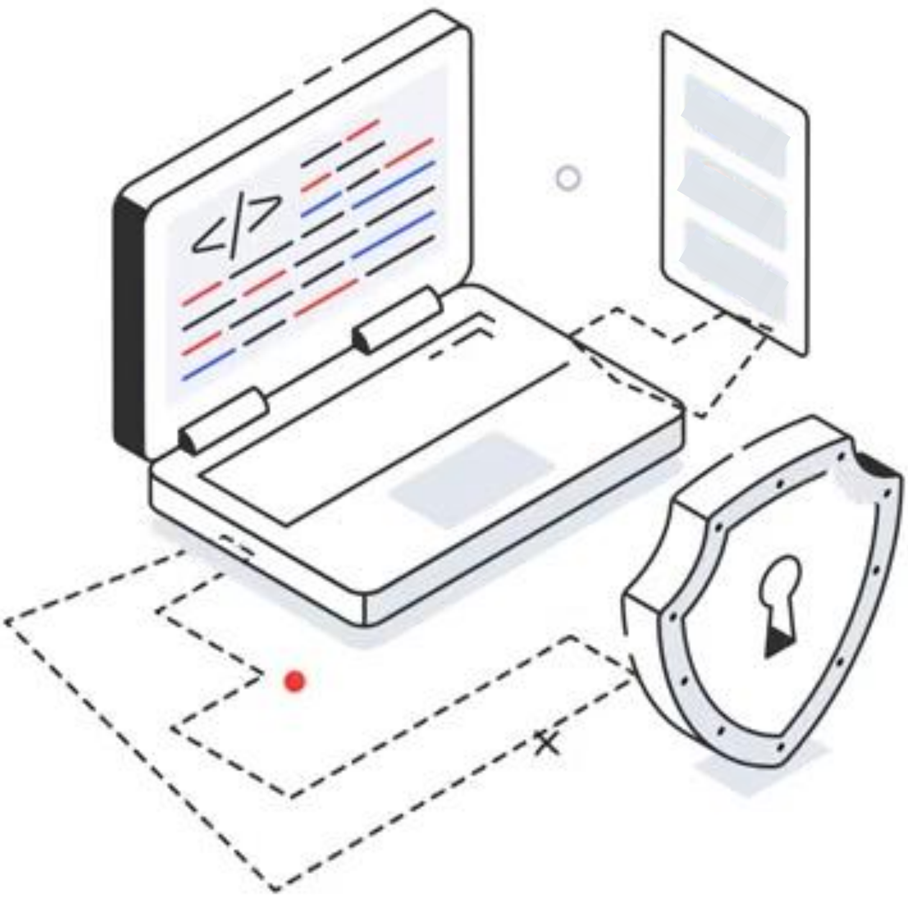
Cygnet TaxTech

navigating the regime where tax meets technology.

Series 1 – Demand and Recovery intimations under GST



September 2023

Cygnet TaxTech

Automated return processing and monitoring mechanisms

The tax officers are increasingly adopting the use of technology to verify and scrutinize the GST returns in a non-intrusive manner and taking actions to enforce the compliance by the taxpayers. The returns are scrutinized in real-time and automated intimations are triggered in case of deviations beyond the prescribed risk threshold.

In some cases, such as DRC-01C and DRC-01B issued for discrepancies between the liabilities as per returns of outward supplies and tax paid at the time of filing GSTR-3B or discrepancies between input tax credits claimed and those available as per GSTR-2B, the taxpayers are required to either correct the deficiencies and/or respond to the notices before they can file returns for the next tax period.

The GSTR-1 and GSTR-3B returns furnished by the taxpayers form the base for the analytics along with the information derived from various sources such as e-invoicing and e-way bills. Hence it becomes essential that the details furnished at this first point of contact with the tax department are accurate and in sync with the financial records.

