



**BLOCKED
ITC**

Blocked Credit: Introduction

Introduction

- ▶ Goods and Services Tax (GST) was introduced in India to streamline the indirect tax system and ensure seamless input tax credit (ITC) across the supply chain. However, to prevent misuse and ensure fairness, certain ITC claims are restricted under Section 17(5) of the Central Goods and Services Tax (CGST) Act, 2017.
- ▶ Understanding blocked credit is essential for businesses to ensure compliance, avoid penalties, and accurately assess their tax liabilities.

What is blocked credit?

- ▶ Blocked credit refers to specific goods and services on which a taxpayer is not allowed to claim ITC, even though GST has been paid on the purchase.
- ▶ The blocked credit provisions impact various sectors, including transportation, construction, hospitality, and employee welfare.

Understanding blocked credit with accounting entries

- ▶ GST is neither an expense nor income for the business entity only when ITC is availed but if ITC is blocked then it becomes an expense for the business. Section 17 (5) of CGST Act, 2017, deals with blocked credit and this section has listed out few transactions on which ITC is not allowed.
- ▶ Let's assume that X Ltd. (engaged in manufacturing of textile garments) has carried out all the transactions which are listed under section 17 (5) of CGST Act, 2017.

The following table explains the accounting entries and their effect on the revenue statement (Profit and Loss A/c) of X Ltd,

Sr. No.	Particulars (All payment made by cheque)	Accounting Entries (GST amount shall be added to value of supply received)	Effect on Revenue Statement
1	Purchased Honda City car for its finance officer (Rs. 10,00,000 plus GST @ 28% from local dealer)	Assets (Car) A/c Dr. 12,80,000 To Bank A/c Cr. 12,80,000 (Being payment made on acquisition of Honda City car)	Depreciation will be charged during the life span of the car in P&L A/c which includes blocked credit amount.
2	Repairing of vehicles (Rs. 10000 plus GST @ 18%)	Repair Expense A/c Dr. 11,800 To Bank A/c Cr. 11,800 (Being payment made for repairing the vehicles)	Repair expense of Rs.11,800 will be charged to P&L A/c and hence profit will also be reduced by GST amount of Rs. 1,800.

Blocked Credit: Examples

What types of goods and services go through blocked credit?

1. Motor vehicles and conveyances



- ▶ ITC is not allowed on motor vehicles used for personal purposes. (If the seating capacity is more than 13 then ITC is allowable but used in the course or furtherance of business)
- ▶ ITC is allowed in cases where vehicles are used for transportation of goods, passenger transportation services, training, or further supply of such vehicles.

2. Works contract services



- ▶ ITC is not allowed on works contract services used for constructing an immovable property (like buildings, offices, or factories).
- ▶ ITC can be claimed if the works contract is for further supply of works contract services.

3. Personal use items



- ▶ ITC is not allowed on goods/services used partly or fully for personal consumption.
- ▶ Example : A business owner purchasing office furniture for home use cannot claim ITC.

4. Goods lost, stolen, destroyed , or given as gifts



- ▶ ITC is not allowed on goods that are:
 - Lost
 - Stolen
 - Destroyed
 - Written off
 - Given as free samples
- ▶ No exceptions (ITC is always blocked).

After understanding all the cases which are shown in the above table, we can reply to the following questions:

Q. Do blocked credit transactions require passing of accounting entry with CGST & SGST or IGST?

Ans. No. Blocked credit transactions don't require accounting entry with CGST & SGST or IGST as total GST amount paid to supplier is added to the value of supply received (i.e. cost of supply received).

Q. Can a registered person claim have blocked credit amount for deduction in the Profit and Loss A/c?

Ans. Yes. The amount of blocked credit can be claimed as deduction in Profit and Loss A/c after passing the accounting entry.

Q. What is the eligibility of ITC on elevators and escalators?

Ans. ITC allowed when Elevators or escalators are treated as "plant and machinery" and not capitalized as immovable property. Also They are used in the course or furtherance of business, such as in factories or warehouses for operational purposes. However this matter requires additional verification based on facts.

Q. ITC eligibility when a portion of inventory is damaged due to floods - how to reverse credit also?

Ans. ITC is not allowed on Goods that are lost, stolen, destroyed, written off, or disposed of by way of gift or free samples. If ITC was already claimed on the damaged goods, you need to reverse the proportionate credit through your GSTR-3B return.

The Finance Bill 2025 amendment removes uncertainty in claiming Input tax credit on capitalized plant and machinery but continues to block credit for immovable property construction.

Q. Is Input Tax Credit (ITC) available on employee benefits such as health insurance under GST?

Ans. Generally, ITC on health insurance and other employee-related benefits is not available, which blocks ITC on goods or services used for personal consumption.

However, ITC may be allowed in the following cases:

- If providing health insurance is mandated by law (e.g., under the Factories Act)
- The employer can establish a nexus with business operations and show that it's not for personal consumption but a statutory/business requirement.

Conclusion

Under GST, businesses cannot claim input tax credit (ITC) on the construction of buildings, even if used for business purposes. This increases costs, as the GST paid on materials like cement and steel becomes a business expense instead of a refundable credit.

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