



# KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION (R)



CA. Raghavendra T.N.  
President

CA. Chandrashekara Shetty  
Secretary

Date: 30<sup>th</sup> August 2017

To,

Shri Arun Jaitleyji  
Hon'ble Union Minister for Finance  
& Corporate Affairs  
Government of India  
North Block  
New Delhi - 110001

Hon'ble Sir,

## **MEMORANDUM ON PRACTICAL DIFFICULTIES IN GST COMPLIANCE**

The Karnataka State Chartered Accountants Association (R) (in short '**KSCAA**') is an association of Chartered Accountants, registered under the Karnataka Societies Registration Act, in the year 1957. KSCAA is primarily formed for the welfare of Chartered Accountants and represents before various regulatory authorities to resolve the professional problems faced by chartered accountants. We at KSCAA have been serving keenly our fraternity and public by having discussions with them and taking their issues and populating them before right forums in a selfless manner over the past six decades.

We as partners in nation building, extend our unconditional support towards the government initiative in making the GST implementation smooth. As far-sighted professionals, we see many glitches in the smooth transition and wish to present before you for due discussion and deliberation the issues faced by small scale operators, who have been the force and the core strength of Indian economy since times immemorial. Addressing these issues is primarily very important for smooth functioning of the business and tax collection efficiency.

We wish to emphasise that we understand as a proactive Government you collect quite a substantial amount of data and discern and take measures on such informed basis. While we appreciate this, we also wish to present few areas where your attention and action is swiftly required. As we interact with the bottom of the pyramid on a day to day basis, we have a few suggestion points as outlined below for your due consideration.

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## Practical Issues:

### **1. URD Purchases taxes to be paid on reverse charge be exempted for a threshold turnover of up to two crores, in line with audit limit under income tax.**

The essence of GST is to bring under its net, every Supplier of Goods and Services (traders) having aggregate turnover of above twenty lakhs and to exclude very small business of GST compliance. Now there are many businesses which are marginally above this threshold and who are eager to come within GST ambit but while this provision of reverse charge will definitely cause a hurdle and harassment at a later date and bog them down in identifying and discharging the tax thereon from out of every head of expense items booked in the Statement of Profit and Loss instead of focusing on their actual business. This has two deterrent effects on voluntary enrolling of small businesses. One, businesses are not encouraged to join the bandwagon due to the devil in the details under “reverse charge.” Two, though the Government has understood enough about the small-scale operators’ need to have a composition scheme and having enhanced the threshold composition limit to seventy-five lakhs, however the requirement of discharging the taxes on Reverse Charge Method has defeated the very purpose. The person registered under composition scheme is required to pay under reverse charge on value of all intra-state supplies exceeding Rs. 5,000/- per day procured from unregistered persons. This will bring within its ambit all the expenses like rent, small consultancy fees, repairs and maintenance and a host of other expenses, increasing his compliance time, efforts and cost. This will have an adverse impact on the small businesses due to the disinclination of businesses to engage with them. This very provision will hamper the inclusive economic growth impetus of Government and the entrepreneurship spirit due to seclusion or brandishing/moral suasion of such trade with the unregistered class, in a country of villages and cities in which the people seeking to self-sustain, being the roots of the self-reliant India. This is a tremendous blow to small businesses, hitherto enjoying exemption up to a turnover of 1.5 crores with no real-time reporting.

We wish to highlight that this step creates a major dent in the spirit of assesseees to comply and be part of this game changer GST. Practical solution would be to exclude businesses below threshold of two crores from complying with the reverse charge mechanism in line with provisions of Section 44AD & 44ADA with the Income Tax Act, 1961. This will allay and soothe the nerves of many an assessee and encourage voluntary participation.

This is a point to ponder, whether the purpose is achieved or defeated!

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**2. Many a small business are still not registered/ migrated to composition scheme as the scheme was to be opted separately by filing a form either due to technical glitch in migration/ small operators caught unaware of the need to register under composition/ window time lapse for opting such scheme**

While there was an extended timeline for opting composition scheme, many an assessee have not registered either due to technical glitches or having migration issues. Still some of the assesseees are not been issued provisional registration certificate yet. These assesseees merit an opportunity for opting under composition scheme, an extension of time limit to opt under Composition Scheme be available up to 30<sup>th</sup> September.

**3. Business operating under fear psychosis**

Though the off take has been rather good, Government also needs to wait for greater revenue from the assesseees. One, a measure to this extent has been taken to revamp the existing tax structure, now it is in one of the stages in the sequence of tilling, sowing, nurturing, waiting, caring, green shoots and reaping. The well-known statement "Lies, Damned Lies and Statistics" also progressively points out the need to look beyond the Data Mining activity too in seeing how to nurture the business as the business is the main pointer of the economy. We seek the Government to step in and allay and soothe the nerves of businesses which are under constant pressures of compliance than focussing on business and the grip of tax compliance on their minds, while it should be ideally tax management being part of the business and not the whole of the business of the assessee.

