

# GSTN TO RESTRICT ITC UTILISATION IN THE ELECTRONIC CREDIT LEDGER

December 6, 2023

## Rule 86B Compliance

Rule 86B was inserted w.e.f. 1 January 2021 in the CGST Rules, 2017, and limits the use of ITC (Input Tax Credit) available in the electronic credit ledger for discharging the output tax liability. Under this rule, 99% restriction is imposed on the ITC available in the electronic credit ledger of a Registered Person.

This implies that 1% of the output liability must be paid in cash.

This limitation is applicable when the value of taxable supply, excluding exempt and zero-rated supply, in a month exceeds Rs. 50,00,000. Hence, the limit must be checked every month before filing each return.

### EXCEPTIONS TO THE RULE

- If the persons mentioned below have paid more than Rs.1,00,000 as income tax under the Income Tax Act, 1961:
  - The Registered Person
  - Proprietor, Karta or Managing Director of the Registered Person
  - Any of the partners or whole-time directors or any other person as the case may be.
- If the registered person under concern has received a refund under GST of an amount greater than Rs.1,00,000 in the preceding financial year on account of export under LUT (Letter of Undertaking) or due to an inverted tax structure.
- If the registered person under concern has discharged his liability towards output tax by electronic cash ledger for an amount in excess of 1% cumulatively of the total output tax liability under GST up to the said month in the current financial year.
- If the registered person under concern is any of the following:
  - government department
  - public sector undertaking
  - local authority
  - statutory authority

The purpose of introducing this rule is to control the issue of fake invoices to use the fake ITC to discharge liabilities. Rule 86B is applicable only to the large taxpayers, hence there will be no impact on micro and small businesses.

## Queries?

If you have any queries about this article, please reach out to our experts:

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