



IMPLICATIONS OF THE PROPOSED INVOICE MANAGEMENT SYSTEM ON THE GOODS AND SERVICES TAX COMPLIANCE

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Abstract

Technology plays a significant role in the implementation of GST in India. With the early glitches and failures in the implementation of the invoice matching system, FORM GSTR-2 and GSTR-3 were suspended, and input tax credit was allowed to be claimed in the summarized return called Form GSTR-3B. With the inherent limitations of GSTR-3B and the non-availability of invoice-wise information of ITC availed by the taxpayer, it was required to make certain changes in FORM GSTR-3B. The proposed Invoice Management System (IMS) is designed to change an existing process for obtaining input tax credit in GSTR-3B. This is a significant move in improving tax compliance across the country by utilizing technology for real-time invoice tracking and reconciliation. The present study outlines insights into the proposed IMS to be strengthened in the GST framework, resulting in a more efficient and transparent tax system in India, and proposes recommendations for a staggered rollout, capacity building, and a sturdy IT infrastructure to ensure a successful implementation. The study reveals the possible effects of IMS on tax compliance, emphasizing how it might reduce tax evasion, optimize procedures, and promote transparency within the GST ecosystem. It is anticipated that the forthcoming IMS system will lessen human errors, streamline compliance processes, and lessen taxpayers' overall compliance burden. However, seeing the failure of GSTR-2 and GSTR-3, challenges with the implementation of IMS are expected to arise, like technological glitches and the need for small enterprises to adjust towards digital solutions. With utmost care about the probable issues, the forthcoming IMS has the potential to significantly strengthen the GST framework and contribute to a simple, transparent, and user-friendly tax regime.

Key Terms: GST, IMS, GSTR-3B, ITC,

1. Introduction:

Taxpayers are entitled to avail themselves of ITC in terms of the provisions of Chapter V of the CGST Act. A taxpayer is required to report ITC in GSTR-3B, which is a summary return including the details of GST payable for a given tax period. GSTR-3B was never part of the original return filing process. The original return filing, which was planned ^[1] at the time of the implementation of GST, involved uploading invoices to the GST portal in GSTR-1, and input tax credit was supposed to be availed in GSTR-2 automatically using the information filed by the supplier in GSTR-1, and based on the information furnished in GSTR-1 & 2, the monthly return, GSTR-3, was supposed to be filed under Section 39 of the CGST Act, 2017. Filing of GSTR-2 and GSTR-3 was delayed initially for the first two months and later indefinitely due to the lack of necessary IT



infrastructure and concerns about the real-time filing of returns. Meanwhile, a temporary return in GSTR-3B was introduced to avail the ITC and for payment of tax from taxpayers ^{[2][3]}, which was made as a default return subsequently by the government ^[4]. However, the drafting of GSTR-3B is full of deficiencies, and the form was not introduced keeping in mind the requirements of the law. The invoice-wise information of liability is available with the government, as a registered person is obliged to file the same in GSTR-1. The registered person is allowed to avail himself of the ITC only when the invoice in respect of which he intends to avail himself of the input tax credit is auto-populated in GSTR-2B. However, the invoice-wise information of ITC availed in FORM GSTR-3B is not presently available to the government. As a result, there is a need to have a functionality whereby the invoice-wise information of credit availed in FORM GSTR-3B would be available to the government. Invoice Management System [IMS] is an optional functionality introduced on the GST portal in October 2024 ^[5]. It enables taxpayers to view the documents uploaded by the supplier and take corrective action on such documents. This will facilitate taxpayers in efficiently addressing invoice corrections/amendments with their suppliers by accepting, rejecting, or keeping records pending.

2. Objectives of the study:

The present study pursues the following objectives.

- 1) To outline the prevailing framework for obtaining input tax credit.
- 2) To assess the implications of the proposed IMS on stakeholders.
- 3) To put forward the appropriate means and measures for boosting GST compliance using IMS.

3. Research Methodology:

The present study is descriptive and explanatory, leveraging the data from press releases, advisories, frequently asked questions (FAQs) released on the common portal, and GST Council meeting agendas and minutes. Furthermore, it also availed inputs from the websites of the GST common portal, CBIC, Customs, and GST Council.

4. Discussion and Interpretation:

The present study analyses and interprets the obtaining of ITC in the present FORM GSTR-3B and the obtaining of ITC post-implementation of IMS, and the study will also evaluate potential challenges for stakeholders.

4.1. Present mechanism of obtaining Input Tax Credit:

Availment of ITC is subject to the provision of Chapter V of the CGST Act. A registered person is eligible to take credit on inward supplies that are used or intended to be used in the course of or furtherance of his business. The registered person is required to self-assess the ITC amount, which shall be credited to the electronic credit ledger and can be used for the payment of tax. The credit is available subject to the satisfaction of the following conditions as laid down under the Act ^[6]:

- ITC is availed on a valid copy of tax-paying documents such as tax invoices, debit notes, or bills of entry.
- The details of such a tax-paid document are furnished by the supplier in his GSTR-1 and communicated to the recipient in GSTR-2B.



