



CMA Bhogavalli Mallikarjuna Gupta
CFO, GST & Management Consultant

FIVE COMMANDMENTS - GST FOR YEAR CLOSING



We are in the world of New Normal due to the ongoing pandemic globally. Pandemic has resulted in disruptions and business strategy changes based on consumer preferences and budget allocations. The organizations have started the new financial years on 1st April 2020 in the lockdown period. None of the organizations have prepared or able to scale to the dynamic & ever-changing business environment. Time Never Stops, and History Repeats are the two common phrases we hear in our discussions in business circles. Come whatever may happen, organizations have to close their books of accounts for 31st March year. Closure of books in time and properly helps the organization mitigate the risks and take timely actions for the coming year to improve the top line and bottom line. What is required

for increasing the top line and bottom line is a strategy on how to achieve it, and compliance is one of the strategies meant to achieve the same. As we all know, GST is a Business Reform, not tax reform; changing few business processes in the organization here and there can ensure productivity while safeguarding the organization from hefty penalties and late fees. Following a structured process will ensure to minimize the same and at the same time be in good books of the tax authority and the suppliers. Professionals and taxpayers are required to complete the following before filing the GSTR – 1 and GSTR – 3B for March 2021 by 11th of April 2021 and 20th of April 2021 (for few taxpayers, it will be 22nd of April or 24th of April if their turnover is less than ₹ 5 cores based on the state they are located).

1. Reconciliation of Outward Supplies
2. Reconciliation of Inward Supplies
3. Reconciliation of Related Party Transactions
4. Issue of Pending Debit/Credit Notes
5. Reversal of ITC arising out of pandemic

1. Reconciliation of Outward Supplies

A series of reconciliations have to be done while filing the returns for March 2021 if the reconciliations have not been done while filing monthly and quarterly returns.

Verify the following for the correctness of the data in return filing

- Taxable Supplies, Exempted Supplies are reported correctly
- Non-GST supplies are reported correctly
- Supplies to deemed exporters are reported correctly at lower tax rates
- Supplies to notified agencies at a lower rate are reported correctly
- All outward supplies transactions are reported correctly in the Sales Register
- Ensure that e-invoices are issued wherever required if applicable
- Ensure and validate that the GSTINs of the customers are entered correctly and reported
- Ensure and validate that no GST is charged for transactions within the state having the same GSTINs
- Ensure that all the debit and credit notes are issued as per the provisions of GST
- Ensure and verify that all the liability entries are passed in the books of accounts

Complete the following reconciliations before the filing of the March GST Returns

- Reconcile between the GSTR – 1 data and the Sales Register
- Reconcile between GSTR – 1 and GSTR – 3B
- Reconcile between GSTR -3B and Sales Register
- Reconcile the data for the HSN summary being reported in monthly GSTR – 1
- Reconcile e-waybill data with GSTR – 1 data, and if there are any differences, it is worth making a reconciliation statement and preserve it for future references.

- Reconcile the e-invoices reported in the GSTR – 1 with the e-invoices generated
- Reconcile between the Liability Ledgers on GST portal with the

The beginning of the year started with lockdown, and it has resulted in a lot of delays and cancellations of orders. Wherever there is a commercial element missing and open, try to close all such cases by the issue of debit and credit notes. Credit Notes have to be issued before the due date of filing of GSTR returns for the month of September or filing of Annual Return, whichever is earlier.

Section 37 (3), First Proviso

Provided that no rectification of error or omission in respect of the details furnished under sub-section (1) shall be allowed after furnishing of the return under section 39 for the month of September following the end of the financial year to which such details pertain, or furnishing of the relevant annual return, whichever is earlier.

If any excess tax is paid for the said period through GSTR – 3B, then the same should be reduced from the GST liability in March 2021, reducing the cash outflows. Also, please maintain a reconciliation statement for the same for future reference.



2. Reconciliation of Inward Supplies

One of the major features and business-friendly measures in GST is the availability of seamless input tax credit. Though it is a piece of soothing music to the business's ears, it comes with a set of stringent measures like if input tax credit has been availed wrongly or excess amounts or claiming it if the supplier has not filed returns. Given all these, availing of the input tax credit process and claiming correctly becomes crucial for the business.

One of GST rollout's major benefits for the trade and industry is the availability of input tax credit seamlessly across the supply chain cycle. Though input tax credit is available, certain restrictions are available, and they are given in Section 16, Section 17(5), and in the corresponding rules.

