

## **Common Issues between IT and GST**

**Pursuant to a M.O.U. between the CBIC and the Income Tax Department, information contained in GST Return has, recently, been made part of Annual Information Report in Form 26AS.**

**Income Tax Department wishes to match the Turnover as per an Assessee's accounts and records with GSTR 3B,**

**in GST, inter-state branch transfers of goods/services are treated as supply and forms part of turnover, it is not so considered in financial statements**

**Assessee is required to reconcile the amount of turnover reported in Form GSTR 3B with that in his Income Tax Return and is subjected to scrutiny for such mismatch**

**GSTR 3B AND FORM 26AS**

**The Principal Director General of Income-tax (Systems) or the Director-General of Income-tax (Systems) to upload information relating to GST return, which is in his possession, in the Annual Information Statement in Form 26AS,**

**the details of an Assessee's monthly turnover as per Form GSTR 3B now finds place in Part H of Form 26AS.**

**the following are differences:**

**1. Income by way of interest:**

**Banking Company**

- (a) extending deposit, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services)" is taxable at NIL rate.**
- (b) "aggregate turnover" includes exempt supply. Thus, income by way of interest forms part of 'turnover' under GST laws.**
- (c) But such income is not considered as 'turnover' in financial statements**

**the turnovers reported in Forms GSTR 3B are not final and can be rectified when filing annual return in Form GSTR 9.**

**If an Assessee is required to reconcile the amount of turnover reported in Form GSTR 3B with that in his Income Tax Return and is subjected to scrutiny**

**44AB**

**Certain persons are required to get his books of account audited as per Section 44AB of the Income Tax Act, 1961. The applicability of this audit is mentioned in this section. While conducting audit under section 44AB of the said Act, Auditor has to report certain facts which are required by said Act in Form no 3CD which is prescribed for this Audit. Again Audit Report in**

**Form 3CB is also require auditor to give opinion about true and fair view about state of affairs as on 31st March and Profit and loss earned during the period ending 31 st March of the assessee.**

**The issue is Difference in ITC in GSTR 2A and GSTR 3B.**

**Every registered persons under GST Act, has to filed certain GST return as per its periodicity. One such Return is GST R 3B. As per provisions of GST Act, Input Tax Credit which is claimed by registered persons in GSTR 3B return has to be cross matched by the supplier persons. If it is matched or agreed, then ITC of the claimant or recipient is confirmed and allowed to the recipient. [ Rule 36 [2] of the The CGST Rules, 2017 ].**

**But if the supplier do not show sales to recipient , then in such situation, ITC claimed by the recipient is disallowed and he has to pay the GST accordingly. So while conducting the audit, Auditor has pay attention on this matter, as there is possibility that assessee has claimed the ITC in his GSTR 3B returns but his suppliers is not showing sales to him in GSTR 2A.**

**So there may be liability which may be arise in future in relation to audit period. Then, there should be proper disclosure and accounting treatment is expected from the assessee on his part and also auditor has to report such matter in Form 3CD in clause 21 g – Contingent liability.**

**Meaning of Contingent liability**

**A possible obligation arising from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or • a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or a reliable estimate of the amount of obligation cannot be made.**

**So in the light of this definition of Contingent liability, the difference between ITC in GSTR 2A and GSTR 3B , which is in present case is Rs. 50,000/ is contingent liability because this obligation will arise if suppliers will not update its GST returns within allowable time.**

**So on 31 st March, this event is future uncertain event. Hence it will be contingent liability on 31 st March and hence, we have dealt by that way.**

### **Example of a Situation –**

***Assessee A has claimed ITC of Rs, 200,000 / in his GSTR 3B . GSTR 2A has shows sales to him having ITC of RS. 150,000/. So there is as per these two returns, assessee has claimed excess ITC of Rs. 50,000/ in his GST returns. So if his suppliers do not make suitable changes in his GST R 1 return, then recipient persons , here assessee has to pay Rs. 50,000/ as GST liability.***

