



INPUT TAX CREDIT MECHANISM UNDER THE NEW GST RETURN SYSTEM

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1. Overview: The new GST return system or GST 2.0 was proposed by Shri Nandan Nilekani and is applicable for all regular taxpayers. As per the decision of 37th GST Council meeting, the new GST return system will now be implemented from April 2020. However, the prototype of this new return system is already available in the GST home page for assesses to have a hand on experience of the various features of this new system and can send their feedback in a structured template as provided in the GST portal.

Under the new GST return system, regular taxpayers are classified under two turnover categories:-

- ❖ **Small Taxpayers** – having turnover of upto ₹ 5 crore in the last financial year. These small taxpayers shall have the facility to file quarterly return with monthly payment of taxes on self-declaration basis. Moreover, the return filing of these small taxpayers are further classified based on the type of transaction carried on by them as shown below,
 - **Normal Quarterly Return (RET-1)** - taxpayers having all types of outward supplies viz., B2B, B2C, Export, SEZ, E-commerce etc.
 - **SAHAJ Quarterly Return (RET-2)** – taxpayers having only B2C type outward supplies.
 - **SUGAM Quarterly Return (RET-3)** – taxpayers having B2B and B2C type outward supplies.

With the increase of turnover limit from ₹ 1.5 crore to ₹ 5 crore for small taxpayers the filing burden will be reduced for more than 93% taxpayers in the country who may now share the quarterly return platform. This will also ensure lower risk of system breakdown as it will now work with a balance load.

- ❖ **Large Taxpayers** – having turnover more than ₹ 5 crore in the last financial year. These large taxpayers shall be compulsorily required to file monthly return as well as monthly payment of taxes on self-declaration basis.

All the above taxpayers are also required to furnish two annexures – **ANX-1** (to report liability from outward supplies) and **ANX-2** (Information on ITC from inward supplies).

2. Exceptions: The new return system facility shall not be extended to certain category of taxpayers like Composition taxpayers, Non-resident or Casual taxpayers, Input Service Distributor (ISD), Persons liable to deduct tax at source under section 51 of CGST Act, 2017 and Persons liable to collect tax at source under section 52 of CGST Act, 2017.

3. ITC Control Mechanism: Apart from providing simplified return forms to ensure ease of filing, this new return system will bring-in host of control mechanisms to streamline the phenomena of availment of input tax credit and tracking of missing supplier invoices. Some of the key features introduced in this respect are:

a. Continuous uploading and viewing of Invoices:

- The suppliers will be allowed to continuously upload their invoices anytime during the month and these uploaded invoices shall be continuously visible to the recipient. Such uploaded invoices would act as valid documents for claiming input tax credit by the recipient. Moreover, all invoices uploaded by the supplier by 10th of the succeeding month shall be auto-populated in the liability table of the supplier i.e. ANX-1. Also these invoices will feature in ANX-2 of the recipient for that month so that actions can be initiated by the recipient to avail the input tax credit against such purchases after 11th of the next month. Any invoice uploaded after 10th of the succeeding month will be populated in the liability table of the supplier in the subsequent month.

- For example, if invoice no. 1 of December is uploaded on 8th of January and invoice no. 2 of December is uploaded on 15th of January by the supplier, the recipient shall be able to avail input tax credit for invoice no. 1 with the return of December filed on say 20th January and for invoice no. 2 he shall be able to avail input tax credit with the return filed for the month of January, filed on say 20th of February.
- However, the recipient would be allowed to avail input tax credit on self- declaration basis even if the invoices are not uploaded by the supplier by 10th of the next month or thereafter using the facility of availing input tax credit on missing invoices. This facility will be available during the transition phase of six months after the new return system is implemented.
- The recipient will also be provided with a “viewing facility” using which the recipient shall be allowed to see the return filing status of the supplier after the due date of filing of return and thus be aware whether the tax liability on purchases made by him has been discharged by the supplier or not.

b. Invoices uploaded but return not filed by the supplier:

