



# ITC Reconciliation **Checklist to Claim 100%**

## Eligible Input Tax Credit under GST

Challenges, Scope and Benefits



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## Introduction to ITC Reconciliation

Input Tax Credit under GST is the most lucrative feature of the GS structure. However, claiming eligible ITC can be a difficult task. To claim ITC seamlessly, the businesses must run an effective reconciliation of their GST returns data to identify the eligible ITC available to them.

This whitepaper attempts to educate the readers about the Reconciliation under GST and how it impacts your ITC claims. It also analyzes the major reconciliations under GST and explains the challenges businesses face in GST compliance and claiming their Input Credit.

GSTHero Pune surveyed a sample of 300 businesses regarding their ITC claim issues, and around 75% of the companies faced the common problem of non-compliant suppliers blocking their Input credit.

Following are some of the other significant problems that the business world is facing today in the GST domain:

- a. Tedious manual reconciliations
- b. Blocking of Input credit disturbs the working capital
- c. Delayed filing of GST returns
- d. Claiming ineligible ITC can attract GST departmental audit

This whitepaper analyzes each of these FOUR major problems and explains the role of ITC reconciliation under GST to solve each of these problems.



## GST provisions pointing towards reconciliation requirement

### Section 16 of the CGST Act of 2017

Section 16 lays down the eligibility and conditions regarding claiming the ITC under GST.

Section 16 presses on the point that the taxpayer is allowed to claim ITC only if the invoice details appear in the GSTR-2B statement of the taxpayer.

We can infer that the businesses must reconcile their purchase registers against their GSTR-2B statement to identify the eligible ITC before the claim.

### Section 29 of the CSGT Act read in light of Rules 21 & 21A of the CGST Rules

Section 29 of the CSGT Act states the reasons for cancellation or suspension of your GST registration.

A Proper Officer can issue a show-cause notice to the taxpayer for GST registration cancellation via Form REG-31 if there are mismatches found between:

- a.** Outward supplies details mentioned in GSTR-1 against the GSTR-3B
- b.** Inward details populated in GSTR-2B against the GSTR-3B

To protect your GST registration from suspension or cancellation, it is essential to furnish only the accurate data in your GST returns like GSTR-1, GSTR-3B and annual return GSTR-9.





## Problems with manually reconciling ITC data under GST

One of the biggest problems that result from manual reconciliation under GST is the lack of standardization for large enterprises.

Many of India's small & medium-sized businesses still prefer manual reconciliation over automated one. But once the number of invoices goes up, it becomes challenging to reconcile your Purchase Registers against your GSTR-2B. As a result, your business loses eligible Input Tax Credit under GST.

### Following are some of the direct risks that your business faces in carrying manual GST reconciliation:

- ➡ Risk of error introduction in your annual GST return filing.
- ➡ Invoice number mismatches in your Purchase register against the invoices you have received from your supplier and reflecting in the GSTR-2B statement.
- ➡ Mismatch in the invoice date as the date of recording the invoices at the seller's and the purchaser's sides is different.
- ➡ When the number of invoices increases, this takes up a lot of time for the clerical team to reconcile every invoice received from the supplier and check its validity.



The bulky volume of transactions will be a problem for the clerical team. There will be a lot of business time and effort lost in manually reconciling the entries in your Purchase Record and the auto-generated GSTR-2B statement. This method will not be feasible for businesses with multiple vendors.

The best solution to this issue is automating your reconciliation process.

Automating your GSTR-2B vs Purchase Records reconciliation will save time and give you a comprehensive report showing the statement's mismatches and the eligible ITC.

## Blocking of your ITC due to defaulting suppliers

It is a popular fact that GST defaulting suppliers can harm your ITC claim by blocking your credit. The changes introduced by the Finance Act of 2022 have introduced some provisions to bring this problem under control and allow the recipient taxpayers to claim their eligible Input Tax Credit easily.

### How can defaulting supplier impact your ITC claim?

- ➡ The supplier fails to upload invoices in his GSTR-1 return, and the recipient has already claimed ITC in his GSTR-3B for these invoices.
- ➡ The supplier pays lesser tax in his GSTR-3B return than the outward tax liability furnished in his GSTR-1 return.
- ➡ Supplier's non-compliance with the GST rules and laws.



These are the significant reasons that block your input credit due to the non-compliant behaviour of your supplier.

This problem becomes much worse when the number of vendors is higher.

The only feasible option, in this case, is to run an automated ITC reconciliation so that the businesses do not end up claiming inaccurate ITC or lose on their eligible ITC as well

## Why is automating Purchase vs GSTR-2B reconciliation essential?

As per the provisions of Input Tax Credit, as prescribed in Section 16 of the GST Act, Input Tax Credit has to be claimed before –

1. Actual filing of annual return or
2. Due date for filing of return for September following the end of the financial year

If the business misses claiming ITC for any invoice, this has to be declared in the GSTR-3B. If the business misses claiming the eligible ITC, this will be a direct cash loss.

Reconciliation of GSTR-2B against your Purchase records becomes very important to claim maximum ITC. Any mismatch between these two data indicates that either your supplier has made an error or you have made an incorrect entry. In either of the cases, your ITC gets blocked.

