

How does **Smart Risk Mitigation** Protect Your Business from Unforeseen Risks in GST?

The New Paradigm

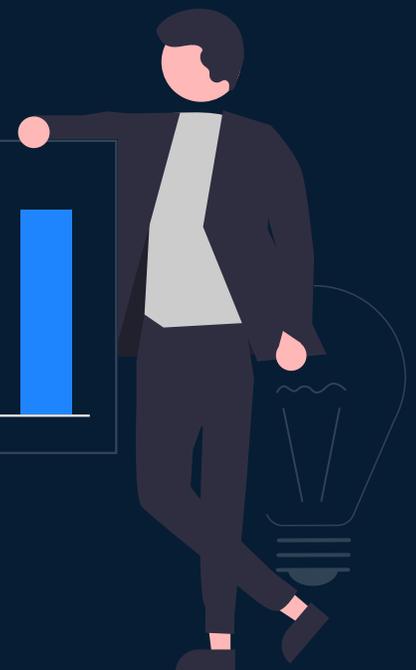
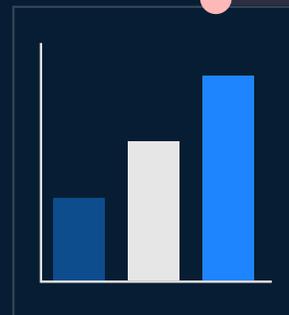
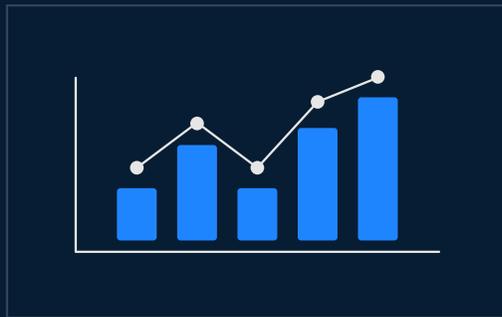


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Introduction

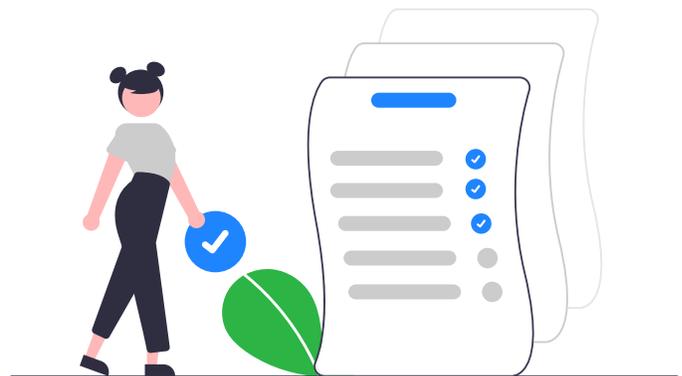
This whitepaper explores some major threats that the business is exposed to directly or indirectly due to the non-compliant behaviour of the company as a whole or any of its subunits.

This risk can be monetary and reputational. Unfortunately, the reasons that initiate these risks are often ignored due to their minuscule size or businesses' sheer ignorance of these matters.

When the business faces a potential risk due to non-compliance with GST laws, it is essential to identify it. The business can mitigate these risks only when they recognise the existence and the nature of risk the company is sitting upon.

It's essential to have a diagnosis routine that helps identify the financial health of your business and minimise the risks that may incur losses to your business in the near future.

Based on the **survey conducted by GST Hero, 80% of the large companies tend to ignore the regulatory compliance requirements for their smaller units. 6 out of 10 businesses are prone to departmental audit risk as they aren't updated with their regulatory requirements.**



This whitepaper shall press all these issues, which may seem redundant at the moment but cause a significant impact on the business as time progresses. It will also submit the diagnosis a business needs to keep itself unharmed from any unwanted financial risks.

