



## MATCHING OF INPUT TAX CREDIT (ITC) UNDER GST

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Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs and pay the balance amount.

Here's how-

When you buy a product/service from a registered dealer you pay taxes on the purchase. On selling, you collect the tax. You adjust the taxes paid at the time of purchase with the amount of output tax (tax on sales) and balance liability of tax (tax on sales *minus* tax on purchase) has to be paid to the government. This mechanism is called utilization of input tax credit.

Invoice matching is a mechanism under which all the taxable supplies made under GST will be matched against all the taxable supplies received by the buyer.

Invoice matching is relevant because, under the Goods and Services Tax law, input tax credit of purchase of goods and/or services will only be available if the details of inward supply filed under GSTR-2 return of buyer matches with the details of outward supplies filed in GSTR-1 of the supplier. This interlinking has been done by way of auto-population of data filed in GSTR-1 of supplier into GSTR-2 of the buyer.

Unless this matching reconciles the buyer will not be able to claim the input tax credit of taxes paid on purchase of input goods and/or services or both. Thus it becomes highly critical for businesses to be highly compliant under the GST regime. Compliance rating has been devised to tempt all the businesses for timely return filing and related compliance.

The concept of matching of ITC may not be new to the taxpayers, especially for the dealers who are currently operating under the Value Added Tax (VAT) regime. However, the same is alien or relatively new to non-VAT taxpayers and hence there is a need to understand the

concepts of ITC matching, ITC reversals and re-claim of ITC in GST regime.

Under GST regime, in order to claim input tax credit paid on purchases, there has to be corresponding outward supply entry from a registered taxable person. It means every input tax credit should be matched with the output tax liability. This may create a lot of burden both on the receiver and supplier for matching the transactions.

For all transactions between registered persons, invoice wise details shall be uploaded while filing GST returns and the same shall be matched. In case of any discrepancy found by the system, the said invoice will be treated as mismatched invoice which should be rectified either by supplier or receiver. The system shall match following items in every tax invoice uploaded in GST Network in order to pass on the input tax credit:

- GSTIN of Supplier or Receiver
- Invoice or Debit Note Number & Date
- Taxable Value & Tax Amount

All the invoices issued or received between taxable persons shall be matched for all the above parameters and the receiver would be able to claim the input tax credit. For all unmatched invoices, receiver and supplier shall get one month time to rectify the mistake while uploading the details of invoices. If details are corrected in following month then the receiver shall get the tax credit otherwise it will not be allowed. This may lead to cash loss to the receiver which will need more working capital to manage tax payments.

The quintessential 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 in case of import of goods. Failure to file valid return by the Supplier (or failure to pay appropriate IGST by the recipient in case of import of goods)

may lead to denial of ITC in the hands of the recipient. The matching of ITC may be better understood in the following steps (filing & acceptance of returns before due dates)

Form of Returns	Person required to furnish	Details required to be furnished	Due date of filing
GSTR-1	Supplier (Other than Composition taxpayer & ISD)	Prescribed particulars in respect of outward supplies	10 <sup>th</sup> of the next month
GSTR-2A	Auto-populated for the recipient	Basis the Form GSTR-1 of supplier, the particulars of inward supply would be auto-populated	
GSTR-2	Recipient (Other than Composition taxpayer & ISD)	Recipient shall modify, delete or include the details of inward supply basis the auto-populated Form GSTR-2A and furnish the final details of his inward supply	15 <sup>th</sup> of the next month
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	20 <sup>th</sup> of the next month

If the Taxable supply from Supplier to Buyer is on **05.11.2017** then following are the due dates for filling returns:

Form of Returns	Person required to furnish	Due date of filing
GSTR-1 : Details of Outward Supply (Sales Invoice)	Supplier (Other than Composition taxpayer & ISD)	10.12.2017
GSTR-2 : Details	Recipient (Other	15.12.2017

of Inward Supply (Purchase Invoice)	than Composition taxpayer & ISD)	
GSTR-3 : Monthly Return of GST	Supplier and recipient	20.12.2017

For better understanding of the above points please go through Section 42 & Section 43 of CGST Act which are described below from bare act :-

