

Views on GST council new return design

GST Council today in its 27th meeting approved principles for filing of new return design based on the recommendations of the Group of Ministers on IT simplification. What are the key elements of the new return design? What may be the effect? Is it going to complicate the system further or will it be easier like what we expected? All the answers are here, you just need to do sit back, relax & enjoy the write-up!

1. One monthly Return: All taxpayers excluding a few exceptions like composition dealer shall file one monthly return. Return filing dates shall be staggered based on the turnover of the registered person to manage load on the IT system. Composition dealers and dealers having nil transaction shall have facility to file quarterly return.

Authors View: Composition Dealer's Return & Nil return will continue to be quarterly based. However, for regular dealers there will be only One return, and return filing dates will be varied based upon the class of taxpayers. However it is important to note, the date of payment of tax may not be staggered & may continue to be one single date for regular dealers. The proposal is expected to help the GSTN portal to handle the load of data effectively.

2. Unidirectional Flow of invoices: There shall be unidirectional flow of invoices uploaded by the seller on anytime basis during the month which would be the valid document to avail input tax credit by the buyer. Buyer would also be able to continuously see the uploaded invoices during the month. There shall not be any need to upload the purchase invoices also. Invoices for B2B transaction shall need to use HSN at four digit level or more to achieve uniformity in the reporting system.

Authors View: It means, there will be only one return. Purchase related return i.e. GSTR 2 will no longer be required to take credit. There will be only fusion return combination of GSTR 1 for supply related data & 3B for credit. Buyer would be able to see his credit on real time basis, based on the supply related return which seller is required to file. But what is the meaning of the below phrase:

"There shall be unidirectional flow of invoices uploaded by the seller on anytime basis during the month which would be the valid document to avail input tax credit by the buyer."

Does it mean, Tax Invoice is no longer required to take the credit? Can the ITC be taken based on the balance available in the electronic credit ledger? At least the language appears to communicate that. Balance of Electronic credit ledger is sufficient. It means, invoice wise checking no longer be required?

However, it is experienced in last nine months that, subject to exceptions, most of the taxpayers, especially large players will be using offline tool to upload the data at one go instead of uploading individual invoices. Hence, the real time credit may not be possible. Further, taking point no. (1) into consideration, as different taxpayers will be required to file return in different dates, the real time credit will be an additional challenge. Practically many will be taking the

balances at the end of the month to avoid repetition of the work, as getting credit in the middle of the month is of no use unless any liability comes in. In addition, uniformity regarding HSN is proposed, though we need to wait further for more clarity about it.

3. Simple Return design and easy IT interface: The B2B dealers will have to fill invoice-wise details of the outward supply made by them, based on which the system will automatically calculate his tax liability. The input tax credit will be calculated automatically by the system based on invoices uploaded by his sellers. Taxpayer shall be also given user-friendly IT interface and offline IT tool to upload the invoices.

Authors View: Nothing is new here, system is already designed to calculate tax automatically & flow the same as credit to the buyers. May be the same has been proposed to make things less complicated.

4. No automatic reversal of credit: There shall not be any automatic reversal of input tax credit from buyer on non-payment of tax by the seller. In case of default in payment of tax by the seller, recovery shall be made from the seller however reversal of credit from buyer shall also be an option available with the revenue authorities to address exceptional situations like missing dealer, closure of business by supplier or supplier not having adequate assets etc.

Authors View: This is much needed relief. The most talked about concern of GST law was recovery of credit from the buyer & penalizing him for no fault of him rather for any default of the seller. This was harsh, no two ways about it. It seems the authority has considered the same & provided much needed relief. No automatic reversal at buyers hand for default of the seller. In fact, the proposal has gone ahead & made clear not to initiate proceedings against buyer rather to the seller who is defaulter. No doubt, It is much logical system than before. However, input tax credit will be recovered from the buyer for fake transactions likes of missing dealer, closure of business by supplier etc. This will help all the genuine taxpayers who is complying with every rules and will ensure no revenue leakage for Government

Due process for recovery and reversal: Recovery of tax or reversal of input tax credit shall be through a due process of issuing notice and order. The process would be online and automated to reduce the human interface.

Authors View: Again, nothing is new here, system is already designed to issue notice, order etc. digitally to reduce human interface. May be, it was proposed once again, to make it standard.

5. Supplier side control: Unloading of invoices by the seller to pass input tax credit who has defaulted in payment of tax above a threshold amount shall be blocked to control misuse of input tax credit facility. Similar safeguards would be built with regard to newly registered dealers also. Analytical tools would be used to identify such transactions at the earliest and prevent loss of revenue.

