

## **GST Treatment of input becoming waste or scrap:**

### **Situation:**

A taxpayer obtains tax paid input used or intended to be used in the course or furtherance of business. ITC is availed on such input. However, the input (or any part of it) is removed as scrap at a nominal value on payment of tax at the rate which is lower than the rate of tax levied on the input.

Whether it can have any impact on the quantum of ITC availed by the Tax Payer--

### *Comments:*

There could be different scenarios in the context of which the issue can be considered.

### **Scenario 1:**

Input is put for the intended use, say, for the manufacture of the final product and during the process, the waste or scrap arises which is cleared against some consideration.

In this case, the quantum of ITC taken on input remains unaffected. However, the tax will be payable on the waste or scrap if otherwise marketable and also classifiable under any particular tariff heading. The rate applicable on waste or scrap will have no relevance or bearing on the amount of ITC taken on the basis thereof.

### **Scenario 2:**

The input, due to prolonged non-use or for any other reason, becomes obsolete or non-usable and the value thereof is written-off.

In this case, Section 17(5)(h) will come into play and the proportionate ITC will be required to be reversed.

### **Scenario 3:**

The input, due to non-use for any reason, becomes scrap and removed on payment of tax which is lower than the quantum of ITC taken thereon. However, in the Books of Accounts, the input is not written off but the loss is booked towards the difference in the purchase cost of the input and the selling price thereof in the form of scrap.

In such a case, Section 17(5)(h) is not attracted. The payment of tax on the input removed as scrap is sufficient and the quantum of ITC availed originally on the input remains unaffected and cannot be varied.

### **Scenario 4:**

Input is supplied as such (trading) at a price on the payment of tax which may be lower or higher than the quantum of ITC availed thereon.

In such a case, the ITC originally taken remains unaffected. It is a simple case of someone indulging into a trading activity and incurring a loss or a profit in a transaction.

Riders:

1. If the waste or scrap is not marketable and/ or not classifiable under any heading, can it still attract the levy of tax?

No

2. What if the TP has to pay a reverse consideration to the agency (scrap dealer, etc.) for lifting and removing the scrap from the premises? Can the ITC be denied merely on the ground that the scrap (original input) has been removed without payment of tax

No (except where the provision of Section 17(5)(h) stands attracted).

3. While the concept of 'manufacture', as a 'taxable event' has become irrelevant under GST, can it be said that the concept of 'marketability' has also lost its relevance for the purpose of determining the issue of taxability of any goods being supplied by a person.

Need further discussion in light of the facts and various judicial pronouncements.....