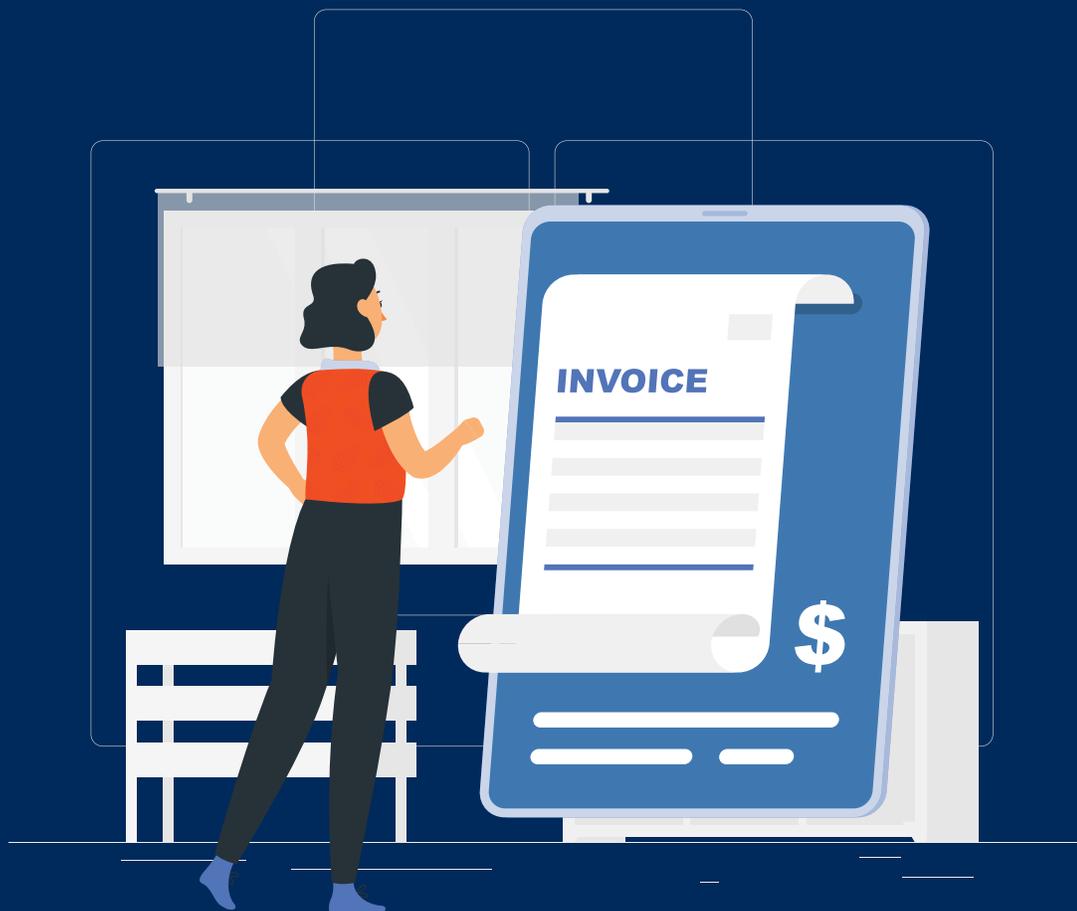


# WHY IS IT ESSENTIAL TO GET YOUR BUSINESS READY FOR E-INVOICING

## THE **DIGITAL AUTHENTICATION** IN GST



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# Introduction

In the **pre-e-Invoicing era**, the fake invoice scam surged, and many cases were unearthed. Some ranged up to **700 Crore+** fake invoices scam from a single taxpayer.

To check these malpractices, the government introduced an e-Invoicing mechanism on **1st October 2020**.

**e-Invoicing under GST** has been introduced with the primary objective of curbing tax evasions and establishing a standard procedure of reporting invoices to the government that will ensure transparency.

Around **87,000+ suppliers generated around 39.81 Crore e-Invoices that included 47 lakh+ recipients** during the first six months of e-Invoicing implementation. There's no doubt that this number will shoot higher with the inclusion of small & medium-sized businesses under the e-Invoicing umbrella. [1]



e-Invoicing will enable **immediate validation of the invoices** from the government side, which will prove to be beneficial for businesses & their recipients claiming ITC under GST.

e-Invoicing under GST has connected businesses from remote areas to large mainstream companies. Small businesses can now build a transactional history with large companies in a transparent & just way.