Authors View: Masterstroke! Very nice proposal. Instead of passing on the ineligible credit & recovery of the same, or initiate action few years down the line, block the flow of credit. It means, taxpayers will not be able to file return & pass on the credit to buyer, in case of any

default of payment of tax. Hope the system glitches will not be hindrance for genuine cases where there is no fault of taxpayers. We have had enough!

6. Transition: There will be a three-stage transition to the new system. Stage I shall be the present system of filing of return GSTR 3B and GSTR 1. GSTR 2 and GSTR 3 shall continue to remain suspended. Stage I will continue for a period not exceeding 6 months by which time new return software would be ready. In stage 2, the new return will have facility for invoice-wise data upload and also facility for claiming input tax credit on self-declaration basis, as in case of GSTR 3B now. During this stage 2, the dealer will be constantly fed with information about gap between credit available to them as per invoices uploaded by their sellers and the provisional credit being claimed by them. After 6 months of this phase 2, the facility of provisional credit will get withdrawn and input tax credit will only be limited to the invoices uploaded by the sellers from whom the dealer has purchased goods.

Authors View: The proposal can be simplified as below:

Stage	Return required	Credit mechanism	Period	Development
I	GSTR1 & GSTR 3B	Trough 3B	upto 6 months	Readiness of new software
II	1. New fusion return combination of GSTR 1 & 3B. 2. Element of GSTR 1 for invoice wise data upload to pay tax & flow credit and element of GSTR 3B for taking self declared provisional credit.	Through fusion return with element of GSTR 3B for taking self declared credit.	Further 6 months	* See Author's view
III	1. New fusion return combination of GSTR 1 & 3B. 2. Element of GSTR 1 for uploading of invoice wise data, to pay tax & to flow credit and 3. Element of GSTR 3B for taking ITC limited to the value uploaded by the supplier in fusion return	Through fusion return with element of GSTR 3B for taking ITC limited to the value uploaded by the supplier.	NA	* See Author's view

It means, from stage II flow of credit at invoice level will happen through the fusion return and buyer will provisionally claim the credit based on self-assessment.(Section 41 of the CGST Act). However the below phrase is not very clear:-

'the dealer will be constantly fed with information about gap between credit available to them as per invoices uploaded by their sellers and the provisional credit being claimed by them.'

Does it mean credit account will have two separate fields 'claimed' & 'available'? or Does it mean, there will be separate field to provide the difference between 'claimed' & 'Available'? Frankly, it sounds complicated once again and the same could be monitored in more simple way like limiting the 'credit till date' to the extent the 'fund available in the electronic credit ledger till date'. This would ensure no revenue leakage, user friendly compliance & seamless flow of credit. Any error in declaring the proposed 'gap' should not trigger compliance issue in future. As the 'gap' may not be 'credit' amount. Further monitoring this difference & reconciliation of the same in future will be an additional burden with no real benefit.

After one year down the line in Stage III or the final stage, the taxpayers will be restricted to take the credit to the extent of the tax amount given by the supplier. Real challenge to take credit will be when:-

1. Suppliers had given invoice with correct GSTIN but uploaded with wrong GSTIN.
2. Supplier had filed with lesser value than of the invoice value
3. Suppliers had given invoice but not filed the return etc.

Another doubt is about the phrase,

'input tax credit will only be limited to the invoices uploaded by the sellers'

Will the system limit the credit amount on a monthly basis? I will be happy if I proved wrong. Because, taxpayers should be eligible to take credit of earlier months even if the same may exceed the balance available in credit ledger for a given month.

For. E.g. in the month of September 'available' balance in my credit ledger is 50 crores for the month. Being the last month of taking credit of the previous FY, I want to 'claim' left over credits pertaining to previous FY, say for about 10 crores. Now it will be a bottleneck & blockage of working capital, if GSTN restricts my 'claim' amount to the extent of balance available for the particular month i.e. 50 cores. Rather system should ideally be designed to restrict the credit available 'till date' up to September for previous FY and automatically lapse the credit of last FY after September. That means, GSTN should allow me to claim credit of 60 crores (50+10) till September & 50 crores + new credits after September by lapsing earlier credit of 10 crores if the same was not claimed by September.

7. Content of the return and implementation: Return shall be simplified also by reducing the content/information required to be filled in the return. The details of the design of the return form business process and legal changes would be worked out by the law committee based on these

principles. Government is keen to introduce the simplified return design at the earliest to reduce the compliance burden on the trade in keeping with the philosophy of ease of doing business.

Authors View: A general development. The return & compliance is proposed to simplify further in order to promote ease of doing business

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