GSTZONE

Paying Tax

How the money actually moves

The complete guide, plus all 18 sections and rules

Text sourced from the Central Board of Indirect Taxes and Customs

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A Khemchandani Finance initiative

Start here

GST runs on three ledgers. The credit ledger holds input tax credit. The cash ledger holds money you have actually deposited. The liability ledger records what you owe. Payment is simply the act of moving from the first two into the third.

The rule that surprises people: credit can only pay output tax. Interest, penalty and late fee must come from cash, no matter how large your credit balance. A business can be sitting on lakhs of unused credit and still have to find cash for a ₹5,000 late fee.

Rule 86B adds a further restriction for larger businesses: if your monthly taxable supply exceeds ₹50 lakh, at least 1% of the liability must be paid in cash, unless you fall within one of the exceptions.

A worked example

Why a business with credit still had to find cash

Unused input tax credit balance	**₹4,20,000**	Sitting in the credit ledger
Output tax for the month	**₹3,10,000**	Fully paid from credit
Interest and late fee for a delayed return	**₹18,400**	Must be paid in cash

> **The point:** ₹1.1 lakh of credit left over, and the business still had to deposit ₹18,400 in cash. Credit and cash are not interchangeable, and treating them as if they are is how businesses miss deadlines.

The mistakes that cost people money

- Budgeting interest and penalty against your credit balance. They are cash-only, always.
- Missing Rule 86B in a month where taxable supply crossed ₹50 lakh, when the previous months were below it. The rule is tested month by month.
- Paying under the wrong head. Money in the cash ledger under CGST cannot simply be used for SGST without a formal transfer.

What this guide covers

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Every provision, explained

SECTION 49 · CGST ACT, 2017

Payment of tax, interest, penalty and other amounts

Section 49 sets up three ledgers: the electronic cash ledger (money you deposit), the electronic credit ledger (your ITC), and the electronic liability register. The cash ledger can pay any dues; the credit ledger can pay output tax only - never interest, penalty or late fee. ITC is set off in a fixed order (IGST credit first). You can transfer balances within the cash ledger (PMT-09).

- Credit ledger pays OUTPUT TAX only. Interest, penalty, late fee and any reverse-charge liability must come from the cash ledger - a client who thinks his credit balance covers interest will be short.
- Utilisation order (Rule 88A): IGST credit must be exhausted first, towards IGST and then in any order towards CGST and SGST; only then may CGST or SGST credit be used. CGST credit can never pay SGST and the reverse.
- Rule 86B: where monthly taxable turnover exceeds Rs 50 lakh, at least one per cent of the output tax must be paid in cash, with the income-tax and refund-history exceptions.
- PMT-09 transfers a cash-ledger balance between heads and between distinct persons on the same PAN - useful before writing a refund application for a wrong-head deposit.
- Payment is complete only when the amount is debited on filing the return; a deposit sitting in the cash ledger does not stop interest.

SECTION 49A · CGST ACT, 2017

Utilisation of input tax credit subject to certain conditions

Integrated tax credit must be fully used before central or State tax credit can be used to pay any output tax - the statutory basis for the IGST-first rule. Read with section 49B and Rule 88A, which relax the order within IGST utilisation.

- Read with Rule 88A, which softens the sequence: IGST credit must go to IGST first, but the balance may then be applied to CGST and SGST in any order.

SECTION 49B · CGST ACT, 2017

Order of utilisation of input tax credit

Lets the Government prescribe the order and manner of using input tax credit - the power under which Rule 88A allows IGST credit to be set against CGST and SGST in any order once IGST liability is met.

- The enabling power for Rule 88A and for any future change to the order of utilisation.

SECTION 50 · CGST ACT, 2017

Interest on delayed payment of tax

Section 50 charges interest of up to 18% a year on tax paid late, from the day after the due date. For a belated GSTR-3B (before any demand proceeding) the interest applies only to the tax actually paid in cash, not the part set off by ITC. Wrongly availed ITC that has also been utilised carries interest up to 24%.

