

## Impact of GST Rate Reduction or Exemption on Input Tax Credit (ITC) – Effective 22.09.2025

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### 1. Where GST Rate is Reduced (but not zero) w.e.f. 22.09.2025

- **ITC already availed up to 21.09.2025** (on inward supplies at the higher rate) remains **valid** in the electronic credit ledger.
- **No reversal** of ITC is required merely due to rate reduction.
- There may be **accumulation of ITC**, since output liability will be at the lower rate but inputs may continue at higher rate.

### Refund in Inverted Duty Structure

- Refund of unutilized ITC under Section 54(3) is normally allowed where the GST rate on inputs is higher than on outputs.
- However, **Circular No. 135/05/2020-GST dated 31.03.2020** clarifies:
  1. **No refund is admissible** where the inverted duty ( where the output tax rate is less than the input tax rate) arises **merely due to tax rate reduction** by the Government.
  2. Refund of ITC in inverted duty cases is **permissible only to manufacturers**, where the input goods are used to manufacture a different output product.
  3. **Traders (mere resellers)** are **not eligible** for refund of accumulated ITC under inverted duty, since there is no change of the input into another distinct item.

### 2. Where GST Rate Becomes Zero (Exempt Supply) w.e.f. 22.09.2025

- As per **Section 17(2) read with Rule 42/43**, once supply becomes exempt, ITC attributable to such supply must be **reversed**.
- ITC already availed or balance available till 21.09.2025 relating to such exempted supplies is **required to be reversed** proportionately.
- **Refund of unutilized ITC is not allowed**, since exemption of output supply does not qualify for refund.

## Note on Departmental Circulars and Judicial Remedy

It is important to note that **departmental circulars are binding on the tax authorities but not binding on the taxpayers**. A taxpayer may challenge such circulars if they impose restrictions beyond the provisions of the CGST Act and Rules.

Where the **input tax credit involved is substantial** and cannot be reasonably adjusted against future output tax liability, the taxpayer has the option to **approach the jurisdictional High Court** by filing a writ petition, challenging the denial of refund or forced reversal of ITC.

The decision to litigate should, however, be based on a careful **cost-benefit analysis (economic feasibility)**, considering the legal expenses, time value of blocked funds, and chances of success.

- If the **economic benefit outweighs the litigation cost**, approaching the Court may be justified.
- On the other hand, unless the taxpayer is a **person of principle** and willing to litigate on broader legal grounds, pursuing court action may not be commercially viable for smaller amounts.