Implications of 47th GST Council Meeting

The47 th GST Council Meeting was held on the28 th and29 th of June 2022in Chandigarh and the decisions taken were implemented from18th July .2022 During the last five years of GST ,we have seen a lot of changes taking place on the rates front ,the extension of due dates on multiple occasions for different reasons ,introduction of e-waybills and e-invoices as part of weeding out the black sheep from the ecosystem .Though the revenue neutral rate is envisaged at 15%at the time of rollout of our GST but in reality ,it is a notch below 12%which means there is a lot of room left for improvising the system.

The decisions taken in the47 th GST Council Meeting can be broadly classified in the following categories

1. Rate rationalization – to remove the disparity in the duty structure
2. Minimization of Exemptions
3. Inverted Duty Structure
4. Changes in Reporting

5 Clarifications in multiple areas

As GST is a business reform, the changes announced in the 47th GST Council Meeting also have an impact on the areas listed above, and the taxpayers have to make necessary changes in their business process and systems to be 100% compliant. Let's review the changes critically one by one

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Item Master

For many of the items and services ,the tax rates have changed .Rate changes are applicable from18 th July2017 the taxpayers have to take due care in the Accounting, Billing ,and ERP Systems.

This means that the taxpayer has to edit the respective items in the Accounting ,Billing or ERP with the new tax rate and also provide the effective date as18 th July.2017 If the effective date is not provided correctly it can impact the reporting as the historical data will also be reported with the new rate and it can also lead to wrong decision making as well as in statutory reporting leading to hefty fines and penalties.

It is important to note that if the system has an effective date functionality in the accounting or billing or ERP will be a challenge for such taxpayers and they have to ask their service provider to provide such functionality immediately.

Contracts/Purchase Orders/Sales Orders

Taxpayers who are dealing in goods or services where the tax rates have increased have to make necessary changes to their sales orders or contracts or agreements that they have signed with their customers. If the same is not revised, it will impact the bottom line of them as they are forced to absorb the tax rate increase as the differential rate increase is not passed on to their customers.

Ideally, the contract should not have a clause that mentions “GST will be charged at 12%”, such a clause means, if there is an increase in the tax rate, the contract clause has to undergo change. Changing the contract clauses is not an easy task as it has to undergo a regular approval process and it is a time-consuming activity. It will be challenging also if the rate is not amended in the contract with a retrospective date.

To avoid the above challenges, it is recommended for the taxpayers to have a clause similar to this “Tax will be applicable as at the time of invoicing or receipt of advances and taxes to buyers account.” This clause will ensure that the if there is an increase or decrease of tax rates, the tax rates at the time of invoicing will be considered. In the case of a supplier of services, tax has to be paid on receipt of advance and if the clause is silent, then it supplier of the services has to pay the tax from the amount received as it is considered a tax-inclusive invoice and this will have an impact on the working capital/cash flows.

The tax rates have been increased in the case of works contracts, and the contractors who are providing the services for the contracts have to get their contracts changed accordingly. The challenge will be in the cases where the receipt of services is from a Government Authority or Department or State of Central Government.

Pricing

An increase or decrease in tax ratesmeans that there is a change in the pricing also .If the taxpayers is dealing with limited customers, it is not a challenge but if they are dealing with many customers it will be a challenge. The pricing has to be re-worked keeping in view of the tax rate changes.

The term MRP means Maximum Retail Price and it is inclusive of all taxes, delivery charges or freight, packing charges, insurance if any, along with the cost of the goods. The MRP will also undergo a change with the changes in the rate structure. This also means the prices will see an increase or decrease as the MRP will change and the new stickers/labels with the revised rate have to be printed and if required have to be shipped to the various stakeholders in the eco-system.

If the MRP is not revised and the various stakeholders sell with the old MRP stickers, there will be an impact on the bottom line as the taxpayers cannot collect an amount that is higher than the price printed as MRP.

The taxpayers have to take necessary changes in their systems and also ensure that the revised stickers are passed on to them and billed accordingly.

