

by Additional or Joint Commissioner, appeal has to be made to the Commissioner (Appeal) appointed for the same.

4.1 The appeal against the order passed by appellate authority under Section 107 of the CGST Act lies with appellate tribunal. Relevant provisions for the same is mentioned in the Section 112 of the CGST Act which reads as follows: -

*"112 (1) Any person aggrieved by an order passed against him under section 107 or section 108 of this Act or the State Goods and Services Tax Act or the Union Territory Goods and Services Tax Act may appeal to the Appellate Tribunal against such order within three months from the date on which the order sought to be appealed against is communicated to the person preferring the appeal."*

4.2 The appellate tribunal has not been constituted in view of the order by Madras High Court in case of Revenue Bar Assn. v. Union of India and therefore the appeal cannot be filed within three months from the date on which the order sought to be appealed against is communicated. In order to remove difficulty arising in giving effect to the above provision of the Act, the Government, on the recommendations of the Council, has issued **the Central Goods and Services Tax (Ninth Removal of Difficulties) Order, 2019 dated 03.12.2019**. It has been provided through the said Order that the appeal to tribunal can be made within three months (six months in case of appeals by the Government) from the date of communication of order **or** date on which the President or the State President, as the case may be, of the Appellate Tribunal enters office, **whichever is later**.

4.3 Hence, as of now, the prescribed time limit to make application to appellate tribunal will be counted from the date on which President or the State President enters office. The appellate authority while passing order may mention in the preamble that appeal may be made to the appellate tribunal whenever it is constituted within three months from the President or the State President enters office. Accordingly, it is advised that the appellate authorities may dispose all pending appeals expeditiously without waiting for the constitution of the appellate tribunal.

### **133**

#### **Clarification in respect of apportionment of input tax credit (ITC) in cases of business reorganization under section 18 (3) of CGST Act read with rule 41(1) of CGST Rules**

**Circular No.133 03/2020-GST**

**23rd March, 2020**

Representations have been received from various taxpayers seeking clarification in respect of apportionment and transfer of ITC in the event of merger, demerger, amalgamation or change in the constitution/ownership of business. Certain doubts have been raised regarding the interpretation of sub-section (3) of section 18 of the Central Goods and Services Tax Act, 2017 (hereinafter referred to as the CGST Act) and sub-rule (1) of rule 41 of the Central Goods and Services Tax Rules, 2017 (hereinafter referred to as the CGST Rules) in the context of business reorganization.

2. According to sub-section (3) of section 18 of the CGST Act,



*"Where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provisions for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilized in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed."*

Further, according to sub-rule (1) of rule 41 of the CGST Rules:

*"A registered person shall, in the event of sale, merger, de-merger, amalgamation, lease or transfer or change in the ownership of business for any reason, furnish the details of sale, merger, de-merger, amalgamation, lease or transfer of business, in FORM GST ITC-02, electronically on the common portal along with a request for transfer of unutilized input tax credit lying in his electronic credit ledger to the transferee:*

*Provided that in the case of demerger, the input tax credit shall be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme.*

**Explanation:-** For the purpose of this sub-rule, it is hereby **clarified** that the "value of assets" means the value of the entire assets of the business, whether or not input tax credit has been availed thereon.

3. The issues raised in various representations have been analyzed in the light of various legal provisions under GST. In order to ensure uniformity in the implementation of the provisions of the law, the Board, in exercise of its powers conferred by sub-section (1) of section 168 of the CGST Act clarifies the issues involved in the Table below.

S. No.	Issue / Question	Clarification
a.	(i) In case of demerger, proviso to rule 41 (1) of the CGST Rules provides that the input tax credit shall be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme. However, it is not clear as to whether the value of assets of the new units is to be considered at State level or at all-India level.	<p>Proviso to sub-rule (1) of rule 41 of the CGST Rules provides for apportionment of the input tax credit in the ratio of the value of assets of the new units as specified in the demerger scheme. Further, the explanation to sub-rule (1) of rule 41 of the CGST Rules states that "value of assets" means the value of the entire assets of the business, whether or not input tax credit has been availed thereon. Under the provisions of the CGST Act, a person/ company (having same PAN) is required to obtain separate registration in different States and each such registration is considered a distinct person for the purpose of the Act. Accordingly, for the purpose of apportionment of ITC pursuant to a demerger under sub-rule (1) of rule 41 of the CGST Rules, the value of assets of the new units is to be taken at the State level (at the level of distinct person) and not at the all-India level.</p> <p><b>Illustration</b> A company XYZ is registered in two States of M.P. and U.P. Its total value of assets is worth ₹ 100 crore, while its assets in State of M.P. and U.P are ₹ 60 crore and ₹ 40 crore respectively. It demerges a part of its business</p>



