

Yes, here are two numerical problems on Input Tax Credit (ITC) under GST (Goods and Services Tax) with their solutions, covering an **Intra-state** (within state) and an **Inter-state** (between states) transaction.

The set-off rules for ITC utilization are as follows:

1. **IGST** credit must be utilized first, against IGST, CGST, and then SGST/UTGST liabilities in any order.
2. **CGST** credit must be utilized next, against CGST liability first, and then IGST liability.
3. **SGST** credit must be utilized next, against SGST/UTGST liability first, and then IGST liability.

### **Problem 1: Intra-State Transaction (CGST & SGST)**

#### **Question**

Mr. A, a registered dealer in Maharashtra, provides the following information for a month. All purchases and sales are within Maharashtra (Intra-state) and are exclusive of GST. The GST rate for the goods is 18% (9% CGST + 9% SGST).

Particulars	Value (₹)
<b>Inward Supply (Purchases)</b>	5,00,000
<b>Outward Supply (Sales)</b>	8,00,000

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Calculate the **Net GST Payable** (CGST and SGST) by Mr. A.

# Solution

## Step 1: Calculate Output Tax (GST on Sales)

Particulars	Taxable Value (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)
Output GST Liability on Sales	8,00,000	72,000	72,000
<b>Total Output Tax Payable</b>		<b>72,000</b>	<b>72,000</b>

Calculation:  $₹8,00,000 \times 9\% = ₹72,000$

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## Step 2: Calculate Input Tax Credit (ITC on Purchases)

Particulars	Taxable Value (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)
ITC on Purchases (Input Tax)	5,00,000	45,000	45,000
<b>Total ITC Available</b>		<b>45,000</b>	<b>45,000</b>

Calculation:  $₹5,00,000 \times 9\% = ₹45,000$

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## Step 3: Calculate Net GST Payable (Utilizing ITC)

Particulars	CGST (₹)	SGST (₹)
<b>Output Tax Payable (from Step 1)</b>	72,000	72,000
<b>Less: ITC Available (from Step 2)</b>		
Utilize CGST ITC against CGST Liability	(45,000)	-
Utilize SGST ITC against SGST Liability	-	(45,000)
<b>Net GST Payable in Cash</b>	<b>27,000</b>	<b>27,000</b>

(CGST Payable: ₹72,000 - ₹45,000 = ₹27,000)

(SGST Payable: ₹72,000 - ₹45,000 = ₹27,000)

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**The Net GST Payable by Mr. A is ₹27,000 for CGST and ₹27,000 for SGST, totaling ₹54,000 to be paid in cash.**

## Problem 2: Inter-State Transaction (IGST) and Set-off

### Question

M/s. XYZ, a registered dealer in Gujarat, has the following GST figures for a tax period. All values are exclusive of GST. The GST rate is 18% (9% CGST, 9% SGST, 18% IGST).

Particulars	Tax Amount (₹)
<b>Input Tax Credit (ITC) Available</b>	
IGST ITC	90,000
CGST ITC	30,000
SGST ITC	30,000
<b>Output Tax Liability (Tax on Sales)</b>	
IGST Output Liability	1,00,000
CGST Output Liability	40,000
SGST Output Liability	40,000

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**Calculate the Net GST Payable (IGST, CGST, and SGST) in cash, considering the ITC set-off rules.**

### Solution

#### Step 1: Utilize IGST ITC (First Priority)

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
<b>Output Tax Payable</b>	1,00,000	40,000	40,000
<b>Less: IGST ITC Available (₹90,000)</b>			
1. Utilize against IGST Liability (max ₹1,00,000)	(90,000)	-	-
<b>Balance Liability after IGST ITC</b>	10,000	40,000	40,000
<b>Balance IGST ITC:</b>	<i>Nil</i>		

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## Step 2: Utilize CGST ITC (Second Priority)

CGST ITC (₹30,000) must be utilized against **CGST Liability** first, and then against the remaining **IGST Liability**.