Section 16(4) A registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains or furnishing of the relevant annual return, whichever is earlier.

Before doing the reconciliation, ensure to complete the following tasks

- Update the purchase register for the entire year and ensure all the transactions are updated in it.
- Verify that e-invoices are received from all the suppliers to whom it is applicable; else, it will not be considered a tax invoice and not eligible to claim the input tax credit.
- Verify and ensure that all the original copies of the tax invoice are available
- Verify and ensure that the goods and services are received before availing of the input tax credit
- Verify and ensure that all the credit and debit notes are updated in the system and accounted
- Verify and ensure that if any debit or credit notes are required to be issued by the supplier are issued, filed by the supplier in his returns and also accounted in the books
- Verify and ensure that RCM applicability on inward supplies is identified and accounted for, and paid.
- Verify and ensure that input tax credit is availed only on eligible inward supplies only
- Verify and ensure that input tax utilization entries passed in the books of accounts

Section 17(5)

(b) the following supply of goods or services or both—

(i) food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) except when used for the purposes specified therein, life insurance and health insurance;

(ii) membership of a club, health and fitness centre; and

(c) works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service;

(d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.

(h) goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; and

Apart from ensuring the steps mentioned above are completed and the do the reconciliation

Complete the following reconciliations

- Reconcile between GSTR – 2A / 2B with Purchase Register
- Reconcile between GSTR -2A /2B with GSTR – 3B
- Reconcile between GSTR-3B with Purchase Register
- Reconcile the ITC Ledger on GST portal with the various ledger accounts

Rule 69 – Matching

The following details relating to the claim of input tax credit on inward supplies including imports, provisionally allowed under section 41, shall be matched under section 42 after the due date for furnishing the return in FORM GSTR-3-

- (a) *Goods and Services Tax Identification Number of the supplier;*
- (b) *Goods and Services Tax Identification Number of the recipient;*
- (c) *invoice or debit note number;*
- (d) *invoice or debit note date; and*
- (e) *tax amount;*

3. Reconciliation of Related Party Transactions

In multiple instances, related parties are not accounted for properly, or returns are filed incorrectly. This results in a lot of tax litigation or reversal of input tax credits through discharge of liability. Though there is no loss to the exchequer, it is not as per the law's provisions, and the taxpayer cannot amend the returns if they have claimed wrongly.

It is recommended to verify all such transactions if there are any related party transactions and rectify the same in the March months returns. This process will ensure no loss of input tax credit, excess payment of taxes, which impacts the organization's bottom line. This will also eliminate litigation and save time and effort.

The above process is not required if the taxpayers reconcile their data before filing their monthly returns.

4. Issue of Pending Debit/Credit Notes

In a going business concern, there will always be issues and challenges in the supply chain. The supply chain challenges could be damages or breakages in transit or delay in shipments or receipt of goods, or receipt of inferior quality or different ones from the ordered—all these results in some price negotiations or others. In GST, only the supplier of goods or services can issue a debit note, and the recipient cannot unilaterally issue a debit note or credit note on the supplier.

As the above case results in price negotiation, there will always be a delay in the process, and as it is the year-end, it is recommended to clear all such pending issues. A rigorous follow-up with the vendors is required, backed by documentation.

Another case could be on account of reconciliation, there could be some suppliers who must have missed filing their returns, or their registrations have been canceled; in all such cases where the supplier has not filed the returns, a credit note should be requested to be issued to compensate the loss of input tax credit. If the supplier does not issue a credit note and the payment is already made, then the taxpayer cannot do anything but reverse the input tax credit with interest at the rate of 24%; payment of interest will be an additional loss to the taxpayers. To avoid such cases, before the payment release, it is recommended to complete the reconciliation process or withhold the tax amount until the supplier files the GST returns. This process will ensure that there is an impact on the bottom line.

Similar could be the case in the case of outward supplies. Also, it is recommended to issue debit or credit notes before the 31st of March 2021.

Section 34(2) - Any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed:

Though there is no time limit for the issue of Debit Note but is advised to issue the same as the same will minimize the pending issues, the issue of debit notes brings in additional cash into the system, which has become scarce due to the business disruptions on account of the pandemic.

5. Covid Impact on GST

The pandemic has impacted every business directly or indirectly. The impact is on the sales front, profits front as well on the operations and employee front. As the lockdowns have been announced to curtail the spread of the deadly virus, many manufacturers and service providers have impacted their businesses.

