

GST RETURN FILINGS

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Invoice Matching under GST

Goods and Services Tax (GST) has been implemented in many countries in the world. But the form and features of GST vary from country to country. One unique feature of Indian GST is the process of 'Invoice Matching'.

Every month suppliers are required to upload invoices to GSTN portal which shall be matched with purchases from customers. This interlinking will be done by way of auto-population of data filed in GSTR 1 of supplier into GSTR 2 of the buyer.

However, to ease transition into the new regime, invoice matching was deferred by GST Council till March in its November meeting. Matching of invoices would have ensured that input tax credit could be claimed only if the supplier has paid tax and the relevant inward and outward details match.

Invoice Matching Process

Invoice matching is essential as input tax credit is allowable only if the details of inward supply match with the details of outward supplies filed in GSTR 1 of the supplier. Since these details will be automatically filled into the tax return form of the buyer, the entire supply chain will be networked.

The recipient can himself feed the invoices not uploaded by his supplier. The credit on such invoices will also be given provisionally but will be subject to matching. On matching, if the invoice is not uploaded by the supplier, both of them will be intimated. If the mismatch is rectified, provisional credit will be confirmed. But if the mismatch continues, the amount will be added to the output tax liability of the recipient in the returns for the month subsequent to the month in which such discrepancy was communicated.

At any stage, but before September of the next financial year, supplier can upload the invoice and pay tax and interest on such missing invoices which he had earlier failed to upload. The recipient shall be eligible to reduce his output tax liability to the extent of the amount in respect of which the supplier has rectified the mis-match. The interest paid by the recipient at the time of reversal will also be refunded to the recipient.

Legal Challenges

The precondition imposed under GST for allowing ITC is harsh, as it casts an additional burden on recipient to prove that the tax has been deposited by the supplier. In a recent judgment¹, the Delhi High Court read down Section 9 (2) (g) of the Delhi VAT Act for being in violation of Article 14 (Right to Equality) of the Constitution of India. Section 9 (2) (g) of Delhi VAT Act was

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¹ Quest Merchandising India Pvt. Ltd. & Ors V Govt. Of NCT of Delhi & Ors (2017)

very similar to Section 16 (2) (c) of CGST Act which requires that 'the tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of input tax credit admissible in respect of the said supply'. Therefore, going forward, constitutional validity of this provision may also be challenged by the taxpayers.

Way Forward

Invoice matching on such a grand scale has not been tested elsewhere. Though it ensures that credits are not availed wrongly, the process is beset with practical difficulties.

In the recent GST council meeting held on 18th January 2018, Infosys Chairman Nandan Nilekani recommended a new system of matching wherein the seller will upload the invoice and the buyer will acknowledge it. In this system, the onus of matching invoices will fall on the supplier and buyer. GSTN would not perform any reconciliation for the data uploaded as credit would be restricted to invoices accepted. Such a simplified matching would remove the insurmountable technological complexity hindering the matching process.

It is clear that the GST council intends to continue with the concept of invoice matching, as it is the bedrock of new indirect tax system in India. This would effectively mean that there will be greater onus on businesses to ensure compliance of vendors and also more rigours at the time of assessment or audit.

Experts predict that Invoice-to-invoice matching under the goods and service tax (GST) regime will make it harder for the cash economy and other parts of the world will soon emulate this feature. But as of now, the pioneer of invoice matching i.e. India itself has not been able to implement this concept smoothly and it will have to tackle the practical and implementation issues to set an example for the world to follow.

The information contained in this newsletter is solely intended to provide general guidance on matters of interest. Nothing herein constitutes professional or legal advice, nor does any information herein constitute a comprehensive or complete statement of the issues discussed. It is recommended that you seek a professional advice to confirm your understanding on the issues dealt above.