

**GOVERNMENT OF NCT OF DELHI  
DEPARTMENT OF TRADE AND TAXES  
POLICY & RESEARCH BRANCH,  
VYAPAR BHAWAN, IP ESTATE  
NEW DELHI- 110002.**

No. F.3(448)/GST/Policy/2022/ 122 - 127

Dated:

**INSTRUCTION**

**Sub: Verification and monitoring in cases of reversal of ineligible ITC.**

1. Fund transfer from IGST through Settlement is predominantly based on the FORM GSTR-3B return filed by taxpayers. Incorrect reporting of Input Tax Credit of IGST on account of inter-state inward supply or import of goods or services or both and non-reversal of IGST ITC in proper Table will result in short settlement of fund transfer to the State.
2. In some cases, it has been noticed that there is huge input tax credit on inward supplies, but outward supplies are exempted. In such cases, if the taxpayer doesn't reverse the IGST Credit which is ineligible, IGST credit will go to the indivisible pool and IGST settlement gets affected. If the actual ineligible IGST credit is properly reversed by the taxpayers, the State will get 50% of the ineligible credit so reversed every month.
3. Taxpayers may not be aware about the IGST Settlement through fund transfer mechanism and do not report their IGST ITC claim and reversal correctly, as they believe there is no intention on their part to evade tax. IGST amount gets appropriated to the State whenever there is a break in the ITC Chain.
4. In this regard, **Circular No.01/2022-GST State Tax dated 11.10.2022** has also been issued by this Department where in Para 4 detailed guidelines for availment of ineligible ITC and reversal thereof have been provided and all the Ward/Proper Officers are directed to ensure that the guidelines on the subject matter are strictly followed by the taxpayers. In this regard, following additional guidelines are being issued for procedure, verification and monitoring of such cases:
  5. **The procedure to be followed for furnishing of information regarding input tax credit availed, reversal thereof and ineligible input tax credit in Table 4 of FORM GSTR-3B:**
    - i) Total ITC (eligible as well as ineligible) of the taxpayer will be auto-populated from statement in FORM GSTR-2B in different fields of Table 4A of FORM GSTR-3B (except for the ineligible input tax credit on account of limitation of time period as specified in section 16 (4) of the CGST and DGST Act, 2017 or

where the recipient of an intra-State supply is located in a different State than that of place of supply).

- ii) The taxpayer should not deduct the amount of ineligible input tax credit directly by editing the total amount of input tax credit auto populated in Table 4A of FORM GSTR-3B. If the taxpayer has to declare any amount of ineligible input tax credit under any of the provision, they should strictly adhere to the ensuing instructions in this regard.
- iii) Out of the amounts available in Table 4A of FORM GSTR- 3B, if the taxpayer has any ineligible input tax credit which has to be reversed permanently on account of Section 17(5) of the Act (blocked credit), Rule 38 (reversal of credit by a banking company or a financial institution) or Rule 42 (reversal of credit on inputs and input services if the same is used for non-business purpose or used for the outward supply of exempted goods or services) or Rule 43 (reversal of credit on capital goods if the same is used for non-business purpose or used for the outward supply of exempted goods or services) of the CGST/DGST Rules, 2017, as the case may be, the same shall be reversed by declaring it in Table 4(B)(1) of FORM GSTR-3B. The amount declared in Table 4(B)(1) of FORM GSTR-3B gets appropriated during IGST settlement as the reversal is of permanent nature.
- iv) The taxpayer shall report reversal of ITC which are not permanent in nature and can be reclaimed in future subject to fulfilment of specific conditions, such as on account of Rule 37 (non-payment of consideration to supplier within 180 days) of CGST/DGST Rules, 2017, Section 16(2)(b) (non-receipt of goods or services or both in the same tax period in which the invoice has been received) and Section 16(2)(c) (non-payment of tax by the supplier) of the CGST/DGST Act, 2017 in Table 4(B)(2) of FORM GSTR3B. This gets added in the Electronic Credit Reversal and Re-claimed Statement. Such input tax credit may be reclaimed in the appropriate table in Table 4(A) of FORM GSTR-3B on fulfilment of necessary conditions. Further, all such reclaimed input tax credit shall also be shown in Table 4(D)(1) of FORM GSTR-3B and this gets deducted from the Electronic Credit Reversal and Re-claimed Statement. The amount declared in Table 4(B)(2) of FORM GSTR-3B does not get appropriated during IGST settlement as the reversal is of temporary nature.
- v) Accordingly, the "Net ITC Available" in Table 4 (C) of FORM GSTR 3B will be as per the formula  $\{4A - [4B(1) + 4B(2)]\}$  and the same will be credited to the electronic credit ledger of the taxpayer and also in Table 6 of FORM GSTR-3B to set-off the output tax dues, if any.