**So there following possibility may be arise.**

**1] Assessee is quiet confident about that he has made purchases from the suppliers and and last date for such updation in GST returns is 20 October [ which is yet to come,] , and his suppliers will update required GST returns. So there will no difference in ITC claimed by the assessee and shown by his suppliers. So as a result , there will be no any additional GST liability will arise in future.**



[ Last date for claiming ITC is due date for furnishing of the return u/s 39 for the month of September following the end of financial year to which such invoice relates or Due date of furnishing Annual Return of that financial year, whichever ever is earlier. So due date for September return is 20 October. it means 20 October is earlier date. So last date is 20 October . ]

A] If such scenario exist, then assessee will not account this difference of Rs 50,000/ in his books of account as on 31 st March. In this situation, two more possibility may arise. They are as below:

*\* Assessee will disclose this fact in Notes to account attached to financial statement as*

***Contingent liability with quantification.***

In such situation,

**A] Auditor has to report this contingent liability in Clause 21g of the Form 3CD.**

*\* Assessee will not disclose this fact in Notes to account attached to financial statement as Contingent liability with quantification.*

**In such situation,**

**1] Auditor has to report this contingent liability in Clause 21g of the Form 3CD.**

**2] He has to report this fact in Form no 3 CB as qualification or in Key Audit Matters [ considering materiality of the issue ] . Because assessee is not disclosing this difference of ITC in Notes to Account . So to that extent , profit of the assessee might be inflated by that amount [ here , by Rs. 50,000/ ] or loss might be suppressed by that amount [ here , by Rs. 50,000/ ] , if assessee is showing GST in Profit and loss account. And If not, then the state of affairs of the assessee might be changed by that amount [ here , by Rs. 50,000/ ] While reporting this qualification or Key Audit Matters in Audit Report, auditor should consider the requirement stated in Standard on Auditing 700 [ Revised ] and Standard on Auditing [SA] 701 issued by ICAI.**

**B] Assessee is accepted that he has claimed excess ITC in GST Return, then in such situation, there will be two possibilities :**

***1] If assessee accepts the liability and account this liability in the books of account.***

**Then no any other disclosure or note is require. As liability is accounted, so there is no any contingent liability remains.**



***2] if Assessee accepts that liability but not account this liability in books of accounts.***

**Then such scenario exist,**

**1] He has to report this fact in Form no 3 CB as qualification or in Key Audit Matters [ considering materiality of the issue ] . Because assessee is not accounting this difference of ITC in books of Account . So to that extent , profit of the assessee is inflated by that amount [ here Rs. 50,000/ ] or loss is suppressed by that amount [ here Rs. 50,000/ ] , if assessee is showing GST in Profit and loss account. And If not, then the state of affairs of the assessee is changed by that amount [ here Rs. 50,000/ ]**

