

Comparison Between Old and New Law on GST Set-Off

The table below highlights the differences in the order of ITC utilisation between the old system and the new system-

As per the old set-off rules, the following is the order and priority for ITC utilisation-

Liability of →	IGST	CGST	SGST
ITC of↓			
IGST	1	2	3
CGST	2	1	Not permitted
SGST	2	Not permitted	1

From onwards the below mode of off-set functionality has been made available, the following is the order and priority for ITC utilisation

Liability of →	IGST	CGST	SGST
ITC of↓			
IGST	1	2*	
CGST	4	3	Not permitted
SGST	6	Not permitted	5

*The order of utilisation of IGST credit post offset to IGST liability can be in any order or proportion between CGST/SGST but the only pre-condition is exhausting IGST completely before using other credits.

Hence, from the above table for new rules, it can be concluded that any taxpayer must begin with set-off process starting with ITC of IGST and utilise it completely before proceeding to utilise the ITC of CGST or ITC of SGST.

Illustrations on How GST Set-Off Works

Let us discuss the applicability of provisions using two illustrations.

Illustration I: To understand the order of IGST credit set-off

There is an only procedural change in utilising IGST credit. To understand the set-off from a practical perspective, let us take an example. Suppose, Mr X has the following GST liabilities and GST inputs.

(all figures in INR)

Type of GST	Output Liability	Input Tax Credit
IGST	500	2000
CGST	1000	150
SGST/ UTGST	1000	150
Total	2500	2300

As per the existing system, the set-off takes place as follows-

(all figures in INR)

Type of Tax	Liability	Credit Available	Set-off of Liability	Balance to be paid in cash	Balance credit available
IGST	500	2,000	500 (from IGST)	–	–

CGST	1,000	150	150 (from CGST) 850 (from IGST)	–	–
SGST/ UTGST	1,000	150	150 (from SGST) 650 (from IGST)	200	–

You can see that CGST or SGST payable needs to be paid first with CGST credit or SGST credit respectively.

However, as per the new procedure of set-off, the IGST credit available will need to be set-off and the following are the three possible ways in which this can be done-

Scenario 1: Set off of unutilised IGST credit completely towards CGST

(all figures in INR)

Type of Tax	Liability	Credit Available	Set-off of Liability	Balance to be paid in cash	Balance credit available
IGST	500	2,000	500 (from IGST)	–	–
CGST	1,000	150	1000* (from IGST)	–	150
SGST/ UTGST	1,000	150	500 (from IGST) 150 (from SGST)	350	–

Scenario 2: Set off of unutilised IGST credit completely towards SGST

(all figures in INR)

Type of	Liability	Credit	Set-off of	Balance to be	Balance credit
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Tax		Available	Liability	paid in cash	available
IGST	500	2,000	500 (from IGST)	–	–
CGST	1,000	150	500 (from IGST) 150 (from CGST)	350	–
SGST/ UTGST	1,000	150	1000* (from IGST)	–	150

Scenario 3: Set-off of unutilised IGST credit partly towards CGST & SGST liability in an equal proportion

(all figures in INR)

Type of Tax	Liability	Credit Available	Set-off of Liability	Balance to be paid in cash	Balance credit available
IGST	500	2,000	500 (from IGST)	–	–
CGST	1,000	150	750* (from IGST) 150 (from CGST)	100	–
SGST/ UTGST	1,000	150	750* (from IGST) 150 (From	100	–

			SGST)		
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***Note:** In this illustration, we came up with only three scenarios, whereas the law does not place any strict rule of attributing entire unutilised IGST credit to CGST or SGST liability. A taxpayer can utilise IGST credit in any proportion and in any order, but the condition is to completely utilise the IGST credit before using CGST or SGST credit.

So as you can see in the example, IGST credit has been utilised first as per the new system of set-off, only after which, can CGST or SGST/UTGST be set-off.

To optimise credit utilisation it is advisable to follow Scenario 3.

Illustration II: To understand business Impact due to the new rule

From the illustration 1, we can observe that the overall GST output liability was higher than the overall GST input and now we are going to see a case where overall GST input is higher than the overall GST output.