Anti-profiteering

For many of the goods and services the GST exemptions have been removed, which means that going forward the taxpayers can avail the input tax credit on their inward supplies, which was not allowed previously. Also, in some cases, the tax rates have been reduced, which means there is a need to change the pricing. This means that there is an availability of input tax credit and the same has to be passed on to the end consumers as per the provisions of Anti-profiteering in GST.

As per the provisions of the Anti-profiteering, the taxpayers have to pass on the benefit of the reduction of the tax rate or additional availability of input tax credit either in way of reduction of prices or an increase in the grammage of the products being sold.

In case the taxpayers do not adhere to the provisions of the Anti-profiteering, the consumers may raise a complaint with the National Anti-Profiteering Authority (NAA), and based on the complaint received, investigations will be carried out accordingly. During the investigations, if it is found that the taxpayer has not passed on the benefit, the authority can levy a fine and compensate consumers if possible or the fine will be transferred to the Consumer Welfare Fund.

Accounting

There are changes announced in GSTR – 3B, and these changes will allow the Central Government to disburse the funds to the State Governments. To report these changes, there is a necessity to make changes in accounting.

As per the current practice, many taxpayers are debiting the expenses account along with the GST amount if they are not eligible to claim the input tax credit. If the taxpayers do not report the ineligible credit in GSTR – 3B, the Central Government assumes that the tax amount will be claimed by the taxpayers in the near future and do not transfer the share of the State's revenue. Without phasing out of the distribution of the amount from the compensation cess, it becomes a challenge for the State Governments to manage their funds. To address this, they have requested to the GST Council to issue a Circular so that the taxpayers can follow the correct process while filing the returns.

The current practice of the accounting entry being passed is

Description	Debit/Credit
Expenses A/c	Debit
Bank/Creditors A/c	Credit

The new accounting entry to be passed is

Description	Debit/Credit
Expenses A/c	Debit
In eligible Input Tax Credit A/c	Debit
Bank/Creditors A/c	Credit

When GSTR – 3B is filed after the end of the month, the taxpayers have to report the total amount debited to the Ledger Account "In eligible Input Tax Credit" the same in the respective column of Table 4 (A) along with the eligible input tax credit amount. As it is ineligible, the same has to be reversed and it will be reported in Table 4 (B) 2 column. This will facilitate the Central Government to disburse the funds to the State Governments at regular intervals.

As many of the taxpayers use the data from the Financials Statements for their MIS reporting or Statutory Reporting, to derive the correct reports, they should explore the option of using the feature of Cost Centers or Sub ledgers of DFF by whatever name it is called in their respective Accounting or ERP.

Alternatively, the taxpayers can pass an accounting entry for availing of the input tax credit and pass a reversal entry at the end of the month after filing the GSTR - 3B. In this case, they have to identify the ineligible credits carefully at the month end and it is a time-consuming process.

Reporting

The reporting in GSTR3 – B is clarified and in this context, Circular No-170/02/2022 GST dated6 th July has been issued for the taxpayers of reporting various scenarios for the input tax credit is issued.

The taxpayers have to report all the amounts which are reflected in GSTR – 2B in the respective columns of Table 4 (A) of GSTR – 3B. If there are any reversals to be carried out for any reason the same has to be reported correctly in Table 4(B).

Particulars	Description
Table4 A(5)	• Input tax credit as per GSTR – 2B for which the suppliers have filed GSTR – 1 • Input tax credit on the invoices for which the goods or services or both have been received subsequently where the same is reflected in the previous GSTR – 2B • Input tax credit is availed on account of payment to suppliers where input tax credit has been reversed for non-payment within 180 days
Table4 B(1)	• Input Tax Credit in case of common inputs used for supply of taxable goods or services or both have to be reversed in a pro-rated manner – as per Rule 42 of CGST Rules 2017 • Input Tax Credit related to Capital Goods has to be reversed in case of sale or transfer of the same as per Rule 43 of the CGST Rules 2017
Table4 B(1)	• Blocked input tax credit as per Section 17(5) of CGST Act 2017 has to be reported here. • In cases, if the recipient has not received the goods or services but for which the supplier has issued the invoice and is reported in his GSTR – 1 and is reflecting in GSTR – 2B during the period for which the return is being filed.
4D(2)	• In cases where the supplier is not eligible to take input tax credit due to delayed filing of GSTR – 1 by supplier where the time period has lapsed • In cases where the taxpayer realized that he is eligible to take input tax credit but missed to take the same within the stipulated period

These are some of the major changes in reporting basis of the recommendations of the47 th GST Council Meeting.

