

The Future of GST Compliance Mastering the Invoice Management System and ITC Claims



With over ₹80,000 crore worth of GST notices issued between 2018-22, enterprises are struggling with disputes, often due to Input Tax Credit (ITC) reversals. To tighten ITC claims, the government introduced the Invoice Management System (IMS) in October 2024 and plans to hard-lock auto-populated liabilities in GSTR-3B by early 2025. This opinion note explores the impact of these changes, IMS functionality, and best practices for finance leaders to ensure GST compliance amid evolving regulations.

Introduction:

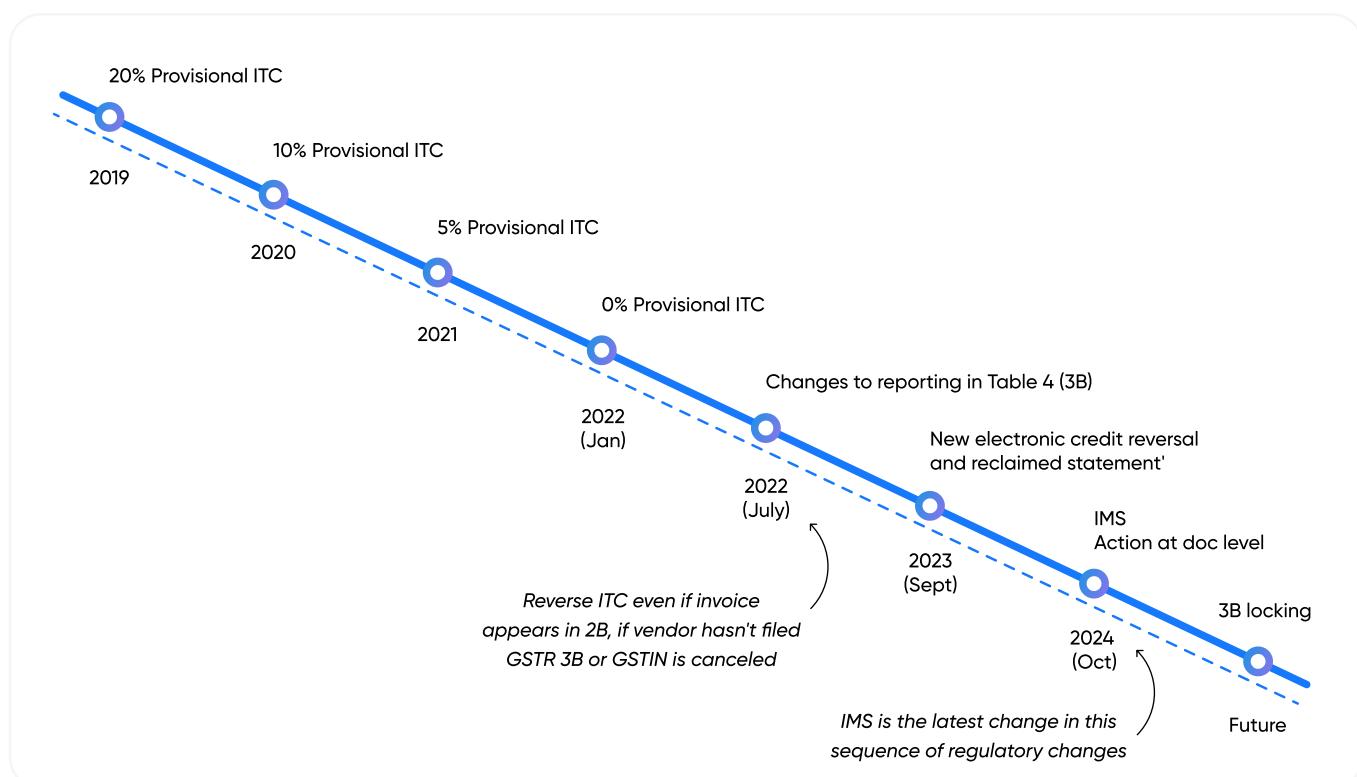
Preparing for a New Compliance Landscape

The GST Network continues to streamline the GST compliance reporting to ensure greater transparency. Errors have considerably reduced with the GSTR-3B auto-populated with the sales details from GSTR-1, GSTR-1A, and IFF (Invoice Furnishing Facility). Likewise, the government is eyeing to potentially extend this facility to report Input Tax Credit (ITC) details in GSTR-3B as well, sourced from GSTR-2B.