S. No.	Issue / Question	Clarification
		to company ABC. As a part of such demerger, assets of XYZ amounting to ₹ 30 Crore are transferred to company ABC in State of M.P, while assets amounting to ₹ 10 crore only are transferred to ABC in State of U.P. (Total assets amounting to ₹ 40 crore at all-India level are transferred from XYZ to ABC). The unutilized ITC of XYZ in State of M.P. shall be transferred to ABC on the basis of ratio of value of assets in State of M.P., i.e. $30/60 = 0.5$ and <b>not</b> on the basis of all-India ratio of value of assets, i.e. $40/100=0.4$ . Similarly, unutilized ITC of XYZ in State of U.P. will be transferred to ABC in ratio of value of assets in State of U.P., i.e. $10/40 = 0.25$ .
	(ii) Is the transferor required to file <b>FORM GST ITC - 02</b> in all States where it is registered?	No. The transferor is required to file <b>FORM GST ITC-02</b> only in those States where both transferor and transferee are registered.
b.	The proviso to rule 41 (1) of the CGST Rules explicitly mentions 'demerger'. Other forms of business reorganization where part of business is hived off or business is transferred as a going concern etc. have not been covered in the said rule. Wherever business reorganization results in partial transfer of business assets along with liabilities, whether the proviso to rule 41(1) of the CGST Rules, 2017 shall be applicable to calculate the amount of transferable ITC?	Yes, the formula for apportionment of ITC, as prescribed under proviso to sub-rule (1) of rule 41 of the CGST Rules, shall be applicable for all forms of business re-organization that results in partial transfer of business assets along with liabilities.



