

Treading the GST Path – XXXVIII

Inventory Write off

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Prudent accounting principles require that the value of slow moving / non moving inventory of raw materials should be written off in the books of accounts, so as to reflect the fair and true results of operations. Normally, depending upon the age of the inventory, a portion of the value is either written off / provision is created in the books of accounts. For example, for the stock of raw materials which are more than six months but less than one year old 25 % of the value may be written off / provided for; for inventory of age more than one year but less than two year, 50 % of the value may be written off / provided for; and so on.

In this connection, sub rule (5B) to Rule 3 of Cenvat Credit Rules, 2004 was introduced for the first time, vide, Notification 26/2007 CE NT Dt 11.05.2007, which read as,

If the value of any,

(i) input, or

(ii) capital goods before being put to use,

on which CENVAT Credit has been taken is written off fully or where any provision to write off fully has been made in the books of account, then the manufacturer shall pay an amount equivalent to the CENVAT credit taken in respect of the said input or capital goods :

Provided that if the said input or capital goods is subsequently used in the manufacture of final products, the manufacturer shall be entitled to take the credit of the amount equivalent to the CENVAT Credit paid earlier subject to the other provisions of these rules.

A new sub rule (5B) to Rule 3 was substituted vide Notification 16/2009 CE NT. Dt. 07.07.2009, to cover service providers also, which is reproduced below.

(5B) If the value of any,

(i) input, or

(ii) capital goods before being put to use,

on which CENVAT credit has been taken is written off fully or where any provision to write off fully has been made in the books of account, then the manufacturer or service provider, as the case may be, shall pay an amount equivalent to the CENVAT credit taken in respect of the said input or capital goods :

Provided that if the said input or capital goods is subsequently used in the manufacture of final products or the provision of taxable services, the manufacturer or output service provider, as the case may be, shall be entitled to take the credit of the amount equivalent to the CENVAT credit paid earlier subject to the other provisions of these rules."

It may be observed that by virtue of this rule, only when the value is fully written off, or a provision to write off full value is made, then only the question of reversal of credit would arise.

Subsequently, vide Notification No. 3/2011 CE NT Dt. 01.03.2011 the said rule was amended as below.

in sub-rule (5B), for the words and letters "on which CENVAT credit has been taken is written off fully or where any provision to write off fully has been made in the books of account then", the words and letters "on which CENVAT credit has been taken is written off fully or partially or where any provision to write off fully or partially has been made in the books of account then" shall be substituted with effect from the 1st day of March, 2011;

It may be observed from the above that even if the value of raw materials are written off / provision made for a partial value, the entire credit availed has to be reversed. But such credit can be availed again as and when the subject raw materials are used by the manufacturer or service provider subsequently.

Further, it has also been clarified vide Circular No. 990/14/2014 Dt. 19.11.2014 that the time limit of one year for taking credit, for taking re-credit of the amount reversed under Rule 3 (5B).

GST regime.

The corresponding legal provision is contained in Section 17 (5) (h) of the CGST Act, 2017, which is reproduced below.

Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely :—

(h) goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples.

In the absence of any qualifying words, viz., fully or partially, it has to be construed that the restriction on availing Input Tax Credit would arise only if the value is written off fully, as the word "written off" has to be understood as writing it off completely.

But, it may be noted that there are no provisions under the GST Act, for availing ITC as and when such goods which were originally written off are subsequently used for making any taxable outward supply in the course of or in furtherance business.

Further, the goods the value of which is written off (either fully or partially) before 01.07.2017 and hence the credit availed thereof is already reversed, are used subsequently for making taxable outward supplies post 01.07.2017, there is no provision by which the credit originally reversed can be availed again.

The above seems to be an omission and it is fervently hoped that the omission would soon be rectified.

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