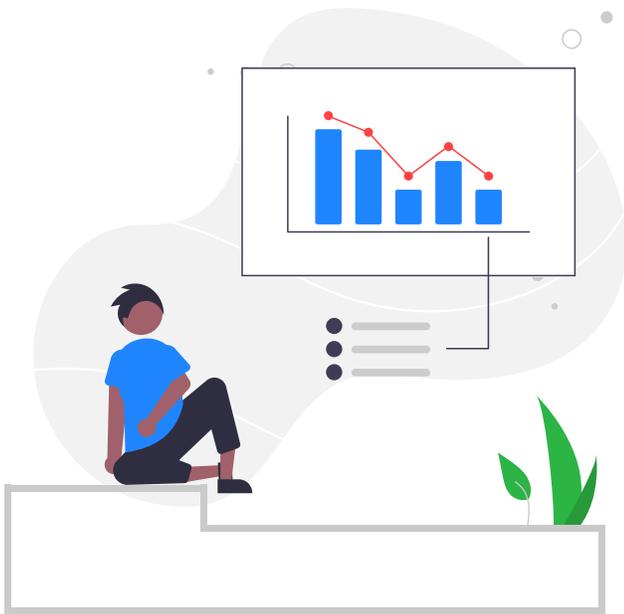
Potential Threats To Your Business Due To Non-Compliance In GST

1. Claiming lesser ITC than eligible

The business's working capital can be hampered due to **the non-availing of the ITC** for a given month. This goes on piling up, and at the end of the year, the sum of this **non-availed ITC becomes enormous**.

Following are some of the reasons that your business is missing out on availing eligible ITC:

- Your **supplier has not filed his GSTR-1** corresponding to the transaction you are missing out on.
- There has been an **ITC reconciliation error** that was not rectified.
- Your defaulting **supplier was not informed about the discrepancy**, and this error was never corrected.



- Whatever the reasons may be, the business loses eligible ITC from each of its units or depots. This sum can be a significant overhead on the businesses' cash outflow.

When the business has the tax credit short, it is bound to pay its GST liabilities in cash.

Large businesses tend to ignore the tax credit on the services like **banking & airfare**.

Businesses should consider the expenses (amount) that go into these services and the GST paid on availing these services.

Many **businesses fail to avail Input Tax Credit** that they can collectively claim on behalf of all their units or depots for banking and **airline ticket transactions**.

2. Paying GST Liabilities In Cash

When we refer to cash in the GST realm, it does not mean hard cash. Instead, it means paying your GST liabilities after exhausting your input Tax Credit.

Recently the GST officials have been pressing to pay the GST liabilities via cash instead of adjusting through ITC as the GST department gets some additional revenue in the government's books.

CBIC has mandated the businesses with the annual turnover exceeding ₹ 50 lacs to pay at least 1% of their tax liabilities in cash. This step comes as a measure to curb tax evasions and ITC frauds.



Exceptions:

a) Managing Director or any Partner of the company pays Income Tax exceeding ₹ 1 lac

OR

b) Registered business has received refund exceeding ₹ 1 lac on unutilised ITC.

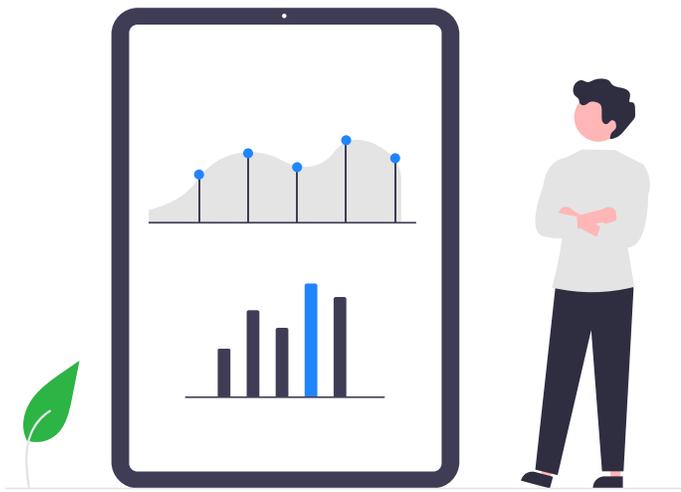
However, there are cases when the businesses pay off their liabilities in cash, even if they have tax credit piling up in some of their other business units.

This can be avoided when there is a transparent picture of ITC accumulated by each business unit and the GST liabilities paid in cash in each of them.

Hence, businesses are advised to pay off their liabilities through Input Tax Credit they have accumulated under different registrations.

3. Lack of a Comprehensive Diagnostic Report (Bird's Eye view)

When your company has multiple registrations situated in different states of India, there is a need for a joint report that gives an idea of all the business units and their financial health.



These consolidated reports shall help the decision-makers of the business to make effective strategies to minimise their tax exposures and nullify the risks that their business is facing due to non-compliance with the standard regulations of the GST.

Unfortunately, such MIS reports are used by a significantly fewer number of companies. Thus, large firms with multiple registrations under it are facing issues of non-compliance.

