Reversal and Re-availment of Input Tax Credit (ITC) under GST: Legal Provisions and Practical Disclosure in GSTR-3B

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Input Tax Credit (ITC) under the GST regime is a conditional benefit, governed by statutory restrictions and compliance requirements under the CGST Act, 2017. This article examines the legal framework relating to reversal and re-availment of ITC, with a clear distinction between permanent reversals arising from inherent ineligibility, and temporary reversals triggered by procedural or compliance-related lapses. It provides a consolidated analysis of key provisions such as Sections 16 and 17, relevant rules, and their practical implications in GSTR-3B reporting. The article further explains the mechanism for disclosure, reversal, and subsequent re-claim of ITC in GSTR-3B, enabling taxpayers to ensure accurate compliance, reduce litigation risk, and maintain audit transparency.

Introduction

Input Tax Credit (ITC) is one of the fundamental features of the Goods and Services Tax (GST) regime, aimed at avoiding cascading of taxes. However, the entitlement to ITC under GST is not absolute and is subject to conditions, restrictions, and procedural compliances as prescribed under the CGST Act, 2017 and the rules made thereunder. Where such conditions are not satisfied, ITC is required to be reversed, either permanently or temporarily. The GST law also provides mechanisms for re-availment of ITC in certain situations, depending upon the nature of such reversal.

Types of Reversal of ITC under GST

Under GST law, ITC reversals can broadly be classified into two categories, based on the nature of ineligibility and the possibility of future compliance:

(i) Permanent Reversal of ITC

Permanent reversal refers to such ITC which is not eligible under the provisions of the GST law itself. The ineligibility arises due to statutory restrictions, and therefore, once such ITC is reversed, it can never be re-availed, irrespective of future events, usage or compliance. These reversals result in a permanent loss of credit to the registered person.

(ii) Temporary Reversal of ITC

Temporary reversal refers to ITC which is otherwise eligible in principle, but is temporarily restricted due to non-fulfilment of certain prescribed conditions under the GST law. Such reversals are compliance-based or procedural in nature, and once the relevant conditions are fulfilled, the ITC can be re-availed in a subsequent tax period in the manner prescribed.

Legal Provisions

(i) **Section 17(4) CGST Act, 2017 read with Rule 38 of the CGST Rules, 2017** provides a special optional scheme for banking companies and financial institutions, including NBFCs, engaged in accepting deposits or extending loans or advances. Such entities may opt to avail input tax credit (ITC) equal to 50% of the eligible ITC on inputs, capital goods, and input services every tax period, in lieu of proportionate reversal under Section 17(2). The remaining 50% of eligible ITC shall lapse permanently and cannot be reclaimed. The option, once exercised, is irrevocable for the remainder of the financial year. However, this restriction does not apply to tax paid on supplies received from another registered person having the

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same PAN. Rule 38 of the CGST Rules, 2017 prescribes the detailed mechanism for availing and reversing ITC under this scheme.

(ii) **Section 17(1) and 17(2) of the CGST Act, 2017 read with Rules 42 and 43 of the CGST Rules, 2017** restrict input tax credit to the extent attributable to taxable supplies and business purposes where goods or services are used partly for exempt supplies or non-business use. In respect of inputs and input services, Rule 42 of the CGST Rules, 2017 prescribes a formula-based monthly attribution and reversal of common credit, with annual final adjustment before the September return of the succeeding financial year. For capital goods, Rule 43 of the CGST Rules, 2017 mandates proportionate reversal of ITC over a deemed useful life of five years where such goods are commonly used for taxable and exempt supplies. The ITC attributable to exempt supplies or non-business use is required to be reversed periodically and constitutes a permanent reversal, with no provision for re-claim once reversed.

