

ITC ON GST PAID ON REPAIR OF VEHICLES BY INSURANCE COMPANIES

Dear Friends,

As you are aware that an insurance company insures various types of motor vehicles and indemnify financial losses in case of happening of any event as may be specified. There are various types of products related to motor vehicles by various insurance companies in the market. These insurance companies generally pay repair charges of vehicles to the garages in two ways one Cashless and other by reimbursement of payment done by the insured to the garage.

In Cashless payment generally payment held to net-work garages by the insurance companies directly, since invoices generally raised in the name of insurance companies on the basis of report of surveyor/inspector. On other hand in case of non-network garages , insurance companies reimburse repair cost to the insured after insured paid to garages out of his/her pocket and invoices issued in the name of insurance companies.

Insurers are generally taking ITC on GST paid for repair services related to vehicles in Cashless as well as reimbursement mode of payment.

WHAT IS INPUT TAX CREDIT

Since GST Act is known as a law which provides seamless flow of input tax in each stage of supply. You can avail setoff of GST paid for input service/purchase of goods against GST paid on out put services/goods.

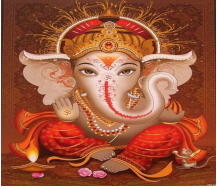
Under GST law, input tax credit can be availed by the registered person on the inward supplies of goods/services used/intend to be used in course of business of making taxable supplies/zero-rated supplies. ITC is eligible except on the specified list of blocked credit set out in section 17(5).

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com



ITC ON INSURANCE IN RESPECT OF

- *Motor vehicles for transport of persons [with approved seating capacity of 13 or less [including driver] is available as follows: When used for specified purposes - onward supply of vehicle/supply of transport of passengers/training services on motor vehicle driving;*
- *Allowed for manufacturer of Motor Vehicle + to supplier of general insurance services-of Motor vehicle insured by him;*
- *For motor vehicle with approved seating capacity of more than 13 persons, no restrictions on availing vehicle related credit on insurance of such vehicle;*
- *For Goods transport vehicle-no restriction on Insurance ITC.*

WHAT ARE BLOCK CREDITS?

Section 17(5) of CGST Act refers to a specific provision under GST covering blocked credits or ineligible ITC. The taxpayer cannot claim ITC while paying output tax when they make purchases listed in this provision.

This provision provides a list of 11 clauses on which ITC is not available for claims. Section 17 (5) of CGST Act overrides provisions of Section 16(1) “Availability of ITC in general when used for business” and Section 18(1) “ITC availability in special cases”.

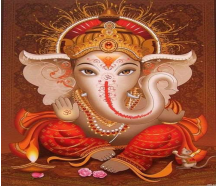
PLEASE NOTE THAT: *Expenses done on repairs or maintenance or payment of insurance premium on such Assets that are already under the blocked ITC list, ITC on such expenses can also not be claimed.*

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com



However the input tax credit in respect of such services shall be available – Where received by a taxable person engaged in:

(a) Expenses incurred by a taxable person who is engaged in manufacturing of such motor vehicles, vessels or aircraft; or

(b) Expenses incurred by a taxable person who is engaged in further supply of general insurance services in respect of such motor vehicles, vessels or aircraft insured by him.

Examples: 1. ITC on cars purchased by a manufacturing company for official use of its employees is blocked.

2. ITC on cars purchased by a car dealer for sale to customers is allowed.

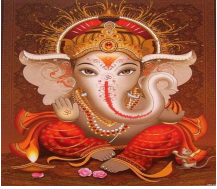
PLEASE NOTE THAT: *ITC on health insurance and life insurance services are not available. In case of general insurance services, ITC is available only in those cases where registered person used input services in furtherance its output services. ITC claimed by insurance companies on repairs /maintenance of motor vehicles are allowed provided that invoice made in the name of insurance company.*

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com



THE CBIC THROUGH ITS CIRCULAR NO. 217/11/2024-GST DATED 26TH JUNE, 2024 on Entitlement of ITC by the insurance companies on the expenses incurred for repair of motor vehicles in case of reimbursement mode of insurance claim settlement-reg. has clarified the matter as follows;

ISSUE NO. 1 The insurance companies, which are engaged in providing general insurance services in respect of insurance of motor vehicles, insure the cost of repairs/ damages of motor vehicles incurred by the policyholders and settle the claims in two modes i.e., Cashless or Reimbursement. Whether ITC is available to insurance companies in respect of repair expenses reimbursed by the insurance company in case of reimbursement mode of claim settlement.

CLARIFICATION: Under reimbursement mode of claim settlement, the insured avails repair services from non-network garages with which the insurance companies do not have routine business relationship. The said garages issue the invoice in the name of the insurance company while not extending credit facility for the repair costs. Accordingly, the policy holder/ insured makes payment of such repair services, and subsequently, the insurance company reimburses the approved claim cost to the insured.

Section 17(5) of the CGST Act provides that ITC in respect of services of repair of motor vehicles shall be available where received by a taxable person engaged in the supply of general insurance services in respect of motor vehicles insured by him.

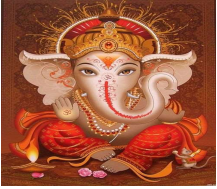
Section 16 of CGST Act provides that every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49 of the said Act, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person.