GSTR-1 GSTR-3B GSTR-2B

Mismatch or discrepancies in liabilities on outward supplies

DRC-01B

Mismatch in input tax credits available and credits claimed

DRC-01C

Discrepancies in liabilities reported in return of outward supplies and tax paid.

When the tax liabilities declared in return of outward supplies (GSTR-1/IFF) for the tax period exceeds the amount of tax declared and paid at the time of filing GSTR-3B, in excess of such amount and such percentage, as may be recommended by the Council, automated intimations in Form DRC-01B are being issued.

How should businesses respond to DRC-01B intimations?

1. pay the differential tax liability along with interest, or
2. explain the difference.

But it's just not that simple.. we'll tell you why and what if that is not done?

How should businesses respond to DRC-01B intimations?

Implications of non-payment of deferential liability or unsatisfactory explanation

Best practices and recommendations

Probable reasons for differences in liabilities as per GSTR-1 & GSTR-3B

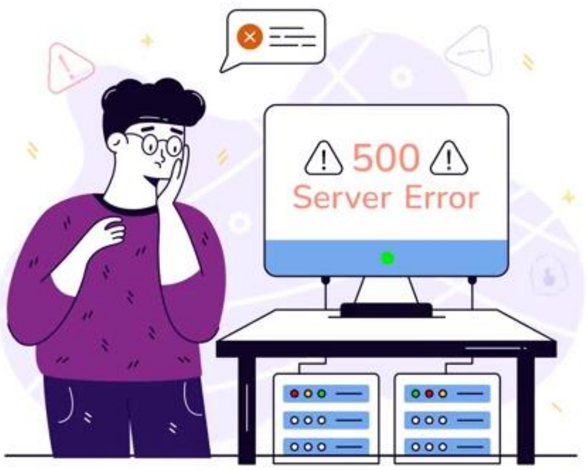
Businesses receiving notices needs to either pay the differential tax liabilities or explain the reason of the differences i.e., short payment of taxes within 7 days.

Potential reasons for mismatch between GSTR-1 and GSTR-3B:

- Adjustments of excess liabilities paid in previous months
- Transactions for which tax was already paid in earlier tax periods but the transactions are declared in the later period
- Errors in GSTR-1/IFF which would be amended in subsequent tax period
- Reporting of the transactions under incorrect sections

Implications for your business

It becomes essential that the short payment in tax liabilities are paid well within 7 days and reported in part B of DRC-01B and the legitimate differences are explained to the satisfaction of the tax officer to avoid disruption.



Filing of GSTR-1/IFF shall be blocked till reply in Part B of DRC-01B is filed

1. If the 'self-assessed tax' i.e., tax payable in respect of details of outward supplies furnished in GSTR-1/IFF, but not included in GSTR-3B is neither paid nor explained, filing of GSTR-1/IFF for subsequent period shall not be allowed.

   The differential amount shall become recoverable under Section 79.

2. Once the explanation for the difference is furnished, filing of returns for the subsequent periods shall be allowed.

   However, if the explanation is not found to be satisfactory, recovery proceedings under Section 79 can be initiated.

Recovery proceedings for 'self-assessed tax' under Section 79 does not require issuance of show-cause notice.

