

# GST DISCLOSURE NORMS IN TAX AUDIT REPORT

TEAM TRD

## New disclosure in regard to Expenditure:

- The heading of newly inserted clause 44 is 'break-up of total expenditure of entities registered or not registered under the GST'.
- Disclosure under clause 44 is required to be made by:-
  - ✓ A person who is registered under GST Law
  - ✓ A person who is not registered under GST law
    - Engaged solely in exempted supplies
    - Non-GST supplies (like petroleum products)
    - Non-supplies(stated in Schedule III to CGST Act)
  - ✓ A person who is not required to obtain registration as its aggregate turnover is below Rs. 20 lakhs.
- Thus, the tax auditors need to provide such information in respect of all the tax auditees.

The type of information as desired in clause 44 is as under: -

- Description Column No of Table to clause 44 of Revised Form 3CD
  - a) Total amount of expenditure incurred during the year 2
  - b) Expenditure in respect of entities registered under GST
    - i. Relating to goods or services exempt from GST 3
    - ii. Relating to the entities falling under composition scheme 4
    - iii. Relating to other registered entities. 5
    - iv. Total payment to registered entities 6
  - c) Expenditure relating to entities not registered under GST. 7

## Discussion about each of the above heads for which information is required to be disclosed

- Total amount of expenditure incurred during the year –
  - ✓ Under the above head , total expenditure incurred during the year is required to be disclosed.
  - ✓ Apart from the expenses in Statement of Profit and Loss, the capital expenditure incurred like purchase of fixed assets is also required to be included for reporting the same in the tax audit report.
  - ✓ The expenses which are incurred not yet paid will also have to be disclosed.
- Whether expenditure on non-supplies are required to be reported?
  - ✓ The main issue is that whether the expenditure which is not incurred towards supply of any goods or service like payment of salary to employee, would be required to be disclosed or not.
  - ✓ There are two approaches.
    - Conservative Approach:- An expenditure should be disclosed as the heading does not say that 'expenditure on supply' is to be reported only. Rather it states that expenditure is to be disclosed.
    - Another Approach:-The main objective of the Central Government is to introduce this clause for matching such figures with the GST returns, wherein non-supplies are not required to be disclosed and, thus, there should be no need to disclose expenditure incurred on non-supplies. The Central Government needs to issue clarification in this regard for which it has now got time, as application of clause 44 has been deferred till 31st March, 2019.

- Whether GST amount will be included in total expenditure?
  - ✓ This is also a tricky issue. However, as the term used is total expenditure incurred, it should include the GST amount in respect of inward supply of goods or services or both. A clue which corroborates the above view is in shape of column 6 of table to clause 44 which provides for disclosure of total payment to registered entities, which naturally includes GST.
  
- Whether depreciation will be included in total expenditure ?
  - ✓ Under clause 44, details of expenditure are being asked for with break up between the inward supplies received from registered and unregistered suppliers. As depreciation as an expense is not towards any inward supply, the same will not be included in the total expenditure.
  
- Expenditure in respect of entities registered under GST –
  - ✓ Here the expenditure incurred in regard of receipt of supply of goods or services or both from registered suppliers is required to be disclosed in four sub-heads
    - Relating to exempt goods or services  
The expenditure incurred by the tax auditee on goods or services or both which are exempted from GST will be disclosed here. As per Section 2(47) of the CGST Act, 2017 exempt supply means the supply of any goods or services or both which attracts NIL rate of tax or which are wholly exempted from the levy of tax under section 11, or under section 6 of the IGST Act and include non-taxable supplies. It may be noted here that activities / transactions which are not regarded as supplies as per Schedule III of the CGST Act are not required to be disclosed here.
    - Supplies from composition suppliers  
In this column the expenditure incurred on inward goods or services or both received from suppliers who have opted for composition scheme under Section 10 of the CGST Act, 2017 will be mentioned. It may be noted here that details of value of inward supplies under composition scheme, exempt and NIL rated supply are also required to be disclosed in return form GSTR 3B and while disclosing data here it should be ensured as an Auditor that the total of column 5 (exempt supply) and 6 (composition scheme) matches with the figures as disclosed in GSTR 3B filed by the auditee.
    - Other registered suppliers  
Under this heading the amount of expenditure incurred on inward taxable supplies of goods or services or both will be mentioned. The amount of expenditure to be disclosed here would be inclusive of GST. Further, here also it should be ensured as an Auditor that the amount disclosed tallies with the figures as disclosed in GSTR 3B filed by the auditee. However, while matching appropriate adjustment be made for GST as in GST returns the value would be depicted without GST.
    - Total payment to registered entities  
Based upon the prima facie examination of the format in which details of expenditure are to be given, it appears that the total of the amounts stated in the columns 3, 4 and 5 would be stated here. However, this view is not free from doubt in view of fact that the total payment is to be disclosed here, whereas expenditure incurred is required to be mentioned in columns 3, 4 and 5. We all know that there is big difference between incurred which means accrued (even if not paid) and payment.
  - ✓ Another view that can be taken here is that the information to be given in Column 6 is independent of columns 3, 4 and 5 and here the total payment to registered persons needs to be shown. However, seeking the quantum of total payments made to the registered entities will not serve any purpose since the expenditure is normally recorded on accrual

basis. Such information is also very difficult to obtain and would pose accounting challenges. Above issue also requires to be clarified by the Central Government.

- Expenditure relating to entities not registered under GST –

- ✓ The Columns 3, 4, 5 and 6 are in regard to expenditure incurred on inward supplies of goods or services from registered suppliers, whereas column 7 is in respect of such supplies received from unregistered suppliers. As no GST would be charged by unregistered suppliers the break up between exempt and taxable supplies has not been asked for here. It may be noted here that the expenditure incurred on imports would also be required to be included here. A question may arise here whether we need to include the expenditure incurred in respect of non-GST supplies, viz, petroleum, alcoholic liquor or not.

### Some Important Aspect for GST

1. GST annual return can be filed up to 31st December by all.
2. Assessee over certain turnover limit are also subject to audit report and reconciliation.
3. Any left over transaction of output tax, ITC , ITC reversal etc , logically can be done till annual retrun.

However the following points are very important and it leads to assume September Month as very important. Nevertheless to mention here that September Month Return can be filled up to 20th of October. Hence we may assume the said date can be up to October 20. However books of account entry for any adjustments must be for September Month as last month.

Now the reasons is-

1. Any amount paid as taxes under GST law, if paid up to the return of the month September, the credit in this respect can be taken by the recipient. Not after that.
2. Each year is separate year and inter government account would be adjusted keeping September as cut off. Beyond that the taxes can be paid as liability but the benefit if such taxes can not be pass on to the recipient.
3. Tax Audit under Income Tax due date is 30th September, GST being taxes , would be allowed on actual basis. Section 43B of income tax may please be referred. Hence it is advised to estimate all taxes before completion of tax audit or 30sept. Cases where income tax audit is not applicable, even the date have been gone on 31st August.
4. Form 2A may be referred as a statement of tax credit which may not weren't any confirmation of taxes paid under law so as to enable as ITC.

Hence in order to safe tax as a cost and minimizing the cash ceding effect , it is advisable to reconcile everything as if the due date under GST for annual return and audit also 30th September.