Whether GST ITC balance can be added to Closing stock? [Sec 145A of ITA’61 – Sec 277 of ITA’25]

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Many a times, a confusion is there in the minds of the AOs whether the ITC/CENVAT Balance at the year-end shall be added to the closing stock u/s 145A as unutilzed balance of taxes. Now, there can be 2 methods to account for ITC/CENVAT Closing balance –

1. Inclusive method – Including the GST/Excise Duty in the value of purchase as well as stock

2. Exclusive method – Not Including the GST/Excise Duty in the value of purchase as well as stock

Incase the assessee follows the exclusive method the ITC/CENVAT balance cannot be added to the value of closing stock. In the exclusive method of accounting, the excise duty, GST etc. are excluded both from purchase as well as from the sales and closing stock remaining at the end of financial year and therefore the financial results continue to reflect true and correct picture without any under-reporting of income. Once the closing stock determined by exclusive method is distorted by increase in its value on account of excise duty component etc. the corresponding adjustments will have to be necessarily made in sales as well as in purchases and opening stock etc. to make it inclusive. Thus, such exercise has no impact on the ultimate financial results.

Hence, like earlier judgements, even in the case of THE DCIT, CIRCLE-4(1)(2), AHMEDABAD Vs VOLTAMP TRANSFORMERS LTD [2023-VIL-493-ITAT-AHM], it was held that no addition can be made under Section 145A of the IT Act of ITC/CENVAT Balance at the year end.

LET'S DISCUSS FURTHER!

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