**THE BOMBAY CHAMBER OF COMMERCE & INDUSTRY**

**INDIRECT TAXES**

**REPRESENTATION ON INVOICE MANAGEMENT SYSTEM RELEASED BY GSTN**

**Invoice Management System (IMS) under GST**

| **Sl.** | **Subject** | **Issues and Rationale** | **Recommendations** |
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| 1. | Limited time for implementation of IMS | * The IMS workflow advisory has been issued on 03 September 2024 with a time bound implementation date of 01 October 2024. * IMS calls for major alterations to the GST compliance workflow, business processes and current IT infrastructure of both the supplier and the recipient to enable themselves to comply with this new facility introduced by the GSTN. The workflow suggested in the IMS will be a significant shift from the way transactions are reviewed and compliances are currently undertaken under GST, and taxpayers need sufficient time to familiarise themselves with these requirements and implement the changes in their business processes and IT systems for the effective implementation of the new functionality. * The process workflow of IMS suggests various action points which a recipient will need to take within a short time frame of under a week ahead of filing of GSTR-3B.While a near real time response is possible, the same may result in repeat actions being taken pursuant to amendment of the records and transactions by the supplier until the date of filing of their GSTR-1. * Accordingly, in effect, the recipient is left with the window of opportunity between the date of generation GSTR-2B and the date of filing GSTR-3B for actioning IMS requirements. | The Chamber recommends that taxpayers should be given sufficient time to implement the new IMS workflows in their internal processes and ERP to ensure smooth transition to the new concept.  Further, the Industry should be given time for their suggestions and feedback on the IMS workflow basis the practical challenges faced by them so that this process flow can be implemented in a more effective way at a specified future date such as 1 April 2025, with a further six months therefrom to validate and confirm opening balances. |
| 2. | Availing input tax credit through IMS is not backed by GST legislation | * It may be noted that at the time of introduction of GST in July 2017, the GST law provided for a similar matching mechanism that involved filing of three returns: GSTR-1, GSTR-2, and GSTR-3. These returns were predicated on a matching concept governed by erstwhile Section 42 and Section 43 of the CGST Act 2017, as well as Rule 59 of the CGST Rules 2017. The said erstwhile section along with relevant rule addressed the matching, claiming and reversing of input tax credit, as well as enhancement of output tax liability of the supplier/ recipient. Under these provisions, the input tax credit was to be communicated by the supplier to the recipient, who could then either accept it or report discrepancies (including modifying the transaction). If discrepancies were reported, the supplier was required to rectify them; otherwise, the amount in question would be added to supplier's tax liability. Similarly, recipient’s output liability/ credit reversal would be enhanced to the extent of acceptance of credit notes. * However, due to technical limitations on the GST portal, this matching mechanism was never operationalized. Thereafter, the relevant provisions were eventually omitted from GST law vide the Finance Act, 2022, effective from October 1, 2022. * We understand that any process flow or functionality that impacts the tax liability of the suppliers/ credit eligibility of recipients requires reinstatement of statutory provisions similar to erstwhile provisions under Section 42, 43 of the CGST Act and Rule 59 of the CGST Rules. * Further, the workflow as it is presently envisaged transcends the legal framework with respect to time available to a recipient to claim input tax credits in effectively forcing a real time response with respect to transaction acceptance or rejection. The advisory also presumes that parties to a transaction will be in a position to determine appropriate action to be taken (with respect to its acceptance or rejection) within a short span of less than a week). This is notwithstanding the fact that a recipient otherwise has time beyond the relevant financial year to claim ITC. * The time limit prescribed for claiming input tax credit for the recipient is 30 November of the next financial year or filing of annual return whichever is earlier. Thus, the recipients are allowed to claim missed input tax credit beyond the current financial year as well. * IMS workflow considers accept or reject or keep pending as a commercial decision taken by the taxpayers. While making commercial decisions, the business may make judgment errors and may reject transactions that needs to be accepted and vice versa. In case recipient has rejected any transaction on IMS portal (for any reason), the opportunity of reclaiming such input tax credit is permanently lost. * However, without IMS workflow, the businesses can reassess the input tax credits claims for period up to 30 November of next financial year. * The proposed functionality also appears to exceed the jurisdiction under GST law by expecting a response on the acceptance or rejection of a transaction itself as opposed to credits pertaining to the transaction. | The Chamber recommends that the IMS provisions may be aligned with statutory provisions in terms of the time limit available for availment of ITC and circumstances that warrant addition of tax liability to the supplier or loss of credits in the hands of the recipient.  Accordingly, the applicability of IMS processes should be deferred till the legal provisions are duly incorporated in the GST law. |