As hard-locking of pre-filled ITC in GSTR-3B becomes imminent, the IMS, currently optional, will soon be indispensable for taxpayers to manage and verify their ITC data.

By 2025, businesses will be required to review and validate all invoices through IMS before their ITC can be claimed in GSTR-3B, as editing these fields post-locking will no longer be possible.

The Government has been on a slow but gradual shift in regulating Input Tax Credits... IMS is the latest change towards 3B locking



- Today, the #1 reason for notices - ITC Mismatches
- Running 2B vs Purchase Register (PR) recon now mandatory
- 31% of all documents missing in 2B/PR or mismatched every month (based on data of 150 enterprises)

The Invoice Management System (IMS): Functionality and Workflow

Starting October 14, 2024, IMS has been available on the GST portal as an optional tool, designed to offer taxpayers control over invoice-level ITC data. This tool now serves as a critical mechanism for managing ITC claims in the hands of the recipient. With GSTR-3B soon going to be locked for auto-filled values, this tool becomes indispensable. Here's how IMS supports compliance:

Control Over ITC:

Through IMS, businesses can preemptively review invoices before these flow into GSTR-2B, ensuring only eligible and accurate ITC is claimed in GSTR-3B.



Three Actions – Accept, Reject, and Pending:

Accept



Approve the invoice if all details are correct. Accepted invoices will flow into GSTR-2B and be available for claiming ITC.

Reject



Dismiss the invoice if errors or discrepancies are found. Rejected invoices will appear in the Rejected Section of GSTR-2B, and the supplier must correct and resubmit.

Mark as Pending



Delay the decision if more time is needed to verify. Pending invoices won't be included in the current GSTR-2B but can be claimed later till 30th November of the next financial year.

Deemed Acceptance



If no action is taken, the invoice is automatically accepted and added to GSTR-2B. Hence, businesses must actively manage their invoices to avoid unintended ITC claims.

The Hard-Locking Mechanism and Implications

With the implementation of hard-locking, any ITC not accurately managed through IMS will be inaccessible for adjustments once it flows into GSTR-3B. This new approach aims to:



Reduce Errors:

By relying on verified invoice data, ITC claims become less prone to discrepancies.



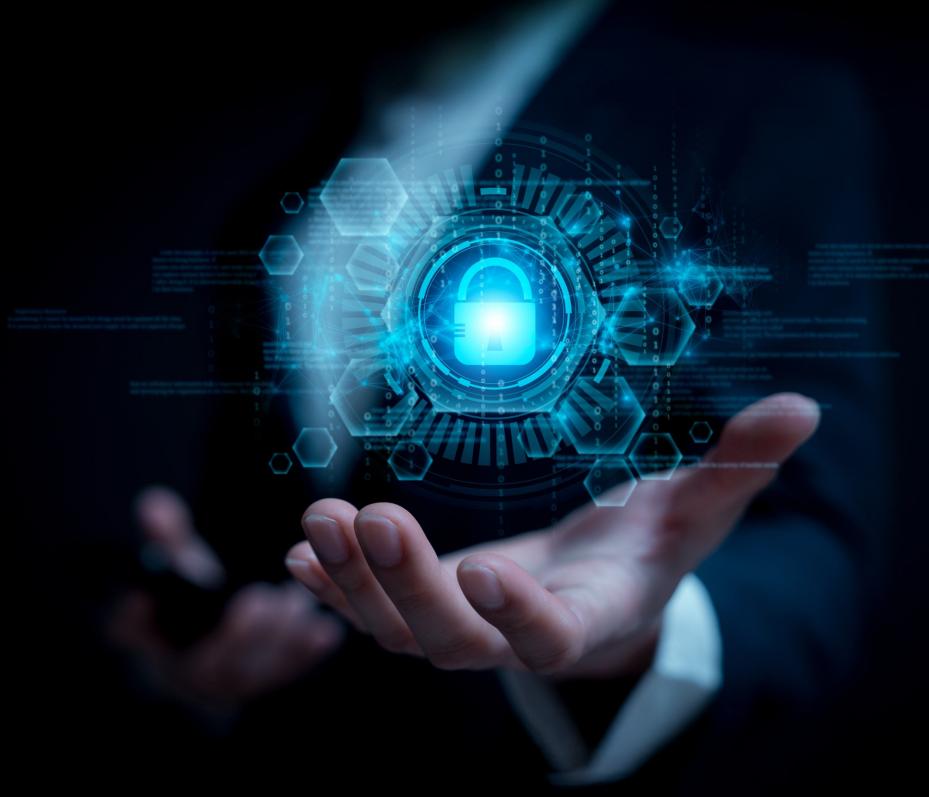
Increase Efficiency:

Automated data flow from IMS to GSTR-2B minimises the need for repetitive entries.