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- The recipient has received the goods or services.
 - The details of ITC related to the supply have not been restricted and have been communicated to the registered person under section 38.
 - The tax charged by the supplier must be paid to the government in cash or eligible ITC and,
 - Return under section 39, i.e., GSTR-3B, is filed by the recipient.

A registered person can avail of the ITC only through FORM GSTR-3B. Table 4 of GSTR-3B is provided for reporting of self-assessed ITC, which includes the details of the eligible ITC on account of the import of goods, import of services, RCM credit, ISD credit, and all other ITC; ITC reversal on account of Rule 38, 42, and 43; ineligible credit under Section 17(5); and other reversals are also reported in this table. The details, such as reclaimed ITC and ineligible credit on account of POS, are also required to be done in this table. ^[7]

4.2. Shortcomings in the present mechanism of obtaining Input Tax Credit:

The following shortcomings can be identified in the present mechanism of obtaining the ITC in FORM GSTR-3B:

- There is no facility to report invoice-wise ITC availed in FORM GSTR-3B.
- There is no facility whereby the details of ITC availed in GSTR-3B can be matched with the details of ITC in FORM GSTR-2B. This results in a discrepancy between the details of GSTR-3B and GSTR-2B.
- There is no facility whereby a registered person can reject the details of ITC that are not pertinent to him or were wrongly uploaded by the supplier.

4.3. Proposed Changes in ITC Framework after the Introduction of IMS:

In the present mechanism, a registered person is allowed to avail themselves of the ITC only when such ITC is auto-populated in FORM GSTR-2B. FORM GSTR-2B is an auto-populated statement that is a static form. Details in FORM GSTR-2B are auto-populated from the details filed by the supplier in FORM GSTR-1 on or before the due date of filing of GSTR-1. GSTR-2B is normally generated for the month on the 14th of the next month. Due to the static nature of GSTR-2B, all the records uploaded by the supplier shall be auto-populated in FORM GSTR-2B even if it is not related to the recipient. The proposed functionality of IMS is going to change the whole ecosystem of obtaining ITC. The functionality will provide an opportunity for taxpayers to review the documents uploaded by the supplier. The analysis of the proposed functionality is based on the various press releases, advisories, and frequently asked questions (FAQs) released by the common portal. ^{[8][9][10][11][12]} The following are key changes:

- The functionality of IMS is available under the returns tab on the common portal.
- The invoices will be available on the IMS dashboard once the suppliers save any invoice in GSTR 1/IFF/1A.
- The recipient can accept or reject an invoice or can simply keep it pending in the system. The recipient is entitled to take action from the time of saving the records in GSTR 1/IFF/1A by the supplier taxpayer till the filing of GSTR-3B. There is no bar to taking action; one can take action multiple times before filing FORM GSTR-3B. The latest action will overwrite the previous action. Action will be frozen after the filing of FORM GSTR-3B.



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- GSTR-2B shall be generated on the 14th as usual. However, a registered person can reset the same based on the action taken in the IMS dashboard, and only the accepted invoices by the recipients would become part of their GSTR-2B as their eligible ITC. Invoices that are rejected by the taxpayer or kept pending for future action will not become part of GSTR-2B. Further, credit in respect of invoices that are kept pending for future action can be taken within the period stipulated under Section 16(4) of the CGST Act. Records will be removed from IMS once the time limit under Section 16(4) is crossed.
 - Amendment made by the supplier in invoices saved in GSTR-1 before filing of GSTR-1 shall be replaced with the details of the amended details irrespective of action taken by the recipient. However, amendments made after the filing of GSTR-1 shall be reflected in GSTR-2B of the next period.
 - For the computation of ITC invoices, only those filed by the supplier will be considered. A draft GSTR-2B shall be made available to the taxpayer on the 14th of the subsequent month. Taxpayers can take action on the documents uploaded by the supplier at any time before filing FORM GSTR-3B. But he is required to re-compute the GSTR-2B if he is taking action after the generation of the draft GSTR-2B.
 - The taxpayer has to either to accept, reject, or keep the records pending. No action on the records shall be considered as the deemed acceptance by the recipient. All the accepted/deemed accepted/rejected records will move out of the IMS dashboard once GSTR 3B for said period is filed. However, pending records will remain on the IMS dashboard, and these records can be accepted or rejected in future months.
 - Action on the pending records can be taken only when the action on the original record is taken, except when the original and amended record belongs to two different GSTR 2B return periods.
 - The liability of the supplier will be increased in GSTR-3B for the subsequent tax period for records that are rejected by the recipient in respect of the following transactions.
 - Original credit note rejected by the recipient.
 - Upward amendment of the credit note rejected by the recipient irrespective of the action taken by the recipient on the original credit note.
 - Downward amendment of the credit note rejected by the recipient if the original credit note was rejected by him.
 - Downward amendment of invoice/debit notes rejected by the recipient where original invoice/debit note was accepted by him and respective GSTR 3B has also been filed.
 - In respect of the above transaction, the taxpayer is allowed to either accept the record or reject the same. It cannot be kept pending for future action.
 - All the records do not form part of the IMS dashboard. The following documents will directly flow to GSTR-2B.
 - Document flowing from the forms such as GSTR 5 and GSTR 6
 - ICEGATE documents.
 - RCM records.
 - Documents where ITC is ineligible by the POS rules & Section 16(4) of CGST Act.