Although e-Invoicing comes with multiple perks, there are a **few limitations that small & medium businesses are facing** in implementing this system.

This whitepaper intends to look at the **broader challenges** that e-Invoicing has put on the table and submit a **solution that shall help MSMEs** adapt to e-Invoicing smoothly.

## Understanding e-Invoicing

### What is an e-Invoice?

A common misconception among the taxpayers is that an e-Invoice is a freshly generated invoice. However, this is not entirely true.

e-Invoice generation is a process of reporting the already existing B2B invoices to the government through a dedicated portal called Invoice Registration Portal (IRP).

The IRP then assigns a unique Invoice Reference Number (IRN) to every invoice and creates a QR code for every e-Invoice with all the required details.

### Eligibility for e-Invoice generation

W.e.f. 1st April 2021, the businesses whose annual aggregate turnover exceeds Rs. 50 Crore should generate e-Invoices for all their B2B transaction invoices.

e-Invoice generation applies to the invoices of transactions involving:

- ✓ B2B supplies to a GST registered taxpayer
- ✓ Supplies made to Special Economic Zones (SEZs) [with or without GST payment]
- ✓ Export Supplies [with or without GST payment]
- ✓ Deemed Exports [with or without GST payment]



### Entities exempted from e-Invoice generation

- Supplies received from SEZs
- Financial institutions & Insurance companies
- Banking sector (NBFCs included)
- Goods transporting agencies (providing good transport services by road)
- Passenger transportation services
- Multiplexes

## Consequences of missing e-Invoice generation

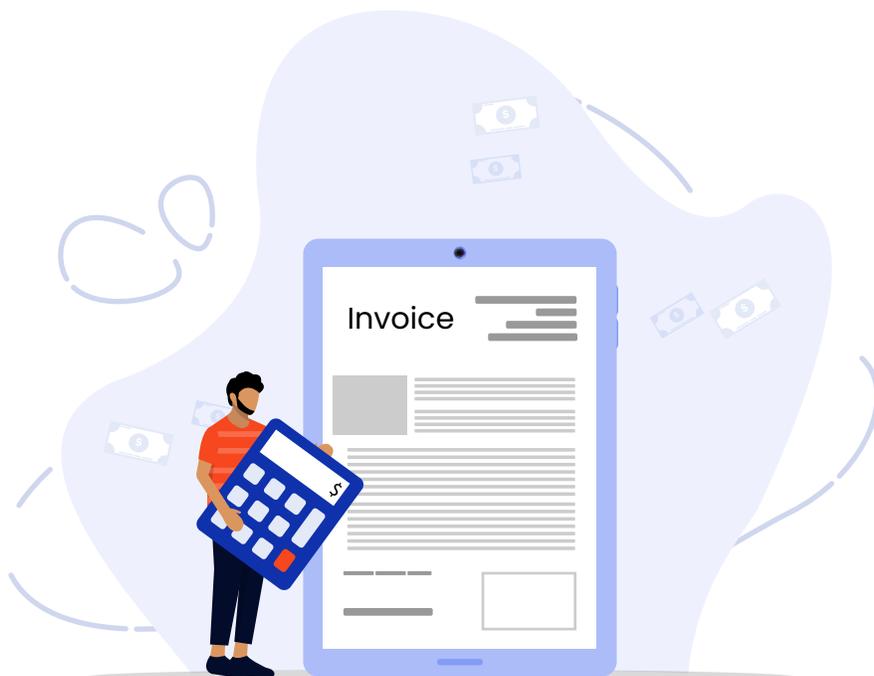
The Directorate General of GST Intelligence & the CGST officers have arrested around **200+ persons** and **recovered 700 Crore** in the **fake invoice scam** in the **National Capital** in January 2021. [2]

As per **Rule 48 sub-rule (5)** of the **CGST Rules 2017**, failure in generating a valid IRN is considered a failure of the issuance of an e-Invoice.

Following is the list of penalties attracted by non-generation of a valid e-Invoice:

- **Non-issuance of e-Invoice** – a penalty in the form of **100% tax due** or **Rs. 10,000**, whichever is higher.
- **Incorrect issuance of e-Invoice** – a penalty of **Rs. 25,000**.

