



No. CWC/GST Circular/20-21

14th May, 2020

GST CIRCULAR No.#25

Sub: Clarification on mechanism to be followed for calculation of monthly / yearly reversal ratio for reversal of Input Tax Credit (ITC) towards exempted services rendered by CWC

- 1.0 This is with reference to the GST Circular no – 11 dt 19.06.2018 wherein the calculation of ITC attributable to exempted services was advised. Recently, it has been noticed that some of the regional offices are still not clear about the mechanism and not doing the monthly calculation of reversal of ITC attributable to exempted services of CWC.
- 2.0 As aware, in case of CWC , input goods and services are used partly for effecting taxable supplies and partly for effecting exempt supplies ,the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies.
- 3.0 For the sake of simplicity ,the T, T1, T 2, T3 ,T4, C1 , C2 and D1 as defined in GST circular no- 11 are again explained as under:

Code	Description	Applicability in context of CWC
T	total input tax involved on inputs and input services in a tax period(i.e a month)	Applicable
T1	the amount of input tax, intended to be used exclusively for the purposes other than business	NA and thus nil in case of CWC
T2	the amount of input tax, intended to be used exclusively for effecting exempt supplies	NA as Directly expensed out by CWC
T3	the amount of input tax, on which credit is not available under sub-section (5) of section 17	
C1	Input tax credit to be taken	T (as T1 is nil in case of CWC and T2 and T3 are directly expensed out)
T4	the amount of input tax credit intended to be used exclusively for effecting supplies other than exempted but including zero rated supplies	Applicable as CWC is providing Fully taxable supplies at various locations
C2	input tax credit left after attribution of input tax credit under clause (g) shall be called common credit [C2]	Yes, to be calculated as C1- T4 (Common credit)

D1	the amount of input tax credit attributable towards exempt supplies [D1]	$D1 = (E \div F) \times C2$
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'E' is the aggregate value of exempt supplies during the tax period i.e one month, and

'F' is the total turnover of the registered person during the tax period i.e one month

For calculating monthly and yearly reversal ratios, following be ensured:

- (1) For calculating reversal ratio especially D1, total turnover of a single GST registration needs to be taken excluding interest as Interest Income is excluded from the aggregate value of exempt supply
- (2) The input tax credit pertaining to places of business in a single GST number who are providing fully Taxable services only(CW/ICD/CFS/ICP) is fully allowed i.e T4 and the ITC pertaining to such units is not required to be reversed and should be booked under ledger no. 29541, 29551 and 29561 for CGST, SGST and IGST respectively.
- (3) The input tax credit pertaining to units providing fully exempted services only (CW/ICD/CFS/ICP) is not allowed(i.e T2 & T3) and the ITC pertaining to such units should be directly expensed out under respective expenditure head.
- (4) The ITC pertaining to units from where both taxable and exempted services are provided (CW/ICD/CFS/ICP/PCS unit) ,input tax credit is proportionately allowed and the ITC pertaining to such units should be booked under ledger no. 29542, 29552 and 29562 for CGST, SGST and IGST respectively and should be utilized after reversal as per reversal ratio calculated above .

The above is explained with the help of following example for clarity:

E.g. RO Bangalore is having one centre CFS Whitefield providing 100% taxable services. And one centre named CW Sedam providing fully exempted services and rest of warehouses provides both taxable and exempted services.

Total taxable services provided by RO Bangalore	Rs. 30,000/-
Total exempted services provided by RO Bangalore	Rs. 70,000/-
Interest income	Rs. 5,000/-
Total turnover(as per books)	Rs.1,05,000/-

Total turnover for calculation of reversal ratio (excluding interest)	Rs. 1,00,000/-
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Reversal ratio for RO Bangalore shall be $70,000/1,00,000=70\%$

Total ITC of CFS Whitefield - Rs. 6000/- (against fully taxable output)

Total ITC of CW Sedam-Rs. 3000/- (against fully exempted output)

Common ITC of rest of Warehouses- Rs. 20000/- (against both taxable and exempted services)

- (a) ITC of fully taxable CFS Whitefield of Rs. 6000/- shall be booked under fully taxable ledgers no. 29541, 29551 and 29561 for CGST, SGST and IGST respectively.
- (b) ITC of exempted CW Sedam of Rs. 3000/- shall be debited to respective expenditure head along with expenses.
- (c) Common ITC of Rs. 20000/- shall be debited to ledger no. 29542, 29552 and 29562 for CGST, SGST and IGST respectively. Out of which Rs. 14000/- (70% of 20000) shall be reversed to ledger no. 49137 un-utilized GST input credit towards exempted services. Balance ITC Rs. 6000/- shall be transferred to respective ITC availment ledger i.e 29512, 29522 & 29532 for further utilization after verification of credit availability from GSTR-2A.

No deviation in the above- mentioned procedure shall be accepted.

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- 1. All Regional Managers of CWC**
- 2. All the DGMs/AGMs/Managers/Sr. Asstt. Managers (Accounts)-Incharges of Finance & Accounts wings of all Regional offices.**

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