- Notified rates (Notification 13/2017-Central Tax): 18 per cent under section 50(1) and 24 per cent under section 50(3) for credit wrongly availed AND utilised.
- The net-cash proviso to 50(1) is retrospective to 01-07-2017 - interest on a belated GSTR-3B runs only on the portion discharged in cash, provided no proceeding under section 73 or 74 has begun for that period.
- Rule 88B: where the liability is declared in a return filed late, interest runs on the cash portion for the period of delay; in every other case it runs on the whole unpaid tax from the due date.
- Credit wrongly availed but NOT utilised carries no interest, and utilisation is judged by whether the credit ledger balance fell below the wrongly availed amount - a point worth arguing on facts.
- Interest is automatic and needs no separate order, but it must still be computed correctly - a demand that applies 24 per cent to unutilised credit is wrong on its face.

SECTION 51 · CGST ACT, 2017

Tax deduction at source

Section 51 requires notified persons (government departments, PSUs, local authorities, certain bodies) to DEDUCT TAX AT SOURCE (TDS) at 2% (1%+1%) where a contract's taxable value exceeds Rs 2.5 lakh, deposit it, and file a monthly return (GSTR-7); the supplier claims it in the cash ledger.

- Two per cent (1 CGST + 1 SGST) where the taxable value of a CONTRACT exceeds Rs 2.5 lakh - the test is the contract value, not the individual invoice or payment.
- No deduction where the supplier's location and the place of supply are in a State different from that of the recipient - the classic exclusion that stops TDS on inter-State supplies to a department registered elsewhere.
- From 10-10-2024 a registered person receiving supplies of METAL SCRAP from another registered person must also deduct under section 51 (Notification 25/2024-Central Tax) - this pulled ordinary businesses, not just government bodies, into TDS.
- GSTR-7 is due monthly by the 10th and must be filed even for a nil month since 16-08-2024; the deductee sees the credit in his cash ledger.
- Tax is deducted on the value EXCLUDING the GST shown on the invoice.

SECTION 52 · CGST ACT, 2017

Collection of tax at source

Section 52 requires e-commerce operators to COLLECT TAX AT SOURCE (TCS) at 0.5% (0.25%+0.25%) on the net value of taxable supplies made through them by other suppliers, deposit it, and file GSTR-8; the seller gets the credit.

- The rate was halved to 0.5 per cent (0.25 CGST + 0.25 SGST) with effect from 10-07-2024 (Notification 15/2024-Central Tax).
- TCS is on the NET value of taxable supplies - supplies returned are deducted from supplies made in the month.
- The operator files GSTR-8 by the 10th and the supplier claims the credit in his cash ledger; a mismatch with the supplier's GSTR-1 generates the discrepancy notice under Rule 78.
- An operator liable under section 9(5) for a service pays tax as the supplier for that service and does NOT collect TCS on it - one or the other, never both.

SECTION 53 · CGST ACT, 2017

Transfer of input tax credit

Section 53 provides for the transfer of amounts between the central and integrated tax accounts when ITC is cross-utilised, settling funds between the Centre and States.

- A settlement provision between the Centre and the States; it creates no obligation on a taxpayer.

SECTION 53A · CGST ACT, 2017

Transfer of certain amounts

Provides for transfer of the corresponding amount between the Centre and a State where tax is transferred from one head to another - a settlement provision with no taxpayer obligation.

- A Centre-State settlement provision that follows a transfer of amounts between heads; no taxpayer obligation arises from it.

RULE 85 · CGST RULES, 2017

Electronic Liability Register

The electronic liability register in PMT-01 records every liability - tax, interest, penalty, late fee - and is discharged by debits from the cash or credit ledger, in the order the section 49(8) sequence prescribes.