Training

Since the changes are ranging from changes in tax rates to removal of exemptions and in reporting ,it is recommended for the organizations to have an in-depth training program for all the stakeholders .This training will facilitate all the stakeholders to understand the changes and how they will impact their top line ,bottom line ,how contracts have to be redrafted ,etc,.

The cost of non-compliance is always more expensive than the cost of compliance and training is also to be considered as compliance cost as it will help in minimizing or eliminating the litigation ,interest ,fines ,and penalties .At the same time ,it also boosts the morale of the employees.

In the training program ,all the stakeholders interact with the experts ,and this help in clearing a lot of misunderstandings as well as coming out with a proper solution for the gaps if any identified during such sessions.

IT Systems

Making necessary changes to the IT systems is also key as it will help in meeting the compliances .Changes to the Tax Rates at the Item level ,creating of the new ledger for tracking and reporting of ineligible credit ,and reporting in GSTR3 – B require changes in the current IT systems and custom reports created for filing of GSTR3 – B.

Apart from the above changes ,the import change is with respect to the levy of correct tax as per the Time of Supply provisions mentioned in Section 14 of the CGST Act.2017 It discusses about the time of supply in case of tax rate changes where supply has taken place before the tax rate change or post-tax rate change.

The tax rate has to be reflected on the tax invoice accordingly while creating the Tax invoice else it will lead to compliance issues.

a)Supply has taken place before the tax rate changes.

Sl. No	Date of change in Tax Rate	Date of Supply of Goods	Date of Issue of Invoice	Date of Receipt of Payment	Time of Supply	Reason
1	18-Jul-22	25-Jun-22	20-Jul-22	25-Jul-22	**20-Jul-22**	**Earliest of the Invoice or Payment date**
2	18-Jul-22	25-Jun-22	24-Jun-22	25-Jul-22	**24-Jun-22**	**Date of Issue of Invoice**
2	18-Jul-22	25-Jun-22	20-Jul-22	10-Jun-22	**10-Jun-22**	**Date of Receipt of Payment**

b) Supply has taken place after the tax rate changes,

Sl. No	Date of change in Tax Rate	Date of Supply of Goods	Date of Issue of Invoice	Date of Receipt of Payment	Time of Supply -	Reason
1	18-Jul-22	25-Jul-22	20-Jun-22	20-Jul-22	**20-Jul-22**	**Date of Receipt of Payment**
2	18-Jul-22	25-Jul-22	24-Jun-22	22-Jun-22	**24-Jun-22**	**Earliest of the invoice or payment date**
2	18-Jul-22	25-Jul-22	22-Jul-22	10-Jun-22	**22-Jul-22**	**Date of issue of Invoice**

In the normal course, the tax rates on the invoice will default from the item master based on the effective date. In cases where the services have been provided before the tax rate changes and the advance has been received prior to the tax rate changes, the tax rate on the invoice has to be the tax rate applicable on the date of receipt of the advance. Whenever tax invoices are issued in such cases the system should take care of it accordingly or there should be a provision for the user to change the tax rate accordingly on the tax invoice.

From the above discussions, it is evident that GST is not a tax reform but a business reform. The taxpayers have to spend a lot of time understanding the provisions of the GST that have changed how they will impact their business process and IT systems and act on it accordingly. No amount of data or articles in the public domain will help as the business process and contract terms vary from transaction to transaction and taxpayer to taxpayer. The process for incorporating the changes related to the 47th GST Council Meeting is similar to the process the taxpayers adopted at the time of the rollout of GST.

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