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- Documents where ITC is to be reversed on account of Rule 37A

Findings and Suggestions:

After relevant **discussion** and interpretation regarding the prevailing mechanism of obtaining ITC and the proposed mechanism of ITC using IMS, the study has drawn the following findings and suggestions:

❖ **Availability of offline utility:**

At present, the taxpayer is allowed to take action on the records online on the common portal. However, in cases where the number of documents exceeds 500, details are not seamlessly available on the common portal, and no offline utility is available to take action where a large number of documents are available. Therefore, it is suggested that an offline tool should be made available to taxpayers for seamless operation.

❖ **IMS is not optional:**

It is envisaged in the press release that IMS is optional. However, it is a half-truth; particularly where the recipient of their supplies has opted to implement IMS, then in such a case, the supplier will be bound to take cognizance of IMS-related reconciliations to ensure that output liability is not increased. In the case of rejection of certain documents such as credit notes, the liability of the supplier is going to be increased in the subsequent returns. This leads to an unnecessary burden on the supplier, where the recipient inadvertently rejects the record in IMS. It is suggested that a separate facility should be available to the taxpayer whereby he can resend such documents to recipients in the subsequent period for the action by the recipient. In the absence of such a facility, a recipient can misuse the said functionality in cases where there is dispute, disagreement, and litigation between supplier and recipient.

❖ **Statutory backing to IMS:**

There is no statutory backing as of now to the IMS functionality. It is suggested that till the time the government makes the necessary changes in Section 38 of the CGST Act, GSTR-2B as generated originally should be considered for the calculation of ITC. Further, in the case of rejection of credit notes, the liability of the supplier will increase. However, with the omission of Sections 42 & 43 of the CGST Act, there is no such provision as of now that will endorse the action taken by the recipient.

❖ **Progressive implementation:**

The implementation of IMS should be made in a progressive way to avoid the system glitch on the GST common portal.

❖ **Period for upgrading accounting system:**

The success of IMS functionality depends upon the significant changes in the existing accounting system. However, no breathing time is given for making required changes in the accounting system. Companies will have to heavily invest by upgrading the necessary software. Further, recipients who are not technologically sound may use this system incorrectly, which will ultimately cause the compliance of the supplier.

❖ **Edit option:**

There is no edit facility available with the recipient after the filing of GSTR-3B. This leads to dependability on the supplier for rectification of errors.

❖ **Clarity on the interest liability in the hands of the supplier:**



In case of rejection of a credit note by the recipient, it has been clarified that the corresponding liability will be added to supplier liability in GSTR 3B of the subsequent tax period. However, no clarity has been provided on the applicability of interest under Section 50 of the CGST Act.

❖ **Functionality of IMS is contradictory to circular:**

It has been stated in Circular No. 170/02/2022-GST dated 06 July 2022 that details of the GSTR-2B shall be auto-populated in Table 4 of the return in FORM GSTR-3B, which are editable in the hands of the registered person. However, with the introduction of IMS, the entire data that is available in FORM GSTR-2B is carried to table 4 in FORM GSTR-3B, except ITC not available on account of the restricted period under Section 16(4) or non-availability of credit due to POS. Besides, it is further provided in the circular that in the case where credit is not availed due to limitations imposed by Section 16(2) of the CGST Act, the taxpayer is required to avail and reverse such credit as a temporary reversal in Table 4(B)(2) of the Form GSTR-3B. In IMS, the taxpayer is required to either to accept, reject, or keep the record pending for future action. This leads to a discrepancy between the clarification given in the Circular and the approach to be adopted in IMS functionality.

Conclusion:

With extensive discussion and interpretation regarding the proposed IMS functionality, it becomes apparent that the proposed system for obtaining input tax credit is more effective in preventing disputes between tax authorities, suppliers, and recipients. This will also aid in maximising governance and tax administration under GST legislation. However, the functionality is not without flaws and, as previously pointed out, requires some changes. It is envisaged that statutory amendments to GST law will be implemented in the Budget 2025. It is also predicted that before moving to IMS as a mandatory option for obtaining ITC, the government will spare time for the business corporates to calibrate updates into accounting software. It is hopefully expected that the final version of IMS shall be implemented by due conversation with the stakeholders and addressing upcoming issues in the future.

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