

NAVIGATING CRITICAL GST RECONCILIATION AND LEVERAGING TECHNOLOGY



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INTRODUCTION

Reconciliation is a procedure that compares two sets of records to ensure the figures are correct and consistent, and any deviations must be supported by proper justification

WHY GST RECONCILIATION?

01

Unlike *accounting systems*, where all transactions need to be reported accurately and promptly, *under GST*:

- Only those transactions that qualify as '*supply*' are subject to tax
- *ITC on inward supplies* is available only for transactions that meet specific eligibility criteria
- Certain *inward supplies are notified under RCM*, where the recipient must pay GST and can claim ITC in accordance with GST provisions

Accordingly, it is becoming increasingly important to compare the transactions recorded in the books of accounts with those reported in the respective GST returns

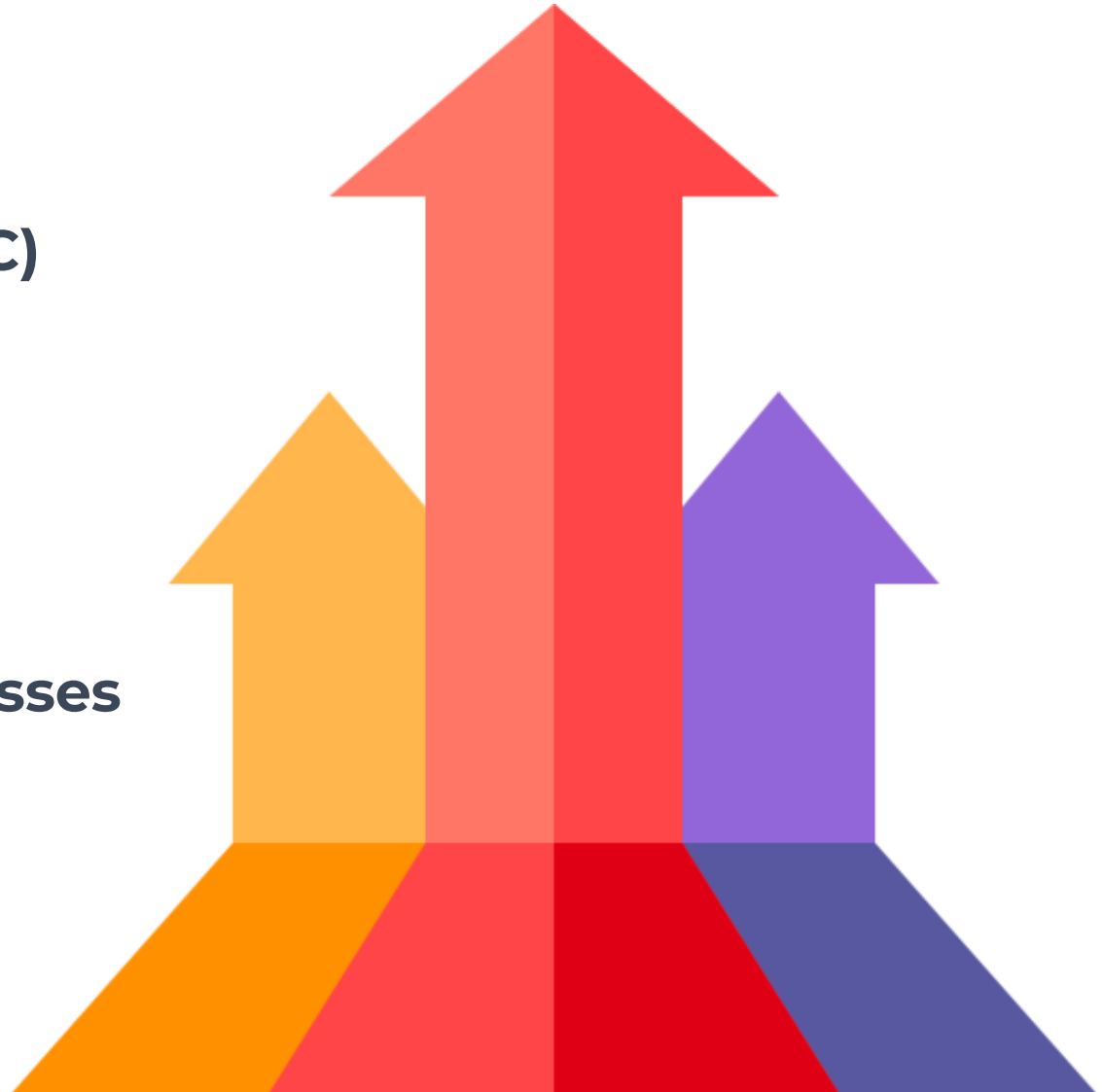
Missing out on any transaction as per GST provisions, may have serious implications like short/excess payment of tax or availment of ITC followed by interest & penalties