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
<b>Balance Liability (from Step 1)</b>	10,000	40,000	40,000
<b>Less: CGST ITC Available (₹30,000)</b>			
1. Utilize against CGST Liability (max ₹40,000)	-	(30,000)	-
<b>Balance Liability</b>	10,000	10,000	40,000
2. Utilize against IGST Liability (Remaining CGST ITC: ₹30,000 - ₹30,000 = ₹0)	-	-	-
<b>Balance Liability after CGST ITC</b>	10,000	10,000	40,000

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## Step 3: Utilize SGST ITC (Third Priority)

SGST ITC (₹30,000) must be utilized against **SGST Liability** first, and then against the remaining **IGST Liability**.

Particulars	IGST (₹)	CGST	SGST (₹)
<b>Balance Liability (from Step 2)</b>	10,000	10,000	40,000
<b>Less: SGST ITC Available (₹30,000)</b>			
1. Utilize against SGST Liability (max ₹40,000)	-	-	(30,000)
<b>Balance Liability</b>	10,000	10,000	10,000
2. Utilize against IGST Liability (Remaining SGST ITC: ₹30,000 - ₹30,000 = ₹0)	-	-	-
<b>Net GST Payable in Cash</b>	10,000	10,000	10,000

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The **Net GST Payable** in cash by M/s. XYZ is ₹10,000 for IGST, ₹10,000 for CGST, and ₹10,000 for SGST, totaling ₹30,000.

- ◆ The introduction of the **Goods and Services Tax (GST) Act, 2017** in India on July 1, 2017, was a landmark reform in the country's indirect tax structure. It replaced a complex web of central and state-level taxes with a single, unified tax.

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## Definition and Introduction

The GST is a **comprehensive, multi-stage, destination-based tax** levied on every **value addition**.

- **Comprehensive:** It subsumed (replaced) most of the Central and State indirect taxes like Central Excise Duty, Service Tax, VAT (Value Added Tax), Entertainment Tax, etc.
- **Multi-Stage:** It is levied at every step in the production and distribution process, from manufacture to the final consumer sale.
- **Destination-Based:** The tax is collected by the state where the goods or services are *consumed*, not where they are produced.
- **Value Addition:** Tax is paid only on the *net* value added at each stage, as businesses can claim **Input Tax Credit (ITC)** for the taxes paid on their purchases.

**The Dual GST Model:** India adopted a Dual GST model, meaning both the Central and State governments levy tax simultaneously on the supply of goods and services. The tax is divided into four main components:

- **Central GST (CGST):** Levied by the Centre on intra-state supply.
- **State GST (SGST):** Levied by the State on intra-state supply.
- **Integrated GST (IGST):** Levied by the Centre on inter-state supply and imports.
- **Union Territory GST (UTGST):** Replaces SGST in Union Territories without a legislature.

## Benefits of GST

The primary goal of GST was to simplify the tax system and create a common national market. Key benefits include:

### 1. Elimination of Cascading Tax Effect

The most significant benefit is the abolition of the "**tax on tax**" effect. Before GST, businesses couldn't claim tax credit for certain central taxes against state taxes, leading to cascading. GST ensures a seamless flow of Input Tax Credit across the value chain.

### 2. Creation of a Unified National Market ("One Nation, One Tax")

Uniform tax rates and procedures across all states have removed economic borders, streamlining logistics, reducing transportation time, and promoting a seamless supply of goods and services throughout the country.

### 3. Simplified Compliance

The entire process, from registration and return filing to refund claims, is conducted **online** through the GST Network (GSTN) portal, reducing human interface, increasing transparency, and lowering the overall compliance burden for taxpayers (especially compared to the pre-GST multiple tax laws).

### 4. Increased Transparency and Tax Base

GST provisions, especially those concerning Input Tax Credit, have incentivised businesses to register and report transactions accurately, leading to a wider **tax base** and better tax compliance.

## 5. Boost to Economic Growth

By making Indian products more competitive in both domestic and international markets (due to a reduction in the overall tax burden and simplified export procedures), GST is expected to have a positive impact on economic growth (GDP).

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### Constitutional Basis

The power to introduce and levy GST was established by a major constitutional amendment:

#### 1. The Constitution (One Hundred and First Amendment) Act, 2016

This Act paved the way for GST implementation. It introduced new articles and amended existing ones to grant both the Parliament and the State Legislatures the concurrent power to make laws concerning GST.

#### 2. Article 246A

This is the most crucial article, which grants the legislative power:

- **Clause (1)** grants both the Parliament and the Legislature of every State the power to make laws with respect to GST.
- **Clause (2)** gives **Parliament** the exclusive power to make laws with respect to GST on inter-state trade or commerce (which is covered under the **IGST Act**).

