CARDAMOM PLANTERS' ASSOCIATION COLLEGE

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# Input Tax Credit

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# Input Tax credit

An Input Tax credit (ITC) allows business to reduce the tax they've paid on their inputs from the tax they owe on their outputs. this concept is primarily used in value - added tax (VAT) and goods and services tax (GST) systems

In essence

1. Business Purchases:

When a business buys goods or services for production or resale, it pays a tax on those purchase. This is the input tax

2. Output Tax

When the business sells goods or services it collects tax from customer. This is the output tax

3. ITC Mechanism

The business can claim a cred for the Input tax paid, reducing the total tax liability by offsetting it against the output tax. So, they only pay the difference, if any between out and Input Tax

**Example of ITC**

If a business pays $100 in input tax on raw materials and collects $150 in output tax from sales, it can offset the input tax, paying only $50 in taxes to the government.

**Benefits of ITC**

* Avoids Double Taxation
* Reduces cost Burden

**Eligibility for ITC**

Each Jurisdiction may have specific rules, but typically, ITC can only be claimed on goods or services directly related to taxable supplies and used for business purposes.

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