Claiming ineligible ITC can attract GST notices from the department, and your business may incur heavy penalties.

**Following are the significant reasons why you should regularly reconcile your GSTR-2B against your Purchase Registers:**

Helps in the early identification of mismatches between Purchase Records and auto-generated GSTR-2B

You can immediately inform the defaulting vendor about the discrepancy and ask him to rectify the errors so that you can utilize this credit for setting off the outward GST liabilities in the upcoming month.

## Why is automating GSTR-2B vs GSTR-3B reconciliation essential?

- ➡ Some of the fields are **auto-populated** in the GSTR-3B form. **For example, ITC claimed, and ITC Reversal details are auto-fetched** from your auto-generated **GSTR-2B** statement.
- ➡ So, while furnishing the ITC details in your GSTR-3B summary, you must have accurate data from your GSTR-2B auto-generated statement.
- ➡ A registered taxpayer will be **eligible to claim GST credit paid on inward supplies**.
- ➡ **GSTR 2B contains the detail of inward supplies made.**
- ➡ GSTR-2A will show the details uploaded by the supplier, but under **GSTR 3B**, the taxpayer will himself upload the details to claim ITC for the particular tax period.
- ➡ **Only ITC available in the GSTR-2B of the month shall be considered the eligible ITC.**

A flawless reconciliation between your GSTR-2B statement and your GSTR-3B return ensures no differences in the Input Credit claimed by you and the actual Input Credit available to you in the GSTR-2B statement.

Thus, **GSTR-2B vs 3B reconciliation** is essential for 100% GST compliance.

## Summary of significant hurdles in claiming 100% ITC

- ➡ **Taxpayer's ignorance** of the provisions & GST laws to claim ITC under GST.
- ➡ **An inefficient ITC reconciliation process** results in mismatches in the final ITC claim, and the issues stay hidden from the taxpayer.
- ➡ Reconciliation is considered a 'consulting activity' and **NOT** a 'routine business activity'.
- ➡ **Manual reconciliation is error-prone** due to its inefficiency and time-consuming procedure.
- ➡ **Vendor communication is missing.** An automated mechanism of on-time follow-ups with the defaulting vendors is not in place; hence, many instances go unnoticed.
- ➡ **Absence of an automated reconciliation system** to identify such defaulting vendors, reach out to them and notify them about the discrepancies in the return filing.
- ➡ **ERP systems do not support payment holding** features for the defaulting suppliers.

## Summary of solutions to claim maximum ITC

### 1. Automate your reconciliations

- ➡ No clerical errors
- ➡ 100% flawless reconciliation report with error identification.
- ➡ Automated reconciliation solutions are directly synced with the GST portal. Hence, the data fetched is authentic and in real-time.

### 2. Vendor communication is the key

- ➡ The vendor communication feature is necessary to inform your vendors about the discrepancies.
- ➡ Proper analytics ensures the identification of the defaulting supplier.
- ➡ Have an automated response system to notify your defaulting suppliers.

### 3. Stay compliant with the GST laws

- ➡ When you have multiple GST registrations under a single PAN, it isn't easy to 100% comply with the GST laws.
- ➡ When you use an automated GST return filing solution, you outsource this compliance responsibility to the service provider.
- ➡ Opting for an automated tool like GSTHero helps you stay 100% compliant with the GST laws without extra effort.

## How is GSTHero helping 10,000+ businesses to claim maximum ITC?

GSTHero provides an easy solution to all your reconciliation problems and makes the process errorless & fully automated.

You can claim a maximum of 100 % ITC with our highly advanced and easy-to-use Reconciliation facility.

You get five essential Reconciliation reports that will be highly beneficial for you to claim 100% ITC and help you identify the defaulting suppliers.

1. GSTR1 Vs. GSTR-3B
2. GSTR-2A Vs. GSTR-3B
3. GSTR1 Vs. Book of Accounts
4. GSTR-2A Vs. Book of Accounts
5. GSTR1 Vs. E-way Bill

Check out our outstanding products here.

You deserve to be entitled to the 100% ITC you are eligible for.

Set the records straight today!

## Claiming ineligible ITC can put your business in trouble

An inefficient reconciliation process impacts your ITC claim, and you may even end up claiming ineligible ITC. You may also lose out on your eligible ITC and have to pay outward liabilities in cash.

**Following are some of the direct impacts that inaccurate ITC claims have on your business:**

- ➔ **Working capital is disrupted** - When the vendors file their returns after the due date, the recipient's ITC utilization gets delayed. Thus the outward GST liability has to be paid in cash. This disrupts the business's cash flow, and less capital is left for the business expenditures.
- ➔ **GST litigations** – Claiming of ineligible ITC attracts GST notices by the department putting the business into trouble and the GST litigation matters. As a result, a company may incur heavy penalties and even lead to GST registration suspension.
- ➔ **Lose on eligible ITC** – If ITC is not claimed within the financial year, it lapses, forcing you to pay your returns in cash. The deadline to claim your accumulated ITC in an FY is the date of filing your annual GST return or the September month's GST-3B return, whichever comes earlier.
- ➔ **Mismatches in annual GST return** – When ITC claims are inaccurate, the GSTR-9 annual return also gets contaminated with errors. This increases the chances of scrutiny by the GST department.