



INVOICE MATCHING UNDER GOODS AND SERVICES TAX & IMPORTANCE OF IT SYSTEM UNDER GST

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Goods and Services Tax (GST), has been implemented by most countries in the world. But the form of tax varies from country to country. GST in India differs from other countries in two important aspects; firstly, the levy of Integrated GST on interstate supply of goods or services or both, secondly, the requirement for matching the claim of ITC. The matching of ITC procedure would not only ensure that due revenue is transferred to importing state but, would also ensure that the importing taxable person can claim the ITC that he would be entitled to. The procedure thus sits of the heart of Indian GST. The matching of ITC under GST is an extended version of the current structure being followed for value added tax by some of the states in India.

This concept is likely stimulate the integration between suppliers and their vendors in the industry to ensure that there are minimal discrepancies (inter alia goods in transit, difference in invoice booking), with respect to the claim of ITC. Also, since impact of incorrect details filed by the vendor will be faced by the recipient; there would be a need for effective vendor management. Implementation of GST inevitably may create an interdependent ecosystem for businesses and in the long run ensure better compliance. It is likely to substantially reduce work of audit by the tax authorities.

Every purchase invoice in GST regime must reconcile with sale invoice of the supplier on GST common portal for availing input tax credit. For many businesses, this will also mean a complete overhaul of IT systems and major re-engineering work. Many small and medium businesses will, for the first time, use technological tools for bookkeeping and tax compliance purpose. We can easily call this as one of the biggest change that businesses are going to witness. It also calls for patience and change management from the business community for smooth transition.

What Is Invoice Matching?

Matching all supplies taxable & Nontaxable, bought by a buyer and supplied by a supplier is known as Invoice Matching. According to finance minister, "It is through the invoice matching and automated return mechanism that the government can ensure eligible input tax credit is accurately transferred between the states". GSTN is working towards the GST web application which is hosted on the common portal to make invoice matching easy.

How does Invoice Matching work?

Invoicing Matching is very important because, under the GST law, the input tax credit of purchased

services and goods will be available only when the inward supply details filed in buyer's GSTR-2 return matches the outward supplies details filed in supplier's GSTR-1. This interlink has been created by auto-population of the data filed in supplier's GSTR-1 and buyer's GSTR-2. Hence, if these two fields do not match then the buyer will be unable to claim the input tax credit of paid taxes of the purchased goods or services or both. Compliance rating is an incentive for businesses to file returns on time and the related compliance. Basically, how invoice matching work is by matching all the taxable GST supplies with all the taxable supplies received by the buyer. When the supplier files form GSTR1, the recipient can identify the purchase with the help of auto populated form GSTR2A. After necessary modifications are done, the recipient's electronic credit ledger will be credited with the input credit on a provisional basis. If any modifications or additions are done to the GSTR-2 form, it will be reflected on the GSTR-1A Form for the supplier. When the Form GSTR-3 (Monthly Returns Form) is filled by the supplier the input credit becomes available; payment tax should also be considered while filling the monthly returns form.

Why do We Need an IT System under GST?

The government is on a spree of economic reforms and we have witnessed in recent times how various initiatives have been carried out; demonetization being one such reform. Continuing the reforms agenda, they have now come up with the concept of invoice matching under Goods and Services. This invoice matching is possible only when both the buyer and the supplier are tightly integrated through an information system, which will enable a seamless flow of information and fool-proof validations. Thus it becomes highly critical for businesses to be highly compliant on a real-time basis and thus needs to have a proper system in place to support it.

Matching Process:

Form of Return	Person required to furnish	Details required to be furnished
GSTR-1	Supplier	Prescribed particulars in respect of outward supply
GSTR-2A	Auto-populated for the recipient	Basis the Form GSTR-1 of supplier, the particulars of inward supply would be auto populated
GSTR-	Recipient	Recipient shall modify,

2		delete or include the details of inward supply basis the auto-populated from GSTR-2A and furnish the final details of his inward supply
GSTR-1A	Auto-populated for the supplier	Basis the form GSTR-2 of recipient, the particulars of outward supply as validated by the recipient would be made available for the supplier, which he may accept to update and finalize his earlier submitted Form GSTR-1
GSTR-3	Supplier and recipient	Matching of ITC would be done only after the due date for furnishing the monthly return

The claim of ITC would be treated as matched

- In respect of the invoices and debit note in FORM GSTR-2 that were acknowledged by the recipient on the premise of the FORM GSTR-2A, without amendment and the corresponding supplier furnishing a valid return.
- Where the amount of ITC claimed by the recipient is equal to or less than the output tax paid on such tax invoice or debit note by the corresponding supplier.

With a specific end goal to check for duplication of claim of ITC, the details of every inward supply furnished by the taxable person (i.e. the "recipient" of goods and/or services) in form GSTR-2 shall be matched:

- With the relating points details of outward supply furnished by the corresponding taxable person (i.e. the "supplier" of goods and/or services) in his valid return for the same tax period or any preceding tax period and
- With the additional duty of customs i.e. IGST paid by the recipient in respect of goods imported.

Therefore, the most important requirement for carrying out matching of ITC is that the supplier must have filed his valid returns for the corresponding or preceding tax period and/or the

IGST has been paid by the recipient if there would arise an occurrence of import of product.

Mismatching of ITC

In terms of the provisions of Model GST law; the reversal of ITC arises when:

- (a) There is excess claim of ITC by the recipient as against the tax pronounced by the supplier, or
- (b) The outward supply is not declared by the Supplier, or
- (c) There is a duplication of claim of ITC by the recipient.

This mechanism of matching mismatching seems to be highly motorized and thus all the returns of selling brokers as well as buying dealer will be connected with each other, so that any change on one side will be correspondingly reflected on the other side. Therefore, both the seller as well as purchaser is required to be very careful in filing the returns and in uploading sale/purchase details. Even a slight mismatch in the details will lead to unnecessary demands and may also lead to litigation for recovery of tax.