#### 3. Article 269A

This article deals with the levy and collection of **IGST** on inter-state supply. It mandates that the IGST collected shall be **apportioned** between the Union and the States based on the recommendations of the GST Council.

The legal framework for the Goods and Services Tax (GST) in India is a comprehensive structure based on the **Dual GST** model, which allows both the Central Government and the State Governments to levy and collect tax concurrently. .

## **Legal Basis of GST**

The primary legal foundation for the GST regime in India is the **Constitution (One Hundred and First Amendment) Act, 2016**. This amendment inserted **Article 246A** into the Constitution, granting power to both the Parliament (Centre) and the State Legislatures to make laws with respect to GST. .

The framework is legislated through several key acts: .

- 1. Central Goods and Services Tax Act, 2017 (CGST Act):** Governs the levy of CGST by the Central Government on intra-state supply of goods and services. . .
- 2. State Goods and Services Tax Act, 2017 (SGST Act):** Each State has its own SGST Act governing the levy of SGST by the respective State Government on intra-state supply. . .
- 3. Integrated Goods and Services Tax Act, 2017 (IGST Act):** Governs the levy of IGST by the Central Government on inter-state supply, imports, and exports. . .
- 4. Union Territory Goods and Services Tax Act, 2017 (UTGST Act):** Governs the levy of UTGST in Union Territories without a legislature (e.g., Chandigarh, Lakshadweep). . .

## **Components of GST and Their Application**

GST is a **destination-based consumption tax**, meaning the tax revenue goes to the state where the goods or services are finally consumed. The four components of GST are applied based on the nature of the transaction (intra-state or inter-state):

### **1. Central Goods and Services Tax (CGST)**

- **Levied by:** Central Government.
- **Applicability: Intra-State** (within the same State or Union Territory) supply of goods or services.
- **Collection:** Collected by the Central Government.
- **Note:** CGST is always levied concurrently with SGST or UTGST for intra-state/intra-UT transactions. The total GST rate is split equally between CGST and SGST/UTGST (e.g., if the GST rate is 18%, it is 9% CGST + 9% SGST).

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### **2. State Goods and Services Tax (SGST)**

- **Levied by:** Respective State Government.
- **Applicability: Intra-State** (within the same State) supply of goods or services.
- **Collection:** Collected by the State Government.
- **Note:** SGST is the state's share of the tax revenue on local sales and is levied alongside CGST.

### **3. Integrated Goods and Services Tax (IGST)**

- **Levied by:** Central Government.
- **Applicability: Inter-State** (between two States or Union Territories), imports, and exports.

- **Collection:** Collected by the Central Government, which then shares the State's share with the destination/consuming State.
- **Note:** IGST is the sum of CGST and SGST/UTGST, applied as a single tax to ensure a smooth flow of tax credit and prevent cascading effects across state borders.

#### **4. Union Territory Goods and Services Tax (UTGST)**

- **Levied by:** Central Government (for the Union Territory Administration).
- **Applicability:** Intra-Union Territory supply of goods or services in Union Territories that do not have their own legislature (e.g., Andaman & Nicobar Islands, Chandigarh).
- **Collection:** Collected by the Central Government and goes to the respective Union Territory's revenue.
- **Note:** UTGST functions as the counterpart to SGST in these specific Union Territories and is levied alongside CGST. Union Territories with their own legislatures (Delhi, Puducherry, and Jammu & Kashmir) levy SGST.

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#### **Key Institutional Mechanism**

The **GST Council** (established under Article 279A of the Constitution) is the constitutional body that plays a crucial role in the legal framework. It comprises the Union Finance Minister (Chairperson) and Ministers from all State Governments and Union Territories. The Council is responsible for making recommendations to the Union and State Governments on all major issues related to GST, including tax rates, exemptions, thresholds, and rules.

- Competition of Input Tax Credit (ITC) numerical questions typically involves calculating the **net Goods and Services Tax (GST) payable** after utilizing the eligible ITC. The core principle is that GST paid on inputs (purchases) can be set off against the GST collected on outputs (sales).  
Here is a common type of numerical question with the solution.