**Section 42 of CGST Act: Matching, reversal and reclaim of input tax credit**

- (1) The details of every inward supply furnished by a registered person (hereafter in this section referred to as the "recipient") for a tax period shall, in such manner and within such time as may be prescribed, be matched—
  - (a) With the corresponding details of outward supply furnished by the corresponding registered person (hereafter in this section referred to as the "supplier") in his valid return for the same tax period or any preceding tax period;
  - (b) With the integrated goods and services tax paid under section 3 of the Customs Tariff Act, 1975 in respect of goods imported by him; and
  - (c) For duplication of claims of input tax credit.
- (2) The claim of input tax credit in respect of invoices or debit notes relating to inward supply that match with the details of corresponding outward supply or with the integrated goods and services tax paid under section 3 of the Customs Tariff Act, 1975 in respect of goods imported by him shall be finally accepted and such acceptance shall be communicated, in such manner as may be prescribed, to the recipient.
- (3) Where the input tax credit claimed by a recipient in respect of an inward supply is in excess of the tax declared by the supplier for the same supply or the outward supply is not declared by the supplier in his valid returns, the discrepancy shall be communicated to both such persons in such manner as may be prescribed.
- (4) The duplication of claims of input tax credit shall be communicated to the recipient in such manner as may be prescribed.
- (5) The amount in respect of which any discrepancy is communicated under sub-section (3) and which is not rectified by the supplier in his valid return for the month in which discrepancy is communicated shall be added to the output tax liability of the recipient, in such manner as may be prescribed, in his return for the month succeeding the month in which the discrepancy is communicated.

- (6) The amount claimed as input tax credit that is found to be in excess on account of duplication of claims shall be added to the output tax liability of the recipient in his return for the month in which the duplication is communicated.
- (7) The recipient shall be eligible to reduce, from his output tax liability, the amount added under sub-section (5), if the supplier declares the details of the invoice or debit note in his valid return within the time specified in sub-section (9) of section 39.
- (8) A recipient in whose output tax liability any amount has been added under sub-section (5) or sub-section (6), shall be liable to pay interest at the rate specified under sub-section (1) of section 50 on the amount so added from the date of availing of credit till the corresponding additions are made under the said sub-sections.
- (9) Where any reduction in output tax liability is accepted under sub-section (7), the interest paid under sub-section (8) shall be refunded to the recipient by crediting the amount in the corresponding head of his electronic cash ledger in such manner as may be prescribed:
 

Provided that the amount of interest to be credited in any case shall not exceed the amount of interest paid by the supplier.
- (10) The amount reduced from the output tax liability in contravention of the provisions of sub-section (7) shall be added to the output tax liability of the recipient in his return for the month in which such contravention takes place and such recipient shall be liable to pay interest on the amount so added at the rate specified in sub-section (3) of section 50.

**Section 43 of CGST Act: Matching, reversal and reclaim of reduction in output tax liability**

- (1) The details of every credit note relating to outward supply furnished by a registered person (hereafter in this section referred to as the “supplier”) for a tax period shall, in such manner and within such time as may be prescribed, be matched—
  - (a) with the corresponding reduction in the claim for input tax credit by the corresponding registered person (hereafter in this section referred to as the “recipient”) in his valid return for the same tax period or any subsequent tax period; and
  - (b) for duplication of claims for reduction in output tax liability.
- (2) The claim for reduction in output tax liability by the supplier that matches with the corresponding reduction in the claim for input tax credit by the recipient shall be finally accepted and communicated, in such manner as may be prescribed, to the supplier.

- (3) Where the reduction of output tax liability in respect of outward supplies exceeds the corresponding reduction in the claim for input tax credit or the corresponding credit note is not declared by the recipient in his valid returns, the discrepancy shall be communicated to both such persons in such manner as may be prescribed.
- (4) The duplication of claims for reduction in output tax liability shall be communicated to the supplier in such manner as may be prescribed.
- (5) The amount in respect of which any discrepancy is communicated under sub-section (3) and which is not rectified by the recipient in his valid return for the month in which discrepancy is communicated shall be added to the output tax liability of the supplier, in such manner as may be prescribed, in his return for the month succeeding the month in which the discrepancy is communicated.
- (6) The amount in respect of any reduction in output tax liability that is found to be on account of duplication of claims shall be added to the output tax liability of the supplier in his return for the month in which such duplication is communicated.
- (7) The supplier shall be eligible to reduce, from his output tax liability, the amount added under sub-section (5) if the recipient declares the details of the credit note in his valid return within the time specified in sub-section (9) of section 39.
- (8) A supplier in whose output tax liability any amount has been added under sub-section (5) or sub-section (6), shall be liable to pay interest at the rate specified under sub-section (1) of section 50 in respect of the amount so added from the date of such claim for reduction in the output tax liability till the corresponding additions are made under the said sub-sections.
- (9) Where any reduction in output tax liability is accepted under sub-section (7), the interest paid under sub-section (8) shall be refunded to the supplier by crediting the amount in the corresponding head of his electronic cash ledger in such manner as may be prescribed:
 

Provided that the amount of interest to be credited in any case shall not exceed the amount of interest paid by the recipient.
- (10) The amount reduced from output tax liability in contravention of the provisions of sub-section (7) shall be added to the output tax liability of the supplier in his return for the month in which such contravention takes place and such supplier shall be liable to pay interest on the amount so added at the rate specified in sub-section (3) of section 50.