

Important Points to be Considered for filing Gst Annual Returns and Gst Audits

After the opening of the lockdown, the foremost and immediate tasks is Gst Annual returns, reconciliations and audits- the impending date being 30th June 2020 (as on today). Various factors and steps to be followed for filing annual returns and Gst audits are summarised as below:

This submission has been divided

1. Steps for Annual Return
2. Steps for Arriving at Turnover
3. Steps for ITC Reconciliation
4. Steps for GST Audit

Steps for Annual Returns (Form 9)

What is the need to file an annual return under GST?

It is an evident truth that every taxpayer in India needs to submit an annual record for his taxable transaction to the government. This necessary compliance is fulfilled by filing the annual tax return. Since the introduction of the GST regime, the government has also made it compulsory to fulfil the annual GST return filing procedure.

The annual GST return is filed through FORM GSTR-9.

The taxpayers having GST registration who need to file GSTR-9C and will be applicable for a GST audit, will need a lot of reconciliations.

This will indeed entail due efforts from the end of both GST Auditor & GST Auditee.

Evidently, this will imply much preparation for gathering details for the annual GST return.

Few crucial points to be taken care of while filing GSTR-9C with respect to GST Audits:

5 things to be taken care while filing the GST annual return

1. HOW TO ASCERTAIN THE ANNUAL TURNOVER

The basic details for filing both Form GSTR-9 & GSTR-9C such as the annual Turnover are entered on the basis of the GSTIN of the taxpayers.

There may be cases where multiple GSTINs (State-wise) registrations do exist on the same PAN. The entities present in multiple States have multiple GSTINs.

Such entities will have to derive their turnover internally based on the GSTIN. Similarly, they

will derive the Input Credit and declare it.

Mostly, businesses having GST Registration exist across India but have a central accounting system in a single State. Hence, it is crucial to categorize their books of accounts on the basis of GSTIN much before they proceed for the filing of GSTR-9. This should be planned well in advance, as this is a lengthy process activity to be done by the GST Auditee.

Further, the above process is to be carried out even for companies with multiple GST registration within the state for submitting the reconciliation statement separately for each registration.

2. HOW ARE THE GST RETURNS RECONCILED

GSTR-9 & GSTR-9C are filed on an assumption that GSTR-1 & GSTR-3B will be in reconciliation with each other and so is for GSTR-2A & GSTR-3B.

The data needed for the reconciliation as asked for in annual return and the GST audit takes into account Financial Statements vis-à-vis GST returns filing.

In case of any mismatch in GSTR-3B & GSTR-1, the forms GSTR 9 & 9C are not enabled themselves to add or deduct these differences.

Hence, it is important at the time of GST audit that GSTR -1 & GSTR -3B for all the months are in balanced with each other.

3. WHAT IS THE METHOD FOR ACCOUNTING OF ALL THE GST TRANSACTIONS

There are number of supplies/ transactions without consideration, which are liable to GST such as a cross charge for inter-company services like common salaries, common advertisement expenses, annual audit fee expensed at head office (HO) for the audit of all other branches of the country.

Identification of such transactions under GST is the first step before GST audit.

Reconciliation of such transactions with financial statements is again a time-consuming process and hence needs to be planned well in advance prior to tax audit.

4. WHAT ABOUT THE AMENDMENTS MADE DURING THE YEAR

To err is human, with so much of invoices and data flowing into the system, there can be an error zone? Errors were inevitable in GST return filing process. Various steps have been taken on the part of taxpayers as to rectify these mistakes in the successive months' returns. For those who have rectified the errors in the returns filed after March 2019, the amendments have been taken into account while the returns filed during April- September 2019.

5. HOW TO RECORD THE AMENDMENTS MADE DURING THE YEAR

Auditee has to maintain a proper record of all the amendments he has made to transactions after March 2019.

Even if rectification of a single transaction is not reported properly in Form GSTR -9 & GSTR -

9C it will be the Auditee's fault.

In case the reasons are untraced for these mismatches, the auditee will end up paying unnecessary GST tax. So, it's very critical to trace the reasons for the mismatch and take suitable corrective action.

