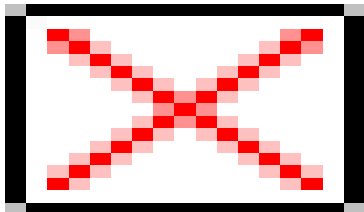


GST compliances - A constructive move towards automation

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GST

Law, along with bringing a paradigm shift in Indirect Taxation, also brought into bargain a technology driven system to push for digitization of tax accounting and reporting. Indeed, the initial journey witnessed challenges in creating a robust IT driven system by Government and the taxpayer's struggles to align with the tectonic shift.

With time, the Government has left no stone unturned to ensure that the digitized system as originally formulated becomes operative in one form or the other. Lately, the GST Council met for the 42nd time on October 5, 2020. While the Centre and States locked horns over the shortfall in GST Compensation, the Council also observed a thrust towards achieving the objective of automated compliances and a progressive tax regime.

This article is an attempt to highlight the recent changes in the compliance structure and deliberates upon this newly proposed system.

Current System:

GST Law promised the Industry a tax world where enterprises are interconnected so as to make tax reporting streamlined and accurate. In order to further align to the objective, a system of three returns (GSTR 1, GSTR-2 & GSTR-3) in a month and an annual return (GSTR-9) to close the Financial Year was proposed. This framework remained lying in the letters of law and never had practical application due to IT glitches.

In the interim, to simplify the return structure, the Government brought in two return systems in form of GSTR-1 (Outward Supply return) and GSTR-3B (Monthly return). In addition to this, functionality of GSTR-2A was made operational which reflected the Input Tax Credit ('ITC') available to a taxpayer. The system, as in place, was not automated fully and required significant manual intervention viz. manual feeding of output tax liability, reconciliation of ITC in books of account and GSTR-2A, availing ITC manually in GSTR-3B.

To simplify the difficulties faced with regards to the existing compliance layout and to automate the same, the 31 st GST Council meeting brought about various significant proposals for change in compliance system. In the said proposed system of return filing, a single return form was contrived to replace the existing multiple return forms which comprised of three components Form RET-1, Form GST ANX-1, Form GST ANX-2. While Form RET-1 was the main return, ANX-1 was proposed to contain details of outward supplies, inward supplies attracting reverse charge liability and details of import and export supplies and ANX-2 was proposed to contain the details of ITC. Essentially, the proposed structure was an old wine in a new bottle.

Recent Developments:

In the recent 42nd meeting, the GST Council concluded that the current return filing system will be made a default return system and the legal framework which earlier materialized will undergo a change. In addition to this, the Council proposed significant changes towards automation of such return filing system, **viz.:**

- Taxpayers to file GSTR-1 before filing GSTR-3B in order to avail the newly introduced facility.
- Auto population of liabilities through GSTR-1 in Form GSTR-3B, which will be sufficient to auto prepare the outward supply data in monthly return.
- ITC to be auto-populated in GSTR-2B which is a static auto-drafted ITC statement and will be generated basis the information provided by suppliers in their outward supply return. It will also contain information on import of goods routed from the ICEGATE system including inward supplies of goods received from SEZ Units / Developers. In addition to this, the system of tracing if the supplier has filed its return is an added feature in GSTR-2B.
- ITC to be fetched from GSTR-2B into GSTR-3B.
- In addition, GST Portal to also provide a robust reconciliation tool to reconcile the ITC from purchase register with data reflecting in GSTR-2B.

The above facilities will have significant impact on compliance system inasmuch as the return filing will cut down the manual intervention to a great extent. The best part of this proposed system is that there is no experimentation of introducing new forms. Hence, aligning with the change shall be a cakewalk for the taxpayers.

The meeting of the GST Council also witnessed Government's drive towards welfare measures for small taxpayers. It resolved that the taxpayers having turnover upto Rs. 5 crores will now have option to file quarterly statement in GSTR-1 and return in GSTR-3B. Such taxpayers will pay tax on monthly basis only but there exists an option for these taxpayers to pay 35 percent of net cash tax liability of last quarter for first two months using auto-generated challans.

While the effort of the Government is laudable specifically looking at the downfall of economy, this decision is likely to witness practical difficulties for taxpayers. The details towards receipt of supplies from such small taxpayers will not be reflected in GSTR-2B of the recipients on real time basis. This will create reconciliation difficulties for taxpayers in claiming ITC on such supplies. The Government must endeavour to put some functionality in place to create ITC availability for recipient of supplies from such small (quarterly) taxpayers.

Conclusion

As far as the appearance of the new compliance system including the recent implementation of e-invoicing is concerned, it speaks volumes about the intent of the Government to achieve the objective of digitized tax administration and compliances. The idea is to ensure end-to-end connectivity and visibility for taxpayers. The compliances are likely be automated and technology driven which will operate in real time at an entity level. The change will also take away the burden of laborious, repetitive manual tasks. All in all, the upcoming calendar year looks to ease the taxpayers to perform GST compliances.

[The views expressed are strictly personal.]

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