The generation of these comprehensive MIS reports is time-consuming and come at a huge cost. Hence, due to the cost constraint, many mid-sized businesses tend to not choose such MIS reports for business diagnostic purposes.

They rely on the GST return filing records from the GTSN and the clerical books of accounts. However, manual reconciliation is not as accurate as the one performed by an automated tool.

Businesses should now opt for a new-gen technology to get a Bird's Eye View of the financial transactions and the risks their business is facing.

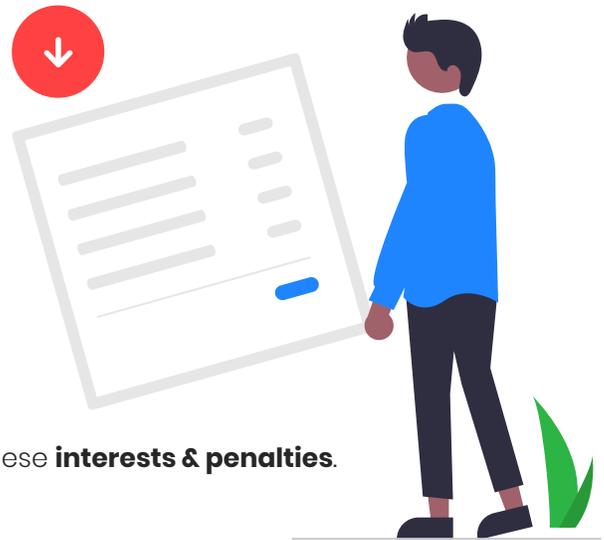
4. Pending liabilities attract more interest & penalties

Whenever there are negative repercussions in GST, they always come with a penalty and interest. For example: - Your business has a **liability of Rs.5 00,000** for a given financial year.

You are being charged interest in the **range of 18% to 24%** on this liability. The penalty may vary from case to case.

So every year, if you keep this liability unpaid, you are **losing at least 18% per year in the best-case scenario**. This could be much worse if we add a penalty amount and a higher interest slab.

If this mistake is rectified early, a **business can save** on these **interests & penalties**.



How Can A Business Diagnostic Report Address These Threats?

An intelligent business diagnostic tool can help businesses identify the gaps in their GST compliance and protect the company from potential threats due to bad transactions.

Following are some of the issues that will be addressed using a business diagnostic tool to gauge the financial health & GST compliance of your business:

- ✓ Independent & **third-party review of your business is essential** that provides a comprehensive perspective of the financial health of your business.
- ✓ Brings all the **units/depots of your business under review** to check their GST compliance status.
- ✓ **Identify the financial leakages** that may happen in future.
- ✓ To give an account of the **total eligible Input Tax Credit**.
- ✓ **Monitoring inward & outward monetary flow** of your business in a single report.
- ✓ **Granular level reporting** of each & every aspect related to GST activity for the business.
- ✓ **Calculating the impact on your business** due to the non-compliance with GST regulations.
- ✓ **Identifying & mitigating the risks** that may invite departmental audits.

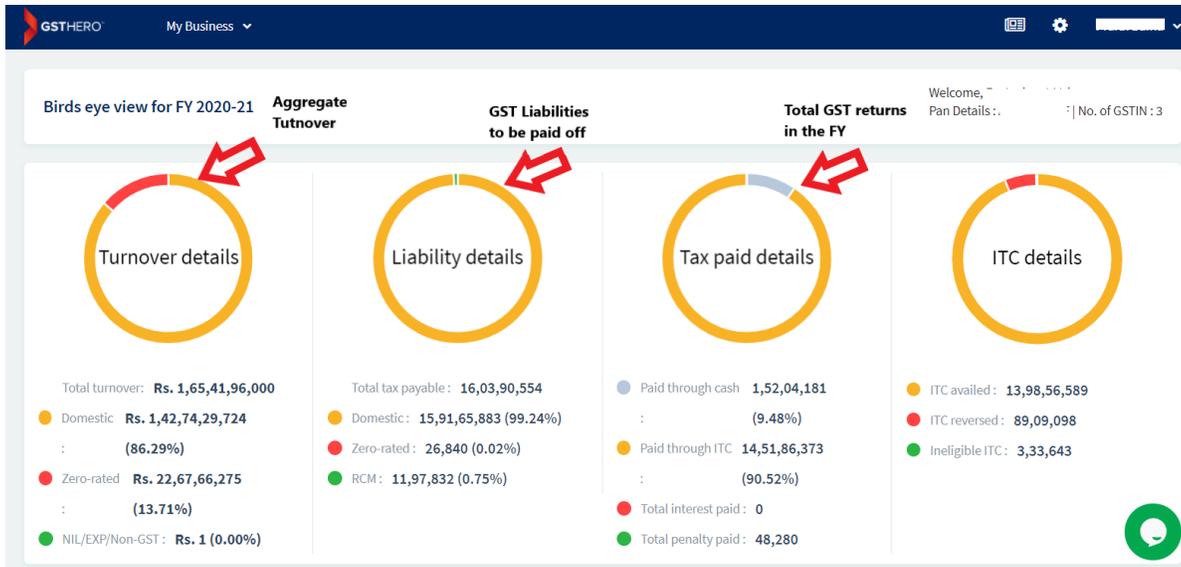
Perennial Systems, Pune has recently developed an in-house product named **GSTHero Third Eye** that allows the business to take a 'Bird's eye View' of their entire business through a single dashboard.

