

The Hidden Liability Machine

Why India's Tax System forces innocent businesses to pay for their vendors' non-compliance.

A Deep Dive into GST Input Tax Credit (ITC) Risks

Part 1: How GST is Supposed to Work

Imagine you are a business owner (Buyer).



Let's say you buy raw materials for ₹100.

- Step 1: The Tax is **18%**.
- Step 2: You pay the Vendor ₹118 (₹100 Cost + ₹18 Tax).
- Step 3: The Vendor is supposed to pay that ₹18 to the Government.

The "Input Tax Credit" (ITC):

Because you already paid ₹18 to the vendor, the government says:
"You don't need to pay tax on your own sales until you've used up this ₹18 credit."

This ₹18 is like **cash in your digital wallet**.

Part 2: The Trap

What happens if the Vendor takes your ₹118 and runs away? Or simply forgets to file their tax return?

Common Logic says:

"I paid the tax to the vendor. I have the invoice. Start an investigation against the vendor!"

Indian Law says:

"We don't care. Since the vendor didn't pay us, **YOU** must reverse the credit."

The Consequence:

- You lose the ₹18 credit (it vanishes).
- You must pay **Interest** (18-24%).
- You face a **Penalty**.

Key Insight: You effectively pay the tax **TWICE** because you trusted the wrong vendor.

Part 3: The Weapon (Rule 37A)

The government recently introduced **Rule 37A** to automate this punishment.

Section 16(2)(c) & Rule 37A

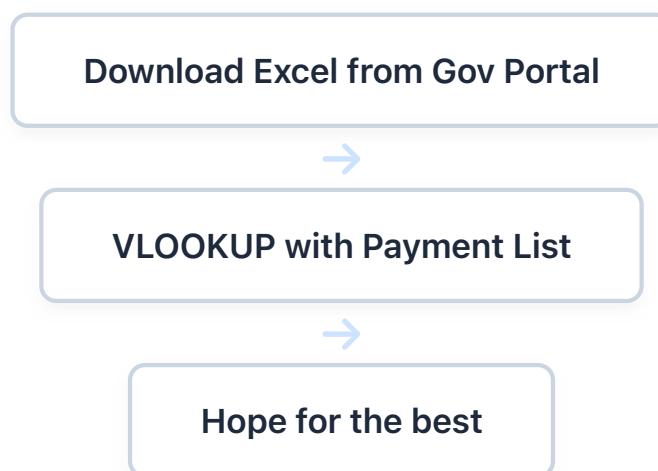
"ITC cannot be claimed unless the tax charged has been actually paid to the Government."

This shifted the burden of proof entirely onto the Buyer.

- **Observation:** The Government has outsourced audit to the Buyer.
- **Result:** CFOs are terrified. A single "Red Flag" vendor can contaminate their balance sheet for years.

Part 4: How Companies Cope Today

Current State: "The Spreadsheet Chaos"



Why this fails:

1. • **No Timestamp:** If a vendor was "Green" today but turns "Red" next year, how do you prove you checked?
2. • **Human Error:** Accounts Payable teams process thousands of invoices. They miss things.
3. • **Legally Defenseless:** A screenshot or Excel sheet is not strong evidence in court.

Part 5: Our Solution

ITC Protection & Vendor Due Diligence System

We don't just "check" status. We build a **Legal Defense Shield**.

1. The Gatekeeper

We sit **before** the payment run. If a vendor is risky, the money doesn't leave the bank.

2. The Auditor Artifact

We generate a signed, timestamped PDF Certificate for every check.
"This file is your shield."

Part 6: How It Works (V0)

Simple, operational workflow for Finance Teams.

1 **Upload:** AP Clerk uploads the "Proposed Payment Batch" (Excel).

2 **Analyze:** System checks Public GST Data + Rule 37A Triggers.

3 **Action:** Dashboard shows **STOP PAY (Risky)** or **RELEASE (Safe)**.

4 **Evidence:** System emails a "Due Diligence Certificate" PDF to the CFO.

Part 7: The Opportunity

Why this is a venture-backable business.

Target

Exporters

They live and die by ITC refunds. A mapped solution is 'Must Have', not 'Nice to Have'.

Model

Subscription

Recurring Annual License.
High switching cost
(because we hold their compliance history).

We are selling "Sleep" to CFOs in a highly regulated market.

Part 8: The Real Cost

This is not a theoretical problem. Here's what happens in reality:

₹12.4 Lakhs

ITC Reversed + Interest + Penalty

Cause: One vendor's GST registration was suspended.

Buyer's fault: None. They had a valid invoice.

Outcome: Buyer paid the tax twice.

