

ANNUAL RETURN & GST RECONCILIATION STATEMENT



CA Jinesh Savla
Email : cajineshsavla@gmail.com

In the intricate landscape of Indian taxation, the Goods and Services Tax (GST) has been a paradigm shift, reshaping how businesses function across the nation. At the core of this transformative tax system lies the crucial component - Input Tax Credit (ITC). Serving as the lifeblood of GST, it facilitates the seamless flow of credit through the intricate web of transactions, ensuring a fair and efficient taxation process.

While the intent of the legislature was to allow free flow of credit, various amendments have been introduced over the years, particularly in the realm of Input Tax Credit, adding layers of complexity to an already intricate system.

Two significant changes have come to the forefront: the introduction of an additional condition to claim ITC - necessitating matching with GSTR-2B and a change in the method of reporting ITC in GSTR-3B.

Relevant provisions/notifications pertaining to the above amendment are summarized here for your ready reference:

Section 16(2) (aa) of the CGST Act 2017: An additional condition for claiming the ITC was introduced in Section 16(2) of the CGST Act, 2017, w.e.f 1st January 2022. This condition stipulates that ITC could be claimed if the details of the Invoice have been furnished by the supplier in his GSTR-1 and the same has been communicated to the recipient i.e., it would get reflected in GSTR-2B of the taxpayer.

Notification No. 14/2022 - Central Tax dated 5th July 2022 read with Circular No. 170/02/2022-GST dated 6th July 2022: - Changes in the format of FORM GSTR-3B (especially Table 4 pertaining to ITC) were notified vide captioned notification and guidelines were issued for the method of reporting ITC in the amended GSTR-3B through the captioned Circular.

While there has been a lot of discussion analyzing the above amendments and their reporting impact in GSTR-3B, the impact of these changes on GSTR-9 (Annual Return) is another crucial aspect that needs some deliberation.

Let's try and discuss the potential practical issues arising from the above-mentioned amendments and its impact on the GSTR-9 as well as another event related to ITC relevant for F.Y. 2022-23.

➤ **Impact on Table 6 of GSTR-9**

1. Reporting of ITC of F.Y.2021-22 claimed in F.Y.2022-23 owing to Section 16(2)(aa)

As per the amendment outlined in section 16(2)(aa) of the CGST Act, 2017, ITC can be claimed in GSTR-3B only if the same is reflected in GSTR-2B of the recipient.

If the ITC of Jan 2022 – Mar 2022 gets reflected in GSTR-2B of F.Y. 2022-23, the same can be claimed in F.Y. 2022-23 only. If such ITC is reported in Table 6B of GSTR-9 of F.Y. 2022-23, it will automatically be populated in Table 8B for comparison with Table 8A (ITC as per GSTR-2A). Since Table 8A of F.Y. 2022-23 captures only transactions of said year, this would result in negative amount (i.e. excess claim of ITC) in Table 8D of GSTR-9 of F.Y.2022-23. Needless to say, such negative figures are often the system based automated red flags, inviting assessments, adjudications or even investigations by tax authorities.

Possible Solution:

To mitigate this challenge and ensure appropriate reporting, it is advisable to report the ITC related to F.Y. 2021-22 which was claimed in F.Y. 2022-23 in Table 6M of GSTR-9 of F.Y. 2022-23. Thus, Table 6B of GSTR-9 will only have the ITC of F.Y. 2022-23. This data will be auto-populated in Table 8B for comparison with Table 8A, resulting in prevention of above-mentioned discrepancies in Table 8D.

However, it is pertinent to note that there would be a negative amount appearing in Table 6J of GSTR 9.

2. Reporting of ITC owing to changed format of GSTR-3B:

As discussed above there has been a change in reporting of ITC in Table 4 of GSTR-3B w.e.f. August 2022 return. The newly changed format requires us to report the ITC as under: -

