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CHALLENGES IN AVAILMENT OF INPUT TAX CREDIT UNDER GST & MATCHING

Input Tax Credit (ITC) is backbone of GST as it ensures the critical feature of taxing on value addition in the supply chain. Any action of denying ITC would lead to Cascading effect and kills the soul of GST. Hence, the success of GST heavily depends on the free flow of ITC across the supply chain.

Invoice matching to avail ITC i.e. ITC is said to be allowed only when the supplier uploads the invoice containing the GSTIN & other details of the recipient & pays the GST thereon to the Government. The last 4 half years' experience has shown the various technical glitches for the Government to implement in its full force. The Government was very keen on imposing the same knowing very well that such requirement causes undue hardship to the Taxpayers. But in long run Govt is not having any option. The success of GST purely depends upon the matching.

Original Scheme of GST law

Section 42 specifies the mechanism for matching, reversal and reclaim of ITC wherein it was clearly stated the details of every inward supply furnished by a registered person shall be matched with the corresponding details of outward supply furnished by the supplier in such manner and within such time as may be prescribed. Accordingly, Rule 69 was framed to specify that the ITC shall be matched under Section 42 after the due date for furnishing the return in GSTR-03. Further, the first proviso to Rule 69 also states that if the time limit for furnishing Form GSTR-01 specified under Section 37 and Form GSTR-2 specified under Section 38 has been extended then the date of matching relating to claim of the input tax credit shall also be extended accordingly. Due to practical difficulties got has introduced 3B as a temporary return but now it is all most all permanent

However, due to various numerous challenges in the implementation of GSTR-2 & GSTR-3, the Government has extended the time limits for filing GSTR-2 and GSTR-3 from time to time and later indefinitely. In absence of a requirement to file GSTR-2 and GSTR-3, the ITC matching mechanism prescribed u/s. 42, r/w. Rule 69, will also get deferred and become inoperative.

Modified structure

Acknowledging the difficulties in original scheme of returns filing and attached ITC matching, the Government has introduced Section 43A of CGST Act, 2017 inter alia specifying that ITC would be allowed even on the unmatched invoices also subject to maximum cap of 20% on the matched ITC then it has reduced 10 and now it is only 5%.

In Sep 2018, 2A made available to taxpayers and which is dynamic in nature i.e every now and then it is being changed on upload of invoices from supplier side. It was very difficult to keep on updating reconciliation workings as it is keep on changing.

GSTR-2B which is a static statement is made functional for July 2020 on a trial run however, for the subsequent tax periods the same could be fully operational. While referring to the provisions of law, it is imperative to note that the law does not provide any legal sanction. GSTR-2B which was actually notified with effect from January 2021 onwards which is. 2B is static in nature. GSTN would make 2B available on 14th of succeeding month.

Benefits of 2B

1. It contains information on import of goods from the ICEGATE system including inward supplies of goods received from Special Economic Zones Units/ Developers.
2. A summary statement which shows all the ITC available and non-available under each section. The advisory given against each section clarifies the action to be taken by the taxpayers in their respective section of GSTR-3B.
3. Document level details of all invoices, credit notes, debit notes etc. is also provided both for viewing and download.

Issues with Current Situation

1. GSTN would make 2B available on 14th of succeeding month. This would give short period for 2B reconciliation with books of accounts.
2. There will be multiple sheets in 2B excel such as B2B, B2BA, DNs, CNs, Imports and amount payables are merged with normal B2B inwards which creates problems.
3. In Bharthi airtel case the Honourable Supreme Court said that GSTR2A/2B are only references tools to the recipients for his reconciliation. On this basis the department is not having any power to restrict the ITC. Hence once again availability of ITC on 2A/2B is just basis for reconciliation and not for deciding eligibility of input tax credit.
4. In GST also, we find bill traders as we have seen many ITC frauds.
5. Department would start allowing ITC as per 2B which will lead hardship to industry.

Our Observation and Requirement as expected

1. It should be made available on 12th itself by removing IFF (Invoice Furnishing Facility) for quarterly filing 3B filers concept. This would help recipients early to check their books of accounts.
2. 2B should be made available in single excel sheet with all details such B2B, B2BA, DNs, CNs, Imports and there itself it should show total which is available as input.
3. ITC frauds/bill trading will be minimised due to matching process.

Conclusion

As a whole matching concept is very good tool to minimize departmental audit and for self-assessment. Without matching probably number of department audits will be more in future. If you want to minimize litigations, matching is ultimate tool. Hence even though we are having lot of practical difficulties we need to promote matching process. Govt. has to take lenient view at least for initial 4-5 years. If they start harsh action against taxpayers may be whole concept of GST will fail.