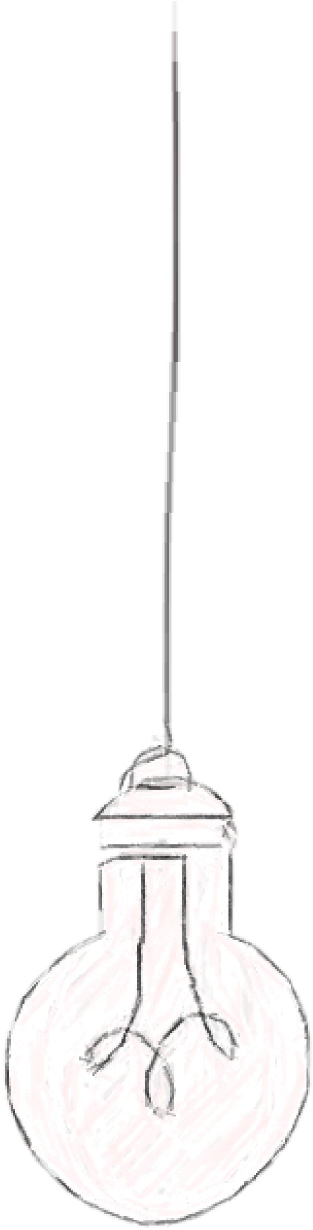
Implications for your business partners

Blocking of GSTR-1/IFF filing breaks the flow of input tax credit to the business partners and adversely impacts cash flows for the supply chain down the line, and may lead to delay in receivables for your business.

Besides, initiation of recovery proceedings may further expose your business to interest and penal changes, and increased risk of scrutiny,

Best practices and recommendations

Differences in liabilities between GSTR-1 and GSTR-3B can occur even without fraudulent intentions. However, it becomes necessary to identify such differences and take corrective actions well in time.



Here are some suggestions:

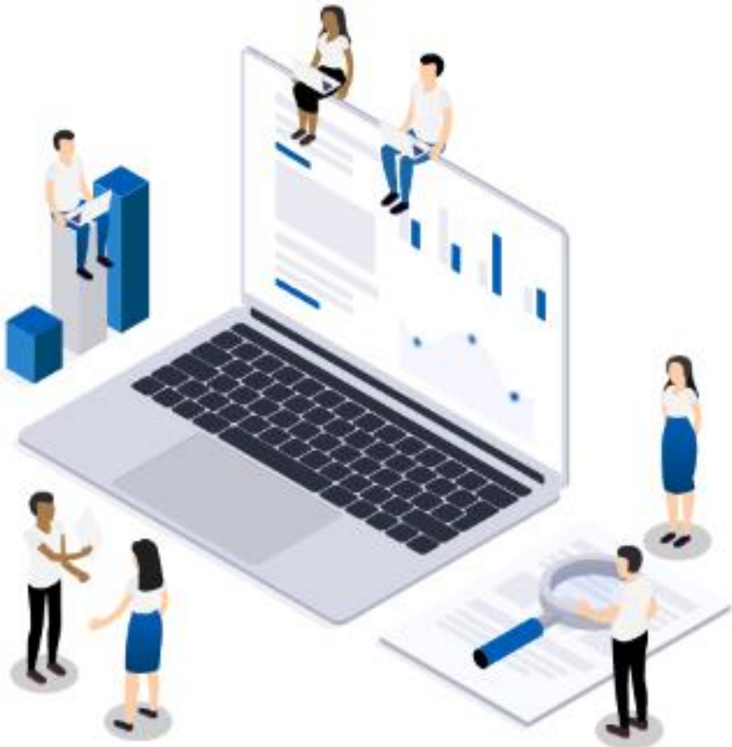
- It could be a good idea to perform month-on-month and year-till-date reconciliation between GSTR-1 and current GSTR-3B before filing it.

- In case of amendments in taxable value or tax amounts, adjust differential liability in GSTR-3B for the tax period when changes are done.

- For transactions reported previously as B2C and subsequent conversion to B2C, amend B2C summary of the previous period or issue B2C credit notes in the current tax period.

- Ensure the taxable value and tax amounts are disclosed in correct sections of table 3.1 of GSTR-3B.

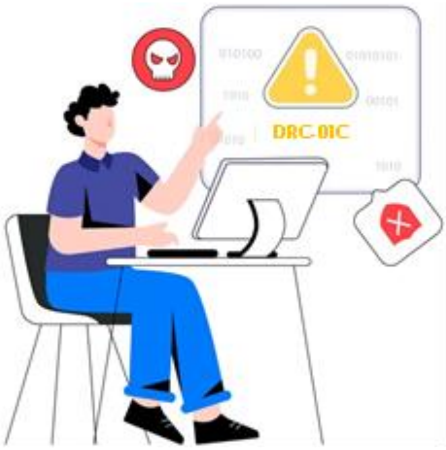
- A single 'source of truth' may be maintained for filing returns, computing tax liabilities and responding to the tax department in time.