- vi) Input tax credit not available, on account of limitation of time period as specified in Section 16(4) of the CGST/DGST Act, 2017 or where the recipient of an intra-State supply is located in a different State /UT than that of place of supply, may be reported by the taxpayer in Table 4(D)(2) of FORM GSTR-3B. Such details are available in Table 4 of FORM GSTR2B. The amount declared in Table 4(D)(2) of FORM GSTR-3B gets appropriated during IGST settlement as the reversal is of permanent nature.

Table	Description	Nature of reversal	Whether IGST gets appropriated to the State
4(B)(1)	As per rules 38,42 & 43 of CGST Rules and section 17(5)	Permanent	Yes
4(B)(2)	Others	Temporary	No
4(D)(2)	Ineligible ITC under section 16(4) & ITC restricted due to PoS rules	Permanent	Yes

#### 6. SCENARIOS WITH EXAMPLES

The input tax credit on the inward taxable supplies of goods or services or both to a registered person is not eligible in the following situations;

- If such inward supplies, wholly or partially, are used for non-business purposes. (Section 17(1) of the CGST/DGST Act, 2017 read with Rule 42 and 43 of the CGST/DGST Rules)
- If such inward supplies, wholly or partially, are used for exempted outward supplies. (Section 17(2) of the CGST/DGST Act, 2017 read with Rule 42 and 43 of the CGST/DGST Rules)

**Example:**

- ITC on purchase of Scanning Machines, X-ray machines, Lab equipment, etc..by hospitals has to be reversed as the outward supplies using these machines are exempted from GST.
- ITC on purchase of Generators, Transformers, Electric cables, etc by Electricity Companies has to be reversed as the outward supplies i.e, distribution of electricity using these goods are exempted.



- (iii) ITC on Purchase of Computers, printers, photocopiers etc. by Local Authorities has to be reversed by the Local Authorities as the outward supplies using these machines are exempted from GST.
- c) Banking companies or financial institutions including NBFCs, engaged in supplying services by way of accepting deposits, extending loans or advances opted to avail as input tax credit to the extent of an amount equal to 50% of the eligible input tax credit per month shall not be eligible for the rest of the amount. (Section 17(4) of the CGST/DGST Act, 2017 read with Rule 38 of the CGST/DGST Rules, 2017). Rest shall be declared as ineligible credit.
- d) Input tax credit in respect of the inward taxable supplies of goods or services or both which are mentioned in Section 17(5) of the CGST/DGST Act, 2017 is not eligible as the same is blocked vide said section.
- (i) Motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for further supply of such motor vehicles or for transportation of passengers or for imparting training on driving such motor vehicles.
  - (ii) Receipt of construction services except where it is an input service for further supply of works contract service.
  - (iii) Inward supplies of goods or services used for construction of immovable property on his own account even though such constructions are used in the course or furtherance of business.
  - (iv) Food and beverages, outdoor catering, renting or hiring of motor Vehicles etc.
  - (v) Purchase of goods for giving the same as free or gift. Example: ITC on purchase of computers/laptops or cycles by local authorities for giving the same as free to the eligible citizens of that local authority shall be reversed as the same is blocked credit u/s. 17(5).
- e) Concessional rate of tax for certain services applicable to taxpayers on the condition "without input tax credit", has been allowed vide Notification No. 11/2017-Central Tax (Rate), Dated 28.06.2017. Hence such taxpayers are not eligible to take input tax of goods and/or services based on the condition in the notification. Hence in all such cases, the tax payers has to reverse the input tax credit in GSTR 3B.

