

GST: Prescribed Monthly Compliance Is Too Mechanical

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Looking at the present momentum, it is expected that Government would be successful in implementing the GST by 01.04.2017. GST would be affecting one and all. However, in present form, Model GST law ('MGL') as released in June'16 and draft rules are very difficult to comply with.

In India, GST has lost its simplicity mainly due to three factors –

- (i) State-wise jurisdiction and compliance;
- (ii) Credit is allowed to recipient if a valid return (including tax payment) is filed by input supplier for the relevant period and all preceding periods;
- (iii) Excessive frequency of filing of returns and matching thereof with corresponding suppliers.

At this stage, it would be a wasteful exercise to discuss the reasons and alternatives to point no. (i) herein above. Further for point (ii) hereinabove, Government may have some arguments in favour of it; however, the same is also not acceptable. However, here, I am not discussing the point (i) & (ii) as I am restricting this article to the point (iii) - Excessive frequency of filing of returns and matching thereof with corresponding suppliers, which is clearly an unnecessarily created manmade disaster.

The Background : In present form, as per MGL and draft rules, every business, big or small, will be required to go through a prescribed monthly procedure for every month. The same is summarised as under:

- (i) **Furnishing details of Monthly Supplies :** All suppliers (except composition dealer) will be required to furnish details of all the invoices where input tax credit/benefit is to be claimed by recipient of supplies. This is to be done for every month by filing the return by 10th of next month.
- (ii) **Furnishing details of Monthly inward**

supplies : On the basis of output details furnished by supplier of inputs as mentioned hereinabove which will be made available by system to recipient of supplies, every supplier will prepare its details of inward supplies by including missing invoices (due to non-filing of return, non-reporting or wrong reporting in its return by input supplier), inward supplies whose tax have been paid under reverse charge, credits received from TDS, etc.

Recipient of inward supplies may chose not to include missing invoice, in such case, he would have to check and make reconciliation of missing input tax invoices every month. Further credit deferment can be done for a limited period of time as MGL provides time lime for availing credit.

(iii) Filing of Monthly Returns and payment of tax : On the basis of above details, every supplier shall prepare its monthly return and pay tax by 20th of next month.

(iv) Generation of Report of Mismatch by department : Department system would carry out Invoice-level matching of following fields:

- (a) GSTIN of the supplier;
- (b) GSTIN of the recipient;
- (c) Invoice/debit note date;
- (d) Invoice/debit note number;
- (e) Taxable Value
- (f) Tax Amount

Any mismatch would be reported to both the parties. Any of the party has the option to make correction and pay tax along with interest, if required. In case, mismatch is not corrected, tax and interest liability would be added to output liability of the assessee who claimed input tax credit.

(v) Chase and follow-up input suppliers till it is corrected : After receiving the mismatch report or payment of tax and interest by recipient of input supplies, supplier would follow-up and coordinate with corresponding input supplier for carrying out the correction. This would be required to be done for every mismatch for every preceding month till it is corrected.

(vi) Reclaim the credit and interest paid

thereon after removal of deficiency by input supplier: In case, deficiency is removed by input supplier, output supplier receiving the input may reclaim the credit and interest paid thereon.

It is important to note that the above process is required to be carried out for each and every month. Besides doing this throughout the year, every business is required to file an annual return after the end of a financial year. This appears to be too mechanical to be followed.

The problems : The above compliances/activities which are to be carried out every month for each month throughout the year would cause following difficulties:

- 1. Difficult to hire competent manpower:** Considering the compliances required to be done under Model GST throughout the year, the quantum of manpower required to carry out tax compliance activities would increase by manifold. Even if digitisation of information and submission can be done through facilitation centre appointed by Government, even then, submission of correct information and coordinating with the facilitation centre would be the responsibility of business owner or its employees. The compliance under GST would a challenge not only for small and medium enterprises, but for big enterprises also.
- 2. Financial viability:** Cost involved in the above compliances may be beyond the competency of many small or medium enterprises.
- 3. No breathing space - Business owners are not computers:** Submission of invoice-wise details of supplies would be done on monthly basis. Any clerical error or delay in submission of monthly supply details or filing of monthly return will cause rejection of input tax credit of corresponding purchaser. Businesses enterprises would be under tremendous pressure. There would be no room for even a small delay or error. Government must recognise that they are humans, not computers.
- 4. Waste of manpower:** Increased frequency of

returns, matching and inadequate time to supplier for correction would lead to creation of unnecessary jobs not only for assesses, but for department also. Most of the mismatch would be settled at its own without feverishly working on them if sufficient time is allowed to remove the deficiency before making addition to liability.

5. Personal attention of business owner would be required on continues basis:

Even if most of the jobs can be done by accountants, in case of small and medium enterprises, involvement of business owners (or higher level management) would be required throughout the year for coordinating with accountant, following up with input supplier for seeking corrections and arranging the additional fund in case of demand of additional tax and interest arises due to mismatch.

6. Monthly matching does now allow quarterly or half yearly return:

Monthly matching would require monthly return filing by every assessee. Due to monthly matching system, government would not be having option to allow quarterly or half yearly return for small or medium enterprises.

India includes all : It appears that drafter of the above scheme has failed to realise that India not only includes MNCs in Gurgaon, Hyderabad and Bangalore, but also includes chandni chowk, sadar bazar, and markets in the towns of U.P., Bihar, M.P., Orissa, etc

Is anybody really needed to tell the Government that owners of small and medium business are not computers? You don't need an IAS or an IPS officer to visualise the mess and complication that proposed monthly filings and matching system would create, a most junior officer in accounts department can explain the gravity of the problem it would cause.

Big businesses would somehow survive this by engaging competent manpower. However, if this proposed system is not rectified and it is implemented in its present form, by the time government would realise its mistake, numerous small and medium businesses would suffer irreparable loss.

I would like to explain this with an example of a person having turnover of Rs.60 lakhs. It would not be on a

lower side, if net profit is assumed to be 15% of sale. It is very difficult to believe that a person having a monthly income of Rs. 75,000/- would be able to comply with this high-tech GST compliances appears to be meant for silicon valley of USA.

We need an Indian version of same which can cater the every business of Indian society. In my next article, I would be discussing the alternate scheme which would keep all the controls which government intends to impose and at the same time, it would take care of every business enterprises of India.

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