Manufacturers

- If any spoilage/wastage of raw materials or work in progress, the same is being debited to the Profit and loss account simultaneously. If any input tax credit has been availed, the same has to be reversed and observed in the profit and loss account.
- If any goods have been expired due to the lockdown, the same is being written off to the profit and loss account. Similarly, the input tax credit has to be reversed if any availed.
- If the customers have returned the goods and the same could not be used, were scrapped or destroyed for not being used, the input tax credit has to be reversed on such goods.
- If the scrapped goods are sold at a nominal rate, then input tax credit need not be reversed as it is sold as scrap, and GST is paid on it as per one school of thought.
- The pandemic has also resulted in a delay in payments. Identify if the suppliers are paid within 180 days; if not, the input tax credit must be reversed on the amounts due from one hundred and eighty-first day onwards.
- If any return of the goods by the customers or dealers or distributors, issue the credit notes immediately without further delay. It will be a challenge in financial reporting if issued after 1st April 2021.

Service Providers

If the advance is received from the customers and service is not being provided due to the lockdowns, advance received treatment becomes crucial in GST. The possible scenarios and treatment under GST

- (a) If the advance is returned in the same month, then no need to account for GST on receipt of the advance. Verify and validate all such advance receipts, and if GST is not paid, please pay interest on it if the invoice is issued in the subsequent months.
- (b) If the invoice is not issued till 31st March and service is not provided, validate and verify if GST is paid on the advance receipt along with the interest
- (c) If an amount is partially returned in the subsequent months and service is not provided, validate and verify if GST is paid on advance receipt if not account it and pay along with interest
 - o The pandemic has also resulted in a delay in payments. Identify if the suppliers are paid within 180 days. If not, the input tax credit must be reversed on the amounts due from one hundred and eighty-first day onwards.
 - o If any credit notes are required to be issued for the delay in service, complete the activity before filing GST Returns for March; else, reconciliation statements have to be prepared to explain to various stakeholders.
 - o If any debit notes have to be issued for price variations, the activity must be completed before the GST Returns filing for March 2021; else, reconciliation statements must be prepared to explain to various stakeholders.

The points mentioned above are indicative and may vary from taxpayer to taxpayer. It is also recommended to address the following points before the filing of the March return

1. Inputs sent on job work if not returned within the stipulated period; tax invoice has to be issued
2. Avail of the input tax credits if any is missed out
3. There is an exemption for reporting input tax credit by classification for the first two years only; the taxpayers must classify and claim input tax credit accordingly. If not done, prepare a reconciliation statement and validate that the same match the input tax credit claimed in GSTR – 3B.
4. Verify If any employee gifts above Rs 50,000 on which tax liability has to be paid
5. Verify if any input tax credit has to be reversed for the goods given without any consideration
6. Verify if any shortages or damage to stock on which input tax credit has been claimed? If any such items are there, reverse the input tax credit
7. Validate the input tax credit reversed on common inputs for taxable and exempted supplies being reversed
8. Verify input tax credit has been reversed on a pro-rata basis on capital goods from one state to another state
9. Verify the financial credit notes and debit notes issued according to the provisions; else, issue GST Credit / Debit Notes.

10. File all the relevant returns as per applicability and complete the reconciliations
11. Verify if all the customers who have to file GSTR – 7 & 8 have filed their returns and accepted the same, this will save on the cash outflows.

Wherever possible, if any ITC has to be reversed or tax has to be paid, account for it and discharge it through GSTR – 3B.

Verification of the above tasks is a time-consuming process, and it is recommended to start the process ASAP and ensure that no input tax credit benefit lapses. No removal of difficulties order has been issued for availing input tax credit for an extra period on account of a pandemic-like situation.

During the first three years after the rollout of GST, there was an option for corrections using the GSTR – 9 for liability. The same is being withdrawn based on the Finance Bill 2021, yet to be notified; if this is the case, there is no room left for the taxpayers for rectification. The wrongdoings can be seen only during the audit or scrutiny by the department officers over a period of time. By that time, the penalty amount along with interest also is going to be increased multi-fold. To avoid such challenges, it is highly recommended to follow the above steps before filing the returns for March 2021.

To avoid all the challenges, the return filing data should be captured in the accounting or ERP system accordingly. Wherever possible, automation should be introduced to minimize human efforts and automate the process of data entry and reconciliations. Let's not forget that GST is a business reform and not tax reform.

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