

Inverted Duty Structure under GST

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Inverted Duty Structure under GST Latest News

Tax experts have broadly welcomed the Centre's proposal for a two-tier GST rate structure while cautioning that critical issues such as inverted duty structure need to be addressed for the reform to be fully effective.

About Inverted Duty Structure under GST

- An inverted duty structure in GST **occurs when the tax rate on inputs exceeds the tax rate on output.**
- For example, in the textile industry, the input tax rate ranges from 12 to 18%, while most finished products are taxed at 5%.
- This implies that **sellers have fewer options for offsetting the cost of input taxes.**
- This situation might **result in an accumulation of input tax credit (ITC), which can't be used for the output tax liability.**
- The **accumulation of ITC** due to unutilized ITC will **have to be carried over to the next financial year until it can be utilized** by the registered taxpayer **for payment of output tax liability.**

- This can **result in higher tax costs for businesses** and/or an **increase in the hidden tax cost for consumers**.
- **To solve this issue**, the **GST law allows for a refund or reversal of ITC**.
- The refund is **determined using a method including the turnover of the inverted rated supply, the net ITC**, and the **overall turnover**.
- **Exceptions where the refund** of the unutilised input tax credit **cannot be claimed**, are as follows:
 - **Output supplies are nil-rated or fully exempt supplies** except for supplies of goods or services or both as may be notified by the Government on the recommendations of the GST Council.
 - If the **goods exported** out of India **are subject to export duty**.
 - **If the supplier claims a refund of output tax paid under the IGST Act**.
 - **If the supplier avails duty drawback or refund of IGST on such supplies**.

Source: **HBL**

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