Table 4 of GSTR-3B	I	C	S	Reporting Methodology
(A) ITC Available (whether in full or part)				
(1) Import of goods				Auto-populated from GSTR-2B
(2) Import of services				Manual Entry
(3) Inward supplies liable to reverse charge (other than 1 & 2 above)				Auto-populated from GSTR-2B for registered persons + Manual entry for RCM on URD supplies.
(4) Inward supplies from ISD				Auto-populated from GSTR-2B
(5) All other ITC				Auto-populated from GSTR-2B
(B) ITC Reversed				
(1) As per rule 38,42 and 43 of the CGST Rules and Section 17(5)				<p>Non-reclaimable ITC/Permanent ITC reversals is to be reported here such as: -</p> <p>-> Rule 38: ITC reversals for Banking Co.</p> <p>-> Rule 42 & 43: Proportionate ITC reversal on Exempt Turnover.</p> <p>-> Section 17(5): Ineligible/Blocked ITC.</p> <p>Authors Note: Govt. intends that taxpayer should report Non re-claimable/permanent reversals (from the above claims) which is not to be claimed in any subsequent GSTR-3B.</p>

Table 4 of GSTR-3B	I	C	S	Reporting Methodology
(C) Net ITC Available				
(A) - (B)				
(D) Ineligible ITC				
(1) ITC reclaimed which was reversed under Table 4(B)(2) in earlier tax periods				Reporting of ITC re-claimed in Table 4(A)(5) which was reversed in Table 4(B)(2) of GSTR-3B in earlier periods.
(2) Ineligible ITC under section 16(4) and ITC restricted due to POS provisions				ITC restricted by Section 16(4) for being reported by the supplier after 30th November of the following year. ITC is restricted due to the place of supply (POS) rules.

Impact on GSTR9

Table 6 of GSTR-9 requires the taxpayer to provide bifurcation of the Gross ITC availed in GSTR-3B in Table 6B to 6O of GSTR-9. B2B ITC claimed in GSTR-3B needs to be reported in Table 6B of GSTR-9. This amount gets auto-populated in Table 8B of GSTR-9 for comparison with ITC as per Table 8A (auto-populated from GSTR-2A).

Issue 1:

When the taxpayer is required to report ITC as per above mentioned circular, he would report gross ITC as per GSTR 2B in Table 4(A)(5) and consequent temporary reversal in Table 4(B)(2) in Tax Period 1. Thereafter, the reversed ITC would be reclaimed and reported in Table 4(A)(5) of the subsequent Tax period. Thus, same invoice/ITC would be reported twice in Table 4(A)(5) of GSTR 3B. Thus, reporting of the same in GSTR 9 requires some consideration i.e., whether the ITC would have to be reported twice in Table 6B of GSTR 9 or only once. If the Invoice is reported twice, the same would result in negative figures in Table 8D of GSTR 9.

Possible Solution:

The reporting in Table 6 of GSTR 9, could be as under:

- Table 6B: Net B2B ITC claimed in Table 4(C) of GSTR-3B (excluding Temporary reversals in Table 4(B)(2) of GSTR-3B),
- Table 6M: ITC Claimed due to the new methodology which was reversed in Table 4(B)(2) of GSTR-3B

Let's try to understand this by an example: -

GSTR-3B of Tax period (TP) - 1				
Table	Particulars	IGST	CGST	SGST
Table 4(A)(5) : (TP-1)	All other ITC (as per GSTR 2B)	3,00,000	1,50,000	1,50,000
Table 4(B)(2) : (TP-1)	Others (Temporary reversals to be reclaimed in subsequent tax period)	40,000	20,000	20,000
Table 4(C) : (TP-1)	Net ITC Available (A) - (B)	2,60,000	1,30,000	1,30,000

GSTR-3B of Tax period (TP) - 2				
Table	Particulars	IGST	CGST	SGST
Table 4(A)(5) : (TP-2)	All other ITC (<i>ITC of TP-1 reclaimed here</i>)	40,000	20,000	20,000
Table 4(B)(2) : (TP-2)	Others	0	0	0
Table 4(C) : (TP-2)	Net ITC Available (A) - (B)	40,000	20,000	20,000

Reporting in GSTR-9

Relevant reporting in GSTR-9				
Table No.	Particulars	IGST	CGST	SGST
6A	Total amount of input tax credit availed through FORM GSTR-3B (sum total of Table 4A of FORM GSTR-3B) [(Table 4(A)(5):(TP-1) + (Table 4(A)(5):(TP-2)]	3,40,000	1,70,000	1,70,000
6B	Inward supplies (other than imports and inward supplies liable to reverse charge but includes services received from SEZs) [(Table 4(C):(TP-1) + (Table 4(C):(TP-2)]	3,00,000	1,50,000	1,50,000
6M	Any other ITC availed but not specified above [ITC claimed but reversed in Table 4(B)(2) :(TP-1)]	40,000	20,000	20,000