- **In case of supplier who files return monthly** – Supplier uploads invoices in GST ANX-1 but does not file two returns for the month of ‘M’ and ‘M+1’. Then from 10th of ‘M+3’ onwards , for invoices auto-populated in GST ANX-2 of the recipient, no ITC entitlement will be there for invoices uploaded in GST ANX-1 for the month ‘M+2’ and onwards.
- **In case of supplier who files return quarterly** – Supplier uploads invoices in GST ANX-1 but does not file ‘Q’ quarter return for two months. Then from 10th of ‘M+3’ onwards , for invoices auto-populated in GST ANX-2 of the recipient, no ITC entitlement will be there for invoices uploaded in GST ANX-1 for the quarter ‘Q+1’ and onwards.

c. Unidirectional Flow of documents:

- The recipient will be allowed to avail input tax credit only on the basis of the invoices or debit notes uploaded by the supplier on the common portal. However, if the recipient avails input tax credit on the basis of invoices or debit notes which are not uploaded by the supplier, then such invoices or debit notes are referred to as ‘missing invoices’. Where credit is availed on missing invoices by the recipient and such missing invoices are not uploaded by the supplier within the prescribed time period, input tax credit availed in relation to such invoices or debit notes shall be recovered from the recipient.

d. Missing invoice reporting:

- Reporting of missing invoices to be made by the supplier, in the main return for any tax period, along with applicable interest and penalty.
- Reporting of missing invoices by recipient can be delayed up to two tax periods to allow recipient to follow up and get the missing invoice uploaded from the supplier. Taxpayers filing quarterly returns shall report missing invoices in the next quarter.
- For example, purchase invoices received by recipient in December on which input tax credit has been availed but not uploaded by the supplier, shall be reported by the recipient not later than the return of February filed in March.

e. Tracking of supplier invoices and provisional availment Input tax credit:

Supplier Details	Month 1 – December’ 2019		
	Purchase Register (₹)	ANX-2 (₹)	Action taken by recipient in December’2019
Supplier A (Regular filer)	1000	1000	1) Input tax credit of Supplier A i.e. ₹ 1000 is availed by choosing ‘Accept’ option in ANX-2. 2) Input tax credit of Supplier B ₹ 500 & Supplier C ₹ 300 is availed on self-declaration basis in RET-1 (Sec 4A -10 of RET-1). 3) Total ITC claimed ₹ 1800 in December’2019.
Supplier B (Late filer)	500	0	
Supplier C (Non- filer)	300	0	

Supplier Details	Month 2 – January' 2020		
	Purchase Register (₹)	ANX-2 (₹)	Action taken by recipient in January'2020
Supplier A (Regular filer)	2000	2000	1) Input tax credit of Supplier A i.e. ₹ 2000 is availed by choosing 'Accept' option in ANX-2. 2) Input tax credit of Supplier B i.e. ₹ 500 is availed by choosing 'Accept' option in ANX-2 on being uploaded by the supplier in ANX-1. 3) Reversal of ITC of Supplier B ₹ 500 in RET-1(Sec 4A-3 of RET-1) as the same is already availed in the previous month on provisional basis. 3) Total ITC claimed ₹ 2000 in January'2020.
Supplier B (Late filer)	0	500	
Supplier C (Non- filer)	0	0	

Supplier Details	Month 3 – February' 2020		
	Purchase Register (₹)	ANX-2 (₹)	Action taken by recipient in February'2020
Supplier A (Regular filer)	3000	3000	1) Input tax credit of Supplier A i.e. ₹ 3000 is availed by choosing 'Accept' option in ANX-2. 2) Input tax credit of Supplier C ₹ 300 to be reported in ANX-1 (Sec 3L) at invoice level- as the recipient is required to report missing documents on which ITC has been claimed in T-2/T-1 (for quarterly filer) tax period and as the Supplier had not reported the same till the filing of return for the current tax period. 3) Total ITC claimed ₹ 3000 in February'2020.
Supplier B (Late filer)	0	0	
Supplier C (Non- filer)	0	0	

4. Conclusion: The new GST return system with quarterly filing facility for small taxpayers is no doubt a welcome move as it will relieve them from the filing burden. However, the tax payment will continue to be made on monthly basis which to some extent will dilute the euphoria of this quarterly filing privilege. It would have been more attractive if the payment also could have been made on quarterly basis like composition assesses or as existed in the service tax regime for individual, proprietor or partnership firms. Another critical area that needs to be monitored is where the supply takes place between the Quarterly return filer and Monthly return filer.