Steps for Arriving at Turnover

Various factors need to be considered while arriving at the turnover figure for the financial year. Six factors have been placed below:

1. WHETHER DIRECT AND/OR INDIRECT HEADS OF INCOME AS PER FINANCIAL STATEMENTS NEED TO BE CONSIDERED:

Financial Statement of any company consists of various heads of income, direct and indirect incomes like interest on investments, commission income, etc. All heads of incomes need to be considered while arriving at the turnover figure as per financial statements.

There can be a high probability that there would be a mismatch in the turnover between books and the annual return due to non-payment of GST on indirect income heads. It is very common to not to pay Gst on indirect incomes like:

Profit on sale of fixed assets;

Penalty/ Subsidy/ Fine/ Amount collected from employees for reasons like late arrival, Id card lost, uniform, etc.;

Commission Income;

Scrap Sale; etc.

If the above is not shown in Gst 3Band Gst 1, it implies that Gst tax has been missed on above and therefore resulting in mismatch between the turnover.

2. WHETHER NON TAXABLE OR EXEMPT INCOME AS PER INCOME TAX ACT/ COMPUTATION NEEDS TO BE CONSIDERED WHILE ARRIVING AT TURNOVER:

It can be a possibility that the income side in the financial statement of a person may include incomes from heads which are exempt under GST such as:

Rental Income from a residential dwelling;

Bank Interest

Capital gains

Dividend Income; etc.

Now the question arises whether these exempt incomes need to be considered while arriving at the turnover figure. The answer is 'Yes'. Point II of the Form GSTR -9C has been divided into 2 parts. The first part calculates the annual turnover under point 5P and there are additions/ deductions in point 7B to proceed further, the second part calculates the taxable turnover under point 7E. Therefore, the first part consists of taxable plus exempt turnover. Thus, for any exempt income as per Gst laws, the same need to be considered under the first part while calculating the annual turnover.

3. HOW TO TREAT RECOVERY/ WRITTEN BACK BAD DEBTS/ PROVISION FOR BAD DEBTS AT THE END OF THE FINANCIAL YEAR:

It can happen that the amount for which provision for bad debt was created in the previous years, is recovered in the current year and no longer are these provisions required. Therefore, the provisions are written back and the recovery made is accounted under the income head.

It is important to note here that even though the provision is written back, GST is not payable on the same, since at the time of issuing invoice, the tax on it has already been deposited. The pertinent question here is, whether it is to be included in the total turnover to be reflected under table 5A. Now its noteworthy, that such item on the income side of the financial statement of the company should not be included while arriving at the figure of the turnover as per books.

4. TURNOVER AS PER FINANCIAL STATEMENTS TO BE THE RESULTING FACTOR AFTER CONSIDERING ALL THE RECTIFICATIONS OF ERRORS AND OMISSIONS IF ANY:

It is a known fact that once filed, revision of the return including GSTR -1, is not permitted. The only way out to make any changes is by way of rectifying the mistake in the following months GSTR -1 by virtue of table 9A & table 9C.

The only problem which may arise is, if rectification of GSTR -1 for the financial year 2018-19 is made between the period April'19 to September'19. It is very important that the impact of these changes should be taken into considerations while arriving at the turnover figure as per books. Any rectification carried out by the assessee after the end of the financial year in the following months returns need to be incorporated in. Such adjustments can be reflected under table 5O in the form GSTR -9C.

5. WHETHER GOODS SOLD ON SALE OR RETURN BASIS FORM PART OF TURNOVER :

The moot question arises, especially, for transactions taking place at the end of the financial

year i.e. during the ending months of the financial year - in February or March, goods sold on sale or return basis. Seller is uncertain to recognise as the actual sale of the goods. Such transactions are recognised as sales, by the vendor, only when the end customer or receiver, signifies his intention to purchase the goods, when the property in goods passes to the buyer. To conclude, if goods are sold on sale or return basis, the said sale would not have been reflected as turnover in the financial statements. However, if as per the time of supply provisions the sale is considered to be made in the current financial year (2018-19) then the said transactions will have to be considered while arriving at the turnover. These sales have to be analysed on case to case basis and after considering the time of supply provisions.

