

**Government of Karnataka  
(Department of Commercial Taxes)**

**No. KSA/GST.CR-05/2019-20**

**Office of the Commissioner of Commercial Taxes  
Vanijya Therige Karyalaya, Gandhinagar,  
Bengaluru-560009, Dated: 02-05-2019**

**COMMISSIONER OF COMMERCIAL TAXES CIRCULAR No. GST-03/2019-20**

**Subject: Clarification in respect of utilization of input tax credit under GST – Reg.**

Section 49 was amended and Section 49A and Section 49B were inserted vide Karnataka Goods and Services Tax (Amendment) Act, 2018 [hereinafter referred to as the KGST (Amendment) Act]. The amended provisions came into effect from 1<sup>st</sup> February 2019.

2. Various representations have been received from the trade and industry regarding challenges being faced by taxpayers due to bringing into force of section 49A of the Karnataka Goods and Services Tax Act, 2017 (hereinafter referred to as the KGST Act). The issue has arisen on account of order of utilization of input tax credit of Integrated tax in a particular order, resulting in accumulation of input tax credit for one kind of tax (say State tax) in electronic credit ledger and discharge of liability for the other kind of tax (say Central tax) through electronic cash ledger in certain scenarios. Accordingly, rule 88A was inserted in the Karnataka Goods and Services Tax Rules, 2017 (hereinafter referred to as the KGST Rules) in exercise of the powers under Section 49B of the KGST Act vide Notification (4-B/2019) No. FD 47 CSL 2017, dated 15<sup>th</sup> April, 2019. In order to ensure uniformity in the implementation of the provisions of the law, in exercise of powers conferred by section 168 (1) of the KGST Act, the issues raised are hereby clarified as below.

3. The newly inserted Section 49A of the KGST Act provides that the input tax credit of Integrated tax has to be utilized completely before input tax credit of Central tax / State tax can be utilized for discharge of any tax liability. Further, as per the provisions of section 49 of the KGST Act, credit of Integrated tax has to be utilized first for payment of Integrated tax, then Central tax and then State tax in that order mandatorily. This led to a situation, in certain cases, where a taxpayer has to discharge his tax liability on account of one type of tax (say State tax) through electronic cash ledger, while the input tax credit on account of other type of tax (say Central tax) remains un-utilized in electronic credit ledger.

4. The newly inserted rule 88A in the KGST Rules allows utilization of input tax credit of Integrated tax towards the payment of Central tax and State tax, in any order subject to the condition that the entire input tax credit on account of Integrated tax is completely exhausted first before the input tax credit on account of Central tax or State / State tax can be utilized. It

is clarified that after the insertion of the said rule, the order of utilization of input tax credit will be as per the order (of numerals) given below:

Input tax Credit on account of	Output liability on account of Integrated tax	Output liability on account of Central tax	Output liability on account of State tax / Union Territory tax
<b>Integrated tax</b>	(I)	(II) – In any order and in any proportion	
<b><i>(III) Input tax Credit on account of Integrated tax to be completely exhausted mandatorily</i></b>			
<b>Central tax</b>	(V)	(IV)	Not permitted
<b>State tax / Union Territory tax</b>	(VII)	Not permitted	(VI)

5. The following illustration would further amplify the impact of newly inserted rule 88A of the KGST Rules:

Illustration:

**Amount of Input tax Credit available and output liability under different tax heads**

Head	Output Liability	Input tax Credit
<b>Integrated tax</b>	1000	1300
<b>Central tax</b>	300	200
<b>State tax / Union Territory tax</b>	300	200
<b>Total</b>	1600	1700

Option 1:

Input tax Credit on account of	Discharge of output liability on account of Integrated tax	Discharge of output liability on account of Central tax	Discharge of output liability on account of State tax / Union Territory tax	Balance of Input Tax Credit
<b>Integrated tax</b>	1000	200	100	0
<b><i>Input tax Credit on account of Integrated tax has been completely exhausted</i></b>				
<b>Central tax</b>	0	100	-	100
<b>State tax / Union territory tax</b>	0	-	200	0
<b>Total</b>	1000	300	300	100

Option 2:

Input tax Credit on account of	Discharge of output liability on account of Integrated tax	Discharge of output liability on account of Central tax	Discharge of output liability on account of State tax / Union Territory tax	Balance of Input Tax Credit
<b>Integrated tax</b>	1000	100	200	0
<i>Input tax Credit on account of Integrated tax has been completely exhausted</i>				
<b>Central tax</b>	0	200	-	0
<b>State tax / Union territory tax</b>	0	-	100	100
<b>Total</b>	1000	300	300	100

6. Presently, the common portal supports the order of utilization of input tax credit in accordance with the provisions before implementation of the provisions of the KGST (Amendment) Act i.e. pre-insertion of Section 49A and Section 49B of the KGST Act. Therefore, till the new order of utilization as per newly inserted Rule 88A of the KGST Rules is implemented on the common portal, taxpayers may continue to utilize their input tax credit as per the functionality available on the common portal.

7. This circular is clarificatory in nature and cannot be made use of for interpretation of provisions of law. If any member of trade has any doubt, he may refer the matter to this office for further clarification. All the members of trade and industry are requested to follow the procedure laid down in this regard as per law and as per the contents of this circular.

  
(SRIKAR M.S.)

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