



GST credit availability to drop due to additional fields in GSTR 2A?

Countries implementing value added tax with credit mechanism are grappling with the global menace of input tax credit frauds. In an attempt to curb this menace, the GST law introduced various anti-abuse provisions, which included matching the GST credit taken by a taxpayer with the GST paid by its supplier over the GSTN. This was the first time that any country across the world with a large volume of transactions attempted to undertake such matching. This would have been a big leap and an example for all the countries suffering credit frauds. However, it's been three years, but the planned provisions could not be launched.

While the technology experts are still working on the full-fledged transaction matching and payment of taxes, GSTN started releasing the GSTR 2A report from early 2018. But no one knew what was to be done with these reports. Some guessed (while others were nudged by the tax authorities to make them realize) that the reconciliation which was to be done on the GST portal had to be done at tax payer's end. Wherever credit was not matched, the taxpayers had to approach their suppliers to have the invoices reported/rectified on the GSTN portal in their GSTR 1 returns. Finally, in October 2019 (after 18 months), availing of GST credit post reconciliation was made mandatory, with some marginal relief to claim input tax credit without matching.

Introducing Changes in GSTR 2A

Recently, the GST authorities have added more fields in the existing GSTR 2A reports, whereby the taxpayers will be able to see the date of filing of GSTR 1 by the vendors and the status of filing of GSTR 3B (return through which GST payment is made) as 'Y' (Yes) or 'N' (No) and whether the (vendor's) registration is valid or otherwise. This information was available earlier, and could be accessed by punching the individual's GSTIN to check the GSTR 3B filing status. However, it was practically impossible to track for each supplier's GSTIN. Now, this has been made available in the GSTR 2A report and that too retrospectively from July 2017. However, there is no further amendment in the law to guide on the implication of this change. May be it is not needed. Let's examine the possible implication of this change.

One of the anti-abuse provisions in GST law is that unless the supplier of goods/services is discharging GST to the exchequer, the recipient of such supply cannot claim an input tax credit (Section 16 (2) (c) of CGST Act). To avoid temporary blockage of credit, the law allows provisional credit to be taken immediately subject to supplier depositing GST. In case the supplier does not discharge GST, then GST credit needs to be reversed along with interest. This kind of provision was prevalent in several state VAT laws prior to GST. This was also a subject matter of challenge by way of writs, which were decided both ways. It is also being challenged by way of writ even in GST.

Be as it may, if we now look at the introduction of GSTR 3B filing status in the GSTR 2A report in light of the above anti-abuse provision, it becomes abundantly clear that a taxpayer has to now track the GSTR 3B status of its supplier in addition to earlier reconciliation exercise to safeguard its GST credit.

It is relevant to point out here that GSTR 3B and GSTR 1 are not linked at the moment. Typically, GSTN does not have the facility to determine/identify whether the invoices where the GSTR 3B filing status is appearing are actually considered while filing the GSTR 3B or not. This means that GSTR 3B filing status appearing now is not conclusive proof for taking credit by the recipient. Ideally, the status merely depicts whether the vendor has filed his GSTR 3B or not for the said period (for which the invoice pertains). This means that any notorious supplier may report the invoice issued to the taxpayer (vide GSTR 1) but does not discharge GST accurately while filing GSTR 3B. In such a case, all the checks a taxpayer can undertake get satisfied, but still, credit can be denied and recovered with interest.

In furtherance to the above, there are also industry players who believe that the mechanism of matching payment of GST to the exchequer, and provisionally claiming of input tax credit thereby, was strictly related to the applicability of GSTR 3 (reliance placed on Section 41 of CGST Act read with Rule 69 of CGST Rules). In this regard, since GSTR 3 got scrapped, the provisional claiming of the input tax credit was deemed void ab initio, thereby making Section 16 (2) (c) of the CGST Act redundant.

Despite all this, for a taxpayer verifying the GSTR 3B status with the GSTR 1 reconciliation could still be a good guide to identify suppliers in default to take necessary action to safeguard credit for any future loss. Additionally, it would also prove diligence and bonafide of the taxpayer in any litigation over credit dispute as there was nothing more a taxpayer could do other than merely keep speculating.

Impact of the Change in GSTR 2A

This subtle change in GSTR 2A could have the following implications:

1. Tax authorities may now seek to deny input credit wherever GSTR 3B filing status is 'N' even if the credit is matched with the GSTR 2A report otherwise. There can be another wave of blocking of the input tax credit in the electronic credit ledger for such cases.
2. Most of the taxpayers had introduced 'payment block,' wherever there was a mismatch in GST credit reconciliation. Now the accounts payable process/system will have to be changed to add one more check of GSTR 3B filing status to ensure they do not get cash out due to default in GSTR 3B filing by suppliers. In all such cases, follow up will have to be done for this compliance as well.
3. A re-run of reconciliation will have to be undertaken for the past period right from July 2017 to date to check GSTR 3B filing status wherever input tax credit has been taken, and payments were released considering successful reconciliation with the GSTR 2A report earlier. A fresh follow up may have to be undertaken with the suppliers for the aforesaid transactions.

4. For the future, the following positions can be adopted for taking input credit:
 - a. Supplier invoices relating to prior months on which input tax credit is unclaimed, input tax credit be claimed in the current month only if GSTR 3B status is appearing as 'Y' against those invoices;
 - b. Supplier invoices raised in the current month, the input tax credit can be claimed provisionally in the current month;
 - c. Invoices on which input tax credit has already been claimed provisionally in the prior month if the GSTR 3B status appears as 'N,' the input tax credit for such invoices to be reversed in the ongoing month;
 - d. Invoices on which input tax credit has been reversed on account of GSTR 3B status as 'N' in earlier months, the input tax credit to be claimed if the status thereby has changed to 'Y.'

Conclusion

Ongoing through the above process of additional steps in reconciliation, it can be observed that the above shall typically lead to another set of reconciliation, and maintaining/tracking transactions thereby could really prove to be strenuous for businesses. The workload is bound to increase not only for the Tax teams and its managers but also for Account Payable (AP)/ Procure to Pay (P2P) teams; since these will be the one who will monitor the release of payments against the vendor invoices and will need to act accordingly wherein the vendor is making default in his GSTR 3B compliances.

Further, not complying with the provisions of Section 16 (2) (c) even after the addition of these new fields could entail a reduction in available credit, a reversal of incorrectly claimed input tax credit along with interest, and possible penal implications thereon, which could put additional pressure on the working capital.

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