BOOKKEEPING V/S GSTR-3B

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GST w.e.f 1st October 2022: Section 16 of the CGST Act, which deals with eligibility and conditions for claiming ITC provides five specific conditions in section 16(2), which are as below:

The taxpayer is in **possession of a tax invoice** or debit note;

(aa) The detail of the above invoice/debit note is communicated **in GSTR 2B** of the taxpayer;

The taxpayer has **received** that goods or service;

The supplier has **made payment of GST** applicable on such supply;

The taxpayer has **claimed ITC and furnished its return**.

Now by virtue of the amendment, a new **clause (ba) is inserted** in the above list, which provides as below:

(ba) the details of input tax credit in respect of the said supply communicated to a such registered person under section 38 has not been restricted;

The Government vide Notification No. 14/2022 – Central Tax dated 05th July 2022 has notified few changes in Table 4 of Form GSTR-3B to enable taxpayers to correctly report information regarding ITC availed, ITC reversal and ineligible ITC in Table 4 of GSTR-3B.

GSTR - 3B (Table 4 – Eligible ITC Details)

Details	Integrated Tax	Central Tax	State/UT Tax	Cess
`	2	3	4	5
(A) ITC Available (whether in full or part)				
(1) Import of goods				
(2) Import of services				
(3) Inward supplies liable to reverse charge (other than 1 & 2 above)				
(4) Inward supplies from ISD				
(5) All other ITC				

Details	Integrated Tax	Central Tax	State/UT Tax	Cess
`	2	3	4	5
(B) ITC Reversed				
(1) As per rules 38, 42 and 43 of CGST Rules and Section 17(5)				
(2) Others				
(C) Net ITC Available (A) – (B)				
(D) Other Details				
1) ITC reclaimed which was reversed under Table 4(B)(2) in earlier tax period				
(2) Ineligible ITC under section 16(4) and ITC restricted due to PoS provisions				

From the format of Table 4, following is noteworthy:

I. All non-reclaimable reversal of ITC needs to be reported in table 4(B)(1)

II. All reclaimable ITC reversals may be reported in table 4(B)(2). It should be noted that ITC reversed under 4(B)(2) can be reclaimed in table 4(A)(5) at an appropriate time, and the break-up detail of such reclaimed ITC should be provided in 4(D)(1) in the same return.

III. The ITC not available mentioned in GSTR-2B of the taxpayer has to be reported in 4(D)(2) of table 4.

IV. Any ITC availed inadvertently in Table 4(A) in previous tax periods due to clerical mistakes or some other inadvertent mistake may be reversed in Table 4(B)2.

The above amendments introduce an entirely new mechanism under which the auto-generated GSTR 2B shall itself decide and provide the list of Invoices or Debit notes on which ITC can be claimed by the taxpayer, irrespective of whether they are booked in the books or not.

At the time of the introduction of GST in India, the following was envisaged.

*The journey of a free flow of credit and uploading transaction wise information starts from Form GSTR-1. It has the details of all outward supplies made by the suppliers. Similarly, details of all inward supplies of goods or services received during a month have to be filed in a **Form GSTR-2**.*

The end result is that all inputs and outputs for a particular dealer are kept handy in the Electronic Ledger. Although the above forms have to be verified and accepted by the counter party, i.e. the transactions have to be approved by both supplier and recipient. Once all transactions are approved, then electronic cash ledger is generated, and the amount payable or available as credit is displayed.

Even after 5 years of implementation of GST, the software could not be developed to meet the requirements of Form GSTR-2, which has led to huge revenue loss to the Government and Genuine Registered dealers. The control mechanism, which could not be configured in a single GSTN system, is now transferred to the registered persons by omitting Form GSTR-2 and amending the contents of GSTR-3B.

The audit team may take a stand in the future that ITC is allowable only if the ITC is availed in Table 4A of GSTR-3B is pertaining to the "Tax Period" in which the supplier has raised invoice and declared in GSTR-1 and subsequently reflected in GSTR-2B. Any deviation from availing ITC as per GSTR-2B may be disallowed as per the interpretation of the law by the audit team. (Reference may be made to W.P.Nos.58917-58928/2016 Kirloskar Electric Co. Ltd. V/s. The State of Karnataka)

ITC availed in the books is only for those the registered person is eligible to take the credit. The items on which ITC can be availed are only considered in the books.

Though the ITC can be claimed only on certain items, the company accounting system is configured to capture the ITC, which is eligible only. Purchases on which ITC is not eligible u/s17(5) are expensed, and no ITC is claimed in the books of accounts. In the absence of no claiming of ITC in the books of accounts, no separate entry will be available in the books of accounts for Ineligible ITC, and it is not fair on the part of the department to insist mandatorily showing the ineligible, which is not forming entry in the books of account in the GSTR3B returns.

ERP systems are generally configured to arrive at the value net of GST in case ITC is eligible or the gross value inclusive of GST if ITC is not eligible. The proposed system makes the companies net of the GST in all cases and then reverses the ineligible ITC, which amounts to duplication and also against the accounting principle. There is also difficulty in reversing the ineligible ITC to the respective head of account and the cost center where the expenses are booked.

The above is further explained with the help of the following examples.

A registered company purchases materials from vendors who are registered under GST. The purchases are meant for regular production and, in some cases, for the repairs and maintenance of the buildings. Based on the PO terms and the expenses to be debited, the configuration is made in the system to consider net GST for regular purchases used in the manufacture of products and Gross value inclusive of GST for purchases relating to repairs and maintenance of the building. Similarly, the Company purchases some materials from the same vendor for use in the canteen and is not eligible for availing the ITC; Gross value inclusive of GST is debited to Canteen expenses in the books of accounts. Hence most of the registered assesses are not reflecting the ineligible u/s 17(5) separately in the GSTR3B.

If the GST department forces to show the ineligible u/s 17(5) mandatorily, then GST registered assesses will be forced to deviate the GSTR3B reporting from that of the values in their books of accounts. Further, if ineligible credits have to be reversed by manual entries in the books at month end, it will lead to reversals of ITC under the wrong heads of accounts and will lead to confusion.

In the past, there have been many Supreme/High court decisions where it has been held that once the registered person has done all its compliances on its part, ITC cannot be denied for the mistake of the Supplier.

We accountants, in principle always refer to our books of accounts for the preparation and filing of GST returns or any tax returns. But now, the GST Amended law is forcing us to deviate from our basic accounting principle and prepare the GST returns based on the data extracted/downloaded from the GSTN portal for which we do not have any control. This will create a huge mess in the near future and create a lot of difficulty for the taxpayer.

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