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com



Further, section 2(93) of CGST Act defines “recipient” of supply of goods or services or both, as the person who is liable to pay the consideration, where such consideration is payable for the said supply of goods or services or both.

Moreover, as per section 2(31) of CGST Act, “consideration” includes any payment made or to be made in relation to supply of the goods or services or both, whether by the recipient or by any other person.

IN REIMBURSEMENT MODE OF CLAIM SETTLEMENT, the payment is made by the insurance company for the approved cost of repair services through reimbursement to the insured. Further, irrespective of the fact that the payment of the repair services to the garage is first made by the insured, which is then reimbursed by the insurance company to the insured to the extent of the approved claim cost, the liability to pay for the repair service for the approved claim cost lies with the insurance company, and thus, the insurance company is covered in the definition of “recipient” in respect of the said supply of services of vehicle repair provided by the garage under section 2(93) of CGST Act, to the extent of approved repair liability.

Moreover, availment of credit in respect of input tax paid on motor vehicle repair services received by the insurance company for outward supply of insurance services for such motor vehicles is not barred under section 17(5) of CGST Act.

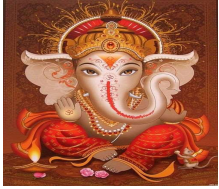
Accordingly, it is clarified that ITC is available to Insurance Companies in respect of motor vehicle repair expenses incurred by them in case of reimbursement mode of claim settlement.

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com



ISSUE NO. 2 *Where the invoice raised by the garage also includes an amount in excess of the approved claim cost, the insurance company only reimburses the approved claim cost to the garage after considering the standard deductions viz. the compulsory deductibles to be borne by the insured, depreciation, improvements outside the coverage, value of salvage of the damaged parts of the motor vehicles, etc. The remaining amount is to be paid by the insured to the garage. What is the extent of ITC available to the insurer in such cases?*

CLARIFICATION: *In cases where the garage issues two separate invoices in respect of the repair services, one to the insurance company in respect of approved claim cost and second to the customer for the amount of repair service in excess of the approved claim cost, input tax credit may be available to the insurance company on the said invoice issued to the insurance company subject to reimbursement of said amount by insurance company to the customer.*

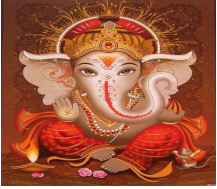
In cases where the garage issues two separate invoices in respect of the repair services, one to the insurance company in respect of approved claim cost and second to the customer for the amount of repair service in excess of the approved claim cost, input tax credit may be available to the insurance company on the said invoice issued to the insurance company subject to reimbursement of said amount by insurance company to the customer.

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com



ISSUE NO. 3 Whether ITC is available to the insurer where the invoice for the repair of the vehicle is not in name of the insurance company.

CLARIFICATION: In such a case, condition of clause (a) and (aa) of section 16(2) of CGST Act is not satisfied and accordingly, input tax credit will not be available to the insurance company in respect of such an invoice.

Sec 16- Eligibility and conditions for taking input tax credit;

(2) Notwithstanding anything contained in this section, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless,--

(a) he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;

(aa) The mandatory implementation of **section 16(2) (aa)** has taken effect from January 1, 2022. According to the section, a registered recipient **CAN ONLY TAKE ITC IF** the vendor has uploaded such an invoice in his GSTR-1 and the same is **communicated through GSTR 2B**. This section has amended rule 36(4) to state that provisional ITC will no longer be allowed on non-uploaded invoices. **Every invoice (only if uploaded) qualifies for ITC.**

(b) he has received the goods or services or both.

Explanation.—For the purposes of this clause, it shall be deemed that the registered person has received the goods where the goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to goods or otherwise;

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com



(c) subject to the provisions of section 41, the tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of input tax credit admissible in respect of the said supply; and

(d) he has furnished the return under section 39: Provided that where the goods against an invoice are received in lots or instalments, the registered person shall be entitled to take credit upon receipt of the last lot or instalment:

Provided further that where a recipient fails to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of one hundred and eighty days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be added to his output tax liability, along with interest thereon, in such manner as may be prescribed:

Provided also that the recipient shall be entitled to avail of the credit of input tax on payment made by him of the amount towards the value of supply of goods or services or both along with tax payable thereon.

CONCLUSION: *from above it is clear that ITC on repair/maintenance charges is available to insurance companies on below mentioned conditions;*

- 1. The supplier (i.e. garages) should be registered person;*
- 2. The invoice shall be in name of insurance company;*
- 3. The supplier has declare invoices raised in his/her GSTR-1;*
- 4. The invoices should be reflected in GSTR-2B of insurance company.*
- 5. GST INPUT in case of reimbursement should be available to the extent claim /expense approved by surveyor/loss accessor.*

DISCLAIMER: *the article presented here is only for sharing information with readers. in case of necessity do consult with professional.*

CS DEEPAK P. SINGH

(B.Sc. LLB FCS FIII CIAFP)

Mobile No. +91 9920830041/7506904961

Email ID: cs.deepakpsingh@gmail.com/ask.csdeepakpsingh@gmail.com