Kanu Doshi Group
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GST Update

ITC reversal on sale of used capital goods [Section 18(6) read with rule 40(2) of CGST Rules]

- If capital goods or plant and machinery on which ITC has been taken are supplied outward by the registered person, he must pay an amount that is the **higher** of the following:
  - ITC taken on such goods reduced by 5% per quarter of a year or part thereof from the date of issue Invoice for such goods (i.e. ITC pertaining to remaining useful life of the capital goods) or
  - Tax on transaction value of capital goods sold

- ITC pertaining to remaining useful life of the capital goods will be computed separately for ITC of CGST/SGST/UTGST and IGST.

- Where the amount so determined exceeds the tax payable on the transaction value of the capital goods, such amount will have to be paid and thus, will be added to the output tax liability

- If refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, the taxable person may pay tax on the transaction value.

Note : As per Section 2(92) of the CGST Act, "quarter" shall mean a period comprising three consecutive calendar months, ending on the last day of March, June, September and December of a calendar year.

Let's understand this with the help of below example.

Particulars	Amount
ITC on purchase of Capital Asset	2,80,000
Date of Purchase	20-08-2017
Date of Sale of Capital Asset	10-01-2018
Transaction Value	6,00,000
GST Rate	28%
Reversal required as per CGST Rules	(a) Amount as per 5% quarter or part of the quarter: 2,80,000*5%*3 (20.08.2017 to 10.01.2018) = 42,000 Amount of ITC to be reversed is (a) [Rs.2,80,000 - Rs.42,000] = Rs.2,38,000 OR (b) Tax on transaction value (Rs.6,00,000 *28%) = Rs.1,68,000 So answer is Rs. 2,38,000

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