

Matching and reconciliation under GST

Enabling effective vendor communication



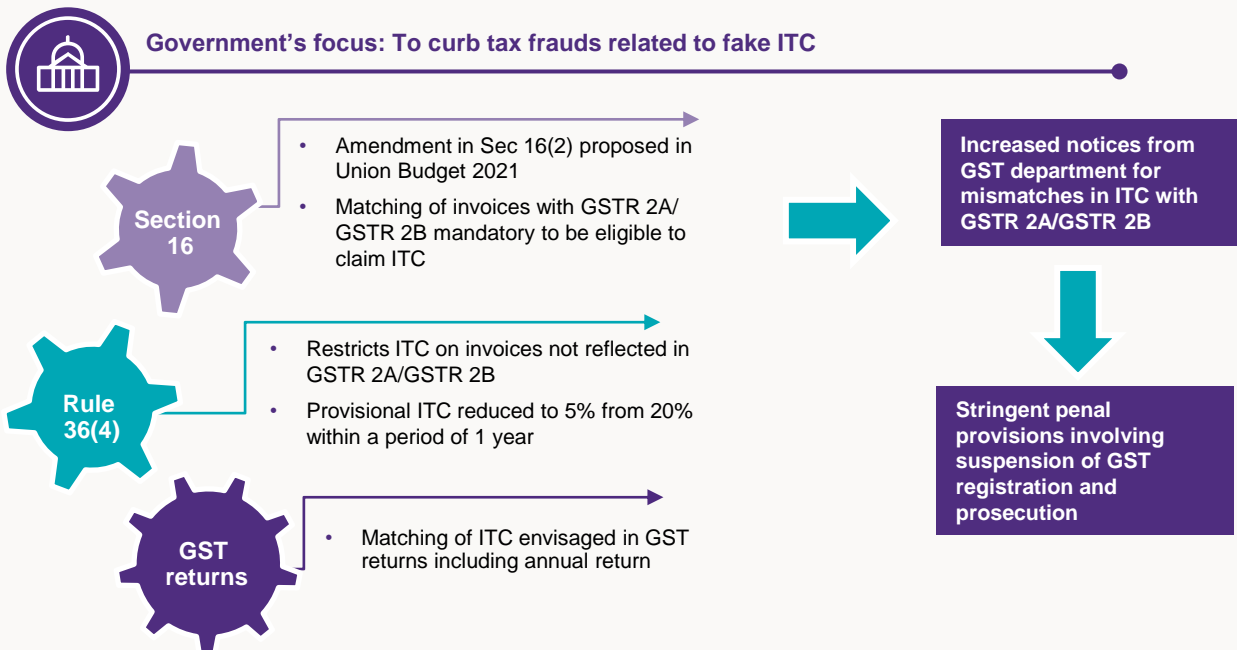
Background

When the government launched the Goods and Services Tax (GST) in 2017, it envisaged a means to automate matching of input tax credit (ITC) while filing GST returns¹. However, the necessary infrastructure is yet to see the light of the day. With the rise in instances of ITC mismatches and fake ITC claims, government is focused on mitigating such frauds.

Frequent amendments in GST provisions² related to ITC, have further mandated matching invoices with returns furnished by suppliers to avail ITCs.



Legal framework mandating matching of ITC



ITC matching – a recurring process and not an annual exercise

Due to lack of infrastructure for automated matching of ITCs through returns filed by suppliers (GSTR-1) and taxpayers (GSTR-2), taxpayers matched ITCs offline on an annual basis (or for any other period) to ensure the same is correct and complete. This was also done to prevent any loss of ITCs due to the time-limit - ITC

for a financial year cannot be taken beyond the GST returns filed in September of subsequent year - for availing ITCs³.