RULE 86 · CGST RULES, 2017

Electronic Credit Ledger

The electronic credit ledger in PMT-02 holds the input tax credit claimed. It may be used only for output tax, never for interest, penalty or fees, and any wrongly re-credited amount is restored through PMT-03.

RULE 86A · CGST RULES, 2017

Conditions of use of amount available in electronic credit ledger

Blocking of credit: an officer not below Assistant Commissioner who has reasons to believe the credit was taken on a fake invoice, from a non-existent supplier, without receiving the goods or services, or where the tax was not paid, may block the electronic credit ledger. The block lapses after one year, and reasons must be recorded in writing before it is imposed.

- Blocking is not recovery: it stops utilisation, it does not create a demand. A demand still has to be raised under section 73 or 74A.
- It lapses automatically after one year, and cannot be re-imposed on the same material.
- Reasons must be recorded before blocking, and courts have set aside blocks that merely recite the rule or that block more than the credit alleged to be ineligible.
- A negative block - blocking more than the balance available - has been held impermissible by several High Courts.

RULE 86B · CGST RULES, 2017

Restrictions on use of amount available in electronic credit ledger

Where the monthly taxable turnover (other than exempt and zero-rated supplies) exceeds fifty lakh rupees, at least one per cent of the output tax must be paid in cash. It does not apply where the proprietor, karta, director or partner has paid more than one lakh rupees of income tax in each of the last two years, or where the registered person has received a refund above one lakh rupees for exports or an inverted duty structure, or to a government department, PSU, local authority or statutory body.

- The turnover test is the MONTHLY taxable turnover excluding exempt and zero-rated supplies, not the annual figure.
- Check the exceptions before applying it: income tax above Rs 1 lakh in each of the last two years for the proprietor, karta, director or partner; a refund above Rs 1 lakh on exports or inverted duty; or a government body.

RULE 87 · CGST RULES, 2017

Electronic Cash Ledger

The electronic cash ledger in PMT-05 is credited when you deposit through internet banking, card, NEFT or RTGS, or over the counter up to ten thousand rupees per challan per tax period. Deposit is made on challan PMT-06, valid for fifteen days, and a balance may be transferred between heads or to a distinct person on the same PAN in PMT-09.

RULE 88 · CGST RULES, 2017

Identification number for each transaction

Every debit and credit in the cash or credit ledger carries a unique identification number, which is what links a payment to the return or the order it discharges.

RULE 88A · CGST RULES, 2017

Order of utilization of input tax credit

IGST credit must be exhausted first - towards IGST, then in any order towards CGST and SGST or UTGST - and only then may CGST or SGST credit be used. This is the utilisation sequence that decides how much cash you end up paying.

RULE 88B · CGST RULES, 2017

Manner of calculating interest on delayed payment of tax

How interest is computed: where the liability is declared in a return filed late, interest runs on the portion paid from the cash ledger for the period of delay; in every other case it runs on the whole unpaid tax from the due date to the date of payment. Credit wrongly availed carries interest only if it was actually utilised, from the date of utilisation.

- Interest on a late return runs only on the cash portion; on everything else it runs on the whole tax from the due date.
- Wrongly availed credit carries interest only from the date of UTILISATION - and the ledger balance decides whether it was utilised at all.

RULE 88C · CGST RULES, 2017

Manner of dealing with difference in liability reported in the statement of outward supplies and that reported in the return

Where the tax shown in GSTR-1 exceeds that in GSTR-3B by more than the prescribed limit, the portal issues DRC-01B; the taxpayer must pay the difference or explain it within seven days, or the next GSTR-1 is blocked.

RULE 88D · CGST RULES, 2017

Manner of dealing with difference in input tax credit available in auto-generated statement containing the details of in

Where the credit taken in GSTR-3B exceeds the credit available in GSTR-2B by the prescribed limit, DRC-01C is issued; the taxpayer pays or explains within seven days, otherwise the next GSTR-1 is blocked.

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