This comprehensive report will help businesses to monitor their return filing behaviour in all their business units and will also bring uniformity in the return filing path of all these units.

Businesses will be able to manage their GST liabilities well in advance to protect them from the future risks of penalties or interests that may dig a hole in the company's revenue.

Positive impacts of the business diagnostic report on your business

The business diagnostic tool shall help the businesses to manage all their compliance issues in a single place by providing a comprehensive report of all their tax liabilities; tax paid, tax unpaid, eligible ITC & so on.



A dashboard like this shall help the businesses get a 'Bird's Eye view' of all their businesses with different GTINs. Furthermore, this shall enable the decision-makers to skim through the already analysed data by the tool to gauge the liability details of individual business units and identify any malicious transactions beforehand to avoid any tax implications in the future.

Business Diagnostic Tool – A Great Alternative To MIS Reports

A **business diagnostic tool can be a great alternative to the old-school MIS reports** due to the following reasons:

- ✔ The info-graphic dashboard helps the decision-makers to understand the GST data better in less time.
- ✔ Granular analysis and record-keeping take away the human efforts that go into tedious clerical work and eliminate error introduction in the data.
- ✔ When the GST data is concerned, you must have the support of a Government Appointed GST Suvidha Provider (GSP) that can fetch the authenticate data directly from the GSTN. This raw data shall help the tool to analyse the previous year trends of your filing pattern & also show red flags where precautionary measures should be taken.
- ✔ Traditional MIS reports are not developed deep into the analysis part of the data. Hence, a business diagnostic tool like GSTHero Third Eye can save your business a lot of money that would go into penalties & interests if the compliance requirements are not met, and liabilities are kept unpaid.



Complying with GST- Way Ahead

Risk Mitigation is not left optional anymore for the stable sustenance of your business; it has become more essential than ever.

With the increase in the number of **dubious transactions, counterfeit invoices** and **growth in the volume of transactions**, it can be challenging to stay 100% compliant with all the GST laws & regulations.

Hence, it is helpful when businesses have a diagnosis tool in place to **identify the red-flagged areas** and **take positive actions** upon them to minimise the impact as much as possible.

It is also essential that you **identify the revenue** leakages in the business, both **realised** and **unrealised**, that may severely impact your profits and the working capital.

With a smart business diagnostic tool, your business will have following benefits:

100% GST Compliance – Complete control over your tax exposure with precautionary alerts.

GSTN Validated Information – When the service provider is an authentic GSP, the complete diagnosis will be based upon the valid data directly fetched from the GST network.

Internal Financial Control – This tool shall help the business to improve transparency on all the internal financial transactions & return filings. This will also help the businesses to improve the weak areas.

Unbiased Scrutiny – You will get an unbiased and a fresh third-party perspective on the return filing behaviour that will throw light on the mistakes and unforeseen risks you can mitigate.

Info-graphic Dashboards with simplified data – Instead of deep diving into numbers, the business diagnostic tool shall simplify the scrutiny activity with easy to understand graphs & diagrammatic representations. This shall help businesses to easily navigate through different aspects of their business & its units.



Business diagnostic tools help you gauge the complete scenario of the GST returns and the tax credit. When the risks are identified at an earlier stage, some measures could be taken to **nip the risk in the bud** so that the business as a whole doesn't suffer due to a single unit being non-compliant.

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