Example:



- (i) Chit funds services are taxable at 18% without input tax credit on goods used for that service.
- (ii) Construction of residential apartments by a promoter in a Residential Real Estate Project is taxable at 1.5% or 7.5% without input tax credit on goods and services used for that service. Hence taxpayers selling residential apartments (flats) has to reverse the input tax credit in GSTR 3B.

Above scenarios/examples are indicative only. There may be other cases which may be considered by the Proper Officers in accordance with law.

## **7. REVERSAL MONITORING PROCESS**

To ensure inflow of IGST Credit eligible to the State, the disclosure of correct figures in GSTR 3B by the taxpayers shall be ensured through the following steps.

### **7.1.Verification schedule**

Once the GSTINs are identified and letters (with DIN/RFN) are sent to the said GSTINs for ITC reversal, the Proper Officer shall finalise the verification schedule completing the verification within 15 days after filing of relevant return.

### **7.2.Verification Process**

7.2.1. After receiving list of GSTINs, the Proper Officer shall verify the details furnished in GSTR-3B with the details of GSTR-2B. After identifying the non-reversal of ineligible credit in Table 4B and sending of letters, the selected taxpayer shall be contacted repeatedly after a week's break over phone and through e-mail or meetings directing the taxpayer to file the next monthly GSTR 3B return with the reversal of the ineligible credit. The taxpayers shall also be informed that there is a statutory requirement for mandatory furnishing of correct and proper information of ineligible/blocked Input tax Credit and reversal thereof in Form GSTR-3B and the compliance of instructions issued as per Circular No.1/2022 dated 11.10.2022 in this regard.

7.2.2. In cases of Government Body/PSU etc., the matter may be pursued in consultation with the Zonal Incharge concerned, if so required.

### **7.3.Further Action**

Even after all these, if the taxpayer refuses to reply with proof of reversal of the ineligible IGST credit, a notice U/s 127 of the Central Goods and Services Tax

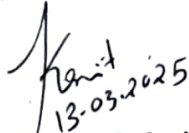


Act/Delhi Goods and Services Tax Act, 2017 read with IGST Act, 2017 shall be issued proposing to impose a penalty U/s 125 for furnishing incorrect returns. Proper Officer may also take any other action permissible under law.

#### 8. REPORTING AND MONITORING

A dashboard has been developed for Ward Officers for sharing information of such cases along with updation of action taken on the said dashboard on regular basis. This dashboard is also being reflected at the level of all the Zonal Incharges.

This issues with the prior approval of Commissioner, State Tax (Delhi).

  
13-03-2025  
(Karanjit Vadodaria)  
Additional Commissioner (P&R)

No. F.3(448)/GST/Policy/2022/122-127

Dated: 19/03/25

Copy forwarded for information and necessary action to:

1. All Spl. Commissioner/ Addl. Commissioner, Deptt. of Trade & Taxes, Delhi.
2. All Assistant Commissioners, Deptt. of Trade & Taxes, Delhi.
3. PS to Commissioner, Deptt. Of Trade & Taxes, Delhi.
4. SSA – IT Branch, Deptt. Of Trade & Taxes, Delhi. For uploading the instructions on the website of the department.
5. All Ward Officers though website.
6. Guard file.

  
(Aditya Kumar Jha)  
Assistant Commissioner (P&R)