**If assessee did not provide data regarding GSTR 2A and GSTR 3B during the tax audit**

**then auditor will not in position to decide about any additional liability on account ITC liability.**

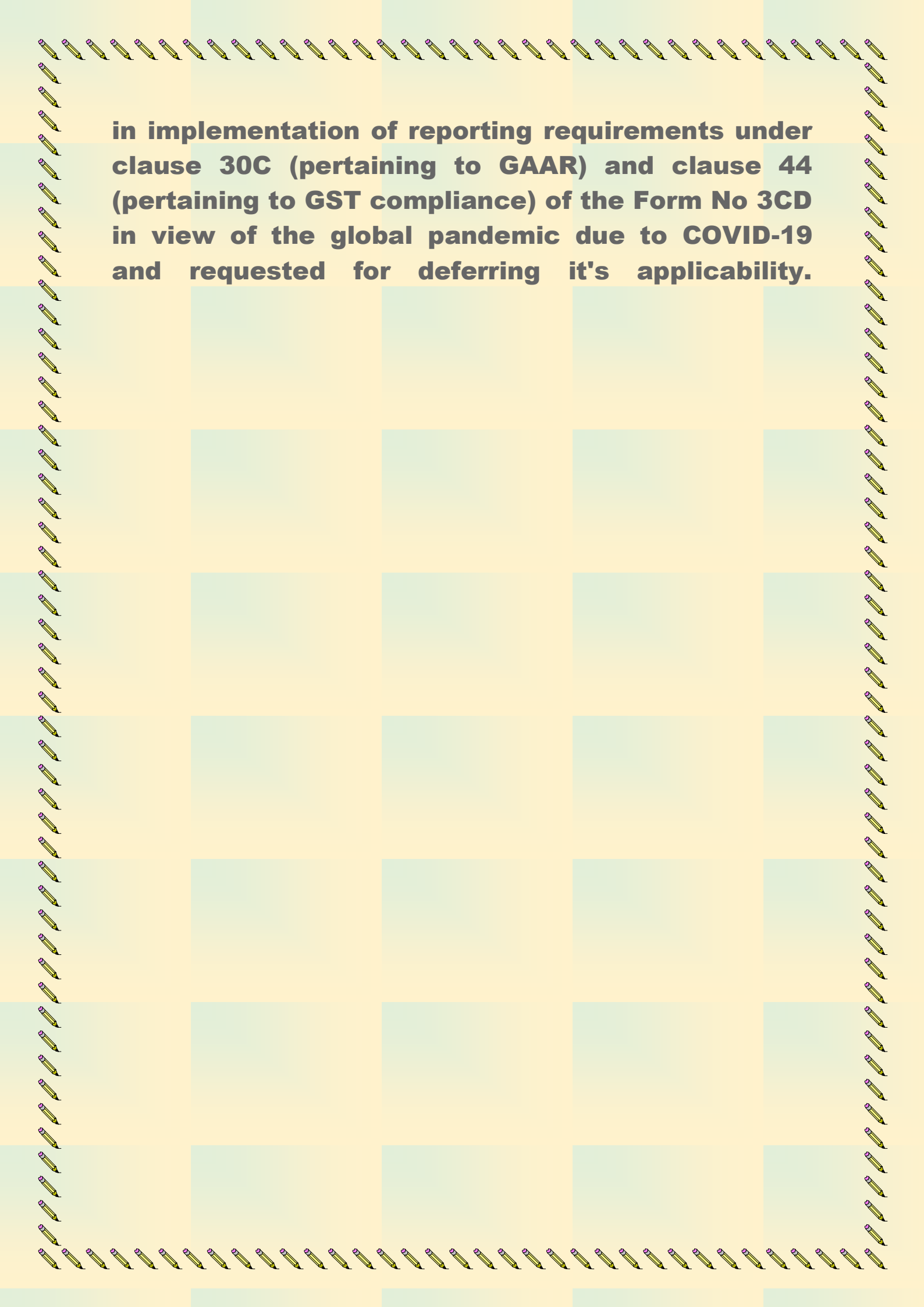
**There will be disclaimer note in Form NO 3CD and qualification in Form 3CB.**

**assesses under Tax Audit u/s 44AB of the Income Tax Act, 1961, have these issues in the accounting .**

**Reporting under clause 44 of Form 3CD has been kept in abeyance till 31st March 2021.**

Clause No./Si. No	Particulars (as per Form 3CD)	Details
4	Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, [goods and services tax,] customs duty, etc.; if yes, please furnish the registration number or [GST number or] any other identification number allotted for the same	Valid GST registration number of the assessee has to be entered here (if applicable).
44	Break-up of total expenditure of entities registered or not registered under the GST	<p>In this clause, the assessee is required to furnish the total amount of expenditure incurred during the year and details of: If registered under GST laws:</p> <ul style="list-style-type: none"> <li>• Expenditure relating to exempt goods/services</li> <li>• Expenditure relating to entities falling under the composition scheme</li> <li>• Expenditure relating to other registered entities</li> <li>• Total payments to registered entities If not registered under GST laws:</li> <li>• Expenditure relating to entities not registered under GST</li> </ul>

**The Central Board of Direct Taxes (CBDT) in an order issued on Monday said the board has received representations with regard to difficulty**

A decorative border of yellow pencils with purple erasers, arranged in a rectangular frame around the text. The background consists of a grid of light green and light orange squares.

**in implementation of reporting requirements under clause 30C (pertaining to GAAR) and clause 44 (pertaining to GST compliance) of the Form No 3CD in view of the global pandemic due to COVID-19 and requested for deferring it's applicability.**