BENEFITS OF GST RECONCILIATIONS

02

- | **Detection of Errors and Omission**
- | **Avoidance of Tax Discrepancies**
- | **RCM Liability & Credit**
- | **Optimization of Input Tax Credit (ITC)**
- | **Enhanced Vendor Relationships**
- | **Financial Planning and Budgeting**
- | **Reduction of Audit Risks**
- | **Supports Litigation and Legal Processes**
- | **Smooth Facilitation for Yearly Compliance [GSTR – 9 & GSTR – 9C]**





LIST OF CRITICAL GST RECONCILIATIONS

03

OUTWARD SUPPLY

- 01** | **Income as per financials Vs Taxable Turnover as per GST**

- 02** | **GSTR – 01 Vs GSTR – 3B**

RCM

- 01** | **RCM liability as per notified exp Vs RCM liability paid in GSTR – 3B**

- 02** | **RCM liability as per GSTR – 2B Vs RCM liability paid in GSTR – 3B**

INWARD SUPPLY

- 01** | **Purchase register Vs GSTR – 2B**

- 02** | **GSTR – 2B Vs GSTR - 3B**

- 03** | **RCM payment Vs RCM ITC Availed**

INCOME AS PER FINANCIALS

VS

TAXABLE TURNOVER AS PER GST

Common GST reconciliation items on which GST is not payable

- 01** Zero-rated supply without payment of IGST
- 02** Outward supply notified under RCM
- 03** Outward supply wholly exempt under GST
- 04** Non-GST supplies
- 05** Schedule III supplies
- 06** Supply service against advance on which tax paid in previous FY
- 07** Commercial credit notes
- 08** Provision entry/Book entries
- 09** Unbilled revenue at the end of the FY (+/-)

Common GST reconciliation item which are not recorded in books income side

- 01** | Unadjusted advance received against services during FY

- 02** | Section 15 Valuation adjustments

- 03** | Schedule I activities

- 04** | Sale of Capital Goods

- 05** | Income adjusted against expenses

Limitation of GST reconciliation

Reconciliation can be used as one of the tool to identify if there any discrepancy GST compliance including payment of liability or availment of ITC. However, following are some points needs to keep in mind:

- ❑ Incorrect exemption or incorrect classification leading to no GST payment.
- ❑ Incorrect rate adopted leading to short/excess payment of taxes.
- ❑ Application of concept of composite, non-composite, or mixed supply
- ❑ Whether the IGST or CGST and SGST should have been charged?
- ❑ The need to apply the proper valuation under Section 15
- ❑ Transactions surrounded by interpretational issues



OUTWARD SUPPLY DECLARED IN GSTR - 1

VS



OUTWARD SUPPLY DECLARED IN GSTR – 3B

Matching Records: Outward supplies reported in GSTR-1 and GSTR-3B should align to avoid discrepancies that might indicate either overpayment or underpayment of GST.

Adjustments and Refunds:

Excess Payments: Can be adjusted against liabilities in future periods/claim refunds.

Short Payments: Must be rectified by making the necessary payments, including interest.

Rule 88C Compliance:

If tax payable declared in GSTR-1 exceeds liability discharged in GSTR-3B, an intimation via Form GST DRC-01B is required.

Suppliers have 7 days to either:

- Pay the differential liability with interest through DRC-03.
- Provide reasons for unpaid differential tax liability.

