CAG Report on GST

What is the issue?

- The Comptroller and Auditor General of India's (CAG) report on GST for 2017-18 was tabled in Parliament.
- The shortfalls pointed out by the CAG in the goods and services tax (GST) regime needs attention.

What are CAG's observations?

- **Revenue** - The CAG highlighted that tax collections under the GST slowed down in the first year of its rollout.
- Growth in indirect taxes of the Union government slowed down to 5.8% in 2017-18 from 21.33% in 2016-17.
- Post-implementation, the Centre's revenue from GST registered a decline of 10% in 2017-18 compared to the revenue of subsumed taxes in 2016-17.
- [This is excluding central excise on petroleum and tobacco.]
- **Invoice-matching** - Invoice-matching is a concept wherein all the taxable supplies procured by a buyer and supplied by a seller are matched.
- The CAG noted that the system-validated input tax credit through invoice matching was not in place.
- It said the complexity of the returns mechanism and the technical glitches resulted in rollback of invoice-matching.
- This has rendered the system prone to input tax credit frauds.
- **E-tax system** - A non-intrusive e-tax system remains hard and unclear even after 2 years of its rollout.
- The CAG pulled up the revenue department, the Central Board of Indirect Taxes and Customs, and GST Network for their failure to try out the GST system adequately before rolling it out on July 1, 2017.
- **Compliance** - It was expected that compliance would improve as the system would stabilise.
- However, all returns being filed showed a declining trend from April 2018 to December 2018.
- The filing percentage of GSTR-1 returns was less throughout in comparison to the corresponding filing of GSTR-3B returns.
- [GSTR-1 returns - monthly returns on outward supplies; GSTR-3B returns - summary of self-assessed return]

- The introduction of GSTR-3B resulted in the filing of returns with input tax credit claims which could not be verified.
- This appears to have disincentivised the filing of even GSTR-1.
- **Short-filing** - While Return should be allowed to be filed only on payment of due tax, e-Return should be allowed to be uploaded even in case of short payment.
- This is for the limited purpose of having the information about self-assessed tax liability even though not paid.
- As GSTR-3B is only a summary return, short-filing of GSTR-1 implies that the tax department did not have complete invoice level details as filed by the suppliers.
- Since the filing of GSTR-1 is mandatory, short-filing is an area of concern and needs to be addressed.
- **Payment and settlement** - The payment and settlement system for GST was based on one 100% invoice-matching and availment of input tax credit, as well as settlement of IGST on the basis of invoice-matching.
- The CAG noted that neither was possible as of now, as an invoice-matching system had not kicked-in yet.

What does the report call for?

- The CAG noted that without invoice-matching and auto generation of refunds, the envisaged GST tax compliance system is non-functional.
- Invoice-matching is a critical requirement that would yield the full benefits of this major tax reform.
- It would protect the tax revenues of both the Centre and states and lead to proper settlement of IGST.
- It would minimise, if not eliminate, the tax official-assessee interface.
- In fact, even “assessment” as is understood in the manual system may no longer be necessary.
- This is because returns themselves can be generated by a system that matches invoices.
- Also, applying analytical tools and artificial intelligence to the massive data that crores of invoices generate could help trace cases of evasion, among others.

Source: Business Standard



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