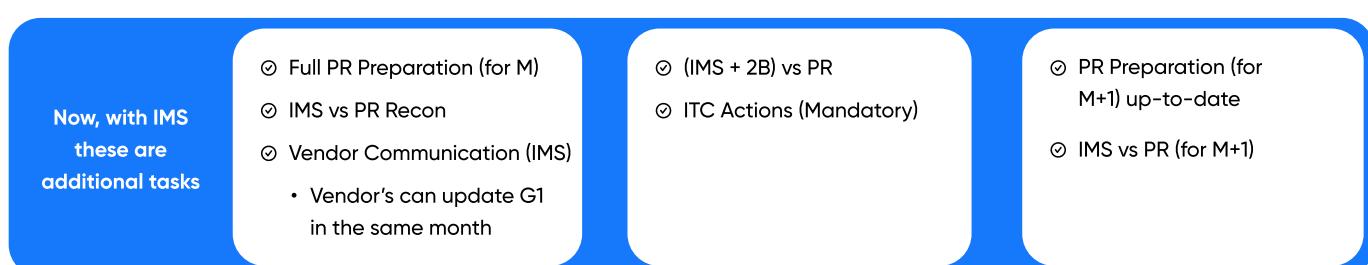
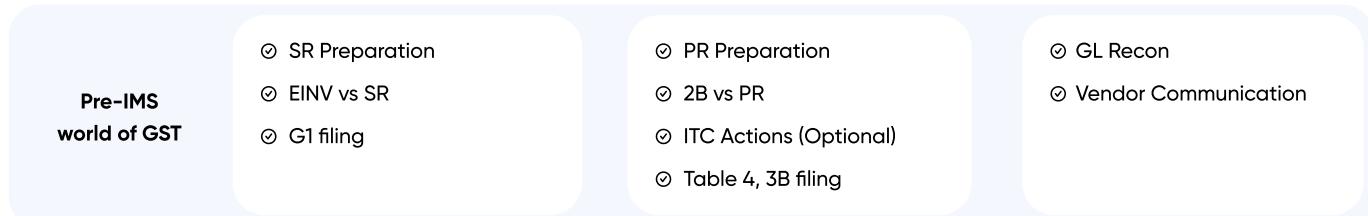
Improve Compliance Accuracy:

Taxpayers are forced to ensure accuracy in GSTR-1, reducing subsequent errors in GSTR-3B.



For accurate ITC claims, taxpayers must proactively manage each invoice in IMS, utilising the system's capabilities to reject inaccurate invoices and mark others as pending for later review.