Failure to Comply:

If suppliers fail to address the differential liability or provide unsatisfactory reasons, the amount becomes recoverable under Section 79 without the issuance of a SCN

Common GST reconciliation items [Excess/Short payment of liability]

- | | |
|-----------|---|
| 01 | Invoices / debit notes reported in GSTR – 1 but not reported in GSTR – 3B |
| 02 | Credit note reported in GSTR – 1 but not adjusted in GSTR – 3B |
| 03 | Payment of IGST instead of CGST + SGST & Vice a versa |
| 04 | Advance received reported in GSTR – 1 but not considered in GSTR – 3B |
| 05 | Any zero-rated supply reported with payment in GSTR – 1 but reported without payment in GSTR – 3B |
-

Common GST reconciliation items [Error in declaration]

- | | |
|-----------|---|
| 01 | Credit note adjusted in GSTR – 3B but not reported in GSTR – 1 return |
| 02 | Advance received added to GSTR – 3B but missed to report in GSTR - 1 |
| 03 | Invoices/debit notes reported in GSTR – 3B but not reported in GSTR - 1 |
| 04 | Error in reporting any zero-rated supply as with payment in GSTR – 1 but correctly reported as without payment in GSTR – 3B |
-



RCM LIABILITY AS PER BOOKS

VS

RCM LIABILITY PAID IN GSTR – 3B

SN	Particulars	Amount (₹)
A	GST liability on expenses notified under RCM	XXXXXX
B	GST liability paid in GSTR – 3B return	XXXXXX
C	Difference [A-B]	XXXXXX

Reasons:

- 01 RCM notified expenses which qualify for the exemption

- 02 Supplier has paid GST under FCM as per the option/provisions

- 03 Wrong determination of place of supply resulting to wrong payment of tax

- 04 Excess/Short payment of GST

SN	Particulars	Amount (₹)
A	RCM liability reflected in GSTR – 2B	XXXXXX
B	GST liability paid in GSTR – 3B return	XXXXXX
C	Difference [A-B]	XXXXXX

Reasons:

- 01 Wrong liability uploaded in GSTR – 2B by the supplier
- 02 Excess/Short payment of GST



INPUT CREDIT RECONCILIATIONS



ITC AS PER PURCHASE REGISTER

VS

ITC REFLECTED IN GSTR – 2B

SN	Particulars	Amount (₹)
A	Eligible ITC as per Purchase Register	XXXXXX
B	ITC reflected in GSTR – 2B	XXXXXX
C	Difference [A-B]	XXXXXX

Reasons:

01	PR invoices not reflected in GSTR – 2B	Temporary ineligible
02	GSTR – 2B invoices not recorded in PR	Temporary ineligible
03	Probable Mis-match	Eligible



ITC REPORTED IN GSTR – 2B

VS

ITC REPORTED IN GSTR – 3B



BACKGROUND

*From July 2022 onwards, CBIC has changed **ITC reporting manner in Form GSTR – 3B** via Notification No. 14/2022 – CT, read with Circular No. 170/02/2022.*