These heavy lines indicate the intention of the government to make businesses mandatorily disclose their B2B transactions to the government. Hence, eligible businesses must have a monthly e-Invoice generation routine.

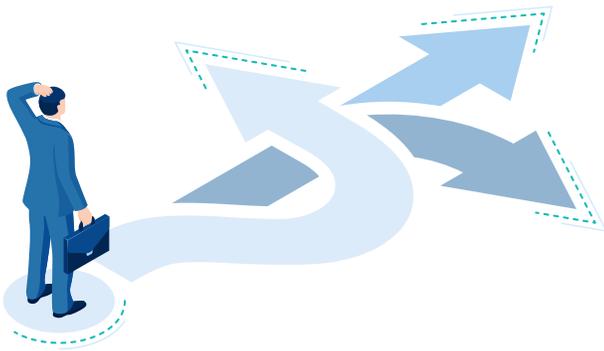


## e-Invoicing Challenges faced by Indian MSMEs

e-Invoicing was made mandatory for the businesses exceeding annual aggregate turnover of Rs. 50 Crore w.e.f **1st April 2021**. Small & medium businesses were included under the e-Invoicing umbrella when there were numerous issues under the GST structure faced by the small, medium, and large businesses.

Hence, the challenges in adapting to the e-Invoicing mechanism were anticipated.

Even today, after more than 8+ months of this inclusion, businesses are still facing issues while generating e-Invoices on the IRP portal.



### 1. Implementation challenges

a. Training of employees- Most MSMEs in India prefers to manually generate the e-Invoice from the Invoice Registration Portal (IRP). Hence, businesses must train their employees to create e-Invoices from the IRP.

b. Manual reconciliation demands time –Businesses must ensure that the e-Invoice generated is well reconciled with your books of accounts and the monthly GSTR-1 return. In addition, the IRN generated for the invoice has to match the invoice details furnished in the E-way Bill.

## 2. e-Invoice data archiving

The most significant gap of the e-Invoicing system is the **short span of the e-Invoicing data archive on the IRP portal.**

The government's **Invoice Registration Portal (IRP)** stores the **e-Invoice data 24 hours after the e-Invoice generation.**

What if a business requires this data post 24 hours or anytime in future?

For any reason, your e-Invoice data is lost; the IRP portal provides no data-archiving mechanism unless businesses use e-Invoice generation software.



### Why will the businesses need the e-Invoice data?

- ✓ Any Invoice is only considered legal if **e-Invoice details like IRN & QR code are readable & printed on it.** Suppose an invoice is issued **without a valid Invoice Registration Number (IRN)** because the e-Invoice details are lost. In that case, the business has to bear a **penalty of a minimum of Rs.10,000 per invalid invoice.** Archiving the e-Invoice data shall help businesses in such situations.
- ✓ e-Invoicing data is required for **GSTR-1 return filing**, and further, this data can also be used for **e-Invoices vs purchase register reconciliations.** Missing e-Invoice information or incorrect information furnishing may lead to incorrect GST return filing & subsequently affect your recipient's Input Tax Credit claim later.
- ✓ e-Invoicing data will be required for any internal or external audit or government assessments that may happen in future.

### **3. Real-time support is missing**

If, for any reason, the business users are facing challenges in e-Invoice generation, this can prove to be a severe blocker in the workflow. Therefore, apart from accurate e-Invoice generation, the essential attribute is a dedicated support mechanism for businesses.

A robust support mechanism is missing in e-Invoicing, thus creating issues with the e-Invoice generation for small & medium-sized businesses.

### **4. Frequently changing e-Invoicing Schema**

There have been multiple amendments to the e-Invoicing Schema since its inception. As a result, businesses must continuously alter their e-Invoicing software as per the latest amendment in the e-Invoicing Schema.

This tedious activity demands business time, and businesses take a while to adapt to the new change.

### **5. Additional compliance burden**

The principal objective of introducing e-Invoicing under GST was to simplify the invoice management system and bring transparency to the overall GST structure.

However, small and medium-sized businesses look at e-Invoicing as an additional compliance burden. Companies must understand that e-Invoicing is helping in curbing tax evasions and claiming fake Input Tax Credit based upon counterfeit invoices.