| 3. | Lack of mechanism for rectification of inadvertent acceptance or rejection of records in IMS | * **Cases of inadvertent or incorrect rejections of transactions by the recipient:**   In cases where the recipient inadvertently rejects certain records within the IMS there is a risk of losing legitimate credit and the recipient may miss the opportunity to claim ITC that he is otherwise lawfully entitled to.  It appears that GSTN is also taking away the legal right of the taxpayer to avail ITC up to the date specified in Section 16(4) of the CGST Act 2017.   * **Cases of inadvertent or incorrect acceptance of transactions by the recipient:**   Further, there might be instances where a recipient inadvertently accepts certain records within the IMS.  Without a mechanism for rectification of such inadvertent mistakes, the recipient shall face legal consequences for availing wrong ITC.   * **Exposure at the stage of audit on account of incorrect response:**   It is important to note that although any such erroneous reflection in GSTR 2B can be subsequently corrected at the time of availment of GSTR 3B;as the department typically placesemphatic reliance on GSTR-2B during audits and assessments, it will be difficult for taxpayers to prove that a different action from that of what is appearing GSTR 2B has been taken.  By way of illustration, if a recipient inadvertently accepts a credit note which does not belong to the taxpayer, the same would get reflected in their GSTR-2B. Even where this is corrected at the time of filing GSTR-3B, the department may allege that the taxpayer is required to reverse the ITC to the tune of the credit note that has been accepted through IMS. Such instances will result in unwarranted reconciliations being provided and preventable notices being responded to.  Hence, a robust rectification workflow is necessary for recipients to rectify mistakes in their acceptance or rejection of records. | It is recommended that the GSTN should develop a rectification workflow window wherein the recipient can rectify their action of wrong acceptance or wrong rejection of any record.  The option for rectification should be available to the recipient in accordance with the time limits specified under the GST provisions for ITC availment.  For instance, recipients should be provided with the option to reclaim credit within the stipulated time frame as outlined in Section 16(4) of the CGST Act. |
| 4. | No option available for keeping credit note under ‘pending stage’ | * The current functionality provides a very limited window of maximum 6 days (i.e. starting with the 14th of each month on which GSTR-2B gets generated until 20th of every month when GSTR-3B is filed) within which the recipient would have to decide on the acceptance or rejection of a credit note. * The same would not be in sync with the commercial arrangement of parties wherein the recipient may want to keepcredit notes pending before deciding whether the same needs to be accounted for or not. | Chamber recommends that Recipient should be given the option to keep the credit notes (including upward or downward revisions) at the ‘pending stage’.This would prevent wrong rejection or acceptance of these credit notes.  This will also be within the commercial rights of the recipient and ensure that commercial disputes are not accentuated on account of the GST workflow. |
| 5. | Amendment of invoice / records by Suppliers prior to filing of GSTR -1 | * IMS workflow allows suppliers to amend records prior to the filing of GSTR-1, after which the updated records will be visible on the GSTN Portal for recipients to act upon. * However, this real-time updating process does not provide an audit trail for the changes made, nor does it include a mechanism to notify recipients of such amendments or provide any separate marking on the line item which has been amended by the supplier. * For instance, if an invoice is saved on the GST Portal and the recipient has accepted the same, and post acceptance by the recipient, if the supplier amends a particular invoice, such invoice would again be required to be accepted/ rejected by the recipient (as the case maybe). * Considering the quantum of records for large entities this amended invoice without any special marking or highlight could be missed by the recipient for necessary action. This would create wrong acceptance or wrong deemed acceptance which will ultimately result in mismatches leading to potential disputes both from a GST as well as commercial standpoint. | Chamber recommends that GSTN should implement a notification or alert system that informs the recipient whenever an amendment is made to a saved record (invoice, debit note or credit note).  Further, the line item which is amended by the supplier post saving the same on the GST Portal should be given a separate marking in the IMS or a separate remarkshould be there against that line item.  This feature would aid in minimizing mismatches and related reconciliations. |