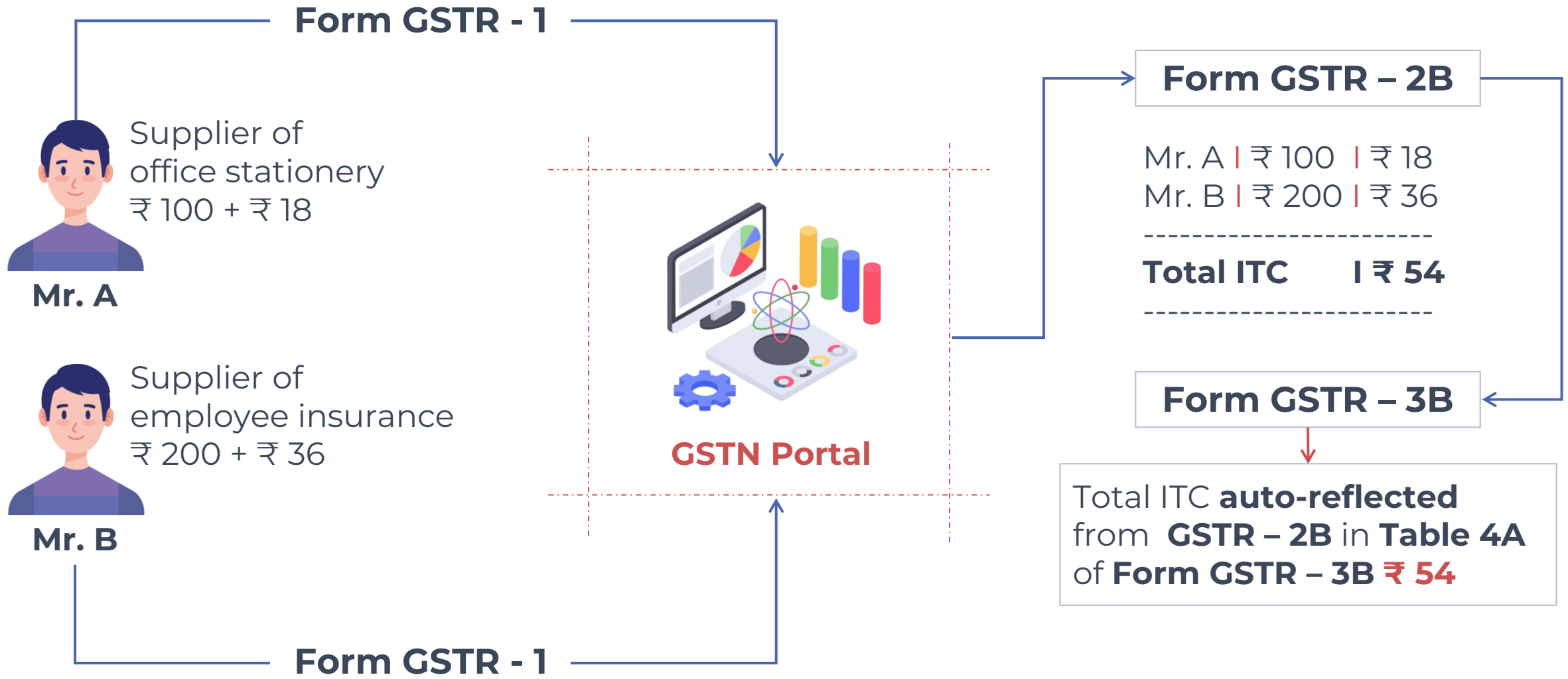
Following is the crux of the said changes:

Total ITC (eligible as well as ineligible) of the taxpayer will be **auto-populated** from statement in **FORM GSTR – 2B** in different fields of **Table 4A of FORM GSTR 3B**

Except:

- Ineligible ITC on account of limitation of time period as specified in section 16 (4)
- Where location of the recipient is different that place of supply

UNDERSTANDING THE CRUX OF THE CHANGES



WHAT ACTUALLY CHANGED?



Mr. A

Supplier of
office stationery
[₹ 100 + ₹ 18]

Current manner

Particulars	Dr	Cr
Purchase	₹ 100	
ITC	₹ 18	
Mr. A		₹ 118

New manner

Particulars	Dr	Cr
Purchase	₹ 100	
ITC	₹ 18	
Mr. A		₹ 118



Mr. B

Supplier of
employee insurance
[₹ 200 + ₹ 36]

Particulars	Dr	Cr
Purchase	₹ 236	
Mr. A		₹ 236

Particulars	Dr	Cr
Purchase	₹ 200	
ITC (Ineligible)	₹ 36	
Mr. A		₹ 236

**Reporting in
Form GSTR – 3B**

Only eligible ITC is reported
in Table 4A of GSTR – 3B

Both eligible & ineligible ITC
is to be reported in Table 4A
of GSTR – 3B

WHAT ACTUALLY CHANGED?

