

# Link Between IT and GST

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# Tax Revenue

- Every Country Requires Funding to aid the development of the country.
- Government Generates the Revenue through taxing the citizens
- India has structured system of taxation:
  - Viz., Progressive and Proportional
    - progressive - the tax is levied at increasing rates to increasing brackets of income or revenue
    - proportional - the rate of tax levied in proportion to the amount of income or revenue.

- For current fiscal 2020-21, the government has revised downwards the tax collection projections from budgeted Rs 24.61 lakh crore.
- Actual collection for 2019-20 - 21.63 lakh crore in the revised estimates.
- Direct collection stood at Rs.9.45 lakh crores in 2020-21.
- For Fiscal 2021-22 BE 22.2 lakh crores.
- Only 5.95 crores people filed ITRs

- Only 1.5 cores people pay Income Tax out of 130 crores
- Very few Indians pay income taxes. So, millions of them evade taxes and hide their incomes is the popular notion

Contribution of tax revenue to the nation's economy is not very encouraging. It is apparent from the direct tax to GDP ratio, which stood at a 14 year low of 5.1%, as the total tax to GDP ratio was at 9.88%. This begs the question if India is an under-taxed country.

- low income tax base because millions of Indians hide their income

# Indian Taxation

- India is Federal Structure of Government
  - Central and State
- Hence we have two type of tax systems in the country
  - Direct Tax and Indirect Tax
  - the responsibility of payment of tax rests on the taxpayers in DT
  - The responsibility of payment of tax rests on middle men in IDT
  - DT is Income Tax and IDT is GST and CD

# Direct Tax

- Direct taxes - the importance of taxes by reducing income inequalities with its progressive tax structure.
- Citizens are taxed in proportion to their economic circumstances, encouraging social and economical equality.
- Taxpayers know how much tax they pay
- useful in controlling inflation by regulating demand and supply in the economy.
- There are tax evaders and black money hoarders in India

# Indirect Tax

- Indirect taxation it is system that makes the buying and selling of goods and services across the country.
- Easy to collect and convenient for both taxpayers and the tax collection authorities.
- Results in increased tax base resulting in increased revenue to the Government.
- GST is regressive in nature
- Same tax paid by everybody

# DT and IDT

Direct Tax	Indirect Tax
Levied on Income of Person	Levied on Goods and Services
Burden Cannot be shifted	Burden shifted to consumer of goods and user of services
Tax Payer pays directly to Government	Paid by the Middlemen in Supply Chain
Tax Collection is difficult	Collection is Relatively Easy
Can be avoided/evaded by dubious methods - Suppression	Cannot be avoided. One cannot avoided using goods and services



# Other Issues – Direct Taxes

- **Direct tax** can help in reducing inflation, whereas **indirect tax** may enhance inflation.
- **Direct taxes** have better allocative effects than indirect taxes as direct taxes put lesser burden over the collection of amount than indirect taxes, where collection is scattered across parties and consumers' preferences of goods is distorted from the price variations due to **indirect taxes**.
- **Direct taxes** help in reducing inequalities and are considered to be progressive while **indirect taxes** enhance inequalities and are considered to be regressive.

# Indirect Taxes

- **Indirect taxes** involve lesser administrative costs due to convenient and stable collections, while **direct taxes** have many exemptions and involve higher administrative costs.
- **Indirect taxes** are oriented more towards growth as they discourage consumption and help enhance savings. **Direct taxes**, on the other hand, reduce savings and discourage investments.
- **Indirect taxes** have a wider coverage as all members of the society are taxed through the sale of goods and services, while **direct taxes** are collected only from people in respective tax brackets.
- Additional **indirect taxes** levied on harmful commodities such as cigarettes, alcohol etc. dissuades over-consumption, thereby helping the country in a social context.

# Tax Collection

- Both the taxes are prone to
  - Tax Avoidance and
  - Tax Evasion
- The above two results in loss of revenue to Government
- The word of Justice O.Chinnappa Reddy of SC on the ethics of taxation:
  - “substantial loss of much need public revenue in a welfare State
  - “serious disturbance caused to the economy of the country by piling up of black money directly causing inflation”

# Information Sharing

- The Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC) signed a Memorandum of Understanding (MOU) for exchange of information even before introduction of the new tax regime, viz., GST.
- **Purpose**
- MoU will facilitate the sharing of data and information between CBDT and CBIC on a regular basis from their respective databases.

