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TAX FLASH NEWS

12 May 2017

The process of matching of Input Tax Credit (ITC) under GST

Background

Goods and Services Tax (GST), has been implemented by most countries in the world. But the form of tax varies from country to country. GST in India differs from other countries in two important aspects; firstly, the levy of Integrated GST on interstate supply of goods or services or both, secondly, the requirement for matching the claim of ITC. The matching of ITC procedure would not only ensure that due revenue is transferred to importing state but, would also ensure that the importing taxable person can claim the ITC that he would be entitled to. The procedure thus sits of the heart of Indian GST.

The matching of ITC under GST is an extended version of the current structure being followed for value added tax by some of the states in India. We provide below the outline of the concept of ITC matching as introduced under GST.

Particulars to be furnished for supply (i.e. supply of goods or services or both) by the supplier and recipient

Form of Return	Person required to furnish	Details required to be furnished
GSTR-1	Supplier	Prescribed particulars in respect of outward supply
GSTR-2A	Auto-populated for the recipient	Basis the Form GSTR-1 of supplier, the particulars of inward supply would be auto-populated
GSTR-2	Recipient	Recipient shall modify, delete or include the details of inward supply basis the auto-populated Form GSTR-2A and furnish the final details of his inward supply
GSTR-1A	Auto-populated for the supplier	Basis the Form GSTR-2 of recipient, the particulars of outward supply as validated by the recipient would be made available for the supplier, which he may accept[1] to update and finalize his earlier submitted Form GSTR-1
GSTR-3	Supplier and recipient	Matching of ITC would be done only after the due date for furnishing the monthly return

[1] This would ensure that there would be no mismatch in the claim of ITC based on the returns furnished by the supplier and the recipient. However, on non-acceptance/ rejection of changes made by the recipient and communicated to the supplier in Form GSTR-1A, the Form GSTR-1, earlier uploaded by the supplier for his outward supply, would become final.

Matching of ITC

- After filing of Form GSTR-3, following details relating to the ITC claimed would be matched by GST common portal:

  - GSTIN of the supplier;
  - GSTIN of the recipient;
  - Invoice/or debit note number;
  - Invoice/or debit note date;
  - Taxable value; and
  - Tax amount.

- The claim of ITC would be treated as matched:

  - In respect of the invoices and debit notes in Form GSTR-2 that were accepted by the recipient on the basis of Form GSTR-2A, without amendment and the corresponding supplier furnishing a valid return.

  - Where the amount of ITC claimed by the recipient is equal to or less than the output tax paid on such tax invoice or debit note by the corresponding supplier.

Discrepancy in claim of ITC

- Discrepancy in claim of ITC may be communicated under the following circumstances:

  - where the recipient claims ITC in excess of the tax declared by the supplier for the same supply in his valid returns;

  - where the outward supply is not declared by the supplier in his valid returns;

  - duplication of claim of ITC by the recipient pertaining to inward supply.

- Discrepancy in claim of ITC would be communicated on or before the last day of the month in which matching has been carried out, in the following manner:

  - FORM GST MIS-1: to the recipient claiming ITC on inward supply; and

  - FORM GST MIS-2: to the supplier.

Rectification of the discrepancy in claim of ITC

- Rectification of the discrepancy would be carried out as under:

  - Supplier may add or correct the details of an outward supply in his valid return so as to match the details of corresponding inward supply declared by the recipient; or

  - Recipient may delete or correct the details of an inward supply so as to match the details of corresponding outward supply declared by the supplier.

Addition in the output tax liability of the recipient

- On non-rectification of the discrepancy by the supplier in claim of ITC, an amount to the extent of such discrepancy, would be added to the output tax liability of the recipient.

- The said addition would happen in his Form GSTR-3 of the month succeeding the month in which the discrepancy was noted.

- The recipient would be also liable to discharge applicable interest liability on the amount so added in his output tax liability from the date of availing the ITC till the date when corresponding additions are made to his output liability.

Reduction in the output tax liability of the recipient

- The recipient however, would be able to reduce his output tax liability in respect of the amount added based on the discrepancy in claim of ITC, where the supplier declares the details of the invoice or debit note in his valid return within the specified time.

- The recipient would also be eligible for the refund of interest paid by him on the amount so added in his output tax liability, which now stands reduced.

Our comments

The above discussed functionality for matching of ITC is expected to be enabled electronically through the GST common portal between every supplier and recipient registered under GST. As per the second edition of the FAQs on GST, released by the Central Board of Excise & Customs on 31 March 2017, ITC would be allowed provisionally to the recipient for two months.

This concept is likely stimulate the integration between suppliers and their vendors in the industry to ensure that there are minimal discrepancies (*inter alia* goods in transit, difference in invoice booking), with respect to the claim of ITC. Also, since impact of incorrect details filed by the vendor will be faced by the recipient; there would be a need for effective vendor management. Implementation of GST inevitably may create an interdependent ecosystem for businesses and in the long run ensure better compliance. It is likely to substantially reduce work of audit by the tax authorities.

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