## Way ahead for Indian MSMEs in e-Invoicing

Despite the bumpy road of e-Invoicing implementation since its inception, businesses have now understood that they will be the receiving end of endless benefits of e-Invoicing under GST. e-Invoicing will ensure minimum government intervention, eliminate transactional disputes between small & seasoned businesses, and create a unified mechanism to authenticate the invoices. Businesses should make necessary changes to their ERP system to ensure a smoother transition into the digital economy through e-Invoicing under GST.

### Overhaul for small-scale businesses

Small scale businesses need to make necessary changes to their existing ERP software or invoicing systems to adapt to the latest Schema prescribed by the Government of India. Traditional billing methods like manual entries in the purchase books or manual reconciliation while GSTR filing may have to change their paths and adapt to the bold step of e-Invoicing under GST. Manual reconciliation should now be replaced with an automated process to minimize errors in e-Invoice generation and simplify the return filing and Input Credit claims.

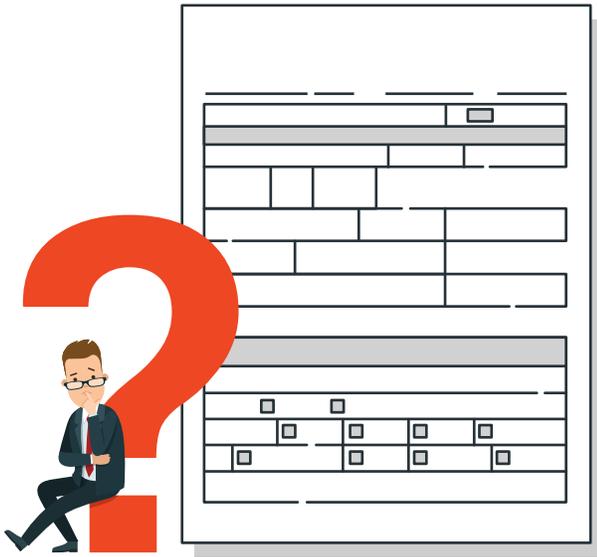
### Automate the process for greater efficiency

e-Invoicing demands a compelling and efficient IT infrastructure to function smoothly.

Hence, businesses (especially the medium & small scale) should invest in setting up a reliable IT infrastructure that includes your existing ERP, e-Invoice generation software (for automating the process) & skilled human resource.

e-Invoicing today encourages small businesses to adapt to the new-gen technology and boost the economic paradigm shift.

## Automate the process for greater efficiency



### **Incorrect e-Invoice**

**generation** may **impact your GSTR-1 filing**, subsequently affecting your **recipient's GSTR-2A, GSTR-2B and his ITC claim**. Hence, furnishing correct details is of utmost importance, which can be defeated when the bulk of invoices are uploaded manually on the IRP portal.

Businesses must focus on

**automating this bulk e-Invoice generation activity** using

instruments like **ERP connectors** that allow the users to generate e-Invoices in bulk directly from their existing ERPs.

It is essential to create a valid e-Invoice with all the details printed in a clear format.

Recently, the anti-evasion wing of the GST department has unearthed a fake invoice scam in Vishakhapatnam, Andhra Pradesh. [3]

Hence, businesses must observe due diligence while generating and especially receiving the e-Invoices. Make sure the IRN & the QR code is clearly visible and all the details furnished are valid.

# Role of e-Invoicing in GSTR-1 & E-way Bill

One of the benefits of e-Invoicing is reusing this data for various purposes like E-way Bill generation or auto-population of GSTR-1.

## e-Invoicing & GSTR-1 relation

The government notified the taxpayers on **13th November 2020** that the **e-Invoice data would be auto-populated in the taxpayer's GSTR-1 form.**

Following e-Invoice details are auto-populated in the GSTR-1 of the taxpayer:

- ✔ B2B Invoices (4A, 4B, 4C, 6B, 6C)
- ✔ CDNR – Credit/Debit Notes (Registered) (9B)
- ✔ EXP- Exports (6A)
- ✔ CDNUR Credit/Debit Notes (Unregistered) (9B)
- ✔ HSN Summary (12)

From this data, taxpayers must note that your GSTR-1 will be affected by your e-Invoice data. Hence, the **e-Invoice generation must be flawless.**

Businesses required to generate e-Invoices in bulk should ensure that they are generating accurate e-Invoices. They should also prefer **an ERP connector** to generate e-Invoice directly from their ERP without visiting the IRP portal.

