GST on refund of unutilized input tax credit

Under GST law refund of unutilized input tax credit is allowed where credit accumulated as a result of the making of zero-rated supplies or where supplier furnishes liability that is not required and which lead to a claim in already paid GST. The input tax credit is a tax where the business pays while purchasing goods or supplies, and it may also be used to reduce tax liability when it makes a sale. Goods and Services Tax is an incorporated tax system in which every purchase by a business should be matched with a sale by another business.

As stated earlier, a refund of unutilized input tax credit may be allowed where zero-rated supplies are made without paying tax or in inverted duty structure. Zero-rating means that the entire supply chain of a zero-rated supply is tax-free. Tax is levied neither in the input tax side nor on the output tax side. A registered person under GST who makes zero-rated supply may claim a refund in case of the supply of goods and or services with respect to bond or letter of undertaking under certain conditions, safeguards and proceeds without paying the integrated tax. In another case where a person may claim a refund is when the supply is made after the payments of tax.

Under inverted duty structure if the rate of tax charged on inputs is more than the rate of tax levied on output supplies, in case of credit accumulation. Some of the exemptions are made where the unutilized input tax credit is not refunded like in a case where goods exported are subjected to export duty or where the supplier avails drawback with respect to central tax or refund claims of the integrated tax paid on supplies. The application for refund should be made within two years from the relevant date.

In case the goods are subjected to export duty while exporting or if the supplier avails of a drawback with respect to central tax or refund claims of the integrated tax paid on supplies, the unutilized tax credit will not be refunded. The formula for grant of refund on zero-rated supply is "Input tax credit refund amount= (turnover of zero-rated supply of goods + Turnover of zero-rated supply of services) x Net Input tax credit/adjusted total turnover".

As per section 54(5) of the CGST Act, the refund amount due to an applicant is credited to Consumer welfare fund by default. It is credited when the authorized officer is satisfied that the whole or part of refund claimed is refundable.

The processes of filing for a refund of unutilized input tax credit involve logging into GST portal and then click on application refund option. A refund application can only be made when a proper GST return is filed. Fill in the details, and the appropriate amount should also be mentioned. The maximum refund amount shall be calculated automatically on the basis of the entered amount. Then you can be able to submit the application. Claim for refund is filed with fewer documents and the amount shall be credited to the claimant's bank account.