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## Numerical Question: Calculation of Net GST Payable

### Scenario

A business, **ABC Traders**, provides the following data for a given tax period (all amounts are in ₹ and assume a single GST rate of 18% for simplicity):

Particulars	Amount (Excluding GST)
<b>Sales</b> (Output Taxable Value)	₹ 5,00,000
<b>Purchases</b> (Input Taxable Value)	₹ 3,00,000

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All purchases are eligible for Input Tax Credit.

### Question

Calculate the following:

- Output GST Liability** (GST on Sales).
- Input Tax Credit (ITC) Available** (GST on Purchases).
- Net GST Payable** to the Government.

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### Solution

#### 1. Output GST Liability

The GST rate is 18%.

# Solution

## 1. Output GST Liability

The GST rate is 18%.

Output GST Liability = Taxable Value of Sales  $\times$  GST Rate

Output GST Liability = ₹5,00,000  $\times$  18%

Output GST Liability = ₹5,00,000  $\times$   $\frac{18}{100}$

Output GST Liability = ₹90,000

This is the total tax collected by ABC Traders from its customers.

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## 2. Input Tax Credit (ITC) Available

The GST rate is 18%.

ITC Available = Taxable Value of Purchases  $\times$  GST Rate

ITC Available = ₹3,00,000  $\times$  18%

ITC Available = ₹3,00,000  $\times$   $\frac{18}{100}$

ITC Available = ₹54,000

This is the tax ABC Traders paid to its suppliers.

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## 3. Net GST Payable

The net GST payable is the amount remitted to the government after setting off the ITC.

Net GST Payable = Output GST Liability – ITC Available

Net GST Payable = ₹90,000 – ₹54,000

Net GST Payable = ₹36,000

Summary	Amount (₹)
Output GST Liability	90,000
Less: Input Tax Credit (ITC)	(54,000)
Net GST Payable	36,000

The provided terms relate to key operational aspects of the **Goods and Services Tax (GST)** regime, particularly in India. They cover how tax is paid, a special mechanism for certain payments, how overpaid or accumulated tax is returned, and the overall system managing these processes.

Here is a breakdown of the concepts and their connection to competition:

## 1. GST Payment of Tax

This refers to the standard process where a registered business (the **supplier**) collects GST from its customer and remits this tax to the government.

- **Process:** The business calculates its total **output tax liability** (tax on sales) and reduces it by the **Input Tax Credit (ITC)** (tax already paid on purchases) to arrive at the **net GST payable**.
- **Administration:** Payment is typically made electronically through the GST portal using an e-challan, drawing funds from the electronic cash ledger or electronic credit ledger (for using ITC).

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## 2. Reverse Charge Mechanism (RCM)

Reverse Charge is an exception to the normal GST payment rule.

- **Definition:** Under RCM, the **recipient** of the goods or services is made liable to pay the GST directly to the government, instead of the supplier.

- **Purpose:** RCM is typically applied to specific notified supplies (like services received from an unregistered person, or import of services) to ensure tax compliance, especially in sectors where collection from the supplier might be difficult. ☀
- **Administration:** The recipient pays the tax in cash and is usually eligible to claim the same amount as Input Tax Credit (ITC) in the same tax period, provided the goods or services are used for business purposes. ☀

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### 3. Refund of Tax

This is the mechanism for taxpayers to recover excess tax amounts. ☀

- **Key Scenarios for Refund:**
  - **Exports (Zero-Rated Supplies):** To make Indian goods and services competitive globally, exporters can either export without paying IGST (and claim refund of accumulated ITC) or pay IGST and claim its refund. This is a crucial measure for competition on the world stage. ☀ ☀
  - **Inverted Duty Structure:** When the tax rate on inputs is higher than the tax rate on the finished output, leading to an accumulation of unutilized ITC. ☀
  - **Excess Balance in Electronic Cash Ledger:** Simple overpayment or erroneous payment of tax.
  - **Administration:** Applications are filed electronically using **Form GST RFD-01**. The prompt and efficient processing of refunds by the GST administration is vital for competition, as delays can adversely affect a business's **working capital and cash flow**, particularly for exporters. ☀ ☀

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## 4. Administration of GST

This encompasses the entire legal, procedural, and technological framework for managing the GST system.

