KARNATAKA VAT- MATCHING OF INPUT TAX CREDIT

"Karnataka Commercial Tax Department" (Department) has issued Notification no. CCW/CR44/2013-14 dated 29th April 2014 making mandatory for every dealer, whose total turnover is rupees fifty lakh and above during tax periods of the year ending 31st March 2014 or whose cumulative total turnover is rupees fifty lakh and above in the tax periods of any subsequent year, to furnish electronically following details :

1. Local Purchases,
2. Interstate Purchases,
3. Imports,
4. Debit or credit notes issued or received in respect of any change in the value or return of goods
5. Receipt of goods otherwise than by way of purchase from other registered dealers outside the state
6. Local Sale
7. Interstate Sale
8. Export Sale
9. Debit or credit notes issued or received in respect of any change in the value or return of goods
10. Transfer of goods otherwise than by way of sale to other registered dealers outside the state, etc

Uploading of above details became effective from the tax period of May 2014.

We have finished one year as of now after introduction of above mentioned scheme which is popularly known as e-UPaSS and Department has came out with another Circular No. 23/2014-15 dated 27th March 2015 for the cross matching of Input tax credits.

"*The Ultimate objective of electronic uploading of details of purchase and sales statement is for online verification of input tax credit between the purchase and seller. If the input tax paid by the purchaser matches with the output tax collected by seller, <u>along with the invoice number, invoice date</u> and net value, then the input tax credit is valid subject to conditions laid down by the law*" This is the object of e-UPaSS as given in the above circular.

In other words, the whole object of this module is to cross check input claims made by purchaser with the corresponding data uploaded by the seller so that it will help department as well as dealer in finishing audits fast and processing of refund smoothly.

Above circular further says that "*However, perusal of the data uploaded in electronic uploading of purchases and sales statements, it is observed that dealers have committed certain data entry errors while entering the invoice details of local purchases and local sales transactions, resulting in mismatches. As a result of which, the details of purchases and sales available under e-UPaSS module on CTD portal needs data rectification. Where the mismatches of purchase and sales statements persist and significant, it may require intervention in the form of manual audit/re-assessment of ITC claims or refunds.*"

Dealer has to login to KVAT website with the user name and password issued to them. After login, dealer can access ITC matching status option using the path **– purchase statement > Download>ITC Matching status** available in the main menu itself.

It is interesting to note here that mismatch can happen in case of not mentioning full invoice number or incorrect invoice date also. In other words, if local purchase invoice number uploaded by seller is BLR/00082 dated 12.05.2015 but during uploading local purchase details by the purchaser, invoice number mentioned as 82 only then also module will show mismatch of invoice number.

e-UPaSS Module matches following details:

1. Purchaser TIN
2. Seller TIN
3. Invoice Number
4. Invoice Date
5. Net Value
6. Tax Charged

To overcome from the mismatch of input tax credit and other issue, department has given option for corrections of mistakes. Dealer has to revise purchase and/or sell data by rectifying mistakes and accordingly eUPaSS module will update the data matching status, time to time.

It is to be noted that this revision or rectification option for the tax period May 14, June 14, July 14, August 14, September 14, October 14 and November 2014 is available only upto 30th June 2015

We have tried to make analysis of mismatching options showing on KVAT website and also taken reference from ITC Matching Manual Version 1.0 for better understanding of the subject. Please note that this is just an illustration and not a complete list of mis- matching options.

SL No.	Matching Conditions	Matching Status	Comments
1	Tax claim in Invoice is ZERO	Accepted	Where purchaser and seller has entered ZERO value under tax field.
2	Purchase belongs to Pre-UPASS period	Accepted	Where purchase belongs prior to May 2014 tax period, e UPaSS module will accept it but input claim will be accepted after manual audit
3	Purchase from non targeted dealers	Accepted	In case of purchases made from a dealer whose total turnover is below Rs.50Lacs hence that dealer is not require to uploaded purchase/sale details, this will be called as purchase from non targeted dealer. UPaSS module will accept it but input claim will be accepted after manual audit. It is very much possible that non targeted dealer will also cover under this notification in case if their total turnover will reach Rs.50Lacs and above limit during the same financial year. Once their turnover will reach the prescribed monetary limit, their status will also changed from non targeted dealer to targeted dealers and accordingly, those dealers are suppose to upload purchase and sale details.
4	Purchase invoice is matching with seller invoice	Accepted	In this situation, purchaser and seller both have uploaded invoice no., invoice date, net value and tax charged as per direction given in notification and details uploaded by both the dealers will match exactly and module will accept it.
5	Purchase from URDs	Accepted	Where seller is un registered dealer and not charged any output tax and tax field entered is ZERO.
6	Purchase invoice is matching with seller invoice except invoice number	Acceptable	In this case, invoice number uploaded by either purchaser or seller is not cross matching (as given in example above). Module will treat this as acceptable subject to correction in invoice number/s either by purchaser or seller as the case may be.
7	Purchase invoice is matching with seller invoice except invoice date	Acceptable	In this case, all the entered fields like invoice number, net value and tax charged have matched but invoice date uploaded by either purchaser or seller is not cross