Discrepancies in the input tax credits available as per GSTR-2B and input tax credits availed in GSTR-3B.

You would have been most likely been concerned about this – purchase reconciliations!

And just when your input tax credit claims in GSTR-3B exceeds the tax credits available as per GSTR-2B, during a tax period or periods, by such percentage and amounts as may be recommended by the Council, an intimation in DRC-01C could be issued.



How should businesses respond to DRC-01C intimations? same, pay or explain.. within 7 days

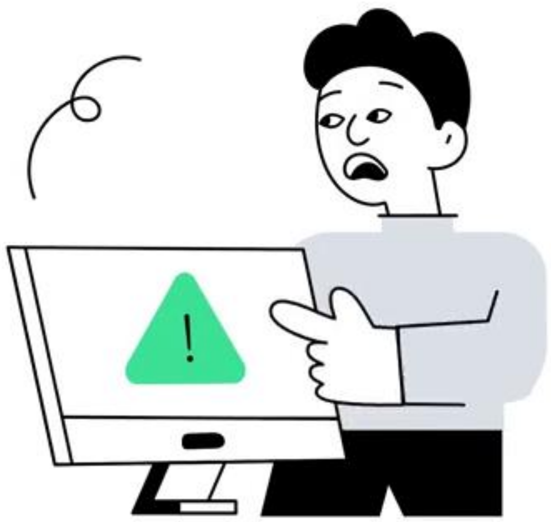
1. **pay** the differential tax liability along with interest, or
2. **explain** the difference.

Probable reasons for issuance of DRC-01C intimations

- Input tax credits of earlier period (not availed previously) either due to non-receipt of goods or services, inadvertently or due to omission
- Input tax credits availed in respect of imports or purchases from SEZ units/developers not reflected in GSTR-2B
- Reclaim of excess reversals in previous periods
- Reclaim of input tax credits reversed in terms of Rule 37 or 37A
- Errors in GSTR-3B which would be adjusted in subsequent tax period

Implications for your business

Excess input tax credits specified in Part A of DRC-01C shall be required to be repaid with interest within 7 days and/or reasons are required to be explained in part B of DRC-01C



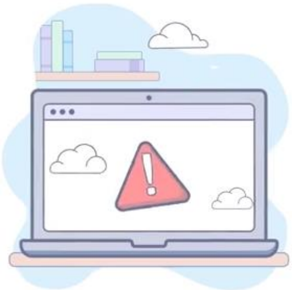
Filing of GSTR-1/IFF shall be blocked till reply in Part B of DRC-01C is filed

1. If the excess input tax credit availed is neither paid nor explained, filing of GSTR-1/IFF for subsequent period shall not be allowed.

   Prosecution under Section 73 / 74 would be initiated.

2. Once the explanation for the excess credit availed is furnished, filing of returns for the subsequent periods shall be allowed. If the explanation is not found to be acceptable, prosecution under Section 73 or 74, as the case may be, would be initiated.

Best practices to stay clear of DRC-01C intimations



First things first!

Do not forget to report cumulative input tax credits reversed in previous tax periods but eligible to be reclaimed in 'Electronic Credit and Re-claimed Statement' by 30th November 2023.

The amounts disclosed here would be used to track the reclaims of previously reversed input tax credit.

- Businesses needs to have a relook at the reconciliation process to strike a balance between making rightful claims of input tax credits and optimizing cash flows by implementing systems for smarter payment decisions based on reconciliations while allowing payments for critical procurements.
- Excess claim of input tax credits as compared to GSTR-2B may be placed under temporary reversals till the time they are reflected and reconciled with GSTR-2B.
- The reversal of input tax credits needs to be adequately disclosed in GSTR-3B.