GST Compliance Workflow: Pre & Post IMS



Key Challenges for Taxpayers

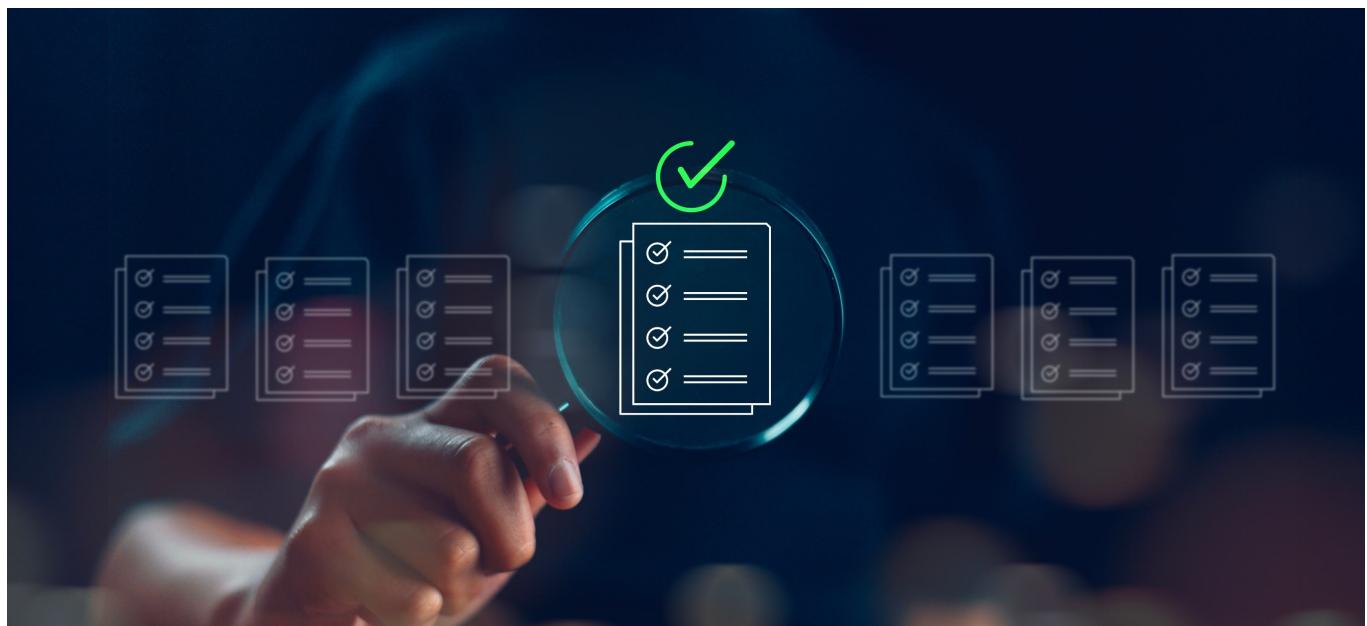
Mandatory IMS adoption and the hard-locking of auto-filled ITC in GSTR-3B increases the level of complexity in compliance. Major challenges include:

Increased Workload for ITC Verification:

With IMS becoming mandatory, businesses must actively review, accept, reject, or defer invoices in the system to control which invoices contribute to their ITC claims. This task may be particularly burdensome for businesses handling high volumes of transactions, leading to increased resource requirements.

Dependency on IMS for Error Management

Currently, taxpayers manually edit entries in GSTR-3B with IMS still being optional. With hard-locking in 2025, IMS will be the only avenue for managing ITC-related discrepancies. As a result, timely action in IMS will be essential to avoid errors in GSTR-3B.



Enhanced Responsibility for ITC Accuracy

The onus for ITC claims now fully shifts to recipient taxpayers, requiring them to engage in rigorous invoice management. This is critical as unreviewed invoices will be deemed accepted, potentially leading to incorrect ITC claims.

Learning Curve with New Processes

Adapting to IMS requires understanding how actions like accept, reject, and pending impact credit note scenarios, including linked invoices, partial values, incorrect or self-issued credit notes, and sales returns. Accurate actions ensure traceability, prevent mismatches and avoid compliance issues like duplicate reporting or deemed acceptance of invalid transactions.

Best Practices for Taxpayers: Preparing for Mandatory IMS

To adapt to these impending changes, businesses should take the following steps:

- ▶ Suppliers must implement a dedicated invoice review process for accurate GSTR-1 and GSTR-1A, thereby reducing GSTR-3B discrepancies.
- ▶ Use the "Pending" option for invoices requiring further verification to ensure compliance.
- ▶ Conduct regular IMS reviews before the 14th of each month, i.e., before GSTR-2B generation to avoid last-minute issues.
- ▶ Train your team to carefully review partial credit notes in IMS, so they reject incorrect invoices and credit notes to prevent mismatches in GSTR-2B and GSTR-3B.
- ▶ Identify and act on amendments in IMS, rejecting original invoices and accepting accurate amended invoices for proper ITC claims. Encourage regular reconciliation with GSTR-3B to align changes seamlessly.
- ▶ Stay on top of any GSTN changes on IMS and realign your compliance processes.

Mastering Continuous Compliance: Adapting to IMS & GSTR-3B Hard-Locking

The IMS and upcoming GSTR-3B changes introduce new compliance demands from taxpayers. However, these also provide increased control over ITC claims, minimising discrepancies and enhancing the accuracy of GST returns.



Clear Finance Cloud for Compliance, supercharged by the *GL-Stream* technology, streams the compliance data directly from General Ledger accurately for reporting. Your team can confidently navigate the challenges put across with the IMS and evolving GST regulations.

Our revolutionary GL-Stream technology gets you **updated Purchase Register (PR) everyday**, allowing frequent reconciliations with IMS so **you're assured of timely and accurate ITC claims with frequent PR preparation and reconciliations**. Here's **much more our advanced platform offers-**



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Mitigate the risk of receiving notices by ensuring accurate GSTR-2B data.

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