

Rule 42 : Manner of determination of input tax credit in respect of inputs or input services and reversal thereof

(1) The input tax credit in respect of inputs or input services, which attract the provisions of sub-section (1) or sub-section (2) of section 17, being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies in the following manner, namely,-

- (a) the total input tax involved on inputs and input services in a tax period, be denoted as 'T';
- (b) the amount of input tax, out of 'T', attributable to inputs and input services intended to be used exclusively for purposes other than business, be denoted as 'T₁';
- (c) the amount of input tax, out of 'T', attributable to inputs and input services intended to be used exclusively for effecting exempt supplies, be denoted as 'T₂';
- (d) the amount of input tax, out of 'T', in respect of inputs and input services on which credit is not available under sub-section (5) of section 17, be denoted as 'T₃';
- (e) the amount of input tax credit credited to the electronic credit ledger of registered person, be denoted as 'C₁' and calculated as –

$$C_1 = T - (T_1 + T_2 + T_3);$$

- (f) the amount of input tax credit attributable to inputs and input services intended to be used exclusively for effecting supplies other than exempted but including zero rated supplies, be denoted as 'T₄';

¹[**Explanation**— For the purpose of this clause, it is hereby clarified that in case of supply of services covered by clause (b) of paragraph 5 of Schedule II of the said Act, value of T₄ shall be zero during the construction phase because inputs and input services will be commonly used for construction of apartments booked on or before the date of issuance of completion certificate or first occupation of the project, whichever is earlier, and those which are not booked by the said date.]

- (g) 'T₁', 'T₂', 'T₃' and 'T₄' shall be determined and declared by the

¹ Explanation inserted by Noti. No. 16/2019–Central Tax, dt. 29-03-2019 w.e.f. 01-04-2019.

Central Goods & Services Tax Rules, 2017

registered person ²[****] ³[at summary level in **FORM GSTR-3B**];

- (h) input tax credit left after attribution of input tax credit under clause ⁴[(f)] shall be called common credit, be denoted as 'C₂' and calculated as:

$$C_2 = C_1 - T_4;$$

- (i) the amount of input tax credit attributable towards exempt supplies, be denoted as 'D₁' and calculated as—

$$D_1 = (E \div F) \times C_2$$

where,

'E' is the aggregate value of exempt supplies during the tax period, and

'F' is the total turnover in the State of the registered person during the tax period:

- ⁵[**Provided** that in case of supply of services covered by clause (b) of paragraph 5 of Schedule II of the Act, the value of "E/F" for a tax period shall be calculated for each project separately, taking value of E and F as under:-

E = aggregate carpet area of the apartments, construction of which is exempt from tax plus aggregate carpet area of the apartments, construction of which is not exempt from tax, but are identified by the promoter to be sold after issue of completion certificate or first occupation, whichever is earlier;

F = aggregate carpet area of the apartments in the project;

Explanation 1.—In the tax period in which the issuance of completion certificate or first occupation of the project takes place, value of E shall also include aggregate carpet area of the apartments, which have not been booked till the date of issuance of completion certificate or first occupation of the project, whichever is earlier;

Explanation 2.—Carpet area of apartments, tax on construction

² The words "at the invoice level in **FORM GSTR-2** ^A[and" omitted by [Noti. No. 19/2022 - Central Tax, dt. 28-09-2022](#) w.e.f. 01-10-2022.

A. Inserted by Noti. No. 16/2019 – Central Tax, dt. 29-03-2019 w.e.f 01-04-2019.

³ Inserted by Noti. No. 16/2019 – Central Tax, dt. 29-03-2019 w.e.f 01-04-2019.

⁴ Substituted for "(g)" by [Noti. No. 16/2019–Central Tax, dt. 29-03-2019](#) w.e.f. 01-04-2019.

⁵ Proviso along with explanation inserted by [Noti. No. 16/2019–Central Tax, dt. 29-03-2019](#) w.e.f. 01-04-2019.

Central Goods & Services Tax Rules, 2017

of which is paid or payable at the rates specified for items (i), (ia), (ib), (ic) or (id), against serial number 3 of the Table in the notification No. 11/2017-Central Tax (Rate), published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) dated 28th June, 2017 vide GSR number 690(E) dated 28th June, 2017, as amended, shall be taken into account for calculation of value of "E" in view of Explanation (iv) in paragraph 4 of the notification No. 11/2017-Central Tax (Rate), published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) dated 28th June, 2017 vide G.S.R No. 690(E) dated 28th June, 2017, as amended.]

E) dated 28th June, 2017, as amended.]