## e-Invoicing & E-way Bill relation

On successful validation of an e-Invoice, **Part A & Part B of the E-way Bill** shall get auto-populated. The government has enabled this auto-population to ensure simplicity in creating E-way Bills.

IRP portal provides the following options for E-way Bill:

- ✓ Generating E-way Bill using the IRN
- ✓ Generating E-way Bill in bulk
- ✓ Print E-way Bill



## What are the benefits of this integration?

- ✓ Automating the process will ensure more accuracy in E-way bill generation
- ✓ Easy compliance for the taxpayers



# Can an Ecosystem of GST products help my business?

In the GST structure, we know that all the factors are interlinked.

## 1. Interlinking of e-Invoice data & GSTR-1

- ✓ e-Invoicing data gets auto-populated in your GSTR-1.
- ✓ Details like IRN and other information about the invoice need not be re-furnished while GSTR-1 filing.

## 2. Interlinking of e-Invoice data & Digital Signatures

- ✓ Digital Signatures are an essential part of the e-Invoicing system.
- ✓ Taxpayers must upload JSON onto the IRP portal with a digital signature.
- ✓ Although an optional step, it is highly recommended that you use the digital signature and disclose it to the recipient when needed.

## 3. Relation of your ITC with your GSTR-2A & GSTR-2B

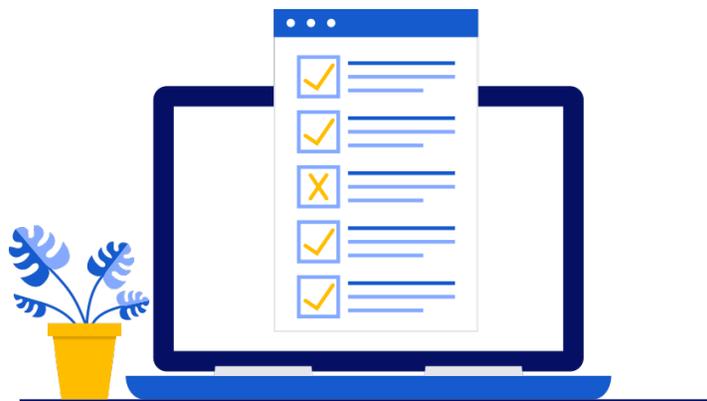
- ✓ Your eligible ITC is directly linked to your GSTR-2A & GSTR-2B.
- ✓ To be more specific, GSTR-2B is the most authentic source of finding your eligible ITC of the month.
- ✓ Hence, GSTR-2B vs Books of Accounts & GSTR-2A vs Books of Accounts is an essential reconciliation process.

#### 4. Interlinking of e-Invoice & E-way Bill portal

- ✓ E-way Bill has two parts: Part A & part B
- ✓ Most of the fields in the E-way Bill (both Part A & Part B) gets auto-populated with the e-Invoice details provided that some of the optional information like 'transporter ID' is updated.
- ✓ In this way, e-Invoice & E-way Bill generation are also interlinked.

#### 5. Diagnostic Reports for the entire Financial Year

- ✓ A business needs to review the entire year's GST returns to make better decisions in the coming time.
- ✓ These MIS reports consider all the GST returns & related activities (GSTR-1 to GSTR-9, e-Invoices generated, E-way Bills generated, ITC claimed, etc.) to give a consolidated business view.



# Benefits of having an Ecosystem of GST products

## 1. GST Return Filing solution

- ✓ File all your GST returns (GSTR-1 to GSTR-9) from a single dashboard in an entirely automated & quicker manner.
- ✓ Monitor all the returns in a single solution.

## 2. Comprehensive Reconciliation Reports

- ✓ There is a wide variety of reconciliation reports so that you do not miss any mismatch on your returns.
- ✓ Some reports are as follows:

### **GSTR-1 & e-Invoice Reconciliation Reports**

GSTR-1 Vs. GSTR-3B

GSTR-2A Vs. GSTR-3B

GSTR-1 Vs. Books of Accounts

GSTR-2A Vs. Books of Accounts

### **GSTR-1 Vs. E-Way Bill**

GSTR-1 Annual Reconciliation Report

Counter Party Reports

GSTR-1 Supplies & Amendment Reports

Supplier Compliance Report

ANX-1 Report

Summary Reports

### 3. **e-Invoicing Solution**

- ✓ e-Invoicing software allows e-Invoice generation in bulk, and you
- ✓ are not required to visit the IRP portal even once.