Issue 2:

Based on the current reporting requirements, ITC as per Table 4(A)(5) would also include Ineligible ITC (i.e., Section 17(2) / Section 17(5) etc.) but reversed in Table 4(B)(1) of GSTR-3B. If this amount of ineligible ITC is reported in Table 6B, the same would also get auto-populated in Table 8B of GSTR-9. Since these ineligible ITC would be included in Table 8A as well, there would not be any difference in Table 8D of GSTR 9. Consequently, the taxpayer would be in a dilemma for reporting of:

1. Table 8E: ITC available but not availed (from the amount in Table 8D) and,
2. Table 8D: ITC availed but Ineligible (from the amount in Table 8D).

Possible Solution:

The reporting in Table 6 of GSTR 9, could be as under:

- a) Table 6B: ITC claimed and not reversed in Table 4(B)(1) i.e., Eligible ITC
- b) Table 6M: Ineligible ITC claim reported but reversed in Table 4(B)(1)

Let us try to understand this by an example: -

Table	Particulars	IGST	CGST	SGST
Table 4(A)(5)	All other ITC	3,00,000	1,50,000	1,50,000
Table 4(B)(1)	As per rule 38,42 and 43 of the CGST Rules and Section 17(5)	60,000	30,000	30,000
Table 4(C)	Net ITC Available (A) - (B)	2,40,000	1,20,000	1,20,000

The above would be reported in GSTR-9 as: -

Relevant Extract from GSTR-9				
Table	Particulars	IGST	CGST	SGST
6A	Total amount of input tax credit availed through FORM GSTR-3B (sum total of Table 4A of FORM GSTR-3B)	3,00,000	1,50,000	1,50,000
6B	Inward supplies (other than imports and inward supplies liable to reverse charge but includes services received from SEZs)	2,40,000	1,20,000	1,20,000
6M	Any other ITC availed but not specified above [<i>ITC reversals 4.B.1 & 4.B.2 claimed and reversed - total</i>]	60,000	30,000	30,000
6O	Total ITC availed	3,00,000	1,50,000	1,50,000
7C	Reversal as per Rule 42 [<i>Table 4(B)(1) of GSTR-3B</i>]	30,000	15,000	15,000
7D	As per Section 17(5) [<i>Table 4(B)(1) of GSTR-3B</i>]	30,000	15,000	15,000
7J	Net ITC available for utilization	2,40,000	1,20,000	1,20,000
8A	As per GSTR 2A (<i>minimum assumed</i>)	3,00,000	1,50,000	1,50,000
8B	ITC as per sum total of 6(B) and 6(H) above	2,40,000	1,20,000	1,20,000
8D	Difference	60,000	30,000	30,000
8E	ITC available but not availed	-	-	-
8F	ITC available but ineligible	60,000	30,000	30,000

Concluding the above discussions, owing to the rigidity of GSTR 9 Table 6M of GSTR-9 will have to grandfather the following:

- ITC pertaining to F.Y.2021-22 which is claimed in F.Y.2022-23
- ITC not eligible u/s 17(2) and 17(5) - claimed and reversed in Table 4(B)(1)
- ITC claimed and temporarily reversed in Table 4(B)(2)

Owing to the limited avenues of reporting tables of GSTR 9, the above discussed reporting options are not fool-proof and may pose other challenges (i.e., differences in Table 6J). However, they would ensure that reconciliation of ITC with GSTR 2A/ Table 8A is reported to the most appropriate possibility.

➤ **Impact on Table 8 of GSTR-9:-**

As discussed above, as per Section 16(2)(aa) ITC ought to be claimed in GSTR-3B if the details of the Invoice have been furnished by the supplier in his GSTR-1 and the same has been communicated to the recipient i.e., it would get reflected in its GSTR-2B.

It may so happen that supplier may file GSTR-1 for F.Y.2022-23 in F.Y.2023-24 and thus ITC pertaining to F.Y.2022-23 may get reflected in GSTR-2B and claimed in GSTR-B of F.Y.2023-24.