(iii) **Section 17(5) of the CGST Act, 2017** overrides Sections 16(1) and 18(1) of the CGST Act and specifies categories of blocked input tax credit, which are permanently ineligible under GST law. ITC is not available on motor vehicles for transportation of persons (with limited exceptions), vessels and aircraft, related insurance and maintenance services, food and beverages, outdoor catering, health and insurance services, club memberships, employee travel benefits, works contract services for construction of immovable property (other than plant and machinery), and goods or services used for own construction. Further, ITC is blocked on supplies taxed under the composition scheme, CSR-related activities, personal consumption, goods lost or disposed of as gifts or free samples, and tax paid under Section 74 of the CGST Act up to FY 2023–24 (Section 74A is applicable from FY 2024-25). Such blocked credits are absolute and non-reclaimable.

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(iv) **The second proviso to Section 16(2) of the CGST Act, 2017, read with Rule 37 of the CGST Rules, 2017** mandates that where a registered recipient fails to pay the supplier, other than in reverse charge cases, the value of supply along with applicable tax within 180 days from the date of invoice, the input tax credit (ITC) availed shall be reversed or paid back along with interest under Section 50, in the prescribed manner. Such reversal is required to be effected in the return for the tax period immediately following the expiry of 180 days and is applicable on a full or proportionate basis. Upon subsequent payment to the supplier, the recipient is entitled to re-avail the reversed ITC, and the time limit under Section 16(4) does not apply to such re-availment.

(v) **Section 16(2)(c) read with Section 41 CGST Act, 2017 and Rule 37A of the CGST Rules, 2017** provides that input tax credit (ITC) may be availed by a registered person on a self-assessment basis, subject to the condition that the tax charged on the supply is actually paid to the Government by the supplier. Where ITC has been availed on the basis of invoices furnished in FORM GSTR-1 but the supplier fails to furnish FORM GSTR-3B and discharge the tax liability by 30th September following the end of the relevant financial year, such ITC is required to be reversed by the recipient in FORM GSTR-3B on or before 30th November, along with applicable interest if delayed. The reversed ITC may be re-availed once the supplier subsequently furnishes FORM GSTR-3B and pays the tax.

(vi) **Section 16(6) of the CGST Act, 2017** provides relief to a registered person whose registration was cancelled under Section 29 and subsequently revoked under Section 30 or pursuant to an order of the Appellate Authority, Appellate Tribunal, or a court. Where input tax credit (ITC) in respect of an invoice or debit note was otherwise eligible and not barred under Section 16(4) as on the date of cancellation, such registered person is entitled to avail the said ITC in a return furnished under Section 39. The credit may be claimed up to the later of (i) 30th of November following the end of the relevant financial year or the date of furnishing the annual return, whichever is earlier, or (ii) within thirty days from the date of the order revoking the cancellation, for the period during which the registration remained cancelled.

(vii) **The First Proviso to Section 16(2) of the CGST Act, 2017** stipulates that where goods covered by a tax invoice are received in lots or instalments, input tax credit (ITC) shall be available to the registered person only upon receipt of the last lot or instalment of such goods. Accordingly, ITC cannot be availed proportionately or on receipt of partial consignments, even if the tax invoice has been issued for the entire quantity. This provision operates as a timing restriction and not as a permanent disallowance of credit. Once the final lot or instalment is received, ITC may be availed in the return furnished under Section 39, subject to fulfilment of other conditions prescribed under Section 16, including the time limit specified under Section 16(4).

(**Note:** The above provisions are summarized for understanding purposes, please refer relevant section and rule for detail)