However, considering the mandatory requirement of matching invoices with form GSTR 2A/GSTR 2B

1. Filing of GST returns- GSTR 1, GSTR 2, GSTR 3, Section

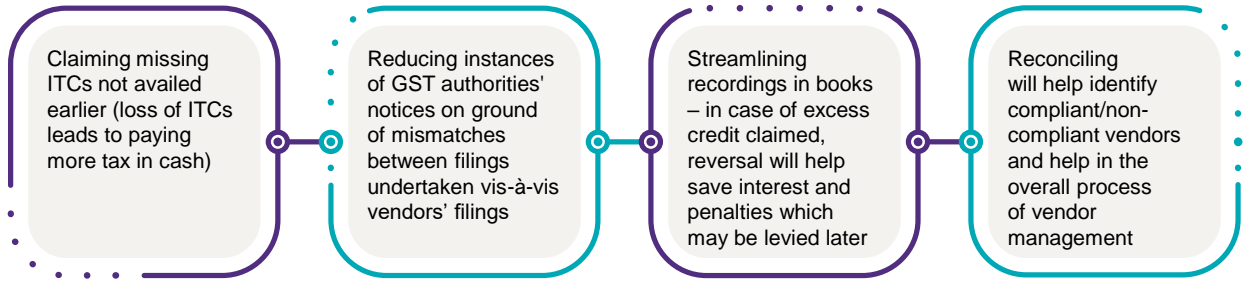
2. Rule 36(4) of CGST Rules, 2017 introduced w.e.f. Oct 2019 and proposed amendment to Section 16(2) of CGST Act, 2017 in Union Budget 2021

3. Section 16(4) of CGST Act, 2017

for availing ITC, coupled with stringent penal actions from GST authorities, ITC matching has become an integral process of tax compliance and not just an annual exercise.

Standard operating procedures (SOP) need to be defined to ensure effective ITC matching and avoid any undue penal consequences.

Objectives for ITC reconciliation

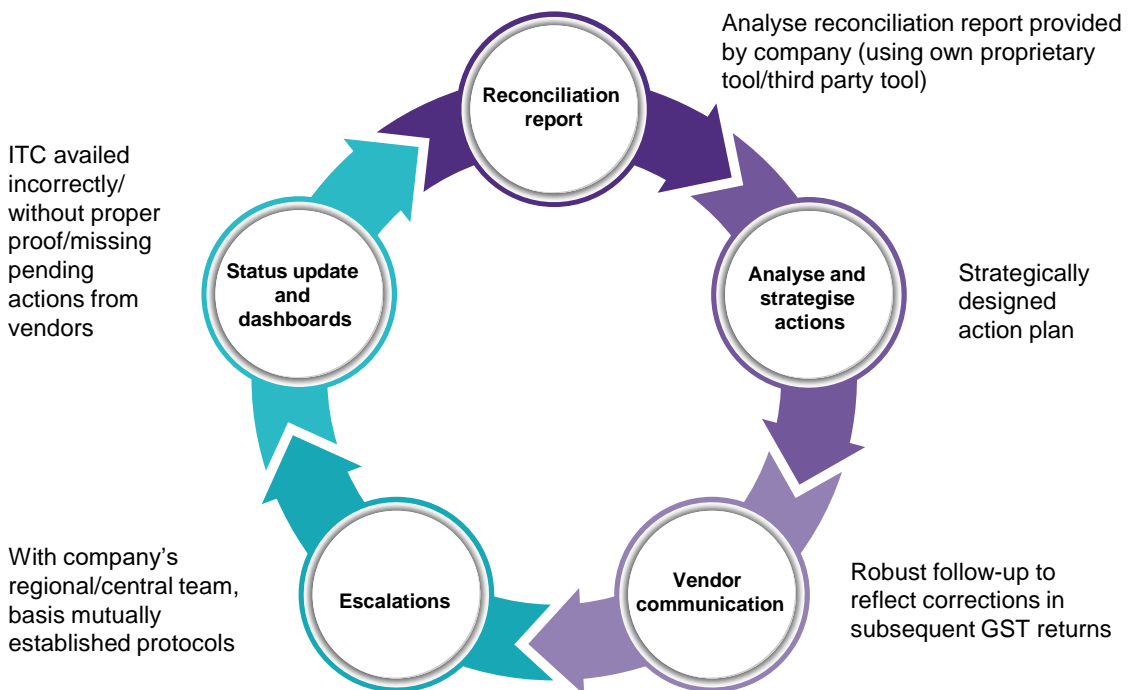


Effective vendor communication essential for ITC reconciliation

Multiple tools are available in market to reconcile (a) invoice details as per taxpayer; (b) with invoice details uploaded by suppliers in their GST returns, which is made available for taxpayers in GSTR 2A. Though these tools match taxpayers' data with GSTR 2A/2B reports and identify invoices where there would be multiple mismatches, they have their flaws.

it requires extensive efforts on behalf of the taxpayers to analyse these reports and communicate mismatches to the suppliers. Without timely correction of the GST returns or uploading of missing invoices on GSTN portal by suppliers, ITC reconciliation remains incomplete.

