M/s. (PRIME PRODUCTS) TARUN MADHUKANT DESAI HUF

Authority for Advance Ruling — Maharashtra

NO.GST-ARA- 35/2022-23/B- 152 Mumbai, dt. 28.09.2026 (as printed; the… Dated **28.09.2026**

Q Questions Before the Authority

- Whether the Applicant is obligated to reverse ITC availed on the raw material (batteries/cells), to the extent of reduction in value thereof due to flood water/inundation, on recognizing such value reduction (or pay any GST) on receipt of money from the insurance company on settlement of its claim of Rs. 74,58,282/- without considering GST?
- If the answer to question (i) is yes, what is the amount of ITC required to be reversed and/or any GST liability, and when is this applicable: (a) the date of claim settlement, or (b) any other date (to be specified)?

F Facts

The Applicant is a distributor of batteries and battery packs under HSN 8507 and availed ITC on its inputs, which were procured domestically or imported. On 18 July 2021 flood water entered its warehouse at Vasai, and part of its stock, about Rs. 1.25 crore (without GST), was immersed; the goods were not destroyed but suffered reduced value. The insurer's surveyor assessed the loss at Rs. 74,58,282/- excluding GST and declined the GST/ITC component of about Rs. 34.4 lakh, and the damaged batteries were retained by the Applicant and are being sold as batteries under HSN 8507 at 28%.

H Ruling

Reversal of ITC on flood-damaged batteries/cells on receipt of insurance claim	**Yes**	Reversal required under Section 17(5)(h) CGST Act to the extent of reduction in value of the batteries. The operative answer does not separately state a GST payment liability on the insurance receipt.
Amount of ITC to be reversed and timing of reversal	**ITC attributable to the value of the damaged inputs, to the extent of the reduction in their value**	Reverse in the tax period in which the ineligibility arises, in the return for the period in which the event of loss is known or recognised in the books, whichever is earlier. The order does not make the claim settlement date the operative date.

The Authority held that ITC attributable to batteries/cells damaged by flood must be reversed under Section 17(5)(h) of the CGST Act, to the extent of the reduction in their value. It held that the reversal is to be made in the tax period in which the ineligibility arises, that is, in the return for the period in which the loss is known or recognised in the books of account, whichever is earlier. The Authority's findings also say the insurance receipt is not a supply and attracts no GST, but the operative answer does not expressly address GST payability.

R Reasoning

The Authority read Section 17(5)(h) as reaching goods that are damaged to the point of commercial loss, rejecting

the Applicant's narrow reading that only physical destruction or write-off to nil value counts. It treated the insurance-recognised diminution in value as a write-off to that extent, relying on the Applicant's own acceptance of the loss and its claim. It also reasoned that once the loss is compensated the nexus between the input and taxable outward supply is broken, so retaining full ITC would give unjust enrichment. It held that the timing rule in the return of the period when the loss is known or recognised follows from the nature of the event. The Authority noted that the Applicant's sale of the goods under HSN 8507 at 28% did not defeat the impairment in value.

P Provisions Relied On

- Section 17(5)(h) of the CGST Act, 2017 and the corresponding MGST Act provision (goods lost, stolen, destroyed, written off…
- Section 16 of the CGST Act, 2017 (entitlement to input tax credit), as relied on by the Applicant
- Section 17(5) (lead-in, blocked credits), as applied by the Authority
- Section 7 of the CGST Act, 2017 (definition of supply), as considered on the insurance receipt
- Schedule III, entry 6 (actionable claims), as relied on by the Applicant and considered in the findings
- Accounting Standard AS-2, paras 28 and 29, as cited by the Applicant

! For the Practitioner

This ruling is useful for traders who suffer flood or similar damage to stock on which ITC was taken and who receive an insurance settlement, as it indicates that the reversal is measured by the reduction in value and is not triggered only by total destruction. It binds only the Applicant and is not a decision of a higher forum. It does not settle how the reduction in value is to be quantified, whether the reversal is computed on the insurance amount or on the value reduction, or the GST treatment of the insurance receipt, which the operative answer leaves open. The reasoning on Section 17(5)(h) is contestable, so a practitioner should consider the appellate position before relying on it.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> 2-prime_products_ara_order.pdf

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