It is an ongoing initiative of CBDT and CBIC

Data Exchange Steering Group has also been constituted for the initiative, which will meet periodically to review the data exchange status.

# Actions

- Tax authorities, are taking proactive measures to catch wrongdoers whose books of accounts show evidence of deliberate discrepancies between Income Tax Returns and GST Returns.
- With introduction of GST, the data is available across the country which can be accessed both by Central and State Tax Authorities.
- This has helped exchange of data between CBDT and CBIC and also by the respective State Tax Authorities.

# Impact of Sharing the data

- MOU has resulted in income tax website now showing GST data of a taxpayer.
- The sharing of information was to avoid tax evasion and increase reporting of turnover.
- information includes tracing non-filers under the Income Tax Act, 1961 and the Goods and Services Act, 2017.
- The system help both the authorities to match revenue reported by taxpayer under Income Tax and GST.
- Any mismatch in data will be automatically reflected in Compliance Portal on the website of the IT Department.

# Link

- The System of sharing information applies to all the assesseees who have business income who file their ITRs from ITR 3 to ITR 7.
- Relationship can be viewed relating to
  - Turnover under GST
  - Turnover Ratio
  - Turnover Range
  - GTI under IT
  - GTI Range
  - Any other as required
- which will be decided by the respective tax authorities and the same will be shared by both the departments.
- Reconciliation of the Turnover is an important step to find the discrepancies both in the income declared under IT and GST.

# Window Dressing Vs. Tax Evasion

- the Income Tax Department will have a clear picture of the total sales and purchases, and eventually the overall profitability, of every business.



# GST Invoices

- Under the GST law, every sale invoice will get uploaded on the GSTN [GST portal](#).
- These invoices will, in turn, be referred to the buyer for their acceptance (except for the final consumer).
- GSTN will ensure a 100% reconciliation of sale invoice of the supplier and the purchase invoice of the buyer.
- we can expect more accurate value being reported under the in GST regime.

# GST Registration Checking Link

- PAN Linked GST Registration is a First Link between IT and GST
  - GSTN      15 Digits
  - PAN      10 Digits
  - First Two Digits : Represents State Code
  - Next 10 Digits      Represents PAN
  - 13<sup>th</sup> Digit      No. of Registrations of GST in State for the same PAN
  - 14<sup>th</sup> Digit      Z by Default
  - 15<sup>th</sup> Digit      Check Code to detect errors – can be Alphabet or Number
  - The Tax Payers will be consolidated on a single platform for compliance and administration purposes.

# 26as

- Form 26AS ( Form in which all the TDS, TCS and Other Tax payment entries related to income tax are reflected) now will also reflect T.O. as per **GSTR-3B**, this form will automatically pickup month wise T.O. entries from the GSTR-3B return filed by registered person in GST portal.

# Turnover

- Earlier, before this linkage what happens is that assessee has to self-declare the T.O. as per GST portal in his income tax return, but there is no such linkage of GST portal and e-filing therefore assessee can easily manipulate the T.O. which ultimately results in “less profit less tax”. Assessee wilfully declare less T.O. in Income Tax Return due to self-declaration therefore, this is the need of situation to link both the portals so as to avoid tax evasion and ensure proper compliance.

# New AIS w.e.f. 1.11.2021

- 'Annual Information Statement' which apart from the TDS/ TCS details, shall now contain comprehensive information relating specified financial transactions, payment of taxes, demand/refund and pending/completed proceedings undertaken by a taxpayer in a particular financial year that has to be mentioned in the income tax returns.

It would also show turnover reported in Goods and Services Tax (GST) return form GSTR-3B.

# TCS on Sale of Goods

- Section 206C(1H) widens the scope of Section 206C
  - TCS on Sale of all Goods
  - W.e.f. from 1<sup>st</sup> October 2020
  - Collect tax on sale of goods in addition to sale consideration
  - Rate of TCS = 0.1%
- The seller required furnish Quarterly State in FORM 27EQ
- Issue of TCS Certificate to the buyer
- All the details of Sales Turnover automatically reflected in 26as

# ITRs

- The (I-T) income tax forms notified for the current assessment year (AY 2020-21) makes it mandatory to report GST outward supplies.
- The information in Form 26AS provide ease of compliance to the taxpayers in filling Schedule GST.
- No change in the reporting requirement with the display of information of GST turnover in Form 26AS.
- The taxpayers required to furnish GST and income-tax returns correctly.