Key steps involved in the process



Strategically planned action approach



Way forward

It is essential for taxpayers to assess the impact of ITC mismatches, not only with respect to compliance of provisions under the GST law but also effective management of working capital. Corrective actions are required to minimise the losses due to lack of proper vendor communication.

How can we help?

Connecting with vendors to communicate mismatches in invoice details and follow-up for subsequent correction in GST returns is an incessant exercise, which requires proper planning and focused action. Timely response by suppliers is also critical to complete the objective of matching exercise and ensure proper compliances, minimise working capital losses for taxpayers on account of delay in availing ITC.

At Grant Thornton, we support businesses to effectively manage ITC reconciliation through our unique service offering.

Our value proposition



Analyse ITC reconciliation report⁴ and strategies action plan for follow-up with vendors



Communicate with vendors to explain the actions required



Follow-up regularly with vendors to check they comply with the actions



Escalation and status updates for critical scenarios

For further queries, please contact

Vikas Vasal

National Managing Partner, Tax
Vikas.vasal@in.gt.com

Sachin Sharma

Director, Indirect Tax
sachin.sharma@in.gt.com

Krishan Arora

Partner, Indirect Tax
Krishna.arora@in.gt.com

Amit Tibrewal

Associate Director, Indirect Tax
Amit.tibrewal@in.gt.com

⁴. obtained from Company using proprietary or third-party tools

Contact us

NEW DELHI

National Office,
Outer Circle, L 41,
Connaught Circus,
New Delhi - 110001
T +91 11 4278 7070

NEW DELHI

6th Floor, Worldmark 2,
Aerocity,
New Delhi - 110037
T +91 11 4952 7400

AHMEDABAD

7th Floor, Heritage Chambers,
Nr Azad Society,
Nehru Nagar,
Ahmedabad - 380015
T +91 124 462 8000

BENGALURU

5th Floor, 65/2, Block A,
Bagmane Tridib,
Bagmane Tech Park,
CV Raman Nagar,
Bengaluru - 560093
T+91 80 4243 0700

CHANDIGARH

B-406A, 4th Floor,
L&T Elante Office Building,
Industrial Area Phase I,
Chandigarh - 160002
T +91 172 4338 000

CHENNAI

9th Floor, A Wing, Prestige
Polygon, 471 Anna Salai,
Mylapore Division, Teynampet,
Chennai - 600035
T +91 44 4294 0000

DEHRADUN

Suite No 2211, 2nd Floor,
Building 2000,
Michigan Avenue,
Doon Express Business Park,
Subhash Nagar,
Dehradun - 248002
T +91 135 2646 500

GURGAON

21st Floor, DLF Square,
Jacaranda Marg,
DLF Phase II,
Gurgaon - 122002
T +91 124 462 8000

HYDERABAD

7th Floor, Block III,
White House,
Kundan Bagh, Begumpet,
Hyderabad - 500016
T +91 40 6630 8200

KOCHI

6th Floor, Modayil Centre Point,
Warriam Road Junction, MG
Road,
Kochi - 682016
T +91 484 406 4541

KOLKATA

10C Hungerford Street,
5th Floor,
Kolkata - 700017
T +91 33 4050 8000

MUMBAI

11th Floor, Tower II,
One International Center,
SB Marg Prabhadevi (W),
Mumbai - 400013
T +91 22 6626 2600

MUMBAI

Kaledonia,
1st Floor, C Wing,
(Opposite J&J Office),
Sahar Road, Andheri East,
Mumbai - 400 069
T +91 22 6626 2600

NOIDA

Plot No 19A,
2nd Floor,
Sector - 16A,
Noida - 201301
T +91 120 485 5900

PUNE

3rd Floor, Unit No 309-312,
West Wing, Nyati Unitree,
Nagar Road, Yerwada
Pune - 411006
T +91 20 6744 8800

For more information or for any queries, write to us at gtbharat@in.gt.com



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