[Provided further] that where the registered person does not have any turnover during the said tax period or the aforesaid information is not available, the value of 'E/F' shall be calculated by taking values of 'E' and 'F' of the last tax period for which details of such turnover are available, previous to the month during which the said value of 'E/F' is to be calculated;

Explanation – For the purposes of this clause, it is hereby clarified that the aggregate value of exempt supplies and total turnover shall exclude the amount of any duty or tax levied under entry 84 [and entry 92A] of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule inputs and input services are used partly for business and partly for non-business purposes, be denoted as 'D₂', and shall be equal to five per cent. of C₂; and

(k) the remainder of the common credit shall be the eligible input tax credit attributed to the purposes of business and for effecting supplies other than exempted supplies but including zero rated supplies and shall be denoted as 'C₃', where,-

$$C_3 = C_2 - (D_1 + D_2);$$

⁸(l) the amount "C₃" "D₁" and "D₂" shall be computed separately for

⁶ Substituted for "Provided" by N. No. 16/2019–Central Tax, dt. 29-03-2019 w.e.f. 01-04-2019.

⁷ Inserted by Noti. No. 03/2019-Central Tax, dt. 29-01-2019 w.e.f. 01-02-2019.

⁸ Clause (l) substituted by Noti. No. 16/2019–Central Tax, dt. 29-03-2019 w.e.f. 01-04-2019. Earlier to substitution it read as under:

"(l) the amount 'C₃' shall be computed separately for input tax credit of central tax, State tax, Union territory tax and integrated tax;"

Central Goods & Services Tax Rules, 2017

input tax credit of central tax, State tax, Union territory tax and integrated tax and declared in **FORM GSTR-3B** or through **FORM GST DRC-03**;

- (m) the amount equal to aggregate of 'D₁' and 'D₂' shall be ⁹[reversed by the registered person in **FORM GSTR-3B** or through **FORM GST DRC-03**];

Provided that where the amount of input tax relating to inputs or input services used partly for the purposes other than business and partly for effecting exempt supplies has been identified and segregated at the invoice level by the registered person, the same shall be included in 'T₁' and 'T₂' respectively, and the remaining amount of credit on such inputs or input services shall be included in 'T₄'.

- (2) ¹⁰[Except in case of supply of services covered by clause (b) of paragraph 5 of the Schedule II of the Act, the input tax credit] determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner prescribed in the said sub-rule and –
- (a) where the aggregate of the amounts calculated finally in respect of 'D₁' and 'D₂' exceeds the aggregate of the amounts determined under sub-rule (1) in respect of 'D₁' and 'D₂', such excess shall be ¹¹[reversed by the registered person in **FORM GSTR-3B** or through **FORM GST DRC-03**] in the month not later than the month of September following the end of the financial year to which such credit relates and the said person shall be liable to pay interest on the said excess amount at the rate specified in sub-section (1) of section 50 for the period starting from first day of April of the succeeding financial year till the date of payment; or
- (b) where the aggregate of the amounts determined under sub-rule (1) in respect of 'D₁' and 'D₂' exceeds the aggregate of the amounts calculated finally in respect of 'D₁' and 'D₂', such excess amount shall be claimed as credit by the registered person in his

⁹ Substituted for "added to the output tax liability of the registered person" by Noti. No. 16/2019–Central Tax, dt. 29-03-2019 w.e.f. 01-04-2019.

¹⁰ Substituted for "The input tax credit" by Noti. No. 16/2019–Central Tax, dt. 29-03-2019 w.e.f. 01-04-2019.

¹¹ Substituted for "added to the output tax liability of the registered person" by Noti. No. 16/2019–Central Tax, dt. 29-03-2019 w.e.f. 01-04-2019.

Central Goods & Services Tax Rules, 2017

return for a month not later than the month of September following the end of the financial year to which such credit relates.

- ¹²[(3) In case of supply of services covered by clause (b) of paragraph 5 of the Schedule II of the Act, the input tax determined under sub-rule (1) shall be calculated finally, for each ongoing project or project which commences on or after 1st April, 2019, which did not undergo or did not require transition of input tax credit consequent to change of rates of tax on 1st April, 2019 in accordance with notification No. 11/2017-Central Tax (Rate), dated the 28th June, 2017, published vide GSR No. 690(E) dated the 28th June, 2017, as amended for the entire period from the commencement of the project or 1st July, 2017, whichever is later, to the completion or first occupation of the project, whichever is earlier, before the due date for furnishing of the return for the month of September following the end of financial year in which the completion certificate is issued or first occupation takes place of the project, in the manner prescribed in the said sub-rule, with the modification that value of E/F shall be calculated taking value of E and F as under:

E = aggregate carpet area of the apartments, construction of which is exempt from tax plus aggregate carpet area of the apartments, construction of which is not exempt from tax, but which have not been booked till the date of issuance of completion certificate or first occupation of the project, whichever is earlier:

F = aggregate carpet area of the apartments in the project
and,-

- (a) where the aggregate of the amounts calculated finally in respect of "D₁" and "D₂" exceeds the aggregate of the amounts determined under sub-rule (1) in respect of "D₁" and "D₂", such excess shall be reversed by the registered person in **FORM GSTR-3B** or through **FORM GST DRC-03** in the month not later than the month of September following the end of the financial year in which the completion certificate is issued or first occupation of the project takes place and the said person shall be liable to pay interest on the said excess amount at the rate specified in sub-section (1) of section 50 for the period starting from the first day of April of the succeeding financial year till the

¹² Sub-rule (3), (4), (5) and (6) inserted by Noti. No. 16/2019-Central Tax, dt. 29-03-2019 w.e.f. 01-04-2019.

Central Goods & Services Tax Rules, 2017

date of payment; or

- (b) where the aggregate of the amounts determined under sub-rule (1) in respect of "D1" and "D2" exceeds the aggregate of the amounts calculated finally in respect of "D1" and "D2", such excess amount shall be claimed as credit by the registered person in his return for a month not later than the month of September following the end of the financial year in which the completion certificate is issued or first occupation takes place of the project.
- (4) In case of supply of services covered by clause (b) of paragraph 5 of Schedule II of the Act, the input tax determined under sub-rule (1) shall be calculated finally, for commercial portion in each project, other than residential real estate project (RREP), which underwent transition of input tax credit consequent to change of rates of tax on the 1st April, 2019 in accordance with notification No. 11/2017- Central Tax (Rate), dated the 28th June, 2017, published *vide* GSR No. 690(E) dated the 28th June, 2017, as amended for the entire period from the commencement of the project or 1st July, 2017, whichever is later, to the completion or first occupation of the project, whichever is earlier, before the due date for furnishing of the return for the month of September following the end of financial year in which the completion certificate is issued or first occupation takes place of the project, in the following manner.

- (a) The aggregate amount of common credit on commercial portion in the project ($C_{3\text{aggregate_comm}}$) shall be calculated as under,

$C_{3\text{aggregate_comm}} = [\text{aggregate of amounts of } C_3 \text{ determined under sub-rule (1) for the tax periods starting from 1st July, 2017 to 31st March, 2019,} \times (A_C / A_T)] + [\text{aggregate of amounts of } C_3 \text{ determined under sub-rule (1) for the tax periods starting from 1st April, 2019 to the date of completion or first occupation of the project, whichever is earlier}]$

Where, -

A_C = total carpet area of the commercial apartments in the project

A_T = total carpet area of all apartments in the project

- (b) The amount of final eligible common credit on commercial portion in the project ($C_{3\text{final_comm}}$) shall be calculated as under

$C_{3\text{final_comm}} = C_{3\text{aggregate_comm}} \times (E / F)$

Where, - been booked till the date of issuance of completion certificate or first occupation of the project, whichever is earlier.

Central Goods & Services Tax Rules, 2017

E = total carpet area of commercial apartments which have not been booked till the date of issuance of completion certificate or first occupation of the project, whichever is earlier.

F = A_C = total carpet area of the commercial apartments in the project

- (c) where, C_{3aggregate_comm} exceeds C_{3final_comm}, such excess shall be reversed by the registered person in **FORM GSTR-3B** or through **FORM GST DRC-03** in the month not later than the month of September following the end of the financial year in which the completion certificate is issued or first occupation takes place of the project and the said person shall be liable to pay interest on the said excess amount at the rate specified in sub-section (1) of section 50 for the period starting from the first day of April of the succeeding financial year till the date of payment;
 - (d) where, C_{3final_comm} exceeds C_{3aggregate_comm}, such excess amount shall be claimed as credit by the registered person in his return for a month not later than the month of September following the end of the financial year in which the completion certificate is issued or first occupation takes place of the project.
- (5) Input tax determined under sub-rule (1) shall not be required to be calculated finally on completion or first occupation of an RREP which underwent transition of input tax credit consequent to change of rates of tax on 1st April, 2019 in accordance with notification No. 11/2017-Central Tax (Rate), dated the 28th June, 2017, published *vide* GSR No. 690(E) dated the 28th June, 2017, as amended.
- (6) Where any input or input service are used for more than one project, input tax credit with respect to such input or input service shall be assigned to each project on a reasonable basis and credit reversal pertaining to each project shall be carried out as per sub-rule (3).]
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