However, the same ITC would get reflected in Table 8A of GSTR-9 of F.Y.2022-23 (since ITC from GSTR-2A gets auto-populated here), causing difference in the ITC appearing in Table 8A as compared to ITC claimed in GSTR-3B (Table 6B of GSTR-9).

Thus, during the preparation of Annual workings for F.Y.2022-23, a meticulous review of monthly GSTR-3B workings of F.Y.2023-24 becomes paramount to find out ITC of F.Y.2022-23 claimed in F.Y.2023-24.

This ITC would then get reported in Table 8C of GSTR-9 as a reconciliation item, thereby reducing difference in Table 8D of GSTR-9.

Ideally, reporting of this ITC would also be required to be made in Table 13 of GSTR-9 of F.Y.2022-23.

However, there may be difference in figures reported in Table 8C and Table 13 of GSTR-9 due to following reasons: -

- **RCM ITC of Claimed in Next Year:** - This figure would not get reported in Table 8C of GSTR-9 as reporting of all other ITC is done in Table 8A (excluding RCM) but the same would get reported in Table 13 of GSTR-9 as any ITC pertaining to a financial year which gets claimed in the next year would be reported in Table 13 of GSTR-9.
- **ITC appearing in GSTR-2A booked in next year:** - This figure would be reflecting in GSTR-2A, but due to certain reasons such as non-receipt of goods/services, missing of booking of purchase invoice the said ITC would not get recorded in Table 13 of GSTR-9. However, since the said ITC is appearing in GSTR-2A the same would get reflected in Table 8C of GSTR-9.

In light of these intricacies, meticulous reporting in GSTR-9 is essential. Taxpayers must adapt their reconciliation strategies to align with these regulatory shifts, ensuring accurate compliance and reduced discrepancies in their annual filings.

➤ **Reporting of Transitional Credits in GSTR-9**

In light of the Apex Court decision in the case of UOI V/s Filco Trade Centre Pvt. Ltd., GSTN was directed to allow fresh filing or revision of transitional forms. Many taxpayers availed the benefit of this welcome move. A key question arises regarding the reporting of such transitional credit claims in GSTR-9.

While the department may issue an order allowing transitional credit in F.Y.2022-23, it may not be credited to the electronic ledger in F.Y.2022-23 (i.e. it may get credited in the electronic credit ledger in subsequent years).

Now the question arises as to whether to report the above-mentioned Transitional ITC in GSTR-9 of F.Y.2022-23?

The solution lies in the Technical Guide on Annual Return & GST Audit by the Institute of Chartered Accountants of India, which advises reporting transitional credits in Table 6k of GSTR-9 when they are received in the electronic credit ledger. Thus, only the Transitional ITC which gets credited in the electronic credit ledger in F.Y.2022-23 ought to be reported in Table 6K of GSTR-9 of F.Y.2022-23.

Conclusion:

The concept of ITC and the compliance of ITC are the burning issues under the GST regime. As GST regime completes 6 years, the tax filing landscape (especially pertaining to ITC) has already seen the following 6 distinct phases:

Phase 1: The idealistic phase of GSTR-2 and GSTR-3 as envisaged by the legislature.

Phase 2: Implementation of GSTR-3B (replacing GSTR-3) but no GSTR 2A

Phase 3: GSTR-3B along with birth of GSTR-2A (but no requirements of reconciliations)

Phase 4: GSTR-3B along with GSTR-2A (and requirements of reconciliations)

Phase 5: GSTR-3B with birth of GSTR-2B (and existence of GSTR 2A) (*mandatory matching with GSTR-2B*)

Phase 6: GSTR-3B with revised reporting to match ITC claim with GSTR-2B

Despite these advancements and sea-changes in the claim and reporting of ITC, the format of GSTR-9 has remained stagnant since the inception. This lack of adaptation has compelled businesses to make constant adjustments, leading to cumbersome reconciliations and reporting challenges.

It is imperative that the GST Annual Return, GSTR-9, evolves in tandem with the dynamic GST filing system.

To achieve this, the trade and industry sectors must actively engage with the government, advocating for necessary revisions in the format of GSTR 9. By doing so, the reporting requirements can be streamlined, reducing errors and ensuring seamless compliance in the ever-changing realm of GST filing.

