will, however, be exclusive of the transition provision, meaning, those using it will not be eligible to claim input tax credit on unsold goods.

The CBEC has also warned of a severe penalty and using "provisions for recovery of credit, interest and penalty under the CENVAT Credit Rules, 2004" against manufacturers who take tax credit twice on the same goods. Dealers and manufacturers will be expected to submit an online declaration within 60 days on the GSTN.

Too late?

But, with just about three weeks left for the implementation of GST, tax experts point out that the guidelines have been issued too late for the industry and stakeholders to fully benefit. Many consumer durable and apparel manufacturers have already begun sales and promotional offers to ensure that most of their inventory is sold by the month end.

Further, the transition rules include a provision that could allow each State to specify the methodology for calculation of VAT to avail of input tax credit. This could create confusion.

"It remains to be seen if such powers in the hands of States bring subjectivity to this common GST law," said Rajat Mohan, Director, Indirect Taxation, Nangia & Co.

Hoping for more clarity on the Credit Transfer Document after the next meeting of the GST Council, PwC said: "It is necessary to address several aspects in the draft rules for issuing the CTD such as issuance of CTD by an importer, definition of 'per piece'."