Reporting in Form GSTR – 3B

Table 4A : ITC Available [Eligible ₹ 18 & permanent Ineligible ₹ 36]

Current
manner

New
manner

₹ 18

₹ 54

Table 4B : ITC Reversed

As per rules 38, 42, and 43 of CGST Rules and sub-section (5) of section 17

Permanent reversal

-

₹ 36

Others [Rule 37, 37A etc]

Temporary reversal

Table 4C : Net ITC Available (A-B)

₹ 18

₹ 18

Table 4D : Other Details

ITC reclaimed which was reversed under Table 4(B)(2) in the earlier tax period

Reclaim of temporary reversal

Ineligible ITC under section 16(4) and ITC restricted due to POS provisions






Exceptions

WHAT ACTUALLY CHANGED?




Reporting in Form GSTR – 3B		<u>April</u>	<u>Sept</u>	<u>Oct</u>
Table 4A : ITC Available [Eligible - ₹ 18 & Temporary Ineligible ₹ 36]		₹ 54	-	₹ 36
Table 4B : ITC Reversed				
As per rules 38, 42, and 43 of CGST Rules and sub-section (5) of section 17	permanent reversal	-	-	-
Others [Rule 37, 37A etc]	Temporary reversal	-	₹ 36	-
Table 4C : Net ITC Available (A-B)		₹ 54	(₹ 36)	-
Table 4D : Other Details				
ITC reclaimed which was reversed under Table 4(B)(2) in the earlier tax period	Reclaim of temporary reversal	-	-	₹ 36
Ineligible ITC under section 16(4) and ITC restricted due to POS provisions	Exceptions	-	-	-

SCENARIOS OF INELIGIBLE ITC UNDER GST

Permanent reversal:

-  Ineligible ITC in terms of Section 17(5)
-  Ineligible ITC due to difference in place of supply
-  Ineligible ITC on time-barred invoices in terms of Section 16(4)
-  Ineligible ITC used exclusively for non-business & exempted supply – Section 17(2)/(3)
-  Ineligible ITC used commonly for non-business & exempted supply – Rule 42/43

Temporary reversal:

-  Ineligible ITC due to non-fulfilment of condition of Section 16
-  Ineligible due non-payment of consideration within 180 days [Rule 37]
-  Ineligible ITC due to non filing of GSTR – 3B of the respective supplier [Rule 37A]

PRACTICAL PROBLEMS IN FOLLOWING THE NEW MANNER



Correctness of GSTR – 2B is difficult to ascertain



Change in accounting manner including creating number of ledgers



Monthly reconciling purchase register as per the GSTR – 2B is difficult



Time limitation faced by accountants



Time consumption in recording of ineligible ITC & reconciliation of the same



Time consumption in maintaining record of temporary ITC



Maintaining records in Excel is tough, and it's even harder to compare and track them with accounting software.

PROBABLE SOLUTION

Reporting in Form GSTR – 3B		<u>April</u>	<u>Mar</u>	<u>Oct</u>
Table 4A : ITC Available [Eligible - ₹ 70 matched with PR]		₹ 100	₹ 20	₹ 10
Table 4B : ITC Reversed				
As per rules 38, 42, and 43 of CGST Rules and sub-section (5) of section 17	Permanent reversal	-	-	₹ 10
Others [Rule 37, 37A etc]	Temporary reversal	₹ 30	-	-
Table 4C : Net ITC Available (A-B)		₹ 70	-	-
Table 4D : Other Details				
ITC reclaimed which was reversed under Table 4(B)(2) in the earlier tax period	Reclaim of temporary reversal	-	₹ 20	₹ 10
Ineligible ITC under section 16(4) and ITC restricted due to POS provisions	Exceptions	-	-	-



LIST OTHER RECONCILIATIONS

- ❑ Export Invoice Issued Vs Actual Receipts Against Invoices
- ❑ Goods Export Invoice Issued Vs Shipping Bill [To Qualify As Export Of Goods Under LUT]
- ❑ Payment In Foreign Currency against services vs RCM liability paid under RCM
- ❑ GSTR 3B Vs E-way Bill
- ❑ Tax Paid Ledgers Vs GSTR 3B
- ❑ ITC Ledgers Vs GSTR 3B ITC Availed
- ❑ E - Cash Ledger On Portal Vs Books
- ❑ E - Credit Ledger On Portal Vs Books
- ❑ Sales invoices vs E-invoices generated



TECHNOLOGY

THANK YOU!