**4. Execution of Bond along with furnishing of Bank Guarantee by Small & Medium Exporters to avail zero rating on their exports & SEZ supplies.**

The Rule 96A of CGST Rules 2017 mandates every exporter, whose export realisation being less than one crore rupees during the preceding financial year, is required to execute a bond and furnish Bank Guarantee to the extent of 15% of estimated tax liability for the next twelve months to avail the above benefits. This entire process results in blocking of working capital and dis-incentivise the exporter who brings valuable foreign exchange to the exchequer. This negates the benefit of zero rating granted to exporters.

**5. Penalty for non-filing of GSTR-3B should be scrapped immediately.**

The form GSTR-3B is a stop gap arrangement since the regular forms were not ready at the point of commencement of GST. Further, it should be available for revision as the whole process has been somewhat messy. While the credits are still flowing and required to match from regular monthly filed forms, penalty provision seems draconian to say the least. The assesseees keen to be on composition scheme unable to opt for a myriad of reasons also stare at this penalty; those

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having working capital issues already are badly hit due to demonetisation etc, there is a further possibility of denting their morale. Though it has a benefit of motivating them to comply, the cons are more than the pro.

There was a press release on 18<sup>th</sup> June 2017 to give comfort to tax holders to the effect that no late fees and penalty would be levied for the interim period. The GSTN portal is auto calculating and levying late fees, the soothing words are not put into deed. An accommodating and supportive approach where there is no penalty will be highly appreciated especially when it is a known fact that Government also has delayed the regular forms for want of capacity/ whatsoever reason, while it was ideal to have all the forms operational from 1<sup>st</sup> July itself; it is a well-known fact that the risk- reward ratio will always be present in any step of this scale.

## 6. Level Playing Field for the assessee vis-à-vis the Government.

The forms being made available in a delayed fashion have left the businesses and consultants high and dry. While there was no need of the form GSTR-3B for the assessee, this step was only to plug the revenue collection delay and only for data collection for the Government and should truly support the cause rather to protrude and travel beyond the needs and purpose into the realms of why, how much etc. The regular forms once released should solve the anxiety of tax collection. The Government surely will reap the benefits in a phased manner only when the business fraternity settles down in doing the business and the tax payers and common people benefit by massive injection and “right implement” of public funds into the system.

## 7. Clustering of due dates for filing GSTR1, 2, 3 and 3B in September coinciding with due dates under various statutes.

- This has created significant hardship to the businesses which are massively dependent on consultants to comply. They are required to follow back and forth with the suppliers to match the inputs and the spread is too narrow.
- The plight of business is precarious to say the least, whether to run business in festive season or to sit in compliance with the statutory requirements. This defeats the lofty vision of the ease of doing business as proclaimed by the Government.
- Consultants in general are a harried lot firefighting to login, match and file with an under prepared GSTN infrastructure despite two months of GST regime.

**8. Preparedness of GSTN Infrastructure:** Will the system be ready to accept the load with a gap of five days each and adopt to the back and forth matching mechanism while in normal circumstance the time limit is spread over 20 days? The present day GSTN infrastructure could not withstand the traffic of summary returns in GSTR-3B; can it sustain the massive log-in and

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load of invoices pan India coupled with matching? The input unavailability due to matching issues can create resentment among the assesseees.

9. **Options for Challan rectification process should always be in place in a rational tax system. Inter adjustment is a prerogative of the Government, buck of which has been passed to the businesses. A bit far stretched and blocking of working capital for genuine unintended/ inadvertent errors.**
10. Uploaded Forms not available for download, a copy of which should have been made available for offline records to share with various stakeholders and other regulators.
11. Too many notifications, reckless tweeting, lack of response on the part of help desk, no response to email, officers under prepared have let the businesses and consulting fraternity in utter chaos for no fault of theirs.

*In a progressive approach and in the path of successful implement of GST law, we as the partners in nation building, have been requested by many an assessee and practitioners to represent the issues being faced in the compliance machinery. In this endeavour we write this memorandum.*

*Hope to make a meaningful contribution towards stimulating the points worthy of deliberation and consideration at this stage of actual implement of GST, seeking support from your goodselves in easing these problems!!*

Thanking you,

Yours sincerely,

For Karnataka State Chartered Accountants Association ®

CA. Raghavendra T.N.  
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CA. Chandrashekara Shetty  
Secretary

CA. Vijay Sagar Shenoy  
Chairman  
Representation Committee