			matching. Module will treat this as acceptable subject to correction in invoice date either by purchaser or seller as the case may be. It is quite possible that invoice issued at the end of month by seller and purchaser has received material in next month and accordingly purchases taken into books of accounts in the receipt month and purchase details uploaded in that month. In this situation, UPaSS module will search previous 6 months purchase data excluding return period data and if that invoice matches with any of previous 6 months data uploaded by seller, module will accept it.
8	Purchase from targeted dealers who have not uploaded	Unmatched	If purchaser and seller both are suppose to upload purchases and sales data as per above notification, then, if any of the dealer has not uploaded data, it will show as unmatched.
9	Purchase from CoT Dealers	Unmatched	In case of any mismatch arises due to purchases made from dealer registered under CoT scheme, module will show transactions as unmatched. In this class of sellers, the sales details are matched with purchaser details and if any mismatch, will be dealt as per law.
10	Purchase from De- Registered dealers	Unmatched	In case of any purchases made from a de-registered dealer, module will show these transactions as unmatched. It is to be noted that during uploading stage itself, these kinds of transactions are being validated by module and it is not accepting. Let us assume that dealer A has made local purchases from dealer B on 1^{st} of May. Detail of local purchase is to be uploaded on or before 20^{th} of June as per the scheme. Now, due to some reason, dealer B has became de-registered on 15^{th} of June. It is to be noted that dealer B is regular in filing returns and paying taxes also.

			In this situation, when dealer A will upload detail of local purchase made from dealer B, on 20th June, module will show dealer B is de-registered and accordingly, it may not accept purchase transaction including input tax paid by dealer A.
11	Purchase from dealers where invoice date is pre-registration date	Unmatched	This is a situation where purchases made from a dealer who has issued an invoice dated before getting registered himself under Karnataka VAT Act. These transactions will be marked as unmatched and the same will be taken care manually by the department.
12	Purchase invoice claimed multiple times	Unmatched	Where same purchase invoice details have been uploaded one than one time in different tax periods, module will mark those transactions as unmatched.
13	Purchase is not matching with seller's invoice	Unmatched	If purchaser and seller both are suppose to upload purchase and sells data as per above notification and both have uploaded all the required fields but it is not cross matching, then module will show as unmatched. Following possibilities are there for this mismatch: 1. Wrong TIN uploaded 2. Net value mismatch 3. Tax charged mismatch 4. Invoice no, Net value and tax charged mismatch 5. Invoice no, Invoice date, Net value and tax charged mismatch 6. Net value and tax charged mismatch 7. TIN, net value and tax charged mismatch 8. Purchases from registered dealer shown as URD or Cash purchase etc. In many cases mismatch is happening due to rounding off amount. Department should ignore mismatch upto a reasonable amount like upto Rs.100

Following practical difficulties may come in case of unmatched data:

1. Dealer has to chase other dealer to get data rectified which is not easy task.
2. Dealer has to chase other dealer for uploading data by other dealer.
3. In case of big dealers where hundreds of invoices are being generated daily basis, getting data rectified may not be a easy job
4. A dealer has to match not only eUPaSS uploaded data but also Karnataka VAT returns data with e UPaSS data, which is a time consuming job
5. Acute shortage of experienced man power to do all these uploading and matching work

Consequences of not correcting mismatches or not uploading purchase/ sells data:

1. In case of non matching of input tax credit due to data mismatch, will it be resulted in disallowing input tax credit by department….. Not sure, we will have to wait.
2. Sub section (3A) of section 72 of KVAT Act, 2003 has been inserted by Karnataka Budget 2015 which reads as under:

   "(3A) A dealer who fails to furnish or furnishes incomplete or incorrect particulars for preparation of return as notified under proviso to sub section (1) of section 35, as informed in a notice issued to him shall be liable to a **penalty of fifty Rupees for each day** of return remains incomplete or incorrect"

   It is to be noted that Notification no. CCW/CR44/2013-14 dated 29th April 2014 has been issued in exercise of powers conferred under the first proviso to sub section (1) of section 35 which is relating to furnishing of particulars for preparation of return in prescribed form or submit the return in the prescribed form, electronically.

   Hence it can be assumed that non uploading or delay in uploading purchases and sells details electronically, may attract a penalty of Rs.50 per day.

Still there are many practical issues which needs to be answered and hence we hope that department will give more time to rectify these mismatches and also it will defer penalty provisions as still eUPaSS is a new born baby which needs more time to stand up and run.