

Stumped by inflated tax credits, govt keeps stern eye on banks, telecom cos

Taxpayers, beware! The government is keeping a close watch on some banks, insurance companies, technology and telecom firms that may have inflated input tax credit.

People familiar with the development told ET, "There are instances where the transitional credit has jumped by more than 50% from the period before GST (goods and services tax). The government want these companies to return transitional credit either erroneously claimed or inflated."

The finance ministry on Tuesday had urged businesses to revise any wrongful claim of tax credits from the previous indirect tax regime saying that "extraordinarily high" claims unsettles the trust between firms and the tax authorities.

It has been noted that some taxpayers have availed themselves of extraordinarily high transitional credit of CGST, which is neither commensurate with the trend of input tax credit of the industry nor as maintained by the taxpayer himself in the past, it said in a statement. The ministry said that some of these high transitional credits may have a bona fide explanation or may be a case of bona fide mistake. According to some officials, the government is looking to issue showcause notices by January next year to companies if transitional credit numbers are not revised.

"However, it has been noted that high transitional credit has been claimed in many cases for which perhaps no bona fide explanation exists. Analysis to identify such units is underway," it added. *Business Standard* had earlier reported that the government is in the process of checking the veracity of the around Rs 60,000 crore of claims made by entities for stocks before the implementation of the goods and services tax (GST). Of the Rs 95,000 crore of revenue collected in July, around Rs 62,000 crore has been claimed as input tax credit for taxes paid for the period before July 1, startling the government.

What is input tax credit

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs. When India moved to GST, many companies faced a situation where they had paid tax on old stock and availed credit but had to now set it off against the GST liability.

Transitional credits are tax credits accumulated before July 1 on pre-GST stock. According to the GST law, the credit can be set off against GST liability.

The government has already started raising queries on transitional credits on specific companies.

Stumped by the amount of claims, the government and the tax authorities have ordered Chief Commissioners across the country to check the veracity of claims of over Rs 1 crore as it does not rule out ineligible claims "due to mistake or confusion".

Experts give reasons for staggering claims of transitional credit

1. It could be pertaining to closing stock lying with the manufacturers and traders (such as cars and electronics lying with dealers).

2. In certain cases, due to invert duty structure (mainly in pharmaceutical industry), many taxpayers had substantial excise duty credit balances, which may have been claimed as transitional credits.
3. The government had allowed traders to avail excise duty credit on the one-year-old stocks, which was not available to them earlier.

Here are the key things you should know

1. GST TRAN-1 forms are to be filed to claim credit on taxes paid before the implementation of the new indirect tax regime. Taxpayers could use these credits to pay their Central GST liability.
2. The government's analysis to identify taxpayers who have wrongfully claimed credits is underway, the finance ministry said in the same release.
3. The government has already ordered an analysis of the transitional credit taken by top 100 taxpayers in each jurisdiction. The Centre's revenue on account of GST in July, August, September, and October added up to Rs 58,556 crore.
4. The GST rolled out from July 1. The last date for filing Form TRAN-1 is December 27, 2017, which can also be revised till then. The credit claimed by the taxpayers in the TRAN 1 form stood at Rs 65,000 crore, the government had said in September.