

# Steps to be taken on commencement of new financial year - Indirect Tax

Issued on: 20 April 2020



## Background

It has already been more than a fortnight since we stepped into the new financial year 2020-21 (FY21). Due to nationwide lockdown amid COVID-19 crisis, most entities have not been able to commence their business operations in the new FY.

While the government has announced various relief measures in terms of extending GST compliance deadlines, it is still imperative for businesses to take into consideration various compliances at the beginning of a new FY.

## Points for consideration

- **New invoice series:** As per GST laws, every registered person is required to maintain a unique document series with respect to all the GST-related documents issued by it during a particular year. Therefore, it is mandatory to have a unique document series for the year starting **1 April 2020**.
- **Submission of Bond along with Letter of Undertaking (LUT):** Every person engaged in zero rated supplies (exports) without payment of tax, is required to furnish LUT online through GST portal.

LUT is granted for a particular FY, hence LUT granted for FY20 has expired on 31 March 2020. Therefore, taxpayers are required to furnish a fresh LUT for the year 2020-21 before effecting any such exports. However, the aforesaid time limit has been extended till **30 June 2020** and till then, taxpayers can use the LUT issued earlier (for 2019-20) for effecting exports without payment of taxes.

In addition, relaxation from submission of bonds has been provided till **30 April 2020**. The importers/exporters availing this facility need to ensure that the undertaking furnished in lieu of bond is duly replaced with a proper bond on or before 7 May 2020 as per the guidelines provided by authorities.

- **Annual calculation of ITC reversals:** Every registered person is required to reverse the Input Tax Credit (availed on Inputs and Input Services) attributable to exempt/non-business supplies on a monthly basis. Subsequently, the amount so reversed on a monthly basis is required to be recomputed on an annual basis. If the amount already reversed falls short from the recomputed

amount, then balance amount is required to be paid along with interest starting from 1 April of subsequent year till the date of reversal. Hence, to avoid unnecessary interest, the amount should be recomputed and reversed in the month of April itself.

- **Opting-in for composition scheme:** The eligible taxpayers, who want to opt-in for composition scheme for the year 2020-21, need to file an application in **Form GST CMP-02** on GST portal on or before **30 June 2020** (extended timeline). Additionally, taxpayers migrating from normal scheme to composition need to reverse the ITC pertaining to inventory held by it by filing **Form ITC-03 on or before 31 July 2020**.
- **Reconciliation activities:**
  - Reconciliation of electronic cash/credit /liability registers with Books of Accounts
  - Reconciliation of outward supplies as per GST Returns and Books of Accounts
  - Reconciliation of ITC as per GST Returns and Books of Accounts
  - Reconciliation of outward supplies as per GST Returns and E-way bill data.
- **Reconciliation of ITC as per Books and GSTR-2A:** Reconciliation of ITC as per Books

and Form GSTR-2A for FY 2019-20, so that timely communication can be made to the vendors for getting the discrepancies corrected (if any).

- **Accuracy of disclosure of outward supplies:** Rolling-out a communication to the customers to check if any of the invoices in respect of outward supplies needs to be corrected. Though amendments can be made any time before furnishing GST returns for the month of September 2020.
- **Updating the masters in ERP:** Ensuring that the ERP is updated with the required fields to auto populate the data required for various existing and upcoming compliances.
- **Miscellaneous points:**
  - Amendments in GST registration certificate to include all the places of business
  - Choosing the frequency of the returns filing based on turnover limit prescribed (number of digits of HSN<sup>1</sup> to be reported accordingly)
  - Assessing the status of payments made under protest/pre-deposits/contingent liabilities

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<sup>1</sup> Harmonized System of Nomenclature

- **Industry/taxpayer specific timelines:**

- **For banking companies, financial institutions and non-banking financial company (NBFC)<sup>2</sup>:** Banking companies, financial institutions and NBFCs have an option to avail 50% of eligible ITC on inward supplies (instead of following normal mechanism of proportionate reversal).

Such companies can re-evaluate the viability of option exercised by it, as the option once exercised, cannot be withdrawn for remaining part of the year.

- **For foreign currency conversion service:** The taxpayers engaged in conversion of foreign currencies, have an option to change the valuation method selected earlier for computation of the value of supply of service in case of foreign currency conversion<sup>3</sup>.

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<sup>2</sup> Section 17(4) of the CGST Act, 2017

<sup>3</sup> Rule 32 of the CGST Rules, 2017

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