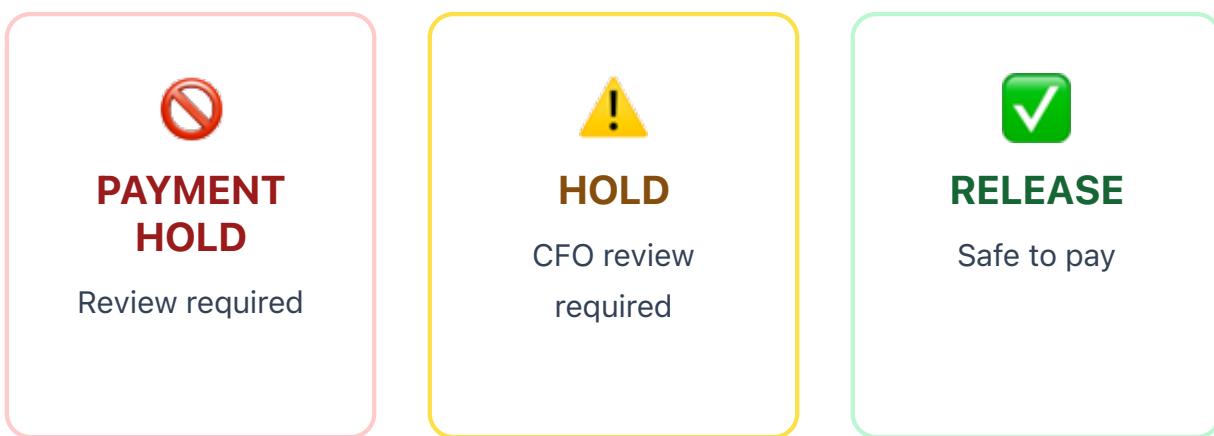
This happens every quarter to mid-sized exporters.

Our tool costs ₹5L/year. One prevented reversal = 2.5x ROI.

Part 9: The Decision Engine

We use **rule-based logic**, not vague "AI risk scores".

Three Decision States:



Sample Rules:

Condition	Decision
GST Status = Cancelled	🚫 PAYMENT HOLD
GSTR-3B not filed for 2+ months	🚫 PAYMENT HOLD
Filing delayed by 30+ days	⚠ HOLD
Active + On-time filings (last 3 periods)	✓ RELEASE

Part 10: Who Uses It & How

This is not a "dashboard for everyone". It has **role-based access**.

User Roles:

AP Clerk Uploads payment batch (Excel)

Finance Manager Reviews flagged vendors, can override HOLD

CFO Final approval, audit trail access

Usage Frequency:

- **Weekly:** Payment batch upload & review
- **Monthly:** Audit trail review by CFO
- **Quarterly:** Compliance report for statutory audit

Part 11: The Trust Framework

We are **honest** about what we can and cannot guarantee.

Data Freshness Policy:

Every check displays:

"This verification is based on publicly available GST data as of [DD-MMM-YYYY HH:MM IST]."

Staleness Warnings:

Data Age	Warning
< 24 hours	No warning
24-72 hours	"Data is 2 days old"
> 72 hours	"Data is stale. Manual verification required"

Liability Disclaimer (on every PDF):

"This certificate is a decision support tool based on publicly available data. It does not guarantee vendor behavior. The buyer retains full responsibility for ITC claims under Section 16(2)(c)."

Part 12: What We Build First (V0)

We are **not** building everything at once.

IN SCOPE (V0)

- Upload Excel with GSTINs
- Check GST status (Active/Cancelled/Suspended)
- Check GSTR-3B filing history (last 3 periods)
- Generate timestamped PDF certificate
- Dashboard with STOP/HOLD/RELEASE flags

OUT OF SCOPE (V0)

- Penny drop / Bank verification (V1)
- ERP integration (manual export for now)
- Email alerts (manual download)
- Historical trend analysis (V1)
- ML-based risk scoring (rule-based only)

V0 Goal: Validate the "Auditor Artifact" value with 5 friendly exporters.

Part 13: The Business Model

This is **not** a per-transaction SaaS. This is enterprise control software.

Pricing Model:

Annual License Fee

Recurring revenue. High retention.

Positioning:

"Cheaper than one bad vendor reversal."

If a CFO pays ₹5L/year for this tool and it prevents even ONE ₹10L ITC reversal, the ROI is instant.

Why High Retention?

- **Compliance History Lock-in:** We store their audit trail. Switching = losing evidence.
- **Statutory Requirement:** Rule 37A is not going away.
- **CFO Trust:** Once they trust the system, they won't risk going back to Excel.

