

**RULE 86B  
(MINIMUM  
1% CASH  
PAYMENT)**



## HOW WAS ITC UTILISATION ALLOWED BEFORE RULE 86B:

- Input tax credit plays a very important role in GST by avoiding cascading effect of taxation. The order of utilisation of ITC for different components such as CGST, SGST and IGST has gone through a lot of changes. However, the ITC available in the electronic credit ledger could always be fully utilised for discharging the output tax liability. The new Rule 86B has limited the use of ITC balance for paying its output tax liability.

## **RULE 86B – RESTRICTION ON USE OF INPUT TAX CREDIT (ITC):**

- Introduced via Notification No. 94/2020-CT, effective from 1st January 2021.

# **Rule 86B of GST**

- Purpose: To curb fake invoicing and ITC misuse by restricting the use of ITC to discharge output tax liability.



## **RULE 86B**

[86B. Restrictions on use of amount available in electronic credit ledger.-Notwithstanding anything contained in these rules, the registered person shall not use the amount available in electronic credit ledger to discharge his liability towards output tax in excess of ninety-nine per cent. of such tax liability, in cases where the value of taxable supply other than exempt supply and zero-rated supply, in a month exceeds fifty lakh rupees.

**Provided** that the said restriction shall not apply where –

**A.** The said person or the proprietor or karta or the managing director or any of its two partners, whole-time Directors, Members of Managing Committee of Associations or Board of Trustees, as the case may be, have paid more than one lakh rupees as income tax under the Income-tax Act, 1961(43 of 1961) in each of the last two financial years for which the time limit to file return of income under sub-section (1) of section 139 of the said Act has expired; or

**B.** The registered person has received a refund amount of more than one lakh rupees in the preceding financial year on account of unutilised input tax credit under clause (i) of first proviso of sub-section (3) of section 54; or

## **RULE 86B**

C. The registered person has discharged his liability towards output tax through the electronic cash ledger for an amount which is in excess of 1% of the total output tax liability, applied cumulatively, upto the said month in the current financial year; or

D. The registered person is –

I. Government Department; or

II. a Public Sector Undertaking; or

III. a local authority; or

IV. a statutory body:

**Provided further** that the Commissioner or an officer authorised by him in this behalf may remove the said restriction after such verifications and such safeguards as he may deem fit.]

## FOR LARGE TAXPAYERS

- Need to maintain liquidity for **minimum cash payments**.
- Tightens compliance to discourage non-genuine businesses.



## FOR SMALL & MEDIUM ENTERPRISES (SMES):

- **Rule 86B** does **NOT** affect businesses with taxable turnover  $\leq$  ₹ 50 lakh in a month.
- No impact on **micro and small enterprises** operating below the threshold.

## KEY PROVISIONS

- Applicable where the value of taxable supply (excluding exempt & zero-rated supply) exceeds ₹ 50 lakh in a month

- The registered person cannot use ITC to discharge more than 99% of output tax liability

- At least 1% of tax liability must be paid in cash through the electronic cash ledger.

## Objective:

To ensure genuine tax payment and deter bogus billing practices.

The taxpayer or key persons have paid **income tax** > ₹1 lakh in each of the last two financial years

The taxpayer has **discharged** > ₹1 lakh as cash liability cumulatively up to the said month

## EXCEPTIONS: RULE 86B DOES NOT APPLY IF

The taxpayer has **received a refund** > ₹1 lakh under GST (export or inverted duty)

The taxpayer is a **Government Department, PSU, local authority, or statutory body.**

## **PENALTIES FOR NON-COMPLIANCE**

- **Interest & penalties** on excess ITC used.
- **Suspension or cancellation of GST registration.**
- Prosecution under relevant sections of the CGST Act.

Rule 86B is a targeted move by the Government to tighten GST compliance, ensure genuine cash flow, and fight tax evasion. Although it adds a compliance burden on large businesses, it strengthens the GST system's integrity.

Always review turnover and ITC usage before filing GSTR-3B, and plan cash flows accordingly to stay compliant with Rule 86B.





Quashed by High Court of Himachal Pradesh in the case of *A.M.Enterprises vs. State of Himachal Pradesh & Ors.*

- The court held that cancelling a GST registration for an alleged violation of Rule 86B (which restricts the use of input tax credit for paying more than 99% of the output tax liability) was a disproportionate and extreme penalty, especially since the tax liability had been fully discharged.



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