GST - KEY AREAS TO BE VERIFIED AS A YEAR END PROCEDURE

BACKGROUND:

Much expected and game changing indirect tax law was introduced in the form of GST with effect from 1st July 2017. This financial is unique from Indirect Taxes perspective as the erstwhile indirect taxes such as service tax, central excise and VAT were prevalent for the first quarter i.e. April 2017 to June 2017 and later GST is in place for the remaining three quarters. Therefore, as we come close to the end of the financial year 2017-18, it is important to revisit and validate certain critical aspects of accounting and compliances in pre-GST and post-GST laws. There are certain areas which need to be verified and acted upon to give effect in financial statements before 31.03.2018. In this article, we have analyzed few of the critical areas which could be taken into consideration for this purpose.

1. **Finalisation of cost allocation to branches and cross charge of expenses**

   Before finalisation of annual accounts, it is important to identify the cost allocation to other locations of the same entity, for the purpose of cross charge under GST. Since, there is no timeline provided for the cross charge, therefore companies can devise an internal mechanism by virtue of which periodically one tax invoice charging GST can be raised on other GST registered person (i.e. distinct person) and accordingly taxes can be paid and other details of the same can be reflected in Form GSTR-3B to be filed for the month of March 2018.

2. **Reconciliations**

   All taxpayers should reconcile the cash ledgers, credit ledgers, liability ledgers with their books of accounts. Further, the reconciliation of the GSTR 3B returns must also be performed with that of GSTR 1 and any discrepancies needs to be reported/ rectified. The reconciliation will ensure that the input credit loss to the organisation can be kept at a minimum/ acceptable level and the proper taxes are timely computed and paid.

3. **Revenue reconciliation as per books and GSTR-3B filed for all locations**

   GST law was introduced w.e.f. 01.07.2017 and for first three months of financial year, old laws were effective. There could be challenges in terms of reconciling the revenue reported in the periodical returns filed such as ST-3 return, ER-1 return, VAT return and GST returns vis-a-vis the consolidated revenue reported in financial statement for the entire financial year. Further tax paid on supplies which are not accounted as sales in the books (ex. Stock transfers, cross charge of expenses, deemed supply transactions etc) would have to be taken into account.

In case of services providers who were filing centralised service tax returns, would also have challenges to reconcile revenue reported under individual State returns with the PAN India accounts. It is right time to reconcile the differences between the records which would also help in finalising the GST annual return and GST audit certification by 31st December 2018.

4. **ITC reconciliation as per books and GSTR-3B filed for all locations**
   Reconcile the value of input tax credit availed across all registrations with the books of accounts. This would also help to identify credits which have not been availed in GSTR-3B. During this stage, it is also necessary to consider the credit amounts carried forward from earlier regime to GST regime by filing TRAN-1 form. If there are any disputable credits availed but not utilised, then appropriate disclosure to be made with narration for the credit entries in the financial statements.

5. **Review of ITC ledger and vendor invoices – Ensure eligible credits availed**
   Considering the challenges in terms of availment of input tax credits (ITC) at State level as compared to a single centralised return under service tax, there is a possibility that certain credits could have been availed in the wrong state or wrong GSTIN within the same state therefore this shall be the most critical aspect as system coding error human error can lead to incorrect credits position.

   It is important to review the input tax credit ledger as per the books of accounts along with the vendor invoices, to ensure that eligible credits have been availed only in the correct state. There could be defective invoices issued by the vendors which could result in dispute of credits. Those invoices could be identified and intimated to vendors take appropriate actions before they close their financial statements.

6. **Gear up for E-way compliances for inter-state supplies**

   E-way bill procedure is now compulsory from 1st of April for interstate transport. Therefore it is necessary to get registration under E-way bill system i.e. www.ewaybill.nic.in before 31st march 2018 and the e-way bill would be required to be generated in accordance with the rules prescribed in this regard. If goods are in transit as on 1st April, 2018 even then it would be compulsory to generate e-way bill on such movements.

7. **Cancellation of Bond and Bank Guarantee**

   Before 31st march 2018 assessees who have earlier submitted bond along with the Bank guarantee in order to supply goods or services for export or SEZ without payment of GST can now cancel the same as the requirement of bond is now done away with and a simple letter of undertaking i.e. (LUT) would suffice the procedural requirement to make zero rated supplies.

8. **Filing online application for LUT for FY 2018-19**

   Application must be made for renewal of LUT obtained earlier. This application needs to be made online and the supporting documents along with the earlier LUT must be submitted to the jurisdictional officer so that the LUT gets renewed. This will enable the companies to comply with the procedural requirement while the goods or services are exported or supplied to SEZ without payment of GST.

9. **Filing of ISD Returns and distribution of credits**

   One of the requirement under GST is to distribute the proportionate input tax credits availed in the corporate office to the various locations from where the outward supply of goods/ services is being made in the proportion and in the manner as prescribed n the rules. Therefore, entities must file Form GSTR-06 before the extended due date of 31.05.2018 to ensure timely distribution of credits.

10. **ITC reversal and year-end adjustments**

    As per GST rule, taxpayers who have both taxable and exempt supplies were reversing the proportionate input tax credits on provisional basis considering the monthly turnovers of the preceding month. However, that reversal would now have to be finalized and based on the total turnover of the financial year a final reversal/ reclaim of the common input tax credits on inputs, input services and capital goods must be calculated and reflected in the GST returns to be filed for the month of March 2018.

11. Update billing ERP

In case the billing series is to be started afresh for the next financial year, the billing in ERP module shall be updated accordingly.

12. Opting in/ out of composition scheme

Based on the eligibility requirement if any tax payers want to either register under composition scheme or opt out of the composition scheme registration then the same can be done only in the start of the financial year. Therefore, taxpayers who wants to get registered under composition scheme can apply in Form GST CMP-02 before 31st March and who wants to cancel composition scheme registration then they can apply in Form GST CMP – 04 before 7th April 2018.

13. HSN Coding

As per GST rule it is mandatory to use HSN coding. The depth of mandate in using HSN code depends on the following.

- ✓ Taxpayers whose turnover in previous financial year is above Rs.1.5 Crores but below Rs 5 Crores shall use 2-digit code
- ✓ Taxpayers whose turnover in previous financial year is above Rs 5 Crores shall use 4-digit code,
- ✓ Taxpayers whose turnover in previous financial year is below Rs.1.5 Crores are not required to mentioned HSN code.

Therefore, if the turnover of the preceding financial year lead to change in the depth of HSN code that needs to disclosed, then the changes in this regard must be accordingly undertaken.

14. Periodicity of returns

Taxpayers can file GST return either quarterly or monthly depending upon their respective turnover. If aggregate turnover in previous financial year is below Rs. 1.5 Crores, then taxpayers have an option to file quarterly GST return and if in previous financial year the same exceeds above Rs.1.5 Crores then taxpayers have to file GST returns on monthly basis. Therefore, based on the turnover criteria, taxpayers would have to revisit the returns frequency applicable to them and ensure the compliance accordingly in this financial year.

15. Obtaining GST Registrations

If the aggregate turnover exceeds the prescribed limit of Rs.20,00,000/- or Rs.10,00,000/- in case of special category states then an application must be filed for obtaining GST registration on timely basis so that input tax credits can be timely availed and the compliance can be ensured. Further, as per the requirement of the law, a person needs to make an application for registration within 30 days from the date he becomes liable for registration.

- Team Hiregange