Detailed Analysis of ITC Reversal and Re-claim Provisions

S. No.	Nature of ITC Reversal	Section*	Rule**	Re-Claim Allowed?	Remarks	Type of Reversal	When ITC can be Re-claimed / Re-availed
1	ITC under special scheme for banks / financial institutions	Section 17(4)	Rule 38	No	Banking companies or financial institutions opting for the 50% ITC scheme cannot claim the remaining ITC at any later stage.	Permanent	Not Applicable
2	ITC attributable to exempt supplies / non-business use (Inputs & Input Services)	Section 17(1) & 17(2)	Rule 42	No	ITC attributable to exempt supplies or non-business use is required to be reversed for every tax period.	Permanent	Not Applicable
3	ITC attributable to exempt supplies / non-business use (Capital Goods)	Section 17(1) & 17(2)	Rule 43	No	Proportionate ITC on capital goods used for exempt supplies is required to be reversed for every tax period.	Permanent	Not Applicable
4	Blocked Credits	Section 17(5)	—	No	ITC on motor vehicles, food & beverages, works contract services, personal consumption, etc., is completely ineligible under law.	Permanent	Not Applicable
5	Non-payment of consideration to supplier within 180 days	Second Proviso to Section 16(2)	Rule 37	Yes	ITC reversed along with applicable interest; re-availment permitted upon payment to supplier.	Temporary	On actual payment to supplier (full or proportionate), no time limit prescribed

S. No.	Nature of ITC Reversal	Section*	Rule**	Re-Claim Allowed?	Remarks	Type of Reversal	When ITC can be Re-claimed / Re-availed
6	Supplier failed to pay tax/file GSTR-3B	Section 16(2)(c) read with Section 41	Rule 37A	Yes	ITC initially availed on self-assessment basis; reversed if supplier defaults; re-availed once supplier furnishes GSTR-3B and discharges tax liability.	Temporary	No specific time limit prescribed; upon supplier filing GSTR-3B and payment of tax, subject to sub-section 11 of Section 39 restrict the furnishing of return after the expiry of a period of three years from the due date of furnishing the said return
7	Cancellation of registration and later revoked	Section 16(6)	—	Yes	ITC reversed/not claimed during cancellation; can be re-claimed/ claimed after revocation, subject to prescribed conditions.	Temporary	ITC may be claimed in a return under Section 39 up to 30th November of the following financial year or furnishing of the annual return, whichever is earlier, or for the cancellation period if the return is filed within 30 days from the revocation order, whichever is later
8	Goods received in lots/ instalments	First Proviso to Section 16(2)	—	Yes	ITC can be availed only upon receipt of the last lot or instalment.	Temporary	On receipt of last lot/instalment and subject to Section 16(4)

* Sections referred to above relates to Central Goods and Services Tax Act, 2017.

**Rules referred to above related to Central Goods and Services Tax (CGST) Rules, 2017.

> “Where input tax credit (ITC) in respect of an invoice or debit note was otherwise eligible and not barred under Section 16(4) as on the date of cancellation, such registered person is entitled to avail the said ITC in a return furnished under Section 39.”

Disclosure of ITC Reversal in GSTR-3B

The reversal of Input Tax Credit (ITC) is required to be appropriately disclosed in Part B of Table 4 of GSTR-3B to ensure correct reflection of eligible credit in the electronic credit ledger. Table 4B(1) is meant for reporting permanent reversals of ITC i.e. credit which is ineligible under the GST law itself and cannot be re-availed in the future, such as blocked credits or ITC attributable to exempt supplies. In contrast, Table 4B(2) is intended for reporting temporary reversals of ITC, where the credit is otherwise eligible but reversed due to non-fulfilment of prescribed conditions, such as non-payment to suppliers within 180 days or supplier default in payment of tax. This segregation ensures a clear distinction between permanent reversal and temporary reversal. The ITC reversed in Table 4B(2) will be reflected in the *“Electronic Credit Reversal and Re-claimed Statement”* on GST portal and the same can be re-availed in the future. Please refer to the extract of Table 4 of GSTR-3B:

4. Eligible ITC				
Details	**Integrated Tax**	**Central Tax**	**State/UT Tax**	**Cases**
A. ITC Available (whether in full or part)				
(1) Import of goods	0.00	0.00	0.00	0.00
(2) Import of services	0.00	0.00	0.00	0.00
(3) Inward supplies liable to reverse charge (other than 1 & 2 above)	0.00	0.00	0.00	0.00
(4) Inward supplies from ISD	0.00	0.00	0.00	0.00
(5) All other ITC	0.00	0.00	0.00	0.00
B. ITC Reversed				
(1) As per rules 38, 42 & 43 of CGST Rules and section 17(5)	0.00	0.00	0.00	0.00
(2) Others	0.00	0.00	0.00	0.00
C. Net ITC available (A-B)	**0.00**	**0.00**	**0.00**	**0.00**
D. Other Details	**0.00**	**0.00**	**0.00**	**0.00**
(1) ITC reclaimed which was reversed under Table 4(B)(2) in earlier tax period	0.00	0.00	0.00	0.00
(2) Ineligible ITC under section 16(4) & ITC restricted due to PoS rules	0.00	0.00	0.00	0.00

- Permanent reversal and cannot be re-claimed/re-availed in future.
- Temporary reversal and can be re-claimed/re-availed in future.

Re-claim/Re-availment of ITC in GSTR-3B

Where ITC has been temporarily reversed in an earlier tax period and disclosed in Table 4B(2) of GSTR-3B, and the prescribed conditions are subsequently fulfilled, the registered person becomes eligible to re-avail such ITC. The re-claim or re-availment of ITC is required to be reported in Table 4D(1) and Table 4A(5) of GSTR-3B, which captures ITC reclaimed that was earlier reversed. This mechanism ensures that only eligible credit is restored to the electronic credit ledger and provides a clear audit trail linking the earlier reversal with its subsequent re-availment, thereby ensuring consistency and transparency in ITC reporting. Please refer to the extract of Table 4 of GSTR-3B below:

4. Eligible ITC				
Details	**Integrated Tax**	**Central Tax**	**State/UT Tax**	**Cases**
A. ITC Available (whether in full or part)				
(1) Import of goods	0.00	0.00	0.00	0.00
(2) Import of services	0.00	0.00	0.00	0.00
(3) Inward supplies liable to reverse charge (other than 1 & 2 above)	0.00	0.00	0.00	0.00
(4) Inward supplies from ISD	0.00	0.00	0.00	0.00
(5) All other ITC	0.00	0.00	0.00	0.00
B. ITC Reversed				
(1) As per rules 38, 42 & 43 of CGST Rules and section 17(5)	0.00	0.00	0.00	0.00

4. Eligible ITC				
Details	**Integrated Tax**	**Central Tax**	**State/UT Tax**	**Cases**
(2) Others	0.00	0.00	0.00	0.00
C. Net ITC available (A-B)	**0.00**	**0.00**	**0.00**	**0.00**
D. Other Details	**0.00**	**0.00**	**0.00**	**0.00**
(1) ITC reclaimed which was reversed under Table 4(B) (2) in earlier tax period	0.00	0.00	0.00	0.00
(2) Ineligible ITC under section 16(4) & ITC restricted due to PoS rules	0.00	0.00	0.00	0.00

Conclusion

The provisions relating to the reversal and re-claim of Input Tax Credit (ITC) under GST underscore the principle that while ITC is a substantive benefit, it is strictly governed by statutory conditions and compliance requirements. A clear distinction between permanent reversals and temporary reversals is crucial, as permanent reversals result in an irreversible loss of credit due to inherent ineligibility under the law, whereas temporary reversals merely represent timing or compliance-related restrictions, allowing re-availment once the prescribed conditions are fulfilled. Proper classification, accurate disclosure in Table 4B(1) and 4B(2) of GSTR-3B and timely re-claim through Table 4D(1) are essential to ensure correctness of the electronic credit ledger, avoid litigation, and maintain audit transparency. A sound understanding of these provisions enables registered persons to optimize eligible ITC, ensure robust compliance, and effectively manage GST risks.

References

- *Central Goods and Services Tax (CGST) Act, 2017*
- *Central Goods and Services Tax (CGST) Rules, 2017*
- *GST portal "https://www.gst.gov.in/"*

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