



GST IMPACT ON TRANSACTIONS DURING COVID

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The world has faced many pandemics in the past and this the first pandemic we are seeing during the last hundred years. The pandemic has created a mayhem for almost all the countries economies and no sector is spared. The recovery path is not in sight and may take longer time then expected by the trade and industry initially. As per the survey of global 500 CEO's it is expected to recover by Q1 of 2022 that means all need to wait for at least another 4-6 quarters and even the economies may not come back to the pre pandemic levels. The pandemic has created crisis and every crisis creates an opportunity. Professionals likes CMAs have lot of opportunity and they will be able to scale new heights if they adapt the new normal and pivot their way of working. In todays VUCA world the term Pivot or Perish holds true and we need to adapt to the new normal to be successful else we may also be wiped out like certain industries. The early we adapt, the higher the success and survival rate.

The way business is doing has seen a drastic change and new model are coming up and adaption of technology is gaining lot of thrust and at the same time budgets are also being allocated towards technology for making easy access of data and reach new markets. As part of this data safety and security has to be taken into consideration along with the compliances on the transactions. Here we will discuss about the GST impact on the transactions during COVID period.

1. Returns from Customers / Dealers / Stockists / C&F Agents

With the uncertain times in business due to lockdown and change in customer preferences, many of the taxpayers are willing to send back the materials which are not being preferred by customers to minimize the cash outflows. In such cases any of the two models can be followed

i) The recipient can send the same through a delivery challan and if required along with a e-waybill and return to the supplier and if the supplier accepts, he will issue a credit note, this will reduce the cash outflow to the recipient but the only challenge is it will increase the tax liability.

ii) The recipient can return the goods under his invoice and the supplier will be taking the credit of the same. In this case the supplier will adjust against the outstanding dues of the recipient. The supplier will take the input tax credit on the face of the invoice issued by the recipient.

In either of the models, the recipient has to take proper care while filing the returns and also discharge the same through cash or existing input tax credit.

2. Expired Stock

In case of food items or perishables or medicines, they have a shelf life and need to be consumed within the expiry date. Due to lockdown the same could not be sold and being expired stock cannot be sold now. The Recipients have to return the goods and for this they have get a credit note from the supplier.

The claims have to settled at the earliest, in most of the companies especially in the F& B and pharma industry, this is a major challenge. The claim process takes normally two to three months. The OEMs and suppliers should process the claims and issue credit notes at the earliest else the other challenge is they cannot issue post filing of September returns due date. If they are processed and issued at the earliest, it will infuse confidence with the stake holders across the supply chain and for this if possible, they should rollout DMS software as it will also give them the real time update on the stock with various stakeholders in the supply chain.

3. Damaged Goods

The lockdown has been announced with immediate effect and as a result, the manufacturing process have to stopped all of a sudden. This has resulted in loss of raw materials or work-in-process materials. In case of expired goods also same challenge. As per the provisions of the law, the input

tax credit availed on those goods have to be reversed in GSTR – 3B accordingly in the month the losses or damages have taken place.

If they do not reverse the input tax credit, then the department will issue notices under section 73 or 74 of the CGST Act and if that is the case, they have to pay penalties along with interest if not paid within stipulated time. The damaged goods have to be valued correctly and for this a proper statement should be prepared along with amount of ITC being reversed. If possible, copy of the purchase invoices should be filed along with the workings as it will help in the long run. Apart from the goods in case of WIP if there are any services, they also should be included in the valuation.

4. Delayed Payments

The trade and industry is facing lot of cash crunch due to the lockdown and as there was not business for almost 70 days. This is resulting in cash flow challenges which in turn has resulted in lower cash flows. This is impacting the payments to be made to the suppliers and in some cases the payments are getting delayed beyond 180 days.

As per the provisions of the GST, if the supplier payments are made delayed then the input tax credit availed should be reversed accordingly. The taxpayers are required to verify all the invoices for which payments are not made fully or proportionally have to be identified and input tax credit has to be reversed and the same has to be show in the GSTR – 3B and discharged as tax liability. As and when the payments are made to the supplier, the input tax credit can be taken again by showing the same in GSTR – 3B.

5. Issue of Debit / Credit Notes

In every business it is required to issued debit notes or credit notes on account of existing trade schemes or for price difference. Normally they are issued during the year end in march before the closure of the financial year but this year the same could not be issued due to lockdown. Now unlock 1 has been announced but there are lot of restrictions. As a result of it all the staff is not able to attend office. Another challenge is that many of the employees have returned to their home towns and they are not willing to come back. The second one is creating lot of issues for the MSMEs and they do not have proper systems in place. As the new person has to come and understand the same will take some to understand and process the debit and credit notes.

These debit or credit notes have to issued before filing of the September months returns due date or filing of annual returns. The process of issuing of the debit and credit notes have to be expedited and issued else it will result in additional loss as the recipient will not be able to avail input tax credit and they will insist for compensating the same. If compensated that will be additional burden at this hour our crisis. In order to avoid this, it is recommended to issued them at the earliest.

6. Schemes

The busines has been impacted a lot and customers spending pattern has changed a lot and they are spending only on necessities and also with value added products. To reduce the inventory and liquidate the stocks, the OEMS are coming with lot of schemes like offers or free or with hefty discounts or coupons. All these have impact on GST and they have to be accounted and GST Liability has to be discharge accordingly. If it is offer, there is no impact on the GST like where the offer runs as Buy 2 and get 1, in such a case, the price will be charged is for two units and GST is to be paid on those two units but the inventory has to be updated for three units and tax invoice or bill of supply has to be issued accordingly.

Similarly, if the goods are given as free samples, where there is no consideration being received, in such cases, the input tax credit availed has to be reversed. In case of the vouchers issued where the customer can redeem on future supplies, the tax liability has to be discharged if any accordingly.

The GST implications have to identified on the transactions and the same has to be discharged during the month it is recoded in the books of accounts. As these are not regular transactions proper care

should be taken else during the scrutiny or assessment interest and penalty also has to be paid on the GST liability determined at that point of time.

7. Supplier filing of Returns

As per the current provisions, the input tax credit can be availed only on matching but with the pandemic situation in the market, the Government has extended the return filing dates. This means that all the taxpayers will be filing their returns only on the due date and this would result in data not being reflected in GSTR – 2A.

The challenge which the buyers are facing is will the supplier file his returns and remit the taxes else the input tax credit has to be reversed along with interest. As a result of this many suppliers are in a fix to purchase or not to purchase from the small taxpayers who are having a turnover less than Rs 5 crores. This is proving to be a challenge to the MSMEs as they are not getting orders. To address this challenge the industry has to adapt any one of the following approaches

- a) Let the recipient pay the tax amount upfront and the supplier will file the returns and pay taxes,
- b) Retain the tax amount and pay the same only on reflecting the same in the GSTR – 2A.

This will ensure that there are no financial losses on supplier not filing the returns.

The above are some of the transactions which are being impacted and necessary steps have to be taken from time to time to avoid huge penalties and interest along with additional cash outflow. This is situation which we have not seen or envisaged at any point of time nor we have considered them in the business plans or experienced previously. Tax planning and availing the relaxations in the GST should be availed after making a trade off with the order book and cash out flows. Apart from these, the business process also has to be tweaked to make them simpler and less people driven by using technology wherever possible. This is a crisis but in very crisis there is a business opportunity and depends how we utilize the same.

The author can be reached for any information or clarifications

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