

## **Indirect tax reviews – Must for business?**

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Presently in India, the Indirect tax compliance is very complex due to multiple tax laws, frequent changes in indirect tax laws. Adding to this, different views expressed by the courts also adds to the litigation. For a normal businessman, it would be very difficult to know or understand all the indirect tax provisions. In fact, even the professionals would find difficult to reach conclusion for few issues. However, the businessman cannot ignore the indirect tax as it constitutes nearly 25% for a manufacturer and around 15% for a service provider. Apart from regular compliance, there are many benefits which are not considered by the businessman. A professional would be able to guide the businessman to ensure maximum compliance and benefits under indirect tax laws.

### ***Concept of indirect tax review***

Unlike statutory audit or income tax audits, it is not mandatory for the businessman to get indirect tax review / audits done from professionals. Therefore, most of the professionals do not focus on concept of indirect tax reviews. In fact, most of the readers of this article may not be aware of this concept. Many would be aware and encountered audit from the tax department. After the departmental audit, the assessee may end up paying huge taxes (sometimes not liable at all), reversing credits with interest and penalty unless proper compliance is ensured. A prudent assessee can get the audit / review done from a professional before departmental audit to ensure that all the legal provisions under indirect tax laws are complied with. The major indirect tax laws which should be looked into could be Central Excise, Service tax, VAT / CST, Customs including Foreign Trade Policy. If necessary, the assessee could include aspects like entry tax, octroi into the scope.

One may argue that audit by professional or department would not make difference as ultimately the assessee end up paying required taxes. This argument would not be right in all the cases as interest and penalty components would differ in these cases. Apart from this, the major difference is value addition in form of tax planning, cost controls, export benefits provided by the professionals. These types of benefits would not be highlighted by the department though they are expected to guide and educate the assessee apart from highlighting the issues.

### ***Objectives of indirect tax review***

The objective of general audit is to express an opinion on the true and fair view of financial position and performance during the relevant period. The indirect tax review could be conducted with following objectives:

- a) Verifying the transactions having implications under indirect tax for compliance.
- b) Detecting errors and their implications under indirect tax.
- c) Ensuring that the internal controls of client are strong / adequate enough to prevent errors in indirect taxes.
- d) Auditor can provide great value addition in indirect tax audit with the legal frame.
- e) Reporting of issues and value additions to the appointing authority.
- f) Another objective is to give assurance to the stakeholders.

### ***Advantages to indirect tax review***

Few of the advantages of indirect tax review for a businessman could be as under:

- a) Assurance on compliance or non-compliance under indirect tax law with respect to liabilities. Interest and penalty could be reduced by complying.
- b) Ensures that all eligible credits are claimed under VAT and Cenvat credit provisions
- c) Ensures all export related benefits are availed
- d) Helps in reducing cost of goods sold
- e) Provides option for better tax planning
- f) Gives assurance to all stakeholders on compliance under indirect tax
- g) Helps in building confidence among the employees especially during departmental audit

### ***Assistance during departmental audit***

Getting the records reviewed by a professional before the departmental audit would be of great help to businessmen. A professional can not only review the records but he can also train the employees and build confidence in them to face audit. There are lot of precautionary steps to be taken before audit which can minimize the adversity / pain of audit. This could be taken care with the assistance of a professional by getting internal auditor to include indirect tax aspects in scope on periodical basis or getting only a IDT health check conducted periodically. Lot of times the review exercise would end up in lot of value addition along with exposures that can be guarded against as many a time assessee would not be aware of benefits like exemptions, abatement and other export benefits as discussed earlier.

**Conclusion:** Few organizations consider Indirect tax review as not important as it is not statutory and look at it cost. It is important to for them to consider the advantages of this

and do not compare with tradition internal or statutory which is mostly fault finding exercise. Surprisingly many such regular indirect tax reviews [including pre-audit on getting notice] end up in net value add as credits and FTP benefits being missed is quite common.

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