

# **ECRRS: Is it a Delight for the Department and a Dilemma for the Taxpayers?**



**CA Yash Shah**  
**Partner Designate**  
**H N A & Co. LLP**  
**(Formerly known as Hiregange & Associates LLP)**

## **Introduction**

On the 1st of September 2023, the GST Network introduced a significant change to the Goods and Services Tax (GST) reconciliation process. The Electronic Credit Reversal and Reclaim Statement (ECRRS) has become a crucial element in the GST 3B filing process. This statement aims to reconcile the Input Tax Credit (ITC) and reduce errors, ensuring that taxpayers claim the correct amount of ITC. It has made a fundamental shift in the way taxpayers manage their Input Tax Credit (ITC).

According to Notification No. 14/2022 Central Tax dated July 5, 2022, in conjunction with Circular 170/02/2022-GST dated July 6, 2022, significant alterations have been made to the GSTR 3B form and specified ITC disclosure manner creating a separation of permanent and temporary reversals. The amount associated with temporary reversals can now be reclaimed through entry 4A5 and must be reported in table 4D1 of the GSTR3B form. While the ECRRS promises greater accuracy and transparency, it also brings with it a set of challenges and deadlines that taxpayers must navigate. This article will delve into the quarterly taxpayers reporting their opening balances, the intricacies of amendments as well as the impact of ECRRS on taxpayers, exploring the hurdles it poses.

## **Understanding the ECRRS**

The GST Network has recently introduced a fresh ledger in the services section of the GST portal. The ECRRS introduces three essential activities for taxpayers:

1. **Historical ITC Reversal and Reclaim:** Taxpayers are required to prepare a monthly statement dating back to July 2017, highlighting ITC that was reversed but has not been reclaimed. This includes cases like ITC reversed for non-payment to creditors within 180 days. This historical data provides a comprehensive view of outstanding ITC.
2. **Opening Balance Adjustment:** From September 1, 2023, taxpayers can adjust the opening balance of unreclaimed ITC. This adjustment allows taxpayers to claim previously reversed ITC.
3. **Monthly Reporting:** Any temporary reversal and reclamation of ITC reported in GSTR 3B (4B2 and 4D1) will be automatically calculated and reflected in the ECRRS.

### Amendments and Deadlines

Taxpayers have three opportunities to amend the opening balance, but this can only be done until November 30, 2023. After this date, the opening balance becomes frozen. Any attempt to claim more ITC than the cumulative balance of ITC earlier reversed will trigger a warning signal. While taxpayers can still file their GST 3B return after receiving a warning, the tax authorities may issue notices seeking explanations for such discrepancies.

<b>What is ECRRS?</b>	<p>This statement will deal with transactions in respect of ITC which has been temporarily reversed and eligible for reclaim in future periods.</p> <p>Temporary Reversal of ITC means which is temporarily ineligible in the current month, but in future, it can be re-claimed on fulfilment of specified conditions, for e.g., 180 reversal, tax payment by supplier etc.</p>	
<b>Target Taxpayers</b>	<b>Monthly Taxpayers</b>	<b>Quarterly Taxpayers (July-September)</b>
<b>What Amount to be reported as Opening Balance?</b>	Amount reversed but unclaimed, till August 2023	Amount reversed but unclaimed, till July 2023
<b>Due Date for reporting the</b>	30th November 2023	

<b>Opening Balance (Fresh)</b>		
<b>Due Date for reporting Amendments to Opening Balance</b>	Three (3) amendments are allowed, after the 30th of November till 31st December 2023. No new fresh addition can be made.	
<b>Warning Message, in case excess claimed than closing balance</b>	While filing August'23 return, & onwards	While filing July'23 to September'23 return & onwards

### **Benefits of the ECRRS**

The introduction of the ECRRS brings several benefits to the GST filing process:

1. **Reduced Errors and Mismatches:** ECRRS reduces the likelihood of errors and mismatches in ITC claims, ensuring that the revenue department collects accurate tax revenues.
2. **Enhanced Compliance:** The ECRRS encourages taxpayers to comply with reporting requirements and deadlines, ultimately improving GST compliance rates.
3. **Transparency:** With a clear audit trail, tax authorities can easily trace ITC reversal and reclamation activities, reducing tax fraud.
4. **Time and Resource Savings:** The standardized process reduces the likelihood of litigation related to ITC reversal and reclamation, saving both time and resources for the revenue department.

### **Challenges for Taxpayers**

While the ECRRS offers benefits, it also presents challenges:

1. **Additional Reporting Requirement:** Taxpayers must now manage an additional reporting requirement, adding to their compliance workload.
2. **Time Constraints:** Reporting and amending the opening balance within specified time frames (till November 30, 2023) can be challenging.

- 3. Limited Amendment Opportunities:** Allowing only three opportunities to amend the opening balance may be insufficient for those who need to make corrections or updates. After December 31, 2023, the opening balance is frozen and subject to review by jurisdictional tax officers, potentially leading to disputes.

## **Conclusion**

The Electronic Credit Reversal and Reclaim Statement (ECRRS) represents a significant step toward streamlining the GST filing process and improving compliance and transparency. While it offers numerous benefits for tax authorities, it also places additional responsibilities on taxpayers, requiring them to manage reporting and amendments within strict timeframes. To ensure a smooth transition and minimize potential issues, taxpayers should stay informed and adapt their processes, accordingly, leveraging technology solutions and seeking professional guidance when needed.

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