- **Functions:** Includes registration, return filing, payment processing, audit, compliance monitoring, and refund processing.
- **Impact on Competition:** A robust, transparent, and efficient GST administration, especially in areas like refunds and dispute resolution, is essential. Slow or complex procedures can create a non-tariff barrier, particularly for small and medium-sized enterprises (SMEs) and exporters, ultimately hindering fair **competition**. The transition to a unified national market under GST is itself a major step towards enhancing economic **competition** by eliminating inter-state tax barriers. ↗

The topic you've raised covers several fundamental aspects of the Goods and Services Tax (GST) system. Here is a breakdown of **Taxable and Non-Taxable Supply, Exemptions, the Composite Scheme, and the Applicable Rates** under GST.

## 1. Taxable and Non-Taxable Supply

- **Taxable Supply:** A supply of goods or services or both which is leviable to tax under the GST Act. This is the standard scenario where GST is charged at the applicable rate.
- **Non-Taxable Supply (Non-GST Supply):** A supply of goods or services or both which is **not leviable to tax** under the CGST Act or the IGST Act. These are supplies that are kept completely outside the purview of the GST framework.
  - **Examples:** Alcoholic liquor for human consumption, Petroleum Crude, High-Speed Diesel, Motor Spirit (Petrol), Natural Gas, and Aviation Turbine Fuel. (These items are currently subject to old taxes like State VAT and Central Excise Duty).
- **Exempt Supply:** An '**Exempt Supply**' is defined as a supply of any goods or services or both which:
  1. Attracts '**Nil' rate of tax (0%)**
  2. May be **wholly exempted** from tax by a specific notification.
  3. **Includes Non-Taxable Supply.**

The key difference between a regular **Taxable Supply** and an **Exempt Supply** (other than zero-rated supply like exports) is that a supplier of exempt goods/services **cannot avail Input Tax Credit (ITC)** on the inputs used for making that supply.

- **Examples of Exempt Goods/Services:** Fresh fruits and vegetables, fresh milk, educational services (by an educational institution), healthcare services (by a clinical establishment), and various other basic necessities. . .

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## 2. Composite Scheme (Composition Levy)

The Composite Scheme is a simplified tax scheme for small taxpayers designed to reduce compliance and tax burden. . .

- **Eligibility Limit (General):** Aggregate turnover in the preceding financial year up to **₹1.5 crore** (₹75 lakhs for Special Category States). For a supplier of services (or mixed suppliers with limited service turnover), the limit is **₹50 lakh**. . .
- **Key Conditions:** A composition dealer cannot:
  - Make inter-state supplies. . .
  - Supply non-taxable goods (like alcohol). . .
  - Collect GST from the buyer (must pay tax from their own pocket).
  - Claim Input Tax Credit (ITC).
- **Applicable Rates (Current/Indicative):** | Business Type | GST Rate (CGST + SGST) | On which Turnover | | :--- | :--- | :--- | |  
**Manufacturers and Traders of Goods** | 1% (0.5% + 0.5%) | Taxable turnover of goods | |  
**Restaurants (not serving alcohol)** | 5% (2.5% + 2.5%) | Total turnover in the State/UT | |  
**Other Service Providers** (under the separate composition scheme) | 6% (3% + 3%) | Total turnover in the State/UT | . .

### 3. Applicable Rate of GST (Standard Slabs)

The GST Council periodically reviews and revises the tax rates. The current major GST rate slabs for goods and services are:

- **Nil Rate (0%):** Essential food items (unbranded/unpackaged), basic educational and healthcare services, etc.
- **5%:** Mass consumption items (e.g., sugar, tea, coffee, spices, edible oil, coal, certain medicines).
- **12%:** Standard rate for goods and services like butter, cheese, frozen meat products, processed food items, certain apparel, and some financial services.
- **18%:** The common standard rate for most goods and services, including capital goods, industrial inputs, IT services, financial services, and processed foods.
- **28% (Plus Cess):** Luxury and 'Sin' goods like large cars, aerated drinks, tobacco products, and certain high-end electronic items. A GST **Compensation Cess** is levied on top of the 28% rate on these items.
- **Special Rates:** There are special rates for items like rough precious and semi-precious stones (0.25%) and gold, silver, and precious metals (3%).

**Note:** The exact list of items under each slab is extensive and subject to change based on GST Council notifications. For any specific item, the official GST rate notifications must be referred to.