6. TURNOVER OF GOODS SENT FOR EXHIBITIONS:

Various vendors send their goods for exhibitions, one of the best examples being jewellery, apparel, designer wear garment items. In these situations, the suppliers are not able to ascertain the actual supplies and the buyers at the time when the goods are moved out for an exhibition. There is a Government clarification in respect of jewellery by way of circular no. 10/10/2017 –GST dated 18.10.17 stating that goods which are taken out for supply on approval basis can be moved on a delivery challan and the invoice can be issued at the time of delivery of goods.

Hence, sale will be recognized only at the point of sale at the place of exhibition, when the customer buys it.

Therefore, if any goods have been sent for an exhibition in the month of March, and actually sold to customer in month of April'19, these sales need not be considered in the turnover for the financial year 2018-19.

STEPS FOR ITC RECONCILIATION

With the advent of Gstr 2A on portal and to enable seamless flow of credit and to keep the books reconciled with the respective ledger of the suppliers, the taxpayers must reconcile their data on a regular basis to claim eligible Input Tax Credit (ITC).

The process of matching 2A with the supplier's ledger is simple, but is lengthy and is to be done on timely basis and is time- consuming, as the businesses/ accounts team are required to continuously keep an eagle's eye and watch on any discrepancy or mismatches that may affect the ITC claim.

It's easier said than done - comes the proverb here.

But still, if one follows the steps and achieves the reconciliation on step by step basis, the target of zero mismatch would not be far enough.

5 foremost steps for Gst reconciliation

1. Under the reconciliation process of GST for the financial year (FY) 2018-19, the taxpayers are required to mandatorily file all the periodic GST returns. One thing to be taken care of is that even on missing due date for a particular GST return, it should be filed along with the interest or the late fees as applicable. Without filing of the GST returns, matching and reconciliation process is not possible. The dealer need to update their books of accounts as per the data and become return compliant and align the tax returns accordingly. All the GST returns need to be filed till date to be able to claim adequate ITC.

2. The next step after filing of Gst returns is identifying the mismatches and correct the relevant entries in the books of accounts. Now comes amendment in the subsequent Gst returns, of all the recognised mismatches. As we are aware of that GST laws do not allow for revision of tax returns filed in the previous periods. However, it does allow for filing of the corrected entries via an amendment return in the next periodic return. These amendment entries should be filed in GSTR 1 & GSTR 3B, accordingly. The accountant need to match the purchase register with GSTR 3B (uploaded month wise) and with GSTR 2A details (uploaded by the supplier). It is important to streamline the books of accounts, the GSTR-3B return, and GSTR-2A form to fully avail the ITC on the relevant purchases; otherwise, the taxpayer can lose ITC claim even after paying the cheque to the supplier and will end up paying extra taxes.

3. The the books of accounts and the GST returns should go hand in hand for claiming ITC. Additionally, taxpayers should keep a check on taxes paid under the reverse charge mechanism. However, a taxpayer can only avail credit of taxes paid under reverse charge mechanism only if the goods and/or services are used or will be used for purpose of business.

4. Keep the communication channel open with the vendors and customers. This will result in uniform reporting of the details in the GST returns. If these two stakeholders are synchronised and go hand in glove, the chances of mismatches, omission or incorrect entries are reduced and there can be a possibility that the stakeholders file their returns after cross-checking their data before 7th or 8th of the respective month and then file GST returns. In the above process, businesses will identify the non-compliant vendors, persuade and interact with them, and resolve the queries; this will help the recipients maximise ITC. Matching tools or reconciliation software will help here and reduce this communication gap between the suppliers and the recipients. This software enables the users to send a reconciliation mismatch report to the vendors or suppliers to resolve any issue arising out of it.

5. Lastly, the taxpayers should report all the rectified sale or purchase transactions of the financial year 2018-19, for the September returns. This September 2019, the returns were to be filed by 20th October 2019. September returns are the last chance for the taxpayers to report and correct all differences

which occurred in tax returns of FY 2018-19.