It saves time and other company resources and generates an accurate e-Invoice.

### 4. **E-Way Bill Solution**

- ✓ E-way Bill solution helps generate an E-way Bill corresponding to the required e-Invoice directly in a single click using the GST return filing solution.
- ✓ No manual data entry whatsoever provided that the optional fields are updated.

### 5. **ITC Reconciliation Solution**

- ✓ ITC reconciliation is now a necessary tool for every business.

ITC reconciliation solution helps you to claim the maximum eligible ITC by

- ✓ matching your data against multiple checkpoints.

Notifying your defaulting suppliers and giving you a comprehensive

reconciliation report so that you get maximum credit and do not claim any

ineligible ITC that may put your business in trouble.

## 6. **Digital Signing Solution**

- ✔ A digital signing solution helps you sign any document remotely so that the business activities stay uninterrupted.
- ✔ Provides authenticity to the document.
- ✔ Offers military-grade security to maintain the confidentiality of your document in the online space.

## 7. **API Connectors**

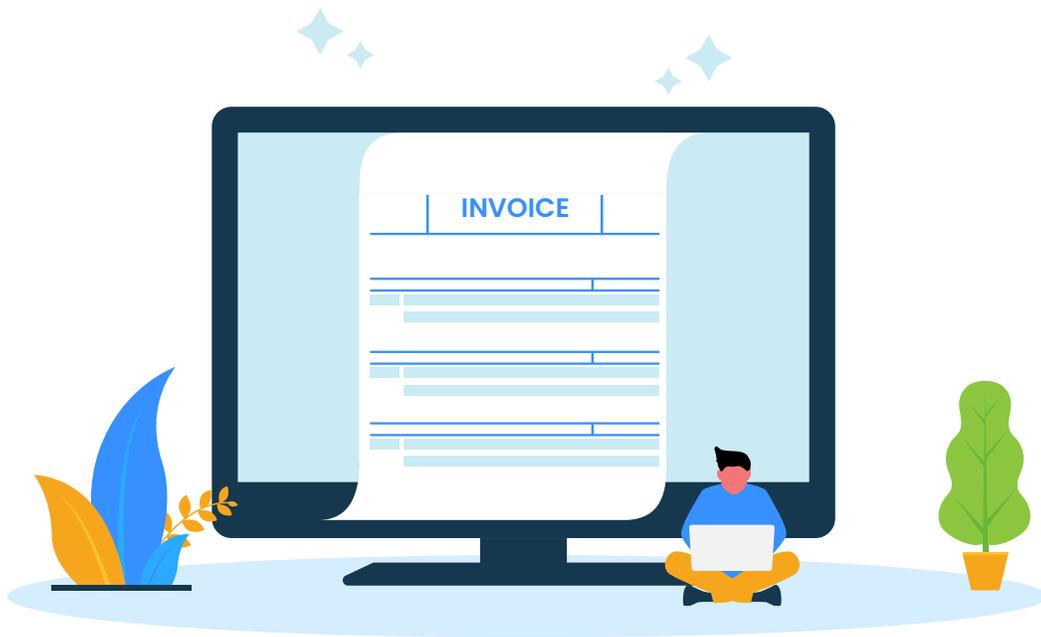
- ✔ This API connector helps connect GST return filing solution directly to the existing ERP of the business.
- ✔ In this way, businesses can also carry out their GST activities from their ERP.

## e-Invoicing - Embracing the digital trend

E-Invoicing under GST is necessary to digitize the Indian taxation system and bring transparency between the businesses and the government. Also, the tax evasions and fake invoice creation will be kept in check, encouraging higher GST collection.

Hence, businesses should look towards e-Invoicing as a positive step that will benefit Indian businesses in the long run.

We'd especially like to bring to the attention of the small & medium businesses that e-Invoicing is on the verge of being mandatory to all the businesses irrespective of their annual aggregate turnover. Getting your business ready for this change will help businesses to avoid chaos & confusion afterwards.



## References

[1] <https://www.livemint.com/news/india/indias-gst-e-invoicing-system-registered-nearly-40-cr-invoices-in-first-6-month-11617291426957.html>

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[3] <https://timesofindia.indiatimes.com/city/visakhapatnam/-fake-invoice-racket-busted-by-anti-evasion-wing-of-gst/articleshow/88169931.cms>