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c.	(i) Whether the ratio of value of assets, as prescribed under proviso to rule 41 (1) of the CGST Rules, shall be applied in respect of each of the heads of input tax credit viz. CGST/ SGST/ IGST/ Cess?	<p>No, the ratio of value of assets, as prescribed under proviso to sub-rule (1) of rule 41 of the CGST Rules, shall be applied to the total amount of unutilized input tax credit (ITC) of the transferor i.e. sum of CGST, SGST/UTGST and IGST credit. The said formula need not be applied separately in respect of each heads of ITC (CGST/SGST/IGST). Further, the said formula shall also be applicable for apportionment of Cess between the transferor and transferee.</p> <p><b>Illustration A:</b> The ITC balances of transferor X in the State of Maharashtra under CGST, SGST and IGST heads are 5 lakh, 5 lakh and 10 lakh respectively. Pursuant to a scheme of demerger, X transfers 60% of its assets to transferee B. Accordingly, the amount of ITC to be transferred from A to B shall be 60% of 20 lakh (total sum of CGST, SGST and IGST credit) i.e. <b>12 lakh</b>.</p>																																																
	(ii) How to determine the amount of ITC that is to be transferred to the transferee under each tax head (IGST/ CGST/SGST) while filing of <b>FORM GST ITC-02</b> by the transferor?	<p>The total amount of ITC to be transferred to the transferee (i.e. sum of CGST, SGST/UTGST and IGST credit) should not exceed the amount of ITC to be transferred, as determined under sub-rule (1) of rule 41 of the CGST Rules [refer 3 (c) (i) above]. However, the transferor shall be at liberty to determine the amount to be transferred under each tax head (IGST, CGST, SGST/UTGST) within this total amount, subject to the ITC balance available with the transferor under the concerned tax head. This is shown in the illustration below:</p>																																																
		<table><tr><th>(1)</th><th>(2)</th><th>(3)</th><th>(4)</th><th>(5)</th><th>(6)</th></tr><tr><th>State</th><th>Asset Ratio of Transferee</th><th>Tax Heads</th><th>ITC balance of Transferor (pre-apportionment) as on the date of filing FORM GST ITC-02)</th><th>Total amount of ITC transferred to the Transferee under FORM GST ITC-02</th><th>ITC balance of Transferor (post-apportionment) after filing of FORM GST ITC-02) [Col (4) – Col (5)]</th></tr><tr><td rowspan="4">Delhi</td><td rowspan="4">70%</td><td>CGST</td><td>10,00,000</td><td>10,00,000</td><td>0</td></tr><tr><td>SGST</td><td>10,00,000</td><td>10,00,000</td><td>0</td></tr><tr><td>IGST</td><td>30,00,000</td><td>15,00,000</td><td>15,00,000</td></tr><tr><td><b>Total</b></td><td><b>50,00,000</b></td><td><b>35,00,000</b></td><td><b>15,00,000</b></td></tr><tr><td rowspan="4">Haryana</td><td rowspan="4">40%</td><td>CGST</td><td>25,00,000</td><td>3,00,000</td><td>22,00,000</td></tr><tr><td>SGST</td><td>25,00,000</td><td>5,00,000</td><td>20,00,000</td></tr><tr><td>IGST</td><td>20,00,000</td><td>20,00,000</td><td>0</td></tr><tr><td><b>Total</b></td><td><b>70,00,000</b></td><td><b>28,00,000</b></td><td><b>42,00,000</b></td></tr></table>	(1)	(2)	(3)	(4)	(5)	(6)	State	Asset Ratio of Transferee	Tax Heads	ITC balance of Transferor (pre-apportionment) as on the date of filing FORM GST ITC-02)	Total amount of ITC transferred to the Transferee under FORM GST ITC-02	ITC balance of Transferor (post-apportionment) after filing of FORM GST ITC-02) [Col (4) – Col (5)]	Delhi	70%	CGST	10,00,000	10,00,000	0	SGST	10,00,000	10,00,000	0	IGST	30,00,000	15,00,000	15,00,000	<b>Total</b>	<b>50,00,000</b>	<b>35,00,000</b>	<b>15,00,000</b>	Haryana	40%	CGST	25,00,000	3,00,000	22,00,000	SGST	25,00,000	5,00,000	20,00,000	IGST	20,00,000	20,00,000	0	<b>Total</b>	<b>70,00,000</b>	<b>28,00,000</b>	<b>42,00,000</b>
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d.	(i) In order to calculate the amount of transferable ITC, the apportionment formula under proviso to rule 41(1) of the CGST Rules has to be applied to the unutilized ITC balance of the transferor. However, it is not clear as to which date shall be relevant to calculate the amount of unutilized ITC balance of transferor.	<p>According to sub-section (3) of section 18 of the CGST Act, <i>"Where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provisions for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilized in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed."</i> Further, sub-rule (1) of rule 41 of the CGST Rules prescribes that the registered person shall file the details in <b>FORM GST ITC-02</b> for transfer of unutilized input tax credit lying in his electronic credit ledger to the transferee.</p> <p>A conjoint reading of sub-section (3) of section 18 of the CGST Act along with sub-rule (1) of rule 41 of the CGST Rules would imply that the apportionment formula shall be applied on the ITC balance of the transferor as available in electronic credit ledger on the date of filing of <b>FORM GST ITC - 02</b> by the transferor.</p>
	(ii) Which date shall be relevant to calculate the ratio of value of assets, as prescribed in the proviso to rule 41(1) of the CGST Rules, 2017?	<p>According to <b>section 232 (6) of the Companies Act, 2013</b>, <i>"The scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date"</i>. The said legal provision appears to indicate that the <b>"appointed date of demerger"</b> is the date from which the scheme for demerger comes into force and it is specified in the respective scheme of demerger. Therefore, for the purpose of apportionment of ITC under rule sub-rule (1) of rule 41 of the CGST Rules, the ratio of the value of assets should be taken as on the <b>"appointed date of demerger"</b>.</p> <p>In other words, for the purpose of apportionment of ITC under sub-rule (1) of rule 41 of the CGST Rules, while the ratio of the value of assets should be taken as on the <b>"appointed date of demerger"</b>, the said ratio is to be applied on the ITC balance of the transferor on the date of filing <b>FORM GST ITC - 02</b> to calculate the amount to transferable ITC.</p>