Any taxpayer who has not claimed ITC in the preceding months can avail the same in the subsequent months, but not later than the filing of annual return i.e GSTR -9 or filing of GST returns for September month of the subsequent financial year, whichever is earlier.

Any amendments or changes to the previously filed returns can be done within the same timeline. GST reconciliation is a periodic event and a *recurring event*, which must be performed to claim maximum credit and to avoid mismatches on a larger scale.

All the above hard work should not go in vain, hence the businesses should communicate the queries with his recipients or vendors at the earliest, exchange relevant data and should file error-free returns.

STEPS FOR GST AUDITS

For turnover above 5 crores for the financial year 2018-19, filing of Form 9C is mandatory. Few checklist points are summarised as below.

7 important checklist points for Gst audits

1. GST REGISTRATION

It is generally assumed by the auditor that the GST registration certificate tends to be okay and most of the auditors generally does not verify the same, however, it is most important to check and verify all the details specified in the GST registration certificate.

2. DETAIL ANALYSIS OF PARTICULARS OF INVOICE DOCUMENTS

The second most important part to be analysed by the auditor is invoicing under GST. Following are the crucial points which one needs to keep in mind –

Tax invoice contains all the particulars as prescribed under rule 46 of the Central Goods and Service Tax Rules, 2017.

It is important to verify that the invoice number reflected in the tax invoice is as per rule 46(b) of the Central Goods and Service Tax Rules, 2017.

HSN Code has been mentioned in the tax invoice as per the following specification provided vide notification no. 12/2017 – CT dated 28th June, 2017 –

Sr. No. Annual turnover in the preceding financial year Number of digits of HSN code to be mentioned in the tax invoice

1	Up to 1.50 Crore	NIL
2	1.50 Crore to 5 Crores	2 (two)

3. VERIFICATION OF TIME OF ISSUANCE OF TAX INVOICE NEEDS TO BE DONE

Following are the rules for the same –

In Case of Supply of Goods

1. On or before the date of removal, in the case of actual movement of goods.
2. In the case where GST is payable on a reverse charge basis, on receipt of such goods.

In Case of Supply of Services

1. Within a period of 30 days from the date of supply of service.
 2. In case of continuous supply, where the due date can be ascertained, 30 days from the due date.
 3. In case of continuous supply, where the due date cannot be ascertained, 30 days from the date of actual payment.
 4. When there is the cessation of supply before the expiry of the contract, at the time of such cessation.
 5. In the case of banking and other financial institutions, the due date will be 45 days
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4. It should be checked that the debit and credit note, if applicable, has been issued as per the GST law.
If the issuance of the bill of supply is applicable the same needs to be checked.

5. CORRECT AVAILMENT OF INPUT TAX CREDIT

After GST registration certificate and invoicing, the next most important point is to verify the input tax credit availed during the specified period. Following are some of the important points which need to be verified –

Invoice particulars on the basis of which input tax credit has been availed.

Verification of input tax credit availed as per books of accounts against the input tax credit reflected in the GST returns.

Going through the applicability of list of the restricted tax credit as per GST law.

Verification of reversal entries, if any, in the input tax credit.

6. VERIFICATION OF JOB-WORK TRANSACTIONS

It must be verified that the goods have been sent to a job-work under the cover of delivery challan.

In case of a job-work transaction, the registered person is required to file FORM ITC 04 on the quarterly basis, and filing of the same needs to be confirmed. However, filing of ITC 04 has been withdrawn for financial year 2018-19.

The return date of the goods from the job-work needs to be checked in order to confirm that the same has been received back in time.

7. GST RETURNS

GST monthly / quarterly returns, as applicable, should be verified and confirmed that the same is duly filed as per GST law.

Figures reflected in the respective returns should be verified with the books of accounts and any difference in the same should be reconciled.

While every care has been taken to ensure the accuracy/ authenticity of the above, the readers are advised to recheck/ reconfirm the same from the original sources/ relevant departments. The company shall in no way be responsible for any loss or damage suffered to any person on account of the same. The views expressed are personal opinion, compilation and is no way, to be used for any legal opinion, matters