

## GST: An Alternate to Monthly Matching

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In the previous article, I explained that how it would be very difficult for small and big enterprises to cope with the system of monthly return filing and matching thereof as proposed in Model GST law ('MGL'). Almost similar level of control can be achieved by reducing frequency of the filing of returns and matching thereof. Before discussing the alternate method in detail, I would like to mention that the proposed system serves the followings and the system suggested in this article will also serve these objectives:

- (i) **No suppression by Output Supplies** : The recipient of input supplies would be able to avail credit only if relevant invoice is reported by supplier in his return. Supplier will not be able to remove/reduce the output supply invoices for suppressing the sale in respect of invoices which are required to be reported.
- (ii) **Fraud cannot be committed by claiming wrong Credit** : Claimant of input tax credit cannot claim the bogus or wrong credit. All unmatched claims of input tax with the declaration by input supplier shall result in addition of output liability of recipient of input supplies.
- (iii) **No excessive credit due to clerical or casual errors** : Sometime, inadvertently, assessee may claim credit twice on same invoice or excessive credit on an input tax invoice. All such errors shall be detected due to matching with other credit entries and with corresponding entries of input supplier.
- (iv) **Facilitate the claimant to comply with condition for availing credit** : The proposed law provides the input tax credit can be claimed only if input supplier has paid the due tax. There is no full proof mechanism for recipient of input supplies to comply with the legal condition for claiming credit except by way of matching. Therefore, matching is necessary so that input supplier can comply with this condition.
- (v) **Credit can be claimed after receipt of tax on input tax invoice by Government** : In proposed system, credit will be allowed to claimant of input tax credit only after filing of valid return (which includes payment of taxes payable as per such return) by supplier of input. Government has imposed an excessive control by allowing input tax credit only after filing of a valid return by input supplier. A supplier must be having the option of making part payment and appropriate such payment towards some invoices so that corresponding claimant can claim the credit even if entire liability for the month has not been deposited by input supplier.

We would like to suggest an alternate which addresses the concerns of Government as well as assesses. The proposed Scheme is outlined as under:

1. **Quarterly Return and matching** : There should be quarterly return and matching should take place after due date of quarterly return. The number of routine returns that would be required to be filed by a supplier shall be reduced to 1/3rd of total number of returns proposed under MGL.
2. **Demand after filing of annual return** : After carrying out the quarterly matching, report should be made available to both the concerned parties. However, no liability should be added to output liability of claimant of input tax credit till the due date or actual filing date of annual return (whichever is earlier). After filing of annual return or due date for filing of annual return, if there is still some mismatch, the same may be added to output liability of claimant of input tax.

This scheme is almost similar to as follows for TDS in income tax. Deductor of TDS is required to file TDS return on quarterly basis. Claimant of TDS can check the entry in Form-26AS throughout the year and follow-up with deductor for any deficiency from his side. There is sufficient time for claimant and deductor to remove the deficiencies. Claimant has to claim TDS at the time of filing its annual Income Tax Return. The result is same, but there is no pressure of monthly filings, mismatch, additions, removal of deficiency and reclaim of credit & interest.

Similarly, for GST, quarterly matching and annual demand system will be having following advantages:

- a. Claimant would be having sufficient time for follow-up for seeking correction from input supplier's side. Even for last quarter of a Financial Year, assessee would be having at least a period of 6 months for getting mismatch removed by input supplier. Unlike monthly matching and demand, there would not be pressure on assesses to get correction done on very limited time bound manner for every month.
  - b. Most of the mismatch would arise due to delay in filing of return by input supplier or due to clerical error from either of the side. Most of the deficiencies/mismatch would be settled /removed by the due date of filing of annual return. There will be no need to pay tax with interest and reclaiming credit of same after correction of mismatch.
  - c. Higher level management/business owners can pay attention to mismatches occurring and accumulating, and take corrective measure without worrying about monthly addition and making payment towards such additions.
3. **Demand due to duplication of input tax credit can be demanded after quarterly matching** : Mismatch due to input tax credit not matching with declaration/non-declaration by input supplier should be demanded on annual basis. However, mismatch due to duplication of input tax credit entry can be added to output liability after allowing one month time after carrying out quarterly matching.

- 4. Optional early reporting of output supplies and freezing by input supplier** - In the matching concept, recipient of supply has to trust its input supplier as recipient would be able to successfully claim credit if input supplier files its valid return.

Government's job is to create options for its people and impose only necessary controls. However, the proposed system gives very limited options with unnecessary excessive controls. For the sake of 'ease of doing business', system must give following option to supplier and recipient of output supplier:

Details of invoice-wise are required to be filed on quarterly basis. However, there should be option to furnish details of some invoices any time during the quarter. Further there should be an option of freezing of invoice by recipient of input supplier. Once invoice is availed/accepted by recipient of input supplier, supplier of inputs should not be allowed to withdraw it from its output liability without the consent of recipient of supplies. This would enable recipient of input supplies to transact business (to make purchases) with unknown suppliers or supplier with low level of trust.

- 5. Refund on the basis of declaration of exporters/claimant** - In case of refund claim of input tax credit, full refund should be allowed to exporter/claimant on the basis of input tax invoices and payment evidences furnished by claimant even if some mismatch is pending. Demand due to annual mismatch may be reduced from the refund for any period to be sanctioned after the filing of annual return. If there is no pending refund claim, demand due to mismatch may be demanded from assessee.
- 6. Trigger for recovery /anti-evasion wing of department** : Mismatch would be added only after due date of filing of annual return. However, if quantum of mismatches/deficiencies of any assesses (as an output supplier or recipient of supplies) is abnormally high, department can investigate the matter and take appropriate action.

Excessive compliances would be unbearable for small or medium businesses, and is against the 'ease of doing business'. Therefore, Government must change the proposed GST law and provide for quarterly return with annual matching.

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