- display of information of GST turnover in Form 26AS, at the same time, would force taxpayers to report their correct turnover and consequently force them to pay the correct income-tax
- Tax payers earlier used to evade income tax by under-reporting their turnover in the income tax returns as compared to turnover reported in the GST returns.



# Impact

- unscrupulous persons are trying to avail or pass on input tax credit fraudulently by generating fake invoices and has already formulated a strategy for identifying these fake invoice generators which inter alia takes into account the income tax profiles of the suspected fake invoice generators.
  - These persons in most of the cases never file their income tax returns or disclose very meagre taxable income in the income tax return.
- suspected fake invoice generators are being identified for serious action under GST and other laws
- Cancel the GST registration based on the fact that whether their income tax payment commensurate with the expected profit margin on turnover reported by them in the GST returns,

- Revamped 26AS is a game-changer in terms of transparency, diligence & simplified information deliverance; the better the integration and execution, the more efficient & transparent tax compliance

# ITR3

- Schedule – Trading Account (Sl.No.4(C)) and Part A – P&L (Sl.No.44)
- Details of GST should be given in the schedule
- Details of taxes levied on sale (CGST, SGST, IGST, and UTGST) and these details needs to be matched with the **electronic liability register** on the GST portal.
- Provide details of CGST, SGST, IGST, and UTGST paid on purchases and the credit taken thereof, these details should be matched with the electronic credit ledger available on the portal.
- Required to furnish details of taxes paid under GST. These details should be matched with **the electronic cash ledger** available on the GST portal.
- Required to mention in the Income Tax Return amount payable as on 31<sup>st</sup> March 20XX, in relation to CGST, SGST, IGST, and UTGST

# Information on GST Refund

- GST refund is receivable from the government and not credited to Profit & Loss account then the details of the same are required to be given in the Income Tax Return.
- Many eligible dealers have claimed GST refund like on Zero Rated Supply, inverted duty structure, excess Cash balance etc. Ensure that the refund has been processed otherwise ensure proper accounting of GST Refund receivable in books of accounts.
- This will be reconciled with the GST Details that is furnished in ITR3 and required to be disclosed to ensure correct computation of Income and tax liability.

# ITR4

- Schedule BP – E9
- In ITR 4 the taxpayer is required to provide Turnover/Gross Receipts under GST as mentioned in the GST returns.
- These details can be taken by the taxpayer from the GSTR 1 filed by them.
- Taxpayers are required to furnish the [GST Registration number](#) in the [Income Tax Return](#).
- Need to match the GST returns with the Books of Accounts.
- Match before filing the Income Tax Return.

# ITR-5

- Schedule – Trading Account - Sl.No.C
- Schedule – Part A P&L Sl.No.44

# ITR 6

- GST Details
- Schedule – Trading Account Sl.No.C – Part A P&L – Sl.No.44
- A new schedule has been inserted in ITR 6 which requires every company, who is not required to get its accounts audited under Section 44AB, to provide details about transactions in exempt goods or services, transactions with composite suppliers, transaction with a registered or unregistered supplier under GST during the year.
- This is in addition to the details of the Tax Paid on purchases and Tax Payable on Sales in Trading Account Schedule.

# GST Schedule in ITR 6

<b>Schedule GST</b>	<b>INFORMATION REGARDING TURNOVER/GROSS RECEIPT REPORTED FOR GST</b> <b>Details of GST</b>	
<b>Sl.No.</b>	<b>GSTIN No.(s)</b>	<b>Annual Value of Outward Supplies as per the GST Returns Filed</b>
1		
2		
3		
4		
<b>Break-up of total expenditure with entities registered or not registered under the GST</b>		
<b>Note:-Please furnish the information above for each GSTIN No. separately</b>		



# Action by IT

- information shall be used by the **investigation wing of IT department** as reasons to believe for initiating any **assessment proceedings including raids** against the taxpayer. This sharing of information will be a tool for taxing authorities to keep an eye over the business of a taxpayer.

# Reasons

- A business income can be under-reported by either increasing bogus purchases or expenses or by not reporting the turnover.
- Details of major purchases and expenses on GST portal **cannot be manipulated** by the tax payer as that data is uploaded by the supplier and tax payer has no control over the same.
- **turnover cannot be under-reported** in case of B2B cases over GST portal as the person to whom the sales have been made would want to avail the Input Tax Credit.
- under reporting of turnover under GST is extremely difficult.