| 6. | No clarity on user interface for handling large transaction record volumes on IMS Window | * The current workflow does not offer a mechanism on the user interface for managing large volumes of invoices within the IMS Window. It is understood that the GST Portal does not permit taxpayers to directly view invoices on the portal if the count exceeds 500. * Moreover, we understand that there would be no functionality to bulk action and upload the ‘Accept/Reject’ actions as a part of an excel utility file. * To action this proposed workflow on the user interface on the portal would be difficult for Companies with large volumes of invoices/ debit/ credit notes. | It is recommended that GSTN should enable the option to upload an offline utility that enables large taxpayers to communicate their bulk actions by uploading excel utility. |
| 7. | Identifier in GSTR 2B for manual acceptance/auto acceptance | * IMS includes a feature that allows recipients to accept or reject an invoice. If the recipient takes no action, the record will be ‘deemed accepted’. * However, since the IMS will not be visible after GSTR-3B is filed, it is important to maintain a record of the actions taken by the recipient. This means there should be a clear indication of whether the record was accepted manually by the recipient or accepted automatically due to inaction. | GSTN should introduce an identifier in GSTR-2B that indicates whether a transaction has been accepted by the recipient themselves or has been auto accepted.  This feature is essential for maintaining a transaction trail, especially since the IMS dashboard will not be accessible after the filing of GSTR-3B.  This record-keeping is also crucial for audit trails and future reference including in serving as a point of evidence in commercial disputes between the parties to the transaction as well as in the course of audit and assessment proceedings. |
| 8. | Additional tax liability implication on supplier basis action taken by Recipient | * The advisory at many instances has cast additional liability implication on the supplier basis the action taken by the recipient with no opportunity for the supplier to address the recipient’s feedback on the transaction. * We understand that supplier IMS dashboard is still under development. Thus, it is not possible to immediately view the responses of recipient. * In a scenario where invoice is raised to a wrong GSTN and such unintended recipient (rightly) rejects invoice, a corresponding credit note issued by the supplier may also be (rightly) rejected by such recipient. In such a scenario there would be no-recourse available with the supplier who will end up paying tax (on the rejected invoice) and not getting adjustment for the (rejected) credit note corresponding to the rejected invoice. There is therefore a need for auto acceptance of credit notes pertaining to rejected invoices. * Secondly, the proposed IMS workflow suggests an increase in the supplier's liability if the recipient rejects the original credit note, or a credit note involving any upward/ downward revision in the value. Such an impact on the tax paid by the supplier based on the action of the recipient would result in unintended consequences in the event of erroneous rejections by the recipient. * There is therefore a need for sufficient remedial mechanisms to be implemented to address situations of incorrect action by the recipient. | Chamber recommends the following:  Credit notes pertaining to rejected invoices should be auto accepted with the option of rejection not being enabled for the same.  Further, such credit notes should not form part of GSTR-2B of the recipient. These credit notes should also have reference of the original invoice to enable one-to-one corelation.This will help in reducing unwanted trail of rejection of records by the recipient and reduce the additional burden on the supplier in case of rejection of credit notes.  There should be an option for recipients or suppliers to rectify incorrect rejections by the recipient – the original action should either be nullified or replaced by the correct action. This will ensure that supplier’s liability is not unduly impacted by incorrect or inadvertent actions undertaken by recipients.  Lastly, for it to realize the intended and true potential, the IMS workflow should be developed in a manner so that the recipient shall have an option to put correct figures for the credit note in case of mismatches. Further, the increase in the liability of the supplier shall be based on such correct values. This would prevent undue hardship on the supplier in form of excess liability due to undue rejection of credit note by the recipient. |
| 9. | No option to provide comments or remarks by recipient in case of wrong details provided by the supplier in the records. | * The current IMS workflow does not have the option for the recipient to provide remarks or comments in case wrong information is submitted by the supplier in the invoice or credit note. * By enabling a facility to provide comments or remarksby the recipient, the supplier gets a clear picture of the rectification needed in the record and would be in a position to modify the transaction and align with the recipient’s feedback. * This will also ensure that correct details of invoice are reported by the supplier and shall help in substantially reducing the issue of mismatches and the need for post facto reconciliations. | It is suggested that IMS workflow should be enhanced to include a facility that enables recipients to provide remarks or comments in case wrong information is furnished by the supplier in the invoice or credit notes.  Further, IMS workflow should be enabled in such a way that it allows rejection of a record only in case where wrong recipient GSTIN is mentioned by the supplier and in all other cases the invoice should be actioned as ‘Pending’ along with remarks. |