Suppose, Mr X has the following liability and input credit for a tax period as follows-

(all figures in INR)

Type of GST	Output Liability	Input Tax Credit
IGST	500	1,000
CGST	500	300
SGST/ UTGST	500	300
Total	1500	1600

Let us see how the ITC of IGST can be utilised in different ways from the following three scenarios:

Scenario 1: Set off of unutilised IGST credit completely towards CGST

(all figures in INR)

Type of GST	Liability	Credit available	Set-off of liability	Balance to be paid in cash	Balance credit available

IGST	500	1,000	500 (From IGST)	–	–
CGST	500	300	500* (From IGST)	–	300
SGST/ UTGST	500	300	300 (From SGST/ UTGST)	200	–

Scenario 2: Set off of unutilised IGST credit completely towards SGST

(all figures in INR)

Type of GST	Liability	Credit available	Set-off of liability	Balance to be paid in cash	Balance credit available
IGST	500	1,000	500 (From IGST)	–	–
CGST	500	300	300 (From CGST)	200	–
SGST/ UTGST	500	300	500* (From IGST)	–	300

Scenario 3: Set-off of unutilised IGST credit partly towards CGST & SGST liability in an equal proportion

(all figures in INR)

Type of GST	Liability	Credit available	Set-off of liability	Balance to be paid in cash	Balance credit available
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IGST	500	1,000	500 (From IGST)	–	–
CGST	500	300	250* (From IGST) 250 (From CGST)	–	50
SGST/ UTGST	500	300	250* (From IGST) 250 (From SGST)	–	50

***Note:** In this illustration, we came up with only three scenarios whereas the law does not place any strict rule of attributing entire unutilised IGST credit wholly to either CGST or SGST liability. A taxpayer can utilise IGST credit in any proportion and in any order, but the condition is to completely utilise the IGST credit before using CGST or SGST credit.

In the first two scenarios, the taxpayer has to pay either CGST or SGST and either there is a balance of CGST credit or SGST credit lying in Electronic Credit Ledger (ECL) respectively. But if the taxpayer follows scenario 3, there is no need for a cash payment of either CGST or SGST liability and he can also carry forward an equal amount of CGST and SGST in ECL so that in succeeding months if the purchase or sales pattern changes from inter-state to intra-state or vice-versa, retaining an equal balance in both the ledgers will help optimising the utilisation of credits in future as well. This measure has to be carefully monitored.

Updates on GST Portal

The validations based on the changes in the rule has been updated on the portal from July 2019 onwards.

Impact on Business

Let us discuss how exactly does this impact your business-

The new GST offset rules mandates for complete utilisation of IGST input credit before using the CGST or SGST input credit.

In illustration 2 we can observe that the taxpayer has a higher credit due to interstate purchases when compared to the intrastate purchase. In turn, the sales are more within the state when compared to outside the state. It leads to the accumulation of more IGST input credit. Accordingly, if this is not properly utilised it may lead to blockage of working capital.

If the taxpayer follows either of the scenario 1 or 2 in the illustration II, they are evidently deferring the respective CGST or SGST credits balance (as the case may be) to be utilised over several tax periods. It results in blockage of working capital for a considerable period of time. Alternatively, the taxpayer should wait for a future day where his interstate sales (IGST liability) are higher than intrastate sales to completely utilise the balance credit of CGST or SGST brought forward. If the taxpayer goes with scenario 3 by utilising available credit in equal proportion of CGST and SGST, he can avoid the payment of tax and the blockage of working capital that can follow.

However, from the government's point of view, the new provision is an immediate measure to allow smooth distribution of IGST revenue.

Takeaway:

The GST portal allows taxpayers to manually set off the input tax credit against the output liabilities. It is advisable that the taxpayers make optimum utilisation of ITC available to them by careful allocation of credits every tax period. The new off-set mechanism in no way leads to additional working capital requirements compared to the old mechanism if properly optimised.

Further in case of carrying forward credits it is very much advisable to strike a balance & retain equal credits in both CGST and SGST/UTGST ledgers for optimising credits in future as well. The easiest way to accomplish this is after using the IGST credits for the IGST liability, the balance available in IGST credits to be equally utilised for CGST/SGST credits.

If businesses have missed out doing it in the last two months in the next month they can optimise on it to arrive at an equal balance in both CGST/SGST credit ledgers in case of excess ITC availability and continue the same henceforth.