# Supply - difference

- Supply to the distinct/related person without consideration
- As per Schedule I of the CGST Act, 2017, supply to related or distinct person, even if without consideration is treated as supply and, thus, subject to GST.
- Value is determined as per Valuation Rules provided in the CGST Rules, 2017.
- the value of such supply would be included in GST return,
- however, such supply being without consideration would not be accounted for in the books of account and, therefore, would not be part of turnover/gross receipt for income-tax purposes.
- Further, Section 40A(2)(b) of the Income-tax Act, 1961 is in regard to disallowance of excessive expenditure in respect of payment to related persons and not relevant in the above situation.
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# View GSTR 2A Data on Income Tax Portal (available upto Dec.2021)

- Step 1. Open a browser and head-up to <https://www.incometaxindiaefiling.gov.in/home>
- Step 2. By using your login credentials e-filing User ID and password, log in to the portal.
- Step 3. Now find the Compliance tab and under it find and select “Compliance portal” option and click on Confirm button
- Step 4. Now from here, navigation to E- Campaign tab a notification will come under Non-filing of return
- Step 5. On the newly opened page, you will find the list of notification, click on any of the Notification, details for which a non-filing notice has been issued will appear here.
- Additionally, If you further click on the Business transaction details then a list of purchases made during the year will appear. All this information is being fetched from the [GSTR 2A of a taxpayer](#) (Now removed from Jan.2022).
- It will be GSTR-2B

# GST Details Through IT Audit –Sec.44AB

- Disclosure in Form 3CD
- Implications of GST in Accounting
  - Reconciliations & Controls
  - Documentation for GST Assessments
  - E-Invoicing and Accounting
- The Central Board of Direct Taxes (CBDT) has notified that when assessees are subject to an audit under the Income Tax Act, they have to submit a tax audit report to the Income Tax Authorities. This tax audit report can be furnished in either Form 3CA or 3CB. Along with the audit report, the assessees are required to furnish a 'Statement of Particulars' in Form 3CD. Form 3CD asks for the basic details of the assessee and the particulars of various compliances under the Income Tax laws.
- This form also requires the assessees to disclose details related to GST. These details will help in matching the figures with the GST returns and thus ensuring there is accuracy of data.

# Clause 30C – Disclosure Relating to GAAR

- **The definition of ‘impermissible avoidance arrangement’ U/s 96 of Income-tax Act is as mentioned below:**
- (1) An impermissible avoidance arrangement means an arrangement, the main purpose of which is to obtain a tax benefit, and it-
  - (a) creates rights, or obligations, which are not ordinarily created between persons dealing at arm’s length;
  - (b) results, directly or indirectly, in the misuse, or abuse, of the provisions of this Act;
  - (c) lacks commercial substance or is deemed to lack commercial substance under section 97, in whole or in part; or
  - (d) is entered into, or carried out, by means, or in a manner, which are not ordinarily employed for bona fide purposes.
- (2) An arrangement shall be presumed, unless it is proved to the contrary by the assessee, to have been entered into, or carried out, for the main purpose of obtaining a tax benefit, if the main purpose of a step in, or a part of, the arrangement is to obtain a tax benefit, notwithstanding the fact that the main purpose of the whole arrangement is not to obtain a tax benefit.

# Clause 44 of Form 3CD – IT Audit

<i>Sl. No.</i>	<i>Total amount of Expenditure incurred during the year</i>	<i>Expenditure in respect of entities registered under GST</i>				<i>Expenditure relating to entities not registered under GST</i>
		<i>Relating to goods or services exempt from GST</i>	<i>Relating to entities falling under composition scheme</i>	<i>Relating to other registered entities</i>	<i>Total payment to registered entities</i>	
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>

# GST in ITR-6

- Schedule GST –
- Information regarding turnover/gross receipt reported for GST In this Schedule, please provide the details of all GSTIN No. registered and respective amounts of annual value of outward supplies reported against each GSTIN No., in column (2) and (3) respectively, based on the figures reported in monthly GST returns.
- Information in Trading and P&L Account
  - Both GST Received and Paid/Payble



- Under the new regime, GSTN will be the single repository to all these transactions and the Income Tax Department will have a clear picture of the total sales and purchases, and eventually the overall profitability, of every business.

Thank you  
Questions ?